Illinois pension reform becomes law; Major provisions do not affect IMRF

In an attempt to address the state’s financial crisis, Governor Pat Quinn signed pension reform legislation into law on December 5, 2013.

For the state-funded, non-IMRF pension systems, the law places caps on cost-of-living adjustments for members and retirees. It also phases in a later retirement age for current workers.

The major provisions of this law do not apply to IMRF. The law will not affect the cost-of-living adjustments or retirement age of either current or future IMRF members, nor will it have any effect on the benefits retirees receive. However, two minor provisions will affect future but not current IMRF members.

The new law goes into effect on June 1, 2014, but it faces legal challenge from several groups of state workers and retirees.

Why didn’t pension reform affect IMRF? “The reason behind pension reform for the state-funded systems lies in the state’s budget crisis,” says IMRF Executive Director Louis Kosiba. “The state, ever since at least 2008, has had an unbalanced budget, and revenues were down with the recession. The state has not fully recovered.”

He notes that 2013 pension reform legislation “doesn’t include IMRF because IMRF is not state-funded. But there is another aspect of it, and that aspect is that IMRF is well-funded.”

“Newspaper headlines frequently talk about public pensions without making distinctions,” says IMRF Executive Director Louis Kosiba. “Illinois has a number of public pensions. Each one has a different funding mechanism. IMRF has the best funding mechanism in the state.”

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Investments, funding, and financial security
IMRF investments performed exceedingly well with a return of approximately 20.1% in 2013. We began the year with $27.9 billion in assets, and ended it with over $33 billion. This was the first time assets totaled over $30 billion at year’s end.

IMRF’s funding level jumped from 85.4% to 96.8%. This means that for every dollar in benefits promised we have 96 cents. Moreover, for every dollar promised to you, that dollar is in the bank, and every year we make sure that promise is 100% funded.

Pension reform
The pension reform legislation which passed last year essentially affected only the five state-funded systems. It did not affect your benefits or members of the City of Chicago, Cook County, or local police and fire funds.

The reform legislation is being challenged in the courts and will probably reach the Illinois Supreme Court by year’s end. I think there is a 75% chance it will be held unconstitutional. Due to the state’s dire financial condition, the court may conclude that

upholding the benefit changes is necessary to provide funding for state responsibilities protecting the health, safety, and welfare of its citizens.

I’m sure Chicago will have similar legislation introduced. So, you will be reading about that. Local mayors want changes too, but their impetus concerns the cost of local police and fire funds. Due to Tier 2 and IMRF’s favorable investment returns, on average, IMRF employer contribution rates have plateaued and will be coming down.

Major service changes
IMRF is investing in new computer systems to enhance your service experience. The changes range from how we collect data to how we store it, and how we can ensure accurate, timely, and trustworthy service to you. Even with the upgrades, IMRF will continue to be a high-tech and high-touch service provider.

As they say, the only constant is change. So let’s embrace 2014 and see what it brings. ✿
2013 Trustee election results; upcoming 2014 Executive and Employee Trustee elections

In 2013, IMRF conducted one election for Executive Trustee. IMRF’s Board of Trustees certified the results of this election at their Board meeting on December 20, 2013.

Executive Trustee: Sue Stanish
Ms. Stanish is Director of Finance for the Naperville Park District. She has been with that park district for three years. Previously, she served as the Director of Finance with the village of Willowbrook for 13 years and Accounting Manager for the city of Naperville for five years.

Her five-year term of office runs from January 1, 2014, to December 31, 2018.

Ms. Stanish says, “The experience I have gained from both the municipal and park district perspectives combined with my strong leadership will be a positive addition to the IMRF Board. The issues facing Illinois public pension funds continue to be an ongoing challenge that needs to be carefully managed.”

2014 Board officers
The Board of Trustees also elected the following new Board officers:
• President—Natalie Copper
• Vice President—John Piechocinski
• Secretary—Tom Kuehne

2014 Trustee elections
This year, IMRF will hold two Trustee elections:
• Employers will elect one Executive Trustee for a two-year partial term to fill a vacancy on the Board.
• Members will elect one Employee Trustee for a regular five-year term.

The eight-member Board of Trustees governs IMRF. It consists of four Executive Trustees, elected by IMRF employers; three Employee Trustees, elected by active members; and one Annuitant Trustee, elected by retired members.
Direct deposit—fast, easy, and safe

Did you know that Social Security recipients are now required to switch to direct deposit? As of March 1, 2013, the U.S. Department of the Treasury requires federal benefit payments to be made electronically.

The government has no current plans to stop payments, but those who don’t switch are out of compliance with the law and may be contacted by the Treasury Department.

Similarly, since 2003 IMRF has required retirees to receive their pension payments through direct deposit. For the holdouts who still receive their pension by check, we highly recommend switching.

Why? Direct deposit is safe, quick, and convenient, eliminating the risk of stolen checks and giving you access to your money from almost anywhere. You don’t have to wait for your check to arrive. The Treasury Department notes that their beneficiaries are 125 times more likely to have a problem with a paper check than with direct deposit.

Facts about IMRF direct deposit

• You do not need to open a checking account for direct deposit. If you prefer, IMRF can deposit your payment directly into a savings account, and you can withdraw the cash you need at your convenience. Direct deposit also works with brokerage accounts.

• Direct deposit grants IMRF only the permission to transfer your benefit payment into your bank account. IMRF can never see the details of your account or withdraw money.

