May 23, 2012

REQUEST FOR PROPOSALS TO PROVIDE ACTUARIAL SERVICES

ISSUED BY THE:
COMMISSION ON GOVERNMENT
FORECASTING and ACCOUNTABILITY
703 Stratton Office Building
Springfield, Illinois 62706

Proposals due June 18th, 2012
(No later than 4:30 p.m. CST)
REQUEST FOR PROPOSALS (RFP)
TO PROVIDE ACTUARIAL SERVICES
TO THE COMMISSION ON GOVERNMENT FORECASTING
AND ACCOUNTABILITY

Overview. The Commission on Government Forecasting and Accountability (COGFA) is a bi-partisan, joint legislative commission that provides the Illinois General Assembly with information on various topics related to the Illinois economy, State revenue and debt, and public employee pension funds. The Commission is seeking proposals to provide the COGFA with actuarial services for Fiscal Years 2013 - 2017 (July 1, 2012 through June 30, 2017), with the possibility of up to five one-year renewals. Since its inception, COGFA has retained an independent actuary to perform valuations, funding projections, and legislative cost studies for the five State-funded retirement systems and the Downstate Police and Fire pension funds. The actuarial services that COGFA seeks as enumerated in the Scope of Services section are separate from the work done by the actuaries retained by the State-funded retirement systems. The selected vendor will provide actuarial services exclusively for the purpose of helping COGFA achieve its mission as a legislative oversight agency. To reiterate, this RFP is not being issued for actuarial services on behalf of the State Retirement Systems.

Scope of Services

The following is an outline of the specific actuarial services that COGFA would expect from the selected vendor on an annual basis:

I. Annually update the membership data for the five State retirement systems and perform annual actuarial valuations based on the current membership and benefit provisions of the systems.

Each fiscal year, the selected vendor would obtain new computer files containing the membership data for the five State retirement systems (SERS, TRS, SURS, JRS, and GARS). The selected vendor would convert this new membership data for use in its valuation system.

The selected vendor would update its valuation system to take into account the current benefit provisions of the State systems and the actuarial assumptions currently used by the systems. The selected vendor would then perform annual actuarial valuations and funding projections based on the current membership data, benefit provisions and actuarial assumptions for the systems.

Estimated Time Commitment – 150 Hours Per Fiscal Year.

II. Perform Annual Funding Projections for the Five State Retirement Systems.

Using the most recent actuarial valuations as a starting point, the selected vendor would perform funding projections for each of the five State retirement systems on an annual basis. The funding projections would be based on the most recently available membership data and the current benefit provisions of the retirement systems. The funding projections would show projected payroll, State contributions, payout requirements, assets, liabilities, fund ratio, and the projected financial condition of the retirement systems for each year in the funding projection.

Estimated Time Commitment – 100 Hours Per Fiscal Year.

III. Perform cost estimates for the five State systems and provide general consultation regarding proposed pension legislation for the state systems and the Chicago-area pension funds

The selected vendor would perform supplemental actuarial valuations and projections in order to estimate the costs and the long-term financial impact involved with proposed legislation affecting the five State retirement systems, when requested.

The selected vendor would assist in the estimation of costs involved with proposed legislation affecting the Chicago area pension funds. The selected vendor ***would not*** perform independent actuarial valuations for these funds but would assist the Commission in reviewing any cost estimates prepared by the funds and by performing illustrative cost estimates based on any aggregate data that may be available from the funds.

The selected vendor would provide general consulting on proposed legislation, including policy and design issues.

Estimated Time Commitment – 200 Hours Per Fiscal Year

Total Estimated Time Commitment for Actuarial Services for Fiscal Years 2013 - 2017 – 450 Hours Per Year

FY 2011 – FY 2012 Actuarial Fees Paid by COGFA

In the FY 2011-2012 fiscal year, COGFA paid its consulting actuary, Sandor Goldstein of Goldstein & Associates, a flat fee of $61,250 for the foregoing services. The aforementioned fee was based on the following hourly rates for time spent by staff members in providing the above services:

Consulting Actuary - $220 per hour

Associate Actuary - $150 per hour

Actuarial Analyst - $120 per hour

COGFA's contract with Goldstein & Associates for FY 2011-2012 did not specify an hourly maximum, and some projects that were outside of the scope of COGFA's contract with Goldstein & Associates required additional fees that were billed at the foregoing hourly rates. COGFA expects to spend approximately $70,000 in total actuarial fees for the current fiscal year when all additional hourly billings are added to the flat fee.

COGFA is requesting all interested vendors to submit a proposal for FY 2013-2017 actuarial services on a flat fee basis taking into consideration an estimated time commitment of 450 hours per fiscal year for the various components listed above in the scope of services section. As part of the flat fee proposal, COGFA is asking interested vendors to list the hourly rates of all of the individual actuaries who would be involved in servicing the COGFA account. ***Interested vendors should also submit a year-by-year breakdown of total fees for the period FY 2013 – 2017.***

Please see Appendix A for an overview of the State Retirement Systems. Appendix A is an excerpt from an official Bond Offering Statement issued by the Governor's Office of Management and Budget from the May 2012 General Obligation Refunding Bond Sale. Appendix A is included in this RFP for purposes of providing interested vendors with background information on the financial condition of the State retirement systems, current benefit levels, as well as the statutory funding requirements for the State systems and significant recent legislative enactments impacting the State systems. Also included in the bond offering statement in Appendix A is an overview of pension reform legislation that is currently under discussion in the Illinois General Assembly as of this writing.

Key Dates:

- RFP issued on May 23rd 2012
- Deadline for vendors to submit bids: June 18th, 2012

The COGFA reserves the right to reject any and all proposals, waive any irregularities of proposals, request clarification or additional information from any respondents and enter into any agreement as it may determine. ***This RFP is not subject to the provisions of the Illinois Procurement Code***. This RFP is (or will be) available online at http://www.ilga.gov/commission/COGFA2006/Home.aspx Questions about this RFP may be directed to Executive Director Dan R. Long, COGFA, (217) 782-5320, dlong@ilga.gov or Deputy Director Trevor J. Clatfelter, COGFA, (217) 782-5320, tclatfelter@ilga.gov

Proposals Due. Proposals must be received no later 4:30 p.m. (Central Standard Time) Monday, June 18th, 2012. Ten copies, including one unbound copy, of each proposal shall be sent to the attention of Dan R. Long, Executive Director, Commission on Government Forecasting and Accountability, 703 Stratton Office Building, Springfield, Illinois 62706. A copy of each proposal also must also be submitted on a CD. Proposals shall address all information requested in this RFP and shall be, if possible, limited to 25 pages including any appendices.

Please notify the COGFA of your intent to respond to this RFP at your earliest convenience, via email to Dan Long at dlong@ilga.gov

Contract terms will include certifications by the selected vendor as required by Illinois State law, including but not limited to, certifications regarding compliance with non-discrimination requirements; anti-bribery, conflicts of interest, revolving-door prohibition and prohibitions against bid-rigging and bid-rotating. Payment under the contract will be subject to appropriation of funds by the Illinois General Assembly. The contract must include the consultant's agreement not to accept other clients or work during the term of the COGFA contract which, in the reasonable opinion of COGFA, may create a material conflict of interest with the work under the COGFA contract.

Response to RFP. All responses to this RFP must respond to the following questions in full. Additional information may be included in responses within the page limits.

1. **Identification and ownership or firm**. Briefly describe your firm or organization, including the types of work or services provided; identify the headquarters of the firm and its location and any additional offices and their locations, with the total number of staffers at each location. Identify by name the owners, including beneficial owners, of the firm. Briefly describe the background of principal owners or leaders of the firm.

2. **Experience of Firm and Assigned Personnel**. Describe the work experience and background of the firm and key personnel who would be assigned to the COGFA contract (including the day-to-day contact person, supervisor and staff), with estimates of the percentage of each person's total work time that would be devoted to the COGFA contract. Provide particular detail on experience related to the scope of services as listed above. State whether the firm and any assigned personnel has had prior experience with or is currently serving any governmental agency in the State of Illinois or any other private entity or organization with a substantial presence in the State of Illinois, and describe the nature and extent of such work.

3. **Potential Conflict of Interest**. State whether the firm believes any of its prior or current work would present a potential conflict of interest with the COGFA contract, and if so, whether the firm agrees to terminate any current work which, in the reasonable opinion of COGFA, would present a potential conflict of interest with the COGFA contract. (Note, see contract terms regarding conflict of interest above.)

4. **Investigations/Litigation**. Indicate whether the firm or any of its principal owners are currently involved or have been involved within the past five years in any criminal or regulatory investigation or material litigation. Briefly describe any such investigation or litigation and any resolution.

5. **References**. Provide at least three references familiar with the work of primary assigned personnel, including contact names and telephone numbers.

6. **Work Approach**. Describe the approach the firm would take to fulfilling the COGFA contract, including identification of any critical information or factors that should be considered in complying with the provisions detailed in the scope of work section of this RFP.

7. **Fees**. Propose the fees you would charge if selected. Note, COGFA will not pay any separate charges for any expenses, including any travel, telephone or office or delivery charges. Fees must be proposed on a not-to-exceed lump sum basis, taking into consideration an estimated time commitment of 450 hours per year for a five-year duration as specified in the scope of services, with a breakdown of the hourly rates for all actuaries that would be involved in servicing the COGFA account. Interested vendors should also break down their total fee for the five-year period on a year-by-year basis.

Evaluation of Proposals. COGFA will evaluate proposals on a variety of factors, including but not limited to the experience of the firm and assigned personnel. COGFA may ask some respondents to travel at their own expense for oral interviews in either Springfield or Chicago, or to be available for oral interviews by teleconference. COGFA reserves the right to negotiate best and final fees and contract terms and may reject all proposals.

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Appendix A

PENSION SYSTEMS

GENERAL

The State provides funding for the Retirement Systems, which provide benefits upon retirement, death or disability to employees and beneficiaries. The Retirement Systems are, in order from largest to smallest membership: (i) the Teachers' Retirement System of the State of Illinois ("TRS"); (ii) the State Universities Retirement System of Illinois ("SURS"); (iii) the State Employees' Retirement System of Illinois ("SERS"); (iv) the Judges' Retirement System of Illinois ("JRS"); and (v) the General Assembly Retirement System, State of Illinois ("GARS").

Except as described below with respect to a limited number of SURS members, the Retirement Systems are all defined-benefit pension plans. In a defined-benefit pension plan, a periodic (usually monthly) benefit is paid to retired employees in a fixed amount determined at the time of retirement. The amount of the periodic benefit is generally determined on the basis of service credits and salary. The benefit is payable to the retiree for life and, if applicable, a survivor's benefit is provided to the designated beneficiary of the retiree.

