GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
20 North Clark Street
Suite 2400
Chicago, IL 60602-5111
312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

January 27, 2015

Mr. Timothy Blair
Executive Secretary
State Employees' Retirement System of Illinois
P. O. Box 19255
2101 S. Veterans Parkway
Springfield, Illinois 62794-9255

Re: Pro Forma GASB 68 Reporting Schedules

Attached you will find the pro forma Governmental Accounting Standards Board (GASB) Statement No. 68 accounting schedules. These schedules were prepared at your request and are intended for use by the State Employees' Retirement System of Illinois and those designated or approved by the System. This letter may be provided to parties other than the System only in its entirety and only with the permission of the System.

The purpose of this letter is to provide the pro forma accounting schedules pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 68.

These accounting schedules are based upon the same information furnished by SERS staff concerning System benefits, financial transactions, and active members, terminated members, retirees and beneficiaries that was used in the June 30, 2014, actuarial valuation report dated December 15, 2014. Please refer to that document for addition information pertaining to data, assumptions, methods, plan provisions, etc. Furthermore, the liabilities used in these schedules are based on a single discount rate of 7.09 percent. Details on the calculation of the single discount rate can be found in the GASB Statement No. 67 report provided to the System.

To the best of our knowledge, the information contained with this letter is accurate and fairly represents the actuarial position of the State Employees' Retirement System of Illinois as of June 30, 2014. All calculations have been made in conformity with generally accepted actuarial principles and practices as well as with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

Future actuarial measurements may differ significantly from the current measurements presented in this letter due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

This letter should not be relied on for any purpose other than the purpose stated.

The signing actuaries are independent of the plan sponsor

Alex Rivera, David Kausch and Paul Wood are Members of the American Academy of Actuaries (MAAA) as indicated, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Gabriel, Roeder, Smith & Company

Alex Rivera   David T Kausch   Paul T Wood

Alex Rivera, FSA, EA, MAAA	David Kausch, FSA, EA, MAAA	Paul T. Wood, ASA, MAAA
Senior Consultant	Senior Consultant	Consultant

SECTION B

FINANCIAL STATEMENTS

Auditor's Note – This information is subject to review by the System's auditor. Please let us know if the System's auditor recommends any changes.

PRO FORMA
PENSION EXPENSE UNDER GASB STATEMENT NO. 68
FISCAL YEAR ENDED JUNE 30, 2014

A. Expense

1. Service Cost including Pension Plan Administrative Expense	$	776,487,959
2. Interest on the Total Pension Liability		2,754,121,665
3. Current-Period Benefit Changes		-
4. Employee Contributions (made negative for addition here)		(269,232,241)
5. Projected Earnings on Plan Investments (made negative for addition here)		(961,476,550)
6. Other Changes in Plan Fiduciary Net Position		-
7. Recognition of Outflow (Inflow) of Resources due to Liabilities		717,749,113
8. Recognition of Outflow (Inflow) of Resources due to Assets		(241,573,942)
9. Total Pension Expense	**$**	**2,776,076,005**

Our understanding is that SERS is a single employer defined benefit pension plan. If the sponsor has component units, a proportionate share allocation of the pension expense and net pension liability under paragraph 342 of GASB Statement No. 68 may be required.

