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ANNUAL REPORT

DEPOSITORY

APR 7 1982

UNIVERSITY OF ILLINOIS
AT URBANA-CHAMPAIGN

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS



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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

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

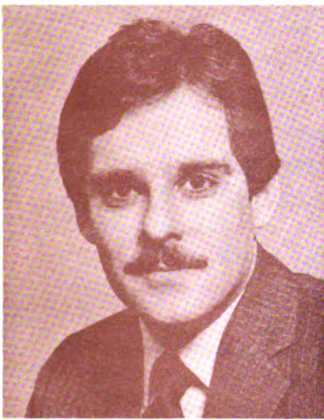
BOARD OF TRUSTEES (As Constituted December 15, 1981)



Robert A. Morris
Chairman
Appointed by Governor



Alice Kirby
Representing
Roland W. Burris
Comptroller,
State of Illinois



John E. Briggs
Representing
Robert L. Mandeville
Director, Bureau of the Budget
State of Illinois



Joseph T. Pisano
State Employee
Appointed by Governor



E. Allen Bernardi
State Employee
Appointed by Governor

ADMINISTRATIVE STAFF

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Robert V. Knox
Associate Executive Secretary

Mabel M. Curtis
Associate Executive Secretary

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Claims Division

William T. Weir, Manager
Administrative Services Division

Robert E. Doolen, Manager
Accounting Division

Dwight N. Garmon, Manager
Data Processing Division

Joseph S. Maggio, Manager
Service and Refunds Division

Michael K. Blankenship, Manager
Social Security Division

1981

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state employees'
retirement
system
of illinois



2815 West Washington, P.O. Box 4064, Springfield, IL 62708 - 4064, Ph.217/753 - 0444

December 16, 1981

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, 1981.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'R.A. Morris', with a long horizontal stroke extending to the right.

Robert A. Morris
Chairman

RAM:jlw

state employees' retirement system of illinois



2815 West Washington, P.O. Box 4064, Springfield, IL 62708 - 4064, Ph.217/753 - 0444

Board of Trustees
State Employees' Retirement System
Springfield, Illinois

The annual report of the State Employees' Retirement System for the fiscal year ended June 30, 1981, is submitted herewith. The report consists of four sections: the financial section contains the opinion of the independent certified public accountant, as well as the financial statements of the System; the actuarial section contains the independent consulting actuary's certification and the results of the annual actuarial valuation; the statistical section contains significant data pertaining to SERS; the last section consists of a summary of the principal provisions of the Retirement Act.

FINANCIAL CONDITION

The financial condition of the System as measured by the relationship of net assets to the accrued actuarial liability reflects a slight improvement as of the end of FY-81 compared to FY-80, increasing from 48.3% to 49.3%. With reference to the FY-80 funding ratio of 48.3%, this level has been adjusted downward from the 50.7% level reported in the System's FY-80 Annual Report. The adjustment is due to the accounting recognition of \$50.5 million in realized capital losses incurred by the Illinois State Board of Investment since its inception in 1970 which had not been distributed to the individual accounts of participating systems. Realized losses applicable to fiscal years 1980 and 1981 were \$2.5 million and \$5.0 million respectively.

While the System's financial condition as measured by the ratio of net assets to accrued actuarial liabilities reflected continued improvement, the dollar amount of the System's unfunded accrued liability increased \$112 million during the fiscal year. The increase in the unfunded accrued liability was basically due to the following:

1. State contributions being less than the amount necessary to fund current accruals plus interest on the unfunded obligation	\$ 71 million
2. Benefit improvements	8 million
3. Actuarial losses	33 million
Total	<u>\$112 million</u>

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The \$33 million actuarial loss represents variances in actual experience over the past year to assumptions made by the actuary in developing the liabilities of the System. The loss was due to general salary increases in excess of an assumed level of 7.5%, partially offset by the investment return exceeding the 7.5% assumption.

In assessing the System's long-term financial position, it should be noted that the actuary's 15-year forward projection, assuming continuation of the previous state funding policy, although reflecting an unfunded accrued liability of \$3.8 billion, projects a funding ratio of 61.8% by the end of the period.

REVENUES:

Revenues for fiscal year 1981 consisting of contributions by members, contributions by the state, and investment income totalled \$255.4 million, an increase of \$22.5 million or 9.7% over 1980.

<u>Revenue Source</u>	<u>FY-81</u> <u>(Millions)</u>	<u>FY-80</u> <u>(Millions)</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percentage</u>
Member Contributions	\$ 64.6	\$ 59.4	\$ 5.2	8.8%
State Contributions	96.9	94.1	2.8	3.0%
Investment Income	93.9	79.4	14.5	18.3%
Total	\$255.4	\$232.9	\$22.5	9.7%

Contributions by members increased by \$5.2 million over the previous fiscal year, due to wage increases which were partially offset by a decrease in the number of active employees on the payroll as of June 30. The percentage of increase in contributions was 8.8%, while wages subject to contributions increased by 10.1% or \$115.3 million. Members on the payroll decreased by 1,444 or 1.8% from June 30, 1980 to June 30, 1981.

<u>Active Membership</u>	<u>FY-81</u>	<u>FY-80</u>	<u>Increase (Decrease)</u>	
			<u>Number/Amount</u>	<u>Percentage</u>
Coordinated Members	64,104	64,577	(473)	(0.7%)
Noncoordinated Members	15,026	15,997	(971)	(6.1%)
Earnings Report for All Members (Millions)	\$1,253.0	\$1,137.7	\$115.3	10.1%

Employer contributions consisting of \$2.4 million from the State Pension Fund and \$94.5 million from State Agencies increased by 3% over fiscal year 1980. The employer rate for fiscal year 1981 was reduced from the previous year by 0.5%. The 7.5% rate as applied to the increased wages for the year produced income which exceeded by \$3.4 million total benefit and administrative expenditures of \$91.1 million.

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FY Ended	State Contributions From Payrolls		Benefit Expense	Administrative Expense	Excess of State Contributions Over Expenses
	Rate	Amount			
1977	6.70%	\$59.3	\$64.8	\$1.1	(\$6.6)
1978	7.30%	67.5	71.0	1.3	(4.8)
1979	7.76%	83.0	76.0	1.5	5.5
1980	8.00%	91.4	81.3	1.8	8.3
1981	7.50%	94.5	89.1	2.0	3.4

The employer contribution rate is established some 6 to 8 months prior to the beginning of each fiscal year based on estimated wage levels and projected benefit and administrative expenses in order to provide cost information as soon as possible to State Agencies for budget purposes.

Interest income earned on the average fund balance with the State Treasurer amounted to \$1.1 million for fiscal year 1981. All investments of the System are managed by the Illinois State Board of Investment. Income of \$92.9 million as reported by the Board indicates a return of 8.9% on average cost, 9.3% on adjusted average cost (allowing for undistributed realized losses), and 10.2% on average market. Total return for the year (combined effect of income earned and market appreciation / depreciation) was (0.1%) compared to 5.0% for FY-80.

