
**STATE EMPLOYEES' RETIREMENT
SYSTEM OF ILLINOIS**
Annual Actuarial Valuation as of
June 30, 2004

Gabriel, Roeder, Smith & Company

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Introduction

The law governing the State Employees' Retirement System (SERS or System) requires the Actuary, as the technical advisor to the Board of Trustees to:

...make an annual valuation of the liabilities and reserves of the system, make an annual determination of the amount of contributions required from the State under this Article, and certify the results thereof to the board. (40 ILCS Section 5/14 - 138(c)).

Gabriel, Roeder, Smith & Company has been retained by the Board of Trustees to perform an actuarial valuation as of June 30, 2004. In this report, we present the results of the valuation and the appropriation requirements under Senate Bill 2206 and House Bill 2660 for fiscal year 2006. For purposes of disclosure, this report also includes the annual required contribution and schedule of funding progress as required by GASB Statement No. 25 and the development of the net pension obligation in accordance with GASB Statement No. 27.

The valuation was completed based upon membership and financial data provided by the administrative staff of the System. The actuarial assumptions used were based on an experience review for the four-year period ending June 30, 2001. The cost method used to determine the benefit liabilities is the Projected Unit Credit Cost Method. The value of assets is the fair value at the valuation date. These methods are unchanged from last year.

Changes Since Last Valuation

Legislative Changes

Senate Bill 2206 (P.A. 93-0839, effective July 30, 2004) changed the measurement of the increase in liabilities due to the early retirement incentive (ERI). The increase is now measured as the change in the present value of benefits (PVB) as of June 30, 2003. The increase in PVB will be funded over a 12 year period. The first two payments in fiscal years 2004 and 2005 are fixed at \$70 million. The remaining contributions are a level dollar amortization of the remaining amount at 8.5 percent interest. The net increase in PVB due to the ERI was measured to be \$1,752,118,994. The level dollar amortization payment for fiscal years 2006 through 2015 will be \$280,486,013. This amount reflects the actual amount received in fiscal year 2004 based on the actual payroll and the certified contribution rate. It also reflects the projected contribution for fiscal year 2005 based on the updated payroll projection and the certified rate for 2005. The amortization amount will be updated on a year-to-year basis to reflect the actual contributions received.

Senate Bill 2206 (P.A. 93-0839, effective July 30, 2004) changed the certified contribution rate for the plan. The total rate also includes a portion of the debt service due to the sale of the general obligation bonds per SB 2206. For fiscal year 2005, the applicable portion of the debt service includes the amount necessary to pay all principal and interest for State fiscal years 2004 and 2005 on the general obligation bonds except portions reserved under Section 7.2(c) of the General Obligation Bond Act. For fiscal years after 2005, the amount is the applicable portion of the debt service for the fiscal year. Additionally, these amounts are decreased by the amount set aside in the capitalized interest fund on the understanding this was the legislative intent. Additionally, the system will no longer receive funds from the State Pension Fund.

Assumption Changes

There have been no assumption changes since the last valuation.

Comparison of Key Results

Summarized below are key results for this year's valuation as well as last year's results.

	June 30, 2004	June 30, 2003
1. Number of Active Members	70,621	70,192
2. Covered Payroll for Fiscal Year	\$3,439,251,000	\$3,639,334,000
3. Base payroll at End of Year (Average Annual Earnings)	\$3,295,394,082 46,663	\$3,139,152,086 44,722
4. Number of Members Receiving Payments	54,298	54,375
5. Annualized Benefit Payments (Average Annual Benefit)	\$997,697,884 18,374	\$955,890,399 17,580
6. Fair Value of Assets	\$9,990,186,874	\$7,502,111,416
7. Accrued Actuarial Liability	\$18,442,664,834	\$17,593,980,039
8. Unfunded Accrued Actuarial Liability	\$8,452,477,960	\$10,091,868,623

The actual rate of return on the fair value of assets for the fiscal year ended June 30, 2004 is 16.40%. This return was significantly greater than the expected investment return of 8.50%.

Appropriation Requirements Under SB 533, HB 2660, and SB 2206

The law governing the System under SB 533 provides that:

For fiscal years 2011 through 2045, the minimum contribution to the System for each fiscal year shall be an amount determined to be sufficient to cause the total assets of the System to equal 90% of the total actuarial liabilities of the System by the end of fiscal year 2045. In making these determinations, the required contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method. For fiscal years 1997 through 2010, the minimum contribution to the System, as a percentage of the payroll, shall be increased in equal annual increments so that by fiscal year 2010, the contribution rate is at the same level as the contribution rate for fiscal years 2011 through 2045.

The above calculation provides the basis for calculating the appropriation requirements under HB 2660. For fiscal years 2005 and later, the contributions under HB 2660 start with a calculation of the contribution based upon the hypothetical asset value which assumes no infusion from the proceeds of the GOB sale that were deposited July 4, 2003 (Exhibit 4a). This contribution is then reduced by the debt service beginning in fiscal year 2005 to produce the contribution maximum. A second projection is performed to develop the SB 533 formula rate, which includes the GOB deposit. The lower of this formula rate with the GOB assets included and the maximum contribution is the required state appropriation (Exhibit 4b). The following table outlines the development of the hypothetical asset value.

1. Market Value of Assets 6/30/2003	\$ 7,502,111,416
2. Hypothetical State Contribution Amount *	478,778,133
3. Employee Contribution Amount	199,826,465
4. Benefit Payouts & Refunds	990,643,610
5. Administrative Expenses	7,693,348
6. Investment Return	1,205,123,125
8. Hypothetical Value of Assets 6/30/2004	\$ 8,387,502,181

* Before GOB deposits. Includes \$15,150,000 from the unclaimed property fund.

