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, 2004

STATE EMPLOYEES' RETIREMENT
SYSTEM OF ILLINOIS

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

Prepared by the Accounting Division

Printed by Authority of the State of Illinois
500/$2.15ea/12/04/124-04
Printed on Recycled Paper

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INTRODUCTORY SECTION

SRS STATE RETIREMENT SYSTEMS

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

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

December 15, 2004

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, 2004 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, 2004 are slightly under $10 billion, and there are 70,621 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, the ISBI Commingled Fund earned 16.4%, net of expenses, for the fiscal year ended June 30, 2004.

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.

On April 7, 2003 Governor Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This legislation authorized the State to issue $10 billion in general obligation bonds for the purpose of making required contributions to the five state-funded retirement systems, including the State Employees' Retirement System. On July 1, 2003, the net bond proceeds were allocated and distributed to each of the five state-funded retirement systems based on each system's relative percentage of the total unfunded liability at June 30, 2002. The State Employees' Retirement System received an allocation of bond proceeds totaling $1,385,895,278 and deposited all of the proceeds into the Illinois State Board of Investment Commingled Fund on July 2, 2003.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 2004, amounted to $18.443 billion. The actuarial value of assets (at fair value) amount to $9.990 billion, resulting in an unfunded accrued actuarial liability amounted to $8.453 billion as of the same date. A detailed discussion of funding is provided in the Actuarial Section of this report.

MAJOR EVENTS/ INITIATIVES

The operational plan for FY04 included two new projects: staff training to be coordinated through the Human Resources Division, and a review of the benefit calculation process by the Claims Division. The FY04 plan also called for the continuation of several projects initiated in FY03 or prior. These projects include: automation of the error processing used by the Accounting Division; expansion of Internet services by the Administrative Services and EDP Divisions; study of System Mainframe needs by the EDP Division; and several other smaller projects.

New projects for FY05 include: the replacement of the computer mainframe; additional staff training; updated member information for the Accounting Division; a review of the Reciprocal System benefit processing; the creation of a power point presentation for the Field Service Division; and an E-mail information study. Several of the FY04 projects will also carry over into FY05.

ACCOUNTING SYSTEM & INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

The accrual basis of accounting is used to record the financial transactions and activities of the System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recognized when the corresponding liabilities are incurred, regardless of when payment is made.

The System also uses the State of Illinois, Statewide Accounting Management System (SAMS) as a basis for the preparation of the financial statements. In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls.

These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by Gabriel, Roeder, Smith & Co., 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 compliance attestation examination was also performed by the auditors.

The purpose of the compliance attestation examination 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, 2003.

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 eighteen consecutive years (fiscal years ended June 30, 1986 through June 30, 2003).

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,

Robert V. Knox
Executive Secretary

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

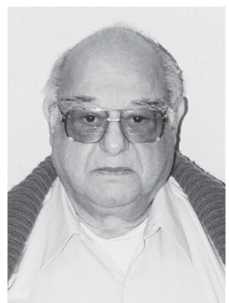
BOARD OF TRUSTEES

Gordon John Mazzotti
Chairman

John Frigo
Office of Management & Budget

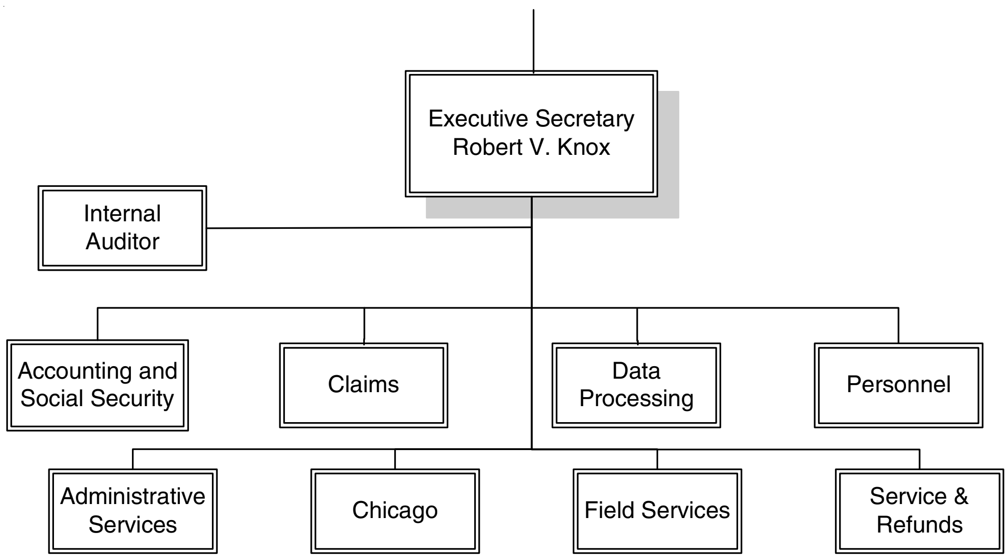
Loren Iglarsh
Office of Comptroller

Caryl Wadley-Foy
Elected Employee



Joseph Pisano
Appointed Annuitant

Doris Clark
Elected Annuitant



Management Group

Accounting & Social Security	Nicholas C. Merrill, Jr.
Administrative Services	David L. O'Brien
Claims	Patrick P. Cummings
Chicago Office	Barbara J.C. Baird
Data Processing	James J. Spears
Field Services	David F. Thompson
Human Resources	Marty Nantkes
Service & Refunds	Joseph S. Maggio
Internal Auditor	Larry L. Stone

Advisors, Auditors & Administrators

Consulting Actuary	Gabriel, Roeder, Smith & Company Chicago Illinois
External Auditor	McGladrey & Pullen, LLP Chicago, Illinois
Investments	Illinois State Board of Investment Chicago, Illinois

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, 2003

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

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

President

Executive Director

FINANCIAL SECTION

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 statements of plan net assets of the State Employees' Retirement System of Illinois (the System), as of June 30, 2004 and 2003 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2004 and 2003, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we will also issue, under separate cover, our report dated November 5, 2004 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 14 and 15 and the schedules of funding progress and employer contributions on page 28 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System. The introductory section, supplementary financial information on page 29, investment section, actuarial section, statistical section and plan summary and legislative section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary financial information on page 29 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects 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 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 5, 2004

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.

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 years ended June 30, 2004. 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 70,000 active state employees and approximately 54,300 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, 2004, 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, 2004 and 2003. 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 increased by $2.488 billion, or 33.2% during fiscal year 2004. The increase was primarily due to additional employer contributions received from the sale of General Obligation bonds by the State of Illinois and a significant increase in income from investment activity.
- The System was actuarially funded at 54.2% as of June 30, 2004, compared to 42.6% as of June 30, 2003.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 16.4% for fiscal year 2004 compared to 0.3% for fiscal year 2003.

