



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. Illinois has a number of public pensions. Each one has a different funding mechanism—we have the state-funded ones, we have IMRF, we have Cook County-funded, we have Chicago-

funded, and then we have the local police and fire pension funds. IMRF has the best funding mechanism in the state," Kosiba explains.

"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."

Bright financials and enhanced service



Louis W. Kosiba
IMRF Executive Director

This is the first column of the new year, so I will highlight some of the more significant events of the past year and mention what I think will be important in 2014.

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

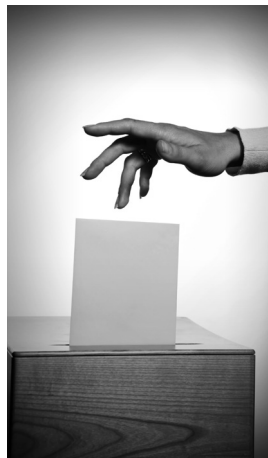
In 2013, IMRF conducted one election for Executive Trustee. IMRF's Board of Trustees certified the results of this election at their Board meeting on December 20, 2013.

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. ❖

IMRF Book Club—Book #3

What Do I Do Now? Dr. Foster's 30 Laws of Great Decision Making

by Dr. Charles Foster, Ph.D., MBA

Feedback due date: **March 30, 2014**

Send your feedback to:
Louis Kosiba, IMRF Executive Director
(Email or written letters are fine.)

Email: louiskosiba-executivedirector@imrf.org
Written letter: IMRF, 2211 York Road, Suite 500,
Oak Brook, IL, 60523-2337

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. ❖

Pension reform becomes law

Continued from the front page

“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.” ❖



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
DOWNS GROVE, IL
Permit No. 2001

IMRF 2014 Board of Trustees

Natalie Copper

President
Employee Trustee
Evanston School District 65

John Piechocinski

Vice President
Employee Trustee
Plainfield Community
Consolidated School
District

Tom Kuehne

Secretary
Executive Trustee
Village of Arlington
Heights

Gwen Henry

Executive Trustee
DuPage County

William Stafford

Executive Trustee
Evanston Township High
School District 202

Sue Stanish

Executive Trustee
Naperville Park District

Jeffrey A. Stulir

Employee Trustee
Rock Island County
Sheriff's Department

Sharon U. Thompson

Annuitant Trustee
(Formerly) Lee County

Fundamentals

is published four times a year for retired IMRF members.

John Krupa, communications manager, jkrupa@imrf.org

Erin Cochran, editor, ecochran@imrf.org

1-800-ASK-IMRF (1-800-275-4673), www.imrf.org

*IMRF does not endorse any outside agencies mentioned
in this newsletter unless specifically stated.*

Previous editions of Fundamentals newsletters are available online at www.imrf.org

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!**

IMRF Retiree *Fundamentals* V.29 No.1

In this issue:

Page 1

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

Page 2-3

From the Executive Director:
"Bright Financials and Enhanced Service"

2013 election results;
2014 Trustee elections

IMRF Book Club

Page 4-5

Direct deposit—fast, easy, safe
Financial Corner

2014-2016 IMRF Strategic Plan

Page 6-7

Pension reform continued