

**STATE EMPLOYEES'
RETIREMENT SYSTEM OF ILLINOIS**

**COMPONENT UNIT
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 1990**

STATE EMPLOYEES'
RETIREMENT SYSTEM
OF ILLINOIS

2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794 - 9255

Prepared by the
Accounting Division

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INTRODUCTORY SECTION	3
Letter of Transmittal	4
Administration, Board of Trustees and Administrative Staff	9
Certificate of Achievement for Excellence in Financial Reporting	10
FINANCIAL SECTION	11
Independent Auditors' Report	12
Financial Statements:	
Combined Balance Sheets	13
Statements of Revenue, Expenses and Changes in Fund Balance	14
Notes to Financial Statements	15
Required Supplementary Information:	
Analysis of Funding Progress	24
Revenues by Source and Expenses by Type	24
Analysis of Employer Contributions	25
Supplementary Financial Information:	
Combining Balance Sheets	26
Social Security Contribution Fund, Statements of Changes in Assets and Liabilities	26
Summary of Revenues by Source	27
Summary Schedule of Cash Receipts and Disbursements	27
Additional Financial Information:	
Revenues	28
Expenses	30
Reserves	31
Social Security	31
ACTUARIAL SECTION	33
Actuary's Report	34
Introduction	36
Actuarial Cost Method and Summary of Major Actuarial Assumptions	36
Valuation Results	38
Glossary of Pension Terms	38
Short-term Solvency Test	39
Analysis of Funding	39
Analysis of Financial Experience	40
Schedule of Retirants Added To and Removed From Rolls	40
Schedule of Survivors' Annuitants Added To and Removed From Rolls	40
Schedule of Disability Recipients Added To and Removed From Rolls	40
Reconciliation of Unfunded Actuarial Liability	41
INVESTMENT SECTION	43
Investment Report	44
Investment Portfolio Summary	46
Analysis of Investment Performance	46
STATISTICAL SECTION	47
A Comparison of Total Members, Net Assets, and Total Actuarial	
Liabilities for the Past 10 Years	48
Balance Sheet Assets	49
Balance Sheet Liabilities	49
Revenues by Source	49
Expenses by Type	50
Benefit Expenses by Type	50
Total Membership	52
Active Membership	52
Number of Recurring Benefit Payments	54
Termination Refunds - Number/Amount	54
Retirement Annuities - Average Monthly Benefit for Current Year Retirees by Type	55
Retirement Annuities - Current Age of Active Recipients	55
Retirement Annuities - Average Service (in months) for Current Year Retirees	
at Effective Date of Benefit	55
Annuitants by Benefit Range (Monthly)	56
Widows and Survivors' by Benefit Range (Monthly)	56
Occupational and Non-Occupational (Incl. Temp.) Disabilities by Benefit Range (Monthly)	56
Active Retirees by State	56
PLAN SUMMARY AND LEGISLATIVE SECTION	57

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Introductory Section

Letter of Transmittal

Administration, Board of Trustees and Administrative Staff

Certificate of Achievement for Excellence in Financial Reporting



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

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255, Ph. (217)785-7444

November 30, 1990

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 (System) for the fiscal year ended June 30, 1990 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 (System Trust Fund) and the Social Security Contribution Fund (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.

PLAN HISTORY AND SERVICES PROVIDED

The System is the administrator of a single employer public employee retirement system established to

provide pension benefits for State of Illinois employees. The System also administers widows and survivors benefits as well as the state's occupational and non-occupational disability programs.

The System Trust Fund was established January 1, 1944 and 17,237 state employees became members on that date. As of June 30, 1944, net assets of the System amounted to \$1,255,778. Plan assets at the end of the fiscal year June 30, 1990 are approximately \$2.8 billion, and there are 76,651 active members.

Significant events and dates during the forty-six year history of the System Trust Fund are as follows:

January 1, 1969: All members of the System Trust Fund (excluding State Police) had the option of voting to coordinate their benefits with the federal social security program or remain exclusively under the System Trust Fund. Any employee becoming a member of the System Trust Fund after December 31, 1968 was mandatorily covered by social security, unless the nature of their position excluded them from participation (i.e., "police" and "firemen" positions).

October 1, 1975: Several additional position classifications were determined to meet the definition of "police" for purposes of rendering the members ineligible for social security coverage.

January 1, 1982: A new benefit formula was established for members working at the Department of Corrections who have daily or direct contact with inmates.

August 23, 1989: Governor James R. Thompson signed Senate Bill No. 95 into law (P.A. 86-0273). The bill provides for a seven year "phase - in" approach to funding by the State of Illinois. The long term intention is to provide contributions sufficient to cover "normal cost" of the System Trust Fund and also amortize any prior year underfunding by the state.

The bill was effective at the beginning of fiscal year 1990, however, the actuarial required amount of employer contributions was not appropriated to the various state agencies by the state legislature.

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 \$431.3 million during the fiscal year ending June 30, 1990, which is a moderate increase from revenue reported for fiscal year 1989, shown as follows:

	1990 (Millions)	1989 (Millions)	Increase/(Decrease) (Millions) (Percentage)	
Retirement System Trust Fund				
Contributions:				
Employees	\$ 110.1	\$ 101.8	\$ 8.3	8.2%
Employer	107.9	98.5	9.4	9.5
Investments	213.2	199.4	13.8	6.9
	<u>\$ 431.2</u>	<u>\$ 399.7</u>	<u>\$ 31.5</u>	<u>7.9</u>
Social Security Contribution Fund				
General Revenue,				
less balances lapsed	.1	.1	-	-
	<u>\$ 431.3</u>	<u>\$ 399.8</u>	<u>\$ 31.5</u>	<u>7.9%</u>

It should be noted that employee contributions actually exceeded employer contributions during fiscal years 1990 and 1989. This unprecedented shift in the source of revenues to the System can certainly not be perceived as a positive trend. And, 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 1990 and 1989.

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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 1990 and 1989 are shown for comparison purposes.

	1990 (Millions)	1989 (Millions)	Increase/(Decrease)	
			(Millions)	(Percentage)
Retirement System Trust Fund				
Benefits:				
Retirement annuities	\$154.4	\$142.7	\$11.7	8.2%
Survivors' annuities	22.0	21.0	1.0	4.8
Disability benefits	15.3	14.4	.9	6.3
Lump-sum death benefits	7.9	7.3	.6	8.2
	199.6	185.4	14.2	7.7
Refunds (including Transfers)	12.3	12.5	(.2)	(1.6)
Administrative expenses	3.9	3.4	.5	14.7
	\$215.8	\$201.3	\$14.5	7.2%
Social Security Contribution Fund				
Administrative expenses	.1	.1	-	-
	\$215.9	\$201.4	\$14.5	7.2%

The increase in benefit payments resulted primarily from a growth in the number of benefits paid, the average benefit payment, and new legislation concerning the minimum amount of retirement annuities.

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 \$213,139,724 during fiscal year 1990, an increase of \$13,687,326 from fiscal year 1989. This reflects the generally upward trend in the financial markets during the last fiscal year. Income from investments represents 49.4% of total fund revenue. During the fiscal year 1990, the Illinois State Board of Investment (ISBI), which manages the investment function for the System Trust Fund, allocated a portion of its portfolio to foreign investments. The ISBI had an 8% rate of return on market values for the year ended June 30, 1990.

A detailed discussion of investment performance and strategies is provided in the Investment Section of this report.

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 using the projected unit credit actuarial method at June 30, 1990, amounted to \$4.538 billion. The fund balances for participant contributions, interest accumulations and other future benefits amounted to \$2.796 billion as of the same date. The amount by which the liability exceeds the reserves is called the "unfunded present value of credited projected benefits". The unfunded present value of credited projected benefits amounts to \$1.742 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 years 1989 and 1990 contributions were approximately 44% of payout.

Financing the retirement benefits that are being earned is one of the most important issues facing the System Trust Fund. Over the years, a number of organizations have stressed the need for sound funding of the System. In August 1989, Governor Thompson signed Senate Bill 95 into law. This Bill provided 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 was to 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. The state did not appropriate sufficient monies to cover the employer share of retirement contributions in the first year of the phase-in 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 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 major projects. Most significant was the construction of a new office facility. The new facility is also home to the Judges' and General Assembly Retirement Systems as well as the Social Security Division of the System. The new building is intended to serve the long-term space needs of the System and provide a cost-savings to the membership through ownership rather than monthly rental payments.

Additionally, a new annual benefit statement was developed and several new computer systems were created to enhance response time to the membership.

Projects for fiscal year 1991 include the creation of a Publication Section within the Field Services Division to coordinate the distribution of System booklets and brochures; continuation of the effort to create a Field Services database; and automation of group insurance direct premium payment processing and reporting. A new workshop for annuitants is also being planned.

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 System 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 Trust Fund. The Contribution Fund uses the modified accrual basis of accounting. The 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. In addition to the annual financial audit, a two year compliance audit was also performed by the auditors. The purpose of the compliance audit was to determine whether the State Employees' Retirement System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Employees' Retirement System of Illinois for its component unit financial report for the fiscal year ended June 30, 1989. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

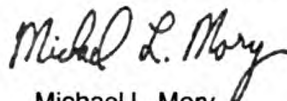
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such component unit financial reporting must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State Employees' Retirement System of Illinois has received a Certificate of Achievement for the last four consecutive years (fiscal years ended June 30, 1986 through June 30, 1989). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

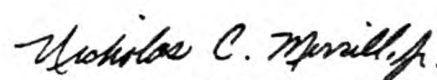
ACKNOWLEDGEMENTS AND COMMENTS

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

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URBANA-CHAMPAIGN
STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS



Alice Kirby
Representing Roland W. Burris
Comptroller



Kenneth Obrecht
Chairman, Appointed
by the Governor



William Ledbetter
Representing David L. Wood
Acting Director, Bureau of the Budget



J. Wayne Chambers
Annuitant
Appointed by the Governor



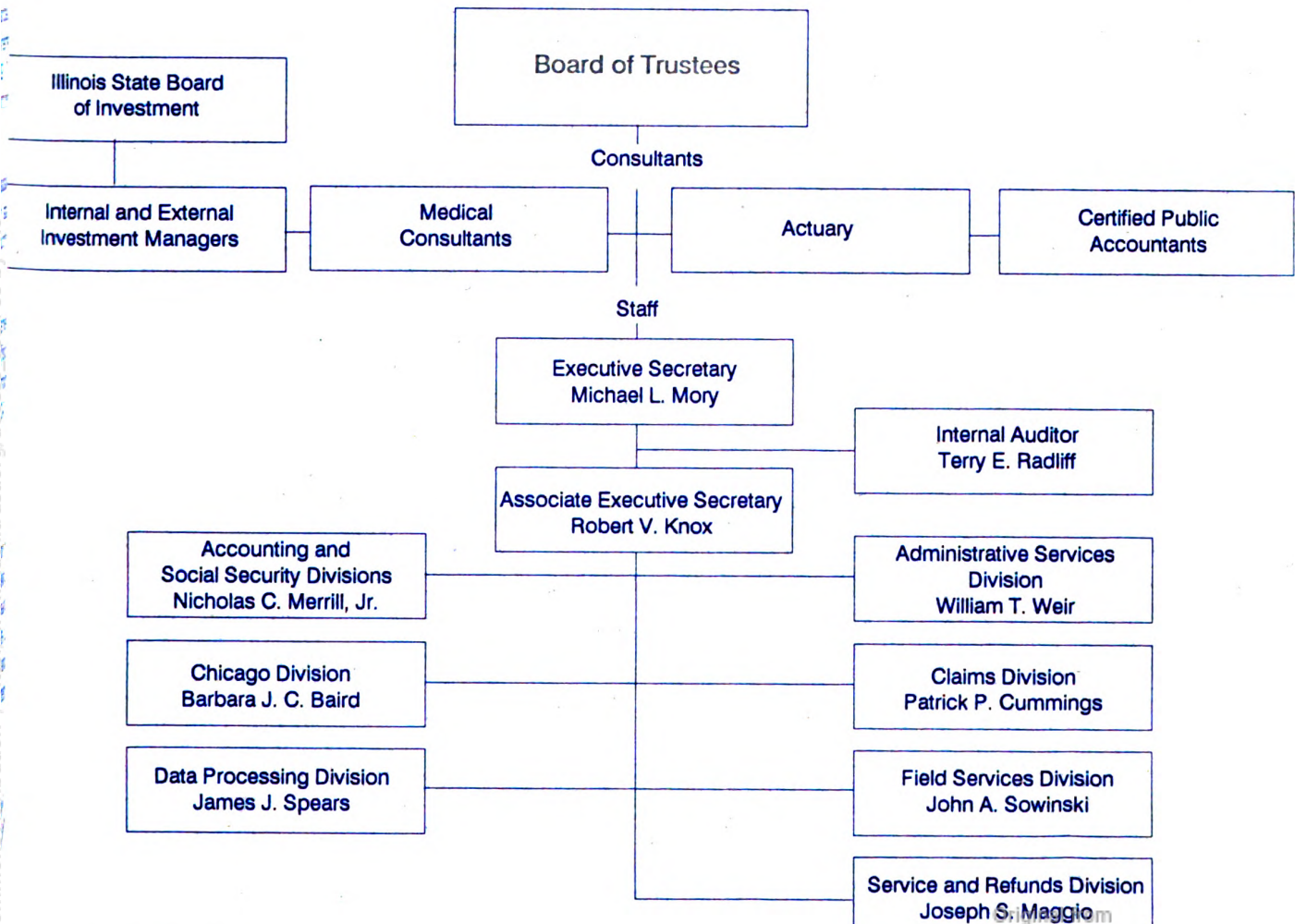
Joseph T. Pisano
State Employee
Appointed by the Governor



