

FUNDAMENTALS

IMRF

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Exploring passive investment as a strategy

While an IMRF pension is a valuable asset that can make a huge difference in your retirement years, it will not be enough to meet all your financial needs. You will also need personal savings, which means finding a safe, effective way to invest your money. Mutual funds are a common way to invest, but the strategy behind different funds varies.

Historically, most mutual funds have been actively managed. Morningstar, a provider of independent investment research, reports that in 1994, only 6% of U.S.-equity mutual funds and exchange-traded funds (ETFs) were passively managed. Today, however, 36% of the market is passively managed as awareness of the benefits of passive managements increases.

Passive vs. active management

Whether a mutual fund is actively or passively managed can affect its:

Mutual fund: A collection of stocks and/or bonds purchased by a company with the money of individual investors. Each investor owns a share, or portion of the fund's holdings.

Index fund: A mutual fund that purchases a representative sample of the stocks/ bonds in a specific index, like the S&P 500 or NASDAQ, with the goal of replicating the gains of that index.

ETF: An index fund that is traded throughout the day like a stock. Because it has higher liquidity, it tends to have lower expense ratios.

Expense ratio: The individual investor's share of a mutual fund's operating cost, for which they pay a fee.

- Investment performance
- Management cost
- Risks associated with manager change

Investment performance

"Active management means that there is a manager or a team of managers who actively choose what investments to buy, which ones to sell, which ones to hold," said financial educator Karen Chan.

Supporters of active management argue that it offers the possibility of outperforming the market. However, only a relatively small number of active managers accomplish this, Chan says. Many actually underperform compared to the market.

Passive mutual funds, on the other hand, eliminate active stock picking. Instead, these funds make investments that mirror the performance of broad sectors of the market, like U.S. equities. "When you see familiar terms like S&P 500, the Dow Jones Industrial Average, and lesser ones like the Wilshire 4500, those are all indexes that have been created to track the performance of a similar group of

investments. Passive investing aims to mirror the performance and track one of those indexes," Chan said.

Management cost

Mutual fund costs, which you can compare by using the annual expense ratio, are another factor to consider. "With index funds you can find annual expense ratios as low as 0.1%, which means owning the fund only costs you 10 cents for every \$100 you have invested. The average actively managed fund has an expense ratio of 1.1% or 1.2%," Chan said. Lower fees mean you'll keep more of your investment, which will gain even more returns over time.

Manager change

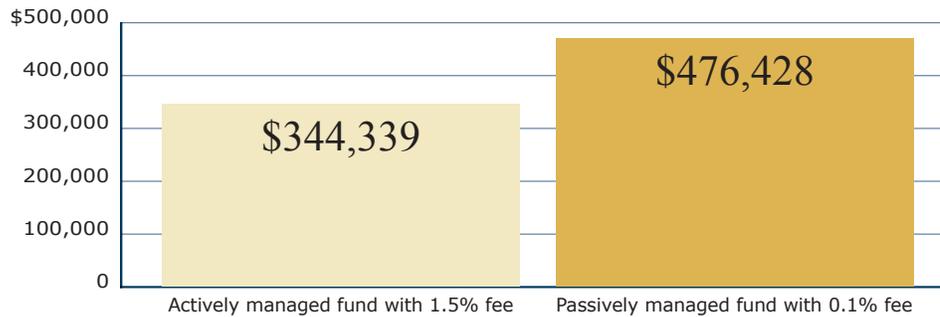
Finally, passive management offers no manager risk. "With an active fund, if you buy it you're typically choosing a fund based on its performance. Its performance is driven by a manager. If that manager changes, then you're left to decide whether to stick with the fund or change.

continued on page 2



The impact of fees on return

The total value of your investment in 35 years after fees, assuming you contribute 10% of your annual \$25,000 salary and achieve an 8% average annual return:



With an index fund that's not an issue, because you're not buying a manager's performance—you're simply buying an asset class performance."

Mutual funds or ETFs?

