STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS - A PENSION TRUST FUND OF THE STATE OF ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1998

SRS State Retirement Systems

State Employees' Retirement System of Illinois

2101 South Veterans Parkway P.O. Box 19255 Springfield, Illinois 62794 - 9255
Phone: 217-785-7444 Fax: 217-785-7019
Internet: http://www.state.il.us/srs
E-mail: ser@pop.state.il.us

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 1998 Highlights

97,805	Total Membership
78,060	Active Contributing Members
$7,064,494,830	Net Assets Held in Trust for Pension Benefits, fair value
	Contributions:
$155,898,112	Employee
$200,741,736	Employer
$1,080,235,182	Investment Income
18.1%	Investment Return
	Benefit Recipients:
28,774	Retirement Annuities
9,789	Survivors' Annuities
1,868	Disability Benefits
$399,440,085	Benefits Paid
$9,341,897,641	Accrued Actuarial Liability
$2,277,402,811	Unfunded Actuarial Liability
75.6%	Funded Ratio

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

A PENSION TRUST FUND OF THE STATE OF ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1998

STATE EMPLOYEES'
RETIREMENT SYSTEM
OF ILLINOIS

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

Prepared by the
Accounting Division

Printed on contract by authority of the State of Illinois
650/$5.46ea/11/98/PRT3053301
Printed on recycled paper

INTRODUCTORY SECTION

- Letter of Transmittal
- Administration, Board of Trustees and Administrative Staff
- Certificate of Achievement for Excellence in Financial Reporting

SRS STATE RETIREMENT SYSTEMS

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

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

December 1, 1998

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) as of and for the fiscal year ended June 30, 1998 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 and the Certificate of Achievement for Excellence in Financial Reporting;
2. The Financial Section which contains the report of the Independent Auditors, the financial statements of the System, and certain required and other supplementary financial information;
3. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;
4. The Actuarial Section which contains an Actuary's Certification Letter and the results of the annual actuarial valuation;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

Generally accepted accounting principles require that the financial reporting entity include: (1) the primary government; (2) organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' 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 plan net asset information nor the changes in plan net assets 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 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. The fair value of plan net assets at the end of the fiscal year June 30, 1998 are approximately $7.1 billion, and there are 78,060 active members.

ADDITIONS TO PLAN NET ASSETS

The collection of employer and employee retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These revenue sources totaled $1,436.9 million during the fiscal year ending June 30, 1998, which is a significant increase from revenue reported for fiscal year 1997, shown as follows:

	1998 (Millions)	1997 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Contributions:				
Employees	$ 155.9	$ 145.7	$ 10.2	7.0%
Employer	200.8	158.2	42.6	26.9
Investments	1,080.2	952.6	127.6	13.4
	$1,436.9	$1,256.5	$180.4	14.4%

As indicated in the above schedule, approximately 71% of the total revenue increase was attributable to an increase in investment income which was largely the result of significant net appreciation in the fair value of investments.

DEDUCTIONS FROM PLAN NET ASSETS

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. Expenses of the System for 1998 and 1997 are shown for comparison purposes.

	1998 (Millions)	1997 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Benefits:				
Retirement annuities	$ 322.7	$ 298.4	$ 24.3	8.1%
Survivors' annuities	38.2	35.2	3.0	8.5
Disability benefits	24.7	23.8	.9	3.8
Lump-sum death benefits	13.8	11.3	2.5	22.1
	$ 399.4	$ 368.7	$ 30.7	8.3%
Refunds (including Transfers)	14.8	12.7	2.1	16.5
Administrative expenses	6.2	5.7	.5	8.8
	$ 420.4	$ 387.1	$ 33.3	8.6%

The increase in benefit payments results primarily from a new benefit formula for general employees as of January 1, 1998.

INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statues, using the "prudent person rule". This rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position. The ISBI maintains a wide diversification of investments within this fund which serves to reduce overall risk and increase returns.

Income from investments has, over the years, increasingly become a greater share of the total revenue of the System. Net investment income, combined with the net appreciation of fair value of investments, amounted to $1,080.2 million during fiscal year 1998, an increase of $127.6 million from fiscal year 1997. Income from investments represents 75.2% of total fund revenue. The Illinois State Board of Investment had an 18.1% rate of return on market values for the year ended June 30, 1998.

A detailed discussion of investment performance and strategies is provided in the Investment Section. Information regarding investment professionals providing services to the ISBI can be found in the separately issued ISBI report. To receive a copy of the ISBI annual financial report, please refer to the address contained in the Investment Section.

FUNDING

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 greater the level of funding, the larger the ratio of accumulated assets to the actuarial accrued liability and the greater the level of investment potential.

Senate Bill 533, which was signed into law by Governor Edgar on August 22, 1994, as Public Act 88-0593, enacted a new funding plan for the System. The financing objective of this funding plan requires that state contributions be paid to the System so that by the end of fiscal year 2045, the ratio of accumulated assets to the actuarial accrued liability will be 90%. For fiscal years 2011 through 2045, the required state contributions are to be computed as a level percentage of participant payroll. For those fiscal years up through 2010, the required state contributions are to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state is contributing at the required level contribution rate to achieve the financing objective by the end of fiscal year 2045. In addition, the funding legislation also provided for the establishment of a continuing appropriation of the required state contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 1998, amounted to $9.342 billion. The actuarial value of assets (at fair value) amounted to $7.064 billion as of the same date.

A detailed discussion of funding is provided in the Actuarial Section of this report.

MAJOR EVENTS/INITIATIVES

During the Fiscal Year 1998, the System continued its work on upgrading the Annual Benefit Statement for active and inactive members, annuitants and survivors; the implementation of several statewide accounting systems and the automation of various data processing reports. In addition, new projects in FY98 included the conversion to a new benefit formula for over 60,000 state employees as well as the adoption of legislation whereby members may establish service credit on a pre-tax basis.

Projects for Fiscal Year 1999 will primarily involve an agency wide effort to implement a new intranet system, the expansion of security codes to 4 digits from 3 digits and a review and enhancement of certain billing statements. The System's data processing personnel will also complete their review to ensure that all of the System's processing programs are "year 2000" compliant. While the vast majority of the System's programs are already "year 2000" compliant, the participant data base processing programs and data must still be modified to allow for the uninterrupted processing and posting of participant earnings, retirement contributions and retirement service credit to individual participant data base accounts. It is currently anticipated that all such programs will be modified, tested and implemented prior to June 30, 1999.

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 financial transactions and activities of the System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recognized when the corresponding liabilities are incurred, regardless of when payment is made. The System also uses the State of Illinois, Statewide Accounting Management System (SAMS) 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 Watson Wyatt Worldwide, Chicago, Illinois. Tax consulting services are provided by the accounting firm of KPMG Peat Marwick, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen, LLP, under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a one 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 comprehensive annual financial report for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This 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 past twelve consecutive years (fiscal years ended June 30, 1986 through June 30, 1997). 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.

On a sad note, Mr. William T. Margalus, a SERS Board member for approximately 4 and one-half years, passed away. While on the Board, Mr. Margalus served on the Executive Committee and performed his duties in a fair and compassionate manner. He also had a long and distinguished career as a state employee and will be remembered for his dedication to the Board and devotion to the System's membership.

Respectfully submitted,

Michael L. Mory
Nicholas C. Merrill, Jr.

