

1981 ANNUAL REPORT

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS



annual report

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

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

BOARD OF TRUSTEES (As Constituted December 15, 1981)



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Chairman
Appointed by Governor



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Representing
Roland W. Burriss
Comptroller,
State of Illinois



John E. Briggs
Representing
Robert L. Mandeville
Director, Bureau of the Budget
State of Illinois



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State Employee
Appointed by Governor



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Appointed by Governor

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Robert V. Knox
Associate Executive Secretary

Mabel M. Curtis
Associate Executive Secretary

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Claims Division

William T. Weir, Manager
Administrative Services Division

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Accounting Division

Dwight N. Garmon, Manager
Data Processing Division

Joseph S. Maggio, Manager
Service and Refunds Division

Michael K. Blankenship, Manager
Social Security Division

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2815 West Washington, P.O. Box 4064, Springfield, IL 62708 - 4064, Ph. 217/753 - 0444

December 16, 1981

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, 1981.

Respectfully submitted,

Robert A. Morris
Chairman

RAN:jlw

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2815 West Washington, P.O. Box 4064, Springfield, IL 62708 - 4064, Ph.217/753 - 0444

Board of Trustees
State Employees' Retirement System
Springfield, Illinois

The annual report of the State Employees' Retirement System for the fiscal year ended June 30, 1981, is submitted herewith. The report consists of four sections: the financial section contains the opinion of the independent certified public accountant, as well as the financial statements of the System; the actuarial section contains the independent consulting actuary's certification and the results of the annual actuarial valuation; the statistical section contains significant data pertaining to SERS; the last section consists of a summary of the principal provisions of the Retirement Act.

FINANCIAL CONDITION

The financial condition of the System as measured by the relationship of net assets to the accrued actuarial liability reflects a slight improvement as of the end of FY-81 compared to FY-80, increasing from 48.3% to 49.3%. With reference to the FY-80 funding ratio of 48.3%, this level has been adjusted downward from the 50.7% level reported in the System's FY-80 Annual Report. The adjustment is due to the accounting recognition of \$50.5 million in realized capital losses incurred by the Illinois State Board of Investment since its inception in 1970 which had not been distributed to the individual accounts of participating systems. Realized losses applicable to fiscal years 1980 and 1981 were \$2.5 million and \$5.0 million respectively.

While the System's financial condition as measured by the ratio of net assets to accrued actuarial liabilities reflected continued improvement, the dollar amount of the System's unfunded accrued liability increased \$112 million during the fiscal year. The increase in the unfunded accrued liability was basically due to the following:

1. State contributions being less than the amount necessary to fund current accruals plus interest on the unfunded obligation	\$ 71 million
2. Benefit improvements	8 million
3. Actuarial losses	33 million
	<hr/>
Total	\$112 million

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The \$33 million actuarial loss represents variances in actual experience over the past year to assumptions made by the actuary in developing the liabilities of the System. The loss was due to general salary increases in excess of an assumed level of 7.5%, partially offset by the investment return exceeding the 7.5% assumption.

In assessing the System's long-term financial position, it should be noted that the actuary's 15-year forward projection, assuming continuation of the previous state funding policy, although reflecting an unfunded accrued liability of \$3.8 billion, projects a funding ratio of 61.8% by the end of the period.

REVENUES:

Revenues for fiscal year 1981 consisting of contributions by members, contributions by the state, and investment income totalled \$255.4 million, an increase of \$22.5 million or 9.7% over 1980.

<u>Revenue Source</u>	<u>FY-81</u> <u>(Millions)</u>	<u>FY-80</u> <u>(Millions)</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Percentage</u>
Member Contributions	\$ 64.6	\$ 59.4	\$ 5.2	8.8%
State Contributions	96.9	94.1	2.8	3.0%
Investment Income	93.9	79.4	14.5	18.3%
Total	\$255.4	\$232.9	\$22.5	9.7%

Contributions by members increased by \$5.2 million over the previous fiscal year, due to wage increases which were partially offset by a decrease in the number of active employees on the payroll as of June 30. The percentage of increase in contributions was 8.8%, while wages subject to contributions increased by 10.1% or \$115.3 million. Members on the payroll decreased by 1,444 or 1.8% from June 30, 1980 to June 30, 1981.