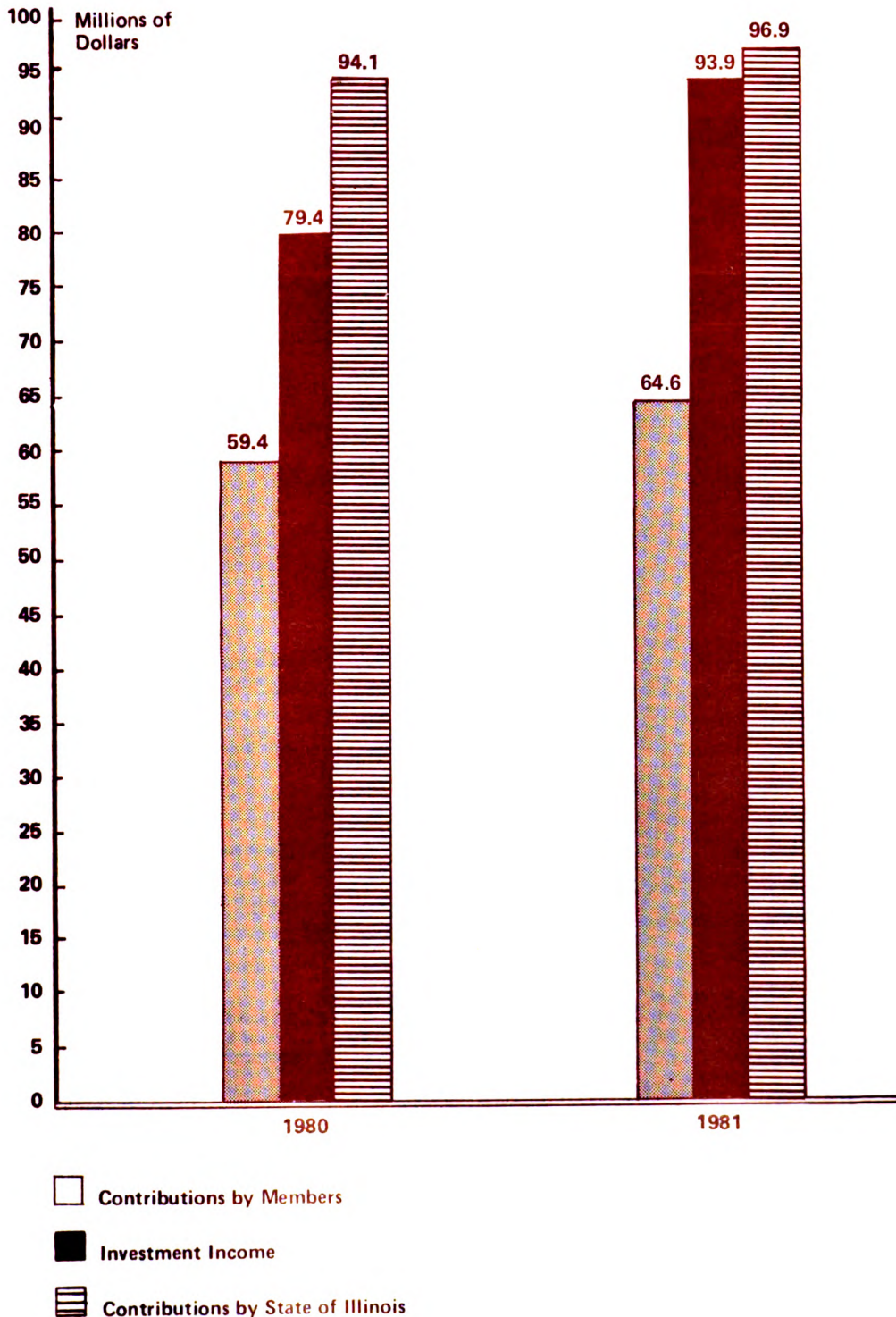
	FY-81 (Millions)	FY-80 (Millions)	Increase	
			Amount	Percentage
Investments transferred at cost June 30, 1970	\$265.1	\$265.1	\$ ---	
Additional amounts trans- ferred for investment	433.0	373.0	60.0	16.1%
Accumulated net income	448.2	355.3	92.9	26.1%
Accumulated net realized loss on sale of investments	(26.6)	(26.6)	----	
Net assets at cost	\$1,119.7	\$ 966.8	\$ 152.9	15.8%
Allowance for undistributed net realized loss on sale of investments	(\$50.5)	(\$45.5)	(\$ 5.0)	11.0%
Net assets at adjusted cost	\$1,069.2	\$ 921.3	\$ 147.9	16.1%
Unrealized appreciation (depreciation) on investments	(129.9)	(41.3)	(88.6)	214.5%
Net assets at market	\$ 939.3	\$ 880.0	\$ 59.3	6.7%

Revenues not required for current expenses were distributed to the member contribution reserve and future operations reserve as required by law.

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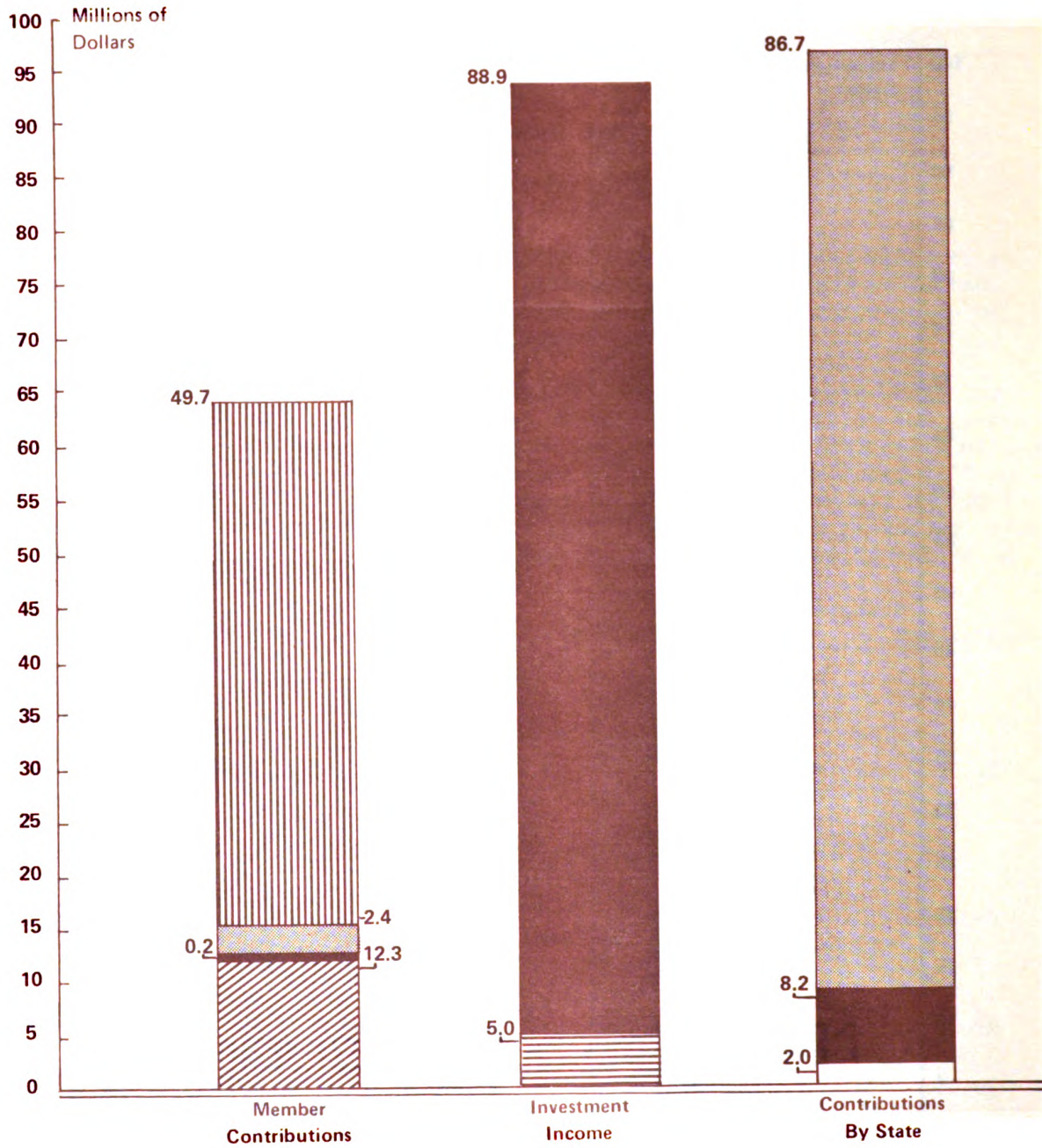
REVENUES BY SOURCE



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DISTRIBUTION OF REVENUES - FY 1981



- Reserve for Future Operations
- Refunds
- Reserve for Member Contributions
- Administrative Expense
- Benefit Payments
- Allowance for Undistributed Realized Loss on Investments

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<u>Distribution of Revenues - FY 81</u>	<u>Contributions by Members</u>	<u>Investment Income</u> (Millions)	<u>Contributions by Employer</u>	<u>Totals</u>
Reserve - Future Operations*	\$ 0.2	\$ 88.9	\$ 8.2	\$ 97.3
Reserve - Member Contributions	49.7			49.7
Benefit Payments	2.4		86.7	89.1
Refunds	12.3			12.3
Administrative Exp.			2.0	2.0
Allowance for Undistributed Realized Losses		5.0		5.0
Totals	\$64.6	\$ 93.9	\$96.9	\$255.4

*The reserve from which future benefits will be paid.

