IN THE CIRCUIT COURT OF THE SEVENTH JUDICIAL CIRCUIT
SANGAMON COUNTY, ILLINOIS

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Anthony P. Libri
Clerk of the Circuit Court

RETIRED STATE EMPLOYEES ASSOCIATION, an Illinois not-for-profit corporation, and LAWRENCE WORT, GLADYS HAJEK, LINDA GUELDENER and MAURINE RICHTER, for themselves and on behalf of a class of persons similarly situated,	)	
Plaintiffs,	)	
vs.	)	No. 2014MR000001
PATRICK QUINN, in his capacity of the Governor of the State of Illinois, JUDY BAAR TOPINKA, Comptroller of the State of Illinois, DAN RUTHERFORD, Treasurer of the State of Illinois, and the BOARD OF TRUSTEES OF THE STATE EMPLOYEES RETIREMENT SYSTEM,	)	
Defendants.	)	

COMPLAINT FOR DELCARATORY JUDGMENT AND OTHER RELIEF

Plaintiffs, RETIRED STATE EMPLOYEES ASSOCIATION, an Illinois not-for-profit corporation, and LAWRENCE WORT, GLADYS HAJEK, LINDA GUELDENER and MAURINE RICHTER, for themselves and on behalf of a class of persons similarly situated, complain of Defendants PATRICK QUINN, JUDY BAAR TOPINKA, DAN RUTHERFORD and the BOARD OF TRUSTEES OF THE STATE EMPLOYEES RETIREMENT SYSTEM, and state as follows:

COUNT I
(Pension Protection Clause)

Parties

1. Plaintiff Retired State Employees Association (the "Association") is an Illinois not-for-profit corporation headquartered in Sangamon County. The Association has over 9,000

members. The purpose and mission of the Association is to protect the interests of retired participants in the State Employees Retirement System, and in particular, their interests with respect to pension and other retirement benefits.

2. Plaintiff Lawrence Wort is an individual residing in Sangamon County, Illinois. He loyally served the State of Illinois for over 39 years, retiring in 2000 as an employee of the Department of Transportation. He is an annuitant member of the State Employee Retirement System ("SERS") and is a member of the Association.

3. Plaintiff Gladys Hajek is an individual residing in Sangamon County, Illinois. She loyally served the State of Illinois for over 30 years, retiring in 2002 as an employee of the Department of Transportation. She is an annuitant member of SERS and is a member of the Association.

4. Plaintiff Linda Gueldener is an individual residing in Sangamon County, Illinois. She loyally served the State of Illinois for over 27 years, retiring in 2006 as an employee of the Department of Natural Resources. She is an annuitant member of SERS and is a member of the Association.

5. Plaintiff Maurine Richter is an individual residing in Sangamon County, Illinois. She loyally served the State of Illinois for over 25 years, retiring in 2002 as an employee of the Department of Natural Resources. She is an annuitant member of SERS and is a member of the Association.

6. Defendant Patrick Quinn is the Governor of the State of Illinois. Pursuant to Article V, Section 8 of the Illinois Constitution, "the Governor shall have the supreme executive power, and shall be responsible for the faithful execution of the laws." Governor Quinn was the

architect of PA 98-599 and is ultimately responsible for the administration of the law, PA 98-599, challenged in this case. Governor Quinn is sued in his official capacity only.

7. Defendant Judy Baar Topinka is the Comptroller of the State of Illinois. Pursuant to Article V, Section 17 of the Illinois Constitution, "the Comptroller, in accordance with the law, shall maintain the State's central fiscal accounts and order payments into and out of the funds held by the Treasurer." As such, Comptroller Topinka signs paychecks or grants approval to electronic payments made by the State to its retirees, and as such, is involved in the administration of the law, PA 98-599, challenged in this case. Comptroller Topinka is also the Chairman of the Board of Trustees. Comptroller Topinka is sued in her official capacity only.

8. Defendant Dan Rutherford is the Treasurer of the State of Illinois. Pursuant to Article V, Section 18 of the Illinois Constitution, "the Treasurer, in accordance with law, shall be responsible for the safe keeping and investment of monies and securities deposited with him, and for their disbursement upon order of the Comptroller." As such, Treasurer Rutherford is involved in the administration of the law, PA 98-599, challenged in this case. Treasurer Rutherford is sued in his official capacity only.

9. Defendant Board of Trustees of the State Employees Retirement System ("Board of Trustees") is an independent agency of the State of Illinois, organized and existing pursuant to Article XIV of the Illinois Pension Code, 40 ILCS 5/14-101, *et seq.* The Board of Trustees is the agency primarily involved in the administration of the law, PA 98-599, challenged in this case. The Board of Trustees is sued in its official capacity only.

10. Plaintiff Association brings this lawsuit on behalf of its members. Those members otherwise have standing to sue in their own right; the interests sought to be protected in

this lawsuit are germane to the purpose of the organization, and neither the claim asserted nor the relief requested requires the participation of individual members in the lawsuit.

11. Plaintiffs Wort, Hajek, Gueldener and Richter bring this lawsuit on behalf of a class of persons which includes most of the membership of the Association, but which is also broader than the membership of the Association, namely all retired members of SERS and other persons, such as survivors and inactive employees entitled to SERS benefits but not yet receiving them, who are or would be entitled to receive an annuity based upon the law as it exists as of the date of filing of this Complaint and will exist through May 31, 2014. As set forth in most recent SERS Annual Report dated January 9, 2013, a copy of which is attached hereto as Exhibit A and is incorporated by reference, the number of persons in the class exceeds 60,000 persons, such that joinder of all members is impracticable. There are questions of law or fact common to the class, which common questions predominate over questions affecting only individual members. The representative parties will fairly and adequately protect the interests of the class.

12. Plaintiffs also seek the creation of a subclass of persons who availed themselves of early retirement incentive programs in 1991, 2002 or later. This subclass (the "ERI Subclass") exceeds 10,000 persons. Plaintiffs Hajek and Richter are members of the ERI Subclass, having taken early retirement in 2002, and will adequately represent the subclass. The ERI Subclass involves only Count IV of this Complaint. With respect to all other counts, the claims of the ERI Subclass are identical to those of the other members of the class.

Background of the Dispute

13. This case concerns the constitutionality of Public Act 98-599, which was adopted by both Houses of the General Assembly on December 3, 2013 and was signed by Governor Quinn on December 5, 2013. PA 98-599 implements a number of changes in the various pension

systems of the State of Illinois, including SERS, the State Universities Retirement System ("SURS"), the Teachers Retirement System of the State of Illinois ("TRS"); the Public School Teachers' Pension and Retirement Fund ("PSTPRF") the General Assembly Retirement System ("GARS"). PA 98-599, however, omits to make any changes to the Judges' Retirement System.

14. In 1970, when the current Illinois Constitution was drafted, the State-sponsored pension funds were actuarially underfunded. In February, 2012, Eric Madiar, counsel to Illinois Senate President John J. Cullerton and Parliamentarian of the Illinois Senate, accurately described the situation in a well-known treatise published on the internet and widely circulated in the halls of the General Assembly, *Is Welching On Public Pension Promises An Option For Illinoi*s?, as follows:

> At the time of the Convention, the Pension Laws Commission reported that the General Assembly Retirement System (GARS) was 68.5% funded, while the State University Retirement System (SURS) was 47% funded. The remaining state-funded retirement systems had the following funding percentages: State Employees Retirement System (SERS) 43%; Judicial Retirement System (JRS) 32.3%; and Teachers Retirement System (TRS) 40%. The five State pension systems had an aggregate funding ratio of 41.8%. By comparison police and firemen pension funds were respectively only 33.8% and 19.1% funded. As noted at the outset, the five systems currently have a combined funding ratio of 43.3%.

15. The 1970 Constitution defined "membership in a pension or retirement system" as an "enforceable contractual right." As shown by the Con-Con debates, the drafters of the 1970 Constitution intended that the General Assembly would begin a process of properly funding the pension systems. In 1995, in the wake of litigation over the issue, the General Assembly adopted Public Act 88-0593, requiring the state during fiscal years 1996 through 2045 to make sufficient payments into the pension systems so that the State could fund the system at a 90% level by fiscal year 2045 and beyond. By the year 2000, the State had funded SERS to the level of 81.65%.

16. Since the year 2000, prior governors and the General Assembly have consistently failed to fund SERS and the other pension systems, preferring to use SERS and those other systems as lenders of last resort, and using funds which pursuant to PA 88-593, were to be earmarked for pensions, to pay for other pet projects. The General Assembly and past Governors have even declared pension "holidays", intentionally refusing to fund SERS in certain years. Because of 13 years of abuse, and as noted by Mr. Madiar, the funds are today about where they were in 1970.

17. While the General Assembly and prior Governors have failed to uphold the State's side of the enforceable contractual relationship contemplated by the Constitution, the State has at all times forced its employees and retirees to keep *their* side of the deal, at all times continuing to withhold the employees' contributions from their paychecks. There has never been a "holiday" for the Plaintiffs, either while they were employees or as retirees.

18. The preamble to PA 98-599, which purports to express the legislative intent of the State, is pure political theater and not a valid statement of intent, inasmuch as it ignores the history of the State refusing to honor its obligations to its employees and retirees. The preamble also ignores the State's repeated failure to comply with its own prior pension reform statutes, notably Public Act 88-0593. It ignores the fact that in 2000, SERS was over 80% funded and has purposefully been underfunded ever since. The preamble says:

> At the time of passage of this amendatory Act of the 98th General Assembly, Illinois has both atypically large debts and structural budgetary imbalances that will, unless addressed by the General Assembly, lead to even greater and rapidly growing debts and deficits.

Ignoring the fact that the General Assembly's and prior governors' consistent failures to fund SERS and the other pension funds is the entire cause of the problem, the preamble continues:

> Meanwhile, the State's annual pension contribution has substantially increased in recent years, and will continue to increase in coming years. The General Assembly recognizes that without significant pension reform, the unfunded liability and the State's pension contribution will continue to grow, and further burden the fiscal stability of both the State and its retirement systems.

19. Thus PA 98-599 rewrites history and proposes to balance the State budget on the backs of retirees, making retirees the scapegoat for the State's fiscal sins. In a similar vein, Defendant Governor Quinn issued a press release the day he signed SB1 into law as PA 98-599. The press release, a copy of which is attached hereto as Exhibit B, says:

> Under the new law, the state will adopt an actuarially sound funding schedule that requires level payments and achieves 100 percent funding no later than the end of fiscal year 2044.

In other words, PA 98-599 purports to do precisely what PA 88-0593 was supposed to do— until prior Governors, in concert with the General Assembly, decided to ignore their constitutional duty to "be responsible for the faithful execution of the laws." There is no reason to believe that future Governors or legislatures will act any differently unless compelled to do so now by the Courts.

20. Governor Quinn's press release goes on to state:

> Under the new law, there will be no reductions in the pension checks going out to current retirees. The law will also minimize the impact on the lower-earning, longer-serving employees. There will continue to be Cost of Living Adjustments (COLA); however, they will grow at a slower rate. For most employees, the COLA will be adjusted from the current 3 percent annually compounding increases that are unsustainable to a new formula based on years of service that includes protections for lower-earning, longer-serving employees.

The quoted language is simply untrue. There *will* be reductions in pension checks going out to current retirees. The Pension Code is a complete stranger to the term, "Cost of Living Adjustment."

The Specific Language of P.A. 98-599 at Issue Here

21. The issue in this case concerns PA 98-599's insertion of new subsection (a-1) to Section 14-114 of the Illinois Pension Code, 40 ILCS 5/14-114. Prior to enactment of PA 98-599, Section 14-114 of the Illinois Pension Code entitled all annuitants to an automatic 3% annual increase in their annuities (hereinafter, the "Automatic 3% Increase"), providing as follows:

> § 14-114. Automatic increase in retirement annuity.
>
> (a) Any person receiving a retirement annuity under this Article who retires having attained age 60, or who retires before age 60 having at least 35 years of creditable service, or who retires on or after January 1, 2001 at an age which, when added to the number of years of his or her creditable service, equals at least 85, shall, on January 1 next following the first full year of retirement, have the amount of the then fixed and payable monthly retirement annuity increased 3%.

22. The new subsection (a-1), which becomes effective on June 1, 2014, substantially impairs and diminishes the Automatic 3% Increase. It states as follows:

> (a-1) Notwithstanding subsection (a), but subject to the provisions of subsection (a-2), all automatic increases payable under subsection (a) on or after the effective date of this amendatory Act of the 98th General Assembly shall be calculated as 3% of the lesser of (1) the total annuity payable at the time of the increase, including previous increases granted, or (2) $800 ($1,000 for portions of the annuity based on service as a noncovered employee) multiplied by the number of years of creditable service upon which the annuity is based. Beginning January 1, 2016, the $800 ($1,000 for portions of the annuity based on service as a noncovered employee) referred in item (2) of this subsection (a-1) shall be increased on each January 1 by the annual unadjusted percentage increase (but not less than zero) in the consumer price index-u for the 12 months ending with the preceding September; these adjustments shall be cumulative and compounded. For the purposes of this subsection (a-1), "consumer price index-u" means the index published by the Bureau of Labor Statistics of the United States Department of Labor that measures the average change in prices of goods and services purchased by all urban consumers, United States city average, all items, 1982-84 = 100. The new dollar amount resulting from each annual adjustment shall be determined by the Public Pension Division of the Department of Insurance and made available to the System by November 1 of each year. This subsection (a-1) is applicable without regard to whether the person is in service on or after the effective date of this amendatory Act of the 98th General Assembly.

History of the Automatic 3% Increase in Section 14-114 of Pension Code.

23. Section 14-114 of the Pension Code has been part of the Pension Code since 1969. It has been amended and renumbered a number of times, but history of the Section most relevant to this case are as follows:

A. Prior to 1969, a retiring SERS annuitant's annuity was fixed as of the date of his or her retirement.

B. Public Act 76-748, effective August 15, 1969, added Section 14-153.1, captioned "Automatic Increase in Service Retirement Allowance," to the Illinois Pension Code. The section provided that any employees retiring after December 31, 1969, having attained age 60, would, on January 1 next following the first full year of retirement, and each succeeding year thereafter, have the amount of his or her then fixed and payable retirement annuity increased by an additional 1.5%. annually, up to a maximum of 30% over the years. PA 76-748 also provided for an increase in SERS members' out-of-pocket monthly payroll deduction in an amount of .5% of salary effective January 1, 1970 and going forward, and it mandated that the State match the payroll deduction with an additional .5% contribution. Putting it another way, PA 76-748 mandated that future annuitants would pay for future automatic increases in their annuities through present payroll deductions, and that the State would match the employees' payroll deduction to pay for the automatic increases.

C. The national increase in the consumer price index ("CPI") in 1969 was 5.46%, far above the 1.5% annual automatic increase in annuity payments mandated by PA 76-748. In no sense did PA 76-748 attempt a "cost of living adjustment," which would have indexed the automatic increases to increases in the CPI or some other measure of inflation.

D. PA 77-292, effective July 15, 1971, eliminated the 30% cap and provided that the automatic rate of increase in the annuity—now termed an "allowance"—would be 2% per year. The national CPI increase in 1971 was 4.30%, more than double the 2% annual automatic increase mandated by PA 77-292.

E. PA 80-1408, effective August 28, 1978, amended Section 14-114 by raising the annual automatic increase—by then once again referred to as an "annuity"—to 3% annually. The national CPI increase in 1978 was 7.6%, more than two and a half times the 3% Automatic Increase.

F. Public Act 86-273, effective August 1989, provided that effective January 1, 1990, the 3% Automatic Increase would be in effect compounded. So, in 1991, an annuitant would receive 103% of 1990's payment; in 1992, 103% of 1991's payment, etc. The national CPI increase in 1989 was 4.83%, more than one and a half times as much as the 3% Automatic Increase.

24. While as shown by the press release, Exhibit B, Governor Quinn and certain legislators prefer to refer to the 3% Automatic Increase as a "Cost of Living Adjustment" in an effort to influence public opinion, at no time during the forty-four years since what is now Section 14-114 was added to the Pension Code in 1969 has it included any language or reference to the Automatic Increase, whether 1.5%, 2% or 3%, being a "cost of living adjustment" or "COLA." The 3% Automatic Increase simply is not a COLA under the commonly accepted definition of the term.

25. All of the members of the Association, all of the Class Plaintiffs, and all of the members of the Class worked (or are the survivors of such workers) during a period when the 3% Automatic Increase mandated by Section 14-114 of the Pension Code was in effect, and

retired at a time when the 3% Automatic Increase mandated by Section 14-114 of the Pension Code was in effect. They contributed the .5% of their salaries required by Section 14-114 to fund the 3% Automatic Increase.

The Controversy Regarding PA 98-599

26. Article XII, Section 5 of the Illinois Constitution of 1970, the Pension Protection Clause, provides as follows:

> PENSION AND RETIREMENT RIGHTS
> Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.

27. There is a controversy between the Plaintiffs and the Defendants as to the Constitutional validity of Public Act 98-599, and in particular as to the new subsection (a-1) to Section 14-114 of the Illinois Pension Code. Plaintiffs contend that PA 98-599 and the new subsection (a-1) violate Article XII, Section 5 of the Illinois Constitution of 1970 by diminishing and impairing the future pension and retirement benefits of all SERS retirees, namely, by diminishing and impairing the 3% Automatic Increase. Defendants deny that such is the case, and they intend to implement PA 98-599 on its effective date.

28. Plaintiffs are threatened with irreparable injury and have no adequate remedy at law.

29. In order to protect the Plaintiffs during the pendency of this litigation, this Court should order the State to establish an escrow in the amount of the difference between the amounts to which the Plaintiffs would be entitled pursuant to Section 14-114 of the Pension Code as it existed as of the date of filing of this case and through May 31, 2014, and the amounts

to which they are entitled under the Pension Code as it takes effect on June 1, 2014, and thereafter.

WHEREFORE, Plaintiffs pray for the following relief:

a. That the class, consisting of all SERS annuitants, be certified;

b. That the Court declare Public Act 98-599 to be unconstitutional and invalid insofar as it diminishes and impairs the 3% Automatic Increase, and that the Court enjoin the implementation by the Defendants of the new Section 14-114 (a-1) of the Pension Code;

c. That the Court establish an escrow *pendente lite* into which the difference between the amounts to which the annuitants would be entitled pursuant to Section 14-114 of the Pension Code as it existed as of the date of filing of this case and through May 31, 2014 and the same section as it exists as of July 1, 2014, be placed for ultimate distribution to the Plaintiff class should the Plaintiff class prevail, and for ultimate distribution to the State should the Defendants prevail; and

d. For such other and further relief as the Court may deem appropriate.

COUNT II
(Equal Protection Clause)

1-25. Plaintiffs reallege paragraphs 1 through 25 of Count I as and for paragraphs 1 through 25 of this Count II.

26. Article I, Section 2 of the Illinois Constitution of 1970 states as follows:

> No person shall be deprived of life, liberty or property without due process of law nor be denied the equal protection of the laws.

27. Prior to adoption of Public Act 98-599, the provisions of the Pension Code governing SURS, TRS, PSTPRF, GARS and the Judges' Retirement System all provided for a 3% Automatic Increase, and contained provisions similar to Section 14-114 of the Pension Code.

PA 98-599 limits the 3% Automatic Increase, and contains provisions similar to those of the new subsection (a-1) of Section 14-114 of the Pension Code, with respect to all of these systems save one: the Judges' Retirement System.

28. Keeping the 3% Automatic Increase in full effect with respect to the Judges' Retirement System, while diminishing and impairing the 3% Automatic Increase set forth in Section 14-114 of the Pension Code and the similar 3% Automatic Increase provisions enjoyed by SURS, TRS, PSTPRF and GARS Annuitants, lacks a rational basis reasonably related to a legitimate governmental purpose.

29. There is a controversy between the Plaintiffs and the Defendants as to the validity of Public Act 98-599, and in particular as to the new subsection (a-1) of Section 14-114 of the Illinois Pension Code. Plaintiffs contend that the Public Act and the new subsection (a-1) violate Article I, Section 2 of the Illinois Constitution of 1970 by depriving the Plaintiffs of the equal protection of the laws vis-à-vis retired judges. Defendants deny that such is the case, and they intend to implement PA 98-599 on its effective date.

30. Plaintiffs are threatened with irreparable injury and have no adequate remedy at law.

31. In order to protect the Plaintiffs during the pendency of this litigation, this Court should order the State to establish an escrow in the amount of the difference between the amounts to which the Plaintiffs would be entitled pursuant to Section 14-114 of the Pension Code as it existed as of the date of filing of this case and through May 31, 2014, and the amounts to which they are entitled under the Pension Code as it takes effect on June 1, 2014, and thereafter.

WHEREFORE, Plaintiffs pray for the following relief:

a. That the class, consisting of all SERS annuitants, be certified;

b. That the Court declare Public Act 98-599 to be unconstitutional and invalid insofar as it diminishes and impairs 3% Automatic Increase for Plaintiffs and other retirees, but not for retired judges; and that the Court enjoin the implementation by the Defendants of the new Section 14-114 (a-1) of the Pension Code;

c. That the Court establish an escrow *pendente lite* into which the difference between the amounts to which the annuitants would be entitled pursuant to Section 14-114 of the Pension Code as it existed as of the date of filing of this case and through May 31, 2014 and the same section as it exists as of June 1, 2014, be placed for ultimate distribution to the Plaintiff class should the Plaintiff class prevail, and for ultimate distribution to the State should the Defendants prevail; and

d. For such other and further relief as the Court may deem appropriate.

COUNT III
(Impairment of Contracts Clause)

1-25. Plaintiffs reallege paragraphs 1 through 25 of Count I as and for paragraphs 1 through 25 of this Count III.

26. The Constitution defines membership in SERS as an "enforceable contractual relationship." During their tenure at the State, the Plaintiffs continually paid their .5% contributions in exchange for their entitlement to the 3% Automatic Increase. Moreover, the Plaintiffs were continually reminded of the 3% Automatic Increase in numerous publications, seminars, etc. This has occurred for at least the last 40 years:

A. The 1982 Benefits Handbook, distributed to most if not all State employees at the time, is attached hereto as Exhibit C-1. It said, on page 11:

> If you retire after age 60, you will receive a 3% increase in your pension on January 1 following your first full year of retirement. Future increases of 3% of your original pension will also be made each January 1 thereafter. Future increases in your pension will not be limited by the 75% maximum.
>
> If you retire before age 60, you will receive a 3% increase in your pension on January 1 after you reach age 60 if you have been retired for one full year.
>
> If you retire with 35 or more years of credited service, you are eligible for your first increase on the January 1 following your first full year of retirement whether or not you have then reached age 60.

B. The 1992 Benefits Handbook, distributed to most if not all State employees at the time, is attached hereto as Exhibit C-2. It said, on page 8:

> If you are a retiree of the State Employees Retirement System, you will receive a 3 % increase in your pension on January 1 following your first full year of retirement or attainment of age 60, whichever is later. If you retire with 35 or more years of service, you are eligible for your first increase on the January 1st following your first full year of retirement, whether or not you have reached age 60. Future increases of 3 % of your current pension will also be made each January 1 thereafter.

C. The 2001 Benefits Handbook, distributed to most if not all State employees at the time, is attached hereto as Exhibit C-3. It said, on page 8:

> SERS retirees receive a 3% increase in their pensions on January I following their first full year of retirement, or age 60, whichever is later. If you retire using the Rule of 85, you are eligible for your first increase on the January 1 following your first full year of retirement, even if you are not age 60. Future increases of 3% of your current pension will also be made each January 1 thereafter. Future increases are not limited by the 75% maximum. If you retired under the alternative formula, you will receive a 3% increase to your pension on January 1 following your first full year of retirement or age 55, whichever is later. Future increases are not limited by the 80% maximum.

D. The current SERS Benefits Handbook, 2011 edition, was distributed to most if not all State employees, and is posted on the SERS website. It is attached hereto as Exhibit C-4. It says, on page 19:

> If you retire under the Rule of 85, you are eligible for your first 3% increase on January 1 following your first full year of retirement, even if you are not age 60. If you retire at age 60 or older, you will receive a 3% pension increase every year on January 1, following your first full year of retirement. If you retire before age 60 with a reduced retirement benefit, you will receive a 3% pension increase every January 1 after you turn age 60 and have been retired at least one full year. These pension increases are not limited by the 75% maximum.

E. The current SERS Annual Report, Exhibit A to this Complaint, similarly describes (page 66) the 3% automatic increase for Tier 1 employees—that is, for employees hired prior to July, 2011. A similar description is contained in at least the last 10 years' SERS annual reports, all of which are and have been available on the SERS website.

27. In diminishing and limiting the 3% Automatic Increase, PA 98-599 impairs the Plaintiffs' enforceable contractual rights in violation of Article I, Section 16 of the Illinois Constitution, which provides in relevant part:

> *No…law impairing the obligation of contracts…shall be passed.*

28. There is a controversy between the Plaintiffs and the Defendants as to the validity of Public Act 98-599, and in particular as to the new subsection (a-1) to Section 14-114 of the Illinois Pension Code. Plaintiffs contend that the Public Act and the new subsection (a-1) violate Article I, Section 16 of the Illinois Constitution insofar as they diminish and impair the Plaintiffs' contractual rights. Defendants deny that such is the case, and they intend to implement PA 98-599 on its effective date.

29. Plaintiffs are threatened with irreparable injury and have no adequate remedy at law.

30. In order to protect the Plaintiffs during the pendency of this litigation, this Court should order the State to establish an escrow in the amount of the difference between the amounts to which the Plaintiffs would be entitled pursuant to Section 14-114 of the Pension Code as it existed as of the date of filing of this case and through May 31, 2014, and the amounts to which they are entitled under the Pension Code as it takes effect on June 1, 2014, and thereafter.

WHEREFORE, Plaintiffs pray for the following relief:

a. That the class, consisting of all SERS annuitants, be certified;

b. That the Court declare Public Act 98-599 to be an unconstitutional impairment of contracts and invalid insofar as it diminishes and impairs the 3% Automatic Increase, and that the Court enjoin the implementation by the Defendants of the new Section 14-114 (a-1) of the Pension Code;

c. That the Court establish an escrow *pendente lite* into which the difference between the amounts to which the annuitants would be entitled pursuant to Section 14-114 of the Pension Code as it existed as of the date of filing of this case and through May 31, 2014 and the same section as it exists as of July 1, 2014, be placed for ultimate distribution to the Plaintiff class should the Plaintiff class prevail, and for ultimate distribution to the State should the Defendants prevail; and

d. For such other and further relief as the Court may deem appropriate.

COUNT IV
(Impairment of Contract Clause—ERI Subclass)

1-25. Plaintiffs reallege the paragraphs 1 through 25 of Count I as and for paragraphs 1 through 25 of this Count IV.

26. This Count IV is brought by Plaintiffs Hajek and Richter on behalf of the ERI Subclass and relates only to the ERI Subclass.

27. In 2002, the State of Illinois announced an Early Retirement Incentive Program (hereinafter "ERI Program"). The program was specifically designed to lower the personnel costs of the State of Illinois by pensioning off higher paid employees with many years of service. The Early Retirement Program provided for the purchase by eligible annuitants of additional service credits, and promised that the ERI Participants would have continued entitlement to the 3% Automatic Increase. See, e.g., the ERI website attached hereto as Exhibit D.

28. According to a report of the Commission on Government Forecasting and Accountability attached hereto as Exhibit E, in reliance on the 2002 ERI Program, the over 10,000 members of the ERI Subclass paid the State over $128 million to purchase additional service credits and retired from State service. They thereby reduced the State's payroll costs over $2.9 billion in the years 2003-2012.

29. While much smaller in terms of the number of retirees involved and the fiscal impact on the State, early retirement incentive programs similar to the 2002 program were announced in 1991 and in 2005, and the persons who availed themselves of those early retirement programs are included in the ERI subclass.

30. The State's promises and the ERI Subclass's reliance thereon created implied contracts between the State and members of the ERI Subclass pursuant to the principles of promissory estoppel.

31. In eliminating the 3% Automatic Increase, Public Act 98-599 is an impairment of the contracts made between the State of Illinois and members of the ERI Subclass and as such, is

an impairment of the contract in violation of Article I, Section 16 of the Illinois Constitution, which provides in relevant part:

No…law impairing the obligation of contracts…shall be passed.

32. There is a controversy between the ERI Subclass and the Defendants as to the validity of Public Act 98-599, and in particular as to the new subsection (a-1) of Section 14-114 of the Illinois Pension Code. Members of the ERI Subclass contend that the Public Act and the new subsection (a-1) violate Article I, Section 16 of the Illinois Constitution insofar as they diminish and impair the Plaintiffs' contractual rights obtained by participation in the Early Retirement Incentive programs of the State, which are in addition to the contractual rights enjoyed by them simply by being members of SERS. Defendants deny that such is the case, and they intend to implement PA 98-599 on its effective date.

33. Plaintiffs are threatened with irreparable injury and have no adequate remedy at law.

34. In order to protect the ERI Subclass during the pendency of this litigation, this Court should order the State to establish an escrow in the amount of the difference between the amounts to which the Plaintiffs would be entitled pursuant to Section 14-114 of the Pension Code as it existed as of the date of filing of this case and through May 31, 2014, and the amounts to which they are entitled under the Pension Code as it takes effect on July 1, 2014, and thereafter.

WHEREFORE, Plaintiffs pray for the following relief:

a. That the subclass, consisting of all ERI Participants, be certified;

b. That the Court declare Public Act 98-599 to be an unconstitutional impairment of contracts and invalid insofar as it limits the 3% Automatic Increase with respect to members of the ERI Subclass, and that the Court enjoin the implementation by the Defendants of the new Section 14-114 (a-1) of the Pension Code;

c. That the Court establish an escrow *pendente lite* into which the difference between the amounts to which the annuitants would be entitled pursuant to Section 14-114 of the Pension Code as it existed as of the date of filing of this case and through May 31, 2014 and the same section as it exists as of July 1, 2014, be placed for ultimate distribution to the Plaintiff class should the Plaintiff class prevail, and for ultimate distribution to the State should the Defendants prevail; and

d. For such other and further relief as the Court may deem appropriate.

RETIRED STATE EMPLOYEES ASSOCIATION
an Illinois not-for-profit corporation, and LAWRENCE WORT, GLADYS HAJEK, LINDA GUELDENER and MAURINE RICHTER, for themselves and on behalf of a class of persons similarly situated, Plaintiffs,

By:____
One of Their Attorneys

John M. Myers
Barbara K. Myers
Rabin & Myers, PC
1300 South 8th Street
Springfield, IL 62703
Telephone: 217-544-5003
Facsimile: 217-544-5017

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

A Pension Trust Fund of the State of Illinois

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012

STATE EMPLOYEES' RETIREMENT
SYSTEM OF ILLINOIS

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

Prepared by the Accounting Division

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Exhibit
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INTRODUCTORY SECTION

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 217-785-7444

January 9, 2013

The Board of Trustees and Members
State Employees' Retirement System of Illinois
Springfield, IL 62794

Dear Board and Members:

The comprehensive annual financial report of the State Employees' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 2012 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 various funds of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the report of the independent auditors.

The report consists of six sections:

1. The Introductory Section contains this letter of transmittal and the identification of the administrative organization and the Certificate of Achievement for Excellence in Financial Reporting;

2. The Financial Section contains management's discussion and analysis, the report of the Independent Auditors, the financial statements of the System, and certain required and other supplementary financial information;

3. The Investment Section contains a summary of the System's investment management approach and selected summary tables, including investment performance;

4. The Actuarial Section contains an Actuary's Certification Letter and the results of the annual actuarial valuation;

5. The Statistical Section contains significant statistical data;

6. The Plan Summary and Legislative Section contains a summary of the System's plan provisions and current legislative changes.

Generally accepted accounting principles require that the financial reporting entity include:

1. the primary government;
2. organizations for which the primary government is financially accountable; and
3. other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System. The System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Although the State Employees' Retirement System, Judges' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the State Employees' Retirement System do not include plan net asset information nor the changes in plan net assets of the General Assembly Retirement System or Judges' Retirement System.

PLAN HISTORY & SERVICES PROVIDED

The System is the administrator of a single-employer public employee retirement system established to provide pension benefits for State of Illinois employees. The System also administers widows and survivors benefits as well as the state's occupational and nonoccupational disability programs.

The System was established January 1, 1944 and 17,237 state employees became members on that date. As of June 30, 1944, net assets of the System amounted to $1,255,778. The fair value of plan net assets at the end of the fiscal year June 30, 2012 are approximately $11.0 billion, and there are 62,732 active members.

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 Statues, using the "prudent person rule".

This rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position.

The ISBI maintains a wide diversification of investments within this fund which is intended to reduce overall risk and increase returns. As further detailed in the Investment Section, the ISBI Commingled Fund had a gain of 0.10%, net of expenses, for the fiscal year ended June 30, 2012.

FUNDING

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 greater the level of funding, the larger the ratio of accumulated assets to the actuarial accrued liability and the greater the level of investment potential.

The funding plan for the System, enacted in 1994 with subsequent modifications, requires that state contributions be paid to the System so that by the end of fiscal year 2045, the ratio of the actuarial value of assets to the actuarial accrued liability will be 90%. For fiscal years 2011 through 2045, the required state contributions are to be computed as a level percentage of participant payroll.

For fiscal years up through 2010, the required state contributions, except for fiscal years 2006 and 2007, were to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state is contributing at the required level contribution rate to achieve the financing objective by the end of fiscal year 2045. For fiscal years 2012 and 2011, the state contributed the appropriate amount as required by law.

The funding legislation also provides for the establishment of a continuing appropriation of the required state contributions to the System. This has, in effect, removed the appropriation of these funds from the annual budgetary process.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 2012, amounted to $33.091 billion. The actuarial value of assets amounted to $11.477 billion resulting in an unfunded accrued actuarial liability of $21.614 billion as of the same date. A detailed discussion of funding is provided in the Actuarial Section of this report.

MAJOR EVENTS/ INITIATIVES

The operational plan for FY12 included: modernization efforts including, the implementation of an imaging system and a reengineering of the business functions of the active member system.

New projects for FY13 include: modernization efforts continue and include implementation of a new Active Member Inquiry System, continued re-engineering of accounting and financial processes, establishment of a web presence to allow member services to be made available through the internet and the completion of the conversion of over eight million member file documents to the imaging system.

ACCOUNTING SYSTEM & 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 financial transactions and activities of the System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recognized when the corresponding liabilities are incurred, regardless of when payment is made.

The System also uses the State of Illinois, Statewide Accounting Management System (SAMS) 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. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgements by management. 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 Gabriel, Roeder, Smith & Co., Chicago, Illinois.

The annual financial audit of the System was conducted by the accounting firm of BKD, LLP, under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a compliance attestation examination is also performed by the auditors.

The purpose of the compliance attestation examination was to determine whether the 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 State Employees' Retirement System of Illinois for its comprehensive annual financial report for the fiscal year ended June 30, 2011.

The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This 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 State Employees' Retirement System of Illinois has received a Certificate of Achievement for the past twenty-six consecutive years (fiscal years ended June 30, 1986 through June 30, 2011).

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.

ACKNOWLEDGMENTS & COMMENTS

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 for determining responsible stewardship for the assets contributed by the members 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,

Timothy B. Blair

Timothy B. Blair
Executive Secretary

Nicholas C. Merrill, Jr.

Nicholas C. Merrill, Jr., CPA
Chief Fiscal Officer

BOARD OF TRUSTEES


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Chairman


Michael Noser
Appointed by Governor


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Appointed by Governor


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David Morris
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Shirley Byrd
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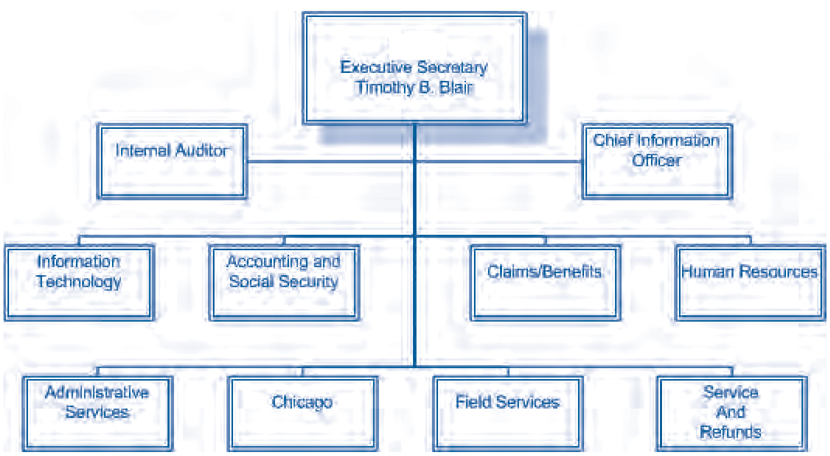

Management Group

Accounting & Social Security	Nicholas C. Merrill, Jr.
Administrative Services	David L. O'Brien
Claims/Benefits	Kathy Yemm
Chicago Office	Barbara J.C. Baird
Chief Information Officer	Gerry G. Mitchell
Information Technology	Kevin Rademacher
Field Services	David F. Thompson
Human Resources	Denise Connelly
Service & Refunds	Joseph S. Maggio
Internal Auditor	Staci Crane

Advisors, Auditors & Administrators

Consulting Actuary	Gabriel, Roeder, Smith & Company Chicago, Illinois
External Auditor	BKD, LLP Decatur, Illinois
Investments	Illinois State Board of Investment Chicago, Illinois

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Employees' Retirement System of Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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 comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Christopher P Morrill
President

Jeffrey R. Esser
Executive Director

FINANCIAL SECTION

BKD LLP
CPAs & Advisors

225 N. Water Street, Suite 400
P.O. Box 1580
Decatur, IL 62525-1580
217.429.2411 Fax 217.429.6109 www.bkd.com

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
State Employees' Retirement System of the State of Illinois
Springfield, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State Employees' Retirement System of the State of Illinois (System), as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. 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 did not audit the 2012 and 2011 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 97 percent, 97 percent, and .32 percent, respectively in 2012, and 99 percent, 99 percent, and 58 percent, respectively, in 2011 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2012 and 2011, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated January 9, 2013 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress, the schedule of employer contributions and notes to required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements as a whole. The supplementary financial information in the financial section and the accompanying introductory, investment, actuarial, statistical and plan summary and legislative sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary financial information as noted in the table of contents has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audits, the procedures performed as described previously, and the report of the other auditors, the supplementary financial information as noted in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory, investment, actuarial, statistical and plan summary and legislative sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

BKD, LLP

January 9, 2013

This financial report is designed to provide a general overview of the State Employees' Retirement System's finances for all those with an interest in the System's finances.

This section presents management's discussion and analysis of the financial position and performance of the State Employees' Retirement Systems of Illinois (System) for the years ended June 30, 2012 and 2011. It is presented as a narrative overview and analysis. Readers are encouraged to consider the information presented here in conjunction with the Letter of Transmittal included in the Introductory Section, of the Comprehensive Annual Financial Report.

The System is a defined benefit, single-employer public employee retirement system. It provides services to approximately 62,700 active state employees and nearly 62,800 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's financial reporting which is comprised of the following components:

1. Basic Financial Statements. For the fiscal years ended June 30, 2012 and 2011, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2012 and 2011. This financial information also summarizes the changes in net assets held in trust for pension benefits for the years then ended.

2. Notes to the Financial Statements. The notes to the Financial Statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.

3. Required Supplementary Information. The required supplementary information consists of two schedules and related notes concerning actuarial information, funded status and required contributions for the System.

4. Other Supplementary Schedules. Other schedules include more detailed information pertaining to the System, including schedules of revenues by source, cash receipts and disbursements, and payments to consultants.

FINANCIAL HIGHLIGHTS

- The Systems' net assets decreased by $10.0 million and increased by $1,768.9 million during fiscal years 2012 and 2011, respectively. The changes were primarily due to an increase/(decrease) of $(206.7) million (excluding securities lending collateral), and $1,761.9 million in the System's investments, at fair value, for fiscal years 2012 and 2011, respectively.
- The System was actuarially funded at 34.7% as of June 30, 2012, compared to 35.6% as of June 30, 2011. For fiscal years 2012 and 2011, the actuarial value of assets equals the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 0.1% for fiscal year 2012 compared to 21.7% for fiscal year 2011.

PLAN NET ASSETS

The condensed Statements of Plan Net Assets reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.

Condensed Statements of Plan Net Assets
(in millions)

	As of June 30 2012	2011	2010	Increase/(Decrease) from 2011 to 2012	2010 to 2011
Cash	$ 134.0	$ 54.9	$ 49.9	$ 79.1	$ 5.0
Receivables	160.8	41.1	39.3	119.7	1.8
Investments, at fair value *	10,748.6	10,908.9	9,143.2	(160.3)	1,765.7
Property & equipment, net	2.7	2.7	2.8	–	(.1)
Total assets	11,046.1	11,007.6	9,235.2	38.5	1,772.4
Liabilities *	85.4	36.9	33.4	48.5	3.5
Total plan net assets	$ 10,960.7	$ 10,970.7	$ 9,201.8	$ (10.0)	$ 1,768.9

* Including securities lending collateral

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were approximately $259.1 million and $254.2 million for the years ended June 30, 2012 and 2011, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to approximately $1,391.4 million in 2012 from approximately $1,127.9 million in 2011. This increase was the result of the State's funding plan.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2012 and 2011, the System paid out approximately $1,650.9 million and $1,529.6 million, respectively, in benefits and refunds, an increase of approximately 7.9%. These higher payments were mainly due to a scheduled 3% increase in retirement and other benefit payments, and a 5% increase in beneficiaries. The administrative costs of the System represented approximately 1% of total deductions in both 2012 and 2011.

FUNDED RATIO

The funded ratio of the plan measures the ratio of the actuarial value of assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2012 decreased to 34.7% from 35.6% at June 30, 2011. The major reason for the decline was the lingering effect of prior investment performance on the smoothed-market value of assets. The amount by which actuarially determined liabilities exceeded the actuarial value of assets was $21.6 billion at June 30, 2012 compared to $20.2 billion at June 30, 2011.

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the Judges' Retirement System and the General Assembly Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage. Investment gains or losses are reported in the Statement of Changes in Net Assets of each retirement system.

The net investment gain for the System totaled approximately $6.0 million during fiscal year 2012, versus a net investment gain of $1,930.2 million during fiscal year 2011, resulting in returns of 0.1% and 21.7%, respectively. For the three, five, and ten year period ended June 30, 2012, the ISBI Commingled Fund earned a compounded rate of return of positive 10.0%, negative 0.1%, and positive 5.2%, respectively.

The ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the ISBI's investment portfolio depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact the ISBI's financial condition.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Employees' Retirement System of Illinois, Accounting Division, 2101 S. Veterans Parkway, P. O. Box 19255, Springfield, Illinois 62794

CHANGES IN PLAN NET ASSETS

The condensed Statements of Changes in Plan Net Assets reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries.