Michael L. Mory
Executive Secretary

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

Board of Trustees

Loren Iglarsh
Representing Loleta A. Didrickson
Comptroller

Mark W. Gallagher
Chairman, appointed
by the Governor

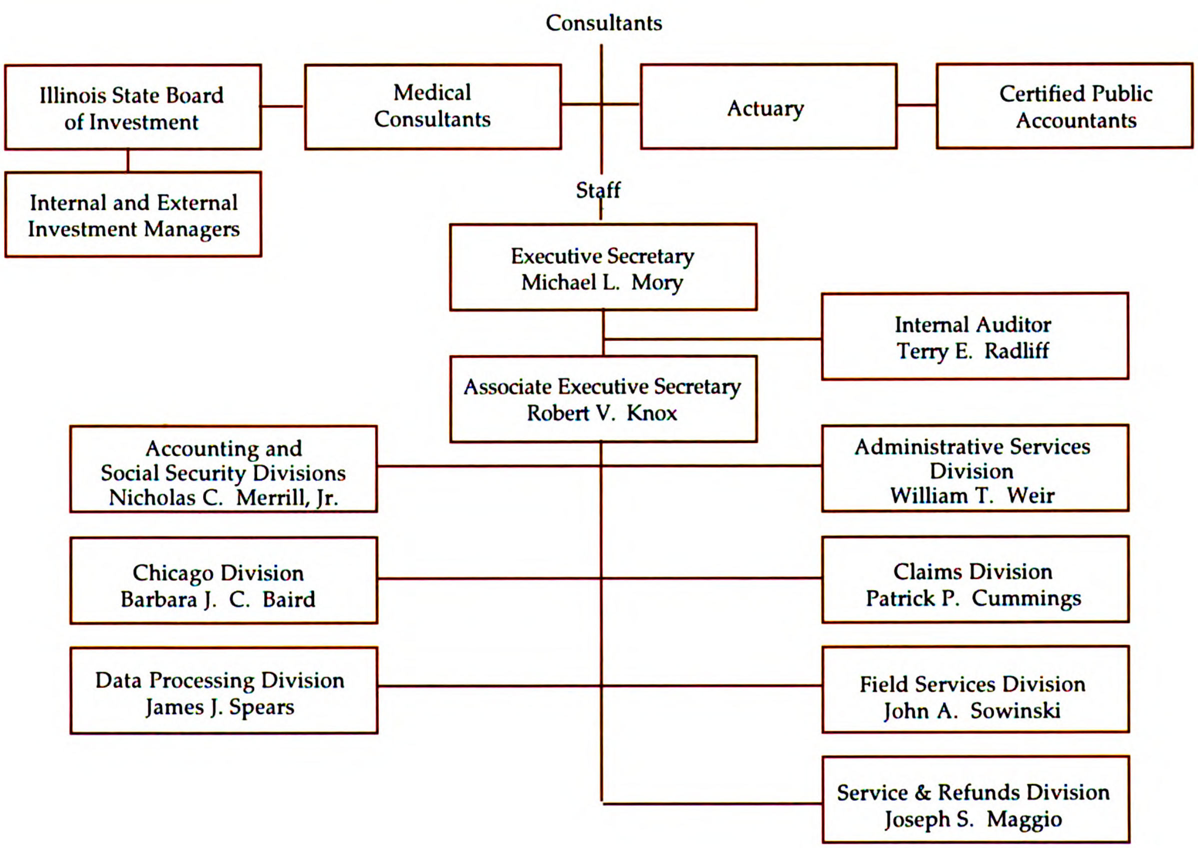
Stephen Schnorf
Director of the
Bureau of the Budget

Joseph T. Pisano
Annuitant, Appointed
by the Governor

Doris Clark
Elected Annuitant

Caryl Wadley-Foy
Elected Employee

Allen D. Grosboll
State Employee, Appointed
by the Governor



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Employees' Retirement System of Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1997

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

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

Douglas R Ellsworth
President

Jeffrey L. Esser
Executive Director

FINANCIAL SECTION

- Independent Auditor's Report

- Financial Statements:
  - Statements of Plan Net Assets
  - Statements of Changes in Plan Net Assets
  - Notes to Financial Statements

- Required Supplementary Information:
  - Schedule of Funding Progress
  - Schedule of Employer Contributions
  - Notes to Required Supplementary Information

- Supplementary Financial Information:
  - Summary of Revenues by Source
  - Summary Schedule of Cash Receipts and Disbursements

McGLADREY & PULLEN, LLP
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

As Special Assistant Auditors for the Auditor General, State of Illinois, we have audited the accompanying statements of plan net assets as of June 30, 1998 and 1997 of the State Employees' Retirement System of Illinois and the statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *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, 1998 and 1997, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 1998 on our consideration of the State Employees' Retirement System of Illinois' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements as of and for the years ended June 30, 1998 and 1997, taken as a whole. The schedules of funding progress and employer contributions are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. The summary of revenues by source and summary schedule of cash receipts and disbursements are not a required part of the financial statements but are supplementary financial information presented for additional analysis. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The schedules in the investments, actuarial and statistical sections have not been audited and therefore we do not express an opinion on them.

McGladrey & Pullen, LLP

Springfield, Illinois
October 30, 1998

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets - June 30, 1998 and 1997

	1998	1997
Assets		
Cash	$ 79,514,954	$ 69,478,145
Receivables:		
Contributions:		
Participants	8,259,558	6,383,074
Employing state agencies	7,231,695	5,985,073
Other accounts	2,379,684	2,055,130
	$ 17,870,937	$ 14,423,277
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	6,969,135,972	5,965,539,268
Property and equipment, net of accumulated depreciation	3,622,304	3,771,484
Total Assets	$ 7,070,144,167	$ 6,053,212,174
Liabilities		
Benefits payable	$ 2,401,504	$ 1,912,934
Refunds payable	573,413	212,554
Administrative expenses payable	1,143,913	1,235,638
Participants' deferred service credit accounts	1,530,507	1,823,823
Total Liabilities	$ 5,649,337	$ 5,184,949
Net assets held in trust for pension benefits	$ 7,064,494,830	$ 6,048,027,225

(A Schedule of Funding Progress for the Plan is presented on page 25.)

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets

Years ended June 30, 1998 and 1997

	1998	1997
Additions:		
Contributions:		
Participants	$ 155,898,112	$ 145,683,543
Employing State agencies and appropriations	200,741,736	158,179,514
Total Contributions	356,639,848	303,863,057
Investment income:		
Net investments income	223,765,249	213,670,347
Interest earned on cash balances	4,638,478	3,346,821
Net appreciation in fair value of investments	851,831,455	735,593,840
Total net investments income	$ 1,080,235,182	952,611,008
Total additions	$ 1,436,875,030	1,256,474,065
Deductions:		
Benefits:		
Retirement annuities	322,676,817	298,359,093
Survivors' annuities	38,184,192	35,239,862
Disability benefits	24,711,911	23,813,616
Lump-sum death benefits	13,867,165	11,256,372
Total Benefits	399,440,085	368,668,943
Refunds	14,812,967	12,635,835
Administrative	6,154,373	5,735,827
Transfers to reciprocating retirement systems	-	86,592
Total Deductions	420,407,425	387,127,197
Net increase	$ 1,016,467,605	$ 869,346,868
Net assets held in trust for pension benefits:		
Beginning of year	6,048,027,225	5,178,680,357
End of year	$ 7,064,494,830	$ 6,048,027,225

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 1998 and 1997

(1) Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include: (1) the primary government; (2) organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statement to be misleading or incomplete.

The State Employees' Retirement System (System) of Illinois is administered by a Board of Trustees consisting of seven persons, which includes: a) the Director of the Bureau of the Budget; b) the Comptroller; c) one trustee, not a state employee, who shall be chairman, to be appointed by the Governor for a 5 year term; d) two members of the system, one of whom shall be an annuitant age 60 or over, having at least 8 years of creditable service, to be appointed by the Governor for terms of 5 years; e) one member of the System having at least 8 years of creditable service, to be elected from the contributing membership of the System by the contributing members; and f) one annuitant of the System who has been an annuitant for at least one full year, to be elected from and by the annuitants of the System.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report. Pursuant to federal tax laws and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of disbursing benefits in accordance with Section 415 of the Internal Revenue Code. Receipts and disbursements of the fund for Fiscal Years 1998 and 1997 were each less than $10,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the financial statements of the System.

(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, 1998 and 1997, the number of participating state agencies, boards and commissions totaled:

		1998	1997
State agencies		38	40
State boards and commissions		47	48
Total		85	88
At June 30, 1998 and 1997 the System Trust Fund membership consisted of:			
Retirees and beneficiaries currently receiving benefits:			
Retirement annuities		28,774	27,690
Survivors' annuities		9,789	9,565
Disability benefits		1,868	1,976
		40,431	39,231
Inactive employees entitled to benefits but not yet receiving them		3,542	3,291
Total		43,973	42,522
Current Employees:			
Vested:	Coordinated with Social Security	49,838	48,243
	Noncoordinated	4,399	4,757
Nonvested:	Coordinated with Social Security	23,290	25,945
	Noncoordinated	533	752
Total		78,060	79,697

Operation of the System 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 to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

(c) Benefits

The System is governed by Chapter 40, Article 5/14 of the ILCS. Vesting and benefit provisions of the System 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. Alternative formula positions use their final rate of pay for the final average compensation. Effective January 1, 1998, the retirement benefit formula available to approximately 60,000 state employees participating in the System was modified from a step rate formula to a flat rate formula. The flat rate formula is 1.67% for each year of covered service and 2.2% for each year of noncovered service.

Occupational and nonoccupational (including temporary) disability benefits are available through the System. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service with the System. 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. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

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

(a) Basis of Accounting

The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan. The System has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB Pronouncements.

(b) Cash and Investments

The System 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. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

The System 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's master custodian is 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. The ISBI reports securities at fair value. Where appropriate, the fair value includes estimated disposition costs. Fair value for stocks is determined by using the closing price listed on the national securities exchanges as of June 30. Market value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled equity funds the net asset value is determined and certified by the commingled equity fund manager as of June 30. Fair value for directly owned real estate investments is determined by appraisals. 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.

