State of Illinois
State Employees' Retirement System

Compliance Examination

For the Year Ended June 30, 2011
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

BKD LLP
CPAs & Advisors

State Employees' Retirement System of the State of Illinois

Compliance Examination

For the Year Ended June 30, 2011

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Compliance Examination
For the Year Ended June 30, 2011

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State Employees' Retirement System of the State of Illinois

For the Year Ended June 30, 2011

System Officials

Executive Secretary	Timothy B. Blair
Accounting Division Manager	Nicholas C. Merrill, Jr., CPA
Internal Auditor	Larry L. Stone

Office Locations

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160 North LaSalle Street, Suite N725
Chicago, Illinois 60601

STATE RETIREMENT SYSTEMS

• State Employees' Retirement System of Illinois
• General Assembly Retirement System
• Judges' Retirement System of Illinois

Internet: http://www.state.il.us/srs E-Mail: sers@srs.illinois.gov

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

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Disabilities Fax (217) 785-6961
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General Assembly Retirement System (217)782-8500

April 17, 2012

BKD, LLP
Certified Public Accountants
225 North Water Street, Suite 400
Post Office Box 1580
Decatur, IL 62525-1580

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State Employees' Retirement System of the State of Illinois (System). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following assertions during the year ended June 30, 2011. Based on this evaluation, we assert that during the year ended June 30, 2011 the System has materially complied with the assertions below.

A. The 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. The 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. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the system are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

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

Yours very truly,

State Employees' Retirement System of Illinois

Timothy B. Blair

Timothy B. Blair, Executive Secretary

Nicholas C. Merrill

Nicholas C. Merrill, Jr., CPA, Accounting Division Manager

Compliance Report

State Employees' Retirement System of the State of Illinois
Compliance Report Summary
For the Year Ended June 30, 2011

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountants' Reports

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers or other significant non-standard language.

Summary of Findings and Recommendations

Number of	Current Report	Prior Reports
Findings	4	None
Repeated findings	None	None
Prior recommendations implemented or not repeated	None	1

Schedule of Findings and Recommendations

Item No.	Page	Description	Finding Type
		Current Findings (*Government Auditing Standards*)	
11-1	9	Journal Entry Review	Significant Deficiency
		Current Findings (State Compliance)	
11-2	10	Lack of Submission of Required Report	Significant Deficiency and Noncompliance
11-3	11	Disaster Contingency Planning Weaknesses	Significant Deficiency and Noncompliance
11-4	13	Lack of Review of Computer Systems Before Implementation	Significant Deficiency and Noncompliance

In addition, the following finding which is reported as a current finding relating to *Government Auditing Standards* also met the reporting requirements for State Compliance.

11-1	9	Journal Entry Review	Significant Deficiency and Noncompliance

Exit Conference

System officials waived a formal exit conference in correspondence dated February 29, 2012. Responses to the recommendations were provided by Nicholas Merrill, Jr. in correspondence dated March 14, 2012.

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Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Trustees
State Employees' Retirement System of the State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State Employees' Retirement System of the State of Illinois' (System) compliance with the requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2011. The management of the State Employees' Retirement System of the State of Illinois is responsible for compliance with these requirements. Our responsibility is to express an opinion on the System's compliance based on our examination.

A. The 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. The 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. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

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

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the System's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, the System complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2011. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 11-1 through 11-4.

Internal Control

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the System's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the System's internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness* over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as items 11-1 through 11-4. *A significant deficiency in an entity's internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The System's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the System's responses and accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the statement of plan net assets of the System as of June 30, 2011 and 2010, and the related statement of changes in plan net assets for the years then ended, and have issued our report thereon dated January 27, 2012. We did not audit the 2011 and 2010 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which represent 99 percent, 99 percent, and 58 percent, respectively in 2011, and 99 percent, 99 percent, and 37 percent, respectively in 2010, of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based on the report of other auditors. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. The 2011 and 2010 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements for the years ended June 30, 2011 and 2010, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, the System's statement of plan net assets for the year ended June 30, 2009 and the related statement of changes in plan net assets for the year then ended and have issued our report dated February 2, 2010. We did not audit the 2009 financial statements of Illinois State Board of Investment, an internal investment pool of the State of Illinois, which represents 97 percent, 97 percent, and 186 percent, respectively in 2009 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based on the report of other auditors. In our opinion, the 2009 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2009, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the State Employees' Retirement System of the State of Illinois Board of Trustees, and the System's management, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

April 17, 2012, except for the Supplementary Information for State Compliance purposes paragraph, as to which the date is January 27, 2012

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Trustees
State Employees' Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the State Employees' Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2011 and have issued our report thereon dated January 27, 2012, which contained a reference to the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Illinois State Board of Investment, as described in our Independent Auditor's Report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and correct misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the System that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 11-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The System's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees of the System and System management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

January 27, 2012

State Employees' Retirement System of the State of Illinois

Current Findings – *Government Auditing Standards*

June 30, 2011

11-1. Finding – Journal Entry Review

The State Employees' Retirement System (System) does not have a policy or procedure for the review of financial journal entries by a person independent of the person that initiates them.