EXPENSES:

Financial statements for FY-1980 have been restated to include the expense for accumulated net realized losses on investments undistributed by the Illinois State Board of Investment. The expensed amount for FY-81 and FY-80 respectively was \$5.0 million and \$2.5 million.

Combined payments for benefits and administrative expenses for FY-1981 were \$91.1 million. Contribution refunds for the same period amounted to \$12.4 million, for an expenditure total of \$108.5 million. This is an increase of \$10.6 million or 10.8% over the total for FY-80.

	<u>FY-81</u> (Millions)	<u>FY-80</u> (Millions)	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percentage</u>
Retirement Benefits	\$60.7	\$55.1	\$5.6	10.2%
Survivors Benefits	12.9	11.9	1.0	8.4
Disability Benefits	11.6	11.3	.3	2.7
Lump Sum Death Benefits	3.9	3.0	.9	30.0
Contribution Refunds	12.4	12.3	.1	0.8
Administrative Expenses	2.0	1.8	.2	11.0
Net Undistributed Realized Loss on Investments	<u>5.0</u>	<u>2.5</u>	<u>2.5</u>	100.0
Total	<u>\$108.5</u>	<u>\$97.9</u>	<u>\$10.6</u>	10.8%

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All benefit payments increased at a slightly higher rate than in the previous year due primarily to increased salary rates. The program of eligibility reviews of disability benefits plus an increasing number of Social Security offsets combined to maintain total disability payments to a 2.7% increase over FY-80. The offset for June 1981 was \$111,500 which projects to an annual amount of \$1.3 million.

The increase in administrative expenses for FY-81 was due primarily to a 10% increase in personal services and a 30% increase in contractual services. The contractual services involved were in the legal, professional, and technical areas.

RESERVES:

As of June 30, 1981, the total funds available for payment of current and future benefits were \$1,081.8 million as shown in the following schedule:

<u>Assets</u>	<u>FY-81</u> <u>(Millions)</u>	<u>FY-80</u> <u>(Millions)</u>	<u>Increase</u> <u>(Decrease)</u>
Cash	\$ 6.2	\$ 2.9	\$ 3.3
Receivables (less payables)	6.4	10.6	(4.2)
Investments	1,069.2	921.4	147.8
 Net Assets	 \$1,081.8	 \$934.9	 \$146.9

Total revenues for FY-81 of \$255.4 million less expenditures of \$108.5 million resulted in a net increase to reserves of \$146.9 million.

<u>Reserves</u>	<u>FY-81</u> <u>(Millions)</u>	<u>FY-80</u> <u>(Millions)</u>	<u>Net Increase</u>
Member Contributions	\$ 413.8	\$378.5	\$ 35.3
Future Operations	668.0	556.4	111.6
 Total Reserves	 \$1,081.8	 \$934.9	 \$146.9

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to \$14.4 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

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Security contributions to the U.S. Department of Health and Human Services for approximately 1500 towns, villages, and other political entities. Members of two retirement systems in the State, the Illinois Municipal Retirement Fund (IMRF) and the State Employees' Retirement System (SERS) are also covered by social security. During fiscal year 1981, contributions collected and transmitted for the political entities amounted to \$28.4 million for approximately 25,000 employees, and for the SERS, \$138.1 million for 64,100 members. Since monthly deposits of FICA contributions are now required, the IMRF is transmitting directly to the Federal Government. Auditing of FICA contributions of political entities reporting through IMRF is performed by this office.

The Social Security Division has a staff of five full-time employees. Data processing and accounting 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 for 1981 was 6.65% on maximum wages of \$29,700. Collections and transmittals are administered through a State trust fund under the custody of the Treasurer of the State of Illinois.

LEGISLATIVE AMENDMENTS:

Amendments with an effective date during fiscal year 1981 having significant impact on the System were:

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 1752 - Provides for an increase in retirement annuities on January 1, 1981, of \$1.00 per month for each year of creditable service for annuitants who began receiving a retirement annuity before January 1, 1971. Widow's and survivors annuities which commenced before January 1, 1971, will be increased as of January 1, 1981 by 1% for each full year since the annuity began. Effective January 16, 1981. Original from

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

New legislation with effective dates subsequent to June 30, 1981, affecting the operation of the System is summarized below:

Senate Bill 244 - Affects security employees of the Department of Corrections. The bill provides for an increase in the rates for benefit formulas and contributions. A minimum of 20 years of membership service is required in order to qualify for the increased formula. The increased formula is applicable only to the period of service earned as a security employee. Effective January 1, 1982.

Senate Bill 587 - Affects Conservation police officers by changing their contribution rate and benefit formula to include them under the alternative retirement annuity applicable to State police officers. Effective January 1, 1982.

Senate Bill 930 - Provides for a change from a maximum age of 65 to a maximum age of 70 for disability benefits. If benefits commence prior to attainment of age 60, the maximum benefit period is age 65. However, if benefits commence on or after attainment of age 60, the maximum benefit period is the fifth anniversary of the effective date of the benefit, but in no event beyond attainment of age 70. The change is effective retroactively to January 1, 1979. Effective September 24, 1981.

Senate Bill 1058 - Changes the date from 1960 to 1950 for granting partial months of service credits; increases the dollar maximum for survivor benefits to \$400 for spouse or dependent parents, \$600 if there are dependent children; allows a spouse who is the sole survivor and sole beneficiary to select the nonoccupational death benefit in lieu of the survivor annuity. Effective January 1, 1982.

Senate Bill 1126 - Removes eligibility for membership for enrollees and temporary staff of programs administered by the Department of Conservation under the Youth Conservation Corps Act of 1970, and for emergency and temporary employees, as defined in Sections 8b8 and 8b9 of the "Personnel Code". Effective July 1, 1982.

House Bill 291 - Removes the one year limitation for submitting application for a retirement annuity. The date the application is submitted will not be considered in determining the commencement date for the retirement annuity. Effective January 1, 1982.

House Bill 1813 - Removes the provision that survivor annuity beneficiary children must be dependent on the member or annuitant. Effective January 1, 1982.

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House Bill 682 - Provides for an increase in retirement annuities on January 1, 1982, of \$1.00 per month for each year of creditable service for annuitants who began receiving a retirement annuity before January 1, 1977. Widow's and survivors annuities which commenced after January 1, 1971, but before January 1, 1981, will be increased by 1% for each full year since the annuity began. Effective September 16, 1981.

House Bill 1812 - Provides for a cost of living adjustment of 3% annually of the original monthly retirement allowance for retirees who terminated employment prior to January 1, 1970 with eight but less than fifteen years of creditable service; allows the beneficiary of a deceased member to receive survivor annuity benefits pending adjudication of a Workman's Compensation claim by the Industrial Commission. Effective January 1, 1982.

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 ex officio, 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.

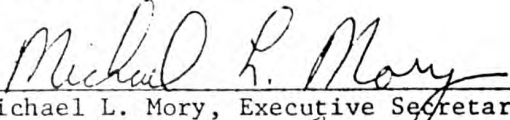
Annual statements of members' contributions and service were mailed in November 1981, along with a newsletter containing legislative changes and other information of interest to the membership.

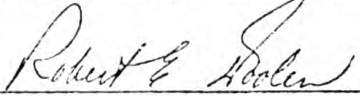
The Board of Trustees appointed The Wyatt Company to perform all necessary actuarial services for the System for the 1981 fiscal year. The annual audit for the 1981 fiscal year was performed under the direction of the Auditor General by the firm of Peat, Marwick, Mitchell and Co.

