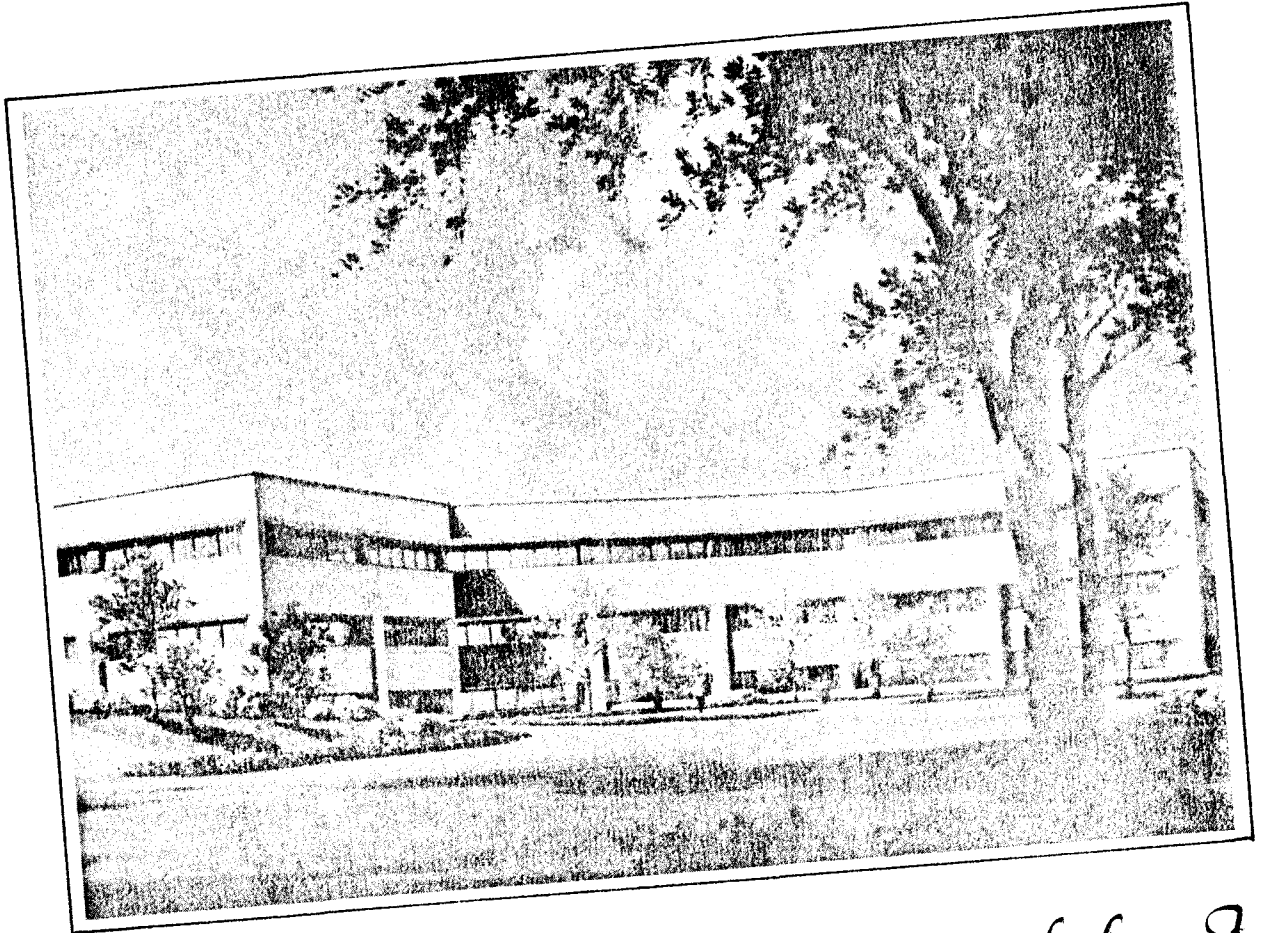


# State Employees' Retirement System

of Illinois



Annual Report  
1979

ANNUAL REPORT

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS  
P. O. Box 4064, 2815 West Washington Street  
Springfield, Illinois 62708