Along with index mutual funds, the other major vehicle for passive investing is exchange-traded funds (ETFs). While these both offer passive investment options, they differ in:

- When shares are bought or sold
- Fee structures

Buying and selling shares

"The difference is that with mutual funds, it's really about execution. With mutual funds, all buys and sells of shares in that fund are done at the close of the day, everybody gets the same net asset value that they buy or sell at," Chan said. "ETFs trade like stocks, and so you can actually be watching during the day if it went up a tick or down a tick and choose when to pull the trigger to make the buy or sell. This can potentially allow the investor to take advantage of minor market fluctuations."

Fee structures

Because the buying and selling is done so differently between the two types of funds, the fee structures also differ. ETFs typically have a lower annual expense ratio than mutual funds. That means that they're cheaper to own. But because they are traded like stocks or bonds, you will pay a commission to a broker each time

you want to buy or sell ETF shares. "Let's say you're doing it through one of the big online brokerages like TD Ameritrade—you're going to be paying \$10 every time there's a buy or sell," Chan said.

To minimize fees, Chan recommends thinking about how often you'll be buying or selling shares. "If you're going to make numerous small investments, like if you're contributing each month to an IRA, then a mutual fund where you pay no sales commission on your purchases makes more sense," Chan said. If you're investing a single large sum—for example, rolling over a large amount from one retirement account to another—then commissions aren't a factor and you can take better advantage of the lower annual costs of an ETF, she said.

Things to watch out for

When choosing between individual ETFs or individual mutual funds, they are not all interchangeable. "When ETFs were first

created, they all tracked an index. That's no longer true," Chan said. "And so the one caution I would give is that if you're looking for passive investing, make sure that the ETF you're looking at does track an index, and that it's a broad index." A broad-based index is one designed to reflect the movement of the entire market.

Additionally, to maximize your returns, you should research how closely a passively managed fund is matching the returns of the market segment it is supposed to be mirroring. "One of the things to look at would be the length of time a fund has been in existence, so they've probably got this down to a fine art," Chan said. "Secondly, look at the expense ratio. I used the example of a 0.1% expense ratio, but there are index funds that have expense ratios of half a percent or more. That's going to decrease their ability to meet the same returns as the actual index."

Finally, Chan cautions that to truly reap the benefits of a passive investment strategy, investors should move in and out of funds with care. "If a person is trying to do passive investing, it requires two components," she said. Make sure to:

- Choose passive investments like index funds.
- Choose a set asset allocation and then leave it alone. If you own passive investments, but actively move in and out of them, you may pay more fees and sacrifice market gains over time. ■

IMRF's investment strategy: a balanced approach

- IMRF utilizes a mix of passive and active investments.
 - Most of IMRF's passively managed funds invest in U.S. and international stock, as well as in the bond markets.
 - Because of the considerable amount of money it invests, IMRF is able to limit active management fees to a very small percentage of return. Individual investors cannot access active management at the wholesale prices IMRF pays.
 - IMRF measures the performance of all investments against industry benchmarks. If an investment fails to exceed benchmark performance over a period of time, IMRF terminates the investment and considers alternatives.
 - To learn more about IMRF investments, go to www.imrf.org and hover on "Investments."
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From the Executive Director:

The Supreme Court speaks

On May 8, 2015, the Illinois Supreme Court filed its opinion concerning the pension reform legislation enacted in December 2013 (Public Act 98-599).

The Court unanimously rejected the legislation as unconstitutional—specifically, that it violated Article XIII Section 5 of the Illinois Constitution of 1970, which provides that public pensions are a contractual right which cannot be diminished or impaired.

Pension rights reaffirmed

The reform legislation did not affect your benefit formula, and in that sense was unimportant for IMRF. However, the opinion by the Court does apply to you and all public employees. It reaffirms your protected pension rights in an unambiguous, logical, and forceful manner. Your pension benefit cannot “be diminished or impaired,” period.