Condensed Statements of Changes in Plan Net Assets
(In millions)

	For the Year Ended June 30, 2012	2011	2010	Increase/(Decrease) from 2011 to 2012	2010 to 2011
Additions					
Participant contributions	$ 259.1	$ 254.2	$ 246.2	$ 4.9	8.0
Employer contributions	1,391.4	1,127.9	1,095.5	263.5	32.4
Investment income/(loss)	6.0	1,930.2	799.9	(1,924.2)	1,130.3
Total additions/(deductions)	1,656.5	3,312.3	2,141.6	(1,655.8)	1,170.7
Deductions					
Benefits	1,627.3	1,492.1	1,390.7	135.2	101.4
Refunds	23.5	37.6	15.3	(14.1)	22.3
Administrative expenses	15.7	13.7	11.7	2.0	2.0
Total deductions	1,666.5	1,543.4	1,417.7	123.1	125.7
Net increase/(decrease) in plan net assets	$ (10.0)	$ 1,768.9	$ 723.9	$(1,778.9)	$ 1,045.0

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2012 and 2011

	2012	2011
Assets		
Cash	$ 133,959,043	$ 54,940,085
Receivables:		
Contributions:		
Participants	15,059,723	15,561,242
Employing state agencies	139,273,104	18,858,218
Other accounts	6,474,247	6,748,407
Total Receivables	160,807,074	41,167,867
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	10,675,772,261	10,882,484,004
Securities lending collateral with State Treasurer	72,867,000	26,414,000
Property and equipment, net of accumulated depreciation	2,723,398	2,676,348
Total Assets	11,046,128,776	11,007,682,304
Liabilities		
Benefits payable	6,184,894	5,055,752
Refunds payable	818,593	684,323
Administrative expenses payable	1,539,489	1,375,236
Participants' deferred service credit accounts	129,753	156,993
Due to the State of Illinois	3,901,223	3,243,314
Securities lending collateral	72,867,000	26,414,000
Total Liabilities	85,440,952	36,929,618
Net assets held in trust for pension benefits	$ 10,960,687,824	$ 10,970,752,686

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Additions:		
Contributions:		
Participants	$ 259,122,881	$ 254,201,379
Employing State agencies and appropriations	1,391,416,375	1,127,886,796
Total Contributions	1,650,539,256	1,382,088,175
Investment income:		
Net investment income	253,906,644	221,489,114
Interest earned on cash balances	687,112	448,284
Net appreciation/(depreciation) in fair value of investments	(248,618,387)	1,708,270,995
Total investment income	5,975,369	1,930,208,393
Total Additions	1,656,514,625	3,312,296,568
Deductions:		
Benefits:		
Retirement annuities	1,454,910,158	1,329,155,991
Survivors' annuities	101,136,325	95,118,041
Disability benefits	56,098,869	53,056,325
Lump sum benefits	15,228,249	14,733,290
Total Benefits	1,627,373,601	1,492,063,647
Refunds *(including transfers to reciprocating systems)*	23,500,325	37,575,929
Administrative	15,705,561	13,734,961
Total Deductions	1,666,579,487	1,543,374,537
Net Increase/(Decrease)	(10,064,862)	1,768,922,031
Net assets held in trust for pension benefits:		
Beginning of year	10,970,752,686	9,201,830,655
End of year	10,960,687,824	$ 10,970,752,686

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2012 and 2011

1. Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include: 1) the primary government; 2) organizations for which the primary government is financially accountable; and 3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statement to be misleading or incomplete.

The State Employees' Retirement System of Illinois (System) is administered by a Board of Trustees consisting of thirteen persons, which includes: a. the Comptroller, who shall be the Chairperson; b. six persons appointed by the Governor with the advice and consent of the Senate who may not be members of the system or hold an elective State office and who shall serve for a term of 5 years, except that the terms of the initial appointees under the amendatory Act of the 96th General Assembly shall be as follows: 3 for a term of 3 years and 3 for a term of 5 years; c. four active participants of the System having at least 8 years of creditable service, to be elected from the contributing members of the System by the contribution members; and d. two annuitants of the System who have been annuitants for at least one full year, to be elected from and by the annuitants of the System.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System. However, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

At June 30, 2012 and 2011, the number of participating state agencies, boards and commissions totaled:

	2012	2011
State agencies	40	38
State boards and commissions	43	43
TOTAL	83	81

At June 30, 2012 and 2011, SERS membership consisted of:

	2012	2011
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	50,000	47,002
Survivors' annuities	10,502	10,428
Disability benefits	2,286	2,356
TOTAL	62,788	59,786
Inactive employees entitled to benefits, but not yet receiving them	4,391	4,489
TOTAL	67,179	64,275
Current Employees:		
Vested: Coordinated with Social Security	43,165	45,839
Noncoordinated	1,692	1,854
Nonvested: Coordinated with Social Security	17,160	17,969
Noncoordinated	715	701
TOTAL	62,732	66,363

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

Pursuant to federal tax laws and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of disbursing benefits in accordance with Section 415 of the Internal Revenue Code. For fiscal years 2012 and 2011, receipts were approximately $63,400 and $23,800, respectively. For fiscal years 2012 and 2011, disbursements were approximately $63,600 and $53,100, respectively.

Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the financial statements of the System.

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 employees. The plan is comprised of two tiers of contribution requirements and benefit levels. The provisions below apply to both Tier 1 & 2 employees, except where noted. A summary of the plan provisions pertaining to eligibility and membership, contributions, and benefits are displayed in the table below:

a. Eligibility and Membership

Generally, anyone entering state service, except those in positions subject to membership in certain other state sponsored retirement systems, persons employed after June 30, 1979 as public service employment program participants under the Federal CETA program, and other exceptions as indicated in state law, become members of the System immediately.

Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System.

b. Employee Contributions

Participating members contribute specified percentages of their salaries for retirement annuities and survivors' annuities in accordance with Chapter 40, Section 5/14-133 of the Illinois Compiled Statutes (ILCS).

Contributions are excluded from gross income for Federal and State income tax purposes. The total contribution rate is 4% if the member is covered by Social Security and 8% if the member is not covered. Certain employment categories which are eligible for benefits under alternative formulas contribute at the rate of 8 1/2% or 12 1/2 % depending upon whether or not the employee is covered by Social Security. Participants' contributions are fully refundable, without interest, upon withdrawal from state employment.

Tier 1	Tier 2
No annual compensation limit on contributions.	Beginning on or after January 1, 2011, annual compensation on which contributions are taken cannot exceed $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less. The calendar year 2012 rate is $108,882.60.

c. Employer Contributions

The State of Illinois is obligated to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

d. Retirement Annuity Benefits

The System is governed by Chapter 40, Article 5/14 of the ILCS. Vesting and benefit provisions of the System are defined in the ILCS. The retirement annuity is based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general state employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. Alternative formula employees have a formula of 2.5% for covered service and 3.0% for noncovered service.

The maximum retirement annuity payable is 75% of final average compensation for regular 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 noncovered employment.

Regular Formula Tier 1

A member must have a minimum of eight years of service credit and may retire at:

- Age 60, with 8 years of service credit.
- Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service.
- Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).

The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.

Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.

If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.

Regular Formula Tier 2

A member must have a minimum of 10 years of credited service and may retire at:

- Age 67, with 10 years of credited service.
- Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.

If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2012 rate is $108,882.60.

If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.

Alternative Formula Tier 1

Members eligible for the alternative formula may retire at age 50 with 25 years of service credit, or at age 55 with 20 years of service credit.

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 January 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%.

Alternative formula retirees receive their first 3% pension increase on January 1 following the first full year of retirement after age 55. These increases are not limited by the 80% maximum.

Alternative Formula Tier 2

Members eligible for the alternative formula may retire at age 60 with 20 years of service.

Final average compensation is the average monthly salary during the 96 highest consecutive months of service within the last 120 months. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less. The calendar year 2012 rate is $108,882.60.

Alternative formula retirees receive their first pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, following the first full year of retirement after age 60. These increases are not limited by the 80% maximum.

e. Disability & Death Benefits

Occupational and nonoccupational (including temporary) disability benefits are available through the System. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service with the System.

The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of state employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

Tier 1	Tier 2
For disability benefits, final average compensation is the rate of pay on the date of the disability, or the 48 highest consecutive months of service within the last 10 years, whichever is greater.	For disability benefits, final average compensation is the rate of pay on the date of the disability, or the 96 highest consecutive months of service within the last 10 years, whichever is greater. The disability benefit is calculated on a maximum salary of $106,800. The calendar year 2012 rate is $108,882.60.

3. Summary of Significant Accounting Policies & Plan Asset Matters

a. Basis of Accounting

The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles. Employee and employer contributions are recognized as revenues when due pursuant to statutory requirements.

Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan.

b. Cash

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.

c. Implementation of New Accounting Standard

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment to GASB Statement No. 53", was established to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The ISBI implemented this Statement for the year ending June 30, 2012.

d. Methods Used to Value Investments

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund.

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities, Forward Foreign Currency Contracts and Options: (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – average cost which approximates fair values; (4) Real Estate Investments – fair values as determined by the ISBI and its investment managers; (5) Alternative Investments (Private Equity, Hedge Funds, Bank loans, and Infrastructure Funds) fair values as determined by the ISBI and its investment managers; and (6) Commingled Funds- fair values as determined by the ISBI and its investment managers.

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.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. 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.

e. 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 last performed as of June 30, 2010 resulting in the adoption of new assumptions as of June 30, 2011.

f. Administrative Expenses

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

g. Risk Management

The System, as part of the primary government of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. The System obtains commercial insurance for fidelity, surety, and property. There have been no commercial insurance claims in the past four fiscal years.

h. General Litigation

The System is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the plan net assets or the changes in plan net assets of the System.

i. Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, the System makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

j. Reclassifications

Certain fiscal year 2011 amounts have been reclassified to conform to the fiscal year 2012 presentation. These reclassifications have not changed the fiscal year 2011 results.

4. Investments

Summary of the ISBI Fund's investments at fair value by type

	June 30, 2012	June 30, 2011
U.S. govt. and agency obligations	$ 958,131,279	$ 1,367,098,751
Foreign obligations	385,628,617	37,951,769
Corporate obligations	656,977,663	762,833,382
Common stock & equity funds	3,253,103,566	3,380,198,858
Commingled funds	225,608,712	256,817,374
Foreign equity securities	2,012,774,573	2,195,201,185
Foreign preferred stock	592,156	40,032
Hedge funds	1,026,725,785	1,075,584,754
Real estate funds	967,346,450	780,336,465
Private equity	679,423,383	629,256,286
Money market instruments	255,922,180	303,501,465
Real assets	507,019,665	455,984,316
Bank loans	328,593,596	253,447,070
Forward foreign currency contracts	(43,859)	(353)
Total investments	$11,257,803,766	$11,498,251,354

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System's and ISBI's deposits may not be returned. All non-investment related bank balances at year-end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. As of June 30, 2012 and 2011, the ISBI had non-investment related bank balances of $25,096,663 and $119,804, respectively. Of the June 30, 2012 cash balance, $24,854,573 represents the transfer of the Illinois Power Agency Trust funds. This cash was held by the State Treasurer pending transfer to State Street Bank and Trust Company for investment. The transfer of these funds to State Street Bank and Trust for investment occurred on July 19, 2012. During fiscal year 2007, a Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July of 2007. The policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of State Street Bank and Trust Company. State Street Bank and Trust Company has an AA- Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 rating by Moody. Certain investments of the ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, the ISBI reports these types of cash equivalents as Money Market Instruments within their investments. As of June 30, 2012 and 2011, the ISBI had investment related bank balances of $20,601,170 and $12,234,333, respectively. These balances include USD and foreign cash balances. The USD cash balances had no exposure to custodial credit risk as a result of the passage of the Dodd Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act") in July, 2010. The FDIC must provide unlimited deposit insurance coverage for balances held in US dollar non-interest bearing transaction accounts (DDAs) for a period of two years, beginning on December 31, 2010 and ending on December 31, 2012. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

Investment Commitments

The ISBI's real estate and private equity investment portfolios consist of passive interests in limited partnerships. The ISBI had outstanding commitments to these limited partnerships of approximately $478 million and $344 million, as of June 30, 2012 and 2011, respectively. Also, at the end of fiscal year 2012 and 2011, the ISBI had outstanding commitments of $196 million and $321 million, respectively, to separate real estate accounts. Also at the end of fiscal year 2012 and 2011, the ISBI had outstanding amounts of $63 million and $102 million, respectively, committed to real assets. The ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

Investment Liquidity

The ISBI holds investments in hedge funds, real estate funds, private equity funds and real assets that are considered illiquid by the very nature of the investment. Market risk exists with respect to these investments as the ISBI may not be able to exit from the investments during periods of significant market value declines.

Alternative Investments

The ISBI's investments in hedge funds are structured to achieve a diversified hedged equity fund-of-funds portfolio. Capital is allocated to a select group of hedge fund managers that invest predominately in equity securities, both long and short. The investments shall be managed with the intent of preserving capital in a declining market and in a rising market they will generate a smaller return than the overall equity market.

The ISBI's investments in Private Equity and Real Estate funds represent investment vehicles used for making investments in various equity and debt securities according to the investment strategies as determined by the fund managers at the commencement of the fund.

Investment strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital, growth capital and mezzanine capital.

Investment strategies of Real Estate investments include, but are not limited to, the purchase, development, ownership, management, rental and/or sale of real estate for profit. In May, 2011, RLJ Lodging Fund II, a limited partnership investment, was exchanged by the ISBI for 1,035,092 shares of restricted common stock as a result of an initial public offering (IPO) transaction conducted by RLJ Lodging Trust. Due to the fact that this holding is currently restricted for sale as a result of a lock-up agreement in place that specifies that during the period that commences 180 days from the date of the initial IPO the holders of the shares will not, without prior written consent of the underwriting group, directly or indirectly offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for sale of, or otherwise dispose or transfer such shares. As of June 30, 2011, this holding is an illiquid asset as a result of this restriction. During fiscal year 2012, the restriction attached to these shares expired and 1,043,923 in RLJ Lodging Trust shares were sold in March 2012. This included an additional amount of 8,831 shares received by the ISBI during the fiscal year.

Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from the ISBI and through acquisition of debt. At June 30, 2012, real estate equities of approximately $967 million are reported at estimated fair value. Of this amount, $795 million is equity and $172 million is long term debt. At June 30, 2011 real estate equities of approximately $780 million were reported at estimated market value. Of this amount, $669 million was equity and $111 million was long term debt.

Required repayment of real estate debt, which is non-recourse debt is as follows as of June 30, 2012 and 2011:

Debt Maturities Year Ending June 30	2012	2011
2013	$ 38,336,179	$ 37,099,137
2014	-	-
2015	39,603,847	40,070,463
2016	28,761,199	33,400,000
2017	64,845,576	-
	$171,546,801	$110,569,600

The ISBI's investments in Real Assets represent pooled investment vehicles used to seek capital appreciation and current income by acquiring, holding, financing, refinancing and disposing of infrastructure investments and farmland assets. Real Assets include various public works (e.g. bridges, tunnels, toll roads, airports, public transportation and other public works) that are made typically as a part of a privatization initiative on the part of a government entity.

A Commingled fund is a kind of mutual fund or common trust fund which consists of multiple kinds of assets from several accounts combined together. 'Commingling' these separate assets mitigates risk for the trader through investment diversification and reduces the cost of managing each account separately. Commingled funds are also called "pooled funds" and "master trusts".

Concentration of Credit Risk and Credit Risk for Investments

The ISBI's portfolio of investments is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. The ISBI did not have any single issuer investment that exceeded 5% of the total net assets of the fund as of June 30, 2012 and 2011. At June 30, 2012, Commingled funds totaled approximately $226 million. Of this amount, approximately $165 million is invested in fixed income securities. At June 30, 2011, Commingled funds totaled approximately $257 million. Of this amount, approximately $215 million is invested in fixed income securities. These securities are not rated. The table to the right presents the quality ratings of debt securities held by the ISBI as of June 30, 2012 and 2011.

	Moody's Quality Rating	2012	2011
U.S. Government and Agency obligations	AAA	$ 955,072,566	$ 1,355,098,991
	AA	3,054,072	-
	Not Rated	4,641	11,999,760
Total U.S. govt. and agency obligations		$ 958,131,279	$ 1,367,098,751
Foreign Obligations	AAA	$ 186,587,716	$ –
	AA	70,836,832	2,972,737
	A	38,941,615	9,187,174
	BAA	17,922,423	–
	BA	13,976,279	7,107,320
	B	16,044,688	17,263,610
	CAA	1,411,638	–
	Not rated	39,907,426	1,420,928
Total Foreign Obligations		$ 385,628,617	$ 37,951,769
Corporate Obligations			
Bank and Finance	AAA	$ –	$ 7,075,122
	AA	6,229,998	46,441,423
	A	65,118,722	110,462,063
	BAA	46,729,424	14,653,097
	BA	13,870,851	8,808,672
	B	17,295,104	17,167,398
	Not Rated	1,045	802
Total Bank and Finance		$ 149,245,144	$ 204,608,577
Collateralized Mortgage Obligations	AAA	$ 1,076,456	$ 10,711,049
	Not Rated	–	2,781,477
Total Collateralized Mortgage Obligations		$ 1,076,456	$ 13,492,526
Industrial	AA	$ 36,473,262	$ 36,746,537
	A	29,602,573	50,163,160
	BAA	75,478,624	81,696,395
	BA	59,680,342	62,382,115
	B	193,691,505	167,590,259
	CAA	10,775,593	9,516,061
	Not Rated	6,530,791	17,752,514
Total Industrial		$ 412,232,690	$ 425,847,041
Other	AA	$ 1,127,225	$ 2,941,058
	A	22,075,563	12,003,588
	BAA	7,428,269	7,027,751
	BA	19,369,553	36,360,024
	B	43,572,387	51,094,875
	CAA	–	5,582,749
	Not rated	850,376	3,875,193
Total Other		$ 94,423,373	$ 118,885,238
Total Corporate Obligations		$ 656,977,663	$ 762,833,382
Money Market	Not Rated	$ 255,922,180	$ 303,501,465
Total Money Market		$ 255,922,180	$ 303,501,465

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the ISBI will not be able to recover the value of investments or collateral securities that are in the possession of a counterparty. As of June 30, 2012 and 2011, there were no investments that were uninsured and unregistered, securities held by the counterparty or by its trust department or agent but not in the ISBI's name.

Interest Rate Risk

The ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted duration between 80% and 120% of the benchmark index.

Duration is the measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. As of June 30, 2012 and 2011, the ISBI benchmarked its debt security portfolio to Barclay's Capital Intermediate U.S. Government/Credit Bond Index. At June 30, 2012 and 2011, the effective duration of the Barclay's Capital Intermediate U.S. Government/Credit Bond Index was 3.9 years. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2012 and 2011 was 4.6 years. The table below shows the detail of the duration by investment type as of June 30, 2012 and 2011.

	2012		2011	
Investment Type	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
U.S. Govt. and Agency Obligations				
U.S. Government	$ 383,122,214	6.7	$ 479,422,631	6.9
Agency	575,009,065	2.7	887,676,120	3.6
Foreign Obligations	385,628,617	6.1	37,951,769	4.3
Corporate Obligations				
Bank & Finance	149,245,144	3.9	204,608,577	4.2
Collateralized Mortgage Obligations	1,076,456	2.2	13,492,526	2.1
Industrials	412,232,690	4.0	425,847,041	4.4
Other	94,423,373	4.2	118,885,238	4.2
Total	$ 2,000,737,559		$2,167,883,902	

Foreign Currency Risk

The ISBI's international portfolio is constructed on the principles of diversification, quality growth, and value. Risk of loss arises from changes in currency exchange rates. International managers may also engage in transactions to hedge currency at their discretion.

Certain investments held in infrastructure funds trade in a reported currency of Euro-based dollars valued at $53,539,234 and $50,878,191 as of June 30, 2012 and 2011, respectively. The table below presents the foreign currency risk by type of investment as of June 30, 2012 and 2011.

	2012		2011	
Currency	Foreign Equity Securities & Foreign Preferred Stock	Foreign Obligations	Foreign Equity and Foreign Preferred Securities	Foreign Obligations
Australian Dollar	$ 82,314,617	$ 16,469,771	$ 109,809,451	$ –
Brazilian Real	49,364,844	–	62,981,703	–
Canadian Dollar	126,199,484	27,179,367	144,335,493	–
Chilean Peso	1,098,684	2,308,184	–	–
Czech Koruna	536,589	2,520,227	–	–
Danish Krone	27,321,050	4,165,438	25,279,264	–
Egyptian Pound	1,810,173	–	1,549,693	–
English Pound Sterling	374,618,002	32,868,184	388,163,730	–
Euro Currency	394,894,819	103,642,653	550,189,912	–
Hong Kong Dollar	127,339,809	2,384,108	83,691,016	–
Hungarian Forint	1,457,562	–	1,711,349	–
Indonesian Rupian	9,446,308	–	1,735,957	–
Israeli Shekel	2,619,603	28,742	4,293,903	–
Japanese Yen	191,615,229	65,481,682	249,633,309	–
Malaysian Ringgit	7,106,044	2,848,977	–	–
Mexican Peso	20,566,508	13,648,235	10,577,337	–
Moroccan Dirham	219,512	–	–	–
New Zealand Dollar	5,008,123	1,783,525	4,812,384	–
Norwegian Krone	24,657,161	6,403,137	25,479,679	–
Philippine Peso	2,219,444	–	–	–
Polish Zloty	2,949,201	8,408,688	–	–
Singapore Dollar	42,090,664	3,813,610	51,977,284	–
South African Rand	25,078,599	4,116,002	11,571,713	–
South Korean Won	71,317,427	13,526,890	62,696,222	–
Swedish Krona	27,254,280	10,680,201	35,264,901	–
Swiss Franc	138,838,635	7,455,551	154,181,296	–
Thailand Baht	3,954,203	4,274,188	–	–
Turkish Lira	2,811,622	–	–	–
Foreign investments denominated in U.S. Dollars	248,658,533	51,621,257	215,305,621	37,951,769
Total	$ 2,013,366,729	$ 385,628,617	$ 2,195,241,217	$ 37,951,769

Securities Lending

The ISBI participates in a securities lending program with Credit Suisse AG, New York Branch who acts as securities lending agent. Securities are loaned to brokers and, in return, the ISBI receives cash and non-cash collateral. All of the securities are eligible for the securities lending program. Collateral consists solely of cash and government securities having a fair value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, Credit Suisse AG, New York Branch provides the ISBI with counterparty default indemnification. Investments in the cash collateral account represent securities that were distributed to the ISBI in connection with the in-kind redemption of the ISBI's ownership in the State Street Bank and Trust Company Quality Funds for Short-Term Investment ("Quality D"). Credit Suisse is not responsible for any losses with regards to these legacy investments. This arrangement subjects the ISBI to credit risk as the credit quality of these investments may decline over time. The credit risk on the legacy investments is the risk of a possible loss arising from the inability of a counterparty to meet its obligations. These losses could include the loss of principal, interest and/or decreased expected cash flows in any of the investments held in the ISBI's cash collateral account. In the event a counterparty defaults on its obligations, the ISBI would need to credit the cash collateral account with the amount of the default to make the account whole so that once loaned securities are returned, the cash pledged by borrowers is returned to them. As of June 30, 2012 and 2011, respectively, the collateral received exceeded the fair value of the securities loaned. As of June 30, 2012 and 2011, there were outstanding loaned investment securities having fair values of $115,655,166 and $221,448,333, respectively; against which collateral was received with a fair value of $120,556,697 and $230,083,146, respectively. Collateral received at June 30, 2012 and 2011 consisted of $72,452,520 and $216,717,213, respectively, in cash and $48,104,177 and $13,987,903, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

The cash collateral received is invested in a short-term investment pool having a fair value of $67,901,315 and $211,162,204 as of June 30, 2012 and 2011, respectively. This investment pool had an average duration of 32.42 days and 31.18 days as of June 30, 2012 and 2011, respectively. Any decrease in the fair value of invested cash collateral is recorded by the ISBI as unrealized losses and reported as a component of the investment income/loss on the ISBI's Statement of Changes in Net Assets.

Cash and cash equivalents included in the System's Statement of Plan Net Assets consist of deposits held in the State Treasury. The Illinois Office of the Treasurer invests the deposits held and allocates investment income on a monthly basis.

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker–dealers and banks pursuant to a form of loan agreement.

During fiscal years 2012 and 2011, Deutsche Bank Group lent U.S. Treasury and U.S. Agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2012 and 2011 on the amount of the loans of available, or the eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if the Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal years 2012 and 2011 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal years 2012 and 2011, the State Treasurer and borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2012 were $4,556,511,251 and $4,551,829,732, respectively. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2011 were $3,456,373,500 and $3,446,138,880, respectively. The System's portion of securities lending collateral that was invested in repurchase agreements as of June 30, 2012 and June 30, 2011 were $72,867,000 and $26,414,000, respectively.

Derivative Securities

In fiscal year 2010, the ISBI implemented GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments with respect to investments held in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. The ISBI invests in derivative instruments including forward foreign currency contracts, futures, rights and warrants. The ISBI's derivatives are considered investment derivatives.

Foreign currency forward contracts (FX forwards) are used to protect against the currency risk in the ISBI's foreign equity portfolio. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets. The gain or loss arising from the difference between the original contracts and the closing of such contracts is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets. In May 2011, the ISBI removed language from the investment management agreements allowing managers to hedge foreign currencies and/or to hedge equity positions.

The ISBI's investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, financial futures are used in the ISBI's fixed income portfolio to adjust portfolio strategy and overall portfolio duration. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. As the fair values of the futures contract vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The gain or loss is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the ISBI's investment portfolio.

The ISBI's investment managers use options in an attempt to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, the ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. All written financial options are recognized as a liability in the ISBI's Statement of Net Assets. As a purchaser of financial options, the ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The gain or loss associated with options is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

Rights and warrants allow the ISBI's investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. Under certain circumstances, a type of warrant called Participatory Notes (P-Notes) are used in the portfolio by the ISBI's investment managers that are not registered to trade in domestic Indian Capital Markets. P-Notes are issued by Indian-based brokerage firms against an underlying Indian security permitting holders to get a share in the income from the security. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets within the common stock and foreign equity classifications. The gain or loss associated with rights and warrants is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

The fair values of the forward contracts are estimated based on the present value of their estimated future cash flows. Futures contracts are exchange traded instruments where the fair value is determined by the equilibrium between the forces of supply and demand. The fair value of a right or warrant closely tracks the intrinsic value of the underlying stock and can be determined either by formulaic methodology (most commonly Black-Scholes) or intrinsic value methodology.

The table below presents the investment derivative instruments aggregated by type that were held by the ISBI as of June 30, 2012 and 2011.

	Changes in Fair Value		Fair Value at Year End		Notional Amount Number of Shares	
	2012	2011	2012	2011	2012	2011
FX Forwards	$ (1,693,910)	$(15,460,385)	$ (43,859)	$ (353)	n/a	n/a
Futures	n/a	n/a	n/a	n/a	(16,717,412)	65,250
Options	2,744,205	–	2,811,004	–	27,000	–
Rights	(166,937)	840,746	30,249	162,133	153,435	901,548
Warrants	(9,022,293)	16,898,459	68,676,781	66,421,545	7,663,933	5,272,322
	$ (8,138,935)	$ 2,278,820	$ 71,474,175	$ 66,583,325	(8,873,044)	6,239,120

The table below shows the futures positions held by the ISBI as of June 30, 2012 and 2011.

	2012		2011	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity Futures Purchased	1,410	$92,997,500	1,305	$85,836,375
Fixed Income Futures Purchased	382	48,411,940	–	–
Fixed Income Futures Sold	421	63,940,695	–	–

** Contract principal amounts shown represent the market value of the underlying assets the contracts control. These are shown to present the volume of the transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual recorded values reported in the ISBI's Statement of Net Assets.*

Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. Market risk is the possibility that a change in interest (interest rate risk) or currency rates (foreign currency risk) will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and management of the ISBI and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. As of June 30, 2012, the ISBI held futures contracts whose underlying instruments were exposed to interest rate risk but there were no GASB 53 reportable elements. As of June 30, 2011, the ISBI held no derivatives subject to interest rate risk. The ISBI has not adopted a formal policy specific to master netting arrangements.

The ISBI's derivative investments in foreign currency forward contracts are held with counterparties. The credit ratings and net exposure as of June 30, 2012 and 2011 for the counterparties are as follows:

	2012			2011		
Moody's Rating	Fair Value	Net Exposure	Percentage of Net Exposure	Fair Value	Net Exposure	Pecentage of Net Exposure
Aa3	$ 45,189	$ 45,189	11.50%	$ 188	$ 188	0.01%
Aa2	46,885	46,885	12.00%	–	–	–
A3	84,367	84,367	21.59%	2,736,018	2,736,018	99.99%
A2	64,971	64,971	16.62%	–	–	–
A1	3,119	3,119	0.80%	–	–	–
Baa1	146,228	146,228	37.42%	–	–	–
	$ 390,759	$ 390,759	100.00%	$ 2,736,206	$2,736,206	100.00%

The following table presents the fair value of derivative investments exposed to foreign currency risk as of June 30, 2012 and 2011:

	2012				2011			
Currency	FX Forwards	Rights	Warrants	Options	FX Forwards	Rights	Warrants	Options
Australian Dollar	$ (85,578)	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Brazilian Real	1,589	–	–	–	–	–	–	–
Canadian Dollar	(13,256)	10,733	–	–	–	–	–	–
Chilean Peso	1,450	1,296	–	–	–	–	–	–
Columbian Peso	(15,312)	–	–	–	–	–	–	–
Czech Koruna	9,411	–	–	–	–	–	–	–
Danish Krone	(30)	–	–	–	–	–	–	–
Egyptian Pound	(148)	–	–	–	–	–	–	–
English Pound Sterling	49,917	–	–	–	–	–	–	–
Euro Currency	118,889	18,220	6,103	–	(391)	153,078	–	–
Hong Kong Dollar	234	–	–	–	–	9,055	–	–
Indonesian Rupiah	(619)	–	–	–	–	–	–	–
Japanese Yen	(19,071)	–	–	–	38	–	–	–
Malaysian Ringgit	(1,234)	–	–	–	–	–	–	–
Mexican Peso	27,008	–	–	–	–	–	–	–
New Zealand Dollar	46,885	–	–	–	–	–	–	–
Norwegian Krone	4,157	–	–	–	–	–	–	–
Polish Zloty	(32,461)	–	–	–	–	–	–	–
Singapore Dollar	(13,207)	–	–	–	–	–	–	–
South African Rand	14,798	–	–	–	–	–	–	–
South Korean Won	23,502	–	–	–	–	–	–	–
Swedish Krona	(154,835)	–	–	–	–	–	–	–
Swiss Franc	(5,251)	–	–	–	–	–	–	–
Thailand Baht	(697)	–	–	–	–	–	–	–
Investments denominated in U.S. dollars	–	–	68,670,678	2,806,363	–	–	66,421,545	–
	$ (43,859)	$ 30,249	$ 68,676,781	$2,806,363	$ (353)	$ 162,133	$66,421,545	$ –

Other Information

The System owns approximately 94% of the net investment assets of the ISBI Commingled Fund as of June 30, 2012 and 2011. A schedule of investment expenses is included in the ISBI's annual report.

For additional information on ISBI's investments, please refer to their Annual Report as of June 30, 2012. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

5. Funding - Statutory Contributions Required & Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal years 2012 and 2011 the actuary used the projected unit credit actuarial method for determining the proper employer contribution rate and amount.

For fiscal year 2012 and 2011 the required employer contributions was computed in accordance with the State's funding plan. This funding legislation 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 funding plan provided for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Since the 15 year phase-in period ended June 30, 2010, the state's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The funded status of the System as of June 30, 2012, the most recent actuarial valuation date, is in the table below:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
$11,477,264,329	$33,091,186,194	$21,613,921,865	34.7%	$4,329,083,716	499.3%

Valuation date: June 30, 2012

Actuarial cost method: Projected Unit Credit

Amortization method:
- a. For GASB Statement No. 25 reporting purposes: Level percent of payroll
- b. Per state statute: 15-year phase-in to a level percent of payroll until a 90% funding level is achieved

Remaining amortization period:
- a. For GASB Statement No. 25 reporting purposes: 30 years, open
- b. Per state statute: 33 years, closed

Asset valuation method: Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

Actuarial assumptions:

Investment rate of return:	7.75 percent
Projected salary increases:	1.0 to 5.87 percent, based upon member's age
Assumed inflation rate:	3.0 percent
Group size growth rate:	0.0 percent
Post-retirement increase:	Tier 1 - 3.0 percent per year, compounded annually Tier 2 - 3.0 percent per year or one-half of the annual increase in the Consumer Price Index, whichever is less, on the original benefit

Mortality: Post-Retirement Mortality - RP2000 Combined Healthy mortality table, sex distinct, with rates projected to 2015 with scale aa. No adjustment is made for post-disabled mortality. The table used is a static table with the provision for future mortality improvement in the projection to 2015, which is in sync with the next scheduled experience study.

Pre-Retirement Mortality - based on 85% for males and 70% for females of post-retirement mortality. Five percent of deaths amongst active employees is assumed to be in the performance of their duty.

6. Accrued Compensated Absences

Employees of the System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned on and after January 1, 1984 and before January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2012 and 2011 totaled $1,085,222 and $976,988, respectively are included in Administrative Expenses Payable.

7. Collection and Remittance of Bond and Interest Payments

On April 7, 2003 House Bill 2660 was signed into law as Public Act 93-0002. This legislation authorized the State to issue $10 billion in general obligation bonds for the purpose of making required contributions to the five state-funded retirement systems, including the State Employees' Retirement System. On July 1, 2003, the net bond proceeds were allocated and distributed to each of the five state-funded retirement systems based on each system's relative percentage of the total unfunded liability at June 30, 2002. The State Employees' Retirement System received an allocation of bond proceeds totaling $1,385,895,278 and deposited all of the proceeds into the Illinois State Board of Investment Commingled Fund on July 2, 2003.

Public Act 93-0839, effective July 30, 2004, requires that employer contributions to the System shall include an additional amount to be paid over to the General Obligation Bond Retirement and Interest Fund to pay principal of and interest on those general obligation bonds due that fiscal year. This debt service payment is to be made on the first day of each month, or as soon thereafter as practical.

The total debt service payments received for all fiscal year 2012 and 2011 payrolls, amounted to $29.0 and $25.7 million, respectively. The total amount remitted to the State of Illinois as of June 30, 2012 and 2011 was $25.1 million and $22.5 million, respectively.

As of June 30, 2012 and 2011 the following amounts are included in the System's Statement of Plan Net Assets regarding the collection of bond principal and interest payments:

	2012	2011
Cash - payments collected but not yet remitted to the State of Illinois	$ 2,831,875	$ 2,527,808
Accounts receivable - for June payrolls received in July and August	$ 1,069,348	$ 715,506
Due to the State of Illinois	$ (3,901,223)	$ (3,243,314)

8. Property & Equipment

Capital assets over $100 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, (3) automobiles and certain electronic data processing equipment - 3 years, and (4) building - 30 years. Land is carried at its original cost, including applicable legal fees, surveying costs, etc.

This is a summary of changes in property and equipment assets for 2012 and 2011:

	2012			
	Beginning Balance	Additions	Deletions	Ending Balance
Assets				
Land	$ 655,241	$ –	$ –	$ 655,241
Land improvements	298,979	16,800	–	315,779
Building	3,484,264	15,214	(16,800)	3,482,678
Equipment	2,278,291	374,495	(140,957)	2,511,829
TOTAL	6,716,775	406,509	(157,757)	6,965,527
Accumulated depreciation				
Land Improvements	(1,931)	(2,150)	–	(4,081)
Building	(2,295,277)	(120,631)	–	(2,415,908)
Equipment	(1,743,219)	(218,217)	139,296	(1,822,140)
TOTAL	(4,040,427)	(340,998)	139,296	(4,242,129)
Net property and equipment	$2,676,348	$ 65,511	$ (18,461)	$2,723,398

	2011			
	Beginning Balance	Additions	Deletions	Ending Balance
Assets				
Land	$ 655,241	$ –	$ –	$ 655,241
Land improvements	298,979	–	–	298,979
Building	3,380,093	104,171	–	3,484,264
Equipment	2,311,750	155,124	(188,583)	2,278,291
TOTAL	6,646,063	259,295	(188,583)	6,716,775
Accumulated depreciation				
Land Improvements	(649)	(1,282)	–	(1,931)
Building	(2,178,893)	(116,384)	–	(2,295,277)
Equipment	(1,658,032)	(252,561)	167,374	(1,743,219)
TOTAL	(3,837,574)	(370,227)	167,374	(4,040,427)
Net property and equipment	$2,808,489	$ (110,932)	$ (21,209)	$2,676,348

9. Administrative Expenses & Other Post-Employment Benefits

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2012, 2011, and 2010 the employer contribution rates were 34.190%, 27.988%, and 28.377%, respectively. The System's contributions to SERS for fiscal years 2012, 2011, and 2010 were $1,645,229, $1,254,741, and $1,206,740 respectively, for the general staff. The System's contributions for the electronic data processing staff for fiscal years 2012, 2011, and 2010 were $558,319, $338,798, and $270,504, respectively. These amounts were equal to the required contributions for each fiscal year.

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans.

Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not contribute towards health, dental, and vision benefits. However, Public Act 97-0695, effective June 30, 2012, alters the contributions to be paid to the State, annuitants, survivors, and retired employees under the State Employee Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Avenue East, Springfield, Illinois, 62763-3838.

A summary of the administrative expenses of the System for fiscal years 2012 and 2011 are as follows:

	2012	2011
Personal Services	$ 4,802,680	$ 4,464,468
Employee Retirement Pickup	30,209	31,159
Retirement Contributions	1,645,229	1,254,741
Social Security Contributions	356,953	331,002
Group Insurance	1,229,725	1,071,977
Contractual Services	2,381,755	2,370,364
Travel	20,095	24,080
Commodities	31,180	28,453
Printing	35,672	50,517
Electronic data processing	4,619,087	3,523,259
Telecommunications	79,703	76,199
Automotive	15,764	14,301
Depreciation	340,997	370,227
Other (net)	116,512	124,214
Total	$15,705,561	$ 13,734,961

10. Social Security Division - Administrative Expenses

The Social Security Division of the State Employees' Retirement System was created by 40 ILCS 5/21, to administer the state's responsibilities under Title II Section 218 of the Federal Social Security Act and the master federal-state agreement.

The state's responsibilities include extending Social Security coverage by agreement to any of the state's retirement systems or units of local government re-questing social security or medicare only coverage for their members or employees.

In addition, the Social Security Division was responsible for collecting wage information and contribution payments from covered retirement systems and units of local government on wages paid prior to January 1, 1987. Administrative expenses for the Social Security Division are appropriated annually by the State Legislature.

Administrative expenses for the Social Security Division are appropriated annually by the State Legislature

	2012	2011
Personal services	$ 50,119	$ 45,049
Retirement contributions	–	-
Social Security contributions	3,776	3,309
Contractual services	12,590	25,500
Travel	846	-
Commodities	115	105
Electronic Data Processing	-	-
Telecommunications	414	415
Total	$ 67,860	$ 74,378

11. Analysis of Changes in Reserve Balances

The System maintains three reserve accounts. The reserves are defined as follows:

a. Participants' contributions: Accounts for assets contributed by each participant

b. Interest accumulations: Accounts for interest credited to each participant's account

c. Other future benefits: Accounts for all assets not otherwise specifically provided for in items (a) and (b) above.

State Employees' Retirement System
Statements of Changes in Reserve Balances Years Ended June 30, 2012 and 2011

	Participants' Contributions	Interest Accumulations	Other Future Benefits	Total Reserve Balances
Balance at June 30, 2010	$ 2,387,079,602	$ 1,646,316,225	$ 5,168,434,828	$9,201,830,655
Add (deduct):				
Excess revenue over expenses	223,751,499	–	1,545,170,532	1,768,922,031
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(24,546,691)	–	24,546,691	–
Interest credited to members' accounts	–	87,145,150	(87,145,150)	–
Balance at June 30, 2011	$ 2,586,284,410	$ 1,733,461,375	$ 6,651,006,901	$ 10,970,752,686
Add (deduct):				
Excess revenue over expenses	223,428,809	–	(233,493,671)	(10,064,862)
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(114,840,114)	–	114,840,114	–
Interest credited to members' accounts	–	(3,932,243)	3,932,243	–
Balance at June 30, 2012	$ 2,694,873,105	$ 1,729,529,132	$ 6,536,285,587	$ 10,960,687,824

12. New Accounting Pronouncements

GASB Statement No. 67, "Financial Reporting for Pension Plans", was established to provide improved financial reporting by state and local governmental pension plans. The scope of the Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts that have the specific characteristics. For defined benefit pension plans, the Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability for benefits provided through the pension plan. The System is required to implement this Statement for the year ending June 30, 2014.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Covered Payroll ([b-a]/c)
6/30/07	$12,078,908,954	$ 22,280,916,665	$10,202,007,711	54.2%	$ 3,762,777,000	271.1%
6/30/08	10,995,366,485	23,841,280,102	12,845,913,617	46.1	3,967,704,000	323.8
6/30/09	10,999,953,527	25,298,346,092	14,298,392,565	43.5	4,027,263,000	355.0
6/30/10	10,961,540,164	29,309,464,296	18,347,924,132	37.4	4,119,360,842	445.4
6/30/11	11,159,836,617	31,395,007,782	20,235,171,165	35.6	4,211,186,269	480.5
6/30/12	11,477,264,329	33,091,186,194	21,613,921,865	34.7	4,329,083,716	499.3

** For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.*

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25 (1)	Percentage Contributed	Annual Required Payroll Contribution per State Statute(2)	Percentage Contributed
2007	$ 823,802,760	43.6%	$ 361,113,709	99%
2008	986,410,891	59.6	576,626,422	102
2009	1,003,432,849	77.2	769,851,595	101
2010	1,177,313,343	93.1	1,093,072,413	100
2011	1,289,002,005	87.5	1,102,783,348	102
2012	1,614,834,808	86.2	1,396,216,080	100

(1) This amount includes both payroll and non-payroll employer required contributions.
(2) Employer required contribution determined in accordance with P.A. 88-0593, and P.A. 94-0004 (for Fiscal Years 2006 and 2007 only). These amounts reflect only payroll required contributions.

Notes to Required Supplementary Information

Valuation date: June 30, 2012
Actuarial cost method: Projected Unit Credit
Amortization method:
a. For GASB Statement No. 25 reporting purposes – Level percent of payroll
b. Per state statute – 15-year phase-in to a level percent of payroll until a 90% funding level is achieved
Remaining amortization period:
a. For GASB Statement No. 25 reporting purposes – 30 years, open
b. Per state statute – 33 years, closed
Asset valuation method – Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
Actuarial assumptions:
Investment rate of return – 7.75 percent
Projected salary increases – 1.0 to 5.87 percent, based upon member's age
Assumed inflation rate – 3.0 percent
Group size growth rate – 0.0 percent
Post-retirement increase – Tier 1 - 3.0 percent per year, compounded annually
Tier 2 - 3.0 percent per year or one-half of the annual increase in the Consumer Price Index, whichever is less, on the original benefit.