Board of Trustees  
(As Constituted June 30, 1979)

John E. Gilchrist	Appointed by Governor	Chairman
Robert L. Mandeville Director, Bureau of the Budget	Ex-Officio	Trustee
Roland W. Burris Comptroller	Ex-Officio	Trustee
Donald P. Thannen State Employee	Appointed by Governor	Trustee
Norman Ryan State Employee	Appointed by Governor	Trustee

Administrative Staff

Michael L. Mory - Executive Secretary

Robert Knox  
Associate Executive Secretary

Mabel Curtis  
Associate Executive Secretary

Robert Knox, Supervisor  
Claims Division

William Weir, Supervisor  
Administrative Services

Robert Doolen, Supervisor  
Accounting Division

Dwight Garmon, Supervisor  
Data Processing Division

Ann Kirk, Supervisor  
Service and Refunds Division

Paul Stark, Supervisor  
Social Security Division

TABLE OF CONTENTS

	<u>PAGE</u>
Letter of Transmittal to Governor	1
Letter of Transmittal to Board	2
Financial Statements:	
Accountants' Report	11
Balance Sheets	12
Statement of Revenue and Expenditures	13
Statement of Changes in Funded Reserves	14
Notes of Financial Statements	16
Schedule of Administrative Expenses	18
Actuary's Report	19
Financial and Statistical Tables:	
Balance Sheet Assets	22
Balance Sheet Liabilities	22
Analysis of Funding	23
Revenues by Source	23
Expenses by Type	24
Benefit Expenses by Type	24
Total Membership	25
Active Membership	26
Number of Recurring Benefit Payments	27
Termination Refunds - Number/Amount	27
Schedule of Insurance in Force	28
Plan Summary	29

BOARD OF TRUSTEES

John E. Gilchrist,  
Chairman, Public Member

Robert L. Mandeville,  
Ex Officio, Director,  
Bureau of the Budget

Richard W. Burris,  
Ex Officio, State Comptroller

Norman L. Ryan,  
State Employee, Department  
of Public Aid

Joseph T. Pisano,  
State Employee, Department  
of Mental Health

-----  
Michael L. Mory  
Executive Secretary

# STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

P.O. Box 4064 - 2815 West Washington Street, Springfield, Illinois 62708

Phone (217)-753-0444



December 19, 1979

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

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, 1979.

Respectfully Submitted,

*John E. Gilchrist*  
Chairman

**BOARD OF TRUSTEES**John E. Gilchrist,  
Chairman, Public MemberRobert L. Madeselle,  
Ex Officio, Director,  
Bureau of the BudgetRoland W. Burris,  
Ex Officio, State ComptrollerNorman L. Ryan,  
State Employee, Department  
of Public AidJoseph T. Pisano,  
State Employee, Department  
of Mental Health-----  
Michael L. Mory,  
Executive Secretary**STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS****P.O. Box 4064 - 2815 West Washington Street, Springfield, Illinois 62708****Phone (217)- 753-0444**

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 System's operation for the fiscal year ended June 30, 1979. This report contains essential facts concerning the System's operations covering the period from July 1, 1978 through June 30, 1979, as well as historical information designed to allow a comparison with prior fiscal years.

**HIGHLIGHTS OF OPERATIONS**

The present financial condition of the System has shown significant improvement during the year as evidenced by a comparison of the funding or security ratio of 47.3% for FY-78 as compared to 51.7% as of the end of the 1979 fiscal year.

