

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

TWENTY-EIGHTH ANNUAL REPORT OF THE BOARD OF TRUSTEES

For the Fiscal Year Ended

June 30, 1971



1201 South Fifth Street
Springfield, Illinois 62706
Tel. 525-6581 - Area Code 217

BOARD OF TRUSTEES
(As Constituted June 30, 1971)

HOWARD C. REEDER, *Chairman*
Chairman, Executive Committee
Continental Assurance Company

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Auditor of Public Accounts
(Member Ex Officio)

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(Member Ex Officio)

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Department of Mental Health

RALPH D. BROWN, JR.
Deputy Chief Highway Engineer
Department of Transportation

NORMAN E. LENTZ
Secretary

A. A. WEINBERG
Consulting Actuary

HON. ALAN J. DIXON
State Treasurer
Treasurer

HON. WILLIAM J. SCOTT
Attorney General
Counsel

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LETTER OF TRANSMITTAL

November 30, 1972

To His Excellency
The Honorable Richard B. Ogilvie
Governor of the State of Illinois
Springfield, Illinois

Sir:-

On behalf of the Board of Trustees of the State Employees' Retirement System of Illinois, I take pleasure in submitting herewith the ~~Twenty-Eighth~~ Annual Report of the Board for the fiscal year ended June 30, 1971. 6

Respectfully Submitted,



Chairman

FINANCIAL FACTS — IN COMPARISON

<i>For the Year</i>	<i>Fiscal Year Ended June 30th</i>	
	<i>1971</i>	<i>1970</i>
Total Revenue	\$ 79,672,195	\$ 69,176,977
Total Expenditures and Charges	31,224,490	30,252,210
Excess of Total Revenues Over		
Total Expenditures	48,447,705	38,924,767
Contributions by Members	27,371,506	23,784,831
Contributions by Employer	36,800,363	32,069,702
Investment Income	15,500,326	13,322,444
Investment Income as Proportion		
of Total Revenues	19.5%	19.3%
Service Retirement Allowances	16,272,617	14,142,828
Survivors' Annuities	4,286,527	3,776,941
Disability Benefits	2,955,476	1,956,664
Death Benefits	2,108,411	1,858,711
Refunds	5,601,459	8,517,066
 <i>At End of Year</i>		
Net Present Assets	320,924,592	272,476,887
Accrued Liabilities	717,387,483	551,639,998
Unfunded Accrued Liabilities	396,462,891	279,163,111
Per Cent Funded	44.7%	49.4%
Total Investments	315,868,292	265,117,966

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
TWENTY-EIGHTH ANNUAL REPORT OF THE
BOARD OF TRUSTEES

Fiscal Year Ended June 30, 1971

The Twenty-Eighth Annual Report of the Board of Trustees, presented herewith, embodies essential facts concerning operations of the System for the fiscal year ended June 30, 1971, and its financial condition at the close of the year.

General. The 1971 legislation affecting the System resulted in substantial additional obligations due to an improvement in the retirement annuity formula and some upgrading in other provisions of the benefit schedule.

Notwithstanding the several substantive changes, the System is in a satisfactory financial condition. Most of the changes that occurred were recommended by the Board of Trustees and reflect the standards and policies approved by the Illinois Public Employees Pension Laws Commission.

The security ratio or rate of funding, representing the extent to which the total accrued liabilities are covered by net present assets, was 44.7%. This rate should improve with future operations under the established method of financing and with increasing income from investments above the interest assumption used in the calculation of costs and liabilities. A condition of relative financial stability is being maintained.

Membership. Total membership at the close of the year was 70,239. Coverage of state employees under social security has steadily increased. At June 30, 1971, approximately 70% of state employees who are members of the System, numbering 48,992, were under the coordinated plan of benefits consisting of social security coverage supplemented by reduced retirement system benefits. Beneficiaries of the System in receipt of annuities numbered 8,646 service retirement annuitants and 2,880 survivors of members.

Financial operations. Revenues for the year totalled \$79,672,195 compared to \$69,176,977 for the preceding year. These revenues are steadily increasing with increased membership, larger salaries and investment income. The expenditures for the year for pensions, benefits, and refunds amounted to \$31,224,490 compared to \$30,252,210 a year ago. These payments are also in a persistent upward trend reflecting an increase in the pension and benefit rolls.

The excess of revenues over expenditures for the year amounted to \$48,447,705. This compares with an excess last year of \$38,924,767. Excess revenue is due primarily to additional pension credits earned by the members for service rendered during the year for which reserves are accumulated as required by law.

