

# *General Assembly Retirement System, State of Illinois*

---

*A Pension Trust Fund  
of the State of Illinois*



*The Illinois Old State Capitol*

## General Assembly Retirement System of Illinois

2101 South Veterans Parkway, P. O. Box 19255

Springfield, Illinois 62794-9255

Phone 217-782-8500 • Fax 217-557-5154

Internet: <http://www.state.il.us/srs>

Email: [gars@srs.illinois.gov](mailto:gars@srs.illinois.gov)

### *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*

255	Total Membership
176	Active Contributing Members
\$52,743,919	Net Assets Held in Trust for Pension Benefits, fair value
<i>Contributions</i>	
\$1,622,742	Participants
\$10,502,000	Employer
\$(81,448)	Investment (Loss)
<i>Benefit Recipients</i>	
294	Retirement Annuities
119	Survivors' Annuities
1	Reversionary Annuities
\$19,246,885	Benefits Paid
\$303,469,263	Actuarial Accrued Liability
\$56,090,081	Actuarial Value of Assets
\$247,379,182	Unfunded Actuarial Liability
18.5%	Funded Ratio

### *Mission Statement*

To establish an efficient method of permitting retirement, without hardship or prejudice, to General Assembly members and certain elected state officials who are aged or otherwise incapacitated, by enabling them to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment.

# GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

## A Pension Trust Fund of the State of Illinois

---

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

GENERAL ASSEMBLY RETIREMENT SYSTEM,  
STATE 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



550/\$2.50 ea/12/12

Printed on Recycled Paper

# TABLE OF CONTENTS

<b>INTRODUCTORY SECTION</b> .....	<b>3</b>	<b>ACTUARIAL SECTION</b> .....	<b>43</b>
Letter of Transmittal .....	4	Actuary's Certification Letter .....	44
Board of Trustees and Administrative Staff .....	7	Introduction .....	46
Certificate of Achievement for Excellence in Financial Reporting .....	8	Actuarial Cost Method and Summary of Major Actuarial Assumptions .....	46
<b>FINANCIAL SECTION</b> .....	<b>9</b>	Schedule of Active Member Valuation Data ....	48
Independent Auditors' Report .....	10	Summary of and Changes to the Plan Provisions .....	48
Management's Discussion and Analysis .....	12	Short-Term Solvency Test .....	48
Financial Statements:		Schedule of Retirants and Survivors' Annuitants Added to and Removed from Rolls .....	49
Statements of Plan Net Assets .....	14	Summary of Accrued and Unfunded Accrued Liabilities (Analysis of Funding) .....	49
Statements of Changes in Plan Net Assets ..	15	Valuation Results .....	50
Notes to Financial Statements .....	16	Reconciliation of Unfunded Actuarial Liability	50
Required Supplementary Information:		<b>STATISTICAL SECTION</b> .....	<b>51</b>
Schedule of Funding Progress .....	33	Asset Balances .....	52
Schedule of Employer Contributions .....	33	Liabilities and Reserve Balances .....	52
Notes to Required Supplementary Information .....	33	Number of Participants .....	52
Supplementary Financial Information:		Changes in Net Assets .....	53
Summary of Revenues by Source .....	34	Number of Recurring Benefit Payments/ Termination Refunds .....	54
Schedule of Payments to Consultants .....	34	Number on Active Payrolls .....	54
Summary Schedule of Cash Receipts and Disbursements .....	35	Active Retirees by State .....	54
<b>INVESTMENT SECTION</b> .....	<b>37</b>	Retirement Annuitants Statistics and Average Monthly Benefits .....	55
Investment Report .....	38	Annuitants by Benefit Range (Monthly) .....	55
Investment Portfolio Summary .....	41	Survivors by Benefit Range (Monthly) .....	55
Analysis of Investment Performance .....	42	Average Benefit Payments .....	56
Additional Investment Information .....	42	<b>PLAN SUMMARY AND LEGISLATIVE SECTION</b> ...	<b>57</b>

# INTRODUCTORY SECTION

# LETTER OF TRANSMITTAL



- 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  
General Assembly Retirement System,  
State of Illinois  
Springfield, IL 62794

Dear Board of Trustees and Members:

The comprehensive annual financial report (CAFR) of the General Assembly Retirement System, State 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 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, 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 report on investment activity, investment policies, investment results and various investment schedules;

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

5. The Statistical Section contains significant statistical data; and

6. The Plan Summary and Legislative Section contains 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, 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.

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

## PLAN HISTORY & SERVICES PROVIDED

The General Assembly Retirement System was established as a public employee retirement system (PERS) by state statute on July 1, 1947. As of June 30, 1948, the end of the System's first fiscal year of operations, there were a total of 190 participants and the plan net assets valued at cost amounted to approximately \$39,000. The fair value of plan net assets at the end of fiscal year 2012 amounted to approximately \$52.7 million, and there were 255 total active and inactive participants.

The mission of the System as prescribed by state statute is to "provide retirement annuities, survivors' annuities, and other benefits for members of the General Assembly, certain elected officials, and their beneficiaries."

## INVESTMENTS

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

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

The ISBI maintains a wide diversification of investments within this fund which is intended to reduce overall risk and increase returns. As further detailed in the Investment Section, the ISBI Commingled Fund earned 0.1%, 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 accumulated

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 statutorily required state contributions were \$10,502,000 and \$11,039,000, respectively. The total amount of contributions received from the state for fiscal years 2012 and 2011 was \$10,502,000 and \$11,047,010, respectively.

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 cost method at June 30, 2012, amounted to \$303.5 million. The actuarial value of assets amounted to \$56.1 million resulting in an unfunded accrued actuarial liability of \$247.4 million as of the same date. A detailed discussion of funding is provided in the Actuarial Section of this report.

## 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



# LETTER OF TRANSMITTAL

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 & Company, Chicago, Illinois. The System's investment function is managed by the Illinois State Board of Investment.

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.

## 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 General Assembly Retirement System 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 General Assembly Retirement System has received a Certificate of Achievement for the past twenty-three consecutive years (fiscal years ended June 30, 1989 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  
Executive Secretary



David M. Richter, CPA  
Accounting Division



## ADMINISTRATION



SENATOR  
James F. Clayborne, Jr.  
Chairman



REPRESENTATIVE  
David Harris



SENATOR  
William Brady



SENATOR  
Don Harmon



REPRESENTATIVE  
Karen May

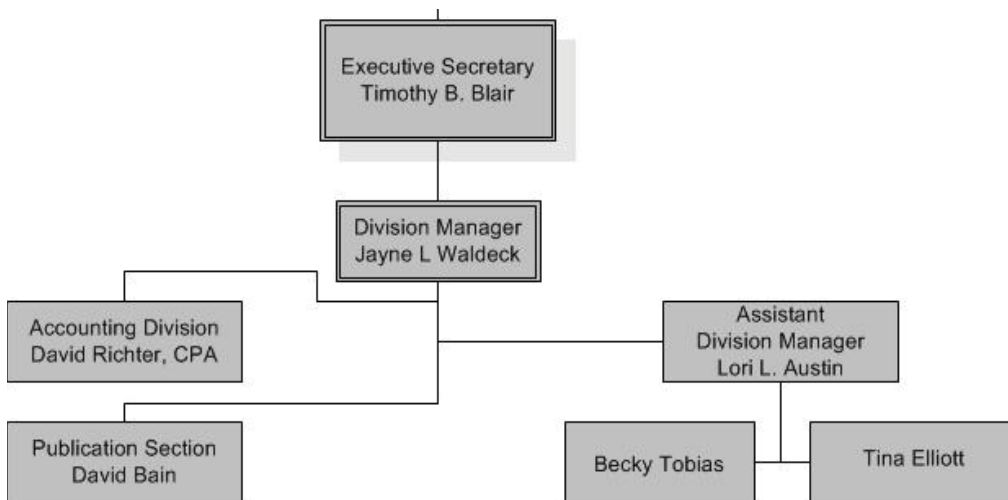


REPRESENTATIVE  
Elaine Nekritz



REPRESENTATIVE  
Philip W. Collins  
Retired Annuitant Member

## BOARD OF TRUSTEES



### *Advisors, Auditors, and Administrators*

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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

General Assembly  
Retirement System

State of Illinois

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2011

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



*Christopher P. Moynell*

President

*Jeffrey R. Emer*

Executive Director

# FINANCIAL SECTION



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

The Honorable William G. Holland  
Auditor General  
State of Illinois

and

Board of Trustees  
General Assembly 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 General Assembly 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 90 percent, 93 percent, and (.80) percent, respectively in 2012, and 93 percent, 95 percent, and 43 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.

experience **BKD**

**Praxity**<sup>™</sup>  
MEMBER  
GLOBAL ALLIANCE OF  
INDEPENDENT FIRMS

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 the 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 General Assembly 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 General Assembly Retirement System (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 176 active participants and 414 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 informa-

tion 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 supplementary 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 System's net assets decreased by approximately \$7.7 million and increased by approximately \$5.7 million during fiscal years 2012 and 2011, respectively. These changes were primarily due to a \$8.9 million decrease in cash and investments partially offset by a \$1.3 million increase in receivables during fiscal year 2012 and a \$5.7 million increase in investments (excluding securities lending collateral) during fiscal year 2011.