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 does not have any one investment which represents 5 percent or more of the ISBI's net assets.

The ISBI participates in a securities lending program at its custodian bank, whereby securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the ISBI's securities are eligible for the securities lending program. Collateral consists solely of cash, letters of credit, commercial paper and government securities having a market value equal to or greater than the securities loaned. There are no provisions for ISBI indemnification on the securities lending transactions. As of June 30, 1998 and 1997, the ISBI had outstanding loaned investment securities having market values of $1,104,715,301 and $1,159,430,394 respectively; against which it had received collateral with values of $1,140,181,704 and $1,191,334,581, respectively.

The ISBI's global and international managers invest in derivative securities. During the year, the ISBI's derivative investments included forward foreign currency contracts, futures, and options. Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. The remaining derivative securities are used to improve yields, or to hedge changes in interest rates.

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

The System owns approximately 94% of the net investment assets of the ISBI Commingled Fund as of June 30, 1998. A Schedule of Investment Expenses is included in the ISBI Annual Report. For additional information regarding the ISBI's investments, please refer to the Annual Report of the ISBI as of June 30, 1998. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

ISBI investments, as categorized by ISBI, are categorized to indicate the level of risk assumed by the ISBI at year end. Category I includes investments that are insured or registered or the securities are held by the master custodian in the ISBI's name. Category II includes uninsured and unregistered investments with the securities held by the counterparty's agent in the ISBI's name. Category III includes uninsured and unregistered investments with the securities held by the counterparty but not in the ISBI's name. Investments in pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

At June 30, 1998, the ISBI's investments were categorized as follows:

	Market Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 1,299,851,793	$ 1,299,851,793	$
Foreign Obligations	52,336,197	52,336,197	
Corporate Obligations	595,698,778	595,698,778	
Convertible Bonds	13,984,049	13,984,049	
Common Stock & Equity Funds	3,022,271,513	1,819,007,244	1,203,264,269
Convertible Preferred Stock	33,701,030	33,701,030	
Preferred Stock	9,796,742	9,796,742	
Foreign Equity Securities	1,083,783,967	958,185,781	125,598,186
Real Estate Funds	250,823,177	70,888,479	179,934,698
Alternative Investments	361,780,824		361,780,824
Money Market Instruments	678,360,145		678,360,145
Forward Foreign Exchange Contracts	(306,533)	(306,533)	
Options	8,760	8,760	
Total Investments	$ 7,402,090,442	$ 4,853,152,320	$ 2,548,938,122

(c) 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. The System's actuarial consultant performed an experience review for the period ended June 30, 1997.

(d) Administrative Expenses

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

(e) Risk Management

The System, as part of the primary government of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. The System obtains commercial insurance for fidelity and surety and property. There have been no commercial insurance claims in the past three fiscal years.

(4) Funding - Statutory Contributions Required and Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal years 1998 and 1997, the actuary used the projected unit credit actuarial method for determining the proper employer contribution rate and amount.

The Illinois General Assembly appropriates the employer's payroll contribution based upon the actuarial review, as well as a specific dollar amount for the non-payroll contributions. Public Act 88-0593, which was effective July 1, 1995, provided for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarially funded ratio of 90%. The 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.

In order to finance a general benefit increase which took effect on January 1, 1998, the Illinois General Assembly passed Public Act 90-0065, effective July 15, 1997. This legislation, in addition to increasing pension benefits for nearly 60,000 state employees, also included a provision to raise the employer's required payroll contribution, effective July 1, 1997. This new legislation certified the employer payroll contribution rate to be 6.5% for general employees and 5.052% for alternative formula employees for fiscal year 1998. Further, the legislation stipulates a minimum required employer contribution rate for fiscal years 1999-2009. The employer contribution rate for fiscal year 1997 was 4.963%.

(5) Administrative Expenses and Other Postemployment Benefits

A summary of the administrative expenses of the System for fiscal years 1998 and 1997 are as follows:

	1998	1997
Personal services	$ 2,650,782	$ 2,500,263
Employer retirement pickup	104,947	99,822
Retirement contributions	172,799	124,428
Social Security contributions	194,708	181,546
Group insurance	311,496	288,599
Contractual services	1,239,150	1,140,265
Travel	53,914	55,967
Commodities	27,435	25,888
Printing	77,041	48,108
Electronic data processing	995,225	926,867
Telecommunications	66,373	65,449
Automotive	9,681	10,307
Depreciation	229,116	220,751
Other	21,706	47,567
Total	$ 6,154,373	$ 5,735,827

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, 1998. 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 State of Illinois Comprehensive Annual Financial Report. 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-employment benefits described above.

(6) 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 1998 and 1997 is as follows:

	1998			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land Improvements	208,693	6,815	-	215,508
Building	3,284,580	-	-	3,284,580
Equipment	1,964,113	73,120	(12,378)	2,024,855
Total	6,112,627	79,935	(12,378)	6,180,184
Accumulated Depreciation	(2,341,143)	(229,115)	12,378	(2,557,880)
Property and equipment, net	$ 3,771,484	$ (149,180)	$ -	$ 3,622,304

	1997			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land Improvements	208,693	-	-	208,693
Building	3,213,533	71,047	-	3,284,580
Equipment	1,857,132	109,417	(2,436)	1,964,113
Total	5,934,599	180,464	(2,436)	6,112,627
Accumulated Depreciation	(2,122,737)	(220,752)	2,346	(2,341,143)
Property and equipment, net	$ 3,811,862	$ (40,288)	$ (90)	$ 3,771,484

(7) 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 on and after January 1, 1984 and before January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 1998 and 1997 totaled $793,649 and $771,943, respectively, and are included as Administrative Expenses Payable.

(8) Analysis of Changes in Reserve Balances

The System maintains three reserve accounts. 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
Statements of Changes in Reserve Balances
Years ended June 30, 1998 and 1997

	Participants' contributions	Interest accumulations	Other future benefits	Total Reserve Balances
Balance at June 30, 1996,	$ 1,212,036,712	$ 701,647,209	$ 3,264,996,436	$ 5,178,680,357
Add (deduct):				
Excess of revenue over expenses	126,018,256	-	743,328,612	869,346,868
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(26,789,862)	-	26,789,862	-
Interest credited to members' accounts	-	91,484,477	(91,484,477)	-
Balance at June 30, 1997	$ 1,311,265,106	$ 793,131,686	$ 3,943,630,433	$ 6,048,027,225
Add (deduct):				
Excess of revenue over expenses	$ 127,929,236	$ -	$ 888,538,369	$ 1,016,467,605
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(68,707,451)	-	68,707,451	-
Interest credited to members' accounts	-	60,514,073	(60,514,073)	-
Balance at June 30, 1998	$ 1,370,486,891	$ 853,645,759	$ 4,840,362,180	$ 7,064,494,830

(9) Social Security Contribution Fund and Administrative Expenses

By state statute, the System is designated as the state social security administrator for the State of Illinois. In this capacity, the System has maintained and operated a separate state agency fund for the collection of social security and medicare contributions for wages paid prior to January 1, 1987. 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. There was one transaction in fiscal year 1998 which was the transfer of the remaining balance to the Office of the Comptroller. There were no transactions affecting this fund during fiscal year 1997.

The changes in the assets and liabilities of the agency fund were as follows:

	1998				1997			
	Balance July 1, 1997	Additions	(Deductions)	Balance June 30, 1998	Balance July 1, 1996	Additions	(Deductions)	Balance June 30, 1997
Assets								
Cash	$ 5,275	$ 0	$(5,275)	$ 0	$ 5,275	$ 0	$ 0	$ 5,275
Liabilities								
Amount held for Social Security Remittances	$ 5,275	$ 0	$(5,275)	$ 0	$ 5,275	$ 0	0	$ 5,275

The dollar amount of transactions for this agency fund are not material to, and therefore, are not included with, the financial statements of the System.

Administrative expenses for the Contribution Fund are appropriated annually by the State Legislature.

	1998	1997
Personal services	$ 35,593	$ 33,268
Employer retirement pickup	1,424	1,331
Retirement contributions	2,314	1,651
Social Security contributions	2,709	2,531
Contractual services	23,400	21,832
Travel	1,498	1,499
Commodities	400	359
Electronic data processing	700	700
Telecommunications	501	453
Total	$ 68,539	$ 63,624

Schedule of Funding Progress [1]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Covered Payroll ((b-a)/c)
6/30/97	$6,048,027,225	$ 7,548,207,778	$1,500,180,553	80.1%	$ 3,003,628,000	49.9%
6/30/98	7,064,494,830	9,341,897,641	2,277,402,811	75.6	3,096,087,000	73.6

Schedule of Employer Contributions [1]

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25 [2]	Percentage Contributed	(A) Annual Required Payroll Contribution per State Statute [3]	(B) State Pension Fund Contribution	(A) + (B) Total Required State Contribution	Percentage Contributed
1997	$ 211,125,012	74.9%	$ 149,070,058	$ 8,489,800	$157,559,858	100%
1998	206,725,718	97.1	190,686,970	9,208,400	199,895,370	100

(1) The required Schedules of Funding Progress and Employer Contributions are to include information for the current year and as many of the prior years as information according to the parameters stipulated in Governmental Accounting Standards Board Statement No. 25 entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," issued November 1994, (GASB Statement No. 25) is available. The schedules should not include information that does not meet the parameters. The System has only two years of information which meets the requirements of the parameters, therefore, that is all the information which is presented.