In addition to the above contribution, the state must make a contribution based on the increase in the PVB due to the ERI (SB 2206). The increase in PVB is measured as of June 30, 2003, and will be funded over 12 years. The repayment schedule is shown in the following table:

Year	ERI Liability	ERI Contribution	Projected % of Pay
2004	\$ 1,752,118,994	\$ 64,623,526 ¹	1.879%
2005	1,833,679,082	68,067,025 ²	1.983%
2006	1,918,581,930	280,486,013	8.006%
2007	1,789,254,725	280,486,013	7.703%
2008	1,648,934,708	280,486,013	7.416%
2009	1,496,687,489	280,486,013	7.082%
2010	1,331,499,257	280,486,013	6.769%
2011	1,152,270,024	280,486,013	6.475%
2012	957,806,307	280,486,013	6.198%
2013	746,813,174	280,486,013	5.936%
2014	517,885,625	280,486,013	5.685%
2015	269,499,234	280,486,013	5.446%

¹ Contribution Amount Received

² Projected Contribution Amount

The fiscal year 2006 certified contribution and projected future year required State contribution rates and amounts are as follows:

Fiscal Year	Base Contribution	ERI Contribution	Debt Service Contribution	Total Contribution	Assumed Payroll (billions)	Total Required Contribution
2006	11.695%	8.006%	1.974%	21.675%	3.503	759,339,000
2007	13.248%	7.703%	1.899%	22.850%	3.641	832,014,000
2008	14.546%	7.416%	2.013%	23.975%	3.782	906,767,000
2009	16.126%	7.082%	1.918%	25.126%	3.961	995,130,000
2010	17.699%	6.769%	1.828%	26.296%	4.144	1,089,611,000
2011	17.814%	6.475%	1.743%	26.032%	4.332	1,127,747,000
2012	17.713%	6.198%	1.818%	25.729%	4.525	1,164,272,000
2013	17.833%	5.936%	1.730%	25.499%	4.725	1,204,847,000
2014	17.880%	5.685%	1.646%	25.211%	4.934	1,243,803,000
2015	17.880%	5.446%	1.566%	24.892%	5.150	1,282,036,000

Method of Calculation for Appropriation Requirements

The results are based on the projected unit credit actuarial cost method, and on the data provided and assumptions used for the June 30, 2004 actuarial valuation. In order to determine projected contribution rates and amounts, the following additional assumptions were used:

- Projected annualized payroll of \$3,432,527,760 for fiscal year 2005. This amount was provided by the System.
- Total employer contributions of \$420,416,000 (including no payments from the unclaimed property fund) for fiscal year 2005.
- New entrants whose average age is 34.87 and average pay is \$35,564 (2004 dollars).
- Number of active members decreases by 2,000 participants for fiscal year 2005 and then remains level through 2007. The population is then increased ratably after 2007 such that the member count in fiscal years 2002 and 2022 are equal. After 2022, the population remains level during the remainder of the 41-year projection.

The average increase in payroll for the 41-year projection period is approximately 4.0% per year.

To determine the contribution rates, the expected 2005 appropriation was converted to a percentage of the expected 2005 payroll. An amortization schedule was then determined on the assumption that:

- The ratio of total assets to total actuarial liabilities will be 90% by June 30, 2045.
- The contribution rates for fiscal years 2005 - 2033 will not be uniform, but the rate for any one of these years will be the minimum of: the difference between the "without-GOB" contribution and the debt service, and the underlying formula rate as determined by Senate Bill 533.
- The contribution rates for fiscal years 2034 - 2045 will be a uniform percentage of payroll.

GASB: Financial Accounting Information

In an effort to enhance the understandability and usefulness of the pension information that is included in the financial reports of pension plans for state and local governments, the Governmental Accounting Standards Board (GASB) has issued Statement No. 25—Financial Reporting for Defined Benefit Pension Plans and Statement No. 27—Accounting for Pensions by State and Local Governmental Employers.

GASB Statement No. 25 establishes a financial reporting framework for defined benefit plans. In addition to two required statements regarding plan assets, the statement requires two schedules and accompanying notes disclosing information relative to the funded status of the plan and contribution patterns.

- The Schedule of Funding Progress includes information about the actuarially determined funded status from a long-term ongoing plan perspective and the progress made toward accumulating sufficient assets. For SERS, the liabilities are developed based on the Projected Unit Credit Cost Method. The assets are shown at fair value. The funded ratio has increased from 42.64% as of June 30, 2003 to 54.17% as of June 30, 2004. This increase is primarily due to gains from investment performance, and the increase in assets due to the infusion of the GOB proceeds.
- The Schedule of Employer Contributions provides information about the annual required contribution (ARC) and the percentage of the ARC that was actually contributed. For SERS, the ARC is equal to the employer normal cost plus a 40-year level percentage of payroll amortization of the unfunded actuarial liability. This contribution will be different from the employer contribution required by State statute.

The annual required contribution for fiscal years 2005 and 2006 is shown below as a percentage of payroll. The ARC percentage for 2005 is based on the results of the June 30, 2003 valuation. The dollar amount of the ARC for 2005 will be the product of the actual payroll for 2005 and the percentage shown below.

	Fiscal Year 2006	Fiscal Year 2005
1. Employer normal cost	\$221,096,859	\$192,451,121
2. Initial amount to amortize the unfunded liability over 40 years as a level percentage of payroll	<u>438,422,592</u>	<u>546,390,646</u>
3. ARC [(1) + (2)]	\$659,519,451	\$738,841,767
4. Estimated payroll for fiscal year	\$3,503,294,576	\$3,530,006,792
5. ARC as a percentage of payroll [(3) ÷ (4)]	18.826%	20.930%

GASB Statement No. 27 establishes standards for the measurement, recognition, and display of pension expense and related liabilities. Annual pension cost is measured and disclosed on the accrual basis of accounting. In general, the annual pension cost is equal to the ARC with adjustments for past under-contributions or over-contributions. These adjustments are based on the net pension obligation (NPO) that represents the cumulative difference between the annual pension cost and the actual contribution to the plan. The first adjustment is equal to interest on the NPO, which is added to the ARC. The second adjustment is an amortization of the NPO, which is deducted from the ARC. This amortization is over an open 40-year period (i.e., the 40-year period is restarted each fiscal year). Following the first 10 years after transition, the amortization will be over an open 30-year period.


These statements were adopted by SERS (and the State of Illinois) for the 1997 fiscal year. A transition pension liability (asset) was developed under Statement No. 27 equal to the cumulative difference between the actuarially determined funding requirement and the actual amount contributed for fiscal years 1988 through 1996. As of the adoption date, all outstanding pension liabilities (assets) were adjusted to equal the transition NPO. The NPO as of June 30, 2003 of \$1,142,389,790 has decreased to (\$105,577,500) as of June 30, 2004, due to the 2004 APC of \$616,706,121 and actual 2004 employer contributions of \$1,864,673,411.

To the best of our knowledge this actuarial statement is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Gabriel, Roeder, Smith & Co.

