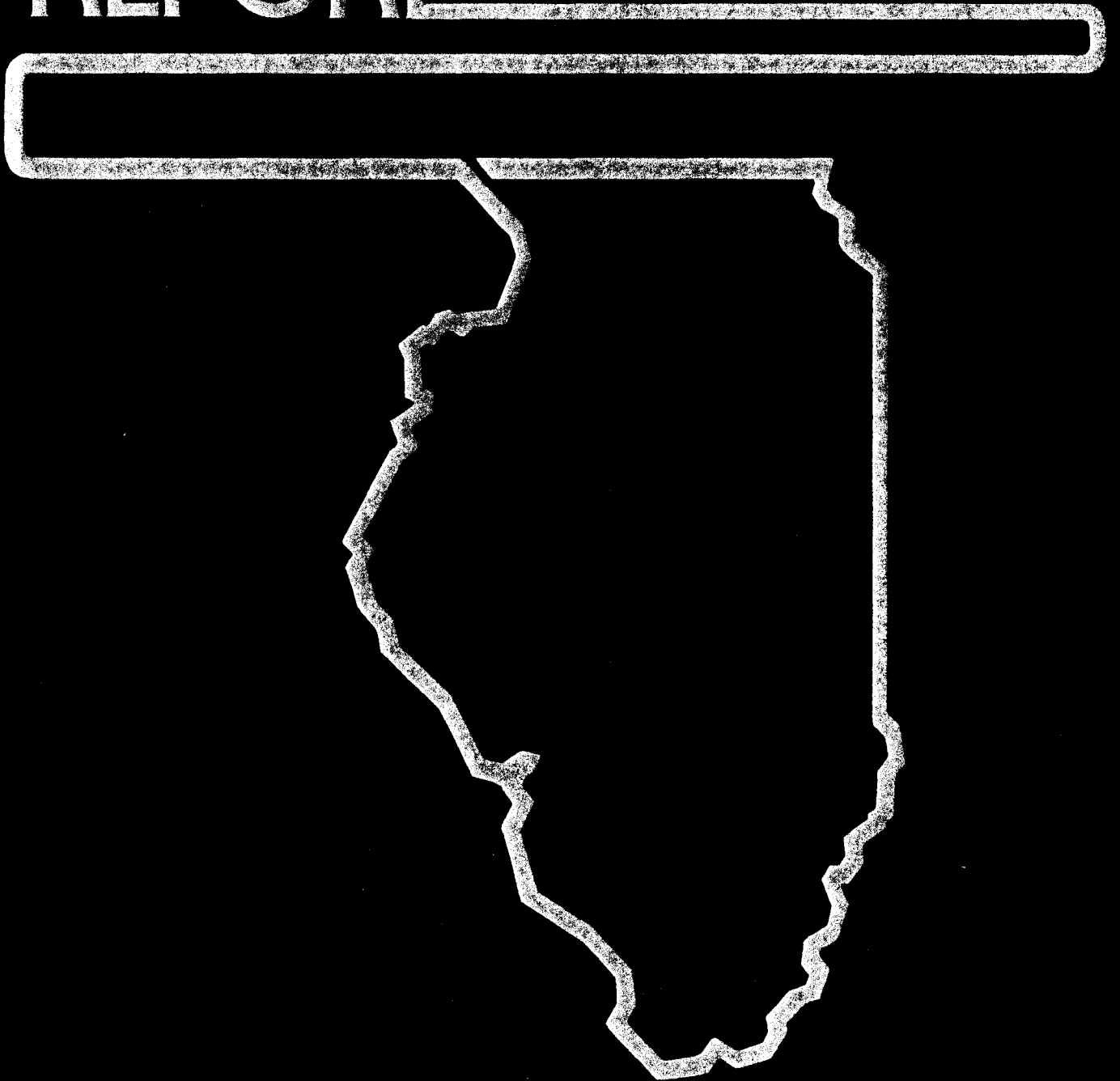


1982 ANNUAL REPORT

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS





Robert A. Morris
Chairman
Appointed by Governor

1982 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, 1982)



