

**GENERAL ASSEMBLY RETIREMENT SYSTEM-
A COMPONENT UNIT OF
THE STATE OF ILLINOIS**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 1994**

GENERAL ASSEMBLY
RETIREMENT SYSTEM,
STATE OF ILLINOIS

2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794 - 9255

Prepared by the
Accounting Division

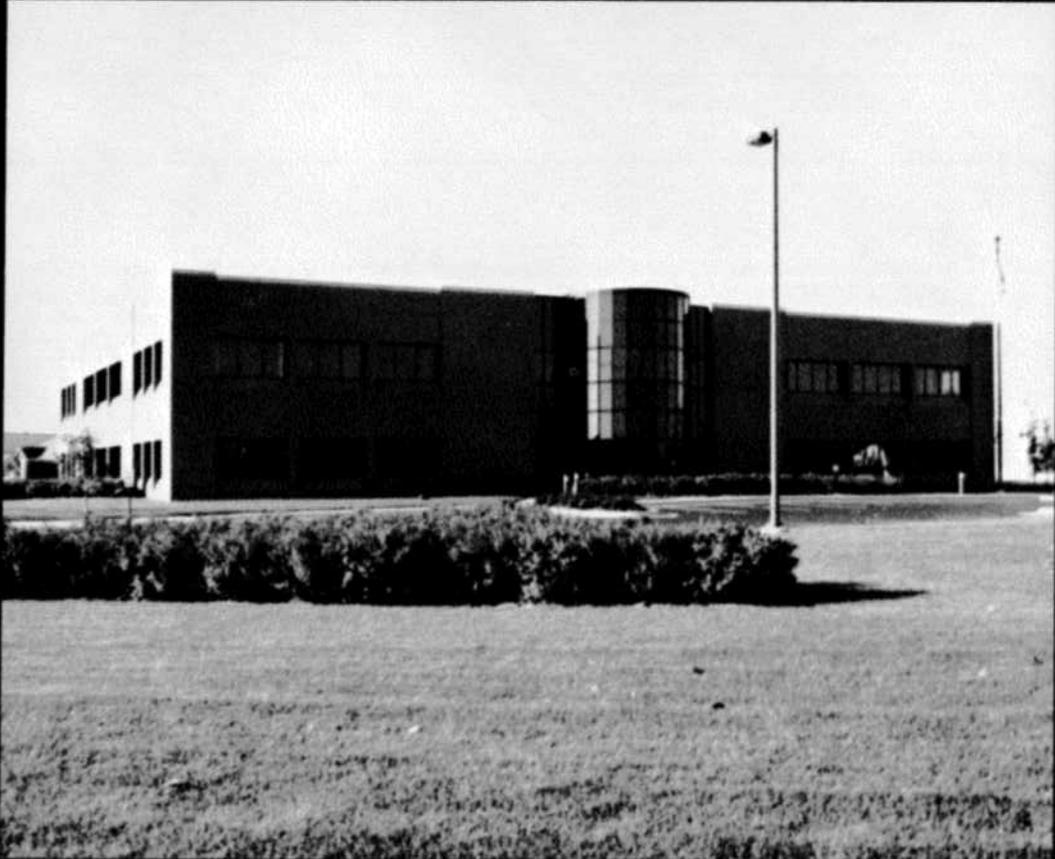
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INTRODUCTORY SECTION



State Retirement Systems Building
Springfield, Illinois



STATE
RETIREMENT
SYSTEMS

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255

November 30, 1994

The Board of Trustees and Members
General Assembly Retirement System,
State of Illinois
Springfield, IL 62794

Dear Board of Trustees and Members:

The comprehensive annual financial report of the General Assembly Retirement System (System), a component unit of the State of Illinois, for the fiscal year ended June 30, 1994 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization;
2. The Financial Section which contains the report of the independent public accountants, the financial statements of the System, and the supplementary financial information;
3. The Actuarial Section which contains the report of the Actuary as well as the summary of major actuarial assumptions and certain tables;
4. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

The Governmental Accounting Standards Board (GASB) has adopted Statement No. 14 entitled "The Financial Reporting Entity", (GASB Stmt. 14) which establishes standards for defining and reporting on the financial reporting entity. The requirements of the statement apply at all levels to all state and local governments. Using the guidance provided in GASB Stmt. 14 regarding a) the definition of the component unit and b) financial accountability, there are no other state agencies, boards or commissions which were required to be included in the financial statements of the System. Because of the closeness of the System's relationship to the primary government (i.e. the State of Illinois), the financial transactions of the System are reported as a blended component unit of the State of Illinois in the State's comprehensive annual financial report.

Although the General Assembly Retirement System, State Employees' Retirement System and Judges' Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the General Assembly Retirement System do not include balance sheet information nor the results of operations of the State Employees' Retirement System or Judges' Retirement System.

PLAN HISTORY AND SERVICES PROVIDED

The General Assembly Retirement System (System) was established as a public employee retirement system (PERS) by state statute on July 8, 1947. The purpose of the System as prescribed by state statute is to "provide retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected state officials and their beneficiaries".

Responsibility for operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable state statute.

REVENUES

Collections of employer and participant retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These income sources totaled \$6.604 million during the fiscal year ending June 30, 1994, which is a substantial decrease from revenue reported for fiscal year 1993, shown as follows:

	1994	1993	Increase/(Decrease)	
	(Millions)	(Millions)	(Millions)	(Percentage)
Contributions:				
Participants	\$ 1.011	\$ 2.499	\$ (1.488)	(59.5)%
Employer	2.117	2.711	(.594)	(21.9)%
Investments	3.476	3.518	(.042)	(1.2)%
Total Revenue	<u>\$ 6.604</u>	<u>\$ 8.728</u>	<u>\$ (2.124)</u>	<u>(24.3)%</u>

The decrease in participant and employer contributions resulted primarily from a large number of participants electing to transfer service credits from reciprocating retirement systems during fiscal year 1993. The decrease in total investments income of \$42.0 thousand was primarily due to a decrease in the net realized gains on sale of investments.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. The payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses of the System for 1994 and 1993 are shown below for comparison purposes.

	1994	1993	Increase/(Decrease)	
	(Millions)	(Millions)	(Millions)	(Percentage)
Benefits:				
Retirement annuities	\$ 4.943	\$ 4.241	\$.702	16.6%
Survivors' annuities	1.189	1.073	.116	10.8%
Total Benefits Expenses	<u>\$ 6.132</u>	<u>\$ 5.314</u>	<u>\$.818</u>	<u>15.4%</u>
Refunds	.042	.154	(.112)	(72.7)%
Administrative expenses	.194	.204	(.010)	(4.9)%
Total Expenses	<u>\$ 6.368</u>	<u>\$ 5.672</u>	<u>\$.696</u>	<u>12.3%</u>

The increase in benefit payments resulted primarily from (1) an increase in the average benefit payment amount and (2) post retirement annuity increases granted each January 1.

INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes. For the fiscal year ended June 30, 1994, the total investment return on the market value of assets managed by the ISBI was 4.0% compared to 12.1% during the fiscal year ended June 30, 1993.

Total fiscal year 1994 investment income of \$3.476 million represents a decrease of \$42.0 thousand (1.19%) over the fiscal year 1993 level of \$3.518 million. The System's total investments revenue for fiscal year 1994 and 1993 is shown for comparison purposes.

	1994	1993	Increase/(Decrease)	
	(Millions)	(Millions)	(Millions)	(Percentage)
Net investments income	\$ 1.999	\$ 1.993	\$.006	.30%
Net realized gain on sale of investments	1.432	1.474	(.042)	(2.85)%
Interest earned on cash balances	.045	.051	(.006)	(11.76)%
Total Investments revenue	<u>\$ 3.476</u>	<u>\$ 3.518</u>	<u>\$ (.042)</u>	<u>(1.19)%</u>

Income from investments has, over the years, become a greater share of the total revenue of the System. For the fiscal year ended June 30, 1994, income from investments represents 52.6% of total fund revenue.

A detailed discussion of investment performance and strategies are provided in the Investment Section of this report.

FUNDING AND RESERVES

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

The actuarial determined liability of the System at June 30, 1994, amounted to \$110.7 million. The fund balances for participant contributions and future operations amounted to \$40.9 million as of the same date. The amount by which the actuarial determined liability exceeds the fund balances is called the "unfunded present value of credited projected benefits." The unfunded present value of credited projected benefits amounts to \$69.8 million and reflects the continuing state policy of appropriating funds at amounts less than the actuarially determined contribution requirement. A detailed discussion of funding is provided in the Actuarial Section of this report.

ECONOMIC CONDITION AND OUTLOOK

Financing the retirement benefits that are being earned is one of the most important issues facing the General Assembly Retirement System. Over the years, a number of individuals and organizations have stressed the need for sound funding of the state's retirement systems including the General Assembly Retirement System. Although previous attempts have been made at providing an adequate funding level to the System, none have been very successful since the State of Illinois, as well as many other units of state and local government across the nation, are experiencing times of limited revenue growth and increased demands for more government services.

The matter of funding the state's retirement systems surfaced again this spring and a discussion of alternatives to the current funding plan began. As a result, several funding plans were introduced in the General Assembly during the past legislative session which ultimately resulted in the unanimous passage of legislation (Senate Bill 533) designed to adequately fund the state's retirement systems, including the General Assembly Retirement System.

In August, 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which becomes effective on July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

Although long-term in nature, we believe this legislation is an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the General Assembly Retirement System.

In addition to the new funding plan, there have been other recent legislative changes which have had a direct impact on the funding of the System. These changes were a direct reflection of current economic conditions in the State of Illinois:

- Senate Bill 1949 passed in the 1992 spring session of the General Assembly changed the state's Unclaimed Property Act to provide for a holding period of five instead of seven years. This resulted in the availability of an additional \$50 million which was divided among the five state financed retirement systems during fiscal year 1993. As a result of this legislation, the System received an additional \$205,000.
- The General Assembly also approved House Bill 3230, providing for a continuing appropriation of funds to the five state financed retirement systems from unclaimed property receipts. This legislation has the effect of making the annual appropriation of these funds automatic, not requiring specific action of the General Assembly.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure of the financial status of a retirement system because no universally accepted measure of the financial status presently exists. The passage of a new funding plan by the state's General Assembly should ensure that benefits, both those presently accrued and those that will be earned in the future, will continue to be provided for in a timely and consistent manner.

MAJOR INITIATIVES

During the past fiscal year, the System completed work on several major projects. Most significant was the development of a new pre-retirement program designed to assist participants who are planning to retire to realistically assess their future needs and life-styles and to achieve their selected future goals. In addition, new annual survivor and annuitant statements designed to provide annuitant members and survivors with current benefit amounts and beneficiary designations were mailed to annuitants and survivors in May, 1994.

Projects for fiscal year 1995 include the implementation of an automated benefit calculation system; development of an expanded member statement to include the name(s) and amount(s) of service in other reciprocal system(s); and the updating of the participant handbook titled "Benefits - Your Rights and Responsibilities" for mailing to the membership during early 1995.

