2015 Popular Annual Financial Report

For the fiscal year ended June 30, 2015

State Employees' Retirement System of Illinois

Fiscal Year 2015 financial highlights

Total membership		88,581
Active contributing members		63,273
Net position - restricted for pensions	$	15,258,866,572
Contributions		
Participants	$	266,139,156
Employer	$	1,804,319,356
Net investment income	$	681,377,052
Investment return		4.8%
Benefit recipients		
Retirement annuities		54,802
Survivors' annuities		10,889
Disability benefits		2,263
Benefits paid	$	2,034,858,435
Total pension liability	$	43,267,055,628
Fiduciary net position	$	15,258,866,572
Net pension liability	$	28,088,189,056
Funded ratio		35.3%

Mission statement

To provide an orderly means whereby aged or disabled employees may retire from active service without hardship or prejudice, and to enable them to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment; thus effecting the economy and efficiency in the administration of state government.

SERS history

The System was established Jan. 1, 1944, and 17,237 state employees became members on that date. As of June 30, 1944, the plan net position of the System amounted to $1,255,778. The fiduciary net position at the end of Fiscal Year 2015 is approximately $15.3 billion and there are 63,273 active members.

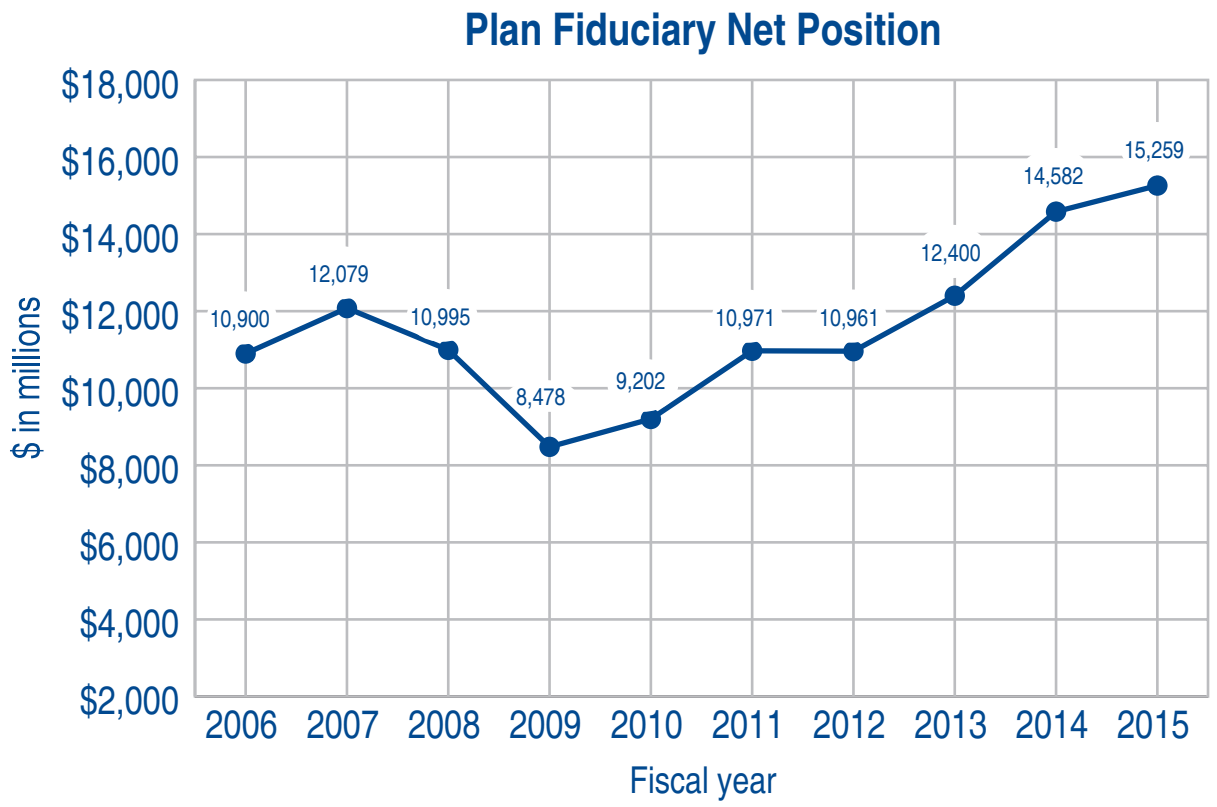
Fiduciary net position

In Fiscal Year (FY) 2015, the fiduciary net position increased by $677.3 million. The change was primarily due to an increase of $680.8 million (excluding securities lending collateral) in the System's investments. Investment activity accounts for 98% of the total asset balance and attributes significantly to the fiduciary net position.

Condensed statement of fiduciary net position ($ in millions)

	2015	2014	$ Inc/(Dec)	% Inc/(Dec)
Cash	$ 170.6	$ 200.8	$ (30.2)	(15.04) %
Receivables	128.8	101.4	27.4	27.02 %
Investments (inc. securites lending collateral)	15,032.0	14,370.5	661.5	4.60 %