To fund the benefits to be paid by a defined-benefit pension plan, both employees and employers make contributions to the plan's assets. Generally, employees contribute a fixed percentage of their annual salary and employers contribute the additional amounts necessary, when combined with the projected investment earnings on plan assets, to pay the benefits under the pension plan. The necessary employer contributions to the Retirement Systems are determined annually by an independent actuary based on State law requirements. See "DETERMINATION OF EMPLOYER CONTRIBUTIONS" below. As provided in the Pension Code, the payment of the required State contributions, all benefits granted under each Retirement System and all expenses of administration and operation are obligations of the State.

For SERS, GARS and JRS, the State provides the sole employer contribution to the Retirement Systems. For TRS, the individual school districts (which employ the majority of TRS members), special districts and State agencies employing TRS members also contribute. For SURS, State contributions, combined with trust and federal funds, serve as the employer contribution.

Section 5 of Article XIII of the Illinois Constitution provides that "[m]embership in any pension retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired." The benefits available under the Retirement Systems accrue throughout the time a member is employed by the State. Although the benefits accrue during employment, certain age and service requirements must be achieved for an employee to receive a retirement or survivor's annuity upon retirement or termination from an employer participating in the Retirement Systems.

State contributions to the Retirement Systems are made following appropriation by the General Assembly. Each Retirement System is required to certify to the State the amount necessary to pay the Required Annual Statutory Contribution (as defined below) by November 15 (December 15 for GARS) of the current fiscal year for inclusion in the Governor's budget for the following fiscal year. In the event that the General Assembly fails to appropriate the amount certified by the Retirement Systems, the Pension Code requires that payments are to be made by the State Comptroller and the State Treasurer to the Retirement Systems in amounts sufficient to meet the requirements of the Statutory Funding Plan (as defined below) through a "Continuing Appropriation". See "DETERMINATION OF EMPLOYER CONTRIBUTIONS" herein. Despite the Continuing Appropriation, the possibility still exists that the Retirement Systems will not receive the required contribution in a timely manner in each year because there could be insufficient funds available in the State's General Funds. If such funds are not available, the State could fail to meet its payment obligation or be forced to make such payment from another source. If the full amount of Required Annual Statutory Contributions is not paid in a timely manner, the Retirement Systems may be required to sell assets to pay benefits as they become due. For a description of the Statutory Funding Plan, the instances in which the Retirement Systems have not been fully funded, and the effect of a sale of the Retirement Systems' assets to pay benefits, see "HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS" below.

BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS

The State is obligated to make contributions to the Retirement Systems as set forth in the Pension Code. See "ACTUARIAL METHODS—*Actuarial Accrued Liability*" herein. In addition, the Retirement Systems' members make annual contributions to the Retirement Systems from their salaries. For more information on the amount of contributions made by the State and Retirement System members in each of fiscal years 2007 through 2011, see Tables 25 through 29.

Other than the "Excluded Information" (defined below), the information contained herein relies on information produced by the Retirement Systems, their independent accountants and their independent actuaries (the "Source Information") and such information is presented herein on the basis of the Source Information. The State has not independently verified the Source Information and makes no representations nor expresses any opinion as to the accuracy of the Source Information. "Excluded Information" means information contained under the following sub-captions: "Recent Reports and Other Developments Regarding the Retirement Systems," "Proposed Pension Stabilization and Other Legislation," "SEC Inquiry," and "Pension Disclosure Policies and Procedures."

Furthermore, where the tables in this disclosure present aggregate information regarding the Retirement Systems, specifically in Tables 24-34, such combined information results solely from the arithmetic calculation of numbers compiled from the Source Information and may not conform to the requirements for the presentation of such information as may be required by GASB or the Statutory Funding Plan.

The comprehensive annual financial reports ("CAFR") of the Retirement Systems for the fiscal year ending June 30, 2010, and the Actuarial Valuations of the Retirement Systems for the fiscal year ending June 30, 2011, are hereby incorporated by reference. These documents are available upon written request to the respective Retirement System. (For contact information for each of the Retirement Systems, see "STATE OF ILLINOIS – WEBSITE INDEX" herein).

The *Teachers' Retirement System*, TRS, is a cost-sharing, multiple-employer, public employee defined-benefit pension plan. TRS is governed by a 13-member Board of Trustees, consisting of the State Superintendent of Education, six trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by contributing TRS members, and two trustees elected by TRS annuitants. Two appointed trustee positions are currently vacant. All trustees except for the State Superintendent of Education serve 4-year terms.

TRS provides coverage to teachers employed by public school districts in the State (excluding Chicago). Although most of TRS's covered employees are not employees of the State, 93.3% of the funding for TRS is the responsibility of the State. TRS receives contributions from 867 local school districts, 140 special districts and 23 other State agencies. However, the contributions of individual school districts, special districts and State agencies are made at a minimal level. As of June 30, 2011, TRS had a total membership of 386,837, consisting of 170,190 active members, 115,295 inactive members entitled to benefits but not yet receiving them, and 101,352 retirees and beneficiaries currently receiving benefits. Members contribute 9.4% of their salary to TRS. However, a member may receive a refund of 0.4% if such member does not utilize the early retirement option provided by TRS.

The *State Universities Retirement System,* SURS, is a cost-sharing, multiple-employer, public employee defined-benefit pension plan. SURS is governed by an 11-member Board of Trustees, consisting of the Chairperson of the Illinois Board of Higher Education, four trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by contributing SURS members and two trustees elected by SURS annuitants. All trustees except for the Chairperson of the Illinois Board of Higher Education serve 6-year terms.

SURS provides coverage to faculty and staff of State universities, community colleges and related agencies, of which some covered employees are not State employees. SURS draws contributions from employees of nine universities, 39 community college districts and 15 other State agencies. As of June 30, 2011, SURS had a total membership of 212,903, consisting of 81,611 active members (of which 9,723 are in the Self Managed Plan, as defined below), 79,922 inactive members entitled to benefits but not yet receiving them (of which 7,019 are in the Self Managed Plan described below), and 51,370 retirees and beneficiaries currently receiving benefits. Members contribute either 8.0% or 9.5% of their salary depending on the benefits package applicable to them.

SURS also provides a public employee defined contribution plan, termed the "Self-Managed Plan." In a defined contribution plan, the employee and the employer contribute specified amounts to the pension plan. These contributions, plus the investment earnings on the money in the pension plan, represent the employee's benefits under the plan. As opposed to defined-benefit plans where the amount of benefits is guaranteed to the employee once earned, only employer contributions to the plan are guaranteed. Therefore, because the State's obligation to make contributions to the Self-Managed Plan does not extend beyond the requirement to make current payroll, the Self-Managed Plan is fully funded by definition.

The *State Employees' Retirement System*, SERS, is a single-employer, public employee defined-benefit pension plan. SERS is governed by a 13-member Board of Trustees, consisting of the Illinois Comptroller, six trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by the SERS members, and two trustees elected by the SERS retirees. One appointed trustee position is currently vacant. All trustees except for the Comptroller serve 5-year terms.

SERS membership is automatic for most State employees not eligible for another State-sponsored retirement plan. In addition, employees appointed by the Governor and requiring confirmation by the Senate may elect to become members of SERS. As of June 30, 2011, SERS had a total membership of 147,716, consisting of 66,363 active members, 21,298 inactive members entitled to benefits but not yet receiving them, 59,786 retirees and beneficiaries currently receiving benefits, and 4,489 members eligible for deferred benefits. SERS members contribute a specified percentage of their salaries which varies between 4% and 12.5% depending on the applicability of federal Social Security benefits to the member and the member's eligibility for an alternative benefits formula as provided by the Pension Code.

The *Judges' Retirement System*, JRS, is a single-employer, public employee defined-benefit pension plan that covers judges, associate judges and, under certain conditions, the administrative director of the State courts. JRS is governed by a 5-person Board of Trustees, consisting of the State Treasurer, the Chief Justice of the Supreme Court, and 3 participating judges who are appointed by the Supreme Court. The 3 participating judges serve 3-year terms.

Participation by judges is mandatory unless a judge makes an election not to participate within 30 days of receipt of notice of the option not to participate. As of June 30, 2011, JRS had a total membership of 2,031, consisting of 968 active members, 16 inactive members entitled to benefits but not yet receiving them, and 1,047 retirees and beneficiaries currently receiving benefits. The Pension Code establishes the JRS total contribution rate at 11.0% of salary, consisting of 7.5% for the retirement annuity, 2.5% for the survivors' annuity, and 1.0% for automatic annual increases. A JRS member may elect not to contribute to the survivor's annuity and forego such benefit.

The *General Assembly Retirement System*, GARS, is a single-employer, public employee defined-benefit pension plan that covers members of the General Assembly, State Constitutional Officers and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. GARS is governed by a 7-member Board of Trustees, consisting of the President of the Senate (or his designee), 2 members of the Senate appointed by the President of the Senate; 3 members of the House of Representatives appointed by the Speaker of the House; and one person elected from the member annuitants under rules prescribed by the Board of Trustees. All appointed trustees serve 2-year terms while the elected trustee serves a 4-year term.

Participation in GARS is optional. As of June 30, 2011, GARS had a total membership of 676, consisting of 180 active members, 86 inactive members entitled to benefits but not yet receiving them, and 410 retirees and beneficiaries currently receiving benefits. The Pension Code establishes the GARS total contribution rate at 11.5% of salary, which consists of 8.5% for the retirement annuity, 2.0% for the survivors' annuity, and 1.0% for automatic annual increases. In certain circumstances, a GARS member may elect not to contribute to the survivor's annuity and forego such benefit.

With the exception of 63,808 active members of SERS, members of the Retirement Systems do not participate in Social Security through their employment with a Retirement System participating employer.

State law regulates the types of investments in which the Retirement Systems' assets may be invested. The respective Boards of Trustees of TRS and SURS manage the investments of such Retirement Systems. The Illinois State Board of Investment manages the investments of SERS, JRS and GARS. Additional information on each Retirement System's investments and investment management may be found on such Retirement System's website provided in "STATE OF ILLINOIS – WEBSITE INDEX."

As of June 30, 2011, the membership in each of the Retirement Systems and the required membership contributions as a percentage of member salary were as follows:

TABLE 20 - MEMBERSHIP AND MEMBER CONTRIBUTIONS

Retirement System	Active Members	Inactive/ Entitled to Benefits	Retirees and Beneficiaries	Totals	Member Contribution(1)
TRS	170,190	115,295	101,352	386,837	9.40%
SURS	81,611	79,922	51,370	212,903	8.0% - 9.5%(2)
SERS	66,363	21,298	59,786	147,447	4.0% - 12.5%(3)
JRS	968	16	1,047	2,031	11.00%
GARS	180	86	410	676	11.50%
Total	319,312	216,617	213,965	749,894	

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) Represents the percentage of salary a member is required to contribute annually to the respective Retirement System under the pension code.

(2) Most members contribute a total of 8.0% of pensionable pay. Police officers and firefighters contribute a total of 9.5% of pensionable pay.

(3) Members covered by Social Security contribute 4% of their salary if ineligible for an alternative benefits formula and 8.5% of salary if eligible for such a formula. Members not covered by Social Security contribute 8% of their salary if ineligible for an alternative benefits formula and 12.5% of salary if eligible for such a formula.

