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STATE EMPLOYEES' RETIREMENT SYSTEM of Illinois

1980

DEPOSITORY

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UNIVERSITY OF ILLINOIS
AT URBANA-CHAMPAIGN

ANNUAL REPORT

ANNUAL REPORT

STATE EMPLOYEES' RETIREMENT SYSTEM
OF ILLINOIS

2815 West Washington Street
P.O. Box 4064
Springfield, Illinois 62708

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(As Constituted December 17, 1980)



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We wish to express our thanks to the Illinois Information Service, Graphics and Photography Departments, for the cover design and chart layouts for this report.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

P.O. Box 4064 - 2815 West Washington Street, Springfield, IL 62708



December 17, 1980

Phone (217) 753-0444

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, 1980.

Respectfully submitted,

Chairman

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

P.O. Box 4064 - 2815 West Washington Street, Springfield, IL 62708

Phone (217) 753-0444



Board of Trustees
State Employees' Retirement System
Springfield, Illinois

The annual report of the State Employees' Retirement System for the year ended June 30, 1980, is submitted herewith. This report embodies essential facts of financial, statistical and actuarial nature concerning the operation of the System covering a period from July 1, 1979, through June 30, 1980.

HIGHLIGHTS OF OPERATIONS

While the excess of revenues over expenditures was at a record level during FY-80, \$137.5 million, the overall financial condition of the System as measured by the relationship of net assets to the actuarial accrued liability showed a slight decline from 51.7% at the end of FY-79 to 50.7% as of June 30, 1980. This decline of 1% was due primarily to:

- (1) A change in actuarial assumptions utilized for valuation purposes resulting from a five-year experience analysis required by law;
- (2) A slight increase in the number of active members participating in the System; and
- (3) A greater than expected level of salary increases.

Although the funding ratio decreased slightly at the end of FY-80, projections made by the System's actuary, which assume continuation of the existing benefit plan, funding policy, and realization of the actuarial assumptions utilized, reflects an expected continued improvement in the funded level of the System over the next 15 years.

	Fiscal Year Ending			
	6/30/81	6/30/86	6/30/91	6/30/96
Number of Active Members	84,669	84,669	84,669	84,669
	Dollars In Billions			
Payroll	\$1.246	\$1.905	\$2.735	\$3.927
Benefit Payments and Administrative Expense	.089	.130	.201	.304
Assets (Book Value)	1.126	2.048	3.519	5.854
Unfunded Actuarial Liability	1.110	1.967	3.022	4.369
(Funded %)	(50.4%)	(51.0%)	(53.8%)	(57.3%)
State Contribution	.095	.130	.201	.304
(% Payroll)	(7.62%)	(6.82%)	(7.35%)	(7.74%)

It should be noted that assets available for active members (i.e., assets in excess of the reserves for benefit payments that have commenced) relative to the actuarial reserve for active and inactive members (determined on entry age normal method) are projected to increase from 22.4% in FY-81 to 44.1% in FY-96.

In support of the System's commitment of maintaining a high level of internal control, while expanding and improving services provided to the membership, the following projects and activities were undertaken during FY-80:

- (1) Development of an installment payment procedure that allows members to establish creditable service by utilizing installment payments for required contributions.
- (2) Further development of a disability control program that has resulted in savings to the Retirement Trust Fund of over \$1.5 million over the past two years.
- (3) Continued expansion of the Field Service Program - Benefit Seminars have furnished information to over 5,500 individuals during the fiscal year; and the comprehensive Preretirement Counseling Program, just implemented in FY-79, has been presented on 14 occasions during FY-80 to 362 State employees approaching retirement age.
- (4) Relocation of the System's Springfield office to a modern facility.

Annual Report 1980

TRANSMITTAL LETTER

REVENUES:

Total revenue for the fiscal year 1980 of \$232.9 million was an increase of \$30.3 million or 15% over revenue for the 1979 fiscal year.

Revenue Source	FY-80	FY-79	Increase	
	(Millions)	(Millions)	Amount	Percentage
Member Contributions	\$ 59.4	\$ 56.3	\$ 3.1	5.5%
State Contributions	94.1	84.8	9.3	11.0%
Investment Income	79.4	61.5	17.9	29.1%
Total	\$232.9	\$202.6	\$30.3	15.0%

Direct contributions by the members to establish credit for past periods of employment amounted to \$0.5 million. Member contributions from payroll deductions totaled \$58.9 million on wages of \$1,137.7 million.

Active Membership	FY-80	FY-79	Increase (Decrease)	
			Number/Amount	Percentage
Coordinated Members	64,577	60,839	3738	6.1%
Noncoordinated Members	15,997	17,022	(1025)	(6.0%)
Earnings Reports for All Members (millions)	\$1,137.7	\$1,069.9	\$67.8	6.3%

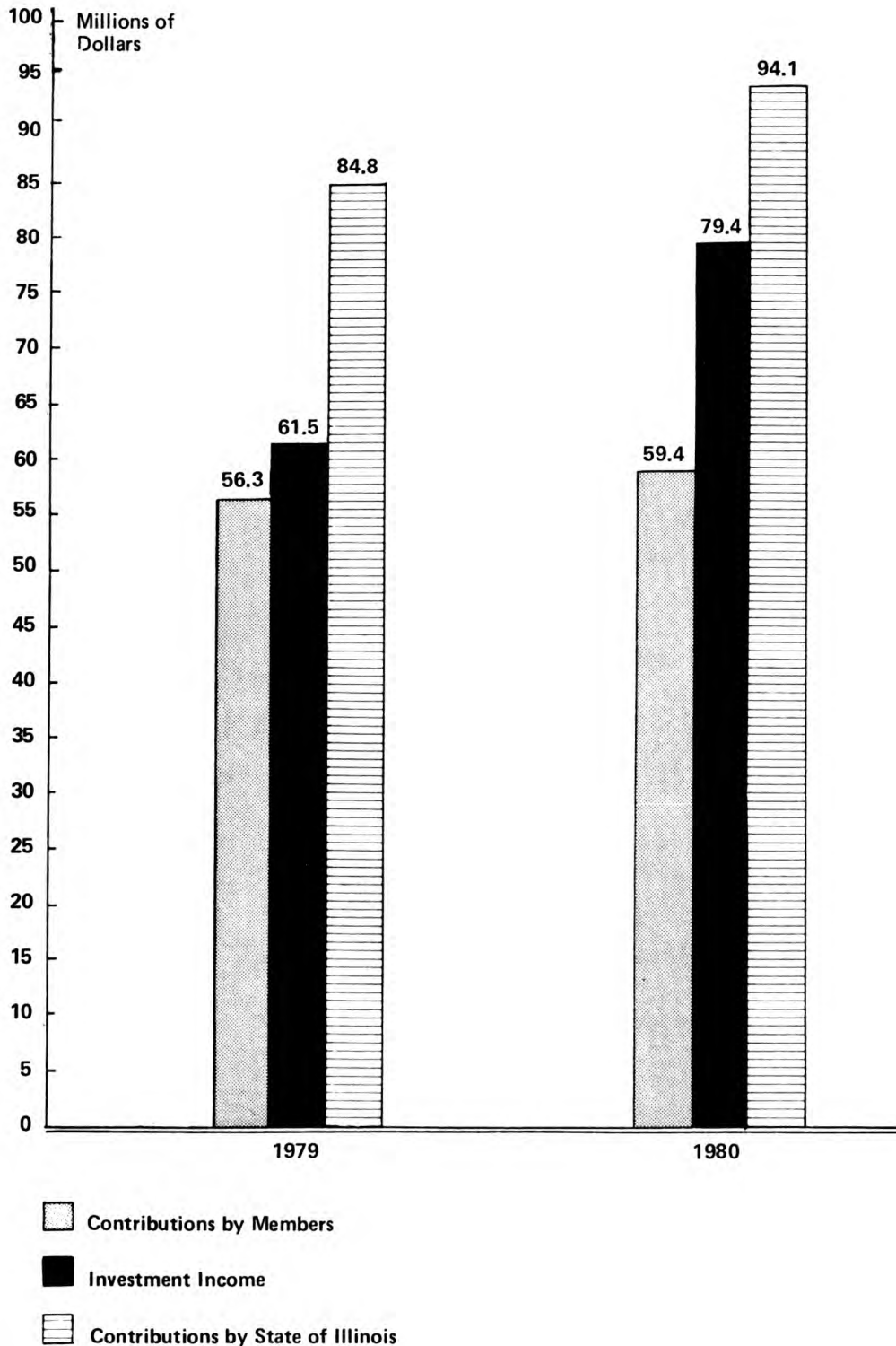
Contributions by the State of Illinois were \$2.7 million distributed from the State Pension Fund and \$91.4 million received from State Agencies which represented 8% of the gross wages of employees in positions covered by the System. Employer contributions for FY-80 exceeded the combined benefit and administrative expense pay out of \$83.1 million by \$8.3 million. The 7.76% rate of contributions in FY-79 produced an excess of \$7.3 million. Since employer contributions are a part of each agency's budget, the rates are established each year based on estimated wage levels and projected benefit and administrative expenses several months before agency budgets are known.

