

# State Employees' Retirement System of Illinois



A PENSION TRUST FUND  
OF THE STATE OF ILLINOIS

# STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

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## FISCAL YEAR 2021 HIGHLIGHTS

90,575	Total Membership
62,253	Active Contributing Members
	Net Position—Restricted for Pensions, fair value
\$23,883,338,594	
	<b>CONTRIBUTIONS</b>
\$280,583,917	Participants
\$2,478,209,949	Employer
\$4,814,500,869	Investment Income
25.8%	Investment Return
	<b>BENEFIT RECIPIENTS</b>
62,426	Retirement Annuities
10,675	Survivors' Annuities
1,806	Disability Benefits
\$2,853,548,896	Benefits Paid
\$56,984,058,744	Total Pension Liability
\$23,883,338,594	Fiduciary Net Position
\$33,100,720,150	Net Pension Liability
41.91%	Funded Ratio

## MISSION STATEMENT

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

**This year's cover commemorates inventions and innovations that were created in Illinois or by Illinoisans.**

# STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

A Pension Trust Fund of the State of Illinois

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ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

STATE EMPLOYEES' RETIREMENT  
SYSTEM OF ILLINOIS

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

Prepared by the Accounting Division

Printed by Authority of the State of Illinois



Printed on Recycled Paper

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# **INTRODUCTORY SECTION**

## LETTER OF TRANSMITTAL



May 20, 2022

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

Dear Board and Members:

The annual financial report of the State Employees' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 2021 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.

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. 61, 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' 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 position information nor the changes in plan net position 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 non-occupational disability programs.

The System was established January 1, 1944 and 17,237 state employees became members on that date. As of June 30, 1944, the plan net position of the System amounted to \$1,255,778. The fair value of fiduciary net position at the end of the fiscal year June 30, 2021 is approximately \$23.9 billion, and there are 62,253 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 Statutes, 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 25.8%, net of expenses, for the fiscal year ended June 30, 2021. Information regarding the Schedule of Fees and Commissions paid is included in the ISBI annual report.

### 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 year 2021, 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 State's projected unit credit actuarial cost method for funding purposes at June 30, 2021, amounted to \$51.8 billion. The actuarial value of assets amounted to \$21.3 billion resulting in an unfunded accrued actuarial liability of \$30.5 billion as of the same date. The actuarial determined liability, actuarial value of assets, and unfunded accrued actuarial liability of the System as presented above and in the Actuarial Section of this report using the state's funding method does not conform with GASB Statement No. 67 and therefore, the amounts presented above and in the Actuarial Section of this report differ from the amounts presented for financial reporting purposes in the Financial section of this report. A detailed discussion of funding is provided in the Actuarial Section of this report.

### MAJOR EVENTS/INITIATIVES

Throughout fiscal year 2021, the operational staff of the System rotated between working from home and working from the office. Processing benefits in an accurate and timely manner and maintaining active membership accounts were the focal workflow points to ensure that the System could achieve the goals of its primary mission.

Information Technology development continued to advance the processing of benefits, moving much of the functionality of the calculation and benefit set up to the SRS-Central platform. This streamlined approach also allows for quicker processing time while maintaining the accurate and proper benefit calculation. Further enhancement continues into fiscal year 2022 to ultimately move all benefit processing to the new platform. Additionally, the optional service purchase calculations have been developed and enhanced during fiscal year 2021 using the SRS-Central platform. The optional service purchase module in SRS-Central will be in production in fiscal year 2022, ensuring more accurate and timely processing of the service purchase requests, as well as some new self-service web features for SERS members.



## LETTER OF TRANSMITTAL

The accelerated pension payment program (COLA and Total buyout options) has continued to be successfully received by eligible retiring members of the System. Actuarial assumptions had to be updated during the review of the economic assumptions due to the positive results of the program.

### 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 judgments 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 RSM US 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 annual financial report for the fiscal year ended June 30, 2020.

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 annual report, 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 thirty-five consecutive years (fiscal years ended June 30, 1986 through June 30, 2020).

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.



## LETTER OF TRANSMITTAL

### 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  
Executive Secretary

  
Alan T. Fowler, C.P.A.  
Chief Fiscal Officer

ADMINISTRATION

BOARD OF TRUSTEES



Susana A. Mendoza  
Illinois Comptroller  
Chairperson



David Morris  
Elected Employee  
Vice - Chairperson  
Chairperson of Rules & Personnel Committee  
Member of Executive Committee



Danny Silverthorn  
Appointed by Governor  
Member of Rules & Personnel Committee



Carl Jenkins  
Appointed by Governor



Renee Friedman  
Appointed by Governor



Stephen Mittons  
Elected Employee



Jeremy Hawk  
Elected Employee  
Alternate on Executive Committee  
Member of Rules & Personnel Committee



Shaun Dawson  
Elected Employee  
Chairperson of Audit & Compliance Committee

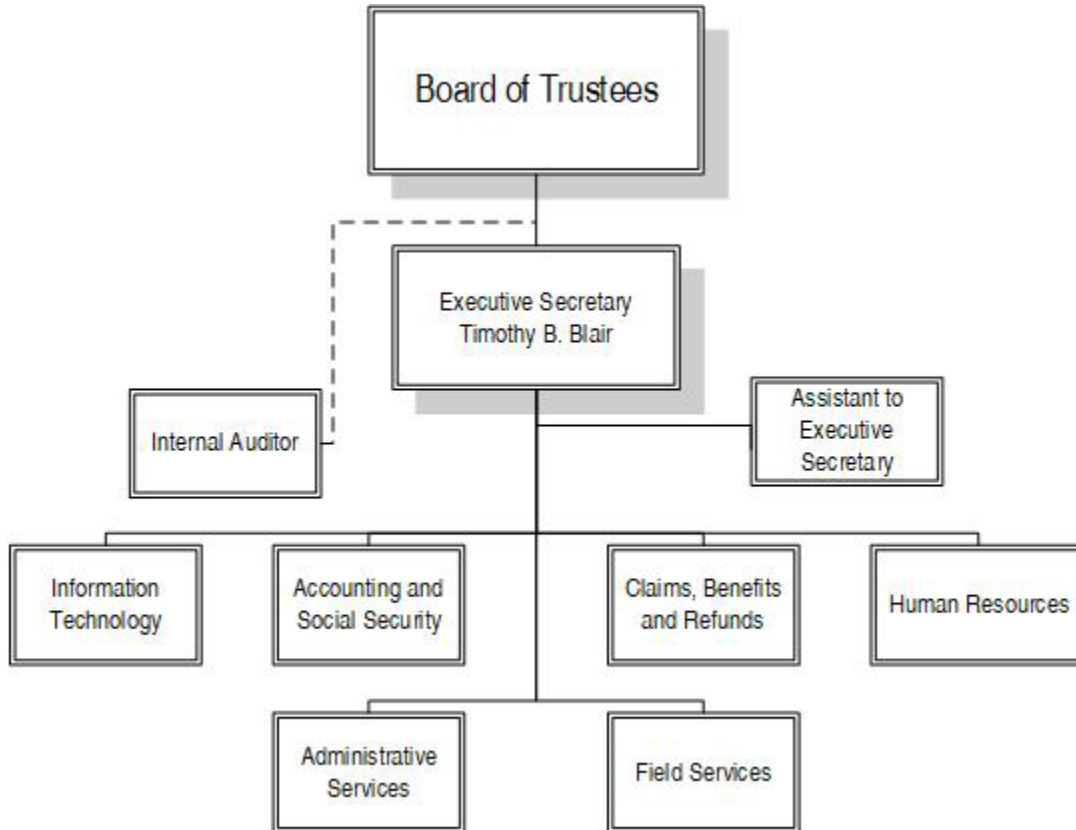


John Tilden  
Elected Annuitant



Barbara J.C. Baird  
Elected Annuitant  
Member of Audit & Compliance Committee

# ADMINISTRATION



## Management Group

Accounting & Social Security	Alan Fowler
Administrative Services	Robert Cooper
Assistant to Executive Secretary	Jeff Houch
Claims/Benefits & Refunds	Eric Glaub
Field Services	Carla Bettenhausen
Human Resources	Jennifer Reichart
Information Technology	Debbie Price
Internal Auditor	Casey Evans

## Advisors, Auditors & Administrators

Consulting Actuary	Gabriel, Roeder, Smith & Company Chicago, Illinois
External Auditor	RSM US LLP Schaumburg, Illinois
Investments	Illinois State Board of Investment Chicago, Illinois



Government Finance Officers Association

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, 2020

*Christopher P. Morrill*

Executive Director/CEO

# FINANCIAL SECTION



## Independent Auditor's Report

RSM US LLP

Honorable Frank J. Mautino, Auditor General – State of Illinois

Board of Trustees, State Employees' Retirement System of Illinois

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Fiduciary Net Position of the State Employees' Retirement System (System), a pension trust fund of the State of Illinois, as of June 30, 2021, and the Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the 2021 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 97 percent, 98 percent and 64 percent, respectively, of total assets, net position restricted 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 other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2021, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

# INDEPENDENT AUDITOR'S REPORT

## **Emphasis of Matter**

The actuarially determined net pension liability, calculated as required by GASB Statement No. 67, is dependent on several assumptions including the assumption that future required contributions from State sources are made based on statutory requirements in existence as of the date of this report. These assumptions and required contributions are discussed in Notes 5 and 6 of the financial statements on pages 34 through 37. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information:*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 14 through 16 and the required supplementary information as listed in the table of contents on pages 42 through 47 be presented to supplement the basic financial statements. Such information, although not a 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 and other auditors 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.

### *Other Information:*

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary financial information in the financial section, as listed in the table of contents, and the accompanying introductory, investment, actuarial, statistical, and plan summary and legislative sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary financial information in the financial section, as listed in the table of contents 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to 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 audit, the procedures performed as described above, and the report of other auditors, the supplementary financial information in the financial section, as listed 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 audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**RSM US LLP**

Schaumburg, Illinois  
May 20, 2022



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 year ended June 30, 2021. 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 Annual Financial Report.

The System is a defined benefit, single-employer public employee retirement system. It provides services to approximately 62,300 active state employees, 3,800 vested inactive members, and 76,000 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 and Notes.** For the fiscal year ended June 30, 2021, basic financial statements are presented for the System. This information presents the fiduciary net position restricted for pensions for the System as of June 30, 2021. This financial information also summarizes the changes in fiduciary net position restricted for pensions for the year then ended. 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.
2. **Required Supplementary Information.** The required supplementary information consists of three schedules and related notes concerning actuarial information, funded status, investment returns and information on State contributions.
3. **Other Supplementary Schedules.** Other schedules include more detailed information pertaining to the System, specifically the payments to consultants and advisors.

### FINANCIAL HIGHLIGHTS

- The fiduciary net position increased by \$4,686.1 million during fiscal year 2021. This change was primarily the result of an increase in investments of \$4,790.6 million.
- The System's Plan Fiduciary Net Position as a percentage of the Total Pension Liability was 41.9% as of June 30, 2021.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was a gain of 25.8% in fiscal year 2021. The System's annual money-weighted rate of return on its investment in the ISBI Commingled Fund was a gain of 26.04% for fiscal year 2021.

Condensed Statements of Fiduciary Net Position (in millions)			
	As of June 30		Increase/(Decrease) from
	2021	2020	2020 to 2021
Cash	\$ 324.1	\$ 285.0	\$ 39.1
Receivables	188.4	287.2	(98.8)
Investments, at fair value *	23,483.0	18,692.4	4,790.6
Capital Assets, net	13.3	12.1	1.2
Total assets	24,008.9	19,276.7	4,732.2
Liabilities *	125.5	79.5	46.0
Total fiduciary net position	<u>\$ 23,883.3</u>	<u>\$ 19,197.2</u>	<u>\$ 4,686.1</u>

\* Including securities lending collateral

### ADDITIONS TO FIDUCIARY NET POSITION

Additions to Fiduciary Net Position include employer and participant contributions and net income from investment activities. Participant contributions were approximately \$280.6 million and \$271.7 million for the years ended June 30, 2021 and June 30, 2020, respectively. Participant contribution rates are set by statute as a percentage of gross salary. For fiscal year 2021, employer contributions increased to approximately \$2,478.2 million from \$2,368.9 million in fiscal year 2020. The net investment income for fiscal year 2021 was \$4,814.5 million, which increased from the net investment income from fiscal year 2020 of \$829.3 million.

### DEDUCTIONS FROM FIDUCIARY NET POSITION

Deductions from Fiduciary Net Position are primarily benefit payments. During fiscal years 2021 and 2020, the System paid out approximately \$2,853.5 million and \$2,727.8 million, respectively, in benefits. This increase in benefit payments of approximately 4.6% from 2020 to 2021 is mainly the result of the annual scheduled 3% increase in retirement and other benefit payments. Also attributing to the increase was the increased number of beneficiaries, with approximately a 0.7% increase from 2020 to 2021. Refunds were consistently just under 1% of the total deductions in each of the fiscal years presented and administrative costs of the System represented less than 1% of the total deductions in each of the fiscal years presented within the condensed statements.

	For the Year Ended June 30,		Increase/(Decrease) from
	2021	2020	2020 to 2021
<b>Additions</b>			
Participant contributions	\$ 280.6	\$ 271.7	\$ 8.9
Employer contributions	2,478.2	2,368.9	109.3
Net investment income (loss)	4,814.5	829.3	3,985.2
Total additions	<u>7,573.3</u>	<u>3,469.9</u>	<u>4,103.4</u>
<b>Deductions</b>			
Benefits	2,853.5	2,727.8	125.7
Refunds	17.1	19.4	(2.3)
Administrative expenses	16.6	17.4	(0.8)
Total deductions	<u>2,887.2</u>	<u>2,764.6</u>	<u>122.6</u>
Net increase/(decrease) in fiduciary net position	<u>\$ 4,686.1</u>	<u>\$ 705.3</u>	<u>\$ 3,980.8</u>

### FUNDED RATIO

The funded ratio of the plan measures the ratio of the fiduciary net position against the total pension liability 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 performed. The most recent available valuation showed the funded status of the System was 41.91% on June 30, 2021. The amount by which the total pension liability exceeded the fiduciary net position was \$33.1 billion at June 30, 2021.

### INVESTMENTS

Investments of the System are combined in an internal commingled investment pool held by the Illinois State Board of Investment (ISBI). The other entities participating in this commingled pool are the Judges' Retirement System, the General Assembly Retirement System and one other state agency. The investments of this other state agency are immaterial to the total commingled investment pool. Each participating entity 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 Position of each retirement system.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The net investment gain of the total ISBI Commingled Fund was approximately \$5,049.9 million during fiscal year 2021, resulting in a positive return of 25.8%. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as the result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three, five, and ten year period ended June 30, 2021, the ISBI Commingled Fund earned a compounded rate of return of 12.1%, 11.2%, and 9.1%, 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. In light of the current global COVID-19 pandemic and associated national and global economic volatility, readers of these financial statements are advised that financial markets remain volatile and may experience significant changes on a daily basis.

