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, 2001

STATE EMPLOYEES' RETIREMENT
SYSTEM OF ILLINOIS

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

Prepared by the Accounting Division

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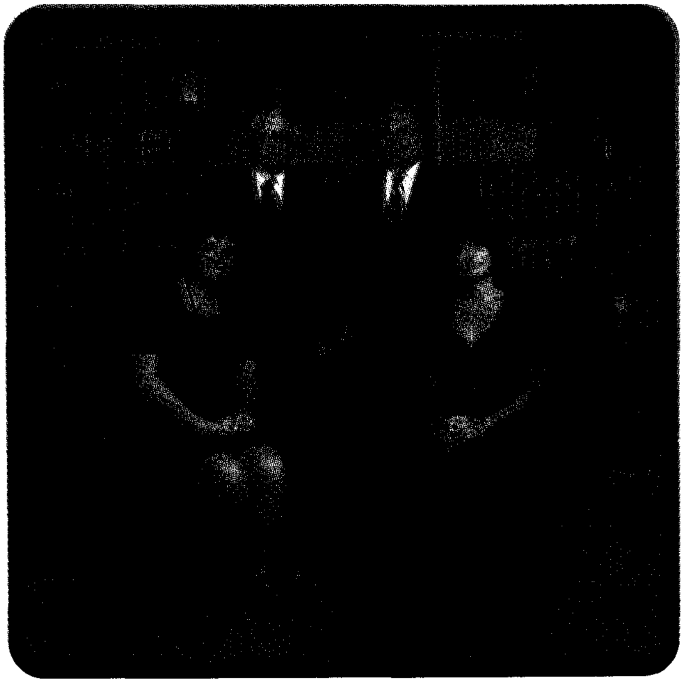
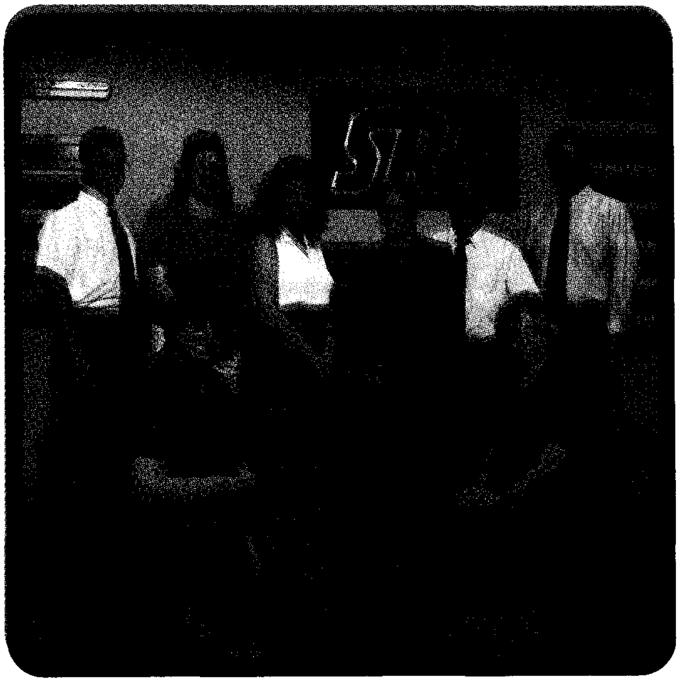
Table of Contents

Introductory Section



Administration:
(l to r) seated: Cheryl Bullerman, Dawn Blakeman.
standing: Executive Secretary, Michael Mory,
Associate Executive Secretary, Robert Knox.



Accounting:
(l to r) seated: Doris Rich, Carolyn Zimmerman.
standing: Nick Merrill, Doreen Brownell, Sandy Harvey, Marlene Schultz, Mike Belden, Dave Richter.

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 217-785-7444

December 7, 2001

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, 2001 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. The 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;

6. The Plan Summary and Legislative Section which contains 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;
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. 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 & 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, 2001 are approximately $8.3 billion, and there are 80,879 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. Due to a decline in the market value of investments, these revenue sources totaled a deficit of $72.5 million during the fiscal year ending June 30, 2001, which is a significant decrease from revenue reported for fiscal year 2000, as shown in Table 1.

TABLE 1

	2001 (Millions)	2000 (Millions)	Increase/Decrease (Millions)	(Percentage)
Contributions:				
Employees	$ 173.8	$ 164.8	$ 9.0	5.5%
Employer	366.0	340.9	25.1	7.4
Investments	(612.3)	931.2	(1,543.5)	(165.8)
	$ (72.5)	$ 1,436.9	$(1,509.4)	(105.1)%

The decrease in investment revenue was attributable to significant net depreciation in the fair value of the System's investments.

DEDUCTIONS FROM PLAN NET ASSETS

The primary expense of a retirement system relates to the purpose for it's creation: the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses for fiscal years 2001 and 2000 are shown for comparison purposes in Table 2.

TABLE 2

	2001 (Millions)	2000 (Millions)	Increase/Decrease (Millions)	(Percentage)
Benefits:				
Retirement annuities	$ 446.6	$ 405.9	$ 40.7	10.0%
Survivors' annuities	45.0	42.7	2.3	5.4
Disability benefits	32.6	29.2	3.4	11.6
Lump-sum death benefits	13.4	12.1	1.3	10.7
	$ 537.6	$ 489.9	$ 47.7	9.7%
Refunds *(including transfers)*	17.0	16.0	1.0	6.3
Administrative expenses	7.1	6.6	.5	7.6
	$ 561.7	$ 512.5	$ 49.2	9.6%

The increase is primarily due to the number of benefit recipients and higher final average salaries for retirees.

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 is intended to reduce overall risk and increase returns. As further detailed in the Investment Section, this was a most challenging year in virtually all segments of the financial markets.

Income from investments has, over the years, generally been a significant share of the total revenue of the System. FY2001 returns, however, were already set to be a challenge, even prior to the events of September 11, 2001. Net investment income, combined with the net depreciation of fair value of investments, amounted to a reduction of $612.3 million during fiscal year 2001, a decrease of $1,543.5 million from fiscal year 2000.

The Illinois State Board of Investment had an negative 7.1% rate of return on market values for the year ended June 30, 2001.

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.

MAJOR EVENTS/INITIATIVES

On December 14, 2000, Governor Ryan signed House Bill 1582 into law as Public Act (P.A.) 91-0927. This bill allows state employees whose years of service and age equal 85 to retire without a benefit reduction. The "Rule of 85" was effective for members retiring on and after January 1, 2001. In addition during FY01, the System continued to expand the Local Area Network (LAN) operating system, purchased a new general ledger package, and expanded the optional purchase system.

Projects for FY02 include the implementation of a new legislation. HB 0250 (P.A. 92-0014) was signed into law by Governor Ryan on June 28, 2001 and affects the benefit calculation of all alternative formula employees. It also brought certain employees of the Department of Human Services under the alternative formula. In addition, HB 0267 (P.A. 92-0257) was signed into law by Governor Ryan on August 6, 2001. The main provision of this bill extends the benefits of the alternative formula to state highway maintenance workers for the Illinois Department of Transportation, and the Illinois State Toll Highway Authority. Other projects for FY02 include the installation of a general ledger, a new agency billing system for payroll errors, implementation of the changes resulting from the Economic Growth and Tax Relief Reconciliation Act of 2001, as well as an expanded field services programs for our membership.

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.

A new funding plan for the System, enacted 1994, 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, 2001, amounted to $12.572 billion. The actuarial value of assets (at fair value) amounted to $8.277 billion as of the same date.

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

ACCOUNTING SYSTEM & 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 LLP, Chicago, Illinois.

The annual financial audit of the System was conducted by the accounting firm of Thomas Havey 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, 2000.

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 fifteen consecutive years (fiscal years ended June 30, 1986 through June 30, 2000).

