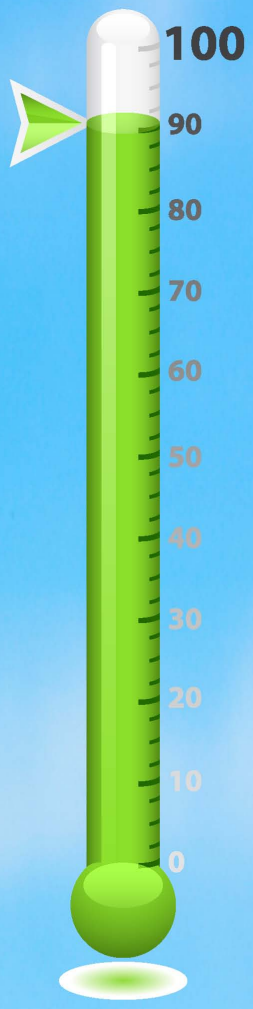
A Report on the Appropriateness of the 90% Funding Target of Public Act 88-593

Commission on Government Forecasting & Accountability



Current:

Funded Ratio

38.3%

June 2011

Target:

90% Funded

Year 2045

Commission on Government Forecasting and Accountability
March, 2011

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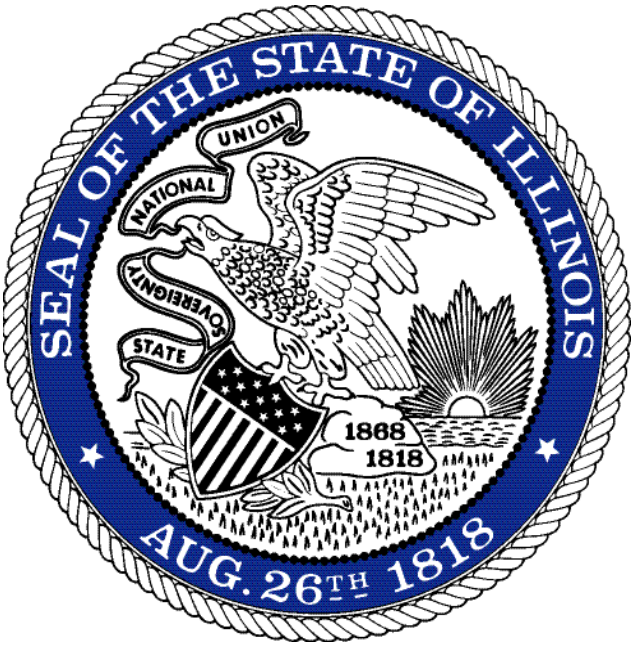


Executive Summary

Public Act 88-593

Public Act 88-593 became effective on August 22nd, 1994. Commonly referred to as "the 1995 funding law," the Act amended the State-funded retirement systems' Articles of the Pension Code to require annual appropriations to the systems as a level percent of payroll, beginning in FY 2010, following a 15 year phase-in period which began in FY 1996. P.A. 88-593 requires the State-funded retirement systems to attain a 90% funding ratio by FY 2045. After FY 2045, the State must contribute the annual amount needed to maintain a 90% funding ratio.

Public Act 88-593 contained a legislative finding that a funding ratio of 90% is an appropriate goal for the State-funded retirement systems in Illinois. The Act further stated "…a funding ratio of 90% is now the generally-recognized norm throughout the nation for public employee retirement systems that are considered to be financially secure and funded in an appropriate and responsible manner."

P.A. 88-593 requires the Commission on Government Forecasting and Accountability (CoGFA), in consultation with the retirement systems and the Governor's Office of Management and Budget, to make a determination every five years as to whether the 90% funding ratio continues to represent an appropriate funding goal. This report looks at the financial status of the State retirement systems in Illinois, with a particular focus on how the five State systems were impacted by P.A. 96-0889, the two-tier pension reform legislation that became effective on Jan. 1, 2011. The Commission's actuary conducted a detailed cost study of the reform legislation in order to determine the impact upon State contributions between FY 2011 – FY 2045, and also the impact upon projected FY 2045 accrued liabilities. The actuary's cost study forms the basis for much of the information shown in this report.

Despite the significant savings associated with P.A. 96-0889, adhering to the pension funding schedule set forth by P.A. 88-593 will continue to remain the most significant fiscal challenge for the State of Illinois. Nevertheless, the Commission believes that the goal of reaching a 90% funding ratio by 2045 as called for in P.A. 88-593 should be maintained.

. The following is a summary of the findings contained in this report:

- P.A. 88-593 requires the State to make contributions to the State retirement systems so that total assets of the systems will equal 90% of their total actuarial liabilities by fiscal year 2045. The contributions are required to be a level percent of payroll in fiscal years 2011 through 2045, following a phase-in period that began in FY 1996.

- P.A. 88-593 also requires a periodic evaluation of whether the 90% target funded ratio continues to represent an appropriate funding goal for State-funded retirement systems in Illinois.

- The funded ratio of a retirement system places the unfunded liabilities in the context of the retirement system's assets. Expressed as a percentage of a system's liabilities, the funded ratio is calculated by dividing net assets by the accrued actuarial liabilities. The result is the percentage of the accrued liabilities that are covered by assets.

- The unfunded liabilities of the State systems have grown by approximately $57 billion since FY 1996. The single largest driver of the growth in the unfunded liabilities has been insufficient employer contributions. Other factors that have contributed to the growth in the unfunded liabilities include insufficient investment returns, benefit increases, changes in actuarial assumptions, and other miscellaneous demographic factors.

- P.A. 96-0889 amended the Illinois Pension Code to make changes applicable to persons who first became participants under all Illinois public pension funds, (excluding police and fire pension funds or the CTA Pension Fund) on or after January 1, 2011 concerning: conditions for retirement, calculation of salary, annual increases, survivor's annuities, and application of alternative formula provisions.

- Under P.A. 96-0889, State contribution for fiscal years 2010 – 2045 will be reduced by $71.1 billion as a result of a second tier of benefits for new hires.

- Under P.A. 96-0889, the projected accrued liability for the five State retirement systems combined in fiscal year 2045 is reduced significantly from $555.7 billion to $295.3 billion.

- Under P.A. 96-0889, the unfunded liability will increase for a number of years at a faster rate than it otherwise would have, until about FY 2035, when it is projected to decrease. This is because of the decreased accrued liability in FY 2045 which is attributable to a second tier of benefits for new hires. This decreased accrued liability means the State now must reach 90% of a lowered target, and thus contributions will decrease accordingly. While contributions will decrease, in the immediate future liabilities will accrue at much the same pace as they would have before the second tier of benefits went into place since most active employees will be "Tier 1" employees for the foreseeable future.

- The five State systems will pay out a combined $38.2 billion less in benefits over the period FY 2011 – FY 2045 as a result of the Tier 2 reforms made by P.A. 96-0889. Because most active employees will be Tier 1 employees for the

foreseeable future, total payout will track closely with the projected payout prior to P.A. 96-0889 until about 2035, when payout will begin to decline from pre-P.A. 96-0889 levels.

- Tier 1 active employees will decline in number until about FY 2018, when total active membership will be roughly equal between Tier 1 and Tier 2 members.

- The Commission's actuary projects that most Tier 1 members who were in active service on Jan. 1, 2011 will have retired by FY 2045.

- Three of the State-funded systems, SERS, JRS, and SURS, scaled back their respective interest rate assumptions as of June 30, 2010. The Commission's actuary estimates that this change will increase state contributions by approximately $19.8 billion between FY 2012 – FY 2045. These additional contributions will offset a portion of the savings associated with the two-tier pension reforms contained in P.A. 96-0889.

Rationale for 90% Funding Target of P.A. 88-593

According to the June 1994 Survey of State and Local Government Employee Retirement Systems, prepared by the Public Pension Coordinating Council (PPCC), the value of assets as a percentage of the Pension Benefit Obligation (detailed in the next section) averaged 90.2% for the retirement systems surveyed by the PCCC in the summer of 1993. It can be assumed that P.A. 88-593 was referring to this survey when it stated that "a funding ratio of 90% is now the generally recognized norm throughout the nation for public employee retirement systems." Based on an analysis of national trends contained at the end of the following section, the Commission believes that a target funding ratio of 90% remains an appropriate goal.

Current Financial Condition of the State Systems

Based upon the actuarial value of assets, the unfunded liabilities of the State systems totaled $75.7 billion on June 30, 2010, led by the Teachers' Retirement System (TRS) whose unfunded liabilities amounted to $39.9 billion. As the largest of the State systems, TRS accounts for over half of the total assets and liabilities of the five State systems combined. Table 1 below provides a summary of the financial condition of each of the five State retirement systems, showing their respective liabilities and assets as well as their accumulated unfunded liabilities and funded ratios.

TABLE 1

Summary of Financial Condition
State Retirement Systems Combined
Assets at Actuarial Value / With Asset Smoothing
Public Act 96-0043
FY 2010
($ in Millions)

System	Accrued Liability	Actuarial Assets	Unfunded Liability	Funded Ratio
TRS	$77,293.2	$37,439.1	$39,854.1	48.4%
SERS	$29,309.5	$10,961.5	$18,347.9	37.4%
SURS	$30,120.4	$13,966.6	$16,153.8	46.4%
JRS	$1,819.4	$619.9	$1,199.5	34.1%
GARS	$251.8	$66.2	$185.6	26.3%
TOTAL	$138,794.3	$63,053.4	$75,740.9	45.4%

A much more realistic valuation of the true financial position of the various retirement systems would be based upon the market value of the assets, as shown in Table 2 on the following page. Based upon this more realistic value of assets, the total unfunded liabilities of the State systems totaled $85.6 billion on June 30, 2010. The Teachers' Retirement System (TRS), whose unfunded liabilities amounted to $45.9 billion, again represents over 50% of the combined total unfunded balance. Table 2 on the following page provides a summary of the financial condition of each of the five State retirement

systems, showing their respective liabilities and assets as well as their accumulated unfunded liabilities and funded ratios, based on the market value of assets.

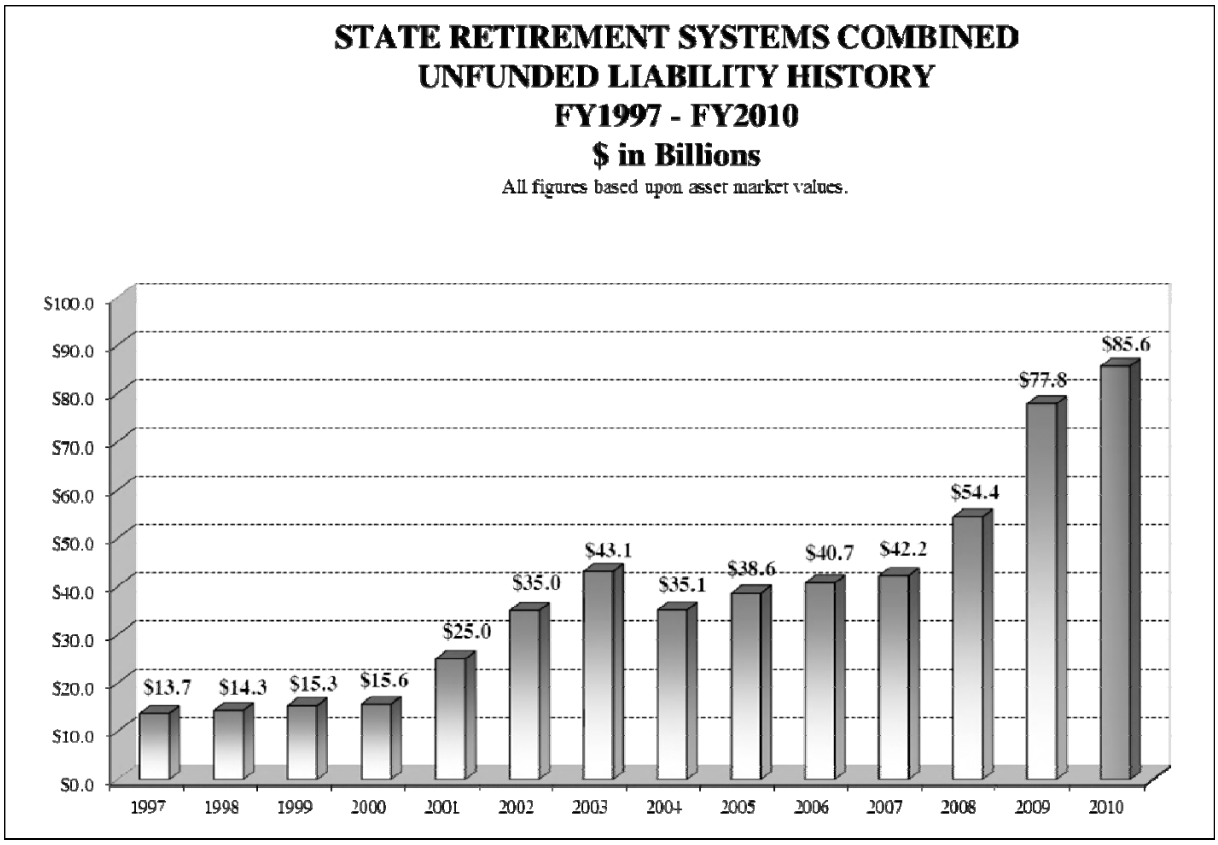
TABLE 2

Summary of Financial Condition State Retirement Systems Combined Assets at Market Value / Without Asset Smoothing FY 2010 ($ in Millions)				
System	Accrued Liability	Net Assets	Unfunded Liability	Funded Ratio
TRS	$77,293.2	$31,323.8	$45,969.4	40.5%
SERS	$29,309.5	$9,201.8	$20,107.6	31.4%
SURS	$30,120.4	$12,121.5	$17,998.9	40.2%
JRS	$1,819.4	$523.3	$1,296.2	28.8%
GARS	$251.8	$54.7	$197.1	21.7%
TOTAL	$138,794.3	$53,225.1	$85,569.2	38.3%

The funded ratios for each of the five State retirement systems may be compared to the aggregate funded ratio of 38.3% for the five systems combined. Although the Judges' Retirement System and the General Assembly Retirement System have the poorest funded ratios, these two systems are much smaller and their unfunded liabilities are thus more manageable than the three larger systems.

Chart 1 below tracks the growth in unfunded liabilities for all five State systems combined from FY 1997 – FY 2045. At the end of FY 2010, the five State-funded retirement systems had a combined unfunded liability of $85.6 billion based upon the market value of assets, an increase of $7.8 billion from the FY 2011 unfunded liability of $77.8 billion.

CHART 1

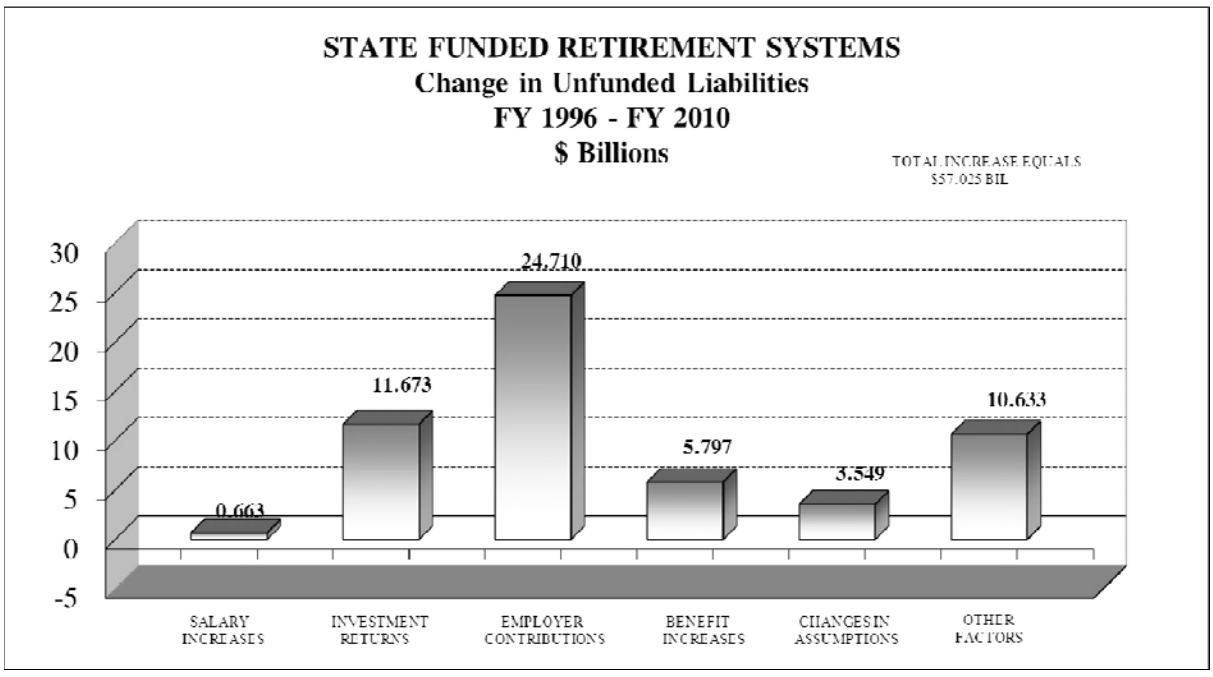


Change in Unfunded Liabilities, FY 1996 – FY 2010

Chart 2 below documents the change in the unfunded liabilities of all five State systems combined over the period FY 1996 – FY 2010. FY 1996 was the first year of the new funding plan under P.A. 88-593. While the funding plan sets an ultimate goal of reaching a 90% funding ratio by FY 2045, the systems' unfunded liabilites will continue to grow even if the State makes its statutorily-required contributions in the coming years. Section V, beginning on page 30 documents the projected growth in the unfunded liabilites for each of the five State systems over the period FY 2010 – FY 2045. As shown in that section, unfunded liabilities are projected to increase until approximately FY 2033, when payments become large enough to begin reducing the unfunded liability.

As shown in Chart 2 below, the single largest driver of the increase in the unfunded liability has been insufficient employer contributions. Other factors contributing to the growth in the unfunded liability include investment losses when compared to the assumed rate of return, benefit increases, and changes in actuarial assumptions. The category "other factors" encompasses miscellaneous actuarial factors such as rates of termination, disability, and pre-and post-retirement mortality. Any factors that cause the systems' actuaries to revise their assumptions as a result of a 5-year experience study is included in the "changes in assumptions" category.