ACKNOWLEDGEMENT

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

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UNIVERSITY OF ILLINOIS AT
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Certified Public Accountants



Peat, Marwick, Mitchell & Co.

Peat Marwick Plaza
303 East Wacker Drive
Chicago, Illinois 60601
(312) 938-1000

ACCOUNTANTS' REPORT

Honorable Robert G. Cronson
Auditor General
State of Illinois

Board of Trustees
State Employees' Retirement
System of Illinois:

We have examined the balance sheet of the State Employees' Retirement System Trust Fund of the State Employees' Retirement System of Illinois as of June 30, 1981 and the related statements of revenue and expenses, changes in reserve balances and changes in financial position for the year then ended. Our examination was 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.

The financial statements of the State Employees' Retirement System Trust Fund for the year ended June 30, 1980 were examined by other auditors whose report dated December 18, 1980 expressed an unqualified opinion on those statements. The 1980 financial statements were subsequently restated for the adjustment described in note 4. In our opinion, this adjustment is appropriate and has been properly applied to the 1980 financial statements.

In our opinion, the financial statements referred to in the first paragraph present fairly the financial position of the State Employees' Retirement System Trust Fund of the State Employees' Retirement System of Illinois at June 30, 1981 and the results of its transactions, changes in reserve balances and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The supplementary data included in the schedule of administrative expenses are presented for supplementary analysis purposes and are not necessary for a fair presentation of the financial statements of the State Employees' Retirement System Trust Fund of the State Employees' Retirement System of Illinois. The current year's supplementary data have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, are stated fairly in all material respects when considered in conjunction with the financial statements taken as a whole.

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October 30, 1981

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Balance Sheet

June 30, 1981

with comparative figures for 1980

<u>Assets</u>	<u>June 30</u>	
	<u>1981</u>	<u>1980</u>
Cash	\$ 6,201,164	2,902,092
Receivables:		
Contributions receivable:		
Participants	3,028,314	4,493,029
Employing State agencies	4,835,993	7,555,134
Other accounts receivable	445,818	419,595
	<u>8,310,125</u>	<u>12,467,758</u>
Investments:		
Held in the Illinois State Board of Investment		
Commingled Fund:		
At cost	1,119,702,537	966,813,414
Allowance for undistributed net realized		
loss on sale of investments (note 4)	<u>50,493,338</u>	<u>45,458,776</u>
At adjusted cost (market value: 1981,		
\$939,315,501; 1980, \$880,061,648)	<u>1,069,209,199</u>	<u>921,354,638</u>
	\$ <u>1,083,720,488</u>	<u>936,724,488</u>
<u>Liabilities and Reserves</u>		
Benefits payable	975,346	1,098,092
Refunds payable	743,061	642,643
Administrative expenses payable	138,075	108,168
Participants' deferred service credit accounts	58,954	11,925
	<u>1,915,436</u>	<u>1,860,828</u>
Reserves:		
Actuarially determined accrued benefit cost		
(note 3)	2,193,130,369	1,934,053,688
Less unfunded accrued bene fit cost - representing		
an obligation of the State of Illinois	<u>1,111,325,317</u>	<u>999,190,028</u>
Funded reserves	<u>1,081,805,052</u>	<u>934,863,660</u>
	\$ <u>1,083,720,488</u>	<u>936,724,488</u>

See accompanying notes to financial statements.

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Statement of Revenue and Expenses

Year ended June 30, 1981
with comparative figures for 1980

	<u>Year ended June 30</u>	
	<u>1981</u>	<u>1980</u>
Revenue:		
Contributions:		
Participants	\$ 64,227,096	59,079,290
Employing State agencies	94,542,451	91,380,122
State Pension Fund	<u>2,376,000</u>	<u>2,676,000</u>
	161,145,547	153,135,412
Net investment income	92,889,123	78,716,306
Repayment of contributions refunded	134,646	144,916
Interest earned on cash balances	1,068,206	722,438
Interest received from participants	<u>211,342</u>	<u>224,287</u>
	255,448,864	232,943,359
Expenses:		
Benefits:		
Retirement annuities	60,675,795	55,063,529
Survivors' annuities	12,939,271	11,902,744
Disability benefits	11,598,809	11,327,382
Lump-sum death benefits	<u>3,933,424</u>	<u>3,048,393</u>
	89,147,299	81,342,048
Refunds	12,334,019	12,311,458
Administrative expenses	1,973,475	1,752,078
Transfers to reciprocating retirement systems	18,117	16,871
Provision for undistributed net realized loss on sale of investments	<u>5,034,562</u>	<u>2,460,525</u>
	<u>108,507,472</u>	<u>97,882,980</u>
Excess of revenue over expenses	\$ <u>146,941,392</u>	<u>135,060,379</u>

See accompanying notes to financial statements.

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Statement of Changes in Reserve Balances

Year ended June 30, 1981
with comparative figures for 1980

	Reserve for participants' contributions	Interest accumulations	Reserve for future operations Other future benefits	Total
Balance at July 1, 1979 previously reported	\$ 347,173,321	63,575,474	432,052,737	842,801,532
Provision for undistributed net realized loss on sale of investments	-	-	42,998,251	42,998,251
Balance at July 1, 1979 restated	347,173,321	63,575,474	389,054,486	799,803,281
Add (deduct):				
Excess of revenue over expenses	45,017,875	-	90,042,504	135,060,379
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(13,723,386)	-	13,723,386	-
Interest credited to members' accounts	-	14,147,036	(14,147,036)	-
Balance at June 30, 1980	378,467,810	77,722,510	478,673,340	934,863,660
Add (deduct):				
Excess of revenue over expenses	49,660,329	-	97,281,063	146,941,392
Reserve transfers:				
Accumulated contributions of member who retired during the year, less contributions of annuitants returning to active status	(14,355,574)	-	14,355,574	-
Interest credited to members' accounts	-	15,531,619	(15,531,619)	-
Balance at June 30, 1981	\$ 413,772,565	93,254,129	574,778,358	1,081,805,052

See accompanying notes to financial statements.

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Statement of Changes in Financial Position

Year ended June 30, 1981

Sources of working capital:

Working capital provided by operations	\$ 146,941,392
Add item not requiring working capital - provision for undistributed loss on sale of investments	<u>5,034,562</u>
Total sources of working capital	<u>151,975,954</u>

Uses of working capital - investment purchases:

Amounts transmitted by SERS	60,000,000
Reinvested earnings	<u>92,889,123</u>
Total uses of working capital	<u>152,889,123</u>
Net decrease in working capital	\$ <u>(913,169)</u>

Elements of net decrease in working capital:

Cash	3,299,072
Receivables	(4,157,633)
Benefits payable	122,746
Refunds payable	(100,418)
Administrative expenses payable	(29,907)
Participants' deferred service credit accounts	<u>(47,029)</u>
Net decrease in working capital	\$ <u>(913,169)</u>

See accompanying notes to financial statements.

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Notes to Financial Statements

June 30, 1981

(1) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(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 Commingled Fund of that Board. Such investments are valued at the cost of the System Trust Fund's units of participation in the Commingled Fund of the Board adjusted by an allowance for undistributed net realized loss on sale of investments.

(c) 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.

(d) Actuarial Valuation

In accordance with the Illinois Revised Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. The last such experience review was performed on June 30, 1980. An annual actuarial valuation is performed which is used to value the current reserves.

(2) 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. Administrative Code officers appointed by the Governor may elect to become members of the System.

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Notes to Financial Statements

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 and administering the System on a funded basis in accordance with actuarial requirements. The employer contribution rate was 7-1/2% for the current fiscal year. Subsequent to June 30, 1981, this rate was decreased to 4-1/2%.