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

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

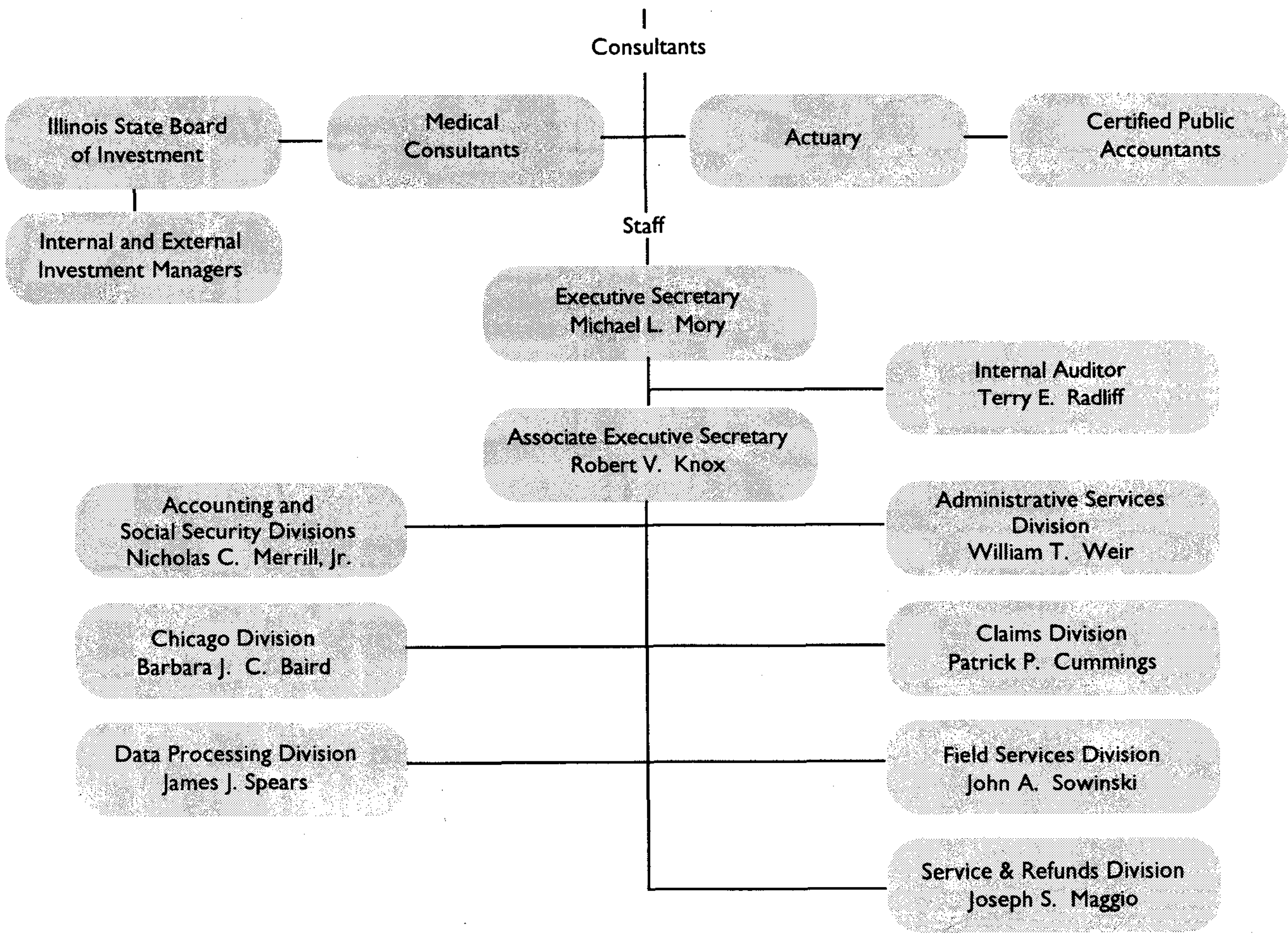
Respectfully submitted,

Michael L. Mory
Michael L. Mory
Executive Secretary

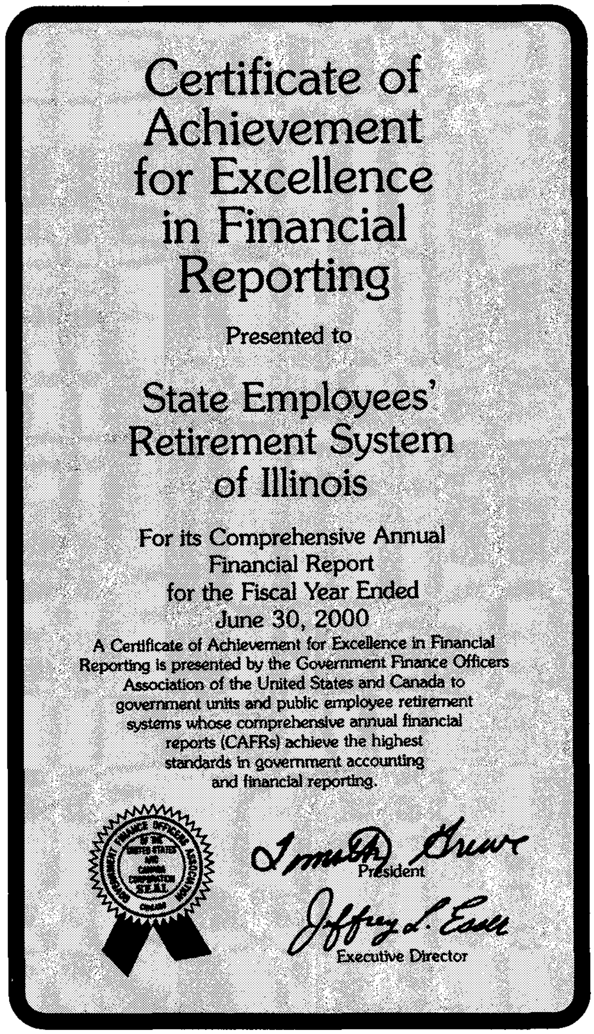
Nicholas C. Merrill, Jr.
Nicholas C. Merrill, Jr., CPA
Chief Fiscal Officer

Board of Trustees

(l to r) seated: **Doris Clark**,(Elected Annuitant, Vice Chairman), **Sharmin S. Doering** (State Employee, Appointed by the Governor), **Caryl Wadley-Foy** (Elected Employee). standing: **Loren Iglarsh** (Representing Daniel W. Hynes, Comptroller) **John Stevens,** (Representing Stephen Schnorf, Director of the Bureau of the Budget), **Mark W. Gallagher,** (Chairman, appointed by the Governor), **Joseph T. Pisano** (Annuitant, Appointed by the Governor).



Certificate of Achievement:



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, 2000

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.

President

Executive Director

Chicago Office:
(l to r)Rosmary Randle, Thelma Sturgis, Barbara Baird, Diantha Landowski.

Financial Section

Administrative Services:
(l to r) seated: Thywla Drury, Marty Nantkes.
standing: Dave O'Brien, Terry Radliff, Bill Weir.

Administrative Services:
(l to r) seated: Susan Adams, Gwen Hopkins.
standing: Ken Gentry, Bill Dennis, Delores Bull, Bob Deckard.

THOMAS
HAVEY
LLP

INDEPENDENT AUDITORS' 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, we have audited the accompanying statements of plan net assets as of June 30, 2001 and 2000 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 auditing standards generally accepted in the United States of America 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 an 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, 2001 and 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue, under separate cover, our report dated October 25, 2001 on our consideration of the State Employees' Retirement System of Illinois' internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The required supplementary information on page 23, and other supplementary information on page 24, are presented for the purpose of additional analysis and are not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The information for the years ended June 30, 1997 and 1998 has been derived from financial statements audited by other auditors whose reports thereon expressed an unqualified opinion.