STATEMENT OF OUTFLOWS AND INFLOWS ARISING FROM CURRENT REPORTING PERIOD

FISCAL YEAR ENDED JUNE 30, 2014

A. Outflows (Inflows) of Resources due to Liabilities	
1. Difference between expected and actual experience of the Total Pension Liability (gains) or losses	$ 150,997,067
2. Assumption Changes (gains) or losses	$ 3,142,466,514
3. Recognition period for Liabilities: Average of the expected remaining service lives of all employees {in years}	4.5886
4. Outflow (Inflow) of Resources to be recognized in the current pension expense for the Difference between expected and actual experience of the Total Pension Liability	$ 32,907,001
5. Outflow (Inflow) of Resources to be recognized in the current pension expense for Assumption Changes	$ 684,842,112
6. Outflow (Inflow) of Resources to be recognized in the current pension expense due to Liabilities	$ 717,749,113
7. Deferred Outflow (Inflow) of Resources to be recognized in future pension expenses for the Difference between expected and actual experience of the Total Pension Liability	$ 118,090,066
8. Deferred Outflow (Inflow) of Resources to be recognized in future pension expenses for Assumption Changes	$ 2,457,624,402
9. Deferred Outflow (Inflow) of Resources to be recognized in future pension expenses due to Liabilities	$ 2,575,714,468
B. Outflows (Inflows) of Resources due to Assets	
1. Net difference between projected and actual earnings on pension plan investments (gains) or losses	$ (1,207,869,708)
2. Recognition period for Assets {in years}	5.0000
3. Outflow (Inflow) of Resources to be recognized in the current pension expense due to Assets	$ (241,573,942)
3. Deferred Outflow (Inflow) of Resources to be recognized in future pension expenses due to Assets	$ (966,295,766)

STATEMENT OF OUTFLOWS AND INFLOWS ARISING FROM CURRENT AND PRIOR REPORTING PERIODS

FISCAL YEAR ENDED JUNE 30

A. Outflows and Inflows of Resources due to Liabilities and Assets to be recognized in Current Pension Expense

	Outflows of Resources	Inflows of Resources	Net Outflows of Resources
1. Due to Liabilities	$ 717,749,113	$ -	$ 717,749,113
2. Due to Assets	-	241,573,942	(241,573,942)
3. Total	$ 717,749,113	$ 241,573,942	$ 476,175,172

B. Outflows and Inflows of Resources by Source to be recognized in Current Pension Expense

	Outflows of Resources	Inflows of Resources	Net Outflows of Resources
1. Differences between expected and actual experience	$ 32,907,001	$ -	$ 32,907,001
2. Assumption Changes	684,842,112	-	684,842,112
3. Net Difference between projected and actual earnings on pension plan investments	-	241,573,942	(241,573,942)
4. Total	$ 717,749,113	$ 241,573,942	$ 476,175,172

C. Deferred Outflows and Deferred Inflows of Resources by Source to be recognized in Future Pension Expenses

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows of Resources
1. Differences between expected and actual experience	$ 118,090,066	$ -	$ 118,090,066
2. Assumption Changes	2,457,624,402	-	2,457,624,402
3. Net Difference between projected and actual earnings on pension plan investments	-	966,295,766	(966,295,766)
4. Total	$ 2,575,714,468	$ 966,295,766	$ 1,609,418,701

D. Deferred Outflows and Deferred Inflows of Resources by Year to be recognized in Future Pension Expenses

Year Ending June 30	Net Deferred Outflows of Resources
2015	$ 476,175,172
2016	476,175,172
2017	476,175,172
2018	180,893,185
2019	-
Thereafter	-
Total	$ 1,609,418,701

Schedule of Changes in Net Pension Liability and Related Ratios
Current Period
Fiscal Year Ended June 30, 2014

A. Total pension liability		
1. Service Cost including Pension Plan Administrative Expense	$	776,487,959
2. Interest on the Total Pension Liability		2,754,121,665
3. Changes of benefit terms		-
4. Difference between expected and actual experience of the Total Pension Liability		150,997,067
5. Changes of assumptions		3,142,466,514
6. Benefit payments, including refunds of employee contributions		(1,940,145,453)
7. Pension Plan Administrative Expense		(16,615,105)
8. Net change in total pension liability	$	4,867,312,648
9. Total pension liability – beginning		36,817,773,535
10. Total pension liability – ending	**$**	**41,685,086,183**
B. Plan fiduciary net position		
1. Contributions – employer	$	1,699,447,826
2. Contributions – employee		269,232,241
3. Net investment income		2,169,346,258
4. Benefit payments, including refunds of employee contributions		(1,940,145,453)
5. Pension Plan Administrative Expense		(16,615,105)
6. Other		-
7. Net change in plan fiduciary net position	$	2,181,265,767
8. Plan fiduciary net position – beginning		12,400,300,474
9. Plan fiduciary net position – ending	**$**	**14,581,566,241**
C. Net pension liability	**$**	**27,103,519,942**
D. Plan fiduciary net position as a percentage of the total pension liability		**34.98%**
E. Covered-employee payroll	**$**	**4,416,152,691**
F. Net pension liability as a percentage of covered employee payroll		**613.74%**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS MULTIYEAR

