

# 2016 RATE MEETING

*Presented by:*



*Louis W. Kosiba*  
*Executive Director*



*Mark Nannini*  
*Chief Financial Officer*

PROUD LEGACY  
BRIGHT FUTURE



1941 - 2016



# Agenda

- **General Rate-Making Principles**
- **Annual Documentation**
- **2015 Investment Income**
- **Points to Remember**
- **Appendix**

# General Rate-Making Principles

## **Each Employer:**

- Pre-funds retirement benefits
- Has a separate reserve account
- Pays a level percentage of payroll
- Has contributions pooled
- Has liabilities calculated based off the same actuarial assumptions

# General Rate-Making Principles

**IMRF provides demographic and financial data to actuaries**

**Actuaries apply assumptions to demographics and financial data**

**Actuaries produce 12/31/15 Actuarial Valuation**

**Employer Contribution Rates are set for 2017**

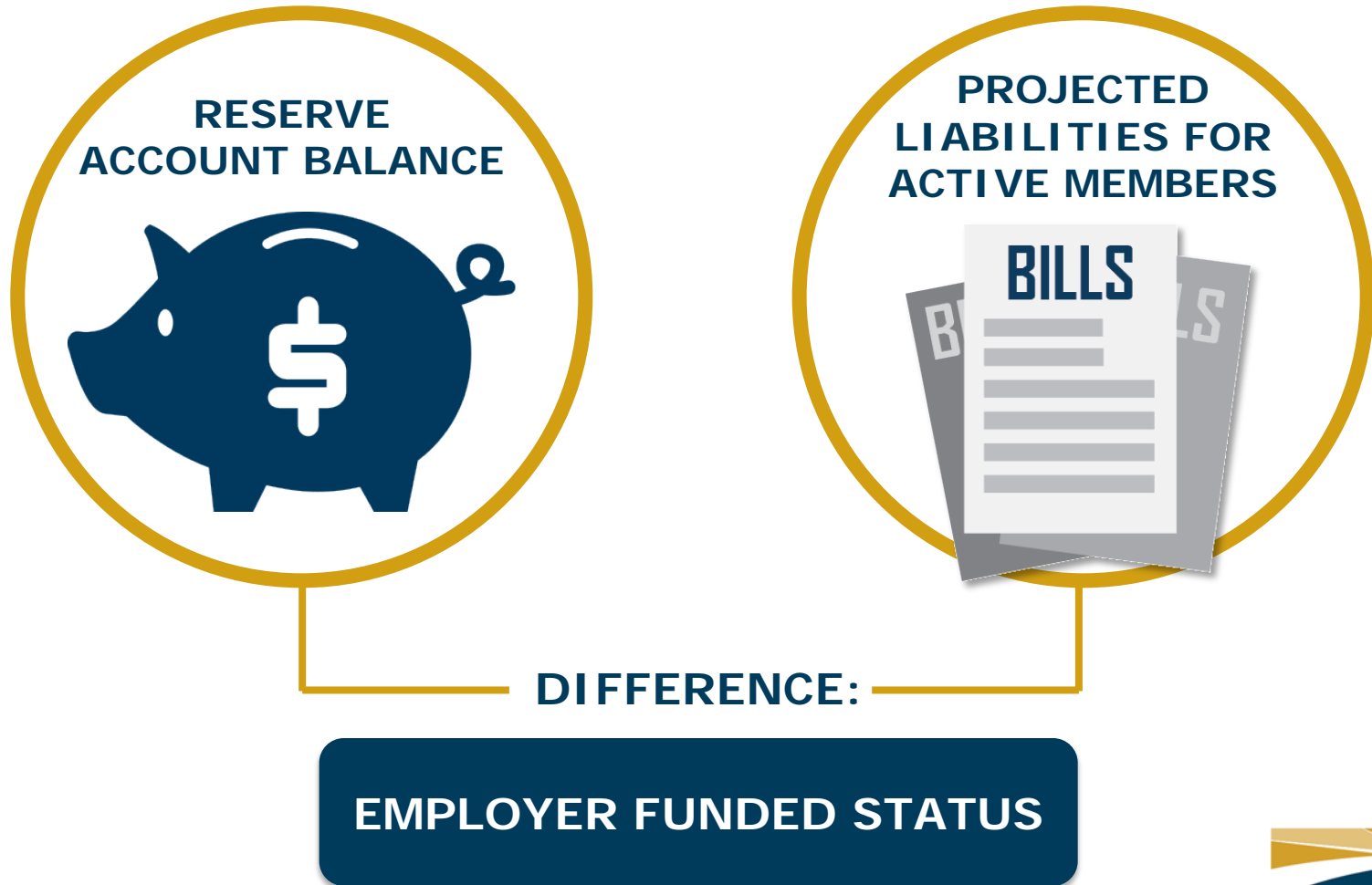
# Where does the money go?

