10600

REPORT DIGEST

GENERAL ASSEMBLY RETIREMENT SYSTEM

COMPLIANCE AUDIT
For the Year Ended:
June 30, 1996

Summary of Findings:

Total this audit	0
Total last audit	0
Repeated from last audit	0

Release Date:
April 23, 1997

State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

Iles Park Plaza
740 E. Ash Street
Springfield, IL 62703
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INTRODUCTION

This digest covers our compliance audit of the System for the year ended June 30, 1996. A financial audit covering the year ending June 30, 1996 was previously issued.

It should be noted that, pursuant to the Illinois Pension Code, investments of the System are managed by the Illinois State Board of Investment.

There were no material findings of noncompliance disclosed during our audit tests. We commend the System for maintaining effective fiscal controls.

FUTURE REPORTING REQUIREMENTS

In November 1994, the Governmental Accounting Standards Board issued Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". This Statement requires that plan assets be reported at fair value, rather than at cost. In addition, this Statement establishes a new financial reporting framework that will result in significant changes to the financial statements as well as the required supplementary information. The requirements of this Statement are effective for periods beginning after June 15, 1996, with earlier implementation encouraged. If comparative financial statements are presented, restatement of the prior year financial statements is required.

(Financial Information and Activity Measures are summarized on the reverse page.)

GENERAL ASSEMBLY RETIREMENT SYSTEM
INFORMATION FROM FINANCIAL AND COMPLIANCE AUDITS
TWO YEARS ENDED JUNE 30, 1996

FINANCIAL OPERATIONS	FY 1996	FY 1995
REVENUES		
Contributions:		
Participants	$ 1,141,155	$ 1,174,764
State General Revenue Fund	2,178,400	1,911,800
State Pension Fund	221,600	236,400
Other employers	--	163,814
Net investment income	1,929,722	2,090,016
Net realized gain on sale of investments	3,653,389	965,272
Other	87,745	100,367
Total Revenue	$ 9,212,011	$ 6,642,433
EXPENSES		
Benefits:		
Retirement annuities	$ 5,561,571	$ 5,203,413
Survivors' annuities	1,429,802	1,336,508
Refunds	90,464	117,386
Administration	202,880	198,091
Total Expenses	$ 7,284,717	$ 6,855,398

SELECTED ACCOUNT BALANCES	JUNE 30, 1996	JUNE 30, 1995
Cash	$1,836,256	$1,693,213
Receivables	$7,600	$8,941
Investments, at cost	$40,864,224	$39,081,113
Property and equipment, net of accumulated depreciation	$5,128	$9,384
Liabilities	$88,312	$95,049
Net Assets Available for Benefits	$42,624,896	$40,697,602
Actuarial Pension Obligation	$127,364,913	$119,362,113
Unfunded Pension Liability	$84,740,017	$78,664,511

SUPPLEMENTARY INFORMATION	FY 1996	FY 1995
Number of System employees (shared with Judges' Retirement System)	8	8
Number of retirees and beneficiaries currently receiving benefits	353	361
Inactive members not yet receiving benefits	108	114
Current Members:		
Vested	106	103
Nonvested	75	79

EXECUTIVE SECRETARY
During Audit Period: Michael L. Mory
Currently: Michael L. Mory

Funding ratio at 40.4% if current market value method is used

The System intends to adopt this Statement beginning with the fiscal year ending June 30, 1997. One effect of this Statement will be to increase the net assets by the difference between fair value and cost of the net assets on the date of adoption. The Statement, however, allows for different valuation methods of assets related to some function of market value (i.e. smoothing of market values over time or current market values) for determining funded status and the annual required contribution. If the System had implemented Statement No. 25 at June 30, 1996 and used the current market value method, the net assets available for benefits would have been $51,404,258 resulting in a funding ratio of 40.4%.

Funding ratio at 33.5% with investments valued at cost

At present, investments are valued at cost or book value as specified by State law. Thus, implementation of Statement No. 25 will require a change to existing State law to comply with generally accepted accounting principles. Net assets available for benefits at cost at June 30, 1996 were $42,624,896 resulting in a funding ratio of 33.5%.

WILLIAM G. HOLLAND, Auditor General

WGH:KMA:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen, LLP were our special assistant auditors for this audit

GENERAL ASSEMBLY RETIREMENT SYSTEM

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PART I

PART I

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

SPECIAL REPORT ON STATE COMPLIANCE TESTING AS MEASURED BY STATE AUDIT GUIDE CRITERIA

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have performed special State compliance testing in accordance with the "Audit Guide for Performing Compliance Audits of Illinois State Agencies" (Audit Guide) issued by the Office of the Auditor General of the operations of the General Assembly Retirement System (System) for the year ended June 30, 1996.

We conducted our special State compliance testing in accordance with the Illinois State Auditing Act (Act); in accordance with the applicable auditing standards which are set forth in the Audit Guide as adopted by the Auditor General pursuant to the Act; and, insofar as such standards are applicable to this special testing, in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Our examination included such tests of the accounting records and such other procedures as we considered necessary in the circumstances. Our program of tests and other auditing procedures has been separately furnished to you. The procedures for special State compliance testing as required by the Audit Guide were designed to determine with reasonable, but not absolute, assurance:

A. Whether the audited System has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. Whether the audited System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. Whether the audited System has generally complied with applicable laws and regulations, including the Comptroller's Uniform Statewide Accounting System in its financial and fiscal operations.

D. Whether the audited System is maintaining effective accounting control over revenues, obligations, expenditures, assets and liabilities.

E. Whether collections of State revenues and receipts by the audited System are in accordance with applicable laws and regulations and whether the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

F. Whether money or negotiable securities or similar assets handled by the audited System on behalf of the State or held in trust by the audited System have been properly and legally administered and whether the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

G. Whether tests of System fiscal operations reveal no evidence of fraud or dishonesty.

H. Whether the records, books and accounts of the audited System adequately record its financial and fiscal operations and provide a basis for review of accountability by external auditors.

I. Whether key financial, statistical, and program data produced by the audited System provide useful information for review of accountability regarding service efforts and accomplishments.

The concept of obtaining reasonable, but not absolute, assurance recognizes that the cost of the audit should not exceed the benefits derived and that judgments need to be made regarding the nature and extent of audit procedures. Special State compliance testing of this type is based upon test samples and would not necessarily disclose all situations of noncompliance which might exist.

There were no findings of noncompliance disclosed by our special State compliance tests which are required to be reported in accordance with the Audit Guide.

As required by the Audit Guide, immaterial findings developed in this special State compliance testing and excluded from this report have been reported in a separate letter to your office.

This report is intended for the information of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and the System's management. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

REPORT ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the General Assembly Retirement System (System), as of and for the year ended June 30, 1996, and have issued our report thereon dated October 18, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations and contracts applicable to the System is the responsibility of the System's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the System's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and the System's management. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

SPECIAL REPORT ON INTERNAL CONTROL STRUCTURE FOR STATE PURPOSES AS MEASURED BY STATE AUDIT GUIDE CRITERIA

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have performed special State compliance testing of the operations of the General Assembly Retirement System (System) as of and for the year ended June 30, 1996, and have issued our report thereon dated October 18, 1996. We have also made a study of the internal control structure and those internal control policies and procedures of the System that we considered relevant to the criteria established by the Office of the Auditor General in Chapter 7 of the "Audit Guide for Performing Compliance Audits of Illinois State Agencies" (Audit Guide). Our study included tests of compliance with such procedures during the period from July 1, 1995 through June 30, 1996. These tests were performed as a portion of our testing of that System for State compliance purposes. This report concerns only our State compliance testing.

We conducted our special State compliance testing in accordance with the Audit Guide; applicable generally accepted auditing standards; and applicable Government Auditing Standards, issued by the Comptroller General of the United States.

In planning and performing our special State compliance testing, we considered the internal control structure in order to determine our auditing procedures for the purpose of reporting on our special State compliance testing and to satisfy certain requirements of the Audit Guide, but not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

The management of the System is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure polices and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the proper financial reporting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this special report, we have classified the significant internal control structure policies and procedures in the following categories:

- System Organization and Management
- Administrative Support Services
- Budgeting, Accounting and Reporting
- Purchasing, Contracting and Leasing
- Expenditure Control
- Personnel and Payroll
- Property and Equipment
- Revenues and Receivables
- Electronic Data Processing

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable. Reportable matters for State compliance audit purposes involve items coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in its financial reporting. We also understand that policies and procedures in conformity with the criteria established by your Audit Guide are considered by the Office of the Auditor General to be adequate for State compliance audit purposes in accordance with the Illinois State Auditing Act and related regulations, and that policies or procedures not in conformity with those criteria indicate some inadequacy for such purposes which should be reported.

We noted no matters involving the internal control structure and its operation that we consider to be significant.

We noted immaterial matters involving the internal control structure and its operation that we have reported to the management of the System, and which have been reported to you in a separate letter to your office dated October 18, 1996.

This report is intended for the information of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and the System's management. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the General Assembly Retirement System (System) as of and for the year ended June 30, 1996, and have issued our report thereon dated October 18, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the System is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the System for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

We noted immaterial matters involving the internal control structure and its operation that we have reported to the management of the System, and which have been reported to you, in a separate letter to your office dated October 18, 1996.

This report is intended for the information of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and the System's management. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the General Assembly Retirement System (System) as of and for the year ended June 30, 1996, and have issued our report thereon dated October 18, 1996. These financial statements and the supplementary information referred to below are the responsibility of System management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Illinois State Auditing Act (Act); the auditing standards which are set forth in the Audit Guide as adopted by the Auditor General pursuant to the Act; and in so far as such standards are applicable, in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the General Assembly Retirement System, taken as a whole. The accompanying supplementary information, as listed in the Table of Contents of Part I, is presented for the purpose of additional analysis and is not a required part of the financial statements of the General Assembly Retirement System. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

GENERAL ASSEMBLY RETIREMENT SYSTEM

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
FISCAL YEAR 1996
Fifteen Months Ended September 30, 1996

APPROPRIATED FUNDS	Appropriations (Net after Transfers)	Expenditures Through June 30, 1996	Lapse Period Expenditures July 1, 1996 Through Sept. 30, 1996	Total Expenditures	Balances Lapsed
General Revenue Fund:					
State contributions to the System, regular (S.B. 925)	$ 2,178,400	$ 2,178,400	$ -	$ 2,178,400	$ -
State Pension Fund:					
Annual allocation to the System, pursuant to Section 8.12 of the State Finance Act (S.B. 925)	221,600	221,600	-	221,600	-
Total all appropriated funds	$ 2,400,000	$ 2,400,000	$ -	$ 2,400,000	$ -

NON-APPROPRIATED FUNDS	Appropriations (Net after Transfers)	Expenditures Through June 30, 1996	Lapse Period Expenditures July 1, 1996 Through Sept. 30, 1996	Total Expenditures	Balances Lapsed
Benefits and other nonadministrative expenditures:					
Pensions and annuities	$ -	$ 6,994,333	$ -	$ 6,994,333	$ -
Nonrecurring refunds and distributions	-	89,663	-	89,663	-
Refunds, not elsewhere classified	-	802	-	802	-
	-	7,084,798	-	7,084,798	-
Administrative expenditures:					
Personal services	-	79,925	33,309	113,234	-
Employee retirement pickup	-	3,202	1,334	4,536	-
Retirement contributions	-	3,816	1,590	5,406	-
Social security contributions	-	5,442	2,323	7,765	-
Group insurance	-	6,520	2,684	9,204	-
Contractual services	-	27,232	5,366	32,598	-
Travel	-	1,277	1,137	2,414	-
Commodities	-	166	234	400	-
Printing	-	2,533	190	2,723	-
Equipment	-	148	-	148	-
Electronic data processing	-	4,338	3,085	7,423	-
Telecommunications	-	771	842	1,613	-
	-	135,370	52,094	187,464	-
Total non-appropriated funds	$ -	$ 7,220,168	$ 52,094	$ 7,272,262	$ -

Note:

The above data was taken from System records which have been reconciled to those of the State Comptroller.

GENERAL ASSEMBLY RETIREMENT SYSTEM

COMPARATIVE SCHEDULES OF REVENUE AND EXPENSES
Years Ended June 30, 1996 and 1995

	1996	1995
Revenue:		
Contributions:		
Participants	$ 1,141,155	$ 1,174,764
State of Illinois:		
General Revenue Fund	2,178,400	1,911,800
State Pension Fund	221,600	236,400
Employers, other than State of Illinois	-	163,814
Total contribution revenue	3,541,155	3,486,778
Investments:		
Net investment income	1,929,722	2,090,016
Net realized gain on sale of investments	3,653,389	965,272
Interest earned on cash balances	87,745	100,367
Total investment revenue	5,670,856	3,155,655
Total revenue	9,212,011	6,642,433
Expenses:		
Benefits:		
Retirement annuities	5,561,571	5,203,413
Survivors' annuities	1,429,802	1,336,508
Total benefits	6,991,373	6,539,921
Refunds	90,464	117,386
Administrative	202,880	198,091
Total expenses	7,284,717	6,855,398
Excess (deficiency) of revenue over (under) expenses	$ 1,927,294	$ (212,965)

GENERAL ASSEMBLY RETIREMENT SYSTEM

COMPARATIVE SCHEDULES OF ADMINISTRATIVE EXPENSES
Years Ended June 30, 1996 and 1995

	1996	1995
Personal services	$ 113,234	$ 108,899
Employee retirement contributions paid by employer	4,536	4,129
Employer retirement contributions	5,406	6,761
Social security contributions	7,765	7,510
Group insurance	9,204	13,580
Contractual services	41,822	37,234
Travel	2,414	1,449
Commodities	436	278
Printing	2,723	3,368
Electronic data processing	7,150	7,317
Telecommunications	1,613	1,055
Depreciation	4,286	4,708
Other	2,291	1,803
Total	$ 202,880	$ 198,091

GENERAL ASSEMBLY RETIREMENT SYSTEM

RECONCILIATION OF REVENUE TO CASH RECEIPTS AND TO DEPOSITS REMITTED TO THE STATE COMPTROLLER
Years Ended June 30, 1996 and 1995

	1996	1995
Total revenue for the year	$ 9,212,011	$ 6,642,433
Add (deduct):		
Investment income reinvested in the Illinois State Board of Investment Commingled Fund	(1,929,722)	(2,090,016)
Realized gain on sale of investments reinvested in the Illinois State Board of Investment Commingled Fund	(3,653,389)	(965,272)
Receivables:		
Balance at July 1	8,941	3,191
Balance at June 30	(7,600)	(8,941)
Cash transfers from the Illinois State Board of Investment	3,800,000	3,800,000
Participant's current year deferred service credit payments, unearned at year end:		
Balance at July 1	(18,589)	(5,200)
Balance at June 30	6,986	18,589
Cancellation of annuities	2,960	1,118
Cancellation of administrative expenses	253	-
Total cash receipts	7,421,851	7,395,902
Add (deduct):		
Deposits in transit:		
Beginning of period	331	-
End of period	(181,865)	(331)
Interest on cash balances	(88,948)	(94,476)
Cancellation of annuities	(2,960)	(1,118)
Cancellation of administrative expenses	(253)	-
Deposits remitted to the State Comptroller for order into the State Treasury	$ 7,148,156	$ 7,299,977

GENERAL ASSEMBLY RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN OFFICE EQUIPMENT
Year Ended June 30, 1996

	Beginning Balance	Purchases	Deletions	Ending Balance
Office equipment	$ 28,625	$ 147	$ (567)	$ 28,205
Accumulated depreciation	(19,241)	(4,286)	450	(23,077)
Equipment, net	$ 9,384	$ (4,139)	$ (117)	$ 5,128

Note:
This schedule has been reconciled to property reports submitted to the Office of the Comptroller.