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Table 1

Results Of Actuarial Valuation as of June 30, 2004

1	Number of Members	
	a. Active	70,621
	b. Inactive:	
	i. Eligible for deferred vested pension benefits (4,259 based on SERS service alone. An additional 282 when reciprocal service is added to SERS service).	4,541
	ii. Eligible for return of contributions only	18,256
	c. Current Benefit Recipients:	
	i. Retirement annuities	42,307
	ii. Survivor annuities	10,036
	iii. Disability annuities	1,955
	d. Eligible for Deferred Benefits:	
	i. Retirement annuities	100
	ii. Survivor annuities	<u>90</u>
	e. Total	147,906
2	Covered Payroll	\$3,439,251,000
3	Annualized Benefit Payments Currently Being Made	
	a. Retirement	\$913,791,614
	b. Survivor	56,068,839
	c. Disability	<u>27,837,431</u>
	d. Total	\$997,697,884
4	Actuarial Liability—Annuitants	
	a. Current Benefit Recipients:	
	i. Retirement annuities	\$11,209,472,813
	ii. Survivor annuities	526,889,136
	iii. Disability annuities	202,921,573
	b. Eligible for Deferred Benefits:	
	i. Retirement annuities	6,256,758
	ii. Survivor annuities	<u>4,018,286</u>
	c. Total	\$11,949,558,566

5	Actuarial Liability—Inactive Members		
	a. Eligible for Deferred Vested Pension		\$269,280,378
	b. Eligible for Return of Contributions		<u>22,561,530</u>
	c. Total		\$291,841,908
		Normal	Actuarial
		Cost	Liability
6	Active Members		
	a. Pension Benefits	\$238,971,439	\$3,924,083,948
	b. Cost-of-Living Adjustments	83,164,546	1,344,242,017
	c. Death Benefits		
	i. Occupational	\$1,896,891	\$18,103,011
	ii. Non-occupational	15,825,135	174,947,942
	iii. Refund	11,770,229	35,580,977
	iv. Total	<u>\$29,492,255</u>	<u>\$228,631,930</u>
	d. Disability		
	i. Occupational	\$6,926,861	\$69,185,006
	ii. Non-occupational	23,143,151	275,240,298
	iii. Total	<u>\$30,070,012</u>	<u>\$344,425,304</u>
	e. Withdrawal	30,161,972	359,881,161
	f. Expenses	9,063,100	0
	g. Total	<u>\$420,923,324</u>	<u>\$6,201,264,360</u>
7	Total Actuarial Liability (4 + 5 + 6)		\$18,442,664,834
8	Assets (Fair Value)		\$9,990,186,874
9	Unfunded Actuarial Liability (7 – 8)		\$8,452,477,960
10	Funded Percentage (8 ÷ 7)		54.17%
11	Total Normal Cost	\$420,923,324	
12	Employee Contributions	\$199,826,465	
13	Annual Employer Normal Cost	\$221,096,859	
	(% payroll)	6.43%	

Analysis of Change in Unfunded Accrued Actuarial Liability

In addition to the expected change in the unfunded accrued actuarial liability, changes in membership demographics, and fund assets have affected the valuation results. The decrease in the unfunded accrued actuarial liability (UAAL) of \$1,639,390,664 was due to the following:

1	UAAL at 06/30/2003	\$10,091,868,623
2	Contributions	
	a. Contributions due	
	i interest on 1)	\$ 857,808,833
	ii members contributions	199,826,465
	iii employer normal cost	192,451,121
	iv interest on ii and iii	16,331,823
	v total due	<u>\$ 1,266,418,242</u>
	b. Contributions paid	
	i member contributions	\$ 199,826,465
	ii state agencies	1,864,673,411
	iii interest on i and ii	146,053,670
	iv total paid	<u>\$ 2,210,553,546</u>
	c. Expected increase in UAAL	\$ (944,135,304)
3	Expected UAAL at 06/30/2004	\$ 9,147,733,319
4	(Gains)/Losses	
	a. investment income	\$ (679,743,495)
	b. demographic	(15,511,864)
	c. total	<u>\$ (695,255,359)</u>
5	Total change in UAAL	\$ (1,639,390,663)
6	UAAL at 06/30/2004	\$ 8,452,477,960

Table 3

Analysis of Financial Gains and Losses in Actuarial Liability for Fiscal Year Ending June 30, 2004

	<u>Activity</u>	<u>(Gain) Loss</u>	<u>% of 06/30/2003 AAL</u>
1	Actuarial (Gain)/Loss		
	a. Incidence of Disability	\$ (16,426,042)	-0.09%
	b. In-Service Mortality	(2,920,017)	-0.02%
	c. Retiree Mortality	(31,787,314)	-0.18%
	d. Salary Increases	(22,316,647)	-0.13%
	e. Investment (Gain)	(679,743,495)	-3.86%
	f. New Entrant Liability	29,852,187	0.17%
	g. Other	28,085,969	0.16%
	h. Total Actuarial (Gain) Loss	\$ (695,255,359)	-3.95%
2	Contribution (Excess) Shortfall	\$ (944,135,304)	
3	Total Financial (Gain) Loss	\$ (1,639,390,663)	

41-Year Projection of Costs and Liabilities

State Contribution Based on Senate Bill 533 Maximum Contribution Calculation: Without GOB Proceeds Rate of Return on Assets = 8.5% (All Dollar Amounts in Millions)

Basic Data	Fiscal Year Ending 6/30									
	2005	2006	2007	2008	2009	2010	2020	2030	2045	
1 Number of Active Members	68,621	68,621	68,621	69,492	70,363	71,234	79,940	81,680	81,680	
2 Expected Total Payroll	\$3,433	\$3,503	\$3,641	\$3,782	\$3,961	\$4,144	\$6,405	\$9,557	\$17,354	
Valuation Results - Projected Unit Credit										
3 Actuarial Liability	\$17,432	\$18,537	\$19,705	\$20,938	\$22,237	\$23,598	\$38,138	\$53,041	\$90,748	
4 Assets (Fair Value)	\$8,742	\$9,357	\$10,054	\$10,838	\$11,726	\$12,726	\$23,582	\$36,145	\$81,675	
5 Unfunded Actuarial Liability	\$8,690	\$9,180	\$9,651	\$10,100	\$10,511	\$10,872	\$14,556	\$16,896	\$9,073	
6 Funded Percentage	50.15%	50.48%	51.02%	51.76%	52.73%	53.93%	61.83%	68.15%	90.00%	
7 Annual Normal Cost										
a. Total	\$412	\$431	\$453	\$475	\$499	\$523	\$778	\$1,148	\$2,156	
b. Employee Contributions	\$194	\$198	\$206	\$215	\$225	\$236	\$365	\$543	\$988	
c. Balance	\$218	\$233	\$247	\$260	\$274	\$287	\$413	\$605	\$1,168	
(% Total Payroll)	6.35%	6.65%	6.78%	6.87%	6.92%	6.93%	6.45%	6.33%	6.73%	
8 State Contribution	\$444	\$504	\$576	\$653	\$742	\$836	\$1,293	\$1,929	\$3,503	
(% Total Payroll)	12.927%	14.378%	15.829%	17.281%	18.732%	20.183%	20.183%	20.183%	20.183%	
9 Total Expense	\$1,049	\$1,106	\$1,158	\$1,216	\$1,280	\$1,350	\$2,467	\$3,854	\$5,908	

Notes:

Normal cost rate includes administrative expenses.

