State of Illinois
State Employees' Retirement System

Compliance Examination

For the Year Ended June 30, 2012
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, 2012

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State Employees' Retirement System of the State of Illinois

For the Year Ended June 30, 2012

System Officials

Executive Secretary	Timothy B. Blair
Accounting Division Manager	Nicholas C. Merrill, Jr., CPA
Internal Auditor	Larry L. Stone (until January 15, 2012)
Chief Internal Auditor	Staci A. Crane (effective September 17, 2012)

Office Locations

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

State of Illinois Building
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

May 6, 2013

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, 2012. Based on this evaluation, we assert that during the year ended June 30, 2012 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, 2012

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 Reports
Findings	1	4
Repeated findings	0	0
Prior recommendations implemented or not repeated	4	0

Schedule of Findings

Item No.	Page	Description	Finding Type
		Current Findings (*Government Auditing Standards*)	
12-1	11	Noncompliance with Fiscal Control and Internal Auditing Act	Significant Deficiency

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.

Item No.	Page	Description	Finding Type
12-1	11	Noncompliance with Fiscal Control and Internal Auditing Act	Significant Deficiency and Noncompliance
		Prior Findings Not Repeated	
A.	12	Journal Entry Review	
B.	12	Lack of Submission of Required Report	
C.	12	Disaster Contingency Plan Weakness	
D.	12	Lack of Review of Computer Systems Before Implementation	

State Employees' Retirement System of the State of Illinois

Compliance Report Summary

For the Year Ended June 30, 2012

Exit Conference

System officials waived a formal exit conference in correspondence dated April 23, 2013. Responses to the recommendations were provided by Staci Crane, Chief Internal Auditor, in correspondence dated April 26, 2013.

BKD LLP
CPAs & Advisors

225 N. Water Street, Suite 400
P.O. Box 1580
Decatur, IL 62525-1580
217.429.2411 Fax 217.429.6109 www.bkd.com

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, 2012. The management of the System 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.

Our examination was conducted 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, 2012. 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 item 12-1.

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 in an entity's internal control 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 item 12-1. *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 response to the finding identified in our examination is described in the accompanying schedule of findings. We did not examine the System's response and, accordingly, we express no opinion on the response.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the System as of and for the year ended June 30, 2012 (not presented herein), and have issued our report thereon dated January 9, 2013 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the System. We did not audit the 2012 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which represent 97 percent, 97 percent, and .32 percent, respectively in 2012 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 solely on the report of other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to January 9, 2013. The accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 through 10 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2012.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements for the years ended June 30, 2011, 2010, 2009 and 2008 (not presented herein) and have issued our reports thereon dated January 27, 2012, February 17, 2011, February 2, 2010 and December 7, 2008, respectively, which contained unqualified opinion on the respective financial statements. We did not audit the 2011, 2010, 2009 and 2008 financial statements of Illinois State Board of Investment, an internal investment pool of the State of Illinois, which represented 99, 99, 97 and 97 percent of total assets; 99, 99, 97 and 97 percent of net assets held in trust for pension benefits; and 58, 37, 186 and (446) of total additions to the System, respectively. 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 solely on the report of other auditors. The accompanying supplementary information for the years ended June 30, 2011, 2010, 2009 and 2008 in Schedules 2 and 4 through 10 is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the June 30, 2011, 2010, 2009 and 2008 financial statements. The accompanying supplementary information for the years ended June 30, 2011, 2010, 2009 and 2008 in Schedules 2 and 4 through 10 has been subjected to the auditing procedures applied in the audits of the June 30, 2011, 2010, 2009 and 2008 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2011, 2010, 2009 and 2008 in Schedules 2 and 4 through 10 is fairly stated in all material respects in relation to the financial statements as a whole from which it has been derived.

The System's financial statements for the year ended June 30, 2007 (not presented herein), were audited by other auditors whose report thereon dated February 8, 2008, expressed an unqualified opinion on the respective financial statements. The report of the other auditors dated February 8, 2008, stated that the accompanying supplemental information in Schedule 8 for the year ended June 30, 2007 was subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2007.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance 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 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

May 6, 2013, except for the Supplementary Information for State Compliance purposes, as to which the date is January 9, 2013

225 N. Water Street, Suite 400
P.O. Box 1580
Decatur, IL 62525-1580
217.429.2411 Fax 217.429.6109 www.bkd.com

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, 2012 and have issued our report thereon dated January 9, 2013, 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 as item 12-1, 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 9, 2013

12-1. Finding – Noncompliance with Fiscal Control and Internal Auditing Act

The State Employees' Retirement System (System) was not in compliance with the Fiscal Control and Internal Auditing Act (the Act).

