

FUNDAMENTALS

IMRF

ACTIVE MEMBER UNDER 40 EDITION

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Why you should care about your credit score

If you're reading this article, there's a good chance you've never seen your credit score.

The Consumer Federation of America's sixth annual credit score survey found that only half of the millennials surveyed reported ever having obtained their credit score, even though free scores are more available now than ever before.

American consumers are even worse off when it comes to understanding how their credit scores affect them. Only 22% of those surveyed understood that a low credit score could cost them as much as \$5,000 over the cost of a \$20,000, 60-month auto loan.

Even the extraordinary benefit of an IMRF pension won't cover all your expenses in retirement. Every dollar you pay in unnecessary interest now is a dollar you won't be able to save for your future.

What exactly is my credit score?

Your credit score is a three-digit numerical representation of your creditworthiness that lenders use to assess whether they will loan you money, and if so, how good an interest rate they will give you. It is not the only factor in whether you can get a particular interest rate—lenders also take into consideration your income, savings, and other factors—but it is a major factor.

Credit scores are based on the information in your credit report. You actually have three credit reports, which are summaries of your credit history as compiled by the three major credit bureaus: TransUnion,

Equifax, and Experian. These reports may differ slightly, as each credit bureau may have slightly different information about you. As a result, you will have a different credit score based on the information at each credit bureau.

A large majority of lenders (90%) use FICO, a proprietary scoring formula developed by Fair Isaac Corp. Lesser-used scores include VantageScore, PLUS, and TransRisk. Your FICO score is probably the best representation of the score a potential lender will see.

How does my score affect me?

Having a good credit score can enable you to get significantly lower interest rates for credit cards, mortgages, auto loans, and other credit. Also, the higher your score, the more likely you'll have access to credit cards that offer rewards or low APRs.

The lower your score, the higher the interest rate you'll have to pay. This can cost you tens of thousands of dollars over the life of a loan or mortgage, meaning you'll have less to spend and save. Some lenders won't lend to you at all.

Other ways a bad credit score can affect your bottom line:

- **Finding an apartment.** Rental properties may turn down your application or require you to pay a larger deposit.
- **Insurance rates.** You may pay more for auto and home insurance.

FICO credit score ranges (according to Experian)

800-850	Exceptional
740-799	Very Good
670-739	Good
580-669	Fair
300-579	Poor

- **Cell phone costs.** You might have to make a bigger down payment or pay more for your service contract.

It's a good idea to know your score before you apply for credit so you have an idea of what interest rates may be available to you.

What factors affect my score?

Your credit score takes into account:

- **Your payment history.** A big part of your credit score is whether you've paid past credit accounts on time. One credit card bill that is 30 days late can drop an excellent score by more than 100 points.
- **The percentage you're using of your total credit.** The closer you come to

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maxing out your credit cards, the bigger the negative effect on your score. The Consumer Financial Protection Bureau recommends using no more than 30% of your total credit limit. Note: Closing a credit card will reduce your total credit.

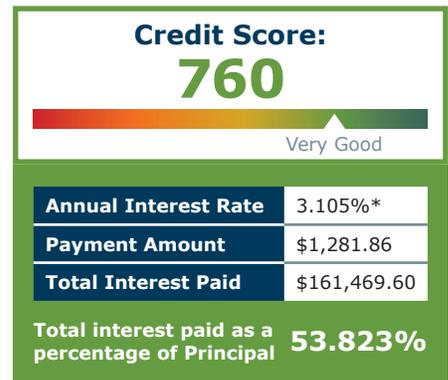
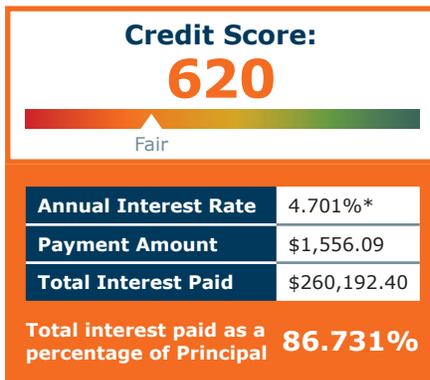
- **The length of your credit history.** How long your credit accounts have been established affects your score. This includes the age of your oldest account and newest account, and how long since you've used them. If you close out your oldest credit card, this can negatively affect your score.
- **Your credit mix.** Your score takes into account the different types of credit you have: credit cards, installment loans, mortgages, etc.
- **Your new credit.** Opening several credit accounts in a short period of time, like applying for several credit cards at once, can hurt your score.

Where can I get my FICO score?

As recently as a couple years ago, it was much more difficult to obtain your actual FICO score. Today you have many more options, many of them free, if you are willing to provide your Social Security number and other personal information.

