

History of the Illinois Municipal Retirement Fund

1941 - 2011

How IMRF was founded

An annuity and benefit fund for Illinois Municipal Public Utility (MPU) employees was established by the Illinois State Legislature, effective July 13, 1937. The MPU Annuity and Benefit Fund was created through the effort of the Illinois League of Public Utility Employees (ILPUE) to get it passed by the Illinois General Assembly.

A five-member board was established to administer the plan. The first meeting of the board took place on November 10, 1937, at 135 S. LaSalle St. in Chicago. A.S. Hansen was appointed actuarial consultant and keeper of records; and at a subsequent meeting on December 17, he was appointed clerk of the board.

The only way employees of a local public utility could be covered by the Fund was by local referendum. When employees petitioned for a referendum, other municipal employees were opposed on the grounds that it was unfair to give pensions only to MPU employees.

After an MPU referendum was soundly defeated by the electorate of the City of Quincy, John Kerkerling, an active member of ILPUE, was instrumental in forming the Illinois League of Municipal Employees (ILME). The primary purpose of ILME was to promote enactment of legislation to form IMRF. They were successful.

The Illinois Municipal Retirement Fund was created through legislation enacted by the 61st General Assembly of the State of Illinois, effective July 29, 1939. The legislation directed the board of the MPU annuity and benefit fund to act for IMRF through December 31, 1940.

At that time, the two trustees from the two largest utilities would remain on the board, and the remaining three would be replaced by one executive trustee elected by employers and two employee trustees elected by members.

The original board consisted of S.T. Anderson and Dennie Simmons of Springfield, H.S. Merz and Fred Yone of Rockford, and Manley A. Clark of Geneseo. No one petitioned the board for election as a board trustee in 1940, so the board remained unchanged.

In 1941 S.G. Ingraham of Evanston was elected to the board with a total of two votes (no other candidate received any votes).

In 1942 Alfred Nystrom of Galesburg was the only candidate for board trustee to receive any votes, a total of seven. Mr. Nystrom was destined to play a key role in IMRF's

formative years and early development. He served on the board for 25 years and was president for 11 of those years.

First meeting of the IMRF board

The first meeting of the IMRF board was held on September 8, 1939, in the office of the MPU Annuity and Benefit Fund at 135 S. LaSalle St. in Chicago. A.S. Hansen was appointed actuary and clerk of the fund, responsible for records and benefits.

The board directed a letter be sent to all municipalities in the state with a population of 5,000 or more advising them of their right to join IMRF. Employers could join IMRF by referendum only. The effective date was always January 1 of the year following passage of the referendum.

It isn't clear how the board met expenses during the early months of IMRF's existence. The board directed the clerk to have stationery printed sometime in 1940 with the understanding that payment would be made when funds were received. This, of course, could not take place until some employers qualified to enter IMRF.

Five original employers

On January 1, 1941, the five original employers, City of Evanston, City of Galesburg, Village of Riverside, Rockford Park District and City of Rockford, entered IMRF. Contribution rates for members were set at 3-1/2 percent of earnings. At the February 14, 1941, board meeting, employer contribution rates were set for the five original employers.

IMRF finally had money coming in which could be used to meet operating expenses as well as pay benefits. The first benefit awards were approved at the March 28, 1941, board meeting. The awards consisted of one beneficiary and four retirement annuities.

These were all money purchase annuities, the only type available in the early years. Money purchase annuities are funded by contributions made by the member and matched at a designated rate by the employer.

At that same meeting, the board approved IMRF's first investment, a \$5,000 U.S. Treasury Bond at 2-1/2 percent due on March 15 of 1952 or 1954, with the assumption that 1952 was an option year.

Early years of IMRF

Things were rather quiet at IMRF over the next few years. On January 1, 1942, 10 more employers entered for a total of 15. On June 25, 1943, E.G. Hansen was authorized by the board to act for the fund in the absence of A.S. Hansen.

The fund opened the year 1944 with 47 employers and almost 4,000 members. During the year, the board engaged the firm of Doty & Dawson to perform an audit for 1941 and 1942, the first audit of IMRF. The report was received on December 15.

During 1945 the board ordered the printing of 7,500 membership cards; but apparently they were never used. If they were used, they were discontinued within a short time.

The board meeting of November 23, 1945, was a significant one. At that meeting the board:

- Received the first actuarial report (for 1944).
- Appointed E.G. Hansen as the first executive director, effective January 1, 1946.
- Approved arrangements be made for space and equipment for a separate fund administrative office.
- Directed E.G. Hansen to hire a staff of four.
- Authorized an operating expense budget for 1946 of \$24,666.

The original staff consisted of E.G. Hansen, executive director, James Glasgow, Cora Bradley and Virginia Salika. The office was located at 175 W. Jackson Blvd. in Chicago.

Additional groups covered

In 1947 the Illinois legislature required the IMRF staff to participate as members of the system. Later in that same year House Bill 813 was passed by the legislature, effective January 1, 1948. It mandated participation by all Illinois school districts (except those located in the city of Chicago) and all their employees except those covered by the State Teachers' Retirement System.

The Illinois Education Association, at that time a professional association, was instrumental in bringing schools under IMRF, primarily because the Teachers Retirement System opposed including non-certificated personnel in its system.

Coverage of schools increased the number of employers in IMRF from 156 to 652 and the number of members from 11,171 to 17,119.

In September 1947 the board estimated that the effect of school participation was additional space requirements. IMRF now required new office space of 2,000 square feet, a staff of 18 to 20, and equipment. The executive director was authorized to procure the necessary resources.

At the October meeting the board approved a recommendation to move the fund offices to 309 W. Jackson Blvd., Chicago, effective January 1, 1948.

At the December meeting of the board, the tallying of the ballots for executive trustee resulted in a tie, 243 to 243. Jack DeRosa was declared (by statute) to be the winner, as he was the candidate from the employer with the greater number of employees (DuPage County had 196, Champaign School District #4 had 49).

In September of 1949 the board authorized a Blue Cross plan for IMRF staff. In December of that year, John Kerkerling was declared winner of the position of executive trustee, then announced he could not accept it because he had resigned his position at Quincy.

During those years the board seemed to make a distinction between employers who entered IMRF via resolution versus those who were mandated into the fund by legislation. One sees references to the number of employers to be, for example, 276 by resolution, with no mention of the hundreds of schools which entered by mandate on January 1, 1948.

Some employers and employees were frustrated by their inability to get resolutions for IMRF participation passed at the local level. This situation apparently led to later efforts by the Illinois League of Municipal Employees to enact legislation which required participation by certain employer groups or at designated population levels.

The '50s bring the first formula annuity

Effective January 1, 1950, the first formula annuity was introduced at IMRF. It provided for retirement at age 65 or older with a minimum of 20 years' service. The final average salary for the formula was based on the highest five of the last ten years. The minimum total salary to be considered was (and is) \$1,500. The annuity amount was limited to 60 percent of the final average salary.

The formula was 1-1/2 percent for each year of service times the final average salary plus a flat amount of \$150 per year.

At the same time member contributions were increased to 5 percent of all earnings, and new members were granted prior service credit equal to 10-1/2 percent of average annual earnings per year of service.

Changes continue

On February 24 the board approved a move from Room 300 to Room 2112, both at 309 W. Jackson Blvd., at the landlord's request. The move was effective on June 1, 1950.

The trustee election held in 1950 included two additional seats—one executive and one annuitant. The board of trustees officially expanded to seven members on January 19, 1951, when George L. Oppen, executive trustee, and John W. Kerkerling, annuitant trustee, were sworn in. This is the same John Kerkerling who resigned his board position in 1949 because he had terminated his employment with the City of Quincy Water Works Commission. He apparently spearheaded the drive to add an annuitant trustee position to the board.

Effective January 1, 1951, all cities, villages and incorporated towns with populations of 10,000 or more and all counties (except Cook) and sanitary districts (except Metropolitan Chicago) were mandated by legislation into IMRF.

The 1950 amendment to the Federal Social Security Act made Social Security coverage available to local governments not under a retirement system. This amendment was implemented in Illinois in 1951 by the Social Security Enabling Act.

Beginning in 1952, male members were required to contribute 1-1/2 percent of earnings toward a potential widow annuity. IMRF began paying widow annuities in 1953.

Fund reviewed

On February 26, 1954, IMRF engaged the services of Business Research Corporation (BRC) at a cost between \$10,000 to \$15,000, to review the fund's organization, structure and procedures, to make recommendations and to direct installation of improvements to the fund's operations.

Two board members, the consulting actuary, the outside CPA firm and the executive director were assigned to work closely with BRC to complete the project. During the next year the board accepted the following recommendations and reports from BRC:

- A classification of accounts and interest distribution
- Employment of an office manager with specific qualifications suited to the fund's complex accounting problems and prospective mechanization
- Standard journal forms
- A proposal and procedure for acquiring IBM tabulating equipment
- A confidential report on position evaluation
- A public relations study
- A draft of an organization and operations manual
- A report relating to board committees
- A report relating to employment of investment counsel.

The various reports were referred to the executive director with a direction to determine if they addressed all areas contained in the original proposal by BRC.

In January 1955 BRC was again engaged, at a cost not to exceed \$700, to examine the need for budget and purchase controls and propose any required procedures.

At the February meeting the board adopted the recommendations in the BRC report as follows:

- In December of each year an expense budget for the ensuing year should be submitted for board approval
- In December of each year a capital expenditures budget for the ensuing year should be submitted for board approval
- A schedule of expenses and capital expenditures paid should be submitted monthly for board approval

- A comparative report of expenses paid should be submitted monthly for board approval
- A statement of expense and capital expenditure payments should be submitted quarterly for board approval

At the October 1954 meeting BRC's recommendation to hire IMRF's first office manager, Frank Christensen, was approved. At that same meeting, the board discussed — apparently for the first time—various problems and considerations of bringing IMRF under Social Security.

BRC reports

At the January 1955 meeting the board accepted the recommendations contained in the BRC public relations report of December 1954 and engaged the services of BRC at \$300 per month to serve as counsel. The clerk (executive director) was authorized to engage the services of Peat, Marwick and Mitchell to perform an audit of 1953 records.

At the March meeting in 1955 the board authorized A.S. Hansen, actuary, to compute a valuation of liabilities and obligations as of December 31, 1954, and municipality rates for 1956. The actuary was also directed to provide IMRF with procedures and tables for computing annuities.

Supreme Court says no

During this same year the Illinois Supreme Court heard a case for which it had been petitioned by the City of Chester. The city had adopted a resolution to come into IMRF and rescinded it the following year. The Supreme Court ruled the city could not withdraw from IMRF since the statutes provided an option to enter but none to exit.

Legislative changes

Lastly, in 1955 IMRF was included in the Retirement Systems Reciprocal Act, a provision of the statutes which allows total service with any of several public pension systems in Illinois to be considered in determining an annuity.

New legislation effective in 1956 improved the IMRF formula annuity. The earliest retirement age was reduced from 65 to 60, minimum service from 20 to 15 years, and a pension was made available at age 55 with a discount of 1/2 percent for each month under age 60. A one-year probationary period for IMRF participation was also introduced (this provision was repealed on July 6, 1957).