The Court rejected the arguments put forth by the State (and General Assembly) that a financial emergency existed and that to protect the health, safety, and general welfare of the citizens of Illinois the retirement benefits of public employees participating in state-funded systems would have to be reduced.

The State argued, in part, that market forces and the Great Recession created a financial emergency justifying a reduction in benefits. But the Court was not impressed. It cited IMRF as another major public pension plan which operates in the same market environment as the five state-

funded systems, and which successfully weathered the storm.

IMRF a pension success

The Court recognized that IMRF is managed separately and not funded by the State—with an aggregate funding level at the end of 2013 of 96.7%. The takeaway? The financial markets did not sink the five state retirement systems—not paying required contributions did. Reducing benefits is not an option.

Leading up to the decision, I heard people say they hoped the justices would provide guidance to the General Assembly on how to proceed if the law were unconstitutional. I think the guidance was



Louis W. Kosiba
IMRF Executive Director

clear: pay the required contributions; quit making contributions a political football.

Your employer and the IMRF Board of Trustees work hard to provide you with financial security. The Illinois Constitution provides you the legal protection upon which you can rely. In the end, it’s good to be living our motto: “Locally Funded, Financially Sound.” ■

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Trustee Corner

Four Trustee slots to be filled in 2015 elections

2015 will be a busy election year for the IMRF Board of Trustees. IMRF is scheduled to hold three elections for four positions:

- One Executive Trustee, who will be elected by IMRF employers;
- Two Employee Trustees, who will be elected by active members of IMRF like you; and
- One Annuitant Trustee, who will be elected by IMRF retirees.

Each elected Trustee will serve a five-year term of office.

The eight-member Board of Trustees governs IMRF. It consists of four Executive Trustees, three Employee Trustees, and one Annuitant Trustee.

The effects of Public Act 98-0932

In 2014, the Illinois General Assembly passed Public Act 98-0932. This law states that if there is only one candidate for an IMRF Trustee position, no election will be held for that position.

Therefore, each election will only be held if there is more than one candidate per open Trustee position.

2015 election schedule

Nominating petitions, procedures, and additional information on running for Employee Trustee will become available for download at www.imrf.org beginning June 30, 2015.

Those who wish to run for Employee Trustee must:

- Have accumulated at least eight years of IMRF service credit as of December 31, 2015;
- Gather at least 350 signatures of those who participated in IMRF during July 2015; and
- Submit their nominating petition between August 1, 2015, and September 15, 2015.

If the Employee Trustee election is held, you will receive a ballot along with your fourth quarter issue of *Fundamentals*. ■

Interested in running for Trustee?

According to Board President and Employee Trustee John Piechocinski, trust is at the heart of what it means to serve on the Board of Trustees.

Board President John Piechocinski is no stranger to service in his community. Having been a soccer coach, Sunday school teacher, and Region Chair in the Illinois Education Association, he was elected to the IMRF Board of Trustees in 2010 and began his five-year term at the beginning of 2011. Fellow Trustees elected him Board President for 2015.

From that vantage point, Piechocinski advises those who are interested in running for Trustee to make sure they're willing to devote at least 40-50 hours a month to making sure they do justice to the position.

"It's a big time commitment, because you're dealing with a lot of people's lives," he said.

Though it helps to have business experience, Piechocinski says, IMRF also offers on-the-job training. Trustees are required to go through at least eight hours of training per year, but last year Piechocinski underwent more like 40 hours, most recently a seven-day workshop. Training topics range from investments to legal issues to "how to be a trustee." All are aimed at empowering Trustees to provide IMRF with leadership and strategic direction.

In preparation for meetings of the Board as a whole and the individual committee meetings on which he serves, Piechocinski does plenty of reading. That includes reports from IMRF's Chief Financial Officer, case information for the Benefit



Review Committee, and publications like *The Wall Street Journal* and *Crain's Chicago Business*. "You have to make sure you have knowledge of investments," Piechocinski said.

Most importantly, Trustees must be devoted to the best interests of those they represent.