Capital assets, net	5.3	4.1	1.2	29.27 %
Total assets	15,336.7	14,676.8	659.9	4.50 %
Liabilities	77.8	95.2	(17.4)	(18.28) %
Total fiduciary net position	$15,258.9	$14,581.6	$677.3	4.64 %

During the past ten years, the plan's fiduciary net position dipped to a low of $8.5 billion in FY 2009, reflecting market conditions of the times. However since then, the plan has steadily grown to $15.3 billion in FY 2015. The fiduciary net position is measured against the actuarial liability to evaluate the overall health of the System's pension obligations.



Revenues and expenses

FY 2015 revenues totaled $2.8 billion, with employer contributions of $1.8 billion, attributing to approximately 65% of the total. Participant contributions were $266 million (10% of the total), and investment income was $681 million (25% of the total).

Deductions from fiduciary net position are mostly benefit payments. During FY 2014 the System paid approximately $1.9 billion in benefits and refunds, while in FY 2015 the System paid approximately $2.1 billion – an increase of 6%. The higher payments were mainly due to a scheduled 3% increase in retirement and other benefit payments, as well as a 2% increase in the number of System beneficiaries. Administrative costs of the System were only 0.08% of total deductions in FY 2014 and 2015.

Condensed statement of changes in fiduciary net position ($ in millions)

	2015	2014	$ Inc/(Dec)	% Inc/(Dec)
Additions:				
Participant contributions	$ 266.1	$ 269.2	$ (3.1)	(1.15) %
Employer contributions	1,804.3	1,699.5	104.8	6.17 %
Net investment income	681.4	2,169.3	(1,487.9)	(68.59) %
Total additions	2,751.8	4,138.0	(1,386.2)	(33.50) %
Deductions:				
Benefits	2,034.9	1,917.0	117.9	6.15 %
Refunds	23.1	23.1	0.0	0.00 %
Administrative expenses	16.5	16.6	(0.1)	(0.60) %
Total deductions	2,074.5	1,956.7	117.8	6.02 %
Net increase/(decrease) in fiduciary net position	$ 677.3	$ 2,181.3	$ (1,504.0)	(68.95) %