(3) Accrued Benefit Cost

The calculations of accrued benefit cost (actuarial liability) were made by the consulting actuaries 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%
Average age at retirement	65 years, except age 60 was used for those employees eligible for the "alternative retirement annuity"
Rate of turnover without vested benefits	A high scale at younger age levels, becoming progressively lower as age advances - consistent with the System's experience
Mortality basis	1971 Group Annuity Mortality Table projected to 1986
Salary increases	7-1/2% annual increase

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Notes to Financial Statements

(4) Restatement for Undistributed Net Realized Loss

The investment balance, funded reserves and expenditures at and for the year ending June 30, 1980 have been restated to reflect a prior period adjustment in order to conform with generally accepted accounting principles. An allowance for undistributed net realized loss on sale of investments was established to provide accounting recognition for realized capital losses incurred by the Illinois State Board of Investment since its inception in 1970 which were not distributed to participating systems. Funded reserves at July 1, 1979 have been restated by \$42,998,251 for the accumulated undistributed net realized loss on sale of investments at that date. The undistributed net realized losses applicable to years ended June 30, 1980 and 1981 were \$2,460,525 and \$5,034,562, respectively.

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Schedule of Administrative Expenses

Year ended June 30, 1981
with comparative figures for 1980

	<u>1981</u>	<u>1980</u>
Personal services	\$ 903,223	818,928
Retirement contributions	67,762	65,514
Social security contributions	46,577	38,350
Group insurance	34,491	31,498
Contractual services	444,266	320,887
Travel	18,983	13,993
Printing	14,803	31,482
Commodities	13,761	15,504
Equipment	22,769	22,750
Telecommunications	23,086	48,760
Electronic Data Processing	378,200	340,302
Automotive	<u>5,554</u>	<u>4,110</u>
Total	\$ <u>1,973,475</u>	<u>1,752,078</u>

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MEMPHIS
MIAMI
MINNEAPOLIS-
ST. PAUL

THE *Wyatt* COMPANY

NEW YORK
ORLANDO
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PHOENIX
SAN DIEGO
SAN FRANCISCO
STAMFORD
WASHINGTON

ACTUARIES AND CONSULTANTS

PENSION PLANS EMPLOYEE BENEFITS COMPENSATION PROGRAMS INTERNATIONAL BENEFITS EMPLOYEE COMMUNICATIONS RISK MANAGEMENT

SUITE 5600 SEARS TOWER
233 SOUTH WACKER DRIVE
CHICAGO, ILLINOIS 60606
(312) 876-1616

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ACTUARIAL CERTIFICATION

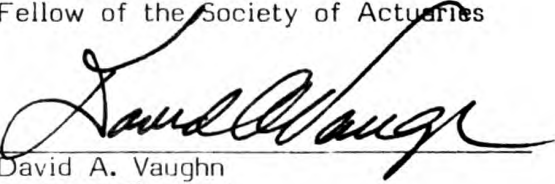
We have completed an actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois as of June 30, 1981.

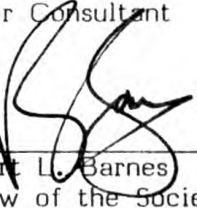
For purposes of determining contribution rates, assets have been valued at Cost as reported by the Illinois State Board of Investment, with an allowance for undistributed realized loss on investments. The liabilities have been valued based on employee data supplied by the staff of the System and based 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, 1981 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 
David A. Vaughn
Senior Consultant

By 
Robert L. Barnes
Fellow of the Society of Actuaries

Chicago, Illinois
December 3, 1981

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VALUATION RESULTS

Actuarial Liability (Reserves)

a) For Members Receiving Annuities:

i) Retirement Annuities	\$ 648,776,697
ii) Survivor Annuities	112,524,082
iii) Disability	57,971,643
iv) Total	\$ 819,272,422

b) For Inactive Members \$ 73,812,598

c) For Active Members \$1,300,045,349

d) Total \$2,193,130,369

Assets (Book Value) \$1,081,805,053

Unfunded Actuarial Liability \$1,111,325,316

CONTRIBUTION RATES

	% of Payroll <u>1/</u>	Annual Contributions <u>1/</u>
1. Normal Cost Only	6.474%	\$ 91,930,800
2. Normal Cost Plus 7 1/2% Interest on the Unfunded Actuarial Liability	12.344%	\$175,284,800
3. Normal Cost Plus an Amount to Amortize the Unfunded Actuarial Liability Over a 40-year Period from July 1, 1980	12.716%	\$180,567,200
4. Cash Payouts for Annuities, Benefits and Administrative Expenses	7.817%	\$111,001,400

1/ Based on assumed payroll of \$1,420,000,000 for Fiscal Year July 1, 1982 - June 30, 1983.

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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.

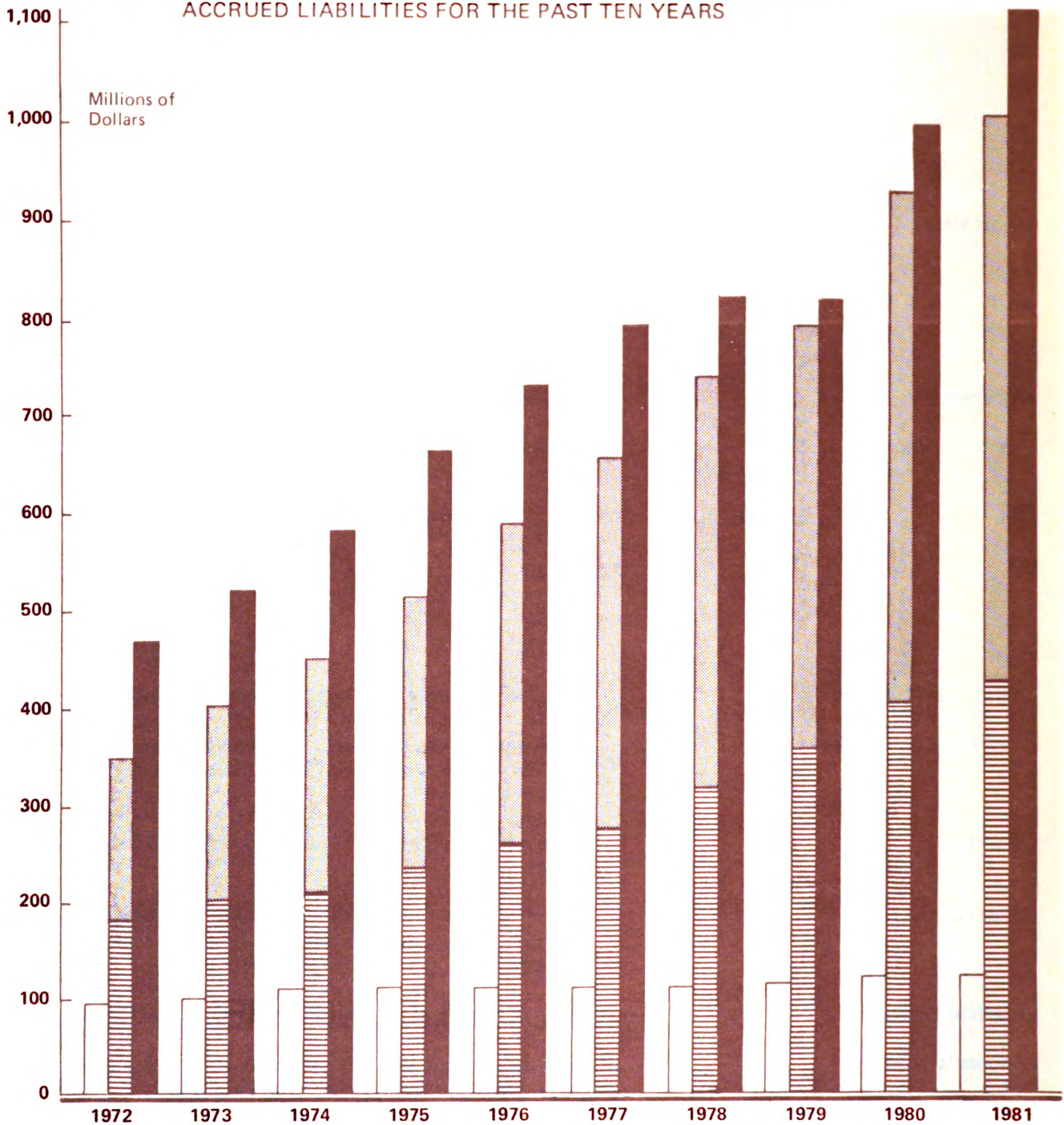
Spouse's Age: The spouses of eligible employees were assumed to be 3 years younger than the employees.

