



# 2018

# RATE MEETINGS

PRESENTED BY

**Brian Collins**  
*Executive Director*



**Mark Nannini**  
*Chief Financial Officer*

*Introductions*

## **AGENDA**

- **Introductions**
- **Key Results for 2017**
- **General Rate-Making Principles**
- **Annual Documentation**
- **Points to Remember**
- **Appendix**

*Introductions*

## **NEW EXECUTIVE DIRECTOR**

### **Brian Collins**

- **Joined IMRF January 8, 2018**
- **Formerly worked in finance and government**



*Introductions*

## **NEW EXECUTIVE DIRECTOR**

### **Brian Collins**

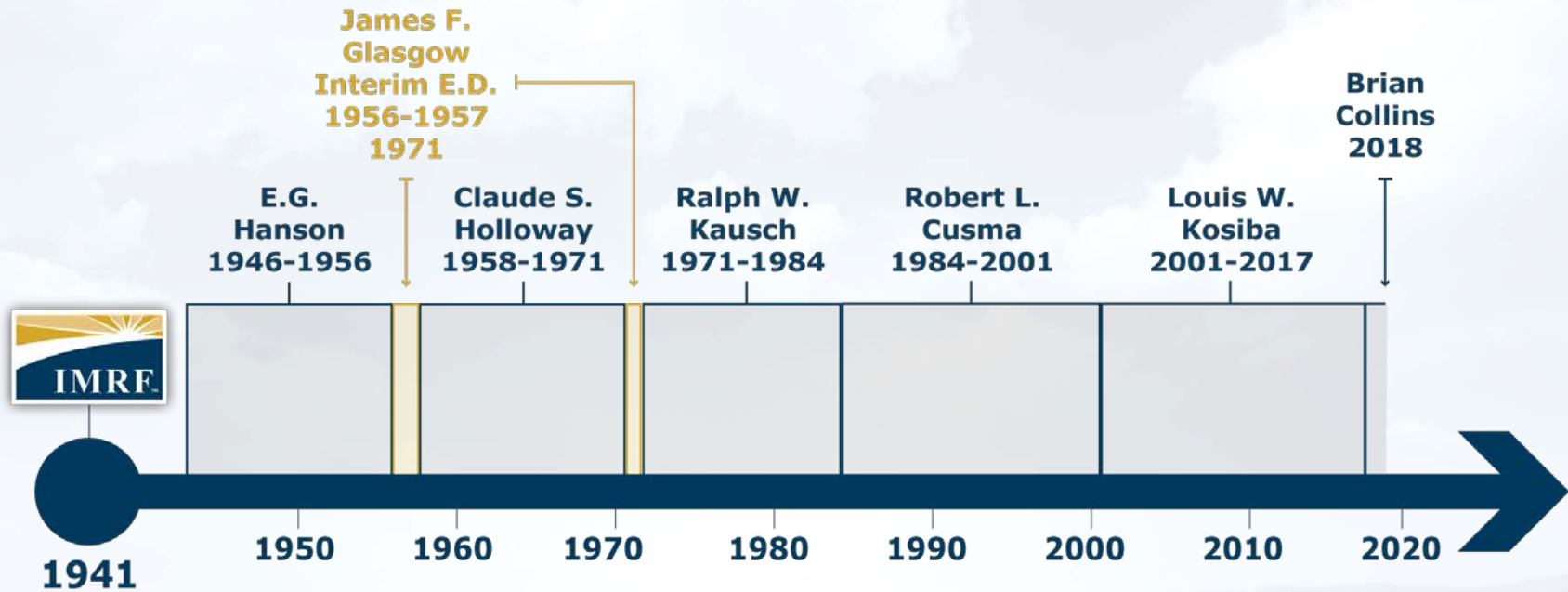
- **BA from DePaul University**
- **Law Degree from Loyola University**
- **MBA from The Ohio State University**





## Introductions

# IMRF'S 7<sup>TH</sup> EXECUTIVE DIRECTOR



IMRF began operations in 1941. Between 1941 and 1946, IMRF had no executive director. Actuary and Clerk A.S. Hanson oversaw operations.

*Key Results for 2017*

## **IMRF RECEIVED ILPEX GOLD AWARD FOR “ACHIEVEMENT OF EXCELLENCE”**

### **Our Journey of Excellence**

- **Began in 2008**
- **1 of only 2 public-sector entities in Illinois to receive Gold**
- **Plan to apply for Malcolm Baldrige National Quality Award in 2018**



*Key Results for 2017*

**GROSS INVESTMENT RETURN**

**BILLION IN GROSS  
INVESTMENT INCOME**

**\$5.758**

**15.96%**

**GROSS INVESTMENT  
RATE OF RETURN**

Key Results for 2017

## INVESTMENT RETURN AFTER FEES

**\$5.758**

**-\$156**

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**\$5.602**

BILLION IN GROSS  
INVESTMENT INCOME

MILLION IN INVESTMENT &  
ADMINISTRATIVE FEES

BILLION GAINED IN 2017



Key Results for 2017

## CREDITS TO RESERVES

**\$5.602**

**BILLION GAINED  
IN 2017**

**-\$1.841**

**BILLION COMBINED**

- Annuitant Reserve Credit  
\$1.4006 Billion
- Member Reserve Credit  
\$440.5 Million

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**\$3.761**

**BILLION CREDITED  
TO EMPLOYER RESERVE**

*Key Results for 2017*

## **EMPLOYER RESERVE CREDIT**

**\$3.761** BILLION

The average employer account was credited **51.12% interest** on opening balance.

