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, 2002

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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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 20, 2002

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, 2002 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.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the report of the independent auditors.

The report consists of six sections:

1. **The Introductory Section** 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** 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** contains a summary of the System's investment management approach and selected summary tables, including investment performance;

4. **The Actuarial Section** contains an Actuary's Certification Letter and the results of the annual actuarial valuation;

5. **The Statistical Section** contains significant statistical data;

6. **The Plan Summary and Legislative Section** 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, 2002 are approximately $7.7 billion, and there are 81,680 active members.

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.

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, 2002, amounted to $14.3 billion. The unfunded accrued actuarial liability amounted to $6.6 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.

Letter of Transmittal

MAJOR EVENTS/ INITIATIVES

The System's major events/initiatives during the year ended June 30, 2002 included the implementation of 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) became law on August 6, 2001. The main provision of this bill extends 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 fiscal year 2002 included: 1. installation of a new general ledger; 2. a new billing system for payroll errors; 3. implementation of the changes resulting from the Economic Growth and Tax Relief Reconciliation Act of 2001; and 4. expansion of field services programs for our membership.

Projects for fiscal year 2003 will primarily involve the implementation of new legislation. HB 2671 (P.A. 92-0566) was signed into law by Governor Ryan on June 25, 2002, and provides for an Early Retirement Incentive (ERI) program for qualified state employees. The law allows a member to purchase up to five years of service and age enhancement. By participating in the ERI, members have two options:

1. If a member meets the ERI retirement eligibility requirement, they may retire by January 1, 2003, using the age and service enhancement.
2. If a member does not meet the ERI requirements at this time, (s)he may purchase ERI service, terminate employment by December 31, 2002, and receive retirement benefits when they become eligible.

Letter of Transmittal

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 Gabriel, Roeder, Smith & Co., 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 McGladrey & Pullen, LLP, under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a one year compliance audit was also performed by the auditors.

The purpose of the compliance audit was to determine whether the System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Employees' Retirement System of Illinois for its comprehensive annual financial report for the fiscal year ended June 30, 2001.

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 sixteen consecutive years (fiscal years ended June 30, 1986 through June 30, 2001).

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

Administration

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).

Consultants

Illinois State Board of Investment

Internal and External Investment Managers

Medical Consultants

Actuary

Certified Public Accountants

Staff

Executive Secretary
Michael L. Mory

Internal Auditor
Terry E. Radliff

Associate Executive Secretary
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Accounting and Social Security Divisions
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Administrative Services Division
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Data Processing Division
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Joseph S. Maggio

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, 2001

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

FINANCIAL SECTION

Independent Auditor's Report

McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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 statement of plan net assets of the State Employees' Retirement System of Illinois, (the System), as of June 30, 2002 and the related statement of changes in plan net assets for the year 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 audit. The financial statements of the State Employees' Retirement System of Illinois for the year ended June 30, 2001 were audited by other auditors whose report, dated October 25, 2001, expressed an unqualified opinion on those statements.

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

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the plan net assets of the State Employees' Retirement System of Illinois as of June 30, 2002, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 13 and 14 and the schedules of funding progress and employer contributions on page 25 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 11 to the financial statements, the System adopted GASB Statements No. 34, 37 and 38, effective July 1, 2001.

In accordance with Government Auditing Standards, we will also issue, under separate cover, our report dated November 20, 2002 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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 audit.

McGladrey & Pullen, LLP is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms.

Independent Auditor's Report

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the System for the year ended June 30, 2002. The introductory section, supplementary financial information on page 26, investment section, actuarial section, statistical section and plan summary and legislative section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplementary financial information on page 26 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The supplementary financial information on page 26 for the year ended June 30, 2001 was audited by other auditors whose report, dated October 25, 2001, expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial, statistical and plan summary and legislative sections listed in the table of contents were not subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2002 and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Chicago, Illinois
November 20, 2002

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Management's Discussion & Analysis

This section presents management's discussion and analysis of the financial position and performance of the State Employees' Retirement Systems of Illinois (System) for the year ended June 30, 2002. It is presented as a narrative overview and analysis. Readers are encouraged to consider the information presented here in conjunction with the Letter of Transmittal included in the Introductory Section, of the Comprehensive Annual Financial Report.

The System is a defined benefit, single-employer public employee retirement system. It provides services to over 80,000 active state employees and nearly 45,000 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's financial reporting which is comprised of the following components:

(1) Basic Financial Statements. For the fiscal year ended June 30, 2002, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2002. This financial information also summarizes the changes in net assets held in trust for pension benefits for the year then ended.

(2) Notes to the Financial Statements. The notes to the Financial Statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.

(3) Required Supplementary Information. The required supplementary information consists of two schedules and related notes concerning actuarial information, funded status and required contributions for the System.

(4) Other Supplementary Schedules. Other schedules include more detailed information pertaining to the System, including schedules of revenues by source, cash receipts and disbursements, and payments to consultants.

FINANCIAL HIGHLIGHTS

- The Systems' net assets decreased by $602.8 million, or 7.3% during fiscal year 2002. The decrease was primarily due to a downturn in equity markets and increasing benefit payments.
- The System was actuarially funded at 53.7% as of June 30, 2002 a decrease from 65.8% as of June 30, 2001.
- The System's rate of return from investments was a negative 6.9% compared to prior year investment return of negative 7.1%.

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were approximately $196.9 million and $173.8 million for the years ended June 30, 2002 and 2001, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to approximately

This financial report is designed to provide a general overview of the State Employees' Retirement System's finances for all those with an interest in the System's finances.

PLAN NET ASSETS

The Statements of Plan Net Assets are presented for the System as of June 30, 2002 and 2001. These financial statements reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.

Condensed Statements of Plan Net Assets
(in millions)

			Increase/(Decrease)	
	2002	**2001**	**Dollar Change**	**Percent Change**
Cash and cash equivalents	$ 97.6	$ 103.2	$ (5.6)	(5.4) %
Receivables	34.5	30.4	4.1	13.5
Investments, at fair value	7,543.8	8,145.0	(601.2)	(7.4)
Fixed assets, net	3.2	3.3	(0.1)	3.0
Total assets	7,679.1	8,281.9	(602.8)	(7.3)
Liabilities	5.2	5.2	-	-
Total plan net assets	$ 7,673.9	$ 8,276.7	$ (602.8)	(7.3) %

Management's Discussion & Analysis

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Employees' Retirement System of Illinois, Accounting Division, 2101 S. Veterans Parkway, P. O. Box 19255, Springfield, Illinois 62794

$386.1million in 2002 from approximately $366.0 million in 2001. The increase was based on a scheduled rate increase, along with higher employee wages.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2002 and 2001, the System paid out approximately $632.1 million and $554.6 million, respectively, in benefits and refunds, an increase of approximately 14.0% from 2001.Those higher payments were mainly due to an increase in the number of retirees and higher employee salaries on which the payments are based. The administrative costs of the System represented approximately 1% of total deductions in both 2002 and 2001.