(2) This amount includes both payroll and non-payroll employer required contributions.

(3) Employer required contribution determined in accordance with HB110 (P.A. 90-0065) and SB533 (P.A. 88-0593). These amounts reflect only payroll required contributions.

Notes to Required Supplementary Information

Valuation date .... June 30, 1998

Actuarial cost method .... Projected Unit Credit

Amortization method:
- a) For GASB Statement No. 25 reporting purposes .... Level percent of payroll
- b) Per state statute .... 15-year phase-in to a level percent of payroll until a 90% funding level is achieved

Remaining amortization period:
- a) For GASB Statement No. 25 reporting purposes .... 40 years, open
- b) Per state statute .... 47 years, closed

Asset valuation method .... Fair Value

Actuarial assumptions:
- Investment rate of return .... 8.5 percent
- Projected salary increases .... 0.5 to 4.7 percent, based upon member's age
- Assumed inflation rate .... 3.5 percent
- Group size growth rate .... 0.0 percent
- Payroll growth rate for FY98 .... 5.8 percent
- Post-retirement increase .... 3.0 percent - compounded
- Mortality table .... 1983 Group Annuity Mortality Table for males and females. Five percent of deaths amongst active employees are assumed to be in the performance of their duty.
- Benefit changes .... Effective January 1, 1998, a flat rate benefit formula was implemented for general employees. This flat rate formula replaced the step rate formula in effect under prior law.

SYSTEM TRUST FUND — SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 1998 and 1997

	1998	1997
Contributions:		
Participants	$ 147,438,546	$ 142,716,669
Repayments of contributions refunded	1,106,626	726,330
Interest received from participants	7,352,940	2,240,544
Total participants contributions	$ 155,898,112	$ 145,683,543
Employing state agencies	$ 191,533,336	$ 149,689,714
State Pension Fund appropriation	9,208,400	8,489,800
Total state contributions and appropriations	200,741,736	158,179,514
Investments:		
Net investments income	$ 223,765,249	$ 213,670,347
Interest earned on cash balances	4,638,478	3,346,821
Net appreciation in fair value of investments	851,831,455	735,593,840
Total investment revenue	$1,080,235,182	$ 952,611,008
Total Revenue	$1,436,875,030	$1,256,474,065

SYSTEM TRUST FUND — SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 1998 and 1997

	1998	1997
Cash balance, beginning of year	$ 69,478,145	$ 51,602,122
Receipts:		
Member contributions	147,700,576	140,748,663
Employer contributions	189,929,137	149,483,893
State Pension Fund contribution	9,208,400	8,489,800
Transfers from Illinois State Board of Investment	72,000,000	99,000,000
Interest income on cash balance	4,595,848	3,250,064
Claims receivable payments	2,710,609	2,857,949
Installment payments - prior service credit	3,819,640	1,491,638
Other	163,541	56,470
Total cash receipts	$ 430,127,751	$ 405,378,477
Disbursements:		
Annuity payments:		
Retirement annuities	$ 322,915,348	$ 298,566,959
Widow's annuities	2,256,179	2,342,944
Survivors' annuities	36,054,177	32,988,051
Death benefits	13,535,128	11,659,752
Disability benefits	23,843,912	23,151,078
Refunds	15,332,060	13,133,477
Administrative expenses	6,154,138	5,660,193
Total cash disbursements	$ 420,090,942	$ 387,502,454
Cash balance, end of year	$ 79,514,954	$ 69,478,145

INVESTMENT SECTION

- Investment Report
- Investment Portfolio Summary
- Analysis of Investment Performance
- Additional Investment Information

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI). The ISBI 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 also manages the investment function for the General Assembly and Judges' Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund). As of June 30, 1998, total net assets under management valued at market, amounted to $7.380 billion. Of the total market value of assets under management, $6.969 billion or 94% represented assets of the State Employees' Retirement System.

A summary of the portfolio's largest holdings, as well as the complete listing of the ISBI portfolio, are included in the ISBI Annual Report. A schedule of fees and commissions paid by brokerage firm and a listing of transactions executed, including transaction value, are also contained in the ISBI Annual Report.

Management Approach

The ISBI manages its investments in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI has established a long-range investment policy which, in line with the prudent person rule, affirms that the ISBI Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the ISBI Fund, within prudent risk parameters. Further, it is the ISBI's philosophy that the assets owned by the participating systems and managed by the ISBI 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 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.

The investment policy of the ISBI establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. The policy is monitored by ISBI and implemented by allocations to investment managers with assignments to invest in specific asset classes, and with specific selection styles and methodologies.

Investment Results

Even as global economic concerns were mounting, U.S. capital markets posted impressive gains for the period ended June 30, 1998. U.S. stocks and bonds both achieved double digit returns for the period. A good environment for initial public offerings (IPO's) also led to strong returns for many private equity partnerships. The real estate market continued its strong recovery, and posted a double digit return for the fiscal year. The only asset class that was negatively affected by the global events was international equities, in particular emerging markets and Japan. Even for this asset class, with European markets included, the return for the fiscal year was positive.

ISBI total fund earned a rate of return for fiscal 1998, net of expenses of 18.1% This was well ahead of its long-term objectives of earning 4.5% above the inflation rate and of exceeding the 8.5% assumed actuarial interest rate. The return was slightly below the policy-weighted benchmark return of 18.6% Over longer time periods, ISBI is ahead of all of its investment objectives. The average annual returns for the three- and five -year periods ended June 30, 1998, were 17.8% and 14.2%, respectively. Over the 16-year period since the adoption of the prudent man legislation, ISBI total portfolio has produced a compounded annual rate of return, net of expenses and charges, of 13.4%, and its net assets have increased by $6.3 billion.

U.S. Equities

For the twelve months ended June 30, 1998, U.S. equity markets continued their upward climb. The S&P 500 Index increased 30.2%, and the BARRA All-U.S. Index, a broader representation of the U.S. market, rose 29.5%. Fiscal 1998 is the fourth fiscal year in which U.S. equity markets, driven largely by large capitalization companies, have posted returns in excess of 25%. Small capitalization stocks, following the pattern set in the three previous fiscal years, grew at a significantly smaller rate, however, as indicated by the Russell 2000 Index return of 16.5%. Within that context, ISBI's U.S. equity portfolio earned a return of 27.6%.

The ISBI's U.S. stock portfolio performance versus the S&P 500 Index is as follows:

	1 Year	3 Years	5 Years
ISBI	27.6%	26.6%	21.1%
S&P 500	30.2	30.2	23.1

Global/International Equities

Foreign stock markets' results were mixed for the fiscal year, overall lagging the U.S. market. European country returns were generally strong, while Japanese and emerging markets posted negative returns. A strengthening dollar further dampened foreign stock returns for U.S. investors. The Morgan Stanley Europe Australia Far East Index ("MSCI EAFE") earned 6.4% in U.S. dollar terms for the fiscal year ended June 30. The Morgan Stanley World Index ("MSCI World"), which includes the U.S. market, increased 17.5% in dollar terms for the same period.

All foreign security accounts are managed by external investment firms. "Global" managers have the discretion to invest in both U.S. as well as foreign securities, while "international" managers are limited to non-U.S. securities; thereby assuring a certain level of diversification. For the fiscal year ISBI's global managers lagged the MSCI World Index, earning 12.1%. ISBI's international portfolio also fell short of its benchmark, increasing 1.7%.

Comparative average annual rates of return for the Global/International equities portfolio versus the market index benchmarks is shown below:

	1 Year	3 Years	5 Years
Global Equities			
ISBI	12.1%	17.2%	14.6%
MSCI World Index	17.5	19.7	16.2
International Equities			
ISBI	1.7%	12.5%	12.1%
MSCI EAFE Index	6.4	11.0	10.3

Fixed Income

During fiscal 1998, U.S. fixed income markets showed strength, with interest rates heading lower. The Lehman Aggregate Bond Index earned 10.5% for the 12-month period, while high yield bonds, as represented by the Merrill Lynch High Yield Index, did better with a return of 11.4%

Substantially all fixed income assets are managed internally, except approximately $100 million allocated to an external high yield bond manager. The internal account outperformed the Lehman Aggregate Bond index, with a return of 10.9%. Higher returns from the external high yield manager resulted in a total fixed income return of 11.1%.