The introductory, investment, actuarial, statistical, and plan summary and legislative sections listed in the table of contents were not audited by us and, accordingly, we do not express an opinion thereon.

Thomas Havey LLP

October 25, 2001

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

30 N. LASALLE STREET • SUITE 4200 • CHICAGO, IL 60602 • 312.368.0500 • 312.368.0746 FAX • www.havey.com

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2001 and 2000

	2001	2000
Assets		
Cash	$ 103,210,369	$ 97,638,073
Receivables:		
Contributions:		
Participants	13,212,679	12,549,083
Employing state agencies	13,978,940	12,616,750
Other accounts	3,157,976	2,754,312
Total Receivables	30,349,595	27,920,145
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	8,144,981,332	8,786,654,484
Property and equipment, net of accumulated depreciation	3,310,764	3,354,788
Total Assets	8,281,852,060	8,915,567,490
Liabilities		
Benefits payable	3,203,438	2,683,109
Refunds payable	239,145	146,104
Administrative expenses payable	1,078,771	1,068,721
Participants' deferred service credit accounts	669,354	768,904
Total Liabilities	5,190,708	4,666,838
Net assets held in trust for pension benefits	$ 8,276,661,352	$ 8,910,900,652

(A schedule of funding progress is presented on page 23.)

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years ended June 30, 2001 and 2000

	2001	2000
Additions:		
Contributions:		
Participants	$ 173,778,661	$ 164,792,356
Employing State agencies and appropriations	366,028,937	340,872,521
Total Contributions	539,807,598	505,664,877
Investment income:		
Net investment income	215,621,397	199,499,986
Interest earned on cash balances	6,370,500	6,079,096
Net appreciation/(depreciation) in fair value of investments	(834,294,549)	725,684,217
Total net investment income/(loss)	(612,302,652)	931,263,299
Total Additions	(72,495,054)	1,436,928,176
Deductions:		
Benefits:		
Retirement annuities	446,598,967	405,944,513
Survivors' annuities	44,958,695	42,672,462
Disability benefits	32,604,190	29,239,488
Lump-sum death benefits	13,429,872	12,058,958
Total Benefits	537,591,724	489,915,421
Refunds	17,012,242	15,898,980
Administrative	7,140,280	6,613,765
Transfers to reciprocating retirement systems	-	32,327
Total Deductions	561,744,246	512,460,493
Net Increase/(Decrease)	(634,239,300)	924,467,683
Net assets held in trust for pension benefits:		
Beginning of year	8,910,900,652	7,986,432,969
End of year	$ 8,276,661,352	$ 8,910,900,652

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2001 and 2000

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 of Illinois (System) 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 2001 and 2000 were each less than $100.

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, 2001 and 2000, the number of participating state agencies, boards and commissions totaled:

	2001	2000
State agencies	38	38
State boards and commissions	45	48
TOTAL	83	86

At June 30, 2001 and 2000, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	31,079	30,137
Survivors' annuities	9,895	9,860
Disability benefits	2,190	2,097
	43,164	42,094
Inactive employees entitled to benefits, but not yet receiving them	4,110	4,032
TOTAL	47,274	46,126
Current Employees:		
Vested: Coordinated with Social Security	50,642	50,707
Noncoordinated	2,998	3,497
Nonvested: Coordinated with Social Security	26,315	25,619
Noncoordinated	924	853
TOTAL	80,879	80,676

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, anyone 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 of 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 covered by Social Security and 8% if the member is not covered. 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 covered by 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, at age 55 with at least 25 years of credited service with reduced benefits, or when an employee's age and service equal 85 years, are entitled to an annual retirement benefit, payable monthly for life, in an amount based upon final average compensation and credited service.

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, to a maximum of 75%. Alternative formula positions use their final rate of pay for the final average compensation, to a maximum of 80%.

The retirement benefit formula available to general state employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. Alternative formula employees have a formula of 2.5% for covered service and 3.0% for 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, 2001 and 2000, the ISBI had outstanding loaned investment securities having market values of $1,011,910,854 and $1,030,242,633, respectively; against which it had received collateral with values of $1,047,527,926 and $1,064,062,213, respectively.

The ISBI's international managers invest in derivative securities. During the year, the ISBI's derivative investments included forward foreign currency contracts. 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 the 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 95% of the net investment assets of the ISBI Commingled Fund as of June 30, 2001. A Schedule of Investment Expenses is included in the ISBI Annual Report.

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.

For additional information regarding the ISBI's investments, please refer to the Annual Report of the ISBI as of June 30, 2001. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

ISBI's investments categorized as of June 30, 2001

	Fair Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 1,134,638,341	$1,134,638,341	$
Foreign Obligations	108,110,344	108,110,344	
Corporate Obligations	799,240,560	799,240,560	
Convertible Bonds	55,706	55,706	
Common Stock & Equity Funds	3,777,918,575	1,997,025,795	1,780,892,780
Convertible Preferred Stock	3,375,353	3,375,353	
Preferred Stock	5,742,468	5,742,468	
Foreign Equity Securities	1,594,371,444	1,464,005,261	130,366,183
Real Estate Funds	349,790,999		349,790,999
Alternative Investments	494,792,298		494,792,298
Money Market Instruments	345,601,984		345,601,984
Forward Foreign Exchange Contracts	(52,875)	(52,875)	
Total Investments	$ 8,613,585,197	$5,512,140,953	$3,101,444,244

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. An experience review was last performed as of 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, 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 2001 and 2000 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.

The legislation also stipulated a minimum required employer contribution rate for fiscal years 1999-2009. The employer contribution rates for fiscal years 2001 and 2000 were 10.2% and 10.0%, respectively (including the employer contribution from the State Pension Fund).

5. Administrative Expenses & Other Post-Employment Benefits

A summary of the administrative expenses of the System for fiscal years 2001 and 2000 is as follows:

	2001	2000
Personal services	$ 3,021,514	$ 2,846,805
Employer retirement pickup	120,629	112,922
Retirement contributions	300,747	276,867
Social Security contributions	224,626	212,255
Group insurance	472,988	394,840
Contractual services	1,222,653	1,179,898
Travel	54,778	56,100
Commodities	25,749	19,683
Printing	46,488	53,505
Electronic data processing	1,250,759	1,114,457
Telecommunications	62,249	48,131
Automotive	13,181	12,784
Depreciation	219,325	245,148
Other	104,594	40,370
Total	$ 7,140,280	$ 6,613,765

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, 2001. 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 2001 and 2000 is as follows:

2001

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land improvements	222,835	21,802	-	244,637
Building	3,305,856	19,728	(45,035)	3,280,549
Equipment	1,902,586	154,299	(66,061)	1,990,824
TOTAL	6,086,518	195,829	(111,096)	6,171,251
Accumulated depreciation	(2,731,730)	(219,325)	90,568	(2,860,487)
Property and equipment, net	$ 3,354,788	$ (23,496)	$ (20,528)	$ 3,310,764

2000

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land improvements	218,425	4,410	-	222,835
Building	3,302,821	3,035	-	3,305,856
Equipment	1,915,395	96,224	(109,033)	1,902,586
TOTAL	6,091,882	103,669	(109,033)	6,086,518
Accumulated depreciation	(2,591,163)	(245,148)	104,581	(2,731,730)
Property and equipment, net	$ 3,500,719	$ (141,479)	$ (4,452)	$ 3,354,788

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, 2001 and 2000 totaled $961,929 and $877,865, respectively, and are included in 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.