IMRF reorganizes

At the meeting of the board on April 30, 1956, E.G. Hansen submitted his resignation as executive director and James F. Glasgow was named acting director for the period May 1, 1956, to May 31, 1957.

The following month the board entered into a contract with the firm of A.S. Hansen to provide accounting, procedural, tabulating and other services to IMRF. The term of the contract was also May 1, 1956, to May 31, 1957. The fund's IBM equipment was moved to the offices of A.S. Hansen in Lake Bluff or returned to IBM.

During this period the IMRF office underwent a reorganization. Four separate departments or divisions of duties were identified:

- Office Services
- Typing and Correspondence
- Benefits and Bonds
- Accounting Control and Statistics.

Supervisors were appointed by the board for each department.

In September 1956 Frank Christensen resigned his position as office manager. In light of the fact the A.S. Hansen firm was doing much of the administrative work, including accounting and tabulating, and the fact the office was being reorganized, the fund obviously was experiencing some administrative problems.

All IMRF documents public records

At the May 24, 1957, meeting, the board was advised that the Illinois Attorney General had issued an opinion to the effect that all documents on file at IMRF were public records and were available for inspection.

At the same meeting the board took a position opposing the legislation to create a State Board of Investments which included IMRF. It opposed this legislation because IMRF received no state financing.

In June the firm of Kirkland, Fleming, Green, Martin and Ellis was retained as legal counsel for IMRF. The Attorney General had formerly filled that role.

MPU merges into IMRF

In 1957 three noteworthy events took place. As a result of legislation effective December 1, 1957, the MPU Annuity and Benefit Fund was merged into IMRF. This was an ironic turn of events. After all, the board of the MPU Fund had served as IMRF's board during the first two years of IMRF's existence.

A referendum to bring IMRF under the Social Security system was approved by 72 percent of the voting membership. The agreement was signed on December 31, 1957, retroactive to January 1, 1956.

The new plan integrated the IMRF and Social Security contribution rates and benefits provisions. The member contribution rate for 1958 was set at 7 percent for males, 6 percent for females, which included the Social Security contribution. The IMRF benefits, all guaranteed, were offset in part by the Social Security benefits.

A.S. Hansen and Company, shortly after completion of the one-year contract to provide accounting and data processing services to IMRF, recommended that the IMRF board resume operation of these functions under a qualified executive director. On December 20, 1957, Claude S. Holloway was named executive director of IMRF, effective February 17, 1958.

In 1958 IMRF entered a period of expansion and rapid change. Legislation brought about another change to the IMRF pension formula. The new formula was:

- For service prior to 1956: 1-1/2 percent for each year of service times average earnings, plus
- For service after 1955: 3/4 percent for each year of service times average earnings up to \$350, plus
- 1-1/2 percent for each year of service times average earnings in excess of \$350.

Social Security coverage begins

Social Security coverage began on January 1, 1958. The State Social Security Administrator designated IMRF to collect taxes from and file quarterly reports for all IMRF employers for the period 1956-57. Tax payments in excess of \$8 million were made to Social Security for the years 1956 and 1957 and IMRF filed retroactive quarterly reports for each employer.

Beginning with the year 1958, IMRF filed quarterly wage reports with Social Security for each participating member from monthly earnings reports. Additionally, IMRF collected wage data from employers, entered the data and filed reports for each non-participating (Social Security only) employee. The number of non-participating employees typically matched or exceeded the number of participating employees on a quarterly report. Non-participants were employees who were ineligible for various reasons to participate in IMRF.

In January 1958 the board discussed relocation of the IMRF office. At the meeting of March 28 the question of office relocation was considered more carefully. After some discussion the board instructed the executive director to negotiate and lease office space in the Chicago loop area. IMRF subsequently leased office space at 20 N. Wacker Dr. in Chicago and occupied it on September 2, 1958.

Difficult times for IMRF

These were difficult times for IMRF. The Social Security record keeping had added a tremendous administrative burden. A huge backlog existed in correspondence and payment of claims. Staff size was expanding rapidly. It increased from about 40 at the beginning of 1958 to more than 60 by January of the following year. Much time was spent on supervision and training of new employees.

An effort was under way to centralize the automation of records on site at IMRF. Some records were in the offices of A.S. Hansen in Lake Bluff, some in IMRF's offices. A fully-staffed department was established to operate the IBM equipment for the maintenance of records.

The problems continued into 1959. The fund was now confronted with the task of closing out the accounting records for the years 1956, 1957 and 1958 (the first three years of Social Security coverage).

The records being transferred from Lake Bluff were a mess. IBM cards were everywhere. Overtime work was rampant. The need for procedures and a general approach to tackling the work load were the dominant problems. The current work was being done (although the backlog in claims and correspondence persisted) but the closing work for past years was floundering.

In October 1959 IMRF engaged the management services arm of Peat, Marwick, and Mitchell (PMM). Its assignment was to attempt to gain a foothold on the work load and develop procedures for continued processing of the current work load and the annual closing of accounting records.

The management of the tabulating department was reorganized and personnel from PMM assumed control of the department on a temporary basis. A new department manager was hired in January 1960 and existing personnel were reassigned to finalize the reorganization. The work by the PMM team continued during 1960, and by 1961 things were starting to turn around for the fund.

Vesting requirement tops change

The year 1961 was one of massive legislative changes. Those effective January 1, 1962, were:

- A minimum of eight years of service for an IMRF pension.
- The member contribution rate was set at 3-1/2 percent on earnings up to the Social Security wage base and 6-1/2 percent on earnings over the base, plus, for male members, an additional 1 percent for potential widow annuity purposes.
- A new pension formula: 1-1/2 percent per year of service prior to 1956 times the average salary, plus 1 percent per year of service prior to 1956 on earnings up to the Social Security wage base, plus 1-2/3 percent per year of service after 1955 on earnings over the wage base.

- Money purchase annuities available with less than eight years' service if employed prior to January 1, 1962.
- Duration of temporary disability benefits limited to one-half of service up to maximum of 30 months. Beyond this temporary period, the member was entitled to benefits only if totally and permanently disabled.
- If first employed January 1, 1962, or later, the member may not participate in IMRF if age 60 or older.
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In 1962 the investment authority of IMRF was broadened to include investment in equities.

Teachers not eligible

More legislative changes were enacted in 1962 (effective January 1, 1963):

- Excludes participation in IMRF if a teacher is eligible under the State Teachers' Retirement System.
- Earnings for any of the last three months within the period for establishing the final average earnings cannot exceed 125 percent of the earnings in any previous month within the period.
- For other than elected officials, benefits are continued for the duration of a disability for the original cause even if the employer terminates the member's employment.
- Single sum death benefit for an active member fixed at 1/8 of earnings for each year of service up to eight years, plus refund of widow credits with interest and 80 percent of normal credits.
- Employer contribution rate for total and permanent disability is pooled for all employers.

In May 1962 the board appointed the fund's first medical consultant, Dr. N. Gilmore Long. The medical consultant's primary responsibility was, and remains, in the area of disability adjudication.

On February 3, 1964, IMRF occupied its new offices at 100 S. Wacker Dr. in Chicago. In May the fund installed its first computer, a Model 1440 from IBM.

A statute of limitations was established by the Social Security Administration. All wage adjustments were required to be filed within three years, three months and 15 days from the year in which the original wages were paid.

Several legislative items passed in 1965, among them were:

- IMRF gained authority to write its own checks (and began doing so on December 1, 1965), but the state treasurer remained treasurer ex-officio.
- Beginning with pension checks for January 1, 1967, the board was authorized to grant an annual post-retirement pension increase up to 1 percent.

- The level income option was extended to widow annuities, with a reduction at age 60.
- The amount IMRF could invest in common stocks was increased to 20 percent of total assets.
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In the early and mid 60's the fund experienced rapid turnover within the staff. By November of 1966 only 51 of 61 budgeted positions were staffed.

Offset introduced

In 1967 the pension formula was again changed (effective in 1968). The concept of an offset for Social Security benefits was introduced.

The basic pension was 1-2/3 percent for each year of service times the final rate of earnings less 1.4 percent for each year of service under Social Security (after 1955) times the primary Social Security benefit. The offset was limited to 50 percent of the Social Security benefit.

The normal contribution rate for members was set at 3-1/4 percent of all earnings. Males continued to pay an additional 1 percent for a potential spouse annuity.

Systems redeveloped

Programs for automating the processing, reporting and recording of securities transactions were instituted in 1967. An ancillary, but important, use of the system was in the development of cash flow reports as well as dividend and interest receipt reconciliations.

Procedures were later developed to include municipality remittances for use in revenue projections for budget and other purposes.

Beginning in 1968 IMRF set up an in-house legal staff. Previously, this function had been handled by an outside legal firm.

In January 1969, IMRF upgraded its computer system to an IBM System 360, Model 30.

Legislation passed in 1969:

- Authorized IMRF to invest up to one-third of the portfolio in common stocks.
- Required all cities, villages and incorporated towns with a populations of 5,000 or more (unless already providing Social Security coverage) to participate in IMRF, effective April 1, 1970.
- Replaced the annuitant trustee on the IMRF board with an employee trustee, effective January 1, 1971.

On November 21, 1969, Noah Sloan was appointed as the IMRF medical consultant. He succeeded N. Gilmor Long.

In January 1970, for the first time, the IMRF staff used display terminals to interface with the mainframe computer. The terminals led to a dramatic increase in efficiency in processing benefit claims, employer reports and other data.

In August the position of investment manager was approved by the board.

In September James Glasgow resigned his position as manager of Field Services. He was retained by the board as a consultant.

On January 15, 1971, Claude S. Holloway submitted his resignation as executive director. Mr. Holloway had run IMRF for 13 years and had led the fund through some of its most turbulent times. He is credited with playing a large role in leading IMRF into the computer age. On February 12, 1971, James F. Glasgow was named as interim executive director.

On August 6 John Kerkerling passed away. Mr. Kerkerling was instrumental in the formation of IMRF and served as a board trustee from 1945 to 1949. He subsequently promoted legislation for an annuitant trustee on the IMRF board and served IMRF in that capacity from 1951 to 1965. Ironically, the position of annuitant trustee was replaced with an employee trustee via legislation effective January 1, 1971.

Effective September 8, 1971, IMRF annuitants received a 2 percent post-retirement increase. Existing annuitants were required to make a nominal payment. Those retiring after the effective date received the increase at no cost to them. Also included was a \$1,000 death benefit.

On September 24 Ralph W. Kausch was appointed as executive director, effective November 1, 1971.

In October IMRF became the first public employee retirement system in the country to receive the Municipal Financial Officers Association (MFOA) Certificate of Conformance.

Earnings period decreased

On December 31 some significant legislative changes were effective.

- The earnings period for computation of an IMRF pension was changed from the highest 60 to the highest 48 consecutive months within the last ten years of service.
- The Social Security offset amount was frozen at 1.4 percent of the first 16 years of service earned since the year 1955 times the primary Social Security amount in effect in 1971.
- The maximum IMRF pension amount was set at 75 percent of the final average earnings.

Rapid legislative improvements

This was a time of rapid legislative improvements in the IMRF plan. In 1972 more amendments were effective.