Distribution of Revenues - FY80	Contributions By Members	Investment Income	Contributions By Employer	Totals
		(Millions)	(Millions)	
Reserve - Future Operations*	\$ 0.2	\$79.4	\$12.9	\$ 92.5
Reserve - Member Contributions	45.0			45.0
Benefit Payments	1.9		79.4	81.3
Refunds	12.3			12.3
Administrative Exp.			1.8	1.8
Totals	\$59.4	\$79.4	\$94.1	\$232.9

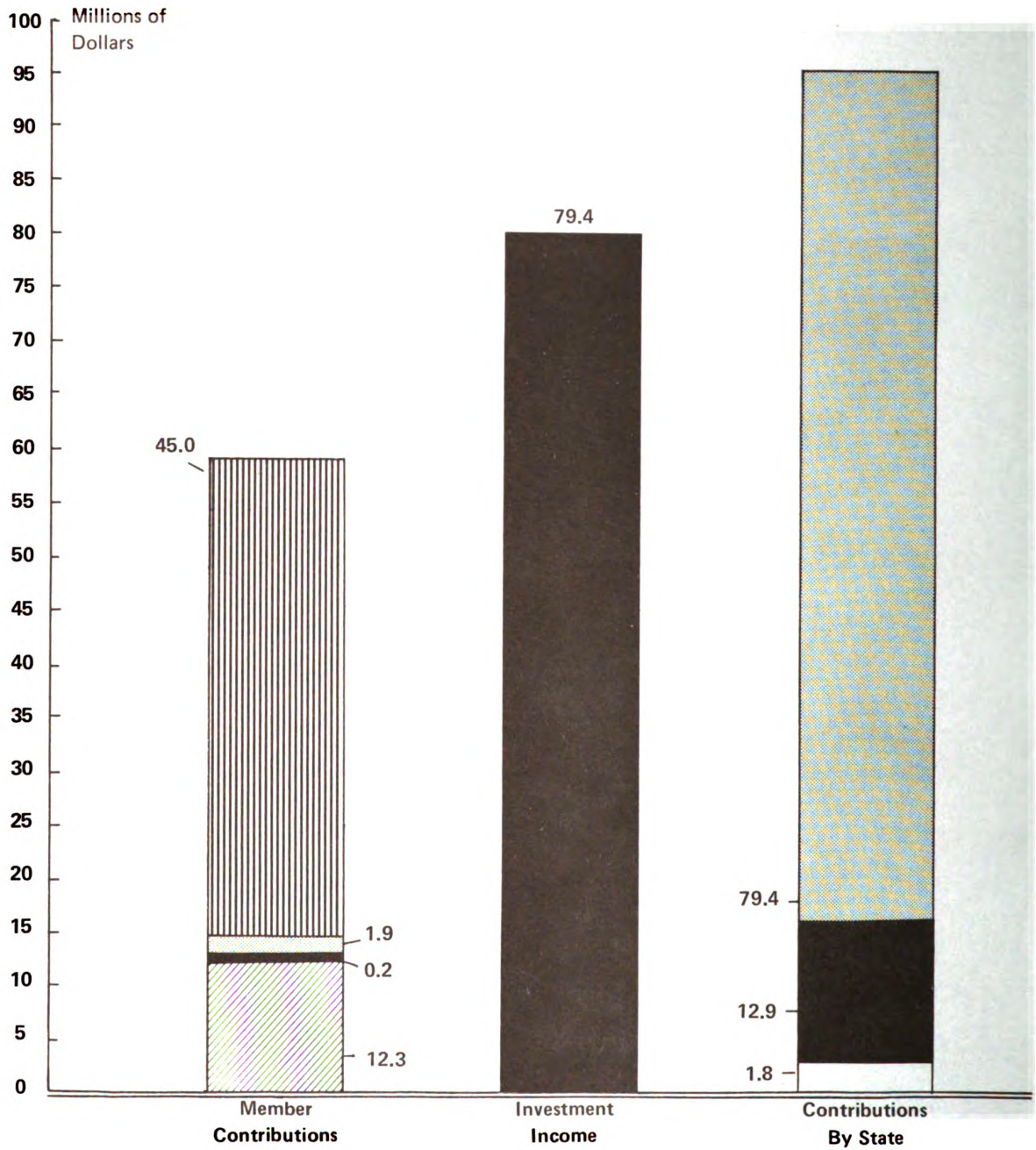
*This is the reserve from which future benefits will be paid.

The Illinois State Board of Investment reported income for the System of \$78.7 million for fiscal year 1980. This was a rate of return of 8.8% on average cost and 9.5% on average market. Total investment return for the year on funds controlled by the Investment Board, including realized and nonrealized market appreciation/depreciation, was 5.0%, compared to 9.5% for FY-79.

REVENUES BY SOURCE



DISTRIBUTION OF REVENUES - FY 1980



- Reserve for Future Operations
- Reserve for Member Contributions
- Benefit Payments

- Refunds
- Administrative Expense

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	FY-80 (Millions)	FY-79 (Millions)	Increase	
			Amount	Percentage
Investments Transferred at cost June 30, 1970	\$265.1	\$265.1	\$ ----	----
Additional Amounts transferred for investment	373.0	317.0	56.0	17.7%
Accumulated Net Income	355.3	276.6	78.7	28.5%
Accumulated Net Realized loss on sale of investments	(26.6)	(26.6)	----	----
Net Assets at Cost	966.8	832.1	134.7	16.2%
Unrealized Appreciation (Depreciation) on Investments	(86.8)	(49.5)	(37.3)	(75.4%)
Net Assets at Market	\$880.0	\$782.6	\$ 97.4	12.5%

Interest earned on the average balance on deposit with the State Treasurer amounted to \$0.7 million.

EXPENSES:

Benefit payments and administrative expense combined were \$83.1 million for the 1980 fiscal year. Contribution refunds for the same period amounted to \$12.3 million, for a total of \$95.4 million in expenditures. This is an increase of \$5.6 million or 6.2% over the total for FY79.

