Illinois Municipal Retirement Fund
Suite 500 2211 York Road Oak Brook IL 60523-2337
Member Services Representatives 1-800-ASK-IMRF
www.imrf.org

GENERAL MEMORANDUM

Number: 612

Date: April 15, 2011

To: All Authorized Agents

Subject: Preliminary Notice of IMRF Contribution Rate for Calendar Year 2012

Please share this memorandum with your chief financial officer, other officials, and governing body members.

Executive Summary

Each employer's "Preliminary Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2012" will be available the week of April 4, 2011.

- The notice shows the actuarial required contribution rate, or "ARC," for 2012 for each employer plan as well as the optional phase-in plan rate, if applicable. Out of the 2,924 employers in the Regular plan, 74% will *not* be offered a phase-in rate.
- The ARC rate was calculated by IMRF's actuaries and reflects the recovery of your employer's actuarial accrued unfunded liability.
- The lower rate, the optional phase-in contribution rate, is based upon the IMRF Board of Trustees' phase-in plan which was adopted in 2009 in response to the significant investment losses in 2008.
- Employers who choose to contribute less than the ARC will be required to record a net pension obligation (NPO) on their books for the difference between what they actually contributed and what would have been contributed using the ARC. To help employers determine their NPO, IMRF developed an Excel spreadsheet which will assist you in doing the calculation. Employers with Internet access can download the spreadsheet from www.imrf.org. Employers without Internet access can request a copy of the spreadsheet on CD by contacting IMRF Employer Account Analyst Corey Lockwood at 630-706-4226.
- Employers have until August 31, 2011, to select their 2012 contribution rate. Please advise IMRF **in writing** (fax 630-368-5398, email coreylockwood@imrf.org, or U.S. Postal mail) of your selection. **If IMRF does not receive a written response from an employer by August 31, 2011, we will assume the employer has selected the optional phase-in rate.**
- While the phase-in rate is lower and results in lower contributions currently, it does result in higher contributions over the long term due to the additional carrying costs on the resulting higher unfunded liability. IMRF encourages employers who have the financial capability to contribute at the higher level.
- If an employer is concerned with its ability to sustain a commitment to a higher contribution level, it could select the lower phase-in rate for 2012 and make additional voluntary contributions to reduce its unfunded liability. This would allow the employer to reduce its long term pension costs while maintaining maximum flexibility to manage its contribution rate in future years.
- **If an employer wishes to contribute an amount above the optional phase-in rate in connection with the normal monthly wage reporting process, contact IMRF.**
- Employers should carefully consider their selection of their 2012 contribution rate since the rate selected for 2012 will impact the choices that will be available in 2013.

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Preliminary 2012 Rate Notice

We advised you that your employer's "Preliminary Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2012" was available. This notice provided two rates for each IMRF plan your employer offers, e.g. Regular, Sheriff's Law Enforcement Personnel ("SLEP") or Elected County Official ("ECO") plans, if applicable:

- The higher rate, the annual required contribution or "ARC," was calculated by IMRF's actuaries and reflects the recovery of your employer's actuarial accrued unfunded liability ("Funding Adjustment") over 30 years for employers who can levy property taxes and over 10 years for employers who cannot.

- The lower rate, the optional phase-in contribution rate, is based upon the IMRF Board of Trustees' phase-in plan which was adopted in 2009 in response to the significant investment losses in 2008.

  If you were not offered an optional phase-in rate

  If an employer was not offered an optional phase-in contribution rate for one of its plans, that means that either the employer's ARC rate for that plan was lower than the optional phase-in rate or, the employer's 2011 rate was based on the ARC and they were not eligible for a phase in rate for 2012. Out of the 2,924 employers in the Regular plan, 74% were not offered a phase-in rate.

  If your rate includes ERI or SLEP enhancement

  For most employers, the optional phase-in plan contribution rate will be 10% higher than their 2011 contribution rate. Employers who have an Early Retirement Incentive ("ERI") or SLEP Enhancement component of their contribution rate may have an increase more or less than 10% because ERI and SLEP Enhancement costs are based on a fixed liability and are not directly impacted by investment returns.