Mortality: Post-Retirement Mortality - RP2000 Combined Healthy mortality table, sex distinct, with rates projected to 2015 with scale aa. No adjustment is made for post-disabled mortality. The table used is a static table with the provision for future mortality improvement in the projection to 2015, which is in sync with the next scheduled experience study.

Pre-Retirement Mortality - based on 85% for males and 70% for females of post-retirement mortality. Five percent of deaths amongst active employees is assumed to be in the performance of their duty.

SUMMARY OF REVENUES BY SOURCE

	2012	2011
Contributions:		
Participants	$ 251,069,057	$ 246,221,470
Repayments of contributions refunded	1,206,505	991,532
Interest received from participants	6,847,319	6,988,377
Total participants contributions	259,122,881	254,201,379
Employing state agencies and appropriations	484,513,819	438,764,595
General Revenue Fund	906,902,556	689,122,201
Total employer contributions	1,391,416,375	1,127,886,796
Investments:		
Net investments income	253,906,644	221,489,114
Interest earned on cash balances	687,112	448,284
Net appreciation/(depreciation) in fair value of investments	(248,618,387)	1,708,270,995
Total investment income	5,975,369	1,930,208,393
TOTAL REVENUE	$ 1,656,514,625	$ 3,312,296,568

SUMMARY SCHEDULE OF CASH RECEIPTS & DISBURSEMENTS

	2012	2011
Cash balance, beginning of year	$ 54,940,085	$ 49,912,665
Receipts:		
Participant contributions	248,044,784	243,861,823
Employer contributions (net of bond principal and interest transfers)	479,354,208	378,049,752
General Revenue Fund/Pension Contribution Fund	794,090,903	725,699,074
Transfers from Illinois State Board of Investment	212,000,000	857,000,000
Interest income on cash balance	666,229	466,694
Claims receivable payments	5,857,181	6,490,495
Installment payments	4,225,472	4,526,432
Other	132,514	304,693
Total cash receipts	1,744,371,291	2,216,398,963
Disbursements:		
Annuity payments:		
Retirement annuities	1,454,166,796	1,329,698,219
Widow's and Survivor's annuities	101,235,641	95,322,411
Disability benefits	51,642,228	50,000,581
Lump Sum benefits	16,042,336	15,002,758
Refunds (including transfers to reciprocal systems)	24,411,129	18,514,104
Administrative expenses	17,854,203	13,711,269
Transfer to Illinois State Board of Investment	–	689,122,201
Total cash disbursements	1,665,352,333	2,211,371,543
Cash balance, end of year	$ 133,959,043	$ 54,940,085

SCHEDULE OF PAYMENTS TO CONSULTANTS & ADVISORS

	2012	2011
Legal Services	$ 64,983	$ 43,641
Actuarial Costs	201,000	177,677
Audit Expense	94,176	89,132
Physicians and Disability Inspections	297,625	277,791
Financial Planning	60,626	56,787
Management Consultants	1,346,534	1,160,200
TOTAL	$ 2,064,944	$ 1,805,228

INVESTMENT SECTION

INVESTMENT REPORT

By state law, the System's investment function is managed by the Illinois State Board of Investment (ISBI). The ISBI 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 State Employees' Retirement System, the ISBI also manages the investment function for the Judges' and General Assembly Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund).

As of June 30, 2012, total net assets under management valued at market, amounted to $11.284 billion. Of the total market value of assets under management, $10.675 billion or approximately 94% represented assets of the State Employees' Retirement System.

A summary of the portfolio's largest holdings, as well as the complete listing of the ISBI portfolio, are included in the ISBI Annual Report. A schedule of fees and commissions paid by brokerage firms and a listing of transactions executed, including transaction value, are also contained in the ISBI Annual Report. The following investment information and analysis has been prepared from information provided by the ISBI. Investment performance returns are prepared by State Street Bank. Investment activities are presented on a trade date basis and measurements are calculated using time weighted rates of return consistent with investment industry standards.

INVESTMENT POLICY

The ISBI operates under a strategic investment policy. The investment objective of the total portfolio is to maximize the rate of return on investments within a prudent level of risk. To achieve this objective, the ISBI invests in different types of assets and uses multiple managers to ensure diversification.

EMERGING & MINORITY PARTICIPATION

In accordance with Public Act 96-006, the ISBI Board continues to put forth best efforts to comply with the goals outlined in the ISBI's following policies: the Emerging and Minority Investment Manager and Minority and Illinois Broker Policy, the Fiduciary Diversification Policy, and the Minority Contract/Service Utilization Policy. The aforementioned policies exemplify the ISBI Board's commitment to providing opportunities for businesses owned by minorities, females and persons with disabilities, as well as increasing the racial, ethnic and gender diversity of its fiduciaries.

As of fiscal year 2012, the ISBI allocated 21.6% of its assets to minority and female-owned firms, of which 10.3% was allocated to emerging firms. 18.0% of ISBI's assets were allocated to minority-owned investment firms, and 4.4% to female-owned investment firms. Some investment firms qualify as both female-owned and minority-owned. Within asset classes, the ISBI has allocated 30.1% of equities, 17.6% of fixed income and 1.4% of alternatives to minority and female-owned firms. Alternatives include allocations to Real Estate funds and Private Equity funds.

The ISBI Board has established a goal of allocating 20% of brokerage commissions to broker dealers owned by females, minorities, or persons with disabilities. Investment firms are required to execute trades directly with disadvantaged broker dealers and are prohibited from utilizing step-outs. During fiscal year 2012, utilization of such broker dealers by the ISBI Board's investment advisers exceeded the Policy goals: approximately 44.9% utilization for domestic equity advisers, 28.9% utilization for fixed income advisers (based on par value) and 28.3% utilization for international equity advisers. The ISBI Board's investment advisers also exceeded the Policy goal to direct 25% of trades to Illinois-based broker/dealers: approximately 51.4% utilization by domestic and international equity advisers and 27.6% utilization by fixed income advisers (based on par value).

In monitoring the utilization of disadvantaged broker dealers, the ISBI has retained a third party transaction cost analysis service provider to ensure the ISBI Board's investment managers operate in a manner consistent with best execution practices.

ASSET ALLOCATION

The investment policy of the ISBI establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. This policy is implemented by allocations to investment managers with assignments to invest in specific asset classes, with defined security selection styles and methodologies.

The asset allocation policy for fiscal year 2012 is set forth on page 41.

	Actual Asset Allocation	Policy Target
U.S. Equity	29%	30%
U.S. Equity Hedge Funds	9	10
International Equity	18	20
Commingled Funds	2	-
Fixed Income	18	17
Bank Loans	3	3
Real Estate	9	10
Private Equity	6	5
Real Assets	4	5
Cash	2	-
Total	100%	100%

INVESTMENT RESULTS

In fiscal year 2012, investors benefitted from positive returns in U.S. equity, fixed income, real estate and private equity as measured by market indices. The ISBI's total fund was up 0.1% for fiscal year 2012, net of expenses. This follows positive returns of 21.7% and 9.1% for fiscal year 2011 and fiscal year 2010, respectively, with negative returns of 20.1% and 6.2% for fiscal year 2009 and fiscal year 2008, respectively.

The ISBI Board continues to be concerned with the under-performance of specific managers; however, most of the ISBI's current managers have exceeded their individual benchmarks since inception.

REAL ESTATE

In fiscal year 2012, the ISBI's Real Estate portfolio earned a return of 5.3%. The NFI-ODCE (NCREIF Fund Index Open-End Diversified Core Equity), a measure of core, leveraged, open-end real estate funds, earned a return of 11.3%. In the last 12 months, the ISBI has rebalanced its portfolio to meet the 80% Core/20% Non-Core real estate strategy.

New investing is planned for fiscal year 2013 as additional capital remains within the core separate accounts. The downturn in the real estate market slowed the separate account investment pace; however, the real estate portfolio is scheduled to be fully funded by end of calendar year 2013. The ISBI's Real Estate portfolio is invested primarily through interests in separate accounts, limited partnerships, trusts, and other forms of pooled investments.

REAL ESTATE	1 Year	3 Years	5 Years
ISBI	5.3%	4.2%	(4.6)%
NCREIF Real Estate Index	11.3	7.4	(1.8)

U. S. EQUITIES

In fiscal year 2012, the Russell 3000 Index, a broad representation of the U.S. market, was up 3.8%. Growth stocks exceeded value stocks with the Russell 3000 Growth Index up 5.1%, compared to the Russell 3000 Value Index up 2.6%. Large capitalization stocks outperformed small capitalization stocks with the S&P 500 up 5.5%, compared to a negative 2.1% return for the Russell 2000. The ISBI's U.S. equity portfolio was up 1.3% for fiscal year 2012, 2.5% below the Russell 3000. The portfolio's exposure to small and middle capitalization stocks detracted from overall performance. Through structure analysis, rebalancing and risk management, the domestic equity portfolio continues to track the market with predictable consistency to achieve its objective.

U.S. EQUITIES	1 Year	3 Years	5 Years
ISBI	1.3%	16.8%	0.8%
Russell 3000 Index	3.8	16.7	0.4

INTERNATIONAL EQUITIES

The Morgan Stanley ACWI ex US Index is a broad index of global equities, including emerging markets but excluding the United States. In fiscal year 2012 that index returned a negative14.4%, or 18.2% below the U.S. index. The ISBI's International Equity portfolio was down 10.7%, 3.7% above the ACWI ex US Index.

INTERNATIONAL EQUITIES	1 Year	3 Years	5 Years
ISBI	(10.7)%	10.3%	(3.1)%
ACWI ex US Index	(14.4)	7.8	(4.0)

FIXED INCOME

In fiscal year 2012 the ISBI Fixed Income portfolio had a return of 6.8%, compared to the 7.4% return for the Barclay's Capital Universal Bond Index. Exposure to the lower volatility Government Credit Intermediate sector detracted from the performance of the overall fixed income portfolio.

FIXED INCOME	1 Year	3 Years	5 Years
ISBI	6.8%	6.0%	4.2%
Barclays Capital Universal Index	7.4	7.6	6.8

U. S. EQUITY HEDGE FUNDS

The ISBI U.S. Equity Hedge Fund portfolio had a return of negative 4.3% for fiscal year 2012, compared to the negative 10.7% return for the HFRX Equity Hedge Index.

Besides monitoring hedged equity performance, the ISBI Board looked critically at how the hedged equity portfolio is structured and the level of fees paid. The consequence was a higher level of confidence in the existing portfolio structure, and an aggressive re-negotiation of, and reduction in, fees.

Although this process continued through the end of the fiscal year and concluded early in fiscal year 2013, the consequence will constitute total savings exceeding $5 million annually going forward.

U.S. EQUITY HEDGE FUNDS	1 Year	3 Years	5 Years
ISBI	(4.3)%	4.1%	(0.6)%
HFRX Equity Hedge	(10.7)	(1.6)	(6.3)

PRIVATE EQUITY

In fiscal year 2012, the ISBI's Private Equity portfolio return was 7.6%. On average, the ISBI invests $100M each year among five to six private equity opportunities.

The Private Equity portfolio consists of interests in limited partnerships and other commingled vehicles that invest in management buyouts, venture capital, and other private placement equity strategy activities. The Private Equity asset class has recovered from previous market disruptions and continues to be one of the best performing asset classes since its inception date. Although the asset class is recovering, in fiscal year 2012, the ISBI's portfolio did not keep up with the portfolio benchmark return of 9.5%.

ADMINISTRATIVE EXPENSES

The ISBI's total expenses for fiscal year 2012, based on $11.3 billion in total assets, were $36.4 million, compared to $37.2 million based on $11.5 billion in total assets for fiscal year 2011. The resulting expense ratio (expenses divided by average fair value of assets) was .33% for fiscal year 2012, as compared to .35% for fiscal year 2011. Decreased aggregate expenses in fiscal year 2012 were mainly a result of reduced fees paid to investment managers. The ISBI's fees paid to investment advisory firms are aggressively managed which has contributed to the reduction in the cost of investment advisory services.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 2012		June 30, 2011	
Investments, at fair value				
U.S. Govt. and Agency Obligations	$ 958,131,279	8.49%	$ 1,367,098,751	11.86%
Foreign Obligations	385,628,617	3.42	37,951,769	0.33
Corporate Obligations	656,977,663	5.82	762,833,382	6.62
Domestic Common Stock & Equity Funds	3,253,103,566	28.83	3,380,198,858	29.32
Commingled Funds	225,608,712	2.00	256,817,374	2.23
Foreign Equity Securities	2,012,774,573	17.84	2,195,201,185	19.04
Foreign Preferred Stock	592,156	0.01	40,032	0.00
Hedge Funds	1,026,725,785	9.10	1,075,584,754	9.33
Real Estate Funds	967,346,450	8.57	780,336,465	6.77
Private Equity	679,423,383	6.02	629,256,286	5.46
Money Market Instruments	255,922,180	2.27	303,501,465	2.63
Real Assets	507,019,665	4.49	455,984,316	3.96
Bank Loans	328,593,596	2.91	253,447,070	2.20
Foreign Currency Forward Contracts	(43,859)	0.00	(353)	0.00
	11,257,803,766	99.77	11,498,251,354	99.75
Other Assets, Less Liabilities	26,132,919	.23	29,373,670	0.25
Net Assets, at Fair Value	$ 11,283,936,685	100.0%	$ 11,527,625,024	100.00%

ANALYSIS OF INVESTMENT PERFORMANCE

	2012	2011	2010	2009	2008
Total Return* - Past 3 years		10.0%			
Total Return* - Past 5 years			(0.1)%		
Total Return* - year by year	0.1%	21.7%	9.1%	(20.1)%	(6.2)%
System's Actuarial Assumed Rate of Return		7.75%			8.5%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	6.8%	5.7%	5.5%	(2.4)%	5.3%
Comparison index:					
Barclays Capital Universal Index	7.4%	4.8%	10.6%	4.9%	6.2%
Comparative rates of return on equities					
U.S. equities - ISBI	1.3%	33.9%	17.3%	(25.1)%	(12.7)%
Comparison index:					
Russell 3000 Index	3.8%	32.4%	15.7%	(26.6)%	(12.5)%

State Street Bank and Trust, the ISBI's master custodian, provides performance rates of return by portfolio, portfolio aggregation and the respective indices.

Time Weighted methodology, based upon market values, is used when calculating performance.

* Total return is the combined effect of income earned and market appreciation (depreciation).

ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations of the System for fiscal years 2012 and 2011:

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Balance at beginning of year, at fair value	$ 10,882,484,004	$ 9,120,601,694	$ 1,761,882,310	19.3%
Cash transferred to(from) ISBI, net	(212,000,000)	(167,877,799)	(44,122,201)	(26.3)
Net ISBI investments revenue:				
ISBI Commingled Fund income	$ 288,329,452	$ 256,627,471	$ 31,701,981	12.4
Less ISBI Expenses	(34,422,808)	(35,138,357)	715,549	(2.0)
Net ISBI investments income	$ 253,906,644	$ 221,489,114	$ 32,417,530	14.6
Net appreciation/(depreciation) in fair value of ISBI investments	(248,618,387)	1,708,270,995	(1,956,889,382)	(114.6)
Net ISBI investments income	$ 5,288,257	$ 1,929,760,109	$(1,924,471,852)	(99.7)
Balance at end of year, at fair value	$ 10,675,772,261	$10,882,484,004	$ (206,711,743)	(1.9)%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY2012 was $687,112 compared to $448,284 during FY 2011.

ACTUARIAL SECTION

GRS

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October 30, 2012

Board of Trustees and Executive Secretary
State Employees' Retirement System of Illinois
P. O. Box 19255
2101 S. Veterans Parkway
Springfield, Illinois 62794-9255

CONFIDENTIAL

Re: Actuarial Certification

At your request, we have performed the annual actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois ("SERS") as of June 30, 2012. This valuation has been performed to measure the funding status of the Fund and determine the employer statutory contribution rate for the year beginning July 1, 2013, and ending June 30, 2014. In addition, it includes disclosure information required under GASB Statement No. 25 and Statement No. 27.

The required statutory contribution rate has been determined under the Projected Unit Credit Cost Method, providing for a 90 percent funding of total actuarial liabilities by fiscal year 2045 as required by 40 ILCS Section 5/14-131(e). Contribution rates are determined according to P.A. 93-0589 reflecting the infusion of the proceeds from the sale of general obligation bonds. The total rate includes a portion of the debt service due to the sale of the general obligation bonds per P.A. 93-0589. The applicable portion of the debt service includes the amount necessary to pay all principal and interest for State fiscal year 2014 on the general obligation bonds except portions reserved under Section 7.2(c) of the General Obligation Bond Act. Additionally, this amount is decreased by the amount set aside in the capitalized interest fund on the understanding this was the legislative intent. The contribution rates reflect the impact of P.A. 96-0889, which created a second tier for future members of SERS hired after December 31, 2010.

The required statutory contribution rates and amounts for fiscal year beginning July 1, 2013, as determined in the June 30, 2012, actuarial valuation are shown below.

	Preliminary	Debt Service	Total
Required Rate	38.435%	1.877%	40.312%
Required Contribution	1,662,667,000	81,198,000	1,743,865,000

The system's current funding plan does not meet the requirements for amortizing the unfunded liability provided under GASB Statement No. 25. In all other respects, the assumptions and methods used to develop the normal cost and actuarial accrued liability meet the requirements of GASB Statement No. 25.

Gabriel Roeder Smith & Company

Board of Trustees and Executive Secretary
October 26, 2012
Page 2

Pursuant to P.A. 96-0043, for purposes of determining statutory contribution rates for fiscal year 2013 an actuarial value of the System's assets was used. The actuarial value of assets is assumed to earn a rate of return equal to the System's actuarially assumed rate of return. The liabilities have been valued based on financial and employee data, which is supplied by the administrative staff of the System and verified by the System's auditor. We did not audit this data, but have reviewed the statistical support and concluded that the data is reasonable and consistent with the prior year's data.

For the actuarial valuation as of June 30, 2012, the assumed rate of return used to discount liabilities and project assets was 7.75 percent.

In our opinion, the calculations also comply with the requirements of Illinois state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board except as noted above. All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board.

We certify that the information presented herein is accurate and fairly portrays the actuarial position of SERS as of June 30, 2012. We prepared the accompanying Summary of Actuarial Cost Method and Major Actuarial Assumptions, but the SERS staff prepared the other supporting schedules in this section and the trend tables in the financial section, based on information supplied in our report.

The undersigned are Members of the American Academy of Actuaries (MAAA) as indicated, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Gabriel, Roeder, Smith & Company

By: Alex Rivera

Alex Rivera, FSA, EA, MAAA
Senior Consultant

By: David T Kausch

David Kausch, FSA, EA, MAAA
Senior Consultant

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Gabriel Roeder Smith & Company

INTRODUCTION

Annually, the System's actuarial consultant prepares 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 System receives contributions from several sources which can be considered as employer contributions, with the largest source being the regular state appropriation.

The employers' contribution amount, together with members' 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 5/14-131 of the Illinois Compiled Statutes.

The statutes define "actuarial reserves" as "An accumulation of funds in advance of benefit payments which will be sufficient with respect to each member and his beneficiaries, if any, to pay the prescribed benefits, computed according to the actuarial tables, without further contributions by or on behalf of the member."

In August, 1994, Senate Bill 533 was signed into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides that:

• For fiscal years 1996 through 2010, the contribution to the System, as a percentage of the payroll, shall be increased in equal annual increments so that by fiscal year 2010 the contribution rate is at the same level as the contribution rate for fiscal years 2011 through 2045.

• For fiscal years 2011 through 2045, the minimum contribution to the System for each fiscal year shall be an amount determined to be sufficient to bring the total actuarial value of assets of the System up to 90% of the total actuarial liabilities of the System by the end of fiscal year 2045. In making these determinations, the required contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method.

• Beginning in fiscal year 2045, the minimum contribution to the System for each fiscal year shall be the amount needed to maintain the total actuarial value of assets of the System at 90% of the total actuarial liabilities of the System.

The funding legislation also provides for the establishment of a continuing appropriation of the required state contributions to the System. This has, in effect, removed the appropriation of these funds from the annual budgetary process.

The amortization period required by the state's funding plan, as described above, does not meet the parameters of GASB Statement No. 25.

In April, 2003, House Bill 2660 was signed into law as Public Act 93-0002. This legislation authorized the sale of $10 billion of General Obligation bonds for the purpose of making contributions to the five state-financed retirement systems. This legislation also modified the funding plan by mandating that, beginning in fiscal year 2005, the required state contribution for each fiscal year not exceed the state contributions that would have been required had the General Obligation bond program not been in effect, reduced by the total debt service for each year for the System's portion of the General Obligation bond proceeds.

In June, 2005, Senate Bill 0027 was signed into law as Public Act 94-0004. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. The required state contributions for fiscal years 2008 through 2010 were then to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state would be contributing at the required level contribution rate to achieve the financing objective of a 90% funded status by the end of fiscal year 2045.

For fiscal years 2012 and 2011, the System received the actuarially determined employer contributions in accordance with the state's funding plan described above.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For Fiscal Years 2012 and 2011, a projected unit credit normal cost method is used. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current or attained age is determined.

The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

Actuarial gains and losses are recognized in the unfunded actuarial liability of the System. For purposes of determining future employer contributions, however, the actuarial gains and losses are amortized in accordance with the funding plan as previously described.

For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits, and the post-retirement increments, the same procedure as outlined above is followed.

A description of the actuarial assumptions utilized for FY2012 and FY2011 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; the interest rate assumption was adopted June 30, 2010; all other assumptions were adopted June 30, 2011.

Asset Valuation Method: The actuarial value of assets is equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

Interest: 7.75% per annum, compounded annually.

Mortality: Post-Retirement Mortality - RP2000 Combined Health mortality table, sex distinct, with rates projected to 2015 with scale aa. No adjustment is made for post-disabled mortality. The table used is a static table with the provision for future mortality improvement in the projection to 2015, which is in sync with the next scheduled experience study.

Pre-Retirement Mortality - based on 85% for males and 70% for females of post-retirement mortality. Five percent of deaths amongst active employees is assumed to be in the performance of their duty.

Salary Increases: Illustrative rates of increase per individual employee per annum, compounded annually:

Age	Males & Females	Components: Merit	Components: Inflation
25-29	8.87	5.87%	3.0%
30-34	7.25	4.25	3.0
35-39	6.47	3.47	3.0
40-44	5.87	2.87	3.0
45-49	5.41	2.41	3.0
50-54	5.02	2.02	3.0
55-59	4.72	1.72	3.0
60-64	4.44	1.44	3.0
65-69	4.23	1.23	3.0
70	4.00	1.00	3.0

Retirement Rates: Listed below are representative sample rates of retirement that vary by age. The rates apply only to employees who have fulfilled the service requirement necessary for retirement at any given age:

Age	General Employees		Alternative Formula Employees	
	Male	Females	Males	Females
50	5.0%	5.0%	50.0%	50.0%
55	12.0	13.0	35.0	30.0
60	10.0	13.0	30.0	20.0
65	20.0	25.0	50.0	40.0
70	100.0	100.0	100.0	100.0

Termination: Listed below are representative sample rates of termination that vary by age. It is assumed that terminated employees will not be rehired. The rates apply only to employees who have not fulfilled the service requirements necessary for retirement at any given age.

Service-Based Withdrawal

	General Employees		Alternative Formula Employees	
Service Years	Male	Females	Males	Females
0	.1800	.1700	.0400	.0775
1	.1200	.1100	.0250	.0475
5	.0450	.0500	.0250	.0300
10	.0200	.0250	.0150	.0200
15	.0150	.0150	.0100	.0100
20	.0100	.0100	.0075	.0100
25	.0100	.0075	.0050	.0100
30+	.0100	.0075	.0050	.0100

Assets: Assets available for benefits are used as decribed in the Illinois Complied Statutes.

Expenses: As estimated and advised by SERS staff, based on current expenses with an allowance for expected increases.

Marital Status: 85% of active male employees are assumed to be married, 65% of active females are assumed to be married. Actual marital status at benefit commencement is used for retirees.

Spouse's Age: The female spouse is assumed to be three years younger than the male spouse.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, remarriage rates, ages, and numbers of children and Social Security benefit levels.

Post-retirement Benefit Increases: Tier 1 - 3% annually, compounded. Tier 2 - 3.0 percent per year or one-half of the annual increase in the Consumer Price Index for the preceding year, whichever is less, on the original benefit.

Experience Review: Pursuant to state law, the System had the actuary perform this review for the five year period ended June 30, 2010, which was updated for values as of June 30, 2011.

NOTE: The actuarial assumptions have been recommended by the actuary, and adopted by the System's Board of Trustees, at the dates indicated previously.

SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

Refer to the Plan Summary and Legislative Section for a summary of the plan provisions and legislative amendments that were evaluated and considered by the actuary during the valuation process.

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 member contributions on deposit.
2. The liabilities for future benefits to present retired lives.
3. The liabilities for service already rendered by active members.

In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (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.

VALUATION RESULTS

	June 30, 2012	June 30, 2011
Actuarial Liability		
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$ 19,077,020,117	$ 16,965,233,218
Survivor Annuities	1,047,978,790	979,584,453
Disability Annuities	282,966,926	285,643,801
Deferred:		
Retirement Annuities	7,901,510	7,966,357
Survivor Annuities	9,030,330	9,106,024
TOTAL	$ 20,424,897,673	$ 18,247,533,853
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	450,592,421	427,032,846
Eligible for Return of Contributions Only	28,823,491	27,948,046
TOTAL	$ 479,415,912	$ 454,980,892
For Active Members	$ 12,186,872,609	$ 12,692,493,037
Actuarial Present Value of Credited Projected Benefits	$ 33,091,186,194	$ 31,395,007,782
Actuarial Value of Assets	11,477,264,329	11,159,836,617
Unfunded Actuarial Present Value of Credited Projected Benefits	$ 21,613,921,865	$ 20,235,171,165

COMPUTED ACTUARIAL VALUES (in thousands of dollars)

Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Actuarial Value of Assets*	Percentage of Actuarial Values Covered by Net Assets Available (1)	(2)	(3)
2003	$1,443,513	$11,621,084	$4,529,383	$7,502,111	100.0%	52.1%	0.0%
2004	1,570,508	11,949,559	4,922,598	9,990,187	100.0	70.1	0.0
2005	1,683,382	12,484,933	5,136,332	10,494,148	100.0	70.6	0.0
2006	1,819,899	12,621,711	6,432,932	10,899,853	100.0	71.9	0.0
2007	1,951,976	13,225,507	7,103,434	12,078,909	100.0	76.6	0.0
2008	2,070,553	14,047,703	7,723,024	10,995,366	100.0	63.5	0.0
2009	2,188,603	14,908,642	8,201,101	10,999,954	100.0	59.1	0.0
2010	2,387,080	16,962,553	9,959,831	10,961,540	100.0	50.5	0.0
2011	2,586,284	18,247,534	10,561,190	11,159,837	100.0	47.0	0.0
2012	2,694,873	20,424,898	9,971,415	11,477,264	100.0	43.0	0.0

** For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.*

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	2012	2011
Unfunded Liability, Beginning of Fiscal Year	$ 20,235,171,165	$ 18,347,924,132
Contributions Due		
Interest on the Unfunded Liability	1,568,225,765	1,421,964,120
Participants (includes Repayment of Refunds)	259,122,881	254,201,379
Total Normal Cost	569,791,951	480,468,865
Interest on Normal Cost	31,521,123	27,937,287
Total Due	$ 2,428,661,720	$ 2,184,571,651
Contributions Paid		
Participants (includes Repayment of Refunds)	$ 259,122,881	$ 254,201,379
Employing State Agencies and Appropriations	1,391,416,375	1,127,886,796
Interest on Contributions	62,765,014	52,556,632
Total Paid	$ 1,713,304,270	$ 1,434,644,807
Increase in the Unfunded Liability	$ 715,357,450	$ 749,926,844
Actuarial (Gains) Losses		
a. Retirements	$ 395,087,063	$ 264,183,388
b. Incidence of Disability	–	(238,874)
c. In-Service Mortality	494,015	1,384,722
d. Retiree Mortality	(61,968,128)	(83,110,353)
e. Salary Increases	(57,658,148)	(116,457,671)
f. Terminations	(150,246,102)	(36,923,665)
g. Investment Income	530,809,433	483,803,315
h. New Entrant Liability	37,242,711	51,486,159
i. Other	(30,367,594)	18,377,864
Total Actuarial Loss	$ 663,393,250	$ 582,504,885
Assumption Changes	$ –	$ 554,815,304
Total Increase in Actuarial Liability	$ 1,378,750,700	$ 1,887,247,033
Unfunded Liability, End of Fiscal Year	$ 21,613,921,865	$ 20,235,171,165

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 member 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.

ACCRUED AND UNFUNDED ACCRUED LIABILITIES

(in thousands of dollars)

Fiscal Year	Total Actuarial Liability	Actuarial Value of Assets*	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Member Payroll	Unfunded Actuarial Liability as a % of Member Payroll
2003	$ 17,593,980	$ 7,502,111	42.6%	$ 10,091,869	$ 3,639,334	277.3%
2004	18,442,665	9,990,187	54.2	8,452,478	3,439,251	245.8
2005	19,304,647	10,494,148	54.4	8,810,499	3,475,528	253.5
2006	20,874,542	10,899,853	52.2	9,974,689	3,572,541	279.2
2007	22,280,917	12,078,909	54.2	10,202,008	3,762,777	271.1
2008	23,841,280	10,995,366	46.1	12,845,914	3,967,704	323.8
2009	25,298,346	10,999,954	43.5	14,298,392	4,027,263	355.0
2010	29,309,464	10,961,540	37.4	18,347,924	4,119,361	445.4
2011	31,395,008	11,159,837	35.6	20,235,171	4,211,186	480.5
2012	33,091,186	11,477,264	34.7	21,613,922	4,329,084	499.3

** For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.*

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/03	70,192	$3,639,334,000	$51,848	14.1%
6/30/04	70,621	3,439,251,000	48,700	(6.1)
6/30/05	69,163	3,475,528,000	50,251	3.2
6/30/06	68,075	3,572,541,000	52,479	4.4
6/30/07	67,699	3,762,777,000	55,581	5.9
6/30/08	66,237	3,967,704,000	59,902	7.8
6/30/09	65,599	4,027,263,000	61,392	2.5
6/30/10	64,143	4,119,360,892	64,222	4.6
6/30/11	66,363	4,211,186,269	63,457	(1.2)
6/30/12	62,732	4,329,083,716	69,009	8.7

SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
2003	32,424	11,372	(1,391)	42,405
2004	42,405	1,285	(1,383)	42,307
2005	42,307	1,782	(1,440)	42,649
2006	42,649	1,398	(1,371)	42,676
2007	42,676	1,685	(1,382)	42,979
2008	42,979	2,214	(1,412)	43,781
2009	43,781	2,046	(1,261)	44,566
2010	44,566	2,416	(1,323)	45,659
2011	45,659	2,753	(1,410)	47,002
2012	47,002	4,360	(1,362)	50,000

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
2003	9,981	688	(628)	10,041
2004	10,041	639	(644)	10,036
2005	10,036	700	(695)	10,041
2006	10,041	672	(677)	10,036
2007	10,036	677	(639)	10,074
2008	10,074	638	(608)	10,104
2009	10,104	713	(581)	10,236
2010	10,236	686	(597)	10,325
2011	10,325	715	(612)	10,428
2012	10,428	754	(680)	10,502

SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
2003	2,152	1,952	(2,175)	1,929
2004	1,929	1,954	(1,928)	1,955
2005	1,955	2,026	(1,843)	2,138
2006	2,138	2,129	(2,111)	2,156
2007	2,156	2,031	(1,975)	2,212
2008	2,212	2,078	(2,064)	2,226
2009	2,226	2,118	(2,047)	2,297
2010	2,297	2,236	(2,125)	2,408
2011	2,408	2,226	(2,278)	2,356
2012	2,356	1,884	(1,954)	2,286

STATISTICAL SECTION

Statistical Contents

The tables in this section present detailed information on benefit payments and recipients, members and employer contributions and miscellaneous demographic information.

1. Financial Schedules: Pages 56-57

These schedules present information about assets, liabilities, reserves and changes in net assets over a 10-year period.

2. Member & Benefit Analysis: Pages 58-59

These schedules show a breakdown of the characteristics of active and total employees, as well as a display of the number of beneficiary recipients by type and termination refund.

3. Benefit Demographics: Pages 60-62

These schedules provide an overview of the types of benefits provided based upon the benefit formula: demographics of age, type of benefit, months of service, range of benefits and location of retirees.

ASSET BALANCES

FY Ended June 30	Cash	Receivables	Investments	Securities lending collateral with State Treasurer	Fixed Assets, Net of Accumulated Depreciation	Total
2003	$ 36,049,053	$ 31,658,281	$ 7,436,093,948	$ -	$ 3,087,685	$ 7,506,888,967
2004	66,642,027	85,035,275	9,840,077,880	-	3,152,081	9,994,907,263
2005	204,525,471	36,938,006	10,271,356,795	-	3,071,449	10,515,891,721
2006	226,751,078	29,505,581	10,654,863,723	-	2,886,428	10,914,006,810
2007	249,858,696	30,897,571	11,810,137,495	-	2,670,416	12,093,564,178
2008	306,528,043	48,461,473	10,653,973,521	-	2,720,676	11,011,683,713
2009	232,679,069	57,435,470	8,200,755,918	-	2,574,759	8,493,445,216
2010	49,912,665	39,333,474	9,120,601,694	22,587,000	2,808,489	9,235,243,322
2011	54,940,085	41,167,867	10,882,484,004	26,414,000	2,676,348	11,007,682,304
2012	133,959,043	160,807,074	10,675,772,261	72,867,000	2,723,398	11,046,128,776

LIABILITIES AND RESERVE BALANCES

		RESERVES				
FY Ended June 30	Liabilities	Reserve For Member Contributions	Reserve For Interest Accumulations	Reserve For Future Operations	Total Reserves	Total
2003	$4,777,551	$1,443,512,621	$909,604,406	$5,148,994,389	$7,502,111,416	$7,506,888,967
2004	4,720,389	1,570,508,130	1,005,580,314	7,414,098,430	9,990,186,874	9,994,907,263
2005	21,743,768	1,683,382,315	1,098,150,098	7,712,615,540	10,494,147,953	10,515,891,721
2006	14,153,745	1,819,898,559	1,213,224,291	7,866,730,215	10,899,853,065	10,914,006,810
2007	14,655,224	1,951,976,176	1,327,434,550	8,799,498,228	12,078,908,954	12,093,564,178
2008	16,317,228	2,070,552,633	1,425,558,357	7,499,255,495	10,995,366,485	11,011,683,713
2009	15,593,128	2,188,602,984	1,537,128,750	4,752,120,354	8,477,852,088	8,493,445,216
2010	33,412,667	2,387,079,602	1,646,316,225	5,168,434,828	9,201,830,655	9,235,243,322
2011	36,929,618	2,586,284,410	1,733,461,375	6,651,006,901	10,970,752,686	11,007,682,304
2012	85,440,952	2,694,873,105	1,729,529,132	6,536,285,587	10,960,687,824	11,046,128,776

CHANGES IN NET ASSETS

Fiscal Year

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Member contributions	$ 285,209,344	$ 199,826,465	$ 209,334,207	$ 214,108,896	$ 224,722,599	$ 249,955,208	$ 242,227,432	$ 246,172,971	$ 254,201,379	$ 259,122,881
Employer Contributions	396,067,236	1,864,673,411	427,434,612	210,499,791	358,786,650	587,732,407	774,910,344	1,095,545,856	1,127,886,796	1,391,416,375
Net investment income/(loss)	15,019,764	1,421,912,540	953,579,253	1,113,231,712	1,779,907,177	(680,759,719)	(2,208,897,635)	799,895,861	1,930,208,393	5,975,369
Total additions to/(deductions from) plan net assets	696,296,344	3,486,412,416	1,590,348,072	1,537,840,399	2,363,416,426	156,927,896	(1,191,759,859)	2,141,614,688	3,312,296,568	1,656,514,625
Deductions										
Benefit Payments:										
Retirement annuities	733,969,930	879,638,039	935,677,837	985,503,023	1,030,284,942	1,089,743,632	1,164,454,557	1,237,118,008	1,329,155,991	1,454,910,158
Survivors' annuities	50,724,761	54,186,031	57,542,913	61,100,647	65,215,133	68,770,552	73,697,450	89,516,980	95,118,041	101,136,325
Disability	32,868,545	33,482,302	36,828,758	40,271,558	43,053,148	43,086,065	46,513,406	48,312,629	53,056,325	56,098,869
Lump-sum payments	13,923,360	10,894,638	33,920,915	23,710,733	22,737,815	12,515,378	15,548,262	15,693,575	14,733,290	15,228,249
Total benefit payments	831,486,596	978,201,010	1,063,970,423	1,110,585,961	1,161,291,038	1,214,115,627	1,300,213,675	1,390,641,192	1,492,063,647	1,627,373,601
Refunds:										
Termination	11,924,654	10,174,522	10,661,887	10,771,309	11,016,841	12,319,212	10,262,279	9,922,582	10,971,215	12,241,107
Other	16,445,133	2,268,076	3,443,414	2,638,739	3,245,031	4,498,221	4,597,208	5,351,592	26,604,714	11,259,218
Total refunds	28,369,787	12,442,600	14,105,301	13,410,048	14,261,872	16,817,433	14,859,487	15,274,174	37,575,929	23,500,325
Administrative expenses	8,221,236	7,693,348	8,311,269	8,139,278	8,807,627	9,537,305	10,681,376	11,720,755	13,734,961	15,705,561
Total deductions from plan net assets	868,077,619	998,336,958	1,086,386,993	1,132,135,287	1,184,360,537	1,240,470,365	1,325,754,538	1,417,636,121	1,543,374,537	1,666,579,487
Change in net assets	$ (171,781,275)	$ 2,488,075,458	$ 503,961,079	$ 405,705,112	$ 1,179,055,889	$ (1,083,542,469)	$ (2,517,514,397)	$ 723,978,567	$ 1,768,922,031	$ (10,064,862)

TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	Coordinated Members: Male	Coordinated Members: Female	Coordinated Members: Total	Noncoordinated Members: Male	Noncoordinated Members: Female	Noncoordinated Members: Total	Total Male Members	Total Female Members	Total Members
2003	46,673	43,456	90,129	2,640	748	3,388	49,313	44,204	93,517
2004	46,722	43,474	90,196	2,569	653	3,222	49,291	44,127	93,418
2005	45,774	42,532	88,306	2,543	574	3,117	48,317	43,106	91,423
2006	44,656	41,657	86,313	2,586	548	3,134	47,242	42,205	89,447
2007	44,532	41,562	86,094	2,693	534	3,227	47,225	42,096	89,321
2008	43,359	41,094	84,453	2,668	504	3,172	46,027	41,598	87,625
2009	42,687	40,678	83,365	2,606	485	3,091	45,293	41,163	86,456
2010	41,835	39,838	81,673	2,512	470	2,982	44,347	40,308	84,655
2011	44,146	40,696	84,842	2,387	432	2,819	46,533	41,128	87,661
2012	43,364	39,325	82,689	2,298	386	2,684	45,662	39,711	85,373

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	Coordinated Members: Male	Coordinated Members: Female	Coordinated Members: Total	Noncoordinated Members: Male	Noncoordinated Members: Female	Noncoordinated Members: Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
2003	34,438	32,660	67,098	2,450	644	3,094	36,888	33,304	70,192	$3,639,334,000
2004	34,813	32,848	67,661	2,395	565	2,960	37,208	33,413	70,621	3,439,251,000
2005	34,239	32,070	66,309	2,363	491	2,854	36,602	32,561	69,163	3,475,528,000
2006	33,597	31,582	65,179	2,424	472	2,896	36,021	32,054	68,075	3,572,541,000
2007	33,264	31,457	64,721	2,525	453	2,978	35,789	31,910	67,699	3,762,777,000
2008	32,420	30,998	63,418	2,408	411	2,819	34,828	31,409	66,237	3,967,704,000
2009	32,026	30,739	62,765	2,430	404	2,834	34,456	31,143	65,599	4,027,263,000
2010	31,363	30,077	61,440	2,325	378	2,703	33,688	30,455	64,143	4,119,360,892
2011	32,797	31,011	63,808	2,206	349	2,555	35,003	31,360	66,363	4,211,186,269
2012	31,073	29,252	60,325	2,102	305	2,407	33,175	29,557	62,732	4,329,083,716

NUMBER OF RECURRING BENEFIT PAYMENTS / TERMINATION REFUNDS

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total Recurring Benefit Payments	Termination Refunds
2003	42,405	10,041	1,929	54,375	2,269
2004	42,307	10,036	1,955	54,298	2,100
2005	42,649	10,041	2,138	54,828	1,910
2006	42,676	10,036	2,156	54,868	1,903
2007	42,979	10,074	2,212	55,265	1,660
2008	43,781	10,104	2,226	56,111	1,598
2009	44,566	10,236	2,297	57,099	1,387
2010	45,659	10,325	2,408	58,392	1,420
2011	47,002	10,428	2,356	59,786	1,816
2012	50,000	10,502	2,286	62,788	1,964

** Includes individuals receiving total temporary disability payments under the Workers' Compensation Act.*

RETIREMENT ANNUITIES
Average Monthly Benefit For Current Year Retirees By Type

	Fiscal Year Ending June 30				
	2012	2011	2010	2009	2008
Not Coordinated with Social Security	$ 3,099.80	$ 2,395.06	$ 2,053.35	$ 1,995.92	$ 2,251.03
Coordinated with Social Security	2,383.31	2,115.89	1,982.54	1,868.68	1,798.12
Alternative Formula	8,032.75	7,681.97	7,400.54	6,991.78	6,876.42
Dept. of Corrections/DHS - Special Formula - Not Coordinated with Social Security	5,642.02	3,914.46	3,074.70	4,510.46	4,258.50
Dept. of Corrections/DHS - Special Formula Coordinated with Social Security	4,146.98	3,985.65	3,732.87	3,552.42	3,506.09
Air Pilots - Coordinated with Social Security	–	-	-	5,755.43	4,020.66
TOTAL AVERAGE	$ 3,056.28	$ 2,852.56	$ 2,665.11	$ 2,574.36	$ 2,434.59

RETIREMENT ANNUITIES
Current Age of Active Recipients

	Fiscal Year Ending June 30				
Age	2012	2011	2010	2009	2008
Under 51	236	145	160	133	141
51-55	2,671	2,257	2,192	2,164	2,351
56-60	6,090	5,750	5,894	6,346	6,651
61-65	11,588	10,524	9,994	9,438	9,017
66-70	9,773	9,235	8,694	8,235	7,711
71-75	7,206	6,839	6,636	6,296	6,131
76-80	5,212	5,151	5,071	5,051	5,009
81-85	3,828	3,788	3,759	3,750	3,732
86-89	1,925	1,899	1,890	1,843	1,795
Over 89	1,471	1,414	1,369	1,310	1,243
Total	50,000	47,002	45,659	44,566	43,781
Average Age	69.17	69.46	69.43	69.34	69.21

RETIREMENT ANNUITIES
Average Service (in months) for Current Year Retirees at Effective Date of Benefit

