STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS - A COMPONENT UNIT OF THE STATE OF ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1994

50 YEARS
1944 - 1994

State
Retirement
Systems

State Employees' Retirement System of Illinois

Mission Statement:

To provide an orderly means whereby aged or disabled employees may be retired from active service, without prejudice or hardship, and to enable the employees to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment, thus effecting economy and efficiency in the administration of the State Government.

Fiscal Year 1994 Highlights

100,521	Total Membership
78,440	Active Contributing Members
$3,721,891,160	Net Assets Available for Benefits
	Contributions:
$128,481,556	Employee
$127,649,961	Employer
$312,095,169	Investment Income
4.0%	Investment Return
	Benefit Recipients:
28,129	Retirement Annuities
9,245	Survivors' Annuities
1,708	Disability Benefits
$326,330,535	Benefits Paid
$6,502,121,427	Accrued Actuarial Liability
$2,780,230,267	Unfunded Actuarial Liability
57.2%	Funded Ratio

1994

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS - A COMPONENT UNIT OF THE STATE OF ILLINOIS

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FOR THE FISCAL YEAR ENDED JUNE 30, 1994

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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Mr. L. C. Cortwright
Secretary 1944 - 1967

It must have seemed like such an overwhelming task. The American flag, with thirteen stripes and forty-eight stars, unfurled atop the State Capitol Building in Springfield. The business of state government continued on without much notice. The topic of conversation, however, was mostly about the war. THE WAR. On December 7, 1941 the United States was plunged into World War II. As a result there were several changes made to the structure and the purpose of state government in Illinois and several new agencies were created in the early to mid-1940's. Among these new agencies were the War Finance Committee, the Illinois War Council and the State Employees' Retirement System. Fortunately, the first two agencies have long-since been dissolved. The State Employees' Retirement System, however, celebrates its 50-year anniversary this year.

The original stated purpose of the State Employees' Retirement System was "to provide an orderly means whereby employees of the State of Illinois who become superannuated or otherwise incapacitated as the result of age or disability, may be retired from active service without prejudice and without inflicting a hardship upon the employees retired, and. . . to provide for old-age, disability, death and termination of employment...". Although this language has been updated throughout the 50-year history of the System, it still remains our basic Mission Statement, and underlying philosophy.

Some significant dates in SERS history are:

September 28, 1943 -

The first meeting of the State Employees' Retirement System of Illinois (SERS) Board of Trustees was held in Springfield, Illinois. Temporary quarters for the office of the Board of Trustees were arranged for, and a Secretary of the System, Mr. L. C. Cortwright, was appointed to take active charge of its administration.

Mr. Paul D. Prater
Secretary 1967 - 1970

January 1, 1944 -

The number of State employees who became members of the System on this date was 17,237. A total of 5,307 waived membership. Thus, out of 22,544 employees who were potentially eligible to membership, 76% became participants. All new employees had to serve a qualifying period of 12 months.

The following benefits were provided at the inception of the System:

1. ***Service Retirement Allowance***
2. ***Reversionary Annuity***
3. ***Ordinary Disability Benefit***
4. ***Death Benefit***
5. ***Accidental Disability Benefit***
6. ***Accidental Death Benefit***
7. ***Death Benefit Upon Death During Retirement***
8. ***Refunds***

1944 - The first financial statements of the System are prepared. The System has assets of $1.6 million, liabilities of $.4 million and reserves of $1.2 million. The entire investment portfolio was made up United States War Loan Bonds and Subscriptions for World War II. The System establishes its first office at 509 South Second Street.

1946 - Total membership increased 12% in part due to employees returning from service in the armed forces in World War II.

1947 - There were 16 deaths among retired members during the year and at year end there were 191 retirants receiving monthly benefits averaging $75.03. The 65th General Assembly enacted a law commonly known as the "reciprocity law" for retirement, disability and death benefit purposes. The State Teachers, State Employees' and University Retirement System are covered by this new law.

1949 - The Secretary and the Actuary of SERS began serving in similar official capacities for the Judges and General Assembly Retirement Systems.

1950 - At the federal level, participants under established local retirement plans are made eligible for coverage under the Social Security Act. Coverage may be accomplished through voluntary Federal-State Agreements. *(The State of Illinois executed such an agreement for employees participating in SERS effective January 1, 1969).*

1951 - The System is in the process of making a change-over in the mechanics of accounting for members' contributions from a bookkeeping-machine posting operation to IBM card-machine accounting. The employee contribution rate is increased to 6% beginning July 1, 1951.

1952 - The average rate of annual salary for the membership was $3,354.00. The average annual retirement benefit was $946.00. There were sixteen claims for occupational disability and 202 claims for non-occupational disability. The Social Security Unit of the State Employees' Retirement System was established by an Act of the General Assembly, effective August 6, 1951. SERS is charged with the responsibility of administering the program on behalf of the State of Illinois.

1953 - The Widow's benefit became operative on July 7, 1953. The employee contribution rate is increased to 7% effective August 1, 1953 for the male employees only. The contribution rate for the female employees remains at 6%.

1957 - The Net Assets of the System reach the $50 million mark.

1959 - The unfunded accrued liability increases nearly $11 million primarily due to : 1) an appropriation by the State of Illinois on practically a cash basis and 2) substantive amendments to the Act in 1957 effecting an increase in obligations, consisting of the removal of the salary ceiling and a liberalization of the provisions for vesting.

1960 - A legislative change dealing with the financing of the System is to be effective with the 1961-1963 biennium. Each department and division of State government whose employees participate in the System are required to include their pension cost in their biennial budgets.

1961 - A survivors benefit applicable to all members of the System is effective July 19, 1961. The contribution rate for female employees is increased to 7% effective August 1, 1961.

1962 - "Attention is again directed to the inadequate method of financing the State's share of obligations under the System" from the Actuary's Report. The System's office is relocated from 509 South Second Street to 529 South Seventh Street.

1963 - Net Assets of System reach the $100 million mark, taking only six years to double in size. The pension formula for State Highway Police was revised to use 20 years of service rather than 25 years.

1965 - Effective July 1, 1965 the System changed from an IBM card-machine accounting system to a computerized accounting system.

1967 - A new Secretary for the System is named, Mr. Paul D. Prater. The System's office is relocated from 529 South Seventh Street to 1201 South Fifth Street.

1968 - Legislation was enacted in 1965 which extended the investment authority to include corporate bonds under stated conditions, in addition to federal, state and municipal obligations. A substantial investment in rated corporate securities of high quality was made during the year at fairly generous rates of income. Legislation was also enacted extending federal social security coverage to State employees, effective January 1, 1969 for those eligible employees who elected to participate.

1969 - Effective January 1, 1969 the contribution rate remains at 7% for non-coordinated employees (employees that voted not to participate in social security) and becomes 3% for coordinated employees (employees that voted to participate in social security).

1970 - The Illinois State Board of Investment (ISBI) is created. Effective July 1, 1970, all investment functions of the System, including the Judges and General Assembly Retirement Systems, are transferred to the ISBI. The System's third Secretary, Mr. Norman E. Lentz, takes over the operations of SERS, effective March 3, 1970. The System's funding ratio increases to 49.4%. The contribution rate for non-coordinated employees is increased to 7 1/2% and the coordinated rate is increased to 3 1/2%.

Mr. Noman E. Lentz
Secretary 1970 - 1974

1971 - There are numerous amendments to the law governing the operation of and benefits provided by the System. This was the *last time* that any change was made to the basic retirement benefit formula for the majority of state employees. Final average salary base, post-retirement adjustments, disability, death and survivors' benefits are all impacted by these amendments. The member contribution rate is increased, effective September 1, 1971, to pay for a portion of these increased costs. The rate for non-coordinated employees goes to 8% and the rate for coordinated employees goes to 4%. Effective July 1, 1971, the System converts from using membership numbers for the employees to using their social security numbers.

1972 - Effective January 1, 1972, new employees for the State of Illinois no longer have to serve a qualifying period.

1974 - Total revenue exceeds $100 million for the first time. The accrued unfunded liability of the System now exceeds $1.5 billion. Mr. Michael L. Mory, assumes control of the operation of the System effective November 1974. Mr. Norman E. Lentz remains the director of the Judges and the General Assembly Retirement Systems.

1978 - The System develops a newsletter which is to be mailed semiannually to the membership. A new pre-retirement counseling program is designed for implementation in FY'80. The System implements a computer program for the calculation of benefits resulting in improved accuracy and efficiency. Also computer vouchering of contribution refunds combined with direct posting of the member's account has improved speed and accuracy.

Mr. Michael L. Mory
Executive Secretary
1974 - Present

1978 - The System opens a Chicago office to better serve the membership in the northern portion of the state.

1979 - The System relocates its office from 1201 South Fifth Street to 2815 West Washington Street. There were numerous changes to the law governing the System which primarily affected eligibility for participation and purchase of service credit.

1982 - Security Employees of the Department of Corrections are given an increase in their rates for benefit formulas. They are also required to pay additional contributions for these benefits. (Effective January 1, 1982). The System's funding ratio dropped to 47.9%. The member's annual statement of account is expanded to include pension and disability estimates.

1983 - The System's total return on investments is 44.1%.

1984 - Effective January 1, 1984, all new employees are required to serve a six-month qualifying period. The total return on investments is a negative 5.2%, clearly reflecting the volatility of the market place.

1985 - Due to changes in the economic assumptions used by the System's actuary, the System's funding level increases from 50.6% to 59.5%.

1986 - The first election of trustees (one active state employee and one annuitant) is conducted. A temporary disability benefit is established and payable when a member is initially denied Worker's Compensation benefits and is appealing such denial. All newly hired employees after March 31, 1986 who were not covered by the federal social security program are mandatorily required to pay the Medicare component of the tax. The System is awarded the Government Finance Officers Association's prestigious Certificate of Achievement for Excellence in Financial Reporting for the first time.

Balance Sheet - June 30, 1944

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

EXHIBIT A

BALANCE SHEET - JUNE 30, 1944

ASSETS

CASH, WM. G. STRATTON, TREASURER		$ 204,832.86
ACCOUNTS RECEIVABLE:		
Members' Contributions Receivable	$ 90,900.19	
Due from Federal Funds	6,578.95	
Interest on Investments Receivable	6,005.53	103,484.67
INVESTMENTS:		
United States War Loan Bonds	$951,863.45	
United States War Loan Bond Subscriptions	400,000.00	1,351,863.45
DEFERRED EXPENSES:		
Prepaid Surety Bond Premium		20.83
Total - Assets		$1,660,201.81
CONTINGENT ASSET:		
Unencumbered balance of Organization Expense Fund	$11,391.87	

LIABILITIES

ACCOUNTS PAYABLE:		
Accidental Death Benefits Payable	$ 92.70	
Accidental Disability Benefits Payable	198.61	
Administration Expenses Payable	563.35	
Interest Payable on Bond Subscriptions	33.32	
Refunds Payable	3,535.45	
Due on War Loan Subscriptions	400,000.00	$ 404,423.43
RESERVES:		
For Members' Contributions	$802,224.50	
For Interest Accumulation	3,393.57	
Contingent General Reserve	450,160.31	1,255,778.38
Total - Liabilities and Reserves		$1,660,201.81

Note: Subject to accompanying comments in our report of which this Balance Sheet is a part

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1987 - Legislation is approved which establishes a minimum retirement amount for each year of covered and noncovered employment.

1989 - Senate Bill 95 is signed into law. This bill attempts to address the pension funding issue by establishing a 40-year period over which employer contributions, along with employee contributions and income from investments, will eventually lead to the full funding of the System. The bill also provides for a 7-year phase-in of the required employer contribution from the State of Illinois. The new plan is effective for Fiscal Year 1990. The bill also establishes a new flat rate benefit formula for court reporters for the State with at least 10 years of service Mr. Michael L. Mory, SERS Executive Secretary, is named to the same position for the Judges' and General Assembly Retirement Systems.

1990 - The System builds and takes possession of a new office building located at 2101 South Veterans Parkway. Annuitant benefit statements are mailed for the first time.

