

State Employees' Retirement System of Illinois

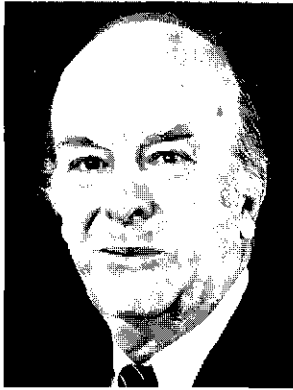
1984 Annual Report

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

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BOARD OF TRUSTEES

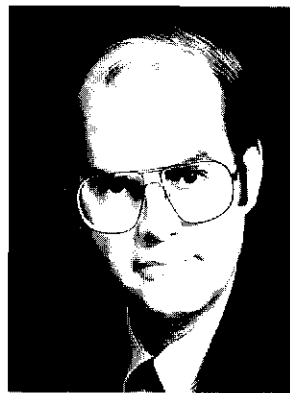
Robert A. Morris

Chairman
Appointed by Governor



E. Allen Bernardi

State Employee
Appointed by Governor



Mark Gallagher

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



Alice Kirby

Representing
Roland W. Burris
Comptroller,
State of Illinois



Joseph T. Pisano

State Employee
Appointed by Governor

ADMINISTRATIVE STAFF

Michael L. Mory

Executive Secretary

Robert V. Knox

Associate Executive Secretary

Patrick P. Cummings, Manager
Claims Division

Robert E. Doolen, Manager
Accounting Division

Joseph S. Maggio, Manager
Service and Refunds Division

Terry E. Radliff
Internal Auditor

William T. Weir, Manager
Administrative Services Division

Dwight N. Garmon, Manager
Data Processing Division

Michael K. Blankenship, Manager
Social Security Division

William R. Thompson, Manager
Field Services Division

To: Board of Trustees
Governor
Active & Retired State Employees
Other Interested Parties

During the fiscal year ended June 30, 1984, activity occurred at both the state and national level on several important issues affecting the System. At the state level, the funding issue was once more in the forefront and legislation was successfully passed by the General Assembly to provide for a phased-in increase in the existing funding level over a ten-year period resulting in an ultimate level necessary to amortize unfunded liabilities over a 30-year period. This legislation was vetoed by the Governor and attempts to override the veto by the General Assembly in December were unsuccessful.

At the national level, amendments were successfully included as part of the Deficit Reduction Act of 1984 to eliminate the five year benefit payout restriction which would have been applicable to nonspousal beneficiaries of certain death benefits paid by the System. Legislation providing for the federal regulation of state and local public employee pension plans was once again introduced but did not reach the floor of either chamber of Congress for an actual vote. While this proposal will undoubtedly be reintroduced in the future, there are strong indications that some congressional committees may be more interested in pursuing the tax qualification issue which is addressed only as a secondary issue in current PERISA/PEPPRA proposals.

Financial Condition

As of June 30, 1984, net present assets of the System were \$1.581 billion. This represents an increase over June 30, 1983, of \$172.5 million. On the liability side, the System's total actuarial accrued liability increased \$323.5 million to a level of \$3.1 billion as of the end of FY-84. As a result, the System's unfunded accrued liability increased \$151.0 million or 10.8% as of the end of the fiscal year. Due primarily to a reduced level of capital gains on the sale of investments, total revenues of \$310.1 million were down \$26.7 million as compared to FY-83. Expenses totaled \$137.6 million of which \$135.1 million was paid in benefits to terminated/retired/disabled state employees and their survivors.

Once again, the employer contribution to the System for FY-84 was based on 60% of anticipated benefit payout plus administrative expenses. This formula would have produced revenues from employer contributions of approximately \$75 million. However, action taken by the System's Board of Trustees in July of 1983 to certify an employer contribution rate one full percent above the level appropriated to each department resulted in the receipt of \$7.2 million above the target funding level. In addition, the financial statements which follow reflect a net employer contribution receivable of \$5.7 million after establishment of an allowance for uncollectible accounts of \$9.8 million which reflects the difference between calculated contributions due at the Board certified rate and the amounts contributed by the employing agencies. The System will pursue collection of the \$9.8 million through the Court of Claims, however, due to its questionable collectability at this time, the special allowance has been established.

As previously discussed, the funding issue was very much in the forefront during FY-84. This issue was also the primary topic of a special management audit of the five state financed retirement systems conducted by the Office of the Auditor General. While the final report resulting from this audit made no specific recommendations regarding a revised funding program, models were developed utilizing several alternative contribution levels to project the financial condition of each system by year 2000. Continuation of the present policy (60% of payout) increased the existing funding ratio of 50.6% to approximately 68%, according to the report. The dollar amount of the System's unfunded accrued liability, however, increased over \$570 million between 1984 and 2000 to a level just under \$2 billion. While it is acknowledged that the payment of benefits made by the System is a statutory as well as a constitutional guarantee, concern over the state's ultimate ability to meet this financial obligation must be expressed.