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.

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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

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BALANCE SHEET ASSETS

<u>FY Ended June 30</u>	<u>Cash</u>	<u>Receivables</u>	<u>Investments</u>	<u>Investment Adjustment*</u>	<u>Total</u>
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	*(42,998,251)	801,677,107
1980	2,902,092	12,467,758	966,813,414	*(45,458,776)	936,724,488
1981	6,201,164	8,310,125	1,119,702,537	*(50,493,338)	1,083,720,488

*Allowance for accumulated net realized loss undistributed by the Illinois State Board of Investment.

BALANCE SHEET LIABILITIES

<u>FY Ended June 30</u>	<u>Accounts Payable</u>	<u>Reserve For Member Contributions</u>	<u>Reserve For Future Operations</u>	<u>Total</u>
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	452,629,960	801,677,107
1980	1,860,828	378,467,810	556,395,850	936,724,488
1981	1,915,436	413,772,565	668,032,487	1,083,720,488

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ANALYSIS OF FUNDING

<u>FY Ended June 30</u>	<u>Net Real Assets</u>	<u>Unfunded Accrued Liability</u>	<u>Reserve Requirement</u>	<u>Rate of Funding</u>
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	799,803,281	829,962,465	1,629,765,746	49.1
* 1980	934,863,660	999,190,028	1,934,053,688	48.3
1981	1,081,805,052	1,111,325,317	2,193,130,369	49.3

*Restated with adjusted investment values (see table of Balance Sheet Assets, Page D-1)

REVENUES BY SOURCE

<u>FY Ended June 30</u>	<u>Member Contributions</u>	<u>State Contributions</u>	<u>Investment Income</u>	<u>Total</u>
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
1981	64,573,084	96,918,451	93,957,329	255,448,864

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EXPENSES BY TYPE

<u>FY Ended June 30</u>	<u>Benefits</u>	<u>Contribution Refunds</u>	<u>Administrative Expenses</u>	<u>Other Expenses</u>	<u>Total</u>
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	2,460,525	97,882,980
1981	89,147,299	12,352,136	1,973,475	5,034,562	108,507,472

*Net realized loss on investments undistributed by the Illinois State Board of Investment. Accumulated net losses from 1970 through 1979 amounted to \$42,998,251.

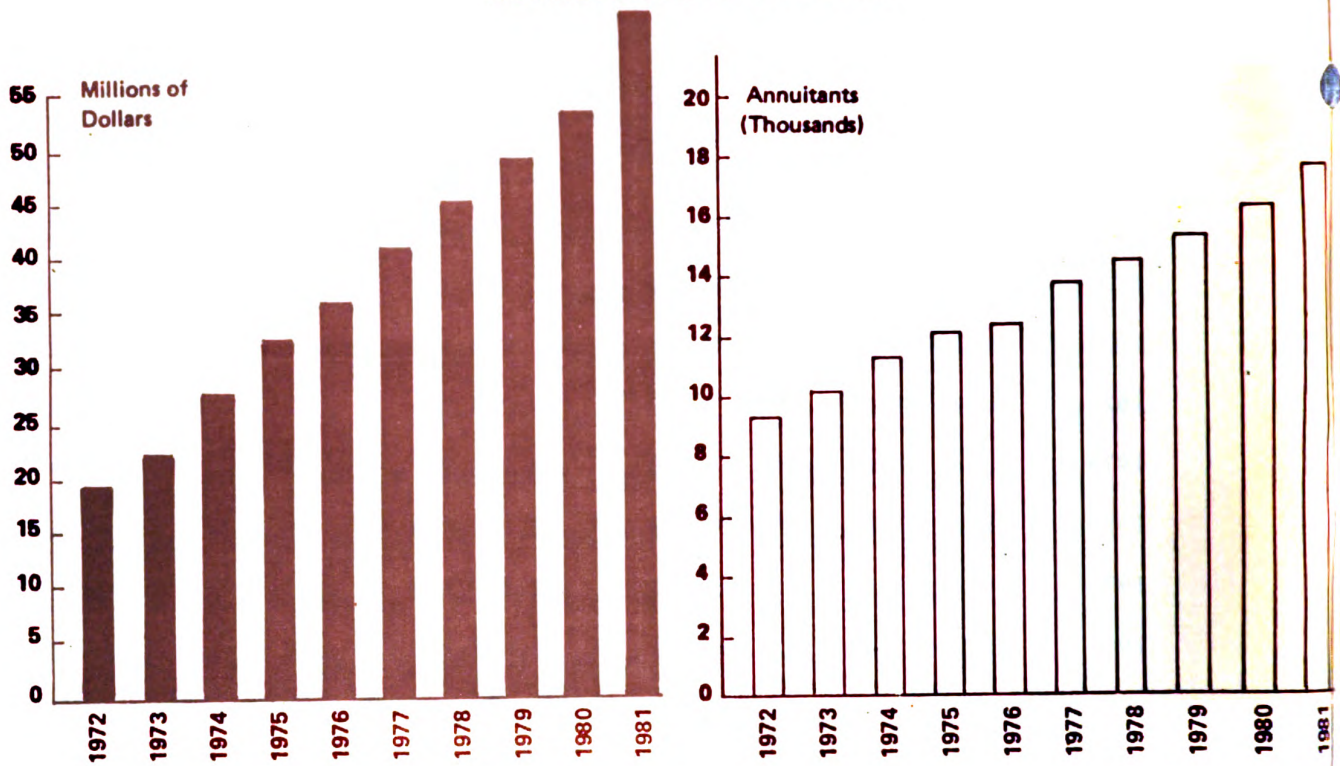
BENEFIT EXPENSES BY TYPE

<u>FY Ended June 30</u>	<u>Retirement Annuities</u>	<u>Survivors Annuities</u>	<u>Disability Benefits</u>	<u>Lump Sum Death Benefits</u>	<u>Total</u>
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
1981	60,675,795	12,939,271	11,598,809	3,933,424	89,147,299

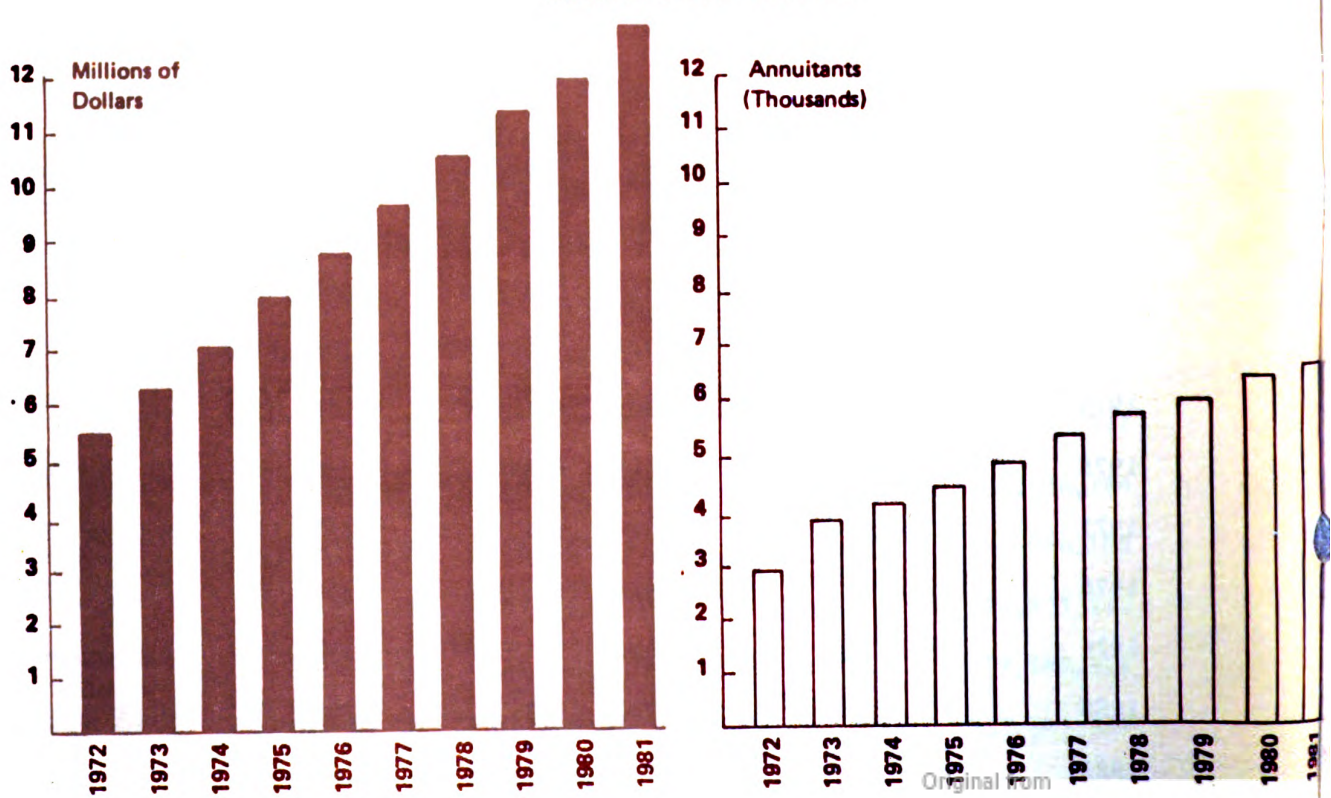
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AGE RETIREMENT ANNUITIES



