COMPONENT UNIT FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 1986

SERS

STATE EMPLOYEES'
RETIREMENT SYSTEM
OF ILLINOIS

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

JUNE 30, 1986 COMPONENT UNIT FINANCIAL REPORT

STATE EMPLOYEES'
RETIREMENT SYSTEM
OF ILLINOIS

2815 West Washington Street
P.O. Box 1925 · Springfield, Illinois 62794 · 9255

Prepared by the
Accounting Division

Printed by Authority of the State of Illinois

INTRODUCTORY SECTION

SERS STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

2815 WEST WASHINGTON, P.O. BOX 19255, SPRINGFIELD, IL 62794-9255, PH. 217/753-0444

The Board of Trustees
State Employees' Retirement System of Illinois
Springfield, Illinois 62794

December 16, 1986

Dear Board Members:

The component unit annual financial report of the State Employees' Retirement System of Illinois for the fiscal year ended June 30, 1986, is submitted herewith. The report consists of six sections: (1) an Introductory Section which contains this letter of transmittal, the report of the Chairman of the Board of Trustees and the identification of the administrative organization; (2) the Financial Section which contains the report of the independent public accountants, the financial statements of the System, and supplementary and additional financial information; (3) the Actuarial Section which contains the report of the actuary as well as a summary of major actuarial assumptions and certain tables; (4) the Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance; (5) the Statistical Section which contains significant statistical data; and (6) a summary of the System's plan provisions.

Accounting System and Internal Control

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

The combined financial statements include the State Employees' Retirement System Trust Fund and the Social Security Contribution Fund, an agency fund.

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses of the State Employees' Retirement System Trust Fund. Revenues are recognized in the accounting period in which they are earned, without regard to date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. The Social Security Contribution Fund uses the modified accrual basis of accounting.

In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records.

Revenues

Collection of employer and employee retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These sources totaled $427.0 million during the fiscal year ending June 30, 1986, which is an increase of 55.8% over revenue reported for fiscal year 1985, shown as follows:

	1986 (Millions)	1985 (Millions)	Increase (Millions)	Increase (Percentage)
Retirement System Trust Fund				
Contributions:				
Employees	84.6	77.8	6.8	8.7%
Employers	102.2	94.4	7.8	8.3%
Investments	240.2	101.8	138.4	136.0%
	$ 427.0	$ 274.0	$ 153.0	55.8%
Social Security Contribution Fund General Revenue less balances lapsed	.2	.2	–	–
	$ 427.2	$ 274.2	$ 153.0	55.8%

As indicated in the total above, the majority of this increase is due to the realization of a substantial gain on the sale of investments during fiscal year 1986, as opposed to a realized loss in fiscal year 1985.

Expenses

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System Trust Fund. Expenses of the System Trust Fund and Social Security Contribution Fund for 1986 and 1985 are shown for comparative purposes:

Retirement System Trust Fund	1986 (Millions)	1985 (Millions)	Increase/Decrease (Millions)	(Percentage)
Benefits:				
Retirement annuities	106.5	96.0	10.5	10.9%
Survivors' benefits	17.9	17.1	.8	4.7%
Disability benefits	14.4	14.1	.3	2.1%
Lump-sum death benefits	4.8	5.1	(.3)	(5.9%)
	143.6	132.3	11.3	8.5%
Refunds	13.8	13.2	.6	4.5%
Administrative expenses	2.8	2.5	.3	12.0%
	$ 160.2	$ 148.0	$ 12.2	$ 8.2%
Social Security Contribution Fund Administrative expenses	.2	.2	–	–
	$ 160.4	$ 148.2	$ 12.2	8.2%

The increase in benefit payments resulted primarily from a growth in the number of benefits paid and in the average benefit payment.

Investments

Income from investments has increasingly become a greater share of the total revenue of the System. Net investment income, combined with a net realized gain on the sale of investments, amounts to $240,235,534 during fiscal year 1986, an increase of $138,480,603 (136%) over fiscal year 1985, which represented 56.3% of total fund revenue.

Funding and Reserves

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

The actuarial determined liability of the System at June 30, 1986, amounted to $3.2 billion. The fund balances for participant contributions, interest accumulations and other future benefits amounted to $2.0 billion as of the same date. The amount by which the liability exceeds the reserves is called the "unfunded accrued benefit cost." The unfunded accrued benefit cost amounts to $1.2 billion and reflects the continuing state policy of appropriating funds based upon a percentage of the total amount of benefit payments made to current recipients. A detailed discussion of funding is provided in the Actuarial Section of this report.

Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

Professional Services

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operations of the System. Actuarial services are provided by The Wyatt Company, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of Arthur Andersen & Co. under the direction of the Auditor General of the State of Illinois. The System's investment function is managed by the Illinois State Board of Investment.

Acknowledgements

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions as a means of determining compliance with legal provisions, and as means for determining responsible stewardship for the assets contributed by the members and the State of Illinois.

On behalf of the Board of Trustees we would like to express our appreciation to the staff and the professional consultants who work so effectively to assure the successful operation of the System.

Respectfully submitted,

Michael L. Mory
Executive Secretary

Nicholas C. Merrill, Jr., CPA
Chief Fiscal Officer

SERS STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

2815 WEST WASHINGTON, P.O. BOX 19255, SPRINGFIELD, IL 62794-9255, PH. 217/753-0444

December 16, 1986

To all members,
State Employees' Retirement System of Illinois

While another year has passed, there are still many critical issues facing the Retirement System and its members: the adequacy of existing benefit levels, establishment of an ultimate funding objective, the proper role of the investment function and the impact of federal legislative initiatives.

During FY86 another attempt was made to address the funding issue through establishment, by the Governor, of a special retirement system task force made up of 30 individuals representing employee organizations, retirement system management and professionals from the private sector. The report issued in December 1985 recommended establishment of an objective based on full funding of actuarial liabilities for (1) employee contributions, (2) retirees and beneficiaries currently receiving benefits, and (3) vested accrued benefits for active employees. While some disagreement developed among task force members on the actuarial method to be used, the key issue was the time period established to amortize the existing deficiency. The report was issued stipulating only that a period of not longer than 40 years be established. Since a 40-year amortization period would have resulted in little or no increase in contributions to some of the affected systems, it was impossible to achieve unanimous approval or even a consensus of task force members. There was considerable discussion regarding the task force recommendation in the spring session of the General Assembly but, again, no agreement could be reached and as a result, funding of the System based on a percentage of benefit payout, was continued for FY87. While, as reflected in this report, the System's overall financial condition continues to improve due to superior investment returns, a brief review of the past performance of financial markets clearly indicates that this trend cannot continue indefinitely. As this report goes to publication there are many question marks in the financial markets and the maintenance of current investment return rates is doubtful.

The question of adequate benefit levels has been the subject of an ongoing review for the past several years. These studies clearly indicate that compared to surrounding states, the System's basic retirement formula for general employees produces a benefit significantly below the plans of other states. While legislation was again introduced in the 1986 spring session of the General Assembly to increase the System's retirement formula, as well as to provide an ad hoc increase to existing retirees to counteract the effects of inflation, these bills failed to pass. Although the cost of these proposals is significant and admittedly 1986 was not a substantive legislative year, it is important to assess the reasons why no major pension legislation was passed. It appears certain that attempts to make major plan improvements will continue to fail until such time as they are tied to a funding program based on goals directly related to long-term obligations which are determined on a consistent basis. This program should involve all of the state financed systems and must recognize the current and projected financial condition of the state.

While legislation has been introduced the past several years requiring the divestiture of securities in corporations doing business in South Africa, prior to 1986 none of these proposals secured passage of either chamber of the General Assembly. During this year, however, such a proposal was passed by the State Senate and must be considered to be one of the reasons no final action was taken by the House on any pension legislation. While social investment issues will undoubtedly continue to surface in the future, efforts must be made to clarify the objective of the System's investment function to prevent these issues from affecting the passage of substantive plan changes affecting hundreds of thousands of public employees in the state.

Legislation at the federal level affecting the System continued at a brisk pace during the year. Public employees hired after April 1, 1986, by jurisdictions not covered for social security, were included under the Medicare program. Tax reform legislation passed after the end of the System's fiscal year eliminated the three-year basis recovery rule retroactively to July 1st, introduced a new 10% excise tax on employee contribution refunds involving amounts tax sheltered since 1982 under the employer pickup program, and eliminated the right of public employers to establish deferred compensation programs under IRS Section 401(k). These changes, particularly the repeal of the three-year basis recovery rule reflect the current fiscal plight of the federal government. As a result, in the near term, additional revenue producing proposals can be expected which may include the extension of Medicare coverage to all existing noncovered employees.

On a brighter note, several projects were initiated within the System during FY86 which should improve administration of the benefit program and increase direct input of active and retired members. Examples include:

- Development and distribution of a new booklet for retirees and survivors which contains information concerning the nature and timing of future benefit payments as well as the tax ramifications of such benefits.
- Introduction of a new one-day seminar entitled "Countdown" for employees approaching retirement age. The new seminar explores the financial aspects of retirement planning.
- The first election of trustees in the history of the System. Two additional trustees, one active employee and one annuitant were elected to the Board and took office effective July 15, 1986. During this process detailed election policies and procedures were developed and ballots mailed to over 94,000 active and retired members.
- Review of the schedule for vouchering disability benefits to allow payment of the first benefit 10 to 15 days earlier than the present procedure.
- Validation of active member account information maintained on the computer to maximize utilization of the automated benefit calculation system.

While the issues facing the Retirement System have remained unchanged for the past several years, based on the in-depth review of these issues by all parties involved, the time for action is near. We must therefore be prepared to firmly establish our priorities and obtain the active support of the membership. The year 1987 could truly be a period which will dictate the direction of the System for many years to come.

Kenneth W. Obrecht
Chairman, Board of Trustees

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Claims Division

FINANCIAL SECTION

ARTHUR ANDERSEN & CO.

CHICAGO, ILLINOIS

Honorable Robert G. Cronson
Auditor General
State of Illinois

Board of Trustees
State Employees' Retirement
System of Illinois

We have examined the financial statements of the STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS as of and for the year ended June 30, 1986, as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and the standards for financial audits contained in the U. S. General Accounting Office's Standards for Audits of Governmental Organizations, Programs, Activities and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements for the year ended June 30, 1985, were examined by other auditors whose report thereon dated October 17, 1985, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of the State Employees' Retirement System of Illinois at June 30, 1986, and the results of its operations and the changes in 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 combining and individual fund statements of supplementary financial information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the State Employees' Retirement System of Illinois. Our examination was made for the purpose of forming an opinion on the fiscal year 1986 financial statements taken as a whole. The fiscal year 1986 supplementary financial information has been subjected to the auditing procedures applied in the examination of the fiscal year 1986 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The combining and individual fund statements of supplementary financial information for fiscal year 1985 were examined by other auditors whose report thereon dated October 17, 1985, expressed that such information is fairly stated in all material respects in relation to the fiscal year 1985 financial statements taken as a whole.

Arthur Andersen & Co.
ARTHUR ANDERSEN & CO.