(In Millions of Dollars)

<u>Fiscal Year</u>	<u>Net Real Assets</u>	<u>Unfunded Accrued Liability</u>	<u>Actuarial Reserve Requirement</u>	<u>Rate of Funding</u>
FY-79	\$842.8	\$787.0	\$1,629.8	51.7%
FY-78	\$730.0	\$812.2	\$1,542.2	47.3%

The improvement in the System's overall financial condition is the direct result of an increased level of State contributions as well as continued improvement in the level of investment return achieved on System reserves. During FY-79 the total level of State contributions to the System amounted to \$84.8 million. This level exceeded the System's total payout (benefits plus administrative expenses) by more than \$7 million. Investment income during FY-79 was \$60.8 million and contributed toward a total rate of return on invested reserves computed on a market value basis of 9.5%. The actual reduction in the dollar amount of the System's unfunded accrued liability resulted primarily from an increase in the assumed rate of investment return, from 5% to 6%, utilized by the actuary for valuation purposes. This increase in the assumed rate is based on improved investment performance as well as the expectation that such levels will continue into the future over a 30 to 40 year period.

## TRANSMITTAL LETTER

From an administrative viewpoint, several projects were undertaken during FY-79 which were designed to improve the System's overall level of operational effectiveness. Recognizing the importance of an effective communication program with both our active and retired members, projects completed during FY-79 emphasized the communication function. Significant activities undertaken included:

1. Development of a comprehensive slide and audio presentation which describes the various benefits associated with membership in the System. This program which takes approximately 40 minutes to present will greatly expand the capability of our Field Services Division to contact active State employees and has resulted in the establishment of a contact goal of 10,000 individuals during FY-80.
2. Development and testing of a comprehensive Preretirement Counseling Program designed to better prepare longer service employees for the often traumatic transition into retirement.
3. The design of newsletters, one for active and one for retired State employees, to improve communication of essential current events information. This program which began in February of 1979 will be continued in the future on a biannual basis and will supplement the System's basic written and face-to-face communication activities. Newsletters will be mailed directly to the member's home address along with other important information such as the member's statement of account and basic benefits brochure.
4. Implementation of an on-line benefits system designed to improve the System's claim processing function. The new system provides additional optional deduction capability as well as greater flexibility in integrating the benefits system with other in-house Data Processing systems.
5. Complete redesign of the System's disability control function to better assure continued eligibility of those individuals receiving disability benefits. This revised control program emphasizes timely medical and other investigation techniques and has resulted in a savings of approximately \$600,000 during its first year of operation.
6. Communication with inactive members to advise them of the status of their account in the System. With the assistance of several other State agencies, an effort was undertaken to communicate with inactive members with minimal account balances to determine the future status of these accounts. This effort resulted in the payment of several hundred contribution refunds and reestablished contact with many individuals who have been out of State service for more than five years.

TRANSMITTAL LETTER

REVENUES:

Income totalled \$202.6 million in 1979, an increase of \$38.2 million or 23.2% over revenues for the 1978 Fiscal Year.

<u>Revenue Source</u>	<u>FY-79</u> <u>(Millions)</u>	<u>FY-78</u> <u>(Millions)</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percentage</u>
Member Contributions	\$ 56.3	\$ 51.0	\$ 5.3	10.4%
State Contributions	84.8	69.4	15.4	22.2%
Investment Income	<u>61.5</u>	<u>44.0</u>	<u>17.5</u>	39.8%
Total	\$202.6	\$164.4	\$38.2	23.2%

The bulk of member contributions or \$55.8 million was received from payroll deductions from wages of \$1,069.9 million. Direct contributions by the members of 0.5 million for the purpose of establishing or reestablishing credit for past periods of employment accounted for the remainder.

<u>Active Membership</u>	<u>FY-79</u>	<u>FY-78</u>	<u>Increase (Decrease)</u>	
			<u>Number/Amount</u>	<u>Percentage</u>
Coordinated Members	60,839	60,931	(92)	(0.2%)
Noncoordinated Members	17,022	16,510	512	3.1%
Earnings Reported for All Members (millions)	\$1,069.9	\$925.1	\$144.8	15.7%