### FUTURE OUTLOOK

All actuarial assumptions used in the June 30, 2021 funding valuation were based on the experience review for the three years ended June 30, 2018. The state's statutory (employer) contribution rate for fiscal year 2022, determined by the actuarial valuation, will increase from 54.831% to 56.169% or an additional 1.338% of employee covered payroll. Total employee headcount is expected to remain level.

Tier 2 active members' annual pensionable earnings were capped at \$116,740 in 2021 and will be capped at \$119,892 in 2022. The caps on Tier 2 members' calendar year earnings decrease the anticipated amount of future earnings credit as well as the associated contributions.

Eligible retiring SERS members have the option to elect the COLA buyout created by Public Act 100-0587. Retiring Tier 1 members may elect to receive a delayed and reduced COLA, and in return receive a lump sum accelerated benefit equal to 70% of the actuarially determined present value of the difference between the traditional COLA and the reduced COLA. The amount of the accelerated benefit is paid from the Pension Trust Fund but then reimbursed from a dedicated bond fund. The participation rate for this new benefit option has been approximately 21.3% among eligible regular formula members. Participation rates among those in the alternative formula who are coordinated with Social Security is 37.2% whereas the participation rate for alternative formula members that are not coordinated with Social Security is 44.0%. Participation is expected to be maintained at these levels for the foreseeable future.

Public Act 100-0587 also created a Total buyout option for inactive vested SERS participants. This program allows vested inactive members to receive a lump sum payment equal to 60% of the present value of projected benefits. This component of the program has had a much lower participation rate, at roughly 2% of those eligible.

Benefit payments are projected to continue to grow at a rate of approximately 6% to 8% annually, primarily due to the growth in the number of annuitants and the 3% annual COLA.

The COVID-19 global pandemic continues to have an impact on our day to day business operations. Staff have modified work schedules so that they work from home but rotate into the office, as needed, to handle some of the priority transactions that can't be done, remotely. We will continue our operations in the safest possible way for the SERS staff while ensuring that transactions continue to be processed for all SERS members.

The ISBI plans to continue to accomplish its strategy of seeking to maximize the likelihood of meeting long-term return objectives while maintaining prudent risk exposure and controlling fees and expenses related to the management of the fund.

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the System's finances. For questions concerning the information in this report or for additional information, contact the Accounting Division of the State Employees' Retirement System at [srsacctgdiv@srs.illinois.gov](mailto:srsacctgdiv@srs.illinois.gov).

# FINANCIAL STATEMENTS

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statement of Fiduciary Net Position  
June 30, 2021

Assets	
Cash	<u>\$ 324,092,190</u>
Receivables:	
Participants' contributions	13,969,656
Employer contributions	147,766,859
Other accounts	<u>26,640,677</u>
Total receivables	<u>188,377,192</u>
Investments:	
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	23,383,102,564
Securities lending collateral with State Treasurer	<u>99,976,000</u>
Total Investments	<u>23,483,078,564</u>
Capital Assets, net	<u>13,308,520</u>
Total Assets	<u>24,008,856,466</u>
Liabilities	
Benefits payable	15,882,048
Refunds payable	1,807,417
Administrative expenses payable	2,168,608
Participants' deferred service credit accounts	1,313,897
Due to the State of Illinois	4,369,902
Securities lending collateral	<u>99,976,000</u>
Total Liabilities	<u>125,517,872</u>
Net position-restricted for pensions	<u>\$ 23,883,338,594</u>

*See accompanying notes to financial statements.*

# FINANCIAL STATEMENTS

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statement of Changes in Fiduciary Net Position  
for the Year Ended June 30, 2021

Additions:	
Contributions:	
Participants	\$ 280,583,917
Employer	2,478,209,949
Total Contributions	<u>2,758,793,866</u>
Investment income:	
Net appreciation/(depreciation) in fair value of investments	4,597,023,302
Interest and dividends	246,645,442
Less investment expense	(29,167,875)
Net investment income/(loss)	<u>4,814,500,869</u>
Total Additions	<u>7,573,294,735</u>
Deductions:	
Benefits:	
Retirement annuities	2,600,838,259
Survivor annuities	171,686,353
Disability benefits	63,886,642
Lump sum benefits	17,137,642
Total Benefits	<u>2,853,548,896</u>
Refunds <i>(including transfers to reciprocating systems)</i>	17,102,185
Administrative	<u>16,577,412</u>
Total Deductions	<u>2,887,228,493</u>
Net increase/(decrease) in net position	<u>4,686,066,242</u>
Net position restricted for pensions	
Beginning of year	<u>19,197,272,352</u>
End of year	<u>\$23,883,338,594</u>

*See accompanying notes to financial statements.*

# FINANCIAL STATEMENTS

## STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2021

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

Based on the criteria of the Governmental Accounting Standards Board Statement No. 61, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System. However, the System is a pension trust fund of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' annual financial report.

At June 30, 2021, participation levels in the System were as follows:

State agencies	43
State boards and commissions	39
TOTAL	<u>82</u>
Retirees and beneficiaries currently receiving benefits:	
Retirement annuities	62,426
Survivors' annuities	10,675
Disability benefits	1,806
TOTAL	<u>74,907<sup>a</sup></u>
Inactive employees entitled to benefits, but not yet receiving them	3,825
TOTAL	<u>78,732</u>
Current Employees:	
Vested: Coordinated with Social Security	30,515
Noncoordinated	1,609
Nonvested: Coordinated with Social Security	29,430
Noncoordinated	699
TOTAL	<u>62,253</u>

a. The total excludes 1,032 Qualified Illinois Domestic Relations Orders (Qildro) payees who receive a portion of the Retirement Annuitants monthly benefit.

## 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 salary limit for calendar year 2021 is \$116,740.

### 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.

## 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.

## 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 salary limit for calendar year 2021 is \$116,740.

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 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 salary limit for calendar year 2021 is \$116,740.

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.

## FINANCIAL STATEMENTS

### 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

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.

#### Tier 2

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 salary limit for calendar year 2021 is \$116,740.

## 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 Standards

The Governmental Accounting Standards Board (GASB) issued Statement No. 95, “Postponement of the Effective Dates of Certain Authoritative Guidance” which postponed the effective dates for implementation of certain new pronouncements to provide relief to governments and other stakeholders considering the ongoing COVID-19 pandemic.

GASB Statement No. 84, “Fiduciary Activities”, established criteria for identifying fiduciary activities of state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This GASB has no impact as the System is already accounted for as a fiduciary activity.

GASB Statement No. 87, “Leases”, requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. This GASB is effective for fiscal periods beginning after June 15, 2021 (FY 2022). The System will implement this GASB in fiscal year 2022.

GASB Statement No. 90, “Majority Equity Interests”, addresses whether a government’s majority equity interest in a legally separate organization represents an investment or a component unit. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. This GASB is now effective for fiscal periods beginning after December 31, 2019 (FY 2021) but does not impact the System, due to a pension fund’s ability to account for a majority equity investment at fair value under GASB 72.

GASB Statement No. 92, “Omnibus 2020” modifies requirements related to leases, reinsurance recoveries, and the terminology used to refer to derivative instruments. This portion of this GASB that pertains to the System is now effective for FY 2022 (terminology used for derivative instruments), however, it has already been implemented by the System and the ISBI.

GASB Statement No. 93, “Replacement of Interbank Offered Rates” addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). This GASB has no impact on the System nor on the Illinois State Board of Investment.

GASB Statement No. 96, “Subscription-based Information Technology Arrangements” provides guidance for the account and financial reporting for subscription-based information technology arrangements. This GASB is effective for fiscal year 2022 and is being reviewed for possible impact on the System’s financial statements.

## FINANCIAL STATEMENTS

### 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. Units of the ISBI Commingled Fund are issued to the participating entities 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 participating entities 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 three 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 for the three-year period July 1, 2015 to June 30, 2018 resulting in the adoption of new assumptions as of June 30, 2019. Assumption changes include changes to the investment returns, rate of inflation, mortality and other as detailed in the Required Supplementary Information of this financial report.

### 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 fiduciary net position or the changes in fiduciary net position 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.

## FINANCIAL STATEMENTS

### 4. Investments

#### Introduction

Investments of the System are combined in a commingled internal investment pool and held by the Illinois State Board of Investment (ISBI). The System owns approximately 94.1% (\$23,383,102,564) of the net position of the ISBI commingled fund as of June 30, 2021. 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, 2021. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601 or by visiting their website, <https://www.isbinvestment.com>.

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

	June 30, 2021
U.S. govt. agency and municipal obligations	\$ 521,828,660
Domestic Equities	3,337,691,564
International Equities	307,054,822
Domestic Bank Loans	145,394,891
Domestic Obligations	271,011,211
International Obligations	17,207,758
Commingled Funds	14,551,185,317
Hedge Funds	76,923,377
Real Estate Funds	2,233,918,871
Private Equity Funds	1,690,845,180
Infrastructure Funds	310,090,578
Opportunistic Debt Funds	1,131,242,538
Restricted cash (subscription advance)	35,000,000
Measured at amortized cost:	
Money market instruments	250,743,051
Total investments	<u>\$ 24,880,137,818</u>

#### Rate of Return

For the fiscal year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 26.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### 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, 2021, the ISBI had a non-investment related bank balance of \$755,688. A Custodial 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 Northern Trust. Northern Trust has an AA- Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 rating by Moody's. 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, 2021, the ISBI had an investment related bank balance of \$20,314,455. This balance includes USD and foreign cash balances. Cash held in the investment related bank account is neither federally insured nor collateralized for amounts in excess of \$250,000. However, the ISBI is the beneficiary of multiple policies and bonds held by Northern Trust providing for recovery of various potential losses related to services provided by Northern Trust as the ISBI's custodian. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

## FINANCIAL STATEMENTS

### Investment Commitments

The ISBI had total investment commitments of \$3.2 billion at the end of fiscal year 2021. The ISBI's real estate, private equity, infrastructure and opportunistic debt investment portfolios consist of passive interests in limited partnerships. The ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

### Investment Liquidity

The majority of the ISBI's portfolio is highly liquid. However, the ISBI holds investments in hedge funds, real estate funds, opportunistic debt funds, private equity funds, commingled funds, bank loans and infrastructure funds 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 illiquid investments during periods of significant market value declines.

### Alternative Investments

The ISBI's investments in alternative investment vehicles consist of Commingled Funds, Private Equity Funds, Hedge Funds, Infrastructure Funds, Opportunistic Debt Funds and Real Estate Funds. These types of vehicles are 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.

### Fair Value Measurements

Fair value is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e. exit price). The fair value measurements are determined within a framework that utilizes a three-tier hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 – Unadjusted quoted prices in active markets for identical assets.
- Level 2 – Inputs other than quoted prices that are observable for the asset, either directly or indirectly. These inputs include:
  - a. quoted prices for similar assets in active markets;
  - b. quoted prices for identical or similar assets in markets that are not active;
  - c. inputs other than quoted prices that are observable for the asset; or
  - d. inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs that are unobservable for the asset. The valuation of these investments requires significant judgment due to the absence of quoted market values, inherent lack of liquidity, and changes in market conditions.

The valuation methodologies are as follows:

- U.S. Treasuries and U.S. Agencies: quoted prices for identical securities in markets that are not active;
- International Government and Corporate Obligations: broker's quote in an active market;
- Corporate Bonds: quoted prices for similar securities in active markets;
- Municipal Bonds: quoted prices for similar securities in active markets;
- Bank Loans: discounted cashflow, internal assumptions, weighting of the best available pricing inputs and third party pricing services;
- Common Stock and Equity Funds, International Preferred Stocks, International Equity Securities and Commingled Funds made up entirely of index tracking marketable securities: quoted prices for identical securities in an active market. Broker's quote in an active market;
- Money Market Funds: amortized cost which approximates fair value;
- Derivative Instruments: valued using a market approach that considers foreign exchange rates.



## FINANCIAL STATEMENTS

The recurring fair value measurements for the year ended June 30, 2021 are as follows:

	At June 30, 2021			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Totals
Investments by fair value level				
Debt Securities				
US Government, agency, and municipal obligations	\$ 310,337	\$ 521,518,323	\$ -	\$ 521,828,660
Domestic bank loans	-	118,374,739	27,020,152	145,394,891
Domestic corporate obligations	3,719,167	239,897,539	27,394,505	271,011,211
International obligations	-	13,822,884	3,384,874	17,207,758
Total debt securities	<u>\$ 4,029,504</u>	<u>\$ 893,613,485</u>	<u>\$ 57,799,531</u>	<u>\$ 955,442,520</u>
Equity Securities				
Domestic equities	\$ 3,322,805,440	\$ 8,269,963	\$ 6,616,161	\$ 3,337,691,564
International equities	306,588,527	-	466,295	307,054,822
Total equity securities	<u>\$ 3,629,393,967</u>	<u>\$ 8,269,963</u>	<u>\$ 7,082,456</u>	<u>\$ 3,644,746,386</u>
Other				
Commingled funds <sup>1</sup>	\$ 12,517,722,651	\$ -	\$ -	\$ 12,517,722,651
Total other	<u>\$ 12,517,722,651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,517,722,651</u>
Total investments by fair value level	<u>\$ 16,151,146,122</u>	<u>\$ 901,883,448</u>	<u>\$ 64,881,987</u>	<u>\$ 17,117,911,557</u>
Investments measured at the Net Asset Value (NAV)				
Commingled funds <sup>2</sup>				\$ 2,033,462,666
Real estate funds				2,233,918,871
Private equity				1,690,845,180
Infrastructure				310,090,578
Opportunistic debt				1,131,242,538
Hedge funds				76,923,377
Restricted cash (subscription advance)				35,000,000
Total investments measured at the NAV				<u>\$ 7,511,483,210</u>
Investments not measured at fair value				
Money market instruments				<u>\$ 250,743,051</u>
Total investments				<u>\$ 24,880,137,818</u>

1. Commingled funds with readily determinable fair value reported as Level 1.
2. Commingled funds with limited individual investment look through priced using Net Asset Value.

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered “alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The ISBI values these investments based on the partnerships’ audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is adjusted from the most recently available valuation taking into account subsequent calls and distributions, adjusted for unrealized appreciation/depreciation, other income and fees.



