COMPONENT UNIT FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 1987

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

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STATE EMPLOYEES'
RETIREMENT SYSTEM
OF ILLINOIS

2815 West Washington Street
P.O. Box 19255 Springfield, Illinois 62794 · 9255

Prepared by the
Accounting Division

Printed by Authority of the State of Illinois

INTRODUCTORY SECTION

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Employees' Retirement System of Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1986

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to governmental units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) are judged to substantially conform to program standards.

Betty Jo Harker
President

Jeffrey L. Esser
Executive Director

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 15, 1987

Dear Board Members:

The component unit annual financial report of the State Employees' Retirement System of Illinois for the fiscal year ended June 30, 1987, 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 administrative expenses of the Contribution Fund are appropriated annually by the Illinois State legislature and are included in the financial statements of The System Trust Fund. 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 income sources totaled $426.6 million during the fiscal year ending June 30, 1987, which is a slight decrease of .1% over revenue reported for fiscal year 1986, shown as follows:

	1987 (Millions)	1986 (Millions)	Increase/Decrease (Millions)	(Percentage)
Retirement System Trust Fund				
Contributions:				
Employees	$ 90.1	$ 84.6	$ 5.5	6.5 %
Employers	109.6	102.2	7.4	7.2 %
Investments	226.9	240.2	(13.3)	(5.5)%
	$426.6	$427.0	$ (.4)	(.1)%
Social Security Contribution Fund				
General Revenue,				
less balances lapsed	.2	.2	–	–
	$426.8	$427.2	$ (.4)	(.1)%

As indicated in the total above, a majority of the total revenue is derived from investment income, including the realization of substantial gains on the sales of investments, during both fiscal years 1987 and 1986.

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 1987 and 1986 are shown for comparative purposes:

	1987 (Millions)	1986 (Millions)	Increase/Decrease (Millions)	(Percentage)
Retirement System Trust Fund Benefits:				
Retirement annuities	$ 119.8	$ 106.5	$ 13.3	12.5%
Survivors' annuities	18.9	17.9	1.0	5.6%
Disability benefits	14.5	14.4	.1	.7%
Lump-sum death benefits	6.4	4.8	1.6	33.3%
	159.6	143.6	16.0	11.1%
Refunds	12.2	13.8	(1.6)	(11.6)%
Administrative expenses	3.0	2.8	.2	7.1 %
	$ 174.8	$ 160.2	$ 14.6	9.1 %
Social Security Contribution Fund Administrative expenses	.2	.2	–	–
	$ 175.0	$ 160.4	$ 14.6	9.1 %

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 $226,929,603 during fiscal year 1987, a slight decrease of $13,305,931 from fiscal year 1986. This amount represented 53.2% 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, 1987, amounted to $3.4 billion. The fund balances for participant contributions, interest accumulations and other future benefits amounted to $2.2 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.

Reporting Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Employees' Retirement System of Illinois for its component unit financial report for the fiscal year ended June 30, 1986. In order to be awarded this certificate, a governmental unit must publish an easily readable and efficiently organized component unit financial report, in which contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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
Nicholas C. Merrill, Jr.

Michael L. Mory
Executive Secretary

Nicholas C. Merrill, Jr. CPA
Chief Fiscal Officer

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

December 15, 1987

To all Members, – State Employees' Retirement System of Illinois:

I wish I could report that the two primary issues confronting the System, adequate funding and improved benefit levels, have been resolved but such is not the case.

During FY87, legislation was introduced and passed in the State Senate which would base the state contribution to the System on the actuarial liability amortizing the existing deficiency of $1,192,025,798 as a level percentage of payroll over a period of 40 years. This approach which has been endorsed by the State Economic and Fiscal Commission and adopted as policy by the SERS Board of Trustees, provides a reasonable means of financing pension liabilities as a level percentage of payroll. This approach is a stark contrast to existing policy which bases current contributions on existing benefit expenditures reflecting employment and salary levels of 15-20 years ago. Since individuals currently retiring and those who will retire in the future will receive substantially higher benefits, this policy results in an ever increasing state contribution both in absolute dollar terms as well a percentage of active state payroll. The problem with this policy was clearly illustrated during the Spring 1987 session of the General Assembly. With an extremely tight fiscal situation projected for FY88 and unsuccessful attempts to increase taxes, action was once again taken to reduce state contributions. This latest reduction from 60% to approximately 48% of anticipated benefit payout will reduce estimated revenues for FY88 an additional $15 million. More importantly, without an overall tax increase it must be assumed that this reduction will not be restored when the FY89 budgeting cycle begins. While the System is in no immediate fiscal jeopardy, we believe this trend which started five years ago must be reversed.

On the benefit side, legislation was once again introduced to increase the System's basic retirement formula and to apply the 3% cost of living benefit to the current annuity instead of the beneift level at date of retirement. While for the first time these proposals were favorably reported out of the Senate Insurance Committee, with failure of the tax increase proposals, the ultimate failure of this bill was easily predicted. As we have stated in the past, we believe there is a high degree of correlation between the issues of adequate funding and benefits. Therefore, any proposal introduced to address either of these issues, to be successful, must consider both issues at the same time. We are hopeful with an increased awareness level, that such action can be expected in the near future.

In reviewing the System's current fiscal position, mention must be made of the tremendous impact of the investment function during this and the past several fiscal years. During the past five years, investment income, including realized capital gains, has contributed $911.7 million or 51.4% of all revenues received. In spite of reduced state contribution levels over the same period of time, the System's financial position as expressed by the relationship of net assets to total actuarial liabilities has increased from 50.2% to 65.1%. Again, as we have cautioned in prior years, this level of performance cannot be expected to continue indefinitely. This fact was evidenced by the events of the financial markets on October 19, 1987 when the Dow Jones average dropped over 500 points.

While no legislation affecting the System passed during the Spring 1987 session, House Bill 2630 was passed in January prior to official adjournment of the 84th General Assembly. This bill which included changes affecting almost every public employee pension fund in the state, provided needed benefit increases for existing annuitants and survivors who began receiving benefits on or before January 1, 1977. The bill also, for the first time, established a minimum retirement benefit which was particularly meaningful to individuals who had retired many years ago. While these changes were certainly justified and I am sure appreciated by those affected, concern must be expressed over the procedure adopted in recent years to review pension legislation. Instead of reviewing and acting on proposals on a bill-by-bill basis, little or no action has been taken until the last two or three weeks of the session. Based on leadership agreement, proposals affecting all systems are combined into a single bill and presented to the full General Assembly for consideration. This process can and has resulted in the failure to pass any legislation, even changes of an administrative nature, which are essential to properly administer the plan. We hope that the leadership of the General Assembly will review this process, as it will be necessary during 1988 to make extensive plan changes in order to conform to requirements contained in the Federal Tax Reform Act of 1986.

At the national level, several legislative issues are pending, primarily resulting from the Tax Reform Act of 1986, which are of great importance to the System. Mandatory medicare for those individuals not under social security is once again being considered in order to meet Gramm-Rudman budget targets. Unless altered by additional legislation, the System will be forced to commence distribution of retirement benefits to individuals over age 70 who are still actively employed. While the financial impact of this mandate is not signficant, it creates an extremely negative public perception problem "double dipping," which in the long run will unfavorably affect all public employees. Finally, due to an Internal Revenue Service interpretation, state employees may be adversely affected by having to include the value of involuntary deferrals such as accrued vacation and sick leave under Section 457 Deferred Compensation Limitations. We are optimistic that both of these issues will be addressed by Congress prior to adjournment of the 1987 session.

As Chairman of the Board of Trustees, I am disappointed that the funding and benefit issues remain unresolved. I am optimistic, however, that progress is being made in bringing these issues to the forefront. As is often the case in government, patience is a virtue which must be relearned time and again. With continued perseverance by all of us, the desired result can be achieved.

Kenneth W. Obrecht
Chairman, Board of Trustees

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by the Governor

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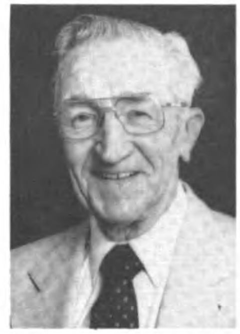

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FINANCIAL SECTION

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 years ended June 30, 1987 and 1986, as listed in the table of contents. Our examinations were 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.

In our opinion, the financial statements referred to above present fairly the financial position of the State Employees' Retirement System of Illinois as of June 30, 1987 and 1986, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the financial statements taken as a whole. The 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. The supplementary financial information has been subjected to the auditing procedures applied in the examinations of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

October 9, 1987

SERS

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Combined Balance Sheets · June 30, 1987 and 1986

	1987	1986
Assets		
Cash	$ 5,977,771	$ 7,618,809
Cash, restricted for Social Security remittances	4,334,906	9,262,057
Receivables:		
Contributions receivable:		
Participants	4,506,275	3,558,957
Employing state agencies	5,269,062	4,953,693
Other accounts receivable	414,451	418,967
	$ 10,189,788	$ 8,931,617
Investments - held in the Illinois State Board of Investment Commingled Fund at cost (Market value: 1987, $2,416,626,806; 1986, $2,193,519,253) (Note 4)	2,211,906,317	1,959,702,313
Fixed Assets, net of accumulated depreciation (Note 9)	168,785	124,916
Total Assets	$2,232,577,567	$1,985,639,712
Liabilities and Fund Balance		
Benefits payable	$ 1,144,997	$ 1,319,494
Refunds payable	223,318	138,288
Administrative expenses payable (Note 8)	411,370	378,315
Participants' deferred service credit accounts	579,830	446,875
Unremitted Social Security contributions	4,037,829	8,596,003
Amounts held for Social Security remittances	297,077	666,054
Total Liabilities	$ 6,694,421	$ 11,545,029
Fund Balance		
Actuarially determined accrued benefit cost (Note 6)	3,417,908,944	3,162,210,759
Less unfunded accrued benefit cost representing an obligation of the State of Illinois	1,192,025,798	1,188,116,076
Total Fund Balance (Note 12)	$2,225,883,146	$1,974,094,683
Total Liabilities and Fund Balance	$2,232,577,567	$1,985,639,712

See accompanying notes to financial statements.

