

The State-Funded Pensions Issue

In late 2004 and early 2005, the Governor's Pension Commission developed benefit and funding proposals for the Governor to consider. Currently, the five state-funded retirement systems (State Employees', Teachers', Universities, Judges' and General Assembly) provide pension benefits to about 647,000 members.

Over the past 30 years, the State pensions systems were funded significantly below necessary contribution levels. As a result, the State's unfunded pension liabilities are larger than any other state (see table at right).

In 1995, the General Assembly established a funding ratio objective of 90% of liabilities. The current proposed changes would still target the 90% funding ratio by the year 2045, but it would reduce payments in the early years of the plan.

Based on the Commission's report, the Governor's latest budget proposal recommends changing the benefit structure of the five State plans and the language of the 1995 funding plan. These proposals would require legislative action but won't affect the earned pension benefits of current State employees.

The following benefit changes would affect NEW SERS employees only if they are enacted into law:

- Limiting the annual retirement COLA for new hires to 3% for the first \$12,000 in benefits for members covered by Social Security and \$24,000 for members not covered by Social Security.

- Only new members who are sworn police officers would be included in the alternative retirement formula.
- The eligibility for retirement would be changed so that new hires would need 35 years to retire at age 60, 30 years at age 62, or 8 years of service at age 65.

Of importance to SERS members is the projected payout of benefits. Below is the projected FY05 and FY06 cash flow chart. If the proposed changes are enacted in FY06, the impact would increase the excess of benefits over contributions by \$206 million.

<i>FY03 Unfunded Liabilities</i>		
<i>State</i>	<i>(in billions)</i>	<i>Rank</i>
<i>Texas</i>	<i>\$22.6</i>	<i>46th</i>
<i>Calif.</i>	<i>25.5</i>	<i>47th</i>
<i>N.Y.</i>	<i>28.3</i>	<i>48th</i>
<i>Ohio</i>	<i>29.6</i>	<i>49th</i>
<i>Illinois</i>	<i>43.1</i>	<i>50th</i>

State Employees' Retirement System Cash Flow

	<i>FISCAL YEAR</i>		
	<i>2005^{a b}</i>	<i>2006^{a b}</i>	<i>2006^{a b c}</i>
Employer Contributions	433,000,000	690,500,000	484,500,000
Employee Contributions	194,000,000	198,000,000	198,000,000
Total Contributions	627,000,000	888,500,000	682,500,000
Benefit Payments/Expenses	1,196,000,000	1,106,000,000	1,106,000,000
Excess of Benefits over Contributions	(569,000,000)	(217,500,000)	(423,500,000)

a. Projected

b. Employer contributions are estimated net of the amount collected and remitted to the State of Illinois for repayment of Bond principal and interest payments.

c. Projected using the Governor's Budget Book recommendations.

SERS Website

The SERS website (www.state.il.us/srs) continues to see increased visits as members become aware of all the information it contains.

Recently, we added a couple of new links. These links include:

- A **Legislation Link** lists all pending legislation affecting SERS members and retirees. This link allows you to click on the bill number to read the full text and a brief synopsis of the bill, as well as the ability to monitor the bill's movement through the legislative process. At the end of each bill's description is a link to the SERS Position Statement with a short comment on the bill and whether we support, oppose, or have no position on it.
- A **"Steps Before Retiring"** link which takes you through the various steps you must take before retiring.

If you have questions or feedback about our website, feel free to email our webmaster at dbain@srs.state.il.us.

U.S. FACTOID



At the end of each school year, there are 2.9 million high school diplomas awarded in the U.S. That diploma is worth an estimated lifetime earnings of \$1.2 million.

Get a bachelor's degree and lifetime earnings nearly double; go to work without finishing high school and earnings prospects drop to about \$1 million.

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Deferred Compensation Adding New Investment Choices

The Deferred Compensation Plan recently completed a detailed review of their current funds and their overall investment lineup. As a result, they will offer new diversification opportunities later this year.

The most prominent change to the Plan is the addition of lifestyle funds. These funds have an asset mix that is determined by the level of risk and return appropriate to each investor's current life situation.

Lifestyle funds have professional managers who allocate assets between stocks, bonds and money instruments. These managers periodically reallocate assets to a lower market risk as each fund approaches its retirement date.

By using this method, a participant could choose just one fund based on their retirement date, and make no

further changes for the rest of their life.

Two additional mutual funds are also being added—a large-cap value fund and a large-cap blended fund. To accommodate these new funds, the Plan will be split into two tiers.

The lifestyle funds will occupy the first tier and are designed to be the main investment in a person's portfolio. All of the existing funds will be in the second tier where participants can create their own retirement portfolios.

All other aspects of the Plan—selecting funds, making trades and exchanges—probably won't change. If you have questions about any upcoming changes, contact Deferred Compensation at 1-800-442-1300 ext. 3, or 217-782-7006.