	FY-80 (Millions)	FY-79 (Millions)	Increase (Decrease)	
			Amount	Percentage
Retirement Benefits	\$55.1	\$50.4	\$4.7	9.3%
Survivors Benefits	11.9	11.2	.7	6.3%
Disability Benefits	11.3	11.5	(.2)	(1.7%)
Lump Sum Death Benefits	3.0	2.9	.1	3.4%
Contribution Refunds	12.3	12.3	---	---
Administrative Expenses	1.8	1.5	.3	20.0%
Total	<u>\$95.4</u>	<u>\$89.8</u>	<u>\$5.6</u>	6.2%

Most benefit expense increases were at a normal rate compared to prior years. Disability benefits continued to show a slight decline due to continued eligibility reviews by the staff and to an increasing number of Social Security offsets to nonoccupational disability payments. Total offsets for the month of June 1980 amounted to \$91,600 which projects to an annual amount of \$1.1 million.

Increases in administrative expenses were reflected in almost all categories, however, personal services and contractual services accounted for most of the \$0.3 million increase over FY 79. The \$0.1 million increase in contractual services represents primarily higher office rental and medical and investigative costs associated with implementation of the disability control program.

Annual Report 1980

TRANSMITTAL LETTER

RESERVES:

Total revenues for FY 80 of \$232.9 million less expenditures of \$95.4 million resulted in a net increase to reserves of \$137.5 million.

<u>Assets</u>	<u>FY 80</u> <u>(Millions)</u>	<u>FY79</u> <u>(Millions)</u>	<u>Increase</u>
Cash	\$ 2.9	\$ 2.3	\$.6
Receivables (less payables)	10.6	8.4	2.2
Investments	<u>966.8</u>	<u>832.1</u>	<u>134.7</u>
Net Assets	<u>\$980.3</u>	<u>\$842.8</u>	<u>\$137.5</u>

As of June 30, 1980, the total funds available for payment of current and future benefits were \$980.3 million as shown in the following schedule:

<u>Reserves</u>	<u>FY 80</u> <u>(Millions)</u>	<u>FY 79</u> <u>(Millions)</u>	<u>Net Increase</u>
Member Contributions	\$378.5	\$347.2	\$ 31.3
Future Operations	<u>601.8</u>	<u>495.6</u>	<u>106.2</u>
Total Reserves	<u>\$980.3</u>	<u>\$842.8</u>	<u>\$137.5</u>

Member contributions transferred to Reserve for Future Operations due to retirement or death of active members during the year amounted to \$13.7 million.

SOCIAL SECURITY:

On September 15, 1953, the State of Illinois and the Federal Government signed an agreement making Social Security Coverage available to public employees in Illinois. The System, as State Administrator, collects and transmits Social Security contributions to the U.S. Department of Health and Human Services for approximately 1500 towns, villages, and other political entities, and for two retirement system coverage groups, the Illinois Municipal Retirement Fund and the State Employees' Retirement System. Total contributions collected and transmitted during FY 80 were:

<u>Coverage Groups</u>	<u>Employees</u>	<u>Contributions</u>
Towns, Villages, and Other Entities	24,750	\$ 20,796,679
State Employees' Retirement System	64,577	99,614,918
Illinois Municipal Retirement Fund	<u>207,017</u>	<u>160,051,225</u>
Total	<u>296,344</u>	<u>\$280,462,822</u>

The Social Security Division has a staff of 6 full-time employees and, in addition, some services are performed by other divisions of the System on a contractual basis. Expenses are appropriated by the General Assembly and subsequently recovered from the reporting entities on a pro-rata basis for deposit in the General Revenue Fund.

The contribution rate during 1980 was 6.13% on maximum wages of \$25,900. Collections and transmittals are administered through a State trust fund with the Treasurer of the State of Illinois.

LEGISLATIVE AMENDMENTS:

Amendments with an effective date during Fiscal Year 1980 having significant impact on the System were:

Senate Bill 363 - Affects approximately 185 Secretary of State investigators by including them in the alternative police officer retirement annuity formula. This bill also provides for additional contributions by these individuals. Effective October 1, 1979.

House Bill 1160 - Allows members wanting to establish service credit to make installment payments in lieu of lump sum payments. For example, an individual desiring to repay a refund would not be required to make the total payment at one time, but could make periodic payments to establish the pension credit. No credit will be granted until all payments are made.

This bill also allows the spouse of a deceased member to continue receiving benefits if they remarry on or after attainment of age 55. Effective January 1, 1980.

House Bill 2484 - Affects State firefighters' pension contributions and benefits by changing them to conform to those provided for State police officers. Firefighters will make the same contributions as police officers and qualify for the same retirement annuity formula. Effective January 1, 1980.

New legislation with effective dates subsequent to June 30, 1980 affecting the operation of the System is summarized below:

House Bill 3152 - Provides that the Illinois State Board of Investment may invest assets of the System by contract in one or more separate accounts of life insurance companies authorized to do business in Illinois. The total investment in such contracts may not exceed 40% of the aggregate book value of all investments. Effective January 1, 1981.

House Bill 3380 - Provides that any member who is illegally discharged or laid-off from State service and who is subsequently reinstated by court order or settlement agreement may purchase service credit in the Retirement System for the period of such discharge or lay-off if so stipulated. Contributions are based on the salary and contribution rate in effect during the period involved. State contributions applicable to the period involved are also required to be made by the employing agency. Effective August 28, 1980.

House Bill 3415 - Provides for the establishment of a sick-pay by all State Agencies which qualifies for the "sick-pay" exclusion under the Federal Social Security Act. Payments made from the plan on account of sickness or injury will no longer be subject to social security taxes after July 1, 1981. Effective January 1, 1981.

Senate Bill 1799 - Allows survivor annuitants beginning July 1, 1981 to purchase \$2,000 of group life insurance coverage through the State group insurance program. Effective October 1, 1980.

ADMINISTRATION AND REPORTING

Administrative operations of the System are under the direction of the Executive Secretary assisted by a staff of 65 full-time employees, excluding Social Security Division personnel.

All funds belonging to the System required for current operations are held by the Treasurer of the State of Illinois, who is exofficio, the Treasurer of the System. Receipts to and disbursements from the System's trust fund are accomplished through the Comptroller of the State of Illinois according to rules and regulations issued under statutory authority by the Comptroller and the Treasurer.

Annual statements of members' contributions and service were mailed in October, 1980, along with a newsletter containing legislative changes and other information of interest to the membership.

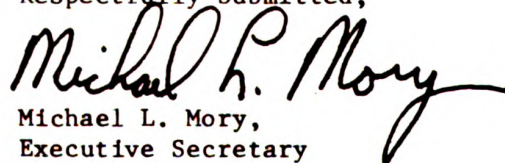
The Board of Trustees must appoint an Actuary to perform all necessary actuarial requirements of the System. These duties were performed by Mr. A. A. Weinberg and The Wyatt Company for the 1980 fiscal year.

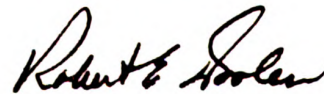
The System's annual audit for the 1980 fiscal year was performed under the direction of the Auditor General by the firm of Ernst & Whinney.

