REPORT DIGEST

TEACHERS' RETIREMENT SYSTEM
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1994

INTRODUCTION

This digest covers our financial audit of the System for the year ended June 30, 1994. A compliance audit covering the two years ending June 30, 1994, will be issued at a later date.

UNDERFUNDING OF THE SYSTEM

Net assets available for benefits (at cost) totaled $11,992 million at June 30, 1994. The pension obligation was valued at $21,747 million at June 30, 1994. The difference between the pension obligation and the net assets available for benefits of $9,755 million reflects the unfunded liability of the System at June 30, 1994. The unfunded liability increased approximately $2,149 million during FY 1994.

An analysis of dollar amounts of net assets available for benefits, pension obligation, and unfunded liability should not be viewed in isolation. Expressing the net assets available for benefits as a percentage of the pension obligation provides one indication of funding status. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. The following chart gives a listing of funding progress for the past five years.

Year Ended June 30	(1) Net Assets Available for Benefits	(2) Pension Obligation	(3) Percentage Funded (1)/(2)	(4) Unfunded Liability (2)-(1)	(5) Annual Increase in Unfunded Liability
1990	$ 8,080	$13,663	59.1%	$5,583	$ 941
1991	8,747	15,141	57.8%	6,394	811
1992	9,812	16,659	58.9%	6,847	453
1993	10,880	18,486	58.9%	7,606	759
1994	11,992	21,747	55.1%	9,755	2,149

NOTE: Amounts in chart are shown in millions of dollars.

In Fiscal Year 1990, Public Act 86-0273 became effective. This law provided for a seven year phase-in approach to improve the State's funding of its five State-financed retirement systems. The long term intent was to provide increased contributions sufficient to pay normal costs and amortize the unfunded pension obligation over 40 years after a seven year phase-in period. Even with the passage of this Act the unfunded liability has increased $5,113 million over the past five years.

Subsequent to June 30, 1994, a new State funding law was enacted that will change future State retirement funding practices beginning in FY 1996. 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.

The annual increase in the unfunded liability in FY 94 of $2,149 million represents a significant growth when compared to prior year increases. Part of this rise is attributed to the fact that TRS adopted new assumptions for 1994 actuarial purposes. Specifically, additional actuarial assumptions regarding factors which had not previously been measured such as severance pay, unused sick leave and optional service were adopted. These new assumptions added $772.1 million to the FY 94 unfunded pension benefit obligation and are identified separately in the reconciliation table shown in Note D to the financial statements (pages 8 and 9). Further, the new assumptions were used to calculate the 1996 employer contribution requirements under the State funding law which will be effective July 1, 1995.

AUDITORS' OPINION

Our auditors state that the June 30, 1994 financial statements of the System are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

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SPECIAL ASSISTANT AUDITORS

Arthur Andersen LLP were our special assistant auditors for this audit.