October 10, 1986

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Combined Balance Sheets - June 30, 1986 and 1985

	1986	1985
Assets		
Cash	$ 7,618,809	$ 11,216,376
Cash, restricted for Social Security remittances	9,262,057	9,257,197
Receivables:		
Contributions receivable:		
Participants	3,558,957	3,262,619
Employing state agencies (Note 3)	4,953,693	6,066,216
Other accounts receivable	418,967	470,992
	8,931,617	9,799,827
Investments - held in the Illinois State Board of Investment Commingled Fund at cost (Market value: 1986, $2,193,519,253; 1985, $1,729,173,899)	1,959,702,313	1,688,252,032
Fixed Assets, net of accumulated depreciation (Note 6)	124,916	127,268
Total Assets	$1,985,639,712	$1,718,652,700
Liabilities and Fund Balance		
Benefits payable	$ 1,319,494	$ 1,198,724
Refunds payable	138,288	265,059
Administrative expenses payable (Note 5)	378,315	306,036
Participant's deferred service credit accounts	446,875	366,222
Unremitted Social Security contributions	8,596,003	8,508,514
Amounts held for Social Security remittances	666,054	748,683
Total Liabilities	$ 11,545,029	$ 11,393,238
Fund Balance		
Actuarially determined accrued benefit cost (Note 4)	3,162,210,759	2,868,639,632
Less unfunded accrued benefit cost representing an obligation of the State of Illinois	1,188,116,076	1,161,380,170
Total Fund Balance (Note 9)	$1,974,094,683	$1,707,259,462
Total Liabilities and Fund Balance	$1,985,639,712	$1,718,652,700

See accompanying notes to financial statements.

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund
Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1986 and 198

	1986	1985
Revenue:		
Contributions:		
Participants	$ 84,563,536	$ 77,830,806
Employing state agencies and appropriations	102,213,693	94,456,693
Total Contributions revenue	186,777,229	172,287,499
Investments:		
Net investment income	125,597,368	115,786,690
Interest earned on cash balances	785,253	780,084
Net realized gain (loss) on sale of investments	113,852,913	(14,811,843)
Total Investments revenue	240,235,534	101,754,931
	427,012,763	274,042,430
General Revenue Fund appropriations, less balances lapsed	186,885	174,482
Total Revenue	427,199,648	274,216,912
Expenses:		
Benefits:		
Retirement annuities	106,475,314	95,965,469
Survivors' annuities	17,856,166	17,086,453
Disability benefits	14,452,304	14,164,732
Lump-sum death benefits	4,764,734	5,099,824
	143,548,518	132,316,478
Refunds	13,562,138	13,229,773
Administrative expenses:		
System Trust Fund (Note 5)	2,848,181	2,552,452
Contribution Fund (Note 5)	186,885	174,482
Transfers to reciprocating retirement systems	218,705	10,553
Total Expenses	160,364,427	148,283,738
Excess of revenue over expenses (Note 2)	$ 266,835,221	$ 125,933,174
Fund Balance at beginning of year	$1,707,259,462	$1,581,286,794
Restatements – record investment in fixed assets, net of accumulated depreciation and accrued compensated absences (Note 2)	–	39,494
Fund Balance at beginning of year (as restated)	1,707,259,462	1,581,326,288
Fund Balance at end of year	$1,974,094,683	$1,707,259,462

See accompanying notes to financial statements.

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund
Statements of Changes in Financial Position

Years ended June 30, 1986 and 1985

	1986	1985
Sources of working capital:		
Working capital provided by operations — excess of revenue over expenses	$266,835,221	$125,933,174
Add (Deduct) items not providing working capital —		
net realized (gain) loss on sale of investments	(113,852,913)	14,811,843
reinvested earnings	(125,597,368)	(115,786,690)
Depreciation expense	57,990	90,822
Total sources of working capital	27,442,930	25,049,149
Uses of working capital — investment purchases:		
Amounts transmitted by SERS	32,000,000	23,000,000
Net Additions of fixed assets	55,638	28,596
Total uses of working capital	32,055,638	23,028,596
Net increase (decrease) in working capital	$ (4,612,708)	$ 2,020,553
Elements of net increase (decrease) in working capital:		
Cash	$ (3,597,567)	$ 2,116,144
Receivables	(868,210)	(123,673)
Benefits payable	(120,770)	(140,313)
Refunds payable	126,771	257,636
Administrative expenses payable	(72,279)	30.259
Participants' deferred service credit accounts	(80,653)	(119,500)
Net increase (decrease) in working capital	$ (4,612,708)	$ 2,020,553

See accompanying notes to financial statements.

(1) Description of the System

The State Employees' Retirement System of Illinois (System) is composed of the State Employ Retirement System, a trust fund (System Trust Fund) and the Social Security Contribution Fu an agency fund (Contribution Fund)

Description of the System Trust Fund

The State Employees' Retirement System of Illinois is a single-employer public employee retirem system established to provide its members with benefits at retirement, disability or death. Operat of the System Trust Fund and the direction of its policies is the responsibility of the Board of Trust

(a) Eligibility and Membership

Membership is automatic for most state employees who are not eligible for another state-sponso retirement plan. All persons entering state service, except those in positions subject to members in other state sponsored retirement systems, persons employed after June 30, 1979 as pul service employment program participants under the Federal CETA program, and enrollees in Illinois Young Adult Conservation Corps, become members of the System upon completion of months service. Administrative Code officers appointed by the Governor may elect to beco members of the System Trust Fund.

(b) Contributions

Participating members contribute specified percentages of their salaries for retirement annuit and survivors' annuities. Contributions are excluded from gross income for Federal and State come tax purposes. The total contribution rate is 4% if the member is coordinated with Social Secu and 8% if the member is not coordinated. Certain employment categories which are eligible for be fits under alternative formulas contribute at the rate of 5½% or 9½% depending upon whether not the employee is coordinated with Social Security. Participants' contributions are fully refundal without interest, upon withdrawal from state employment. The State of Illinois is obligated by stat to contribute, through departmental appropriations, the funds not otherwise provided which necessary to meet the cost of maintaining and administering the System on a funded basis in acco ance with actuarial requirements.

(c) Benefits

The System is governed by Article 14 of the Illinois Pension Code and benefits under the Syst Trust Fund are defined in the Code. Employees who retire at or after age 60 with 8 years of credi service (or at age 55 with at least 30 years of credited service with reduced benefits) are entitled to annual retirement benefit, payable monthly for life, in an amount based upon final average comp sation and credited service. Employees with 35 years of credited service may retire at any age with benefits.

Description of the Contribution Fund

The Contribution Fund was established pursuant to the 1951 Social Security Enabling Act, Arti 21 of the Illinois Pension Code. It is a special fund in the State Treasury which serves as a clearingho account for the collection and transmittal of federal Social Security contributions of participat state employees and employing agencies and political subdivisions.

(2) Summary of Significant Accounting Policies and Investments

(a) Basis of Accounting — System Trust Fund

The financial transactions of the System Trust Fund are recorded on the accrual basis of accountir and in conformity with generally accepted accounting principles. Employee and employer contr butions are recognized as revenues in the period in which employee services are performed. Inves ment income is recognized as earned.

(b) Investments

Investments are reported at cost subject to adjustment for market declines judged to be other than temporary. Investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Article 22A of the Illinois Pension Code and are held in the ISBI Commingled Fund. Such investments are valued at the cost of the System's units of participation in the ISBI Commingled Fund.

(c) Fixed Assets

Expenditures for fixed assets are capitalized and depreciated over their estimated useful lives.

(d) Actuarial Experience Review

In accordance with 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. An experience review was performed as of June 30, 1985.

(e) Administrative Expenses

Expenses related to the administration of the System Trust Fund are budgeted and approved by the System's Board of Trustees. Administrative expenses for the Contribution Fund are appropriated annually by the State Legislature.

(f) Basis of Accounting – Contribution Fund

The collection and transmittal of federal Social Security contributions of participating state employees, employing agencies and political subdivisions are accounted for within the Contribution Fund on a modified accrual basis.

(g) Reclassification

Certain financial statement items presented in prior years' statements have been reclassified in the current year to enhance comparability between reporting periods.

(h) Retroactive Restatement

The combined financial statements reflect a retroactive restatement for fiscal years 1985 and 1984 to record the System Trust Fund's investment in fixed assets and a liability for accrued compensated absences. The restatement has a net effect of decreasing the excess of revenue over expenses and Total Fund Balance by $62,226 in 1985 and increasing the Total Fund Balance by $39,494 in 1984. The financial statements also reflect a retroactive restatement to include the Social Security Contribution Fund assets and liabilities for both fiscal year 1986 and 1985, in order to present component unit financial statements for the System.

(3) System Revenue - Employing State Agencies and Appropriations

The System generates revenue based upon a percentage of payrolls for employee and employer contributions. The System's funding policy provides for periodic employer contributions at rates that, expressed as percentages of annual covered payroll, are sufficient to provide resources to pay benefits when due without being increased for future generations of taxpayers. These rates are approved by the Systems Board of Trustees based upon recommendations provided by the actuary. Appropriations by the state may differ from the rate adopted by the Board. In the fiscal years ended June 30, 1986 and 1985, respectively, the Board approved rates were 7.532% and 5.8% while the state appropriated rates were 5.6% for both years. The System Trust Fund recognizes revenue based upon either the Board approved rate or the State appropriated rate, as appropriate.

The System Trust Fund recognizes revenue representing supplemental state funding on an accrual basis. This funding is the result of reduced appropriations to the System for the year ended June 30, 1983. The amount of the reduction in that period amounted to $11,000,000. The state has agreed to repay the under-appropriation and interest at the rate of six percent over the succeeding five fiscal years. The System has not recorded the unpaid amounts as an asset because repayment in any given year is subject to state appropriation of funds, which is subject to numerous conditions. Consequently, repayment of principal and interest are recognized in the current year once the legislature has approved an amount to be provided to the System Trust Fund.

Payments, including interest, recognized in fiscal years ended June 30, 1986 and 1985 amoun to $2,342,300 and $2,596,000, respectively. The balance of unpaid underappropriations is $2,647,5 as of June 30, 1986.

(4) Actuarially Determined Accrued Benefit Cost

The calculations of accrued benefit cost (actuarial liability) for fiscal years 1986 and 1985 were ma by the consulting actuaries on the basis of the "entry age normal" cost method. The significant sumptions underlying the actuarial computations are as follows:

Rate of return on investments	8%
Average age at retirement	65 years, except age 60 was used for those individuals employed in the uniform services
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	6½% annual increase
Performance of duty	
Death	5% of all deaths among active employees duty related
Disability	15% of all disabilities among active employees duty related

Included in the actuarially determined accrued benefit cost of $3,162,210,759 at June 30, 1986, the amount of $1,299,862,797 for retirement and survivor annuities in force.

(5) Administrative Expenses

A summary of the administrative expenses for the State Employees' Retirement System fiscal ye 1986 and 1985 is as follows:

	1986		1985	
	System Trust Fund	Contribution Fund	System Trust Fund	Contribution Fund
Personal services	$1,270,638	$113,258	$1,162,168	$105,725
Retirement contributions	68,517	6,400	67,796	5,921
Social Security contributions	78,767	6,690	71,496	6,158
Group insurance	54,771	–	55,353	–
Contractual services	661,040	33,134	489,570	29,385
Travel	28,130	11,859	21,131	12,164
Printing	57,103	2,083	21,639	1,225
Commodities	17,019	1,293	13,418	327
Equipment	2,759	532	561	475
Telecommunications	37,326	2,974	28,366	2,400
Electronic Data Processing	460,942	8,662	511,627	10,702
Automotive	6,586	–	5,660	–
Permanent Improvements	15,401	–	–	–
Depreciation	57,990	–	90,822	–
Other	31,192	–	12,845	–
Total	$2,848,181	$186,885	$2,552,452	$174,482

(6) Fixed Assets

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows:

(1) office furniture - 10 years, (2) equipment - 6 years, and (3) automobiles and certain electronic data processing equipment - 3 years.