During our audit testing, we noted the same individual prepares and records the financial journal entries without an independent review by another individual.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes agencies shall establish and maintain a system of internal and fiscal and administrative controls, which shall provide assurance that revenue, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over the State's resources.

System officials indicated the management staff preparing the journal entries are not involved in the preparation and/or processing of the underlying transactions. Due to the relatively small size of the Accounting Division, however, there has been a lack of appropriate personnel to perform a meaningful review of financial journal entries. However, there is a subsequent, independent review of the System's financial statements on a quarterly basis for potential irregularities.

The lack of an independent review of financial journal entries leaves the System open to risks of error and material misstatement of financial information. (Finding Code No. 11-1)

Recommendation:

We recommend the System develop a policy and procedure for someone independent of the individual preparing and recording financial journal entries to document their review of the financial journal entries and related supporting documentation.

System Response:

The System will reallocate the review function of financial journal entries to other management staff which are independent of the person that initiates them. The System recently hired another management staff member who will provide assistance in the financial journal entry review process. The new process will be incorporated into the System's policy and procedures in fiscal year 2012.

11-2. Finding – Lack of Submission of Required Report

The State Employees' Retirement System (System) did not file a report required by Executive Order 10-10.

Executive Order 10-10, dated July 1, 2010, required all state agencies to report within 30 days of the effective date of the Executive Order to the Governor's Office of Management and Budget (GOMB), the amount of reductions they have implemented or realized or which they will be able to implement or realize as required in the Executive Order, as well as savings resulting from any other reductions. The System never filed the required report.

System officials did not initially believe this requirement was applicable to them.

Failure to evaluate and implement costs reductions and file the required report to GOMB may have resulted in the loss of costs savings to the State. (Finding Code No. 11-2)

Recommendation:

We recommend the System review and comply with Executive Orders issued by the Governor.

System Response:

The System concurs with the recommendation.

11-3. Finding – Disaster Contingency Planning Weaknesses

The State Employees' Retirement System (System) did not have a current, sufficient, or comprehensive plan for recovering its computer environment, and a comprehensive test had not been performed.

The System relies on several critical systems for fulfilling its overall mission. During our review, we noted the System is planning to migrate from the mainframe operating environment to a client server based environment. As such, the System had developed the Human Resources and Attendance Systems, and was currently developing an Active Member System on its client server-based environment. We found the System's current recovery plan did not address the client server–based systems and had not been tested.

Information technology guidance (including the National Institute of Standards and Technology and Government Accountability Office) endorse the formal development and testing of an adequate contingency plan. An adequate recovery plan and testing (and the associated documentation of the test results) verify that the plan, procedures, resources provide the capability to recover critical systems within the required timeframe.

A comprehensive and adequately tested contingency plan across all platforms utilized will assist management in identifying weaknesses to ensure recovery procedures are adequate. Continuous reviews and tests of plans would help management ensure the plan is appropriately modified, as the System's computing environment and disaster recovery needs change.

System personnel stated they are aware the contingency plan does not meet their recovery needs. As such, they are undertaking a redevelopment of their contingency plan and have indicated it will be tested once established.

Without an adequately developed and tested comprehensive recovery plan, the System cannot ensure its critical systems could be recovered within an acceptable period, and minimize the impact associated with a disaster thereby exposing the System to the possibility of extended disruptions of services in the event a disaster were to occur. (Finding Code Nos. 11-3)

<u>Recommendation:</u>

We recommend the System establish a comprehensive disaster contingency plan that addresses all computing platforms. Once established, the plan should be tested to ensure it meets the System's recovery needs.

The System should perform and document tests of its plan at least once a year. In addition, the plan should be continuously updated to reflect environmental changes and improvements identified from tests.

11-3. Finding – Disaster Contingency Planning Weaknesses (continued)

System Response:

The System concurs with the recommendation.

11-4. Finding – Lack of Review of Computer Systems Before Implementation

The State Employees' Retirement System's (System) Internal Audit Department did not review its critical new Human Resource and Attendance Systems prior to their implementation.

The Human Resource System, used for tracking personnel records and work schedules, was implemented in August 2010 and took approximately 1,870 person-hours to develop. The Attendance System, used for tracking employee attendance, time-off requests, overtime and compensatory time, and timesheets, was implemented in December 2010 and took approximately 1,890 person-hours to develop.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/2003(a)(3)) requires the System's internal auditing program to conduct reviews of the design of major new electronic data processing systems and major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability.

System management stated the Internal Auditor was informed of the development efforts and received regular updates from the IT Division Manager; however other audit activities took priority.

Failure to review major new system developments or significant modifications to existing systems prior to its implementation could result in inadequate audit trails and accountability, and is in noncompliance with a statutory mandate. (Finding Code No. 11-4)

Recommendation:

We recommend the System's Internal Audit Department perform a review of all new critical systems or major modifications to existing system prior to its implementation. In addition, documentation of Internal Audit's review should be maintained.

System Response:

The System concurs with the recommendation.

