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WILLIAM G. HOLLAND

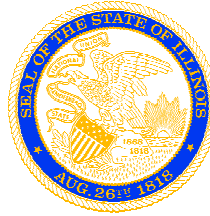
UPDATED SUPPLEMENTAL DIGEST TO RETIREMENT SYSTEMS' AUDITS

March 10, 2011

The Illinois Office of the Auditor General released the *Supplemental Digest to Retirement Systems' Audits* (Digest) on March 3, 2011. That Digest presented financial and actuarial information for the State's five retirement systems, as well as **unaudited** information related to future required State contributions. The information in the March 3 Digest only included the debt service associated with General Obligation Bonds, Pension Funding Series, June 2003 as the proceeds and debt service related to those bonds have a direct effect in the computation of the required State contributions to the five retirement systems.

Today the Illinois Office of the Auditor General is issuing an updated Digest to include additional **unaudited** information in the tables on page two related to debt service payments associated with two other General Obligation Bond series: General Obligation Bonds- Taxable Series January 2010; and General Obligation Bonds- Taxable Series February 2011, which is expected to close today on March 10, 2011. The tables in the original March 3 Digest are unchanged except for the presentation of this additional information.

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SUPPLEMENTAL DIGEST TO RETIREMENT SYSTEMS' AUDITS

For the years ending June 30, 2009, and June 30, 2010

According to figures provided by the retirement systems, the cumulative unfunded actuarial accrued liability for the five State-financed retirement systems as of June 30, 2010 was \$75.7 billion when using the "smoothed" valuation of assets. The unfunded actuarial accrued liability increased \$13.3 billion (21.3%) during FY2010 when using this method. Pursuant to Public Act 96-0043, during FY2009 the State changed from valuing retirement system assets for actuarial purposes from fair value for the calculation of annual required contributions to a methodology which "smooths" gains or losses incurred during a fiscal year in equal amounts over a five year period, beginning with the year the gains or losses were first incurred. When using the fair value of assets, the unfunded accrued liability increased \$7.7 billion (9.9%) during FY2010.

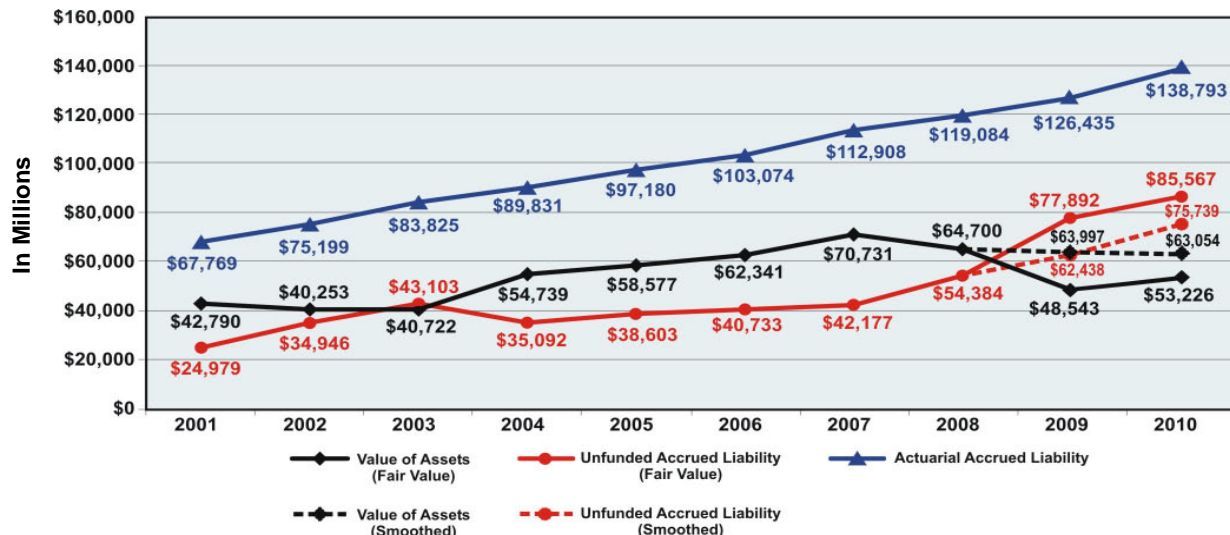
Unfunded Actuarial Accrued Liability and Funded Ratio (in millions)
 For the Fiscal Years Ending June 30, 2009 and 2010

