STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

COMPONENT UNIT FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1989

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

Letter of Transmittal

Administration, Board of Trustees and Administrative Staff

Certificate of Achievement for Excellence in Financial Reporting

SRS STATE RETIREMENT SYSTEMS

• State Employees' Retirement System of Illinois
• General Assembly Retirement System
• Judges Retirement System of Illinois

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

November 30, 1989

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

Dear Board and Members:

The component unit annual financial report of the State Employees' Retirement System of Illinois for the fiscal year ended June 30, 1989 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal 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 the required supplementary and additional financial information;
3. The Actuarial Section which contains the report of the Actuary as well as the 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 and current legislative changes.

The combined financial statements include the State Employees' Retirement System Trust Fund and the Social Security Contribution Fund, an Agency Fund. Based primarily upon the criteria of financial interdependency and ability to significantly influence operations and accountability for fiscal matters, the System has included the Social Security Contribution Fund in its combined financial statements. Although the State Employees' Retirement System, Judges' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the State Employees' Retirement System do not include balance sheet information nor the results of operations of the General Assembly Retirement System or Judges' Retirement System.

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 $399.8

million during the fiscal year ending June 30, 1989, which is a substantial increase from revenue reported for fiscal year 1988, shown as follows:

	1989 (Millions)	1988 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Retirement System Trust Fund				
Contributions:				
Employees	$101.8	$ 95.9	$ 5.9	6.2%
Employers	98.5	100.0	(1.5)	(1.5)
Investments	199.4	148.8	50.6	34.0
	$399.7	344.7	$55.0	16.0
Social Security Contribution Fund				
General Revenue,				
less balances lapsed	.1	.1	-	0.0
	$399.8	$344.8	$55.0	16.0%

As indicated in the total above, a substantial portion of the total revenue is derived from investment income, including the realization of substantial gains on the sales of investments, during both fiscal years 1989 and 1988.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. The 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 1989 and 1988 are shown for comparison purposes.

	1989 (Millions)	1988 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Retirement System Trust Fund				
Benefits:				
Retirement annuities	$142.7	$132.2	$10.5	7.9%
Survivors' annuities	21.0	20.3	.7	3.4
Disability benefits	14.4	14.7	(.3)	(2.0)
Lump-sum death benefits	7.3	6.4	.9	14.1
	185.4	173.6	11.8	6.8
Refunds	12.5	12.0	.5	4.2
Administrative expenses	3.4	3.2	.2	6.3
	$201.3	$188.8	$12.5	6.6%
Social Security				
Contribution Fund				
Administrative expenses	.1	.1	-	0.0
	$201.4	$188.9	$12.5	6.6%

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, over the years, 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, amounted to $199,452,398 during fiscal year 1989, an increase of $50,650,341 from fiscal year 1988. This reflects the generally upward trend in the financial markets during the last fiscal year. Income from investments represents 49.9% 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, 1989, amounted to $3.752 billion. The fund balances for participant contributions, interest accumulations and other future benefits amounted to $2.580 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 $1.172 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.

ECONOMIC CONDITION AND OUTLOOK

The state's policy on pension funding has been based on variations of the pay-as-you-go approach. From fiscal year 1973 through fiscal year 1981, the state's contribution was approximately equal to 100% of payout (the dollar amount expected to be paid out in benefits each year).

Beginning in fiscal year 1982, however, state appropriations have been less than 100% of payout. In fiscal year 1982, the appropriation fell to 62.5% of payout, while in fiscal year 1983 the appropriation declined to just over 50% of payout. These reductions were due in large part to the state's poor fiscal condition. From fiscal year 1984 to fiscal year 1987, the state's appropriation was approximately 60% of payout. The fiscal year 1988 regular contribution was approximately 48% of payout, and the fiscal year 1989 contribution was approximately 44% of payout.

Financing the retirement benefits that are being earned is one of the most important issues facing the State Employees' Retirement System. Over the years, a number of organizations have stressed the need for sound funding of the System. Considerable progress was made toward this end when, in August, 1989, Governor Thompson signed Senate Bill 95 into law. This Bill provides for the increased funding of the unfunded actuarial liability which has been steadily increasing for the past several years. The amortization period of the unfunded liability was established at 40 years and is scheduled to begin in 1996. In order to defer the cost of a substantial increase in the required employer contributions, a seven-year phase in period was included in the legislation. The seven-year phase in period will be used to increase the amount of contributions from the current contribution level to that level required for the amortization of the unfunded liability over the 40-year period.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure of the financial status of a retirement system because no universally accepted measure of the financial status presently exists. By any reasonable actuarial standard, however, the System's present financial condition must be described as precarious due to the continually increasing dollar level of the unfunded liability. The events in the financial markets during the past several years serve as a constant reminder of the fact that no source of revenue can be guaranteed and that the ultimate responsibility for a sound funding policy and the related liability for contributions rests ultimately with the State of Illinois.

MAJOR INITIATIVES

During the past fiscal year, the System completed work on several large projects designed to provide more timely and accurate information to requesting members and outside agencies. These projects consisted, in part, of the completion of the validation of the active member data base, upgrading of the internal controls over "high risk" accounts, and the development of a new one-day preretirement seminar program for vested state employees between the ages of 30 to 45 years. The new program is intended to complete a full-cycle of retirement seminars aimed at providing information regarding proper retirement planning, post retirement health care, and new lifestyles, among other issues.

The increased emphasis on producing information on a timely basis is reflected in the System's effort to install a computer network, whereby operating divisions of the System can share certain data maintained by the Office of the State Comptroller. The selection and installation of software for the System's personal computers has also greatly enhanced the flexibility and timeliness of many internally generated reports.

The System is continuing progress toward construction of a new office facility. The building is scheduled to be completed in June, 1990 and has been budgeted to cost $4.0 million.

Projects for fiscal year 1990 include creation of a database for the Field Services Division, an annual statement to benefit recipients, automation of the group insurance direct premium payment processing, and the automation of the System's commercial vouchering process. An updated general information booklet is also scheduled which will include the impact of legislation passed during the 86th General Assembly.

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 accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the State Employees' Retirement Trust Fund. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. The administrative expenses of the Social Security Contribution Fund are appropriated annually by the Illinois State Legislature and included in the financial statements of the System's Trust Fund. The Contribution Fund uses the modified accrual basis of accounting. The State Employees' Retirement System also uses the State of Illinois, Comptroller's Uniform Statewide Accounting System (CUSAS) as a basis for the preparation of the financial statements. 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. 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 (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, 1988. This was the third consecutive year that the System has received this prestigious award. In order to be awarded this certificate, a governmental unit must publish an easily readable and efficiently organized component unit financial report, in which the 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 the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibilty for another certificate.

ACKNOWLEDGEMENTS AND COMMENTS

On a sad note, Mrs. Penni Schmulbach, Supervisor of the System's Pension and Deaths Benefit Section and longtime employee of the System, passed away. She will be remembered for her dedication to her job and devotion to the System's membership.

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 a means for determining responsible stewardship for the assets contributed by the members in the State of Illinois.

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

Respectfully submitted,

Michael L. Mory
Executive Secretary

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

Alice Kirby
Representing Roland W. Burris
Comptroller

Kenneth Obrecht
Chairman, Appointed
by the Governor

William Ledbetter
Representing Robert L. Mandeville
Director, Bureau of the Budget

/ne Chambers
Annuitant
d by the Governor

Joseph T. Pisano
State Employee
Appointed by the Governor

Doris M. Clark
Elected Annuitant

Dennis Patrick
Elected State
Employee

Illinois State Board of Investment

nternal and External ıvestment Managers

Board of Trustees

Consultants

Medical Consultants

Actuary

Certified Public Accountants

Staff

Executive Secretary
Michael L. Mory

Internal Auditor
Terry E. Radliff

Associate Executive Secretary
Robert V. Knox

Accounting and Social Security Divisions
Nicholas C. Merrill, Jr.

Administrative Services Division
William T. Weir

Chicago Division
Barbara J. C. Baird

Claims Division
Patrick P. Cummings

Data Processing Division
James J. Spears

Field Services Division
John A. Sowinski

Service and Refunds Division
Joseph S. Maggio

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, 1988

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) achieve the highest standards in government accounting and financial reporting.

President

Jeffrey L. Esser
Executive Director

Financial Section

Independent Auditors' Report
Financial Statements
Required Supplementary Information
Supplementary Financial Information
Additional Financial Information

ARTHUR ANDERSEN & CO.

CHICAGO, ILLINOIS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Honorable Robert G. Cronson
Auditor General
State of Illinois

Board of Trustees
State Employees' Retirement
System of Illinois

We have audited, as Special Assistant Auditors for the Auditor General, the accompanying combined balance sheets of the STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS as of June 30, 1989 and 1988, and the related statements of revenue, expenses and changes in fund balance and changes in financial position for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Employees' Retirement System of Illinois as of June 30, 1989 and 1988, 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.

As explained in Note 4(f) to the financial statements, effective July 1, 1988, the System changed its method of accounting for the actuarially determined accrued benefit cost.

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

Arthur Andersen & Co.
ARTHUR ANDERSEN & CO.

October 20, 1989

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Combined Balance Sheets • June 30, 1989 and 1988

	1989	1988
Assets		
Cash	$ 9,730,385	$ 9,893,839
Cash, restricted for Social Security remittances	2,937,582	2,252,064
Receivables:		
Contributions receivable:		
Participants	4,029,512	3,937,685
Employing state agencies	2,369,165	2,454,280
Other accounts receivable	649,028	539,128
	$ 7,047,705	$ 6,931,093
Investments - held in the Illinois State Board of Investment Commingled Fund at cost (Market value: 1989, $2,841,895,943 1988, $2,485,230,297) (Note 4)	2,565,152,803	2,367,063,722
Property and equipment, net of accumulated depreciation (Notes 9 and 12)	1,103,973	823,484
Total Assets	$2,585,972,448	$2,386,964,202
Liabilities and Fund Balance		
Benefits payable	$ 1,316,173	$ 1,476,752
Refunds payable	210,298	375,069
Administrative expenses payable (Note 8)	592,389	409,660
Participants' deferred service credit accounts	717,160	644,591
Unremitted Social Security contributions	2,297,725	1,822,858
Amounts held for Social Security remittances	639,857	429,206
Total Liabilities	$ 5,773,602	$ 5,158,136
Fund Balance		
Actuarially determined accrued benefit cost (Notes 4 and 6)	3,752,134,283	3,641,579,030
Less unfunded accrued benefit cost representing an obligation of the State of Illinois	1,171,935,437	1,259,772,964
Total Fund Balance (Note 13)	$ 2,580,198,846	$ 2,381,806,066
Total Liabilities and Fund Balance	$2,585,972,448	$2,386,964,202

See accompanying notes to financial statements.