1991 - The System administers an Early Retirement Incentive (ERI) program which allows eligible employees to purchase up to 5 years of service and add 5 years to their age for retirement qualification purposes. The program is an overwhelming success as over 4,600 employees retired under this provision. Those taking advantage of the ERI program are required to retire by no later than December 31, 1991. Widows, Survivors and Occupational Death benefit statements are sent for the first time.

1992 - Effective January 1, 1992, the State of Illinois begins paying the required employee contribution to the System (commonly referred to as "employer pickup" or simply "pickup") for substantially all employees covered by the System. Legislation changes the state's Unclaimed Property Act to provide for a holding period of five instead of seven years. The funds due to the five state-sponsored retirement systems from unclaimed property receipts will be provided using a continuing appropriation process. This process will make the appropriation of these funds automatic, no longer requiring specific action by the General Assembly.

1993 - A smaller-scale ERI is passed for State Police. The bill introduces the concept of paying for the additional cost of this program using the continuing appropriation process which guarantees the repayment of this additional cost.

1994 - Senate Bill 533 is signed into law in August by Governor Jim Edgar. Once again, the State Legislature attempts to address the pension funding dilemma. This plan calls for a 15-year phase-in to a 35-year payment plan which should ultimately result in the System's funding percentage rising to a 90% level. See additional discussion of this significant piece of legislation throughout the various sections of this report.

Look Towards The Future - Now that the long-term funding dilemma of the System has been addressed, it is time to look ahead. For 50 years, the management and employees of SERS have dedicated their time and efforts to ensure that the System provides every benefit available to eligible employees in a timely manner. We are deeply indebted to those employees who faithfully served before us and look forward to meeting the demands of our membership in the future.

As we keep our sights focused towards the future, the System continues to look for new ways to provide better service to the membership. The System has already conducted a feasibility study about the use of bar coding on certain information. In this upcoming fiscal year, we will take a look at another relatively new technology which uses optical imaging for the storage of System data. Future projects may include a video of SERS benefits, possibly also using CD Rom technology.

On the legislative front, SERS will continue to seek a benefit formula increase for the overwhelming majority of state employees who have not seen a substantive benefit enhancement since 1971.

We are constantly striving to improve our performance and relationship with you. It is our hope that the service provided to you by SERS has and will continue to meet the goals set by you, our Membership.

Statement of Income and Expenditures - June 30, 1944

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

EXHIBIT B

STATEMENT OF INCOME AND EXPENDITURES

FOR THE PERIOD FROM JULY 23, 1943 TO JUNE 30, 1944

INCOME:			
Contributions by Members		$811,531.90	
Less: Adjustments for collections			
Refunds to Departments	153.51		
Refunds to Employees for erroneous deductions	1,205.06	1,358.57	$ 810,173.33
Contributions by State of Illinois			450,000.00
Contributions from Federal Funds			7,908.03
Interest earned on investments			5,462.35
Total			$1,273,543.71
EXPENDITURES:			
Benefits -			
Accidental Disability	$ 231.37		
Accidental Death	106.21	$ 337.58	
Refunds to Members leaving service of State		7,843.23	
Expenses -			
Actuarial fees	$ 715.00		
Automobile rental and repairs	167.96		
Freight, express and drayage	2.50		
Investigation expenses	1.15		
Office repairs and maintenance	4.00		
Office supplies and equipment	336.96		
Rent	525.00		
Rental of office equipment	47.00		
Salaries	7,089.01		
Stationery and printing	131.33		
Surety bond premium	4.17		
Telephone and telegraph	60.38		
Travel expense	500.06	9,584.52	17,765.33
Excess of Income over Expenditures			$1,255,778.38
TRANSFERRED TO RESERVE ACCOUNTS, AS FOLLOWS:			
To Reserve for Members' Contributions		$802,224.50	
To Reserve for Interest Accumulations		3,393.57	
To General Contingent Reserve		450,160.31	$1,255,778.38

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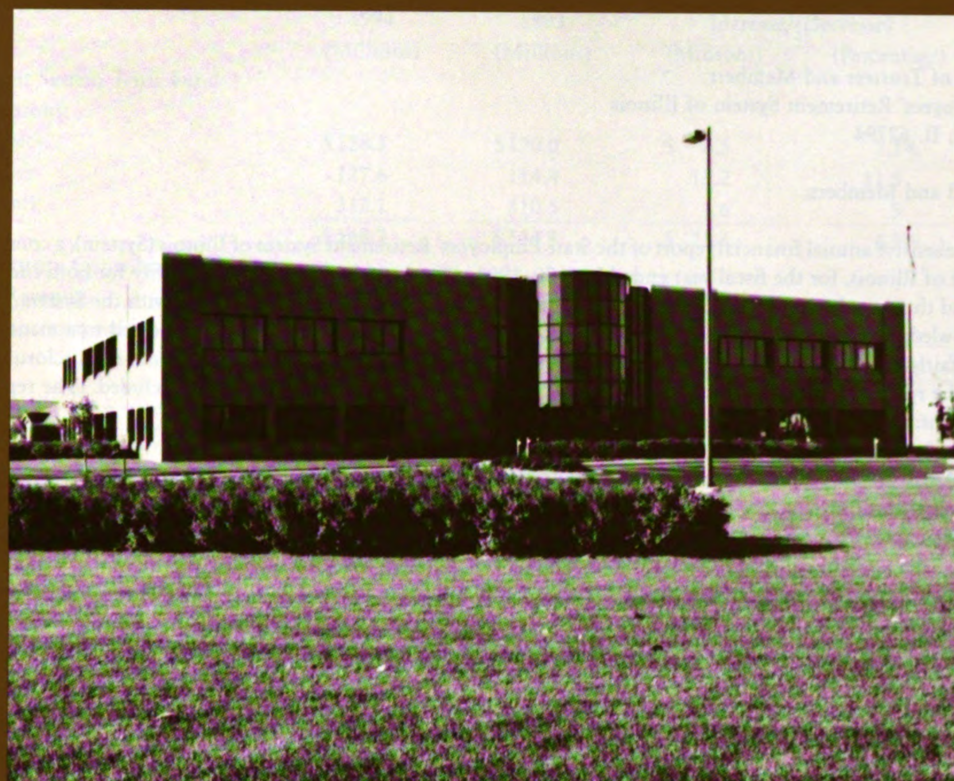
INTRODUCTORY SECTION



State Retirement Systems Building
Springfield, Illinois

SRS STATE RETIREMENT SYSTEMS

- 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, 1994

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

Dear Board and Members:

The comprehensive annual financial report of the State Employees' Retirement System of Illinois (System), a component unit of the State of Illinois, for the fiscal year ended June 30, 1994 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 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. The Governmental Accounting Standards Board (GASB) has adopted Statement No. 14 entitled "The Financial Reporting Entity", (GASB Stmt. 14) which establishes standards for defining and reporting on the financial reporting entity. The requirements of the statement apply at all levels to all state and local governments. Using the guidance provided in GASB Stmt. 14 regarding: a) the definition of the component unit and b) financial accountability, the financial activities of the Social Security Contribution Fund have been included in the financial statements of the System. Because of the closeness of the System's relationship to the primary government (i.e. the State of Illinois), the financial transactions of the System are reported as a blended component unit of the State of Illinois in the State's comprehensive annual financial report. 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, 1994 are approximately $3.7 billion, and there are 78,440 active members.

Significant events and dates during the fifty-year history of the System Trust Fund are detailed on pages 2-5.

REVENUES

Collections of employer and employee retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These income sources totaled $568.3 million during the fiscal year ending June 30, 1994, which is a modest increase from revenue reported for fiscal year 1993, shown as follows:

	1994 (Millions)	1993 (Millions)	Increase/(Decrease) (Millions)	Increase/(Decrease) (Percentage)
Retirement System Trust Fund				
Contributions:				
Employees	$128.5	$120.0	$ 8.5	7.1%
Employer	127.6	114.4	13.2	11.5
Investments	312.1	310.5	1.6	.5
	$568.2	$544.9	$ 23.3	4.3%
Social Security Contribution Fund				
General Revenue,				
less balances lapsed	.1	.1	-	-
	$568.3	$545.0	$ 23.3	4.3%

Employee contributions have exceeded employer contributions for the past six fiscal years; and, as indicated in the total above, a substantial portion of the total revenue is derived from investment income. Investment income includes the realization of net gains on the sales of investments, during both fiscal years 1994 and 1993.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System Trust Fund. Expenses of the System Trust Fund and Social Security Contribution Fund for 1994 and 1993 are shown for comparison purposes.

	1994 (Millions)	1993 (Millions)	Increase/(Decrease) (Millions)	Increase/(Decrease) (Percentage)
Retirement System Trust Fund				
Benefits:				
Retirement annuities	$268.8	$256.7	$ 12.1	4.7%
Survivors' annuities	28.9	27.0	1.9	7.0
Disability benefits	19.7	17.9	1.8	10.1
Lump-sum death benefits	8.9	8.4	.5	6.0
	$326.3	$310.0	$ 16.3	5.3%
Refunds (including Transfers)	11.4	12.0	(.6)	(5.0)
Administrative expenses	5.1	4.7	.4	8.5
	$342.8	$326.7	$ 16.1	4.9%
Social Security Contribution Fund				
Administrative expenses	.1	.1	-	-
	$342.9	$326.8	$ 16.1	4.9%

The increase in benefit payments results primarily from an increase in the average benefit payment amount.

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 $312.1 million during fiscal year 1994, a marginal increase of $1.6 million from fiscal year 1993. Income from investments represents 54.9% of total fund revenue. The Illinois State Board of Investment had a 4.0% rate of return on market values for the year ended June 30, 1994.

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, 1994, amounted to $6.502 billion. The fund balances for participant contributions, interest accumulations and other future benefits amounted to $3.722 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 amounted to $2.780 billion and reflects the continuing state policy of appropriating funds at amounts less than the actuarially determined contribution requirement. A detailed discussion of funding is provided in the Actuarial Section of this report.

ECONOMIC CONDITION AND OUTLOOK

Financing the retirement benefits that are being earned is one of the most important issues facing the State Employees' Retirement System. Over the years, a number of individuals and organizations have stressed the need for sound funding of the state's retirement systems including the State Employees' Retirement System. Although previous attempts have been made at providing an adequate funding level to the System, none have been very successful since the State of Illinois, as well as many other units of state and local government across the nation, are experiencing times of limited revenue growth and increased demands for more government services.

The matter of funding the state's retirement systems surfaced again this spring and a discussion of alternatives to the current funding plan began. As a result, several funding plans were introduced in the General Assembly during the past legislative session which ultimately resulted in the unanimous passage of legislation (Senate Bill 533) designed to adequately fund the state's retirement systems, including the State Employees' Retirement System.

In August, 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which becomes effective on July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

Although long-term in nature, we believe this legislation is an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the State Employees' Retirement System.

In addition to the new funding plan, there have been other recent legislative changes which have had a direct impact on the funding of the System. These changes were a direct reflection of current economic conditions in the State of Illinois:

- Senate Bill 1949, passed in the 1992 spring session of the General Assembly, changed the state's Unclaimed Property Act to provide for a holding period of five instead of seven years. This resulted in the availability of an additional $50 million which was divided among the five state financed retirement systems during fiscal year 1993. As a result of this legislation, the System received an additional $8.6 million.

- The General Assembly also approved House Bill 3230, providing for a continuing appropriation of funds to the five state financed retirement systems from unclaimed property receipts. This legislation has the effect of making the annual appropriation of these funds automatic, not requiring specific action of the General Assembly.

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. The passage of a new funding plan by the state's General Assembly should ensure that benefits, both those presently accrued and those that will be earned in the future, will continue to be provided for in a timely and consistent manner.

MAJOR INITIATIVES

During the past fiscal year, the System completed work on several major projects. Most significant was the development of a new post-retirement program designed for annuitants planning for their future needs and lifestyles. In addition, the annual member benefit statement was completely re-designed to provide members with additional current and future benefit amounts and their beneficiary designations.