Additionally, during fiscal year 1995, the System will begin to offer a post-retirement program for annuitants and survivors. This program is designed to assist annuitants and survivors to understand the benefits available to them, plus assist them in the continued reassessment of the goals established prior to retirement.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the General Assembly Retirement System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. The General Assembly Retirement System also uses the State of Illinois, Comptroller's Uniform Statewide Accounting System (CUSAS) as a basis for the preparation of the financial statements. In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by Goldstein & Associates, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a two year compliance audit was also performed by the auditors. The purpose of the compliance audit was to determine whether the General Assembly Retirement System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the General Assembly Retirement System for its component unit financial report for the fiscal year ended June 30, 1993. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

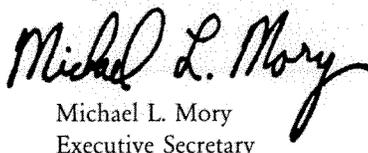
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The General Assembly Retirement System has received a Certificate of Achievement for the last five consecutive years (fiscal years ended June 30, 1989 through June 30, 1993). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the participants in the State of Illinois. On behalf of the Board of Trustees we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,


Michael L. Mory
Executive Secretary


David M. Richter, CPA
Accounting Division



REPRESENTATIVE
Lee A. Daniels
Chairman



REPRESENTATIVE
Philip W. Collins
Retired Annuitant Member



SENATOR
Laura Kent Donahue



REPRESENTATIVE
Kurt M. Granberg



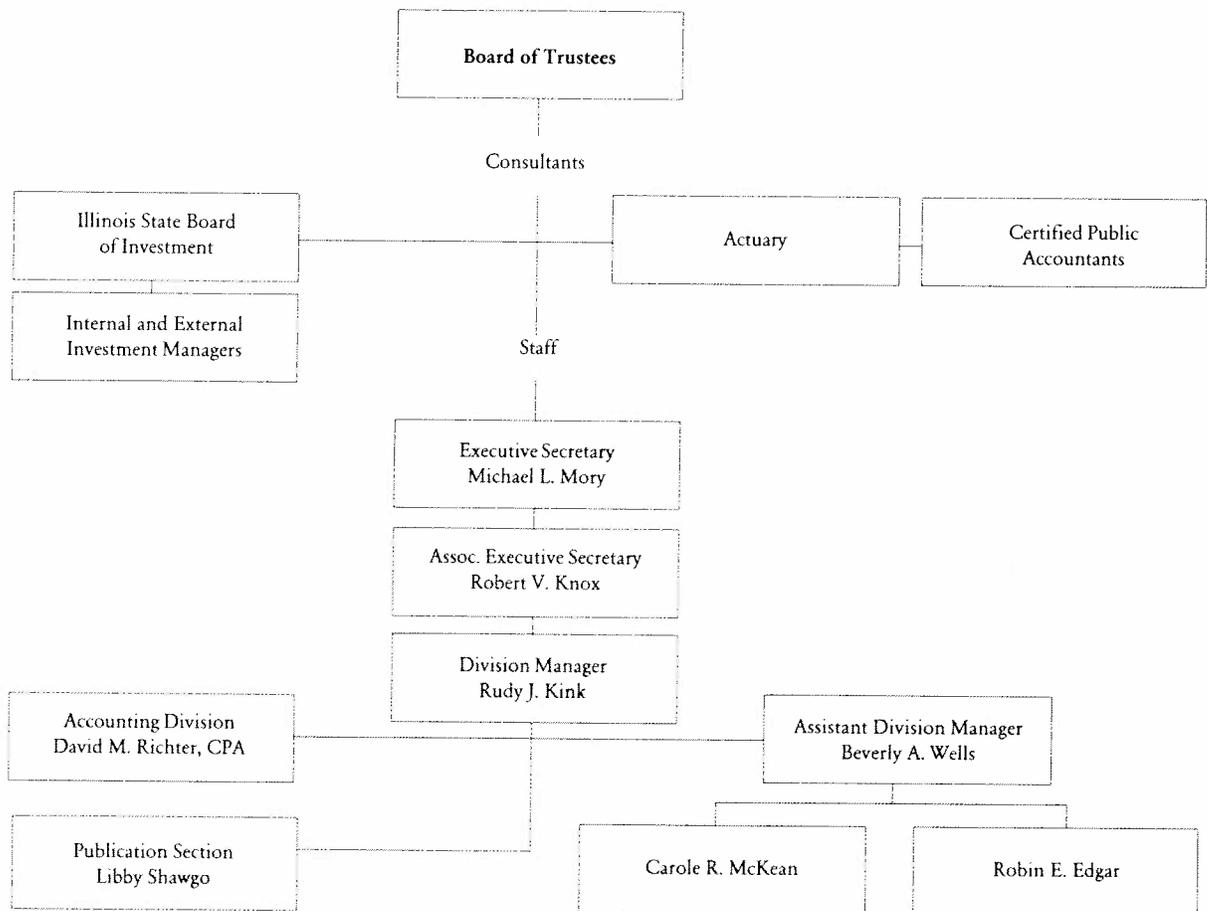
SENATOR
Emil Jones, Jr.



SENATOR
Robert A. Madigan



REPRESENTATIVE
Donald L. Saltsman



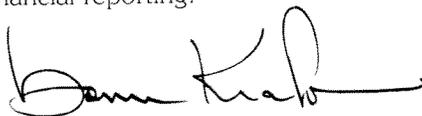
Certificate of Achievement for Excellence in Financial Reporting

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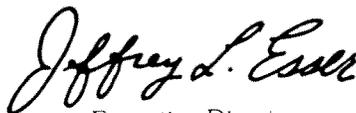
General Assembly
Retirement System,
State of Illinois

For its Component Unit
Financial Report
for the Fiscal Year Ended
June 30, 1993

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose component unit financial reports (CUFRs) achieve the highest standards in government accounting and financial reporting.



President



Executive Director

FINANCIAL SECTION



Illinois State Capitol
Springfield, Illinois



McGLADREY & PULLEN

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable William G. Holland
Auditor General, State of Illinois
Springfield, Illinois

Board of Trustees
General Assembly Retirement System, State of Illinois
Springfield, Illinois

We have audited, as special assistant auditors for the Illinois Auditor General, the accompanying financial statements of the General Assembly Retirement System, State of Illinois as of and for the years ended June 30, 1994 and 1993. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Assembly Retirement System, State of Illinois, as of June 30, 1994 and 1993, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements as of and for the years ended June 30, 1994 and 1993, taken as a whole. The supplementary information included on pages 23 through 25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information as of and for the years ended June 30, 1994 and 1993, has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen

Springfield, Illinois
October 21, 1994

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Balance Sheets

June 30, 1994 and 1993

Assets	1994	1993
Cash	\$ 1,177,781	\$ 2,159,819
Receivables:		
Employer contributions	\$ -	\$ 477,950
Participants' contributions	279	366
Refundable annuities	-	947
Interest on cash balances	2,912	6,222
	<u>\$ 3,191</u>	<u>\$ 485,485</u>
Investments - held in the Illinois State Board of Investment Commingled Fund, at cost (Market value: 1994, \$43,993,168 1993, \$43,922,409) (Note 3)	\$ 39,825,825	\$ 38,094,187
Equipment, net of accumulated depreciation (Note 8)	12,120	17,184
Total Assets	<u>\$ 41,018,917</u>	<u>\$ 40,756,675</u>
Liabilities and Fund Balance		
Liabilities		
Benefits payable	\$ 670	\$ 1,854
Refunds payable	35,405	10,127
Administrative expenses payable (Note 9)	21,645	16,105
Due to Judges' Retirement System of Illinois	45,430	54,499
Participant deferred service credit accounts	5,200	400
Total Liabilities	<u>\$ 108,350</u>	<u>\$ 82,985</u>
Fund Balance		
Actuarial present value of credited projected benefits (Note 5)	\$ 110,719,958	\$ 102,500,733
Less unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(69,809,391)	(61,827,043)
Total Fund Balance (Note 10)	<u>\$ 40,910,567</u>	<u>\$ 40,673,690</u>
Total Liabilities and Fund Balance	<u>\$ 41,018,917</u>	<u>\$ 40,756,675</u>

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1994 and 1993

	1994	1993
Revenue:		
Contributions:		
Participants	\$ 1,011,354	\$ 2,498,833
Employer	2,116,800	2,711,285
Total Contributions revenue	<u>\$ 3,128,154</u>	<u>\$ 5,210,118</u>
Investments:		
Net investments income	\$ 1,999,664	\$ 1,992,609
Interest earned on cash balances	44,665	50,814
Net realized gain on sale of investments	1,431,974	1,474,205
Total Investments revenue	<u>\$ 3,476,303</u>	<u>\$ 3,517,628</u>
Total Revenue	<u>\$ 6,604,457</u>	<u>\$ 8,727,746</u>
Expenses:		
Benefits:		
Retirement annuities	\$ 4,942,821	\$ 4,241,273
Survivors' annuities	1,188,675	1,073,108
Total Benefits	<u>\$ 6,131,496</u>	<u>\$ 5,314,381</u>
Refunds	41,590	154,283
Administrative (Note 7)	194,494	203,610
Total Expenses	<u>\$ 6,367,580</u>	<u>\$ 5,672,274</u>
Excess of Revenue over Expenses	<u>\$ 236,877</u>	<u>\$ 3,055,472</u>
Fund Balance at beginning of year	<u>\$40,673,690</u>	<u>\$37,618,218</u>
Fund Balance at end of year	<u>\$40,910,567</u>	<u>\$40,673,690</u>
See accompanying notes to financial statements.		

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements

June 30, 1994 and 1993

(1) Reporting Entity

The General Assembly Retirement System (System) is a component unit of the State of Illinois. The System is considered part of the State of Illinois financial reporting entity and is included in the state's comprehensive annual financial report as a pension trust fund.

The Governmental Accounting Standards Board (GASB) has adopted Statement No. 14 entitled "The Financial Reporting Entity", (GASB Stmt. 14) which establishes standards for defining and reporting on the financial reporting entity. The requirements of the statement apply at all levels to all state and local governments. Using the guidance provided in GASB Stmt. 14 regarding a) the definition of the component unit and b) financial accountability, there are no other state agencies, boards or commissions which were required to be included in the financial reporting entity. Because of the closeness of the System's relationship to the primary government (i.e. the State of Illinois), the financial transactions of the System are reported as a blended component unit of the State of Illinois in the State's comprehensive annual financial report.

(2) Plan Description

The System is the administrator of a single-employer defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants.

At June 30, 1994 and 1993, the System membership consisted of:

	1994	1993
Retirees and beneficiaries		
currently receiving benefits:		
Retirement annuities	222	230
Survivors' annuities	131	128
Reversionary annuities	3	3
	<u>356</u>	<u>361</u>
Inactive participants entitled		
to benefits but not yet		
receiving them	101	107
Total	<u>457</u>	<u>468</u>
Current Participants:		
Vested	114	116
Nonvested	70	70
Total	<u>184</u>	<u>186</u>

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System.