PLAN NET ASSETS

The condensed Statements of Plan Net Assets 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) from 2003 to 2004	
	2004	**2003**	**2002**	**Dollar Change**	**Percent Change**
Cash	$ 66.6	$ 36.0	$ 97.6	$ 30.6	85.0%
Receivables	85.0	31.7	34.5	53.3	168.1
Investments, at fair value	9,840.1	7,436.1	7,543.8	2,404.0	32.3
Propery & equipment, net	3.2	3.1	3.2	0.1	3.2
Total assets	9,994.9	7,506.9	7,679.1	2,488.0	33.1
Liabilities	4.7	4.8	5.2	(0.1)	(2.1)
Total plan net assets	$ 9,990.2	$7,502.1	$7,673.9	$ 2,488.1	33.2%

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 $199.8 million and $285.2 million for the years ended June 30, 2004 and 2003, respectively.

Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to approximately $1,864.7 million in 2004 from approximately $396.1 million in 2003. This increase was primarily due to additional employer contributions of $1,385.9 million received from the sale of General Obligation bonds by the State of Illinois, a scheduled rate increase, and a component to pay for a portion of the cost of Early Retirement Incentive (ERI) program in calendar year 2002.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2004 and 2003, the System paid out approximately $990.6 million and $859.9 million, respectively, in benefits and refunds, an increase of approximately 15.2%. Those higher payments were mainly due to an increase in the number of retirees as a result of the Early Retirement Incentive(ERI) program. The administrative costs of the System represented approximately 1% of total deductions in both 2004 and 2003.

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, 2004 increased to 54.2% from 42.6% at June 30, 2003. Several reasons for the increase were stronger financial markets in 2004, and additional employer contributions received from the sale of General Obligation bonds by the State of Illinois. The amount by which actuarially determined liabilities exceeded net assets was $8.5 billion at June 30, 2004 compared to $10.1 billion at June 30, 2003.

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.

Net investment income less expenses for the System totaled approximately $1,421.9 million during fiscal year 2004, versus $15.0 million during fiscal year 2003, resulting in returns of 16.4% and a .3%, respectively. For the three, five, and ten year period ended June 30, 2004, the ISBI Commingled Fund earned a compounded rate of return of 2.8%, 2.5%, and 9.1% respectively.

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

CHANGES IN PLAN NET ASSETS

The condensed Statements of Changes in Plan Net Assets 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)

	2004	2003	2002	Increase/(Decrease) from 2003 to 2004 Dollar Change	Percent Change
Additions					
Participant contributions	$ 199.8	$ 285.2	$ 196.9	$ (85.4)	(29.9)%
Employer contributions	1,864.7	396.1	386.1	1,468.6	370.8
Net investment income/(loss)	1,421.9	15.0	(546.1)	1,406.9	9,379.3
Total additions	3,486.4	696.3	36.9	2,790.1	400.7
Deductions					
Benefits	978.2	831.5	617.9	146.7	17.6
Refunds	12.4	28.4	14.2	(16.0)	(56.3)
Administrative expenses	7.7	8.2	7.6	(0.5)	(6.1)
Total deductions	998.3	868.1	639.7	130.2	15.0
Net increase/(decrease) in plan net assets	$2,488.1	$(171.8)	$ (602.8)	$ 2,659.9	1,548.3 %

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2004 and 2003

	2004	2003
Assets		
Cash	$ 66,642,027	$ 36,049,053
Receivables:		
Contributions:		
Participants	15,482,706	15,075,393
Employing state agencies	65,769,356	12,876,353
Other accounts	3,783,213	3,706,535
Total Receivables	85,035,275	31,658,281
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	9,840,077,880	7,436,093,948
Property and equipment, net of accumulated depreciation	3,152,081	3,087,685
Total Assets	9,994,907,263	7,506,888,967
Liabilities		
Benefits payable	2,875,331	3,134,937
Refunds payable	324,862	256,078
Administrative expenses payable	1,254,616	1,117,214
Participants' deferred service credit accounts	265,580	269,322
Total Liabilities	4,720,389	4,777,551
Net assets held in trust for pension benefits	$ 9,990,186,874	$ 7,502,111,416

(A schedule of funding progress is presented on page 28.)

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2004 and 2003

	2004	2003
Additions:		
Contributions:		
Participants	$ 199,826,465	$ 285,209,344
Employing State agencies and appropriations	1,864,673,411	396,067,236
Total Contributions	2,064,499,876	681,276,580
Investment income:		
Net investment income	159,147,084	163,852,238
Interest earned on cash balances	823,886	1,675,301
Net appreciation/(depreciation) in fair value of investments	1,261,941,570	(150,507,775)
Total net investment income	1,421,912,540	15,019,764
Total Additions	3,486,412,416	696,296,344
Deductions:		
Benefits:		
Retirement annuities	879,638,039	733,969,930
Survivors' annuities	54,186,031	50,724,761
Disability benefits	33,482,302	32,868,545
Lump-sum death benefits	10,894,638	13,923,360
Total Benefits	978,201,010	831,486,596
Refunds ***(including transfers to reciprocating systems)***	12,442,600	28,369,787
Administrative	7,693,348	8,221,236
Total Deductions	998,336,958	868,077,619
Net Increase/(Decrease)	2,488,075,458	(171,781,275)
Net assets held in trust for pension benefits:		
Beginning of year	7,502,111,416	7,673,892,691
End of year	$ 9,990,186,874	$ 7,502,111,416

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2004 and 2003

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 Governor's Office of Management and 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.

At June 30, 2004 and 2003, the number of participating state agencies, boards and commissions totaled:

	2004	2003
State agencies	35	38
State boards and commissions	42	44
TOTAL	77	82

At June 30, 2004 and 2003, SERS membership consisted of:

	2004	2003
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	42,307	42,405
Survivors' annuities	10,036	10,041
Disability benefits	1,955	1,929
TOTAL	54,298	54,375
Inactive employees entitled to benefits, but not yet receiving them	4,541	4,844
TOTAL	58,839	59,219
Current Employees:		
Vested: Coordinated with Social Security	41,653	41,654
Noncoordinated	2,047	2,250
Nonvested: Coordinated with Social Security	26,008	25,444
Noncoordinated	913	844
TOTAL	70,621	70,192

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees 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 of the fund for fiscal year 2004 were approximately $66,000, while disbursements were approximately $63,000. For fiscal year 2003, receipt and disbursement amounts were approximately $17,500.

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.

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 8 1/2% or 12 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 many 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 when due pursuant to statutory requirements.

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. The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement.

Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund. The ISBI reports securities at fair value. Where appropriate, the fair value includes estimated disposition costs.

Fair value for stocks is determined by using the closing price listed on the national securities exchanges as of June 30. Market value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled equity funds, the net asset value is determined and certified by the commingled equity fund manager as of June 30. Fair value for directly owned real estate investments is determined by appraisals.

Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options.

Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake. The ISBI does not have any one investment which represents 5 percent or more of the ISBI's net assets.

The ISBI participates in a securities lending program at its custodian bank, whereby securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the ISBI's securities are eligible for the securities lending program. Collateral consists solely of cash, letters of credit, commercial paper and government securities having a market value equal to or greater than the securities loaned. There are no provisions for ISBI indemnification on the securities lending transactions. The ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the market value of the securities lent. As of June 30, 2004 and 2003, the ISBI had outstanding loaned investment securities having market values of $1,146,769,008 and $676,614,658, respectively; against which it had received collateral with values of $1,402,058,848 and $699,833,455, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

Some of the ISBI managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. The ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk.

Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. The ISBI Board and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

During the year, derivative investments included forward foreign currency contracts, collateralized mortgage obligations (CMO's), futures and options. The remaining derivative securities are used to improve the yields or to hedge changes in interest rates.

Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the market value of the forward contracts vary, the ISBI Board records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The market value of forward foreign currency contracts outstanding at June 30, 2004 and 2003, were as follows:

	June 30, 2004	June 30, 2003
Forward currency purchases	$86,816,176	$ 67,363,443
Forward currency sales	87,241,866	67,381,163
Unrealized gain (loss)	(425,690)	(17,720)

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. As of June 30, 2004 and 2003, the fair value of the ISBI Board's CMO holdings totaled $57,368,826 and $112,763,325, respectively.

The ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Financial future contracts are also used to improve the yield or adjust the duration of the portfolio. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price. As the market values of the futures contracts vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio.

	Number of Contracts	Contract principal*
Domestic:		
Equity futures purchased	808	$230,360,800
Fixed income futures purchased	197	20,523,243
Fixed income futures sold	678	73,536,627
Fixed income written put options	303	385,079
Fixed income written call options	467	553,900

***** *Contract principal amounts shown represent the market value of the underlying assets the contracts control. These are shown to present the volume of the transactions but does not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual balance sheet values.*

The ISBI Board's investment managers utilize options in an effort to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. As the writer of financial options, the ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the instrument underlying the option. As the purchaser, the ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

The table at left shows the futures and options positions held by the ISBI as of June 30, 2004.

The System owns approximately 94% of the net investment assets of the ISBI Commingled Fund as of June 30, 2004. A Schedule of Investment Expenses is included in the ISBI Annual Report.

For additional information regarding the ISBI's investments, please refer to the Annual Report of the ISBI as of June 30, 2004. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

ISBI investments, as categorized by ISBI, are categorized to indicate the level of risk assumed by the ISBI at year end.

• Category I includes investments that are insured or registered or for which securities are held by the master custodian in the ISBI's name.

• Category II includes investments that are uninsured and unregistered with the securities held by the counterparty's agent in the ISBI's name.

•Category III includes investments that are uninsured and unregistered 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.

ISBI's investments categorized as of June 30, 2004

	Fair Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 1,472,563,096	$ 684,975,511	$ 787,587,585
Foreign Obligations	141,984,456	86,831,664	55,152,792
Corporate Obligations	1,384,436,108	434,971,640	949,464,468
Convertible Bonds	2,745,915	2,745,915	–
Common Stock & Equity Funds	5,087,663,744	5,087,663,744	–
Preferred Stock	4,590,819	4,590,819	–
Foreign Equity Securities	1,087,681,488	1,050,170,293	37,511,195
Real Estate Funds	616,134,095	–	616,134,095
Alternative Investments	441,033,580	–	441,033,580
Money Market Instruments	425,397,983	–	425,397,983
Forward Foreign Exchange Contracts	(425,690)	(425,690)	–
Total Investments	$10,663,805,594	$7,351,523,896	$3,312,281,698

c. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 2002.

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 2004 and 2003 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.

For fiscal years 2004 and 2003, the required employer contributions were computed in accordance with Public Act 88-0593 as modified by Public Act 93-0002. This funding legislation provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

In addition, the 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.

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 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.

A summary of the administrative expenses of the System for fiscal years 2004 and 2003 are as follows:

	2004	2003
Personal Services	$2,981,335	$3,769,754
Employer Retirement Pickup	118,316	127,235
Retirement Contributions	401,155	389,662
Social Security Contributions	228,054	297,592
Group Insurance	637,574	552,936
Contractual Services	1,327,158	1,459,800
Travel	47,813	36,128
Commodities	21,260	36,053
Printing	41,987	50,923
Electronic Data Processing	1,547,417	1,457,237
Telecommunications	93,503	68,558
Automotive	18,706	14,302
Depreciation	202,677	222,445
Other (net)	26,393	(261,389)
Total	$7,693,348	$8,221,236

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, 2004. 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. 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, 2004 and 2003 totaled $810,785 and $789,091, respectively are included in Administrative Expenses Payable.

7. Property and Equipment

Capital 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.

This is a summary of changes in property and equipment assets for 2003 and 2004:

2004

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ –	$ –	$ 655,241
Land improvements	245,351	–	–	245,351
Building	3,352,428	-	–	3,352,428
Equipment	2,039,550	268,021	(93,487)	2,214,084
TOTAL	6,292,570	268,021	(93,487)	6,467,104
Accumulated depreciation	(3,204,885)	(202,677)	92,539	(3,315,023)
Net property and equipment	$3,087,685	$ 65,344	$ (948)	$3,152,081

2003

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ –	$ –	$ 655,241
Land improvements	245,351	–	–	245,351
Building	3,288,027	64,401	–	3,352,428
Equipment	2,052,787	28,508	(41,745)	2,039,550
TOTAL	6,241,406	92,909	(41,745)	6,292,570
Accumulated depreciation	(3,014,218)	(222,445)	31,778	(3,204,885)
Net property and equipment	$3,227,188	$ (129,536)	$ (9,967)	$3,087,685

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, 2004 and 2003

	Participants' Contributions	Interest Accumulations	Other Future Benefits	Total Reserve Balances
Balance at June 30, 2002	$ 1,650,376,966	$1,124,923,885	$ 4,898,591,840	$ 7,673,892,691
Add (deduct):				
Excess revenue over/(under) expenses	241,453,625	–	(413,234,900)	(171,781,275)
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(448,317,970)	–	448,317,970	–
Interest credited to members' accounts	–	(215,319,479)	215,319,479	–
Balance at June 30, 2003	1,443,512,621	909,604,406	5,148,994,389	7,502,111,416
Add (deduct):				
Excess revenue over expenses	177,092,905	–	2,310,982,553	2,488,075,458
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(50,097,396)	–	50,097,396	–
Interest credited to members' accounts	–	95,975,908	(95,975,908)	–
Balance at June 30, 2004	$ 1,570,508,130	$1,005,580,314	$ 7,414,098,430	$ 9,990,186,874

9. Social Security Division - Administrative Expenses

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

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

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

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

	2004	***2003***
Personal services	$42,228	$ 42,024
Employer retirement pickup	1,689	1,681
Retirement contributions	3,783	4,337
Social Security contributions	3,120	3,112
Contractual services	19,000	18,900
Travel	366	1,006
Commodities	169	395
Printing	-	100
Telecommunications	361	321
Total	***$ 70,716***	***$ 71,876***

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)
6/30/99	$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
6/30/03	7,502,111,416	17,593,980,039	10,091,868,623	42.6	3,639,334,000	277.3
6/30/04	9,990,186,874	18,442,664,834	8,452,477,960	54.2	3,439,251,000	245.8

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(3)	(B) State Pension Fund Contribution	(A) + (B) Total Required State Contribution	Percentage Contributed
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
2003	449,348,569	88.1	375,615,662	17,195,000	392,810,662	100
2004	576,219,951	83.1 (2)	462,200,942	15,150,000 (4)	477,350,942	100 (2)

Notes to Required Supplementary Information

Valuation date: June 30, 2004
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 – 41 years, closed

Asset valuation method – Fair Value
Actuarial assumptions:
- Investment rate of return – 8.5 percent
- Projected salary increases – 1.0 to 6.1 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.