*Key Results for 2017*

## MARKET FUNDED STATUS

**2016**

**88%**

**2017**

**97.1%**

*Key Results for 2017*

## **ACTUARIAL FUNDED STATUS**

**2016**

**88.9%**

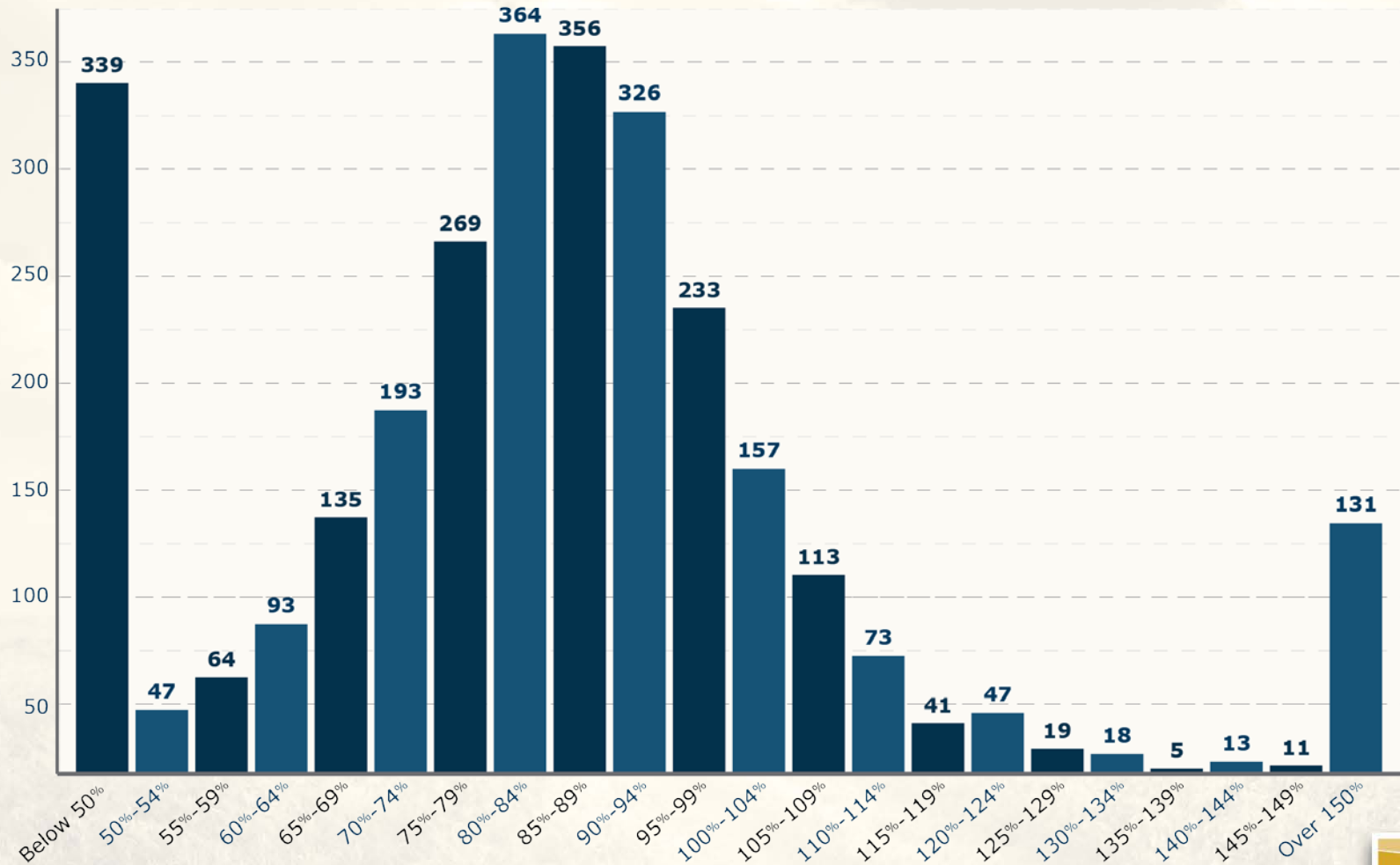
**2017**

**92.9%**



## Key Results for 2017

# EACH EMPLOYER'S FUNDED STATUS VARIES



*General Rate-Making Principles*

## **EVERYONE IN THE ROOM CONTRIBUTES TO IMRF**

**Do you understand how IMRF determines  
how much your employer needs to  
contribute every month?**



**Mark Nannini**

**Chief Financial Officer**

*General Rate-Making Principles*

**YOUR EMPLOYER PAYS FOR THE RETIREMENT BENEFITS OF ONLY IT'S EMPLOYEES**

**How your Employer Reserve Account works.**

- **Credited with contributions made by your employer.**
- **Credited investment gain or loss made on contributions.**
- **Debited retirement costs of your employees.**

**Your employer's finances have no relationship to the pension assets and liabilities of IMRF's other 3,000 employers.**

*General Rate-Making Principles*

**HOW YOUR EMPLOYER'S RATE IS CALCULATED?**

**1**

IMRF provides demographic and financial data as of year-end to IMRF's actuaries.

**2**

Actuaries apply assumptions to the demographic and financial data.

**3**

The actuaries then produce an Actuarial Valuation for IMRF.

**4**

Actuaries rely on the Valuation to set contribution rates for each employer.



*General Rate-Making Principles*

**WHAT HAPPENS TO MONEY SENT TO IMRF?**

**IMRF has \$41.3 Billion in assets spread across 3 main accounts**

**\$6.9**

**BILLION**

**MEMBER  
RESERVE**

**\$12.4**

**BILLION**

**EMPLOYER  
RESERVE**

**\$22.0**

**BILLION**

**ANNUITANT  
RESERVE**

*General Rate-Making Principles*

## **RESERVE FUNDED STATUS**

**Employer Reserve serves as a  
“Balancing Account.”**



**100%**  
FUNDED STATUS

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**MEMBER  
RESERVE\***



**Variable**  
FUNDED STATUS

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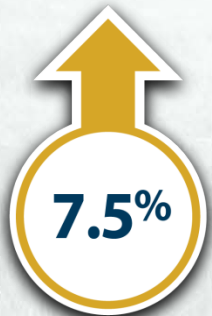
**EMPLOYER  
RESERVE**



**100%**  
FUNDED STATUS

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**ANNUITANT  
RESERVE\***



\***Member Reserve** and **Annuitant Reserve** accounts must be kept at 100% funded status. IMRF credits these accounts 7.5% yearly.

## **ACTUARIAL ASSUMPTIONS**



**Used to calculate how much money needs to be set aside to fund future benefits.**



**IMRF Board sets assumptions**

- **Economic and Demographic**
- **Updated every three years**

## **ASSUMPTIONS**

### **Demographic Assumptions**

- **Active members that quit (withdrawal rates)**
- **Disability for active members**
- **Retirement for active members**
- **Merit and longevity pay for active members**
- **Mortality for active members, retirees, and their beneficiaries.**

