

**STATE EMPLOYEES'
RETIREMENT SYSTEM
ANNUAL REPORT**

1977

STATE EMPLOYEES' RETIREMENT SYSTEM
1201 South Fifth Street
Springfield, Illinois 62706

Board of Trustees
(As Constituted June 30, 1977)

George Ross Forbes, Jr.	Appointed by Governor	Chairman
Michele Kane Interim Director of Finance	Ex-Officio	Trustee
Michael Bakalis Comptroller	Ex-Officio	Trustee
Donald Thannen State Employee	Appointed by Governor	Trustee
Clascenna Harvey State Employee	Appointed by Governor	Trustee

Administrative Staff

Michael L. Mory - Executive Secretary

Russell O. McClellan - Associate Executive Secretary

Robert Knox, Supervisor Claims Division	William Weir, Supervisor Administrative Services Division
Robert Doolen, Supervisor Accounting Division	Dwight Garmon, Supervisor Data Processing Division
Ann Kirk, Supervisor Service and Refunds Division	Paul Stark, Supervisor Social Security Unit

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
1201 South Fifth Street Springfield, IL 62706 217/782-7008

January 9, 1978

The Honorable James R. Thompson
Governor of the State of Illinois
Springfield, Illinois

Dear Governor:

On behalf of the Board of Trustees of the State Employees' Retirement System of Illinois, I take pleasure in submitting herewith the Annual Report of the Board for the fiscal year ended June 30, 1977.

Respectfully Submitted,



Chairman

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
1201 South Fifth Street Springfield, IL 62706 217/782-7008

December 14, 1977

Board of Trustees
State Employees' Retirement System
Springfield, Illinois

The annual report of the State Employees' Retirement System is presented herein for the purpose of informing the membership, governmental officials and the general public regarding significant facts pertaining to the operations of the System for the fiscal year ended June 30, 1977. Material is presented in a manner that allows for comparison of essential financial and statistical information with that developed in prior years.

HIGHLIGHTS OF OPERATIONS:

When viewed from an actuarial standpoint, the present financial condition of the System has shown slight improvement as evidenced by a security ratio (rate of funding) of 45.5% as of June 30, 1977 as compared to 44.6% as of the end of fiscal 1976. Unlike previous years, where such an improvement could be traced directly to increased State contributions, upward movement in the security ratio experienced during FY-77 resulted from a combination of the following factors: (1) a slight decrease in active membership, (2) a less than anticipated increase in payroll, and (3) restraint by the General Assembly and the Governor in approving legislation which increased benefits payable by the System. Once again, however, as stated in previous years, to assure long-range financial security it is necessary that an increased level of State contributions be provided.

As has been the policy over the years, the efforts of the administrative staff are constantly directed toward an improvement in the administration of the System, to the end that the System may continue to fulfill its basic objectives with maximum effectiveness as an essential adjunct of a progressive personnel policy for State Government. The following projects implemented during the 1977 fiscal year illustrate some of the more significant accomplishments achieved.

1. Development of additional claim control procedures which include: implementation of a questionnaire which was sent to the recipient of widows and survivors benefits to secure critical information concerning continued eligibility, complete redesign of the benefit removal procedure, implementation of a routine medical review procedure for all disability benefit recipients, implementation of a procedure in cooperation with the Bureau of Employment Security to

obtain private sector earnings information for disability benefit recipients, field investigation of all disability benefit recipients who reside outside of the State of Illinois, and field investigation of over 400 retirees to assure proper receipt of the benefit warrant.

2. Automation of the System's General Accounting function to include both the Cash Journals and Voucher Registers.
3. Extension of the System's field program to include the establishment of regional seminars to better provide for the dissemination of information regarding the System's benefit program to State employees employed outside of the Chicago and Springfield areas.
4. Preparation of legislation to recodify the System's governing Act, Chapter 108½, Article 14, Illinois Revised Statutes, to remove obsolete wording and better provide for efficient over-all administration of the System's benefit program. This legislation, Public Act 80-841, was passed by the General Assembly and signed by the Governor to become effective January 1, 1978.