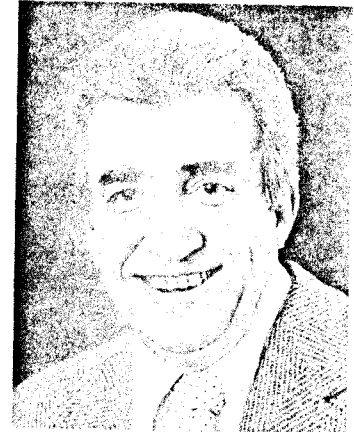
Alice Kirby
Representing
Roland W. Burris
Comptroller,
State of Illinois



Mark Gallagher
Representing
Robert L. Mandeville
Director, Bureau of the Budget
State of Illinois



Joseph T. Pisano
State Employee
Appointed by Governor



E. Allen Bernardi
State Employee
Appointed by Governor

ADMINISTRATIVE STAFF

Robert V. Knox
Associate Executive Secretary

Michael L. Mory - Executive Secretary

Mabel M. Curtis
Associate Executive Secretary

Patrick P. Cummings, Manager
Claims Division

William T. Weir, Manager
Administrative Services Division

Robert E. Doolen, Manager
Accounting Division

Dwight N. Garmon, Manager
Data Processing Division

Joseph S. Maggio, Manager
Service and Refunds Division

Michael K. Blankenship, Manager
Social Security Division

Terry E. Radliff
Internal Auditor

William R. Thompson, Manager
Field Services Division

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**state employees'
retirement
system
of illinois**



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

December 15, 1982

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, 1982.

Respectfully submitted,

Robert A. Morris
Chairman

RAM:bjm

state employees' retirement system of illinois



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

Board of Trustees
State Employees' Retirement System
Springfield, IL 62708

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, 1982. The report contains essential facts concerning the System's operations covering the period July 1, 1981 through June 30, 1982, as well as historical information to allow a comparison with prior fiscal years.

FINANCIAL CONDITION

The overall financial condition of the System as evidenced by a comparison of the funding or security ratio (net assets divided by the actuarial accrued liability) declined from 49.3% as of the end of FY-81 to 47.9% as of June 30, 1982.

(In Millions of Dollars)

<u>Fiscal Year</u>	<u>Net Assets</u>	<u>Unfunded Accrued Liability</u>	<u>Actuarial Reserve Requirement</u>	<u>Rate of Funding</u>
FY-82	1,200.1	1,307.7	2,507.8	47.9%
FY-81	1,081.8	1,111.3	2,193.1	49.3%

The decline in the System's funding ratio for FY-82 was due to three primary factors: a reduction in the dollar amount of state contributions, increases in plan benefits affecting both active and retired members, and salary increases granted to active members which exceeded the 7.5% assumption utilized for actuarial purposes. Of particular concern during the year was the reduction in state contributions to the five state-financed retirement systems to a level approximating 62.5% of payout (benefits plus administrative expenses). In the case of SERS, this resulted in a reduction of revenues of over \$37 million based on payout levels anticipated during the budget process and over \$34 million based on state contributions actually received during FY-81. While such action may have in fact been necessary during FY-82 because of economic conditions facing the State of Illinois, it must be noted that continuation of reduced levels of state contributions to the System over extended periods of time could impair the System's capability to meet future benefit commitments.

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Recently the Financial Accounting Standards Board issued a pronouncement pertaining to defined benefit pension plans, Statement No. 35. This statement, which is effective for plan years beginning after June 15, 1982, establishes standards of financial accounting and reporting. Among other disclosures the statement requires the preparation of certain actuarial information, namely, the actuarial present value of accumulated benefits and changes thereof from the prior year. This information differs from the actuarial reserves calculated for funding purposes in that it does not consider future pay increases or service in calculating benefits. Specifically, accumulated benefits are calculated based on each members pay history and service up to the valuation date, in this instance June 30, 1982.

Information is summarized below computed on the basis described above and using the same actuarial assumptions as utilized for funding purposes.

