

State Employees' Retirement System of the State of Illinois

Compliance Examination

For the Year Ended June 30, 2018
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois



**State Employees' Retirement System of the State of Illinois
Compliance Examination**

Year Ended June 30, 2018

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Financial Statement Report

The System's financial statement report for the year ended June 30, 2018, which includes the independent auditor's report, management's discussion and analysis, basic financial statements and notes, required supplementary information other than management's discussion and analysis, supplementary information, and the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* has been issued separately.

Supplementary Information for State Compliance Purposes

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**State Employees' Retirement System of the State of Illinois
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**State Employees' Retirement System of the State of Illinois
Compliance Examination**

For the Year Ended June 30, 2018

System Officials

Executive Secretary
Accounting Division Manager
Internal Auditor

Timothy B. Blair
Alan Fowler, CPA
Casey Evans

Office Locations

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

State of Illinois Building
160 North LaSalle Street, Suite N725
Chicago, Illinois 60601

April 3, 2019

RSM US LLP
20 North Martingale Road, Suite 500
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State Employees' Retirement System. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following assertions during the year ended June 30, 2018. Based on this evaluation, we assert that during the year ended June 30, 2018, the State Employees' Retirement System has materially complied with the assertions below.

- A. The State Employees' Retirement System has obligated, expended, received and used public funds of the State in accordance with the purpose for which funds have been appropriated or otherwise authorized by law.
- B. The State Employees' Retirement System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State Employees' Retirement System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the State Employees' Retirement System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the State Employees' Retirement System on behalf of the State or held in trust by the State Employees' Retirement System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

State Employees' Retirement System

SIGNED ORIGINAL ON FILE

Timothy B. Blair, Executive Secretary

SIGNED ORIGINAL ON FILE

Alan Fowler, CPA, Accounting Division Manager

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

Year Ended June 30, 2018

Compliance Report

Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountant's Report

The Independent Accountant's Report on Management's Assertion on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers or other significant non-standard language.

Summary of Findings

Number of	Current Report	Prior Report
Findings	1	3
Repeated findings	1	2
Prior recommendations implemented or not repeated	2	1

Schedule of Findings

Item No.	Page	Description	Finding Type
FINDINGS (STATE COMPLIANCE)			
2018-001	10	Board of Trustee Vacancy	Noncompliance and Significant Deficiency
PRIOR FINDINGS NOT REPEATED			
A	12	Change Management Weakness	
B	12	Monitoring of Contracts	

Exit Conference

System officials waived an exit conference in correspondence from Casey Evans, Internal Auditor, dated February 28, 2019. The responses to the recommendations were provided by Casey Evans, Internal Auditor, in correspondence dated March 5, 2019.

**Independent Accountant's Report on Management's Assertion
on State Compliance, on Internal Control Over Compliance,
and on Supplementary Information for State Compliance Purposes**

Honorable Frank J. Mautino
Auditor General, State of Illinois

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

Compliance

As Special Assistant Auditors for the Auditor General, we have examined management's assertion the State Employees' Retirement System of the State of Illinois' (System) complied with the compliance requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2018. The management of the System is responsible for compliance with these requirements as described in its assertion. Our responsibility is to express an opinion management's assertion about the System's compliance with the compliance requirements listed below, based on our examination.

- A. The System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion the System complied with the specified requirements listed above, is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion the System complied with the specified requirements listed above is fairly stated, in all material respects. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, resulting from material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, management's assertion that the System complied with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2018 is fairly stated, in all material respects. However, the results of our procedures disclosed an instance of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of findings as item 2018-001.

The System's response to the finding identified in our examination is described in the accompanying schedule of findings. The System's response was not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the response.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Internal Control

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the System's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings as item 2018-001, that we consider to be a significant deficiency.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The System's response to the internal control finding identified in our examination is described in the accompanying schedule of findings. The System's response was not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited and issued under separate cover the Statement of Fiduciary Net Position of the System as of June 30, 2018 and the Statement of Changes in Fiduciary Net Position for the year then ended, and have issued our report thereon dated December 14, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. We did not audit the 2018 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 98 percent, 99 percent and 36 percent, respectively, of total assets, net position restricted for pension benefits, and total additions to the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to December 14, 2018. The accompanying supplementary information for State compliance purposes in Schedules 1 through 6, for the year ended June 30, 2018 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for State compliance purposes in Schedules 1 through 6 for the year ended June 30, 2018 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 the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for State compliance purposes in Schedules 1 through 6 for the year ended June 30, 2018 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2018.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements as of and for the years ended June 30, 2017 and June 30, 2016 (not presented herein), and have issued our reports thereon dated January 19, 2018 and January 4, 2017, respectively, which contained unmodified opinions on those basic financial statements. We did not audit the 2017 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 98 percent, 99 percent and 47 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. We also did not audit the 2016 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 (6) 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 reports thereon have 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 reports of other auditors. The accompanying supplementary information for the years ended June 30, 2017 and June 30, 2016 in Schedules 2 through 6 and Schedule 2, respectively, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2017 and June 30, 2016 financial statements. The accompanying supplementary information for the years ended June 30, 2017 and June 30, 2016 in Schedules 2 through 6 and Schedule 2, respectively, has been subjected to the auditing procedures applied in the audit of the June 30, 2017 and June 30, 2016 basic financial statements and certain additional

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2017 and June 30, 2016 in Schedules 2 through 6 and Schedule 2, respectively, is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has 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 it.