| RETIREMENT SYSTEM | (a) | (b) | (c) | (d) | (e) | (f) | (a) - (c) | (b) - (d) | (a) - (e) | (b) - (f) | (c) / (a) | (d) / (b) | (e) / (a) | (f) / (b) |
|--------------------|-----------------------------|------------------|--------------------------------------|-----------------|---------------------------|-----------------|---|-----------------|---|-----------------|----------------|--------------|--------------|--------------|
| | Actuarial Accrued Liability | | Actuarial Value of Assets - Smoothed | | Net Assets* at Fair Value | | Unfunded Actuarial Accrued Liability - Smoothed | | Unfunded Actuarial Accrued Liability - Fair Value | | Funded Ratio** | | | |
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| Teachers' | \$ 73,027 | \$ 77,293 | \$ 38,026 | \$ 37,439 | \$ 28,498 | \$ 31,324 | \$ 35,001 | \$ 39,854 | \$ 44,529 | \$ 45,969 | 52.1% | 48.4% | 39.1% | 40.5% |
| State Universities | 26,316 | 30,120 | 14,282 | 13,967 | 11,033 | 12,122 | 12,034 | 16,153 | 15,283 | 17,998 | 54.3% | 46.4% | 41.9% | 40.2% |
| State Employees' | 25,298 | 29,309 | 11,000 | 10,962 | 8,478 | 9,202 | 14,298 | 18,347 | 16,820 | 20,107 | 43.5% | 37.4% | 33.5% | 31.4% |
| Judges' | 1,549 | 1,819 | 617 | 620 | 479 | 523 | 932 | 1,199 | 1,070 | 1,296 | 39.8% | 34.1% | 30.9% | 28.8% |
| General Assembly | 245 | 252 | 72 | 66 | 55 | 55 | 173 | 186 | 190 | 197 | 29.2% | 26.3% | 22.4% | 21.8% |
| TOTAL | \$126,435 | \$138,793 | \$63,997 | \$63,054 | \$48,543 | \$53,226 | \$62,438 | \$75,739 | \$77,892 | \$85,567 | 50.6% | 45.4% | 38.4% | 38.3% |

* State Universities Retirement System's Net Assets at fair value only include that portion of the Net Assets applicable to the defined benefit plan.
 ** Some percentages may differ when recomputed with amounts presented in the table because of rounding.

Ten Year Historical Trend

For the Fiscal Years Ending June 30, 2001 through June 30, 2010



Source: Information derived from the current and previous Supplemental Digests to Retirement Systems' Audits issued by the Office of the Auditor General.
 Note: \$7.317 billion of the State of Illinois taxable GO Bonds (Series June 2003 Pension) were allocated to the State retirement systems at the beginning of FY2004.

Appropriations, Required State Contributions and Debt Service Payments for Pensions *(in millions)*

| Retirement System Appropriations | FY 2009 | | FY 2010 | | FY 2011 ⁽¹⁾ | | FY 2012 ⁽²⁾ | |
|---|--|------------------------------------|--|------------------------------------|--|--|--|--|
| | Increase (Decrease) from previous year | Total Appropriation & Debt Service | Increase (Decrease) from previous year | Total Appropriation & Debt Service | Increase (Decrease) from previous year | Required State Contribution & Debt Service | Increase (Decrease) from previous year | Required State Contribution & Debt Service |
| Teachers ⁽³⁾ | \$ 410.5 | \$ 1,451.6 | \$ 629.1 | \$ 2,080.7 | \$ 277.7 | \$ 2,358.4 | \$ 48.1 | \$ 2,406.5 |
| State Universities | 109.9 | 450.2 | 250.0 | 700.2 | 147.9 | 848.1 | 132.4 | 980.5 |
| State Employees' | 187.2 | 774.9 | 320.6 | 1,095.5 | 97.8 | 1,193.3 | 175.3 | 1,368.6 |
| Judges' | 13.0 | 60.0 | 18.5 | 78.5 | 11.8 | 90.3 | (26.7) | 63.6 |
| General Assembly | 2.1 | 8.9 | 1.5 | 10.4 | 1.7 | 12.1 | (1.6) | 10.5 |
| REQUIRED STATE CONTRIBUTION | \$ 722.7 | \$ 2,745.6 | \$ 1,219.7 | \$ 3,965.3 | \$ 536.9 | \$ 4,502.2 | \$ 327.5 | \$ 4,829.7 |
| Debt Service Payments | | | | | | | | |
| G.O. Bonds: | | | | | | | | |
| Pension Series, 06/03 ⁽⁵⁾ | \$ (1.2) | \$ 545.0 | \$ (1.4) | \$ 543.6 | \$ (1.7) | \$ 541.9 | \$ 48.2 | \$ 590.1 |
| Taxable Series, 01/10 ⁽⁶⁾ | - | - | - | - | 802.5 | 802.5 | (8.2) | 794.3 |
| Taxable Series, 02/11 ⁽⁷⁾ | - | - | - | - | - | - | 194.5 | 194.5 |
| TOTAL DEBT SERVICE⁽⁸⁾ | \$ (1.2) | \$ 545.0 | \$ (1.4) | \$ 543.6 | \$ 800.8 | \$ 1,344.4⁽⁴⁾ | \$ 234.5 | \$ 1,578.9⁽⁴⁾ |
| TOTAL REQUIRED STATE CONTRIBUTION AND DEBT SERVICE | \$ 721.5 | \$ 3,290.6 | \$ 1,218.3 | \$ 4,508.9 | \$ 1,337.7 | \$ 5,846.6 | \$ 562.0 | \$ 6,408.6 |