<u>Actuarial Present Value of Accumulated Benefits</u>	<u>June 30, 1982</u>	<u>June 30, 1981</u>
(a) Vested Benefits of Members Currently Receiving Payments	\$ 911,683,707	\$ 819,272,422
(b) Other Vested Benefits	728,822,050	655,687,905
(c) Non-Vested Benefits	<u>237,203,943</u>	<u>229,960,816</u>
(d) Total	\$1,877,709,700	\$1,704,921,143

Compared to assets valued on a cost basis, accumulated benefits are funded at a rate of 63.9% as of June 30, 1982. Utilizing the market value of assets as required by Statement No. 35, a funded percentage of 53.7% is developed.

While measurement of net assets against the actuarial present value of accumulated benefits provides an additional benchmark in evaluating funding progress, it is emphasized that utilization of these values for funding purposes is inappropriate for SERS due to the fact that plan benefits by law are based on earnings during the last four years of employment. Thus, for all employees except those approaching retirement age current earnings do not reflect the ultimate level of benefits payable.

REVENUES:

Revenues for fiscal years 1982 and 1981 are compared below:

Revenue Source	FY-82 (Millions)	FY-81 (Millions)	Increase Amount	(Decrease) Percentage
Member Contributions	\$ 69.3	\$ 64.6	\$ 4.7	7.3%
State Contributions	61.5	96.9	(35.4)	(36.5%)
Investment Income	<u>101.7</u>	<u>93.9</u>	<u>7.8</u>	8.3%
Total	\$232.5	\$255.4	(\$22.9)	(9.0%)

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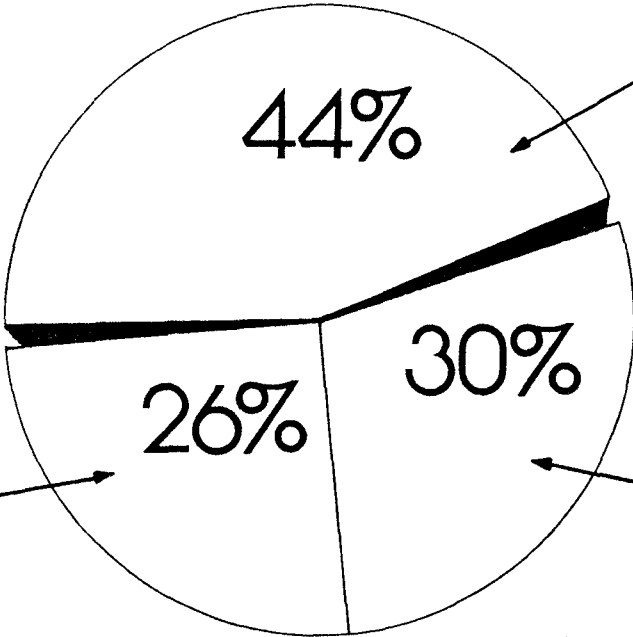
summary of operations

