Illinois Municipal Retirement Fund

2211 York Road Suite 500 Oak Brook IL 60523-2337

Member Services Representatives 1-800-ASK-IMRF

www.imrf.org

GENERAL MEMORANDUM

Number: 647

Date: January 31, 2014

To: All Authorized Agents

Subject: Impact of 2013 Investment Return on Employer Funding Status, Employer Reserves, and Future Employer Contribution Rates

We encourage each Authorized Agent to *share this memorandum* with the unit of government's chief financial officer, business managers, other officials, and governing body members.

Executive Summary

This preliminary information is based on unaudited investment return data and projected actuarial information. Finalized information will be available in May 2014.

The estimated 2013 investment return for IMRF is 20.1%. This return translates into investment income of approximately $5.4 billion after investment and administrative expenses. Member and annuitant reserves will be credited approximately $1.5 billion as required by the Illinois Pension Code. Employer reserve balances will be credited with the balance, approximately $3.9 billion. On average, employer accounts will be credited approximately 52% of interest and residual investment income on their beginning of the year employer reserve balance. These credits reflect the fact that, as a sponsor of a defined benefit plan, IMRF employers share all the risks and rewards of investment returns.

Beginning on April 21, 2014, IMRF will present a series of local rate meetings throughout the state. At these meetings we will discuss the impact of year-end financial and actuarial data on IMRF as a whole and its estimated impact on individual employers. We will also discuss other current topics impacting IMRF and pension plans in general. IMRF will also present the same information at a webinar in May.

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Investment Returns

IMRF investment returns reflect financial markets over a calendar year. IMRF reports both a market basis return and an actuarial return. IMRF's estimated 2013 investment return on a *market* basis is 20.1%. IMRF's *actuarial* return is 7.8%. The actuarial return is used to determine employer contribution rates and actuarial funding status. This technique is employed to moderate fluctuations in employer contribution rates, and to delay the recognition of market returns that either exceed or fall short of the assumed actuarial return of 7.5% subject to a 20% corridor (the actuarial value of plan assets has to be within plus or minus 20% of the market value of assets).

Employer Funding Status

IMRF's 2013 aggregate funded status on an actuarial basis is expected to increase from 83.9% as of year-end 2012 to 87.3% at year-end 2013.

However, on a *market value* basis (which does not reflect the five-year averaging technique or the 20% corridor), IMRF's aggregate funded status is projected to increase from 85.4% to 96.8%.

Absent any significant changes in actuarial experience, most individual employers can expect the funded status of their plan to remain basically unchanged on an actuarial basis but to increase on a market value basis.

In April, we will furnish each employer its annual GASB 50 footnote information as well as GASB 68 information for 2013. This information will disclose both the actuarial and market based funded status for all plans for their active and inactive members.

Impact on Employer Reserves

By statute, IMRF must credit member and retiree reserves with 7.5% interest (approximately $1.48 billion for 2013) and pay approximately $113 million in administrative and direct investment expenses. That leaves $4 billion to be credited to employer reserve balances.

On average, employers will be credited approximately 52% based on their beginning of the year employer reserve balance. This credit reflects the fact that, as a sponsor of a defined benefit plan, IMRF employers share all the risks and rewards of investment returns. The actual amount credited to individual employers will vary from the average due to differences in annuitant reserve amounts.

Over the last ten years, IMRF employers have been credited or (charged) the following amounts: $3,973 million in 2013, $1,927 million in 2012, ($1,436) million in 2011, $1,713 million in 2010, $3,461 million in 2009, ($7,100) million in 2008, $871 million in 2007, $1,879 million in 2006, $753 million in 2005, and $1,300 million in 2004.

Employer Contribution Rates

Employer contribution rates consist of as many as six parts:

- Normal retirement costs
- Death in service benefits
- Temporary disability benefits
- Supplemental retirement benefits (13th payment)
- Amortization of over or under funding
- Early retirement incentives (employer option)

The ongoing cost of the IMRF benefit package for the regular plan covering normal retirement costs, death in service benefits, temporary disability benefits and supplemental retirement benefits, is 8.53% of payroll in 2014. Put another way, for each dollar of service an employee renders, the employer also incurs a pension cost of 8.53 cents. To the extent an employer is overfunded, the 8.53 cents is reduced to amortize its surplus. To the extent an employer is underfunded, the 8.53 cents is increased to collect the shortfall.

The average employer rate for the regular plan was 12.68% in 2013 and is 12.58% for 2014, a decrease in the rate of .10%. The 12.58% rate reflects the fact that the regular plan was less than 100% funded in the aggregate on an actuarial basis as of December 31, 2013.

The impact of 2013 investment returns on individual employer 2014 contribution rates is difficult to forecast, since each employer has a unique rate affected by its own demographics and funded status as well as its mix of Tier 1 and Tier 2 members.

IMRF Meetings

To discuss the potential impact on individual employers in 2015 and beyond, IMRF will conduct a series of Employer Rate meetings throughout the state beginning April 21, 2014. We will also discuss other current topics impacting IMRF and pension plans in general.

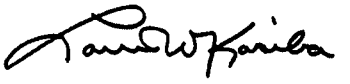
In May, IMRF will present a webinar in which this information will also be discussed. Details concerning these meetings and the webinar will be furnished in a subsequent General Memorandum.

IMRF will publish the time, date and locations of the Employer Rate meetings and the time and date of the related webinar in mid-March.

Questions

If you have any questions regarding the information presented in this memorandum, please call or e-mail Chief Financial Officer Mark Nannini at (630) 368-5345 or mnannini@imrf.org.