(a) Eligibility and Membership

The General Assembly Retirement System covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation by eligible persons is optional.

(b) Contributions

In accordance with Chapter 40 Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases. Contributions are excluded from gross income for Federal and State income tax purposes.

The total contribution rate is 11.5% as shown below:

8.5%	Retirement annuity
2.0%	Survivors' annuity
1.0%	Automatic annual increases
<u>11.5%</u>	

The statutes governing the General Assembly Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service. The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Chapter 40, Article 5/2 of the Illinois Compiled Statutes.

(c) Benefits

The General Assembly Retirement System, State of Illinois, was established in 1947 as a component unit of the State of Illinois and is governed by Chapter 40, Article 5/2 of the Illinois Compiled Statutes.

After eight years of credited service, participants have vested rights to retirement benefits beginning at age 55, or after four years of service with retirement benefits beginning at age 62. The General Assembly Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, reversionary annuity benefits, and under specified conditions, lump sum death benefits. Participants who terminate service may receive, upon application, a refund of their total contributions.

The retirement annuity is determined according to the following formula based upon the participants' final rate of salary.

3.0%	for each of the first 4 years of service, plus
3.5%	for each of the next 2 years of service, plus
4.0%	for each of the next 2 years of service, plus
4.5%	for each of the next 4 years of service, plus
5.0%	for each year of service in excess of 12 years

The maximum retirement annuity payable is 85% of the final rate of salary.

(3) Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting

The financial transactions of the System are recorded on the accrual basis of accounting and in conformity with generally accepted accounting principles. Participant and employer contributions are recognized as revenues in the period in which employee services are performed.

(b) Method Used to Value Investments

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are

initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI Board's master custodian is The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Chapter 40, Article 5/22A of the Illinois Compiled Statutes. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

The System owns 1.0% of the ISBI Commingled Fund as of June 30, 1994.

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires certain financial statement disclosure of deposits and investments, such as the disclosure of carrying amounts by type of investment and classification into one of three categories based upon credit risk. Investments in pools managed by other governmental agencies, in general, are to be disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form.

Listed below are the ISBI investments, as categorized in the ISBI annual financial report. They are categorized to indicate the level of risk assumed by the ISBI Board at year end. Category I includes investments that are insured or registered or for which the securities are held by the master custodian in the ISBI Board's name. Category II includes investments that are uninsured and unregistered for which the securities are held by the counterparty's agent in the ISBI Board's name. Category III includes investments that are uninsured and unregistered for which the securities are held by the counterparty but not in the ISBI Board's name.

At June 30, 1994, the ISBI Board's investments were categorized as follows:

	Category I	Category II	Category III	Total
U.S. Government & Agency				
Obligations	\$ 195,337,470	\$ -	\$ -	\$ 195,337,470
Foreign Obligations	40,726,130	-	-	40,726,130
Foreign Equity Securities	272,535,209	-	-	272,535,209
Corporate Obligations	795,607,929	-	-	795,607,929
Convertible Bonds	21,296,078	-	-	21,296,078
Common Stock &				
Equity Funds	1,363,240,672	-	-	1,363,240,672
Convertible Preferred Stock	20,405,959	-	-	20,405,959
Preferred Stock	3,435,329	-	-	3,435,329
Money Market Instruments	114,988,380	-	-	114,988,380
Forward Foreign Exchange Contracts	(1,736,655)	-	-	(1,736,655)
SUBTOTAL	<u>\$ 2,825,836,501</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,825,836,501</u>
Non-categorized Investments				1,468,773,266
TOTAL				<u>\$ 4,294,609,767</u>

The ISBI Board participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI Board receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1994 and 1993, the ISBI Board had outstanding loaned investment securities having a market value of approximately \$615,899,376 and \$513,658,273, respectively, against which it had received collateral of approximately \$636,696,687 and \$529,068,021, respectively.

(c) Fixed Assets

Expenditures for fixed assets are capitalized and depreciated over their estimated useful lives.

(d) Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was performed as of June 30, 1992.

(e) Administrative Expenses

Expenses related to the administration of the System are budgeted and approved by the System's Board of Trustees. Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are borne 40% by the General Assembly Retirement System and 60% by the Judges' Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 1994 and 1993, were \$158,367 and \$176,826, respectively.

(4) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of participant service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the General Assembly Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS. The measure is the same as the actuarial funding method used to determine contributions to the System discussed in Note 5.

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1994. Significant actuarial assumptions used include (a) rates of return on the investment of present and future assets of 8.0% per year (consisting of an inflation component of 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, (b) projected salary increase of 6.5% per year (consisting of a general component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/merit component of 1.5% per year), compounded annually, (c) mortality rates based on the UP-1984 Mortality Table, (d) assumed age at retirement ranging from 55 to 70, based upon recent history with the System, (e) 75% of participants are assumed to be married, (f) the age of the spouse is assumed to be 4 years younger than the age of the participant, and (g) termination rates based upon the recent experience of the System.

At June 30, 1994 and 1993, the unfunded pension benefit obligation was \$69,809,391 and \$61,827,043 as follows:

	1994	1993
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits, including inactive participants	\$ 82,026,719	\$ 75,439,071
Current Participants:		
Accumulated participant contributions	7,236,828	6,640,182
Employer-financed vested	12,467,800	12,168,754
Employer-financed nonvested	8,988,611	8,252,726
Total Pension benefit obligation	<u>\$110,719,958</u>	<u>\$102,500,733</u>
Net assets available for benefits, at cost (market value at June 30, 1994 \$45,077,910; June 30, 1993 \$46,501,912)	<u>40,910,567</u>	<u>40,673,690</u>
Unfunded pension benefit obligation	<u>\$ 69,809,391</u>	<u>\$ 61,827,043</u>

There were no benefit changes enacted during fiscal year 1994 having a significant impact on the actuarial present value of credited projected benefits and the related unfunded liability.

Senate Bill 1650, which was signed into law on January 25, 1993 as Public Act 87-1265, made several changes to the benefit provisions of the System, the most significant of which allowed participants to establish creditable service for up to two years of military service by making the required payment to the System excluding the payment for the employer's normal cost of the benefits provided such payment was made before May 1, 1993. These benefit changes had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded liability by \$719,000 during fiscal year 1993.

(5) Contributions Required and Contributions Made

Public Act 86-0273, which was signed into law on August 23, 1989, enacted a funding policy under which, starting with fiscal year 1990, the employer contributions made by the State of Illinois were to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state employer contribution would be an amount that, when added to other sources of employer contributions, is sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method.

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method. The same actuarial assumptions were used to determine the contribution requirements as are used to compute the pension benefit obligation discussed in Note 4. For fiscal years prior to 1990, the required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal years after 1989, required employer contributions have been actuarially determined in accordance with the funding policy legislated by Public Act 86-0273. The state, however, has never funded the System in accordance with the funding policy established by law.

It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the amount certified by the Board of Trustees.

The total amount of actuarially determined contributions required for the fiscal year ended June 30, 1994 amounted to \$3,853,000 and consisted of (a) \$2,641,000 normal cost and (b) \$1,212,000 amortization of the unfunded actuarial accrued liability. Contributions totaling \$3,128,154 (\$2,116,800 employer and \$1,011,354 employee) were made during fiscal year 1994 and consisted of (a) \$2,663,354 normal cost and (b) \$464,800 amortization of the unfunded actuarial liability.

A comparison of the actuarially determined funding requirement for the fiscal year ended June 30, 1994, versus the actual funding, shows that the state's employer contributions were not made in accordance with the actuarially determined employer contribution requirements for the fiscal year.

	Pension Contributions			Received
	Required	Amortization of Unfunded Liability	Total	
Participants	\$ 989,000	\$ -	\$ 989,000	\$ 1,011,354
Percent of Pay	11.50%	-	11.50%	11.76%
Employer	1,652,000	1,212,000	2,864,000	2,116,800
Percent of Pay	19.22%	14.10%	33.32%	24.62%
Total	\$ 2,641,000	\$ 1,212,000	\$ 3,853,000	\$ 3,128,154
Percent of Pay	30.72%	14.10%	44.82%	36.38%
Participant Payroll	<u>\$ 8,597,000</u>			

(6) Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 23-24.

(7) Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 1994 and 1993 is as follows:

	1994	1993
Personal services	\$ 105,588	\$ 99,406
Employee retirement contributions paid by employer	4,228	3,979
Employer retirement contributions	5,887	4,845
Social Security contributions	7,244	6,893
Group insurance	10,968	11,520
Contractual services	38,661	35,248
Travel	2,549	1,695
Printing	3,319	2,985
Commodities	288	368
Telecommunications	804	860
Electronic Data Processing	7,369	24,165
Depreciation	5,256	3,478
Other	2,333	8,168
Total	<u>\$ 194,494</u>	<u>\$ 203,610</u>

(8) Equipment

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, and (3) certain electronic data processing equipment - 3 years.

A summary of the changes in fixed assets for fiscal years 1994 and 1993 is as follows:

	1994			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 26,572	\$ 192	\$ -	\$ 26,764
Accumulated Depreciation	(9,388)	(5,256)	-	(14,644)
Equipment, net	<u>\$ 17,184</u>	<u>\$ (5,064)</u>	<u>\$ -</u>	<u>\$ 12,120</u>
	1993			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 27,456	\$ 10,372	\$ (11,256)	\$ 26,572
Accumulated Depreciation	(11,293)	(3,478)	5,383	(9,388)
Equipment, net	<u>\$ 16,163</u>	<u>\$ 6,894</u>	<u>\$ (5,873)</u>	<u>\$ 17,184</u>

(9) Accrued Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. The value of accrued compensated absences as of June 30, 1994 and 1993 was \$15,944 and \$13,605 respectively. These amounts are included as administrative expenses payable in the financial statements.

(10) Analysis of Changes in Fund Balances

The funded statutory reserves of the General Assembly Retirement System are composed of two components as follows:

(a) Reserve for Participants' Contributions -

This reserve consists of participants' accumulated contributions for retirement annuities, survivors' annuities and automatic annual increases.

(b) Reserve for Future Operations -

This reserve is the balance remaining in the General Assembly Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the General Assembly Retirement System.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS			
Statements of Changes in Fund Balances			
Years ended June 30, 1994 and 1993			
	Participants' Contributions	Future Operations	Total Fund Balance
Balance at June 30, 1992	\$ 10,098,012	\$ 27,520,206	\$ 37,618,218
Add (deduct):			
Excess of revenue over expenses	2,368,276	687,196	3,055,472
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(2,202,433)	2,202,433	-
Balance at June 30, 1993	\$ 10,263,855	\$ 30,409,835	\$ 40,673,690
Add (deduct):			
Excess of revenue over expenses	1,004,628	(767,751)	236,877
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(534,029)	534,029	-
Balance at June 30, 1994	\$ 10,734,454	\$ 30,176,113	\$ 40,910,567

(11) Pension Disclosure

All of the System's full-time employees who are not eligible for another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a component unit of the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state agencies, including the System, participate on a cost-sharing basis. The financial position and results of operations of the SERS for FY1994 and FY1993 and the related GASB Statement 5 employer disclosures are included in the State's Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 1994 and 1993, respectively. The SERS also issues a separate CAFR.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, is included as an integral part of the SERS CAFR. Also included is a discussion of employer and employee obligations to contribute, the authority under which those obligations are established, as well as an explanation of the pension benefit obligation.