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

(2) This percentage excludes the additional employer contributions received from the State of General Obligation bonds by the State of Illinois. These proceeds were not part of the current fiscal year required contributions.

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

(4) The actual distribution from the State Pension Fund was $5,970,645, the additional amount of $9,179,355 was received in accordance with HB585(P.A.93-0665), as a distribution from the Pension Contribution Fund.

SUMMARY OF REVENUES BY SOURCE

	2004	2003
Contributions:		
Participants	$ 191,479,483	$ 190,172,082
ERI payments	39,610	81,910,387
Repayments of contributions refunded	1,745,341	2,399,630
Interest received from participants	6,562,031	10,727,245
Total participants contributions	199,826,465	285,209,344
Employing state agencies	376,131,141	378,872,236
State Pension Fund appropriation	5,970,645	17,195,000
Pension Contribution Fund	1,482,571,625	-
Total state contributions and appropriations	1,864,673,411	396,067,236
Investments:		
Net investments income	159,147,084	163,852,238
Interest earned on cash balances	823,886	1,675,301
Net appreciation in fair value of investments	1,261,941,570	(150,507,775)
Total investment revenue	1,421,912,540	15,019,764
TOTAL REVENUE	$ 3,486,412,416	$ 696,296,344

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

	2004	2003
Cash balance, beginning of year	$ 36,049,053	$ 97,562,972
Receipts:		
Participant contributions	189,754,726	274,704,616
Employer contributions	1,805,292,822	378,587,269
State Pension Fund contribution	5,970,645	17,195,000
Transfers from Illinois State Board of Investment	403,000,000	121,000,000
Interest income on cash balance	808,514	1,808,804
Claims receivable payments	4,461,977	4,646,318
Installment payments - prior service credit	5,980,565	10,770,225
Other	132,792	149,299
Total cash receipts	2,415,402,041	808,861,531
Disbursements:		
Annuity payments:		
Retirement annuities	880,171,614	734,282,153
Widow's annuities	1,815,227	1,731,314
Survivors' annuities	52,617,834	49,168,134
Death benefits	11,337,889	13,936,502
Disability benefits	32,111,690	32,473,567
Refunds	13,097,057	30,007,172
Administrative expenses	7,680,645	8,471,117
Transfers to reciprocal systems	81,833	305,491
Purchase of investments	1,385,895,278	-
Total cash disbursements	2,384,809,067	870,375,450
Cash balance, end of year	$ 66,642,027	$ 36,049,053

SCHEDULE OF PAYMENTS TO CONSULTANTS AND ADVISORS

	2004	2003
Legal Services	$ 160,072	$ 237,324
Actuarial Costs	159,874	109,363
Audit Expense	48,840	47,075
Physicians and Disability Inspections	15,415	7,746
Financial Planning	39,069	15,228
TOTAL	$ 423,270	$ 416,736

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, 2004, total net assets under management valued at market, amounted to $10.443 billion. Of the total market value of assets under management, $9.840 billion or 94% represented assets of the State Employees' Retirement System.

A summary of the portfolio's largest holdings, as well as the complete listing of the ISBI portfolio, are included in the ISBI Annual Report. A schedule of fees and commissions paid by brokerage firm and a listing of transactions executed, including transaction value, are also contained in the ISBI Annual Report. 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. This policy is implemented by allocations to investment managers with assignments to invest in specific asset classes, with defined security selection styles and methodologies.

In August, 2003, the ISBI engaged the firm of Marquette Associates (Marquette) as its general consultant. Marquette's first task was to perform a complete asset allocation study intended to create an asset allocation policy to most effectively achieve the ISBI's long-term investment objective of an 8.5% compounded rate of return. Marquette was to consider all asset classes and to include appropriate benchmarks with which to evaluate specific managers and the portfolio as a whole. Marquette submitted the final version of its asset allocation study and the associated asset allocation policy to the ISBI Board at their December, 2003 meeting, where the study was accepted and the policy adopted.

The ISBI's new asset allocation reflects a reduced exposure to international equities and private equity. At the same time, the new model calls for increased investments in real estate, but through less aggressive investment vehicles, and a very modest increase to the fixed income portfolio. Finally, the new model makes an allocation to hedge funds through the use of very constrained funds of funds. The ISBI's newly adopted asset allocation policy allocates 45% to domestic equities, 10% to international equities, 25% to fixed income, 10% to real estate, 5% to private equity, and 5% to hedge funds. The actual allocation of the portfolio at June 30, 2004, relative to the target is set forth in the table below.

	Actual Asset Allocation	*Policy Target*
U.S. Equities	51%	50%
International Equities	11	10
Fixed Income	28	25
Real Estate	6	10
Alternative Investments	4	5
Total	100%	100%

INVESTMENT RESULTS

In fiscal year 2004, investors benefited from improvements in the equity markets unknown since the previous century. For fiscal year 2004, the ISBI total fund was up 16.4%, net of expenses. This follows on generally flat returns for fiscal year 2003, and substantial losses for the previous two fiscal years. Not only was the long-term objective of at least equaling the 8.5% assumed actuarial interest rate markedly surpassed, but the portfolio also outperformed the policy-weighted benchmark return of 16.3%. The ISBI total fund return over the three, five and ten year time periods was 2.8%, 2.5%, and 9.1%, respectively.

U.S. EQUITIES

For the twelve months ended June 30, 2004, the Wilshire 5000 Index, a broad representation of the U.S. market, was up 21.2%. Value stocks exceeded growth stocks, with the Russell 3000 Value Index up 22.1%, compared to the Russell 3000 Growth Index up 18.8%. Small capitalization stocks outperformed large capitaliztion stocks, with the Russell 2000 Index up 33.4% compared with the S&P 500 Index up 19.1%. The ISBI's U.S. Equity portfolio was up 21.7% for the fiscal year, slightly above the Wilshire 5000 Index. The ISBI Board, through structure analysis, rebalancing, and risk management, has achieved the objective of tracking the market with predictable consistency. The ISBI's ten-year average annual return of 11.4% shows that even considering the losses in prior years, the U.S. stock market has rewarded the long-term investor.

U.S. EQUITIES

	1 Year	3 Years	5 Years
ISBI	21.7%	1.0%	0.4%
Wilshire 5000 Index	21.2	0.8	(1.0)

INTERNATIONAL EQUITIES

Foreign markets were the best performing asset class in fiscal year 2004. The Morgan Stanley EAFE Index returned 32.9% for the fiscal year; about twelve percentage points above the U.S. equities index return. The ISBI's international equity portfolio, up 29.8%, lagged the benchmark 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.

INTERNATIONAL EQUITIES

	1 Year	3 Years	5 Years
ISBI	29.8%	4.0%	0.9%
MSCI-EAFE Index	32.9	4.3	0.4

FIXED INCOME

The ISBI fixed income portfolio had a positive return of 0.7% for the fiscal year compared to the Lehman U.S. Universal Bond Index which returned 1.0% for the year. During the fiscal year, the ISBI transitioned all fixed income assets to diversified external managers. The ISBI Board believes that the new structure will minimize the negative surprises such as those experienced in the past, and result in more predictable fixed income returns.