Sincerely,



Louis W. Kosiba
Executive Director

Illinois Municipal Retirement Fund

2211 York Road Suite 500 Oak Brook,IL 60523-2337
Service Representatives 1-800-ASK-IMRF (1-800-275-4673) www.imrf.org

2013 EMPLOYER RETIREMENT RESERVE STATEMENT
REGULAR RESERVE ACCOUNT

KANE COUNTY
SHEILA D. MCCRAVEN, EXECUTIVE
719 S BATAVIA AVE
GENEVA IL 60134-3081

EMPLOYER NBR: 03022
PHONE NUMBER: 630-232-5932

FIELD REP....: JON RENNER
PHONE NUMBER: 815-562-8056

NORMAL COST	7.790	DISABILITY	.110
FUNDING ADJ OVR/UND	2.710	DEATH	.180
		SUPPLEMENTAL PENSION	.620
RETIREMENT	10.500		

OPENING BALANCE, JANUARY 1, 2013	62,405,976.69
INTEREST ON OPENING BALANCE - RATE: 7.500%	4,680,448.25
EMPLOYER RETIREMENT CONTRIBUTIONS (10.500% X 44,503,633.62	4,672,881.39
RESIDUAL INVESTMENT INCOME EARNINGS	20,230,012.71
CORRECTION OF ER CONTRIBUTIONS	66.58-
CHARGE/CREDIT EMPLR RECLASSIFI	42,691.12-
CREDIT ER FOR RET RESERVE CONT	1,245,327.64

MEMBER AND SURVIVOR ANNUITIES:
MEMBER INFORMATION

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2013 EMPLOYER RETIREMENT RESERVE STATEMENT
REGULAR RESERVE ACCOUNT

KANE COUNTY
SHEILA D. MCCRAVEN, EXECUTIVE
719 S BATAVIA AVE
GENEVA IL 60134-3081

EMPLOYER NBR: 03022
PHONE NUMBER: 630-232-5932

FIELD REP....: JON RENNER
PHONE NUMBER: 815-562-8056

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FUNDING ADJ OVR/UND	2.710	DEATH	.180
		SUPPLEMENTAL PENSION	.620
RETIREMENT	10.500		

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2013 EMPLOYER RETIREMENT RESERVE STATEMENT
REGULAR RESERVE ACCOUNT

KANE COUNTY
SHEILA D. MCCRAVEN, EXECUTIVE
719 S BATAVIA AVE
GENEVA IL 60134-3081

EMPLOYER NBR: 03022
PHONE NUMBER: 630-232-5932

FIELD REP....: JON RENNER

PHONE NUMBER: 815-562-8056

NORMAL COST	7.790	DISABILITY	.110
FUNDING ADJ OVR/UND	2.710	DEATH	.180
		SUPPLEMENTAL PENSION	.620
RETIREMENT	10.500		

TOTAL MEMBER AND SURVIVOR ANNUITIES COST 8,265,254.50-

ENDING BALANCE, DECEMBER 31, 2013 ..... 84,926,634.48

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2013 EMPLOYER RETIREMENT RESERVE STATEMENT
SLEP RESERVE ACCOUNT

KANE COUNTY
SHEILA D. MCCRAVEN, EXECUTIVE
719 S BATAVIA AVE
GENEVA IL 60134-3081

EMPLOYER NBR: 03022
PHONE NUMBER: 630-232-5932

FIELD REP....: JON RENNER

PHONE NUMBER: 815-562-8056

NORMAL COST	12.790	DISABILITY	.110
FUNDING ADJ OVR/UND	6.350	DEATH	.150
		SUPPLEMENTAL PENSION	.620
RETIREMENT	19.140	SLEP ENHANCEMENT	1.670

OPENING BALANCE, JANUARY 1, 2013	22,909,626.59
INTEREST ON OPENING BALANCE - RATE: 7.500%	1,718,221.99
EMPLOYER RETIREMENT CONTRIBUTIONS (19.140% X 16,118,579.55	3,085,095.98
RESIDUAL INVESTMENT INCOME EARNINGS	10,613,791.05
CHARGE/CREDIT EMPLR RECLASSIFI	42,691.12
CREDIT ER FOR RET RESERVE CONT	185,198.96

MEMBER AND SURVIVOR ANNUITIES:
MEMBER INFORMATION

TOTAL MEMBER AND SURVIVOR ANNUITIES COST	1,684,203.31-
ENDING BALANCE, DECEMBER 31, 2013	36,870,422.38

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2013 EMPLOYER RETIREMENT RESERVE STATEMENT
SLEP ENHANCEMENT RESERVE ACCOUNT

KANE COUNTY
SHEILA D. MCCRAVEN, EXECUTIVE
719 S BATAVIA AVE
GENEVA IL 60134-3081

EMPLOYER NBR: 03022
PHONE NUMBER: 630-232-5932

FIELD REP....: JON RENNER

PHONE NUMBER: 815-562-8056

NORMAL COST	12.790	DISABILITY	.110
FUNDING ADJ OVR/UND	6.350	DEATH	.150
		SUPPLEMENTAL PENSION	.620
RETIREMENT	19.140	SLEP ENHANCEMENT	1.670

OPENING BALANCE, JANUARY 1, 2013	4,614,055.30-
CHARGE ON OPENING BALANCE - RATE: 7.500%	346,054.15-
EMPLOYER RETIREMENT CONTRIBUTIONS (1.670% X 16,118,579.55)	269,180.27
ENDING BALANCE, DECEMBER 31, 2013	4,690,929.18-