<u>Active Membership</u>	<u>FY-81</u>	<u>FY-80</u>	<u>Increase (Decrease)</u>	
			<u>Number/Amount</u>	<u>Percentage</u>
Coordinated Members	64,104	64,577	(473)	(0.7%)
Noncoordinated Members	15,026	15,997	(971)	(6.1%)
Earnings Report for All Members (Millions)	\$1,253.0	\$1,137.7	\$115.3	10.1%

Employer contributions consisting of \$2.4 million from the State Pension Fund and \$94.5 million from State Agencies increased by 3% over fiscal year 1980. The employer rate for fiscal year 1981 was reduced from the previous year by 0.5%. The 7.5% rate as applied to the increased wages for the year produced income which exceeded by \$3.4 million total benefit and administrative expenditures of \$91.1 million.

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FY Ended	State Contributions From Payrolls		Benefit Expense	Administrative Expense	Excess of State Contributions Over Expenses
	Rate	Amount			
1977	6.70%	\$59.3	\$64.8	\$1.1	(\$6.6)
1978	7.30%	67.5	71.0	1.3	(4.8)
1979	7.76%	83.0	76.0	1.5	5.5
1980	8.00%	91.4	81.3	1.8	8.3
1981	7.50%	94.5	89.1	2.0	3.4

The employer contribution rate is established some 6 to 8 months prior to the beginning of each fiscal year based on estimated wage levels and projected benefit and administrative expenses in order to provide cost information as soon as possible to State Agencies for budget purposes.

Interest income earned on the average fund balance with the State Treasurer amounted to \$1.1 million for fiscal year 1981. All investments of the System are managed by the Illinois State Board of Investment. Income of \$92.9 million as reported by the Board indicates a return of 8.9% on average cost, 9.3% on adjusted average cost (allowing for undistributed realized losses), and 10.2% on average market. Total return for the year (combined effect of income earned and market appreciation / depreciation) was (0.1%) compared to 5.0% for FY-80.