CHART 2

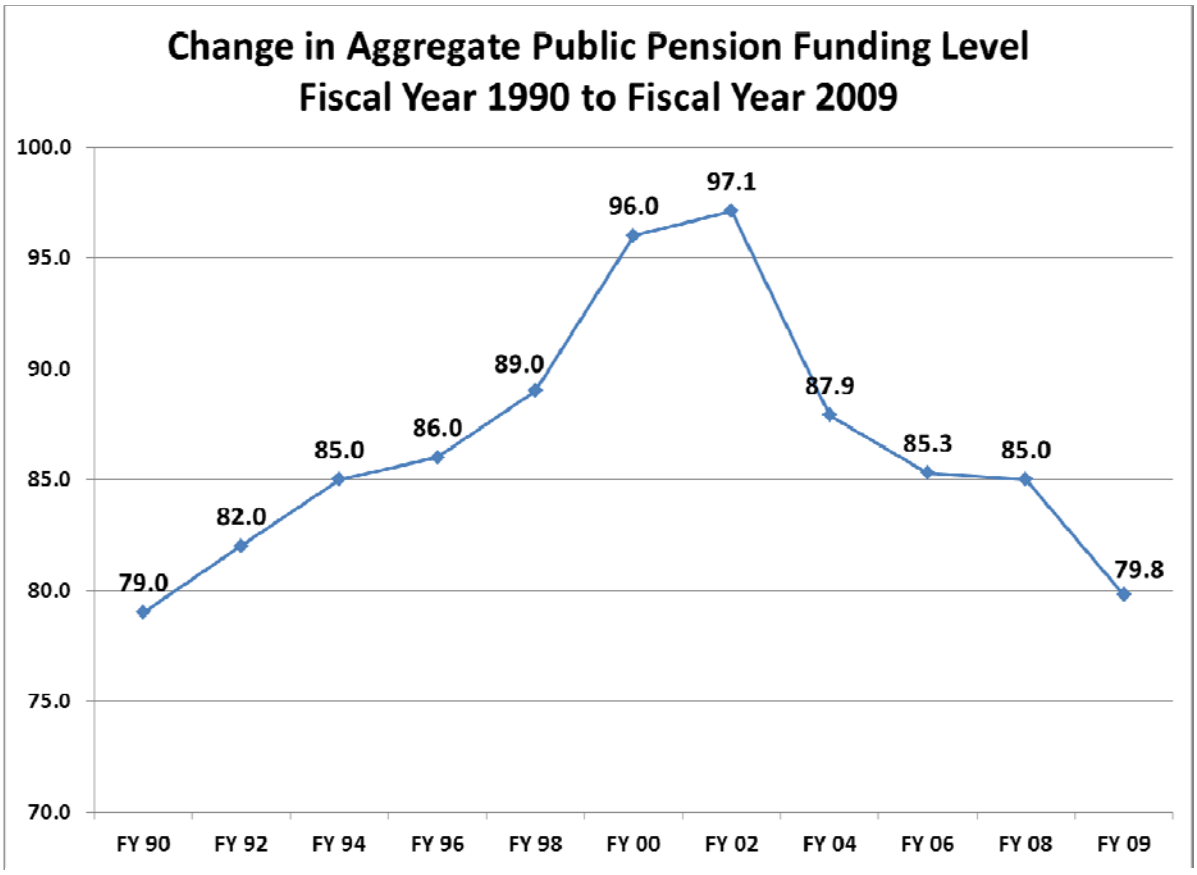


National Overview

In November of 2010, the National Association of State Retirement Administrators (NASRA) issued its annual *Public Fund Survey* of 101 public pension funds nationwide. The study found that in the wake of the 2008 market downturn, an unprecedented number of public pension plans increased contribution rates for both employers and employees, and some states – including Colorado, Minnesota, and South Dakota – reduced cost-of-living adjustments for both current and future retirees. The NASRA survey cited a study prepared by the National Conference of State Legislatures which found that at least a dozen states have increased contribution rates for some groups of current or future plan participants, while other states enacted reforms including higher retirement ages, lower retirement multipliers, or an increased number of years of service in order to qualify for a pension.

In assessing recent changes in funding levels for the 101 plans surveyed, the NASRA survey found that the aggregate public pension funding level dropped from 85.0 percent in FY 2008 to 79.8 percent in FY 2009, as shown in Chart 3 below.

CHART 3



Source: NASRA Public Fund Survey Summary of Findings for FY 2009

On March 31, 2011, Standard and Poor's released a report titled *U.S. States' Pension Funded Ratios Drift Downward*. The report states that despite improved performance in the global equity markets that began around March 2009, the funded ratios of state public pension funds remain at low levels. The report explains that pension assets relative to liabilities have also declined, thus making higher employer contributions more likely. Table 3 below shows the top 10 states with the lowest funded ratios. Table 4 shows the top 10 states with the highest unfunded accrued liability.

It should be noted that the unfunded liability for Illinois is based upon the State systems' actuarial (smoothed) value of assets as of June 30, 2009.

TABLE 3

State Retirement Systems and Debt Statistics: 2009

10 States with Lowest Funded Ratios

State	Funded Ratio	UAAL (Mil.)	UAAL PC	Debt (Mil.)	Debt PC	Debt PC + UAAL PC	(Debt PC + UAAL PC)/ Income PC	(Debt PC + UAAL PC) / GSP PC	GO Rating
Illinois	50.6	62,439	4,837	24,297	1,882	6,719	16.1	14.0	A+/Negative
West Virginia	56.0	6,350	3,489	1,659	912	4,401	13.7	12.9	AA/Stable
Oklahoma	57.4	14,833	4,023	1,909	518	4,541	12.7	10.9	AA+/Stable
New Hampshire	58.3	3,538	2,670	814	614	3,284	7.7	7.4	AA/Stable
Rhode Island	58.7	4,747	4,509	1,876	1,782	6,291	15.2	19.3	AA/Negative
Kansas	58.8	8,279	2,937	3,058	1,085	4,022	10.2	9.2	AA+/Stable
Louisiana	60.0	15,851	3,529	5,147	1,146	4,675	12.5	10.1	AA-/Stable
Alaska	60.4	5,994	8,587	940	1,347	9,934	23.0	14.9	AA+/Stable
Kentucky	60.9	17,912	4,152	9,100	2,109	6,261	19.4	17.5	AA-/Stable
Connecticut	61.6	15,859	4,508	16,681	4,742	9,250	16.7	13.0	AA/Stable

TABLE 4

State Retirement Systems and Debt Statistics: 2009

Top 10 States Ranked by UAAL (Mil.)

State	Funded Ratio	UAAL (Mil.)	UAAL PC	Debt (Mil.)	Debt PC	Debt PC + UAAL PC	(Debt PC + UAAL PC)/ Income PC	(Debt PC + UAAL PC) / GSP PC	GO Rating
California	80.7	94,664	2,561	74,518	2,016	4,577	10.8	9.0	A-/Negative
Ohio	67.5	64,318	5,572	9,920	859	6,431	18.1	15.9	AA+/Negative
Illinois	50.6	62,439	4,837	24,297	1,882	6,719	16.1	14.0	A+/Negative
New Jersey	66.0	45,809	5,261	30,056	3,452	8,713	17.4	15.9	AA-/Stable
Texas	84.1	24,696	997	12,889	520	1,517	3.9	3.3	AA+/Stable
Massachusetts	63.3	23,157	3,512	26,319	3,991	7,503	15.1	13.7	AA/Positive
Pennsylvania	80.8	21,331	1,692	10,030	796	2,488	6.2	5.7	AA/Stable
Kentucky	60.9	17,912	4,152	9,100	2,109	6,261	19.4	17.5	AA-/Stable
Maryland	64.2	17,683	3,103	8,730	1,532	4,635	9.6	9.3	AAA/Stable
Minnesota	72.8	17,625	3,347	6,068	1,152	4,499	10.7	9.2	AAA/Stable

Source: Standard & Poor's Global Credit Portal Ratings Direct, *U.S. States' Pension Funded Ratios Drift Downward*, March 31, 2010.

Calculating the Funded Ratio

The Funded Ratio

The funded ratio places the unfunded liabilities in the context of the retirement system's assets. Expressed as a percentage of a system's liabilities, the funded ratio is calculated by dividing net assets by the accrued liabilities. The result is the percentage of the accrued liabilities that are covered by assets. At 100%, a fully funded system has sufficient assets to pay all benefits earned to date by all its members. Of course, in order to calculate the funded ratio, the accrued actuarial liabilities must be calculated and the actuarial value of plan assets must be determined. There are several ways to calculate the accrued actuarial liability and the actuarial value of plan assets.

Determining the Actuarial Accrued Liability

Various actuarial cost methods have been devised to allocate systematically to employers and employees the expenses incurred under a pension plan as employees earn benefits. In other words, an actuarial cost method determines how much money should be set aside each year so that, when the employee retires, the system will be able to pay the earned benefits. An actuarial funding method is also used to determine the contributions needed in order to meet the costs of currently accruing benefits and improve or stabilize the system's financial condition. The state-funded retirement systems calculate accrued liability based on the projected unit credit method, as explained below.

Projected Unit Credit Method

The pension benefit obligation (PBO) is the actuarial accrued liability calculated using the projected unit credit actuarial method. The PBO is the sum of the present value of:

- benefits payable to current retirees;
- benefits that will become payable to inactive vested members;
- accrued benefits of active vested members;
- accrued benefits of active employees who are likely to become vested; and
- benefits due to future salary increases.

Calculation of Actuarial Assets

There are four different methods that can be used to determine the actuarial value of plan assets. Assets may be valued at the original purchase price or at the market value on the date of the actuarial valuation. Two methods of valuing assets which smooth short-term market fluctuations are the smoothed market method and the blended method. The smoothed market method uses a moving average to smooth market fluctuations, while the blended method uses the average of the cost and market value of assets. Illinois adopted asset smoothing in 2009 with the passage of SB 1292 (P.A. 96-0043).

The Significance of Actuarial Funding Ratios

The ratio of assets to liabilities in a defined benefit pension plan, commonly known as the "funding ratio," is a widely utilized method for gauging the health of a retirement system. If a pension plan's assets are equal to its liabilities, the plan is considered to be *fully funded* (or funded at 100%). If a plan has a shortfall of assets to liabilities (or a funded ratio of less than 100%) then the plan carries an *unfunded liability*. Hence, such a plan would be considered *underfunded*. If a pension plan is underfunded, that does not mean that the plan cannot pay the benefits that its current employees and retirees have earned. Indeed, virtually all underfunded defined benefit public employee pension plans, including the five State-funded plans, continue to meet their current obligations.

All pension plans, whether fully funded or not, depend on employee/employer contributions and investment income in order to remain financially solvent. The primary difference between a fully funded plan and an underfunded plan is that the underfunded plan requires contributions to pay for benefits that are currently being accrued as well as to eliminate the shortfall between assets and accrued liabilities. A fully funded pension plan has no such shortfall and therefore only requires contributions to pay for benefits that are currently being accrued. This does not mean that no future contributions will be required for a fully funded plan, but rather that the actuarial value of the plan's assets equal its accrued liabilities at that moment in time.

It should be stressed that the funded ratio is merely a snapshot based on an assortment of long-term financial and demographic assumptions. It is merely a way of attempting to ascertain what the fund's obligations would be if the plan ended as of the actuarial valuation date and all of the plan's future obligations became payable at once. However, all of the plan's future obligations are not payable at once, but rather they are payable over many years into the future. This period of years allows the plan the necessary time to accrue the assets needed to pay future obligations.

Achieving full funding of a pension plan is not unlike a mortgage, in which a homeowner has a long period of time – usually 30 years – to amortize the mortgage. If the homeowner makes all of his or her scheduled payments, the mortgage would be considered fully funded at the end of the 30-year period. At any point during the 30-year amortization period, the outstanding amount of the mortgage is akin to a pension fund's unfunded liability.

Public Act 96-0889
Senate Bill 1946 – Cullerton (Madigan)

Passed House: 92-17-7
Passed Senate: 48-6-3

I. Overview of Key Provisions of P.A. 96-0889 (SB 1946)

- Effective Date
- Systems Impacted
- Retirement Eligibility
- Annual Increases in Annuity
- Survivor Benefits
- Prohibiting “Double Dipping”

Overview of Public Act 96-0889 (Senate Bill 1946)

Public Act 96-0889 (Senate Bill 1946) was approved in April of 2010 and became effective on January 1, 2011. PA 96-0889 impacts the following systems:

- IMRF
- Chicago Municipal
- Cook County
- Cook County Forest Preserve
- Chicago Laborers
- Chicago Park District
- Metropolitan Water
- SERS
- SURS
- TRS
- Chicago Teachers
- (Judges and GA separate; CTA, Police, and Fire excluded)

P.A. 96-0889 makes the following changes to the Illinois Pension Code:

Retirement Eligibility – Except State Policemen, Firefighters, and Correctional Guards

- Normal Retirement: 67 years old with 10 years of service
- Early Retirement: 62 years old with 10 years of service with a 6% per year reduction in benefits for each year age is under 67
- Annuity based on highest 8 years out of last 10 years of service
- Annual Final Average Salary may not exceed $106,800, as automatically increased by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year

Retirement Eligibility – State Policemen, Firefighters, and Correctional Guards

- Normal Retirement: 60 years old with 20 years of service
- State Policemen, Firefighters, DOC Guards are still eligible for Alternative Formula

Annual Increases in Annuity

- Increases begin at the later of the first anniversary of retirement or at age 67
- Increases equal to the lesser of 3% of one-half the annual increase in the CPI-U during the preceding 12-month calendar year; if increase in CPI is zero or if there is a decrease in CPI, then no COLA is payable

- Increase not compounded

Survivor Benefits
- 66.7% of the earned retirement benefit at death
- Increased by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year
- Increases not compounded

"Double Dipping" Prohibited
- Prohibition on simultaneously collecting a pension and a salary with public employer.

Chicago Teachers' Extension of Funding Plan
- Contributions specified in Fiscal Years 2011 – 2014
- New Goal: CTPF must reach 90% by 2059 (currently 2045)
- CTPF Actuary estimates re-amortization, together with second tier, will cost Chicago Public Schools $12.1 billion from FY 2011 – FY 2059

Retirement Eligibility – Judges and General Assembly
- Normal Retirement: 67 years old with 8 years of service
- Early Retirement: 62 years old with 8 years of service

Change in Benefit Formula – Judges and General Assembly
- 3% of Final Average Salary for each year of service
- Maximum annuity 60% of Final Average Salary
- Retirement annuity based on highest 8 out of final 10 years of service

Annual Increase in Annuity – Judges and General Assembly
- Increases begin after attainment of age 67
- Increases equal to the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year
- Increases compounded

Annual Increase in Survivor's Annuity – Judges and General Assembly
- 66.7% of the earned retirement benefit at death
- Increased by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year
- Increases compounded

II. CGFA Actuarial Analysis of Change in Normal Cost Under P.A. 96-0889 (SB 1946)

- Normal Cost as a Percentage of Payroll for the First Year for New Employees

- Long Term Normal Cost as a Percentage of Payroll

Change in Normal Cost Under P.A. 96-0889

Based on the funding projections the Commission's actuary performed for Senate Bill 1946, the normal cost as a percent of payroll for the benefits provided to newly hired employees under Senate Bill 1946 is estimated to be as follows:

TABLE 5

Retirement System	Normal Cost as a % of Payroll for the First Year for New Employees
TRS	4.79%
SERS	3.96%
SURS	2.36%
GARS	9.48%
JRS	3.51%

To determine the employer's share of the normal cost, the employee contribution rate needs to be deducted from the total normal costs (seen in Table 5). Because the total normal costs in Table 5 are all lower than the employee contribution rate, for each of the five State Retirement Systems, the employee contribution is estimated to more than cover the total normal cost, thus resulting in no employer's normal cost.

Senate Bill 1946 has significantly reduced the benefits provided for new employees, but the employee contribution rate has remained unchanged at the level in effect for current employees*. In addition, the normal costs in Table 5 represent the normal cost for new employees for the first year. These employees can be expected to be relatively young. Under the projected unit actuarial cost method that is specified for each of the five State Retirement Systems under the Illinois Pension Code, normal costs are lower for younger employees and increase with the age of the employees. Therefore, the normal costs in Table 5 represent the normal cost for the second tier employees under Senate Bill 1946 only for the first year of the projections. Over future years, as more and more employees come under the second tier, the average age of the employees under the second tier of benefits will increase and, therefore, the normal cost will also increase. The Commission's actuary has estimated that when all employees are covered under the second tier of benefits provided under Senate Bill 1946, the normal cost of the benefits provided under Senate Bill 1946 to be as follows:

*Note – P.A. 96-1490 limited employee contributions to $106.8 thousand, the pensionable salary base set forth by P.A. 96-0889. P.A. 96-1490 provided that this contribution limit will be indexed to ½ of the increase in the Consumer Price Index.

TABLE 6

Retirement System	Long Term Normal Cost as a % of Payroll
TRS	11.06%
SERS	8.08%
SURS	9.51%
GARS	11.41%
JRS	8.34%

* According to the Commission's actuary, the long-term normal costs will not be reached for 30-40 years.

III. Comparisons of Total State Contribution Before & After P.A. 96-0889 (SB 1946)

- Summary
- All State Systems Combined
- Teachers' Retirement System
- State Universities Retirement System
- State Employees' Retirement System
- Judges Retirement System
- General Assembly Retirement System

State Contributions Before & After P.A. 96-0889

Under Senate Bill 1946, State contributions to the five State-funded systems are projected to decrease by $71.1 billion over the period FY 2012 – FY 2045. Because SB 1946 did not alter the funding plan set forth by P.A. 88-593, the State still has a statutorily-mandated goal of reaching a 90% funding ratio by FY 2045. Section IV of this report, beginning on page 25, outlines how the second tier of benefits under SB 1946 will serve to reduce the projected accrued liabilities in FY 2045 by $256.4 billion. Because the projected accrued liabilities are reduced, the annual State contributions necessary to reach a 90% funding ratio are also reduced as shown in Table 7 below and in Charts 4-9 in this Section.