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, 1989 and 1988

	1989	1988
Revenue:		
Contributions:		
Participants	$ 101,805,417	$ 95,928,239
Employing State agencies and appropriations	98,471,993	99,990,922
Total Contributions revenue	200,277,410	195,919,161
Investments:		
Net investments income	144,158,970	132,301,594
Interest earned on cash balances	1,363,317	644,652
Net realized gain on sale of investments	53,930,111	15,855,811
Total Investments revenue	199,452,398	148,802,057
	399,729,808	344,721,218
General Revenue Fund appropriations, less balances lapsed	97,958	127,288
Total Revenue	399,827,766	344,848,506
Expenses:		
Benefits:		
Retirement annuities	142,706,550	132,265,411
Survivors' annuities	20,987,489	20,319,659
Disability benefits	14,379,147	14,660,199
Lump-sum death benefits	7,281,117	6,399,280
	185,354,303	173,644,549
Refunds	12,553,535	11,983,814
Administrative expense, System Trust Fund (Note 8)	3,380,170	3,169,935
Transfers to reciprocating retirement systems	49,020	-
	201,337,028	188,798,298
Administrative expense, Contribution Fund (Note 8)	97,958	127,288
Total Expenses	201,434,986	188,925,586
Excess of revenue over expenses	$ 198,392,780	$ 155,922,920
Fund Balance at beginning of year	2,381,806,066	2,225,883,146
Fund Balance at end of year	$ 2,580,198,846	$ 2,381,806,066

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

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

Years ended June 30, 1989 and 1988

	1989	1988
Sources of working capital:		
Working capital provided by operations — excess of revenue over expenses	$ 198,392,780	$ 155,922,920
Add (Deduct) items not providing working capital —		
net realized (gain) on sale of investments	(53,930,111)	(15,855,811)
reinvested earnings	(144,158,970)	(132,301,594)
Depreciation expense	72,765	51,354
Other	1,795	7,070
Total sources of working capital	378,259	7,823,939
Uses of working capital:		
Amounts transmitted by SERS for investment purchases (net)	0	7,000,000
Additions to fixed assets	355,050	713,123
Total uses of working capital	355,050	7,713,123
Net increase in working capital	$ 23,209	$ 110,816
Elements of net increase in working capital:		
Cash	$ (163,454)	$ 3,916,068
Receivables	116,612	(3,258,695)
Benefits payable	160,579	(331,755)
Refunds payable	164,770	(151,751)
Administrative expenses payable	(182,729)	1,710
Participants' deferred service credit accounts	(72,569)	(64,761)
Net increase in working capital	$ 23,209	$ 110,816

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 1989 and 1988

(1) Reporting Entity

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

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

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

(2) Plan Description

The System is the administrator of a single-employer public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its employees. At June 30, 1989 and 1988, the number of participating state agencies, boards and commissions totalled:

	1989	1988
State agencies	41	42
State boards and commissions	46	46
Total	87	88

At June 30, 1989 and 1988, the System Trust Fund membership consisted of:

	1989	1988
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	23,572	23,038
Survivors' annuities	8,499	8,296
Disability benefits	1,458	1,536
	33,529	32,870
Inactive employees entitled to benefits but not yet receiving them	2,174	2,262
Total	35,703	35,132
Current Employees:		
Vested:		
Coordinated with Social Security	35,930	34,901
Noncoordinated	8,099	8,652
Nonvested:		
Coordinated with Social Security	31,459	30,236
Noncoordinated	1,163	1,134
Total	76,651	74,923

Operation of the System Trust Fund and the direction of its policies are the responsibility of the Board 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 of removal 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 to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' 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 contributions 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 an accrual basis. This funding is the result of reduced appropriations to the System for the year ended June 30, 1983. The amount of the reduction in that period amounted to $11,000,000. The state agreed to repay the under appropriation and interest at the rate of six percent over the succeeding five fiscal years. The System not record the unpaid amounts as an asset because repayment in any given year is subject to state appropriation of funds, which is subject to numerous conditions. Consequently, repayment of principal and interest are recognized in the current year once the legislature has approved an amount to be provided to the System Trust Fund. Final payment of the under funding was recognized as revenue in FY-88.

(b) Method Used to Value Investments

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

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

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

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

The System Trust Fund transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The agent of the master custodian is Depository Trust Company.

The ISBI Board participates in a securites lending program whereby securities are loaned to brokers and, in return, the ISBI Board receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1989 and 1988, the ISBI Board had outstanding loaned investment securities having a market value of approximately $148,865,699 and $181,214,000, respectively, against which it had received collateral of approximately $151,843,013 and $188,263,000, respectively.

The System Trust Fund owns 93.2% of the ISBI Commingled Fund as of June 30, 1989.

Listed below are the ISBI investments, as categorized in the ISBI annual financial report. They are categorized to indicate the level of risk assumed by the ISBI Board at year end. Category I includes investments that are insured or registered or for which the securities are held by the master custodian in the ISBI Board's name. Category II includes uninsured and unregistered investments for which the securities are held by the master custodian in the ISBI Board's name. Category III includes uninsured and unregistered investments for which the securities are held by an agent of the master custodian but not in the ISBI Board's name.

	Category I	Category II	Category III	Cost	Market Value
U.S. Government Obligations	$ 339,753,884			$ 339,753,884	$ 353,336,657
Foreign Obligations	22,735,960			22,735,960	24,618,841
Corporate Obligations	590,622,601			590,622,601	626,270,488
Convertible Bonds	111,089,097			111,089,097	117,721,836
Common Stock & Equity Fund	986,535,992			986,535,992	1,140,800,556
Convertible Preferred Stock	32,671,322			32,671,322	31,196,660
Preferred Stock	18,417,967			18,417,967	17,168,947
Money Market Instruments	295,027,112		$ 4,307,882	299,334,994	299,334,994
SUBTOTAL	$2,396,853,935	$ 0	$ 4,307,882	$ 2,401,161,817	$2,610,448,979
Real Estate Pooled Funds				221,688,329	289,133,658
Venture Capital				84,210,543	104,600,570
TOTAL				$2,707,060,689	$ 3,004,183,207

(c) Fixed Assets

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

(d) Actuarial Experience Review

In accordance with Illinois Revised Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was performed as of June 30, 1985.

(e) Administrative Expenses

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

(f) Change in Accounting Principle

The System's Board of Trustees adopted the projected unit credit actuarial cost method for the fiscal year 1989 annual valuation. In prior years, the primary actuarial funding method used was entry age normal. The change in accounting principle from the entry age normal cost method to the projected unit credit cost method had the effect of reducing the actuarially determined accrued benefit cost and the related unfunded accrued benefit cost by approximately $200 million.

(g) 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.

At June 30, 1989 and 1988, the unfunded pension benefit obligation was $1,171,935,437 and $1,108,849,603 as follows:

	1989	1988
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	$ 1,653,880,384	$ 1,546,828,161
Terminated employees not yet receiving benefits	14,003,475	14,605,254
Current Employees:		
Accumulated employee contributions	1,073,289,313	947,077,130
Employer-financed vested	918,189,370	886,198,521
Employer-financed nonvested	46,044,776	50,132,422
Inactive members — Accumulated contributions	46,726,965	45,814,181
Total Pension benefit obligation	$ 3,752,134,283	$3,490,655,669
Net assets available for benefits, at cost	2,580,198,846	2,381,806,066
(market value at June 30, 1989 $2,856,941,986; 1988 $2,499,972,641)		
Unfunded pension benefit obligation	$ 1,171,935,437	*$ 1,108,849,603

*The unfunded accrued benefit cost representing an obligation of the State of Illinois for Fiscal year 1988 shown on the combined balance sheet has been determined on the actuarial basis of entry age normal described in Note 6.

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, 1989. 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 increase of 6½ 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 in 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.

(6)Contributions Required and Contributions Made

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

The actuarial consultants submit several alternative cost methods with various amortization periods for the unfunded prior costs to the Board. Each of these alternatives are considered an acceptable cost or funding method. These alternatives are presented to the Board as a result of the state's long standing funding policy described below. Employer contributions are expressed as a percentage of annual covered payroll. The Board evaluates the alternatives and certifies a contribution rate within the range of alternatives. This rate is then used as the "actuarial required contribution" rate. For fiscal years 1989 and 1988, the Board certified actuarial required contribution rates were 6.3% and 7.24%, respectively.

The Illinois State Legislature has followed a funding policy of appropriating funds based upon a percentage of benefit payout for those agencies which receive appropriated monies. The appropriated employer contribution rate for the legislatively funded agencies was 4.4% for fiscal year 1989 and 4.8% for fiscal year 1988.

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

It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the rate certified by the Board of Trustees. See Note 14 of the financial statements.

Based upon the Board certified rate of 6.3%, the total amount of employer contributions required for the fiscal year ended June 30, 1989 amounted to $132,685,623. The total amount of employer contributions made was $98,471,993, thereby resulting in an under funding of $34,213,630.

Schedule of Contributions Required and Contributions Made
(in thousands)

	1989	1988	1987	1986	1985
Covered Payroll	$ 2,106,121	$ 1,953,960	$ 1,825,196	$ 1,713,755	$ 1,569,532
Employer Contributions	98,472	99,991	109,560	102,214	94,457
Actual Employer Contribution %	4.68%	5.12%	6.00%	5.96%	6.01%
Board of Trustees Recommended Contribution %	6.3%	7.24%	8.4%	7.532%	*8.09%

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

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

(7)Historical Trend Information

Historical trend information designed to provide information about the System Trust Fund's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 24-25.

(8)Administrative Expenses

A summary of the administrative expenses for the State Employees' Retirement System fiscal years 1989 and 1988 is as follows:

	1989		1988	
	System Trust Fund	Contribution Fund	System Trust Fund	Contribution Fund
Personal services	$1,600,269	$57,936	$1,431,770	$88,373
Retirement contributions	101,429	2,900	104,458	4,400
Social Security contributions	101,979	4,238	88,966	5,703
Group insurance	74,031	-	57,000	-
Contractual services	666,243	24,006	720,398	21,006
Travel	34,880	2,235	38,745	1,790
Printing	40,051	-	39,323	-
Commodities	18,353	1,166	22,205	398
Telecommunications	37,653	2,944	34,224	2,797
Electronic Data Processing	566,453	2,533	525,384	2,821
Automotive	7,852	-	5,839	-
Depreciation	72,765	-	51,354	-
Other	58,212	-	50,269	-
Total	$3,380,170	$97,958	$3,169,935	$127,288

(9)Property and equipment

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.

Land is carried at its original cost, including applicable legal fees, surveying costs, etc.

Construction in progress represents the costs to date of the new office facility.

A summary of the changes in fixed assets for 1989 and 1988 is as follows:

1989

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,218	$ 23	$ -	$ 655,241
Land Improvements	-	17,585	-	17,585
Construction in progress	3,928	264,760	-	268,688
Fixed Assets	608,129	72,682	(8,639)	672,172
Accumulated Depreciation	(443,791)	(72,765)	6,843	(509,713)
Fixed Assets, net	$ 823,484	$ 282,285	$ (1,796)	$ 1,103,973

1988

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ -	$ 655,218	$ -	$ 655,218
Construction in progress	-	3,928	-	3,928
Fixed Assets	585,051	53,977	(30,899)	608,129
Accumulated Depreciation	(416,266)	(51,354)	23,829	(443,791)
Fixed Assets, net	$ 168,785	$ 661,769	$ (7,070)	$ 823,484

(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 $284,508 and $262,705 for fiscal years 1989 and 1988, respectively.

(11) Accrued Compensated Absences

Employees of the State Employees' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. The value of accrued compensated absences as of June 30, 1989 and 1988 were $316,150 and $260,140, respectively.