The Internal Auditor position became vacant during January 2012 and a new internal auditor was not hired until the first quarter of fiscal year 2013. The System is required by the Act (30 ILCS 10/2001) to have a full-time program of internal auditing.

The Act (30 ILCS 10/2003) requires the chief executive officer to ensure that internal audits of all major systems of internal control are conducted at least once every two years. As a result of the vacancy only one of the eight internal audits planned for fiscal year 2012 under the Systems current two-year plan for fiscal years 2011-2012 was completed, therefore the System was not in compliance with this provision of the Act.

The System is also required by the Act (30 ILCS 10/1003) to prepare and transmit to the Auditor General a certification that the systems of internal fiscal and administrative controls of the System comply or do not comply with the requirements of the Act. This certification is required by May 1 of each year, and the System did not transmit their certification until August 29, 2012, 120 days late.

According to System officials the System was not able to fill the internal audit position as quickly as they had hoped because of difficulty in finding an appropriate candidate to fill the position.

Failure to comply with the Act increases the risk that fraud, misuse of funds, or internal control weaknesses would not be detected on a timely basis. (Finding Code No. 12-1)

Recommendation

We recommend System management develop a plan to ensure the internal audit function continues in the event the position is left vacant for a period of time.

System Response

The System agrees with this finding. The System will continue to strive to ensure the FCIAA certification be completed and submitted within the timeframes identified. The System has always maintained an Ethics Officer, who receives reports on the potential of ethics violations or suspicion of fraudulent behavior.

State Employees' Retirement System of the State of Illinois

Prior Findings Not Repeated

June 30, 2012

A. Finding – Journal Entry Review

The State Employees' Retirement System (System) did not have a policy or procedure for the review of financial journal entries by a person independent of the person that initiates them. (Finding Code No. 11-1)

During the current year audit, we noted the System developed a policy and procedure for a review of financial journal entries by a person independent of the person that initiates the journal entry. Our sample testing did not detect any exceptions to the new policy and procedure for a person independent of the preparer to review the journal entries.

B. Lack of Submission of Required Report

The State Employees' Retirement System (System) did not file a report to the Governor's Office of Management and Budget (GOMB) required by Executive Order 10-10. (Finding Code No. 11-2)

During the current year engagement, there was no requirement to file a report with GOMB.

C. Disaster Contingency Plan Weakness

The State Employees' Retirement System (System) did not have a current, sufficient or comprehensive plan for recovering its computer environment. (Finding Code No. 11-3)

During the current year engagement, the System had begun development and testing of a disaster contingency plan but it does not comprehensively address their current environment. Therefore we have reported the disaster contingency plan weaknesses in the immaterial findings letter.

D. Lack of Review of Computer Systems Before Implementation

During the prior year engagement, the State Employees' Retirement System's (System) Internal Audit Department did not review its critical new Human Resource and Attendance Systems prior to implementation. (Finding Code No. 11-4)

During the current year engagement, we noted the System has implemented procedures for the Internal Audit Department to perform a review of all new critical systems or major modifications to existing systems prior to implementation.

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, 2012

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 Schedule 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 Operations (Unaudited):

  System's Functions and Planning Program (Unaudited)
  Progress in Funding the System (Unaudited)
  Rates of Return and Analysis of Investment Performance (Unaudited)
  System Employees (Unaudited)
  Comparison of Administrative Expenses to Total Expenses (Unaudited)
  Schedule of Contributions/Deductions and Effect on Investments (Unaudited)
  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 auditors' opinion, it is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived. The accountants' report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

Fiscal Schedules and Analysis

State Employees' Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances
Appropriations for Fiscal Year 2012
Fourteen Months Ended August 31, 2012

