

State of Illinois
General Assembly Retirement System
Compliance Examination
For the Year Ended June 30, 2010
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

**General Assembly Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2010**

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**General Assembly Retirement System
of the State of Illinois
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The financial statements of the General Assembly Retirement System of Illinois for the year ended June 30, 2010, are published in a separate document and are supported herein by reference.

* Unaudited information is presented for informational purposes only and is not intended to be presented in conformity with accounting principles generally accepted in the United States of America.

General Assembly Retirement System of the State of Illinois

June 30, 2010

System Officials

Executive Secretary
Division Manager
Accounting Division Supervisor
Legal Counsel

Timothy B. Blair
Jayne Waldeck
David M. Richter, CPA
Attorney General's Office

Office Locations

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P.O. Box 19255
Springfield, Illinois 62794-9255

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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: ser@mail.state.il.us

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

April 2, 2011

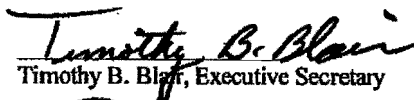
BKD, LLP
Certified Public Accountants
225 North Water Street, Suite 400
Post Office Box 1580
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We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the 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 period ended June 30, 2010. Based on this evaluation, we assert that during the year ended June 30, 2010 the System has materially complied with the assertions below.

- 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.
- 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.
- 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.
- 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.
- 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,

General Assembly Retirement System of Illinois


Timothy B. Blair, Executive Secretary


David M. Richter, CPA, Accounting Division Supervisor

Compliance Report

**General Assembly Retirement System
of the State of Illinois
Compliance Report Summary
June 30, 2010**

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

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

Details of the findings are presented in a separately tabbed report section.

Summary of Findings and Recommendations

Item No.	Page	Description	Finding Type
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Current Findings (*Government Auditing Standards*)

No matters are reportable

Prior Findings Not Repeated

No matters are reportable

Exit Conference

System management reviewed the entire report and waived a formal exit conference.

**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
General Assembly Retirement System of the State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the General Assembly Retirement System of the State of Illinois's (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, 2010. The management of the General Assembly 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 requirements listed in the first paragraph of this report during the year ended June 30, 2010.

Internal Control

The 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 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* 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 with the requirements listed in the first paragraph of this report 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. There were no immaterial findings that have been excluded from this report.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the System as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated February 17, 2011. 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 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 audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements 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 General Assembly 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 2, 2011

**Supplementary Information
for State Compliance Purposes**

**General Assembly Retirement System
of the State of Illinois**
Supplementary Information for State Compliance Purposes
Summary
June 30, 2010

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 Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedules of Revenues and Expenses
 - Comments on Significant Variations Between Certain Revenue Accounts
 - Comparative Schedules of Administrative Expenses
 - Analysis of Significant Variations in Expenses
 - Schedule of Changes in State Property
 - Schedule of Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller
 - Schedules of Funding Progress and Employer Contributions
 - Analysis of Significant Statement of Plan Net Asset Accounts
 - 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
 - Proceeds from General Obligation Bonds, Pension Funding Series June 2003 (Unaudited)
 - 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 audit of the basic financial statements and, in the accountants' 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

General Assembly Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances For the Fourteen Months Ended August 31, 2010