SERS

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, 1987 and 1986

	1987	1986
Revenue:		
Contributions:		
Participants	$ 90,096,279	$ 84,563,536
Employing State agencies and appropriations	109,559,940	102,213,693
Total Contributions revenue	199,656,219	186,777,229
Investments:		
Net investments income	119,922,351	125,597,368
Interest earned on cash balances	725,599	785,253
Net realized gain on sale of investments	106,281,653	113,852,913
Total Investments revenue	226,929,603	240,235,534
	426,585,822	427,012,763
General Revenue Fund appropriations, less balances lapsed	168,326	186,885
Total Revenue	426,754,148	427,199,648
Expenses:		
Benefits:		
Retirement annuities	119,758,023	106,475,314
Survivors' annuities	18,955,079	17,856,166
Disability benefits	14,521,296	14,452,304
Lump-sum death benefits	6,379,930	4,764,734
	159,614,328	143,548,518
Refunds	12,177,841	13,562,138
Administrative expense, System Trust Fund (Note 8)	3,000,932	2,848,181
Transfers to reciprocating retirement systems	4,258	218,705
	174,797,359	160,177,542
Administrative expense, Contribution Fund (Note 8)	168,326	186,885
Total Expenses	174,965,685	160,364,427
Excess of revenue over expenses	$ 251,788,463	$ 266,835,221
Fund Balance at beginning of year	1,974,094,683	1,707,259,462
Fund Balance at end of year	$2,225,883,146	$1,974,094,683

See accompanying notes to financial statements.

SERS

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

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

Years ended June 30, 1987 and 1986

	1987	1986
Sources of working capital:		
Working capital provided by operations – excess of revenue over expenses	$251,788,463	$266,835,221
Add (Deduct) items not providing working capital –		
net realized (gain) on sale of investments	(106,281,653)	(113,852,913)
reinvested earnings	(119,922,351)	(125,597,368)
Depreciation expense	35,657	57,990
Other	4,923	1,601
Total sources of working capital	25,625,039	27,444,531
Uses of working capital:		
Amounts transmitted by SERS for investment purchases (net)	26,000,000	32,000,000
Additions to fixed assets	84,449	57,239
Total uses of working capital	26,084,449	32,057,239
Net (decrease) in working capital	$ (459,410)	$ (4,612,708)
Elements of net (decrease) in working capital:		
Cash	$ (1,641,038)	$ (3,597,567)
Receivables	1,258,171	(868,210)
Benefits payable	174,497	(120,770)
Refunds payable	(85,030)	126,771
Administrative expenses payable	(33,055)	(72,279)
Participants' deferred service credit accounts	(132,955)	(80,653)
Net (decrease) in working capital	$ (459,410)	$ (4,612,708)

See accompanying notes to financial statements.

(1) Reporting Entity

The State Employees' Retirement System of Illinois (System) is a component unit of the State Illinois and is composed of the State Employees' Retirement System, a trust fund (System Trust Fun and the Social Security Contribution Fund, an agency fund (Contribution Fund). The System Tru Fund and the Contribution Fund are considered part of the State of Illinois financial reportir entity and are included in the State's comprehensive annual financial report as a pension tru fund and an agency fund, respectively.

The System has developed criteria to determine whether other State agencies, boards or commission which benefit the members of the System should be included within its financial reporting entit The criteria include, but are not limited to, whether the System exercises oversight responsibilit on financial interdependency, selection of governing authority, designation of management, abilit to significantly influence operations and accountability for fiscal matters, scope of public servic and special financing relationships.

Based primarily upon the criteria of financial interdependency and ability to significantly influenc operations and accountability for fiscal matters, the System has included the Social Security Contri bution Fund in its combined financial statements.

(2) Plan Description

The System is the administrator of a single-employer public employee retirement system (PERS) estab lished and administered by the State of Illinois to provide pension benefits for its employees. A June 30, 1987, the number of participating State agencies, boards and commissions was:

State agencies	42
State boards and commissions	45
Total	87

At June 30, 1987 and 1986, the System Trust Fund membership consisted of:

	1987	1986
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	22,529	21,771
Survivors annuitites	8,015	7,823
Disability benefits	1,577	1,703
	32,121	31,297
Inactive employees entitled to benefits but not yet receiving them	2,129	2,281
Total	34,250	33,578
Current Employees:		
Vested:		
Coordinated with Social Security	32,567	30,240
Noncoordinated	9,185	9,807
NonVested:		
Coordinated with Social Security	31,997	33,078
Noncoordinated	983	887
Total	74,732	74,012

Operation of the System Trust Fund and the direction of its policies is the responsibility of the Boar of Trustees of the System.

(a) Eligibility and Membership

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

(b) Contributions

Participating members contribute specified percentages of their salaries for retirement annuities and survivors' annuities. Contributions are excluded from gross income for Federal and State income tax purposes. The total contribution rate is 4% if the member is coordinated with Social Security and 8% if the member is not coordinated. Certain employment categories which are eligible for benefits under alternative formulas contribute at the rate of 5½% or 9½% depending upon whether or not the employee is coordinated with Social Security. Participants' contributions are fully refundable, without interest, upon withdrawal from state employment. The State of Illinois is obligated to make payment for the required departmental contributions, all allowances, annuities, any benefits granted under Article 14 of the Illinois Pension Code (Code) and all administrative expenses of the System Trust Fund to the extent specified in the Code.

(c) Benefits

The System is governed by Article 14 of the Code.Vesting and benefit provisions under the System Trust Fund are defined in the Code. Employees who retire at or after age 60 with 8 years of credited service (or at age 55 with at least 30 years of credited service with reduced benefits) are entitled to an annual retirement benefit, payable monthly for life, in an amount based upon final average compensation and credited service. Employees with 35 years of credited service may retire at any age with full benefits. Final average compensation for retirement and survivor annuities, is the employee's average salary, during a 48 consecutive month period within the last 120 months of service in which the total compensation was the highest.

Occupational and nonoccupational (including temporary) disability benefits are available through the System Trust Fund. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service with the System Trust Fund and be less than seventy years old. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date that they were removed from the payroll. Occupational disability benefits are provided from the date of employment provided that the member is under age 70 and becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment.The monthly benefit is equal to75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Worker's Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System Trust Fund. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

(3) Description of the Contribution Fund

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

Effective January 1, 1987, the responsibility for the collection and transmittal of Social Security contributions for State agencies and participating State employees was transferred from the System to the Office of the Comptroller of the State of Illinois. As of that same date, political subdivisions of the State became responsible for their own remittance of Social Security contributions to the federal government. The balances in this fund are being maintained for final settlement of open years.

(4) Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting — System Trust Fund

The financial transactions of the System Trust Fund are recorded on the accrual basis of accounting 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.

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

(b) Method Used to Value Investments

The System Trust Fund retains all of its available cash in a commingled investment pool manag by the Treasurer of the State of Illinois. "Available cash" is determined to be that amount which required for the current operating expenditures of the System Trust Fund. The excess of availab cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term inves ment for the System Trust Fund.

Investments are managed by the ISBI pursuant to Article 22A of the Illinois Pension Code and ar maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the Syste Trust Fund's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingle Fund are issued to the member systems on the last day of the month based on the unit net ass value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocate to each of the member systems on the last day of the month on the basis of percentage of accumulate units owned by the respective systems. Management expenses are deducted monthly from incon before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Illinois Revised Statutes Chapter 108-½ Articl 22A-112. The ISBI investment authority includes investments in obligations of the U.S. Treasur and other agencies, notes secured by mortgages which are insured by the Federal Housing Com mission, real estate, common and preferred stocks, convertible debt securities, deposits or certificate of deposit of federally insured institutions and options. Such investment authority requires tha all opportunities be undertaken with care, skill, prudence and diligence given prevailing circum stances that a prudent person acting in like capacity and experience would undertake.

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits with Finan cial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agree ments" requires certain financial statement disclosure of deposits and investments, such as th disclosure of carrying amounts by type of investment and classification into one of three categorie based upon credit risk. Investments in pools managed by other governmental agencies, in genera are to be disclosed but not categorized because they are not evidenced by securities that exist in phy sical or book entry form.

The System Trust Fund transfers money to the ISBI for investment in the ISBI Commingled Fun This money is then allocated among various investment managers to pursue a specific investmen strategy. All investment transactions are initiated by the investment managers (either internal o external). The transaction settlement information is then forwarded to the agent bank's trust de partment under a master custodial agreement.

Custody of a majority of the actual physical securities is maintained at an agent of the agent bank' trust department using a book-entry system.

The investments managed by the ISBI Commingled Fund are reported by the appropriate credit ris category in the annual financial report of the Illinois State Board of Investment.

Reference should be made to the 1987 annual financial report of the ISBI for additional information relating to the investments of ISBI.

The System Trust Fund owns 93.07% of the ISBI Commingled Fund as of June 30, 1987.

(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 Statues, 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 and are included in the financial statements of the System Trust Fund.

(f) Basis of Accounting — Contribution Fund

The collection and transmittal of federal Social Security contributions of participating state employees, employing agencies and political subdivisions through December 31, 1986 have been accounted for within the Contribution Fund on a modified accrual basis.

(5) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the State Employees' Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS.

The measure is independent of the funding method used to determine contributions to the System Trust Fund, discussed in Note 6 below.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1987. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 6 1/2 percent per year compounded annually, attributable to inflation, (c) 85% of employees are presumed to be married (d) the female spouse is assumed to be three years younger than the male spouse, (e) mortality rates are based upon the 1971 Group Annuity Mortality Table projected to 1986, (f) it is assumed that terminated employees will not be rehired, and (g) the rate of turnover without vested benefits assumes a high scale at younger age levels, becoming progressively lower as age advances.

At June 30, 1987 and 1986, the unfunded pension benefit obligation was $1,078,362,325 and $1,108,712,200 as follows:

	1987	1986
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	$1,445,207,627	$1,299,862,797
Terminated employees not yet receiving benefits	16,999,775	19,036,146
Current Employees:		
Accumulated employee contributions	859,782,136	778,634,065
Employer-financed vested	888,252,004	881,358,733
Employer-financed nonvested	52,828,986	61,513,748
Inactive members — Accumulated contributions	41,174,943	42,401,394
Total Pension benefit obligation	$3,304,245,471	$3,082,806,883
Net assets available for benefits, at cost	2,225,883,146	1,974,094,683
(market value at June 30, 1987 $2,430,603,635; 1986 $2,207,911,623)		
Unfunded pension benefit obligation	*$1,078,362,325	*$1,108,712,200

*The unfunded accrued benefit cost representing an obligation of the State of Illinois shown on the combined balance sheet has been determined on the actuarial basis of entry age normal described in note 6.