FIXED INCOME

	1 Year	3 Years	5 Years
ISBI	0.7%	4.8%	5.6%
Lehman U.S. Univ. Bond Index	1.0	6.7	7.1

Real Estate

For fiscal year 2004, the ISBI's real estate portfolio earned a 9.1% return. The NCREIF Real Estate Index, a measure of core, operating, non-leveraged real estate, earned 9.7%. Prior to fiscal year 2001, the ISBI Board's real estate policy was to seek higher return real estate opportunities while controlling for risk and investments focused on value-added or opportunistic strategies. However, over the last three fiscal years, the ISBI Board has increased the real estate strategic allocation from 5% to 10% of the total fund with the new allocation targeting 70% of its real estate to core, income producing real estate, with the balance in higher return strategies. Interests in limited partnerships, trusts, and other forms of pooled investments represent ISBI's current investments in real estate.

REAL ESTATE

	1 Year	3 Years	5 Years
ISBI	9.1%	7.5%	6.8%
NCREIF Real Estate Index	9.7	7.7	9.3

Alternative Investments

Overall, the ISBI's alternative investments portfolio had a return of 16.9% for the fiscal year. The alternative investments portfolio consists of 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 previous few fiscal years, long-term results show that alternative investments remain the best performing asset class for the ten-year period ended June 30, 2004.

Management Expenses

Total ISBI expenses for fiscal year 2004 were $17.9 million, compared to $16.8 million for fiscal year 2003. The resulting expense ratio (expenses divided by average net assets) was 0.18% in fiscal year 2004 as compared to 0.23% in fiscal year 2003.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 2004		June 30, 2003	
Investments, at fair value				
U.S. Government and Agency Obligations	$ 1,472,563,096	14.10%	$ 862,128,328	11.05%
Foreign Obligations	141,984,456	1.36	181,133,769	2.32
Corporate Obligations	1,384,436,108	13.26	695,789,042	8.92
Convertible Bonds	2,745,915	0.03	861,871	0.01
Common Stock & Equity Funds	5,087,663,744	48.72	3,772,803,315	48.36
Convertible Preferred Stock	-	0.00	4,263	0.00
Preferred Stock	4,590,819	0.04	4,402,445	0.06
Foreign Equity Securities	1,087,681,488	10.42	1,174,665,480	15.06
Real Estate Funds	616,134,095	5.90	614,846,458	7.88
Alternative Investments	441,033,580	4.22	441,537,163	5.66
Money Market Instruments	425,397,983	4.07	283,727,618	3.64
Forward Foreign Exchange Contracts	(425,690)	0.00	(17,720)	0.00
	10,663,805,594	102.12	8,031,882,032	102.96
Other Assets, Less Liabilities	(221,067,040)	(2.12)	(230,860,822)	(2.96)
Net Assets, at Fair Value	$10,442,738,554	100.00%	$7,801,021,210	100.00%

ANALYSIS OF INVESTMENT PERFORMANCE[1]

	2004	2003	2002	2001	2000
Total Return* - Past 3 years		2.8%			
Total Return* - Past 5 years			2.5%		
Total Return* - year by year	16.4%	0.3%	(6.9)%	(7.1)%	11.8%
Actuarial Assumed Rate of Return			8.5%		
Average Net Income Yield*	1.7%	2.3%	2.4%	2.6%	2.4%
		Comparative rates of return on fixed income securities			
Total fixed income - ISBI	0.7%	8.3%	5.5%	9.5%	4.0%
Comparison index:					
Lehman U.S. Universal Bond Index	1.0%	11.5%	7.7%	10.8%	4.8%
		Comparative rates of return on equities			
Domestic equities - ISBI	21.7%	0.9%	(14.6)%	(10.3)%	10.3%
Comparison index:					
Wilshire 5000 Index	21.2%	1.3%	(16.6)%	(15.3)%	9.5%

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

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

ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations of the System for fiscal years 2004 and 2003:

	2004	2003	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Balance at beginning of year, at fair value	$ 7,436,093,948	$ 7,543,749,485	$ (107,655,537)	(1.4)%
Cash transferred to/(from) ISBI, net	982,895,278	(121,000,000)	1,103,895,278	912.3
Net ISBI investments revenue:				
ISBI Commingled Fund income	$ 176,024,267	$ 179,817,518	$ (3,793,251)	(2.1)
Less ISBI Expenses	(16,877,183)	(15,965,280)	(911,903)	5.7
Net ISBI investments income	$ 159,147,084	$ 163,852,238	$ (4,705,154)	(2.9)
Net appreciation/(depreciation) in fair valueof ISBI investments	1,261,941,570	(150,507,775)	1,412,449,345	938.5
Net ISBI investments revenue	$ 1,421,088,654	$ 13,344,463	$1,407,744,191	10,549.3
Balance at end of year, at fair value	$ 9,840,077,880	$ 7,436,093,948	$2,403,983,932	32.3%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2004 was $823,886 compared to $1,675,301 during FY 2003.

ACTUARIAL SECTION

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
20 North Clark Street • Suite 2400 • Chicago, Illinois 60602 • 312-456-9800 • fax 312-456-9801

October 19, 2004

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

CONFIDENTIAL

Re: Actuarial Certification

At your request, we have performed the annual actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois ("SERS") as of June 30, 2004. 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, 2005 and ending June 30, 2006. 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 percent funding of total actuarial liabilities by fiscal year 2045 as required by 40 ILCS Section 5/14-131(e). Contribution rates are determined according to HB 2660 reflecting the infusion of the proceeds from the sale of general obligation bonds. The total rate includes an amortization of the ERI liability as determined according to SB 2206. The total rate also includes a portion of the debt service due to the sale of the general obligation bonds per SB 2206. The applicable portion of the debt service includes the amount necessary to pay all principal and interest for State fiscal year 2006 on the general obligation bonds except portions reserved under Section 7.2(c) of the General Obligation Bond Act. Additionally, this amount is decreased by the amount set aside in the capitalized interest fund on the understanding this was the legislative intent.

The required contribution rates and amounts for fiscal year 2006 are shown below.

	Preliminary	ERI	Debt Service	Total
Required Rate	11.695%	8.006%	1.974%	21.675%
Required Contribution	409,710,000	280,474,000	69,155,000	759,339,000

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.

Board of Trustees and Executive Secretary
October 19, 2004
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For purposes of determining contribution rates, the market value of assets as reported by the Illinois State Board of Investment is used for the 2004 fiscal year. Assets have been projected using expected market value for subsequent fiscal years. The liabilities have been valued based on employee data, which is supplied by the administrative staff of the System and verified by the System's auditor. We did not audit this data, but have reviewed the statistical support and concluded that the data is reasonable and consistent with the prior year's data.

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, 2004. 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 Kivi

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

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INTRODUCTION

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. These results are then certified to the Board.

The Board, in turn, has the duty of certifying an employer contribution amount, required to be paid to the System by the state during the succeeding fiscal year.

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.

The employers' contribution amount, together with members' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Chapter 40, Section 5/14-131 of the Illinois Compiled Statutes.

The statutes define "actuarial reserves" as "An accumulation of funds in advance of benefit payments which will be sufficient with respect to each member and his beneficiaries, if any, to pay the prescribed benefits, computed according to the actuarial tables, without further contributions by or on behalf of the member."