(12) Land Acquisition and Future Building Site

The System purchased approximately 3.7 acres of land on June 30, 1988 to be used as the site for a proposed office building.

The total cost of the land (including legal fees, survey costs, etc.) amounted to $655,241. The building will be capitalized and depreciated in conformance with generally accepted accounting principles upon possession by the System. The total cost associated with the construction of the building during fiscal year 1989 amounted to $282,368. The total cost of the building is estimated to be $4.0 million.

(13) Analysis of Changes in Fund Balances — Reserved

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

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

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

(c) Other future benefits — accounts for all assets not otherwise specifically provided for in items 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, 1989 and 1988

	Participants' contributions	Interest accumulations	Other future benefits	Total Fund Balance
Balance at June 30, 1987	$644,749,034	$256,208,045	$1,324,926,067	$2,225,883,146
Add (deduct):				
Excess of revenue over expenses	80,086,786	-	75,836,134	155,922,920
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(25,646,199)	-	25,646,199	-
Interest credited to members' accounts	-	37,493,645	(37,493,645)	-
Balance at June 30, 1988	$699,189,621	$293,701,690	$1,388,914,755	$2,381,806,066
Add (deduct):				
Excess of revenue over expenses	$ 84,984,514	$ -	$113,408,266	$198,392,780
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(26,993,949)	-	26,993,949	-
Interest credited to members' accounts	-	41,057,208	(41,057,208)	-
Balance at June 30, 1989	$757,180,186	$334,758,898	$1,488,259,762	$2,580,198,846

(14)Subsequent Event

On August 23, 1989, the Governor signed into law Public Act 86-0273. This law will have significant impac on the State Employees' Retirement System of Illinois as relates to its Pension Benefit Obligation. The pro vision for compounded annual increases for annuitants and survivors, effective January 1, 1990, will ir crease the Pension Benefit Obligation and the related unfunded accrued benefit cost by an estimate $251,000,000. In addition, the law provides for the systematic amortization of the unfunded liability ove a 40 year period utilizing the projected unit credit actuarial cost method. There is a seven year phase i period in order to raise the employer contributions from the current level to the level necessary to mee the 40 year amortization amount.

\nalysis 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)
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%
1988	2,381.8	3,490.7	68.2%	1,108.9	1,954.0	56.8%
1989	2,580.2	3,752.1	68.8%	1,171.9	2,106.1	55.6%

*At cost

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

₹evenues 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
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
1988	95,928,239	99,990,922	148,802,057	344,721,218	127,288	344,848,506
1989	101,805,417	98,471,993	199,452,398	399,729,808	97,958	399,827,766

Expenses by Type

FY Ended June 30	Benefits	Contribution Refunds	Administrative Expenses, System Trust Fund	Other Expenses*	Sub Total	Administrative Expenses, Contribution Fund	Total
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
1988	173,644,549	11,983,814	3,169,935		188,798,298	127,288	188,925,586
1989	185,354,303	12,602,555	3,380,170		201,337,028	97,958	201,434,986

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

Analysis of Employer Contributions — Fiscal Year 1980 through 1989

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.
1980	8.000%	$1,137,667,500	$91,013,400	$91,380,122	$2,676,000			$94,056,122	$3,042,722
1981	7.500%	1,253,016,000	93,976,200	94,542,451	2,376,000			96,918,451	2,942,251
1982	6.820%	1,334,262,000	90,996,668	60,348,375	1,152,000			61,500,375	(29,496,293)
1983	5.550%	1,378,735,000	76,519,793	67,421,803	1,838,200	$2,586,400		71,846,403	(4,673,390)
1984	6.400%	1,437,546,000	92,002,944	81,358,279	2,378,000	2,728,000		86,464,279	(5,538,665)
1985	8.090%	1,569,532,000	126,975,139	89,482,193	2,378,500	2,596,000		94,456,693	(32,518,446)
1986	7.532%	1,713,755,000	129,080,027	97,741,393	2,130,000	2,342,300		102,213,693	(26,866,334)
1987	8.400%	1,825,196,000	153,316,464	105,095,840	2,215,500	2,248,600		109,559,940	(43,756,524)
1988	7.240%	1,953,960,000	141,466,704	97,725,922	1,673,700	591,300		99,990,922	(41,475,782)
1989	6.300%	2,106,121,000	132,685,623	96,564,193	1,907,800			98,471,993	(34,213,630)

(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 FY 1982 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 provided that the System Trust Fund would be repaid the amount of the Senate Bill 177 reductions at the rate of 20% per year over the succeeding five fiscal years, including interest at 6% per annum. Final payment was received in FY 1988.

Combining Balance Sheets
Years Ended June 30, 1989 and 1988

	1989			1988		
	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						
Cash	$ 9,730,385	$ -	$ 9,730,385	$ 9,893,839	$ -	$ 9,893,
Cash, restricted for Social Security remittances	-	2,937,582	2,937,582	-	2,252,064	2,252,
Receivables:						
Contributions receivable:						
Participants	4,029,512	-	4,029,512	3,937,685	-	3,937
Employing State Agencies	2,369,165	-	2,369,165	2,454,280	-	2,454,
Other accounts receivable	649,028	-	649,028	539,128	-	539,
	7,047,705	-	7,047,705	6,931,093	-	6,931
Investments	2,565,152,803	-	2,565,152,803	2,367,063,722	-	2,367,063,7
Property and equipment, net of accumulated depreciation	1,103,973	-	1,103,973	823,484	-	823,4
Total Assets	$2,583,034,866	$ 2,937,582	$2,585,972,448	$2,384,712,138	$ 2,252,064	$2,386,964,2
Liabilities and Fund Balance						
Benefits payable	$ 1,316,173	$ -	$ 1,316,173	$ 1,476,752	$ -	$ 1,476,7
Refunds payable	210,298	-	210,298	375,069	-	375,0
Administrative expenses payable	592,389	-	592,389	409,660	-	409,6
Participants' deferred service credit accounts	717,160	-	717,160	644,591	-	644,5
Unremitted Social Security contributions	-	2,297,725	2,297,725	-	1,822,858	1,822,8
Amounts held for Social Security remittances	-	639,857	639,857	-	429,206	429,2
Total Liabilities	2,836,020	2,937,582	5,773,602	2,906,072	2,252,064	5,158,1
Fund Balance						
Actuarially determined benefit cost	3,752,134,283	-	3,752,134,283	3,641,579,030	-	3,641,579,0
Less unfunded accrued benefit cost representing an obligation of the State of Illinois	1,171,935,437	-	1,171,935,437	1,259,772,964	-	1,259,772,96
Total Fund Balance	$ 2,580,198,846	$ -	$ 2,580,198,846	$2,381,806,066	$ -	$2,381,806,06
Total Liabilities and Fund Balance	$2,583,034,866	$ 2,937,582	$2,585,972,448	$ 2,384,712,138	$ 2,252,064	$2,386,964,20

Social Security Contribution Fund
Statements of Changes in Assets and Liabilities
Years Ended June 30, 1989 and 1988

	1989				1988			
Assets	Balance July 1, 1988	Additions	(Deductions)	Balance June 30, 1989	Balance July 1, 1987	Additions	(Deductions)	Balance June 30, 1988
Cash, restricted for Social Security remittances	$2,252,064	$836,972	$(151,454)	$2,937,582	$4,334,906	$4,037,868	$(6,120,710)	$2,252,064
Liabilities								
Unremitted Social Security contributions	$1,822,858	$773,087	$(298,220)	$2,297,725	$4,037,829	$ 53,377	$(2,268,348)	$1,822,858
Amounts held for Social Security remittances	429,206	210,651	-	639,857	297,077	132,129	-	429,206
	$2,252,064	$983,738	$(298,220)	$2,937,582	$4,334,906	$185,506	$(2,268,348)	$2,252,064

SYSTEM TRUST FUND — SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 1989 and 1988

	1989	1988
Contributions:		
Participants	$100,572,995	$ 94,744,836
Repayments of contributions refunded	372,417	381,535
Interest received from participants	860,005	801,868
Total participants contributions	$101,805,417	$ 95,928,239
Employing state agencies	$ 96,564,193	$ 97,725,922
State Pension Fund appropriation	1,907,800	1,673,700
Supplemental state contribution	-	591,300
Total state contributions and appropriations	$ 98,471,993	$ 99,990,922
Investments:		
Net investment income	$144,158,970	$132,301,594
Interest earned on cash balances	1,363,317	644,652
Net realized gain on sale of investments	53,930,111	15,855,811
Total investment revenue	$199,452,398	$148,802,057
Total Revenue	$399,729,808	$344,721,218

SYSTEM TRUST FUND — SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 1989 and 1988

	1989	1988
Cash balance, beginning of year	$ 9,893,839	$ 5,977,771
Receipts:		
Member contributions	99,317,195	94,194,041
Employer contributions	96,658,141	101,134,320
State Pension Fund contribution	1,907,800	1,673,700
Transfers from Illinois State Board of Investment	15,000,000	30,000,000
Interest income on cash balance	1,340,224	632,914
Claims receivable payments	645,198	587,903
Installment payments - prior service credit	654,189	580,956
Other	204,516	132,314
Total cash receipts	$ 215,727,263	$ 228,936,148
Disbursements:		
Annuity payments:		
Retirement annuities	142,856,989	132,419,661
Widows' annuities	2,955,003	3,088,444
Survivors' annuities	17,707,906	16,790,980
Death benefits	7,821,152	6,739,930
Disability benefits	13,058,386	13,082,385
Refunds	13,020,966	12,058,436
Administrative expenses	3,470,315	3,840,244
Transfers to Illinois State Board of Investment	15,000,000	37,000,000
Total cash disbursements	$ 215,890,717	$ 225,020,080
Cash balance, end of year	$ 9,730,385	$ 9,893,839

REVENUES

Total revenue of $399.7 million for FY 1989 was a $55.0 million increase from the FY 1988 level of $344.7 million. Net income from investments and net realized gains on sales of investments were up significantly from the prior fiscal year.

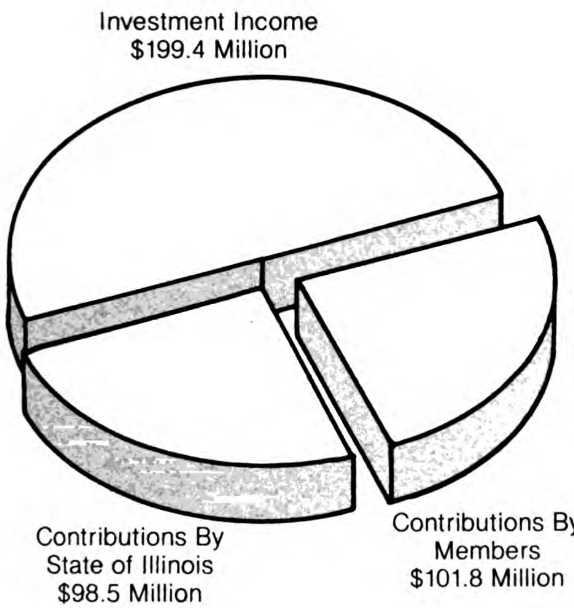
Revenue Source	FY 89 (Millions)	FY 88 (Millions)	Increase/(Decrease) Amount	Percentage
Member Contributions	$101.8	$95.9	$ 5.9	6.2%
State Contributions	98.5	100.0	(1.5)	(1.5)%
Investment Income	199.4	148.8	50.6	34.0%
Total	$399.7	$344.7	$55.0	16.0%

There were 1,728 more active members as of June 30, 1989 than on June 30, 1988. This increase of 2.3% in membership and average wage increases of 6.5% resulted in an increase of 7.8% in wages subject to retirement contributions. State contributions show a decrease of 1.5% ($1.5 million). Member contributions were $5.9 million (6.2%) higher than for FY 1988. As shown in the table below, the average rate of contributions by members in FY 1989 was 4.83% compared to 4.91% in FY 1988.