- The System was actuarially funded at 18.5% as of June 30, 2012 which is a decrease from 21.2% 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.

## 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 \$1.6 million and \$2.0 million for the years ended June 30, 2012 and 2011. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions decreased to \$10.5 million in 2012 from \$11.4 million in 2011. This decrease was primarily the result of a \$545 thousand decrease due to the State's funding plan and a \$387 thousand decrease due to fewer optional service credit purchases during fiscal year 2012.

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 thousands)

	As of June 30,			Increase/(Decrease) from	
	2012	2011	2010	2011 to 2012	2010 to 2011
Cash	\$ 2,481.3	\$ 3,102.3	\$ 3,099.4	\$ (621.0)	\$ 2.9
Receivables	1,341.5	30.7	50.0	1,310.8	(19.3)
Investments, at fair value *	50,410.1	58,616.4	52,781.6	(8,206.3)	5,834.8
Equipment, net	3.6	1.7	1.9	1.9	(0.2)
Total assets	<u>54,236.5</u>	<u>61,751.1</u>	<u>55,932.9</u>	<u>(7,514.6)</u>	<u>5,818.2</u>
Liabilities *	<u>1,492.6</u>	<u>1,356.2</u>	<u>1,241.8</u>	<u>136.4</u>	<u>114.4</u>
Total plan net assets	<u>\$ 52,743.9</u>	<u>\$ 60,394.9</u>	<u>\$ 54,691.1</u>	<u>\$ (7,651.0)</u>	<u>\$ 5,703.8</u>

\* Including securities lending collateral



## DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2012 and 2011, the System paid out \$19.4 million and \$17.7 million, respectively, in benefits and refunds, an increase of 9.3% from 2011. These higher payments were mainly due to an increase in the number of annuitants as well as a 3% automatic annuity increase paid each year. The administrative costs of the System represented 1.5% and 1.7% of total deductions in 2012 and 2011, respectively.

## FUNDED RATIO

The funded ratio of the plan measures the ratio of net 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 18.5% from 21.2% 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 \$247.4 million at June 30, 2012 compared to \$235.2 million at June 30, 2011.

## INVESTMENTS

Investments of the System are combined in a commingled investment pool with the Judges' Retirement

System and the State Employees' 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 Plan Net Assets of each retirement system.

The net investment income of the total ISBI Commingled Fund was approximately \$5.0 million during fiscal year 2012, versus \$2.0 billion during fiscal year 2011, resulting in returns of 0.1% and 21.7%, respectively. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as the result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three, five, and ten year period ended June 30, 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 General Assembly Retirement System, Accounting Division, 2101 S. Veterans Parkway, P. O. Box 19255, Springfield, Illinois 62794*

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 thousands)

	For the Year Ended June 30,			Increase/(Decrease) from	
	2012	2011	2010	2011 to 2012	2010 to 2011
<b>Additions</b>					
Participant contributions	\$ 1,622.7	\$ 2,006.2	\$ 1,680.6	\$ (383.5)	\$ 325.6
Employer contributions	10,502.0	11,433.6	10,411.3	(931.6)	1,022.3
Investment income/(loss)	(81.4)	10,291.4	4,770.5	(10,372.8)	5,520.9
Miscellaneous	-	10.0	-	(10.0)	10.0
Total additions/(deductions)	<u>12,043.3</u>	<u>23,741.2</u>	<u>16,862.4</u>	<u>(11,697.9)</u>	<u>6,878.8</u>
<b>Deductions</b>					
Benefits	19,246.9	17,676.8	16,769.0	1,570.1	907.8
Refunds	149.3	61.5	222.1	87.8	(160.6)
Administrative expenses	298.1	299.1	272.3	(1.0)	26.8
Total deductions	<u>19,694.3</u>	<u>18,037.4</u>	<u>17,263.4</u>	<u>1,656.9</u>	<u>774.0</u>
Net increase/(decrease) in plan net assets	<u>\$ (7,651.0)</u>	<u>\$ 5,703.8</u>	<u>\$ (401.0)</u>	<u>\$ (13,354.8)</u>	<u>\$ 6,104.8</u>



# FINANCIAL STATEMENTS

## GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Plan Net Assets

June 30, 2012 and 2011

	2012	2011
Assets		
Cash	\$ 2,481,335	\$ 3,102,265
Receivables:		
Employer contributions	1,312,740	-
Participants' contributions	21,073	29,207
Refundable annuities	6,682	-
Interest on cash balances	968	1,445
Total receivables	<u>1,341,463</u>	<u>30,652</u>
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	<u>49,025,145</u>	<u>57,346,442</u>
Securities lending collateral with State Treasurer	<u>1,385,000</u>	<u>1,270,000</u>
Equipment, net of accumulated depreciation	<u>3,610</u>	<u>1,757</u>
Total Assets	<u>54,236,553</u>	<u>61,751,116</u>
Liabilities		
Benefits payable	12,169	369
Refunds payable	1,861	-
Administrative expenses payable	27,643	30,316
Due to Judges' Retirement System of Illinois	65,961	55,523
Securities lending collateral	<u>1,385,000</u>	<u>1,270,000</u>
Total Liabilities	<u>1,492,634</u>	<u>1,356,208</u>
Net assets held in trust for pension benefits	<u>\$ 52,743,919</u>	<u>\$ 60,394,908</u>
<i>See accompanying notes to financial statements.</i>		

# FINANCIAL STATEMENTS

## GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

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

	2012	2011
<b>Additions:</b>		
Contributions:		
Participants	\$ 1,622,742	\$ 2,006,200
Employer	10,502,000	11,433,614
Total contributions	<u>12,124,742</u>	<u>13,439,814</u>
Investments:		
Net investment income	1,225,617	1,171,910
Interest earned on cash balances	14,849	20,869
Net appreciation (depreciation) in fair value of investments	<u>(1,321,914)</u>	<u>9,098,602</u>
Total investment income (loss)	<u>(81,448)</u>	<u>10,291,381</u>
Other:		
Miscellaneous	<u>-</u>	<u>10,000</u>
Total Additions	<u>12,043,294</u>	<u>23,741,195</u>
<b>Deductions:</b>		
Benefits:		
Retirement annuities	15,903,041	14,564,699
Survivors' annuities	<u>3,343,844</u>	<u>3,112,152</u>
Total benefits	19,246,885	17,676,851
Refunds of contributions	149,294	61,476
Administrative expenses	<u>298,104</u>	<u>299,116</u>
Total Deductions	<u>19,694,283</u>	<u>18,037,443</u>
Net Increase (Decrease)	<u>(7,650,989)</u>	<u>5,703,752</u>
Net assets held in trust for pension benefits:		
Beginning of year	<u>60,394,908</u>	<u>54,691,156</u>
End of year	<u>\$ 52,743,919</u>	<u>\$ 60,394,908</u>
<i>See accompanying notes to financial statements.</i>		

## GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE 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 statements to be misleading or incomplete.

The General Assembly Retirement System (System) is administered by a Board of Trustees consisting of seven persons, which include the President of the Senate, ex-officio, or his designee, two members of the Senate appointed by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants.

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.

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for

the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal years 2012 and 2011 were each less than \$41,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

### 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 participants. The plan is comprised of two tiers of contribution requirements and benefit levels. Tier 1 pertains to participants who first became a participant of the System prior to January 1, 2011. Tier 2 pertains to participants who first became a participant of the System on or after January 1, 2011.

#### a. Eligibility and Membership

The General Assembly Retirement System covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation by eligible persons is optional.

#### b. Contributions

In accordance with Chapter 40, Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities, and automatic annual increases as shown on the next page. Tier 1 participants contribute based on total annual compensation. Beginning January 1, 2011, Tier 2 participants contribute based on an annual compensation not to exceed \$106,800 with limitations for future years increased by the lesser of 3% or the annual percentage increase in the Consumer Price Index. Contributions are excluded from gross income for Federal and State income tax purposes.

The statutes governing the General Assembly Retirement System provide for optional contributions by participants, with interest

At June 30, 2012 and 2011, the System membership consisted of:

	2012	2011
Retirees and beneficiaries		
currently receiving benefits:		
Retirement annuities	294	291
Survivors' annuities	119	118
Reversionary annuities	<u>1</u>	<u>1</u>
	414	410
Inactive participants entitled to benefits		
but not yet receiving them	<u>79</u>	<u>86</u>
Total	<u>493</u>	<u>496</u>
Current participants:		
Vested	121	128
Nonvested	<u>55</u>	<u>52</u>
Total	<u>176</u>	<u>180</u>

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

The total contribution rate is 11.5% as shown below:

8.5%	Retirement annuity
2.0%	Survivors' annuity
1.0%	Automatic annual increases
11.5%	

at prescribed rates, to retroactively establish service credits for periods of prior creditable service.

The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Chapter 40, Article 5/2 of the Illinois Compiled Statutes.