Doris M. Clark
Elected Annuitant



Dennis Patrick
Elected State
Employee



Certificate of Achievement for Excellence in Financial Reporting

Presented to
State Employees' Retirement
System of Illinois

For its Component Unit
Financial Report
for the Fiscal Year Ended
June 30, 1989

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 component unit financial reports (CUFR's) achieve the highest standards in government accounting and financial reporting.



President

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, 1990 and 1989, and the related statements of revenue, expenses and changes in fund balance 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 and the standards for financial audits contained in the U.S. General Accounting Office's "Government 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, 1990 and 1989, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The statements of supplementary financial information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. This information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.


ARTHUR ANDERSEN & CO.

October 19, 1990

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Combined Balance Sheets - June 30, 1990 and 1989

Assets	1990	1989
Cash	\$ 11,187,478	\$ 9,730,385
Cash, restricted for Social Security remittances	599,415	2,937,582
Receivables:		
Contributions receivable:		
Participants	4,449,365	4,029,512
Employing state agencies	2,927,125	2,369,165
Other accounts receivable	696,034	649,028
	<u>\$ 8,072,524</u>	<u>\$ 7,047,705</u>
Investments - held in the Illinois State Board of Investment Commingled Fund at cost (Market value: 1990, \$3,066,984,813 1989, \$2,841,895,943) (Note 4)	2,775,885,256	2,565,152,803
Property and equipment, net of accumulated depreciation (Notes 9 and 12)	4,340,351	1,103,973
Total Assets	<u>\$2,800,085,024</u>	<u>\$2,585,972,448</u>
 Liabilities and Fund Balance		
Benefits payable	\$ 1,503,057	\$ 1,316,173
Refunds payable	308,865	210,298
Administrative expenses payable (Note 8)	1,317,286	592,389
Participants' deferred service credit accounts	789,291	717,160
Unremitted Social Security contributions	223,636	2,297,725
Amounts held for Social Security remittances	375,779	639,857
Total Liabilities	<u>\$ 4,517,914</u>	<u>\$ 5,773,602</u>
Fund Balance		
Actuarial present value of credited projected benefits (Notes 4 and 6)	4,538,074,194	3,752,134,283
(Less) unfunded present value of credited projected benefits representing an obligation of the State of Illinois	<u>(1,742,507,084)</u>	<u>(1,171,935,437)</u>
Total Fund Balance (Note 13)	<u>\$2,795,567,110</u>	<u>\$2,580,198,846</u>
Total Liabilities and Fund Balance	<u>\$2,800,085,024</u>	<u>\$2,585,972,448</u>

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund
 Financial Statements of Revenue, Expenses and Changes in Fund Balance
 for the years ended June 30, 1990 and 1989

	1990	1989
Revenue:		
Contributions:		
Participants	\$ 110,109,685	\$ 101,805,417
Employing State agencies and appropriations	107,938,094	98,471,993
Total Contributions revenue	<u>218,047,779</u>	<u>200,277,410</u>
Investments:		
Net investments income	153,781,412	144,158,970
Interest earned on cash balances	1,407,272	1,363,317
Net realized gain on sale of investments	57,951,040	53,930,111
Total Investments revenue	<u>213,139,724</u>	<u>199,452,398</u>
	431,187,503	399,729,808
General Revenue Fund appropriations, less balances lapsed	<u>69,142</u>	<u>97,958</u>
Total Revenue	<u>431,256,645</u>	<u>399,827,766</u>
Expenses:		
Benefits:		
Retirement annuities	154,368,901	142,706,550
Survivors' annuities	22,014,615	20,987,489
Disability benefits	15,313,434	14,379,147
Lump-sum death benefits	7,909,962	7,281,117
	<u>199,606,912</u>	<u>185,354,303</u>
Refunds	12,201,403	12,553,535
Administrative expense, System Trust Fund (Note 8)	3,887,148	3,380,170
Transfers to reciprocating retirement systems	<u>123,776</u>	<u>49,020</u>
	215,819,239	201,337,028
Administrative expense, Contribution Fund (Note 8)	<u>69,142</u>	<u>97,958</u>
Total Expenses	<u>215,888,381</u>	<u>201,434,986</u>
Excess of revenue over expenses	\$ <u>215,368,264</u>	\$ <u>198,392,780</u>
Fund Balance at beginning of year	<u>2,580,198,846</u>	<u>2,381,806,066</u>
Fund Balance at end of year	<u>\$2,795,567,110</u>	<u>\$2,580,198,846</u>

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 1990 and 1989

(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, 1990 and 1989, the number of participating state agencies, boards and commissions totaled:

	1990	1989
State agencies	42	41
State boards and commissions	48	46
Total	<u>90</u>	<u>87</u>

At June 30, 1990 and 1989 the System Trust Fund membership consisted of:

	1990	1989
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	23,864	23,572
Survivors' annuities	8,629	8,499
Disability benefits	1,501	1,458
	<u>33,994</u>	<u>33,529</u>
Inactive employees entitled to benefits but not yet receiving them	<u>2,233</u>	<u>2,174</u>
Total	<u>36,227</u>	<u>35,703</u>
Current Employees:		
Vested:		
Coordinated with Social Security	36,391	35,930
Noncoordinated	7,638	8,099
Nonvested:		
Coordinated with Social Security	33,903	31,459
Noncoordinated	1,279	1,163
Total	<u>79,211</u>	<u>76,651</u>

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.

(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 5 1/2% or 9 1/2 % 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 survivors' 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. State policemen use the final rate of pay for their final average compensation.

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. 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 when the member 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.

(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 (Treasurer). All deposits are fully collateralized by the Treasurer. "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 1/2, 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 securities 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, 1990 and 1989 the ISBI Board had outstanding loaned investment securities having a market value of approximately \$332,849,772 and \$148,865,699 respectively, against which it had received collateral of approximately \$337,371,274 and \$151,843,013 respectively.

The System Trust Fund owns approximately 93.4% of the ISBI Commingled Fund as of June 30, 1990.

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	\$ 530,697,981			\$ 530,697,981	\$ 536,758,724
Foreign Obligations-Bonds	29,171,342			29,171,342	30,585,412
Foreign Obligations-Equities	236,300,748			236,300,748	257,453,355
Corporate Obligations	605,698,908			605,698,908	624,021,097
Convertible Bonds	87,617,344			87,617,344	89,026,037
Common Stock & Equity Funds	806,663,978			806,663,978	971,106,831
Convertible Preferred Stock	19,201,322			19,201,322	18,618,822
Preferred Stock	8,843,304			8,843,304	4,557,144
Money Market Instruments	220,423,414		\$ 8,152,344	228,575,758	228,575,758
Subtotal	\$2,544,618,341	\$ 0	\$ 8,152,344	\$ 2,552,770,685	\$ 2,760,703,180
Real Estate Pooled Funds				264,541,797	338,205,156
Venture Capital				127,365,419	157,978,812
Other assets, less liabilities				26,879,580	26,889,929
Total				\$ 2,971,557,481	\$ 3,283,777,077

(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, 1990.

(e) Administrative Expenses

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

(f) Basis of Accounting – Contribution Fund

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

(5) Funding Status and Progress

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

At June 30, 1990 and 1989, the unfunded pension benefit obligation was \$1,742,507,084 and \$1,171,935,437 as follows:

	1990	1989
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	\$ 1,932,126,127	\$ 1,653,880,384
Terminated employees not yet receiving benefits	16,549,419	14,003,475
Current Employees:		
Accumulated employee contributions and interest	1,153,104,503	1,045,212,119
Employer-financed vested	1,308,230,363	945,556,322
Employer-financed nonvested	77,192,537	46,755,018
Inactive members--Accumulated contributions and interest	50,871,245	46,726,965
Total Pension benefit obligation	\$ 4,538,074,194	\$ 3,752,134,283
Net assets available for benefits, at cost	2,795,567,110	2,580,198,846
(market value at June 30, 1990 - \$3,086,666,667; 1989 - \$2,856,941,986)		
Unfunded pension benefit obligation	\$ 1,742,507,084	\$ 1,171,935,437

Public Act 86-0273, which was signed into law on August 23, 1989, enacted several changes in the benefit provisions of the System effective January 1, 1990. These changes provide for (1) 3% automatic annual increases in retirement annuities based on the current amount of annuity instead of the originally granted amount of annuity and (2) a 3% automatic annual increase in the amount of survivors' annuities based on the current amount of annuity.

Public Act 86-0272, also signed on August 23, 1989, contained certain benefit changes regarding State Police service credit and removal of the age 70 limit on disability payments.

The benefit changes, enacted under Public Acts 86-0272 and 86-0273, had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by \$251,523,053 during fiscal year 1990.

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, 1990. 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) salary increase rates vary by age for fiscal year 1990; a single rate of 6 1/2% was used for fiscal year 1989, (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.

The System's actuarial consultant performed an experience review for the five - year period ending June 30, 1990. Based upon the results of the review, several changes were made to the actuarial assumptions. These changes had the effect of increasing the Pension Benefit Obligation and the related unfunded pension benefit obligation by \$185,673,427, and were primarily the result of adjustments to expected salary increases, termination rates, and retirement rates.

(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 1990 and 1989, the Board certified actuarial required contribution rates were 6.2% and 6.3%, 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 both fiscal years 1990 and 1989.

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.

Based upon the Board certified rate of 6.2%, the total amount of employer contributions required for the fiscal year ended June 30, 1990 amounted to \$140,758,786. The total amount of employer contributions made was \$107,938,094 (normal cost - \$56,553,248, amortization of unfunded accrued actuarial liability - \$51,384,846) thereby resulting in an underfunding of \$32,820,692.