A summary of the changes in fixed assets for FY 1986 and FY 1985 is as follows:

	Beginning Balance	Addition	Deletions	Ending Balance
1986				
Fixed Assets	$473,836	$57,239	$11,601	$519,474
Accumulated Depreciation	346,568	57,990	10,000	394,558
Fixed Assets, net	$127,268	$ (751)	$ 1,601	$124,916
1985				
Fixed Assets	$446,708	$ 41,440	$14,312	$473,836
Accumulated Depreciation	257,214	90,822	1,468	346,568
Fixed Assets, net	$189,494	$(49,382)	$12,844	$127,268

(7) Lease Agreement

The System leases its facilities under a sixty (60) month agreement in effect through June 30, 1990. Under the terms of this lease, the System is required to make monthly payments which include a provision for utilities and building maintenance. Office rental expense amounted to $252,201 and $214,385 for fiscal years 1986 and 1985, respectively.

(8) Accrued Compensated Absenses

Employees of the State Employees' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. The value of accrued compensated absences as of June 30, 1986 and 1985 were $179,591 and $150,000, respectively.

(9) Analysis of Changes in Fund Balances - Reserved

The System Trust Fund maintains three reserve accounts which, when combined, comprise tl total reserved fund balance. The reserves are defined as follows:

(a) Participants' contributions — accounts for assets contributed by each participant.

(b) Interest accumulations — accounts for interest credited to each participant's account.

(c) Other future benefits — accounts for all assets not otherwise specifically provided for in iten a and b above.

State Employees' Retirement System Trust Fund
Statements of Changes in Fund Balances (Reserved)
Years ended June 30, 1986 and 1985

	Participants' contributions	Interest accumulations	Other future benefits	Total Fund Balance
Balance at June 30, 1984 as previously reported	$517,008,266	$165,748,121	$898,530,407	$1,581,286,794
Restatement to record investment in fixed assets, net of accumulated depreciation and accrued compensated absences	–	–	39,494	39,494
Balance at June 30, 1984 as restated	$517,008,266	$165,748,121	$898,569,901	$1,581,326,288
Add (deduct):				
Excess of revenue over expenses	61,384,011	–	64,549,163	125,933,174
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(23,569,425)	–	23,569,425	–
Interest credited to members' accounts	–	27,905,325	(27,905,325)	–
Balance at June 30, 1985	$554,822,852	$193,653,446	$958,783,164	$1,707,259,462
Add (deduct)				
Excess of revenue over expenses	67,961,519	–	198,873,702	266,835,221
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(25,346,318)	–	25,346,318	–
Interest credited to members' accounts	–	29,960,282	(29,960,282)	–
Balance at June 30, 1986	$597,438,053	$223,613,728	$1,153,042,902	$1,974,094,683

ombining Balance Sheets
une 30, 1986 and 1985

	1986			1985		
	Pension Trust Fund State Employees' Retirement System	Agency Fund Social Security Contribution	Total	Pension Trust Fund State Employees' Retirement System	Agency Fund Social Security Contribution	Total
Assets						
ash	$ 7,618,809	$ –	$ 7,618,809	$ 11,216,376	$ –	$ 11,216,376
ash, restricted for Social Security remittances	–	9,262,057	9,262,057	–	9,257,197	9,257,197
eceivables:						
Contributions receivable:						
Participants	3,558,957	–	3,558,957	3,262,619	–	3,262,619
Employing State Agencies	4,953,693	–	4,953,693	6,066,216	–	6,066,216
Other accounts receivable	418,967	–	418,967	470,992	–	470,992
	8,931,617	–	8,931,617	9,799,827	–	9,799,827
vestments	1,959,702,313	–	1,959,702,313	1,688,252,032	–	1,688,252,032
xed assets, net of accumulated depreciation	124,916	–	124,916	127,268	–	127,268
Total Assets	$1,976,377,655	$ 9,262,057	$1,985,639,712	$1,709,395,503	$ 9,257,197	$1,718,652,700
Liabilities and Fund Balance						
enefits payable	$ 1,319,494	$ –	$ 1,319,494	$ 1,198,724	$ –	$ 1,198,724
efunds payable	138,288	–	138,288	265,059	–	265,059
dministrative expenses payable	378,315	–	378,315	306,036	–	306,036
articipant's deferred service credit accounts	446,875	–	446,875	366,222	–	366,222
nremitted Social Security contributions	–	8,596,003	8,596,003	–	8,508,514	8,508,514
mounts held for Social Security remittances	–	666,054	666,054	–	748,683	748,683
Total Liabilities	2,282,972	9,262,057	11,545,029	2,136,041	9,257,197	11,393,238
und Balance						
Actuarially determined benefit cost	3,162,210,759	–	3,162,210,759	2,868,639,632	–	2,868,639,632
Less unfunded accrued benefit cost representing an obligation of the State of Illinois	1,188,116,076	–	1,188,116,076	1,161,380,170	–	1,161,380,170
Total Fund Balance	$1,974,094,683	$ –	$1,974,094,683	$1,707,259,462	–	$1,707,259,462
Total Liabilities and Fund Balance	$1,976,377,655	$ 9,262,057	$1,985,639,712	$1,709,395,503	$ 9,257,197	$1,718,652,700

ocial Security Contribution Fund
tatements of Changes in Assets and Liabilities
ears Ended June 30, 1986 and 1985

	1986				1985			
	Balance July 1, 1985	Additions	Deductions	Balance June 30, 1986	Balance July 1, 1984	Additions	Deductions	Balance June 30, 1985
Assets								
Cash, restricted for Social Security remittances	$9,257,197	$234,570,616	$234,565,756	$9,262,057	$5,491,569	$211,189,116	$207,423,488	$9,257,197
Liabilities								
Unremitted Social Security contributions	$8,508,514	$234,570,616	$234,483,127	$8,596,003	$5,222,628	$210,692,795	$207,406,909	$8,508,514
Amounts held for Social Security remittances	748,683	–	82,629	666,054	268,941	496,321	16,579	748,683
	$9,257,197	$234,570,616	$234,565,756	$9,262,057	$5,491,569	$211,189,116	$207,423,488	$9,257,197

SYSTEM TRUST FUND — SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 1986 and 1985

	1986	1985
Contributions:		
Participants	$ 83,555,232	$ 77,059,593
Recipients of contributions refunded	345,173	239,737
Interest received from participants	663,131	531,476
Total Participants contributions	$ 84,563,536	$ 77,830,806
Employing state agencies	$ 97,741,393	$ 89,482,193
State Pension Fund appropriation	2,130,000	2,378,500
Supplemental state contribution	2,342,300	2,596,000
Total State contributions and appropriations	$102,213,693	$ 94,456,693
Investments:		
Net investment income	$125,597,368	$115,786,690
Interest earned on cash balances	785,253	780,084
Net realized gain (loss) on sale of investments	113,852,913	(14,811,843)
Total Investment revenue	$240,235,534	$101,754,931
Total Revenue	$427,012,763	$274,042,430

SYSTEM TRUST FUND — SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 1986 and 1985

	1986	1985
Cash balance, beginning of year	$ 11,216,376	$ 9,100,232
Receipts:		
Member contributions	82,094,357	76,187,754
Employer contributions	101,198,084	91,744,969
State Pension Fund contribution	2,130,000	2,378,500
Transfers from Illinois State Board of Investment	5,000,000	4,000,000
Interest income	796,949	791,816
Claims receivable payments	548,339	454,515
Installment payments - prior service credit	422,717	469,520
Other	125,344	93,941
Total cash receipts	$192,315,790	$176,121,015
Disbursements:		
Annuity payments:		
Retirement annuities	106,603,448	96,069,206
Widow's annuities	3,157,660	3,254,223
Survivor's annuities	14,318,519	13,456,565
Death benefits	5,227,829	5,477,041
Disability benefits	12,726,443	12,559,190
Refunds	14,080,198	13,638,753
Administrative expenses	2,799,260	2,549,893
Transfers to Illinois State Board of Investment	37,000,000	27,000,000
Total cash disbursements	$195,913,357	$174,004,871
Cash balance, end of year	$ 7,618,809	$ 11,216,376

REVENUES:

SYSTEM TRUST FUND:

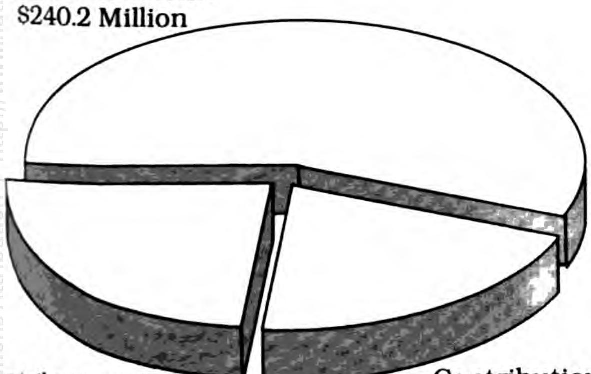
Total revenue of $427.0 million for FY 1986 was a $153.0 million increase over the FY 1985 level of $274.0 million. Although net income from investments was up by $9.8 million, the net realized gain on sale of investments was $113.9 million in FY 1986 as compared to a net realized loss in FY 1985 of $14.8 million. This resulted in a net investment income of $240.2 million for FY 1986 as compared to the FY 1985 investment income of $101.8 million. The $138.4 million increase in investment income was primarily due to significant gains on sales of investments.

Revenue Source	FY 86 (Millions)	FY 85 (Millions)	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Member Contributions	$ 84.6	$ 77.8	$ 6.8	8.7%
State Contributions	102.2	94.4	7.8	8.3%
Investment Income	240.2	101.8	138.4	136.0%
Total	$427.0	$274.0	$153.0	55.8%

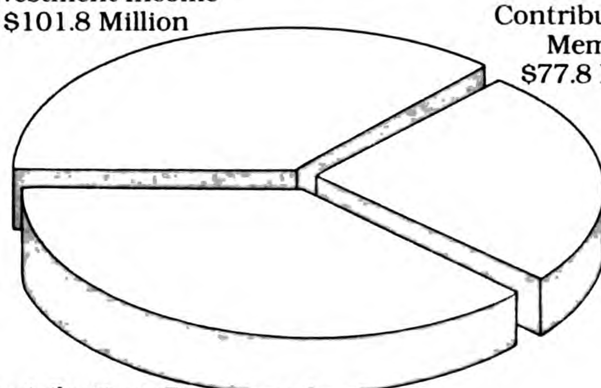
There were 2,365 more active members as of June 30, 1986 than on June 30, 1985. This increase of 3.3% in membership and average wage increases of 5.7% resulted in an increase of 9.2% in wages subject to retirement contributions. State contributions show an increase of 8.3% ($7.8 million), consistent with the total wage increase. Member contributions were $6.8 million (8.7%) higher than for FY 1985 due to an ever increasing number of employees who contribute to both retirement and social security. As shown in the table below, the average rate of contributions by members in FY 1986 was 4.93% compared to 4.95% in FY 1985.

