

# Fundamentals

Illinois Municipal Retirement Fund Employee Member Edition

## Saving for your child's college education

Jennifer Steele, a high school teacher in La Grange, Illinois, has two little boys, ages 4 and 6. Their college years are still a long way off, but with the cost of higher education rising, the question of how best to save for their future education looms large. To help fund the boys' eventual schooling, Steele has put aside stock market earnings that she made prior to having children. Currently, that money resides in a savings account, waiting for Steele and her husband to decide how to invest.

"We are re-evaluating," Steele said. "I'm going to take the summer to look at our choices. The way our economy is, interest rates will start to move again, I would imagine. I don't know where I want to lock into if interest rates are on the move."

In uncertain economic times, many families aren't sure how to save for college. In fact, many remain unaware of their options. A 2014 survey by financial services firm Edward Jones reveals that 70% of Americans don't know what a 529 plan is, despite its popularity as a college savings vehicle.

### The flexibility of 529s

The college savings plans known as 529s, which include Illinois' Bright Start and Bright Directions programs, can offer significant tax advantages. Interest earned and money withdrawn from a 529 plan "are not subject to federal tax and generally not subject to state tax when used for the qualified education expenses of the designated beneficiary, such as tuition, fees, books, as well as room and board," according to [www.irs.gov](http://www.irs.gov). And because 529 plans are in the name of the parent rather than the child, they do not count against you as much when applying for need-based federal financial aid. Grandparents can also contribute to an existing 529 or start one themselves.

Flexibility is another feature. Parents can use any state's 529 program, and their child can use the money to attend college in any state—not just their own state, or the state in which they purchase the 529. (Illinois residents can, however, deduct up to

\$10,000 per person/\$20,000 per married couple from their state taxes when they use an Illinois 529

**For more information on 529s and other college savings plans, visit:**

- [www.savingforcollege.com](http://www.savingforcollege.com)
- [www.finaid.org](http://www.finaid.org)

plan.) Parents can transfer the assets from one child to another. Students can also use 529 assets to attend trade and technical schools and to buy technology necessary for their

education, like computers or software.

Most 529 plans offer participants different investment options with varying degrees of risk. One common option is an age-based plan, which reallocates investments to become more conservative as the child approaches college age. Age-based plans can mitigate but not eliminate risk.

### Prepaying your child's tuition

To pay for his two children's education, Mark Kienzynski has chosen the College Illinois! Prepaid Tuition Program because, "if the student does not go to college, it is refundable." He said, "The plan will take care of all tuition. I just have room and board which (can be) far less than tuition."

Illinois established the College Illinois! Prepaid Tuition Program in 1997 for state residents. It allows you to pay in advance for semesters of tuition at all public universities in Illinois. Unlike Illinois' other 529 plans, it is a contract with the state and lets purchasers lock in a lower rate.

For those who want to send their child to a public college in Illinois, this can be a great way to save money over the long term. For Steele, however, the available payment plans resulted in too much money owed over too short a period.

*continued on the back page*



Louis W. Kosiba  
IMRF Executive Director

In March, an article and editorial in the *Daily Herald* focused on IMRF's 13<sup>th</sup> payment to its retirees. Sadly, it quoted one retiree who said he knew nothing about it until he received it.

## Thoughts on the 13<sup>th</sup> payment

We all have a responsibility to ourselves and our families to know about our benefits—so we can better prepare for the events the IMRF benefit package covers, and so we can educate our families, especially our spouses, about what to expect.

### History of the 13<sup>th</sup> payment

The 13<sup>th</sup> payment was created by the Illinois General Assembly to provide some measure of protection to IMRF retirees because of the erosion of monthly retirement benefits due to inflation. It is a payment in addition to the non-compounded 3% benefit increases paid the first of the year. It was negotiated between employee and employer groups. It is payable instead of compounding those 3% increases. At the time, it was learned that compounding would cost 1.1% of payroll or more on top of the 7% employers were already paying to fund your benefit.

Through negotiation, employers agreed to pay 0.62% (62/100 of 1%) to provide a pool of money for this effort. Everyone in retirement (or receiving a surviving spouse benefit) for one year will receive this payment in July. The calculation is based on what your June payment is compared to all the June payments made that year.

### This year's 13<sup>th</sup> payment

In 1993, the first 13<sup>th</sup> payment was about 90% of a June payment. This year (July 2014), it will be about 36%. This decrease is due to the fact the pool is not increasing as fast as the number of people in retirement who share in the benefit. We anticipate that it will continue to trend downward into the mid to low 20s before it starts to increase.