The pension roll has shown its normal increase, both in the number and amount of payments. Total pension payments during the year amounted to \$16,272,617 compared to \$14,142,828 in the preceding year. Pension payments will continue in a steady upward trend for many years until the pension roll attains a balance between current retirements and separations from the pension roll due to death.

Ordinary disability benefits (non-occupational) showed a marked increase during the year reflecting the general trend. Accidental disability benefits also increased during the year. Payments for these benefits increased from \$1,956,664 to \$2,955,476. A larger number of claims occurred during the year. Refunds for the year, however, were substantially lower than in the preceding year decreasing from \$8,517,066 to \$5,601,459. It is noted that death benefits increased, both in number and amount. The death benefit payments for the year increased from \$1,858,711 to \$2,108,411. This trend is in accord with the general expectancy.

Reserves. At the close of the year total reserves amounted to \$320,924,592. The reserves increased in the sum of \$48,447,705. This increase is represented by the excess of revenues over expenditures for the year.

The reserves consisted of member contributions plus interest accumulations totaling \$174,372,873, a provision for death benefits payable upon death of pensioners of \$8,921,486, and a reserve for post-retirement increases to present and future retirees of \$13,976,862. The remainder of \$123,653,371 constitutes the general reserve to meet the accrued and accruing liabilities of the System.

INVESTMENTS

At June 30, 1971, the investments of the Board as reported by the Illinois State Board of Investment totalled \$315,868,292. The directive contained in the Illinois Pension Code governing the aforesaid Board granted authority to such Board to manage, invest and reinvest the reserves and monies of the State Employees' Retirement System, the General Assembly Retirement System and the Judges Retirement System.

The report of the Illinois State Board of Investment for the 1971 fiscal year shows total income return on the assets under its management of 5.36% on average monthly cost and 6.14% on average monthly market values. The several types of securities comprising the account of the State Employee's Retirement System and the investment income return hereon are as follows:

<i>Types of Investments</i>	<i>Amount</i>	<i>Per Cent of Total</i>	<i>Investment Income Return</i>	
			<i>% on Average Cost</i>	<i>% on Average Market</i>
U.S. Government Bonds	\$103,561,664	32.8%	3.66%	4.78%
Corporate obligations	139,387,803	44.1	7.05	7.94
Illinois Equity Fund	60,887,660	19.3	3.95	3.62
Cash and Temporary Securities	8,286,538	2.6	6.30	6.30
Receivables, net	3,744,627	1.2	—	—
	<u>\$315,868,292</u>	<u>100.0%</u>	<u>Composite 5.36%</u>	<u>Composite 6.14%</u>

1971 AMENDMENTS

Consideration was given by the Board to possible amendments to the retirement plan to give effect to underlying economic trends. Suggestions for possible basic changes in the plan were formulated and proposed to the Illinois Public Employees Pension Laws Commission for evaluation, report and recommendation.

A number of amendments to the pension law were enacted at the 1971 session of the Legislature. These were far-reaching in scope and character and effected several substantive changes in benefits and qualifying conditions involving cost increases. The principal changes are briefly summarized.

1. *Membership conditions.* (a) The waiting period of 1 year for membership was eliminated effective January 1, 1972. (b) The opportunity to contribute for the qualifying period of the first 12 months of employment was extended to July 1, 1972 for those who had failed to make the payment within 3 years from date of membership. (c) Members originally ineligible for membership due to advanced age and those who waived membership when the system was established were given another opportunity to obtain pension credit for employment prior to membership.

2. *Service retirement allowance.* The pension formula was revised to a basis of progression according to longevity of employment credit, as follows:

	<i>Employees Under Social Security</i>	<i>Employees NOT Under Social Security</i>
Each of first 10 years of credit	1.00%	1.67%
Each of next 10 years	1.10	1.90
Each of third 10 years	1.30	2.10
Each year over 30 years	1.50	2.30

The maximum rate of retirement allowance for all members was increased from 70% to 75% of final average salary.

A similar upgrading in rates of benefit also occurred in the case of the policemen and firemen.

A member with 35 or more years of credit may retire on full pension at any age.

3. *Final average salary base.* The final average salary base for the computation of annuities was revised from a 5-year to a 4-year average based upon the 4 highest consecutive years within the last 10 years of credit.

4. *Post-retirement adjustment.* (a) The rate of increment for post-retirement was increased from 1½% to 2% per year, effective January 1, 1972 for all eligible retired employees, present and prospective. (b) Certain additional retirees being those with between 15 and 20 years of service were made eligible for the post-retirement adjustment.