As a result of the passage of H.B. 2630, which provided for ad hoc benefit increases for annuitan and the granting of credit for unused sick leave to employees who defer retirement, there was a increase in the actuarial present value of credited projected benefits of $28,033,700.

(6) Contributions Required and Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System Trust Fund is perform by the System's actuarial consultants in order to determine the amount of contributions requir from the State of Illinois.

The principal actuarial funding method used by the System Trust Fund is entry age normal. addition, the actuarial consultants also submit to the Board several alternative cost methods wi various amortization periods for the unfunded prior costs. Each of these alternatives are consider an acceptable cost or funding method. These alternatives are presented to the Board as a resu of the State's long standing funding policy described below. Employer contributions are express as a percentage of annual covered payroll. The System's Board of Trustees (Board) evaluates tl alternatives and certifies a contribution rate within the range of alternatives. This rate is then us as the "actuarial required contribution" rate. For fiscal years 1987 and 1986, the Board certifi actuarial required contribution rates were 8.4% and 7.532%, respectively.

The Illinois state legislature has followed a funding policy of appropriating funds based upon percentage of benefit payout for those agencies which receive appropriated monies. The appropriat employer contribution rate for the legislatively funded agencies was 5.6% for both fiscal years 19 and 1986.

State agencies which do not receive State appropriated funds for their share of employer retireme contributions contribute at the Board certified rate.

It has been interpreted that the laws of the State of Illinois regarding State finance provide f the Governor and the state legislature to have specific authority to reduce or increase moni appropriated for the employer share of retirement contributions regardless of the rate certified b the Board of Trustees.

Based upon the Board certified rate of 8.4%, the total amount of employer contributions require for the fiscal year ended June 30, 1987 amounted to $153,316,464. The total amount of employe contributions made was $109,559,940, thereby resulting in an underfunding of $43,756,524.

Schedule of Contributions Required and Contributions Made
(in thousands)

	1987	1986	1985	1984	1983
Covered Payroll	$1,825,196	$1,713,755	$1,569,532	$1,437,546	$1,378,735
Employer contributions	109,560	102,214	94,457	86,464	71,846
Actual Employer Contribution %	6.00%	5.96%	6.01%	6.01%	5.21%
Board of Trustees Recommended Contribution %	8.4%	7.532%	*8.09%	6.4%	5.55%

*The contribution rate shown is the minimum rate recommended by the actuarial consultants. The actu Board approved rate for FY1985 was 5.8%.

Significant actuarial assumptions used to compute contribution requirements are the same as those us to compute the standardized measure of the pension obligation discussed in Note 5.

As a result of the passage of H.B. 2630, which provided for ad hoc benefit increases for annuitan and the granting of credit for unused sick leave to employees who defer retirement, there was a increase in the actuarial present value of accrued benefit cost of $28,033,700.

(7) Historical Trend Information

Historical trend information designed to provide information about the System Trust Fund's pr gress made in accumulating sufficient assets to pay benefits when due is presented on pages 23-2

(8) Administrative Expenses

A summary of the administrative expenses for the State Employees' Retirement System fiscal years 1987 and 1986 is as follows:

	1987		1986	
	System Trust Fund	Contribution Fund	System Trust Fund	Contribution Fund
Personal services	$1,374,652	$114,164	$1,270,638	$113,258
Retirement contributions	115,595	6,600	68,517	6,400
Social Security contributions	85,450	6,610	78,767	6,690
Group insurance	58,858	–	54,771	–
Contractual services	690,034	28,867	661,040	33,134
Travel	33,575	4,115	28,130	11,859
Printing	33,174	1,245	57,103	2,083
Commodities	16,548	249	17,019	1,293
Equipment	–	–	2,759	532
Telecommunications	38,477	3,100	37,326	2,974
Electronic Data Processing	470,936	3,376	460,942	8,662
Automotive	5,488	–	6,586	–
Permanent Improvements	–	–	15,401	–
Depreciation	35,657	–	57,990	–
Other	42,488	–	31,192	–
Total	$3,000,932	$168,326	$2,848,181	$186,885

(9) 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 1987 and 1986 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
1987				
Fixed Assets	$519,474	$ 84,449	$18,872	$585,051
Accumulated Depreciation	394,558	35,657	13,949	416,266
Fixed Assets, net	$124,916	$48,792	$ 4,923	$168,785
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

(10) 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 $246,468 a
$252,201 for fiscal years 1987 and 1986, respectively.

(11)Accrued Compensated Absences

Employees of the State Employees' Retirement System are entitled to receive compensation for accrued but unused vacation time and one-half of all unused sick leave earned after January 1984 upon termination of employment. The value of accrued compensated absences as of June 1987 and 1986 were $217,157 and $179,591, respectively.

(12)Analysis of Changes in Fund Balances — Reserved

The System Trust Fund maintains three reserve accounts which, when combined, comprise the to 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 ite a and b above.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund
Statements of Changes in Fund Balances (Reserved)
Years ended June 30, 1987 and 1986

	Participants' contributions	Interest accumulations	Other future benefits	Total Fund Balance
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
Add (deduct)				
Excess of revenue over expenses	74,105,993	–	177,682,470	251,788,463
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(26,795,012)	–	26,795,012	–
Interest credited to members' accounts	–	32,594,317	(32,594,317)	–
Balance at June 30, 1987	$644,749,034	$256,208,045	$1,324,926,067	$2,225,883,146

ombining Balance Sheets
:ars Ended June 30, 1987 and 1986

	1987			1986		
	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						
ısh	$ 5,977,771	$ –	$ 5,977,771	$ 7,618,809	$ –	$ 7,618,809
ısh, restricted for Social Security remittances	–	4,334,906	4,334,906	–	9,262,057	9,262,057
ceivables:						
Contributions receivable:						
Participants	4,506,275	–	4,506,275	3,558,957	–	3,558,957
Employing State Agencies	5,269,062	–	5,269,062	4,953,693	–	4,953,693
Other accounts receivable	414,451	–	414,451	418,967	–	418,967
	10,189,788	–	10,189,788	8,931,617	–	8,931,617
ıestments	2,211,906,317	–	2,211,906,317	1,959,702,313	–	1,959,702,313
ted assets, net of accumulated depreciation	168,785	–	168,785	124,916	–	124,916
Total Assets	$2,228,242,661	$ 4,334,906	$2,232,577,567	$1,976,377,655	$ 9,262,057	$1,985,639,712
Liabilities and Fund Balance						
nefits payable	$ 1,144,997	$ –	$ 1,144,997	$ 1,319,494	$ –	$ 1,319,494
funds payable	223,318	–	223,318	138,288	–	138,288
ministrative expenses payable	411,370	–	411,370	378,315	–	378,315
rticipants' deferred service credit accounts	579,830	–	579,830	446,875	–	446,875
ıremitted Social Security contributions	–	4,037,829	4,037,829	–	8,596,003	8,596,003
ıounts held for Social Security remittances	–	297,077	297,077	–	666,054	666,054
Total Liabilities	2,359,515	4,334,906	6,694,421	2,282,972	9,262,057	11,545,029
ınd Balance						
Actuarially determined benefit cost	3,417,908,944	–	3,417,908,944	3,162,210,759	–	3,162,210,759
Less unfunded accrued benefit cost representing an obligation of the State of Illinois	1,192,025,798	–	1,192,025,798	1,188,116,076	–	1,188,116,076
Total Fund Balance	$2,225,883,146	$ –	$2,225,883,146	$1,974,094,683	–	$1,974,094,683
Total Liabilities and Fund Balance	$2,228,242,661	$ 4,334,906	$2,232,577,567	$1,976,377,655	$ 9,262,057	$1,985,639,712

ocial Security Contribution Fund
tatements of Changes in Assets and Liabilities
:ars Ended June 30, 1987 and 1986

	1987				1986			
	Balance July 1, 1986	Additions	Deductions	Balance June 30, 1987	Balance July 1, 1985	Additions	Deductions	Balance June 30, 1986
Assets								
ısh, restricted for Social Security remittances	$9,262,057	$125,257,128	$130,184,279	$4,334,906	$9,257,197	$234,570,616	$234,565,756	$9,262,057
Liabilities								
ıremitted Social Security contributions	$8,596,003	$125,257,128	$129,815,302	$4,037,829	$8,508,514	$234,570,616	$234,483,127	$8,596,003
ıounts held for Social Security remittances	666,054	–	368,977	297,077	748,683	–	82,629	666,054
	$9,262,057	$125,257,128	$130,184,279	$4,334,906	$9,257,197	$234,570,616	$234,565,756	$9,262,057

SYSTEM TRUST FUND — SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 1987 and 1986

	1987	1986
Contributions:		
Participants	$ 88,972,543	$ 83,555,232
Repayments of contributions refunded	367,175	345,173
Interest received from participants	756,561	663,131
Total Participants contributions	$ 90,096,279	$ 84,563,536
Employing state agencies	$105,095,840	$ 97,741,393
State Pension Fund appropriation	2,215,500	2,130,000
Supplemental state contribution	2,248,600	2,342,300
Total State contributions and appropriations	$109,559,940	$102,213,693
Investments:		
Net investment income	$119,922,351	$125,597,368
Interest earned on cash balances	725,599	785,253
Net realized gain on sale of investments	106,281,653	113,852,913
Total Investment revenue	$226,929,603	$240,235,534
Total Revenue	$426,585,822	$427,012,763

SYSTEM TRUST FUND — SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 1987 and 1986

	1987	1986
Cash balance, beginning of year	$ 7,618,809	$ 11,216,376
Receipts:		
Member contributions	86,895,546	82,094,357
Employer contributions	107,037,914	101,198,084
State Pension Fund contribution	2,215,500	2,130,000
Transfers from Illinois State Board of Investment	14,000,000	5,000,000
Interest income on cash balance	737,476	796,949
Claims receivable payments	598,701	548,339
Installment payments - prior service credit	491,773	422,717
Other	117,309	125,344
Total cash receipts	$212,094,219	$192,315,790
Disbursements:		
Annuity payments:		
Retirement annuities	119,905,180	106,603,448
Widow's annuities	3,132,859	3,157,660
Survivor's annuities	15,467,935	14,318,519
Death benefits	6,928,282	5,227,829
Disability benefits	13,049,592	12,726,443
Refunds	12,257,597	14,080,198
Administrative expenses	2,993,812	2,799,260
Transfers to Illinois State Board of Investment	40,000,000	37,000,000
Total cash disbursements	$213,735,257	$195,913,357
Cash balance, end of year	$ 5,977,771	$ 7,618,809

