REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1993

INTRODUCTION

This digest covers our financial audit of the System for the year ended June 30, 1993. A compliance audit covering the two years ending June 30, 1994 will be performed next year. It should be noted that, pursuant to the Illinois Pension Code, investments of the System are managed by the Illinois State Board of Investment.

UNDERFUNDING OF THE SYSTEM

Net assets available for benefits (at cost) totaled approximately $3,496 million at June 30, 1993. The pension obligation was valued at $6,044 million at June 30, 1993. The difference between the pension obligation and the net assets available for benefits of $2,548 million reflects the unfunded liability of the System at June 30, 1993. The unfunded liability increased over $225 million during FY 1993.

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 presents funding progress for the past four 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	$2,796	$4,538	61.6%	$1,742	$570
1991	2,981	4,950	60.2%	1,969	227
1992	3,278	5,601	58.5%	2,323	354
1993	3,496	6,044	57.8%	2,548	225

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 to 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 $1,376 million over the past four years.

AUDITORS' OPINION

Our auditors state that the June 30, 1993 financial statements of the System are fairly presented.

WILLIAM G. HOLLAND, Auditor General

WGH:KMA:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen were our special assistant auditors for this audit.