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Please see "APPENDIX B – SUMMARY OF CERTAIN INFORMATION REGARDING THE ILLINOIS PENSION SYSTEMS" in this Official Statement for summaries of the benefit formulas and benefit maximums for each of the Retirement Systems.

DETERMINATION OF EMPLOYER CONTRIBUTIONS

Actuaries and the Actuarial Process

Under the Pension Code, the required employer contributions to fund the Retirement Systems are determined by independent actuaries on an annual basis. Actuaries use demographic and other data (such as employee age, salary and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, mortality and disability rates) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the Retirement System to pay benefits when due. Each Retirement System's actuary then produces a report, called the "Actuarial Valuation," in which the actuary reports on the Retirement System's assets, liabilities and Required Annual Statutory Contribution for the following fiscal year. The actuarial reports also include information pursuant to Governmental Accounting Standards Board standards 25 and 27.

The Pension Code requires each Retirement System to produce an Actuarial Valuation within nine months of the end of such Retirement System's fiscal year. Each Retirement System hires an actuary independent of the State to prepare its Actuarial Valuation. The Actuarial Valuations are publicly available and may be obtained from the respective Retirement Systems.

Each Actuarial Valuation must be accompanied by a statement from the actuary that, to the best of its knowledge, the Actuarial Valuation is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice ("ASOP") issued by the Actuarial Standards Board, and with applicable statutes. The Required Annual Statutory Contribution is computed in accordance with the Pension Code and, more specifically, the Statutory Funding Plan. As the Statutory Funding Plan does not conform with GASB, the Required Annual Statutory Contribution certified to the State by the actuary in the Actuarial Valuation differs from the Actuarially Required Contribution,[1] as defined below, that would be required under GASB. The differences between GASB's requirements and the State's statutory requirements are discussed in "ACTUARIAL METHODS—*Actuarial Accrued Liability*" below.

The Actuarial Valuation

The primary purpose of the Actuarial Valuation is to determine the amount the State must contribute to each Retirement System in a given fiscal year to satisfy its current and future obligations to pay benefits to eligible members of the Retirement Systems as provided in the Pension Code (the "Required Annual Statutory Contribution"). To determine the Required Annual Statutory Contribution, the actuary calculates both the "Actuarial Accrued Liability" and the "Actuarial Value of Assets." The Actuarial Accrued Liability is an estimate of the present value of the benefits each Retirement System must pay to current and retired employees as a result of their employment and participation in the Retirement System. The Actuarial Accrued Liability is calculated by use of a variety of demographic and other data (such as employee age, salary and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, mortality and disability rates). The Actuarial Value of Assets reflects the value of the investments and other assets held by the Retirement System. Various methods exist for calculating the Actuarial Value of Assets. For a discussion of these methods and assumptions used to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets of the Retirement Systems, see "ACTUARIAL METHODS" and "ACTUARIAL ASSUMPTIONS" below.

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1 GASB pronouncements refer to this concept as the Annual Required Contribution. For the convenience of the reader, this concept is referred to in the Official Statement as the Actuarially Required Contribution to differentiate it from the concept of the Required Annual Statutory Contribution and to denote the fact that the Actuarially Required Contribution is the amount an actuary would require the State to contribute in a given year, as opposed to the amount the State will be required to contribute under applicable law.

Any shortfall between the Actuarial Value of Assets and the Actuarial Accrued Liability is referred to as the "Unfunded Actuarial Accrued Liability" or "UAAL." The UAAL represents the present value of future benefits that are not matched by current plan assets. In addition, the actuary will compute the "Funded Ratio," which is the result obtained by dividing the Actuarial Value of Assets by the Actuarial Accrued Liability. The Funded Ratio and the UAAL are used to measure the financial health of a pension plan. An increasing UAAL or a decreasing Funded Ratio from year to year signals a deterioration in the financial health of a pension plan because it indicates the incurrence of additional liability without a corresponding increase in assets necessary to pay those additional liabilities. Conversely, a decreasing UAAL or an increasing Funded Ratio indicates an improvement in the financial health of a pension plan because such a change reflects a closing gap between the liabilities accrued by the pension plan and the assets necessary to pay those liabilities when they become due. A 100% funded ratio means existing assets are sufficient to pay the present value of future benefits to be paid over time.

The actuaries use the Actuarial Accrued Liability, the Actuarial Value of Assets and the UAAL to compute the Required Annual Statutory Contribution for each Retirement System in accordance with the Pension Code. The Pension Code sets forth the manner of calculating the Required Annual Statutory Contribution under the Statutory Funding Plan. The Statutory Funding Plan requires the State to contribute annually an amount equal to the level percent of payroll necessary to allow the Retirement Systems to achieve a 90% Funded Ratio by Fiscal Year 2045.

Statutory Funding Plan not in Accordance with GASB 25

The method of amortizing the UAAL used by the Statutory Funding Plan does not conform with the requirements of GASB 25 regarding financial reporting for defined-benefit pension plans, as more fully described below. As a result, the Required Annual Statutory Contribution determined by the Retirement Systems' actuaries, while in conformity with State law, is currently less than the contribution that would otherwise be determined in accordance with GASB standards (the "Actuarially Required Contribution"). The Actuarially Required Contribution consists of three components: (1) the portion of the present value of retirement benefits that are allocable to active members' current year of service, termed the "Normal Cost," (2) an amortized portion of the UAAL sufficient to eliminate the UAAL over a period of time (as described in "ACTUARIAL METHODS—*Actuarial Accrued Liability*" below), and (3) one year's interest, calculated at the Assumed Actuarial Rate, on the unfunded pension liability, defined as the Net Pension Obligation (as defined below). As discussed above, the Statutory Funding Plan requires the determination of the Required Annual Statutory Contribution by calculation of the level percent of payroll necessary to reach a 90% Funded Ratio by Fiscal Year 2045 and does not require elimination of the entire UAAL. See "Actuarial Methods—Actuarial Accrued Liability" below for a discussion of the differences between the Statutory Funding Plan and GASB 25.

ACTUARIAL METHODS

The Retirement Systems use the following actuarial methods to calculate the Actuarial Value of Assets and the Actuarial Accrued Liability.

Actuarial Value of Assets

The Actuarial Value of Assets measures the value of the assets available in the pension plan to pay benefits. Beginning with Fiscal Year 2009, the State recognizes investment gains and losses on such assets equally over a five-year period when determining the Actuarial Value of Assets. This method of valuation is called the "Asset Smoothing Method." Under the Asset Smoothing Method, the State will recognize in the current year 20% of the investment gain or loss realized in each of the previous five years. State law provides for application of the Asset Smoothing Method prospectively, beginning with Fiscal Year 2009. The Asset Smoothing Method, which is an approved method for determining the Actuarial Value of Assets under GASB 25, prevents extreme fluctuations in the Actuarial Value of Assets, the UAAL and the Funded Ratio that may otherwise occur as a result of market volatility. Asset smoothing delays recognition of both gains and losses and does not provide an Actuarial Value of Assets reflecting the fair value at the time of measurement. As a result, presenting the Actuarial Value of Assets as determined under the Asset Smoothing Method might provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes investment gains and losses annually.

Prior to Fiscal Year 2009, the State valued assets at fair value, recognizing all investment gains and losses as they occurred. For Fiscal Year 2009, adoption of the Asset Smoothing Method had the effect of delaying the timing of the recognition of the investment losses suffered by the Retirement Systems as a result of the 2008-2009 market downturn. Although the fair value of the Retirement Systems' assets declined by 24.8% during Fiscal Year 2009, the Retirement Systems, through application of the Asset Smoothing Method, suffered only a 1.1% reduction in the value of their assets. Furthermore, the Retirement Systems' Funded Ratio would have decreased to 38.5% if assets were measured at fair value. Through the application of the Asset Smoothing Method, however, the Retirement Systems' Funded Ratio for Fiscal Year 2009 was 50.6%. Tables 25 and 26, set forth below, reflect the Retirement Systems' Funded Ratio for Fiscal Year 2011 and Fiscal Year 2010, respectively, both measured at fair value and based on application of the Asset Smoothing Method.

Actuarial Accrued Liability

In addition to establishing the manner of measuring the Actuarial Value of Assets, the Pension Code mandates the use of the Statutory Funding Plan in calculating the Required Annual Statutory Contribution. The provisions of the Statutory Funding Plan differ from those generally accepted accounting principles established in GASB 25 in two significant respects.

First, the goal of the Statutory Funding Plan is to amortize the portion of the UAAL necessary to allow the Retirement Systems' Funded Ratio to reach 90% over a 50-year closed period, commencing in Fiscal Year 1996 and ending in Fiscal Year 2045, whereas GASB 25 requires amortization of the entire UAAL over an open 30-year amortization period. Second, the Statutory Funding Plan allowed the State to contribute less than the level percent of payroll necessary to reach the desired funding level for the first 15 years of the Statutory Funding Plan (the "ramp-up" period discussed below, which ended at the conclusion of Fiscal Year 2010). In contrast, GASB 25 does not permit a ramp-up to full contributions.

A closed amortization period means that the UAAL is amortized over a fixed number of years such that the UAAL will decrease to a legally defined target (which, for the State, is a 90% Funded Ratio by 2045 in accordance with the Statutory Funding Plan) upon the passage of the amount of time established as the amortization period, provided required payments are made. For example, under the Statutory Funding Plan, the Required Annual Statutory Contribution for Fiscal Year 2011 will be calculated by using a 35-year amortization period, while the Required Annual Statutory Contribution for Fiscal Year 2012 will be calculated using a 34-year amortization period. Conversely, an open amortization period has no term limit and is therefore recalculated over a new 30-year period each time a valuation is performed in accordance with GASB 25. Amortizing through use of a closed period will have the effect of decreasing the UAAL at a greater rate and will allow the State to reach its funding target by Fiscal Year 2045, *provided* that all required contributions are made. Under an open amortization period, although the UAAL would decrease in each year, the amount of time necessary to fully amortize the UAAL would be far longer because the amount amortized would decrease in each year.

These differences between GASB 25 and the Statutory Funding Plan account for the variation between the Required Annual Statutory Contribution and the Actuarially Required Contribution. See "FUNDED STATUS" herein.

Net Pension Obligation

GASB 25 requires the calculation and disclosure of the Net Pension Obligation (the "NPO") in the financial statements of the pension plan, while GASB 27 requires that amount to be disclosed in the financial statements of the employer. With respect to the Retirement Systems, the NPO is defined as the cumulative value of the annual differences between the State's actual contributions and the Actuarially

Required Contributions, starting at the point in time the State adopted generally accepted accounting principles for pension accounting and reporting as promulgated by GASB. In any year that the State contributes less than the Actuarially Required Contribution, the difference between the actual contribution and the Actuarially Required Contribution is the addition to the NPO for that year.

Table 31 presents a ten year history of the Net Pension Obligation, as reported in either the CAFRs or the Valuation Reports of each Retirement System, as calculated in accordance with GASB 25.