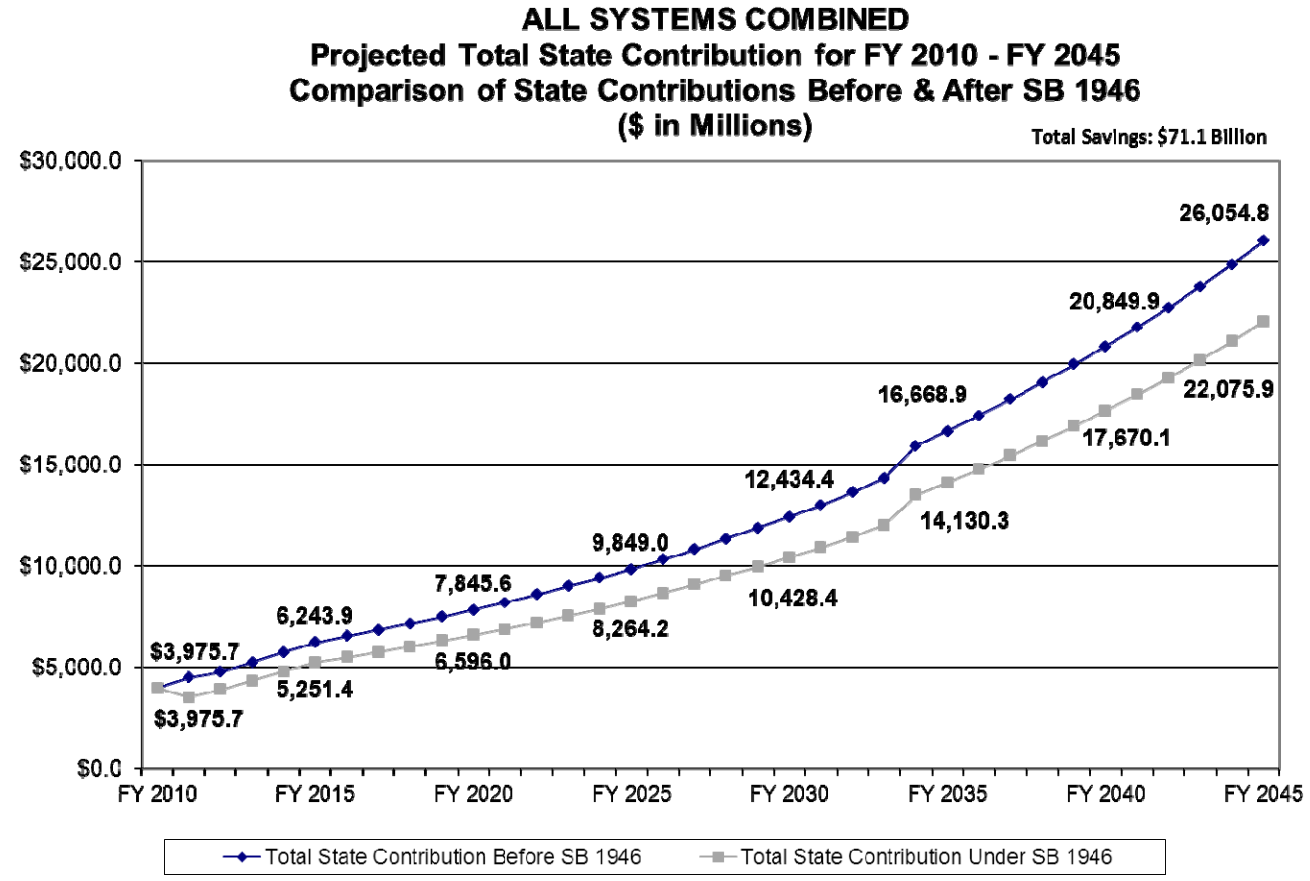
Table 7 below shows the total reduction in State contribution for each of the Systems.

TABLE 7

CoGFA Projections of Reduction in Contributions Based on Public Act 96-0889 ($ in millions)

System	Contributions Under Current Law	Contributions Under P.A. 96-0889	Reduction in Contributions	Present Value of Reduction in Contributions
TRS	$272,833.70	$223,165.00	$49,668.80	$10,709.60
SERS	95,272.40	84,967.80	10304.6	2479.7
SURS	81,075.60	72,070.50	9005	2049.1
JRS	6,789.70	4,719.10	2070.6	525.7
GARS	866.40	789.10	77.3	20.5
ALL COMBINED	**$456,837.80**	**$385,711.50**	**$71,126.30**	**$15,784.50**

CHART 4



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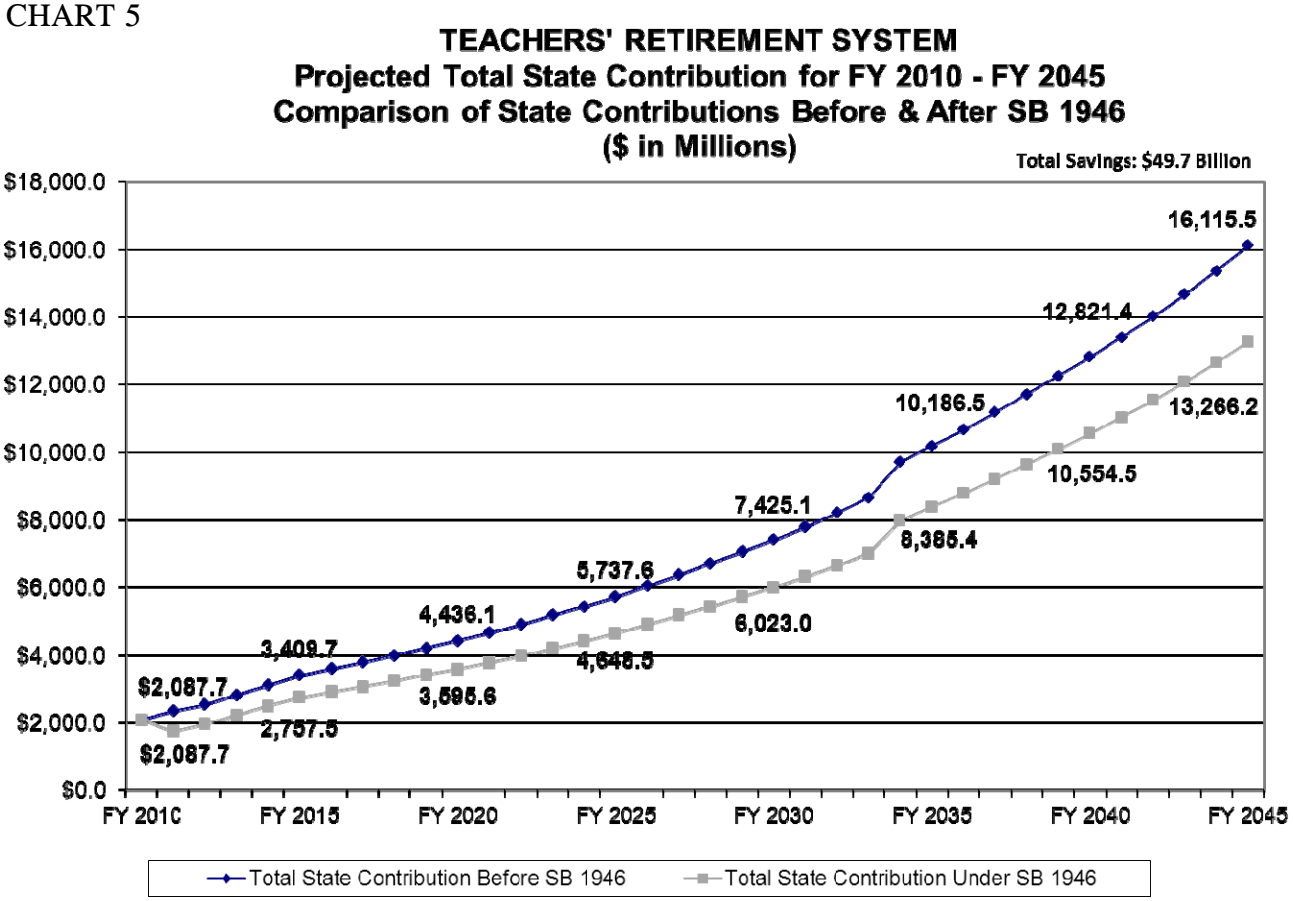

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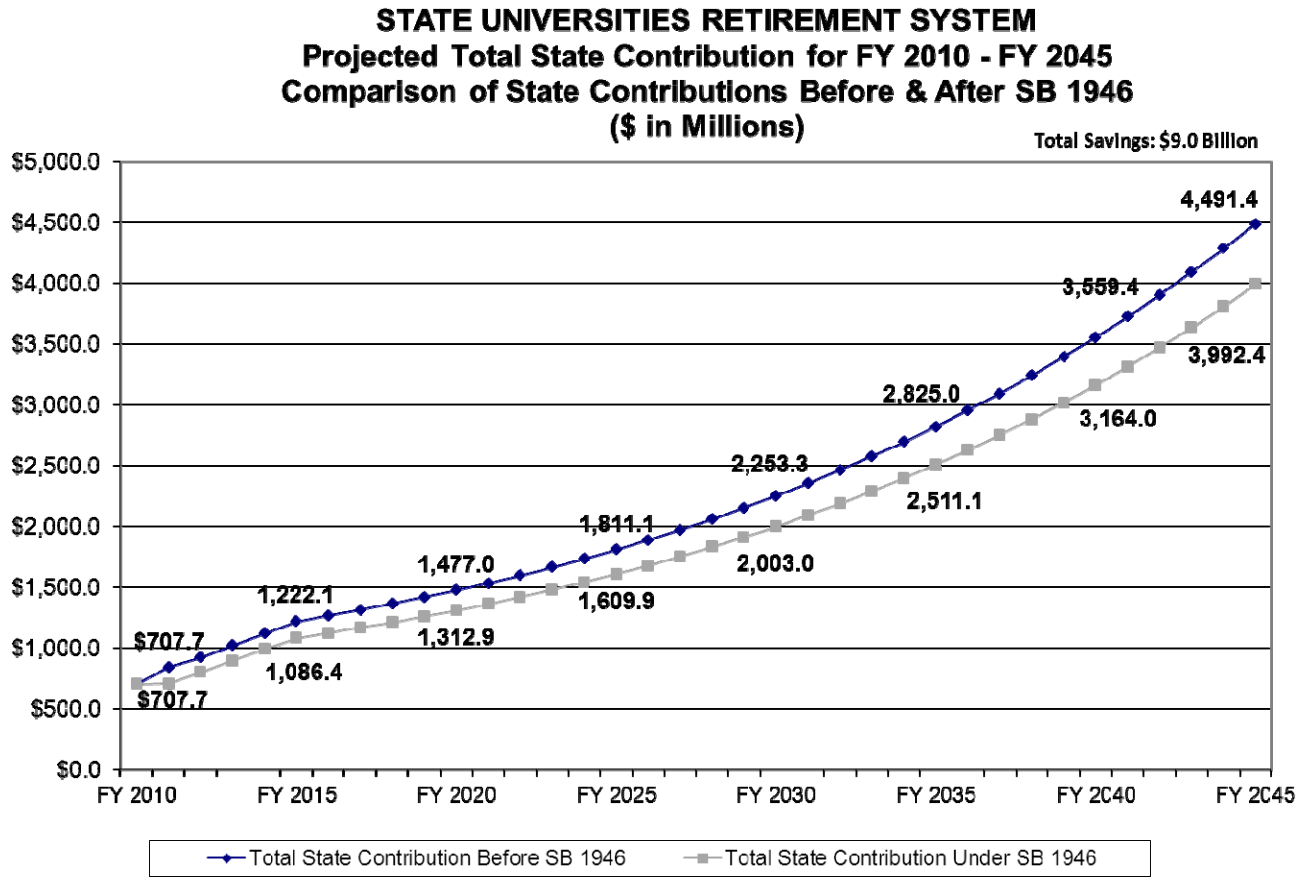


CHART 7

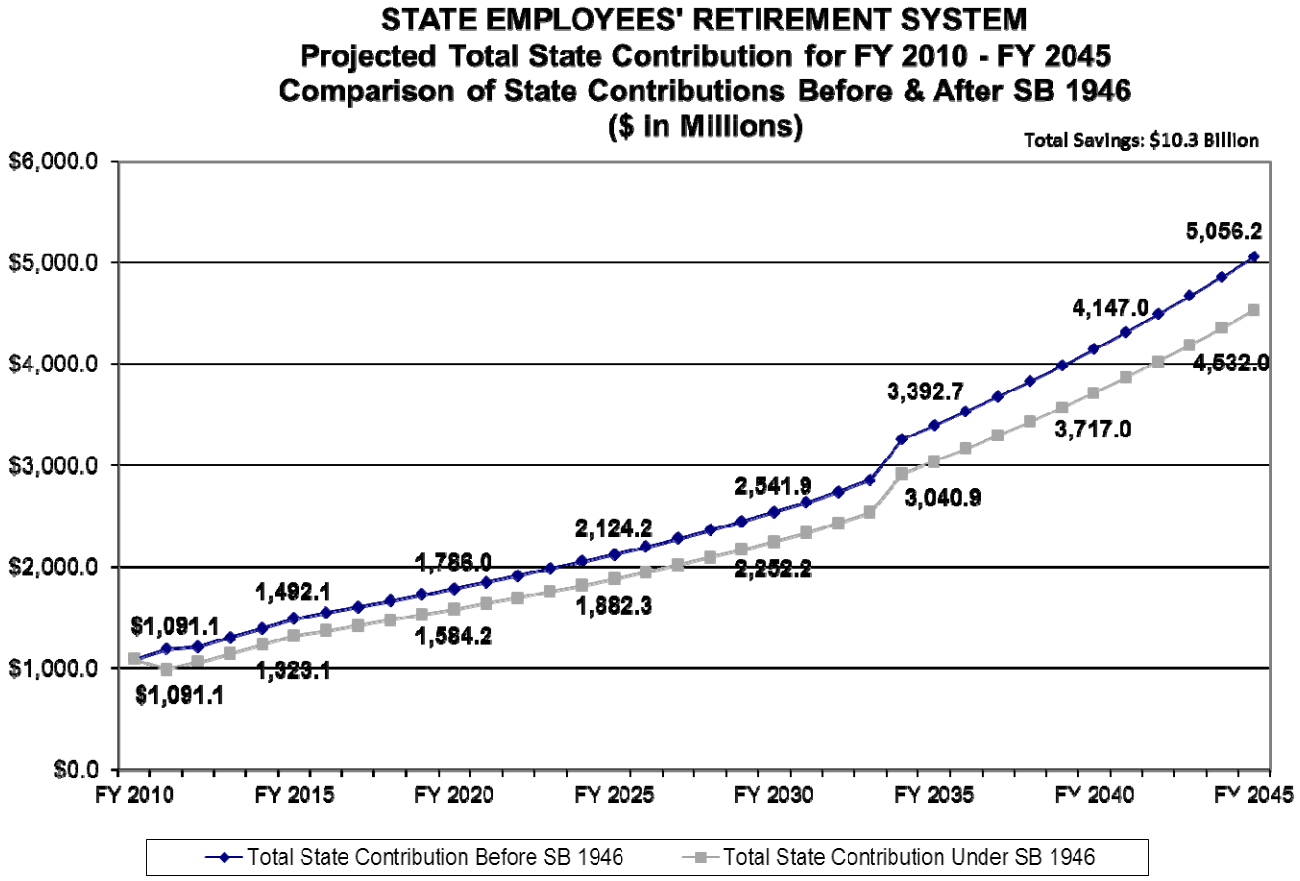


CHART 8

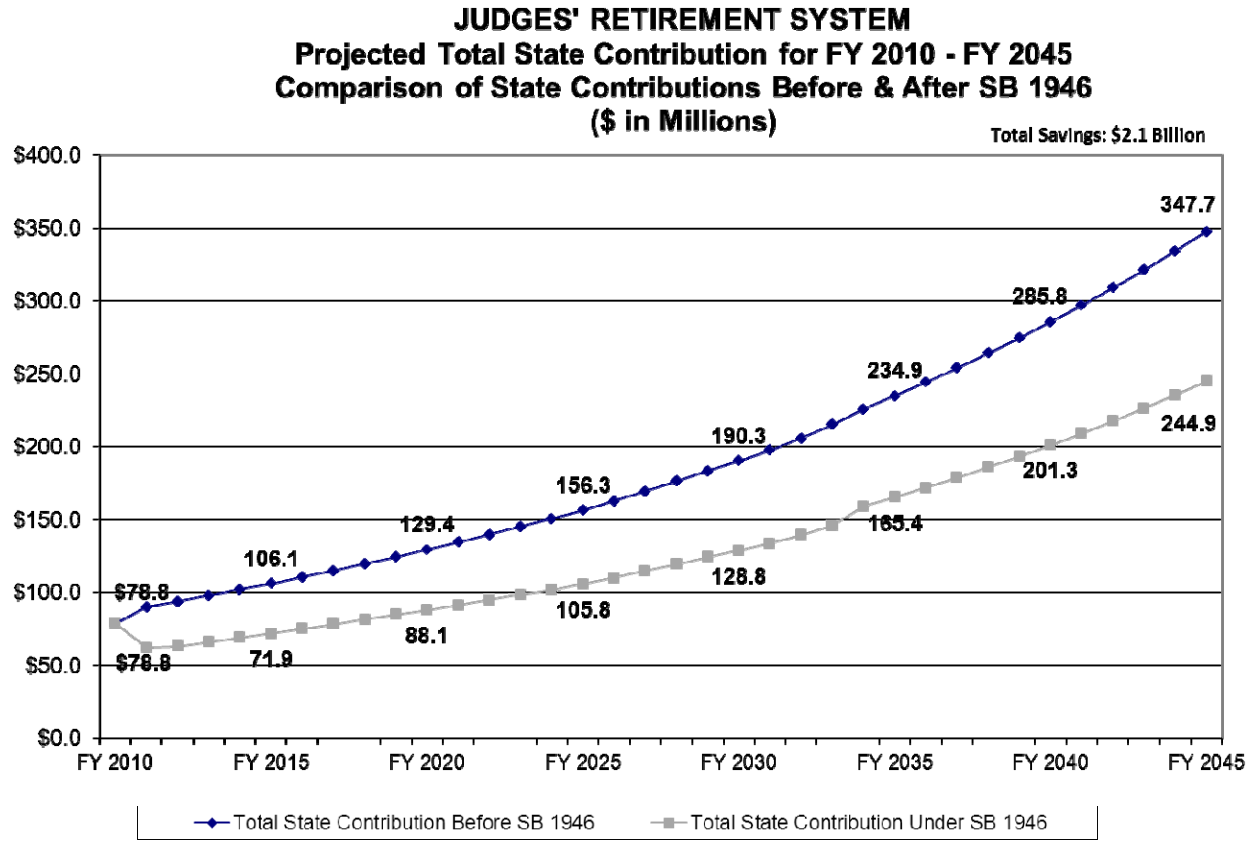
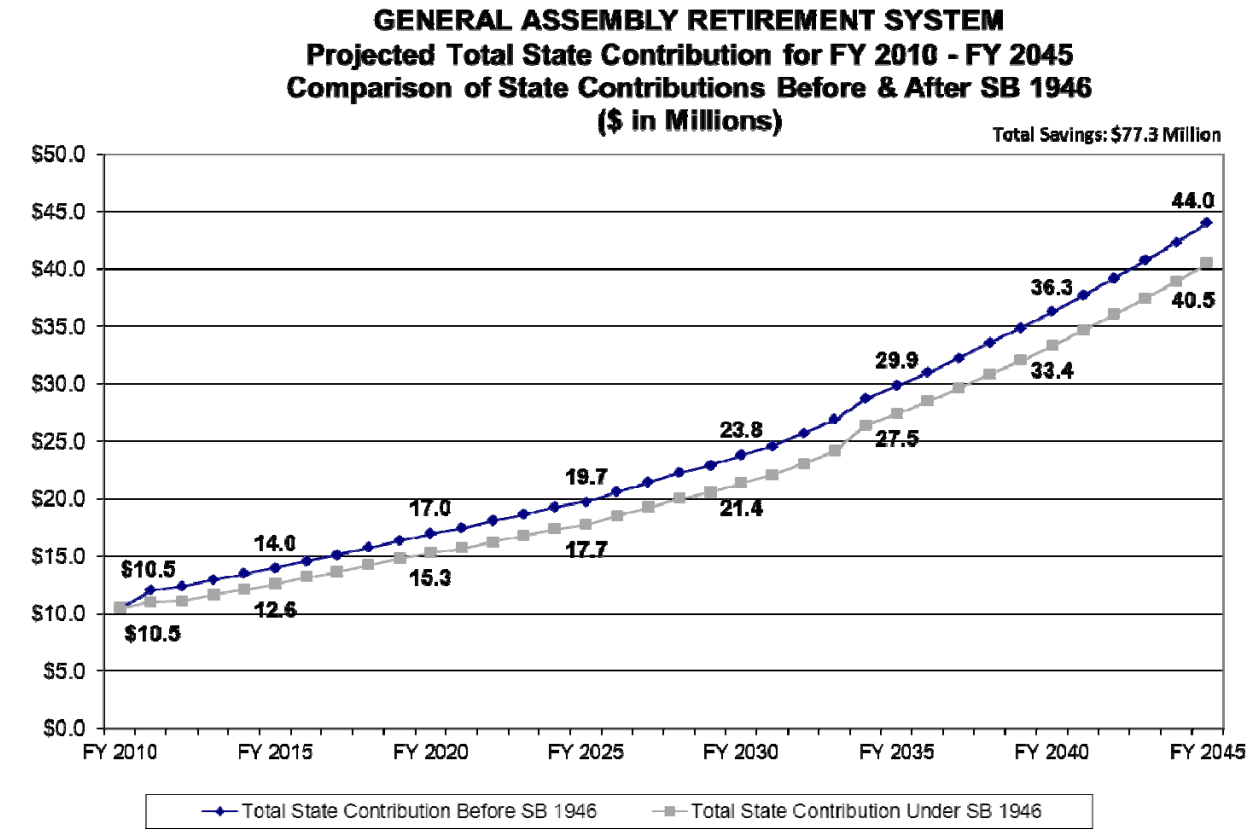


CHART 9



IV. Comparisons of Projected Accrued Liability Before & After P.A. 96-0889 (SB 1946)

- Summary
- All State Systems Combined
- Teachers' Retirement System
- State Universities Retirement System
- State Employees' Retirement System
- Judges Retirement System
- General Assembly Retirement System

Comparisons of Projected Accrued Liability Before & After P.A. 96-0889 (SB 1946)

Under Senate Bill 1946, the projected accrued liability for the five State retirement systems combined in fiscal year 2045 is reduced significantly from $551,676.9 million to $295,320.3 million. The charts in this section show the comparison between Total Accrued Liability before Senate Bill 1946 and Total Accrued Liability under Senate Bill 1946 for each of the five State retirement systems for fiscal years 2010 – 2045.

