

# STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

A Pension Trust Fund of the State of Illinois

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## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2009

STATE EMPLOYEES' RETIREMENT  
SYSTEM OF ILLINOIS

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

Prepared by the Accounting Division

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# INTRODUCTORY SECTION

# LETTER OF TRANSMITTAL



- 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

February 8, 2010

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, 2009 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.

# LETTER OF TRANSMITTAL

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, 2009 are approximately \$8.5 billion, and there are 65,599 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 Statutes, 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 had a loss of 20.1%, net of expenses, for the fiscal year ended June 30, 2009.

## 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.

The funding plan for the System, enacted in 1994 with subsequent modifications, requires that state contributions be paid to the System so that by the end of fiscal year 2045, the ratio of the actuarial value of 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 fiscal years up through 2010, the required state contributions, except for fiscal years 2006 and 2007, 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. For fiscal years 2008 and 2009, the state contributed the appropriate amount as required by law.

The funding legislation also provides for the establishment of a continuing appropriation of the required state contributions to the System. This has, in effect, removed the appropriation of these funds from the annual budgetary process.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 2009, amounted to \$25.298 billion. The actuarial value of assets amounted to \$11.000 billion resulting in an unfunded accrued actuarial liability of \$14.298 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 FY09 included: a) an internal review of existing systems and procedures for streamlining and improving workflow; and b) an analysis of current forms and documents in order to determine which items could be migrated over to a web-based system.

New projects for FY10 include: a significant investment in equipment and human resources in order to allow the Information Technology Division to upgrade a number of legacy computer systems to a more current architecture; and also the implementation of a number of new legislative initiatives involving optional service credit.

## 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.

# LETTER OF TRANSMITTAL

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 BKD, 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, 2008.

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 twenty three consecutive years (fiscal years ended June 30, 1986 through June 30, 2008).

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 & 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,



Timothy B. Blair  
Acting Executive Secretary



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

# ADMINISTRATION

## BOARD OF TRUSTEES



Daniel W. Hynes  
Chairman



Michael Noser  
Appointed by Governor



Danny Silverthorn  
Appointed by Governor



Harold W. Sullivan Jr.  
Appointed by Governor



Maria Pelaez Peterson  
Appointed by Governor



Renee Friedman  
Appointed by Governor



Thomas Allison  
Appointed by Governor



Patricia Ousley  
Elected Employee



Lori Laidlaw  
Elected Employee



Patricia Rensing  
Elected Employee



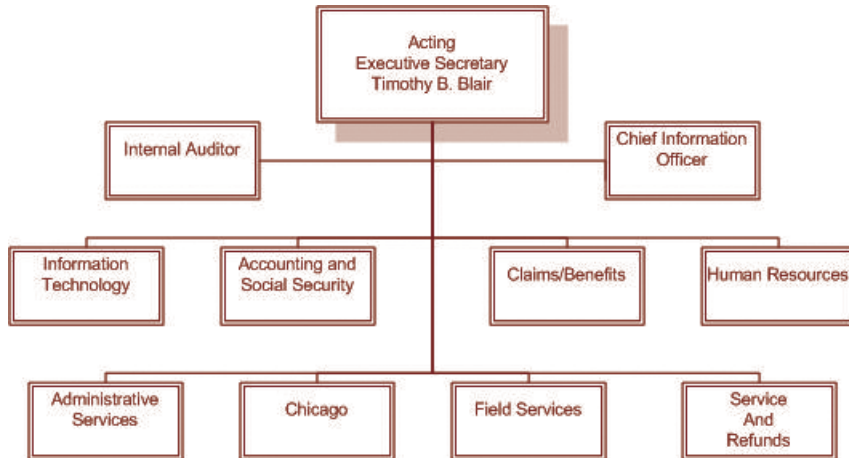
David Morris  
Elected Employee



Joyce King  
Elected Annuitant



Virginia Yates  
Elected Annuitant



### Management Group

Accounting & Social Security	Nicholas C. Merrill, Jr.
Administrative Services	David L. O'Brien
Claims/Benefits	Robert Hicks
Chicago Office	Barbara J.C. Baird
Chief Information Officer	Gerry G. Mitchell
Information Technology	Daniel Robertson
Field Services	David F. Thompson
Human Resources	Rebecca Tobias
Service & Refunds	Joseph S. Maggio
Internal Auditor	Larry L. Stone

### Advisors, Auditors & Administrators

Consulting Actuary	Gabriel, Roeder, Smith & Company Chicago Illinois
External Auditor	BKD, LLP Decatur, 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, 2008

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



President

Executive Director



# FINANCIAL SECTION



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## Independent Auditors' Report

The Honorable William G. Holland, Auditor General – State of Illinois

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of plan net assets of the State Employees' Retirement System of the State of Illinois (System), as of June 30, 2009 and 2008, and the related statement 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 audit. We did not audit the 2009 and 2008 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 97 percent, 97 percent, and 186 percent, respectively in 2009, and 97 percent, 97 percent, and (442) percent, respectively, in 2008 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based on the report of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2009 and 2008, and the changes in its 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 have also issued, under separate cover, our report dated February 2, 2010 on our consideration of the System's internal control over financial reporting and on 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 on 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 audit.

experience **BKD**



## INDEPENDENT AUDITORS' REPORT

The accompanying management's discussion and analysis and schedules of funding progress and employer contributions and accompanying notes as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary financial information in the financial section and the accompanying introductory, investment, actuarial and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary financial information in the financial section 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 as of and for the years ended June 30, 2009 and 2008, taken as a whole. The introductory, investment, actuarial and statistical sections 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.

*BKD, LLP*

February 2, 2010

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, 2009 and 2008. 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 nearly 66,000 active state employees and over 57,000 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. Basic Financial Statements. For the fiscal years ended June 30, 2009 and 2008, 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, 2009 and 2008. This financial information also summarizes the changes in net assets held in trust for pension benefits for the years then ended.

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

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

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

## FINANCIAL HIGHLIGHTS

- The Systems' net assets decreased by \$2,517.5 million and decreased by \$1,083.5 million during fiscal years 2009 and 2008, respectively. The changes were primarily due to decreases of \$2,453.2 million and \$1,156.1 million in the System's investments, at fair value, for fiscal years 2009 and 2008, respectively.
- The System was actuarially funded at 43.5% as of June 30, 2009, compared to 46.1% as of June 30, 2008. For fiscal year 2008, the actuarial value of assets was equal to the fair value of assets. For fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was (20.1)% for fiscal year 2009 compared to (6.2)% for fiscal year 2008.

## 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	
	As of June 30		2007	2008 to 2009	2007 to 2008
	2009	2008			
Cash	\$ 232.7	\$ 306.5	\$ 249.9	\$ (73.8)	\$ 56.6
Receivables	57.4	48.5	30.9	8.9	17.6
Investments, at fair value	8,200.8	10,654.0	11,810.1	(2,453.2)	(1,156.1)
Property & equipment, net	2.6	2.7	2.7	(0.1)	-
Total assets	8,493.5	11,011.7	12,093.6	(2,518.2)	(1,081.9)
Liabilities	15.6	16.3	14.7	0.7	(1.6)
Total plan net assets	<u>\$ 8,477.9</u>	<u>\$ 10,995.4</u>	<u>\$ 12,078.9</u>	<u>\$ (2,517.5)</u>	<u>\$ (1,083.5)</u>

## 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 \$242.2 million and \$250.0 million for the years ended June 30, 2009 and 2008, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to approximately \$774.9 million in 2009 from approximately \$587.7 million in 2008. This increase was the result of the State's funding plan.

## DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2009 and 2008, the System paid out approximately \$1,315.1 million and \$1,230.9 million, respectively, in benefits and refunds, an increase of approximately 6.8%. These higher payments were mainly due to a scheduled 3% increase in retirement and other benefit payments. The administrative costs of the System represented approximately 1% of total deductions in both 2009 and 2008.

## FUNDED RATIO

The funded ratio of the plan measures the ratio of the actuarial value of 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, 2009 decreased to 43.5% from 46.1% at June 30, 2008. The major reason for the decline was a significant decrease in investment revenues during Fiscal Year 2009. The amount by which actuarially determined liabilities exceeded the actuarial value of assets was \$14.3 billion at June 30, 2009 compared to \$12.8 billion at June 30, 2008.

The June 30, 2009 unfunded liability and funded ratio are based on a smoothed value of assets while the June 30, 2008 amounts are based on market value. As described in more detail in the Legislative section,

Public Act 96-0043 requires the five state retirement systems to begin smoothing actuarial gains and losses on investments over a five-year period, beginning with the valuation for the year ended June 30, 2009. Without this change, the June 30, 2009 funded ratio would have been reported as 33.5 percent.

## INVESTMENTS

Investments of the System are combined in a commingled investment pool with the Judges' Retirement System and the General Assembly Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage. Investment gains or losses are reported in the Statement of Changes in Net Assets of each retirement system.

The net investment loss for the System totaled approximately \$2,208.9 million during fiscal year 2009, versus a net investment loss of \$680.8 million during fiscal year 2008, resulting in negative returns of 20.1% and 6.2%, respectively. For the three, five, and ten year period ended June 30, 2009, the ISBI Commingled Fund earned a compounded rate of return of (4.3)%, 1.4%, and 1.9%, respectively.

The ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the ISBI's investment portfolio depends in large measure on how deep the market downturn is,

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)

	For the Year Ended June 30,			Increase/(Decrease) from	
	2009	2008	2007	2008 to 2009	2007 to 2008
<b>Additions</b>					
Participant contributions	\$ 242.2	\$ 250.0	\$ 224.7	\$ (7.8)	\$ 25.3
Employer contributions	774.9	587.7	358.8	187.2	228.9
Investment income/(loss)	(2,208.9)	(680.8)	1,779.9	(1,528.1)	(2,460.7)
Total additions/(deductions)	<u>(1,191.8)</u>	<u>156.9</u>	<u>2,363.4</u>	<u>(1,348.7)</u>	<u>(2,206.5)</u>
<b>Deductions</b>					
Benefits	1,300.2	1,214.1	1,161.3	86.1	52.8
Refunds	14.8	16.8	14.3	(2.0)	2.5
Administrative expenses	10.7	9.5	8.8	1.2	.7
Total deductions	<u>1,325.7</u>	<u>1,240.4</u>	<u>1,184.4</u>	<u>85.3</u>	<u>56.0</u>
Net increase/(decrease) in plan net assets	<u>\$ (2,517.5)</u>	<u>\$ (1,083.5)</u>	<u>\$ 1,179.0</u>	<u>\$ (1,434.0)</u>	<u>\$ (2,262.5)</u>

how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact the ISBI's financial condition. The readers of these financial statements are advised that financial markets continue to be volatile and are experiencing significant changes on almost a daily basis.

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets  
June 30, 2009 and 2008

	2009	2008
<b>Assets</b>		
Cash	\$ 232,679,069	\$ 306,528,043
Receivables:		
Contributions:		
Participants	16,280,628	16,249,569
Employing state agencies	35,390,539	26,290,400
Other accounts	5,764,303	5,921,504
Total Receivables	<u>57,435,470</u>	<u>48,461,473</u>
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	<u>8,200,755,918</u>	<u>10,653,973,521</u>
Property and equipment, net of accumulated depreciation	2,574,759	2,720,676
Total Assets	<u>8,493,445,216</u>	<u>11,011,683,713</u>
<b>Liabilities</b>		
Benefits payable	3,852,764	3,896,411
Refunds payable	109,360	351,515
Administrative expenses payable	1,429,929	1,439,220
Participants' deferred service credit accounts	173,233	253,711
Due to the State of Illinois	10,027,842	10,376,371
Total Liabilities	<u>15,593,128</u>	<u>16,317,228</u>
Net assets held in trust for pension benefits	<u>\$ 8,477,852,088</u>	<u>\$ 10,995,366,485</u>
 (A schedule of funding progress is presented on page 29.)		
See accompanying notes to financial statements.		