## FINANCIAL STATEMENTS

The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for alternative investments measured at NAV:

	June 30, 2021			
	Fair Value	Unfunded Commitments*	Redemption Frequency	Redemption Notice Period
Commingled funds	\$ 2,033,462,666	\$ -	Quarterly	90 Days
Real estate funds	2,233,918,871	619.3	Quarterly	90 Days
Private equity	1,690,845,180	1,176.2	N/A	N/A
Infrastructure	310,090,578	276.5	Quarterly	90 Days
Opportunistic Debt	1,131,242,538	1,126.8	N/A	N/A
Hedge funds	76,923,377	-	Quarterly	90 Days
Restricted cash (subscription advance)	35,000,000	-	N/A	N/A
Total Investments measured at the NAV	<u>\$ 7,511,483,210</u>			

\* In millions

1) Commingled Funds measured at NAV – The ISBI’s assets in this category consist of various investments that are blended together in order to provide economies of scale, allowing for lower trading costs per dollar of investment and diversification. These investments provide primarily liquid exposure to publicly traded equity and fixed income markets. The equity and fixed income portfolios provide diversification benefits and return enhancement to the overall fund in both domestic and international markets. Commingled funds are also called “pooled funds” and “master trusts”. The ISBI’s current NAV measured Commingled fund exposure consists of investments in thirty-four domestic and international public equity (thirty-two) and fixed income (two) funds. Nine of these funds are domestic and twenty-five are international. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. The ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of the plan’s ownership interest.

2) Private Equity – The ISBI’s assets in this category consist of investments in funds not listed on public exchanges. The ISBI’s current Private Equity exposure consists of investments in ninety-one funds with the goals of generating returns significantly greater than typically available in the public market and diversifying the ISBI’s overall portfolio that is comprised predominantly of equity and fixed income assets. The strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital and growth capital. Returns are commensurate with the risks presented by this asset class which include illiquidity. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. The ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of the plan’s ownership interest.

3) Hedge Funds – The ISBI’s assets in this category have historically consisted of investments in funds that seek to generate better than average return and provide a hedge against a downward trend in the overall market. The ISBI is currently in the process of transitioning investments in hedge fund vehicles to long-only equity vehicles. The ISBI’s current Hedge Fund exposure consists of investments in three funds including hedge fund and long only equity assets. Returns are commensurate with the risks presented by this asset class which include illiquidity. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. It is not probable that any investment will be sold at an amount different from the NAV of the plan’s ownership interest.

## FINANCIAL STATEMENTS

4) Infrastructure – The ISBI's assets in this category consist of investments in funds that target infrastructure assets that provide essential services or facilities to a community (ports, bridges, toll roads, etc.). The ISBI's current infrastructure exposure consists of investments in twelve funds that seek to diversify the ISBI's overall portfolio (comprised predominantly of equity and fixed income assets) and provide capital appreciation and income generation. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. The ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

5) Opportunistic Debt – The ISBI's assets in this category consist of investments in private fixed income markets. The ISBI's current Opportunistic Debt exposure consists of investments in sixty-five funds with the goals of diversifying the ISBI's overall portfolio, providing downside protection through assets that are capital collateralized, and supplementing the total return of the portfolio which is comprised predominantly of equity and fixed income assets. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. The ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

6) Real Estate Funds – The ISBI's assets in this category consist of investments in Core and Non-Core Real Estate Fund categories. The ISBI's current Real Estate exposure consists of investments in sixty funds with the goals of diversifying the ISBI's overall portfolio, providing capital appreciation and supplementing the total return of the portfolio through exposure to private real estate assets in both open-end and closed-end structures. Investments in this category are globally diversified and consist of office, industrial, multi-family, retail, storage and other types of assets. Core assets are expected to provide strong diversification through primary markets and high-income potential. Non-Core assets are typically higher risk assets with stronger capital appreciation. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. The ISBI has no plans to liquidate these investments as of June 30, 2021. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

7) Restricted Cash (Subscription Advance) – The ISBI's assets in this category consist of cash contributed to alternative investment managers prior to June 30 that is being held for a pending new investment subscription on July 1. The ISBI's current exposure consists of one subscription advance in Generation IM Global Equity Fund (a domestic equity commingled fund). Restricted cash held at period-end rolled into the designated investment vehicle to be tracked as a traditional commingled investment effective July 1, 2021.

### 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, 2021, 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.

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### 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 consistent with the Barclay's U.S. Universal Index (benchmark index). As of June 30, 2021, the effective weighted duration of the ISBI's fixed income portfolio was 4.7 years and the effective duration of the benchmark index was 6.2 years.

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. The table below shows the detail of the duration by investment type as of June 30, 2021:

Investment Type	Fair Value	Effective Weighted Duration Years
U.S. government, agency, and municipal obligations		
U.S. Government	\$ 521,518,323	4.9
U.S. federal agency	310,337	-
Total U.S. government, agency, and municipal obligations	521,828,660	
Domestic obligations		
Banks	123,578,249	6.1
Insurance	31,823,958	4.4
Commercial services	9,116,800	4.9
Other	106,492,204	2.5
Total domestic obligations	271,011,211	
International obligations	17,207,758	2.5
Grand Total	\$ 810,047,629	

For the ISBI's bank loan portfolio, the appropriate measure of interest rate risk is weighted average maturity. Weighted average maturity is the average time it takes for securities in a portfolio to measure weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. At June 30, 2021, the weighted average maturity of ISBI's bank loan portfolio was 5.0 years.

### 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 issuer investment that exceeded 5% of the total investments of the fund as of June 30, 2021. The table on the next page, presents the quality ratings of debt securities held by the ISBI as of June 30, 2021.

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	Moody's Quality Rating	
U.S. Government and Agency Obligations	AAA	\$ 521,828,660
Total U.S. Government and Agency Obligations		<u>\$ 521,828,660</u>
Domestic corporate obligations		
Banks	A	\$ 123,578,249
Total banks		<u>\$ 123,578,249</u>
Insurance	A	\$ 31,823,958
Total insurance		<u>\$ 31,823,958</u>
Commercial services	Not rated	\$ 9,116,800
Total commercial services		<u>\$ 9,116,800</u>
Other	A	\$ 7,564,230
	BA	10,396,447
	B	8,427,457
	CAA	5,706,905
	CA	420,000
	Not rated	73,977,165
Total other		<u>\$ 106,492,204</u>
Total domestic corporate obligations		<u>\$ 271,011,211</u>
Domestic bank loans		
	B	\$ 4,086,406
	CAA	44,741,890
	CA	2,220,005
	Not rated	94,346,590
Total bank loans		<u>\$ 145,394,891</u>
International obligations		
	BAA	\$ 1,500,045
	BA	2,239,263
	C	76,765
	Not rated	13,391,685
Total international obligations		<u>\$ 17,207,758</u>
Money market instruments		
	Not rated	\$ 250,743,051
Total money market instruments		<u>\$ 250,743,051</u>

## FINANCIAL STATEMENTS

### 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 and other factors. Certain investments held in infrastructure, opportunistic debt, private equity and real estate funds trade in a reported currency of Euro-based dollars valued at \$251,298,068 as of June 30, 2021. The table below presents the foreign currency risk by type of investment as of June 30, 2021.

Currency	International Equities	International Obligations
Australian Dollar	\$ 5,838,232	\$ -
Brazilian Real	7,663,169	-
British Pound Sterling	32,494,361	-
Canadian Dollar	11,987,931	1,008,897
Danish Krone	4,330,169	-
Euro Currency	107,952,260	2,375,977
Hong Kong Dollar	14,240,773	-
Japanese Yen	39,986,656	-
Mexican Peso	2,207,748	-
New Israeli Shekel	289,630	-
New Taiwan Dollar	1,495,846	-
New Zealand Dollar	376,032	-
Norwegian Krone	1,112,839	-
Singapore Dollar	1,708,671	-
South African Rand	1,401,795	-
South Korean Won	13,219,954	-
Swedish Krona	3,974,494	-
Swiss Franc	27,406,232	-
Foreign investments denominated in U.S. Dollars	<u>29,368,030</u>	<u>13,822,884</u>
Total	<u>\$ 307,054,822</u>	<u>\$ 17,207,758</u>

### Securities Lending

Cash and cash equivalents included in the System's Statement of Fiduciary Net Position 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 AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2021, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury 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 aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

## FINANCIAL STATEMENTS

The State Treasurer did not impose any restrictions during fiscal year 2021 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2021 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2021, the State Treasurer and the 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 AG 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 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 received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2021 were \$5,491,725,001 and \$5,417,669,749, respectively. The System's portion of securities lending collateral that was invested in repurchase agreements as of June 30, 2021 was \$99,976,000.

### 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 futures, options, rights and warrants, and swaps. The ISBI's derivatives are considered investment derivatives.

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 Position. 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 Position.

Rights and warrants allow the ISBI 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. These investments are reported at fair value in the investment section of the Statement of Net Position 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 Statement of Changes in Net Position.

The ISBI investment managers use swaps to periodically exchange cash flows or liabilities with a defined counterparty, primarily as a method to hedge against specific risk exposures (e.g., interest rate risk, currency risk). Principal is usually not exchanged between the counterparties as part of these agreements. The fair values of the swap contracts represent current outstanding settlement receivables (assets) or payables (liabilities). These investments are reported at fair value in either the Investments Purchased or Investments Sold lines depending on their period-end position as an outstanding receivable or payable. Gains or losses are recognized in the net increase/decrease in the fair value of investments in the ISBI Statement of Change in Net Position.



## FINANCIAL STATEMENTS

The table below presents the investment derivative instruments aggregated by type that were held by the ISBI as of June 30, 2021.

	Changes in Fair Value	Fair Value at Year-End	Notional Amount Number of Shares
Options	\$ 111,808	\$ -	-
Rights/Warrants	432,009	458,430	752,192
Swaps	(506,818)	-	-
	<u>\$ 36,999</u>	<u>\$ 458,430</u>	<u>752,192</u>

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.

### 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 year 2021, the actuary used the projected unit credit actuarial method for determining the proper employer contribution rate and amount.

For fiscal year 2021, the required employer contributions were 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 employer contributions associated with the payrolls from the general revenue fund are paid in equal installments each month to the System based on the projected payroll for the year. At the end of the fiscal year, a reconciliation is performed with the State Comptroller's Office to calculate the actual general revenue wages subject to retirement and actual employer contributions due the System from the general revenue fund. If this calculation is greater than the general revenue employer contributions paid, an employer contribution receivable is accrued. If this calculation is less than the general revenue employer contributions paid, a Due to the State of Illinois (General Revenue Fund) is accrued. For fiscal year 2021, a receivable from the State of Illinois was accrued in the amount of \$15,415,517 for the general revenue fund underpayment (shortfall).

The total amount of statutorily required employer contributions, net of the debt service contributions, for fiscal year 2021 was \$2,475,149,161. The total amount of employer contributions received from the State and other sources during fiscal year 2021 was \$2,478,209,949.



## FINANCIAL STATEMENTS

### 6. Net Pension Liability of the State

The components of the State's net pension liability for this plan at June 30, 2021 are as follows:

The System is significantly underfunded which raises concerns about its future financial solvency should there be a significant market downturn coupled with the State's inability or unwillingness to pay the employer contributions.

Total Pension Liability (TPL)	Plan Fiduciary Net Position (FNP)	Net Pension Liability	Plan FNP as % of TPL
\$56,984,058,744	\$23,883,338,594	\$33,100,720,150	41.91%

#### Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, which were based on the results of an actuarial experience study for the period from July 1, 2015 to June 30, 2018, applied to all periods included in the measurement. The history of key assumption changes include changes to the investment returns, rate of inflation, mortality and others as detailed in the Required Supplementary Information of this Annual Financial Report.

Additionally, assumptions pertaining to the accelerated pension benefit (Total Buyout Program and COLA Buyout Program) were built into the model. These programs (Public Act 100-0587) allow certain members eligible for a pension to elect an accelerated present value payment based on a percentage of future benefits payable in exchange for giving up those future benefits. The accelerated payment is financed through the sale of bonds.

The June 30, 2021 actuarial valuation used the following actuarial assumptions:

- Actuarial Cost Method:** Entry Age Normal
- Mortality:** Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.
- Inflation:** 2.25%
- Investment rate of return:** 6.75%
- Salary increases:** Salary increase rates based on age-related productivity and merit rates plus inflation.
- Post-retirement increase:** Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and 3.00% or one-half of the annual increase in the Consumer Price Index, whichever is less, simple, for Tier 2.
- Retirement age:** Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2019, valuation pursuant to an experience study of the period July 1, 2015 to June 30, 2018.

## FINANCIAL STATEMENTS

### Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments is reviewed annually by the System's actuary, Gabriel Roeder Smith & Company (GRS), as part of the economic assumptions review. The actuarial assumptions are developed using historical data and projections employed to model future returns as provided by the Illinois State Board of Investments (ISBI) in conjunction with its investment consultant. The assumed rate of inflation which must be combined with the projected real return is 2.25%.

The target allocations and forward looking annualized geometric real rates of return for each major asset class, which are applicable for a 20-year projection period, are summarized in the following table. The 20-year projections produced an estimated annual real return of 6.72% and a standard deviation of 11.8% for the aggregate portfolio.

Asset Class	Asset Allocation	
	Target Allocation	20 Year Simulated Real Rate of Return
U.S. Equity	23%	4.8%
Developed Foreign Equity	13%	5.3%
Emerging Market Equity	8%	6.5%
Private Equity	7%	6.8%
Intermediate Investment Grade Bonds	14%	0.4%
Long-term Government Bonds	4%	0.6%
TIPS	4%	0.3%
High Yield and Bank Loans	5%	2.5%
Opportunistic Debt	8%	4.3%
Emerging Market Debt	2%	2.2%
Real Estate	10%	5.6%
Infrastructure	2%	6.5%
Total	100%	

### Discount Rate

A single discount rate of 6.20% was used to measure the total pension liability as of June 30, 2021. This represents a decrease of 0.15% from the discount rate used for the June 30, 2020 valuation, 6.35%.

The single discount rate was based on the June 30, 2021 expected rate of return on pension plan investments of 6.75%, and a municipal bond rate of 1.92% as of June 30, 2021. The projection of cash flows used to determine the single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the statutory contributions and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2076 at June 30, 2021. As a result, for fiscal year 2021, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2076, and the municipal bond rate was applied to all benefit payments after that date.

## FINANCIAL STATEMENTS

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

For fiscal year 2021, the following table presents the plan's net pension liability using a single discount rate of 6.20%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher.