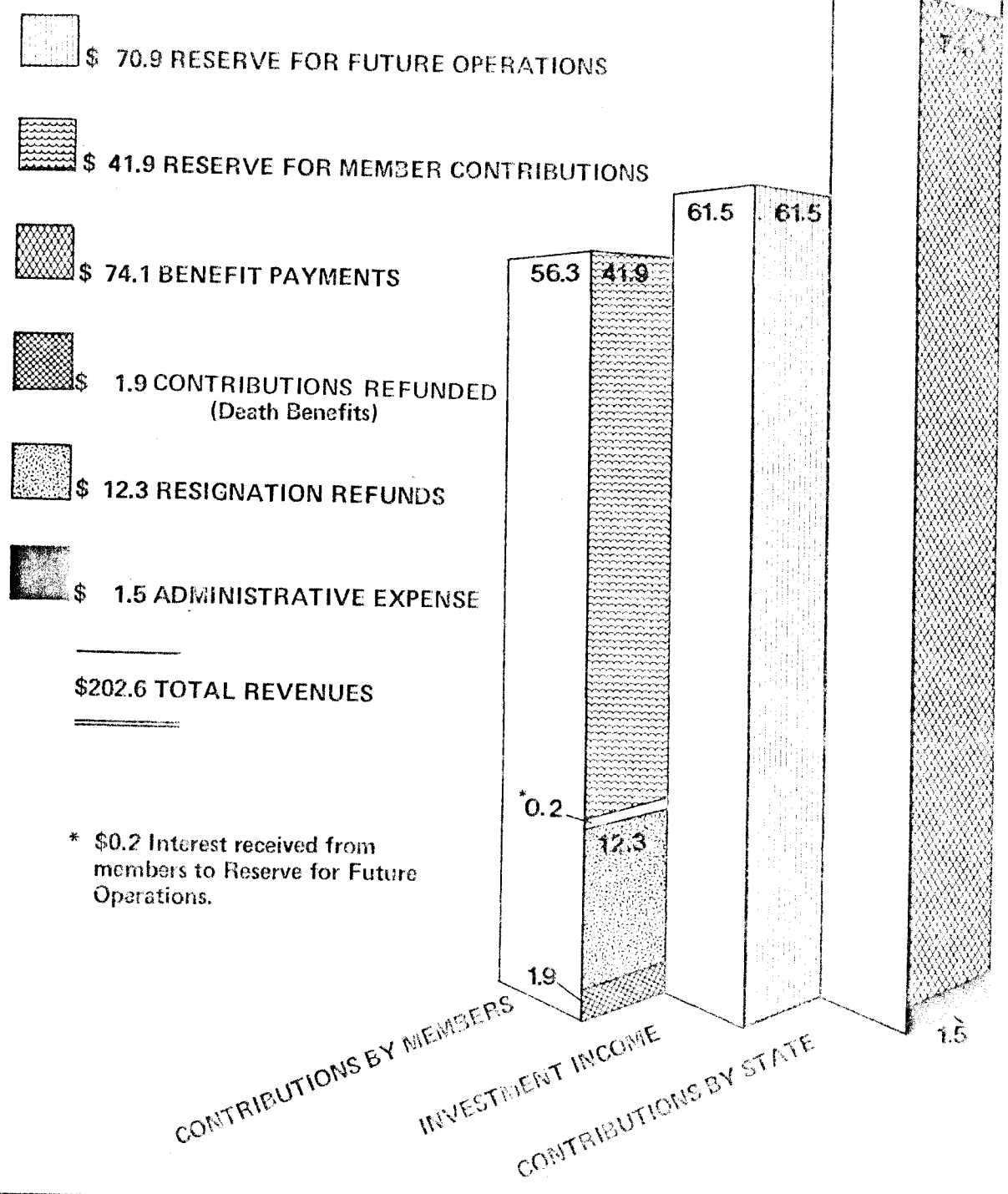
Contributions by the State consisted of \$1.1 million distributed from the State Pension Fund; \$0.6 million appropriated for annuity increase costs; and \$83.1 million received from State agencies which was 7.76% of the gross wages of employees in positions covered by the System.