Program Content

Periodically, staff of the System reviews benefit levels provided to our membership for reasonable adequacy as well as comparability to other programs. Our analysis indicates that our program compares reasonably in all areas except the amount of the basic retirement benefit. To arrive at this conclusion, age, service and compensation characteristics of state employees retiring since January 1, 1982, were reviewed. Utilizing this profile of a typical retiring state employee, benefit levels were developed based on the existing SERS plan as well as representative plans from both in and outside the State of Illinois. Sample results of this study are illustrated in Exhibit A:

EXHIBIT A

Employee

Fund	Contribution Rate	Monthly Benefit
Illinois SERS	Current - 4%	\$269.88

Illinois IMRF	4½%	\$445.17
Indiana PERS	3%	\$366.92
Iowa PERS	3.75%	\$429.21
Kansas PERS	4%	\$361.99
Kentucky ERS	4%	\$413.70
Michigan ERS	Non-contributory	\$387.84
Minnesota MSRS	3.73%	\$315.16
Missouri SER	Non-contributory	\$323.20
Tennessee CRS	5%	\$405.79
Wisconsin WRS	5%	\$413.70

Averages Excluding SERS	3.30%	\$386.27

Based on the benefit levels produced as illustrated in Exhibit A, the formula currently in effect for coordinated members of SERS would have to be increased over 40% in order to reach the average benefit amount of \$386.27.

While the cost impact of upgrading the System's basic retirement formula is significant, exceeding \$200 million, it is believed that the disparity in benefit levels produced when compared to other retirement systems, in particular the Illinois Municipal Retirement Fund, the only other Illinois System coordinated with social security, should be addressed in the near future.

Administration and Reporting

Administrative operations of the System are under the direction of the Executive Secretary assisted by a staff of 65 full-time employees, excluding Social Security Division personnel.

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.

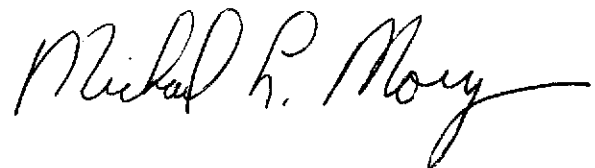
Annual statements of member's contributions, service and estimated benefits were mailed in October 1984, along with a newsletter containing legislative changes and other information of interest to the membership.

The annual audit for the 1984 fiscal year was conducted under the direction of the Auditor General by the firm of Peat, Marwick, Mitchell & Co. Actuarial services for the System were performed by The Wyatt Company.

Acknowledgement

The following sections of this report present detailed financial, actuarial and statistical information pertaining to the operations of the System for the fiscal year. The 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



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
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 Illinois as of June 30, 1984 and 1983 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 Illinois at June 30, 1984 and 1983 and the results of its operations, changes in its 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.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peat Marwick Mitchell & Co.

October 26, 1984

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Balance Sheets

June 30, 1984 and 1983

Assets	1984	1983
Cash	\$ 9,100,232	7,219,474
Receivables:		
Contributions receivable:		
Participants	3,773,980	2,766,318
Employing State agencies (net of allowance for uncollectible accounts of \$9,798,225 in 1984)	5,708,196	4,779,279
Other accounts receivable	<u>441,324</u>	<u>438,767</u>
	9,923,500	7,984,364
Investments - held in the Illinois State Board of Investment Commingled Fund at cost (Market value: 1984, \$1,399,637,496; 1983, \$1,456,182,526)	<u>1,564,277,185</u>	<u>1,395,936,136</u>
	<u>\$1,583,300,917</u>	<u>1,411,139,974</u>
Liabilities and Reserves		
Benefits payable	1,058,411	1,371,736
Refunds payable	522,695	715,378
Administrative expenses payable	186,295	135,608
Participant's deferred service credit accounts	<u>246,722</u>	<u>137,058</u>
	<u>2,014,123</u>	<u>2,359,780</u>
Reserves:		
Actuarially determined accrued benefit cost (note 3)	3,127,247,588	2,803,699,177
Less unfunded accrued benefit cost representing an obligation of the State of Illinois	<u>1,545,960,794</u>	<u>1,394,918,983</u>
Funded reserves	<u>1,581,286,794</u>	<u>1,408,780,194</u>
	<u>\$1,583,300,917</u>	<u>1,411,139,974</u>

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Statements of Revenue and Expenses

