



OFFICE OF THE AUDITOR GENERAL
 WILLIAM G. HOLLAND

SUPPLEMENTAL DIGEST TO RETIREMENT SYSTEMS' AUDITS

For the years ending June 30, 2004, and June 30, 2005

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, 2005, was \$38.6 billion. The unfunded actuarial accrued liability *increased* over \$3.5 billion (10%) during FY2005. By comparison, the unfunded actuarial accrued liability *decreased* by \$8 billion during FY04, from \$43.1 billion to \$35.1 billion, primarily due to the issuance of \$10 billion in pension bonds.

Unfunded Actuarial Accrued Liability and Funded Ratio (in millions)								
For the Fiscal Years Ending June 30, 2004 and 2005								
RETIREMENT SYSTEM	(a)		(b)		(c)		(d)	
	Actuarial Accrued Liability		Actuarial Value of Assets		Unfunded Actuarial Accrued Liability [col. (a) - col. (b)]		Funded Ratio [col. (b)/(a)]	
	2004	2005	2004	2005	2004	2005	2004	2005
Teachers'	\$ 50,947	\$ 56,075	\$ 31,545	\$ 34,085	\$ 19,402	\$ 21,990	61.9%	60.8%
State Universities	19,078	20,350	12,586	13,350	6,492	7,000	66.0%	65.6%
State Employees'	18,443	19,305	9,990	10,494	8,453	8,811	54.2%	54.4%
Judges'	1,156	1,237	535	565	621	672	46.2%	45.7%
General Assembly	207	213	83	83	124	130	40.1%	39.1%
TOTAL	\$ 89,831	\$ 97,180	\$ 54,739	\$ 58,577	\$ 35,092	\$ 38,603	60.9%	60.3%

TIMELINE OF SIGNIFICANT CHANGES TO PENSION LAWS

Effective Date *Public Act Number/Summary of Change*

- August 22, 1994 P.A. 88-0593
 Created a 50-year funding plan designed to increase pension funding incrementally until a 90% funding level is achieved; established continuing appropriation mechanism for payment of State contributions.
- June 25, 2002 P.A. 92-0566
 Provided an early retirement incentive (ERI) for SERS participants retiring before 12/31/02 (4/30/03 in some cases).
- April 7, 2003 P.A. 93-0002
 Authorized the State to issue \$10 billion in general obligations bonds; bonds were issued 6/12/03; \$2.7 billion of the proceeds were used to pay part of FY03 and all of FY04 State contributions, bond issuance costs and first year's interest on the bonds; balance of \$7.3 billion allocated to retirement systems; FY04-07 debt service is interest only; principal payments on bonds begin in FY08.

Commencing FY05, the maximum State contribution to the systems equals the contribution that would have been required under the 50-year funding plan (P.A. 88-0593), if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on the pension bonds.

July 30, 2004

P.A. 93-0839

Changed the measurement and calculation of liabilities due to the ERI (see P.A. 92-0566); funding spread over a 12-year period; FY04 and FY05 payments to SERS fixed at \$70 million; allowed SERS to collect \$134.1 million for debt service from employer contributions during FY05; suspended payments from State Pension Fund to SERS in the amount of \$18.7 million for FY05.

June 1, 2005

P.A. 94-0004

Suspended payments required under P.A. 88-0593 for FY06 and FY07. Instead, fixed specific amounts for FY06 and FY07 contributions to retirement systems; ramps up contributions in FY08 through FY2010 so that, by FY2011, contributions will be at an amount sufficient to meet 90% funding level specified in P.A. 88-0593 by FY2045; beginning in FY08, changes funding mechanism for ERI (eliminates 12-year funding mechanism provided in P.A. 93-0839).

Appropriations and Debt Service Payments for Pensions (in millions)

