

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

A Pension Trust Fund of the State of Illinois

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2001

STATE EMPLOYEES' RETIREMENT
SYSTEM OF ILLINOIS

2101 South Veterans Parkway
P. O. Box 19255
Springfield, Illinois 62794-9255

Prepared by the Accounting Division

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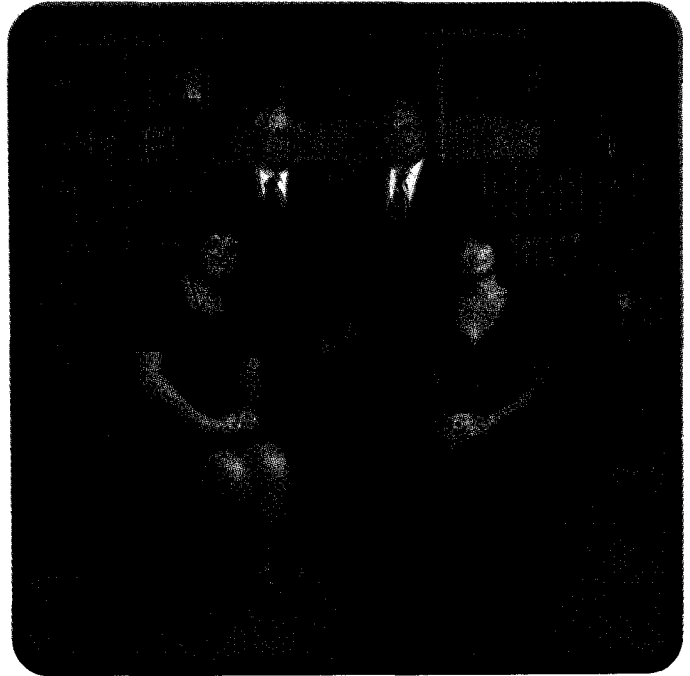
Table of Contents

INTRODUCTORY SECTION	3	Actuarial Cost Method and Summary of Major	
Letter of Transmittal	4	Actuarial Assumptions	35
Administration, Board of Trustees and		Summary of and Changes to the Plan Provisions	36
Administrative Staff	8	Valuation Results	36
Certificate of Achievement for Excellence in		Short-Term Solvency Test	37
Financial Reporting	9	Schedule of Active Member Valuation Data	37
FINANCIAL SECTION	11	Summary of Accrued and Unfunded Accrued Liabilities	
Independent Auditors' Report	12	(Analysis of Funding)	38
Financial Statements:		Schedule of Retirants Added To and Removed From Rolls	39
Statements of Plan Net Assets	13	Schedule of Survivors' Annuitants Added To and	
Statements of Changes in Plan Net Assets	14	Removed From Rolls	39
Notes to Financial Statements	15	Schedule of Disability Recipients Added To and Removed	
Required Supplementary Information:		From Rolls	39
Schedule of Funding Progress	23	Reconciliation of Unfunded Actuarial Liability	40
Schedule of Employer Contributions	23	STATISTICAL SECTION	41
Notes to Required Supplementary Information	23	Asset Balances	42
Supplementary Financial Information:		Liabilities and Reserve Balances	42
Summary of Revenues by Source	24	Revenues by Source	42
Summary Schedule of Cash Receipts		Expenses by Type	43
and Disbursements	24	Benefit Expenses by Type	43
Schedule of Payments to Consultants and Advisors	24	Total Membership	44
INVESTMENT SECTION	25	Active Membership	44
Report on Investment Activity	26	Number of Recurring Benefit Payments	45
Investment Portfolio Summary (Asset Allocation)	29	Termination Refunds - Number/Amount	45
Analysis of Investment Performance	29	Retirement Annuities - Average Monthly Benefit for	
Additional Investment Information	30	Current Year Retirees by Type	46
ACTUARIAL SECTION	31	Retirement Annuities - Current Age of Active Recipients	46
Actuary's Certification Letter	32	Retirement Annuities - Average Service (in months) for	
Introduction	34	Current Year Retirees at Effective Date of Benefit	46
		Annuitants by Benefit Range (Monthly)	47
		Widows and Survivors' by Benefit Range (Monthly)	47
		Occupational and Non-Occupational (Incl.Temp.)	
		Disabilities by Benefit Range (Monthly)	47
		Active Retirees by State	47
		PLAN SUMMARY AND LEGISLATIVE SECTION ..	49

Introductory Section

Administration:

(l to r) seated: Cheryl Bullerman, Dawn Blakeman.
standing: Executive Secretary, Michael Mory,
Associate Executive Secretary, Robert Knox.