- Effective January 1 employees who reached the early retirement age of 55 with 35 or more years of service could receive a pension without a discount. The previous law had provided for a reduction in the pension amount of 1/2 percent for each month under age 60, regardless of years of service.

Effective July 27:

- The Social Security offset was removed from the IMRF pension formula.
- The single sum death benefit was increased to include all member contributions with interest plus, if the deceased member had at least one year of IMRF service, one year's salary. This benefit had previously refunded only 80 percent of the member's own contributions plus 1/8 percent of the final average salary for each year of service, up to a maximum of eight years.

Effective January 1, 1973:

- The normal contribution rate for members was set at 3-3/4 percent with an additional 3/4 percent for a potential spouse annuity.
- Extended eligibility for spouse benefits. Widow annuities were now a thing of the past. Female members began to make contributions for a spouse annuity.

In February of 1972 James F. Glasgow of the IMRF staff passed away. Mr. Glasgow was one of the original employees of the IMRF staff formed in 1946; and, on two separate occasions, he had served as interim executive director.

In late 1972 the board approved a bond swap program for IMRF. The goal of the program was to improve yield to maturity with no sacrifice in quality. It was run by IMRF staff but subject to approval of investment counsel.

SLEP created

On July 1, 1973, Sheriff's Law Enforcement Personnel (SLEP) were given their own pension formula under IMRF which was patterned after the State Police plan. SLEP members were required to contribute an additional 1 percent of their salary toward their retirement.

In 1974 the board appointed the Continental Illinois National Bank and Trust Company of Chicago to provide custodial services for IMRF's assets. On July 1 of the same year an amendment for another improvement to the IMRF formula became effective. It increased the pension formula for each year of service beyond 15 years from 1-2/3percent to 2 percent.

A board resolution drafted in February 1975 prohibited an IMRF staff employee from holding an elective office in any governmental unit or school district which participated in IMRF.

In May IMRF upgraded its computer system to a larger and more efficient processing unit, a Model 370/135 from IBM.

In 1976 legislation changed the surviving spouse benefit from 50 percent of the member's original amount to 50 percent of the amount the member was receiving at the time of death. It also reduced the pre-existing exclusion period for disability benefits from eight to five years.

In July Jack Loftus, president of the IMRF Board of Trustees, passed away. Mr. Loftus had served as IMRF board president from 1971 to the time of his death.

On July 23 the board adopted a comprehensive statement of investment policies and goals for guidance of its investment counsel and operation of its investment program.

In April of 1977 an agreement was reached between IMRF and the International City Managers Retirement Corporation to provide a deferred compensation plan for staff employees.

In May the board approved a policy of rotating outside auditors. This policy was implemented for the 1981 audit when Arthur Young was appointed for a period of five years.

In June, Hay Associates was engaged by the board to conduct a complete compensation study of all positions at IMRF.

Assets reach \$1 billion

Another significant milestone of 1978 was reached when the IMRF's assets reached the level of \$1 billion.

After a period of relative legislative inactivity, the year 1979 brought the passage of several legislative improvements.

- Effective January 1, 1979, in order to serve as a trustee of the IMRF board a member must have at least eight years of IMRF service.

Effective January 1, 1980:

- Disability due to chronic alcoholism was allowed.
- Disability related to pregnancy was allowed for elected officials and their personally appointed employees. (Disability for pregnancy had been mandated by federal law for other employees in 1979.)
- Those employed on or after July 1, 1979, under the federal Comprehensive Employment Training Act (CETA) were not eligible for IMRF participation.

- A surviving spouse pension would not be forfeited if remarriage occurred after age 55. Previously, a surviving spouse pension stopped if the survivor remarried at any age.

Securities lending program initiated

A Securities Lending Program was instituted in 1979. IMRF was the first public pension fund in Illinois to have such a program. The program was operated and controlled by the internal staff until June 1986. Since that time the master trustee bank has operated the program for a fee.

From inception through 1991, IMRF is expected to realize approximately \$9 million from the lending operation, which now includes both domestic and foreign securities.

The board approved the hiring of a second equity manager, effective January 1, 1980.

The Social Security Administration required deposits to be accelerated from a quarterly to a monthly frequency beginning July 1, 1980. This required incredible effort by the IMRF staff, but monthly deposits were interfaced effectively with the monthly IMRF deposit system. Monthly Social Security deposits continued through 1983.

The requirement that IMRF submit quarterly individual wage reports for all employees who worked for IMRF employers but did not qualify for IMRF participation ended in 1980.

In 1981 the IMRF law was amended to comply with the Federal Age Discrimination Act. IMRF employers could not establish a mandatory retirement age for their employees prior to age 70. (Some fire and police positions were exempted).

Older employees now had to receive basically the same fringe benefits as younger employees, including pension, disability and death benefits. Retroactive service credit was allowed for IMRF members who were excluded from IMRF participation because of age (over age 60).

IMRF again improved its computer capabilities with an upgrade to a new family of IBM computers, in particular a Model 4341.

Employer contribution rate separated

The IMRF employer contribution rate was finally separated into its two elements: IMRF and Social Security. This permitted IMRF employer rate changes, other than such changes arising out of amendments to the plan and interest rate assumptions, to be based solely upon member experience actuarial data. Social Security-covered wage and contribution data was dropped from the annual member statement.

The Social Security Administration required IMRF to prepare an annual wage report to replace the quarterly wage reports. The annual wage report requirement continued through 1987.

When Arthur Young and Company was named by the board on July 24 to perform the 1981 audit, it marked the first time in 30 years that the independent audit would be done by a firm other than Peat, Marwick and Mitchell.

Pick-up plan emerges

Beginning in 1982 employers could elect to have taxes on IMRF contributions for their employees deferred under Section 414(h) of the Internal Revenue Code. This became known as the “employer pickup plan” even though the deductions were actually taken from the employee’s salary, not paid by the employer.

More changes in Social Security were on the way. The Social Security Administration replaced the annual wage report prepared by IMRF with IRS Form W-2 as prepared by employers. This procedure had been in effect since 1980 for private employers.

New legislation allowed an IMRF member to exclude a spouse as beneficiary provided a blood or adoptive relative was named.

IMRF investment authority had slowly evolved and broadened over the years. From 1941 through 1947 IMRF investments consisted entirely of U.S. Treasury bonds. Beginning in 1948, municipal bonds became legal investments. Corporate bonds followed this trend in 1958. Common stocks followed on July 1, 1962. While more types of investments were made legal, the statutes still contained restrictions that limited portfolio diversification.

Prudent person rule adopted

Effective in August 1982, IMRF adopted the “prudent person rule” for management of its investments. This was a significant step — it allowed IMRF to make any type of investment (real estate, venture capital, foreign equities, etc.) as long as it can be demonstrated it is an investment decision a “prudent” individual would make. It also made possible the means for wide diversification of the portfolio and deployment of a variety of investment managers.

1,000-hour standard adopted

In 1983 IMRF employers were authorized through a statutory change to adopt a 1,000-hour standard for determining eligibility for participation in IMRF. Anyone employed prior to the effective date of the 1,000-hour standard remained under the original 600-hour standard.

The Social Security Administration implemented W-2C/W-3C Forms to provide employers with a vehicle to make wage corrections to previously filed IRS W-2 Forms. The W-2C/W-3C Forms corrected annual wages reported for 1982 and subsequent years.

Post-retirement increases improved

More legislative changes came in 1984.

- Annual post-retirement increases improved from 2 to 3 percent of the original pension amount.
- “Employer pickup” was mandated for all employers.
- The amount of time IMRF could pay disability benefits retroactively was increased from 60 days to six months prior to the date IMRF received the application for disability benefits.

IMRF established separate employer accounts to record IMRF and Social Security contribution transactions. This final step completely separated the two systems. The SSA continued to accelerate deposits, now requiring them to be made semimonthly. This requirement necessitated a complex computer follow-up system to account for deposits that, by necessity, were not directly related to monthly payroll data.

Robert L. Cusma appointed executive director

Robert L. Cusma was appointed executive director on September 21, 1984, effective December 21, 1984, the same day on which his predecessor, Ralph W. Kausch, retired. Mr. Cusma had previously served as director of the Pennsylvania State Employees Retirement System.

Assets double in six years

It took nearly 38 years before the market value of IMRF assets reached a billion dollars in 1978. Only six years were required to add another \$1 billion to reach the \$2 billion level in 1984. Total assets reached \$3 billion in 1986 and \$4 billion in 1989.

Adjustments from the Social Security Administration (SLEE, SLEX and SLER listings) for incorrectly reported items such as wages and Social Security numbers, were implemented by the Social Security Administration in order to balance the annual IRS wage data with the monthly and semimonthly deposit data filed by employers through IMRF.

The State Social Security Administrator was also responsible for working through IMRF to process the lists for IMRF employers. The Social Security Administration looked to the State Administrator for finalizing the total tax liability for the State of Illinois.

Diversification begins

With IMRF now operating under the “prudent person rule,” a program of diversification was started in 1984. IMRF investments then consisted mostly of U.S. stocks and bonds — basically, “S &P 500” type of companies. Diversification started first with the addition of new manager styles (value, income, small cap, etc.) and later extended to different asset classes.

These new asset classes included: real estate, international stocks and bonds and venture capital partnerships.

A.A. Manual receives award

In 1984 IMRF received the Municipal Finance Officers’ Association “Award for Excellence for Financial Management” for the development of the IMRF Authorized Agents Manual.

In June 1985, the board approved a plan to mail directly to members such items as annual statements and ballots for the election of the IMRF Board of Trustees. It was a huge undertaking for staff personnel to collect some 110,000 member home addresses from IMRF employers as well as maintain the addresses on a current basis, but by 1990 the system was running smoothly. The 1986 member statements and the 1988 trustee election ballots were the first to be mailed directly to member homes.

In October 1985 the Field Services staff demonstrated their newly installed remote display terminals to the board of trustees. The terminals expanded service to IMRF employers and members by making data on the IMRF mainframe computer available to Field Services personnel.

Medicare coverage extended

In 1986 the U.S. Congress extended Medicare coverage to state and local government employees who were not included in the Social Security agreement. Many participating employers under IMRF who had employees such as teachers or police and fire personnel fell into this category. The coverage applied only to those non-covered employees hired after March 31, 1986.

Relations improve

The spring of 1986 saw the introduction of an IMRF newsletter, *Fundamentals*. It came in two editions: one for members and one for retirees, and was a significant milestone in communications between IMRF and its members.

With the growth in the number of managers and asset classes, IMRF switched to a “master trust” banking relationship effective July 1, 1986. Continental Bank, Harris Trust and Northern Trust submitted proposals and fee requirements. Harris was selected to serve for a three-year period ending June 30, 1989.

In 1987 IMRF continued its long-standing practice of providing a modern, up-to-date computer facility with another upgrade, this time to an IBM 4381 processor.

The board meeting of June 24 marked the end of an era at IMRF. The firm of Milliman & Robertson was named as the fund actuary to replace A.S. Hansen. Hansen had served as actuary at IMRF since its inception. In fact, A.S. Hansen himself had played an influential role in promoting key legislation which led to the creation of IMRF. In August of the same year the board approved the audit firm of Coopers & Lybrand to perform a data processing security audit for the fund.