Notes:

- (1) Unaudited; Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2009. Amounts presented are not adjusted for any effect related to the requirements set forth in P.A. 96-1511. Based on preliminary information provided by the systems, the effect of the requirements set forth in P.A. 96-1511 would reduce the total Required State Contribution by approximately \$385 million.
- (2) Unaudited; Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2010.
- (3) Includes General Revenue Fund reimbursements appropriated for minimum benefits paid under 40 ILCS 5/16-186.3 that are not part of the continuing appropriation.
- (4) Unaudited, summary of debt service payments. FY2009 and FY2010 debt service includes \$50 million in principal payments. FY 2011 debt service includes \$743.2 million in principal payments. FY2012 debt service includes \$793.2 million in principal payments.
- (5) Pursuant to the Pension Code, the effect of the allocation of the net proceeds and the State's debt service payments on the 2003 Pension Funding Series/June 2003 bonds are taken into consideration in computing the Required State Contribution.
- (6) \$3.466 billion of the FY2010 obligation owed to the retirement systems were provided by the State issuing General Obligation bonds. The debt service associated with these bonds does not affect the computation of the Required State Contribution.
- (7) The State issued \$3.7 billion in General Obligation bonds, Taxable Series/February 2011 to fund or reimburse a portion of the FY2011 obligation owed to the retirement systems. The debt service associated with these bonds does not affect the computation of the Required State Contribution. March 10, 2011 is the closing date for this bond issue.
- (8) Debt service is the obligation of the State of Illinois.

Required State Contributions and Debt Service for the Years Ended June 30 (unaudited) *(in millions)*

| Retirement System | FY 2011 ⁽¹⁾ | FY 2012 ⁽²⁾ | FY 2013 ⁽²⁾ | FY 2014 ⁽²⁾ | FY 2015 ⁽²⁾ |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Teachers' | \$ 2,358.4 | \$ 2,406.5 | \$ 2,656.3 | \$ 2,913.7 | \$ 3,179.8 |
| State Universities | 848.1 | 980.5 | 1,058.1 | 1,134.3 | 1,212.1 |
| State Employees' | 1,193.3 | 1,368.6 | 1,460.0 | 1,550.0 | 1,640.0 |
| Judges' | 90.3 | 63.6 | 67.7 | 72.1 | 77.1 |
| General Assembly | 12.1 | 10.5 | 11.3 | 12.1 | 13.0 |
| REQUIRED STATE CONTRIBUTION | \$ 4,502.2 | \$ 4,829.7 | \$ 5,253.4 | \$ 5,682.2 | \$ 6,122.0 |
| Debt Service Payments | | | | | |
| G.O. Bonds: | | | | | |
| Pension Series, 06/03 ⁽³⁾ | \$ 541.9 | \$ 590.1 | \$ 586.4 | \$ 582.5 | \$ 578.6 |
| Taxable Series, 01/10 ⁽⁴⁾ | 802.5 | 794.3 | 775.1 | 752.1 | 723.8 |
| Taxable Series, 02/11 ⁽⁵⁾ | - | 194.5 | 199.5 | 299.5 | 495.5 |
| TOTAL DEBT SERVICE⁽⁶⁾ | \$ 1,344.4 | \$ 1,578.9 | \$ 1,561.0 | \$ 1,634.1 | \$ 1,797.9 |
| TOTAL REQUIRED STATE CONTRIBUTION AND DEBT SERVICE | \$ 5,846.6 | \$ 6,408.6 | \$ 6,814.4 | \$ 7,316.3 | \$ 7,919.9 |