Because this benefit's cost is raised independent of IMRF investment activity (as are coverage for death and disability benefits), it in no way endangers IMRF's ability to pay pension benefits.

The 13<sup>th</sup> payment is unique among Illinois public pension systems—but it is a legitimate deferral of compensation to you for which your former employers can be thanked! ❖

## Legislative Update email list

If you're interested in keeping up with IMRF-related legislation, you can sign up for our *Legislative Update* email list. While the Illinois General Assembly is in session, IMRF sends periodic updates keeping you informed about legislation that affects IMRF members and retirees. To sign up, go to [www.imrf.org](http://www.imrf.org), click the Legislation tab, and follow the instructions.

## IMRF Strategic Plan for 2014-2016

As part of our ongoing improvement process, IMRF has developed a new Strategic Plan for 2014-2016. It specifies measures for achieving strategic objectives in five key result areas.

The Trustees reviewed and approved the Plan at the November 2013 Board Meeting. To read it in full, go to [www.imrf.org](http://www.imrf.org) and look under "About IMRF" in the left-hand menu.

**Key result area:** Financial Health and Sustainability

**Strategic objective:** To achieve and maintain a funding level that sustains the Plan.

### Key strategies include:

- Evaluating ways to make employer contribution rates less volatile.
- Introducing legislation to address pension sustainability issues; defending against adverse legislation.
- Continuing to advocate the "prudent man rule" and 100% funding principle.

**Key result area:** Investment Returns

**Strategic objective:** To meet or exceed a 7.5% annual return and outperform the total portfolio benchmark.

### Key strategies include:

- Conducting an asset liability study.
- Choosing an assumed rate of return and asset mix that is consistent with IMRF's risk tolerance.
- Managing our portfolio using optimization, cost control, and relevant performance measurements.

**Key result area:** Customer Service and Operational Excellence

**Strategic objective:** To provide world class customer service.

### Key strategies include:

- Analyzing various survey reports to identify and implement opportunities for improvement.
- Evaluating and improving our key approaches and internal processing standards.
- Developing meaningful measures of customer engagement as well as plans for improvement.

**Key result area:** Workforce Engagement

**Strategic objective:** To foster and maintain an engaged workforce.

### Key strategies include:

- Analyzing our employee surveys and turnover and absenteeism statistics to implement improvements.
- Implementing a formal program to provide staff with more training and development opportunities.

**Key result area:** Modernization Program

**Strategic objective:** To implement efficient and effective business solutions.

### Key strategies include:

- Implementing improved business processes and integrated technology solutions to achieve our customer service and operational excellence objectives.
- Implementing the technology infrastructure required to support our goals for data security, redundancy, performance, availability, and disaster recovery.
- Replacing our existing website to enhance the online services and tools we offer our membership. ❖

98<sup>th</sup> General Assembly

## Proposed 13<sup>th</sup> payment legislation withdrawn from legislative process

This past March, State Representative Deborah Conroy (D-Villa Park) introduced legislation to eliminate the IMRF 13<sup>th</sup> payment. In April, after opposition from the IMRF Board of Trustees, employee groups, and IMRF members and employers, Conroy tabled the legislation.

Tabled proposals have been withdrawn from the legislative process and go no further.

Had it passed, the proposed legislation, House Amendment #1 to House Bill 3898, would have terminated the 13<sup>th</sup> payment for all current and future retirees effective January 1, 2015.

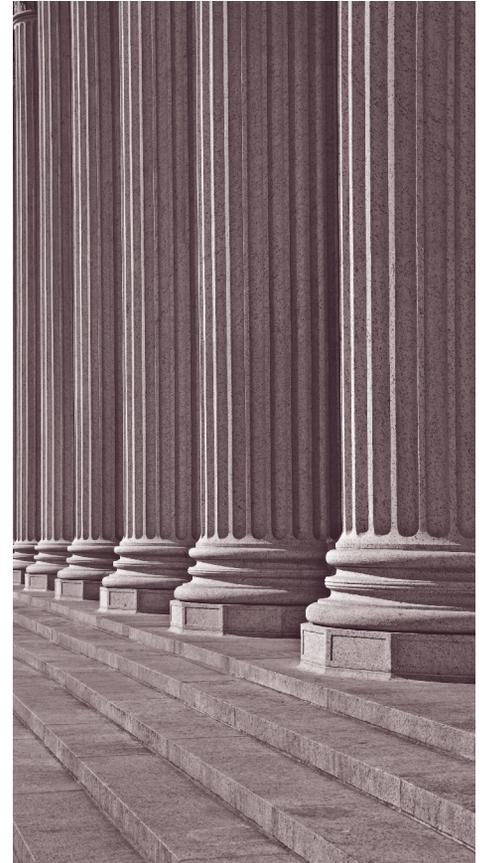
IMRF Executive Director Louis Kosiba thanked Representative Conroy for reconsidering her position after learning more about IMRF and the 13<sup>th</sup> payment.