In August, 1994, Senate Bill 533 was signed into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides that:

- 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.

- For fiscal years 2004 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.

- 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.

In April, 2003, House Bill 2660 was signed into law a Public Act 93-0002. This legislation authorized the sale of $10 billion in General Obligation bonds for the purpose of making contributions to the five state financed retirement systems. On July 1, 2003, the System received $1,385,895,278 of net bond proceeds based on the percentage of the System's actuarial reserve deficiency to the State's total actuarial reserve deficiency at June 30, 2002. In addition, Public Act 93-0002 also modified the existing funding plan by mandating the required State contribution for each fiscal year not exceed (1) the State contributions that would have been required had the General Obligation bond program not been in effect, reduced by (2) the total debt service for each year for the System's portion of the General Obligation bond proceeds.

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.

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.

For fiscal years 2004 and 2003, the System received the actuarial determined employer contributions in accordance with the state's funding plan.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For fiscal years 2004 and 2003, 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 Acts 90-0065 and 92-0566 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-04 and FY-03 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
25-29	9.1%	6.1%	3.0%
30-34	7.6	4.6	3.0
35-39	6.4	3.4	3.0
40-44	5.7	2.7	3.0
45-49	5.2	2.2	3.0
50-54	4.7	1.7	3.0
55-59	4.4	1.4	3.0
60-64	4.1	1.0	3.0
65-69	4.0	1.0	3.0
70	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
25-29	.0600	.0600	.0350	.0500
30-34	.0590	.0600	.0300	.0410
35-39	.0440	.0490	.0210	.0310
40-44	.0300	.0320	.0150	.0220
45-49	.0240	.0240	.0130	.0170
50-54	.0200	.0220	.0130	.0160
55-59	.0180	.0220	.0130	.0160
60	.0160	.0220	.0130	.0160
65	.0160	.0220	.0100	.0160

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

Age	General Employees* Male	General Employees* Females	Alternative Formula Employees** Males	Alternative Formula Employees** 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	22.0	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.

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.

COMPUTED ACTUARIAL VALUES (in thousands of dollars)

Fiscal Year	Member Contributions	Current Retirees and Beneficiaries	Active and Inactive Members, Employer Financed Portion	Net Assets Available For Benefits*	Percentage of Actuarial Values Covered by Net Assets Available		
	$ (1)	$ (2)	$ (3)	$	(1)	(2)	(3)
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
2003	1,443,513	11,621,084	4,529,383	7,502,111	100.0	52.1	0.0
2004	1,570,508	11,949,559	4,922,598	9,990,187	100.0	70.1	0.0

*Net assets are reported at fair value for fiscal years after 1995.
For fiscal year 1995, net assets are reported at cost (book value).

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.

VALUATION RESULTS

	June 30, 2004	June 30, 2003
Actuarial Liability		
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$ 11,209,472,813	$ 10,882,167,936
Survivor Annuities	526,889,136	487,497,756
Disability Annuities	202,921,573	235,306,332
Deferred:		
Retirement Annuities	6,256,758	6,314,772
Survivor Annuities	4,018,286	9,797,400
TOTAL	$ 11,949,558,566	$ 11,621,084,196
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	269,280,378	338,716,593
Eligible for Return of Contributions Only	22,561,530	21,163,643
TOTAL	$ 291,841,908	$ 359,880,236
For Active Members	$ 6,201,264,360	$ 5,613,015,607
Actuarial Present Value of Credited Projected Benefits	$ 18,442,664,834	$ 17,593,980,039
Assets, Fair Value	9,990,186,874	7,502,111,416
Unfunded Actuarial Present Value of Credited Projected Benefits	$ 8,452,477,960	$ 10,091,868,623

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
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
2003	17,593,980	7,502,111	42.6	10,091,869	3,639,334	277.3
2004	18,442,665	9,990,187	54.2	8,452,478	3,439,251	245.8

*Net assets are reported at fair value for fiscal years after 1995.
For fiscal year 1995, net assets are reported at cost (book value).

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/95	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
6/30/03	70,192	3,639,334,000	51,848	14.1
6/30/04	70,621	3,439,251,000	48,700	(6.1)

SCHEDULE OF RETIRANTS ADDED TO & REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
2003	32,424	11,372	(1,391)	42,405
2004	42,405	1,285	(1,383)	42,307

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO & REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
2003	9,981	688	(628)	10,041
2004	10,041	639	(644)	10,036

SCHEDULE OF DISABILITY RECIPIENTS ADDED TO & REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
2003	2,152	1,952	(2,175)	1,929
2004	1,929	1,954	(1,928)	1,955

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-04	FY-03
Unfunded Liability, Beginning of Fiscal Year	$ 10,091,868,623	$ 6,617,151,766
Contributions Due		
Interest on the Unfunded Liability	857,808,833	562,457,900
Participants (includes Repayment of Refunds)	199,826,465	203,298,957
Total Normal Cost	192,451,121	244,448,648
Interest on Normal Cost	16,331,823	18,641,225
Total Due	$ 1,266,418,242	$ 1,028,846,730
Contributions Paid		
Participants (includes Repayment of Refunds)	$ 199,826,465	$ 203,298,957
Employing State Agencies and Appropriations	1,864,673,411	396,067,236
Interest on Contributions	146,053,670	24,953,612
Total Paid	$ 2,210,553,546	$ 624,319,805
Increase(Decrease) in the Unfunded Liability	$ (944,135,304)	$ 404,526,925
Actuarial (Gains) Losses		
a. Incidence of Disability	$ (16,426,042)	$ (15,972,937)
b. In-Service Mortality	(2,920,017)	(1,940,101)
c. Retiree Mortality	(31,787,314)	(41,560,854)
d. Disabled Mortality	-	-
e. New Entrant Liability/Termination of Employment	29,852,187	159,400,147
f. Salary Increases	(22,316,647)	(28,282,435)
g. Investment Income	(679,743,495)	629,483,966
h. Other	28,085,969	(2,110,948)
Total Actuarial (Gain)/Loss	$ (695,255,359)	$ 699,016,838
Non-Recurring Items Losses:		
Legislative changes	$ -	$ 2,371,173,094
Total non-recurring items	$ -	2,371,173,094
Total Increase in Actuarial Liability	$ (1,639,390,663)	$ 3,474,716,857
Unfunded Liability, End of Fiscal Year	$ 8,452,477,960	$ 10,091,868,623

STATISTICAL SECTION

ASSET BALANCES

FY Ended June 30	Cash	Receivables	Investments*	Fixed Assets, Net of Accumulated Depreciation	Total
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
2003	36,049,053	31,658,281	7,436,093,948	3,087,685	7,506,888,967
2004	66,642,027	85,035,275	9,840,077,880	3,152,081	9,994,907,263

* *Investments are reported at fair value for fiscal years 1996 - 2004. For fiscal year 1995, investments are reported at cost (book value).*

LIABILITIES AND RESERVE BALANCES

		RESERVES				
FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Interest Accumulations	Reserve For Future Operations*	Total Reserves	Total
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
2003	4,777,551	1,443,512,621	909,604,406	5,148,994,389	7,502,111,416	7,506,888,967
2004	4,720,389	1,570,508,130	1,005,580,314	7,414,098,430	9,990,186,874	9,994,907,263