Years ended June 30, 1984 and 1983

	1984	1983
Revenue:		
Contributions:		
Participants	\$ 72,755,819	71,754,999
Employing State agencies	84,086,279	70,008,203
State Pension Fund appropriation	<u>2,378,000</u>	<u>1,838,200</u>
	159,220,098	143,601,402
Net investment income	104,658,329	98,798,290
Repayment of contributions refunded	224,568	215,329
Interest earned on cash balances	729,266	796,354
Interest received from participants	461,809	400,918
Net realized gain on sale of investments	<u>44,782,720</u>	<u>92,978,613</u>
	<u>310,076,790</u>	<u>336,790,906</u>
Expenses:		
Benefits:		
Retirement annuities	86,651,697	77,472,708
Survivors' annuities	16,114,837	15,253,035
Disability benefits	13,985,426	14,101,575
Lump-sum death benefits	<u>4,244,111</u>	<u>5,025,528</u>
	120,996,071	111,852,846
Refunds	14,145,496	13,938,134
Administrative expenses	2,428,623	2,290,492
Transfers to reciprocating retirement systems	<u>—</u>	<u>71,035</u>
	<u>137,570,190</u>	<u>128,152,507</u>
Excess of revenue over expenses	<u>\$ 172,506,600</u>	<u>208,638,399</u>

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Statements of Changes in Reserve Balances

Years ended June 30, 1984 and 1983

	Reserve for participants' contributions	Reserve for future operations		Total funded reserves
		Interest accumulations	Other future benefits	
Balance at June 30, 1982	\$ 448,908,264	116,228,109	635,005,422	1,200,141,795
Add (deduct):				
Excess of revenue over expenses	55,257,326	—	153,381,073	208,638,399
Reserve transfers:				
Accumulated contributions of members who retired during the year, less con- tributions of annuitants re- turning to active status	(21,182,483)	—	21,182,483	—
Interest credited to members' accounts	—	23,994,255	(23,994,255)	—
Balance at June 30, 1983	482,983,107	140,222,364	785,574,723	1,408,780,194
Add (deduct):				
Excess of revenue over expenses	56,630,071	—	115,876,529	172,506,600
Reserve transfers:				
Accumulated contributions of members who retired during the year, less con- tributions of annuitants returning to active status	(22,604,912)	—	22,604,912	—
Interest credited to members' accounts	—	25,525,757	(25,525,757)	—
Balance at June 30, 1984	<u>\$ 517,008,266</u>	<u>165,748,121</u>	<u>898,530,407</u>	<u>1,581,286,794</u>

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Statements of Changes in Financial Position

Years ended June 30, 1984 and 1983

	1984	1983
Sources of working capital:		
Working capital provided by operations—excess of revenue over expenses	\$ 172,506,600	208,638,399
Deduct item not providing working capital—net realized gain on sale of investments	<u>(44,782,720)</u>	<u>(92,978,613)</u>
Total sources of working capital	<u>127,723,880</u>	<u>115,659,786</u>
Uses of working capital—investment purchases:		
Amounts transmitted by SERS	18,900,000	15,500,000
Reinvested earnings	<u>104,658,329</u>	<u>98,798,290</u>
Total uses of working capital	<u>123,558,329</u>	<u>114,298,290</u>
Net increase in working capital	<u>\$ 4,165,551</u>	<u>1,361,496</u>
Elements of net increase (decrease) in working capital:		
Cash	1,880,758	(274,688)
Receivables	1,939,136	1,593,495
Benefits payable	313,325	(154,122)
Refunds payable	192,683	224,717
Administrative expenses payable	(50,687)	18,939
Participants' deferred service credit accounts	<u>(109,664)</u>	<u>(46,845)</u>
Net increase in working capital	<u>\$ 4,165,551</u>	<u>1,361,496</u>

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Notes to Financial Statements

June 30, 1984 and 1983

(1) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Investments

Investments of the System Trust Fund are managed by the Illinois State Board of Investment (ISBI) pursuant to Article 22A of the Illinois Pension Code and are held in the ISBI Commingled Fund. Such investments are valued at the cost of the System Trust Fund's units of participation in the ISBI Commingled Fund.

(c) 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.

(d) Actuarial Valuation

In accordance with the Illinois Revised Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. The last such experience review was performed on June 30, 1980. An annual actuarial valuation is performed which is used to value the current reserves.

(2) Benefits

The 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 those in positions subject to membership in other State sponsored retirement systems, persons employed after June 30, 1979 as public service employment program participants under the Federal CETA program and enrollees in the Illinois Young Adult Conservation Corps become members of the System upon completion of six months' service. 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 rate is 5½% or 9½% 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 and administering the System on a funded basis in accordance with actuarial requirements. The employer contribution rate was 6.4% for the current fiscal year. During fiscal year 1983 the contribution rate was 5.55%.

The System billed employing State agencies for the current fiscal year at the 6.4% rate while State appropriations were at 5.4%, resulting in an allowance for uncollectible accounts of \$9,798,225.