Supplementary Information for State Compliance Purposes

State Employees' Retirement System of the State of Illinois

Supplementary Information for State Compliance Purposes

Summary

For the Year Ended June 30, 2011

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Appropriations, Expenditures and Lapsed Balances
  Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances
  Schedule of Changes in State Property
  Comparative Schedule of Cash Receipts
  Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
  Analysis of Significant Variations in Expenses
  Analysis of Significant Variations in Cash Receipts
  Schedules of Funding Progress and Employer Contributions
  Analysis of Significant Statement of Plan Net Asset Accounts
  Analysis of Contributions Receivable
  Analysis of Investment Performance (Unaudited)

- Analysis of Operations:

  System's Functions and Planning Program
  Progress in Funding the System
  Rates of Return (Unaudited)
  System Employees
  Comparison of Administrative Expenses to Total Expenses
  Schedule of Contributions/Deductions and Effect on Investments
  Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Fiscal Schedules and Analysis

State Employees' Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances

Appropriations for Fiscal Year 2011

Fourteen Months Ended August 31, 2011

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2011	Lapse Period Expenditures July 1, 2011 through August 31, 2011	Total Expenditures	Balances Lapsed
Public Act 096-0956					
Appropriated Funds					
General Revenue Fund - 001					
Continuing appropriation for pension contributions	$ 36,576,873	$ 36,576,873	$ —	$ 36,576,873	$ —
Continuing appropriation FY10 shortfall	2,393,751	2,393,750	—	2,393,750	1
Operational expenses	92,500	74,151	18,343	92,494	6
Subtotal – Fund 001	39,063,124	39,044,774	18,343	39,063,117	7
State Employees' Retirement System Fund – 0479					
Payments to General Obligation Retirement Fund	24,708,844	22,496,574	2,212,270	24,708,844	—
Total – All appropriated funds	$ 63,771,968	$ 61,541,348	$ 2,230,613	$ 63,771,961	$ 7
Nonappropriated Funds					
State Employees' Retirement System Fund – 0479					
Personal services	$ —	$ 4,478,720	$ —	$ 4,478,720	$ —
Employee retirement contributions paid by employer	—	31,159	—	31,159	—
Retirement contributions	—	1,254,741	—	1,254,741	—
Social Security contributions	—	331,002	—	331,002	—
Group insurance	—	1,068,790	3,187	1,071,977	—
Contractual services	—	2,175,820	94,680	2,270,500	—
Travel	—	23,492	587	24,079	—
Purchase of investments	—	689,122,201	—	689,122,201	—
Commodities	—	27,779	637	28,416	—
Printing	—	35,592	20,140	55,732	—
Equipment	—	17,395	22,630	40,025	—
Electronic data processing	—	3,412,118	192,326	3,604,444	—
Telecommunications	—	59,203	17,289	76,492	—
Automotive	—	11,776	2,525	14,301	—
Nonrecurring refunds and distributions	—	14,869,044	—	14,869,044	—
Pensions, annuities and benefits	—	1,470,756,550	—	1,470,756,550	—
Permanent improvements	—	87,371	16,800	104,171	—
Refunds of prior calendar year retirement contributions	—	219,863	—	219,863	—
Refunds, not classified elsewhere	—	38,031,904	31,177	38,063,081	—
Subtotal – Fund 0479	—	2,226,014,520	401,978	2,226,416,498	—

State Employees' Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances

Appropriations for Fiscal Year 2011

Fourteen Months Ended August 31, 2011

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2011	Lapse Period Expenditures July 1, 2011 through August 31, 2011	Total Expenditures	Balances Lapsed
Nonappropriated Funds (continued)					
State Employee Retirement System Excess Benefit Fund - 0788					
Pensions, annuities and benefits	$ —	$ 53,060	$ —	$ 53,060	$ —
Total nonappropriated funds	$ —	2,226,067,580	401,978	2,226,469,558	$ —
Grand total, all Funds		$ 2,287,608,928	$ 2,632,591	$ 2,290,241,519	

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

State Employees' Retirement System of the State of Illinois

Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances

For the Years Ended June 30, 2011, 2010 and 2009

	Fiscal Year		
	2011 096-0956	2010 096-0042	2009 P.A. 95-0734
Appropriated Funds			
General Revenue Fund – 001			
General Operations Unit			
Appropriations (net after transfers)	$ 39,063,124	$ 130,800	$ 50,000
Expenditures			
Continuing appropriation for pension contributions	36,576,873	—	—
Continuing appropriation FY10 shortfall	2,393,750	—	—
Operational expenses	92,494	30,136	—
Personal services	—	41,465	—
Social Security contributions	—	3,122	—
Employee retirement contributions paid by employer	—	—	22,972
Total expenditures	39,063,117	74,723	22,972
Lapsed balances	$ 7	$ 56,077	$ 27,028
Social Security Unit			
Appropriations (net after transfers)	$ —	$ —	$ 98,300
Expenditures			
Personal services	—	—	37,805
Retirement contributions	—	—	7,961
Social security contributions	—	—	2,804
Contractual services	—	—	24,995
Travel	—	—	441
Commodities	—	—	175
Telecommunications	—	—	421
Total expenditures	—	—	74,602
Lapsed balances	$ —	$ —	$ 23,698
General Revenue Fund Total			
Appropriations (net after transfers)	$ 39,063,124	$ 130,800	$ 148,300
Total expenditures	39,063,117	74,723	97,574
Lapsed balances	$ 7	$ 56,077	$ 50,726
State Employees' Retirement System Fund - 0479			
Appropriations (net after transfers)	$ 24,708,844	$ 25,821,470	$ 77,992,645
Payments to General Obligation Retirement Fund	24,708,844	25,821,470	77,992,645
Total expenditures	24,708,844	25,821,470	77,992,645
Lapsed balances	$ —	$ —	$ —