State contribution based on the requirements of Senate Bill 533, as amended by House Bill 110.

Total expenses shown include benefit payments, refunds and administrative expenses.

Actuarial liability excludes unamortized ERI liability

41-Year Projection of Costs and Liabilities

State Contribution Based on Senate Bill 533 and House Bill 2660 Rate of Return on Assets = 8.5% (All Dollar Amounts in Millions)

Basic Data	Fiscal Year Ending 6/30									
	2005	2006	2007	2008	2009	2010	2020	2030	2045	
1 Number of Active Members	68,621	68,621	68,621	69,492	70,363	71,234	79,940	81,680	81,680	
2 Expected Total Payroll	\$3,433	\$3,503	\$3,641	\$3,782	\$3,961	\$4,144	\$6,405	\$9,557	\$17,354	
Valuation Results - Projected Unit Credit										
3 Actuarial Liability	\$17,432	\$18,537	\$19,705	\$20,938	\$22,237	\$23,598	\$38,138	\$53,041	\$90,748	
4 Assets (Fair Value)	\$10,386	\$11,042	\$11,785	\$12,609	\$13,540	\$14,586	\$25,928	\$38,648	\$81,669	
5 Unfunded Actuarial Liability	\$7,046	\$7,495	\$7,920	\$8,329	\$8,697	\$9,012	\$12,210	\$14,393	\$9,079	
6 Funded Percentage	59.58%	59.57%	59.81%	60.22%	60.89%	61.81%	67.98%	72.86%	90.00%	
7 Annual Normal Cost										
a. Total	\$412	\$431	\$453	\$475	\$499	\$523	\$778	\$1,148	\$2,156	
b. Employee Contributions	\$194	\$198	\$206	\$215	\$225	\$236	\$365	\$543	\$988	
c. Balance	\$218	\$233	\$247	\$260	\$274	\$287	\$413	\$605	\$1,168	
(% Total Payroll)	6.35%	6.65%	6.78%	6.87%	6.92%	6.93%	6.45%	6.33%	6.73%	
8 State Contribution										
a. Without GOB Contribution	\$504	\$576	\$653	\$742	\$836	\$836	\$1,293	\$1,929	\$3,503	
b. Debt Service	\$94	\$94	\$94	\$103	\$103	\$103	\$128	\$204	\$0	
c. Maximum Contribution, a. - b.	\$410	\$482	\$550	\$639	\$733	\$733	\$1,165	\$1,725	\$3,503	
(% Total Payroll)	11.70%	13.24%	14.54%	16.13%	16.13%	17.69%	18.19%	18.05%	20.19%	
d. Formula Rate With GOB	\$479	\$536	\$597	\$666	\$741	\$741	\$1,145	\$1,709	\$3,103	
(% Total Payroll)	13.67%	14.72%	15.78%	16.83%	16.83%	17.88%	17.88%	17.88%	17.88%	
e. Required Contribution, lower of c. and d.	\$352	\$410	\$482	\$550	\$639	\$733	\$1,145	\$1,709	\$3,103	
(% Total Payroll)	10.265%*	11.695%	13.248%	14.546%	16.126%	17.699%	17.880%	17.880%	17.880%	
9 Total Expense	\$1,049	\$1,106	\$1,158	\$1,216	\$1,280	\$1,350	\$2,467	\$3,854	\$5,908	

Notes:

Normal cost rate includes administrative expenses.

State contribution based on the requirements of Senate Bill 533, as amended by House Bill 110 and House Bill 2660.

Total expenses shown include benefit payments, refunds and administrative expenses.

Actuarial liability excludes unamortized ERI liability

* Contribution rate certified in June 30, 2003 Actuarial Valuation

Financial Accounting Information in Accordance With Statement No. 25 of the Governmental Accounting Standards Board

A. Schedule of Funding Progress

	<u>06/30/2004</u>	<u>06/30/2003</u>
1 Fair Value of Assets	\$ 9,990,186,874	\$ 7,502,111,416
2 Actuarial Accrued Liability (AAL)	18,442,664,834	17,593,980,039
3 Unfunded AAL (UAAL) [(2) - (1)]	8,452,477,960	10,091,868,623
4 Funded Ratio [(1) ÷ (2)]	54.17%	42.64%
5 Covered Payroll	3,439,251,000	3,639,334,000
6 UAAL as a Percentage of Covered Payroll	245.77%	277.30%

B. Schedule of Employer Contributions for the Fiscal Year Ended June 30, 2004

1 Annual Required Contribution (ARC) per GASB 25	
(a) Percentage of payroll	16.754%
(b) Covered payroll for fiscal year 2004	\$3,439,251,000
(c) ARC for fiscal year 2004	\$576,219,951
2 Total Employer Contribution	\$1,864,673,411
3 Percentage of ARC Contributed [(2) ÷ (1)]	323.60%
4 Annual Contribution Required per State Statute	
(a) Percentage of payroll (net of Pension Fund Appropriation)	13.439%
(b) Covered payroll for fiscal year 2004	\$3,439,251,000
(c) Total required contribution	\$462,200,942
5 Employer Contribution Net of Pension Fund Appropriation	\$1,849,523,411
6 Percentage of (4) Contributed [(5) ÷ (4)]	400.16%

C. Notes to Required Schedules

1. The cost method used to determine the ARC is the Projected Unit Credit Cost Method. The ARC (as percentage of payroll) for the 2004 fiscal year was determined as of June 30, 2002, based on the assumptions then in effect.
2. The assets are shown at fair value.
3. Economic assumptions include an inflation rate of 3.0%; an investment return rate of 8.50%; salary increase rates based on age-related productivity and merit rates plus inflation; and postretirement benefit increases of 3.00%.
4. The amortization method is an open 40-year period, level percentage of payroll.