Social Security phased out

The Social Security era at IMRF finally began to wind down in 1987. The SSA and most State Social Security Administrators finally recognized the administrative difficulties inherent in the IRS Form W-2 and SLEE, SLEX, SLER system and pushed legislation through the U.S. Congress enabling them to collect taxes and wage data directly from governmental employers, beginning January 1, 1987.

The IRS Form W-2, SLEE, SLEX, SLER years from 1982-1986 continued to be balanced by IMRF. This required extraordinary staff investigation and follow-up due to the fact that the Social Security Administration itself had trouble compiling and purifying the data effectively.

IMRF had collected Social Security taxes and filed wage reports for 29 years, from 1958 through 1986. IMRF earned millions of dollars on the investment of idle funds related to the holding period between the collection of taxes and their payment on scheduled due dates.

Although the holding period was reduced from quarterly to monthly and again to semimonthly, interest was earned that more than offset the collection costs so as to provide an adequate, if not substantial, return. The interest income earned was utilized to hold down the participating member and employer contribution rates.

Three percent increases granted

Extensive legislative changes came in 1988.

- IMRF members receiving total and permanent disability benefits were entitled to an annual 3 percent increase on the original amount of the award.
- The definition of “pre-existing condition” was changed to include only those conditions for which medical treatment was received within three years prior to IMRF participation. The provision that members with five or more years of service are not subject to the pre-existing limitation remained unchanged.
- Eligibility for disability could include up to a three months’ break in service within the last 12 months prior to the date of disability. Previously, 12 consecutive months of service immediately preceding the disability were required.

- The exemption from the 30-day waiting period for reoccurrence of a disability from “within 60 days” after return to work was extended to “within six months.”
- Surviving spouses were eligible for an annual 3 percent increase based on the original amount of the surviving spouse benefit.
 - The lump sum death benefit paid to the beneficiary of a retired member was increased from \$1,000 to \$3,000. Lump sum death benefits would now be charged directly to the individual employer’s reserve rather than the general death reserve.
 - The reduction in pension benefits for IMRF members retiring between the ages of 55 and 60 with less than 35 years of service was reduced from 1/2 percent for each month under age 60 to 1/4 percent.
 - Ballots for election of employee trustees should be mailed directly to members’ homes.
 - Active members of other Illinois pension systems covered by the reciprocal system could apply for correction of their IMRF records. Previously, only active IMRF members could apply for such corrections.
 - Implementation of a Unit Payment System allowed members to make installment payments to purchase past service credit in monthly units instead of by lump sum payments only.
 - Established a second option for receiving IMRF service for time served in the armed forces. In compliance with federal law, individuals who left IMRF service to serve in the military and returned to work with the IMRF employer within a specified time period could set up IMRF service for the time served. (The time period varies depending upon the type and time of military service.)
 - IMRF contributions are required for the entire period based on the salary when the military service began.
 - As in the past, the employer retains the right to establish IMRF service, at the employer’s option and at no cost to the member, for military time, subject to the same basic conditions listed above.
 - Effective July 1, 1988, units of government formed under the Intergovernmental Cooperation Act can join IMRF, Educational Service Centers are required to join IMRF, and Joint Educational Programs administered under Section 3-15.14 of the school code are required to join IMRF as participating instrumentalities.
 - Improved the pension formula for SLEP members. The new formula was similar to the State Police plan and required an additional 1 percent contribution from SLEP members.

Department upgrades

A publishing department was formally established at IMRF in 1988 when the position of editor was expanded to that of manager of publications and the position of publications assistant was added.

At the February meeting the board adopted the recommendations in the data processing security audit report from Coopers & Lybrand. At the March meeting the board approved a bid of \$150,000 from Computer Partners to conduct a management review of the IMRF data processing department.

The recommendations regarding procedural changes, and reorganization of the department were implemented throughout the balance of the year.

In June the board approved the addition of the staff position of security/personnel administrator.

In March of 1989 the board approved the addition of a legislative liaison position to the staff.

In May a proposal by Byerly and Company to administer a voluntary life insurance plan was approved. At the June meeting the board approved a program to provide mail order prescription drugs to IMRF retirees.

The Harris Trust master trust agreement was terminated on June 30, 1989. Northern Trust was selected to serve for a five-year term ending June 30, 1994. Other banks submitting proposals were Continental Bank and Harris Trust.

Group health plan coverage extended

The passage of House Bill 3406 in 1990 required IMRF employers to allow employees who retire or become disabled while in their employ to participate in any group health benefit plans provided by the employer. It does not apply to members who retired or became disabled before the effective date of the legislation.

Future office acquired

On October 29, 1990, the IMRF Board of Trustees, on behalf of the membership, purchased the office complex at the Drake Plaza in Oak Brook. A portion of the space was designated for future use by IMRF.

Post-Retirement Workshops

IMRF was one of the first pension funds in the nation to develop and implement a post-retirement program for retired members. This program assists retirees in handling the unique issues which arise in later life.

Topics covered include health, exercise, nutrition, housing, budgeting, safety, legal issues, IMRF benefits, Social Security, and assistance. Each participant receives a workbook designed to serve as a continuing source of information. The workshops were initially very popular and well attended.

1990 Experience Study

In 1990, IMRF's actuary completed an experience study for the years 1987 through 1989. The study showed that our members are retiring earlier, living longer, and receiving

larger salary increases than had been predicted by our previous assumptions. Based upon that study, the Board adopted changes to the actuarial assumptions.

The effect of these changes was to increase employer rates by approximately 1 percent of payroll per year. While the Board of Trustees recognizes the difficulties this causes employers, it was felt that the changes were necessary to maintain the financial soundness of the Fund and to avoid even larger increases in the future.

IMRF's 50th Anniversary

1991 was the 50th anniversary of IMRF. Each of the five original employers (City of Evanston, Village of Riverside, city of Galesburg, City of Rockford, and the Rockford Park District) was honored.

Definition of Earnings

In 1991, the passage of Public Act 87-0740 gave the IMRF Board of Trustees the authority to define IMRF earnings. The definition of earnings is critical since benefits are determined by member earnings. Prior legislation tied the earnings definition to the definition of Social Security wages.

Based on input from employers, members, and interested organizations, the Board of Trustees determined the new definition of earnings, which was communicated to employers and members through presentations and written materials. This act also broadened the definition of who a married member can name as a beneficiary.

Benefit Information System design begins

Considerable time, effort and resources were devoted to the design of a new benefit information system for IMRF. The system encompasses all aspects, from enrollment through payment of benefits.

The objective of the new system is to provide more efficient and effective service to our members and employers. Two major goals of the system are to shorten the time required to pay benefits and to increase the quality of member and employer communications.

Post-Retirement workshops win award

Also in 1991, IMRF's post-retirement workshops won the National Award for Innovation in Pre-retirement Education from the National Pre-retirement Education Association. IMRF was one of the first retirement systems to implement post-retirement workshops which are designed to help our members achieve the greatest satisfaction from their retirement.

Assumed rate of return and interest rate changed

Effective December 31, 1991, the board changed the actuarial rate of return and assumed interest rate to 7.50%.

1992 Legislation

In 1992 the following legislation was passed:

- Enrollment in Sheriffs' Law Enforcement Personnel (SLEP) was extended to members performing police duties at airports, if their employer adopts an irrevocable resolution.
- The formula was changed for determining the reduction in pension benefits for members retiring early with 30 to 35 years of service. The early retirement discount will be 1/4 percent times the lesser of either a) the months between the retiree's age at retirement and age 60; or b) the months between the service credit earned and 35 years of service. The new formula applies for members who have service on or after March 26, 1992. If a member has less than 30 years of service and has attained age 55, the discount remained at one quarter percent times the months between the retiree's age at retirement and age 60. No early retirement discount applies to members with 35 or more years of service.
- Beginning in July 1993 and every year thereafter, retired members and surviving spouses will receive a supplemental benefit payment (13th check) until compounding of the post retirement increase is enacted. Members are eligible for a supplemental benefit payment if the member or the member's surviving spouse has received benefits for the previous 12 months (July to June of the given year). The 13th check is paid in addition to the member's normal retirement or surviving spouse annuity and will vary from year to year based on the number of annuitants eligible for the payment.
- Spouse eligibility for surviving spouse annuities was extended beyond the previous definition of a spouse who was married to the retired member at retirement. A second spouse may receive a surviving spouse annuity if the following conditions are met and if a member has service on or after March 26, 1992, the:
 - member was married for one year prior to termination
 - member retires
 - spouse married to the member at termination dies
 - retiree remarries, and
 - second spouse is married to the retiree for one year prior to the retiree's death.

IMRF Office Moves to Oak Brook

In May of 1993, IMRF relocated its headquarters to the Drake Oak Brook Plaza, Oak Brook, Illinois. This new location offered many advantages, primarily more space and easier access for our suburban employers and members.

1-800-ASK-IMRF Added

Effective May 1993, IMRF added a toll free phone number. Members and employers can call 1-800-ASK-IMRF (1-800-275-4673) to get answers to their IMRF questions.

The Ask IMRF line is staffed by Member Services Representatives who are trained to handle a wide range of questions.

Public Pension Achievement Award

In 1993, IMRF was one of only 13 plans nationwide to receive the Public Pension Coordinating Council's Achievement Award. This was a new award given to pension plans that complied with the principles of the Public Pension Coordinating Council. The principles include standards for benefits, financial reporting, investment oversight, ethics, communications, funding, and actuarial policies. The award was established to promote high professional standards for public employee retirement systems.

New Benefit Information System

In January of 1993, the first part of the new information system for member and employer records went into production, as part of IMRF's multi-year project to rewrite all benefit and accounting information programs and systems. With the new system, IMRF will be able to process wage reports, adjustments, and benefit applications faster and more accurately.

In May of 1994, the section of the system which handles benefit payments was installed and in December 1994 we installed the new benefits tax reporting system.

Imaging System Implemented

The new imaging system went live during the summer of 1994. Imaging allows pictures of documents to be stored, retrieved, and displayed on a computer. This allows for better tracking of documents, simultaneous viewing of the same document by multiple users, and more efficient disaster recovery.

In 1994 IMRF received the Public Pension Coordinating Council's Achievement Award for the second year. This award is given to pension plans that comply with the principles of the Public Pension Coordinating Council.

Claims Processing System Installed (SPECTRUM)

In March 1995 we installed our eagerly awaited claims processing system. The new system has many advantages. The principal advantage is the ability to pay an estimated benefit prior to receiving the final payroll information.

Our retirees now receive an estimated benefit as soon as their service is audited and their termination and claim forms are received. When the final payroll information and all

necessary documents are received, the benefits are recalculated and any underpayments are paid.

The process for refunds works in a similar fashion. When the termination and claim forms are received, we issue a check to the member for all contributions held by us at the time. Once the final payroll report and contributions are received, we issue a final refund for the remaining contributions.

The new system has significantly reduced the time a member waits to receive a benefit payment.

Member Statements Improved

In 1995 we made major strides in improving the annual member statements. Thanks to our new system, the 1995 member statements, issued in April 1996, include estimates of death and disability benefits and vesting information for the first time. In addition, members with service with more than one IMRF employer can see all their IMRF service and contributions one statement.