Table 8 below shows the total accrued liability reduction for each System for FY 2045.

TABLE 8

CoGFA Comparisons of Accrued Liability Based on Public Act 96-0889
FY 2045
($ in millions)

System	Accrued Liability Under Current Law	Accrued Liability Under P.A. 96-0889	Reduction in Accrued Liability
TRS	$375,911.2	$190,108.2	$185,803.0
SERS	98,234.3	60,086.9	38,147.4
SURS	70,189.7	42,547.3	27,642.4
JRS	6,743.9	2,204.1	4,539.8
GARS	597.8	373.7	224.1
ALL COMBINED	**$551,676.9**	**$295,320.2**	**$256,356.7**

CHART 10

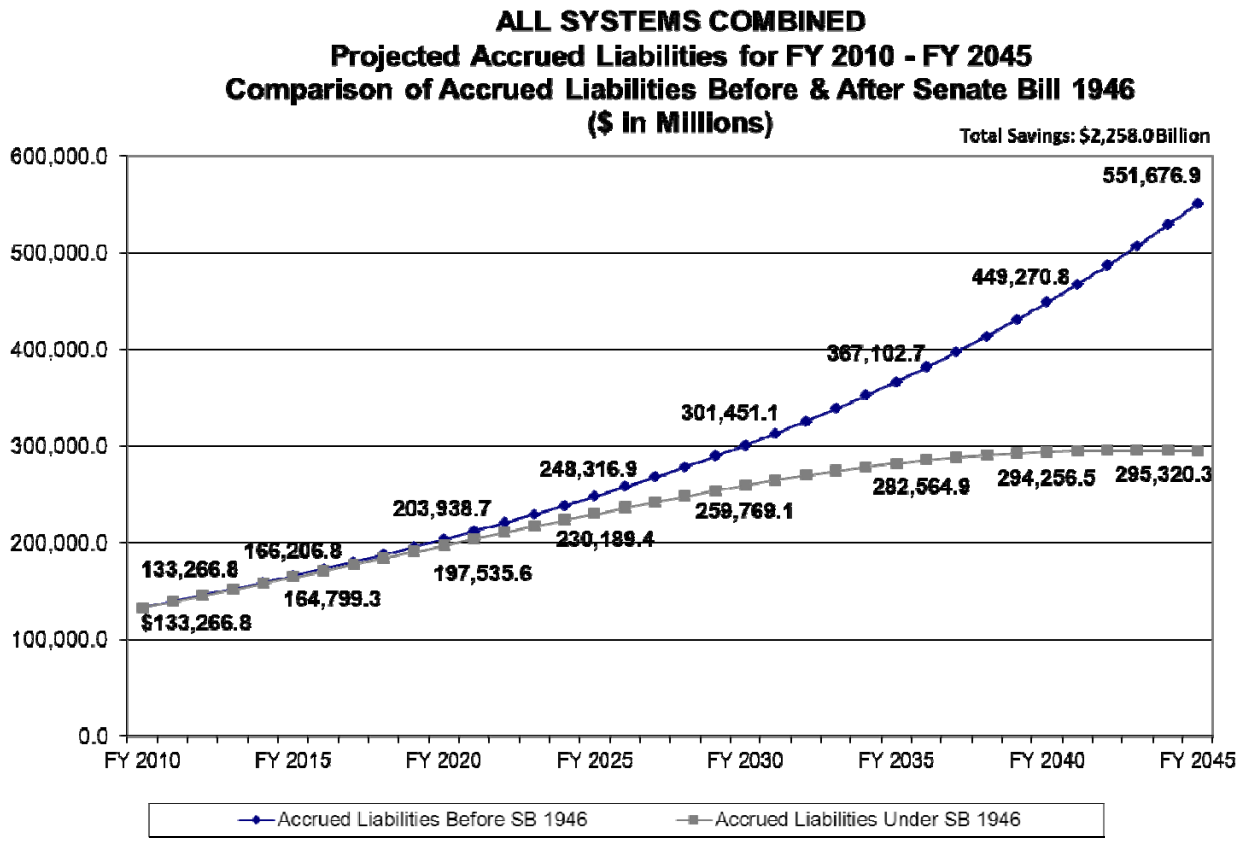


CHART 11

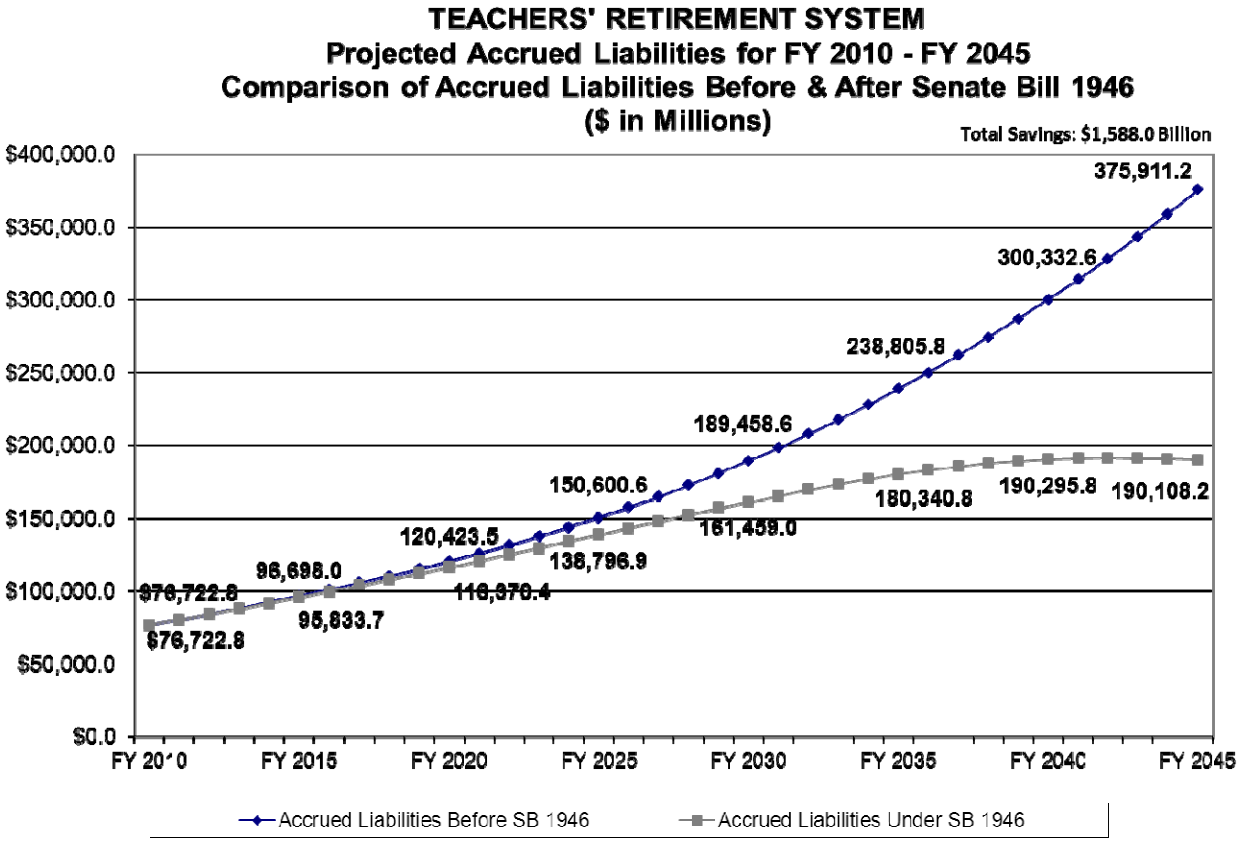


CHART 12

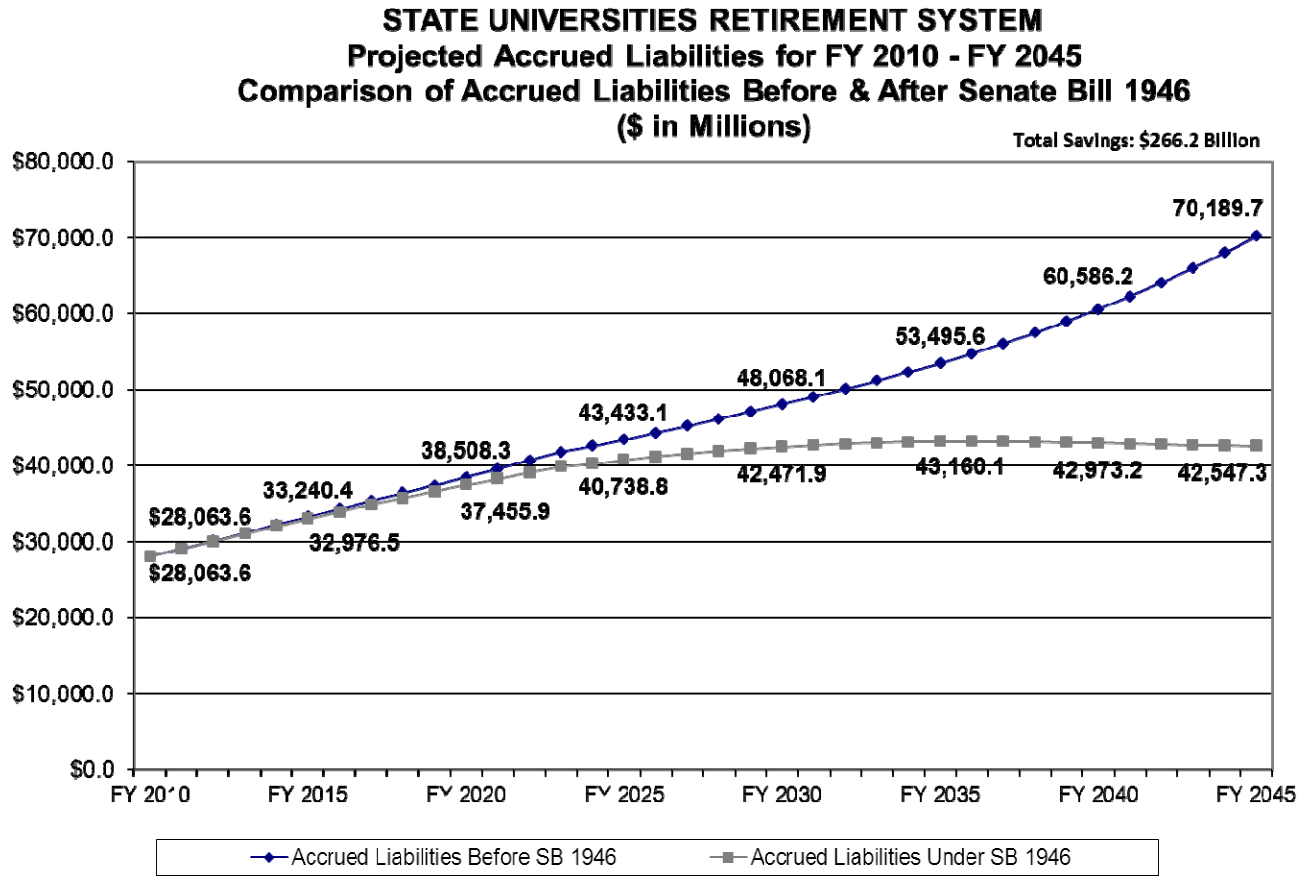


CHART 13

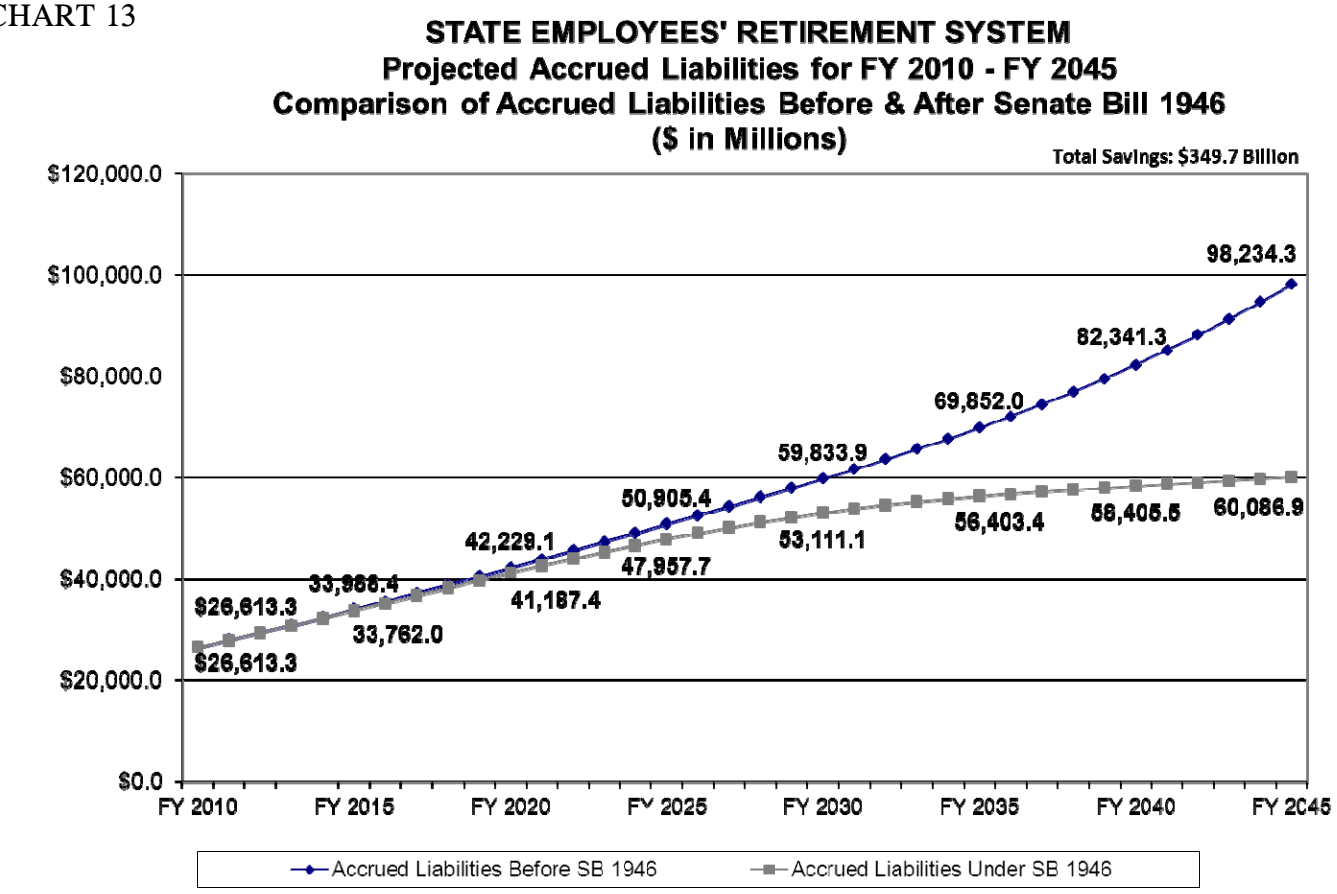


CHART 14

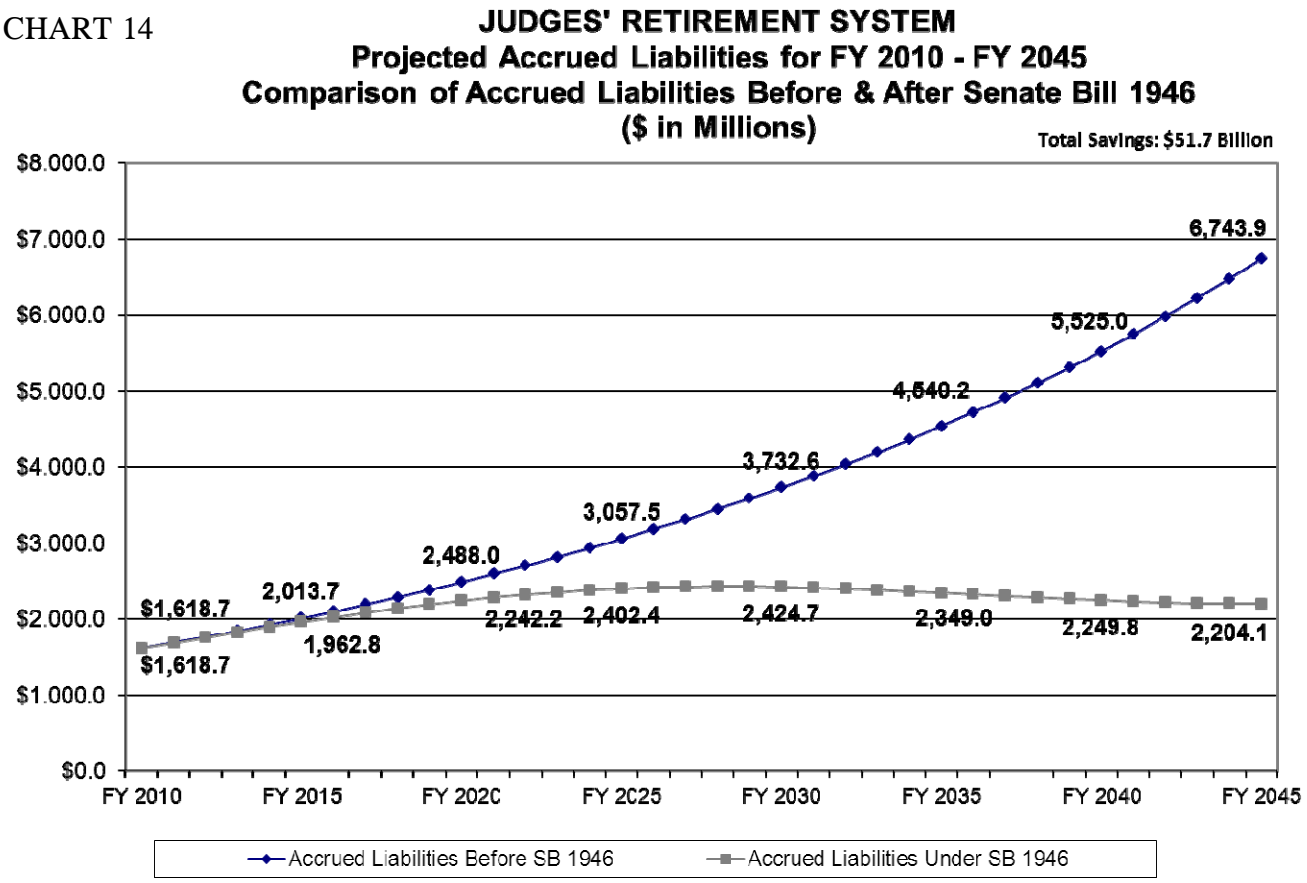
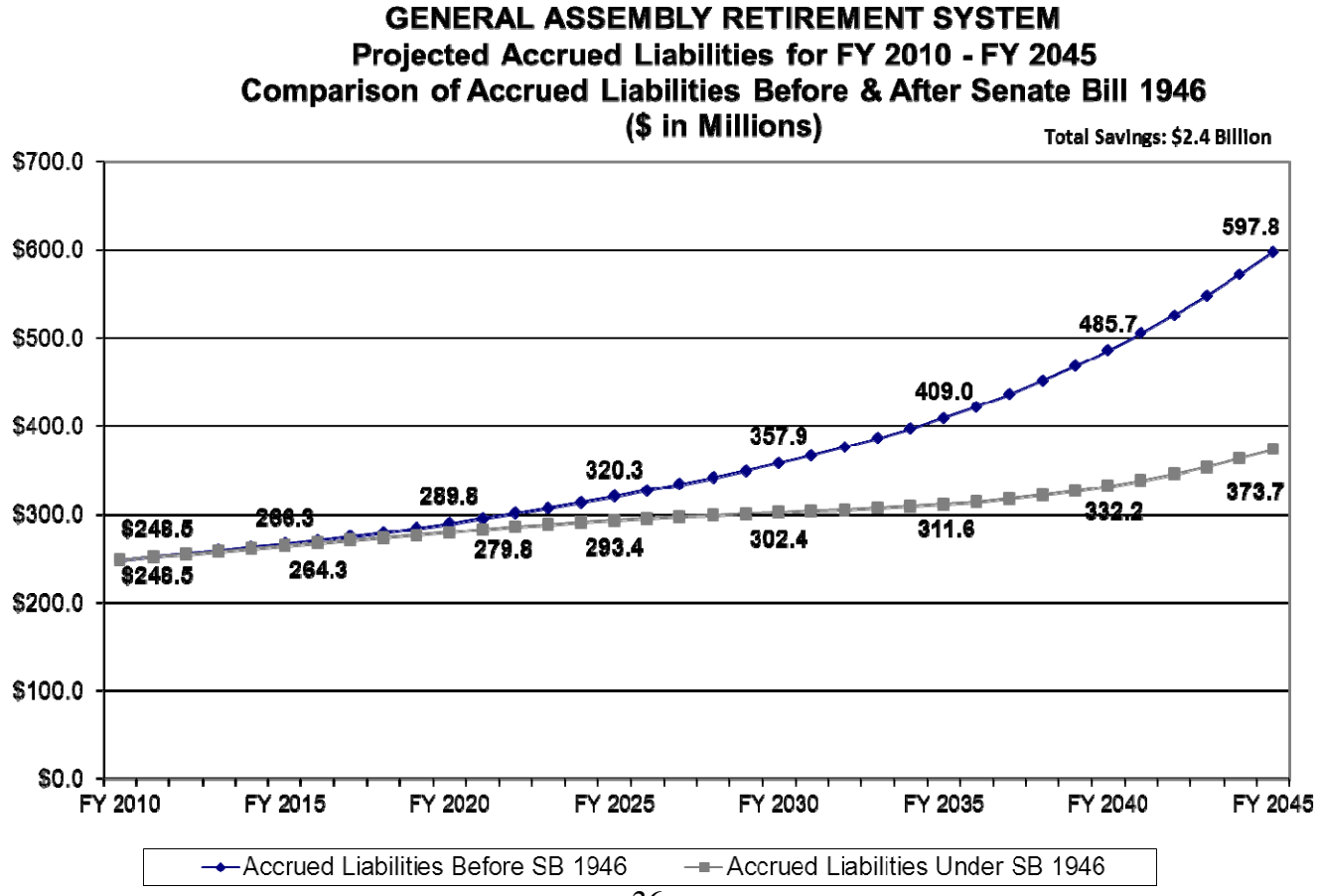


CHART 15



V. Comparisons of Unfunded Liability Before & After P.A. 96-0889 (SB 1946)

- Summary
- All State Systems Combined
- Teachers' Retirement System
- State Universities Retirement System
- State Employees' Retirement System
- Judges Retirement System
- General Assembly Retirement System

Comparisons of Unfunded Liability Before & After P.A. 96-0889 (SB 1946)

Under Senate Bill 1946, the projected unfunded liability for the five State retirement systems combined in fiscal year 2045 is reduced from $55,167.6 million to $29,532.1 million. The charts in this section show the comparison between Total Unfunded Liability before Senate Bill 1946 and Total Unfunded Liability under Senate Bill 1946 for each of the five State retirement systems for fiscal years 2010 – 2045.

**Note:*
The reason that the unfunded liability increases for a number of years (until about 2035) before it starts to decrease is related to the State's funding plan which is intended to reach a funded ratio of 90% by FY 2045 through State contributions which are a level percent of payroll. Under a contribution requirement where the unfunded liability is amortized through annual payments that are a level percent of payroll, the dollar amount of the amortization payments increase each year as payroll increases. However, in the early years, the amortization payments are not sufficient to pay interest on the unfunded liability and therefore the amount of the unfunded liability increases. After a number of years as the amortization payments increase with payroll, they will be more than sufficient to pay interest on the unfunded liability and will therefore start to pay off the unfunded liability. By 2045, a large portion of the unfunded liability will be paid off.

Table 9 below shows the total reduction of unfunded liabilities for fiscal year 2045 for all of the Systems.

TABLE 9

CoGFA Comparisons of Unfunded Liability Based on Public Act 96-0889
Fiscal Year 2045
($ in billions)

System	Unfunded Liability Under Current Law	Unfunded Liability Under P.A. 96-0889	Reduction in Unfunded Liability
TRS	$37,591.0	$19,010.0	$18,581.0
SERS	9,823.4	6,008.7	3,814.7
SURS	7,019.0	4,254.7	2,764.3
JRS	674.4	220.4	454.0
GARS	59.8	37.4	22.4
ALL COMBINED	**$55,167.6**	**$29,531.2**	**$25,636.4**

