State of Illinois
General Assembly Retirement System

Compliance Examination

For the Year Ended June 30, 2009
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

BKD LLP
CPAs & Advisors

General Assembly Retirement System of the State of Illinois

Compliance Examination

For the Year Ended June 30, 2009

Contents

General Assembly Retirement System of the State of Illinois

Compliance Examination

For the Year Ended June 30, 2009

Continued

The financial statements of the General Assembly Retirement System of Illinois for the year ended June 30, 2009, 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, 2009

System Officials

Acting Executive Secretary	Timothy B. Blair
Deputy Director	Position vacant
Accounting Division Supervisor	David M. Richter, CPA
Legal Counsel	Attorney General's Office

Office Locations

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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: ser@mail.state.il.us
2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255

April 6, 2010

BKD, LLP
Certified Public Accountants
225 North Water Street, Suite 400
Post Office Box 1580
Decatur, IL 62525-1580

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, 2009. Based on this evaluation, we assert that during the year ended June 30, 2009 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,

General Assembly Retirement System of Illinois

Timothy B. Blair
Timothy B. Blair, Acting Executive Secretary

David M. Richter
David M. Richter, CPA, Accounting Division Supervisor

Printed on Recycled Paper

Compliance Report

General Assembly Retirement System
of the State of Illinois
Compliance Report Summary
June 30, 2009

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	—	1
Repeated findings	—	—
Prior recommendations implemented or not repeated	1	1

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

Summary of Findings and Recommendations

Item No.	Page	Description	Finding Type
		Current Findings (*Government Auditing Standards*)	
		No matters are reportable	
		Prior Findings Not Repeated	
A	8	Journal Entry Review	

Exit Conference

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

BKD LLP
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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, 2009. 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, 2009.

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, 2009 and 2008, and have issued our report thereon dated February 2, 2010. 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 6, 2010

General Assembly Retirement System of the State of Illinois

Schedule of Findings

June 30, 2009

Current Findings

No matters are reportable.

General Assembly Retirement System of the State of Illinois

Schedule of Findings

June 30, 2009

Prior Findings Not Repeated

A. Finding – Journal Entry Review

During the prior audit, we noted the System did not have a process for review of financial journal entries by a person independent of the person that initiates them. (Finding Code No. 08-1)

During the current audit, we noted the System implemented a process to have all financial journal entries reviewed by an independent person.

Supplementary Information for State Compliance Purposes

General Assembly Retirement System of the State of Illinois

Supplementary Information for State Compliance Purposes

Summary

June 30, 2009

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, 2009

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2009	Lapse Period Expenditures July 1, 2009 through August 31, 2009	Total Expenditures	Balances Lapsed
General Revenue Fund					
State's contribution to the System, regular (Public Act 95-0734)	$ 8,847,000	$ 8,847,000	$ —	$ 8,847,000	$ —
Total all appropriated funds	$ 8,847,000	8,847,000	—	8,847,000	$ —
Nonappropriated Funds					
Benefits and other nonadministrative expenditures					
Pensions and annuities		15,863,752	—	15,863,752	
Nonrecurring refunds and distributions		70,529	—	70,529	
Refunds, prior calendar year contributions		1,061	—	1,061	
Refunds, not elsewhere classified		9,529	—	9,529	
		15,944,871	—	15,944,871	
Administrative expenditures					
Personal services		83,730	34,087	117,817	
Employee retirement pickup		3,352	1,364	4,716	
Retirement contributions		17,640	7,178	24,818	
Social Security contributions		6,174	2,521	8,695	
Group insurance		16,143	6,350	22,493	
Contractual services		77,319	10,774	88,093	
Travel		467	141	608	
Purchase of investments		—	—	—	
Commodities		90	213	303	
Printing		94	1,815	1,909	
Equipment		—	230	230	
Electronic data processing		1,421	1,261	2,682	
Telecommunications		662	337	999	
Automotive		356	292	648	
		207,448	66,563	274,011	
Total nonappropriated funds		16,152,319	66,563	16,218,882	
Grand total, all Funds		$ 24,999,319	$ 66,563	$ 25,065,882	