State Employees' Retirement System
of the State of Illinois
Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances
For the Years Ended June 30, 2011, 2010 and 2009

	Fiscal Year		
	2011	2010	2009 P.A. 95-0734
Grand Total – Appropriated Funds			
Appropriations (net after transfers)	$ 63,771,968	$ 25,952,270	$ 78,140,945
Total expenditures	63,771,961	25,896,193	78,090,219
Lapsed balances	$ 7	$ 56,077	$ 50,726
Nonappropriated Funds			
State Employees' Retirement System Fund – 0479			
Expenditures			
Personal services	$ 4,478,720	$ 4,245,979	$ 4,048,316
Employee retirement contributions paid by employer	31,159	42,062	54,111
Retirement contributions	1,254,741	1,206,740	852,808
Social Security contributions	331,002	314,861	301,708
Group insurance	1,071,977	947,163	950,343
Contractual services	2,270,500	1,712,429	1,673,355
Travel	24,079	39,497	30,581
Purchase of investments	689,122,201	720,745,289	—
Commodities	28,416	26,330	29,110
Printing	55,732	48,965	58,356
Equipment	40,025	46,013	32,521
Electronic data processing	3,604,444	3,043,027	2,277,429
Telecommunications	76,492	78,769	67,063
Automotive	14,301	13,801	19,542
Nonrecurring refunds and distributions	14,869,044	15,295,373	15,979,556
Pensions, annuities and benefits	1,470,756,550	1,368,647,401	1,278,967,543
Permanent improvements	104,171	76,328	—
Refunds of prior calendar year retirement contributions	219,863	163,197	216,128
Refunds, not classified elsewhere	38,063,081	15,100,507	15,524,820
Total expenditures	2,226,416,498	2,131,793,731	1,321,083,290
State Employee Retirement System Excess Benefit Fund – 0788			
Pensions, annuities and benefits	$ 53,060	$ 41,189	$ 45,419
Total nonappropriated expenditures	2,226,469,558	2,131,834,920	1,321,128,709
Grand total, all Funds	$ 2,290,241,519	$ 2,157,731,113	$ 1,399,218,928

State Employees' Retirement System
of the State of Illinois
Schedule of Changes in State Property
For the Year Ended June 30, 2011

	Beginning Balance	Additions	Deletions	Ending Balance
State Employees' Retirement System Trust Fund				
Land	$ 655,241	$ —	$ —	$ 655,241
Land improvements	298,979	—	—	298,979
Building	3,380,093	104,171	—	3,484,264
Furniture and equipment	2,311,750	155,124	(188,583)	2,278,291
Total	6,646,063	259,295	(188,583)	6,716,775
Accumulated depreciation	(3,837,574)	(370,227)	167,374	(4,040,427)
Property and equipment – net	$ 2,808,489	$ (110,932)	$ (21,209)	$ 2,676,348
Social Security Contribution Fund				
Furniture and Equipment	$ 4,179	$ —	$ —	$ 4,179

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

State Employees' Retirement System
of the State of Illinois

Comparative Schedule of Cash Receipts
For the Years Ended June 30, 2011 and 2010

	2011	2010
Receipts:		
Participant contributions	$ 243,861,823	$ 235,574,760
Employer contributions (net of bond principal and interest transfers)	414,626,625	386,572,210
Pension Contribution Fund	689,122,201	720,745,289
Transfers from Illinois State Board of Investment	857,000,000	600,000,000
Interest income on cash balances	466,694	911,074
Claims receivable payments	6,490,495	6,874,476
Installment payments	4,526,432	4,020,445
Other	304,693	107,455
Total cash receipts, per book	$ 2,216,398,963	$ 1,954,805,709

State Employees' Retirement System of the State of Illinois

Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller

For the Years Ended June 30, 2011 and 2010

	2011	2010
Total cash receipts, per book	$ 2,216,398,963	$ 1,954,805,709
Add (deduct)		
Proceeds from the sale of pension notes transferred to ISBI	(689,122,201)	(720,745,288)
Bond principal and interest payments collected and remitted to the State of Illinois	25,851,137	32,334,954
Interest on cash balances	(466,694)	(911,074)
Cancelled warrants and adjustment deposits classified by the comptroller as reductions of expenditures	(6,289,630)	(6,559,393)
Employer contribution refunds	19,864,832	—
Cash in transit		
Beginning of year	792,433	313,912
End of year	(397,117)	(792,435)
Deposits in transit		
Beginning of year	2,077	82,522
End of year	(133,485)	(2,077)
Deposits remitted to the State Comptroller for order into the State Treasury	$ 1,566,500,315	$ 1,258,526,830
Fund 788	$ 23,575	$ 60,250
Fund 479	1,566,476,740	1,258,466,580
	$ 1,566,500,315	$ 1,258,526,830

State Employees' Retirement System
of the State of Illinois
Analysis of Significant Variations in Expenses
For the Year Ended June 30, 2011

The System's expenditures have been analyzed for fluctuations greater than $1 million and 20% from the previous year.