Active Membership	FY 89	FY 88	Increase/(Decrease) Number/Amount	Percentage
Coordinated Members	67,389	65,137	2,252	3.5%
Noncoordinated Members	9,262	9,786	(524)	(5.6)%
Total Active Members	76,651	74,923	1,728	2.3%
Earnings Reported				
All Members (Millions)	$2,106.1	$1,954.0	$152.1	7.8%
Average Rate of Contributions				
All Members	4.83%	4.91%		

The System has approximately $650,000 of arrearages and overpayments as of June 30, 1989. There were 339 accounts with arrearages, 209 claim overpayments and 9 refund overpayments. The System employs several different methods for the collection of its outstanding receivables. These methods include collections by the System, use of the office of the Comptroller's involuntary offset system, contracting with private collection firms and legal action through the office of the Attorney General.

REVENUES BY SOURCE 1989
TOTAL REVENUES
$399.7 MILLION



REVENUES BY SOURCE 1988
TOTAL REVENUES
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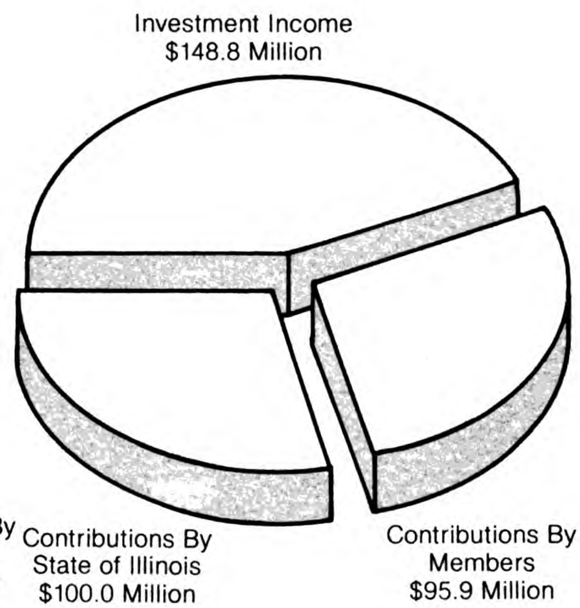

Gross investment income for 1989 of $151,035,364, less the Investment Board's administrative expenses of $6,876,394, resulted in net investment income of $144,158,970. This amount, when combined with the net realized gain on sale of investments of $53,930,111, provided net revenue from investments of $198,089,081. Transfers of funds to the Illinois State Board of Investment amounted to $15,000,000 and transfers from the Board of $15,000,000 resulted in a net transfer for investments of zero. The balance of investments at cost increased by $198,089,081 from June 30, 1988 thru June 30, 1989. The following table shows a comparison of investment operations for FY 1989 and FY 1988.

			Increase/(Decrease)	
	1989	1988	Amount	Percentage
Balance at beginning of year, at cost	$2,367,063,722	$2,211,906,317	$155,157,405	7.0%
Cash remitted for investment (net)	0	7,000,000	(7,000,000)	(100.0)%
Investment income:				
Commingled Fund income	151,035,364	137,942,491	13,092,873	9.5%
Less Expenses	(6,876,394)	(5,640,897)	(1,235,497)	21.9%
Net investment income	144,158,970	132,301,594	11,857,376	9.0%
Distributed Net Realized Gain/ (Loss) on Sale of Investments	53,930,111	15,855,811	38,074,300	240.1%
Balance at end of year, at cost	$2,565,152,803	$2,367,063,722	$198,089,081	8.4%
Market value	$2,841,895,943	$2,485,230,297	$356,665,646	14.4%

In addition, interest on the average balance in the System Trust Fund's account for FY 1989 was $1,363,317 compared to $644,652 during FY 1988.

EXPENSES

The number of members receiving retirement annuities on June 30, 1989 was 2.3% above the June 30, 1988 level reflecting the normal pattern of increase during the past 10 years; however, the cost of these annuities increased by 7.9% over the FY 1988 level. Higher salaries for current retirees, post retirement increases granted each January 1, and an increase in the minimum retirement annuity resulted 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 3.4% increase in dollar costs. Continued review of the disability recipient eligibility helped reduce the number of recurring benefit payments for disability by 5.1% and in spite of rising salary rates, disability benefits decreased in dollar amount by 2.0%.

	FY 89 (Millions)	FY 88 (Millions)	Increase/Decrease Amount	Percentage
Retirement annuities	$142.7	$132.2	$10.5	7.9%
Survivors' annuities	21.0	20.3	.7	3.4%
Disability benefits	14.4	14.7	(.3)	(2.0)%
Lump sum death benefits	7.3	6.4	.9	14.1%
Refunds	12.5	12.0	.5	4.2%
Administrative expense	3.4	3.2	.2	6.3%
TOTAL EXPENSES	$201.3	$188.8	$12.5	6.6%

NUMBER OF RECURRING BENEFIT PAYMENTS

	FY Ended June 30, 1988	New Claims Processed During FY 89	Benefits Ceased During FY 89	FY Ended June 30, 1989	Increase/(Decrease) Amount	Percentage
Retirement	23,038	1,532	998	23,572	534	2.3%
Survivors'	8,296	578	375	8,499	203	2.4%
Disability	1,536	1,713	1,791	1,458	(78)	(5.1)%
TOTALS	32,870	3,823	3,164	33,529	659	2.0%

Lump sum death benefits are primarily refunds of member contributions and will vary from year to year. Generally, refunds to members have been decreasing in the past few years. There was a slight increase of $.5 million (4.2%) in FY 1989. The decreasing trend in refunds is primarily due to the 6 month qualifying period required of new employees hired since January, 1984.

RESERVES

As of June 30, 1989, the funds available for payment of current and future benefits were $2,580.2 million as shown in the following schedule:

Assets	FY 89 (Millions)	FY 88 (Millions)	Increase (Decrease)
Cash	$ 9.7	$ 9.9	$ (.2)
Receivables (less payables)	4.2	4.0	.2
Investments	2,565.2	2,367.1	198.1
Fixed Assets (net of accumulated depreciation)	1.1	.8	.3
NET ASSETS	$2,580.2	$2,381.8	$198.4

Total System Trust Fund revenues for FY 1989 of $399.7 less expenditures of $201.3 million resulted in a net increase to reserves of $198.4 million.

Reserves	FY 89 (Millions)	FY 88 (Millions)	Net Increase
Member Contributions	$ 757.2	$ 699.2	$ 58.0
Future Operations	1,823.0	1,682.6	140.4
NET ASSETS	$2,580.2	$2,381.8	$198.4

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to $27.0 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. In addition to extending new coverage, 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 of Illinois, the Illinois Municipal Retirement Fund (IMRF) and the State Employees' Retirement System (SERS), are also covered by social security. During fiscal year 1989, the Social Security Unit receipted $836,000, consisting of contributions from various political subdivisions ($69,000), employee contributions ($6,000), and refunds from the Social Security Administration ($761,000). In addition, the Unit also vouchered approximately $154,000 in payments for a) refunds to political subdivisions ($130,000) and b) payments to the U.S. Treasury ($24,000). 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 thru 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 two 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 $97,958 and $127,288 for fiscal years 1989 and 1988, respectively.

The contribution rate in 1989 was 7.51% for both the employee and the employer share on a maximum wage of $48,000. Collections and transmittals are administered through the Contribution Fund in custody of the Treasurer of the State of Illinois.

Actuarial Section

THE Wyatt COMPANY

AN INDEPENDENT WORLDWIDE BENEFITS
AND COMPENSATION CONSULTING FIRM

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RISK MANAGEMENT
INSURANCE CONSULTING
HEALTH CARE CONSULTING

October 16, 1989

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, 1989. Since the last valuation there have been several changes which affected SERS costs and liabilities. The Actuarial Cost Method was changed from Entry Age Normal to Projected Unit Credit, resulting in a decrease of approximately 5.1% in the total actuarial liabilities. Legislation affecting benefit provisions and appropriation requirements was enacted (disclosed liabilities were not affected) and additional individual data was provided by the System, resulting in a decrease of approximately 0.4% in the total accrued actuarial liabilities. The actuarial assumptions used to process the valuation were unchanged from last year.

Senate Bill 95 (SB95) and House Bill 332 (HB332), passed in June and approved in August, affect the current funding of the System, but not the liabilities disclosed at June 30, 1989. Significant benefit changes included in these bills were: final average compensation for State Police service may be based on the final day's monthly rate of pay, benefit formulas were improved for Security Employees of the Department of Mental Health and Developmental Disabilities, members of the Prisoner Review Board, Court Reporters, Investigators for the Department of State Police, and Dangerous Drug Inspectors, the provisions requiring discontinuance of disability benefits upon attainment of age 70 were removed, the retirees' 3% automatic annual increase is based on the total annuity payable at the time of each increase rather than on the original pension, and a 3% compounded annual increase is payable to recipients of widow's and survivor's annuities. SB95 contained a provision requiring annual State appropriations to be based on the Projected Unit Credit cost method, and requiring the unfunded accrued actuarial liability (UAAL) to be funded as a level percent of payroll over a 40-year period, after an initial phase-in period ending June 30, 1990.

OFFICES IN PRINCIPAL CITIES AROUND THE WORLD

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 Projected Unit Credit cost method, providing for the normal cost plus an amortization of the unfunded accrued actuarial liability as required by SB95. (The UAAL to be amortized reflects the effect of SB95 and HB332.) Normal cost rates are expected to remain constant as a percentage of payroll, while the amortization contribution rate will increase in equal annual increments from the 1990 fiscal year rate until the 1996 fiscal year rate is reached. The total contribution rate can thus be expected to rise gradually until June 30, 1996, remain level until June 30, 2035, and then drop to a constant normal cost rate. Employer contributions in recent years have been less than that required to meet this new financing objective.

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, 1989. The contribution rate determined complies with the applicable law in force as of August 23, 1989.

THE WYATT COMPANY

By S. Lynn Hill
S. Lynn Hill
Consultant

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 1989, regular state appropriations were made at a level of 44% of the System Trust Fund projected payout.

The System Trust Fund receives contributions from several sources which can be considered as employer contributions, with the largest source being the regular state appropriation. During FY 1988, the System Trust Fund received the last payment of the five-year repayment of funding reductions made in FY 1983. The System Trust Fund also receives 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 in order to make a determination of the amount of contributions required from the state. The Board reviews and evaluates several alternative contribution rates supplied by the actuary. Upon completion of this review, the Board certifies an employer contribution rate for all state agencies. Based upon the state's actual funding method described above, the System, in recent years, has not received the minimum actuarially determined employer contribution amount.