(3) **Accrued Benefit Cost**

The calculations of accrued benefit cost (actuarial liability) were made by the consulting actuaries 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	7½%
Average age at retirement	65 years, except age 60 was used for those individuals employed in the uniform services
Rate of turnover without vested benefits	A high scale at younger age levels, becoming progressively lower as age advances - consistent with the System's experience
Mortality basis	1971 Group Annuity Mortality Table projected to 1986
Salary increases	7½% annual increase
Performance of duty	
Death	5% of all deaths among active employees duty related
Disability	15% of all disabilities among active employees duty related

Included in the actuarially determined accrued benefit cost of \$3,127,247,588 is the amount of \$1,161,897,600 for retirement and survivor annuities in force.

The actuarial valuation for the year ended June 30, 1984 reflects the amendment by the 83rd General Assembly to provide a minimum total survivors' annuity equal to 50% of the member's earned pension at the date of death. This amendment accounted for \$76,518,547 of the increase in the unfunded accrued benefit cost of \$151,041,811.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund

Schedule of Administrative Expenses

Years ended June 30, 1984 and 1983

	1984	1983
Personal services	\$ 1,100,631	1,108,606
Retirement contributions	70,718	61,535
Social Security contributions	64,427	61,206
Group insurance	53,696	50,650
Contractual services	494,191	432,992
Travel	24,024	19,715
Printing	39,765	24,491
Commodities	21,749	14,813
Equipment	15,949	14,480
Telecommunications	23,995	21,177
Electronic Data Processing	513,522	470,954
Automotive	<u>5,956</u>	<u>9,873</u>
Total	<u>\$ 2,428,623</u>	<u>2,290,492</u>

Additional Financial Information

REVENUES:

The System's revenues for FY 1984 were down \$26.7 million from FY 1983 levels. Income from investments was \$42.4 million lower than in FY 1983 due primarily to a reduced level of capital gains on the sale of investments. Employer contributions increased by \$14.7 million. Contributions by members remained relatively unchanged.

Revenue Source	FY 84 (Millions)	FY 83 (Millions)	Increase/(Decrease) Amount	Percentage
Member Contributions	\$ 73.4	72.4	1.0	1.0%
State Contributions	86.5	71.8	14.7	20.4%
Investment Income	<u>150.2</u>	<u>192.6</u>	<u>(42.4)</u>	(22.0%)
Total	\$310.1	336.8	(26.7)	(7.9%)

Active membership decreased by 4,075 during the fiscal year due primarily to a change in the Retirement Act requiring all new employees to serve a six-month qualifying period before becoming a member of the System. This requirement was effective with employees beginning after December 31, 1983. The table below shows a comparison of active membership on June 30, 1984 to that of June 30, 1983.

Active Membership	FY 84	FY 83	Increase/(Decrease) Number/Amount	Percentage
Coordinated Members	56,945	60,097	(3,152)	(5.2%)
Noncoordinated Members	<u>12,030</u>	<u>12,953</u>	<u>(923)</u>	(7.1%)
Total Active Members	68,975	73,050	(4,075)	(5.6%)
Earnings Reported				
All Members (Millions)	\$1,437.5	1,378.7	58.8	4.3%

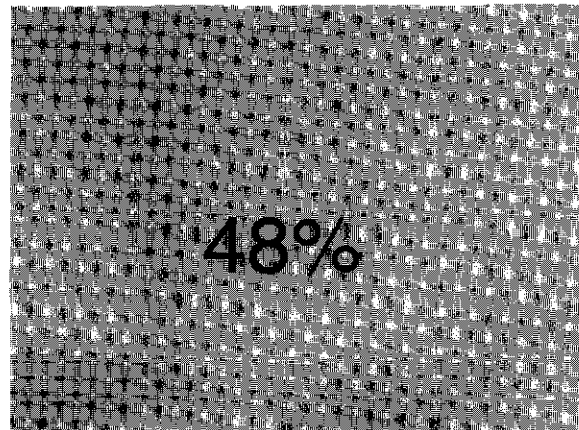
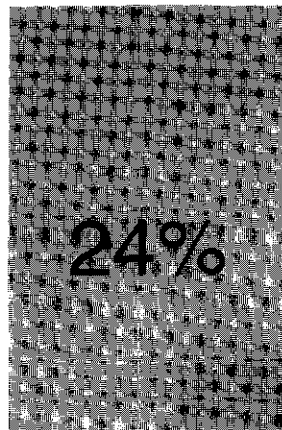
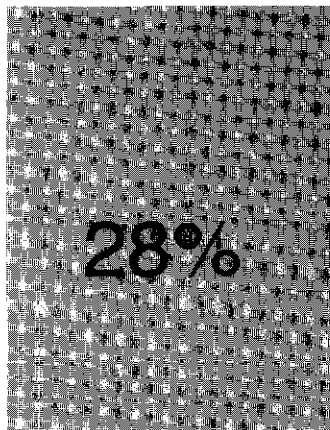
REVENUES BY SOURCE 1984

TOTAL REVENUES
\$310.1 MILLION

Contributions By
State of Illinois
\$86.5 Million

Contributions By
Members
\$73.4 Million

Investment Income
\$150.2 Million



The decline in active members was offset by salary increases during the year resulting in a slight increase in member contributions to \$73.4 million. Employer contributions are based on earnings of all employees in positions subject to membership in this System (active members and employees in the qualifying period). Reported earnings for FY 1984 of \$1.4 billion were \$58.8 million above the FY 1983 level. Contributions by the State were \$14.7 million higher than in 1983.