REVENUES:

As reported in prior years, the primary sources of income to the System are the contributions received from active members and the State, as well as income earned on the investment of reserves. During the 1977 fiscal year, total revenues amounted to \$146.1 million. This represents an increase of \$8.4 million, or 6.1% over revenues received during the 1976 fiscal year.

<u>Revenue Source</u>	<u>FY-77</u>	<u>FY-76</u>	<u>Increase</u>	
	(millions)	(millions)	<u>Amount</u>	<u>Percentage</u>
Member Contributions	\$ 48.2	\$ 47.5	\$.7	1.5%
State Contributions	59.8	58.1	1.7	2.9%
Investment Income	<u>38.1</u>	<u>32.1</u>	<u>6.0</u>	<u>18.7%</u>
Total	\$146.1	\$137.7	\$8.4	6.1%

Members' contributions to the System are fixed by Statute and are applied on a payroll deduction basis as a percentage of base salary applicable to the position held. While approximately 25% of the System's membership, who are not coordinated with Social Security, contribute to the System at a rate of 8% or more, the continued decline in the rate of increase of members' contributions reflects gradual movement at the rate of approximately 2% per year toward total coordination with Social Security, as new employees automatically participate under the coordinated plan. The lower rate of increase during the year must also be attributed to a slight decrease in active membership as well as a considerably lower than expected rate of total payroll growth.

Both of these factors must be presumed to have been affected by the change in administration in January of 1977 and the subsequently announced hiring freeze which affected most of the larger departments in State Government. The following table sets forth pertinent statistics regarding active membership and total base payroll.

<u>Active Membership</u>	<u>FY-77</u>	<u>FY-76</u>	<u>Increase(Decrease)</u>	
			<u>Number/Amount</u>	<u>Percentage</u>
Coordinated Members	60,372	59,693	679	1.1%
Non-Coordinated Members	17,412	18,300	(888)	(4.9%)
Base Earnings Reported for All Members (millions)	\$884.5	\$864.2	\$20.3	2.3%

Member retirement contribution rates of 4% for coordinated and 8% for non-coordinated employees did not change during the year. The rate of Social Security contribution also remained unchanged at 5.85% for employees and employers, however, the maximum wage base did increase from \$15,300 to \$16,500 effective January 1, 1977.

The State's contribution rate of 6.7% of payroll, which remained unchanged between FY-76 and FY-77, is applied by each State Agency against base payroll each pay period. Amounts appropriated by the General Assembly for retirement purposes are vouchered by each agency as part of the payroll function. Payroll trailer warrants, which result as a by-product of the Comptroller's payroll system, are deposited by the Retirement System in the Trust Fund Account. While employer contributions increased \$1.7 million between fiscal years, \$59.8 million in FY-77 compared to \$58.1 million in FY-76, this level fell \$6.1 million short of the System's total benefit payout including administrative expenses, the level presumed to be developed at the time of Board certification of the 6.7% State contribution rate. The following table illustrates the excess/deficiency in the State contribution rate over the past five years compared to the level of benefit payout including administrative expenses incurred in each respective year.

	<u>State Contribution*</u>	<u>Benefits Plus Administrative Expenses</u>	<u>Excess(Deficiency) of State Contribution</u>
FY-73	\$39.1	\$36.8	\$2.3
FY-74	41.5	45.0	(3.5)
FY-75	51.9	52.0	(.1)
FY-76	58.1	58.7	(.6)
FY-77	59.8	65.9	(6.1)

*Includes distribution from State Pension Fund.

Increased investment income resulted from increased dollar level of reserves available for long-term investment and continued emphasis in the area of fixed income investment.