	1990	1989	1988	1987	1986
Covered Payroll	\$ 2,270,303	\$ 2,106,121	\$ 1,953,960	\$ 1,825,196	\$ 1,713,755
Employer Contributions	\$ 107,938	\$ 98,472	\$ 99,991	\$ 109,560	\$ 102,214
Actual Employer Contribution Rate	4.75%	4.68%	5.12%	6.00%	5.96%
Board of Trustees Recommended Contribution Rate	6.2%	6.3%	7.24%	8.4%	7.532%
Employee Contributions	\$ 110,110	\$ 101,805	\$ 95,928	\$ 90,096	\$ 84,564
Employee Contribution Rate (Average)	4.85%	4.83%	4.91%	4.94%	4.93%

Beginning with the fiscal year which ended in 1990, the state's contribution was scheduled to be increased incrementally over a seven year period so that by the fiscal year ending June 30, 1996, the minimum contribution to be made by the state would be an amount that, when added to other sources of employer contribution, will be sufficient to meet the normal cost and amortize the unfunded liability over 40 years as a level percentage of payroll, determined under the projected unit credit actuarial cost method. The state contribution, as a percentage of the applicable employee payroll, was scheduled to be increased in equal, annual increments over the seven year period, until the funding requirements, specified above, are met. The state, however, has not followed the funding practice established by law for the fiscal year ended June 30, 1990.

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.

The System's actuarial consultant performed an experience review for the five - year period ending June 30, 1990. Based upon the results of the review, several changes were made to the actuarial assumptions. These changes had the effect of increasing the Pension Benefit Obligation and the related unfunded pension benefit obligation by \$185,673,427.

Benefit changes, enacted under Public Acts 86-0272 and 86-0273, had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by \$251,523,053 during fiscal year 1990.

(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 of the System for fiscal years 1990 and 1989 are as follows:

	1990		1989	
	System Trust Fund	Contribution Fund	System Trust Fund	Contribution Fund
Personal services	\$ 1,687,553	\$ 27,359	\$ 1,600,269	\$ 57,936
Retirement contributions	104,927	1,698	101,429	2,900
Social Security contributions	114,037	1,991	101,979	4,238
Group insurance	110,362	-	74,031	-
Contractual services	850,705	30,454	666,243	24,006
Travel	40,490	2,360	34,880	2,235
Printing	58,799	-	40,051	-
Commodities	66,344	383	18,353	1,166
Telecommunications	53,543	886	37,653	2,944
Equipment	-	3,027	-	-
Electronic Data Processing	583,924	984	566,453	2,533
Automotive	7,926	-	7,852	-
Depreciation	155,631	-	72,765	-
Other	52,907	-	58,212	-
Total	\$ 3,887,148	\$ 69,142	\$ 3,380,170	\$ 97,958

The System's fiscal years 1990 and 1989 employer retirement contribution requirement represented .09% of total contributions required of all state agency/department employers participating in the SERS. Pertinent financial information relating to the System's participation in SERS is summarized as follows:

- The System's covered payroll for fiscal year 1990 and 1989 were \$2,047 thousand and \$1,986 thousand and the payrolls for all System employees were \$2,047 thousand and \$1,986 respectively.
- The System's (i.e., the employers') actuarially determined contribution requirements for fiscal years 1990 and 1989 were \$127 thousand and \$125 thousand, respectively, or 6.2% and 6.3% of the System's covered payrolls. For fiscal year 1990, the System's and employee contributions actually made were \$127 thousand and \$85 thousand, respectively, which represents 6.2% and 4.2%, respectively, of the current year covered payroll. For fiscal year 1989, the System's and employee contributions actually made were \$125 thousand and \$83 thousand, respectively, which represent 6.3% and 4.2%, respectively, of the covered payroll.

(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, (3) automobiles and certain electronic data processing equipment - 3 years, and (4) building - 30 years.

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

A summary of the changes in fixed assets for 1990 and 1989 is as follows:

	Beginning Balance	1990		Ending Balance
		Additions	Deletions	
Land	\$ 655,241	\$ -	\$ -	\$ 655,241
Land Improvements	17,585	177,713	-	195,298
Building	268,688	2,872,850	-	3,141,538
Fixed Assets	672,172	350,620	(48,570)	974,222
Accumulated Depreciation	(509,713)	(155,631)	39,396	(625,948)
Property and equipment, net	<u>\$ 1,103,973</u>	<u>\$ 3,245,552</u>	<u>\$ (9,174)</u>	<u>\$ 4,340,351</u>

	Beginning Balance	1989		Ending Balance
		Additions	Deletions	
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)
Property and equipment, net	<u>\$ 823,484</u>	<u>\$ 282,285</u>	<u>\$ (1,796)</u>	<u>\$ 1,103,973</u>

(10) Lease Agreement

The System leased its facilities under a sixty (60) month agreement in effect through June 30, 1990. Under the terms of this lease, the System was required to make monthly payments which included a provision for utilities and building maintenance. Office rental expense amounted to \$269,799 and \$284,508 for fiscal years 1990 and 1989, respectively.

(11) Accrued Compensated Absences

Employees of the 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, 1990 and 1989 was \$359,810 and \$316,150, respectively.

(12) New Office Facility

During the fiscal year ended June 30, 1990, the System completed construction of a new office facility. The building, including land, and land improvements cost \$3,992,077.

(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, and
- (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, 1990 and 1989

	Participants' contributions	Interest accumulations	Other future benefits	Total Fund Balance
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
Add (deduct):				
Excess of revenue over expenses	\$ 93,218,474	\$ -	\$ 122,149,790	\$ 215,368,264
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(27,373,147)	-	27,373,147	-
Interest credited to members' accounts	-	46,191,337	(46,191,337)	-
Balance at June 30, 1990	\$ 823,025,513	\$ 380,950,235	\$ 1,591,591,362	\$ 2,795,567,110

(14) Change in Reporting Requirements

The Governmental Accounting Standards Board (GASB) issued Statement No. 9 entitled "Reporting Cash Flow: of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting" effective for fiscal years beginning after December 15, 1989 with earlier application encouraged but not required. This Statement established certain standards for the reporting of entity cash flows.

The provisions of GASB Statement No. 9 are applicable to proprietary funds, nonexpendable trust funds, and governmental entities that use proprietary fund accounting. Public employee retirement systems (PERS) and pension trust funds are exempt from the requirement to present a statement of cash flows. In addition, pension trust funds are not required to present a statement of changes in financial position.

Since the GASB encourages earlier application of GASB Statement No. 9, the System Trust Fund has elected to early implement the requirements of Statement No. 9 and, therefore, is not including a statement of change in financial position for the fiscal years ended June 30, 1990 and 1989.

Analysis of Funding Progress (in thousands of dollars)

FY	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation**	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
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
1990	2,795.6	4,538.1	61.6	1,742.5	2,270.3	76.8

*At cost
**Pension Benefit Obligation information is not available for years prior to 1985.

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

Revenues by Source and Expenses by Type

Revenues by Source				General Revenue Fund Appropriations, Less balances		
FY Ended June 30	Member Contributions	State Contributions	Investment Income	Sub Total	Lapsed	Total
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
1990	110,109,685	107,938,094	213,139,724	431,187,503	69,142	431,256,645

Expenses by Type		Administrative Expenses, System Trust Fund			Administrative Expenses, Contribution Fund		Total
FY Ended June 30	Contribution Refunds and Transfers	Expenses, System Trust Fund	Other Expenses *	Sub Total	Contribution Fund	Total	
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
1990	199,606,912	12,325,179	3,887,148		215,819,239	69,142	215,888,381

*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 gains and losses have been distributed annually.

Analysis of Employer Contributions - Fiscal Year 1981 through 1990

Fiscal Year	(1) Board Approved Rate(A)	(2) Annual Covered Payroll	(3) Employer Contributions Required (1 x 2)	Employer Contribution Made					(8) (4 + 5 + 6 + 7) Total	(8-3) Excess (Deficiency) of Contrib. Made Over Contr. Req.	(8 : 2) Employer Contrib. as a % of Covered Payroll
				(4) Employer Contr. (B)	(5) State Pension (C)	(6) Senate Res. No. 33 (D)	(7) Other (E)				
1981	7.500%	\$ 1,253,016,000	\$ 93,976,200	\$ 94,542,451	\$ 2,376,000			\$ 96,918,451	\$ 2,942,251	7.73%	
1982	6.820%	1,334,262,000	90,996,668	60,348,375	1,152,000			61,500,375	(29,496,293)	4.61	
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)	5.21	
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)	6.01	
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)	6.02	
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)	5.96	
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)	6.00	
1988	7.240%	1,953,960,000	141,466,704	97,725,922	1,673,700	591,300		99,990,922	(41,475,782)	5.12	
1989	6.300%	2,106,121,000	132,685,623	96,564,193	1,907,800			98,471,993	(34,213,630)	4.68	
1990	6.200%	2,270,303,000	140,758,786	104,019,494	2,030,000		\$ 1,888,600	107,938,094	(32,820,692)	4.75	

(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.

(E) = In fiscal year 1990, the System Trust Fund received an additional appropriation from the State of Illinois for the employer contribution.

Supplementary Financial Information

**Combining Balance Sheets
Year Ended June 30, 1990 and 1989**

	1990			1989		
	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	\$ 11,187,478	\$ -	\$ 11,187,478	\$ 9,730,385	\$ -	\$ 9,730,385
Cash, restricted for Social Security remittances	-	599,415	599,415	-	2,937,582	2,937,582
Receivables:						
Contributions receivable:						
Participants	4,449,365	-	4,449,365	4,029,512	-	4,029,512
Employing State Agencies	2,927,125	-	2,927,125	2,369,165	-	2,369,165
Other accounts receivable	696,034	-	696,034	649,028	-	649,028
	<u>8,072,524</u>	<u>-</u>	<u>8,072,524</u>	<u>7,047,705</u>	<u>-</u>	<u>7,047,705</u>
Investments	2,775,885,256	-	2,775,885,256	2,565,152,803	-	2,565,152,803
Property and equipment, net of accumulated depreciation	4,340,351	-	4,340,351	1,103,973	-	1,103,973
Total Assets	\$2,799,485,609	\$ 599,415	\$2,800,085,024	\$2,583,034,866	\$2,937,582	\$2,585,972,448
Liabilities and Fund Balance						
Benefits payable	\$ 1,503,057	\$ -	\$ 1,503,057	\$ 1,316,173	\$ -	\$ 1,316,173
Refunds payable	308,865	-	308,865	210,298	-	210,298
Administrative expenses payable	1,317,286	-	1,317,286	592,389	-	592,389
Participants' deferred service credit accounts	789,291	-	789,291	717,160	-	717,160
Unremitted Social Security contributions	-	223,636	223,636	-	2,297,725	2,297,725
Amounts held for Social Security remittances	-	375,779	375,779	-	639,857	639,857
Total Liabilities	\$ 3,918,499	\$ 599,415	\$ 4,517,914	\$ 2,836,020	\$2,937,582	\$ 5,773,602
Fund Balance						
Actuarial present value of credited projected benefits	4,538,074,194	-	4,538,074,194	3,752,134,283	-	3,752,134,283
(Less) unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(1,742,507,084)	-	(1,742,507,084)	(1,171,935,437)	-	(1,171,935,437)
Total Fund Balance	\$2,795,567,110	\$ -	\$2,795,567,110	\$2,580,198,846	\$ -	\$2,580,198,846
Total Liabilities and Fund Balance	\$2,799,485,609	\$ 599,415	\$2,800,085,024	\$2,583,034,866	\$2,937,582	\$2,585,972,448

**Social Security Contribution Fund
Statements of Changes in Assets and Liabilities
Years Ended June 30, 1990 and 1989**

	1990				1989			
	Balance July 1, 1989	Additions	(Deductions)	Balance June 30, 1990	Balance July 1, 1988	Additions	(Deductions)	Balance June 30, 1989
Assets								
Cash, restricted for Social Security remittances	\$ 2,937,582	\$ 687,626	\$(3,025,793)	\$ 599,415	\$ 2,252,064	\$ 836,972	\$(151,454)	\$ 2,937,582
Liabilities								
Unremitted Social Security contributions	\$ 2,297,725	\$ -	\$(2,074,089)	\$ 223,636	\$ 1,822,858	\$ 773,087	\$(298,220)	\$ 2,297,725
Amounts held for Social Security remittances	639,857	-	(264,078)	375,779	429,206	210,651	-	639,857
	<u>\$ 2,937,582</u>	<u>\$ -</u>	<u>\$(2,338,167)</u>	<u>\$ 599,415</u>	<u>\$ 2,252,064</u>	<u>\$ 983,738</u>	<u>\$(298,220)</u>	<u>\$ 2,937,582</u>