Statements of Plan Net Assets
June 30, 2004 and 2003

	2004	2003
ASSETS		
Cash	\$ 66,642,027	\$ 36,049,053
Receivables	85,035,275	31,658,281
Investments (at fair value)	9,840,077,880	7,436,093,948
Equipment (net of acc. depr.)	<u>3,152,081</u>	<u>3,087,685</u>
Total Assets	\$ 9,994,907,263	\$ 7,506,888,967
Total Liabilities	\$ (4,720,389)	\$ (4,777,551)
Net Assets Held in Trust for Pension Benefits	\$ 9,990,186,874	\$ 7,502,111,416

Statements of Changes in Plan Net Assets
June 30, 2004 and 2003

	2004	2003
REVENUES		
Contributions:		
Members	\$ 199,826,465	\$ 285,209,344
Employer	1,864,673,411	396,067,236
Total Contributions	\$ 2,064,499,876	\$ 681,276,580
Investment Income	\$ 1,421,912,540	\$ 15,019,764
TOTAL REVENUES	\$ 3,486,412,416	\$ 696,296,344
EXPENSES		
Benefits	\$ 978,201,010	\$ 831,486,596
Refunds (including transfers)	12,442,600	28,369,787
Administrative	<u>7,693,348</u>	<u>8,221,236</u>
TOTAL EXPENSES	\$ 998,336,958	\$ 868,077,619
Net Increase/(Decrease)	2,488,075,458	(171,781,275)
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	7,502,111,416	7,673,892,691
End of Year	\$ 9,990,186,874	\$ 7,502,111,416

This Year's #'s

OPERATIONS

Employer contributions went up substantially in FY04 due to several factors. On July 2, 2003, the State of Illinois deposited proceeds from the sale of bonds into SERS in the amount of \$1,385.9 million.

Additionally, the employer contribution rate went from 10.6% in FY03 to 13.715% in FY04. Benefit payments also increased substantially as the effects of the FY03 ERI program became evident. Benefit expenses went from \$831.5 million in FY03 to \$978.2 million in FY04.

In FY04, refund payments declined significantly from FY03 levels. This was due to a large number of widows/survivors and alternative formulas refunds in FY03 as a result of the ERI program.

INVESTMENTS

By state law, SERS' investment function is managed by the Illinois State Board of Investment (ISBI) along with the Judges' and General Assembly Retirement Systems. All investments are accounted for in a commingled ISBI fund.

In FY 04, investment income increased dramatically, with the rate of return at 16.4%, compared to 0.3% in FY03. This resulted in an increase in investment revenue of over \$1.4 billion from FY03 to FY04.

FUNDING

The most recent actuarial valuation shows the total SERS actuarial liability was \$18.4 billion. The amount of liabilities exceeded net assets by \$8.5 billion on June 30, 2004, compared to an excess of \$10.1 billion on June 30, 2003.

The funded status of SERS on June 30, 2004 increased to 54.2% from 42.6% on June 30, 2003.

2005 Preretirement Workshops

Take the time to come, listen, learn, and evaluate where you are and where you want to be. You owe it to your future well-being!

To register for a 2005 workshop, you must contact your agency's Retirement Coordinator. If you are not sure who your Retirement Coordinator is, check the "At a Glance" section of your Benefit Statement.

All SERS members who signed up for a 2004 workshop but received a rejection notice, will AUTOMATICALLY be placed in a 2005 workshop in the same location. You don't have to sign up again.

We will send you and your Retirement Coordinator a confirmation letter for the new date.

INVESTING IN YOUR FUTURE

For employees under age 45

Apr. 19	Joliet
May 10	Urbana
Jun. 7	Rockford
Jun. 21	Springfield
Jul. 19	Mt. Vernon
Aug. 2	Springfield
Sep. 13	Chicago
Sep. 27	Springfield
Oct. 4	Orland Park
Oct. 25	Fairview Heights
Nov. 1	Chicago

Sep. 21 & 22	Morton
Oct. 5 & 6	Effingham
Oct 12 & 13	Springfield
Nov. 2 & 3	Chicago
Nov. 16 & 17	Springfield
Dec. 7 & 8	Springfield

COUNTDOWN TO RETIREMENT For employees within 3 years of retirement

EDUCATION FOR TOMORROW'S CHOICES

For employees 5-15 years from retirement

May 4 & 5	DeKalb
May 18 & 19	Springfield
May 18 & 19	Chicago
May 25 & 26	Mt. Vernon
Jun. 1 & 2	Springfield
Jul. 6 & 7	Springfield
Aug. 24 & 25	Chicago
Sep. 7 & 8	Springfield
Sep. 14 & 15	Springfield

Apr. 28	Chicago
May 24	Quincy
Jun. 23	Springfield
Jul. 7	Urbana
Jul. 14	Springfield
Jul. 21	Springfield
Aug. 4	Mt. Vernon
Aug. 11	Springfield
Aug. 18	Chicago
Sep. 1	Springfield
Sep. 15	Morton
Sep. 29	Carbondale
Oct. 6	Orland Park
Oct. 13	Rockford
Oct. 20	Moline
Oct. 27	Chicago
Dec. 1	Chicago

