
Chapter One

AUDITOR GENERAL'S SUMMARY

REPORT CONCLUSIONS

On June 18, 2012, Public Act 097-0694 was signed into law, which directed the Auditor General to contract with or hire an actuary to serve as the State Actuary. Cheiron was selected as the State Actuary. The Public Act directed the State Actuary to:

- Review assumptions and valuations prepared by actuaries retained by the boards of trustees of the State-funded retirement systems;
- Issue preliminary reports to the boards of trustees of the State-funded retirement systems concerning proposed certifications of required State contributions submitted to the State Actuary by those boards; and
- Identify recommended changes to actuarial assumptions that the boards must consider before finalizing their certifications of the required State contributions.

On August 31, 2017, Public Act 100-0465 was signed into law, which added a sixth retirement system to be reviewed by the State Actuary. The Illinois Pension Code was revised to require the Chicago Teachers' Pension Fund (CTPF) to submit information to the State Actuary similar to the requirement for the other State-funded retirement systems.

Review of Actuarial Assumptions

Cheiron reviewed the actuarial assumptions used in each of the six systems' actuarial valuations for the year ended June 30, 2020, and **concluded that they generally were reasonable. Cheiron did not recommend any changes to the assumptions used in the June 30, 2020 actuarial valuations.**

The combined total of the required Fiscal Year 2022 State contribution for the six retirement systems was \$10,716,147,973, **an increase of \$0.8 billion** over the previous year. Cheiron verified the arithmetic calculations made by the systems' actuaries to develop the required State contribution and reviewed the assumptions on which it was based.

Additional Disclosures and Changes for Future Valuations

Cheiron made recommendations for additional disclosures for the 2020 valuations and recommended changes for future valuations. Recommendations included the following:

- The Boards of SERS, JRS, and GARS should periodically retain the services of an independent actuary to conduct a full scope actuarial audit. Such an audit should fully replicate the original actuarial valuation, based on the same census data, assumptions, and actuarial methods used by the System's actuary.

- Cheiron recommends the Boards continue to annually review the economic assumptions (interest rate and inflation) prior to commencing the valuation work and adjust assumptions accordingly. All of the systems complied with this recommendation prior to conducting the 2020 actuarial valuations.
- Cheiron assessed compliance with both ASOP 51 (assessment and disclosure of risk) and ASOP 56 (modeling). Cheiron made recommendations to improve the disclosures related to both standards.

State Mandated Funding Method

The Illinois Pension Code (for TRS, SURS, SERS, JRS, and GARS) establishes a method that does not adequately fund the systems, back loading contributions and targeting the accumulation of assets equal to 90% of the actuarial liability in the year 2045. This contribution level does not conform to generally accepted actuarial principles and practices. Generally accepted actuarial funding methods target the accumulation of assets equal to 100% of the actuarial liability, not 90%. In addition, the State mandated method produces a contribution that currently results in an expected increase in the unfunded actuarial liabilities if all assumptions are met. Making adequate contributions in the future to fully fund the systems will be challenging. However, Cheiron continues to recommend that the funding method be changed to fully fund plan benefits.

According to the systems' 2020 actuarial valuation reports, the funded ratio of the retirement systems ranged from 46.7% (CTPF) to 17.1% (GARS), based on the actuarial value of assets as a ratio to the actuarial liability. If there is a significant market downturn, the unfunded actuarial liability and the required State contribution rate could both increase significantly, putting the sustainability of the systems further into question. Cheiron continues to recommend the systems include stress testing within the valuation reports to better understand these risks.