**IMRF assets are held in three “reserve accounts”**



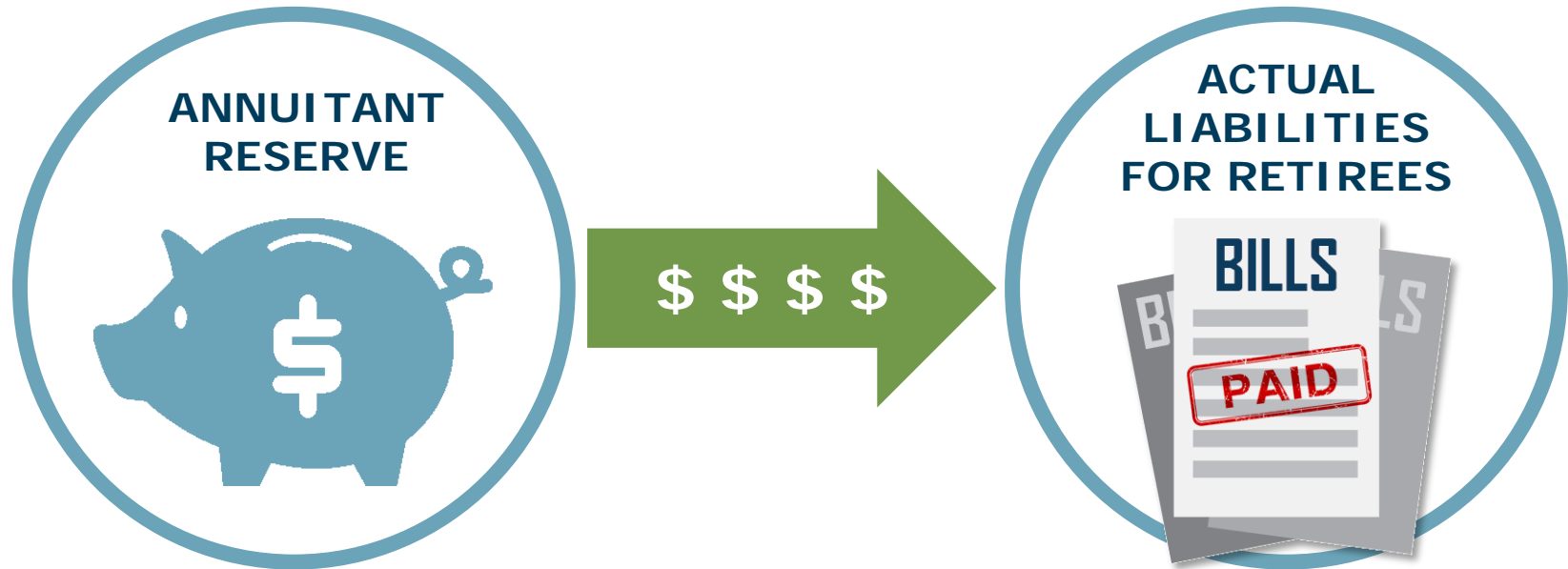
# General Rate-Making Principles

## Employer Funded Status



# General Rate-Making Principles

## Annuitant Reserve is fully funded



- Liabilities for retirees are 100% funded

# General Rate-Making Principles

## Economic Assumptions

1. Price inflation: **2.75%**
2. Wage inflation: **3.5%**
3. Investment return: **7.5%**



# General Rate-Making Principles

## Non-economic Assumptions

1. Mortality rates before and after retirement
2. Disability rates
3. Rates of retirement
4. Rates of separation from employment (Refunds)
5. Probabilities of an active member being married

*Based upon IMRF's experience during the 2011-2013 period.*

# General Rate-Making Principles

## Causes for rate changes

- Wages paid to employees being more or less than assumed
- Rates of disability, retirement, or separation differing from assumptions
- Legislative changes
- Investment returns more or less than 7.5% net
- Periodic adjustments to actuarial assumptions

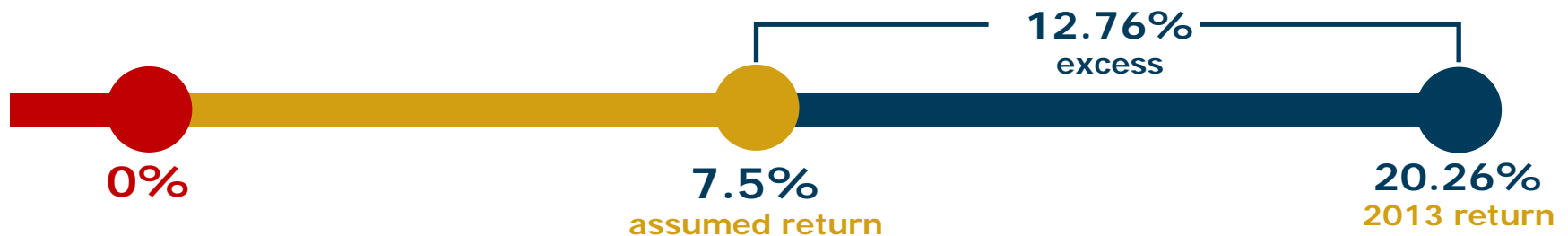
# General Rate-Making Principles

If the 7.5% is exceeded

Year 2013

IMRF earned 20.26% return

**IMPACT: Employer Rates Decreased**



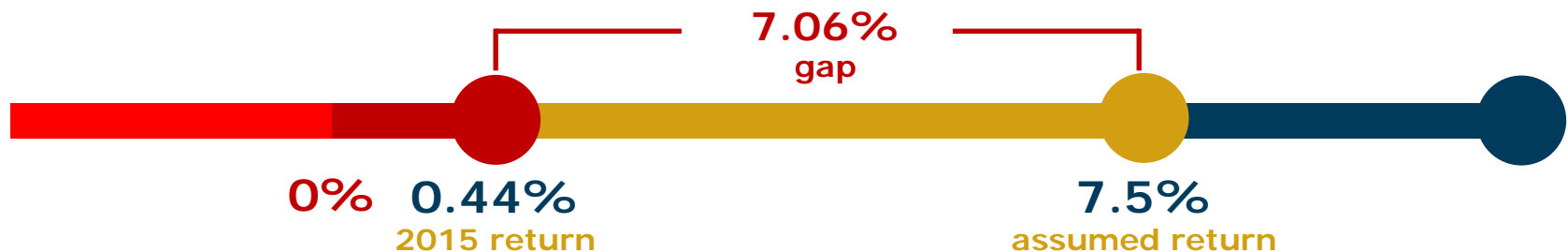
# General Rate-Making Principles

If the 7.5% is not reached

Year 2015

IMRF earned 0.44% return

**IMPACT: Employer Rates Increased**



# General Rate-Making Principles

## Investment returns and employer rates

- **Returns are “smoothed” over a five-year period for rate-setting purposes (Actuarial)**
  - Only 1/5<sup>th</sup> of investment gain/loss recognized annually
- **Two-year lag between returns and rate impact**
  - i.e.: Year 2015 returns will impact 2017-2021 rates

# General Rate-Making Principles

Calendar Year	Percentage Return	Dollar Return	1/5 Recognition
2015	0.44%	\$200,727,209	\$40,145,442
2014	5.76%	\$2,001,420,871	\$400,284,174
2013	20.26%	\$5,583,120,005	\$1,116,624,001
2012	13.75%	\$3,393,689,073	\$678,737,815
2011	-0.29%	(\$92,930,304)	(\$18,586,061)

# Annual Documentation

## Employer Reserve Statements:

- **IMRF provided Employer Reserve Statements in February 2016**
- **Statements show employer funds on deposit for current active and inactive members, and current year activity:**
  - Interest credited @ 7.5% less funding for employee and annuitant reserves
  - Employer retirement contributions
  - Adjustments (if any)
  - Reductions for 2015 retirees



2211 York Road, Suite 500 Oak Brook, IL 60523-2337 1-800-ASK-IMRF (275-4673)

www.imrf.org

2015 EMPLOYER RETIREMENT RESERVE STATEMENT  
REGULAR RESERVE ACCOUNT

PAGE: 1

VILLAGE OF ANYWHERE  
EMILY EMPLOYER, TREASURER  
123 ANY STREET  
ANYWHERE, IL 12345

EMPLOYER NBR: 00000  
PHONE NUMBER: 000-111-2222

FIELD REP.....: MANDY BEEDIE

PHONE NUMBER: 800-275-4673

NORMAL COST	7.890	DISABILITY	.110
FUNDING ADJ OVR/UND	6.980	DEATH	.170
		SUPPLEMENTAL PENSION	.620
RETIREMENT	14.870		

OPENING BALANCE, JANUARY 1, 2015 .....	311,436.52
INTEREST CHARGE ON OPENING BALANCE - RATE: 7.500%	23,357.74-
EMPLOYER RETIREMENT CONTRIBUTIONS (14.870% X 288,033.57)	42,830.52
RESIDUAL INVESTMENT LOSS CHARGE	83,651.44-
ENDING BALANCE, DECEMBER 31, 2015 .....	247,257.86