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Schaumburg, Illinois
April 3, 2019, except for our report on the Supplementary Information
for State Compliance Purposes, as to which the date is
December 14, 2018



RSM US LLP

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Frank J. Mautino
Auditor General

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

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Employees' Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents and have issued our report thereon dated December 14, 2018. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Our report also includes a reference to the fact that the actuarially determined pension liability is dependent on several assumptions, including the assumption that future required contributions from State sources are made based on statutory requirements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Schaumburg, Illinois
December 14, 2018

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

Schedule of Findings - State Compliance

Year Ended June 30, 2018

Finding No. 2018-001 Board of Trustees Vacancy

The State Employees' Retirement System of the State of Illinois (System) has had a vacancy in one of its thirteen required trustees of the Board for more than three years as of the end of fieldwork on November 16, 2018.

During the current compliance examination testing, the auditors noted that a Board member resigned from the Board on October 15, 2015. The System's Executive Secretary informed the Board of the resignation on that same day. In addition, on November 4, 2015 the Executive Secretary communicated this vacancy to the Governor's Office via email requesting that the vacancy be filled. As of the end of fieldwork on November 16, 2018 the vacancy had not been filled and there has been no further follow-up communications with the Governor's Office by the System.

The Illinois Pension Code (40 ILCS 5/14-134) states "Beginning on the 90th day after the effective date of this amendatory Act of the 96th General Assembly, the board shall consist of 13 trustees as follows:

- (1) the Comptroller, who shall be the Chairperson;
- (2) 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 this 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;
- (3) four active participants of the system having at least 8 years of creditable service, to be elected from the contributing members of the system by the contribution members as provided in Section 14-134.1; and
- (4) 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, as provided in section 14-134.1."

System officials stated the Executive Secretary formally communicated with the Governor's Office requesting appointment of a new member to fill the vacancy at the time the vacancy occurred and has not yet received an official response. System officials also indicated they have informally communicated with the Governor's Office about the board vacancy on a regular basis, but there is no evidence of these communications. Further, System officials stated the System Board has been able to establish a quorum and conduct the business of the System for every meeting held in fiscal year 2018.

Failure to operate with the full thirteen members of the Board of Trustees could impact the Board's ability to establish a quorum and timely conduct the business of the System. (Finding Code No. 2018-001, 2017-002, 2016-003)

Recommendation:

We recommend the System continue to communicate with the Governor's Office in order to fill the vacancy in its Board of Trustees. We further recommend the communications be documented.

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

Schedule of Findings - State Compliance

Year Ended June 30, 2018

Finding No. 2018-001 Board of Trustees Vacancy (Continued)

System Response:

The System accepts the finding and notes that the Board does not have statutory authority to make such an appointment to fill the vacancy. System officials have contacted the new administration to inform them of the vacancy.

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

Schedule of Findings

Year Ended June 30, 2018

Prior Findings Not Repeated

A. Change Management Weaknesses

In the prior compliance examination, the State Employees' Retirement System of the State of Illinois (System) had weaknesses in their change management procedures. Auditors noted the System had formal change management procedures; however, the procedures did not address migrating changes into the production environment. In addition, programmers developing and making changes to applications had access to the production environment and the capability to implement changes. Further, monitoring tools were not in place to detect unauthorized code migrations. (Finding Code No. 2017-001, 2016-002)

During the current compliance examination, auditors noted the system's IT management implemented upgrades to the existing software which remedied the change management weaknesses.

B. Monitoring of Contracts

In the prior compliance examination, the State Employees' Retirement System of the State of Illinois (System) did not properly monitor its contracts during the period, resulting in a contract that was not timely signed by the System. (Finding Code 2017-003)

During the current compliance examination, our sample testing indicated the System's external contract renewals were timely approved. However, we noted one internal System lease was not signed timely. This exception was reported in the *Report of Immaterial Findings*.

State Employees' Retirement System of the State of Illinois Compliance Examination

Year Ended June 30, 2018

Supplementary Information for State Compliance Purposes

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- **Fiscal Schedules and Analysis:**
 - Schedule of Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Schedule of Changes in State Property
 - Comparative Schedule of Cash Receipts and Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
 - Comparative Schedule of Cash Balances
 - Comparative Schedule of Changes in Investment Balances

- **Analysis of Operations (Unaudited):**
 - System Functions and Planning Program (Unaudited)
 - Progress in Funding the System (Unaudited)
 - Analysis of Significant Variations in Expenditures (Unaudited)
 - Analysis of Significant Variations in Cash Receipts (Unaudited)
 - Analysis of Significant Lapse Period Spending (Unaudited)
 - Analysis of Contributions Receivable (Unaudited)
 - Budget Impasse Disclosures (Unaudited)
 - Money-Weighted Rate of Return (Unaudited)
 - Average Number of System Employees (Unaudited)
 - Comparison of Administrative Expenses to Total Expenses (Unaudited)
 - Schedule of Contributions/Deductions and Effect on Investments (Unaudited)
 - Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditor's opinion, it is fairly stated, in all material respects, in relation to the basic financial statements as a whole from which it has been derived. The accountant's report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

State Employees' Retirement System of the State of Illinois
Compliance Examination

Schedule 1

Schedule of Appropriations, Expenditures and Lapsed Balances
Appropriations for Fiscal Year 2018
Fifteen Months Ended September 30, 2018