Active Membership	FY 86	FY 85	Increase/(Decrease) Number/Amount	Increase/(Decrease) Percentage
Coordinated Members	63,318	60,346	2,972	4.9%
Noncoordinated Members	10,694	11,301	(607)	(5.4%)
Total Active Members	74,012	71,647	2,365	3.3%
Earnings Reported				
All Members (Millions)	$1,713.8	$1,569.5	$144.3	9.2%
Average Rate of Contributions				
All Members	4.93%	4.95%		

REVENUES BY SOURCE 1986
TOTAL REVENUES
$427.0 MILLION



REVENUES BY SOURCE 1985
TOTAL REVENUES
$274.0 MILLION



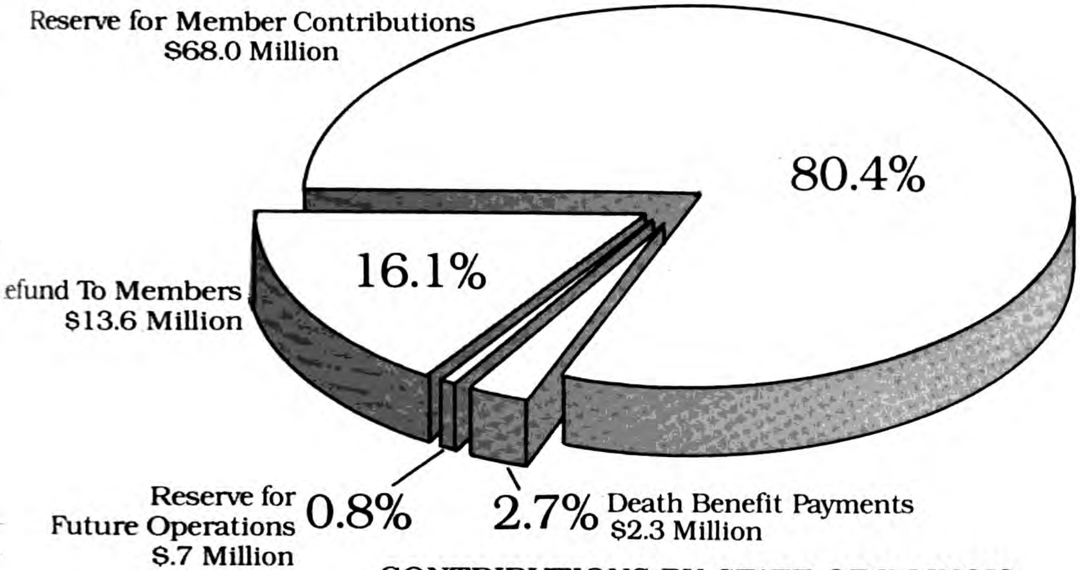
Gross investment income for 1986 of $129,060,894, less the Investment Board's administrative expens of $3,463,526, and the net realized gain on sale of investments amounting to $113,852,913, resulted in n revenue from investments of $239,450,281. Transfers of funds to the Illinois State Board of Investme amounted to $37,000,000 and transfers from the Board of $5,000,000 resulted in a net transfer for i vestments of $32,000,000. The balance of investments at cost increased by $239,450,281 plus $32,000,00 or $271,450,281, from June 30, 1985 thru June 30, 1986. The following table shows a comparison investment operations for FY 1986 and FY 1985.

	1986	1985	Increase/(Decrease) Amount	Percentage
Balance at beginning of year, at cost	$1,688,252,032	$1,564,277,185	$123,974,847	7.9%
Cash remitted for investment (net)	32,000,000	23,000,000	9,000,000	39.1%
Investment income:				
Commingled Fund income	129,060,894	116,582,885	12,478,009	10.7%
Less Expenses	(3,463,526)	(796,195)	(2,667,331)	335.0%
Distributed Net Realized Gain/(Loss) on Sale of Investments	113,852,913	(14,811,843)	128,664,756	868.7%
Net investment income	239,450,281	100,974,847	138,475,434	137.1%
Balance at end of year, at cost	$1,959,702,313	$1,688,252,032	$271,450,281	16.1%
Market value	$2,193,519,253	$1,729,173,899	$464,345,354	26.9%

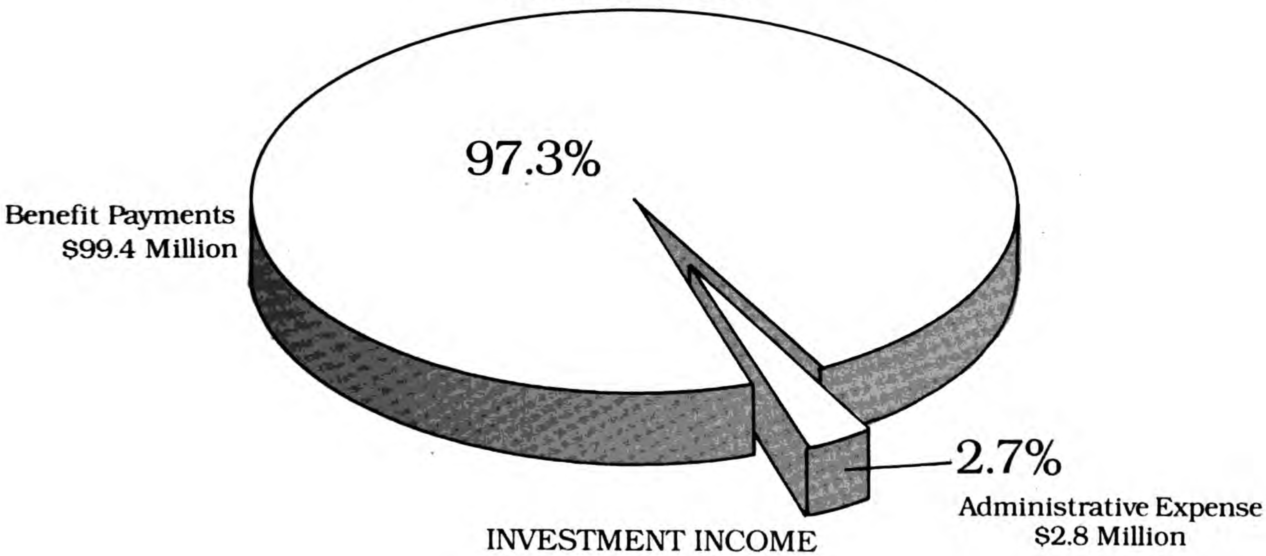
In addition, interest on the average balance in the System Trust Fund's account for FY 1986 was $785,25 compared to $780,084 during FY 1985.

REVENUES FY 1986 — HOW THEY WERE USED

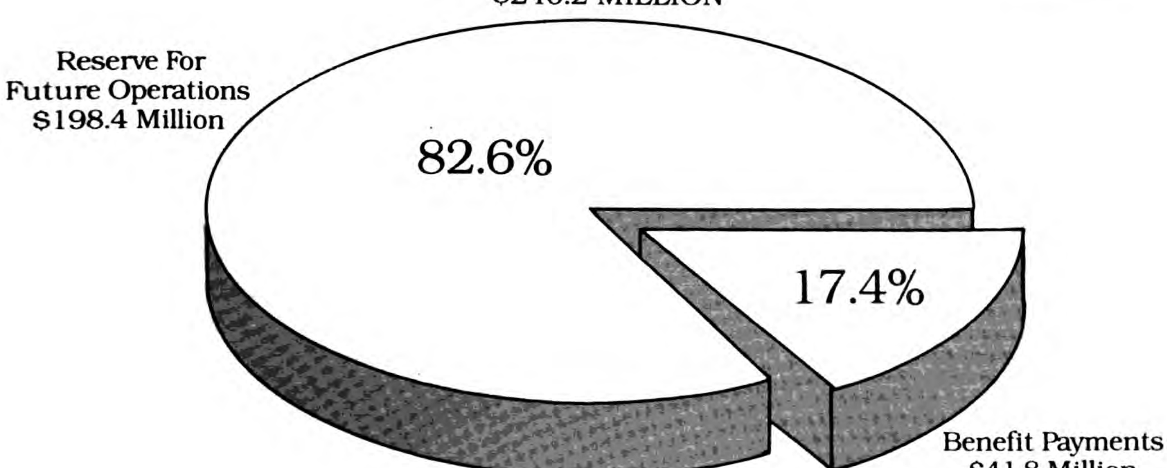
MEMBER CONTRIBUTIONS
$84.6 MILLION



CONTRIBUTIONS BY STATE OF ILLINOIS
$102.2 MILLION



INVESTMENT INCOME
$240.2 MILLION



Revenues were used to pay current expenses or credited to the appropriate reserve accounts as shown belo

Distribution of Revenues - FY 86 (in millions)	Contribution by Members	Contributions by State	Investment Income	Totals
Reserve - Future Operations	$ 0.7	$ –	$198.4	$199.1
Reserve - Member Contributions	68.0	–	–	68.0
Benefit Payments	2.3	99.4	41.8	143.5
Refunds	13.6	–	–	13.6
Administrative Expense	–	2.8	–	2.8
TOTAL	$84.6	$102.2	$240.2	$427.0

EXPENSES:

The number of members receiving retirement annuities on June 30, 1986 was 3.8% above the June 3(1985 level reflecting the normal pattern of increase during the past 10 years, however, the cost of thes annuities increased by 10.9% over the FY 1985 level. Higher salary levels for current retirees and pos retirement increases granted each January 1 result in costs rising at a more rapid pace than th number of annuitants. Survivor annuities increased at a near normal rate of 2.6% in number with 4.7% increase in dollar costs. Continued review of disability recipient eligibility helped reduce the numbe of recurring benefit payments for disability by 1.8%, while rising salary rates increased the dollar amour of payments by 2.1%.

	FY 86 (Millions)	FY 85 (Millions)	Increase/(Decrease) Amount	Percentage
Retirement Benefits	$106.5	$ 96.0	$10.5	10.9%
Survivors Benefits	17.9	17.1	0.8	4.7%
Disability Benefits	14.4	14.1	0.3	2.1%
Lump Sum Death Benefits	4.8	5.1	(0.3)	(5.9%)
Contribution Refunds	13.8	13.2	0.6	4.5%
Administrative Expenses	2.8	2.5	0.3	12.0%
TOTAL EXPENSES	$160.2	$148.0	$12.2	8.2%

NUMBER OF RECURRING BENEFIT PAYMENTS

	FY Ended June 30, 1985	New Claims Processed During FY 86	Benefits Ceased During FY 86	FY Ended June 30, 1986	Increase/(Decrease) Amount	Percentage
Retirement	20,969	1,635	833	21,771	802	3.8%
Survivors	7,626	492	295	7,823	197	2.6%
Disability	1,734	2,002	2,033	1,703	(31)	(1.8%)
TOTAL	30,329	4,129	3,161	31,297	968	3.2%

Lump sum death benefits are primarily refunds of member contributions and will vary from year to yea Refunds to members have been significantly decreasing in the past few years. There was a slight increas in FY 1986. The decreasing trend in refunds is primarily due to the 6 month qualifying period require of new employees hired since January, 1984. The short term employees who never become member of the System and, therefore, no refund is required upon termination, do not greatly affect the total dolla amount of refunds which increased slightly ($.6 million) from the 1985 level to $13.8 million in FY 1986

RESERVES:

As of June 30, 1986, the funds available for payment of current and future benefits were $1,974.1 million as shown in the following schedule:

Assets	FY-86 (Millions)	FY-85 (Millions)	Increase (Decrease)
Cash	$ 7.6	$ 11.2	$ (3.6)
Receivables (less payables)	6.7	7.8	(1.1)
Investments	1,959.7	1,688.2	271.5
Fixed Assets (net of accumulated depreciation)	.1	.1	–
NET ASSETS	$1,974.1	$1,707.3	$ 266.8

Total System Trust Fund revenues for FY 1986 of $427.0 million less expenditures of $160.2 million resulted in a net increase to reserves of $266.8 million.