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2012	Lapse Period Expenditures July 1, 2012 through August 31, 2012	Total Expenditures	Balances Lapsed
Public Acts 097-0057, 097-0068, 097-0685					
Appropriated Funds					
General Revenue Fund - 0001					
Continuing appropriation for pension contributions	$ 899,504,680	$ 899,504,680	$ —	$ 899,504,680	$ —
Continuing appropriation Fiscal year shortfall	4,630,573	4,630,573	—	4,630,573	—
Personal services	53,200	48,043	2,077	50,120	3,080
Employer retirement contributions paid by employer	40,000	—	26,581	26,581	13,419
Social security contributions	3,800	3,620	157	3,777	23
Contractual services	18,750	12,590	—	12,590	6,160
Travel	1,200	846	—	846	354
Commodities	170	115	—	115	55
Electronic data processing	900	—	—	—	900
Telecommunications	495	344	70	414	81
Subtotal – Fund 0001	904,253,768	904,200,811	28,885	904,229,696	24,072
State Employees' Retirement System Fund – 0479					
Payments to General Obligation Retirement Fund	29,941,271	26,097,796	3,843,475	29,941,271	—
Total – All appropriated funds	$ 934,195,039	$ 930,298,607	$ 3,872,360	$ 934,170,967	$ 24,072
Nonappropriated Funds					
State Employees' Retirement System Fund – 0479					
Personal services	$ —	$ 4,572,958	$ 229,722	$ 4,802,680	$ —
Employee retirement contributions paid by employer	—	28,965	1,245	30,210	—
Retirement contributions	—	1,566,560	78,670	1,645,230	—
Social Security contributions	—	339,484	17,468	356,952	—
Group insurance	—	1,179,927	50,481	1,230,408	—
Contractual services	—	2,276,009	133,783	2,409,792	—
Travel	—	19,208	887	20,095	—
Commodities	—	30,494	173	30,667	—
Printing	—	29,886	10,560	40,446	—
Equipment	—	60,238	5,784	66,022	—
Electronic data processing	—	4,535,147	395,426	4,930,573	—
Telecommunications	—	59,597	20,106	79,703	—
Automotive	—	13,107	2,657	15,764	—
Nonrecurring refunds and distributions	—	15,970,372	—	15,970,372	—

State Employees' Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances

Appropriations for Fiscal Year 2012

Fourteen Months Ended August 31, 2012

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2012	Lapse Period Expenditures July 1, 2012 through August 31, 2012	Total Expenditures	Balances Lapsed
Nonappropriated Funds (continued)					
State Employees' Retirement System Fund – 0479 (continued)					
Pensions, annuities and benefits	$ —	$ 1,603,853,782	$ (619,351)	$ 1,603,234,431	$ —
Permanent improvements	—	15,214	—	15,214	—
Refunds of prior calendar year retirement contributions	—	305,157	—	305,157	—
Refunds, not classified elsewhere	—	24,015,696	(37,111)	23,978,585	—
Subtotal – Fund 0479	—	1,658,871,801	290,500	1,659,162,301	—
State Employee Retirement System Excess Benefit Fund - 0788					
Pensions, annuities and benefits	—	63,559	—	63,559	—
Total nonappropriated funds	$ —	1,658,935,360	290,500	1,659,225,860	$ —
Grand total, all Funds		$ 2,589,233,967	$ 4,162,860	$ 2,593,396,827	

Note: The above data was taken from records 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, 2012, 2011 and 2010

	Fiscal Year		
	2012 P.A. 097-0057, 097,0068, 097-0685	2011 P.A. 096-0956	2010 P.A. 096-0042
Appropriated Funds			
General Revenue Fund – 0001			
General Operations Unit			
Appropriations (net after transfer)	$ 904,253,768	$ 39,063,124	$ 130,800
Expenditures			
Continuing appropriation for pension contributions	899,504,680	36,576,873	—
Continuing appropriation fiscal year shortfall	4,630,573	2,393,750	—
Operational expenses	—	92,494	30,136
Personal services	50,120	—	41,465
Social Security contributions	3,777	—	3,122
Employee retirement contributions paid by employer	26,581	—	—
Contractual services	12,590	—	—
Travel	846	—	—
Commodities	115	—	—
Electronic data processing	—	—	—
Telecommunications	414	—	—
Total expenditures	904,229,696	39,063,117	74,723
Lapsed balances	$ 24,072	$ 7	$ 56,077
General Revenue Fund Total			
Appropriations (net after transfers)	$ 904,253,768	$ 39,063,124	$ 130,800
Total expenditures	904,229,696	39,063,117	74,723
Lapsed balances	$ 24,072	$ 7	$ 56,077
State Employees' Retirement System Fund - 0479			
Appropriations (net after transfers)	$ 29,941,271	$ 24,708,844	$ 25,821,470
Payments to General Obligation Retirement Fund	29,941,271	24,708,844	25,821,470
Total expenditures	29,941,271	24,708,844	25,821,470
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, 2012, 2011 and 2010

