

**REPORT DIGEST**

**TEACHERS' RETIREMENT SYSTEM  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1995**

## **INTRODUCTION**

This digest covers our financial audit of the System for the year ended June 30, 1995. A compliance audit covering the year ending June 30, 1995, will be issued at a later date.

## **UNDERFUNDING OF THE SYSTEM**

Net assets available for benefits (at cost) totaled \$12,642 million at June 30, 1995. The pension obligation was valued at \$23,981 million at June 30, 1995. The difference between the pension obligation and the net assets available for benefits of \$11,339 million reflects the unfunded liability of the System at June 30, 1995. The unfunded liability increased approximately \$1,584 million during FY 1995.

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

	(1)	(2)	(3)	(4)	(5)
Year Ended June 30	Net Assets Available for Benefits	Pension Obligation	Percentage Funded (1)/(2)	Unfunded Liability (2)-(1)	Annual Increase in Unfunded Liability
1991	\$ 8,747	\$15,141	57.8%	\$ 6,394	\$ 811
1992	9,812	16,659	58.9%	6,847	453
1993	10,880	18,486	58.9%	7,606	759
1994	11,992	21,747	55.1%	9,755	2,149
1995	12,642	23,981	52.7%	11,339	1,584

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

In Fiscal Year 1990, Public Act 86-0273 became effective. This law provided for a seven year phase-in approach to improve the State's funding of its five State-financed retirement systems. The long term intent was to provide increased contributions sufficient to pay normal costs and amortize the unfunded pension obligation over 40 years after a seven year phase-in period. Even with the passage of this Act the unfunded liability has increased \$5,756 million over the past five years.

In August, 1994, a new State funding law was enacted that will change future State retirement

funding practices beginning in FY 1996. Public Act 88-0593 provides for a stated 50-year funding plan which includes a 15 year phase-in period. State contributions are to be made through a continuing appropriation instead of the annual budgetary process. The law is designed to increase pension funding incrementally.

**AUDITORS' OPINION**

Our auditors state that the June 30, 1995 financial statements of the System are fairly presented in all material respects.

---

WILLIAM G. HOLLAND, Auditor General

WGH:BLB:pp

**SPECIAL ASSISTANT AUDITORS**

KPMG Peat Marwick LLP were our special assistant auditors for this audit.