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OFFICE OF THE AUDITOR GENERAL  
 WILLIAM G. HOLLAND

**SUPPLEMENTAL DIGEST TO RETIREMENT SYSTEMS' AUDITS**

**For the years ending June 30, 2003, and June 30, 2004**

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, 2004, was \$35.1 billion. The unfunded liability decreased over \$8.0 billion (19%) during FY2004.

**Unfunded Actuarial Accrued Liability and Funded Ratio (in millions)**  
 For the Fiscal Years Ending June 30, 2003 and 2004

| Retirement System  | (a)               |                  | (b)              |                  | (c)   |                  | (d)                            |                            |
|--------------------|-------------------|------------------|------------------|------------------|---|------------------|--------------------------------|----------------------------|
|                    | Accrued Liability |                  | Value of Assets  |                  | Unfunded Accrued Liability<br>[col. (a) - col. (b)] |                  | Funded Ratio<br>[col. (b)/(a)] |                            |
|                    | 2003              | 2004             | 2003             | 2004             | 2003  | 2004             | 2003                           | 2004                       |
| Teachers'          | \$ 46,933         | \$ 50,947        | \$ 23,125        | \$ 31,545        | \$ 23,808   | \$ 19,402        | 49.3%                          | 61.9%                      |
| State Universities | \$ 18,025         | \$ 19,078        | \$ 9,715         | \$ 12,586        | \$ 8,310  | \$ 6,492         | 53.9%                          | 66.0%                      |
| State Employees'   | \$ 17,594         | \$ 18,443        | \$ 7,502         | \$ 9,990         | \$ 10,092   | \$ 8,453         | 42.6%                          | 54.2%                      |
| Judges'            | \$ 1,076          | \$ 1,156         | \$ 330           | \$ 535           | \$ 746  | \$ 621           | 30.7%                          | 46.2%                      |
| General Assembly   | \$ 197            | \$ 207           | \$ 50            | \$ 83            | \$ 147  | \$ 124           | 25.3%                          | 40.1%                      |
| <b>TOTAL</b>       | <b>\$ 83,825</b>  | <b>\$ 89,831</b> | <b>\$ 40,722</b> | <b>\$ 54,739</b> | <b>\$ 43,103</b>                                    | <b>\$ 35,092</b> | <b>48.6%<sup>(1)</sup></b>     | <b>60.9%<sup>(1)</sup></b> |

Notes: <sup>(1)</sup>Computation of the funded ratio based upon the total value of assets and accrued liabilities for all five retirement systems in the aggregate. FY 03 (\$40,722/\$83,825). FY 04 (\$54,739/\$89,831).

In FY 1996 a State funding law became effective, changing State retirement funding practices. Public Act 88-0593 provided for a stated 50-year funding plan which included a 15-year phase-in period. State contributions are to be made through a continuing appropriation instead of the annual budgetary process. The law was designed to increase pension funding incrementally until a 90% funded level is achieved.

Public Act 92-0566 became effective June 25, 2002, and provided an early retirement incentive (ERI) for those participants under the State Employees' Retirement System who terminated service before December 31, 2002 (or April 30, 2003, for certain cases).

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.

Pursuant to Public Act 93-0002, \$2,160.0 million of the proceeds were set aside to repay the State for the last quarter contributions to the retirement systems for fiscal year 2003, and to pay all of the fiscal year 2004 contributions. \$481.0 million was set aside to make interest payments on the bonds in fiscal year 2004. \$41.7 million was incurred in bond issuance and other costs. The remaining \$7,317.3 million was allocated to the retirement systems based on each system's relative portion of the total unfunded liability at June 30, 2002. The allocations of the bond proceeds were made to each system on July 1, 2003. For the first four years, the payments on the General Obligation Bonds, Pension Funding Series of June 2003 debt service will be for interest only. Principle payments do not begin until 2008.