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2010	Lapse Period Expenditures July 1, 2010 through August 31, 2010	Total Expenditures	Balances Lapsed
General Revenue Fund					
State's contribution to the System, regular	\$ —	\$ —	\$ —	\$ —	\$ —
Total all appropriated funds	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ —</u>
Nonappropriated Funds					
Benefits and other nonadministrative expenditures					
Pensions and annuities		16,769,299	—	16,769,299	
Nonrecurring refunds and distributions		222,094	—	222,094	
Refunds, prior calendar year contributions		—	—	—	
Refunds, not elsewhere classified		26,560	—	26,560	
		<u>17,017,953</u>	<u>—</u>	<u>17,017,953</u>	
Administrative expenditures					
Personal services		81,604	37,726	119,330	
Employee retirement pickup		3,266	783	4,049	
Retirement contributions		23,170	10,714	33,884	
Social Security contributions		6,042	2,806	8,848	
Group insurance		14,459	6,699	21,158	
Contractual services		67,160	9,279	76,439	
Travel		1,085	170	1,255	
Purchase of investments		10,396,274	—	10,396,274	
Commodities		117	75	192	
Printing		—	1,670	1,670	
Equipment		—	106	106	
Electronic data processing		1,684	1,158	2,842	
Telecommunications		705	464	1,169	
Automotive		298	223	521	
		<u>10,595,864</u>	<u>71,873</u>	<u>10,667,737</u>	
Total nonappropriated funds		<u>27,613,817</u>	<u>71,873</u>	<u>27,685,690</u>	
Grand total, all Funds		<u>\$ 27,613,817</u>	<u>\$ 71,873</u>	<u>\$ 27,685,690</u>	

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

General Assembly Retirement System of the State of Illinois

Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances For the Years Ended June 30, 2010, 2009 and 2008

	Fiscal Year		
	2010	2009	2008
	P.A. 96-0039	P.A. 95-0734	P.A. 95-0348
General Revenue Fund			
Appropriations (net after transfers)	\$ —	\$ 8,847,000	\$ 6,809,800
Expenditures, State contributions	<u>—</u>	<u>8,847,000</u>	<u>6,809,800</u>
Lapsed balances	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**General Assembly Retirement System
of the State of Illinois**
Comparative Schedules of Revenues and Expenses
For the Years Ended June 30, 2010 and 2009

	2010	2009
Revenue		
Contributions		
Participants	\$ 1,680,603	\$ 1,697,575
Employer	<u>10,411,274</u>	<u>8,856,422</u>
Total contributions	<u>12,091,877</u>	<u>10,553,997</u>
Investments		
Net investment income	1,157,595	1,411,133
Interest earned on cash balances	21,974	67,905
Net appreciation (depreciation) in fair value of investments	<u>3,590,964</u>	<u>(16,141,323)</u>
Total net investment income (loss)	<u>4,770,533</u>	<u>(14,662,285)</u>
Total revenue (loss)	<u>16,862,410</u>	<u>(4,108,288)</u>
Expenses		
Benefits		
Retirement annuities	13,770,131	13,020,316
Survivors' annuities	<u>2,998,901</u>	<u>2,836,903</u>
Total benefits	<u>16,769,032</u>	<u>15,857,219</u>
Refunds of contributions	222,094	71,589
Administrative expenses	<u>272,253</u>	<u>276,722</u>
Total expenses	<u>17,263,379</u>	<u>16,205,530</u>
Revenue under expenses	<u>\$ (400,969)</u>	<u>\$ (20,313,818)</u>

General Assembly Retirement System of the State of Illinois

Comments on Significant Variations Between Certain Revenue Accounts For the Years Ended June 30, 2010 and 2009

	2010	2009	Increase (Decrease)
Contributions from participants	\$ 1,680,603	\$ 1,697,575	\$ (16,972) (1)
Contributions from employer	10,411,274	8,856,422	1,554,852 (2)
Net investment income and interest earned on cash balances	1,179,569	1,479,038	(299,469) (3)
Net appreciation (depreciation) in fair value of investments	3,590,964	(16,141,323)	19,732,287 (3)

(1) This slight decrease is primarily due to a decrease in the amount of optional service purchases during the year ended June 30, 2010.

(2) This increase is due to the State's funding plan (Public Act 88-0593 as modified by Public Act 93-0002 and Public Act 94-0004).

(3) Investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and were maintained in the ISBI Commingled Fund during the year ended June 30, 2010.

These variations are due to the net change in overall market performance, especially in the equity markets. Overall, the ISBI's rate of return increased to a positive 9.1 percent during the fiscal year ended June 30, 2010, from a negative 20.1 percent during the fiscal year ended June 30, 2009.