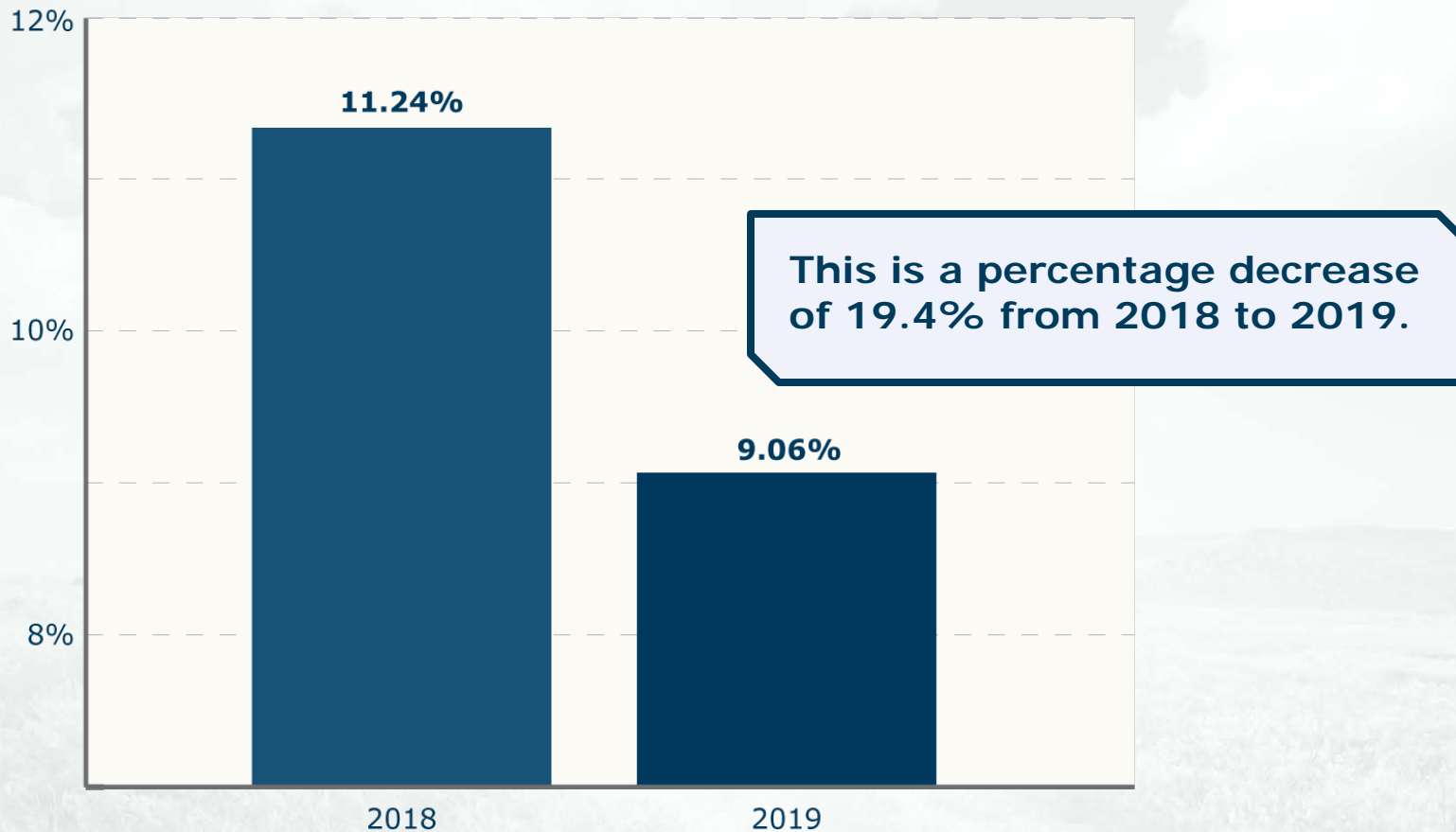
### **Economic Assumptions**

- **Lowering price inflation from 2.75% to 2.5%**
- **Lowering wage inflation from 3.5% to 3.25%**
- **Lowering payroll growth from 3.5% to 2.5%**