SCHEDULE OF ACTUARIALLY DETERMINED PRESENT VALUE OF CREDITED PROJECTED BENEFITS, RESERVE REQUIREMENTS AND FUNDED RESERVES

Years Ended June 30, 1996 and 1995

	1996	1995
Actuarial liability for active members:		
Basic retirement annuity	$ 17,192,100	$ 14,550,700
Annual increase in retirement annuity	4,620,588	3,909,226
Pre-retirement survivors' annuity	2,668,906	2,277,629
Post-retirement survivors' annuity	2,879,870	2,443,163
Withdrawal benefits	4,338,537	4,056,154
Disability benefits	176,773	166,848
Total actuarial liability for active members	31,876,774	27,403,720
Actuarial liability for members receiving benefits:		
Retirement annuities	61,785,731	59,356,378
Survivor annuities	11,636,712	11,276,919
Total actuarial liability for members receiving benefits	73,422,443	70,633,297
Actuarial liability for inactive members	22,065,696	21,325,096
Present value of credited projected benefits	127,364,913	119,362,113
Funded reserves:		
Participants' contributions (members' payroll contribution rate, 11.5%)	11,732,410	11,059,576
Future operations, amount available for future benefit payments not provided in other reserves	30,892,486	29,638,026
Total funded reserves	42,624,896	40,697,602
Unfunded present value of credited projected benefits representing an obligation of the State of Illinois	$ 84,740,017	$ 78,664,511

GENERAL ASSEMBLY RETIREMENT SYSTEM

SCHEDULE OF UNFUNDED PRESENT VALUE OF CREDITED PROJECTED BENEFITS
Fiscal Years 1987 through 1996

	Present Value of Credited Projected Benefits For				Portion of Accrued Liabilities Covered by Net Real Assets		
Valuation Date	(1) Active and Inactive Member Contributions	(2) Retirement and Survivor Annuitants	(3) Active and Inactive Members (Employer Financed Portion)	Net Real Assets	(1)	(2)	(3)
6/30/87	$ 6,414,817	$ 36,673,471	$ 17,547,037	$ 29,140,876	100 %	62.0 %	- %
6/30/88	6,861,195	37,155,381	20,143,905	30,106,386	100	62.6	-
6/30/89	7,208,932	34,062,464	21,563,561	31,677,506	100	71.8	-
6/30/90	8,237,231	41,411,576	28,974,830	33,442,677	100	60.9	-
6/30/91	8,959,880	44,998,342	30,510,207	35,142,093	100	58.2	-
6/30/92	10,098,012	48,987,293	29,452,024	37,618,218	100	56.2	-
6/30/93	10,263,855	62,875,015	29,361,863	40,673,690	100	48.4	-
6/30/94	10,734,454	65,587,970	34,397,534	40,910,567	100	46.0	-
6/30/95	11,059,576	70,633,297	37,669,240	40,697,602	100	42.0	-
6/30/96	11,732,410	73,422,443	42,210,060	42,624,896	100	42.1	-

	Funding			
Valuation Date	Reserve Requirement	Net Real Assets	Unfunded Accrued Liabilities	Rate of Funding
6/30/87	$ 60,635,325	$ 29,140,876	$ 31,494,449	48.1 %
6/30/88	64,160,481	30,106,386	34,054,095	46.9
6/30/89	62,834,957	31,677,506	31,157,451	50.4
6/30/90	78,623,637	33,442,677	45,180,960	42.5
6/30/91	84,468,429	35,142,093	49,326,336	41.6
6/30/92	88,537,329	37,618,218	50,919,111	42.5
6/30/93	102,500,733	40,673,690	61,827,043	39.7
6/30/94	110,719,958	40,910,567	69,809,391	36.9
6/30/95	119,362,113	40,697,602	78,664,511	34.1
6/30/96	127,364,913	42,624,896	84,740,017	33.5

The rate of funding, otherwise referred to as the "security ratio", represents the extent to which accrued liabilities for the computed pension credits are covered by "net real assets". Expressing the "net real assets" available for pension credits as a percentage of the "reserve requirement" provides one indication of the System Trust Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS).

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Progress In Funding The System

The present value of credited projected benefits of the System at June 30, 1996 amounted to $127.3 million. The net assets available at June 30, 1996 amounted to $42.6 million, leaving an unfunded present value of credited projected benefits of $84.7 million.

In August 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation became effective on July 1, 1995 (fiscal year ending June 30, 1996) and provided for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Comments On Significant Variations Between Certain Revenue Accounts

	1996	1995	Increase (Decrease)	
Contributions from employers, other than the State of Illinois	$ -	$ 163,814	$ (163,814)	(1)
Net realized gain on sale of investments	3,653,389	965,272	2,688,117	(2)

(1) Contributions from employers, other than State of Illinois are for transfers from a reciprocal system. During fiscal year 1996 no participants transferred their benefits to the General Assembly Retirement System.

(2) Investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and are maintained in the ISBI Commingled Fund. During fiscal year 1996, domestic and foreign equity markets posted impressive returns for the period. A good environment for initial public offerings (IPO's) also led to strong returns for many private equity partnerships. Fixed income, struggling against interest rates trending slightly upward, posted modest returns marginally lower than the coupon return. Real estate, after many years of declining, showed some stabilization during fiscal year 1996, with a return roughly equal to the cash on cash rate of return. Due to the termination of two external investment managers and some reallocation of investments, a large amount of investments were liquidated and reinvested. As a result of this liquidation of investments, realized gains increased and unrealized gains decreased in fiscal year 1996.

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Comments On Significant Variations Between Certain Expense Accounts

		1996	1995	Increase (Decrease)	
Refunds	$	90,464	117,386	(26,922)	(1)

(1) During fiscal year 1996 there was one death after retirement refund paid out for $82,000 and one termination refund paid out for $3,000. There were six termination refunds paid out during fiscal year 1995 amounting to $117,000.

GENERAL ASSEMBLY RETIREMENT SYSTEM

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Comparison Of Administrative Expenses To Total Expenses	1996	1995
Total expenses:		
Benefits	$ 6,991,373	$ 6,539,921
Refunds	90,464	117,386
Administrative	202,880	198,091
Total expenses	$ 7,284,717	$ 6,855,398
Administrative expenses as a percentage of total expenses	2.8%	2.9%

Administrative expenses are not subject to appropriation control but are controlled by budgets adopted by the Board of Trustees. Administrative expenses common to the Judges' Retirement System are paid 60% by the Judges' Retirement System and 40% by the System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System and 40% thereof is allocated to and reimbursed by the System.

Cash Balances	1996	1995
Cash in State Treasury	$ 1,836,256	$ 1,693,213

Increase in cash balances from the previous year is attributable to an increase in the anticipated cash needs of the System.

Receivables	1996	1995
Participant Contributions	$ -	$ 138
Interest on cash balances	7,600	8,803
Total receivables	$ 7,600	$ 8,941

There were no significant fluctuations from the prior year and no receivables were deemed uncollectible at June 30, 1996.

GENERAL ASSEMBLY RETIREMENT SYSTEM

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Investments

General information:

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly Retirement System (System) are managed by the Illinois State Board of Investment (ISBI) and are held in the Commingled Fund of the ISBI. Units of the Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Realized gains and losses on sale of investments are distributed at fiscal year end to the respective systems on the same allocation basis.

Investment portfolio management and performance are the direct responsibility of the ISBI which establishes investment policy and strategy.

Comparison of the changes in the System's investments held in the Commingled Fund for the years ended June 30, 1996 and 1995 are summarized as follows:

	1996	1995
Balance at beginning of year, at cost	$ 39,081,113	$ 39,825,825
Transfers from the ISBI, net	(3,800,000)	(3,800,000)
	35,281,113	36,025,825
Investment income:		
Commingled Fund income	2,074,651	2,226,117
Expenses	(144,929)	(136,101)
Net investment income	1,929,722	2,090,016
Net realized gain on sale of investments	3,653,389	965,272
Balance at end of year, at cost	$ 40,864,224	$ 39,081,113
Market value	$ 49,643,586	$ 46,076,753

Analysis of investment performance (unaudited):

An analysis of investment performance for the years ended June 30, 1996 and 1995 is summarized as follows:

	1996	1995
Total return *	16.6 %	14.0 %
Average net income yield *	4.0	4.7

* 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.

System Employees

The System does not have any designated employees. However, personal services and all related expenses are shared with the Judges' Retirement System as explained in a paragraph above.

Compliance With Statutory Mandates

As part of our compliance audit for the year ended June 30, 1996, we performed certain procedures to determine whether the System was in compliance with statutory mandates specifically applicable to it. No instances of noncompliance by the System with any parts of its enabling legislation were noted.

Future Reporting Requirements

In November 1994, the Governmental Accounting Standards Board adopted Statement No. 25 (Statement) entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The Statement requires that the investments of defined benefit pension plans be reported at their fair (market) value rather than at cost, or amortized cost, as currently required. In addition, the Statement establishes new financial reporting standards which will result in format changes to the financial statements as well as the required supplementary information and may also affect the actuarial determined contribution requirements.

The requirements of the Statement are effective for periods beginning after June 15, 1996, (i.e. fiscal year ending June 30, 1997), with earlier implementation encouraged but not required. If comparative financial statements are presented, restatement of the prior year financial statements is required.

The System intends to adopt the Statement beginning with its fiscal year ending June 30, 1997. The effect of this Statement will be to increase the net assets by the difference between fair value and cost of the net assets on the date of adoption.

The Statement allows for different valuation methods of assets for actuarial purposes, but all are required to reflect some function of market value (i.e. smoothing of market values over time or current market values) for determining funded status and the annual required contribution. If the System could have implemented Statement No. 25 at June 30, 1996 and used the current market value method, the net assets available for benefits would have been $51,404,258, resulting in a funding ratio of 40.4%. However, implementation of Statement No. 25 is precluded as current state law requires the reporting of net assets at cost or book value, but not at market value, as required by the Statement.

GENERAL ASSEMBLY RETIREMENT SYSTEM

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

	1996	1995
Service Efforts and Accomplishments (Unaudited)		
Membership Data:		
Active members	181	182
Inactive members	108	114
Total members	289	296
Benefit Payments and Termination Refunds Processed:		
Recurring:		
Retirement annuities (1)	216	219
Survivor's annuities (2)	134	139
Reversionary annuities	3	3
Total	353	361
Retirement Counseling *:		
Pre-Retirement seminars held	5	5
One-on-one counseling programs held	21	15
Post-retirement seminars held	3	1

* Held in conjunction with the Judges' Retirement System.

(1) Since December 1995, 100% of the current fiscal year retirement annuities were processed in less than 30 days.

(2) Since December 1995, 67% of the current fiscal year survivor's annuities were processed in less than 30 days.

PART II

SYSTEM'S FUNCTIONS AND PLANNING PROGRAM
JUNE 30, 1996

The General Assembly Retirement System (System) was created to provide retirement annuities, survivors' annuities and other benefits for members and presiding officers of the General Assembly and their survivors. The governing statute was amended in 1975 (P.A. 79-969) to extend coverage to certain elected State executive officers.

The System began operations on November 1, 1947, and is governed by Chapter 40 Act 5, Article 2, of the Illinois Compiled Statutes. It is administered by a Board of Trustees consisting of seven persons, as follows: the President of the Senate and the Speaker of the House of Representatives, ex officio, two members of the Senate appointed by the President; two members of the House of Representatives appointed by the Speaker; and one person elected from the member annuitants.

Representative Lee A. Daniels is Chairman of the Board of Trustees and Mr. Michael L. Mory is the Executive Secretary of the System. The Executive Secretary is appointed by the Board and is charged with the administration of the detailed affairs of the System. The administrative offices of the System are located at 2101 South Veterans Parkway, Springfield, Illinois.

The System is also responsible for the general administration of the State Employees Group Insurance Program as it applies to eligible annuitants. This includes enrollment, processing life insurance claims and other administrative details related to that program.

In August 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

Currently, the System utilizes a formal planning program which includes, among other things, operational project planning as well as administrative expense budgeting.

MAJOR INITIATIVES

Projects for fiscal year 1997 include continuing to work towards the final implementation phase of an automated benefit calculation system as well as conducting a study to evaluate the feasibility of enhancing the annual active benefit statement to include a reciprocal system benefit estimate for those members who have service in another reciprocal system.

Additionally, the System will continue to offer the following increasingly popular field service programs at various locations throughout the state:

<u>Pre-Retirement Seminars</u> - This program is designed to assist participants who are planning to retire within the next twelve years to realistically assess their future needs and lifestyles and take steps to achieve their selected future goals. The program focuses on estate and financial planning as well as total entitlement packages available from the System, Social Security Administration and deferred compensation.

Post-Retirement Seminars - This program is designed to assist annuitants and survivors to understand the benefits available to them, and assist them in the continued reassessment of the goals established prior to retirement. The program focuses on continued financial planning, Social Security and System benefits.

One-on-One Counseling - This program provides an opportunity for participants, annuitants and survivors to meet one-on-one with a System staff member to discuss their retirement plans or benefits.

The information above constitutes System representations and no attempt has been made to evaluate the technical details of the planning or the System's progress toward implementation of these programs. Overall, it appears that the System's management and planning procedures are sufficient with regards to the System's needs and statutory requirements.

REPORT DIGEST

GENERAL ASSEMBLY RETIREMENT SYSTEM

FINANCIAL AUDIT
For the Year Ended:
June 30, 1996

Release Date:
February 6, 1997

State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

Iles Park Plaza
740 E. Ash Street
Springfield, IL 62703
(217) 782-6046

SYNOPSIS

- The unfunded liability of the System for pension benefits was $84.7 million at June 30, 1996. This unfunded liability increased approximately $6 million during FY 1996.

INTRODUCTION

This digest covers our financial audit of the System for the year ended June 30, 1996. A compliance audit covering the year ending June 30, 1996 will be issued separately.

The System shares administrative staff and common administrative expenses with the Judges' Retirement System (JRS). The System reimburses the JRS for 40 percent of the administrative costs incurred.

It should be noted that, pursuant to the Illinois Pension Code, the System's investments are managed by the Illinois State Board of Investment.

UNDERFUNDING OF THE SYSTEM

Unfunded Liability Increased $6 million during FY 1996

Net assets available for benefits (at cost) totaled approximately $42.6 million at June 30, 1996. The pension obligation was valued at $127.3 million at June 30, 1996. The difference between the pension obligation and the net assets available for benefits of $84.7 million reflects the unfunded liability of the System at June 30, 1996. The unfunded liability increased approximately $6 million during FY 1996.

Unfunded Liability at June 30, 1996 totals $84.7 million

An analysis of dollar amounts of net assets available for benefits, pension obligation, and unfunded liability should not be viewed in isolation. Expressing the net assets available for benefits as a percentage of the pension obligation provides one indication of funding status. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. The following chart presents funding progress for the past five years.

Year Ended June 30	(1) Net Assets Available for Benefits	(2) Pension Obligation	(3) Percentage Funded (1)÷(2)	(4) Unfunded Liability (2)-(1)	(5) Annual Increase In Unfunded Liability
1992	$37.6	$ 88.5	42.5%	$50.9	$ 2
1993	40.7	102.5	39.7%	61.8	11
1994	40.9	110.7	36.9%	69.8	8
1995	40.7	119.4	34.1%	78.7	9
1996	42.6	127.3	33.5%	84.7	6

NOTE: Amounts in chart are shown in millions of dollars.

FY 96 Marks 1st Year for New State Funding Law

A new State funding law became effective in FY 1996 changing State retirement funding practices. Public Act 88-0593 provides for a stated 50-year funding plan which includes a 15 year phase-in period. State contributions are to be made through a continuing appropriation instead of the annual budgetary process. The law is designed to increase pension funding incrementally, until a 90% funded level is achieved.

AUDITORS' OPINION

Our auditors state that the June 30, 1996 financial statements of the System are fairly presented.

WILLIAM G. HOLLAND, Auditor General

WGH:KMA:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen, LLP were our special assistant auditors for this audit.

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McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable William G. Holland
Auditor General, State of Illinois

Springfield, Illinois

Board of Trustees
General Assembly Retirement System,
State of Illinois
Springfield, Illinois

As Special Assistant Auditors for the Illinois Auditor General, we have audited the accompanying financial statements, as listed in the table of contents, of the General Assembly Retirement System, State of Illinois as of and for the years ended June 30, 1996 and 1995. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Assembly Retirement System, State of Illinois as of June 30, 1996 and 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 1996 on our consideration of the General Assembly Retirement System, State of Illinois' internal control structure and a report dated October 18, 1996 on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements as of and for the years ended June 30, 1996 and 1995, taken as a whole. The supplementary information, included on pages 13 through 15, 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 audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Balance Sheets
June 30, 1996 and 1995

	1996	1995
Assets		
Cash	$ 1,836,256	$ 1,693,213
Receivables:		
Participants' contributions	$ -	$ 138
Interest on cash balances	7,600	8,803
	$ 7,600	$ 8,941
Investments - held in the Illinois State Board of Investment Commingled Fund, at cost (Market value: 1996, $49,643,586; 1995, $46,076,753)	$ 40,864,224	$ 39,081,113
Equipment, net of accumulated depreciation	5,128	9,384
Total Assets	$ 42,713,208	$ 40,792,651
Liabilities and Fund Balance		
Liabilities		
Administrative expenses payable	$ 32,466	$ 29,572
Due to Judges' Retirement System of Illinois	48,860	46,888
Participant deferred service credit accounts	6,986	18,589
Total Liabilities	$ 88,312	$ 95,049
Fund Balance		
Actuarial present value of credited projected benefits	$127,364,913	$119,362,113
Less unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(84,740,017)	(78,664,511)
Total Fund Balance	$ 42,624,896	$ 40,697,602
Total Liabilities and Fund Balance	$ 42,713,208	$ 40,792,651

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1996 and 1995

	1996	1995
Revenue:		
Contributions:		
Participants	$ 1,141,155	$ 1,174,764
Employer	2,400,000	2,312,014
Total Contributions revenue	$ 3,541,155	$ 3,486,778
Investments:		
Net investments income	$ 1,929,722	$ 2,090,016
Interest earned on cash balances	87,745	100,367
Net realized gain on sale of investments	3,653,389	965,272
Total Investments revenue	$ 5,670,856	$ 3,155,655
Total Revenue	$ 9,212,011	$ 6,642,433
Expenses:		
Benefits:		
Retirement annuities	$ 5,561,571	$ 5,203,413
Survivors' annuities	1,429,802	1,336,508
Total Benefits	$ 6,991,373	$ 6,539,921
Refunds	90,464	117,386
Administrative	202,880	198,091
Total Expenses	$ 7,284,717	$ 6,855,398
Excess/(Deficiency) of Revenue over/(under) Expenses	$ 1,927,294	$ (212,965)
Fund Balance at beginning of year	$ 40,697,602	$ 40,910,567
Fund Balance at end of year	$ 42,624,896	$ 40,697,602

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements
June 30, 1996 and 1995

(1) Reporting Entity

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 and (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.