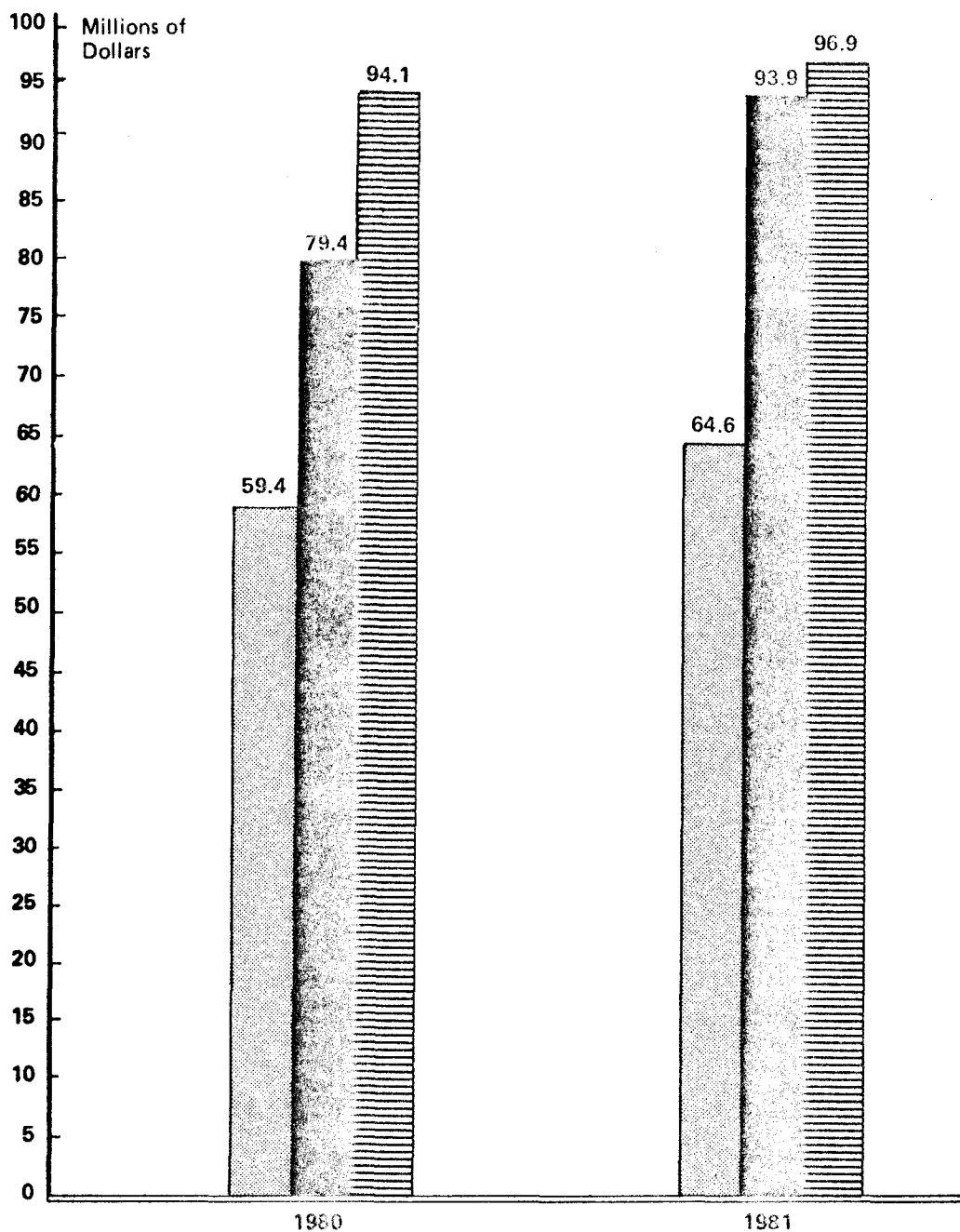
	FY-81	FY-80	Increase	
	(Millions)	(Millions)	Amount	Percentage
Investments transferred at cost June 30, 1970	\$265.1	\$265.1	\$ ---	
Additional amounts trans- ferred for investment	433.0	373.0	60.0	16.1%
Accumulated net income	448.2	355.3	92.9	26.1%
Accumulated net realized loss on sale of investments	(26.6)	(26.6)	----	
Net assets at cost	\$1,119.7	\$ 966.8	\$ 152.9	15.8%
Allowance for undistributed net realized loss on sale of investments	(\$50.5)	(\$45.5)	(\$ 5.0)	11.0%
Net assets at adjusted cost	\$1,069.2	\$ 921.3	\$ 147.9	16.1%
Unrealized appreciation (depreciation) on investments	(129.9)	(41.3)	(88.6)	214.5%
Net assets at market	\$ 939.3	\$ 880.0	\$ 59.3	6.7%




Revenues not required for current expenses were distributed to the member contribution reserve and future operations reserve as required by law.