Analysis of Funding Progress (in thousands of dollars)

FY	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1)÷(2)	(4) Unfunded Pension Benefit Obligation (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4)÷(5)
1984	$1,581.3	$3,040.6	52.0%	$1,459.3	$1,437.5	$101.5%
1985	1,707.2	2,830.8	60.3%	1,123.6	1,569.5	71.6%
1986	1,974.1	3,082.8	64.0%	1,108.7	1,713.8	64.7%
1987	2,225.9	3,304.2	67.4%	1,078.3	1,825.2	59.1%

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System Trust Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System Trust Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

*At cost

Revenues by Source and Expenses by Type

Revenues by Source

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Sub Total	General Revenue Fund Appropriations, Less balances Lapsed	Total
1978	$51,025,294	$69,384,874	$44,025,044	$164,435,212	$102,808	$164,538,020
1979	56,328,543	84,762,923	61,496,348	202,587,814	98,762	202,686,576
1980	59,448,493	94,056,122	79,438,744	232,943,359	119,341	233,062,700
1981	64,573,084	96,918,451	93,957,329	255,448,864	142,012	255,590,876
1982	69,300,949	61,500,375	101,697,502	232,498,826	145,503	232,644,329
1983	72,371,246	71,846,403	192,573,257	336,790,906	149,002	336,939,908
1984	73,442,196	86,464,279	150,170,315	310,076,790	168,700	310,245,490
1985	77,830,806	94,456,693	101,754,931	274,042,430	174,482	274,216,912
1986	84,563,536	102,213,693	240,235,534	427,012,763	186,885	427,199,648
1987	90,096,279	109,559,940	226,929,603	426,585,822	168,326	426,754,148

Expenses by Type

FY Ended June 30	Benefits	Contribution Refunds	Administrative Expenses, System Trust Fund	Other Expenses*	Sub Total	Administrative Expenses, Contribution Fund	Total
1978	$70,985,910	$12,438,437	$1,276,876		$84,701,223	$102,808	$84,804,031
1979	76,000,765	12,344,851	1,456,878		89,802,494	98,762	89,901,256
1980	81,342,048	12,328,329	1,752,078	$2,460,525	97,882,980	119,341	98,002,321
1981	89,147,299	12,352,136	1,973,475	5,034,562	108,507,472	142,012	108,649,484
1982	100,453,675	13,942,805	2,245,727	(2,480,124)	114,162,083	145,503	114,307,586
1983	111,852,846	14,009,169	2,290,492		128,152,507	149,002	128,301,509
1984	120,996,071	14,145,496	2,428,623		137,570,190	168,700	137,738,890
1985	132,316,478	13,240,326	2,552,452		148,109,256	174,482	148,283,738
1986	143,548,518	13,780,843	2,848,181		160,177,542	186,885	160,364,427
1987	159,614,328	12,182,099	3,000,932		174,797,359	168,326	174,965,685

*** 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.**

Analysis of Employer Contributions — Fiscal Year 1978 through 1987

Fiscal Year	(1) Board Approved Rate (A)	(2) Annual Earnings	(3) Employer Contributions Required (1×2)	Employer Contribution Made: (4) Employer Contr. (B)	(5) State Pension (C)	(6) Senate Res. No. 33 (D)	(7) Other	(8) (4+5+6+7) Total	(8-3) Excess (Deficiency) of Contrib Made Over Contr. Req
1978	7.300%	$925,094,200	$67,531,877	$67,531,874	$1,853,000			$69,384,874	$1,852,99
1979	7.760%	1,069,885,900	83,023,146	83,023,148	1,095,000		$644,775	84,762,923	1,739,77
1980	8.000%	1,137,667,500	91,013,400	91,380,122	2,676,000			94,056,122	3,042,72
1981	7.500%	1,253,016,000	93,976,200	94,542,451	2,376,000			96,918,451	2,942,25
1982	6.820%	1,334,262,000	90,996,668	60,348,375	1,152,000			61,500,375	(29,496,29
1983	5.550%	1,378,735,000	76,519,793	67,421,803	1,838,200	$2,586,400		71,846,403	(4,673,39
1984	6.400%	1,437,546,000	92,002,944	81,358,279	2,378,000	2,728,000		86,464,279	(5,538,66
1985	8.090%	1,569,532,000	126,975,139	89,482,193	2,378,500	2,596,000		94,456,693	(32,518,44
1986	7.532%	1,713,755,000	129,080,027	97,741,393	2,130,000	2,342,300		102,213,693	(26,866,33
1987	8.400%	1,825,196,000	153,316,464	105,095,840	2,215,500	2,248,600		109,559,940	(43,756,52

(A) = For fiscal years 1982 and 1985, the contribution rate shown is the minimum rate recommended by the actuarial consultants. The actual Board approved rate was 4.5% and 5.8% for FY1982 and 1985, respectively. For all other years presented, the Board approved rate was at least equal to or greater than the minimum contribution rate recommended by the actuaries.

(B) = The System Trust Fund recognizes revenue based upon either the board approved rate or the state appropriated rate, as appropriate.

(C) = The System Trust Fund receives an annual appropriation from the State Pension Fund. The State Pension Fund receives proceeds from the sale of abandoned and unclaimed property.

(D) = In fiscal year 1983, House Amendment No. 1 to Senate Bill 177 was adopted by the State legislature This bill reduced the dollar amount appropriated for the employer's share of retirement contributions Senate joint resolution No. 33 provides that the System Trust Fund will be repaid the amount of the Senate Bill 177 reductions at the rate of 20% per year over the next five fiscal years, including interest at the rate of 6% per annum.

REVENUES:

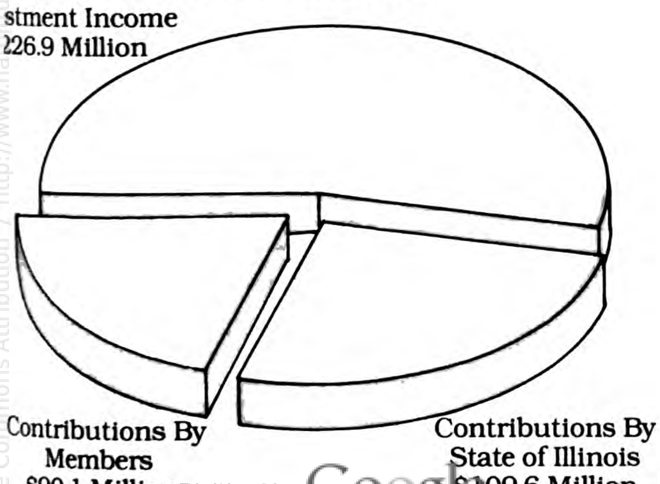
Total revenue of $426.6 million for FY 1987 was a $.4 million decrease from the FY1986 level of $427.0 million. Net income from investments and net realized gains on sales of investments were down slightly from the prior fiscal year. It should be noted, however, that the net realized gains on sale of investment in FY1987 and FY1986 were unusually high as compared to prior fiscal years due to very favorable financial markets. It cannot be anticipated that the dollar amount of these gains will remain at this level in subsequent years.

Revenue Source	FY 87 (Millions)	FY 86 (Millions)	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Member Contributions	$ 90.1	$ 84.6	$ 5.5	6.5 %
State Contributions	109.6	102.2	7.4	7.2 %
Investment Income	226.9	240.2	(13.3)	(5.5)%
Total	$426.6	$427.0	$ (.4)	(.1)%

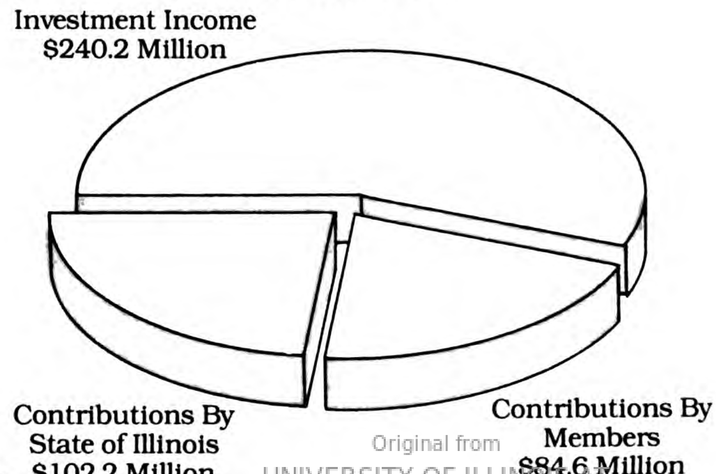
There were 720 more active members as of June 30, 1987 than on June 30, 1986. This increase of 1% in membership and average wage increases of 6.0% resulted in an increase of 6.5% in wages subject to retirement contributions. State contributions show an increase of 7.2% ($7.4 million), consistent with the total wage increase. Member contributions were 5.5 million (6.5%) higher than for FY 1986. As shown in the table below, the average rate of contributions by members in FY 1987 was 4.94% compared to 4.93% in FY 1986.

Active Membership	FY 87	FY 86	Increase/(Decrease) Number/Amount	Increase/(Decrease) Percentage
Coordinated Members	64,564	63,318	1,246	2.0%
Noncoordinated Members	10,168	10,694	(526)	(4.9%)
Total Active Members	74,732	74,012	720	1.0%
Earnings Reported				
All Members (Millions)	$1,825.2	$1,713.8	$111.4	6.5%
Average Rate of Contributions				
All Members	4.94%	4.93%		

REVENUES BY SOURCE 1987
TOTAL REVENUES
$426.6 MILLION



REVENUES BY SOURCE 1986
TOTAL REVENUES
$427.0 MILLION



Gross investment income for 1987 of $124,595,843, less the Investment Board's administrative expense of $4,673,492 and the net realized gain on sale of investments amounting to $106,281,653, resulted in net revenue from investments of $226,204,004. Transfers of funds to the Illinois State Board of Investmen amounted to $40,000,000 and transfers from the Board of $14,000,000 resulted in a net transfer for investments of $26,000,000. The balance of investments at cost increased by $226,204,004 plus $26,000,000 or $252,204,004, from June 30, 1986 thru June 30, 1987. The following table shows a comparison of investment operations for FY 1987 and FY 1986.