Statements of Changes in Reserve Balances
Years ended June 30, 2001 and 2000

	Participants' Contributions	Interest Accumulations	Other Future Benefits	Total Reserve Balances
Balance at June 30, 1999	$ 1,442,468,720	$ 927,479,803	$ 5,616,484,446	$ 7,986,432,969
Add (deduct):				
Excess revenue over expenses	138,907,749	-	785,559,934	924,467,683
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(67,946,756)	-	67,946,756	-
Interest credited to members' accounts	-	73,801,641	(73,801,641)	-
Balance at June 30, 2000	1,513,429,713	1,001,281,444	6,396,189,495	8,910,900,652
Add (deduct):				
Excess revenue over/(under) expenses	145,903,758	-	(780,143,058)	(634,239,300)
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(79,554,001)	-	79,554,001	-
Interest credited to members' accounts	-	66,032,098	(66,032,098)	-
Balance at June 30, 2001	$ 1,579,779,470	$ 1,067,313,542	$ 5,629,568,340	$ 8,276,661,352

9. Social Security Division - Administrative Expenses

The Social Security Division of the State Employees' Retirement System was created by 40 ILCS 5/21, to administer the state's responsibilities under Title II Section 218 of the Federal Social Security Act and the master federal-state agreement.

The state's responsibilities include extending Social Security coverage by agreement to any of the state's retirement systems or units of local government requesting social security or medicare only coverage for their members or employees.

In addition, the Social Security Division was responsible for collecting wage information and contribution payments from covered retirement systems and units of local government on wages paid prior to January 1, 1987. Administrative expenses for the Social Security Division are appropriated annually by the State Legislature.

10. Subsequent Event

The ISBI Commingled Fund had a decline in its investment portfolio subsequent to year end due to turbulent market conditions. At September 30, 2001, the ISBI Commingled Fund had incurred an approximate $753 million (8.8%) decrease in its investment portfolio due to declines in the domestic and international equity markets.

Administrative expenses for the Social Security Division

	2001	2000
Personal services	$ 38,460	$ 38,175
Employer retirement pickup	1,538	1,527
Retirement contributions	3,825	3,708
Social Security contributions	2,857	2,834
Contractual services	24,700	24,131
Travel	2,166	1,933
Commodities	377	388
Electronic data processing	700	700
Telecommunications	340	304
Total	$74,963	$ 73,700

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 of 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
6/30/99	7,986,432,969	9,998,204,988	2,011,772,019	79.9	3,212,569,000	62.6
6/30/00	8,910,900,652	10,912,987,912	2,002,087,260	81.7	3,370,696,000	59.4
6/30/01	8,276,661,352	12,572,240,145	4,295,578,793	65.8	3,564,441,000	120.5

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
1999	319,746,993	98.7	306,093,574	8,523,961	314,617,535	100
2000	299,081,856	114.0	327,429,409	12,720,000	340,149,409	100
2001	294,351,538	124.3	354,448,013	10,490,000	364,938,013	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 five years of information which meet 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, 2001
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 – 44 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
Post-retirement increase – 3.0 percent, compounded
Mortality table – 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.

Supplementary Financial Information

SUMMARY OF REVENUES BY SOURCE

	2001	2000
Contributions:		
Participants	$ 166,896,290	$ 157,998,310
Repayments of contributions refunded	1,417,705	1,452,350
Interest received from participants	5,464,666	5,341,696
Total participants contributions	173,778,661	164,792,356
Employing state agencies	355,538,937	328,152,521
State Pension Fund appropriation	10,490,000	12,720,000
Total state contributions and appropriations	366,028,937	340,872,521
Investment income:		
Net investment income	215,621,397	199,499,986
Interest earned on cash balances	6,370,500	6,079,096
Net appreciation/(depreciation) in fair value of investments	(834,294,549)	725,684,217
Total net investment income/(loss)	(612,302,652)	931,263,299
Total revenue	$ (72,495,054)	$ 1,436,928,176

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

	2001	2000
Cash balance, beginning of year	$ 97,638,073	$ 100,578,832
Receipts:		
Participant contributions	163,963,803	154,741,978
Employer contributions	353,776,553	327,168,237
State Pension Fund contribution	10,490,000	12,720,000
Transfers from Illinois State Board of Investment	23,000,000	18,000,000
Interest income on cash balance	6,492,504	5,959,477
Claims receivable payments	3,445,398	3,700,916
Installment payments - prior service credit	5,920,084	5,787,179
Other	94,109	199,698
Total cash receipts	567,182,451	528,277,485
Disbursements:		
Annuity payments:		
Retirement annuities	446,803,938	406,241,896
Widow's annuities	1,852,856	2,004,014
Survivors' annuities	43,324,870	40,803,649
Death benefits	13,420,182	12,198,347
Disability benefits	31,510,875	28,406,540
Refunds	17,536,192	17,108,410
Administrative expenses	7,161,242	6,455,388
Transfers to Illinois State Board of Investment	-	18,000,000
Total cash disbursements	561,610,155	531,218,244
Cash balance, end of year	$ 103,210,369	$ 97,638,073

SCHEDULE OF PAYMENTS TO CONSULTANTS AND ADVISORS

	2001	2000
Legal Fees	$ 229,436	$ 266,869
Actuarial Costs	119,032	88,470
Audit Expense	45,746	53,206
Physicians and Disability Inspections	10,013	13,866
Financial Planning	34,512	38,383
Tax Advice and Consultation	5,000	8,500
Total	$ 443,739	$ 469,294

Investment Section

Claims:
(l to r) seated: Kathy Welker, Karen Cunningham.
standing: Ray Seymour, Julie Harms, Julie Crawford, Brenda Credille, Pat Cummings.

Claims:
(l to r) seated: Lynn Woods, Deby Barron.
standing: Judy Ahrens, Chris Silver, Steve Bomke, Marlys Vala, Bob Hicks, P. J. Budd, Cathy Beard.

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, 2001, total net assets under management valued at market, amounted to \$8.578 billion. Of the total market value of assets under management, \$8.145 billion or 95% 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. The following investment information and analysis has been prepared by the ISBI.

Investment Policy

The ISBI operates under a strategic investment policy which is reviewed and approved every two years. The investment objective of the total portfolio is to maximize the rate of return on investments within a prudent level of risk.

To achieve this objective, the ISBI invests in different types of assets and uses multiple managers to ensure diversification. Over an investment cycle, the ISBI seeks to achieve a rate of return which is:

1. At least equal to the assumed actuarial interest rate, currently 8.5% per year.
2. At least equal to the return of the policy-weighted benchmark, a theoretical "indexed" implementation of the ISBI's asset allocation policy.

Asset Allocation

The investment policy of the ISBI Board establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. The policy is implemented by allocations to investment managers with assignments to invest in specific asset classes, with defined security selection styles and methodologies. The policy asset allocation at June 30, 2001 was 43% U.S. equities, 20% international equities, 22% fixed income, 7% real estate, and 8% alternative investments.

The actual asset allocation of the portfolio at June 30, 2001, as relative to the policy target, is set forth below. The publicly traded asset classes (U.S. equity and fixed income) were modestly overweighted relative to the policy target, to compensate for an underweight to private market categories (alternative investments and real estate). Effective July 1, 2000, the Board modestly increased the strategic allocation for real estate (+2%) and for alternative investments (+3%), and it takes time to implement those increases. As the ISBI Board fills the alternatives and real estate categories, U.S. equity and fixed income will be reduced accordingly.

	Actual Asset Allocation	Policy Target
U.S. Equities	45%	43%
International Equities	19	20
Fixed Income	26	22
Real Estate	4	7
Alternative Investments	6	8
Total	100%	100%

Investment Results

After a six year run of double digit returns, the ISBI total fund experienced an abrupt correction. The ISBI total fund was down 7.1% for fiscal 2001, net of expenses. This represents the first negative fiscal year for the fund since 1983, and reflects the negative stock market environment, both in the U.S. and abroad. While the ISBI fund clearly did not meet its long-term objective of exceeding the 8.5% assumed actuarial interest rate, the return was modestly ahead of the policy-weighted benchmark return, which lost 7.3%. For both the five and ten year periods ended June 30, 2001, the fund has beat the actuarial hurdle, with an average annual return of 10.5% and 11.1%, respectively, which in both cases is modestly ahead of the benchmark return as well.