The rate of contributions by employing agencies has been established each year based on estimated wage levels and projected benefit and administrative expenses several months before budgets of the employing agencies are known. While the 7.3% rate for FY78 resulted in expenses exceeding employer contributions by \$2.9 million, the 7.76% rate in FY79 produced revenues of \$84.8 million, which exceeded combined benefit and administrative expenses of \$77.5 million by \$7.3 million. This surplus was a result of retroactive pay raises which were negotiated and authorized after the contribution rate was established.

Income from long term investments managed by the Illinois State Board of Investment amounted to \$60.9 million for the 1979 Fiscal Year which was a rate of return of 7.8% on average cost and 8.4% on average market. This included \$3.8 million of the Board's 1978 income which was distributed in fiscal 1979. A comparison of the source of the System's net invested assets valued on a market basis follows:

# DISTRIBUTION OF REVENUES

FISCAL YEAR 1979  
(in millions of dollars)



\* \$0.2 Interest received from members to Reserve for Future Operations.



*We wish to express our thanks to the Illinois Information Service, Graphics and Photography Departments, for the cover design and chart layouts for this report.*

TRANSMITTAL LETTER

	FY-79 (Millions)	FY-78 (Millions)	Increase	
			Amount	Percentage
Investments Transferred at cost June 30, 1970	\$265.1	\$265.1	\$ ---	---
Additional Amounts transferred for investment	317.0	267.0	50.0	18.7%
Accumulated Net Income	276.6	215.7	60.9	28.2%
Accumulated Net Realized loss on sale of investments	( 26.6)	( 26.6)	---	---
Net Assets at Cost	832.1	721.2	110.9	15.4%
Unrealized Appreciation (Depreciation) on Investments	( 49.5)	( 56.9)	7.4	13.0%
Net Assets at Market	<u>\$782.6</u>	<u>\$664.3</u>	<u>\$118.3</u>	<u>17.8%</u>

Total investment return for the year on funds under the control of the Investment Board, including realized and unrealized market appreciation-depreciation, was 9.5% compared to 1.3% for the previous fiscal year.

EXPENSES:

Expenses for the Fiscal Year 1979 amounted to \$89.8 million, an increase of \$5.1 million or 6.0% over the total for FY78.

Expenses	FY-79 (Millions)	FY-78 (Millions)	Increase/Decrease	
			Amount	Percentage
Retirement Benefits	\$50.4	\$46.0	\$4.4	9.6%
Survivors Benefits	11.2	10.4	.8	7.7%
Disability Benefits	11.5	11.6	(.1)	(0.8%)
Lump Sum Death Benefits	2.9	3.0	(.1)	(3.3%)
Contribution Refunds	12.3	12.4	(.1)	(0.8%)
Administrative Expenses	<u>1.5</u>	<u>1.3</u>	<u>.2</u>	15.4%
Total	<u>\$89.8</u>	<u>\$84.7</u>	<u>\$5.1</u>	<u>6.0%</u>

Expenses for benefits are now increasing at a lower rate as the effect of coordinating with Social Security in 1969 is gradually changing the structure of annuity payments. A combination of Social Security offsets and continued efforts by the staff in identifying ineligible recipients reduced the total disability benefit payments from the FY78 level despite increased wage levels which tend to increase annuity payments.

Administrative costs were slightly higher for FY79 due primarily to increased expenses for Personal Services.

TRANSMITTAL LETTER

RESERVES:

Total funds available for payment of current and future benefits were \$842.8 million as shown in the following schedule:

<u>Reserves</u>	<u>FY-79 (Millions)</u>	<u>FY-78 (Millions)</u>	<u>Net Increase</u>
Member Contributions	\$347.2	\$316.9	\$ 30.3
Future Operations	<u>495.6</u>	<u>413.1</u>	<u>82.5</u>
<b>TOTAL RESERVES</b>	<u><b>\$842.8</b></u>	<u><b>\$730.0</b></u>	<u><b>\$112.8</b></u>