	June 30, 2021		
		Current	
	1% decrease 5.20%	Discount Rate 6.20%	1% increase 7.20%
State's net pension liability	<u>\$40,844,637,185</u>	<u>\$33,100,720,150</u>	<u>\$26,745,194,833</u>

### 7. Compensated Absences

Employees of the System are entitled to receive compensation for all accrued but unused vacation time upon termination of employment. Additionally, employees of the System are entitled to receive compensation for one-half of the unused sick days that were earned on and after January 1, 1984 and before January 1, 1998, upon termination of employment. The accrued compensated absences, which is included in Administrative Expenses Payable, is shown on the following table:

	Beginning Balance	Current Year Additions	Current Year Deletions	Ending Balance
Accrued Compensated Absences	\$ 904,797	\$ 976,458	\$ 962,835	\$ 918,420

## FINANCIAL STATEMENTS

### 8. 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 2021 payrolls amounted to \$35.3 million. The total amount remitted to the State of Illinois as of June 30, 2021 was \$30.9 million.

As of June 30, 2021, the following amounts are included in the System's Statement of Plan Net Position regarding the collection of bond principal and interest payments:

Cash - payments collected but not yet remitted to the State of Illinois	\$ (3,055,929)
Accounts receivable - for June payrolls received in July & August	<u>\$ (1,313,973)</u>
Due to the State of Illinois	<u>\$ (4,369,902)</u>

### 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 which are budgeted and approved by the System's Board of Trustees, are displayed in the table below for June 30, 2021.

Personal Services	\$ 5,275,180
Employee Retirement Pickup	53,807
Retirement Contributions	2,872,890
Social Security Contributions	388,852
Group Insurance	1,583,679
Contractual Services	1,328,785
Travel	-
Commodities	2,952
Printing	12,476
Equipment	13,978
Electronic Data Processing	4,065,553
Telecommunications	41,650
Automotive	3,742
Depreciation/Amortization	909,168
Other (net)	<u>24,700</u>
Total	<u>\$ 16,577,412</u>

## FINANCIAL STATEMENTS

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by 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 have to contribute towards health, dental, and vision benefits. 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 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 separated by individual department or fund for annuitants and their dependents and active employees and their dependents after the State adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The System and the State Comptroller has determined that it would be inappropriate for the System to record its allocated share of the State's other post-employment benefits (OPEB) expense and liability associated with its employees because accounting standards would require that those costs be reallocated and recovered from other state agencies and funds through employer pension contributions.

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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, Stratton Office Building, 401 South Spring Street, Springfield, Illinois 62706.

## FINANCIAL STATEMENTS

### 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 requesting 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 and are as follows for fiscal year 2021:

Personal services	\$ 45,913
Social Security contributions	3,268
Contractual services	17,113
Telecom	<u>214</u>
Total	<u>\$ 66,509</u>



## FINANCIAL STATEMENTS

### 11. Capital Assets

Capital assets over \$1,000 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, (4) building - 30 years, (5) land improvements - 15 years, and (6) capitalized software - 20 years. Land is carried at its original cost, including applicable legal fees, surveying costs, etc. This is a summary of changes in capital assets for 2021:

	Beginning Balance	Current Year Additions	Current Year Deletions	Ending Balance
Capital Assets				
Land	\$ 655,241	\$ -	\$ -	\$ 655,241
Land improvements	315,779	-	-	315,779
Building	4,478,519	-	-	4,478,519
Equipment	2,633,898	156,106	(648,038)	2,141,966
Capitalized software costs	12,015,201	1,986,735	-	14,001,936
TOTAL	<u>20,098,638</u>	<u>2,142,841</u>	<u>(648,038)</u>	<u>21,593,441</u>
Accumulated depreciation				
Land improvements	(23,317)	(2,838)	-	(26,155)
Building	(3,543,227)	(76,138)	-	(3,619,365)
Equipment	(2,320,508)	(134,063)	645,707	(1,808,864)
Capitalized software costs	(2,130,440)	(700,097)	-	(2,830,537)
TOTAL	<u>(8,017,492)</u>	<u>(913,136)</u>	<u>645,707</u>	<u>(8,284,921)</u>
Net capital assets	<u>\$ 12,081,146</u>	<u>\$ 1,229,705</u>	<u>\$ (2,331)</u>	<u>\$ 13,308,520</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF CHANGES IN THE STATE'S NET  
PENSION LIABILITY AND RELATED RATIOS  
Fiscal Years Ended June 30, 2021 through 2014

	<u>2021</u>	<u>2020</u>
<b>Total pension liability</b>		
Service cost	\$ 844,746,330	\$ 818,759,630
Interest	3,369,337,076	3,295,058,848
Change of Benefit Terms (1)	3,353,888	-
Difference between expected and actual experience	585,692,133	114,763,238
Assumption changes	1,002,207,365	716,029,264
Benefit payments	(2,853,548,896)	(2,727,820,833)
Refunds	(17,102,185)	(19,366,029)
Administrative expense	(16,577,412)	(17,412,562)
<b>Net change in total pension liability</b>	<u>2,918,108,299</u>	<u>2,180,011,556</u>
<b>Total pension liability - beginning</b>	<u>54,065,950,445</u>	<u>51,885,938,889</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 56,984,058,744</u>	<u>\$ 54,065,950,445</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 2,478,209,949	\$ 2,368,905,396
Contributions - participant	280,583,917	271,749,009
Net investment income	4,814,500,869	829,328,719
Benefit payments	(2,853,548,896)	(2,727,820,833)
Refunds	(17,102,185)	(19,366,029)
Administrative expense	(16,577,412)	(17,412,562)
<b>Net change in plan fiduciary net position</b>	<u>4,686,066,242</u>	<u>705,383,700</u>
<b>Plan fiduciary net position - beginning</b>	<u>19,197,272,352</u>	<u>18,491,888,652</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 23,883,338,594</u>	<u>\$ 19,197,272,352</u>
<b>State's net pension liability - ending (a)-(b)</b>	<u>\$ 33,100,720,150</u>	<u>\$ 34,868,678,093</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	41.91%	35.51%
<b>Covered payroll</b>	\$ 4,697,844,558	\$ 4,517,748,809
<b>State's net pension liability as a percentage of covered payroll</b>	704.59%	771.82%
Single discount rate, Beginning of Year	6.35%	6.47%
Single discount rate, End of Year	6.20%	6.35%
Long-term municipal bond rate	1.92%	2.45%
Long-term municipal bond rate date	06/30/21	06/30/20

REQUIRED SUPPLEMENTARY INFORMATION

2019	2018	2017	2016	2015	2014
\$ 801,415,244	\$ 828,485,950	\$ 893,147,418	\$ 843,376,643	\$ 847,997,030	\$ 776,487,959
3,378,803,879	3,295,855,347	3,217,531,841	2,989,387,125	2,912,736,360	2,754,121,665
(462,609,552)	-	-	-	-	-
(24,683,325)	(185,488,891)	(601,530,567)	(730,622,389)	(464,942,210)	150,997,067
313,744,264	(348,811,194)	(884,705,099)	5,048,087,579	360,713,498	3,142,466,514
(2,601,306,593)	(2,464,832,022)	(2,328,620,783)	(2,190,501,203)	(2,034,858,435)	(1,917,062,639)
(24,133,508)	(27,469,348)	(26,608,011)	(26,708,730)	(23,128,975)	(23,082,814)
(14,978,852)	(15,257,526)	(15,957,439)	(16,126,997)	(16,547,823)	(16,615,105)
<u>1,366,251,557</u>	<u>1,082,482,316</u>	<u>253,257,360</u>	<u>5,916,892,028</u>	<u>1,581,969,445</u>	<u>4,867,312,647</u>
<u>50,519,687,332</u>	<u>49,437,205,016</u>	<u>49,183,947,656</u>	<u>43,267,055,628</u>	<u>41,685,086,183</u>	<u>36,817,773,535</u>
<u>\$ 51,885,938,889</u>	<u>\$ 50,519,687,332</u>	<u>\$ 49,437,205,016</u>	<u>\$ 49,183,947,656</u>	<u>\$43,267,055,628</u>	<u>\$41,685,086,183</u>
\$ 2,274,925,279	\$ 1,929,175,044	\$ 1,798,348,440	\$ 1,882,243,268	\$ 1,804,319,356	\$ 1,699,447,826
275,675,175	254,442,466	251,610,974	256,198,172	266,139,156	269,232,241
1,118,428,910	1,257,039,835	1,812,878,460	(125,442,931)	681,377,052	2,169,346,258
(2,601,306,593)	(2,464,832,022)	(2,328,620,783)	(2,190,501,203)	(2,034,858,435)	(1,917,062,639)
(24,133,508)	(27,469,348)	(26,608,011)	(26,708,730)	(23,128,975)	(23,082,814)
(14,978,852)	(15,257,526)	(15,957,439)	(16,126,997)	(16,547,823)	(16,615,105)
<u>1,028,610,411</u>	<u>933,098,449</u>	<u>1,491,651,641</u>	<u>(220,338,421)</u>	<u>677,300,331</u>	<u>2,181,265,767</u>
<u>17,463,278,241</u>	<u>16,530,179,792</u>	<u>15,038,528,151</u>	<u>15,258,866,572</u>	<u>14,581,566,241</u>	<u>12,400,300,474</u>
<u>\$ 18,491,888,652</u>	<u>\$ 17,463,278,241</u>	<u>\$ 16,530,179,792</u>	<u>\$ 15,038,528,151</u>	<u>\$15,258,866,572</u>	<u>\$ 14,581,566,241</u>
<u>\$ 33,394,050,237</u>	<u>\$ 33,056,409,091</u>	<u>\$ 32,907,025,224</u>	<u>\$ 34,145,419,505</u>	<u>\$28,008,189,056</u>	<u>\$27,103,519,942</u>
35.64%	34.57%	33.44%	30.58%	35.27%	34.98%
\$ 4,621,647,466	\$ 4,240,108,939	\$ 4,192,582,495	\$ 4,282,020,350	\$ 4,452,369,221	\$ 4,414,784,230
722.56%	779.61%	784.89%	797.41%	629.06%	613.93%
6.81%	6.78%	6.64%	7.02%	7.09%	7.60%
6.47%	6.81%	6.78%	6.64%	7.02%	7.09%
3.13%	3.62%	3.56%	2.85%	3.80%	4.29%
06/30/19	06/30/18	06/30/17	06/30/16	06/30/15	06/30/14

## REQUIRED SUPPLEMENTARY INFORMATION

### Notes to the Schedule of Changes in the State's Net Pension Liability and Related Ratios

Valuation Date: June 30, 2021

This Schedule is intended to show information for ten (10) years. Information prior to 2014 is not available. The additional years will be added, prospectively, as they become available.

(1) "Change of Benefit Terms" relates to the Buyout Program that was extended by Public Act 101-0010.

### Key Assumption Changes Related to the Schedule of Changes in the State's Net Pension Liability and Related Ratios

#### 2021 Changes in Assumptions:

- Reduced the assumed election for COLA buyout among Regular Formula members from 21% to 20%.
- Increased the assumed election for COLA buyout among Alternative Formula members not covered by Social Security from 28% to 40% and for Alternative Formula members covered by Social Security from 28% to 35%.
- Reduced the assumed election of the Total buyout from 5% to 2% of eligible inactive members.

#### 2020 Changes in Assumptions:

- There were no significant assumption changes.

#### 2019 Changes in Assumptions:

- The rate of inflation decreased from 2.5% to 2.25%.
- The investment return assumption was reduced from 7.00% to 6.75%.
- The payroll growth assumption was decreased from 3.00% to 2.75%.
- The salary increase assumption was decreased from 3.00% to 2.75%.
- Mortality improvement factors were update to the projection scale MP-2018.
- Mortality tables were updated to
  - Post Retirement: Pub-2010 General Healthy Retiree for Regular Formula members and Pub-2010 Public Safety Health Retiree for Alternative Formula members.
  - Pre-Retirement: Pub-2010 General Employee for Regular Formula members and Pub-2010 Public Safety Employee for Alternative Formula members.
- Scaling factors were applied to partially reflect observed mortality experience to the extent it is credible.
- Normal retirement rates were increased to better reflect observed experience.
- Early retirement rates were decreased to better reflect observed experience.
- Turnover rates were increased to better reflect observed experience.
- The load for inactive members eligible for deferred vested pension benefits was changed to 11% for Regular Formula members and 9% for Alternative Formula members.
- The assumed election for accelerated benefit payments under the COLA buyout was set at 21% of eligible Regular Formula members and 28% of eligible Alternative Formula members.
- The assumed election for accelerated benefit payments under the Total buyout was set at 5% of eligible inactive members.

## REQUIRED SUPPLEMENTARY INFORMATION

### 2018 Changes in Assumptions:

- The rate of inflation decreased from 2.75% to 2.50%.
- The salary increase assumption was decreased from 3.25% to 3.00%.

### 2017 Changes in Assumptions:

- There were no significant assumption changes.

### 2016 Changes in Assumptions:

- The rate of inflation decreased from 3.00% to 2.75%.
- The investment return assumption was decreased from 7.25% to 7.00%.
- The salary increase assumption was decreased from 3.5% to 3.25%.
- Separate Tier 2 turnover rates were implemented for members eligible for regular formula and alternative formula benefits. The new rates increased the expected turnover.
- Generational mortality improvement factors were added to reflect future mortality improvements. The new mortality tables move from a single dimensional age-based table to a two dimensional table where the year of a person's birth influences their mortality rate.
- An assumption was added that all current and future active members would increase service by 4.5 months upon retirement due to the optional service purchase of unused sick and vacation leave upon leaving state employment.

### 2015 Changes in Assumptions:

- There were no significant assumption changes.

SCHEDULE OF INVESTMENT RETURNS								
	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	26.0%	4.7%	7.1%	7.6%	12.4%	(0.9)%	4.8%	17.9%

\* **NOTE:** This Schedule is intended to show information for ten (10) years. Information prior to 2014 is not available. The additional years will be added, prospectively, as they become available.

