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OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

SUPPLEMENTAL DIGEST TO RETIREMENT SYSTEMS' AUDITS

For the years ending June 30, 2016, and June 30, 2015

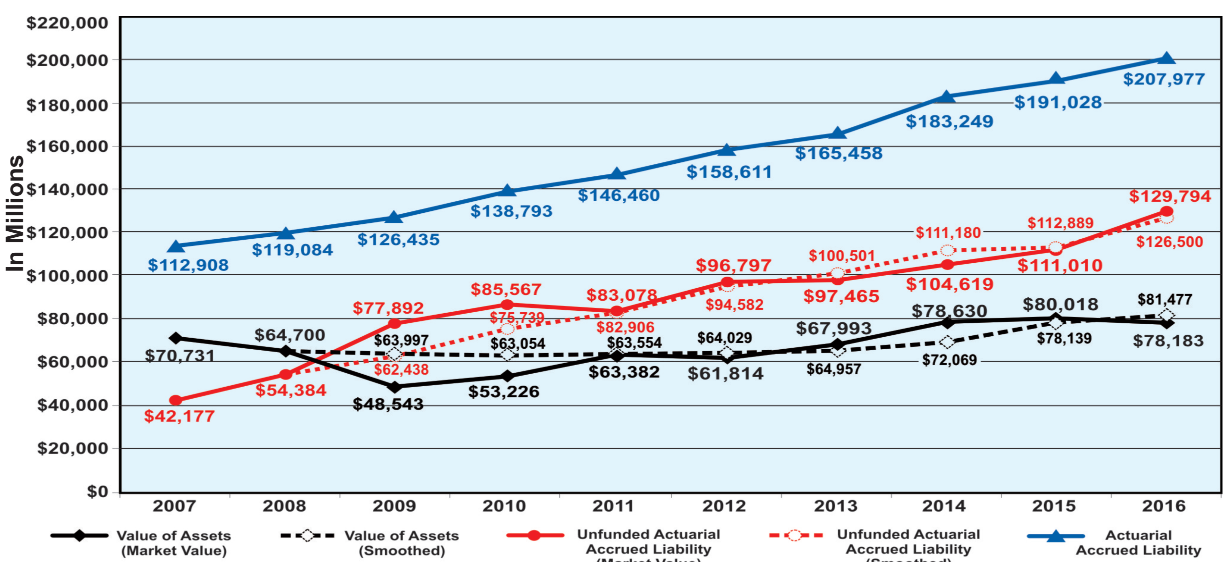
According to figures provided by the retirement systems for statutory funding purposes, the cumulative unfunded actuarial accrued liability increased $13.6 billion to $126.5 billion during FY16 when using the "smoothed" valuation of assets. This method "smooths" actuarial gains or losses incurred during a fiscal year in equal amounts over a five year period. When using the market value of assets, the cumulative unfunded actuarial accrued liability increased $18.8 billion during FY16 to $129.8 billion. The cumulative funded ratio decreased from 41.9% to 37.6% in FY16 when using the market value of assets and decreased 1.7% to 39.2% when using the "smoothed" valuation of assets.

Table No. 1 — Unfunded Actuarial Accrued Liability and Funded Ratio for Statutory Funding
For the Fiscal Years Ending June 30, 2015 and 2016 *(in millions)*

	(a)	(b)	(c)	(d)	(e)	(f)	(a) – (c)	(b) – (d)	(a) – (e)	(b) – (f)	(c) / (a)	(d) / (b)	(e) / (a)	(f) / (b)
	Actuarial Accrued Liability		Actuarial Value of Assets – Smoothed		Net Assets at Market Value[1]		Unfunded Actuarial Accrued Liability – Smoothed		Unfunded Actuarial Accrued Liability – Market Value		Funded Ratio[2]			
											Smoothed		Market Value	
RETIREMENT SYSTEM	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Teachers'	$ 108,122	$ 118,630	$ 45,435	$ 47,222	$ 46,407	$ 45,251	$ 62,687	$ 71,408	$ 61,715	$ 73,379	42.0%	39.8%	42.9%	38.1%
State Universities	39,521	40,923	17,105	17,701	17,463	17,005	22,416	23,222	22,058	23,918	43.3%	43.3%	44.2%	41.6%
State Employees'	40,743	45,515	14,742	15,632	15,259	15,038	26,001	29,883	25,484	30,477	36.2%	34.3%	37.5%	33.0%
Judges'	2,314	2,546	804	871	834	840	1,510	1,675	1,480	1,706	34.8%	34.2%	36.0%	33.0%
General Assembly	328	363	53	51	55	49	275	312	273	314	16.0%	14.0%	16.6%	13.5%
TOTAL	**$191,028**	**$207,977**	**$78,139**	**$81,477**	**$80,018**	**$78,183**	**$112,889**	**$126,500**	**$111,010**	**$129,794**	**40.9%**	**39.2%**	**41.9%**	**37.6%**

[1] State Universities Retirement System's Net Assets at market value only include that portion of the Net Assets applicable to the defined benefit plan.
[2] Some percentages may differ from amounts reported by the retirement systems when computing for this table because of rounding.