* *The Reserve for Future Operations reflects investments reported at fair value for fiscal years 1996 - 2004. For fiscal year 1995, 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
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
2003	285,209,344	396,067,236	15,019,764	696,296,344
2004	199,826,465	1,864,673,411	1,421,912,540	3,486,412,416

* *The Investment Income/(Loss) includes both realized and unrealized gains and losses on investments for fiscal years 1996 - 2004. For fiscal year 1995, 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
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
2003	831,486,596	28,369,787	8,221,236	868,077,619
2004	978,201,010	12,442,600	7,693,348	998,336,958

BENEFIT EXPENSES BY TYPE

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
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
2003	733,969,930	50,724,761	32,868,545	13,923,360	831,486,596
2004	879,638,039	54,186,031	33,482,302	10,894,638	978,201,010

TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	Coordinated Members Male	Coordinated Members Female	Coordinated Members Total	Noncoordinated Members Male	Noncoordinated Members Female	Noncoordinated Members Total	Total Male Members	Total Female Members	Total Members
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
2003	46,673	43,456	90,129	2,640	748	3,388	49,313	44,204	93,517
2004	46,722	43,474	90,196	2,569	653	3,222	49,291	44,127	93,418

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	Coordinated Members Male	Coordinated Members Female	Coordinated Members Total	Noncoordinated Members Male	Noncoordinated Members Female	Noncoordinated Members Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
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
2003	34,438	32,660	67,098	2,450	644	3,094	36,888	33,304	70,192	3,639,334,000
2004	34,813	32,848	67,661	2,395	565	2,960	37,208	33,413	70,621	3,439,251,000

NUMBER OF RECURRING BENEFIT PAYMENTS

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
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
2003	42,405	10,041	1,929	54,375
2004	42,307	10,036	1,955	54,298

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

TERMINATION REFUNDS - NUMBER/AMOUNT

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
2003	2,269	11,924,654
2004	2,100	10,174,522

RETIREMENT ANNUITIES
Average Monthly Benefit For Current Year Retirees By Type

	Fiscal Year Ending June 30				
	2004	**2003**	**2002**	**2001**	**2000**
Not Coordinated with Social Security	$ 2,457.54	$2,624.86	$ 2,239.35	$ 2,484.91	$2,395.02
Coordinated with Social Security	1,322.80	2,183.53	1,522.13	1,586.51	1,256.22
Alternative Formula	5,754.54	5,059.41	5,315.46	4,560.29	4,492.47
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	5,200.27	3,557.74	3,726.63	2,951.62	3,114.97
Dept. of Corrections - Special Formula Coordinated with Social Security	2,892.96	3,027.76	3,083.95	2,085.19	2,240.61
Air Pilots - Coordinated with Social Security	3,891.50	4,424.87	-	-	-
TOTAL AVERAGE	***$2,042.47***	***$2,445.40***	***$2,264.61***	***$ 1,877.22***	***$1,674.54***

RETIREMENT ANNUITIES
Current Age of Active Recipients

	Fiscal Year Ending June 30				
Age	***2004***	***2003***	***2002***	***2001***	***2000***
Under 51	526	885	40	10	21
51-55	4,208	4,622	1,269	927	681
56-60	6,439	6,341	2,878	2,334	1,917
61-65	7,207	6,853	5,250	4.967	4,845
66-70	6,611	6,520	6,027	6,019	5,963
71-75	5,932	5,878	5,849	5,851	5,853
76-80	5,041	5,107	5,048	5,008	4,996
81-85	3,552	3,478	3,402	3,367	3,376
86-89	1,693	1,659	1,618	1,610	1,562
Over 89	1,098	1,062	1,043	986	923
Total	42,307	42,405	32,424	31,079	30,137
Average Age	68.44	68.16	71.51	71.98	72.29

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

Fiscal Year Ending June 30	***2004***	***2003***	***2002***	***2001***	***2000***
Not Coordinated with Social Security	407.53	409.20	387.39	398.30	402.86
Coordinated with Social Security	288.30	356.18	292.52	296.47	267.00
Alternative Formula	326.26	322.90	339.30	345.20	347.01
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	388.41	352.88	383.00	389.50	370.51
Dept. of Corrections -Special Formula - Coordinated with Social Security	326.20	331.18	339.82	310.67	319.19
Air Pilots - Coordinated with Social Security	300.00	305.68	-	-	-
TOTAL AVERAGE	***310.49***	***351.48***	***319.54***	***320.20***	***300.22***

Annuitants by Benefit Range (Monthly) June 30, 2004

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	424	424	1.0	1.0
101-200	1,369	1,793	3.2	4.2
201-300	2,081	3,874	4.9	9.1
301-400	2,155	6,029	5.1	14.2
401-500	1,986	8,015	4.7	18.9
501-600	1,794	9,809	4.2	23.1
601-700	1,667	11,476	3.9	27.0
701-800	1,525	13,001	3.6	30.6
801-900	1,433	14,434	3.4	34.0
901-1000	1,324	15,758	3.1	37.1
1001-1100	1,235	16,993	2.9	40.0
1101-1200	1,157	18,150	2.7	42.7
1201-1300	1,103	19,253	2.6	45.3
1301-1400	1,038	20,291	2.5	47.8
1401-1500	1,113	21,404	2.6	50.4
1501-1600	999	22,403	2.4	52.8
1601-1700	959	23,362	2.3	55.1
1701-1800	988	24,350	2.3	57.4
1801-1900	904	25,254	2.1	59.5
1901-2000	952	26,206	2.3	61.8
2001-2100	925	27,131	2.2	64.0
2101-2200	867	27,993	2.0	66.0
2201-5000	13,179	41,177	31.2	97.2
5000- & over	1,130	42,307	2.8	100.0