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF STATE CONTRIBUTIONS

Fiscal Year Ended June 30	Actuarially determined contribution	Contributions received	Contribution (deficiency) excess	Covered Payroll	Contributions received as a percentage of covered payroll
2012	\$ 1,614,834,808	\$ 1,391,416,375	\$ (223,418,433)	\$ 4,328,767,884	32.14%
2013	1,741,286,416	1,531,932,137	(209,354,279)	4,235,366,263	36.17%
2014	1,956,841,419	1,699,447,826	(257,393,593)	4,414,784,230	38.49%
2015	2,045,354,223	1,804,319,356	(241,034,867)	4,452,369,221	40.52%
2016	2,019,691,233	1,882,243,268	(137,447,965)	4,282,020,350	43.96%
2017	2,129,482,987	1,798,348,440	(331,134,547)	4,192,582,495	42.89%
2018	2,739,377,709	1,929,175,044	(810,202,665)	4,240,108,939	45.50%
2019	2,995,968,149	2,274,925,279	(721,042,870)	4,621,647,466	49.22%
2020	2,913,649,550	2,368,905,396	(544,744,154)	4,517,748,809	52.44%
2021	3,037,755,779	2,478,209,949	(559,545,830)	4,697,844,558	52.75%

#### Notes to Schedule of State Contributions:

**Note:** ADC for fiscal years 2019 forward reflect the buyout program provisions provided in Public Act 100-0587.

**Valuation Date:** June 30, 2019

**Notes** Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

Covered payroll for fiscal years on and after June 30, 2012, were restated to comply with the requirements of GASB Statement No. 82. For fiscal years prior to June 30, 2012, covered payroll was not restated to comply with the requirements of GASB Statement No. 82 due to system limitations.

#### Methods and Assumptions as of the Valuation Date:

**Actuarial Cost Method:** Projected Unit Credit

**Amortization Method:** Normal cost plus a level percentage of capped payroll amortization of the unfunded accrued liability.

**Remaining Amortization Period:** 21 years, closed

**Asset Valuation Method:** 5 year smoothed market

**Inflation:** 2.25%

**Salary Increases:** Salary increase rates based on age-related productivity and merit rates plus inflation.

**Post Retirement Benefits:** Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and 3.00% or one-half of the annual increase in the Consumer Price Index whichever is less, simple, for Tier 2.

**Investment Rate of Return:** 6.75%



## REQUIRED SUPPLEMENTARY INFORMATION

Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2019, valuation pursuant to an experience study of the period July 1, 2015 to June 30, 2018.
Mortality:	<p>Regular Formula: Pub-2010 General Healthy Retiree Mortality tables, sex distinct, with scaling factors of 111% for males and females, one year set forward for females, and the MP-2018 two-dimensional generational mortality improvement scale.</p> <p>Alternative Formula: Pub-2010 General Healthy Retiree Mortality tables, sex distinct, with scaling factors of 110 percent for males and 105% for females, and the MP-2018 two-dimensional generational mortality improvement scale</p>

## SUPPLEMENTARY FINANCIAL INFORMATION

### SCHEDULE OF PAYMENTS TO CONSULTANTS & ADVISORS

For the Year Ended June 30, 2021

Legal Services	\$ 19,257
Actuarial Costs	108,091
Audit Expense	91,955
Physicians and Disability Inspections	118,665
Financial Planning	-
Management Consultants	<u>1,086,518</u>
TOTAL	<u>\$ 1,424,486</u>

# INVESTMENT SECTION

## 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' Retirement System, General Assembly Retirement System, and one other state agency. All ISBI investments are accounted for in a commingled fund (ISBI Fund).

Units of the ISBI Commingled Fund are issued to the participating entities 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 participating entities 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.

As of June 30, 2021, the ISBI's total net position under management, valued at market, amounted to \$24.9 billion. Of the total market value of the net position under management, \$23.4 billion or approximately 94.1% represented assets of the State Employees' Retirement System as of June 30, 2021.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A of the Illinois Compiled Statutes (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.

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. A copy of the ISBI Annual Report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601 or by visiting the ISBI's website at [www.ISBI.Illinois.gov](http://www.ISBI.Illinois.gov).

The following investment information and analysis has been prepared from information provided by the ISBI. Investment performance returns are prepared by Northern Trust. 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 AND ASSET ALLOCATION

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.

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.

Changes made to the portfolio during fiscal year 2021 amounted to routine adjustments associated with the administration of an institutional portfolio – periodic rebalancing, funding of private equity and real estate commitments, selection of new limited partnerships, and continual monitoring of the portfolio.

The portfolio is regularly adjusted to manage exposures and to closely track the asset allocation policy adopted by the ISBI Board. The asset allocation policy targets and actual allocations for fiscal year 2021 are shown in the following table.

## INVESTMENT SECTION

### INVESTMENT ASSET ALLOCATION

	Fair Value	2021 Actual Asset Mix	Policy Target
Domestic equity	\$ 3,337,691,564	13%	
Commingled funds Domestic equity	3,387,758,018	14	
Total Domestic equity	<u>6,725,449,582</u>	<u>27</u>	<u>23</u>
International equity	307,054,822	1	
Commingled funds International equity	5,396,354,866	22	
Total International equity	<u>5,703,409,688</u>	<u>23</u>	<u>21</u>
Fixed Income <sup>1</sup>	955,442,520	4	
Commingled funds Fixed Income	5,767,072,433	23	
Total Fixed Income	<u>6,722,514,953</u>	<u>27</u>	<u>29</u>
Real estate <sup>2</sup>	2,233,918,871	9	10
Private equity <sup>2</sup>	1,690,845,180	7	7
Infrastructure <sup>2</sup>	310,090,578	1	2
Opportunistic Debt <sup>2</sup>	1,131,242,538	5	8
Hedge funds	76,923,377	-	-
Restricted cash (subscription advance)	35,000,000	-	-
Cash <sup>3</sup>	250,743,051	1	-
Total	<u>\$ 24,880,137,818</u>	<u>100%</u>	<u>100%</u>

<sup>1</sup> Maturities of one year or longer, including convertible bonds.  
<sup>2</sup> Interests in limited partnerships and other entities which have limited liquidity.  
<sup>3</sup> Includes money market instruments and other assets, less liabilities.

### INVESTMENT PORTFOLIO SUMMARY

	June 30, 2021	
Investments, at fair value		
U.S. Govt. Agency and Municipal Obligations	\$ 521,828,660	2.10%
Domestic equities	3,337,691,564	13.43%
International equities	307,054,822	1.24%
Domestic bank loans	145,394,891	0.58%
Domestic corporate obligations	271,011,211	1.09%
International obligations	17,207,758	0.07%
Commingled funds	14,551,185,317	58.53%
Real estate funds	2,233,918,871	8.99%
Private equity funds	1,690,845,180	6.80%
Infrastructure funds	310,090,578	1.25%
Opportunistic debt funds	1,131,242,538	4.55%
Hedge funds	76,923,377	0.31%
Restricted cash (subscription advance)	35,000,000	0.14%
Measured at amortized cost:		
Money Market Instruments	\$ 250,743,051	1.01%
	<u>24,880,137,818</u>	<u>100.09%</u>
Other Assets, Less Liabilities	(19,286,609)	(0.09)%
Net Position, at Fair Value	<u>\$ 24,860,851,209</u>	<u>100.00%</u>

## INVESTMENT SECTION

### ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations of the System for fiscal years 2021 and 2020:

	2021	2020	Increase/(Decrease)	
			Amount	Percentage
Balance at beginning of year, at fair value	\$ 18,637,515,972	\$ 18,025,048,499	\$ 612,467,473	3.4%
Cash transferred to (from) ISBI, net	(68,000,000)	(214,000,000)	146,000,000	68.2%
Net ISBI investment revenue:				
Net appreciation in fair value of investments	4,597,023,302	644,850,428	3,952,172,874	612.9%
Interest and dividends	245,731,164	206,605,319	39,125,844	18.9%
Less investment expense	(29,167,875)	(24,988,274)	(4,179,600)	16.7%
Net ISBI investment revenue	<u>4,813,586,591</u>	<u>826,467,473</u>	<u>3,987,119,118</u>	<u>482.4%</u>
Balance at end of year, at fair value	<u>\$ 23,383,102,563</u>	<u>\$ 18,637,515,972</u>	<u>\$ 4,745,586,591</u>	<u>25.5%</u>

In addition, interest on the average balance in the System's cash account in the State Treasury for FY2021 was \$914,279 compared to \$2,861,245 during FY2020.

### MANAGEMENT EXPENSES

The ISBI's total expenses for fiscal year 2021, based on \$24.9 billion in net position, was \$31.0 million. The resulting expense ratio (expenses divided by average fair value of assets) for fiscal year 2021 was 0.12%. As a result of the ISBI's commitment to control costs, the investment management fees are typically in the bottom quartile of fees paid by the ISBI's peer group.

### ANALYSIS OF INVESTMENT PERFORMANCE

In fiscal year 2021, investors enjoyed gains in international and U.S. equities as measured by the market indices. The ISBI's total fund was up 25.8% for fiscal year 2021, net of all expenses. This follows positive returns of 4.6%, 7.1%, 7.6% and 12.3% in 2020, 2019 and 2018 and 2017, respectively.

The ISBI staff, as well as its retained consultants, aggressively monitors the totality of the portfolio.

The following table reflects the investment performance over the last five years as well as the three, five, and ten year average returns for all categories in addition to their individual benchmarks.



## INVESTMENT SECTION

### ANALYSIS OF INVESTMENT PERFORMANCE

	2021	2020	2019	2018	2017	3 Years	5 Years	10 Years
Total Fund	25.8%	4.6%	7.1%	7.6%	12.3%	12.1%	11.2%	9.1%
Composite Benchmark*	21.9	4.9	7.0	7.4	12.0	10.8	10.3	8.4
Consumer Price Index	5.4	0.7	1.7	2.9	1.6	2.5	2.4	1.9
Domestic Equities	43.4	6.4	10.3	14.3	18.7	18.9	18.0	13.9
Russell 3000 Index	44.2	6.5	9.0	14.8	18.5	18.7	17.9	14.7
International Equities	39.2	(2.9)	1.2	7.6	22.1	11.0	12.4	7.7
MSCI-ACWI ex US Index	37.2	(4.7)	0.3	7.7	20.5	9.4	11.2	5.7
Fixed Income	5.0	7.8	7.5	0.9	0.9	6.7	4.4	3.6
Barclays Capital U.S. Universal Index	1.1	7.9	8.1	(0.3)	0.9	5.6	3.5	3.7
Real Estate	13.7	2.3	5.4	7.3	7.1	7.0	7.1	9.2
Real Estate CB	1.5	3.9	6.6	7.1	6.9	4.0	5.2	8.4
Infrastructure	11.6	8.0	13.6	13.3	13.5	11.1	12.0	11.3
Infrastructure Index	9.1	4.2	5.2	6.5	0.9	6.1	5.1	4.6
Private Equity	54.9	7.9	19.8	20.6	17.9	26.0	23.3	19.8
Private Equity CB	53.2	3.3	13.5	16.1	17.3	21.6	19.6	15.4

*Note: Calculations are based on a time series of linked monthly returns (IRR), producing a time weighted effect. Total fund return is presented net of fees. All other return information is presented gross of fees.*

**\* Composite Benchmark:**

**Effective 07/17:** 23% Russell 3000; 13% MSCI-EAFE Index; 8% MSCI Emerging Markets Index; 7% Cambridge Private Equity Index (1Q lagged); 10% Barclays Aggregate; 4% Barclays Intermediate Treasuries; 4% Barclays Long Term Treasury Index; 4% Barclays US TIPS Index; 2.5% Barclays High Yield Index; 2.5% CSFB Leveraged Loan Index; 1.0% JPM GBI EM Global Diversified (unhedged); 1.0% JPM EMBI Global Diversified (hedged); 8% S&P/LSTA US Levered Loan 100 Index; 10% NCREIF ODCE (1Q lagged) ; 2% CPI + 3.5%.

**Effective 07/16:** 23% Russell 3000; 13% MSCI-EAFE index; 7% MSCI Emerging Markets index; 10% Cambridge Private Equity index; 11% Barclays Aggregate; 3% Barclays Long Term Treasury index; 5% Barclays US TIPS index; 3% Barclays High Yield index; 3% CSFB Leveraged Loan index; 1.5% JPM GBI EII Global Diversified (unhedged); 1.5% JPM EMBI Global Diversified (hedged); 11% NCREIF ODCE; 5% CPI +4%; 3% HFRI Fund of Fund Composite.

**Effective 06/14:** 30% Russell 3000; 20% MSCI-ACWI ex US IMI Gross; 25% Barclays Capital U.S. Universal; 10% NCREIF ODCE; 5% Custom Private Equity Benchmark which is based on preliminary data subject to change; 10% HFRI Fund of Funds Index. The Custom Private Equity benchmark is based on peer universe return data compiled and published by Cambridge Associates, LLC. The custom benchmark returns are calculated as pooled internal rates of return (IRR).

**Effective 01/14:** 30% Russell 3000; 20% MSCI-ACWI ex US; 25% Barclays Capital U.S. Universal; 10% NCREIF ODCE; 5% Venture Economics Pooled Average Periodic IRR which is based on preliminary data subject to revision on a quarterly basis; 10% HFRI Fund of Funds Index.

**Effective 07/11:** 30% Russell 3000; 20% MSCI-ACWI ex US; 25% Barclays Capital U.S. Universal; 10% NCREIF ODCE; 5% Venture Economics Pooled Average Periodic IRR which is based on preliminary data subject to revision on a quarterly basis; 10% HFRX Equity Hedged Index.

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## ACTUARIAL SECTION

*The schedules in this section of the report were prepared to support the actuarially determined contribution for fiscal year 2023 under the State of Illinois' funding plan. The total actuarial liability, the actuarial value of assets, and unfunded accrued actuarial liability as presented in the Actuarial section of this report using the State's funding method does not conform with GASB Statement No. 67 and therefore, the amounts presented in the Actuarial section of this report differ from the amounts presented for financial reporting purposes in the financial section of this report.*

# ACTUARY'S CERTIFICATION LETTER



P: 312.456.9800 | [www.grsconsulting.com](http://www.grsconsulting.com)

October 25, 2021

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

**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, 2021. This actuarial valuation has been performed to measure the funding status of the System and determine the State's statutory contribution rate for the year beginning July 1, 2022, and ending June 30, 2023. Public Act ("P.A.") 100-0023, effective July 6, 2017, modified the State's funding policy to include smoothing State contribution rate increases or decreases due to changes in actuarial assumptions, including investment return assumptions, over a five-year period in equal annual amounts beginning in fiscal year 2018. In addition, changes in actuarial or investment assumptions that increased or decreased the State contribution rate in fiscal years 2014 through 2017 are to be smoothed over a five-year period in equal annual amounts, applying only to the portion of the five-year phase-in that is applicable to fiscal years on and after 2018.

Gabriel, Roeder, Smith & Company ("GRS") has prepared this report exclusively for the Trustees of the State Employees' Retirement System of Illinois; GRS is not responsible for reliance upon this report by any other party. This report may be provided to parties other than SERS only in its entirety and only with the permission of the Trustees.