CHART 16

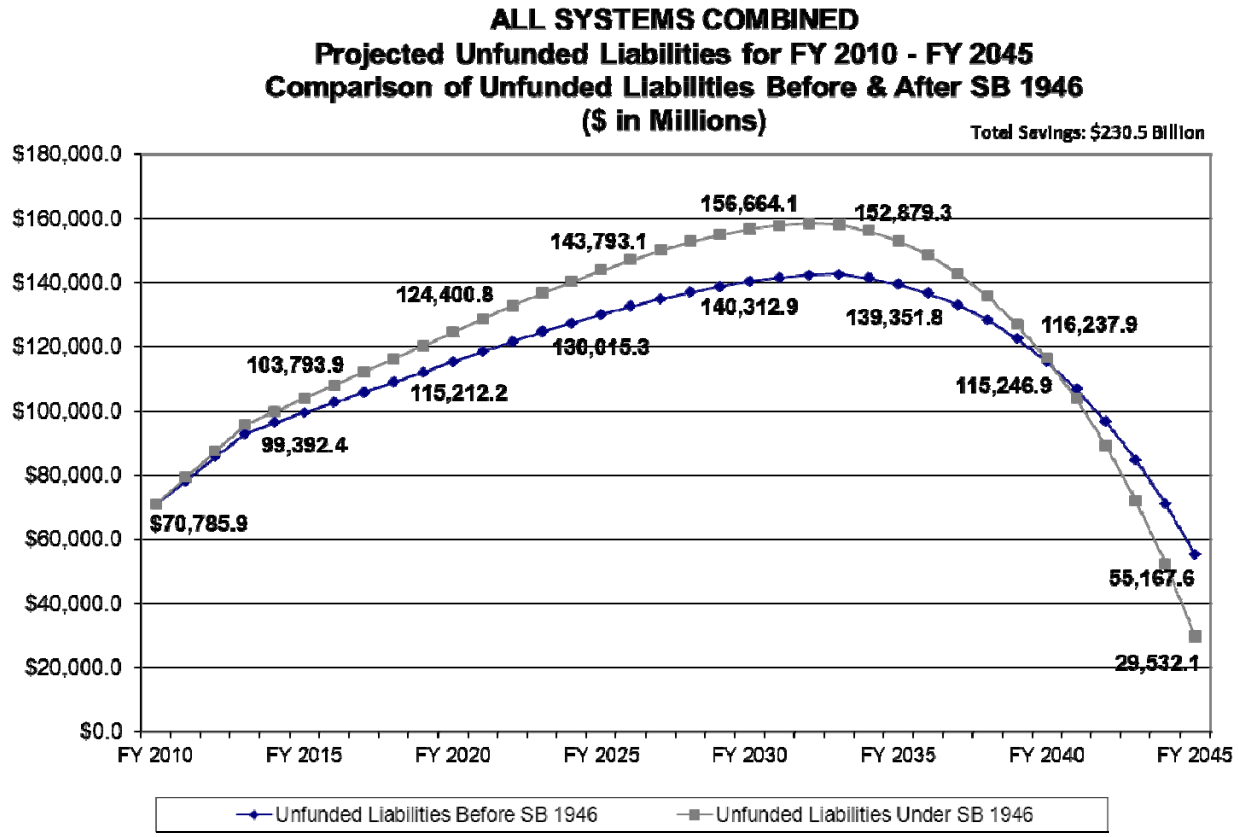


CHART 17

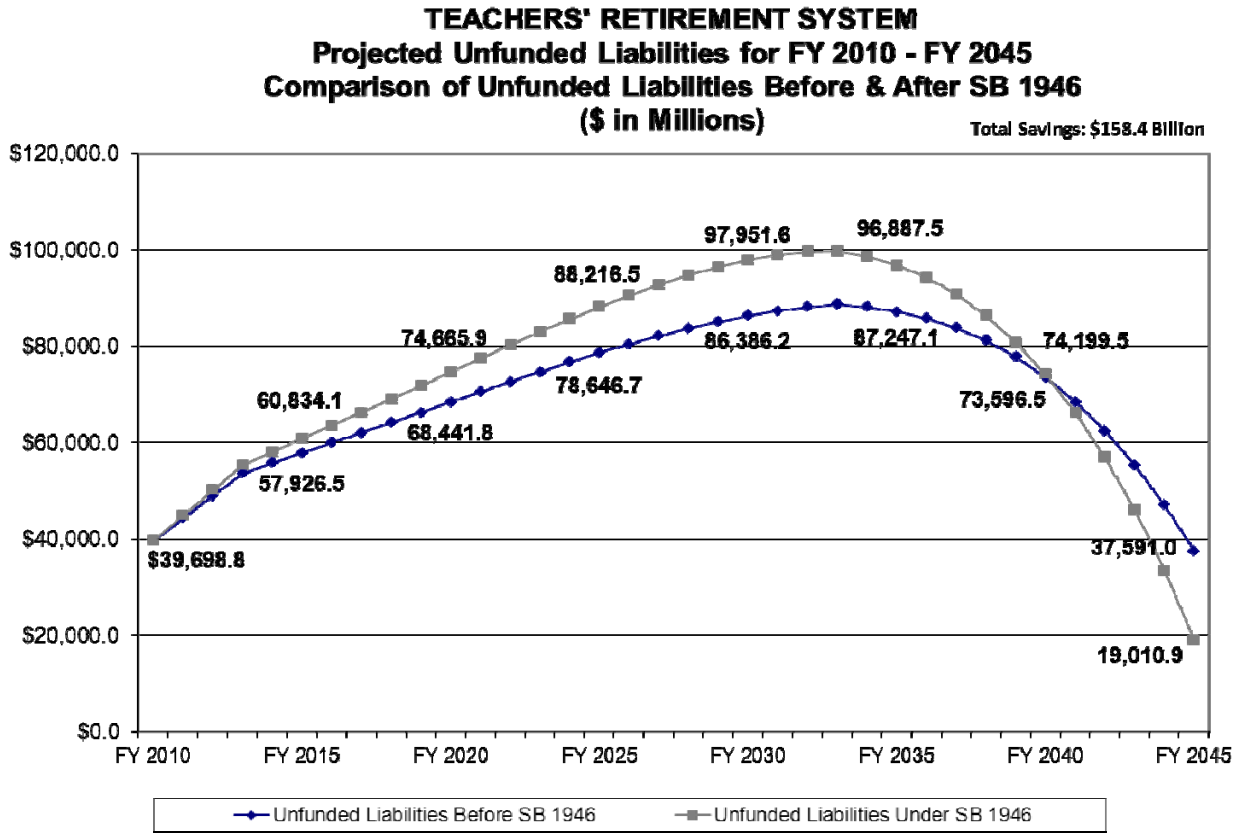


CHART 18

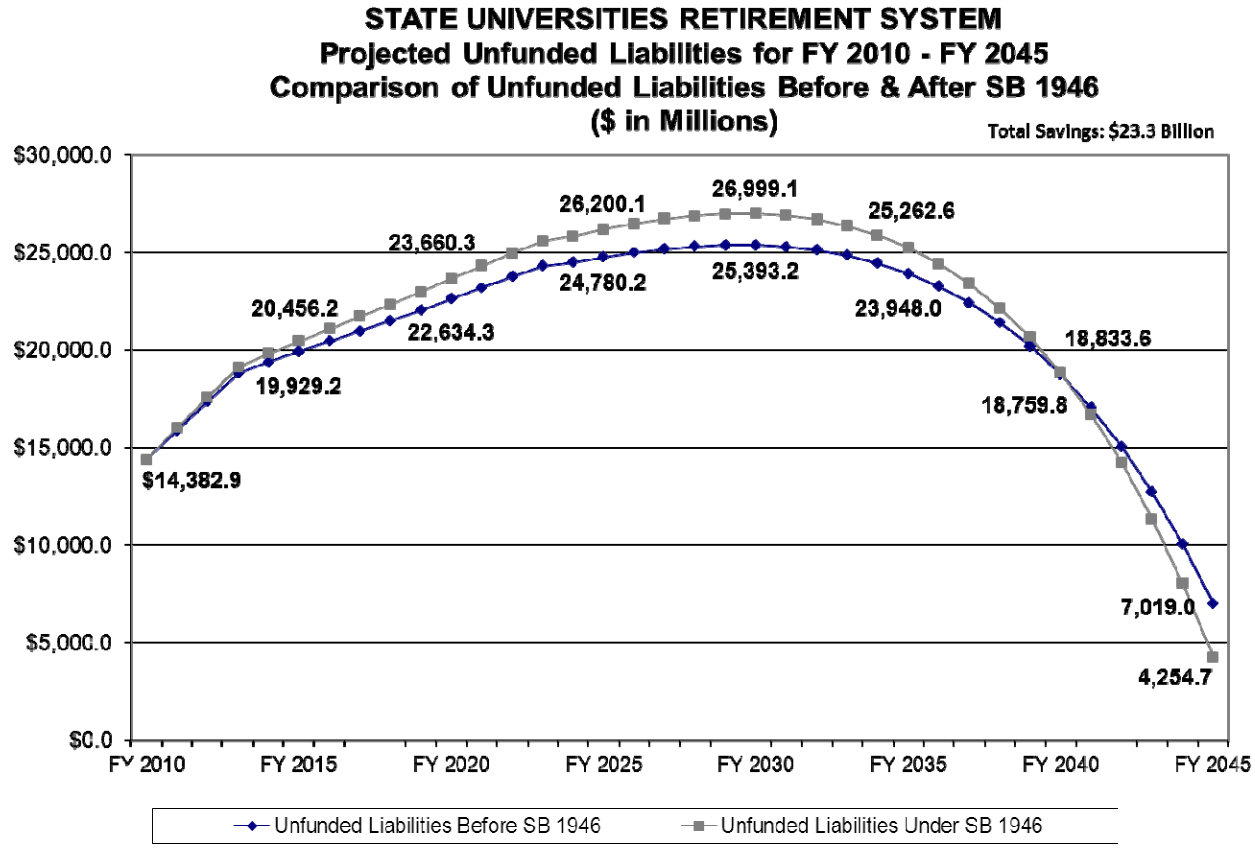


CHART 19

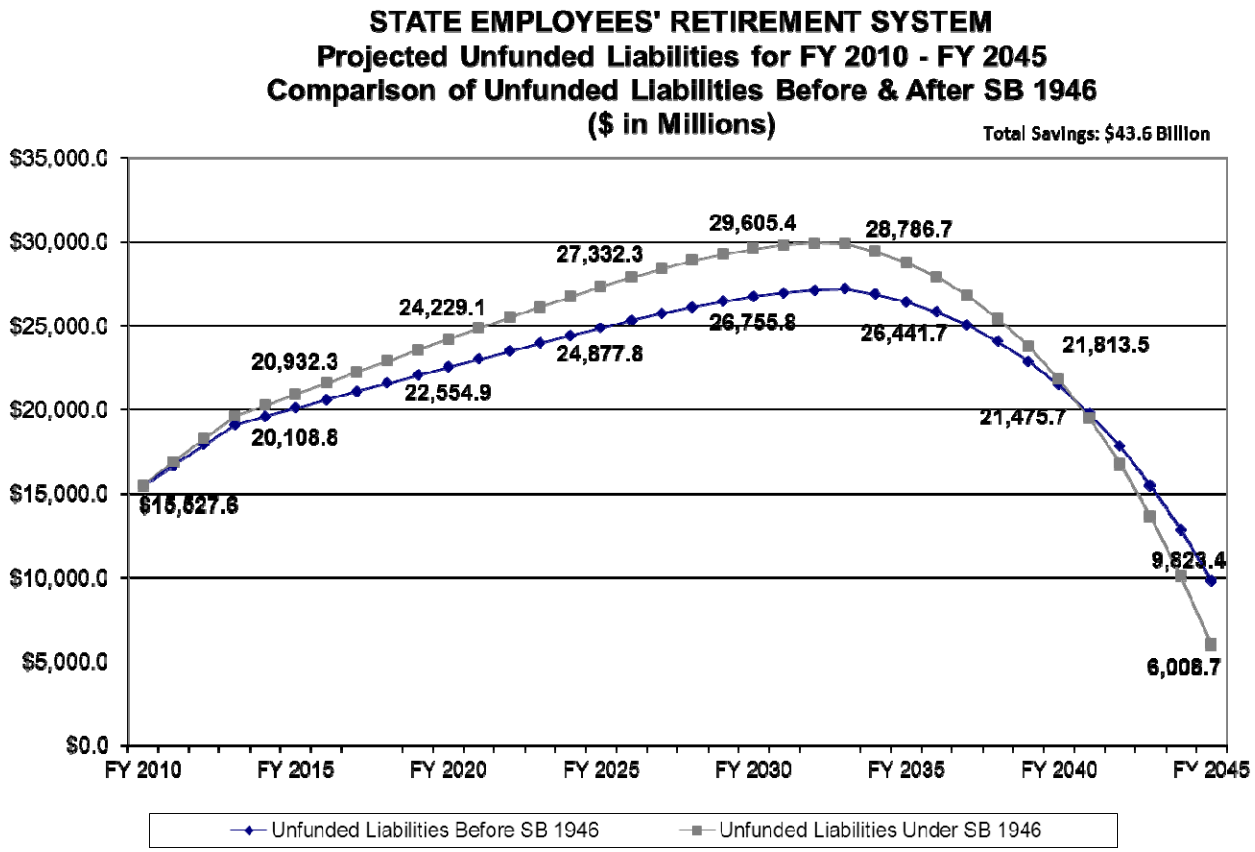


CHART 20

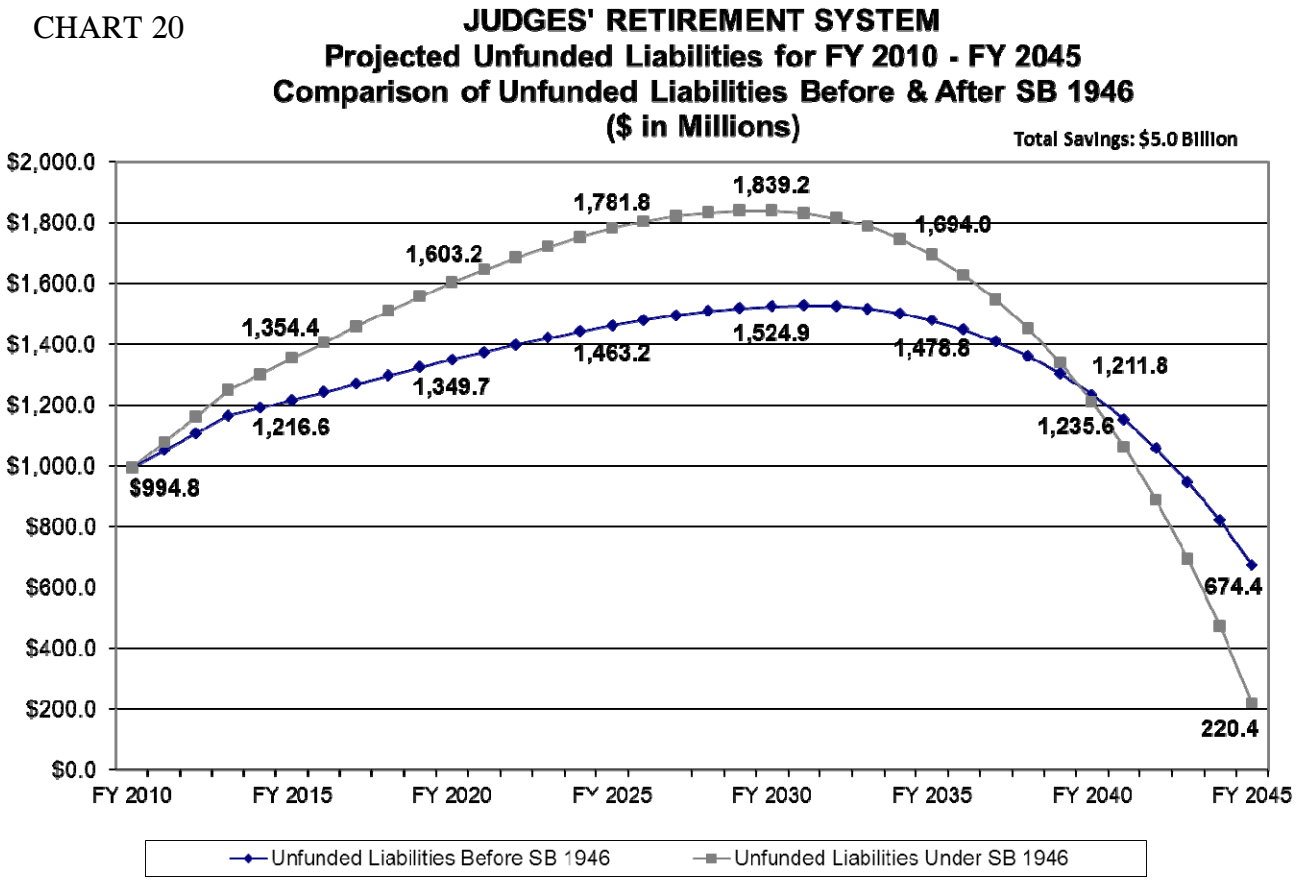
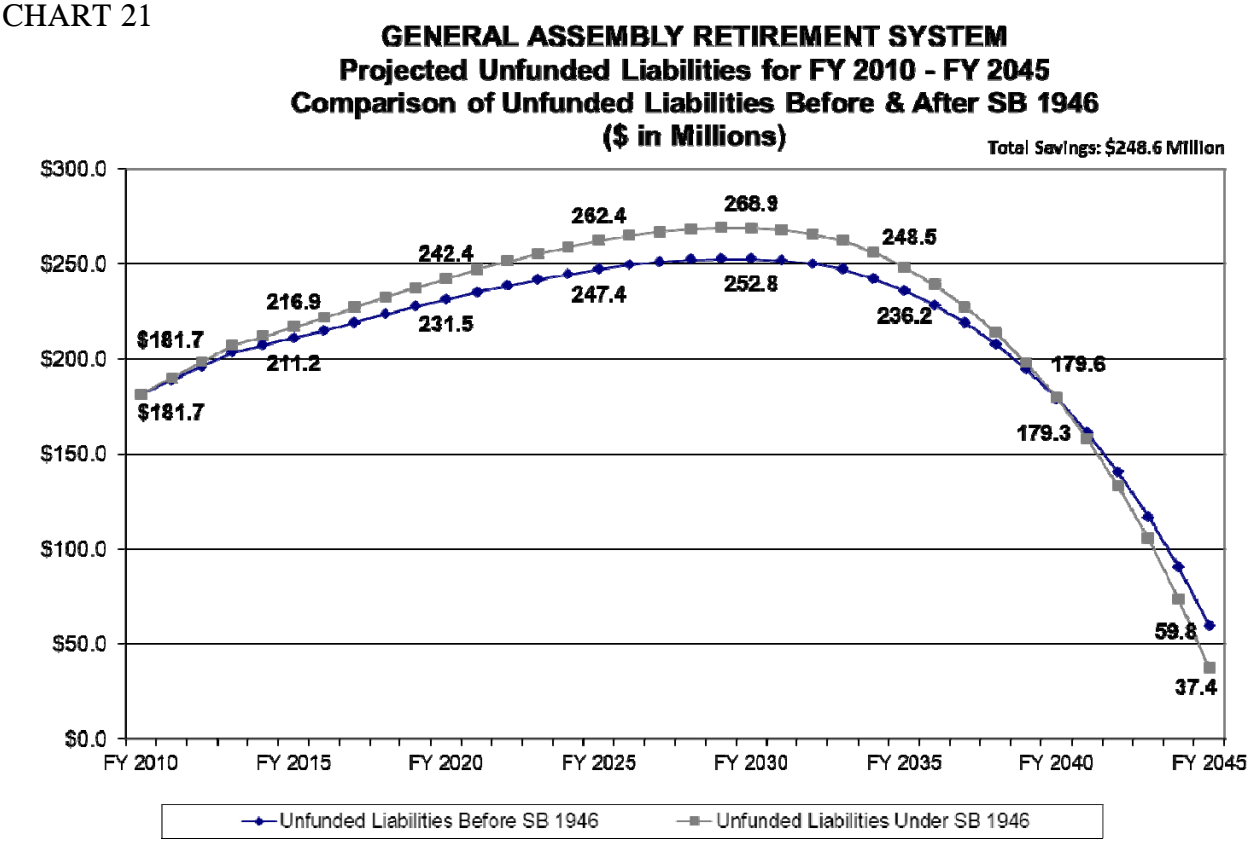


CHART 21



VI. Comparisons of Total Payout Before & After P.A. 96-0889 (SB 1946)

- Summary
- All State Systems Combined
- Teachers' Retirement System
- State Universities Retirement System
- State Employees' Retirement System
- Judges Retirement System
- General Assembly Retirement System

Comparisons of Total Payout Before & After P.A. 96-0889 (SB 1946)

Prior to the passage of SB 1946, the actuary had estimated that the total benefit payout for the five State systems would be $674.78 billion over the period FY 2010 – FY 2045. By adding a second tier of benefits, SB 1946 reduced this projected benefit payout amount by $38.2 billion over this same timeframe. Because most active employees will be Tier 1 employees for the foreseeable future, total retirement system payout will track closely with pre-SB 1946 levels until about FY 2035, when the payout amounts will begin to be less than pre-SB 1946 projected amounts.

Table 10 shows the reduction in total payout for each of the Systems:

TABLE 10

CoGFA Comparisons of Total Payout Based on Public Act 96-0889
FY 2010 - 2045
($ in billions)

System	Total Payout Under Current Law	Total Payout Under P.A. 96-0889	Reduction in Total Payout
TRS	$408.04	$385.22	$22.82
SERS	132.45	125.81	6.63
SURS	124.65	117.93	6.72
JRS	8.73	6.65	2.08
GARS	0.91	0.84	0.07
ALL COMBINED	**$674.78**	**$636.46**	**$38.32**