The General Assembly Retirement System (System) is administered by a Board of Trustees consisting of seven persons, which includes the President of the Senate, ex officio, or his designee, two members of the Senate appointed by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants.

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, however, 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.

(2) Plan Description

The System is the administrator of a single-employer defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants.

At June 30, 1996 and 1995, the System membership consisted of:

	1996	1995
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	216	219
Survivors' annuities	134	139
Reversionary annuities	3	3
	353	361
Inactive participants entitled to benefits but not yet receiving them	108	114
Total	461	475
Current Participants:		
Vested	106	103
Nonvested	75	79
Total	181	182

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System.

(a) Eligibility and Membership

The General Assembly Retirement System covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation by eligible persons is optional.

(b) Contributions

In accordance with Chapter 40 Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases. Contributions are excluded from gross income for Federal and State income tax purposes.

The total contribution rate is 11.5% as shown below:

8.5%	Retirement annuity
2.0%	Survivors' annuity
1.0%	Automatic annual increases
11.5%	

The statutes governing the General Assembly Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service. The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Chapter 40, Article 5/2 of the Illinois Compiled Statutes.

(c) Benefits

After eight years of credited service, participants have vested rights to retirement benefits beginning at age 55, or after four years of service with retirement benefits beginning at age 62. The General Assembly Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, reversionary annuity benefits, and under specified conditions, lump sum death benefits. Participants who terminate service may receive, upon application, a refund of their total contributions.

The retirement annuity is determined according to the following formula based upon the participants' final rate of salary.

3.0% for each of the first 4 years of service, plus
3.5% for each of the next 2 years of service, plus
4.0% for each of the next 2 years of service, plus
4.5% for each of the next 4 years of service, plus
5.0% for each year of service in excess of 12 years

The maximum retirement annuity payable is 85% of the final rate of salary.

(3) Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting

The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles. Participant and employer contributions are recognized as revenues in the period in which employee services are performed.

(b) Cash and Investments

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Chapter 40, Article 5/22A of the Illinois Compiled Statutes. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

The System owns approximately .9% of the net investment assets of the ISBI Commingled Fund as of June 30, 1996.

ISBI investments, as categorized by ISBI are categorized to indicate the level of risk assumed by the ISBI at year end. Category I includes investments that are insured or registered or the securities are held by the master custodian in the ISBI's name. Category II includes investments that are uninsured and unregistered with the securities held by the counter-party's agent in the ISBI's name. Category III includes investments that are uninsured and unregistered with the securities held by the counter-party but not in the ISBI's name. Investments in pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

At June 30, 1996, the ISBI's investments were categorized as follows:

	Market Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 272,041,711	$ 272,041,711	$
Foreign Obligations	46,497,033	46,497,033	
Corporate Obligations	655,882,887	655,882,887	
Convertible Bonds	12,356,980	12,356,980	
Common Stock & Equity Funds	1,844,773,931	1,614,256,117	230,517,814
Convertible Preferred Stock	11,539,034	11,539,034	
Preferred Stock	15,685,986	15,685,986	
Foreign Equity Securities	455,997,213	326,226,819	129,770,394
Real Estate Funds	243,308,942		243,308,942
Alternative Investments	274,289,456		274,289,456
Money Market Instruments	620,820,839	21,369,810	599,451,029
Forward Foreign Exchange Contracts	1,154,317	1,154,317	
Loaned Securities	959,943,956		959,943,956
Total Investments	$ 5,414,292,285	$ 2,977,010,694	$ 2,437,281,591

The ISBI participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1996 and 1995, the ISBI had outstanding loaned investment securities having a market value of approximately $959,943,956 and $593,757,824, respectively, against which it had received collateral of approximately $994,346,404 and $609,981,555, respectively.

(c) Actuarial Experience Review

In accordance with Illinois Compiled 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. An experience review was performed as of June 30, 1992.

(d) Administrative Expenses

Expenses related to the administration of the System are budgeted and approved by the System's Board of Trustees. Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are borne 40% by the General Assembly Retirement System and 60% by the Judges' Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 1996 and 1995, were $168,592 and $167,928, respectively.

(4) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of participant service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the General Assembly Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS. The measure is the same as the actuarial funding method used to determine contributions to the System discussed in Note 5.

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1996. Significant actuarial assumptions used include (a) rates of return on the investment of present and future assets of 8.0% per year (consisting of an inflation component of 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, (b) projected salary increase of 6.5% per year (consisting of a general component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/merit component of 1.5% per year), compounded annually, (c) mortality rates based on the UP-1984 Mortality Table, (d) assumed age at retirement ranging from 55 to 70, based upon recent history with the System, (e) 75% of participants are assumed to be married, (f) the age of the spouse is assumed to be 4 years younger than the age of the participant, and (g) termination rates based upon the recent experience of the System.

At June 30, 1996 and 1995, the unfunded pension benefit obligation was $84,740,017 and $78,664,511 as follows:

	1996	1995
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits, including inactive participants	$ 95,488,139	$ 91,958,393
Current Participants:		
Accumulated participant contributions	7,601,958	6,638,784
Employer-financed vested	13,737,695	11,841,513
Employer-financed nonvested	10,537,121	8,923,423
Total Pension benefit obligation	$ 127,364,913	$ 119,362,113
Net assets available for benefits, at cost (market value at June 30, 1996 $51,404,258; June 30, 1995 $47,693,242)	42,624,896	40,697,602
Unfunded pension benefit obligation	$ 84,740,017	$ 78,664,511

There were no benefit changes enacted during fiscal years 1996 or 1995 having a significant impact on the actuarial present value of credited projected benefits and the related unfunded liability.

(5) Contributions Required and Contributions Made

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method. The same actuarial assumptions were used to determine the contribution requirements as are used to compute the pension benefit obligation discussed in Note 4.

For fiscal year 1995, the required employer contributions were computed in accordance with Public Act 86-0273 which was signed into law on August 23,1989. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution was to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution would be an amount sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percentage of payroll as determined under the projected unit credit actuarial cost method.

For fiscal year 1996, the required employer contributions were computed in accordance with Public Act 88-0593. This funding legislation, which became effective July 1,1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the amount certified by the Board of Trustees.

The total amount of actuarially determined contributions required for the fiscal year ended June 30, 1996 amounted to $3,415,000 and consisted of (a) $2,639,000 normal cost and (b) $776,000 amortization of the unfunded actuarial accrued liability. Contributions totaling $3,541,155 ($2,400,000 employer and $1,141,155 employee) were made during fiscal year 1996 and consisted of (a) $2,765,155 normal cost and (b) $776,000 amortization of the unfunded actuarial liability.

A comparison of the actuarially determined funding requirement for the fiscal year ended June 30, 1996, versus the actual funding, shows that the state's employer contributions were made in accordance with the actuarially determined employer contribution requirements for the fiscal year.

	Pension Contributions			
	Required			Received
	Normal Cost	Amortization of Unfunded Liability	Total	
Participants	$1,015,000	$ -	$1,015,000	$1,141,155
Percent of Pay	11.50%	-	11.50%	12.93%
Employer:				
State of Illinois	1,624,000	776,000	2,400,000	2,400,000
Percent of Pay	18.40%	8.79%	27.19%	27.19%
Total	$2,639,000	$776,000	$3,415,000	$3,541,155
Percent of Pay	29.90%	8.79%	38.69%	40.12%
Participant Payroll	$8,825,000			

(6) Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 13-14.

(7) Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 1996 and 1995 is as follows:

	1996	1995
Personal services	$ 113,234	$ 108,899
Employee retirement contributions paid by employer	4,536	4,129
Employer retirement contributions	5,406	6,761
Social Security contributions	7,765	7,510
Group insurance	9,204	13,580
Contractual services	41,822	37,234
Travel	2,414	1,449
Printing	2,723	3,368
Commodities	436	278
Telecommunications	1,613	1,055
Electronic data processing	7,150	7,317
Depreciation	4,286	4,708
Other	2,291	1,803
Total	$ 202,880	$ 198,091

(8) Equipment

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, and (3) certain electronic data processing equipment - 3 years.

A summary of the changes in fixed assets for fiscal years 1996 and 1995 is as follows:

1996	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 28,625	$ 147	$ (567)	$ 28,205
Accumulated Depreciation	(19,241)	(4,286)	450	(23,077)
Equipment, net	$ 9,384	$ (4,139)	$ (117)	$ 5,128

1995	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 26,764	$ 2,094	$ (233)	$ 28,625
Accumulated Depreciation	(14,644)	(4,708)	111	(19,241)
Equipment, net	$ 12,120	$ (2,614)	$ (122)	$ 9,384

(9) Accrued Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. These accrued compensated absences as of June 30, 1996 and 1995 total $19,798 and $17,624 respectively and are included as administrative expenses payable.

(10) Analysis of Changes in Fund Balances

The funded statutory reserves of the General Assembly Retirement System are composed of two components as follows:

(a) Reserve for Participants' Contributions -
This reserve consists of participants' accumulated contributions for retirement annuities, survivors' annuities and automatic annual increases.

(b) Reserve for Future Operations -
This reserve is the balance remaining in the General Assembly Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the General Assembly Retirement System.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS
Statements of Changes in Fund Balances
Years ended June 30, 1996 and 1995

	Participants' Contributions	Future Operations	Total Fund Balance
Balance at June 30, 1994	$ 10,734,454	$ 30,176,113	$ 40,910,567
Add (deduct):			
Excess/(Deficiency) of revenue over/(under) expenses	1,221,192	(1,434,157)	(212,965)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(896,070)	896,070	-
Balance at June 30, 1995	$ 11,059,576	$ 29,638,026	$ 40,697,602
Add (deduct):			
Excess/(Deficiency) of revenue over/(under) expenses	1,136,713	790,581	1,927,294
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(463,879)	463,879	-
Balance at June 30, 1996	$ 11,732,410	$ 30,892,486	$ 42,624,896

(11) Pension Disclosure

All of the System's full-time employees who are not eligible for another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS). The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state agencies, including the System, participate on a cost-sharing basis.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, is included as an integral part of the SERS Comprehensive Annual Financial Report (CAFR). Also included is a discussion of employer and employee obligations to contribute, the authority under which those obligations are established, as well as an explanation of the pension benefit obligation.

The pension benefit obligation at June 30, 1996 and June 30, 1995 for the SERS as a whole, determined through an actuarial valuation at that date was $7.391 billion and $6.988 billion, respectively. The SERS net assets available for benefits on these respective dates (valued at cost) were $4.397 billion and $3.923 billion, leaving unfunded pension benefit obligations of $2.994 billion and $3.065 billion. The System's FY1996 and FY1995 contribution requirement represented .003% and .004%, respectively of total contributions required of all state agency/department employers participating in the SERS.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued CAFR for the year ended June 30, 1996.

Pertinent financial information relating to the System's participation in SERS is summarized as follows:

The System's covered payrolls for FY1996 and FY1995 were $113.2 thousand and $108.9 thousand and the payrolls for all System employees were $113.2 thousand and $108.9 thousand, respectively.

The System's (i.e., the employers') actuarially determined contribution requirements for FY1996 and FY1995 were $5.4 thousand and $6.8 thousand, respectively, or 4.8% and 6.2% of the System's covered payrolls. For FY1996, the System's and employee contributions actually made were $5.4 thousand and $4.5 thousand, respectively, which represents 4.8% and 4.0%, respectively, of the current year covered payroll. For FY1995, the System's and employee contributions actually made were $6.8 thousand and $4.1 thousand, respectively, which represents 6.2% and 3.8%, respectively, of the covered payroll.

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System. Substantially all state employees including the System's employees may become eligible for post employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 or older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 1996. However, post-employment costs for the state as a whole for all state agencies/departments for health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois Comprehensive Annual Financial Report. Cost information for retirees by individual state agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

(12) Future Reporting Requirements

In November, 1994, The Governmental Accounting Standards Board adopted Statement No. 25 (Statement) entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The Statement requires that the investments of defined benefit pension plans be reported at their fair (market) value rather than at cost, or amortized cost, as currently required. In addition, the Statement establishes new financial reporting standards which will result in format changes to the financial statements as well as the required supplementary information and may also affect the actuarially determined contribution requirements.

The requirements of the Statement are effective for periods beginning after June 15, 1996 (i.e. fiscal year ending June 30, 1997), with earlier implementation encouraged but not required. If comparative financial statements are presented, restatement of the prior year financial statements is required.

The System intends to adopt the Statement beginning with its fiscal year ending June 30, 1997.

Analysis of Funding Progress

Fiscal Year	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1987	$ 29,140,876	$ 60,635,325	48.1%	$ 31,494,449	$ 6,643,710	474.0%
1988	30,106,386	64,160,481	46.9%	34,054,095	6,873,250	495.5%
1989	31,677,506	62,834,957	50.4%	31,157,451	6,907,676	451.1%
1990	33,442,677	78,623,637	42.5%	45,180,960	7,254,510	622.8%
1991	35,142,093	84,468,429	41.6%	49,326,336	8,238,709	598.7%
1992	37,618,218	88,537,329	42.5%	50,919,111	8,432,000	603.9%
1993	40,673,690	102,500,733	39.7%	61,827,043	8,651,000	714.7%
1994	40,910,567	110,719,958	36.9%	69,809,391	8,597,000	812.0%
1995	40,697,602	119,362,113	34.1%	78,664,511	8,774,000	896.6%
1996	42,624,896	127,364,913	33.5%	84,740,017	8,825,000	960.2%

* At cost

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

Revenues by Source and Expenses by Type

Revenues by Source

Fiscal Year Ended June 30	Participants' Contributions	Employer Contributions: State of Illinois	Employer Contributions: Other Sources	Employer Contributions: Total	Income from Investments	Total
1987	$ 767,483	$ 2,214,100	$ 213	$ 2,214,313	$ 3,064,668	$ 6,046,464
1988	796,393	1,970,000	-	1,970,000	1,933,098	4,699,491
1989	869,635	1,997,500	-	1,997,500	2,555,317	5,422,452
1990	1,002,258	2,072,600	74,401	2,147,001	2,665,883	5,815,142
1991	1,486,815	2,072,600	275,161	2,347,761	2,170,740	6,005,316
1992	1,375,885	1,965,600	105,410	2,071,010	3,976,419	7,423,314
1993	2,498,833	2,201,000	510,285	2,711,285	3,517,628	8,727,746
1994	1,011,354	2,116,800	-	2,116,800	3,476,303	6,604,457
1995	1,174,764	2,148,200	163,814	2,312,014	3,155,655	6,642,433
1996	1,141,155	2,400,000	-	2,400,000	5,670,856	9,212,011

Expenses by Type

Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1987	$ 3,461,212	$ 80,202	$ 103,150	$ 3,644,564
1988	3,618,087	16,717	99,177	3,733,981
1989	3,682,411	55,660	113,261	3,851,332
1990	3,880,692	42,427	126,852	4,049,971
1991	4,124,250	36,742	144,908	4,305,900
1992	4,658,134	129,978	159,077	4,947,189
1993	5,314,381	154,283	203,610	5,672,274
1994	6,131,496	41,590	194,494	6,367,580
1995	6,539,921	117,386	198,091	6,855,398
1996	6,991,373	90,464	202,880	7,284,717

Analysis of Employer Contributions - Fiscal Year 1988 through 1996

Fiscal Year (A)	(1) Covered Payroll	(2) State of Illinois Employer Contributions Required (B)	(3) State of Illinois Employer Contributions Required as a % of Covered Payroll (2) ÷ (1)	(4) State of Illinois Employer Contributions Received	(5) State of Illinois Employer Contributions Received as a % of Covered Payroll (4) ÷ (1)	(6) Contributions Required in Excess of Contributions Received (2) - (4)
1988	$ 6,873,250	$ 3,273,090	47.6%	$ 1,970,000	28.7%	$ 1,303,090
1989	6,907,676	3,514,623	50.9%	1,997,500	28.9%	1,517,123
1990	7,254,510	2,376,310	32.8%	2,072,600	28.6%	303,710
1991	8,238,709	2,428,771	29.5%	2,072,600	25.2%	356,171
1992	8,432,000	2,475,000	29.4%	1,965,600	23.3%	509,400
1993	8,651,000	2,522,000	29.2%	2,201,000	25.4%	321,000
1994	8,597,000	2,864,000	33.3%	2,116,800	24.6%	747,200
1995	8,774,000	3,304,000	37.7%	2,148,200	24.5%	1,155,800
1996	8,825,000	2,400,000	27.2%	2,400,000	27.2%	-

(A) = Prior to fiscal year 1988, the Actuary did not determine an "Employer Contribution Required" amount.