The unfunded pension liability reported each year as the UAAL is materially greater than the NPO for that corresponding year. As noted above, the Required Annual Statutory Contribution and the actuarial valuation reports are calculated based upon the UAAL as opposed to calculation based on the NPO measure of the unfunded pension liability.

On July 8, 2011, GASB released two exposure drafts of proposed changes in pension accounting and financial reporting standards for retirement systems as well as state and local governments (as currently promulgated in GASB 25 and 27, respectively), and if implemented, these changes will impact the accounting treatment of pension plans in which state and local governments participate. Major changes would be: (1) the inclusion of unfunded pension liabilities on the government employer's balance sheet (such unfunded liabilities are currently typically included as notes to the government's financial statements) in lieu of the NPO valuation which would no longer be required; (2) full pension costs would be shown as expenses regardless of actual contribution levels and would be measured by a significantly different method than by the use of the Actuarially Required Contribution, which calculation would no longer be required; (3) lower actuarial discount rates than currently used would be required for most pension plans and reported in the financial statements, resulting in increased liabilities and pension expenses; and (4) shorter amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements, which generally would increase pension expenses. Following public comments on the exposure draft in 2011, new standards could be adopted in final form in 2012 and if so, would be expected to take effect in fiscal years beginning mid-2013.

ACTUARIAL ASSUMPTIONS

General

The Actuarial Valuations of the Retirement Systems use a variety of assumptions to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. Although several of the assumptions are the same across all of the Retirement Systems, each Retirement System determines, within actuarial standards, the assumptions to be used in its Actuarial Valuation, unless a specific assumption is fixed by the Pension Code. No assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Retirement Systems. Variances between the assumptions and actual results may cause an increase or decrease in the Actuarial Value of Assets, the Actuarial Accrued Liability, the UAAL, the Funded Ratio or the Actuarially Required Contribution. Certain of these assumptions are summarized in Table 21. For additional information on these assumptions, please see each Retirement System's Actuarial Valuation.

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TABLE 21 - CERTAIN ACTUARIAL ASSUMPTIONS USED BY THE RETIREMENT SYSTEMS

	TRS	SURS	SERS	GARS	JRS
Actuarial Cost Method[1]	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Investment Rate of Return[2]	8.50%	7.75%	7.75%	7.00%	7.00%
Assumed Inflation Rate	3.50%	2.75%	3.00%	3.00%	3.00%
Post-Retirement Increase	3.00%	3.00%	3.00%	3.00%	3.00%
Projected Salary Increases	7.00%[3]	3.75% to 12.0%[4]	4.00% to 8.35%[5]	4.00%[6]	4.00%[6]

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) Under the projected unit credit actuarial cost method, the actuarial liability is the actuarial present value of 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.

(2) In fiscal year ending June 30, 2010, SURS and SERS reduced their assumed investment rates of return from 8.5% to 7.75% and JRS reduced their assumed rate from 8.0% to 7.0%. Beginning in fiscal year ending June 30, 2011, GARS reduced their assumed investment rate of return from 8.0% to 7.0%.

(3) Represents a composite of projected salary increases which vary between 6.0% (at age 60) and 11.1% (at age 20). Includes inflation (3.50%) and real wage growth (1.20%) assumptions.

(4) Each member's compensation is assumed to increase by 3.75% each year, 2.75% reflecting salary inflation and 1.00% reflecting standard of living increases. For members with less than 34 years of service, an additional projected salary increase factor is added to the assumed rate.

(5) Rates depend on member age.

(6) Includes inflation component of 3.0% and a seniority/merit component of 1.0%.

The Pension Code requires each of the Retirement Systems to conduct an actuarial experience review every five years. SURS, SERS, GARS and JRS conducted actuarial experience reviews in 2011. The TRS actuarial experience review will take place in 2012. The purpose of the experience review is to determine the adequacy of the actuarial assumptions regarding mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the Retirement Systems. Based upon the results of this review, the board of the applicable Retirement System may adopt such actuarial assumptions as it deems appropriate.

Assumed Investment Rate of Return

The Actuarial Valuations assume an investment rate of return on the assets in each Retirement System. For the fiscal year ending June 30, 2009, each Retirement System assumed an investment rate of return of either 8.00% or 8.50%. SURS and SERS reduced their assumed investment rate of return to 7.75% and JRS reduced its assumed investment rate of return to assumed investment rate of return to 7.00% for the Actuarial Valuations issued for the fiscal year ending June 30, 2010. GARS reduced its assumed investment rate of return to 7.00% for the Actuarial Valuations issued for the fiscal year ending June 30, 2011. These reductions will have the effect of increasing the UAAL and the Required Annual Statutory Contribution because the Retirement Systems now assume that plan assets will produce less income to pay projected benefits. Due to the volatility of the marketplace, however, the actual rate of return earned by the Retirement Systems on their assets may be higher or lower than the assumed rate. See Table 22 for the rates of return on the Retirement Systems' assets for the last ten fiscal years. Changes in the Retirement Systems' assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio. As a result of the State's adoption of the Asset Smoothing Method, however, only a portion of these increases or decreases will be recognized in the current year, with the remaining gain or loss spread over the remaining four years. See "ACTUARIAL METHODS—*Actuarial Value of Assets*" above.

Adverse market conditions resulted in negative investment returns on the Retirement Systems' assets in Fiscal Years 2008 and 2009, resulting in a significant reduction in the Funded Ratio and a corresponding increase in the UAAL. Although positive investment returns were achieved in Fiscal Years 2010 and

2011, no assurance can be given that negative trends in investment performance will not occur again in subsequent Fiscal Years, thereby resulting in a reduction in the Funded Ratio and a corresponding increase in the UAAL.

TABLE 22 - INVESTMENT RATES OF RETURN, 2002-2011

	TRS		SURS		SERS		GARS		JRS	
Fiscal Year	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*
2002	8.50%	-3.2%	8.50%	-6.1%	8.50%	-6.9%	8.00%	-6.9%	8.00%	-6.9%
2003	8.50%	4.9%	8.50%	2.9%	8.50%	0.3%	8.00%	0.3%	8.00%	0.3%
2004	8.50%	16.5%	8.50%	17.0%	8.50%	16.4%	8.00%	16.4%	8.00%	16.4%
2005	8.50%	10.8%	8.50%	10.4%	8.50%	10.1%	8.00%	10.1%	8.00%	10.1%
2006	8.50%	11.8%	8.50%	11.7%	8.50%	11.0%	8.00%	11.0%	8.00%	11.0%
2007	8.50%	19.2%	8.50%	18.3%	8.50%	17.1%	8.00%	17.1%	8.00%	17.1%
2008	8.50%	-5.0%	8.50%	-4.5%	8.50%	-6.2%	8.00%	-6.2%	8.00%	-6.2%
2009	8.50%	-22.7%	8.50%	-19.7%	8.50%	-20.1%	8.00%	-20.1%	8.00%	-20.1%
2010	8.50%	12.9%	7.75%	15.0%	7.75%	9.1%	8.00%	9.1%	7.00%	9.1%
2011	8.50%	23.6%	7.75%	23.8%	7.75%	21.7%	7.00%	21.7%	7.00%	21.7%
5-Yr. Avg. Return	-	4.1%	-	5.3%	-	3.1%	-	3.1%	-	3.1%
10-Yr Avg. Return	-	6.0%	-	6.1%	-	4.5%	-	4.5%	-	4.5%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2002 through June 30, 2010. Information for Fiscal Year 2011 was provided by the Retirement Systems.

HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS

Under the Pension Code, the State is required to make the Required Annual Statutory Contribution in each fiscal year.

Prior to fiscal year 1995, the State did not adequately fund the Retirement Systems such that the UAAL began to increase and the Funded Ratio began to decrease. To combat this escalation in the UAAL, the General Assembly enacted the Pension Funding Act in 1994. The Pension Funding Act created a 50-year schedule of State contributions to the Retirement Systems designed to achieve a 90% Funded Ratio by the end of Fiscal Year 2045 (the "Statutory Funding Plan"). In each fiscal year beyond Fiscal Year 2045, the Pension Funding Act requires that the State annually contribute the amount necessary to maintain the Funded Ratio at 90% for each Retirement System.

The Statutory Funding Plan consists of two parts: (i) a ramp-up period of increasing State contributions as a percentage of payroll in each of the fiscal years 1996 to 2010 and (ii) a period of contributions equal to the level percent of payroll necessary to cause the assets of the Retirement Systems to equal 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. During the ramp-up period, the Statutory Funding Plan required that the percentage of payroll contributed by the State increase by an equal amount in each year such that by Fiscal Year 2010 the contribution percentage of payroll was equal to the same percentage of payroll required to be contributed for years 2011 through 2045.

The State made the Required Annual Statutory Contribution for each of the fiscal years 1996 through 2002. These contributions were not sufficient to cover the full Actuarially Required Contributions, determined under GASB, for such fiscal years. As a result, the UAAL continued to grow during the ramp-up period. See "DETERMINATION OF EMPLOYER CONTRIBUTIONS—*Actuaries and the Actuarial Process*" and "ACTUARIAL METHODS—*Actuarial Accrued Liability*" above.

On June 12, 2003, the State issued $10 billion of general obligation pension funding bonds (the "2003 Pension Bonds") pursuant to authority granted by the General Assembly in Public Act 93-0002 (the "2003 Pension Bond Act"). The net proceeds of the 2003 Pension Bonds were used to (i) reimburse the

State's General Revenue Fund for $300 million of the Required Annual Statutory Contribution made for Fiscal Year 2003, (ii) provide funding to the State's General Revenue Fund for the full Fiscal Year 2004 Required Annual Statutory Contribution in the amount of $1.86 billion and (iii) fund a portion of the UAAL in the amount of $7.3 billion. As a result, the State funded approximately 25% of its Fiscal Year 2003 Required Annual Statutory Contribution and all of its Fiscal Year 2004 Required Annual Statutory Contribution from the proceeds of the 2003 Pension Bonds and not from the General Revenue Fund. The 2003 Pension Bond Act also provided that the State's Required Annual Statutory Contributions be reduced in each fiscal year, beginning in Fiscal Year 2005, by the State's debt service payments on the 2003 Pension Bonds, allocated among the Retirement Systems. See Table 23 below for a schedule of the annual debt service payments on the 2003 Pension Bonds.