Revenue from investments for FY 1984 amounted to \$149,441,049 consisting of income from investments, \$105,321,675, less expenses of \$663,346, and net realized gain on sale of investments, \$44,782,720. Excess funds not needed for current operating expenses amounting to \$18,900,000 were transferred to the Illinois State Board of Investment during the year. The following table shows a comparison of investment operations for FY 1984 and FY 1983:

	1984	1983	Increase/(Decrease)	
			Amount	Percentage
Balance at beginning of year, at cost	\$ 1,395,936,136	1,188,659,233	207,276,903	17.4%
Cash remitted for investment	18,900,000	15,500,000	3,400,000	21.9%
Investment income:				
Commingled Fund income	105,321,675	99,217,090	6,104,585	6.2%
Less Expenses	(663,346)	(418,800)	244,546	58.4%
Distributed Net Realized Gain on Sale of Investments	<u>44,782,720</u>	<u>92,978,613</u>	<u>(48,195,893)</u>	(51.8%)
Net investment income	<u>149,441,049</u>	<u>191,776,903</u>	<u>(42,335,854)</u>	(22.1%)
Balance at end of year, at cost	\$ <u>1,564,277,185</u>	<u>1,395,936,136</u>	<u>(168,341,049)</u>	12.1%
Market value	\$ <u>1,399,637,496</u>	<u>1,456,182,526</u>	<u>(56,545,030)</u>	(3.9%)

Interest on the average balance in the System's operating fund for FY 1984 was \$729,266, compared to \$796,354 during FY 1983.

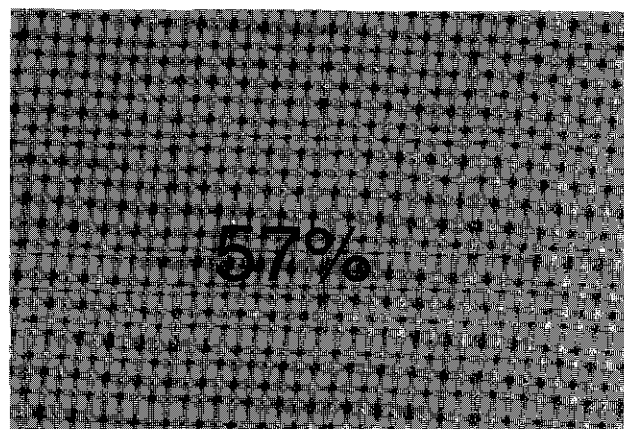
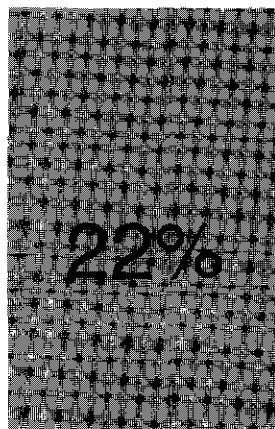
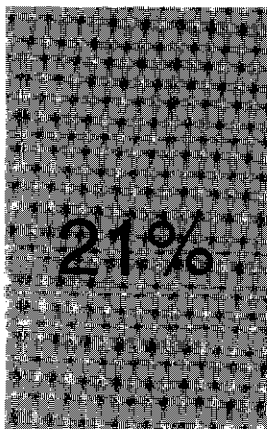
REVENUES BY SOURCE 1983

TOTAL REVENUES
\$336.8 MILLION

Contributions By
State of Illinois
\$71.8 Million

Contributions By
Members
\$72.4 Million

Investment Income
\$192.6 Million



A comparative analysis of the investment performance of the Illinois State Board of Investment for the five-year period ending June 30, 1984, is shown below:

	1984	1983	1982	1981	1980
Total Return *	(5.2)%	44.1%	4.8%	(0.1)%	5.0%
Average Net Income Yield *	7.3	7.7	10.5	10.3	9.9

Comparative rates of return on fixed income securities

Total fixed income-ISBI	(0.7)	37.2	11.4	(8.6)	0.3
Comparison indices:					
Lehman Bros. Kuhn Loeb	1.8	29.1	13.3	(4.1)	3.8
Salomon Bros.	(6.2)	42.4	8.7	(12.9)	(2.4)
Merrill Lynch Median Retirement Fund	1.2	28.7	11.9	(5.8)	2.8

Comparative rates of return on equities

Total equities - ISBI	(12.9)	62.0	(8.4)	19.0	17.1
Comparison indices:					
S & P 500	(4.7)	61.6	(11.5)	20.5	17.2
Dow Jones	(3.0)	58.3	(11.3)	17.8	9.8
Merrill Lynch Median Retirement Fund	(8.7)	63.4	(13.3)	23.9	17.9

* Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

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

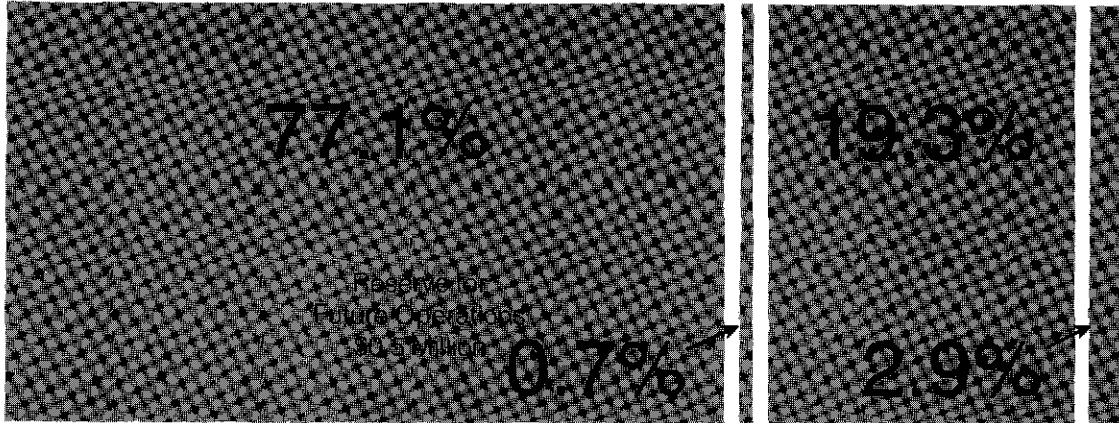
Distribution of Revenues — FY 84	Contributions by Members	Contributions by State	Investments Income	Totals
	Millions			
Reserve — Future Operations	\$ 0.5		115.4	115.9
Reserve — Member Contributions	56.6			56.6
Benefit Payments	2.1	84.1	34.8	121.0
Refunds	14.2			14.2
Administrative Expense	—	2.4	—	2.4
<u>TOTAL</u>	<u>\$ 73.4</u>	<u>86.5</u>	<u>150.2</u>	<u>310.1</u>