The required statutory contribution rate has been determined under the Projected Unit Credit Cost Method, providing for 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. 93-0002 and P.A. 100-0023 reflecting the infusion of the proceeds from the sale of general obligation bonds and five-year smoothing of State contribution rate increases due to changes in actuarial assumptions resulting from the 2013 and 2016 experience reviews, the 2018 economic assumption review, the 2019 experience review, and 2021 buyout programs experience review. The total rate includes a portion of the debt service due to the sale of the general obligation bonds per P.A. 93-0002. The applicable portion of the debt service includes the amount necessary to pay all principal and interest for State fiscal year 2023 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 members of SERS hired after December 31, 2010. The fiscal year 2023 contribution rate reflects the impact of P.A. 100-0587 and P.A. 101-0010, which created and extended two voluntary buyout programs (Accelerated Pension Benefit Payment Program) for eligible members.

120 North LaSalle Street | Suite 1350 | Chicago, Illinois 60602-3495

# ACTUARY'S CERTIFICATION LETTER

Board of Trustees and Executive Secretary  
 State Employees' Retirement System of Illinois  
 October 25, 2021  
 Page 2

For the actuarial valuation as of June 30, 2021, the assumed rate of return used to discount liabilities and project assets was 6.75 percent. The required statutory contribution rates and amounts for fiscal year beginning July 1, 2022, as determined in the June 30, 2021, actuarial valuation are shown below:

	Employer's Normal Cost <sup>a</sup>	Amortization Payment <sup>b</sup>	Preliminary	Debt Service	Total
<b>Required Rate</b>	12.727%	38.288%	51.015%	2.243%	53.258%
<b>Required Contribution</b>	\$619,845,000	\$1,864,740,000	\$2,484,585,000	\$109,242,000	\$2,593,827,000

a Includes Administrative Expenses.

b Under the statutory funding policy an amortization payment is not directly calculated. The amortization payment is the difference between the preliminary statutory contribution and the employer normal cost contribution.

Based on the provisions of P.A. 97-0694, the required statutory contribution for the fiscal year beginning July 1, 2022, is submitted to the state actuary, governor, and General Assembly. Under the act, the state actuary is required to review the assumptions and methods used to perform the actuarial valuation and develop the required statutory contributions. The final certification of the required statutory contribution is due by January 15, 2022.

Pursuant to P.A. 96-0043, for purposes of determining the statutory contribution rate, 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.

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. The System's current contribution rate determined under the statutory funding policy may not conform to the Actuarial Standards of Practice. Therefore, the Board adopted a contribution policy to be used to calculate the Actuarially Determined Contribution ("ADC") under GASB Statement Nos. 67 and 68 for financial reporting purposes. 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.

Although the statutory contribution requirements were met, the statutory funding method generates a contribution requirement that is less than a reasonable actuarially determined contribution. Meeting the statutory requirement does not mean that the undersigned agree that adequate actuarial funding has been achieved. We recommend the adherence to a funding policy, such as the Board's policy used to calculate the ADC under GASB Statement Nos. 67 and 68, that finances the normal cost of the plan as well as an amortization payment that seeks to pay off any unfunded accrued liability over a closed-period of 25 years, as a level percent of capped payroll.





# ACTUARY'S CERTIFICATION LETTER

Board of Trustees and Executive Secretary  
State Employees' Retirement System of Illinois  
October 25, 2021  
Page 3

This actuarial valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed.

We certify that the information presented herein is accurate and fairly portrays the actuarial position of SERS as of June 30, 2021. 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.

This actuarial certification is provided to the intended user, the Board of Trustees, in conjunction with the SERS actuarial valuation report as of June 30, 2021. Additional information regarding actuarial assumptions and methods, and important additional disclosures are provided in the full actuarial valuation report as of June 30, 2021, which is available on the SERS website, and is an integral part of this certification.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the SERS as of the actuarial valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

Alex Rivera, Heidi G. Barry, and Jeffrey T. Tebeau 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 opinions contained herein.

Respectfully submitted,

Gabriel, Roeder, Smith & Company



Alex Rivera, FSA, EA, MAAA, FCA  
Senior Consultant



Heidi G. Barry, ASA, MAAA, FCA  
Senior Consultant



Jeff Tebeau, FSA, EA, MAAA  
Consultant

AR/HGB/JTT:rjl



### 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.

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 year 2021, the System received the actuarially determined employer contributions in accordance with the state's statutory funding plan described above. As stated in the actuarial certification letter, although the statutory funding plan has been met, the contributions are less than the Board's policy.

The Schedule of State Contributions contained within the Required Supplementary Information (RSI) section of this report, includes a ten-year comparative history of the actuarially determined contributions and the actual contributions paid by the State.

### REVIEW BY THE STATE ACTUARY

Pursuant to state law, the assumptions and valuations prepared by the actuaries of each of the state-funded retirement systems are to be reviewed annually by the State Actuary, Cheiron. Within the review of the FY 2020 SERS actuarial valuation, Cheiron recognized and recommended the continued annual review of economic assumptions prior to the commencement of the valuation so that changes to the assumptions can be implemented in the valuation.

Cheiron recognized that the actual funding of the System is based on State statute and a statutory change would be required to fully implement their recommendations to change the funding methodology. Finally, they recommended a full scope actuarial audit to be done periodically by an independent actuary.

A summary of the assumption changes adopted for recent valuations can be found in this section and within the RSI of this annual financial report.

### ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The actuarial cost method used by the System for funding purposes that is statutorily required by the State of Illinois differs from the entry age actuarial cost method mandated by GASB Statement No. 67 that is used for financial reporting purposes. The System utilizes the projected unit credit actuarial cost method. Under this method, the actuarial liability is the actuarial present value or that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. For fiscal year 2021, 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.

Certain assumptions used to determine the State's required contribution under its statutory funding plan differ from assumptions used for financial reporting purposes that are mandated by GASB Statement No. 67. GASB Statement No. 67 mandates the use of a long-term blended rate of return that utilizes the System's expected rate of return 6.75% until the projected fiduciary net position of the System is exhausted at which point a 20 year tax-exempt general obligation municipal bond rate is used 1.92% resulting in a long-term blended rate of return of 6.20% that differs from the System's expected rate of return of 6.75% used for State funding purposes. The State uses an actuarial value of assets of \$21,323,630,719 that recognizes gains and losses from investment returns in equal amounts over a five year period in its assumptions. GASB Statement No. 67 mandates the use of the market value of assets of \$23,883,338,594 in its assumptions used for financial reporting purposes.

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 FY2021 follows:

## ACTUARIAL SECTION

**Dates of Adoption:** The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; the interest rate assumption and most of the other assumptions were adopted June 30, 2019 and based on a three-year experience study covering the period July 1, 2015 through June 30, 2018, as approved by the System's Board.

**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:** 6.75% per annum, compounded annually.

**Mortality:** The post-retirement mortality tables were updated to the Pub-2010 General Healthy Retiree Mortality tables for Regular Formula members and the Pub-2010 Public Safety Healthy Retiree Mortality tables for Alternative Formula members, sex distinct. The pre-retirement mortality tables were updated to the Pub-2010 General Employee Mortality tables for Regular Formula members and the Pub-2010 Public Safety Employee Mortality tables for Alternative Formula members. The mortality improvement factors were updated to the most recently published projection scale, MP-2018.

**Salary Increases:** Illustrative rates of increase per individual employee per annum, compounded annually: These increases include a component for inflation of 2.75% per annum.

Age	Annual Increase
25	7.17%
30	5.70%
35	4.80%
40	4.47%
45	4.08%
50	3.76%
55	3.55%
60	3.35%
65	2.97%
70	2.75%

**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	Tier 1	
	Male	Females
50	15.0%	27.5%
55	25.0%	25.0%
60	13.0%	17.0%
65	25.0%	25.0%
70	25.0%	22.0%

Age	Tier 2
67	50.0%
70	35.0%
72	20.0%
75	100.0%

Age	Tier 1		Tier 2	
	Male	Females	Male	Females
50	65.0%	42.5%	-	-
55	42.0%	45.0%	-	-
60	30.0%	30.0%	50.0%	50.0%
65	35.0%	50.0%	35.0%	50.0%
70	50.0%	50.0%	50.0%	50.0%

## ACTUARIAL SECTION

**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 Years	Service-Based Withdrawal							
	Tier 1				Tier 2			
	General Employees		Alternative Formula Employees		General Employees		Alternative Formula Employees	
	Male	Females	Males	Females	Male	Females	Male	Females
0	.2400	.2200	.0525	.0700	.3000	.2700	.0800	.1100
1	.0900	.0900	.0425	.0070	.1650	.1600	.0700	.0800
5	.0460	.0450	.0300	.0500	.0550	.0650	.0300	.0500
10	.0300	.0300	.0150	.0200	.0300	.0300	.0150	.0200
15	.0200	.0250	.0150	.0175	.0200	.0250	.0150	.0175
20	.0200	.0150	.0125	.0125	.0200	.0150	.0125	.0125
25	.0150	.0100	.0100	.0100	.0150	.0100	.0100	.0100
30+	.0150	.0100	.0100	.0100	.0150	.0100	.0100	.0100

**Assets:** Assets available for benefits are used as described in the Illinois Compiled Statutes.

**Expenses:** As estimated and advised by SERS staff, based on current expenses and are expected to increase in relation to the projected capped payroll.

**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 - 3.0% annually, compounded. Tier 2 - 3.0% 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 three year period ended June 30, 2018. Additionally, the actuaries performed a review of economic assumptions in 2021.

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

## ACTUARIAL SECTION

Actuarial assumptions implemented in FY 2021 were adjusted to reflect experience with members electing a forfeiture of future benefits under the Accelerated Pension Payment Program (“Buyout”):

- The assumption that eligible regular formula members will elect the COLA buyout was reduced from 21% to 20%.
- The assumption that eligible alternative formula members will elect the COLA buyout was increased from 28% to 40% for those not covered by Social Security and to 35% for those that are covered by Social Security.
- The assumption that eligible inactive members to elect the Total Buyout was reduced from 5% to 2%.

Key assumption changes which were based on the most recently completed experience study and implemented in prior fiscal years’ valuations included the following:

- Separate Tier 2 turnover rates were implemented for members eligible for regular formula and alternative formula benefits. The new rates increased the expected turnover.
- Generational mortality improvement factors were added to reflect future mortality improvements. The new mortality tables move from a single dimensional age-based table to a two-dimensional table where the year of a person’s birth influences their mortality rate.
- An assumption was added that all current and future active members would increase service by 4.5 months upon retirement due to the optional service purchase of unused sick and vacation leave upon leaving state employment.

## VALUATION RESULTS

	June 30, 2021
Actuarial Liability	
For Annuitants:	
For Benefit Recipients:	
Retirement Annuities	\$ 34,548,462,497
Survivor Annuities	1,959,703,347
Disability Annuities	487,778,734
Deferred:	
Retirement Annuities	6,938,366
Survivor Annuities	7,944,151
TOTAL	\$ 37,010,827,095
For Inactive Members:	
Eligible for Deferred Vested Pension Benefits	804,042,441
Eligible for Return of Contributions Only	60,565,168
TOTAL	\$ 864,607,609
For Active Members	\$ 13,953,045,700
Actuarial Present Value of Credited Projected Benefits	\$ 51,828,480,404
Actuarial Value of Assets	21,323,630,719
Unfunded Actuarial Present Value of Credited Projected Benefits	\$ 30,504,849,685

## ACTUARIAL SECTION

### 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.

### 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)
2012	\$ 2,332,853	\$ 20,424,898	\$ 10,333,435	\$ 11,477,264	100.0	44.8	0.0
2013	2,374,437	22,102,837	10,243,491	11,877,419	100.0	43.0	0.0
2014	2,426,821	24,803,913	12,296,111	13,315,613	100.0	43.9	0.0
2015	2,480,787	26,170,735	12,091,888	14,741,736	100.0	46.8	0.0
2016	2,491,707	30,092,439	12,931,224	15,632,604	100.0	43.7	0.0
2017	2,495,796	31,927,643	12,277,909	16,558,874	100.0	44.0	0.0
2018	2,514,227	33,569,988	11,841,468	17,478,140	100.0	44.6	0.0
2019	2,533,830	34,472,363	11,725,246	18,429,186	100.0	46.1	0.0
2020	2,610,166	35,774,602	11,761,063	19,389,501	100.0	46.9	0.0
2021	2,663,377	37,010,827	12,154,276	21,323,631	100.0	50.4	0.0

## ACTUARIAL SECTION

### RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	2021
Unfunded Liability, Beginning of Fiscal Year	\$ 30,756,329,852
Contributions Due	
Interest on the Unfunded Liability	2,076,052,265
Participants (includes Repayment of Refunds)	280,583,917
Total Normal Cost	622,063,879
Interest on Normal Cost	29,966,928
Total Due	\$ 3,008,666,989
Contributions Paid	
Participants (includes Repayment of Refunds)	\$ 280,583,917
Employing State Agencies and Appropriations	2,478,209,949
Interest on Contributions	91,588,966
Total Paid	\$ 2,850,382,832
Increase in the Unfunded Liability	\$ 158,284,157
Actuarial (Gains) Losses	
a. Salary Increases	\$ 434,449,541
b. Investment Income	+ (771,406,566)
c. Demographic	(48,663,199)
Total Actuarial (Gain)/Loss	\$ (385,620,224)
Plan Provision Changes	+ 2,475,475
Assumption Changes	\$ (26,619,575)
Total Increase(Decrease) in Actuarial Liability	= \$ (251,480,167)
Unfunded Liability, End of Fiscal Year	\$ 30,504,849,685

## ACTUARIAL SECTION

### 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

Fiscal Year	Total Actuarial Liability	(in thousands of dollars)				
		Actuarial Value of Assets	Net Position as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Member Payroll	Unfunded Actuarial Liability as a % of Member Payroll
2012	\$ 33,091,186	\$ 11,477,264	34.7	\$ 21,613,922	\$ 4,329,084	499.3
2013	34,720,765	11,877,419	34.2	22,843,346	4,236,191	539.2
2014	39,526,845	13,315,613	33.7	26,211,232	4,416,153	593.5
2015	40,743,410	14,741,736	36.2	26,001,674	4,453,684	583.8
2016	45,515,370	15,632,604	34.4	29,882,766	4,284,362	697.5
2017	46,701,348	16,558,874	35.5	30,142,474	4,195,778	718.4
2018	47,925,683	17,478,140	36.5	30,447,543	4,243,742	717.5
2019	48,731,439	18,429,186	37.8	30,302,253	4,626,406	655.0
2020	50,145,831	19,389,501	38.7	30,756,330	4,523,879	679.9
2021	51,828,480	21,323,631	41.4	30,504,849	4,705,249	648.3

### SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase/(Decrease) In Average Pay
6/30/12	62,732	\$ 4,329,083,716	\$ 69,009	8.7
6/30/13	61,545	4,236,191,257	68,831	(0.3)
6/30/14	62,844	4,416,152,691	70,272	2.1
6/30/15	63,273	4,453,683,664	70,388	0.2
6/30/16	61,317	4,284,362,301	69,872	(0.7)
6/30/17	60,612	4,195,777,563	69,224	(0.9)
6/30/18	61,397	4,243,741,707	69,120	(0.1)
6/30/19	62,026	4,626,406,234	74,588	7.9
6/30/20	62,621	4,523,879,064	72,242	(3.1)
6/30/21	62,253	4,705,248,957	75,583	4.6



## ACTUARIAL SECTION

### SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	Ending (Removals)	Balance	Informational Total Qildro Benefits
2012	47,002	4,360	(1,362)	50,000	460
2013	50,000	3,099	(1,105)	51,994	536
2014	51,994	2,904	(1,420)	53,478	592
2015	53,478	2,805	(1,481)	54,802	646
2016	54,802	3,325	(1,302)	56,825	726
2017	56,825	3,173	(1,545)	58,453	782
2018	58,453	2,882	(1,586)	59,749	865
2019	59,749	2,803	(1,545)	61,007	936
2020	61,007	2,427	(1,615)	61,819	983
2021	61,819	2,430	(1,823)	62,426	1,032

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

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
2012	10,046	676	(680)	10,042
2013	10,042	689	(598)	10,133
2014	10,133	720	(626)	10,227
2015	10,227	718	(702)	10,243
2016	10,243	727	(653)	10,317
2017	10,317	742	(655)	10,404
2018	10,404	720	(645)	10,479
2019	10,479	776	(618)	10,637
2020	10,637	665	(672)	10,630
2021	10,630	719	(674)	10,675

### SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
2012	2,356	1,884	(1,954)	2,286
2013	2,286	1,847	(1,746)	2,387
2014	2,387	1,698	(1,773)	2,312
2015	2,312	1,702	(1,751)	2,263
2016	2,263	1,704	(1,804)	2,163
2017	2,163	1,642	(1,639)	2,166
2018	2,166	1,528	(1,608)	2,086
2019	2,086	1,479	(1,556)	2,009
2020	2,009	1,343	(1,429)	1,923
2021	1,923	1,210	(1,327)	1,806

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# STATISTICAL SECTION

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

**1. Financial Schedules: Pages 70-72**

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

Source: The System's Annual Financial Report for the relevant year.

**2. Member & Benefit Analysis: Pages 72-73**

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.

Source: Annual report and data produced from the System's electronic files for the relevant year.

**3. Benefit Demographics: Pages 74-77**

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.

Source: Annual report and data produced from the System's electronic files for the relevant year.

## STATISTICAL SECTION

### CHANGES IN FIDUCIARY NET POSITION

Fiscal Year	2012	2013	2014	2015
<b>Additions</b>				
Member contributions	\$ 259,122,881	\$ 248,169,706	\$ 269,232,241	\$ 266,139,156
Employer contributions:	1,391,416,375	1,531,932,137	1,699,447,826	1,804,319,356
Net investment income/(loss)	<u>5,975,369</u>	<u>1,501,238,191</u>	<u>2,169,346,258</u>	<u>681,377,052</u>
Total additions to /(deduction from) fiduciary net position	<u>1,656,514,625</u>	<u>3,281,340,034</u>	<u>4,138,026,325</u>	<u>2,751,835,564</u>
<b>Deductions</b>				
Benefit Payments:				
Retirement annuities	1,454,910,158	1,614,596,770	1,720,825,103	1,833,999,371
Survivors' annuities	101,136,325	107,533,834	114,177,228	121,930,337
Disability	56,098,869	59,882,478	64,782,236	63,929,747
Lump-sum payments	<u>15,228,249</u>	<u>17,952,573</u>	<u>17,278,072</u>	<u>14,998,980</u>
Total benefit payments	<u>1,627,373,601</u>	<u>1,799,965,655</u>	<u>1,917,062,639</u>	<u>2,034,858,435</u>
<b>Refunds:</b>				
Termination	12,241,107	14,095,530	13,931,435	13,162,521
Other	<u>11,259,218</u>	<u>10,194,872</u>	<u>9,151,379</u>	<u>9,966,454</u>
Total refunds	<u>23,500,325</u>	<u>24,290,402</u>	<u>23,082,814</u>	<u>23,128,975</u>
Administrative expenses	<u>15,705,561</u>	<u>17,471,327</u>	<u>16,615,105</u>	<u>16,547,823</u>
Total deductions from fiduciary net position	<u>1,666,579,487</u>	<u>1,841,727,384</u>	<u>1,956,760,558</u>	<u>2,074,535,233</u>
<b>Change in fiduciary net position</b>	<b><u>\$ (10,064,862)</u></b>	<b><u>\$ 1,439,612,650</u></b>	<b><u>\$ 2,181,265,767</u></b>	<b><u>\$ 677,300,331</u></b>

## STATISTICAL SECTION

2016	2017	2018	2019	2020	2021
\$ 256,198,172	\$ 251,610,974	\$ 254,442,466	\$ 275,675,175	\$ 271,749,009	\$ 280,583,917
1,882,243,268	1,798,348,440	1,929,175,044	2,274,925,279	2,368,905,396	2,478,209,949
<u>(125,442,931)</u>	<u>1,812,878,460</u>	<u>1,257,039,835</u>	<u>1,118,428,910</u>	<u>829,328,719</u>	<u>4,814,500,869</u>
<u>2,012,998,509</u>	<u>3,862,837,874</u>	<u>3,440,657,345</u>	<u>3,669,029,364</u>	<u>3,469,983,124</u>	<u>7,573,294,735</u>
1,977,598,561	2,111,021,041	2,240,156,641	2,368,679,904	2,492,176,294	2,600,838,259
128,689,627	136,359,106	144,671,705	153,161,557	160,955,392	171,686,353
64,057,780	64,167,865	64,708,865	62,214,438	62,947,464	63,886,642
<u>20,155,235</u>	<u>17,072,771</u>	<u>15,294,811</u>	<u>17,250,694</u>	<u>11,741,683</u>	<u>17,137,642</u>
<u>2,190,501,203</u>	<u>2,328,620,783</u>	<u>2,464,832,022</u>	<u>2,601,306,593</u>	<u>2,727,820,833</u>	<u>2,853,548,896</u>
15,967,718	15,939,397	16,830,102	14,659,235	11,832,461	10,413,806
<u>10,741,012</u>	<u>10,668,614</u>	<u>10,639,246</u>	<u>9,474,273</u>	<u>7,533,568</u>	<u>6,688,379</u>
<u>26,708,730</u>	<u>26,608,011</u>	<u>27,469,348</u>	<u>24,133,508</u>	<u>19,366,029</u>	<u>17,102,185</u>
<u>16,126,997</u>	<u>15,957,439</u>	<u>15,257,526</u>	<u>14,978,852</u>	<u>17,412,562</u>	<u>16,577,412</u>
<u>2,233,336,930</u>	<u>2,371,186,233</u>	<u>2,507,558,896</u>	<u>2,640,418,953</u>	<u>2,764,599,424</u>	<u>2,887,228,493</u>
<b><u>\$ (220,338,421)</u></b>	<b><u>\$ 1,491,651,641</u></b>	<b><u>\$ 933,098,449</u></b>	<b><u>\$ 1,028,610,411</u></b>	<b><u>\$ 705,383,700</u></b>	<b><u>\$ 4,686,066,242</u></b>

## STATISTICAL SECTION

### ASSET BALANCES

FY Ended June 30	Cash	Receivables	Investments	Securities lending collateral with State Treasurer	Capital Assets, Net of Depreciation/Amortization	Total
2012	\$ 133,959,043	\$ 160,807,074	\$ 10,675,772,261	\$ 72,867,000	\$ 2,723,398	\$ 11,046,128,776
2013	146,354,061	145,440,601	12,176,459,191	113,169,000	2,792,664	12,584,215,517
2014	200,752,173	101,401,701	14,286,499,013	84,013,000	4,122,801	14,676,788,688
2015	170,646,589	128,747,086	14,967,254,053	64,779,000	5,272,553	15,336,699,281
2016	300,328,830	86,542,095	14,741,054,632	64,256,000	6,938,949	15,199,120,506
2017	227,542,784	89,108,754	16,322,605,337	63,393,000	7,701,569	16,710,351,444
2018	204,856,059	101,815,932	17,268,137,475	66,204,000	8,662,595	17,649,676,061
2019	211,289,280	293,258,778	18,025,048,500	43,142,000	10,710,395	18,583,448,953
2020	284,998,900	287,267,521	18,637,515,974	54,881,000	12,081,146	19,276,744,541
2021	324,092,190	188,377,192	23,383,102,564	99,976,000	13,308,520	24,008,856,466

### 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
2012	\$85,440,952	\$2,332,852,502	\$1,685,093,457	\$6,942,741,865	\$10,960,687,824	\$11,046,128,776
2013	183,915,043	2,374,437,475	1,733,896,564	8,291,966,435	12,400,300,474	12,584,215,517
2014	95,222,447	2,426,821,370	1,781,416,644	10,373,328,227	14,581,566,241	14,676,788,688
2015	77,832,709	2,480,786,913	1,836,247,980	10,941,831,679	15,258,866,572	15,336,699,281
2016	160,592,356	2,491,707,570	1,852,232,320	10,694,588,260	15,038,528,150	15,199,120,506
2017	180,171,652	2,495,796,008	1,864,814,438	12,169,569,346	16,530,179,792	16,710,351,444
2018	186,397,820	2,514,227,384	1,896,570,051	13,052,480,806	17,463,278,241	17,649,676,061
2019	91,560,301	2,533,830,211	1,924,535,686	14,033,522,755	18,491,888,652	18,583,448,953
2020	79,472,189	2,610,166,107	1,976,423,193	14,610,683,052	19,197,272,352	19,276,744,541
2021	125,517,872	2,663,376,764	2,014,782,797	19,205,179,033	23,883,338,594	24,008,856,466

### NUMBER OF RECURRING BENEFIT PAYMENTS / TERMINATION REFUNDS

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits(a)	Total Recurring Benefit Payments	Qildro Benefits(b)	Termination Refunds
2012	50,000	10,042	2,286	62,328	460	1,964
2013	51,994	10,133	2,387	64,514	536	2,080
2014	53,478	10,227	2,312	66,017	592	2,467
2015	54,802	10,243	2,263	67,308	646	2,293
2016	56,825	10,317	2,163	69,305	726	2,792
2017	58,453	10,404	2,166	71,023	782	2,595
2018	59,749	10,479	2,086	72,314	865	2,384
2019	61,007	10,637	2,009	73,653	936	2,527
2020	61,819	10,630	1,923	74,372	983	1,709
2021	62,426	10,675	1,806	74,907	1,032	1,091

(a) Includes individuals receiving total temporary disability payments under the Workers' Compensation Act.

(b) Counts of Survivor Annuities restated for past years to report them separately from Qildro Benefits.

## STATISTICAL SECTION

### TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Members
	Male	Female	Total	Male	Female	Total			
2012	43,364	39,325	82,689	2,298	386	2,684	45,662	39,711	85,373
2013	43,753	38,965	82,718	2,361	450	2,811	46,114	39,415	85,529
2014	44,296	39,724	84,020	2,414	589	3,003	46,710	40,313	87,023
2015	45,232	40,790	86,022	2,228	331	2,559	47,460	41,121	88,581
2016	44,826	40,165	84,991	2,135	311	2,446	46,961	40,476	87,437
2017	43,888	39,155	83,043	2,035	293	2,328	45,923	39,448	85,371
2018	43,761	39,872	83,633	2,208	298	2,506	45,969	40,170	86,139
2019	44,233	40,809	85,042	2,207	302	2,509	46,440	41,111	87,551
2020	45,220	42,161	87,381	2,320	344	2,664	47,540	42,505	90,045
2021	45,211	42,753	87,964	2,300	311	2,611	47,511	43,064	90,575

### ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
	Male	Female	Total	Male	Female	Total				
2012	31,073	29,252	60,325	2,102	305	2,407	33,175	29,557	62,732	\$ 4,329,083,716
2013	30,559	28,486	59,045	2,147	353	2,500	32,706	28,839	61,545	4,236,191,257
2014	30,843	29,344	60,187	2,185	472	2,657	33,028	29,816	62,844	4,416,152,691
2015	31,059	29,861	60,920	2,062	291	2,353	33,121	30,152	63,273	4,453,683,664
2016	30,180	28,937	59,117	1,951	249	2,200	32,131	29,186	61,317	4,284,362,301
2017	29,945	28,547	58,492	1,885	235	2,120	31,830	28,782	60,612	4,195,777,563
2018	29,960	29,162	59,122	2,035	240	2,275	31,995	29,402	61,397	4,243,741,707
2019	30,005	29,758	59,763	2,019	244	2,263	32,024	30,002	62,026	4,626,406,234
2020	30,025	30,248	60,273	2,091	257	2,348	32,116	30,505	62,621	4,523,879,064
2021	29,665	30,280	59,945	2,060	248	2,308	31,725	30,528	62,253	4,705,248,957

### ACTIVE MEMBERSHIP - TIER BREAKOUT

FY Ended June 30	Tier 1	Tier 2	Total Active Members
2012	58,617	4,115	62,732
2013	55,271	6,274	61,545
2014	52,593	10,251	62,844
2015	49,433	13,840	63,273
2016	45,943	15,374	61,317
2017	43,046	17,566	60,612
2018	40,261	21,136	61,397
2019	37,368	24,658	62,026
2020	35,585	27,036	62,621
2021	33,303	28,950	62,253



## STATISTICAL SECTION

### RETIREMENT ANNUITIES

#### Average Monthly Benefit For Current Year Retirees By Type

	Fiscal Year Ended June 30				
	2021	2020	2019	2018	2017
<b>TIER 1:</b>					
Not Coordinated with Social Security	\$ 4,074.10	\$ 2,499.21	\$ 2,461.44	\$ 4,119.42	\$ 3,741.43
Coordinated with Social Security	3,097.70	2,846.28	2,882.29	2,840.34	2,796.19
Alternative Formula	8,288.18	8,209.57	8,284.58	8,450.92	8,198.26
Dept. of Corrections/DHS - Special Formula - Not Coordinated with Social Security	-	4,747.73	-	-	-
Dept. of Corrections/DHS - Special Formula Coordinated with Social Security	4,743.63	4,574.08	4,450.40	4,519.67	4,632.01
<b>Tier 1 Overall Total</b>	<u>\$ 3,656.87</u>	<u>\$ 3,382.39</u>	<u>\$ 3,403.60</u>	<u>\$ 3,340.56</u>	<u>\$ 3,310.42</u>
<b>TIER 2:</b>					
Coordinated with Social Security	\$ 928.12	\$ 444.50	\$ 514.42	\$ 832.18	\$ -
<b>Tier 2 Overall Total</b>	<u>928.12</u>	<u>444.50</u>	<u>514.42</u>	<u>832.18</u>	<u>-</u>
<b>TOTAL AVERAGE</b>	<u>\$ 3,646.73</u>	<u>\$ 3,381.17</u>	<u>\$ 3,402.56</u>	<u>\$ 3,339.68</u>	<u>\$ 3,310.42</u>