In addition, interest income in the amount of \$37,507 was earned on cash reserves maintained under the custody of the State Treasurer in the Trust Fund Account as the result of an Attorney General's Opinion No. S-1227 dated April 7, 1977 authorizing the State Treasurer to credit short term interest earnings directly to a Trust Fund Account. While not implemented until May of 1977, it is anticipated that this revised procedure will produce approximately \$300,000 in additional interest income during FY-78 and future years. This procedural change, in essence, will result in the future in 100% investment of System reserves at all times during the fiscal year.

EXPENSES:

Total expenses of the System during the fiscal year amounted to \$77.3 million, an increase of \$9.3 million or 13.7% over expenses incurred during the 1976 fiscal year. Benefit payments again increased significantly during the year to a total of \$64.8 million as compared to \$57.5 million during FY-76. While this pattern should be expected in regard to retirement and survivors benefits reflecting higher earnings and levels of State employment, some concern must be directed toward the continuing increase in disability benefit payments. In this regard, Attorney General Opinion No. S-1187 dated November 22, 1977 prescribing maternity as a compensable disability under the Retirement Act should be noted. At this time, it is estimated that maternity disability claims will result in an additional \$300,000 in disability benefit payments during FY-78. The reduction in number of disability recipients reflected in the following table should be clarified as these figures represent number of individuals on the monthly disability prelist as of the end of the fiscal year. During the year, it was necessary from a procedural standpoint to voucher accidental or non-occupational disability benefits separately from the monthly prelist for individuals receiving temporary total disability payments under the Workmen's Compensation Act. As of June 30, 1977, 127 individuals were in this category, thus increasing the total number of disability benefit recipients to 1,920. The reduction in the level of administrative expenses resulted from non-reoccurring purchases, principally automated filing equipment used for maintenance of member records.

<u>Expenses</u>	<u>FY-77</u>	<u>FY-76</u>	<u>Increase (Decrease)</u>	
	(millions)	(millions)	<u>Amount</u>	<u>Percentage</u>
Retirement Benefits	\$41.6	\$37.2	\$4.4	11.8%
Survivors Benefits	9.5	8.6	.9	10.5
Disability Benefits	11.0	9.4	1.6	17.0
Lump Sum Death Benefits	2.7	2.3	.4	17.4
Contribution Refunds	11.4	9.3	2.1	22.6
Administrative Expenses	<u>1.1</u>	<u>1.2</u>	<u>(.1)</u>	<u>(8.3)</u>
Total	<u>\$77.3</u>	<u>\$68.0</u>	<u>\$9.3</u>	<u>13.7%</u>

<u>Type of Payments</u>	<u>Number of Recipients</u>		<u>Increase(Decrease)</u>	
	<u>6-30-77</u>	<u>6-30-76</u>	<u>Number</u>	<u>Percentage</u>
Retirement Benefits	13,885	12,969	916	7.1%
Survivors Benefits	5,228	4,699	529	11.3%
Disability Benefits	1,793	1,848	(55)	(3.0%)

While not deposited in nor dispersed from the Retirement Trust Fund, Social Security taxes paid to the Federal Government on behalf of State employees amounted to \$69.3 million for the 1977 fiscal year as compared to \$65.9 million during the 1976 fiscal year.

RESERVES:

At the close of the year, total reserves, which are the dollars available to meet current and future benefit payments, amounted to \$650.3 million. These reserves increased in the sum of \$68.7 million which represents the excess of revenues amounting to \$146.1 million over expenses of \$77.3 million. The following schedule illustrates the addition of these excess dollars to the asset and reserve accounts of the System.