The $7.3 billion contribution from the proceeds of the 2003 Pension Bonds directly reduced the UAAL. The reduction of future Required Annual Statutory Contributions by the debt service payments on the 2003 Pension Bonds has the effect of increasing the UAAL, however, because the State will not make the full contribution originally required by the Statutory Funding Plan as a result of this reduction. At the time of the issuance of the 2003 Pension Bonds, the State assumed that the investment returns made on the 2003 Pension Bond proceeds used to reduce the UAAL would be greater than the debt service on the 2003 Pension Bonds, creating a net decrease in the UAAL in each year. Since the total interest cost percentage of the 2003 Pension Bonds at date of issuance was 5.05%, then in any year that the actual returns, as reported in Table 22, exceeded in each specific year the amount of the debt service payments reflected in the Table below, the UAAL was effectively reduced from what the UAAL would have been had those bonds not been issued and proceeds not provided to the State's pension systems. Conversely, in those fiscal years when the actual returns reported in Table 22 were less than total interest cost percentage on the 2003 Pension Bonds, the UAAL was effectively increased from what the UAAL would have been had those bonds not been issued and proceeds provided to the State's pension systems. While the Retirement Systems saw positive investment returns in Fiscal Year 2010 and 2011, no assurance can be given that future negative investment trends or legislation affecting the Statutory Funding Plan will not occur, causing a further increase in the UAAL.

TABLE 23 - DEBT SERVICE ON 2003 PENSION BONDS[1]

FISCAL YEAR	DEBT SERVICE DUE ON 2003 PENSION BONDS	FISCAL YEAR	DEBT SERVICE DUE ON 2003 PENSION BONDS
2010	$ 543.6	2022	$ 749.8
2011	541.9	2023	783.7
2012	590.1	2024	840.2
2013	586.4	2025	892.2
2014	582.5	2026	915.4
2015	578.6	2027	936.1
2016	574.5	2028	979.2
2017	595.2	2029	1,018.5
2018	614.7	2030	1,079.0
2019	633.2	2031	1,134.4
2020	674.6	2032	1,159.7
2021	713.4	2033	1,156.1

(1) In millions of dollars.

In Fiscal Year 2005, the State made the Required Annual Statutory Contribution, which included a reduction by an amount equal to the debt service due on the 2003 Pension Bonds in that year. The UAAL increased in 2005 despite the State making the full Required Annual Statutory Contribution because the Required Annual Statutory Contribution was less than the Actuarially Required Contribution.

State contributions to the Retirement Systems for fiscal years 2006 and 2007 were governed by the provisions of Public Act 94-0004 ("P.A. 94-4"). P.A. 94-4 modified the Statutory Funding Plan to specify reduced Required Annual Statutory Contributions for these two fiscal years. These reduced contributions were also lower than the Actuarially Required Contributions for such fiscal years. Under the provisions of the Statutory Funding Plan as originally constituted in the Pension Funding Act, the State would have been required to contribute $2.1172 billion in Fiscal Year 2006 and $2.5078 billion in Fiscal Year 2007. P.A. 94-4 reduced these contributions to $0.9384 billion and $1.3723 billion, respectively, which represented reductions of 55.67% and 45.28%, respectively. The contribution reductions required by P.A. 94-4 had the dual effect of increasing the UAAL and delaying payment of the deferred portion of the contribution to a future fiscal year.

The State made the full Required Annual Statutory Contributions for fiscal years 2008 and 2009. As previously described, however, these contributions were reduced by the amount of debt service due in each fiscal year on the 2003 Pension Bonds. The UAAL increased despite the State making the Required Annual Statutory Contributions under the Statutory Funding Plan as a result of poor investment performance.

With respect to the State's contribution to the Retirement Systems for Fiscal Year 2010, the General Assembly enacted Public Act 96-0043 (the "2010 Pension Bond Act"), which set the State contribution for Fiscal Year 2010 at $3.6048 billion. On January 7, 2010, the State issued $3.466 billion of general obligation pension funding bonds (the "2010 Pension Bonds") to fund a portion of the Fiscal Year 2010 Required Annual Statutory Contribution. The 2010 Pension Bond Act does not provide that the Required Annual Statutory Contribution be reduced by the debt service payments on the 2010 Pension Bonds. In Fiscal Year 2010, the UAAL increased even though the State made the Required Annual Statutory Contribution, because such contribution was lower than the Actuarially Required Contribution.

Pursuant to the authorization under P.A. 96-1497 (the "2011 Pension Bond Act"), the State issued $3.7 billion in general obligation pension funding bonds (the "2011 Pension Bonds") to fund a portion of the Required Annual Statutory Contribution for Fiscal Year 2011. The 2011 Pension Bond Act does not provide that the Required Annual Statutory Contribution be reduced by the debt service payments on the 2011 Pension Bonds.

The State has not made all of its monthly payments to the Retirement Systems on a timely basis during Fiscal Year 2012. In the past, the Retirement Systems have sold assets to pay benefits as a result of a deficit between the contributions actually received (plus investment returns earned) by the Retirement Systems and their annual expenditures, including benefit payments. Failures by the State to make its payments to the Retirement Systems on a timely basis can exacerbate the pace at which the Retirement Systems may be required to sell assets to meet benefit payment requirements. If these sold assets are not replaced, the Actuarial Value of Assets will decrease and the UAAL will increase because the Retirement Systems will no longer have those assets, or the investment earnings on those assets, to pay benefits in the future.

Pursuant to the Statutory Funding Plan, commencing with Fiscal Year 2011, the State is required to make contributions to the Retirement Systems at the level percentage of payroll necessary to increase the Funded Ratio to 90% by the end of Fiscal Year 2045. The State's ability to make the required contributions under the Statutory Funding Plan is subject to the State having the funds necessary to make the contributions required under the plan. The availability of such funds will require funded appropriations and payment of revenues collected thereunder to the Retirement Systems by the State or the issuance of additional pension obligation bonds. No assurances can be given that the State will have the revenues necessary to fund the Retirement Systems from continuing operations, that payments from revenues will be made to the Retirement Systems or that such bonds will be issued. If the State for any reason does not contribute the Required Annual Statutory Contribution in Fiscal Year 2012 and in future years, the UAAL will increase, the Funded Ratio will decrease and it is unlikely that the State will be able to achieve a 90% Funded Ratio by the end of Fiscal Year 2045. If the State issues additional pension obligation bonds to make the Required Annual Statutory Contribution in any year and reduces future Required Annual Statutory Contributions by the amount of the debt service on such bonds, the UAAL will increase by the amount of such debt service. No assurance can be given that the State will not, through legislative action, subsequently modify the amount required to be contributed in any given year.

Table 24 shows the State's Actuarially Required Contributions along with the percentage of those contributions actually made in each of 2002 through 2011.

TABLE 24 - HISTORY OF STATE CONTRIBUTIONS(1)

Fiscal Year	Amount Contributed	Actuarially Required Contribution Per GASB 25	Percentage Contributed
2002	$1,533.28	$1,959.31	78.26%
2003	1,685.50	2,535.59	66.47%
2004(2)	9,177.07	2,656.36	345.48%
2005	1,735.11	3,084.49	56.25%
2006	1,022.70	3,085.60	33.14%
2007	1,479.40	3,665.60	40.36%
2008	2,145.00	3,729.20	57.52%
2009	2,891.90	4,076.40	70.94%
2010	4,130.90	4,786.80	86.30%
2011	4,298.57	5,906.59	72.78%

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2002 through June 30, 2010.

(1) In millions of dollars.

(2) Proceeds from the Pension Obligation Bonds of 2003 were received at the very beginning of Fiscal Year 2004. The amount contributed for Fiscal Year 2004 was $1.86 billion and the remaining contribution from proceeds was $7.3 billion to fund a portion of the UAAL.

FUNDED STATUS

As of the end of Fiscal Year 2011, the Retirement Systems had an aggregate UAAL of approximately $83.078 billion on a fair value basis and $82.907 billion on an actuarial basis (using the Asset Smoothing Method), resulting in respective Funded Ratios of 43.3% and 43.4%. The Retirement Systems' aggregate UAAL increased between the end of Fiscal Year 2010 and the end of Fiscal Year 2011 primarily as a result of insufficient State contributions, as compared to the Actuarially Required Contribution. Other factors affecting contributing to the increased UAALs from Fiscal Year 2010 to Fiscal Year 2011 include assumption changes adopted for the Fiscal Year 2011 valuation for the applicable Retirement Systems for which a valuation was required and actual experience differences from other actuarial assumptions.

The following tables summarize the financial condition for Fiscal Years 2007 through 2011.

TABLE 25
FINANCIAL CONDITION OF THE STATE RETIREMENT SYSTEMS
FISCAL YEAR 2011
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS(1)
Beginning Net Assets(2)	$9,201,831	$31,323,784	$12,121,542	$54,691	$523,276	$53,225,125	$719,980
Income							
Member Contributions	$254,201	$909,577	$260,177	$2,006	$16,725	$1,442,687	$49,757
State and Employer Contributions	1,127,887	2,326,029	773,595	11,444	62,694	4,301,648	44,841
Investment Income	1,930,208	7,234,539	2,801,109	10,291	105,258	12,081,406	172,506
Total	$3,312,297	$10,470,145	$3,834,881	$23,741	$184,678	$17,825,742	$267,104
Expenditures							
Benefits and Refunds	$1,529,640	$4,304,870	$1,670,146	$17,738	$101,372	$7,623,765	$26,202
Administration	13,735	17,792	12,274	299	622	44,722	344
Total	$1,543,375	$4,322,662	$1,682,420	$18,037	$101,994	$7,668,487	$26,546
Ending Net Assets (Fair value)	$10,970,753	$37,471,267	$14,274,003	$60,395	$605,960	$63,382,378	$960,538
Actuarial Value of Assets	11,159,837	37,769,753	13,945,680	63,161	614,596	63,553,027	N/A
Actuarial Accrued Liabilities	31,395,008	81,299,745	31,514,336	298,408	1,952,539	146,460,037	N/A
UAAL (Fair Value)	20,424,255	43,828,478	17,240,333	238,013	1,346,579	83,077,658	N/A
UAAL (Actuarial Value)(3)	20,235,171	43,529,992	17,568,656	235,247	1,337,943	82,907,009	N/A
Funded Ratio (Fair Value)	34.9%	46.1%	45.3%	20.2%	31.0%	43.3%	N/A
Funded Ratio (Actuarial Value)(3)	35.5%	46.5%	44.3%	21.2%	31.5%	43.4%	N/A

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011, and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2010. Table may not add due to rounding. Certain information was provided by the Retirement Systems.

(1) The SURS Self Managed Plan ("SMP") is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability. See "BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS" above.

(2) Reflects valuation of assets on a fair value basis as of June 30, 2010, per GASB Statement 25.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS--Actuarial Value of Assets" above.