(B) = For fiscal year 1988 and 1989, the State of Illinois required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal years 1990 through 1995, required employer contributions were computed in accordance with Public Act 86-0273. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution was to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution would be an amount sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method. For fiscal year 1996, the required employer contributions were computed in accordance with Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Schedule of Employer Contributions as a Percentage of Covered Payroll

Fiscal Year	Covered Payroll	State of Illinois Employer Contributions Received	State of Illinois Employer Contributions Received as a % of Covered Payroll
1987	$ 6,643,710	$ 2,214,100	33.3%
1988	6,873,250	1,970,000	28.7%
1989	6,907,676	1,997,500	28.9%
1990	7,254,510	2,072,600	28.6%
1991	8,238,709	2,072,600	25.2%
1992	8,432,000	1,965,600	23.3%
1993	8,651,000	2,201,000	25.4%
1994	8,597,000	2,116,800	24.6%
1995	8,774,000	2,148,200	24.5%
1996	8,825,000	2,400,000	27.2%

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 1996 and 1995

	1996	1995
Contributions:		
Participants	$ 1,113,432	$ 1,124,027
Interest paid by participants	16,403	50,300
Repayment of refunds	11,320	-
Transferred from reciprocating systems	-	437
Total participants contributions	$ 1,141,155	$ 1,174,764
General Revenue Fund	$ 2,178,400	$ 1,911,800
State Pension Fund	221,600	236,400
Paid by reciprocating systems	-	98,307
Paid by participants	-	65,507
Total employer contributions	$ 2,400,000	$ 2,312,014
Total Contributions revenue	$ 3,541,155	$ 3,486,778
Investments:		
Net investments income	$ 1,929,722	$ 2,090,016
Interest earned on cash balances	87,745	100,367
Net realized gain on sale of investments	3,653,389	965,272
Total Investments revenue	$ 5,670,856	$ 3,155,655
Total Revenue	$ 9,212,011	$ 6,642,433

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 1996 and 1995

	1996	1995
Cash balance, beginning of year	$ 1,693,213	$ 1,177,781
Receipts:		
Participant contributions	$ 1,122,068	$ 1,171,693
Employer contributions:		
General Revenue Fund	2,178,400	1,911,800
State Pension Fund	221,600	236,400
Paid by reciprocating systems	-	61,073
Paid by participants	-	98,307
Interest income on cash balances	88,948	94,476
Participants' deferred service credit payments	7,623	1,118
Cancellation of annuities	2,960	21,035
Cancellation of administrative expenses	253	-
Transfers from Illinois State Board of Investment	3,800,000	3,800,000
Total cash receipts	$ 7,421,852	$ 7,395,902
Disbursements:		
Benefit payments:		
Retirement annuities	$ 5,561,651	$ 5,203,956
Survivors' annuities	1,432,682	1,337,753
Refunds	90,464	152,791
Administrative expenses	194,012	185,970
Total cash disbursements	$ 7,278,809	$ 6,880,470
Cash balance, end of year	$ 1,836,256	$ 1,693,213

McGLADREY & PULLEN, LLP
Certified Public Accountants and Consultants

GENERAL ASSEMBLY RETIREMENT SYSTEM
REPORT OF IMMATERIAL FINDINGS

Honorable William G. Holland
Auditor General
State of Illinois

Attention: Karen Appelbaum

Dear Mr. Holland:

As required by the Audit Guide, any immaterial findings excluded from the audit report on our compliance audit of the General Assembly Retirement System for the year ended June 30, 1996 are to be reported in a separate letter to your Office. Presented below are the findings of this type we developed in our audit.

1. FINDING: TRAVEL

We noted one instance where the System had not filed a report in accordance with The State Finance Act on a timely basis.

The State Finance Act requires that the biannual Travel Headquarters Report (TA-2) be filed by January 15 and July 15 of each year according to the guidelines set forth in the Illinois Compiled Statutes (30-ILCS 105/12-3). The report due January 15, 1996 was not filed until July 10, 1996.

The condition was an isolated instance caused by human error. (96-1)

Recommendation:

We recommend that the System file the TA-2 by the deadlines that are specified in the State Finance Act.

Agency Response:

This report is filed twice yearly. In fiscal year 96, the filing dates were changed. Due to an oversight, the January filing was late. We have adjusted our follow-up file to prevent this in the future.

2. FINDING: STATE EMPLOYMENT RECORDS ACT

We noted that the Agency Workforce Report, which is required to be filed with the Index Department (Secretary of State) on a fiscal year basis, was filed incomplete.

According to the State Employment Records Act (5 ILCS 410), all state agencies are required to include the number of contractual employees and openings filled by new hires and promotions in the reports filed with the Index Department. The Agency Workforce Report originally filed did not include the number of contractual employees, openings filled by new hires and promotions.

This condition, due to the System's misunderstanding of the filing requirements, was brought to the System's attention in October 1996 during our audit field work and an amended report listing the required information was forwarded to the Secretary of State in November 1996. (96-2)

Recommendation:

We recommend the System carefully review the filing requirements of the State Employment Records Act and implement the necessary procedures to ensure that the reports are accurate and complete when filed.

Agency Response:

Due to an oversight, the bottom four lines of this form were not completed. An amended form was filed. The form will be completed in its entirety in the future.

PRIOR PERIOD IMMATERIAL FINDINGS NOT REPEATED

There were no prior period immaterial findings as of June 30, 1995.

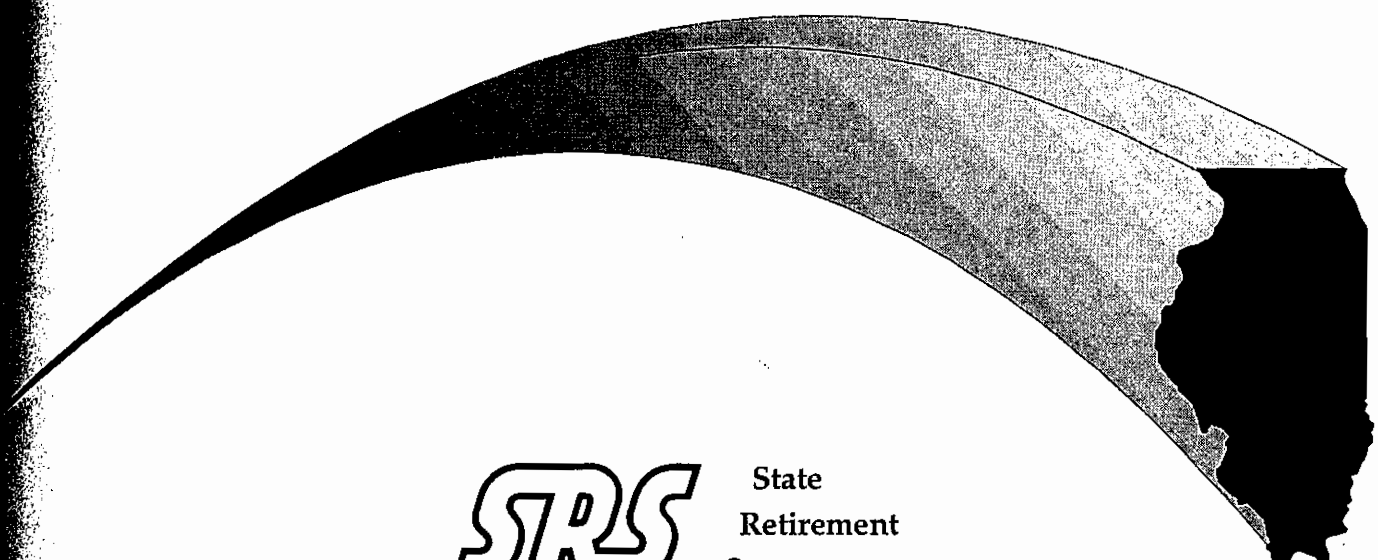
McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

GENERAL ASSEMBLY RETIREMENT SYSTEM - A PENSION TRUST FUND OF THE STATE OF ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1996



SRS State Retirement Systems

General Assembly Retirement System, State of Illinois

2101 South Veterans Parkway P.O. Box 19255 Springfield, Illinois 62794 - 9255
Phone 217-782-8500 Fax 217-785-7019
Internet: http://www.state.il.us/srs
E-mail: sers@pop.state.il.us

Mission Statement:

To establish an efficient method of permitting retirement, without hardship or prejudice, of General Assembly members and certain elected state officials who are aged or otherwise incapacitated, by enabling them to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment.

Fiscal Year 1996 Highlights

289	Total Membership
181	Active Contributing Members
$42,624,896	Net Assets Available for Benefits
	Contributions:
$1,141,155	Employee
$2,400,000	Employer
$5,670,856	Investment Income
16.6%	Investment Return
	Benefit Recipients:
216	Retirement Annuities
134	Survivors' Annuities
3	Reversionary Annuities
$6,991,373	Benefits Paid
$127,364,913	Accrued Actuarial Liability
$84,740,017	Unfunded Actuarial Liability
33.5%	Funded Ratio

GENERAL ASSEMBLY RETIREMENT SYSTEM

A PENSION TRUST FUND OF THE STATE OF ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1996

GENERAL ASSEMBLY
RETIREMENT SYSTEM,
STATE OF ILLINOIS

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

Prepared by the
Accounting Division

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INTRODUCTORY SECTION

- Letter of Transmittal
- Administration, Board of Trustees and Administrative Staff
- Certificate of Achievement for Excellence in Financial Reporting

STATE RETIREMENT SYSTEMS

- 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

November 29, 1996

The Board of Trustees and Members
General Assembly Retirement System,
State of Illinois
Springfield, IL 62794

Dear Board of Trustees and Members:

The comprehensive annual financial report of the General Assembly Retirement System, State of Illinois (System) as of and for the fiscal year ended June 30, 1996 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 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. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization;

2. The Financial Section which contains the report of the independent public accountants, the financial statements of the System, and the supplementary financial information;

3. The Actuarial Section which contains the report of the Actuary as well as the summary of major actuarial assumptions and certain tables;

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

5. The Statistical Section which contains significant statistical data; and

6. 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 and (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, however, 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 General Assembly Retirement System, State Employees' Retirement System and Judges' Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the General Assembly Retirement System do not include balance sheet information nor the results of operations of the State Employees' Retirement System or Judges' Retirement System.

PLAN HISTORY AND SERVICES PROVIDED

The General Assembly Retirement System (System) was established as a public employee retirement system (PERS) by state statute on July 8, 1947. The purpose of the System as prescribed by state statute is to "provide retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected state officials and their beneficiaries".

Responsibility for operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable state statute.

REVENUES

Collections of employer and participant retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These revenue sources totaled $9.212 million during the fiscal year ending June 30, 1996, which is a significant increase from the amount of revenue reported for fiscal year 1995, shown as follows:

	1996 (Millions)	1995 (Millions)	Increase/(Decrease) (Millions)	Increase/(Decrease) (Percentage)
Contributions:				
Participants	$1.141	$1.175	$ (.034)	(2.9)%
Employer	2.400	2.312	.088	3.8%
Investments	5.671	3.155	2.516	79.7%
Total Revenue	$9.212	$6.642	$ 2.570	38.7%

As indicated in the above schedule, over 95% of the total revenue increase was attributable to an increase in investment income which was largely the result of significant net realized gains on the sale of investments.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses of the System for 1996 and 1995 are shown below for comparison purposes.

	1996 (Millions)	1995 (Millions)	Increase/(Decrease) (Millions)	Increase/(Decrease) (Percentage)
Benefits:				
Retirement annuities	$5.562	$5.203	$ .359	6.9%
Survivors' annuities	1.430	1.337	.093	7.0%
Total Benefits Expenses	$6.992	$6.540	$ .452	6.9%
Refunds	.090	.117	(.027)	(23.1)%
Administrative expenses	.203	.198	.005	2.5%
Total Expenses	$7.285	$6.855	$ .430	6.3%

The increase in benefit payments resulted primarily from (1) an increase in the average benefit payment amount and (2) post retirement annuity increases granted each year.

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. For the fiscal year ended June 30, 1996, the total investment return on the market value of assets managed by the ISBI was 16.6% compared to 14.0% during the fiscal year ended June 30, 1995.

Total fiscal year 1996 investment income of $5.671 million represents a significant increase of $2.516 million (79.7%) over the fiscal year 1995 level of $3.155 million. The System's total investments revenue for fiscal year 1996 and 1995 is shown for comparison purposes.

	1996 (Millions)	1995 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Net investments income	$ 1.930	$ 2.090	$(0.160)	(7.7)%
Net realized gain on sale of investments	3.653	.965	2.688	278.5%
Interest earned on cash balances	.088	.100	(0.012)	(12.0)%
Total Investments revenue	$ 5.671	$ 3.155	$ 2.516	79.7%

For the fiscal year ended June 30, 1996, income from investments represents 61.6% of total fund revenue.

A detailed discussion of investment performance and strategies are provided in the Investment Section of this report.

FUNDING AND RESERVES

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

The actuarial determined liability of the System at June 30, 1996, amounted to $127.3 million. The fund balances for participant contributions and future operations amounted to $42.6 million as of the same date. The amount by which the actuarial determined liability exceeds the fund balances is called the "unfunded present value of credited projected benefits." The unfunded present value of credited projected benefits amounted to $84.7 million. A detailed discussion of funding is provided in the Actuarial Section of this report.

ECONOMIC CONDITION AND OUTLOOK

Financing the retirement benefits that are being earned is one of the most important issues facing the General Assembly Retirement System. In prior years, a number of individuals and organizations stressed the need for sound funding of the state's retirement systems including the General Assembly Retirement System. Although previous attempts have been made at providing an adequate funding level to the System, none have been very successful.

In August, 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which became effective on July 1, 1995, (i.e. fiscal year 1996), provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process. Although long-term in nature, we believe this legislation is an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the General Assembly Retirement System.

Besides the new funding plan, there were no other recent legislative changes having a significant impact on the funding of the System.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure of the financial status of a retirement system because no universally accepted measure of the financial status presently exists. The passage of a new funding plan by the state's General Assembly should ensure that benefits, both those presently accrued and those that will be earned in the future, will continue to be provided for in a timely and consistent manner.

MAJOR INITIATIVES

Projects for fiscal year 1997 include continuing to work towards the final implementation phase of an automated benefit calculation system as well as conducting a study to evaluate the feasibility of enhancing the annual active benefit statement to include a reciprocal system benefit estimate for those members who have service in another reciprocal system.

Additionally, the System will continue to offer the following increasingly popular field service programs at various locations throughout the state:

Pre-Retirement Seminars - This program is designed to assist participants who are planning to retire within the next twelve years to realistically assess their future needs and life-styles and take steps to achieve their selected future goals. The program focuses on estate and financial planning as well as total entitlement packages available from the System, Social Security Administration and deferred compensation.

Post-Retirement Seminars - This program is designed to assist annuitants and survivors to understand the benefits available to them, and assist them in the continued reassessment of the goals established prior to retirement. The program focuses on continued financial planning, Social Security and System benefits.