REVENUES FY 1984 — HOW THEY WERE USED

MEMBER CONTRIBUTIONS \$73.4 MILLION

Reserve for Member Contributions
\$56.6 Million

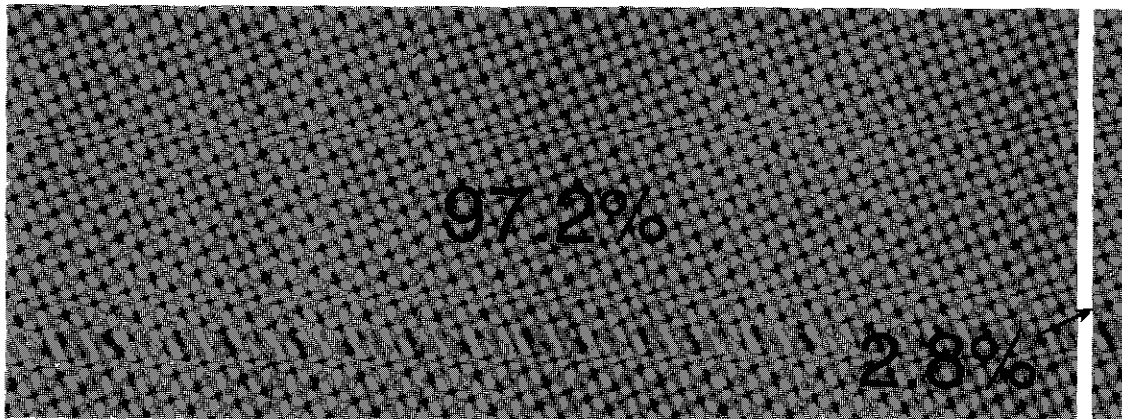
Refunds To Members
\$14.2 Million



CONTRIBUTIONS BY STATE OF ILLINOIS \$86.5 MILLION

Benefit Payments
\$84.1 Million

Death Benefit
Payments
\$2.1 Million

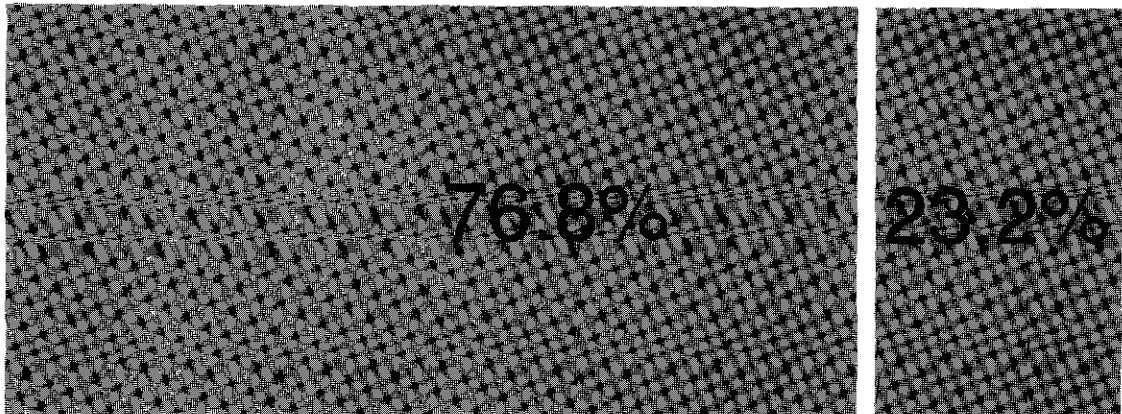


INVESTMENT INCOME \$150.2 MILLION

Administrative Expense
\$2.4 Million

Reserve For
Future Operations
\$115.4 Million

Benefit Payments
\$34.8 Million



EXPENSES:

Retirement and Survivor Benefits showed near normal increases for FY 1984, while Disability Benefits and Administrative Expenses remained nominally unchanged. Contribution refunds, although fewer in number, were near the same dollar level as for the previous year.

	FY 84 (Millions)	FY 83 (Millions)	Increase/ (Decrease)	
			Amount	Percentage
Retirement Benefits	\$ 86.7	77.5	9.2	11.9%
Survivors Benefits	16.1	15.3	0.8	5.2%
Disability Benefits	14.0	14.1	(0.1)	(0.7%)
Lump Sum Death Benefits	4.2	5.0	(0.8)	(16.0%)
Contribution Refunds	14.2	14.0	0.2	1.4%
Administrative Expenses	<u>2.4</u>	<u>2.3</u>	<u>0.1</u>	4.0%
TOTAL EXPENSES	<u>\$137.6</u>	<u>128.2</u>	<u>9.4</u>	7.3%

NUMBER OF RECURRING BENEFIT PAYMENTS

	FY Ended June 30, 1983	New Claims Processed During FY 84	Benefits Ceased During FY 84	FY Ended June 30, 1984
Retirement	19,306	1,648	797	20,157
Survivors	7,139	535	303	7,371
Disability	<u>1,851</u>	<u>2,323</u>	<u>2,375</u>	<u>1,799</u>
TOTALS	<u>28,296</u>	<u>4,506</u>	<u>3,475</u>	<u>29,327</u>

Retirement and survivor annuities increased at about the same rate as in prior years. The number of members on the disability rolls decreased slightly as the total number of members on current payrolls declined.

RESERVES:

As of June 30, 1984, the funds available for payment of current and future benefits were \$1,581.3 million as shown in the following schedule:

Assets	FY-84 (Millions)	FY-83 (Millions)	Increase (Decrease)
Cash	\$ 9.1	7.2	1.9
Receivables (less payables)	7.9	5.6	2.3
Investments	<u>1,564.2</u>	<u>1,395.9</u>	<u>168.3</u>
NET ASSETS	<u>\$1,581.2</u>	<u>1,408.7</u>	<u>172.5</u>

RESERVES (continued):

Total revenues for FY 1984 of \$310.1 million less expenditures of \$137.6 million resulted in a net increase to reserves of \$172.5 million.

Reserves	FY-84 (Millions)	FY-83 (Millions)	Net Increase
Member Contributions	\$ 517.0	483.0	34.0
Future Operations	<u>1,064.2</u>	<u>925.7</u>	<u>138.5</u>
TOTAL RESERVES	<u>\$1,581.2</u>	<u>1,408.7</u>	<u>172.5</u>

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to \$22.6 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 approximately 1,500 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 1984 contributions collected and transmitted for the political entities amounted to \$37.6 million for approximately 25,000 employees, and for the SERS, \$159.0 million for 71,035 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 in 1984 was 6.7% for employee (7.0% for the employer) on maximum wages of \$37,800. Collections and transmittals are administered through a State Trust Fund in custody of the Treasurer of the State of Illinois.

THE *Wyatt* COMPANY

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ACTUARIAL CERTIFICATION

We have completed an actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois as of June 30, 1984.

For purposes of determining contribution rates, assets have been valued at Cost as reported by the Illinois State Board of Investment. The liabilities have been valued based on employee data supplied by the staff of the System and based on actuarial assumptions. A summary of the major actuarial assumptions follows.

In our opinion, the following schedule of valuation results fairly presents the financial condition of the State Employees' Retirement System of Illinois as of June 30, 1984 and the contribution rate complies with the applicable law in force as of the valuation date.