# FINANCIAL STATEMENTS

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets  
Years Ended June 30, 2009 and 2008

	2009	2008
Additions:		
Contributions:		
Participants	\$ 242,227,432	\$ 249,955,208
Employing State agencies and appropriations	<u>774,910,344</u>	<u>587,732,407</u>
Total Contributions	<u>1,017,137,776</u>	<u>837,687,615</u>
Investment income:		
Net investment income	224,823,314	274,524,210
Interest earned on cash balances	7,319,968	13,404,255
Net depreciation in fair value of investments	<u>(2,441,040,917)</u>	<u>(968,688,184)</u>
Total investment loss	<u>(2,208,897,635)</u>	<u>(680,759,719)</u>
Total Additions (Deductions)	<u>(1,191,759,859)</u>	<u>156,927,896</u>
Deductions:		
Benefits:		
Retirement annuities	1,164,454,557	1,089,743,632
Survivors' annuities	73,697,450	68,770,552
Disability benefits	46,513,406	43,086,065
Lump-sum benefits	<u>15,548,262</u>	<u>12,515,378</u>
Total Benefits	1,300,213,675	1,214,115,627
Refunds (including transfers to reciprocating systems)	14,859,487	16,817,433
Administrative	<u>10,681,376</u>	<u>9,537,305</u>
Total Deductions	<u>1,325,754,538</u>	<u>1,240,470,365</u>
Net Decrease	<u>(2,517,514,397)</u>	<u>(1,083,542,469)</u>
Net assets held in trust for pension benefits:		
Beginning of year	<u>10,995,366,485</u>	<u>12,078,908,954</u>
End of year	<u>\$ 8,477,852,088</u>	<u>\$ 10,995,366,485</u>

See accompanying notes to financial statements.

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2009 and 2008

### 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 thirteen persons, which includes: a. the Comptroller, who shall be the Chairperson; b. six persons appointed by the Governor with the advice and consent of the Senate who may not be members of the system or hold an elective State office and who shall serve for a term of 5 years, except that the terms of the initial appointees under the amendatory Act

of the 96th General Assembly shall be as follows: 3 for a term of 3 years and 3 for a term of 5 years; c. four active participants of the System having at least 8 years of creditable service, to be elected from the contributing members of the System by the contribution members; and d. two annuitants of the System who have been annuitants for at least one full year, to be elected from and by the annuitants of the System.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System. However, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Pursuant to federal tax laws and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of disbursing benefits in accordance with Section 415 of the Internal Revenue Code. For fiscal years 2009 and 2008, receipts were approximately \$63,400 and \$41,200, respectively. For fiscal years 2009 and 2008 disbursements were approximately \$45,400 and \$48,800, respectively.

Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the financial statements of the System.

At June 30, 2009 and 2008, the number of participating state agencies, boards and commissions totaled:		
	2009	2008
State agencies	39	38
State boards and commissions	43	41
TOTAL	<u>82</u>	<u>79</u>
At June 30, 2009 and 2008, SERS membership consisted of:		
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	44,566	43,781
Survivors' annuities	10,236	10,104
Disability benefits	2,297	2,226
TOTAL	<u>57,099</u>	<u>56,111</u>
Inactive employees entitled to benefits, but not yet receiving them	4,672	4,702
TOTAL	<u>61,771</u>	<u>60,813</u>
Current Employees:		
Vested: Coordinated with Social Security	46,159	45,176
Noncoordinated	2,052	2,099
Nonvested: Coordinated with Social Security	16,606	18,242
Noncoordinated	782	720
TOTAL	<u>65,599</u>	<u>66,237</u>

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees 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 certain other state sponsored retirement systems, persons employed after June 30, 1979 as public service employment program participants under the Federal CETA program, and other exceptions as indicated in state law, 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.

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.

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.

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 & 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.

### b. Cash

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.

### c. New Accounting Pronouncements

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, establishes accounting and financial reporting requirements for intangible assets (including certain internally developed software). All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to those intangible assets, as applicable. The System is required to implement this Statement for the year ending June 30, 2010.

GASB Statement No. 53, Accounting and Financial Reporting for the Derivative Instruments, issued June 2008, is effective for the ISBI beginning with its year ending June 30, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by the state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments.

### d. Methods Used to Value Investments

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.

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities, Forward Foreign Currency Contracts and Options: (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – average cost which approximates fair values; (4) Real Estate Investments – fair values as determined by the ISBI and its investment managers; (5) Alternative Investments (Private Equity, Hedge Funds, and Infrastructure Funds) fair values as determined by the ISBI and its investment managers; and (6) Commingled Funds- fair values as determined by the ISBI and its investment managers.

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. 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.

### e. 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, 2006.

### f. 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.

### g. 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

# FINANCIAL STATEMENTS

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.

## h. General Litigation

The System is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the plan net assets or the changes in plan net assets of the System.

## i. Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, the System makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

## j. Reclassifications

Certain fiscal year 2008 amounts have been reclassified to conform to the fiscal year 2009 presentation. These reclassifications have not changed the fiscal year 2008 results.

## 4. Investments

by the Illinois State Treasurer or agents in the name of the State Treasurer. Cash held in the investment related bank account by ISBI is neither insured nor collateralized for amounts in excess of \$250,000.

During fiscal year 2007, a Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July, 2007. The policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of State Street Bank and Trust. State Street Bank and Trust has a AA Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 rating by Moody. Certain investments of the ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less, which are not subject to the custodial risk. For financial statement presentation and investment purposes, the ISBI reports these types of cash equivalents as Money Market Instruments within their investments. The table below discloses the deposits held by the ISBI at June 30, 2009 and 2008, and the portion of those deposits exposed to custodial credit risk:

	June 30, 2009	June 30, 2008
Carrying amounts of		
Cash and Bank Balances	\$ 12,440,740	\$ 43,558,219
Amount exposed to custodial credit risk	\$ -	\$ 43,458,219

### Summary of the ISBI Fund's investments at fair value by type

	June 30, 2009	June 30, 2008
Government and agency obligations	\$ 665,018,889	\$ 852,045,701
Foreign obligations	33,237,090	113,005,430
Corporate obligations	668,047,761	1,058,164,332
Common stock & equity funds	2,610,218,733	3,823,791,711
Preferred stock	286,429	4,491,500
Foreign equity securities	1,482,594,431	1,984,314,463
Foreign preferred stock	47,856	603,032
Commingled Funds	335,484,184	417,894,222
Hedge Funds	880,939,190	598,985,402
Real estate investments	875,929,700	1,332,081,349
Private Equity	450,491,810	524,628,589
Money market instruments	235,126,490	307,481,504
Infrastructure funds	305,969,947	209,975,518
Bank loans	197,259,098	202,137,983
Forward foreign exchange contracts	(5,594,545)	(72,622)
Total investments	\$ 8,735,057,063	\$ 11,429,528,114

### Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the ISBI will not be able to recover the value of investments or collateral securities that are in the possession of a counterparty. As of June 30, 2009 and 2008, the investments listed in the table below were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the ISBI's name:

### Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System's and ISBI's deposits may not be returned. All non-investment related bank balances at year end are insured or collateralized with securities held

	2009	2008
Common stock	\$ 2,529,488	\$ 2,024,444
Government and agency obligations	7,847,410	9,695,067
Total	\$ 10,376,898	\$ 11,719,511

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	Moody's Quality Rating	2009	2008
Government and agency obligations			
U.S. Government obligations	AAA	\$ 653,019,129	\$ 661,038,878
Federal agency obligations	AA	11,999,760	5,057,314
	A	-	12,617,585
	BAA	-	4,847,471
	B	-	976,931
	Not Rated	-	167,507,521
Total Government and agency obligations		<u>\$ 665,018,889</u>	<u>\$ 852,045,700</u>
Foreign obligations			
	AAA	\$ 7,009,777	\$ 8,105,833
	AA	3,433,768	3,578,088
	A	-	12,247,911
	BAA	1,899,728	27,477,167
	BA	10,915,077	30,930,973
	B	7,765,165	10,807,260
	CAA	1,609,335	-
	C	604,240	-
	Not rated	-	19,858,198
Total foreign obligations		<u>\$ 33,237,090</u>	<u>\$ 113,005,430</u>
Corporate obligations			
	AAA	\$ 39,162,888	\$ 129,745,414
	AA	56,839,344	125,292,897
	A	209,758,077	132,759,541
	BAA	99,409,888	148,019,604
	BA	79,410,130	111,315,582
	B	132,204,912	280,234,046
	CAA	39,940,421	64,919,149
	CA	977,375	530,341
	C	-	556,527
	Not rated	10,344,726	64,791,231
Total corporate obligations		<u>\$ 668,047,761</u>	<u>\$ 1,058,164,332</u>

### Concentration of Credit Risk and Credit Risk for Investments

The ISBI's portfolio is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their Investment Management Agreement. The ISBI did not have any single issuer investment that exceeded 5% of the total net assets of the fund as of June 30, 2009 and 2008. The table above presents the quality ratings of debt securities held by the ISBI as of June 30, 2009 and 2008.

### Securities Lending

The ISBI participates in a securities lending program with State Street who acts as securities lending agent. Securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the securities are eligible for the securities lending

program. Collateral consists solely of cash, letters of credit, commercial paper and government securities having a fair value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, State Street provides the ISBI with counterparty default indemnification. The ISBI had no credit risk as a result of its securities lending program as the collateral received exceeded the fair value of the securities loaned. As of June 30, 2009 and 2008, there were outstanding loaned investment securities having fair values of \$1,476,903,266 and \$1,851,952,625, respectively; against which collateral was received with a fair value of \$1,528,744,414 and \$1,912,742,552, respectively. Collateral received at June 30, 2009 and 2008 consisted of \$1,467,250,961 and \$1,703,959,890, respectively, in cash and \$61,493,453 and \$208,782,662, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

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## Investment Commitments

The ISBI's real estate and private equity investment portfolios consist of passive interests in limited partnerships. The ISBI had outstanding commitments to these limited partnerships of approximately \$486 million and \$515 million, as of June 30, 2009 and 2008, respectively. Also, at the end of fiscal year 2009 and 2008, the ISBI had outstanding commitments of \$159 million and \$165 million, respectively, to separate real estate accounts. Also at the end of Fiscal Year 2009 and 2008, the ISBI had outstanding amounts of \$155 million and \$302 million, respectively, to infrastructure funds.

## Foreign Currency Risk

The ISBI's international portfolio is constructed on the principles of diversification, quality growth and value. Risk of loss arises from changes in currency exchange rates. International managers may also engage in transactions to hedge currency at their discretion. Certain investments held in infrastructure funds trade in a reported currency of Euro based dollars valued at \$38,643,067, and \$0, as of June 30, 2009 and 2008. The table below presents the foreign currency risk by type of investment as of June 30, 2009 and 2008.