REVENUES BY SOURCE

1982

TOTAL REVENUES
\$232.5 MILLION

INVESTMENT INCOME
\$101.7 MILLION



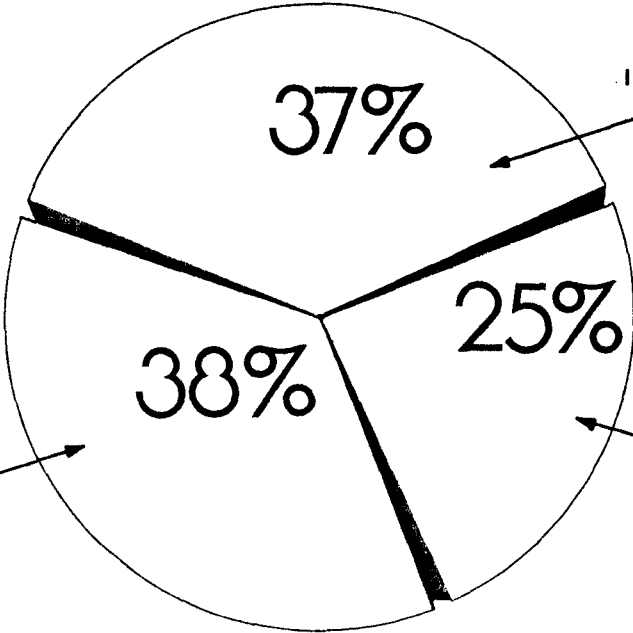
CONTRIBUTIONS BY
STATE OF ILLINOIS
\$61.5 MILLION

CONTRIBUTIONS BY
MEMBERS
\$69.3 MILLION

1981

TOTAL REVENUES
\$255.4 MILLION

INVESTMENT INCOME
\$93.9 MILLION



CONTRIBUTIONS BY
STATE OF ILLINOIS
\$96.9 MILLION

CONTRIBUTIONS BY
MEMBERS
\$64.6 MILLION

annual report 1982

summary of operations

Although the number of members actively employed on June 30, 1982 was 2,226 less than on June 30, 1981, an increase in total wages reported for the year of \$81.3 million resulted in a \$4.7 million increase in contributions by members.

<u>Active Membership</u>	<u>FY-82</u>	<u>FY-81</u>	<u>Increase (Decrease)</u>	
			<u>Number/Amount</u>	<u>Percentage</u>
Coordinated Members	62,901	64,104	(1203)	(1.9%)
Noncoordinated Members	14,003	15,026	(1023)	(6.8%)
<u>Earnings Report</u>				
All Members (Millions)	\$1,334.3	\$1,253.0	\$ 81.3	6.5%

The employer contribution rate required to provide income to pay current benefits and administrative expenses was actuarially determined to be 7.9%; however, the rate used for FY 1982 was 4.5% which equated approximately to the amounts appropriated for contributions to the System. This rate produced revenues of \$60.3 million, or \$42.5 million less than the total benefit and administrative expenditures of \$102.8 million. A distribution from the State Pension Fund of \$1.2 million brought the total State contributions to \$61.5 million, a 36.5% decrease from the fiscal year 1981 level of \$96.9 million.

<u>FY Ended</u>	<u>State Contributions From Payrolls</u>		<u>Benefit Expense</u>	<u>Administrative Expense</u>	<u>State Contributions Over/Under Expenses</u>
	<u>Rate</u>	<u>Amount</u>			
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
1982	4.50%	60.3	100.5	2.3	(42.5)

During fiscal year 1982, the State Treasurer credited the SERS fund with \$1.2 million in interest earned on the average fund balance. All funds not needed for current operations are transferred to the Illinois State Board of Investment. Income allocated by that Board to the System of \$100.5 million indicates a return of 8.5% on average cost, 8.9% on adjusted average cost (allowing for undistributed net realized losses), and 10.4% on average market. Total return for the year (combined effect of income earned and market appreciation / depreciation) was 4.8% compared to (0.1%) for FY-81.

Comparison of the changes in the Retirement System's investments held in the Commingled Fund for the years ended June 30, 1982 and 1981 are summarized below:

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summary of operations

	<u>1982</u>	<u>1981</u>	<u>INCREASE/(DECREASE)</u>	
			<u>Amount</u>	<u>Percent</u>
Balance at beginning of year, at cost	\$1,119,702,537	\$ 966,813,414	\$152,889,123	15.8%
Cash remitted for investment	16,500,000	60,000,000	(43,500,000)	(72.5%)
Investment income:				
Commingled Fund income	100,907,185	93,313,364	7,593,821	8.1%
Less Expenses	<u>(437,275)</u>	<u>(424,241)</u>	<u>13,034</u>	3.1%
Net investment income	<u>\$ 100,469,910</u>	<u>\$ 92,889,123</u>	<u>\$ 7,580,787</u>	8.2%
Balance at end of year, at cost	\$1,236,672,447	\$1,119,702,537	\$116,969,910	10.4%
Allowance for undistributed net realized loss on sale of investments	<u>48,013,214</u>	<u>50,493,338</u>	<u>(2,480,124)</u>	(4.9%)
Balance at end of year, at adjusted cost	<u>\$1,188,659,233</u>	<u>\$1,069,209,199</u>	<u>\$119,450,034</u>	11.2%
Market value	<u>\$ 997,629,105</u>	<u>\$ 939,315,501</u>	<u>\$ 58,313,604</u>	6.2%