<u>Assets</u>	<u>FY-77</u>	<u>FY-76</u>	<u>Increase(Decrease)</u>
	(millions)	(millions)	
Cash	\$ 3.4	\$ 3.8	(\$.4)
Receivables	7.0	5.5	1.5
Investments	<u>641.6</u>	<u>573.6</u>	<u>68.0</u>
	652.0	582.9	69.1
Less Payables	<u>1.7</u>	<u>1.3</u>	<u>.4</u>
Net Assets	<u>\$650.3</u>	<u>\$581.6</u>	<u>\$68.7</u>
<u>Reserves</u>	<u>FY-77</u>	<u>FY-76</u>	<u>Increase</u>
	(millions)	(millions)	
Member	\$272.7	\$251.8	\$20.9
Future Operations	<u>377.6</u>	<u>329.8</u>	<u>47.8</u>
	<u>\$650.3</u>	<u>\$581.6</u>	<u>\$68.7</u>

Total System reserves amounting to \$650.3 million represent net present assets of the System as of the end of the 1977 fiscal year. A valuation made by the System's Consulting Actuary as of the same date indicated total accrued liabilities of the System to be \$1,429.4 million resulting in an

unfunded liability of \$779.1 million. The unfunded accrued liability represents the actuarially computed value of 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.

INVESTMENTS:

The investment function of the System, with the exception of minimal working capital reserves held by the State Treasurer to pay benefits and administrative expenses, is performed by the Illinois State Board of Investment. Established as a separate State Agency in 1969 for the purpose of ultimately offering investment services to all Public Employee Pension Funds in Illinois, the Board has structured its investment operations on a basis similar to that of a mutual fund. Separate commingled funds have been established, the Illinois Bond Fund for fixed income investment and the Illinois Equity Fund, consisting principally of common and preferred stocks. Assets currently not needed by the System for the payment of benefits and administrative expenses are transmitted to the Investment Board for long-term investment. Amounts transferred are used to purchase units of either the Bond or Equity Funds based on Investment Board direction, the number of units being determined by the market value of investments held in the particular commingled fund at the time of the transfer. During the 1977 fiscal year, \$30.0 million was transferred to said Board as compared to \$36.5 million during the 1976 fiscal year.

The Annual Report of the Illinois State Board of Investment for the 1977 fiscal year reflects System net investment income of \$38.0 million, representing a rate of return of 6.26% on average cost and 6.52% on average market value during the year. Total investment return for the year, including realized and unrealized market appreciation/depreciation, was 7.5% as compared to 9.5% during the 1976 fiscal year. Securities by type comprising the portfolio of the System and fiscal year 1977 rates of return are shown in the following table:

<u>Type of Investments</u>	<u>Amount</u>		<u>Percent</u>		<u>Income Return</u>		<u>Total Return</u> Percent on Average Market
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>on</u> <u>Average</u> <u>Cost</u>	<u>on</u> <u>Average</u> <u>Market</u>	
Fixed Income Investments (Illinois Bond Fund)	\$443.2	\$443.2	69.1%	71.4%	7.59%	7.76%	13.2%
Equity Investments (Illinois Equity Fund)	195.3	174.1	30.4	28.1	3.35%	3.63%	-3.4%
Cash and Equivalents	<u>3.1</u>	<u>3.1</u>	<u>.5</u>	<u>.5</u>	-	-	-
	<u>\$641.6</u>	<u>\$620.4</u>	<u>100%</u>	<u>100%</u>	6.26%	6.52%	7.5%

NOTES TO TABLE:

1. Rate of income return on cash and equivalents is included in yield on fixed income investments.
2. The total portfolio rate of return was computed using a dollar weighted calculation method. The total rate of return on the Illinois Bond and Equity Funds was computed using a time weighted calculation method.

The cumulative average rate of return earned by the System since the transfer of assets to the Investment Board on June 30, 1970 is reflected in the following table:

<u>Fiscal Year</u>	<u>New Money Contributions</u>	<u>Realized & Unrealized Market Appreciation (Depreciation)</u>	<u>Net Income</u>	<u>Net Assets at Market (Period End)</u>	<u>Cumulative Annualized Rate of Return*</u>
1977	\$30,000,000	\$ 5,525,147	\$38,035,539	\$620,409,169	6.4%
1976	36,500,000	16,066,781	32,082,739	546,848,483	6.2
1975	36,500,000	21,910,000	28,346,030	462,198,963	5.3
1974	24,000,000	(58,452,456)	23,817,891	375,442,933	3.2
1973	36,500,000	(18,022,997)	19,174,915	386,077,498	8.2
1972	32,250,000	17,604,686	15,150,068	348,425,580	12.8
1971	35,250,000	22,430,027	15,500,326	283,420,826	15.4
1970**				210,240,473	

*Total internal rate of return (including income).