THE WYATT COMPANY

By *S. Lynn Hill*
S. Lynn Hill
Actuarial Assistant

By *Lloyd L. Nordstrom*
Lloyd L. Nordstrom
Fellow of the Society of Actuaries

By *Robert L. Barnes*
Robert L. Barnes
Fellow of the Society of Actuaries

Chicago, Illinois

VALUATION RESULTS

Actuarial Liability (Reserves)

1.	For Annuitants:		
	(a)	For Benefit Recipients:	
		(i) Retirement Annuities	\$ 939,228,187
		(ii) Survivor Annuities	137,894,263
		(iii) Disability Annuities	78,584,198
	(b)	Deferred:	
		(i) Retirement Annuities	1,241,794
		(ii) Survivor Annuities	4,949,158
	(c)	Total (a) and (b)	\$1,161,897,600
2.	For Inactive Members		
	(a)	Eligible for deferred vested pension benefits	53,941,666
	(b)	Eligible for return of contributions only	7,114,083
	(c)	Total (a) and (b)	\$ 61,055,749
3.	For Active Members		\$1,904,294,239
4.	Total		\$3,127,247,588
	Assets (Cost Value)		\$1,581,286,794
	Unfunded Actuarial Liability		\$1,545,960,794

CONTRIBUTION RATE

		% of Payroll ¹	Annual Contributions ¹
1.	Normal Cost	6.221%	\$99,545,070
2.	Amortization of the Unfunded Actuarial Liability Over a 40-year Period from July 1, 1980	7.826%	\$125,214,272
3.	Total Contribution	14.047%	\$224,759,342

¹ Based on assumed payroll of \$1,600,000,000 for Fiscal Year July 1, 1985—June 30, 1986.

SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

Mortality: 1986 Projected Experience Table, a table based on experience under-lying the 1971 Group Annuity Mortality Table, without margins, with a projection for mortality improvements to 1986. Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

Interest: 7½% per annum, compounded annually.

Termination: Illustrative rates follow. It is assumed that terminated employees will not be rehired.

Age	Rate	Age	Rate
20	.374	40	.073
25	.249	45	.047
30	.174	50	.020
35	.124	55	—

Salary Increases: 7½% per annum, compounded annually.

Retirement Rates: Retirement was assumed to occur at age 65 except for "uniform services", which were assumed to retire at age 60.

Assets: Assets available for benefits are valued at cost.

Expenses: As estimated and advised by SERS staff, based on current expenses with an allowance for expected increases.

Marital Status: 85% of employees are assumed to be married.

Spouse's Age: The spouses of eligible employees were assumed to be 3 years younger than the employees.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, remarriage rates, ages and numbers of children and Social Security benefit levels.

COMPARATIVE SUMMARY OF ACTUARIAL VALUES AND PERCENTAGE COVERED BY NET ASSETS AVAILABLE FOR BENEFITS

(in thousands of dollars)

Fiscal Year	Member Contributions (1)	Current Retirants and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Net Assets Available For Benefits	Percentage of Actuarial Values Covered by Net Assets Available		
					(1)	(2)	(3)
1975	\$ 229,512	378,987	565,278	511,864	100	74.5	0
1976	251,773	400,427	652,255	581,531	100	82.4	0
1977	272,658	511,579	645,130	650,282	100	73.8	0
1978	316,877	552,317	672,962	730,016	100	74.8	0
1979	347,173	598,170	684,422	799,803	100	75.7	0
1980	378,468	791,289	764,297	934,864	100	70.3	0
1981	413,773	819,272	960,085	1,081,805	100	81.5	0
1982	448,908	914,281	1,144,618	1,200,142	100	82.2	0
1983	482,983	1,049,972	1,270,744	1,408,780	100	88.2	0
1984	517,008	1,161,897	1,448,342	1,581,287	100	91.6	0

Note: A test of financial soundness is the Retirement System's ability to pay all promised benefits when due. Progress in accumulating assets to pay benefits can be measured by comparing the present assets with (1) member contributions, (2) the actuarial present value of the projected benefits payable to current retirants and beneficiaries, and (3) the actuarial value of benefits payable to terminated and active members.

ANALYSIS OF FUNDING

FY Ended June 30	Funded Reserves	Unfunded Accrued Liability	Reserve Requirement	Rate of Funding
1975	\$ 511,864,249	661,912,869	1,173,777,118	43.6%
1976	581,531,279	722,923,983	1,304,455,262	44.6%
1977	650,282,223	779,084,482	1,429,366,705	45.5%
1978	730,016,212	812,139,837	1,542,156,049	47.3%
1979	799,803,281	829,962,465	1,629,765,746	49.1%
1980	934,863,660	999,190,028	1,934,053,688	48.3%
1981	1,081,805,052	1,111,325,317	2,193,130,369	49.3%
1982	1,200,141,795	1,307,664,784	2,507,806,579	47.9%
1983	1,408,780,194	1,394,918,983	2,803,699,177	50.2%
1984	1,581,286,794	1,545,960,794	3,127,247,588	50.6%