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OFFICE OF THE AUDITOR GENERAL  
 WILLIAM G. HOLLAND

**SUPPLEMENTAL DIGEST TO RETIREMENT SYSTEMS' AUDITS**  
**For the years ending June 30, 2002 and June 30, 2003**

According to figures provided by the retirement systems, the cumulative unfunded actuarial accrued liability for the five State-financed retirement systems as of June 30, 2003, was \$43.1 billion. The unfunded liability increased over \$8.1 billion (23%) during FY2003.

<b>Unfunded Actuarial Accrued Liability and Funded Ratio</b>								
For the Fiscal Years Ending June 30, 2002 and 2003								
(in millions)								
Retirement System	(a) Accrued Liability		(b) Value of Assets		(c) Unfunded Actuarial Accrued Liability [col. (a) - col. (b)]		(d) Funded Ratio [col. (b)/(a)]	
	2002	2003	2002	2003	2002	2003	2002	2003
Teachers'	\$ 43,048	\$ 46,933	\$ 22,366	\$ 23,125	\$ 20,682	\$ 23,808	52.0%	49.3%
State Universities	\$ 16,654	\$ 18,025	\$ 9,815	\$ 9,715	\$ 6,839	\$ 8,310	58.9%	53.9%
State Employees'	\$ 14,291	\$ 17,594	\$ 7,674	\$ 7,502	\$ 6,617	\$ 10,092	53.7%	42.6%
Judges'	\$ 1,021	\$ 1,076	\$ 344	\$ 330	\$ 677	\$ 746	33.7%	30.7%
General Assembly	\$ 185	\$ 197	\$ 54	\$ 50	\$ 131	\$ 147	29.3%	25.3%
<b>TOTAL</b>	<b>\$ 75,199</b>	<b>\$ 83,825</b>	<b>\$ 40,253</b>	<b>\$ 40,722</b>	<b>\$ 34,946</b>	<b>\$ 43,103</b>	<b>53.5%<sup>(1)</sup></b>	<b>48.6%<sup>(1)</sup></b>

Notes: <sup>(1)</sup>Computation of the funded ratio based upon the total value of assets and accrued liabilities for all five retirement systems in the aggregate.  
 FY 02 (\$40,253/\$75,199). FY 03 (\$40,722/\$83,825).

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

Public Act 92-0566 became effective June 25, 2002, and provided an early retirement incentive (ERI) for those participants under the State Employees' Retirement System who terminated service before December 31, 2002 (or April 30, 2003, for certain cases). The increase in the unfunded actuarial accrued liability due to the ERI is to be amortized over ten years resulting in an annual increase in State funding of \$380.3 million to the State Employees' Retirement System and \$1.7 million to the Teachers' Retirement System through fiscal year 2013.

Public Act 93-0002 became law on April 7, 2003, and authorized the State to issue \$10 billion in general obligation bonds for the purpose of making contributions to the retirement systems. On June 12, 2003, the State issued \$10 billion in General Obligation Bonds, Pension Funding Series of June 2003.

Pursuant to Public Act 93-0002, \$2,160.0 million of the proceeds were set aside to repay the State for the last quarter contributions to the retirement systems for fiscal year 2003, and to pay all of the fiscal year 2004 contributions. \$481.0 million was set aside to make interest payments on the bonds in fiscal year 2004. Interest payments are due December 1, 2003, and June 1, 2004. \$41.7 million was incurred in bond issuance and other costs. The remaining \$7,317.3 million was allocated to the retirement systems based on each system's relative portion of the total unfunded liability at June 30, 2002. The allocations of the bond proceeds were made to each system on July 1, 2003.



Commencing with fiscal year 2005, the maximum State contribution under Public Act 93-0002 equals the State contribution that would have been required if the general obligation bond contribution had not been made, reduced – but not below zero – by the State’s debt service on each system’s respective portion of the full \$10 billion of General Obligation Bonds, Pension Funding Series of June 2003. The table below outlines the calculation of the fiscal year 2005 required State contribution by system.