	Fiscal Year		
	2012	2011	2010
Grand Total – Appropriated Funds			
Appropriations (net after transfers)	$ 934,195,039	$ 63,771,968	$ 25,952,270
Total expenditures	934,170,967	63,771,961	25,896,193
Lapsed balances	$ 24,072	$ 7	$ 56,077
Nonappropriated Funds			
State Employees' Retirement System Fund – 0479			
Expenditures			
Personal services	$ 4,802,680	$ 4,478,720	$ 4,245,979
Employee retirement contributions paid by employer	30,210	31,159	42,062
Retirement contributions	1,645,230	1,254,741	1,206,740
Social Security contributions	356,952	331,002	314,861
Group insurance	1,230,408	1,071,977	947,163
Contractual services	2,409,792	2,270,500	1,712,429
Travel	20,095	24,079	39,497
Purchase of investments	—	689,122,201	720,745,289
Commodities	30,667	28,416	26,330
Printing	40,446	55,732	48,965
Equipment	66,022	40,025	46,013
Electronic data processing	4,930,573	3,604,444	3,043,027
Telecommunications	79,703	76,492	78,769
Automotive	15,764	14,301	13,801
Nonrecurring refunds and distributions	15,970,372	14,869,044	15,295,373
Pensions, annuities and benefits	1,603,234,431	1,470,756,550	1,368,647,401
Permanent improvements	15,214	104,171	76,328
Refunds of prior calendar year retirement contributions	305,157	219,863	163,197
Refunds, not classified elsewhere	23,978,585	38,063,081	15,100,507
Total expenditures	1,659,162,301	2,226,416,498	2,131,793,731
State Employee Retirement System Excess Benefit Fund – 0788			
Pensions, annuities and benefits	63,559	53,060	41,189
Total nonappropriated expenditures	1,659,225,860	2,226,469,558	2,131,834,920
Grand total, all Funds	$ 2,593,396,827	$ 2,290,241,519	$ 2,157,731,113

State Employees' Retirement System of the State of Illinois

Schedule of Changes in State Property

For the Year Ended June 30, 2012

	Beginning Balance	Additions	Deletions	Ending Balance
State Employees' Retirement System Trust Fund				
Land	$ 655,241	$ —	$ —	$ 655,241
Land improvements	298,979	16,800	—	315,779
Building	3,484,264	15,214	(16,800)	3,482,678
Furniture and equipment	2,278,291	374,495	(140,957)	2,511,829
Total	6,716,775	406,509	(157,757)	6,965,527
Accumulated depreciation	(4,040,427)	(340,998)	139,296	(4,242,129)
Property and equipment – net	$ 2,676,348	$ 65,511	$ (18,461)	$ 2,723,398
Social Security Contribution Fund				
Furniture and Equipment	$ 4,179	$ —	$ —	$ 4,179

This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

State Employees' Retirement System of the State of Illinois

Comparative Schedule of Cash Receipts

For the Years Ended June 30, 2012 and 2011

	2012	2011
Receipts:		
Participant contributions	$ 248,044,784	$ 243,861,823
Employer contributions (net of bond principal and interest transfers)	479,354,208	414,626,625
Pension Contribution Fund	794,090,903	689,122,201
Transfers from Illinois State Board of Investment	212,000,000	857,000,000
Interest income on cash balances	666,229	466,694
Claims receivable payments	5,857,181	6,490,495
Installment payments	4,225,472	4,526,432
Other	132,514	304,693
Total cash receipts, per book	$ 1,744,371,291	$ 2,216,398,963