Table No. 2 — Ten Year Historical Trend
For the Fiscal Years Ending June 30, 2007 through June 30, 2016



Source: Information derived from the current and previous Supplemental Digests to Retirement Systems' Audits and Retirement Systems' actuarial valuation reports.

(continued)

Table No. 3

Appropriations, Required State Contributions and Debt Service Payments for Pensions *(in millions)*

Retirement System	FY 2015		FY 2016		FY 2017 (1)		FY 2018 (2)	
	Increase (Decrease) from previous year	Total Appropriation & Debt Service	Increase (Decrease) from previous year	Total Appropriation & Debt Service	Increase (Decrease) from previous year	Required State Contribution & Debt Service	Increase (Decrease) from previous year	Required State Contribution & Debt Service
Teachers'(3)	$ (60.7)	$ 3,377.7	$ 364.8	$ 3,742.5	$ 244.1	$ 3,986.6	$ 578.4	$ 4,565.0
State Universities	34.4	1,544.2	57.3	1,601.5	69.9	1,671.4	82.3	1,753.7
State Employees'	104.9	1,804.3	77.9	1,882.2	132.3	2,014.5	313.1	2,327.6
Judges'	7.2	134.0	(1.9)	132.1	(0.8)	131.3	15.5	146.8
General Assembly	1.9	15.9	0.2	16.1	5.6	21.7	5.0	26.7
REQUIRED STATE CONTRIBUTION	**$ 87.7**	**$ 6,876.1**	**$ 498.3**	**$ 7,374.4**	**$ 451.1**	**$ 7,825.5**	**$ 994.3**	**$ 8,819.8**
Debt Service Payments G.O. Bonds:								
Pension Series, 06/03(5)	$ (3.9)	$ 578.6	$ (4.1)	$ 574.5	$ 20.7	$ 595.2	$ 19.5	$ 614.7
Taxable Series, 01/10(6)	(28.3)	723.8	(723.8)	–	–	–	–	–
Taxable Series, 02/11(7)	196.0	495.5	286.4	781.9	270.3	1,052.2	(48.3)	1,003.9
TOTAL DEBT SERVICE(8)	**$163.8**	**$ 1,797.9(4)**	**$ (441.5)**	**$ 1,356.4(4)**	**$ 291.0**	**$ 1,647.4(4)**	(28.8)	1,618.6(4)
TOTAL REQUIRED STATE CONTRIBUTION AND DEBT SERVICE	**$ 251.5**	**$ 8,674.0**	**$ 56.8**	**$ 8,730.8**	**$ 742.1**	**$ 9,472.9**	**$ 965.5**	**$10,438.4**

(1) Unaudited; Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2015.
(2) Unaudited; Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2016.
(3) 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.
(4) Unaudited, summary of debt service payments.
(5) Pursuant to the Pension Code, the effect of the allocation of the net proceeds and the State's debt service payments on the 2003 Pension Funding Series/June 2003 bonds are taken into consideration in computing the Required State Contribution.
(6) $3.466 billion of the FY2010 obligation owed to the retirement systems were provided by the State issuing General Obligation bonds. The debt service associated with these bonds does not affect the computation of the Required State Contribution. Debt service payments began in FY2011 and ran through FY2015.
(7) The State issued $3.7 billion in General Obligation bonds, Taxable Series/February 2011 to fund or reimburse a portion of the FY2011 obligation owed to the retirement systems. The debt service associated with these bonds does not affect the computation of the Required State Contribution.
(8) Debt service is the obligation of the State of Illinois. FY2015 debt service includes $1,093.2 million in principal payments. FY2016 debt service includes $700.0 million in principal payments. FY2017 debt service includes $1,025.0 million in principal payments. FY2018 debt service includes $1,050.0 million in principal payments.

