

FUNDAMENTALS

IMRF

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Mind over money? Making wise financial choices

Most of us know that we'll need to supplement our eventual IMRF pension with personal savings. We may even put together sensible budgets and figure out how much we can afford to set aside for the future. But when push comes to shove, many of us aren't saving what we need to for retirement.

So why is it so hard to save—or sometimes, even think about saving—when we know it's in our long-term best interest?

“Thinking Money: The Psychology Behind Our Best and Worst Financial Decisions,” is a public television documentary produced in association with the FINRA (Financial Industry Regulatory Authority) Investor Education Foundation. It explores the answers to the above

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question and many others, like why we fall victim to fraud, why we have a hard time deciding how to invest, and why we go into debt for momentary pleasure.

“For most people money is inherently emotional, and so therefore our money decisions are naturally guided by our emotionally driven biases,” said Christine Kieffer, senior director of the FINRA Foundation. “What we hope to do with this film is to bring additional awareness of these biases and emotions, so that people can really better understand and connect with why they make the decisions they make, and in some cases, why we fail to make a decision at all. By knowing that by no fault of your own we have a natural tendency to seek information that confirms what we want to believe, we can help people overcome that bias—through practice, over time—not immediately.”

Tricks our minds play

The FINRA Foundation applies the principles of behavioral economics to educate consumers and investors. This relatively new field of study has begun to reveal how frequently our rational brain loses out to our desires of the moment. “Thinking Money” shows us several

examples of how the way our minds work interferes with rational decision-making:

- *Stress impairs our thinking.* Financial stressors are all around us, in the form of debt, underemployment, a lack of savings, and even advertising—the desire to “keep up with the Joneses” can itself be a stressor. And all that stress takes a toll on our minds. One study showed that contemplating a major financial loss while taking a test caused the test-takers’ IQs to fall more points than a night without sleep.
- *Price brings pleasure.* Scientists found that when tasters sampled a wine they were told was expensive, the pleasure centers in their brains were more active than those of tasters who sampled the same wine, but were told how inexpensive it actually was.
- *Overconfidence bias.* In many cases, people report being confident in their ability to save for the future even when they’ve saved nothing at all. Generally, we are biased toward thinking “it will

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all work out.” This can lead us to make risky investments or take out loans that charge increasingly exorbitant interest over time, thinking we can pay them back sooner than we really can.

- *The halo effect.* When we know and like someone for other reasons—maybe they’re a family member or our favorite columnist—we’re more likely to trust them in financial matters whether or not they’re knowledgeable or qualified.
- *Confirmation bias.* We have a tendency to seek out information that confirms what we want to believe, regardless of that information’s accuracy.
- *Choice paralysis.* When we’re faced with too many choices, sometimes we make no choice at all. Many of us are overwhelmed by the variety of investment possibilities and let our savings sit in a low-interest account because we can’t decide what to do with it.

Disturbingly, these tendencies are effortless and automatic. Counteracting them isn’t simply a matter of correcting our biases on an intellectual level.

Harnessing our emotions

Kieffer suggests that people recognize strong emotion in a financial situation as a reason in itself to take a step back and think more carefully about what could go wrong. “Whether it’s sweaty palms or a racing heartbeat, keep in tune with your own physiological reactions to money decisions,” she said.

Additionally, she suggests getting in the habit of seeking out balanced



information when making financial decisions. “Actively seek information that goes against what you want to happen,” Kieffer said. “It could be that you’re underestimating risk, or only looking at the positive information about a potential outcome. Make sure to balance the information that you’re reading not just with the positive... or not just with the negative. Maybe your inclination is to be very risk-averse and only look for negative information.”

The FINRA Foundation offers additional tips for making our emotions work for our rational minds, not the other way around:

- *Categorize information.* Using sources like *Consumer Reports* to break down a multitude of choices into more digestible categories can help combat choice paralysis.