Projects for Fiscal Year 1995 include: a) a feasibility study regarding the possible use of computer imaging of the System's files and computer-generated reports; b) a continued review and expansion of data on the annual membership benefit statement; and c) the development of a new benefits orientation video, as well as other in-house projects.

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 operation 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 McGladrey & Pullen 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 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, 1993. 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 financial report 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 eight consecutive years (fiscal years ended June 30, 1986 through June 30, 1993). 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.

ACKNOWLEDGMENTS AND COMMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. 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 ensure the successful operation of the System.

Respectfully submitted,

Michael L. Mory
Executive Secretary

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

Board of Trustees

Loren Iglarsh
Representing Dawn Clark Netsch
Comptroller

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Chairman, appointed
by the Governor

Michael Colsch
Representing Joan Walters
Director of the Bureau of the Budget

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by the Governor

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Actuary

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Administrative Services Division
William T. Weir

Chicago Division
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James J. Spears

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John A. Sowinski

Service & Refunds Division
Joseph S. Maggio

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, 1993

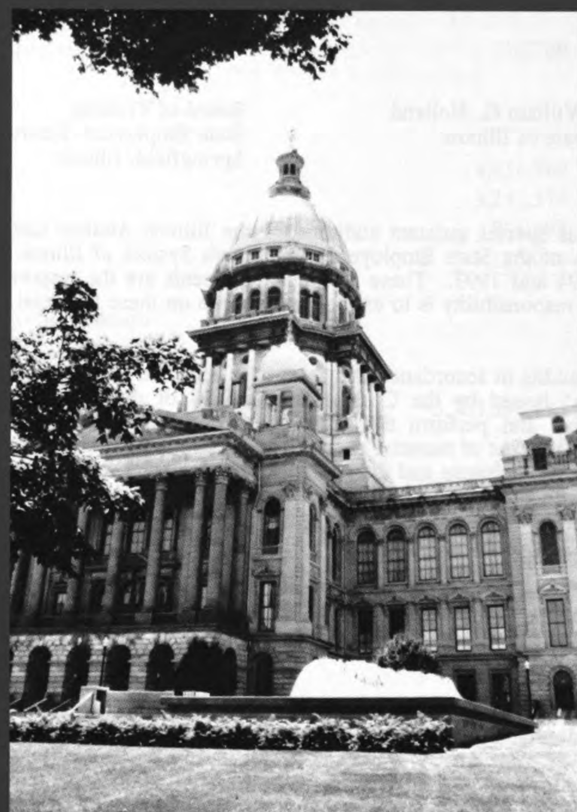
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose component unit financial reports (CUFRs) achieve the highest standards in government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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

FINANCIAL SECTION



Illinois State Capitol
Springfield, Illinois

McGLADREY & PULLEN
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable William G. Holland
Auditor General, State of Illinois
Springfield, Illinois

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

We have audited, as special assistant auditors for the Illinois Auditor General, the accompanying financial statements of the State Employees' Retirement System of Illinois as of and for the years ended June 30, 1994 and 1993. 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 "Government Auditing Standards" issued by the Comptroller General of the United States. 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, 1994 and 1993, 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 as of and for the years ended June 30, 1994 and 1993, taken as a whole. The supplementary information included on pages 28 through 31 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information as of and for the years ended June 30, 1994 and 1993, has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen

Springfield, Illinois
October 21, 1994

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Combined Balance Sheets - June 30, 1994 and 1993

	1994	1993
Assets		
Cash	$ 9,590,906	$ 13,750,680
Cash, restricted for Social Security remittances	112,760	100,000
Receivables:		
Contributions:		
Participants	4,916,969	4,694,413
Employing state agencies	3,241,374	2,277,579
Other accounts	966,697	783,878
	$ 9,125,040	$ 7,755,870
Investments - held in the Illinois State Board of Investment Commingled Fund at cost (Market value: 1994, $4,038,936,755 1993, $3,965,605,241) (Note 4)	3,703,548,563	3,477,072,371
Property and equipment, net of accumulated depreciation (Note 9)	4,485,387	4,834,164
Total Assets	$ 3,726,862,656	$ 3,503,513,085
Liabilities and Fund Balance		
Liabilities		
Benefits payable	$ 1,720,435	$ 1,373,583
Refunds payable	377,807	414,196
Administrative expenses payable (Notes 10 and 11)	1,185,424	1,295,537
Participants' deferred service credit accounts	1,575,070	3,843,369
Unremitted Social Security contributions	-	-
Amounts held for Social Security remittances	112,760	100,000
Total Liabilities	$ 4,971,496	$ 7,026,685
Fund Balance		
Actuarial present value of credited projected benefits (Notes 4 and 6)	6,502,121,427	6,044,465,371
(Less) unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(2,780,230,267)	(2,547,978,971)
Total Fund Balance (Note 12)	$ 3,721,891,160	$ 3,496,486,400
Total Liabilities and Fund Balance	$ 3,726,862,656	$ 3,503,513,085

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund
Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1994 and 1993

	1994	1993
Revenue:		
Contributions:		
Participants	$ 128,481,556	$ 120,041,823
Employing State agencies and appropriations	127,649,961	114,413,597
Total Contributions revenue	256,131,517	234,455,420
Investments:		
Net investments income	181,634,285	178,295,366
Interest earned on cash balances	618,977	542,884
Net realized gain on sale of investments	129,841,907	131,632,246
Total Investments revenue	312,095,169	310,470,496
	568,226,686	544,925,916
General Revenue Fund appropriations, less balances lapsed	62,533	62,408
Total Revenue	568,289,219	544,988,324
Expenses:		
Benefits:		
Retirement annuities	268,772,969	256,666,173
Survivors' annuities	28,934,211	26,958,900
Disability benefits	19,708,185	17,893,919
Lump-sum death benefits	8,915,170	8,417,740
Total Benefits	326,330,535	309,936,732
Refunds	11,387,459	11,668,602
Administrative, System Trust Fund (Note 8)	5,080,280	4,741,217
Transfers to reciprocating retirement systems	23,652	340,522
	342,821,926	326,687,073
Administrative, Contribution Fund (Note 8)	62,533	62,408
Total Expenses	342,884,459	326,749,481
Excess of revenue over expenses	$ 225,404,760	$ 218,238,843
Fund Balance at beginning of year	3,496,486,400	3,278,247,557
Fund Balance at end of year	$ 3,721,891,160	$ 3,496,486,400

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 1994 and 1993

(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 Governmental Accounting Standards Board (GASB) has adopted Statement No. 14 entitled "The Financial Reporting Entity", (GASB Stmt. 14) which establishes standards for defining and reporting on the financial reporting entity. The requirements of the statement apply at all levels to all state and local governments. Using the guidance provided in GASB Stmt. 14 regarding: a) the definition of the component unit and b) financial accountability, the financial activities of the Social Security Contribution Fund have been included in the financial statements of the System. Because of the closeness of the System's relationship to the primary government (i.e. the State of Illinois), the financial transactions of the System are reported as a blended component unit of the State of Illinois in the State's comprehensive annual financial report.

(2) Plan Description

The System is the administrator of a single-employer, defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its employees. At June 30, 1994 and 1993, the number of participating state agencies, boards and commissions totaled:

	1994	1993
State agencies	44	43
State boards and commissions	48	48
Total	92	91

At June 30, 1994 and 1993 the System Trust Fund membership consisted of:

	1994	1993
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	28,129	28,308
Survivors' annuities	9,245	9,115
Disability benefits	1,708	1,643
	39,082	39,066
Inactive employees entitled to benefits but not yet receiving them	2,793	2,652
Total	41,875	41,718
Current Employees:		
Vested:		
Coordinated with Social Security	42,284	40,160
Noncoordinated	5,174	5,134
Nonvested:		
Coordinated with Social Security	30,233	30,946
Noncoordinated	749	906
Total	78,440	77,146

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. Generally, 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 in accordance with Chapter 40, Section 5/14-133 of the Illinois Compiled Statutes (ILCS). 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. Effective January 1, 1992, the State of Illinois initiated an employer pickup of employee retirement contributions for most state employees. The amount of the pickup is dependent upon the contribution rates specified above, however, the contributions made on behalf of the member are included in the individual member's account. The State of Illinois is obligated to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System Trust Fund to the extent specified in the ILCS.

(c) Benefits

The System is governed by Chapter 40, Article 5/14 of the ILCS. Vesting and benefit provisions under the System Trust Fund are defined in the ILCS. 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 their final rate of pay for the 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 Chapter 40, Article 5/21 of the ILCS. 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 balance in this fund is 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.

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 ISBI Board's master custodian is the The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) 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 Chapter 40, Section 5/22A-112 of the ILCS. 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.

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, 1994 and 1993 the ISBI Board had outstanding loaned investment securities having a market value of approximately $615,899,376 and $513,658,273 respectively, against which it had received collateral of approximately $636,696,687 and $529,068,021, respectively.

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 owns approximately 93.9% of the ISBI Commingled Fund as of June 30, 1994.

Following 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 and for which the securities are held by the counterparty's agent in the ISBI Board's name. Category III includes uninsured and unregistered investments for which the securities are held by the counterparty but not in the ISBI Board's name.

At June 30, 1994, the ISBI Board's investments were categorized as follows:

	Category I	Category II	Category III	Total
U.S. Government & Agency Obligations	$ 195,337,470	$ -	$ -	$ 195,337,470
Foreign Obligations	40,726,130	-	-	40,726,130
Foreign Equity Securities	272,535,209	-	-	272,535,209
Corporate Obligations	795,607,929	-	-	795,607,929
Convertible Bonds	21,296,078	-	-	21,296,078
Common Stock & Equity Funds	1,363,240,672	-	-	1,363,240,672
Convertible Preferred Stock	20,405,959	-	-	20,405,959
Preferred Stock	3,435,329	-	-	3,435,329
Money Market Instruments	114,988,380	-	-	114,988,380
Forward Foreign Exchange Contracts	(1,736,655)	-	-	(1,736,655)
SUBTOTAL	$ 2,825,836,501	$ -	$ -	$2,825,836,501
Non-categorized Investments				1,468,773,266
TOTAL				$4,294,609,767

(c) Fixed Assets

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

(d) Actuarial Experience Review

In accordance with Illinois Compiled 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.

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

At June 30, 1994 and 1993, the unfunded pension benefit obligation was $2,780,230,267 and $2,547,978,971 as follows:

	1994	1993
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	$ 3,242,856,575	$ 3,221,629,786
Terminated employees not yet receiving benefits	17,212,988	6,904,527
Current Employees:		
Accumulated employee contributions and interest	1,492,769,779	1,337,518,200
Employer-financed vested	1,545,751,408	1,303,436,543
Employer-financed nonvested	122,772,293	99,783,833
Inactive members - Accumulated contributions and interest	80,758,384	75,192,482
Total Pension benefit obligation	$ 6,502,121,427	$ 6,044,465,371
Net assets available for benefits, at cost	3,721,891,160	3,496,486,400
(market value at June 30, 1994 - $4,057,279,352 1993 - $3,985,019,270)		
Unfunded pension benefit obligation	$ 2,780,230,267	$ 2,547,978,971

Senate Bill 1650 was signed into law by Governor Jim Edgar on January 25, 1993 and became Public Act 87-1265. The bill had several significant changes to the statutes governing SERS. These changes included the following: a) allowed for several classifications of members to transfer service from other public pension funds to SERS; b) allows for an early retirement incentive program for the Department of State Police and c) extends the alternative retirement annuity formula to four new position classifications, as well as other minor changes. The estimated cost of this bill is approximately $48,242,386.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1994. Significant actuarial assumptions used include (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, ranging from .5% to 4.7% attributable to merit, and 4.5% attributable to inflation for all employees, (c) 85% of employees are presumed to be married, (d) the female spouse is assumed to be three years younger than the male spouse, (e) mortality rates are based upon the 1971 Group Annuity Mortality Table projected in 1986, (f) it is assumed that terminated employees will not be rehired, and (g) the rate of turnover without vested benefits assumes a high scale at younger age levels, becoming progressively lower as age advances.