"If people trust you to make the right decisions, that's a big part of volunteering for anything," Piechocinski said. ■

99th General Assembly

Illinois Supreme Court declares 2013 pension reform law to be unconstitutional

Pension reform struck down

On May 8, the Illinois Supreme Court struck down the 2013 pension reform law, ruling it unconstitutional. The law did not apply to current IMRF members, active or inactive, or to IMRF retirees, only to members of the state-funded systems.

Two minor provisions of the law would have affected future IMRF members. The law would have prevented future members of certain organizations from participating in IMRF. It would also have created changes in how unused, unpaid sick leave could apply toward a member's pension. These provisions, however, were struck down along with the rest of the law and will no longer apply.

Legislative Agenda items pass

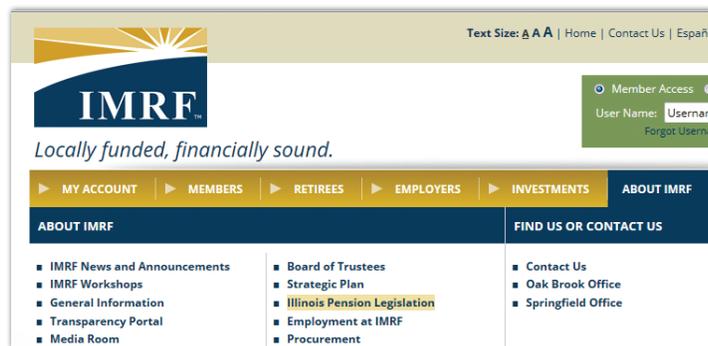
Several items on IMRF's 2015 Legislative Agenda have passed both houses of the Illinois General Assembly and await

signature by the governor:

- HB 3757 would allow IMRF to assess an employer penalty for return-to-work violations that could equal as much as the entire amount of the payments made to the retiree.
- HB 2916 would reduce from 90 to 60 days the time required before IMRF

can go to the county treasurer or state comptroller to recoup money owed by a delinquent employer.

- HB 3592 updates a reference in the ERI statute that refers to old employee contribution rates. It is a technical correction and makes no changes to current procedures. ■



For more about IMRF-related legislation, go to www.imrf.org, hover over "About IMRF," then click "Illinois Pension Legislation."

ILPEX recognizes IMRF with 2014 Silver Award

This past March, Illinois Performance Excellence (ILPEX) presented IMRF with a 2014 Silver Award for "Progress Toward Excellence" at its 20th annual awards ceremony in Glen Ellyn.



"Congratulations to Illinois Municipal Retirement Fund and all of its employees for its commitment to an ongoing journey to excellence," says Darcy Davidsmeyer, of Illinois Performance Excellence. "IMRF is taking the lead in its industry to address organizational performance and process/resource alignment with the outcome for better efficiencies, focus, and overall results."

Using the Baldrige Excellence Framework as its standard, this annual award

recognizes Illinois organizations that lead the way in contributing to the state's economic development and ethical competitiveness. The award recognized IMRF for its commitment to outstanding customer service and continuous improvement.

"IMRF is honored to be recognized for its progress toward excellence as it receives a Silver Award. This recognition and the feedback report support and reinvigorate our efforts to become a world class

organization," said Louis W. Kosiba, Executive Director, Illinois Municipal Retirement Fund.

In previous years, IMRF took home an ILPEX Silver Award in 2012 and an ILPEX Bronze Award for "Commitment to Excellence" in 2009.

For more information about ILPEX, visit www.ilpex.org. To learn more about the Baldrige criteria for excellence, visit www.nist.gov/baldrige/. ■

Your retirement years will be here sooner than you think; be ready with a free IMRF retirement planning workshop!



The schedule for our 2015 retirement planning workshops is now updated through the end of the year. Keep in mind that these workshops can benefit you no matter how close you are to retirement. We recommend attending a workshop as soon as you're vested, then a second time five years before your earliest possible retirement date, and once more when you're ready to retire. But the closer you are to retirement, the more important it is that you register today and reap the rewards! Openings fill quickly, and most of our attendees learn so much that they wish they'd taken the time to attend one sooner.