	2009		2008	
	Foreign Equity and Foreign Preferred Securities	Foreign Obligations	Foreign Equity and Foreign Preferred Securities	Foreign Obligations
Australian Dollar	\$ 64,845,908	\$ -	\$ 122,273,518	\$ -
Brazilian Real	33,224,878	-	9,912,719	822,627
Canadian Dollar	47,104,026	-	67,312,081	640,243
Danish Krone	22,597,007	-	20,127,457	-
Egyptian Pound	631,787	-	315,568	-
English Pound Sterling	291,255,325	-	360,797,972	355,913
Euro Currency	407,541,247	-	579,718,291	3,464,132
Hong Kong Dollar	39,652,995	-	54,097,173	-
Iceland Krona	-	-	-	4,149,151
Japanese Yen	221,156,513	-	278,817,201	-
Malaysian Ringgit	-	-	-	6,031,886
Mexican Peso	2,121,876	-	2,383,899	9,829,450
New Zealand Dollar	1,076,827	-	1,093,179	-
Norwegian Krone	9,277,231	-	33,771,404	-
Singapore Dollar	30,234,461	-	33,616,147	6,136,820
South African Rand	3,495,645	-	3,038,970	-
South Korean Won	21,353,474	-	22,322,531	-
Swedish Krona	15,868,385	-	38,232,833	-
Swiss Franc	124,169,874	-	129,364,946	-
Foreign investments denominated in U.S. Dollars	147,034,828	33,237,090	227,721,606	81,575,208
Total	<u>\$1,482,642,287</u>	<u>\$ 33,237,090</u>	<u>\$ 1,984,917,495</u>	<u>\$ 113,005,430</u>

## Derivative Securities

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. Derivatives 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 of Directors 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.

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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 fair value of the forward contracts varies, the ISBI 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 fair value of forward foreign currency contracts outstanding at June 30, 2009 and 2008, is shown in the table below.

and changes in interest rates. As of June 30, 2009 and 2008, the fair value of the ISBI's CMO holdings totaled \$23,611,438 and \$165,456,226, 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

	Cost	Fair Value	Gain/(Loss)
As of June 30, 2009			
Forward currency purchases	\$173,126,960	\$181,554,864	\$ 8,427,904
Forward currency sales	183,451,357	197,473,806	(14,022,449)
Total gain/(loss)			<u>\$ (5,594,545)</u>
As of June 30, 2008			
Forward currency purchases	\$6,018,928	\$6,025,470	\$ 6,542
Forward currency sales	5,890,350	5,969,514	(79,164)
Total gain/(loss)			<u>\$ (72,622)</u>

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. The value, liquidity and related income of these securities are sensitive to prepayments by mortgagees, changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and insurers

an agreed upon price. The fair 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.

Futures and options positions held by the ISBI as of June 30, 2009 and 2008

	2009		2008	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity futures purchased	1,626	\$ 74,430,150	1,892	\$ 122,985,600
Fixed income futures purchased	-	-	3	599,694
Fixed income futures sold	-	-	790	167,444,230
Fixed income written put options	-	-	347	34,700,000
Fixed income written call options	-	-	283	28,300,000

\* 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 do 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 recorded values.

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The ISBI'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.

### Investment Liquidity

The ISBI holds investments in hedge funds, real estate funds, private equity funds and infrastructure funds that are considered illiquid by the very nature of the investment. Market risk exists with respect to these investments as the ISBI may not be able to exit from the investments during periods of significant market value declines.

### Interest Rate Risk

The ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted average rate between 80 and 120 percent of the benchmark index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. As of June 30, 2009, the ISBI benchmarks its debt security portfolio to Barclay's Capital Intermediate U.S. Government/Credit Bond Index. As of June 30, 2008, the ISBI benchmarked its debt security portfolio to Lehman Brothers Aggregate. At June 30, 2009, the effective duration of the Barclay's Capital Intermediate U.S. Government/Credit Bond Index was 3.9 years. At June 30, 2008, the effective duration of the Lehman Brothers Aggregate was 3.8 years. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2009 and 2008 was 3.8 and 4.2 years, respectively.

### Other Information

The System owns approximately 94% of the net investment assets of the ISBI Commingled Fund as of June 30, 2009 and 2008. A schedule of investment expenses is included in the ISBI's annual report.

For additional information on ISBI's investments, please refer to their Annual Report as of June 30, 2009. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

Investment Type	2009		2008	
	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
Government & agency obligations				
U.S. Government	\$ 75,529,694	5.3	\$ 235,753,279	5.3
Federal agency	589,489,195	2.9	616,292,422	3.4
Foreign obligations	33,237,090	4.7	113,005,430	5.1
Corporate obligations				
Bank and Finance	159,283,917	4.0	159,397,789	3.8
Collateralized Mortgage Obligations	19,360,918	2.8	136,048,371	1.4
Industrials	425,239,911	4.4	593,294,641	4.9
Other	64,163,015	4.7	169,423,531	5.1
	<u>\$ 1,366,303,740</u>		<u>\$ 2,023,215,463</u>	

## 5. Funding - Statutory Contributions Required & 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 2009 and 2008 the actuary used the projected unit credit actuarial method for determining the proper employer contribution rate and amount.

For fiscal year 2009 and 2008 the required employer contributions was computed in accordance with the State's funding plan. 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.

The funded status of the System as of June 30, 2009, the most recent actuarial valuation date, is in the table below:

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

- Valuation date: June 30, 2009
- 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: 30 years, open
  - b. Per state statute: 36 years, closed
- Asset valuation method: Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
- Actuarial assumptions:
  - Investment rate of return: 8.5 percent
  - Projected salary increases: 1.0 to 5.35 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: 1994 Group Annuity Mortality Table for males and females. Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

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)
\$10,999,953,527	\$25,298,346,092	\$14,298,392,565	43.5%	\$4,027,263,000	355.0%



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## 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, 2009 and 2008 totaled \$830,237 and \$757,073, respectively are included in Administrative Expenses Payable.

## 7. Property & 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 2009 and 2008:

	Beginning Balance	2009		Ending Balance
		Additions	Deletions	
Assets				
Land	\$ 655,241	\$ -	\$ -	\$ 655,241
Land improvements	250,316	-	-	250,316
Building	3,352,428	-	-	3,352,428
Equipment	2,289,613	98,881	(443,363)	1,945,131
TOTAL	<u>6,547,598</u>	<u>98,881</u>	<u>(443,363)</u>	<u>6,203,116</u>
Accumulated depreciation				
Land Improvements	(506)	(71)	-	(577)
Building	(1,952,130)	(113,382)	-	(2,065,512)
Equipment	(1,874,286)	(131,317)	443,335	(1,562,268)
TOTAL	<u>(3,826,922)</u>	<u>(244,770)</u>	<u>443,335</u>	<u>(3,628,357)</u>
Net property and equipment	<u>\$ 2,720,676</u>	<u>\$ (145,889)</u>	<u>\$ (28)</u>	<u>\$ 2,574,759</u>
		2008		
	Beginning Balance	Additions	Deletions	Ending Balance
Assets				
Land	\$ 655,241	\$ -	\$ -	\$ 655,241
Land improvements	250,316	-	-	250,316
Building	3,352,428	-	-	3,352,428
Equipment	2,115,547	279,706	(105,640)	2,289,613
TOTAL	<u>6,373,532</u>	<u>279,706</u>	<u>(105,640)</u>	<u>6,547,598</u>
Accumulated depreciation				
Land Improvements	(434)	(72)	-	(506)
Building	(1,838,748)	(113,382)	-	(1,952,130)
Equipment	(1,863,934)	(98,054)	87,702	(1,874,286)
TOTAL	<u>(3,703,116)</u>	<u>(211,508)</u>	<u>87,702</u>	<u>(3,826,922)</u>
Net property and equipment	<u>\$ 2,670,416</u>	<u>\$ 68,198</u>	<u>\$ (17,938)</u>	<u>\$ 2,720,676</u>

## 8. Collection and Remittance of Bond and Interest Payments

On April 7, 2003 House Bill 2660 was signed 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.

As of June 30, 2009 and 2008 the following amounts are included in the System's Statement of Plan Net Assets regarding the collection of bond principal and interest payments:

	2009	2008
Cash - payments collected but not yet remitted to the State of Illinois	<u>\$ 6,777,811</u>	<u>\$ 7,156,944</u>
Accounts receivable - for June payrolls received in July and August	<u>\$ 3,250,031</u>	<u>\$ 3,219,427</u>
Due to the State of Illinois	<u>\$ (10,027,842)</u>	<u>\$ (10,376,371)</u>

Public Act 93-0839, effective July 30, 2004, requires that employer contributions to the System shall include an additional amount to be paid over to the General Obligation Bond Retirement and Interest Fund to pay principal of and interest on those general obligation bonds due that fiscal year. This debt service payment is to be made on the first day of each month, or as soon thereafter as practical.

The total debt service payments received for all fiscal year 2009 and 2008 payrolls, amounted to \$78.0 million and \$80.6 million, respectively. The total amount remitted to the State of Illinois as of June 30, 2009 and 2008 was \$68.0 million and \$70.3 million, respectively.

## 9. Administrative Expenses & Other Post-Employment Benefits

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.

The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2009, 2008, and 2007 the employer contribution rates were 21.049%, 16.561%, and 11.525%, respectively. The System's contributions to SERS for fiscal years 2009, 2008, and 2007 were \$852,808, \$620,113, and \$397,983 respectively, for the general staff. The System's contributions for the electronic data processing staff for fiscal years 2009, 2008, and 2007 were \$179,993, \$194,913, and \$114,204, respectively. These amounts were equal to the required contributions for each fiscal year.

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans.

Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not

# FINANCIAL STATEMENTS

contribute towards health, dental, and vision benefits. Annuity recipients also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays the System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuity recipients and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

A summary of the administrative expenses of the System for fiscal years 2009 and 2008 are as follows:

	2009	2008
Personal Services	\$ 4,044,917	\$ 3,740,484
Employee Retirement Pickup	51,206	26,145
Retirement Contributions	852,808	620,113
Social Security Contributions	301,708	278,258
Group Insurance	950,343	903,197
Contractual Services	1,746,425	1,438,261
Travel	30,581	32,450
Commodities	29,298	27,261
Printing	52,521	77,075
Electronic data processing	2,210,406	2,119,167
Telecommunications	67,063	62,341
Automotive	19,305	18,535
Depreciation	244,771	211,508
Other (net)	80,024	(17,490)
<b>Total</b>	<b><u>\$10,681,376</u></b>	<b><u>\$ 9,537,305</u></b>

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

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

## 10. 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.

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

	2009	2008
Personal services	\$ 37,805	\$ 52,794
Retirement contributions	7,961	8,746
Social Security contributions	2,804	3,912
Contractual services	24,995	17,500
Travel	441	1,200
Commodities	175	188
Electronic Data Processing	421	452
Telecommunications	-	400
<b>Total</b>	<b><u>\$ 74,602</u></b>	<b><u>\$ 85,192</u></b>

**11. 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, 2009 and 2008**

	Participants' Contributions	Interest Accumulations	Other Future Benefits	Total Reserve Balances
Balance at June 30, 2007	\$ 1,951,976,176	\$ 1,327,434,550	\$ 8,799,498,228	\$12,078,908,954
Add (deduct):				
Excess revenue over/(under) expenses	215,763,541	-	(1,299,306,010)	(1,083,542,469)
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(97,187,084)	-	97,187,084	-
Interest credited to members' accounts	-	98,123,807	(98,123,807)	-
Balance at June 30, 2008	<u>\$ 2,070,552,633</u>	<u>\$ 1,425,558,357</u>	<u>\$ 7,499,255,495</u>	<u>\$10,995,366,485</u>
Add (deduct):				
Excess revenue over/(under) expenses	215,177,901	-	(2,732,692,298)	(2,517,514,397)
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(97,127,550)	-	97,127,550	-
Interest credited to members' accounts	-	111,570,393	(111,570,393)	-
Balance at June 30, 2009	<u><u>\$ 2,188,602,984</u></u>	<u><u>\$ 1,537,128,750</u></u>	<u><u>\$ 4,752,120,354</u></u>	<u><u>\$8,477,852,088</u></u>

# REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
6/30/04	\$ 9,990,186,874	\$ 18,442,664,834	\$ 8,452,477,960	54.2	3,439,251,000	245.8%
6/30/05	10,494,147,953	19,304,646,648	8,810,498,695	54.4	3,475,528,000	253.5
6/30/06	10,899,853,065	20,874,541,910	9,974,688,845	52.2	3,572,541,000	279.2
6/30/07	12,078,908,954	22,280,916,665	10,202,007,711	54.2	3,762,777,000	271.1
6/30/08	10,995,366,485	23,841,280,102	12,845,913,617	46.1	3,967,704,000	323.8
6/30/09	10,999,953,527	25,298,346,092	14,298,392,565	43.5	4,027,263,000	355.0

\* For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25 <sup>(1)</sup>	Percentage Contributed	(A) Annual Required Payroll Contribution per State Statute <sup>(3)</sup>	(B) State Pension Fund <sup>(4)</sup> Contribution	(A) + (B) Total Required State Contribution	Percentage Contributed
2004	\$ 576,219,951	83.1% <sup>(2)</sup>	\$ 462,200,942	\$ 15,150,000	\$ 477,350,942	100% <sup>(2)</sup>
2005	727,428,010	58.8	425,682,669	-	425,682,669	100
2006	672,555,569	31.3	207,814,710	-	207,814,710	100
2007	823,802,760	43.6	361,113,709	-	361,113,709	99
2008	986,410,891	59.6	576,626,422	-	576,626,422	102
2009	1,003,432,849	77.2	769,851,595	-	769,851,595	101

(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 P.A. 88-0593, and P.A. 94-0004 (for Fiscal Years 2006 and 2007 only). 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.

## Notes to Required Supplementary Information

Valuation date: June 30, 2009

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 – 30 years, open
- b. Per state statute – 36 years, closed

Asset valuation method – Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

Actuarial assumptions:

- Investment rate of return – 8.5 percent
- Projected salary increases – 1.0 to 5.35 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 – 1994 Group Annuity Mortality Table for males and females. Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

## SUPPLEMENTARY FINANCIAL INFORMATION

### SUMMARY OF REVENUES BY SOURCE

	2009	2008
Contributions:		
Participants	\$ 235,028,054	\$ 235,489,713
Repayments of contributions refunded	994,044	1,250,800
Interest received from participants	6,205,334	13,214,695
Total participants contributions	<u>242,227,432</u>	<u>249,955,208</u>
Employing state agencies	<u>774,910,344</u>	<u>587,732,407</u>
Investments:		
Net investments income	224,823,314	274,524,210
Interest earned on cash balances	7,319,968	13,404,255
Net depreciation in fair value of investments	<u>(2,441,040,917)</u>	<u>(968,688,184)</u>
Total investment loss	<u>(2,208,897,635)</u>	<u>(680,759,719)</u>
TOTAL REVENUE (LOSS)	<u>\$ (1,191,759,859)</u>	<u>\$ 156,927,896</u>

### SUMMARY SCHEDULE OF CASH RECEIPTS & DISBURSEMENTS

	2009	2008
Cash balance, beginning of year	\$ <u>306,528,043</u>	\$ <u>249,858,696</u>
Receipts:		
Participant contributions	230,732,180	235,381,660
Employer contributions (net of bond principal and interest transfers)	764,832,593	574,487,622
Transfers from Illinois State Board of Investment	237,000,000	462,000,000
Interest income on cash balance	7,782,920	13,825,554
Claims receivable payments	6,283,274	6,435,920
Installment payments	5,173,247	5,776,758
Other	<u>94,658</u>	<u>283,509</u>
Total cash receipts	<u>1,251,898,872</u>	<u>1,298,191,023</u>
Disbursements:		
Annuity payments:		
Retirement annuities	1,164,972,311	1,090,075,427
Widow's and Survivor's annuities	73,853,072	68,941,055
Disability benefits	44,556,315	42,468,835
Lump Sum benefits	15,979,556	13,118,221
Refunds (including transfers to reciprocal systems)	15,798,728	17,772,808
Administrative expenses	<u>10,587,864</u>	<u>9,145,330</u>
Total cash disbursements	<u>1,325,747,846</u>	<u>1,241,521,676</u>
Cash balance, end of year	<u>\$ 232,679,069</u>	<u>\$ 306,528,043</u>

### SCHEDULE OF PAYMENTS TO CONSULTANTS & ADVISORS

	2009	2008
Legal Services	\$ 32,117	\$ 38,935
Actuarial Costs	173,846	88,358
Audit Expense	113,014	94,163
Physicians and Disability Inspections	274,409	243,483
Financial Planning	64,164	52,040
Management Consultants	252,782	93,910
TOTAL	<u>\$ 910,332</u>	<u>\$ 610,889</u>

# 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 Judges' and General Assembly Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund).

As of June 30, 2009, total net assets under management valued at market, amounted to \$8.684 billion. Of the total market value of assets under management, \$8.201 billion or approximately 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 firms 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 from information provided by the ISBI.

## INVESTMENT POLICY

The ISBI operates under a strategic investment policy. 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.

The ISBI continues to seek an appropriate level of diversity among the investment professionals charged with meeting the ISBI's mission. Towards those ends, the ISBI has adopted policies regarding utilization of minority and female owned brokers, minority and female owned money managers, and emerging managers. Since April, 2006, the ISBI has achieved its minimum goal of 5% of the total portfolio being managed by emerging and minority managers. At June 30, 2009, 25.7% of the ISBI's portfolio was managed by emerging, minority, and female owned firms.

During fiscal year 2009, utilization of minority/female owned broker/dealers by ISBI investment managers far exceeded policy goals, with 57.4% of domestic equity trades being executed through

minority/female owned broker/dealers. Of those trades, 94.8% were executed through Illinois based broker/dealers. Similarly, 30% of fixed income transactions, based on par value, were placed through minority/female owned broker/dealers, of which 73.5% were with Illinois based firms. In the international portfolio, 7.3% of trades were placed with minority/female owned broker/dealers, of which 100% were with Illinois based firms.

## ASSET ALLOCATION

The investment policy of the ISBI 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.

During fiscal year 2008, consistent with its policy and industry best practices, the ISBI, working through staff and in concert with its consultant, examined the asset allocation and considered revisions. Stemming out of that work, the recommendations submitted and adopted by the ISBI Board at its March, 2008 meeting were to reduce the portfolio's exposure to domestic equities and increase investments in international equities. The domestic equity allocation was reduced from 40% to 30% and the commitment to international equities was increased from 10% to 20%. The ISBI also reduced investments in fixed income instruments from 25% to 20% and increased the utilization of hedged equity fund of funds from 5% to 10%.

Subsequent to the March, 2008 ISBI Board meeting and into early fiscal year 2009, the ISBI finalized the implementation of the portfolio changes to reflect the revised asset allocation policy.

While the ISBI made no new changes to the asset allocation policy during fiscal year 2009, difficulty was experienced in complying with the existing policy during the first two quarters. During this time period,

	Actual Asset Allocation	Policy Target
U.S. Equity	30%	30%
U.S. Equity Hedge Funds	10	10
International Equity	17	20
Commingled Funds	4	-
Fixed Income	16	18
Bank Loans	2	2
Real Estate	10	10
Private Equity	5	5
Infrastructure	3	5
Cash	3	-
Total	<u>100%</u>	<u>100%</u>



asset values declined precipitously and liquidity, both systemically and within the ISBI portfolio, declined. It was with great difficulty that the ISBI was able to rebalance the portfolio to remain true to the asset allocation model.

## INVESTMENT RESULTS

In fiscal year 2009, investors suffered from double digit declines in the U.S. equity, international equity, private equity and real estate as measured by market indices. Fixed income, as measured by Barclay's Universal Index, had a positive return. The ISBI total fund was down 20.1% for fiscal year 2009, net of expenses. This follows a negative return of 6.2% for fiscal year 2008, and positive returns of 17.1%, 11.0%, and 10.1% for fiscal years 2007, 2006, and 2005, respectively. While the ISBI continues to be concerned by some underperformance by specific managers, most of the current managers have exceeded their individual benchmarks since inception.

## REAL ESTATE

In fiscal year 2009, the ISBI's real estate portfolio earned a return of negative 31.7%. The NCREIF Real Estate Index, a measure of core, operating, non-lev-

REAL ESTATE			
	1 Year	3 Years	5 Years
ISBI	(31.7)%	(6.9)%	2.1%
NCREIF Real Estate Index	(19.6)	1.0	7.6

eraged real estate, earned a negative 19.6%. It is the ISBI's belief that much of the portfolio's underperformance relative to this benchmark can be attributed to the ISBI's prompt writing down of real estate assets, and a general lag on the part of the index for similar write downs. Further, while the ISBI, as well as most institutional investors, utilizes a prudent amount of leverage in its real estate portfolio, the NCREIF Real Estate Index is completely unleveraged. Over the last five years, the ISBI 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. The increased real estate allocation resulted in the addition of two core, separate real estate accounts. Originally, it was planned to have the new separate accounts fully invested by the end of calendar year 2008. However, as a result of challenging market conditions, those accounts are yet to be fully funded. The ISBI's real estate portfolio is invested primarily through interests in separate accounts, limited partnerships, trusts, and other forms of pooled investments.

## U.S. EQUITIES

For the twelve months ended June 30, 2009, the Russell 3000 Index, a broad representation of the U.S. market, was down 26.6%. Growth stocks exceeded value stocks, with the Russell 3000 Growth Index down 24.5%, compared to the Russell 3000 Value Index down 28.7%. Small capitalization stocks outperformed large capitalization stocks, with the S&P 500 declining 26.2% compared to a 25% decline for the Russell 2000. The ISBI's U.S. equity portfolio was down 22% for fiscal year 2009, 4.6% above the Russell 3000. The ISBI, through structure analysis, rebalancing and risk management, continues to achieve its objective of tracking the market with predictable consistency.

U.S. EQUITIES			
	1 Year	3 Years	5 Years
ISBI	(22.0)%	(6.2)%	0.0%
Russell 3000 Index	(26.6)	(8.4)	(1.8)

## INTERNATIONAL EQUITIES

The Morgan Stanley EAFE Index returned negative 31% for the fiscal year ended June 30, 2009, or 4.4% below the U.S. return. The ISBI's international equity portfolio was down 29.1%, 1.9% above the EAFE Index. As with the U.S. equity portfolio, the ISBI 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	(29.1)%	(6.4)%	3.9%
MSCI-EAFE Index	(31.0)	7.5	2.8

## FIXED INCOME

The ISBI's fixed income portfolio had a negative return of 2.4% for the fiscal year ended June 30, 2009, compared to the positive 4.9% for the Barclay's Universal Bond Index. An underweighting to Government bonds coupled with an associated overweight to investment grade, mortgage-backed securities, when compared to the index, was the reason for the under-performance.