CHART 22

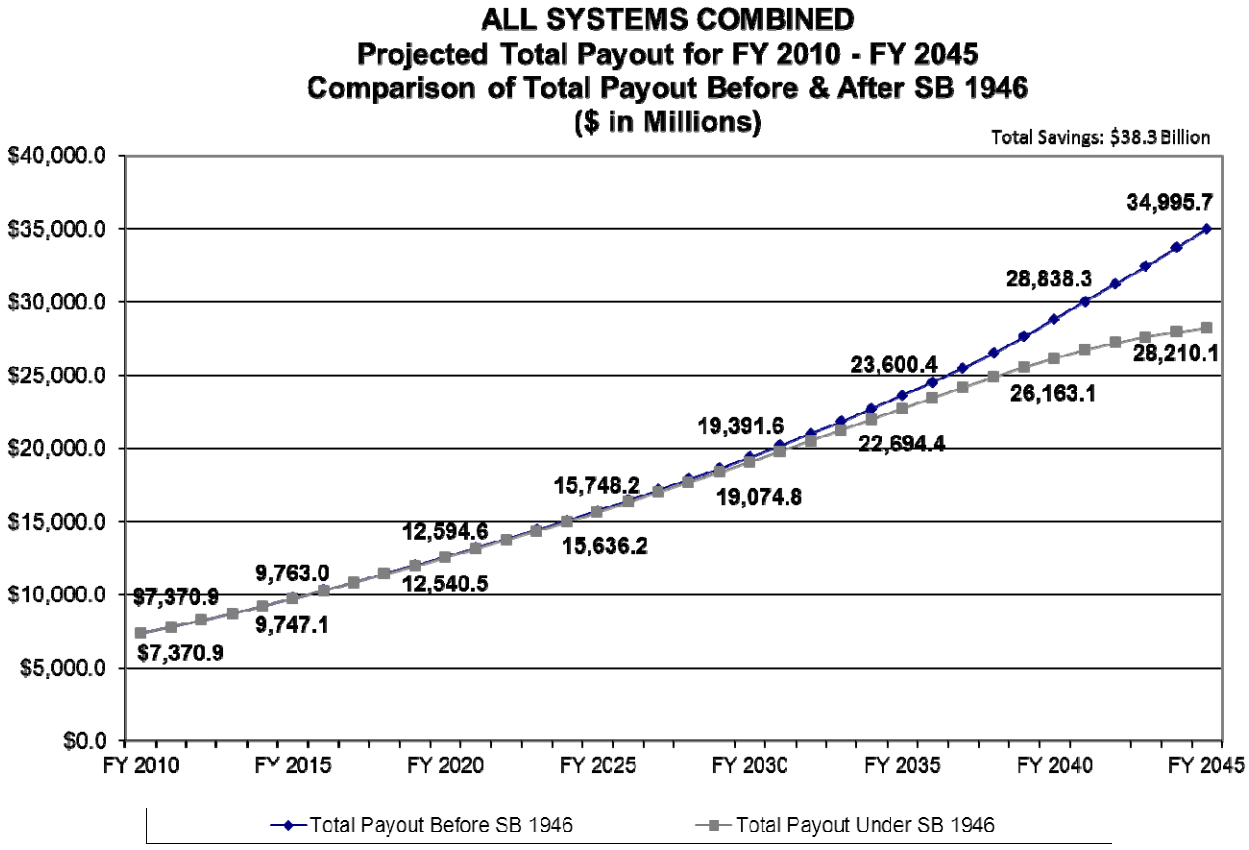


CHART 23

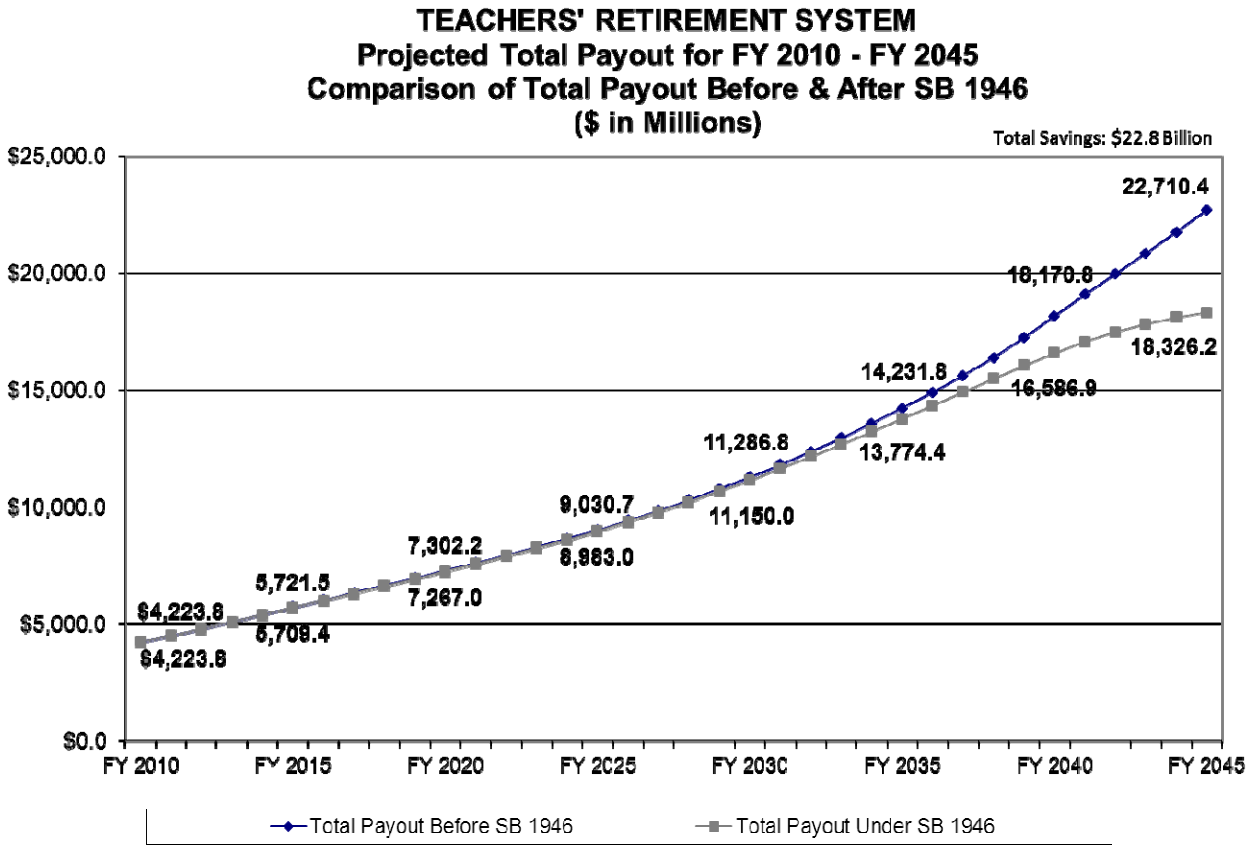


CHART 24

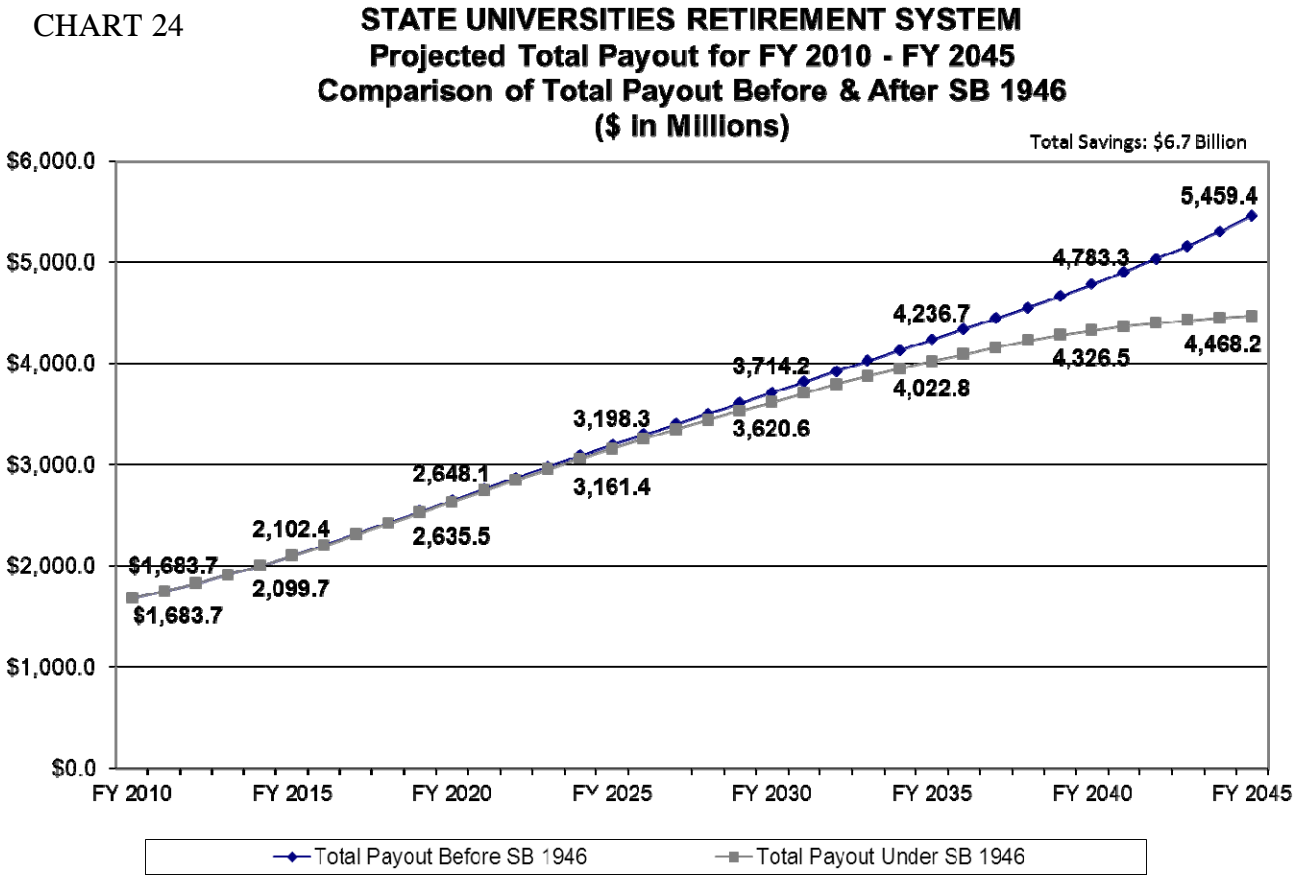


CHART 25

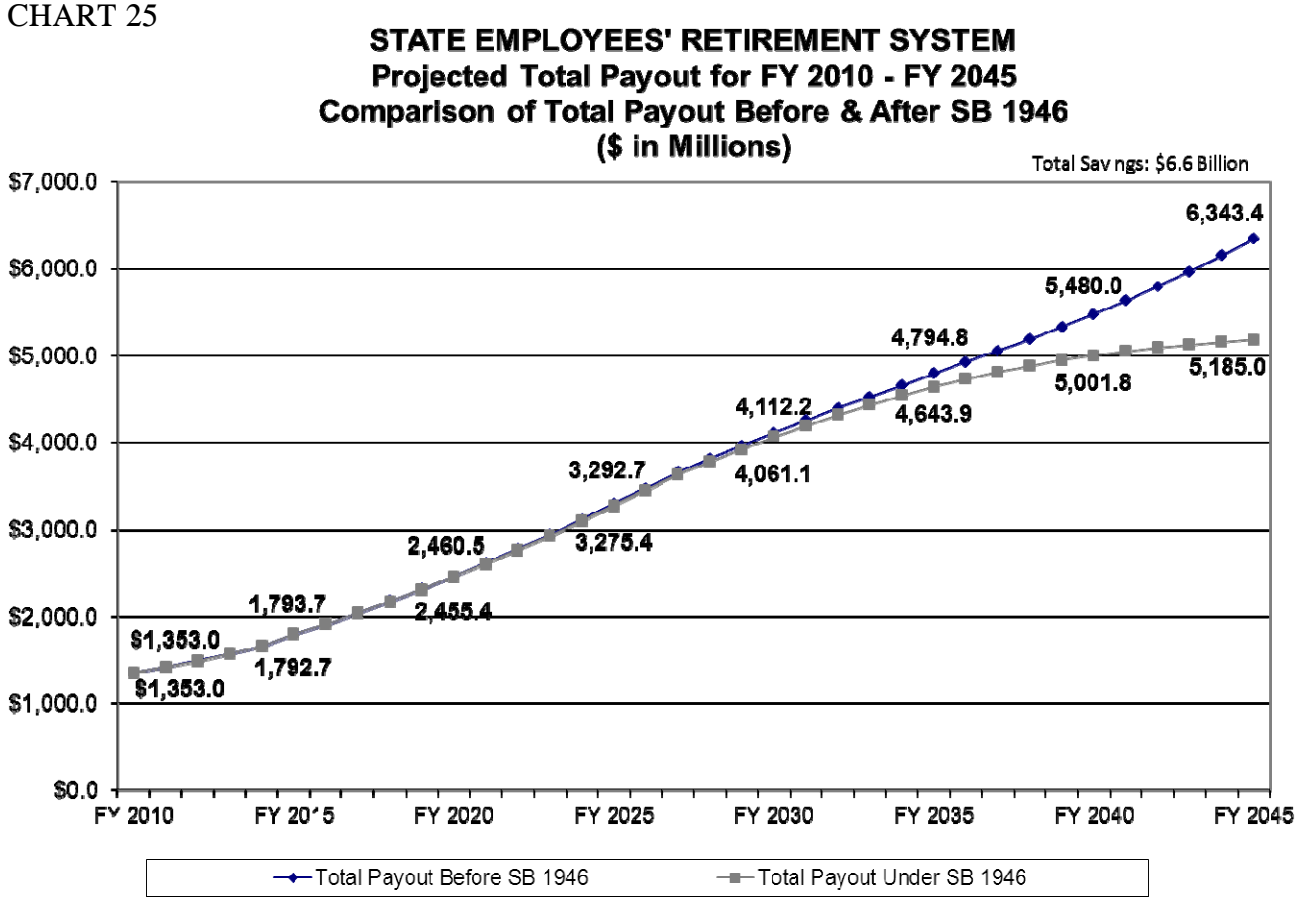


CHART 26

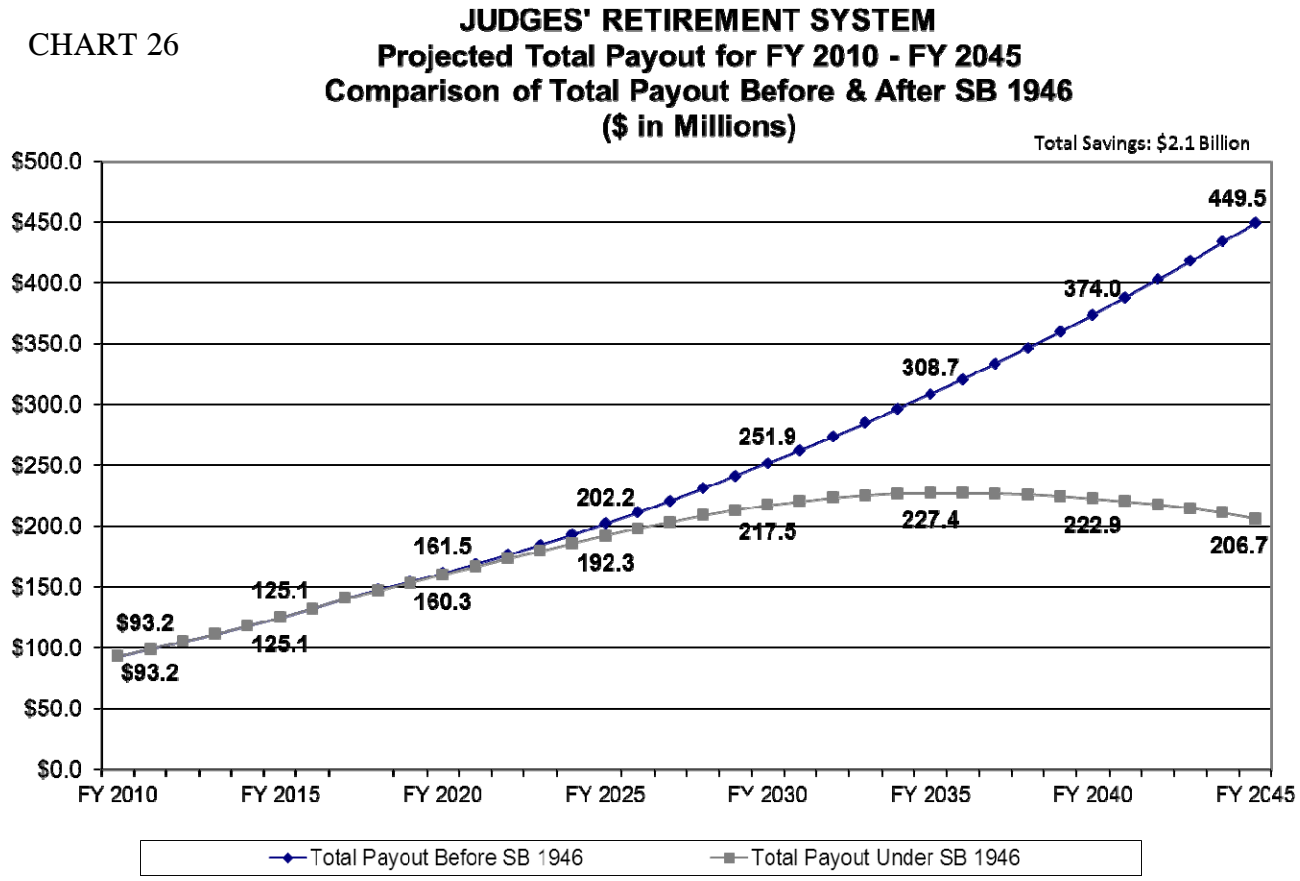
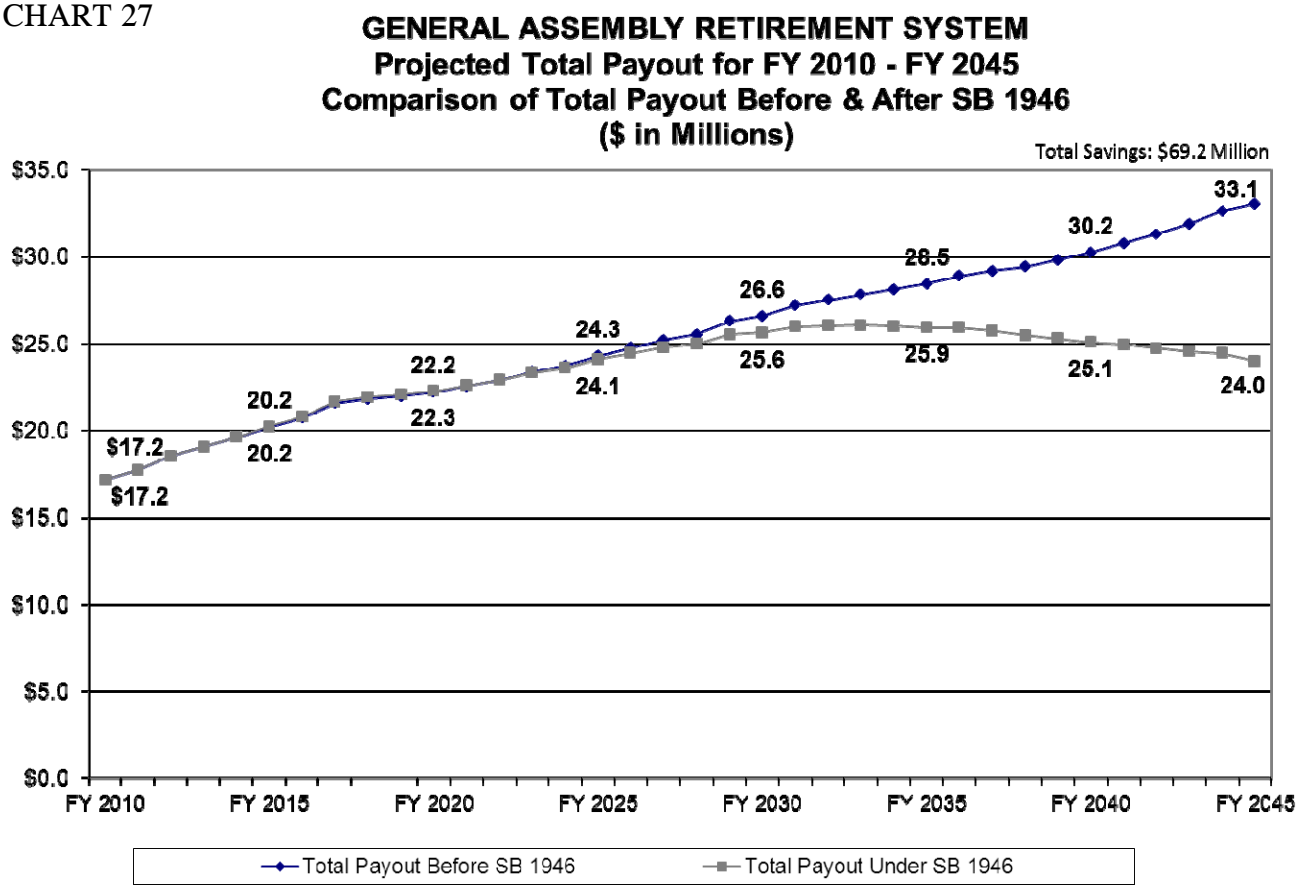


CHART 27



VII. Comparisons of Tier 1 & Tier 2 Members Before & After P.A. 96-0889 (SB 1946)

- Summary
- All State Systems Combined
- Teachers' Retirement System
- State Universities Retirement System
- State Employees' Retirement System
- Judges Retirement System
- General Assembly Retirement System

Comparisons of Tier 1 & Tier 2 Members Before & After P.A. 96-0889 (SB 1946)

Senate Bill 1946 only affects new members who join one of the State retirement systems on or after January 1, 2011. Because