ACKNOWLEDGMENT

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,


Michael L. Mory,
Executive Secretary



Robert E. Doolen,
Fiscal Officer

Ernst & Whinney

900 First National Bank Building
Springfield, Illinois 62701

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, 1980 and 1979, 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, 1980 and 1979, 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 & Whinney

Springfield, Illinois
December 18, 1980

BALANCE SHEETS

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	June 30	
	1980	1979
ASSETS		
Cash	\$ 2,902,092	\$ 2,344,567
Receivables:		
Contributions receivable:		
Participants	4,493,029	3,798,167
Employing State agencies	7,555,134	6,135,660
Other accounts receivable	419,595	299,856
	<u>12,467,758</u>	<u>10,233,683</u>
Investments:		
Held in the Illinois State Board of Investment Commingled Fund (market value: 1980--\$880,061,648; 1979--\$782,593,828)	<u>966,813,414</u>	<u>832,097,108</u>
	<u>\$ 982,183,264</u>	<u>\$ 844,675,358</u>
LIABILITIES		
Benefits payable	\$ 1,098,092	\$ 1,093,294
Refunds payable	642,643	640,040
Administrative expenses payable	108,168	140,492
Participants deferred service credit accounts	11,925	
	<u>1,860,828</u>	<u>1,873,826</u>
Reserves:		
Actuarially-determined accrued benefit cost--Note B	1,934,053,688	1,629,765,746
Less unfunded accrued benefit cost--representing an obligation of the State of Illinois	953,731,252	786,964,214
Funded reserves	<u>980,322,436</u>	<u>842,801,532</u>
	<u>\$ 982,183,264</u>	<u>\$ 844,675,358</u>

See notes to financial statements

STATEMENTS OF REVENUE AND EXPENDITURES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	Year Ended June 30	
	1980	1979
Revenue:		
Contributions:		
Participants	\$ 59,079,290	\$ 55,958,734
Employing State agencies	91,380,122	83,023,148
State Pension Fund	2,676,000	1,095,000
State General Revenue Fund		644,775
	<u>153,135,412</u>	<u>140,721,657</u>
Net investment income	78,716,306	60,864,700
Repayment of contributions refunded	144,916	163,174
Interest earned on cash balances	722,438	631,648
Interest received from participants	224,287	206,635
	<u>232,943,359</u>	<u>202,587,814</u>
Expenditures:		
Benefits:		
Retirement annuities	55,063,529	50,360,362
Survivors' annuities	11,902,744	11,249,401
Disability benefits	11,327,382	11,481,378
Lump sum death benefits	3,048,393	2,909,624
	<u>81,342,048</u>	<u>76,000,765</u>
Refunds	12,311,458	12,329,691
Administrative expenses	1,752,078	1,456,878
Transfers to reciprocating retirement systems	16,871	15,160
	<u>95,422,455</u>	<u>89,802,494</u>
	EXCESS OF REVENUE OVER EXPENDITURES	
	<u><u>\$137,520,904</u></u>	<u><u>\$112,785,320</u></u>

See notes to financial statements

STATEMENTS OF CHANGES IN FUNDED RESERVES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

Two years ended June 30, 1980

	<u>Total</u>	<u>Reserve for Participants' Contributions</u>
Balance at July 1, 1978	\$730,016,212	\$316,877,147
Add (deduct):		
Excess of revenue over expenditures	112,785,320	41,923,427
Reserve transfers:		
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status		(11,627,253)
Interest credited to members' accounts		
Balance at June 30, 1979	842,801,532	347,173,321
Add (deduct):		
Excess of revenue over expenditures	137,520,904	45,017,875
Reserve transfers:		
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status		(13,723,386)
Interest credited to members' accounts		
BALANCE AT JUNE 30, 1980	<u>\$980,322,436</u>	<u>\$378,467,810</u>

See notes to financial statements

Reserve for Future Operations

<u>Interest Accumulations</u>	<u>Other Future Benefits</u>
\$53,742,445	\$359,396,620
	70,861,893
<u>9,833,029</u>	<u>11,627,253</u> <u>(9,833,029)</u>
63,575,474	432,052,737
	92,503,029
<u>14,147,036</u>	<u>13,723,386</u> <u>(14,147,036)</u>
<u>\$77,722,510</u>	<u>\$524,132,116</u>

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: Investments of the System Trust Fund are valued on the basis of cost. The investments are managed by the Illinois State Board of Investment pursuant to Article 22A of the Illinois Pension Code and are held in the Commingled Fund of that Board.

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--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 those in positions subject to membership in other State sponsored retirement systems, persons employed after June 30, 1979 as public service employment program participants under the federal CETA program, and enrollees in the Illinois Young Adult Conservation Corps, 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 rate is 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.

NOTES TO FINANCIAL STATEMENTS--CONT'D

NOTE B--BENEFITS--Cont'd

The calculations of accrued benefit cost (arising from service credits in periods prior to June 30, 1980 and 1979, respectively) were made by consulting actuaries as of June 30, 1980 and 1979 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	7-1/2% (6% in 1979)
Average age at retirement	65 years, except age 60 was used for those employees eligible for the "alternative retirement annuity" (64 years in 1979)
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	1971 Group Annuity Mortality Table projected to 1986 (modified 1951 Group Annuity Mortality Table in 1979)
Salary increases	7-1/2% annual increase (4% in 1979)

SCHEDULE OF ADMINISTRATIVE EXPENSES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	Year Ended June 30	
	1980	1979
Personal services	\$ 818,928	\$ 714,476
Contributions to retirement system	65,514	56,324
Contributions for social security	38,350	31,179
Group insurance	31,498	27,460
Contractual services	320,887	227,227
Travel	13,993	9,081
Printing	31,482	12,432
Commodities	15,504	15,901
Equipment	22,750	18,322
Telecommunications	48,760	18,990
Electronic data processing	340,302	322,811
Other	4,110	2,675
Total administrative expenses	<u>\$1,752,078</u>	<u>\$1,456,878</u>

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ACTUARIES AND CONSULTANTS

PENSION PLANS	EMPLOYEE BENEFITS	COMPENSATION PROGRAMS	INTERNATIONAL BENEFITS	EMPLOYEE COMMUNICATIONS	RISK MANAGEMENT
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SUITE 5600 SEARS TOWER
 233 SOUTH WACKER DRIVE
 CHICAGO, ILLINOIS 60606
 (312) 876-1616

ACTUARIAL CERTIFICATION

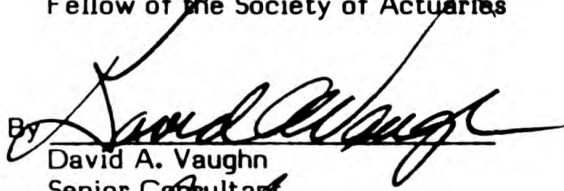
We have completed an actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois as of June 30, 1980.


The assets have been valued at Cost as reported by the Illinois State Board of Investment. The liabilities have been valued based on employee data supplied by the staff of the System and based on actuarial assumptions. A summary of the major actuarial assumptions follows.

In our opinion, the following schedule of valuation results fairly presents the financial condition of the State Employees' Retirement System of Illinois as of June 30, 1980 and the schedule of contribution rates complies with the applicable law in force as of the valuation date.

THE WYATT COMPANY

By 
 Lloyd L. Nordstrom
 Fellow of the Society of Actuaries

By 
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 Senior Consultant

By 
 Robert L. Barnes
 Fellow of the Society of Actuaries

Chicago, Illinois
 January 5, 1981

VALUATION RESULTS

Actuarial Liability (Reserves)

(a) For Members Receiving Annuities:

(i) Retirement Annuities	\$ 599,459,509
(ii) Survivor Annuities	108,017,958
(iii) Disability	83,811,109
(iv) Total	\$ 791,288,576

(b) For Inactive Members \$ 50,685,406

(c) For Active Members \$1,092,079,706

(d) Total \$1,934,053,688

Assets (Book Value) \$ 980,322,436

Unfunded Actuarial Liability \$ 953,731,252

CONTRIBUTION RATES

	<u>% of Payroll</u>	<u>Annual Contributions</u> ^{1/}
1. Normal Cost Only	7.217%	\$101,038,000
2. Normal Cost Plus 7-1/2% Interest on the Unfunded Actuarial Liability	12.953%	\$181,342,000
3. Normal Cost Plus an Amount to Amortize the Unfunded Actuarial Liability Over a 40-year Period	13.290%	\$186,060,000
4. Cash Payouts for Annuities, Benefits and Administrative Expenses	6.821%	\$ 95,494,000

^{1/} Based on assumed payroll of \$1,400,000,000 for Fiscal Year July 1, 1981 - June 30, 1982.