### c. Benefits

#### Retirement Annuity: Tier 1

Participants have vested rights to full retirement benefits beginning at age 55 with at least 8 years of credited service or at age 62 with at least 4 years of credited service.

The retirement annuity is determined according to the following formula based upon the applicable final salary:

- 3.0% for each of the first 4 years of service
- 3.5% for each of the next 2 years of service
- 4.0% for each of the next 2 years of service
- 4.5% for each of the next 4 years of service
- 5.0% for each year of service in excess of 12 years.

The maximum retirement annuity is 85% of the applicable final salary. Annual automatic increases of 3% of the current amount of retirement annuity are provided.

#### Retirement Annuity: Tier 2

Participants have vested rights to full retirement benefits at age 67 with at least 8 years of credited service or reduced retirement benefits at age 62 with at least 8 years of credited service.

The retirement annuity provided is 3% for each year of service based upon the applicable final average salary. The maximum retirement annuity is 60% of the applicable final average salary. Annual automatic increases equal to the lesser of 3% or the annual change in the Consumer Price Index are provided.

### Other Benefits:

The General Assembly Retirement System also provides survivors' annuity benefits, reversionary annuity benefits, and under certain specified conditions, lump-sum death benefits.

Participants who terminate service may receive, upon application, a refund of their total contributions. Participants who are not married are entitled to refunds of their contributions for survivors.

## 3. Summary of Significant Accounting Policies and 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.

Participant 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. 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.

## e. 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; and (5) Alternative Investments (Private Equity, Hedge Funds, 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.

## f. 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.

## g. 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.

For fiscal year 2012, administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are allocated 25% to the General Assembly Retirement System and 75% to the Judges' Retirement System. For fiscal year 2011, administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are allocated 30% to the General Assembly Retirement System and 70% to the Judges' Retirement System.

Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and the appropriate amount is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2012 and 2011, were \$224,439 and \$226,995, respectively.

## h. 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 three fiscal years.

## 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)
<b>Total investments</b>	<b><u>\$11,257,803,766</u></b>	<b><u>\$11,498,251,354</u></b>

### 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	-
	<u>\$171,546,801</u>	<u>\$110,569,600</u>

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.



## FINANCIAL STATEMENTS

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	\$ 958,072,566	\$ 1,355,098,991
	AA	3,054,072	-
	Not Rated	4,641	11,999,760
Total U.S. govt. and agency obligations		<u>\$ 958,131,279</u>	<u>\$ 1,367,098,751</u>
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		<u>\$ 385,628,617</u>
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		<u>\$ 149,245,144</u>
Collateralized Mortgage Obligations	AAA	\$ 1,076,456	\$ 10,711,049
	Not Rated	-	2,781,477
Total Collateralized Mortgage Obligations		<u>\$ 1,076,456</u>	<u>\$ 13,492,526</u>
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		<u>\$ 412,232,690</u>	<u>\$ 425,847,041</u>
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		<u>\$ 94,423,373</u>	<u>\$ 118,885,238</u>
Total Corporate Obligations		<u>\$ 656,977,663</u>	<u>\$ 762,833,382</u>
Money Market	Not Rated	\$ 255,922,180	\$ 303,501,465
Total Money Market		<u>\$ 255,922,180</u>	<u>\$ 303,501,465</u>

## FINANCIAL STATEMENTS

### 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.

Investment Type	2012		2011	
	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	<u>\$ 2,000,737,559</u>		<u>\$ 2,167,883,902</u>	

## FINANCIAL STATEMENTS

### Foreign Currency Risk

The ISBI's international portfolio is constructed on the principles of diversification, quality growth, and value. Risk of loss arises from changes in currency exchange rates. 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.

Currency	2012		2011	
	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	<u>\$ 2,013,366,729</u>	<u>\$ 385,628,617</u>	<u>\$ 2,195,241,217</u>	<u>\$ 37,951,769</u>

## 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 \$1,385,000 and \$1,270,000, 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.

## FINANCIAL STATEMENTS

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
	<u>\$ (8,138,935)</u>	<u>\$ 2,278,820</u>	<u>\$ 71,474,175</u>	<u>\$ 66,583,325</u>	<u>(8,873,044)</u>	<u>6,239,120</u>

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.



## FINANCIAL STATEMENTS

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:

Moody's Rating	2012			2011		
	Fair Value	Net Exposure	Percentage of Net Exposure	Fair Value	Net Exposure	Percentage 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%	-	-	-
	<u>\$ 390,759</u>	<u>\$ 390,759</u>	<u>100.00%</u>	<u>\$ 2,736,206</u>	<u>\$ 2,736,206</u>	<u>100.00%</u>

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

Currency	2012				2011			
	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	-
	<u>\$ (43,859)</u>	<u>\$ 30,249</u>	<u>\$ 68,676,781</u>	<u>\$ 2,806,363</u>	<u>\$ (353)</u>	<u>\$ 162,133</u>	<u>\$ 66,421,545</u>	<u>\$ -</u>



## Other Information

The System owns approximately 1% 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. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 2012 and 2011 are listed below.

### Administrative expenses for fiscal years 2012 and 2011

	2012	2011
Personal services	\$122,061	\$ 131,342
Employee retirement contributions paid by employer	2,194	3,330
Employer retirement contributions	41,758	36,776
Social security contributions	9,039	9,765
Group insurance	27,827	24,664
Contractual services	91,533	84,630
Travel	252	565
Printing	1,750	1,660
Commodities	238	322
Telecommunications	902	1,155
Information technology	2,335	1,087
Automotive	957	848
Depreciation	705	444
Change in accrued compensated absences	(3,507)	2,528
Loss on disposal of equipment	60	-
<b>Total</b>	<b><u>\$298,104</u></b>	<b><u>\$ 299,116</u></b>

## 6. 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 amount.

For fiscal years 2012 and 2011, the required employer contribution 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 provides 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 total amount of statutorily required employer contributions for fiscal years 2012 and 2011 was \$10,502,000 and \$11,039,000, respectively. The total amount of employer contributions received from the state during fiscal years 2012 and 2011 was \$10,502,000 and \$11,047,010, respectively.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents 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 listed 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)
\$56,090,081	\$303,469,263	\$247,379,182	18.5%	\$15,275,000	1,619.5%

Additional information as of the latest actuarial valuation is as follows.

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:	7.0 percent per year, compounded annually
Projected salary increases:	4.0 percent per year (consisting of an inflation component of 3.0% per year and a seniority/ merit component of 1.0% per year), compounded annually
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 the annual change in the Consumer Price Index, whichever is less, compounded annually

Mortality Rates:  
Active and retired members: The UP-1994 Mortality Table for Males, rated down 4 years.  
Survivors: The UP-1994 Mortality Table for Females, rated down 1 year.

## 7. Pension Plan & Other Post-Employment Benefits

**Plan Description.** All of the System's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity.

The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems.

The financial position and results of operations of the SERS for fiscal years 2012 and 2011 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2012 and 2011, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling 217-785-7202.

The State of Illinois' CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois, 62704-1858 or by calling 217-782-2053.

A summary of SERS' 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 SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

**Funding Policy.** 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 \$41,758, \$36,776 and \$33,883, respectively, and were equal to the required contributions for each fiscal year.

**Other Post-Employment Benefits.** 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 Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits.

However, Public Act 97-0695, effective June 30, 2012, alters the contributions to be paid by the State, annuitants, survivors and retired employees under the State Employees 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 Ave., Springfield, Illinois, 62763-3838.

## 8. Analysis of Changes in Reserve Balances

The funded statutory reserves of the General Assembly Retirement System are composed of the following:

### a. Reserve for Participants' Contributions

This reserve consists of participants' accumulated contributions for retirement annuities, survivors' annuities and automatic annual increases.

### b. Reserve for Future Operations

This reserve is the balance remaining in the General Assembly Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the General Assembly Retirement System.

## 9. Accrued Compensation Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2012 and 2011 total \$19,872 and \$23,379, respectively and are included in administrative expenses payable.

**Statements of Changes in Reserve Balances  
Years Ended June 30, 2012 and 2011**

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2010	\$ 17,746,754	\$ 36,944,402	\$ 54,691,156
Add (deduct):			
Excess of revenues over expenses	2,331,328	3,372,424	5,703,752
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	<u>(2,711,851)</u>	<u>2,711,851</u>	<u>-</u>
Balance at June 30, 2011	\$ 17,366,231	\$ 43,028,677	\$ 60,394,908
Add (deduct):			
Excess of revenues over (under) expenses	1,473,448	(9,124,437)	(7,650,989)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	<u>(1,467,945)</u>	<u>1,467,945</u>	<u>-</u>
Balance at June 30, 2012	<u>\$ 17,371,734</u>	<u>\$ 35,372,185</u>	<u>\$ 52,743,919</u>

### 10. 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, and (3) certain electronic data processing equipment - 3 years.

### 11. 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 stan-

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.