5. *Disability benefits.* (a) The qualifying period for ordinary disability benefit was reduced from 5 to 1½ years of credit. (b) The rate of benefit for accidental disability was increased from 60% to 75% of salary.

6. *Death benefits.* (a) A minimum payment of \$500.00 was provided upon death of a member while on retirement under prescribed conditions. (b) A death benefit of 1 month's salary, in addition to a return of member's contributions, was provided in the case of a member who dies during his first year of membership if no dependents survive.

7. *Survivors' benefits.* (a) The minimum age for payment of a survivor's annuity or widow's annuity was reduced from 55 to 50 years where no minor children survive. (b) The maximum monthly "survivor annuity" payment for one dependent was increased from \$200 to \$250, and for 2 or more dependents, from \$250 to \$350.

8. *Increase in members' contributions.* To help finance the cost occasioned by the several liberalizing changes, particularly the retirement annuity, the rate of members' contributions for retirement allowance purposes was increased ½ of 1% effective September 1, 1971.

ANNUAL ACTUARIAL VALUATION

An actuarial valuation was completed as of June 30, 1971 in accordance with the directive of the retirement law. The report of the actuary is a part of this annual report. The unfunded accrued liability at the aforesaid date was \$396,462,891. This represents the actuarially computed value of the accrued and unfinanced pension credits. It constitutes an accrued obligation of the State of Illinois to be discharged by future appropriations by the state to the System.

An increase in the accrued unfunded liability occurred during the year in the amount of \$117,299,780 equal to 42% due principally to the effect of the 1971 amendments to the law improving the retirement and other benefits for state employees.

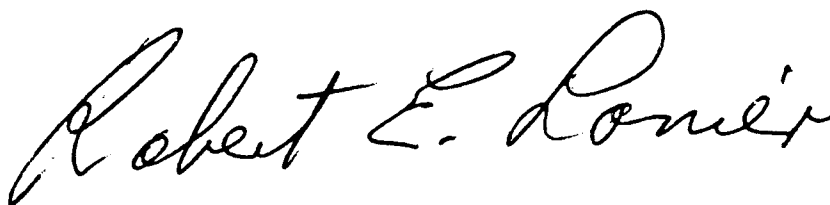
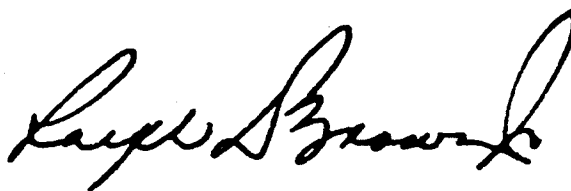
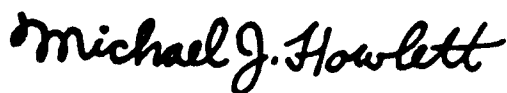
The actuary has certified the State's share of normal cost for financing the System for the 1972-1973 fiscal year to be 6.0% of payroll.

Conclusion. The efforts of the Board are being constantly directed towards an improvement in standards and procedures in administration to the end that a high level of efficiency may be maintained in the operations of the System. The cooperation and service during the year of the officials of the State of Illinois and the competence and loyalty of the administrative staff of the System is hereby acknowledged with appreciation.

BOARD OF TRUSTEES
State Employees' Retirement System of
Illinois



Chairman



Secretary

ACTUARY'S CERTIFICATION

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

We have completed an actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois as of June 30, 1971.

Appended hereto is a Valuation Balance Sheet showing the total assets, liabilities and reserves of the System at the aforesaid date. Present assets and current liabilities applied in this statement were derived from the financial reports prepared by the Secretary.

In our opinion, the accompanying Valuation Balance Sheet correctly presents the condition of the State Employees' Retirement System of Illinois at June 30, 1971, giving effect to the accrued liabilities on all benefits comprising the benefit schedule and total reserve requirements under the applicable law.

A. A. Weinberg
Consulting Actuary

August 31, 1971

VALUATION BALANCE SHEET
JUNE 30, 1971

VALUATION BALANCE SHEET – JUNE 30, 1971

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

ASSETS

PRESENT ASSETS:

Cash	\$ 401,865	
Accounts receivable	5,137,043	
Investments	<u>315,868,292</u>	\$321,407,200

PROSPECTIVE ASSETS:

Obligations for service to be rendered after June 30, 1971 –		
Male members	\$114,312,435	
Female members	73,405,392	
State of Illinois	<u>159,763,888</u>	347,481,715

DEFERRED ASSETS:

Obligation of the State of Illinois for unfinanced accrued pension credits		<u>396,462,891</u>
TOTAL ASSETS		<u><u>\$1,065,351,806</u></u>

VALUATION BALANCE SHEET – JUNE 30, 1971

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

LIABILITIES

CURRENT LIABILITIES:

Benefits payable	\$ 317,142	
Refunds payable	<u>165,466</u>	\$ 482,608

FUTURE SERVICE LIABILITY:

For pension credits on account of service after June 30, 1971 –		
Male members	\$209,287,016	
Female members	<u>138,194,699</u>	347,481,715

RESERVE LIABILITIES

MEMBERS' CONTRIBUTIONS:

For prospective retirement and widows' annuities on account of active members	\$ 94,339,759	
For future refunds and death benefits – actuarial value of future payments	<u>80,033,112</u>	174,372,871

EMPLOYER CONTRIBUTIONS:

For prospective retirement, widows' and survivors' annuities on account of active members – present value of total liability for accrued requirements	\$434,772,962	
Less, Members' contribution credits	<u>94,339,759</u>	340,433,203

RETIREMENT AND BENEFITS RESERVE:

Actuarial value of retirement, widows' and survivors' annuities in force		<u>202,581,409</u>
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TOTAL LIABILITIES AND RESERVE REQUIREMENTS		<u>\$1,065,351,806</u>
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The following explanation is given regarding the several items comprising the assets, liabilities and reserves of the System in order to facilitate an understanding thereof.

Present Assets comprise the assets on hand as taken from the financial statements submitted by the Secretary for the 1971 fiscal year.

Prospective Assets represent the obligations of the participants and the state for service to be rendered subsequent to June 30, 1971. They consist of amounts, actuarially determined, with the application of the factors of mortality, interest, turnover and others that enter into the computation of the present value of liabilities for benefits accruing on account of future service.

Deferred Assets constitute the amount accrued and unpaid on account of service rendered prior to the Balance Sheet date. This item is referred to as the "unfunded accrued liability" or "actuarial deficit". This is an obligation of the state to be discharged in future years by increasing appropriations to the System.

Current Liabilities consist of the accrued benefits and deferred credits.

Future Service Liability is an offset to Prospective Assets and represents the present value of the proportionate pension credits to be earned by the participants during future service extending from the balance sheet date to the assumed ages of retirement.

Reserve Liabilities embrace three items and represent the amounts necessary to fully fund all accrued liabilities for pensions and refunds for service prior to the balance sheet date. The three items comprising these requirements are described below.

Reserve for Members' Contributions represent the participants' own contribution credits including interest to the balance sheet date. Part of these credits are subject to refund in future years on account of resignation, dismissal or death, and part are to be applied to finance a portion of the retirement annuities and survivors' benefits to become due in the case of participants now in service or their beneficiaries who will ultimately qualify for such benefits.

Reserve for State Contributions represent the State's portion of the accrued pension credits for those participants now in service who ultimately will become entitled to retirement annuities at the ages assumed for their retirement or whose beneficiaries may become eligible for payments under the widows' or survivors' benefit provisions.

Retirement and Benefits Reserve constitutes the amount required to pay out during the future lifetime of the present pensioners and beneficiaries the pensions and other benefits previously granted and in force at the balance sheet date.

REPORT OF THE ACTUARY

Article 14 of the "Illinois Pension Code" governing the State Employees' Retirement System provides, among other things, that the actuary shall

"make an annual valuation of the liabilities and reserves of the system, an annual determination of the amount of contributions required from the State under this Article, and certify the results thereof to the Board,"

In accordance with this directive, an actuarial valuation of the System was completed as of June 30, 1971. The results are presented in this report.

Basis of valuation. The benefit and contribution provisions governing the System forming the basis of this valuation are summarized in the appendix. The 1971 amendments became effective after the valuation date. However, effect has been given in this valuation to all changes in the benefits prior to the date of valuation in order to establish the financial condition of the System on a current basis.

The valuation of reserves and liabilities under the established benefit schedule was made according to the GA-1951 table of mortality with an interest assumption of 4½% per annum. Deaths occurring while in service were valued upon the basis of the 1960 Commissioners Standard Group Table.

Results of valuation. The accompanying Valuation Balance Sheet presents the results of this valuation and illustrates the financial condition of the System at June 30, 1971. Total accrued liabilities amounted to \$717,387,483. To meet these liabilities, the System had net present assets of \$320,924,592. The difference amounting to \$396,462,891 represents the unfunded accrued liability, commonly referred to as the actuarial reserve deficiency. It constitutes a deferred obligation of the State of Illinois to be discharged by future appropriations.