FUNDED RATIO

The funded ratio of the plan measures the ratio of net assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2002 decreased to 53.7% from 65.8% at June 30, 2001. The amount by which actuarially determined liabilities exceeded net assets was $6.6 billion at June 30, 2002 compared to $4.3 billion at June 30, 2001. Several reasons for the decrease were weak financial markets in 2001 and 2002, and an increase in actuarial liabilities due to passage of several legislative initiatives by the General Assembly.

A summary of the legislation passed in FY 2002 is as follows:

- House Bill 0267 (Public Act 92-0257) adds state highway maintenance workers employed by the Illinois Department of Transportation, and the Illinois State Toll Highway Authority to the alternative formula. There were approximately 2,800 employees affected by the new law.
- House Bill 2671 (Public Act 92-0566) allows for the purchase of five years of service credit and age eligibility as part of an Early Retirement Incentive (ERI) program. It is estimated that approximately 7,000 state employees will take advantage of this ERI program.

CHANGES IN PLAN NET ASSETS

The Statements of Changes in Plan Net Assets are presented for the years ended June 30, 2002 and 2001. These financial statements reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries.

Condensed Statements of Changes in Plan Net Assets
(In millions)

	2002	2001	Increase/(Decrease) Dollar Change	Increase/(Decrease) Percent Change
Additions				
Participant contributions	$ 196.9	$ 173.8	$ 23.1	13.3 %
Employer contributions	386.1	366.0	20.1	5.5
Net investment (loss)	(546.1)	(612.3)	66.2	10.8
Total additions	36.9	(72.5)	109.4	150.9
Deductions				
Benefits	617.9	537.6	80.3	14.9
Refunds	14.2	17.0	(2.8)	(16.5)
Administrative expenses	7.6	7.1	.5	7.0
Total deductions	639.7	561.7	78.0	13.9
Net (decrease) in plan net assets	$(602.8)	$(634.2)	$ 31.4	5.0 %

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the Judges' Retirement System and the General Assembly Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage.

Investment gains or losses are reported in the Statement of Changes in Net Assets of each retirement system. The rate of return on investments is, therefore, the same for each of the systems.

Net investment losses totaled approximately $546.1 million during 2002, versus net investment losses of $612.3 million in 2001, resulting in negative returns of (6.9)% and (7.1)%, respectively. For the five year period ended June 30, 2002, the System earned a compounded rate of return of 5.2%. The decrease in investment income in 2002 and 2001 was the result of the overall downturn of global financial markets.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2002 and 2001

	2002	2001
Assets		
Cash	$ 97,562,972	$ 103,210,369
Receivables:		
Contributions:		
Participants	17,299,333	13,212,679
Employing state agencies	13,608,794	13,978,940
Other accounts	3,641,578	3,157,976
Total Receivables	34,549,705	30,349,595
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	7,543,749,485	8,144,981,332
Property and equipment, net of accumulated depreciation	3,227,188	3,310,764
Total Assets	7,679,089,350	8,281,852,060
Liabilities		
Benefits payable	3,246,172	3,203,438
Refunds payable	108,818	239,145
Administrative expenses payable	1,455,148	1,078,771
Participants' deferred service credit accounts	386,521	669,354
Total Liabilities	5,196,659	5,190,708
Net assets held in trust for pension benefits	$ 7,673,892,691	$ 8,276,661,352

(A schedule of funding progress is presented on page 25.)

See accompanying notes to financial statements.

Financial Statements

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2002 and 2001

	2002	2001
Additions:		
Contributions:		
Participants	$ 196,915,424	$ 173,778,661
Employing State agencies and appropriations	386,116,583	366,028,937
Total Contributions	583,032,007	539,807,598
Investment income:		
Net investment income	187,345,527	215,621,397
Interest earned on cash balances	3,120,449	6,370,500
Net (depreciation) in fair value of investments	(736,577,374)	(834,294,549)
Total net investment (loss)	(546,111,398)	(612,302,652)
Total Additions	36,920,609	(72,495,054)
Deductions:		
Benefits:		
Retirement annuities	522,544,406	446,598,967
Survivors' annuities	47,794,085	44,958,695
Disability benefits	33,161,126	32,604,190
Lump-sum death benefits	14,418,870	13,429,872
Total Benefits	617,918,487	537,591,724
Refunds *(including transfers to reciprocating systems)*	14,147,218	17,012,242
Administrative	7,623,565	7,140,280
Total Deductions	639,689,270	561,744,246
Net (Decrease)	(602,768,661)	(634,239,300)
Net assets held in trust for pension benefits:		
Beginning of year	8,276,661,352	8,910,900,652
End of year	$ 7,673,892,691	$ 8,276,661,352

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Financial Statements

Notes to Financial Statements June 30, 2002 and 2001

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 2002 and 2001 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, 2002 and 2001, the number of participating state agencies, boards and commissions totaled:

	2002	2001
State agencies	38	38
State boards and commissions	45	45
TOTAL	83	83

At June 30, 2002 and 2001, SERS membership consisted of:

	2002	2001
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	32,424	31,079
Survivors' annuities	9,981	9,895
Disability benefits	2,152	2,190
	44,557	43,164
Inactive employees entitled to benefits, but not yet receiving them	4,215	4,110
TOTAL	48,772	47,274
Current Employees:		
Vested: Coordinated with Social Security	50,704	50,642
Noncoordinated	2,696	2,998
Nonvested: Coordinated with Social Security	27,314	26,315
Noncoordinated	966	924
TOTAL	81,680	80,879

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System.

Financial Statements

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 6 1/2% or 10 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.

Financial Statements

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, 2002 and 2001, the ISBI had outstanding loaned investment securities having market values of $671,816,775 and $1,011,910,854, respectively; against which it had received collateral with values of $692,016,339 and $1,047,527,926, respectively.

The ISBI's international managers invest in derivative securities. During the year, the ISBI's derivative investments included forward foreign currency contracts, futures, and options.

Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. The remaining derivative securities are used to improve 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, 2002. 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, 2002. 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, 2002

	Fair Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 1,057,628,472	$1,057,628,472	$ –
Foreign Obligations	84,261,722	84,261,722	–
Corporate Obligations	807,243,888	807,243,888	–
Convertible Bonds	159,060	159,060	–
Common Stock & Equity Funds	3,573,004,993	1,890,326,983	1,682,678,010
Convertible Preferred Stock	75,520	75,520	–
Preferred Stock	8,051	8,051	–
Foreign Equity Securities	1,231,600,202	1,200,563,087	31,037,115
Real Estate Funds	417,054,183	–	417,054,183
Alternative Investments	414,830,358	–	414,830,358
Money Market Instruments	345,095,683	–	345,095,683
Forward Foreign Exchange Contracts	511,922	511,922	–
Total Investments	$ 7,931,474,054	$ 5,040,778,705	$ 2,890,695,349

Financial Statements

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 performed as of June 30, 2002. These changes had the effect of increasing the actuarial liability by approximately $168.1 million.

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 2002 and 2001 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 2002 and 2001 were 10.4% and 10.2%, respectively (including the employer contribution from the State Pension Fund).

5. Administrative Expenses & Other Post-Employment Benefits

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

A summary of the administrative expenses of the System for fiscal years 2002 and 2001 are as follows:

	2002	2001
Personal Services	$ 3,199,353	$ 3,021,514
Employer Retirement Pickup	127,729	120,629
Retirement Contributions	321,724	300,747
Social Security Contributions	237,594	224,626
Group Insurance	555,940	472,988
Contractual Services	1,175,386	1,222,653
Travel	51,444	54,778
Commodities	24,159	25,749
Printing	82,565	46,488
Electronic Data Processing	1,401,642	1,250,759
Telecommunications	61,534	62,249
Automotive	12,480	13,181
Depreciation	265,040	219,325
Other	106,975	104,594
Total	$ 7,623,565	$ 7,140,280

Financial Statements

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, 2002. 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 2002 and 2001 is as follows:

2002

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ –	$ –	$ 655,241
Land improvements	245,351	–	–	245,351
Building	3,280,549	7,478	–	3,288,027
Equipment	1,990,110	174,398	(111,721)	2,052,787
TOTAL	6,171,251	181,876	(111,721)	6,241,406
Accumulated depreciation	(2,860,487)	(265,040)	111,309	(3,014,218)
Property and equipment, net	$ 3,310,764	$ (83,164)	$ (412)	$ 3,227,188

2001

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ –	$ –	$ 655,241
Land improvements	222,835	22,516	–	245,351
Building	3,305,856	19,728	(45,035)	3,280,549
Equipment	1,902,586	153,585	(66,061)	1,990,110
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

A retroactive reclassification was made to the previously reported balances between Land Improvements and Equipment in the amount of $714 to more accurately reflect the purpose of the expenditure.

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, 2002 and 2001 totaled $1,063,280 and $961,929, 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,

c. Other future benefits: Accounts for all assets not otherwise specifically provided for in items (a) and (b) above.

State Employees' Retirement System
Statements of Changes in Reserve Balances
Years ended June 30, 2002 and 2001

	Participants' Contributions	Interest Accumulations	Other Future Benefits	Total Reserve Balances
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 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
Add (deduct):				
Excess revenue over expenses	167,147,158	–	(769,915,819)	(602,768,661)
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(96,549,662)	–	96,549,662	–
Interest credited to members' accounts	–	57,610,343	(57,610,343)	–
Balance at June 30, 2002	$ 1,650,376,966	$ 1,124,923,885	$ 4,898,591,840	$ 7,673,892,691

Financial Statements

9. New Legislation

In June 2002, Governor George Ryan signed House Bill 2671 into law (P.A. 92-0566). This bill provides for an Early Retirement Incentive (ERI) program for members of the System. Under certain circumstances, a member would be allowed to establish up to five years of creditable service by making payment of the amounts prescribed in the statute.

Approximately 21,000 state employees will be eligible for the ERI program. While it is anticipated that 30% of those eligible to participate will take advantage of the ERI program, the actual cost to the System cannot be determined until the option period closes.

10. 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.

Administrative expenses for the Social Security Division are appropriated annually by the State Legislature.

	2002	2001
Personal services	$ 40,465	$ 38,460
Employer retirement pickup	1,619	1,538
Retirement contributions	4,063	3,825
Social Security contributions	3,003	2,857
Contractual services	25,070	24,700
Travel	2,298	2,166
Commodities	400	377
Electronic data processing	700	700
Telecommunications	351	340
Total	$ 77,969	$ 74,963

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.

11. New Accounting Pronouncements

In June, 1999 the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). In June 2001, the GASB issued Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, which amended certain provisions of GASB 34. In June, 2001 the GASB also issued GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which modified, established, and rescinded certain financial statement disclosure requirements.

Effective July 1, 2001, the System adopted GASB Statements 34, 37, and 38 which had no impact on the System's basic financial statements or its net assets. The adoption of GASB 34 required the System to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements.

12. 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, 2002, the ISBI Commingled Fund had incurred an approximate $880 million (11.1%) decrease in its investment portfolio due to declines in the domestic and international equity markets.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Covered Payroll ([b-a]/c)
6/30/97	$ 6,048,027,225	$ 7,548,207,778	$ 1,500,180,553	80.1%	$ 3,003,628,000	49.9%
6/30/98	7,064,494,830	9,341,897,641	2,277,402,811	75.6	3,096,087,000	73.6
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
6/30/02	7,673,892,691	14,291,044,457	6,617,151,766	53.7	3,713,020,000	178.2

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25 (1)	Percentage Contributed	(A) Annual Required Payroll Contribution per State Statute(2)	(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
2002	306,509,801	126.0	372,787,208	10,290,000	383,077,208	100

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

(2) 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, 2002
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 – 43 years, closed

Asset valuation method – Fair Value
Actuarial assumptions:

Investment rate of return – 8.5 percent
Projected salary increases – 1.0 to 7.0 percent, based upon member's age
Assumed inflation rate – 3.0 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

	2002	2001
Contributions:		
Participants	$ 184,600,889	$ 166,896,290
Repayments of contributions refunded	2,233,204	1,417,705
Interest received from participants	10,081,331	5,464,666
Total participants contributions	196,915,424	173,778,661
Employing state agencies	375,826,583	355,538,937
State Pension Fund appropriation	10,290,000	10,490,000
Total state contributions and appropriations	386,116,583	366,028,937
Investments:		
Net investments income	187,345,527	215,621,397
Interest earned on cash balances	3,120,449	6,370,500
Net appreciation in fair value of investments	(736,577,374)	(834,294,549)
Total investment revenue	(546,111,398)	(612,302,652)
TOTAL REVENUE	$ 36,920,609	$ (72,495,054)