#### Summary of the changes in equipment for fiscal years 2012 and 2011

	Beginning Balance	2012		Ending Balance
		Additions	Deletions	
Equipment	\$ 19,118	\$ 2,618	\$ (6,181)	\$ 15,555
Accumulated depreciation	(17,361)	(705)	6,121	(11,945)
Equipment, net	<u>\$ 1,757</u>	<u>\$ 1,913</u>	<u>\$ (60)</u>	<u>\$ 3,610</u>
		2011		
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 20,843	\$ 334	\$ (2,059)	\$ 19,118
Accumulated depreciation	(18,976)	(444)	2,059	(17,361)
Equipment, net	<u>\$ 1,867</u>	<u>\$ (110)</u>	<u>\$ -</u>	<u>\$ 1,757</u>

## REQUIRED SUPPLEMENTARY INFORMATION

### 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 of Covered Payroll ([b-a]/c)
6/30/07	\$ 87,182,175	\$ 231,913,988	\$ 144,731,813	37.6%	\$ 12,701,000	1,139.5%
6/30/08	75,405,943	235,780,071	160,374,128	32.0	12,871,000	1,246.0
6/30/09	71,573,865	245,226,299	173,652,434	29.2	14,728,000	1,179.1
6/30/10	66,212,244	251,764,834	185,552,590	26.3	14,775,000	1,255.9
6/30/11	63,161,047	298,408,371	235,247,324	21.2	15,188,000	1,548.9
6/30/12	56,090,081	303,469,263	247,379,182	18.5	15,275,000	1,619.5

*\* 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	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2007	10,125,503	51.6	5,220,300	100.0
2008	10,672,535	63.8	6,809,800	100.0
2009	11,129,440	79.5	8,847,000	100.0
2010	12,064,078	86.3	10,454,000	99.6
2011	13,086,199	84.4	11,039,000	100.1
2012	13,365,820	78.6	10,502,000	100.0

### 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: 7.0 percent per year, compounded annually

Projected salary increases: 4.0 percent per year (consisting of an inflation component of 3.0% per year and a seniority/merit component of 1.0% per year), compounded annually

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 the annual change in the Consumer Price Index, whichever is less, compounded annually

Mortality Rates:

Active and retired members: The UP-1994 Mortality Table for Males, rated down 4 years.

Survivors: The UP-1994 Mortality Table for Females, rated down 1 year.

SUPPLEMENTARY FINANCIAL INFORMATION

SUMMARY OF REVENUES BY SOURCE  
Years Ended June 30, 2012 and 2011

	2012	2011
Contributions:		
Participants:		
Participants	\$ 1,568,759	\$ 1,865,542
Interest paid by participants	32,093	140,658
Repayment of refunds	21,890	-
Total participant contributions	<u>1,622,742</u>	<u>2,006,200</u>
Employer:		
Pension Contribution Fund	-	9,037,344
General Revenue Fund	10,502,000	2,009,666
Paid by participants	-	386,604
Total employer contributions	<u>10,502,000</u>	<u>11,433,614</u>
Total contributions revenue	<u>12,124,742</u>	<u>13,439,814</u>
Investments:		
Net investment income	1,225,617	1,171,910
Interest earned on cash balances	14,849	20,869
Net appreciation (depreciation) in fair value of investments	<u>(1,321,914)</u>	<u>9,098,602</u>
Total investment revenue (loss)	<u>(81,448)</u>	<u>10,291,381</u>
Other:		
Miscellaneous	-	10,000
Total revenues	<u>\$ 12,043,294</u>	<u>\$ 23,741,195</u>

SCHEDULE OF PAYMENTS TO CONSULTANTS  
Years Ended June 30, 2012 and 2011

	2012	2011
Actuary	\$24,000	\$29,000
Audit fees	39,975	26,205
Legal Services	518	-
Medical services	779	-
Total	<u>\$65,272</u>	<u>\$55,205</u>



SUPPLEMENTARY FINANCIAL INFORMATION

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS  
 Years Ended June 30, 2012 and 2011

	2012	2011
Cash balance, beginning of year	\$ 3,102,265	\$ 3,099,436
Receipts:		
Participant contributions	1,566,217	1,792,003
Employer contributions:		
Pension Contribution Fund	-	9,037,344
General Revenue Fund	9,189,260	2,009,666
Paid by participants	-	139,115
Interest income on cash balances	15,326	21,876
After-tax installment payments	-	228,632
Tax-deferred installment payments	11,744	223,051
Cancellation of annuities	16,190	18,716
Repayment of refunds	52,915	27,938
Transfers from Illinois State Board of Investment	8,225,000	13,600,000
Miscellaneous	70	10,000
Total cash receipts	<u>19,076,722</u>	<u>27,108,341</u>
Disbursements:		
Benefit payments:		
Retirement annuities	15,910,304	14,570,770
Survivors' annuities	3,347,653	3,119,214
Refunds	147,434	72,293
Transfer to Illinois State Board of Investment	-	9,037,344
Administrative expenses	292,261	305,891
Total cash disbursements	<u>19,697,652</u>	<u>27,105,512</u>
Cash balance, end of year	<u>\$ 2,481,335</u>	<u>\$ 3,102,265</u>

This page is intentionally left blank

# 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 General Assembly Retirement System, the ISBI also manages the investment function for the Judges' and State Employees' 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, \$49.0 million or approximately 1% represented assets of the General Assembly 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 39.

## INVESTMENT SECTION

	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	-
<b>Total</b>	<b>100%</b>	<b>100%</b>

### 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

### 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.

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

### 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.

### 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 negative 14.4%, 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)%
MSCI-EAFE Index	(14.4)	7.8	(4.0)

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)

### 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%.



## INVESTMENT SECTION

### 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
	<u>11,257,803,766</u>	<u>99.77</u>	<u>11,498,251,354</u>	<u>99.75</u>
Other Assets, Less Liabilities	26,132,919	.23	29,373,670	0.25
Net Assets, at Fair Value	<u>\$ 11,283,936,685</u>	<u>100.0%</u>	<u>\$ 11,527,625,024</u>	<u>100.00%</u>

## INVESTMENT SECTION

### 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	7.0%		8.0%		
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	Percentage
Balance at beginning of year,				
at fair value	\$ 57,346,442	\$ 51,638,586	\$ 5,707,856	11.1%
Cash transferred (from) ISBI, net	(8,225,000)	(4,562,656)	(3,662,344)	(80.3)
Net ISBI investment revenue:				
ISBI Commingled Fund income	1,391,187	1,355,661	35,526	2.6
Less ISBI expenses	(165,570)	(183,751)	18,181	9.9
Net ISBI investment income	1,225,617	1,171,910	53,707	4.6
Net appreciation (depreciation) in				
fair value of ISBI investments	(1,321,914)	9,098,602	(10,420,516)	(114.5)
Net ISBI investment revenue (loss)	(96,297)	10,270,512	(10,366,809)	(100.9)
Balance at end of year, at fair value	\$ 49,025,145	\$ 57,346,442	\$ (8,321,297)	(14.5)%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2012 was \$14,849 compared to \$20,869 during FY 2011.

# ACTUARIAL SECTION



Gabriel Roeder Smith & Company  
Consultants & Actuaries

20 North Clark Street  
Suite 2400  
Chicago, IL 60602-5111

312.456.9800 phone  
312.456.9801 fax  
www.gabrielroeder.com

October 26, 2012

Board of Trustees and Executive Secretary  
General Assembly 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 General Assembly Retirement System of Illinois ("GARS") as of June 30, 2012. This valuation has been performed to measure the funding status of the System 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 5/2-124(c). Contribution rates are determined according to P.A. 93-0589 reflecting the infusion of the proceeds from the sale of general obligation bonds. The contribution rates reflect the impact of P.A. 96-0889, which created a second tier for future members of GARS 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.

	<b>Total</b>
Required Rate	95.461%
Required Contribution	13,856,000

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.

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.

**Gabriel Roeder Smith & Company**

# ACTUARY'S CERTIFICATION LETTER

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

For the actuarial valuation as of June 30, 2012, the assumed rate of return used to discount liabilities and project assets was 7.0 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 GARS as of June 30, 2012. We prepared the accompanying Summary of Actuarial Cost Method and Major Actuarial Assumptions, but the GARS 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, FSA, EA, MAAA  
Senior Consultant

By:   
David Kausch, FSA, EA, MAAA  
Senior Consultant

I:\c3320\_gars\2012\valuation\_fye2012\certification\certification2012\_electronicletterhead.doc

**Gabriel Roeder Smith & Company**

## INTRODUCTION

Annually, the System's actuarial consultants perform 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 employers' contribution amount, together with participants' 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 requirements, pursuant to Chapter 40, Section 5/2-146 of the Illinois Compiled Statutes.

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 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 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.

The total amount of statutorily required employer contributions for fiscal years 2012 and 2011 was \$10,502,000 and \$11,039,000, respectively. The total amount of employer contributions received from the state during fiscal years 2012 and 2011 was \$10,502,000 and \$11,047,010, respectively.

## ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The System utilizes the projected unit credit actuarial cost method. Under this method, the actuarial liability is the actuarial present value or that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. The normal cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement.