A substantial increase occurred in the unfunded accrued liability in the amount of \$117,299,780. This was equal approximately to 42%. The increase was due partially to the improvements in the benefit schedule resulting from the 1971 amendments and to some extent to an adjustment in the rate of salary progression. It was noted that the average salaries of the members increased during the year at a higher rate than that assumed in the valuation. An adjustment, therefore, was made in this factor to give effect to this current variation from the assumed standard.

Statistical data. The statistics required for the preparation of this report were compiled and tabulated by members of the staff of the System under the direction and supervision of Norman E. Lentz, Secretary. Detailed tables reflecting this data are presented in the appendix of this report.

<i>Membership.</i>	<i>Male</i>	<i>Female</i>
Number of members	38,032	32,207
Proportion of total	54.1%	45.9%
Aggregate annual salaries	\$352,227,024	\$218,239,224
Average annual salary	\$ 9,261	\$ 6,776
Average age	46.9	44.7
Average service	5.9	6.5

Service retirements.

Number of retired members	4,317	4,329
Proportion of total	49.9%	50.1%
Aggregate annual payments	\$ 9,122,521	\$ 7,127,620
Average annual payment	\$ 2,113	\$ 1,646
Average age at June 30, 1971	71.8	72.6
Average age at retirement	65.7	65.7

Survivors' benefits. The following statistics are pertinent to survivors' benefits payable by the System:

	<i>Widows' Annuities</i>	<i>Survivors' Annuities</i>
Number of beneficiaries	1,111	1,769
Annual payments	\$ 1,000,692	\$ 3,047,427
Average annual payment	\$ 900	\$ 1,722
Average age (exclusive of children)	72.5	64.5

Non-occupational death benefit. This ordinary death benefit consists of (a) members' accumulated contributions, and (b) an amount equal to 1/12th of the annual rate of salary for each year of credited service not to exceed 50% of salary. The benefit represents a substantial amount of life insurance for state employees.

Claims incurred during the year on deaths occurring while in service did not vary materially from the claims incurred during the preceding year. The rate of incidence has approximated the expectancy according to the assumed mortality standards.

Occupational death. The rate of incidence of these claims has been below the expectancy according to the standard in use in an evaluation of the effect of these risks among the employees comprising the membership of the System. Claims must first be adjudicated by the Industrial Commission under the Workmen's Compensation Act before they are considered by this Board.

Non-occupational disability. Members with at least 1½ years of credit who are under age 65 are eligible for the non-occupational disability benefit. Previous to the 1971 amendments, the qualifying period of credit was 5 years. The number of these claims increased materially during the year due principally to a larger membership.

Withdrawal benefits - refunds. It is noted that marked reduction occurred in refund payments both in number and amount to state employees terminating employment. The number of withdrawals from the System were slightly below the rates of separation assumed in the actuarial functions used for our valuation and cost calculations. Approximately 80% of the refund payments were made to employees with less than 5 years of service.

Financing the System. A check of the normal cost rate for the State's share of the cost indicates that the rate of 6.0% of payroll is reasonably adequate in meeting the accruing cost for future service of the members for the fiscal year 1973. This rate will be reexamined for the certification of the requirements for the fiscal year 1974. At such time the composition of the membership will be determined with respect to the extent of social security coverage of the members and as to further possible substantive changes that may be contemplated in the benefit schedule.

General. The report presents pertinent facts as to the condition of the System and the results of its operations for the 1971 fiscal year. The method of currently budgeting for the State's normal cost of the System on a departmental basis which has been maintained during recent years has resulted in producing adequate revenues for the System at least for current service. Increased investment income plus special appropriations by the State will be required to meet the interest accrual on the unfunded accrued liability to the extent of stabilizing the liability and avoiding further increases therein.

A. A. Weinberg
Actuary

**AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 1971**

AUDITORS' REPORT

David B. Thomas
Auditor General
State of Illinois

We have examined the accompanying statements of assets and liabilities of the System Trust Fund, Social Security Contribution Fund, General Assembly Appropriation Fund, and State Property Fund of the State Employees' Retirement System of Illinois at June 30, 1971, and the related statements of revenue and expenditures and changes in reserves for the System Trust Fund, statements of cash receipts and disbursements and changes in fund balance for the Social Security Contribution Fund, statement of changes in fund balance for the General Assembly Appropriation Fund, and the statement of changes in fund balance for the State Property Fund for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the State Employees Investment Fund of the Illinois State Board of Investment which holds investments contributed by the State Employees' Retirement System of Illinois. The statements of the Illinois State Board of Investment were examined by other auditors whose report thereon has been furnished to us, and our opinion herein, insofar as it relates to amounts related to investments contributed by the State Employees' Retirement System of Illinois, is based in part upon the report of the other auditors.