Revenues were used to pay current expenses or credited to the appropriate reserve accounts as shown in this table:

<u>Distribution of Revenues - FY 82</u>	<u>Contributions by Members</u>	<u>Investment Income</u>	<u>Contributions by Employer</u>	<u>Totals</u>
		(Millions)		
Reserve - Future Operations	\$ 0.3	\$ 62.9		\$ 63.2
Reserve - Member Contributions	52.6			52.6
Benefit Payments	2.5	38.8	\$ 59.2	100.5
Refunds	13.9			13.9
Administrative Exp.			2.3	2.3
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$69.3</u>	<u>\$101.7</u>	<u>\$ 61.5</u>	<u>\$232.5</u>

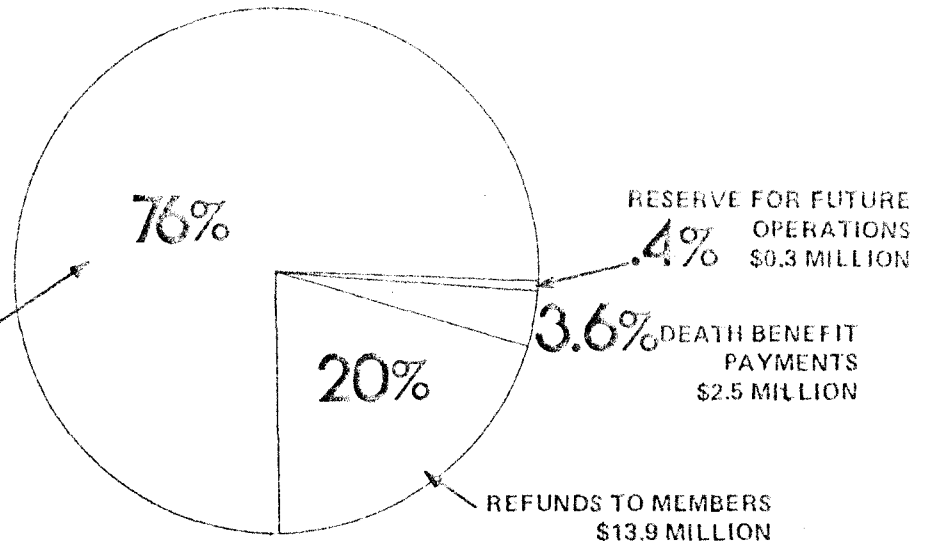
annual report 1982

summary of operations

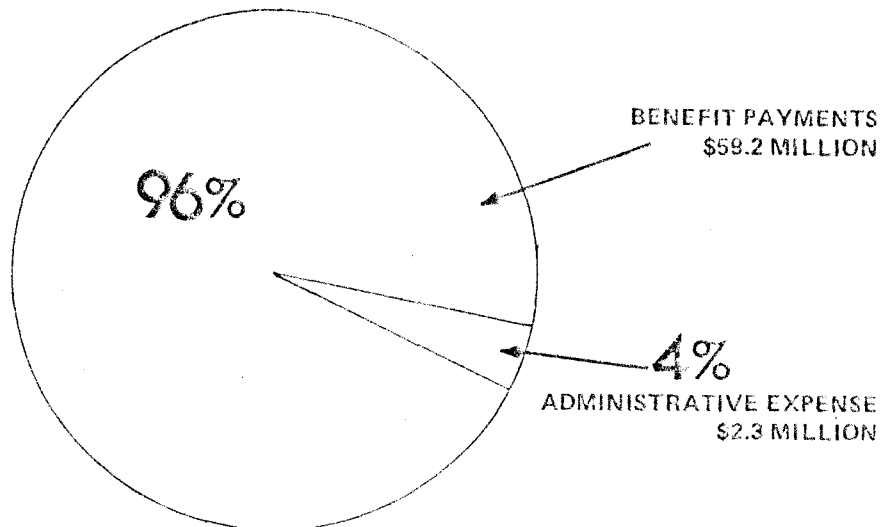
DISTRIBUTION OF REVENUES - FY 1982

MEMBER CONTRIBUTIONS
\$69.2 MILLION

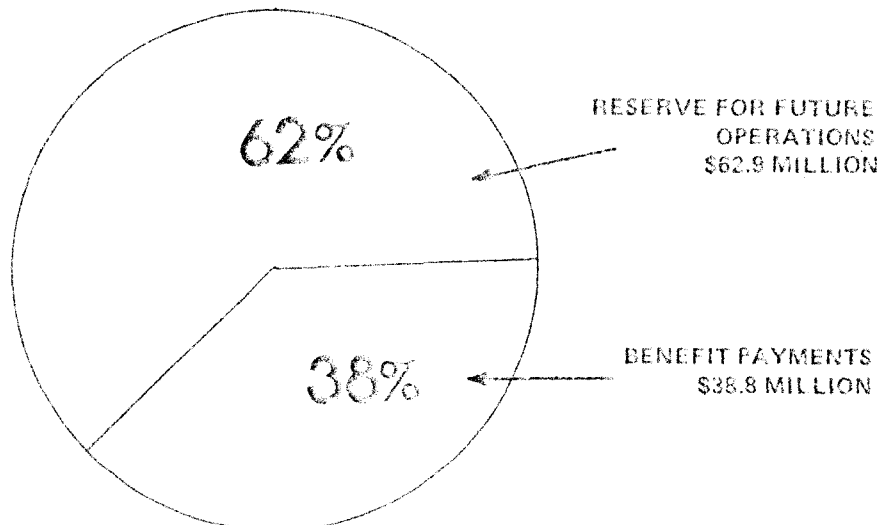
RESERVE FOR
MEMBER CONTRIBUTIONS
\$52.6 MILLION



CONTRIBUTIONS BY
STATE OF ILLINOIS
\$81.5 MILLION



INVESTMENT INCOME
\$101.7 MILLION



annual report 1982

summary of operations

EXPENSES:

In fiscal year 1982, benefit payments amounted to \$100.5 million, administrative expenses \$2.3 million, and contribution refunds were \$13.9 million for an expenditure total of \$116.7 million. This was \$13.2 million or 12.8% higher than the total for FY-81.

	FY-82 (Millions)	FY-81 (Millions)	Increase (Decrease) Amount	Percentage
Retirement Benefits	\$ 68.6	\$ 60.7	\$ 7.9	13.0%