Workshop topics include:

- How and when to file for retirement.
- How earnings and service affect your retirement benefit calculations.
- What situations exist to purchase past service credit.

Who should attend?

- Vested members who want to learn about benefits.
- Members within five years of retirement.
- Spouses, partners, or others who assist with your retirement planning.

2015 Pre-Retirement Workshop Dates and Locations

July

DATE	LOCATION	START TIME
(Wed) 7/01	Decatur	5 PM
(Wed) 7/08	Moline	1 PM
(Mon) 7/13	Olney	1 PM
(Tue) 7/14	Utica	5 PM
(Sat) 7/18	Bloomington	9 AM
(Tue) 7/21	Homewood	1 PM
(Wed) 7/22	Freeport	10 AM

August

DATE	LOCATION	START TIME
(Thurs) 8/06	Dundee	10 AM
(Tue) 8/11	Burr Ridge	1 PM
(Thurs) 8/13	Mt. Vernon	5 PM
(Sat) 8/15	Springfield	9 AM
(Wed) 8/19	Schaumburg	1 PM
(Thurs) 8/20	Rockford	9 AM
(Thurs) 8/20	Tinley Park	5 PM
(Thurs) 8/27	Bartlett	5 PM
(Thurs) 8/27	Oak Lawn	5 PM

September

DATE	LOCATION	START TIME
(Thurs) 9/10	Aurora	9 AM
(Thurs) 9/10	Makanda	5 PM
(Thurs) 9/10	Peoria	6 PM

(Fri) 9/11	Collinsville	9 AM
(Tue) 9/15	Carol Stream	1 PM
(Sat) 9/19	Belleville	10 AM
(Tue) 9/22	Rockford	9 AM
(Tue) 9/22	Yorkville	1 PM
(Wed) 9/23	Zion	1 PM
(Tue) 9/29	Marion	6 PM

October

DATE	LOCATION	START TIME
(Thurs) 10/01	Princeton	9 AM
(Sat) 10/03	Tinley Park	9 AM
(Thurs) 10/08	Waterloo	1 PM
(Thurs) 10/08	Champaign	5:30 PM
(Tue) 10/20	Oak Lawn	5 PM
(Wed) 10/21	Libertyville	1 PM
(Wed) 10/21	Moline	1 PM
(Wed) 10/21	Bloomington	5 PM
(Tue) 10/27	Kankakee	9 AM
(Thurs) 10/29	Effingham	5:30 PM

November

DATE	LOCATION	START TIME
(Wed) 11/04	Salem	1 PM
(Wed) 11/04	Joliet	5 PM
(Sat) 11/07	Peoria	1 PM
(Tue) 11/10	Danville	1 PM

(Thurs) 11/12	DuQuoin	9 AM
(Sat) 11/14	Palatine	9 AM
(Tue) 11/17	Aurora	9 AM
(Wed) 11/18	Elmhurst	5 PM
(Tue) 11/24	Charleston	5 PM

December

DATE	LOCATION	START TIME
(Tue) 12/01	Rockford	9 AM
(Wed) 12/02	Mt. Prospect	1 PM
(Wed) 12/02	Homewood	5 PM
(Thurs) 12/03	Robinson	5 PM
(Sat) 12/05	Wheaton	9 AM
(Tue) 12/08	Naperville	5 PM
(Sat) 12/12	Springfield	9 AM
(Sat) 12/12	Tinley Park	10 AM

More workshops will be added throughout the year. Check www.imrf.org for additional dates and locations.

Is an optional Personal Benefit Review right for you?

Do you have a particular issue about your account that wasn't covered at the retirement planning workshop you attended? A Personal Benefit Review is an optional, one-on-one, 15-minute meeting with an IMRF Field Representative to discuss specific account issues. **Remember: Before you schedule a Personal Benefit Review, you should already have attended a retirement planning workshop.**

Do you need a Personal Benefit Review?

