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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

REPORT DIGEST

5-94-10660-10

GENERAL ASSEMBLY RETIREMENT SYSTEM
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1994

SYNOPSIS

- The unfunded liability of the System for pension benefits was \$69.8 million at June 30, 1994. This unfunded liability increased approximately \$8 million during FY 1994.

INTRODUCTION

This digest covers our financial audit of the System for the year ended June 30, 1994. A compliance audit covering the two years ending June 30, 1994 will be issued separately.

The System shares administrative staff and common administrative expenses with the Judges' Retirement System (JRS). The System reimburses the JRS for 40 percent of the administrative costs incurred.

It should be noted that, pursuant to the Illinois Pension Code, the System's investments are managed by the Illinois State Board of Investment.

UNDERFUNDING OF THE SYSTEM

Net assets available for benefits (at cost) totaled \$40.9 million at June 30, 1994. The pension obligation was valued at \$110.7 million at June 30, 1994. The difference between the pension obligation and the net assets available for benefits of \$69.8 million reflects the unfunded liability of the System at June 30, 1994. The unfunded liability increased approximately \$8 million during FY 1994.

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 presents funding progress for the past five years.

Year Ended June 30	(1) Net Assets Available for Benefits	(2) Pension Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Liability (2)-(1)	(5) Annual Increase In Unfunded Liability
1990	\$33.4	\$ 78.6	42.5 %	\$45.2	\$14
1991	35.1	84.4	41.6 %	49.3	4
1992	37.6	88.5	42.5 %	50.9	2
1993	40.7	102.5	39.7 %	61.8	11
1994	40.9	110.7	36.9 %	69.8	8

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

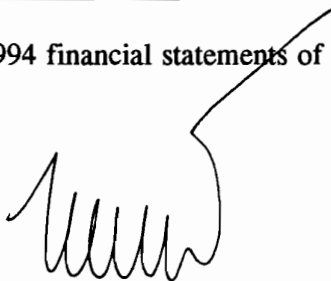
In Fiscal Year 1990, Public Act 86-0273 became effective. This law provided for a seven year phase-in approach to improve the State's funding of its five State-financed retirement systems. The long term intent was to provide increased contributions sufficient to

pay normal costs, and to 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 \$39 million over the past five years.

Subsequent to June 30, 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, 1994 financial statements of the System are fairly presented.

A handwritten signature in black ink, appearing to read 'William G. Holland', is written above a horizontal line. The signature is cursive and somewhat stylized.

WILLIAM G. HOLLAND, Auditor General

WGH:KMA:pp
December 1, 1994

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen were our special assistant auditors for this audit.