Table 6

Calculation of Net Pension Obligation at Transition Under GASB Statement Number 27 (Date of Transition is July 1, 1996)

Fiscal Year (1)	Applicable Actuarial Valuation			Actual Contribution** (5)	Amortization	
	As-of Date (2)	Investment Assumption (3)	Annual Required Contribution* (4)		Years (6)	Factor (7)
7/1/87 - 6/30/88	06/30/1986	8%	\$ 186,935,353	\$ 99,990,922	40	11.92461333
7/1/88 - 6/30/89	06/30/1987	8%	179,420,448	98,471,993	40	11.92461333
7/1/89 - 6/30/90	06/30/1988	8%	184,689,149	107,938,094	40	11.92461333
7/1/90 - 6/30/91	06/30/1989	8%	191,296,277	115,979,568	40	11.92461333
7/1/91 - 6/30/92	06/30/1990	8%	208,717,019	98,532,783	40	11.92461333
7/1/92 - 6/30/93	06/30/1991	8%	227,588,508	114,413,597	40	11.92461333
7/1/93 - 6/30/94	06/30/1992	8%	277,518,586	127,649,961	40	11.92461333
7/1/94 - 6/30/95	06/30/1993	8%	306,006,674	136,589,471	40	11.92461333
7/1/95 - 6/30/96	06/30/1994	8%	335,219,027	146,397,934	40	11.92461333
7/1/96 - 6/30/97	06/30/1995	8%	211,125,012	158,179,514	40	19.84983174
7/1/97 - 6/30/98	06/30/1996	8%	206,725,718	200,741,736	40	19.53100753
7/1/98 - 6/30/99	06/30/1997	8.5%	319,746,993	315,525,007	40	15.55212396
7/1/99 - 6/30/00	06/30/1998	8.5%	299,081,856	340,872,521	40	15.38193387
7/1/00 - 6/30/01	06/30/1999	8.5%	294,351,538	366,028,937	40	15.17924930
7/1/01 - 6/30/02	06/30/2000	8.5%	306,509,801	386,116,583	40	15.53675931
7/1/02 - 6/30/03	06/30/2001	8.5%	449,348,585	396,067,236	40	16.01251393
7/1/03 - 6/30/04	06/30/2002	8.5%	576,219,951	1,864,673,411	40	20.17751836

Fiscal Year (1)	Beginning of Year NPO (8)	Interest on NPO (9)	Amortization of NPO (10)	Annual Pension Cost (APC)*** (4 + 9 - 10) (11)	Increase in NPO (11 - 5) (12)	End of Year NPO (8 + 12) (13)
7/1/87 - 6/30/88	\$ 0	\$ 0	\$ 0	\$186,935,353	\$ 86,944,431	\$ 86,944,431
7/1/88 - 6/30/89	86,944,431	6,955,554	7,291,174	179,084,828	80,612,835	167,557,267
7/1/89 - 6/30/90	167,557,267	13,404,581	14,051,379	184,042,351	76,104,257	243,661,524
7/1/90 - 6/30/91	243,661,524	19,492,922	20,433,495	190,355,705	74,376,137	318,037,660
7/1/91 - 6/30/92	318,037,660	25,443,013	26,670,690	207,489,343	108,956,560	426,994,220
7/1/92 - 6/30/93	426,994,220	34,159,538	35,807,804	225,940,241	111,526,644	538,520,864
7/1/93 - 6/30/94	538,520,864	43,081,669	45,160,447	275,439,808	147,789,847	686,310,711
7/1/94 - 6/30/95	686,310,711	54,904,857	57,554,127	303,357,404	166,767,933	853,078,644
7/1/95 - 6/30/96	853,078,644	68,246,292	71,539,313	331,926,005	185,528,071	1,038,606,716
7/1/96 - 6/30/97	1,038,606,716	83,088,537	83,323,200	241,890,349	83,710,835	1,122,317,551
7/1/97 - 6/30/98	1,122,317,551	89,785,404	89,785,404	239,047,750	38,306,014	1,160,623,565
7/1/98 - 6/30/99	1,160,623,565	98,653,003	74,627,978	343,772,018	28,247,011	1,188,870,576
7/1/99 - 6/30/00	1,188,870,576	101,053,999	77,290,059	322,845,796	(18,026,725)	1,170,843,851
7/1/00 - 6/30/01	1,170,843,851	99,521,727	77,134,503	316,738,762	(49,290,175)	1,121,553,676
7/1/01 - 6/30/02	1,121,553,676	95,332,062	72,187,105	329,654,758	(56,461,825)	1,065,091,851
7/1/02 - 6/30/03	1,065,091,851	90,532,807	66,516,217	473,365,175	77,297,939	1,142,389,790
7/1/03 - 6/30/04	1,142,389,790	97,103,132	56,616,962	616,706,121	(1,247,967,290)	(105,577,500)

* The annual required contributions for FYE 6/30/1988 through 6/30/1996 were determined based on the APBS percentages provided by the System. Thereafter, the annual required contribution was obtained by adding the normal cost and a 40-year amortization (constant % of payroll) of the UAAL (AAL - MVA) at the valuation date shown in column (2). The resulting percentage of payroll is applied to the actual covered

** The actual contributions for FYE 6/30/1988 through 6/30/2003 were obtained from the comprehensive annual financial report. The actual contribution for FYE 6/30/2004 was provided by the System.

*** APC = (4) + [(8)*(3)] - [(8)(7)]

Actuarial Cost Method Adopted June 30, 1989

A projected unit credit normal cost method is used. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current or attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

The actuarial liability at any point in time is the value of the projected pensions at that time less the value of future normal costs.

For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits, and the postretirement increases, the same procedure as outlined above is followed.

Estimated annual administrative expenses are added to the normal cost.

For valuation purposes, as well as projection purposes, assets are valued at fair value.

Actuarial Assumptions Adopted June 30, 2002

Mortality

1983 Group Annuity Mortality Table for males (with a one-year setback) and for females (with no setback). Five percent of deaths among active employees are assumed to be in the performance of their duty.

Interest

8.50% per annum, compounded annually.

Termination

Illustrative rates of withdrawal from the plan are as follows:

Select Withdrawal of General Formula Employees		
Year of Service	Males	Females
0	0.1600	0.1700
1	0.1100	0.1200
2	0.0900	0.0950
3	0.0700	0.0850
4	0.0600	0.0600

Ultimate Withdrawal of General Formula Employees		
Age	Males	Females
25	0.0600	0.0600
30	0.0590	0.0600
35	0.0440	0.0490
40	0.0300	0.0320
45	0.0240	0.0240
50	0.0200	0.0220
55	0.0180	0.0220
60	0.0160	0.0220
65	0.0160	0.0220

Select Withdrawal of Alternate Formula Employees		
Years of Service	Males	Females
0	0.0770	0.0900
1	0.0650	0.0700
2	0.0450	0.0500
3	0.0450	0.0500
4	0.0350	0.0500

Ultimate Withdrawal of Alternate Formula Employees		
Age	Males	Females
25	0.0350	0.0500
30	0.0300	0.0410
35	0.0210	0.0310
40	0.0150	0.0220
45	0.0130	0.0170
50	0.0130	0.0160
55	0.0130	0.0160
60	0.0130	0.0160
65	0.0100	0.0160

It is assumed that terminated employees will not be rehired. The rates apply only to employees who have not fulfilled the service requirement necessary for retirement at any given age.