Reserves	FY-86 (Millions)	FY-85 (Millions)	Net Increase
Member Contributions	$ 597.4	$ 554.8	$ 42.6
Future Operations	1,376.7	1,152.5	224.2
TOTAL RESERVES	$1,974.1	$1,707.3	$ 266.8

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to $25.3 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 1,500 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 1986 contributions collected and transmitted for the political entities amounted to $35.3 million and for the SERS, $198.7 million. Since semi-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.

The contribution rate in 1986 was 7.15% for both the employee and the employer share on a maximum wage of $42,000. Collections and transmittals are administered through the Contribution Fund in custody of the Treasurer of the State of Illinois.

ACTUARIAL SECTION

THE *Wyatt* COMPANY

ACTUARIES AND CONSULTANTS

EMPLOYEE BENEFITS
COMPENSATION PROGRAMS
EMPLOYEE COMMUNICATIONS
ADMINISTRATIVE SYSTEMS
RISK MANAGEMENT
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CHICAGO, ILLINOIS 60606

(312) 876-2000
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OFFICES IN PRINCIPAL CITIES
AROUND THE WORLD

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, 1986.

For purposes of determining contribution rates, 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 selected by the Board of Trustees based on our recommendation. 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, 1986 and the schedule of contribution rates complies with the applicable law in force as of the valuation date.

THE WYATT COMPANY

By S. Lynn Hill
S. Lynn Hill
Actuarial Assistant

By
Lloyd L. Nordstrom
Fellow Of The Society of Actuaries

By
Robert L. Barnes
Fellow Of The Society Of Actuaries

Chicago, Illinois
October, 1986

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The System utilizes the entry age normal cost method. Under this method, the projected pensions at retirement age are first determined and the values thereof at the individual member's entry age or hire age are determined. The values so determined are divided by the value at entry age of all future compensation payable to the member to determine the normal cost as a level percentage of covered pay. The normal cost for a particular year is that percentage of covered compensation for the year.

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

For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits and the post-retirement increments, the same procedure as outlined above is followed except that the entry age is the age at the later of hire date or June 30, 1980.

A description of the actuarial assumptions utilized for FY-86 and FY-85 follows:

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

Interest: 8% per annum, compounded annually.

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

	Rate	
Age	Males	Females
20	.605	.397
25	.178	.164
30	.112	.116
35	.077	.092
40	.064	.076
45	.054	.061
50	.044	.048
55	.000	.000

Salary Increases: 6½% per annum, compounded annually.

Retirement Rates: Retirement was assumed to occur at age 65 except for employees who retire under the "alternative formula", who were assumed to retire at age 60.

Assets: Assets available for benefits are valued at book value (cost).

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

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

VALUATION RESULTS

Actuarial Liability (Reserves)	FY-86	FY-85
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$1,087,426,874	$ 978,074,174
Survivor Annuities	144,097,052	139,250,458
Disability Annuities	62,371,693	59,601,343
Deferred:		
Retirement Annuities	1,303,084	1,479,840
Survivor Annuities	4,664,094	4,265,648
Total	$1,299,862,797	$1,182,671,463
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	54,524,385	51,337,300
Eligible for Return of Contributions Only	6,913,155	7,046,502
Total	$ 61,437,540	$ 58,383,802
For Active Members:	$1,800,910,422	$1,627,584,367
Total	$3,162,210,759	$2,868,639,632
Assets, Book Value (Cost)	$1,974,094,683	$1,707,259,462
Unfunded Actuarial Liability	$1,188,116,076	$1,161,380,170

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives 3) the liabilities for service already rendered by active members. In a system that has been following level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and th liabilities for future benefits to present retired lives (liability 2) should generally be covered by presen assets. In addition, the liabilities for service already rendered by active members (liability 3) should b partially covered by the remainder of present assets. If the system continues using level cost financing the funded portion of liability 3 will increase over time, although it is very rare for a system to have it liability 3 fully funded.

The State of Illinois, however, has funded the System based on benefit payout, a level which increase over time reflecting a larger work force and higher salary levels. Consequently, it can be expected tha a small percentage of liability 3 has been funded to date. It should also be noted that the improvemen reflected in FY-86 results primarily from the significant realized gains on the sale of investments previously described.

Computed Actuarial Values

(in thousands of dollars)

Fiscal Year	Member Contributions (1)	Current Retirants and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Net Assets Available For Benefits	Percentage of Actuarial Values Covered by Net Assets Available (1)	(2)	(3)
1977 . . .	$272,658	$ 511,579	$ 645,130	$ 650,282	100.0	73.8	0.0
1978 . . .	316,877	552,317	672,962	730,016	100.0	74.8	0.0
1979 . . .	347,173	598,170	684,422	799,803	100.0	75.7	0.0
1980 . . .	378,468	791,289	764,297	934,864	100.0	70.3	0.0
1981 . . .	413,773	819,272	960,085	1,081,805	100.0	81.5	0.0
1982 . . .	448,908	914,281	1,144,618	1,200,142	100.0	82.2	0.0
1983 . . .	482,983	1,049,972	1,270,744	1,408,780	100.0	88.2	0.0
1984 . . .	517,008	1,161,897	1,448,342	1,581,326*	100.0	91.6	0.0
1985 . . .	554,823	1,182,671	1,131,145	1,707,259*	100.0	97.4	0.0
1986 . . .	597,438	1,299,863	1,264,910	1,974,095	100.0	100.0	6.1

* This amount reflects a retroactive restatement to record the investment in fixed assets, net of accumulated depreciation and the liability for accrued compensated absences.

ANALYSIS OF FUNDING

In an inflationary economy, the value of the dollars decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker. It should be noted that the improvement reflected in the following schedule for FY-86 results primarily from significant realized gains on the sale of investments previously described.

(in thousands of dollars)

Fiscal Year	Total Actuarial Liability	Net Assets	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Member Payroll	Unfunded Actuarial Liability as a % Member Payroll
1977	$1,429,367	$ 650,282	45.5%	$ 779,084	$ 884,493	88%
1978	1,542,156	730,016	47.3%	812,140	925,094	88%
1979	1,629,766	799,803	49.1%	829,962	1,069,886	78%
1980	1,934,054	934,864	48.3%	999,190	1,137,668	88%
1981	2,193,130	1,081,805	49.3%	1,111,325	1,253,016	89%
1982	2,507,807	1,200,142	47.9%	1,307,665	1,334,262	98%
1983	2,803,699	1,408,780	50.2%	1,394,919	1,378,735	101%
1984	3,127,248	1,581,287	50.6%	1,545,961	1,437,546	108%
1985	2,868,640	1,707,259*	59.5%	1,161,380*	1,569,532	74%
1986	3,162,211	1,974,095	62.4%	1,188,116	1,713,755	69%

* This amount reflects a retroactive restatement to record the investment in fixed assets, net of accumulated depreciation and the liability for for accrued compensated absences.

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-86	FY-85
Unfunded Liability Beginning of FY	$1,161,380,170	$1,545,921,300
Contributions Due		
Interest on the Unfunded Liability	92,908,595	115,947,060
Total Normal Cost	146,543,418	161,628,041
Interest on Normal Cost	11,723,473	12,122,103
Total Due	$ 251,175,486	$ 289,697,204
Contributions Paid		
Participants	$ 83,555,232	$ 77,059,593
Employing State Agencies	100,083,693	92,078,193
State Pension Fund	2,130,000	2,378,500
Interest on Contributions	8,059,927	6,009,992
Total Paid	$ 193,828,852	$ 177,526,278
Increase in the Unfunded Liability	57,346,634	112,170,926
Actuarial (Gains) Losses		
From Investment Return (Greater) Lesser Than 8%	(103,591,020)	16,840,742
From Salary Increases (Greater) Lesser Than 6½%	20,899,880	(3,925,773)
From Other Sources	52,080,412	61,666,499
Total Actuarial (Gains) Losses	$ (30,610,728)	$ 74,581,468
(Decrease) Due to New Actuarial Assumptions	–	(636,903,125)
Plan Amendments	–	65,609,601
Total Increase (Decrease) in Actuarial Liability	26,735,906	(384,541,130)
Unfunded Liability End of FY	$1,188,116,076	$1,161,380,170

INVESTMENT SECTION

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investmen The Board was created in 1969 to provide a means of centralizing the investment managemen function for public employee pension funds and retirement systems operating in the state. At the end (the fiscal year, in addition to the assets of the State Employees' Retirement System, the Board also manage the investment function for the Judges and General Assembly Retirement Systems. As of June 30, 198 total assets under management valued at market amounted to $2.359 billion. This represents an increas in market value of $496 million, including $32 million of new contributions from the member system during the last fiscal year. Of the total assets under management, $2.194 billion or 93% represented asse of the State Employees' Retirement System.

Management Approach

The Fund is managed by the Illinois State Board of Investment, in accordance with the "prudent perso rule" as adopted by the Illinois General Assembly in 1982. The Board has established a long-range inves ment policy which, in line with the prudent person rule, affirms that the Fund's objective is to provide tl greatest possible long-term benefits through maximization of the total return of the Fund, within pruder risk parameters. Further, it is the Board's philosophy that the assets owned by the participating system and managed by the Board are held for the exclusive purpose of providing benefits to the participants an annuitants of the respective retirement systems and their beneficiaries.

In line with this philosophy, the Board from time to time evaluates its asset allocation which is considere by many to be the single most important factor in pension investment management. The three majc asset classes are: bonds, equities and cash; with smaller positions being allocated to real estate, ventu capital and other alternative investments.

Based on the portfolio summary which follows, it would appear that the Board increased its equit commitment significantly during this fiscal year. However, the 1985 fiscal year end amount of short-ter interest bearing investments (cash) was skewed in anticipation of changing the style in which the equitie were managed. As a result, both internal and external equity fund portfolios were funded at the beginnin of fiscal year 1986, and coupled with the rise in the equity market during the year, the percentage of equit to the total portfolio increased. In reviewing the past three fiscal years, the Board's asset allocation ha not changed dramatically in any one year, with the exception of changes from time to time in cash reserve

Total Fund Results

For fiscal year 1986, the Commingled Fund total return was 24.6%, reflective of a strong stock mark and a positive bond market. The Fund's three and five year annualized rates of return are 16.7% an 12.9%, respectively; substantially greater than the 8% income assumption established by the Syste Trust Fund.