Public Act 93-0839, effective July 30, 2004, changed the measurement and calculation of the liabilities due to the early retirement incentive (ERI). The liability will be measured as the change in the present value of benefits as of June 30, 2003, and will be funded over a 12-year period. Payments for fiscal year 2004 and 2005 to the State Employees' Retirement System are fixed at \$70 million, and the liability for fiscal year 2006 through 2015 will be \$280.5 million annually. For Teachers' Retirement System the ERI liability for fiscal year 2005 is \$1.7 million, and the liability for fiscal year 2006 through 2015 will be \$1.4 million. The future payment amount will be updated on a year-to-year basis to reflect actual contributions received.

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 Bonds, Pension Funding Series of June 2003. The table below outlines the calculation of the fiscal year 2006 required State contribution by system.

Public Act 93-0839 changed the certified contribution rate for the State Employees’ Retirement System such that the rate will include a portion of the debt service due to the sale of the general obligation bonds. For fiscal year 2005 the debt service includes the amount necessary to pay all principle and interest for State fiscal years 2004 and 2005 related to the portion of the State Employees’ Retirement System of the general obligation bond debt. In addition, the Public Act modified the law governing distributions from the State Pension Fund to exclude any payments to the State Employees’ Retirement System for fiscal year 2005, which would have been \$18.7 million.

| <b>Calculation of Fiscal Year 2006 Required State Contribution (in millions)</b>   |  |   |                                      |  |   |
|--|--|---|--------------------------------------|--|---|
| <b>Information Provided by Retirement Systems</b>  |  |   |                                      |  |   |
| <b>Retirement System</b>   | <b>(1)</b>   | <b>(2)</b>  | <b>(3)</b>                           | <b>(4)</b>                                       | <b>(5)</b>  |
|  | State Contribution Under Regular Funding Plan <i>Without</i> Pension Bonds | State Contribution Under Regular Funding Plan <i>With</i> Pension Bonds | Amount of Pension Bonds Debt Service | Maximum State Contribution [col. (1) - col. (3)] | Required State Contribution [Lower of col. (2) or col. (4)] |
| Teachers'  | \$ 1,348.0   | \$ 1,266.9  | \$ 293.7                             | \$ 1,054.3                                       | \$ 1,054.3  |
| Mandated ERI Contribution <sup>(1)</sup>   | 1.4  | 1.4   |                                      | 1.4  | 1.4   |
| Guaranteed Minimum Annuity <sup>(2)</sup>  | 2.8  | 2.8   |                                      | 2.8  | 2.8   |
| Total  | \$ 1,352.2   | \$ 1,271.1  |                                      | \$ 1,058.5                                       | \$ 1,058.5  |
| State Universities   | \$ 422.0   | \$ 405.1  | \$ 97.1                              | \$ 324.9   | \$ 324.9  |
| State Employees'   | \$ 503.7   | \$ 478.8  | \$ 94.0                              | \$ 409.7   | \$ 409.7  |
| Mandated ERI Contribution <sup>(1)</sup>   | 280.5  | 280.5   |                                      | 280.5  | 280.5   |
| Mandated Debt Service Contribution <sup>(3)</sup>  | 69.1   | 69.1  |                                      | 69.1   | 69.1  |
| Total  | \$ 853.3   | \$ 828.4  |                                      | \$ 759.3   | \$ 759.3  |
| Judges'  | \$ 47.6  | \$ 38.1   | \$ 9.6                               | \$ 38.0  | \$ 38.0   |
| General Assembly   | \$ 7.3   | \$ 5.5  | \$ 1.8                               | \$ 5.5   | \$ 5.5  |
| <b>TOTAL</b>   | <b>\$ 2,682.4</b>  | <b>\$ 2,548.2</b>   | <b>\$ 496.2</b>                      | <b>\$ 2,186.2</b>                                | <b>\$ 2,186.2</b>   |
| Note: Pension Bonds = General Obligation Bonds, Pension Funding Series, June 2003<br><sup>(1)</sup> Required Early Retirement Incentive (ERI) contribution pursuant to PA 93-0839, not affected by State maximum contribution calculation.<br><sup>(2)</sup> The State appropriates funds necessary to pay minimum benefits provided by statute, not affected by State maximum contribution calculation.<br><sup>(3)</sup> PA93-0839 changed contribution rate to include a portion of Pension Bonds debt service, not affected by State maximum contribution calculation. |  |   |                                      |  |   |

