



OFFICE OF THE AUDITOR GENERAL
 WILLIAM G. HOLLAND

SUPPLEMENTAL DIGEST TO RETIREMENT SYSTEMS' AUDITS

For the years ending June 30, 2011, and June 30, 2012

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, 2012 was \$94.6 billion when using the "smoothed" valuation of assets. The unfunded actuarial accrued liability increased \$11.7 billion (14.1%) during FY2012 when using this method. Pursuant to Public Act 96-0043, during FY2009 the State changed from valuing retirement system assets for actuarial purposes from market 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 market value of assets, the unfunded accrued liability increased \$13.7 billion (16.5%) during FY2012.

Table No. 1 **Unfunded Actuarial Accrued Liability and Funded Ratio (in millions)**
 For the Fiscal Years Ending June 30, 2011 and 2012

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 Market Value ⁽¹⁾		Unfunded Actuarial Accrued Liability - Smoothed		Unfunded Actuarial Accrued Liability - Market Value		Funded Ratio ⁽²⁾			
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	Smoothed		Market Value	
Teachers'	\$ 81,300	\$ 90,025	\$ 37,770	\$ 37,945	\$ 37,471	\$ 36,517	\$ 43,530	\$ 52,080	\$ 43,829	\$ 53,508	46.5%	42.1%	46.1%	40.6%
State Universities	31,514	33,170	13,946	13,950	14,274	13,705	17,568	19,220	17,240	19,465	44.3%	42.1%	45.3%	41.3%
State Employees'	31,395	33,091	11,160	11,477	10,971	10,961	20,235	21,614	20,424	22,130	35.6%	34.7%	34.9%	33.1%
Judges'	1,953	2,022	615	601	606	578	1,338	1,421	1,347	1,444	31.5%	29.7%	31.0%	28.6%
General Assembly	298	303	63	56	60	53	235	247	238	250	21.2%	18.5%	20.1%	17.5%
TOTAL	\$146,460	\$158,611	\$63,554	\$64,029	\$63,382	\$61,814	\$82,906	\$94,582	\$83,078	\$96,797	43.4%	40.4%	43.3%	39.0%

Notes:

⁽¹⁾ State Universities Retirement System's Net Assets at market value only include that portion of the Net Assets applicable to the defined benefit plan.

⁽²⁾ Some percentages may differ from amounts reported by the retirement systems when computing for this table because of rounding.

Table No. 2 **Ten Year Historical Trend**
 For the Fiscal Years Ending June 30, 2003 through June 30, 2012



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.

Table No. 3

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

Retirement System	FY 2011		FY 2012		FY 2013 ⁽¹⁾		FY 2014 ⁽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⁾	\$ 90.2	\$ 2,170.9	\$ 235.5	\$ 2,406.4	\$ 297.1	\$ 2,703.5	\$ 735.1	\$ 3,438.6
State Universities	76.3	776.5	204.0	980.5	422.3	1,402.8	107.0	1,509.8
State Employees'	32.4	1,127.9	263.5	1,391.4	186.4	1,577.8	84.9	1,662.7
Judges'	(16.1)	62.4	1.2	63.6	24.6	88.2	38.6	126.8
General Assembly	0.6	11.0	(0.5)	10.5	3.7	14.2	(0.3)	13.9
REQUIRED STATE CONTRIBUTION	\$ 183.4	\$ 4,148.7	\$ 703.7	\$ 4,852.4	\$ 934.1	\$ 5,786.5	\$ 965.3	\$ 6,751.8
Debt Service Payments								
G.O. Bonds:								
Pension Series, 06/03 ⁽⁵⁾	\$ (1.7)	\$ 541.9	\$ 48.2	\$ 590.1	\$ (3.7)	\$ 586.4	\$ (3.9)	\$ 582.5
Taxable Series, 01/10 ⁽⁶⁾	802.5	802.5	(8.2)	794.3	(19.2)	775.1	(23.0)	752.1
Taxable Series, 02/11 ⁽⁷⁾	—	—	194.5	194.5	5.0	199.5	100.0	299.5
TOTAL DEBT SERVICE⁽⁸⁾	\$ 800.8	\$ 1,344.4	\$ 234.5	\$ 1,578.9	\$ (17.9)	\$ 1,561.0⁽⁴⁾	\$ 73.1	\$ 1,634.1⁽⁴⁾
TOTAL REQUIRED STATE CONTRIBUTION AND DEBT SERVICE	\$ 984.2	\$ 5,493.1	\$ 938.2	\$ 6,431.3	\$ 916.2	\$ 7,347.5	\$ 1,038.4	\$ 8,385.9

Notes:

(1) Unaudited; Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2011.

(2) Unaudited; Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2012.

(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.

(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.

(8) Debt service is the obligation of the State of Illinois. FY 2011 debt service includes \$743.2 million in principal payments. FY2012 and FY2013 debt service includes \$793.2 million in principal payments. FY2014 debt service includes \$893.2 million in principal payments.

