State Employees' Retirement System of Illinois

A Pension Trust Fund of the State of Illinois

The Illinois Old State Capitol

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012

State Employees' Retirement System of Illinois

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

The Old State Capitol is a Greek Revival-style building that served as Illinois' fifth statehouse, the first to be located in Springfield. The building was the seat of state government and a center of Illinois political life from 1839 to 1876. During the dramatic years leading up to the Civil War, the building had an important role in the political struggle between Stephen Douglas and Abraham Lincoln.

Lincoln visited the building frequently as both a lawyer and politician, serving in the building during his last term in the Illinois House of Representatives and delivering the famous 1858 "House Divided" speech in Representatives Hall. The building was also the scene of the assassinated President's final laying-in-state on May 3-4, 1865.

The Capitol was completely reconstructed in the 1960s and in 1961 the building was designated a National Historic Landmark and in 1966 was listed on the National Register of Historic Places.

Fiscal Year 2012 Highlights

85,373	Total Membership
62,732	Active Contributing Members
$10,960,687,824	Net Assets Held in Trust for Pension Benefits, fair value
	Contributions
$259,122,881	Employees
$1,391,416,375	Employer
$5,975,369	Investment Income
0.10%	Investment Return
	Benefit Recipients
50,000	Retirement Annuities
10,502	Survivors' Annuities
2,286	Disability Benefits
$1,627,373,601	Benefits Paid
$33,091,186,194	Actuarial Accrued Liability
$11,477,264,329	Actuarial Value of Assets
$21,613,921,865	Unfunded Actuarial Liability
34.7%	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.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

A Pension Trust Fund of the State of Illinois

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

STATE EMPLOYEES' RETIREMENT
SYSTEM OF ILLINOIS

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

Prepared by the Accounting Division

Printed by Authority of the State of Illinois
350/$2.96 ea/12/12
Printed on Recycled Paper

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INTRODUCTORY SECTION

SRS STATE RETIREMENT SYSTEMS

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

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255 217-785-7444

January 9, 2013

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

Dear Board and Members:

The comprehensive annual financial report of the State Employees' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 2012 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System.

To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

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

The report consists of six sections:

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

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

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

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

5. The Statistical Section contains significant statistical data;

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

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

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

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

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

PLAN HISTORY & SERVICES PROVIDED

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

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

INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statues, using the "prudent person rule".

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

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

FUNDING

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments. The greater the level of funding, the larger the ratio of accumulated assets to the actuarial accrued liability and the greater the level of investment potential.

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

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

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

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

MAJOR EVENTS/ INITIATIVES

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

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

ACCOUNTING SYSTEM & INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

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

The System also uses the State of Illinois, Statewide Accounting Management System (SAMS) as a basis for the preparation of the financial statements. In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgements by management. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by Gabriel, Roeder, Smith & Co., Chicago, Illinois.

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

The purpose of the compliance attestation examination was to determine whether the System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Employees' Retirement System of Illinois for its comprehensive annual financial report for the fiscal year ended June 30, 2011.

The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State Employees' Retirement System of Illinois has received a Certificate of Achievement for the past twenty-six consecutive years (fiscal years ended June 30, 1986 through June 30, 2011).

We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS & COMMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and for determining responsible stewardship for the assets contributed by the members in the State of Illinois.

On behalf of the Board of Trustees, we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

Timothy B. Blair

Timothy B. Blair
Executive Secretary

Nicholas C. Merrill, Jr.

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

BOARD OF TRUSTEES


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Chairman


Michael Noser
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Appointed by Governor


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Shirley Byrd
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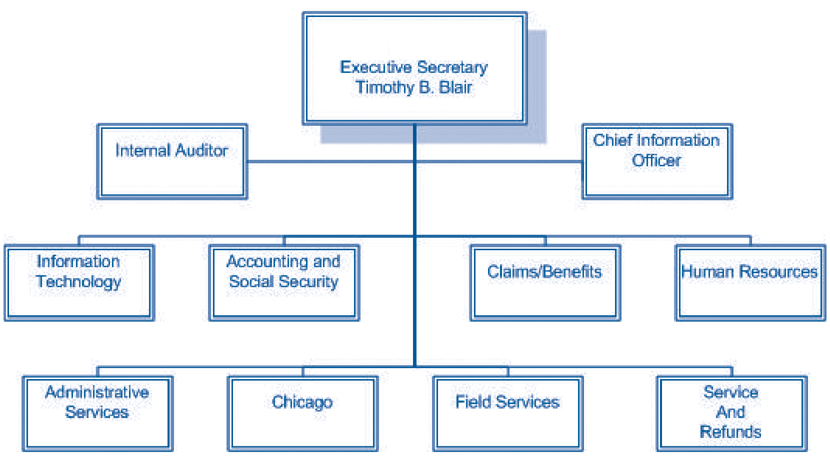