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



## ACTUARIAL SECTION

A description of the actuarial assumptions utilized for fiscal years 2012 and 2011 follows:

**Dates of Adoption:** The Projected Unit Credit Actuarial Cost Method was adopted June 30, 1987; 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.

**Mortality Rates:** Active and retired members: The UP-1994 Mortality Table for Males, rated down 4 years. Survivors: The UP-1994 Mortality Table for Females, rated down 1 year. No adjustment is made for post-disabled mortality. The mortality table used is a static table with no provision for future mortality improvement.

**Salary Increase:** A salary increase assumption of 4.0% per year (consisting of an annual inflation component of 3.0% per year and a seniority/merit component of 1.0% per year), compounded annually, was used. In determining total covered payroll, the size of the active group is assumed to remain constant.

**Interest Rate:** An interest rate assumption of 7.0% per year, compounded annually, was used.

**Marital Status:** It was assumed that 75% of active participants are married. Actual marital status at benefit commencement is used for retirees.

**Spouse's Age:** The age of the spouse was assumed to be 4 years younger than the age of the participant/retiree.

**Termination Rates:** Termination rates based on the recent experience of the System were used. The following is a sample of the termination rates that were used:

Age	Rate of Termination
20 - 65	.040

It is assumed that terminated participants will not be rehired. The rates apply only to participants who have not fulfilled the service requirement necessary for retirement at any given age.

**Disability Rates:** Disability rates based on the recent experience of the System as well as on published disability rate tables were used. The following is a sample of the disability rates that were used:

Age	Rate of Disability	Age	Rate of Disability
25	.0006	40	.0008
30	.0006	45	.0012
35	.0006	50	.0017
		55	.0000

**Retirement Rates:** Tier 1 rates of retirement for each age from 55 to 80 and Tier 2 rates of retirement for each age from 62 to 80, based on the recent experience of the System, were used. The following are the rates of retirement that were used:

Tier 1		Tier 2	
Age	Rate of Retirement	Age	Rate of Retirement
55	.100	62	.400
56-79	.085	63	.150
80	1.000	64	.200
		65	.250
		66	.300
		67	.400
		68-79	.050
		80	1.000

The retirement rates are equivalent to an average retirement age of approximately 64.3 for Tier 1 and 68.1 for Tier 2.

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

**NOTE:** The System retained the services of a new actuary for the fiscal year ended June 30, 2012. The actuarial assumptions have been recommended by the actuary and adopted by the System's Board of Trustees, at the dates indicated previously.

## ACTUARIAL SECTION

### SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Number	Active Members		
		Annual Payroll	Annual Average Pay	% Increase/(Decrease) In Average Pay
2003	182	\$12,638,000	\$ 69,440	4.0%
2004	181	12,993,000	71,785	3.4%
2005	182	12,851,000	70,610	(1.6)%
2006	182	12,739,000	69,995	(0.9)%
2007	182	12,701,000	69,786	(0.3)%
2008	182	12,871,000	70,720	1.3%
2009	181	14,728,000	81,370	15.1%
2010	182	14,775,000	81,181	(0.2)%
2011	180	15,188,000	84,378	3.9%
2012	176	15,275,000	86,790	2.9%

### SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

Please 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.

### 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 and inactive participant contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active and inactive participants. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active and inactive participants (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

### COMPUTED ACTUARIAL VALUES

Fiscal Year	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
	(1)	(2)	(3)	Actuarial Value of Assets *	(1)	(2)	(3)
	Active and Inactive Participant Contributions	Retirement and Survivor Annuities	Active and Inactive Participants (Employer Financed Portion)				
2003	\$ 14,631,496	\$ 124,991,226	\$ 56,887,345	\$ 49,676,302	100.0%	28.0%	0.0%
2004	14,952,319	136,267,303	56,373,070	83,208,002	100.0	50.1	0.0
2005	15,061,845	143,516,668	54,327,141	83,273,042	100.0	47.5	0.0
2006	15,417,924	155,534,185	50,761,191	82,254,832	100.0	43.0	0.0
2007	15,994,185	162,006,322	53,913,481	87,182,175	100.0	43.9	0.0
2008	16,766,150	167,065,987	51,947,934	75,405,943	100.0	35.1	0.0
2009	16,875,510	174,259,645	54,091,144	71,573,865	100.0	31.4	0.0
2010	17,746,754	179,696,573	54,321,507	66,212,244	100.0	27.0	0.0
2011	17,366,231	218,660,407	62,381,733	63,161,047	100.0	20.9	0.0
2012	17,371,734	228,860,428	57,237,101	56,090,081	100.0	16.9	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.

## ACTUARIAL SECTION

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

Fiscal Year	Annuitants				Survivors*				Total
	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	
2003	227	31	4	254	126	6	3	129	383
2004	254	19	14	259	129	12	3	138	397
2005	259	16	12	263	138	9	13	134	397
2006	263	12	8	267	134	5	11	128	395
2007	267	15	10	272	128	6	7	127	399
2008	272	12	15	269	127	8	9	126	395
2009	269	16	10	275	126	7	7	126	401
2010	275	9	6	278	126	3	9	120	398
2011	278	22	9	291	120	7	8	119	410
2012	291	15	12	294	119	9	8	120	414

\*Includes reversionary annuities

### 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 participant 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.

Fiscal Year	Total Actuarial Liability	Actuarial Value of Assets *	Actuarial Value of Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Annual Covered Payroll
2003	196,510,067	49,676,302	25.3%	146,833,765	12,638,000	1,161.8%
2004	207,592,692	83,208,002	40.1%	124,384,690	12,993,000	957.3%
2005	212,905,654	83,273,042	39.1%	129,632,612	12,851,000	1,008.7%
2006	221,713,300	82,254,832	37.1%	139,458,468	12,739,000	1,094.7%
2007	231,913,988	87,182,175	37.6%	144,731,813	12,701,000	1,139.5%
2008	235,780,071	75,405,943	32.0%	160,374,128	12,871,000	1,246.0%
2009	245,226,299	71,573,865	29.2%	173,652,434	14,728,000	1,179.1%
2010	251,764,834	66,212,244	26.3%	185,552,590	14,775,000	1,255.9%
2011	298,408,371	63,161,047	21.2%	235,247,324	15,188,000	1,548.9%
2012	303,469,263	56,090,081	18.5%	247,379,182	15,275,000	1,619.5%

\* 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.

## ACTUARIAL SECTION

### VALUATION RESULTS

Actuarial Liability:	June 30, 2012	June 30, 2011
For Active Participants:		
Pension benefits	\$ 34,708,558	\$ 30,752,064
Cost-of-living adjustments	11,892,148	10,086,782
Death benefits	1,929,634	-
Pre-retirement survivors' annuity	-	2,820,096
Post-retirement survivors' annuity	-	3,502,741
Withdrawal benefits	3,688,794	5,492,580
Disability benefits	222,617	263,743
Total	<u>52,441,751</u>	<u>52,918,006</u>
For Participants Receiving Benefits:		
Retirement annuities	199,338,967	190,150,001
Survivor annuities	29,521,461	28,510,406
Total	<u>228,860,428</u>	<u>218,660,407</u>
For Inactive Participants	<u>22,167,084</u>	<u>26,829,958</u>
Total Actuarial Liability	<u>303,469,263</u>	<u>298,408,371</u>
Actuarial Value of Assets	<u>56,090,081</u>	<u>63,161,047</u>
Unfunded Actuarial Liability	<u>\$ 247,379,182</u>	<u>\$ 235,247,324</u>

### RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 2012	FY 2011
Unfunded actuarial liability at beginning of fiscal year	<u>\$ 235,247,324</u>	<u>\$ 185,552,590</u>
Contributions due	21,360,828	17,054,779
Contributions paid	<u>12,541,931</u>	<u>11,433,614</u>
Increase in unfunded liability due contributions due being less than contributions paid	8,818,897	5,621,165
Increase in unfunded liability due to investment return lower than assumed	3,662,246	3,577,042
Decrease in unfunded liability due to salary increases lower than assumed	(1,912,815)	(1,718,437)
Increase in unfunded liability due to salary increases for inactive members	-	6,514,624
Increase in unfunded liability due to change in actuarial assumptions	-	35,809,167
Decrease in unfunded liability due to new actuary	(1,347,772)	-
Increase/(decrease) in unfunded liability due to other sources	<u>2,911,302</u>	<u>(108,827)</u>
Total Actuarial Losses	<u>3,312,961</u>	<u>44,073,569</u>
Net Increase in unfunded liability for the year	<u>12,131,858</u>	<u>49,694,734</u>
Unfunded actuarial liability at end of fiscal year	<u>\$ 247,379,182</u>	<u>\$ 235,247,324</u>

# STATISTICAL SECTION

*The tables in this section present historical financial information as well as certain historical demographic information pertaining to participants and benefit recipients.*

***Financial Schedules:***

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

Asset Balances: page 52

Liabilities & Reserve Balances: page 52

Changes in Net Assets: page 53

***Participant Demographic Schedules:***

These schedules present certain information pertaining to active and inactive participants over a 10-year period.