Inactive members, for whom we have valid addresses, will be receiving annual statements later in 1996. We also added the technology to provide pension estimates on the statements for vested members as well.

Non-voting Annuitant Trustee added to board

In May 1995, Senate Bill 114 passed the General Assembly, adding a non-voting Annuitant Trustee to the Board. An election for this position was held and Jack Claes, who previously served as an Employee Trustee, was elected to the position.

Early Retirement Incentive Adopted

IMRF supported legislation to allow members who are at least age 50 with more than 20 years of service to buy an additional five years of service and age. This early retirement incentive would cover all units of government and would be optional with individual employers.

The legislation passed the General Assembly on May 22, 1995 and was signed by the Governor and became effective August 16, 1995, and by 1997, 453 employers passed the resolution to adopt ERI, and 1,588 members filed claims.

The reason the Board of Trustees supported this legislation is to assist IMRF employers looking to reduce salary expenditures without layoffs or program cutbacks. Costs for the program are shared by both the retiree and employer.

The principal elements of the legislation are:

- It is a permanent part of the plan.

- It applies to all IMRF employers except cities, villages, and incorporated towns.
- The incentive is optional for the employer.
- If adopted, the ERI is available for 12 months.
- An employee must be 50 years or older and have 20 or more years of service credit.
- Eligible employees can purchase between one month and five years of service credit.
- Employees retiring under ERI pay contributions equal to 4.5 percent (6.5 percent for SLEP) of the highest 12 months of earnings within the final rate of earnings period for each year of ERI service credit purchased.
- The additional employer ERI cost may be amortized over five to ten years.
- An employer may offer the incentive more than once. However, before offering it again, the previous ERI liability must be paid and five years must have elapsed from the end of the previous ERI period.

In 1997, legislation extended the ERI to all IMRF employers, and also allowed employers to offer ERI as often as they wish, as long as the liability from any previous ERI programs has been paid.

Government Accounting Standards Board (GASB) Statements 25 and 27

Also in 1995, the Government Accounting Standards Board (GASB) issued Statements Number 25, Financial Reporting for defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement Number 27, Accounting for Pensions by State and Local Governmental Employers. Both Statements required changes in the financial reporting of IMRF and its employers.

Statement 25 was effective for periods beginning after June 15, 1996. Statement 27 is effective for periods beginning after June 15, 1997.

The 1995 financial statements for IMRF were prepared using Statement Number 25. The principal changes are:

- Investments are shown at fair value.
- Additions to net assets include market appreciation or depreciation of the fair value of the investments.
- The scheduling of funding progress is based on the actuarial method used for calculating employer rates, entry age normal, rather than the standardized actuarial method required by GASB Statement Number 5.

In 1996, IMRF developed disclosure information for its employers to use when they implement the GASB Statement 27. We asked the Illinois Government Finance Officers Association and the Illinois CPA Society to review our disclosures for completeness.

Claim processing time reduced

Another benefit of IMRF's new information system proved to be in processing speed. The volume of claims (retirement, death and refunds) increased 12 percent in the 12 months after implementation, but despite this increase, we were still able to reduce the average processing time to eight days from the receipt of the claim to payment. We accomplished this while reducing the amount of overtime.

Triennial Experience Study

In 1996 we also did a Triennial Experience Study. In order to determine the future liabilities of the retirement plan and employer contributions rates, our actuaries have to make predictions of future events. These events have a direct correlation on the average employer contribution rates.

Defined Contribution vs. Defined Benefit

House Bill 2187 was introduced in the Illinois Legislature in 1996. This bill would have established a defined contribution fund to replace IMRF and other Illinois public employee defined benefit plans. Although this bill died in committee, it focused attention on a variety of issues concerning the benefit structure of IMRF.

IMRF has always believed that a secure retirement income required three supports: a defined benefit plan, Social Security, and personal savings. We reviewed our entire retirement program to determine whether it was satisfying the needs of employers and members.

ECO Plan Implemented

The General Assembly established a new plan for Elected County Officials in 1997. The ECO plan is optional for counties and county officials. The new plan provides enhanced retirement, death, and disability benefits. ECO members contribute 7.50 percent of their salary.

Military Service Credit

Another piece of legislation passed in 1997 allows members who served in the U.S. armed forces to purchase up to 24 months of military service credit. This program is optional for each employer.

Members must pay member contributions, a portion of the employer cost, and interest. By 1998, more than 4,500 members applied for military service.

Strategic Planning

During 1997, IMRF began a multi-year project to review our Plan. The IMRF Board and staff studied how IMRF compares to other plans across the United States. The preliminary study revealed areas that the Board wished to study further. To this end, the Board authorized the creation of a computer program to show the costs and benefits of various types of plan design.

IMRF Plus

Also in 1997, the General Assembly gave IMRF the authority to establish IMRF Plus. IMRF Plus may offer deferred compensation (IRC Section 457), tax-sheltered annuity (IRC Section 403b), or defined contribution (IRC Section 401a) plans.

The Board and staff reviewed the feasibility of developing a plan that would offer low fees and a complete range of investment choices.

IMRF Online (IMRF.org)

In the middle of 1997, IMRF's web page, www.imrf.org, went online. Among the services available to users of the web page was the ability to download forms and publications. In 1999, a simple pension estimator was added. This allowed members to do a rough estimate of future pension benefits online.

Development also began on the secured employer access area of the website, allowing employers to access some IMRF records via the Internet. Employers with appropriate security are able to check their employer rates, their resolutions filed with IMRF, and the receipt of their payroll reports.

Qualified Illinois Domestic Relations Orders (QILDRO)

The General Assembly passed legislation in 1998, effective July 1, 1999, allowing pension benefits to be divided between divorced spouses. Previously, anti-alienation requirements prohibited IMRF pension benefits from being divided as part of a divorce property settlement.

Another law enacted in 1998 allows IMRF members who do not have an eligible surviving spouse at retirement to convert their surviving spouse contribution refund into a lifetime annuity. Eligible members are notified of their options at retirement.

TPDP

New legislation passed in 1998 allows IMRF members to purchase service credit using a tax-deferred payroll deduction (the TPDP Program). This program can be used to reinstate refunds or purchase service credit available under the Pension Code. Members are informed about the program when they receive the cost estimate for their service. IRS regulations require that the member sign an irrevocable agreement committing to the payroll deductions in order to receive the tax deferral.

IMRF Achieves Full Funding

Thanks to a strong investment market over the previous decade and the application of sound actuarial principles, 56% of IMRF employers attained full funding as of 1999. This means that their actuarial assets equal or exceed their accrued actuarial liabilities. As with other happy events, full funding brings new challenges.

The designers of IMRF in 1939 did not anticipate this situation. The principal challenge is how to maintain 100 percent funding without going significantly higher or lower. Since some IMRF employers are very small and have very volatile liabilities, keeping funding in balance is not simple. To add to the complexity, many IMRF employers operate under tax caps that limit increases to tax levies.

During 1998 and 1999, the Board, actuaries, and staff analyzed the issues and developed a mechanism for amortizing overfunded amounts over a shorter schedule than unfunded liabilities. The period varies with the size of the employer and the amount of overfunding. Some preliminary changes were implemented for the 1999 rates. The changes will be fully implemented with the 2000 rates.

Year 2000 Preparations Begin

IMRF began preparations for the year 2000 and its potential problems for computer systems. When we rewrote our wage reporting and benefit processing computer systems in the 1990s, we made sure the new systems could handle dates after 1999. We systematically replaced computer equipment that could not handle those dates. In December 1998 we tested our systems and discovered a few minor problems, which were remedied.

SPECTRUM enhanced

In 1999, IMRF continued to enhance its automated systems to track data and pay claims. The first two phases of the automated disability claims processing system were implemented. Other significant ongoing development projects include a new member enrollment system and an updated purchase of service system.

Revised ECO

The General Assembly passed legislation in 1999, which was signed into law by the Governor in 2000, that changes provisions of the Elected County Officials Plan (ECO). The changes are:

- The ECO benefit formula is limited to service in an elected county office.
- The final rate of earnings is changed from the last salary to a four-year average calculated separately for each office held.
- Eight years of service in each office is required to qualify for an ECO formula.

- Counties may opt out of the ECO Plan, prospectively.

A second bill was passed by the General Assembly in 2000 that became effective in July 2000 which allows counties to pass on certain employer costs to elected officials who wish to convert past service to the ECO plan.

Y2K Successful

As with many other organizations, IMRF had no significant problems with the turnover to the year 2000. On January 1, 2000, a group of IMRF employees tested our major computer systems to ensure that everything would be operational on January 3, the first business day of the new year.

We were happy to report that, because of the foresight and planning of our staff, no problems were discovered.

2000 Actuarial Review

Also in 2000, in keeping with best practices, IMRF engaged a second independent actuarial firm to perform an actuarial review of the December 31, 1999 Actuarial Valuation of IMRF performed by Gabriel, Roeder, Smith & Co. Such reviews are generally done periodically to verify compliance with a retirement system's stated financial objectives. This concluded that IMRF was following appropriate actuarial principles, developing appropriate contribution rates and was in sound financial condition.

SPECTRUM Improvements

In 2000 major improvements were made to our death claims processing subsystem, and newly automated functions were added to our disabilities claims processing system in IMRF's on-going effort to further improve customer service. Development work was completed on our system that tracks Qualified Domestic Relations Orders.

The design work for a system to process requests by members for the purchase of service was completed. Major system changes are needed in our enrollment and member maintenance subsystems to cope with the requirements of various changes in the past few years. Staff has been defining the specific system requirements brought about by these changes.

IMRF Online continues to grow

New functions added in 2000 allow employers to file termination notices for their employees on-line, as well as make on-line changes to member information (addresses, etc.).

Over 7,500 forms were received from our employers via the Internet during calendar year 2001. These include the newly added forms such as wage and service adjustments and employer's report of disability.

In addition, work was completed on a prototype system for the exchange of member information with the reciprocal funds in Illinois. IMRF took the lead in this effort, and reciprocal funds can now access IMRF member data directly.

Uploading of wage data was added to our site in April 2001. All access to IMRF member and employer data is via a secure access method. IMRF continually works to ensure its Internet site and network employ requisite safeguards.

In July of 2001, a complete overhaul of the existing site went live.

Executive Director Bob Cusma Retires

In June of 2001, Bob Cusma, IMRF's Executive Director, retired after 16 years as Executive Director of IMRF. Louis W. Kosiba, formerly General Counsel, was appointed Executive Director July 1, 2001.

IMRF's First Regional Counseling Office Opens

IMRF has proposed a pilot project on the feasibility of regional offices throughout the state of Illinois. The primary goal of these offices would be to provide easier access to IMRF and better service for our membership.

On November 5, 2001, IMRF opened its first Regional Counseling office in Springfield, Illinois.

2002 Events

Board of Trustees

R. Steven Sonnemaker, County Auditor of Peoria County, was re-elected as an executive trustee. His five-year term began January 1, 2003.