**General Assembly Retirement System
of the State of Illinois**
Comparative Schedules of Administrative Expenses
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Personal services	\$ 119,330	\$ 117,817
Employee retirement contributions paid by employer	4,049	4,716
Employer retirement contributions	33,883	24,818
Social Security contributions	8,848	8,695
Group insurance	21,158	22,493
Contractual services	76,439	88,043
Travel	1,255	608
Commodities	192	303
Printing	1,670	1,910
Electronic data processing	2,390	2,682
Telecommunications	1,169	999
Automotive	521	648
Depreciation	386	663
Change in accrued compensated absences	<u>963</u>	<u>2,327</u>
Total	<u>\$ 272,253</u>	<u>\$ 276,722</u>

General Assembly Retirement System of the State of Illinois

Analysis of Significant Variations in Expenses For the Years Ended June 30, 2010 and 2009

	2010	2009	Increase (Decrease)
Retirement annuities	\$ 13,770,131	\$ 13,020,316	\$ 749,815 (1)
Survivor annuities	2,998,901	2,836,903	161,998 (2)
Refunds of contributions	222,094	71,589	150,505 (3)

(1) This increase is due to a net increase in the number of annuitants during the year ended June 30, 2010, as well as new annuitants receiving higher monthly benefits than the annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.

(2) Even though the number of survivor annuitants decreased, the amount of survivor annuities increased due to new survivor annuitants receiving higher monthly benefits than the annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.

(3) The increase is primarily due to an increase in the amount of death and termination refunds partially offset by a decrease in the amount of survivor annuity contribution refunds during the year ended June 30, 2010.

General Assembly Retirement System of the State of Illinois

Schedule of Changes in State Property For the Year Ended June 30, 2010

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 21,078	\$ 558	\$ (793)	\$ 20,843
Accumulated depreciation	<u>(19,383)</u>	<u>(386)</u>	<u>793</u>	<u>(18,976)</u>
Equipment, net	<u>\$ 1,695</u>	<u>\$ 172</u>	<u>\$ —</u>	<u>\$ 1,867</u>

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

General Assembly Retirement System of the State of Illinois

Schedule of Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller For the Years Ended June 30, 2010 and 2009

	2010	2009
Total revenue (losses) for the year	\$ 16,862,410	\$ (4,108,288)
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(1,157,595)	(1,411,133)
Net (appreciation) depreciation in fair value of investments reinvested in the ISBI Commingled Fund	(3,590,964)	16,141,323
Receivables (net of refundable annuities)		
Beginning of year	3,774,562	732,349
End of year	(49,593)	(3,774,562)
Net cash transfers from ISBI	11,200,000	9,500,000
Cancellation of annuities	35,339	13,152
Current year miscellaneous income netted against administrative expense	—	50
Total cash receipts	27,074,159	17,092,891
Add (deduct)		
Interest on cash balances	(22,274)	(71,029)
Cancellation of annuities	(35,339)	(13,152)
Cash in transit at end of period	(43,931)	—
Miscellaneous	26,560	9,529
Bond proceeds processed as a fund transfer from the Pension Contribution Fund (#472)	(10,411,274)	—
Deposits remitted to the State Comptroller for order into the State Treasury	\$ 16,587,901	\$ 17,018,239

General Assembly Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2010 and 2009

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)
6/30/05	\$ 83,273,042	\$ 212,905,654	\$ 129,632,612	39.1%	\$12,851,000	1,008.7%
6/30/06	82,254,832	221,713,300	139,458,468	37.1	12,739,000	1,094.7
6/30/07	87,182,175	231,913,988	144,731,813	37.6	12,701,000	1,139.5
6/30/08	75,405,943	235,780,071	160,374,128	32.0	12,871,000	1,246.0
6/30/09	71,573,865	245,226,299	173,652,434	29.2	14,728,000	1,179.1
6/30/10	66,212,244	251,764,834	185,552,590	26.3	14,775,000	1,255.9