SYSTEM TRUST FUND

SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 1990 and 1989

	1990	1989
Contributions:		
Participants	\$108,468,302	\$100,572,995
Repayments of contributions refunded	479,238	372,417
Interest received from participants	<u>1,162,145</u>	<u>860,005</u>
Total participants contributions	<u>\$110,109,685</u>	<u>\$101,805,417</u>
Employing state agencies	\$104,019,494	\$ 96,564,193
State Pension Fund appropriation	2,030,000	1,907,800
Supplemental state contribution	<u>1,888,600</u>	<u>-</u>
Total state contributions and appropriations	<u>\$107,938,094</u>	<u>\$ 98,471,993</u>
Investments:		
Net investment income	\$153,781,412	\$144,158,970
Interest earned on cash balances	1,407,272	1,363,317
Net realized gain on sale of investments	<u>57,951,040</u>	<u>53,930,111</u>
Total investment revenue	<u>\$213,139,724</u>	<u>\$199,452,398</u>
Total Revenue	<u>\$431,187,503</u>	<u>\$399,729,808</u>

SYSTEM TRUST FUND

SUMMARY SCHEDULE OF CASH RECEIPTS
AND DISBURSEMENTS

Years Ended June 30, 1990 and 1989

	1990	1989
Cash balance, beginning of year	\$ 9,730,385	\$ 9,893,839
Receipts:		
Member contributions	107,175,386	99,317,195
Employer contributions	105,359,811	96,658,141
State Pension Fund contribution	2,030,000	1,907,800
Transfers from Illinois State Board of Investment	24,000,000	15,000,000
Interest income on cash balance	1,404,658	1,340,224
Claims receivable payments	725,830	645,198
Installment payments - prior service credit	632,804	654,189
Other	<u>138,625</u>	<u>204,516</u>
Total cash receipts	<u>\$ 241,467,114</u>	<u>\$ 215,727,263</u>
Disbursements:		
Annuity payments:		
Retirement annuities	\$ 154,494,116	142,856,989
Widow's annuities	2,866,006	2,955,003
Survivors' annuities	18,806,757	17,707,906
Death benefits	8,363,251	7,821,152
Disability benefits	13,602,436	13,058,386
Refunds	12,419,696	13,020,966
Administrative expenses	6,457,759	3,470,315
Transfers to Illinois State Board of Investment	<u>23,000,000</u>	<u>15,000,000</u>
Total cash disbursements	<u>\$ 240,010,021</u>	<u>\$ 215,890,717</u>
Cash balance, end of year	<u>\$ 11,187,478</u>	<u>\$ 9,730,385</u>

REVENUES

Total revenue of \$431.2 million for FY 1990 was a \$31.5 million increase from the FY 1989 level of \$399.7 million. Net income from investments and net realized gains on sales of investments increased from the prior fiscal year.

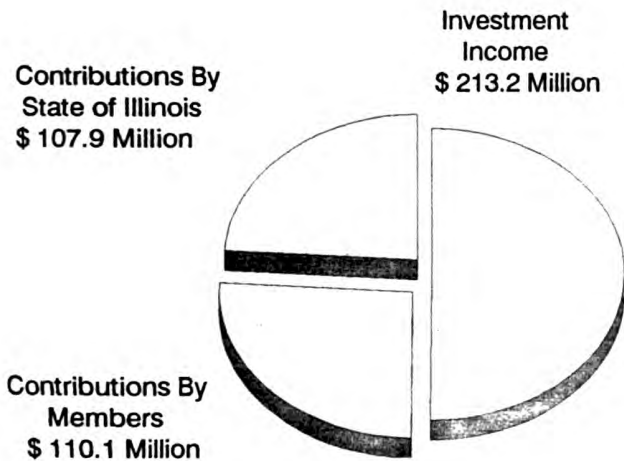
Revenue Source	FY 90 (Millions)	FY 89 (Millions)	Increase/(Decrease)	
			(Amount)	(Percentage)
Member Contributions	\$ 110.1	\$ 101.8	\$ 8.3	8.2%
State Contributions	107.9	98.5	9.4	9.5
Investment Income	<u>213.2</u>	<u>199.4</u>	<u>13.8</u>	<u>6.9</u>
Total	\$ 431.2	\$ 399.7	\$ 31.5	7.9%

There were 2,560 more active members as of June 30, 1990 than on June 30, 1989. This increase of 3.3% in membership and average wage increases of 6.5% resulted in an increase of 7.8% in wages subject to retirement contributions. State contributions increased by 9.5% (\$9.4 million). Member contributions were \$8.3 million (8.2%) higher than for FY 1989. As shown in the table below, the average rate of contributions by members in FY 1990 was 4.85% compared to 4.83% in FY 1989.

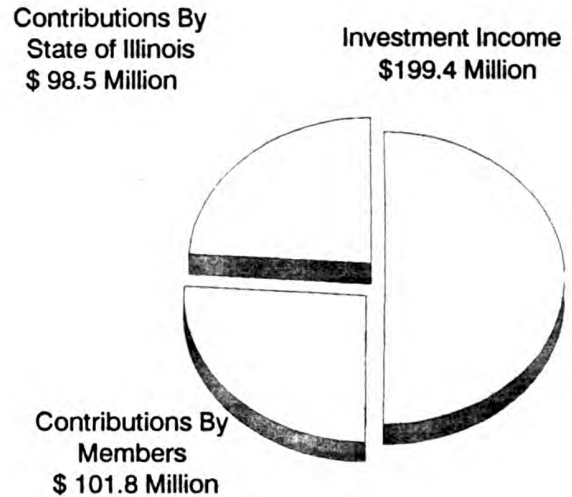
Active Membership	FY 90	FY 89	Increase/(Decrease)	
			(Number/Amount)	(Percentage)
Coordinated Members	70,294	67,389	2,905	4.3%
Noncoordinated Members	<u>8,917</u>	<u>9,262</u>	<u>(345)</u>	<u>(3.7)</u>
Total Active Members	79,211	76,651	2,560	3.3%
Earnings Reported				
All Members (Millions)	\$ 2,270.3	\$ 2,106.1	\$ 164.2	7.8%
Average Rate of Contributions				
All Members	4.85%	4.83%		

The System has approximately \$692,000 of arrearages and overpayments as of June 30, 1990. There were 629 accounts with arrearages, 152 claim overpayments and 7 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 1990
TOTAL REVENUES
\$ 431.2 MILLION



REVENUES BY SOURCE 1989
TOTAL REVENUES
\$ 399.7 MILLION



Gross investment income for 1990 of \$163,024,017, less the Investment Board's administrative expenses of \$9,242,604, resulted in net investment income of \$153,781,412. This amount, when combined with the net realized gain on sale of investments of \$57,951,040, provided net revenue from investments of \$211,732,452. Transfers of funds to the Illinois State Board of Investment amounted to \$23,000,000 and transfers from the Board of \$24,000,000 resulted in a net reduction in investments of \$1,000,000. The balance of investments at cost increased by \$210,732,453 from June 30, 1989 through June 30, 1990. The following table shows a comparison of investment operations for FY 1990 and FY 1989.

	1990	1989	Increase/(Decrease) (Amount)	(Percentage)
Balance at beginning of year, at cost	\$2,565,152,803	\$2,367,063,722	\$198,089,081	8.4%
Cash remitted to (from) investment (net)	(1,000,000)	0	(1,000,000)	N/A
Investment income:				
Commingled Fund income	163,024,017	151,035,364	11,988,653	7.9
Less Expenses	(9,242,604)	(6,876,394)	(2,366,210)	34.4
Net investment income	153,781,413	144,158,970	9,622,443	6.7
Distributed Net Realized Gain/(Loss) on Sale of Investments	57,951,040	53,930,111	4,020,929	7.5
Balance at end of year, at cost	\$2,775,885,256	\$2,565,152,803	\$210,732,453	8.2%
Market value	\$3,066,984,813	\$2,841,895,943	\$225,088,870	7.9%

In addition, interest on the average balance in the System Trust Fund's account for FY 1990 was \$1,407,272 compared to \$1,363,317 during FY 1989.

EXPENSES

The number of members receiving retirement annuities on June 30, 1990 was 1.2% above the June 30, 1989 level reflecting the normal pattern of increase during the past 10 years; however, the cost of these annuities increased by 8.2% over the FY 1989 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. Survivors' annuities increased at a near normal rate of 1.5% in number with 4.8% increase in dollar costs. Continued review of the disability recipient eligibility helped minimize the increase in the number of recurring benefit payments for disability by 2.9% while disability benefits increased in dollar amount by 6.3%.

	FY 90 (Millions)	FY 89 (Millions)	Increase/(Decrease)	
			(Amount)	(Percentage)
Retirement annuities	\$154.4	\$ 142.7	\$ 11.7	8.2%
Survivors' annuities	22.0	21.0	1.0	4.8
Disability benefits	15.3	14.4	.9	6.3
Lump sum death benefits	7.9	7.3	.6	8.2
Refunds	12.3	12.5	(.2)	(1.6)
Administrative expense	3.9	3.4	.5	14.7
TOTAL EXPENSES	\$215.8	\$ 201.3	\$ 14.5	7.2%

NUMBER OF RECURRING BENEFIT PAYMENTS

	FY Ended June 30, 1989	New claims Processed During FY 90	Benefits Ceased During FY 90	FY Ended June 30, 1990	Increase/(Decrease)	
					(Amount)	(Percentage)
Retirement	23,572	1,356	1,064	23,864	292	1.2%
Survivors'	8,499	525	395	8,629	130	1.5
Disability	1,458	1,724	1,681	1,501	43	2.9
TOTALS	33,529	3,605	3,140	33,994	465	1.4%

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 decrease of \$.2 million (1.6%) in FY 1990. 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, 1990, the funds available for payment of current and future benefits were \$2,795.6 million as shown in the following schedule:

Assets	FY90 (Millions)	FY89 (Millions)	Increase/ (Decrease)
Cash	\$ 11.2	\$ 9.7	\$ 1.5
Receivables (less payables)	4.2	4.2	-
Investments	2,775.9	2,565.2	210.7
Fixed Assets (net of accumulated depreciation) ..	<u>4.3</u>	<u>1.1</u>	<u>3.2</u>
NET ASSETS	<u>\$ 2,795.6</u>	<u>\$ 2,580.2</u>	<u>\$ 215.4</u>

Total System Trust Fund revenues for FY 1990 of \$431.2 less expenditures of \$215.8 million resulted in a net increase to reserves of \$215.4 million.

Reserves	FY 90 (Millions)	FY89 (Millions)	Net Increase
Member Contributions	\$ 823.0	\$ 757.2	\$ 65.8
Future Operations	<u>1,972.6</u>	<u>1,823.0</u>	<u>149.6</u>
NET ASSETS	<u>\$ 2,795.6</u>	<u>\$ 2,580.2</u>	<u>\$ 215.4</u>

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to \$27.4 million.

SOCIAL SECURITY

On September 15, 1953, the State of Illinois and the Federal Government signed an agreement making social security coverage available to public employees in Illinois. 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 1,600 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 1990, the Social Security Unit received \$688,000 of contributions from various political subdivisions. In addition, the Unit vouchered approximately \$2,445,000 to the State of Illinois as a refund of an overpayment and paid \$577,000 to the U.S. Treasury. 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 one full-time employee. 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 \$69,142 and \$97,958 for fiscal years 1990 and 1989, respectively.