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits.

The pension benefit obligation at June 30, 1994 and June 30, 1993 for the SERS as a whole, determined through an actuarial valuation at that date was \$6.502 billion and \$6.044 billion, respectively. The SERS net assets available for benefits on these respective dates (valued at cost) were \$3.722 billion and \$3.496 billion, leaving unfunded pension benefit obligations of \$2.780 billion and \$2.548 billion. The System's FY1994 and FY1993 contribution requirement represented .004% and .004%, respectively of total contributions required of all state agency/department employers participating in the SERS.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued CAFRs for the years ended June 30, 1994 and June 30, 1993, respectively.

Pertinent financial information relating to the System's participation in SERS is summarized as follows:

The System's covered payrolls for FY1994 and FY1993 were \$105.6 thousand and \$116.8 thousand and the payrolls for all System employees were \$105.6 thousand and \$116.8 thousand, respectively.

The System's (i.e., the employers') actuarially determined contribution requirements for FY1994 and FY1993 were \$5.9 thousand and \$5.7 thousand, respectively, or 5.6% and 4.9% of the System's covered payrolls. For FY1994, the System's and employee contributions actually made were \$5.9 thousand and \$4.2 thousand, respectively, which represents 5.6% and 4.0%, respectively, of the current year covered payroll. For FY1993, the System's and employee contributions actually made were \$5.7 thousand and \$4.7 thousand, respectively, which represents 4.9% and 4.0%, respectively, of the covered payroll.

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System. Substantially all state employees including the System's employees may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 or older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 1994. However, post-employment costs for the state as a whole for all state agencies/departments for health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the state. Cost information for retirees by individual state agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

Analysis of Funding Progress

Fiscal Year	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation**	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1987	\$ 29,140,876	\$ 60,635,325	48.1%	\$ 31,494,449	\$ 6,643,710	474.0%
1988	30,106,386	64,160,481	46.9%	34,054,095	6,873,250	495.5%
1989	31,677,506	62,834,957	50.4%	31,157,451	6,907,676	451.1%
1990	33,442,677	78,623,637	42.5%	45,180,960	7,254,510	622.8%
1991	35,142,093	84,468,429	41.6%	49,326,336	8,238,709	598.7%
1992	37,618,218	88,537,329	42.5%	50,919,111	8,432,000	603.9%
1993	40,673,690	102,500,733	39.7%	61,827,043	8,651,000	714.7%
1994	40,910,567	110,719,958	36.9%	69,809,391	8,597,000	812.0%

* At cost
 ** The pension benefit obligation information is not available for fiscal years prior to 1987.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

Revenues by Source and Expenses by Type

Revenues by Source						
Fiscal Year Ended June 30	Participants' Contributions	Employer Contributions			Income from Investments	Total
		State of Illinois	Other Sources	Total		
1985	\$ 679,000	\$ 2,215,800	\$ 2,932	\$ 2,218,732	\$ 1,516,230	\$ 4,413,962
1986	1,059,024	2,216,200	125,212	2,341,412	3,416,960	6,817,396
1987	767,483	2,214,100	213	2,214,313	3,064,668	6,046,464
1988	796,393	1,970,000	-	1,970,000	1,933,098	4,699,491
1989	869,635	1,997,500	-	1,997,500	2,555,317	5,422,452
1990	1,002,258	2,072,600	74,401	2,147,001	2,665,883	5,815,142
1991	1,486,815	2,072,600	275,161	2,347,761	2,170,740	6,005,316
1992	1,375,885	1,965,600	105,410	2,071,010	3,976,419	7,423,314
1993	2,498,833	2,201,000	510,285	2,711,285	3,517,628	8,727,746
1994	1,011,354	2,116,800	-	2,116,800	3,476,303	6,604,457

Expenses by Type				
Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1986	3,200,212	42,316	86,763	3,329,291
1987	3,461,212	80,202	103,150	3,644,564
1988	3,618,087	16,717	99,177	3,733,981
1989	3,682,411	55,660	113,261	3,851,332
1990	3,880,692	42,427	126,852	4,049,971
1991	4,124,250	36,742	144,908	4,305,900
1992	4,658,134	129,978	159,077	4,947,189
1993	5,314,381	154,283	203,610	5,672,274
1994	6,131,496	41,590	194,494	6,367,580

Analysis of Employer Contributions - Fiscal Year 1988 through 1994

Fiscal Year (A)	(1)	(2)	(3)	(4)	(5)	(6)
	Covered Payroll	State of Illinois Employer Contributions Required (B)	State of Illinois Employer Contributions Required as a % of Covered Payroll (2) ÷ (1)	State of Illinois Employer Contributions Received	State of Illinois Employer Contributions Received as a % of Covered Payroll (4) ÷ (1)	Contributions Required in Excess of Contributions Received (2) - (4)
1988	\$ 6,873,250	\$ 3,273,090	47.6%	\$ 1,970,000	28.7%	\$ 1,303,090
1989	6,907,676	3,514,623	50.9%	1,997,500	28.9%	1,517,123
1990	7,254,510	2,376,310	32.8%	2,072,600	28.6%	303,710
1991	8,238,709	2,428,771	29.5%	2,072,600	25.2%	356,171
1992	8,432,000	2,475,000	29.4%	1,965,600	23.3%	509,400
1993	8,651,000	2,522,000	29.2%	2,201,000	25.4%	321,000
1994	8,597,000	2,864,000	33.3%	2,116,800	24.6%	747,200

(A) = Prior to fiscal year 1988, the Actuary did not determine an "Employer Contribution Required" amount.

(B) = For fiscal year 1988 and 1989, the State of Illinois required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal years after 1989, required employer contributions have been computed in accordance with Public Act 86-0273 which was signed into law on August 23, 1989. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution shall be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution shall be an amount that is sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method.

Schedule of Employer Contributions as a Percentage of Covered Payroll

Fiscal Year	Covered Payroll	State of Illinois Employer Contributions Received	State of Illinois Employer Contributions Received as a % of Covered Payroll
1985	\$5,985,000	\$2,215,800	37.0%
1986	6,480,500	2,216,200	34.2%
1987	6,643,710	2,214,100	33.3%
1988	6,873,250	1,970,000	28.7%
1989	6,907,676	1,997,500	28.9%
1990	7,254,510	2,072,600	28.6%
1991	8,238,709	2,072,600	25.2%
1992	8,432,000	1,965,600	23.3%
1993	8,651,000	2,201,000	25.4%
1994	8,597,000	2,116,800	24.6%

SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 1994 and 1993

	1994	1993
Contributions:		
Participants	\$ 1,002,306	\$ 1,411,592
Interest paid by participants	9,048	465,383
Repayments of contributions refunded	-	67,653
Transferred from reciprocating systems	-	554,205
Total participants contributions	<u>\$ 1,011,354</u>	<u>\$ 2,498,833</u>
General Revenue Fund	\$ 1,911,800	\$ 1,911,800
State Pension Fund	205,000	289,200
Paid by reciprocating systems	-	486,560
Paid by participants	-	23,725
Total employer contributions	<u>\$ 2,116,800</u>	<u>\$ 2,711,285</u>
Total Contributions revenue	<u>\$ 3,128,154</u>	<u>\$ 5,210,118</u>
Investments:		
Net investments income	\$ 1,999,664	\$ 1,992,609
Interest earned on cash balances	44,665	50,814
Net realized gain on sale of investments	1,431,974	1,474,205
Total Investments revenue	<u>\$ 3,476,303</u>	<u>\$ 3,517,628</u>
 Total Revenue	 <u>\$ 6,604,457</u>	 <u>\$ 8,727,746</u>

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 1994 and 1993

	1994	1993
Cash balance, beginning of year	\$ 2,159,819	\$ 1,079,624
Receipts:		
Participant contributions	\$ 1,011,287	\$ 2,483,774
Employer contributions:		
General Revenue Fund	2,389,750	1,433,850
State Pension Fund	205,000	289,200
Paid by reciprocating systems	-	492,105
Paid by participants	-	23,725
Interest income on cash balances	47,975	48,506
Participants' deferred service credit payments	4,800	20,691
Cancellation of annuities	5,830	4,048
Cancellation of refunds	154	-
Transfers from Illinois State Board of Investment	1,700,000	2,000,000
Miscellaneous	6	18
Total cash receipts	<u>\$ 5,364,802</u>	<u>\$ 6,795,917</u>
Disbursements:		
Benefit payments:		
Retirement annuities	\$ 4,945,056	\$ 4,281,237
Survivors' annuities	1,192,507	1,074,254
Refunds	16,312	169,588
Administrative expenses	192,965	190,643
Total cash disbursements	<u>\$ 6,346,840</u>	<u>\$ 5,715,722</u>
Cash balance, end of year	<u>\$ 1,177,781</u>	<u>\$ 2,159,819</u>

ACTUARIAL SECTION



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Springfield, Illinois

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October 18, 1994

Board of Trustees and Executive Secretary
General Assembly Retirement System, State of Illinois
2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794

ACTUARIAL CERTIFICATION

I have completed the annual actuarial valuation of the General Assembly Retirement System as of June 30, 1994. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system.

Since the last actuarial valuation, there have been no changes in the benefit provisions of the system.

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every five years and recommend as a result of such investigation the actuarial assumptions to be adopted. As the actuary, I performed such an experience analysis for the five-year period 1987-1992. Based on this experience analysis, I recommended actuarial assumptions which were adopted by the system's board effective June 30, 1992 and which were used for the current valuation. I believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.

Senate Bill 533, which was signed into law on August 22, 1994 as Public Act 88-0593, enacted a new funding plan for the system. The financing objective under this plan is to have the required State contributions sufficient to bring the total assets of the system up to 90% of the total actuarial liabilities by the end of fiscal year 2045. For fiscal years 2011 through 2045, the required State contributions are to be a level percentage of payroll. For fiscal years 1996 through 2010, the State contribution shall be increased as a percentage of the applicable payroll in equal annual increments so that by fiscal year 2011, the State is contributing at the required rate.

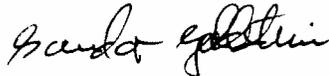
GOLDSTEIN & ASSOCIATES
Consulting Actuaries

Based on the June 30, 1994 actuarial valuation, I have determined the required State contribution under this funding plan for fiscal year 1996. I have also estimated the required State contributions for future years.

The asset values used for the valuation were based on the audited asset information reported by the system. For purposes of the valuation, the book value of the assets of the system (assets valued at cost), less the amount of liabilities, was used. The actuarial liabilities have been valued on the basis of membership data which is supplied by the administrative staff of the system and verified by the system's auditors. I have made additional tests to ensure its accuracy.

In my opinion, the following schedule of valuation results fairly presents the financial condition of the General Assembly Retirement System as of June 30, 1994. The contribution rates determined are in compliance with the provisions of the funding plan enacted under Public Act 88-0593.