Accounting:

(l to r) seated: Doris Rich, Carolyn Zimmerman.
standing: Nick Merrill, Doreen Brownell, Sandy Harvey,
Marlene Schultz, Mike Belden, Dave Richter.



- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway , P.O. Box 19255, Springfield, IL 62794-9255 217-785-7444

December 7, 2001

The Board of Trustees and Members
State Employees' Retirement System of Illinois
Springfield, IL 62794

Dear Board and Members:

The comprehensive annual financial report of the State Employees' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 2001 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The report consists of six sections:

1. The Introductory Section which contains this letter of transmittal and the identification of the administrative organization and the Certificate of Achievement for Excellence in Financial Reporting;

2. The Financial Section which contains the report of the Independent Auditors, the financial statements of the System, and certain required and other supplementary financial information;

3. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;

4. The Actuarial Section which contains an Actuary's Certification Letter and the results of the annual actuarial valuation;

5. The Statistical Section which contains significant statistical data;

6. The Plan Summary and Legislative Section which contains a summary of the System's plan provisions and current legislative changes.

Generally accepted accounting principles require that the financial reporting entity include:

1. the primary government;
2. organizations for which the primary government is financially accountable;
3. other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System. The System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Although the State Employees' Retirement System, Judges' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes.

Therefore, the financial statements of the State Employees' Retirement System do not include plan net asset information nor the changes in plan net assets of the General Assembly Retirement System or Judges' Retirement System.

PLAN HISTORY & SERVICES PROVIDED

The System is the administrator of a single-employer public employee retirement system established to provide pension benefits for State of Illinois employees. The System also administers widows and survivors benefits as well as the state's occupational and non-occupational disability programs.

The System was established January 1, 1944 and 17,237 state employees became members on that date. As of June 30, 1944, net assets of the System amounted to \$1,255,778. The fair value of plan net assets at the end of the fiscal year June 30, 2001 are approximately \$8.3 billion, and there are 80,879 active members.

ADDITIONS TO PLAN NET ASSETS

The collection of employer and employee retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. Due to a decline in the market value of investments, these revenue sources totaled a deficit of \$72.5 million during the fiscal year ending June 30, 2001, which is a significant decrease from revenue reported for fiscal year 2000, as shown in Table 1.

DEDUCTIONS FROM PLAN NET ASSETS

The primary expense of a retirement system relates to the purpose for its creation: the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses for fiscal years 2001 and 2000 are shown for comparison purposes in Table 2.

INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes, using the "prudent person rule".

TABLE 1

	2001 (Millions)	2000 (Millions)	Increase/Decrease (Millions) (Percentage)	
Contributions:				
Employees	\$ 173.8	\$ 164.8	\$ 9.0	5.5%
Employer	366.0	340.9	25.1	7.4
Investments	(612.3)	931.2	(1,543.5)	(165.8)
	<u>\$ (72.5)</u>	<u>\$ 1,436.9</u>	<u>\$ (1,509.4)</u>	<u>(105.1)%</u>

The decrease in investment revenue was attributable to significant net depreciation in the fair value of the System's investments.

TABLE 2

	2001 (Millions)	2000 (Millions)	Increase/Decrease (Millions) (Percentage)	
Benefits:				
Retirement annuities	\$ 446.6	\$ 405.9	\$ 40.7	10.0%
Survivors' annuities	45.0	42.7	2.3	5.4
Disability benefits	32.6	29.2	3.4	11.6
Lump-sum death benefits	13.4	12.1	1.3	10.7
	<u>\$ 537.6</u>	<u>\$ 489.9</u>	<u>\$ 47.7</u>	<u>9.7%</u>
Refunds (including transfers)	17.0	16.0	1.0	6.3
Administrative expenses	7.1	6.6	.5	7.6
	<u>\$ 561.7</u>	<u>\$ 512.5</u>	<u>\$ 49.2</u>	<u>9.6%</u>

The increase is primarily due to the number of benefit recipients and higher final average salaries for retirees.

This rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position.

The ISBI maintains a wide diversification of investments within this fund which is intended to reduce overall risk and increase returns. As further detailed in the Investment Section, this was a most challenging year in virtually all segments of the financial markets.