

REPORT DIGEST

**STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1995**

INTRODUCTION

This digest covers our financial audit of the System for the year ended June 30, 1995. A compliance audit covering the year ending June 30, 1995 will be issued separately.

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 \$3,923 million at June 30, 1995. The pension obligation was valued at \$6,988 million at June 30, 1995. The difference between the pension obligation and the net assets available for benefits of \$3,065 million reflects the unfunded liability of the System at June 30, 1995. The unfunded liability increased over \$285 million during FY 1995.

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 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
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
1994	3,722	6,502	57.2%	2,780	232
1995	3,923	6,988	56.1%	3,065	285

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 \$1,323 million over the past five years.

In August, 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.

AUDITORS' OPINION

Our auditors state that the June 30, 1995 financial statements of the System are fairly presented.

WILLIAM G. HOLLAND, Auditor General

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SPECIAL ASSISTANT AUDITORS

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