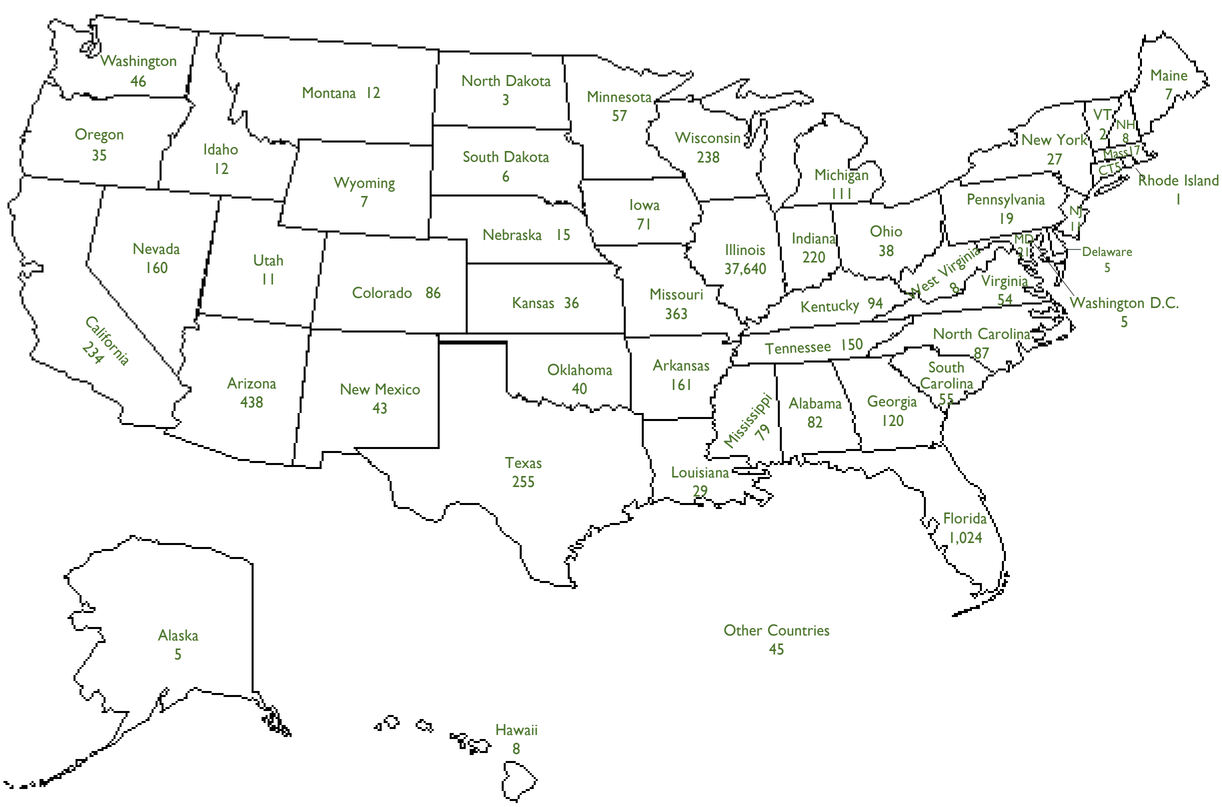
Widow's and Survivors' by Benefit Range (Monthly) June 30, 2004

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	1,188	1,188	11.8	11.8
101-200	1,590	2,778	15.8	27.6
201-300	1,781	4,559	17.7	45.3
301-400	1,358	5,917	13.5	58.8
401-500	1,217	7,134	12.1	70.9
501-600	653	7,787	6.5	77.4
601-700	453	8,240	4.5	81.9
701-800	281	8,521	2.8	84.7
801-900	228	8,749	2.3	87.0
901-1000	199	8,948	2.0	89.0
1001-1100	183	9,131	1.8	90.8
1101-1200	159	9,290	1.6	92.4
1201-1300	125	9,415	1.2	93.6
1301-1400	129	9,544	1.3	94.9
1401-1500	88	9,632	0.9	95.8
1501-1600	61	9,693	0.6	96.4
1601-1700	55	9,748	0.5	96.9
1701-1800	45	9,793	0.4	97.3
1801-1900	38	9,831	0.4	97.7
1901-2000	40	9,871	0.4	98.1
2001-2100	40	9,911	0.5	98.6
2101-2200	31	9,942	0.4	99.0
2201-5000	94	10,036	1.0	100.0
5000- & over	0	10,036	0.0	100.0

Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 2004

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	32	32	1.6	1.6
101-200	46	78	2.4	4.0
201-300	102	180	5.2	9.2
301-400	162	342	8.3	17.5
401-500	149	491	7.6	25.1
501-600	126	617	6.4	31.5
601-700	84	701	4.3	35.8
701-800	62	763	3.2	39.0
801-900	50	813	2.6	41.6
901-1000	52	865	2.7	44.3
1001-1100	55	920	2.8	47.1
1101-1200	56	976	2.9	50.0
1201-1300	80	1,056	4.1	54.1
1301-1400	90	1,146	4.6	58.7
1401-1500	75	1,221	3.8	62.5
1501-1600	81	1,302	4.1	66.6
1601-1700	75	1,377	3.8	70.4
1701-1800	74	1,451	3.8	74.2
1801-1900	97	1,548	5.0	79.2
1901-2000	53	1,601	2.7	81.9
2001-2100	76	1,677	3.9	85.8
2101-2200	45	1,722	2.3	88.1
2201-5000	230	1,952	11.8	99.9
5000- & over	3	1,955	0.2	100.0

ACTIVE RETIREES BY STATE



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PLAN SUMMARY & LEGISLATIVE SECTION

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 2004)

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: 12 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: 8 1/2% of salary
2. Without Social Security: 12 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) pays all or a part of the required employee contributions on behalf of many 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.

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.

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 2004:

Senate Bill 1075 (P.A. 93-0205, effective January 5,2004)

Modifies the definition of "Department" within the Illinois Pension Code to include the Illinois Finance Authority.

House Bill 0585 (P.A. 93-0665, effective March 5,2004)

Amends the State Finance Act and provides that , as soon as possible after the effective date, the State Comptroller shall direct and the State Treasurer shall transfer moneys from the Pension Contribution Fund to each of the state-funded retirement systems in amounts equal to the unexpended balance of the fiscal year 2004 appropriations. Once the distributions were made to the other state-funded retirement systems, the System was to receive the remaining balance of the Pension Contribution Fund. Any shortfall, or excess, was to be received from the State of Illinois or refunded to the State of Illinois, after all of the payrolls applicable to fiscal year 2004 had been processed.

This legislation only affected the funding methodology for the remainder of fiscal year 2004 and not the total funding amounts. The total fiscal year 2004 employer contributions received by the System were calculated at the actuarially required contribution rate.

NEW LEGISLATION

Amendments with an effective date after June 30, 2004:

Senate Bill 1897 (P.A. 93-0685, effective July 8, 2004).

Modifies the definition of "Employee" within the Illinois Pension Code to exclude: any person serving as a commissioner of an ethics commission created under the State Officials and Employees Ethics Act unless that person elects to participate in the System with respect to that service as a commissar; and any person serving as a part time employee within certain employment positions, unless that person elects to participate in the System with respect to that service.

Senate Bill 2206 (P.A. 93-0839, effective July 30, 2004).

Modifies the law governing distributions from the State Pensions Fund to exclude any payment to the System for fiscal year 2005.

Requires that the System include an additional amount in the employer contribution rate to be paid over to the General Obligation Bond Retirement and Interest Fund to be used to pay principal and interest on the General Obligation Bonds issued in April 2003.

Modifies the definition of "Employee" within the Illinois Pension Code to exclude a person employed by the Illinois Century Network as of June 30, 2004, and who remains continuously employed afterwards with that agency.

Changes the calculation method to be used by the Systems' actuary when valuing the costs associated with the Early Retirement Incentive (ERI) program of 2002. Also modifies the amount of the ERI costs to be recovered in FY2005. The repayment plan extends the repayment term from 2013 to 2015.

Creates a new benefit referred to as the " Alternative Retirement Cancellation Payment" (ARCP). The ARCP program entitles a qualifying member to receive a payment of the sum of the employee's accumulated contributions and credited interest, times two. He/she must also terminate employment within 2 weeks after approval of the person's application, but in no event later than October 31, 2004.

Eligibility for this program is limited to members in active payroll status on any day in June 2004; having not previously received any retirement annuity from the System; and being in one of the position titles identified in the law, among other criteria.

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