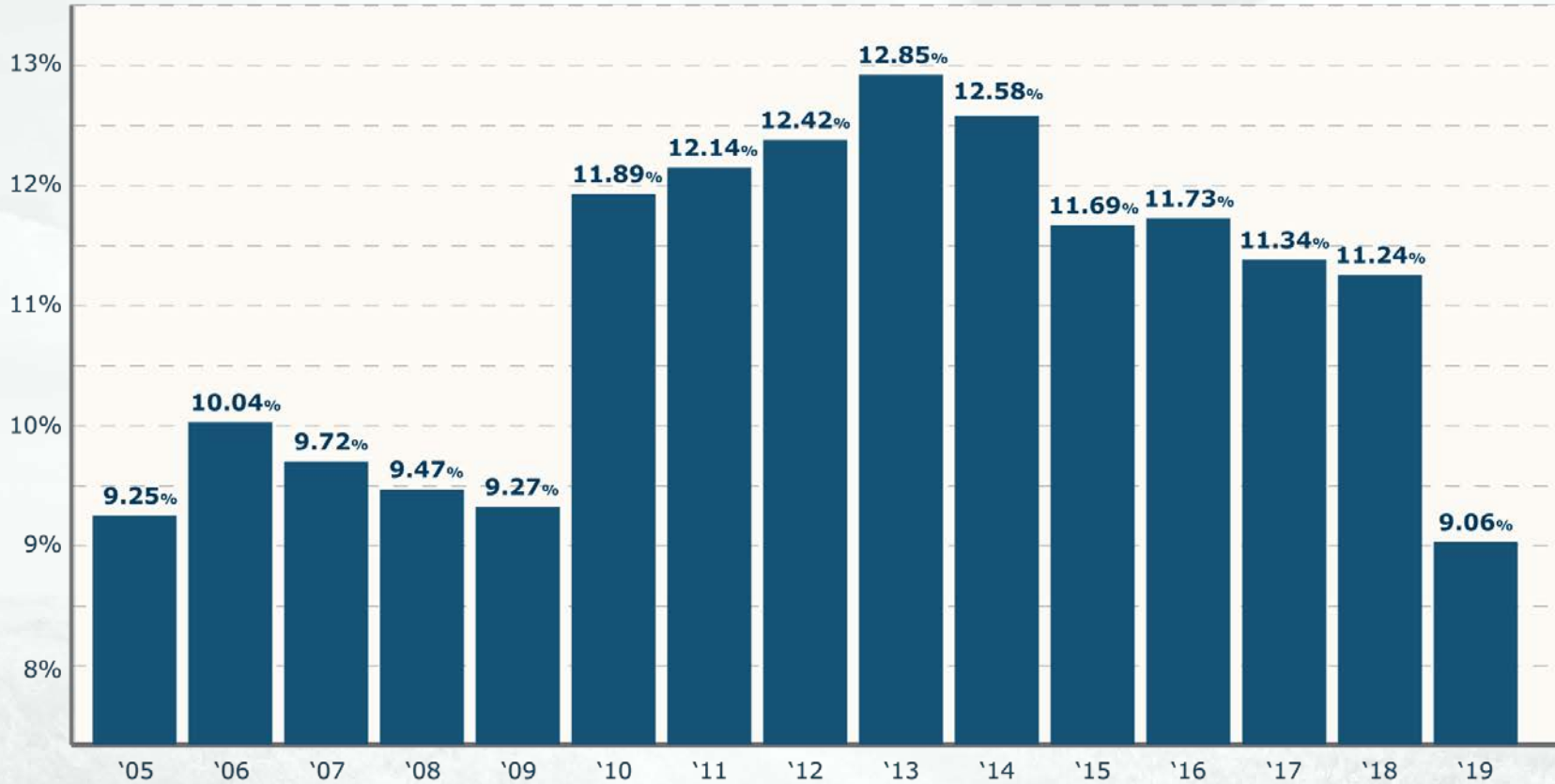
*General Rate-Making Principles*

## **AVERAGE EMPLOYER CONTRIBUTION FOR REGULAR PLAN TO DROP IN 2019**



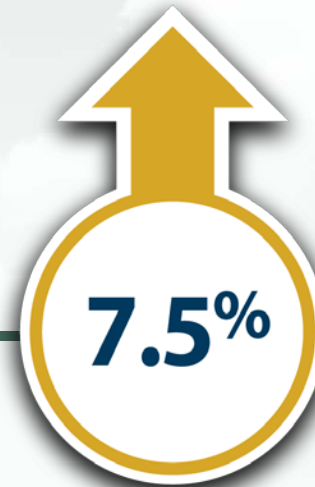
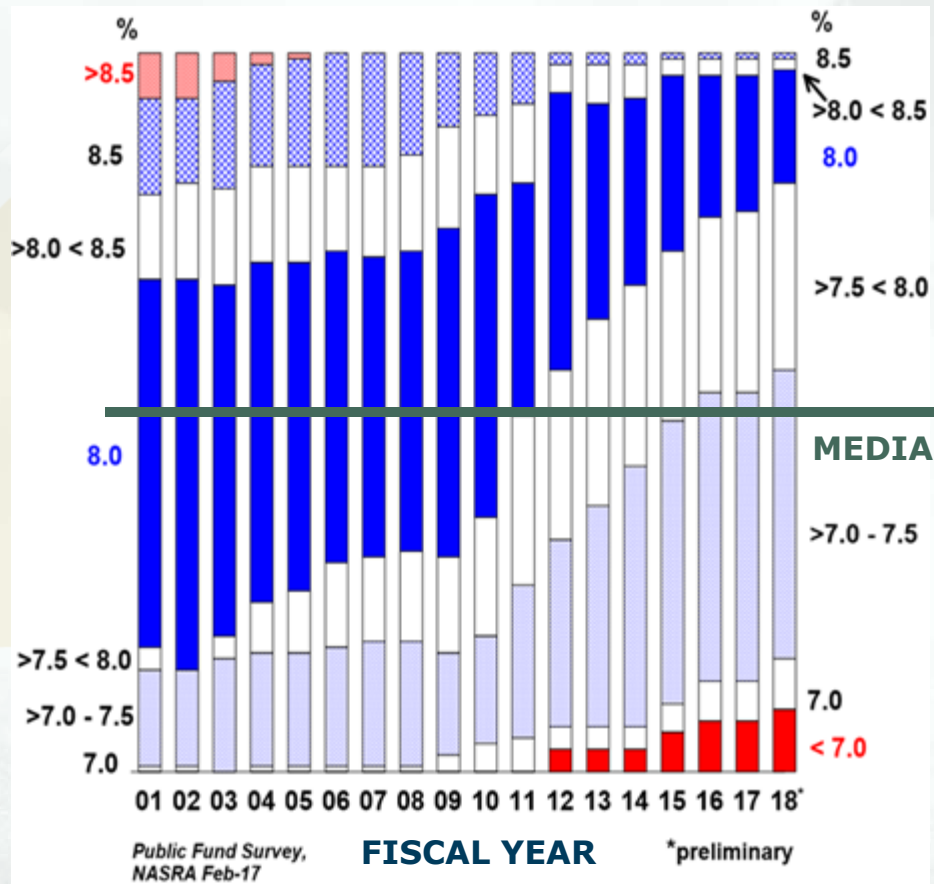
*General Rate-Making Principles*

# RECENT HISTORY OF REGULAR PLAN EMPLOYER CONTRIBUTION RATES



# General Rate-Making Principles

## INVESTMENT RETURN ASSUMPTION



**IMRF CURRENT ASSUMED RATE OF RETURN**

7.5%

## **INVESTMENT RETURN ASSUMPTION CHANGES?**

**The Board of Trustees considered changing the assumed rate of return from 7.5% to 7.25%.**

**They discussed the following factors:**



- **IMRF's recent asset-liability modeling study**
  - IMRF has a close to 50% probability of achieving the expected rate of return over a 30-year investment horizon
- **IMRF's investment portfolio has achieved a total annualized return of 10.05% since 1982**

**Ultimately the board decided to maintain a 7.5% return assumption.**



*General Rate-Making Principles*

**LOWER ASSUMPTION MEANS POTENTIALLY HIGHER EMPLOYER CONTRIBUTION RATES**

	 <b>7.5%</b>	 <b>7.25%</b>
<b>ASSUMED RATE OF RETURN</b>		
<b>EMPLOYEE CONTRIBUTIONS</b>	4.5%	4.5%
<b>INVESTMENT INCOME (BILLIONS)</b>	\$41.3 x 7.5%	\$41.3 x 7.25%
<b>EMPLOYER CONTRIBUTION RATES (BLENDED)</b>	<b>9.06%</b>	<b>11.26%</b>
<b>EMPLOYER CONTRIBUTIONS (MILLIONS)</b>	<b>\$786</b>	<b>\$966</b>

**22.9%**  
**INCREASE**

*General Rate-Making Principles*

## **ACTUAL EXPERIENCE VS. ACTUARIAL ASSUMPTIONS**

**What happens when IMRF's actual experience does not align with its economic and demographic actuarial assumptions?**

**Any variance between our assumptions and our actual experience impacts your contribution rates.**

## **VARIANCE IN ASSUMPTIONS**

**Some variances are out of your control as an employer.**

*Example*

**IMRF assumes a certain percentage of your workforce will file for disability at some point.**

**If in reality, a greater percentage of your workforce files for disability over time, this will increase your employer contribution rate in future years.**

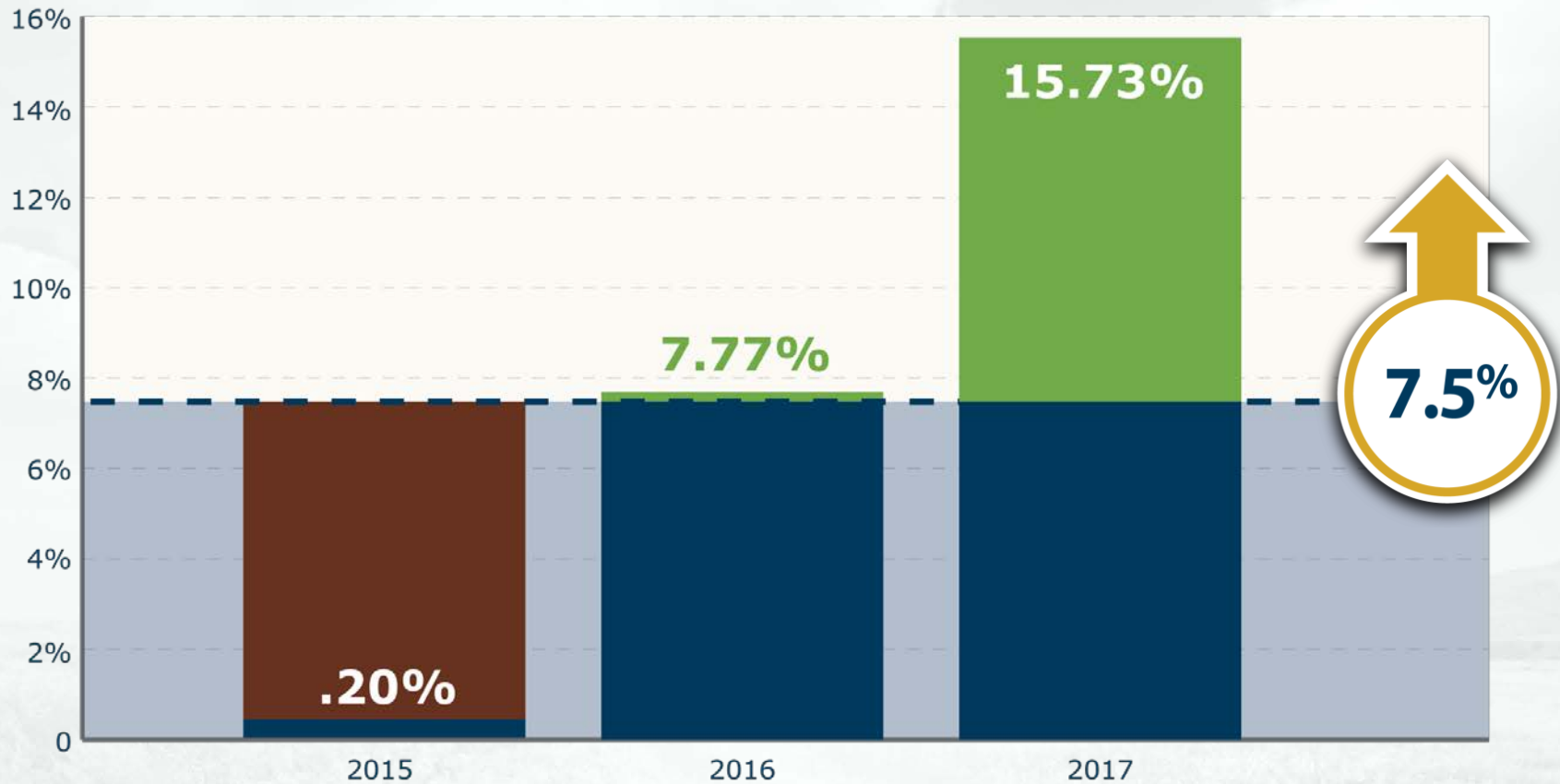
**Some variances are in your control as an employer.**