* 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	Percentage Contributed	Annual Required Payroll Contribution per State Statute	Percentage Contributed
2005	\$ 8,302,564	56.3%	\$ 4,674,000	100.0%
2006	8,593,196	48.4	4,157,000	100.0
2007	10,125,503	51.6	5,220,300	100.0
2008	10,672,535	63.8	6,809,800	100.0
2009	11,129,440	79.5	8,847,000	100.0
2010	12,064,078	86.3	10,454,000	99.6

**General Assembly Retirement System
of the State of Illinois**
**Schedules of Funding Progress and Employer Contributions
For the Years Ended June 30, 2010 and 2009**

Notes to Required Supplementary Information

Valuation date	June 30, 2010
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 until a 90% funding level is achieved
Remaining amortization period:	
(a) For GASB Statement No. 25 reporting purposes	30 years, open
(b) Per State Statute	35 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	8.0 percent per year, compounded annually
Projected salary increases	5.0 percent per year, compounded annually
Assumed inflation rate	4.0 percent
Group size growth rate	0.0 percent
Postretirement increase	3.0 percent per year, compounded annually
Mortality Rates:	
Active and retired members	The UP-1994 Mortality Table for Males, rated down 2 years
Survivors	The UP-1994 Mortality Table for Females, rated down 1 year

General Assembly Retirement System of the State of Illinois

Analysis of Significant Statement of Plan Net Asset Accounts For the Years Ended June 30, 2010 and 2009

Cash Balances

	2010	2009
Cash in State Treasury	\$ 3,099,436	\$ 3,705,657

The decrease in cash balances from the prior year is mainly due to timing differences in the receipts, expenditures, and transfer of funds from the Illinois State Board of Investment (ISBI).

Receivables

	2010	2009
Employer contributions	\$ —	\$ 3,686,250
Participants' contributions	47,141	85,561
Refundable annuities	422	2,909
Interest on cash balances	2,452	2,752
Total receivables	\$ 50,015	\$ 3,777,472

The decrease in receivables was due to a decrease in employer contributions receivable from the State. No receivables were deemed uncollectible at June 30, 2010.

Investments

General Information:

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly Retirement System of Illinois are managed by the 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.

General Assembly Retirement System of the State of Illinois

Analysis of Significant Statement of Plan Net Asset Accounts For the Years Ended June 30, 2010 and 2009

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2010 and 2009 is summarized as follows:

	2010	2009
Balance at beginning of year, at fair value	\$ 47,693,753	\$ 71,923,943
Net cash transferred from investments	<u>(803,726)</u>	<u>(9,500,000)</u>
	46,890,027	62,423,943
Investment income		
Interest, dividends and other	1,364,709	1,654,178
Expenses	<u>(207,114)</u>	<u>(243,045)</u>
Net investment income	<u>1,157,595</u>	<u>1,411,133</u>
Net appreciation (depreciation) in fair value of investments		
Net unrealized gain (loss) on investments	2,595,581	(8,288,864)
Net realized gain (loss) on sales of investments	<u>995,383</u>	<u>(7,852,459)</u>
Net appreciation (depreciation) in fair value of investments	<u>3,590,964</u>	<u>(16,141,323)</u>
Total net investment income (loss)	<u>4,748,559</u>	<u>(14,730,190)</u>
Balance at end of year, at fair value	<u>\$ 51,638,586</u>	<u>\$ 47,693,753</u>

General Assembly Retirement System of the State of Illinois

Analysis of Investment Performance (Unaudited) For the Years Ended June 30, 2010

An analysis of investment performance for the years ended June 30, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Total return*	9.1%	(20.1)%

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

Analysis of Operations

General Assembly Retirement System of the State of Illinois

Analysis of Operations For the Years Ended June 30, 2010 and 2009

System's Functions and Planning Program

The General Assembly Retirement System, State of Illinois (System) was created to provide retirement annuities, survivors' annuities and other benefits for members and presiding officers of the General Assembly and their survivors. The governing statute was amended in 1975 (P.A. 79-969) to extend coverage to certain elected State executive officers.