Salary Increases

Illustrative rates of increase per individual employee per annum, compounded annually:

Age	Annual Increase
25	9.10%
30	7.60%
35	6.40%
40	5.70%
45	5.20%
50	4.70%
55	4.40%
60	4.10%
65	4.00%
70	4.00%

These increases include a component for inflation of 3.0% per annum. In addition, for purposes of determining annual appropriation as a percent of total covered payroll, the size of the active group is assumed to decrease in fiscal year 2005 by 2,000 participants. The population will remain at this level through 2007, and then increase such that the fiscal year 2022 population is the same as it was in fiscal year 2002. New entrants are assumed to enter with an average age of

34.87 years and average pay of \$35,564 (2004 dollars). The average increase in payroll for the 41-year projection period is 4.0% per annum.

Disability

Incidence of disability for employees eligible for disability benefits:

	Males	Females
25	0.0010	0.0015
30	0.0011	0.0020
35	0.0012	0.0030
40	0.0016	0.0035
45	0.0022	0.0045
50	0.0034	0.0050
55	0.0055	0.0065
60	0.0081	0.0085
65	0.0113	0.0115
70	0.0143	0.0135

Among active employees, 15% of disabilities are assumed to be in the performance of their duty. Assumes 50 % of all disabled employees will return to work after first year on disability.

Employees receiving a disability allowance are assumed to die in accordance with the following tables:

Age	Rate of Mortality	Rate of Mortality
	Males	Females
25	0.0005	0.0003
30	0.0006	0.0003
35	0.0009	0.0005
40	0.0012	0.0007
45	0.0022	0.0010
50	0.0039	0.0016
55	0.0061	0.0025
60	0.0092	0.0042
65	0.0156	0.0071

Retirement

Employees are assumed to retire in accordance with the rates shown below. The rates apply only to employees who have fulfilled the service requirement necessary for retirement at any given age.

Retirement Rates for General Formula Employees		
	Males	Females
50	12.50%	12.50%
60	15.00%	15.00%
61	12.50%	15.00%
62	20.00%	20.00%
63	20.00%	20.00%
64	17.50%	20.00%
65	25.00%	25.00%
66	25.00%	20.00%
67	25.00%	20.00%
68	20.00%	20.00%
69	20.00%	20.00%
70	100.00%	100.00%

Early Retirement Rates for General Formula Employees		
Age	Males	Females
55	4.00%	4.00%
56	4.00%	4.00%
57	4.00%	4.00%
58	4.00%	4.00%
59	4.00%	4.00%

Retirement Rates for Alternate Formula Employees *		
Age	Males	Females
50-54	10.00%	10.00%
55-59	15.00%	15.00%
60	20.00%	20.00%
61	22.00%	22.00%
62	24.00%	24.00%
63	26.00%	26.00%
64	28.00%	28.00%
65	30.00%	30.00%
66	30.00%	30.00%
67	30.00%	30.00%
68	30.00%	30.00%
69	30.00%	30.00%
70	100.00%	100.00%

* An additional 10% are assumed to retire in the year in which the employee completes 30 years of service.

Assets

Assets available for benefits are used at fair value.

Expenses

As estimated and advised by SERS staff, based on current expenses with an allowance for expected increases.

Marital Status

85% of members and annuitants are assumed to be married. 65% of married households are assumed to be two wage-earner households. For members who are married at retirement, 85% are assumed to be survived by such spouse.

Spouse's Age

The female spouse is assumed to be 3 years younger than the male spouse.

Children

It is assumed that married members have 2.2 children, one year apart in age.

The age of the youngest child of a deceased employee at his date of death is assumed to be as follows:

Age at Death of Employee	Age of Youngest Child	Age at Death of Employee	Age of Youngest Child
20	2	40	6
25	3	45	8
30	4	50	10
35	5	55	12
		60	14

Social Security Benefits

Social Security Disability and Survivor benefits payable in future years are assumed to bear the same relationship to future compensation levels at time of entitlement as current Social Security benefits bear to current compensation levels. The Primary Insurance Amount of the female spouse is assumed to be 80% of the Primary Insurance Amount of the male spouse.

Overtime and Shift Differentials

Reported earnings include base pay alone. It is assumed that overtime and shift differentials will increase total payroll by 3.5% over reported earnings.

Missing Data

If earnings were not available, the annual rate of pay was assumed to be \$33,550. If a birth date was not available, the member was assumed to be age 35.

Projection Methodology Adopted June 30, 2003

Appropriation Requirements Under HB 2660 and HB 2671

State Contributions under HB 2660

In general, for each year during the life of the GOB program, the state contributions to the system are to be calculated as follows:

1. Calculation of the contribution maximum
 - a. A projection of contributions will be made from the valuation date to June 30, 2045. Such projection will be based on hypothetical asset values determined using the following assumptions:
 - i) That the system had received no portion of the general obligation bond proceeds in excess of the scheduled contributions for the remainder of fiscal 2003 and for the entirety of 2004,
 - ii) That hypothetical state contributions had been made each fiscal year from 2005 through the valuation date, based on the funding process in place prior to HB 2660 (without regard to prior state minimum requirements),
 - iii) That the actual amounts of member contributions and the actual cash outflows (benefit payments, refunds and administrative expenses) for each year prior to the valuation date were realized, and
 - iv) That the hypothetical fund earned returns in each prior fiscal year equal to the rate of total return actually earned by the retirement fund in that year.
 - b. The hypothetical asset values developed in a., above, will not exceed the actual assets of the fund.
 - c. A projection of maximum contributions for each year of the GOB program will be performed each year, by reducing the contributions produced in a., above, by the respective amount of debt service allocated to the system for each year.
2. Calculation of the contribution with GOB proceeds
 - a. The basic projection of state contributions from the valuation date through June 30, 2045 will be made, taking into account all assets of the system, including the GOB proceeds.
 - b. State contribution rates (expressed as a percentage of covered pay), in the pattern required by the funding sections of the statutes, are calculated.
 - c. In those projections, the dollars of state contributions which are added to assets each year during the GOB program are limited by the contribution maximum. Because the bonds are to be liquidated by the end of fiscal 2033, there is no contribution maximum thereafter.

State Contributions under SB 2206

The following is an excerpt from the Illinois Compiled statutes 40 ILCS 5/14-108.3 (f)-(g):

(f) The system shall determine the amount of the increase in the present value of benefits resulting from the granting of early retirement incentives under this Section and shall report that amount to the Governor and the Economic and Fiscal Commission on or after the effective date of this amendatory Act of the 93rd General Assembly and on or before November 15, 2004. The increase reported under this subsection (f) shall not be included in the calculation of the required State contribution under Section 14-131.