Fiscal Year Ending June 30	2012	2011	2010	2009	2008
Not Coordinated with Social Security	445.08	392.09	383.46	372.70	373.22
Coordinated with Social Security	320.56	306.13	297.62	299.77	297.94
Alternative Formula	315.37	314.52	316.70	318.56	322.09
Dept. of Corrections - Special Formula- Not Coordinated with Social Security	335.68	332.62	316.12	355.05	376.70
Dept. of Corrections -Special Formula- Coordinated with Social Security	318.66	316.78	310.29	313.39	318.39
Air Pilots - Coordinated with Social Security	–	-	-	375.00	267.75
TOTAL AVERAGE	320.79	309.77	302.61	305.37	305.23

Annuitants by Benefit Range (Monthly) June 30, 2012

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	300	300	0.6	0.6
101-200	713	1,013	1.4	2.0
201-300	1,162	2,175	2.3	4.3
301-400	1,245	3,420	2.5	6.8
401-500	1,294	4,714	2.6	9.4
501-600	1,350	6,064	2.7	12.1
601-700	1,269	7,333	2.5	14.6
701-800	1,334	8,667	2.7	17.3
801-900	1,268	9,935	2.5	19.8
901-1000	1,199	11,134	2.4	22.2
1001-1100	1,214	12,348	2.4	24.6
1101-1200	1,209	13,557	2.4	27.0
1201-1300	1,170	14,727	2.3	29.3
1301-1400	1,261	15,988	2.5	31.8
1401-1500	1,136	17,124	2.3	34.1
1501-1600	1,095	18,219	2.2	36.3
1601-1700	1,052	19,271	2.1	38.4
1701-1800	1,018	20,289	2.0	40.4
1801-1900	1,105	21,394	2.2	42.6
1901-2000	1,006	22,400	2.0	44.6
2001-2500	5,006	27,406	10.0	54.6
2501-3000	4,734	32,140	9.5	64.1
3001-4000	8,053	40,193	16.1	80.2
4001-5000	5,092	45,285	10.2	90.4
5001-7500	4,012	49,297	8.1	98.5
over 7500	703	50,000	1.5	100.0

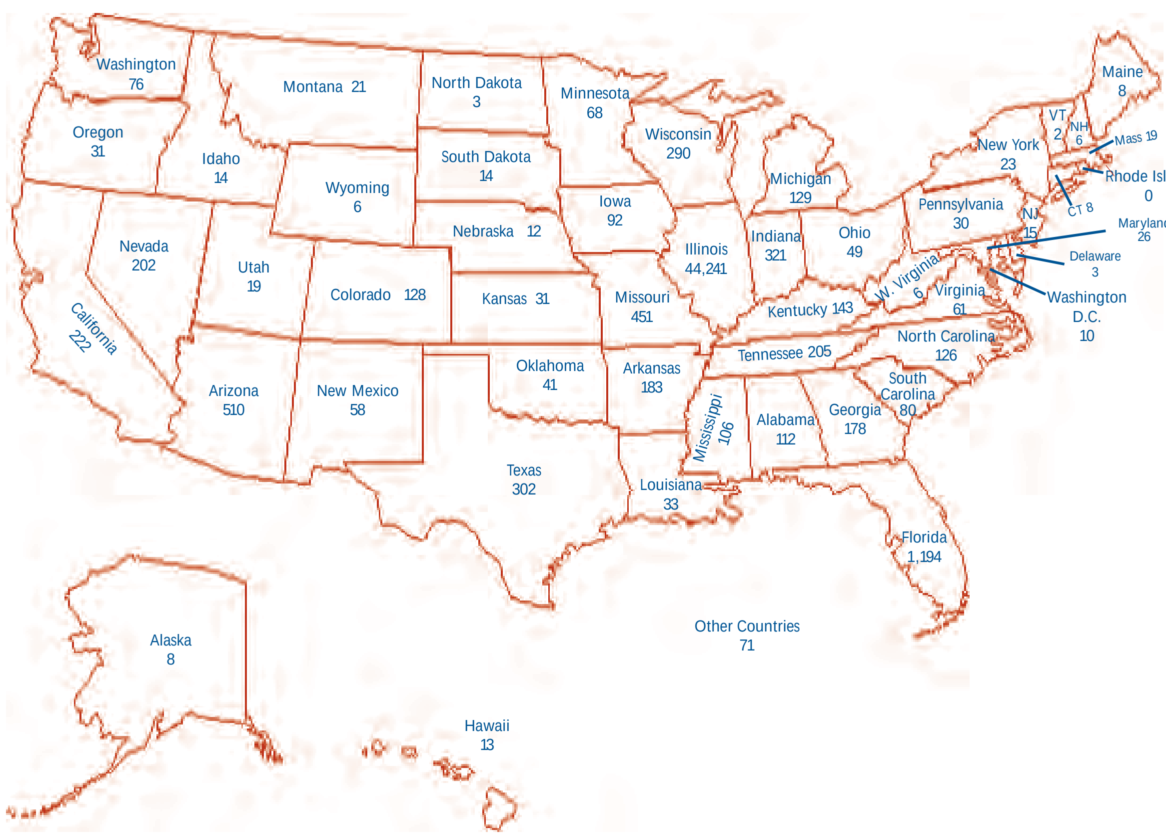
Widow's and Survivors' by Benefit Range (Monthly) June 30, 2012

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	140	140	1.3	1.3
101-200	558	698	5.3	6.6
201-300	754	1,452	7.2	13.8
301-400	887	2,339	8.4	22.2
401-500	1,432	3,771	13.6	35.8
501-600	1,324	5,095	12.6	48.4
601-700	1,003	6,098	9.6	58.0
701-800	652	6,750	6.2	64.2
801-900	405	7,155	3.9	68.1
901-1000	395	7,550	3.8	71.9
1001-1100	315	7,865	3.0	74.9
1101-1200	281	8,146	2.7	77.6
1201-1300	276	8,422	2.6	80.2
1301-1400	238	8,660	2.3	82.5
1401-1500	204	8,864	1.9	84.4
1501-1600	199	9,063	1.9	86.3
1601-1700	163	9,226	1.6	87.9
1701-1800	176	9,402	1.7	89.6
1801-1900	130	9,532	1.2	90.8
1901-2000	125	9,657	1.2	92.0
2001-2500	427	10,084	4.1	96.1
2501-3000	258	10,342	2.5	98.6
3001-4000	150	10,492	1.3	99.9
4001-5000	8	10,500	0.1	100.0
5001-7500	1	10,501	0.0	100.0
over 7500	1	10,502	0.0	100.0

Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 2012

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	20	20	0.9	0.9
101-200	14	34	0.6	1.5
201-300	37	71	1.6	3.1
301-400	69	140	3.0	6.1
401-500	105	245	4.6	10.7
501-600	142	387	6.2	16.9
601-700	113	500	4.9	21.8
701-800	123	623	5.4	27.2
801-900	103	726	4.5	31.7
901-1000	88	814	3.8	35.5
1001-1100	81	895	3.5	39.0
1101-1200	60	955	2.6	41.6
1201-1300	62	1,017	2.7	44.3
1301-1400	54	1,071	2.4	46.7
1401-1500	48	1,119	2.1	48.8
1501-1600	38	1,157	1.7	50.5
1601-1700	52	1,209	2.3	52.8
1701-1800	55	1,264	2.4	55.2
1801-1900	61	1,325	2.7	57.9
1901-2000	66	1,391	2.9	60.8
2001-2500	300	1,691	13.1	73.9
2501-3000	254	1,945	11.1	85.0
3001-4000	280	2,225	12.2	97.2
4001-5000	56	2,281	2.5	99.7
5001-7500	5	2,286	0.3	100.0
over 7500	0	2,286	0.0	100.0

RETIREES BY STATE



Average Benefit Payments
Fiscal Years 2003 through 2012

Retirement Effective Dates	0-5	5-10	10-15	15-20	20-25	25-30	30+
	Years Credited Service						
Period 7/1/02 to 6/30/03							
Average monthly benefit	$ -	$ 417	$ 774	$ 1,165	$ 1,921	$ 2,523	$ 2,889
Average final average salary	$ -	$ 2,799	$ 3,284	$ 3,533	$ 3,816	$ 4,210	$ 4,407
Number of retired members	-	36	317	812	2,017	2,362	5,828
Period 7/1/03 to 6/30/04							
Average monthly benefit	$ -	$ 532	$ 666	$ 939	$ 1,650	$ 3,214	$ 2,317
Average final average salary	$ -	$ 3,499	$ 3,283	$ 3,468	$ 3,953	$ 5,326	$ 4,685
Number of retired members	-	65	105	122	210	305	478
Period 7/1/04 to 6/30/05							
Average monthly benefit	$ -	$ 537	$ 744	$ 1,072	$ 1,642	$ 2,742	$ 2,659
Average final average salary	$ -	$ 3,464	$ 3,721	$ 3,799	$ 4,050	$ 4,807	$ 4,820
Number of retired members	-	99	145	177	235	400	726
Period 7/1/05 to 6/30/06							
Average monthly benefit	$ -	$ 536	$ 715	$ 1,090	$ 1,696	$ 2,893	$ 2,422
Average final average salary	$ -	$ 3,672	$ 3,614	$ 3,763	$ 4,169	$ 4,990	$ 4,769
Number of retired members	-	69	148	160	215	356	450
Period 7/1/06 to 6/30/07							
Average monthly benefit	$ -	$ 536	$ 728	$ 1,117	$ 1,875	$ 3,171	$ 2,736
Average final average salary	$ -	$ 3,531	$ 3,668	$ 3,820	$ 4,539	$ 5,248	$ 5,034
Number of retired members	-	91	190	178	289	417	520
Period 7/1/07 to 6/30/08							
Average monthly benefit	$ -	$ 565	$ 791	$ 1,370	$ 2,143	$ 3,336	$ 2,978
Average final average salary	$ -	$ 3,628	$ 3,879	$ 4,333	$ 4,642	$ 5,377	$ 5,311
Number of retired members	-	96	165	238	423	604	688
Period 7/1/08 to 6/30/09							
Average monthly benefit	$ -	$ 645	$ 835	$ 1,398	$ 2,343	$ 3,598	$ 3,051
Average final average salary	$ -	$ 4,308	$ 4,075	$ 4,360	$ 4,926	$ 5,783	$ 5,402
Number of retired members	-	91	187	191	409	509	659
Period 7/1/09 to 6/30/10							
Average monthly benefit	$ -	$ 587	$ 817	$ 1,437	$ 2,438	$ 3,687	$ 3,243
Average final average salary	$ -	$ 3,975	$ 4,046	$ 4,623	$ 5,193	$ 5,928	$ 5,537
Number of retired members	-	101	188	233	555	617	722
Period 7/1/10 to 6/30/11							
Average monthly benefit	$ -	$ 597	$ 852	$ 1,460	$ 2,591	$ 3,936	$ 3,273
Average final average salary	$ -	$ 4,089	$ 4,383	$ 4,894	$ 5,549	$ 6,502	$ 5,858
Number of retired members	-	96	233	224	532	747	921
Period 7/1/11 to 6/30/12							
Average monthly benefit	$ –	$ 740	$ 944	$ 1,401	$ 2,620	$ 3,989	$ 3,514
Average final average salary	$ –	$ 4,939	$ 4,739	$4,788	$ 5,687	$ 6,491	$ 5,922
Number of retired members	–	104	268	328	843	1,226	1,591

PLAN SUMMARY
& LEGISLATIVE SECTION

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 2012)

1. Purpose

The State Employees' Retirement System of Illinois, a state agency, provides an orderly means whereby aged or disabled employees may be retired from active service without prejudice or hardship and enables the employees to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment.

The Plan is comprised of two tiers of contributions requirements and benefit levels.

Tier 1 applies to any person who was a member or participant prior to January 1, 2011 of any reciprocal retirement system or pension fund established under the provisions of 40 ILCS 5 except Articles 2, 3, 4, 5, 6 or 18.

Tier 2 applies to any person who first becomes a member or participant January 1, 2011 or later of any reciprocal retirement system or pension fund established under the provisions of 40 ILCS 5.

The provisions below apply to both Tier 1 and 2 employees except where noted.

2. Administration

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of thirteen members. The administration 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 the funds of the System and prompt payment of claims for benefits within the applicable statutes.

3. Employee Membership

Generally, all persons who entered state service prior to December 1, 2010, became members of the System after serving a six month qualifying period unless their position was subject to membership in another state supported system. After November 30, 2010, all employees entering state service become members of the System immediately.

Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System. Other exceptions are identified by the law.

4. Member Contributions & Formulas

Members are required to contribute a percentage of salary as their share of meeting the cost of the various benefits. They receive a percentage of their final average compensation as their monthly benefit. This benefit is calculated by multiplying the appropriate formula times the years of service times the final average compensation.

	Contribution Rate:	Retirement Benefit Formula:
Regular Formula:		
A. Member with Social Security (Coordinated)	4%	1.67%
B. Member without Social Security (Non-Coordinated)	8%	2.20%
Alternative Formula:		
A. Member with Social Security (Coordinated)	8.5%	2.50%
B. Member without Social Security (Non-Coordinated)	12.5%	3.00%

Members coordinated with Social Security also pay the current Social Security tax rate.

Tier 2 salary subject to contributions is capped in accordance with the statute governing the System. This cap is increased each year by 3% or ½ of the percentage increase in the consumer price index-u, whichever is less.

All positions are under the regular formula except as detailed below.

5. Alternative Formula Positions

Tier 1 positions under the alternative formula without Social Security are: State policemen, Special Agents, Fire Fighters, Secretary of State Investigators, Conservation Police Officers, Department of Revenue or the Illinois Gaming Board Investigators, Central Management Services Police Officers, Mental Health Police Officers, Dangerous Drug Investigators, State Police Investigators, Attorney General Investigators, Controlled Substance Inspectors, State's Attorney Appellate Prosecutor Investigators, Commerce Commission Police Officers and Arson Investigators.

Tier 1 positions under the alternative formula with or without Social Security are: Security employees of the

Departments of Corrections, Juvenile Justice and Human Services, Air Pilots and State Highway Maintenance Workers.

Tier 2 positions under the alternative formula without Social Security are: State Policemen and Fire Fighters.

Tier 2 positions under the alternative formula with Social Security are: Correction Officers at the Departments of Corrections and Juvenile Justice.

6. Final Average Compensation: Retirement

Tier 1 Regular Formula:

Final average compensation is the monthly average of the highest 48 consecutive months of wages within the last 120 months of wages. The average of the last 12 months cannot exceed the 48 month average by more than 25%.

Tier 1 Alternative Formula:

For members in service prior to 1/1/1998, the final average compensation is the highest of the three calculations listed below. For members in service after 12/31/1997, the final average compensation is the highest of either number 1 or 2 listed below.

1. Final monthly rate of pay in the alternative formula position. The final rate of pay cannot exceed the average of the last 24 months by more than 15%.
2. The monthly average of the last 48 months of wages.
3. The monthly average of the highest 48 consecutive months of wages with the last 120 months of wages.

Tier 2 Regular Formula and Alternative Formula:

Final average compensation is the monthly average of the highest 96 consecutive months of wages within the last 120 months of wages. The salary for any calendar year is capped in accordance with the statute governing the System. This cap is increased each calendar year by 3% or ½ of the percentage increase in the consumer price index, whichever is less.

7. Retirement Annuity

A. Qualification of a Member

A member's state service must be terminated by resignation, layoff, discharge or dismissal to be eligible to receive a retirement annuity.

Tier 1 Regular Formula:

A member must have at least 8 years of service to be eligible for a benefit under any circumstances.

1. Age 60;
2. Age and service add up to 85 years; or
3. Age 55 to 60 with 25 to 30 years of service credit with the retirement annuity reduced ½ of 1% for each month under age 60.

Tier 1 Alternative Formula:

1. Age 50 with 25 years in the alternative formula, or
2. Age 55 with 20 years in the alternative formula.

Tier 2 Regular Formula:

A member must have at least 10 years of service to be eligible for a benefit under any circumstances.

1. Age 67; or
2. Age 62 with the retirement annuity reduced ½ of 1% for each month under age 67.

Tier 2 Alternative Formula:

1. Age 60 with 20 years in the alternative formula.

B. Amount of Retirement Annuity

Tier 1 and Tier 2 Regular Formula, Alternative Formula and Special Formula

Maximum benefit under the Regular Formula is 75% of the Final Average Compensation. Maximum Benefit under the Alternative Formula is 80% of the Final Average Compensation.

Minimum benefit is $15.00 per year of service with Social Security and $25.00 per year of service without Social Security.

Pension Computation:

1. Years of service X Applicable formula(s) X Applicable Final Average Compensation = Unreduced Monthly Benefit

2. Unreduced monthly benefit X reduction percent = Reduced Monthly Benefit (if applicable).

Special Formula: This formula applies only to Tier 1 Alternative Formula service as security employees of the Departments of Corrections and Juvenile Justice and the Department of Human Services who have 20 years of total state service and some service, but less than

20 years in the alternative formula. These individuals must meet the eligibility requirements under the regular formula and they receive 2.5% or 3.0% on their alternative formula service as security employees and 1.67% or 2.2% on their regular formula service.

Alternative formula refund: Members with alternative formula service who do not qualify for the alternative formula and choose to retire under the regular formula receive a refund of the difference in contributions between the alternative formula and the regular formula.

Widow survivor refund: Members who retire and do not have anyone eligible for survivors' benefits receive a refund of the contributions for the benefit. The contribution rate for the widow survivor benefit is ½ of 1% for members with Social Security and 1% for members without Social Security.

C. Optional Forms of Payment:

Reversionary Annuity: A member may elect to receive a smaller retirement annuity during his lifetime in order to provide a designated dependent with a lifetime income. That payment would be in addition to any other benefit payable by the system.

Level Income: A member who contributes to Social Security as a state employee may elect to have their retirement annuity payments increased before the age at which the member can receive Social Security benefits and reduced after that age to provide a uniform retirement annuity income throughout their retired life. To be eligible for this election, the member must have established eligibility for a Social Security retirement annuity.

Social Security Offset Removal: A member with Social Security can elect to have their pension reduced by 3.825% so that the Social Security offset on survivor benefits in the law will not apply to their eligible survivors.

A retiree who has made this election may only make an irrevocable revocation of the reduction of their retirement annuity if there is a change in marital status due to death or divorce. The retiree is not entitled to reimbursement of any benefit reduction prior to the revocation.

D. Annual Increase in Benefit:

Tier 1 Regular Formula: 3% compounded each year after member has been on benefits for one full calendar year. If a member elects to take a reduced pension, they do not receive their first increase until January 1st after they turn 60 and have been on benefits for one full calendar year.

Tier 1 Alternative Formula: 3% compounded each January 1st after member turns 55 and has been on benefits for a full calendar year.

Tier 2 Regular Formula: 3% or ½ of the percentage increase in the consumer price index-u, whichever is less, computed on the original benefit each January 1st after member is 67 and has been on benefits for a full calendar year.

Tier 2 Alternative Formula: 3% or ½ the percentage increase in the consumer price index-u, whichever is less, computed on the original benefit each January 1st after member is 60 and has been on benefits for a full calendar year.

8. Survivors' Annuity

A. Qualifications of Survivor Tier 1 and Tier 2

If death occurs after termination of state service and the member was not receiving a retirement annuity, the Tier 1 member must have established at least 8 years of service credit and the Tier 2 member must have established at least 10 years of service credit.

An eligible spouse qualifies at age 50 or at any age if the spouse is caring for any unmarried children of the member under age 18 (age 22 if a full time student) or over 18 if mentally or physically disabled and unable to work; unmarried children under age 18 (age 22 if a full time student) if no spouse survives; or dependent parents at age 50 if neither an eligible spouse nor eligible children survive the member.

A spouse that is the sole nominated beneficiary and sole survivor may elect other death benefits as described in Number 11.

B. Final Average Compensation: Death

Tier 1

For a full time member, the final average compensation is the higher of the monthly rate of compensation or the monthly average of the highest 48 consecutive months of wages within the last 120 months of wages. If a member has less than 48 months of service, the total wages are divided by the total months of service to arrive at the monthly average. If a member is part time, the monthly rate is equal to the wages received during the last month a member is received a full month of service credit before death.

Tier 2

Final average compensation is the monthly average of the highest 96 months of wages within the last 120 months of wages. If a member has less than 96 months of service, the total wages are divided by the total months of service to arrive at the monthly average. The salary for any calendar year is capped in accordance with the statute governing the System. This cap is increased each calendar year by 3% or ½ of the percentage increase in the consumer price index-u, whichever is less.

C. Amount of Payment

Tier 1

If the member's death occurs before retirement, the named beneficiary receives a lump sum refund of all the member's retirement contributions plus the interest credited to the member's account, excluding contributions for widow and survivors' benefits. A single lump sum payment of $1,000 is also made to the qualified survivor of the member.

An eligible spouse receives a monthly annuity equal to 30% of the member's final average compensation subject to a maximum of $400.

If children of the member are under the care of the spouse, the annuity is increased for each child, subject to a maximum of $600 or 80% of final average compensation.

If only eligible children survive, the monthly annuity may not exceed $600 or 80% of the final average compensation, whichever is less. The maximum combined monthly payment to parents may not exceed $400.

If the member's death occurs after termination of state employment, but before the member receives a retirement annuity, the monthly benefit is the same as during active employment or 80% of the earned retirement annuity at date of death.

The minimum total survivor benefit payable to the survivors; annuity beneficiaries of a deceased member or annuitant shall be 50% of the amount of retirement annuity that was or would have been payable to the deceased member on the date of death.

For survivors of retired members who were covered by Social Security and who did not elect the Social Security offset removal option, monthly benefits payable are reduced by one-half of the amount of benefits they are eligible to receive from Social Security from the deceased member's account. The Social Security offset may not reduce the benefit by more than 50%. The offset does not apply to the survivor of members who die before receiving retirement benefits whether active or inactive, survivors of members who retired prior to January 1, 1998 and survivors who were receiving benefits prior to July 1, 2009. For survivors of retired members who were covered by Social Security and did elect the Social Security offset removal option, the offset does not apply.

Tier 2

A single lump sum payment of $1000 and a monthly benefit of 66 2/3% of the members earned pension at death. This benefit is allocated among all eligible survivors.

For survivors of retired members who were covered by Social Security as a state employee and who did not elect the social security offset removal option, monthly benefits payable are reduced by one-half of the amount of benefits they are eligible to receive from Social Security from the deceased member's account. The Social Security offset may not reduce the benefit by more than 50%. The offset does not apply to members who die before receiving retirement benefits whether active or inactive. For survivors of retired members who were covered by Social Security and did not elect the Social Security offset removal option, the offset does not apply.

D. Duration of Payment

The monthly annuity payable to a spouse terminates upon death; to children upon death, marriage, or attainment of age 18 (age 22 if a full time student), except for a child who at age 18 is physically or mentally disabled and unable to accept gainful employment, which terminate at death or gainful employment. Dependent parents' benefits terminate at death or remarriage.

E. Annual Increase in Benefit

Tier 1

The survivor benefit is increased by 3% each January 1, after receipt of benefits for one full year. Survivors of retired members receive an increase on January 1 following the commencement of the benefit.

Tier 2

The benefit is increased by 3% or ½ of the percentage increase in the consumer price index-u, whichever is less, computed on the original benefit amount each January 1, after receipt of benefits for one full calendar year. Survivors of retired members increase on January 1 following the commencement of the benefit.

9. Widows Annuity (Tier 1 only)

The widow of a male member who was a participant in the System prior to July 19, 1961, may have the option of taking a Widow's Annuity rather than the Survivors' Annuity.

A. Qualification of a Widow

An eligible widow receives a Widow's Annuity if she is age 50 or over or has in her care any of the member's unmarried children under age 18 (age 22 if a full time student). If she is not age 50 and has no such children in her care, she become eligible at age 50.

B. Amount of Payment

The Widow's Annuity consists of a lump sum payment of $500, plus a monthly annuity equal to 50% of the retirement annuity earned or received by the member at the date of death.

If the widow has in her care eligible children of the member, the monthly annuity is increased 5% because of each child, subject to a maximum payment equal to 66 2/3% of the earned retirement annuity.

Monthly benefits payable to a widow of a member who was covered by Social Security as a state employee are reduced by one-half of the amount of benefits she is eligible to receive from Social Security as a widow. The Social Security offset may not reduce the benefit by more than 50%. The offset does not apply to the members who die before receiving retirement benefits whether active or inactive, widow of members who retired prior to 1/1/1998 and widows who were receiving benefits prior to July 1, 2009.

C. Duration of Payment

The monthly payment to the widow continues for her lifetime. If the amount of benefit was increased because of eligible children, it is adjusted downward as these children's benefits are terminated due to death, marriage or attainment of age 18 (age 22 if a full time student).

D. Annual Increase in Benefit

The widow's benefit is increased by 3% each January 1, after receipt of benefits for one full year. Widows of retired members receive the increase on January 1 following the commencement of the benefit.

10. Occupational Death Benefit

A. Qualification of Survivors

If a member's death results from a job related cause, the spouse may be eligible for an Occupational Death Benefit. If only unmarried children under age 18 (age 22 if a full time student) survive, they may be eligible for the benefit. If neither a spouse nor eligible children survive, a dependent father or mother may be eligible.

B. Amount of Payment

The nominated beneficiary receives a lump sum payment consisting of all contributions made by the member plus the interest credited to the member's account. A surviving spouse is entitled to a monthly benefit equal to 50% of the member's final average compensation.

If children age 18 (age 22 if a full time student) also survive, the annuity is increased by 15% of such average because of each child subject to a maximum of 75%. If no eligible spouse and children under age 18 (age 22 if a full time student) survive, each child receives a monthly allowance of 15% of the final average compensation. The combined payment to children may not exceed 50% of the member's final average compensation.

If there is no eligible spouse or eligible children, a benefit of 25% of final average compensation is payable to each surviving dependent parent for life. The monthly benefit is reduced by any payments awarded under the Workers' Compensation Act or Workers' Occupational Diseases Act.

C. Duration of Payment

The monthly annuity payable to a spouse or a dependent parent terminates at death; to children at death, or attainment of age 18 (age 22 if a full time student), or marriage.

D. Annual Increase in Benefit

Tier 1

The Occupational Death Benefit is increased by 3% each January 1 following the first anniversary of the annuity.

Tier 2

The Occupational Death Benefit is increased by 3% or ½ of the percentage increase in the consumer price index-u, whichever is less, computed on the original benefit each January 1, following the first anniversary of the annuity.

11. Other Death Benefits

If the beneficiary or beneficiaries of the member do not qualify for any of the previously described death benefits, one of the following benefits is payable.

A. Before Retirement

If a member's death occurred while in state service, the benefit consists of:

1. A refund of all contributions plus the interest credited to the member's account;
2. A payment equal to one month's salary for each full year of service credit not to exceed six month's salary.

If the member had terminated state service, but not yet qualified for a retirement annuity, the benefit consists of a refund of all the member's contributions to the System plus the interest credited to the member's account.

B. After Retirement

The benefit consists of a lump sum payment equal to the excess of contributions plus the interest credited to the member's account over the total amount of retirement annuity payments made to the member. The minimum payment is $500.

12. Final Average Compensation All Disability Benefits

Tier 1

For a full time member, the final average compensation is the higher of the monthly rate of compensation or the monthly average of the highest 48 consecutive months of wages within the last 120 months of wages. If a member has less than 48 months service, the total wages are divided by the total months of service to arrive at the monthly average. If a member is part time, the monthly rate is equal to the wages received during the last month a member received a full month of service credit before death.

Tier 2

Final average compensation is the monthly average of the highest 96 months of wages within the last 120 months of wages. If a member has less than 96 months, the total wages are divided by the total months of service to arrive at the monthly average. The salary for any calendar year is capped on accordance with the statute governing the System. This cap is increased each calendar year by 3% or ½ of the percentage increase in the consumer price index-u, whichever is less.

13. Non-Occupational Disability Benefits

A. Qualification and Amount of Payment

Available to any member who has established at least 18 months of creditable service and who has been granted a disability leave of absence by employing agency. The benefit is 50% of salary or final average compensation, whichever is higher, and credit to the member's account of service and contributions. It begins on the 31st day of absence from service on account of disability (including any periods for which sick pay was received).

If the member has Social Security coverage as a state employee, the benefit payable by the System is reduced by the amount of any disability or retirement payment to which he is entitled under Social Security.

B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events:

1. Disability ceases;
2. Resumption of gainful employment;
3. Payments are made for a period of time equal to one-half of the service credit established as of the date disability began;
4. Attainment of age 65, if benefit commenced prior to the attainment of age 60;
5. The fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60;
6. Death of a member.

C. Increase in Benefit

The Nonoccupational Disability Benefit shall be increased by 7% on January 1, following the fourth anniversary of the benefit and 3% each year thereafter.

14. Occupational Disability Benefits

A. Qualification and Amount of Payment

Provided for any member who becomes disabled as the direct result of an injury or disease arising out of and in the course of state employment.

The benefit is 75% of salary or final average compensation, whichever is higher, plus a credit to the member's account of service and contributions. The cash benefit is reduced by any payment received under the Workers' Compensation Act or Workers' Occupational Diseases Act.

B. Duration of Payment

Monthly benefits are payable until the occurrence of any of the following events:

1. Disability ceases;
2. Resumption of gainful employment;
3. Attainment of age 65, if benefit commenced prior to the attainment of age 60;
4. The fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60;
5. Death of a member.

C. Increase in Benefit

The Occupational Disability Benefit shall be increased by 7% on January 1, following the fourth anniversary of the benefit and 3% each year thereafter.

15. Temporary Disability Benefits

A. Qualification and Amount of Payment

Available to any member who becomes disabled, has established at least 18 months of creditable service, has been denied benefits under the Workers' Compensation Act or the Workers' Occupational Diseases Act, or had benefits terminated, or has filed an appeal with the Illinois Workers' Compensation Commission. The benefit is 50% of salary or final average compensation, whichever is higher, plus credit to the member's account of service and contributions.

The benefit shall begin to accrue on the 31st day of absence from service and shall be payable upon the expiration of 31 days from the day the member last received compensation.

If the member has Social Security coverage as a state employee, the benefit payable to the System is reduced by the amount of any disability or, if age 65, any retirement payment to which he is eligible under Social Security.

B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events:

1. Disability ceases;
2. Resumption of gainful employment;
3. Payments are made for a period of time equal to one-half of the service credit established as of the date disability began;
4. Attainment of age 65, if benefit commenced prior to the attainment ofage 60;
5. The fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60;
6. Death of a member;
7. Benefits are paid or awarded under the Workers' Compensation Act or the Workers' Occupational Diseases Act.

16. Separation Benefits

Upon termination of state employment by resignation, discharge, dismissal or layoff, a member may obtain a refund of the contributions made to the System, excluding interest. The member must be off the payroll for 14 days to be eligible for a refund. By accepting a refund, a member forfeits all accrued rights and benefits in the System for himself and his beneficiaries.

LEGISLATION AMENDMENTS

Amendments with an effective date during Fiscal Year 2012:

Senate Bill 1671 (P.A. 97-0530; effective August 23, 2011)

Requires all pension funds and retirement systems to comply with the federal Heroes Earnings Assistance and Relief Tax Act of 2008 (P.L. 110-245).

Senate Bill Bill 1851 (P. A. 97-0609; generally effective August 26, 2011)

Amends the definition of “employee” to exclude persons becoming a member of certain boards or commissions which are set forth in state statutes.

House Bill 3813 (P. A. 97-0651; effective January 5, 2012)

Adds a requirement to the General Provisions of the Illinois Pension Code that any reasonable suspicion by an appointed trustee of a false statement or a falsified record being submitted or permitted by a person covered by the Illinois Pension Code shall be imediately referred to the board of trustees.

Senate Bill 0179 (P. A. 97-0694; effective June 18, 2012)

Amends the Illinois State Auditing Act. Authorizes the Auditor General to contract with or hire an actuary to serve as the State Actuary. Sets forth the duties of the State Actuary. Changes the manner in which the minimum required State contribution is certified. Provides for the State Actuary to provide input regarding the actuarial assumptions of the State-funded retirement systems.

NEW LEGISLATION

There were no legislative amendments with an effective date subsequent to June 30, 2012 having an impact on the System.

IGNN: Main State Page Press Release

FOR IMMEDIATE RELEASE
December 5, 2013

Printer Friendly Version

Governor Quinn Signs Historic Pension Reform
Governor's Top Legislative Priority Becomes Law; Will Erase Unfunded Liability and Restore Fiscal Stability to Illinois

CHICAGO – Governor Pat Quinn today signed into law his number one priority – historic legislation that addresses the most critical fiscal challenge in Illinois by reforming the state's pension systems. This comprehensive pension reform solution will eliminate the state's unfunded liability and fully fund the pension systems, a standard set by the Governor two years ago.

After inheriting the worst-funded pension crisis in the nation that was 70 years in the making, Governor Quinn made pension reform his top priority and worked with legislative leaders and legislators to pass Senate Bill 1. In June, he proposed a conference committee to break the ongoing legislative gridlock, and this vehicle led to the bill he signed today. Earlier this year, the Governor suspended legislative salaries and refused to accept his own salary until pension reform was sent to his desk.

"Illinois is moving forward," Governor Quinn said. "This is a serious solution to address the most dire fiscal challenge of our time. I applaud House Speaker Michael Madigan, Senate President John Cullerton, House Minority Leader Jim Durkin, Senate Minority Leader Christine Radogno, Senator Kwame Raoul, Senator Daniel Biss, Representative Elaine Nekritz, Representative Darlene Senger, Senator Bill Brady, members of the conference committee, and legislators from both parties who made this day possible. Working together, we will continue to build a brighter future for the people of Illinois."

Sponsored by Senator Kwame Raoul (D-Chicago) and Speaker Michael Madigan (D-Chicago), Senate Bill 1 will eliminate the state's unfunded pension liability and fully stabilize the systems to ensure retirement security for employees who have faithfully contributed to the systems. All four leaders worked tirelessly to negotiate and pass this legislation.

"The bill would not have passed without me. I was convinced that standing fast for substantial savings, clear intent and an end to unaffordable annual raises would result in a sound plan that will meet all constitutional challenges," Speaker Madigan said.

"I applaud the Governor for prioritizing this issue," Senate President Cullerton said. "I look forward to working with him and all legislative leaders to ensure that we continue on this path of fiscal leadership and bipartisan cooperation."

"With today's bill signing we have staved off a greater crisis," Leader Durkin said. "I am proud many of the significant components are Republican ideas generated by the conference committee, and my predecessor through Senate Bill 1. We should place value into Fitch Ratings' initial comments viewing our actions as positive and I am confident this law will withstand a court challenge and feel it is a major victory for Illinois taxpayers."

EXHIBIT
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"This is a major step forward in putting Illinois on the path to financial recovery," Leader Radogno said. "It is the result of bipartisan, bicameral negotiations, after a great deal of debate and discussions. It will demonstrate to the credit rating agencies and job creators that we are serious about turning Illinois around. This is not the only step we need to take to get Illinois back on track. But it is a significant step at a time when doing nothing would only make our problems worse. I'm proud of the bipartisan effort and its result. Now we need to build on this momentum."

Under the new law, the state will adopt an actuarially sound funding schedule that requires level payments and achieves 100 percent funding no later than the end of fiscal year 2044. To prevent future governors and legislatures from repeating the same behavior that helped create the pension crisis, the law includes a funding guarantee, giving retirement systems the right to go to court if the state fails to make the required payment to the pension fund.

Under the new law, there will be no reductions in the pension checks going out to current retirees. The law will also minimize the impact on the lower-earning, longer-serving employees. There will continue to be Cost of Living Adjustments (COLA); however, they will grow at a slower rate. For most employees, the COLA will be adjusted from the current 3 percent annually compounding increases that are unsustainable to a new formula based on years of service that includes protections for lower-earning, longer-serving employees.

For example, under the new law, a 65-year-old retired state conservation worker with 20 years of service receiving a $17,000 state pension will see that grow to about $22,000 over 10 years. Prior to the law, that would have grown to about $22,400 over 10 years.

Under the new law, current active employees will see COLA pauses every other year upon retirement, with the number of pauses determined by current age. The law also reduces the amount of money current employees pay into their pensions by one percent.

In addition, pensionable salary will now be capped at the greater of the Tier 2 salary cap ($109,971 for 2013), the employee's current salary, or the employee's salary at the end of an existing collective bargaining agreement. The cap will increase over time, based on the consumer price index (CPI). There will also be graduated increases in retirement age based on the age of the employee, with a maximum increase of five years. The bill also creates an optional 401(k)-style defined contribution plan that will be available for up to 5 percent of Tier 1 employees. Senate Bill 1 goes into effect on June 1, 2014.

Since taking the oath of office, Governor Pat Quinn has made pension reform his top priority in order to restore fiscal stability to Illinois. Unlike his predecessors, he made the full pension payment each year. In May 2009, Governor Quinn established the Pension Modernization Task Force, which laid the foundation for future reform efforts. In 2010, despite intense opposition, he signed into law sweeping pension reform for new hires to save taxpayers billions of dollars.

In January 2012, the Governor convened a pension reform working group to develop a comprehensive solution. Three months later, Governor Quinn proposed a comprehensive pension reform plan that erased the unfunded liability, and refused to sign any legislation that didn't meet that standard. The Governor also released several studies on the dire impact of pension inaction on education and launched an online campaign to raise awareness about the pension squeeze and the urgent need for reform.

In June 2013, the Governor proposed a conference committee as a vehicle to break legislative gridlock between the two chambers. He asked the conference committee to forge a compromise that provided 100 percent funding for the systems, which ultimately became the legislation he signed today.

In addition, Governor Quinn also signed Senate Bill 1961 today. Sponsored by Speaker Madigan and Senator William R. Haine (D-Alton), the bill clarifies that the Attorney General will represent the pension systems in any court proceedings, except in cases where the systems are seeking to force the state to make funding payments. The new law takes effect immediately.

Members of the conference committee included Representative Arthur Turner, Representative Elaine Nekritz, Representative Michael Zalewski, Representative Darlene Senger, Representative Jil Tracy, Senator Daniel Biss, Senator Matt Murphy, Senator Bill Brady and Senator Kwame Raoul.

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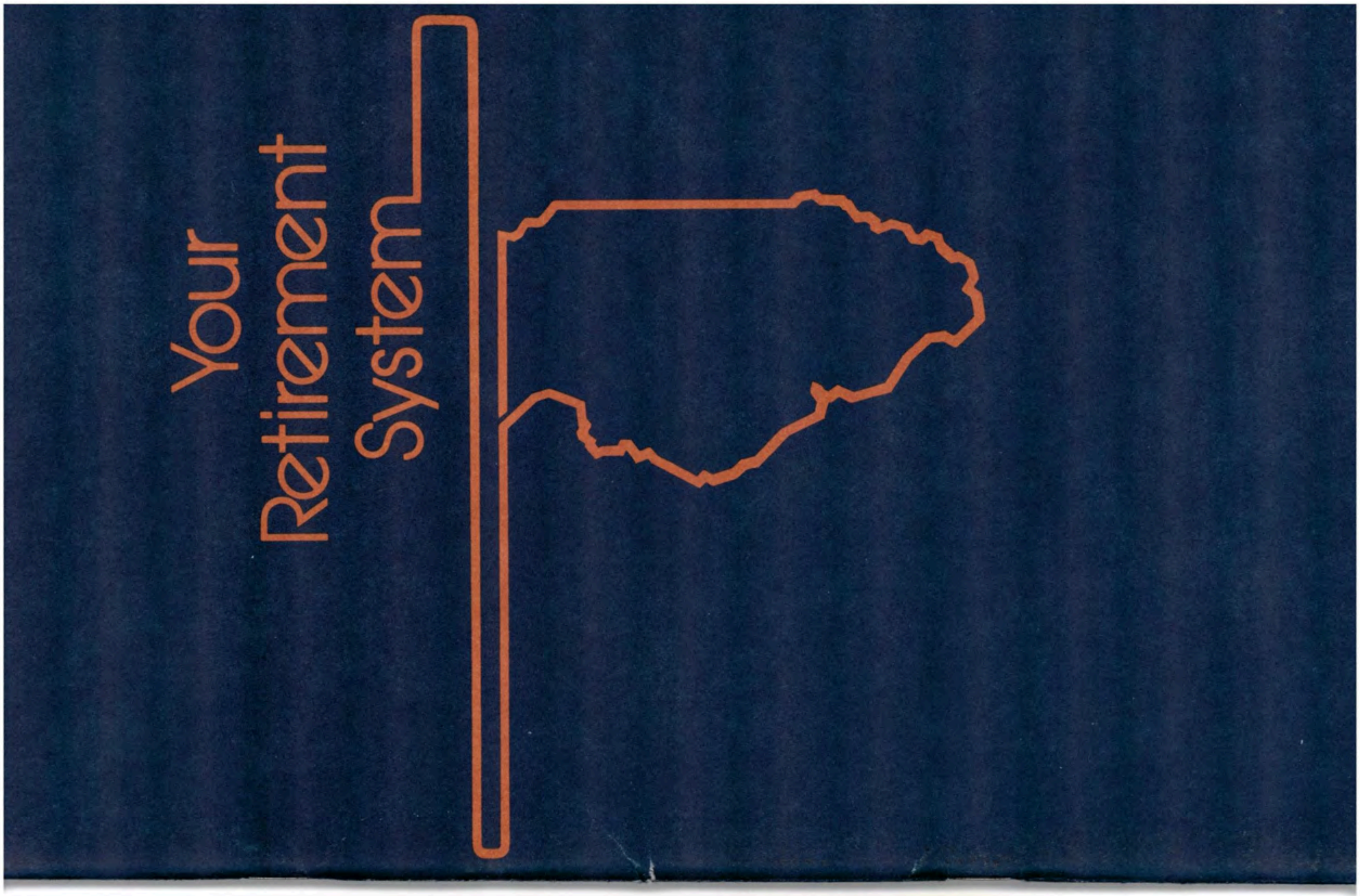

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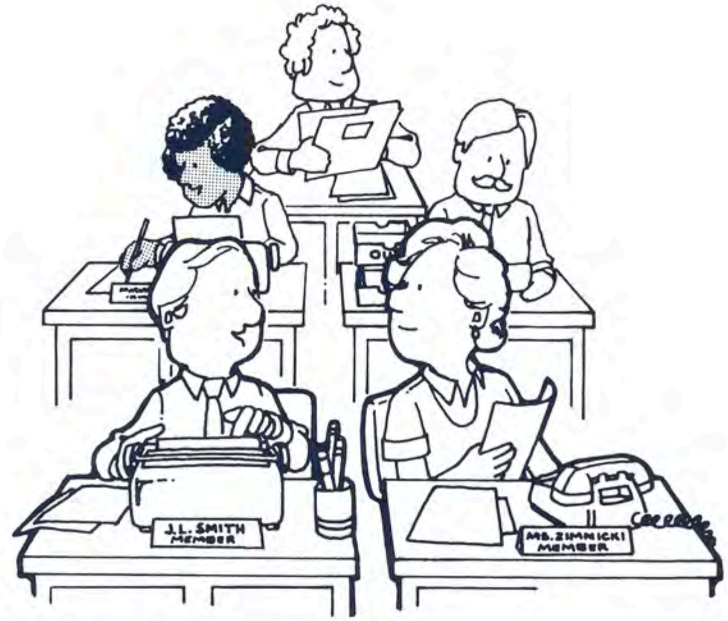
Introduction

The State Employees' Retirement System of Illinois ("the System") exists in order to provide its members with benefits at retirement, disability or death. Because the System represents an important source of security to you and your family, it is important that you read this booklet carefully to determine your rights and your responsibilities in becoming eligible for benefits.