Public Act 100-0021 and 100-0586	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to September 30	Total Expenditures 15 Months Ended September 30	Balances Lapsed September 30
Appropriated Funds					
General Revenue Fund - 001					
Personal services	\$ 54,405	\$ 52,325	\$ 2,079	\$ 54,404	\$ 1
Employee retirement contributions paid by employer	5,000	-	5,000	5,000	-
Appropriation for State's contribution	1,104,971,850	1,104,971,850	-	1,104,971,850	-
Continuing appropriation for State contribution	214,257,100	214,257,100	-	214,257,100	-
Social Security and Medicare contributions	4,058	3,903	155	4,058	-
Contractual services	22,837	3,550	14,944	18,494	4,343
Telecommunications	300	275	18	293	7
Ordinary and contingent expenses	1,000	-	917	917	83
Total appropriated funds	\$ 1,319,316,550	\$ 1,319,289,003	\$ 23,113	\$ 1,319,312,116	\$ 4,434

Nonappropriated Funds

State Employees' Retirement System

Fund - 0479

Personal services	\$ 4,649,314	\$ 196,980	\$ 4,846,294
Employee retirement contributions paid by employer	30,745	1,428	32,173
Retirement contributions	2,199,744	93,335	2,293,079
Social Security and Medicare contributions	351,295	14,960	366,255
Group insurance	1,262,925	52,747	1,315,672
Contractual services	1,505,845	124,446	1,630,291
Travel	12,068	3,936	16,004
Commodities	14,402	9,889	24,291
Printing	17,787	1,796	19,583
Equipment	1,131	20,873	22,004
Electronic data processing	5,127,883	510,436	5,638,319
Telecommunications	47,285	11,366	58,651
Automotive	9,157	2,166	11,323
Nonrecurring refunds and distributions	16,198,818	(500)	16,198,318
Repayments to general obligation bond retirement and interest fund	24,481,903	3,457,068	27,938,971
Pensions, annuities and benefits	2,445,290,957	(731,503)	2,444,559,454
Permanent improvements	-	155,180	155,180
Refunds of prior calendar year contributions	192,577	-	192,577
Refunds, not classified elsewhere	130,468,372	16,898,731	147,367,103
Subtotal - Fund 0479	2,631,862,208	20,823,334	2,652,685,542

Schedule of Appropriations, Expenditures and Lapsed Balances (Continued)
Appropriations for Fiscal Year 2018
Fifteen Months Ended September 30, 2018

	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to September 30	Total Expenditures 15 Months Ended September 30	Balances Lapsed September 30
Public Act 100-0021 and 100-0586					

Nonappropriated Funds (Continued)
State Employees' Retirement System

Excess Benefit Fund - 0788

Pensions, annuities and benefits	\$ 524,293	\$ -	\$ 524,293	
Total nonappropriated funds	2,632,386,501	20,823,334	2,653,209,835	
Grand Total, All Funds	\$ 3,951,675,504	\$ 20,846,447	\$ 3,972,521,951	

Note 1: Appropriations, expenditures, and lapsed balances were obtained from the State Comptroller records as of September 30, 2018 and have been reconciled to System records.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the State Comptroller for payment to the vendor.

Note 3: The State Pension Funds Continuing Appropriation Act (40 ILCS 15/1.2) provides a continuing annual appropriation for the State's Contributions to the System such that the State's total contribution are no less than the required State contributions lawfully submitted by the System under the Illinois Pension Code (40 ILCS 5/14-135.08).

State Employees' Retirement System of the State of Illinois
Compliance Examination

Schedule 2

Comparative Schedule of Net Appropriations,
Expenditures and Lapsed Balances
For the Years Ended June 30, 2018, 2017 and 2016

	Fiscal Year		
	2018	2017	2016
	P.A. 100-0021 and P.A. 100-0586	Continuing Appropriation and Court Orders	Continuing Appropriation and Court Orders
Appropriated Funds			
General Revenue Fund - 0001			
Appropriations	\$ 1,319,316,550	\$ 1,309,399,650	\$ 1,367,138,589
Expenditures			
Appropriation for State's contribution	1,104,971,850	-	-
Continuing appropriation for pension contributions	214,257,100	1,309,399,650	1,329,170,050
Continuing appropriation for fiscal year shortfall	-	-	37,968,539
Personal services	54,404	40,937	38,509
Social Security and Medicare contributions	4,058	3,018	2,871
Employee retirement contributions paid by employer	5,000	-	-
Contractual services	18,494	-	-
Telecommunications	293	-	-
Ordinary and contingent expenses	917	-	-
Total expenditures	1,319,312,116	1,309,443,605	1,367,179,969
Lapsed balances	\$ 4,434	\$ -	\$ -
Grand Total - Appropriated Funds			
Appropriations (Net of transfers)	\$ 1,319,316,550	\$ 1,309,399,650	\$ 1,367,138,589
Total expenditures	1,319,312,116	1,309,443,605	1,367,179,969
Lapsed balances	\$ 4,434	\$ -	\$ -
Nonappropriated Funds			
State Employees' Retirement System Fund - 0479			
Expenditures			
Personal services	4,846,294	5,154,430	5,365,920
Employee retirement contributions paid by employer	32,173	37,519	32,838
Retirement contributions	2,293,079	2,301,906	2,450,563
Social Security and Medicare contributions	366,255	380,726	397,003
Group insurance	1,315,672	1,511,110	1,573,530
Contractual services	1,630,291	1,267,540	1,740,943
Travel	16,004	14,557	12,210
Commodities	24,291	16,239	12,380
Printing	19,583	28,935	38,172
Equipment	22,004	16,119	15,334
Electronic data processing	5,638,319	5,909,670	5,998,051
Telecommunications	58,651	85,570	59,726
Automotive	11,323	11,603	6,253

Comparative Schedule of Net Appropriations,
Expenditures and Lapsed Balances (Continued)
For the Years Ended June 30, 2018, 2017 and 2016