U.S. Equities

For the twelve months ended June 30, 2001, U.S. investors' infatuation with the stock market finally came to a halt. The Russell 3000 Index, a broad representation of the U.S. market, lost 13.9%. Reversing another trend, value stocks far exceeded growth stock, with the Russell 3000 Value Index earning 11.6%, compared to the Russell 3000 Growth Index loss of 35.3%. Small capitalization stocks continued a two year streak of outperforming large capitalization stocks, with the Russell 2000 Index eking out a positive return of 0.6%, vs. a 14.8% loss for the S&P 500.

The ISBI's U.S. equity portfolio was down 10.3% for the fiscal year, 360 basis points ahead of the Russell 3000. While a negative return is never the desired result, the portfolio did perform as it was constructed to do; namely, to limit tracking error relative to the benchmark and to add value with active management. The ISBI Board, through structure analysis, rebalancing, and risk management, has achieved the objective of tracking the market with predictable consistency.

	1 Year	3 Years	5 Years
ISBI	(10.3)%	5.1%	13.4%
S&P 500 Stock Index	(14.8)	3.9	14.5
Russell 3000 Index	(13.9)	4.2	13.8

During fiscal 2001, the Board terminated it's large-cap value manager (Fidelity), and hired LSV to fill that slot.

International Equities

After a strong fiscal 2000, foreign stock markets also succumbed to the anxiety which hit the U.S. market. The Morgan Stanley All-Country Free ex US ('MS-AC Free ex US') Index, gave up 24.1% for the fiscal year, more than 10 percentage points below the U.S. return. As in the U.S., value stocks held up significantly better than growth stocks. For fiscal 2001, there was not a significant difference between developed and emerging market returns.

The ISBI's international equity portfolio, down 21.0%, outperformed the benchmark by over 300 basis points for the fiscal year. As with the U.S. equity portfolio, the ISBI Board has the twin objectives of limiting tracking error relative to the benchmark and adding value with active management. There were no manager changes in the international equity portfolio during fiscal 2001.

	1 Year	3 Years	5 Years
ISBI %	(21.0)%	0.3%	5.3%
MS-AC Free ex US Index	(24.1)	(0.6)	2.6

Fixed Income

The role of fixed income is to provide stability in times of difficult stock markets. During fiscal 2001, the fixed income portfolio fulfilled that role. As the Federal Reserve lowered short-term rates from 6.5% to 3.75% over the 12-month period, the Lehman Aggregate Bond Index responded and rose 11.2%. High yield bonds, as represented by the Merrill Lynch High Yield Index, were more negatively impacted by stock market activity and were only up 2.1%.

	1 Year	3 Years	5 Years
ISBI	9.5%	5.6%	7.4%
Lehman Aggregate Bond Index	11.2	6.2	7.5

Substantially all fixed income assets are managed internally, except approximately $120 million allocated to an external high yield bond manager. The investment grade internal account was slightly behind the Lehman Aggregate Bond index, with a return of 11.0%. Lower returns from high yield accounts, both internal and external, resulted in a total fixed income return of 9.5%.

Real Estate

Prior to fiscal 2001, the ISBI Board's real estate policy was to seek higher return real estate opportunities while controlling for risk. Therefore, investments focused on value-added or opportunistic strategies. However, effective July 1, 2000, the ISBI Board increased its strategic allocation to real estate from 5% to 7% of the total fund. At the new allocation level, the ISBI Board felt it was appropriate to review the strategic plan for real estate. The ISBI Board concluded that 50% of its real estate should be in core, income producing real estate, with the balance in higher return strategies. While the ISBI Board did not make any new commitments to real estate in fiscal 2001, a search is currently under way for commingled core real estate opportunities. All of ISBI's current investments in real estate are passive and are represented by interests in limited partnerships, trusts and other forms of pooled investments.

Real estate continued to provide solid returns during fiscal 2001, with the NCREIF Real Estate Index earning 12.5%. ISBI's real estate portfolio, dominated by a number of less mature investments, earned a more modest 7.0%. While below the index, the real estate return did provide a buffer for the negative results from the turbulent stock market.

	1 Year	3 Years	5 Years
ISBI	7.0%	5.7%	10.9%
NCREIF Real Estate Index	12.5	13.4	13.5

Alternative Investments

The alternative investments portfolio consists of passive interest in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities.

As in the stock market, fiscal 2001 proved to be the end of a bull run for alternative investments. The abrupt closing of the initial public offering (IPO) market which accompanied the technology correction took its toll on private equity investments. Overall, ISBI's alternative investments portfolio lost 6.9% for the fiscal year. While this is not as dramatic as the results in the public stock market, there is the possibility that any recovery in private markets will lag the public one.

Effective July 1, 2000, the ISBI Board increased its strategic allocation for alternative investments from 5% to 8% of total assets. During fiscal 2001, the ISBI Board made commitments totaling $242.5 million to 10 limited partnerships. The new partnerships are:

Venture Capital: ABS Capital Partners IV; Sprout IX; Summit Partners VI; TL Ventures V; Weiss, Peck & Greer VI

Buyouts: Bear Stearns II; DLJ Merchant Banking III; Madison Dearborn IV; Welsh, Carson, Anderson & Stowe IX

Special Situations: Warburg Pincus VIII

Management Expenses

Total expenses for the fiscal year were $20.6 million, compared to $20.7 for fiscal 2000. The resulting expense ratio (expenses divided by total net assets) was 0.23% in fiscal 2001, unchanged from fiscal 2000.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 2001		June 30, 2000	
Investments, at market value				
U.S. Government and Agency Obligations	$ 1,134,638,341	13.22%	$ 1,154,131,028	12.45%
Foreign Obligations	108,110,344	1.26	68,212,655	0.74
Corporate Obligations	799,240,560	9.31	543,874,357	5.87
Convertible Bonds	55,706	0.00	10,928,836	0.12
Common Stock & Equity Funds	3,777,918,575	44.04	3,957,626,585	42.69
Convertible Preferred Stock	3,375,353	0.04	38,141,900	0.41
Preferred Stock	5,742,468	0.07	6,764,833	0.07
Foreign Equity Securities	1,594,371,444	18.59	2,086,712,466	22.51
Real Estate Funds	349,790,999	4.08	284,414,376	3.07
Alternative Investments	494,792,298	5.77	535,793,992	5.78
Money Market Instruments	345,601,984	4.03	606,334,768	6.54
Forward Foreign Exchange Contracts	(52,875)	0.00	341,876	0.00
	8,613,585,197	100.41	9,293,277,672	100.25
Other Assets, Less Liabilities	(35,503,230)	(0.41)	(22,948,274)	(0.25)
Net Assets, at Market Value	$ 8,578,081,967	100.0%	$ 9,270,329,398	100.00%

ANALYSIS OF INVESTMENT PERFORMANCE[1]

	2001	2000	1999	1998	1997
Total Return* - Past 3 years		5.5%			
Total Return* - Past 5 years			10.5%		
Total Return* - year by year	(7.1)%	11.8%	12.9%	18.1%	18.8%
Actuarial Assumed Rate of Return		8.5%			8.0%
Average Net Income Yield*	2.6%	2.4%	2.8%	3.4%	3.9%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	9.5%	4.0%	3.4%	11.1%	9.5%
Comparison index:					
Shearson Lehman Aggregate	11.2%	4.6%	3.1%	10.5%	8.2%
Comparative rates of return on equities					
Domestic equities - ISBI	(10.3)%	10.3%	17.3%	27.6%	26.3%
Comparison index:					
S&P 500	(14.8)%	7.3%	22.7%	30.2%	34.6%

[1] The Northern Trust Company, the ISBI's master custodian, provides performance rates of return by portfolio, portfolio aggregation and the respective indices in accordance with the Association for Investment Management and Research (AIMR) performance presentation standards.

* Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations for fiscal years 2001 and 2000:

			Increase/Decrease	
	2001	**2000**	**Amount**	**Percentage**
Balance at beginning of year, at fair value	$ 8,786,654,484	$ 7,861,470,281	$ 925,184,203	11.8%
Cash transferred from ISBI (net)	(23,000,000)	-0-	(23,000,000)	(100.0)
Net ISBI investments revenue:				
ISBI Commingled Fund income	$ 235,164,552	$ 219,125,496	$ 16,039,056	7.3
Less ISBI Expenses	(19,543,155)	(19,625,510)	82,355	.4
Net ISBI investments income	$ 215,621,397	$ 199,499,986	$ 16,121,411	8.1
Net appreciation in fair value of ISBI investments	(834,294,549)	725,684,217	(1,559,978,766)	(215.0)
Net ISBI investments revenue	$ (618,673,152)	$ 925,184,203	$(1,543,857,355)	(166.9)
Balance at end of year, at fair value	$ 8,144,981,332	$ 8,786,654,484	$ (641,673,152)	(7.3)

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2001 was $6,370,500 compared to $6,079,096 during FY 2000.

Actuarial Section

Claims:
(l to r) seated: Debbie Hammond, Madonna Palazzolo.
standing: Pat Boyd, Judy Watson.

Claims:
(l to r) seated: Becky Tobias, Janie Taft.
standing: Mike Noblet, Nancy George, Kelly Purlee, Brenda Fleigle, Allison Moore.

Watson Wyatt
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October 26, 2001

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, 2001. 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, 2002 and ending June 30, 2003.

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 2003 are shown below.

	Total	Net**
Required Rate	10.600%	10.321%
Required Contribution	$398,772,000	$388,282,000

** *These values reflect the $10,490,000 received from the unclaimed property fund for fiscal year 2001.*

For purposes of determining contribution rates, the market value of assets as reported by the Illinois State Board of Investment is used for the 2001 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 reviewed the statistical support 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, 2001. 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 26, 2001
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 Fellows of the Society 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: Michael R. Kivi
Michael R. Kivi, FSA, EA, MAAA
Consultant

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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 2001 through 2009 will not be less than the schedule below:

- 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.

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 2001 and 2000, 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."

Recent comprehensive bills have dramatically increased state employee pension benefits, and also mandated an increase of employer retirement contributions.

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, funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This has 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.

The System's current funding plan does not meet the requirements for amortizing the unfunded liability provided under GASB Statement No. 25. In all other respects, the assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by GASB Statement No. 25.

Fiscal Year	Statutory Rate	Fiscal Year	Statutory Rate
2002	10.4%	2006	11.2%
2003	10.6	2007	11.4
2004	10.8	2008	11.6
2005	11.0	2009	11.8

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For fiscal years 2001 and 2000, 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-01 and FY-00 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 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.

NOTE: *The actuarial assumptions have been recommended by the actuary, and adopted by the System's Board of Trustees, at the dates indicated previously.*

SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

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

	June 30, 2001	June 30, 2000
Actuarial Liability (Reserves)		
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$ 5,103,135,214	$ 4,478,884,487
Survivor Annuities	438,160,416	410,538,712
Disability Annuities	199,065,488	138,424,374
Deferred:		
Retirement Annuities	5,675,601	4,835,368
Survivor Annuities	7,188,586	7,269,111
TOTAL	$ 5,753,225,305	$5,039,952,052
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	237,749,098	224,468,925
Eligible for Return of Contributions Only	15,225,163	14,903,133
TOTAL	$ 252,974,261	$ 239,372,058
For Active Members	$ 6,566,040,579	$ 5,633,663,802
Actuarial Present Value of Credited Projected Benefits	$ 12,572,240,145	$ 10,912,987,912
Assets, Fair Value	8,276,661,352	8,910,900,652
Unfunded Actuarial Present Value of Credited Projected Benefits	$ 4,295,578,793	$ 2,002,087,260

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short- term solvency test, the plan's present assets (primarily cash and investments) are compared with:

1. Active member contributions on deposit.
2. The liabilities for future benefits to present retired lives.
3. The liabilities for service already rendered by active members.

In a system that has been following level percent of payroll financing, the liabilities for 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)
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
1999	1,442,469	4,547,403	4,008,333	7,986,433	100.0	100.0	49.8
2000	1,513,430	5,039,952	4,359,606	8,910,901	100.0	100.0	54.1
2001	1,579,779	5,753,225	5,239,236	8,276,661	100.0	100.0	18.0

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

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
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
6/30/99	79,502	3,212,569,000	40,409	1.9
6/30/00	80,676	3,370,696,000	41,781	3.4
6/30/01	80,879	3,564,441,000	44,071	5.5

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.

Accrued & Unfunded Accrued Liabilities

(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
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
1999	9,998,205	7,986,433	79.9	2,011,772	3,212,569	62.6
2000	10,912,988	8,910,901	81.7	2,002,087	3,370,696	59.4
2001	12,572,240	8,276,661	65.8	4,295,579	3,564,441	120.5

* 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 & REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1999	28,774	1,841	(1,255)	29,360
2000	29,360	2,075	(1,298)	30,137
2001	30,137	2,270	(1,328)	31,079

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO & REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
1999	9,789	581	(560)	9,810
2000	9,810	605	(555)	9,860
2001	9,860	642	(607)	9,895

SCHEDULE OF DISABILITY RECIPIENTS ADDED TO & REMOVED FROM ROLLS

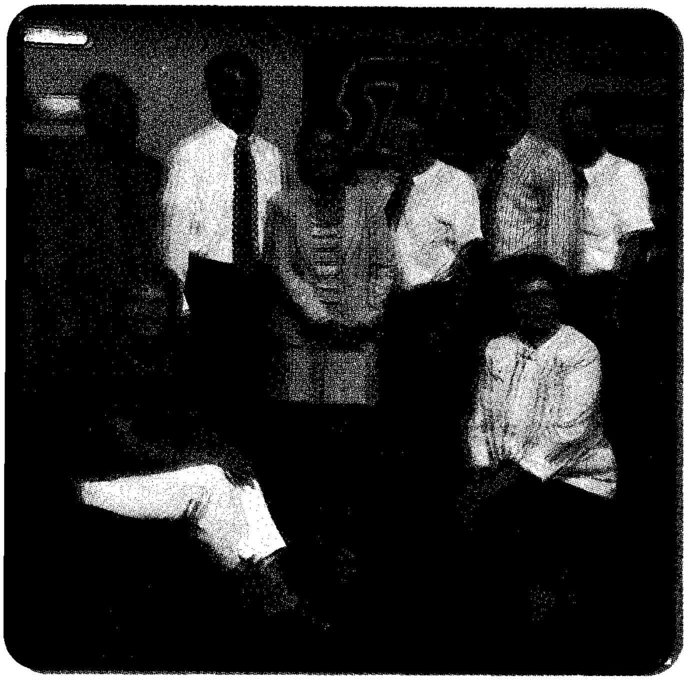
Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1992	1,583	2,057	(2,081)	1,559
1993	1,559	2,005	(1,921)	1,643
1994	1,643	2,094	(2,029)	1,708
1995	1,708	2,085	(1,992)	1,801
1996	1,801	1,992	(1,923)	1,870
1997	1,870	2,097	(1,991)	1,976
1998	1,976	1,912	(2,020)	1,868
1999	1,868	2,000	(1,907)	1,961
2000	1,961	2,099	(1,963)	2,097
2001	2,097	2,074	(1,981)	2,190