*Example*

**IMRF assumes that your workforce's wages will grow by 3.25% annually. If your workforce's wages grow by 5% annually, this will increase your employer contribution rate in future years.**

General Rate-Making Principles

# INVESTMENT EARNING VARIABILITY





## **DOCUMENTATION YOU RECEIVE FROM IMRF**

**There are two main purposes for our documentation**



### **Projects your future costs**

- Employer Reserve Statement
- Rate Notices




### **Financial reporting**

- GASB Statements & Reporting
- SOC-1 Type 2 Report

# Annual Documentation

## EMPLOYER RESERVE STATEMENT



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

PAGE: 1

2017 EMPLOYER RETIREMENT RESERVE STATEMENT  
REGULAR RESERVE ACCOUNT

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

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

PHONE NUMBER: 618-288-8006

FIELD REP.....: MANDY BEEDIE			
NORMAL COST	6.810	DISABILITY	.140
FUNDING ADJ OVR/UND	5.140	DEATH	.160
RETIREMENT	11.950	SUPPLEMENTAL PENSION	.620
OPENING BALANCE, JANUARY 1, 2016 .....			13,510,319.35
INTEREST ON OPENING BALANCE - RATE: 7.500%			1,013,273.95
EMPLOYER RETIREMENT CONTRIBUTIONS (11.950% X 17,017,954.97)			2,033,645.49
RESIDUAL INVESTMENT LOSS CHARGE			321,925.18-
CHARGE/CREDIT MISC MBR ADJ			207.71-
CORRECTION OF ER CONTRIBUTIONS			3,724.94
CREDIT ER FOR RET RESERVE CONT			2,825,053.56




Projects your future costs

This statement shows your employer's funds on deposit as of January 1

- Credits
- Debits
- Adjustments

# Annual Documentation

## PRELIMINARY & FINAL RATE NOTICE



**Final Notice of Illinois Municipal Retirement Fund  
Contribution Rate for Calendar Year 2018**

Date November 2017  
Employer name ANYWHERE SD  
Employer No. 00000

	IMRF Contributions Regular
Member Contributions (tax-deferred) .....	4.50%
<b>Employer Contributions</b>	
• Retirement Rate	6.60%
Normal Cost .....	5.51%
Funding Adjustment <over> under .....	12.11%
Net Retirement Rate .....	
• Other Program Benefits	0.16%
Death .....	0.12%
Disability .....	0.62%
Supplemental Benefit Payment .....	0.00%
Early Retirement Incentive .....	
• TOTAL EMPLOYER RATE .....	13.01%



Projects your future costs

These statements show your employer's rate for the year.

- "Preliminary Rate Notice" will be sent earlier in the year

# Annual Documentation

## GASB 50 DISCLOSURE STATEMENT



### Financial reporting

This statement shows your funded status

- Does not include retirees
- Shows status broken out by plan.

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)	UAAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/17	\$27,426,050	\$40,584,280	\$13,158,230	67.58	\$17,017,955	77.32
12/31/16	\$25,815,545	\$42,185,293	\$16,369,748	61.20	\$17,536,916	93.34
12/31/15	\$29,947,108	\$44,175,603	\$14,228,495	67.79	\$16,350,449	87.02

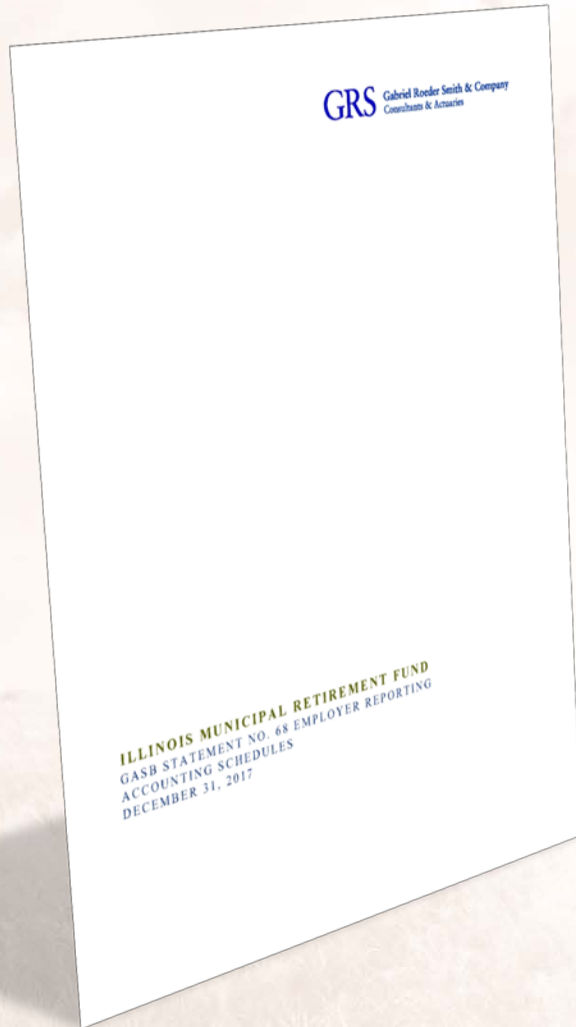
On a market value basis, the actuarial value of assets as of December 31, 2016 is \$26,797,059. On a market basis, the funded ratio would be 66.03%.