# Annual Documentation

- **Preliminary Rate Notices**

- Available April 2016
- Staff reviews rates to ensure accuracy

- **Final Rate Notices**

- Available November 2016



## Final Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2016

Date November 2015

Employer name ANYWHERE SD

Employer No. 00000

### IMRF Contributions Regular

<b>Member Contributions</b> (tax-deferred) .....	4.50%
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#### **Employer Contributions**

##### **• Retirement Rate**

Normal Cost .....	6.96%
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Funding Adjustment <over> under .....	3.47%
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Net Retirement Rate .....	10.43%
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##### **• Other Program Benefits**

Death.....	0.20%
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Disability .....	0.14%
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Supplemental Benefit Payment.....	0.62%
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Early Retirement Incentive .....	0.00%
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<b>• TOTAL EMPLOYER RATE</b> .....	11.39%
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# Annual Documentation

## **GASB 50 Disclosures** (Available April 2016)

- Shows funded status of each employer plan for last three years for its active and inactive members only
- Reflects **actuarial** funded status using five-year smoothing of investment returns subject to 20% corridor
- Footnote on schedule discloses funded status on market basis



Employer #00000

## GASB 50 RSI Information for Employers

Anywhere County  
 EMPLOYER NUMBER: 00000R  
 REQUIRED SUPPLEMENTARY INFORMATION  
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) /c)
12/31/15	\$13,808,007	\$14,090,915	\$282,908	97.99	\$5,627,410	5.03
12/31/14	\$13,100,366	\$13,902,718	\$802,352	94.23	\$5,774,260	13.90
12/31/13	\$12,293,684	\$12,910,844	\$617,160	95.22	\$5,692,950	10.84

On a market value basis, the actuarial value of assets as of December 31, 2015 is \$13,544,431. On a market basis, the funded ratio would be 96.12%.

The actuarial value of assets and accrued liability cover active and inactive members who have service credit with Anywhere County. They do not include amounts for retirees. The actuarial accrued liability for retirees is 100% funded.

# Annual Documentation

Anywhere County

Section A

**EXECUTIVE SUMMARY**

**AS OF DECEMBER 31, 2015**

Actuarial Valuation Date	December 31, 2015
Measurement Date of the Net Pension Liability	December 31, 2015
Fiscal Year End	November 30, 2016

**Membership**

Number of	
- Retirees and Beneficiaries	111
- Inactive, Non-Retired Members	113
- Active Members	141
- Total	365
Covered Valuation Payroll	\$ 5,627,410

**Net Pension Liability**

Total Pension Liability/(Asset)	\$ 23,970,442
Plan Fiduciary Net Position	23,088,077
Net Pension Liability/(Asset)	\$ 882,365
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.32%
Net Pension Liability as a Percentage of Covered Valuation Payroll	15.68%

**Development of the Single Discount Rate as of December 31, 2015**

Long-Term Expected Rate of Investment Return	7.50%
Long-Term Municipal Bond Rate*	3.57%
Last year ending December 31 in the 2016 to 2115 projection period for which projected benefit payments are fully funded	2095
Resulting Single Discount Rate based on the above development	7.50%
Single Discount Rate calculated using December 31, 2014 Measurement Date	7.50%

**Total Pension Expense/(Income)** \$ 1,495,920

**Deferred Outflows and Deferred Inflows of Resources by Source to be recognized in Future Pension Expenses**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 774,697
Changes in assumptions	393,775	0
Net difference between projected and actual earnings on pension plan investments	1,503,242	0
Total	\$ 1,897,017	\$ 774,697

\*Source: "State & local bonds" rate from Federal Reserve statistical release (H.15) as of December 31, 2015. The statistical release describes this rate as "Bond Buyer Index, general obligation, 20 years to maturity, mixed quality." In describing this index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

## GASB 68 Statement Page 1

# Annual Documentation

## GASB 68 Statement Page 1, Key Details

### Census Data

Anywhere County

Section A

EXECUTIVE SUMMARY

AS OF DECEMBER 31, 2015

Actuarial Valuation Date

December 31, 2015

Measurement Date of the Net Pension Liability

December 31, 2015

Fiscal Year End

November 30, 2016

Membership

Number of

Retirees and Beneficiaries

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Inactive, Non-Retired Members

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Active Members

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Total Pension Liability/(Asset)

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Net Pension Liability/(Asset)

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Plan Fiduciary Net Position as a Percentage of Total Pension Liability

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Net Pension Liability as a Percentage of Covered Valuation Payroll

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Changes in assumptions

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Total

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#### Membership

Number of	
- Retirees and Beneficiaries	111
- Inactive, Non-Retired Members	113
- Active Members	141
- Total	365
Covered Valuation Payroll	\$ 5,627,410

### Funding Level

Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.32%
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### Long-Term Municipal Bond Rate

Long-Term Municipal Bond Rate*	3.57%
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# Annual Documentation

Anywhere County

Section B

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS CURRENT PERIOD CALENDAR YEAR ENDED DECEMBER 31, 2015

### A. Total pension liability

1. Service Cost	\$	592,309
2. Interest on the Total Pension Liability		1,748,086
3. Changes of benefit terms		0
4. Difference between expected and actual experience of the Total Pension Liability		(922,487)
5. Changes of assumptions		0
6. Benefit payments, including refunds of employee contributions		(918,245)
7. Net change in total pension liability	\$	499,663
8. Total pension liability – beginning		23,470,779
9. Total pension liability – ending	\$	<u>23,970,442</u>

### B. Plan fiduciary net position

1. Contributions – employer	\$	518,570
2. Contributions – employee		259,677
3. Net investment income		119,473
4. Benefit payments, including refunds of employee contributions		(918,245)
5. Other (Net Transfer)		(856,043)
6. Net change in plan fiduciary net position	\$	(876,568)
7. Plan fiduciary net position – beginning		23,964,645
8. Plan fiduciary net position – ending	\$	<u>23,088,077</u>

### C. Net pension liability/(asset)

\$ 882,365

### D. Plan fiduciary net position as a percentage of the total pension liability

96.32%

### E. Covered Valuation payroll

\$ 5,627,410

### F. Net pension liability as a percentage of covered valuation payroll

15.68%

## SENSITIVITY OF NET PENSION LIABILITY/(ASSET) TO THE SINGLE DISCOUNT RATE ASSUMPTION

	1% Decrease 6.50%	Current Single Discount Rate Assumption 7.50%	1% Increase 8.50%
Total Pension Liability	\$ 27,248,778	\$ 23,970,442	\$ 21,318,094
Plan Fiduciary Net Position	23,088,077	23,088,077	23,088,077
Net Pension Liability/(Asset)	\$ 4,160,701	\$ 882,365	\$ (1,769,983)