	2011	2010	Increase	
Pension contributions	$ 36,573,873	$ —	$ 36,573,873	(1)
Prior year pension contributions	2,393,750	—	2,393,750	(2)
Nonrecurring refunds and distributions	38,063,081	15,100,507	22,962,574	(3)

(1) In fiscal year 2011, an appropriation for $857 million was established to provide the Employer retirement contribution for the wages paid from the General Revenue Fund (GRF) of the State of Illinois. The System was instructed to submit two vouchers each month for payment of that particular months' Employer retirement contribution amount. Although the System submitted two vouchers per month for most of the fiscal year, only the very first payment voucher (in the amount of approximately $36.6 million) was actually paid. It was determined that, subsequent to the beginning of the fiscal year, the State of Illinois would issue bonds in order to provide for the Employer retirement contributions due for wages paid from GRF. All of the other vouchers submitted against the appropriated amount were then cancelled. There were no such appropriations in fiscal year 2010.

(2) The Continuing Appropriation amount of approximately $2.4 million was required by state statute. This amount was the "Fiscal Year 2010 Shortfall", as determined using the calculation described in SB1912 (P.A. 96-0045). There were no such appropriations in fiscal year 2010.

(3) The SERS Board originally set the employer contribution rate for FY2011 as 30.253%, during the course of the fiscal year, a legislative change occurred which required the Board to have the employer contribution rate recalculated and recertified. The adjusted rate was 27.988%. This change occurred in January 2011. A calculation of the amount of employer retirement contributions received to date had to be made, and a refund of the excess contributions was done to the various agencies in May 2011 totaling $19,864,838.

State Employees' Retirement System
of the State of Illinois

Analysis of Significant Variations in Cash Receipts
For the Years Ended June 30, 2011

The System's cash receipts have been analyzed for fluctuations greater than $1 million and 20% from the previous year.

	2011	2010	Increase (Decrease)	
Transfers from Illinois State Board of Investment	$ 857,000,000	$ 600,000,000	$ 257,000,000	(1)

(1) The increase in cash transfers from the Illinois State Board of Investment (ISBI), is due to higher benefit payments in FY11 compared to FY10, requiring more available cash. Also, in FY10, there were no transfers required from the ISBI for the months of July and August, as the cash balance on hand was sufficient to provide for the cash flow needs. During FY11 for this same time period (i.e. July and August), the System transferred $140 million (i.e. $70 million in July and August, respectively), to handle the cash flow needs.

State Employees' Retirement System
of the State of Illinois

Schedules of Funding Progress and Employer Contributions
For the Years Ended June 30, 2011 and 2010

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/06	$ 10,899,853,065	$ 20,874,541,910	$ 9,974,688,845	52.2%	$3,572,541,000	279.2%
6/30/07	12,078,908,954	22,280,916,665	10,202,007,711	54.2	3,762,777,000	271.1
6/30/08	10,995,366,485	23,841,280,102	12,845,913,617	46.1	3,967,704,000	323.8
6/30/09	10,999,953,527	25,298,346,092	14,298,392,565	43.5	4,027,263,000	355.0
6/30/10	10,961,540,164	29,309,464,296	18,347,924,132	37.4	4,119,360,842	445.4
6/30/11	11,159,836,617	31,395,007,782	20,235,171,165	35.6	4,211,186,269	480.5

* For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25[(1)]	Percentage Contributed	Annual Required Payroll Contribution per State Statute[(2)]	Total required State Contribution	Percentage Contributed
2006	$ 672,555,569	31.3%	$ 207,814,710	$ 207,814,710	100%
2007	823,802,760	43.6	361,113,709	361,113,709	99
2008	986,410,891	59.6	576,626,422	576,626,422	102
2009	1,003,432,849	77.2	769,851,595	769,851,595	101
2010	1,177,313,343	93.1	1,093,072,413	1,093,072,413	100
2011	1,289,002,005	87.5	1,102,783,348	1,102,783,348	102

(1) This amount includes both payroll and nonpayroll employer required contributions.

(2) Employer required contribution determined in accordance with P.A. 88-0593 and P.A. 94-0004 (for Fiscal Years 2006 and 2007 only). These amounts reflect only payroll required contributions.