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 Statutes. 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 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 revenue. 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.

In an attempt to address the pension funding dilemma, the state legislature passed S.B.95, which provides for a standardized funding method (projected unit credit) and a specified term for the amortization of prior unfunded pension costs (40 years, level percentage of payroll). There is a seven-year phase in period of the required employer contributions to attain the 40-year amortization level. The phase in period begins in FY 1990.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For Fiscal year 1989, a projected unit credit normal cost method is used. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current or attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

In prior fiscal years, the primary cost method used by the System was entry age normal. 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 actuarial 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.

A description of the actuarial assumptions utilized for FY-89 and FY-88 follows:

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

Interest: 8% per annum, compounded annually.

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

	Rate	
Age	Males	Females
20	.605	.397
25	.178	.164
30	.112	.116
35	.077	.092

	Rate	
Age	Males	Females
40	.064	.076
45	.054	.061
50	.044	.048
55	.000	.000

Salary Increases: 6½% per annum, compounded annually.

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

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

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

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

Spouse's Age: The female spouse is assumed to be three years younger than the male spouse.

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

VALUATION RESULTS

Actuarial Liability (Reserves)	FY-89	FY-88
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$ 1,418,366,965	$ 1,319,780,926
Survivor Annuities	164,394,170	158,985,739
Disability Annuities	63,549,013	61,608,504
Deferred:		
Retirement Annuities	1,312,735	1,096,076
Survivor Annuities	6,257,501	5,356,916
Total	$ 1,653,880,384	$ 1,546,828,161
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	55,409,933	53,498,075
Eligible for Return of Contributions Only	5,320,507	6,921,360
Total	$ 60,730,440	$ 60,419,435
For Active Members:	$ 2,037,523,459	$ 2,034,331,434
Total	$ 3,752,134,283	$ 3,641,579,030
Assets, Book Value (Cost)	$ 2,580,198,846	$ 2,381,806,066
Unfunded Actuarial Liability	$ 1,171,935,437	$ 1,259,772,964

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 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 recent years 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)
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	1,150,634	1,414,552	1,581,326	100.0	92.5	0.0
1985	554,823	1,172,344	1,100,162	1,707,259	100.0	98.3	0.0
1986	597,438	1,287,644	1,228,253	1,974,095	100.0	100.0	7.2
1987	644,749	1,431,161	1,285,813	2,225,883	100.0	100.0	11.7
1988	699,190	1,546,828	1,395,561	2,381,806	100.0	100.0	9.7
1989	757,180	1,653,880	1,341,074	2,580,199	100.0	100.0	12.6

ANALYSIS OF FUNDING

In an inflationary economy, the value of the dollar 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 recent years 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 % of Member Payroll
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	3,082,194	1,581,326	51.3	1,500,907	1,437,546	104
1985	2,827,329	1,707,259	60.4	1,120,070	1,569,532	71
1986	3,113,335	1,974,095	63.4	1,139,240	1,713,755	66
1987	3,361,723	2,225,883	66.2	1,135,840	1,825,196	62
1988	3,641,579	2,381,806	65.4	1,259,773	1,953,960	65
1989	3,752,134	2,580,199	68.8	1,171,935	2,106,121	56

ANALYSIS OF FINANCIAL EXPERIENCE

Gain (Loss) in Actuarial Liability for Fiscal Years ending June 30, 1989 and 1988 are as follows:

Activity	1989	1988
1. Actuarial Gains (Loss)		
(a) Age & Service Retirements	$ (25,976,199)	$ (17,237,492)
(b) Incidence of Disability	(1,519,256)	(1,172,057)
(c) In-Service Mortality	(4,849,061)	(4,121,569)
(d) Retiree Mortality	(223,533)	3,971,693
(e) Disabled Mortality	107,585	(98,860)
(f) Termination of Employment	(17,585,391)	(13,237,063)
(g) Salary Increases	(25,390,148)	(11,318,379)
(h) Investment Income	8,949,482	(29,544,739)
(i) Other	(4,029,945)	(4,895,685)
Total Actuarial Gain (Loss)	$ (70,516,466)	$ (77,654,151)
2. Contribution (Income)	$ (58,028,072)	$ (55,477,149)
3. Non Recurring Items		
(a) Plan Amendments (HB2630)	$ -	$ (831,756)
(b) Change in Cost Method	202,280,426	-
(c) Correction in Calculation of Survivors Benefits	-	10,029,447
(d) Change in Data Provided by SERS		
(i) Service credit history	25,354,216	-
(ii) Reciprocal service	(11,252,577)	-
4. Total Financial Gain (Loss)	$ 87,837,527	$ (123,933,609)

Schedule of Retirants Added To and Removed From Rolls

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1980	15,560	1,541	(656)	16,445
1981	16,445	1,483	(621)	17,307
1982	17,307	1,623	(683)	18,247
1983	18,247	1,764	(705)	19,306
1984	19,306	1,648	(797)	20,157
1985	20,157	1,639	(827)	20,969
1986	20,969	1,635	(833)	21,771
1987	21,771	1,629	(871)	22,529
1988	22,529	1,506	(997)	23,038
1989	23,038	1,532	(998)	23,572

Schedule of Survivors' Annuitants Added To and Removed From Rolls

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1980	5,894	506	(213)	6,187
1981	6,187	531	(233)	6,485
1982	6,485	542	(164)	6,863
1983	6,863	516	(240)	7,139
1984	7,139	535	(303)	7,371
1985	7,371	568	(313)	7,626
1986	7,626	492	(295)	7,823
1987	7,823	514	(322)	8,015
1988	8,015	617	(336)	8,296
1989	8,296	578	(375)	8,499

Schedule of Disability Recipients Added To and Removed From Rolls

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1980	1,976	2,310	(2,359)	1,927
1981	1,927	2,487	(2,543)	1,871
1982	1,871	2,543	(2,526)	1,888
1983	1,888	2,532	(2,569)	1,851
1984	1,851	2,323	(2,375)	1,799
1985	1,799	2,182	(2,247)	1,734
1986	1,734	2,002	(2,033)	1,703
1987	1,703	1,800	(1,926)	1,577
1988	1,577	1,779	(1,820)	1,536
1989	1,536	1,713	(1,791)	1,458

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-89	FY-88
Unfunded Liability Beginning of FY	$ 1,259,772,964	$ 1,135,839,355
Contributions Due		
Interest on the Unfunded Liability	100,781,837	95,362,064
Total Normal Cost	151,944,310	151,592,824
Repayment of Refunds	1,232,422	-
Interest on Normal Cost	12,203,893	12,127,426
Total Due	$ 266,162,462	$ 259,082,314
Contributions Paid		
Participants	$ 101,805,417	$ 95,928,239
Employing State Agencies	98,471,993	99,399,622
State Pension Fund	-	591,300
Interest on Contributions	7,856,980	7,686,004
Total Paid	$ 208,134,390	$ 203,605,165
Increase in the Unfunded Liability	58,028,072	55,477,149
Actuarial (Gains) Losses		
From Investment Return (Greater) Lesser Than 8%	(8,949,482)	29,544,739
From Salary Increases (Greater) Lesser Than 6½%	25,390,148	11,318,379
From Other Sources	54,075,800	36,791,033
Total Actuarial (Gains) Losses	$ 70,516,466	$ 77,654,151
(Decrease) Due to Change in Cost Method	(202,280,426)	-
Plan Amendments	-	831,756
(Decrease) Due to Correction in Calculation of Survivors Benefits	-	(10,029,447)
Additional Data Provided by SERS:		
a) RefinedService Credit History	(25,354,216)	-
b) Reciprocal Service with other systems	11,252,577	-
Total Increase (Decrease) in Actuarial Liability	(87,837,527)	123,933,609
Unfunded Liability End of FY	$ 1,171,935,437	$ 1,259,772,964

Investment Section

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI Board). The ISBI Board was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. At the end of the fiscal year, in addition to the assets of the State Employees' Retirement System, the ISBI Board also managed the investment function for the Judges' and General Assembly Retirement Systems. As of June 30, 1989, total net assets under management valued at market, amounted to $3.049 billion. Of the total assets under management, $2.842 billion or 93.2% represented assets of the State Employees' Retirement System.

Management Approach

The ISBI Board manages the Fund in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI Board has established a long-range investment 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, within prudent risk parameters. Further, it is the ISBI Board's philosophy that the assets owned by the participating systems and managed by the ISBI Board are held for the exclusive purpose of providing benefits to the participants and annuitants of the respective retirement systems and their beneficiaries.

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

Total Fund Results

As a result of the continuing recovery in the equity markets from the October, 1987 crash and as a result of the diversification of asset allocations by the ISBI Board, the Fund achieved a rate of return of 14.3% for the fiscal year ending June 30, 1989. Despite the somewhat defensive posture the ISBI Board has taken in determining acceptable risk and in determining asset allocation due to the relatively small amount of new investment capital from its member systems, the Fund was in the upper 40th percentile of performance by SEI State Retirement System Universe during the last fiscal year.

When viewed over the seven year period since the adoption of the prudent person legislation, the Fund has produced a compounded annual rate of return of 14.9%. The last three land five year returns were 8.4% and 14.1%, respectively. These results are far in excess of the ISBI Board's stated goal of producing total r eturns of 1½% to 3% in excess of the actuarial assumptions used by the three retirement systems.

No major changes in asset allocation were effectuated during the fiscal year. Maintaining a relatively low average allocation to cash during the year benefited the total Fund performance as cash was the poorest performing asset class.

During the last fiscal year, the ISBI Board and an investment consultant engaged for such purpose, made a detailed study of long-term investment opportunities in foreign securities. This review resulted in the ISBI Board adopting a policy of committing up to 10% of its assets to non-dollar equities. In doing so, the ISBI Board recognized that such securities represent a significant and increasing percentage of the world market place and that it is in the best interest of the Fund to participate in these investment opportunities. The primary objective being to further diversify the Fund's equity portfolio by asset allocation and to primarily utilize active external managers to accomplish this objective.

Fixed Income

The largest portion of the fixed income component is managed internally in a portfolio having an objective of outperforming the Shearson/Lehman Aggregate Bond Index. The internally managed account did outperform that benchmark by achieving a return of 12.6% versus 12.2%. Funds managed by the convertible bond and high-yield external managers are also included in fixed income allocation.

Comparative rates of return of the ISBI Board's fixed income portfolio and the two indices are set forth below.

	1 Year	3 Year	5 Year
ISBI	12.0%	9.0%	15.3%
Shearson Lehman G/C	12.3	8.1	14.4
Shearson Lehman A/C	12.2	8.6	14.8

Equities

There were no changes made in fiscal 1989 to the equity investment manager team. As previously noted, the internally managed portfolios were earmarked as the funding source for the new non-dollar equity allocation. Liquidation of a significant portion of each of the internal portfolios began in March (and will continue into fiscal year 1990), well ahead of the anticipated funding dates of the five international and global managers. This was done in order to reduce the negative market impact of selling the holdings of these largely small capitalization stock portfolios. The Fund's overall equity exposure was maintained at approximately 42% by buying S&P 500 futures contracts as stocks were sold.