The table below summarizes the continuing appropriation requirements and the debt service payments for the General Obligation Bonds - Pension Funding Series, June 2003.

| <b>Continuing Appropriations and Debt Service Payments for Pensions (in millions)</b>  |                                      |                                |                                      |   |                                      |   |                                      |  |
|--|--------------------------------------|--------------------------------|--------------------------------------|---|--------------------------------------|---|--------------------------------------|--|
| <b>Retirement System</b>   | <b>FY 2003</b>                       |                                | <b>FY 2004</b>                       |   | <b>FY 2005 <sup>(1)</sup></b>        |   | <b>FY 2006 <sup>(2)</sup></b>        |  |
|  | Increase required over previous year | Total Continuing Appropriation | Increase required over previous year | Total Continuing Appropriation & Debt Service | Increase required over previous year | Total Continuing Appropriation & Debt Service | Increase required over previous year | Required State Contribution & Debt Service |
| Teachers' <sup>(3)</sup>   | \$ 114.7                             | \$ 930.1                       | \$ 101.6                             | \$ 1,031.7 <sup>(4)</sup>                     | \$ (124.7)                           | \$ 907.0 <sup>(6)</sup>                       | \$ 151.5                             | \$ 1,058.5                                 |
| State Universities   | \$ 29.2                              | \$ 269.6                       | \$ 42.1                              | \$ 311.7                                      | \$ (41.7)                            | \$ 270.0                                      | \$ 54.9                              | \$ 324.9                                   |
| State Employees'   | \$ 9.7                               | \$ 392.8                       | \$ 84.6                              | \$ 477.4 <sup>(5)</sup>                       | \$ 91.2                              | \$ 568.6 <sup>(5)</sup>                       | \$ 190.7                             | \$ 759.3                                   |
| Judges'  | \$ 3.9                               | \$ 31.4                        | \$ 5.1                               | \$ 36.5                                       | \$ (4.5)                             | \$ 32.0                                       | \$ 6.0                               | \$ 38.0                                    |
| General Assembly   | \$ .5                                | \$ 5.2                         | \$ .6                                | \$ 5.8  | \$ (1.1)                             | \$ 4.7  | \$ .8                                | \$ 5.5                                     |
| <b>Subtotal</b>  | <b>\$ 158.0</b>                      | <b>\$ 1,629.1</b>              | <b>\$ 234.0</b>                      | <b>\$ 1,863.1</b>                             | <b>\$ (80.8)</b>                     | <b>\$ 1,782.3</b>                             | <b>\$ 403.9</b>                      | <b>\$ 2,186.2</b>                          |
| <b>Debt Service Payments</b><br>General Obligation Bonds – Pension Funding Series, June 2003.  | \$ 0.0                               | \$ 0.0                         | \$ 481.0                             | \$ 481.0                                      | \$ 15.2                              | \$ 496.2 <sup>(7)</sup>                       | \$ 0.0                               | \$ 496.2 <sup>(7)</sup>                    |
| <b>TOTAL</b>   | <b>\$ 158.0</b>                      | <b>\$ 1,629.1</b>              | <b>\$ 715.0</b>                      | <b>\$ 2,344.1</b>                             | <b>\$ (65.6)</b>                     | <b>\$ 2,278.5</b>                             | <b>\$ 403.9</b>                      | <b>\$ 2,682.4</b>                          |
| Notes: <sup>(1)</sup> Unaudited.<br><sup>(2)</sup> Unaudited, estimate provided by Retirement Systems.<br><sup>(3)</sup> 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.<br><sup>(4)</sup> Includes \$1.0 million that is required per PA 92-0566 for funding of Early Retirement Incentive (ERI).<br><sup>(5)</sup> Includes \$70.0 million for funding of Early Retirement Incentive for FY 04 and FY 05 and \$136.2 million for debt service on Pension Bonds for FY 05 as required per PA 93-0839.<br><sup>(6)</sup> Includes \$1.7 million that is required per PA 92-0566 for funding Early Retirement Incentive (ERI).<br><sup>(7)</sup> Unaudited, scheduled debt service payments in FY 2005 and FY 2006 – interest only. Principle payments do not begin until 2008. |                                      |                                |                                      |   |                                      |   |                                      |  |