The Illinois Municipal Retirement Fund (IMRF) was created in 1939 as a core benefit for municipal employers to use in attracting and retaining employees needed to fulfill critical government duties. Today, the system covers 412,435 members who work for over 3,000 cities, counties, public schools, park districts, library districts, sanitary districts, and other units of local government in Illinois. 180,643 IMRF members are currently working and 93,262 are retirees and beneficiaries who are currently receiving benefits. The average active worker in IMRF is 47.1 years old, has worked for his employer for 9.8 years, and has an annual pay of $35,771 (2009 Actuarial Valuation, p. B5).

**IMRF Efficiently Provides Career Employees with Modest, but Meaningful, Benefits**

IMRF provides pension benefits to 93,262 retirees and their beneficiaries. The average annual pension for an IMRF member was $11,135 in FY 2009 (2009 Actuarial Valuation, p. B-16).

The vesting period is eight years for most workers in the plan, but vesting will be 10 years for those hired on or after January 1, 2011, (FY 2009 CAFR, pp. 24, 71). This means that, after eight years of service, a plan participant will have the right to ultimately receive a pension benefit regardless of whether the employee remains a member of the pension plan. According to the Wisconsin Legislative Council’s 2008 Comprehensive Study of Major Public Employee Retirement Systems, nearly three-quarters of the public plans surveyed require five or fewer years of service to vest; private sector plans also provide vesting after five years.

A regular member of IMRF receives a pension benefit based upon a service credit multiplier, which is multiplied by average pay and years of service to determine the benefit.
amount. The service credit multiplier is equal to 1 and 2/3% percent for the first 15 years of
service and 2 percent for service over 15 years. The pension benefit cannot exceed 75 percent
of final pay, no matter how many years are worked. The national average for service credit
multipliers in public plans is 1.95 percent.

Regular IMRF members are eligible for unreduced retirement benefits after attaining age
60 and completing 8 years of service or after attaining age 55 and completing 35 years of
service. They can elect to retire at age 55 with 25 years of service, but their pension benefit is
reduced by 3% for every year they retire under age 60.

The amount of the pension benefit is determined by the actual number of years of
service. An IMRF participant would have to work for forty (40) years in an IMRF-covered job
to earn the maximum pension benefit of 75% of their final average compensation. The notion
that an IMRF member can retire at age 60 with “full benefits” is false, they are only entitled to
the benefits they actually earned based on their years of service.

For IMRF workers hired after January 1, 2011, normal retirement has been increased to
age 67.

To illustrate, the benefit for a hypothetical 20-year employee with a final average salary
of $35,000 would be calculated in the following manner:

\[
\text{
$35,000 \times 15 \text{ years of service} \times \text{service multiplier of 1.67\%}, \text{plus} \n$35,000 \times 5 \text{ years of service} \times \text{service multiplier of 2.00\%} = $12,268
}\n
For this benefit, regular employees contribute 4.5 percent of pay during their entire
career.

Defined benefit pension plans are a more efficient way to finance a secure retirement
program for public employees than defined contribution plans, according to a recent study by
the National Institute on Retirement Security (see A Better Bang for the Buck). Under defined
contribution plans (such as 457 and 403b Plans), most plan participants invest too little, or their
investments may provide insufficient returns, thus preventing employees from retiring. A recent study by the Center for Retirement Research shows that the real retirement crisis in our country is the $6.6 trillion gap between current savings and what Americans should have today to maintain their standards of living in retirement. As a result, millions of U.S. workers have already delayed or are likely to delay their retirement date. This can complicate the employer’s role, forcing decisions with unpleasant consequences for everyone. Even for those employees who have accrued what they believe may be sufficient savings, there is often little incentive to retire.

Defined benefit plans have access to professional investment managers who are trained in developing ongoing, long-term investment strategies that include an optimum mix of growth potential and risk. Participants and taxpayers benefit from the favorable investment performance of pooled pension fund assets, as well as fees and expenses that are significantly lower than those of defined contribution savings plans. The wide range of investment options open to large pension plans, such as foreign and domestic stocks and bonds and venture capital, also improve investment returns. Furthermore, IMRF’s investments are not affected by the retirement timing of a particular employee so the investment horizon never has to be shortened.

Plan investments not only help keep costs down for plan sponsors, but are also a critical part of the economic fabric of the state. According to the National Institute on Retirement Security, each dollar in taxpayer contributions to Illinois’s state and local pension plans supports $5.62 in long-term economic activity in the state, and retiree expenditures stemming from state and local pension plan benefits support over 83,611 jobs in Illinois. These figures reflect the fact that taxpayer contributions are, in the long run, a highly efficient source of financing for retirement benefits that ultimately provide income and jobs for others, *Pensionomics: Measuring the Economic Impact of State and Local Pension Plans*, National Institute on Retirement Security, February 2009).
IMRF is Financially Sound

There have been some recent claims that retirement systems covering public employees are facing a financial crisis. These claims are especially true for many public plans in Illinois, including systems that cover state and university employees, teachers, and employees of the City of Chicago. However, they are demonstrably false for the IMRF. The IMRF is the most financially sound public retirement fund in Illinois and among the strongest in the United States. As of December 31, 2009, the IMRF held assets with an actuarial value of $22.8 billion and had accrued liabilities of $27.3 billion. In other words, the fund had 83.2 percent of the money it will need to pay accrued benefits in upcoming years. And preliminary figures for December 31, 2010 suggest that the ratio has continue to increase as the IMRF portfolio recovers from the market losses suffered in 2008 and early 2009.