**Assets transferred to Board June 30, 1970.

LEGISLATIVE AMENDMENTS:

During the 1977 fiscal year only one legislative amendment, House Bill 3648, was passed by the General Assembly and approved by the Governor affecting the operations of the System. House Bill 3648 effective October 1, 1976 amended the Unemployment Insurance Act, Chapter 48, Para. 640, Illinois Revised Statutes and permitted the System to obtain employment information from the Bureau of Employment Security for purposes of determining if a recipient of a disability benefit was gainfully employed in the private sector.

Subsequent to June 30, 1977, several pieces of legislation of a substantial nature became law affecting the operations and/or benefit structure of the System. A summary of these amendments follows:

Senate Bill 751, effective September 16, 1977, established a minimum monthly pension of \$150 for present retirees who as of September 16, 1977 were 65 or more years of age, and who retired with 20 or more years of creditable service. Annuitants who retired under the provisions of the Retirement System's Reciprocal Act or who contributed to Social Security as a part of their State employment are excluded from the provisions of this bill.

To qualify for the minimum pension of \$150 an annuitant must pay to the System in a lump sum an amount equal to 1% of his final average monthly compensation times the number of his full years of creditable service at the time of retirement. The increase in pension is effective the first of the month following receipt of the payment by the System.

Any retiree who has already qualified for annual increases in his pension forfeits all such further increases if he elects to participate in this program.

Senate Bill 826, effective October 1, 1977 established the same contribution schedule and benefit structure for pensions for certain air pilots as is now applicable to State Police and IBI Agents.

House Bill 541, effective October 1, 1977 provides that the effective date of a pension may not be more than one year prior to the date a member files application for it - previously it was 90 days.

House Bill 1782, effective January 1, 1978. This is a complete rewriting of Article 14 of the Illinois Pension Code which is the statute governing operations of the State Employees' Retirement System.

The rewritten Article eliminates redundant verbiage and outdated provisions, clarifies ambiguous provisions and includes within each section all information related thereto. The benefit structure and the contribution schedule for members remain unchanged.

Some of the revisions of significance and importance include:

1. Overtime pay will be included as a part of earnings. Contributions to the System, therefore, will be made on overtime in addition to regular salary and the total amount will be used in the computation of pensions and most other benefits with the exception of disability and certain death benefits which will continue to be based on salary rate.
2. After January 1, 1978 members establishing credit for any service prior to their date of membership will be required to pay interest at 5% per annum compounded annually on the contributions due. Interest will be computed from the last date of membership to the date of payment. Contributions will be based on compensation and contribution rate in effect on the last date of membership, however, for all service prior to January 1, 1969 the regular or non-coordinated contribution rate will be payable.

3. Layoff is now considered termination of employment. Consequently, an employee laid off is eligible for a refund of contributions to the System (without interest) or a pension if qualified for it. If, however, death occurs while on layoff status the benefits payable to survivors and beneficiaries will be the same as those payable for a member who had terminated State employment rather than those paid for a member whose death occurs while in service.
4. A person receiving a pension based solely on credit established in the State Employees' Retirement System may enter the service of a department under the State Universities' Retirement System or the Teachers' Retirement System and continue to receive his pension from the State Employees' Retirement System.

House Bill 2130, effective September 27, 1977 permits a member who was an elected Police Magistrate or Justice of the Peace serving as a Magistrate of the Circuit Court to establish credit for this elective service beginning January 1, 1963 by paying contributions for the period of such service together with interest at 5% compounded annually from January 1, 1963 to the date of payment. Contributions are based upon the member's compensation and the contribution rate in effect at the time the service was rendered.