Actuarial Section

Actuary's Report

Introduction

Actuarial Cost Method and Summary of Major Actuarial Assumptions

Valuation Results

Glossary of Pension Terms

Short-term Solvency Test

Analysis of Funding

Analysis of Financial Experience

Schedule of Retirants Added to and Removed From Rolls

Schedule of Survivors' Annuitants Added to and Removed From Rolls

Schedule of Disability Recipients Added to and Removed From Rolls

Reconciliation of Unfunded Actuarial Liability

THE *Wyatt* COMPANY

ACTUARIAL SERVICES
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 CHICAGO, ILLINOIS 60606-3308
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October 16, 1990

Board of Trustees and Executive Secretary
 State Employees' Retirement System of Illinois
 P. O. Box 19255
 2101 South Veteran Parkway
 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, 1990.

Since the last valuation there have been several changes which affected SERS costs and liabilities. The actuarial assumptions used to process the valuation, which are specified by the Board with the recommendation of the Actuary, were changed effective June 30, 1990, resulting in an increase of approximately 4.3% in the accrued actuarial liability (AAL). Legislation affecting benefit provisions was enacted resulting in an increase of approximately 6.7% in the AAL.

Senate Bill 95 (SB95) and House Bill 332 (HB332), were passed by the legislature in June of 1989 and approved by the governor in August of that year. The effect of these bills on the AAL is first disclosed in this 1990 valuation. However, because the contribution requirements for the 1991 fiscal year were based on the June 30, 1989 actuarial valuation, the annual funding requirements developed therein reflected the provisions of these bills. 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 (Chester, Illinois facility only), 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.

OFFICES IN PRINCIPAL CITIES AROUND THE WORLD

Original from

UNIVERSITY OF ILLINOIS AT
 STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
 URBANA-CHAMPAIGN

Pursuant to the law establishing the System, the actuary shall investigate the experience under the System at least once every five years. The Wyatt Company, as the actuary, completed such a review for the five year period ending June 30, 1990 and recommended assumptions which were adopted by the Board effective June 30, 1990, and which were used for the current valuation. 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. 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 1991 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. Standardized assumptions were used to supply any missing birthdate or salary information. All other data was used without change.

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, 1990. The contribution rate determined complies with the applicable law in force as of June 30, 1990.

THE WYATT COMPANY

By S. Lynn Hill
S. Lynn Hill
Consultant

By Lloyd L. Nordstrom
Lloyd L. Nordstrom
Fellow Of The Society of Actuaries

THE *Wyatt* COMPANY

Original from

UNIVERSITY OF ILLINOIS AT
URBANA-CHAMPAIGN

INTRODUCTION

For many years, the state contribution to the System Trust Fund has been based on projected benefit payments (payout). For fiscal year 1990, 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. The System Trust Fund receives an annual appropriation from the State Pension Fund, and in fiscal year 1990, also received a supplemental state appropriation.

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. For the second consecutive year, employee contributions exceeded employer contributions to the System Trust Fund. This fact underscores the need for the development and implementation of a systematic and rational funding plan for the System.

In an attempt to address the pension funding dilemma, the state legislature passed S.B.95 in August, 1989, which provided 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 began in FY 1990, however, the state did not adequately fund the System with the actuarially required contributions.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For Fiscal years 1990 and 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.

Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. For purposes of determining future employer contributions, however, the actuarial gains and losses are amortized over a 40-year period as a level percentage of payroll.

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-90 and FY-89 follows:

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

Interest: 8% per annum, compounded annually.

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

Age	Rate	
	Males	Females
20	.188	.377
25	.126	.144
30	.085	.096
35	.062	.072
40	.047	.056

Age	Rate	
	Males	Females
45	.038	.041
50	.032	.030
55	.030	.030
60	.030	.030
65	.030	.030

Salary Increases: 1990 - Retirement rates vary by age.
Illustrative rates of increase per annum, compounded annually:

Age	Males & Females	Components	
		Merit	Inflation
20	9.2%	4.7%	4.5%
25	8.7	4.2	4.5
30	8.2	3.7	4.5
35	7.7	3.2	4.5
40	7.2	2.7	4.5
45	6.7	2.2	4.5
50	6.2	1.7	4.5
55	5.7	1.2	4.5
60	5.2	.7	4.5
65	5.0	.5	4.5

1989 - 6 1/2% 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.

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VALUATION RESULTS

Actuarial Liability (Reserves)	FY-90	FY-89
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	\$ 1,641,954,167	\$ 1,418,366,965
Survivor Annuities	214,764,228	164,394,170
Disability Annuities	65,636,773	63,549,013
Deferred:		
Retirement Annuities	1,135,115	1,312,735
Survivor Annuities	8,635,844	6,257,501
Total	<u>\$ 1,932,126,127</u>	<u>\$ 1,653,880,384</u>
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	61,844,342	55,409,933
Eligible for Return of Contributions Only	5,576,322	5,320,507
Total	<u>\$ 67,420,664</u>	<u>\$ 60,730,440</u>
For Active Members	<u>2,538,527,403</u>	<u>2,037,523,459</u>
Actuarial Present Value of Credited Projected Benefits	<u>\$ 4,538,074,194</u>	<u>\$ 3,752,134,283</u>
Assets, Book Value (Cost)	<u>2,795,567,110</u>	<u>2,580,198,846</u>
Unfunded Actuarial Present Value of Credited Projected Benefits	<u>\$ 1,742,507,084</u>	<u>\$ 1,171,935,437</u>

GLOSSARY OF PENSION TERMS:

1. ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS -

This value is defined in GASB Statement No. 5 as the pension benefit obligation (PBO), which is "a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date".

3. UNFUNDED ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS -

This is the difference between the actuarial present value of credited projected benefits and the actuarial value of assets of the pension plan. It includes the unfunded prior and past service costs as well as normal costs not funded by the employer and actuarial gains and losses.

4. NORMAL COST -

This is the pension cost for service during the period as determined by an actuarial cost method.

5. PAST SERVICE COST -

At the inception of a plan, credit is often given to employees for services rendered before creation of the plan. Naturally, no contributions would have been made by the employer. Therefore, a cost has been incurred but not funded. This is called past service cost.

Generally accepted accounting principles provide that these costs should be deferred and recognized over future periods. The logic to this follows from the presumption that the employer granted these pension benefits for past service because some future value from better employee morale and higher productivity will be obtained. Thus, past service costs are deferred and recognized over the expected period of benefit. The convention has been to amortize past service costs over a period of 40 years, which is the approximate working lifetime of employees.

Past service costs can be amortized using a level dollar amount or a level percent of pay. Amortization payments are determined in the same way a mortgage payment is determined.

6. PRIOR SERVICE COSTS -

Pension plan benefits are often changed by amendments. When such a change gives credit for employee services rendered prior to the amendment, it gives rise to what are called prior service costs.

These are treated like past service costs, that is, the amount is deferred and amortized over future periods. As a practical matter, actuaries do not treat past and prior service costs separately but are instead handled as one value.

7. ACTUARIAL GAINS AND LOSSES -

Actual events usually differ from assumptions made by an actuary. The dollar effect of these variances from assumed values is an actuarial gain or loss. Actuarial gains and losses can also include the effects on the actuarial present value of benefits resulting from changes in actuarial assumptions.

Portfolio investment returns are another major source of actuarial gains and losses affecting pension expense (contribution) for the period. The discount rate was the expected return on pension plan investments. Therefore, if the portfolio's actual returns exceed the expected return (discount rate), an actuarial gain results and employer contributions are reduced. If returns are less than expected, there is an actuarial loss, and employer contributions are increased.

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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)
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
1990	823,025	1,932,126	1,782,923	2,795,567	100.0	100.0	2.3

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.)

Fiscal Year	Total Actuarial Liability	Net Assets	(in thousands of dollars)		Member Payroll	Unfunded Actuarial Liability as a % of Member Payroll
			Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability		
1981	\$ 2,193,130	\$ 1,081,805	49.3%	\$ 1,111,325	\$ 1,253,016	89.0%
1982	2,507,807	1,200,142	47.9	1,307,665	1,334,262	98.0
1983	2,803,699	1,408,780	50.2	1,394,919	1,378,735	101.0
1984	3,082,194	1,581,326	51.3	1,500,907	1,437,546	104.0
1985	2,827,329	1,707,259	60.4	1,120,070	1,569,532	71.0
1986	3,113,335	1,974,095	63.4	1,139,240	1,713,755	66.0
1987	3,361,723	2,225,883	66.2	1,135,840	1,825,196	62.0
1988	3,641,579	2,381,806	65.4	1,259,773	1,953,960	65.0
1989	3,752,134	2,580,199	68.8	1,171,935	2,106,121	56.0
1990	4,538,074	2,795,567	61.6	1,742,507	2,270,303	77.0

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ANALYSIS OF FINANCIAL EXPERIENCE

Gain (Loss) in Actuarial Liability for Fiscal Years ending June 30, 1990 and 1989 are as follows:

	1990	1989
1. Actuarial Gains (Loss)		
(a) Age & Service Retirements	\$ (32,243,743)	\$ (25,976,199)
(b) Incidence of Disability	(1,634,929)	(1,519,256)
(c) In-Service Mortality	(3,983,963)	(4,849,061)
(d) Retiree Mortality	1,361,738	(223,533)
(e) Disabled Mortality	55,701	107,585
(f) Termination of Employment	(24,540,651)	(17,585,391)
(g) Salary Increases	(5,058,229)	(25,390,148)
(h) Investment Income	6,636,389	8,949,482
(i) Other	(9,671,908)	(4,029,945)
Total Actuarial Gain (Loss)	<u>\$ (69,079,595)</u>	<u>\$ (70,516,466)</u>
2. Contribution (Income)	\$ (60,475,981)	\$ (58,028,072)
3. Non-Recurring Items		
(a) Changes in Actuarial Assumptions	\$(185,673,427)	\$ -
(b) Change in Cost Method	-	202,280,426
(c) Change in Data Provided by SERS		
(i) Service credit history	-	25,354,216
(ii) Reciprocal service	-	(11,252,577)
(iii) Current Average compensation	(3,819,591)	-
(d) Increases due to new legislation	(251,523,053)	-
Total Non-Recurring Gain (Loss)	<u>\$(441,016,071)</u>	<u>\$216,382,065</u>
Total Financial Gain (Loss)	<u>\$(570,571,647)</u>	<u>\$ 87,837,527</u>

**Schedule of Retirants
Added To and Removed From Rolls**

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1990	23,572	1,356	(1,064)	23,864

**Schedule of Survivors' Annuitants
Added To and Removed From Rolls**

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1990	8,499	525	(395)	8,629

**Schedule of Disability Recipients
Added To and Removed From Rolls**

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1990	1,458	1,724	(1,681)	1,501

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-90	FY-89
Unfunded Liability, Beginning of Fiscal Year	\$ 1,171,935,437	\$ 1,259,772,964
Contributions Due		
Interest on the Unfunded Liability	113,876,679	100,781,837
Total Normal Cost	56,553,248	151,944,310
Participants (includes Repayment of Refunds)	110,109,685	1,232,422
Interest on Normal Cost	6,538,268	12,203,893
Total Due	\$ 287,077,880	\$ 266,162,462
Contributions Paid		
Participants	\$ 110,109,685	\$ 101,805,417
Employing State Agencies and Appropriations	107,938,094	98,471,993
Interest on Contributions	8,554,120	7,856,980
Total Paid	\$ 226,601,899	\$ 208,134,390
Increase in the Unfunded Liability	\$ 60,475,981	\$ 58,028,072
Actuarial (Gains) Losses:		
From Investment Return		
Greater Than 8%	\$ (6,636,399)	\$ (8,949,482)
From Salary Increases		
Greater Than 6 1/2%	5,058,229	25,390,148
From Other Sources	70,657,765	54,075,800
Total Actuarial (Gains) Losses	\$ 69,079,595	\$ 70,516,466
Non-Recurring Items:		
(Decrease) Due to Change in Cost Method	\$ -	\$ (202,280,426)
Plan Amendments	251,523,053	-
Changes in Actuarial Assumptions	185,673,427	-
Additional Data Provided by SERS:		
a) Refined service credit history	-	(25,354,216)
b) Reciprocal service with other systems	-	11,252,577
c) Current average compensation	3,819,591	-
Total Non-Recurring Items	441,016,071	(216,382,065)
Total Increase (Decrease) in Actuarial Liability	\$ 570,571,647	\$ (87,897,522)
Unfunded Liability, End of Fiscal Year	\$ 1,742,507,084	\$ 1,171,935,437

Investment Section

Investment Report

Investment Portfolio Summary

Analysis of Investment Performance

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 manages the investment function for the Judges' and General Assembly Retirement Systems. As of June 30, 1990, total net assets under management valued at market, amounted to \$3.284 billion. Of the total assets under management, \$3.067 billion or 93.4% 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 asset classes are: bonds, equities and cash; with smaller positions being allocated to real estate, venture capital and other alternative investments.