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

	1 Year	3 Years	5 Years
ISBI	11.1%	9.0%	8.1%
Shearson Lehman Aggregate	10.5	7.9	6.9

Real Estate

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

Real estate values strengthened during fiscal 1998, and ISBI's real estate investments earned a strong 26.0% rate of return, compared to the NCREIF Real Estate Index return of 16.4%. A significant portion of this return reflected the initial public offering of Equity Office Properties, previously privately held Zell/Merrill Lynch opportunity funds in which ISBI had a significant investment. During fiscal 1998, in order to reach the 5% target allocation for real estate, the Board also made commitments totaling $195 million to six new real estate limited partnerships. The new partnerships are ABKB/LaSalle Securities Ltd, Apollo Real Estate Investment Fund III, LF Strategic Realty Investors II, Miller Global Properties II, Olympus Real Estate Fund II, and RREEF Venture Capital Fund.

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

	1 Year	3 Years	5 Years
ISBI	26.0%	14.5%	6.4%
NCREIF	16.4	12.2	9.0

Alternative Investments

The alternative investments portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities. ISBI's largest investments are in the Kohlberg Kravis Roberts (KKR) leveraged buyout limited partnerships, which account for almost 70% of this category. Fiscal 1998 was a good year for alternative investments. 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 ISBI. Overall, ISBI's Alternative Investments portfolio earned 35.8% for the fiscal year.

The Board made commitments totaling $45 million to two new limited partnerships in fiscal 1998. Although the current allocation to this asset class is not significantly below the long-term target, in order to maintain the level of investment, new commitments are necessary over time to balance anticipated distributions from maturing partnerships. The new partnerships are GTCR Fund VI and Summit Venture V. Funds for these future commitments will come from cash flow generated from existing alternative investments.

Management Expenses

Total operating expenses for the fiscal year were $15,091,365, compared to $14,245,218 for the previous fiscal year. The 6% expense increase compares to a growth in investment assets of nearly 18%. Asset-based fees to external managers represent the primary component of operating expenses. Actual expenses will increase as assets increase, but at a lower rate due to volume discounts. In addition, ISBI expanded its use of index funds, which have lower fees than traditional investment management. The resulting expense ratio (expenses divided by average net assets under management) was .22% in fiscal 1998, lower than the .25% expense ratio achieved in fiscal 1997.

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, 1998. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1998		June 30, 1997	
	Market Value	Percentage	Market Value	Percentage
Fixed Income[1]	$ 1,961,870,817	26.6%	$ 1,832,294,575	29.0%
Equities	3,065,769,285	41.5	2,470,905,061	39.0
Foreign Equities	1,083,783,967	14.7	1,019,434,063	16.1
Real Estate	250,823,177	3.4	252,606,430	4.0
Non-Marketable[2]	361,780,824	4.9	306,053,788	4.8
Forward Foreign Exchange Contracts	(306,533)	-	1,008,282	-
Options	8,760	-	4,465,309	.1
Cash equivalents[3]	656,179,130	8.9	441,369,634	7.0
	$ 7,379,909,427	100.0%	$ 6,328,137,142	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

	1998	1997	1996	1995	1994
Total Return* - Past 3 years		17.8%			
Total Return* - Past 5 years			14.2%		
Total Return* - year by year	18.1%	18.8%	16.6%	14.0%	4.0%
Actuarial Assumed Rate of Return	8.5%		8.0%		
Average Net Income Yield*	3.4%	3.9%	4.0%	4.7%	4.5%
	Comparative rates of return on fixed income securities				
Total fixed income - ISBI	11.1%	9.5%	6.6%	11.9%	1.6%
Comparison index:					
Shearson Lehman Aggregate	10.5%	8.2%	5.0%	12.6%	(1.3%)
	Comparative rates of return on equities				
Domestic equities - ISBI	27.6%	26.3%	25.9%	21.5%	5.5%
Comparison index:					
S&P 500	30.2%	34.6%	26.1%	26.1%	1.3%

*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.

The following table shows a comparison of ISBI investment operations for fiscal years 1998 and 1997:

	1998	1997	Increase/(Decrease) Amount	Percentage
Balance at beginning of year, at fair value	$ 5,965,539,268	$ 5,115,275,081	$ 850,264,187	13.6%
Cash transferred from ISBI (net)	(72,000,000)	(99,000,000)	27,000,000	17.5%
Net ISBI investments revenue:				
ISBI Commingled Fund income	$ 238,007,050	$ 227,088,453	$ 10,918,597	4.8%
Less ISBI Expenses	(14,241,801)	(13,418,106)	(823,695)	(6.1)%
Net ISBI investments income	$ 223,765,249	$ 213,670,347	$ 10,094,902	4.7%
Net appreciation in fair value of ISBI investments	851,831,455	735,593,840	116,237,615	15.8%
Net ISBI investments revenue	$ 1,075,596,704	$ 949,264,187	$ 126,332,517	13.3%
Balance at end of year, at fair value	$ 6,969,135,972	$ 5,965,539,268	$1,003,596,704	16.8%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 1998 was $4,638,478 compared to $3,346,821 during FY 1997.

ACTUARIAL SECTION

Watson Wyatt
Worldwide

Watson Wyatt & Company

Suite 2400
303 West Madison Street
Chicago, IL 60606-3308

Telephone 312 704 0600
Fax 312 704 8114
TDD 312 853 6818

October 13, 1998

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

Actuarial Certification

We have completed the annual actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois (SERS) as of June 30, 1998. This report describes the current actuarial condition of SERS, analyzes the changes since the prior year, and determines the required employer contribution rate for the year beginning July 1, 1999 and ending June 30, 2000.

The contribution rate has been determined under 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 through fiscal year 2009 are not less than the specified percentages under HB110. A level contribution rate is determined for fiscal year 2010 through 2045. The required contribution rates and amounts for fiscal year 2000 are shown below.

	Total	Net**
Required Rate	10.000%	9.714%
Required Contribution	$322,200,000	$312,991,600

** *These values reflect the $9,208,400 received from the unclaimed property fund for fiscal year 1998.*

For purposes of determining contribution rates, the market value of assets as reported by the Illinois State Board of Investment is used for the 1998 fiscal year. Assets have been projected using expected market value for subsequent fiscal years. 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 did not audit this data, but have made additional tests and concluded that the data is reasonable and consistent with the prior year's data.

We certify that the information presented herein is accurate and fairly portrays the actuarial position of SERS as of June 30, 1998. We prepared the accompanying Summary of Actuarial Cost Method and Major Actuarial Assumptions, but the SERS staff prepared the other supporting schedules in this section and the trend tables in the financial section, based on information supplied in our report.

Board of Trustees and Executive Secretary
October 13, 1998
Page 2

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the calculations also comply with the requirements of Illinois state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries, and both are experienced in performing valuations for public retirement systems.

Watson Wyatt & Company

By: Denise Patterson
Denise Patterson, FSA, EA, MAAA
Actuary

By: William J. Miner
William J. Miner, FSA, EA, MAAA
Actuary

I\82920\98\ltrs\board98

INTRODUCTION

The System receives contributions from several sources which can be considered as employer contributions, with the largest source being the regular state appropriation. The System also receives an annual appropriation from the State Pension Fund.

Annually, the System's actuarial consultant prepares a valuation of the liabilities and reserves of the System in order to make a determination of the amount of contributions required from the state. The amortization period required by Illinois state statutes is not in accordance with the parameters defined in Governmental Accounting Standards Board Statement No. 25. In fiscal years 1998 and 1997, the actuary has determined the required employer contribution rate and amount using the projected unit credit cost method.

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."

In August, 1994, Governor Jim Edgar signed Senate Bill 533 (SB533) into law as Public Act 88-0593, effective July 1, 1995. In addition, Public Act 90-0065 (HB110) was signed into law by Governor Edgar on July 15, 1997. Not only did these comprehensive bills dramatically increase state employee pension benefits, effective January 1, 1998, they also mandated an increase of employer retirement contributions. In general, state law governing the System under SB533 and HB110 provides that:

- For fiscal years 1998 through 2010, the contribution to the System, as a percentage of the payroll shall be increased in equal annual increments so that by fiscal year 2010, the contribution rate is at the same level as the contribution rate for fiscal years 2011 through 2045. In accordance with HB110, State contribution rates for fiscal years 1999 through 20009 will not be less than the following schedule:

Fiscal Year	Statutory Rate	Fiscal Year	Statutory Rate
1999	9.8%	2005	11.0%
2000	10.0	2006	11.2
2001	10.2	2007	11.4
2002	10.4	2008	11.6
2003	10.6	2009	11.8
2004	10.8		

- For fiscal years 2011 through 2045, the minimum contribution to the System for each fiscal year shall be an amount determined to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of fiscal year 2045. In making these determinations, the required contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method.