FIXED INCOME			
	1 Year	3 Years	5 Years
ISBI	(2.4)%	(6.9)%	2.1%
Lehman U.S. Univ. Bond Index	4.9	1.0	7.6

## INVESTMENT SECTION

### PRIVATE EQUITY

In fiscal year 2009, the ISBI's private equity portfolio returns were negative 18.8%. The private equity portfolio consists of interests in limited partnerships and other commingled vehicles that invest in management buyouts, venture capital, and other private placement equity strategy activities. The private equity asset class was challenged by disruptions in the credit markets and an overall weakness in pricing for the fiscal year period. In spite of these challenges, long-term results show that private equity remains the best performing asset class for the ten-year period ended June 30, 2009.

### MANAGEMENT EXPENSES

The ISBI's total expenses for fiscal year 2009, based on \$8.8 billion in total assets were \$41.2 million, compared to \$41.9 million based on \$11.3 billion in total assets for fiscal year 2008. The resulting expense ratio (expenses divided by average fair value of assets) was .44% for fiscal year 2009, as compared to .36% for fiscal year 2008. Decreased aggregate expenses in fiscal year 2009 were mainly a result of decreased fees paid to investment managers.

### INVESTMENT PORTFOLIO SUMMARY

	June 30, 2009		June 30, 2008	
Investments, at fair value				
Government and Agency Obligations	\$ 665,018,889	7.66%	\$ 852,045,701	7.53%
Foreign Obligations	33,237,090	0.38	113,005,430	1.00
Corporate Obligations	668,047,761	7.69	1,058,164,332	9.35
Common Stock & Equity Funds	2,610,218,733	30.06	3,823,791,711	33.80
Commingled Funds	335,484,184	3.86	417,894,222	3.69
Preferred Stock	286,429	0.00	4,491,500	0.04
Foreign Equity Securities	1,482,594,431	17.07	1,984,314,463	17.54
Foreign Preferred Stock	47,856	0.00	603,032	0.00
Hedge Funds	880,939,190	10.14	598,985,402	5.29
Real Estate Funds	875,929,700	10.09	1,332,081,349	11.77
Private Equity	450,491,810	5.19	524,628,589	4.64
Money Market Instruments	235,126,490	2.71	307,481,504	2.72
Infrastructure Funds	305,969,947	3.52	209,975,518	1.85
Bank Loans	197,259,098	2.27	202,137,983	1.79
Forward Foreign Exchange Contracts	(5,594,545)	(0.05)	(72,622)	0.00
	<u>8,735,057,063</u>	<u>100.59</u>	<u>11,429,528,114</u>	<u>101.01</u>
Other Assets, Less Liabilities	(51,002,791)	(0.59)	(114,474,953)	(1.01)
Net Assets, at Fair Value	<u>\$ 8,684,054,272</u>	<u>100.00%</u>	<u>\$ 11,315,053,161</u>	<u>100.00%</u>

# INVESTMENT SECTION

## ANALYSIS OF INVESTMENT PERFORMANCE <sup>(1)</sup>

	2009	2008	2007	2006	2005
Total Return* - Past 3 years		(4.3)%			
Total Return* - Past 5 years			1.4%		
Total Return* - year by year	(20.1)%	(6.2)%	17.1%	11.0%	10.1%
System's Actuarial Assumed Rate of Return			8.5%		
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	(2.4)%	5.3%	6.9%	0.8%	6.9%
Comparison index:					
Barclay's Capital Intermediate					
U.S. Government Credit Bond Index	4.9%	6.2%	6.6%	(0.3)%	7.4%
Comparative rates of return on equities					
U.S. equities - ISBI	(22.0)%	(11.6)%	19.9%	10.7%	9.3%
Comparison index:					
Russell 3000 Index	(26.6)%	(12.5)%	20.1%	9.6%	8.1%

\* Total return is the combined effect of income earned and market appreciation (depreciation).

(1) State Street Bank and Trust, the ISBI's master custodian, provides performance rates of return by portfolio, portfolio aggregation and the respective indices.

## ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations of the System for fiscal years 2009 and 2008:

	2009	2008	Increase/(Decrease) Amount	Percentage
Balance at beginning of year,				
at fair value	\$ 10,653,973,521	\$ 11,810,137,495	\$ (1,156,163,974)	(9.8)%
Cash transferred from ISBI	(237,000,000)	(462,000,000)	225,000,000	48.7
Net ISBI investments revenue:				
ISBI Commingled Fund income	\$ 263,734,307	\$ 313,924,157	\$ (50,189,850)	(16.0)
Less ISBI Expenses	<u>(38,910,993)</u>	<u>(39,399,947)</u>	<u>488,954</u>	<u>1.2</u>
Net ISBI investments income	\$ 224,823,314	\$ 274,524,210	\$ (49,700,896)	(18.1)
Net depreciation				
in fair value of ISBI investments	<u>(2,441,040,917)</u>	<u>(968,688,184)</u>	<u>(1,472,352,733)</u>	<u>(152.0)</u>
Net ISBI investments loss	\$ (2,216,217,603)	\$ (694,163,974)	\$ (1,522,053,629)	(219.3)
Balance at end of year, at fair value	<u>\$ 8,200,755,918</u>	<u>\$ 10,653,973,521</u>	<u>\$ (2,453,217,603)</u>	<u>(23.0)%</u>

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2009 was \$7,319,968 compared to \$13,404,255 during FY 2008.

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# ACTUARIAL SECTION



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October 20, 2009

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, 2009. 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, 2010, and ending June 30, 2011. 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 P.A. 93-0589 reflecting the infusion of the proceeds from the sale of general obligation bonds. The total rate includes a portion of the debt service due to the sale of the general obligation bonds per P.A. 93-0589. The applicable portion of the debt service includes the amount necessary to pay all principal and interest for State fiscal year 2010 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 beginning July 1, 2010, are shown below.

	Preliminary	Debt Service	Total
Required Rate	28.452%	1.801%	30.253%
Required Contribution	1,193,343,000	75,538,000	1,268,881,000

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.

# ACTUARY'S CERTIFICATION LETTER

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Board of Trustees and Executive Secretary  
October 20, 2009  
Page 2

Pursuant to Public Act 96-0043, purposes of determining contribution rates for fiscal year 2011 an actuarial value of the System's assets was used. The actuarial value of assets is assumed to earn a rate of return equal to the System's actuarially assumed rate of return. 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, 2009. 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, FSA, EA, FCA, 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 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 1996 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.
- 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 actuarial value of assets of the System up to 90% of the total actuarial liabilities of the System by the end of fiscal year 2045. In making these determinations, the required contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method.

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

The funding legislation also provides for the establishment of a continuing appropriation of the required state contributions to the System. This has, in effect, removed the appropriation of these funds from the annual budgetary process.

The amortization period required by the state's funding plan, as described above, does not meet the parameters of GASB Statement No. 25.

In April, 2003, House Bill 2660 was signed into law as Public Act 93-0002. This legislation authorized the sale of \$10 billion of General Obligation bonds for the purpose of making contributions to the five state-financed retirement systems. This legislation also modified the funding plan by mandating that, beginning in fiscal year 2005, the required state contribution for each fiscal year not exceed the state contributions that would have been required had the General Obligation bond program not been in effect, reduced by the total debt service for each year for the System's portion of the General Obligation bond proceeds.

In June, 2005, Senate Bill 0027 was signed into law as Public Act 94-0004. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. The required state contributions for fiscal years 2008 through 2010 will then 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 of a 90% funded status by the end of fiscal year 2045.

For fiscal years 2009 and 2008, the System received the actuarially determined employer contributions in accordance with the state's funding plan described above.



# ACTUARIAL SECTION

## ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For fiscal years 2009 and 2008, 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 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 as previously described.

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-09 and FY-08 follows:

**Dates of Adoption:** The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; all other assumptions were adopted June 30, 2006.

**Asset Valuation Method:** For fiscal year 2008, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

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

Age	Males & Females	Components	
		Merit	Inflation
25-29	8.35%	5.35%	3.0%
30-34	7.22	4.22	3.0
35-39	6.41	3.41	3.0
40-44	5.80	2.80	3.0
45-49	5.33	2.33	3.0
50-54	4.95	1.95	3.0
55-59	4.65	1.65	3.0
60-64	4.39	1.39	3.0
65-69	4.17	1.17	3.0
70	4.00	1.00	3.0

**Interest:** 8.5% per annum, compounded annually

**Mortality:** 1994 Group Annuity Mortality Table for males and females. Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

**Termination:** Illustrative rates follow. It is assumed that terminated employees will not be rehired. The rates apply only to employees who have not fulfilled the service requirements necessary for retirement at any given age.

SELECT WITHDRAWAL RATE				
Years of Service	General Employees		Alternative Formula Employees	
	Male	Females	Males	Females
0	.2000	.2000	.0600	.1100
1	.0800	.0800	.0450	.0550

ULTIMATE WITHDRAWAL AGE				
Age	General Employees		Alternative Formula Employees	
	Male	Females	Males	Females
25-29	.0375	.0450	.0250	.0375
30-34	.0350	.0400	.0200	.0300
35-39	.0250	.0300	.0150	.0225
40-44	.0175	.0200	.0100	.0170
45-49	.0150	.0150	.0100	.0160
50-54	.0125	.0150	.0100	.0140
55-59	.0125	.0150	.0100	.0140
60	.0125	.0150	.0100	.0140
65	.0125	.0150	.0100	.0140

**Retirement Rates:** Listed below are representative sample rates of retirement that vary by age. The rates apply only to employees who have fulfilled the service requirement necessary for retirement at any given age:

Age	General Employees		Alternative Formula Employees	
	Male	Females	Males	Females
50	5.0%	5.0%	20.0%	25.0%
55	12.6	15.0	20.0	20.0
60	12.5	15.0	35.0	20.0
65	20.0	30.0	80.0	55.0
70	100.0	100.0	100.0	100.0

## ACTUARIAL SECTION

**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 active male employees are assumed to be married, 65% of active females are assumed to be married. Actual marital status at benefit commencement is used for retirees.

**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 four year period ended June 30, 2005, which was updated for values as of June 30, 2006.