Please note that this booklet applies to State employees who were actively employed on or after January 1, 1982. If you terminate your employment with the State, your benefits will be determined by the law in force on your last day of employment.

Printed by authority of the
State of Illinois
(28407 – 100M – 2/1/82)

Overview



Membership

Membership is automatic for most State employees who are not eligible for another State-sponsored retirement plan. Members must contribute.

Eligibility

You automatically become a member of the System and begin to contribute on the first day you become employed by the State and are paid on a payroll unless:

- ☐ your position is covered by another State-sponsored retirement plan, or
- ☐ you are an emergency or temporary employee appointed under the Personnel Code, or
- ☐ you are
  - — an Administrative Code officer who has chosen not to participate,
  - — an enrollee of the Young Adult Conservation Corps,

— an enrollee and temporary staff of the Youth Conservation Corps, or

— a participant in the Federal CETA program.

Coordination with Social Security

All members joining the System on or after November 1, 1968 are also required to contribute to Social Security unless they are not eligible (or not required) to participate because of the nature of their State employment. Previously, some members chose not to contribute to Social Security. You may not make changes to your current Social Security status.

Contributions

You contribute a percentage of your total compensation, which includes overtime pay. This amount represents approximately one-third of the cost of the benefits you are expected to receive.

The following table shows current contribution rates.

	Pension	Survivors' Benefit	Total
Members with Social Security	3.5%	.5%	4.0%
Members without Social Security	7.0%	1.0%	8.0%
Alternate formula*	8.5%	1.0%	9.5%
Department of Corrections Security Personnel			
— with Social Security	5.0%	.5%	5.5%
— without Social Security	8.5%	1.0%	9.5%

*Some employees who do not make Social Security contributions have an alternate benefit formula. See page 10. These include:

- State police
- Certain air pilots
- Law enforcement investigators
- Certain fire fighters
- Conservation police
- Secretary of State investigators

Your Contributions Are Tax Sheltered

Because of recent changes in the tax laws, your contributions made after January 1, 1982 will be excluded from your gross income for Federal and State income tax purposes. You will pay no tax on your contributions and earnings on your contributions until you actually receive them. See page 28 for information on tax treatment of benefits paid from the System.

Annual Statements

After the end of each fiscal year (July 1-June 30) you will receive a statement of your System account. This statement is generally mailed in October and includes information on your beneficiary, credited service, contributions and estimated benefits at retirement, disability and death.

If you have any questions about your benefit statement, or if you do not receive one, contact the System at (217) 753-0444.

Service

Your credited service includes your years of State employment for which you made contributions to the System, prior service and military service.

Credited Service

Your credited service includes your membership service, military service, and prior service. **Membership service** includes your full and partial years of State employment after January 1, 1944 during which you made contributions. **Prior service** includes certain periods of service before January 1, 1944 when contributions were not required. If you were employed before January 1, 1944 and have not received credited service for this period, please contact your Agency Coordinator (see page 30). **Military service** includes periods of active service in the U.S. military (without payment of contributions) if you met these conditions:

- ☐ you were in State employment within six months of your entry into military service; and
- ☐ you returned to State employment within 15 months after being unconditionally and honorably discharged; and
- ☐ you established credited service before and after your military service.

If you returned to State employment after July 1, 1963, your total military service credit may not exceed five years.

Computation of Credited Service

Credited service is computed as follows:

Monthly & Daily Employees	Hourly Employees	Monthly Credit
15 days or more	75 hours or more	1
8-14 days	38-74 hours	½
less than 8 days	less than 38 hours	¼

For employment before July 1, 1950, you receive one month of credited service for each month in which you were paid for at least 15 calendar days.

Making Retroactive Contributions for Periods in Which You Did Not Contribute

If you wish to establish credited service for periods of employment after January 1, 1944 during which you did not contribute, you may make retroactive payment of the contributions plus interest in a lump sum or by installment payments. To do so, contact the Service and Refunds Division of the System to make sure that you are eligible for credited service during the period in question. You will then be advised of the application procedure and the amount that is due.

If Your Contributions Were Refunded

If you received a refund of your contributions when you terminated State employment and were later rehired, you may re-establish your credited service by repaying your refund plus interest after you have completed at least two more years of credited service. Contributions must be repaid before retirement in order for your service to be credited.

Service Under Other Illinois Public Retirement Systems

If you have received at least one year of credited service under certain public retirement systems in the State of Illinois, your service under that system may be applied when determining your **eligibility** for a benefit from the State Employees' Retirement System.

In general, the rules of each retirement system apply in computing a benefit. Your eligibility for a benefit will be determined by your total service with all systems. The amount of your benefit will be based on the benefit formula and your service in each individual system. Under the Reciprocal Act, your highest final average compensation is used for computing your benefit under all systems. Your total benefit cannot be higher than it would have been if all your service had occurred in one system.

The following systems participate in the Reciprocal Act:

- ☐ Public School Teachers' Pension and Retirement Fund of Chicago
- ☐ Chicago Sanitary District Employees' and Trustees' Annuity and Benefit Fund
- ☐ Cook County Employees' and Officers' Annuity and Benefit Fund
- ☐ Forest Preserve District Employees' Annuity and Benefit Fund
- ☐ General Assembly Retirement System
- ☐ Illinois Municipal Retirement Fund
- ☐ Judges' Retirement System of Illinois
- ☐ Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago
- ☐ Municipal Employees' Officers' and Officials' Annuity and Benefit Fund of Chicago

- ☐ Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago
- ☐ State Employees' Retirement System of Illinois
- ☐ State Universities Retirement System
- ☐ Teachers' Retirement System of the State of Illinois

Retirement Benefits

You may begin to receive benefits at age 60 if you have eight years of credited service. Your benefit is based on your final average compensation and your credited service.

Eligibility

You may retire

- ☐ at any age if you have at least 35 years of credited service,
- ☐ at age 55 if you have at least 30 years of credited service,
- ☐ at age 60 if you have at least eight years of credited service.

You must apply in order to receive benefits. Contact your Agency Coordinator at least 30 days before your retirement date. Your pension will be effective on the first day of the month following your termination.

How Much You Will Receive

Your retirement benefit is based on your final average compensation and your credited service. Final average compensation is the average of

your total compensation for the four highest consecutive years of your last ten years of employment. If payments begin before age 60 and you have less than 35 years of credited service, your benefit will be reduced ½ of 1% for each month that your age is below 60.

Benefit formulas are as follows:

Regular Formula

Credited Service	With Social Security	Without Social Security
For each of the first 10 years	1.0%	1.67%
For each of the second 10 years	1.1%	1.9%
For each of the third 10 years	1.3%	2.1%
For each year above 30 years	1.5%	2.3%

Formula for Security Employees Of the Department of Corrections*

Credited Service	With Social Security	Without Social Security
For each of the first 10 years	1.67%	1.9%
For each of the second 10 years	1.9%	2.1%
For each of the third 10 years	2.1%	2.25%
For each year above 30 years	2.3%	2.5%

* These security employees must have at least 20 years of membership service to be eligible for retirement under this formula.

Example: Without Social Security

Assume a member is not covered by Social Security, is age 60, has 30 years of credited service and final average compensation of $15,000 a year:

First 10 years × 1.67%	=	16.7%
Second 10 years × 1.9%	=	19.0%
Third 10 years × 2.1%	=	21.0%
Total		56.7%

56.7% × $15,000 = $8,505 annually
or
$708.75 a month.

At age 58, this member could have retired with a pension, reduced ½% for each of the 24 months his or her age was less than 60, or 12%. The member's retirement benefit at age 58 would be $7,484.40 annually, or $623.70 a month.

Example: With Social Security

Assume a member is covered under Social Security, is 62 years old, has 29 years of credited service, 16 of which were earned before January 1, 1969 (and not covered by Social Security) and 13 of which were covered by Social Security.

The member's final average compensation is $12,000.

First 10 years × 1.67%	= 16.7%
Next 6 years × 1.9%	= 11.4%
Next 4 years × 1.1%	= 4.4%
Third 9 years × 1.3%	= 13.0%
Total =	45.5%

45.5% × $12,000 = $5,460 annually
or $455 a month.

If the member retired in 1982, a monthly Social Security benefit of approximately $258 is payable at age 62, or $323 payable at age 65.

Alternate Formula Retirement Benefits

State police, conservation police, law enforcement investigators, Secretary of State investigators, fire fighters and certain air pilots are eligible for benefits under the alternate formula:

Alternate Formula

Credited Service	
First 10 years	2.25%
Second 10 years	2.50%
Over 20 years	2.75%

All members eligible for the alternate formula (except air pilots) may retire at age 50 with at least 25 years of credited service in their position or at age 55 with 20 years of credited service in this position. Air pilots eligible for the alternate formula may retire at age 55 with at least 20 years of credited service in this position. There is no reduction made under the alternate formula.

Example: Alternate Formula

Assume the member is age 55 and had 20 years of credited service in any of these positions and final average compensation of $15,000.

First 10 years × 2.25%	= 22.5%
Second 10 years × 2.5%	= 25.0%
Total =	47.5%

47.5% × $15,000 = $7,125.00 annually
or
$593.75 a month.

Maximum Pension

The maximum initial pension payable to any member of the System is 75% of final average compensation.

Sick Leave Credit

The amount of your credited service used to determine your retirement benefit may be increased by any period of unused sick leave accumulated on your retirement date if your benefit begins no later than 60 days after your withdrawal date. This additional credited service does not affect your eligibility for a benefit or your final average compensation.

Annual Pension Increases

If you retire after age 60, you will receive a 3% increase in your pension on January 1 following your first full year of retirement. Future increases of 3% of your original pension will also be made each January 1 thereafter. Future increases in your pension will not be limited by the 75% maximum.

If you retire before age 60, you will receive a 3% increase in your pension on January 1 after you reach age 60 if you have been retired for one full year.

If you retire with 35 or more years of credited service, you are eligible for your first increase on the January 1 following your first full year of retirement whether or not you have then reached age 60.

Forms of Payment

Normal Form
Your retirement benefit is normally paid in the

single life form which provides the monthly income described on pages 8 to 11 to you for your lifetime.

Optional Forms

You may also choose one of the following two optional forms at the time you retire:

☐ **Reversionary Annuity** — Under this form, your monthly retirement benefit is reduced in order to provide a lifetime income after your death for a dependent that you name. The amount which is paid to your dependent after your death may be any amount (not less than $10) as long as it does not exceed the amount of your reduced benefit. Benefits payable under this form are in addition to the survivors' benefits described on page 21.

☐ **Level Income** — This form is designed for employees under Social Security retiring before age 65. You may choose to have your System retirement benefits increased between the time you retire and before your Social Security benefits begin. In this way your retirement income will remain relatively level throughout your retirement. Under this form, you will still be eligible for annual pension increases that you would otherwise receive, but the increase will be based on the amount you are currently receiving.

Example: Assume a member retires at age 60 with a pension of $510.10 per month from the System and is eligible for Social Security of $189.90 a month beginning at age 65.

Under the level income form, the pension from the System would be increased to $622.27 until age 65 after which it would be reduced to $432.37 per month, as follows:

Pension payable at age 60 by the System	$510.10
Social Security benefit at age 65 of $189.90 if payable at age 60 is worth	+ 112.17
Total payment by Retirement System age 60 to 65	$622.27

Pension payments beginning at age 65:

Pension paid by System age 60 to 65	$622.27
Social Security benefit payable at age 65	– 189.90
By Retirement System at age 65	$432.37
By Social Security	+ 189.90
Total combined benefit at age 65	$622.27

The annual 3% increase in pension is based on the amount of pension actually received; therefore, up to age 65 this increase would be based on $622.27 and after that age on $432.37. These amounts would also be used in calculating any widow's or survivors' benefits that might be payable if you die after retirement.

Return To State Employment

If, after retirement, you are reemployed in any position covered by the State Employees' Retirement System, you should notify the Claims Division of the State Employees' Retirement System immediately.

Temporary Reemployment — If your employment is expected to continue for no more than 75 working days during a calendar year (any part of a day is counted as a full day), you will continue to receive your pension payment while employed. During your employment, you will make no contributions to the System, but you must contribute to Social Security.

If your employment lasts longer than 75 working days, your pension benefits will end as of the end of the 75th day. You must then resume contributions to the System. Upon termination of your employment, you must reapply for your pension. Your new pension amount will then be the total of (a) the amount last paid, plus (b) the amount additionally earned during your last employment, up to the maximum benefit payable.

Permanent Reemployment — If you are reemployed on a permanent basis, you will be ineligible for pension benefits while working and your pension will be discontinued. You will make contributions to both the Retirement System and to Social Security during the period you are employed and you will earn additional credited service for this period of employment. When you again retire, you must reapply for a pension and it will be (a) the amount of pension which was last paid plus (b) the amount of additional pension you earned during the reemployment period, up to the maximum benefit payable.

Bridging Your Service

If you reenter State service within three years after the date you retired, you may qualify to have your subsequent retirement benefit computed as though you had not previously retired. To do so, you must repay all of the payments you received plus interest from the date payments were discontinued to the date of repayment. The repayment must be made either in a lump sum or by installment payments within five years after your reentry or before your next retirement date, whichever is first. If you choose not to complete installment payments before retirement or the end of the five year period, your installment payments will be refunded.

Disability Benefits

If you become disabled and are unable to work, you may receive income replacement benefits for a period of time based on your credited service and age.

If you become disabled, and are unable to perform the duties of your position while you are actively employed and a member of the System, you may receive benefits which partially replace your working income. Benefits are different for injury or illness resulting from your occupation than for those resulting from nonoccupational causes.

Nonoccupational Disability Benefits

Eligibility

You are eligible for this benefit if:

- ☐ you have at least 18 months of credited service with the System. (To determine eligibility, you may include service with the Teachers' Retirement System and the State Universities Retirement System); and
- ☐ you have used all your accumulated sick leave; and

- ☐ you are granted a medical leave of absence by your Agency because of the disability; and
- ☐ you have submitted an application to the System; and
- ☐ disability resulted from causes other than those related to your occupation, and
- ☐ you are under age 70.

When Payments Begin and End

Your benefits begin to accrue on the thirty-first day following your removal from the payroll, that is, the last day for which you were paid for your services as an employee.

Disability benefits for all periods of disability are payable for a total period of time equal to one-half of your credited service (which was not earned while on disability), or until one of the following events occurs:

- ☐ your disability ends,
- ☐ you resume gainful employment,
- ☐ you attain age 65. (If your disability began after age 60, benefits are payable for five years but not beyond age 70.)

If your disability ends and you again become disabled from the same cause within 60 days after you resume State employment, the 30 day waiting period for benefits will be waived. Your benefit amount for the second period of disability will be the same as for the first.

Benefit Amount

Your disability benefit equals 50% of your rate of compensation on the date you were removed from the payroll. If you are covered by Social Security, your benefit under the System will be reduced by the amount payable under Social Security.

Example 1
Assume a member has established seven years (84 months) of credited service, used all accumulated sick leave, has been granted a leave of absence for a disability, is 45 years of age and has submitted an application to the System. The member would be eligible for 3½ years (42 months) of payments at 50% of the salary rate in effect on the date of removal from the payroll.

Example 2
Assume that the member in Example #1 had a previous disability from another cause that lasted for a period of nine months. The member would now be eligible for 29 months of payments at 50% of the salary rate in effect on the date of removal from the payroll. The member would again have to satisfy the 30 day waiting period.

Applying For Benefits

You must apply in order to receive benefits. It is most important that you file your application for a disability benefit with the System as soon as it appears that your disability will continue beyond 30 days after your accumulated sick leave. **Your application must be received within 90 days from the date you were removed from payroll.**

As part of your application, you will be required to obtain a physician's report certifying that you are unable to perform the duties of your position. You must also sign a release form giving the System access to any applicable medical records.

If you contribute toward Social Security, you **must** apply for a Social Security disability benefit. The System takes the amount of your Social Security benefit into account when determining your disability payment.

Other Benefits While You Are Disabled

While you are disabled, your System account will be credited with service and contributions as if you were working.

Rights Upon Termination of Disability

If your benefit payments terminate because you have received disability benefits for a period equal to one-half of your credited service and you are still disabled, you become eligible for a retirement pension provided:

- ☐ you have attained age 60 or over and have established at least eight years of credited service; or
- ☐ you have attained age 55 and have established at least 15 years of credited service; or
- ☐ you have attained age 50 and have established at least 20 years of credited service.

Your pension will be based on your total years of credited service.

Occupational Disability Benefits

Occupational disability benefits are paid if it is determined that you are unable to work because of a disability caused by your State employment.

Eligibility

You are eligible for an occupational disability benefit from the System if:

- ☐ you are under age 70; and
- ☐ you have filed a claim with the Illinois Industrial Commission (IIC) or the Risk Management Division of the Department of Personnel and it has been determined that your disability was service-connected; and
- ☐ you filed an application with the Claims Division of the System either within 12 months following your removal from the payroll or within 12 months after the IIC rules on your application for an occupational disability.

When Payments Begin and End

There is no waiting period for occupational disability benefits. Payments end when:

- ☐ your disability ends,

- ☐ you resume gainful employment,
- ☐ you attain age 65. (If your disability began after age 60, benefits are payable for five years, but not beyond age 70.)

If your disability benefit is terminated because of age, you are then eligible for a retirement pension regardless of the length of your credited service.

Amount of Payment

Your monthly benefit will be 75% of your monthly compensation on the date you were removed from the payroll. This amount is reduced by Workers' Compensation or payments under the Occupational Disease Act.

Other Benefits While You Are Disabled

While you are disabled, your System account will be credited with service and contributions as if you were working.

Death Benefits

Benefits may be payable to your survivor, beneficiary or estate if you die.

Nonoccupational Death

Eligibility

Your eligible survivors and/or beneficiaries may qualify for certain benefits at your death.

For the purpose of determining eligibility for a benefit, your credited service under the Teachers' Retirement System and the State Universities Retirement System may be included.

Death Before Retirement

If you die while actively employed and have completed at least eighteen months of service,

your survivors will be eligible for benefits as indicated below. If you were covered under Social Security, all monthly benefits payable on your behalf will be reduced by one-half of any amount for which you are eligible under Social Security as a survivor.

Qualified Survivor	Amount of Benefit	Duration of Benefit
Your spouse, age 50 or over, to whom you were married for at least one year on your date of death.	$1,000, plus a monthly income equal to 30% of your final average compensation to a maximum of $400.	Until death, or remarriage before age 55.
Your spouse if he/she has custody of your child/children under age 18 (or over age 18 physically or mentally disabled and unable to work).	Spouse and one child: $1,000 plus a monthly income equal to 60% of your final average compensation, up to a maximum benefit of $600. Spouse and two or more children: $1,000 plus a monthly income equal to 80% of your final average compensation, up to a maximum benefit of $600.	Until spouse dies, remarries before age 55, or child reaches age 18, marries or dies.
Your eligible child or children under age 18 (or over age 18 physically or mentally disabled and unable to work).	$1,000 for all children divided equally, plus a monthly income of 20% of final average compensation for each child, plus a 10% of your final average compensation divided among the children. Maximum combined benefit is $600 or 80% of your final average compensation.	Until child reaches age 18, marries or dies.

Qualified Survivor	Amount of Benefit	Duration of Benefit
Your dependent parents age 50 or over if neither an eligible spouse nor children survive you. ("Dependent" means that your parents were dependent on you for at least 50% of their support at the time of your death.)	$1,000 plus a monthly income consisting of the sum of 20% of your final average compensation to each parent plus 10% of final average compensation divided between the parents, up to a maximum monthly benefit for both parents of $400.	Until dependent parent remarries before age 55 or dies.

In addition to the above survivor's benefits, your **pension** contributions plus interest will be paid to your named beneficiary(ies) (who may or may not be the same as your survivor).

If you die while actively employed with no qualified survivors, your named beneficiary will receive your pension and survivors' contributions, plus interest, plus one month's compensation for each of your years of credited service up to a maximum of six months' salary. Minimum payment is one month's compensation.

Death After Retirement or Termination

If your death occurs after retirement, benefits payable to your survivors from the System are the same as those during active employment except that the monthly income payable is limited to 80% of the pension you were receiving on the date of your death. If you have no survivors, your nominated beneficiary or estate will receive your pension and survivors' contributions plus interest less any pension payments that were made. This benefit will equal at least $500.

If your death occurs after termination of State employment, but before retirement benefits begin, the benefits payable under the System are the same as during active employment except that the monthly income is limited to 80% of the pension amount you had earned on the date of your death.

If you die after terminating employment before you completed eight years of service, your contributions plus interest will be paid to your nominated beneficiary or estate.

Remaining Balances

In the unlikely event that you, your survivors and your beneficiaries die before the full value of your pension and survivors' contributions plus interest have been paid, any remaining balance will be paid to the appropriate nominated beneficiary or estate.

Occupational Death

Eligibility

If you die as a result of an injury on the job or from a job-related cause, your eligible survivors may choose to receive either the benefit they would have received if your death was nonoccupational, or the applicable benefit described below. To receive an occupational death benefit, your eligible survivor must file a claim with the Illinois Industrial Commission (IIC), which in turn must determine that your death was service-related.

If you have no eligible survivors, benefits will be paid as for a nonoccupational death.

Occupational Death Benefits:
Benefits are paid to qualified survivors as follows. These amounts are reduced by any payments awarded under Workers' Compensation or the Occupational Disease Act.

Qualified Survivor	Amount of Benefit	Duration of Payment
Your spouse	A monthly income equal to 50% of your compensation.	Until death, or remarriage before age 55.

Qualified Survivor	Amount of Benefit	Duration of Payment
Your spouse if he/she has custody of your child/children under age 18 (or over age 18 if physically or mentally disabled and unable to work).	A monthly income equal to 50% of your compensation, plus 15% of compensation for each child up to a maximum of 75% of final average compensation.	Until spouse dies, remarries before age 55, or child reaches age 18, marries or dies.
Your child or children if no eligible spouse while your children are still eligible.	A monthly income of 15% of compensation for each child, up to a maximum 50% of your compensation.	Until child reaches age 18, marries or dies.
Your dependent parents if neither an eligible spouse nor children survive you. ("Dependent" means that your parents were dependent on you for at least 50% of their support at the time of your death.)	A monthly income of 25% of your compensation.	Until dependent parent dies.

In addition to the above benefits, your contributions plus interest will be paid to your named beneficiary(ies) (who may or may not be the same as your survivor).

Widow's Annuity Option

If you were a male participant in the System before July 19, 1961, your surviving widow may have the option of taking a widow's annuity rather than the survivors' benefit. A widow eligible for this option will be so advised and has a six month period in which to make the choice. If, by this time, she has not chosen a widow's annuity, the applicable survivor death benefit becomes payable.

Qualifications of Widow

Your widow is eligible to receive the widow's annuity if:

- ☐ you had established at least eight years of service credit as of the date of your death; and
- ☐ she is age 50 or over, or has in her care unmarried children of yours under age 18, (if she is not age 50 and has no such children in her care she will become eligible at age 50); and
- ☐ she was named as your exclusive beneficiary in your membership record; and
- ☐ you had been married at least one year prior to the date of your death or on the last day of your State employment whichever occurs first.

Amount of Payment

The widow's annuity consists of a single sum payment of $500 plus a monthly annuity equal to 50% of the retirement pension you had earned. If she has in her care eligible children of yours, the monthly annuity is increased an additional 5% of earned pension because of each child, subject to a maximum payment equal to 66⅔% of the pension you had earned or were receiving at the date of your death.

Duration of Payments

The monthly payment to your widow continues for her lifetime whether or not she remarries. If the amount of the benefit was increased because of eligible children, it is adjusted as these children become ineligible (by death, marriage or attainment of age 18). Once the last child becomes ineligible, however, the widow's annuity is continued, even if she is not yet age 50.

If you were contributing to Social Security as a State employee, the amount of the monthly benefit payable by the System is reduced by one-half of any survivor benefit your survivors are entitled to from Social Security **whether or not the Social Security benefit is accepted.**

If You Leave the System

If you leave State employment, you may choose to withdraw your contributions to the System.

If you leave the System by resignation, discharge, dismissal or layoff, you may choose to withdraw your contributions or to allow them to remain in the System.

If you choose to have your contributions refunded:

- ☐ you will receive no interest on your contributions
- ☐ you will forfeit all rights to a benefit for yourself and your beneficiaries.

If you withdraw your contributions and later return to State employment:

- ☐ you will automatically participate in Social Security (whether or not you did so before);

- ☐ you will be eligible to repay your refunded contributions and have your previous credited service restored after you have completed two additional years of credited service. (Credited service under the public retirement systems listed on page 6 can be used to meet this requirement.)

Repaying Contributions You may restore your previous service by repaying your refunded contributions plus interest compounded annually from the date of the refund to the date of repayment. Payments may be made in a lump sum or in installments for up to five years.

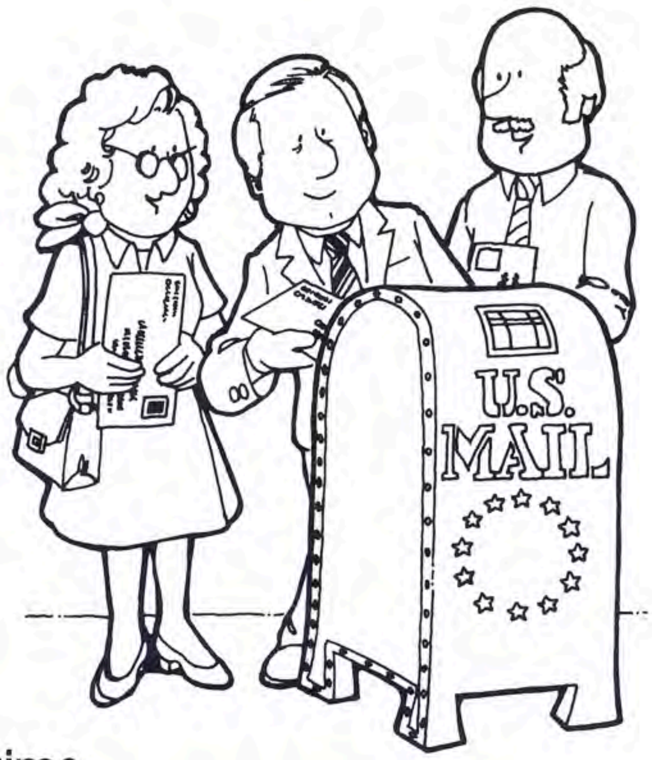
Tax Treatment

You will not be taxed on your contributions until you actually receive benefits.

The State Employees' Retirement System offers you certain tax advantages with respect to your contributions. However, the System's understanding of the tax laws should only be used as guideline. In most cases:

- ☐ your contributions before January 1, 1982 were made out of income that was taxed when you received it. After January 1, 1982, your contributions will not be included in your gross income and therefore are not immediately taxable.
- ☐ When benefits or refunds are paid to you:
  - — you pay no State income tax on this amount
  - — you **will** pay Federal tax on your benefit (less the value of your own contributions made before January 1, 1982), or on the total of your contributions made after January 1, 1982 in the case of a refund. Such refunds must be declared as taxable income in the year that they are received. They may be taxed as
    - ordinary income, or
    - under special income-averaging provisions.
  - — under certain circumstances you may postpone taxation by "rolling over" your refund into an Individual Retirement Account.

The best tax treatment for you depends on your individual financial situation. Therefore, it is important that you check with qualified tax counsel before receiving your distribution.



Claims

You or your survivors must apply in order to receive benefits.

All claims for benefits under the System should be made to the Claims Division of the State Employees' Retirement System. Agency coordinators have been appointed in each agency to assist you in filing a claim for benefits and to answer your questions. Please contact them first.

You should notify the System immediately if you change your name or address, or if you wish to change your beneficiary.

All records of the System are maintained according to Social Security number. It is essential that you report your Social Security number accurately when filing a claim.

Appeals

All claims for benefits and credited service granted by the System are reviewed by the System's Executive Committee. This Committee is composed of a Trustee, the Executive Secretary and an Attorney appointed by the System's Board of Trustees.

After reviewing a claim, the Committee recommends to the Board of Trustees what action should be taken. The final decision is then made by the Board.

If your claim is denied or if you question the manner of payment of any benefit, you or your representative may request a hearing before the Executive Committee or file a written appeal with the Committee.

In either case, your request should be sent to the Executive Secretary of the System who will advise you how to proceed.

Social Security Claims

All claims for Social Security benefits must be made directly to the Social Security Administration. You will need proof of your age and your Social Security number.

Group Insurance

Upon approval of your claim, participation in the State Employees' Group Insurance Program will continue in accordance with the guidelines governing that program, as described in your group insurance handbooks.

Other Information

The System is directed by the Board of Trustees.

Plan Document

This booklet describes the benefits of the System in non-technical language. Some features, particularly those that apply to very few employees, are not included in this booklet. The official document is Article 14 of the Ilinois Pension Code — Chapter 108½, Illinois Revised Statutes, which legally governs the operation of the plan. This document is kept on file. If there is any variance between this booklet and the document, the document will rule.

Upon written request addressed to the Executive Secretary, a copy of the document will be furnished to you within 30 days. You may be charged a small per page fee for reproducing the document.

Board of Trustees

The Board of Trustees is responsible for the operation of the System. The Board includes both employees and representatives of the State and is composed of:

Mr. Robert A. Morris, Chairman, Public Member

Dr. Robert Mandeville, Ex Officio, Director, Bureau of the Budget

Honorable Roland W. Burris, Ex Officio, State Comptroller

Mr. Joseph Pisano, State Employee, Department of Mental Health

Mr. E. Allen Bernardi, State Employee, Director, Department of Labor

Administration

The System is administered by the Executive Secretary who is appointed by the Board of Trustees. The name of the Administrator is:

Michael L. Mory
Executive Secretary
P.O. Box 4064
2815 W. Washington Street
Springfield, Illinois 62708
(217) 753-0444

Funding

Contributions are made by the State and by members. All contributions not required for current operations are transferred to the Illinois State Board of Investment and are invested for the exclusive benefit of members and beneficiaries.

Employer Identification Number

The Employer Identification Number of the System is 37-1026227.

Plan Year

For record-keeping purposes, the plan year is July 1 through June 30.

Service of Legal Process

Legal process may be served on Michael L. Mory, Executive Secretary, who is the Administrator.

Employment Rights Not Implied

Membership in the System does not give you the right to be retained in the employ of the State, nor does it give you a right or claim to any benefit you have not accrued under the terms of the System.

"BENEFITS"
"BENEFITS"
"BENEFITS"
"BENEFITS"
"BENEFITS"

Retirees' and Survivors' Benefit Handbook

SRS

July 1, 1992

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

EXHIBIT
C-2

TABLE OF CONTENTS

GENERAL INFORMATION

Introduction

This booklet has been prepared for individuals retiring or receiving survivor, widow, occupational death, or lump sum death benefits from the State Employees' Retirement System (System). The booklet is based upon the laws governing the System effective January 1, 1992. However, certain retirees and survivor or widow annuity recipients were granted their initial benefit under laws in effect on the date the employee was last in service. Specific questions as to individual benefits may be addressed to the System.

Administration of the System

The State Employees' Retirement System is administered by a Board of Trustees. The Board includes employees, retirees, and representatives of the State. The Board, as of July 1992, is composed of:

Administrator

The System is administered by the Executive Secretary who is appointed by the Board of Trustees. His name, address, and phone number are as follows:

Michael L. Mory, Executive Secretary
State Employees' Retirement System
2101 South Veterans Parkway, P.O. Box 19255
Springfield, IL 62794-9255 Phone (217)785-7444

Information Requests

Annuitants contacting the System concerning benefits, insurance, address changes, and direct deposit should always use their social security number.

Employer Identification Number

The employer identification number for the State Employees' Retirement System is 37-1026227.

Service of Legal Process

Legal process may be served on Michael L. Mory, Executive Secretary, who is administrator.

System Offices

Office hours are 8 a.m. to 4:30 p.m. - Monday thru Friday. The State Employees' Retirement System has two offices:

Main Office	2101 South Veterans Parkway P.O. Box 19255 Springfield, IL 62794-9255 Telephone: (217)785-7444 Fax (217) 785-7019
Chicago Office	State of Illinois Center Suite 2-010 100 West Randolph Street Chicago, IL 60601 Telephone: (312)814-5853 Fax (312) 814-5805

Plan Document

The authority for the State Employees' Retirement System is contained in the Illinois Revised Statutes, Chapter108 1/2 - Article 14 which legally governs the System. Upon written request to the Executive Secretary, a copy of the document will be furnished to you within 30 days. A small per page fee may be charged for reproducing the document.

This booklet describes the benefits of the System in nontechnical language. Some features, particularly those that apply to very few retirees or survivors, are not included in this booklet. If there is any variance between this booklet and the plan document, the plan document will rule.

Annuitant Newsletter

All retirees and survivor, widow, or occupational death annuity recipients will receive at least two newsletters per year published by the System. These newsletters, called "THE INFORMER", and any additional information will be mailed to the recipient's home address on file with the System and are normally mailed in May and December of each year.

Annual Benefit Statement

All annuitants receive a benefit statement once a year which provides important information regarding the annuity as well as death benefit and insurance information. This statement is mailed in February of each year.

Annuitant Address Information

The System is required to maintain a permanent mailing address for each annuitant. This is necessary to comply with Internal Revenue Service mailings such as the 1099-R, as well as to assist the System in the administration of the Group Insurance Program for annuitants. ***Therefore, it is imperative that each annuitant report and maintain their permanent mailing address with the System.*** You may report a change of address by calling or writing the Springfield or Chicago office.

Many annuitants request the direct deposit of their benefit warrants to their bank or financial institution. This procedure is described later in this book, however, even if you desire to have direct deposit of your benefits, ***you should maintain your permanent mailing address with the System for other mailings.***

RETIREE REEMPLOYMENT

Should a retiree decide to return to employment after his/her retirement, the retiree should be aware of certain regulations. If a retiree returns to employment outside state government, there is no reason to notify the System since these earnings would not affect any benefits paid by the System. However, should a retiree return to a position covered by the State Employees' Retirement System, the retiree should notify the Claims Division of the System immediately.

If you retired under the provisions of the Retirement Systems' Reciprocal Act and are receiving a pension from more than one Illinois public retirement system, you must notify all the retirement systems from which you are receiving a benefit. Each system will determine if you would be eligible to continue receiving your pension during reemployment.

Nonpermanent Reemployment

If you return to state employment and your position is expected to continue for no more than 75 working days during a calendar year (any part of a day worked is counted as a full day), you will continue to receive your pension payment while employed. During your employment, you will make no contributions to the System, but you must contribute to social security.

If your state employment lasts longer than 75 working days, your pension benefits will end on the 76th day. At that time your reemployment status will be changed to a permanent basis and you will be considered a permanent employee.

Permanent Reemployment

If you are reemployed on a permanent basis with the state, you will be ineligible for pension benefits while working. Your pension will

be discontinued and you will make contributions to both the State Employees' Retirement System and to social security during the period you are employed. You will earn additional service credit for this period of employment. When you again retire, you must reapply for your pension.

Bridging Your Service

If you reenter state service within three years after the date you originally retired, you may qualify to have your subsequent retirement benefit computed as though you had not previously retired. To do so, you must repay all payments received plus interest from the date payments were discontinued to the date of repayment. The repayment must be made either in a lump sum or by installments within five years after your reentry or before your next retirement date, whichever is first. If you do not complete the installment payments before the end of the five year period, your installment payments will be refunded and your pension will not be recomputed.

If it has been longer than three years from the date you originally retired, you do not have the option to repay your pension. If you chose not to repay your pension when you had the opportunity, the new pension you will be eligible to receive when you again retire will be the total of the amount of pension which was last paid, plus the additional pension earned during the reemployment period, up to the maximum benefit payable.

SURVIVOR/WIDOW/OCCUPATIONAL DEATH BENEFIT RECIPIENT'S EMPLOYMENT

There are no employment restrictions for a majority of the individuals receiving a survivor, widow or occupational death benefit from the State Employees' Retirement System. The only exception is that benefits on behalf of a physically or mentally disabled unmarried child over age 18 are payable only if the disabled child does not engage in any substantial gainful activity.

INCREASES FOR RETIREES

If you are a retiree of the State Employees' Retirement System, you will receive a 3% increase in your pension on January 1 following your first full year of retirement or attainment of age 60, whichever is later. If you retire with 35 or more years of service, you are eligible for your first increase on the January 1st following your first full year of retirement, whether or not you have reached age 60. Future increases of 3% of your current pension will also be made each January 1 thereafter. Future increases in your pension will not be limited by the 75% maximum. If you retire under the alternative formula you will receive a 3% increase in your pension on January 1 following your first full year of retirement or attainment of age 55, whichever is later.

INCREASES FOR SURVIVORS

If you are receiving a monthly annuity from the State Employees' Retirement System due to the death of a former state employee, you will receive a 3% increase on January 1 following receipt of one full year of payments for an annuity. Future increases of 3% of your current annuity will be made each January 1 thereafter.

RETIREMENT ANNUITY PAYMENTS

First Retirement Annuity Payment

After receipt of your pension application and certain required information from you and your agency, the System will process your first annuity payment. The normal processing time is 45 days from the date you left service.

The first annuity payment is mailed by the Office of the Comptroller directly to your home. Enclosed with the payment is a Notice of Pension Approval containing important information about your retirement annuity. A tax brochure is also included which will provide an overview of the taxation of your annuity.

Attached to the warrant is a payment stub that provides an accounting of the payment as well as all payments made in a calendar year. (Please see page 16 for a sample of this stub.)

Future Retirement Annuity Payments

Future annuity payments are mailed on the 19th of each month unless the 19th is on a weekend or holiday, in which case, they are mailed on the last working day before the 19th. If you have your payment mailed directly to your home, allow four workdays mail time. If you do not receive your payment in the allotted time, please contact our office for assistance. Remember, failure to advise the System of an address change can result in a delay in payment.

Direct Deposit

When you initially apply for benefits with the System, you will receive an Authorization for Direct Deposit form and an explanation of this program. If you desire direct deposit, you should complete and return the authorization form with your application for benefits. Direct deposit cannot be initiated with your first payment, but is available for all subsequent payments. Should you choose this method, your third payment will go to the bank. If you do not choose direct deposit, your annuity payment will be mailed to your home.

When you use the direct deposit method, your payment will be deposited in your account on the 19th of each month, however, a payment stub is not generated for each payment. Instead, the Office of the Comptroller periodically issues earning statements which will provide the information which appears on the payment stub. The statements are issued when there is a change in the amount of the deposit. They are not, however, sent out until the first week of the next month.

Taxation of the Retirement Annuity

Illinois law exempts all State Employees' Retirement System benefits from state income tax. However, the retirement annuity is subject to federal tax.

When you initially apply for benefits, the System will send you a Withholding Certificate for Pension or Annuity Payments, IRS Form W-4P. The W-4P permits the annuitant to elect not to have taxes withheld or to designate the amount of taxes to be withheld from the annuity. If it is not returned, the System will withhold taxes using the appropriate withholding rates for a married individual claiming

3 exemptions. (Please see the sample W-4P on page 17.)

The Office of the Comptroller is required to issue a 1099-R by January 31 of each year which provides the amount of the annuity you received for the past year, the portion of the annuity that is taxable and any federal or state income tax withheld. The form is used to prepare your income tax return and should be attached to the IRS Form 1040 when you file. (Please see the sample 1099-R on page 18.)

Any widow/survivor contribution refund or special retirement formula refund that you may be eligible to receive is also subject to federal income tax withholding. The amount to be withheld will be pursuant to IRS rules unless you elect not to have federal income tax withheld from this lump sum distribution.

The Office of the Comptroller is required to issue a 1099-R by January 31 of the year following your retirement which provides the amount of the lump sum distribution, the portion that is taxable and any federal tax withheld. (Please see the sample 1099-R on page 18.)

SURVIVOR/WIDOW/OCCUPATIONAL DEATH ANNUITY PAYMENTS

First Survivor/Widow/Occupational Death Annuity Payment

After receipt of your survivor/widow/occupational death application and certain required information from you and the deceased member's agency, the System will process your first annuity payment. The normal processing time is 45 days.

The first annuity payment is mailed by the Office of the Comptroller directly to your home. Enclosed with the payment is a Notice of Benefit Approval containing important information about the annuity. A tax brochure is also included which will provide an overview of the taxation of your annuity.

Attached to the warrant is a payment stub that provides an accounting of the payment as well as all payments made in a calendar year. (Please see page 16 for a sample of this stub.)

Future Survivor/Widow/Occupational Death Annuity Payments

Future annuity payments are mailed on the 19th of each month unless the 19th is on a weekend or holiday in which case, they are mailed on the last working day before the 19th. If you have your payment mailed directly to your home, allow four work days mail time. If you do not receive your payment in the allotted time, please contact our office for assistance. Remember, failure to advise the System of an address change can result in a delay of payment.

Social Security Offset

For survivors of employees who contributed to both the System and social security, a social security offset will be applied to a widow's or survivors benefit. The offset is equal to 50% of the widow's benefit payable by social security.

Generally, the social security offset will be applied to the widows'/survivor benefit when the survivor attains age 60, unless the survivor is over age 60 when the survivor benefit begins, wherein the offset will commence with the initial payment of the widows'/survivor benefit.

For benefits effective January 1, 1992, or after, the offset will not reduce the SERS widows'/survivor benefit by more than 50%.

Marriage/Remarriage

Any marriage or remarriage by a survivor or occupational death benefit recipient should be reported to the Claims Division of the System when it occurs. Remarriage of a survivor or occupational death benefit recipient prior to age 55 will terminate benefits for that individual. Marriage of a child receiving a survivor, widow, or occupational death benefit will terminate annuity payments for the child.

Direct Deposit

When you initially apply for benefits with the System, you will receive an Authorization for Direct Deposit form and an explanation of this program. If you desire direct deposit, you should complete and return the authorization form with your application for benefits. Direct deposit cannot be initiated with your first payment, but is available for all subsequent payments. Should you choose this method, your third payment will go to the bank. If you do not choose direct deposit, your annuity payment will be mailed to your home.

When you use the direct deposit method, your payment will be deposited in your account on the 19th of each month, however, a payment stub is not generated for each payment. Instead, the Office of the Comptroller periodically issues earning statements which will provide the information which appears on the payment stub. The statements are issued when there is a change in the amount of the deposit. They are not, however, sent out until the first week of the next month.

Taxation of the Survivor/Widow/Occupational Death Annuity Payments

Illinois law exempts all State Employees' Retirement System benefits from state income tax. The occupational death benefit annuity is not subject to federal tax, however, the survivor and widow annuity is subject to federal tax.