Number of Participants: page 52

Number on Active Payrolls: page 54

***Benefit Recipient Demographic Schedules:***

These schedules present certain information pertaining to benefit recipients, benefit types, average monthly benefits, ranges of monthly benefits, and location of retirees.

Number of Recurring Benefit Payments/  
Termination Refunds: page 54

Active Retirees by State: page 54

Retirement Annuitant Statistics and  
Average Monthly Benefits: page 55

Annuitants and Survivors by Monthly  
Benefit Range Amount: page 55

Schedule of Average Benefit Payments:  
page 56

## STATISTICAL SECTION

### ASSET BALANCES

Fiscal Year Ended June 30	Cash	Receivables	Investments	Securities lending collateral with State Treasurer	Fixed Assets Net of Accumulated Depreciation	Total
2003	\$ 1,614,768	\$ 791,696	\$ 47,386,171	\$ -	\$ 1,546	\$ 49,794,181
2004	2,029,406	4,344	81,287,682	-	947	83,322,379
2005	2,220,504	375,087	80,772,801	-	2,033	83,370,425
2006	3,314,237	28,197	79,016,741	-	2,737	82,361,912
2007	3,234,905	145,554	83,864,942	-	1,945	87,247,346
2008	2,823,304	732,349	71,923,943	-	2,128	75,481,724
2009	3,705,657	3,777,472	47,693,753	-	1,695	55,178,577
2010	3,099,436	50,015	51,638,586	1,143,000	1,867	55,932,904
2011	3,102,265	30,652	57,346,442	1,270,000	1,757	61,751,116
2012	2,481,335	1,341,463	49,025,145	1,385,000	3,610	54,236,553

### LIABILITIES AND RESERVE BALANCES

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Future Operations	Total
2003	\$ 117,879	\$ 14,631,496	\$ 35,044,806	\$ 49,794,181
2004	114,377	14,952,319	68,255,683	83,322,379
2005	97,383	15,061,845	68,211,197	83,370,425
2006	107,080	15,417,924	66,836,908	82,361,912
2007	65,171	15,994,185	71,187,990	87,247,346
2008	75,781	16,766,150	58,639,793	75,481,724
2009	86,452	16,875,510	38,216,615	55,178,577
2010	1,241,748	17,746,754	36,944,402	55,932,904
2011	1,356,208	17,366,231	43,028,677	61,751,116
2012	1,492,634	17,371,734	35,372,185	54,236,553

### NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
2003	182	113	295
2004	181	99	280
2005	182	93	275
2006	182	83	265
2007	182	85	267
2008	182	75	257
2009	181	78	259
2010	182	73	255
2011	180	86	266
2012	176	79	255



CHANGES IN NET ASSETS

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Additions</b>										
Participant contributions	\$ 1,954,169	\$ 1,596,695	\$ 1,451,282	\$ 1,491,811	\$ 1,703,344	\$ 1,772,860	\$ 1,697,575	\$ 1,680,603	\$ 2,006,200	\$ 1,622,742
Employer Contributions:										
State of Illinois	5,163,000	32,863,983	4,675,000	4,157,000	5,220,300	6,809,800	8,847,000	10,411,274	11,047,010	10,502,000
Other sources	270,781	87,771	-	18,390	250,129	-	9,422	-	386,604	-
Total employer contributions	5,433,781	32,951,754	4,675,000	4,175,390	5,470,429	6,809,800	8,856,422	10,411,274	11,433,614	10,502,000
Net investment income/(loss)	(233,094)	11,851,709	7,642,461	7,872,989	12,990,985	(4,708,297)	(14,662,285)	4,770,533	10,291,381	(81,448)
Miscellaneous	-	-	-	-	-	-	-	-	10,000	-
Total additions to/(deduction from) plan net assets	7,154,856	46,400,158	13,768,743	13,540,190	20,164,758	3,874,363	(4,108,288)	16,862,410	23,741,195	12,043,294
<b>Deductions</b>										
Benefit Payments:										
Retirement annuities	9,199,794	10,299,820	10,953,940	11,623,511	12,180,739	12,653,183	13,020,316	13,770,131	14,564,699	15,903,041
Survivors' annuities	1,971,683	2,166,151	2,409,402	2,442,249	2,538,553	2,605,438	2,836,903	2,998,901	3,112,152	3,343,844
Total benefit payments	11,131,477	12,465,971	13,363,342	14,065,760	14,719,292	15,258,621	15,857,219	16,769,032	17,676,851	19,246,885
Refunds:										
Termination	21,523	-	9,072	22,639	273,748	12,290	5,494	38,465	43,842	31,604
Other	85,190	97,835	14,128	165,278	24,042	135,514	66,095	183,629	17,634	117,690
Total refunds	106,713	97,835	23,200	187,917	297,790	147,804	71,589	222,094	61,476	149,294
Administrative expenses	290,891	304,652	317,161	304,723	220,333	244,170	276,722	272,253	299,116	298,104
Total deductions from plan net assets	11,529,121	12,868,458	13,703,703	14,558,400	15,237,415	15,650,595	16,205,530	17,263,379	18,037,443	19,694,283
<b>Change in net assets</b>	\$ (4,374,265)	\$ 33,531,700	\$ 65,040	\$ (1,018,210)	\$ 4,927,343	\$ (11,776,232)	\$ (20,313,818)	\$ (400,969)	\$ 5,703,752	\$ (7,650,989)

# STATISTICAL SECTION

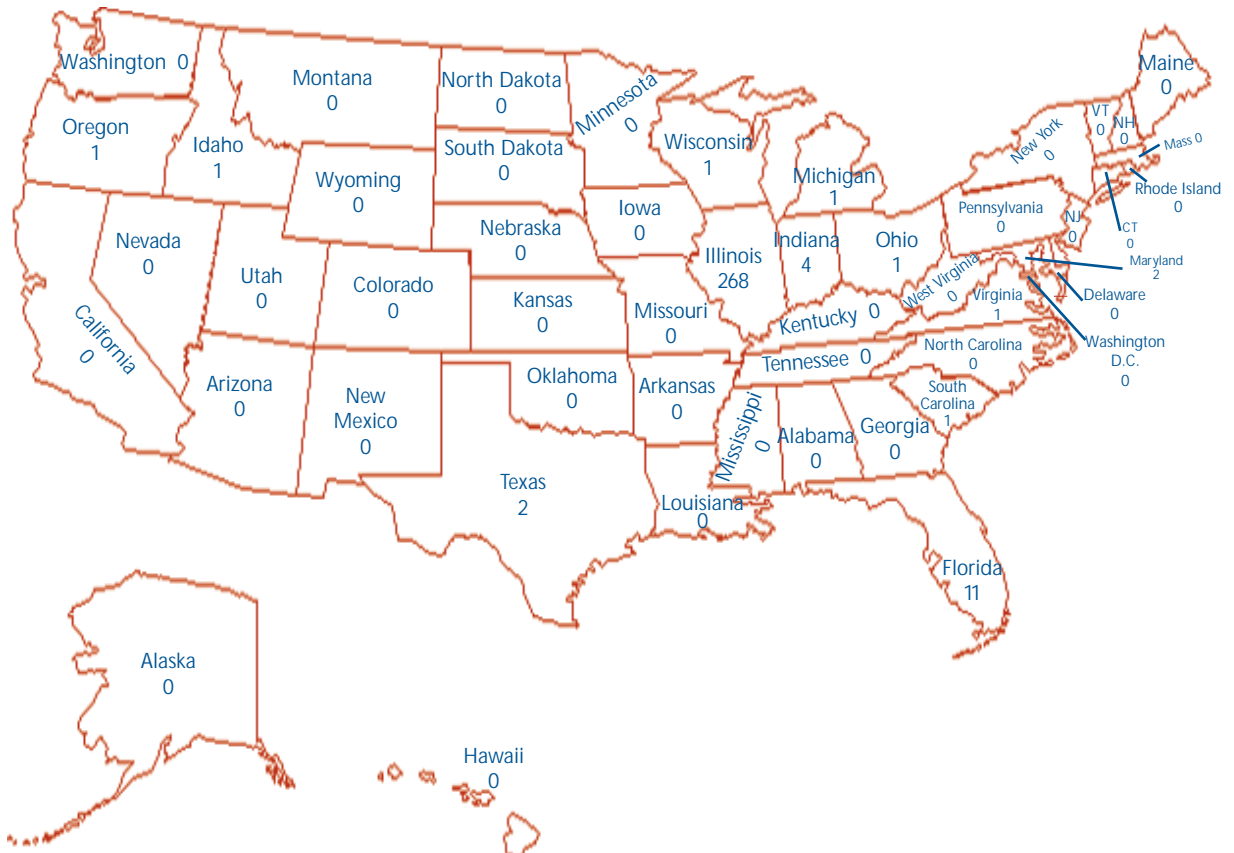
## NUMBER OF RECURRING BENEFIT PAYMENTS / TERMINATION REFUNDS

At June 30	Retirement Annuities	Survivors' Annuities	Reversionary Annuities	Total Recurring Benefit Payments	Termination Refunds
2003	254	126	3	383	5
2004	259	136	2	397	-
2005	263	132	2	397	1
2006	267	126	2	395	2
2007	272	125	2	399	4
2008	269	125	1	395	1
2009	275	125	1	401	2
2010	278	119	1	398	2
2011	291	118	1	410	1
2012	294	119	1	414	2