## GASB 68 Statement Page 10

# Annual Documentation

## GASB 68 Statement Page 10, Key Details

Anywhere County

Section B

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

CURRENT PERIOD

CALENDAR YEAR ENDED DECEMBER 31, 2015

A. Total pension liability

1. Service Cost

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8. Total pension liability – beginning

9. Total pension liability – ending

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1,748,086

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(922,487)

0

(918,245)

\$ 499,663

23,470,779

\$ 23,970,442

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1. Contributions – employer

2. Contributions – employee

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5. Other (Net Transfer)

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C. Net pension liability/(asset)

\$ 882,365

D. Plan fiduciary net position as a percentage of the total pension liability

96.32%

E. Covered Valuation payroll

\$ 5,627,410

F. Net pension liability as a percentage of covered valuation payroll

15.68%

SENSITIVITY OF NET PENSION LIABILITY/(ASSET) TO THE SINGLE DISCOUNT RATE ASSUMPTION

Current Single Discount Rate Assumption

1% Decrease 6.50%

1% Increase 8.50%

Total Pension Liability

Plan Fiduciary Net Position

Net Pension Liability/(Asset)

\$ 27,248,778

23,088,077

\$ 4,160,701

\$ 23,970,442

23,088,077

\$ 882,365

\$ 21,318,094

23,088,077

\$ (1,769,983)

### Total Net Pension Liability

9. Total pension liability – ending	<u>\$ 23,970,442</u>
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### Covered Valuation Payroll

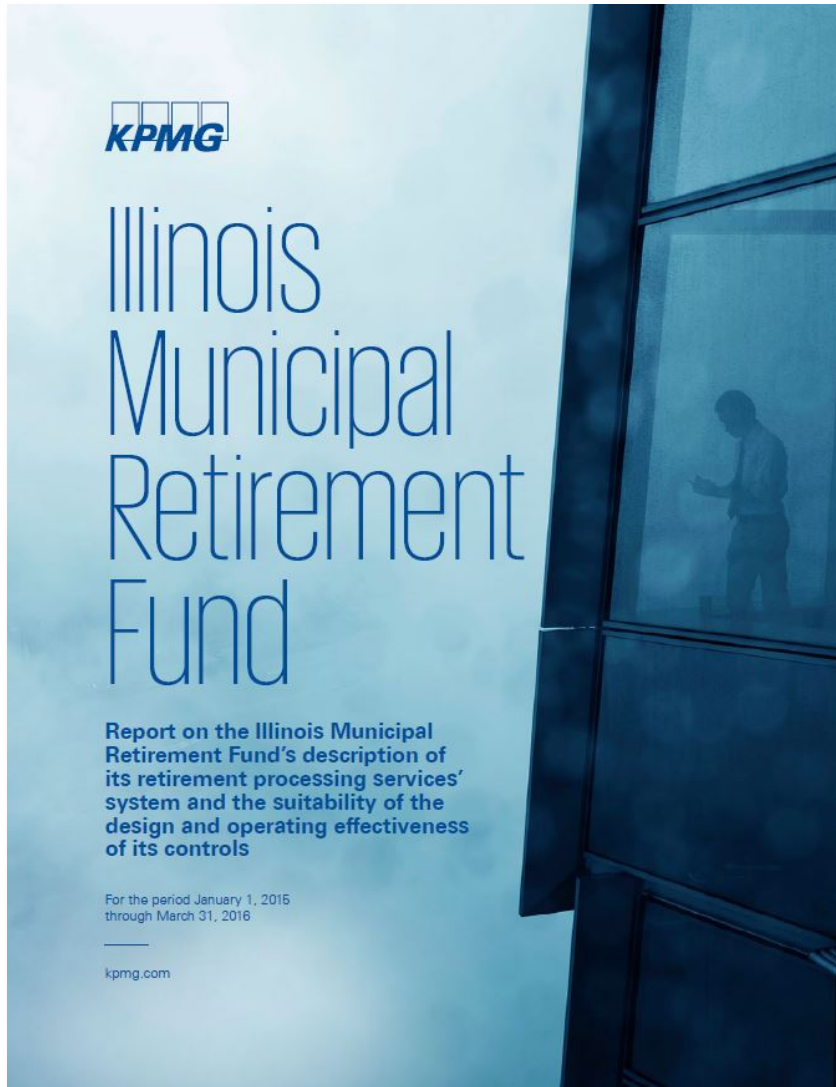
F. Net pension liability as a percentage of covered valuation payroll	15.68%
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### Sensitivity of Net Pension Liability to the Single Discount Rate Assumption

	1% Decrease	Current Single Discount Rate Assumption	1% Increase
	6.50%	7.50%	8.50%
Total Pension Liability	\$ 27,248,778	\$ 23,970,442	\$ 21,318,094
Plan Fiduciary Net Position	23,088,077	23,088,077	23,088,077
Net Pension Liability/(Asset)	\$ 4,160,701	\$ 882,365	\$ (1,769,983)



# Annual Documentation



## SOC-1 Report

**For the period  
January 1, 2015  
through  
March 31, 2016**

# 2015 Investment Income

NASDAQ	7.1%
S&P 500	1.38%
Barclays Aggregate (Bond)	0.55%
Russell 3000	0.48%
Dow Jones Total Mkt.	0.44%
Small Cap Index	-4.41%
International (other than U.S.)	-5.66%

<b>IMRF Benchmark</b>	<b>1.43%</b>
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*Ending December 31, 2015*



# 2015 Investment Income

- Investment return for 2015 was **0.44%**
- Short of assumed actuarial return of 7.5% (**7.06% gap**)
- Short of Total Fund Benchmark return of 1.43% (**0.99% gap**)

