

**STATE EMPLOYEES'
RETIREMENT SYSTEM
ANNUAL REPORT**

1977

STATE EMPLOYEES' RETIREMENT SYSTEM
1201 South Fifth Street
Springfield, Illinois 62706

Board of Trustees
(As Constituted June 30, 1977)

George Ross Forbes, Jr.	Appointed by Governor	Chairman
Michele Kane Interim Director of Finance	Ex-Officio	Trustee
Michael Bakalis Comptroller	Ex-Officio	Trustee
Donald Thannen State Employee	Appointed by Governor	Trustee
Clascenna Harvey State Employee	Appointed by Governor	Trustee

Administrative Staff

Michael L. Mory - Executive Secretary

Russell O. McClellan - Associate Executive Secretary

Robert Knox, Supervisor Claims Division	William Weir, Supervisor Administrative Services Division
Robert Doolen, Supervisor Accounting Division	Dwight Garmon, Supervisor Data Processing Division
Ann Kirk, Supervisor Service and Refunds Division	Paul Stark, Supervisor Social Security Unit

TABLE OF CONTENTS

	<u>PAGE</u>
Letter of Transmittal to Governor	1
Letter of Transmittal to Board	2
Financial Statements:	
Accountants' Report	12
Balance Sheets	13
Statements of Revenue and Expenditures	14
Statements of Changes in Funded Reserves	15
Notes to Financial Statements	17
Schedule of Administrative Expenses	19
Actuary's Report	20
Financial and Statistical Tables:	
Balance Sheet Assets	22
Balance Sheet Liabilities	22
Analysis of Funding	23
Revenues by Source	23
Expenses by Type	24
Benefit Expenses by Type	24
Total Membership	25
Active Membership	26
Number of Recurring Benefit Payments	27
Termination Refunds - Number/Amount	27
Schedule of Insurance in Force	28
Plan Summary	29

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
1201 South Fifth Street Springfield, IL 62706 217/782-7008

January 9, 1978

The Honorable James R. Thompson
Governor of the State of Illinois
Springfield, Illinois

Dear Governor:

On behalf of the Board of Trustees of the State Employees' Retirement System of Illinois, I take pleasure in submitting herewith the Annual Report of the Board for the fiscal year ended June 30, 1977.

Respectfully Submitted,



Chairman

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
1201 South Fifth Street Springfield, IL 62706 217/782-7008

December 14, 1977

Board of Trustees
State Employees' Retirement System
Springfield, Illinois

The annual report of the State Employees' Retirement System is presented herein for the purpose of informing the membership, governmental officials and the general public regarding significant facts pertaining to the operations of the System for the fiscal year ended June 30, 1977. Material is presented in a manner that allows for comparison of essential financial and statistical information with that developed in prior years.

HIGHLIGHTS OF OPERATIONS:

When viewed from an actuarial standpoint, the present financial condition of the System has shown slight improvement as evidenced by a security ratio (rate of funding) of 45.5% as of June 30, 1977 as compared to 44.6% as of the end of fiscal 1976. Unlike previous years, where such an improvement could be traced directly to increased State contributions, upward movement in the security ratio experienced during FY-77 resulted from a combination of the following factors: (1) a slight decrease in active membership, (2) a less than anticipated increase in payroll, and (3) restraint by the General Assembly and the Governor in approving legislation which increased benefits payable by the System. Once again, however, as stated in previous years, to assure long-range financial security it is necessary that an increased level of State contributions be provided.

As has been the policy over the years, the efforts of the administrative staff are constantly directed toward an improvement in the administration of the System, to the end that the System may continue to fulfill its basic objectives with maximum effectiveness as an essential adjunct of a progressive personnel policy for State Government. The following projects implemented during the 1977 fiscal year illustrate some of the more significant accomplishments achieved.

1. Development of additional claim control procedures which include: implementation of a questionnaire which was sent to the recipient of widows and survivors benefits to secure critical information concerning continued eligibility, complete redesign of the benefit removal procedure, implementation of a routine medical review procedure for all disability benefit recipients, implementation of a procedure in cooperation with the Bureau of Employment Security to

obtain private sector earnings information for disability benefit recipients, field investigation of all disability benefit recipients who reside outside of the State of Illinois, and field investigation of over 400 retirees to assure proper receipt of the benefit warrant.

2. Automation of the System's General Accounting function to include both the Cash Journals and Voucher Registers.
3. Extension of the System's field program to include the establishment of regional seminars to better provide for the dissemination of information regarding the System's benefit program to State employees employed outside of the Chicago and Springfield areas.
4. Preparation of legislation to recodify the System's governing Act, Chapter 108½, Article 14, Illinois Revised Statutes, to remove obsolete wording and better provide for efficient over-all administration of the System's benefit program. This legislation, Public Act 80-841, was passed by the General Assembly and signed by the Governor to become effective January 1, 1978.

REVENUES:

As reported in prior years, the primary sources of income to the System are the contributions received from active members and the State, as well as income earned on the investment of reserves. During the 1977 fiscal year, total revenues amounted to \$146.1 million. This represents an increase of \$8.4 million, or 6.1% over revenues received during the 1976 fiscal year.

<u>Revenue Source</u>	<u>FY-77</u>	<u>FY-76</u>	<u>Increase</u>	
	(millions)	(millions)	<u>Amount</u>	<u>Percentage</u>
Member Contributions	\$ 48.2	\$ 47.5	\$.7	1.5%
State Contributions	59.8	58.1	1.7	2.9%
Investment Income	<u>38.1</u>	<u>32.1</u>	<u>6.0</u>	<u>18.7%</u>
Total	\$146.1	\$137.7	\$8.4	6.1%

Members' contributions to the System are fixed by Statute and are applied on a payroll deduction basis as a percentage of base salary applicable to the position held. While approximately 25% of the System's membership, who are not coordinated with Social Security, contribute to the System at a rate of 8% or more, the continued decline in the rate of increase of members' contributions reflects gradual movement at the rate of approximately 2% per year toward total coordination with Social Security, as new employees automatically participate under the coordinated plan. The lower rate of increase during the year must also be attributed to a slight decrease in active membership as well as a considerably lower than expected rate of total payroll growth.