The composite return of the funds managed by the ten external and two internal equity managers was 17.0% versus the S&P 500's return of 20.6% for the fiscal year. Returns for additional time periods are set forth below:

	1 Year	3 Years	5 Years
ISBI	17.0%	8.5%	14.2%
S&P 500	20.6	12.0	19.2

Real Estate

The ISBI Board continued to diversify the real estate portfolio by approving commitments to the Zell/Merrill Lynch Real Estate Opportunity Partners L.P., which makes equity investments in undervalued and opportunistic real estate assets; the AMLI Land Development L.P., which acquires and improves parcels of land suitable for development; and the JMB Acquisition Partners L.P., which will acquire entire companies or divisions of companies where interests in real estate assets constitute the majority of the investment.

The real estate portfolio represents 9.8% of the total Fund which is very near the ISBI Board's target allocation for this asset class of 10%. The composite real estate portfolio achieved a total return of 11.0% for the fiscal year, which placed it in the upper quartile of return for real estate funds as tracked by Callan Associates.

Non-Marketable Equity Interests

This allocation grew from 2.2% of the total Fund at the beginning of the year to 3.4% at the end of the year as commitments were funded and investments appreciated. The combined return for the fiscal year on these limited partnerships (largely represented by equity interests in privately held companies) was 29.0%, which was largely attributed to income and appreciation in the Kohlberg Kravis Roberts & Co. limited partnership which exceeded 33%. As outstanding commitments are funded, the ISBI Board's target allocation to these alternative investments of 5% will be achieved.

Management Expense

Total operating expenses for the fiscal year were $7,382,920 as compared to $6,059,008 for the previous fiscal year. The expense ratio (expenses divided by assets under management) increased slightly from .23% to .26% reflecting a full year of external management fees versus a partial year for the convertible bond and high-yield external managers and the software design cost of a new accounting system. The State Employees' Retirement System's share of total operating expenses amounted to $6,876,328.

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, 1989. A copy of the report can be obtained from the Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

NVESTMENT PORTFOLIO SUMMARY

	June 30, 1989 Market Value	Percentage	June 30, 1988 Market Value	Percentage
Fixed Income	$ 1,121,947,822	36.8%	$ 1,100,732,282	41.2%
Equities	1,273,481,163	41.8	1,067,817,434	40.0
Cash	204,706,645	6.7	162,488,906	6.1
Real Estate	299,447,007	9.8	254,227,296	9.5
Non-Marketable	104,600,570	3.4	57,642,361	2.2
	$ 3,004,183,207	98.5%	$ 2,642,908,279	99.0%
Other assets, less liabilities	45,078,925	1.5	26,276,144	1.0
Net assets at market value	$ 3,049,262,132*	100.0%	$ 2,669,184,423*	100.0%
Net assets, at cost	$ 2,752,152,181*		$ 2,542,296,711*	

*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 1989 were $2,841,895,943 and $2,565,152,803, respectively. For fiscal year 1988 the market and cost values were $2,485,230,297 and $2,367,063,722, respectively.

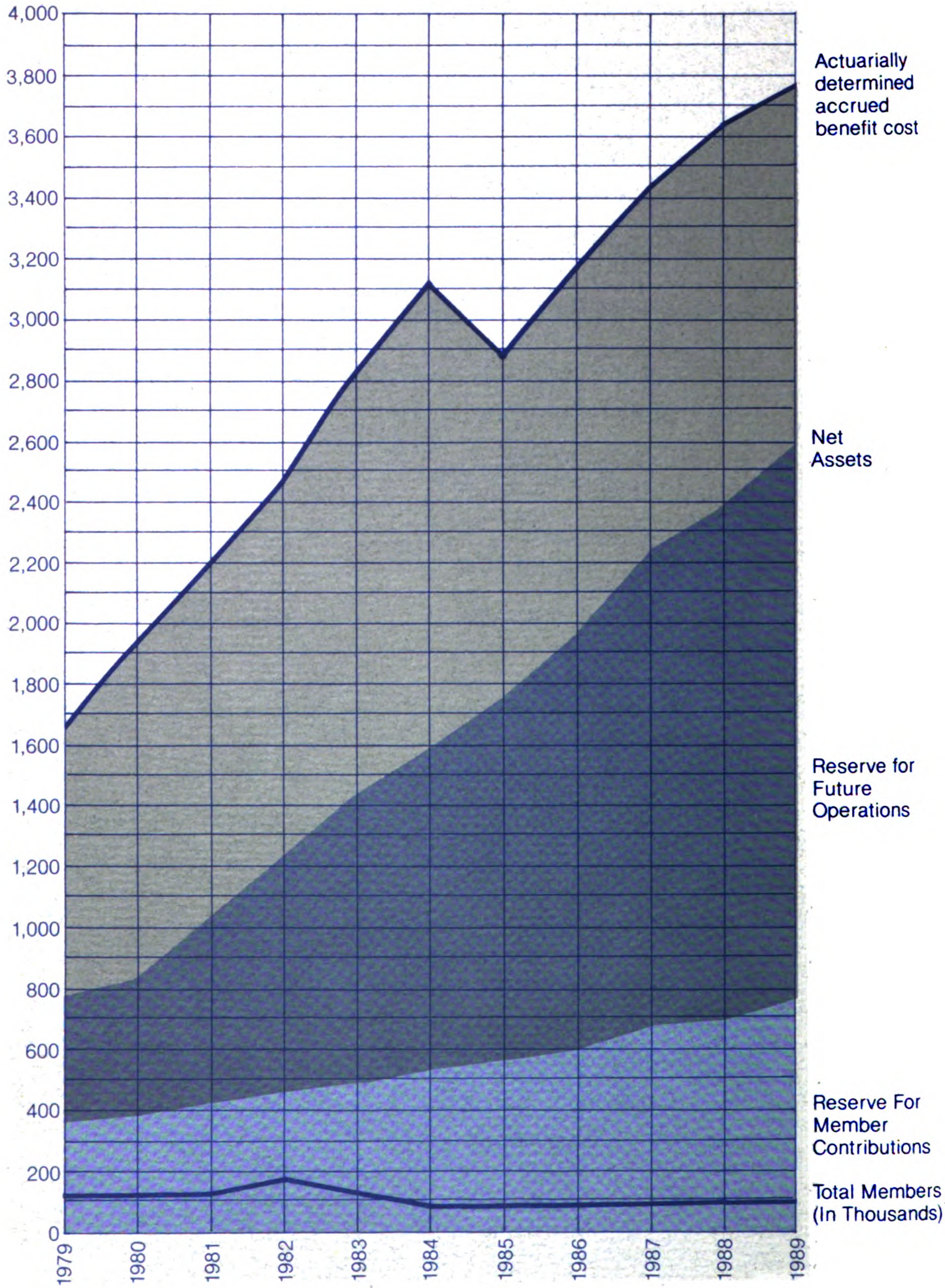
ANALYSIS OF INVESTMENT PERFORMANCE

	1989	1988	1987	1986	1985
Total Return* - Past 3 years		8.4%			
Total Return* - Past 5 years			14.1%		
Total Return* - year by year	14.3%	2.5%	8.8%	24.6%	22.0%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	5.7%	5.6%	5.3%	6.4%	7.3%
Comparative rates of return on fixed income securities					
Total fixed income — ISBI	12.0	9.3	5.7	17.9	34.9
Comparison index: Shearson Lehman Government/ Corporate Bond Index	12.3	7.5	4.7	20.6	28.7
Comparative rates of return on equities					
Total equities - ISBI	17.0	(4.6)	14.4	36.5	15.8
Comparison index: S & P 500	20.6	(6.9)	25.1	35.7	30.7

*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.



BALANCE SHEET ASSETS — SYSTEM TRUST FUND

FY Ended June 30	Cash	Receivables	Investments At Cost	Investment Adjustment*	Fixed Assets, Net of Accumulated Depreciation	Total
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
1988	9,893,839	6,931,093	2,367,063,722		823,484	2,384,712,138
1989	9,730,385	7,047,705	2,565,152,803		1,103,973	2,583,034,866

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

BALANCE SHEET LIABILITIES — SYSTEM TRUST FUND

FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Future Operations	Total
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
1988	2,906,072	699,189,621	1,682,616,445	2,384,712,138
1989	2,836,020	757,180,186	1,823,018,660	2,583,034,866

REVENUES BY SOURCE — SYSTEM TRUST FUND*

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Total
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
1988	95,928,239	99,990,922	148,802,057	344,721,218
1989	101,805,417	98,471,993	199,452,398	399,729,808

*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
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
1988	173,644,549	11,983,814	3,169,935		188,798,298
1989	185,354,303	12,602,555	3,380,170		201,337,028

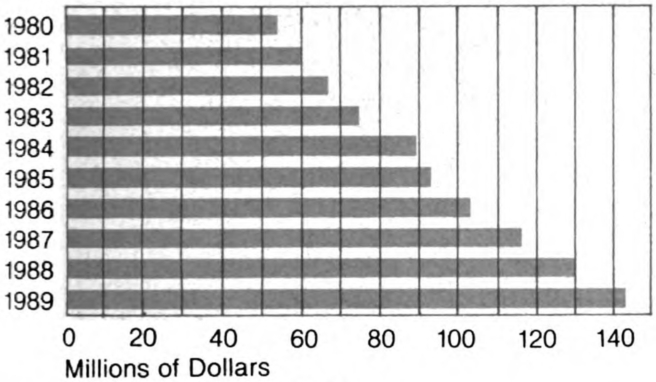
*These amounts do not include the General Revenue Fund Appropriations for the administrative expenses of the Contribution Fund.

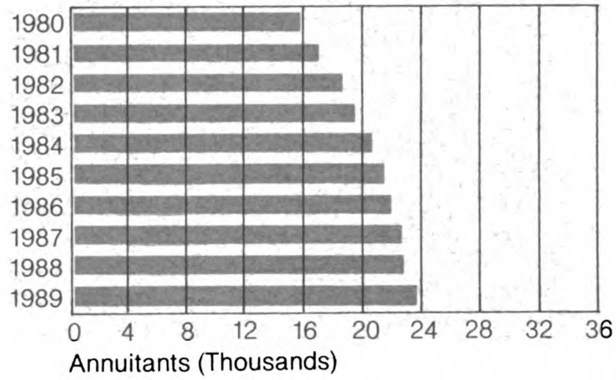
**Net realized loss or (gain) on investments undistributed by the Illinois State Board of investment. Accumulated net losses from 1970 through 1979 amounted to $42,998,251. Since 1982 realized losses or gains have been distributed annually.