(6) Contributions Required and Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System Trust Fund is performed by the System's actuarial consultants in order to determine the amount of contributions required from the State of Illinois. For fiscal years 1994 and 1993, the actuary has used the projected unit credit actuarial method for determining the proper employer contribution rate and amount. The Board certified actuarial required contribution rates for fiscal years 1994 and 1993, were 5.57% and 4.87%, respectively.

The Illinois General Assembly appropriated the employer's contribution for the legislatively funded agencies at 3.95% for fiscal year 1994 and 4.05% for fiscal year 1993. 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.

The total amount of actuarially determined employer contributions required for the fiscal year ended June 30, 1994 amounted to $146,145,270 and consisted of (a) $87,109,928 normal cost and (b) $59,035,342 amortization of the unfunded actuarial accrued liability. Actual employer contributions totaling $127,649,961 were made during fiscal year 1994 and consisted of (a) $87,109,928 normal cost and (b) $40,540,033 amortization of the unfunded actuarial liability. Employee contributions made during fiscal year 1994 amounted to $128,481,556 and are all considered to be part of normal cost.

A comparison of the actuarially determined funding requirement versus the actual funding for the fiscal year ended June 30, 1994, shows that the state's employer contributions were not made in accordance with the actuarially determined employer contribution requirement for the fiscal year.

	Pension Contributions			
	Required			Received
	Normal Cost	Amortization of Unfunded Liability	Total	
Employee	$ 128,481,556	$ -	$ 128,481,556	$ 128,481,556
Percent of Pay	4.90%	-	4.90%	4.90%
Employer	87,109,928	59,035,342	146,145,270	127,649,961
Percent of Pay	3.32%	2.25%	5.57%	4.86%
Total	$ 215,591,484	$ 59,035,342	$ 274,626,826	$ 256,131,517
Percent of Pay	8.22%	2.25%	10.47%	9.76%
Participant Payroll				$ 2,623,793,000

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.

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 separate dollar effects on contribution requirements of any current year changes in: a) actuarial assumptions, b) benefit provisions, c) actuarial funding method and/or d) other significant factors, are the same as those described in Note 5.

(7) Historical Trend Information

Historical trend information designed to provide information about the System Trust Fund's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 28 - 29.

(8) Administrative Expenses

A summary of the administrative expenses of the System for fiscal years 1994 and 1993 are as follows:

	1994		1993	
	System Trust Fund	Contribution Fund	System Trust Fund	Contribution Fund
Personal services	$2,126,141	$29,244	$1,979,917	$ 27,594
Employer retirement pickup	84,495	1,170	78,839	1,104
Retirement contributions	118,671	1,400	96,616	1,300
Social Security contributions	152,862	2,230	141,888	2,010
Group insurance	278,204	-	290,400	-
Contractual services	759,686	25,529	682,864	27,489
Travel	51,834	1,468	51,630	1,489
Commodities	29,616	390	25,410	396
Printing	41,520	-	61,634	-
Electronic Data Processing	822,061	700	858,571	651
Telecommunications	43,172	402	47,794	375
Automotive	8,329	-	7,832	-
Depreciation	454,778	-	304,524	-
Other	108,911	-	113,298	-
Total	$5,080,280	$62,533	$4,741,217	$ 62,408

The System's fiscal years 1994 and 1993 employer retirement contribution requirement each represented .10% of total contributions required of all state agency/department employers participating in the SERS for both years. Pertinent financial information relating to the System's participation in SERS is summarized as follows:

- The System's total and covered payrolls for fiscal year 1994 and 1993 were $2.641 million and $2.487 million, respectively.

- The System's (i.e., the employers') actuarially determined contribution requirements for fiscal years 1994 and 1993 were $147 thousand and $121 thousand, respectively, or 5.57% and 4.87% of the System's covered payrolls. For fiscal year 1994, the System's and employee contributions actually made were $146 thousand and $108 thousand, respectively, which represents 5.53% and 4.1%, respectively, of the current year covered payroll. For fiscal year 1993, the System's and employee contributions actually made were $121 thousand and $102 thousand, respectively, which represent 4.87% and 4.1%, respectively, of the covered payroll.

Effective January 1, 1992, the System began making payment of the required employee retirement contributions on behalf of its employees. This "pickup" of employee retirement contributions was included in the fiscal year 1992 operating budget approved by the System's Board of Trustees, and was, in part, paid in lieu of a salary increase.

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System. Substantially all state employees including the System's employees may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 1994. However, post-employment costs for the State as a whole for all State agencies/departments for health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-emplyment benefits described above.

(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 1994 and 1993 is as follows:

	1994			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land Improvements	198,623	4,631	-	203,254
Building	3,208,920	-	-	3,208,920
Equipment	1,829,799	104,798	(34,188)	1,900,409
Total	5,892,583	109,429	(34,188)	5,967,824
Accumulated Depreciation	(1,058,419)	(454,778)	30,760	(1,482,437)
Property and equipment, net	$ 4,834,164	$ (345,349)	$ (3,428)	$ 4,485,387

	1993			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land Improvements	198,623	-	-	198,623
Building	3,208,920	-	-	3,208,920
Equipment	1,190,127	838,954	(199,282)	1,829,799
Total	5,252,911	838,954	(199,282)	5,892,583
Accumulated Depreciation	(941,643)	(304,524)	187,748	(1,058,419)
Property and equipment, net	$ 4,311,268	$ 534,430	$ (11,534)	$4,834,164

(10) Pledged Assets and Long-Term Debt

A summary of the System's long-term debt, and collateral pledged thereon, consisted of the following at June 30, 1994:

Installment purchase agreement of computer equipment, discounted at a rate of 5.37 percent, due in quarterly installments of $33,662 including interest to July 31, 1995	$161,711
Installment purchase agreement of computer equipment, discounted at a rate of 5.57 percent, due in quarterly installments of $35,320 including interest to December 31, 1995	201,961
	$363,672
Less current maturities	(265,296)
Long-term portion	$98,376

Aggregate maturities required on long-term debt at June 30, 1994 are due in future years as follows:

1995	$265,296
1996	98,376
	$363,672

The remaining portion of the installment purchase agreements are included as Administrative Expenses Payable in the financial statements.

(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 for System employees as of June 30, 1994 and 1993 was $621,333 and $544,326, respectively. These amounts are included as Administrative Expenses Payable in the financial statements.

(12) Analysis of Changes in Fund Balances

The System Trust Fund maintains three reserve accounts which, when combined, comprise the total 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 Trust Fund
Statements of Changes in Fund Balances
Years ended June 30, 1994 and 1993

	Participants' contributions	Interest accumulations	Other future benefits	Total Fund Balance
Balance at June 30, 1992	$ 867,002,526	$ 417,372,947	$ 1,993,872,084	$ 3,278,247,557
Add (deduct):				
Excess of revenue over expenses	102,709,756	-	115,529,087	218,238,843
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(30,505,732)	-	30,505,732	-
Interest credited to members' accounts	-	56,131,185	(56,131,185)	-
Balance at June 30, 1993	$ 939,206,550	$ 473,504,132	$ 2,083,775,718	$ 3,496,486,400
Add (deduct):				
Excess of revenue over expenses	$ 111,645,476	$ -	$ 113,759,284	$ 225,404,760
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(21,461,540)	-	21,461,540	-
Interest credited to members' accounts	-	70,633,545	(70,633,545)	-
Balance at June 30, 1994	$1,029,390,486	$ 544,137,677	$ 2,148,362,997	$ 3,721,891,160

Analysis of Funding Progress (in millions of dollars)

Fiscal Year	(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
1991	2,981.4	4,949.9	60.2	1,968.5	2,461.4	80.0
1992	3,278.2	5,600.8	58.5	2,322.6	2,439.7	95.2
1993	3,496.5	6,044.5	57.8	2,548.0	2,450.3	104.0
1994	3,721.9	6,502.1	57.2	2,780.2	2,623.8	106.0

*At cost

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

Fiscal Year Ended June 30	Member Contributions	State Contributions	Investment Income	Sub Total	General Revenue Fund Appropriations, Less balances Lapsed	Total
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
1991	120,263,354	115,979,568	180,520,373	416,763,295	59,736	416,823,031
1992	141,862,797	98,532,783	344,237,850	584,633,430	56,972	584,690,402
1993	120,041,823	114,413,597	310,470,496	544,925,916	62,408	544,988,324
1994	128,481,556	127,649,961	312,095,169	568,226,686	62,533	568,289,219

Expenses by Type

Fiscal Year Ended June 30	Benefits	Contribution Refunds and Transfers	Administrative Expenses, System Trust Fund	Sub Total	Administrative Expenses, Contribution Fund	Total
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
1991	215,290,386	11,851,930	3,773,536	230,915,852	59,736	230,975,588
1992	266,652,372	16,918,761	4,229,293	287,800,426	56,972	287,857,398
1993	309,936,732	12,009,124	4,741,217	326,687,073	62,408	326,749,481
1994	326,330,535	11,411,111	5,080,280	342,821,926	62,533	342,884,459

Analysis of Employer Contributions
Fiscal Year 1985 through 1994

Fiscal Year	(1) Board Approved Rate (A)	(2) Annual Covered Payroll	(3) Employer Contributions Required (1 x 2)	Employer Contribution Made: (4) Employer Contr. (B)	(5) State Pension (C)	(6) Senate Res. No. 33 (D)	(7) Other (E)	(8) (4+5+6+7) Total	(8-3) (Deficiency) of Contrib. Made Over Contr. Req.	(8/2) Employer Contrib. as a % of Covered Payroll
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
1991	4.720	2,461,352,000	116,175,814	109,930,868	6,048,700	-	-	115,979,568	(196,246)	4.71
1992	4.740	2,439,708,000	115,642,159	96,459,883	2,072,900	-	-	98,532,783	(17,109,376)	4.04
1993	4.870	2,450,350,000	119,332,045	102,441,787	11,971,810	-	-	114,413,597	(4,918,448)	4.67
1994	5.570	2,623,793,000	146,145,270	118,298,761	9,351,200	-	-	127,649,961	(18,495,309)	4.86

(A) = For fiscal year 1985, the contribution rate shown is the minimum rate recommended by the actuarial consultants. The actual Board approved rate was 5.8%. 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.