Both of these factors must be presumed to have been affected by the change in administration in January of 1977 and the subsequently announced hiring freeze which affected most of the larger departments in State Government. The following table sets forth pertinent statistics regarding active membership and total base payroll.

<u>Active Membership</u>	<u>FY-77</u>	<u>FY-76</u>	<u>Increase(Decrease)</u>	
			<u>Number/Amount</u>	<u>Percentage</u>
Coordinated Members	60,372	59,693	679	1.1%
Non-Coordinated Members	17,412	18,300	(888)	(4.9%)
Base Earnings Reported for All Members (millions)	\$884.5	\$864.2	\$20.3	2.3%

Member retirement contribution rates of 4% for coordinated and 8% for non-coordinated employees did not change during the year. The rate of Social Security contribution also remained unchanged at 5.85% for employees and employers, however, the maximum wage base did increase from \$15,300 to \$16,500 effective January 1, 1977.

The State's contribution rate of 6.7% of payroll, which remained unchanged between FY-76 and FY-77, is applied by each State Agency against base payroll each pay period. Amounts appropriated by the General Assembly for retirement purposes are vouchered by each agency as part of the payroll function. Payroll trailer warrants, which result as a by-product of the Comptroller's payroll system, are deposited by the Retirement System in the Trust Fund Account. While employer contributions increased \$1.7 million between fiscal years, \$59.8 million in FY-77 compared to \$58.1 million in FY-76, this level fell \$6.1 million short of the System's total benefit payout including administrative expenses, the level presumed to be developed at the time of Board certification of the 6.7% State contribution rate. The following table illustrates the excess/deficiency in the State contribution rate over the past five years compared to the level of benefit payout including administrative expenses incurred in each respective year.

	<u>State Contribution*</u>	<u>Benefits Plus Administrative Expenses</u>	<u>Excess(Deficiency) of State Contribution</u>
FY-73	\$39.1	\$36.8	\$2.3
FY-74	41.5	45.0	(3.5)
FY-75	51.9	52.0	(.1)
FY-76	58.1	58.7	(.6)
FY-77	59.8	65.9	(6.1)

*Includes distribution from State Pension Fund.

Increased investment income resulted from increased dollar level of reserves available for long-term investment and continued emphasis in the area of fixed income investment.

In addition, interest income in the amount of \$37,507 was earned on cash reserves maintained under the custody of the State Treasurer in the Trust Fund Account as the result of an Attorney General's Opinion No. S-1227 dated April 7, 1977 authorizing the State Treasurer to credit short term interest earnings directly to a Trust Fund Account. While not implemented until May of 1977, it is anticipated that this revised procedure will produce approximately \$300,000 in additional interest income during FY-78 and future years. This procedural change, in essence, will result in the future in 100% investment of System reserves at all times during the fiscal year.

EXPENSES:

Total expenses of the System during the fiscal year amounted to \$77.3 million, an increase of \$9.3 million or 13.7% over expenses incurred during the 1976 fiscal year. Benefit payments again increased significantly during the year to a total of \$64.8 million as compared to \$57.5 million during FY-76. While this pattern should be expected in regard to retirement and survivors benefits reflecting higher earnings and levels of State employment, some concern must be directed toward the continuing increase in disability benefit payments. In this regard, Attorney General Opinion No. S-1187 dated November 22, 1977 prescribing maternity as a compensable disability under the Retirement Act should be noted. At this time, it is estimated that maternity disability claims will result in an additional \$300,000 in disability benefit payments during FY-78. The reduction in number of disability recipients reflected in the following table should be clarified as these figures represent number of individuals on the monthly disability prelist as of the end of the fiscal year. During the year, it was necessary from a procedural standpoint to voucher accidental or non-occupational disability benefits separately from the monthly prelist for individuals receiving temporary total disability payments under the Workmen's Compensation Act. As of June 30, 1977, 127 individuals were in this category, thus increasing the total number of disability benefit recipients to 1,920. The reduction in the level of administrative expenses resulted from non-reoccurring purchases, principally automated filing equipment used for maintenance of member records.

<u>Expenses</u>	<u>FY-77</u>	<u>FY-76</u>	<u>Increase (Decrease)</u>	
	(millions)	(millions)	<u>Amount</u>	<u>Percentage</u>
Retirement Benefits	\$41.6	\$37.2	\$4.4	11.8%
Survivors Benefits	9.5	8.6	.9	10.5
Disability Benefits	11.0	9.4	1.6	17.0
Lump Sum Death Benefits	2.7	2.3	.4	17.4
Contribution Refunds	11.4	9.3	2.1	22.6
Administrative Expenses	<u>1.1</u>	<u>1.2</u>	<u>(.1)</u>	<u>(8.3)</u>
Total	<u>\$77.3</u>	<u>\$68.0</u>	<u>\$9.3</u>	<u>13.7%</u>

<u>Type of Payments</u>	<u>Number of Recipients</u>		<u>Increase(Decrease)</u>	
	<u>6-30-77</u>	<u>6-30-76</u>	<u>Number</u>	<u>Percentage</u>
Retirement Benefits	13,885	12,969	916	7.1%
Survivors Benefits	5,228	4,699	529	11.3%
Disability Benefits	1,793	1,848	(55)	(3.0%)

While not deposited in nor dispersed from the Retirement Trust Fund, Social Security taxes paid to the Federal Government on behalf of State employees amounted to \$69.3 million for the 1977 fiscal year as compared to \$65.9 million during the 1976 fiscal year.