## NUMBER ON ACTIVE PAYROLLS

At June 30	Elected State Officers	House Members	Senate Members	Miscellaneous	Total
2003	6	118	59	-	183
2004	6	118	59	-	183
2005	6	118	59	-	183
2006	6	118	59	-	183
2007	6	118	59	-	183
2008	6	118	59	-	183
2009	5	118	59	-	182
2010	5	118	59	1	183
2011	6	119	59	1	185
2012	6	118	59	1	184

### ACTIVE RETIREES BY STATE



# STATISTICAL SECTION

## RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

At Retirement				
Fiscal Year Ended June 30	Average Age	Average Length of Service *	Average Current Age	Average Current Monthly Benefit
2003	59.7	13.9	71.5	\$ 3,247
2004	59.5	13.7	71.2	3,380
2005	59.7	13.7	71.3	3,534
2006	59.6	13.6	71.6	3,650
2007	59.8	13.8	71.8	3,788
2008	59.7	13.6	71.8	3,922
2009	59.8	13.5	72.0	4,026
2010	59.6	13.4	72.3	4,149
2011	59.9	13.6	72.4	4,349
2012	59.9	13.7	72.3	4,486

\* in years

Annuitants by Benefit Range (Monthly) on June 30, 2012					Survivors* by Benefit Range (Monthly) on June 30, 2012				
Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total	Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-1000	38	38	12.9%	12.9%	\$ 1-1000	31	31	25.8%	25.8%
1001-2000	40	78	13.6	26.5	1001-2000	25	56	20.8	46.6
2001-3000	32	110	10.9	37.4	2001-3000	34	90	28.3	74.9
3001-4000	32	142	10.9	48.3	3001-4000	11	101	9.2	84.1
4001-5000	25	167	8.5	56.8	4001-5000	10	111	8.3	92.4
5001-6000	36	203	12.3	69.1	5001-6000	4	115	3.4	95.8
6001-7000	32	235	10.9	80.0	6001-7000	4	119	3.4	99.2
7001-8000	18	253	6.1	86.1	7001-8000	1	120	0.8	100.0
8001-9000	13	266	4.4	90.5					
9001-10000	15	281	5.1	95.6					
10001-11000	7	288	2.4	98.0					
11001-12000	2	290	0.7	98.7					
12001-13000	2	292	0.7	99.4					
13001-14000	1	293	0.3	99.7					
14001-15000	0	293	0.0	99.7					
15001-16000	0	293	0.0	99.7					
16001-17000	0	293	0.0	99.7					
17001-18000	1	294	0.3	100.0					

\* includes reversionary annuities

## STATISTICAL SECTION

### 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+
<b>Period 7/1/02 to 6/30/03</b>							
Average monthly benefit	\$ 2,814	\$ 3,580	\$ 4,520	\$ 3,618	\$ 3,905	\$ -	\$ 5,580
Average final average salary	\$ 5,711	\$ 6,660	\$ 9,148	\$ 5,151	\$ 5,665	\$ -	\$ 8,294
Number of retired members*	5	6	4	6	4	-	5
<b>Period 7/1/03 to 6/30/04</b>							
Average monthly benefit	\$ 6,151	\$ 3,420	\$ 3,333	\$ 2,834	\$ 4,769	\$ -	\$ -
Average final average salary	\$ 8,199	\$ 6,202	\$ 6,019	\$ 5,503	\$ 13,625	\$ -	\$ -
Number of retired members*	5	2	3	4	1	-	-
<b>Period 7/1/04 to 6/30/05</b>							
Average monthly benefit	\$ 2,998	\$ 4,758	\$ 1,283	\$ 3,861	\$ 5,467	\$ 5,205	\$ 2,910
Average final average salary	\$ 6,093	\$ 7,102	\$ 2,333	\$ 6,262	\$ 6,432	\$ 6,124	\$ 6,531
Number of retired members*	4	4	1	2	1	1	2
<b>Period 7/1/05 to 6/30/06</b>							
Average monthly benefit	\$ 6,252	\$ 1,991	\$ 2,552	\$ -	\$ -	\$ -	\$ 5,278
Average final average salary	\$ 7,715	\$ 5,532	\$ 6,244	\$ -	\$ -	\$ -	\$ 6,210
Number of retired members*	5	1	1	-	-	-	1
<b>Period 7/1/06 to 6/30/07</b>							
Average monthly benefit	\$ 1,606	\$ 2,188	\$ 4,778	\$ 1,538	\$ 5,640	\$ 9,231	\$ 4,334
Average final average salary	\$ 5,843	\$ 5,806	\$ 11,129	\$ 14,332	\$ 6,635	\$ 10,860	\$ 6,714
Number of retired members*	2	2	3	1	2	1	3
<b>Period 7/1/07 to 6/30/08</b>							
Average monthly benefit	\$ 7,626	\$ 1,099	\$ 3,025	\$ -	\$ 6,038	\$ -	\$ -
Average final average salary	\$ 9,783	\$ 2,770	\$ 5,455	\$ -	\$ 7,103	\$ -	\$ -
Number of retired members*	2	2	4	-	1	-	-
<b>Period 7/1/08 to 6/30/09</b>							
Average monthly benefit	\$ 3,934	\$ 3,598	\$ 5,160	\$ 4,439	\$ 2,123	\$ 6,267	\$ 6,751
Average final average salary	\$ 7,392	\$ 5,909	\$ 5,017	\$ 6,513	\$ 6,066	\$ 7,373	\$ 7,942
Number of retired members*	4	2	2	2	1	1	2
<b>Period 7/1/09 to 6/30/10</b>							
Average monthly benefit	\$ 8,935	\$ 4,098	\$ 3,518	\$ -	\$ -	\$ 1,373	\$ -
Average final average salary	\$ 9,890	\$ 6,513	\$ 8,014	\$ -	\$ -	\$ 2,770	\$ -
Number of retired members*	2	1	3	-	-	2	-
<b>Period 7/1/10 to 6/30/11</b>							
Average monthly benefit	\$ 377	\$ 2,078	\$ 5,136	\$ 6,370	\$ 8,035	\$ 7,006	\$ 6,207
Average final average salary	\$ 5,653	\$ 6,329	\$ 8,579	\$ 8,158	\$ 12,696	\$ 7,338	\$ 7,302
Number of retired members*	1	6	2	8	2	2	1
<b>Period 7/1/11 to 6/30/12</b>							
Average monthly benefit	\$ 235	\$ 810	\$ 3,388	\$ 4,553	\$ -	\$ 6,085	\$ 10,255
Average final average salary	\$ 3,131	\$ 2,972	\$ 6,919	\$ 6,448	\$ -	\$ 7,159	\$ 12,519
Number of retired members*	2	1	4	4	-	1	1

\* The number of retired members excludes new retirements with retroactive benefit start dates prior to the beginning of the period as well as resumptions of retirement benefits with original benefit start dates prior to the beginning of the period.

# PLAN SUMMARY AND LEGISLATIVE SECTION

# PLAN SUMMARY

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

### 1. Purpose

The purpose of the System is to provide retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected officials, and their beneficiaries.

The Plan is comprised of two tiers of contribution requirements and benefit levels. Tier 1 pertains to participants who first became a participant of the System prior to January 1, 2011. Tier 2 pertains to participants who first became a participant of the System on or after January 1, 2011.

The provisions below apply to both Tier 1 and Tier 2 participants 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 seven members. The administration of the detailed affairs 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 funds of the System and prompt payment of claims for benefits within the applicable statute.

### 3. Employee Membership

All members of the Illinois General Assembly and any person elected to the office of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller or Attorney General become participants of the System unless they file an election not to participate within 24 months of taking office.

Any person who has served 10 or more years as Clerk or Assistant Clerk of the House of Representatives, Secretary or Assistant Secretary of the Senate or any combination thereof, may elect to become a participant.

### 4. Participant Contributions

Participants are required to contribute a percentage of salary as their share of meeting the various benefits at the following rates:

Retirement Annuity	8.5%
Automatic Annual Increase	1.0%
Survivors' Annuity	<u>2.0%</u>
Total	<u>11.5%</u>

Tier 1 participants contribute based on total annual compensation. Tier 2 participants contribute based on a statutorily capped compensation amount which is increased each year by 3% or the annual percentage increase in the Consumer Price Index, whichever is less.

A participant who has no eligible survivors' annuity beneficiary may elect to not participate in the survivors' annuity provisions in which case the total participant contribution rate is 9.5% of salary.

### 5. Retirement Annuity

#### A. Qualification of Participant

Tier 1: Upon termination of service, a participant is eligible for a retirement annuity at age 55 with at least eight years of credit, or at age 62 with at least four years of credit.