Rita J. Miotti, Contract Management Services Coordinator for the Village of Matteson, was appointed on January 24, 2003, as an employee trustee to fill a vacancy created when former Trustee Julie A. Newell left the Board. Ms. Miotti's term ends on December 31, 2003. An election to fill the remainder of Ms. Newell's term will be held in the fall of 2003.

Systems Development

In 2002, changes were implemented in the disability processing system to eliminate the pre-existing conditions provisions for temporary disability benefits eligibility, based on a legislative change effective January 1, 2002. A separate enhancement to the disability

system automated over 98% of initially calculated claims as well as those claims recalculated when new data is received.

The development of a comprehensive purchase of service system reached the system testing phase. This system will automate the processes required to handle 13 different service types.

The member enrollment and member data maintenance system development project is in the coding phase, and significant progress was made on our project to enhance the death claim processing system.

Asset Liability Study

In 2002, at the direction of the Board of Trustees, the IMRF staff, assisted by its investment consultant and the Fund's actuaries, performed an Asset Liability Study. The purpose of the modeling study was to harmonize various investment policies with contribution and benefit policies to achieve IMRF's mission. The main recommendation arising from this study was to decrease the asset allocation to equities by 5 percent and to increase the allocation to fixed income by 5 percent.

The Board of Trustees, its consultant and IMRF staff review the asset allocation annually. By diversifying investment type (stocks, fixed income, real estate, etc.), region (domestic, international, global, etc.) and management style (growth, value, small, medium, or large capitalization, etc.), we try to improve expected long-term returns while maintaining an acceptable level of risk.

IMRF.org

Significant progress was made in 2002 towards developing a secure area on our web site for members to view personal information and develop benefit estimates using their most current earnings and service data.

Through the secured member access area, members are able to request a formal pension estimate and submit member information changes. This interactive web site went live on April 1, 2003.

Our employers continue to increase their utilization of the secured employer area of our web site. Other website improvements in 2002 included improved wage reporting and workshop registration.

Benefit Administration and Member Services Benchmarking Analysis

IN 2002, IMRF received high marks for our customer service activities in a report that Cost Effectiveness Measurement, Inc. (CEM) presented to the Trustees and Fund management. Fifteen administrative activities key to IMRF's mission were analyzed. Despite our high ratings, an analysis of the survey results did identify some areas where we could further improve our service levels.

Management and staff are working on some procedural changes in response to the survey results. 2002 was the second year that IMRF participated in the CEM analysis. IMRF plans to participate annually in this study in the future.

Electronic Funds Transfer

On July 1, 2002, IMRF began accepting employer payments via interactive voice response technology or live operators at no cost to them. As of year end, IMRF had 542 employers who had registered to use this technology. For the year, IMRF received \$49.5 million in employer payments through this technology.

First Popular Annual Financial Report published

IMRF published its first Popular Annual Financial Report in 2002. It was designed to meet the needs of interested parties who may be uncomfortable using traditional financial reports. The purpose of the popular annual report is to supplement traditional financial reports in order to make the information they contain more readily accessible to a broader audience. The Popular Annual Financial Report was made available on our website. Our initial PAFR received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA).

First full year of Springfield Regional Counseling Center

2002 was the first full year of operations for IMRF's Springfield office. The three-person office handled 396 individual counseling sessions, 32,828 telephone calls and generated 3,447 pension estimates.

Average hold times for the 1-800-ASK-IMRF telephone line decreased significantly from 1:44 minutes in 2001 (when the Springfield office was not in full operations) to 0:57 minutes in 2002. Other workshops, presentations and legislative meetings were held in the office.

Business Continuity Planning

IMRF has a Disaster Recovery Plan in place that would allow staff to quickly reestablish our computer and telecommunications systems at a backup location if our main office were unavailable due to some disaster event.

IMRF was working to expand that Plan into a comprehensive Business Continuity Management program that would help us restore order as quickly as possible in the event of a disruption of our operations.

Efforts completed so far included a business impact assessment study, a review of potential risks, and a determination of the minimum resources and strategies required to provide cost-effective availability and recoverability solutions.

2003 Events

Board of Trustees

John Lotus Novak, Treasurer of DuPage County, was re-elected as an executive trustee. His five-year term began January 1, 2004.

Rita J. Miotti, Contract Management Services Coordinator for the Village of Matteson, was elected as an employee trustee to fill the remainder of the term of former Trustee Julie A. Newell who left the Board in 2002. Ms. Miotti's term ends on December 31, 2005. Ms. Miotti had been appointed to fill the vacancy on January 24, 2003, pending an election in the fall of 2003.

Systems Development

IMRF's system development efforts in 2003 resulted in the completion of four major projects:

- The Purchase of Service project was completed in late 2003 and put into production on February 9, 2004. This subsystem automates processing for 13 different service types such as repayment of refunds and purchasing military service. Turnaround time from receipt of a past service application to generation of a payment schedule for the member is expected to be significantly improved.
- The new Death Claim subsystem automates the claims process starting at the notification of death through identification of beneficiaries, generation of correspondence, analysis of funds on account, if any, and the automated follow-up of any electronic fund deposits.
- Two major incremental system improvements were completed for our Disability Claims subsystem. The recalculation of disability claims necessitated by Social Security or Workers' Compensation awards was automated. This phase was installed in February 2003. The second major enhancement provides the claims examiners an automated process to track the member's eligibility for Social Security disability benefits. These enhancements continue to improve customer service and enhance staff productivity.
- IMRF made personalized pension estimating available to our members on our secure Website beginning in March 2003. Members can use their individual service and earnings history to generate pension estimates. They also have the ability to calculate multiple "what if" scenarios using future service and earnings, purchased service, or conversion of sick days.

e-Service Goals and Strategy

IMRF offers access to both member and employer specific data through secure areas on our Website—IMRF.ORG. Utilization of these areas grew rapidly in 2003.

The new secure Web area for employers will helped us achieve our e-service goals of improved customer service, reduced administrative costs, uncompromised privacy and security of information and business process re-engineering.

In order to capture the benefits of our e-service initiatives, we requested all IMRF employers to be able to access our site by January 1, 2005.

Electronic Funds Transfer (EFT)

Beginning July 1, 2002, IMRF began accepting employer payments via interactive voice response technology or live operators at no cost to employers. In September 2003, the system was expanded to provide for payments via the Internet. As of year end, IMRF had 735 employers enrolled for EFT payments.

As of October 1, 2004, IMRF required all employers to utilize the EFT system.

IMRF Customer Satisfaction Surveys

In an effort to improve our service to our members and employers, IMRF implemented a new customer satisfaction program in April 2003. The areas covered in 2003 included pension inception, member service telephone calls, disability processing, walk-in counseling and wage reporting process.

On a scale of 1 (very poor) to 5 (very good), the average ratings for the five surveys ranged from 4.1 to 4.9.

2004 Developments

Board of Trustees

Max F. Bochmann, a school bus mechanic for Naperville Community Unit School District #203, was re-elected as an employee trustee. His five-year term began January 1, 2005.

Systems Development

IMRF's major system development effort in 2004 focused on a major revamp of the secure employer access area of our website. Significant areas of focus included the following:

- Web wage reporting that enabled both large and small employers to transmit wage and contribution data over a secure network that allowed IMRF to highlight reporting problems before they are transmitted to avoid processing corrections after the fact.
- Document archives that enabled employers to access employer specific data on line as it is needed.

Investment Activities

In late 2003, the Illinois Senate established the “Senate Select Committee on Public Pension Investments” to review the performance of all major state pension funds relative to the state’s public policy to encourage the use of emerging investment managers. In early 2004, the Board of Trustees established specific goals in response to the aforementioned public policy.

Twenty percent of actively managed investment assets are to be assigned to minority and women business enterprise money managers. Twenty percent of commissions generated in actively managed investment portfolios, excluding active commingled and high yield bond portfolios, are to be executed by minority and women business enterprise broker/dealers.

In 2004, IMRF also sold the Wyndham Drake Oak Brook Hotel.

e-Service Goals and Strategy

IMRF offers access to both member and employer specific data through secure areas on our website—imrf.org. Utilization of these areas continued to grow in 2004. Our e-service goals include improving customer service, reducing administrative costs, providing uncompromised privacy and security of information and instituting business process re-engineering.

In order to capture the benefits of our e-service initiatives, we requested all IMRF employers to utilize our enhanced website.

Electronic Funds Transfer (EFT)

As of October 1, 2004, IMRF required all employer contributions to be made via the EFT system. Employers who did not use the EFT system were charged a \$25 service fee. As of December 2004, 2,781 employers (96.5%) were using the EFT system.

Office Services Award

In November 2004, the IMRF Mail Center staff received the Mail Center of the Year award from the Chicago chapter of the Mail Systems Management Association in recognition of their outstanding contribution to IMRF.

2005 Developments**Board of Trustees**

Sharon U. Thompson, former Treasurer of Lee County, was re-elected as the annuitant trustee. Her five-year term began January 1, 2006.

W. Thomas Ross, Winnebago County Auditor, was re-elected as an executive trustee. His five-year term began January 1, 2006.

Marvin R. Shoop, Jr., a civil engineer for the city of Peoria, was re-elected as an employee trustee. His five-year term began January 1, 2006.

Judi S. Voller, a paraeducator/teacher assistant for East Maine School District 63, was elected as an employee trustee. Her five-year term began January 1, 2006.

e-Service Systems Development

IMRF's major system development effort in 2005 focused on a rollout of the new secure Employer Access area of our website. Significant developments include the following:

- In May we began full rollout of the new Web Wage Reporting system that enables both large and small employers to transmit wage and contribution data over a secure network and that allows IMRF to highlight reporting problems before they are transmitted to avoid processing corrections after the fact.

By year end, over 2,000 employers were utilizing the new wage reporting functionality.

- In addition employers can access IMRF's document archives to view and print employer specific documents online as needed.

Investment Activities

On January 27, 2006, Illinois Public Act 94-0079, the Act to End Atrocities and Terrorism in the Sudan, became effective. Under this Act, IMRF and its investment managers must:

1. Not loan to, invest in or otherwise transfer any IMRF assets to a forbidden entity as established by this Act;
2. Have at least 60% of IMRF assets divested from forbidden entities by January 27, 2007; and
3. Be 100% divested of forbidden entities by July 27, 2007.

IMRF took steps to implement this new legislation.

Strategic Plan

The IMRF staff and Board of Trustees initiated a strategic planning process in 2005. The resulting Strategic Plan document provided IMRF a road map for meeting the challenges

and opportunities in providing excellent retirement services to our members, employers, and annuitants.

It set a number of goals and objectives, including improving customer service, increasing efficiencies, enhancing the IMRF brand, and advocating the preservation of a prudent defined benefit plan for our membership. These goals and objectives were supported by a comprehensive set of strategies critical to the success of our plan.

2006 Developments

Board of Trustees

Martha H. Rademacher, Director of Finance and Programs for the Park District Risk Management Agency, was re-elected as an executive trustee. Her five-year term began January 1, 2007.

James W. Rasins, DuPage County Auditor, was elected as an executive trustee. His two-year term began January 1, 2007.

Ruth E. Faklis, Library Director for Prairie Trails Public Library District, was appointed February 23, 2007, as an executive trustee to fill the unexpired term of R. Steven Sonnemaker, who resigned effective December 1, 2006. Her term ends December 31, 2007.