Beginning in fiscal year 2045, the minimum contribution to the System for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.

Most importantly, the SB533 funding legislation also provided for the establishment of a continuing appropriation of the required employer contributions to the System. This has, in effect, removed the appropriation of these funds from the annual budgetary process. Although long-term in nature, we believe that this legislation has been 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.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For fiscal years 1998 and 1997, 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 in accordance with the funding plan established in state law by Public Act 88-0593, as amended. Public Act 90-0065 also addressed the required level of employer retirement contributions.

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-98 and FY-97 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; all other assumptions were adopted June 30, 1997.

Mortality: FY97 - 1983 Group Annuity Mortality Table for males (with a one-year setback) and females (with no setback). Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

Interest: 8.5% per annum, compounded annually

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

	Rate	
Age	Males	Females
20	.159	.339
25	.107	.129
30	.073	.086
35	.052	.065
40	.040	.050
45	.031	.037
50	.027	.027
55+	.026	.027

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

	Males &	Components	
Age	Females	Merit	Inflation
20	8.2%	4.7%	3.5%
25	7.7	4.2	3.5
30	7.2	3.7	3.5
35	6.7	3.2	3.5
40	6.2	2.7	3.5
45	5.7	2.2	3.5
50	5.2	1.7	3.5
55	4.7	1.2	3.5
60	4.2	.7	3.5
65	4.0	.5	3.5

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

Age	General Employees	Alternative Formula Employees
50-54	--	10.0%
55-59	10.0%	15.0
60	12.5	20.0
61	15.0	22.0
62	17.5	24.0
63	20.0	26.0
64	22.5	28.0
65	25.0	30.0
66-69	25.0	30.0
70	100.0	100.0

*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 fair value (market).

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.

Postretirement Benefit Increases: 3% annually, compounded

Experience Review: Pursuant to state law, the System had the actuary's perform this review for the seven year period ended June 30, 1997. In the future, an Experience Review will be performed every five years.

SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

Please refer to the Plan Summary and Legislative Section for a summary of the plan provisions and legislative amendments that were evaluated and considered by the actuary during the valuation process.

VALUATION RESULTS

Actuarial Liability (Reserves)	FY-98	FY-97
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$ 3,549,839,319	$ 3,121,050,296
Survivor Annuities	371,146,931	330,813,031
Disability Annuities	112,212,201	99,466,722
Deferred:		
Retirement Annuities	3,488,200	3,227,275
Survivor Annuities	7,742,656	9,114,052
Total	$ 4,044,429,307	$3,563,671,376
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	179,371,289	115,623,450
Eligible for Return of Contributions Only	12,880,335	11,410,379
Total	$ 192,251,624	$ 127,033,829
For Active Members	$ 5,105,216,710	$ 3,857,502,573
Actuarial Present Value of Credited Projected Benefits	$ 9,341,897,641	$ 7,548,207,778
Assets, Fair Value	7,064,494,830	6,048,027,225
Unfunded Actuarial Present Value of Credited Projected Benefits	$ 2,277,402,811	$ 1,500,180,553

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
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	0.5
6/30/94	78,440	2,623,793,000	33,450	5.3
6/30/95	78,796	2,756,072,000	34,977	4.6
6/30/96	79,212	2,871,501,000	36,251	3.6
6/30/97	79,697	3,003,628,000	37,688	4.0
6/30/98	78,060	3,096,087,000	39,663	5.2

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.

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)
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
1995	1,120,553	3,387,197	2,480,720	3,923,097	100.0	82.7	0.0
1996	1,212,037	3,431,768	2,747,087	5,178,680	100.0	100.0	19.5
1997	1,311,265	3,563,672	2,673,271	6,048,027	100.0	100.0	43.9
1998	1,370,487	4,044,429	3,926,981	7,064,495	100.0	100.0	42.0

*Net assets are reported at fair value for fiscal years after 1995. All other years presented are reported at cost (book value).

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
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
1995	6,988,470	3,923,097	56.1	3,065,373	2,756,072	111.2
1996	7,390,892	5,178,680	70.1	2,212,212	2,871,501	77.0
1997	7,548,208	6,048,027	80.1	1,500,181	3,003,628	49.9
1998	9,341,898	7,064,495	75.6	2,277,403	3,096,087	73.6

*Net assets are reported at fair value for fiscal years after 1995. All other years presented are reported at cost (book value).

SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1995	28,129	1,058	(1,285)	27,902
1996	27,902	1,167	(1,169)	27,900
1997	27,900	1,017	(1,227)	27,690
1998	27,690	2,365	(1,281)	28,774

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1995	9,245	630	(474)	9,401
1996	9,401	583	(522)	9,462
1997	9,462	588	(485)	9,565
1998	9,565	715	(491)	9,789

SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1995	1,708	2,085	(1,992)	1,801
1996	1,801	1,992	(1,923)	1,870
1997	1,870	2,097	(1,991)	1,976
1998	1,976	1,912	(2,020)	1,868

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-98	FY-97
Unfunded Liability, Beginning of Fiscal Year	$ 1,500,180,553	2,212,212,078
Contributions Due		
Interest on the Unfunded Liability	127,515,347	176,976,966
Total Normal Cost	87,377,189	104,959,358
Participants (includes Repayment of Refunds)	155,898,112	145,683,543
Interest on Normal Cost	10,128,362	9,832,842
Total Due	$ 380,919,010	$ 437,452,709
Contributions Paid		
Participants (includes Repayment of Refunds)	$ 155,898,112	$ 145,683,543
Employing State Agencies and Appropriations	200,741,736	158,179,514
Interest on Contributions	14,848,105	11,920,695
Total Paid	$ 371,487,953	$ 315,783,752
Increase in the Unfunded Liability	$ 9,431,057	$ 121,668,957
Actuarial (Gains) Losses		
(a) Incidence of Disability	$ 1,236,217	$ (504,210)
(b) In-Service Mortality	9,832,326	18,937,208
(c) Retiree Mortality	3,891,924	5,846,692
(d) Disabled Mortality	(707,727)	(211,311)
(e) Termination of Employment	51,287,442	98,932,797
(f) Salary Increases	(62,013,427)	(65,121,542)
(g) Investment Income	(568,807,725)	(541,583,072)
(h) Other	24,312,704	29,897,335
Total Actuarial (Gain) Loss	$ (540,968,266)	$ (453,806,103)
Non-recurring items (Gains) Losses:		
Legislative changes, including flat formula benefits for general employees	1,249,883,128	-
Change in method of applying survivor offset	58,876,339	-
Total non-recurring items	1,308,759,467	-
Changes in Actuarial Assumptions	-	(379,894,379)
Total Increase (Decrease) in Actuarial Liability	$ 777,222,258	$ (712,031,525)
Unfunded Liability, End of Fiscal Year	$ 2,277,402,811	$ 1,500,180,553

STATISTICAL SECTION

- Asset Balances
- Liabilities and Reserve Balances
- Revenues by Source
- Expenses by Type
- Benefit Expenses by Type
- Total Membership
- Active Membership
- Number of Recurring Benefit Payments
- Termination Refunds - Number/Amount
- Retirement Annuities - Average Monthly Benefit for Current Year Retirees by Type
- Retirement Annuities - Current Age of Active Recipients
- Retirement Annuities - Average Service (in months) for Current Year Retirees at Effective Date of Benefit
- Annuitants by Benefit Range (Monthly)
- Widows and Survivors' by Benefit Range (Monthly)
- Occupational and Non-Occupational (Incl. Temp.) Disabilities by Benefit Range (Monthly)
- Active Retirees by State

ASSET BALANCES

FY Ended June 30	Cash	Receivables	Investments*	Fixed Assets, Net of Accumulated Depreciation	Total
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
1995	19,796,262	9,669,056	3,894,060,006	4,099,793	3,927,625,117
1996	51,602,122	13,215,401	5,115,275,081	3,811,862	5,183,904,466
1997	69,478,145	14,423,277	5,965,539,268	3,771,484	6,053,212,174
1998	79,514,954	17,870,937	6,969,135,972	3,622,304	7,070,144,167

* Investments are reported at fair value for fiscal years 1996 - 98. For all other fiscal years investments are reported at cost (book value).