SUMMARY OF MAJOR
ACTUARIAL ASSUMPTIONS

Mortality: 1986 Projected Annuity Mortality Table, a table based on experience underlying the 1971 Group Annuity Mortality Table, without margins, with a projection for mortality improvements to 1986. 5% of deaths amongst active employees are assumed to be in the performance of their duty.

Interest: 7-1/2% per annum, compounded annually.

Termination: Illustrative rates follow. It is assumed that terminated employees will not be rehired.

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
20	.374	40	.073
25	.249	45	.047
30	.174	50	.020
35	.124	55	-

Salary Increases: 7-1/2% per annum, compounded annually.

Retirement Rates: Retirement was assumed to occur at age 65 except for "uniform services", which were assumed to retire at age 60.

Assets: Assets available for benefits are used at book value.

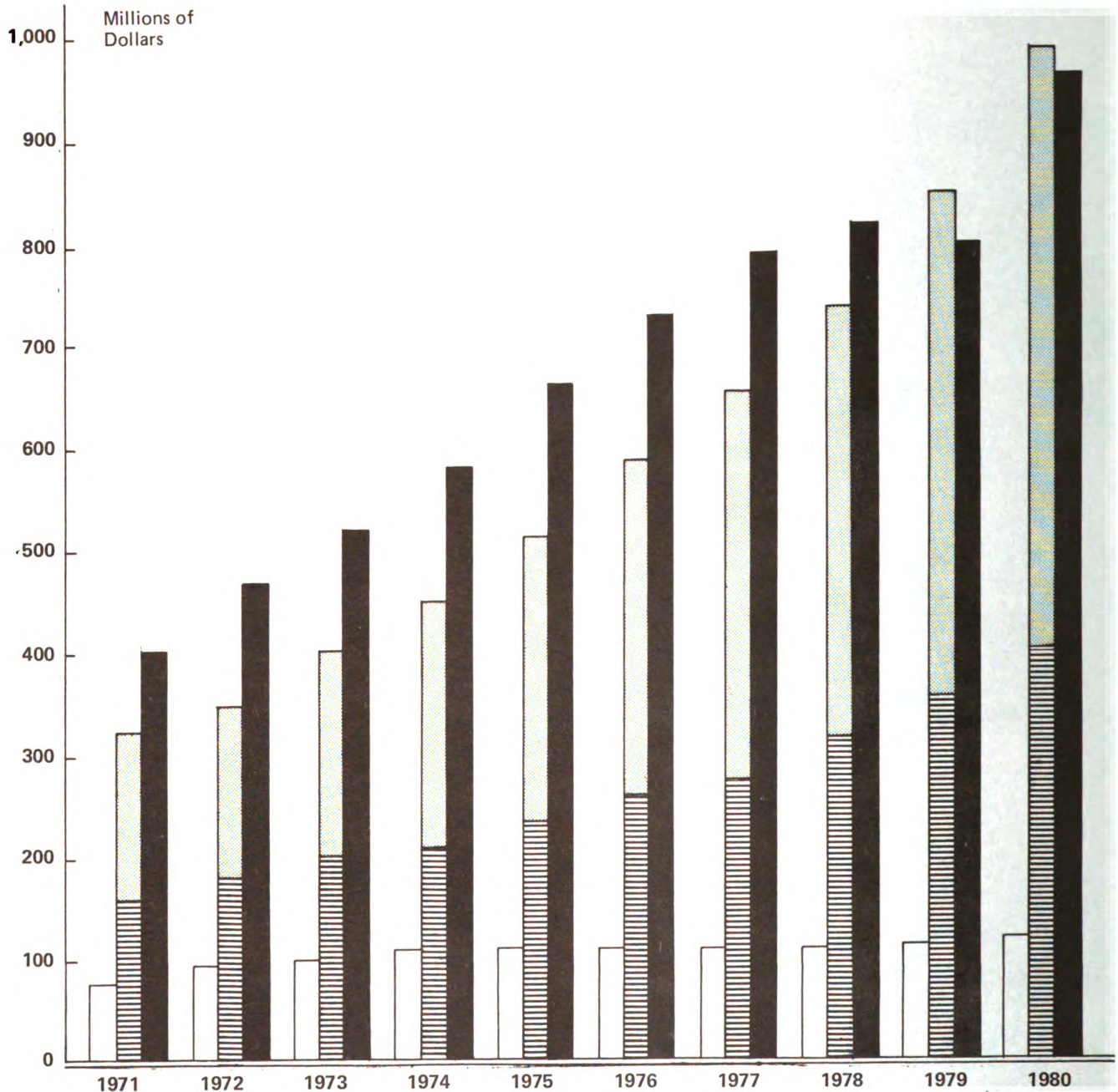
Expenses: As estimated and advised by SERS staff, based on current expenses with an allowance for expected increases.

Marital Status: 85% of employees are assumed to be married.

Spouse's Age: The spouses of eligible employees were assumed to be 3 years younger than the employees.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, remarriage rates, ages and numbers of children and Social Security benefit levels.

A COMPARISON OF TOTAL MEMBERS, NET ASSETS, AND UNFUNDED ACCRUED LIABILITIES FOR THE PAST TEN YEARS



□ Total Members (In Thousands)

■ Unfunded Accrued Employer Liability

▨ Net Assets Includes

▤ Reserve for Member Contributions and

▥ Reserve for Future Operations

BALANCE SHEET ASSETS

<u>Fiscal Year Ending June 30</u>	<u>Cash</u>	<u>Receivables</u>	<u>Investments</u>	<u>Total</u>
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
1978	3,050,460	7,881,156	721,232,408	732,164,024
1979	2,344,567	10,233,683	832,097,108	844,675,358
1980	2,902,092	12,467,758	966,813,414	982,183,264

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>
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
1978	2,147,812	316,877,147	413,139,065	732,164,024
1979	1,873,826	347,173,321	495,628,211	844,675,358
1980	1,860,828	378,467,810	601,854,626	982,183,264

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>
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
1978	730,016,212	812,139,837	1,542,156,049	47.3
1979	842,801,532	786,964,214	1,629,765,746	51.7
1980	980,322,436	953,731,252	1,934,053,688	50.7

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>
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
1978	51,025,294	69,384,874	44,025,044	164,435,212
1979	56,328,543	84,762,923	61,496,348	202,587,814
1980	59,448,493	94,056,122	79,438,744	232,943,359