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-01	FY-00
Unfunded Liability, Beginning of Fiscal Year	$ 2,002,087,260	$ 2,011,772,019
Contributions Due		
Interest on the Unfunded Liability	170,177,417	171,000,622
Participants (includes Repayment of Refunds)	173,778,661	164,792,356
Total Normal Cost	174,429,824	155,767,247
Interest on Normal Cost	14,497,080	13,345,965
Total Due	$ 532,882,982	$ 504,906,190
Contributions Paid		
Participants (includes Repayment of Refunds)	$ 173,778,661	$ 164,792,356
Employing State Agencies and Appropriations	366,028,937	340,872,521
Interest on Contributions	22,473,989	21,052,514
Total Paid	$ 562,281,587	$ 526,717,391
Increase(Decrease) in the Unfunded Liability	$ (29,398,605)	$ (21,811,201)
+		
Actuarial (Gains) Losses		
a. Incidence of Disability	$ 12,000,000	$ 8,274,874
b. In-Service Mortality	4,000,000	35,582,191
c. Retiree Mortality	(8,000,000)	12,735,992
d. Disabled Mortality	(4,000,000)	4,325,647
e. Termination of Employment	228,000,000	147,401,095
f. Salary Increases	(8,000,000)	14,642,937
g. Investment Income	1,368,815,911	(252,699,421)
h. Other	77,964,003	41,863,127
Total Actuarial (Gain) Loss	$ 1,670,779,914	$ 12,126,442
+		
Non-recurring items (Gains) Losses:		
Legislative changes	652,110,224	-
Total non-recurring items	652,110,224	-
=		
Total Increase (Decrease) in Actuarial Liability	$ 2,293,491,533	$ (9,684,759)
Unfunded Liability, End of Fiscal Year	$ 4,295,578,793	$ 2,002,087,260

Statistical Section

Electronic Data Processing:
(l to r) seated: Jennifer Staley, Leslie Schleyhahn.
standing: Lori Wetter, Jim Spears, Lorie Hoffman.



Electronic Data Processing:
(l to r) seated: Linda Schweska, Laura Drnjevic.
standing: Gary Starr, Jim Stites, Bev Miller, Al Allen, Tom Kilby, Harvey Teitler.

ASSET BALANCES

FY Ended June 30	Cash	Receivables	Investments*	Fixed Assets, Net of Accumulated Depreciation	Total
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
1999	100,578,832	25,972,613	7,861,470,281	3,500,719	7,991,522,445
2000	97,638,073	27,920,145	8,786,654,484	3,354,788	8,915,567,490
2001	103,210,369	30,349,595	8,144,981,332	3,310,764	8,281,852,060

* Investments are reported at fair value for fiscal years 1996 - 2001. For all other fiscal years investments are reported at cost (book value).

LIABILITIES AND RESERVE BALANCES

FY Ended June 30	Accounts Payable	RESERVES Reserve For Member Contributions	Reserve For Interest Accumulations	Reserve For Future Operations*	Total Reserves	Total
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
1999	5,089,476	1,442,468,720	927,479,803	5,616,484,446	7,986,432,969	7,991,522,445
2000	4,666,838	1,513,429,713	1,001,281,444	6,396,189,495	8,910,900,652	8,915,567,490
2001	5,190,708	1,579,779,470	1,067,313,542	5,629,568,340	8,276,661,352	8,281,852,060

* The Reserve for Future Operations reflects investments reported at fair value for fiscal years 1996 - 2001.
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
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
1999	159,580,234	315,525,007	908,121,794	1,383,227,035
2000	164,792,356	340,872,521	931,263,299	1,436,928,176
2001	173,778,661	366,028,937	(612,302,652)	(72,495,054)

* The Investment Income includes both realized and unrealized gains and losses on investments for fiscal years 1996 - 2001.
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
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
1999	440,842,421	14,012,524	6,433,951	461,288,896
2000	489,915,421	15,931,307	6,613,765	512,460,493
2001	537,591,724	17,012,242	7,140,280	561,744,246

BENEFIT EXPENSES BY TYPE

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
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
1999	363,649,705	40,506,748	26,791,871	9,894,097	440,842,421
2000	405,944,513	42,672,462	29,239,488	12,058,958	489,915,421
2001	446,598,967	44,958,695	32,604,190	13,429,872	537,591,724

TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	Coordinated Members Male	Coordinated Members Female	Coordinated Members Total	Noncoordinated Members Male	Noncoordinated Members Female	Noncoordinated Members Total	Total Male Members	Total Female Members	Total Members
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
1999	48,382	46,578	94,960	3,274	1,656	4,930	51,656	48,234	99,890
2000	50,153	46,978	97,131	3,257	1,424	4,681	53,410	48,402	101,812
2001	50,696	47,611	98,307	3,098	1,147	4,245	53,794	48,758	102,552

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	Coordinated Members Male	Coordinated Members Female	Coordinated Members Total	Noncoordinated Members Male	Noncoordinated Members Female	Noncoordinated Members Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
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
1999	37,941	36,977	74,918	3,072	1,512	4,584	41,013	38,489	79,502	3,212,569,000
2000	38,755	37,571	76,326	3,061	1,289	4,350	41,816	38,860	80,676	3,370,696,000
2001	39,089	37,868	76,957	2,898	1,024	3,922	41,987	38,892	80,879	3,564,441,000

NUMBER OF RECURRING BENEFIT PAYMENTS

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
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
1999	29,360	9,810	1,961	41,131
2000	30,137	9,860	2,097	42,094
2001	31,079	9,895	2,190	43,164

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

TERMINATION REFUNDS - NUMBER/AMOUNT

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
1999	2,190	11,523,273
2000	2,425	13,090,272
2001	2,494	13,459,556

RETIREMENT ANNUITIES

Average Monthly Benefit For Current Year Retirees By Type

	Fiscal Year Ending June 30				
	2001	2000	1999	1998	1997
Not Coordinated with Social Security	$ 2,484.91	$ 2,395.02	$ 2,376.11	$ 2,316.28	$ 1,586.25
Coordinated with Social Security	1,586.51	1,256.22	1,164.79	1,071.29	547.38
Alternative Formula	4,560.29	4,492.47	4,487.89	4,088.79	3,945.25
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	2,951.62	3,114.97	2,775.73	2,711.11	2,363.71
Dept. of Corrections - Special Formula Coordinated with Social Security	2,085.19	2,240.61	1,959.66	1,606.80	1,608.99
Air Pilots - Coordinated with Social Security	-	-	-	-	-
Court Reporters - Not Coordinated with Social Security	-	-	-	1,795.04	1,851.45
Court Reporters - Coordinated with Social Security	-	-	-	1,333.75	1,490.00
TOTAL AVERAGE	$ 1,877.22	$ 1,674.54	$ 1,693.99	$ 1,469.67	$ 1,036.51

RETIREMENT ANNUITIES

Current Age of Active Recipients

	Fiscal Year Ending June 30				
Age	2001	2000	1999	1998	1997
Under 51	10	21	18	35	56
51-55	927	681	628	529	445
56-60	2,334	1,917	1,690	1,555	1,368
61-65	4.967	4,845	4,528	4,345	3,845
66-70	6,019	5,963	5,888	5,833	5,807
71-75	5,851	5,853	5,958	6,052	5,981
76-80	5,008	4,996	4,897	4,821	4,708
81-85	3,367	3,376	3,400	3,346	3,349
86-89	1,610	1,562	1,502	1,463	1,380
Over 89	986	923	851	795	751
Total	31,079	30,137	29,360	28,774	27,690
Average age	71.98	72.29	72.45	72.56	72.77

RETIREMENT ANNUITIES

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

Fiscal Year Ending June 30	2001	2000	1999	1998	1997
Not Coordinated with Social Security	398.30	402.86	400.05	392.94	378.95
Coordinated with Social Security	296.47	267.00	263.90	253.08	228.55
Alternative Formula	345.20	347.01	347.51	346.37	347.12
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	389.50	370.51	377.58	376.69	371.85
Dept. of Corrections -Special Formula - Coordinated with Social Security	310.67	319.19	303.03	300.28	299.08
Air Pilots - Coordinated with Social Security		-	-	-	-
Court Reporters - Not Coordinated with Social Security	-	-	-	282.00	369.33
Court Reporters - Coordinated with Social Security	-	-	-	319.57	314.20
TOTAL AVERAGE	320.20	300.22	302.58	288.52	273.12