"Representative Conroy has good intentions: she wants to stop pension abuse, ensure the success of IMRF, and reduce the financial pressure on local government," Kosiba said. "It takes a courageous leader to take a position, then learn, adapt, and rethink her stance after obtaining new information."

Kosiba also thanked IMRF members, employers and employee groups for reaching out to state legislators to share information about IMRF and the 13<sup>th</sup> payment. More than 600 online witness slips were filed against the legislation.

"We at IMRF heard from many of you, and we know that the members of the General Assembly heard from you also," Kosiba said. "This could not have been achieved without your efforts."

Media reports have characterized the 13<sup>th</sup> payment as a "bonus." This is inaccurate. It is a form of deferred compensation intended to help offset inflation. It was granted to retirees after significant negotiation by employee and employer groups, and approved by the Illinois General Assembly in 1992.



The Illinois Pension Code requires each IMRF employer to contribute 0.62% (62 hundredths of 1%) of its annual IMRF payroll to support the 13<sup>th</sup> payment. During 2013, the average IMRF employer contributed \$14,148 to fund the benefit.

The 13<sup>th</sup> payment is mailed to eligible retired members every July. During 2013, the average 13<sup>th</sup> payment to an IMRF retiree was \$343. ❖

## Legislative Agenda items pass

This May, two IMRF bills passed both chambers of the Illinois General Assembly.

The bills, HB 5696 and HB 5592, include four provisions from the Board's 2014 Legislative Agenda and await the governor's signature.

HB 5592 will **allow an irrevocable election of a reversionary annuity before retirement.** The reversionary annuity allows members to take a permanently reduced pension in order to provide a lifetime annuity for another person after the member passes away. Currently, members can only choose this option at retirement. This law would allow members to choose this option once they are vested and are at least the minimum retirement age. The choice would be irrevocable, even if the beneficiary dies before the member.

HB 5696 will:

- **Remove the requirement to allow write-in candidates for Board of Trustees elections when there is only one certified candidate (or two candidates, when there are two open seats).** The Pension Code currently requires ballots to be sent to members/employers, even if there is only one eligible candidate for Trustee. The total number of write-in candidates has always been significantly under 1% of the total valid ballots received, which does not justify the cost of printing, mailing, and tabulating the ballots.
- **Codify the Board's current practice for omitted service procedures.** "Omitted service"

occurs when an employee was required to be enrolled in IMRF but was not actually enrolled. While IMRF has procedures in place internally to allow members to purchase omitted service, there are currently no provisions in Illinois law regarding this type of service. This change would write IMRF's current practices into law and would not change procedures for members or employers.

- **Remove obsolete transfer windows from the Illinois Pension Code.** The IMRF section of the Pension Code contains several references to temporary transfer windows that allowed members to transfer service from another pension fund to IMRF. The windows required members to apply and purchase that service in specific time frames. Those time frames have passed, so the provisions are obsolete. ❖

## Reminder: Employee Trustee election in 2014!

Are you interested in running for Employee Trustee? Materials will be available for download at [www.imrf.org](http://www.imrf.org) starting June 30, 2014.



This year IMRF will hold an election for an Employee Trustee for a five-year term of office. If you will have at least eight years of IMRF service credit by December 31, 2014, you are eligible to be nominated as an Employee Trustee candidate for the IMRF Board of Trustees.

To run for Employee Trustee, you must obtain a sample nominating petition from

the IMRF website and gather at least 350 signatures of IMRF members who participated in IMRF during July 2014.