Total Fund Results

The Illinois State Board of Investment Commingled Fund (ISBI Fund), totaled \$3.284 billion at market value at the end of its fiscal year, June 30, 1990.

Although this represents an increase in market value of \$235 million, fiscal year 1990 was disappointing in that the rate of return was 8.0%. The ISBI Board's long-term strategy has been very defensive for some time, in view of the fact there has been relatively little, if any, new investment capital received by the ISBI Board from its member systems. On a comparative basis with other funds, the ISBI Fund's assets are deployed in a broader diversification; a smaller percentage of the ISBI Fund's total assets are allocated to equity securities; and there is a greater concentration of equity securities being managed by "value" oriented external managers - all of these factors, in the ISBI Board's opinion, reduce risk and volatility, but also may result in lower rates of return, particularly during periods when equities generally perform well.

Nonetheless, when viewed over the eight year period since the adoption of the prudent person legislation, the ISBI Fund has produced a compounded annual rate of return of 14.1% and net assets have increased by \$2.2 billion, of which only \$115 million represented new contributions from member systems.

During the fiscal year 1990, the ISBI Board completed its previously announced long-term strategy of engaging active external managers to manage the ISBI Fund's equity portfolio. Except for an \$80 million internally managed "growth" portfolio, all of the ISBI Fund's equity securities are now managed externally by domestic, international or global active managers.

As the last step in implementing the foregoing strategy, the ISBI Board, assisted by Pension Consulting Alliance, selected four external domestic managers, all of whom have different investment philosophies and all of whom, except Disciplined Investment Advisors, are new managers. Those selected were: Disciplined Investment Advisors, The Marshall Plan, Southeastern Asset Management, and T-K Capital.

Fixed Income

The return of the fixed income component for the fiscal year was negatively impacted by the (1.5%) return on high-yield bond holdings. Since the ISBI Board began any significant investing in the high-yield sector in November, 1987, the compound annual return through June 30, 1990, for the high-yield component has been 3.5%.

Comparative returns of the composite of the funds allocated to the fixed income managers and the benchmark indices are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	5.9%	9.0%	10.1%
Shearson Lehman G/C	7.1	9.0	10.3
Shearson Lehman Aggregate	7.8	9.4	10.6

Equity

The equity component underwent significant changes during the fiscal year. The five global and international managers selected by the ISBI Board at the end of the last fiscal year were funded \$50 million each during the first half of the fiscal year. Adding the preexisting global account of \$51 million managed by Templeton, the total international/global allocation amounted to \$301 million or about 20% of the equity portion of the ISBI Fund. The resources were derived from the two internally managed domestic equity portfolios, the larger one of which was permanently discontinued. In addition, one externally managed domestic equity portfolio was discontinued for performance reasons. The four new domestic equity managers are being funded in the first quarter of fiscal year 1991. As of June 30, 1990, funds under management by domestic, global, and international equity managers totaled \$1,166 million, \$209 million, and \$100 million, respectively.

The composite return of the funds managed by all of the equity managers was 10.5% versus the S&P 500's return of 16.4% for the fiscal year. Returns for additional time periods are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	10.5%	7.3%	14.0%
S&P 500	16.4	9.3	17.3

Real Estate

The combined real estate portfolio is well diversified by property location, having 25% of its assets in the Western States, 13% in the Midwest, 23% in the South, 17% in the East, 18% in Canada, and 3% in the United Kingdom. The allocation according to property type is 32% retail, 25% office, 15% apartment, 14% warehouse and research and development, with the remaining 14% in mixed use, land and miscellaneous. No new investments were approved by the ISBI Board in fiscal year 1990. The market value of the real estate portfolio amounts to 10.3% of the total ISBI Fund, which is at the ISBI Boards' target allocation for real estate.

Returns for the combined real estate portfolio compared to the benchmark index for unleveraged institutional grade property returns are as follows:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	6.1%	7.7%	8.2%
NCREIF	5.3	6.3	6.5

Non-Marketable Securities

During the fiscal year, the ISBI Board committed \$15 million to Premiere Partners I Limited Partnership which will invest in farmland primarily in Illinois and Indiana. This venture will hold title on an unleveraged basis in prime farmland enhancing the total portfolio's diversification while providing a hedge against inflation. The venture capital portion of this category which is represented by investments in Frontenac Venture IV & V, Golder Thoma Cressey Fund II, John Hancock L.P. II, Menlo Ventures III, and Prudential Ventures II, and accounts for less than 20% of the total assets in this category, had disappointing investment results on a combined basis. Compound annual returns have ranged from flat to 8% since funding for these investments began about six years ago. The fiscal year return on the Kohlberg, Kravis, Roberts investment, which has a market value in excess of \$115 million and represents nearly three quarters of the non-marketable allocation, was 14.3%.

Returns for additional time periods on the composite for this category are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	7.0%	11.2%	9.2%

Management Expenses

Total operating expenses for the fiscal year were \$9,915,278 as compared to \$7,382,920 for the previous fiscal year. The expense ratio (expenses divided by assets under management) increased from .26% to .31% as a result of the fees of the new global and international managers. The State Employees' Retirement System's share of total operating expenses amounted to \$9,242,604.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1990		June 30, 1989	
	<u>Market Value</u>	<u>Percentage</u>	<u>Market Value</u>	<u>Percentage</u>
Fixed Income	\$ 1,280,391,270	39.0%	\$ 1,121,947,822	36.8%
Equities	1,415,536,152	43.1	1,273,481,163	41.8
Real Estate	338,205,156	10.3	289,133,658	9.5
Non-Marketable	157,978,812	4.8	104,600,570	3.4
Cash equivalents**	91,665,687	2.8	260,098,919	8.5
Net assets at market value	<u>\$ 3,283,777,077 *</u>	<u>100.0%</u>	<u>\$ 3,049,262,132 *</u>	<u>100.0%</u>
Net assets, at cost	<u>\$ 2,971,557,481 *</u>		<u>\$ 2,752,152,181 *</u>	

* 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 1990 were \$3,066,984,813 and \$2,775,885,256, respectively. For fiscal year 1989 the market and cost values were \$2,841,895,943 and \$2,585,152,803 respectively.
**Cash equivalents includes other assets less liabilities.

ANALYSIS OF INVESTMENT PERFORMANCE

	1990	1989	1988	1987	1986
Total Return* - Past 3 years	8.3%				
Total Return* - Past 5 years	11.5%				
Total Return* - year by year	8.0%	14.3	2.5%	8.8%	24.6%
Actuarial Assumed Rate of Return	8.0%				
Average Net Income Yield*	5.2%	5.7%	5.6%	5.3%	6.4%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	5.9%	12.0%	9.3%	5.7%	17.9%
Comparison index:					
Shearson Lehman Government/ Corporate Bond Index	7.1%	12.3%	7.5%	4.7%	20.6%
Comparative rates of return on equities					
Total equities - ISBI	10.5%	17.0%	(4.6%)	14.4%	36.5%
Comparison index:					
S&P 500	16.4%	20.6%	(6.9%)	25.1%	35.7%

* 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.

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, 1990. A copy of the report can be obtained from the Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

Statistical Section

A Comparison of Total Members, Net Assets, and Total Actuarial Liabilities for the Past 10 Years

Balance Sheet Assets

Balance Sheet Liabilities

Revenues by Source

Expenses by Type

Benefit Expenses by Type

Total Membership

Active Membership

Number of Recurring Benefit Payments

Termination Refunds - Number/Amount

Retirement Annuities - Average Monthly Benefit For Current Year Retirees by Type

Retirement Annuities - Current Age of Active Recipients

Retirement Annuities - Average Service (in months) For Current Year Retirees at Effective Date of Benefit

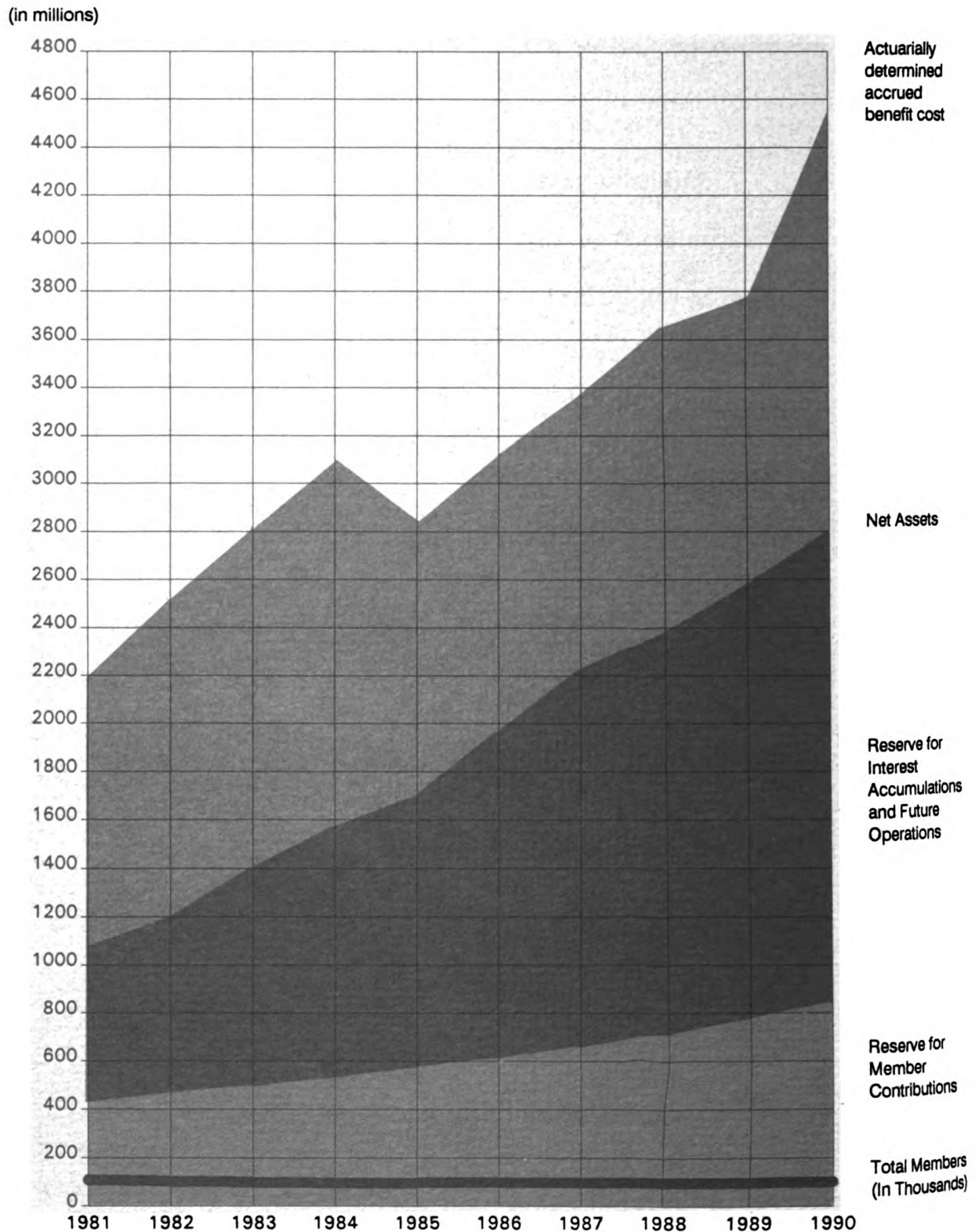
Annuitants by Benefit Range (Monthly)