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REVENUES BY SOURCE

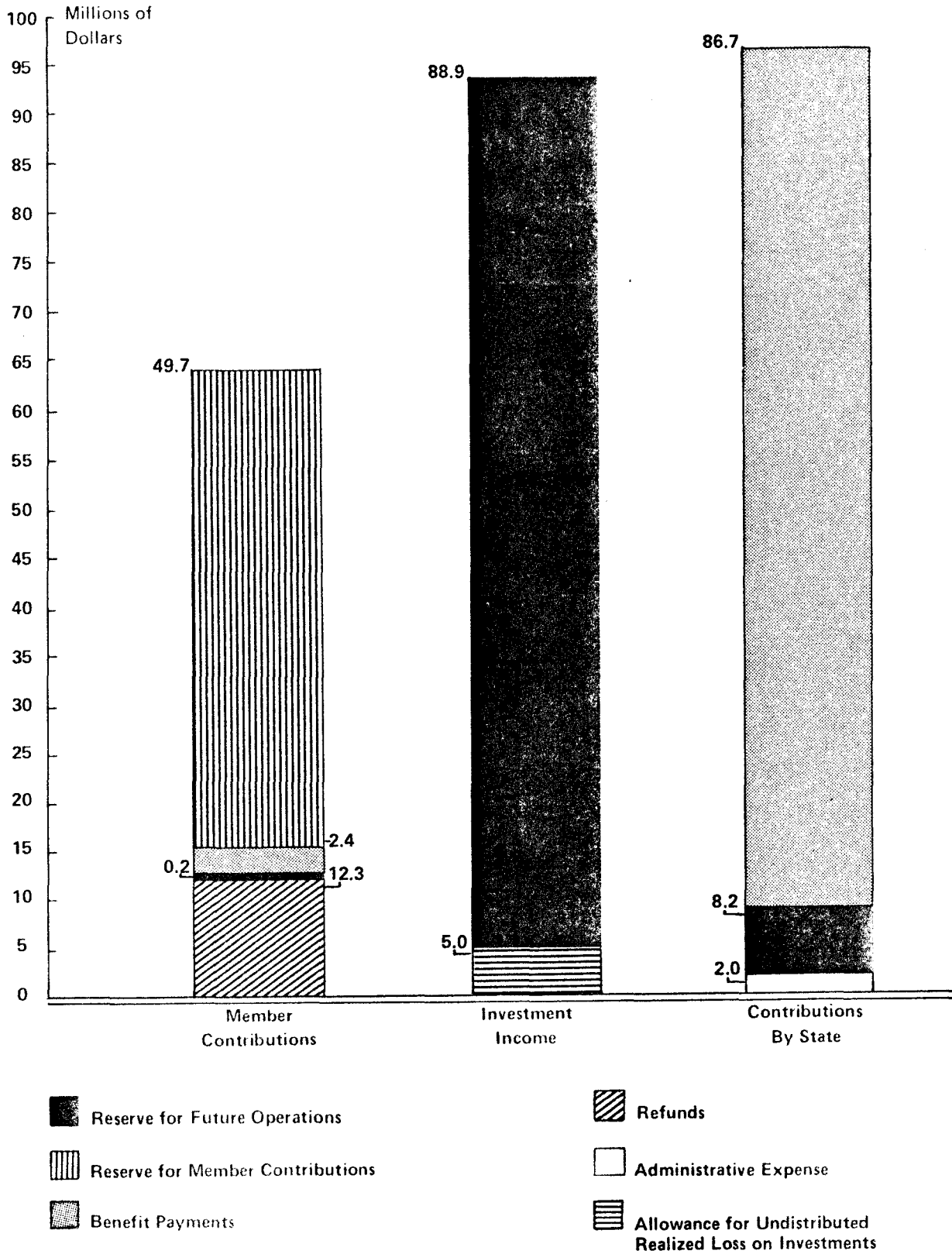


-  Contributions by Members
-  Investment Income
-  Contributions by State of Illinois

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DISTRIBUTION OF REVENUES - FY 1981



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<u>Distribution of Revenues - FY 81</u>	<u>Contributions by Members</u>	<u>Investment Income</u> (Millions)	<u>Contributions by Employer</u>	<u>Totals</u>
Reserve - Future Operations*	\$ 0.2	\$ 88.9	\$ 8.2	\$ 97.3
Reserve - Member Contributions	49.7			49.7
Benefit Payments	2.4		86.7	89.1
Refunds	12.3			12.3
Administrative Exp.			2.0	2.0
Allowance for Undistributed Realized Losses		5.0		5.0
Totals	\$64.6	\$ 93.9	\$96.9	\$255.4

*The reserve from which future benefits will be paid.

EXPENSES:

Financial statements for FY-1980 have been restated to include the expense for accumulated net realized losses on investments undistributed by the Illinois State Board of Investment. The expensed amount for FY-81 and FY-80 respectively was \$5.0 million and \$2.5 million.

Combined payments for benefits and administrative expenses for FY-1981 were \$91.1 million. Contribution refunds for the same period amounted to \$12.4 million, for an expenditure total of \$108.5 million. This is an increase of \$10.6 million or 10.8% over the total for FY-80.