Fiscal year ending June 30,	2014
Total Pension Liability	
Service Cost Including Pension Plan Administrative Expense	$ 776,487,959
Interest on the Total Pension Liability	2,754,121,665
Benefit Changes	-
Difference between Expected and Actual Experience	150,997,067
Assumption Changes	3,142,466,514
Benefit Payments	(1,917,062,639)
Refunds	(23,082,814)
Pension Plan Administrative Expense	(16,615,105)
Net Change in Total Pension Liability	4,867,312,648
Total Pension Liability - Beginning	36,817,773,535
Total Pension Liability - Ending (a)	$ 41,685,086,183
Plan Fiduciary Net Position	
Employer Contributions	$ 1,699,447,826
Employee Contributions	269,232,241
Pension Plan Net Investment Income	2,169,346,258
Benefit Payments	(1,917,062,639)
Refunds	(23,082,814)
Pension Plan Administrative Expense	(16,615,105)
Other	-
Net Change in Plan Fiduciary Net Position	2,181,265,767
Plan Fiduciary Net Position - Beginning	12,400,300,474
Plan Fiduciary Net Position - Ending (b)	$ 14,581,566,241
Net Pension Liability - Ending (a) - (b)	27,103,519,942
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	34.98 %
Covered Employee Payroll	$ 4,416,152,691
Net Pension Liability as a Percentage of Covered Employee Payroll	613.74 %

10 fiscal years will be built prospectively.

Please see the following page for additional notes relating to the Schedule of Changes in Net Pension Liability and Related Ratios.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
ADDITIONAL NOTES TO THE SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS MULTIYEAR

Beginning of year Total Pension Liability for fiscal year 2014 uses a single discount rate of 7.60% and the actuarial assumptions used in the June 30, 2013, funding valuation. The single discount rate of 7.60% was based on a long-term expected rate of return on pension plan investments of 7.75% used in the June 30, 2013, funding valuation and a long-term municipal bond rate as of June 27, 2013, of 4.63%.

Effective with the funding valuation as of June 30, 2014, the long-term expected rate of return on pension plan investments was changed from 7.75% to 7.25%.

End of year Total Pension Liability for fiscal year 2014 uses a single discount rate of 7.09% and the actuarial assumptions used in the June 30, 2014, funding valuation. The single discount rate of 7.09% was based on a long-term expected rate of return on pension plan investments of 7.25% used in the June 30, 2014, funding valuation and a long-term municipal bond rate as of June 26, 2014, of 4.29%.

Difference between actual and expected experience includes impact of the change in the single discount rate from 7.12% to 7.09% based on the long-term expected rate of return on pension plan investments of 7.25% used in the June 30, 2014, funding valuation and the long-term municipal bond rate of 4.63% as of June 27, 2013, and 4.29% as of June 26, 2014, respectively. This change was measured using the actuarial assumptions used in the June 30, 2014, funding valuation.

The increase in the Total Pension Liability for fiscal year 2014 due to assumption changes includes the impact of the change in assumptions used in the June 30, 2014, funding valuation, which were determined as part of an experience review for the years July 1, 2009, to June 30, 2013, as well as the change in discount rate from 7.60% to 7.09%.