The Investment Board's long-term objective is to achieve returns of 1½-3% over the income assumption employed by the three systems whose assets are under the Board's management.

The net income generated by the Fund during the past year was 6.4% compared with 7.3% in the pric fiscal period. This was due to lower interest rates and a more diversified equity portfolio.

Fixed Income Results

The fixed income portfolio consists of U.S. government, federal agencies, corporate and foreign de obligations, all of which have one year or longer maturities. This segment amounted to 41.1% of the tot portfolio. The fixed income position is measured against the Shearson Lehman Government/Corpora Bond Index on an annualized basis as well as over a 3-5 year market cycle. For fiscal year 1986, the fix income return was 17.9% which fell below the Shearson Lehman Government/Corporate index retu of 20.6% for the same period. On the three to five year basis the results are:

	3 year	5 year
ISBI	15.9%	19.0%
Shearson Lehman G/C	16.5%	18.3%

Equity Results

The Board fully implemented its new equity stategy at the beginning of this fiscal period. The Boa chose "value" and "growth" as the two investment styles and diversified the structure between extern and internal management. The value managers employed by the Board are:

Ariel Capital Management
Disciplined Investment Advisors
Fidelity Management Trust Company
Lazard Freres Asset Management
Newbold's Asset Management
TCW Value Added Fund
Trinity Investment Management

The growth managers are:

Cooke & Bieler
Lincoln Capital Management
Rothschild Asset Management

The 46.1% of the Fund invested in equities during the fiscal year generated a total return, net of all fees, of 36.5% versus the S & P 500 of 35.7%. The equity segment of the portfolio includes not only common stocks but preferred, convertible preferred and convertible debenture issues as well. The performance reflects a strong equity market during the year, however, outperforming the S & P 500 Index on the total was, in the opinion of the Investment Board, a significant achievement.

The longer term results from equities are:

	3 year	5 year
ISBI	10.5%	14.9%
S & P 500	17.7%	18.5%

Real Estate and Venture Capital

These two alternate investments, while a small percentage of the total, still play an integral part in the investment philosophy. The $157.6 million real estate portfolio represented 6.7% of the total Fund. The returns from all investments in real estate was 9%. While there are not standard indices against which to measure real estate performance, the objective of many funds is to achieve a long-term performance of 500 basis points over the rate of inflation. The Board's total commitment to real estate has not been in place long enough to have a three and five year performance record, however, the 500 basis points over the rate of inflation appears to have been achieved at least for the past two years.

Venture capital, for which the Fund's initial investment was made slightly over two years ago, continues to remain an area in which additional selective investments will be funded by the Board. Returns cannot be judged for several years, although the portfolio has produced some realized capital gains. Typically, venture capital investments do not produce significant returns until the fourth or fifth year after funding.

Management Expense

As was anticipated, the selection of external managers substantially increased the Board's operating expense. For fiscal year 1986, the expenses were $3,726,592 as opposed to $857,838 for the prior fiscal period. This translates to approximately 2/10ths of 1% of the average assets under management during the year. The State Employees' Retirement System's share of total operating expenses amounted to $3,463,526. The Investment Board is of the opinion that the change in management style, which by necessity increased expenses, will be of long run benefit to the Fund. Performance was up in this fiscal year and such changes must be measured over longer periods of time to fully appreciate its effectiveness.

Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1986. A copy of the report can be obtained from the Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1986 Market Value	Percentage	June 30, 1985 Market Value	Percentage
Bonds	$ 965,704,758	40.9%	$ 807,693,058	43.4
Equities	1,084,667,696	46.0	475,005,198	25.5
Cash	128,276,246	5.4	417,766,751	22.4
Real Estate	157,627,377	6.7	157,674,209	8.5
Venture Capital	15,478,054	0.7	6,198,491	0.3
	$2,351,754,131	99.7	$1,864,337,707	100.1
Other assets, less liabilites	8,021,634	.3	(1,756,688)	(.1)
Net assets, at market value	$2,359,775,765*	100.0	$1,862,581,019*	100.0
Net assets, at cost	$2,108,047,307*		$1,818,400,719*	

*These amounts represent the total assets under management of the Illinois State Board of Investment. The assets of the State Employees' Retirement System at market and cost for fiscal year 1986 were $2,193,519,253 and $1,959,702,313, respectively. For fiscal year 1985 the market and cost values were $1,729,173,899 and $1,688,252,032, respectively.

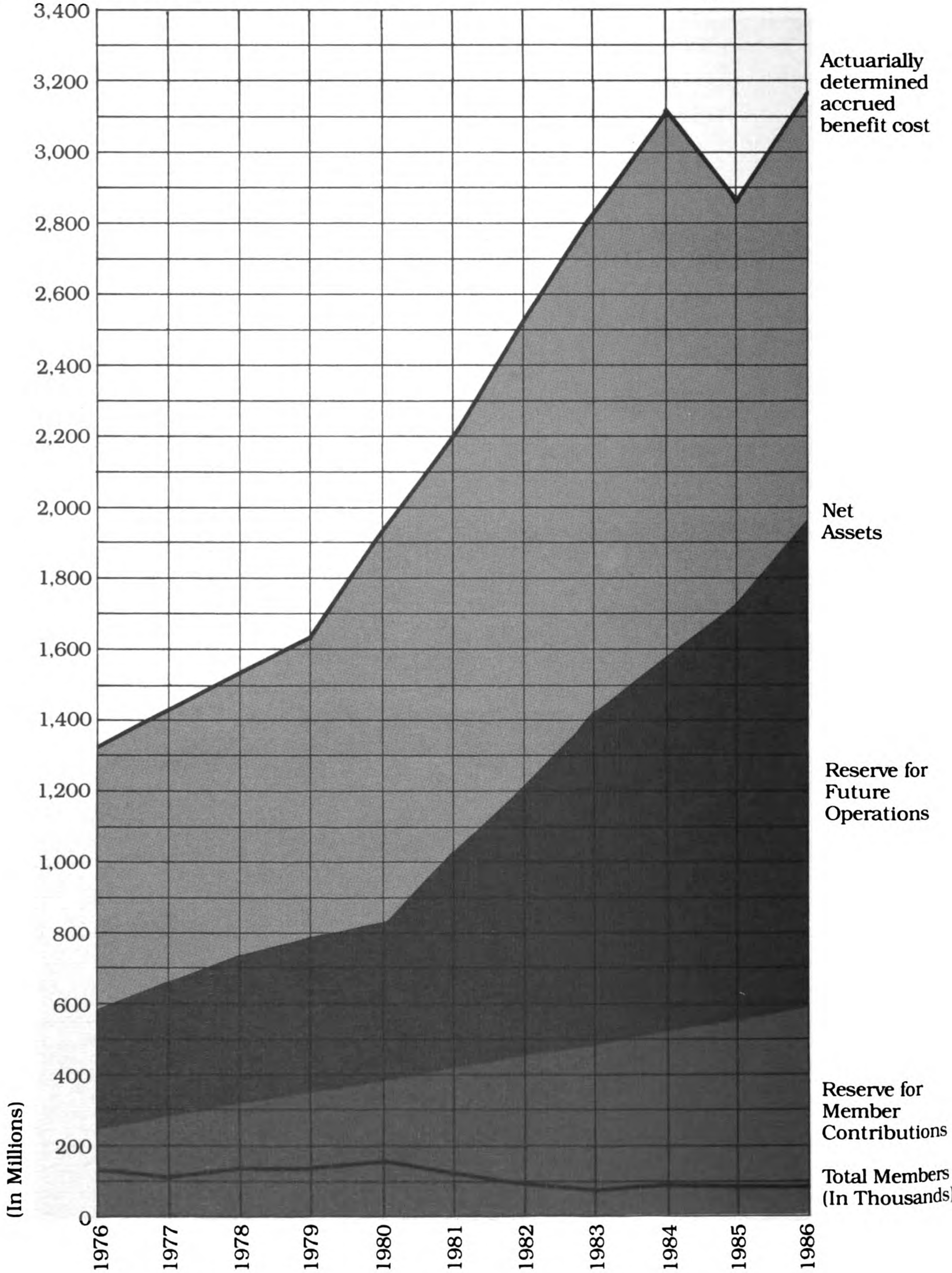
ANALYSIS OF INVESTMENT PERFORMANCE

	1986	1985	1984	1983	1982
Total Return* - Past 3 years		16.7%			
Total Return* - Past 5 years	[redacted]				
Total Return* - year by year	24.6%	22.0%	(5.2)%	44.1%	4.8%
Actuarial Assumed Rate of Return	[redacted]				
Average Net Income Yield*	6.4	7.3	7.3	7.7	10.5
Comparative rates of return on fixed income securities					
Total fixed income-ISBI	17.9	34.9	(0.7)	37.2	11.4
Comparison index: Shearson Lehman Government/ Corporate Bond Index	20.6	28.7	1.8	29.1	13.3
Comparative rates of return on equities					
Total equities-ISBI	36.5	15.8	(12.9)	62.0	(8.4)
Comparison index: S & P 500	35.7	30.7	(4.7)	61.6	(11.5)

*Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

STATISTICAL SECTION

A comparison of total members, net assets and total actuarial liabilities for the past ten years.



ALANCE SHEET ASSETS — SYSTEM TRUST FUND

FY Ended June 30	Cash	Receivables	Investments At Cost	Investment Adjustment*	Fixed Assets, Net of Accumulated Depreciation**	Total
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
1982...	7,494,162	6,390,869	1,236,672,447	*(48,013,214)		1,202,544,264
1983...	7,219,474	7,984,364	1,395,936,136			1,411,139,974
1984...	9,100,232	9,923,500	1,564,277,185		$**189,494	1,583,490,411
1985...	11,216,376	9,799,827	1,688,252,032		**127,268	1,709,395,503
1986...	7,618,809	8,931,617	1,959,702,313		124,916	1,976,377,655

*Allowance for accumulated net realized loss distributed by the Illinois State Board of Investment. Since 1982 net realized gains and losses have been distributed annually.

**These amounts reflect a retroactive restatement to record fixed assets, net of accumulated depreciation on the financial statements.

ALANCE SHEET LIABILITIES — SYSTEM TRUST FUND

FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Future Operations	Total
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	668,032,467	1,083,720,488
1982	2,402,469	448,908,264	751,233,531	1,202,544,264
1983	2,359,780	482,983,107	925,797,087	1,411,139,974
1984	2,164,123*	517,008,266	1,064,318,022*	1,583,490,411*
1985	2,136,041*	554,822,852	1,152,436,610*	1,709,395,503*
1986	2,282,972	597,438,053	1,376,656,630	1,976,377,655

* This represents a retroactive restatement to record the liability for accrued compensated absences on the financial statements.