House Bill 2322, effective October 1, 1977 permits a member to establish credit in the System for any contractual State employment rendered after December 31, 1975 and before April 1, 1976 by paying to the System the employee and employer contributions for the period of such employment. The payment must be made in a lump sum before December 31, 1977.

Provides that the survivor of a member who died between November 1, 1970 and July 15, 1971 is eligible for a survivors annuity if the survivor was then 50 or more years of age or upon attainment of age 50 if under that age as of October 1, 1977. Previously this provision applied only in instances where the member's death occurred on or after July 15, 1971.

Extends the period during which a member may apply for an occupational disability benefit from six to twelve months following the end of the last pay period during which the member receives salary after being injured or incapacitated for work.

ADMINISTRATION AND REPORTING:

Under the direction of the Executive Secretary, administrative operations of the System are accomplished by a staff of full-time employees which numbered 61 as of the end of the 1977 fiscal year, as compared to 61 at the end of the 1976 fiscal year. These figures do not include the Social Security Unit staff of four employees.

Annual statements of account were mailed in October of 1977 to all active and inactive members having an account balance of \$1.00 or more as of June 30, 1977. Included with each statement was an informational brochure explaining legislative amendments to the Retirement Act passed by the General Assembly and signed by the Governor subsequent to June 30, 1977. Financial Statements for the 1976 fiscal year were also distributed to all active and retired members.

The State Treasurer of Illinois is the Ex-Officio Treasurer of the System. All moneys are deposited through the State Comptroller who then orders these funds credited to accounts maintained by the Treasurer's Office. Disbursements are accomplished by vouchers authorized by the Executive Secretary and issued to the State Comptroller.

The Board of Trustees must appoint an Actuary to perform all necessary actuarial requirements of the System. These duties were performed by Mr. A. A. Weinberg, Consulting Actuary, for the 1977 fiscal year.

The System must have an audit of its accounts annually by a certified public accountant. This audit was performed under the direction of the Auditor General by the firm of Ernst & Ernst for the 1977 fiscal year.

In addition to administering the retirement program, the System also performs the function of State Social Security Administrator for all public employees in Illinois. As State Administrator the System initiates social security coverage agreements, collects and transmits social security taxes to the Secretary of the Department of Health, Education and Welfare.

ACKNOWLEDGMENTS:

This report has been prepared through the efforts and cooperation of the administrative staff, and the System's professional consultants. Their assistance is hereby acknowledged with grateful appreciation.

Respectfully Submitted,

Michael R. Mory

**FINANCIAL
STATEMENTS**

Ernst & Ernst

First National Bank Building • Springfield, Illinois 62701 • Phone 217/528-2551

ACCOUNTANTS' REPORT

Board of Trustees
State Employees' Retirement System
of Illinois
and
Auditor General
State of Illinois

We have examined the balance sheets of the State Employees' Retirement System Trust Fund of the State Employees' Retirement System of Illinois as of June 30, 1977 and June 30, 1976, and the related statements of revenue and expenditures and changes in funded reserves for the years then ended. Our examinations were 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.

In our opinion, the financial statements referred to above present fairly the financial position of the State Employees' Retirement System Trust Fund of the State Employees' Retirement System of Illinois at June 30, 1977 and June 30, 1976, and the results of its financial transactions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. The information included in the schedule of administrative expenses was derived from the accounting records tested by us as part of the auditing procedures followed in our examinations of the aforementioned financial statements and, in our opinion it is fairly presented in all material respects in relation to the financial statements taken as a whole.