	Fiscal Year		
	2018	2017	2016
	P.A. 100-0021 and P.A. 100-0586	Continuing Appropriation and Court Orders	Continuing Appropriation and Court Orders
Nonappropriated Funds (Continued)			
State Employees' Retirement System Fund - 0479			
(Continued)			
Nonrecurring refunds and distributions	\$ 16,198,318	\$ 16,797,986	\$ 19,573,651
Payments to general obligation bond retirement and interest fund	27,938,971	24,323,737	24,872,635
Pensions, annuities and benefits	2,444,559,454	2,304,686,635	2,162,995,037
Permanent improvements	155,180	28,762	185,751
Refunds, prior calendar year contributions	192,577	179,594	255,175
Refunds, not elsewhere classified	147,367,103	110,391,834	26,840,083
Total expenditures - Fund 0479	2,652,685,542	2,473,144,472	2,252,425,255
State Employees' Retirement Excess Benefit Fund - 0788			
Expenditures			
Pensions, annuities and benefits	524,293	532,331	468,046
Total nonappropriated expenditures	2,653,209,835	2,473,676,803	2,252,893,301
Grand total expenditures, all Funds	\$ 3,972,521,951	\$ 3,783,120,408	\$ 3,620,073,270

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller records as of September 30, 2018, 2017 and 2016 and have been reconciled to System records.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the State Comptroller for payment to the vendor.

Note 3: The State Pension Funds Continuing Appropriation Act (40 ILCS 15/1.2) provides a continuing annual appropriation for the State's Contributions to the System such that the State's total contribution are no less than the required State contributions lawfully submitted by the System under the Illinois Pension Code (40 ILCS 5/14-135.08) and the FY2015 Shortfall certified under Pension Code (40 ILCS 5/14-141(k)). The Circuit Court of Cook County in *People v. Munger* (15 CH 10243) ordered the State Comptroller, in the absence of enacted annual appropriations, to process and pay certified invoice vouchers from the System pursuant to this Statute. Therefore, the System's fiscal years 2016 and 2017 appropriations for Fund 001 were established as the amount certified to the Governor and General Assembly as the State's required contribution for those fiscal years.

Note 4: The Circuit Court of St Clair County in *AFSCME Council 31 vs Munger* (15 CH 475) ordered the State Comptroller, in the absence of enacted annual appropriations, to "draw and issue warrants accomplishing payment of wages [for all State employees] at their normal rates of pay." As the System never received enacted personal services appropriations for Fund 001 the System was able to submit vouchers to pay its employees in full without a maximum expenditure limit for personal service costs during fiscal years 2016. As Public Act 100-0021 states appropriation authority granted by the General Assembly does not supersede any court order directing the expenditure of funds and states such payments are added to the appropriations granted by the General Assembly, the System was able to submit vouchers to pay its employees in full from Fund 001 without a maximum expenditures limit for personal service costs during fiscal year 2017.

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

Schedule 3

**Schedule of Changes in State Property
For the Year Ended June 30, 2018**

	Beginning Balance	Additions	Deletions	Ending Balance
State Employees' Retirement System Trust				
Fund				
Land	\$ 655,241	\$ -	\$ -	\$ 655,241
Land improvements	315,779	-	-	315,779
Building	4,074,333	199,651	-	4,273,984
Furniture and equipment	3,079,685	60,247	(374,895)	2,765,037
Internally developed software	5,476,286	1,534,750	-	7,011,036
Total	13,601,324	1,794,648	(374,895)	15,021,077
Accumulated depreciation/amortization	(5,899,755)	(831,627)	372,900	(6,358,482)
Property and equipment - net	\$ 7,701,569	\$ 963,021	\$ (1,995)	\$ 8,662,595
Social Security Contribution Fund				
Furniture and equipment	\$ 3,292	\$ -	\$ (265)	\$ 3,027

Note 1: This schedule has been reconciled to property reports (C-15 Agency Report of State Property) submitted to the Office of the State Comptroller.

Note 2: This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the code is different than the capitalization policy established by the Office of the State Comptroller for financial reporting in accordance with generally accepted accounting principles.

**State Employees' Retirement System of Illinois
Compliance Examination**

Schedule 4

**Comparative Schedule of Cash Receipts and
Reconciliation of Cash Receipts to Deposits Remitted
to the State Comptroller
For the Years Ended June 30, 2018, and 2017**

	2018	2017
State Employees' Retirement System - Fund 0479		
Participant contributions	\$ 239,120,050	\$ 240,395,054
Employer contributions (net of bond principal and interest)	760,578,728	693,706,610
General Revenue Fund / Pension Contribution Fund	1,265,863,611	1,206,007,429
Transfers from the Illinois State Board of Investment	310,000,000	230,000,000
Interest income on cash balances	1,431,724	1,246,932
Claims receivable payments	7,266,714	6,018,363
Installment payments	3,187,532	2,927,872
Other	641,614	228,435
Total cash receipts per System	<u>2,588,089,973</u>	<u>2,380,530,695</u>
Plus - Bond principle and interest payments collected and remitted to the State of Illinois	27,545,260	24,182,472
Less - Interest on cash balances	(1,431,724)	(1,246,932)
Less - Cancelled warrants and adjustment deposits classified by the Comptroller as reductions of expenditures	(7,668,977)	(5,492,176)
Plus - Intergovernmental transfers submitted to the Comptroller but not yet released / deposited into Trust Fund	54,588,076	54,558,339
Less - Prior year intergovernmental payment vouchers deposited into the Trust Fund during the current fiscal year	(54,558,339)	(55,382,088)
Less - Cash in Transit at End of Year	(300,882)	(483,450)
Plus - Cash in Transit at Beginning of Year	483,450	275,026
Less - Deposits in Transit at End of Year	(76,197)	(68,498)
Plus - Deposits in Transit at End of Year	68,498	126,548
Total cash receipts per State Comptroller's Records Fund 0479	<u><u>\$ 2,606,739,138</u></u>	<u><u>\$ 2,396,999,936</u></u>
State Employees' Retirement System Excess Benefit - Fund 0788		
Employer contributions	533,447	565,991
Interest income on cash balances	5,146	2,262
Total cash receipts per System	<u>538,593</u>	<u>568,253</u>
Less - Interest on cash balances	(5,146)	(2,262)
Total cash receipts per State Comptroller's Records Fund 0788	<u><u>\$ 533,447</u></u>	<u><u>\$ 565,991</u></u>
GRAND TOTAL - ALL FUNDS		
Total cash receipts per System	\$ 2,588,628,566	\$ 2,381,098,948
Less - Reconciling items from above	(64,041,265)	(62,675,406)
Plus - Reconciling items from above	82,685,284	79,142,385
Total cash receipts per State Comptroller's Records - All Funds	<u><u>\$ 2,607,272,585</u></u>	<u><u>\$ 2,397,565,927</u></u>