Survivors Benefits	14.2	12.9	1.3	10.1%
Disability Benefits	13.2	11.6	1.6	13.8%
Lump Sum Death Benefits	4.5	3.9	.6	15.4%
Contribution Refunds	13.9	12.4	1.5	12.1%
Administrative Expenses	<u>2.3</u>	<u>2.0</u>	<u>.3</u>	15.0%
 Total Expenses	 \$116.7	 \$103.5	 \$13.2	 12.8%
Net Undistributed Realized Loss (Gain) on Investments	<u>(2.5)</u>	<u>5.0</u>	<u>(7.5)</u>	-----
 Grand Total	 <u>\$114.2</u>	 <u>\$108.5</u>	 <u>\$ 5.7</u>	 5.3%

The net undistributed realized gain on investments reduced total expenses for FY-82 to \$114.2 million compared to \$108.5 million in FY-81.

Annuities for FY-82 show a 12.7% increase over FY-81 levels with Retirement and Disability benefits having the greatest increase as they are directly affected by wages earned. Average earnings for FY-82 were 9.6% above the FY-81 average.

NUMBER OF RECURRING BENEFIT PAYMENTS

	June 30, 1981	New Claims Processed During FY-82	Benefits Ceased During FY-82	June 30, 1982
Retirement	17,307	1,623	683	18,247
Survivors	6,485	542	164	6,863
Disability	<u>1,871</u>	<u>2,543</u>	<u>2,526</u>	<u>1,888</u>
Totals	<u>25,663</u>	<u>4,708</u>	<u>3,373</u>	<u>26,998</u>

Annuity beneficiaries increased by 1,335 or 5.2% from June 30, 1981 to June 30, 1982. In addition, the salary rates of members who filed new claims were generally higher than those whose benefits ceased.