	1987	1986	Increase/(Decrease) Amount	Percentage
Balance at beginning				
of year, at cost	$1,959,702,313	$1,688,252,032	$271,450,281	16.1 %
Cash remitted for investment (net)	26,000,000	32,000,000	(6,000,000)	(18.8)%
Investment income:				
Commingled Fund income	124,595,843	129,060,894	(4,465,051)	(3.5)%
Less Expenses	(4,673,492)	(3,463,526)	(1,209,966)	34.9 %
Distributed Net Realized Gain/				
(Loss) on Sale of Investments	106,281,653	113,852,913	(7,571,260)	(6.7)%
Net investment income	226,204,004	239,450,281	(13,246,277)	(5.5)%
Balance at end				
of year, at cost	$2,211,906,317	$1,959,702,313	$252,204,004	12.9 %
Market value	$2,416,626,806	$2,193,519,253	$223,107,553	10.2 %

In addition, interest on the average balance in the System Trust Fund's account for FY 1987 was $725,599 compared to $785,253 during FY 1986.

EXPENSES:

The number of members receiving retirement annuities on June 30, 1987 was 3.4% above the June 30, 1986 level reflecting the normal pattern of increase during the past 10 years, however, the cost of these annuities increased by 12.5% over the FY 1986 level. Higher salary levels for current retirees, post retirement increases granted each January 1 and an increase in the minimum retirement annuity result in costs rising at a more rapid pace than the number of annuitants. Survivor annuities increased at a near normal rate of 2.4% in number with a 5.6% increase in dollar costs. Continued review of disability recipient eligibility helped reduce the number of recurring benefit payments for disability by 7.4%, while rising salary rates increased the dollar amount of payments by .7%.

	FY 87 (Millions)	FY 86 (Millions)	Increase/(Decrease) Amount	Percentage
Retirement Benefits	$119.8	$106.5	$13.3	12.5%
Survivors Benefits	18.9	17.9	1.0	5.6%
Disability Benefits	14.5	14.4	.1	.7%
Lump Sum Death Benefits	6.4	4.8	1.6	33.3%
Contribution Refunds	12.2	13.8	(1.6)	(11.6)%
Administrative Expenses	3.0	2.8	.2	7.1%
TOTAL EXPENSES	$174.8	$160.2	$14.6	9.1%

NUMBER OF RECURRING BENEFIT PAYMENTS

	FY Ended June 30, 1986	New Claims Processed During FY 87	Benefits Ceased During FY 87	FY Ended June 30, 1987	Increase/(Decrease) Amount	Percentage
Retirement	21,771	1,629	871	22,529	758	3.5%
Survivors	7,823	514	322	8,015	192	2.4%
Disability	1,703	1,800	1,926	1,577	(126)	(7.4)%
TOTALS	31,297	3,943	3,119	32,121	824	2.6%

Lump sum death benefits are primarily refunds of member contributions and will vary from year to year. Refunds to members have been significantly decreasing in the past few years. There was a decrease of 1.6 million (11.6%) in FY 1987. The decreasing trend in refunds is primarily due to the 6 month qualifying period required of new employees hired since January, 1984. The short term employees who never become members of the System and, therefore, no refund is required upon termination, do not greatly affect the total dollar amount of refunds.

RESERVES:

As of June 30, 1987, the funds available for payment of current and future benefits were $2,225.9 million as shown in the following schedule:

Assets	FY 87 (Millions)	FY 86 (Millions)	Increase (Decrease)
Cash	$ 6.0	$ 7.6	$ (1.6)
Receivables (less payables)	7.8	6.7	1.1
Investments	2,211.9	1,959.7	252.2
Fixed Assets (net of accumulated depreciation)	.2	.1	.1
NET ASSETS	$2,225.9	$1,974.1	$ 251.8

Total System Trust Fund revenues for FY 1987 of $426.6 less expenditures of $174.8 million resulted in a net increase to reserves of $251.8 million.

Reserves	FY 87 (Millions)	FY 86 (Millions)	Net Increase
Member Contributions	$ 644.8	$ 597.4	$ 47.4
Future Operations	1,581.1	1,376.7	204.4
TOTAL RESERVES	$2,225.9	$1,974.1	$ 251.8

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to $26.8 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 1987 contributions collected and transmitted for the political entities amounted to $20.4 million and for the SERS, $104.5 million. Due to the passage of new federal legislation which mandated that state and local government employers conform to the same remittance schedule as private employers, the responsibility for the collection and remittance of Social Security and Medicare taxes was transferred from this agency to the Office of the Comptroller of the State of Illinois effective January 1, 1987. Adjustments to Social Security or Medicare taxes for wages paid prior to December 31, 1986 are processed through the Contribution Fund, subsequent to January 1, 1987 any adjustments to Social Security or Medicare taxes are reported through the Office of the Comptroller.

The Social Security Division has a staff of four 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-rated basis. The total amount of expenses appropriated from the General Revenue Fund for the administration of the Contribution Fund was $168,326 and $186,885 for fiscal years 1987 and 1986, respectively.

The contribution rate in 1987 was 7.15% for both the employee and the employer share on a maximum wage of $43,800. 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
INTERNATIONAL SERVICES

SUITE 5600 SEARS TOWER
233 SOUTH WACKER DRIVE
CHICAGO, ILLINOIS 60606

(312) 876-2000
TELEX 270331

OFFICES IN PRINCIPAL CITIES
AROUND THE WORLD

October 28, 1987

Board of Trustees and Executive Secretary
State Employees' Retirement System of Illinois
P. O. Box 19255
2815 West Washington Street
Springfield, IL. 62794-9255

ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois as of June 30, 1987. This valuation was made using the same actuarial assumptions as used for the prior year. Certain benefits were increased by legislation (HB2630) since the last valuation as follows: Ad Hoc benefit increases were granted to survivors and retirees who began receiving benefits on or before January 1, 1977 and a minimum retirement annuity provision was added to the plan. Members who defer retirement more than 60 days will now receive credit for unused sick leave, and persons covered or eligible to be covered under the Teachers Retirement System who are employed by the Department of Corrections were allowed to elect to become members of SERS on either June 1, 1987 or July 1, 1987.

Pursuant to the law establishing the System, the actuary shall investigate the experience under the System at least once every five years and recommend as a result of such investigation the actuarial assumptions to be adopted. The Wyatt Company, as the actuary, completed such a review for the five years ending June 30, 1985 and the assumptions used for the current valuation were based on that study. We believe that, in the aggregate, the current assumptions relate reasonably to the past and anticipated experience of the plan.

A contribution rate has been determined using the entry age normal cost method providing for the current cost (normal cost) plus an amortization of the unfunded accrued actuarial liability as a level percentage of payroll by June 30, 2027. For ancillary benefits for active employees, costs are computed assuming that employees were hired after June 30, 1980. This results in normal cost rates that decline gradually as a percentage of payroll. As the amortization contribution can be expected to remain level, the total contribution rate can be expected to decrease gradually as a percentage of payroll until June 30, 2027, and then drop to a constant normal cost rate. Employer contributions, however, have been insufficient in recent years to meet the financing objective so that future contribution requirements may be higher than expected.

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 which is supplied by the administrative staff of the System and verified by the System's auditor. We have made additional tests to ensure its accuracy.

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, 1987. The contribution rate determined 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

THE Wyatt COMPANY

INTRODUCTION

For many years, the State contribution to the System Trust Fund has been based on projected benefit payments (payout). For FY 1987, regular State appropriations were made at a level of 60% of the System Trust Fund projected payout.

The System Trust Fund receives contributions from a number of sources which can be considered as employer contributions, with the largest source being the regular State appropriation. During FY 1987, the System Trust Fund received the fourth payment of the five-year repayment of funding reductions made in FY 1983. The System Trust Fund also received an appropriation from the State Pension Fund.

Annually, the System's actuarial consultants perform a valuation of the liabilities and reserves of the System Trust Fund make an annual determination of the amount of contributions required from the State and certify these results to the Board.

The Board, in turn, has the duty of certifying a rate of contribution, based upon employees' compensation, required to be paid to the System during the succeeding fiscal year. The employers' contribution amount, together with members' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Article 14-131 of the Illinois Revised Statues. The statutes define "actuarial reserves" as "An accumulation of funds in advance of benefit payments which will be sufficient with respect to each member and his beneficiaries, if any, to pay the prescribed benefits, computed according to the actuarial tables, without further contributions by or on behalf of the member."

The statutes do not specify any particular funding method to be utilized by the System nor is the amortization period to be used for prior unfunded service costs specified in the law.

The Board reviews and evaluates several alternative contribution rates, supplied by the System's actuary, for use as the current fiscal year employer contribution rate. Upon completion of this review, the Board certifies an employer contribution rate for all State agencies.

Based upon the State's funding method described above, the System, in recent years, has not received the minimum actuarially determined employer contribution amount.

The underfunding of employer contributions places undue pressure on one of the other major sources of revenue to the System, namely income from investments, to consistently provide an increasing percentage of total fund review. In recent years, the higher than assumed rate of return on investments distorts the fact that, employer contributions have not kept pace with prior, current and future estimated benefit costs. This situation must be resolved in the near future if the integrity of the System is to be maintained.

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-87 and FY-86 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.

Age	Rate Males	Rate Females	Age	Rate Males	Rate Females
20	.605	.397	40	.064	.076
25	.178	.164	45	.054	.061
30	.112	.116	50	.044	.048
35	.077	.092	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-87	FY-86
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$1,226,301,019	$1,087,426,874
Survivor Annuities	152,461,276	144,097,052
Disability Annuities	60,260,875	62,371,693
Deferred:		
Retirement Annuities	956,024	1,303,084
Survivor Annuities	5,228,433	4,664,094
Total	$1,445,207,627	$1,299,862,797
For Inactive Members:		
+ Eligible for Deferred Vested Pension Benefits	51,830,170	54,524,385
Eligible for Return of Contributions Only	6,344,548	6,913,155
Total	$ 58,174,718	$ 61,437,540
+ For Active Members:	$1,914,526,599	$1,800,910,422
= Total	$3,417,908,944	$3,162,210,759
− Assets, Book Value (Cost)	$2,225,883,146	$1,974,094,683
= Unfunded Actuarial Liability	$1,192,025,798	$1,188,116,076

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 the liabilities for future benefits to present retired lives (liability 2) should generally be covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) should be 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 its liability 3 fully funded.