Combining Balance Sheets June 30, 1994 and 1993

	1994			1993		
Assets	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
Cash	$ 9,590,906	$ -	$ 9,590,906	$ 13,750,680	$ -	$ 13,750,680
Cash, restricted for Social Security remittances	-	112,760	112,760	-	100,000	100,000
Receivables:						
Contributions:						
Participants	4,916,969	-	4,916,969	4,694,413	-	4,694,413
Employing State Agencies	3,241,374	-	3,241,374	2,277,579	-	2,277,579
Other accounts	966,697	-	966,697	783,878	-	783,878
	9,125,040	-	9,125,040	7,755,870	-	7,755,870
Investments	3,703,548,563	-	3,703,548,563	3,477,072,371	-	3,477,072,371
Property and equipment, net of accumulated depreciation	4,485,387	-	4,485,387	4,834,164	-	4,834,164
Total Assets	$ 3,726,749,896	$ 112,760	$ 3,726,862,656	$ 3,503,413,085	$ 100,000	$ 3,503,513,085
Liabilities and Fund Balance						
Liabilities						
Benefits payable	$ 1,720,435	$ -	$ 1,720,435	$ 1,373,583	-	$ 1,373,583
Refunds payable	377,807	-	377,807	414,196	-	414,196
Administrative expenses payable	1,185,424	-	1,185,424	1,295,537	-	1,295,537
Participants' deferred service credit accounts	1,575,070	-	1,575,070	3,843,369	-	3,843,369
Unremitted Social Security contributions	-	-	-	-	-	-
Amounts held for Social Security remittances	-	112,760	112,760	-	100,000	100,000
Total Liabilities	$ 4,858,736	$ 112,760	$ 4,971,496	$ 6,926,685	$ 100,000	$ 7,026,685
Fund Balance						
Actuarial present value of credited projected benefits	6,502,121,427	-	6,502,121,427	6,044,465,371	-	6,044,465,371
(Less) unfunded present value of credited projected benefits representing an obligation of the State of Ill.	(2,780,230,267)	-	(2,780,230,267)	(2,547,978,971)	-	(2,547,978,971)
Total Fund Balance	3,721,891,160	-	3,721,891,160	3,496,486,400	-	3,496,486,400
Total Liabilities & Fund Balance	$ 3,726,749,896	$ 112,760	$ 3,726,862,656	$ 3,503,413,085	$100,000	$ 3,503,513,085

Social Security Contribution Fund
Statements of Changes in Assets and Liabilities, Years Ended June 30, 1994 and 1993

	1994				1993			
Assets	Balance July 1, 1993	Additions	(Deductions)	Balance June 30, 1994	Balance July 1, 1992	Additions	(Deductions)	Balance June 30, 1993
Cash, restricted for Social Security remittances	$ 100,000	$ 13,153	$ (393)	$112,760	$ 812,879	$ 43,577	$ (756,456)	$ 100,000
Liabilities								
Unremitted Social Security contributions	$ -	$ -	$ -	$ -	$ 101,879	$ -	$ (101,879)	$ -
Amounts held for Social Security remittances	100,000	13,153	(393)	112,760	711,000	-	(611,000)	100,000
	$ 100,000	$ 13,153	(393)	112,760	$ 812,879	$ -	$ (712,879)	$ 100,000

SYSTEM TRUST FUND
Years Ended June 30, 1994 and 1993

SUMMARY OF REVENUES BY SOURCE

	1994	1993
Contributions:		
Participants	$ 122,639,189	$ 115,207,244
Repayments of contributions refunded	630,834	588,532
Interest received from participants	1,682,674	1,866,079
ERI service purchase	3,528,859	2,379,968
Total participants contributions	$ 128,481,556	$ 120,041,823
Employing state agencies	$ 118,298,761	$ 102,441,787
State Pension Fund appropriation	9,351,200	11,971,810
Total state contributions and appropriations	127,649,961	114,413,597
Investments:		
Net investments income	$ 181,634,285	$ 178,295,366
Interest earned on cash balances	618,977	542,884
Net realized gain on sale of investments	129,841,907	131,632,246
Total investment revenue	$ 312,095,169	$ 310,470,496
Total Revenue	$ 568,226,686	$ 544,925,916

SYSTEM TRUST FUND
Years Ended June 30, 1994 and 1993

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

	1994	1993
Cash balance, beginning of year	$ 13,750,680	$ 12,413,156
Receipts:		
Member contributions	121,384,028	117,038,437
Employer contributions	117,325,505	103,455,883
State Pension Fund contribution	9,351,200	11,971,810
Transfers from Illinois State Board of Investment	85,000,000	90,000,000
Interest income on cash balance	626,263	549,374
Claims receivable payments	1,044,769	908,447
Installment payments - prior service credit	2,246,237	2,971,912
Other	142,740	169,237
	$337,120,742	$327,065,100
Total cash receipts		
Disbursements:		
Annuity payments:		
Retirement annuities	$268,802,260	$256,948,482
Widow's annuities	2,610,610	2,707,959
Survivors' annuities	26,450,483	23,961,860
Death benefits	8,961,591	8,921,112
Disability benefits	17,798,142	15,992,609
Refunds	11,742,420	12,480,857
Administrative expenses	4,915,010	4,714,697
Total cash disbursements	$341,280,516	$325,727,576
Cash balance, end of year	$ 9,590,906	$ 13,750,680

ACTUARIAL SECTION

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Wyatt

October 18, 1994

Board of Trustees and Executive Secretary
State Employees' Retirement System of Illinois
P. O. Box 19255
2101 S Veterans Parkway
Springfield, Illinois 62794-9255

CONFIDENTIAL

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, 1994.

Since the last valuation, Senate Bill 533 was unanimously passed by the General Assembly and signed into law by the governor in August, 1994. This bill contained provisions affecting the annual appropriation requirements of the System.

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 a 90% funding of total actuarial liabilities by fiscal year 2045 as required by 40 ILCS Section 5/14-131(e). Future contribution rates are expected to increase incrementally beginning in fiscal year 1996 and through fiscal year 2010 to a level contribution rate for fiscal years 2011 through 2045.

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.

Wyatt

Board of Trustees and Executive Secretary
October 18, 1994
Page 2

In our opinion, the following schedule of valuation results fairly represents the financial condition of the State Employees' Retirement System of Illinois as of June 30, 1994.

THE WYATT COMPANY

By: W. Mark Duda

W. Mark Duda
Actuarial Assistant

By: Erminelia Q. Pestañas

Erminelia Q. Pestañas
Associate of the Society of Actuaries

By: William J. Miner

William J. Miner
Fellow of the Society of Actuaries

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INTRODUCTION

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 also receives an annual appropriation from the State Pensions Fund.

Annually, the System's actuarial consultant prepares 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. In fiscal years 1994 and 1993, the actuary has determined the required employer contribution rate and amount using the projected unit credit cost method. 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 Chapter 40, Section 5/14-131 of the Illinois Compiled 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."

> *"There exists no magic method or special formula for meeting pension costs despite the popular belief that a plan can be devised which will provide for these costs on a reduced basis. Pension costs are definite and accruing. These costs follow a fixed and mathematical law. No amount of theory or formula can change this fact. The costs of pensions must be met regardless of the form in which the plan is designed, and regardless of any special techniques that may be devised for financing or distributing these costs."*

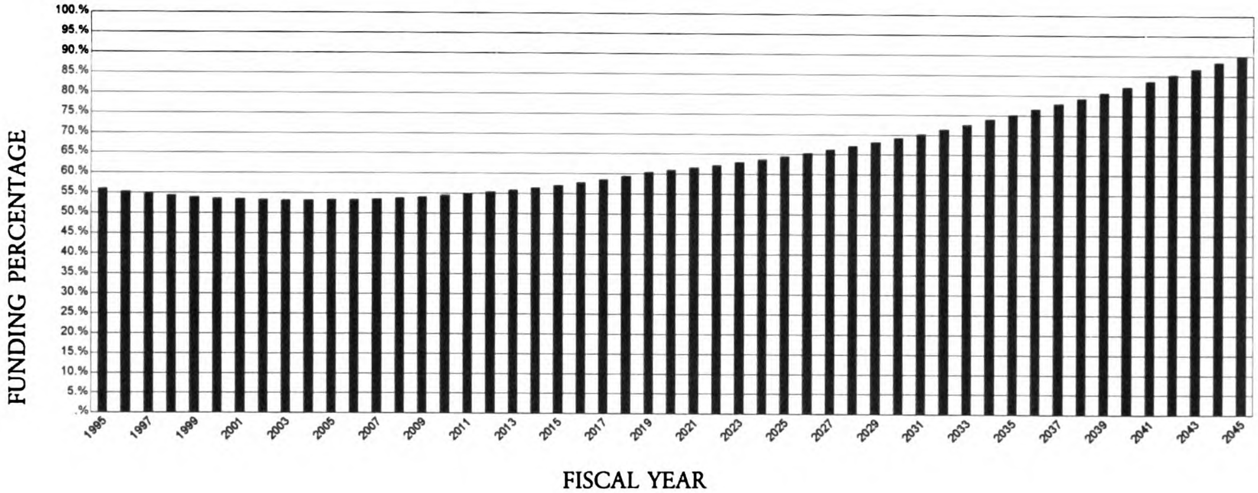
Excerpt from the Report of the Actuary, Mr. A. A. Weinberg included in the System's June 30, 1944 Annual Report.

These words, which were so eloquently stated 50 years ago, are still appropriate today. The proper funding of the state's retirement systems has recently been mentioned in the media numerous times and also in this annual report for a number of years. A breakthrough on this topic occurred during this calendar year when, in August, 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593.

This funding legislation, which becomes effective on July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process. Although long-term in nature, we believe that this legislation is an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the State Employees' Retirement System.

The System's actuary has projected valuation results for a 50 year period commencing with fiscal year 1996. The projection was based on the results of the June 30, 1994 actuarial valuation and the same actuarial assumptions as were used for the valuation. The required employer contributions to the System were calculated in accordance with the contribution requirements in the funding plan established under Public Act 88-0593. The following graph displays the System's projected funded status over the next 50 years which shows the 90% funding level being achieved in fiscal year 2045.



ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For fiscal years 1994 and 1993, 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-94 and FY-93 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; all other assumptions were adopted June 30, 1990.

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

Interest: 8% per annum, compounded annually.

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

	Rate			Rate	
Age	Males	Females	Age	Males	Females
20	.188	.377	40	.047	.056
25	.126	.144	45	.038	.041
30	.085	.096	50	.032	.030
35	.062	.072	55+	.030	.030

Salary Increases: Illustrative rates of increase per annum, compounded annually:

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

Retirement Rates: Listed below are rates of retirement that vary by age:

Age	General Employees	Alternative Formula Employees*	Age	General Employees	Alternative Formula Employees*
50-54	– %	20%	63-64	15 %	20%
55-59	10	20	65	40	40
60	25	20	66-69	25	30
61	15	20	70	100	100
62	20	20			

*An additional 10% are assumed to retire in the year in which the employee completes 30 years of service. The rates apply only to employees who have fulfilled the service requirement necessary for retirement at any given age.

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 include disability incidence, recovery from disability, mortality of disabled lives, remarriage rates, ages, and numbers of children and Social Security benefit levels.

VALUATION RESULTS

Actuarial Liability (Reserves)	FY-94	FY-93
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$2,863,092,870	$2,876,425,201
Survivor Annuities	274,596,967	259,034,207
Disability Annuities	94,014,210	77,116,299
Deferred:		
Retirement Annuities	1,538,247	878,050
Survivor Annuities	9,614,281	8,176,029
Total	$3,242,856,575	$3,221,629,786
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	88,766,059	73,075,948
Eligible for Return of Contributions Only	9,205,313	9,021,061
Total	$ 97,971,372	$ 82,097,009
For Active Members	$3,161,293,480	$2,740,738,576
Actuarial Present Value of Credited Projected Benefits	6,502,121,427	6,044,465,371
Assets, Book Value (Cost)	3,721,891,160	3,496,486,400
Unfunded Actuarial Present Value of Credited Projected Benefits	$2,780,230,267	$2,547,978,971

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/85	71,647	$1,569,532,000	$21,906	5.1%
6/30/86	74,012	1,713,755,000	23,155	5.7
6/30/87	74,732	1,825,196,000	24,423	5.5
6/30/88	74,923	1,953,960,000	26,080	6.8
6/30/89	76,651	2,106,121,000	27,477	5.4
6/30/90	79,211	2,270,303,000	28,661	4.3
6/30/91	81,023	2,461,352,000	30,378	6.0
6/30/92	77,194	2,439,708,000	31,605	4.0
6/30/93	77,146	2,450,350,000	31,763	.5
6/30/94	78,440	2,623,793,000	33,450	5.3

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; and 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 service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

The State of Illinois, however, has generally funded the System based on benefit payout, a level which increases over time reflecting a larger work force and higher salary levels.

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)
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
1991	897,690	2,078,059	1,974,131	2,981,415	100.0	100.0	0.3
1992	867,003	3,047,923	1,685,841	3,278,248	100.0	79.1	0.0
1993	939,207	3,221,630	1,883,628	3,496,486	100.0	79.4	0.0
1994	1,029,390	3,242,857	2,229,874	3,721,891	100.0	83.0	0.0

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES (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.