Management Group

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

Advisors, Auditors & Administrators

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Employees' Retirement System of Illinois

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

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

FINANCIAL SECTION

BKD LLP
CPAs & Advisors

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

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

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

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

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

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

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

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

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

BKD, LLP

January 9, 2013

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL HIGHLIGHTS

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

PLAN NET ASSETS

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

Condensed Statements of Plan Net Assets
(in millions)

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

* Including securities lending collateral

ADDITIONS TO PLAN NET ASSETS

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

DEDUCTIONS FROM PLAN NET ASSETS

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

FUNDED RATIO

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

INVESTMENTS

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

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

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

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

CHANGES IN PLAN NET ASSETS

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

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

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

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2012 and 2011

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

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

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

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

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2012 and 2011

1. Reporting Entity

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

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

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

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

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

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

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

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

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

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

2. Plan Description

The System is the administrator of a single-employer, defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its employees. The plan is comprised of two tiers of contribution requirements and benefit levels. The provisions below apply to both Tier 1 & 2 employees, except where noted. A summary of the plan provisions pertaining to eligibility and membership, contributions, and benefits are displayed in the table below:

a. Eligibility and Membership

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

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

b. Employee Contributions

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

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

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

c. Employer Contributions

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

d. Retirement Annuity Benefits

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

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

Regular Formula Tier 1

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

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

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

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

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

Regular Formula Tier 2

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

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

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

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

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

Alternative Formula Tier 1

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

Final average compensation is figured one of three ways:

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

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

Alternative Formula Tier 2

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

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

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

e. Disability & Death Benefits

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

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

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

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

3. Summary of Significant Accounting Policies & Plan Asset Matters

a. Basis of Accounting

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

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

b. Cash

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer.

"Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

c. Implementation of New Accounting Standard

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

d. Methods Used to Value Investments

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

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

Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

e. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 2010 resulting in the adoption of new assumptions as of June 30, 2011.

f. Administrative Expenses

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

g. Risk Management

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

h. General Litigation

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

i. Use of Estimates

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

j. Reclassifications

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

4. Investments

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

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

Deposits

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

Investment Commitments

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

Investment Liquidity

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

Alternative Investments

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

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

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

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

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

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

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

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

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

Concentration of Credit Risk and Credit Risk for Investments

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

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

Custodial Credit Risk for Investments

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

Interest Rate Risk

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

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

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

Foreign Currency Risk

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

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

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

Securities Lending

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

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

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

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

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

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

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

Derivative Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Information

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

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

5. Funding - Statutory Contributions Required & Contributions Made

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

For fiscal year 2012 and 2011 the required employer contributions was computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

In addition, the funding plan provided for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Since the 15 year phase-in period ended June 30, 2010, the state's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

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

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

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

Valuation date: June 30, 2012

Actuarial cost method: Projected Unit Credit

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

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

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

Actuarial assumptions:

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

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

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

6. Accrued Compensated Absences

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

7. Collection and Remittance of Bond and Interest Payments

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

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

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

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

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

8. Property & Equipment

Capital assets over $100 are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, (3) automobiles and certain electronic data processing equipment - 3 years, and (4) building - 30 years. Land is carried at its original cost, including applicable legal fees, surveying costs, etc.

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

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

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

9. Administrative Expenses & Other Post-Employment Benefits

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

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

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

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

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

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

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

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

10. Social Security Division - Administrative Expenses

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

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

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

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

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

11. Analysis of Changes in Reserve Balances

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

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

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

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

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

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

12. New Accounting Pronouncements

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

SCHEDULE OF FUNDING PROGRESS

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

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

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

Notes to Required Supplementary Information

Valuation date: June 30, 2012
Actuarial cost method: Projected Unit Credit
Amortization method:

a. For GASB Statement No. 25 reporting purposes – Level percent of payroll

b. Per state statute – 15-year phase-in to a level percent of payroll until a 90% funding level is achieved

Remaining amortization period:

a. For GASB Statement No. 25 reporting purposes – 30 years, open

b. Per state statute – 33 years, closed

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

Actuarial assumptions:

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

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

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

SUMMARY OF REVENUES BY SOURCE

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

SUMMARY SCHEDULE OF CASH RECEIPTS & DISBURSEMENTS

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

SCHEDULE OF PAYMENTS TO CONSULTANTS & ADVISORS

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

INVESTMENT SECTION

INVESTMENT REPORT

By state law, the System's investment function is managed by the Illinois State Board of Investment (ISBI). The ISBI was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state.