The State of Illinois, however, has funded the System based on benefit payout, a level which increases over time reflecting a larger work force and higher salary levels. Consequently, it can be expected that a percentage of liability 3 has been funded to date. It should also be noted that the improvement reflected in FY-87 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 Retirees 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)
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
1987	644,749	1,445,208	1,327,952	2,225,883	100.0	100.0	10.2

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-87 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
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%
1987	3,417,909	2,225,883	65.1%	1,192,027	1,825,196	65%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-87	FY-86
Unfunded Liability Beginning of FY	$1,188,116,076	$1,161,380,170
Contributions Due		
Interest on the Unfunded Liability	95,049,286	92,908,595
Total Normal Cost	154,242,862	146,543,418
Interest on Normal Cost	12,339,429	11,723,473
Total Due	$ 261,631,577	$ 251,175,486
Contributions Paid		
Participants	$ 90,096,279	$ 83,555,232
Employing State Agencies	109,559,940	100,083,693
State Pension Fund	7,832,610	2,130,000
Interest on Contributions		8,059,927
Total Paid	$ 207,488,829	$ 193,828,852
Increase in the Unfunded Liability	54,142,748	57,346,634
Actuarial (Gains) Losses		
From Investment Return (Greater) Lesser Than 8%	+ (68,026,803)	(103,591,020)
From Salary Increases (Greater) Lesser Than 6½%	21,918,010	20,899,880
From Other Sources	(13,581,722)	52,080,412
Total Actuarial (Gains) Losses	$ (59,690,515)	$ (30,610,728)
(Decrease) Due to Change in Method of Reporting Salaries	+ (18,576,211)	—
Plan Amendments	+ 28,033,700	—
Total Increase in Actuarial Liability	= 3,909,722	26,735,906
Unfunded Liability End of FY	$1,192,025,798	$1,188,116,076

ANALYSIS OF FINANCIAL EXPERIENCE

Gains and losses in Actuarial Liability for Fiscal Year ending June 30, 1987.

Activity	Gain (Loss)
1. Actuarial Gains and Losses	
(a) Age & Service Retirements	$13,711,529
(b) Incidence of Disability	(952,458)
(c) In-Service Mortality	(4,016,378)
(d) Retiree Mortality	1,997,299
(e) Disabled Mortality	47,745
(f) Termination of Employment	(4,684,310)
(g) Salary Increases	(21,918,010)
(h) Investment Income	68,026,803
(i) Other	7,478,295
Total Actuarial Gain (Loss)	$59,690,515
+	
2. Contribution Income	($54,142,748)
+	
3. Non Recurring Items	
(a) Plan amendments (HB2630)	($28,033,700)
(b) Change in method of reporting salaries	18,576,211
=	
4. Total Financial Gain (Loss)	($ 3,909,722)

INVESTMENT SECTION

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment. Th Board was created in 1969 to provide a means of centralizing the investment management function fo public employee pension funds and retirement systems operating in the state. At the end of the fisca year, in addition to the assets of the State Employees' Retirement System, the Board also managed th investment function for the Judges and General Assembly Retirement Systems. As of June 30, 1987 total assets under management values at market amounted to 2.597 billion. Of the total assets unde management, 2.417 billion or 93% represented assets of the State Employees' Retirement System.

Management Approach

The Fund is managed by the Illinois State Board of Investment, in accordance with the "prudent persor rule" as adopted by the Illinois General Assembly in 1982. The Board has established a long-range invest ment policy which, in line with the prudent person rule, affirms that the Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the Fund, withir prudent risk parameters. Further, it is the Board's philosophy that the assets owned by the participating systems and managed by the Board are held for the exclusive purpose of providing benefits to the partici pants and 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 con sidered by many to be the single most important factor in pension investment management. The three major assets classes are: bonds, equitites and cash; with smaller positions being allocated to real estate venture capital and other alternative investments.

Total Fund Results

Over the last five fiscal years, there has been an increase in the total market value of the ISBI Commingled Fund amounting to $1.5 billion. However, only $119.8 million represent new contributions from the member systems during that same period. The balance of the increase has resulted from net apprecia tion of assets and realized yield on investments. During this five year period, the annualized compounded rate of return was 17.7%, which is substantially greater than the income assumptions established by the System Trust Fund.

Nonetheless, fiscal year 1987 was a disappointing year. Although the System Trust Fund assets a market value increased by $223 million, of which $26.0 million represented new contributions, the rate of return was 8.8%; despite continuation of the bull market for equities and a relatively strong bond mar ket. Due in part to the ISBI Commingled Fund receiving a lower level of new contributions from the System Trust Fund, the ISBI adopted certain defensive investment strategies. Among those strategies was the emphasis on "value" selection of equities through the engagement of external value-oriented managers and a larger allocation of internally managed investments. As a result, the ISBI Commingled Fund's equity portfolio underperformed the S&P 500 Index.

Fixed Income Results

Bonds include all fixed income securities having a maturity of one year or longer, but excludes con vertible bonds which have historically been classified as equities by the ISBI. The commitment to this sector of the market dropped slightly from 40.9% in fiscal year 1986 to 37.8% at the end of fiscal year 1987. Most of this decrease can be attributed to the rise in the overall portfolio value and a declining bond market in the last six months of fiscal year 1987, rather than a conscious decision to reduce the amount of fixed income securities. The bond performance for this fiscal year was 5.7%. This was a 10(basis point increase over the Shearson Lehman Government/Corporate Bond Index for the same period While this was a marked drop from the 17.9% return for the previous year, it was positive on both ar absolute and relative basis. The longer term results from bonds are:

	1 year	3 year	5 year
ISBI	5.7%	18.5%	17.7%
Shearson Lehman G/C	4.7%	17.6%	16.4%

Equity Results

The equity portion of the ISBI Commingled Fund, which consists of common and preferred stocks and convertible bonds, closed the year at 43.5% of total portfolio. This was down slightly from the previous year end and is the result of the ISBI decision to move a portion of the ISBI Commingled Fund from equities to cash and by some of the external managers increasing their respective cash positions.

ISBI Commingled Fund's equities are managed both by internal and external managers. The ISBI, two years ago, selected the value and growth disciplines within the equity field and implemented it with both internal and external management. Currently there are three external growth portfolios and one internal. On the value side there are seven externally managed portfolios as well as one internal. In March of this year, the ISBI expanded the value side by adding Templeton Asset Management. The directive given to this firm is to manage a global portfolio within the confines of a value discipline.

The return provided from the equities, while positive, was low in comparison with the extraordinary rise in the stock market. Growth and the small capitalization issues in the portfolio suffered from a poor market during the first half of the fiscal year.

The overall results for equities in fiscal year 1987 was 14.4%, as opposed to the S&P 500 return of 25.1%. The results for the longer term are:

	1 year	3 year	5 year
ISBI	14.4%	20.3%	19.7%
S&P 500	25.1%	28.9%	26.9%

Real Estate and Venture Capital

The initial commitment to real estate was made in 1981 through an investment in an open-end fund managed by Aetna. In 1983, additional investments were made in closed-end funds managed by JMB Institutional Reality, Heitman Financial and First Chicago Investment Advisors. More recently, specialty real estate funds have been added through the movement of assets from the open-end real estate fund to the specialty advisors; namely Public Storage Institutional Fund and Aetna Apartment Development Fund. The total allocation to real estate as of the close of fiscal year 1987 was 6.7% of total assets. The ISBI believes that a real estate component in the portfolio serves to reduce total portfolio volatility, increase diversification and act as a hedge against inflation. Total returns on the real estate funds ranged from 8% to 12% over the past year.

Over the past three years, the ISBI has made commitments to venture capital and leveraged buy-out funds. These areas remain a small part of the portfolio; funding being slightly over 1% of the total assets with unfunded commitments equal to 3%. While none of these investments have been outstanding for a sufficient time to produce a meaningful measure of results, early indications are extremely promising.

Management Expense

For this fiscal year, the ISBI operating expenses were $5,023,977, as compared to $3,726,592, for the past year. The major expenses are investment management fees which are tied to the value of the assets under management. The expense ratio (expense versus the assets under management) remained the same 2/10ths of 1%, which is below the norm for funds of their size. The State Employees Retirement System's share to total operating expenses amounted to $4,673,492.

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, 1987. 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, 1987 Market Value	Percentage	June 30, 1986 Market Value	Percentage
Bonds	$ 981,127,321	37.8%	$ 965,704,758	40.9%
Equities	1,128,660,275	43.5	1,084,667,696	46.0
Cash	265,296,427	10.2	128,276,246	5.4
Real Estate	175,289,410	6.7	157,627,377	6.7
Venture Capital	27,509,451	1.1	15,478,054	0.7
	$2,577,882,884	99.3	$2,351,754,131	99.7
Other assets, less liabilities	19,124,773	.7	8,021,634	.3
Net assets at market value	$2,597,007,657*	100.0	$2,359,775,765*	100.0
Net assets, at cost	$2,376,677,864*		$2,108,047,367*	

* 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 1987 were $2,416,626,806 and $2,211,906,317, respectively. For fiscal year 1986 the market and cost values were $2,193,519,253 and $1,959,702,313, respectively.