As is more fully described in note A, the accompanying financial statements of the System Trust Fund do not reflect the actuarially determined reserves for employee benefits and the resultant receivable from the State, as prescribed by the Illinois Pension Code.

Because of the significance of the matter discussed in the preceding paragraph, we are of the opinion that the financial statements referred to above do not present fairly the financial position of the System Trust Fund at June 30, 1971 or the results of its operations for the year then ended in conformity with generally accepted accounting principles. In our opinion, however, based upon our examination and the report of other auditors, the following items in the financial statements referred to in the preceding paragraph are presented fairly at June 30, 1971 and for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year: cash; accounts receivable; investments; refunds payable; payments by members; contributions by employing state agencies; investment income; interest paid by members; repayments of refunds; receipts from reciprocating systems; and refunds. In our opinion the financial statements of the Social Security Contribution Fund present fairly the assets and liabilities of the aforementioned fund at June 30, 1971 arising from cash receipts and disbursements, on a basis consistent with that of the preceding year. In our opinion the financial statements of the General Assembly Appropriation Fund and the State Property Fund present fairly the financial position of the respective funds and the changes in fund balances for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Alexander Grant & Company
Certified Public Accountants

Bloomington, Illinois
August 18, 1972

**STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
SYSTEM TRUST FUND**

STATEMENT OF ASSETS AND LIABILITIES

June 30, 1971

ASSETS

CURRENT ASSETS

Cash		\$ 401,866
Contributions receivable		
From members	\$ 2,165,757	
From employer	<u>2,958,461</u>	5,124,218
Other accounts receivable		<u>12,826</u>
Total current assets		5,538,910

INVESTMENTS

Investment in Illinois State Board of Investment, State Employees' Investment Fund (note C)		315,868,292
		<u>\$321,407,202</u>

LIABILITIES

CURRENT LIABILITIES

Benefits payable		\$ 317,143
Refunds payable		<u>165,467</u>
Total current liabilities		482,610

RESERVES

Member's accumulated contributions	\$156,521,045	
Interest accumulations	17,851,828	
Annuitants' death benefits	8,921,486	
Retired members' supplemental annuities	7,062,894	
Automatic annuity increase	6,913,968	
Contingent general	<u>123,653,371</u>	320,924,592
		<u>\$321,407,202</u>

The accompanying notes are an integral part of this statement.

**STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
SYSTEM TRUST FUND**

STATEMENT OF REVENUE AND EXPENDITURES

Year ended June 30, 1971

Revenue		
Payments by members	\$27,177,897	
Contributions by employing State agencies	35,880,363	
Contribution from State of Illinois from appropriations made directly to the State Employees' Retirement System of Illinois	920,000	\$63,978,260
Investment income from the State Employees' Investment Fund of the Illinois State Board of Investment, (net of expenses of \$115,147)		15,500,326
Interest paid by members		40,272
Repayment of refunds		152,404
Receipts from reciprocating systems		933
		<u>79,672,195</u>
Expenditures		
Benefits		
Service Retirement Allowance	15,686,770	
Death benefit after retirement	113,705	
Ordinary death	1,716,127	
Accidental death	278,579	
Ordinary disability	2,770,158	
Accidental disability	185,318	
Survivors' annuity	3,272,265	
Widows' annuity	1,004,483	
Retired members supplemental annuity	585,475	
Reversionary annuity	9,779	
Automatic annuity increase	372	25,623,031
Refunds		<u>5,601,459</u>
Excess of revenue over expenditures		<u>\$48,447,705</u>

The accompanying notes are an integral part of this statement.

**STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
SYSTEM TRUST FUND**

STATEMENT OF CHANGES IN RESERVE BALANCES

Year ended June 30, 1971

	<i>Allocation by reserve</i>						
	<i>Total</i>	<i>Members contri- butions</i>	<i>Interest accumu- lations</i>	<i>Annuity death benefits</i>	<i>Retired member's supple- mental annuity</i>	<i>Automatic annuity increase</i>	<i>Contingent general</i>
Excess of revenue or (expenditures)	\$ 48,447,705	\$ 18,243,723	\$	\$	\$ (529,985)	\$ 4,549,307	\$ 26,184,660
Reserve transfers							
Interest credited			1,694,212				(1,694,212)
Transfer accumulated contributions of members who retired during the year, net of accumulated contributions of annuitants who resumed employment, to contingent general reserve		(4,931,756)					4,931,756
Transfer to adjust annuitants' death benefit reserve to an amount representing the excess of annuitants' contributions over payments made		(915,757)		915,757			
Interest income in excess of 4% average investments at June 30, 1971					3,960,070		
Credit reserve for automatic annuity increase with 4% interest on balance at July 1, 1970							(3,960,070)
Net increase in reserves for year	\$ 48,447,705	\$ 12,396,210	\$ 1,694,212	\$ 915,757	\$ 3,430,085	90,948	(90,948)
Reserve balances at July 1, 1970	272,476,887	144,124,835	16,157,616	8,005,729	3,632,809	2,273,713	25,371,186
Reserve balances at June 30, 1971	\$320,924,592	\$156,521,045	\$ 17,851,828	\$ 8,921,486	\$ 7,062,894	\$ 6,913,968	\$123,653,371

NOTES TO FINANCIAL STATEMENTS

Note A – Method of Accounting

System Trust Fund

The accounts of the State Employees' Retirement System of Illinois do not reflect the employer contributions which would be required from State of Illinois appropriation to provide for the actuarial requirements of the employee benefits provided for by the Illinois Pension Code. Accordingly the financial statements presented herein do not contain the unrecorded benefits actuarially accrued for active members. Expenditures for benefits are reported at amounts actually paid during the year ended June 30, 1971 rather than on the basis for full provision for the current cost of benefits as actuarially determined.

Social Security Contribution Fund

The financial statements of the Social Security Contribution Fund are reported on the cash basis. Deposits are received from participating political subdivisions; Auditor of Public Accounts, which represents amounts withheld from State employees for social security; and from employing State agencies for the employers' share. Disbursements to the Social Security Administration applicable to the State of Illinois are made based on payroll data submitted by the Auditor of Public Accounts. The liabilities for unremitted contributions represent the excess of amounts deposited into the fund over the amounts remitted to the Social Security Administration. However, the liabilities do not represent the total liability for social security tax applicable to salaries paid prior to July 1, 1971. Deposits and adjustments subsequent to June 30, 1971 represent collections on the liability for these wages.

Other Funds

The financial statements of the General Assembly Appropriation Fund and the State Property Fund are presented in accordance with generally accepted accounting principles.

Note B – Actuarial Data

The 75th General Assembly enacted legislation which provided that the State's contribution, together with members' contributions, interest and other income, should be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements. Cumulative contributions by the State of Illinois to the State Employees' Retirement System of Illinois have not provided for the funding of benefits on an actuarial basis as determined by the regularly retained actuary as of June 30, 1970. The amount reported by the actuary as of June 30, 1970 and 1969 is shown in the following summary:

	1970	1969
Reserve requirements as shown by the actuarial balance sheet	\$ 551,639,998	\$ 503,132,139
Reserves as shown on the books of the System	272,476,887	233,552,120
	<u> </u>	<u> </u>
Unfunded accrued liability and unfunded obligation of the State of Illinois as reported by the actuary	\$ 279,163,111	\$ 269,580,019
	<u> </u>	<u> </u>

The total reserve requirements as shown above represent the actuarially determined total accrued liability for all annuities and benefits for both present and retired members for service rendered to the respective dates.

As of June 30, 1970 actuarial determinations were being made utilizing a 4% interest assumption.

Note C – Investments

Under the provisions of Article 22A of the Illinois Pension Code, the investments of the State Employees' Retirement System of Illinois were transferred to the Illinois State Board of Investment as of June 30, 1970. The equity in the State Employees' Investment Fund is carried on the System's books at cost or amortized cost.

The components of the assets held by the State Employees' Investment Fund of the Illinois State Board of Investment are as follows:

	<i>Cost or amortized cost</i>	<i>Market</i>
U.S. Government obligations	\$ 103,561,664	\$ 80,868,879
Corporate debt	139,387,803	124,428,430
Illinois Equity Fund (5,436,808 units or 96%) . .	60,887,660	66,092,352
Cash and equivalents	8,286,538	8,286,538
Interest receivable and other	3,744,627	3,744,627
	<u>\$ 315,868,292</u>	<u>\$ 283,420,826</u>

The Illinois State Board of Investment carries these assets at market value.

Note D – Subsequent Events

On April 1, 1972, the Illinois State Board of Investment transferred U. S. Government and Corporate Bonds from the State Employees' Investment Fund to the Illinois Bond Fund, a newly established commingled fixed income fund. Assets transferred had an approximate amortized cost of \$224,000,000 with a market value approximating \$197,500,000, thereby realizing a loss of approximately \$26,500,000.