- Discover's "Credit Scorecard" service gives you free access to one of your FICO scores, based on credit data from Experian, without even having to sign up for a credit card. They won't sell your personal information but may market products to you.
- A number of credit cards and financial institutions offer one of your FICO scores along with an account or credit card, according to Elisabeth Hershman of www.MyFICO.com, the Fair Isaac Corp.'s consumer website. These include Ally Financial, Bank of America, Barclaycard, Chase, Citi, Discover, First Bankcard (FNBO), Hyundai Capital, Merrick Bank, Sallie Mae, and others.
- You can buy your FICO score directly from www.MyFICO.com. This includes scores from all three credit bureaus.
- Clients of credit counselors certified by the non-profit National Foundation for Credit Counseling (NFCC) have access to a free FICO score.

How much a low credit score could cost you on a 30-year fixed rate \$300,000 mortgage



*Average Illinois mortgage rates for credit scores of 620 and 760 according to www.MyFICO.com/loancenter/mortgage as of July 14, 2016

- Lenders are required by law to show you your credit score if they deny you credit.
- The free credit scores available at CreditKarma, CreditSesame, Credit.com, and many other financial websites are not FICO but VantageScore.

How can I improve my score?

A single delinquent payment can damage your credit score for two years and stays in your credit history for seven. With a short enough credit history, you can't get a FICO score at all. However, you can improve your situation.

Build your credit history responsibly.

According to a Bankrate study released June 13, 2016, only 33% of adults between the ages of 18 and 29 have a credit card. Many of them are wary of the dangers of debt and the temptations of easy credit.

However, shunning credit cards can hurt you when it comes time to apply for a car loan or mortgage. If your credit history is shorter than six months, your FICO score can't even be compiled, making you an unknown quantity to lenders. Applying for a credit card and using it responsibly (including paying it off in full each month) is a good way to build credit.

Correct errors on your credit report. You are entitled to get one free credit report from each of the credit bureaus annually at www.annualcreditreport.com. Your credit report does NOT include your credit score. However, the information it

contains can be critical to improving your score. A 2012 Federal Trade Commission study found that one in five consumers had an error on their credit report. Correcting those errors can make a big difference to your score in a short amount of time.

"Let's say there's somebody else's account that doesn't belong to you that's showing up, and that account is in collections," said NFCC spokesperson Bruce McClary. "All you have to do is dispute that information with the credit bureau. They have 30 days to investigate, and if the investigation shows that account does not in fact belong to you, it comes off the report. When that is removed, your credit score bounces back. That's fast!"

Get any accounts you've fallen behind on back up to date. "If you're a little bit delinquent on some accounts and you bring them back up to date, maintaining regular and timely payments over a period of time can also help improve your score. It's going to be steady, but it's going to be slower," McClary said. "Your credit score can improve over 12 months or 24 months, depending on the severity of the delinquency and how you're able to keep your payments on time after getting things up to date."

If you can't afford to pay a bill, contact your creditor immediately. They may be able to work out a payment plan for you that will hurt your credit less or not at all. ■

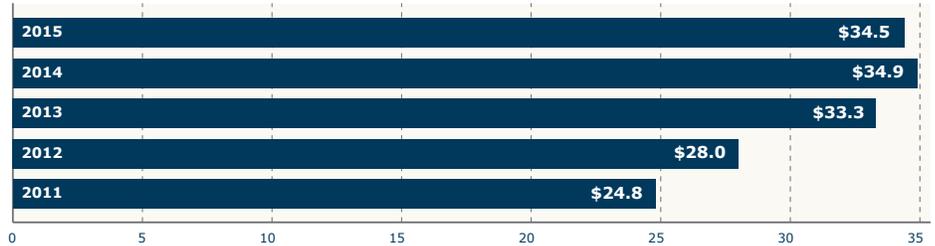
2015 Annual Financial Report

IMRF finances maintain their strength

Fiduciary net position up \$9.7 billion over the past five years, despite 2015's underperforming global market.

FIDUCIARY NET POSITION

IMRF's fiduciary net position—total assets minus liabilities—was \$34.5 billion as of December 31, 2015, about a 1% decrease from 2014. Most of the decrease is attributable to flat 2015 investment returns. Over the last five years, IMRF's fiduciary net position has increased by \$9.7 billion.



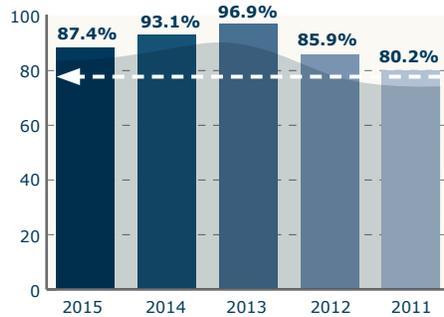
FUNDING STATUS

IMRF's funding status is a key indicator of its financial health. It reflects the percentage of benefit promises that IMRF has assets to pay. IMRF strives toward full funding because it guarantees that the system can meet its obligations. Full funding is also most cost effective for taxpayers.

