REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL AUDIT
For the Year Ended:
June 30, 1997

Release Date:

State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The unfunded liability of the System was $1,500 million at June 30, 1997. The System's funded ratio at that date was 80.1%.

INTRODUCTION

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

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

UNDERFUNDING OF THE SYSTEM

Unfunded Liability at June 30, 1997 Totals $1,500 million

The actuarial accrued liability was valued at $7,548 million at June 30, 1997. The actuarial value of assets (at market) totaled approximately $6,048 million at June 30, 1997. The difference between the liability and the assets of $1,500 million reflects the unfunded liability of the System at June 30, 1997. The State Employees' Retirement System had a funded ratio of 80.1% at June 30, 1997.

Investments now reported at fair value

Effective July 1, 1996, the System elected to adopt the provisions of Governmental Accounting Standards Board Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The provisions of this statement require reporting investments at fair value rather than at cost. The adoption of this statement had the cumulative effect of increasing the value of the assets at June 30, 1997 by $1.2 billion.

FY 96 Marked 1st Year for New State Funding Law

A new State funding law became effective in FY 1996 changing State retirement funding practices. Public Act 88-0593 provides for a stated 50-year funding plan which includes a 15 year phase-in period. State contributions are to be made through a continuing appropriation instead of the annual budgetary process. The law is designed to increase pension funding incrementally until a 90% funded level is achieved.

Significant changes in actuarial assumptions

The June 30, 1997 actuarial valuation reflects significant changes in actuarial assumptions utilized in previous valuations. Such changes had the effect of decreasing the actuarial liability and the related unfunded actuarial liability by approximately $380 million and were primarily the result of adjustments to expected salary increases and investment returns.

SUBSEQUENT EVENT

New benefit formula effective January 1, 1998

On July 15, 1997, the Governor signed Public Act 90-0065 which contained numerous provisions affecting the System. The most significant change involves the System's transition from a step rate retirement benefit formula to a flat rate retirement benefit formula covering nearly 62,000 members of the System. The increased retirement benefit formula is applicable to all eligible members with a retirement effective date on and after January 1, 1998. The System has estimated the impact of legislation signed into law subsequent to June 30, 1997 to increase the System's actuarial liability by approximately $1.1 billion.

AUDITORS' OPINION

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

WILLIAM G. HOLLAND, Auditor General

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SPECIAL ASSISTANT AUDITORS

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