SCHEDULE OF CONTRIBUTIONS MULTIYEAR

Fiscal Year	Actuarially Determined Contribution*	Actual Contribution**	Contribution Deficiency (Excess)	Covered Payroll***	Actual Contribution as a % of Covered Payroll	Statutory Contribution	Statutory Contribution Deficiency/(Excess)
7/1/04 - 6/30/05	$ 727,428,010	$ 427,434,612	$ 299,993,398	$ 3,475,528,000	12.30%	$ 425,682,669	$ 1,751,943
7/1/05 - 6/30/06	672,555,569	210,499,791	462,055,778	3,572,541,000	5.89%	207,814,710	2,685,081
7/1/06 - 6/30/07	823,802,760	358,786,650	465,016,110	3,762,000,000	9.54%	361,039,140	(2,252,490)
7/1/07 - 6/30/08	986,410,891	587,732,407	398,678,484	3,967,704,000	14.81%	576,626,422	11,105,985
7/1/08 - 6/30/09	1,003,432,849	774,910,344	228,522,505	4,027,263,000	19.24%	769,851,595	5,058,749
7/1/09 - 6/30/10	1,177,313,343	1,095,545,856	81,767,487	4,119,360,892	26.60%	1,168,951,040	(73,405,184)
7/1/10 - 6/30/11	1,289,002,005	1,127,886,796	161,115,209	4,211,186,269	26.78%	1,102,783,348	25,103,448
7/1/11 - 6/30/12	1,614,834,808	1,391,416,375	223,418,433	4,329,083,716	32.14%	1,396,216,080	(4,799,705)
7/1/12 - 6/30/13	1,741,286,416	1,531,932,137	209,354,279	4,236,191,257	36.16%	1,529,942,834	1,989,303
7/1/13 - 6/30/14	1,956,841,419	1,699,447,826	257,393,593	4,416,152,691	38.48%	1,697,348,287	2,099,539

* *The SERS Statutory Funding does not conform to Actuarial Standards of Practice, therefore, the actuarially determined contribution is equal to the normal cost plus an amount to amortize the unfunded actuarial accrued liability as a level percentage of total payroll. The amortization period for fiscal years prior to 2007 is 40 years and the amortization period for fiscal years 2006 and beyond is 30 years.*

** *The actual contributions for FYE 6/30/2005 through 6/30/2012 were obtained from the comprehensive annual financial report. The actual contribution for FYE 6/30/2013 through 6/30/2014 was provided by the System.*

*** *Covered payroll shown is the amount in force as of the valuation date and likely differs from actual payroll paid during the fiscal year.*

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:	June 30, 2014
Notes	Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	The Statutory Contributions is equal to the level percentage of pay contributions determined so that the Plan attains a 90% funded ratio by the end of 2045.
Remaining Amortization Period	Not Applicable. An amortization payment is not directly calculated. The amortization payment is the difference between the total statutory contribution and the employer normal cost contribution.
Asset Valuation Method	5 year smoothed market
Inflation	3.00 percent
Salary Increases	Salary increase rates based on age-related productivity and merit rates plus inflation. Postretirement benefit increases of 3.00 percent, compounded, for Tier 1 and 3.00 percent or one-half of the annual increase in the Consumer Price Index, whichever is less, simple, for Tier 2.
Investment Rate of Return	7.25 percent as of the June 30, 2014, valuation.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2014, valuation pursuant to an experience study of the period July 1, 2009, to June 30, 2013.
Mortality	105 percent of the RP2014 Healthy Annuitant mortality table, sex distinct

Other Information:

Notes	Benefit changes as a result of Public Act 98-0599 were not recognized in the Total Pension Liability as of June 30, 2014. The statutory contribution for fiscal year ending June 30, 2014, was determined based on the results of the June 30, 2012, valuation. Similarly, the statutory contributions for fiscal years ending June 30, 2015 and June 30, 2016, were determined based on the results of the valuations performed two years prior. All other contributions are projected using current assumptions.

Methods and Assumptions Used for Accounting Purposes as of the Valuation Date:

Actuarial Cost Method	Entry Age Normal
Disocunt Rate	7.60 percent as of the June 30, 2013, valuation. 7.09 percent as of the June 30, 2014, valuation.