## 2014

**Members**  
**\$6.3 Billion**

**Employers**  
**\$11.7 Billion**  
*(Balancing Account)*

**Retirees**  
**\$17.9 Billion**

## 2015

**Members**  
**\$6.5 Billion**  
*100% Funded*

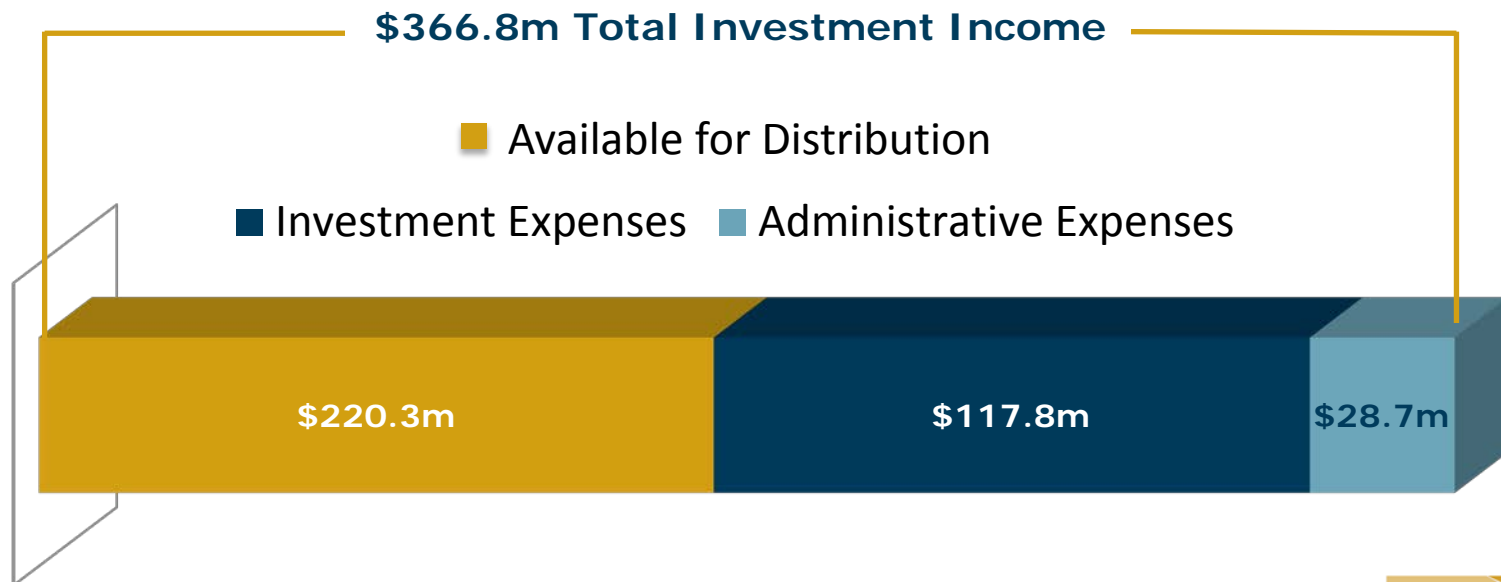
**Employers**  
**\$8.5 Billion**  
*(Balancing Account)*

**Retirees**  
**\$19.4 Billion**  
*100% Funded*

# 2015 Investment Income

## What did a 0.44% return mean for 2015?

- **\$366.8 million investment income**
  - \$117.8 million of investment expenses
  - \$28.7 million of administrative expenses



# 2015 Investment Income

## What did a 0.44% return mean for 2015?

- **Credited \$1.62 billion to annuitant reserve**
  - Balance (\$19.4 billion)
- **Credited \$211.9 million to member reserve**
  - Balance (\$6.5 billion)

# 2015 Investment Income

## What did a 0.44% return mean for 2015?

- **Charged \$3.17 billion to employer reserves:**
  - Balance (\$8.5 billion)
  - Included \$1.713 billion of residual loss for 2015
  - Interest not realized
  - Percentage for individual employers varies based upon relationship between its employer reserve and annuitant reserve compared to the total of all employers reserves

# 2015 Investment Income

## Impact on Funding Ratio

### ➤ In 2015:

	BEGINNING OF YEAR		END OF YEAR	
	Market Value	Actuarial Value	Market Value	Actuarial Value
Assets	\$34,833.10	\$32,700.20	\$34,461.06	\$34,913.10
Liabilities	37,465.10	\$37,465.10	\$39,486.60	\$39,486.60
Ratio	93.0%	87.3%	87.4%	88.4%

- **Funding value and Market value were impacted by:**
  - Investment returns below 7.5%
- **Liabilities grew due to:**
  - One more year of service credit



# 2015 Investment Income

## Magnitude of the Unfunded Liability

	2014	2015
Actuarial Liability	\$37.5b	\$39.5b
Actuarial Assets	<b><u>\$32.7b</u></b>	<b><u>\$34.9b</u></b>
Unfunded Actuarial Accrued Liability (UAAL)	\$ 4.8b	\$ 4.6b
Market Value of Assets	\$34.9b	\$34.5b
UAAL on Market Basis	\$ 2.6b	\$5.0b

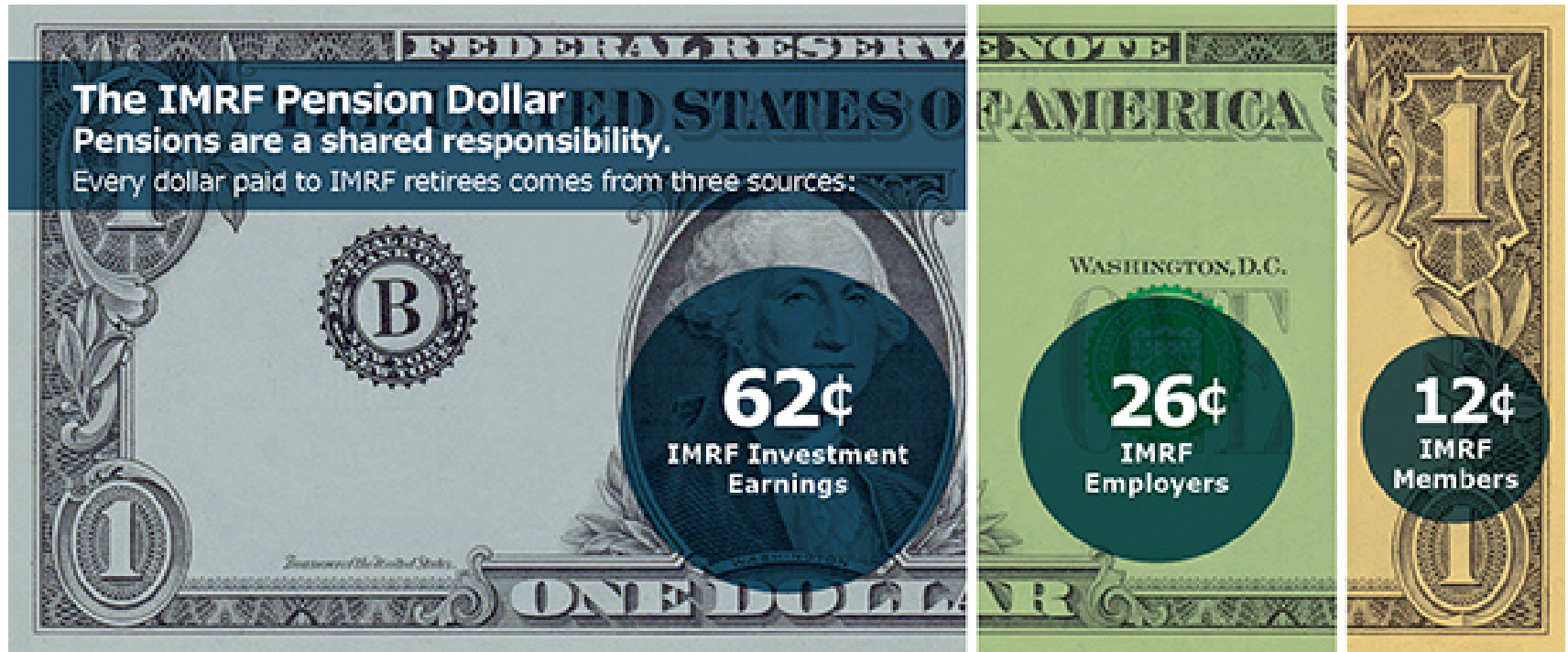
# Points to Remember

- IMRF is a defined benefit plan
- Benefits are based upon a formula that covers the final rate of earnings and years of service
- IMRF's benefits are guaranteed by the Illinois Constitution and can only be changed prospectively by the Illinois legislature for new members

# Points to Remember

- There are only three sources of funding:
  1. Member contributions (*Fixed*)
  2. Employer contributions (*Variable*)
  3. Investment return (*Variable*)
- While member contributions are fixed by statute, investment income varies based upon market returns and employer contributions fund the balance and are also variable.