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

Schedule 5

**Comparative Schedule of Cash Balances
For the Years Ended June 30, 2018 and 2017**

	2018		2017
State Treasury	\$ 205,301,464	\$	228,087,491
Vouchers in transit	(528,049)		(627,236)
Deposits and cash in transit	82,444		82,329
	<u>204,855,859</u>		<u>227,542,584</u>
 Petty cash fund	 200		 200
	<u>\$ 204,856,059</u>	\$	<u>227,542,784</u>

The cash balance at the end of the fiscal year decreased due to the timing of receipts, as well as expenses which can fluctuate from fiscal year to fiscal year creating variances in cash balances from year to year.

**Comparative Schedule of Changes in Investment Balances
For the Years Ended June 30, 2018 and 2017**

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of the State of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems.

Investment portfolio management and performance are the direct responsibility of ISBI which establishes investment policy and strategy.

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2018 and 2017 is summarized as follows:

	2018	2017
Balance at beginning of year, at fair value	\$ 16,322,605,336	\$ 14,741,054,632
Net cash added (withdrawn) to/(from) investments, net	(310,000,000)	(230,000,000)
	<u>16,012,605,336</u>	<u>14,511,054,632</u>
Investment income		
Interest, dividends and other	378,521,769	397,922,111
Expenses	(25,654,957)	(28,874,161)
	<u>352,866,812</u>	<u>369,047,950</u>
Net appreciation (depreciation) in fair value of investments		
Net realized gain on sales of investments	877,102,247	434,071,475
Net unrealized gain on investment	25,563,080	1,008,431,279
	<u>902,665,327</u>	<u>1,442,502,754</u>
Total net investment income (loss)	<u>1,255,532,139</u>	<u>1,811,550,704</u>
Balance at end of year, at fair value	<u>\$ 17,268,137,475</u>	<u>\$ 16,322,605,336</u>

Securities lending collateral increased by \$2.8 million in fiscal year 2018 compared to the fiscal year 2017 ending balance (\$66,204,000 from \$63,393,000). The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same security in the future. Each year the Treasurer provides an allocation to the Comptroller to adjust each State Agency's financial statements to include their proportionate share of the securities lending transaction balances at year-end. Securities lending activity can vary from year to year depending on market conditions and the availability of securities to lend.

State Employees' Retirement System of the State of Illinois Compliance Examination

Analysis of Operations (Unaudited) For the Years Ended June 30, 2018 and 2017

System Functions and Planning Program (Unaudited)

The State Employees' Retirement System of Illinois was established on January 1, 1944 for the purpose of providing an orderly means whereby aged or disabled employees may be retired from active service, without prejudice or hardship, and to enable the employees to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment, thus affecting economy and efficiency in the administration of the State government.

The System is governed by Article 14 of the Illinois Pension Code (Chapter 40 of the Illinois Compiled Statutes). As of June 30, 2018, the System had approximately 61,397 active members and 73,179 benefit recipients.

The State Employees' Retirement System of Illinois is administered by a Board of Trustees 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 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; 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. The administration of the detailed affairs of the System is vested in the Executive Secretary, under the direction of the Board. General policy relating to the administration of the System is stated in the minutes of the Board meetings.

The System also administers the Social Security Enabling Act, Article 21 of the Illinois Pension Code, which makes coverage under the Federal Social Security Program available to employees of the State and its political subdivisions. The purpose of the Social Security Division of the System was to collect FICA contributions from employees, employing State agencies and various political subdivisions and remitting these contributions to the Federal government for calendar years prior to 1987. The responsibility of collecting and remitting Social Security contributions to the Federal government was transferred from this office to the Office of the Comptroller effective January 1, 1987. All adjustments for wages paid prior to January 1, 1987 were processed through this office. The remaining function of the Social Security Division is largely to act as a liaison between the Social Security Administration and local governments throughout the State. All necessary documentation pertaining to Section 218 agreements are initiated by the Division. The administrative expenses of the Social Security Division are appropriated by the General Assembly on a line item basis or authorized by court order.

The System is also responsible for the general administration of the State Employees Group Insurance Program as it applies to eligible annuitants. This includes enrollment, processing life insurance claims and other administrative details related to that program.

Program planning activities of the System are under the direct supervision of the Executive Secretary and involve coordination between the governing Board and other executive staff of the System. The current planning program identifies various operational projects for fiscal year 2018. The planning summary for each project includes the project scope and objectives, implementation phases and timing, resource application and expected benefits. Each project is assigned to a divisional level manager who acts as project leader during all implementation phases of the project. Implementation progress is reported to the Executive Secretary, who in turn reports such progress directly to the System's Board of Trustees.