The net increase in reserves as a result of FY79 revenues of \$202.6 million and expenditures of \$89.8 million is reflected in the change in net assets as follows:

<u>Assets</u>	<u>FY-79 (Millions)</u>	<u>FY-78 (Millions)</u>	<u>Increase (Decrease)</u>
Cash	\$ 2.3	\$ 3.1	\$ (.8)
Receivables (Less Payables)	8.4	5.7	2.7
Investments	<u>832.1</u>	<u>721.2</u>	<u>110.9</u>
<b>NET ASSETS</b>	<u><b>\$842.8</b></u>	<u><b>\$730.0</b></u>	<u><b>\$112.8</b></u>

SOCIAL SECURITY:

As State Social Security Administrator, the System collects and transmits social security contributions and wage information to the secretary of the Department of Health, Education and Welfare under a Federal-State agreement signed September 15, 1953. Coverage is provided for two retirement system groups, the State Employees' Retirement System and the Illinois Municipal Retirement Fund, as well as for 1,534 towns, villages and other political entities. The number of individuals covered by social security on June 30, 1979 and the total contributions collected and transmitted during FY-79 were:

<u>Coverage Groups</u>	<u>Employees</u>	<u>Contributions</u>
Towns, Villages, and Other Entities	26,150	\$ 18,829,185
State Employees' Retirement System	63,417	88,202,800
Illinois Municipal Retirement Fund	<u>197,352</u>	<u>145,175,311</u>
<b>TOTAL</b>	<u><b>286,919</b></u>	<u><b>\$252,207,296</b></u>

The current contribution rate for both employee and employer is 6.13% on maximum wages of \$22,900. Social Security contributions are administered through a revolving fund. Operating expenses are appropriated by the General Assembly and subsequently recovered from the reporting entities on a pro rata basis for deposit in the General Revenue Fund.

The Social Security Division has a staff of 5 full-time employees and, in addition, some services are performed by other divisions of the System on a fee basis.

LEGISLATIVE AMENDMENTS:

Amendments with an effective date during Fiscal Year 1979 having significant financial impact on the System were:

House Bill 1803 - Provides for an annual increase of 3% of original annuity for retirees eligible for such increases, effective January 1, 1979.

House Bill 2943 - Provides that retirees removed from the group insurance coverage as of March 31, 1978, will now be reinstated in the group insurance program as of October 1, 1978.

House Bill 1306 and Senate Bill 510 - Excludes from membership in the System employees under the Comprehensive Employment Training Act (CETA) hired after June 30, 1979, and enrollees of the Illinois Young Adult Conservation Corps (YACC).

New legislation with effective dates subsequent to June 30, 1979 affecting the operations of the System is summarized below:

Senate Bill 363 - Affects approximately 185 Secretary of State investigators by including them in the alternative police officer retirement annuity formula. This bill also provides for additional contributions by these individuals. Effective October 1, 1979.

Senate Bill 403 - Affects employees who worked for the Department of Agriculture prior to June 1, 1963 but were paid by Federal funds. This bill allows these employees to receive pension credit for such periods of employment upon payment of the required contributions and interest. Effective September 7, 1979.

Senate Bill 811 - Amends the Judges Retirement System to allow a member of that System to transfer credits and creditable service under the State Employees' Retirement System to the Judges Retirement System upon payment of certain contributions and interest. Effective September 22, 1979.

House Bill 1023 - Affects the Retirement Systems' Reciprocal Act. This Act changes certain technical requirements that will allow individuals to receive the full pension amount to which they are entitled and provides a more equitable distribution among the retirement systems participating in their pensions. The bill also allows an individual who is receiving a reciprocal annuity from two or more systems to return to work under a system not participating in the payment of the pension without suspension of such payments. Effective September 16, 1979.

House Bill 1160 - Allows members wanting to establish service credit to make installment payments in lieu of lump sum payments. For example, an individual desiring to repay a refund would not be required to make the total payment at one time, but could make periodic payments to establish the pension credit. No credit will be granted until all payments are made.