Springfield, Illinois
December 2, 1977

Ernst & Ernst



BALANCE SHEETS

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	June 30	
	<u>1977</u>	<u>1976</u>
ASSETS		
Cash	\$ 3,415,765	\$ 3,764,437
Receivables:		
Contributions receivable:		
Participants	2,836,785	2,310,377
Employing State agencies	3,874,332	2,984,743
Other accounts receivable	<u>224,068</u>	<u>215,243</u>
	6,935,185	5,510,363
Investments--equity in the State Employees' Investment Fund of the Illinois State Board of Investment (market value: 1977--\$620,409,169; 1976--\$546,848,483)--Note B	<u>641,637,642</u>	<u>573,602,103</u>
	<u>\$ 651,988,592</u>	<u>\$ 582,876,903</u>
LIABILITIES		
Benefits payable	\$ 861,348	\$ 850,111
Refunds payable	774,706	477,978
Administrative expenses payable	<u>70,315</u>	<u>17,535</u>
	1,706,369	1,345,624
Reserves:		
Actuarially-determined accrued benefit cost--Note C	1,429,366,705	1,304,455,262
Less unfunded accrued benefit cost--representing an obligation of the State of Illinois	<u>779,084,482</u>	<u>722,923,983</u>
Funded reserves	<u>650,282,223</u>	<u>581,531,279</u>
	<u>\$ 651,988,592</u>	<u>\$ 582,876,903</u>

See notes to financial statements.

STATEMENTS OF REVENUE AND EXPENDITURES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	June 30	
	<u>1977</u>	<u>1976</u>
Revenue:		
Contributions:		
Participants	\$ 47,848,876	\$ 47,168,304
Employing State agencies	59,260,881	57,898,332
State Pension Fund	<u>536,900</u>	<u>173,000</u>
	107,646,657	105,239,636
Net investment income	38,035,539	32,051,811
Repayment of contributions refunded	285,525	281,610
Interest earned on cash balances	37,507	-
Interest received from participants	<u>88,880</u>	<u>83,727</u>
	<u>146,094,108</u>	<u>137,656,784</u>
Expenditures:		
Benefits:		
Retirement annuities	41,548,561	37,171,787
Survivors' annuities	9,512,724	8,600,668
Disability benefits	11,026,764	9,384,124
Lump sum death benefits	<u>2,707,167</u>	<u>2,285,270</u>
	64,795,216	57,441,849
Refunds	11,416,099	9,235,848
Administrative expenses	1,131,579	1,250,217
Transfers to reciprocating retirement systems	<u>270</u>	<u>61,840</u>
	<u>77,343,164</u>	<u>67,989,754</u>
	EXCESS OF REVENUE	
	OVER EXPENDITURES	
	<u>\$ 68,750,944</u>	<u>\$ 69,667,030</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FUNDED RESERVES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

Two years ended June 30, 1977

	Reserve for Participants' Contributions	Reserve for Future Operations			Other Future Benefits	
		Supplemental Annuity	Automatic Annuity Increase	Interest Accumulations		
Balance at July 1, 1975	\$511,864,249	\$229,511,987	\$26,332,647	\$33,527,421	\$29,578,052	\$192,914,142
Add (deduct):						
Excess (deficiency) of revenue over expenditures	69,667,030	33,248,128	(1,280,213)	7,026,451		30,672,664
Reserve transfers:						
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(10,987,192)					10,987,192
Interest credited to members' accounts					7,314,893	(7,314,893)
Reserve for automatic annuity increase credited with interest at 4% on the reserve balance at beginning of year				1,341,097		(1,341,097)
Reserve for supplemental annuity credited with investment income in excess of 4% on average investments			10,478,763			(10,478,763)
Reclassification of members' contributions for automatic annuity increase, previously transferred to the reserve for other future benefits			526,778			(526,778)
Balance at June 30, 1976	581,531,279	251,772,923	35,531,197	42,421,747*	36,892,945	214,912,467

Add (deduct):					
Excess (deficiency) of revenue over expenditures	68,750,944	31,639,064	(1,345,347)	6,499,816	31,957,411
Reserve transfers:					
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status		(10,754,144)			10,754,144
Interest credited to members' accounts				8,073,881	(8,073,881)
Reserve for automatic annuity increase credited with interest at 4% on the reserve balance at beginning of year				1,696,870	(1,696,870)
Reserve for supplemental annuity credited with investment income in excess of 4% on average investments			13,730,744		(13,730,744)
	<u>\$650,282,223</u>	<u>\$272,657,843</u>	<u>\$47,916,594</u>	<u>\$50,618,433*</u>	<u>\$234,122,527</u>
BALANCE AT JUNE 30, 1977					

* Includes active members' accumulated contributions of \$16,837,336 and \$19,635,738, respectively, at June 30, 1976 and 1977.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The financial transactions of the State Employees' Retirement System Trust Fund (System Trust Fund) are recorded on the accrual basis.