BENEFIT EXPENSES BY TYPE — SYSTEM TRUST FUND

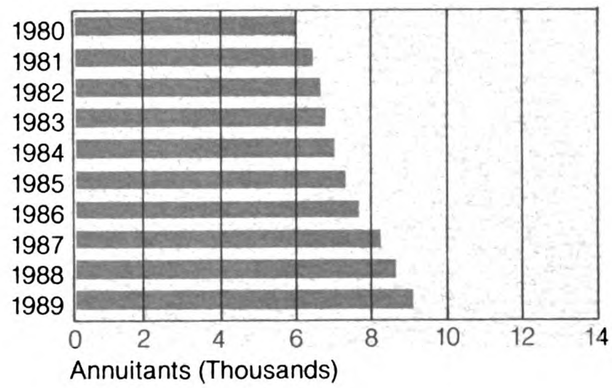
FY Ended June 30	Retirement Annuities	Survivors Annuities	Disability Benefits	Lump Sum Death Benefits	Total
1980	$ 55,063,529	$11,902,744	$11,327,382	$3,048,393	$ 81,342,048
1981	60,675,795	12,939,271	11,598,809	3,933,424	89,147,299
1982	68,602,104	14,236,031	13,163,602	4,451,938	100,453,675
1983	77,472,708	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
1988	132,265,411	20,319,659	14,660,199	6,399,280	173,644,549
1989	142,706,550	20,987,489	14,379,147	7,281,117	185,354,303

Age Retirement Annuities

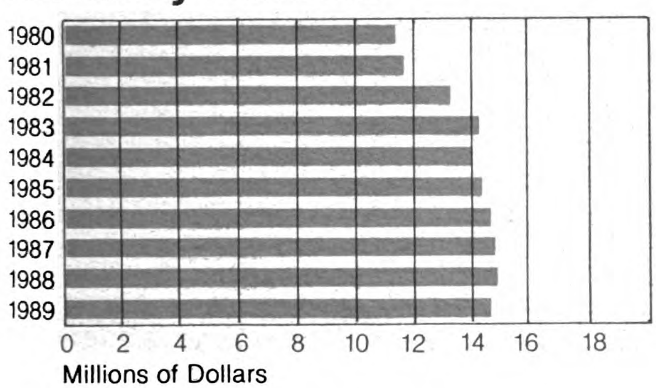


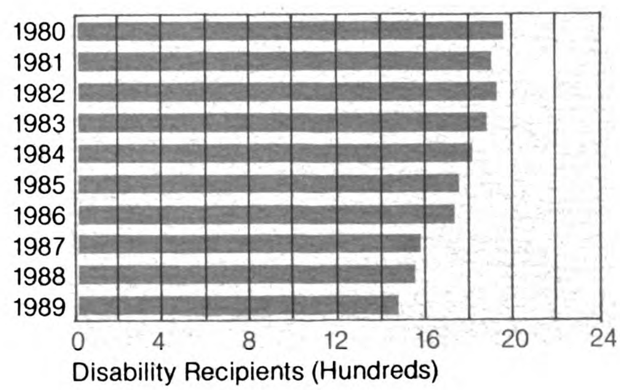


Survivor Annuities

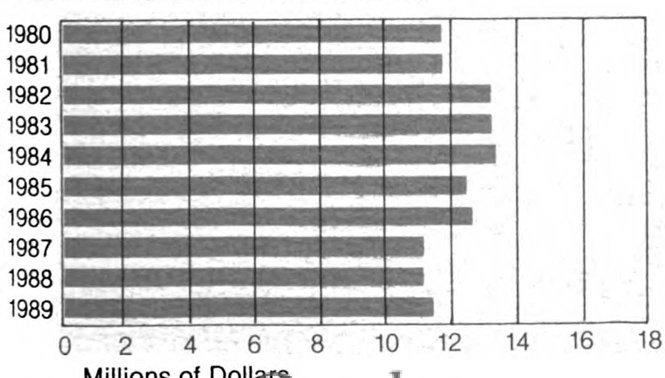


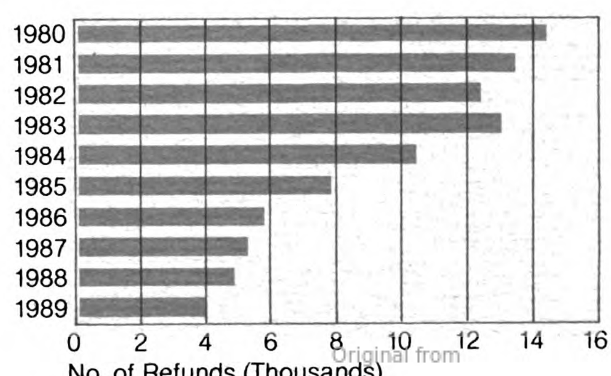
Disability Benefits





Termination Refunds





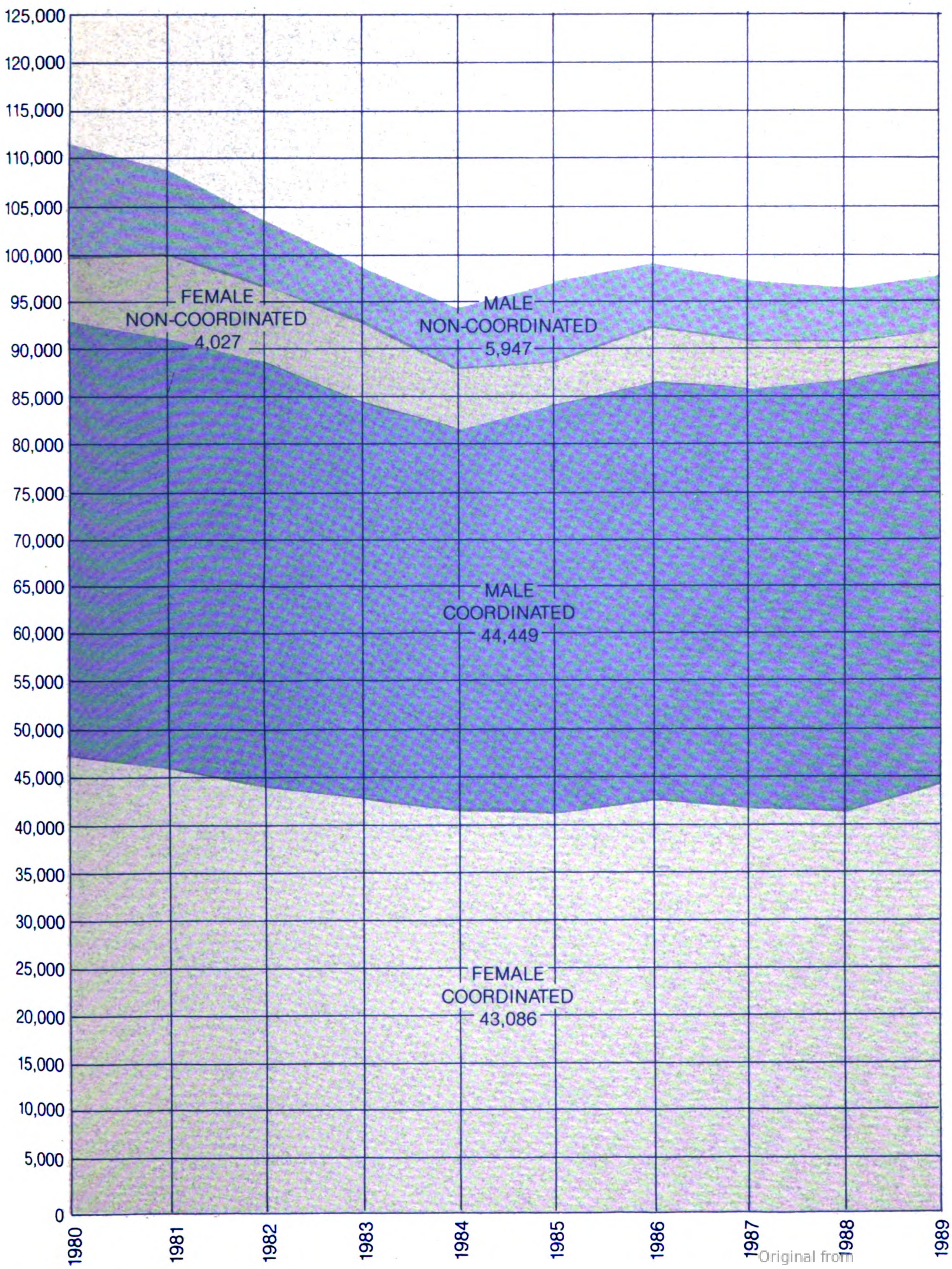
TOTAL MEMBERSHIP — COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS Male	COORDINATED MEMBERS Female	COORDINATED MEMBERS Total	NONCOORDINATED MEMBERS Male	NONCOORDINATED MEMBERS Female	NONCOORDINATED MEMBERS Total	Total Male Members	Total Female Members	Total Members
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
1988	43,988	41,914	85,902	6,257	4,342	10,599	50,245	46,256	96,501
1989	44,449	43,086	87,535	5,947	4,027	9,974	50,396	47,113	97,509

ACTIVE MEMBERSHIP — COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS Male	COORDINATED MEMBERS Female	COORDINATED MEMBERS Total	NONCOORDINATED MEMBERS Male	NONCOORDINATED MEMBERS Female	NONCOORDINATED MEMBERS Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
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
1988 . .	32,567	32,570	65,137	5,804	3,982	9,786	38,371	36,552	74,923	1,953,960,000
1989 . .	33,342	34,047	67,389	5,557	3,705	9,262	38,899	37,752	76,651	2,106,121,000

Total membership — Coordinated/Noncoordinated



NUMBER OF RECURRING BENEFIT PAYMENTS — SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
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
1988	23,038	8,296	1,536	32,870
1989	23,572	8,499	1,458	33,529

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

TERMINATION REFUNDS — NUMBER / AMOUNT — SYSTEM TRUST FUND

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
1988	4,431	11,015,216
1989	3,879	11,393,289

RETIREMENT ANNUITIES — SYSTEM TRUST FUND
Average Monthly Benefit By Type

	Fiscal Year Ending June 30 1989	1988	1987	1986	1985
Not Coordinated with Social Security	$ 975.24	$ 924.09	$ 830.86	$ 803.52	$ 693.20
Coordinated with Social Security	371.83	347.06	325.96	300.00	274.50
Alternative Formula	2,450.98	2,340.52	2,134.07	1,973.15	1,755.84
Dept. of Corrections — Special Formula — Not Coordinated with Social Security	1,393.57	1,370.91	1,126.09	1,273.90	932.42
Dept. of Corrections — Special Formula — Coordinated with Social Security	863.82	891.39	993.61	845.20	429.15
Total Average	$ 672.93	$ 670.38	$ 645.71	$ 600.68	$ 544.61

RETIREMENT ANNUITIES — SYSTEM TRUST FUND
Current Age of Active Recipients

Age	Fiscal Year Ending June 30 1989	1988	1987	1986	1985
Under 51	1	2	6	13	5
51-55	196	196	189	166	146
56-60	735	700	714	666	436
61-65	3,697	3,684	3,623	3,549	3,064
66-70	5,705	5,628	5,522	5,468	5,343
71-75	4,464	5,478	5,508	5,393	5,382
76-80	5,206	4,018	3,839	3,596	3,558
81-85	2,242	2,095	1,974	1,853	1,896
86-89	852	805	754	688	728
Over 89	474	432	400	379	411
Total	23,572	23,038	22,529	21,771	20,969
Average age	72.35	72.19	72.05	71.97	72.45