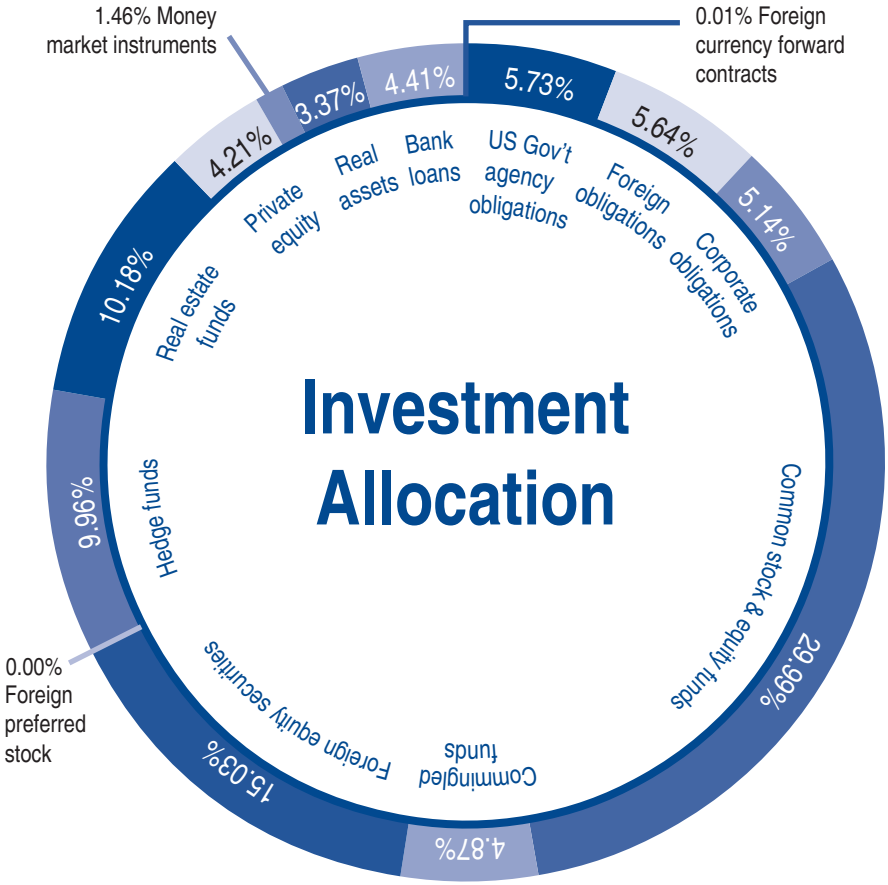
Contributions

Participant contribution rates are set by statute as a percentage of gross salary.

Fiscal Year 2015 employer contributions equated to 42.339% of employee payroll. The rate is determined by the annual actuarial valuation.

Investments

Investments of the System are combined in a commingled investment pool with the Judges' Retirement System, General Assembly Retirement System and one other state agency. Each participating entity owns an equity position in the fund and receives proportionate investment income from the fund, calculated by its respective ownership percentage. Fiscal Year 2015 investments (including securities lending collateral) totaled $15.0 billion. The net investment gain for the System totaled approximately $681.4 million during FY 2015, resulting in a 4.8% return, versus a net investment gain of $2.17 billion with a 17.9% return in FY 2014. The chart below provides a summary of the investment allocation at fair value by type.



ISBI

The System's investments are managed by the Illinois State Board of Investment (ISBI), pursuant to Illinois statutes, using the Illinois Pension Code, 40 ILCS.

The provision states: "A fiduciary with respect to a retirement system or pension fund established under this Code shall discharge his or her duties with respect to the retirement system or pension fund solely in the interest of the participants and beneficiaries ... " 40 ILCS § 5, 1-109