RESERVES:

At the close of the year, total reserves, which are the dollars available to meet current and future benefit payments, amounted to \$650.3 million. These reserves increased in the sum of \$68.7 million which represents the excess of revenues amounting to \$146.1 million over expenses of \$77.3 million. The following schedule illustrates the addition of these excess dollars to the asset and reserve accounts of the System.

<u>Assets</u>	<u>FY-77</u> (millions)	<u>FY-76</u> (millions)	<u>Increase(Decrease)</u>
Cash	\$ 3.4	\$ 3.8	(\$.4)
Receivables	7.0	5.5	1.5
Investments	<u>641.6</u>	<u>573.6</u>	<u>68.0</u>
	652.0	582.9	69.1
Less Payables	<u>1.7</u>	<u>1.3</u>	<u>.4</u>
Net Assets	<u>\$650.3</u>	<u>\$581.6</u>	<u>\$68.7</u>
<u>Reserves</u>	<u>FY-77</u> (millions)	<u>FY-76</u> (millions)	<u>Increase</u>
Member	\$272.7	\$251.8	\$20.9
Future Operations	<u>377.6</u>	<u>329.8</u>	<u>47.8</u>
	<u>\$650.3</u>	<u>\$581.6</u>	<u>\$68.7</u>

Total System reserves amounting to \$650.3 million represent net present assets of the System as of the end of the 1977 fiscal year. A valuation made by the System's Consulting Actuary as of the same date indicated total accrued liabilities of the System to be \$1,429.4 million resulting in an

unfunded liability of \$779.1 million. The unfunded accrued liability represents the actuarially computed value of accrued and unfinanced pension credits. It constitutes an accrued obligation of the State of Illinois to be discharged by future appropriations by the State to the System.

INVESTMENTS:

The investment function of the System, with the exception of minimal working capital reserves held by the State Treasurer to pay benefits and administrative expenses, is performed by the Illinois State Board of Investment. Established as a separate State Agency in 1969 for the purpose of ultimately offering investment services to all Public Employee Pension Funds in Illinois, the Board has structured its investment operations on a basis similar to that of a mutual fund. Separate commingled funds have been established, the Illinois Bond Fund for fixed income investment and the Illinois Equity Fund, consisting principally of common and preferred stocks. Assets currently not needed by the System for the payment of benefits and administrative expenses are transmitted to the Investment Board for long-term investment. Amounts transferred are used to purchase units of either the Bond or Equity Funds based on Investment Board direction, the number of units being determined by the market value of investments held in the particular commingled fund at the time of the transfer. During the 1977 fiscal year, \$30.0 million was transferred to said Board as compared to \$36.5 million during the 1976 fiscal year.

The Annual Report of the Illinois State Board of Investment for the 1977 fiscal year reflects System net investment income of \$38.0 million, representing a rate of return of 6.26% on average cost and 6.52% on average market value during the year. Total investment return for the year, including realized and unrealized market appreciation/depreciation, was 7.5% as compared to 9.5% during the 1976 fiscal year. Securities by type comprising the portfolio of the System and fiscal year 1977 rates of return are shown in the following table:

<u>Type of Investments</u>	<u>Amount</u>		<u>Percent</u>		<u>Income Return</u>		<u>Total Return</u>
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Percent on Average Cost</u>	<u>Percent on Average Market</u>	
Fixed Income Investments (Illinois Bond Fund)	\$443.2	\$443.2	69.1%	71.4%	7.59%	7.76%	13.2%
Equity Investments (Illinois Equity Fund)	195.3	174.1	30.4	28.1	3.35%	3.63%	-3.4%
Cash and Equivalents	<u>3.1</u>	<u>3.1</u>	<u>.5</u>	<u>.5</u>	-	-	-
	<u>\$641.6</u>	<u>\$620.4</u>	<u>100%</u>	<u>100%</u>	6.26%	6.52%	7.5%

NOTES TO TABLE:

1. Rate of income return on cash and equivalents is included in yield on fixed income investments.
2. The total portfolio rate of return was computed using a dollar weighted calculation method. The total rate of return on the Illinois Bond and Equity Funds was computed using a time weighted calculation method.

The cumulative average rate of return earned by the System since the transfer of assets to the Investment Board on June 30, 1970 is reflected in the following table:

<u>Fiscal Year</u>	<u>New Money Contributions</u>	<u>Realized & Unrealized Market Appreciation (Depreciation)</u>	<u>Net Income</u>	<u>Net Assets at Market (Period End)</u>	<u>Cumulative Annualized Rate of Return*</u>
1977	\$30,000,000	\$ 5,525,147	\$38,035,539	\$620,409,169	6.4%
1976	36,500,000	16,066,781	32,082,739	546,848,483	6.2
1975	36,500,000	21,910,000	28,346,030	462,198,963	5.3
1974	24,000,000	(58,452,456)	23,817,891	375,442,933	3.2
1973	36,500,000	(18,022,997)	19,174,915	386,077,498	8.2
1972	32,250,000	17,604,686	15,150,068	348,425,580	12.8
1971	35,250,000	22,430,027	15,500,326	283,420,826	15.4
1970**				210,240,473	

*Total internal rate of return (including income).

**Assets transferred to Board June 30, 1970.

LEGISLATIVE AMENDMENTS:

During the 1977 fiscal year only one legislative amendment, House Bill 3648, was passed by the General Assembly and approved by the Governor affecting the operations of the System. House Bill 3648 effective October 1, 1976 amended the Unemployment Insurance Act, Chapter 48, Para. 640, Illinois Revised Statutes and permitted the System to obtain employment information from the Bureau of Employment Security for purposes of determining if a recipient of a disability benefit was gainfully employed in the private sector.

Subsequent to June 30, 1977, several pieces of legislation of a substantial nature became law affecting the operations and/or benefit structure of the System. A summary of these amendments follows:

Senate Bill 751, effective September 16, 1977, established a minimum monthly pension of \$150 for present retirees who as of September 16, 1977 were 65 or more years of age, and who retired with 20 or more years of creditable service. Annuitants who retired under the provisions of the Retirement System's Reciprocal Act or who contributed to Social Security as a part of their State employment are excluded from the provisions of this bill.