EVENUES BY SOURCE — SYSTEM TRUST FUND

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Total
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
1982	69,300,949	61,500,375	101,697,502	232,498,826
1983	72,371,246	71,846,403	192,573,257	336,790,906
1984	73,442,196	86,464,279	150,170,315	310,076,790
1985	77,830,806	94,456,693	101,754,931	274,042,430
1986	84,563,536	102,213,693	240,235,534	427,012,763

XPENSES BY TYPE — SYSTEM TRUST FUND

FY Ended June 30	Benefits	Contribution Refunds	Administrative Expenses	Other Expenses*	Total
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
1982	100,453,675	13,942,805	2,245,727	(2,480,124)	114,162,083
1983	111,852,846	14,009,169	2,290,492		128,152,507
1984	120,996,071	14,145,496	2,428,623		137,570,190
1985	132,316,478	13,240,326	2,552,452**		148,109,256
1986	143,548,518	13,780,843	2,848,181		160,177,542

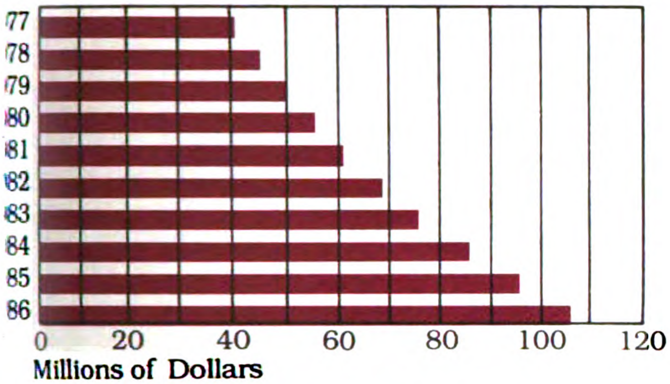
*Net realized loss or (gain) on investments undistributed by the Illinois State Board of Investment. Accumulated net losses from 1970 through 1979 amounted to $42,998,251. Since 1982 realized losses or gains have been distributed annually.

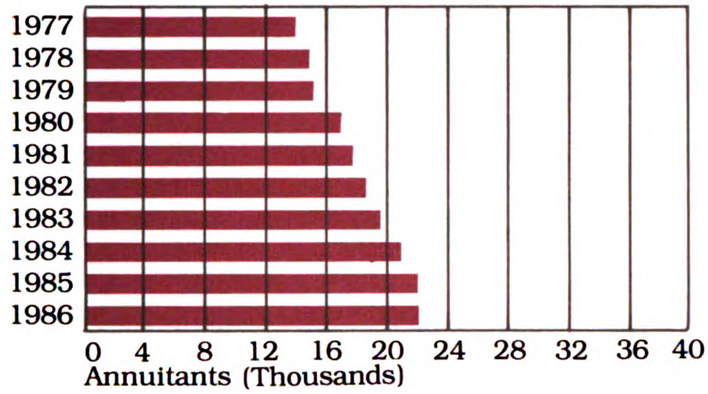
** This represents a retroactive restatement to record a charge for depreciation expense and the current year change in accrued compensated absences.

ENEFIT EXPENSES BY TYPE — SYSTEM TRUST FUND

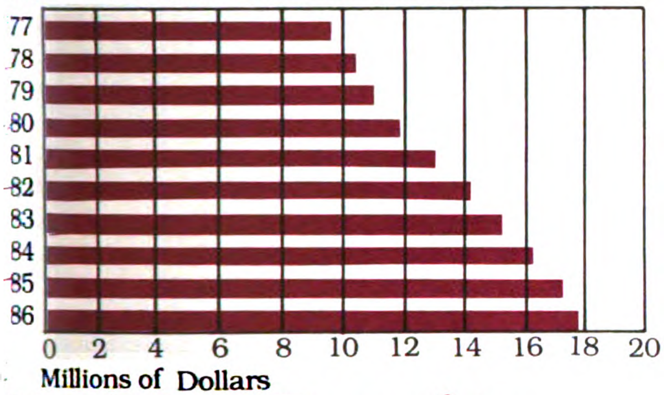
FY Ended June 30	Retirement Annuities	Survivors Annuities	Disability Benefits	Lump Sum Death Benefits	Total
1977	$ 41,548,561	$9,512,724	$11,026,764	$2,707,167	$ 64,795,216
1978	46,017,123	10,428,913	11,558,867	2,981,007	70,985,910
1979	50,360,362	11,249,401	11,481,378	2,909,624	76,000,765
1980	55,063,529	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
1982	68,602,104	14,236,031	13,163,602	4,451,938	100,453,675
1983	77,472,708	15,253,035	14,101,575	5,025,528	111,852,846
1984	86,651,697	16,114,837	13,985,426	4,244,111	120,996,071
1985	95,965,469	17,086,453	14,164,732	5,099,824	132,316,478
1986	106,475,314	17,856,166	14,452,304	4,764,734	143,548,518