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

## **GASB 68 DISCLOSURE STATEMENT**



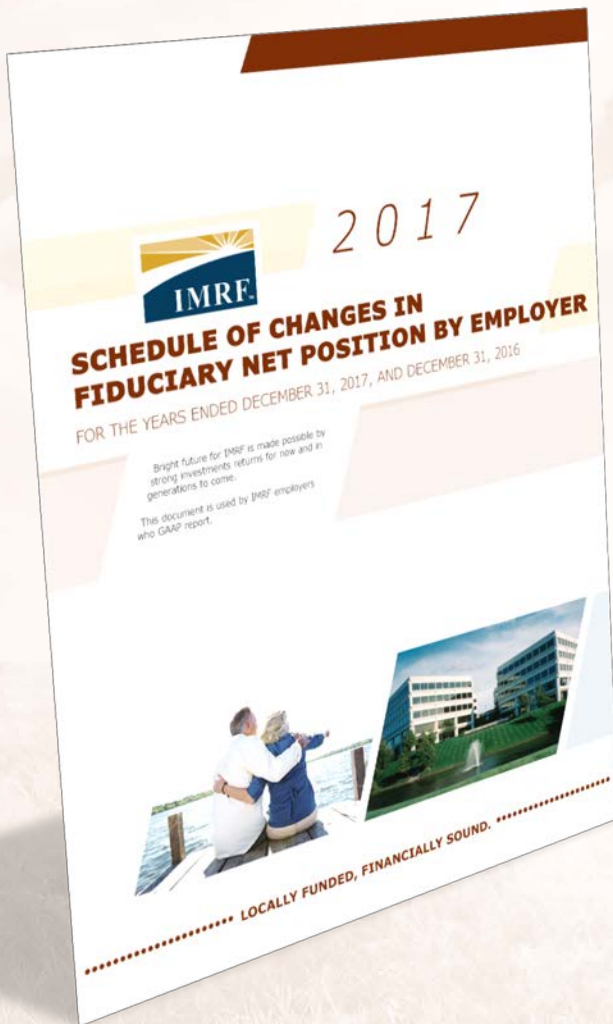
**Financial reporting**

**This statement also shows funded status.**

- **Used by Employers who do GAAP reporting**
- **This funded status includes retirees**
- **Will be HIGHER for more employers.**

# Annual Documentation

## **GASB 68 REPORTING**



## **Financial reporting**

**This statement shows Fiduciary Net Position by employer**

- **Comes out in May**
- **Needed by ER's who GAAP report**

Annual Documentation

## SOC-1 TYPE 2 REPORT



**Financial  
reporting**

**This statement verifies  
IMRF's strict internal  
controls**

- **Available in March**
- **Relieves your auditors from having to test IMRF data**



## Points to Remember

# 2017 IMRF PENSION DOLLAR

### The IMRF Pension Dollar Pensions are a shared responsibility.

Every dollar paid to IMRF retirees comes from three sources:

**64¢**

IMRF Investment  
Earnings

**24¢**

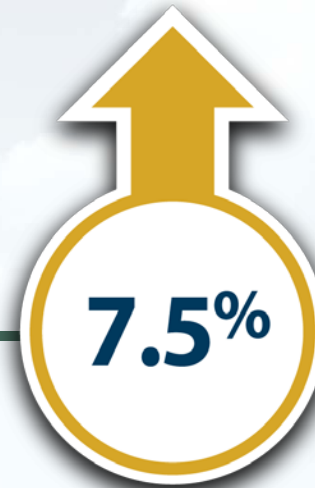
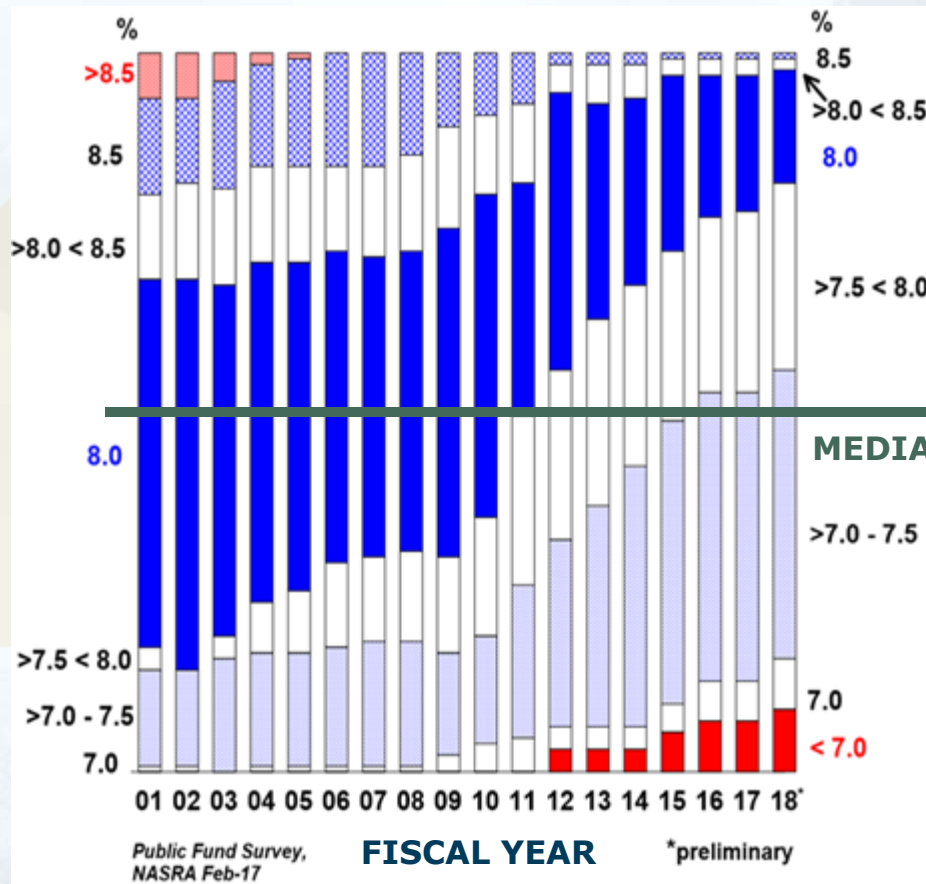
IMRF  
Employers