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TABLE 26
FINANCIAL CONDITION OF THE STATE RETIREMENT SYSTEMS
FISCAL YEAR 2010
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$8,477,852	$28,497,729	$11,032,973	$55,092	$478,876	$48,542,522	$573,595
Income							
Member Contributions	$246,173	$899,401	$275,000	$1,681	$16,002	$1,438,256	$43,117
State and Employer Contributions	1,095,546	2,252,150	696,595	10,411	78,510	4,133,212	48,571
Investment Income	799,896	3,679,643	1,653,853	4,771	42,532	6,180,695	71,482
Total	$2,141,615	$6,831,194	$2,625,448	$16,862	$137,044	$11,752,163	$163,170
Expenditures							
Benefits and Refunds	$1,405,915	$3,988,188	$1,524,771	$16,991	$92,080	$7,027,945	$16,437
Administration	11,721	16,951	12,108	272	564	41,616	347
Total	$1,417,636	$4,005,139	$1,536,879	$17,263	$92,644	$7,069,561	$16,785
Ending Net Assets (Fair value)	$9,201,831	$31,323,784	$12,121,542	$54,691	$523,276	$53,225,124	$719,980
Actuarial Value of Assets	10,961,540	37,439,092	13,966,643	66,212	619,926	63,053,413	N/A
Actuarial Accrued Liabilities	29,309,464	77,293,198	30,120,427	251,765	1,819,448	138,794,302	N/A
UAAL (Fair Value)	20,107,634	45,969,414	17,998,885	197,074	1,296,172	85,569,179	N/A
UAAL (Actuarial Value)[3]	18,347,924	39,854,106	16,153,784	185,553	1,199,522	75,740,889	N/A
Funded Ratio (Fair Value)	31.4%	40.5%	40.2%	21.7%	28.8%	38.3%	N/A
Funded Ratio (Actuarial Value)[3]	37.4%	48.4%	46.4%	26.3%	34.1%	45.4%	N/A

Source: Actuarial Valuations of the Retirement Systems and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2010. Table may not add due to rounding.

(1) The SURS Self Managed Plan ("SMP") is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability. See "BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS" above.

(2) Reflects valuation of assets on a fair value basis as of June 30, 2009, per GASB Statement 25.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS–Actuarial Value of Assets" above.

TABLE 27
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2009
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$10,995,367	$38,430,723	$14,586,326	$75,406	$612,681	$64,700,502	$616,385
Income							
Member Contributions	$242,227	$876,182	$273,292	$1,698	$15,763	$1,409,163	$48,825
State and Employer Contributions	774,910	1,603,921	451,617	8,856	59,983	2,899,287	38,264
Investment Income	(2,208,898)	(8,688,286)	(2,850,697)	(14,662)	(122,717)	(13,885,259)	(116,423)
Total	($1,191,760)	($6,208,183)	($2,125,788)	($4,108)	($46,970)	($9,576,809)	($29,333)
Expenditures							
Benefits and Refunds	$1,315,073	$3,707,423	$1,414,642	$15,929	$86,269	$6,539,336	$13,457
Administration	10,681	17,388	12,922	277	566	41,834	
Total	$1,325,755	$3,724,811	$1,427,564	$16,206	$86,834	$6,581,170	$13,457
Ending Net Assets (Fair value)	$8,477,852	$28,497,729	$11,032,973	$55,092	$478,876	$48,542,523	N/A
Actuarial Value of Assets	10,999,954	38,026,044	14,281,998	71,574	616,849	63,996,418	N/A
Actuarial Accrued Liabilities	25,298,346	73,027,198	26,316,231	245,226	1,548,510	126,435,511	N/A
UAAL (Fair Value)	16,820,494	44,529,469	15,283,258	190,134	1,069,633	77,892,988	N/A
UAAL (Actuarial Value)[3]	14,298,393	35,001,155	12,034,233	173,652	931,661	62,439,093	N/A
Funded Ratio (Fair Value)	33.5%	39.0%	41.9%	22.5%	30.9%	38.4%	N/A
Funded Ratio (Actuarial Value)[3]	43.5%	52.1%	54.3%	29.2%	39.8%	50.6%	N/A

Source: Actuarial Valuations of the Retirement Systems and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2009. Table may not add due to rounding.

(1) The SURS Self Managed Plan ("SMP") is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability. See "BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS" above.

(2) Reflects valuation of assets on a fair value basis as of June 30, 2008, per GASB Statement 25.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS–Actuarial Value of Assets" above.

TABLE 28
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2008
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$12,078,909	$41,909,318	$15,985,730	$87,182	$670,091	$70,731,230	$584,020
Income							
Member Contributions	$249,955	$865,400	$264,149	$1,773	$15,443	$1,396,721	$45,952
State and Employer Contributions	587,732	1,171,788	344,945	6,810	46,978	2,158,253	38,954
Investment Income	(680,760)	(2,014,902)	(675,722)	(4,708)	(37,977)	(3,414,069)	(39,127)
Total	$156,928	$22,286	-$66,627	$3,874	$24,445	$140,905	$45,779
Expenditures							
Benefits and Refunds	$1,230,933	$3,484,268	$1,320,698	$15,406	$81,355	$6,132,660	$13,414
Administration	9,537	16,613	12,079	244	500	38,974	
Total	$1,240,470	$3,500,881	$1,332,777	$15,651	$81,855	$6,171,634	$13,414
Ending Net Assets	$10,995,367	$38,430,723	$14,586,326	$75,406	$612,681	$64,700,502	$616,385
Actuarial Accrued Liabilities	23,841,280	68,632,367	24,917,678	235,780	1,457,336	119,084,441	N/A
UAAL	12,845,914	30,201,644	10,331,353	160,374	844,656	54,383,940	N/A
Funded Ratio	46.1%	56.0%	58.5%	32.0%	42.0%	54.3%	N/A

Source: Actuarial Valuations of the Retirement Systems and Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2008. Table may not add due to rounding.

(1) The SURS Self Managed Plan (SMP) is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.

(2) Reflects valuation of assets on a fair value basis as of June 30, 2007, per GASB Statement 25.

TABLE 29
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2007
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$10,899,853	$36,584,889	$14,175,147	$82,255	$599,234	$62,341,379	$350,181
Income							
Member Contributions	$224,773	$826,249	$262,351	$1,703	$14,153	$1,329,229	$33,309
State and Employer Contributions	358,787	853,586	261,143	5,470	35,237	1,514,223	41,642
Investment Income	1,779,907	6,831,324	2,517,496	12,991	98,158	11,239,876	80,335
Total	$2,363,466	$8,511,159	$3,040,989	$20,165	$147,548	$14,083,327	$155,286
Expenditures							
Benefits and Refunds	$1,175,553	$3,171,485	$1,218,702	$15,017	$76,237	$5,656,993	$15,280
Administration	8,808	15,246	11,705	220	454	36,433	
Total	$1,184,361	$3,186,731	$1,230,406	$15,237	$76,691	$5,693,426	$15,280
Ending Net Assets	$12,078,909	$41,909,318	$15,985,730	$87,182	$670,091	$70,731,230	$584,020
Actuarial Accrued Liabilities	22,280,917	65,648,395	23,362,079	231,914	1,385,340	112,908,645	N/A
UAAL	10,202,008	23,739,077	7,376,349	144,732	715,249	42,177,414	N/A
Funded Ratio	54.2%	63.8%	68.4%	37.6%	48.4%	62.6%	N/A

Source: Actuarial Valuations of the Retirement Systems and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2007. Table may not add due to rounding.

(1) The SURS Self Managed Plan (SMP) is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.

(2) Reflects valuation of assets on a fair value basis as of June 30, 2006, per GASB Statement 25.

Tables 30 and 31 present information as required by GASB 27 for Fiscal Years 2002 through 2011. Table 30 provides aggregate funding progress for the Retirement Systems, including comparisons to UAAL and Funded Ratio. Table 31 provides a schedule of the Net Pension Obligation for each Retirement System and for the Retirement Systems in the aggregate. For additional information about the Net Pension Obligation, see "ACTUARIAL METHODS—*Net Pension Obligation*" above.

TABLE 30 - SCHEDULE OF FUNDING PROGRESS(1)

Fiscal Year	Actuarial Value of Assets(2)	Actuarial Accrued Liability	Unfunded Accrued Actuarial Liabilities (UAAL)(2)	Funded Ratio(2)	Payroll	UAAL as a Percentage of Payroll(2)
	(a)	(b)	(b-a)	(a/b)	(c)	([b-a]/c)
2002	$40,238.98	$75,253.53	$35,014.55	53.5%	$13,241.45	264.4%
2003	40,925.69	83,905.02	42,979.32	48.8%	13,601.60	316.0%
2004	54,769.42	89,912.82	35,143.40	60.9%	13,675.84	257.0%
2005	58,577.90	97,179.00	38,601.10	60.3%	14,106.80	273.6%
2006	62,341.40	103,073.50	40,732.10	60.5%	14,540.50	280.1%
2007	70,731.20	112,908.60	42,177.40	62.6%	15,249.20	276.6%
2008	64,700.50	119,084.40	54,383.90	54.3%	15,949.20	341.0%
2009	63,996.42	126,435.51	62,439.09	50.6%	16,606.60	376.0%
2010	63,053.40	138,794.30	75,740.90	45.4%	17,042.20	444.4%
2011	63,553.03	146,460.04	82,907.01	43.4%	17,061.93	485.9%
2009(3)	48,542.52	126,435.51	77,892.99	38.4%	16,606.60	469.0%
2010(3)	53,225.10	138,794.30	85,569.20	38.3%	17,042.20	502.1%
2011(3)	63,382.38	146,460.04	83,077.66	43.3%	17,061.93	486.9%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2002 through June 30, 2010 and Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) In millions of dollars. Table may not add due to rounding.

(2) 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 determined in accordance with the Asset Smoothing Method. See discussion of Asset Smoothing Method under "ACTUARIAL METHODS - *Actuarial Value of Assets*" above.

(3) Measures the Actuarial Value of Assets at fair value.

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TABLE 31 - NET PENSION OBLIGATION[1]

Fiscal Year	TRS	SURS	SERS	GARS	JRS	Total
2002	$8,867.9	$4,349.0	$1,065.1	$51.7	$299.2	$14,632.9
2003	9,658.9	4,812.9	1,142.4	55.8	331.5	$16,001.5
2004	6,272.9	3,910.0	-105.6	33.6	227.5	$10,338.4
2005	7,183.9	4,361.9	190.9	38.4	261.0	$12,036.1
2006	8,508.6	4,984.3	658.9	44.1	303.5	$14,499.4
2007	9,971.1	5,584.5	1,135.5	50.0	349.7	$17,090.8
2008	11,075.7	6,121.0	1,554.6	55.0	386.0	$19,192.3
2009	11,954.0	6,734.2	1,814.5	58.6	413.4	$20,974.7
2010	12,586.1	7,250.8	1,933.3	61.6	431.5	$22,263.3
2011	13,418.7	7,941.1	2,131.5	64.7	470.1	$24,026.1

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2002 through June 30, 2010 and Actuarial Valuations of the Retirement Systems as of June 30, 2011. Certain information related to Fiscal Year 2011 was provided by the Retirement Systems.

(1) In millions of dollars. Table may not add due to rounding.

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A variety of factors impact the Retirement Systems' UAAL and Funded Ratio. Increases in member salary and benefits, a lower return on investment than that assumed by the Retirement Systems and insufficient contributions when compared to the Normal Cost plus interest will all cause an increase in the UAAL and a decrease in the Funded Ratio. Conversely, decreases in member salary and benefits, a higher return on investment than assumed and employer contributions in excess of Normal Cost plus interest will decrease the UAAL and increase the funded ratio. In addition, changes in actuarial assumptions and certain other factors will have an impact on the UAAL and the Funded Ratio, as set forth in Table 32 below. No assurances can be given that the State will make the appropriations necessary to meet any escalating costs incurred by the Retirement Systems.