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

	2002	2001
Cash balance, beginning of year	$ 103,210,369	$ 97,638,073
Receipts:		
Participant contributions	182,952,090	163,963,803
Employer contributions	374,758,690	353,776,553
State Pension Fund contribution	10,290,000	10,490,000
Transfers from Illinois State Board of Investment	52,000,000	23,000,000
Interest income on cash balance	3,317,472	6,492,504
Claims receivable payments	4,169,676	3,445,398
Installment payments - prior service credit	7,840,672	5,920,084
Other	125,416	94,109
Total cash receipts	635,454,016	567,182,451
Disbursements:		
Annuity payments:		
Retirement annuities	522,961,439	446,803,938
Widow's annuities	1,774,637	1,852,856
Survivors' annuities	46,148,441	43,324,870
Death benefits	14,335,805	13,420,182
Disability benefits	33,052,205	31,510,875
Refunds	15,529,739	17,536,192
Administrative expenses	7,245,332	7,161,242
Transfers to reciprocal systems	53,815	–
Total cash disbursements	641,101,413	561,610,155
Cash balance, end of year	$ 97,562,972	$ 103,210,369

SCHEDULE OF PAYMENTS TO CONSULTANTS AND ADVISORS

	2002	2001
Legal Fees	$ 250,273	$ 229,436
Actuarial Costs	72,708	119,032
Audit Expense	46,352	45,746
Physicians and Disability Inspections	7,140	10,013
Financial Planning	33,671	34,512
Tax Advice and Consultation	–	5,000
	$ 410,144	$ 443,739

INVESTMENT SECTION

Investment Section

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, 2002, total net assets under management valued at market, amounted to $7.928 billion. Of the total market value of assets under management, $7.544 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 that is reviewed and approved at least 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 that is at least equal to the assumed actuarial interest rate, currently 8.5% per year, and at least equal to the return of the policy-weighted benchmark, a theoretical "indexed" implementation of 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. During fiscal 2002, the ISBI Board reviewed the strategic asset allocation policy, and effective April 1, 2002, made certain changes to the policy. The ISBI Board reduced its allocation to international equities, with increases to U.S. equities, fixed income, and real estate. The policy asset allocation at June 30, 2002 was 46% U.S. equities, 15% international equities, 23% fixed income, 8% real estate, and 8% alternative investments.

The actual asset allocation of the portfolio at June 30, 2002, as relative to the policy target, is set forth in the table below. Fixed income was modestly overweighted relative to the policy target, to compensate for an underweight to private market categories (alternative investments and real estate). As the Board fills the alternatives and real estate categories, the overweight categories will be reduced accordingly.

	Actual Asset Allocation	Policy Target
U.S. Equities	46%	46%
International Equities	16	15
Fixed Income	27	23
Real Estate	5	8
Alternative Investments	5	8
Cash	1	–
Total	100%	100%

Investment Results

World equity markets continued their turbulent corrections during fiscal 2002. The ISBI total fund was down 6.9% for fiscal 2002, net of expenses. This loss follows on a negative result for fiscal 2001, and reflects the ongoing negative stock market environment, both in the U.S. and abroad. While the 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 the ten-year period ended June 30, 2002, the fund has beat the actuarial hurdle, with an average annual return of 9.1%.

U.S. Equities

During fiscal 2002, the events of September 11, coupled with growing doubts about the integrity of corporate financial statements, produced a volatile and ultimately declining stock market. Initially hard hit following the September terrorist attack, the stock market staged a strong recovery through March 2002.

Investment Section

However, renewed fears about accounting fraud, coupled with escalating issues in the Middle East, caused the bear market to resume. For the twelve months ended June 30, 2002, the Russell 3000 Index, a broad representation of the U.S. market, lost 17.2%. Continuing the trend of the prior year, value stocks exceeded growth stocks, with the Russell 3000 Value Index losing 7.8%, compared to the Russell 3000 Growth Index loss of 26.4%. Small capitalization stocks continued a three-year streak of outperforming large capitalization stocks, with the Russell 2000 Index losing 8.6%, vs. an 18.0% loss for the S&P 500.

The return on ISBI's U.S. equity portfolio was down 14.6% for the fiscal year, over 250 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.

The ten-year average annual return of 11.4% shows that even considering the losses in fiscal 2002 and fiscal 2001, the U.S. stock market has rewarded the long-term investor.

International Equities

While foreign markets succumbed to some of the anxieties besetting U.S. equities, on the whole they performed somewhat better. The Morgan Stanley All-Country Free ex US ("MS-AC Free ex US") Index, gave up 8.2% for the fiscal year, about nine percentage points ahead of the U.S. return. As in the U.S., value stocks held up better than growth stocks.

The return on ISBI's international equity portfolio, down 6.3%, outperformed the benchmark by almost 200 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. The returns for longer time periods demonstrate that the ISBI has met these goals for most time periods.

Fixed Income

During fiscal 2002, earnings fears that hurt the stock market caused the opposite reaction in the bond market, with U.S. Treasuries leading the rally. Continuing disclosures of substantial earnings revisions dampened corporate bond returns, with high yield bonds suffering the most. The Lehman U.S. Universal Bond Index returned 7.7% for the year.

The ISBI fixed income portfolio lagged the benchmark for the fiscal year, earning 5.5%. The cause of this under performance is chiefly because of an above benchmark weighting to corporate issues relative to governments. While this strategy has achieved good long-term results, it has not worked well in the current environment where any credit risk is punished.

U.S. EQUITIES

	1 Year	3 Years	5 Years
ISBI	(14.6)%	(5.4)%	4.8%
S&P 500 Stock Index	(18.0)	(9.2)	3.7
Russell 3000 Index	(17.2)	(7.9)	3.8

The ISBI has traditionally managed substantially all fixed income assets internally. The ISBI is in the process of transitioning 2/3 of the fixed income assets to three diversified external managers. The remaining internal portfolio will be a risk-constrained investment grade portfolio. The ISBI Board believes that the new structure will minimize the negative surprises such as those experienced during fiscal 2002, and result in more predictable fixed income returns.

FIXED INCOME

	1 Year	3 Years	5 Years
ISBI	5.5%	6.3%	6.6%
Lehman U.S. Univ. Bond Index	7.7	7.7	7.2

Real Estate

Real estate provided a safe haven from the stock market during fiscal 2002, with the NCREIF Real Estate Index, a measure of core, operating, non-leveraged real estate, earning 5.9%. The ISBI's real estate portfolio, powered by realizations and mark-to-markets in several opportunity funds, earned a more substantial 11.5%.