Respectfully submitted,



Sandor Goldstein
Fellow of the Society of Actuaries
Enrolled Actuary No. 93-3402

INTRODUCTION

Annually, the System's actuarial consultants perform a valuation of the liabilities and reserves of the System in order to make a determination of the amount of contributions required from the state. These results are then certified to the Board.

The Board, in turn, has the duty of certifying an employer contribution amount required to be paid to the System by the State during the succeeding fiscal year. The employers' contribution amount, together with participants' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Chapter 40, Section 5/2-146 of the Illinois Compiled Statutes.

The state's policy on pension funding has been based on variations of the pay as you go approach. As a result, the System has not received the minimum actuarially determined employer contribution amount in recent years.

The underfunding of employer contributions places undue pressure on one of the other major sources of revenue to the System, namely income from investments, to consistently provide an increasing percentage of total fund revenue. In recent years, the higher than assumed rate of return on investments distorts the fact that employer contributions have not kept pace with prior, current, and future estimated benefit costs.

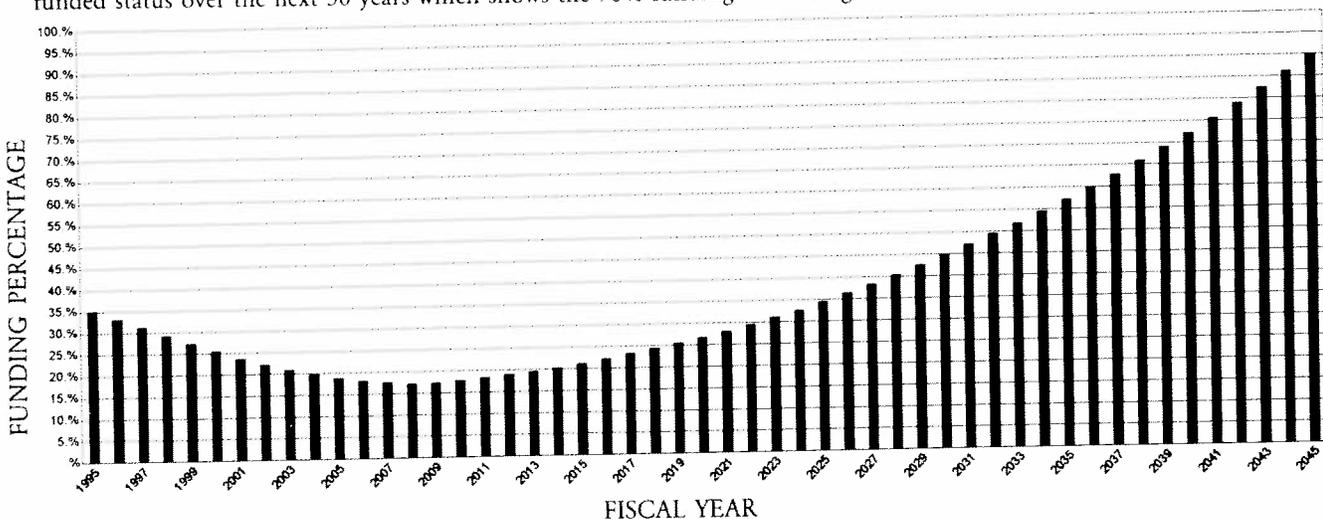
The proper funding of the state's retirement systems has recently been mentioned in the media numerous times and also in this annual report for a number of years. A breakthrough on this topic occurred during this calendar year when, in August 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593.

This funding legislation, which becomes effective on July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

Although long-term in nature, we believe that this legislation is an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the General Assembly Retirement System.

The System's actuary has projected valuation results for a 50 year period commencing with fiscal year 1996. The projection was based on the results of the June 30, 1994 actuarial valuation and the same actuarial assumptions as were used for the valuation. The required employer contributions to the System were calculated in accordance with the contribution requirements in the funding plan established under Public Act 88-0593. Displayed below is a graph of the System's projected funded status over the next 50 years which shows the 90% funding level being achieved in fiscal year 2045.



ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The System utilizes the projected unit credit cost method. Under this method, the actuarial liability is the actuarial present value of that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. The normal cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement. Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. However, for purposes of determining future employer contributions, the actuarial gains and losses are amortized over a 40 year period as a level percentage of payroll.

A description of the actuarial assumptions utilized for fiscal year 1994 and fiscal year 1993 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1987; all other assumptions were adopted June 30, 1992.

Mortality Rates: The UP-1984 Mortality Table was used for the valuation.

Termination Rates: Termination rates based on the recent experience of the System were used. The following termination rates were used:

Age	Rate of Termination
20-54	.060
55 and over	.000

Disability Rates: Disability rates based on the recent experience of the System as well as on published disability rate tables were used. The following is a sample of the disability rates that were used for the valuation:

Age	Rate of Disability	Age	Rate of Disability
30	.00057	45	.00115
35	.00064	50	.00170
40	.00083	55	.00000

Retirement Rates: Rates of retirement for each age from 55 to 70 based on the recent experience of the System were used. The following are samples of the rates of retirement that were used:

Age	Rate of Retirement	Age	Rate of Retirement
55	.14	65	.04
60	.04	70	1.00

The above retirement rates are equivalent to an average retirement age of approximately 63.

Salary Increase: A salary increase assumption of 6.5% per year (consisting of a general increase component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/merit component of 1.5% per year), compounded annually, was used. In determining total covered payroll, the size of the active group is assumed to remain constant.

Interest Rate: An interest rate assumption of 8.0% per year (consisting of an inflation component of 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, was used.

Marital Status: It was assumed that 75% of active participants will be married at the time of retirement.

Spouse's Age: The age of the spouse was assumed to be 4 years younger than the age of the participant.

VALUATION RESULTS

Actuarial Liability (Reserves)	June 30, 1994	June 30, 1993
For Active Participants:		
Basic retirement annuity	\$ 15,021,147	\$ 14,126,325
Annual increase in retirement annuity	4,006,143	3,748,271
Pre-retirement survivors' annuity	2,308,972	2,117,362
Post-retirement survivors' annuity	2,604,143	2,466,223
Withdrawal benefits	4,563,906	4,418,851
Disability benefits	188,928	184,630
Total	<u>\$ 28,693,239</u>	<u>\$ 27,061,662</u>
For Participants Receiving Benefits:		
Retirement annuities	\$ 55,515,167	\$ 53,698,575
Survivor annuities	10,072,803	9,176,440
Total	<u>\$ 65,587,970</u>	<u>\$ 62,875,015</u>
For Inactive Participants	\$ 16,438,749	\$ 12,564,056
Total Actuarial Liability	<u>\$110,719,958</u>	<u>\$102,500,733</u>
Net Assets, Book Value (Cost)	40,910,567	40,673,690
Unfunded Actuarial Liability	<u>\$ 69,809,391</u>	<u>\$ 61,827,043</u>

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active and inactive participant contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active and inactive participants. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active and inactive participants (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

Computed Actuarial Values

Fiscal Year	Aggregate Accrued Liabilities For			Net Real Assets	Percentage of Accrued Liabilities Covered By Net Real Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active and Inactive Participant Contributions	Retirement and Survivor Annuitants	Active and Inactive Participants (Employer Financed Portion)				
1985	\$ 4,612,815	\$ 27,616,936	\$ 26,432,984	\$ 23,250,871	100.0%	67.5%	0.0%
1986	5,373,363	30,829,965	30,247,333	26,738,976	100.0%	69.3%	0.0%
1987	6,414,817	36,673,471	17,547,037	29,140,876	100.0%	62.0%	0.0%
1988	6,861,195	37,155,381	20,143,905	30,106,386	100.0%	62.6%	0.0%
1989	7,208,932	34,062,464	21,563,561	31,677,506	100.0%	71.8%	0.0%
1990	8,237,231	41,411,576	28,974,830	33,442,677	100.0%	60.9%	0.0%
1991	8,959,880	44,998,342	30,510,207	35,142,093	100.0%	58.2%	0.0%
1992	10,098,012	48,987,293	29,452,024	37,618,218	100.0%	56.2%	0.0%
1993	10,263,855	62,875,015	29,361,863	40,673,690	100.0%	48.4%	0.0%
1994	10,734,454	65,587,970	34,397,534	40,910,567	100.0%	46.0%	0.0%

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

Analysis Of Funding

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active participant payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Fiscal Year	Total Actuarial Liability	Net Assets	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Annual Covered Payroll
1985	\$ 58,662,735	\$ 23,250,871	39.6%	\$ 35,411,864	\$ 5,985,000	591.7%
1986	66,450,661	26,738,976	40.2%	39,711,685	6,480,500	612.8%
1987	60,635,325	29,140,876	48.1%	31,494,449	6,643,710	474.0%
1988	64,160,481	30,106,386	46.9%	34,054,095	6,873,250	495.5%
1989	62,834,957	31,677,506	50.4%	31,157,451	6,907,676	451.1%
1990	78,623,637	33,442,677	42.5%	45,180,960	7,254,510	622.8%
1991	84,468,429	35,142,093	41.6%	49,326,336	8,238,709	598.7%
1992	88,537,329	37,618,218	42.5%	50,919,111	8,432,000	603.9%
1993	102,500,733	40,673,690	39.7%	61,827,043	8,651,000	714.7%
1994	110,719,958	40,910,567	36.9%	69,809,391	8,597,000	812.0%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 94	FY 93
Unfunded actuarial liability at Beginning of FY	\$ 61,827,043	\$ 50,919,111
Employer contribution requirement of normal cost plus interest on the unfunded liability	\$ 6,249,778	\$ 5,493,443
Actual employer contribution for the year	2,116,800	2,201,000
Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability	\$ 4,132,978	\$ 3,292,443
(Decrease) in unfunded liability due to investment return greater than assumed	(351,985)	(526,657)
Increase in unfunded liability due to changes in benefit provisions (P.A. 87-1265)	-	719,000
Increase in unfunded liability due to transfers of service credit from reciprocating Systems	-	3,338,000
Increase in unfunded liability due to retirements with higher than expected salaries	-	1,173,000
Increase in unfunded liability due to change in method used to calculate actuarial liability for inactive members	4,357,401	-
Increase/(Decrease) in unfunded liability due to salary increases greater/(less) than assumed	(1,163,218)	197,758
Increase in unfunded liability due to other sources	1,007,172	2,714,388
Total Actuarial (Gains) Losses	\$ 3,849,370	\$ 7,615,489
Net Increase in unfunded liability for the year	\$ 7,982,348	\$ 10,907,932
Unfunded actuarial liability at End of FY	\$ 69,809,391	\$ 61,827,043

SCHEDULE OF RETIRANTS AND SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Annuityants				Survivors [*]				Total
	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	
1985	187	16	5	198	117	5	3	119	317
1986	198	9	8	199	119	6	2	123	322
1987	199	17	10	206	123	6	3	126	332
1988	206	5	13	198	126	6	6	126	324
1989	198	6	5	199	126	4	4	126	325
1990	199	3	6	196	126	3	5	124	320
1991	196	13	9	200	124	4	3	125	325
1992	200	12	8	204	125	13	7	131	335
1993	204	33	7	230	131	6	6	131	361
1994	230	5	13	222	131	11	8	134	356

^{*}Includes Reversionary annuities

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Active Members			
	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
1985	190	\$5,985,000	\$31,500	7.8%
1986	192	6,480,500	33,753	7.2%
1987	188	6,643,710	35,339	4.7%
1988	185	6,873,250	37,153	5.1%
1989	184	6,907,676	37,542	1.0%
1990	188	7,254,510	38,588	2.8%
1991	195	8,238,709	42,250	9.5%
1992	190	8,432,000	44,379	5.0%
1993	186	8,651,000	46,511	4.8%
1994	184	8,597,000	46,723	0.5%

INVESTMENT SECTION



Illinois Old State Capitol
Springfield, Illinois

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI Board). The ISBI Board was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. In addition to the assets of the General Assembly Retirement System, the ISBI Board also manages the investment function for the State Employees' and Judges' Retirement Systems. As of June 30, 1994, total net assets under management valued at market, amounted to \$4.305 billion. Of the total market value of assets under management, \$44.0 million or 1.0% represented assets of the General Assembly Retirement System.