One-on-One Counseling - This program provides an opportunity for participants, annuitants and survivors to meet one-on-one with a System staff member to discuss their retirement plans or benefits.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the General Assembly Retirement System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recognized when the corresponding liabilities are incurred, regardless of when payment is made. The General Assembly Retirement System also uses the State of Illinois, Comptroller's Uniform Statewide Accounting System (CUSAS) as a basis for the preparation of the financial statements. In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by Goldstein & Associates, Chicago, Illinois. Tax consulting services are provided by the accounting firm of KPMG Peat Marwick, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen, LLP under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a one year compliance audit was also performed by the auditors. The purpose of the compliance audit was to determine whether the General Assembly Retirement System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the General Assembly Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 1995. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The General Assembly Retirement System has received a Certificate of Achievement for the last seven consecutive years (fiscal years ended June 30, 1989 through June 30, 1995). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

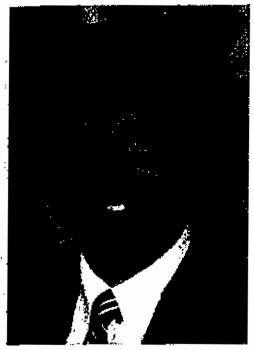
ACKNOWLEDGMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the participants in the State of Illinois. On behalf of the Board of Trustees we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

Michael L. Mory
Executive Secretary

David M. Richter, CPA
Accounting Division



REPRESENTATIVE
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Chairman

REPRESENTATIVE
Philip W. Collins
Retired Annuitant Member

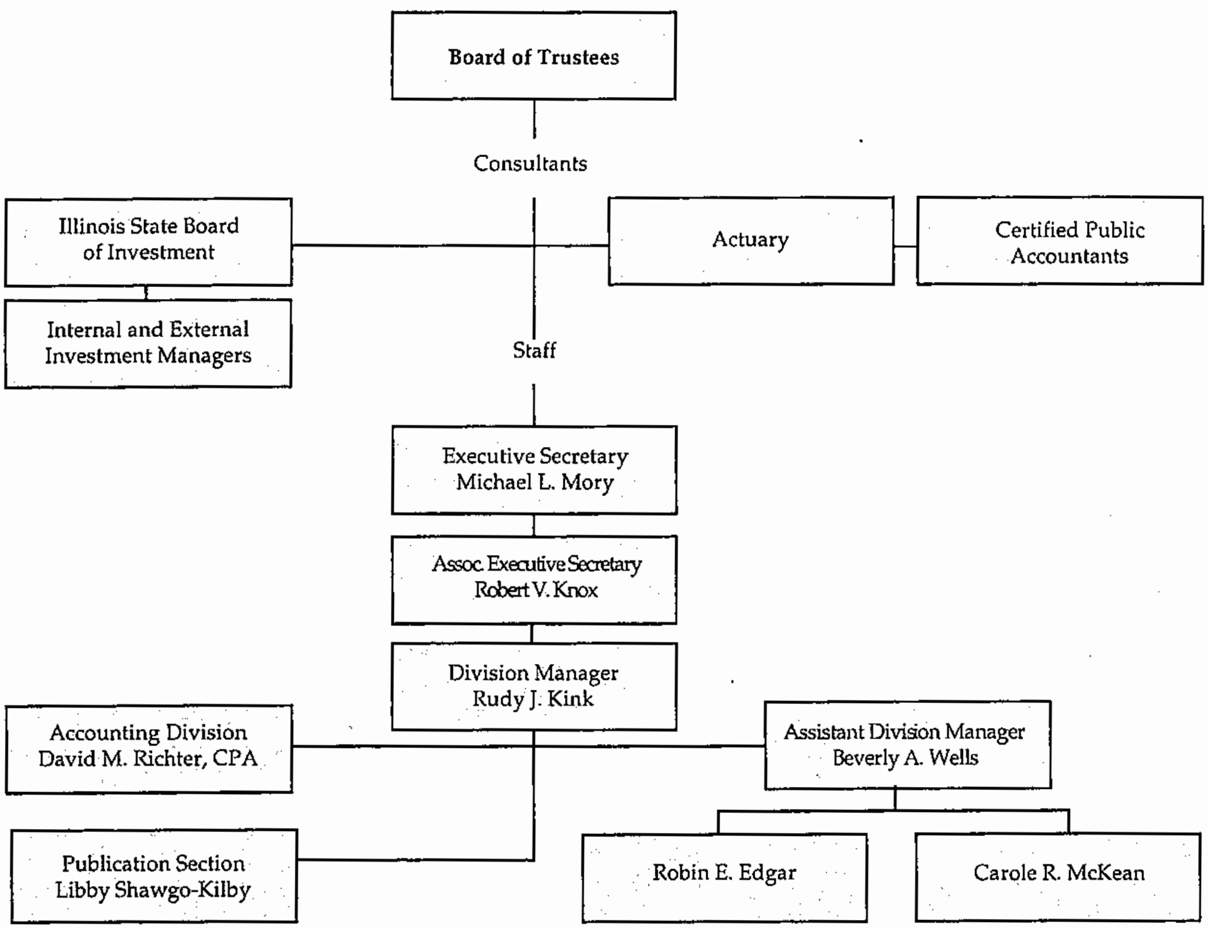
SENATOR
Laura Kent Donahue

SENATOR
Emil Jones, Jr.

REPRESENTATIVE
David R. Leitch

SENATOR
Robert A. Madigan

REPRESENTATIVE
Donald L. Saltsman



Certificate of Achievement for Excellence in Financial Reporting

Presented to

General Assembly Retirement System, State of Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1995

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Arthur R. Lynch
President

Jeffrey L. Esser
Executive Director

FINANCIAL SECTION

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable William G. Holland
Auditor General, State of Illinois
Springfield, Illinois

Board of Trustees
General Assembly Retirement System,
State of Illinois
Springfield, Illinois

As Special Assistant Auditors for the Illinois Auditor General, we have audited the accompanying financial statements, as listed in the table of contents, of the General Assembly Retirement System, State of Illinois as of and for the years ended June 30, 1996 and 1995. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Assembly Retirement System, State of Illinois as of June 30, 1996 and 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 1996 on our consideration of the General Assembly Retirement System, State of Illinois' internal control structure and a report dated October 18, 1996 on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements as of and for the years ended June 30, 1996 and 1995, taken as a whole. The supplementary information, included on pages 24 through 26, 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 audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Balance Sheets
June 30, 1996 and 1995

	1996	1995
Assets		
Cash	$ 1,836,256	$ 1,693,213
Receivables:		
Participants' contributions	$ -	$ 138
Interest on cash balances	7,600	8,803
	$ 7,600	$ 8,941
Investments - held in the Illinois State Board of Investment Commingled Fund, at cost (Market value: 1996, $49,643,586; 1995, $46,076,753)	$ 40,864,224	$ 39,081,113
Equipment, net of accumulated depreciation	5,128	9,384
Total Assets	$ 42,713,208	$ 40,792,651
Liabilities and Fund Balance		
Liabilities		
Administrative expenses payable	$ 32,466	$ 29,572
Due to Judges' Retirement System of Illinois	48,860	46,888
Participant deferred service credit accounts	6,986	18,589
Total Liabilities	$ 88,312	$ 95,049
Fund Balance		
Actuarial present value of credited projected benefits	$127,364,913	$119,362,113
Less unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(84,740,017)	(78,664,511)
Total Fund Balance	$ 42,624,896	$ 40,697,602
Total Liabilities and Fund Balance	$ 42,713,208	$ 40,792,651

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1996 and 1995

	1996	1995
Revenue:		
Contributions:		
Participants	$ 1,141,155	$ 1,174,764
Employer	2,400,000	2,312,014
Total Contributions revenue	$ 3,541,155	$ 3,486,778
Investments:		
Net investments income	$ 1,929,722	$ 2,090,016
Interest earned on cash balances	87,745	100,367
Net realized gain on sale of investments	3,653,389	965,272
Total Investments revenue	$ 5,670,856	$ 3,155,655
Total Revenue	$ 9,212,011	$ 6,642,433
Expenses:		
Benefits:		
Retirement annuities	$ 5,561,571	$ 5,203,413
Survivors' annuities	1,429,802	1,336,508
Total Benefits	$ 6,991,373	$ 6,539,921
Refunds	90,464	117,386
Administrative	202,880	198,091
Total Expenses	$ 7,284,717	$ 6,855,398
Excess/(Deficiency) of Revenue over/(under) Expenses	$ 1,927,294	$ (212,965)
Fund Balance at beginning of year	$ 40,697,602	$ 40,910,567
Fund Balance at end of year	$ 42,624,896	$ 40,697,602

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements
June 30, 1996 and 1995

(1) Reporting Entity

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 and (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.

The General Assembly Retirement System (System) is administered by a Board of Trustees consisting of seven persons, which includes the President of the Senate, ex officio, or his designee, two members of the Senate appointed by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants.

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, however, 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.

(2) Plan Description

The System is the administrator of a single-employer defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants.

At June 30, 1996 and 1995, the System membership consisted of:

	1996	1995
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	216	219
Survivors' annuities	134	139
Reversionary annuities	3	3
	353	361
Inactive participants entitled to benefits but not yet receiving them	108	114
Total	461	475
Current Participants:		
Vested	106	103
Nonvested	75	79
Total	181	182

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System.

(a) Eligibility and Membership

The General Assembly Retirement System covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation by eligible persons is optional.

(b) Contributions

In accordance with Chapter 40 Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases. Contributions are excluded from gross income for Federal and State income tax purposes.

The total contribution rate is 11.5% as shown below:

8.5%	Retirement annuity
2.0%	Survivors' annuity
1.0%	Automatic annual increases
11.5%	

The statutes governing the General Assembly Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service. The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Chapter 40, Article 5/2 of the Illinois Compiled Statutes.

(c) Benefits

After eight years of credited service, participants have vested rights to retirement benefits beginning at age 55, or after four years of service with retirement benefits beginning at age 62. The General Assembly Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, reversionary annuity benefits, and under specified conditions, lump sum death benefits. Participants who terminate service may receive, upon application, a refund of their total contributions.

The retirement annuity is determined according to the following formula based upon the participants' final rate of salary.

3.0% for each of the first 4 years of service, plus
3.5% for each of the next 2 years of service, plus
4.0% for each of the next 2 years of service, plus
4.5% for each of the next 4 years of service, plus
5.0% for each year of service in excess of 12 years

The maximum retirement annuity payable is 85% of the final rate of salary.

(3) Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting

The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles. Participant and employer contributions are recognized as revenues in the period in which employee services are performed.

(b) Cash and Investments

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Chapter 40, Article 5/22A of the Illinois Compiled Statutes. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

The System owns approximately .9% of the net investment assets of the ISBI Commingled Fund as of June 30, 1996.

ISBI investments, as categorized by ISBI are categorized to indicate the level of risk assumed by the ISBI at year end. Category I includes investments that are insured or registered or the securities are held by the master custodian in the ISBI's name. Category II includes investments that are uninsured and unregistered with the securities held by the counter-party's agent in the ISBI's name. Category III includes investments that are uninsured and unregistered with the securities held by the counter-party but not in the ISBI's name. Investments in pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

At June 30, 1996, the ISBI's investments were categorized as follows:

	Market Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 272,041,711	$ 272,041,711	$
Foreign Obligations	46,497,033	46,497,033	
Corporate Obligations	655,882,887	655,882,887	
Convertible Bonds	12,356,980	12,356,980	
Common Stock & Equity Funds	1,844,773,931	1,614,256,117	230,517,814
Convertible Preferred Stock	11,539,034	11,539,034	
Preferred Stock	15,685,986	15,685,986	
Foreign Equity Securities	455,997,213	326,226,819	129,770,394
Real Estate Funds	243,308,942		243,308,942
Alternative Investments	274,289,456		274,289,456
Money Market Instruments	620,820,839	21,369,810	599,451,029
Forward Foreign Exchange Contracts	1,154,317	1,154,317	
Loaned Securities	959,943,956		959,943,956
Total Investments	$ 5,414,292,285	$ 2,977,010,694	$ 2,437,281,591

The ISBI participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1996 and 1995, the ISBI had outstanding loaned investment securities having a market value of approximately $959,943,956 and $593,757,824, respectively, against which it had received collateral of approximately $994,346,404 and $609,981,555, respectively.

(c) Actuarial Experience Review

In accordance with Illinois Compiled 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. An experience review was performed as of June 30, 1992.

(d) Administrative Expenses

Expenses related to the administration of the System are budgeted and approved by the System's Board of Trustees. Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are borne 40% by the General Assembly Retirement System and 60% by the Judges' Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 1996 and 1995, were $168,592 and $167,928, respectively.

(4) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of participant service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the General Assembly Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS. The measure is the same as the actuarial funding method used to determine contributions to the System discussed in Note 5.

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1996. Significant actuarial assumptions used include (a) rates of return on the investment of present and future assets of 8.0% per year (consisting of an inflation component of 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, (b) projected salary increase of 6.5% per year (consisting of a general component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/merit component of 1.5% per year), compounded annually, (c) mortality rates based on the UP-1984 Mortality Table, (d) assumed age at retirement ranging from 55 to 70, based upon recent history with the System, (e) 75% of participants are assumed to be married, (f) the age of the spouse is assumed to be 4 years younger than the age of the participant, and (g) termination rates based upon the recent experience of the System.

At June 30, 1996 and 1995, the unfunded pension benefit obligation was $84,740,017 and $78,664,511 as follows:

	1996	1995
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits, including inactive participants	$ 95,488,139	$ 91,958,393
Current Participants:		
Accumulated participant contributions	7,601,958	6,638,784
Employer-financed vested	13,737,695	11,841,513
Employer-financed nonvested	10,537,121	8,923,423
Total Pension benefit obligation	$ 127,364,913	$ 119,362,113
Net assets available for benefits, at cost (market value at June 30, 1996 $51,404,258; June 30, 1995 $47,693,242)	42,624,896	40,697,602
Unfunded pension benefit obligation	$ 84,740,017	$ 78,664,511

There were no benefit changes enacted during fiscal years 1996 or 1995 having a significant impact on the actuarial present value of credited projected benefits and the related unfunded liability.

(5) Contributions Required and Contributions Made

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method. The same actuarial assumptions were used to determine the contribution requirements as are used to compute the pension benefit obligation discussed in Note 4.

For fiscal year 1995, the required employer contributions were computed in accordance with Public Act 86-0273 which was signed into law on August 23,1989. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution was to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution would be an amount sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percentage of payroll as determined under the projected unit credit actuarial cost method.

For fiscal year 1996, the required employer contributions were computed in accordance with Public Act 88-0593. This funding legislation, which became effective July 1,1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the amount certified by the Board of Trustees.

The total amount of actuarially determined contributions required for the fiscal year ended June 30, 1996 amounted to $3,415,000 and consisted of (a) $2,639,000 normal cost and (b) $776,000 amortization of the unfunded actuarial accrued liability. Contributions totaling $3,541,155 ($2,400,000 employer and $1,141,155 employee) were made during fiscal year 1996 and consisted of (a) $2,765,155 normal cost and (b) $776,000 amortization of the unfunded actuarial liability.

A comparison of the actuarially determined funding requirement for the fiscal year ended June 30, 1996, versus the actual funding, shows that the state's employer contributions were made in accordance with the actuarially determined employer contribution requirements for the fiscal year.

	Pension Contributions			
	Required			Received
	Normal Cost	Amortization of Unfunded Liability	Total	
Participants	$1,015,000	$ -	$1,015,000	$1,141,155
Percent of Pay	11.50%	-	11.50%	12.93%
Employer:				
State of Illinois	1,624,000	776,000	2,400,000	2,400,000
Percent of Pay	18.40%	8.79%	27.19%	27.19%
Total	$2,639,000	$776,000	$3,415,000	$3,541,155
Percent of Pay	29.90%	8.79%	38.69%	40.12%
Participant Payroll	$8,825,000			

(6) Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 24-25.

(7) Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 1996 and 1995 is as follows:

	1996	1995
Personal services	$ 113,234	$ 108,899
Employee retirement contributions paid by employer	4,536	4,129
Employer retirement contributions	5,406	6,761
Social Security contributions	7,765	7,510
Group insurance	9,204	13,580
Contractual services	41,822	37,234
Travel	2,414	1,449
Printing	2,723	3,368
Commodities	436	278
Telecommunications	1,613	1,055
Electronic data processing	7,150	7,317
Depreciation	4,286	4,708
Other	2,291	1,803
Total	$ 202,880	$ 198,091

(8) Equipment

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, and (3) certain electronic data processing equipment - 3 years.

A summary of the changes in fixed assets for fiscal years 1996 and 1995 is as follows:

1996	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 28,625	$ 147	$ (567)	$ 28,205
Accumulated Depreciation	(19,241)	(4,286)	450	(23,077)
Equipment, net	$ 9,384	$ (4,139)	$ (117)	$ 5,128

1995	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 26,764	$ 2,094	$ (233)	$ 28,625
Accumulated Depreciation	(14,644)	(4,708)	111	(19,241)
Equipment, net	$ 12,120	$ (2,614)	$ (122)	$ 9,384

(9) Accrued Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. These accrued compensated absences as of June 30, 1996 and 1995 total $19,798 and $17,624 respectively and are included as administrative expenses payable.

(10) Analysis of Changes in Fund Balances

The funded statutory reserves of the General Assembly Retirement System are composed of two components as follows:

(a) Reserve for Participants' Contributions -
This reserve consists of participants' accumulated contributions for retirement annuities, survivors' annuities and automatic annual increases.

(b) Reserve for Future Operations -
This reserve is the balance remaining in the General Assembly Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the General Assembly Retirement System.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS
Statements of Changes in Fund Balances
Years ended June 30, 1996 and 1995

	Participants' Contributions	Future Operations	Total Fund Balance
Balance at June 30, 1994	$ 10,734,454	$ 30,176,113	$ 40,910,567
Add (deduct):			
Excess/(Deficiency) of revenue over/(under) expenses	1,221,192	(1,434,157)	(212,965)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(896,070)	896,070	-
Balance at June 30, 1995	$ 11,059,576	$ 29,638,026	$ 40,697,602
Add (deduct):			
Excess/(Deficiency) of revenue over/(under) expenses	1,136,713	790,581	1,927,294
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(463,879)	463,879	-
Balance at June 30, 1996	$ 11,732,410	$ 30,892,486	$ 42,624,896

(11) Pension Disclosure

All of the System's full-time employees who are not eligible for another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS). The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state agencies, including the System, participate on a cost-sharing basis.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, is included as an integral part of the SERS Comprehensive Annual Financial Report (CAFR). Also included is a discussion of employer and employee obligations to contribute, the authority under which those obligations are established, as well as an explanation of the pension benefit obligation.