INTERNATIONAL EQUITIES

	1 Year	3 Years	5 Years
ISBI	(6.3)%	(4.5)%	0.3%
MS-AC Free ex US Index	(8.2)	(6.2)	(1.7)

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, over the last two years the ISBI Board has increased the real estate strategic allocation from 5% to 8% of the total fund. At the new allocation level, the ISBI Board felt it was

Investment Section

appropriate to target 50% of its real estate to core, income producing real estate, with the balance in higher return strategies.

The ISBI Board completed searches in fiscal 2002, for funding in early fiscal 2003, which should move the portfolio substantially closer to this goal. All of the 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	1 Year	3 Years	5 Years
ISBI	11.5%	7.6%	10.6%
NCREIF Real Estate Index	5.9	10.1	12.5

Alternative Investments

As in the stock market, alternative investments continued to experience fallout from investors' disillusionment with technology. Overall, the ISBI's alternative investments portfolio lost 18.4% for the fiscal year, in line with results in the public stock market. The alternative investments portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts, and other private placement activities.

In spite of the setbacks of the last three years, long-term results show that alternative investments remain the best performing asset class for the five and ten-year periods ended June 30.

Management Expenses

Total ISBI expenses for the fiscal year were $18.6 million, compared to $20.6 million for fiscal 2001. The resulting expense ratio (expenses divided by total net assets) was 0.23% in fiscal 2002, compared to 0.24% in fiscal 2001.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 2002		June 30, 2001	
Investments, at fair value				
U.S. Government and Agency Obligations	$ 1,057,628,472	13.34%	$ 1,134,638,341	13.22%
Foreign Obligations	84,261,722	1.06	108,110,344	1.26
Corporate Obligations	807,243,888	10.18	799,240,560	9.31
Convertible Bonds	159,060	0.00	55,706	0.00
Common Stock & Equity Funds	3,573,004,993	45.08	3,777,918,575	44.04
Convertible Preferred Stock	75,520	0.00	3,375,353	0.04
Preferred Stock	8,051	0.00	5,742,468	0.07
Foreign Equity Securities	1,231,600,202	15.53	1,594,371,444	18.59
Real Estate Funds	417,054,183	5.26	349,790,999	4.08
Alternative Investments	414,830,358	5.23	494,792,298	5.77
Money Market Instruments	345,095,683	4.35	345,601,984	4.03
Forward Foreign Exchange Contracts	511,922	0.01	(52,875)	0.00
	7,931,474,054	100.04	8,613,585,197	100.41
Other Assets, Less Liabilities	(3,145,553)	(.04)	(35,503,230)	(0.41)
Net Assets, at Fair Value	$ 7,928,328,501	100.0%	$ 8,578,081,967	100.0%

ANALYSIS OF INVESTMENT PERFORMANCE[1]

	2002	2001	2000	1999	1998
Total Return* - Past 3 years		(1.1)%			
Total Return* - Past 5 years			5.2%		
Total Return* - year by year	(6.9)%	(7.1)%	11.8%	12.9%	18.1%
Actuarial Assumed Rate of Return			8.5%		8.0%
Average Net Income Yield*	2.4%	2.6%	2.4%	2.8%	3.4%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	5.5%	9.5%	4.0%	3.4%	11.1%
Comparison index:					
Lehman U.S. Universal Bond Index	7.7%	10.8%	4.8%	2.7%	10.1%
Comparative rates of return on equities					
Domestic equities - ISBI	(14.6)%	(10.3)%	10.3%	17.3%	27.6%
Comparison index:					
S&P 500	(18.0)%	(14.8)%	7.3%	22.7%	30.2%

[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.

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ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations for fiscal years 2002 and 2001:

	2002	2001	Increase/(Decrease) Amount	Percentage
Balance at beginning of year, at fair value	$ 8,144,981,332	$ 8,786,654,484	$ (641,673,152)	(7.3)%
Cash transferred to ISBI	(52,000,000)	(23,000,000)	(29,000,000)	(126.1)
Net ISBI investments revenue:				
ISBI Commingled Fund income	$ 205,029,989	$ 235,164,552	$ (30,134,563)	(12.8)
Less ISBI Expenses	(17,684,462)	(19,543,155)	1,858,693	9.5
Net ISBI investments income	$ 187,345,527	$ 215,621,397	$ (28,275,870)	(13.1)
Net appreciation in fair value of ISBI investments	(736,577,374)	(834,294,549)	97,717,175	11.7
Net ISBI investments revenue	$ (549,231,847)	$ (618,673,152)	$ 69,441,305	11.2
Balance at end of year, at fair value	$ 7,543,749,485	$ 8,144,981,332	$ (601,231,847)	(7.4)%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2002 was $3,120,449 compared to $6,370,500 during FY 2001.

ACTUARIAL SECTION

Actuary's Certification Letter

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
20 North Clark Street • Suite 1100 • Chicago, Illinois 60602 • 312-456-9800 • fax 312-456-9801

October 16, 2002

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

At your request, we have performed an actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois ("SERS") as of June 30, 2002. This valuation has been performed to measure the funding status of the Fund and determine the employer contribution rate for the year beginning July 1, 2003 and ending June 20, 2004. In addition, it includes disclosure information required under GASB Statement No. 25 and Statement No. 27.

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 House Bill 110. A level contribution rate is determined for fiscal year 2010 through 2045. For fiscal year 2004 an additional $70,000,000 is required, based on HB 2671, as initial funding for the Early Retirement Incentive (ERI). The required contribution rates and amounts for fiscal year 2004 are shown below.

	Preliminary	**Net***	**Total****
Required Rate	11.836%	11.560%	13.439%
Required Contribution	$440,962,000	$430,672,000	$500,672,000

* *This value reflects the $10,290,000 received from the unclaimed property fund for fiscal year 2002.*

** *This value reflects the additional $70,000,000 that is required per HB2671 as initial funding of the ERI.*

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 requirements of GASB Statement No. 25.

For purposes of determining contribution rates, the market value of assets as reported by the Illinois State Board of Investment is used for the 2002 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

Board of Trustees and Executive Secretary
October 16, 2002
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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.

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. All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board.

We certify that the information presented herein is accurate and fairly portrays the actuarial position of SERS as of June 30, 2002. 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.

Gabriel, Roeder, Smith & Company

By: Michael R K

Michael R. Kivi, FSA, EA, MAAA
Senior Consultant

Actuarial Section

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
2003	10.6%	2007	11.4
2004	10.8	2008	11.6
2005	11.0	2009	11.8
2006	11.2		

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

Actuarial Section

For fiscal years 2002 and 2001, 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-02 and FY-01 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; all other assumptions were adopted June 30, 2002.