(in thousands of dollars)

Fiscal Year	Total Actuarial Liability	Net Assets	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Member Payroll	Unfunded Actuarial Liability as a % of Member Payroll
1985	$ 2,827,329	$ 1,707,259	60.4%	$ 1,120,070	$1,569,532	71.4%
1986	3,113,335	1,974,095	63.4	1,139,240	1,713,755	66.5
1987	3,361,723	2,225,883	66.2	1,135,840	1,825,196	62.2
1988	3,641,579	2,381,806	65.4	1,259,773	1,953,960	64.4
1989	3,752,134	2,580,199	68.8	1,171,935	2,106,121	55.6
1990	4,538,074	2,795,567	61.6	1,742,507	2,270,303	76.8
1991	4,949,880	2,981,415	60.2	1,968,465	2,461,352	80.0
1992	5,600,767	3,278,248	58.5	2,322,519	2,439,708	95.2
1993	6,044,465	3,496,486	57.8	2,547,979	2,450,350	104.0
1994	6,502,121	3,721,891	57.2	2,780,230	2,623,793	106.0

SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1991	23,864	1,428	(1,009)	24,283
1992	24,283	5,270	(1,052)	28,501
1993	28,501	974	(1,167)	28,308
1994	28,308	944	(1,123)	28,129

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1991	8,629	576	(386)	8,819
1992	8,819	564	(432)	8,951
1993	8,951	605	(441)	9,115
1994	9,115	569	(439)	9,245

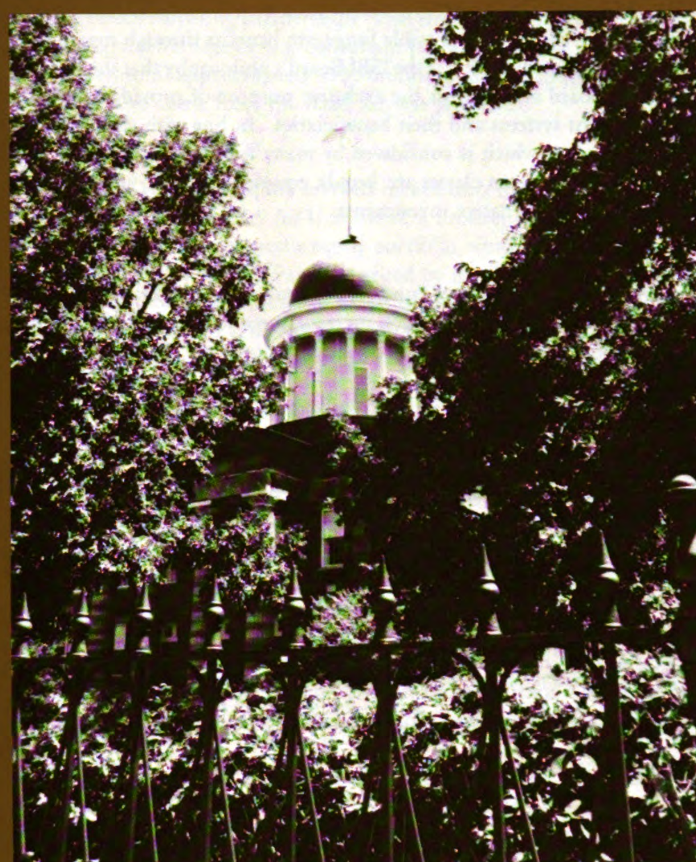
SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1991	1,501	2,027	(1,945)	1,583
1992	1,583	2,057	(2,081)	1,559
1993	1,559	2,005	(1,921)	1,643
1994	1,643	2,094	(2,029)	1,708

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-94	FY-93
Unfunded Liability, Beginning of Fiscal Year	$2,547,978,971	$ 2,322,519,184
Contributions Due		
Interest on the Unfunded Liability	203,838,318	185,801,535
Total Normal Cost	82,236,329	73,180,153
Participants (includes Repayment of Refunds)	128,481,556	120,041,823
Interest on Normal Cost	8,266,565	7,580,192
Total Due	$ 422,822,768	$ 386,603,703
Contributions Paid		
Participants (includes Repayment of Refunds)	$ 128,481,556	$ 120,041,823
Employing State Agencies and Appropriations	127,649,961	114,413,597
Interest on Contributions	10,048,164	9,197,800
Total Paid	$ 266,179,681	$ 243,653,220
Increase in the Unfunded Liability	$ 156,643,087	$ 142,950,483
Actuarial Gains (Losses)		
(a) Incidence of Disability	$ (2,000,550)	$ (1,365,151)
(b) In-Service Mortality	3,542,052	2,574,123
(c) Retiree Mortality	(2,008,795)	(8,473,849)
(d) Disabled Mortality	(228,642)	(32,494)
(e) Termination of Employment	35,830,239	23,442,805
(f) Salary Increases	7,686,676	(306,597)
(g) Investment Income	(35,777,163)	(51,828,983)
(h) Actuarial Valuation Software	26,767,592	-
(i) Other	41,796,800	70,257,064
Total Actuarial Gain (Loss)	$ 75,608,209	$ 34,266,918
Non-Recurring Items:		
Plan Amendments	$ -	$ 48,242,386
Total Non-Recurring Items	$ -	$ 48,242,386
Total Increase (Decrease) in Actuarial Liability	$ 232,251,296	$ 225,459,787
Unfunded Liability, End of Fiscal Year	$2,780,230,267	$ 2,547,978,971

INVESTMENT SECTION



Illinois Old State Capitol
Springfield, Illinois

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. In addition to the assets of the State Employees' Retirement System, the ISBI Board also manages the investment function for the General Assembly and Judges' Retirement Systems. As of June 30, 1994, total net assets under management valued at market, amounted to $4.305 billion. Of the total market value of assets under management, $4.038 million or 93.9% 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) has a market value of $4.305 billion as of the end of its fiscal year, June 30, 1994. The ISBI Fund had a modest increase in market value of $73 million for the fiscal year, which is net of withdrawals by the member systems to pay benefits in the amount of $96 million.

Fiscal 1994 was a difficult twelve months for U.S. financial markets. Domestically, stock, bond and real estate markets all posted flat or slightly negative returns for the period. The fiscal year was a period of increased worries about inflation, leading to higher interest rates which in turn dampened both equity and fixed income results. Institutional real estate investments, while showing signs of stabilization, have not yet gained upward momentum. The only bright spots for investment portfolios for the fiscal year were foreign equities, which posted solid gains due to strong Asian markets and a weak dollar. Also, select private equity investments in the U.S. were able to show positive returns for the fiscal year.

The ISBI Fund earned a total rate of return for fiscal 1994, net of expenses, of 4.0%. While this is below the ISBI Fund's long-term objective of earning 4.5% above the inflation rate, the ISBI Board considers this a good result in a difficult year. In every asset class with the exception of real estate, the ISBI Fund's active managers outperformed market indices by a wide margin. In addition, the ISBI Board's continued commitment to diversification into alternative asset categories, such as international equities and nonmarketable securities, added value to returns earned in domestic stock and bond portfolios.

The investment policy of the ISBI Board establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. The policy is monitored by the ISBI Board and implemented by allocations to investment managers with assignments to invest in specific asset classes. The actual allocation to investment managers by asset type is roughly in line with the policy mix, with modest overallocations to domestic equity and fixed income and underallocations to international equities and real estate. In accordance with the ISBI Fund's investment plan, the ISBI Board implemented a number of new programs to move towards the ISBI Fund's target asset mix.

Since 1989, the ISBI Fund has been slowly increasing its investment in foreign equity securities. Foreign equities provide excellent diversification for domestic equities, lowering the risk of the total ISBI Fund. During fiscal 1994, the ISBI Board decided to increase its investment in international equities to bring the actual allocation in line with the long-term target. Specifically, the ISBI Board sought an investment manager with expertise in "emerging markets;" developing countries whose economies are expected to grow at a faster rate than in the U.S., and therefore have the potential for higher long-term returns. However, due to the volatility of these markets, the ISBI Board preferred to structure an account with manager discretion to strategically alter the mix of emerging markets to developed markets.

After an extensive search, the ISBI Board appointed Schroder Capital Management to manage a $100 million international equity account, to be funded in two equal parts on July 1, 1994 and October 1, 1994. As the ISBI Fund does not receive new investment resources from the member Systems, the ISBI Board determined to fund this allocation by reducing its domestic equity portfolio. As a result, this will eliminate the overweighting in that asset class relative to the policy target.

The second asset class that the ISBI Board considered during the fiscal year was real estate. While the ISBI Board remains cautious about new investments in real estate, select investments in what may be the bottom of the real estate cycle could have excellent long-term gain potential. Therefore, during fiscal 1994, the ISBI Fund made its first new commitments to real estate since fiscal 1989. Both commitments were to investment managers with whom the ISBI Board already has a relationship. First, the ISBI Fund committed $50 million to Zell/Merrill Lynch Real Estate Opportunity Partners III, which will invest in income producing real estate at prices well below replacement cost. Second, the ISBI Fund made an additional $25 million commitment to Premiere Partnership I L.P., the ISBI Fund's farmland investment. Both of these investments will be funded from the fixed income account, which is currently overweight relative to its long-term target.

The final asset class considered during the fiscal year was nonmarketable equity securities. Although the current allocation is not significantly below the long-term target, in order to maintain the level of investment, new commitments are necessary over time to balance distributions from maturing partnerships. Therefore, after a thorough review of alternative approaches, the ISBI Fund appointed Abbott Capital Management as consultant for this asset class. Over the next two years, with Abbott's assistance, the ISBI Fund plans to commit approximately $100 million to partnerships in the nonmarketable securities area. Funds for these commitments will also come from the fixed income portfolio.

Domestic Equities

For the twelve months ended June 30, 1994, U.S. equity markets earned only modestly positive returns. The S&P 500 Index increased 1.3% during fiscal 1994, and the BARRA All-U.S. Index, a broader representation of the domestic market, rose only 1.0%. Within that context, the ISBI Fund's domestic equity portfolio, which is all managed by external investment firms, achieved a strong relative return of 5.5%. The ISBI Fund benefited by its tilt towards "value" investment strategies, versus "growth" strategies. Also, smaller capitalization stocks as a whole somewhat outperformed larger capitalization stocks, and investments in smaller stocks added value to the ISBI Fund's performance. Finally, certain managers demonstrated excellent stock selection this fiscal year, further boosting the ISBI Fund's return above the market index results.

The composite average annual rates of return for the domestic equity portfolio:

	1 Year	3 Years	5 Years
ISBI	5.5%	11.4%	10.9%
S&P 500	1.3	9.3	10.3

Global/International Equities

Unlike the U.S. market, overseas equity markets experienced strong returns during fiscal 1994, especially when converted into U.S. dollar terms. Smaller Asian markets were particularly strong, rising at a spectacular rate in the first six months, followed by a sharp correction, and then a gradual recovery during the second half of the fiscal year. These markets, aided by more modest gains in Europe and Japan, as well as a weakening dollar, resulted in a 17.3% return for the Morgan Stanley Europe Australia Far East Index ("MSCI EAFE"). The Morgan Stanley World Index ("MSCI World"), which includes the U.S. market, increased 10.8%.

All foreign security accounts are managed by external investment firms. "Global" managers have the discretion to invest in both domestic as well as foreign securities, while "international" managers are limited to non-U.S. securities; thereby assuring a certain amount of diversification. For the fiscal year the ISBI Fund's global managers outperformed the MSCI World index, earning 12.7%. The ISBI Fund's international portfolio also outperformed its benchmark, increasing 18.8%, compared to 17.3% for the EAFE Index. Overall, the ISBI Fund's exposure to foreign equities significantly enhanced the returns earned in the total equity portfolio.

Fixed Income

During fiscal 1994, U.S. fixed income markets were negatively impacted by inflation fears and rising interest rates. The Shearson Lehman Aggregate Bond Index lost 1.3% for the 12-month period, with principal loss more than offsetting interest income. High yield bonds, while also experiencing principal loss, were somewhat protected by higher income yields. The Merrill Lynch High Yield Index earned 4.8% for the fiscal year.