Table No. 4

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

Retirement System	FY 2013 ⁽¹⁾	FY 2014 ⁽²⁾	FY 2015 ⁽²⁾	FY 2016 ⁽²⁾	FY 2017 ⁽²⁾
Teachers'	\$ 2,703.5	\$ 3,438.6	\$ 3,548.2	\$ 3,680.1	\$ 3,854.2
State Universities	1,402.8	1,509.8	1,582.8	1,593.2	1,620.4
State Employees'	1,577.8	1,662.7	1,757.0	1,817.0	1,874.0
Judges'	88.2	126.8	130.6	131.3	132.0
General Assembly	14.2	13.9	14.6	15.2	15.8
REQUIRED STATE CONTRIBUTION	\$ 5,786.5	\$ 6,751.8	\$ 7,033.2	\$ 7,236.8	\$ 7,496.4
Debt Service Payments					
G.O. Bonds:					
Pension Series, 06/03 ⁽³⁾	\$ 586.4	\$ 582.5	\$ 578.6	\$ 574.5	\$ 595.2
Taxable Series, 01/10 ⁽⁴⁾	775.1	752.1	723.8	—	—
Taxable Series, 02/11 ⁽⁵⁾	199.5	299.5	495.5	781.9	1,052.2
TOTAL DEBT SERVICE⁽⁶⁾	\$ 1,561.0	\$ 1,634.1	\$ 1,797.9	\$ 1,356.4	\$ 1,647.4
TOTAL REQUIRED STATE CONTRIBUTION AND DEBT SERVICE	\$ 7,347.5	\$ 8,385.9	\$ 8,831.1	\$ 8,593.2	\$ 9,143.8

Notes:

(1) Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2011.

(2) Required State Contribution amounts obtained from each State retirement system's annual actuarial valuation as of June 30, 2012.

(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.

(6) Debt service is the obligation of the State of Illinois.

Table No. 5 Ten Year Comparison of Contributions Received by the Systems to Annual Required Contributions per GASB Statement No. 25
 Combined Teachers', State Universities, State Employees', Judges' and General Assembly (*in millions*)

Fiscal Year Ending June 30	Contributions Received by Systems ⁽¹⁾	Annual Required Contributions per GASB Statement #25 ^{(2),(3)}	Difference
2012	\$ 5,012.4	\$ 6,612.4	\$ (1,599.9)
2011	4,301.7	5,399.8	(1,098.1)
2010	4,133.2	4,761.5	(628.3)
2009	2,899.3	4,076.4	(1,177.1)
2008	2,158.2	3,729.2	(1,571.0)
2007	1,479.5	3,665.6	(2,186.1)
2006	1,028.1	3,085.6	(2,057.5)
2005	1,739.7	3,084.5	(1,344.8)
2004	1,953.4	3,056.4	(1,103.0)
2003	1,692.6	2,535.6	(843.0)
TOTAL	\$ 26,398.2	\$ 40,007.0	\$ (13,608.8)

Notes:

(1) Summarized per retirement systems' annual financial statements. Annual amounts for this table include as-applicable payments for: ERO contributions, federal and trust funds, excess salary contributions, and 2.2 benefit formula contributions. These items are taken into consideration in determining the retirement systems' overall actuarial accrued liability. For State Universities, contributions received by the system only include that portion applicable to the defined benefit plan. Because of including or excluding the noted items, the annual amounts in this table will not agree with the "Total Appropriation & Debt Service, Required State Contribution" in Table No. 3 on page 2 of this digest.

(2) Summarized per retirement systems' annual actuarial valuations.

(3) The Governmental Accounting Standards Board (GASB) issued Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. GASB Statement No. 25 requires the computation of the annual required contribution for the year, calculated in accordance with each system's actuarial assumptions. The annual required contribution includes the employer's normal cost and a provision for amortizing the total unfunded actuarial accrued liability, for a term of not more than 30 years.

TIMELINE OF SIGNIFICANT CHANGES TO PENSION LAWS

Effective Date *Public Act Number/Summary of Change*

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.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.

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).

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.

(continued)

- 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.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.
- 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.
- 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.
- June 18, 2012 P.A. 97-0694: Directed the Auditor General to contract with or hire an actuary to serve as the State Actuary. In addition, the Act requires each State retirement system's Board of Trustees (Board) to submit to the State Actuary, the Governor and the General Assembly a proposed certification of the amount of the required State contribution to the Systems by November 1 of each year. On or before January 1 of each year the State Actuary shall issue a preliminary report concerning the proposed certification identifying, if necessary, recommended changes in actuarial assumptions that each State retirement system's Board must consider before finalizing its certification of the required State contributions. On or before January 15 of each year each State retirement system's Board shall certify to the Governor and the General Assembly the amount of the required State contribution for the next fiscal year. The Board's certification must note any deviation from the State Actuary's recommended changes, the reason or reasons for not following the State Actuary's recommended changes, and the fiscal impact of not following the State Actuary's recommended changes on the required State contribution.
- July 1, 2013 In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that substantially changes the accounting and financial reporting of pensions by state and local governments and pension plans. GASB Statement No. 67, effective July 1, 2013, *Financial Reporting for Pension Plans*, addresses financial reporting for state and local government pension plans. GASB Statement No. 68, effective July 1, 2014, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these GASB Statements will change how governments calculate and report costs and obligations associated with pensions. The new GASB Statements relate to accounting and financial reporting issues only; the Statements do not address how governments approach pension plan funding.