One method to determine funding status is market funding status. This describes the percentage of assets IMRF has to pay all current and projected benefits, as of a specific date in time. As of December 31, 2015, IMRF was 87.4% funded on a market basis. This decreased from 2014 to 2015 due to flat investment returns.

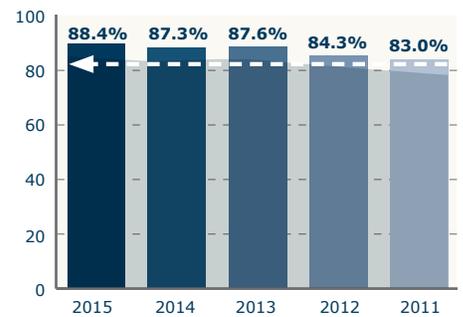
Another method to determine funding status is the actuarial funding status. Under this method, independent actuaries determine the actuarial value of IMRF assets using a "smoothing" technique that recognizes investment gains and losses over a five-year period. As of December 31, 2015, IMRF was 88.4% percent funded on an actuarial basis. It increased from 2014 to 2015 due to the recognition of prior years' investment gains.

MARKET FUNDING STATUS: PAST 5 YEARS



7.2 PERCENTAGE POINT GAIN FROM 2011-2015

ACTUARIAL FUNDING STATUS: PAST 5 YEARS



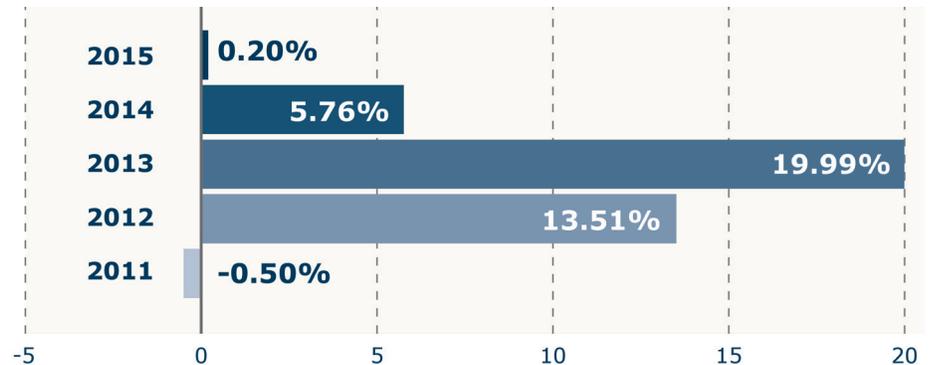
5.4% PERCENTAGE POINT GAIN FROM 2011-2015

INVESTMENTS

The 2015 total fund return of 0.20%, after investment management fees, reflected the underperformance of markets globally. International and U.S. equities, in addition to fixed income, produced flat to negative returns, essentially neutralizing strong gains from IMRF's real estate holdings and alternative investments.

While IMRF fell short of achieving its 7.5% long-term investment goal during 2015, performance over the last five years has met expectations. IMRF's five-year, annualized, total fund return is 7.54%, after paying investment management fees.

TOTAL FUND RETURNS FOR THE PAST 5 YEARS





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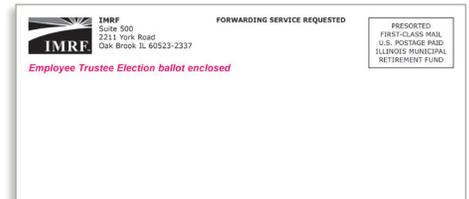
Board of Trustees

Special Trustee election this fall!

IMRF is planning a special Trustee election this fall due to the retirement of Employee Trustee John Piechocinski.

Active members like you will elect one Employee Trustee for a four-year partial term, which will run from January 1, 2017, through December 31, 2020.

If there is more than one candidate for Employee Trustee, you will receive a ballot this fall. It will arrive in an envelope



with your fourth quarter issue of *Fundamentals*, which will include voting procedures and candidate biographies. If there is only one candidate, the Board will confirm that candidate as your new Trustee.

Interested in running for Trustee? You must:

- Have accumulated at least eight years of IMRF service credit as of December 31, 2016;
- Gather at least 350 signatures from those who participated in IMRF during July 2016; and
- Submit your nominating petition between August 1, 2016, and September 15, 2016.

Download everything you'll need to run for Employee Trustee at www.imrf.org/employee-trustee-election!