The pension benefit obligation at June 30, 1996 and June 30, 1995 for the SERS as a whole, determined through an actuarial valuation at that date was $7.391 billion and $6.988 billion, respectively. The SERS net assets available for benefits on these respective dates (valued at cost) were $4.397 billion and $3.923 billion, leaving unfunded pension benefit obligations of $2.994 billion and $3.065 billion. The System's FY1996 and FY1995 contribution requirement represented .003% and .004%, respectively of total contributions required of all state agency/department employers participating in the SERS.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued CAFR for the year ended June 30, 1996.

Pertinent financial information relating to the System's participation in SERS is summarized as follows:

The System's covered payrolls for FY1996 and FY1995 were $113.2 thousand and $108.9 thousand and the payrolls for all System employees were $113.2 thousand and $108.9 thousand, respectively.

The System's (i.e., the employers') actuarially determined contribution requirements for FY1996 and FY1995 were $5.4 thousand and $6.8 thousand, respectively, or 4.8% and 6.2% of the System's covered payrolls. For FY1996, the System's and employee contributions actually made were $5.4 thousand and $4.5 thousand, respectively, which represents 4.8% and 4.0%, respectively, of the current year covered payroll. For FY1995, the System's and employee contributions actually made were $6.8 thousand and $4.1 thousand, respectively, which represents 6.2% and 3.8%, respectively, of the covered payroll.

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System. Substantially all state employees including the System's employees may become eligible for post employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 or older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 1996. However, post-employment costs for the state as a whole for all state agencies/departments for health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois Comprehensive Annual Financial Report. Cost information for retirees by individual state agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

(12) Future Reporting Requirements

In November, 1994, The Governmental Accounting Standards Board adopted Statement No. 25 (Statement) entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The Statement requires that the investments of defined benefit pension plans be reported at their fair (market) value rather than at cost, or amortized cost, as currently required. In addition, the Statement establishes new financial reporting standards which will result in format changes to the financial statements as well as the required supplementary information and may also affect the actuarially determined contribution requirements.

The requirements of the Statement are effective for periods beginning after June 15, 1996 (i.e. fiscal year ending June 30, 1997), with earlier implementation encouraged but not required. If comparative financial statements are presented, restatement of the prior year financial statements is required.

The System intends to adopt the Statement beginning with its fiscal year ending June 30, 1997.

Analysis of Funding Progress

Fiscal Year	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1987	$ 29,140,876	$ 60,635,325	48.1%	$ 31,494,449	$ 6,643,710	474.0%
1988	30,106,386	64,160,481	46.9%	34,054,095	6,873,250	495.5%
1989	31,677,506	62,834,957	50.4%	31,157,451	6,907,676	451.1%
1990	33,442,677	78,623,637	42.5%	45,180,960	7,254,510	622.8%
1991	35,142,093	84,468,429	41.6%	49,326,336	8,238,709	598.7%
1992	37,618,218	88,537,329	42.5%	50,919,111	8,432,000	603.9%
1993	40,673,690	102,500,733	39.7%	61,827,043	8,651,000	714.7%
1994	40,910,567	110,719,958	36.9%	69,809,391	8,597,000	812.0%
1995	40,697,602	119,362,113	34.1%	78,664,511	8,774,000	896.6%
1996	42,624,896	127,364,913	33.5%	84,740,017	8,825,000	960.2%

* At cost

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

Revenues by Source and Expenses by Type

Revenues by Source

Fiscal Year Ended June 30	Participants' Contributions	Employer Contributions: State of Illinois	Employer Contributions: Other Sources	Employer Contributions: Total	Income from Investments	Total
1987	$ 767,483	$ 2,214,100	$ 213	$ 2,214,313	$ 3,064,668	$ 6,046,464
1988	796,393	1,970,000	-	1,970,000	1,933,098	4,699,491
1989	869,635	1,997,500	-	1,997,500	2,555,317	5,422,452
1990	1,002,258	2,072,600	74,401	2,147,001	2,665,883	5,815,142
1991	1,486,815	2,072,600	275,161	2,347,761	2,170,740	6,005,316
1992	1,375,885	1,965,600	105,410	2,071,010	3,976,419	7,423,314
1993	2,498,833	2,201,000	510,285	2,711,285	3,517,628	8,727,746
1994	1,011,354	2,116,800	-	2,116,800	3,476,303	6,604,457
1995	1,174,764	2,148,200	163,814	2,312,014	3,155,655	6,642,433
1996	1,141,155	2,400,000	-	2,400,000	5,670,856	9,212,011

Expenses by Type

Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1987	$ 3,461,212	$ 80,202	$ 103,150	$ 3,644,564
1988	3,618,087	16,717	99,177	3,733,981
1989	3,682,411	55,660	113,261	3,851,332
1990	3,880,692	42,427	126,852	4,049,971
1991	4,124,250	36,742	144,908	4,305,900
1992	4,658,134	129,978	159,077	4,947,189
1993	5,314,381	154,283	203,610	5,672,274
1994	6,131,496	41,590	194,494	6,367,580
1995	6,539,921	117,386	198,091	6,855,398
1996	6,991,373	90,464	202,880	7,284,717

Analysis of Employer Contributions - Fiscal Year 1988 through 1996

Fiscal Year (A)	(1) Covered Payroll	(2) State of Illinois Employer Contributions Required (B)	(3) State of Illinois Employer Contributions Required as a % of Covered Payroll (2) ÷ (1)	(4) State of Illinois Employer Contributions Received	(5) State of Illinois Employer Contributions Received as a % of Covered Payroll (4) ÷ (1)	(6) Contributions Required in Excess of Contributions Received (2) - (4)
1988	$ 6,873,250	$ 3,273,090	47.6%	$ 1,970,000	28.7%	$ 1,303,090
1989	6,907,676	3,514,623	50.9%	1,997,500	28.9%	1,517,123
1990	7,254,510	2,376,310	32.8%	2,072,600	28.6%	303,710
1991	8,238,709	2,428,771	29.5%	2,072,600	25.2%	356,171
1992	8,432,000	2,475,000	29.4%	1,965,600	23.3%	509,400
1993	8,651,000	2,522,000	29.2%	2,201,000	25.4%	321,000
1994	8,597,000	2,864,000	33.3%	2,116,800	24.6%	747,200
1995	8,774,000	3,304,000	37.7%	2,148,200	24.5%	1,155,800
1996	8,825,000	2,400,000	27.2%	2,400,000	27.2%	-

(A) = Prior to fiscal year 1988, the Actuary did not determine an "Employer Contribution Required" amount.

(B) = For fiscal year 1988 and 1989, the State of Illinois required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal years 1990 through 1995, required employer contributions were computed in accordance with Public Act 86-0273. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution was to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution would be an amount sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method. For fiscal year 1996, the required employer contributions were computed in accordance with Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Schedule of Employer Contributions as a Percentage of Covered Payroll

Fiscal Year	Covered Payroll	State of Illinois Employer Contributions Received	State of Illinois Employer Contributions Received as a % of Covered Payroll
1987	$ 6,643,710	$ 2,214,100	33.3%
1988	6,873,250	1,970,000	28.7%
1989	6,907,676	1,997,500	28.9%
1990	7,254,510	2,072,600	28.6%
1991	8,238,709	2,072,600	25.2%
1992	8,432,000	1,965,600	23.3%
1993	8,651,000	2,201,000	25.4%
1994	8,597,000	2,116,800	24.6%
1995	8,774,000	2,148,200	24.5%
1996	8,825,000	2,400,000	27.2%

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 1996 and 1995

	1996	1995
Contributions:		
Participants	$ 1,113,432	$ 1,124,027
Interest paid by participants	16,403	50,300
Repayment of refunds	11,320	-
Transferred from reciprocating systems	-	437
Total participants contributions	$ 1,141,155	$ 1,174,764
General Revenue Fund	$ 2,178,400	$ 1,911,800
State Pension Fund	221,600	236,400
Paid by reciprocating systems	-	98,307
Paid by participants	-	65,507
Total employer contributions	$ 2,400,000	$ 2,312,014
Total Contributions revenue	$ 3,541,155	$ 3,486,778
Investments:		
Net investments income	$ 1,929,722	$ 2,090,016
Interest earned on cash balances	87,745	100,367
Net realized gain on sale of investments	3,653,389	965,272
Total Investments revenue	$ 5,670,856	$ 3,155,655
Total Revenue	$ 9,212,011	$ 6,642,433

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 1996 and 1995

	1996	1995
Cash balance, beginning of year	$ 1,693,213	$ 1,177,781
Receipts:		
Participant contributions	$ 1,122,068	$ 1,171,693
Employer contributions:		
General Revenue Fund	2,178,400	1,911,800
State Pension Fund	221,600	236,400
Paid by reciprocating systems	-	61,073
Paid by participants	-	98,307
Interest income on cash balances	88,948	94,476
Participants' deferred service credit payments	7,623	1,118
Cancellation of annuities	2,960	21,035
Cancellation of administrative expenses	253	-
Transfers from Illinois State Board of Investment	3,800,000	3,800,000
Total cash receipts	$ 7,421,852	$ 7,395,902
Disbursements:		
Benefit payments:		
Retirement annuities	$ 5,561,651	$ 5,203,956
Survivors' annuities	1,432,682	1,337,753
Refunds	90,464	152,791
Administrative expenses	194,012	185,970
Total cash disbursements	$ 7,278,809	$ 6,880,470
Cash balance, end of year	$ 1,836,256	$ 1,693,213

ACTUARIAL SECTION

- Actuary's Report
- Introduction
- Actuarial Cost Method and Summary of Major Actuarial Assumptions
- Valuation Results
- Short-term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities
- Reconciliation of Unfunded Actuarial Liability
- Schedule of Retirants and Survivors' Annuitants Added To and Removed From Rolls
- Schedule of Active Member Valuation Data

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October 2, 1996

Board of Trustees and Executive Secretary
General Assembly Retirement System, State of Illinois
2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794

ACTUARIAL CERTIFICATION

I have completed the annual actuarial valuation of the General Assembly Retirement System as of June 30, 1996. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system.

Since the last actuarial valuation, there have been no changes in the benefit provisions of the system.

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every five years and recommend, as a result of such investigation, the actuarial assumptions to be adopted. As the actuary, I performed such an experience analysis for the five-year period 1987-1992. Based on this experience analysis, I recommended actuarial assumptions which were adopted by the system's board effective June 30, 1992 and which were used for the current valuation. I believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.

Senate Bill 533, which was signed into law on August 22, 1994 as Public Act 88-0593, enacted a new funding plan for the system. The financing objective under this plan is to have the required State contributions sufficient to bring the total assets of the system up to 90% of the total actuarial liabilities by the end of fiscal year 2045. For fiscal years 2011 through 2045, the required State contributions are to be a level percentage of payroll. For fiscal years 1996 through 2010, the State contribution shall be increased as a percentage of the applicable payroll in equal annual increments so that by fiscal year 2011, the State is contributing at the required rate.

GOLDSTEIN & ASSOCIATES
Consulting Actuaries

Based on the June 30, 1996 actuarial valuation, I have determined the required State contribution under this funding plan for fiscal year 1998. I have also estimated the required State contributions for future years.

The asset values used for the valuation were based on the audited asset information reported by the system. For purposes of the current valuation, the book value of the assets of the system (assets valued at cost), less the amount of liabilities, was used. In order to comply with the requirements of GASB Statement No. 25, the market value of the assets of the system was used in estimating the required State contributions for fiscal year 1999 and later.

The actuarial liabilities have been valued on the basis of membership data which is supplied by the administrative staff of the system and verified by the system's auditors. I have made additional tests to ensure its accuracy.

In my opinion, the following schedule of valuation results fairly presents the financial condition of the General Assembly Retirement System as of June 30, 1996. The contribution rates determined are in compliance with the provisions of the funding plan enacted under Public Act 88-0593.

Respectfully submitted,

Sandor Goldstein

Sandor Goldstein
Fellow of the Society of Actuaries
Enrolled Actuary No. 96-3402

INTRODUCTION

Annually, the System's actuarial consultants perform a valuation of the liabilities and reserves of the System in order to make a determination of the amount of contributions required from the state. These results are then certified to the Board.

The Board, in turn, has the duty of certifying an employer contribution amount required to be paid to the System by the state during the succeeding fiscal year. The employers' contribution amount, together with participants' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Chapter 40, Section 5/2-146 of the Illinois Compiled Statutes.

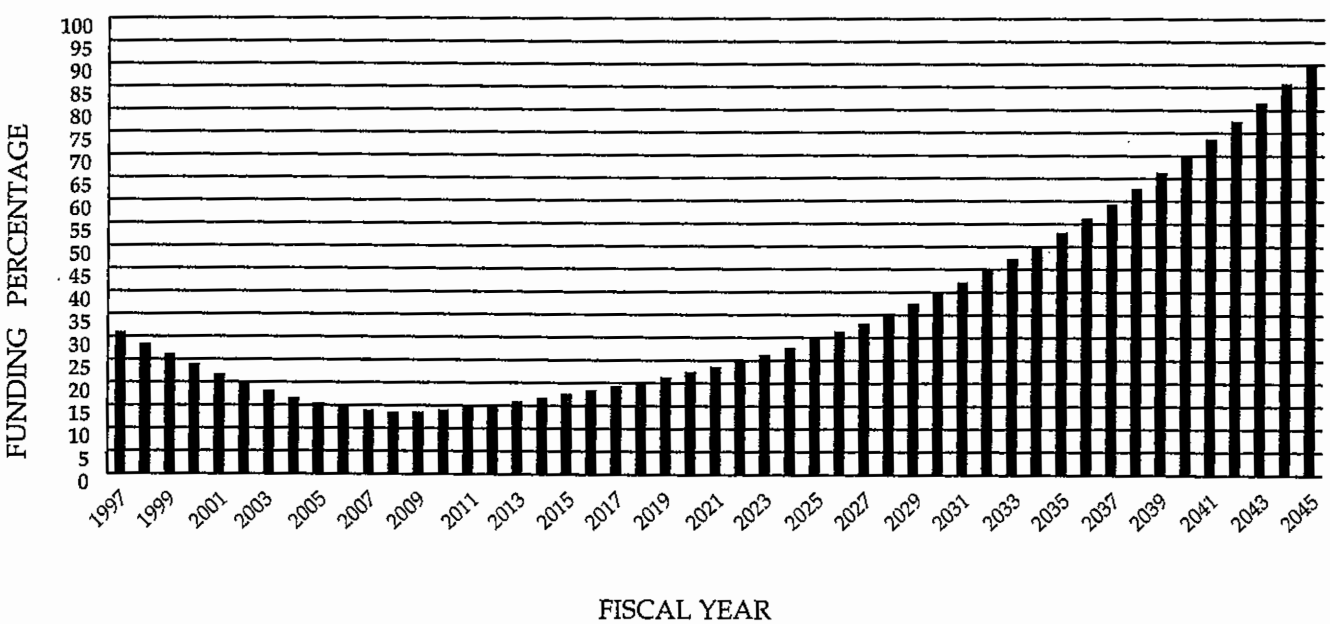
In August 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which became effective on July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

Although long-term in nature, we believe that this legislation is an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the General Assembly Retirement System.

Based upon the state's actual funding method described above, fiscal year 1996 marked the first year the System received the minimum actuarially determined contribution amount.

The System's actuary has projected valuation results commencing with fiscal year 1997. The projection was based on the results of the June 30, 1996 actuarial valuation and the same actuarial assumptions as were used for the valuation. The required employer contributions to the System were calculated in accordance with the contribution requirements in the funding plan established under Public Act 88-0593. Displayed below is a graph of the System's projected funded status which shows the 90% funding level being achieved in fiscal year 2045.



ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The System utilizes the projected unit credit cost method. Under this method, the actuarial liability is the actuarial present value of that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. The normal cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement. Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. However, for purposes of determining future employer contributions, the actuarial gains and losses are amortized in accordance with the funding plan established by Public Act 88-0593.

A description of the actuarial assumptions utilized for fiscal year 1996 and fiscal year 1995 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1987; all other assumptions were adopted June 30, 1992.

Mortality Rates: The UP-1984 Mortality Table was used for the valuation.