Annuitants by Benefit Range (Monthly) June 30, 2001

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	490	490	1.6	1.6
101-200	1,877	2,367	6.0	7.6
201-300	2,670	5,037	8.6	16.2
301-400	2,584	7,621	8.3	24.5
401-500	2,244	9,865	7.2	31.7
501-600	1,919	11,784	6.2	37.9
601-700	1,702	13,486	5.5	43.4
701-800	1,533	15,019	4.9	48.3
801-900	1,331	16,350	4.3	52.6
901-1000	1,088	17,438	3.5	56.1
1001-1100	963	18,401	3.1	59.2
1101-1200	888	19,289	2.9	62.1
1201-1300	839	20,128	2.7	64.8
1301-1400	831	20,959	2.7	67.5
1401-1500	719	21,678	2.3	69.8
1501-1600	664	22,342	2.1	71.9
1601-1700	584	22,926	1.9	73.8
1701-1800	596	23,522	1.9	75.7
1801-1900	544	24,066	1.8	77.5
1901-2000	513	24,579	1.7	79.2
2001-2100	467	25,046	1.5	80.7
2101-2200	402	25,448	1.3	82.0
2201-5000	5,409	30,857	17.4	99.4
5000- & over	222	31,079	0.6	100.0

Widow's and Survivors' by Benefit Range (Monthly) June 30, 2001

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	1,542	1,542	15.6	15.6
101-200	1,791	3,333	18.1	33.7
201-300	1,863	5,196	18.8	52.5
301-400	1,338	6,534	13.5	66.0
401-500	1,192	7,726	12.0	78.0
501-600	633	8,359	6.4	84.4
601-700	309	8,668	3.1	87.5
701-800	242	8,910	2.4	89.9
801-900	170	9,080	1.7	91.6
901-1000	174	9,254	1.8	93.4
1001-1100	143	9,397	1.4	94.8
1101-1200	101	9,498	1.0	95.8
1201-1300	82	9,580	0.8	96.6
1301-1400	66	9,646	0.7	97.3
1401-1500	47	9,693	0.5	97.8
1501-1600	32	9,725	0.3	98.1
1601-1700	39	9,764	0.4	98.5
1701-1800	21	9,785	0.2	98.7
1801-1900	31	9,816	0.3	99.0
1901-2000	20	9,836	0.2	99.2
2001-2100	15	9,851	0.2	99.4
2101-2200	13	9,864	0.1	99.5
2201-5000	31	9,895	0.5	100.0
5000- & over	0	9,895	0.0	100.0

Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 2001

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	26	26	1.2	1.2
101-200	73	99	3.3	4.5
201-300	141	240	6.4	10.9
301-400	204	444	9.3	20.2
401-500	195	639	8.9	29.1
501-600	151	790	6.9	36.0
601-700	103	893	4.7	40.7
701-800	79	972	3.6	44.3
801-900	66	1,038	3.0	47.3
901-1000	58	1,096	2.6	49.9
1001-1100	88	1,184	4.0	53.9
1101-1200	100	1,284	4.6	58.5
1201-1300	106	1,390	4.8	63.3
1301-1400	105	1,495	4.8	68.1
1401-1500	81	1,576	3.7	71.8
1501-1600	100	1,676	4.6	76.4
1601-1700	80	1,756	3.7	80.1
1701-1800	108	1,864	4.9	85.0
1801-1900	71	1,935	3.2	88.2
1901-2000	36	1,971	1.6	89.8
2001-2100	37	2,008	1.7	91.5
2101-2200	37	2,045	1.7	93.2
2201-5000	143	2,188	6.5	99.7
5000- & over	2	2,190	0.3	100.0

ACTIVE RETIREES BY STATE

Plan Summary and Legislative Section

Service and Refunds:
(l to r) seated: Rita Cunningham, Hope Schien.
standing: Joe Maggio, Tina Sibert, Charles Ketchum.

Field Services:
(l to r) seated: Vickie Haas, Irene Barber.
standing: Bill Hanney, John Sowinski, Fred Fliege.

SUMMARY OF RETIREMENT SYSTEM PLAN (As of June 30, 2001)

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:

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 and Department of Human Services, 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; when the member's age and service equal 85 years; between ages 55 and 60 with 25 to 30 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. The retirement benefit formula available to general state employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. Alternative formula employees have a formula of 2.5% for covered service and 3.0% for noncovered service.

The maximum retirement annuity payable is 75% of final average compensation for regular employees and 80% for alternative formula employees. 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 generally 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, from the deceased member's account. 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; 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. If the amount of benefit was increased because of eligible children, it is adjusted downward as these children's benefits are terminated due to 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; 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 in terest credited to the member's ac count;
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 & 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 dis ability began
4. attainment of age 65, if benefit com menced prior to the attainment of age 60
5. the fifth anniversary of the effective date of the benefit if the benefit com menced on or after the attainment of age 60
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 com menced prior to the attainment of age 60;
4. the fifth anniversary of the effective date of the benefit if the benefit com menced 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, if age 65, any 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 dis ability 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 com menced 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.

LEGISLATIVE AMENDMENTS

Amendments with an effective date during Fiscal Year 2001:

House Bill 1583 (P.A. 91-0887; Effective July 6, 2000)

•This bill contains several changes which affect all Illinois public pension funds, and some that only affect the System.

The general changes affecting all Illinois public pension funds are as follows:

•Section 1-116 (a-5), Federal Contribution and Benefit Limitations.

Adds the compliance language for Internal Revenue Code Section 415 to Article 1.

•Section 1-120, Payment to Trust.

Adds a new provision to Article 1 that allows the system to pay benefits for a minor (under 18 and unmarried) or disabled adult to a trustee of a trust created for the sole benefit of that person. The trustee must advise the system that the benefits will be held for the sole benefit of the person.

Legislative changes affecting the System are as follows:

•Section 14-118, Widow's Annuity - Conditions for Payment
•Section 14-120, Survivors' Annuity - Conditions for Payment. "One Year Marriage Requirement".

This change is identical for the widow and survivor benefit. It eliminates the one year marriage requirement at retirement or withdrawal for deaths occurring on or after July 6, 2000. The member or annuitant, as in prior law, must still be married one year prior to death.

•Section 14-120, Survivors' Annuity - Conditions for Payment
•Section 14-128, Occupational Death Benefit." Remarriage Before Age 55".

These changes are identical for the survivor annuity and occupational death benefit. This change eliminates the terminating provision due to remarriage before age 55 for marriages that occur on or after July 6, 2000, the effective date of the law. It does not reinstate benefits that were terminated due to remarriage before age 55 before July 6, 2000. The changes apply to all members and annuitants regardless of their date of withdrawal.

House Bill 1582 (P.A. 91-927; Effective December 14, 2000)

This bill contains the "Rule of 85" wherein an employee is eligible to retire when the employee's age plus service credit equal 85 years.

House Bill 250 (P.A. 92-0014; Effective June 28, 2001)

This bill changes the retirement formula for alternative formula employees to 2.5% for each year of coordinated service and 3.0% for each year of noncovered service.

The bill increases the maximum retirement annuity for alternative formula employees to 80% at the final salary.

The bill adds security employees of the Department of Human Services to the alternative retirement formula.

The bill allows for the transfer of the Department of Human Services Educators from the Teachers Retirement System to SERS.

NEW LEGISLATION

Amendments with an effective date subsequent to June 30, 2001, affecting the operation of the System:

House Bill 267 (P.A. 92-02-0257); Effective August 6, 2001.

This bill adds the state highway maintenance workers in the Department of Transportation and the Toll Highway Authority to the alternative formula.