Table No. 4

Required State Contributions and Debt Service for the Years Ended June 30 (unaudited) *(in millions)*

Retirement System	FY 2017(1)	FY 2018(2)	FY 2019(2)	FY 2020(2)	FY 2021(2)	FY 2022(2)
Teachers'	$ 3,986.6	$ 4,565.0	$ 4,701.1	$ 4,848.2	$ 5,043.7	$ 5,217.6
State Universities	1,671.4	1,753.7	1,795.5	1,852.4	1,935.7	2,005.3
State Employees'	2,014.5	2,327.6	2,378.0	2,432.0	2,505.0	2,572.0
Judges'	131.3	146.8	146.8	147.7	149.7	151.4
General Assembly	21.7	26.7	26.0	25.8	25.4	25.2
REQUIRED STATE CONTRIBUTION	**$ 7,825.5**	**$ 8,819.8**	**$ 9,047.4**	**$ 9,306.1**	**$ 9,659.5**	**$ 9,971.5**
Debt Service Payments G.O. Bonds:						
Pension Series, 06/03(3)	$ 595.2	$ 614.7	$ 633.2	$ 674.6	$ 713.4	$ 749.8
Taxable Series, 02/11(4)	1,052.2	1,003.9	952.9	—	—	—
TOTAL DEBT SERVICE(5)	**$ 1,647.4**	**$ 1,618.6**	**$ 1,586.1**	**$ 674.6**	**$ 713.4**	**$ 749.8**
TOTAL REQUIRED STATE CONTRIBUTION AND DEBT SERVICE	**$ 9,472.9**	**$ 10,438.4**	**$ 10,633.5**	**$ 9,980.7**	**$ 10,372.9**	**$ 10,721.3**

(1) Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2015.
(2) Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2016.
(3) Pursuant to the Pension Code, the effect of the allocation of the net proceeds and the State's debt service payments on the 2003 Pension Funding Series/June 2003 bonds are taken into consideration in computing the Required State Contribution. Debt service payments began in FY2004 and are scheduled to run through FY2033.
(4) The State issued $3.7 billion in General Obligation bonds, Taxable Series/February 2011 to fund or reimburse a portion of the FY2011 obligation owed to the retirement systems. The debt service associated with these bonds does not affect the computation of the Required State Contribution. Debt service payments began in FY2012 and are scheduled to run through FY2019.
(5) Debt service is the obligation of the State of Illinois.

Table No. 5 Ten Year Comparison of Contributions Received by the Systems to Annual Actuarial Determined Contributions Combined Teachers', State Universities, State Employees', Judges' and General Assembly *(in millions)*				
Fiscal Year Ending June 30	Contributions Received by Systems[(1)]	Actuarial Determined Contributions[(2)(3)]	Contributions per GASB Statement #25[(2)(4)]	Difference
2016	$ 7,501.9	$ 8,390.2	$ –	$ (888.3)
2015	7,004.4	7,928.7	–	(924.3)
2014	6,937.7	7,751.5	–	(813.8)
2013	5,893.9	–	7,015.2	(1,121.3)
2012	5,009.9	–	6,612.4	(1,602.5)
2011	4,299.3	–	5,399.8	(1,100.5)
2010	4,130.8	–	4,761.5	(630.7)
2009	2,897.0	–	4,076.5	(1,179.5)
2008	2,156.2	–	3,729.2	(1,573.0)
2007	1,477.4	–	3,665.6	(2,188.2)
TOTAL	**$ 47,308.5**	**$ 24,070.4**	**$ 35,260.2**	**$ (12,022.1)**

Notes:
(1) Summarized per retirement systems' annual financial statements. Annual amounts for this table include, as applicable, payments for: ERO contributions, federal and trust funds, excess salary contributions, and 2.2 benefit formula contributions. These items are taken into consideration in determining the retirement systems' overall total pension liability. For State Universities, contributions received by the system only include that portion applicable to the defined benefit plan. Because of including or excluding the noted items, the annual amounts in this table will not agree with the "Total Appropriation & Debt Service, Required State Contribution" in Table No. 3 on page 2 of this digest..
(2) Summarized per retirement systems' annual actuarial valuations.
(3) The Actuarial Determined Contribution is a target or recommended contribution determined in conformity with Actuarial Standards of Practice, based on each system's actuarial assumptions for the period reported.
(4) The Governmental Accounting Standards Board (GASB) issued Statement 25, which required the computation of the annual required contribution for the year, calculated in accordance with each system's actuarial assumptions. The annual required contribution includes the employer's normal cost and a provision for amortizing the total unfunded actuarial liability, for a term of not more than 30 years. GASB issued Statement 67: *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, effective for fiscal year 2014. GASB Statement 67 removed the requirement for computing an annual required contribution as set forth in GASB Statement 25, and now requires an actuarial determined contribution as defined in Note (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 designated 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 obligation bonds; bonds were issued 6/12/03; $2.7 billion of the proceeds were used to pay part of FY2003 and all of FY2004 Required State Contributions, bond issuance costs and first year's interest on the bonds; balance of $7.3 billion was allocated to the retirement systems. Commencing with FY 2005, the maximum Required 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 (series June, 2003).
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.
June 1, 2005	P.A. 94-0004: Suspended payments required under P.A. 88-0593 for FY2006 and FY2007. Instead, fixed specific amounts for FY2006 and FY2007 contributions to retirement systems; ramps up contributions in FY2008 through FY2010 so that, by FY2011, contributions will be at an amount sufficient to meet the 90% funding level specified in P.A. 88-0593 by FY2045; beginning in FY2008, changes funding mechanism for ERI (eliminates 12 year funding mechanism provided in P.A. 93-0839).