Substantially all fixed income assets are managed internally, excepting approximately $210 million allocated to external high yield bond managers. Both internal and external accounts performed well relative to market indices. The internal account earned 1.1% for the fiscal year, over two hundred basis points higher than the Shearson Lehman Aggregate Bond Index. Positive returns from the external high yield accounts further improved the total fixed income return to 1.6%

Comparative average annual rates of return for the total fixed income portfolio versus the market index benchmark:

	1 Year	3 Years	5 Years
ISBI	1.6%	11.2%	10.0%
Shearson Lehman Aggregate	(1.3)	8.0	8.5

Real Estate

All of the ISBI Fund's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

Real estate was the most disappointing asset class during fiscal 1994, registering a loss of 9.7% for the twelve month period. This loss represents a substantial write-off of the ISBI Fund's investment in Cadillac Fairview Inc., a Canadian real estate company primarily invested in retail properties. Although Cadillac's real estate portfolio contains high quality properties, the corporate capital structure is overleveraged, which has led to erosion of subordinated stakeholders' values. A number of restructuring alternatives are currently under consideration, which have a good chance of stabilizing the company and providing for future appreciation potential.

Other than Cadillac Fairview, the ISBI Fund's real estate investments were flat to slightly positive for the fiscal year, with income yields offsetting modest capital depreciation.

Average annual rates of return for the combined real estate portfolio compared to the market benchmark for unleveraged institutional grade property returns:

	1 Year	3 Years	5 Years
ISBI	(9.7)%	(8.9)%	(4.6)%
NCRIEF	1.7	(2.8)	(0.5)

Nonmarketable Equity Interests

The nonmarketable equity securities portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities. The ISBI portfolio's largest investment is with the Kohlberg Kravis Roberts (KKR) leveraged buyout limited partnership, which accounts for just over 75% of this category. Fiscal 1994 was a good year for this category. A strong initial public offering (IPO) market allowed a number of portfolio companies to gain access to the auction markets, thereby producing liquidity and/or actual cash returns to the ISBI Fund. In addition, a number of publicly traded companies in the KKR portfolio, such as Duracell and Safeway, posted strong gains. Overall, the category earned 19.4% for the fiscal year.

	1 Year	3 Years	5 Years
ISBI	19.4%	8.2%	10.8%

Management Expenses

Total operating expenses, including fees to external managers, for the fiscal year were $12,167,419, as compared to $12,767,218 for the previous fiscal year. The expense ratio (expenses divided by average net assets under management) was .28% as compared to .31% last fiscal year. The State Employees' Retirement System's share of total operating expenses amounted to $11,411,896.

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, 1994. A copy of the report can be obtained from the ISBI Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1994		June 30, 1993	
	Market Value	Percentage	Market Value	Percentage
Fixed Income[1]	$ 1,589,684,684	36.9%	$ 1,675,111,606	39.6%
Equities	1,612,915,598	37.5%	1,514,340,786	35.8%
Foreign Equities	359,170,019	8.4%	284,093,447	6.7%
Real Estate	281,508,859	6.5%	301,829,401	7.1%
Non-Marketable[2]	190,016,101	4.4%	170,390,328	4.0%
Cash equivalents[3]	272,059,511	6.3%	286,270,733	6.8%
	$ 4,305,354,772	100.0%	$ 4,232,036,301	100.0%

[1]Maturities of one year or longer, including convertible bonds.
[2]Interests in limited partnerships and other entities which have limited liquidity.
[3]Cash Equivalents includes other assets, less liabilities.

ANALYSIS OF INVESTMENT PERFORMANCE

	1994	1993	1992	1991	1990
Total Return* - Past 3 years		9.2%			
Total Return* - Past 5 years			8.5%		
Total Return* - year by year	4.0%	12.1%	11.6%	7.0%	8.0%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	4.5%	4.7%	5.4%	5.2%	5.2%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	1.6%	15.6%	17.1%	10.5%	5.9%
Comparison index:					
Shearson Lehman Aggregate	(1.3%)	11.8%	14.1%	10.7%	7.8%
Comparative rates of return on equities					
Domestic equities - ISBI	5.5%	13.7%	15.2%	9.9%	10.1%
Comparison index:					
S&P 500	1.3%	13.6%	13.5%	7.4%	16.4%

*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.

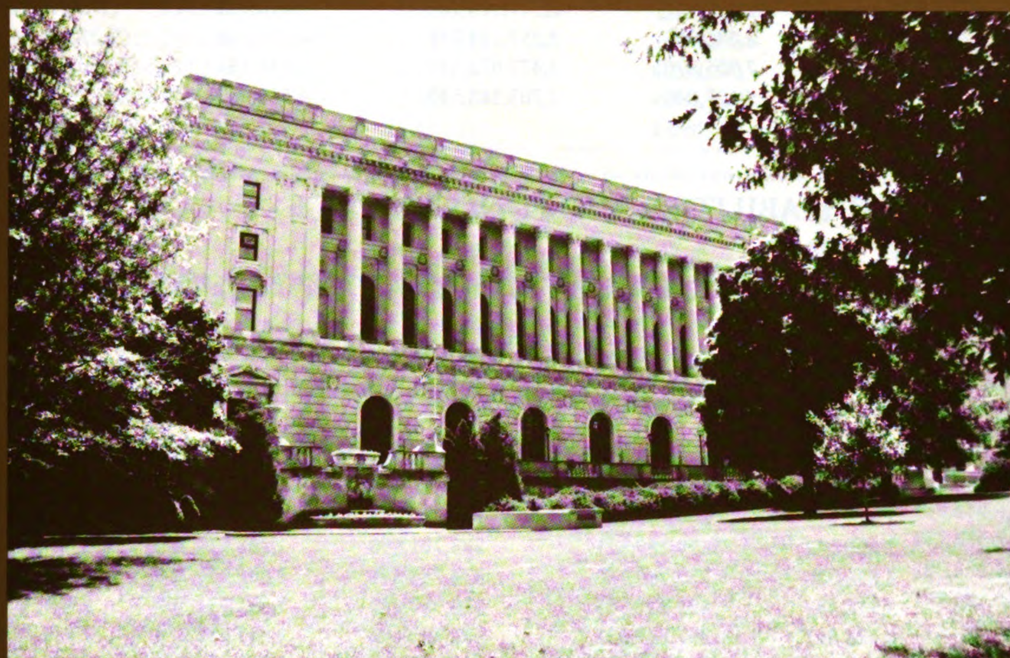
ADDITIONAL INVESTMENT INFORMATION

Gross investment income for 1994 of $193,046,181, less the Investment Board's administrative expenses of $11,411,896 resulted in net investment income of $181,634,285. This amount, when combined with the net realized gain on sale of investments of $129,841,907 provided net revenue from investments of $311,476,192. Net cash transfers from the Illinois State Board of Investment were $85,000,000 during FY 1994. The balance of investments at cost increased by $226,476,192 from June 30, 1993 thru June 30, 1994. The following table shows a comparison of investment operations for FY 1994 and FY 1993.

			Increase/(Decrease)	
	1994	1993	Amount	Percentage
Balance at beginning of year, at cost	$ 3,477,072,371	$ 3,257,144,759	$ 219,927,612	6.8%
Cash transferred from ISBI (net)	(85,000,000)	(90,000,000)	5,000,000	5.6%
Investment income:				
Commingled Fund income	$ 193,046,181	$ 190,257,914	$ 2,788,267	1.5%
Less Expenses	(11,411,896)	(11,962,548)	550,652	4.6%
Net investment income	$ 181,634,285	$ 178,295,366	$ 3,338,919	1.9%
Distributed Net Realized Gain on Sale of Investments	$ 129,841,907	$ 131,632,246	$ (1,790,339)	(1.4)%
Balance at end of year, at cost	$ 3,703,548,563	$ 3,477,072,371	$ 226,476,192	6.5%
Market value	$ 4,038,936,755	$ 3,965,605,241	$ 73,331,514	1.8%

In addition, interest on the average balance in the System's account for FY 1994 was $618,477 compared to $542,884 during FY 1993, primarily due to higher average balances maintained during FY 1994.

STATISTICAL SECTION



Michael J. Howlett Building
Springfield, Illinois

BALANCE SHEET ASSETS - SYSTEM TRUST FUND

FY Ended June 30	Cash	Receivables	Investments At Cost	Fixed Assets, Net of Accumulated Depreciation	Total
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
1991	18,682,979	12,050,151	2,949,573,783	4,436,451	2,984,743,364
1992	12,413,156	8,546,535	3,257,144,759	4,311,268	3,282,415,718
1993	13,750,680	7,755,870	3,477,072,371	4,834,164	3,503,413,085
1994	9,590,906	9,125,040	3,703,548,563	4,485,387	3,726,749,896

BALANCE SHEET LIABILITIES AND FUND BALANCE - SYSTEM TRUST FUND

FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Interest Accumulations	Reserve For Future Operations	Total
1985	$ 2,136,041	$ 554,822,852	$ 193,653,446	$ 958,783,164	$ 1,709,395,503
1986	2,282,972	597,438,053	223,613,728	1,153,042,902	1,976,377,655
1987	2,359,515	644,749,034	256,208,045	1,324,926,067	2,228,242,661
1988	2,906,072	699,189,621	293,701,690	1,388,914,755	2,384,712,138
1989	2,836,020	757,180,186	334,758,898	1,488,259,762	2,583,034,866
1990	3,918,499	823,025,513	380,950,235	1,591,591,362	2,799,485,609
1991	3,328,811	897,689,637	432,192,642	1,651,532,274	2,984,743,364
1992	4,168,161	867,002,526	417,372,947	1,993,872,084	3,282,415,718
1993	6,926,685	939,206,550	473,504,132	2,083,775,718	3,503,413,085
1994	4,858,736	1,029,390,486	544,137,677	2,148,362,997	3,726,749,896

REVENUES BY SOURCE - SYSTEM TRUST FUND*

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Total
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
1991	120,263,354	115,979,568	180,520,373	416,763,295
1992	141,862,797	98,532,783	344,237,850	584,633,430
1993	120,041,823	114,413,597	310,470,496	544,925,916
1994	128,481,556	127,649,961	312,095,169	568,226,686

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

EXPENSES BY TYPE - SYSTEM TRUST FUND*

FY Ended June 30	Benefits	Contribution Refunds (Incl. Transfers)	Administrative Expenses	Total
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
1991	215,290,386	11,851,930	3,773,536	230,915,852
1992	266,652,372	16,918,761	4,229,293	287,800,426
1993	309,936,732	12,009,124	4,741,217	326,687,073
1994	326,330,535	11,411,111	5,080,280	342,821,926

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

BENEFIT EXPENSES BY TYPE - SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
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
1991	166,360,086	23,592,609	16,655,172	8,682,519	215,290,386
1992	215,470,012	25,104,054	17,764,029	8,314,277	266,652,372
1993	256,666,173	26,958,900	17,893,919	8,417,740	309,936,732
1994	268,772,969	28,934,211	19,708,185	8,915,170	326,330,535

TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS					
	Male	Female	Total	Male	Female	Total	Total Male Members	Total Female Members	Total Members
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
1991	47,223	45,939	93,162	5,608	3,499	9,107	52,831	49,438	102,269
1992	46,536	45,131	91,667	4,316	2,639	6,955	50,852	47,770	98,622
1993	47,471	45,577	93,048	3,983	2,528	6,511	51,454	48,105	99,559
1994	48,175	45,969	94,144	3,952	2,425	6,377	52,127	48,394	100,521

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS						
	Male	Female	Total	Male	Female	Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
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
1991	35,984	36,461	72,445	5,325	3,253	8,578	41,309	39,714	81,023	2,461,352,000
1992	35,263	35,447	70,710	4,069	2,415	6,484	39,332	37,862	77,194	2,439,708,000
1993	35,782	35,324	71,106	3,734	2,306	6,040	39,516	37,630	77,146	2,450,350,000
1994	36,650	35,867	72,517	3,719	2,204	5,923	40,369	38,071	78,440	2,623,793,000

NUMBER OF RECURRING BENEFIT PAYMENTS - SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
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
1991	24,283	8,819	1,583	34,685
1992	28,501	8,951	1,559	39,011
1993	28,308	9,115	1,643	39,066
1994	28,129	9,245	1,708	39,082