State Employees' Retirement System of the State of Illinois

Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller

For the Years Ended June 30, 2012 and 2011

	2012	2011
Total cash receipts, per book	$ 1,744,371,291	$ 2,216,398,963
Add (deduct)		
Proceeds from the sale of pension notes transferred to ISBI	—	(689,122,201)
Bond principal and interest payments collected and remitted to the State of Illinois	26,097,796	25,851,137
Interest on cash balances	(666,229)	(466,694)
Cancelled warrants and adjustment deposits classified by the comptroller as reductions of expenditures	(5,618,110)	(6,289,630)
Employer contribution refunds	—	19,864,832
Cash in transit		
Beginning of year	397,117	792,433
End of year	(295,570)	(397,117)
Deposits in transit		
Beginning of year	133,485	2,077
End of year	(241,691)	(133,485)
Deposits remitted to the State Comptroller for order into the State Treasury	$ 1,764,178,089	$ 1,566,500,315
Fund 788	$ 63,330	$ 23,575
Fund 479	1,764,114,759	1,566,476,740
	$ 1,764,178,089	$ 1,566,500,315

State Employees' Retirement System of the State of Illinois

Analysis of Significant Variations in Expenses

For the Year Ended June 30, 2012

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

	2012	2011	Increase (Decrease)	
Pension contributions	$ 899,504,680	$ 36,573,873	$ 862,930,807	(1)
Prior year pension contributions	4,630,573	2,393,750	2,236,823	(2)
Refunds not classified elsewhere	23,978,585	38,063,081	(14,084,496)	(4)
Electronic data processing	4,930,573	3,604,444	1,326,129	(3)
Payments to general obligation retirement fund	29,941,271	24,708,844	5,232,427	(5)
Purchase of investment	—	689,122,201	(689,127,201)	(6)

(1) In fiscal year 2012, an appropriation for $899.5 million was established to provide the employee retirement contribution for wages paid from the General Revenue Fund (GRF) of the State of Illinois. 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.

(2) The continuing appropriation amount of approximately $4.6 million was required by state statute. This amount was the "Fiscal Year Shortfall," as determined using the calculation described in Senate Bill 0335 (P.A. 97-0072).The Continuing Appropriation amount of approximately $2.4 million was required by state statute. This amount was the "Fiscal Year Shortfall", as determined using the calculation described in SB1912 (P.A. 96-0045).

(3) The EDP expenditure line increased by $1.326 million due to several factors: Increased head count, overtime, other payroll related costs (i.e. employer's share of retirement and FICA taxes), and an increase in the State of Illinois payplan accounted for an increase of $796 thousand; equipment purchased increased by $264 thousand; management consulting services increased by $186 thousand; and, computer software purchased increased by $127 thousand. These items accounted for $1.373 million. There were also costs which decreased between the two fiscal years to arrive at the net change identified above.

(4) 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%. 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.

(5) The bond principal and interest contribution rate for FY2012 was 1.938% compared to 1.801% for FY2011. This rate is applied to the non-General Revenue Fund (GRF) wages, which were also higher in FY2012 compared to FY2011.

(6) In fiscal year 2011, SERS received $689 million in proceeds from the sale of General Obligation Bonds from the State of Illinois. There was no sale of bonds for the pension fund in fiscal year 2012.

Schedule 7

State Employees' Retirement System of the State of Illinois

Analysis of Significant Variations in Cash Receipts

For the Years Ended June 30, 2012

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

	2012	2011	Increase (Decrease)
Transfers from Illinois State Board of Investment	$ 212,000,000	$ 857,000,000	$ (645,000,000) (1)

(1) The decrease in cash transfers from the Illinois State Board of Investment (ISBI), is due to the State of Illinois establishing an appropriation in the amount of $899.5 million for the employee retirement contribution for wages paid from the General Revenue Fund (GRF) of the State of Illinois. This appropriation provided sufficient cash inflow that no transfers from the Illinois State Board of Investment were required.

Schedule 8

State Employees' Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2012 and 2011

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)
6/30/07	$ 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
6/30/12	11,477,264,329	33,091,186,194	21,613,921,865	34.7	4,329,083,716	499.3

* 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
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
2012	1,614,834,808	86.2	1,396,216,080	1,396,216,080	100

(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 Year 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, 2012 and 2011

Notes to Required Supplementary Information

Valuation date	June 30, 2012
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	33 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 5.87 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.