  If you were overfunded as of 12/31/09 but underfunded as of 12/31/10

  Employers who were over funded as of December 31, 2009, but underfunded as of December 31, 2010, and had a 2011 employer contribution rate that was less than the full cost of the IMRF program will be required to pay—at a minimum—the full cost of pension service earned by its IMRF members in 2012. The average full cost of current service for 2012 is 8.52% for the Regular plan, 12.96% for SLEP, and 18.27% for ECO.

  Individual employers' full cost of 2012 current pension service can vary from these averages. If an employer's 2011 contribution rate was less than the full cost of current service in 2011, the employer will see their 2012 contribution rate increase to at least the full cost of current service for 2012. In all cases these employers will see at least a 10% increase in their 2012 employer contribution rate.

Options Available for 2012 Employer Contribution Rates

Employers may select:

- The optional phase-in employer rate,
- The ARC, or
- A rate between the optional phase-in rate and the ARC.

If an employer wishes to contribute an amount above the optional phase-in rate in connection with the normal monthly wage reporting process, contact IMRF staff. (See the "Questions" section for whom to contact.)

Employers have until August 31, 2011, to select their 2012 contribution rate. Please advise IMRF **in writing** (fax 630-368-5398, email coreylockwood@imrf.org, or U.S. Postal mail) of your selection.

If IMRF does not receive a written response from you by August 31, 2011, we will assume you have selected the optional phase-in rate. This rate will be reflected on your "Final Notice of Illinois Municipal Retirement Fund Contribution Rate for Calendar Year 2012," which will be available in November 2011.

If you have the financial capability to select the higher ARC contribution rate, IMRF encourages you to do so since higher contributions will lower your pension costs over the long term. An employer's actuarial accrued unfunded liability is subject to interest charges based upon IMRF's actuarial assumed rate of return, currently 7.5%. By selecting the higher ARC rate, you will reduce your unfunded balance more quickly thus reducing the long-term carrying costs of the unfunded liability.

Choice letters: Employers that are more than 120% funded

Approximately 150 employers are more than 120% funded on a market value basis as of December 31, 2010. These employers have an additional option. They may choose a lower minimum contribution rate calculated by IMRF.

In May, IMRF will mail these employers a "choice letter" explaining this additional option.

Lump sum payments

In addition to paying normal contributions through the monthly wage reporting process, employers can make lump sum contributions to reduce their unfunded liability.

While these contributions can be made at any time throughout the year, from the employer's perspective it is most advantageous to make such payments in December since IMRF grants interest on beginning of the calendar year balances.

Any employers thinking of making additional payments may want to contact IMRF staff before doing so. (See Exhibit 1 of this memorandum for detailed instructions on how to make additional contributions using IMRF's Electronic Funds Transfer system.)

Recording net pension obligation

From a financial accounting perspective, an employer's pension expense is based on its ARC rate. The fact that an employer is allowed to contribute something less than its ARC does not change the employer's actual pension cost.

Employers who choose to contribute less than the ARC will be required by generally accepted governmental accounting principles to record a net pension obligation (NPO) on their books for the difference between what they actually contributed and what would have been contributed using the ARC. GASB Statement 27 "Accounting for Pensions by State and Local Governmental Employers" has a detailed example on how to account for this difference.

To help employers determine their NPO, IMRF developed an Excel spreadsheet which will assist you in doing the calculation. Employers with Internet access can download the spreadsheet from www.imrf.org. Employers without Internet access can request a copy of the spreadsheet on CD by contacting IMRF Employer Account Analyst Corey Lockwood at 630-706-4226.

The spreadsheet includes instructions on how to use it and how to journalize the amount it calculates.