Systems Development

IMRF's major system development efforts in 2006 focused on modifying functionality to support newly enacted pension legislation including:

- SLEP Plan benefit enhancements.
- The Pension Protection Act of 2006.
- Revised methods for dividing benefits during a divorce accomplished through a Qualified Illinois Domestic Relations Order.
- Reciprocal retirement enhancements for teacher aides with less than one year of service who become teachers.

Investment Activities

IMRF took the steps necessary to implement Illinois Public Act 94-0079, the Act to End Atrocities and Terrorism in the Sudan, and received the necessary certifications from its investment managers. As of January 27, 2007 they were 60% divested of forbidden entities.

In September 2006, the IMRF Board of Trustees adopted a policy requiring financial institutions, eligible for investment or deposit of funds from the IMRF, to submit a certification that they do not engage in predatory lending practices. These certifications are due annually by May 15 of each year. The certifications have been received from the financial institutions that conduct business with IMRF.

e-Service Goals and Strategy

Utilization member and employer access areas on www.imrf.org continued to grow in 2006. Our e-service goals included improving customer service, reducing administrative costs, providing uncompromised privacy and security of information and instituting business process reengineering.

As of December 31, 2006, approximately 95% of our employers reported their wages and contributions via our on-line web page reporting system.

Strategic Plan

The IMRF Strategic Plan provided the Fund with a road map for meeting the challenges and opportunities in providing excellent retirement services for our annuitants, members, and employers. It set goals and objectives for improving customer service, increasing efficiencies, enhancing the IMRF brand, and advocating the preservation of a prudent defined benefit program for our membership.

The IMRF Strategic Plan was a two-year plan, covering 2006 and 2007. The Plan proved to be effective in 2006 as we began to successfully address our identified challenges and opportunities.

Defined Benefit Administration Benchmarking Analysis

CEM Benchmarking, Inc. conducts an annual Defined Benefit Administration Benchmarking Study for public pension systems. IMRF has participated in this benchmarking program since 2001. This program provides insight into benefit administration costs, customer service levels, and industry best practices.

IMRF received the highest service level score of the 51 participating retirement systems. Though IMRF receives high marks for our excellent customer service, the real value of the study is identifying areas for further improvement.

Business Continuity Planning

IMRF expanded its disaster recovery and business continuity planning process during 2006. We had plans in place to effectively and efficiently restore key data and operating systems at a "hot site" in the event a disaster prevents access to our current office space. Our goal was to have the capacity to provide service to our membership within 24 hours of any disaster event.

2007 Developments

Board of Trustees

Ruth E. Faklis, Library Director for Prairie Trails Public Library District, was elected as an executive trustee. Her five-year term began January 1, 2008.

E-service and Mainframe Systems Development

IMRF's major system development efforts in 2007 focused on:

- Extending the successful Employer secure website to provide online member enrollment.
- Installing redundant (backup) web hardware and internet connectivity to ensure the highest levels of reliability and availability.
- Implementing a New Benefit Estimates System and standardizing member data calculations to improve both speed and accuracy.
- Adding over 1.5 million electronic documents to our document archive to reduce paper mailing and improve security.

Investment Activities

On February 23, 2007, the Federal District Court for the Northern District of Illinois ruled that the Illinois Public Act 94-0079, the Act to End Atrocities and Terrorism in the Sudan," violates federal constitutional provisions that preclude the states from taking actions that interfere with the federal government's authority over foreign affairs and commerce with foreign countries."

On August 28, 2007, Public Act 94-0079 was repealed by Public Act 95-0521 so that divestment from firms doing business in Sudan was no longer required of IMRF. The new Act did go on to require Illinois Finance Entities, with which IMRF does business, to certify they are in compliance with the Illinois High Risk Loan Act. All entities with which IMRF does business were in compliance.

e-Service Goals and Strategy

Utilization of the secure member and employer access areas of the IMRF website continued to grow in 2007. As of December 31, 2007, approximately 95% of our employers (representing 99.7% of our members) reported their wages and contributions via our on-line web wage reporting system.

Strategic Plan

In conjunction with updating the IMRF Strategic Plan for 2008 – 2009, the Board adopted a new vision statement: “To provide the highest quality retirement services to our members, their beneficiaries and employers.”

In order to achieve both our mission and vision, the Board adopted six inter-related strategic goals:

1. Improve IMRF’s effectiveness in addressing legislative issues;
2. Prepare the IMRF organization for changing demands in customer service;
3. Advocate preservation of the defined benefit plan;
4. Continue to promote the IMRF brand;
5. Maintain and promote the Board’s independence;
6. Advocate preservation of the 100% funding goal.

Defined Benefit Administration Benchmarking Analysis

CEM Benchmarking Inc. conducts an annual Defined Benefit Administration Benchmarking Study for public pension systems. IMRF participated in this benchmarking program since 2001. This program provides insight into benefit administration costs, customer service levels, and industry best practices.

IMRF received the highest service level score of the 63 participating retirement systems. Though IMRF received high marks for our excellent customer service, the real value of the study was identifying areas for further improvement.

Business Continuity Planning

IMRF expanded its disaster recovery and business continuity planning process during 2007. We presented the details of our plans to the staff through a series of meetings, and successfully tested the plans during the year.

Our existing plans provide a high level of confidence that we could effectively and efficiently restore key data and operating systems at a “hot site” in the event a disaster prevents access to our current office space.

Our goal is to have the capacity to provide service to our membership within 24 hours of any disaster event. We work to continuously improve our readiness. We will continue to refine and test our disaster recovery and business continuity plans in 2008.

2008 Developments**Board of Trustees**

Gwen Henry, DuPage County Treasurer, was elected as an executive trustee. Her two-year term began January 1, 2009.

William Stafford, Chief Financial Officer for Evanston Township High School District 202, was elected as an executive trustee. His five-year term began January 1, 2009

Michael D. Suppan, Director of Human Resources for the City of Joliet, was appointed March 27, 2009, as an employee trustee until December 31, 2009, to fill a portion of the unexpired term of Judi S. Voller who resigned from the Board effective February 1, 2009.

Strategic Plan

The IMRF Strategic Plan for 2008 – 2010 includes six inter-related strategic goals:

- Improve IMRF's effectiveness in addressing legislative issues
- Prepare the IMRF organization for changing demands in customer service
- Advocate preservation of the defined benefit plan
- Continue to promote the IMRF brand
- Maintain and promote the Board's independence
- Advocate preservation of the 100% funding goal

We will pursue a series of action plans to achieve these goals as we strive to achieve both our Mission and Vision.

Continuous Process Improvement Program

One of IMRF's Strategic goals is "To prepare the IMRF Organization for Changing Demands in Customer Service." To assist us in meeting that goal, IMRF is implementing a Continuous Process Improvement (CPI) program.

A CPI program provides a method to formalize the manner in which we analyze our processes and procedures.

Complementing our CPI program and helping us identify opportunities for improvement is IMRF's application for the 2009 Lincoln Award for Performance Excellence. The application process allows us to compare our practices, policies, operations, and results against the Malcolm Baldrige National Quality Program's seven Criteria for Performance Excellence.

These seven criteria are: Leadership; Strategic Planning; Customer Focus; Measurement, Analysis, and Knowledge Management; Workforce Focus; Process Management; and Results.

Improve customer service

through computer system development

IMRF's efforts in 2008 to enhance our computer systems focused on modifying our web-based and mainframe functions:

- Member Statement
 - Redesigning the annual Member Statement to better communicate the value of IMRF benefits.
- Web-based functions
 - Implementing a revised Member Access website to expand self-service options.
 - Automating processing of the growing number of Reciprocal Claims to speed approval times.
- Call Center
 - Implementing new telephone and call center systems to further enhance service to members and employers.

In 2009, IMRF's system development efforts are focusing on:

- Providing comprehensive, online access to in-depth investments information to improve transparency of IMRF investment activities.
- Redesigning past service payment processing to improve internal efficiency and dramatically speed turnaround times.
- Expanding our Member Access website self-service options including changing beneficiaries, comparing multiple pension estimates, and applying for benefits.

e-Service Goals and Strategy

IMRF offers access to both member and employer specific data through secure areas on our website—imrf.org. Use of these areas continued to grow in 2008.

Our e-Service goals include improving customer service, reducing administrative costs, providing uncompromised privacy and security of information, and instituting business process reengineering.

Our 2,940 employers enroll more than 30,000 members per year and, as of December 31, 2008, 90 percent of new members were being enrolled online, thus speeding enrollment and reducing errors.

A number of enhancements to our e-Service offerings are planned for wide rollout in 2009, including additional self-service transactions for our members.

Defined Benefit Administration Benchmarking Analysis

CEM Benchmarking Inc. conducts an annual Defined Benefit Administration Benchmarking Study for public pension systems. IMRF has participated in this benchmarking program since 2001.

This program provides insight into benefit administration costs, customer service levels, and industry best practices. In 2007, IMRF received the highest service level score in our peer group and was ranked near the top of the of the 77 participating retirement systems. Though IMRF receives high marks for our excellent customer service, the real value of the study is identifying areas for further improvement. We will continue our participation in this program.

2009 Developments

Board of Trustees

Max F. Bochmann, School Bus Operator for Naperville CUSD #203, was elected as an employee trustee. His one-year term began January 1, 2010.

Natalie Copper, School-age Child Care Site-Coordinator for Dawes School in Evanston School District 65, was elected as an employee trustee. Her five-year term began January 1, 2010.

Michael D. Suppan, Director of Human Resources for the City of Joliet, was appointed March 27, 2009, as an employee trustee until December 31, 2009, to fill a portion of the unexpired term of Judi S. Voller who resigned from the Board effective February 1, 2009.

Legislative Activity

On April 3, 2009, the Illinois Pension Ethics Reform Act, affecting all Illinois public pension systems, became law. It establishes new ethical requirements for members of Boards of Trustees, substantially changes the procurement process for investment consultants and managers, requires greater transparency of investment activities through website enhancements, and requires the adoption of new policies fostering greater diversity for all contractors and suppliers with IMRF, trustees and staff.

On April 14, 2010, the Governor signed Public Act 96-0889 which created a second tier of IMRF benefits for regular and elected county official members who are first enrolled in IMRF on or after January 1, 2011. The new law does not affect members currently participating in IMRF or members who ever participated in IMRF or a reciprocal system prior to January 1, 2011.

Systems Development

IMRF's major system development efforts in 2009 focused on:

- Providing comprehensive online access to in-depth investments to improve transparency of investment activities.

- Reengineering pas service payment processing to improve internal efficiency and dramatically speed turnaround times.
- IMRF's major 2010 system development priorities focus on:
- Expanding our Member Access website self-service options including changing beneficiaries, comparing multiple pension estimates, and applying for benefits.
- Modernizing our correspondence generation process to more effectively deliver our key messages and to better support electronic delivery and archiving.
- Developing a long-term strategy for the overall modernization of our enterprise pension administration system.