State Employees' Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2011 and 2010

Notes to Required Supplementary Information

Valuation date	June 30, 2011
Actuarial cost method	Projected Unit Credit
Amortization method:	
(a) For GASB Statement No. 25 reporting purposes	Level percent of payroll
(b) Per State Statute	15-year phase-in to a level percent of payroll unit a 90% funding level is achieved
Remaining amortization period:	
(a) For GASB Statement No. 25 reporting purposes	30 years, open
(b) Per State Statute	34 years, closed
Asset valuation method	Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
Actuarial assumptions:	
Investment rate of return	7.75 percent
Projected salary increases	1.0 to 5.35 percent, based upon member's age
Assumed inflation rate	3.0 percent
Group size growth rate	0.0 percent
Postretirement increase	Tier 1 – 3.0 percent – compounded Tier 2 – 3.0 percent per year or ½ of the annual CPI increase, whichever is less on the original benefit
Mortality table	Mortality: FY 2011: Post-Retirement Mortality – RP2000 Combined Health mortality table, sex distinct, with rates projected to 2015 with scale aa. No adjustment is made for post-disabled mortality. The table used is a static table with the provision for future mortality improvement in the projection to 2015, which is in sync with the next scheduled experience study. Pre-Retirement Mortality – based on 85% for males and 70% for females of post-retirement mortality. Five percent of deaths amongst active employees is assumed to be in the performance of their duty. FY2010: 1994 Group Annuity Mortality Table for males and females. Five percent of death amongst active employees is assumed to be in the performance of duty.

State Employees' Retirement System
of the State of Illinois
Analysis of Significant Statement of Plan Net Asset Accounts
For the Years Ended June 30, 2011 and 2010

Cash Balances

	2011	2010
State Treasury	$ 54,659,992	$ 49,680,641
Vouchers in transit	(117,224)	(560,609)
Deposit and cash in transit	397,117	792,433
	54,939,885	49,912,465
Petty cash fund	200	200
	$ 54,940,085	$ 49,912,665

The cash balance increased slightly due to an increase in receipts prior to the end of the fiscal year. The timing of receipts, as well as expenses, can fluctuate and small variances in cash balances can occur.

Investments

General Information:

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held 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.

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

State Employees' Retirement System
of the State of Illinois
Analysis of Significant Statement of Plan Net Assets Accounts
For the Years Ended June 30, 2011 and 2010

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2011 and 2010 is summarized as follows:

	2011	2010
Balance at beginning of year, at fair value	$ 9,120,601,694	$ 8,200,755,918
Net cash added (withdrawn) to/from investments	(167,877,799)	120,745,288
	8,952,723,895	8,321,501,206
Investment income		
Interest, dividends and other	256,627,471	235,726,009
Expenses	(35,138,357)	(35,525,015)
	221,489,114	200,200,994
Net appreciation (depreciation) in fair value of investments		
Net realized gain (loss) on sales of investments	309,896,777	168,618,406
Net unrealized gain (loss) on investments	1,398,374,218	430,281,088
	1,708,270,995	598,899,494
Total net investment income	1,929,760,109	799,100,488
Balance at end of year, at fair value	$ 10,882,484,004	$ 9,120,601,694

State Employees' Retirement System of the State of Illinois

Analysis of Contributions Receivable

For the Years Ended June 30, 2011 and 2010

	2011	2010
Participants' contributions	$ 15,561,242	$ 15,308,885
Employing State agencies	18,858,218	17,119,073
Other accounts	6,748,407	6,905,516
	$ 41,167,867	$ 39,333,474

The variance in total receivables from 2010 to 2011 is not considered significant. Total contributions receivable include an allowance for uncollectible accounts of $24,193. Accounts are first analyzed by System personnel for collectability before being sent to the Attorney General's office for a final determination.

State Employees' Retirement System of the State of Illinois

Analysis of Investment Performance (Unaudited)

For the Years Ended June 30, 2011

An analysis of investment performance for the years ended June 30, 2007 through June 30, 2011 is summarized as follows:

	2011	2010	2009	2008	2007
Total return*	21.7%	9.1%	(20.1)%	(6.2)%	17.1%

* Total return is the combined effect of income earned and market appreciation (depreciation).

Analysis of Operations

State Employees' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2011 and 2010

System's Functions and Planning Program

The State Employees' Retirement System of Illinois was established on January 1, 1944 for the purpose of providing an orderly means whereby aged or disabled employees may be retired from active service, without prejudice or hardship, and to enable the employees to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment, thus affecting economy and efficiency in the administration of the State government.

The System is governed by Article 14 of the Illinois Pension Code (Chapter 40 of the Illinois Compiled Statutes). As of June 30, 2011, the System had approximately 59,000 benefit recipients and 66,000 active members.

The State Employees' Retirement System of Illinois is administered by a Board of Trustees of thirteen persons, which includes: a. the Comptroller, who shall be the Chairperson; b. six persons appointed by the Governor with the advice and consent of the Senate who may not be members of the system or hold an elective State office and who shall serve a term of 5 years, except that the terms of the initial appointees under the amendatory act of the 96th General Assembly shall be as follows: 3 for a term of 3 years and 3 for a term of 5 years; c. four active participants of the System having at least 8 years of creditable service, to be elected from the contributing members of the System by the contribution members; and d. two annuitants of the System who have been annuitants for at least one full year, to be elected from and by the annuitants of the System. The administration of the detailed affairs of the System is vested in the Executive Secretary, under the direction of the Board. General policy relating to the administration of the System is stated in the minutes of the Board meetings.

