REPORT DIGEST

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

FINANCIAL AUDIT
For the Year Ended:
June 30, 1997

Release Date:

State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

Iles Park Plaza
740 E. Ash Street
Springfield, IL 62703
(217) 782-6046

SYNOPSIS

- The unfunded liability of the System was $9,559 million at June 30, 1997. The System's funded ratio at that date was 64.5%.

INTRODUCTION

This digest covers our financial audit of the System for the year ended June 30, 1997. A compliance audit covering the year ending June 30, 1997 is being issued separately.

UNDERFUNDING OF THE SYSTEM

Unfunded liability at June 30, 1997 totals $9,559 million

The actuarial accrued liability was valued at $26,952 million at June 30, 1997. The actuarial value of assets (at market) totaled approximately $17,393 million at June 30, 1997. The difference between the liability and the assets of $9,559 million reflects the unfunded liability of the System at June 30, 1997. The Teachers' Retirement System had a funded ratio of 64.5% at June 30, 1997.

Investments now reported at fair value

The System elected to adopt the provisions of Governmental Accounting Standards Board Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The provisions of this statement require reporting investments at fair value rather than at cost. The adoption of this statement had the cumulative effect of increasing the value of the assets at June 30, 1997 by $2.012 billion.

FY 96 marked 1st year for new state funding law

A new State funding law became effective in FY 1996 changing State retirement funding practices. 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 until a 90% funded level is achieved.

Significant changes in actuarial assumptions

The June 30, 1997 actuarial valuation reflects significant changes in actuarial assumptions utilized in previous valuations. Such changes caused the actuarial accrued liability and the actuarially required contribution rate to decrease by approximately $933 million and .06%, respectively. The actuarially required contribution rate will be effective for fiscal year 1999.

AUDITORS' OPINION

Our auditors state that the June 30, 1997 financial statements of the System are fairly presented.

WILLIAM G. HOLLAND, Auditor General

WGH:RPU:pp

SPECIAL ASSISTANT AUDITORS

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