State Employees' Retirement System of the State of Illinois Compliance Examination

Analysis of Operations (Unaudited) (Continued) For the Years Ended June 30, 2018 and 2017

System Functions and Planning Program (Unaudited) (Continued)

During FY 2018, System staff continued to work on the modernization of several business processes through the application developed by the Information Technology Division. Significant progress was made on the development of the module to set up and track System receivables, as well as the module that will allow for the request and tracking of optional service purchases. Additionally, through diligent staff efforts, the process by which initial retirement benefits are set up to be processed was coded and tested, thoroughly. As FY 2019 begins, the benefit set up process will be placed into production and that component of the application will be used to set up and calculate new benefits. Likewise, the service purchase module and receivable modules will continue to be tested and developed through FY 2019 and go into production in the later part of the fiscal year.

The System will also administer the two buy out programs created by Public Act 100-0587, detailed further in the Legislative Section of the CAFR. An interactive web tool was developed to allow SERS members to estimate the impact of electing the COLA buy out, if eligible. The education of members on the impact of the buyout options will be handled during individual retirement counseling and at the workshops held throughout the state during the next fiscal year.

Progress in Funding the System (Unaudited)

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 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. Now that the 15-year phase-in is complete, 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 funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This, in effect, removed the appropriation of those funds from the annual budgetary process.

Public Act 92-0566 became effective June 25, 2002, and provided an early retirement incentive (ERI) for those participants under the State Employees' Retirement System who terminated service before December 31, 2002 (or April 30, 2003, for certain cases). The increase in the unfunded actuarial accrued liability due to the ERI was originally to be amortized over ten years. The law, as modified, required that, in addition to any employer contributions required above, the State pay an amount equal to \$70,000,000 for fiscal years 2004 and 2005; and in each fiscal year 2006 through 2015, a level-dollar payment based upon the increase in the present value of future benefits provided by the early retirement incentives amortized at 8.5 percent interest.

Public Act 93-0002 became law on April 7, 2003, and authorized the State to issue \$10 billion in general obligation bonds for the purpose of making contributions to the retirement systems. On June 12, 2003, the State issued \$10 billion in General Obligation Bonds, Pension Funding Series of June 2003.

Commencing with fiscal year 2005, the maximum State contribution under Public Act 93-0002 equals the State contribution that would have been required if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on each system's respective portion of the full \$10 billion of General Obligation Bond, Pension Funding Series of June 2003.

State Employees' Retirement System of the State of Illinois Compliance Examination

Analysis of Operations (Unaudited) (Continued) For the Years Ended June 30, 2018 and 2017

Progress in Funding the System (Unaudited) (Continued)

In June 2005, Public Act 94-0004 became law. 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. This act specified the appropriation amounts for fiscal years 2006 and 2007. The required State contributions for fiscal years 2008 through 2010 were then 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 of a 90% funded status by the end of fiscal year 2045.

Public Act 96-0043 became law on July 15, 2009. As required under Public Act 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation. The method was changed from the market/fair value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year, beginning with FY09, in equal amounts over the ensuing five-year period.

Public Act 96-0889 added a lower tier of benefits for members who first contribute to SERS on or after January 1, 2011. When Public Act 96-1511 was enacted in January 2011, it required the System to assume that the provisions of Public Act 96-0889 were in effect on June 30, 2009 and to recalculate and recertify the fiscal year 2011 state funding requirement. Under this recertification, the fiscal year 2011 state contribution requirement was reduced by \$95 million, from \$1,193.3 million to \$1,098.3 million.

Public Act 100-0023 became law on July 6, 2017. Public Act 100-0023 created a third tier of benefits (Tier 3), a hybrid plan combining a reduced defined benefit and a deferred contribution component for those members not participating in the social security system. Tier 3 has yet to be implemented and will require legislative changes. In addition Public Act 100-0023 directed the System to smooth the effects of changes in assumptions on the State's contribution by amortizing the effect of the changes over a five-year period retroactive to 2014. The System was also required to recalculate the State's fiscal year 2018 contribution resulting in a \$298 million reduction in the State contribution from \$2,328 million to \$2,030 million.

On June 4, 2018 Public Act 100-0587 created two accelerated benefit payment options to be offered through June 30, 2021 to new annuitants and inactive vested members at a discounted cost to the System. The System is required to recalculate its fiscal year 2019 contribution before June 30, 2019 to account for the estimated decreases in the fiscal year 2019 contribution afforded to the State by offering the accelerated benefit option.

Under the State's funding plan, the actuarial accrued liability of the System at June 30, 2018 amounted to approximately \$47.9 billion. The actuarial value of assets (at smoothed value) at June 30, 2018 amounted to approximately \$17.5 billion. The difference between the actuarial accrued liability and the actuarial value of assets of \$30.4 billion reflects the unfunded actuarial accrued liability of the System at June 30, 2018 under the State's funding plan. The System had a funded ratio (based on the State's funding plan) of 36.5% at June 30, 2018.

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2018 and 2017**

Progress in Funding the System (Unaudited) (Continued)

For financial reporting purposes, the System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, in the fiscal year ended June 30, 2014. GASB Statement No. 67 requires the use of the market value of assets rather than the actuarial value of assets (smoothed value) used under the State's funding plan in calculating the net pension liability. It also requires that the System use the entry age actuarial cost method rather than the projected unit costs method used under the State's funding plan for calculating the total pension liability. In addition, it requires the System use a blended rate of return of 6.81% combining the assumed rate of return of 7.0% and a municipal bond rate of 3.62% based on an index of 20-year general obligation bonds with an average AA rating for investments in the event the System's assets are exhausted in the future.