Widows' and Survivors' by Benefit Range (Monthly)

Occupational and Non-Occupational (Incl. Temp.) Disabilities by Benefit Range (Monthly)

Active Retirees by State

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



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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

BALANCE SHEET ASSETS – SYSTEM TRUST FUND

FY Ended June 30	Cash	Receivables	Investments At Cost	Investment Adjustment	Fixed Assets, Net of Accumulated Depreciation	Total
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
1990	11,187,478	8,072,524	2,775,885,256		4,340,351	2,799,485,609

* 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 Interest Accumulations and Future Operations	Total
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
1990	3,918,499	823,025,513	1,972,541,597	2,799,485,609

REVENUES BY SOURCE--SYSTEM TRUST FUND*

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Total
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
1990	110,109,685	107,938,094	213,139,724	431,187,503

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

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EXPENSES BY TYPE - SYSTEM TRUST FUND*

FY Ended June 30	Benefits	Contribution Refunds	Administrative Expenses	Other Expenses**	Total
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
1990	199,606,912	12,325,179	3,887,148		215,819,239

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

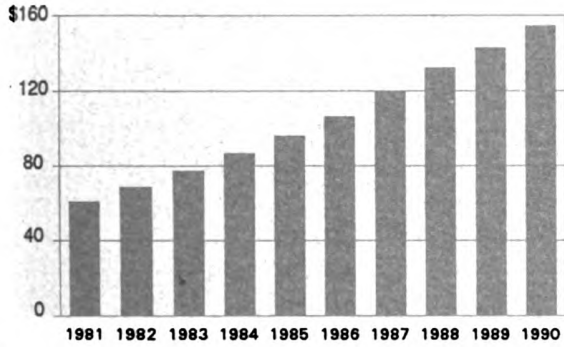
** Net realized loss or (gain) on investments undistributed by the Illinois State Board of Investment. Accumulated net losses from 1970 through 1979 amounted to \$42,998,251. Since 1982 realized losses or gains have been distributed annually.

BENEFIT EXPENSES BY TYPE - SYSTEM TRUST FUND

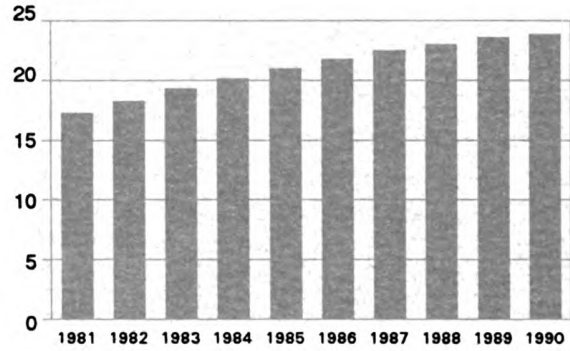
FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
1981	\$ 60,675,795	\$ 12,939,271	\$ 11,598,809	\$ 3,933,424	\$ 89,147,299
1982	68,602,104	14,236,031	13,163,602	4,451,938	100,453,675
1983	77,472,708	15,253,035	14,101,575	5,025,528	111,852,846
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
1990	154,368,901	22,014,615	15,313,434	7,909,962	199,606,912

Age Retirement Annuities

Millions of dollars

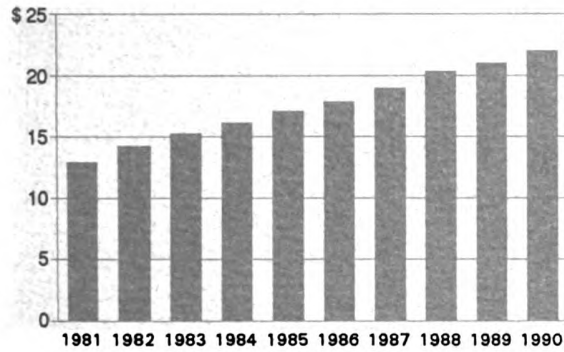


Annuitants (Thousands)

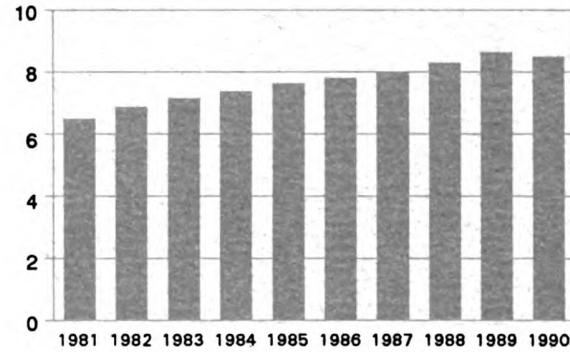


Survivors' Annuities

Millions of dollars

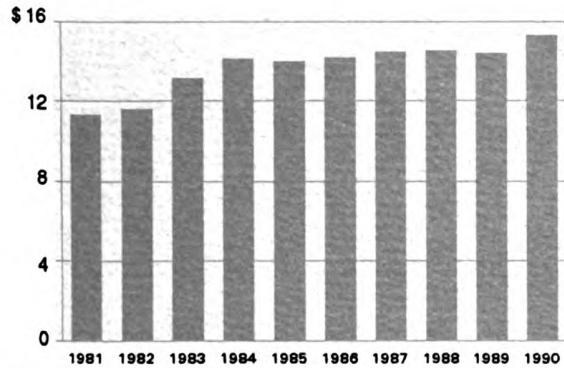


Annuitants (Thousands)

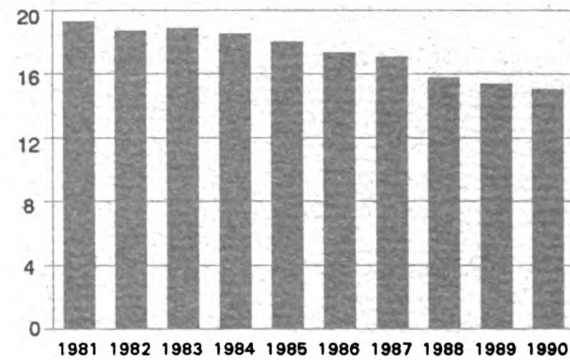


Disability Benefits

Millions of dollars

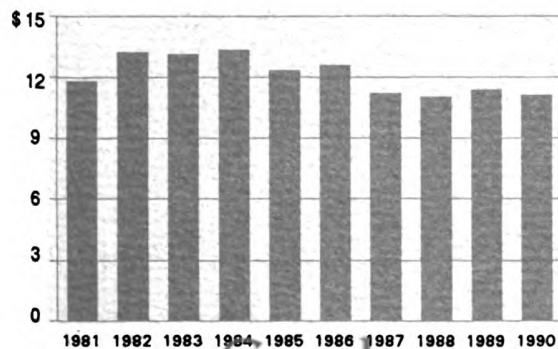


Disability Recipients (Hundreds)

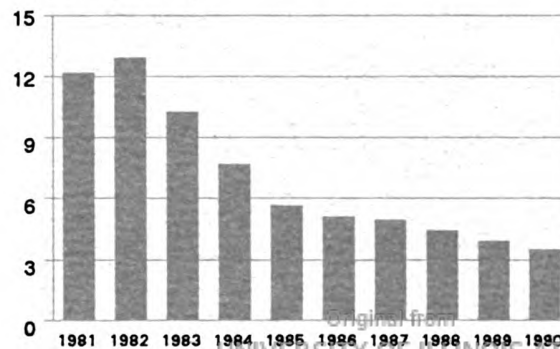


Termination Refunds

Millions of dollars



Number of Refunds (Thousands)



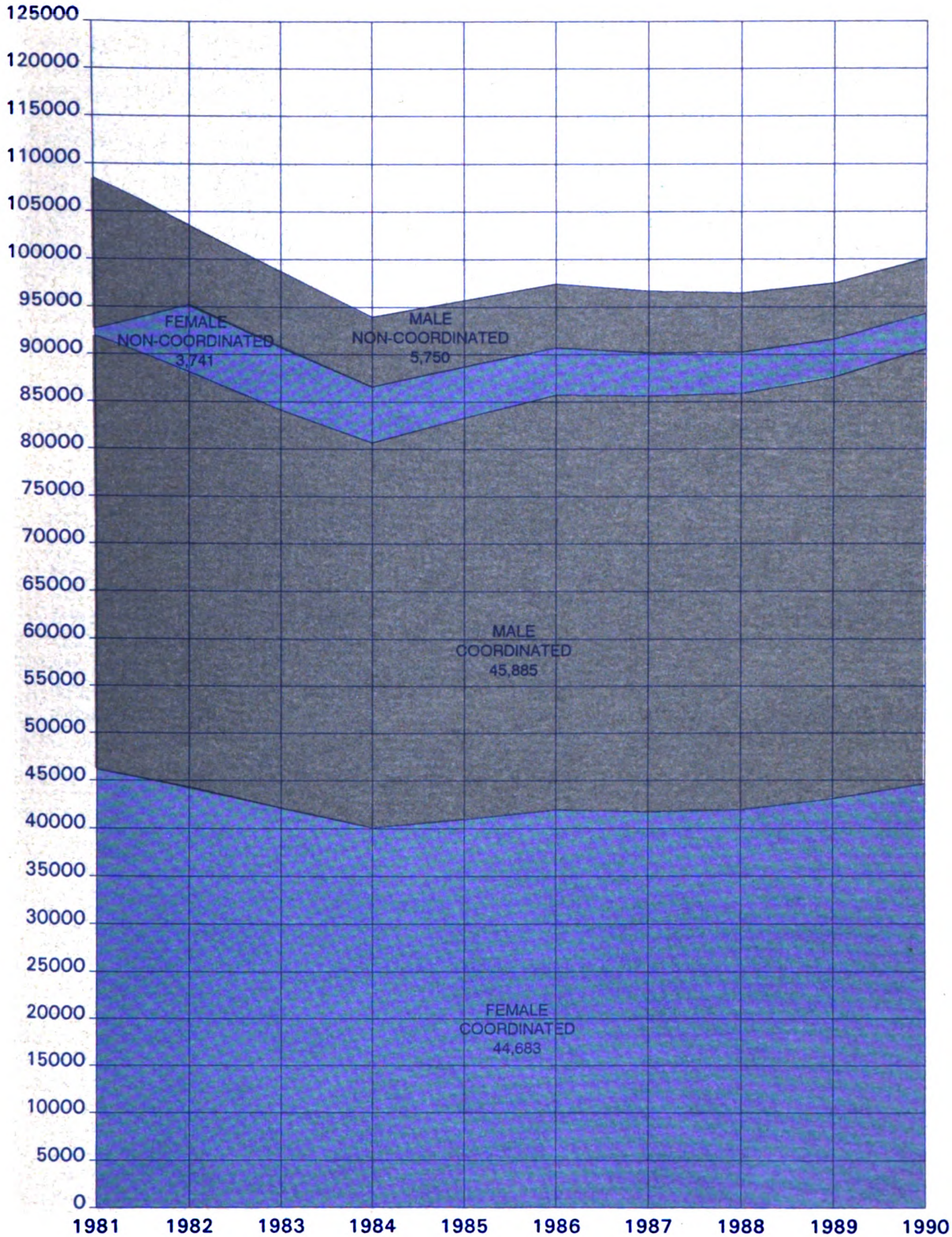
TOTAL MEMBERSHIP – COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Members
	Male	Female	Total	Male	Female	Total			
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
1990	45,885	44,683	90,568	5,750	3,741	9,491	51,635	48,424	100,059

ACTIVE MEMBERSHIP – COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
	Male	Female	Total	Male	Female	Total				
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
1990	34,818	35,476	70,294	5,433	3,484	8,917	40,251	38,960	79,211	2,270,303,000

Total membership - Coordinated/Noncoordinated



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NUMBER OF RECURRING BENEFIT PAYMENTS – SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
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
1990	23,864	8,629	1,501	33,994