**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.

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, 2009	June 30, 2008
Actuarial Liability		
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	\$ 13,829,810,216	\$ 13,142,972,180
Survivor Annuities	827,964,844	665,688,666
Disability Annuities	234,199,764	222,527,173
Deferred:		
Retirement Annuities	7,880,888	6,835,462
Survivor Annuities	8,786,123	9,679,722
TOTAL	<u>\$ 14,908,641,835</u>	<u>\$ 14,047,703,203</u>
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	360,275,792	308,404,772
Eligible for Return of Contributions Only	27,512,119	27,697,366
TOTAL	<u>\$ 387,787,911</u>	<u>\$ 336,102,138</u>
For Active Members	\$ 10,001,916,346	\$ 9,457,474,761
Actuarial Present Value of Credited Projected Benefits	\$ 25,298,346,092	\$ 23,841,280,102
Actuarial Value of Assets	10,999,953,527	10,995,366,485
Unfunded Actuarial Present Value of Credited Projected Benefits	<u>\$ 14,298,392,565</u>	<u>\$ 12,845,913,617</u>

## ACTUARIAL SECTION

### COMPUTED ACTUARIAL VALUES (in thousands of dollars)

Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Actuarial Value of Assets*	Percentage of Actuarial Values Covered by Net Assets Available		
					(1)	(2)	(3)
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
2005	1,683,382	12,484,933	5,136,332	10,494,148	100.0	70.6	0.0
2006	1,819,899	12,621,711	6,432,932	10,899,853	100.0	71.9	0.0
2007	1,951,976	13,225,507	7,103,434	12,078,909	100.0	76.6	0.0
2008	2,070,553	14,047,703	7,723,024	10,995,366	100.0	63.5	0.0
2009	2,188,603	14,908,642	8,201,101	10,999,954	100.0	59.1	0.0

\* For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

### RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-09	FY-08
Unfunded Liability, Beginning of Fiscal Year	\$ 12,845,913,617	\$ 10,202,007,711
Contributions Due		
Interest on the Unfunded Liability	1,091,902,657	867,170,655
Participants (includes Repayment of Refunds)	242,227,432	249,955,208
Total Normal Cost	362,912,309	346,308,548
Interest on Normal Cost	25,193,984	24,824,447
Total Due	<u>\$ 1,722,236,382</u>	<u>\$ 1,488,258,858</u>
Contributions Paid		
Participants (includes Repayment of Refunds)	\$ 242,227,432	\$ 249,955,208
Employing State Agencies and Appropriations	774,910,344	587,732,407
Interest on Contributions	42,346,836	34,875,727
Total Paid	<u>\$ 1,059,484,612</u>	<u>\$ 872,563,342</u>
Increase in the Unfunded Liability	<u>\$ 662,751,770</u>	<u>\$ 615,695,516</u>
Actuarial (Gains) Losses		
a. Retirements	\$ 201,216,812	\$ 224,152,409
b. Incidence of Disability	(577,146)	(410,272)
c. In-Service Mortality	1,185,568	(873,871)
d. Retiree Mortality	(110,682,645)	(130,067,851)
e. Salary Increases	(70,364,604)	207,247,739
f. Terminations	(28,294,267)	(50,749,233)
g. Investment Income	608,553,603	1,690,697,791
h. New Entrant Liability	34,428,266	28,978,282
i. Other	76,247,390	59,235,396
Total Actuarial Loss	<u>\$ 711,712,977</u>	<u>\$ 2,028,210,390</u>
Plan Provision Changes	\$ 78,014,201	-
Assumption Changes	-	-
Total Increase in Actuarial Liability	<u>= \$ 1,452,478,948</u>	<u>\$ 2,643,905,906</u>
Unfunded Liability, End of Fiscal Year	\$ 14,298,392,565	\$ 12,845,913,617

## 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 AND UNFUNDED ACCRUED LIABILITIES

Fiscal Year	Total Actuarial Liability	(in thousands of dollars)				
		Actuarial Value of Assets*	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Member Payroll	Unfunded Actuarial Liability as a % of Member Payroll
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
2005	19,304,647	10,494,148	54.4	8,810,499	3,475,528	253.5
2006	20,874,542	10,899,853	52.2	9,974,689	3,572,541	279.2
2007	22,280,917	12,078,909	54.2	10,202,008	3,762,777	271.1
2008	23,841,280	10,995,366	46.1	12,845,914	3,967,704	323.8
2009	25,298,346	10,999,954	43.5	14,298,392	4,027,263	355.0

\* For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
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)
6/30/05	69,163	3,475,528,000	50,251	3.2
6/30/06	68,075	3,572,541,000	52,479	4.4
6/30/07	67,699	3,762,777,000	55,581	5.9
6/30/08	66,237	3,967,704,000	59,902	7.8
6/30/09	65,599	4,027,263,000	61,392	2.5

## ACTUARIAL SECTION

### SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
2005	42,307	1,782	(1,440)	42,649
2006	42,649	1,398	(1,371)	42,676
2007	42,676	1,685	(1,382)	42,979
2008	42,979	2,214	(1,412)	43,781
2009	43,781	2,046	(1,261)	44,566

### SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
2005	10,036	700	(695)	10,041
2006	10,041	672	(677)	10,036
2007	10,036	677	(639)	10,074
2008	10,074	638	(608)	10,104
2009	10,104	713	(581)	10,236

### SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
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
2005	1,955	2,026	(1,843)	2,138
2006	2,138	2,129	(2,111)	2,156
2007	2,156	2,031	(1,975)	2,212
2008	2,212	2,078	(2,064)	2,226
2009	2,226	2,118	(2,047)	2,297

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# STATISTICAL SECTION

# STATISTICAL SECTION

## ASSET BALANCES

FY Ended June 30	Cash	Receivables	Investments	Fixed Assets, Net of	
				Accumulated Depreciation	Total
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
2005	204,525,471	36,938,006	10,271,356,795	3,071,449	10,515,891,721
2006	226,751,078	29,505,581	10,654,863,723	2,886,428	10,914,006,810
2007	249,858,696	30,897,571	11,810,137,495	2,670,416	12,093,564,178
2008	306,528,043	48,461,473	10,653,973,521	2,720,676	11,011,683,713
2009	232,679,069	57,435,470	8,200,755,918	2,574,759	8,493,445,216

## LIABILITIES AND RESERVE BALANCES

FY Ended June 30	Accounts Payable	RESERVES				Total Reserves	Total
		Reserve For Member Contributions	Reserve For Interest Accumulations	Reserve For Future Operations			
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	
2005	21,743,768	1,683,382,315	1,098,150,098	7,712,615,540	10,494,147,953	10,515,891,721	
2006	14,153,745	1,819,898,559	1,213,224,291	7,866,730,215	10,899,853,065	10,914,006,810	
2007	14,655,224	1,951,976,176	1,327,434,550	8,799,498,228	12,078,908,954	12,093,564,178	
2008	16,317,228	2,070,552,633	1,425,558,357	7,499,255,495	10,995,366,485	11,011,683,713	
2009	15,593,128	2,188,602,984	1,537,128,750	4,752,120,354	8,477,852,088	8,493,445,216	



CHANGES IN NET ASSETS

Fiscal Year

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Additions</b>										
Member contributions	\$ 164,792,356	\$ 173,778,661	\$ 196,915,424	\$ 285,209,344	\$ 199,826,465	\$ 209,334,207	\$ 214,108,896	\$ 224,722,599	\$ 249,955,208	\$ 242,227,432
Employer Contributions	340,872,521	366,028,937	386,116,583	396,067,236	1,864,673,411	427,434,612	210,499,791	358,786,650	587,732,407	774,910,344
Net investment income/(loss)	931,263,299	(612,302,652)	(546,111,398)	15,079,764	1,421,912,540	953,579,253	1,113,231,712	1,779,907,177	(680,759,179)	(2,208,897,635)
Total additions to/(deductions from) plan net assets	1,436,928,176	(72,495,054)	36,920,609	696,296,344	3,486,412,416	1,590,348,072	1,537,840,399	2,363,416,426	156,927,896	(1,191,759,859)
<b>Deductions</b>										
<b>Benefit Payments:</b>										
Retirement annuities	405,944,513	446,598,967	522,544,406	733,969,930	879,638,039	935,677,837	985,503,023	1,030,284,942	1,089,743,632	1,164,454,357
Survivors' annuities	42,672,462	44,958,695	47,794,085	50,724,761	54,786,031	57,542,913	61,100,647	65,215,133	68,770,552	73,697,450
Disability	29,239,488	32,604,190	33,161,126	32,868,545	33,482,302	36,828,758	40,271,588	43,053,148	43,086,065	46,513,406
Lump-sum payments	12,058,958	13,429,872	14,418,870	13,923,360	10,894,638	33,920,915	23,710,733	22,737,815	12,515,378	15,548,262
Total benefit payments	489,915,421	537,591,724	617,918,487	831,486,596	978,201,010	1,063,970,423	1,110,585,961	1,161,291,038	1,214,115,627	1,300,213,675
<b>Refunds:</b>										
Termination	13,090,272	13,459,556	10,457,845	11,924,654	10,174,522	10,661,887	10,771,309	11,016,841	12,319,212	10,262,279
Other	2,481,035	3,552,686	3,689,373	16,445,833	2,268,076	3,443,414	2,638,739	3,245,031	4,498,221	4,597,208
Total refunds	15,571,307	17,012,242	14,147,218	28,369,787	12,442,600	14,105,301	13,410,048	14,261,872	16,817,433	14,859,487
Administrative expenses	6,613,765	7,140,280	7,623,565	8,221,236	7,693,348	8,311,269	8,139,278	8,807,627	9,537,305	10,681,376
Total deductions from plan net assets	512,460,493	561,744,246	639,689,270	868,077,619	998,336,958	1,086,386,993	1,132,135,287	1,184,360,537	1,240,470,365	1,325,754,538
<b>Change in net assets</b>	\$ 924,467,683	\$ (634,239,300)	\$ (602,768,661)	\$ (171,781,275)	\$ 2,488,075,458	\$ 503,961,079	\$ 405,705,112	\$ 1,179,055,889	\$ (1,083,542,469)	\$ (2,517,514,397)

## STATISTICAL SECTION

### TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Members
	Male	Female	Total	Male	Female	Total			
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
2005	45,774	42,532	88,306	2,543	574	3,117	48,317	43,106	91,423
2006	44,656	41,657	86,313	2,586	548	3,134	47,242	42,205	89,447
2007	44,532	41,562	86,094	2,693	534	3,227	47,225	42,096	89,321
2008	43,359	41,094	84,453	2,668	504	3,172	46,027	41,598	87,625
2009	42,687	40,678	83,365	2,606	485	3,091	45,293	41,163	86,456

### ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
	Male	Female	Total	Male	Female	Total				
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
2005	34,239	32,070	66,309	2,363	491	2,854	36,602	32,561	69,163	3,475,528,000
2006	33,597	31,582	65,179	2,424	472	2,896	36,021	32,054	68,075	3,572,541,000
2007	33,264	31,457	64,721	2,525	453	2,978	35,789	31,910	67,699	3,762,777,000
2008	32,420	30,998	63,418	2,408	411	2,819	34,828	31,409	66,237	3,967,704,000
2009	32,026	30,739	62,765	2,430	404	2,834	34,456	31,143	65,599	4,027,263,000

## STATISTICAL SECTION

### NUMBER OF RECURRING BENEFIT PAYMENTS / TERMINATION REFUNDS

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total Recurring Benefit Payments	Termination Refunds
2000	30,137	9,860	2,097	42,094	2,425
2001	31,079	9,895	2,190	43,164	2,494
2002	32,424	9,981	2,152	44,557	2,244
2003	42,405	10,041	1,929	54,375	2,269
2004	42,307	10,036	1,955	54,298	2,100
2005	42,649	10,041	2,138	54,828	1,910
2006	42,676	10,036	2,156	54,868	1,903
2007	42,979	10,074	2,212	55,265	1,660
2008	43,781	10,104	2,226	56,111	1,598
2009	44,566	10,236	2,297	57,099	1,387

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

# STATISTICAL SECTION

## RETIREMENT ANNUITIES

### Average Monthly Benefit For Current Year Retirees By Type

	Fiscal Year Ending June 30				
	2009	2008	2007	2006	2005
Not Coordinated with Social Security	\$ 1,995.92	\$ 2,251.03	\$ 1,989.33	\$ 2,086.11	\$ 2,566.46
Coordinated with Social Security	1,868.68	1,798.12	1,662.84	1,549.89	1,756.40
Alternative Formula	6,991.78	6,876.42	6,523.52	6,239.07	5,617.20
Dept. of Corrections/DHS - Special Formula - Not Coordinated with Social Security	4,510.46	4,258.50	3,300.10	3,613.39	3,998.83
Dept. of Corrections/DHS - Special Formula Coordinated with Social Security	3,552.42	3,506.09	3,289.97	2,998.49	2,924.89
Air Pilots - Coordinated with Social Security	5,755.43	4,020.66	-	-	-
<b>TOTAL AVERAGE</b>	<u>\$ 2,574.36</u>	<u>\$ 2,434.59</u>	<u>\$ 2,183.70</u>	<u>\$ 1,974.35</u>	<u>\$ 2,091.30</u>