State Employees' Retirement System of the State of Illinois

Analysis of Significant Statement of Plan Net Asset Accounts
For the Years Ended June 30, 2012 and 2011

Cash Balances

	2012	2011
State Treasury	$ 134,171,288	$ 54,659,992
Vouchers in transit	(508,015)	(117,224)
Deposit and cash in transit	295,570	397,117
	133,958,843	54,939,885
Petty cash fund	200	200
	$ 133,959,043	$ 54,940,085

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, 2012 and 2011

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2012 and 2011 is summarized as follows:

	2012	2011
Balance at beginning of year, at fair value	$ 10,882,484,004	$ 9,120,601,694
Net cash added (withdrawn) to/from investments	(212,000,000)	(167,877,799)
	10,670,484,004	8,952,723,895
Investment income		
Interest, dividends and other	288,329,452	256,627,471
Expenses	(34,422,808)	(35,138,357)
	253,906,644	221,489,114
Net appreciation (depreciation) in fair value of investments		
Net realized gain (loss) on sales of investments	318,388,993	309,896,777
Net unrealized gain (loss) on investments	(567,007,380)	1,398,374,218
	(248,618,387)	1,708,270,995
Total net investment income	5,288,257	1,929,760,109
Balance at end of year, at fair value	$ 10,675,772,261	$ 10,882,484,004

State Employees' Retirement System of the State of Illinois

Analysis of Contributions Receivable

For the Years Ended June 30, 2012 and 2011

	2012	2011
Participants' contributions	$ 15,059,723	$ 15,561,242
Employing State agencies	139,273,104	18,858,218
Other accounts	6,474,247	6,748,407
	$ 160,807,074	$ 41,167,867

The variance in total receivables from 2011 to 2012 is due to the establishment of an appropriation for the employer retirement contributions for wages paid from the General Revenue Fund (GRF) of the State of Illinois in the amount of $899.5 million, including the remaining unpaid portion as of June 30, 2012 of $112.4 million. There was also an increase of $7.7 million of non-GRF payroll employee retirement contributions due. 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.

Analysis of Operations

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2012 and 2011

System's Functions and Planning Program (Unaudited)

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, 2012, the System had approximately 63,000 active members and benefit recipients, respectively.

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 (Unaudited)
For the Years Ended June 30, 2012 and 2011

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 2012. 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 2012 included 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.

New projects for fiscal year 2013 include continuing modernization efforts, implementation of a new Active Member Inquiry System, re-engineering of accounting and financial processes, establishment of a web presence to allow member services to be made available through the internet and the completion of the conversion of over eight million member file documents to the imaging system.

State Employees' Retirement System
of the State of Illinois
Analysis of Operations (Unaudited)
For the Years Ended June 30, 2012 and 2011

Progress in Funding the System (Unaudited)

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 (Unaudited)

For the Years Ended June 30, 2012 and 2011

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, 2012, amounted to approximately $33.1 billion. The actuarial value of assets (at smoothed value) at June 30, 2011 amounted to approximately $11.5 billion. The difference between the actuarial accrued liability and the actuarial value of assets of $21.6 billion reflects the unfunded actuarial accrued liability of the System at June 30, 2012. The System had a funded ratio (at smoothed value) of 34.7% at June 30, 2012.

On June 30, 2012, the market/fair value of assets was $11.0 billion. The difference between the System's 2012 accrued liability and the market value of assets was $22.1 billion and the funded ratio using market/fair value of assets was 33.1%. On June 30, 2011, the market/fair value of assets used by the actuaries in the 2011 valuation was $11.0 billion. The difference between the System's 2010 accrued liability and the market/fair value of assets was $20.4 billion and the funded ratio using market/fair value of assets was 34.9%.

The market/fair value of the assets of the fund, that were available for benefits, remained the same at $11.0 billion from June 30, 2011 to June 30, 2012. This is due to the negligible return on fund assets. The actuarial value of the assets of $11.5 billion at June 30, 2012, is $300 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 (Unaudited)
For the Years Ended June 30, 2012 and 2011

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)
2013	$ 1,659.6
2014	1,743.9
2015	1,837.8
2016	1,896.7
2017	1,957.2

The Schedule of Funding Progress (in millions) for fiscal years ending June 30, 2012 and 2011 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
6/30/11	$ 11,160	$ 31,395	35.6%	$ 20,235	$ 4,211	480.5%
6/30/12	11,477	33,091	34.7	21,614	4,329	499.3

*Five-year smoothing beginning in FY09

The Schedule of Employer Contributions (in millions) for the fiscal years ending June 30, 2012 and 2011 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
2011	$ 1,127.9	$ 1,289.0	87.5%	$ 1,102.8	102.0%
2012	1,391.4	1,614.8	86.2	1,396.2	99.7

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 $2,387.9 million at June 30, 2012, which is an increase of $256.4 million from the June 30, 2011 NPO of $2,131.5 million.