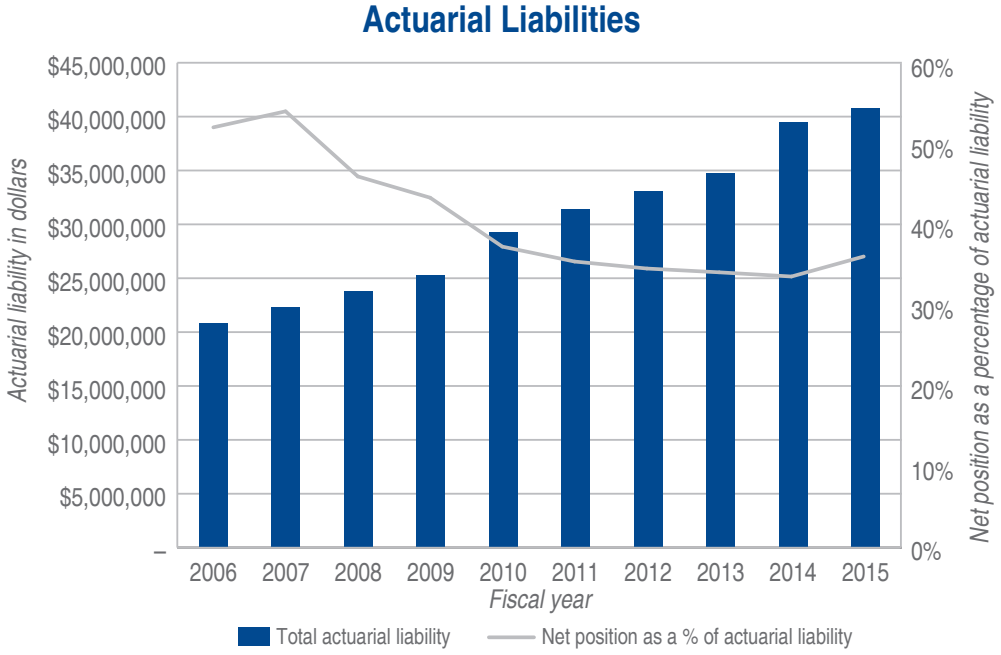
Actuarial liability

The funded ratio of the plan measures the ratio of the fiduciary net position against actuarially determined liabilities, and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. The most recent valuation showed the funded status of the System was 35.27% on June 30, 2015, compared to 34.98% on June 30, 2014. Actuarially determined liabilities exceed the fiduciary net position by $28.0 billion on June 30, 2015, as compared to $27.1 billion on June 30, 2014.

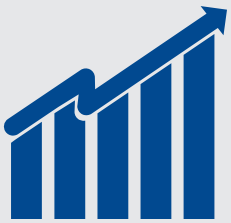
GASB Statement nos. 25, 27, 67 and 68 provide guidance for state and local governments to enhance the understandability and usefulness of pension information that is included in the financial reports of pension plans. The Board adopted a policy to utilize the actuarial determined contribution (ADC) for financial reporting purposes. The ADC is calculated as the normal cost plus a 25-year amortization of the unfunded accrued liability as of June 30, 2015. A key objective is to accrue costs over the working lifetime of plan members to ensure benefit obligations are satisfied and intergenerational equity is promoted.

FY ended June 30	Total Pension Liability (TPL)	Plan Fiduciary Net Position (FNP)	Net Pension Liability	Plan FNP as % of TPL
2014	41,685,086,183	14,581,566,241	27,103,519,942	34.98%
2015	43,267,055,628	15,258,866,572	28,008,189,056	35.27%

Actuarial information is provided to support the actuarially determined contribution (ADC) for Fiscal Year 2015 under the State of Illinois' funding plan. The total actuarial liability, the actuarial value of assets and unfunded accrued actuarial liability – as presented using the State's funding method – does not conform with GASB statement no. 67, therefore the amounts presented in the following table differ from the amounts presented for financial reporting purposes.



The System is significantly underfunded – raising concerns about its future financial solvency, should there be a significant market downturn – coupled with the State's inability or unwillingness to pay the employer contribution. Total actuarial liabilities have almost doubled over the past ten years, while the net position as a percentage of the actuarial liability declined significantly between 2007 and 2010. For the first time since FY 2007, the System experienced a slight increase in the percentage in FY 2015.