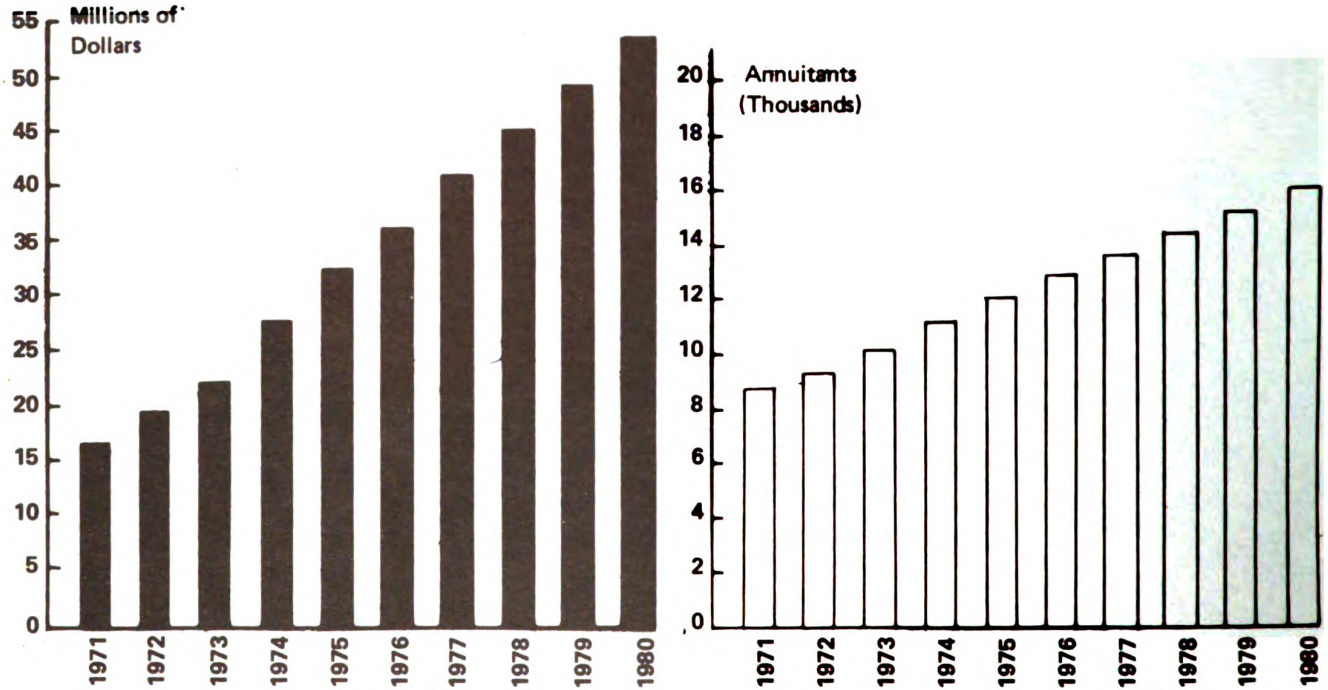
EXPENSES BY TYPE

<u>Fiscal Year Ending June 30</u>	<u>Benefits</u>	<u>Contribution Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
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
1978	70,985,910	12,438,437	1,276,876	84,701,223
1979	76,000,765	12,344,851	1,456,878	89,802,494
1980	81,342,048	12,328,329	1,752,078	95,422,455

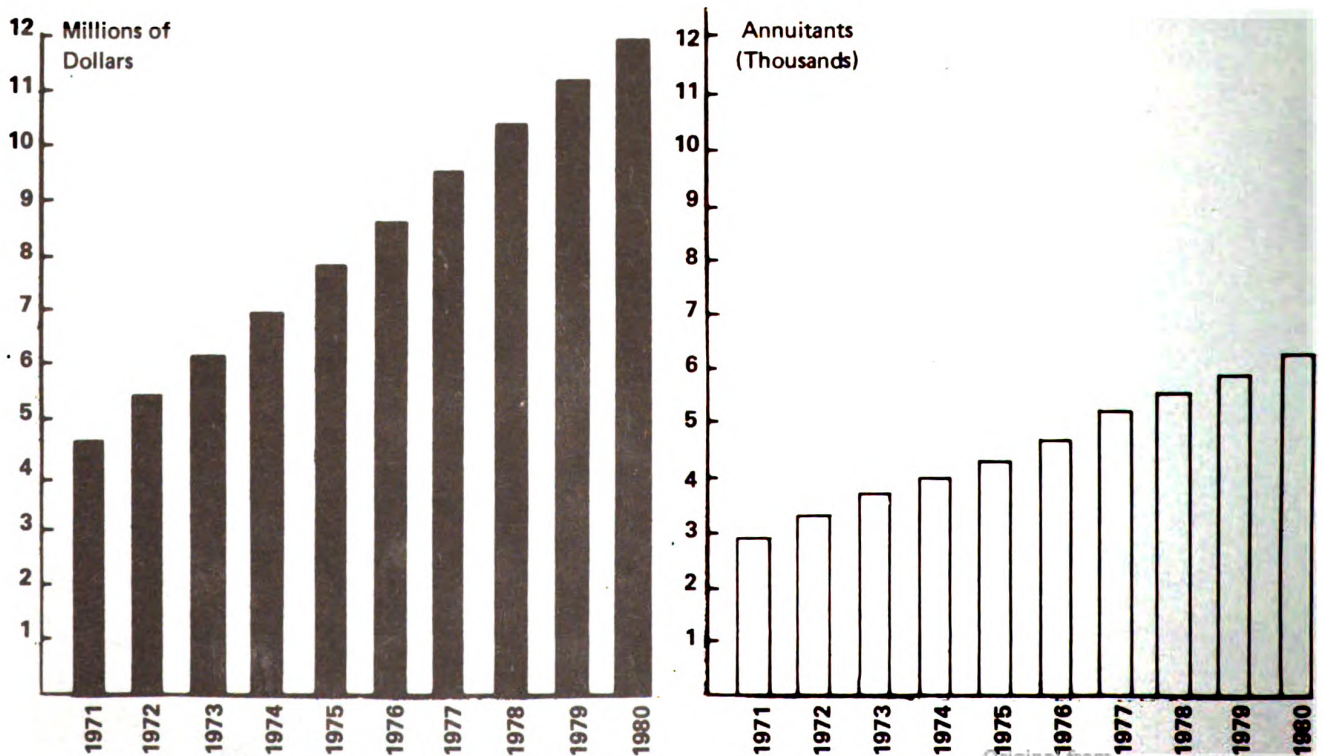
BENEFIT EXPENSES BY TYPE

<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>
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
1978	46,017,123	10,428,913	11,558,867	2,981,007	70,985,910
1979	50,360,362	11,249,401	11,481,378	2,909,624	76,000,765
1980	55,063,529	11,902,744	11,327,382	3,048,393	81,342,048