To qualify for the minimum pension of \$150 an annuitant must pay to the System in a lump sum an amount equal to 1% of his final average monthly compensation times the number of his full years of creditable service at the time of retirement. The increase in pension is effective the first of the month following receipt of the payment by the System.

Any retiree who has already qualified for annual increases in his pension forfeits all such further increases if he elects to participate in this program.

Senate Bill 826, effective October 1, 1977 established the same contribution schedule and benefit structure for pensions for certain air pilots as is now applicable to State Police and IBI Agents.

House Bill 541, effective October 1, 1977 provides that the effective date of a pension may not be more than one year prior to the date a member files application for it - previously it was 90 days.

House Bill 1782, effective January 1, 1978. This is a complete rewriting of Article 14 of the Illinois Pension Code which is the statute governing operations of the State Employees' Retirement System.

The rewritten Article eliminates redundant verbiage and outdated provisions, clarifies ambiguous provisions and includes within each section all information related thereto. The benefit structure and the contribution schedule for members remain unchanged.

Some of the revisions of significance and importance include:

1. Overtime pay will be included as a part of earnings. Contributions to the System, therefore, will be made on overtime in addition to regular salary and the total amount will be used in the computation of pensions and most other benefits with the exception of disability and certain death benefits which will continue to be based on salary rate.
2. After January 1, 1978 members establishing credit for any service prior to their date of membership will be required to pay interest at 5% per annum compounded annually on the contributions due. Interest will be computed from the last date of membership to the date of payment. Contributions will be based on compensation and contribution rate in effect on the last date of membership, however, for all service prior to January 1, 1969 the regular or non-coordinated contribution rate will be payable.

3. Layoff is now considered termination of employment. Consequently, an employee laid off is eligible for a refund of contributions to the System (without interest) or a pension if qualified for it. If, however, death occurs while on layoff status the benefits payable to survivors and beneficiaries will be the same as those payable for a member who had terminated State employment rather than those paid for a member whose death occurs while in service.
4. A person receiving a pension based solely on credit established in the State Employees' Retirement System may enter the service of a department under the State Universities' Retirement System or the Teachers' Retirement System and continue to receive his pension from the State Employees' Retirement System.

House Bill 2130, effective September 27, 1977 permits a member who was an elected Police Magistrate or Justice of the Peace serving as a Magistrate of the Circuit Court to establish credit for this elective service beginning January 1, 1963 by paying contributions for the period of such service together with interest at 5% compounded annually from January 1, 1963 to the date of payment. Contributions are based upon the member's compensation and the contribution rate in effect at the time the service was rendered.

House Bill 2322, effective October 1, 1977 permits a member to establish credit in the System for any contractual State employment rendered after December 31, 1975 and before April 1, 1976 by paying to the System the employee and employer contributions for the period of such employment. The payment must be made in a lump sum before December 31, 1977.

Provides that the survivor of a member who died between November 1, 1970 and July 15, 1971 is eligible for a survivors annuity if the survivor was then 50 or more years of age or upon attainment of age 50 if under that age as of October 1, 1977. Previously this provision applied only in instances where the member's death occurred on or after July 15, 1971.

Extends the period during which a member may apply for an occupational disability benefit from six to twelve months following the end of the last pay period during which the member receives salary after being injured or incapacitated for work.

ADMINISTRATION AND REPORTING:

Under the direction of the Executive Secretary, administrative operations of the System are accomplished by a staff of full-time employees which numbered 61 as of the end of the 1977 fiscal year, as compared to 61 at the end of the 1976 fiscal year. These figures do not include the Social Security Unit staff of four employees.

Annual statements of account were mailed in October of 1977 to all active and inactive members having an account balance of \$1.00 or more as of June 30, 1977. Included with each statement was an informational brochure explaining legislative amendments to the Retirement Act passed by the General Assembly and signed by the Governor subsequent to June 30, 1977. Financial Statements for the 1976 fiscal year were also distributed to all active and retired members.

The State Treasurer of Illinois is the Ex-Officio Treasurer of the System. All moneys are deposited through the State Comptroller who then orders these funds credited to accounts maintained by the Treasurer's Office. Disbursements are accomplished by vouchers authorized by the Executive Secretary and issued to the State Comptroller.

The Board of Trustees must appoint an Actuary to perform all necessary actuarial requirements of the System. These duties were performed by Mr. A. A. Weinberg, Consulting Actuary, for the 1977 fiscal year.

The System must have an audit of its accounts annually by a certified public accountant. This audit was performed under the direction of the Auditor General by the firm of Ernst & Ernst for the 1977 fiscal year.

In addition to administering the retirement program, the System also performs the function of State Social Security Administrator for all public employees in Illinois. As State Administrator the System initiates social security coverage agreements, collects and transmits social security taxes to the Secretary of the Department of Health, Education and Welfare.

ACKNOWLEDGMENTS:

This report has been prepared through the efforts and cooperation of the administrative staff, and the System's professional consultants. Their assistance is hereby acknowledged with grateful appreciation.

Respectfully Submitted,

A handwritten signature in black ink, reading "Michael R. Mory". The signature is written in a cursive style with a long, sweeping tail on the final letter.

FINANCIAL STATEMENTS

Ernst & Ernst

First National Bank Building • Springfield, Illinois 62701 • Phone 217/528-2551

ACCOUNTANTS' REPORT

Board of Trustees
State Employees' Retirement System
of Illinois
and
Auditor General
State of Illinois

We have examined the balance sheets of the State Employees' Retirement System Trust Fund of the State Employees' Retirement System of Illinois as of June 30, 1977 and June 30, 1976, and the related statements of revenue and expenditures and changes in funded reserves for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the State Employees' Retirement System Trust Fund of the State Employees' Retirement System of Illinois at June 30, 1977 and June 30, 1976, and the results of its financial transactions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. The information included in the schedule of administrative expenses was derived from the accounting records tested by us as part of the auditing procedures followed in our examinations of the aforementioned financial statements and, in our opinion it is fairly presented in all material respects in relation to the financial statements taken as a whole.