TABLE 32 - COMPONENTS OF CHANGE IN UNFUNDED LIABILITY[1]

Fiscal Year	Salary Increases/ (Decreases)	Investment Returns (Higher)/Lower Than Assumed	Employer Contributions (Higher)/Lower than Normal Cost Plus Interest[2][4]	Benefit Increases	Changes In Actuarial Assumptions	Other Factors[3]	Total Change in Unfunded Liability From Previous Year
2002	134.4	5,575.4	1,741.0	234.1	1,377.8	903.4	9,966.1
2003	125.6	2,071.5	2,435.1	2,425.0	-	1,101.0	8,158.3
2004	135.7	(3,841.8)	(4,689.8)	-	-	385.3	(8,010.6)
2005	35.1	(1,033.6)	2,431.5	-	26.4	2,048.3	3,507.8
2006	108.3	(1,843.1)	3,484.5	-	704.6	(323.2)	2,131.2
2007	314.9	(6,064.1)	3,321.0	-	2,735.2	1,138.3	1,445.2
2008	72.8	9,312.3	2,785.9	-	-	35.5	12,206.5
2009	(105.8)	7,080.7	3,237.0	-	-	1,097.7	8,055.2
2010	(424.1)	4,818.1	2,746.1	-	5,209.1	950.5	13,301.8
2011	(847.3)	2,667.2	3,666.1	-	581.3	1,098.7	7,166.2
Total	(450.4)	18,742.6	21,158.4	2,659.1	10,634.4	8,435.5	57,927.7

Source: Commission on Government Forecasting and Accountability, Report on the Financial Condition of the Illinois Retirement Systems: Financial Condition as of June 30, 2010. See "RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS - Report of the Commission on Government Forecasting and Accountability." Fiscal year 2011 data compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) In millions. Table may not add due to rounding.

(2) To determine whether employer contributions represented an increase or decrease in UAAL, such contributions are measured against contributions based on the Normal Cost plus interest. If employer contributions exceed Normal Cost plus interest, the UAAL will decrease. If employer contributions are less than Normal Cost plus interest, the UAAL will increase.

(3) Other factors include, but are not limited to, higher or lower incidences of retirement, disability, in-servie mortality, retiree mortality or terminations than assumed.

(4) Includes 2003 Pension Bonds. See "HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS" above.

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2010 LEGISLATION MODIFYING BENEFIT STRUCTURE

The State has not provided significant benefit enhancements for Retirement System members since 2003.

On March 24, 2010, the General Assembly enacted Public Act 96-0889 ("P.A. 96-889"). P.A. 96-889 provided for significant reforms to the Retirement Systems, most notably by establishing a "two-tier" benefit system with less generous benefits for future employees who become members of the Retirement Systems on or after January 1, 2011, as compared to those provided to State employees who commenced employment prior to January 1, 2011. Among other reforms, P.A. 96-889:

- Increased the minimum age at which an active employee may retire with unreduced benefits to age 67 for employees hired after January 1, 2011, from age 60 or younger based on a formula combining the age of the employee and the number of years of service;
- Reduced the cost of living adjustment to the lower of 3% or 50% of the annual change in the consumer price index for all urban consumers ("CPI") (for JRS and GARS, the annual change in such CPI) and eliminates compounding of such cost of living adjustment for employees hired after January 1, 2011;
- Calculates benefits based on the highest continuous eight years of compensation in the employee's last 10 years of employment for employees hired on or after January 1, 2011, from a calculation based on the highest four consecutive year average compensation;
- Capped the salary on which a pension may be calculated at $106,800 (subject to certain adjustments for inflation); and
- Suspends retirement annuities if the annuitant accepts another public sector job covered by a public retirement system.

P.A. 96-889 did not impact persons that first became members or participants prior to its effective date of January 1, 2011.

Taken independently of any other legislative or market effects, the reduced benefits afforded new hires by P.A. 96-889 is expected to reduce the growth in the Actuarial Accrued Liability, the UAAL and the Required Annual Statutory Contribution. In calculating the Actuarial Accrued Liability, the actuaries make assumptions about future benefit levels. As the value of future benefits decreases, as will occur when a greater percentage of the State's workforce is covered by P.A. 96-889, the Actuarial Accrued Liability is expected to decrease. Consequently, the UAAL is expected to decrease and the Funded Ratio to improve. As the growth in the UAAL slows, the Required Annual Statutory Contribution is expected to be reduced as the amount of UAAL to be amortized decreases.

Because the actuarial calculations look to the future to determine the amount of assets and liabilities that will accumulate over time, under the current Statutory Funding Plan the reduction in future benefits caused an immediate reduction in the amount that the State was required to contribute to the Retirement Systems in fiscal year 2011. See Table 33 for the projected future Required Annual Statutory Contributions under the Statutory Funding Plan before and after enactment of P.A. 96-889. In the long-term, this decrease in future benefits is expected to reduce the sum of contributions required to reach a Funded Ratio of 90% because the total benefits for which the State will be liable should decrease as more employees are covered by the lower benefits, assuming a relatively static pool of employees. In the short-term, however, these decreased contributions are expected to have the effect of increasing the UAAL because the majority of employees earning benefits in the short-term will earn those benefits under the provisions of the former plan. Therefore, although the cost of benefits will not change dramatically until a large portion of employees are covered by the new benefits, in the short-term the amount of the Required Annual Statutory Contribution will decrease, driving the UAAL up and the Funded Ratio down.

Table 33 was prepared solely to compare projected Required Annual Statutory Contributions to the Retirement Systems prior to and after the enactment of P.A. 96-889. These projections were made as of June 30, 2010, immediately following the passage of P.A. 96-889, and do not reflect current projections of the Required Annual Statutory Contributions to the Retirement Systems. Table 33A reflects projections of the Required Annual Statutory Contributions to the Retirement Systems based on the Actuarial Valuations of the Retirement Systems as of June 30, 2011, including the revised actuarial assumptions presented in Tables 21 and 22. Actual Required Annual Statutory Contributions to the Retirement Systems will vary from the projected amounts shown in both Table 33 and Table 33A. These projections are forward-looking statements regarding future events and are based on the actuarial assumptions contained in the Statutory Funding Plan as discussed above and assumptions made regarding such future events, including the assumption that all projected contributions to the Retirement Systems are made as required. No assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in this table.

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TABLE 33 – PROJECTIONS, AS OF THE PASSAGE OF P.A 96-889, OF REQUIRED ANNUAL STATUTORY CONTRIBUTIONS TO THE RETIREMENT SYSTEMS [1]

Fiscal Year	Projected Required Annual Statutory Contributions Before P.A. 96-889	Projected Required Annual Statutory Contributions After P.A. 96-889
2011	$4,541	$4,156[2]
2012	4,949	4,866
2013	5,412	5,291
2014	5,880	5,719
2015	6,356	6,159
2016	6,649	6,409
2020	7,871	7,527
2025	9,709	9,187
2030	12,043	11,140
2035	16,127	14,225
2040	20,064	16,389
2045	25,139	18,986

Source: Projected Required Annual Statutory Contributions Before P.A. 96-889 from compilation by Deloitte Consulting LLP, Chicago, Illinois made as of April 13, 2010 from information supplied by the Retirement Systems. Projected Required Annual Statutory Contributions After P.A. 96-889 compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2010, as recertified by the Retirement Systems for fiscal year 2011 pursuant to Public Act 96-1511.

(1) In millions of dollars. These projections are forward-looking statements regarding future events. No assurance can be given that actual events will not cause material changes to the data presented in this table. No assurance can be given that the assumptions underlying these projections will reflect those actually experienced by the Retirement Systems. In the event that the Retirement Systems' experience is different than the assumptions underlying these projections, the Required Annual Statutory Contributions may increase or decrease.

(2) Pursuant to Public Act 96-1511, the Retirement Systems recertified the Required Annual Statutory Contribution for fiscal year 2011. Such recertification reduced the fiscal year 2011 Required Annual Statutory Contribution from $4.541 billion to $4.156 billion.

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TABLE 33A - PROJECTED REQUIRED ANNUAL STATUTORY CONTRIBUTIONS TO THE RETIREMENT SYSTEMS[1]

Fiscal Year	Projected Required Annual Statutory Contributions
2011	$4,156
2012	4,868
2013	5,825
2014	6,155
2015	6,494
2016	6,617
2020	7,551
2025	9,020
2030	10,608
2035	12,508
2040	13,709
2045	15,189

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal year ended June 30, 2010.

(1) In millions of dollars. These projections are forward-looking statements regarding future events. No assurance can be given that actual events will not cause material changes to the data presented in this table. No assurance can be given that the assumptions underlying these projections will reflect those actually experienced by the Retirement Systems. In the event that the Retirement Systems' experience is different than the assumptions underlying these projections, the Required Annual Statutory Contributions may increase or decrease.

PROJECTION OF FUNDED STATUS

Table 34 provides a projection of the Actuarial Value of Assets, the Actuarial Accrued Liability, the UAAL and the Funded Ratio throughout the life of the Statutory Funding Plan. These projections are forward-looking statements regarding future events and are based on the actuarial assumptions contained in the Statutory Funding Plan and assumptions made regarding such future events, including the assumption that all projected contributions to the Retirement Systems are made as required. No assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in this table.

TABLE 34 - PROJECTION OF FUTURE FUNDING STATUS[1]

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Accrued Actuarial Liabilities (UAAL)	Funded Ratio
	(a)	(b)	(b-a)	(a/b)
2011	$63,553.05	$146,460.00	$82,906.95	43.4%
2012	65,221.30	153,366.05	88,144.75	42.5%
2013	67,611.32	160,345.82	92,734.50	42.2%
2014	74,001.12	167,363.87	93,362.75	44.2%
2015	80,172.37	174,440.81	94,268.43	46.0%
2016	84,766.45	181,576.79	96,810.34	46.7%
2020	103,714.92	210,473.67	106,758.74	49.3%
2025	130,453.54	246,788.87	116,335.33	52.9%
2030	162,498.72	281,487.65	118,988.93	57.7%
2035	199,817.05	309,556.56	109,739.52	64.5%
2040	242,830.87	325,532.58	82,701.70	74.6%
2045	294,683.11	327,428.71	32,745.59	90.0%

Source: Compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) In millions of dollars.