In addition to the assets of the State Employees' Retirement System, the ISBI also manages the investment function for the Judges' and General Assembly Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund).

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

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

INVESTMENT POLICY

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

EMERGING & MINORITY PARTICIPATION

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

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

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

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

ASSET ALLOCATION

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

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

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

INVESTMENT RESULTS

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

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

REAL ESTATE

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

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

REAL ESTATE

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

U. S. EQUITIES

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

U.S. EQUITIES

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

INTERNATIONAL EQUITIES

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

INTERNATIONAL EQUITIES

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

FIXED INCOME

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

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

U. S. EQUITY HEDGE FUNDS

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

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

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

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

PRIVATE EQUITY

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

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

ADMINISTRATIVE EXPENSES

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

INVESTMENT PORTFOLIO SUMMARY

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

ANALYSIS OF INVESTMENT PERFORMANCE

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

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

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

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

ADDITIONAL INVESTMENT INFORMATION

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

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

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

ACTUARIAL SECTION

GRS

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October 30, 2012

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

CONFIDENTIAL

Re: Actuarial Certification

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

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

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

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

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

Gabriel Roeder Smith & Company

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

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

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

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

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

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

Respectfully submitted,

Gabriel, Roeder, Smith & Company

By: Alex Rivera	By: David T Kausch
Alex Rivera, FSA, EA, MAAA	David Kausch, FSA, EA, MAAA
Senior Consultant	Senior Consultant

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Gabriel Roeder Smith & Company

INTRODUCTION

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

The Board, in turn, has the duty of certifying an employer contribution amount, required to be paid to the System by the state during the succeeding fiscal year.

The System receives contributions from several sources which can be considered as employer contributions, with the largest source being the regular state appropriation.

The employers' contribution amount, together with members' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Chapter 40, Section 5/14-131 of the Illinois Compiled Statutes.

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

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

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

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

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

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

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

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

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

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

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

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

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

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

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

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

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

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

Interest: 7.75% per annum, compounded annually.

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

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

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

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

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

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

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

Service-Based Withdrawal

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

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

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

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

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

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

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

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

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

SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

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

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with:

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

In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

VALUATION RESULTS

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

COMPUTED ACTUARIAL VALUES (in thousands of dollars)

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

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

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

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

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES (Analysis of Funding)

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing.

Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system.

Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

ACCRUED AND UNFUNDED ACCRUED LIABILITIES

(in thousands of dollars)