## RETIREMENT ANNUITIES

### Current Age of Active Recipients

Age	Fiscal Year Ending June 30				
	2009	2008	2007	2006	2005
Under 51	133	141	139	212	302
51-55	2,164	2,351	2,623	3,129	3,708
56-60	6,346	6,651	7,007	6,798	6,767
61-65	9,438	9,017	8,051	7,836	7,557
66-70	8,235	7,711	7,423	7,133	6,927
71-75	6,296	6,131	6,010	5,998	5,950
76-80	5,051	5,009	5,052	5,011	5,016
81-85	3,750	3,732	3,713	3,672	3,615
86-89	1,843	1,795	1,752	1,687	1,655
Over 89	1,310	1,243	1,209	1,200	1,152
<b>Total</b>	<u>44,566</u>	<u>43,781</u>	<u>42,979</u>	<u>42,676</u>	<u>42,649</u>
<b>Average Age</b>	<u>69.34</u>	<u>69.21</u>	<u>69.16</u>	<u>68.94</u>	<u>68.63</u>

## RETIREMENT ANNUITIES

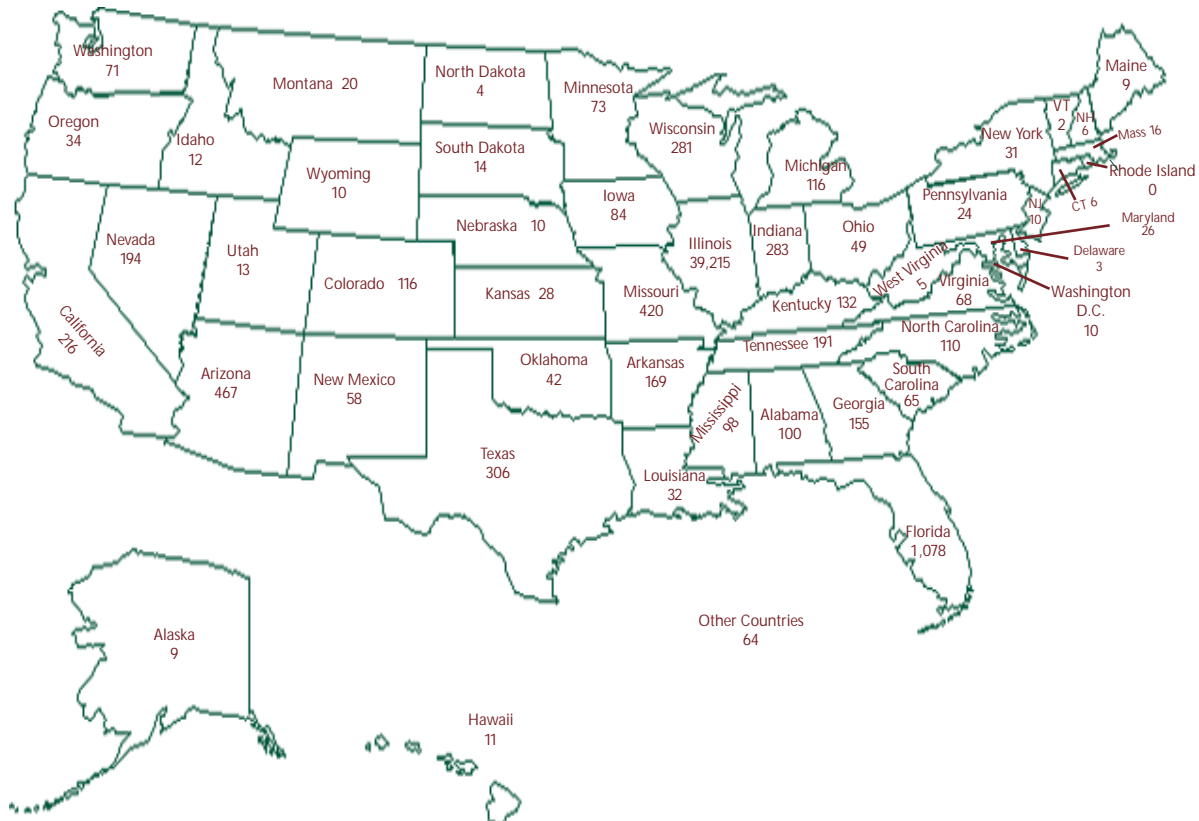
### Average Service (in months) for Current Year Retirees at Effective Date of Benefit

Fiscal Year Ending June 30	2009	2008	2007	2006	2005
Not Coordinated with Social Security	372.70	373.22	368.77	386.80	412.17
Coordinated with Social Security	299.77	297.94	286.47	291.40	304.33
Alternative Formula	318.56	322.09	324.68	318.89	321.22
Dept. of Corrections - Special Formula- Not Coordinated with Social Security	355.05	376.70	415.25	358.41	338.94
Dept. of Corrections - Special Formula- Coordinated with Social Security	313.39	318.39	320.92	317.05	323.11
Air Pilots - Coordinated with Social Security	375.00	267.75	-	-	-
<b>TOTAL AVERAGE</b>	<u>305.37</u>	<u>305.23</u>	<u>296.59</u>	<u>300.11</u>	<u>314.58</u>

# STATISTICAL SECTION

Annuityants by Benefit Range (Monthly) June 30, 2009					Widow's and Survivors' by Benefit Range (Monthly) June 30, 2009					Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 2009				
Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total	Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total	Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-100	354	354	0.8	0.8	\$ 1-100	172	172	1.7	1.7	\$ 1-100	28	28	1.2	1.2
101-200	858	1,212	1.9	2.7	101-200	794	966	7.8	9.5	101-200	28	56	1.2	2.4
201-300	1,401	2,613	3.1	5.8	201-300	929	1,895	9.1	18.6	201-300	58	114	2.5	4.9
301-400	1,538	4,151	3.5	9.3	301-400	1,042	2,937	10.2	28.8	301-400	115	229	5.0	9.9
401-500	1,576	5,727	3.5	12.8	401-500	1,702	4,639	16.6	45.4	401-500	183	412	8.0	17.9
501-600	1,485	7,212	3.3	16.1	501-600	1,409	6,048	13.8	59.2	501-600	144	556	6.3	24.2
601-700	1,394	8,606	3.1	19.2	601-700	779	6,827	7.6	66.8	601-700	125	681	5.4	29.6
701-800	1,381	9,987	3.1	22.3	701-800	548	7,375	5.4	72.2	701-800	111	792	4.8	34.4
801-900	1,275	11,262	2.9	25.2	801-900	364	7,739	3.6	75.8	801-900	102	895	4.4	38.8
901-1000	1,283	12,545	2.9	28.1	901-1000	320	8,059	3.1	78.9	901-1000	85	979	3.7	42.5
1001-1100	1,226	13,771	2.8	30.9	1001-1100	267	8,326	2.6	81.5	1001-1100	58	1,037	2.5	45.0
1101-1200	1,156	14,927	2.6	33.5	1101-1200	228	8,554	2.2	83.7	1101-1200	47	1,084	2.0	47.0
1201-1300	1,196	16,123	2.7	36.2	1201-1300	208	8,762	2.0	85.7	1201-1300	58	1,142	2.5	49.5
1301-1400	1,086	17,209	2.4	38.6	1301-1400	198	8,960	1.9	87.6	1301-1400	50	1,192	2.2	51.7
1401-1500	1,053	18,262	2.4	41.0	1401-1500	174	9,134	1.7	89.3	1401-1500	56	1,248	2.4	54.1
1501-1600	1,002	19,264	2.2	43.2	1501-1600	154	9,288	1.5	90.8	1501-1600	63	1,311	2.7	56.8
1601-1700	997	20,261	2.2	45.4	1601-1700	146	9,434	1.4	92.2	1601-1700	58	1,369	2.5	59.3
1701-1800	971	21,232	2.2	47.6	1701-1800	112	9,546	1.1	93.3	1701-1800	86	1,455	3.7	63.0
1801-1900	929	22,161	2.1	49.7	1801-1900	97	9,643	0.9	94.2	1801-1900	43	1,498	1.9	64.9
1901-2000	910	23,071	2.0	51.7	1901-2000	87	9,730	0.8	95.0	1901-2000	75	1,573	3.3	68.2
2001-2100	957	24,028	2.1	53.8	2001-2100	69	9,799	0.7	95.7	2001-2100	61	1,634	2.7	70.9
2101-2200	899	24,927	2.0	55.8	2101-2200	71	9,870	0.7	96.4	2101-2200	71	1,705	3.1	74.0
2201-5000	16,776	41,703	37.6	93.4	2201-5000	366	10,236	3.6	100.0	2201-5000	586	2,291	25.5	99.5
5000- & over	2,863	44,566	6.6	100.0	5000- & over	0	10,236	0.0	100.0	5000- & over	6	2,297	0.5	100.0

## ACTIVE RETIREES BY STATE



# STATISTICAL SECTION

## Average Benefit Payments Fiscal Years 1999 through 2008

Retirement Effective Dates	Years Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
<b>Period 7/1/99 to 6/30/00</b>							
Average monthly benefit	\$ 392	\$ 442	\$ 654	\$ 876	\$ 1,267	\$ 2,048	\$ 2,484
Average final average salary	\$ 1,367	\$ 2,813	\$ 3,098	\$ 2,943	\$ 3,247	\$ 3,828	\$ 4,107
Number of retired members	2	105	213	245	376	444	690
<b>Period 7/1/00 to 6/30/01</b>							
Average monthly benefit	\$ 255	\$ 447	\$ 641	\$ 950	\$ 1,317	\$ 2,046	\$ 2,527
Average final average salary	\$ 2,963	\$ 2,848	\$ 2,967	\$ 3,257	\$ 3,424	\$ 3,878	\$ 4,075
Number of retired members	1	90	194	212	296	433	1,044
<b>Period 7/1/01 to 6/30/02</b>							
Average monthly benefit	\$ 2,721	\$ 475	\$ 659	\$ 984	\$ 1,760	\$ 2,733	\$ 2,805
Average final average salary	\$ 5,458	\$ 3,066	\$ 3,065	\$ 3,233	\$ 3,655	\$ 4,260	\$ 4,235
Number of retired members	1	83	204	181	414	666	1,124
<b>Period 7/1/02 to 6/30/03</b>							
Average monthly benefit	\$ -	\$ 417	\$ 774	\$ 1,165	\$ 1,921	\$ 2,523	\$ 2,889
Average final average salary	\$ -	\$ 2,799	\$ 3,284	\$ 3,533	\$ 3,816	\$ 4,210	\$ 4,407
Number of retired members	-	36	317	812	2,017	2,362	5,828
<b>Period 7/1/03 to 6/30/04</b>							
Average monthly benefit	\$ -	\$ 532	\$ 666	\$ 939	\$ 1,650	\$ 3,214	\$ 2,317
Average final average salary	\$ -	\$ 3,499	\$ 3,283	\$ 3,468	\$ 3,953	\$ 5,326	\$ 4,685
Number of retired members	-	65	105	122	210	305	478
<b>Period 7/1/04 to 6/30/05</b>							
Average monthly benefit	\$ -	\$ 537	\$ 744	\$ 1,072	\$ 1,642	\$ 2,742	\$ 2,659
Average final average salary	\$ -	\$ 3,464	\$ 3,721	\$ 3,799	\$ 4,050	\$ 4,807	\$ 4,820
Number of retired members	-	99	145	177	235	400	726
<b>Period 7/1/05 to 6/30/06</b>							
Average monthly benefit	\$ -	\$ 536	\$ 715	\$ 1,090	\$ 1,696	\$ 2,893	\$ 2,422
Average final average salary	\$ -	\$ 3,672	\$ 3,614	\$ 3,763	\$ 4,169	\$ 4,990	\$ 4,769
Number of retired members	-	69	148	160	215	356	450
<b>Period 7/1/06 to 6/30/07</b>							
Average monthly benefit	\$ -	\$ 536	\$ 728	\$ 1,117	\$ 1,875	\$ 3,171	\$ 2,736
Average final average salary	\$ -	\$ 3,531	\$ 3,668	\$ 3,820	\$ 4,539	\$ 5,248	\$ 5,034
Number of retired members	-	91	190	178	289	417	520
<b>Period 7/1/07 to 6/30/08</b>							
Average monthly benefit	\$ -	\$ 565	\$ 791	\$ 1,370	\$ 2,143	\$ 3,336	\$ 2,978
Average final average salary	\$ -	\$ 3,628	\$ 3,879	\$ 4,333	\$ 4,642	\$ 5,377	\$ 5,311
Number of retired members	-	96	165	238	423	604	688
<b>Period 7/1/08 to 6/30/09</b>							
Average monthly benefit	\$ -	\$ 645	\$ 835	\$ 1,398	\$ 2,343	\$ 3,598	\$ 3,051
Average final average salary	\$ -	\$ 4,308	\$ 4,075	\$ 4,360	\$ 4,926	\$ 5,783	\$ 5,402
Number of retired members	-	91	187	191	409	509	659