Ernst & Ernst

Springfield, Illinois
December 2, 1977



Original from
UNIVERSITY OF ILLINOIS AT
URBANA-CHAMPAIGN

BALANCE SHEETS

' STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	June 30	
	<u>1977</u>	<u>1976</u>
ASSETS		
Cash	\$ 3,415,765	\$ 3,764,437
Receivables:		
Contributions receivable:		
Participants	2,836,785	2,310,377
Employing State agencies	3,874,332	2,984,743
Other accounts receivable	<u>224,068</u>	<u>215,243</u>
	6,935,185	5,510,363
Investments--equity in the State Employees' Investment Fund of the Illinois State Board of Investment (market value: 1977--\$620,409,169; 1976--\$546,848,483)--Note B	<u>641,637,642</u>	<u>573,602,103</u>
	<u>\$ 651,988,592</u>	<u>\$ 582,876,903</u>
LIABILITIES		
Benefits payable	\$ 861,348	\$ 850,111
Refunds payable	774,706	477,978
Administrative expenses payable	<u>70,315</u>	<u>17,535</u>
	1,706,369	1,345,624
Reserves:		
Actuarially-determined accrued benefit cost--Note C	1,429,366,705	1,304,455,262
Less unfunded accrued benefit cost--representing an obligation of the State of Illinois	<u>779,084,482</u>	<u>722,923,983</u>
Funded reserves	<u>650,282,223</u>	<u>581,531,279</u>
	<u>\$ 651,988,592</u>	<u>\$ 582,876,903</u>

See notes to financial statements.

STATEMENTS OF REVENUE AND EXPENDITURES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	June 30	
	1977	1976
Revenue:		
Contributions:		
Participants	\$ 47,848,876	\$ 47,168,304
Employing State agencies	59,260,881	57,898,332
State Pension Fund	536,900	173,000
	<u>107,646,657</u>	<u>105,239,636</u>
Net investment income	38,035,539	32,051,811
Repayment of contributions refunded	285,525	281,610
Interest earned on cash balances	37,507	-
Interest received from participants	88,880	83,727
	<u>146,094,108</u>	<u>137,656,784</u>
Expenditures:		
Benefits:		
Retirement annuities	41,548,561	37,171,787
Survivors' annuities	9,512,724	8,600,668
Disability benefits	11,026,764	9,384,124
Lump sum death benefits	2,707,167	2,285,270
	<u>64,795,216</u>	<u>57,441,849</u>
Refunds	11,416,099	9,235,848
Administrative expenses	1,131,579	1,250,217
Transfers to reciprocating retirement systems	270	61,840
	<u>77,343,164</u>	<u>67,989,754</u>
	<u>EXCESS OF REVENUE</u>	<u>OVER EXPENDITURES</u>
	<u>\$ 68,750,944</u>	<u>\$ 69,667,030</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FUNDED RESERVES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

Two years ended June 30, 1977

	Reserve for Participants' Contributions		Reserve for Future Operations			
	Total	Supplemental Annuity	Automatic Annuity Increase	Interest Accumulations	Other Future Benefits	
Balance at July 1, 1975	\$511,864,249	\$229,511,987	\$26,332,647	\$33,527,421	\$29,578,052	\$192,914,142
Add (deduct):						
Excess (deficiency) of revenue over expenditures	69,667,030	33,248,128	(1,280,213)	7,026,451		30,672,664
Reserve transfers:						
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status		(10,987,192)				10,987,192
Interest credited to members' accounts				7,314,893		(7,314,893)
Reserve for automatic annuity increase credited with interest at 4% on the reserve balance at beginning of year					1,341,097	(1,341,097)
Reserve for supplemental annuity credited with investment income in excess of 4% on average investments			10,478,763			(10,478,763)
Reclassification of members' contributions for automatic annuity increase, previously transferred to the reserve for other future benefits				526,778		(526,778)
Balance at June 30, 1976	581,531,279	251,772,923	35,531,197	42,421,747*	36,892,945	214,912,467

Original from

UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN

<p>Add (deduct): Excess (deficiency) of revenue over expenditures Reserve transfers: Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status Interest credited to members' accounts Reserve for automatic annuity increase credited with interest at 4% on the reserve balance at beginning of year Reserve for supplemental annuity credited with investment income in excess of 4% on average investments</p>	<p>68,750,944</p> <p>31,639,064</p> <p>(10,754,144)</p> <p>8,073,881</p> <p>1,696,870</p> <p>13,730,744</p> <p><u>\$650,282,223</u></p>	<p>(1,345,347)</p> <p>6,499,816</p> <p><u>\$47,916,594</u></p> <p><u>\$50,618,433*</u></p> <p><u>\$44,966,826</u></p>	<p>31,957,411</p> <p>10,754,144</p> <p>(8,073,881)</p> <p>(1,696,870)</p> <p><u>(13,730,744)</u></p> <p><u>\$234,122,527</u></p>
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BALANCE AT JUNE 30, 1977

* Includes active members' accumulated contributions of \$16,837,336 and \$19,635,738, respectively, at June 30, 1976 and 1977.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The financial transactions of the State Employees' Retirement System Trust Fund (System Trust Fund) are recorded on the accrual basis.

Investments:

Equity of the System Trust Fund in the State Employees' Investment Fund of the Illinois State Board of Investment represents the underlying net assets of the investment fund valued on the basis of cost.

Office Equipment:

Expenditures for equipment are charged to administrative expenses. The equipment acquisitions are also recorded in property control records at cost for accountability purposes.