# Points to Remember



# Points to Remember

## 2017 Cost of the IMRF Program

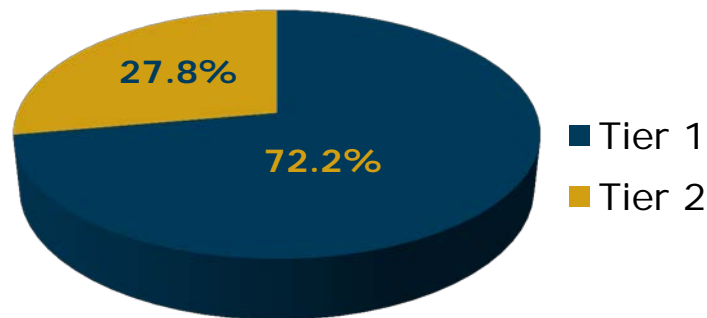
	Regular	SLEP
Retirement	6.71%	11.77%
Disability & Death	.27%	.27%
13 <sup>th</sup> Payment	.62%	.62%
Unfunded Liabilities	3.74%	7.90%
SLEP Supplemental Liabilities	-	1.83%
<b>TOTAL</b>	<b>11.34%</b>	<b>22.39%</b>

- A 2017 contribution rate **HIGHER** than the cost of the program means the employer was ***underfunded*** as of December 31, 2015
- A 2017 contribution rate **LESS** than the cost of the program means the employer was ***overfunded*** as of December 31, 2015

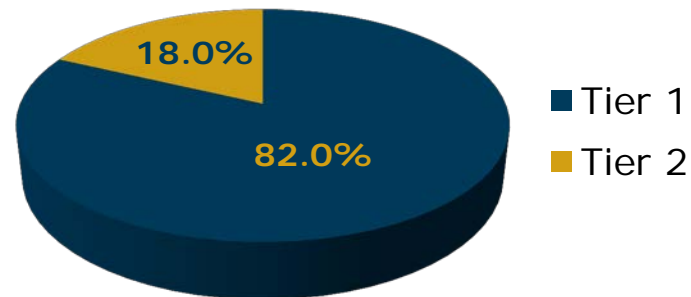
# Points to Remember

## Impact of Tier 2 on Blended Normal Cost on the Regular Plan

Tier 1 and Tier 2 Members



Projected 2017 Wages  
(as % of total IMRF wages)



2017 normal cost for Tier 1	7.28%
2017 normal cost for Tier 2	4.41%
2017 average blended normal cost for Regular Plan	6.76%

# Points to Remember

**If an employer is less than 100% funded on an actuarial basis:**

- 1. Taxing Bodies** – a 26-year closed period  
(reducing to 15 years at which time it becomes a 15 year rolling period)
- 2. Instrumentalities** – a 10-year rolling period

**ERI** – up to 10 years at employer option

# Points to Remember

## 2016 Webinars

<b>March 29</b>	Pension Spiking and Accelerated Payment Webinar
<b>May 12</b>	Rate Meeting
<b>August</b>	GASB 68
<b>October</b>	Employer Rate-Making



Visit [www.imrf.org](http://www.imrf.org) for further information



# Illinois Municipal Retirement Fund

## Contact us:

- **Louis W. Kosiba**
  - Email: [lkosiba@imrf.org](mailto:lkosiba@imrf.org); Phone: 630-368-5355
- **Mark Nannini**
  - Email: [mnannini@imrf.org](mailto:mnannini@imrf.org); Phone: 630-368-5345

## Employer 800-number:

- **1-800-728-7971**

## IMRF website:

- **[www.imrf.org](http://www.imrf.org)**
  - Comprehensive Annual Financial Report
  - Annual Budget
  - GASB 68 Resource Page
  - GASB 50 (Employer Access)
  - SOC-1 Document (Employer Access)

# Appendix

- IMRF is an Agent Multiple-Employer Public Employee Retirement System
- Cost method of valuation:  
Aggregate Entry Age Normal

# Appendix

## IMRF Mission, Vision, and Values

**Mission** - To efficiently and impartially develop, implement, and administer programs that provide income protection to members and their beneficiaries on behalf of participating employers in a prudent manner.