Management Approach

The ISBI Board manages the Fund in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI Board has established a long-range investment policy which, in line with the prudent person rule, affirms that the Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the Fund, within prudent risk parameters. Further, it is the ISBI Board's philosophy that the assets owned by the participating systems and managed by the ISBI Board are held for the exclusive purpose of providing benefits to the participants and annuitants of the respective retirement systems and their beneficiaries. In line with this philosophy, the ISBI Board from time to time evaluates its asset allocation which is considered by many to be the single most important factor in pension investment management. The three major asset classes are: bonds, equities and cash; with smaller positions being allocated to real estate, venture capital and other alternative investments.

Total Fund Results

The Illinois State Board of Investment Commingled Fund (ISBI Fund) has a market value of \$4.305 billion as of the end of its fiscal year, June 30, 1994. The ISBI Fund had a modest increase in market value of \$73 million for the fiscal year, which is net of withdrawals by the member systems to pay benefits in the amount of \$96 million.

Fiscal 1994 was a difficult twelve months for U.S. financial markets. Domestically, stock, bond and real estate markets all posted flat or slightly negative returns for the period. The fiscal year was a period of increased worries about inflation, leading to higher interest rates which in turn dampened both equity and fixed income results. Institutional real estate investments, while showing signs of stabilization, have not yet gained upward momentum. The only bright spots for investment portfolios for the fiscal year were foreign equities, which posted solid gains due to strong Asian markets and a weak dollar. Also, select private equity investments in the U.S. were able to show positive returns for the fiscal year.

The ISBI Fund earned a total rate of return for fiscal 1994, net of expenses, of 4.0%. While this is below the ISBI Fund's long-term objective of earning 4.5% above the inflation rate, the ISBI Board considers this a good result in a difficult year. In every asset class with the exception of real estate, the ISBI Fund's active managers outperformed market indices by a wide margin. In addition, the ISBI Board's continued commitment to diversification into alternative asset categories, such as international equities and nonmarketable securities, added value to returns earned in domestic stock and bond portfolios.

The investment policy of the ISBI Board establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. The policy is monitored by the ISBI Board and implemented by allocations to investment managers with assignments to invest in specific asset classes. The actual allocation to investment managers by asset type is roughly in line with the policy mix, with modest overallocations to domestic equity and fixed income and underallocations to international equities and real estate. In accordance with the ISBI Fund's investment plan, the ISBI Board implemented a number of new programs to move towards the ISBI Fund's target asset mix.

Since 1989, the ISBI Fund has been slowly increasing its investment in foreign equity securities. Foreign equities provide excellent diversification for domestic equities, lowering the risk of the total ISBI Fund. During fiscal 1994, the ISBI Board decided to increase its investment in international equities to bring the actual allocation in line with the long-term target. Specifically, the ISBI Board sought an investment manager with expertise in "emerging markets;" developing countries whose economies are expected to grow at a faster rate than in the U.S., and therefore have the potential for higher long-term returns. However, due to the volatility of these markets, the ISBI Board preferred to structure an account with manager discretion to strategically alter the mix of emerging markets to developed markets.

After an extensive search, the ISBI Board appointed Schroder Capital Management to manage a \$100 million international equity account, to be funded in two equal parts on July 1, 1994 and October 1, 1994. As the ISBI Fund does not receive new investment resources from the member Systems, the ISBI Board determined to fund this allocation by reducing its domestic equity portfolio. As a result, this will eliminate the overweighting in that asset class relative to the policy target.

The second asset class that the ISBI Board considered during the fiscal year was real estate. While the ISBI Board remains cautious about new investments in real estate, select investments in what may be the bottom of the real estate cycle could have excellent long-term gain potential. Therefore, during fiscal 1994, the ISBI Fund made its first new commitments to real estate since fiscal 1989. Both commitments were to investment managers with whom the ISBI Board already has a relationship. First, the ISBI Fund committed \$50 million to Zell/Merrill Lynch Real Estate Opportunity Partners III, which will invest in income producing real estate at prices well below replacement cost. Second, the ISBI Fund made an additional \$25 million commitment to Premiere Partnership I.L.P., the ISBI Fund's farmland investment. Both of these investments will be funded from the fixed income account, which is currently overweight relative to its long-term target.

The final asset class considered during the fiscal year was nonmarketable equity securities. Although the current allocation is not significantly below the long-term target, in order to maintain the level of investment, new commitments are necessary over time to balance distributions from maturing partnerships. Therefore, after a thorough review of alternative approaches, the ISBI Fund appointed Abbott Capital Management as consultant for this asset class. Over the next two years, with Abbott's assistance, the ISBI Fund plans to commit approximately \$100 million to partnerships in the nonmarketable securities area. Funds for these commitments will also come from the fixed income portfolio.

Domestic Equities

For the twelve months ended June 30, 1994, U.S. equity markets earned only modestly positive returns. The S&P 500 Index increased 1.3% during fiscal 1994, and the BARRA All-U.S. Index, a broader representation of the domestic market, rose only 1.0%. Within that context, the ISBI Fund's domestic equity portfolio, which is all managed by external investment firms, achieved a strong relative return of 5.5%. The ISBI Fund benefited by its tilt towards "value" investment strategies, versus "growth" strategies. Also, smaller capitalization stocks as a whole somewhat outperformed larger capitalization stocks, and investments in smaller stocks added value to the ISBI Fund's performance. Finally, certain managers demonstrated excellent stock selection this fiscal year, further boosting the ISBI Fund's return above the market index results.

The composite average annual rates of return for the domestic equity portfolio:

	1 Year	3 Years	5 Years
ISBI	5.5%	11.4%	10.9%
S&P 500	1.3	9.3	10.3

Global/International Equities

Unlike the U.S. market, overseas equity markets experienced strong returns during fiscal 1994, especially when converted into U.S. dollar terms. Smaller Asian markets were particularly strong, rising at a spectacular rate in the first six months, followed by a sharp correction, and then a gradual recovery during the second half of the fiscal year. These markets, aided by more modest gains in Europe and Japan, as well as a weakening dollar, resulted in a 17.3% return for the Morgan Stanley Europe Australia Far East Index ("MSCI EAFE"). The Morgan Stanley World Index ("MSCI World"), which includes the U.S. market, increased 10.8%.

All foreign security accounts are managed by external investment firms. "Global" managers have the discretion to invest in both domestic as well as foreign securities, while "international" managers are limited to non-U.S. securities; thereby assuring a certain amount of diversification. For the fiscal year the ISBI Fund's global managers outperformed the MSCI World index, earning 12.7%. The ISBI Fund's international portfolio also outperformed its benchmark, increasing 18.8%, compared to 17.3% for the EAFE Index. Overall, the ISBI Fund's exposure to foreign equities significantly enhanced the returns earned in the total equity portfolio.

Fixed Income

During fiscal 1994, U.S. fixed income markets were negatively impacted by inflation fears and rising interest rates. The Shearson Lehman Aggregate Bond Index lost 1.3% for the 12-month period, with principal loss more than offsetting interest income. High yield bonds, while also experiencing principal loss, were somewhat protected by higher income yields. The Merrill Lynch High Yield Index earned 4.8% for the fiscal year.

Substantially all fixed income assets are managed internally, excepting approximately \$210 million allocated to external high yield bond managers. Both internal and external accounts performed well relative to market indices. The internal account earned 1.1% for the fiscal year, over two hundred basis points higher than the Shearson Lehman Aggregate Bond Index. Positive returns from the external high yield accounts further improved the total fixed income return to 1.6%

Comparative average annual rates of return for the total fixed income portfolio versus the market index benchmark:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	1.6%	11.2%	10.0%
Shearson Lehman Aggregate	(1.3)	8.0	8.5

Real Estate

All of the ISBI Fund's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

Real estate was the most disappointing asset class during fiscal 1994, registering a loss of 9.7% for the twelve month period. This loss represents a substantial write-off of the ISBI Fund's investment in Cadillac Fairview Inc., a Canadian real estate company primarily invested in retail properties. Although Cadillac's real estate portfolio contains high quality properties, the corporate capital structure is overleveraged, which has led to erosion of subordinated stakeholders' values. A number of restructuring alternatives are currently under consideration, which have a good chance of stabilizing the company and providing for future appreciation potential.

Other than Cadillac Fairview, the ISBI Fund's real estate investments were flat to slightly positive for the fiscal year, with income yields offsetting modest capital depreciation.

Average annual rates of return for the combined real estate portfolio compared to the market benchmark for unleveraged institutional grade property returns:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	(9.7)%	(8.9)%	(4.6)%
NCRIEF	1.7	(2.8)	(0.5)

Nonmarketable Equity Interests

The nonmarketable equity securities portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities. The ISBI portfolio's largest investment is with the Kohlberg Kravis Roberts (KKR) leveraged buyout limited partnership, which accounts for just over 75% of this category. Fiscal 1994 was a good year for this category. A strong initial public offering (IPO) market allowed a number of portfolio companies to gain access to the auction markets, thereby producing liquidity and/or actual cash returns to the ISBI Fund. In addition, a number of publicly traded companies in the KKR portfolio, such as Duracell and Safeway, posted strong gains. Overall, the category earned 19.4% for the fiscal year.

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	19.4%	8.2%	10.8%

Management Expenses

Total operating expenses, including fees to external managers, for the fiscal year were \$12,167,419, as compared to \$12,767,218 for the previous fiscal year. The expense ratio (expenses divided by average net assets under management) was .28% as compared to .31% last fiscal year. The General Assembly Retirement System's share of total operating expenses amounted to \$125,388.

Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1994. A copy of the report can be obtained from the ISBI Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1994		June 30, 1993	
	Market Value	Percentage	Market Value	Percentage
Fixed Income ¹	\$ 1,589,684,684	36.9%	\$ 1,675,111,606	39.6%
Equities	1,612,915,598	37.5%	1,514,340,786	35.8%
Foreign Equities	359,170,019	8.4%	284,093,447	6.7%
Real Estate	281,508,859	6.5%	301,829,401	7.1%
Non-Marketable ²	190,016,101	4.4%	170,390,328	4.0%
Cash equivalents ³	272,059,511	6.3%	286,270,733	6.8%
	<u>\$ 4,305,354,772</u>	<u>100.0%</u>	<u>\$ 4,232,036,301</u>	<u>100.0%</u>

¹Maturities of one year or longer, including convertible bonds.
²Interests in limited partnerships and other entities which have limited liquidity.
³Cash Equivalents includes other assets, less liabilities.

ANALYSIS OF INVESTMENT PERFORMANCE

	1994	1993	1992	1991	1990
Total Return* - Past 3 years		9.2%			
Total Return* - Past 5 years			8.5%		
Total Return* - year by year	4.0%	12.1%	11.6%	7.0%	8.0%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	4.5%	4.7%	5.4%	5.2%	5.2%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	1.6%	15.6%	17.1%	10.5%	5.9%
Comparison index:					
Shearson Lehman Aggregate	(1.3%)	11.8%	14.1%	10.7%	7.8%
Comparative rates of return on equities					
Domestic equities - ISBI	5.5%	13.7%	15.2%	9.9%	10.1%
Comparison index:					
S&P 500	1.3%	13.6%	13.5%	7.4%	16.4%

*Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

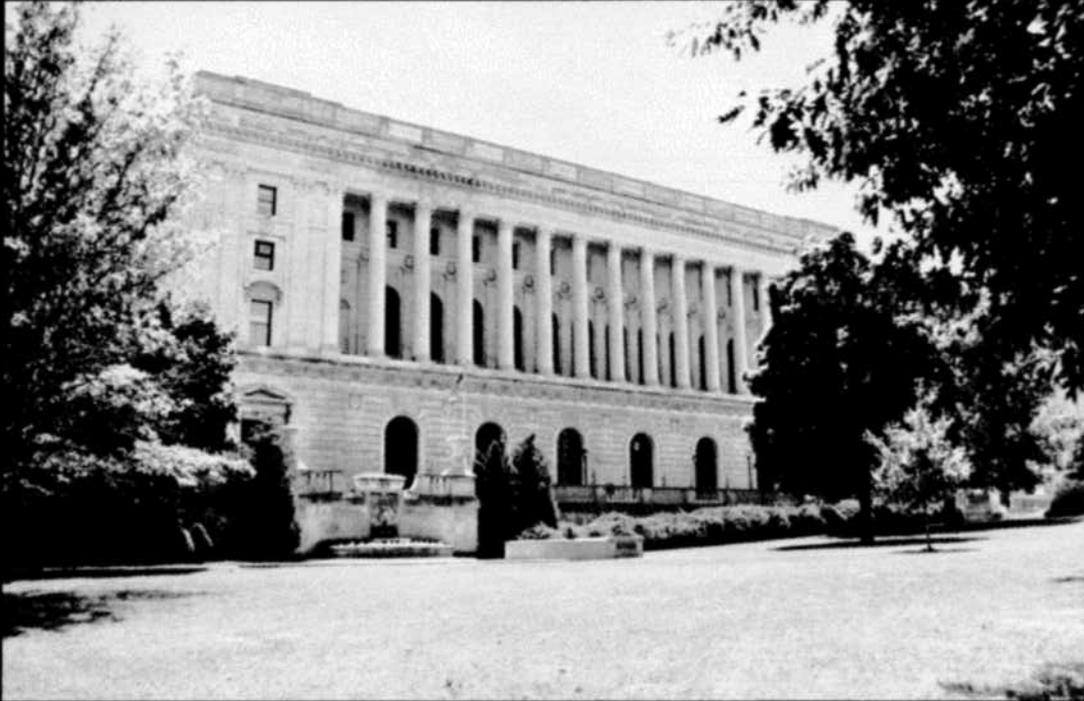
ADDITIONAL INVESTMENT INFORMATION

Gross investment income for 1994 of \$2,125,052, less the Investment Board's administrative expenses of \$125,388 resulted in net investment income of \$1,999,664. This amount, when combined with the net realized gain on sale of investments of \$1,431,974 provided net revenue from investments of \$3,431,638. Net cash transfers from the Illinois State Board of Investment were \$1,700,000 during FY 1994. The balance of investments at cost increased by \$1,731,638 from June 30, 1993 thru June 30, 1994. The following table shows a comparison of investment operations for FY 1994 and FY 1993.

	1994	1993	Increase/(Decrease)	
			Amount	Percentage
Balance at beginning				
of year, at cost	\$ 38,094,187	\$ 36,627,373	\$ 1,466,814	4.00%
Cash transferred from ISBI (net)	(1,700,000)	(2,000,000)	(300,000)	(15.00)%
Investment income:				
Commingled Fund income	\$ 2,125,052	\$ 2,126,124	\$ (1,072)	(.05)%
Less Expenses	(125,388)	(133,515)	(8,127)	(6.09)%
Net investment income	<u>\$ 1,999,664</u>	<u>\$ 1,992,609</u>	<u>\$ 7,055</u>	<u>.35%</u>
Distributed Net Realized Gain				
on Sale of Investments	<u>\$ 1,431,974</u>	<u>\$ 1,474,205</u>	<u>\$ (42,231)</u>	<u>(2.86)%</u>
Balance at end				
of year, at cost	<u>\$ 39,825,825</u>	<u>\$ 38,094,187</u>	<u>\$ 1,731,638</u>	<u>4.55%</u>
Market value	<u>\$ 43,993,168</u>	<u>\$ 43,922,409</u>	<u>\$ 70,759</u>	<u>16.11%</u>

In addition, interest on the average balance in the System's Trust Fund account for FY 1994 was \$44,665 compared to \$50,814 during FY 1993 primarily due to lower average balances and interest yields during FY 1994.

STATISTICAL SECTION



Michael J. Howlett Building
Springfield, Illinois

BALANCE SHEET ASSETS

Fiscal Year Ended June 30	Cash	Receivables	Investments at Cost	Fixed Assets Net of Accumulated Depreciation	Total
1985	\$ 194,235	\$ 60,245	\$ 23,015,713	\$ -	\$ 23,270,193
1986	511,796	34,252	26,214,899	-	26,760,947
1987	534,782	3,788	28,649,633	627	29,188,830
1988	494,346	19,628	29,620,883	14,596	30,149,453
1989	348,265	76,691	31,290,392	13,532	31,728,880
1990	913,283	14,447	32,549,302	17,723	33,494,755
1991	728,538	15,235	34,440,112	19,082	35,202,967
1992	1,079,624	5,026	36,627,373	16,163	37,728,186
1993	2,159,819	485,485	38,094,187	17,184	40,756,675
1994	1,177,781	3,191	39,825,825	12,120	41,018,917

BALANCE SHEET LIABILITIES AND FUND BALANCE

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Automatic Annuity Increase	Reserve for Future Operations	Total
1985	\$ 19,322	\$ 4,612,815	\$ 1,062,563	\$ 17,575,493	\$ 23,270,193
1986	21,971	5,373,363	1,009,112	20,356,501	26,760,947
1987	47,954	5,555,017	859,800	22,726,059	29,188,830
1988	43,067	6,177,939	683,256	23,245,191	30,149,453
1989	51,374	6,748,268	460,664	24,468,574	31,728,880
1990	52,078	8,237,231	-	25,205,446	33,494,755
1991	60,874	8,959,880	-	26,182,213	35,202,967
1992	109,968	10,098,012	-	27,520,206	37,728,186
1993	82,985	10,263,855	-	30,409,835	40,756,675
1994	108,350	10,734,454	-	30,176,113	41,018,917

REVENUES BY SOURCE

Fiscal Year Ended June 30	Participant Contributions	Employer Contributions			Income From Investments	Total
		State of Illinois	Other Sources	Total		
1985	\$ 679,000	\$ 2,215,800	\$ 2,932	\$ 2,218,732	\$ 1,516,230	\$ 4,413,962
1986	1,059,024	2,216,200	125,212	2,341,412	3,416,960	6,817,396
1987	767,483	2,214,100	213	2,214,313	3,064,668	6,046,464
1988	796,393	1,970,000	-	1,970,000	1,933,098	4,699,491
1989	869,635	1,997,500	-	1,997,500	2,555,317	5,422,452
1990	1,002,258	2,072,600	74,401	2,147,001	2,665,883	5,815,142
1991	1,486,815	2,072,600	275,161	2,347,761	2,170,740	6,005,316
1992	1,375,885	1,965,600	105,410	2,071,010	3,976,419	7,423,314
1993	2,498,833	2,201,000	510,285	2,711,285	3,517,628	8,727,746
1994	1,011,354	2,116,800	-	2,116,800	3,476,303	6,604,457

EXPENSES BY TYPE

Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1985	\$ 2,955,395	\$ 118,711	\$ 79,401	\$ 3,153,507
1986	3,200,212	42,316	86,763	3,329,291
1987	3,461,212	80,202	103,150	3,644,564
1988	3,618,087	16,717	99,177	3,733,981
1989	3,682,411	55,660	113,261	3,851,332
1990	3,880,692	42,427	126,852	4,049,971
1991	4,124,250	36,742	144,908	4,305,900
1992	4,658,134	129,978	159,077	4,947,189
1993	5,314,381	154,283	203,610	5,672,274
1994	6,131,496	41,590	194,494	6,367,580

BENEFIT EXPENSES BY TYPE

Fiscal Year Ended June 30	Retirement Annuities	Survivors' Annuities *	Total
1985	\$ 2,487,319	\$ 468,076	\$ 2,955,395
1986	2,728,059	472,153	3,200,212
1987	2,913,799	547,413	3,461,212
1988	3,030,995	587,092	3,618,087
1989	3,046,455	635,956	3,682,411
1990	3,163,616	717,076	3,880,692
1991	3,302,545	821,705	4,124,250
1992	3,666,601	991,533	4,658,134
1993	4,241,273	1,073,108	5,314,381
1994	4,942,821	1,188,675	6,131,496

*Includes Reversionary annuities.

NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
1985	190	92	282
1986	192	81	273
1987	188	86	274
1988	185	83	268
1989	184	86	270
1990	188	81	269
1991	195	79	274
1992	190	77	267
1993	186	107	293
1994	184	101	285

TERMINATION REFUNDS

Fiscal Year Ended June 30	Number	Amount
1985	9	\$118,711
1986	4	36,171
1987	3	36,994
1988	-	-
1989	2	15,475
1990	1	21,890
1991	3	13,980
1992	-	-
1993	6	31,032
1994	4	13,064

NUMBER OF RECURRING BENEFIT PAYMENTS

at June 30	Retirement Annuities	Survivors' Annuities	Reversionary Annuities	Total
1985	198	116	3	317
1986	199	120	3	322
1987	206	123	3	332
1988	198	123	3	324
1989	199	123	3	325
1990	196	121	3	320
1991	200	122	3	325
1992	204	128	3	335
1993	230	128	3	361
1994	222	131	3	356

**Annuitants
by Benefit Range
(Monthly)
at June 30, 1994**

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-500	41	41	18.5	18.5
501-1000	32	73	14.4	32.9
1001-1500	25	98	11.3	44.2
1501-2000	34	132	15.3	59.5
2001-2500	22	154	9.9	69.4
2501-3000	21	175	9.5	78.9
3001-3500	24	199	10.8	89.7
3501-4000	7	206	3.2	92.9
4001-4500	6	212	2.7	95.6
4501-5000	3	215	1.4	97.0
5001-5500	4	219	1.8	98.8
5501-6000	0	219	0.0	98.8
6001-6500	1	220	0.4	99.2
6501-7000	2	222	0.8	100.0

**Survivors*
by Benefit Range
(Monthly)
at June 30, 1994**

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-500	67	67	50.0	50.0
501-1000	26	93	19.4	69.4
1001-1500	24	117	17.9	87.3
1501-2000	14	131	10.4	97.7
2001-2500	3	134	2.3	100.0

*includes reversionary annuities

NUMBER ON ACTIVE PAYROLLS

at June 30	Elected State Officers	House Members	Senate Members	Miscellaneous Active	Total
1985	6	116	59	9	190
1986	6	116	59	11	192
1987	6	116	59	7	188
1988	6	116	59	4	185
1989	6	115	59	4	184
1990	6	118	59	5	188
1991	6	118	59	12	195
1992	6	118	59	7	190
1993	6	118	59	3	186
1994	6	118	59	2	185

RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

Fiscal Year Ended June 30	At Retirement			
	Average Age	Average Length of Service*	Average Current Age	Average Current Monthly Benefit
1985	61.2	14.8	69.0	\$ 1,119
1986	61.1	14.5	69.3	1,152
1987	61.0	14.3	69.3	1,216
1988	60.6	14.2	69.5	1,252
1989	60.3	13.9	69.9	1,298
1990	60.1	13.5	70.3	1,359
1991	60.1	13.0	70.5	1,449
1992	60.0	12.7	70.5	1,526
1993	60.2	13.4	70.0	1,761
1994	59.9	13.2	70.2	1,880

* in years

ACTIVE RETIREES BY STATE



PLAN SUMMARY AND LEGISLATIVE SECTION



Governor's Mansion
Springfield, Illinois

SUMMARY OF RETIREMENT SYSTEM PLAN

(As of June 30, 1994)

1. PURPOSE

The purpose of the System is to provide retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected state officials and their beneficiaries.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE MEMBERSHIP

All members of the Illinois General Assembly and any person elected to the office of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller or Attorney General become members of the System unless they file an election not to participate within 24 months of taking office.

Any person who has served 10 or more years as Clerk or Assistant Clerk of the House of Representatives, Secretary or Assistant Secretary of the Senate or any combination thereof, may elect to become a participant.

4. PARTICIPANT CONTRIBUTIONS

Participants are required to contribute a percentage of salary as their share of meeting the cost of the various benefits at the rates shown below:

Retirement Annuity	8.5%
Automatic Annual Increase	1.0%
Survivors' Annuity	<u>2.0%</u>
Total	<u>11.5%</u>

5. RETIREMENT ANNUITY

A. Qualification of Participant

Upon termination of service, a participant is eligible for a retirement annuity at age 55 with at least 8 years of credit or at age 62 with at least 4 years of credit.

B. Amount of Annuity

Effective January 1, 1982, the retirement annuity is determined according to the following formula based on the applicable salary:

3.0% for each of the first 4 years of credit;
3.5% for each of the next 2 years of credit;
4.0% for each of the next 2 years of credit;
4.5% for each of the next 4 years of credit;
5.0% for each year of service in excess of 12 years.

The maximum annuity is 85% of final rate of salary after 20 years of credit.

C. Optional Forms of Payment

Reversionary Annuity - A participant may elect to receive a reduced annuity during his or her lifetime in order to provide a spouse, parent, child, brother or sister with a lifetime income. Such payment to a spouse would be in addition

to the survivors' annuity benefit. The election should be filed with the System at least 2 years prior to retirement.

D. Annual Increases in Retirement Annuity

Post retirement increases of 3% of the current amount of annuity are granted to participants effective in January or July of the year next following the first anniversary of retirement and in January or July of each year thereafter.

However, if the participant has not attained age 60 at that date, the payment of such annual increase shall be deferred until the first of the month following their 60th birthday. For participants who remain in service after attaining 20 years of creditable service, the 3% annual increases shall begin to accrue on the January 1 next following the date upon which the participant (1) attains age 55, or (2) attains 20 years of creditable service, whichever occurs later. In addition, the annual increases shall continue to accrue while the participant remains in service; however, such increases shall not become payable until (1) the January 1 or the July 1 next following the first anniversary of retirement, or (2) the first of the month following attainment of age 60, whichever occurs later.

E. Suspension of Retirement Annuity

An annuitant who reenters service becomes a participant and resumes contributions to the System as of the date of reentry and retirement annuity payments cease.

If the provisions of the Retirement Systems' Reciprocal Act are elected at retirement, any employment which would result in the suspension of benefits under any of the retirement systems being considered would also cause the annuity payable by the General Assembly Retirement System to be suspended.

6. SURVIVORS' ANNUITY

A. Qualification of Survivor

If death occurs while in service, the participant must have established at least two years of credit. If death occurs after termination of service and prior to receipt of retirement annuity, the participant must have established at least 8 years of credit. To be eligible for the survivors' annuity, the spouse and participant or annuitant must have been married for at least 1 year immediately preceding the date of death.

An eligible spouse qualifies at age 50 or at any age if there is in the care of the spouse unmarried children of the participant who are (1) under age 18 or (2) over age 18 if mentally or physically disabled or (3) under age 22 and a full-time student. Eligible surviving children would be entitled to benefits if no spouse survives.

B. Amount of Payment

If the participant's death occurs while in service, the surviving spouse without eligible children of the member would be eligible to 66-2/3% of earned retirement annuity, subject to a minimum of 10% of salary. A surviving spouse with eligible children of the participant would receive 30% of salary increased by 10% of salary for each minor child, subject to a maximum of 50% of salary to a family.

If the participant's death occurs after termination of service or retirement, the surviving spouse without eligible children of the participant would be eligible to 66-2/3% of earned retirement annuity. A surviving spouse with eligible children would receive 75% of earned retirement annuity unless the participant is survived by a dependent disabled child in which case the annuity to a surviving spouse would not be less than 100% of the earned retirement annuity.

The minimum survivors' annuity for any qualified survivor shall be \$300 per month.

C. Duration of Payment

When all children, except for disabled children, are ineligible because of death, marriage or attainment of age 18 or age 22 in the case of a full-time student, the spouse's benefit is suspended if the spouse is under age 50 until attainment of such age. A surviving spouse who remarries prior to attainment of age 55 would be disqualified for any future benefit payments.

D. Annual Increases in Survivors' Annuity

Increases of 3% of the current amount of annuity are granted to survivors in each January occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity. In the event of an active participant's death, increases of 3% of the current amount of annuity are granted to survivors effective in January of the year next following the first anniversary of the commencement of the annuity and in January of each year thereafter.

7. DEATH BENEFITS

The following lump sum death benefits are payable to the named beneficiaries or estate of the participant only if there are no eligible survivors' annuity beneficiaries surviving the deceased participant.

A. Before Retirement

If the participant's death occurs while in service, a refund of total contributions to the System, without interest, in the participant's account.

B. After Retirement

If the participant's death occurs after retirement, a refund of the excess of contributions to the System over annuity payments, if any.

C. Death of Survivor Annuitant

Upon death of the survivor annuitant with no further survivors' annuity payable, a refund of excess contributions to the System over total retirement and survivors' annuity payments, if any.

8. DISABILITY BENEFIT

A participant with at least 8 years of service who becomes disabled while in service as a contributing participant is eligible for a retirement annuity regardless of age.

If disability is service-connected, the annuity is subject to reduction by amounts received by a participant under the Workers' Compensation Act and the Workers' Occupational Diseases Act.

9. REFUND OF CONTRIBUTIONS

Upon termination of service, a participant is entitled to a refund of total contributions to the System without interest. By accepting a refund, a participant forfeits all accrued rights and benefits in the System for his or herself and beneficiaries.

If unmarried at retirement, a participant is entitled to a full refund of contributions for the survivors' annuity benefit. The refund may be repaid, with required interest, to qualify a spouse for survivors' annuity benefits if the participant marries or remarries after retirement.

LEGISLATIVE AMENDMENTS

There were no legislative amendments with an effective date during fiscal year 1994 having an impact on the System.

NEW LEGISLATION

Legislative amendments with an effective date subsequent to June 30, 1994, affecting the operation of the System were:

SENATE BILL 533 (P.A. 88-0593)

There were several substantive changes to the law governing the operation of the System, as well as the State Finance Act, which were included in this bill. Among the most significant changes were the following:

1. Modifies the State Pensions Fund language to authorize the General Assembly to annually appropriate a total amount equal to the balance in the State Pensions Fund at the close of business on June 30 of the preceding fiscal year, less \$5,000,000, as part of the required state contributions to the five state sponsored retirement systems beginning in fiscal year 1996. The amount of the appropriation to each of the five state sponsored retirement systems shall constitute a portion of the total appropriation for that fiscal year which is the same as that retirement system's portion of the total actuarial reserve deficiency of the systems, as most recently determined by the Bureau of the Budget.
2. Provides that a funding ratio (the ratio of a retirement system's total assets to its total actuarial liabilities) of 90% is an appropriate goal for state-funded retirement systems in Illinois. Also provides that every 5 years, beginning in 1999, the Illinois Economic and Fiscal Commission, in conjunction with the affected retirement systems and the Bureau of the Budget, shall consider and determine whether the 90% funding ratio continues to represent an appropriate goal for state-funded retirement systems in Illinois, and it shall report its findings and recommendations to the Governor and the General Assembly.
3. Establishes a new funding policy under which, starting with fiscal year 1996, the employer contributions made by the State of Illinois shall be increased incrementally over a 15 year period so that by fiscal year 2011, the minimum state employer contribution shall be an amount that is sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System over 35 years as a level percent of payroll as determined under the projected unit credit actuarial cost method.
4. Requires the System's Board certify to the Governor the amount of the required state contribution for the next fiscal year on or before November 15 of each year. Also requires that the certification include a copy of the actuarial recommendations upon which it is based.
5. Beginning in fiscal year 1996, provides for a continuing appropriation authority whereby the amount, by which the total available amount of all available appropriations to the System for the payment of state contributions is less than the total amount of required state contributions, is appropriated from the General Revenue Fund to the System on a continuing basis.
6. Provides that the maximum salary level that can be utilized to compute System benefits payable under the provisions of the Reciprocal Act will be limited to the legislative salary payable at retirement based on the position held at the time the member left the General Assembly. This provision only applies to persons who become members of the System after the effective date of the legislation and only applies to benefits calculated under the provisions of the Reciprocal Act.