Beginning June 30, 2014, you can download nominating petitions, procedures, and a Candidate Packet from the IMRF website. The Candidate Packet will provide more detailed information about the duties of a Trustee. ❖

# RETIREMENT WORKSHOPS

## Steer your way toward retirement with a free IMRF retirement planning workshop



### 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?

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

## 2014 Retirement Planning Workshop schedule

### June

Date	Location	Start time
11 (Wed.)	Quincy	6 PM
17 (Tues.)	Kewanee	9 AM
24 (Tues.)	Metropolis	1 PM
26 (Thurs.)	Utica	9 AM

### July

Date	Location	Start time
8 (Tues.)	Tinley Park	1 PM
8 (Tues.)	Moline	1 PM
8 (Tues.)	Champaign	5 PM
12 (Sat.)	Olney	9 AM
15 (Tues.)	Burr Ridge	9 AM
22 (Tues.)	Bloomington	1 PM
22 (Tues.)	Homewood	1 PM
25 (Fri.)	Collinsville	9 AM
29 (Tues.)	Freeport	10 AM

### August

Date	Location	Start time
2 (Sat.)	Murphysboro	9 AM
6 (Wed.)	Waterloo	1 PM
13 (Wed.)	Mt. Vernon	6 PM
15 (Fri.)	Springfield	9 AM
19 (Tues.)	Monmouth	9 AM
19 (Tues.)	Naperville	1 PM

21 (Thurs.)	Rockford	9 AM
21 (Thurs.)	Tinley Park	5 PM
23 (Sat.)	Decatur	9 AM
26 (Tues.)	Bartlett	1 PM
28 (Thurs.)	Oak Lawn	5 PM
30 (Sat.)	Kankakee	9 AM

### September

Date	Location	Start time
6 (Sat.)	Belleville	9 AM
11 (Thurs.)	Aurora	9 AM
13 (Sat.)	Peoria	9 AM
16 (Tues.)	Lincoln	9 AM
16 (Tues.)	Effingham	5 PM
16 (Tues.)	Marion	6 PM
23 (Tues.)	Yorkville	9 AM
24 (Wed.)	Mt. Prospect	5 PM
27 (Sat.)	Rockford	9 AM

### October

Date	Location	Start time
2 (Thurs.)	Flora	2 PM
2 (Thurs.)	Bloomington	5 PM
4 (Sat.)	Tinley Park	9 AM
7 (Tues.)	Princeton	9 AM
11 (Sat.)	Champaign	9 AM
14 (Tues.)	Naperville	5 PM

14 (Tues.)	Oak Lawn	5 PM
15 (Wed.)	Geneseo	1 PM
21 (Tues.)	Moline	1 PM
22 (Wed.)	Skokie	1 PM
22 (Wed.)	Charleston	5 PM
29 (Wed.)	Danville	5 PM

### November

Date	Location	Start time
4 (Tues.)	Decatur	5 PM
4 (Tues.)	Joliet	5 PM
6 (Thurs.)	Peoria	5 PM
6 (Thurs.)	Carbondale	6 PM
8 (Sat.)	Collinsville	9 AM
12 (Wed.)	Palatine	1 PM
13 (Thurs.)	Watseka	10 AM
18 (Thurs.)	Aurora	9 AM

### December

Date	Location	Start time
2 (Tues.)	Rockford	9 AM
2 (Tues.)	Homewood	5 PM
3 (Wed.)	Burr Ridge	9 AM
6 (Sat.)	Springfield	9 AM
10 (Wed.)	Mt. Prospect	5 PM
13 (Sat.)	Tinley Park	9 AM

To register for a workshop, sign into your account at [www.imrf.org/myimrf](http://www.imrf.org/myimrf).

All times reflect the start time; workshops last 2-1/2 hours.

## Is an optional Personal Benefit Review 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?
- Are you close to retirement 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

- A pension estimate—available through your Member Access account or by calling 1-800-ASK-IMRF (275-4673).
- Questions you have 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? Our full list of dates, locations, and registration information is available at [www.imrf.org](http://www.imrf.org)—click on “Member Workshops.”