Investment Activities

The Board of Trustees, its consultant and IMRF staff review the investment asset allocation annually. In November of 2009, the strategic targets for the asset classes used by IMRF, which were adopted in 2008, were reconfirmed and are as follows:

<u>Asset Class</u>	<u>Target</u>
US Equities	38%
Non-US Equities	20%
Fixed Income	29%
Real Estate	6%
Alternative Investments	6%
Cash	1%

Strategic Plan

The IMRF Strategic Plan for 2008 – 2010 includes six inter-related strategic goals: improve IMRF's effectiveness in addressing legislative issues; prepare the IMRF organization for changing demands in customer service; advocate preservation of the defined benefit plan; continue to promote the IMRF brand; maintain and promote the Board's independence; and advocate preservation of the 100% funding goal.

We will continue to pursue a series of action plans to achieve these goals as we strive to achieve both our mission and vision. We will also complete a strategic planning process cycle in 2010 as we prepare a new Strategic Plan for 2011 – 2013.

Defined Benefit Administration Benchmarking Analysis

CEM Benchmarking, Inc. conducts an annual Defined Benefit Administration Benchmarking Study for public pension systems. IMRF has participated in this benchmarking program since 2001. This program provides insight into benefit administration costs, customer service levels, and industry best practices.

IMRF again received a high service level score and was ranked near the top in both our peer group and in the total universe of the 66 participating retirement systems. Though

IMRF received high marks for our excellent customer service, the real value of the study is identifying areas for further improvement. We will continue our participation in this program.

Continuous Process Improvement Program

IMRF implemented a continuous process improvement (CPI) program in 2009. A CPI program provides a method to formalize the manner in which we analyze our processes and procedures with the goal of improving the services we provide.

Our CPI program will play a key role in supporting our strategic goal: *“To prepare the IMRF Organization for Changing Demands in Customer Service.”* IMRF staff received extensive training in CPI methods and tools.

More than 70 Opportunities for Improvement (OFIs) were identified by staff during the first phase of the CPI program.

Lincoln Award

IMRF received the *2009 Lincoln Bronze Award for Commitment to Excellence*. IMRF was one of four Illinois organizations receiving a Lincoln Award in 2009. A comprehensive application process compared our practices, policies, operations, and results against the Malcom Baldrige National Quality Program’s *Criteria for Performance Excellence*.

The seven criteria are: Leadership; Strategic Planning; Customer Focus; Measurement, Analysis, and Knowledge Management; Workforce Focus; Process Management; and Results. The Feedback Report from the Lincoln Foundation complements IMRF’s CPI program as it identifies opportunities for improving our key processes. Highlights of the report include the ongoing improvement of our strategic planning process and establishment of a balanced scorecard in 2010.

2010 Developments

Board of Trustees

John Piechocinski, Head Custodian for Plainfield Community Consolidated School District 202, was elected as an employee trustee. His five-year term began January 1, 2011.

Legislative Activity – Creation of Tiers 1 and 2

On April 14, 2010, the Governor signed Public Act 96-0889 which created a second tier of IMRF benefits for regular and elected county official members who are first enrolled in IMRF on or after January 1, 2011. The new law does not affect members currently

participating in IMRF or members who participated in IMRF or a reciprocal system prior to January 1, 2011.

On December 30, 2010, the Governor signed Public Act 96-1495 which created a second tier of IMRF benefits for sheriff's law enforcement plan members who are first enrolled in IMRF on or after January 1, 2011. The new law does not affect members currently participating in the sheriff's law enforcement plan prior to January 1, 2011.

Systems Development

IMRF's major system development efforts in 2010 focused on:

- Providing comprehensive, online access to in-depth investments information to improve transparency of investment activities.
- Reengineering past service payment processing to improve internal efficiency and dramatically speed turnaround times.
- Implementing support across all applications and platforms for legislation establishing a new benefit tier impacting members who first join one of the Illinois pension systems after December 31, 2010.

IMRF's major 2011 system development priorities focus on:

- Expanding our Member Access website self-service options including changing beneficiaries, comparing multiple pension estimates, and applying for benefits.
- Modernizing our correspondence generation process to more effectively deliver our key messages and to better support electronic delivery and archiving.
- Developing a long-term strategy for the overall modernization of our enterprise pension administration system.

Investment Activities

The Board of Trustees, its consultant and IMRF staff review the investment asset allocation annually. In February of 2011, the strategic targets for the asset classes used by IMRF, which were adopted in 2008, were reconfirmed and are as follows:

<u>Asset Class</u>	<u>Target</u>
US Equities	38%
Non-US Equities	20%
Fixed Income	29%
Real Estate	6%
Alternative Investments	6%
Cash	1%

Strategic Plan

The IMRF Board of Trustees and staff expanded our strategic planning process in 2010 to include elements of the Baldrige Criteria for Performance Excellence to ensure we align our objectives, processes, and resources with our Vision. Our 2011 - 2013 IMRF Strategic Plan includes Strategic Objectives for each of our five Key Result Areas:

- Financial Health and Sustainability
- Investment Returns
- Customer Satisfaction
- Employee Engagement
- Service and Operational Excellence

To clarify our Vision, we used the Baldrige framework which offers a blueprint for organizations striving to become the best. Baldrige recipient organizations often set their overarching strategic objectives to achieve a top decile ranking in each key area of importance to their stakeholders.

We are following that same path, as our Strategic Objectives challenge us to achieve top 10% performance for most key result areas. These objectives are supported by a set of key strategies critical to the success of our plan.

Our Strategic Plan provides the Fund with a road map for meeting the challenges and opportunities in providing the highest quality retirement services to our members, their beneficiaries, and employers in a cost-effective manner. It guides our efforts to continuously improve our service to our employers, members, and the taxpayers of Illinois.

Defined Benefit Administration Benchmarking Analysis

CEM Benchmarking, Inc. conducts an annual Defined Benefit Administration Benchmarking Study for public pension systems. IMRF has participated in this benchmarking program since 2001. This program provides insight into benefit administration costs, customer service levels, and industry best practices.

IMRF again received high service level scores and was ranked at or near the top in both our peer group and in the total universe of the 73 participating retirement systems. Though IMRF received high marks for our excellent customer service, the real value of the study is identifying areas for further improvement.

We will continue our participation in this program, as it is an important part of our Continuous Process Improvement Program.

Awards

In 2010 in recognition of meeting professional standards for plan administration and funding as set forth in the Public Pension Standards, IMRF was given awards for plan funding and administration by the Public Pension Coordinating Council, a confederation

of the National Association of Retirement Administrators, the National Conference on Public Employee Retirement Systems and the National Council on Teacher Retirement.

Each year, the editors of PLANSPONSOR magazine recognize retirement plan sponsors that demonstrate leadership in providing a more secure retirement for workers. IMRF was selected as a 2011 finalist for the Public Sector Plan Sponsor of the Year.

2011 Developments

Board of Trustees

Mark F. Nannini Director of Finance and Treasurer for the City of Crystal Lake, was elected as an executive trustee. His five-year term began January 1, 2012.

Jeffrey A. Stulir, Inmate Services Officer for Rock Island County was appointed on February 24, 2012 to serve as an employee trustee through December 31, 2012. Mr. Stulir is filling a vacancy that occurred upon the resignation of the former employee trustee Marvin Shoop until an election can be held to fill the remainder of the unexpired term.

Legislative Activity

On August 8, 2011, the Governor signed Public Act 97-0272 which, among other things, closed the Elected County Official plan to new members immediately. On August 12, 2011, the Governor signed Public Act 97-0319 which requires that, when a member has worked for more than one employer, employer costs be allocated among employers based on both service credit and salary information. This change was effective for retirements beginning in 2012.

On August 26, 2011, the Governor signed Public Act 97-0609 which among other things, requires employers to immediately pay that portion of the present value of a pension attributable to earnings increases exceeding the greater of 6 percent or 1.5 times the increase in the CPI-U as of the previous September, whichever is greater. This “accelerated payment” provision is effective January 1, 2012.

This Public Act also requires that, before an employer can increase the earnings of an officer, executive or manager by 12 percent or more, the employer request from IMRF a written “Pension Impact Statement” which discloses the effect on the member’s pension and the potential “accelerated payment” that would be required.

Systems Development

IMRF’s major system development efforts in 2011 focused on:

- Developing a long-term strategy for the overall modernization of our enterprise pension administration system, business processes, and supporting systems.

- Implementing support for significant new legislation: an additional benefit tier, civil unions, and a more equitable split of employer pension cost across multiple employers.
- Upgrading our technology infrastructure and processes to continue to achieve the highest levels of service, security, availability and performance.

IMRF's major 2012 system development priorities focus on:

- Completing the initiation and procurement phases of the modernization strategy approved by the Board in 2011, including issuance of a comprehensive RFP and selection of our key technology vendor.
- Continuing technology and process upgrades to ensure that our infrastructure is prepared to meet the future needs of the modernization initiative.
- Expanding our Member Access website self-service options to include applying for benefits, managing direct deposit, withholding, and beneficiary information, and viewing all key documents online.

Investment Activities

The Board of Trustees, its consultant and IMRF staff review the investment asset allocation annually. In March of 2012, the strategic targets for the asset classes used by IMRF, which were adopted in 2008, were reconfirmed and are as follows:

<u>Asset Class</u>	<u>Target</u>
US Equities	38%
Non-US Equities	20%
Fixed Income	29%
Real Estate	6%
Alternative Investments	6%
Cash	1%

Strategic Plan

Our Strategic Plan provides the Fund with a road map for meeting the challenges and opportunities in providing the highest quality retirement services to our members, their beneficiaries, and employers in a cost-effective manner. It guides our efforts to continuously improve our service to our employers and members.

The 2011-2013 IMRF Strategic Plan includes elements of the Baldrige Criteria for Performance Excellence to ensure we align our objectives, processes, and resources with our Vision. IMRF staff completed the first year of our Strategic Plan in 2011 by implementing 19 action plans that support our five Strategic Objectives. Progress towards meeting our Objectives is measured using five Key result areas:

- Financial Health and Sustainability
- Investment Returns
- Customer Satisfaction
- Employee Engagement
- Service and Operational Excellence

Baldrige recipient organizations often set their overarching strategic objectives to achieve a top decile ranking in each key area of importance to their stakeholders. We are following that same path, as our Strategic Objectives challenge us to achieve top 10 percent performance for most key result areas.

To help measure and validate our progress with organizational effectiveness processes implemented in recent years, IMRF will apply for the Illinois Performance Excellence Award in 2012.

Defined Benefit Administration Benchmarking Analysis

CEM Benchmarking Inc. conducts an annual Defined Benefit Administration Benchmarking Study for public pension systems. IMRF has participated in this benchmarking process since 2001. This program provides insight into benefit administration costs, customer service levels, and industry best practices.

IMRF again received high service level scores and was ranked near the top of our peer group of 46 participating retirement systems. We will continue our participation in this benchmarking program, as it is an important part of our Continuous Process Improvement Program.

Awards

In 2011 in recognition of meeting professional standards for plan administration and funding as set forth in the Public Pension Standards, IMRF was given awards for plan funding and administration by the Public Pension Coordinating Council, a confederation of the National Association of Retirement Administrators, the National Conference on Public Employee Retirement Systems and the National Council on Teacher Retirement.

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