• You can always view the amount of your payment through your secure Member Access account. Additionally, IMRF will mail you statements in January, July (for the 13th payment, if you are eligible), and December (including year-to-date totals). You will also receive statements whenever your payment amount changes—for example, if you make changes to your tax withholding.

How to switch to direct deposit

The fastest and easiest way to set up your direct deposit information is through your Member Access account, available at www.imrf.org/myimrf.

If you recently retired, you most likely completed IMRF Form 1199 with your retirement application, and would not need to submit another form.

If you need another copy of the form or if you have changes to your direct deposit information, submit them through Member Access, or view and print IMRF’s “Application for Direct Deposit” form.

Financial Corner

Total plan net assets: $33.1 billion*
2013 rate of return: 20.1%*
Funding level: 96.8%*

* Preliminary unaudited investment performance numbers as of December 31, 2013. Numbers subject to change.
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 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 and plans to improve it.

**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.
“The question is, ‘Why should I be confident that I’m going to get my benefit?’ and the answer is, the IMRF employers have always paid the actuarially required contribution, so we don’t have the underfunding issues that exist in the state. The second point would be, the risk is divided up between 3,000 employers. We have some employers that are financially stressed, some that are just fine, and some in superior positions. So, the good news there is that you aren’t dependent upon one organization’s budget, and there are mechanisms in place to set reasonable employer contribution rates and to police them.”

Impact on other retirement systems
For the General Assembly Retirement System (GARS), State Employees’ Retirement System (SERS), State Universities Retirement System (SURS), and Teachers’ Retirement System (TRS), the pension reform bill:

- Establishes a funding schedule and allows the retirement system to take legal action if the state of Illinois fails to make required payments.
- Reduces the portion of a retiree’s pension that is eligible for a cost-of-living adjustment.
- Places a cap on future retirees’ pensionable salary.
- Increases the retirement age on a sliding scale for workers age 45 and younger.
- Reduces the amount current members contribute to their retirement by 1% of salary.
- Allows a portion of workers to opt into a 401(k) plan instead of a defined benefit pension plan.

Impact on future IMRF members
For members who join IMRF on or after June 1, 2014:

- Any sick or vacation time paid out at retirement will not be applied to pensionable salary.
- Unused, unpaid sick leave cannot be converted to service credit.

“Currently, when you have unused, unpaid sick leave at the time you retire, you can obtain up to one year of service credit with IMRF. It is an incentive for people not to use sick leave needlessly, but it can cost units of government money.” Kosiba says. “The attempt here is to moderate the costs.”

Additionally, employees of certain non-governmental organizations (Illinois Municipal League, Illinois Association of Park Districts, Township Officials of Illinois, United Counties Council of Illinois) who begin employment after June 1, 2014, will no longer be able to participate in IMRF. Kosiba notes that “they’re not a traditional unit of government.”
Impact of legal challenge
The Illinois Retired Teachers Association and Illinois Association of School Administrators filed suit against the new law on December 27, 2013, declaring it to be an unconstitutional diminishment of benefits for retirees. On January 2, 2014, the Retired State Employees Association also filed suit. More lawsuits are likely to follow.

“The basic reason for challenging these reforms are that they affect the benefits of people already in retirement, and that they affect the benefits for people currently participating,” Kosiba explains.

Back in 1970, Illinois voters approved a revised constitution that included an amendment “which essentially provides that the pension benefit is a contractual right which cannot be diminished,” he says.

“The current challenge alleges that the constitution has been violated. The counter-argument is that there are new funding guarantees and a reduction in employee costs, which would warrant a change in the contract. If the public pension is a contractual right, we need to remember that in contract law, contracts can be amended, and contracts can be affected by new circumstances. So, it’s going to be interesting as to what the Illinois Supreme Court is going to do.”

In response to these legal challenges, the court may issue a Stay Order. The Stay Order would suspend implementation of the legislation’s provisions. At this time, we do not know if the IMRF-related provisions would be stayed or if they would go into effect on June 1, 2014.

If pension reform is found constitutional
Even if the Illinois Supreme Court finds the new pension reform law constitutional, Kosiba does not expect future pension reform efforts to apply to IMRF. The state is under financial pressures, and those pressures do not apply to IMRF.

“One of the major costs for the five state-funded systems is the compounding of their 3% cost-of-living adjustment (COLA). IMRF has never had a 3% compounded COLA. The other thing we don’t have is health insurance,” he says. “The result is, I would not anticipate the next wave of reform including IMRF. It will probably include the Chicago systems, and it might include the Cook County systems. They have the compounding of COLAs, too; we don’t.”

To learn more about legislation
Consider signing up for our Legislative Update email list, which offers periodic reports on all IMRF-related legislation. To sign up, visit the Legislation page at www.imrf.org. There you can also access an archive of past Legislative Update emails, along with details of IMRF’s legislative agenda for 2014.

Kosiba emphasizes that IMRF is in strong financial shape going forward. “IMRF is financially secure; we’re not dependent upon any one employer; we set sound actuarial contribution rates; we have policing authority which we exercise when necessary; we have 96% of the money we need to pay benefits (that’s our funding level); and our annuitant reserve is always 100% funded.”
Get ready for 2014 retiree workshops with a Member Access account

We are currently planning retiree workshops to be held in late summer/early fall 2014. Seating will be limited and workshops can fill up fast. While you can register for a workshop online or by phone, registering online through Member Access is the best way to register. Member Access users have early access to retiree workshop locations and registration, and your spot is reserved immediately when you register online.

Sign up for an account today at www.imrf.org/myimrf and be ready to reserve your spot!