Notes:

- (1) Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2009. Amounts presented are not adjusted for any effect related to the requirements set forth in P.A. 96-1511. Based on preliminary information provided by the systems, the effect of the requirements set forth in P.A. 96-1511 would reduce the total Required State Contribution by approximately \$385 million.
- (2) Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2010.
- (3) Pursuant to the Pension Code, the effect of the allocation of the net proceeds and the State's debt service payments on the 2003 Pension Funding Series/June 2003 bonds are taken into consideration in computing the Required State Contribution. Debt service payments began in FY2004 and are scheduled to run through FY2033.
- (4) \$3.466 billion of the FY 2010 obligation owed to the retirement systems were provided by the State issuing General Obligation bonds. The debt service associated with these bonds does not affect the computation of the Required State Contribution. Debt service payments began in FY2011 and are scheduled to run through FY2015.
- (5) The State issued \$3.7 billion in General Obligation bonds, Taxable Series/February 2011 to fund or reimburse a portion of the FY2011 obligation owed to the retirement systems. The debt service associated with these bonds does not affect the computation of the Required State Contribution. Debt service payments are to begin in FY2012 and are scheduled to run through FY2019. March 10, 2011 is the closing date for this bond issue.
- (6) Debt service is the obligation of the State of Illinois.

TIMELINE OF SIGNIFICANT CHANGES TO PENSION LAWS

| <u>Effective Date</u> | <u>Public Act Number/Summary of Change</u> |
|-----------------------|---|
| August 22, 1994 | P.A. 88-0593: Created a 50-year funding plan designated to increase pension funding incrementally until a 90% funding level is achieved; established continuing appropriation mechanism for payment of State contributions. |
| June 25, 2002 | P.A. 92-0566: Provided an early retirement incentive (ERI) for SERS participants retiring before 12/31/02 (4/30/03 in some cases). |
| April 7, 2003 | <p>P.A. 93-0002: Authorized the State to issue \$10 billion in general obligation bonds; bonds were issued 6/12/03; \$2.7 billion of the proceeds were used to pay part of FY2003 and all of FY2004 Required State Contributions, bond issuance costs and first year's interest on the bonds; balance of \$7.3 billion was allocated to the retirement systems.</p> <p>Commencing with FY 2005, the maximum Required State Contribution to the systems equals the contribution that would have been required under the 50-year funding plan (P.A. 88-0593), if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on the pension bonds (series June, 2003).</p> |
| July 30, 2004 | P.A. 93-0839: Changed the measurement and calculation of liabilities due to the ERI (see P.A. 92-0566); funding spread over a 12-year period. |
| June 1, 2005 | P.A. 94-0004: Suspended payments required under P.A. 88-0593 for FY2006 and FY2007. Instead, fixed specific amounts for FY2006 and FY2007 contributions to retirement systems; ramps up contributions in FY2008 through FY2010 so that, by FY2011, contributions will be at an amount sufficient to meet the 90% funding level specified in P.A. 88-0593 by FY2045; beginning in FY2008, changes funding mechanism for ERI (eliminates 12 year funding mechanism provided in P.A. 93-0839). |
| July 15, 2009 | <p>P.A. 96-0043: Changed the measurement of the value of the systems actuarial assets beginning in FY2009 from the market value to a smoothed value, where any actuarial gains or losses from investment return incurred in a fiscal year shall be recognized in equal amounts over a 5-year period.</p> <p>Bonds in the amount of \$3.466 billion were authorized by this Act to be used for the purpose of making a portion of the State's FY2010 required contributions to the retirement systems.</p> |
| April 14, 2010 | P.A. 96-0889: Created a "second tier" of benefits for future members of the retirement systems hired after December 31, 2010. Some of the changes included raising the eligibility for normal benefits to age 67 with 10 years of service, limiting the final average compensation used to compute retirement benefits and increasing the number of months used to calculate the final average compensation. |
| January 1, 2011 | P.A. 96-1490: Clarified provisions set forth in P.A. 96-0889. |
| January 14, 2011 | P.A. 96-1497: Authorized the issuance of bonds in the amount of \$4.096 billion to be used for the purpose of making a portion of the State's FY2011 required contributions to the retirement systems. |
| January 27, 2011 | P.A. 96-1511: Requires the State retirement systems to recalculate and recertify to the Governor the amount of the Required State Contribution for FY2011 on or before April 1, 2011, applying the changes made by P.A. 96-0889 to the retirement systems assets and liabilities as of June 30, 2009, as though P.A. 96-0889 was approved on that date. |