## 2014 Personal Benefit Reviews (through October)

### June

Date	Location	Start time
14 (Sat.)	Centralia	11 AM

### July

Date	Location	Start time
8 (Tues.)	Marion	10 AM
22 (Tues.)	Champaign	11 AM
29 (Tues.)	Tinley Park	9 AM
30 (Wed.)	Pekin	10 AM

### August

Date	Location	Start time
5 (Tues.)	Mt. Prospect	10 AM
12 (Tues.)	Collinsville	4 PM
19 (Tues.)	Waterloo	1 PM
21 (Thurs.)	Bloomington	1 PM
26 (Tues.)	Springfield	5 PM

### September

Date	Location	Start time
4 (Thurs.)	Decatur	11 AM
5 (Fri.)	Mt. Vernon	1 PM
9 (Tues.)	Bradley	1 PM
10 (Wed.)	Schaumburg	9 AM
11 (Thurs.)	Bartlett	1 PM
16 (Tues.)	Tinley Park	5 PM
17 (Wed.)	Peoria	11 AM
20 (Sat.)	Belleville	10 AM
23 (Tues.)	Aurora	9 AM
23 (Tues.)	Lemont	1 PM
24 (Wed.)	Marion	10 AM
30 (Tues.)	Rockford	9 AM
30 (Tues.)	Lincoln	10 AM
30 (Tues.)	Oak Brook	10 AM
30 (Tues.)	Effingham	5 PM

### October

Date	Location	Start time
7 (Tues.)	Mt. Prospect	10 AM
15 (Wed.)	Champaign	11 AM
21 (Tues.)	Yorkville	1 PM
23 (Thurs.)	Tinley Park	9 AM
24 (Fri.)	Flora	1 PM
28 (Tues.)	Princeton	9 AM
28 (Tues.)	Naperville	1 PM
28 (Tues.)	Oak Lawn	4 PM



Illinois Municipal Retirement Fund  
 IMRF Main Office & Mail Address  
 2211 York Road, Suite 500  
 Oak Brook, IL 60523-2337

PRESORTED STANDARD  
 U.S. POSTAGE  
 PAID  
 DOWNERS GROVE, IL  
 PERMIT NO. 2001

### IMRF 2014 Board of Trustees

<b>Natalie Copper</b> <i>president</i> Employee Trustee Evanston School District 65	<b>Gwen Henry</b> Executive Trustee DuPage County
<b>John Piechocinski</b> <i>vice president</i> Employee Trustee Plainfield Community Consolidated School District	<b>William Stafford</b> Executive Trustee Evanston Township High School District 202
<b>Tom Kuehne</b> <i>secretary</i> Executive Trustee Village of Arlington Heights	<b>Sue Stanish</b> Executive Trustee Naperville Park District
	<b>Jeffrey A. Stulir</b> Employee Trustee Rock Island County Sheriff's Department
	<b>Sharon U. Thompson</b> Annuitant Trustee (Formerly) Lee County

## Fundamentals

is published four times a year for active IMRF members over 40.  
 John Krupa, communications manager, jkrupa@imrf.org  
 Erin Cochran, editor, ecochran@imrf.org  
 1-800-ASK-IMRF (1-800-275-4673), www.imrf.org

Tenemos representantes que hablan español. 1-800-ASK-IMRF (275-4673)

*from page one*

## Saving for your child's college education

Illinois temporarily froze enrollment for its prepaid plan in 2011 due to underfunding and concerns about investment methods. The plan reopened to new applicants in 2012.

### More ways to save

Illinois' 529 programs are not the only college savings options:

- **Coverdell Education Savings Accounts (ESAs)**—Previously referred to as an education IRA, Coverdell ESAs work like Roth IRAs, but for education rather than retirement. Contributions grow tax-free but cannot exceed \$2,000 per year per student and cannot be made after the student turns 18.
- **U.S. Savings Bonds for Education**—These bonds, which can only be purchased through workplace programs or [www.treasury.gov](http://www.treasury.gov), yield modest returns but lose neither interest nor principal. Within income limits, taxpayers can exclude all or part of the earned interest from their gross income when it's used for approved college expenses.
- **UGMA (Uniform Gift to Minor's Act) and UTMA (Uniform Transfer to Minor's Act) Custodial Accounts**—These accounts can take advantage of a child's lower tax rate, but because they are an asset of the child and not the parent, they are best for students who won't be applying for need-based financial aid. ❖

## In This Issue:

### page one

Saving for your child's college education

### pages two and three

Executive Director:

Thoughts on the 13<sup>th</sup> payment

Legislative Update email list

IMRF Strategic Plan for 2014-2016

### pages four and five

Legislative Update:

Proposed 13<sup>th</sup> payment legislation withdrawn from legislative process

Legislative Agenda items pass

Reminder: Employee Trustee election in 2014

### pages six and seven

Steer your way toward retirement with a free IMRF retirement planning workshop