**Vision** - To provide the highest quality retirement services to our members, their beneficiaries and employers.

### **Values - (REAACH)**

Respect

Empathy

Accountability

Accuracy

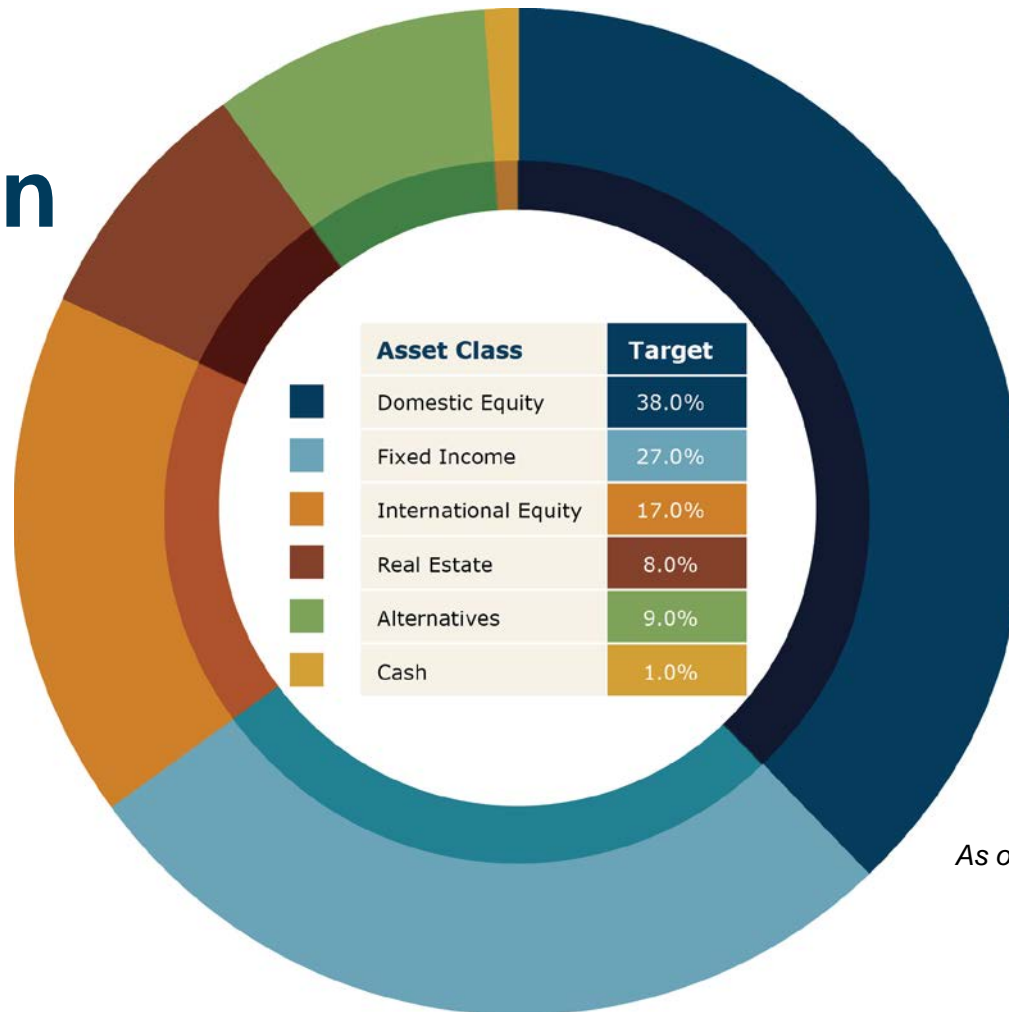
Courage

Honesty



# Appendix

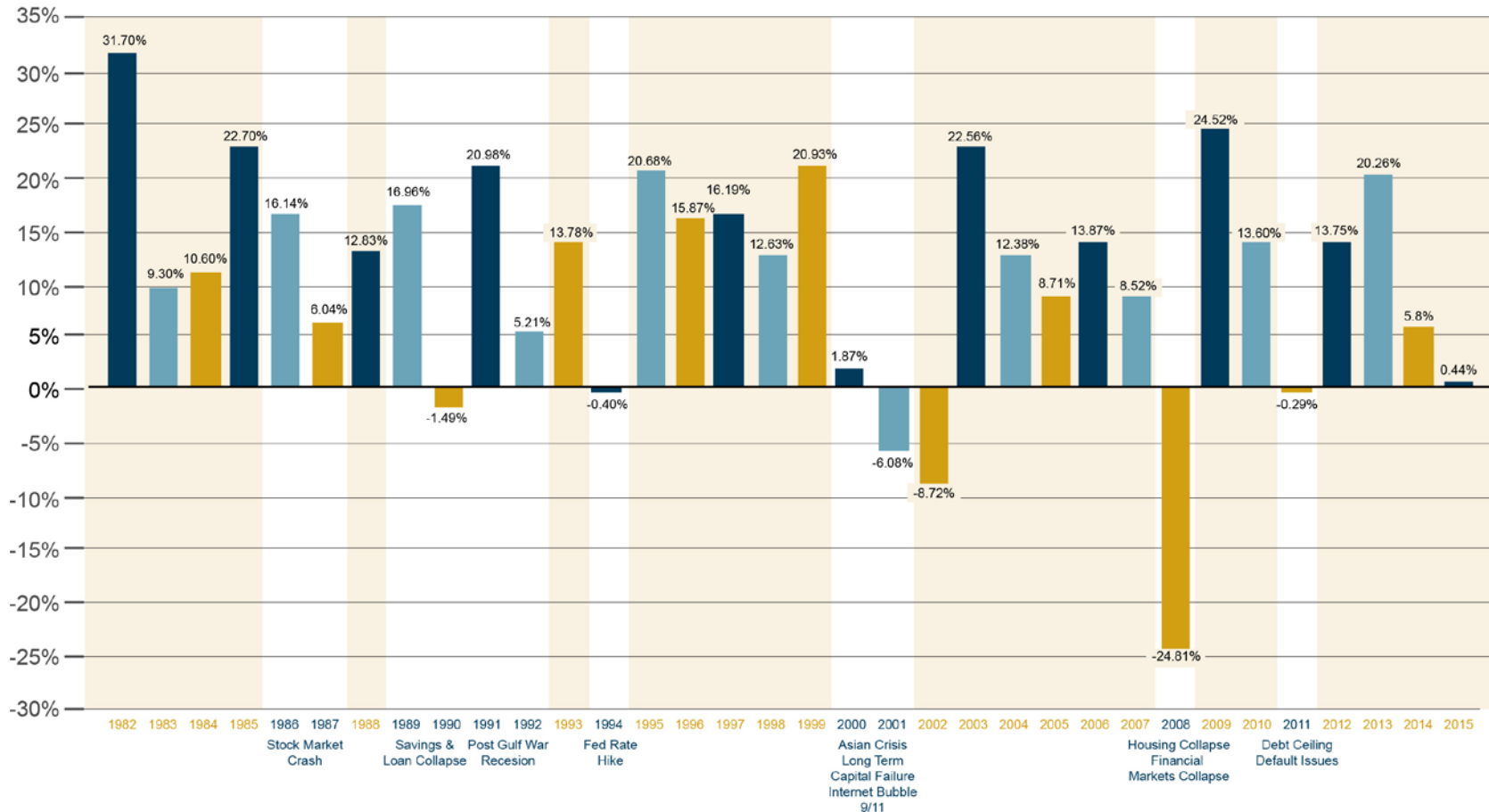
## Target Allocation



*As of February 28, 2015*

# Appendix

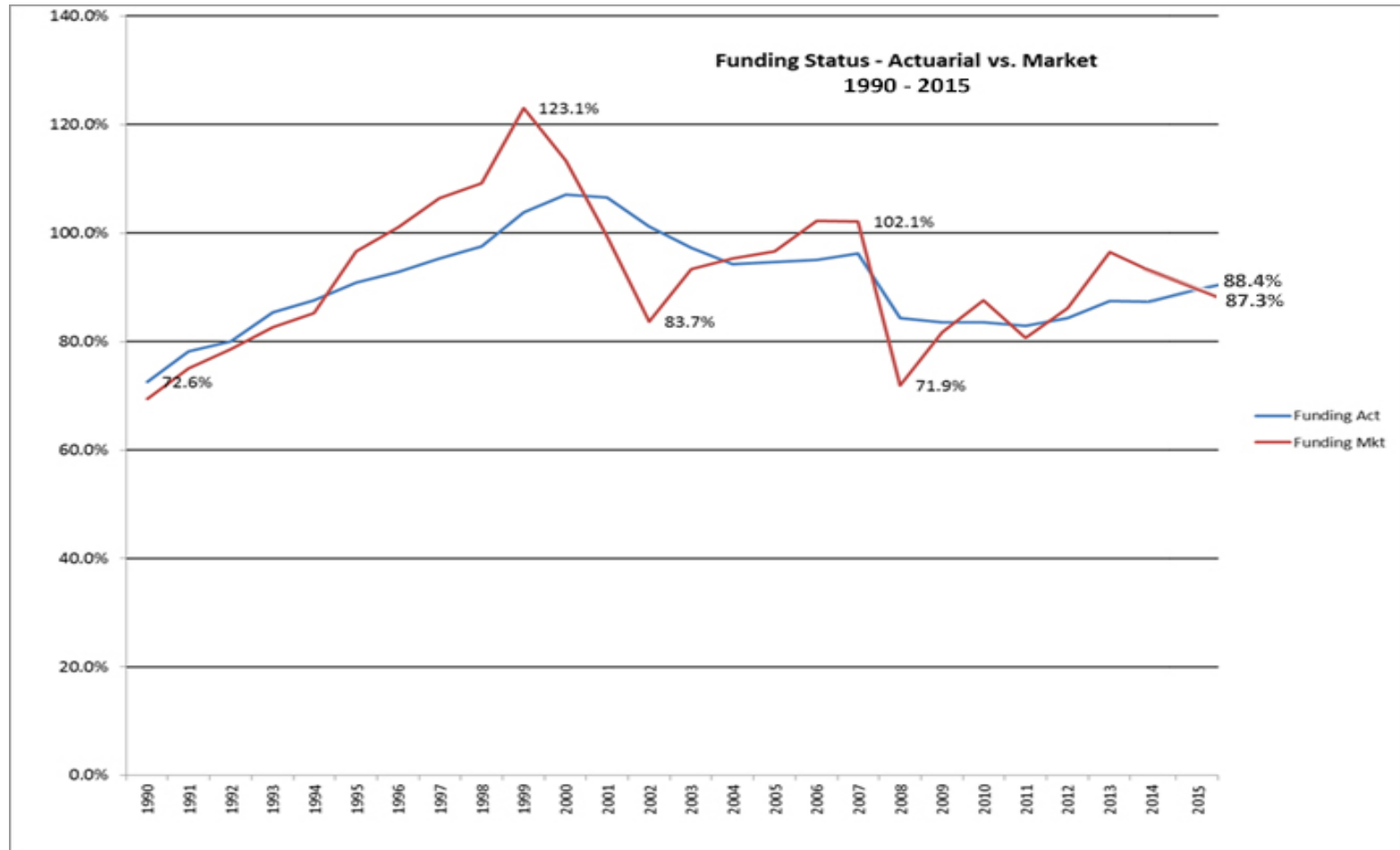