On June 30, 2018, the System reported for financial reporting purposes under GASB Statement No. 67 that the market value of assets was \$17.5 billion. The difference between the total pension liability of \$50.5 billion and the market value of assets was the net pension liability of \$33 billion and the funded ratio was 34.6%. On June 30, 2017, the market value of assets was \$16.5 billion. The difference between the System's June 30, 2017 total pension liability of \$49.4 billion and the market value of assets was the June 30, 2017 net pension liability of \$32.9 billion and the funded ratio was 33.4%.

The market value of the assets of the fund, that were available for benefits, increased from \$16.5 billion at June 30, 2017 to \$17.5 billion at June 30, 2018. This increase is due to the increased return on fund assets. The actuarial value of the assets of \$17.5 billion at June 30, 2018, is \$15 million higher than the market value of the assets due to recognition of 100% of the actuarial gain in fiscal year 2014, 80% of the actuarial gain in fiscal year 2015, 60% of the actuarial loss in fiscal year 2016, 40% of the actuarial gain in fiscal year 2017, 20% of the actuarial gain in 2018.

State required contributions to the System for the next five fiscal years are noted in the table below.

Year Ended June 30	Required State Contribution (in millions)
2019	\$ 2,136.3
2020	2,291.2
2021	2,409.8
2022	2,525.2
2023	2,561.6

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2018 and 2017**

Progress in Funding the System (Unaudited) (Continued)

The Schedule of the State's Net Pension Liability (in millions) for fiscal years ending June 30, 2018 and 2017 are noted in the table below.

	<u>2018</u>	<u>2017</u>
Total pension liability	50,519	49,437
Plan fiduciary net position	<u>17,463</u>	<u>16,530</u>
State's net pension liability (asset)	<u>33,056</u>	<u>32,907</u>
Plan fiduciary net position as a percentage of the total pension liability	34.57 %	33.44 %
Covered payroll	4,240	4,193
State's net pension liability (asset) as a percentage of covered payroll	779.61 %	784.89 %

The Schedule of State Contributions (in millions) for the fiscal years ending June 30, 2018 and 2017 are noted in the table below.

<u>Year Ended June 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions Received</u>	<u>Contribution (Deficiency) Excess</u>	<u>Covered Payroll</u>	<u>Contributions Received as a Percentage of Covered Payroll</u>
2018	\$2,739.4	\$1,929.2	(\$810.2)	\$4,240.1	45.50%
2017	2,129.5	1,798.3	(331.2)	4,192.6	42.89%

Notes to the Schedule of State Contributions

Valuation date: June 30, 2016

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.

Methods and Assumptions Used to Determine Contribution Rates 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:	25 years, closed
Asset Valuation Method:	5 year smoothed market

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2018 and 2017**

Progress in Funding the System (Unaudited) (Continued)

Inflation:	2.75%
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:	7.00%
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2014, valuation pursuant to an experience study of the period July 1, 2009 to June 30, 2013.
Mortality:	105% of the RP2014 Healthy Annuitant table, sex distinct with generational mortality improvements.

Analysis of Significant Variations in Expenditures (Unaudited)

The System's expenditures, obtained from Schedule 2, have been analyzed for fluctuations greater than \$1 million and 20% from the previous year.

	2018	2017	Increase (Decrease)
<u>Fund 0001:</u>			
Continuing appropriation for pension contributions	\$ 214,257,100	\$ 1,309,399,650	\$ (1,095,142,550) (1)
Appropriation of State's contribution	1,104,971,850	-	1,104,971,850 (1)
<u>Fund 0479:</u>			
Refunds, not elsewhere classified	147,367,103	110,391,834	36,975,269 (2)

- (1) A state budget was enacted for FY 2018, providing an appropriation approved by the General Assembly for GRF retirement contributions, which had not been in place during the previous fiscal year. The continuing appropriation was reduced from FY 2017 as it did not have to be relied upon to provide the entire amount of statutorily required state funding as it had when no budget was in place.
- (2) Public Act 100-0023 required the SERS Board of Trustees to retroactively recertify the FY 2018 contribution rate to smooth actuarial assumption changes over a five-year period. The additional refunds, issued to state agencies, resulted from the FY 2018 recertification which retroactively reduced the amount state agencies were required to contribute to the retirement system.

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2018 and 2017**

Analysis of Significant Variations in Cash Receipts (Unaudited)

The System's cash receipts, obtained from Schedule 4, have been analyzed for fluctuations greater than \$1 million and 20% from the previous year.

	2018	2017	Increase
Transfers from the Illinois State Board of Investment	\$ 310,000,000	\$ 230,000,000	\$ 80,000,000 (1)
Claims receivable payments	7,266,714	6,018,363	1,248,351 (2)

(1) During FY 2018, additional investments were required to meet the disbursements of the System, primarily due to the refunds resulting from the recertification of the employer rate.

(2) SERS staff strives to improve the collections of claims receivables through various methods throughout the fiscal year.

Analysis of Significant Lapse Period Spending (Unaudited)

The System's lapse period spending, obtained from Schedule 1, has been analyzed for spending greater than \$200,000 and 20% in any appropriated line item.

There was no significant lapse period spending during fiscal year 2018.