When you initially apply for benefits, the System will send you an IRS Withholding Certificate for Pension or Annuity Payments, IRS Form W-4P. The W-4P permits the annuitant to elect not to have taxes withheld or to designate the amount of taxes to be withheld from the monthly annuity. If it is not returned, the System will withhold taxes using the appropriate withholding rates for a married individual claiming 3 exemptions. (Please see the sample W-4P on page 17.)

The Office of the Comptroller is required to issue an IRS Form 1099-R by January 31 of each year which provides the amount of the annuity received for the past year, the portion of the annuity that is taxable and any federal or state income tax withheld. The form is used to prepare your income tax return and should be attached to the

IRS Form 1040 when you file. (Please see the sample 1099-R form on page 18.)

The $1,000 lump sum portion of the survivor annuity and the $500 lump sum portion of the widow annuity are also subject to federal income tax withholding. The amount to be withheld will be pursuant to IRS rules unless you elect not to have federal income tax withheld from this lump sum distribution.

The Office of the Comptroller is required to issue a 1099-R by January 31 of the year following your receipt of this lump sum distribution. The 1099-R provides the amount of distribution, the portion that is taxable and any federal tax withheld. (Please see the sample 1099-R on page 18.)

LUMP SUM DEATH BENEFIT BEFORE RETIREMENT

With Survivor Annuity

Upon the death of a member, if a monthly survivor annuity is payable, the nominated beneficiary on file with the System will receive any lump sum death benefits that are payable.

The payment would consist of the member's contributions and interest minus the widow/survivor portion of the contributions. The portion of the member's contributions made prior to January 1, 1982 is not taxable while the portion made after January 1, 1982 is fully taxable. If additional tax information is needed, please refer to the Tax Information leaflet.

The Office of the Comptroller is required to issue an IRS Form 1099-R by January 31 of the year following receipt of this payment. The 1099-R will provide the taxable amount of the lump sum benefit received, the portion attributable to capital gains and ordinary income, and any tax withheld. (Please see the sample form 1099-R on page 18.)

Without Survivor Annuity

Upon the death of a member, if no monthly survivor annuity is payable, the nominated beneficiary on file with the System will receive any lump sum death benefits that are due.

The payment would consist of the member's contributions and interest plus the state's portion which is equal to one month's compensation for each year of credited service up to a maximum of six month's salary. The portion of the member's contributions made prior to January 1, 1982 is not taxable while the portion made after January 1, 1982 is fully taxable. If additional tax information is needed, please refer to the Tax Information leaflet.

The Office of the Comptroller is required to issue a 1099-R by January 31 of the year following receipt of this payment. The 1099-R will provide the taxable amount of the lump sum benefit received, the portion attributable to capital gains and ordinary income, and any tax withheld. (Please see the sample form 1099-R on page 18.)

LUMP SUM DEATH BENEFIT AFTER RETIREMENT

The payment would consist of the contributions and interest left in the annuitant's account less the total amount of pension payments received.

If the total amount of pension payments exceeds the contributions and interest in the annuitant's account, there is a $500 minimum death benefit payable to the nominated beneficiary. The beneficiary is eligible for this minimum payment if the member was working for the State of Illinois on or after July 15, 1971.

The Office of the Comptroller is required to issue a 1099-R to the beneficiary by January 31 of the year following the receipt of this payment. The 1099-R will provide the taxable amount of the lump sum benefit received, the portion attributable to capital gains and ordinary income and any tax withheld. (Please see the sample form 1099-R on page 18.) If additional tax information is needed, please refer to our Tax Information leaflet.

INSURANCE

Group Insurance

Retirees and survivor, widow, or occupational death benefit recipients qualify for participation in the Illinois State Employees' Group Insurance Program, subject to Department of Central Management Services Group Insurance Program eligibility requirements. Members may also cover their eligible dependents and have appropriate premiums deducted from their monthly benefit checks.

Several group health plans are currently available, including the traditional State Group Plan and many Health Maintenance Organizations. Benefits may vary among the plans, but all coordinate their benefits with medicare.

In addition to the group health insurance, group life insurance coverage is also available, according to program requirements. Most members receive an amount of basic state-paid life coverage and can choose to purchase optional and dependent life coverages.

For additional information contact the System's Insurance Section or refer to your State Group Insurance Booklet(s).

Medicare

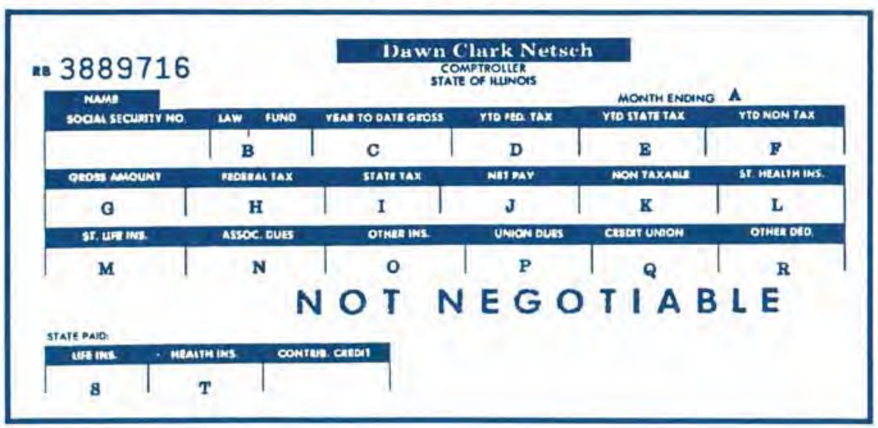
For members who qualify for social security, health insurance benefits known as medicare are provided by the federal government. Medicare is made up of two parts. Hospital insurance is free to those 65 or older who qualify for social security. Medical insurance is available to anyone 65 or older, but requires a premium to be paid by the member. In certain situations, members under age 65 may qualify for medicare.

Illinois State Employees' Group Health Insurance Program benefits coordinate with medicare benefits to provide overall comprehensive payment between the two plans. For the State Employees' Retirement System's annuitants, survivors, widows and occupational death benefit recipients, State Group Health Plan benefits supplement a majority of the expenses left unpaid by medicare.

Contact the Social Security Administration if you have questions about medicare.

SAMPLE
ANNUITY PAYMENT STUB

A. Indicates the month paid with this warrant.
B. The law under which the annuity is paid; the fund from which it is drawn.
C. The gross amount paid during the current year. Year to Date (YTD) is the year from January 1 through December 31.
D. Year to date federal income tax withheld.
E. Year to date state tax withheld. SERS benefits are not subject to Illinois income taxes; however, annuitants can request state tax to be withheld if they have other taxable income which is reportable.
F. Year to date nontaxable portion of the annuity. If the cost of annuity has been recovered, this section will be blank.
G. The gross amount of the annuity for this payment.
H. Federal income tax withheld from this payment.
I. State tax withheld from this payment.
J. The net amount of this payment. (It should be identical to the amount on your warrant).
K. Nontaxable portion of this payment. This is blank if the cost of annuity has been recovered.
L. State health insurance premium for dependent coverage which has been deducted from this payment.
M. Insurance premium for optional life insurance, spouse or child life insurance.
N. Dues deducted for I.S.E.A.; R.S.E.A. or R.S.P.A.
O. Other insurance carrier premiums such as Golden Rule or American Family Life.
P. Dues deducted for A.F.S.C.M.E. and other unions.
Q. Authorized credit union deductions.
R. Other authorized deductions such as savings bonds or ERI payments.
S. Life insurance premium paid by the state.
T. Health insurance premium paid by the state.

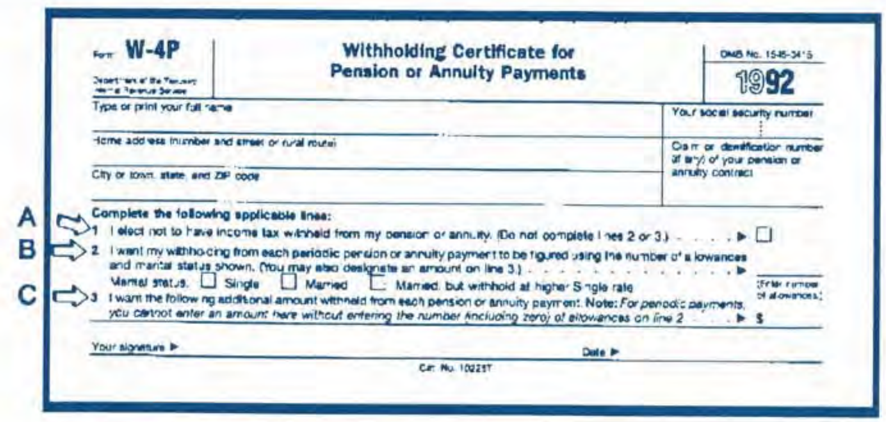


SAMPLE FORM W-4P

A. Exemption from withholding.
- Check this box if you do not want any tax withheld from your payment. You do not have to give a reason for claiming the exemption from withholding. If you receive nonperiodic payments, this is the only item you can use on this form.

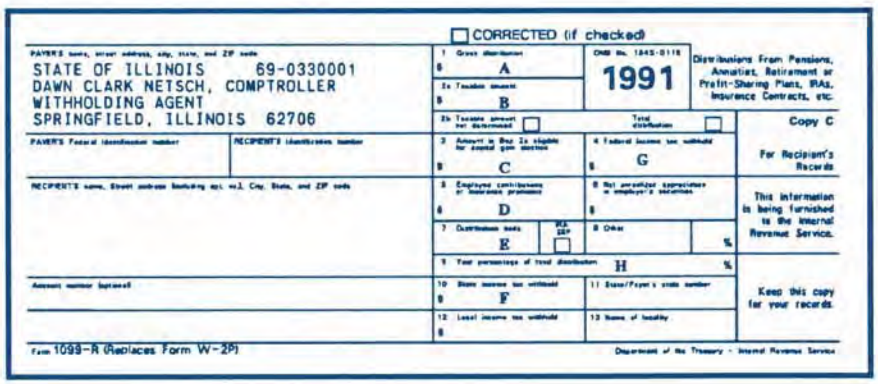
B. Withholding based on specified withholding allowances.
- For periodic payments withholding is automatically based on rates for a married person claiming three allowances. If you want withholding to be based on a specified number of allowances, write the number on this line and check the appropriate filing status box.

C. Additional amount, if any, you want deducted from each payment.
- If you are not having enough tax withheld, you may ask the payer to withhold more tax by entering an additional amount on line 3. You may need to have additional tax withheld because you have other income such as interest, dividends, capital gains, rents, alimony, taxable social security benefits, etc. Estimate the amount you will be underwithheld and divide that amount by the number of payments you will receive this year. Enter the additional amount you want withheld from each payment on line 3 of Form W-4P.



SAMPLE FORM 1099-R

A. Gross amount received.
B. Member's taxable portion of the distribution.
C. Amount determined for service before 1-1-1974 and qualified for capital gain treatment. (Lump sum death benefit only)
D. Amount contributed by member prior to 1-1-82.
E. See codes on back of this form.
F. State tax withheld at recipient's request.
G. Federal tax withheld at recipient's request.
H. Percentage of the total distribution which was received by this payee.


CORRECTED (if checked)

STATE OF ILLINOIS 69-0330001
DAWN CLARK NETSCH, COMPTROLLER
WITHHOLDING AGENT
SPRINGFIELD, ILLINOIS 62706

1991

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Copy C

For Recipient's Records

This information is being furnished to the Internal Revenue Service.

Keep this copy for your records.

A B C G D E H F

Form 1099-R (Replaces Form W-2P)

Department of the Treasury - Internal Revenue Service

Notes

Printed by Authority of the State of Illinois
(X300562—10M—8-92)

State Employees' Retirement System
2101 South Veterans Parkway
P.O. Box 19255
Springfield, IL 62794-9255
217/785-7444

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

RETIREE & SURVIVOR BENEFITS

Your Rights & Responsibilities HANDBOOK

EXHIBIT C-3

OCTOBER, 2001

This handbook is provided by the State Employees' Retirement System (SERS), and presents you with a general outline of benefits for all retired state employees, and their survivors who receive death benefits from SERS.

This information reflects the laws governing SERS on September 1, 2001. Your specific benefits are based on the laws in effect on your last day of employment.

Since each state employee has a personal interest in the finances and benefits of SERS, you should be familiar with your benefits. Read this booklet carefully and keep it for reference.

This handbook is intended to serve as a supplement to the Annual Benefit Statement, which includes personal benefit information about annuities, death benefits and group insurance The statement is mailed out in March.

In addition to the information in your Annual Benefit Statement and this handbook, you can call us at any of the phone numbers listed on page 2.

TABLE OF CONTENTS

1. GENERAL INFORMATION

IMPORTANT ADDRESSES & PHONE NUMBERS

YOU CAN CONTACT US MONDAY THRU FRIDAY FROM 8 A.M. UNTIL 4:30 P.M.

SPRINGFIELD

2101 S. Veterans Parkway
P. O. Box 19255
Springfield, IL 62794-9255
217-785-7444
Deaths: 217-785-7366
Pensions: 217-785-7343
Fax: 217-524-2293

CHICAGO

State of Illinois Building
160 North LaSalle Street, Suite N725
Chicago, Illinois 60601
312-814-5853 Fax: 312-814-5805

TDD

A Telecommunications Device for the Deaf (TDD) is available for members and annuitants who are hearing or speech-impaired. You may access this service at 217-785-7218.

SERS WEB SITE

Visit our web site at www.state.il.us/srs to access SERS information. We maintain a home page with a bulletin board to keep retirees informed of legislation, workshop schedules, and other information affecting you. You can also download SERS forms and link to federal and state tax forms.

Our web site also contains a summary of our annual financial report, a summary of the Illinois State Board of Investment annual financial report, and a link to other state agencies. Be sure to include your Social Security number on all inquiries.

YOU MAY E-MAIL US WITH ANY QUESTIONS AND/OR COMMENTS AT: SER@MAIL.STATE.IL.US

ANNUITANT NEWSLETTER

All retirees, survivors, widows, and occupational death annuity recipients receive at least three editions of the newsletter, *The Informer*, each year. This newsletter keeps you informed of any issues or legislation that affect you.

ANNUITANT ADDRESS

A permanent mailing address is maintained for each annuitant of SERS. This is necessary for the mailing of special notices, newsletters and Group Insurance Program information.

It is important to maintain your permanent mailing address and report any changes. Annuitants can report a change of address by calling or writing the SERS Springfield or Chicago offices.

ANNUITANT WORKSHOP

SERS offers the workshop, Myths & Realities of Retirement (MRR), to all State of Illinois retirees and their survivors.

MRR looks at the important aspects of life during retirement—how inflation can threaten your retirement nest egg and how to preserve your buying power throughout your retirement years.

To enroll in this important workshop call 217-785-6979.

BENEFIT CLAIMS

In order to receive any benefit, you must apply for it. All benefit claims should be made to the Claims Division. After you begin receiving benefits, you should notify SERS if you change your name or address.

All SERS records are maintained according to your Social Security number.

GROUP INSURANCE

Retirees, survivors, widows, and occupational death benefit recipients can participate in the State Employees' Group Insurance Program, as described in your Department of Central Management Services (CMS) group insurance booklet. You may also cover eligible dependents and have the premium deducted from your monthly benefit check.

Several group health plans are available. Benefits may vary among plans, but all benefits are coordinated with Medicare. In addition to group health, dental and vision insurance, term life insurance coverage is also available.

For more information contact SERS's Insurance Section or refer to your CMS Member Benefits Handbook.

MEDICARE

Members age 65 or older who qualify for Social Security benefits are also eligible for Medicare. Medicare is made up of two parts: Part A is free hospital insurance; Part B is optional medical insurance which requires a member-paid premium. In certain situations, disabled members under age 65 may also qualify for Medicare.

Illinois State Employees' Group Health Insurance Program benefits coordinate with Medicare to provide overall comprehensive coverage between the two plans. Contact the Social Security Administration if you have questions about Medicare.

2. RETIREE INFORMATION

RETIREMENT ANNUITY (PENSION)

FIRST RETIREMENT ANNUITY PAYMENT

SERS will process your first annuity payment after we receive your pension application and other required information. The normal processing time is 36 days from the date you leave service.

The Comptroller's office will mail the first annuity payment directly to your home. You will also receive a Notice of Pension Approval, which contains information about your retirement annuity; a tax brochure, which provides an overview of your annuity taxes; and a payment stub with information about your payments. (See page 21 for a sample of this stub.)

FUTURE RETIREMENT ANNUITY PAYMENTS

Future annuity payments are mailed on the 19th of each month, unless the 19th is on a weekend or holiday, when they are mailed on the last working day before the 19th. If your payment is mailed directly to your home, allow six working days for delivery.

If you have not received your payment after the six working days, call SERS. Failure to advise SERS of an address change may result in a delayed payment.

DIRECT DEPOSIT (Electronic Funds Transfer)

When you apply for a SERS benefit, you will receive a Depository Agreement form along with an explanation of this program. We encourage you to have your monthly retirement annuity directly deposited into your bank account. Complete and return this form with your application for benefits.

When you choose direct deposit, your first two payments are mailed to your home. All future payments will be deposited into your bank account on the 19th of each month.

You will not receive a payment stub for each direct deposit payment. Instead, the Comptroller's office will periodically issue an earnings statement with information about your annuity payment. See page 24 for a sample earnings statement.

TAXATION OF YOUR RETIREMENT ANNUITY

Illinois law exempts all SERS benefits from state income tax, but your benefits are subject to federal income tax. When you apply for retirement benefits, SERS sends you an IRS Form W-4P (Withholding Certificate for Pension or Annuity Payments).

If the W-4P is not returned to SERS, taxes are withheld using the rate for a married person with three exemptions. (See the sample W-4P form on page 22.) Each year, the Comptroller's office is required to send you a 1099-R form showing the total annuity amount you received during the past year, as well as any taxes withheld. (See the sample 1099-R on page 23.)

TAXATION OF REFUND ASSOCIATED WITH RETIREMENT

Widow/survivor contribution refunds and alternative retirement formula contribution refunds are also subject to federal income tax withholding, but you can rollover your lump sum payment and defer tax on it until a later date. Refer to the Tax brochure for more information.

If you elect to rollover all or part of your widow/survivor refund, or alternative retirement formula refund, you will receive a 1099-R form by January 31 of the following year from the Comptroller's office which will reflect the amount rolled-over.

INCREASES FOR RETIREES

SERS retirees receive a 3% increase in their pensions on January 1 following their first full year of retirement, or age 60, whichever is later. If you retired using the Rule of 85, you are eligible for your first increase on the January 1 following your first full year of retirement, even if you are not age 60.

Future increases of 3% of your current pension will also be made each January 1 thereafter. Future increases are not limited by the 75% maximum.

If you retired under the alternative formula, you will receive a 3% increase to your pension on January 1 following your first full year of retirement or age 55, whichever is later. Future increases are not limited by the 80% maximum.

RETIREE REEMPLOYMENT

RETURNING TO EMPLOYMENT AFTER RETIRING

If you return to state employment on a contractual basis, or for the private sector, your SERS benefit will not be affected.

If you return to state employment on a non-permanent or permanent basis after retirement, you should notify the SERS Claims Division immediately.

If you receive a pension from more than one Illinois public retirement system which participates in the Retirement Systems' Reciprocal Act, you must notify all retirement systems. Each reciprocal retirement system has specific rules to determine if retirees are eligible to receive pension benefits during reemployment.

NON-PERMANENT REEMPLOYMENT

If your employment with the state will last for 75 or less working days during a calendar year (any part of a day is counted as a full day), you will continue to receive your pension payment while employed. During your employment, you make no contributions to SERS, but you must contribute to Social Security.

If you work more than 75 working days, your pension benefit will end on the 76th day, and you will resume contributing to SERS.

PERMANENT REEMPLOYMENT

If you are reemployed by the state on a permanent basis, you won't be eligible for pension benefits while working. You will make contributions to both SERS and Social Security during your employment and earn additional service credit.

After you again retire from state employment, you must reapply for a pension. Your new pension amount will be the total amount before reemployment, plus the amount earned during your reemployment.

If you reenter state service within three years after the date you retired, you may qualify to have your new retirement benefit computed as though you never retired. To qualify, you must repay all of the money you received, plus interest.

The repayment may be made in a lump sum, by installments paid within five years after your reemployment, or before your next retirement date, whichever is first.

If you choose not to complete installment payments before retirement or the end of the five-year period, your installment payments will be refunded and your pension will not be recomputed.

WIDOW/SURVIVOR CONTRIBUTION REFUND

If you receive a widow/survivor contribution refund because you were not married at retirement and you later remarry, you can repay the refund, plus interest, to qualify your spouse for a survivor benefit.

3. SURVIVOR, WIDOW, & OCCUPATIONAL DEATH BENEFITS

SURVIVOR, WIDOW, OCCUPATIONAL DEATH ANNUITY PAYMENTS

FIRST SURVIVOR, WIDOW, OCCUPATIONAL DEATH ANNUITY PAYMENT

SERS will process your first annuity payment after we receive your application and other required information from the deceased member's agency. The normal processing time is 30 days.

The Comptroller's office will mail the first annuity payment directly to your home. You will also receive a Notice of Benefit Approval, which contains information about your annuity; a tax brochure, which provides an overview of your annuity taxes; and a payment stub with information about your payment. (See page 21 for a sample of this stub.)

FUTURE SURVIVOR, WIDOW, OCCUPATIONAL DEATH ANNUITY PAYMENTS

Future annuity payments are mailed on the 19th of each month, unless the 19th is on a weekend or holiday, when they are mailed on the last working day before the 19th. If your payment is mailed directly to your home, allow six working days for delivery.

If you have not received your payment after six working days, call SERS. Failure to advise SERS of an address change may result in a delayed payment.

SOCIAL SECURITY OFFSET

If an employee contributed to both SERS and Social Security, an offset of 50% of the survivor's Social Security benefit is usually applied to the SERS widow's or survivor's benefit when the survivor reaches age 60.

If the survivor is over age 60 when the benefit begins, the offset starts with the first payment. These offsets do not reduce the SERS widows or survivors benefit by more than 50%.

MARRIAGE

If a child under age 18, or age 22 if full-time student, marries, their survivor, widow, or occupational death benefit will be terminated.

TAXATION OF THE SURVIVOR, WIDOW, OCCUPATIONAL DEATH ANNUITY PAYMENTS

All SERS benefits are exempt from state income tax under Illinois law. The occupational death benefit annuity is not subject to federal tax, but the survivor and widow annuities are.

When you apply for benefits, SERS sends you an IRS Form W-4P (Withholding Certificate for Pension or Annuity Payments). If the

DIRECT DEPOSIT (Electronic Funds Transfer)

When you apply for a SERS benefit, you will receive a Depository Agreement form along with an explanation of this program. We encourage you to have your monthly retirement annuity directly deposited in your bank account. Complete and return this form with your application for benefits.

When you choose direct deposit, your first two payments are mailed to your home. All future payments will be deposited into your bank account on the 19th of each month.

You will not receive a payment stub for each direct deposit payment. Instead, the Comptroller's office will periodically issue an earnings statement with information about your annuity payment. See page 24 for a sample earnings statement.

W-4P is not returned to SERS, taxes are withheld using the rate for a married person with three exemptions. (See the sample W-4P on page 22.)

Each year, the Comptroller's office is required to send you a 1099-R form showing the total annuity amount you received for the past year, as well as any taxes withheld. Use the 1099-R when preparing your income tax return. (See the sample 1099-R on page 23.)

INCREASES FOR SURVIVOR, WIDOW, OCCUPATIONAL DEATH BENEFIT RECIPIENTS

If you receive a monthly annuity from SERS due to the death of an active, inactive, or retired state employee, you will receive a 3% increase on January 1 following one full year of payments. Future increases of 3% will be made each January 1 thereafter.

SURVIVOR EMPLOYMENT

The only employment restriction for individuals receiving a survivor, widow, or occupational death benefit from SERS is for disabled, unmarried children over age 18. This benefit is payable if the disabled child is not gainfully employed and earning more than $743 per month.

LUMP SUM DEATH BENEFITS

BEFORE RETIREMENT

WITH SURVIVOR ANNUITY

If an active employee dies and a monthly survivor annuity is payable, the nominated beneficiary on file with SERS receives a lump sum death benefit. The lump sum death benefit consists of the member's retirement contributions and interest.

If the member's spouse is the named beneficiary, the spouse may choose to roll-over the payment and defer tax on it until a later date. If all or part of a lump sum payment is rolled-over, you will receive a 1099-R form by January 31, which reflects the amount rolled-over. Refer to the Tax brochure for more information.

The Comptroller's office is required to send you an IRS form 1099-R by January 31 of the year following receipt of this payment. The 1099-R shows the taxable portion of the lump sum benefit, the portion attributable to capital gains and ordinary income, and any tax withheld. (See the sample form 1099-R on page 23.)

WITHOUT SURVIVOR ANNUITY

If an active employee dies, the nominated beneficiary on file with SERS receives a lump sum death benefit. The payment consists of the member's contributions plus interest, and one month's salary for each year of service, up to a maximum of six months' salary.

If the member's spouse is the named beneficiary, the spouse may choose to roll-over the payment and defer tax on it until a later date.

If all or part of a lump sum distribution is rolled-over , you will receive a 1099-R form by January 31 of the following year, which reflects the amount rolled-over. Refer to the Tax brochure for more information.

The Comptroller's office is required to send you a 1099-R by January 31 of the year following the receipt of this payment. The 1099-R shows the taxable portion of the lump sum benefit received, the portion attributable to capital gains and ordinary income, and any taxes withheld. (See the sample form 1099-R on page 23.)

AFTER RETIREMENT

If a retired SERS member dies with no survivors, the nominated beneficiary(ies) receive any contributions and interest remaining in the retiree's account, or $500, whichever is greater.

The Comptroller's office is required to send you a 1099-R by January 31 of the year following the receipt of this payment. The 1099-R shows the taxable portion of the lump sum benefit received, the portion attributable to capital gains and ordinary income, and any taxes withheld. Refer to the Tax brochure for more information. (See the sample form 1099-R on page 23.)

4. APPENDIX

PLAN DOCUMENT

This handbook attempts to describe SERS benefits in nontechnical language.

The official document describing SERS benefits is the Illinois Compiled Statutes, 40 ILCS 5/14, which legally governs the operation of the plan. If there is any variance between this handbook and the plan document, the plan document will rule.

BOARD OF TRUSTEES

The Board of Trustees is responsible for the operation of SERS. The board includes both employees and representatives of the state.

They are as of July 1, 2001:

Mark W. Gallagher, Chairman, appointed by the Governor.

John Stevens representing Stephen Schnorf, Director, Bureau of the Budget.

Loren Iglarsh representing Daniel Hynes, State Comptroller.

Sharmin Doering, state employee, appointed by the Governor.

Doris M. Clark, elected annuitant.

Caryl Wadley-Foy, elected state employee.

Joseph T. Pisano, annuitant, appointed by the Governor.

ADMINISTRATION

SERS is administered by the board-appointed Executive Secretary, Michael L. Mory.

FUNDING

Contributions are made by the state and its members. All contributions not required for current operations are invested by the Illinois State Board of Investment for the exclusive benefit of members and their beneficiaries.

EMPLOYER IDENTIFICATION NUMBER

The Employer Identification Number of SERS is 37-1026227.

PLAN YEAR

For record-keeping purposes, the plan year is July 1 through June 30.

LEGAL PROCESS

Legal process may be served on Michael L. Mory, SERS Executive Secretary.

GLOSSARY OF RETIREMENT TERMS

Alternative Retirement Formula Refund: If a member has contributed toward the alternative retirement formula, but does not qualify for an alternative formula benefit, the member will receive a refund of any excess contributions made for the alternative formula at retirement.

Nominated Beneficiary for a Lump Sum Death Benefit: The beneficiary chosen by the member to receive SERS benefits. A beneficiary form is kept on file with SERS. This should not be confused with the Group Life Insurance beneficiary, or the Deferred Compensation beneficiary.

Retirement Annuity (Pension): Monthly annuity paid for life.

Rollover: Postponing taxation of distributions by "rolling-over" the taxable portion of the payment to another qualified plan, or to an Individual Retirement Account (IRA).

Survivor Annuity: Monthly annuity paid for life.

Survivor Annuity Beneficiary: A beneficiary (spouse, child under age 18 or 22 if full-time student, dependent parent) designated to receive a monthly annuity upon the death of the member.

Widow/Survivor Refund: If a member has no eligible survivor beneficiary, a refund of the widow/survivor contribution is made at retirement.

SAMPLE ANNUITY PAY STUB

A. Indicates the month paid.
B. The gross amount paid during the current year. Year-to-date (YTD) is from January 1 through December 31.
C. Year-to-date federal tax withheld.
D. Year-to-date non-taxable portion of the annuity. If the cost of annuity has been recovered, this section blank.
E. Year-to-date state tax withheld. SERS benefits are not subject to Illinois income taxes, but annuitants can request state tax withholding.
F. The gross amount of this annuity payment.
G. Health and life insurance premium paid by the state.
H. Deductions from this payment are listed here. They include: state health insurance premiums for dependent coverage; optional life insurance premiums; spouse life & child life insurance premiums; dues for ISEA, RSEA, RSPA, or AFSCME; other insurance carrier premiums; and credit union deductions.
I. Non-taxable portion of this payment. This is blank if the cost of annuity has been recovered.
J. The net amount of this payment.

DANIEL W. HYNES
COMPTROLLER - STATE OF ILLINOIS

RETIREMENT
EARNINGS STATEMENT
FOR THE MONTH ENDING 07-31-2001 A

WARRANT NUMBER
RA0750750
SRS

YEAR TO DATE EARNINGS INFORMATION

B	GROSS	2071.02
C	FEDERAL TAX	00
D	NON TAXABLE	00
E	STATE TAX	.00

18306 N. 4TH AVE.
COFFEEN IL 62017

CURRENT EARNINGS AND DEDUCTIONS

SOCIAL SECURITY	FUND	LAW	VOUCHER NUMBER	GROSS EARNINGS
	479	3	P02-901	F 295.86

G ST PAID HLTH 282.36

DEDUCTIONS H

LIFE INS 18.30 MISC INS 6.60

	TOTAL DEDUCTIONS	24.90
I	NON TAXABLE	.00
J	NET PAY	270.96

SAMPLE FORM W-4P

A. Exemption from withholding. Check this box if you do not want any tax withheld from your payment. You do not have to give a reason for this.

B. Withholding based on specified withholding allowances. For periodic payments, withholding is automatically based on a rate for a married person claiming three allowances. If you want withholding to be based on a specified number of allowances, write the number on this line and check the appropriate filing status box.

C. Additional amount, if any, you want deducted from each payment. If you are not having enough tax withheld, you may ask the payer to withhold more tax by entering an additional amount on line 3.

You may need to have additional tax withheld if you have other income such as interest, dividends, capital gains, rents, alimony, taxable Social Security benefits, etc.

Estimate the amount you want withheld. Divide that amount by the number of payments you will receive this year. Enter the additional amount you want withheld from each payment on line 3 of Form W-4P.

Cut here and give the certificate to the payer of your pension or annuity. Keep the top part for your records.

Form **W-4P** — Department of the Treasury, Internal Revenue Service

Withholding Certificate for Pension or Annuity Payments

▶ For Privacy Act and Paperwork Reduction Act Notice, see page 4.

OMB No. 1545-0415 — **2001**

Type or print your full name	Your social security number
Home address (number and street or rural route)	Claim or identification number (if any) of your pension or annuity contract
City or town, state, and ZIP code	

Complete the following applicable lines:

1 Check here if you **do not want any** Federal income tax withheld from your pension or annuity. (Do not complete line 2 or 3.) ▶ ☐ A

2 Total number of allowances and marital status you are claiming for withholding from each **periodic** pension or annuity payment. (You may also designate an additional dollar amount on line 3.) ▶ B (Enter number of allowances)
Marital status: ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate

3 Additional amount, if any, you want withheld from each pension or annuity payment. **Note:** *For periodic payments, you cannot enter an amount here without entering the number (including zero) of allowances on line 2* ▶ $ C

Your signature ▶ **Date** ▶

Cat. No. 10225T

SAMPLE FORM 1099-R

A. Gross amount received.
B. Member's taxable portion.
C. Amount qualified for capital gain treatment. This only pertains to a lump sum death benefit.
D. Federal tax withheld at recipient's request or as required by law.
E. Non-taxable portion of gross distribution.
F. Distribution Code listed on the 1099-R instruction sheet sent with this form.
G. Percentage of the total distribution received.
H. Retiree's total cost of annuity. (This will appear on the first 1099-R only.)
I. State tax withheld at recipient's request.

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code	1 Gross distribution $ A	OMB No. 1545-0119 **2001** Form **1099-R**		**Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.**
	2a Taxable amount $ B			
	2b Taxable amount not determined ☐	Total distribution ☐		
PAYER'S Federal identification number / RECIPIENT'S identification number	3 Capital gain (included in box 2a) $ C	4 Federal income tax withheld $ D		**Copy C For Recipient's Records**
RECIPIENT'S name	5 Employee contributions or insurance premiums $ E	6 Net unrealized appreciation in employer's securities $		This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.)	7 Distribution code F — IRA/SEP/SIMPLE ☐	8 Other $ %		
City, state, and ZIP code	9a Your percentage of total distribution G %	9b Total employee contributions $ H		
Account number (optional)	10 State tax withheld $ I $	11 State/Payer's state no.	12 State distribution $ $	
	13 Local tax withheld $ $	14 Name of locality	15 Local distribution $ $	

Form **1099-R** (Keep for your records.) Department of the Treasury - Internal Revenue Service

SRS

SAMPLE DIRECT DEPOSIT EARNINGS STATEMENT

Office of the Comptroller
State of Illinois

PAGE 1

EARNINGS STATEMENT OF DIRECT DEPOSIT PAYMENTS
FOR THE PERIOD OF 01/01/01 THROUGH 07/31/01
PAID IN 2001

12,840

SOCIAL SECURITY NO.
LAW 1
FUND 479

NAME & ADDRESS

MONTH ENDING 01/31/2001
GROSS 226.64 FD TX 0.00 NON TX 12.00 DED HLTH INS .00 UN DUES 1.50 NET 202.74
ST TX .00 DED LIFE INS 22.40 CR UNION .00
DENTAL INS .00 BONDS .00
ST PD LIFE 2.05 ASSN DUES .00
ST PD HLTH 357.00 OTHER DED .00
SECA .00 MISC INS .00

MONTH ENDING 02/28/2001
GROSS 226.64 FD TX 0.00 NON TX 12.00 DED HLTH INS .00 UN DUES 1.50 NET 202.74
ST TX .00 DED LIFE INS 22.40 CR UNION .00
DENTAL INS .00 BONDS .00
ST PD LIFE 2.05 ASSN DUES .00
ST PD HLTH 357.00 OTHER DED .00
SECA .00 MISC INS .00

MONTH ENDING 03/31/2001
GROSS 226.64 FD TX 0.00 NON TX 12.00 DED HLTH INS .00 UN DUES 1.50 NET 202.74
ST TX .00 DED LIFE INS 22.40 CR UNION .00
DENTAL INS .00 BONDS .00
ST PD LIFE 2.05 ASSN DUES .00
ST PD HLTH 357.00 OTHER DED .00
SECA .00 MISC INS .00

MONTH ENDING 04/30/2001
GROSS 226.64 FD TX 0.00 NON TX 12.00 DED HLTH INS .00 UN DUES 1.50 NET 202.74
ST TX .00 DED LIFE INS 22.40 CR UNION .00
DENTAL INS .00 BONDS .00
ST PD LIFE 2.05 ASSN DUES .00
ST PD HLTH 357.00 OTHER DED .00
SECA .00 MISC INS .00

MONTH ENDING 05/31/2001
GROSS 226.64 FD TX 0.00 NON TX 12.00 DED HLTH INS .00 UN DUES 1.50 NET 202.74
ST TX .00 DED LIFE INS 22.40 CR UNION .00
DENTAL INS .00 BONDS .00
ST PD LIFE 2.05 ASSN DUES .00
ST PD HLTH 357.00 OTHER DED .00
SECA .00 MISC INS .00

MONTH ENDING 06/30/2001
GROSS 226.64 FD TX 0.00 NON TX 12.00 DED HLTH INS .00 UN DUES 1.50 NET 202.74
ST TX .00 DED LIFE INS 22.40 CR UNION .00
DENTAL INS .00 BONDS .00
ST PD LIFE 2.05 ASSN DUES .00
ST PD HLTH 357.00 OTHER DED .00
SECA .00 MISC INS .00

MONTH ENDING 07/31/2001
GROSS 226.64 FD TX 0.00 NON TX 12.00 DED HLTH INS .00 UN DUES 1.50 NET 203.24
ST TX .00 DED LIFE INS 21.90 CR UNION .00
DENTAL INS .00 BONDS .00
ST PD LIFE 1.80 ASSN DUES .00
ST PD HLTH 262.36 OTHER DED .00
SECA .00 MISC INS .00

ADDITIONAL INFORMATION MAY BE OBTAINED BY CONTACTING
THE STATE EMPLOYEES RETIREMENT SYSTEM (217) 785-7444
2101 SOUTH VETERANS PARKWAY
P.O. BOX 19255
SPRINGFIELD, IL 62794-9255

YEAR-TO-DATE GROSS 1,586.48
YEAR-TO-DATE NON TAXABLE GROSS 84.00
YEAR-TO-DATE FEDERAL TAX 0.00
YEAR-TO-DATE STATE TAX 0.00

SERS MISSION STATEMENT

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

State Employees' Retirement System of Illinois

EXHIBIT C-4

Your Rights & Responsibilities
EMPLOYEE HANDBOOK

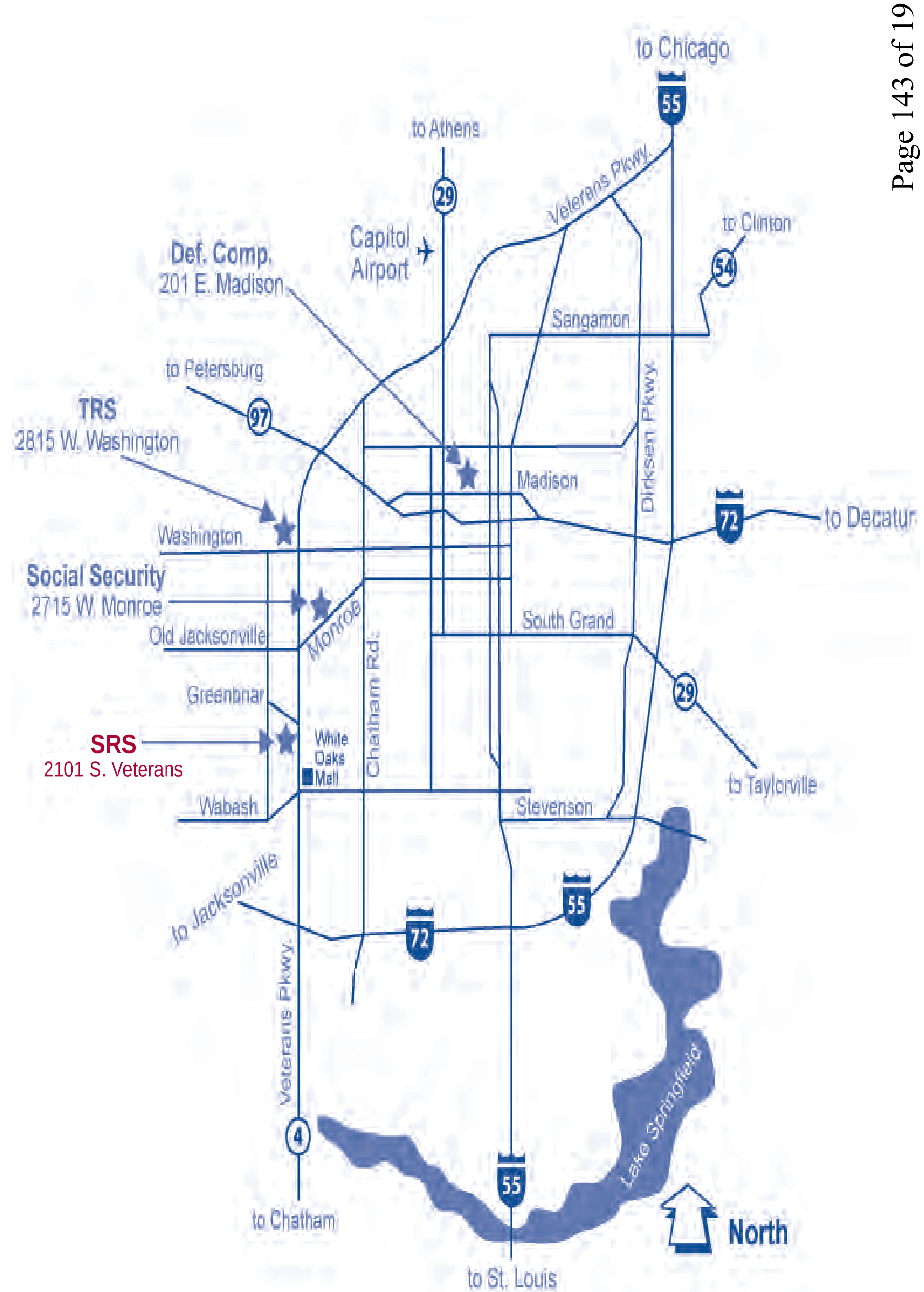
TIER 1

For Members Hired Before January 1, 2011

JANUARY 1, 2011

TABLE OF CONTENTS

CITY OF SPRINGFIELD



1. GENERAL INFORMATION

This handbook, provided by the State Employees' Retirement System (SERS), presents you with a general overview of your benefits. It explains SERS eligibility requirements, pension contributions, optional service credit and overall benefits. These benefits, when combined with other income, are designed to provide you with financial security in retirement.

This handbook describes SERS benefits in nontechnical language. SERS is governed by 40 ILCS 5/14 of the Illinois Compiled Statutes (Plan Document). If there is any variance between this handbook and the Plan Document, the Plan Document rules.

This information applies to all active state employees hired before January 1, 2011. When you terminate employment, your benefits will be determined by the laws in effect on that date. Read this booklet carefully and keep it for reference. Make sure your loved one is also familiar with this handbook and that he or she knows where your important papers are located.

The Member Handbook is intended to serve as a supplement to your Annual Benefit Statement, which includes personal benefit information pertaining to you. If you have questions about the information in this handbook, call us at the appropriate phone number listed on page 2.

ADDRESSES & PHONE NUMBERS

You can contact us Monday thru Friday from 8 a.m. until 4:30 p.m. You may e-mail us with any questions and/or comments at: sers@srs.illinois.gov

SPRINGFIELD

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

General: 217-785-7444	Fax: 217-785-7019
Accounting: 217-785-7191	Fax: 217-785-7019
Deaths: 217-785-7366	Fax: 217-524-2293
Disabilities: 217-785-7318	Fax: 217-785-6961
Insurance: 217-785-7150	Fax: 217-557-0510
Pensions: 217-785-7343	Fax: 217-524-2293
Refunds: 217-785-7164	Fax: 217-785-6964
Service: 217-785-7167	Fax: 217-785-6964

CHICAGO

Michael A. Bilandic Building
160 North LaSalle Street, Suite N725
Chicago, Illinois 60601
312-814-5853 Fax: 312-814-5805

TDD/TTY

A Telecommunications Device for the Deaf (TDD/TTY) is available for members and annuitants who are hearing or speech-impaired. You may access this service at 217-785-7218.

