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# REPORT DIGEST

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

**FINANCIAL AUDIT**  
For the Year Ended:  
June 30, 1996

Release Date:  
February 6, 1997



State of Illinois  
Office of the Auditor General

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AUDITOR GENERAL

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### SYNOPSIS

- ◆ The unfunded liability of the System for pension benefits was \$2,994 million at June 30, 1996. This unfunded liability decreased approximately \$71 million during FY 1996.
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## INTRODUCTION

This digest covers our financial audit of the System for the year ended June 30, 1996. A compliance audit covering the year ending June 30, 1996 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 \$4,397 million at June 30, 1996. The pension obligation was valued at \$7,391 million at June 30, 1996. The difference between the pension obligation and the net assets available for benefits of \$2,994 million reflects the unfunded liability of the System at June 30, 1996. The unfunded liability decreased approximately \$71 million during FY 1996.

**Unfunded Liability  
Decreased \$71 million during  
FY 1996**

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.

**Unfunded Liability at June  
30, 1996 totals \$2,994 million**

**FY 96 Marks 1<sup>st</sup> Year for  
New State Funding Law**

A new State funding law became effective in FY 1996 changing State retirement funding practices. 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 until a 90% funded level is achieved.

Ended June 30	Available for Benefits (1)	Pension Obligation (2)	Funded (1)/(2) (%)	Liability (2)-(1)	Unfunded Liability (3)
1992	\$3,278	\$5,601	58.5%	\$2,323	\$354
1993	3,496	6,041	57.9%	2,548	225
1994	3,722	6,502	57.2%	2,780	232
1995	3,923	6,988	56.1%	3,065	285
1996	4,397	7,391	59.3%	2,994	(71)

NOTE: Amounts in chart are shown in millions of dollars.

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WILLIAM G. HOLLAND, Auditor General

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**SPECIAL ASSISTANT AUDITORS**

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