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

TERMINATION REFUNDS - NUMBER/AMOUNT - SYSTEM TRUST FUND

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
1991	3,235	10,488,713
1992	3,257	11,634,268
1993	2,797	10,737,417
1994	2,961	10,303,901

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

Fiscal Year Ending June 30	1994	1993	1992	1991	1990
Not Coordinated with Social Security	$ 918.46	$ 1,057.75	$ 1,860.38	$ 1,237.79	$ 1,153.58
Coordinated with Social Security	452.06	418.51	683.38	404.26	411.07
Alternative Formula	3,716.55	3,425.19	2,863.17	2,821.34	2,903.27
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	2,255.04	2,111.92	1,944.69	1,640.16	1,469.27
Dept. of Corrections - Special Formula Coordinated with Social Security	1,109.41	945.65	1,341.49	993.56	968.73
Air Pilots - Coordinated with Social Security	-	-	2,082.77	-	-
Court Reporters - Not Coordinated with Social Security	2,069.37	-	1,981.77	1,440.34	1,949.44
Court Reporters - Coordinated with Social Security	1,436.76	399.37	1,120.78	328.58	705.94
Total Average	$ 723.53	$ 1,302.27	$ 1,243.94	$ 784.48	$ 802.07

RETIREMENT ANNUITIES - SYSTEM TRUST FUND
Current Age of Active Recipients

	Fiscal Year Ending June 30				
Age	1994	1993	1992	1991	1990
Under 51	164	223	109	8	6
51-55	671	768	905	159	168
56-60	1,714	1,880	1,973	792	770
61-65	4,084	4,184	4,563	3,495	3,517
66-70	6,219	6,375	6,354	5,865	5,808
71-75	5,879	5,755	5,665	5,460	5,485
76-80	4,653	4,589	4,634	4,495	4,325
81-85	2,982	2,871	2,684	2,516	2,391
86-89	1,102	1,038	1,030	934	899
Over 89	661	625	584	559	495
Total	28,129	28,308	28,501	24,283	23,864
Average age	71.84	71.44	71.19	72.70	72.55

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

Fiscal Year Ending June 30	1994	1993	1992	1991	1990
Not Coordinated with Social Security	370.34	350.78	407.93	344.13	339.78
Coordinated with Social Security	223.30	216.06	207.55	209.78	209.45
Alternative Formula	361.57	350.02	346.61	341.68	346.42
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	348.62	354.05	369.84	324.05	327.02
Dept. of Corrections -Special Formula - Coordinated with Social Security	288.32	277.78	307.44	278.35	261.29
Air Pilots - Coordinated with Social Security	-	-	338.00	-	-
Court Reporters - Not Coordinated with Social Security	409.81	-	380.92	309.05	389.80
Court Reporters - Coordinated with Social Security	333.50	177.75	299.71	172.00	199.37
Total Average	268.36	279.31	324.55	259.32	260.82

Annuitants by Benefit Range (Monthly) June 30, 1994

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	948	948	3.4	3.4
101-200	3,959	4,907	14.1	17.5
201-300	3,956	8,863	14.1	31.6
301-400	3,164	12,027	11.2	42.8
401-500	2,393	14,420	8.5	51.3
501-600	1,940	16,360	6.9	58.2
601-700	1,479	17,839	5.3	63.5
701-800	1,100	18,939	3.9	67.4
801-900	950	19,889	3.4	70.8
901-1000	826	20,715	2.9	73.7
1001-1100	743	21,458	2.6	76.3
1101-1200	708	22,166	2.5	78.8
1201-1300	567	22,733	2.0	80.8
1301-1400	504	23,237	1.8	82.6
1401-1500	436	23,673	1.6	84.2
1501-1600	386	24,059	1.4	85.6
1601-1700	404	24,463	1.4	87.0
1701-1800	333	24,796	1.2	88.2
1801-1900	310	25,106	1.1	89.3
1901-2000	287	25,393	1.0	90.3
2001-2100	268	25,661	1.0	91.3
2101-2200	225	25,886	0.8	92.1
2201-5000	2,238	28,124	7.9	100.0
5000- & over	5	28,129	0.0	100.0

Widow's and Survivors' by Benefit Range (Monthly) June 30, 1994

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	2,320	2,320	25.1	25.1
101-200	2,172	4,492	23.5	48.6
201-300	1,844	6,336	19.9	68.5
301-400	1,222	7,558	13.2	81.7
401-500	822	8,380	8.9	90.6
501-600	256	8,636	2.8	93.4
601-700	167	8,803	1.8	95.2
701-800	134	8,937	1.4	96.6
801-900	101	9,038	1.1	97.7
901-1000	62	9,100	0.7	98.4
1001-1100	51	9,151	0.6	99.0
1101-1200	24	9,175	0.3	99.3
1201-1300	14	9,189	0.2	99.5
1301-1400	25	9,214	0.3	99.8
1401-1500	8	9,222	0.1	99.9
1501-1600	5	9,227	0.0	99.9
1601-1700	6	9,233	0.0	99.9
1701-1800	7	9,240	0.1	100.0
1801-1900	2	9,242	0.0	100.0
1901-2000	1	9,243	0.0	100.0
2001-2100	0	9,243	0.0	100.0
2101-2200	0	9,243	0.0	100.0
2201-5000	2	9,245	0.0	100.0
5000- & over	0	9,245	0.0	100.0

Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 1994

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	25	25	1.5	1.5
101-200	100	125	5.9	7.4
201-300	223	348	13.1	20.5
301-400	228	576	13.3	33.8
401-500	174	750	10.2	44.0
501-600	124	874	7.3	51.3
601-700	86	960	5.0	56.3
701-800	66	1,026	3.9	60.2
801-900	80	1,106	4.7	64.9
901-1000	126	1,232	7.4	72.3
1001-1100	75	1,307	4.4	76.7
1101-1200	68	1,375	4.0	80.7
1201-1300	88	1,463	5.2	85.9
1301-1400	67	1,530	3.9	89.8
1401-1500	50	1,580	2.9	92.7
1501-1600	38	1,618	2.2	94.9
1601-1700	24	1,642	1.4	96.3
1701-1800	26	1,668	1.5	97.8
1801-1900	7	1,675	0.4	98.2
1901-2000	10	1,685	0.6	98.8
2001-2100	8	1,693	0.5	99.3
2101-2200	2	1,695	0.1	99.4
2201-5000	13	1,708	0.6	100.0
5000- & over	0	1,708	0.0	100.0

Active Retirees by State

PLAN SUMMARY AND LEGISLATIVE SECTION

Governor's Mansion
Springfield, Illinois

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 1994)

1. PURPOSE

The State Employees' Retirement System of Illinois, a state agency, provides an orderly means whereby aged or disabled employees may be retired from active service without prejudice or hardship and enables the employees to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE MEMBERSHIP

Generally 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. Several other exceptions may also apply.

4. 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, Mental Health Police Officers, Dangerous Drug Investigators for Department of Alcoholism and Substance Abuse, Attorney General Investigators, State's Attorneys Appellate Prosecutor Investigators, and Commerce Comission Police Officer - 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.

Effective January 1, 1992, most state agencies began participation in an employer pickup of employee retirement contributions program. The employer (i.e. the State of Illinois) now pays all or a part of the required employee contributions on behalf of its employees.

5. RETIREMENT PENSION

A. Qualification of Member

Upon termination of state service, a member is eligible for a pension at age 60 with at least eight years of pension credit; at any age with 35 or more years of credit; between ages 55 and 60 with 30 to 35 years of credit with the pension reduced by one-half of 1% for each month the member is under age 60. Security employees of the Department of Corrections and the Department of Mental Health and Developmental Disabilities - Chester, Illinois who are not eligible for the Alternative Formula must have at least 20 years of membership service to qualify for 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.

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* Under S.S./Not Under S.S.		Alternative Formula, i.e. Police and other positions Under S.S./Not Under S.S.		Court Reporter Under S.S./Not Under S.S.	
Each of the first 10 years of credit	1.0%	1.67%	1.67%	1.90%	1.67%	2.25%	1.5%	2.2%
Each of the second 10 years of credit	1.1%	1.90%	1.90%	2.10%	1.90%	2.50%	1.5%	2.2%
Each of the third 10 years of credit	1.3%	2.10%	2.10%	2.25%	2.10%	2.75%	1.5%	2.2%
Each year above 30 years	1.5%	2.30%	2.30%	2.50%	2.30%	2.75%	1.5%	2.2%

*Who are not eligible for the Alternative Formula. 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, the age at which the member can receive unreduced social security benefits 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; or 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 the 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 lessor of $600 or 80% of final average compensation. The maximum combined monthly payment to parents may not exceed $400. If the member's death occurs after retirement or after termination of state employment, but before the member receives a pension, the monthly benefit is the same as during active employment or 80% of the earned pension at date of death.

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. 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 social security offset may not reduce the benefit by more than 50%.

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. The social security offset may not reduce the benefit by more than 50%.

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 widow's 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 the 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 age 18 survive, each child receives a monthly allowance of 15% of the 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 Act or Workers' Occupational Diseases Act.

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.

D. Annual Increase in Benefits

The Occupational Death Benefit is increased by 3% each January 1 after receipt of benefits for one full year.

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 the interest credited to the member's account; and (2) a payment equal to one month's salary for each full year of pension credit not to exceed six 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 the 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 18 months 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 (including any periods for which sick pay was received).

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.

C. Increase in Benefit

The Nonoccupational Disability benefit shall be increased by 7% following the fourth anniversary of the benefit and 3% each year thereafter.

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 Act or Workers' Occupational Diseases Act.

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.

C. Increase in Benefit

The Occupational Disability benefit shall be increased by 7% following the fourth anniversary of the benefit and 3% each year thereafter.

12. TEMPORARY DISABILITY BENEFIT

A. Qualification and Amount of Benefit

Available to any member who becomes disabled, has established at least 18 months 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 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. The member must be off the payroll for 14 days to be eligible for a refund. 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 1994 having an impact on the System were:

HOUSE BILL 2082 (P.A. 88-535)

Allowed certain employees of the city of Chicago, Department of Public Health, whose job duties were in connection with the clinical health laboratory functions, to transfer to the State of Illinois pursuant to an intergovernmental agreement.

The bill also waived certain waiting periods for disability and survivor benefits for the transferees.

NEW LEGISLATION - Amendments with an effective date subsequent to June 30, 1994, affecting the operation of the System:

SENATE BILL 533 (P.A. 88-0593)

There were several substantive changes to the law governing the operation of the System, as well as the State Finance Act, which were included in the bill. Among the most significant changes were the following:

A) Modified the State Pensions Fund language to authorize appropriation of the fund balance, less a specified amount, to the five state sponsored retirement systems. The Bureau of the Budget shall determine the amount to be appropriated to each system. This change shall first apply to distributions for fiscal year 1996.

B) Established a new funding plan that changes the method of calculating, certifying, and paying the required state contributions to the System. The new provision shall first apply to the state contributions required for fiscal year 1996.

   The General Assembly declared that a funding ratio (the ratio of the System's total assets to the System's actuarial liability) of 90% is an appropriate goal for state funded retirement systems. This goal is to be reviewed every 5 years, beginning in 1999, by the Illinois Economic and Fiscal Commission.

C) The System's Board of Trustees shall also determine a state contribution rate for each fiscal year, expressed as a percentage of payroll, based on the total required state contribution for that year (less the amount received from the State Pensions Fund), the estimated payroll for personal services rendered by participating employees, and the recommendations of the actuary.

D) The employer contribution shall be based on the full rate certified by the System's Board. The funding plan calls for a 15-year phase-in of contributions increased in equal annual increments so that by fiscal year 2011, the state is contributing the rate required by law.

E) From each fund from which an amount is appropriated for personal services., there is appropriated to that department, on a continuing annual basis, an additional amount equal to the difference between the employee amount due versus the employer amount paid for that fiscal year.

The continuing appropriations provided for by this new law shall be first available in fiscal year 1996.