LIABILITIES AND RESERVE BALANCES

		RESERVES				
FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Interest Accumulations	Reserve For Future Operations*	Total Reserves	Total
1989	$ 2,836,020	$ 757,180,186	$ 334,758,898	$ 1,488,259,762	$ 2,381,806,066	$ 2,583,034,866
1990	3,918,499	823,025,513	380,950,235	1,591,591,362	2,795,567,110	2,799,485,609
1991	3,328,811	897,689,637	432,192,642	1,651,532,274	2,981,414,553	2,984,743,364
1992	4,168,161	867,002,526	417,372,947	1,993,872,084	3,278,247,557	3,282,415,718
1993	6,926,685	939,206,550	473,504,132	2,083,775,718	3,496,486,400	3,503,413,085
1994	4,858,736	1,029,390,486	544,137,677	2,148,362,997	3,721,891,160	3,726,749,896
1995	4,528,552	1,120,553,065	620,397,583	2,182,145,917	3,923,096,565	3,927,625,117
1996	5,224,109	1,212,036,712	701,647,209	3,264,996,436	5,178,680,357	5,183,904,466
1997	5,184,949	1,311,265,106	793,131,686	3,943,630,433	6,048,027,225	6,053,212,174
1998	5,649,337	1,370,486,891	853,645,759	4,840,362,180	7,064,494,830	7,070,144,167

* The Reserve for Future Operations reflects investments reported at fair value for fiscal years 1996 - 98. For all other fiscal years, the Reserve for Future Operations reflects investments reported at cost (book value).

REVENUES BY SOURCE

FY Ended June 30	Member Contributions	State Contributions	Investment Income*	Total
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
1995	131,657,816	136,589,471	290,780,045	559,027,332
1996	137,220,037	146,397,934	736,163,262	1,019,781,233
1997	145,683,543	158,179,514	952,611,008	1,256,474,065
1998	155,898,112	200,741,736	1,080,235,182	1,436,875,030

* The Investment Income includes both realized and unrealized gains and losses on investments for fiscal years 1996 - 98. For all other fiscal years, the Investment Income includes only realized gains and losses on investments.

EXPENSES BY TYPE - SYSTEM TRUST FUND

FY Ended June 30	Benefits	Contribution Refunds (Incl. Transfers)	Administrative Expenses	Total
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
1995	338,862,417	13,430,507	5,529,003	357,821,927
1996	352,478,133	13,382,158	5,654,407	371,514,698
1997	368,668,943	12,722,427	5,735,827	387,127,197
1998	399,440,085	14,812,967	6,154,373	420,407,425

BENEFIT EXPENSES BY TYPE

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
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
1995	276,614,073	31,066,250	21,368,962	9,813,132	338,862,417
1996	286,277,462	32,972,599	22,435,912	10,792,160	352,478,133
1997	298,359,093	35,239,862	23,813,616	11,256,372	368,668,943
1998	322,676,817	38,184,192	24,711,911	13,867,165	399,440,085

TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

	COORDINATED MEMBERS			NONCOORDINATED MEMBERS					
FY Ended June 30	Male	Female	Total	Male	Female	Total	Total Male Members	Total Female Members	Total Members
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
1995	48,499	46,588	95,087	3,877	2,270	6,147	52,376	48,858	101,234
1996	47,070	45,481	92,551	3,801	2,156	5,957	50,871	47,637	98,508
1997	46,897	45,642	92,539	3,819	2,060	5,879	50,716	47,702	98,418
1998	47,065	45,443	92,508	3,445	1,852	5,297	50,510	47,295	97,805

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

	COORDINATED MEMBERS			NONCOORDINATED MEMBERS						
FY Ended June 30	Male	Female	Total	Male	Female	Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
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
1995	36,777	36,306	73,083	3,644	2,069	5,713	40,421	38,375	78,796	2,756,072,000
1996	37,053	36,597	73,650	3,584	1,978	5,562	40,637	38,575	79,212	2,871,501,000
1997	37,279	36,909	74,188	3,617	1,892	5,509	40,896	38,801	79,697	3,003,628,000
1998	36,976	36,152	73,128	3,246	1,686	4,932	40,222	37,838	78,060	3,096,087,000

NUMBER OF RECURRING BENEFIT PAYMENTS - SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
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
1995	27,902	9,401	1,801	39,104
1996	27,900	9,462	1,870	39,232
1997	27,690	9,565	1,976	39,231
1998	28,774	9,789	1,868	40,431

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

TERMINATION REFUNDS - NUMBER/AMOUNT

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
1995	3,025	11,782,320
1996	2,930	11,943,623
1997	2,244	11,349,768
1998	2,140	11,953,276

RETIREMENT ANNUITIES
Average Monthly Benefit For Current Year Retirees By Type

Fiscal Year Ending June 30	1998	1997	1996	1995	1994
Not Coordinated with Social Security	$ 2,316.28	$ 1,586.25	$ 1,303.20	$ 1,148.34	$ 918.46
Coordinated with Social Security	1,071.29	547.38	556.97	503.63	452.06
Alternative Formula	4,088.79	3,945.25	3,491.74	3,407.17	3,716.55
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	2,711.11	2,363.71	2,145.22	2,157.93	2,255.04
Dept. of Corrections - Special Formula Coordinated with Social Security	1,606.80	1,608.99	1,414.94	1,217.66	1,109.41
Air Pilots - Coordinated with Social Security	-	-	-	-	-
Court Reporters - Not Coordinated with Social Security	1,795.04	1,851.45	854.78	2,242.57	2,069.37
Court Reporters - Coordinated with Social Security	1,333.75	1,490.00	1,362.34	1,120.06	1,436.76
Total Average	$ 1,469.67	$ 1,036.51	$ 855.84	$ 757.57	$ 723.53

RETIREMENT ANNUITIES
Current Age of Active Recipients

	Fiscal Year Ending June 30				
Age	1998	1997	1996	1995	1994
Under 51	35	56	91	114	164
51-55	529	445	484	589	671
56-60	1,555	1,368	1,531	1,641	1,714
61-65	4,345	3,845	3,939	3,971	4,084
66-70	5,833	5,807	5,953	5,995	6,219
71-75	6,052	5,981	6,018	6,023	5,879
76-80	4,821	4,708	4,657	4,656	4,653
81-85	3,346	3,349	3,241	3,071	2,982
86-89	1,463	1,380	1,250	1,163	1,102
Over 89	795	751	736	679	661
Total	28,774	27,690	27,900	27,902	28,129
Average age	72.56	72.77	72.45	72.14	71.84

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

Fiscal Year Ending June 30	1998	1997	1996	1995	1994
Not Coordinated with Social Security	392.94	378.95	372.90	370.36	370.34
Coordinated with Social Security	253.08	228.55	232.28	224.53	223.30
Alternative Formula	346.37	347.12	343.09	354.23	361.57
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	376.69	371.85	350.03	371.57	348.62
Dept. of Corrections -Special Formula - Coordinated with Social Security	300.28	299.08	287.70	289.54	288.32
Air Pilots - Coordinated with Social Security	-	-	-	-	-
Court Reporters - Not Coordinated with Social Security	282.00	369.33	204.00	360.00	409.81
Court Reporters - Coordinated with Social Security	319.57	314.20	316.00	277.00	333.50
Total Average	288.52	273.12	266.23	265.25	268.36

Annuitants by Benefit Range (Monthly) June 30, 1997

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	577	577	2.0	2.0
101-200	2,571	3,148	8.9	10.9
201-300	3,445	6,593	12.0	22.9
301-400	2,931	9,524	10.2	33.1
401-500	2,520	12,044	8.8	41.9
501-600	2,013	14,057	7.0	48.9
601-700	1,675	15,732	5.8	54.7
701-800	1,481	17,213	5.1	59.8
801-900	1,028	18,241	3.6	63.4
901-1000	956	19,197	3.3	66.7
1001-1100	808	20,005	2.8	69.5
1101-1200	737	20,742	2.6	72.1
1201-1300	720	21,462	2.5	74.6
1301-1400	629	22,091	2.2	76.8
1401-1500	554	22,645	1.9	78.7
1501-1600	481	23,126	1.7	80.4
1601-1700	481	23,607	1.7	82.1
1701-1800	386	23,993	1.3	83.4
1801-1900	413	24,406	1.4	84.8
1901-2000	325	24,731	1.1	85.9
2001-2100	313	25,044	1.1	87.0
2101-2200	292	25,336	1.0	88.0
2201-5000	3,395	28,731	11.8	99.8
5000- & over	43	28,774	0.2	100.0

Widow's and Survivors' by Benefit Range (Monthly) June 30, 1997

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	1,859	1,859	19.0	19.0
101-200	1,974	3,833	20.2	39.2
201-300	1,891	5,724	19.3	58.5
301-400	1,492	7,216	15.2	73.7
401-500	958	8,174	9.8	83.5
501-600	515	8,689	5.3	88.8
601-700	254	8,943	2.6	91.4
701-800	186	9,129	1.9	93.3
801-900	155	9,284	1.6	94.9
901-1000	132	9,416	1.3	96.2
1001-1100	95	9,511	1.0	97.2
1101-1200	69	9,580	0.7	97.9
1201-1300	45	9,625	0.5	98.4
1301-1400	32	9,657	0.3	98.7
1401-1500	28	9,685	0.3	99.0
1501-1600	23	9,708	0.2	99.2
1601-1700	22	9,730	0.2	99.4
1701-1800	16	9,746	0.2	99.6
1801-1900	15	9,761	0.2	99.8
1901-2000	11	9,772	0.1	99.9
2001-2100	8	9,780	0.1	100.0
2101-2200	3	9,783	0.0	100.0
2201-5000	6	9,789	0.1	100.0
5000- & over	0	9,789	0.0	100.0

Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 1997

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	31	31	1.7	1.7
101-200	67	98	3.6	5.3
201-300	145	243	7.8	13.1
301-400	197	440	10.5	23.6
401-500	178	618	9.5	33.1
501-600	155	773	8.3	41.4
601-700	94	867	5.0	46.4
701-800	88	955	4.7	51.1
801-900	66	1,021	3.5	54.6
901-1000	78	1,099	4.2	58.8
1001-1100	104	1,203	5.6	64.4
1101-1200	106	1,309	5.7	70.1
1201-1300	70	1,379	3.7	73.8
1301-1400	68	1,447	3.6	77.4
1401-1500	81	1,528	4.3	81.7
1501-1600	70	1,598	3.7	85.4
1601-1700	70	1,668	3.7	89.1
1701-1800	48	1,716	2.6	91.7
1801-1900	34	1,750	1.8	93.5
1901-2000	31	1,781	1.7	95.2
2001-2100	20	1,801	1.1	96.3
2101-2200	12	1,813	0.7	97.0
2201-5000	55	1,868	3.0	100.0
5000- & over	0	1,868	0.0	100.0

Active Retirees by State

PLAN SUMMARY AND LEGISLATION SECTION

- **Plan Summary**
- **Legislation**

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 1998)

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 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. MEMBER CONTRIBUTIONS

Members are required to contribute a percentage of salary as their share of meeting the cost of the various benefits. Contribution rates are as shown below:

A. Members Coordinated with Social Security - 4% of salary

B. Members Without Social Security - 8% of salary

C. State Policemen, 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, State Police Investigators, Attorney General Investigators, Controlled Substance Inspectors, State's Attorneys Appellate Prosecutor Investigators, Commerce Comission Police Officers, and Arson Investigators - 9 1/2% of salary

D. Security Employees of the Department of Corrections; Department of Human Services - Chester Mental Health, 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 in lieu of a pay increase. 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 ANNUITY

A. Qualification of Member

Upon termination of state service, a member is eligible for a retirement annuity at age 60 with at least eight years of service 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 retirement annuity 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 retirement 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 Retirement Annuity

The retirement annuity is based on the member's final average compensation and the number of years of service credit that have been established as follows:

Years of Credit	Employees Under Social Security	Employees Not Under Social Security	Full Time Security Employees- Dept. of Corrections* Under S.S./Not Under S.S.		Alternative Formula, i.e. Police and other positions Under S.S./Not Under S.S.	
Each of the first 10 years of credit	1.67%	2.2%	1.67%	1.90%	1.67%	2.25%
Each of the second 10 years of credit	1.67%	2.2%	1.90%	2.10%	1.90%	2.50%
Each of the third 10 years of credit	1.67%	2.2%	2.10%	2.25%	2.10%	2.75%
Each year above 30 years	1.67%	2.2%	2.30%	2.50%	2.30%	2.75%

*Who are not eligible for the Alternative Formula. Also included in this group are Department of Mental Health - Chester, Illinois security employees.

The maximum retirement annuity payable is 75% of final average compensation. The minimum retirement annuity payable is $15.00 for each year of covered employment and $25.00 for each year of noncovered employment.

C. Optional Forms of Payment

Reversionary Annuity - A member may elect to receive a smaller retirement annuity during his lifetime in order to provide 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 retirement annuity payments increased before the age at which the member can receive social security benefits and reduced after that age to provide a uniform retirement annuity income throughout his retired life. To be eligible for this election the member must have established eligibility for a social security retirement annuity.

D. Annual Increase in Benefit

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 service credit. If death occurs after termination of state service and the member was not receiving a retirement annuity, the member must have established at least eight years of service 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 (age 22 if a full time student) or over 18 if mentally or physically disabled and unable to work; unmarried children under age 18 (age 22 if a full time student) 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 as described in Number 9.

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 retirement 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 qualified survivor 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 retirement annuity, the monthly benefit is the same as during active employment or 80% of the earned retirement annuity 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 (age 22 if a full time student), 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. Survivors of retired members receive an increase on January 1 following the commencement of the benefit.

7. WIDOW'S ANNUITY

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 (age 22 if a full time student). 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 retirement annuity 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 retirement annuity. 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), age 22 if a full time student.

D. Annual Increase in Benefit

The widow's benefit is increased by 3% each January 1, after receipt of benefits for one full year. Widows of retired members receive the increase on January 1 following the commencement of the benefit.

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 (age 22 if a full time student) 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 (age 22 if a full time student) 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 (age 22 if a full time student) 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 (age 22 if a full time student), or marriage.

D. Annual Increase in Benefit

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 service credit not to exceed six month's salary.

If the member had terminated state service, but not yet qualified for a retirement annuity, 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 retirement annuity 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 service 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, or had benefits terminated, 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 31 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 service 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; or (7) benefits are paid or awarded under the Workers' Compensation Act or the Workers' Occupational Diseases Act.

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 1998:

House Bill 110 (P.A. 90-0065; Effective July 15, 1997)

This law change affects anyone retiring on or after January 1, 1998. The legislation switches employees covered by Social Security (coordinated) from a step rate benefit formula ranging from 1.0% to 1.5% per year of service to a flat rate formula of 1.67% for all years of service.

Employees without Social Security (non-coordinated) will move from a step rate ranging from 1.67% to 2.3% to a flat rate formula of 2.2% for all years of service.

The legislation also includes the following items:

* Generally, most state employees, except alternative formula employees, will forgo a three percent cost-of-living increase this fiscal year, but will receive a onetime stipend;

* Members will no longer receive pay for one-half of their unused sick leave earned on and after January 1, 1998;

* Some future retirees will have to pay a percentage of their health insurance benefits.

The pension package is linked to a three-year labor contract that will give employees a 3% cost-of-living increase in the second and third years of the contract.

The new legislation also allows all members with 20 years of Alternative formula service to retire at a monthly rate based on their final rate of pay at retirement or an average of the last 48 months of service, whichever is greater.

The pension increase to a flat rate of 1.67/2.2% does not apply to members under the Alternative formula, since their retirement rates are already higher. Workers covered by the Alternative formula will receive a 3% cost-of-living increase all three years of the new contract. The legislation also establishes minimum state contribution rates between FY1999 and FY2010 designed to fund the increased benefits as a level percentage of payroll over the remainder of the 50 year funding program.

Senate Bill 665 (P.A. 90-0448; Effective August 16, 1997)

* The State Withholding Act and the Retirement Act are amended to provide a method so that contributions made to purchase optional service credit or repay prior refunds can be made on a pre-tax basis through payroll deduction.

* Allows a person who performed contractual services to a member of the General Assembly, in the member's district office to establish up to three years of service credit in SERS. The legislation requires an employee contribution, plus interest. Application must be made to SERS by March 1, 1998.

* The SERS Widow, Survivors, and Occupational Death benefits are altered to allow payment of the benefit to a child under the age of 22, who is a full-time student. Presently, this benefit is terminated at age 18, regardless of student status.

House Bill 1641 (P.A. 90-0511; Effective August 22, 1997)

* Allows someone who performed contractual services for a member of the General Assembly, in the member's district office, to purchase up to eight years of service credit in SERS. The legislation requires an employee contribution, plus interest. Application must be made to SERS by March 1, 1998.

NEW LEGISLATION - Amendments with an effective date subsequent to June 30, 1998, affecting the operation of the System:

House Bill 1612 (P.A. 90-0731; Effective July 1, 1999)

* Amends the general provisions of the Illinois Pension Code to provide for a method to recognize the existence of an alternate payee's right to receive all or a portion of a member's accrued benefits in a retirement system through the issuance of a Qualified Illinois Domestic Relations Order (QILDRO) pursuant to Section 503(b)(2) of the Illinois Marriage and Dissolution of Marriage Act.

House Bill 3515 (P.A. 90-0766; Effective August 14, 1998)

* Modified the existing statutory language regarding the time period to be used for calculation of the interest amount due when establishing service credit for a leave of absence.

* Allows a member who participated in the Illinois Legislative Staff Internship program to establish service for up to one year of that participation by making the statutorily required contributions.

* Extends the window period for the optional purchase of federal or out-of-state employment from June 30, 1998 to June 30, 1999.

* Clarifies the provision authorizing optional contribution payments.