	<u>FY-81</u> (Millions)	<u>FY-80</u> (Millions)	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percentage</u>
Retirement Benefits	\$60.7	\$55.1	\$5.6	10.2%
Survivors Benefits	12.9	11.9	1.0	8.4
Disability Benefits	11.6	11.3	.3	2.7
Lump Sum Death Benefits	3.9	3.0	.9	30.0
Contribution Refunds	12.4	12.3	.1	0.8
Administrative Expenses	2.0	1.8	.2	11.0
Net Undistributed Realized Loss on Investments	5.0	2.5	2.5	100.0
Total	\$108.5	\$97.9	\$10.6	10.8%

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All benefit payments increased at a slightly higher rate than in the previous year due primarily to increased salary rates. The program of eligibility reviews of disability benefits plus an increasing number of Social Security offsets combined to maintain total disability payments to a 2.7% increase over FY-80. The offset for June 1981 was \$111,500 which projects to an annual amount of \$1.3 million.

The increase in administrative expenses for FY-81 was due primarily to a 10% increase in personal services and a 30% increase in contractual services. The contractual services involved were in the legal, professional, and technical areas.

RESERVES:

As of June 30, 1981, the total funds available for payment of current and future benefits were \$1,081.8 million as shown in the following schedule:

<u>Assets</u>	<u>FY-81</u> <u>(Millions)</u>	<u>FY-80</u> <u>(Millions)</u>	<u>Increase</u> <u>(Decrease)</u>
Cash	\$ 6.2	\$ 2.9	\$ 3.3
Receivables (less payables)	6.4	10.6	(4.2)
Investments	1,069.2	921.4	147.8
Net Assets	<u>\$1,081.8</u>	<u>\$934.9</u>	<u>\$146.9</u>

Total revenues for FY-81 of \$255.4 million less expenditures of \$108.5 million resulted in a net increase to reserves of \$146.9 million.

<u>Reserves</u>	<u>FY-81</u> <u>(Millions)</u>	<u>FY-80</u> <u>(Millions)</u>	<u>Net Increase</u>
Member Contributions	\$ 413.8	\$378.5	\$ 35.3
Future Operations	668.0	556.4	111.6
Total Reserves	<u>\$1,081.8</u>	<u>\$934.9</u>	<u>\$146.9</u>

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to \$14.4 million.

SOCIAL SECURITY:

On September 15, 1953, the State of Illinois and the Federal Government signed an agreement making Social Security Coverage available to public employees in Illinois. The System, as State Administrator, collects and transmits Social

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Security contributions to the U.S. Department of Health and Human Services for approximately 1500 towns, villages, and other political entities. Members of two retirement systems in the State, the Illinois Municipal Retirement Fund (IMRF) and the State Employees' Retirement System (SERS) are also covered by social security. During fiscal year 1981, contributions collected and transmitted for the political entities amounted to \$28.4 million for approximately 25,000 employees, and for the SERS, \$138.1 million for 64,100 members. Since monthly deposits of FICA contributions are now required, the IMRF is transmitting directly to the Federal Government. Auditing of FICA contributions of political entities reporting through IMRF is performed by this office.

The Social Security Division has a staff of five full-time employees. Data processing and accounting services are performed by other divisions of the System on a contractual basis. 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 contribution rate for 1981 was 6.65% on maximum wages of \$29,700. Collections and transmittals are administered through a State trust fund under the custody of the Treasurer of the State of Illinois.

LEGISLATIVE AMENDMENTS:

Amendments with an effective date during fiscal year 1981 having significant impact on the System were:

House Bill 3152 - Provides that the Illinois State Board of Investment may invest assets of the System by contract in one or more separate accounts of life insurance companies authorized to do business in Illinois. The total investment in such contracts may not exceed 40% of the aggregate book value of all investments. Effective January 1, 1981.

House Bill 3380 - Provides that any member who is illegally discharged or laid-off from State service and who is subsequently reinstated by court order or settlement agreement may purchase service credit in the Retirement System for the period of such discharge or lay-off if so stipulated. Contributions are based on the salary and contribution rate in effect during the period involved. State contributions applicable to the period involved are also required to be made by the employing agency. Effective August 28, 1980.

House Bill 1752 - Provides for an increase in retirement annuities on January 1, 1981, of \$1.00 per month for each year of creditable service for annuitants who began receiving a retirement annuity before January 1, 1971. Widow's and survivors annuities which commenced before January 1, 1971, will be increased as of January 1, 1981 by 1% for each full year since the annuity began. Effective January 16, 1981.