Mortality: 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

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

Age	Males & Females	Components Merit	Components Inflation
20-24	10.0%	7.0%	3.0%
25-29	8.5	5.5	3.0
30-34	7.0	4.0	3.0
35-39	6.0	3.0	3.0
40-44	5.5	2.5	3.0
45-49	5.0	2.0	3.0
50-54	4.5	1.5	3.0
55-59	4.3	1.3	3.0
60-64	4.0	1.0	3.0
65-69	4.0	1.0	3.0

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

SELECT WITHDRAWAL RATE

Years of Service	General Employees Male	General Employees Females	Alternative Formula Employees Males	Alternative Formula Employees Females
0	.1600	.1700	.0770	.0900
1	.1100	.1200	.0650	.0700
2	.0900	.0950	.0450	.0500
3	.0700	.0850	.0450	.0500
4	.0600	.0600	.0350	.0500

ULTIMATE WITHDRAWAL AGE

Age	General Employees Male	General Employees Females	Alternative Formula Employees Males	Alternative Formula Employees Females
20-24	.0600	.0600	.0350	.0500
25-29	.0600	.0600	.0350	.0500
30-34	.0580	.0600	.0270	.0350
35-39	.0350	.0420	.0175	.0280
40-44	.0260	.0260	.0130	.0180
45-49	.0220	.0220	.0125	.0170
50-59	.0180	.0220	.0125	.0160
60+	.0160	.0220	.0090	.0160

Actuarial Section

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

Age	General Employees*		Alternative Formula Employees**	
	Male	Females	Males	Females
50-54	12.5%	12.5%	10.0%	10.0%
55-59	12.5	12.5	15.0	15.0
60	15.0	15.0	20.0	20.0
61	12.5	15.0	21.0	22.0
62	20.0	20.0	24.0	24.0
63	20.0	20.0	26.0	26.0
64	17.5	20.0	28.0	28.0
65	25.0	25.0	30.0	30.0
66-67	25.0	20.0	30.0	30.0
68-69	20.0	20.0	30.0	30.0
70	100.0	100.0	100.0	100.0

** It is assumed that 4.0% of General Formula employees between the ages of 55 to 59 will retire.*

*** 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 five year period ended June 30, 2002.

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

VALUATION RESULTS

	June 30, 2002	June 30, 2001
Actuarial Liability		
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$ 6,078,225,348	$ 5,103,135,214
Survivor Annuities	453,396,672	438,160,416
Disability Annuities	243,586,342	199,065,488
Deferred:		
Retirement Annuities	5,317,788	5,675,601
Survivor Annuities	8,783,604	7,188,586
TOTAL	$ 6,789,309,754	$ 5,753,225,305
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	245,033,912	237,749,098
Eligible for Return of Contributions Only	19,374,550	15,225,163
TOTAL	$ 264,408,462	$ 252,974,261
For Active Members	$ 7,237,326,241	$ 6,566,040,579
Actuarial Present Value of Credited Projected Benefits	$ 14,291,044,457	$ 12,572,240,145
Assets, Fair Value	7,673,892,691	8,276,661,352
Unfunded Actuarial Present Value of Credited Projected Benefits	$ 6,617,151,766	$ 4,295,578,793

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.

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)
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
2002	1,650,377	6,789,310	5,851,357	7,673,893	100.0	88.7	0.0

* 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
6/30/93	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
6/30/02	81,680	3,713,020,000	45,458	3.1

Actuarial Section

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
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
2002	14,291,044	7,673,893	53.7	6,617,151	3,713,020	178.2

* 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
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
2002	31,079	2,673	(1,328)	32,424

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO & REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
2002	9,895	675	(589)	9,981

SCHEDULE OF DISABILITY RECIPIENTS ADDED TO & REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
2002	2,190	2,046	(2,084)	2,152

Actuarial Section

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-02	FY-01
Unfunded Liability, Beginning of Fiscal Year	$ 4,295,578,793	$ 2,002,087,260
Contributions Due		
Interest on the Unfunded Liability	365,124,197	170,177,417
Participants (includes Repayment of Refunds)	196,915,424	173,778,661
Total Normal Cost	214,977,994	174,429,824
Interest on Normal Cost	17,148,496	14,497,080
Total Due	$ 794,166,111	$ 532,882,982
Contributions Paid		
Participants (includes Repayment of Refunds)	$ 196,915,424	$ 173,778,661
Employing State Agencies and Appropriations	386,116,583	366,028,937
Interest on Contributions	24,273,566	22,473,989
Total Paid	$ 607,305,573	$ 562,281,587
Increase(Decrease) in the Unfunded Liability	$ 186,860,538	$ (29,398,605)
Actuarial (Gains) Losses		
a. Incidence of Disability	$ 7,000,000	$ 12,000,000
b. In-Service Mortality	4,000,000	4,000,000
c. Retiree Mortality	59,000,000	(8,000,000)
d. Disabled Mortality	55,000,000	(4,000,000)
e. Termination of Employment	325,000,000	228,000,000
f. Salary Increases	52,000,000	(8,000,000)
g. Investment Income	1,247,268,792	1,368,815,911
h. Other	46,199,643	77,964,003
Total Actuarial Loss	$ 1,795,468,435	$ 1,670,779,914
Non-recurring items Losses:		
Legislative changes	$ 171,100,000	$ 652,110,224
Impact of new assumptions	168,144,000	–
Total non-recurring items	$ 339,244,000	652,110,224
Total Increase in Actuarial Liability	$ 2,321,572,973	$ 2,293,491,533
Unfunded Liability, End of Fiscal Year	$ 6,617,151,766	$ 4,295,578,793

STATISTICAL SECTION

Statistical Section

ASSET BALANCES

FY Ended June 30	Cash	Receivables	Investments*	Fixed Assets, Net of Accumulated Depreciation	Total
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
2002	97,562,972	34,549,705	7,543,749,485	3,227,188	7,679,089,350

* *Investments are reported at fair value for fiscal years 1996 - 2002. 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
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
2002	5,196,659	1,650,376,966	1,124,923,885	4,898,591,840	7,673,892,691	7,679,089,350

* *The Reserve for Future Operations reflects investments reported at fair value for fiscal years 1996 - 2002. 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/(Loss)*	Total
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)
2002	196,915,424	386,116,583	(546,111,398)	36,920,609

* *The Investment Income/(Loss) includes both realized and unrealized gains and losses on investments for fiscal years 1996 - 2002. For all other fiscal years, the Investment Income/(Loss) 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
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
2002	617,918,487	14,147,218	7,623,565	639,689,270

BENEFIT EXPENSES BY TYPE

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
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
2002	522,544,406	47,794,085	33,161,126	14,418,870	617,918,487