AGE RETIREMENT ANNUITIES



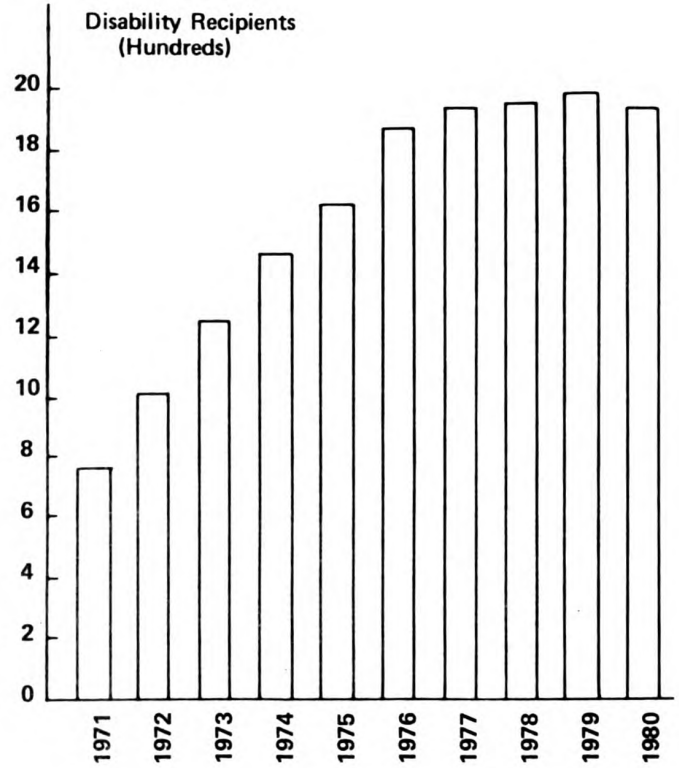
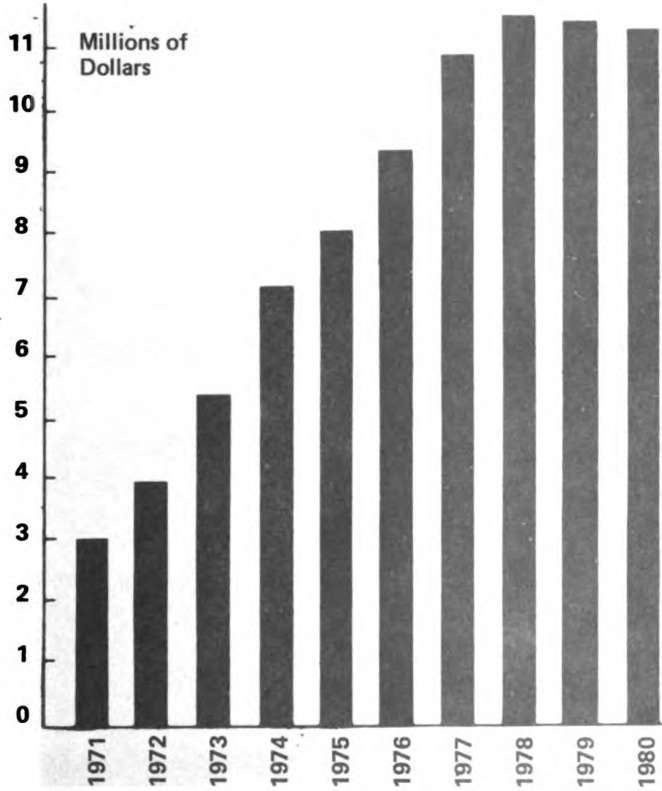
SURVIVOR ANNUITIES



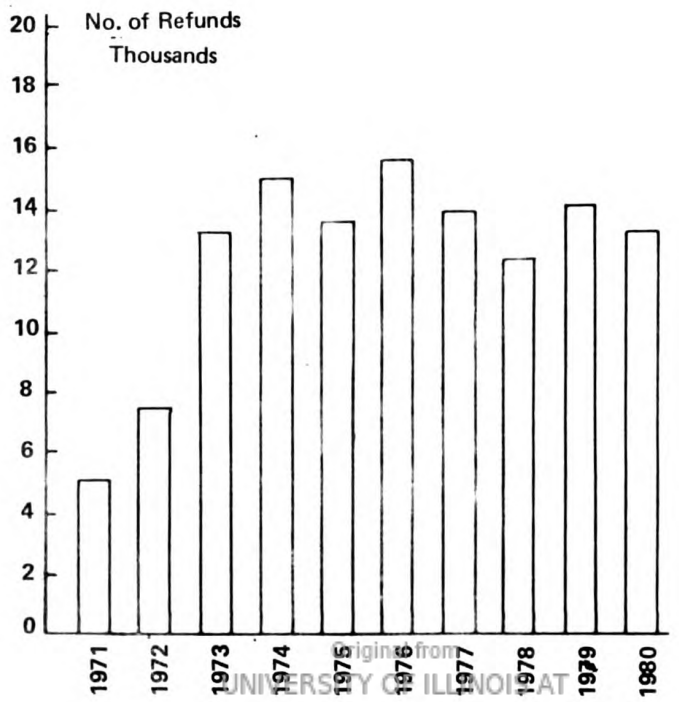
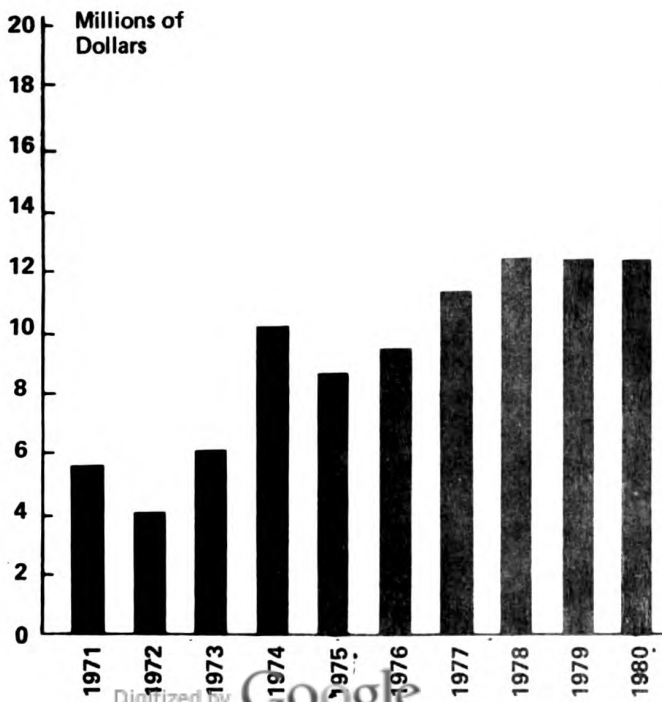
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DISABILITY BENEFITS



CONTRIBUTION REFUNDS



TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

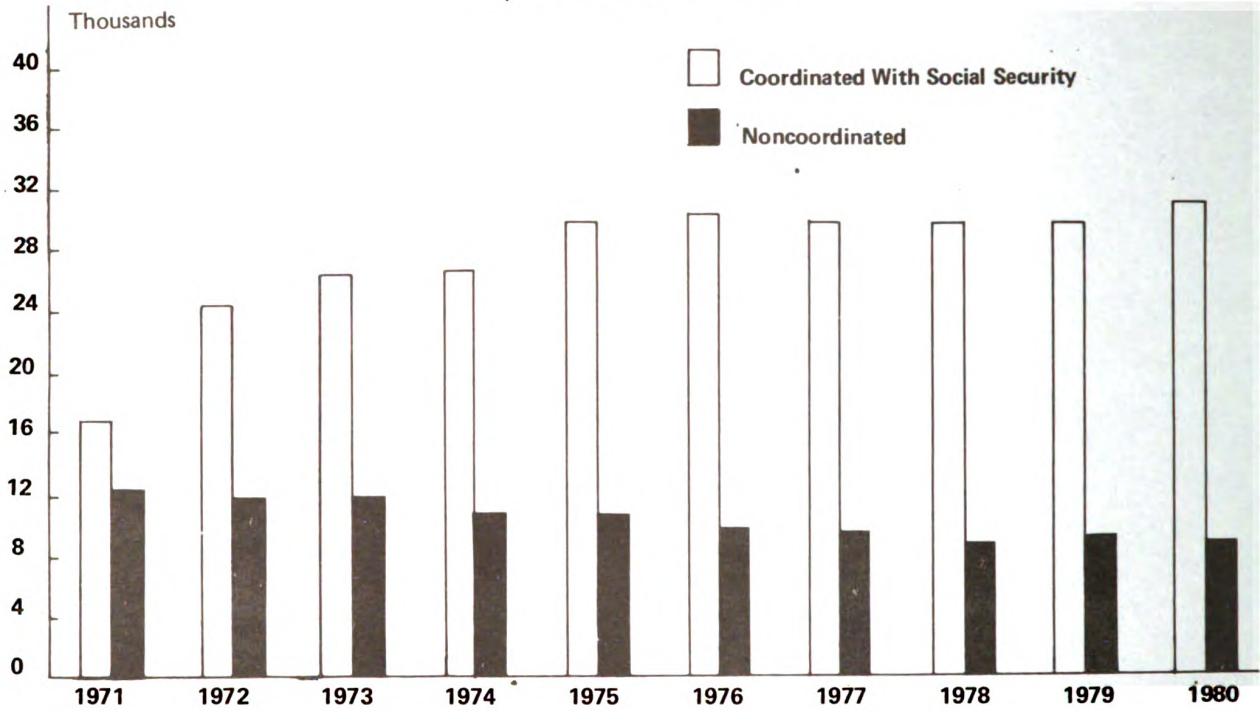
Fiscal Year Ending June 30	<u>Coordinated Members</u>		<u>Noncoordinated Members</u>		<u>Total Male Members</u>	<u>Total Female Members</u>	<u>Total Members</u>
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>			
1971	17,152	15,009	20,880	17,198	38,032	32,207	70,239
1972	34,387	27,492	16,215	15,230	50,602	42,722	93,324
1973	38,465	31,596	15,093	13,967	53,558	45,563	99,121
1974	39,334	34,409	14,812	13,295	54,146	47,704	101,850
1975	43,010	37,906	11,556	12,358	54,566	50,264	104,830
1976	42,925	39,047	11,260	11,439	54,185	50,486	104,671
1977	43,032	40,158	10,829	10,675	53,861	50,833	104,694
1978	44,516	42,297	10,342	9,863	54,858	52,160	107,018
1979	45,310	43,705	9,824	9,109	55,134	52,814	107,948
1980	46,029	46,626	9,339	8,446	55,368	55,072	110,440