- *Connect with your future self.* In one study, people who “met” simulated elderly versions of themselves saved more for retirement. Experiment with age-morphing apps to achieve a similar effect.
- *Keep a visual representation of your savings goal on the refrigerator.* “Say you’re saving for a vacation, or a car, or a house in a different neighborhood, or a mortgage-free retirement—whatever it is, have a picture that’s a tangible connection to that dream,” Kieffer said.
- *Save with a money buddy.* Whether it’s a spouse, a family member, or a friend, find a partner to save with so you can challenge and encourage each other.
- *Take advantage of technology.* Make use of mobile apps that let you see all of your transactions at a glance or nudge you to save rather than spend.
- *Apply positive reinforcement.* “We need to feel rewarded for the decisions we’re making throughout our life,” Kieffer said. “Not everybody needs to be completely frugal and cut all positive reinforcement from their life in terms of purchases. If that’s something you need to do for yourself, then set some parameters to it.” ■

How you can watch “Thinking Money”

- Watch the hour-long documentary streamed online at the Maryland Public Television website: video.mpt.tv/video/2365353075/
- Order a free DVD from FINRA’s www.saveandinvest.org website at: **74.121.201.86/FINRAThinkingMoney/**

From the Executive Director:

How can you be sure your benefit calculation is correct?

A recent AARP story focused on retirees threatened with substantial cuts in their retirement benefits due to errors in calculation. A member wrote and asked what IMRF does to ensure this does not happen to our retirees.

Data Risk

Garbage in, garbage out. Computer systems and benefit calculations are only as good as the data. IMRF has been scrupulous since the early 1990s in auditing data. Records are audited when a person is first enrolled in IMRF. Records are audited if and when service is purchased. Records are audited in advance of a benefit claim. Annual statements are sent to members in the spring of each year. Members are asked to review them for accuracy. Corrections are made upon notification/verification of errors. Pension estimates are part of that statement.

Computation Risk

IMRF's pension calculations are highly automated. Those systems have calculated over 100,000 retirement benefit claims within the last 20 years. Those systems have been thoroughly tested and audited.

Human Risk

Human error can and does occur. IMRF experiences this mostly with pension estimates which project earnings, service credit, and sick leave. This is where projected data (not actual data) can

trip staff up. By the time a benefit is calculated, real data is used. There have been discrepancies between estimates and actual payouts.

Major benefit overpayments at IMRF have occurred, but not due to staff miscalculations. Rather, members and employers have violated return-to-work rules after retirement. A retiree can generally work up to 600 or 1,000 hours. Once the hourly threshold has been crossed, the pension is to cease and the retiree must be enrolled in IMRF again. Large overpayments have resulted in violation of these rules. However, unlike the cases reported in the AARP article, these IMRF retirees were responsible



Louis W. Kosiba
IMRF Executive Director

because they did not contact IMRF before returning to work. IMRF is addressing this issue by auditing employers to ensure proper enrollment of their employees.

In the end, no system is perfect. IMRF cannot guarantee there will be no adjustments to a benefit calculation if new data is provided to IMRF or if an error is detected. However, our goal is to ensure you are paid the full benefits to which you are entitled. ■

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2014 Annual Financial Report

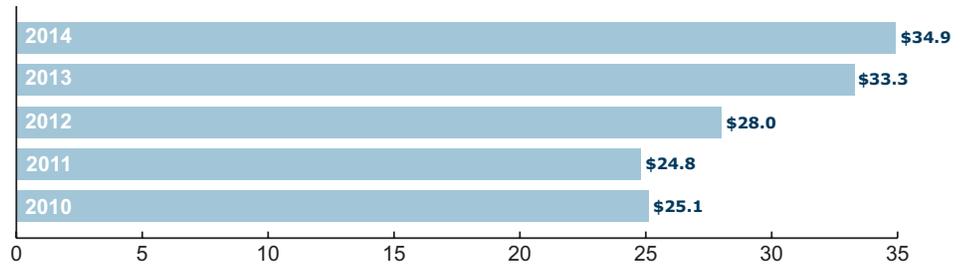
IMRF financials remain strong for the long haul

With its fiduciary net position up \$9.8 billion over five years, IMRF continues its overall strong financial performance.

Fiduciary net position

IMRF's fiduciary net position—total assets minus liabilities—was \$34.9 billion as of December 31, 2014. That was an increase of \$1.6 billion, or about 5%, from 2013. Most of the increase is attributable to 2014 investment gains. Over the last five years, IMRF's fiduciary net position has increased by \$9.8 billion.

FIDUCIARY NET POSITION FOR THE PAST FIVE YEARS (in billions)



Funding status

IMRF's funding status is a key indicator of its financial health. It reflects the percentage of IMRF's benefit promises that IMRF has assets to pay. IMRF strives toward full funding because it guarantees that IMRF can meet its obligations. Full funding is also cost effective for taxpayers.

IMRF's market funding status decreased slightly from 2013 to 2014 largely due to the adoption of new mortality tables and reassessment of other actuarial assumptions. The new tables increased IMRF's member lifespan assumptions, thereby increasing IMRF's liabilities.