Funding Requirements

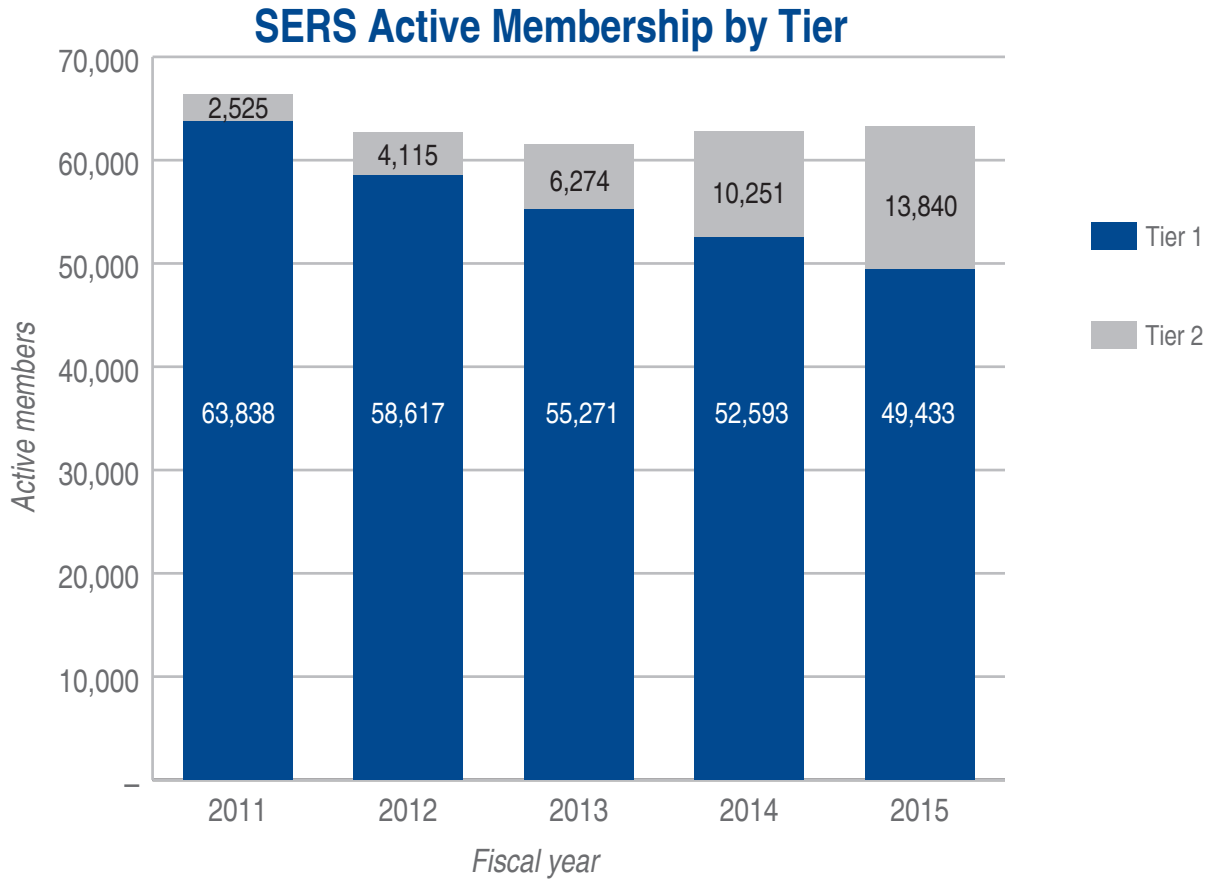
Funding legislation, enacted in 1994, requires a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90% by the end of fiscal year 2045.

Active member statistics

The plan has two tiers, consisting of separate contribution requirements and benefit levels per tier.

Participating members contribute pre-determined percentages of their salaries for retirement annuities and survivors' annuities in accordance with Illinois Compiled Statutes. The current member contribution rate is 4%, if covered by Social Security, and 8% if the member is not covered. Certain employment categories are eligible for benefits under alternative formulas and contribute at the rate of 8.5% if covered by Social Security, or 12.5% if they're not covered.

During FY 2015, the System had a total of 63,273 active Tier 1 and Tier 2 members.



Tier 1:
No annual compensation limit on contributions

Tier 2:
On or after Jan. 1, 2011, annual compensation for contributions cannot exceed $106,800.