The System also administers the Social Security Enabling Act, Article 21 of the Illinois Pension Code, which makes coverage under the Federal Social Security Program available to employees of the State and its political subdivisions. The purpose of the Social Security Contribution Fund of the System was to collect FICA contributions from employees, employing State agencies and various political subdivisions and remitting these contributions to the Federal government for calendar years prior to 1987. The responsibility of collecting and remitting Social Security contributions to the Federal government was transferred from this office to the Office of the Comptroller effective January 1, 1987. All adjustments for wages paid prior to January 1, 1987 were processed through this office. The Social Security Contribution Fund is an agency fund. The administrative expenses of the fund were appropriated by the General Assembly on a line item basis and, as such, always had a zero fund balance at year end.

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.

State Employees' Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2011 and 2010

Program planning activities of the System are under the direct supervision of the Executive Secretary and involve coordination between the governing Board and other executive staff of the System. The current planning program identifies various operational projects for fiscal year 2011. The planning summary for each project includes the project scope and objectives, implementation phases and timing, resource application and expected benefits. Each project is assigned to a divisional level manager who acts as project leader during all implementation phases of the project. Implementation progress is reported to the Executive Secretary, who in turn reports such progress directly to the System's Board of Trustees.

The operational plan for fiscal year 2011 included the continuation of the modernization efforts including implementation of a new e-mail system, the re-engineering of the attendance system using new technology, the analysis of the benefits of an imaging system and the analysis of the business functions of the active member system for re-engineering.

New projects for fiscal year 2012 include the continuation of the modernization efforts of re-engineering the Active Member Systems and the implementation of an imaging system which will replace the current paper-based member files.

State Employees' Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2011 and 2010

Progress in Funding the System

In August 1994, Senate Bill 533 was signed 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 percent. In addition, the 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 percent funded level is achieved.

The funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This, in effect, removed the appropriation of those funds from the annual budgetary process.

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 was originally to be amortized over ten years. The law, as modified, now requires that, in addition to any employer contributions required above, the State shall pay an amount equal to $70,000,000 for fiscal years 2004 and 2005; and in each fiscal year 2006 through 2015, a level-dollar payment based upon the increase in the present value of future benefits provided by the early retirement incentives amortized at 8.5 percent interest.

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.

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 Bond, Pension Funding Series of June 2003.

In June 2005, Public Act 94-0004 became law. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. This act specified the appropriation amounts for fiscal years 2006 and 2007. The required State contributions for fiscal years 2008 through 2010 will then be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the State is contributing at the required level contribution rate to achieve the financing objective of a 90% funded status by the end of fiscal year 2045.

State Employees' Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2011 and 2010

Public Act 96-0043 became law on July 15, 2009. As required under PA 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation. The method was changed from the market/fair value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year, beginning with FY09, in equal amounts over the ensuing five-year period.

Public Act 96-0889 added a lower tier of benefits for members who first contribute to SERS on or after January 1, 2011. When Public Act 96-1511 was enacted in January 2011, it required the System to assume that the provisions of Public Act 96-0889 were in effect on June 30, 2009 and to recalculate and recertify the fiscal year 2011 state funding requirement. Under this recertification, the fiscal year 2011 state contribution requirement was reduced by $95 million, from $1,193.3 million to $1,098.3 million.

The actuarial accrued liability of the System at June 30, 2011, amounted to approximately $31.4 billion. The actuarial value of assets (at smoothed value) at June 30, 2010 amounted to approximately $11.2 billion. The difference between the actuarial accrued liability and the actuarial value of assets of $20.2 billion reflects the unfunded actuarial accrued liability of the System at June 30, 2011. The System had a funded ratio (at smoothed value) of 35.6% at June 30, 2011.

On June 30, 2011, the market/fair value of assets was $11.0 billion. The difference between the System's 2011 accrued liability and the market value of assets was $20.4 billion and the funded ratio using market/fair value of assets was 34.9. On June 30, 2010, the market/fair value of assets used by the actuaries in the 2010 valuation was $9.2 billion. The difference between the System's 2010 accrued liability and the market/fair value of assets was $20.1 billion and the funded ratio using market/fair value of assets was 31.4%.

The market/fair value of the assets of the fund, that were available for benefits, increased from $9.2 billion as of June 30, 2010 to $11.0 billion as of June 30, 2011. The increase is due to the favorable return on fund assets. The actuarial value of the assets of $11.2 billion at June 30, 2011, is $200 million higher than the market/fair value of the assets due to recognition of 60% of the actuarial loss in fiscal year 2009, 40% of the actuarial gain in fiscal year 2010, and 20% of the actuarial gain in fiscal year 2011.