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

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

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

SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

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

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

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

SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

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

STATISTICAL SECTION

Statistical Contents

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

1. Financial Schedules: Pages 56-57

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

2. Member & Benefit Analysis: Pages 58-59

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

3. Benefit Demographics: Pages 60-62

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

ASSET BALANCES

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

LIABILITIES AND RESERVE BALANCES

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

CHANGES IN NET ASSETS

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

TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

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

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

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

NUMBER OF RECURRING BENEFIT PAYMENTS / TERMINATION REFUNDS

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

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

RETIREMENT ANNUITIES
Average Monthly Benefit For Current Year Retirees By Type

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

RETIREMENT ANNUITIES
Current Age of Active Recipients

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

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

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

Annuitants by Benefit Range (Monthly) June 30, 2012

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

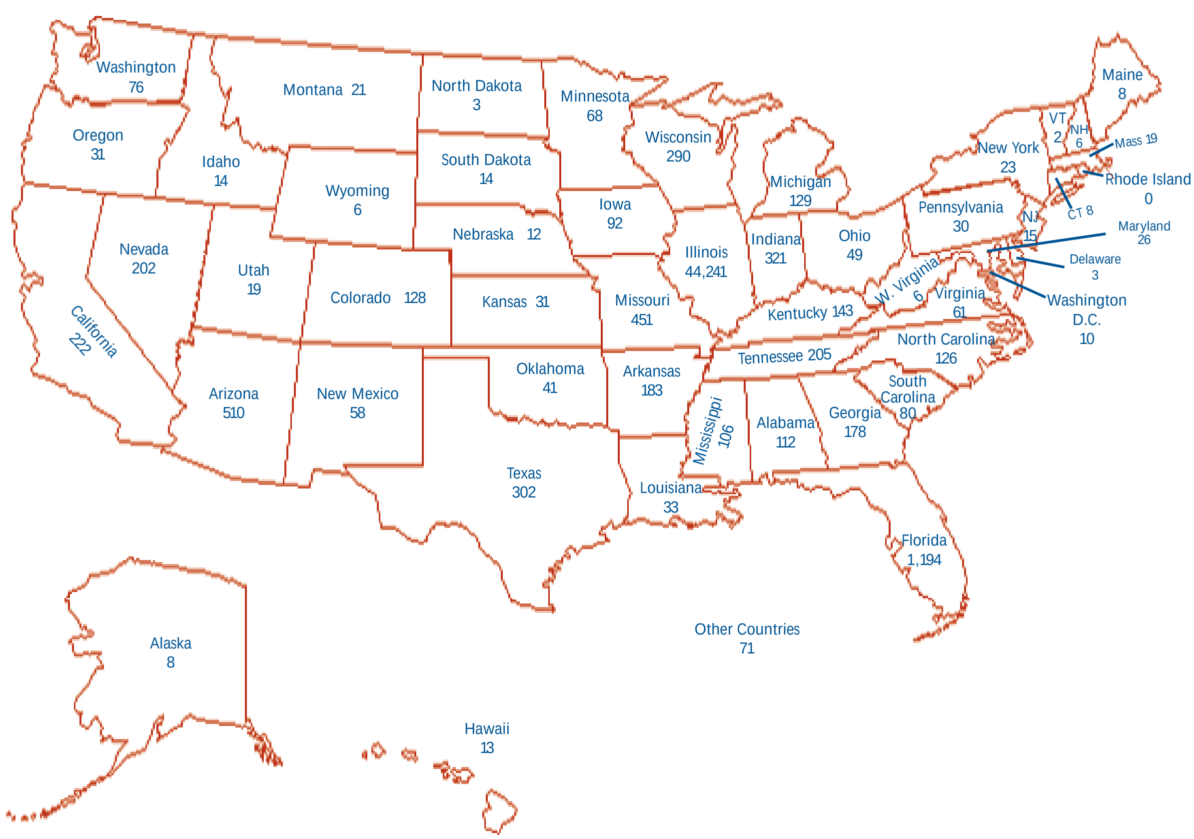
Widow's and Survivors' by Benefit Range (Monthly) June 30, 2012

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

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

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

RETIREES BY STATE



Average Benefit Payments
Fiscal Years 2003 through 2012

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

PLAN SUMMARY
& LEGISLATIVE SECTION

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

1. Purpose

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

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

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

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

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

2. Administration

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

3. Employee Membership

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

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

4. Member Contributions & Formulas

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

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

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

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

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

5. Alternative Formula Positions

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

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

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

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

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

6. Final Average Compensation: Retirement

Tier 1 Regular Formula:

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

Tier 1 Alternative Formula:

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

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

Tier 2 Regular Formula and Alternative Formula:

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

7. Retirement Annuity

A. Qualification of a Member

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

Tier 1 Regular Formula:

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

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

Tier 1 Alternative Formula:

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

Tier 2 Regular Formula:

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

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

Tier 2 Alternative Formula:

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

B. Amount of Retirement Annuity

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

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

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

Pension Computation:

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

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

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

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

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

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

C. Optional Forms of Payment:

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

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

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

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

D. Annual Increase in Benefit:

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

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

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

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

8. Survivors' Annuity

A. Qualifications of Survivor Tier 1 and Tier 2

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

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

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

B. Final Average Compensation: Death

Tier 1

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

Tier 2

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

C. Amount of Payment

Tier 1

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

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

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

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

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

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

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

Tier 2

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

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

D. Duration of Payment

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

E. Annual Increase in Benefit

Tier 1

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

Tier 2

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

9. Widows Annuity (Tier 1 only)

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

A. Qualification of a Widow

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

B. Amount of Payment

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

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

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

C. Duration of Payment

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

D. Annual Increase in Benefit

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

10. Occupational Death Benefit

A. Qualification of Survivors

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

B. Amount of Payment

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

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

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

C. Duration of Payment

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

D. Annual Increase in Benefit

Tier 1

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

Tier 2

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

11. Other Death Benefits

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

A. Before Retirement

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

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

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

B. After Retirement

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

12. Final Average Compensation All Disability Benefits

Tier 1

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

Tier 2

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

13. Non-Occupational Disability Benefits

A. Qualification and Amount of Payment

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

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

B. Duration of Payment

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

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

C. Increase in Benefit

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

14. Occupational Disability Benefits

A. Qualification and Amount of Payment

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

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

B. Duration of Payment

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

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

C. Increase in Benefit

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

15. Temporary Disability Benefits

A. Qualification and Amount of Payment

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

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

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

B. Duration of Payment

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

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

16. Separation Benefits

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

LEGISLATION AMENDMENTS

Amendments with an effective date during Fiscal Year 2012:

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

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

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

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

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

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

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

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

NEW LEGISLATION

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