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2012 and 2011

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 .1% for fiscal year 2012 compared to 21.7% for fiscal year 2011. The ISBI's total fund performance was less than the composite benchmark by .9% for the year ended June 30, 2012.

Analysis of Investment Performance (Unaudited)

An analysis of investment performance for the years ended June 30, 2008 through June 30, 2012 is summarized as follows:

	2012	2011	2010	2009	2008
Total return*	0.1%	21.7%	9.1%	(20.1)%	(6.2)%

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

State Employees' Retirement System
of the State of Illinois

Analysis of Operations (Unaudited)
For the Years Ended June 30, 2012, 2011 and 2010

System Employees (Unaudited)

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, 2012, 2011 and 2010 is summarized by functional classification as follows:

	2012	2011	2010
Executive and administrative	21	22	15
Accounting, bookkeeping and clerical	28	22	28
Other office employees	18	25	26
Electronic data processing	20	21	15
Total	87	90	84

Social Security Contribution Fund

The Social Security Contribution Fund had one employee for the years ended June 30, 2012, 2011 and 2010.

Comparison of Administrative Expenses to Total Expenses (Unaudited)

	2012	2011	2010
Total expenses			
Benefits	$ 1,627,373,601	$ 1,492,063,647	$ 1,390,641,192
Refunds of contributions, including transfers to reciprocating systems	23,500,325	37,575,929	15,274,174
Administrative expenses	15,705,561	13,734,961	11,720,755
	$ 1,666,579,487	$ 1,543,374,537	$ 1,417,636,121
Administrative expenses as a percentage of total expenses	0.9%	0.9%	0.8%

State Employees' Retirement System
of the State of Illinois
Analysis of Operations (Unaudited)
For the Years Ended June 30, 2012, 2011 and 2010

Schedule of Contributions/Deductions and Effect on Investments (Unaudited)

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.

	2012	2011	2010
Contributions			
Participant Contributions	$ 259,122,881	$ 254,201,379	$ 246,172,971
State of Illinois Employer Contributions	1,391,416,375	1,127,886,796	1,095,545,856
Total Contributions	1,650,539,256	1,382,088,175	1,341,718,827
Deductions			
Retirement Benefits	1,454,910,158	1,329,155,991	1,237,118,008
Survivor Benefits	101,136,325	95,118,041	89,516,980
Disability Benefits	56,098,869	53,056,325	48,312,629
Lump-Sum Death Benefits	15,228,249	14,733,290	15,693,575
Refunds (including transfers to reciprocating systems)	23,500,325	37,575,929	15,274,174
Administrative Expenses	15,705,561	13,734,961	11,720,755
Total Deductions	1,666,579,487	1,543,374,537	1,417,636,121
Investments Used to Pay Benefits and Expenses	$ (16,040,231)	$ (161,286,362)	$ (75,917,294)

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2012, 2011 and 2010

Service Efforts and Accomplishments (Unaudited)

	2012	2011	2010
Membership data			
Coordinated members	82,689	84,842	81,673
Noncoordinated members	2,684	2,819	2,982
Total members	85,373	87,661	84,655
Active members	62,732	66,363	64,143
Benefit payments processed			
Recurring			
Retirement annuities	50,000	47,002	45,659
Survivors' annuities	10,502	10,428	10,325
Disability benefits	2,286	2,356	2,408
Total	62,788	59,786	58,392
Termination refunds processed	1,964	1,816	1,420
Retirement counseling			
Preretirement sessions			
Number of sessions	126	137	189
Number of attendees	5,624	6,612	7,620
Postretirement seminars			
Number of sessions	29	29	34
Number of attendees	1,264	1,084	1,315
Regional and other meetings			
Number of sessions	33	67	221
Number of attendees	1,563	6,735	5,582
Retirement coordinator site visits	190	93	167
One-on-one meetings	4,954	2,995	381