RECENT REPORTS AND OTHER DEVELOPMENTS REGARDING THE RETIREMENT SYSTEMS

Report of the Pension Modernization Task Force

House Joint Resolution Number 65 of the 96th General Assembly created the Pension Modernization Task Force (the "Task Force"). The Task Force included members of the General Assembly, organized labor, the business community and beneficiaries of the Retirement Systems. The Task Force met between June 18, 2009, and November 9, 2009, and submitted a report on the Retirement Systems to the Governor and General Assembly in November 2009 (the "Final Report"). The findings of the three major subcommittees described below were voted on individually to be included in the Final Report. However, the Final Report in its entirety was not approved by a majority of the members of the Task Force. A decision was made by the Task Force to publish the Final Report as-is, without such approval, and allow readers to review all of the information, including input and opinions put forth by individual members and interest groups. To this end, the Final Report also includes letters and reports from a variety of Task Force members and outside interest groups. Several minority reports were included as appendices. The Final Report, including these letters, reports and appendices, is available at the web site of the Pension Reform Task Force. See "STATE OF ILLINOIS-WEBSITE INDEX." The State makes no representation nor expresses any opinion as to the accuracy of the Final Report, the statements made or the information contained therein, some of which may be conflicting.

The Final Report presents the findings of the three major subcommittees formed by the Task Force: (i) the Subcommittee on Investments, (ii) the Subcommittee on Benefits and (iii) the Subcommittee on Funding. The Subcommittee on Investments voted unanimously to reject a proposal by the State Treasurer to consolidate the management of the five Retirement Systems into a single investment entity. In addition, the Subcommittee on Investments considered whether the State should adopt actuarial assumed rates of return on investments at a level below the 8.0%-8.5% rates in use at the time of the issuance of the Final Report. Although the Subcommittee on Investments did not reach a conclusion on this issue, the Subcommittee found that the rates of return currently employed by the Retirement Systems are higher than those assumed on private sector retirement plans regulated by the Employment Retirement Income Security Act (ERISA) and those used by other states' retirement systems, but noted that the Retirement Systems have historically experienced investment returns comparable to their actuarial assumed rates of return on investments.

Report of the Commission on Government Forecasting and Accountability

The Commission on Government Forecasting and Accountability ("COGFA") prepared a report dated March, 2012, on the financial condition of the Retirement Systems as of June 30, 2011 (the "COGFA Report"). COGFA is a bipartisan and bi-cameral legislative commission whose purpose is to provide the General Assembly with information relevant to the State economy, taxes, and other sources of revenue and debt obligations of the State. Among COGFA's list of specific responsibilities is to make an annual estimate of public pension funding requirements and to prepare pension impact notes. Furthermore, COGFA has a mandate to report to the General Assembly on economic trends in relation to long-range planning and budgeting and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as the same may affect the State. As a result of these responsibilities, COGFA issues several reports on an annual basis, including the COGFA Report, which provides an overview of the financial condition of the Retirement Systems.

The COGFA Report provides significant information on the funded status of the Retirement Systems, historical and projected information with respect to each of the Retirement Systems and an exhaustive history of pension legislation. COGFA does not make findings in the COGFA Report. The COGFA Report is available from COGFA's website listed in the "STATE OF ILLINOIS – WEBSITE INDEX" section herein. The State makes no representations nor expresses any opinion on the COGFA Report.

Resolution of the TRS Board of Trustees

In February 2012, the Executive Director of TRS informed its Board of Trustees that TRS can no longer be confident that the General Assembly will appropriate all of the money to TRS that is required by law. On March 30, 2012, the Board of Trustees of TRS adopted a resolution which stated that, after consideration of information provided by the Executive Director describing the analysis performed by TRS staff and actuaries, the Board no longer has confidence that the State will be able to meet its existing funding obligations to TRS and the Board believes that action must now be taken to ensure the continued solvency and viability of the TRS. The resolution also provided that the Board will only certify future contributions to TRS that are calculated based on generally accepted actuarial principles and standards. The resolution of the Board of Trustees and information prepared by the Executive Director are available at the TRS website listed in the "STATE OF ILLINOIS – WEBSITE INDEX" section herein.

PROPOSED PENSION STABILIZATION AND OTHER LEGISLATION

Retirement Systems Stabilization Recommendations

On April 20, 2012, the Governor proposed a series of changes to the pension funding and benefits affecting the Retirement Systems and their beneficiaries. These changes were proposed after consultation with a working group, comprised of members of the Governor's senior management team, two members of the Illinois Senate and two members of the Illinois House of Representatives, that was tasked with formulating proposals to improve the financial condition of the Retirement Systems.

The changes proposed by the Governor include the following changes affecting the funding of the Retirement Systems and the calculation of pension benefits for employees hired prior to January 1, 2011 who are members of the Retirement Systems:

- A 3 percentage point increase in the amount that employees are required to contribute towards funding of their retirement benefits;
- Limiting annual cost of living adjustments that are part of the pension benefits to the lesser of 3% or ½ of CPI, with such annual adjustments to be calculated based on simple interest as opposed to compounded interest;
- Providing that beneficiaries will not be entitled to receive such annual cost of living adjustments until the earlier of age 67 or 5 years after retirement; and
- Increasing the retirement age for beneficiaries to 67, with such increase to be phased-in over a period of several years.

Under the proposal, each employee affected by these changes will have an opportunity to accept or not accept such changes. For employees accepting such changes, future salary increases will be included in the calculation of their pension benefits upon retirement and they will be eligible to receive a subsidy as offered by the State in the future towards the cost of State-sponsored retiree health care benefits. For employees that do not accept such changes, future salary increases would not be counted in the calculation of their pension benefits upon retirement and such employees would not receive any future subsidy from the State towards the cost of retiree health care benefits. (For information regarding the changes in pension funding and benefits affecting State employees hired beginning January 1, 2011, see " - 2010 Legislation Modifying Benefit Structure" above.)

The changes proposed by the Governor also include the following:

- Requiring school districts, community college districts and State universities to assume the responsibility for paying the employer's portion of the Normal Cost of pension benefits for their employees, with such obligation to be phased in. (For additional information regarding "Normal Cost," see "Determination of Employer Contributions-*Statutory Funding Plan not in Accordance with GASB 25*" above.)
- Establishing a 30-year funding schedule based on Actuarially Required Contributions that would cause the Funded Ratio to be 100% by 2042. (For additional information about the determination of Actuarially Required Contributions, see "-Determination of Employer Contributions- Actuaries and the Actuarial Process" above.)
- Requiring that "public sector" pension benefits will be available for and provided to only individuals working for a "public sector" employer.

Additional information about these proposed recommendations can be found at www.capitalmarkets.illinois.gov.

The changes proposed by the Governor and described above have not yet been introduced in the General Assembly but are expected to be considered by the General Assembly in its Spring 2012 Session. However, no assurance can be given as to the form of any legislation incorporating these changes, whether any or all of these proposed changes will be enacted into law or the timing of any consideration by the General Assembly and the Governor of these proposed changes.

SB 512

Various bills were introduced in the General Assembly during 2011 that would provide for reforms to the Retirement Systems. Legislation generally referred to as SB512 would provide for changes in the pension funding and benefits affecting the Retirement Systems and its beneficiaries. In the form currently pending in the Illinois House, SB512 would affect TRS, SERS (excluding State police and State firefighters), SURS (excluding members who have already opted into the SURS self-managed plan) and GARS but JRS would not be included. (SB512 would provide similar changes of funding and benefits for pension funds covering certain employees and beneficiaries of the City of Chicago, the Chicago Board of Education, the Chicago Park District and Cook County.) Among the changes proposed by SB512:

- Members of the affected Retirement Systems would be required to make an election as to which of three retirement plans described below to participate in. The first election would be made generally for periods of service beginning on and after July 1, 2013.

- *Current Defined Benefit Plan*: Tier 1 employees (hired prior to January 1, 2011) would be able to continue under this current plan but would have to provide higher employee contributions. For the first three years, employee contributions would be fixed percentages of salary and thereafter employee contributions would be calculated as the normal cost – which is the true cost of the pension benefit earned in that year – minus the 6% of salary contribution that would be made by the State.

- *Revised Defined Benefit Plan*: Tier 1 employees, Tier 2 employees (hired after January 1, 2011) and employees hired after the effective date of SB512 would be allowed to participate, with benefit levels essentially the same as described "2010 LEGISLATION MODIFYING BENEFIT STRUCTURE" above. Participants would have their annual compensation capped for the purpose of calculating benefits, with the State's contribution calculated as 6% of salary.

- *Self-Managed Plan:* Tier 1 employees, Tier 2 employees and employees hired after the effective date of SB512 would be allowed to participate, with State and employee contributions equal to 6% of salary and with participants able to make additional contributions. Generally, a participant would become vested upon completion of 5 years of service.

This summary of certain terms of SB512 is not intended as a comprehensive description and reference is made to the full text of SB512, which is available at the General Assembly's website. See "STATE OF ILLINOIS – WEBSITE INDEX." There is no assurance that SB512, in its current form or as subsequently amended, will be enacted into law. Other pension-related legislation, including legislation implementing the changes described above under "- *Retirement Systems Stabilization Recommendations,*" may also be considered by the General Assembly during the current legislative session but there is no assurance whether, or in what form, any such legislation will be enacted into law.

SEC INQUIRY

The State was contacted in September 2010 by the SEC regarding a non-public inquiry into communications by the State relating to the financial effects of P.A. 96-889 on the Illinois public pensions, including communications relating to the potential savings or reductions in contributions by the State to the Illinois public pensions. The SEC has informed the State that the inquiry should not be construed as an adverse reflection on any entity or individual involved, nor should it be interpreted as an indication by the SEC or its staff that any violation of the federal securities laws has occurred. The SEC has asked for information as part of its inquiry. The State is cooperating fully with the SEC's inquiry and is providing all information requested by the SEC in connection with its inquiry. The State is unable to predict the ultimate outcome of such inquiry. Prior to the SEC inquiry and in response to statements made by the SEC in a recent enforcement action against the State of New Jersey (SEC Rel. No. 9135, August 18, 2010), the State engaged the law firm of Chapman and Cutler LLP, Chicago, Illinois, to assist the State in reviewing the enforcement action against New Jersey, updating certain of the information contained in this Section and drafting the disclosure policies and procedures set forth in the following Subsection. The State subsequently engaged the law firm of Mayer Brown LLP, Chicago, Illinois, to assist the State in continuing to update certain of the information contained in this Section and in implementing the disclosure policies and procedures set forth in the following Subsection.

PENSION DISCLOSURE POLICIES AND PROCEDURES

The State has reviewed, evaluated, and enhanced its pension disclosure process by instituting formal, written policies and procedures. In its written policies and procedures, among other things, the State established a committee within the GOMB consisting of GOMB employees (the "Disclosure Committee") to oversee the pension disclosure process. The GOMB Director of Capital Markets serves as chairperson of the Disclosure Committee, and the general counsel of the GOMB serves as an ex-officio member. The Disclosure Committee has primary responsibility for drafting, editing and updating the State's pension disclosure. Prior to release of the disclosure in an official statement or at the time of an update as mandated in the policies and procedures, the disclosure will be submitted to the Retirement Systems, COGFA, the Office of the Comptroller and the Office of the Attorney General for their review and comment.

In addition, the State has implemented an annual mandatory training program conducted for the Disclosure Committee and the other GOMB employees involved in the disclosure process. The training is intended to ensure compliance with the State's disclosure obligations under the federal securities laws.