NOTE B--INVESTMENTS

Investments of the System Trust Fund are managed by the Illinois State Board of Investment pursuant to Article 22A of the Illinois Pension Code and are held in the State Employees' Investment Fund of that Board. Net assets of the investment fund at June 30, 1977 and 1976 comprised the following:

	June 30, 1977		June 30, 1976	
	Cost	Market Value	Cost	Market Value
Investments:				
Illinois Equity Fund (16,797,456 and 15,876,900 units, respectively)	\$195,266,460	\$174,091,886	\$185,515,633	\$177,588,566
Illinois Bond Fund (46,837,396 and 40,512,681 units, respectively)	443,222,448	443,168,549	384,746,913	365,920,360
Corporate short-term notes	3,150,000	3,150,000	3,325,000	3,325,000
Other assets--net	<u>(1,266)</u>	<u>(1,266)</u>	<u>14,557</u>	<u>14,557</u>
Net assets	<u>\$641,637,642</u>	<u>\$620,409,169</u>	<u>\$573,602,103</u>	<u>\$546,848,483</u>

NOTES TO FINANCIAL STATEMENTS--CONT'D

NOTE C--BENEFITS

The retirement system is governed by Article 14 of the Illinois Pension Code and benefits under the system are defined in the Code. All persons entering State service, except in positions subject to membership in other State sponsored retirement systems, become members of the State Employees' Retirement System upon their first day of compensated employment. The Governor and Administrative Code officers appointed by the Governor may elect to become members of the system. Participating members contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases in retirement annuities. The total contribution rates are 4% if coordinated with social security and 8% if not coordinated, except that the rates are either 9% or 9-1/2% for members in certain employment categories who are eligible for benefits under alternative formulas. Participants' contributions are fully refundable, without interest, upon withdrawal from State employment. The State of Illinois is obligated by statute to contribute, through department appropriations, the funds not otherwise provided which are necessary to meet the cost of maintaining the system.

The calculations of the accrued benefit cost (arising from service credits in periods prior to June 30, 1977 and 1976, respectively) were made by a consulting actuary as of June 30, 1977 and 1976 on the basis of the entry-age normal cost method. The more significant assumptions underlying the actuarial computations are as follows:

Rate of return on investments	5%
Average age at retirement	64 years
Rate of turnover without vested benefits	A high scale at younger age levels, becoming progressively lower as ages advance--consistent with the System's experience.
Mortality basis	1951 Group Annuity Mortality Table (modified)
Salary increases	4% annual increase

SCHEDULE OF ADMINISTRATIVE EXPENSES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	Year Ended June 30	
	1977	1976
Personal services	\$ 616,642	\$ 576,829
Contributions to retirement system	41,142	38,326
Contributions for social security	25,170	23,397
Contractual services	150,947	175,863
Travel	6,427	5,938
Printing	9,158	20,272
Commodities	18,378	40,210
Equipment	18,350	71,833
Telecommunications	16,241	16,183
Electronic data processing	225,522	280,694
Other	<u>3,602</u>	<u>672</u>
Total administrative expenses	<u>\$1,131,579</u>	<u>\$1,250,217</u>

ACTUARY'S REPORT

SUITE 1507
14 EAST JACKSON BLVD.
(312) 939-7124
(312) 922-4573

RETIREMENT & PENSION PLANS
CERTIFIED PUBLIC ACCOUNTANT

A. A. WEINBERG
CONSULTING ACTUARY
CHICAGO 60604

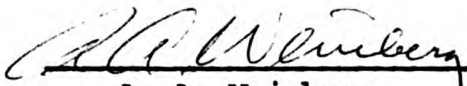
MEMBER - AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

C E R T I F I C A T I O N

We have completed an actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois as of June 30, 1977 and June 30, 1976.

Present assets and current liabilities as of the aforesaid dates were derived from financial statements submitted by the Secretary of the System.

In our opinion, the accompanying comparative Valuation Balance Sheets fairly present the financial condition of the State Employees' Retirement System, as of the dates indicated, giving effect to accrued liabilities and reserve requirements under the applicable law in force at the respective dates.


A. A. Weinberg,
Actuary

October 10, 1977

State Employees' Retirement System

VALUATION BALANCE SHEET

At June 30, 1977 and June 30, 1976 in Comparison

ASSETS

<u>PRESENT ASSETS</u>	<u>June 30, 1977</u>	<u>June 30, 1976</u>
Cash	\$ 3,415,765	\$ 3,764,437
Accounts Receivable	6,935,185	5,510,363
Investments	641,637,642	573,602,103
 <u>DEFERRED RECEIVABLE</u>		
Due from the State of Illinois for Unfunded Accrued Pension Credits	<u>779,084,482</u>	<u>722,923,983</u>
 TOTAL ASSETS	 <u>\$1,431,073,074</u>	 <u>\$1,305,800,886</u>

LIABILITIES AND RESERVES

CURRENT LIABILITIES

Benefits Payable	\$ 861,348	\$ 850,111
Refunds Payable	774,706	477,979
Administration Expense	70,315	17,534

RESERVE LIABILITIES

Liability for Retirement and Survivors' Annuities in Force and Pension Credits for Active Members	<u>1,429,366,705</u>	<u>1,304,455,262</u>
 TOTAL LIABILITIES AND RESERVES	 <u>\$1,431,073,074</u>	 <u>\$1,305,800,886</u>

**FINANCIAL
AND
STATISTICAL
TABLES**

BALANCE SHEET ASSETS

<u>Fiscal Year Ending June 30</u>	<u>Cash</u>	<u>Receivables</u>	<u>Investments</u>	<u>Total</u>
1968	\$ 590,659	\$9,095,635	\$191,542,831	\$201,229,125
1969	3,659,339	9,721,205	225,189,129	238,569,673
1970	2,868,729	5,064,179	265,117,967	273,050,875
1971	401,866	5,137,043	315,868,292	321,407,201
1972	949,662	4,851,894	337,711,455	343,513,011
1973	1,124,150	3,855,884	392,386,370	397,366,404
1974	1,358,242	5,550,862	441,204,262	448,113,366
1975	39,974	7,856,200	505,050,292	512,946,466
1976	3,764,437	5,510,363	573,602,103	582,876,903
1977	3,415,765	6,935,185	641,637,642	651,988,592