of this, the total number of active members in Tier 1 will be quite high while the total number of active members in Tier 2 will be relatively low. Over future years, more and more employees will come under the second tier while fewer employees will remain in the first tier. The charts in this section show the comparison of active membership data pre-Senate Bill 1946 and post-Senate Bill 1946 for each of the five State retirement systems for fiscal years 2010 – 2045.

CHART 28

All State Retirement Systems Combined
Projected Active Membership
Comparison of Active Members Under SB 1946, Tier 1 & Tier 2
FY 2010 - FY 2045

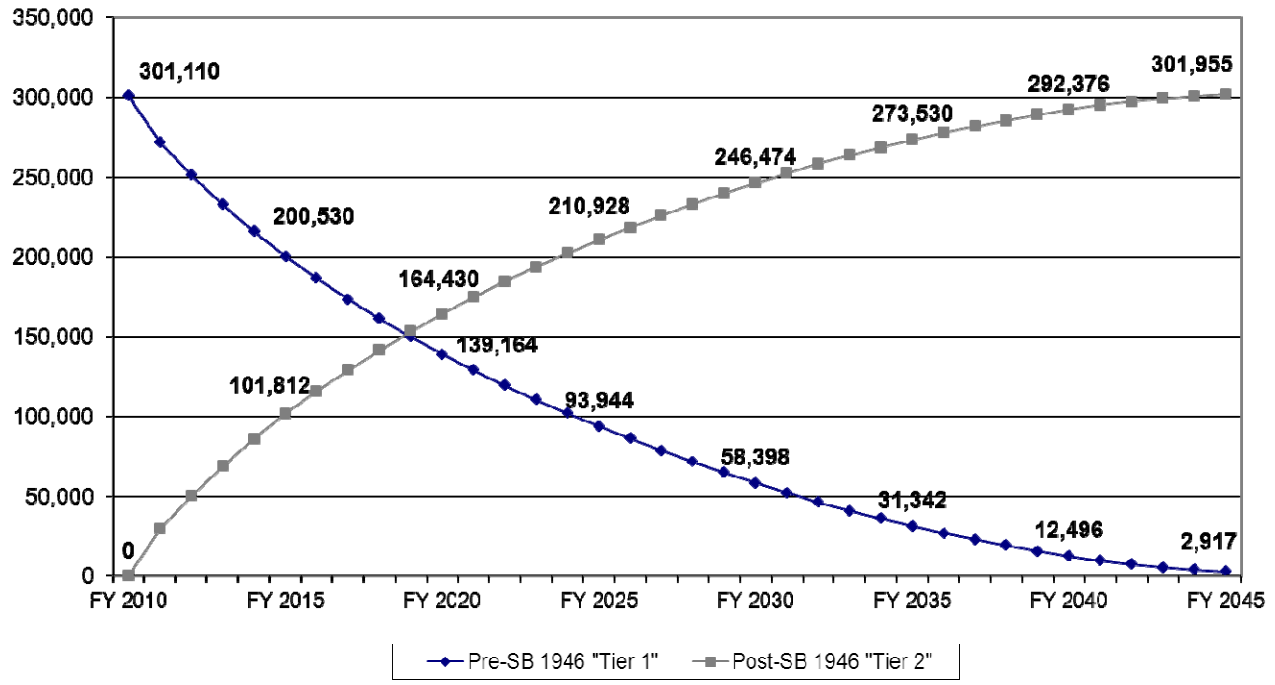


CHART 29

Teachers' Retirement System
Projected Active Membership
Comparison of Active Members Under SB 1946, Tier 1 & Tier 2
FY 2010 - FY 2045