- Have you already attended a retirement planning workshop?
- Have you begun to make retirement plans and have specific account questions that weren't answered in the workshop?

If you answered yes, a Personal Benefit Review might help you answer your remaining retirement questions.

What to bring to a Personal Benefit Review

- Bring a pension estimate or your Personal Statement of Benefits—available through your Member Access account or by calling 1-800-ASK-IMRF (275-4673).
- Bring the questions you have that are specific to your IMRF account.

Personal Benefit Review time is limited; make sure you are on time and prepared!

Does a Personal Benefit Review sound right for you?
Dates, locations, and registration information are available at www.imrf.org

2015 Personal Benefit Review Dates and Locations

July

DATE	LOCATION	START TIME
(Thurs) 7/02	Nashville	10:30 AM
(Tues) 7/07	Charleston	5 PM
(Tues) 7/07	Homewood	10 AM
(Thurs) 7/09	Moline	9 AM
(Thurs) 7/09	Champaign	11 AM
(Thurs) 7/16	Decatur	11 AM
(Tues) 7/21	Grayslake	1 PM
(Thurs) 7/30	Freeport	10 AM

August

DATE	LOCATION	START TIME
(Tues) 8/04	Homewood	10 AM
(Wed) 8/05	Olney	10 AM
(Wed) 8/12	Dundee	10 AM
(Wed) 8/12	Naperville	10 AM
(Mon) 8/17	Montgomery	3 PM
(Tues) 8/18	Grayslake	1 PM
(Wed) 8/19	Pinckneyville	10:30 AM
(Thurs) 8/20	Normal	3 PM
(Thurs) 8/20	Springfield	5 PM

September

DATE	LOCATION	START TIME
(Thurs) 9/03	Bartlett	3 PM
(Tues) 9/08	Schaumburg	10 AM
(Wed) 9/16	Bartlett	10 AM
(Tues) 9/22	Collinsville	11 AM
(Wed) 9/23	Peoria	10 AM
(Wed) 9/23	Lemont	1 PM
(Thurs) 9/24	Mt. Vernon	10 AM
(Thurs) 9/24	Aurora	9 AM
(Tues) 9/29	Zion	1 PM
(Tues) 9/29	Yorkville	3 PM

October

DATE	LOCATION	START TIME
(Thurs) 10/01	Carbondale	10 AM
(Tues) 10/06	Ottawa	3 PM
(Tues) 10/20	Marion	10:30 AM
(Wed) 10/21	Effingham	5 PM
(Thurs) 10/22	Nashville	10:30 AM
(Thurs) 10/22	Moline	9 AM
(Tues) 10/27	Princeton	9 AM
(Tues) 10/27	Libertyville	1 PM
(Wed) 10/28	Oak Lawn	4 PM
(Thurs) 10/29	Bloomington	2 PM

November

DATE	LOCATION	START TIME
(Wed) 11/04	Champaign	1 PM
(Sat) 11/07	Peoria	10 AM
(Thurs) 11/12	Bradley	10 AM
(Tues) 11/17	DuQuoin	10 AM
(Wed) 11/17	Palatine	10 AM
(Wed) 11/18	Danville	NOON
(Wed) 11/18	Lemont	4 PM
(Fri) 11/20	Oak Brook	10 AM

December

DATE	LOCATION	START TIME
(Thurs) 12/03	Oak Brook	10 AM
(Tues) 12/08	Rockford	9 AM
(Tues) 12/08	Benton	10 AM
(Tues) 12/08	Mt. Prospect	10 AM
(Thurs) 12/10	Naperville	10 AM
(Tues) 12/15	Homewood	10 AM
(Tues) 12/22	Springfield	5 PM



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**Financial
Corner**



Total assets
of IMRF

\$35 BILLION

2014
investment
return

6.1 PERCENT
ON A MARKET BASIS

2014
investment
income

\$2 BILLION

Annualized
total fund
return from
1982-2014

10.24 PERCENT