### RETIREMENT ANNUITIES

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

	Fiscal Year Ended June 30				
	2021	2020	2019	2018	2017
<b>TIER 1:</b>					
Not Coordinated with Social Security	353.83	279.50	354.68	460.95	447.48
Coordinated with Social Security	324.39	316.45	317.29	318.05	319.51
Alternative Formula	305.44	305.20	312.92	313.50	304.09
Dept. of Corrections - Special Formula- Not Coordinated with Social Security	-	368.00	-	-	-
Dept. of Corrections -Special Formula- Coordinated with Social Security	300.49	302.94	299.62	302.82	310.52
<b>Tier 1 Overall Total</b>	<u>317.78</u>	<u>313.09</u>	<u>313.15</u>	<u>314.98</u>	<u>317.78</u>
<b>TIER 2:</b>					
Coordinated with Social Security	122.33	127.00	144.50	120.75	-
<b>Tier 2 Overall Total</b>	<u>122.33</u>	<u>127.00</u>	<u>144.50</u>	<u>120.75</u>	<u>-</u>
<b>TOTAL AVERAGE</b>	<u>317.06</u>	<u>313.01</u>	<u>313.09</u>	<u>314.91</u>	<u>317.78</u>

## STATISTICAL SECTION

### MONTHLY BENEFIT RANGE

#### ANNUITANTS

Fiscal Year Ended June 30				
Benefit Range	Total	Cumulative Total	% of Total	% of Cumulative Total
\$ 1 - 500	2,892	2,892	4.6%	4.6%
501 - 1,000	4,554	7,446	7.3%	11.9%
1,001 - 2,000	10,238	17,684	16.4%	28.3%
2,001 - 3,000	10,602	28,286	17.0%	45.3%
3,001 - 4,000	10,740	39,026	17.2%	62.5%
4,001 - 5,000	9,435	48,461	15.1%	77.6%
5,001 - 7,500	10,628	59,089	17.0%	94.6%
Over 7,500	3,337	62,426	5.4%	100.0%

#### SURVIVORS'

Fiscal Year Ended June 30				
Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1 - 500	1,809	1,809	16.9%	16.9%
501 - 1,000	3,500	5,309	32.8%	49.7%
1,001 - 2,000	2,866	8,175	26.9%	76.8%
2,001 - 3,000	1,577	9,752	14.8%	91.4%
3,001 - 4,000	663	10,415	6.2%	97.6%
4,001 - 5,000	220	10,635	2.1%	99.7%
5,001 - 7,500	40	10,675	0.3%	100.0%
Over 7,500	-	10,675	0.0%	100.0%

#### OCCUPATIONAL, NON-OCCUPATIONAL AND TEMPORARY DISABILITIES

Fiscal Year Ended June 30				
Benefit Range	Total	Cumulative Total	% of Total	% of Cumulative Total
\$ 1 - 500	115	115	6.4%	6.4%
501 - 1,000	254	369	14.1%	20.5%
1,001 - 2,000	403	772	22.3%	42.8%
2,001 - 3,000	378	1,150	20.9%	63.7%
3,001 - 4,000	388	1,538	21.5%	85.2%
4,001 - 5,000	182	1,720	10.1%	95.3%
5,001 - 7,500	83	1,803	4.6%	99.9%
Over 7,500	3	1,806	0.1%	100.0%

# STATISTICAL SECTION

## RETIREMENT ANNUITIES

### Current Age of Active Recipients

Fiscal Year Ended June 30					
<u>Tier 1</u>					
Age	2021	2020	2019	2018	2017
Under 51	142	124	157	149	181
51-55	1,970	2,100	2,275	2,376	2,467
56-60	5,877	6,072	6,193	6,284	6,302
61-65	10,723	11,002	11,092	11,252	11,397
66-70	13,795	13,935	14,313	14,214	14,408
71-75	13,433	12,748	11,858	11,125	9,738
76-80	8,123	7,644	7,144	6,569	6,284
81-85	4,635	4,509	4,225	4,086	3,977
86-89	1,989	1,986	2,058	1,993	2,001
Over 89	<u>1,725</u>	<u>1,696</u>	<u>1,690</u>	<u>1,701</u>	<u>1,698</u>
Total	<u>62,412</u>	<u>61,816</u>	<u>61,005</u>	<u>59,749</u>	<u>58,453</u>
Average Age	70.48	70.24	69.99	69.79	69.61
<u>Tier 2</u>					
Age	2021	2020	2019	2018	2017
61-65	3	1	-	-	-
66-70	6	1	1	1	-
71-75	5	1	1	-	-
Total	<u>14</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>-</u>
Average Age	68.28	68.33	70.00	70.00	-

### ACTIVE RETIREES BY STATE



## STATISTICAL SECTION

### Average Benefit Payments Fiscal Years 2012 through 2021

Retirement Effective Dates	Years Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
<b>Period 7/1/11 to 6/30/12</b>							
Average monthly benefit	\$ -	\$ 740	\$ 944	\$ 1,401	\$ 2,620	\$ 3,989	\$ 3,514
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
<b>Period 7/1/12 to 6/30/13</b>							
Average monthly benefit	\$ -	\$ 670	\$ 1,041	\$ 1,568	\$ 2,678	\$ 3,845	\$ 3,471
Final average salary	\$ -	\$ 4,852	\$ 4,971	\$ 5,285	\$ 5,854	\$ 6,641	\$ 6,176
Number of retired members	-	99	312	299	574	813	1,002
<b>Period 7/1/13 to 6/30/14</b>							
Average monthly benefit	\$ -	\$ 637	\$ 1,130	\$ 1,565	\$ 2,870	\$ 4,115	\$ 3,873
Final average salary	\$ -	\$ 4,479	\$ 5,322	\$ 5,422	\$ 6,114	\$ 6,866	\$ 6,580
Number of retired members	-	81	239	291	571	826	896
<b>Period 7/1/14 to 6/30/15</b>							
Average monthly benefit	\$ -	\$ 742	\$ 1,114	\$ 1,742	\$ 2,769	\$ 4,062	\$ 3,902
Final average salary	\$ -	\$ 5,213	\$ 5,391	\$ 5,785	\$ 6,173	\$ 6,959	\$ 6,751
Number of retired members	-	88	260	310	541	785	821
<b>Period 7/1/15 to 6/30/16</b>							
Average monthly benefit	\$ -	\$ 686	\$ 1,130	\$ 1,768	\$ 2,792	\$ 3,861	\$ 4,011
Final average salary	\$ -	\$ 4,750	\$ 5,512	\$ 5,650	\$ 6,421	\$ 6,918	\$ 6,854
Number of retired members	-	92	227	345	634	884	1,148
<b>Period 7/1/16 to 6/30/17</b>							
Average monthly benefit	\$ -	\$ 754	\$ 1,062	\$ 1,804	\$ 3,023	\$ 3,952	\$ 4,074
Final average salary	\$ -	\$ 5,401	\$ 5,332	\$ 6,040	\$ 6,674	\$ 7,093	\$ 7,005
Number of retired members	-	82	238	356	535	879	1,090
<b>Period 7/1/17 to 6/30/18</b>							
Average monthly benefit	\$ -	\$ 666	\$ 1,113	\$ 2,016	\$ 3,006	\$ 4,039	\$ 4,117
Final average salary	\$ -	\$ 4,934	\$ 5,463	\$ 5,917	\$ 6,631	\$ 7,088	\$ 7,193
Number of retired members	-	94	207	316	534	768	966
<b>Period 7/1/18 to 6/30/19</b>							
Average monthly benefit	\$ -	\$ 738	\$ 1,187	\$ 2,007	\$ 3,217	\$ 4,098	\$ 4,145
Final average salary	\$ -	\$ 5,169	\$ 5,758	\$ 6,107	\$ 6,790	\$ 7,205	\$ 7,242
Number of retired members	-	81	181	333	606	730	876
<b>Period 7/1/19 to 6/30/20</b>							
Average monthly benefit	\$ -	\$ 736	\$ 1,073	\$ 1,998	\$ 3,123	\$ 4,054	\$ 4,193
Final average salary	\$ -	\$ 5,136	\$ 5,412	\$ 6,039	\$ 6,801	\$ 7,453	\$ 7,370
Number of retired members	-	62	159	269	559	586	795
<b>Period 7/1/20 to 6/30/21</b>							
Average monthly benefit	\$ -	\$ 837	\$ 1,154	\$ 2,169	\$ 3,217	\$ 4,429	\$ 4,410
Final average salary	\$ -	\$ 5,523	\$ 5,787	\$ 6,319	\$ 7,040	\$ 7,790	\$ 7,702
Number of retired members	-	52	156	236	558	572	860

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# **PLAN SUMMARY & LEGISLATIVE SECTION**

## PLAN SUMMARY

# SUMMARY OF RETIREMENT SYSTEM PLAN (As of June 30, 2021)

### 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 single employer defined benefit 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.

Regular Formula:

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

Alternative Formula:

	Contribution Rate:	Retirement Benefit 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.



## PLAN SUMMARY

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 Social Security are: Security employees of the Departments of Corrections, Juvenile Justice and Human Services, Air Pilots and State Highway Maintenance Workers, and security employees of the Department of Innovation and Technology, or employees transferred under Executive Order No. 2003-10 or Executive Order No. 2004-2.

Tier 2 positions under the alternative formula without Social Security are: State Policemen, Fire Fighters, Conversation Police Officers, Secretary of State Investigators, Arson investigators, Commerce Commission Police Officers, Department of Revenue Investigators, and Illinois Gaming Board Investigators.

Tier 2 positions under the alternative formula with Social Security are: Correction Officers at the Departments of Corrections and Juvenile Justice, and security employees of the Department of Innovation and Technology.

### 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:

## PLAN SUMMARY

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  $\frac{1}{2}$  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  $\frac{1}{2}$  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  $\frac{1}{2}$  of 1% for members with Social Security and 1% for members without Social Security.

### C. Optional Forms of Payment:

**COLA Buyout Program:** An eligible Tier 1 member who has never received a retirement annuity can elect to participate in the automatic annual increase (AAI) accelerated benefit upon termination of service. Upon retirement, the member receives a one-time payment of 70% of the actuarially determined present value of the lifetime projected difference in the 3% compounded COLA and the 1.5% non-compounded COLA. Eligible members must retire on or prior to June 30, 2024 to elect this payment option.

**Total Buyout Program:** An eligible inactive member who has terminated service and has never received a retirement annuity can elect to participate in the vested inactive accelerated benefit program. The member receives a one-time payment of 60% of the actuarially determined present value of the retirement benefits that the member is entitled to at the date of the election. Member forfeits all future benefit payments but retains access to state retiree healthcare. Eligible members must retire on or prior to June 30, 2024 to elect this payment option.

**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 on January 1, 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. If a member elects the COLA Buyout, they receive the reduced 1.5% annual non-compounded COLA on January 1 following the later of their first retirement anniversary or their sixty-seventh birthday.

**Tier 1 Alternative Formula:** 3% compounded each January 1st after member turns 55 and has been on benefits for a full calendar year. If a member elects the COLA Buyout, they receive the reduced 1.5% annual non-compounded COLA on January 1 following the later of their first retirement anniversary or their sixty-seventh birthday.

**Tier 2 Regular Formula:** 3% or  $\frac{1}{2}$  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  $\frac{1}{2}$  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.

## PLAN SUMMARY

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 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

## PLAN SUMMARY

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 \$1,000 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 elected 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 or is suspended until age 50 if there are no longer any qualifying minor children; 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. If the member elected the COLA Buyout, the reduced 1.5% annual non-compounded COLA on January 1 also applies to the Survivor's benefit.

#### Tier 2

The benefit is increased by 3% or 1/2 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. Widow's 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 becomes 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.

## PLAN SUMMARY

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, widows 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 or is suspended until age 50 if there are no longer any qualifying minor children. 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.

In all cases, 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 1/2 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 disability.

### 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 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.

## 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 final average compensation, plus a 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 final average compensation, 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, and has filed an appeal with the Illinois Workers' Compensation Commission. The benefit is 50% of final average compensation, plus a 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 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;
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.

## LEGISLATIVE SECTION

### LEGISLATIVE AMENDMENTS

Legislative amendments with an effective date during fiscal year 2021 having an impact on the System:

There were no legislative changes that became effective during fiscal year 2021 that had an impact on the System.

### NEW LEGISLATION

Legislative amendments with an effective date subsequent to June 30, 2021 having an impact on the System:

**Senate Bill 1056** (Public Act 102-0210; effective July 30, 2021)

Pension Omnibus bill that includes provisions for the following:

- Provides that certain positions covered by SERS may establish up to five (5) years of service credit, if member pays the required contributions and interest and member must file written application by January 30, 2022:
  - A State Policeman or Commerce Commission Police Officer may transfer IMRF service performing police duties, as county corrections officer, or a cook county court services officer.
  - An Arson Investigator may transfer firefighter service from an article 4 pension system.
- Provides that a State Policeman or Commerce Commission Police Officer may convert earned regular formula service credit to non-coordinated alternative formula service credit by paying the difference in contributions and interest as well as submitting a written application by January 30, 2022.
- Authorizes the System to indemnify financial institutions regarding overpayments of benefits to deceased members.
- Provides updated language so that the System can maintain the required minimum distribution consistent with Internal Revenue Code.

**House Bill 3004** (Public Act 102-0603; effective August 27, 2021)

Prohibits an individual who is a board member of a pension fund, investment fund, or retirement system from being employed by a pension fund, investment board, or retirement system under Illinois Pension Code while serving as a board member or for a period of twelve months after he or she ceases to be a board member.

The Act does permit a board member to fill a vacancy of a senior administrative staff position during the process to permanently fill the vacancy provided that:

- The majority of the board votes to designate a board member to serve in that position,
- The board member does not receive any salary or benefits while serving in that position,
- The board member serves in the position for not more than six months, and
- The board member vacates their position on the board while serving in that role.