Retirement System Appropriations	FY 2004		FY 2005		FY 2006 ⁽¹⁾		FY 2007 ⁽¹⁾	
	Increase from previous year	Total Continuing Appropriation & Debt Service	Decrease from previous year	Total Continuing Appropriation & Debt Service	Decrease from previous year	Required State Contribution & Debt Service	Increase from previous year	Required State Contribution & Debt Service
Teachers ⁽²⁾	\$ 101.8	\$ 1,031.5 ⁽³⁾	\$ (124.8)	\$ 906.7 ⁽³⁾	\$ (372.1)	\$ 534.6 ⁽⁶⁾	\$ 203.4	\$ 738.0 ⁽⁶⁾
State Universities	42.1	311.7	(41.7)	270.0	(103.4)	166.6 ⁽⁶⁾	85.5	252.1 ⁽⁶⁾
State Employees'	84.6	477.4 ⁽⁴⁾	(50.0)	427.4 ⁽⁴⁾	(223.6)	203.8 ⁽⁶⁾	140.4	344.2 ⁽⁶⁾
Judges'	5.1	36.5	(4.5)	32.0	(2.8)	29.2 ⁽⁶⁾	6.0	35.2 ⁽⁶⁾
General Assembly	.6	5.8	(1.1)	4.7	(0.5)	4.2 ⁽⁶⁾	1.0	5.2 ⁽⁶⁾
Subtotal	\$ 234.2	\$ 1,862.9	\$ (222.1)	\$ 1,640.8	\$ (702.4)	\$ 938.4	\$ 436.3	\$ 1,374.7
Debt Service Payments General Obligation Bonds – Pension Funding Series, June 2003.	\$ 481.0	\$ 481.0	\$ 15.2	\$ 496.2	\$ 0.0	\$ 496.2 ⁽⁵⁾	\$ 0.0	\$ 496.2 ⁽⁵⁾
TOTAL	\$ 715.2	\$ 2,343.9	\$ (206.9)	\$ 2,137.0	\$ (702.4)	\$ 1,434.6	\$ 436.3	\$ 1,870.9

Notes: ⁽¹⁾Unaudited.
⁽²⁾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.
⁽³⁾Includes \$1.0 million for FY04 and \$1.7 million for FY05 that was required per Public Act 92-0566 for funding of Early Retirement Incentive (ERI).
⁽⁴⁾Includes \$70.0 million for funding of Early Retirement Incentive for FY 04 and FY 05.
⁽⁵⁾Unaudited, scheduled debt service payments in FY 2006 and FY 2007 – interest only. The first principal payment (\$50 million) will be made in FY08.
⁽⁶⁾Required State contribution per Public Act 94-0004.

FY07 Contribution vs. Suspended Regular Plan (unaudited)

FY07 Contribution vs. FY08 Projected Contribution (unaudited)

State Payment under Suspended Regular Plan ⁽¹⁾	FY07 Required Payment effective 6-1-05 ⁽²⁾	Reduced State Payment (FY07)	Contributions and Debt Service (in millions)	FY07 Required Payment effective 6-1-05 ⁽²⁾	FY08 Projected Payment ⁽³⁾	Increased State Payment (FY07 to FY08)
\$ 1,235.6	\$ 738.0	\$ (497.6)	Teachers' ⁽⁴⁾	\$ 738.0	\$ 1,052.0	\$ 314.0
391.9	252.1	(139.8)	State Universities	252.1	317.9	65.8
762.8	344.2	(418.6)	State Employees'	344.2	519.6	175.4
44.5	35.2	(9.3)	Judges'	35.2	47.1	11.9
6.3	5.2	(1.1)	General Assembly	5.2	6.5	1.3
\$ 2,441.1	\$ 1,374.7	\$ (1,066.4)	Subtotal	\$ 1,374.7	\$ 1,943.1	\$ 568.4
\$ 496.2 ⁽⁵⁾	\$ 496.2 ⁽⁵⁾	\$ —	DEBT SERVICE	\$ 496.2 ⁽⁵⁾	\$ 546.2 ⁽⁶⁾	\$ 50.0
\$ 2,937.3	\$ 1,870.9	\$ (1,066.4)	TOTAL	\$ 1,870.9	\$ 2,489.3	\$ 618.4

Notes: ⁽¹⁾ P.A. 88-0593 and P.A. 93-0002 – Amounts per 06/30/04 actuarial valuations for each system.
⁽²⁾ P.A. 94-0004.
⁽³⁾ P.A. 88-0593, P.A. 93-0002 and P.A. 94-0004 – Amounts per 06/30/05 actuarial valuations for each system.
⁽⁴⁾ Includes guaranteed minimum annuity.
⁽⁵⁾ Interest only on \$10 billion in taxable General Obligation Bonds (Series 2003 Pensions). Payment made by State of Illinois, not by the retirement systems.
⁽⁶⁾ Includes \$50 million in first payment on principal for \$10 billion on taxable General Obligation Bonds (Series 2003 Pensions).