(continued)

July 15, 2009	P.A. 96-0043: Changed the measurement of the value of the systems' actuarial assets beginning in FY2009 from the market value to a smoothed value, where any actuarial gains or losses from investment return incurred in a fiscal year shall be recognized in equal amounts over a 5-year period. Bonds in the amount of $3.466 billion were authorized by this Act to be used for the purpose of making a portion of the State's FY2010 required contributions to the retirement systems.
April 14, 2010	P.A 96-0889: Created a "second tier" of benefits for future members of the retirement systems hired after December 31, 2010. Some of the changes included raising the eligibility for normal benefits to age 67 with 10 years of service, limiting the final average compensation used to compute retirement benefits and increasing the number of months used to calculate the final average compensation.
January 1, 2011	P.A. 96-1490: Clarified provisions set forth in P.A. 96-0889.
January 14, 2011	P.A. 96-1497: Authorized the issuance of bonds in the amount of $4.096 billion to be used for the purpose of making a portion of the State's FY2011 required contributions to the retirement systems.
January 27, 2011	P.A. 96-1511: Required the State retirement systems to recalculate and recertify to the Governor the amount of the Required State Contribution for FY2011 on or before April 1, 2011, applying the changes made by P.A. 96-0889 to the retirement systems assets and liabilities as of June 30, 2009, as though P.A. 96-0889 was approved on that date.
June 18, 2012	P.A. 97-0694: Directed the Auditor General to contract with or hire an actuary to serve as the State Actuary. In addition, the Act requires each State retirement system's Board of Trustees (Board) to submit to the State Actuary, the Governor and the General Assembly a proposed certification of the amount of the required State contribution to the Systems by November 1 of each year. On or before January 1 of each year the State Actuary shall issue a preliminary report concerning the proposed certification identifying, if necessary, recommended changes in actuarial assumptions that each State retirement system's Board must consider before finalizing its certification of the required State contributions. On or before January 15 of each year each State retirement system's Board shall certify to the Governor and the General Assembly the amount of the required State contribution for the next fiscal year. The Board's certification must note any deviation from the State Actuary's recommended changes, the reason or reasons for not following the State Actuary's recommended changes, and the fiscal impact of not following the State Actuary's recommended changes on the required State contribution.
July 1, 2013	In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that substantially changes the accounting and financial reporting of pensions by state and local governments and pension plans. GASB Statement No. 67, effective July 1, 2013, *Financial Reporting for Pension Plans*, addresses financial reporting for state and local government pension plans. GASB Statement No. 68, effective July 1, 2014, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these GASB Statements changed how governments calculate and report costs and obligations associated with pensions. The new GASB Statements relate to accounting and financial reporting issues only; the Statements do not address how governments approach pension plan funding.
December 5, 2013	P.A. 98-599: The Act was signed by the Governor on December 5, 2013. The Act amended the Illinois Pension Code, with an effective date no earlier than June 1, 2014. The Act applied to all active, inactive and retired Tier I members (service before January, 2011). Tier II members were not affected. The Act's goal was to stabilize certain retirement systems' (Teachers' Retirement System, State Employees' Retirement System, State Universities Retirement System and General Assembly Retirement System) finances and eliminate each of the noted retirement systems' unfunded liability by 2045. The Act reduced the annual pension adjustments for current and future retirees and required the skipping of a certain number of the annual pension adjustments for employees retiring on or after July 1, 2014. The number of annual adjustments to be skipped was to be based on the employee's age at the time the Act became effective. In addition, the Act capped the pensionable salary amount, increased the retirement age on a graduated scale and created funding guarantees requiring the State to make applicable contributions. The Act also reduced the employee contribution toward retirement benefits by one percentage point.
May 8, 2015	On November 21, 2014, the Illinois 7th Judicial Circuit Court ruled that P.A. 98-599 was unconstitutional and void in its entirety. The State filed an appeal of the ruling directly to the State Supreme Court. On May 8, 2015, the Supreme Court affirmed the Circuit Court ruling that the law violated the pension protection clause of the Illinois Constitution and declared the law invalid.