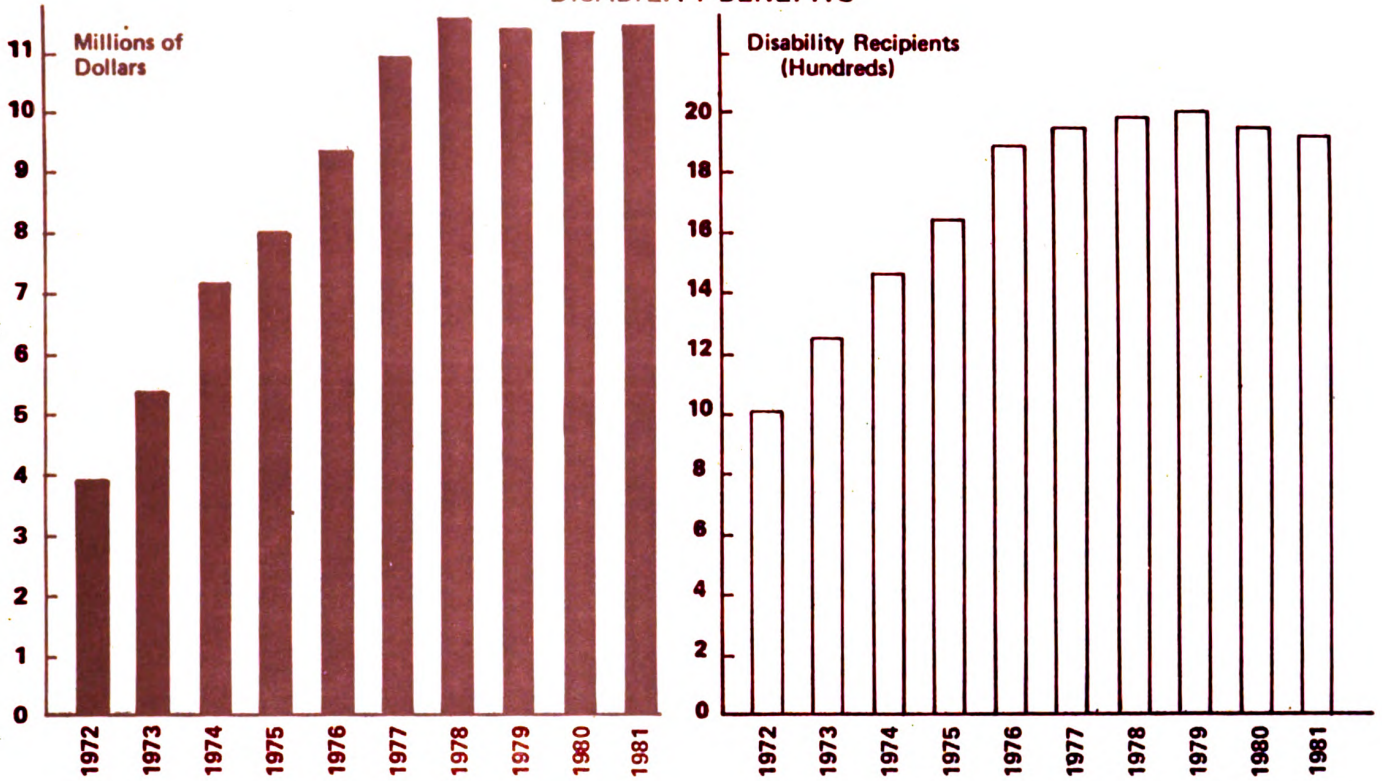
SURVIVOR ANNUITIES



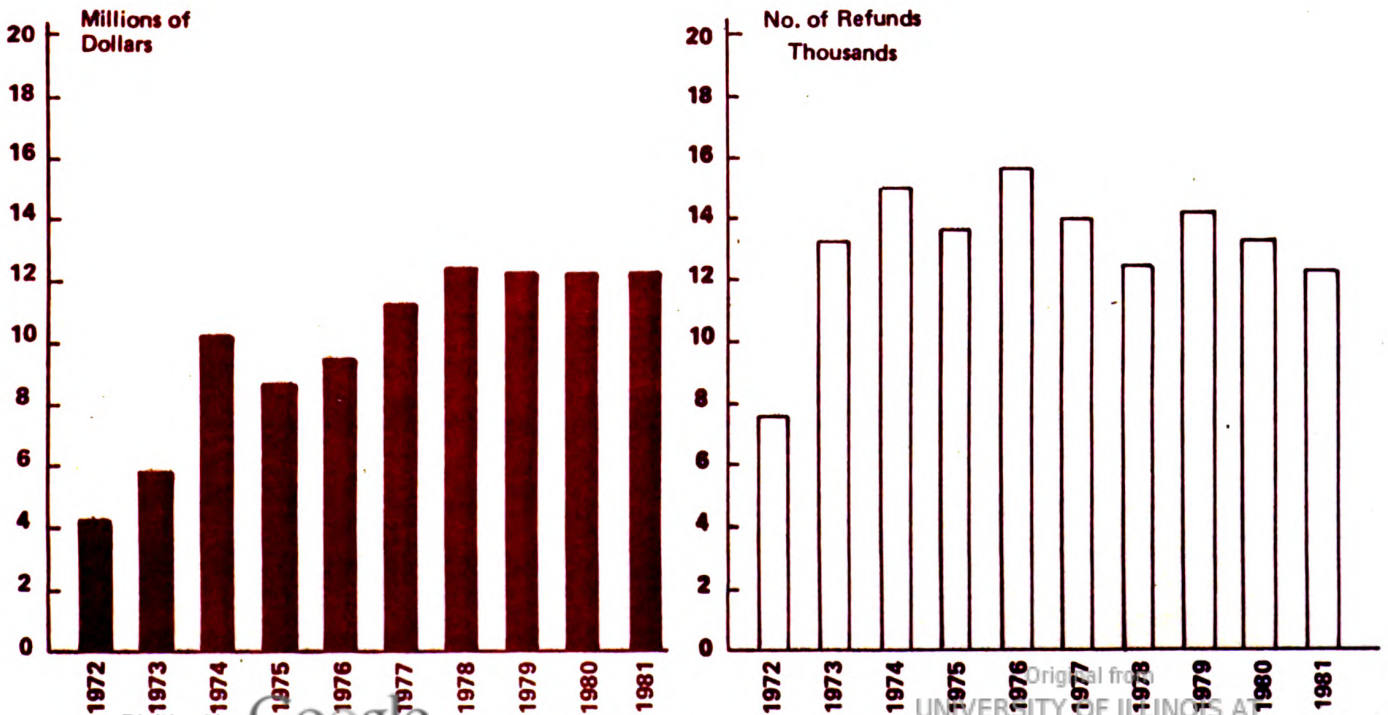
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DISABILITY BENEFITS