Market funding status is the percentage of assets IMRF has to pay all current and projected benefits, as of a specific date in time. **As of December 31, 2014, IMRF was 93.1% funded on a market basis.**

Investments

One of the IMRF Board of Trustees' most important functions is to decide how IMRF will invest its member and employer contributions. IMRF's target asset allocation is designed to deliver maximum return with an acceptable level of risk. IMRF's investment portfolio is broadly diversified across many asset classes.

Earnings on the investment of IMRF member and employer contributions have

MARKET FUNDING STATUS FOR THE PAST 5 YEARS



historically been the largest contributor to the fund. In 2014, IMRF achieved a 5.8% annual rate of return (after paying investment management fees), earning \$2 billion in investment income.

IMRF hires professional firms to invest IMRF assets. These firms make investment decisions according to the Board's policy guidelines and are monitored by IMRF's Chief Investment Officer and staff, with assistance from an independent consultant.

Revenue

IMRF's revenue comes from member contributions, contributions from

INVESTMENT RATES OF RETURN FOR THE PAST FIVE YEARS



participating units of government (also called IMRF employers), and investment income. IMRF's total revenue during 2014 totaled almost \$3.3 billion.

Video Highlights

For the first time ever, you can view a video summary of IMRF's 2014 Popular Annual Financial Report. To see the video, go to www.imrf.org/videos and click "2014 PAFR Summary." This four-minute video provides an informative visual overview of the report's most important points, including increases in IMRF's assets, membership, and much more. ■

This article is an excerpt from our 2014 Popular Annual Financial Report for Members. To read the full report, visit www.imrf.org/annual-financial-report.

Trustee Corner

Reminder: 2015 Trustee elections coming this fall

This year, IMRF will hold a maximum of three Trustee elections for four open positions on the Board:

- Members will elect two Employee Trustees for a five-year term.
- Employers will elect one Executive Trustee for a five-year term.
- Retirees will elect one Retiree Trustee for a five-year term.

IMRF is governed by an eight-member Board of Trustees. Three are elected by actively participating IMRF members like you, four by IMRF employers, and one by IMRF annuitants (retirees). The IMRF Board remains the only public pension fund board in Illinois that is fully elected by its membership; IMRF has no appointed or ex-officio trustees.

The Illinois Pension Code no longer requires an election to be held for the IMRF Board of Trustees if there is only one certified candidate per open spot on the Board. If there are more than two candidates for Employee Trustee, ballots for the Employee Trustee election will be mailed at the end of October to the homes of all active members eligible to vote, along with a special Election Edition of this newsletter that describes the voting procedures and includes the candidate biographies. ■



Question & Answer

Will receiving IMRF disability reduce my future pension?

Q: Following a recent injury, I am receiving IMRF temporary disability. Will this reduce my pension when I retire?

A: Disability payments from IMRF will in no way reduce your future retirement payments. In fact, IMRF disability benefits help protect your future pension and other IMRF benefits if you become disabled. With IMRF disability:

- You continue to earn service credit toward your future IMRF pension, at no cost to you.
- Your death benefits would still include one year's salary (up to the Tier 2 wage cap, for members in Tier 2), and death benefit options are the same as if you were still working.
- You will receive monthly payments equal to 50% of your average monthly salary (based on the 12 months before the month you became disabled).

- Your retirement benefits will not be affected by the amount of your disability benefit. Your original salary will be used to calculate your retirement benefit.

Keep in mind that if you receive Social Security disability or workers' compensation benefits, by law IMRF disability benefits must be reduced by the amount you receive from these benefits.

However, even if the amount you receive from Social Security disability and/or workers' compensation exceeds 50% of your income, **IMRF will always pay you a minimum benefit of \$10 a month to**

make sure your other IMRF benefits are protected.

That \$10 payment is more important than you may realize. Every month you receive a disability benefit from IMRF:

- **Your service credit is protected.** You earn an additional month of service credit toward your future pension and you avoid any gaps in service that could affect your future benefits.
- **Your pension is protected.** Your retirement benefit will be calculated using your original salary, not the reduced disability amount.
- **Your family is protected.** Your death benefits would still include one year's salary, and death benefit options are the same as if you were still working. ■

To learn more about IMRF disability benefits, go to www.imrf.org, hover over "Members," click on your plan/tier, and then click "Disability Benefits."

2015's last few months of free IMRF retirement planning workshops are filling up fast; sign up for one today!