The IMRF funding ratio has varied over the past decade, but has not dropped below 83.2 percent over that time. (Recent surveys show that the average funding level for large public sector plans is in the range of 70 to 75 percent). This ratio of assets to liabilities is simply a snapshot that captures a plan sponsor’s ongoing effort at one point in time to fund its pension obligation; any unfunded liabilities can be made up over many years. If the plan sponsor is consistently making its annual required contribution, its pension plan can have a funded ratio below 100 percent yet still be on track toward full actuarial funding.

Why is the IMRF in much better financial shape compared to most other public pension plans in Illinois? The answer is clear. The IMRF has the authority to set contribution rates for each employer, based on actuarial valuations of each employer, with the goal of reaching 100 percent funding – with rates based upon actuarial projections. And, the IMRF has the statutory authority to force employers within the system to contribute the annual required contribution.

This feature explains most of the difference in experiences between the IMRF and other state plans. The plans for state employees, teachers, universities, judges and the general assembly have contribution rates set by elected officials who historically have been more willing to cut pension contributions then take other steps to balance their budgets. These officials have repeatedly declined to make contributions necessary to fund the plans in a responsible
manner – putting off those bills for a later date. But not the IMRF, the IMRF has been a model pension plan for the other Illinois public pension plans.

It should come as no surprise that the 2008 market downturn adversely impacted all investors. (IMRF investments lost 25.3 percent in FY 2008, and rebounded by earning 24.5 percent in FY 2009 and another 9.36 percent as of October 10, 2010.) Because of the IMRF’s statutory authority, IMRF employers were required to accept increases in their contributions in 2010 and 2011, even though employers were suffering revenue declines linked to the deep recession and high unemployment in many Illinois communities.

IMRF is designed for the long haul and does not have an investment horizon like defined contribution plans that cover individual employees. The IMRF is structured to stay the course and enjoy higher returns when asset values rebound. Over the long run, these keep employer contributions affordable, as there is only a relatively small unfunded liability to pay down.

Plan actuaries project that over the long term IMRF will earn an average of 7.5 percent each year on its investments. In some years returns will be below that rate and in others returns will exceed it. When returns are strong and above the actuarial assumed rate, the employer’s level of contributions will generally be lower than when investment returns lag the actuarially assumed rate. When returns are less than projected, those actuarial losses are amortized through increased employer contributions. This is one reason why contributions needed are higher than levels needed earlier in the decade. Over the past 10-year period from through December 31, 2009 IMRF’s investments have returned an average annual rate of 4.23 percent (FY 2009 CAFR, p. 60). Meanwhile, the FY 1999 CAFR shows that in the prior decade the plan investments averaged a return of 12.3 percent – meaning that investment returns have averaged 8.3 percent over the past two decades.

Even with the historic investment losses in 2008, ERS’ investments have provided 59 percent of pension fund revenues since 1990. Meanwhile, taxpayers only paid for 27 percent of the plan’s revenues. Members contributed the other 14 percent themselves.
IMRF Revenue Sources, FY 1990 – 2009

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Investment Income</th>
<th>Employer Contributions</th>
<th>Employee Contributions</th>
<th>Total Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-1994</td>
<td>$1,608</td>
<td>$1,473</td>
<td>$614</td>
<td>$3,695</td>
</tr>
<tr>
<td>1995-1999</td>
<td>8,433</td>
<td>1,723</td>
<td>855</td>
<td>11,010</td>
</tr>
<tr>
<td>2000-2004</td>
<td>2,954</td>
<td>1,741</td>
<td>1,165</td>
<td>5,860</td>
</tr>
<tr>
<td>2005-2009</td>
<td>4,402</td>
<td>3,038</td>
<td>1,481</td>
<td>8,922</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17,396</strong></td>
<td><strong>$7,976</strong></td>
<td><strong>$4,115</strong></td>
<td><strong>$29,487</strong></td>
</tr>
<tr>
<td>% of Total</td>
<td>59%</td>
<td>27%</td>
<td>14%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Sources: FY 2009 CAFR and FY 1999 CAFR

As a result of recent legislation, Public Act 96-0889, new hires on or after January 1, 2011 will be put into a new, second tier of pension benefits. The new tier has a longer requirement for vesting (as mentioned above), later normal and early retirement dates, a larger reduction for early retirement, a $106,800 cap on pensionable compensation, and a different basis for determining final average compensation (with final pay determined using the highest 8 years of pay, instead of 4 years). Also, members of the new tier will receive substandard COLA increases, limited to the lesser of 3% or 50% of CPI. This will cause the future benefits for these workers to be eroded by inflation.

AFSCME believes in a society of opportunity; where all workers not only earn a living wage and can afford to see a doctor when they are sick, but where we all have the opportunity to reach our full potential in our chosen careers and where we all have the opportunity to retire with dignity when our work is done. For decades IMRF has provided workers and their beneficiaries with secure retirement benefits and with a model funding mechanism built into State law, there is no reason to believe it will not continue to be able to do so.