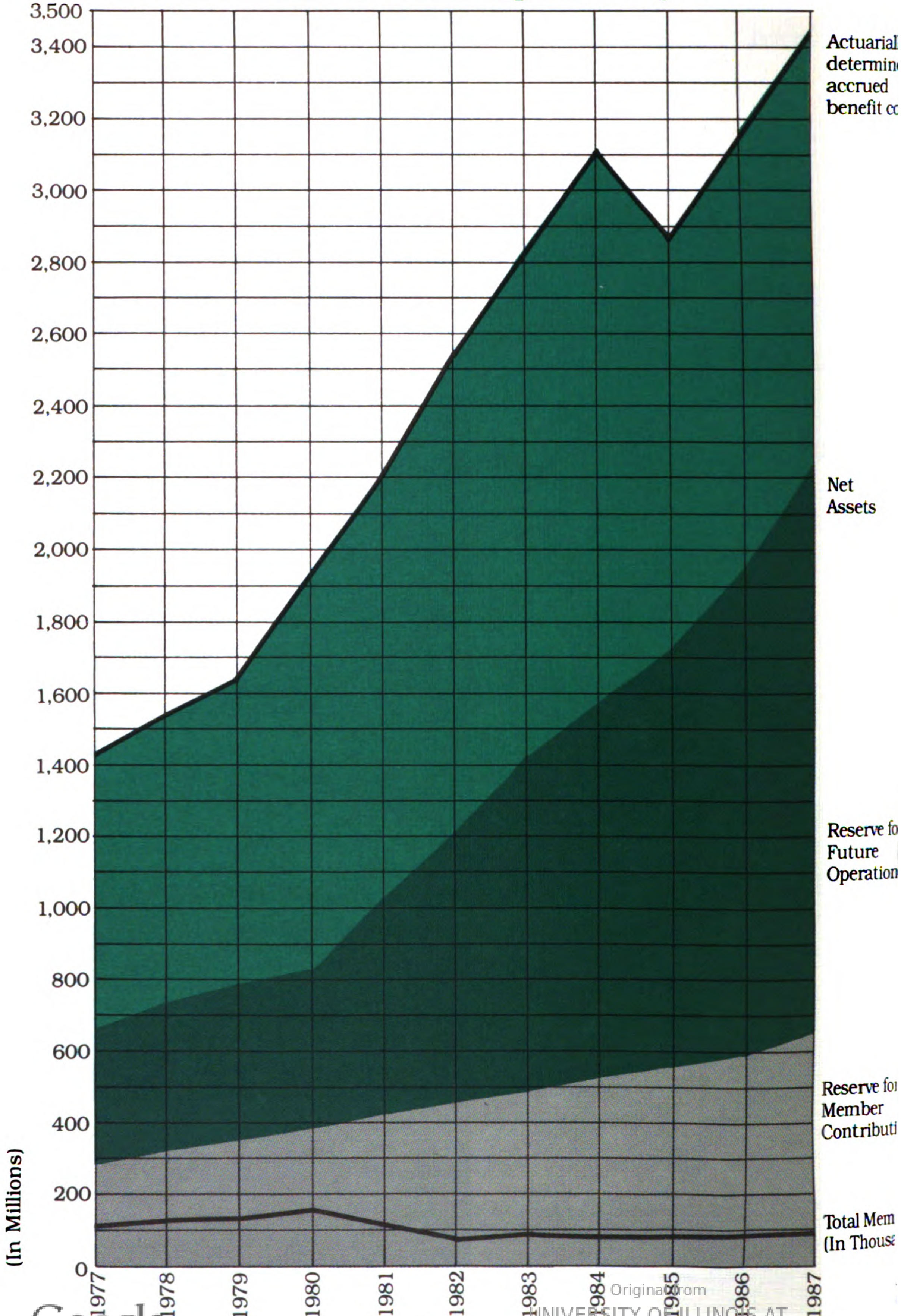
ANALYSIS OF INVESTMENT PERFORMANCE

	1987	1986	1985	1984	1983
Total Return* - Past 3 years		18.2%			
Total Return* - Past 5 years	[redacted]				
Total Return* - year by year	8.8%	24.6%	22.0%	(5.2)%	44.1%
Actuarial Assumed Rate of Return		8.0%		[redacted]	
Average Net Income Yield*	5.3	6.4	7.3	7.3	7.7
Comparative rates of return on fixed income securities					
Total fixed income-ISBI	5.7	17.9	34.9	(0.7)	37.2
Comparison index: Shearson Lehman Government/ Corporate Bond Index	4.7	20.6	28.7	1.8	29.1
Comparative rates of return on equities					
Total equities-ISBI	14.4	36.5	15.8	(12.9)	62.0
Comparison index: S & P 500	25.1	35.7	30.7	(4.7)	61.6

*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
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
1987..	5,977,771	10,189,788	2,211,906,317		168,785	2,228,242,661

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

ALANCE SHEET LIABILITIES — SYSTEM TRUST FUND

FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Future Operations	Total
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
1987	2,359,515	644,749,034	1,581,134,112	2,228,242,661

EVENUES BY SOURCE — SYSTEM TRUST FUND*

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Total
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
1987	90,096,279	109,559,940	226,929,603	426,585,822

*These amounts do not include the General Revenue Fund appropriation for the administrative expenses of the Contribution Fund.

EXPENSES BY TYPE – SYSTEM TRUST FUND*

FY Ended June 30	Benefits	Contribution Refunds	Administrative Expenses	Other Expenses**	Total
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
1987	159,614,328	12,182,099	3,000,932		174,797,359

* These amounts do not include the General Revenue Fund appropriations for the administrative expenses of the Contribution Fund.

** 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.

BENEFIT EXPENSES BY TYPE – SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors Annuities	Disability Benefits	Lump Sum Death Benefits	Total
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
1987	119,758,023	18,955,079	14,521,296	6,379,930	159,614,328

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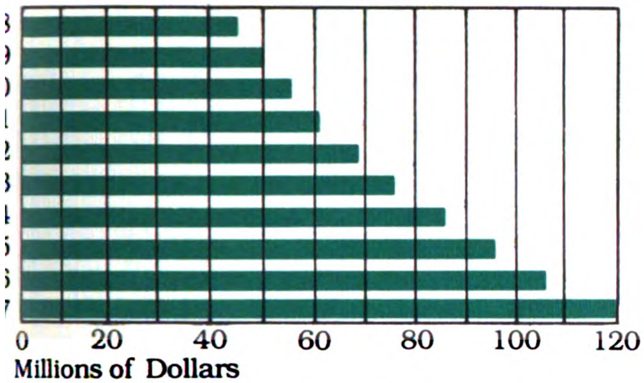

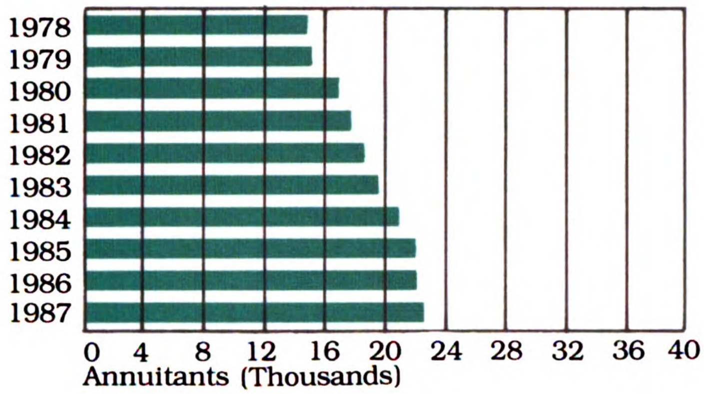

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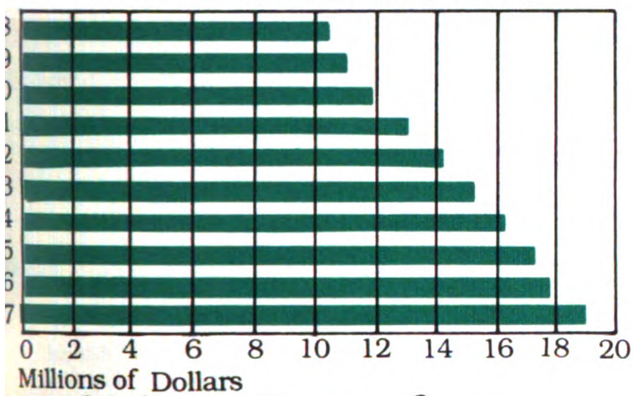

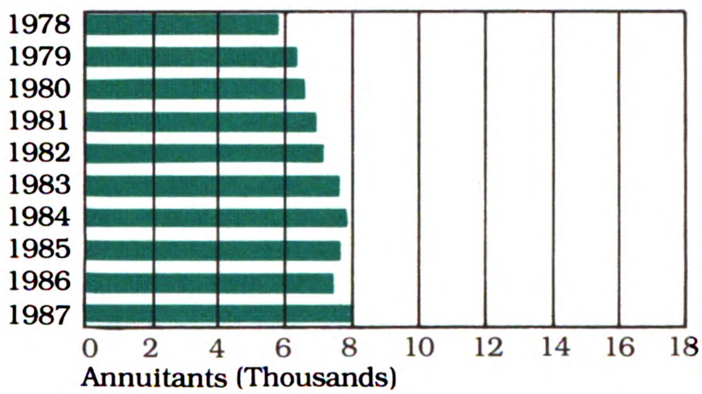

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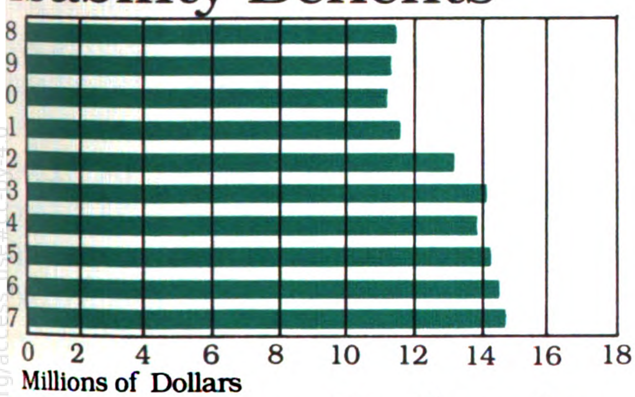