The schedule for our 2015 retirement planning workshops has been updated through the end of the year. Workshop openings fill quickly, so if you're hoping to attend one this year, call to register today! 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 attend a workshop and learn what your retirement has in store for you. Many first-time attendees tell us they wish they'd gone to one sooner.



Workshop topics include:

- How and when to file for retirement.
- How earnings and service affect your retirement benefit calculations.
- How 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

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
(Sat) 9/12	Joliet	10 AM
(Tues) 9/22	Rockford	9 AM
(Tues) 9/22	Yorkville	1 PM
(Tues) 9/29	Marion	6 PM

October

DATE	LOCATION	START TIME
(Thurs) 10/01	Princeton	9 AM
(Thurs) 10/08	Waterloo	1 PM
(Thurs) 10/08	Champaign	5:30 PM
(Tues) 10/20	Oak Lawn	5 PM
(Wed) 10/21	Moline	1 PM
(Wed) 10/21	Bloomington	5 PM
(Tues) 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
(Tues) 11/10	Danville	1 PM
(Thurs) 11/12	DuQuoin	9 AM
(Tues) 11/17	Aurora	9 AM
(Tues) 11/24	Charleston	5 PM

December

DATE	LOCATION	START TIME
(Tues) 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
(Tues) 12/08	Naperville	5 PM
(Sat) 12/12	Springfield	9 AM
(Sat) 12/12	Tinley Park	10 AM

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. We know your time is precious—if you don't have particular questions or concerns about your account, there's no need to attend one of these sessions. **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

September

DATE	LOCATION	START TIME
(Tues) 9/15	Tinley Park	5 PM
(Wed) 9/16	Bartlett	10 AM
(Wed) 9/16	Waterloo	10:30 AM
(Tues) 9/22	Collinsville	1 PM
(Wed) 9/23	Peoria	10 AM
(Thurs) 9/24	Aurora	9 AM
(Thurs) 9/24	Mt. Vernon	10 AM
(Tues) 9/29	Yorkville	3 PM

October

DATE	LOCATION	START TIME
(Tues) 10/06	Carmi	10 AM
(Wed) 10/21	Nashville	10:30 AM
(Wed) 10/21	Effingham	8 PM
(Thurs) 10/22	Moline	9 AM
(Thurs) 10/22	Tinley Park	9 AM
(Tues) 10/27	Princeton	9 AM
(Thurs) 10/29	Bloomington	2 PM

November

DATE	LOCATION	START TIME
(Wed) 11/04	Champaign	4 PM
(Sat) 11/07	Peoria	10 AM
(Thurs) 11/12	Bradley	10 AM
(Tues) 11/17	DuQuoin	10 AM
(Wed) 11/18	Danville	NOON
(Wed) 11/18	Lemont	4 PM
(Fri) 11/20	Oak Brook	10 AM
(Fri) 11/24	Aurora	9 AM

December

DATE	LOCATION	START TIME
(Thurs) 12/01	Charleston	9 AM
(Thurs) 12/03	Oak Brook	10 AM
(Tues) 12/08	Benton	10 AM
(Thurs) 12/10	Naperville	10 AM
(Tues) 12/15	Homewood	10 AM
(Tues) 12/22	Springfield	5 PM

Go to www.imrf.org and click on "View All" next to "Register for Workshops" for the most updated list of dates and locations.



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of IMRF over age 40.

Erin Cochran, editor, ecochran@imrf.org
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IMRF and IRAs

An Individual Retirement Account (IRA) is an account that gives you tax advantages for your retirement savings. There are two types of IRAs:

- **Traditional IRAs.** One tax advantage of a traditional IRA is that you can deduct the amount you contribute from your taxable income. However, if you are covered by a pension plan like IMRF, there are limitations on what you can deduct. The IRS considers you to be covered by a pension plan as of the first date you began participating in IMRF, *even if you are not vested.*
- **Roth IRAs.** Contributions you make to Roth IRAs are not deductible from your taxable income. However, *earnings* in the account are never taxed if you wait until age 59-1/2 to make withdrawals and the account has been in existence for at least five years.

Additionally, if you leave IMRF and take a separation refund, you can roll that lump sum payment over into a Roth IRA; however, for taxes this is a taxable distribution.

To learn more about the rules for contributions to traditional IRAs and Roth IRAs in the context of your IMRF membership, go to www.imrf.org, hover over “Members,” and click on “IMRF and IRAs” in the rightmost column. ■