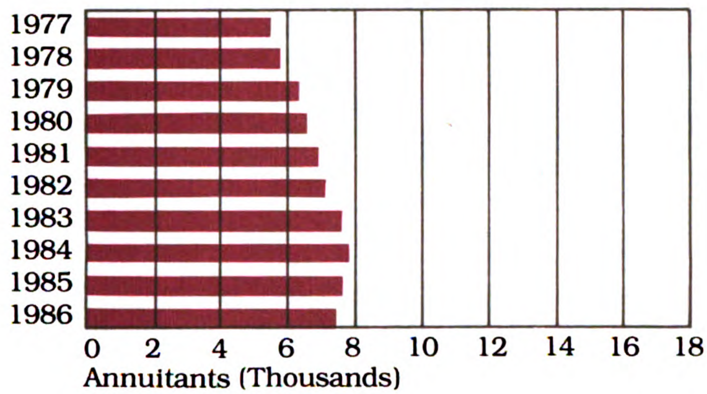
Age Retirement Annuities



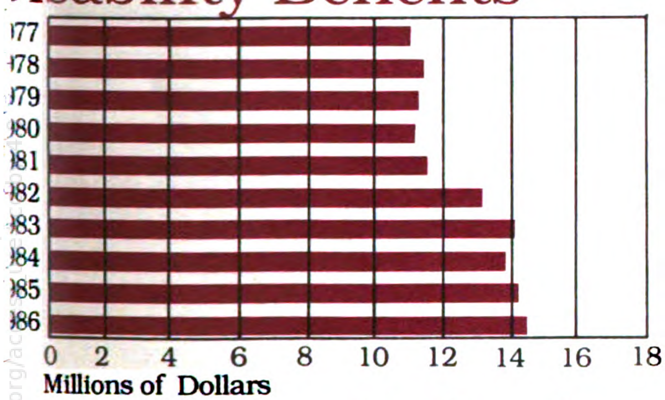


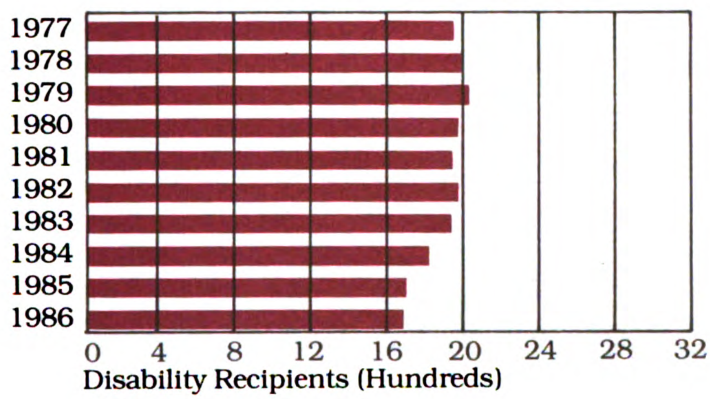
Survivor Annuities



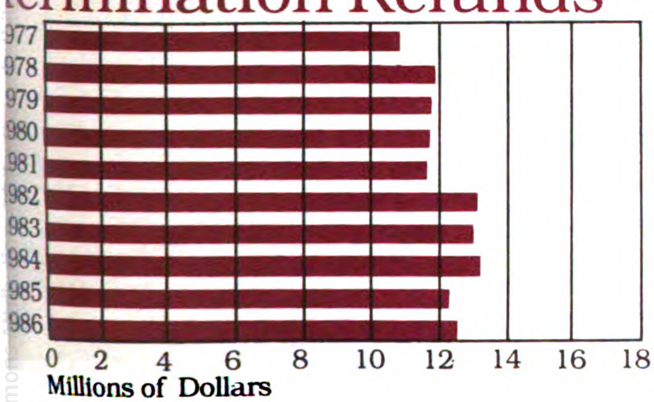


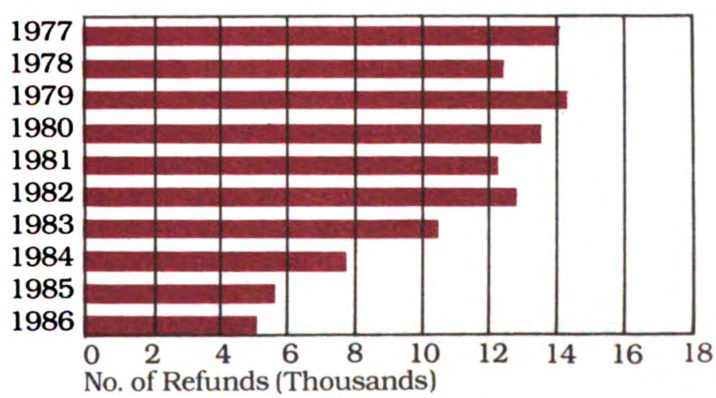
Disability Benefits





Termination Refunds





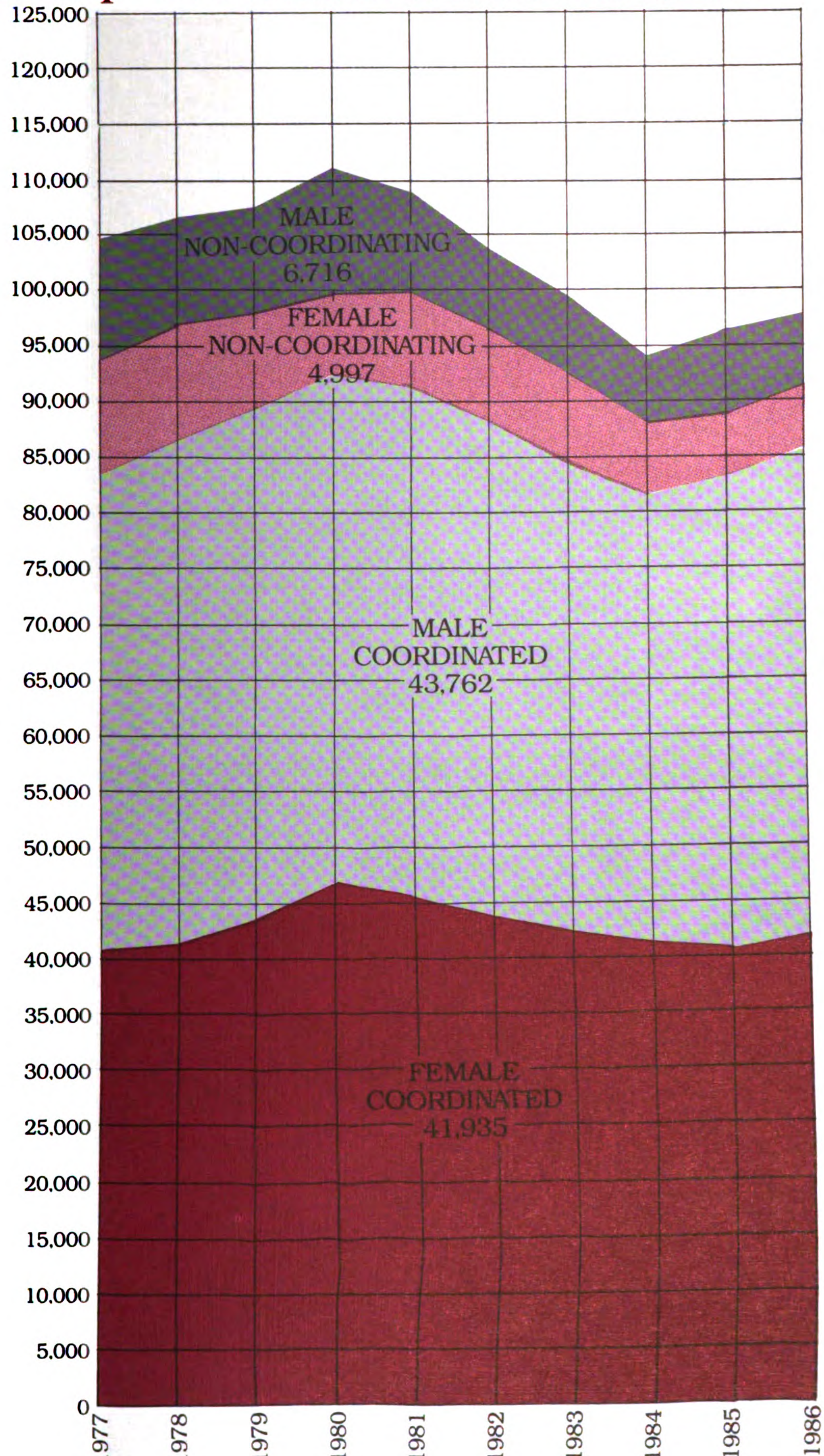
TOTAL MEMBERSHIP — COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Members
	Male	Female	Total	Male	Female	Total			
1977...	43,032	40,158	83,190	10,829	10,675	21,504	53,861	50,833	104,694
1978...	44,516	42,297	86,813	10,342	9,863	20,205	54,858	52,160	107,018
1979...	45,310	43,705	89,015	9,824	9,109	18,933	55,134	52,814	107,948
1980...	46,029	46,626	92,655	9,339	8,446	17,785	55,368	55,072	110,440
1981...	45,713	46,153	91,866	8,876	7,775	16,651	54,589	53,928	108,517
1982...	43,764	44,376	88,140	8,315	7,096	15,411	52,079	51,472	103,551
1983...	42,009	42,122	84,131	8,024	6,585	14,609	50,033	48,707	98,740
1984...	40,547	40,136	80,683	7,338	5,915	13,253	47,885	46,051	93,936
1985...	42,349	40,966	83,315	6,977	5,415	12,392	49,326	46,381	95,707
1986...	43,762	41,935	85,697	6,716	4,997	11,713	50,478	46,932	97,410

ACTIVE MEMBERSHIP — COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
	Male	Female	Total	Male	Female	Total				
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
1982 ...	29,801	33,100	62,901	7,517	6,486	14,003	37,318	39,586	76,904	1,334,262,000
1983 ...	28,868	31,229	60,097	7,037	5,916	12,953	35,905	37,145	73,050	1,378,735,000
1984 ...	27,457	29,488	56,945	6,636	5,394	12,030	34,093	34,882	68,975	1,437,546,000
1985 ...	29,763	30,583	60,346	6,349	4,952	11,301	36,112	35,535	71,647	1,569,532,000
1986 ...	31,486	31,832	63,318	6,135	4,559	10,694	37,621	36,391	74,012	1,713,755,000

Total Membership- Coordinated/Noncoordinated



NUMBER OF RECURRING BENEFIT PAYMENTS — SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors Annuities	Disability* Benefits	Total
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
1982	18,247	6,863	1,888	26,998
1983	19,306	7,139	1,851	28,296
1984	20,157	7,371	1,799	29,327
1985	20,969	7,626	1,734	30,329
1986	21.771	7.823	1.703	31.297

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

TERMINATION REFUNDS — NUMBER/AMOUNT — SYSTEM TRUST FUND

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
1982	12,893	13,212,484
1983	10,252	13,149,550
1984	7,664	13,349,332
1985	5,638	12,339,874
1986	5,118	12,587,868

PLAN SUMMARY

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 1986)

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 the seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to 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 after serving a six-month qualifying period unless their position is subject to membership in another state supported system. 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, Special Agents, Firefighters, Secretary of State Investigators, Conservation Police Officers, Department of Revenue Investigators and Police Officer Positions (including Central Management Services and Mental Health) - 9½% of Salary

D. Full Time Security Employees of the Department of Corrections; Air Pilots—
(1) Coordinated with Social Security -5½% of Salary
(2) Without Social Security -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. Department of Corrections security employees not eligible for the Alternative Formula must have at least 20 years of membership service to qualify for the special pension formulas which will apply only to the service earned while in a security position.

Members in Alternative Formula positions 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.

Department of Corrections security employees are eligible at age 55 with at least 25 years of eligible creditable service in a security position. These employees will be eligible at age 50 with at least 25 years of eligible creditable service or age 55 with at least 20 years of eligible creditable service when the Alternative Formula is fully phased in over a five year period that began in 1985.

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:

Years of Credit	Employees Under Social Security	Employees Not Under Social Security	Full Time Security Employees — Dept. of Corrections Under S.S./Not Under S.S.*		Alternative Formula, i.e., Police and other positions Under S.S./not Under S.S.	
Each of the first 10 years of credit	1.0%	1.67%	1.67%	1.9 %	1.67%	2.25%
Each of the next 10 years of credit	1.1%	1.9 %	1.9 %	2.1 %	1.9 %	2.5 %
Each of the third 10 years of credit	1.3%	2.1 %	2.1 %	2.25%	2.1 %	2.75%
Each year above 30	1.5%	2.3 %	2.3 %	2.5 %	2.3 %	2.75%

*who are not eligible for the Alternative Formula. The Alternative Formula for the Department of Corrections employees will be fully phased in by 1991.

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 62/65 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

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 or over 18 if mentally or physically disabled; unmarried children under age 18 if no spouse survives; dependent parents at age 50 if neither an eligible spouse nor children survive the member.

A spouse that is the sole nominated beneficiary and sole survivor may elect other death benefits in number 9 on page 47.

B. Amount of Payment

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

An eligible spouse receives a monthly annuity equal to 30% of the member's final average compensation subject to a maximum of $400. If children of the member are under the care of the spouse, the annuity is increased for each child, subject to a maximum of $600. If only eligible children survive, the monthly annuity may not exceed the lesser of $600 or 80% of final average compensation. The maximum combined monthly payment to parents may not exceed $400. If the member's death occurs after retirement or after termination of state employment but before the member receives a pension, the monthly benefit is further limited to 80% of the pension received or earned by the member. Monthly benefits payable to survivors of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits they are entitled to from social security as a widow(er). The minimum total survivor benefit payable to the survivors annuity beneficiaries of a deceased member or annuitant shall be 50% of the amount of retirement annuity that was or would have been payable to the deceased member on the date of death. If the minimum total benefit exceeds the maximum described above, the minimum shall be payable.

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 5% 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 as a widow.

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 may be eligible for the benefit. If neither spouse nor eligible children survive, a dependent father or mother may 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 the member's 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 the 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 Workers' 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 a 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; (2) a payment equal to one month's salary for each full year of pension credit not to exceed six month's salary. The minimum payment is equal to one month's salary.

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

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 70 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 or retirement 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, if benefit commenced prior to the attainment of age 60; or (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60, but not beyond age 70; or (6) death of the member.

11. OCCUPATIONAL DISABILITY BENEFIT

A. Qualification and Amount of Payment

Provided for any member under age 70 who becomes disabled as the direct result of injury or diseases arising out of and in the course of state employment.

The benefit is 75% of final average compensation plus a credit to the member's account of

service and contributions. The cash benefit is reduced by any payment received under the Workers' 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 benefit commenced prior to the attainment of age 60; or (4) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60, but not beyond age 70; or (5) death of the member.

12. TEMPORARY DISABILITY BENEFIT

A. Qualification and Amount of Benefit

Available to any member under age 70 who becomes disabled, has established at least one and one-half years of creditable service, has been denied benefits under the Workers' Compensation Act or the Workers' Occupational Diseases Act, and has filed an appeal with the Industrial Commission of Illinois. The benefit is 50% of final average compensation plus credit to the member's account of service and contributions. The benefit shall begin to accrue on the 31st day of absence from service and shall be payable upon the expiration of 180 days from the day the member last received compensation.

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 or retirement payment to which he is entitled to 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 the date disability began; or (4) attainment of age 65, if benefit commenced prior to the attainment of age 60; or (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60, but not beyond age 70; or (6) death of the member.

13. SEPARATION BENEFITS

Upon termination of state employment a member may obtain a refund of the contributions made to the System. By accepting a refund, a member forfeits all accrued rights and benefits in the System for himself and his beneficiaries.

LEGISLATIVE AMENDMENTS

Amendments with an effective date during fiscal year 1986 having an impact on the System were:

HOUSE BILL 1445 –

This bill changes retirement benefits for Department of Corrections security employees by placing these employees under the alternative formula (State police, Conservation police, etc.). The age and service requirements in accordance with the alternative formula will be phased in over a five year period.

This bill also changes the 3% automatic increase benefit for individuals retiring under the alternative formula so that these benefits will begin on the January 1st following the later of attainment of age 55 or one year after retirement. This bill was effective August 6, 1985.

HOUSE BILL 1966 –

This bill changes provisions of the Retirement Act which allow Administrative Code Officers to elect or reject participation in the Retirement System. It changes the definition of those affected to include all individuals who are appointed by the Governor and confirmed by the Senate. This bill was effective September 23, 1985.

SENATE BILL 1132 –

The changes in this bill affecting the State Employees' Retirement System are as follows:

Widow's Annuity benefits will be extended to the widow of an individual who retired prior to August 1953 and who died after January 1, 1985.

The composition of the Board of Trustees of the System will be changed by adding two additional members. One new member will be an annuitant elected by the retirees and the other an employee with eight or more years of service elected by the active members.

Disability recipients who have been receiving benefits will receive a one-time cost of living adjustment of 7% on January 1, 1986 following the 4th anniversary of the granting of the benefit. This provision will also affect future disability benefit recipients by providing for the adjustment on the January 1st following the 4th anniversary of the granting of the benefit.

Service credit granted for unused sick pay will be included to determine eligibility for a retirement annuity. This change will treat credit for unused sick pay the same as credit which is established based on compensated sick pay.

Code Officers who elected not to participate, but subsequently do become members and desire to establish credit for the previous service will be allowed to do so upon payment of contributions and interest.

Currently, an employee who has filed legal action seeking reemployment cannot receive a refund of his contributions. This bill allows the payment of such refund upon the request of the member.

A new temporary disability benefit is established and is payable when a member is initially denied Workers' Compensation benefits and is appealing such denial. Currently the Retirement System is prohibited from making any payment until a determination is made. This bill provides for payment at the rate of 50% of pay, providing all eligibility requirements for the temporary benefit are met, until the determination is made. This change further provides for the recovery of any excess payments made under this provision from any Workers' Compensation or Occupational Diseases award. This bill was effective November 18, 1985.

NEW LEGISLATION

There was no new legislation with effective dates subsequent to June 30, 1986, affecting the operation of the System.