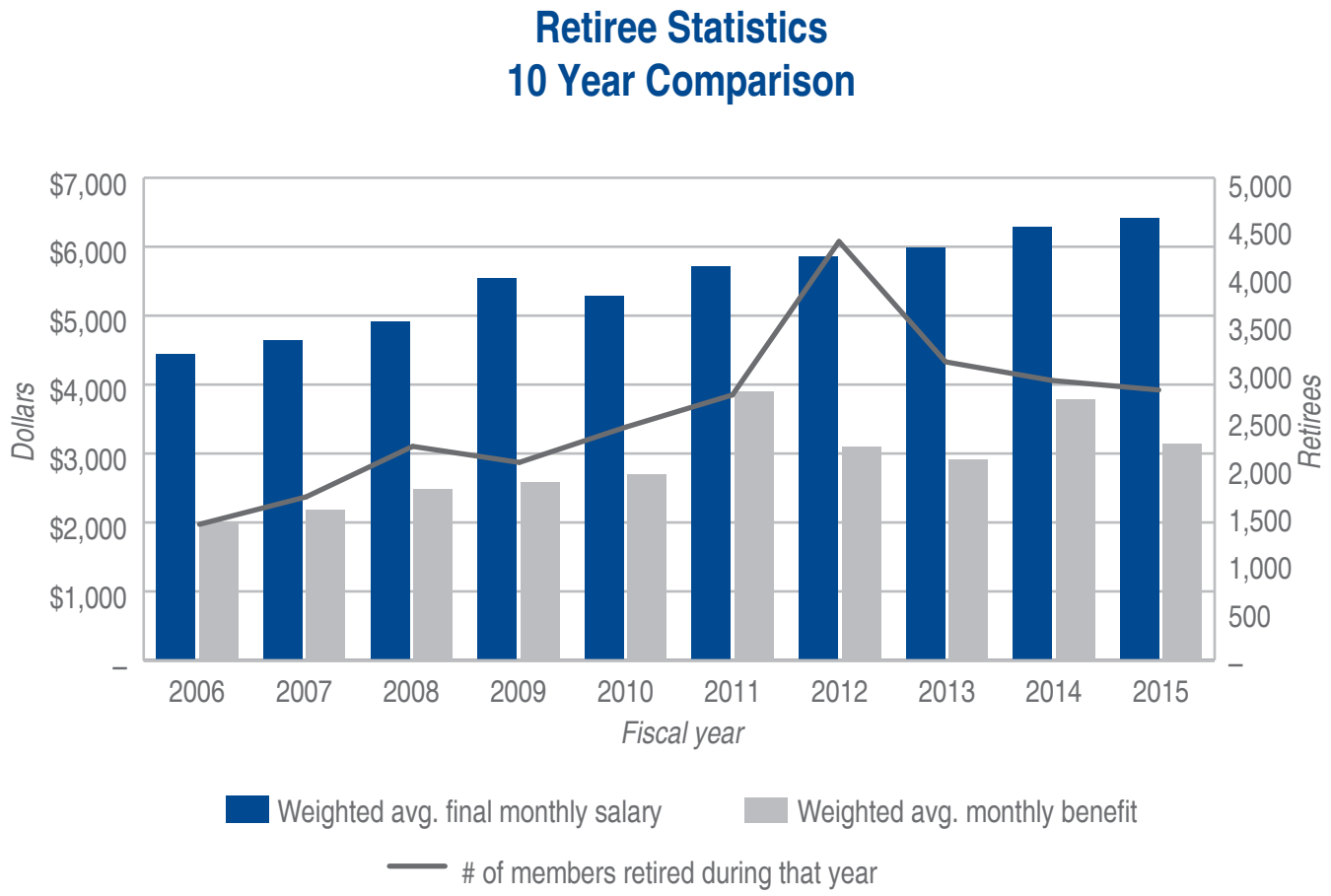
The amount increases annually by either 3% or half the CPI, whichever is less. The salary limit for 2015 is $111,572.

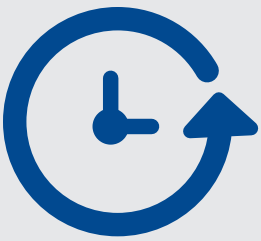
Membership

The System is a defined benefit, single employer, public employee retirement system. It provides services to approximately 63,300 active state employees and 68,000 benefit recipients.