(g) In addition to the contributions otherwise required under this Article, the State shall appropriate and pay to the System (1) an amount equal to \$70,000,000 in State fiscal years 2004 and 2005 and (2) in each of State fiscal years 2006 through 2015, a level dollar-payment based upon the increase in the present value of future benefits provided by the early retirement incentives provided under this Section amortized at 8.5% interest.

Following the above legislation we have calculated the required contribution and the results are shown in the summary section of this report.

Appendix B

Summary of Retirement System Plan (As of June 30, 2004)

Purpose

The State Employees' Retirement System of Illinois, a State Agency, provides an orderly means whereby aged or disabled employees may be retired from active service without prejudice or hardship and enables the employees to accumulate reserves for old age, disability, death and termination of employment.

Administration

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

Membership

All persons entering State service on or after January 1, 1984 become members upon completion of 6 months of continuous service except that, beginning July 1, 1991, employees in police positions become members on their first day of employment. Persons entering State service from January 1, 1972 to January 1, 1984 became members on their first day of employment. Excluded from membership are: any employee whose position is subject to membership under another State-supported system, any person who becomes an employee after June 30, 1979 as a public service employment program participant under the federal CETA program, or any enrollee of the Young Adult Conservation Corps. Prior to January 1, 1984, emergency and temporary employees were excluded from membership. Persons appointed by the Governor with the advice and consent of the Senate may elect to become members of the System.

Membership Service

Membership service includes all service rendered while a member of the System for which credit is allowable. Persons entering service on or after January 1, 1984, or after July 1, 1982 in the case of emergency or temporary employees, may also receive membership service credit for periods of employment prior to membership by making contributions for such periods.

Member Contributions

Members are required to contribute a percentage of salary as their share of meeting the cost of the various benefits. Contribution rates are as shown below:

- Members covered by Social Security—4% of Salary.
- Members not covered by Social Security—8% of Salary.
- Members covered by Social Security who are serving in a position in which service toward the Alternative Retirement Annuity may be earned—8.5% of Salary.
- Members not covered by Social Security who are serving in a position in which service toward the Alternative Retirement Annuity may be earned—12.5% of Salary.

Members covered by Social Security also pay the current Social Security tax rate.

Retirement Pension

Qualification of Member

Upon termination of State service, a member is eligible for a pension at age 60 with at least eight years of pension credit or at any age with 35 or more years of credit.

General formula members are eligible for a retirement annuity if the sum of the member's age plus years (and whole months) of pension credit equals or exceeds 85. General formula members between ages 55 and 60 with at least 25 years of pension credit are eligible for a retirement annuity reduced by one-half of 1% for each month the member is under age 60.

Members serving in a position in which service toward the Alternative Retirement Annuity may be earned are eligible to receive the alternative retirement annuity at age 50 with at least 25 years of pension credit or at age 55 with at least 20 years of pension credit in such a position. Security employees of the Department of Human Services were placed under the alternative formula effective January 1, 2001. Certain members of the Department of Transportation and the Toll Highway Authority were placed under the alternate formula effective August 1, 2001.

Amount of Pension

The pension is based on the member's final average compensation and the number of years of pension credit that has been established.

Final Average Compensation is the average of the highest 48 consecutive months in the last 10 years. All employees whose benefit is calculated under the alternative formula will have their benefit based on the greater of (i) the salary rate in effect on their last day of service, provided the last day salary does not exceed 115% of the average monthly compensation received by the member for the last 24 months of service, or (ii) the average monthly compensation for the last 48 months prior to retirement.

The general formula for members retiring on or after January 1, 1998 (regardless of termination date) is as follows:

- 1.67% of final average salary per year of credited service for members covered by Social Security.
- 2.20% of final average salary per year of credited service for members not covered by Social Security.

The alternative formula for members retiring on or after January 1, 2001 (regardless of termination date) is as follows:

- 2.50% of final average salary per year of credited service for members covered by Social Security.
- 3.00% of final average salary per year of credited service for members not covered by Social Security.

The maximum pension payable is 75% of final average compensation for general formula members and 80% of final average compensation for alternative formula members.

Optional Forms of Payment

Reversionary Annuity—A member may elect to receive a smaller pension during his lifetime in order to provide a spouse or a designated dependent with a lifetime income. That payment would be in addition to any other benefit payable by the System.

Level Income—A member who contributes to Social Security as a State employee may elect to have his pension payments increased before Social Security Normal Retirement Age and reduced thereafter. To be eligible for this election the member must have established eligibility for a Social Security pension.

Annual Increases in Pension

Postretirement increases of 3% of the current pension (i.e., increases are compounded) are granted to members effective each January 1 occurring on or after the first anniversary of the pension.

Survivors Annuity

Qualification of Survivor

If death occurs while in State employment, the member must have established at least 18 months of pension credit. If death occurs after termination of State service and the member was not receiving a retirement pension, the member must have established at least eight years of pension credit.

An eligible spouse qualifies at age 50 or at any age if there is, in the care of the spouse, any unmarried children of the member under age 18 (age 22 if full-time student); unmarried children under age 18 (age 22 if full-time student) qualify if no spouse survives; dependent parents at age 50 qualify if neither an eligible spouse nor children survive the member.

Amount of Payment

If the member's death occurs before retirement, the named beneficiary receives a lump sum refund of all of the member's pension contributions plus interest, excluding contributions for widows and survivors benefits. A single lump sum payment of \$1,000 is also made immediately to the survivor beneficiary of the member.

An eligible spouse receives a monthly annuity equal to 30% of the member's final average compensation subject to a maximum of \$400. If children of the member are under the care of the spouse, the annuity is increased for each child, subject to a monthly maximum of \$600 or 80% of final average compensation. If only eligible children survive, the monthly annuity may not exceed the lesser of \$600 or 80% of final average compensation. The maximum combined monthly payment to parents may not exceed \$400. If the member's death occurs after retirement or after termination of State employment but before the member receives a pension, the monthly benefit is further limited to 80% of the pension received or earned by the member. Monthly benefits payable to survivors of a member who was covered by Social Security as a State employee are reduced by one-half of the Social Security benefits for which the survivors are eligible. For benefits granted on or after January 1, 1992, the reduction may not exceed 50% of the amount of survivors annuity otherwise payable. If death of the member occurs on or after January 1, 1984, the minimum total survivors annuity benefit payable (before any reduction for Social Security benefits) is equal to 50% of the member's earned pension without regard to the member's age at death.

Duration of Payment

The monthly annuity payable to a spouse continues for his/her lifetime without regard to remarriage. The monthly annuity to children terminates upon death, marriage or attainment of age 18 (age 22 if full-time student). However, the monthly annuity will continue for a child who at age 18, is physically or mentally disabled and unable to accept gainful employment.