This bill also allows survivor beneficiaries to continue receiving benefits if they remarry on or after attainment of age 55. Effective January 1, 1980.

House Bill 2484 - Affects State firefighters' pension contributions and benefits by changing them to conform to those provided for State police officers. Firefighters will make the same contributions as police officers and qualify for the same retirement annuity formula. Effective January 1, 1980.

## TRANSMITTAL LETTER

### ADMINISTRATION AND REPORTING

Administrative operations of the System are under the direction of the Executive Secretary assisted by a staff of 62 full-time employees, excluding Social Security Division personnel.

All funds belonging to the System required for current operations are held by the Treasurer of the State of Illinois, who is ex officio, the Treasurer of the System. Receipts to and disbursements from the System's trust fund are accomplished through the Comptroller of the State of Illinois according to rules and regulations issued under statutory authority by the Comptroller and the Treasurer.

Annual statements of member's contributions and service were mailed in October, 1979, along with a newsletter containing legislative changes and other information of interest to the membership.

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 1979 fiscal year.

The Systems' annual audit for the 1979 fiscal year was performed under the direction of the Auditor General by the firm of Ernst & Whinney.

### ACKNOWLEDGMENT

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 L. Mary*

# Ernst & Whinney

900 First National Bank Building  
Springfield, Illinois 62701

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, 1979 and 1978, 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, 1979 and 1978, 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.

*Ernst & Whinney*

Springfield, Illinois  
December 18, 1979

FINANCIAL STATEMENTS

BALANCE SHEETS

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	June 30	
	1979	1978
<b>ASSETS</b>		
Cash	\$ 2,344,567	\$ 3,050,460
Receivables:		
Contributions receivable:		
Participants	3,798,167	3,015,622
Employing State agencies	6,135,660	4,615,329
Other accounts receivable	299,856	250,205
	10,233,683	7,881,156
Investments:		
Held in the Illinois State Board of Investment Commingled Fund (market value: 1979--\$782,593,828; 1978--\$664,359,179)--Note B	832,097,108	721,232,408
	\$ 844,675,358	\$ 732,164,024
<b>LIABILITIES</b>		
Benefits payable	\$ 1,093,294	\$ 1,288,547
Refunds payable	640,040	742,105
Administrative expenses payable	140,492	117,160
	1,873,826	2,147,812
Reserves:		
Actuarially-determined accrued benefit cost--Note C	1,629,765,746	1,542,156,049
Less unfunded accrued benefit cost--representing an obligation of the State of Illinois	786,964,214	812,139,837
Funded reserves	842,801,532	730,016,212
	\$ 844,675,358	\$ 732,164,024

See notes to financial statements

FINANCIAL STATEMENTS

STATEMENTS OF REVENUE AND EXPENDITURES

STATE EMPLOYEES' RETIREMENT SYSTEM TRUST FUND

	Year Ended June 30	
	1979	1978
<b>Revenue:</b>		
<b>Contributions:</b>		
Participants	\$ 55,958,734	\$ 50,401,953
Employing State agencies	83,023,148	67,531,874
State Pension Fund	1,095,000	1,853,000
State General Revenue Fund	644,775	
	140,721,657	119,786,827
Net investment income	60,864,700	43,594,766
Repayment of contributions refunded	163,174	395,652
Interest earned on cash balances	631,648	430,278
Interest received from participants	206,635	227,689
	202,587,814	164,435,212
<b>Expenditures:</b>		
<b>Benefits:</b>		
Retirement annuities	50,360,362	46,017,123
Survivors' annuities	11,249,401	10,428,913
Disability benefits	11,481,378	11,558,867
Lump sum death benefits	2,909,624	2,981,007
	76,000,765	70,985,910
Refunds	12,329,691	12,438,437
Administrative expenses	1,456,878	1,276,876
Transfers to reciprocating retirement systems	15,160	
	89,802,494	84,701,223
EXCESS OF REVENUE OVER EXPENDITURES	\$112,785,320	\$ 79,733,989

See notes to financial statements