Annuitant statistics by fiscal year of retirement

During the past ten years, the weighted average of the final average compensation (FAC) has steadily increased from $4,441.45 in FY 2006 to $6,416.66 in FY 2015; a 44% rise. The weighted average of the monthly benefit has also raised from $2,004.04 in FY 2006 to $3,131.98 in FY 2015 – a 56% increase. While the number of retirees per year has varied during the past ten years, a one-time spike to over 4,500 retirees occurred in FY 2012 and has decreased to approximately 3,000 individuals in FY 2015.



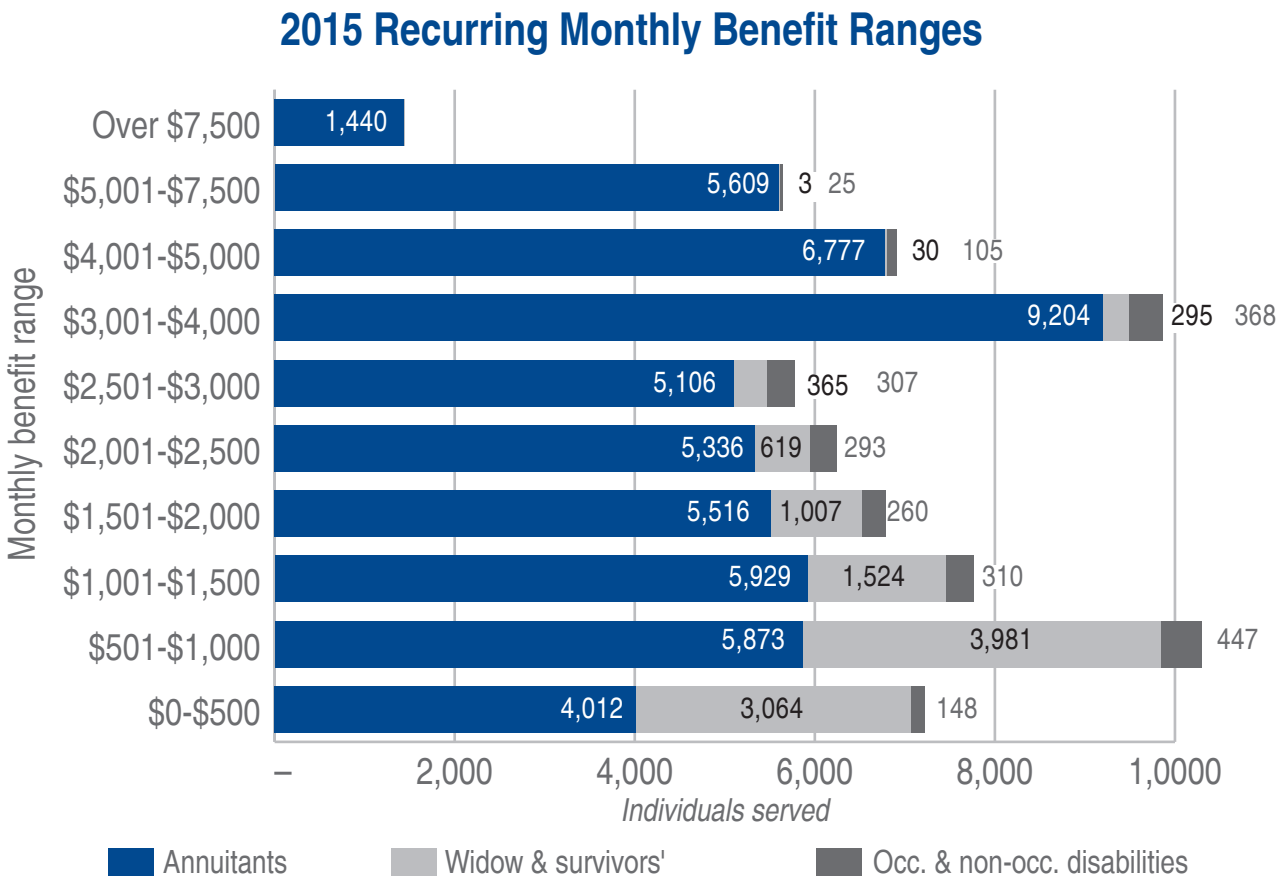


- After WWII, SERS membership increased by 12%, due to employees returning home from service. By 1952, the average annual salary of a state employee was $3,354; the average retirement benefit was $946.
- The first Early Retirement Incentive (ERI) provision happened in 1991, resulting in 4,600 employees retiring.
- The second ERI passed the General Assembly in 2002, resulting in 11,039 retirements.