Impact of 2012 Choices on 2013 and Beyond

IMRF believes that the optional phase-in plan placed into effect for 2010 will extend beyond 2013. At the present time, IMRF intends to offer optional phase-in rates for 2013 which will be capped at 10% in a manner similar to 2010, 2011 and 2012. Thus for most employers, the 2013 optional phase-in rate will be 10% higher than the 2012 contribution rate selected by the employer. **The rate an employer selects for 2012 will impact its rate in 2013.**

Assuming IMRF were to earn 7.5% on its investments in 2011, it is estimated that the average ARC for the Regular plan for 2013 would decrease approximately 2.3%.

As noted above, IMRF strongly encourages employers with the financial ability to contribute at the higher ARC level because it is cost beneficial. However, we realize there is a great deal of economic uncertainty at this time and employers may be reluctant to commit to higher contribution levels in 2012 in light of its impact on 2013 and later years.

If an employer is concerned with its ability to sustain a commitment to a higher contribution level, it could select the lower phase-in rate for 2012 and make additional voluntary contributions to reduce its unfunded liability. This would allow the employer to reduce its long term pension costs while maintaining maximum flexibility to manage its contribution rate in future years.

IMRF's Annual Review of the Optional Phase-in Plan

When the IMRF Board adopted the optional phase-in plan at its February 27, 2009, meeting, it retained the right to review the phase-in plan annually and to modify it based on future investment returns and other relevant factors.

At this time, IMRF believes that the phase-in plan will not be modified for 2013 rate contribution purposes. If the IMRF Board believes that the plan will have to be modified for 2013 rates, IMRF will promptly communicate that information to employers. Since the current plan calls for increasing an employer's contribution rate 10% a year until the rate reaches the ARC, the current phase-in plan has a built-in sunset provision.

Questions?
If you have any questions regarding the information presented in this memorandum, please call or e-mail IMRF Employer Relations Audit Supervisor Audrey Brown-Ryce at (630) 706-4246 or arbrown-ryce@imrf.org or IMRF Employer Account Analyst Analyst Corey Lockwood at (630) 706-4226 or coreylockwood@imrf.org.

Sincerely,

Louis W. Kosiba
Executive Director

Exhibit 1

Submitting additional payments using IMRF's Electronic Funds Transfer payment system

You can submit an additional payment using IMRF's Electronic Funds Transfer (EFT) payment system. Remember payments must be initiated by 2:30 p.m. Central Time, at least one business banking day prior to December 31st, in order for the payment to settle in IMRF's bank account on December 31st.

Web Based System Instructions

- On the *Log On* screen, enter your assigned **EFT number** and **PIN** (Personal Identification Number) and press **Log On**.
- The **Select Payment Option** screen will be displayed. Select the **Additional Funding of Your Pension Obligation** (Payment Type Code 024) payment type.
- The **Make Payment** screen will be displayed. Enter the appropriate values in the displayed fields. Press **Continue**.
- The **Confirm Payment** screen will be displayed. Review the information to ensure accuracy. If it is correct, press **Submit Payment**. If incorrect, press the **Edit Payment** button to make corrections.
- The **Payment Acknowledgement** screen will be displayed. Your Payment Reference Number will be listed. Print this page as a receipt for your payment. **Log off**.

Pay-by-Phone System Instructions

Call 1-877-610-3706

- On your touch-tone phone, please press '1', followed by the # sign.
- To expedite your call, press the # sign after each entry and after the system repeats your entry. If your entry or what you hear is not correct, press the * key and the system will re-prompt that field. At any time during the recording, press the * key three times to transfer to an operator.
- Enter your EFT Employer Number followed by the # sign.
- If this number is correct, press the # sign again.
- Enter your PIN (Personal Identification Number) followed by the # sign.
- To make a payment, press 1 followed by the # sign. To cancel or inquire about a payment, press 2 followed by the # sign. To change your password, press 3 followed by the # sign.
- Enter the Payment Type 024 Additional Funding of your Pension Obligation.
- Enter the appropriate payment amount you wish to make.
- Enter the date you would like your bank account debited.
- The system will respond with the Payment Acknowledgement and reference number.