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

	Fiscal Year Ending June 30 1989	1988	1987	1986	1985
Not Coordinated with Social Security	319.85	316.25	306.72	310.73	298.34
Coordinated with Social Security	205.34	198.45	194.84	191.48	184.97
Alternative Formula	333.31	340.07	342.90	330.02	326.40
Dept. of Corrections — Special Formula — Not Coordinated with Social Security	326.29	323.25	296.43	332.75	296.73
Dept. of Corrections — Special Formula — Coordinated with Social Security	275.29	272.34	261.44	283.84	204.36
Total Average	252.01	251.41	248.60	248.99	242.46

Annuitants by Benefit Range (Monthly) June 30, 1989

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	1,379	1,379	5.9	5.9
101-200	5,276	6,655	22.4	28.3
201-300	4,028	10,683	17.1	45.4
301-400	2,897	13,580	12.3	57.7
401-500	2,105	15,685	8.9	66.6
501-600	1,517	17,202	6.4	73.0
601-700	1,051	18,253	4.5	77.5
701-800	864	19,117	3.7	81.2
801-900	649	19,766	2.8	84.0
901-1000	598	20,364	2.5	86.5
1001-1100	462	20,826	2.0	88.5
1101-1200	380	21,206	1.6	90.1
1201-1300	334	21,540	1.4	91.5
1301-1400	293	21,833	1.2	92.7
1401-1500	257	22,090	1.1	93.8
1501-1600	225	22,315	1.0	94.8
1601-1700	199	22,514	0.8	95.6
1701-1800	180	22,694	0.8	96.4
1801-1900	147	22,841	0.6	97.0
1901-2000	99	22,940	0.4	97.4
2001-2100	97	23,037	0.4	97.8
2101-2200	99	23,136	0.4	98.2
2201-4940	436	23,572	1.8	100.0

Widows and Survivors by Benefit Range (Monthly) June 30, 1989

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	2,550	2,550	30.0	30.0
101-200	2,467	5,017	29.0	59.0
201-300	1,867	6,884	22.0	81.0
301-400	1,018	7,902	12.0	93.0
401-500	220	8,122	2.6	95.6
501-600	175	8,297	2.1	97.7
601-700	90	8,387	1.1	98.8
701-800	52	8,439	0.6	99.4
801-900	27	8,466	0.3	99.7
901-1000	15	8,481	0.2	99.9
1001-1100	8	8,489	0.1	100.0
1101-1200	4	8,493	0.0	100.0
1201-1300	3	8,496	0.0	100.0
1301-1400	1	8,497	0.0	100.0
1401-1500	1	8,498	0.0	100.0
1501-1600	0	8,498	0.0	100.0
1601-1700	0	8,498	0.0	100.0
1701-1800	0	8,498	0.0	100.0
1801-1900	1	8,499	0.0	100.0
1901-2000	0	8,499	0.0	100.0
2001-2100	0	8,499	0.0	100.0
2101-2200	0	8,499	0.0	100.0
2201-4940	0	8,499	0.0	100.0

Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 1989

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	25	25	1.7	1.7
101-200	156	181	10.7	12.4
201-300	222	403	15.2	27.6
301-400	171	574	11.7	39.3
401-500	109	683	7.5	46.8
501-600	81	764	5.6	52.4
601-700	118	882	8.1	60.5
701-800	115	997	7.9	68.4
801-900	116	1,113	8.0	76.4
901-1000	72	1,185	4.9	81.3
1001-1100	78	1,263	5.3	86.6
1101-1200	70	1,333	4.8	91.4
1201-1300	37	1,370	2.5	93.9
1301-1400	27	1,397	1.9	95.8
1401-1500	19	1,416	1.3	97.1
1501-1600	20	1,436	1.4	98.5
1601-1700	5	1,441	0.3	98.8
1701-1800	6	1,447	0.4	99.2
1801-1900	4	1,451	0.3	99.5
1901-2000	3	1,454	0.2	99.7
2001-2100	1	1,455	0.1	99.8
2101-2200	1	1,456	0.1	99.9
2201-4940	2	1,458	0.1	100.0

Active Retirees by State

State	Number
ALABAMA	42
ALASKA	2
ARIZONA	330
ARKANSAS	130
CALIFORNIA	313
COLORADO	61
CONNECTICUT	13
DELAWARE	3
DISTRICT OF COLUMBIA	5
FLORIDA	846
GEORGIA	53
HAWAII	10
IDAHO	7
ILLINOIS	20,396
INDIANA	115
IOWA	44
KANSAS	32
KENTUCKY	65
LOUISIANA	21
MAINE	1
MARYLAND	17
MASSACHUSETTS	10
MICHIGAN	69
MINNESOTA	40
MISSISSIPPI	31
MISSOURI	178
MONTANA	4
NEBRASKA	9
NEVADA	36
NEW HAMPSHIRE	5
NEW JERSEY	8
NEW MEXICO	36
NEW YORK	21
NORTH CAROLINA	39
NORTH DAKOTA	4
OHIO	43
OKLAHOMA	28
OREGON	24
PENNSYLVANIA	22
RHODE ISLAND	2
SOUTH CAROLINA	25
SOUTH DAKOTA	5
TENNESSEE	64
TEXAS	140
UTAH	3
VERMONT	1
VIRGINIA	24
WASHINGTON	33
WEST VIRGINIA	2
WISCONSIN	139
WYOMING	1
OTHER COUNTRIES	20
TOTAL	23,572

Plan Summary and Legislative Section

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 1989)

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 consisting of 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, Central Management Services Security Police and Mental Health Police Officers - 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 eligible creditable service or at age 55 with at least 20 years of eligible creditable service 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.	Alternative Formula, i.e. Police and other positions Under S.S.	Alternative 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.

The maximum pension payable is 75% of final average compensation. The minimum pension payable is $7.50 for each year of covered employment and $15.00 for each year of noncovered employment.

C. Optional Forms of Payment

Reversionary Annuity — A member may elect to receive a smaller pension during his lifetime in order to provide a spouse or a designated dependent with a lifetime income. That payment would be in addition to any other benefit payable by the System.

Level Income — A member who contributes to social security as a state employee may elect to have his pension payments increased before age 62/65 and reduced after that age to provide a uniform pension income throughout his retired life. To be eligible for this election the member must have established eligibility for a social security pension.

D. Annual Increases in Pension

Post retirement increases of 3% of the original pension are granted to members effective each January 1 after receipt of benefits for one full year.

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 eligible 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 59.

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 member's 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 or 80% of final average compensation. If only eligible children survive, the monthly annuity may not exceed the lessor 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 the same as during active employment or 80% of the earned pension at date of death. 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, which terminate at death or gainful employment. Dependent parents' benefits terminate at death or remarriage.

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 66⅔% 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 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. 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 eligible spouse and children under 18 survive, 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. If there is no eligible 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.

C. Duration of Payment

The monthly annuity payable to a spouse terminates at death, or remarriage before age 55; to children at death, or attainment of age 18, or marriage.

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 the 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 50; 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 disease 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 of the date disability began; or (4) attainment of age 65, if the 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.

LEGISLATION

LEGISLATIVE AMENDMENTS - Amendments with an effective date during fiscal year 1989 having an impact on the System were:

SENATE BILL 236

Allows a county sheriff under Article 7 to transfer up to 5 years of credit from this System to the Article 7 fund.

HOUSE BILL 3495

Redefines the term "State police" for purposes for the alternative formula.

HOUSE BILL 4154

Excludes members of the Oil and Gas Board receiving per diem compensation notwithstanding such per diem is paid on a payroll voucher.

NEW LEGISLATION - Amendments with an effective date subsequent to June 30, 1989, affecting the operation of the System.

SENATE BILL 95

Numerous changes effected by this bill are as follows:

1. Automatic Increases in Retirement Benefits/Compounding - the post retirement increases of 3% per year will, beginning January 1, 1990, be compounded, i.e. based on the current annuity not on the original annuity.

2. Automatic Increases/Survivors' and Widow's - Beginning January 1, 1990, survivors' and widow's benefits will receive automatic increases each January 1 of the 3%, and these will be compounded.

3. State Funding - Beginning in 1990 and phased in over a 7 year period, the contributions made to the fund by the state will be defined to meet the current service cost added to the fund each year and to pay off the unfunded liability over 40 years. This change addresses the problem of underfunding of SERS. By instituting a formal plan, the retirement system's financial position should continue to improve.

4. State Police Average Final Compensation - A state policeman, with at least 20 years of service, will now have his pension calculated on his compensation received the last day of service rather than an average of the highest 48 months in the last 10 years.

5. Regional Planning Commissions - Employees who have previous service with a regional planning commission may establish up to 5 years of service with SERS by making contributions, provided that the planning commission's retirement plan credits have been terminated. This service must be established prior to May 1, 1990.

6. General Assembly Staff/Contractual Service - An employee who had full-time contractual service as a staff member of the General Assembly may make contributions to establish up to eight years of such service. Application must be made prior to May 1, 1990.

7. General Assembly and Chicago Police Transfer - This change allows active members of the General Assembly to transfer their credits under SERS to the General Assembly fund or the Chicago Police Pension fund.

8. County Sheriff Transfer - Allows a member of the Illinois Municipal Retirement Fund, who has been a county sheriff, to transfer his credit under SERS to IMRF before July 1, 1990. Removes the limitation of 60 months for transfer and allows persons transferring to repay refunds with no service requirement prior to July 1, 1990.

9. Security Employees of the Department of Mental Health and Developmental Disabilities - Establishes a new position under the alternative formula for the security employees of DMHDD. Defines them as being employed at the Chester Mental Health Center and: (1) having daily contact with the residents or (2) mental health police officer. Extends the provisions of the alternative formula to this group.

10. Department of Personnel/Corrections Security Employees - Allows Corrections and security employees, who have service with the former Department of Personnel and had daily contact in a correctional facility, to have such service computed under the alternative formula.

11. Court Reporters/Flat Formula - The flat retirement formula of 1.5% for covered employees and 2.2% for noncovered employees has been extended to court reporters with at least 10 years of service.

12. Inspectors for the Department of State Police - Inspectors for the Department of State Police have been extended the provisions of the alternative retirement formula.

13. Bankruptcy - Strengthened the Pension Code provision which will render employee contributions exempt from judgment, execution, garnishment, attachment, or other seizure by process, in bankruptcy or otherwise.

SENATE BILL 0332

Various changes effected by this bill are as follows:

1. Department of Revenue Investigators - Allows Department of Revenue Investigators with service from January 1, 1969, through December 31, 1981, as a covered employee to convert this service to noncovered service by making the contribution, interest free, prior to January 1, 1990.

2. Prisoner Review Board - This bill allows members of the Prisoner Review Board to participate in the alternative security formula like the Department of Correction employees.

3. Dangerous Drug Investigators of the Department of Alcoholism and Substance Abuse - These investigators would be allowed creditable service under the alternative retirement formula.

4. State Police/Downstate Police Fund Service - A state policeman would be allowed to establish creditable service for up to 10 years with SERS for his service as a policeman under a Downstate Police Fund. The contribution must be paid prior to January 1, 1990.

5. Disability Benefits/Age 70 - SERS' disability benefits would be available to all active members, regardless of age. Benefits commencing after age 60 are limited to five years, but the age 70 limitation has been removed. This provision is retroactive to January 1, 1987.

HOUSE BILL 2772

Amends the definition of a "Department" to include the Illinois Comprehensive Health Insurance Board.