Investments:

Equity of the System Trust Fund in the State Employees' Investment Fund of the Illinois State Board of Investment represents the underlying net assets of the investment fund valued on the basis of cost.

Office Equipment:

Expenditures for equipment are charged to administrative expenses. The equipment acquisitions are also recorded in property control records at cost for accountability purposes.

NOTE B--INVESTMENTS

Investments of the System Trust Fund are managed by the Illinois State Board of Investment pursuant to Article 22A of the Illinois Pension Code and are held in the State Employees' Investment Fund of that Board. Net assets of the investment fund at June 30, 1977 and 1976 comprised the following:

	June 30, 1977		June 30, 1976	
	Cost	Market Value	Cost	Market Value
Investments:				
Illinois Equity Fund (16,797,456 and 15,876,900 units, respectively)	\$195,266,460	\$174,091,886	\$185,515,633	\$177,588,566
Illinois Bond Fund (46,837,396 and 40,512,681 units, respectively)	443,222,448	443,168,549	384,746,913	365,920,360
Corporate short-term notes	3,150,000	3,150,000	3,325,000	3,325,000
Other assets--net	(1,266)	(1,266)	14,557	14,557
Net assets	<u>\$641,637,642</u>	<u>\$620,409,169</u>	<u>\$573,602,103</u>	<u>\$546,848,483</u>

NOTES TO FINANCIAL STATEMENTS--CONT'D

NOTE C--BENEFITS

The retirement system is governed by Article 14 of the Illinois Pension Code and benefits under the system are defined in the Code. All persons entering State service, except in positions subject to membership in other State sponsored retirement systems, become members of the State Employees' Retirement System upon their first day of compensated employment. The Governor and Administrative Code officers appointed by the Governor may elect to become members of the system. Participating members contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases in retirement annuities. The total contribution rates are 4% if coordinated with social security and 8% if not coordinated, except that the rates are either 9% or 9-1/2% for members in certain employment categories who are eligible for benefits under alternative formulas. Participants' contributions are fully refundable, without interest, upon withdrawal from State employment. The State of Illinois is obligated by statute to contribute, through department appropriations, the funds not otherwise provided which are necessary to meet the cost of maintaining the system.

The calculations of the accrued benefit cost (arising from service credits in periods prior to June 30, 1977 and 1976, respectively) were made by a consulting actuary as of June 30, 1977 and 1976 on the basis of the entry-age normal cost method. The more significant assumptions underlying the actuarial computations are as follows:

Rate of return on investments	5%
Average age at retirement	64 years
Rate of turnover without vested benefits	A high scale at younger age levels, becoming progressively lower as ages advance--consistent with the System's experience.
Mortality basis	1951 Group Annuity Mortality Table (modified)
Salary increases	4% annual increase

SCHEDULE OF ADMINISTRATIVE EXPENSES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	Year Ended June 30	
	1977	1976
Personal services	\$ 616,642	\$ 576,829
Contributions to retirement system	41,142	38,326
Contributions for social security	25,170	23,397
Contractual services	150,947	175,863
Travel	6,427	5,938
Printing	9,158	20,272
Commodities	18,378	40,210
Equipment	18,350	71,833
Telecommunications	16,241	16,183
Electronic data processing	225,522	280,694
Other	<u>3,602</u>	<u>672</u>
Total administrative expenses	<u>\$1,131,579</u>	<u>\$1,250,217</u>

**ACTUARY'S
REPORT**