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, 2009, 2008 and 2007

	Fiscal Year		
	2009 P.A. 95-0734	2008 P.A. 95-0348	2007 P.A. 94-0798
General Revenue Fund			
Appropriations (net after transfers)	$ 8,847,000	$ 6,809,800	$ 5,220,300
Expenditures, State contributions	8,847,000	6,809,800	5,220,300
Lapsed balances	$ —	$ —	$ —

General Assembly Retirement System of the State of Illinois

Comparative Schedules of Revenues and Expenses

For the Years Ended June 30, 2009 and 2008

	2009	2008
Revenue		
Contributions		
Participants	$ 1,697,575	$ 1,772,860
Employer	8,856,422	6,809,800
Total contributions	10,553,997	8,582,660
Investments		
Net investment income	1,411,133	1,893,640
Interest earned on cash balances	67,905	132,702
Net appreciation (depreciation) in fair value of investments	(16,141,323)	(6,734,639)
Total net investment income (loss)	(14,662,285)	(4,708,297)
Total revenue	(4,108,288)	3,874,363
Expenses		
Benefits		
Retirement annuities	13,020,316	12,653,183
Survivors' annuities	2,836,903	2,605,438
Total benefits	15,857,219	15,258,621
Refunds of contributions	71,589	147,804
Administrative expenses	276,722	244,170
Total expenses	16,205,530	15,650,595
Revenue over (under) expenses	$ (20,313,818)	$ (11,776,232)

General Assembly Retirement System
of the State of Illinois
Comments on Significant Variations Between Certain Revenue Accounts
For the Years Ended June 30, 2009 and 2008

	2009	2008	Increase (Decrease)	
Contributions from participants	$ 1,697,575	$ 1,772,860	$ (75,285)	(1)
Contributions from employer	8,856,422	6,809,800	2,046,622	(2)
Net investment income and interest earned on cash balances	1,479,038	2,026,342	(547,304)	(3)
Net depreciation in fair value of investments	(16,141,323)	(6,734,639)	(9,406,684)	(3)

(1) This decrease is primarily due to a decrease in the amount of optional service purchases during the year ended June 30, 2009.

(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, 2009.

These variations are due to the net change in overall market performance, especially in the equity markets. Overall, the ISBI's rate of return decreased to a negative 20.1 percent during the fiscal year ended June 30, 2009, from a negative 6.2 percent during the fiscal year ended June 30, 2008.

General Assembly Retirement System of the State of Illinois

Comparative Schedules of Administrative Expenses

For the Years Ended June 30, 2009 and 2008

	2009	2008
Personal services	$ 117,817	$ 107,733
Employee retirement contributions paid by employer	4,716	4,314
Employer retirement contributions	24,818	17,862
Social Security contributions	8,695	7,982
Group insurance	22,493	22,627
Contractual services	88,043	71,960
Travel	608	830
Commodities	303	218
Printing	1,910	2,097
Electronic data processing	2,682	4,313
Telecommunications	999	982
Automotive	648	450
Depreciation	663	880
Change in accrued compensated absences	2,327	1,922
Total	$ 276,722	$ 244,170

General Assembly Retirement System of the State of Illinois

Analysis of Significant Variations in Expenses

For the Years Ended June 30, 2009 and 2008

	2009	2008	Increase (Decrease)	
Retirement annuities	$ 13,020,316	$ 12,653,183	$ 367,133	(1)
Survivor annuities	2,836,903	2,605,438	231,465	(2)
Refunds of contributions	71,589	147,804	(76,215)	(3)

(1) This increase is due to a net increase in the number of annuitants during the year ended June 30, 2009, 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 remained the same, 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 decrease is primarily due to a decrease in the amount of death and termination refunds during the year ended June 30, 2009.