Termination Rates: Termination rates based on the recent experience of the System were used. The following termination rates were used:

Age	Rate of Termination
20-54	.060
55 and over	.000

Disability Rates: Disability rates based on the recent experience of the System as well as on published disability rate tables were used. The following is a sample of the disability rates that were used for the valuation:

Age	Rate of Disability	Age	Rate of Disability
30	.00057	45	.00115
35	.00064	50	.00170
40	.00083	55	.00000

Retirement Rates: Rates of retirement for each age from 55 to 70 based on the recent experience of the System were used. The following are samples of the rates of retirement that were used:

Age	Rate of Retirement	Age	Rate of Retirement
55	.14	65	.04
60	.04	70	1.00

The above retirement rates are equivalent to an average retirement age of approximately 63.

Salary Increase: A salary increase assumption of 6.5% per year (consisting of a general increase component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/merit component of 1.5% per year), compounded annually, was used. In determining total covered payroll, the size of the active group is assumed to remain constant.

Interest Rate: An interest rate assumption of 8.0% per year (consisting of an inflation component of 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, was used.

Marital Status: It was assumed that 75% of active participants will be married at the time of retirement.

Spouse's Age: The age of the spouse was assumed to be 4 years younger than the age of the participant.

VALUATION RESULTS

Actuarial Liability (Reserves)	June 30, 1996	June 30, 1995
For Active Participants:		
Basic retirement annuity	$ 17,192,100	$ 14,550,700
Annual increase in retirement annuity	4,620,588	3,909,226
Pre-retirement survivors' annuity	2,668,906	2,277,629
Post-retirement survivors' annuity	2,879,870	2,443,163
Withdrawal benefits	4,338,537	4,056,154
Disability benefits	176,773	166,848
Total	$ 31,876,774	$ 27,403,720
For Participants Receiving Benefits:		
Retirement annuities	$ 61,785,731	$ 59,356,378
Survivor annuities	11,636,712	11,276,919
Total	$ 73,422,443	$ 70,633,297
For Inactive Participants	$ 22,065,696	$ 21,325,096
Total Actuarial Liability	$ 127,364,913	$ 119,362,113
Net Assets, Book Value (Cost)	42,624,896	40,697,602
Unfunded Actuarial Liability	$ 84,740,017	$ 78,664,511

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active and inactive participant contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active and inactive participants. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active and inactive participants (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

Computed Actuarial Values

	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
Fiscal Year	(1) Active and Inactive Participant Contributions	(2) Retirement and Survivor Annuitants	(3) Active and Inactive Participants (Employer Financed Portion)	Net Real Assets	(1)	(2)	(3)
1987	$ 6,414,817	$ 36,673,471	$ 17,547,037	$ 29,140,876	100.0%	62.0%	0.0%
1988	6,861,195	37,155,381	20,143,905	30,106,386	100.0	62.6	0.0
1989	7,208,932	34,062,464	21,563,561	31,677,506	100.0	71.8	0.0
1990	8,237,231	41,411,576	28,974,830	33,442,677	100.0	60.9	0.0
1991	8,959,880	44,998,342	30,510,207	35,142,093	100.0	58.2	0.0
1992	10,098,012	48,987,293	29,452,024	37,618,218	100.0	56.2	0.0
1993	10,263,855	62,875,015	29,361,863	40,673,690	100.0	48.4	0.0
1994	10,734,454	65,587,970	34,397,534	40,910,567	100.0	46.0	0.0
1995	11,059,576	70,633,297	37,669,240	40,697,602	100.0	42.0	0.0
1996	11,732,410	73,422,443	42,210,060	42,624,896	100.0	42.1	0.0

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES (Analysis of Funding)

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active participant payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Fiscal Year	Total Actuarial Liability	Net Assets	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Annual Covered Payroll
1987	$ 60,635,325	$ 29,140,876	48.1%	$ 31,494,449	$ 6,643,710	474.0%
1988	64,160,481	30,106,386	46.9%	34,054,095	6,873,250	495.5%
1989	62,834,957	31,677,506	50.4%	31,157,451	6,907,676	451.1%
1990	78,623,637	33,442,677	42.5%	45,180,960	7,254,510	622.8%
1991	84,468,429	35,142,093	41.6%	49,326,336	8,238,709	598.7%
1992	88,537,329	37,618,218	42.5%	50,919,111	8,432,000	603.9%
1993	102,500,733	40,673,690	39.7%	61,827,043	8,651,000	714.7%
1994	110,719,958	40,910,567	36.9%	69,809,391	8,597,000	812.0%
1995	119,362,113	40,697,602	34.1%	78,664,511	8,774,000	896.6%
1996	127,364,913	42,624,896	33.5%	84,740,017	8,825,000	960.2%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 96	FY 95
Unfunded actuarial liability at Beginning of FY	$ 78,664,511	$ 69,809,391
Employer contribution requirement of normal cost plus interest on the unfunded liability	$ 7,671,809	$ 6,928,757
Actual employer contribution for the year	2,400,000	2,312,014
Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability	$ 5,271,809	$ 4,616,743
(Decrease) in unfunded liability due to investment return greater than assumed	(2,564,790)	-
Increase in unfunded liability due to salary increases for inactive members	1,684,722	-
Increase in unfunded liability due to salary increases greater than assumed	242,121	938,958
Increase in unfunded liability due to other sources	1,441,644	3,299,419
Total Actuarial (Gains)/Losses	$ 803,697	$ 4,238,377
Net Increase in unfunded liability for the year	$ 6,075,506	$ 8,855,120
Unfunded actuarial liability at End of FY	$ 84,740,017	$ 78,664,511

SCHEDULE OF RETIRANTS AND SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Annuitants Beginning	Annuitants Additions	Annuitants Deletions	Annuitants Ending	Survivors* Beginning	Survivors* Additions	Survivors* Deletions	Survivors* Ending	Total
1987	199	17	10	206	123	6	3	126	332
1988	206	5	13	198	126	6	6	126	324
1989	198	6	5	199	126	4	4	126	325
1990	199	3	6	196	126	3	5	124	320
1991	196	13	9	200	124	4	3	125	325
1992	200	12	8	204	125	13	7	131	335
1993	204	33	7	230	131	6	6	131	361
1994	230	5	13	222	131	11	8	134	356
1995	222	11	14	219	134	14	6	142	361
1996	219	7	10	216	142	7	12	137	353

*Includes Reversionary annuities

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Active Members Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
1987	188	$ 6,643,710	$35,339	4.7%
1988	185	6,873,250	37,153	5.1%
1989	184	6,907,676	37,542	1.0%
1990	188	7,254,510	38,588	2.8%
1991	195	8,238,709	42,250	9.5%
1992	190	8,432,000	44,379	5.0%
1993	186	8,651,000	46,511	4.8%
1994	184	8,597,000	46,723	0.5%
1995	182	8,774,000	48,209	3.2%
1996	181	8,825,000	48,757	1.1%

INVESTMENT SECTION

- Investment Report
- Investment Portfolio Summary
- Analysis of Investment Performance
- Additional Investment Information

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI). The ISBI was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. In addition to the assets of the General Assembly Retirement System, the ISBI also manages the investment function for the State Employees' and Judges' Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund). As of June 30, 1996, total net assets under management valued at market, amounted to $5.437 billion. Of the total market value of assets under management, $49.6 million or .9% represented assets of the General Assembly Retirement System.

Management Approach

The ISBI manages its investments in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI has established a long-range investment policy which, in line with the prudent person rule, affirms that the ISBI Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the ISBI Fund, within prudent risk parameters. Further, it is the ISBI's philosophy that the assets owned by the participating systems and managed by the ISBI are held for the exclusive purpose of providing benefits to the participants and annuitants of the respective retirement systems and their beneficiaries. In line with this philosophy, the ISBI from time to time evaluates its asset allocation which is considered by many to be the single most important factor in pension investment management. The three major asset classes are: bonds, equities and cash; with smaller positions being allocated to real estate, venture capital and other alternative investments.

For fiscal 1996, the ISBI monitored the long-range investment policies for conformance with the new three-year plan adopted on July 1, 1995. A number of changes to the strategic asset allocation targets are included in the new plan. The allocation to international equities was increased from 5% to 10%; the real estate allocation was reduced from 10% to 5%; and cash was eliminated as a strategic asset class (with a corresponding increase in the fixed income allocation).

Investment Results

Led by U.S. stocks, capital markets posted impressive gains during fiscal 1996. U.S. and international stocks achieved double digit returns for the period. A good environment for initial public offerings (IPO's) also led to strong returns for many private equity partnerships. Fixed income, struggling against interest rates trending slightly upward, posted modest returns marginally lower than the coupon return. Real estate, after many years of declining values, showed some stabilization during fiscal 1996, with a return roughly equal to the cash on cash rate of return.

ISBI investments earned a total rate of return for fiscal 1996, net of expenses, of 16.6%, well ahead of its long-term objectives of earning 4.5% above the inflation rate; of exceeding the 8.0% assumed actuarial interest rate; and of outperforming the policy-weighted benchmark return of 15.7%. Over longer time periods, the ISBI Fund is comfortably ahead of its investment objectives. The average annual returns for the three and five year periods ended June 30, 1996, were 11.4% and 11.6%, respectively. Over the 14-year period since the adoption of the prudent man legislation, the ISBI Fund has produced a compounded annual rate of return, net of expenses and charges, of 12.6%, and its net assets have increased by $4.4 billion.

Domestic Equities

For the twelve months ended June 30, 1996, U.S. equity markets soared. The S&P 500 Index increased 26.1%, and the BARRA All-U.S. Index, a broader representation of the domestic market, rose 26.2%. Small capitalization stocks, as measured by the Russell 2000 Index, grew at a slightly smaller rate of 23.9%. Within that context, the ISBI Fund's domestic equity portfolio, which is all managed by external investment firms, earned a return of 25.9%, roughly in line with the broad indices.

The ISBI Fund's domestic stock portfolio has outperformed the S&P 500 Index for both the three and five year periods ended June 30, 1996 as shown below:

	1 Year	3 Years	5 Years
ISBI	25.9%	17.3%	16.1%
S&P 500	26.1	17.2	15.7

Global/International Equities

Foreign stock markets overall rivalled the U.S. in total return for the fiscal year. However, a generally strengthening dollar, particularly in Japan, somewhat dampened foreign stock returns for U.S. investors. The Morgan Stanley Europe Australia Far East Index ("MSCI EAFE") earned 13.6% in U.S. dollar terms for the fiscal year ended June 30, less than half the 28.9% local currency return. The Morgan Stanley World Index ("MSCI World"), which includes the U.S. market, increased 19.0% in dollar terms for the same period.

All foreign security accounts are managed by external investment firms. "Global" managers have the discretion to invest in both domestic as well as foreign securities, while "international" managers are limited to non-U.S. securities; thereby assuring a certain level of diversification. For the fiscal year the ISBI Fund's global managers performed roughly in line with the MSCI World Index, earning 18.8%. The ISBI Fund's international portfolio outperformed its benchmark, increasing 18.4%, compared to 13.6% for the EAFE Index.

Comparative average annual rates of return for the Global/International equities portfolio versus the market index benchmarks is shown below:

	1 Year	3 Years	5 Years
Global Equities			
ISBI	18.8%	13.4%	14.2%
MSCI World Index	19.0	13.6	12.5
International Equities			
ISBI	18.4%	13.7%	11.1%
MSCI EAFE Index	13.6	10.8	10.3

Fixed Income

During fiscal 1996, U.S. fixed income markets were impacted by uncertainty about the direction of inflation, with interest rates drifting higher. The Lehman Aggregate Bond Index earned 5.0% for the 12-month period, while high yield bonds, as represented by the Merrill Lynch High Yield Index, did somewhat better with a return of 9.4%.

Substantially all fixed income assets are managed internally, except approximately $78 million allocated to an external high yield bond manager. The internal account outperformed the Lehman Aggregate Bond index, with a return of 5.8%. Higher returns from the external high yield manager resulted in a total fixed income return of 6.6%.

Comparative average annual rates of return for the total fixed income portfolio versus the market index benchmark is shown below:

	1 Year	3 Years	5 Years
ISBI	6.6%	6.6%	10.5%
Shearson Lehman Aggregate	5.0	5.3	8.3

Real Estate

All of the ISBI Fund's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

Real estate values stabilized during fiscal 1996, and real estate investments included in the ISBI Fund's portfolio earned a 5.5% rate of return, very close to the portfolio's income return. The ISBI believes that the portfolio is well-positioned for steady performance going forward.

Average annual rates of return for the combined real estate portfolio compared to the market benchmark for unleveraged institution grade property returns is shown below:

	1 Year	3 Years	5 Years
ISBI	5.5%	(1.4)%	(4.2)%
NCRIEF	9.5	6.0	1.5

Alternative Investments

The alternative investments portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities. The portfolio's largest investment is with the Kohlberg Kravis Roberts (KKR) leveraged buyout limited partnership, which accounts for almost 80% of this category. Fiscal 1996 was a good year for alternative investments. A strong initial public offering (IPO) market allowed a number of portfolio companies to gain access to the auction markets, thereby producing liquidity and/or actual cash returns to the ISBI Fund. In addition, a number of transactions in the KKR portfolio, including the dispositions of First Interstate and Safeway stock, produced strong cash flow for the ISBI Fund. Overall, the category earned 35.1% for the fiscal year.

The ISBI made commitments totalling $37.5 million to four new limited partnerships in fiscal 1996. Although the current allocation to this asset class is not significantly below the long-term target, in order to maintain the level of investment, new commitments are necessary over time to balance anticipated distributions from maturing partnerships. The new partnerships are Summit Ventures IV; Golder, Thoma, Cressey, Rauner Fund V; Madison Dearborn Capital Partners II; and Interwest Partners VI. Funds for these future commitments will come from cash flow generated from existing alternative investments.

Management Expenses

Total operating expenses, primarily fees to external managers, for the fiscal year were $15,511,389, compared to $13,859,829 for the previous fiscal year. The expense ratio (expenses divided by average net assets under management) was .30% in fiscal 1996, compared to .31% in fiscal 1995.

Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1996. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1996			
	Cost	Percentage	Market Value	Percentage
Fixed Income[1]	$ 1,642,047,952	35.7%	$ 1,662,844,282	30.6%
Equities	1,455,525,138	31.6	2,051,373,589	37.7
Foreign Equities	471,436,838	10.3	560,500,860	10.3
Real Estate	248,646,781	5.4	243,308,942	4.5
Non-Marketable[2]	152,231,154	3.3	274,289,456	5.0
Cash equivalents[3]	631,771,908	13.7	644,499,316	11.9
	$ 4,601,659,771	100.0%	$ 5,436,816,445	100.0%

	June 30, 1995			
	Cost	Percentage	Market Value	Percentage
Fixed Income[1]	$ 1,631,919,678	39.4%	$ 1,706,080,032	35.6%
Equities	1,393,118,587	33.6	1,839,365,276	38.4
Foreign Equities	382,488,822	9.2	434,791,884	9.1
Real Estate	254,994,362	6.2	249,380,026	5.2
Non-Marketable[2]	141,814,677	3.4	223,541,441	4.7
Cash equivalents[3]	337,390,954	8.2	338,111,358	7.0
	$ 4,141,727,080	100.0%	$ 4,791,270,017	100.0%

[1]Maturities of one year or longer, including convertible bonds.
[2]Interests in limited partnerships and other entities which have limited liquidity.
[3]Cash Equivalents includes other assets, less liabilities.

ANALYSIS OF INVESTMENT PERFORMANCE

	1996	1995	1994	1993	1992
Total Return* - Past 3 years		11.4%			
Total Return* - Past 5 years			11.6%		
Total Return* - year by year	16.6%	14.0%	4.0%	12.1%	11.6%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	4.0%	4.7%	4.5%	4.7%	5.4%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	6.6%	11.9%	1.6%	15.6%	17.1%
Comparison index:					
Shearson Lehman Aggregate	5.0%	12.6%	(1.3%)	11.8%	14.1%
Comparative rates of return on equities					
Domestic equities - ISBI	25.9%	21.5%	5.5%	13.7%	15.2%
Comparison index:					
S&P 500	26.1%	26.1%	1.3%	13.6%	13.5%

*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.

ADDITIONAL INVESTMENT INFORMATION

Gross investment income for 1996 of $2,074,651, less the ISBI's administrative expenses of $144,929 resulted in net investment income of $1,929,722. This amount, when combined with the net realized gain on sale of investments of $3,653,389 provided net revenue from investments of $5,583,111. Net cash transfers from the Illinois State Board of Investment were $3,800,000 during FY 1996. The balance of investments at cost increased by $1,783,111 from June 30, 1995 thru June 30, 1996. The following table shows a comparison of investment operations for FY 1996 and FY 1995.