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

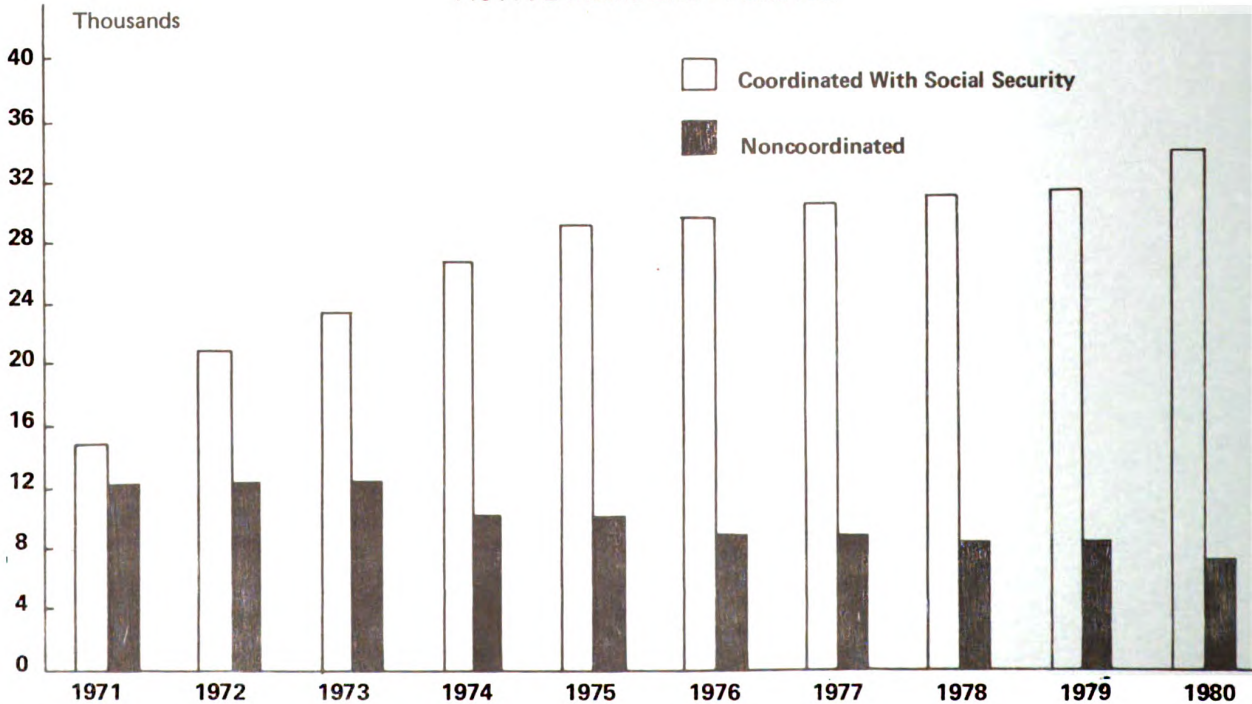
Fiscal Year Ending June 30	Coordinated Members		Noncoordinated Members		Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported		
	Male	Female	Male	Female						
1971	16,852	14,604	31,456	12,299	11,382	23,611	30,173	24,894	55,067	\$560,645,000
1972	24,084	20,885	44,969	11,736	11,123	22,859	35,820	32,008	67,828	597,235,000
1973	26,049	23,342	49,391	11,023	10,079	21,102	37,072	33,421	70,493	647,147,300
1974	26,139	26,719	52,858	10,505	10,045	20,550	37,644	36,764	74,408	689,839,300
1975	29,563	29,117	58,680	10,231	10,026	20,257	39,794	39,143	78,937	808,560,000
1976	29,975	29,718	59,693	9,293	9,007	18,300	39,268	38,725	77,993	864,154,000
1977	29,617	30,755	60,372	8,717	8,695	17,412	38,334	39,450	77,784	884,493,000
1978	29,667	31,264	60,931	8,265	8,245	16,510	37,932	39,509	77,441	925,094,200*
1979	29,144	31,605	60,839	8,763	8,259	17,022	37,907	39,954	77,861	1,069,885,900*
1980	30,482	34,095	64,577	8,392	7,605	15,997	38,874	41,700	80,574	1,137,667,500*

*Includes overtime wages after January 1, 1978.

ACTIVE MEMBERS - MALE



ACTIVE MEMBERS - FEMALE



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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>
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	1,920	21,033
1978	14,689	5,534	1,943	22,166
1979	15,560	5,894	1,976	23,430
1980	16,445	6,187	1,927	24,559

*Includes individuals receiving total temporary disability payments under the Workmen's Compensation Act.

TERMINATION REFUNDS - NUMBER/AMOUNT

<u>Fiscal Year Ending June 30</u>	<u>Number</u>	<u>Amount</u>
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
1978	12,491	11,984,738
1979	14,354	11,900,531
1980	13,449	11,799,600

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SCHEDULE OF INSURANCE IN FORCE

June 30, 1980

<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 Casualty & Surety Company of Illinois	Employee Dishonesty Bond	08 F 10819 BCI	7-1-79/6-30-80	Employee Dishonesty Disappearance and Destruction Bond	\$10,000,000 per Occurrence (\$100,000 Deductible)

SUMMARY OF RETIREMENT SYSTEM PLAN (As of January 1, 1981)

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. 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. 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 is excluded from membership. 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, Certain Firefighters, Special Agents, Secretary of State Investigators and Certain Air Pilots - 9½% 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

State Police, Special Agents, Secretary of State Investigators 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, Special Agents, Certain Firefighters, Secretary of State Investigators and Certain Air Pilots, the formula is 2 1/4% for each of the first ten years, 2 1/2% for the second ten years and 2 3/4% 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 3% of the original pension are granted to members effective each January 1.

6. SURVIVORS ANNUITY

A. Qualification of Survivor

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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 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 \$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 compensation. 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 prior to attainment of age 55; 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.

A. 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.

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 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 final average compensation. The benefit is payable until remarriage of the spouse unless the remarriage occurs after attainment of age 55. 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 prior to attainment of age 55 or dies before all children have attained age 18, 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.

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.

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. NONOCCUPATIONAL 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 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.

B. 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 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 final average 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 the occurrence of any of the following events: (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.

12. 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.

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