Statistical Section

TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

	COORDINATED MEMBERS			NONCOORDINATED MEMBERS					
FY Ended June 30	Male	Female	Total	Male	Female	Total	Total Male Members	Total Female Members	Total Members
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
2002	51,545	48,345	99,890	2,967	989	3,956	54,512	49,334	103,846

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

	COORDINATED MEMBERS			NONCOORDINATED MEMBERS						
FY Ended June 30	Male	Female	Total	Male	Female	Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
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
2002	39,844	38,174	78,018	2,778	884	3,662	42,622	39,058	81,680	3,713,020,000

NUMBER OF RECURRING BENEFIT PAYMENTS

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
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
2002	32,424	9,981	2,152	44,557

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

TERMINATION REFUNDS - NUMBER/AMOUNT

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
2002	2,244	10,457,845

Statistical Section

RETIREMENT ANNUITIES

Average Monthly Benefit For Current Year Retirees By Type

	Fiscal Year Ending June 30				
	2002	2001	2000	1999	1998
Not Coordinated with Social Security	$ 2,239.35	$ 2,484.91	$ 2,395.02	$ 2,376.11	$ 2,316.28
Coordinated with Social Security	1,522.13	1,586.51	1,256.22	1,164.79	1,071.29
Alternative Formula	5,315.46	4,560.29	4,492.47	4,487.89	4,088.79
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	3,726.63	2,951.62	3,114.97	2,775.73	2,711.11
Dept. of Corrections - Special Formula Coordinated with Social Security	3,083.95	2,085.19	2,240.61	1,959.66	1,606.80
Air Pilots - Coordinated with Social Security	-	-	-	-	-
Court Reporters - Not Coordinated with Social Security	-	-	-	-	1,795.04
Court Reporters - Coordinated with Social Security	-	-	-	-	1,333.75
TOTAL AVERAGE	**$ 2,264.61**	**$ 1,877.22**	**$ 1,674.54**	**$ 1,693.99**	**$ 1,469.67**

RETIREMENT ANNUITIES

Current Age of Active Recipients

	Fiscal Year Ending June 30				
Age	2002	2001	2000	1999	1998
Under 51	40	10	21	18	35
51-55	1,269	927	681	628	529
56-60	2,878	2,334	1,917	1,690	1,555
61-65	5,250	4,967	4,845	4,528	4,345
66-70	6,027	6,019	5,963	5,888	5,833
71-75	5,849	5,851	5,853	5,958	6,052
76-80	5,048	5,008	4,996	4,897	4,821
81-85	3,402	3,367	3,376	3,400	3,346
86-89	1,618	1,610	1,562	1,502	1,463
Over 89	1,043	986	923	851	795
Total	32,424	31,079	30,137	29,360	28,774
Average age	71.51	71.98	72.29	72.45	72.56

RETIREMENT ANNUITIES

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

Fiscal Year Ending June 30	2002	2001	2000	1999	1998
Not Coordinated with Social Security	387.39	398.30	402.86	400.05	392.94
Coordinated with Social Security	292.52	296.47	267.00	263.90	253.08
Alternative Formula	339.30	345.20	347.01	347.51	346.37
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	383.00	389.50	370.51	377.58	376.69
Dept. of Corrections -Special Formula - Coordinated with Social Security	339.82	310.67	319.19	303.03	300.28
Air Pilots - Coordinated with Social Security	-	-	-	-	-
Court Reporters - Not Coordinated with Social Security	-	-	-	-	282.00
Court Reporters - Coordinated with Social Security	-	-	-	-	319.57
TOTAL AVERAGE	**319.54**	**320.20**	**300.22**	**302.58**	**288.52**

Annuitants by Benefit Range (Monthly) June 30, 2002

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	471	471	1.5	1.5
101-200	1,677	2,148	5.2	6.7
201-300	2,477	4,625	7.6	14.3
301-400	2,406	7,031	7.4	21.7
401-500	2,167	9,198	6.7	28.4
501-600	1,888	11,086	5.8	34.2
601-700	1,696	12,782	5.2	39.4
701-800	1,503	14,285	4.6	44.0
801-900	1,400	15,685	4.3	48.3
901-1000	1,095	16,780	3.4	51.7
1001-1100	1,029	17,809	3.2	54.9
1101-1200	919	18,728	2.8	57.7
1201-1300	851	19,579	2.6	60.3
1301-1400	844	20,423	2.6	62.9
1401-1500	784	21,207	2.4	65.3
1501-1600	709	21,916	2.2	67.5
1601-1700	640	22,556	2.0	69.5
1701-1800	593	23,149	1.8	71.3
1801-1900	621	23,770	1.9	73.2
1901-2000	532	24,302	1.6	74.8
2001-2100	553	24,855	1.7	76.5
2101-2200	481	25,336	1.5	78.0
2201-5000	6,669	32,005	20.6	98.6
5000- & over	419	32,424	1.4	100.0

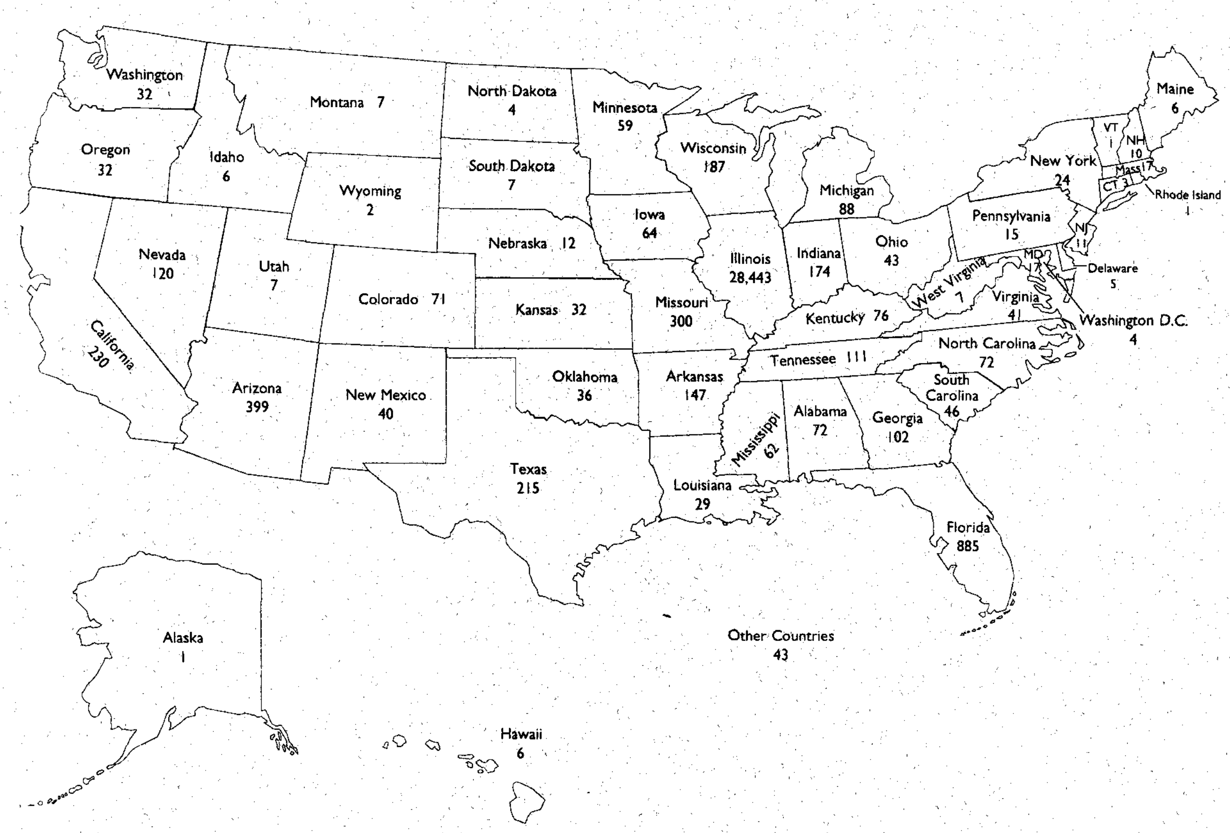
Widow's and Survivors' by Benefit Range Monthly) June 30, 2002