Lump sum death benefits are primarily the contributions and interest credited to the member's account and, therefore, these benefits will vary from year to year.

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Refunds expense was \$13.9 million in 1982 as compared to \$12.4 million in 1981, an increase of \$1.5 million. This was due to the number of members receiving refunds increasing from 12,675 in 1981 to 13,538 in 1982, an increase of approximately 7%, and the average refund payment increasing from \$973 in 1981 to \$1,029 in 1982, and increase of 6%.

The increase in administrative expenses for FY-82 was due primarily to a 14% increase in personal services, a 19% increase in contractual services, and a 240% increase in printing. The contractual services increase consisted of consultation fees in connection with the expanded annual statements for members; benefit investigations, and hospital and medical services in connection with disability examinations. Unusual printing costs incurred were for the expanded annual statements for members and a complete reprint of the handbook for members.

RESERVES:

As of June 30, 1982, the total funds available for payment of current and future benefits were \$1,200.1 million as shown in the following schedule:

<u>Assets</u>	<u>FY-82</u> <u>(Millions)</u>	<u>FY-81</u> <u>(Millions)</u>	<u>Increase</u> <u>(Decrease)</u>
Cash	\$ 7.5	\$ 6.2	\$ 1.3
Receivables (less payables)	3.9	6.4	(2.5)
Investments	<u>1,188.7</u>	<u>1,069.2</u>	<u>119.5</u>
Net Assets	<u>\$1,200.1</u>	<u>\$1,081.8</u>	<u>\$ 118.3</u>

Total revenues for FY-82 of \$232.5 million less expenditures of \$114.2 million resulted in a net increase to reserves of \$118.3 million.

<u>Reserves</u>	<u>FY-82</u> <u>(Millions)</u>	<u>FY-81</u> <u>(Millions)</u>	<u>Net Increase</u>
Member Contributions	\$ 448.9	\$ 413.8	\$ 35.1
Future Operations	<u>751.2</u>	<u>668.0</u>	<u>83.2</u>
Total Reserves	<u>\$1,200.1</u>	<u>\$1,081.8</u>	<u>\$118.3</u>

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to \$17.4 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 Security contributions to the U.S. Department of Health and Human Services for

annual report 1982

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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 1982, contributions collected and transmitted for the political entities amounted to \$27.2 million for approximately 25,000 employees, and for the SERS, \$134.5 million for 62,900 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 1982 was 6.7% on maximum wages of \$32,400. Collections and transmittals are administered through a State trust fund in the custody of the Treasurer of the State of Illinois.

LEGISLATIVE AMENDMENTS:

Amendments with an effective date during fiscal year 1982 having significant impact on the System were:

Senate Bill 244 - Affects security employees of the Department of Corrections. The bill provides for an increase in the rates for benefit formulas and contributions. A minimum of 20 years of membership service is required in order to qualify for the increased formula. The increased formula is applicable only to the period of service earned as a security employee. Effective January 1, 1982.

Senate Bill 587 - Affects Conservation police officers by changing their contribution rate and benefit formula to include them under the alternative retirement annuity applicable to State police officers. Effective January 1, 1982.

Senate Bill 930 - Provides for a change from a maximum age of 65 to a maximum age of 70 for disability benefits. If benefits commence prior to attainment of age 60, the maximum benefit period is age 65. However, if benefits commence on or after attainment of age 60, the maximum benefit period is the fifth anniversary of the effective date of the benefit, but in no event beyond attainment of age 70. The change is effective retroactively to January 1, 1979.

Effective September 24, 1981.

Senate Bill 1058 - Changes the date from 1960 to 1950 for granting partial months of service credits; increases the dollar maximum for survivor benefits to \$400 for spouse or dependent parents, \$600 if there are dependent children; allows a spouse who is the sole survivor and sole beneficiary to select the nonoccupational death benefit in lieu of the survivor annuity. Effective January 1, 1982.

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House Bill 291 - Removes the one year limitation for submitting application for a retirement annuity. The date the application is submitted will not be considered in determining the commencement date for the retirement annuity. Effective January 1, 1982.