BALANCE SHEET LIABILITIES

<u>Fiscal Year Ending June 30</u>	<u>Accounts Payable</u>	<u>Reserve For Member Contributions</u>	<u>Reserve For Future Operations</u>	<u>Total</u>
1968	\$ 477,439	\$127,466,271	\$ 73,285,415	\$201,229,125
1969	5,017,553	136,726,389	96,825,731	238,569,673
1970	573,988	144,124,835	128,352,052	273,050,875
1971	482,610	156,521,044	164,403,547	321,407,201
1972	808,609	174,729,172	167,975,230	343,513,011
1973	1,100,726	193,150,279	203,115,399	397,366,404
1974	1,197,269	208,356,891	238,559,206	448,113,366
1975	1,082,217	229,511,987	282,352,262	512,946,466
1976	1,345,624	251,772,923	329,758,356	582,876,903
1977	1,706,369	272,657,843	377,624,380	651,988,592

ANALYSIS OF FUNDING

<u>Fiscal Year Ending June 30</u>	<u>Net Real Assets</u>	<u>Unfunded Accrued Liability</u>	<u>Reserve Requirement</u>	<u>Rate of Funding</u>
1968	\$200,751,686	\$265,632,530	\$ 466,384,216	43.0%
1969	233,552,120	269,580,019	503,132,139	46.4
1970	272,476,887	279,163,111	551,639,998	49.4
1971	320,924,592	396,462,891	717,387,483	44.7
1972	342,704,402	468,887,461	811,591,863	42.2
1973	396,265,678	516,633,117	912,898,795	43.4
1974	446,916,097	572,116,385	1,019,032,482	43.8
1975	511,864,249	661,912,869	1,173,777,118	43.6
1976	581,531,279	722,923,983	1,304,455,262	44.6
1977	650,282,223	779,084,482	1,429,366,705	45.5

REVENUES BY SOURCE

<u>Fiscal Year Ending June 30</u>	<u>Member Contributions</u>	<u>State Contributions</u>	<u>Investment Income</u>	<u>Total</u>
1968	\$23,510,567	\$28,271,625	\$ 7,214,144	\$ 58,996,336
1969	23,569,519	29,597,348	7,281,358	60,448,225
1970	24,351,890	31,786,205	13,322,444	69,460,539
1971	27,370,573	36,801,296	15,500,326	79,672,195
1972	34,293,906	33,198,611	(11,406,837)	56,085,680
1973	38,096,473	39,068,840	19,174,915	96,340,228
1974	40,306,572	41,549,357	23,817,892	105,673,821
1975	45,277,307	51,926,434	28,346,030	125,549,771
1976	47,533,641	58,071,332	32,051,811	137,656,784
1977	48,223,281	59,797,781	38,073,046	146,094,108

EXPENSES BY TYPE

<u>Fiscal Year Ending June 30</u>	<u>Benefits</u>	<u>Contribution Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
1968	\$17,009,712	\$ 3,592,570	\$ 416,767	\$21,019,049
1969	19,447,994	8,199,796	459,813	28,107,603
1970	22,018,707	8,517,066	510,901	31,046,674
1971	25,623,031	5,601,459	579,028	31,803,518
1972	30,292,935	4,012,935	644,557	34,950,427
1973	36,015,006	6,020,424	743,522	42,778,952
1974	44,164,205	9,980,751	878,446	55,023,402
1975	50,970,827	8,605,238	1,025,554	60,601,619
1976	57,441,849	9,297,688	1,250,217	67,989,754
1977	64,795,216	11,416,369	1,131,579	77,343,164

BENEFIT EXPENSES BY TYPE

<u>Fiscal Year Ending June 30</u>	<u>Retirement Annuities</u>	<u>Survivors Annuities</u>	<u>Disability Benefits</u>	<u>Lump Sum Death Benefits</u>	<u>Total</u>
1968	\$11,086,387	\$2,925,121	\$ 1,567,167	\$1,431,037	\$17,009,712
1969	12,111,419	3,533,700	1,948,186	1,854,689	19,447,994
1970	14,142,829	4,027,678	2,240,226	1,607,974	22,018,707
1971	16,272,616	4,549,625	2,955,476	1,845,314	25,623,031
1972	18,938,860	5,299,054	3,952,349	2,102,672	30,292,935
1973	22,300,169	6,127,247	5,418,505	2,169,085	36,015,006
1974	28,076,974	6,934,764	7,071,054	2,081,413	44,164,205
1975	32,650,218	7,784,809	8,124,471	2,411,329	50,970,827
1976	37,171,787	8,600,668	9,384,124	2,285,270	57,441,849
1977	41,548,561	9,512,724	11,026,764	2,707,167	64,795,216

NUMBER OF RECURRING BENEFIT PAYMENTS

<u>Fiscal Year Ending June 30</u>	<u>Retirement Annuities</u>	<u>Survivors Annuities</u>	<u>Disability Benefits</u>	<u>Total</u>
1968	7,070	1,976	458	9,504
1969	7,523	2,325	497	10,345
1970	8,149	2,613	582	11,374
1971	8,646	2,880	759	12,285
1972	9,319	3,347	968	13,634
1973	10,118	3,642	1,229	14,989
1974	11,031	3,997	1,447	16,475
1975	12,063	4,351	1,610	18,024
1976	12,969	4,699	1,848	19,516
1977	13,885	5,228	1,793	20,906

