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

www.imrf.org

IMRF

GENERAL MEMORANDUM #673

To: **All Authorized Agents**
Subject: **Impact of 2017 Investment Return on Employer Funding Status, Employer Reserves, and Future Employer Contribution Rates**
Date: **February 1, 2018**

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

Executive Summary

This preliminary information is based on unaudited investment return data and projected actuarial information. Finalized information will be available in May 2018.

The estimated 2017 investment return for IMRF is 15.73%. This return translates into investment income of approximately $5.613 billion, after investment and administrative expenses. Member and annuitant reserves will be credited approximately $1.205 billion, as required by the Illinois Pension Code. Employer reserve balances will be credited with the balance, approximately $4.408 billion. On average, employer accounts will be credited approximately 51.12% of interest and residual investment income on their beginning of the year employer reserve balance. This credit reflects the fact that, as a sponsor of a defined benefit plan, IMRF employers share all the risks and rewards of investment returns.

In April 2018, IMRF will present a series of local Rate Meetings throughout the state. At these meetings, the impact of year-end financial and actuarial data on IMRF as a whole and its estimated impact on individual employers will be discussed. Current topics impacting IMRF and pension plans in general will also be discussed. IMRF will present the same information during an online webinar in May 2018.

Investment Returns

IMRF investment returns reflect financial markets over a calendar year. IMRF reports both a market basis return and an actuarial return. IMRF’s estimated 2017 investment return on a market basis is 15.73%. IMRF’s estimated actuarial return is 14.80%. The actuarial return is used to determine employer contribution rates and actuarial funding status. This technique moderates fluctuation in employer contribution rates, and delays the recognition of market returns that either exceeds or falls short of the assumed actuarial return of 7.5%.

Employer Funding Status

IMRF’s 2017 aggregate funding status on a market value basis is projected to increase from 88.3% as of year-end 2016 to 97.1% at year-end 2017.

On an actuarial basis, IMRF’s aggregate funding status is expected to increase from 88.9% as of year-end 2016 to 90.5% at year-end 2017.

Absent any significant changes in actuarial experience, most individual employers can expect the funding status of their plan to slightly increase on both an actuarial and market value basis.

In April 2018, IMRF will furnish each employer its annual GASB 50 footnote information as well as GASB 68 information for 2017. This information will disclose both the actuarial and market-based funding status for all plans for their active and inactive members.

Impact on Employer Reserves

By statute, IMRF must credit member and retiree reserves with 7.5% interest (approximately $1.205 billion for 2017) and pay approximately $152.2 million in administrative and direct investment expenses.

On average, employers will be credited approximately 51.12% based on their beginning-of-the-year employer reserve balance. This credit reflects the fact that, as a sponsor of a defined benefit plan, IMRF employers share all the risks and rewards of investment returns. The actual amount credited to individual employers will vary from the average due to differences in employer and annuitant reserve amounts.

Over the last ten years, IMRF employers have been credited or (charged) the following amounts:

YEAR	AMOUNT
2017	$4.408 billion
2016	$461.8 million
2015	($2.620) billion
2014	$719.6 million
2013	$3.973 billion
2012	$1.927 billion
2011	($1.436) billion
2010	$1.713 billion
2009	$3.461 billion
2008	($7.100) billion

Employer Contribution Rates

Employer contribution rates consist of as many as six parts:

- Normal retirement costs
- Death in service benefits
- Temporary disability benefits
- Supplemental retirement benefits (the 13th payment)
- Amortization of over- or underfunding
- Early Retirement Incentives (employer option)

The ongoing cost of the IMRF benefit package for the regular plan covering normal retirement costs, death in service benefits, temporary disability benefits, and supplemental retirement benefits was 7.60% of payroll in 2017. Put another way, for each dollar of service an employee renders, the employer also incurs a pension cost of 7.60 cents. If an employer is *overfunded*, the 7.60 cents is ***reduced*** and IMRF draws from the surplus. If an employer is *underfunded*, the 7.60 cents is ***increased*** to collect the shortfall.

The average employer rate was 11.34% in 2017. The rate for 2018 is 11.24%, and the projected rate for 2019 is estimated to be 10.62%. The 11.24% rate reflects the fact that the plan was less than 100% funded in the aggregate on an actuarial basis as of December 31, 2017.

Individual employer 2019 contribution rates will vary from the average since each employer has a unique rate affected by its own demographics and funding status as well as a unique mix of Tier 1 and Tier 2 members.

IMRF Meetings

To discuss the potential impact on individual employers in 2018 and beyond, IMRF will conduct a series of Employer Rate Meetings throughout the state, beginning in April 2018. Current topics impacting IMRF and pension plans in general will also be discussed. In May, IMRF will present a webinar that will also discuss this information.

Additional details and registration information for the Rate Meetings and the webinar will be available on IMRF's website, www.imrf.org, and in upcoming editions of *Employer Digest* e-newsletter.

Questions

If you have any questions regarding the information presented in this General Memo, please call or email Mark Nannini, Chief Financial Officer, at (630) 368-5345 or mnannini@imrf.org.

Sincerely,

Brian F. Collins
Executive Director