Tier 2: Upon termination of service, a participant is eligible for an unreduced retirement annuity at age 67 with at least 8 years of credit.

The retirement annuity of a participant who retires between the ages of 62 and 67 with at least 8 years of credit shall be reduced  $\frac{1}{2}$  of 1% for each month the participant's age is under 67.

#### B. Amount of Annuity

Tier 1: The retirement annuity is determined according to the following formula based upon the applicable salary:

- 3.0% for each of the first 4 years of credit;
- 3.5% for each of the next 2 years of credit;
- 4.0% for each of the next 2 years of credit;
- 4.5% for each of the next 4 years of credit;
- 5.0% for each year of service over 12 years.

The maximum annuity is 85% of the applicable final average salary.

For participants who first become a participant before August 10, 2009 and, are either a member of the General Assembly or hold the office of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller, or Attorney General on their last day of service, final average salary is the highest salary prescribed by law on the participant's last day of service.

## PLAN SUMMARY

For participants who first become a participant before August 10, 2009 and, hold the office of Clerk or Assistant Clerk of the House of Representatives or Secretary or Assistant Secretary of the Senate on their last day of service, final average salary is the salary received for service in that capacity but not to exceed the highest salary that is prescribed by law for the highest paid officer of the General Assembly.

For participants who first become a participant on or after August 10, 2009 and before January 1, 2011, final average salary is the average monthly salary during the 48 consecutive months of service within the last 120 months of service in which the total salary was the highest.

Tier 2: The retirement annuity is determined according to the following formula based upon the applicable final average salary:

- 3.0% for each year of credit

The maximum annuity is 60% of the applicable final average salary.

The applicable final average salary is the average monthly salary during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest. The salary for any calendar year is capped in accordance with the statute governing the System. The cap is increased each year by 3% or the annual percentage increase in the Consumer Price Index, whichever is less.

### C. Optional Forms of Payment

Reversionary Annuity: A participant may elect to receive a reduced annuity during his or her lifetime in order to provide a spouse, parent, child, brother or sister with a lifetime income. Such payment to a spouse would be in addition to the survivors' annuity benefit. The election should be filed with the System at least 2 years prior to retirement.

### D. Annual Increases in Retirement Annuity

Tier 1: Post-retirement increases of 3% of the current amount of annuity are granted to participants effective in January or July of the year following the first anniversary of retirement and in January or July of each year thereafter. However, if the participant has not attained age 60 at that date, the payment of such annual increase shall be deferred until the first of the month following their 60th birthday.

For participants who first became members of the System on or before August 8, 2003 and remain in service after attaining 20 years of creditable service, the 3% annual increases shall begin to accrue on the January 1 following the date when the participant (1) attains age 55, or (2) attains 20 years of creditable service,

whichever occurs later. In addition, the annual increases shall continue to accrue while the participant remains in service; however, such increases shall not become payable until (1) the January 1 or the July 1 next following the first anniversary of retirement, or (2) the first of the month following attainment of age 60, whichever occurs later.

Tier 2: Post-retirement increases to the current amount of annuity in an amount equal to the lesser of 3% or the annual percentage increase in the Consumer Price Index for all Urban Consumers are granted to participants effective in January of the year next following the first anniversary of retirement and in January of each year thereafter, but in no event prior to age 67.

### E. Suspension of Retirement Annuity

Tier 1: An annuitant who reenters service becomes a participant and resumes contributions to the System as of the date of reentry and retirement annuity payments cease.

If the provisions of the Retirement Systems' Reciprocal Act are elected at retirement, any employment which would result in the suspension of benefits under any of the retirement systems being considered would also cause the annuity payable by the General Assembly Retirement System to be suspended.

Tier 2: The retirement annuity being paid is suspended when an annuitant is employed on a full time basis and becomes a member or participant of the General Assembly Retirement System Article or any other Article of the Illinois Pension Code.

## 6. Survivors' Annuity

### A. Qualification of Survivor

If death occurs while in service, the participant must have established at least two years of credit. If death occurs after termination of service and prior to receipt of a retirement annuity, the participant must have established at least 4 years of credit.

To be eligible for the survivors' annuity, the spouse and participant or annuitant must have been married for at least 1 year immediately preceding the date of death.

An eligible spouse qualifies at age 50 or at any age if there is in the care of the spouse unmarried children who are (1) under age 18 or (2) over age 18 if mentally or physically disabled or (3) under age 22 and a full-time student. Eligible surviving children would be entitled to benefits if no spouse survives.

### B. Amount of Payment

If the participant's death occurs while in service, the



surviving spouse without eligible children would be eligible to 66-2/3% of earned retirement annuity, subject to a minimum of 10% of salary. A surviving spouse with eligible children would receive the greater of 66-2/3% of the earned retirement annuity or 30% of salary increased by 10% of salary for each minor child, subject to a maximum of 50% of salary to a family, unless survived by a dependent disabled child in which case the annuity to a surviving spouse would not be less than 100% of the earned retirement annuity.

If the participant's death occurs after termination of service or retirement, the surviving spouse without eligible children would be eligible to 66-2/3% of earned retirement annuity. The maximum a surviving spouse with eligible children would receive is 75% of the earned retirement annuity unless survived by a dependent disabled child in which case the annuity to a surviving spouse would not be less than 100% of the earned retirement annuity.

The minimum survivors' annuity for any qualified survivor shall be \$300 per month.

### C. Duration of Payment

When all children, except for disabled children, are ineligible because of death, marriage or attainment of age 18 or age 22 in the case of a full-time student, the spouse's benefit is suspended if the spouse is under age 50 until attainment of such age.

### D. Annual Increases in Survivors' Annuity

Tier 1: Increases of 3% of the current amount of annuity are granted to survivors in each January occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity.

In the event of an active participant's death, increases of 3% of the current amount of annuity are granted to survivors effective in January of the year next following the first anniversary of the commencement of the annuity and in January of each year thereafter.

Tier 2: Increases to the current amount of annuity in an amount equal to the lesser of 3% or the annual percentage increase in the Consumer Price Index for All Urban Consumers are granted to survivors. Such increases are payable on each January 1 occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity or, in other cases, on each January 1 occurring on or after the first anniversary of the commencement of the annuity, but in no event prior to age 67.

## 7. Death Benefits

The following lump sum death benefits are payable to the named beneficiaries or estate of the participant only if there are no eligible survivors' annuity beneficiaries surviving the deceased participant.

### A. Before Retirement

If the participant's death occurs while in service, a refund of total contributions to the System, without interest, in the participant's account.

### B. After Retirement

If the participant's death occurs after retirement, a refund of the excess of contributions to the System over annuity payments, if any.

The following lump sum death benefit is payable to the named beneficiaries or estate of the survivor.

### A. Death of Survivor Annuitant

Upon death of the survivor annuitant with no further survivors' annuity payable, a refund of excess contributions to the System over total retirement and survivors' annuity payments, if any.

## 8. Disability Benefit

A participant with at least 8 years of service who becomes permanently disabled while in service as a contributing participant is eligible for a retirement annuity regardless of age.

If disability is service-connected, the annuity is subject to reduction by amounts received by a participant under the Workers' Compensation Act and the Workers' Occupational Diseases Act.

## 9. Refund of Contributions

Upon termination of service, a participant is entitled to a refund of total contributions to the System without interest. By accepting a refund, a participant forfeits all accrued rights and benefits in the System for his or herself and beneficiaries.

A participant who has no eligible survivors is entitled to a full refund of contributions for the survivors' annuity benefit. The refund may be repaid, with required interest, to qualify a spouse for survivors' annuity benefits if the participant marries or remarries after retirement.

## LEGISLATIVE AMENDMENTS

Legislative amendments with an effective date during fiscal year 2012 having an impact on the System.

***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).

***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 immediately 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.

***House Bill 3969 (P.A. 97-0967; effective August 6, 2012)***

Amends the General Provisions of the Illinois Pension Code to provide that, if a participant's final average salary in a participating system under the Retirement Systems Reciprocal Act, other than the General Assembly Retirement System, is used to calculate a proportional retirement annuity for that participant under the General Assembly Retirement System and (1) that final average salary is higher than the highest salary for annuity purposes under the General Assembly Retirement System and (2) the participant retires after August 6, 2012 with less than two years of service that has accrued in that participating system since his or her last day of active participation in the General Assembly Retirement System, then the increased cost of the proportional annuity paid by the General Assembly Retirement System that is attributable to that higher level of compensation shall be paid by the participant's employer under that participating system and not by the General Assembly Retirement System. Such payment shall be in the form of a lump sum payment determined by the General Assembly Retirement System in accordance with its annuity tables and other actuarial assumptions. If an employer fails to pay the amount required for more than ninety days after the payment is due, the General Assembly Retirement System, after giving notice to the employer, may certify to the State Comptroller the amount of the delinquent payment and the Comptroller shall deduct the amount so certified or any part thereof from any payment of State funds to the employer. If State funds from which such deductions shall be made are not available, the General Assembly Retirement System may proceed against the employer in the appropriate circuit court.

### NEW LEGISLATION

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