



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL AUDIT

For the Year Ended: June 30, 2010

Release Date: March 3, 2011

Summary of Findings:

| | |
|----------------------------------|----------|
| Total this audit: | 0 |
| Total last audit: | 0 |
| Repeated from last audit: | 0 |

INTRODUCTION

This digest covers our financial audit of the State Employees' Retirement System, State of Illinois (System) for the year ended June 30, 2010. A compliance examination report covering the year ending June 30, 2010 will be issued separately.

UNDERFUNDING OF THE SYSTEM

The actuarial accrued liability was valued at \$29.3 billion at June 30, 2010. The actuarial value of assets (at smoothed value) totaled approximately \$11.0 billion at June 30, 2010. The method for determining the actuarial value of the assets was changed beginning with the June 30, 2009 valuation. The method was changed from the market value to a smoothed value where the actuarial investment gains or losses for each year are recognized in equal amounts over the ensuing five-year period.

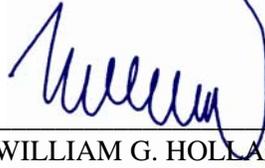
The difference between the actuarial accrued liability and the actuarial value of assets of \$18.3 billion reflects the unfunded liability of the System at June 30, 2010. The System had a funded ratio (at smoothed value) of 37.4% at June 30, 2010. When using the market value, the System would have had a funded ratio of 31.4% at June 30, 2010.

LEGISLATIVE CHANGE TO PENSION CODE

Public Act 96-0889, which was signed into law April 2010, adds a new section to the Pension Code that applies different benefits to anyone first hired in a position covered by the System on or after January 1, 2011. Changes in the pension law include initiating a cap on the salaries used to calculate retirement benefits, raising the minimum eligibility to draw a retirement benefit to age 67 with at least 10 years of service or age 62 with at least 10 years of service credit with a reduced annuity, and limiting cost-of-living annuity adjustments to the lesser of 3% or ½ the annual increase in the Consumer Price Index, whichever is less. The pension law changes do not apply to anyone who has System service prior to January 1, 2011.

AUDITORS' OPINION

The auditors stated the financial statements of the State Employees' Retirement System of Illinois as of June 30, 2010, and for the year then ended, are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:AKS

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were BKD, LLP.

{Financial data is summarized on the next page}

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
FINANCIAL AUDIT
For The Year Ended June 30, 2010

| STATEMENT OF CHANGES IN PLAN NET ASSETS | FY 2010 | FY 2009 |
|--|--------------------------|---------------------------|
| ADDITIONS: Contributions - Participants..... | \$ 246,172,971 | \$ 242,227,432 |
| Contributions - State Agencies and Appropriations..... | 1,095,545,856 | 774,910,344 |
| Total Contributions..... | <u>\$ 1,341,718,827</u> | <u>\$ 1,017,137,776</u> |
| Increase / (Decrease) in Fair Value of Investments..... | 598,899,494 | (2,441,040,917) |
| Investment Income - Net of Management Expenses..... | 200,200,994 | 224,823,314 |
| Interest Earned on Cash Balances..... | 795,373 | 7,319,968 |
| Total Investment Income / (Loss)..... | <u>\$ 799,895,861</u> | <u>\$ (2,208,897,635)</u> |
| Total Revenues..... | <u>\$ 2,141,614,688</u> | <u>\$ (1,191,759,859)</u> |
| DEDUCTIONS: Benefits..... | \$ 1,390,641,192 | \$ 1,300,213,675 |
| Refunds..... | 15,274,174 | 14,859,487 |
| Administrative Expenses..... | 11,720,755 | 10,681,376 |
| Total Expenses..... | <u>\$ 1,417,636,121</u> | <u>\$ 1,325,754,538</u> |
| Revenue Over / (Under) Expenses..... | <u>\$ 723,978,567</u> | <u>\$ (2,517,514,397)</u> |
| INVESTMENT SUMMARY - (All investments held in the Illinois State Board of Investment commingled fund at fair value) | June 30, 2010 | June 30, 2009 |
| Government and Agency Obligations..... | \$ 810,739,312 | \$ 665,018,889 |
| Foreign Obligations..... | 44,409,906 | 33,237,090 |
| Corporate Obligations..... | 925,668,388 | 668,047,761 |
| Common Stock & Equity Funds (including Commingled Funds)..... | 3,127,655,201 | 2,945,702,917 |
| Preferred Stock..... | 697,600 | 334,285 |
| Foreign Equity Securities..... | 1,733,177,670 | 1,482,594,431 |
| Hedge Funds..... | 917,854,201 | 880,939,190 |
| Real Estate Investments..... | 750,210,957 | 875,929,700 |
| Private Equity..... | 542,441,291 | 450,491,810 |
| Money Market Instruments..... | 270,231,935 | 235,126,490 |
| Infrastructure Funds..... | 320,293,041 | 305,969,947 |
| Bank Loans..... | 222,623,999 | 197,259,098 |
| Forward Foreign Currency Contracts..... | (266,410) | (5,594,545) |
| Total Investment Portfolio..... | <u>\$ 9,665,737,091</u> | <u>\$ 8,735,057,063</u> |
| Other ISBI Assets Less Liabilities..... | <u>12,966,711</u> | <u>(51,002,791)</u> |
| ISBI Net Assets..... | <u>\$ 9,678,703,802</u> | <u>\$ 8,684,054,272</u> |
| Investments owned by other retirement systems, GARS & JRS..... | <u>(558,102,108)</u> | <u>(483,298,354)</u> |
| State Employees' Retirement System Investments..... | <u>\$ 9,120,601,694</u> | <u>\$ 8,200,755,918</u> |
| ADMINISTRATIVE EXPENSES | FY 2010 | FY 2009 |
| Personal Services..... | \$ 4,248,014 | \$ 4,044,917 |
| Retirement, Insurance & Social Security..... | 2,510,826 | 2,156,065 |
| Contractual Services..... | 1,777,453 | 1,746,425 |
| Electronic Data Processing..... | 2,665,507 | 2,210,406 |
| Printing..... | 42,225 | 52,521 |
| Telecommunication..... | 67,333 | 67,063 |
| Travel..... | 39,497 | 30,581 |
| Commodities..... | 27,108 | 29,298 |
| Operation of Automotive Equipment..... | 13,801 | 19,305 |
| Provision for Depreciation..... | 272,329 | 244,771 |
| Other Expenses (Net)..... | 56,662 | 80,024.00 |
| Total Administrative Expenses..... | <u>\$ 11,720,755</u> | <u>\$ 10,681,376</u> |
| FUNDING PROGRESS - at smoothed value | June 30, 2010 | June 30, 2009 |
| Actuarial Accrued Liability..... | \$ 29,309,464,296 | \$ 25,298,346,092 |
| Actuarial Value of Assets..... | <u>10,961,540,164</u> | <u>10,999,953,527</u> |
| Unfunded Actuarial Accrued Liability..... | <u>\$ 18,347,924,132</u> | <u>\$ 14,298,392,565</u> |
| Funded Ratio..... | 37.4% | 43.5% |
| EXECUTIVE DIRECTOR | | |
| During Engagement Period: Tim Blair, Acting | | |
| Currently: Tim Blair | | |