General Assembly Retirement System of the State of Illinois

Schedule of Changes in State Property

For the Year Ended June 30, 2009

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 20,848	$ 230	$ —	$ 21,078
Accumulated depreciation	(18,720)	(663)	—	(19,383)
Equipment, net	$ 2,128	$ (433)	$ —	$ 1,695

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, 2009 and 2008

	2009	2008
Total revenue for the year	$ (4,108,288)	$ 3,874,363
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(1,411,133)	(1,893,640)
Net (appreciation) depreciation in fair value of investments reinvested in the ISBI Commingled Fund	16,141,323	6,734,639
Receivables (net of refundable annuities)		
Beginning of year	732,349	145,553
End of year	(3,774,562)	(732,349)
Net cash transfers from ISBI	9,500,000	7,100,000
Cancellation of annuities	13,152	3,508
Current year miscellaneous income netted against administrative expense	50	86
Total cash receipts	17,092,891	15,232,160
Add (deduct)		
Interest on cash balances	(71,029)	(138,923)
Cancellation of annuities	(13,152)	(3,508)
Miscellaneous	9,529	—
Deposits remitted to the State Comptroller for order into the State Treasury	$ 17,018,239	$ 15,089,729

General Assembly Retirement System
of the State of Illinois
Schedules of Funding Progress and Employer Contributions
For the Years Ended June 30, 2009 and 2008

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)
6/30/04	$ 83,208,002	$ 207,592,692	$ 124,384,690	40.1%	$12,993,000	957.3%
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

* 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
2004	$ 8,894,016	65.1%	$ 5,790,000	100.0% (1)
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

(1) This percentage excludes the additional employer contributions received from the sale of General Obligation bonds by the State of Illinois. These proceeds were not part of the current fiscal year required contributions.

General Assembly Retirement System
of the State of Illinois
Schedules of Funding Progress and Employer Contributions
For the Years Ended June 30, 2009 and 2008

Notes to Required Supplementary Information

Valuation date	June 30, 2009
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	36 year, 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, 2009 and 2008

Cash Balances

	2009	2008
Cash in State Treasury	$ 3,705,657	$ 2,823,304

The increase 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

	2009	2008
Employer contributions	$ 3,686,250	$ 567,483
Participants' contributions	85,561	158,990
Refundable annuities	2,909	—
Interest on cash balances	2,752	5,876
Total receivables	$ 3,777,472	$ 732,349

The increase in receivables was due to an increase in employer contributions receivable from the State. No receivables were deemed uncollectible at June 30, 2009.

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, 2009 and 2008

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2009 and 2008 is summarized as follows:

	2009	2008
Balance at beginning of year, at fair value	$ 71,923,943	$ 83,864,942
Net cash transferred (from) investments	(9,500,000)	(7,100,000)
	62,423,943	76,764,942
Investment income		
Interest, dividends and other	1,654,178	2,164,234
Expenses	(243,045)	(270,594)
Net investment income	1,411,133	1,893,640
Net appreciation in fair value of investments		
Net unrealized gain (loss) on investments	(8,288,864)	(10,645,879)
Net realized gain (loss) on sales of investments	(7,852,459)	3,911,240
Net appreciation (depreciation) in fair value of investments	(16,141,323)	(6,734,639)
Total net investment income (loss)	(14,730,190)	(4,840,999)
Balance at end of year, at fair value	$ 47,693,753	$ 71,923,943

General Assembly Retirement System of the State of Illinois

Analysis of Investment Performance (Unaudited)

For the Years Ended June 30, 2009

An analysis of investment performance for the years ended June 30, 2009 and 2008 is summarized as follows:

	2009	2008
Total return*	(20.1)%	(6.2)%

* 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, 2009 and 2008

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 acting 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 2009, 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 2010, the System will further evaluate and expand the services available to members through the System's Internet site, as well as continue to offer pre-retirement, post-retirement and one-on-one counseling sessions throughout the State.

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.

General Assembly Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2009 and 2008

Progress in Funding the System

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.

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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. The System incurred an actuarial loss of $20.0 million in FY09. Per statutory requirement, 20% is recognized in the actuarial value of assets as of June 30, 2009, and recognition of the remaining 80%, or $16.0 million, will be deferred and recognized in equal amounts over the next four valuations. Depending on whether the total net deferral is an investment gain or loss, the smoothing method will produce a contribution rate that is more or less than the rate based on the market/fair value. As of the June 30, 2009 valuation the total net deferral is a $16.0 million loss, resulting in a contribution that is lower than it would be if the assets were valued at market/fair value.