House Bill 682 - Provides for an increase in retirement annuities on January 1, 1982, of \$1.00 per month for each year of creditable service for annuitants who began receiving a retirement annuity before January 1, 1977. Widow's and survivors annuities which commenced after January 1, 1971, but before January 1, 1981, will be increased by 1% for each full year since the annuity began. Effective September 16, 1981.

House Bill 1812 - Provides for a cost of living adjustment of 3% annually of the original monthly retirement allowance for retirees who terminated employment prior to January 1, 1970 with eight but less than fifteen years of creditable service; allows the beneficiary of a deceased member to receive survivor annuity benefits pending adjudication of a Worker's Compensation claim by the Industrial Commission. Effective January 1, 1982.

House Bill 1813 - Removes the provision that survivor annuity beneficiary children must be dependent on the member or annuitant. Effective January 1, 1982.

New legislation with effective dates subsequent to June 30, 1982, affecting the operation of the System is summarized below:

Senate Bill 1126 - Removes eligibility for membership for enrollees and temporary staff of programs administered by the Department of Conservation under the Youth Conservation Corps Act of 1970, and for emergency and temporary employees, as defined in Sections 8b8 and 8b9 of the "Personnel Code". Effective July 1, 1982.

Senate Bill 1579 - Provides for the elimination of the legal list of authorized investments and specifies that the Illinois State Board of Investment shall follow the prudent person rule in investing assets of the Retirement System. Fiduciary standards applicable to fund trustees and other administrative personnel were also expanded. Effective August 25, 1982.

House Bill 2502 - Provides for the inclusion of Department of Revenue fraud investigators under the alternative retirement formula. Effective October 1, 1982.

ADMINISTRATION AND REPORTING

Administrative operations of the System are under the direction of the Executive Secretary assisted by a staff of 66 full-time employees, excluding Social Security Division personnel.

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All funds of the System required for current operations are held by the Treasurer of the State of Illinois. 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.

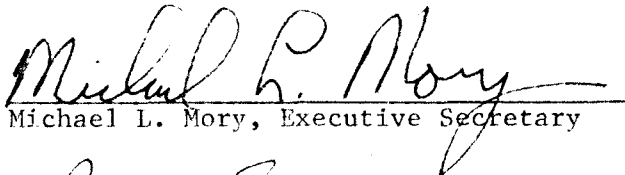
Annual statements of members' contributions, service and estimated benefits were mailed in November 1982, along with a newsletter containing legislative changes and other information of interest to the membership.

The Board of Trustees appointed The Wyatt Company to perform all necessary actuarial services for the System for the 1982 fiscal year. The annual audit for the 1982 fiscal year was performed under the direction of the Auditor General by the firm of Peat, Marwick, Mitchell and Co.

ACKNOWLEDGEMENT

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. Mory, Executive Secretary


Robert E. Doolen, Fiscal Officer

annual report 1982

financial statements

Certified Public Accountants



Peat, Marwick, Mitchell & Co.

Peat Marwick Plaza
303 East Wacker Drive
Chicago, Illinois 60601
(312) 938-1000

Honorable Robert G. Cronson
Auditor General
State of Illinois

Board of Trustees
State Employees' Retirement
System 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, 1982 and 1981 and the related statements of revenue and expenses, changes in reserve balances, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial audits contained in the U.S. General Accounting Office's Standards for Audit of Governmental Organizations, Programs, Activities and Functions 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 aforementioned financial statements present fairly the financial position of the State Employees' Retirement System Trust Fund of the State Employees' Retirement System of Illinois at June 30, 1982 and 1981 and the results of its transactions, changes in reserve balances, and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The supplementary data included in the schedule of administrative expenses are presented for supplementary analysis purposes and are not necessary for a fair presentation of the financial statements of the State Employees' Retirement System Trust Fund of the State Employees' Retirement System of Illinois. The supplementary data have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, are stated fairly in all material respects when considered in conjunction with the financial statements taken as a whole.

Peat Marwick Mitchell & Co.

October 28, 1982