INTERNET

SERS is on the Internet at http://www.state.il.us/srs. Our goal is to educate you about the retirement, disability and death benefits provided under SERS.

The website provides an overview of benefits, and gives you easy access to a variety of information: current retirement issues, how to contact us, answers to frequently asked questions, and education opportunities through our Benefit Seminars and pre- and post-retirement workshops.

We also have a pension calculator which allows you to get an unofficial projection of your pension benefit. The calculator is an educational tool to help you develop personal retirement strategies.

Our website contains our annual financial report, a summary of the Illinois State Board of Investment annual financial report, and a link to other state agencies.

RECIPROCAL SYSTEMS

In addition to SERS, the following systems participate in the Retirement Systems' Reciprocal Act. For more information on the Reciprocal Act, see page 15.

Chicago Teachers' Pension Fund

203 North LaSalle, Suite 2600
Chicago, IL 60601
312-641-4464 Fax 312-641-7185
www.ctpf.org

County Employees' Annuity & Benefit Fund of Cook County

33 North Dearborn Street, Suite 1000
Chicago, IL 60602-3103
312-603-1200 Fax 312-603-9760

Forest Preserve District Employees' Annuity & Benefit Fund of Cook County

33 North Dearborn Street, Suite 1000
Chicago, IL 60602-3103
312-603-1200 Fax 312-603-9760

General Assembly Retirement System
2101 South Veterans Parkway
P. O. Box 19255
Springfield, IL 62794-9255
217-782-8500 Fax 217-557-5154
www.state.il.us/srs

Judges' Retirement System
2101 South Veterans Parkway
P. O. Box 19255
Springfield, IL 62794-9255
217-782-8500 Fax 217-557-5154
www.state.il.us/srs

Illinois Municipal Retirement Fund
2211 S. York Road
Suite 500
Oak Brook, IL 60523-2337
800-275-4673 Fax 630-368-5399
www.imrf.org

Laborers' Annuity & Benefit Fund of Chicago
321 North Clark Street
Suite 1300
Chicago, IL 60654-4739
312-236-2065 Fax 312-236-0574

Metropolitan Water Reclamation District Retirement Fund
111 East Erie, Suite 330
Chicago, IL 60611-2898
312-751-3222 Fax 312-751-5699
www.mwrd.org

Municipal Employees' Annuity & Benefit Fund of Chicago
321 North Clark Street
Suite 700
Chicago, IL 60654-4767
312-236-4700 Fax 312-527-0192
www.meabf.org

Park Employees' Annuity & Benefit Fund of Chicago
55 East Monroe
Suite 2720
Chicago, IL 60603
312-553-9265 Fax 312-553-9114
www.chicagoparkpension.org

State Universities Retirement System
1901 Fox Drive
P. O. Box 2710
Champaign, IL 61825-2710
800-275-7877 Fax 217-378-9800
www.surs.org

Teachers' Retirement System
2815 West Washington Street
P. O. Box 19253
Springfield, IL 62794-9253
800-877-7896 Fax 217-753-0369
www.trs.illinois.gov

GENERAL BENEFIT INFORMATION

ANNUAL BENEFIT STATEMENT

In August, you will receive your Annual Benefit Statement. This statement includes information regarding your beneficiary(ies), credited service, contributions, retirement, disability, and death benefits.

BENEFIT CLAIMS

In order to receive any benefit, you must apply for it with the Claims Division and provide proof of age. Your agency's Retirement Coordinator can assist you in filing a claim.

After you begin receiving benefits, you should notify SERS if you change your name, address, or wish to change your beneficiary (ies) for the lump sum death benefit.

All SERS records are maintained according to your Social Security number. Therefore, make sure your Social Security number is correct when filing a claim.

All benefit claims and appeals are reviewed by the SERS Executive Committee of the Board of Trustees. If your claim is denied, or you question the payment of any benefit, you or your representative may file a written appeal or request a hearing before the Executive Committee.

SOCIAL SECURITY

All Social Security benefit claims must be made directly to the Social Security Administration. You will need to provide your Social Security number and proof of age.

GROUP INSURANCE

Upon approval of a SERS benefit claim, participation in the Group Insurance Program continues as described in your CMS group insurance handbook. Failure to pay your insurance premiums will result in termination of group coverage.

Refer to the CMS Group Insurance Handbook for detailed information on insurance benefits and premiums while on a leave of absence.

SEMINARS & WORKSHOPS

Topics covered in all workshops include:

- *Financial Planning*
- *Deferred Compensation*
- *Entitlements*
- *Social Security*
- *Group Insurance*
- *Estate Planning*

SEMINARS

Benefit Seminars, which explain SERS benefits in detail, are conducted throughout the state by request.

PRE-RETIREMENT WORKSHOPS

Pre-retirement workshops are offered throughout the state for all state employees and their spouses.

Investing in Your Future (IYF) this introductory workshop is for employees under age 45. The main emphasis is money management, consumer debt, and investing for the future.

Education for Tomorrow's Choices (ETC) is a two-day workshop for employees 5-15 years from retirement. It asks participants to realistically assess their future needs and lifestyle, and take the necessary steps to achieve those goals. The ETC stresses medium-range planning.

Countdown to Retirement (CDR) reviews financial planning for and explains the transition to retirement. The CDR is for employees within three years of retirement.

To enroll in a Benefit Seminar or pre-retirement workshop, contact your agency's Retirement Coordinator. Your Retirement Coordinator's name is listed in your Annual Benefit Statement. If you have questions about the workshops, call us at 217-785-6979.

2. SERS MEMBERSHIP

ELIGIBILITY & CONTRIBUTIONS

COORDINATION WITH SOCIAL SECURITY

With certain exceptions, all members who join SERS must contribute to Social Security.

ELIGIBILITY

After serving a six-month qualifying period, you become a member of SERS and mandatory contributions are automatically credited to your account. The qualifying period includes 12 months of employment before becoming a member prior to January 1, 1972, or 6 months for a person entering state service from January 1, 1984 through November 30, 2010. If your position is not covered by Social Security, membership begins immediately.

CONTRIBUTIONS

Contributions are based on a percentage of total compensation, including overtime pay. All contributions are credited to your account, regardless of the source.

EMPLOYER PICK-UP

Some state employees have all or a portion of their contributions "picked-up" or paid, by the State of Illinois. The elected official who oversees your agency, board or commission determines whether your agency participates in the Employer Pick-Up Program and the pick-up percentage.

If you receive a lump sum refund of contributions, the employer pick-up contributions are included, along with any contributions which may have been deducted from your pay. The employer pick-up is also included in the calculation of any death benefit involving member contributions.

EMPLOYEE CONTRIBUTIONS

REGULAR RETIREMENT FORMULA CONTRIBUTIONS

	Pension		Survivors' Benefit*		Total
Members with Social Security	3.5%	+	.5%	=	4.0%
Members without Social Security	7.0%	+	1.0%	=	8.0%

** If you have no eligible survivors when you retire, you will receive a refund of the survivors' portion of your contributions.*

*ALTERNATIVE RETIREMENT FORMULA CONTRIBUTIONS***

					Total
With Social Security	8.0%	+	.5%	=	8.5%
Without Social Security	11.5%	+	1.0%	=	12.5%

*** If you do not qualify for the alternative formula when you retire, you will receive a refund of the alternative formula contributions in excess of the regular formula contributions.*

SERVICE

MEMBERSHIP SERVICE

This includes full and partial months of state employment after January 1, 1944, when contributions were credited to your account.

CREDITED SERVICE

Credited service is the total amount of credit toward retirement, including any optional credit that may have been purchased and any free military service that may have been granted.

You earn credited service for each month you make the required contributions *(*see below)*. The amount of credited service affects the amount of your retirement; the more months of service, the greater the benefit.

OPTIONAL SERVICE CREDIT

Optional service credit is time that may be purchased to increase your pension. It includes: qualifying periods, short periods of employment, leaves of absence, military service (paid), and the repayment of a refund (refer to page 13). ***All optional service credit must be paid and established before retirement.***

HOW CREDITED SERVICE IS COMPUTED*

Monthly Employees	Hourly Employees	Daily (per diem) Employees	Monthly Credit
15 + days	75+ hours	10+ workdays	1
8 - 14 days	38 - 74 hours	5–9 workdays	½
< 8 days	< 38 hours	< 5 workdays	¼

MAKING PAYMENTS FOR PERIODS WHEN YOU DID NOT CONTRIBUTE

If you wish to establish credited service for periods of employment when you did not contribute, you may make a retroactive payment of the contributions and interest, either in a lump sum or installment payments.

Qualifying Periods

A qualifying period is the time a state employee may have served before becoming a SERS contributing member. This includes the 12 months of employment before becoming a member prior to January 1, 1972, or 6 months for a person entering state service from January 1, 1984 through November 30, 2010.

Short Periods

A short period is intermittent service not exceeding the qualifying period time when no retirement deductions were taken.

Leaves of Absence

You may establish service credit for periods of less than one year spent on an authorized leave of absence, provided the period of leave began on or after January 1, 1982.

You may also establish service credit for more than one authorized leave of absence. The total period of service established can then exceed one year.

Military Service

Military service includes ***active*** duty in the United States Army, Navy, Air Force, Marines, or Coast Guard, or any of the women's auxiliaries.

Before any military credit can be granted, or any cost determined, SERS must receive a copy of form DD-214, or the appropriate separation or discharge papers verifying active duty

SERS grants two types of military service credit:

1. Free credit with no contributions if ALL of the following conditions are met:

- You were a state employee within 6 months immediately before entering military service.
- You returned to state employment within 15 months after honorable discharge.
- You establish creditable state service immediately before and after military service.

2. Paid credit, with contributions

If you do not qualify for free military service credit, you may purchase up to four years of military credit by paying the required employee and employer contributions, plus interest, provided:

- You were not dishonorably discharged;
- The service credit purchased does not exceed five years, when added to the military service granted under Item 1.

This service credit must be purchased while you are a state employee.

Interest is calculated from the date you last became a member of SERS, or November 19, 1991, whichever is later. If you returned to state employment after July 1, 1963, the total military service credit may not exceed five years.

Contact the Service and Refunds Division of SERS to determine if you are eligible to establish additional service credit. You will be notified in writing of any amount due, and the credit that may be established.

IF YOUR CONTRIBUTIONS WERE REFUNDED

If you terminated state employment, received a refund of your contributions and were later rehired, you may reestablish your credited service by repaying the refund with interest after completing at least two additional years of credited service with SERS, or any of the Illinois Public Retirement Systems that participate in the Retirement Systems' Reciprocal Act.

TAX-DEFERRING OPTIONAL SERVICE PURCHASES

SERS allows you to tax-defer optional service credit purchases through payroll deduction. This lets you defer taxation until retirement. The tax-deferred withholding is made through an irrevocable payroll agreement for the total amount of service credit purchased.

You may also transfer funds from your Deferred Compensation account to purchase permissive service credit or repay a refund. Service credit is granted only after a refund or service purchase is paid in full. If you die, a partial service credit may be granted based on contributions and interest paid on the date of your death.

In the case of retirement, termination, or absences of more than one year, you can choose to make an after-tax lump sum payment for the balance due, or the contributed amount can be refunded with taxes withheld and reported as income in that calendar year. Any after-tax lump sum payment must be made no later than 30 days after SERS notifies you of the amount due.

If you are off the payroll for less than one year, the missed payroll deductions must be paid according to IRS rules and regulations. This may be done by either doubling your normal payroll deduction, or by a transfer from a qualified rollover account. No optional service purchase deductions can be made from a disability benefit payment.

LUMP SUM SALARY PAYMENTS

Most employees will receive a lump sum payment at retirement for unused vacation and sick days earned between January 1, 1984 and December 31, 1997. This lump sum payment can be used to purchase any tax-deferred optional service credit. This election must be completed before you leave state service.

Unused Sick Leave

Unused and unpaid sick leave can be used to meet service eligibility requirements and increase your retirement benefit. This additional service credit does not affect final average compensation.

Paid Sick & Vacation Time

If you receive a lump-sum payment for sick leave, vacation, or personal days when you retire, you may establish credit for this time to meet service eligibility requirements and increase your retirement benefit (21 days of sick & vacation leave equals one month of service credit).
This additional service credit does not affect final average compensation. You can make the required contributions on a pre or post-tax basis. To be eligible for this option, your retirement date must be effective within 90 days of resignation.

ROLLOVERS

You may rollover money from another qualified pension plan, or an Individual Retirement Account or Roth IRA, 403b or 457 containing money from a qualified total distribution to purchase optional service credit.

You may also transfer money while still employed from your Deferred Compensation account (457b) or tax-sheltered annuity (403b) to purchase permissive service credit or repay a refund. To do so, you must obtain and complete a Transfer/Rollover Certification form from the Service & Refunds Division.

SERVICE UNDER OTHER ILLINOIS PUBLIC RETIREMENT SYSTEMS

If you have at least one year of credited service under an Illinois Public Retirement System covered by the Reciprocal Act, your service under that system may be used to determine your eligibility for a benefit from SERS. This amount is based on the benefit formula and service credit in each system, and is paid to you by each system. Annual pension benefit increases are made in accordance with each system's statutes.

Under the Reciprocal Act, the highest final average compensation is used for computing benefits under all systems. However, total benefits cannot be higher than it would have been if all service were in one system. If benefits are being paid under reciprocity, and you are granted service credit by more than one system for the same period of time, each system will reduce its credit proportionately.

In general, the rules of each retirement system apply in determining eligibility for a benefit. For reciprocal system's addresses and phone numbers, refer to pages 3 & 4.

FAC

Level
Income

Pension Increases

Nonoccupational
Disability

Qualified Survivor

3. SERS BENEFITS

REGULAR RETIREMENT BENEFITS

RETIREMENT FORMULA

The regular retirement formula applies to most SERS members.

Covered: 1.67% for each year of service

Non-Covered: 2.2% for each year of service

ELIGIBILITY

To receive a pension benefit, you must have a minimum of eight years of service credit. You may retire at:

- Age 60, with 8 years of service credit.
- Any age, when your age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1020 months) (Rule of 85) with eight years of credited service in SERS.
- Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).

Covered Example: The member is covered under Social Security, is 60 years old, has 30 years of credited service, and a final average compensation of $3,600 per month.

30 years x 1.67% = ***50.1%*** • 50.1% x $3,600 FAC = ***$1,803.60*** per month, or ***$21,643.20*** annually.

Non-Covered Example: The employee is not covered by Social Security, is 60 years old, has 30 years of credited service, and a final average compensation of $3,800 per month.

30 years x 2.2% = ***66%*** • 66% x $3,800 FAC = ***$2,508.00*** per month, or ***$30,096.00*** annually

FINAL AVERAGE COMPENSATION

Your retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the 48 highest consecutive months of service within the last 120 months of service. Examples for both covered and non-covered members are below left.

The maximum regular retirement benefit is 75% of final average compensation.

REDUCED RETIREMENT BENEFIT

A regular formula member can retire between the ages of 55-60 with 25-30 years of service credit with a pension reduced 1/2 of 1% for each month under age 60.

ANNUAL PENSION INCREASES

If you retire under the Rule of 85, you are eligible for your first 3% increase on January 1 following your first full year of retirement, even if you are not age 60. If you retire at age 60 or older, you will receive a 3% pension increase every year on January 1, following your first full year of retirement.

If you retire before age 60 with a reduced retirement benefit, you will receive a 3% pension increase every January 1 after you turn age 60 and have been retired at least one full year. These pension increases are not limited by the 75% maximum.

ALTERNATIVE RETIREMENT BENEFITS

The maximum alternative retirement benefit is 80% of final average compensation

RETIREMENT FORMULA

The Alternative Formula applies to members in certain positions with 20 years of alternative service.
Covered: 2.5% for each year of service
Non-Covered: 3.0% for each year of service.

ELIGIBILITY

Members eligible for the alternative formula may retire at age 50 with 25 years of service credit, or at age 55 with 20 years of service credit.

FINAL AVERAGE COMPENSATION

For an alternative formula employee, 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 January 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%.

Alternative Formula Example #1: The employee is not covered by Social Security, is 50 years old, has 26 years, 8 months (320 months) of credited service, and a final average compensation of $5,000 per month.

26 Years, 8 months x 3% = ***80%*** • 80% x $5,000 = ***$4,000*** per month, or ***$48,000*** annually.

Alternative Formula Example #2: The employee is covered by Social Security, is 50 years old, has 32 years (384 months) of credited service, and a final average compensation of $4,000 per month.

32 Years x 2.5% = ***80%*** • 80% x $4,000 = ***$3,200*** per month, or ***$38,400*** annually.

Positions eligible for benefits under the alternative formula:

- State Policeman
- Fire Fighter
- Air Pilot
- Special Agent
- Secretary of State Investigator
- Conservation Police Officer
- Revenue or Gaming Board Investigator
- Department of Human Services Security Employee (includes Mental Health police)
- Central Management Services Police Officer
- Security Employee with the Department of Corrections or Juvenile Justice (includes the Prisoner Review Board)
- Dangerous Drug Investigator
- State Police Investigator
- Attorney General Investigator
- Controlled Substance Inspector
- State's Attorneys Appellate Prosecutor Investigator
- Commerce Commission Police Officer
- State Fire Marshal Arson Investigator
- State Highway Maintenance Worker

ANNUAL PENSION INCREASES

Alternative formula retirees receive their first 3% pension increase on January 1 following the first full year of retirement after age 55. These increases are not limited by the 80% maximum.

SECURITY EMPLOYEES WHO MAY BE ELIGIBLE FOR THE ALTERNATIVE FORMULA

A security employee will receive the security formula for alternative formula service only!

A security employee with either the Department of Corrections or the Department of Human Services may be eligible for the alternative formula even if they do not have 20 years of service in the previously mentioned positions.

These security employees would be eligible for the alternative formula for the time they served in a security position, if they have at least 20 years of service. This may include regular formula service and reciprocal service. The maximum benefit is 75% of FAC.

Final average compensation is based on the highest consecutive months of service within the last 48 months of service.

The age and service requirements for these employees are:

Security employees may be eligible for a 3% cost of living adjustment (see page 19).

- Any age, when your age (years & months) and years of service credit (years and months) equal 85 years (1020 months) (Rule of 85).
- Age 60 with 20 years of credited service.
- Between ages 55-60 with 25-30 years of credited service (reduced 1/2 of 1% for each month under age 60).

SECURITY RETIREMENT FORMULA

Covered:	2.5% for each year of alternative formula service.
Non-Covered:	3.0% for each year of alternative formula service.

BENEFIT PAYMENTS

You must apply for benefits in order to receive them. Contact your agency's Retirement Coordinator and SERS approximately 30-90 days before retiring so we can begin the separation process.

We will mail you a retirement packet which includes a retirement application, forms and information regarding insurance, taxes, and electronic funds transfer.

Your retirement benefit is paid monthly for your lifetime. Your pension will start on the first day of the month following withdrawal from service. You will receive your first pension check approximately six weeks after your retirement date.

If you elect Direct Deposit, the first two checks are mailed to you. After that, all future checks will be electronically deposited into your bank account on the 19th of every month. You are required to notify SERS of any changes to your mailing address after retirement.

OPTIONAL FORMS OF PAYMENT

SERS allows you to choose several optional forms of payment.

Level Income

This option allows members who have paid into SERS and Social Security to receive their benefits at a level amount throughout their retirement years by combining their Social Security and SERS benefit. The Level Income option can be helpful when a member retires

The Level Income Option is an irrevocable election.

LEVEL INCOME OPTION EXAMPLE

A member retires at age 60 with a monthly pension of $1,800 from SERS. The member is also eligible for a monthly Social Security benefit of $1,000 at age 66.

At Age 60: The member's $1,000 monthly Social Security benefit is discounted to $523.50. Therefore, the SERS benefit would be $2,323.50, increasing 3% each year to $2,774.38 per month by age 66.

At Age 66: The member's monthly SERS benefit would be reduced to $1,774.38, because the Social Security benefit of $1,000 per month would begin. The member's combined monthly benefit would still total $2,774.38.

before the age when they qualify for a Social Security benefit.

Under Level Income, SERS pays an amount (based on your estimated Social Security benefit) in addition to your regular retirement benefit until you qualify for Social Security benefits. At this time, your pension is reduced regardless of when you actually begin receiving Social Security and regardless of how much this benefit actually is. This reduced amount will be paid for your lifetime. If you choose Level Income, it is your responsibility to apply for Social Security benefits.

Certain restrictions apply for members choosing Level Income when a QILDRO is on file with SERS prior to retirement.

Reversionary Annuity

This option reduces your monthly retirement benefit to provide a lifetime income for your designated dependent after your death. The monthly amount paid to your dependent after your death may not be less than $10, and may not exceed the amount of your reduced benefit. This benefit is in addition to the survivors' benefit.

A spouse is assumed to be dependent for the Reversionary Annuity.

The reversionary annuity is useful for providing income to a surviving spouse or other dependent who doesn't work, or worked very little, and won't receive much retirement or

Social Security income. If you choose the reversionary annuity, it cannot be rescinded. If the designated dependent dies before you, the reversionary annuity is void and your retirement benefit is not recalculated. The reversionary annuity does not have an annual cost of living increase.

Reversionary Annuity Example #1

A member is planning on retiring at age 60 with a monthly retirement benefit of $4,000. The member's dependent spouse, age 58, is eligible for the reversionary annuity. The member decides to provide the spouse with 100% of the member's retirement benefit after the member's death.

In order to provide their spouse with 100% of the member's retirement benefit, the member chooses the reversionary annuity. The member will receive a reduced retirement benefit of $3,566.40 per month, plus the member will receive the yearly 3% increase until their death.

After the member dies, the spouse will receive 100% of the retirement benefit being paid at the member's death for the spouses lifetime, and may be eligible for a survivor benefit. If the spouse dies before the member, the reversionary annuity is void, and the member's retirement benefit cannot be recalculated.

Reversionary Annuity Example #2

A member, age 60 with a retirement benefit of $4,000 per month, decides to provide the dependent spouse, age 58, with 50% of the retirement benefit after death. In order for the spouse to receive 50% of the retirement benefit, the member chooses the reversionary annuity. The retirement benefit is reduced to $3,770.80 per month, plus the member will receive the yearly 3% increase, until death.

After the member dies, the spouse will receive 50% of the retirement benefit being paid at the member's death for life, and may also be eligible for a survivor benefit. If the spouse dies before the member, the reversionary annuity is void, and the member's retirement benefit cannot be recalculated.

The QILDRO does not apply to survivor annuities, disability benefits or group insurance benefits.

Qualified Illinois Domestic Relations Order (QILDRO)

A QILDRO allows for the division of a retirement benefit or a refund of contributions due to divorce. It does not establish a new benefit, nor does it create a new member or beneficiary.

Generally, the QILDRO orders the payment of a benefit to the spouse as the alternate payee. It may also be payable to a child or other dependent as the alternate payee.

A member may not choose a benefit type that would diminish the alternate payee's benefit without written consent from the alternate payee. The QILDRO is usually issued at the time of divorce and sent to the member's retirement system. It is recorded and retained until the member applies for a refund, retirement benefit or dies.

Any member employed with a reciprocal retirement system before July 1, 1999 must sign a consent form for the QILDRO to go into effect. A member who begins employment with an Illinois public retirement system after July 1, 1999 accepts the QILDRO as a condition of employment. A copy of the QILDRO process may be obtained from SERS.

RETURNING TO EMPLOYMENT AFTER RETIRING

If you return to state employment on a contractual basis, or to the private sector, your SERS retirement benefit is not affected. However, if you return to state employment after retirement, you should notify the SERS Claims Division immediately.

Nonpermanent Reemployment

If your employment with the state lasts less than 75 working days during a calendar year (any part of a day is counted as a full day), you will continue to receive your pension payment. During your employment, you make no contributions to SERS, but you must contribute to Social Security. If you work more than 75 working days, your pension benefit will end on the 76th day, and you will resume contributing to SERS.

75-day employment must be certified by the member and the employing agency when submitting to SERS for verification.

Permanent Reemployment

If you are reemployed by the state on a permanent basis, you will not be eligible for pension benefits while working. You will make contributions to both SERS and Social Security during your employment, and earn additional credited service.

After you again retire from state employment, you must reapply for a pension. Your new pension amount will be the benefit earned before reemployment, plus the pension amount earned during reemployment.

If you reenter state service within three years after retiring, you may qualify to have your new retirement benefit computed as though you never retired. To qualify, you must repay all of the pension benefits you received, plus interest. This repayment may be made in a lump sum, by installments paid within five years after your reemployment, or before your next retirement date, whichever is first.

If you choose not to complete installment payments before retirement or the end of the five-year period, your installment payments will be refunded and your pension will not be recomputed.

If you receive a pension from more than one reciprocal system, you must notify every system (see page 3). Each system will determine if you can receive pension benefits during reemployment.

DISABILITY BENEFITS

While you receive disability benefits, your SERS account will continue to be credited with service and contributions as if you were working.

If you become disabled and are unable to perform the duties of your position while actively employed, you may receive disability benefits which partially replace your working income.

For disability benefits, final average compensation is the rate of pay on the date of the disability, or the 48 highest consecutive months of service within the last 10 years, whichever is greater.

NON-OCCUPATIONAL DISABILITY BENEFITS

If you become ill or injured from causes not work-related, you could be eligible for non-occupational disability benefits if:

- SERS determines that you are disabled.
- You have at least 18 months of credited service with SERS (Teachers' or State Universities Retirement Systems service can be used to establish 18 months with SERS).
- You have used all your accumulated sick leave.
- You are granted a medical leave of absence.
- You and your agency have submitted the required forms to SERS.

APPLYING FOR BENEFITS

You must apply in order to receive benefits. It is important to file an application for a disability benefit with SERS when it appears your disability will continue beyond 30 days after you stop working. Your application must be received within 90 days from the date you were removed from the payroll to prevent a possible loss of benefits.

The application process requires you to obtain a physician's report certifying you are unable to perform your assigned duties. You must also sign a release form giving SERS access to your medical records.

If you are eligible for Social Security benefits, SERS takes the initial amount of your Social Security benefit into account when determining your disability payment. A SERS representative may assist you with the Social Security disability application process.

If you receive any type of Social Security benefit while you are disabled, SERS needs to know to determine if it will affect your SERS disability benefit.

WHEN PAYMENTS BEGIN & END

Once SERS determines your eligibility, benefits begin on the latest of:

- The 31st day of absence from work because of disability (including periods when sick pay was received).
- The last day you received wages (including periods when sick pay was received).
- If your application is not received within 90 days after your removal from the payroll, your benefit will begin on the date the application is received.

Nonoccupational Disability Benefits End When:

- You exhaust one-half of your credited service.
- Your disability ends.
- You resume employment.

- You reach age 65 (If your disability begins after age 60, benefits are payable for up to five years).

If your disability ends and you become disabled from the same cause within 60 days after you resume state employment, the 30-day waiting period is waived. The benefit amount for the second period of disability is the same as the first.

BENEFIT AMOUNT

SERS statutes require a member who is coordinated with Social Security to file for Social Security disability benefits within the first year of receiving SERS disability benefits.

Your disability benefit equals 50% of your final average compensation or your monthly rate of pay on the date you were removed from the payroll, whichever is greater. If you pay into Social Security and are under full retirement age, your benefit will be reduced by the amount payable from Social Security if you are approved for Social Security disability benefits. If you have reached full retirement age, your benefit will be reduced by the amount of pension you are eligible to receive from Social Security.

Any SERS disability benefits received during the same time as a retroactive Social Security payment will result in an overpayment. You are required to repay SERS the overage amount.

TERMINATION OF DISABILITY

If your benefit is terminated because you received disability benefits for one-half of your credited service, but you are still disabled, you become eligible for a retirement annuity if:

- You are age 60 and have at least 8 years of credited service.
- You are age 55 and have at least 15 years of credited service.
- You are age 50 and have at least 20 years of credited service.

SERVICE CREDIT

While you receive disability benefits, your SERS account will continue to be credited with service and contributions as if you were working.

BENEFIT INCREASE

Each non-occupational disability benefit paid by SERS is increased 7% on January 1 after four years of being granted the benefit. On each January 1 following the date of the 7% increase, there is a 3% benefit increase.

OCCUPATIONAL DISABILITY BENEFITS

Occupational disability benefits are paid if you are unable to work due to a work-related illness or injury.

Applying for Benefits

- File a claim with the Illinois Workers' Compensation Commission (WCC), the Risk Management Division of your agency, or the Risk Management Division of Department of Central Management Services to determine if your disability is work-related.
- File the required forms with the Claims Division of SERS either within:
- 12 months after your removal from the payroll.
- 12 months after becoming eligible for benefits under Workers' Compensation.
- 12 months after the Illinois WCC approves your Workers' Compensation benefit.

If your injury was caused by a third party (i.e. motorist, contractor, etc.) and you collect money from that party, SERS is entitled to a reimbursement for sums paid to you in occupational disability benefits and service contributions.

WHEN PAYMENTS BEGIN & END

Occupational Disability Benefits Begin When:

- SERS determines you are disabled.
- You receive benefits under the Workers' Compensation or Occupational Diseases Act.
- You are removed from your agency payroll.

Occupational Disability Benefits End When:

- Your disability ends.
- You resume employment.
- You reach age 65. (If your disability begins after age 60, benefits are payable for 5 years).

If your disability benefit is terminated because of age or the five-year limit, you are eligible for a retirement benefit.

BENEFIT AMOUNT

Your disability benefit equals 75% of your final average compensation or your monthly rate of pay on the date you were removed from the payroll, whichever is greater. This amount is reduced by any payments made under the Workers' Compensation Act, or the Workers' Occupational Diseases Act.

SERVICE CREDIT

While you receive disability benefits, your SERS account will continue to be credited with service and contributions as if you were working.

BENEFIT INCREASE

Each occupational disability benefit paid by SERS is increased 7% on January 1 after four years of being granted the benefit. On each January 1 following the date of the 7% increase, there is a 3% benefit increase.

TEMPORARY DISABILITY BENEFITS

This benefit is available in disputed Workers' Compensation cases when your agency has formally denied all benefits, and an appeal has been filed with the Illinois WCC.

You may be eligible for the Temporary Disability Benefit if:

- SERS determines you are disabled.
- You have at least 18 months of credited service with SERS (Teachers' or State Universities Retirement Systems service can also be used to establish 18 months with SERS).
- You file an application within 12 months of the date a disability results in the loss of pay.
- Your claim for total temporary disability benefits under the Illinois WCC has been denied.
- You filed an appeal of a denial of total temporary disability benefits with the Illinois WCC.
- You submitted the required forms to SERS.
- You have not received, or had a right to receive, any compensation for at least 30 days.

If the Workers' Compensation benefit you are receiving is terminated, you may be eligible for temporary disability benefits if:

- SERS determines you are disabled.
- You have at least 18 months of credited service with SERS (Teachers' or State Universities Retirement Systems service can also be used to establish 18 months with SERS).

- You submitted the required forms to SERS.
- You have filed an appeal with the Illinois WCC, and requested an emergency hearing under Paragraph 19B1 of the Workers' Compensation Act.
- You have served a 150-day waiting period, or received a decision from the Illinois WCC on your emergency hearing.

APPLYING FOR BENEFITS

You must apply in order to receive benefits. It is important to file an application for a disability benefit with SERS after it appears your disability will continue beyond 30 days after your removal from the payroll, or when your Workers' Compensation benefit is terminated.

Your application must be received within 12 months from the date you were removed from the payroll, or within 12 months from the denial of Workers' Compensation benefits.

The application process requires you to obtain a physician's report certifying you are unable to perform in your position. You must also sign a release form giving SERS access to your medical records.

If you contribute to Social Security, SERS takes the amount of your Social Security benefit into account when determining your disability payment. A SERS representative may assist you with the Social Security application process.

WHEN PAYMENTS BEGIN & END

Temporary Disability Benefits Begin:

- On the 31st day from the date you last received, or had a right to receive, any compensation if your claim was denied by the Workers' Compensation Act.

- Disability benefits for all periods of disability are payable for a total period of time equal to one-half of credited service not earned while on disability.

Temporary Disability Benefits End When:

- You exhaust one-half of your credited service.
- Your disability ends.
- You resume gainful employment.
- You reach age 65. *(If your disability began after age 60, benefits are payable for up to five years, subject to the one-half service credit limitation).*
- A payment is made after determining the state's liability under the Workers' Compensation Act or the Workers' Occupational Diseases Act.
- A final determination is made on the member's claim by the Illinois WCC.

SERVICE CREDIT

While you receive disability benefits, your SERS account will continue to be credited with service and contributions as if you were working.

BENEFIT AMOUNT

Your disability benefit equals 50% of your final average compensation or your monthly rate of pay on the date you were removed from the payroll, whichever is greater. If you pay into Social Security and are under full retirement age, your benefit will be reduced by the amount payable from Social Security if you're approved for Social Security disability benefits. If you have reached full retirement age, your benefit will be reduced by the amount of pension you are eligible for from Social Security.

Once the Illinois Workers' Compensation Commission makes its final determination on a disputed claim, SERS will calculate your benefit to determine if temporary benefits must be repaid.

Any member who accepts a temporary benefit acknowledges and authorizes the recovery rights of SERS.

DEATH BENEFITS

Beginning June 1, 2011, Illinois recognizes legal civil unions between two people. They are entitled to the same SERS benefits as spouses if they have been legal partners for one year. Throughout this booklet, the terms 'civil union partner' and 'spouse' are used interchangeably.

NON-OCCUPATIONAL DEATH

If your death results from a non-work related cause, your eligible survivors and beneficiaries may qualify for benefits.

Death Before Retirement

If you die while actively employed and have at least 18 months of service, your qualified survivors will be eligible for benefits *(see page 38)*.

In addition to survivor benefits, your pension contributions and interest, will be paid to your named beneficiary(ies).

If you die with no qualified survivors while actively employed, your named beneficiary(ies) will receive your contributions, plus interest, and one month's salary for each year of service, up to a maximum of six months' salary.

Death After Termination

If your death occurs after termination of state employment, but before retirement benefits begin, you must have eight years of service for your survivors to qualify for survivor benefits.

The survivor benefits payable are subject to the same maximum's as those payable during active employment, or 80% of the pension amount you were eligible to receive when you died, whichever is less.

If 50% of your earned pension provides a greater monthly benefit than the amounts stated above, it is payable to your survivors. If you die after termination with no survivors, or with less than eight years of service, your named beneficiary(ies) will receive your contributions and interest.

Death After Retirement

If your death occurs after retirement, survivor benefits are subject to the same maximum's as those pay able during active employment, or 80% of the pension you were receiving when you died, whichever is less.

If 50% of your pension provides a greater monthly benefit than the amounts stated above, it is payable to your survivors. If you have no survivors, your beneficiary(ies) will receive any remaining contributions and interest, or $500, whichever is greater.

A Social Security offset will be applied to the survivor benefit if a retired member chose not to eliminate the offset. The Social Security offset will not reduce the survivor's benefit to less than 50% of the benefit otherwise payable.

For example, if a member's pension at death is $3,000, the survivor benefit BEFORE the offset would be $1,500, but AFTER the offset could be as little as $750.

For survivor's of retired members, the survivor benefit is increased 3% on each January 1, after the benefit begins.

Widow's Annuity

If you were a member of SERS before July 19, 1961, and die leaving a surviving widow, she may have the option of taking a widow's annuity rather than a survivors' benefit.

For survivor's of active and inactive members, the survivor benefit is increased 3% on each January 1, following the first anniversary of the benefit.

For survivor's of retired members, the survivor benefit is increased 3% on each January 1, after the benefit begins.

ELIGIBLE SURVIVOR BENEFITS

Your Spouse: If you are survived by your spouse age 50 or over, and you were married at least one year prior to your death, (s)he will receive $1,000, plus a monthly annuity up to a maximum of $400. (S)he will receive this benefit until death. If 50% of your earned pension provides a greater monthly benefit than the amounts stated above, the higher amount is payable to your spouse.

Your Spouse and Children: If your spouse supports your children under age 18 (22 if full-time student), or a disabled child over 18, (s)he can receive benefits before age 50. (S)he will receive $1,000, plus a monthly annuity up to a maximum of $600.

This benefit is payable until your last child reaches age 18 (22 if full-time student), marries, dies, or is no longer disabled. If 50% of your earned pension provides a greater monthly benefit than the amounts stated above, the higher amount is payable to your family.

Your Children: If you are not survived by a spouse, but have children under age 18 (22 if full-time student), or over 18 and disabled, they can receive $1,000 plus a monthly annuity up to a maximum of $600.

This benefit is payable until the last child reaches age 18 (22 if full-time student), marries, dies, or is no longer disabled. If 50% of your earned pension provides a greater monthly benefit than the amounts stated above, the higher amount is payable to your children.

Your Dependent Parents: If your spouse or children do not survive you, your dependent parents may be eligible for benefits.

OCCUPATIONAL DEATH BENEFITS

Eligibility

If you die before retirement from a work-related injury or illness, as determined by the Illinois Workers' Compensation Commission, your survivors are eligible for an occupational death benefit.

If you have no qualified survivors, your nominated beneficiary(ies) will receive your contributions and interest, and one month's salary for each year of service, up to a maximum of six months salary.

Benefits are paid to qualified survivors as described at right. These amounts are reduced by any payments awarded under the Workers' Compensation Act, or the Workers' Occupational Diseases Act.

Annual Increase

The occupational death benefit is increased 3% each January 1, following the first anniversary of the annuity.

Your Spouse: If you are survived by your spouse, (s)he will receive a monthly annuity equal to 50% of your FAC. This benefit is payable until death.

Your Spouse and Children: If your spouse has your children under his/her care who are under age 18 (22 if full-time student), or a disabled child over age 18, they can receive benefits up to a maximum of 75% of your FAC. This benefit is payable until your spouse dies, or your last child reaches age 18 (22 if full-time student), marries, dies, or is no longer disabled.

Your Children: If you are not survived by a spouse, but have children under age 18 (22 if full-time student), or over age 18 and disabled, they can receive a monthly annuity, up to 50% of your FAC. This benefit is payable until the last child reaches age 18 (22 if full-time student), marries, dies, or is no longer disabled.

Your Dependent Parents: If your spouse or children do not survive you, your dependent parents may be eligible for benefits.

LEAVING SERS

When you become eligible, you may restore any previous service by repaying your refunded contributions, plus interest. Payments may be made in a lump sum, or by installments on a pre-tax or post-tax basis. See the Service section for more information.

If you resign, are discharged, dismissed, or laid-off from state employment, you may choose to withdraw your contributions or leave them in SERS. ***You must be off the payroll for 14 days to be eligible for a refund of your contributions.***

If you choose to leave your contributions in SERS:

- You must have eight years of service under SERS to qualify for a pension.
- You may use less than eight years of service to qualify for a reciprocal pension; however a member's combined service credits must meet each system's minimum service credit requirements.

If you choose to have your contributions refunded:

- You will receive no interest on your contributions.
- You will forfeit all rights to benefits for yourself and your beneficiaries.

If you withdraw your contributions and later return to state employment:

- You will be eligible to repay your refunded contributions and have your previous credited service restored after you have completed two additional years of credited service.

Credited service under the Retirement Systems' Reciprocal Act *(listed on pages 3–4)* can be used to meet this requirement.

TAXES

WHEN BENEFITS OR REFUNDS ARE PAID TO YOU

- You will not be taxed on your contributions until you receive them since SERS is a qualified retirement plan under Section 401(a) of the Internal Revenue Code.
- You pay no Illinois state income tax.
- You will pay federal tax on most benefits. Specific information will be furnished when benefits are payable.
- All benefits and refunds must be declared as income in the year they are received.
- Occupational disability and occupational death benefits are exempt from federal income taxes.
- You may postpone taxation of refunds by rolling-over the taxable portion of the payment to another employer plan that accepts it, or to an Individual Retirement Account or Roth IRA.

The best tax treatment for you depends on your individual financial situation. Therefore, we advise all members to check with a qualified tax consultant before receiving benefits or refunds.

Board of Trustees

Defined Benefit Plan

SERS Funding

4. APPENDIX

PLAN DOCUMENT

This handbook attempts to describe SERS benefits in nontechnical language. The official document describing SERS benefits is the Illinois Compiled Statutes, 40 ILCS 5/14, which legally governs the operation of the plan. If there is any variance between this handbook and the plan document, the plan document rules.

BOARD OF TRUSTEES

The Board of Trustees is responsible for the operation of SERS. The Board meets four times a year to review disputed benefits, review and approve the annual operating budget, approve legislative initiatives, and administer policies & procedures.

The Board consists of the State Comptroller who acts as the Chairman, six trustees who are appointed by the Governor, four elected SERS members and two elected retirees.

ADMINISTRATION

SERS is administered by the board-appointed Executive Secretary.

DEFINED BENEFIT PLAN

The State Employees' Retirement System is a defined benefit plan governed by Section 401a of the Internal Revenue Code. In a defined benefit plan, the amount of your retirement benefit is based on your final average compensation and years of service credit.

SERS FUNDING

Contributions are made by the State and its members. All contributions not required for current operations are invested by the Illinois State Board of Investment for the exclusive benefit of our members and their beneficiaries.

To safeguard the proper operation and funding of this multi-billion dollar pension fund, operations are monitored both internally and externally. SERS' financial and administrative activities are subject to an annual audit by an independent accounting firm under the direction of the state's Auditor General.

Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

EMPLOYER IDENTIFICATION NUMBER

The Employer Identification Number of SERS is 37-1026227.

PLAN YEAR

For record-keeping purposes, the plan year is July 1 through June 30.

LEGAL PROCESS

Legal process may be served on the SERS Executive Secretary.

EMPLOYMENT RIGHTS

Membership in SERS does not guarantee continued state employment, nor does it guarantee a right or claim to any benefit not accrued under the terms of the plan document.

GLOSSARY OF TERMS

3%

Agency Retirement Coordinator: Person in each state agency who interacts with the employees of their agency and SERS.

Alternative Retirement Formula: The retirement formula for state employees in high-risk jobs.

Annual Benefit Statement: The Annual Benefit Statement is mailed in August to active members, and to inactive members in February. This statement summarizes the member's account and benefits. It includes information on service credit, projected and accrued pension benefits, and lists the member's beneficiaries.

Automatic Increase in Retirement Annuity: A 3% increase of a member's retirement annuity each January 1 following the first full year of retirement, or age 60, whichever is later. Under the Rule of 85, the increase is paid on January 1 following the first full year of retirement, regardless of age.

For alternative formula members, the increase is paid on January 1 following the first full year of retirement or age 55, whichever is later.

For survivor, widow or occupational death annuity, a 3% increase is paid on January 1 following one full year of benefits.

Beneficiary for Lump-Sum Death Benefit: The beneficiary chosen by the member to receive SERS benefits. A beneficiary form is kept on file with SERS. This should not be confused with the Group Life Insurance beneficiary, or the Deferred Compensation beneficiary.