## IMRF ANNUAL TOTAL FUND RETURNS (1982-2015)



- In 1982, began operating under the “Prudent Person Rule”
- 7.5% assumed return
- **Annualized Total Fund return 1982-2015: 9.94%**

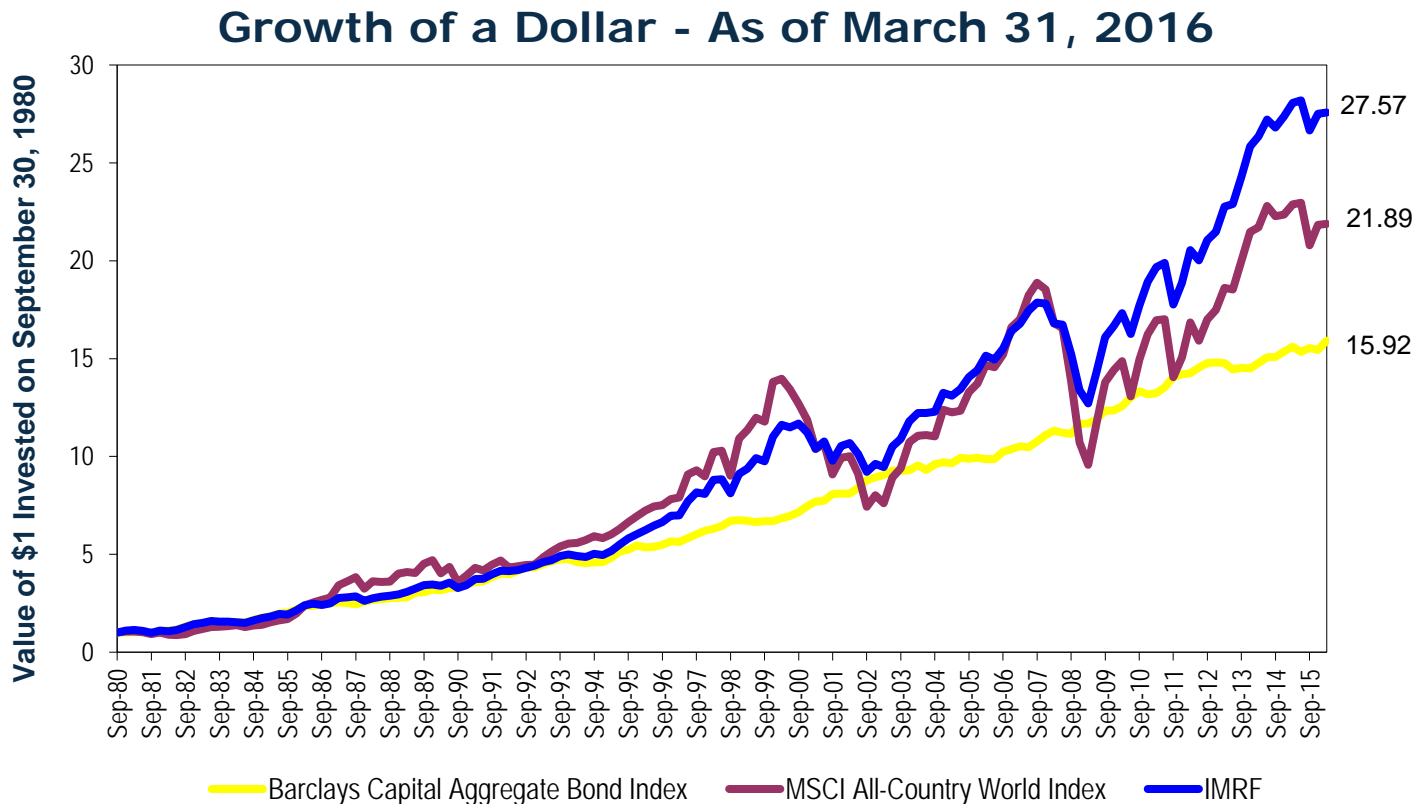
- 6 periods in which IMRF lost money
- 11 periods < 7.5%
- 23 periods > 7.5%
- 20 periods double-digit returns

# Appendix – Funding Status



# Appendix

## How is the money invested?





Do you have  
any questions?



Thank you  
for attending!