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

TERMINATION REFUNDS - NUMBER /AMOUNT - SYSTEM TRUST FUND

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
1990	3,509	11,088,659

RETIREMENT ANNUITIES – SYSTEM TRUST FUND
Average Monthly Benefit For Current Year Retirees By Type

Fiscal Year Ending June 30	1990	1989	1988	1987	1986
Not Coordinated with Social Security	\$ 1,153.58	\$ 975.24	\$ 924.09	\$ 830.86	\$ 803.52
Coordinated with Social Security	411.07	371.83	347.06	325.96	300.00
Alternative Formula	2,903.27	2,450.98	2,340.52	2,134.07	1,973.15
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	1,469.27	1,393.57	1,370.91	1,126.09	1,273.90
Dept. of Corrections - Special Formula Coordinated with Social Security	968.73	863.82	891.39	993.61	845.20
Court Reporters - Not Coordinated with Social Security	1,949.44	-	-	-	-
Court Reporters - Coordinated with Social Security	705.94	-	-	-	-
Total Average	<u>\$ 802.07</u>	<u>\$ 672.93</u>	<u>\$ 670.38</u>	<u>\$ 645.71</u>	<u>\$ 600.68</u>

RETIREMENT ANNUITIES – SYSTEM TRUST FUND
Current Age of Active Recipients

Age	Fiscal Year Ending June 30				
	1990	1989	1988	1987	1986
Under 51	6	1	2	6	13
51-55	168	196	196	189	166
56-60	770	735	700	714	666
61-65	3,517	3,697	3,684	3,623	3,549
66-70	5,808	5,705	5,628	5,522	5,468
71-75	5,485	4,464	5,478	5,508	5,393
76-80	4,325	5,206	4,018	3,839	3,596
81-85	2,391	2,242	2,095	1,974	1,853
86-89	899	852	805	754	688
Over 89	495	474	432	400	379
Total	<u>23,864</u>	<u>23,572</u>	<u>23,038</u>	<u>22,529</u>	<u>21,771</u>
Average age	<u>72.55</u>	<u>72.35</u>	<u>72.19</u>	<u>72.05</u>	<u>71.97</u>

RETIREMENT ANNUITIES – SYSTEM TRUST FUND
Average Service (in months) for Current Year Retirees at Effective Date of Benefit

Fiscal Year Ending June 30	1990	1989	1988	1987	1986
Not Coordinated with Social Security	339.78	319.85	316.25	306.72	310.73
Coordinated with Social Security	209.45	205.34	198.45	194.84	191.48
Alternative Formula	346.42	333.31	340.07	342.90	330.02
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	327.02	326.29	323.25	296.43	332.75
Dept. of Corrections - Special Formula - Coordinated with Social Security	261.29	275.29	272.34	261.44	283.84
Court Reporters - Not Coordinated with Social Security	389.80	-	-	-	-
Court Reporters - Coordinated with Social Security	199.37	-	-	-	-
Total Average	<u>260.82</u>	<u>252.01</u>	<u>251.41</u>	<u>248.60</u>	<u>248.99</u>

Annuitants
by Benefit Range
(Monthly)
June 30, 1990

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-100	1,260	1,260	5.3	5.3
101-200	5,037	6,297	21.1	26.4
201-300	4,020	10,317	16.8	43.2
301-400	2,931	13,248	12.3	55.5
401-500	2,126	15,374	8.9	64.4
501-600	1,556	16,930	6.5	70.9
601-700	1,104	18,034	4.6	75.5
701-800	895	18,929	3.8	79.3
801-900	701	19,630	2.9	82.2
901-1000	623	20,253	2.6	84.8
1001-1100	502	20,755	2.1	86.9
1101-1200	398	21,153	1.7	88.6
1201-1300	351	21,504	1.5	90.1
1301-1400	301	21,805	1.3	91.4
1401-1500	292	22,097	1.2	92.6
1501-1600	254	22,351	1.1	93.7
1601-1700	217	22,568	0.9	94.6
1701-1800	191	22,759	0.8	95.4
1801-1900	160	22,919	0.7	96.1
1901-2000	143	23,062	0.6	96.7
2001-2100	96	23,158	0.4	97.1
2101-2200	100	23,258	0.4	97.5
2201-4940	606	23,864	2.5	100.0

Widow's and Survivors'
by Benefit Range
(Monthly)
June 30, 1990

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-100	2,545	2,545	29.5	29.5
101-200	2,390	4,935	27.7	57.2
201-300	1,788	6,723	20.7	77.9
301-400	945	7,668	11.0	88.9
401-500	516	8,184	6.0	94.9
501-600	161	8,345	1.9	96.8
601-700	126	8,471	1.5	98.3
701-800	70	8,541	0.8	99.1
801-900	39	8,580	0.5	99.6
901-1000	20	8,600	0.2	99.8
1001-1100	14	8,614	0.2	100.0
1101-1200	6	8,620	0.0	100.0
1201-1300	6	8,626	0.0	100.0
1301-1400	1	8,627	0.0	100.0
1401-1500	1	8,628	0.0	100.0
1501-1600	0	8,628	0.0	100.0
1601-1700	0	8,628	0.0	100.0
1701-1800	0	8,628	0.0	100.0
1801-1900	0	8,628	0.0	100.0
1901-2000	1	8,629	0.0	100.0
2001-2100	0	8,629	0.0	100.0
2101-2200	0	8,629	0.0	100.0
2201-4940	0	8,629	0.0	100.0

Occupational and
Non-Occupational
(Incl. Temp) Disabilities
by Benefit Range (Monthly)
June 30, 1990

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-100	38	38	2.5	2.5
101-200	164	202	10.9	13.4
201-300	224	426	14.9	28.3
301-400	165	591	11.0	39.3
401-500	127	718	8.5	47.8
501-600	84	802	5.6	53.4
601-700	101	903	6.7	60.1
701-800	116	1,019	7.7	67.8
801-900	127	1,146	8.5	76.3
901-1000	76	1,222	5.1	81.4
1001-1100	82	1,304	5.5	86.9
1101-1200	67	1,371	4.5	91.4
1201-1300	45	1,416	3.0	94.4
1301-1400	20	1,436	1.3	95.7
1401-1500	20	1,456	1.3	97.0
1501-1600	21	1,477	1.4	98.4
1601-1700	4	1,481	0.3	98.7
1701-1800	2	1,483	0.1	98.8
1801-1900	5	1,488	0.3	99.1
1901-2000	5	1,493	0.3	99.4
2001-2100	1	1,494	0.1	99.5
2101-2200	2	1,496	0.1	99.6
2201-4940	5	1,501	0.4	100.0

Active Retirees by State

ALABAMA	40	LOUISIANA	21	OKLAHOMA	29
ALASKA	2	MAINE	1	OREGON	27
ARIZONA	329	MARYLAND	15	PENNSYLVANIA	23
ARKANSAS	133	MASSACHUSETTS	8	RHODE ISLAND	2
CALIFORNIA	323	MICHIGAN	66	SOUTH CAROLINA	26
COLORADO	67	MINNESOTA	38	SOUTH DAKOTA	5
CONNECTICUT	15	MISSISSIPPI	32	TENNESSEE	64
DELAWARE	3	MISSOURI	187	TEXAS	146
DISTRICT OF COLUMBIA	5	MONTANA	3	UTAH	3
FLORIDA	857	NEBRASKA	9	VERMONT	1
GEORGIA	55	NEVADA	37	VIRGINIA	27
HAWAII	10	NEW HAMPSHIRE	5	WASHINGTON	36
IDAHO	6	NEW JERSEY	7	WEST VIRGINIA	2
ILLINOIS	20,638	NEW MEXICO	36	WISCONSIN	147
INDIANA	119	NEW YORK	22	WYOMING	3
IOWA	45	NORTH CAROLINA	39	OTHER COUNTRIES	17
KANSAS	28	NORTH DAKOTA	5		
KENTUCKY	62	OHIO	38	TOTAL	23,864

Plan Summary and Legislative Section

SUMMARY OF RETIREMENT SYSTEM PLAN (As of June 30, 1990)

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.

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.

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.

MEMBERS 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 - 9 1/2% of salary
- D. Full Time Security Employees of the Department of Corrections; Air Pilots -
 - (1) Coordinated with Social Security - 5 1/2% of salary
 - (2) Without Social Security - 9 1/2% of salary

Members coordinated with social security also pay the current social security tax rate.

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 and Department of Mental Health - Chester, Illinois 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 have 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*		Alternative Formula, i.e. Police and other positions		Court Reporter	
			Under S.S./Not Under S.S.	Under S.S./Not Under S.S.	Under S.S./Not Under S.S.	Under S.S./Not Under S.S.	Under S.S./Not Under S.S.	Under S.S./Not Under S.S.
Each of the first 10 years of credit	1.0%	1.67%	1.67%	1.9%	1.67%	2.25%	1.5%	2.2%
Each of the second 10 years of credit	1.1%	1.9%	1.9%	2.1%	1.9%	2.5%	1.5%	2.2%
Each of the third 10 years of credit	1.3%	2.1%	2.1%	2.25%	2.1%	2.75%	1.5%	2.2%
Each year above 30 years	1.5%	2.3%	2.3%	2.5%	2.3%	2.75%	1.5%	2.2%

*Who are not eligible for the Alternative Formula. The Alternative Formula for the Department of Corrections employees will be fully phased in by 1991. Also included in this group are Department of Mental Health - Chester, Illinois security employees.

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% 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 61.

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 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 lesser of \$600 or 80% of final average compensation. The maximum combined monthly payment to parents may not exceed \$400. If the member's death occurs after retirement or after termination of state employment but before the member receives a pension, the monthly benefit is 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 eligible to receive 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.

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.

D. Annual Increase in Benefit

The survivor benefit is increased by 3% each January 1, after receipt of benefits for one full year.

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 Survivors' Annuity.

A. Qualification of Widow

An eligible widow receives a Widow's Annuity if she is age 50 or over or has in her care any of the member's unmarried children under age 18. If she is not age 50 and has no such children in her care, she becomes eligible at age 50.

B. Amount of Payment

The Widow's Annuity consists of a lump sum payment of \$500, plus a monthly annuity equal to 50% of the pension earned or received by the member at the date of death. If the widow has in her care eligible children of the member, the monthly annuity is increased 5% because of each child, subject to a maximum payment equal to 66 2/3% of the earned pension. Monthly benefits payable to a widow of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits she is eligible to receive 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).

D. Annual Increase in Benefit

The widows benefit is increased by 3% each January 1, after receipt of benefits for one full year.

8. OCCUPATIONAL DEATH BENEFIT

A. Qualification of Survivors

If a member's death results from 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 beneficiary(ies) 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.

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 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 and 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; (4) attainment of age 65, if benefit commenced prior to the attainment of age 60; (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (6) death of the member.

11. OCCUPATIONAL DISABILITY BENEFIT

A. Qualification and Amount of Payment

Provided for any member 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.

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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; (4) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (5) death of the member.

12. TEMPORARY DISABILITY BENEFIT

A. Qualification and Amount of Benefit

Available to any member 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 eligible 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; or (6) death of the member.

13. SEPARATION BENEFITS

Upon termination of state employment by resignation, discharge, dismissal or layoff, 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 1990 having an impact on the System were:

SENATE BILL 95 (P.A. 86-0273)

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 full-time employment for at least 5 continuous years with a regional planning commission may establish creditable 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.

HOUSE BILL 0332 (P.A. 86-0272)

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 payment 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 (P.A. 86-0676)

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

NEW LEGISLATION - Amendments with an effective date subsequent to June 30, 1990, affecting the operation of the System.

HOUSE BILL 3374 (P.A. 86-1338)

Amends the State Finance Act to prohibit transfers from any appropriation for state contributions to the System Trust Fund. Also, amends the State Finance Act to require that agencies (departments) remit the employer share of appropriated retirement contributions at the rate certified by the Board of Trustees of the System up to the amount appropriated for such purposes.