**12¢**

IMRF  
Members

Points to Remember

# INVESTMENT RETURN ASSUMPTION



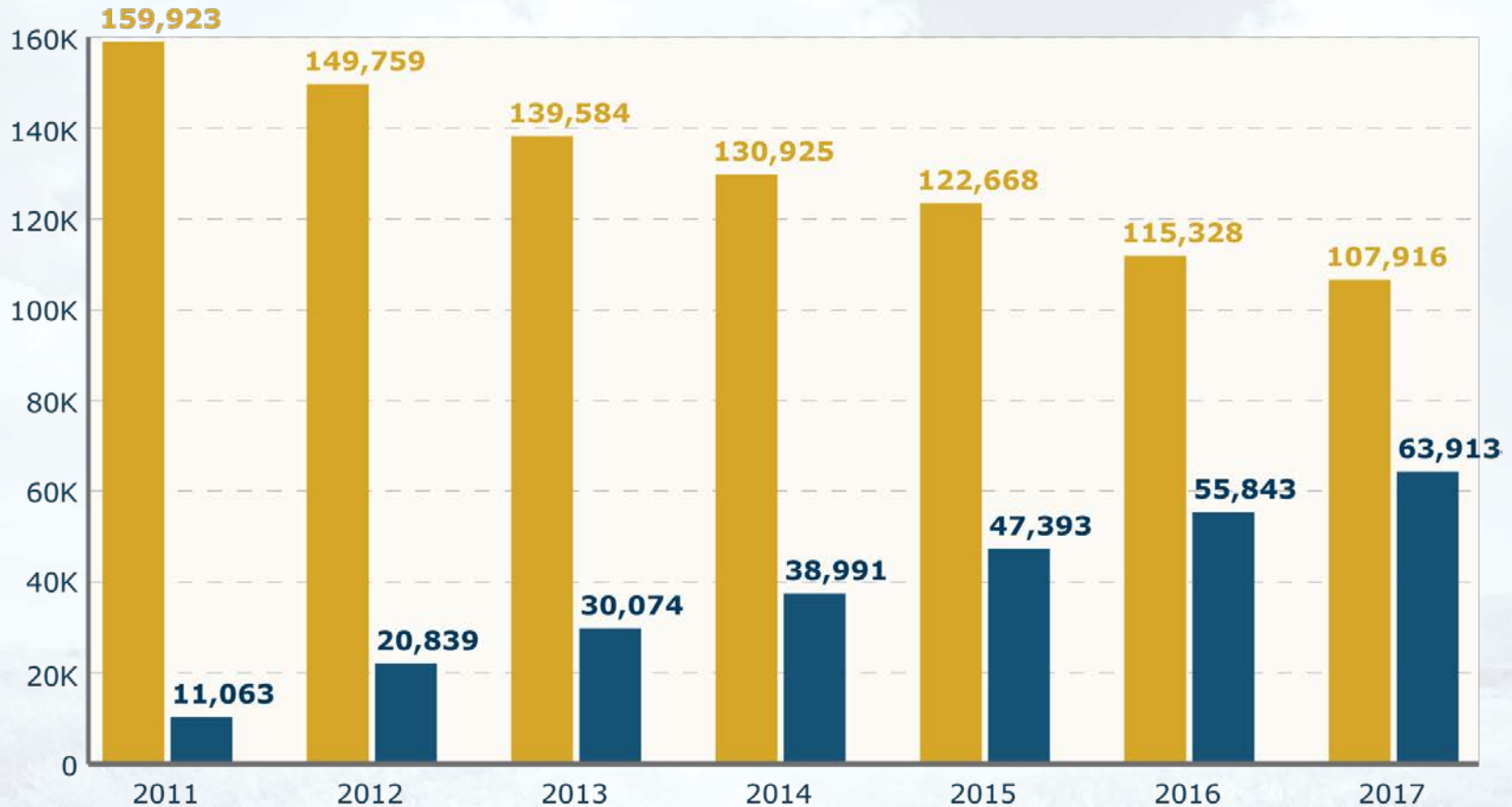
**IMRF CURRENT  
ASSUMED RATE  
OF RETURN**

7.5%



*Points to Remember*

# NUMBER OF ACTIVE REGULAR PLAN MEMBERS

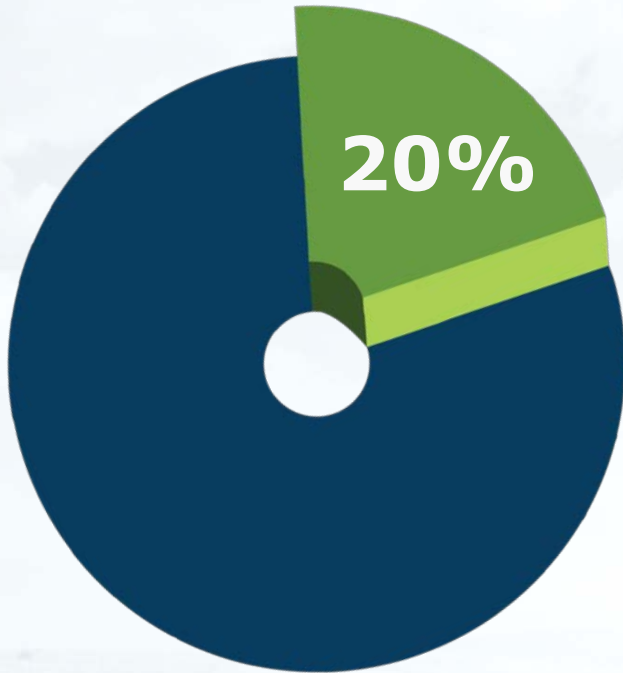


**TIER 1**

**TIER 2**

*Points to Remember*

## **YOUR EMPLOYER MAY BE AUDITED**



**IMRF has 175,000 active members**

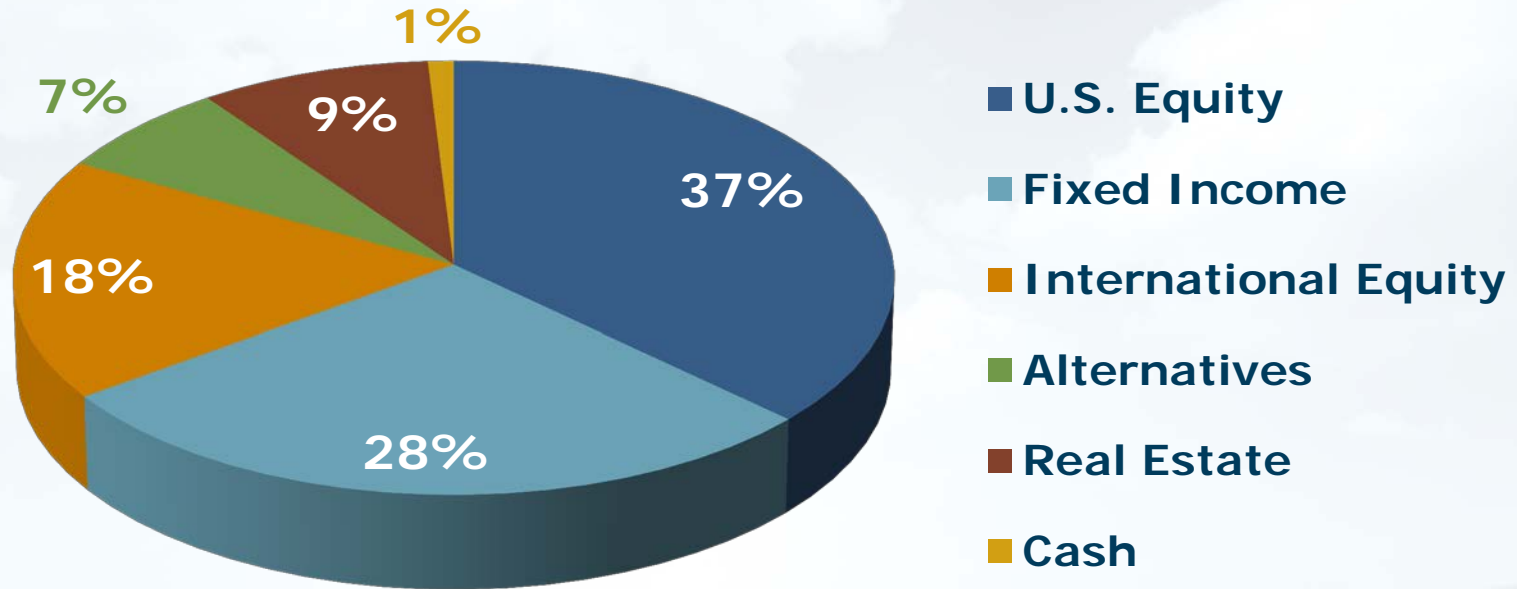
- Each year we audit employers who cumulatively represent 20% of those member records