Retirement annuity benefits

Vesting and benefit provisions of the System are defined in the Illinois Compiled Statutes. The retirement annuity is based on the member's final average compensation as well as the number of years of service credit that have been established. The retirement benefit "regular" formula available to general state employees is 1.67% for each year of service covered by social security and 2.2% for each year of non-covered service. Alternative formula employees have a formula of 2.5% for covered service and 3.0% for non-covered service.

The maximum retirement benefit payable is 75% of final average compensation for regular formula employees and 80% for alternative formula employees. The minimum retirement annuity payable is $15.00 for each year of covered employment and $25.00 for each year of non-covered employment.



2015 Recurring benefit payments

During FY 2015, there were a total of 67,954 individuals receiving recurring monthly benefits:

- 54,802 retirees
- 10,889 widows/survivors
- 2,263 individuals on disability

The benefit range with the greatest number of benefit recipients has 10,301 individuals receiving a monthly benefit of $501-$1000. The next largest group has 9,867 individuals receiving a monthly benefit of $3,001 – $4,000.

Plan summary

Tier 1 REGULAR FORMULA

A member with at least 8 years of service may retire at:

- 60 years
- Any age if: age + service credit = 85 years
- Between ages 55 - 60 with 25 - 30 years of service credit (reduced by 0.5% for each month under the age of 60)

Retirement benefit is based on the 48 highest consecutive months of average compensation out of the last 120 months of service.

Retirees receive a 3% increase on Jan. 1 following the first full year of retirement if the rule of 85 is met OR the member retires at 60 years or older.

If retiring before age 60, a 3% increase is received Jan. 1 after the member turns 60 AND has been retired one year.

Increases are not limited by the 75% maximum.

Tier 1 ALTERNATIVE FORMULA

Members may retire at age 50 with 25 years of service credit OR at age 55 with 20 years of credit.

Retirees receive their first 3% pension increase on Jan. 1, following the first full year of retirement after age 55. Increases are not limited by the 80% maximum.

Final average compensation is figured one of three ways:

- The average of the highest 48 consecutive months over the last 120 months of service (for members in service prior to Jan. 1, 1998)
- Average of last 48 months of service
- Final rate of pay cannot exceed the average of the last 24 months of pay by 115%

Tier 2 REGULAR FORMULA

Retirees receive lesser of 3% OR half the preceding year's CPI on Jan. 1, following the first year of retirement at age 67 or older. Salary limits for calendar years 2015 and 2014 are $111,572 and $110,631 respectively.

If retiring before age 67, an increase of the lesser of 3% OR half the CPI index will be received Jan. 1 after the member turns 67 AND has been retired 1 year. Increases are not limited by the 75% maximum.

A member with at least 10 years of service may retire at:

- 67 years
- Between 62 - 67 (reduced by 0.5% for each month under 67)
- Retirement benefit is based on the 96 highest months of average compensation out of the last 120 months of service. The maximum salary amount may not exceed $106,800, which increases annually by 3% or half the CPI, whichever is less.

Tier 2 ALTERNATIVE FORMULA

Members may retire at age 60 with 20 years of service.

Retirees receive their first 3% pension increase OR half of the CPI for the preceeding year, whichever is less, following the first year of retirement after age 60. Increases are not limited by the 80% maximum.

Final average compensation is:

- The average of the highest 96 consecutive months over the last 120 months of service
- The benefit is calculated on a maximum salary of $106,800
- The amount increase annually by 3% or half the CPI, whichever is less. The salary limits for calendar years 2015 and 2014 are $111,572 and $110,631, respectively.