The System began operations on November 1, 1947, and is governed by Chapter 40 Act 5, Article 2, of the Illinois Compiled Statutes. It is administered by a Board of Trustees consisting of seven persons, as follows: The President of the Senate, ex officio, or his designee, two members of the Senate appointed by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants.

Senator James Clayborne, Jr. is Chairman of the Board of Trustees (Board) and Mr. Timothy B. Blair is the Executive Secretary of the System. The Executive Secretary is appointed by the Board and is charged with the administration of the detailed affairs of the System.

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.

Currently, the System utilizes a formal planning program which includes, among other things, operational project planning as well as administrative expense budgeting.

During fiscal year 2010, the System evaluated and expanded the services available to members through the System's Internet site, and continued to offer pre-retirement, post-retirement and one-on-one counseling sessions at various locations throughout the State.

During fiscal year 2011, the System will implement the provisions of Senate Bill 1946. This legislation, which Governor Quinn signed into law on April 14, 2010 as Public Act 96-0889, creates a "second tier" of benefits for participants who first become participants after December 31, 2010. The most significant changes include limiting the maximum salary that can be used in the calculation of retirement benefits, changing the definition of final average salary to be the highest salary during the 96 consecutive months of service within the 120 months of service, increasing the minimum retirement age, reducing the benefit accrual formula, and limiting the maximum retirement annuity payable to 60% of the participant's final average salary.

In addition, the System, in conjunction with the State Employees' Retirement System's Information Technology Division (IT), will be modernizing the State Retirement System's business processes and the computer systems that support them. This will be a multi-year effort and will encompass many projects to achieve the modernization. Some of the numerous projects scheduled for fiscal years 2011 and 2012 include: active member system re-engineering, network upgrade, imaging system requirements analysis and procurement, and various software replacements and upgrades.

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The information above constitutes System representations and no attempt has been made to evaluate the technical details of the planning or the System's progress toward implementation.

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 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.

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.

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Public Act 96-0889 added a lower tier of benefits for members who first contribute to GARS 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 \$1.1 million, from \$12.1 million to \$11.0 million.

The actuarial accrued liability of the System at June 30, 2010, amounted to approximately \$251.8 million. The actuarial value of assets (at smoothed value) at June 30, 2010 amounted to approximately \$66.2 million. The difference between the actuarial accrued liability and the actuarial value of assets of \$185.6 million reflects the unfunded actuarial accrued liability of the System at June 30, 2010. The System had a funded ratio (at smoothed value) of 26.3% at June 30, 2010.

On June 30, 2010, the market/fair value of assets was \$54.7 million. The difference between the System's 2010 accrued liability and the market value of assets was \$197.1 million and the funded ratio using market/fair value of assets was 21.8%. On June 30, 2009, the market/fair value of assets used by the actuaries in the 2009 valuation was \$55.1 million. The difference between the System's 2009 accrued liability and the market/fair value of assets was \$189.6 and the funded ratio using market/fair value of assets was 22.4%.

The market/fair value of the assets of the fund, that were available for benefits, decreased from \$55.1 million as of June 30, 2009 to \$54.7 million as of June 30, 2010. The actuarial value of the assets of \$66.2 million at June 30, 2010, is \$11.5 higher than the market/fair value of the assets due to recognition of 40% of the actuarial loss in fiscal year 2009 and 20% of the actuarial gain in fiscal year 2010.

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 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)
2011	\$ 11.0
2012	10.5
2013	11.3
2014	12.1
2015	13.0

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The Schedule of Funding Progress (in millions) for fiscal years ending June 30, 2009 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
6/30/09	\$ 71.6	\$ 245.2	29.2%	\$ 173.6	\$ 14.7	1,179.1%
6/30/10	66.2	251.8	26.3	185.6	14.8	1,255.9

The Schedule of Employer Contributions (in millions) for the fiscal years ending June 30, 2009 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
2009	\$ 8.8	\$ 11.1	79.5%	\$ 8.8	110.0%
2010	10.4	12.1	86.3	10.5	99.6

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 \$61.6 million at June 30, 2010, which is an increase of \$3.0 million from the June 30, 2009 NPO of \$58.6 million.