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	1,442	1,442	14.4	14.4
101-200	1,753	3,195	17.6	32.0
201-300	1,865	5,060	18.7	50.7
301-400	1,336	6,396	13.4	64.1
401-500	1,219	7,615	12.2	76.3
501-600	672	8,287	6.7	83.0
601-700	306	8,593	3.1	86.1
701-800	260	8,853	2.6	88.7
801-900	188	9,041	1.9	90.6
901-1000	176	9,217	1.8	92.4
1001-1100	153	9,370	1.5	93.9
1101-1200	122	9,492	1.2	95.1
1201-1300	101	9,593	1.0	96.1
1301-1400	85	9,678	.9	97.0
1401-1500	57	9,735	.6	97.6
1501-1600	42	9,777	.4	98.0
1601-1700	39	9,816	.4	98.4
1701-1800	30	9,846	.3	98.7
1801-1900	29	9,875	.3	99.0
1901-2000	23	9,898	.2	99.2
2001-2100	23	9,921	.2	99.4
2101-2200	14	9,935	.1	99.5
2201-5000	46	9,981	.5	100.0
5000- & over	0	9,981	0	100.0

Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 2002

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	32	32	1.5	1.5
101-200	72	104	3.3	4.8
201-300	133	237	6.2	11.0
301-400	190	427	8.8	19.8
401-500	200	627	9.3	29.1
501-600	134	761	6.2	35.3
601-700	104	865	4.8	40.1
701-800	65	930	3.0	43.1
801-900	61	991	2.8	45.9
901-1000	61	1,052	2.8	48.7
1001-1100	57	1,109	2.6	51.3
1101-1200	72	1,181	3.3	54.6
1201-1300	110	1,291	5.1	59.7
1301-1400	86	1,377	4.0	63.7
1401-1500	96	1,473	4.5	68.2
1501-1600	64	1,537	3.0	71.2
1601-1700	129	1,666	6.0	77.2
1701-1800	90	1,756	4.2	81.4
1801-1900	88	1,844	4.1	85.5
1901-2000	39	1,883	1.8	87.3
2001-2100	49	1,932	2.3	89.6
2101-2200	44	1,976	2.0	91.6
2201-5000	174	2,150	8.2	99.8
5000- & over	2	2,152	0.2	100.0

ACTIVE RETIREES BY STATE



PLAN SUMMARY & LEGISLATIVE SECTION

Plan Summary

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 2002)

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.

Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System. Other exceptions are identified in state law.

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: 10 1/2% of salary

D. Security Employees of the Department of Corrections and Department of Human Services, Air Pilots and State Highway Maintenance Workers:

1. Coordinated with Social Security: 6 1/2% of salary
2. Without Social Security: 10 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 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 survivor's 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.

Plan Summary

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 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 or dependent parent 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 interest credited to the member's account;
2. A payment equal to one month's salary for each full year of service credit not to exceed six month's salary.

If the member had terminated state service, but not yet qualified for a retirement annuity, the benefit consists of a refund of all of the member's contributions to the System plus the interest credited to the member's account.

B. After Retirement

The benefit consists of a lump sum payment equal to the excess of contributions plus the interest credited to the member's account over the total amount of retirement annuity payments made to the member. The minimum payment is $500.

10. NONOCCUPATIONAL DISABILITY BENEFITS

A. Qualification and Amount of Payment

Available to any member who has established at least 18 months of creditable service and who has been granted a disability leave of absence by the employing agency. The benefit is 50% of final average compensation and credit to the member's account of service and contributions. It begins on the 31st day of absence from service on account of disability (including any periods for which sick pay was received).

If the member has Social Security coverage as a state employee, the benefit payable by the System is reduced by the amount of any disability or retirement payment to which he is entitled under Social Security.

B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events:

1. Disability ceases;
2. Resumption of gainful employment;
3. Payments are made for a period of time equal to one-half of the service credit established as of the date disability began;
4. Attainment of age 65, if benefit commenced prior to the attainment of age 60;
5. The fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60;
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.

Plan Summary

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;
3. Attainment of age 65, if benefit commenced prior to the attainment of age 60;
4. The fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60;
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 Payment

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 disability began;
4. Attainment of age 65, if the benefit commenced prior to the attainment of age 60;
5. The fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60;
6. Death of the member;
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, excluding interest. 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 2002:

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

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

House Bill 2671 (P.A. 92-0566)
Effective June 25, 2002.

The Early Retirement Incentive (ERI) was passed by the General Assembly and signed by the Governor allowing SERS members to purchase up to five years of service and age enhancement. By participating in the ERI, members have two options:

1. If a member meets the ERI retirement eligibility requirements, they may retire by January 1, 2003 using the age and service enhancement.

2. If a member does not meet the ERI retirement eligibility requirements at this time, they may purchase ERI service, terminate employment by December 31, 2002 and receive retirement benefits when they become eligible.

NEW LEGISLATION

There were no amendments with an effective date subsequent to June 30, 2002, affecting the operation of the System, as of the date this report went to print.