The Governmental Accounting Standards Board (GASB) has promulgated Statements No. 25 and 27 that mandate, among other things, the use of market or market related (actuarial) asset value. Prior to the valuation as of June 30, 2009, it was agreed that market/fair value, without adjustment, would be used for all actuarial purposes. Under Public Act 96-0043, effective in the June 30, 2009 valuation, the contribution projections would be set based on the actuarial value of assets. Funding status determinations and the Annual Required Contributions (ARC) were calculated based on the actuarial value of assets.

State Employees' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2011 and 2010

State required contributions to the System for the next five fiscal years are noted in the table below.

Year Ended June 30	Required State Contribution (in millions)
2012	$ 1,450.8
2013	1,659.6
2014	1,739.1
2015	1,818.3
2016	1,863.9

The Schedule of Funding Progress (in millions) for fiscal years ending June 30, 2011 and 2010 are noted in the table below.

Actuarial Valuation Date	Actuarial Value of Assets*	Accrued Liability (AAL-Projected Unit Credit)	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered payroll
6/30/10	$ 10,962	$ 29,309	37.4%	$ 18,348	$ 4,119	445.4%
6/30/11	11,160	31,395	35.6	20,235	4,211	480.5

*Five-year smoothing beginning in FY09

The Schedule of Employer Contributions (in millions) for the fiscal years ending June 30, 2011 and 2010 are noted in the table below.

Year Ended June 30	Employer Contributions	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2010	$ 1,095.5	$ 1,177.3	93.1%	$ 1,093.1	100%
2011	1,127.9	1,289.0	87.5	1,102.8	102

The Government Accounting Standards Board (GASB) requires disclosure of the Annual Required Contribution (ARC) under a standard funding methodology. Amounts shown as the ARCs for each year are different from the contributions required by State statute. The cumulative difference between the ARC and the annual required contribution per State statute represents the net pension obligation (NPO). The NPO is $2,131.5 million at June 30, 2011, which is an increase of $198.2 million from the June 30, 2010 NPO of $1,933.3 million.

State Employees' Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2011 and 2010

Rates of Return (Unaudited)

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

At least equal to the assumed actuarial interest rate, currently 7.75% per year.

At least equal to the return of a composite benchmark of market indices in the same proportions as the Board's asset allocation policy targets.

The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 21.7% for fiscal year 2011 compared to 9.1% for fiscal year 2010. The ISBI's total fund performance exceeded the composite benchmark by 2.1% for the year ended June 30, 2011.

State Employees' Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2011 and 2010

System Employees

System Employees' Retirement System Trust Fund

The average number of employees (not including the General Revenue Fund – Social Security Division) during the years ended June 30, 2011 and 2010 is summarized by functional classification as follows:

	2011	2010
Executive and administrative	22	15
Accounting, bookkeeping and clerical	22	28
Other office employees	25	26
Electronic data processing	21	15
Total	90	84

Social Security Contribution Fund

The Social Security Contribution Fund had one employee for both years ended June 30, 2011 and 2010.

Comparison of Administrative Expenses to Total Expenses

	2011	2010
Total expenses		
Benefits	$ 1,492,063,647	$ 1,390,641,192
Refunds of contributions, including transfers to reciprocating systems	37,575,929	15,274,174
Administrative expenses	13,734,961	11,720,755
	$ 1,543,374,537	$ 1,417,636,121
Administrative expenses as a percentage of total expenses	0.9%	0.8%

State Employees' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2011 and 2010

Schedule of Contributions/Deductions and Effect on Investments

Below is a schedule of contributions received by the System and expenditures of the System for benefits and operations and the effect of these transactions on the System's investments.

	2011	2010
Contributions		
Participant Contributions	$ 254,201,379	$ 246,172,971
State of Illinois Employer Contributions	1,127,886,796	1,095,545,856
Total Contributions	1,382,088,175	1,341,718,827
Deductions		
Retirement Benefits	1,329,155,991	1,237,118,008
Survivor Benefits	95,118,041	89,516,980
Disability Benefits	53,056,325	48,312,629
Lump-Sum Death Benefits	14,733,290	15,693,575
Refunds (including transfers to reciprocating systems)	37,575,929	15,274,174
Administrative Expenses	13,734,961	11,720,755
Total Deductions	1,543,374,537	1,417,636,121
Investments Used to Pay Benefits and Expenses	$(161,286,362)	$ (75,917,294)

State Employees' Retirement System of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2011 and 2010

Service Efforts and Accomplishments (Unaudited)

	2011	2010
Membership data		
Coordinated members	84,842	81,673
Noncoordinated members	2,819	2,982
Total members	87,661	84,655
Active members	66,363	64,143
Benefit payments processed		
Recurring		
Retirement annuities	47,002	45,659
Survivors' annuities	10,428	10,325
Disability benefits	2,356	2,408
Total	59,786	58,392
Termination refunds processed	1,816	1,420
Retirement counseling		
Preretirement sessions		
Number of sessions	137	154
Number of attendees	6,612	6,239
Postretirement seminars		
Number of sessions	29	34
Number of attendees	1,084	1,315
Regional and other meetings		
Number of sessions	190	221
Number of attendees	6,858	4,706