TERMINATION REFUNDS - NUMBER/AMOUNT

<u>Fiscal Year Ending June 30</u>	<u>Number</u>	<u>Amount</u>
1968	3,709	\$ 3,468,469
1969	6,210	8,017,966
1970	6,794	8,339,575
1971	5,278	5,383,067
1972	7,536	3,727,702
1973	13,389	5,616,751
1974	15,044	9,531,584
1975	13,777	8,180,657
1976	15,820	8,840,660
1977	14,055	10,988,479

SCHEDULE OF INSURANCE IN FORCE

JUNE 30, 1977

<u>Name of Company</u>	<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Policy Period</u> <u>From</u> <u>To</u>	<u>Detail of Coverage</u>	<u>Liability Limits</u>
Aetna Insurance Company	Employee Dishonesty Bond	F 14-29-51	7-1-76/6-30-77	Employee Dishonesty, Disappearance and Destruction Bond	\$1,250,000 per Occurrence (\$5,000 Deductible)

PLAN SUMMARY

SUMMARY OF RETIREMENT SYSTEM PLAN
(as of June 30, 1977)

1. 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.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees of five members, composed of representatives of both the employees and the State of Illinois. 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 insure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE MEMBERSHIP

All persons entering State service become members of the System upon their first day of employment unless their position is subject to membership under another State supported system. Administrative code officers appointed by the Governor may elect to become members of the System.

4. 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:

- A. Members Coordinated With Social Security - 4% of Salary
- B. Members Without Social Security - 8% of Salary
- C. State Police and IBI Agents - 9½% of Salary
- D. Certain Firefighters and Certain Air Pilots - 9% of Salary

Members coordinated with Social Security also pay the current Social Security tax rate.

5. RETIREMENT PENSION

A. 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; at any age with

35 or more years of credit; between ages 55 and 60 with 30 to 35 years of credit with the pension reduced by one-half of 1% for each month the member is under age 60.

State Police, IBI Agents and Certain Firefighters are eligible 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. Certain Air Pilots are eligible at age 55 with 20 or more years of such pension credit.

B. 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.

The pension formula reflects a graded or progressive method according to length of service as follows:

<u>Years of Credit</u>	<u>Employees Under Social Security</u>	<u>Employees Not Under Social Security</u>
Each of the First 10 Years of Credit	1.0%	1.67%
Each of the Next 10 Years of Credit	1.1%	1.9%
Each of the Third 10 Years of Credit	1.3%	2.1%
Each Year Above 30	1.5%	2.3%

For State Police and IBI Agents the formula is 2½% for each of the first ten years, 2½% for the second ten years and 2 ¾% for over 20 years. For Certain Firefighters and Certain Air Pilots the formula is 2% for each of the first ten years, 2½% for the second ten years and 2½% for over 20 years.

The maximum pension payable is 75% of final average compensation.

C. 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 age 65 and reduced after that age to provide a uniform pension income throughout his retired life. To be eligible for this election the member must have established eligibility for a Social Security pension.

D. Annual Increases in Pension

Post retirement increases of 2% of the original pension are granted to members effective each January 1.

6. SURVIVORS ANNUITY

A. 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; dependent unmarried children under age 18 if no spouse survives; dependent parents at age 50 if neither an eligible spouse nor children survive the member.

B. Amount of Payment

If the member's death occurs before retirement, the named beneficiary receives a lump sum refund of all of the pension contributions made by the member, 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 salary subject to a maximum of \$300. If children of the member are under the care of the spouse, the annuity is increased for each child, subject to a maximum of \$500. If only eligible children survive, the monthly annuity may not exceed the lesser of \$500 or 80% of final average salary. The maximum combined monthly payment to parents may not exceed \$300. 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 amount of benefits they are entitled to from Social Security.

C. Duration of Payment

The monthly annuity payable to a spouse terminates upon death or remarriage; to children upon death, marriage or attainment of age 18, except for a child who at age 18 is physically or mentally disabled and unable to accept gainful employment.

7. 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.

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URBANA-CHAMPAIGN

A. Qualification of Widow

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

B. 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 $66 \frac{2}{3}$ % 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 from Social Security.

C. 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).

8. OCCUPATIONAL DEATH BENEFIT

A. 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 survive, they would be eligible for the benefit. If neither a spouse nor eligible children survive a dependent father or mother would be eligible.

B. 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 yearly earnable compensation for the twelve months preceding death, payable until remarriage. If children under age 18 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 remarries or dies before all children have attained age 18, each child receives a monthly allowance of 15% of average salary.

The combined payment to children may not exceed 50% of the member's yearly earnable compensation. Payments to or on account of children terminate upon their death, marriage or attainment of age 18.

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

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

9. OTHER DEATH BENEFITS

If the beneficiaries of the member do not qualify for any of the previously described death benefits, one of the following benefits is payable.

A. 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 months' 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.

B. 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.

10. NON-OCCUPATIONAL DISABILITY BENEFITS

A. Qualification and Amount of Payment

Available to any member under age 65 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 earnable 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.

B. Duration of Payment

The member is eligible for the monthly benefit until any one of the following events occurs: (1) disability ceases; (2) resumption of gainful employment; (3) payments are made for a period of time equal

to one-half of the pension credit established as of the date disability began; or (4) attainment of age 65.

11. OCCUPATIONAL DISABILITY BENEFIT

A. Qualification and Amount of Payment

Provided for any member under age 65 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 earnable compensation plus a credit to the member's account of service and contributions. The cash benefit is reduced by any payments received under the Workmen's Compensation or Occupational Diseases Acts.

B. Duration of Payment

Monthly benefits are payable until any one of the following events occur: (1) disability ceases; (2) resumption of gainful employment; or (3) attainment of age 65.

If termination of the benefit is due to the member having attained age 65, the member is entitled to a retirement pension based upon service credit established as of that date.

13. SEPARATION BENEFITS

Upon termination of State employment 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.