	1996	1995	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Balance at beginning of year, at cost	$ 39,081,113	$ 39,825,825	$ (744,712)	(1.9)%
Cash transferred from ISBI (net)	(3,800,000)	(3,800,000)	-	-
Investment income:				
Commingled Fund income	$ 2,074,651	$ 2,226,117	$ (151,466)	(6.8)%
Less Expenses	(144,929)	(136,101)	8,828	6.5%
Net investment income	$ 1,929,722	$ 2,090,016	$ (160,294)	(7.7)%
Distributed Net Realized Gain on Sale of Investments	$ 3,653,389	$ 965,272	$ 2,688,117	278.5%
Balance at end of year, at cost	$ 40,864,224	$ 39,081,113	$ 1,783,111	4.6%
Market value	$ 49,643,586	$ 46,076,753	$ 3,566,833	7.7%

In addition, interest on the average balance in the System's account for FY 1996 was $87,745 compared to $100,367 during FY 1995, primarily due to lower average balances during FY 1996.

STATISTICAL SECTION

- Balance Sheet Assets
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BALANCE SHEET ASSETS

Fiscal Year Ended June 30	Cash	Receivables	Investments at Cost	Fixed Assets Net of Accumulated Depreciation	Total
1987	$ 534,782	$ 3,788	$ 28,649,633	$ 627	$ 29,188,830
1988	494,346	19,628	29,620,883	14,596	30,149,453
1989	348,265	76,691	31,290,392	13,532	31,728,880
1990	913,283	14,447	32,549,302	17,723	33,494,755
1991	728,538	15,235	34,440,112	19,082	35,202,967
1992	1,079,624	5,026	36,627,373	16,163	37,728,186
1993	2,159,819	485,485	38,094,187	17,184	40,756,675
1994	1,177,781	3,191	39,825,825	12,120	41,018,917
1995	1,693,213	8,941	39,081,113	9,384	40,792,651
1996	1,836,256	7,600	40,864,224	5,128	42,713,208

BALANCE SHEET LIABILITIES AND FUND BALANCE

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Automatic Annuity Increase	Reserve for Future Operations	Total
1987	$ 47,954	$ 5,555,017	$ 859,800	$ 22,726,059	$ 29,188,830
1988	43,067	6,177,939	683,256	23,245,191	30,149,453
1989	51,374	6,748,268	460,664	24,468,574	31,728,880
1990	52,078	8,237,231	-	25,205,446	33,494,755
1991	60,874	8,959,880	-	26,182,213	35,202,967
1992	109,968	10,098,012	-	27,520,206	37,728,186
1993	82,985	10,263,855	-	30,409,835	40,756,675
1994	108,350	10,734,454	-	30,176,113	41,018,917
1995	95,049	11,059,576	-	29,638,026	40,792,651
1996	88,312	11,732,410	-	30,892,486	42,713,208

REVENUES BY SOURCE

Fiscal Year Ended June 30	Participant Contributions	Employer Contributions			Income From Investments	Total
		State of Illinois	Other Sources	Total		
1987	$ 767,483	$ 2,214,100	$ 213	$ 2,214,313	$ 3,064,668	$ 6,046,464
1988	796,393	1,970,000	-	1,970,000	1,933,098	4,699,491
1989	869,635	1,997,500	-	1,997,500	2,555,317	5,422,452
1990	1,002,258	2,072,600	74,401	2,147,001	2,665,883	5,815,142
1991	1,486,815	2,072,600	275,161	2,347,761	2,170,740	6,005,316
1992	1,375,885	1,965,600	105,410	2,071,010	3,976,419	7,423,314
1993	2,498,833	2,201,000	510,285	2,711,285	3,517,628	8,727,746
1994	1,011,354	2,116,800	-	2,116,800	3,476,303	6,604,457
1995	1,174,764	2,148,200	163,814	2,312,014	3,155,655	6,642,433
1996	1,141,155	2,400,000	-	2,400,000	5,670,856	9,212,011

EXPENSES BY TYPE

Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1987	$ 3,461,212	$ 80,202	$ 103,150	$ 3,644,564
1988	3,618,087	16,717	99,177	3,733,981
1989	3,682,411	55,660	113,261	3,851,332
1990	3,880,692	42,427	126,852	4,049,971
1991	4,124,250	36,742	144,908	4,305,900
1992	4,658,134	129,978	159,077	4,947,189
1993	5,314,381	154,283	203,610	5,672,274
1994	6,131,496	41,590	194,494	6,367,580
1995	6,539,921	117,386	198,091	6,855,398
1996	6,991,373	90,464	202,880	7,284,717

BENEFIT EXPENSES BY TYPE

Fiscal Year Ended June 30	Retirement Annuities	Survivors' Annuities *	Total
1987	$ 2,913,799	$ 547,413	$ 3,461,212
1988	3,030,995	587,092	3,618,087
1989	3,046,455	635,956	3,682,411
1990	3,163,616	717,076	3,880,692
1991	3,302,545	821,705	4,124,250
1992	3,666,601	991,533	4,658,134
1993	4,241,273	1,073,108	5,314,381
1994	4,942,821	1,188,675	6,131,496
1995	5,203,413	1,336,508	6,539,921
1996	5,561,571	1,429,802	6,991,373

*Includes Reversionary annuities.

NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
1987	188	86	274
1988	185	83	268
1989	184	86	270
1990	188	81	269
1991	195	79	274
1992	190	77	267
1993	186	107	293
1994	184	101	285
1995	182	114	296
1996	181	108	289

TERMINATION REFUNDS

Fiscal Year Ended June 30	Number	Amount
1987	3	$ 36,994
1988	-	-
1989	2	15,475
1990	1	21,890
1991	3	13,980
1992	-	-
1993	6	31,032
1994	4	13,064
1995	6	117,347
1996	1	3,641

NUMBER OF RECURRING BENEFIT PAYMENTS

At June 30	Retirement Annuities	Survivors' Annuities	Reversionary Annuities	Total
1987	206	123	3	332
1988	198	123	3	324
1989	199	123	3	325
1990	196	121	3	320
1991	200	122	3	325
1992	204	128	3	335
1993	230	128	3	361
1994	222	131	3	356
1995	219	139	3	361
1996	216	134	3	353

Annuitants by Benefit Range (Monthly) at June 30, 1996

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-500	31	31	14.4	14.4
501-1000	31	62	14.4	28.8
1001-1500	20	82	9.3	38.1
1501-2000	28	110	13.0	51.1
2001-2500	24	134	11.1	62.2
2501-3000	21	155	9.7	71.9
3001-3500	21	176	9.7	81.6
3501-4000	16	192	7.4	89.0
4001-4500	8	200	3.7	92.7
4501-5000	5	205	2.3	95.0
5001-5500	3	208	1.3	96.3
5501-6000	4	212	1.9	98.2
6001-6500	1	213	0.5	98.7
6501-7000	3	216	1.3	100.0

Survivors* by Benefit Range (Monthly) at June 30, 1996

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-500	61	61	44.5	44.5
501-1000	24	85	17.5	62.0
1001-1500	31	116	22.6	84.6
1501-2000	12	128	8.8	93.4
2001-2500	8	136	5.9	99.3
2501-3000	1	137	0.7	100.0

*includes reversionary annuities

NUMBER ON ACTIVE PAYROLLS

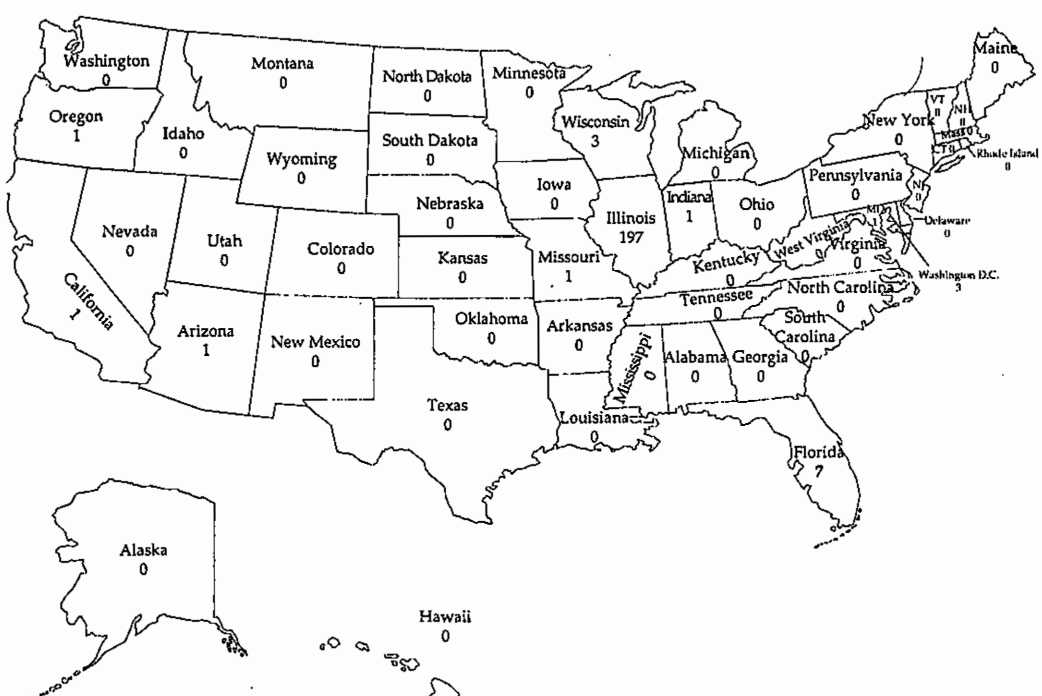
at June 30	Elected State Officers	House Members	Senate Members	Miscellaneous Active	Total
1987	6	116	59	7	188
1988	6	116	59	4	185
1989	6	115	59	4	184
1990	6	118	59	5	188
1991	6	118	59	12	195
1992	6	118	59	7	190
1993	6	118	59	3	186
1994	6	118	59	2	185
1995	6	118	59	-	183
1996	6	118	59	-	183

RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

	At Retirement			
Fiscal Year Ended June 30	Average Age	Average Length of Service *	Average Current Age	Average Current Monthly Benefit
1987	61.0	14.3	69.3	$1,216
1988	60.6	14.2	69.5	1,252
1989	60.3	13.9	69.9	1,298
1990	60.1	13.5	70.3	1,359
1991	60.1	13.0	70.5	1,449
1992	60.0	12.7	70.5	1,526
1993	60.2	13.4	70.0	1,761
1994	59.9	13.2	70.2	1,880
1995	60.0	13.4	70.3	2,047
1996	59.8	13.4	70.5	2,175

* in years

ACTIVE RETIREES BY STATE



PLAN SUMMARY AND LEGISLATIVE SECTION

- Plan Summary
- Legislation

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 1996)

1. PURPOSE

The purpose of the System is to provide retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected state officials and their beneficiaries.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE MEMBERSHIP

All members of the Illinois General Assembly and any person elected to the office of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller or Attorney General become members of the System unless they file an election not to participate within 24 months of taking office.

Any person who has served 10 or more years as Clerk or Assistant Clerk of the House of Representatives, Secretary or Assistant Secretary of the Senate or any combination thereof, may elect to become a participant.

4. PARTICIPANT CONTRIBUTIONS

Participants are required to contribute a percentage of salary as their share of meeting the cost of the various benefits at the rates shown below:

Retirement Annuity	8.5%
Automatic Annual Increase	1.0%
Survivors' Annuity	2.0%
Total	11.5%

5. RETIREMENT ANNUITY

A. Qualification of Participant
Upon termination of service, a participant is eligible for a retirement annuity at age 55 with at least 8 years of credit or at age 62 with at least 4 years of credit.

B. Amount of Annuity
Effective January 1, 1982, the retirement annuity is determined according to the following formula based on the applicable salary:

3.0% for each of the first 4 years of credit;
3.5% for each of the next 2 years of credit;
4.0% for each of the next 2 years of credit;
4.5% for each of the next 4 years of credit;
5.0% for each year of service in excess of 12 years.

The maximum annuity is 85% of final rate of salary after 20 years of credit.

C. Optional Forms of Payment
Reversionary Annuity - A participant may elect to receive a reduced annuity during his or her lifetime in order to provide a spouse, parent, child, brother or sister with a lifetime income. Such payment to a spouse would be in addition to the survivors' annuity benefit. The election should be filed with the System at least 2 years prior to retirement.

D. Annual Increases in Retirement Annuity
Post retirement increases of 3% of the current amount of annuity are granted to participants effective in January or July of the year next following the first anniversary of retirement and in January or July of each year thereafter. However, if the participant has not attained age 60 at that date, the payment of such annual increase shall be deferred until the first of the month following their 60th birthday. For participants who remain in service after attaining 20 years of creditable service, the 3% annual increases shall begin to accrue on the January 1 next following the date upon which the participant (1) attains age 55, or (2) attains 20 years of creditable service, whichever occurs later. In addition, the annual increases shall continue to accrue while the participant remains in service; however, such increases shall not become payable until (1) the January 1 or the July 1 next following the first anniversary of retirement, or (2) the first of the month following attainment of age 60, whichever occurs later.

E. Suspension of Retirement Annuity
An annuitant who reenters service becomes a participant and resumes contributions to the System as of the date of reentry and retirement annuity payments cease.

If the provisions of the Retirement Systems' Reciprocal Act are elected at retirement, any employment which would result in the suspension of benefits under any of the retirement systems being considered would also cause the annuity payable by the General Assembly Retirement System to be suspended.

6. SURVIVORS' ANNUITY

A. Qualification of Survivor
If death occurs while in service, the participant must have established at least two years of credit. If death occurs after termination of service and prior to receipt of retirement annuity, the participant must have established at least 4 years of credit. To be eligible for the survivors' annuity, the spouse and participant or annuitant must have been married for at least 1 year immediately preceding the date of death.

An eligible spouse qualifies at age 50 or at any age if there is in the care of the spouse unmarried children of the participant who are (1) under age 18 or (2) over age 18 if mentally or physically disabled or (3) under age 22 and a full-time student. Eligible surviving children would be entitled to benefits if no spouse survives.

B. Amount of Payment
If the participant's death occurs while in service, the surviving spouse without eligible children of the member would be eligible to 66-2/3% of earned retirement annuity, subject to a minimum of 10% of salary. A surviving spouse with eligible children of the participant would receive the greater of 66-2/3% of the earned retirement annuity or 30% of salary increased by 10% of salary for each minor child, subject to a maximum of 50% of salary to a family.

If the participant's death occurs after termination of service or retirement, the surviving spouse without eligible children of the participant would be eligible to 66-2/3% of earned retirement annuity. The maximum a surviving spouse with eligible children would receive is 75% of the earned retirement annuity unless the participant is survived by a dependent disabled child in which case the annuity to a surviving spouse would not be less than 100% of the earned retirement annuity.

The minimum survivors' annuity for any qualified survivor shall be $300 per month.

C. Duration of Payment
When all children, except for disabled children, are ineligible because of death, marriage or attainment of age 18 or age 22 in the case of a full-time student, the spouse's benefit is suspended if the spouse is under age 50 until attainment of such age. A surviving spouse who remarries prior to attainment of age 55 would be disqualified for any future benefit payments.

D. Annual Increases in Survivors' Annuity
Increases of 3% of the current amount of annuity are granted to survivors in each January occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity. In the event of an active participant's death, increases of 3% of the current amount of annuity are granted to survivors effective in January of the year next following the first anniversary of the commencement of the annuity and in January of each year thereafter.

7. DEATH BENEFITS

The following lump sum death benefits are payable to the named beneficiaries or estate of the participant only if there are no eligible survivors' annuity beneficiaries surviving the deceased participant.

A. Before Retirement
If the participant's death occurs while in service, a refund of total contributions to the System, without interest, in the participant's account.

B. After Retirement
If the participant's death occurs after retirement, a refund of the excess of contributions to the System over annuity payments, if any.

C. Death of Survivor Annuitant
Upon death of the survivor annuitant with no further survivors' annuity payable, a refund of excess contributions to the System over total retirement and survivors' annuity payments, if any.

8. DISABILITY BENEFIT

A participant with at least 8 years of service who becomes permanently disabled while in service as a contributing participant is eligible for a retirement annuity regardless of age.

If disability is service-connected, the annuity is subject to reduction by amounts received by a participant under the Workers' Compensation Act and the Workers' Occupational Diseases Act.

9. REFUND OF CONTRIBUTIONS

Upon termination of service, a participant is entitled to a refund of total contributions to the System without interest. By accepting a refund, a participant forfeits all accrued rights and benefits in the System for his or herself and beneficiaries.

If unmarried at retirement, a participant is entitled to a full refund of contributions for the survivors' annuity benefit. The refund may be repaid, with required interest, to qualify a spouse for survivors' annuity benefits if the participant marries or remarries after retirement.

LEGISLATIVE AMENDMENTS

Legislative amendments with an effective date during fiscal year 1996 having an impact on the System were:

SENATE BILL 114 (P.A. 89-0136)

There were several substantive changes to the Pension Code, as well as the State Finance Act, which were included in this bill. The provision of the bill which affects the operation of the System is as follows:

1. Amends the System's survivors annuity provisions by changing the number of years required for an inactive participant's spouse to qualify for a survivor's annuity from eight to four years.

NEW LEGISLATION

There were no legislative amendments with an effective date subsequent to June 30, 1996, affecting the operation of the System.