Analysis of Contributions Receivable (Unaudited)

	2018	2017
Participants' contributions	\$ 16,945,386	\$ 12,374,224
Employing State agencies	79,595,654	71,478,289
Other accounts	5,274,892	5,256,241
Total receivables	<u>\$ 101,815,932</u>	<u>\$ 89,108,754</u>

Receivables included above represent amounts due from participants and the employers for contributions. Accounts are first analyzed by System personnel for collectability before being sent to the Attorney General's Office for a final determination.

**State Employees' Retirement System of the State of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2018 and 2017**

Budget Impasse Disclosures (Unaudited)

Article 998 of Public Act 100-0021 authorized the System to pay its unpaid fiscal year 2017 costs using either the System's fiscal year 2017 or fiscal year 2018 appropriations for non-payroll expenditures. The System did not have any outstanding invoices from fiscal year 2017 unpaid after the closure of the fiscal year 2017 Lapse Period on September 30, 2017. Therefore, the System did not use its fiscal year 2018 appropriations to pay its fiscal year 2017 costs.

Money-Weighted Rate of Return (Unaudited)

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

- At least equal to the assumed actuarial interest rate, currently 7.00% per year.
- At least equal to the return of a composite benchmark of market indices in the same proportions as the Board's asset allocation policy targets.

The time-weighted rate of return of the ISBI Commingled Fund was 7.6% for fiscal year 2018. The ISBI's total fund performance was more than the composite benchmark of 7.4% for the year ended June 30, 2018.

The annual money-weighted rate of return, net of investment expense, as of June 30, 2018 and 2017 was as follows:

	2018	2017
Money-weighted return*	7.6%	12.4%

* The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested.

**State Employees' Retirement System of the State of Illinois
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**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2018 and 2017**

Average Number of System Employees (Unaudited)

System Employees' Retirement System Trust Fund

The average number of employees (not including the General Revenue Fund – Social Security Division) during the years ended June 30, 2018, 2017 and 2016 is summarized by functional classification as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Executive and administrative	19	22	23
Accounting, bookkeeping and clerical	30	38	38
Other office employees	20	18	13
Electronic data processing	<u>24</u>	<u>21</u>	<u>23</u>
Total	<u>93</u>	<u>99</u>	<u>97</u>

Social Security Contribution Fund

The Social Security Contribution Fund had one employee for the years ended June 30, 2018, 2017 and 2016.

**State Employees' Retirement System of the State of Illinois
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**Analysis of Operations (Unaudited)
For the Years Ended June 30, 2018 and 2017**

Comparison of Administrative Expenses to Total Expenses (Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total expenses			
Benefits	\$ 2,464,832,022	\$ 2,328,620,783	\$ 2,190,501,203
Refunds of contributions, including transfers to reciprocating systems	27,469,348	26,608,011	26,708,730
Administrative expenses	<u>15,257,526</u>	<u>15,957,439</u>	<u>16,126,997</u>
	<u>\$ 2,507,558,896</u>	<u>\$ 2,371,186,233</u>	<u>\$ 2,233,336,930</u>
 Administrative expenses as a percentage of total expenses	 <u>0.6%</u>	 <u>0.7%</u>	 <u>0.7%</u>

Schedule of Contributions/Deductions and Effect on Investments (Unaudited)

Below is a schedule of contributions received by the System and expenditures of the System for benefits and operations and the effect of these transactions on the System's investments.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contributions			
Participant Contributions	\$ 254,442,466	\$ 251,610,974	\$ 256,198,172
Employer Contributions	<u>1,929,175,044</u>	<u>1,798,348,440</u>	<u>1,882,243,268</u>
Total Contributions	<u>2,183,617,510</u>	<u>2,049,959,414</u>	<u>2,138,441,440</u>
Deductions			
Retirement Benefits	2,240,156,641	2,111,021,041	1,977,598,561
Survivor Benefits	144,671,705	136,359,106	128,689,627
Disability Benefits	64,708,865	64,167,865	64,057,780
Lump-Sum Death Benefits	15,294,811	17,072,771	20,155,235
Refunds (including transfers to reciprocating systems)	27,469,348	26,608,011	26,708,730
Administrative Expenses	<u>15,257,526</u>	<u>15,957,439</u>	<u>16,126,997</u>
Total Deductions	<u>2,507,558,896</u>	<u>2,371,186,233</u>	<u>2,233,336,930</u>
Contributions in Excess of Deductions (Investments Used to Pay Benefits and Expenses)	 <u>\$ (323,941,386)</u>	 <u>\$ (321,226,819)</u>	 <u>\$ (94,895,490)</u>

**State Employees' Retirement System of the State of Illinois
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**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2018 and 2017**

Service Efforts and Accomplishments (Unaudited)

	2018	2017	2016
Membership data			
Coordinated members	83,633	83,043	84,991
Noncoordinated members	2,506	2,328	2,446
Total members	<u>86,139</u>	<u>85,371</u>	<u>87,437</u>
Active members	<u>61,397</u>	<u>60,612</u>	<u>61,317</u>
Benefit payments processed			
Recurring			
Retirement annuities	59,749	58,453	56,825
Survivors' annuities	11,344	11,186	11,043
Disability benefits	2,086	2,166	2,163
Total	<u>73,179</u>	<u>71,805</u>	<u>70,031</u>
Termination refunds processed	<u>2,384</u>	<u>2,595</u>	<u>2,792</u>
Retirement counseling			
Preretirement sessions			
Number of sessions	73	138	102
Number of attendees	3,038	3,991	4,751
Postretirement seminars			
Number of sessions	26	27	28
Number of attendees	1,080	985	1,123
Regional and other meetings			
Number of sessions	53	17	20
Number of attendees	913	748	786
Retirement coordinator site visits	32	63	51
One-on-one meetings	3,699	3,562	4,138