CONTRIBUTION REFUNDS



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TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	Coordinated Members		Noncoordinated Members		Total Male Members	Total Female Members	Total Members
	Male	Female	Male	Female			
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	43,101	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
1981	45,713	46,153	8,876	7,775	54,589	53,928	108,517

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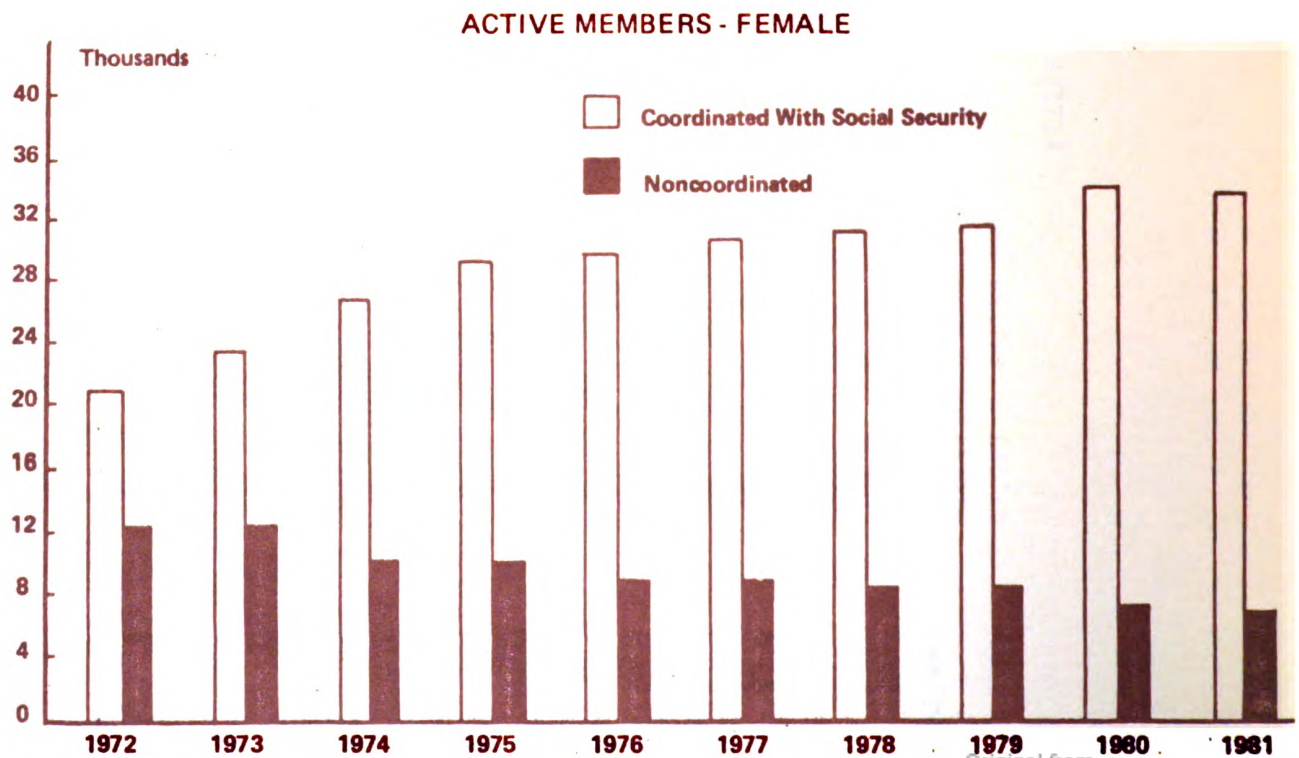
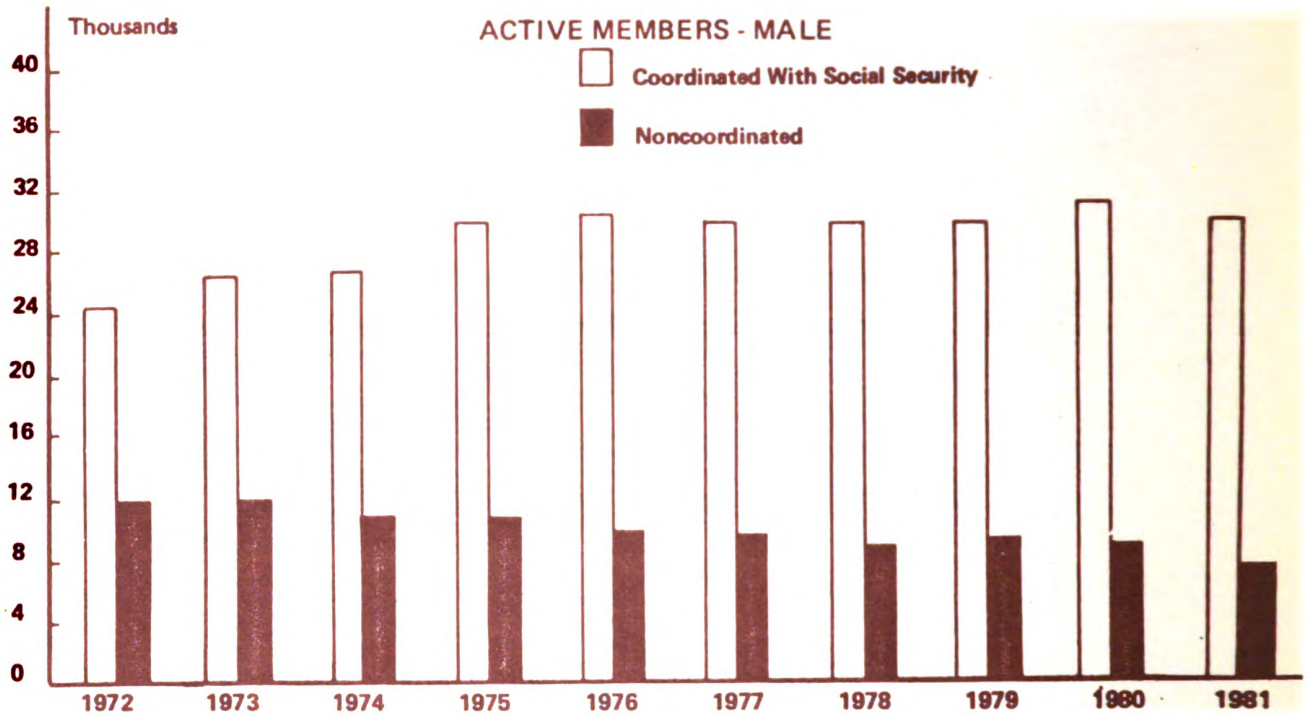
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ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	<u>Coordinated Members</u>		<u>Noncoordinated Members</u>		<u>Total Male Members</u>	<u>Total Female Members</u>	<u>Total Active Members</u>	<u>Annual Earnings Reported</u>		
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>						
	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>						
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	31,695	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
1981	30,462	33,642	64,104	7,991	7,035	15,026	38,453	40,677	79,130	1,253,016,000

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NUMBER OF RECURRING BENEFIT PAYMENTS

<u>FY Ended June 30</u>	<u>Retirement Annuities</u>	<u>Survivors Annuities</u>	<u>Disability* Benefits</u>	<u>Total</u>
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
1981	17,307	6,485	1,871	25,663

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

TERMINATION REFUNDS - NUMBER/AMOUNT

<u>FY Ended June 30</u>	<u>Number</u>	<u>Amount</u>
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
1981	12,171	11,810,898

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SCHEDULE OF INSURANCE IN FORCE

June 30, 1981

<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	7-1-80/6-30-81	Employee Dishonesty Disappearance and Destruction Bond	\$10,000,000 per Occurrence (\$100,000 Deductible)

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plan summary

SUMMARY OF RETIREMENT SYSTEM PLAN (As of June 30, 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 60.

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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.

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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 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.

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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.

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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.

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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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