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APPENDIX A

Statistical and Claims Data

6-30-71

**TABLE 1. MEMBERSHIP BY DEPARTMENTS
JUNE 30, 1971**

Code No.	Department	Male	Female	Total	<i>Percent of Total Member- ship</i>
01	Governor	108	81	189	.27
02	Lieutenant Governor	3	4	7	.01
03	Secretary of State	812	1,284	2,096	2.98
04	Auditor of Public Accounts	71	113	184	.26
05	Treasurer	42	35	77	.12
06	Attorney General	291	152	443	.63
07	Public Instruction	148	236	384	.55
08	Courts.	169	311	480	.68
09	State Officers	239	155	394	.56
10	Aeronautics	26	16	42	.06
11	Agriculture	504	151	655	.93
12	Conservation	747	194	941	1.34
13	Finance	47	61	108	.15
14	Insurance	126	80	206	.29
15	Labor	1,377	1,984	3,361	4.78
16	Children & Family Services.	591	1,427	2,018	2.88
17	Mines and Minerals	49	17	66	.09
18	Audits.	4	3	7	.01
19	Financial Institutions	72	33	105	.15
20	Public Health	400	572	972	1.38
21	Law Enforcement	2,121	291	2,412	3.43
22	Mental Health	6,712	12,643	19,355	27.56
23	Public Works & Buildings	7,408	861	8,269	11.78
24	Registration and Education	125	152	277	.39
25	Revenue	540	882	1,422	2.02
26	Business & Economic Development	45	31	76	.12
27	General Services	438	154	592	.84
28	Personnel	142	337	479	.68
29	Corrections	2,911	842	3,753	5.34
30	Civil Service Commission	5	4	9	.01
31	Commerce Commission	134	96	230	.33
32	Liquor Control Commission	28	19	47	.08
33	Public Aid	610	1,835	2,445	3.48
34	Veterans' Commission	73	86	159	.23
35	State Militia	171	27	198	.28
45	Local Governmental Affairs	53	41	94	.13
50	Miscellaneous Agencies	1,674	841	2,515	3.58
	Inactives	4,016	6,156	15,172	21.60
	Totals	<u>38,032</u>	<u>32,207</u>	<u>70,239</u>	<u>100.00</u>

**TABLE 2. NUMBER OF MEMBERS AND TOTAL SALARIES
AT JUNE 30, 1971
CLASSIFIED BY AGE AND SEX**

Male Members

<i>Age at June 30, 1971</i>	<i>Number of Members</i>	<i>Aggregate Annual Salary Rate</i>	<i>Age at June 30, 1971</i>	<i>Number of Members</i>	<i>Aggregate Annual Salary Rate</i>
16	20	\$ 107,544	50	728	\$ 7,542,960
17	9	33,960	51	688	7,045,356
18	47	226,584	52	639	6,317,136
19	98	520,860	53	712	6,999,360
20	139	853,500	54	690	6,461,820
21	219	1,437,876	55	768	7,158,024
22	276	1,790,556	56	733	6,748,764
23	361	2,526,300	57	826	7,734,324
24	612	4,898,904	58	817	7,424,256
25	680	5,760,360	59	863	7,775,904
26	526	4,677,792	60	889	7,941,312
27	593	5,438,100	61	846	7,793,772
28	619	6,049,716	62	767	7,062,144
29	617	6,232,740	63	781	7,083,756
30	562	5,710,404	64	653	5,771,364
31	535	5,577,000	65	593	5,161,320
32	563	5,990,388	66	455	4,147,416
33	569	6,052,368	67	363	3,105,240
34	505	5,200,824	68	284	2,436,660
35	586	6,534,744	69	232	1,990,008
36	534	5,929,764	70	207	1,703,052
37	503	5,613,336	71	189	1,647,600
38	529	6,045,900	72	150	1,240,176
39	523	5,933,916	73	132	1,069,668
40	552	6,119,040	74	114	874,476
41	550	6,188,220	75	83	642,348
42	522	6,544,824	76	55	401,952
43	569	6,343,776	77	41	241,716
44	614	6,703,092	78	40	337,704
45	610	6,805,788	79	37	237,408
46	617	6,556,944	80 and over	117	643,380
47	693	8,166,780			
48	701	7,624,020			
49	664	7,082,256			
				30,809	\$300,018,552
Members having uncompleted Membership Records				7,223	52,208,472
Totals				<u>38,032</u>	<u>\$352,227,024</u>