# PLAN SUMMARY & LEGISLATIVE SECTION

## SUMMARY OF RETIREMENT SYSTEM PLAN (As of June 30, 2009)

### 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, Fire Fighters, 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 Commission 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.

### 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, with 8 years of credited service in SERS; 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 lesser 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.

### E. Offset removal option

Recent legislation provides for removal of the Social Security offset from the survivors annuities for (i) persons who began receiving retirement benefits or survivors annuities prior to January 1, 1998 and (ii) persons who

began receiving survivors annuities after January 1, 1998 and before the effective date of the amendatory Act. In addition this allows (i) any person who began receiving retirement benefits after January 1, 1998 and before the effective date of the amendatory Act and (ii) any employee in service on the effective date of the amendatory Act to elect to reduce his or her retirement annuity by 3.825% in exchange for not having the offset applied to his or her survivors annuity. Provides that a retiree who elects to reduce his or her retirement annuity in exchange for not having the offset applied may make an irrevocable election to eliminate the reduction of his or her retirement annuity if there is a change in marital status due to death or divorce, but the retiree is not entitled to reimbursement of any benefit reduction prior to the election.

### 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.

#### E. Offset removal option

Recent legislation provides for removal of the Social Security offset from the widow's annuities for (i) persons who began receiving retirement benefits or widow's annuities prior to January 1, 1998 and (ii) persons who began receiving widow's annuities after January 1, 1998 and before the effective date of the amendatory Act. In addition allows (i) any person who began receiving retirement benefits after January 1, 1998 and before the effective date of the amendatory Act and (ii) any employee in service on the effective date of the amendatory Act to elect to reduce his or her retirement annuity by 3.825% in exchange for not having the offset applied to his or her widow's annuity. Provides that a retiree who elects to reduce his or her retirement annuity in exchange for not having the offset applied may make an irrevocable election to eliminate the reduction of his or her retirement annuity if there is a change in marital status due to death or divorce, but the retiree is not entitled to reimbursement of any benefit reduction prior to the election.

### 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 a 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 Benefit

### 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 salary or final average compensation, whichever is higher, 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% on January 1, 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 salary or final average compensation, whichever is higher, 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% on January 1, 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 Illinois Workers' Compensation Commission. The benefit is 50% of salary or final average compensation, whichever is higher, 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 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.

## LEGISLATION AMENDMENTS

Amendments with an effective date during Fiscal Year 2009:

### House Bill 1027 (P. A. 96-0003, effective February 27, 2009)

Creates the Interfund Borrowing Act of 2009. For the purpose of making hospital access payments as set forth in approved Medicaid State plan amendments, requires transfers from the State Employees' Retirement System Fund and the General Obligation Bond Retirement and Interest Fund to the Hospital Provider Fund. Requires transfers back by April 14, 2009 from the Hospital Provider Fund if sufficient amounts are available, otherwise from the General Revenue Fund, with GRF to receive transfers back when amounts are available. Requires interest payments to the State Employees' Retirement System Fund and the General Obligation Bond Retirement and Interest Fund. Prohibits the payment of legal, financial, or other consultant fees. Repeals the Act on July 1, 2009.

### Senate Bill 1985 (P. A. 95-1043, effective March 26, 2009)

Amends the State Employee Article of the Illinois Pension Code. Provides for removal of the Social Security offset from the widow's and survivors annuities for (i) persons who began receiving retirement benefits or widow's or survivors annuities prior to January 1, 1998 and (ii) persons who began receiving widow's or survivors annuities after January 1, 1998 and before the effective date of the amendatory Act. Allows (i) any person who began receiving retirement benefits after January 1, 1998 and before the effective date of the amendatory Act and (ii) any employee in service on the effective date of the amendatory Act to elect to reduce his or her retirement annuity by 3.825% in exchange for not having the offset applied to his or her widow's or survivors annuity. Provides that a retiree who elects to reduce his or her retirement annuity in exchange for not having the offset applied may make an irrevocable election to eliminate the reduction of his or her retirement annuity if there is a change in marital status due to death or divorce, but the retiree is not entitled to reimbursement of any benefit reduction prior to the election.

### Senate Bill 364 (P. A. 96-0006, effective April 3, 2009)

Amends the Illinois Governmental Ethics Act. Requires members of the board of any pension fund or retirement system established under the Illinois Pension Code to file a statement of economic interests. Amends the State Officials and Employees Ethics Act. Includes appointed or elected commissioners, trust-

ees, directors, or board members of a State agency, including the boards found in the Illinois Pension Code, in the definition of "employee". Amends the Illinois Pension Code. Makes changes in provisions concerning the definition of "fiduciary", allocation and delegation of fiduciary duties, prohibited transactions, and prohibitions on gifts. Adds provisions concerning consultants and investment services for investment boards, pension funds, and retirement systems; fiduciary training; investment transparency; prohibitions on monetary gain on investments; fraud; and contingent fees. Amends the State Employees' Retirement System, and the State Board of Investment Articles of the Illinois Pension Code to provide for the termination of the terms of board members appointed by the Governor and require the appointment of successors, and to change the composition of the Board. In provisions concerning the boards of trustees of the State Employees' Retirement System, provides for the boards to be reconstituted 90 days after the effective date of the amendatory Act.

## NEW LEGISLATION

Amendments with an effective date after Fiscal Year 2009:

### Senate Bill 1292 (Public Act 96-0043, effective July 15, 2009)

Amends the General Obligation Bond Act. Authorizes an additional \$3,466,000,000 in Bonds to be used for the purpose of making the State's Fiscal Year 2010 required contributions to designated retirement systems. Provides that the terms of the Bonds may not exceed 5 years from issuance, and the Bonds must be issued with principal or mandatory redemption amounts in equal amounts, with payment of principal beginning in the first State fiscal year following the fiscal year of issuance. Amends the Illinois Pension Code. In provisions of each of the 5 State-funded retirement systems concerning the State contribution, (i) provides that for purposes of determining the required State contribution to the System, the value of the System's assets shall be equal to the actuarial value of the System's assets and provides guidelines for calculating the actuarial value of the System's assets and (ii) makes changes concerning the required State contribution to the systems for State fiscal year 2010. Amends the State Pension Funds Continuing Appropriation Act. Limits the continuing appropriations for the State-funded retirement systems for fiscal year 2010 to the amounts certified by the systems, less the gross proceeds of the general obligation bonds sold in fiscal year 2010.

**Senate Bill 214 (P. A. 96-0097, effective July 27, 2009)**

Allows members who rendered full-time contractual services to an Illinois Veterans Home operated by the Department of Veterans' Affairs to establish SERS service credit for up to 8 years of such service, if application to establish the service credit is made within 6 months of the effective date of the Amendatory Act. The member is required to make the applicable employee and employer contributions (normal cost), plus interest at 8.5% (compounded annually) from the latest date of membership to the date of payment.

**Senate Bill 1479 (Public Act 96-0718, effective August 25, 2009)**

Allows SERS members to establish service credit for up to five voluntary or involuntary furlough days that result from a State fiscal emergency. The furlough days must occur between July 1, 2008 and June 30, 2009, and the member must apply in writing to the System prior to July 1, 2012. The member is required to make the applicable employee and employer contributions (normal cost), plus interest at 8.5% (compounded annually) from the latest date of membership.

**House Bill 519 (P. A. 96-0745, effective August 25, 2009)**

Creates two "windows" allowing certain groups covered by the alternative formula to transfer service from other public pension funds and retirement systems to SERS.

- Attorney General Investigators and Revenue Investigators  
Allows investigators for the Office of the Attorney General and investigators for the Department of Revenue to transfer up to 5 years of service from Article 3 (Downstate Police), Article 5 (Chicago Police), Article 7 (IMRF – SLEP only), Article 9 (Cook County – County Police only) to SERS by filing a written election within 6 months of the effective date of the Amendatory Act.

The member is required to contribute the difference between the employee (State Police) and employer (normal cost) contributions that would have been made as a member of SERS, plus interest at 8.5% (compounded annually) from the date of service to the date of payment, and the amount received from the transferring fund.

- Various Groups

Allows several groups within the alternative formula to transfer up to 5 years of service from Article 7 (IMRF) or Article 9 (Cook County) to SERS by filing a written election within 6 months of the effective date of the Amendatory Act. The IMRF service must be

service as a police service for a participating municipality or law enforcement duties for a forest preserve district. The Cook County service must be service as a county corrections officer or court services officer.

Alternative formula groups eligible to make the transfer are State Police, Conservation Police, Attorney General Investigators, Department of Revenue Investigators, and Secretary of State Investigators. The member transferring the service is required to contribute the difference between the employee (State Police) and employer (normal cost) contributions that would have been made as a member of SERS, plus interest at 8.5% (compounded annually) from the date of service to the date of payment, and the amount received from the transferring fund.

**House Bill 3964 (P. A. 96-0525, effective August 14, 2009)**

Allows members who purchases service credit for a period of leave of absence to have earnings credited during the period of leave. If no contributions are required to establish service credit for the period of leave, the bill allows members to establish earnings credit for the period of leave by making the applicable employee and employer contributions (normal cost), plus interest, at 8.5% annually, from the latest date the leave began to the date of payment.

**House Bill 3606 (P. A. 96-0775, effective August 28, 2009)**

Allows any person to establish up to 4 years of SERS service credit for full-time contractual service rendered to the Illinois Institute of Natural Resources or the Illinois Department of Energy and Natural Resources. The applicant is required to make the employee (compensation and contribution rate at date of membership) and employer (normal cost) contributions, plus interest at 8.5% (compounded annually) from the first day of service for which credit is being established to the date of payment. The applicant is required to apply to purchase the service within 6 months of the effective date of the Amendatory Act.

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