Annual Increases in Annuity

If the member's death occurs before retirement, increases of 3% of the current annuity are granted to survivors effective each January 1 occurring on or after the first anniversary of the annuity (i.e., increases are compounded). If the member's death occurs after retirement, the initial 3% increase applies on the January 1 on or after the survivor annuity begins.

Widow's Annuity Option

The widow of a male member who was a participant in the System prior to July 19, 1961, may have the option of taking a Widow's Annuity rather than the Survivor's Annuity.

Qualification of Widow

An eligible widow receives a Widow's Annuity if she is age 50 or over or has in her care any of the member's unmarried children under age 18. If she is not age 50 and has no such children in her care, she becomes eligible at age 50.

Amount of Payment

The Widow's Annuity consists of a lump sum payment of \$500, plus a monthly annuity equal to 50% of the pension earned or received by the member at the date of death. If the widow has in her care eligible children of the member, the monthly annuity is increased because of each child, subject to a maximum payment equal to 66-2/3% of the earned pension. Monthly benefits payable to a widow of a member who was covered by Social Security as a State employee are reduced by one-half of the amount of benefits she is entitled to as a widow from Social Security (reduced by one-half of the amount of benefits she is entitled to based on her own Primary Insurance Amount). For benefits granted on or after January 1, 1992, the reduction may not exceed 50% of the amount of widow's annuity otherwise payable.

Duration of Payment

The monthly payment to the widow continues for her lifetime whether or not she remarries. If the amount of benefit was increased because of eligible children, it is adjusted downward as these children's benefits are terminated (death, marriage or attainment of age 18 or 22).

Annual Increases in Annuity

If the member's death occurs before retirement, increases of 3% of the current annuity are granted to widows effective each January 1 occurring on or after the first anniversary of the annuity (i.e., increases are compounded). If the member's death occurs after retirement, the initial 3% increase applies on the January 1 on or after the widow's annuity begins.

Occupational Death Benefit

Qualification of Survivors

If a member's death results from an injury on the job or a job related cause, the spouse may be eligible for an Occupational Death benefit. If only unmarried children under age 18 (age 22 if full-time student) survive, they would be eligible for the benefit. If neither a spouse nor eligible children survive, a dependent father or mother would be eligible.

Amount and Duration of Payment

The nominated beneficiary receives a lump sum payment consisting of all contributions made by the member plus interest credited to his account.

A surviving spouse is entitled to a monthly benefit equal to 50% of the member's final average compensation. The benefit is payable for the remaining lifetime of the spouse without regard to remarriage. If children under age 18 (age 22 if full-time student) also survive, the annuity is increased by 15% of such average because of each child, subject to a maximum of 75%. If there is no spouse, or if the spouse dies before all children have attained age 18 (age 22 if full-time student), each child receives a monthly allowance of 15% of final average compensation.

The combined payment to children may not exceed 50% of the member's final average compensation. Payments to or on account of children terminate upon their death, marriage or attainment of age 18 (age 22 if full-time student).

If there is no spouse or eligible children, a benefit of 25% of final average compensation is payable to each surviving dependent parent for life.

Annual Increases in Annuity

Increases of 3% of the current annuity are granted effective each January 1 occurring on or after the first anniversary of the annuity (i.e., increases are compounded).

Reductions

The monthly benefit is reduced by any payments awarded under the Workmen's Compensation or Occupational Diseases Acts.

Other Death Benefits

If the survivor beneficiaries of the member do not qualify for any of the previously described death benefits, one of the following benefits is payable to the nominated beneficiary on file with the System at the date of death.

Before Retirement

If the member's death occurred while in State service the benefit consists of: (1) a refund of all contributions plus interest credited to the member's account; and (2) a payment equal to one month's salary for each full year of pension credit not to exceed six month's salary. The minimum payment is equal to one month's salary.

If the member had terminated State service but not yet qualified for a pension, the benefit consists of a refund of all of the member's contributions to the System plus the interest credited to the member's account.

After Retirement

The benefit consists of a lump sum payment equal to the excess of contributions plus interest credited to the member's account over the total amount of pension payments made to the member. The minimum payment is \$500.00.

Non-Occupational Disability Benefits

Qualification and Amount of Payment

Available to any member who has established at least one and one-half years of creditable service and who has been granted a disability leave of absence by his employing agency. The benefit is 50% of the member's final average compensation plus a credit to the member's account of service and contributions. It begins on the 31st day of absence from service on account of disability.

If the member has Social Security coverage as a State employee, the benefit payable by the System is reduced by the amount of any disability payment to which he is entitled under Social Security.

Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; (3) payments are made for a period of time equal to one-half of the service credit established as of the date disability began; or (4) attainment of age 65 if the benefit commences prior to age 60, or payment for 5 years if benefit commences after age 60.

If termination of the benefit is due to the member receiving benefits for a period of time equal to one-half of the service credit established at the date of disability, he shall be eligible for a retirement annuity if he has attained age 55 and has 15 years of service, or if he has attained age 50 and has 20 years of service.

Annual Increases in Annuity

A one time increase of 7% of the original annuity is granted to members on the January 1 following the fourth anniversary of the annuity. Increases of 3% of the current annuity are then granted to members each January 1 following the 7% increase (i.e., the 3% increases are compounded).

Occupational Disability Benefit

Qualification and Amount of Payment

Provided for any member who becomes disabled as the direct result of injury or diseases arising out of and in the course of State employment.

The benefit is 75% of final average compensation plus a credit to the member's account of service and contributions. The cash benefit is reduced by any payment received under the Workmen's Compensation or Occupational Diseases Acts.

Duration of Payment

Monthly benefits are payable until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; or (3) attainment of age 65 if the benefit commences prior to age 60, or payment for 5 years if the benefit commences after age 60.

If termination of the benefit is due to the member having attained age 65 or having received benefits for five years after age 60, the member is entitled to a retirement pension based upon service credit established as of that date.

Annual Increases in Annuity

A one-time increase of 7% of the original annuity is granted to members on the January 1 following the fourth anniversary of the annuity. Increases of 3% of the current annuity are then granted to members each January 1 following the 7% increase (i.e., the 3% increases are compounded).

Temporary Disability Benefit

A member who is initially denied Workers' Compensation benefits and is appealing the denial may receive payment at the non-occupational rate, 50% of pay, providing all eligibility requirements for the non-occupational benefit are met, until the determination is made.

Separation Benefits

Upon termination of State employment by resignation, discharge, dismissal, or layoff, a member may obtain a refund of the contributions made to the System. By accepting a refund, a member forfeits all accrued rights and benefits in the System for himself and his beneficiaries.