Calculation of Fiscal Year 2005 Required State Contribution					
Information Provided by Retirement Systems					
(in millions)					
Retirement System	(1)	(2)	(3)	(4)	(5)
	State Contribution Under Regular Funding Plan Without Pension Bonds	State Contribution Under Regular Funding Plan With Pension Bonds	Amount of Pension Bonds Debt Service	Maximum State Contribution [col. (1) - col. (3)]	Required State Contribution [Lower of col. (2) or col. (4)]
<b>Teachers'</b>	\$ 1,195.9	\$ 1,161.4		\$ 902.2	\$ 902.2
Mandated ERI Contribution <sup>(1)</sup>	1.7	1.7		1.7	1.7
Guaranteed Minimum Annuity <sup>(2)</sup>	3.1	3.1		3.1	3.1
<b>Total</b>	<b>\$ 1,200.7</b>	<b>\$ 1,166.2</b>	<b>\$ 293.7</b>	<b>\$ 907.0</b>	<b>\$ 907.0</b>
<b>State Universities</b>	\$ 367.1	\$ 356.6	\$ 97.1	\$ 270.0	\$ 270.0
<b>State Employees'</b>	\$ 450.8	\$ 440.0		\$ 356.8	\$ 356.8
Mandated ERI Contribution <sup>(1)</sup>	380.3	380.3		380.3	380.3
<b>Total</b>	<b>\$ 831.1</b>	<b>\$ 820.3</b>	<b>\$ 94.0</b>	<b>\$ 737.1</b>	<b>\$ 737.1</b>
<b>Judges'</b>	\$ 41.6	\$ 40.4	\$ 9.6	\$ 32.0	\$ 32.0
<b>General Assembly</b>	\$ 6.5	\$ 6.3	\$ 1.8	\$ 4.7	\$ 4.7
<b>TOTAL</b>	<b>\$ 2,447.0</b>	<b>\$ 2,389.8</b>	<b>\$ 496.2</b>	<b>\$ 1,950.8</b>	<b>\$ 1,950.8</b>

Note: Pension Bonds = General Obligation Bonds, Pension Funding Series, June 2003  
<sup>(1)</sup>Required Early Retirement Incentive (ERI) contribution pursuant to PA 92-0566, not affected by State maximum contribution calculation.  
<sup>(2)</sup>The State appropriates funds necessary to pay minimum benefits provided by statute, not affected by State maximum contribution calculation.

The table below summarizes the continuing appropriation requirements and the debt service payments for the General Obligation Bonds - Pension Funding Series, June 2003.

Continuing Appropriations and Debt Service Payments for Pensions								
(in millions)								
Retirement System	FY 2002		FY 2003		FY 2004 <sup>(1)</sup>		FY 2005 <sup>(2)</sup>	
	Increase required over previous year	Total Continuing Appropriation	Increase required over previous year	Total Continuing Appropriation	Increase required over previous year	Total Continuing Appropriation & Debt Service	Increase required over previous year	Required State Contribution & Debt Service
Teachers <sup>(3)</sup>	\$ 90.5	\$ 815.4	\$ 114.7	\$ 930.1	\$ 101.6	\$ 1,031.7 <sup>(4)</sup>	\$ (124.7)	\$ 907.0
State Universities	\$ 7.8	\$ 240.4	\$ 29.2	\$ 269.6	\$ 42.1	\$ 311.7	\$ (41.7)	\$ 270.0
State Employees'	\$ 27.1	\$ 367.1	\$ 31.7	\$ 398.8	\$ 112.2	\$ 511.0 <sup>(5)</sup>	\$ 226.1	\$ 737.1
Judges'	\$ 3.3	\$ 27.5	\$ 3.9	\$ 31.4	\$ 5.1	\$ 36.5	\$ (4.5)	\$ 32.0
General Assembly	\$ .4	\$ 4.7	\$ .5	\$ 5.2	\$ .6	\$ 5.8	\$ (1.1)	\$ 4.7
<b>Subtotal</b>	<b>\$ 129.1</b>	<b>\$ 1,455.1</b>	<b>\$ 180.0</b>	<b>\$ 1,635.1</b>	<b>\$ 261.6</b>	<b>\$ 1,896.7</b>	<b>\$ 54.1</b>	<b>\$ 1,950.8</b>
<b>Debt Service Payments</b> General Obligation Bonds – Pension Funding Series, June 2003.	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 481.0 <sup>(6)</sup>	\$ 481.0 <sup>(6)</sup>	\$ 15.2	\$ 496.2 <sup>(7)</sup>
<b>TOTAL</b>	<b>\$ 129.1</b>	<b>\$ 1,455.1</b>	<b>\$ 180.0</b>	<b>\$ 1,635.1</b>	<b>\$ 742.6</b>	<b>\$ 2,377.7</b>	<b>\$ 69.3</b>	<b>\$ 2,447.0</b>

Notes: <sup>(1)</sup>Unaudited.  
<sup>(2)</sup>Unaudited, estimate provided by Retirement Systems.  
<sup>(3)</sup>Includes General Revenue Fund reimbursements appropriated for minimum benefits paid under 40 ILCS 5/16-186.3 that are not part of the continuing appropriation.  
<sup>(4)</sup>Unaudited, includes \$1.0 million that is required per PA 92-0566 for funding of Early Retirement Incentive (ERI).  
<sup>(5)</sup>Unaudited, includes \$70.0 million that is required per PA 92-0566 for funding of Early Retirement Incentive (ERI).  
<sup>(6)</sup>Unaudited, bond proceeds of \$481.0 million were capitalized and earmarked to fund interest payments due December 1, 2003, and June 1, 2004.  
<sup>(7)</sup>Unaudited, scheduled debt service payments in FY 05 – interest only.