Rates of Return (Unaudited)

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly 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 8.0% 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 9.1% for fiscal year 2010 compared to (20.1%) for fiscal year 2009. The ISBI's total fund performance lagged the composite benchmark by (1.1%) for the year ended June 30, 2010.

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System Employees

The System does not have any designated employees. However, personal services and all related expenses are shared with the Judges' Retirement System of Illinois as explained below:

Comparison of Administrative Expenses to Total Expenses

	2010	2009
Total expenses		
Benefits	\$ 16,769,032	\$ 15,857,219
Refunds	222,094	71,589
Administrative	272,253	276,722
Total expenses	\$ 17,263,379	\$ 16,205,530
Administrative expenses as a percentage of total expenses	1.6%	1.7%

Administrative expenses are not subject to appropriation control but are controlled by budgets adopted by the Board of Trustees. Administrative expenses common to the General Assembly Retirement System, State of Illinois and Judges' Retirement System of Illinois are paid 30 percent by the General Assembly Retirement System, State of Illinois and 70 percent by the Judges' Retirement System of Illinois. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System of Illinois and the applicable percent is allocated to and reimbursed by the General Assembly Retirement System, State of Illinois.

Proceeds from General Obligation Bonds, Pension Funding Series June 30, 2003 (Unaudited)

Public Act 93-0002 (Act) became effective on April 7, 2003, and authorized the State of Illinois to issue \$10 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The General Assembly Retirement System was a "designated retirement system" for the purpose of this law.

On June 12, 2003, the State of Illinois issued \$10 billion of General Obligation Bonds, Pension Funding Series June 2003. The net bond proceeds were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in the Act.

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The General Assembly Retirement System received their allocation of bond proceeds on July 1, 2003. The General Assembly Retirement System's portion of the allocation was \$27,073,983. The monies were deposited into the Master Trust Account with the Illinois State Board of Investment (Board) on July 2, 2003. The Board initially approved investing the pension bond proceeds in separate index funds. These index funds were subsequently liquidated and combined with the Board's other investments and invested in accordance with the asset allocation policy of the Board during the year ended June 30, 2004. The Board estimates return on the pension bond proceeds earned an annual rate of return of 9.1% during the year ended June 30, 2010, which is the same as the overall return for the Board's investment portfolio.

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.

	<u>2010</u>	<u>2009</u>
Contributions		
Participant Contributions	\$ <u>1,680,603</u>	\$ <u>1,697,575</u>
Employer Contributions		
State of Illinois	10,411,274	8,847,000
Received from Reciprocating Systems	<u>—</u>	<u>9,422</u>
Total Employer Contributions	<u>10,411,274</u>	<u>8,856,422</u>
Total Contributions	<u>12,091,877</u>	<u>10,553,997</u>
Deductions		
Retirement Benefits	13,770,131	13,020,316
Survivor Benefits	2,998,901	2,836,903
Refunds	222,094	71,589
Administrative Expenses	<u>272,253</u>	<u>276,722</u>
Total Deductions	<u>17,263,379</u>	<u>16,205,530</u>
Investments Used to Pay Benefits and Expenses	\$ <u>(5,171,502)</u>	\$ <u>(5,651,533)</u>

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Service Efforts and Accomplishments (Unaudited)

	2010	2009
Membership data		
Active members	182	181
Inactive members	73	78
Total members	255	259
Benefit payments processed		
Recurring		
Retirement annuities (1)	278	275
Survivors' annuities (2)	119	125
Reversionary annuities	1	1
Total	398	401
Termination refunds processed	2	2
Retirement counseling*		
One-on-one counseling programs held	29	24

* Held in conjunction with the Judges' Retirement System of Illinois.

(1) 100 percent of the fiscal year 2010 retirement annuities were processed in less than 30 days.

(2) 100 percent of the fiscal year 2010 survivors' annuities were processed in less than 30 days.