### **Typical Audit findings**

- **Ineligible wages**
- **Incorrectly tracked hours**

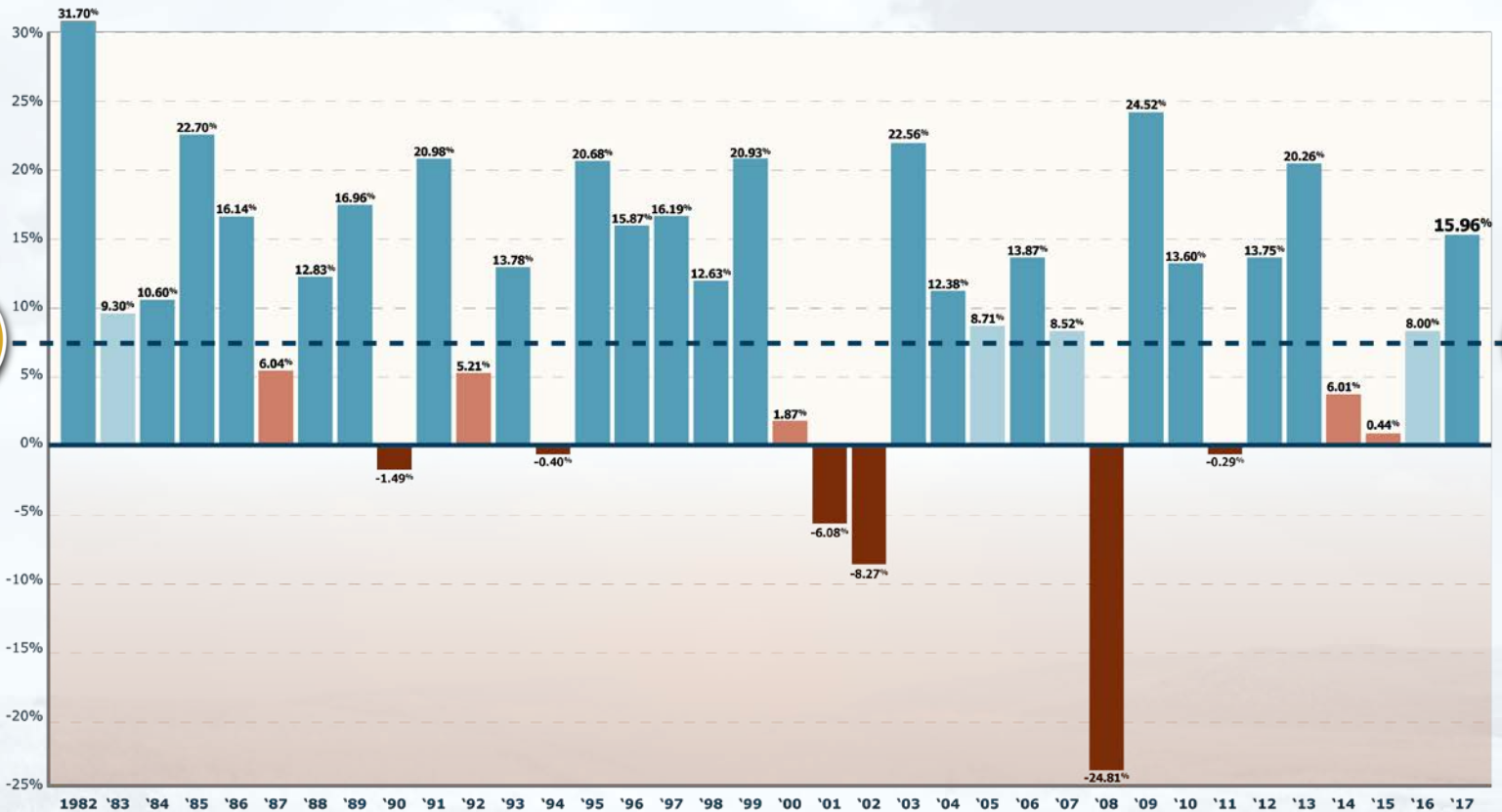
*Points to Remember*

## **IMRF'S TARGET ASSET ALLOCATION**



## Points to Remember

# GROSS RETURNS OVER A 36-YEAR PERIOD



**Total Annualized Return (1982-2017): 10.05% gross of fees**

21 periods > 9.99%

5 periods = 7.49% - 0%

4 periods = 9.99% - 7.5%

6 periods < 0%



# Points to Remember

## GROWTH OF \$1





*Points to Remember*  
**QUESTIONS**



*Appendix*

## **WHAT IS IMRF?**

**IMRF is an agent, multiple employer system**

- **“Entry Age Normal” valuation system**

**This means your pension funds will be there when you need them**

- **Prefunded**



*Appendix*

## **MISSION STATEMENT**

**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.**

**Adopted September 26, 1991**



*Appendix*

## **IMRF BENEFITS ARE BACKED BY LEGISLATION**

IMRF's benefits are guaranteed by the Illinois Constitution, and can only be changed for new members.

**The Illinois Supreme Court has affirmed your constitutional right to not have your pension benefits diminished.**

## **OTHER SIGNIFICANT DEVELOPMENTS IN 2017**

**The IMRF Board of Trustees made it policy that cash payments in lieu of healthcare are not considered IMRF earnings, unless your employer passes an affirmative resolution making those payments IMRF-reportable earnings.**

**Also, payouts for banked vacation – if paid within the final 3 months of a member's FRE period – are exempt from the Accelerated Payment calculation.**



*Appendix*

## **AVERAGE COST PROJECTIONS FOR 2019**

	<b>REGULAR</b>	<b>SLEP</b>
<b>RETIREMENT</b>	8.27%	17.64%
<b>DISABILITY &amp; DEATH</b>	.17%	.17%
<b>13<sup>TH</sup> PAYMENT</b>	.62%	.62%
<b>SLEP SUPPLEMENTAL LIABILITIES</b>	-	2.07%
<b>TOTAL</b>	<b>9.06%</b>	<b>20.50%</b>

*Appendix*

## **CONTACT US**

### **Brian Collins**

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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)