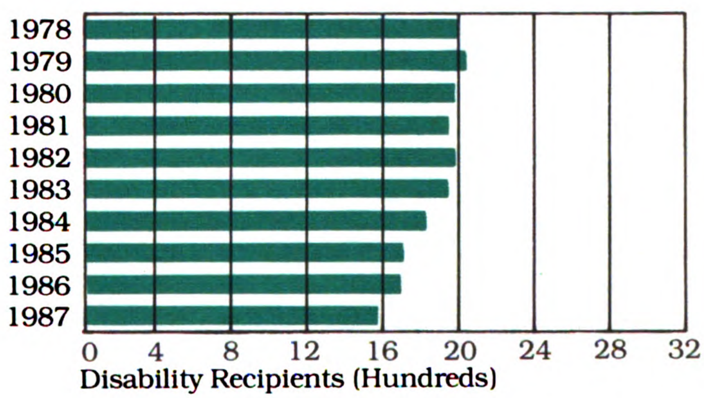

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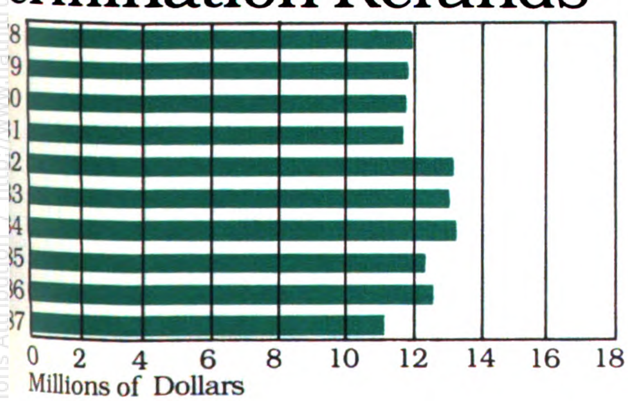
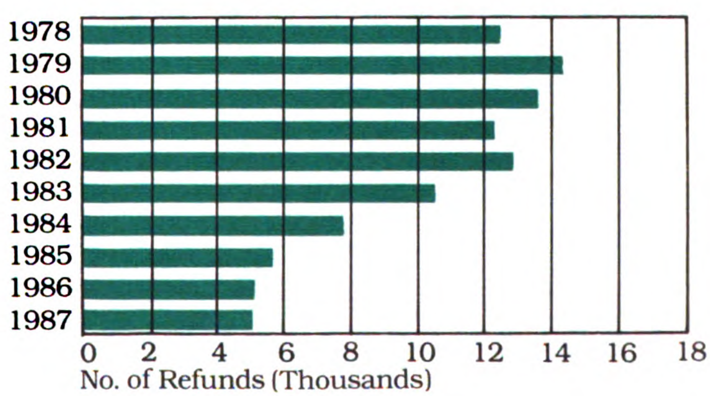




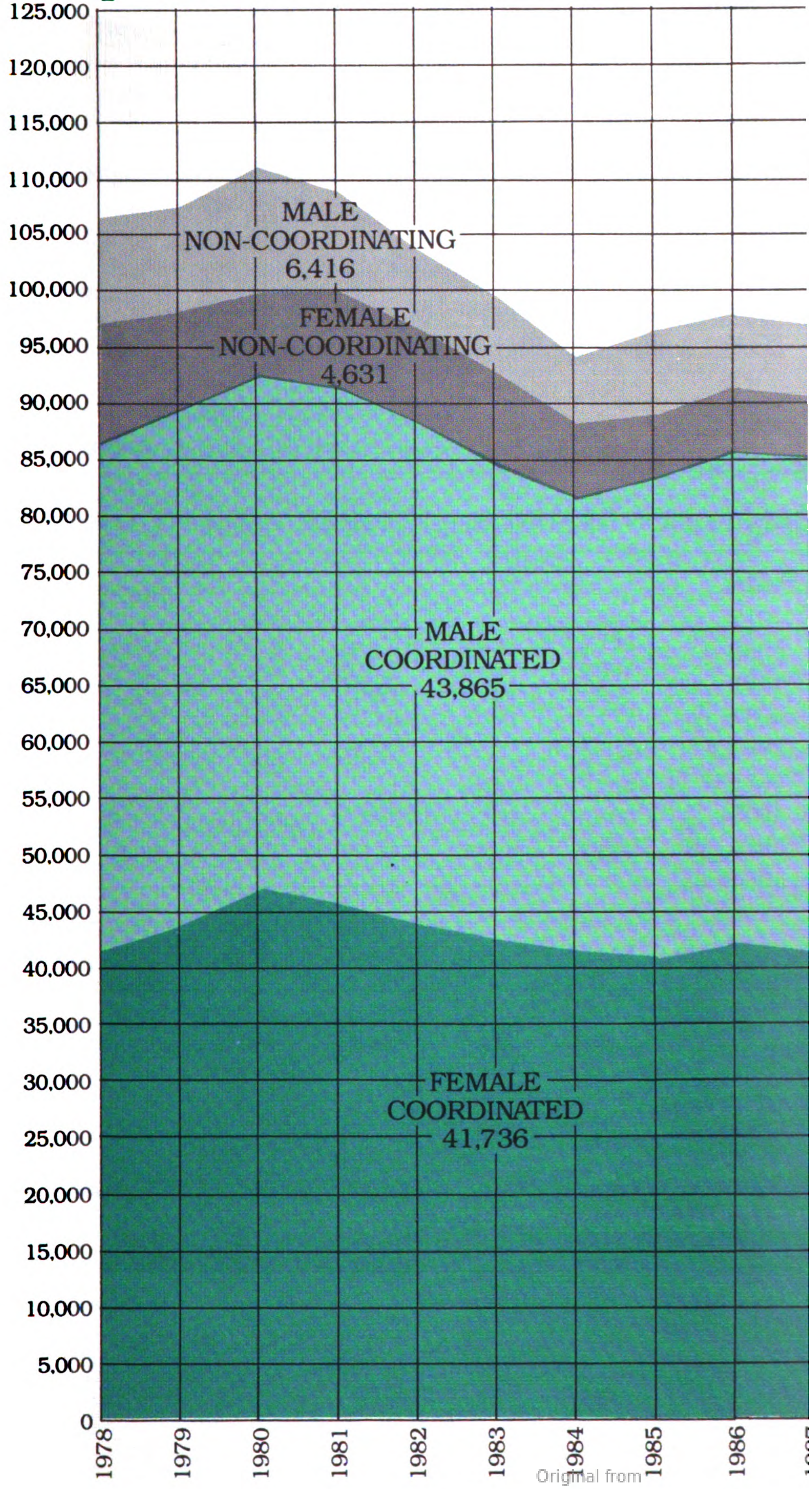
TOTAL MEMBERSHIP – COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS Male	Female	Total	NONCOORDINATED MEMBERS Male	Female	Total	Total Male Members	Total Female Members	Total Members
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
1987......	43,865	41,736	85,601	6,416	4,631	11,047	50,281	46,367	96,648

ACTIVE MEMBERSHIP – COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS Male	Female	Total	NONCOORDINATED MEMBERS Male	Female	Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
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
1987 ..	32,294	32,270	64,564	5,924	4,244	10,168	38,218	36,514	74,732	1,825,196,000

Total Membership- Coordinated/Noncoordinated



NUMBER OF RECURRING BENEFIT PAYMENTS — SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors Annuities	Disability* Benefits	Total
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
1987	22,529	8,015	1,577	32,121

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

TERMINATION REFUNDS — NUMBER/AMOUNT — SYSTEM TRUST FUND

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
1987	4,930	11,192,197

ETIREMENT ANNUITIES — SYSTEM TRUST FUND
verage Monthly Benefit By Type

	Fiscal Year Ending June 30				
	1987	1986	1985	1984	1983
Not Coordinated with Social Security	$ 830.86	$ 803.52	$ 693.20	$ 664.83	$ 572.37
Coordinated with Social Security	325.96	300.00	274.50	260.98	218.72
Alternative Formula	2,134.07	1,973.15	1,755.84	1,530.09	1,377.72
Dept. of Corrections — Special Formula — Not Coordinated with Social Security	1,126.09	1,273.90	932.42	745.38	722.89
Dept. of Corrections — Special Formula — Coordinated with Social Security	993.61	845.20	429.15	283.50	300.00
Total Average	$ 645.71	$ 600.68	$ 544.61	$ 521.15	$ 449.52

ETIREMENT ANNUITIES — SYSTEM TRUST FUND
urrent Age of Active Recipients

	Fiscal Year Ending June 30				
Age	1987	1986	1985	1984	1983
Under 51	6	13	5	3	1
51-55	189	166	146	118	70
56-60	714	666	436	411	357
61-65	3,623	3,549	3,064	2,898	2,775
66-70	5,522	5,468	5,343	5,378	5,337
71-75	5,508	5,393	5,382	5,124	4,904
76-80	3,839	3,596	3,558	3,363	3,112
81-85	1,974	1,853	1,896	1,778	1,739
86-89	754	688	728	720	675
Over 89	400	379	411	364	336
Total	22,529	21,771	20,969	20,157	19,306
Average age	72.05	71.97	72.45	72.38	72.37

RETIREMENT ANNUITIES — SYSTEM TRUST FUND
verage Service (in months) at Effective Date of Benefit

	Fiscal Year Ending June 30				
	1987	1986	1985	1984	1983
Not Coordinated with Social Security	306.72	310.73	298.34	293.96	274.58
Coordinated with Social Security	194.84	191.48	184.97	180.19	171.48
Alternative Formula	342.90	330.02	326.40	313.42	297.36
Department of Corrections — Special Formula — Not Coordinated	296.43	332.75	296.73	276.69	279.62
Department of Coorections — Special Formula — Coordinated	261.44	283.84	204.36	177.35	188.32
Total Average	248.60	248.99	242.46	239.52	255.05

PLAN SUMMARY

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 1987)

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. Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate 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 (primarily Central Management Services) -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.	Full Time Security Employees — Dept. of Corrections* Not Under S.S.	Special Formula, i.e., Police and other positions Under S.S.	Special Formula, i.e., Police and other positions 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.

'he maximum pension payable is 75% of final average compensation. The minimum pension payable s $7.50 for each year of covered employment and $15.00 for each year of noncovered employment fter inclusion of increases to which a person is entitled.

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 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 55.

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.

EGISLATIVE AMENDMENTS

nendments with an effective date during fiscal year 1987 having an impact on the System were:

OUSE BILL 2630

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

xcludes from membership any professional licensing or disciplinary board created under an Act adminis-red by the Department of Registration and Education that are compensated on a per diem basis.

) longer requires a member to be in service 60 days prior to retirement to receive service credit for cumulated unused sick leave.

ermitted teachers employed by the Department of Corrections to elect to become members of the State nployees' Retirement System.

stablished a minimum retirement annuity of $7.50 for each year of covered employment and $15.00 r each year of noncovered employment.

nnuitants who began receiving a retirement annuity on or before January 1, 1977 received an increase qual to 8¢ per year of service times the number of years elapsed since the annuity began.

'idows who began receiving a widow's annuity on or before January 1, 1977 received an increase of 1.00 for each full year which had elapsed since the annuity began.

urvivors who began receiving a survivor's annuity on or before January 1, 1977, received an increase of 1.00 for each full year which had elapsed since the annuity began.

ermitted certain police positions to make a special contribution and convert covered employment to non-overed employment for the period between December 31, 1968 and October 1, 1975.

IEW LEGISLATION

here was no new legislation with effective dates subsequent to June 30, 1987, affecting the operation f the System.