The actuarial accrued liability of the System at June 30, 2009, amounted to approximately $245.2 million. The actuarial value of assets (at smoothed value) at June 30, 2009 amounted to approximately $71.6 million. The difference between the actuarial accrued liability and the actuarial value of assets of $173.6 million reflects the unfunded actuarial accrued liability of the System at June 30, 2009. The System had a funded ratio (at smoothed value) of 29.2% at June 30, 2009.

The value of assets at June 30, 2009 using the market/fair value (valuation method used June 30, 2008) would have been $55.1 million, giving rise to an unfunded accrued liability of approximately $189.6 million. When using the market/fair value the System would have had a funded ratio of 22.5% at June 30, 2009.

The market/fair value of the assets of the fund, that were available for benefits, had decreased from $75.4 million as of June 30, 2008 to $55.1 million as of June 30, 2009. This decrease is due to the unfavorable return on fund assets. The actuarial value of the assets of $71.6 million at June 30, 2009, is $16.5 million higher than the market/fair value of the assets due to recognition of only 20% of the actuarial loss in fiscal year 2009.

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. Had this change not been enacted, the ARC and the statutory contribution would have been higher and as noted, the funding status would be 22.5% rather than the 29.2%.

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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)
2010	$ 10.5
2011	12.1
2012	12.4
2013	13.0
2014	13.5

The Schedule of Funding Progress (in millions) for fiscal years ending June 30, 2008 and 2009 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
6/30/08	$ 75.4	$ 235.8	32.0%	$ 160.4	$ 12.9	1,246.0%
6/30/09	71.6	245.2	29.2	173.6	14.7	1,179.1

*Market value through FY08. Five-year smoothing beginning in FY09.

The Schedule of Employer Contributions (in millions) for the fiscal years ending June 30, 2008 and 2009 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
2008	$ 6.8	$ 10.7	63.8%	$ 6.8	100.0%
2009	8.8	11.1	79.5	8.8	110.0

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 $58.6 million at June 30, 2009, which is an increase of $3.6 million from the June 30, 2008 NPO of $55.0 million.

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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 investment return for FY08 and FY09, net of fees, was (5.63%) and 2.51% respectively. The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was (20.1%) for fiscal year 2009 compared to (6.2%) for fiscal year 2008. The ISBI's total fund performance lagged the composite benchmark by (3.1%) for the year ended June 30, 2009. The investment return also lagged the 8.0% actuarial return assumption.

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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

	2009	2008
Total expenses		
Benefits	$ 15,857,219	$ 15,258,621
Refunds	71,589	147,804
Administrative	276,722	244,170
Total expenses	$ 16,205,530	$ 15,650,595
Administrative expenses as a percentage of total expenses	1.7%	1.6%

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 negative 20.1% during the year ended June 30, 2009, 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.

	2009	2008
Contributions		
Participant Contributions	$ 1,697,575	$ 1,772,860
Employer Contributions		
State of Illinois	8,847,000	6,809,800
Received from Reciprocating Systems	9,422	—
Total Employer Contributions	8,856,422	6,809,800
Total Contributions	10,553,997	8,582,660
Deductions		
Retirement Benefits	13,020,316	12,653,183
Survivor Benefits	2,836,903	2,605,438
Refunds	71,589	147,804
Administrative Expenses	276,722	244,170
Total Deductions	16,205,530	15,650,595
Investments Used to Pay Benefits and Expenses	$ (5,651,533)	$ (7,067,935)

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Service Efforts and Accomplishments (Unaudited)

	2009	2008
Membership data		
Active members	181	182
Inactive members	78	75
Total members	259	257
Benefit payments processed		
Recurring		
Retirement annuities (1)	275	269
Survivors' annuities (2)	125	125
Reversionary annuities	1	1
Total	401	395
Termination refunds processed	2	1
Retirement counseling*		
One-on-one counseling programs held	24	25

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

(1) 100 percent of the fiscal year 2009 retirement annuities were processed in less than 30 days.

(2) 100 percent of the fiscal year 2009 survivors' annuities were processed in less than 30 days.