Civil Union Partner: A legal partner who is entitled to the same legal obligations, responsibilities, protections and benefits as spouses in Illinois.

Coordinated/Covered: A SERS member who contributes to Social Security.

Credited Service: The total service certified to a member's record.

DD214: A document issued by the U.S. Armed Forces to verify active duty as it pertains to military service credit.

Defined Benefit Plan: Provides a predetermined benefit amount using a formula combining service credit and salary.

FAC

Final Average Compensation (FAC):
For Retirement and Survivor Benefits – Final Average Compensation is the average of the highest 48 consecutive months over the last 120 months of service. For alternative formula members, FAC is the final rate of pay, the average of last 48 months of service, or the average of the highest consecutive 48 months of service over the last 120 months of service *(for members in service before January 1, 1998)*, whichever is greater.
For Death and Disability Benefits – Final Average Compensation is the rate of pay at the date of death or disability, or the 48 highest consecutive months of service within the last 120 months, whichever is greater.

Level Income Option: An option for coordinated/covered members when their SERS benefit is increased for the period before receiving Social Security benefits. Their SERS benefit is reduced when Social Security benefits begin. This option provides an income leveling effect throughout an individual's retirement years.

Informer: The SERS newsletter for retirees and survivors that contains timely and pertinent information. This newsletter is usually mailed in January, March and September.

Medical Leave of Absence: An excused absence without pay, granted to an employee for an illness or injury not job-related.

Member: An active SERS employee, any former employee who has contributions credited to their account but has not received a refund, or is not receiving a retirement annuity.

Military Service: Service in the United States Army, Navy, Air Force, Marines, Coast Guard, or any women's auxiliary allowed as credit by SERS.

Non-Occupational Disability: A benefit paid to an individual for an injury or illness not work-related.

Non-Coordinated/Non-Covered: A SERS member who does not contribute to Social Security.

Occupational Disability: A benefit paid to a member for an injury or illness sustained while performing their duties as a state employee.

Optional Service Credit: Periods of employment that can be purchased for additional service credit. Examples include military time, qualifying periods, repayment of refund, leaves of absence, and short periods of employment.

Pension: Retirement annuity paid for a member's lifetime.

Qualified Plan: A retirement plan qualified under the Internal Revenue Code allowing SERS and its members certain tax advantages.

Qualifying Period: A period of state employment prior to becoming a SERS member.

Reciprocal Retirement Systems: There are 13 Illinois public retirement systems participating in the Retirement Systems' Reciprocal Act.

Reciprocity: A member who has at least one year of credited service under another Illinois Public Retirement System, may use their service under that system to determine eligibility for a SERS benefit.

Regular Retirement Formula: The retirement formula for state employees in positions not designated as high-risk.

Reversionary Annuity: A member may elect to receive a lesser retirement benefit and provide a greater benefit for a designated beneficiary.

Retirement Systems' Reciprocal Act: Provides continuity of pension credits for individuals who have participated in more than one Illinois public employee retirement system. There are thirteen retirement systems participating in the Retirement Systems' Reciprocal Act.

85

Rollover: Postponing taxation of distributions by "rolling-over" the payment to another qualified plan, or to an Individual Retirement Account or Roth IRA.

Rule of 85: Allows employees to retire without a penalty when the sum of their age and years of service equals 85 or greater. You must have at least eight years of service to qualify for this benefit.

SERS-O-GRAM: This newsletter is for active SERS employees. It contains timely and pertinent information, and is usually mailed in April and August.

Service: The total credited service certified to a member's record.

Sick Leave: An absence from work due to illness, or the days that accrue for use in the event of illness. This time may be used to establish additional service credit at retirement.

State Employee: Any person who performs services for the State of Illinois.

Survivor Annuity Beneficiary: A beneficiary (spouse, child, dependent parent) designated by statute to receive a monthly annuity upon the death of the member.

Tier 1: Any member hired before January 1, 2011.

Tax-Sheltered/Tax-Deferred: Contributions made by a member that are not taxed until a benefit is paid.

Temporary Disability: A benefit payable during a period when an injury or illness is being contested under the Workers' Compensation Act. A temporary benefit eventually becomes a non-occupational or occupational disability.

RETIREMENT TIMELINE

First Year of State Employment

- Carefully review your most recent Annual Benefit Statement to ensure that SERS records match yours.
- Purchase all allowable service credit. Optional service includes:
  - Qualifying Periods
  - Military Service
  - Refunded Contributions
  - Leaves of Absence
- Visit our website and become familiar with its content.

Early in Your Career

- Carefully review your most recent Annual Benefit Statement to ensure that SERS records match yours.
- Purchase all allowable service credit.
- Attend the preretirement workshop *Investing in Your Future*.

5-15 Years from Retirement

- Carefully review your most recent Annual Benefit Statement.
- Purchase all allowable service credit.
- Attend the preretirement workshop *Education for Tomorrow's Choices*.

3 Years from Retirement

- Carefully review your most recent Annual Benefit Statement to ensure that SERS records match yours.
- Purchase all allowable service credit.
- Attend the preretirement workshop *Countdown to Retirement*.
- Utilize the estimates in your annual Benefit Statement for planning purposes.
- Contact the local Social Security office for an estimate of your Social Security benefit.

12 Months from Retirement

- Carefully review your most recent Annual Benefit Statement to ensure that SERS records match yours.
- Purchase all allowable service credit.

- Discuss benefit options with family members.

- Contact SERS for an official pension estimate.

1-2 Months from Retirement

- Carefully review your most recent Annual Benefit Statement to ensure that SERS records match yours.

- Purchase all allowable service credit.

- Request, complete and return the Application for Retirement Annuity Pension form #3004 to SERS within 30 days of your pension becoming effective.

  Other documents which should be returned with your retirement application are:

  - The Depository Agreement for SERS Benefit Payments (form #3967) if you want your annuity electronically deposited in your bank.

  - A photocopy of your certified birth certificate, if requested on retirement application.

- Check with the Deferred Compensation office about distribution.

At Retirement

- Acquire additional service credit by purchasing your sick and vacation days by completing Form #1404 with your agency payroll clerk before you terminate service.

- Notify your agency of your intent to retire and the date you wish to do so.

- If you need to change your SERS beneficiary, contact SERS for a Nomination of Beneficiary form #101.

- On your last day of employment, resign from your agency by signing the appropriate documents. If you are on disability, you must resign from your leave of absence in order to retire.

After Retirement

- The State of Illinois ***requires*** plan participants who become eligible for premium-free Medicare Part A when turning age 65 or due to a disability before age 65, to enroll in Medicare Part B. Failure to enroll and maintain enrollment in Parts A & B results in a reduction of benefits and additional out-of-pocket expenses for medical services.

- After you retire, questions about the group insurance program should be made to SERS.

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Early Retirement Incentive (ERI)

On Tuesday, June 25, 2002, Governor George H. Ryan signed in law HB2671 (PA #92-566) creating the Early Retirement Incentive (ERI) allowing State Employees' Retirement System of Illinois (SERS) members to purchase up to five years of service and age enhancement. By participating in the ERI, members have two options:

1. If a member meets the ERI retirement eligibility requirements, they may retire between August 1, 2002 and January 1, 2003 using the age and service enhancement (See Option 1 below);

2. If a member does not meet the ERI retirement eligibility requirements between August 1, 2002 and January 1, 2003, they may purchase ERI service, terminate employment by January 1, 2003 and receive retirement benefits when they become eligible (See Option 2 below).

EXHIBIT D

Option 1:

Eligible employees may retire on the first day of any month during the ERI period (August 1, 2002 to January 1, 2003), as long as you meet the eligibility requirements on the date chosen.

To participate in, and begin receiving a SERS pension under the ERI, you must:

• Have eight years of SERS service, not including ERI service (five years must be contributing service) by your date of termination;

• Members retiring under the alternative formula must be age 50 without the addition of the ERI enhancement to receive benefits;

• Have never established service credit under an ERI from the Teacher's Retirement System.

• Have never retired from SERS.

• Be a member of SERS who is either:

- In active payroll status during June 2002; or
- On layoff status with a right of re-employment or recall; or
- Receiving a disability benefit for less than two continuous years at retirement.

• Terminate on or before December 31, 2002.

• Meet the eligibility requirements with the ERI enhancement:

- 13 years of service (including five years of ERI service) at age 60;
- 25 years of service at age 55 (under the ERI, the reduction in benefits between ages 55 and 60 is waived);
- Rule of 85;
- Alternative formula employees: 20 years at age 55 or 25 years at age 50.

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ERI benefit estimates for Option 1

We will send out a special ERI estimate, brochure and checklist to all members eligible to retire under Option 1. This information will be mailed by July 15, 2002.

Members will have ample time to review the ERI information and make an informed decision. Please allow us time to mail this information before making inquiries to our office.

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Participating in the ERI - Option 1

If, after receiving the ERI estimate and brochure after July 15, 2002, you decide to participate in the ERI, you must contact SERS and request a retirement benefit application. The application and ERI election form must be received by us on or before December 31, 2002, even if your employment is extended beyond December 31, 2002 by your agency director

If you participate in the ERI and return to service in any permanent position covered by SERS (excluding the 75-day temporary employment) you forfeit the ERI age and service enhancement, and receive a refund of contributions made under the ERI.

NOTE: See general information below.

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Option 2:

Purchase up to 5 years of service and terminate employment under the ERI, and receive retirement benefits at a later date

ERI requirements

To participate in the ERI service purchase and terminate state employment program, you must:

• Have eight years of SERS service (five years must be contributing service) by your date of termination.

• Have never retired from SERS.

• Be a member of SERS who is either:

- In active payroll status during June 2002; or
- On layoff status with a right of re-employment or recall; or
- Receiving a disability benefit for less than two continuous years at termination.

• Have never established service credit under an ERI from the Teacher's Retirement System.

• Terminate employment and file an ERI election by December 31, 2002.

Receiving Retirement Benefits At A Later Date:

After you purchase ERI service and terminate state employment, you may apply for retirement benefits when you become eligible.

To be eligible, you must:

• File an application for retirement benefits.

• Members retiring under the alternative formula must be age 50 without the addition of the ERI enhancement to receive benefits;

• Meet the following retirement eligibility requirements:

- 13 years of service (including five years of ERI service) at age 60;
- 25 years of service at age 55 (under the ERI, the reduction in benefits between age 55 and 60 is waived)
- Rule of 85;
- Alternative formula employees: 20 years at age 55 or 25 years at age 50.

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Benefit Estimates for Option 2

We will not automatically send out ERI estimates to members who might participate in the service purchase and terminate program. If you want an ERI estimate, contact us after July 15, 2002.

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Participating in the ERI - Option 2

If you would like to participate in the ERI, you must contact SERS and request a service purchase election form. The service purchase form must be received by SERS on or before December 31, 2002, even if your employment is extended beyond December 31, 2002 by your agency director.

If you participate in the ERI and return to service in any permanent position covered by SERS (excluding the 75-day temporary employment) you forfeit the ERI age and service enhancement, and receive a refund of contributions made under the ERI.

NOTE: See general information below.

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General ERI information - This following information applies to all ERI participants. This includes members eligible to retire and/or members choosing to purchase service and terminate.

Extensions

To ensure the efficient operation of state government, agency directors may extend key employees to no later than April 30, 2003.

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Contributions *(used for all ERI participation)*

Members meeting the ERI eligibility requirements may establish up to five years of creditable service in one month increments. For each month of service established under the ERI, the member's age at retirement will be considered one month older.

SERS will determine your required contribution amount after you apply for the ERI.

If your net lump sum payment for accrued vacation, sick leave and personal days is greater than the ERI contribution due, your agency will deduct the ERI contribution on a pre-tax basis, send it to SERS, and forward the remaining balance to you.

If your net lump sum payment for accrued vacation, sick leave, and personal days is less than the ERI contribution due, your agency will deduct and send SERS the entire net lump sum payment as a partial pre-tax ERI contribution.

The remaining ERI contribution will be reduced from your pension payment on a pre-tax basis in 24 interest-free installments.

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Calculating the required ERI contribution (used for all ERI participation)

The formula to calculate the required ERI contribution is:

Rate of Pay on June 1, 2002 X Employee Retirement Contribution Rate X Number of Months to be Established

Coordinated Employee Example

A coordinated employee with a contribution rate of 4% wants to buy 60 months of service with a June 1 rate of pay of $2,200.

$2,200 X 4% X 60 months = $5,280.

Non-Coordinated Employee Example

A non-coordinated employee with a contribution rate of 8% wants to buy 60 months of service with a June 1 rate of pay of $3,200.

$3,200 X 8% X 60 months = $15,360.

Alternative Formula Coordinated Employee Example

An alternative formula coordinated employee with a contribution rate of 6.5% wants to buy 60 months of service with a June 1 rate of pay of $3,000.

$3,000 X 6.5% X 60 months = $11,700.

Alternative Formula Non-Coordinated Employee Example

An alternative formula non-coordinated employee with a contribution rate of 10.5% wants to buy 60 months of service with a June 1 rate of pay of $3,000.

$3,000 X 10.5% X 60 months = $18,900.

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ERI Frequently Asked Questions & Answers

ERI Application Packet Request

Can I call on the phone or send an e-mail to request an ERI Application Packet?

Yes, we have dedicated an e-mail address and telephone number for just requesting an ERI application packet. The employee who answers the phone cannot answer questions concerning ERI and questions asked in e-mails received at this address will not be answered. This phone number and e-mail address have been set up exclusively to expedite the mailing of the ERI packets. When you call this number or e-mail this address, please provide your name, social security number, marital status, and whether or not you have minor children.

- The phone number is: 217-557-2033
- The e-mail address is: pension@ser084r1.state.il.us

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Purchasing Service

How is the cost of the ERI program computed?

The member's monthly salary on June 1 is multiplied by their contribution rate and then multiplied by the number of months of ERI credit purchased.

As an example, a member contributing 4% with a monthly salary on June 1 of $3,000 purchasing 60 months of ERI credit would pay $7,200 to participate in the ERI program.

Can Deferred Compensation be used to pay the employee's cost to participate in the ERI?

No. The employee's cost is taken from their lump sum benefit for accumulated sick and vacation time. If this amount is insufficient, the balance is deducted from the member's retirement annuity interest-free over a 24-month period.

If the lump sum payment for sick and vacation time is insufficient to pay the ERI cost, can a direct payment for the balance be made by the member?

No. Any remaining balance is deducted from the member's retirement annuity interest-free over a 24-month period.

Does the ERI purchase count towards the 20-year requirement for free group health insurance benefits.

All creditable service, ERI included, counts toward the 20-year requirement for free health insurance.

If a SERS member is purchasing optional service credit (military, refund repayment, etc.) under an irrevocable payroll deduction agreement that is not completed at retirement, can the balance be paid off? If so, how?

The remaining balance can be paid as a post-tax direct payment (personal check), or by a rollover from Deferred Compensation or other tax-sheltered account.

It cannot be paid from the lump sum payment for sick and vacation time.

If I am already eligible to retire under the "Rule of 85," and meet all of the other ERI requirements can I still buy service under the ERI?

If you are eligible to retire under any provision of the SERS Retirement Code, you can buy up to five years of ERI service. The only time you would want to buy less than the five years is if you would exceed the 75% maximum for regular employees and 80% for alternative employees.

Can an SERS member who is purchasing five years of ERI credit and terminating employment, but is not immediately eligible to receive a retirement benefit, also purchase service credit for their accumulated sick and vacation time?

The member can't purchase their service credit for sick and vacation time unless the retirement benefit will be effective within 90 days from terminating employment.

If I use my unused sick, vacation and personal time towards purchasing my five years, am I still able to establish service credit for this time? If I can, will it require a contribution in addition to that made for purchasing the five years?

Yes. The full employee contribution is still required to purchase sick and vacation credit.

Will the five years of ERI service be used to calculate my final average compensation?

No. Final average compensation is not affected by the number of months of ERI credit purchased.

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ERI REQUIREMENTS

Does a member have to be age 50 to begin receiving SERS retirement benefits?

Alternative formula members must be age 50 without the ERI enhancement to begin receiving benefits. Regular formula members can receive benefits before age 50 if the normal eligibility requirements with the ERI enhancement are met.

Can a retiring member utilize the Level Income option with the ERI?

Yes, but actual age is used to calculate benefits.

If you would like to request an updated Social Security Statement on-line you can do so at https://s00dace.ssa.gov/pro/batch-pebes/bp-7004home.shtml

When asked for future earnings enter a zero as the amount.

To be eligible to participate in the ERI, members must have eight years of total service, and five years of contributing service. What's the difference?

Total service includes all service credit granted while a SERS member, excluding the ERI enhancement and reciprocal retirement system service.

Contributing service includes actual service credit earned while an active employee, plus free military service granted after being employed by the State, repaid refunds and qualifying periods.

The two-year pre-employment purchased military credit purchase option, leaves of absence, and federal and out-of-state service do not count as contributing service.

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GROUP INSURANCE - The following Questions and Answers concerning group insurance when retiring have been furnished to the Retirement System by the Dept. of Central Management Services (CMS Group Insurance Division).

Will I be eligible for group health insurance coverage when I retire?

Yes. If you have established at least eight years of creditable service, you would be eligible for group health/dental/vision and, if applicable, life insurance coverage when your pension begins.

What is the cost of health coverage?

If you have established at least 20 years of creditable service, either by having worked 20 years or by purchasing additional creditable service time under the Early Retirement provisions to accumulate at least 20 years of creditable service, your health insurance coverage is provided at no cost when your pension begins. If you have less than 20 years of creditable service, the State of Illinois pays 5% of the health insurance premium for each full year of creditable service.

What is the cost of dependent health coverage?

The cost for dependent coverage is the same for active and retired state employees. Refer to the current Benefit Choice Options book for updated dependent rate information. Note: As Medicare is generally primary payer when you retire, dependent rates are lower if your dependent is enrolled in both Parts A and B of Medicare. Be sure to inform the SERS when your dependent becomes enrolled in Medicare.

Does creditable service with other retirement systems count toward the SERS service to determine years of creditable service for the purpose of group insurance?

In general, if you are retiring under the Reciprocal Act and you participated in the State of Illinois Group Insurance Program while contributing to one of the other state retirement systems, i.e., State Universities Retirement System, Teachers' Retirement System, Judges Retirement System, or General Assembly Retirement System, state service under the other retirement system would count towards the 20 years of service needed to qualify for health insurance coverage at no cost. Service with all other retirement systems, such as IMRF, count for pension purposes , but not for group insurance, since these systems do not participate in the State of Illinois group Insurance Program. Normally the last system you participated in carries the group insurance, but there are exceptions. Check with SERS Insurance Division to determine if your service under another retirement system would count toward your creditable service time.

Can I waive health insurance coverage?

If you are required to pay a percentage of the cost for your health insurance coverage due to having less than 20 years of creditable service, you may waive health/dental/vision coverage. Your will still receive basic life insurance coverage, as it is provided to all eligible members receiving a pension benefit. You must contact your retirement system in writing to request waiver of the coverage. Once you waive coverage, you may reinstate coverage only during the annual Benefit Choice Period, or if you experience a qualifying change in status.

Under Public Act 92-0600, retirees with 20 years of creditable service who receive their health coverage at no cost may also waive health/dental/vision coverage. This Act was just recently signed by the Governor and will not be in effect until later this year. A special 'opt-out' period will be announced in which you will be allowed to discontinue your health/dental/vision coverage. Basic life insurance coverage will still be provided to all eligible members receiving a pension benefit. The waiver of coverage will apply to both you and your covered dependent(s). Once you opt out of the coverage, you may reinstate coverage only during the annual Benefit Choice Period, or if you experience a qualifying change in status.

When is the best time of the month to retire?

It is recommended that you resign from your active agency in the second pay period of the month (from the 16th through the end of the month), preferably on the last day of the month. The reason for this is that your pension and group insurance coverage normally begins on the first day of the month following your resignation. If you resign in the first pay period of a month, your insurance will be terminated. Then, to avoid a lapse in coverage, you would need to enroll in COBRA.

Am I required to enroll in COBRA if I retire the first pay period of the month?

No, but if your retirement annuity is to begin the first of the month following the date your active employment ends, you may want to consider enrollment in COBRA. If you receive a COBRA notification letter from CMS please call the CMS Group Insurance Division COBRA Unit for an explanation of your options under COBRA.

Can I keep the same health insurance coverage at retirement that I had when actively working?

Yes, the same health/dental/vision plan as when you were actively working will remain in force when you retire, unless you are enrolled in a managed care plan and move outside of the managed care service area or you wish to make a change in coverage because this event is considered a change in status. If you wish to make a change in coverage, a written request needs to be made to SERS within 60 days of the change in status. Be sure to advise the retirement system in writing if you are retiring and moving. If you no longer qualify for coverage under a managed care plan, your insurance coverage will be changed to the Quality Care Health Plan and the Quality Care Dental Plan.

Can dependents be added at the time of retirement? What documents are required?

If your dependent is currently enrolled, he/she will be automatically covered during retirement. New dependents can be added at the time of retirement because a qualifying change in status has occurred. If you wish to add an eligible dependent, a written request needs to be submitted to SERS within 60 days of the change in status. The request should include the dependent's name, social security number, relationship to you, date of birth, copy of your marriage certificate (if adding a spouse), copy of the dependent's Medicare card (if applicable) and creditable coverage letter from the dependent's previous health insurance carrier (if applicable). Dependents can also be added during the annual Benefit Choice Period.

What is the cost of dental and vision insurance coverage?

Dental and vision coverage are provided at no cost to members and their covered dependents.

Do I need to purchase Medicare Part B when I retire?

If you or your dependents are age 65 and enrolled in Medicare Part A (hospital insurance), you should purchase Medicare Part B (medical insurance). The Medicare Part B premium will be deducted from your Social Security Check. It is a requirement of the State of Illinois Group Insurance Program that you enroll in Medicare Part B. If you do not enroll in Part B, the State will reduce your benefits on Part B claims so that the benefit paid by the State would be the same as if you were enrolled in Part B. This means that your State insurance coverage would only pay 20% of your charges if you are not enrolled in Part B. If you are over age 65, you should contact your local Social Security office to enroll in Medicare Part B effective your retirement date and to obtain additional information regarding certain penalties that may apply if you do not enroll at retirement.

Is Medicare or the State primary payer for insurance coverage once I retire?

If you are age 65 or older and insured with Medicare, Medicare usually becomes primary health insurance payer with the State of Illinois paying secondary. If you are receiving Medicare due to End State Renal Disease (ESRD) or dual entitlement, the State of Illinois may remain primary payer through the 30-month ESRD coordination period. Enrolling in both Parts A and B of Medicare results in greater coverage on claims, lower premiums for members with less than 20 years of creditable service who must pay a percentage of the cost for their health coverage, and lower dependent health premiums if your dependents are enrolled in both Medicare A and B.

What happens to my life insurance coverage when I retire?

If you are under age 60 and retire, your life insurance will be exactly the same as the coverage you had when working, based on your last annual salary. Upon attainment of age 60, your basic life insurance reduces to $5,000. Any optional life that you had purchased (up to 4 times the basic amount) is also reduced, since the basic amount is reduced to $5,000. When your life insurance coverage reduces, you may convert your life insurance to a policy (other than a term life policy) offered by the life insurance company up to the amount of basic life coverage lost. For optional coverage that you lose, you may convert to a policy (other than term insurance) offered by the life insurance company or port your term insurance up to the amount of optional coverage you lost. If you choose to port your optional coverage, your coverage will be through a group term insurance policy offered by the life insurance company.

If you wish to purchase more life insurance coverage (for example, purchase 4 times the basic amount instead of 1 times basic life), you would need to complete a Health Certificate questionnaire, which is subject to approval by Minnesota Life Insurance Company. If approved, premiums would be deducted from your monthly pension check.

If I am retiring and am over age 60, it is possible to convert the amount of life insurance that I am losing when I retire to an individual policy?

When your life insurance coverage reduces at retirement (as described in the question above), you have 31 days from the date of your retirement to purchase conversion whole life coverage. Or, if you have optional life coverage, you may purchase portable term life on the difference in coverage that you are losing. The advantage of purchasing conversion or portable term life coverage is that no evidence of insurability is required. If you wish to purchase this coverage, the application forms should be requested from your former active agency when you retire.

If I resign from State service but am not old enough to start receiving a pension until sometime in the future, will I be eligible for optional life insurance coverage when my pension begins?

If you receive your pension within one year from leaving active State payroll, you will be classified as an "Immediate Annuitant" and would be eligible to purchase optional life insurance coverage. You would not be able to increase your optional life insurance coverage without evidence of insurability and approval from the life insurance carrier.

If you receive your pension after one year from leaving active State payroll, you will be classified as a "Deferred Annuitant: and would only be eligible for basic life insurance coverage. You would not be eligible to purchase optional life coverage for yourself or your dependents.

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MISCELLANEOUS

If a member's employment is extended past the December 31, 2002 deadline, will they receive their first 3% cost of living allowance on January 1, 2004?

SERS members are not eligible for their first 3% increase until January 1 following their first full year of retirement.

Therefore, if a member's employment is extended, their initial increase would not be effective until January 1, 2005, assuming the age requirement is met by that date.

How long will it take to receive the first retirement check?

Our goal is to make the initial payment six to eight weeks after the effective date of the benefit.

If an extremely large number of employees retire at the beginning of any month during the ERI window, delays may occur. Based on the 1991 ERI, over 70% of our members who retired did so at the end of December.

If I want to apply for retirement under the ERI, do I have to come to the SERS office?

No. You may apply by contacting your agency's retirement coordinator, who will then notify SERS.

Why won't SERS mail the retirement packets now?

We feel that we must wait until the Governor signs the ERI legislation. Also members should wait to review their ERI estimates, which will be mailed by July 15 before requesting a retirement packet.

I took a furlough day which affects my final average compensation for retirement purposes. Is there a way to get credit for these lost earnings?

The ERI legislation also included a provision allowing free service and/or earnings credit for voluntary or involuntary furloughs taken between December 1, 2001 and January 1, 2003. The maximum number of credit days allowed is five.

Employees considering retirement under the ERI should contact their agency's retirement coordinator or payroll clerk for the election form to obtain this credit.

The election forms will be furnished to all retirement coordinators after the ERI legislation is signed by the Governor.

In the last SERS-O-GRAM, it stated that if you want to participate in the ERI purchase service and terminate program (Option 2), you must contact SERS directly to request a purchase service election form. Are these forms available from my agency's retirement coordinator?

No. The ERI service purchase election form must be obtained from SERS directly.

I have several years of service under a reciprocal system. Does this time count towards my SERS pension?

Reciprocal service counts toward eligibility in SERS, such as the Rule of 85. Each system calculates and pays benefits based on their formula and service requirements.

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Report on the Cost and Savings of the State Employees' Early Retirement Incentive Program
(P.A. 92-0566)

June 2006
703 Stratton Office Building
Springfield, Illinois 62706

Commission on Government Forecasting and Accountability

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June 2006

INTRODUCTION

The Commission on Government Forecasting and Accountability is required by 40 ILCS 5/14-108.3(h) to provide the General Assembly with a report of the annual cost or savings associated with the Early Retirement Incentive Program (ERI) offered to eligible members of the State Employees' Retirement System (SERS) and to eligible state employees covered by the Teachers' Retirement System (TRS). Specifically, the Commission is required to report the annual amount of payroll savings realized by the State due to the ERI, as well as the net annual savings or cost to the State due to the ERI.

As required, this report outlines the total estimated payroll-related savings due to the ERI, and the estimated increase in State contributions to SERS resulting from funding changes contained in P.A. 94-0004. In addition, the report provides an estimate of increased healthcare costs attributable to shifting 11,039 employees to the retiree category.

Public Act 92-0566
The SERS Early Retirement Incentive Program

The Provisions of the 2002 SERS ERI

Public Act 92-0566 (HB 2671) created an Early Retirement Incentive (ERI) Program for certain members of SERS and State employees covered by TRS. To be eligible for the ERI, members must have been, during June 2002: in active payroll status, on layoff status with a right of recall, or receiving a disability benefit for less than 2 years. Members were required to file the ERI application with the Board of Trustees prior to December 31, 2002 and leave employment between July 1, 2002, and December 31, 2002. The Directors and other heads of departments were allowed to extend the deadline for participation in the ERI for key personnel to April 30, 2003, by notifying the System in writing prior to December 31, 2002. SERS members who participated in the ERI are prohibited from returning to work under contract with any State agency. It should be noted that ERI participants, like all SERS retirees, may return to State employment as temporary employees for up to 75 days in a calendar year.

Members who were eligible to purchase the 5 years of service credit (and age enhancement) were not required to retire, but rather to terminate State employment. Participants who weren't immediately eligible for a retirement annuity were allowed to retire upon reaching eligibility. In addition, ERI participants were eligible for an unreduced annuity beginning at age 50 with at least 20 years of service, rather than at age 55 with 25 years of service.

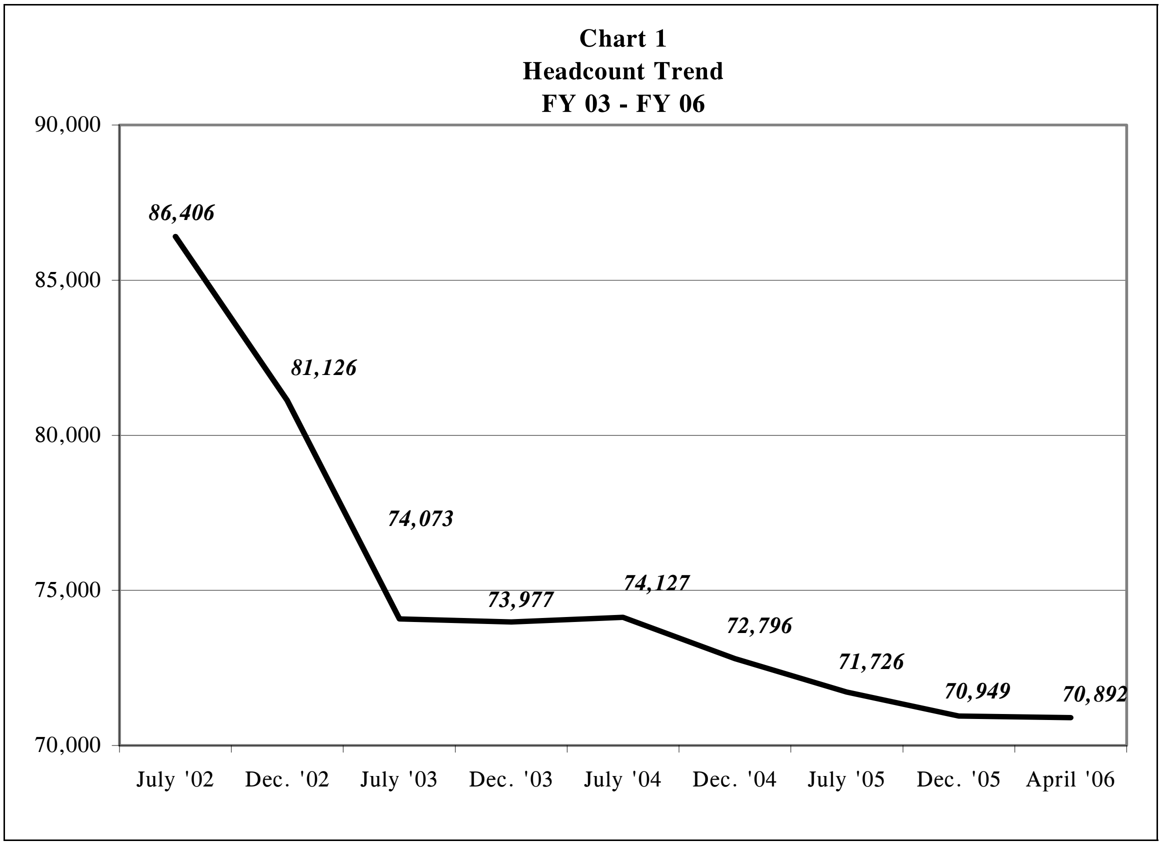
In order to participate in the ERI, the member was required to have accumulated at least 8 years of creditable service (at least 5 as active service), excluding service established by this ERI. The 5 years of active service could include military service that interrupted employment and the qualifying period, but could not include any other type of optional service credit. Employees participating in the ERI received up to 5 years of additional service credit by paying the full retirement contribution rate, for each year of service, based on the salary in effect on June 1, 2002. If the employee's lump sum payment for accumulated vacation, sick, and personal leave was larger than the amount of the required contribution, the contribution must have been made from the lump sum (pre-tax) prior to retirement. If the lump sum payment was not large enough, the remaining amount due was deducted from the retirement annuity in 24 equal monthly installments.

ERI Utilization

According to SERS, 11,039 members elected to participate in the ERI. Of these, 10,301 were eligible to retire immediately (Option 1), while 738 members elected to terminate employment and receive benefits at a later date (Option 2). The average number of ERI months purchased was 58 and the average age at termination was 57 for Option 1 participants and 48 for Option 2 participants. According to the System, the average cost of purchasing the ERI service credit was $11,624 per participant and the average total monthly benefit of all ERI participants was approximately $2,505.

ERI Impact on Employee Headcount

According to SERS, there were 86,406 State employees in July of 2002. By July of 2003 (the beginning of FY 04), the number of State employees had dipped to approximately 74,000, as shown in Chart 1 below. Headcount remained at about that level until October 2004, when it dropped further due to two incentive programs aimed at reducing headcount. It should be noted that the employee totals include employees who are still in the first 6 months of employment, during which time they are not members of SERS.



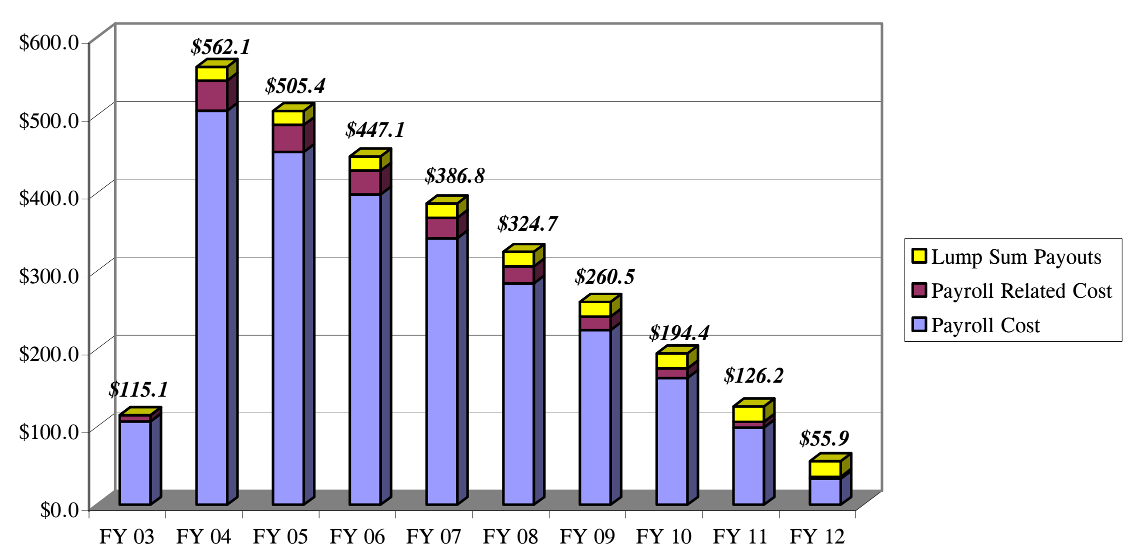
As Chart 1 illustrates, the number of State employees is still significantly below the pre-ERI level. At the end of April 2006, State employee headcount was more than 15,000 below the pre-ERI level. In fact, the reduction in payroll and headcount has been more dramatic in FY 2005, as the State has adopted two other programs with the goal of reducing headcount. This first program was the Alternative Retirement Cancellation Payment (ARCP) program and the second was the Contingent Lump Sum Incentive Payment (CLSIP) program. The ARCP program provided an enhanced refund from SERS for people leaving State employment before September 30, 2004 and the CLSIP program provided a severance payment to people leaving State employment between November 1, 2004 and December 31, 2004. The ARCP option was offered again in FY 06

Payroll Related Savings Due to ERI

The most significant savings component attributable to the ERI is the reduction in State headcount and payroll. As was previously noted, all 11,039 ERI participants left the state payroll in FY 2003. In order to calculate the total projected payroll savings associated with the ERI, Commission staff assumed that all 11,039 participants would have retired in equal annual increments of 1,104 over the ten-year period FY 2003 – FY 2012 had the ERI not been offered. Commission staff further assumes that the positions vacated by the ERI will remain unfilled and that headcount will remain at current levels through FY 2012. Chart 2 below shows the amount of payroll savings attributable to the ERI. The increase in payroll savings from FY 03 to FY 04 reflects the fact that all ERI participants were off the payroll for the entire fiscal year in FY 04. Payroll savings decline in each fiscal year thereafter as more and more ERI participants would have left state employment absent the ERI.

Because of the reduction in payroll, the costs associated with payroll will also be reduced by the ERI. Specifically, the state will realize a reduction in the employer contributions for Social Security and Medicare (7.65% of payroll) that will continue to accrue until FY 2012, as shown in Chart 2 below. Chart 2 also depicts the reduction in lump sum payouts for unused sick and vacation leave, as estimated by Commission staff. Total lump sum payouts to early retirees in FY 2003 amounted to almost $174 million, which partially offset payroll savings in that year. However, the amount of lump sum payouts that would have been made to SERS members leaving the payroll in subsequent years had the ERI not occurred will serve to augment savings realized from reduced payroll and payroll related costs.

Chart 2
Payroll Related Savings
($ in Millions)



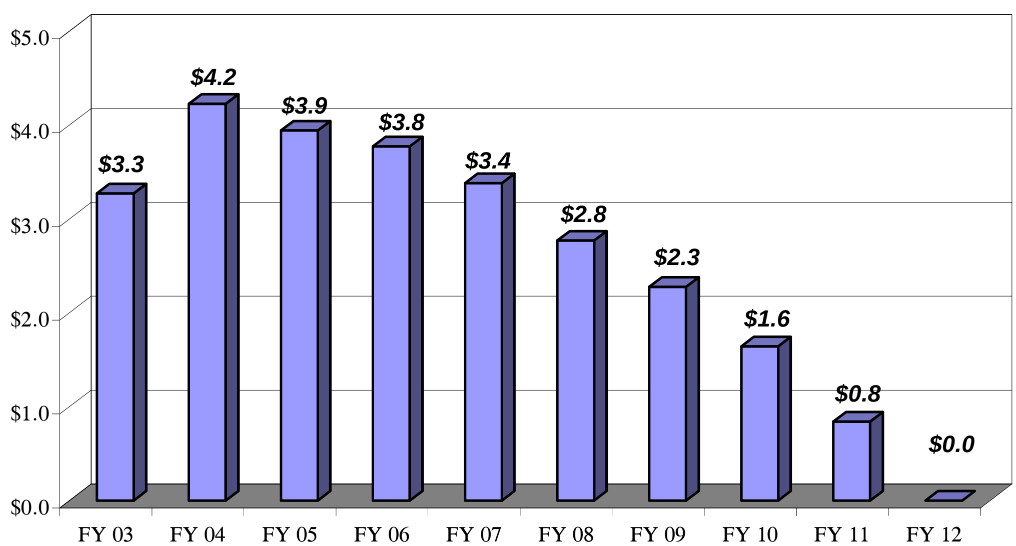
Based on the foregoing analysis, Commission staff concludes that the 2002 ERI will result in total payroll related savings of $2.9 billion over the period FY 2003 – FY 2012.

Increase in Retiree Healthcare Costs

The 2002 ERI could have increased CMS group health insurance costs for two reasons. First, active employees pay a portion of the health insurance premium while retirees with at least 20 years of service are not required to pay any portion of health insurance premium (although retirees do continue to pay for dependent coverage). Second, for every ERI participant that is replaced, there will be an increase in health insurance costs for the State, as there will then be a retiree and an employee, rather than just an employee, covered by CMS group health insurance. However, as noted earlier, Commission staff assumes that headcount will remain at current levels through FY 2012. Therefore, the net cost to the state results from shifting all 11,039 ERI participants to the retiree category. Commission staff assumes that all ERI participants had at least 20 years of state service and therefore make no contribution toward their health insurance in retirement.

As shown in Chart 3 below, shifting all 11,039 ERI participants to the retiree category will cost the state approximately $26.1 million in lost group insurance contributions over the period FY 2003 – FY 2012.

Chart 3
Increase in State Healthcare Costs Attributable to ERI
($ in Millions)



Funding the Liabilities Associated with the 2002 ERI

Public Act 92-0566 required SERS to determine the net increase in the unfunded liability resulting from the ERI and report the amount to the Governor and the Commission on Government Forecasting and Accountability. SERS calculated and certified the unfunded ERI liability amount to be $2.3 billion. The legislation required the State to contribute $70 million to SERS in FY 2004 towards this liability. The Act also specified that for Fiscal Years 2005 through FY 2013, the State must amortize at 8.5% interest the remaining ERI liability in equal annual installments as certified by SERS.

Public Act 93-0839 required the impact of the ERI to be recalculated, based on the increase in the present value of future benefits resulting from the ERI, rather than the impact on the accrued liability. According to SERS, the increase in the present value of future benefits that resulted from the ERI is $1.75 billion, while the increase in accrued liability resulting from the ERI totaled $2.3 billion.

Public Act 94-0004 (SB 27) eliminated the 10-year, level dollar ERI amortization. Hence, the liabilities associated with the ERI will not be funded separately, but rather as part of the regular funding plan for the five State-funded retirement systems as set forth in P.A. 88-593. The Act requires that state contributions be paid to the systems so that by the end of Fiscal Year 2045, the ratio of accumulated assets to accrued actuarial liabilities will be 90%. P.A. 94-0004 also stipulated that newly-hired employees of the Department of Corrections starting after July 1, 2005 who are not headquartered at a correctional facility no longer qualify for the alternative formula in SERS.

The chart below details the change in accrued liabilities and the increase in total contributions resulting from P.A. 94-0004, as provided by SERS' actuary. While the benefit changes affecting correctional employees served to reduce SERS' accrued liabilities slightly, funding reductions in FY 2006 and FY 2007 and the elimination of the original ten-year ERI amortization will result in increased state contributions to SERS of approximately $10.3 billion between FY 2005 and FY 2045.

SERS - Change in Accrued Liability at FY 2045 ($ in Millions)	
Before P.A. 94-0004	$90,748.0
After P.A. 94-0004	$90,072.0
Decrease Due to Benefit Changes	($676.0)
SERS - Change in Total Contributions, 2005 - 2045 ($ in Millions)	
Before P.A. 94-0004	$65,760.2
Decrease Due to Benefit Changes	($98.9)
Increase Due to Funding Reductions and ERI Amortization	$10,279.8
Estimated Total Contributions After P.A. 940004	$75,941.1

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

1) Preparation of annual revenue estimates with periodic updates;
2) Analysis of the fiscal impact of revenue bills;
3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
4) Periodic assessment of capital facility plans;
5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

http://www.ilga.gov/commission/cgfa/cgfa_home.html