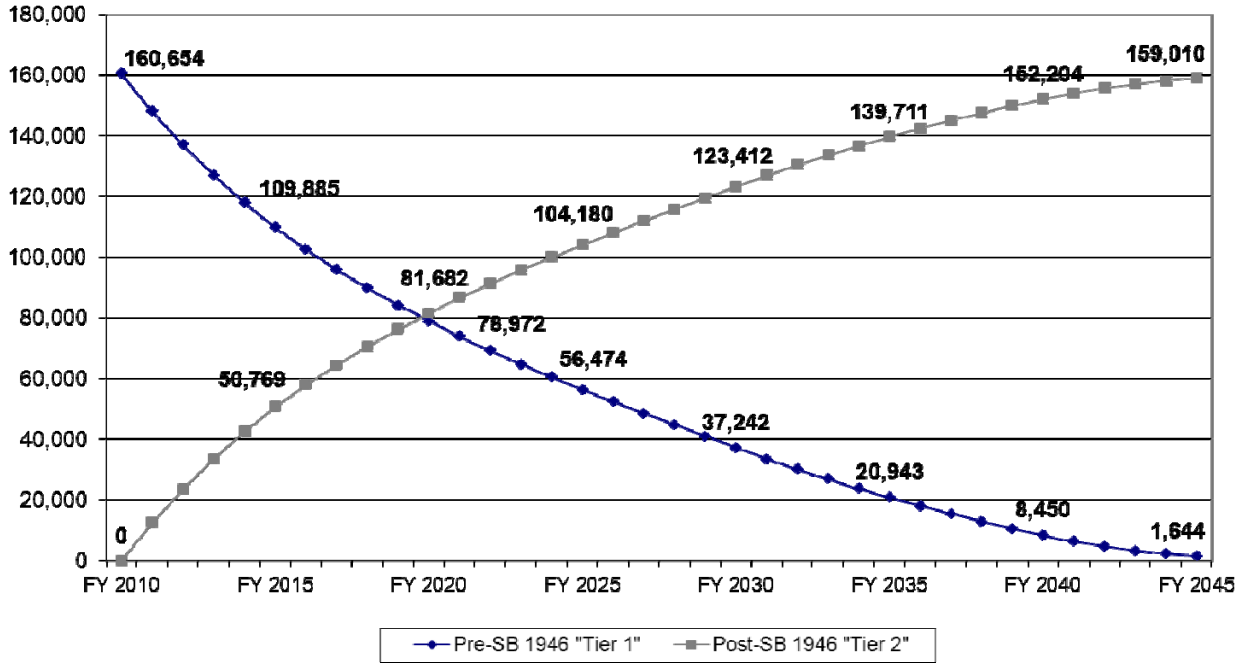


CHART 30

State Universities Retirement System
Projected Active Membership
Comparison of Active Members Under SB 1946, Tier 1 & Tier 2
FY 2010 - FY 2045

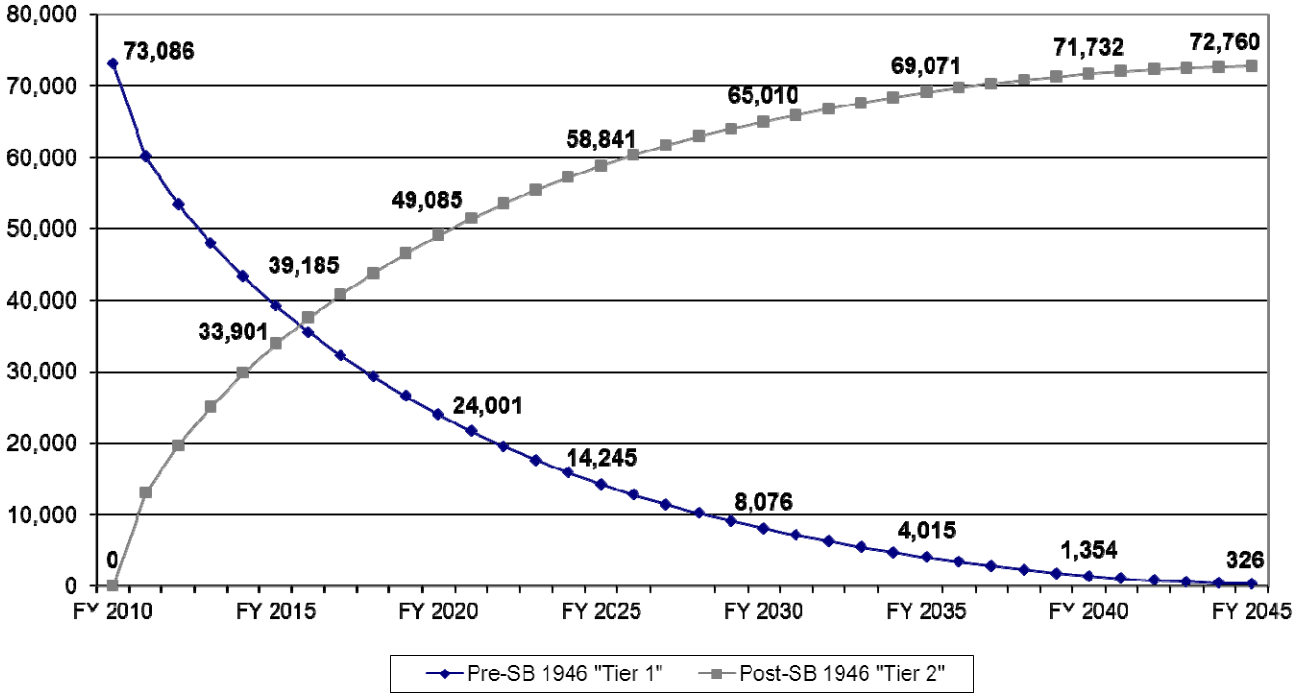


CHART 31

State Employees' Retirement System
Projected Active Membership
Comparison of Active Members Under SB 1946, Tier 1 & Tier 2
FY 2010 - FY 2045

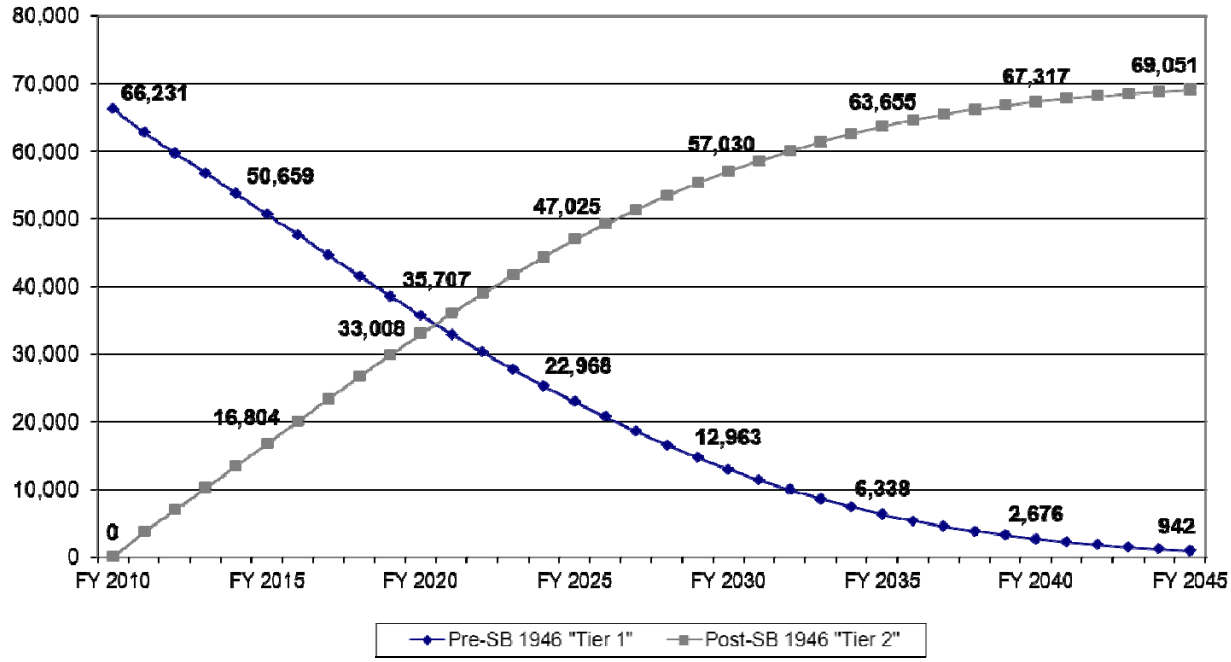


CHART 32

Judges' Retirement System
Projected Active Membership
Comparison of Active Members Under SB 1946, Tier 1 & Tier 2
FY 2010 - FY 2045

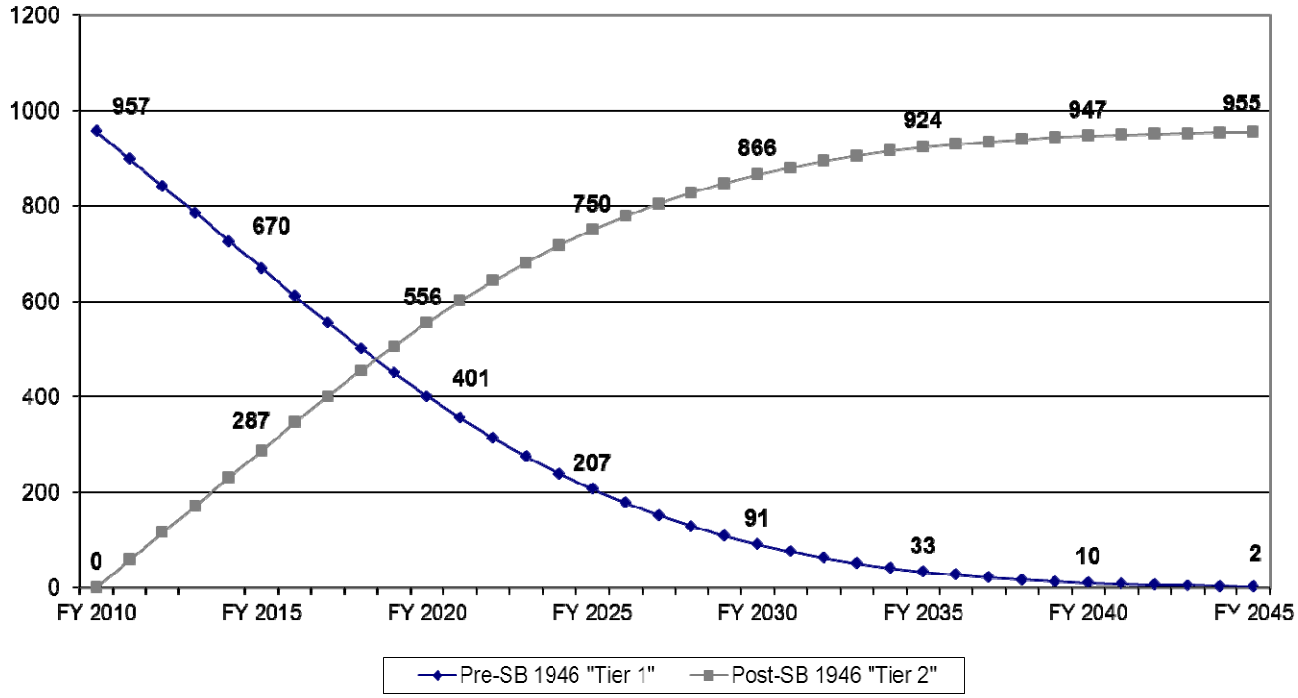
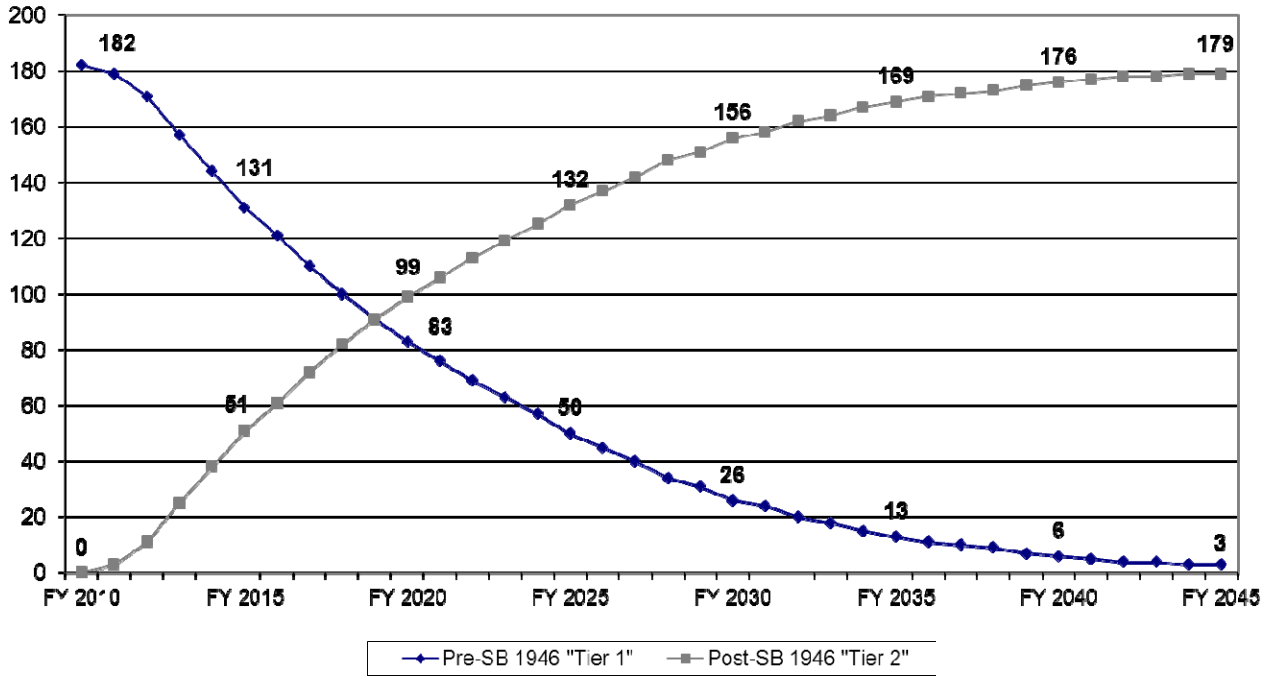


CHART 33

General Assembly Retirement System
Projected Active Membership
Comparison of Active Members Under SB 1946, Tier 1 & Tier 2
FY 2010 - FY 2045



VIII. Impact of Interest Rate Assumption Change

- State Employees' Retirement System
- State Universities Retirement System
- Judges' Retirement System

Impact of Interest Rate Assumption Changes

The interest rate assumptions for three of the five state retirement systems have changed as of June 30, 2010. The retirement systems affected are SERS, SURS, and JRS. Previously, the interest rate assumption for the both the State Employees' Retirement System and the State Universities Retirement System was 8.50%; the interest rate assumption for the Judges' Retirement System was 8.00%. Currently, the interest rate assumption for the State Employees' Retirement System and the State Universities Retirement System has been changed to 7.75%; the interest rate assumption for the Judges' Retirement System has been changed to 7.00%.

Table 11 shows the projected increase in state contributions due to the change in interest rate assumption.

TABLE 11

CoGFA Projections of Increase in Contributions
Due to Change in Interest Rate Assumption
FY 2010 - 2045
($ in millions)

System	Contributions Using Old Interest Rate Assumption	Contributions Using New Interest Rate Assumption	Increase in Contributions Due to Interest Rate	Present Value of Increase in Contributions
SERS	$82,281.1	$95,338.2	$13,057.1	$3,251.9
SURS	$62,656.4	$69,018.2	$6,361.8	$1,522.0
JRS	$4,647.6	$5,047.0	$399.4	$83.9
ALL COMBINED	**$149,585.1**	**$169,403.4**	**$19,818.3**	**$4,857.8**

CHART 34

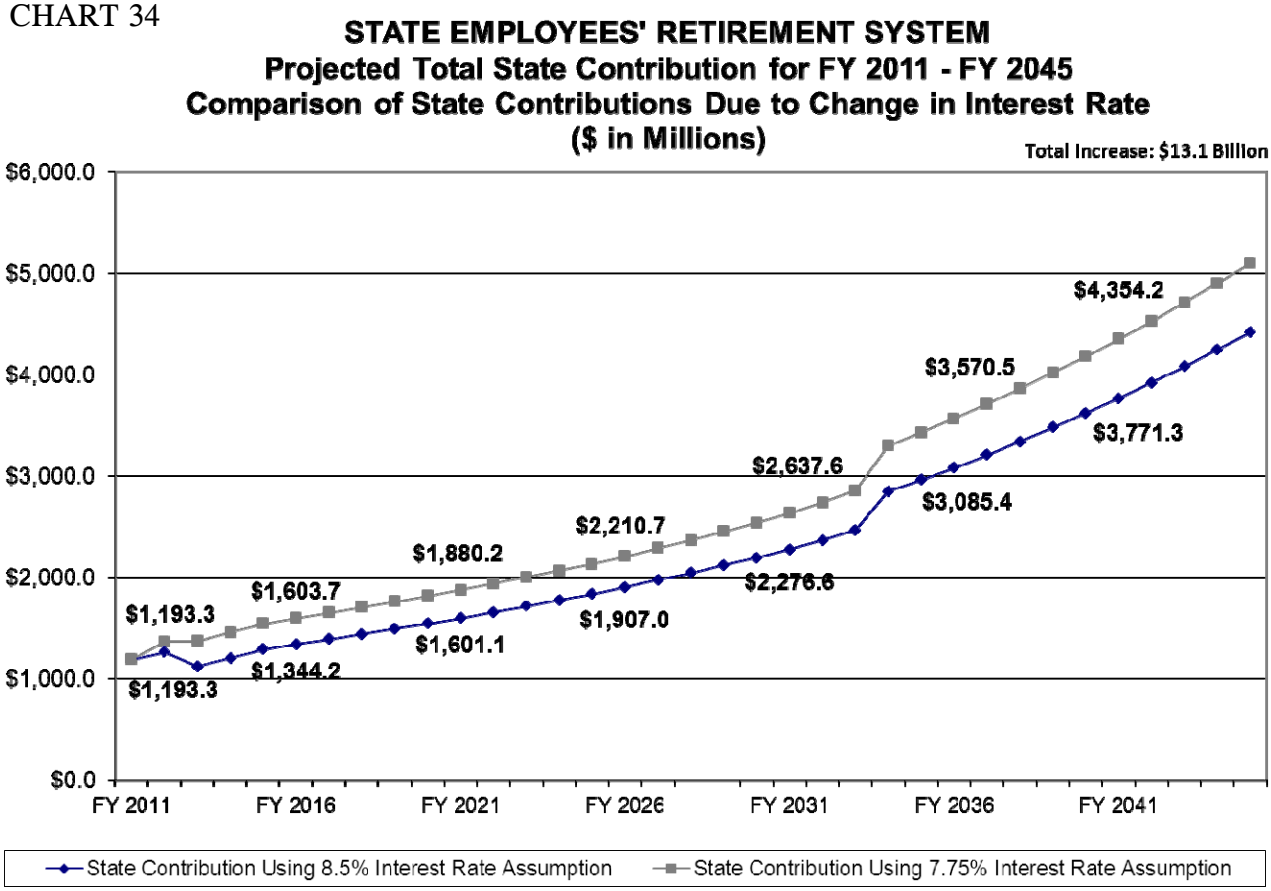


CHART 35

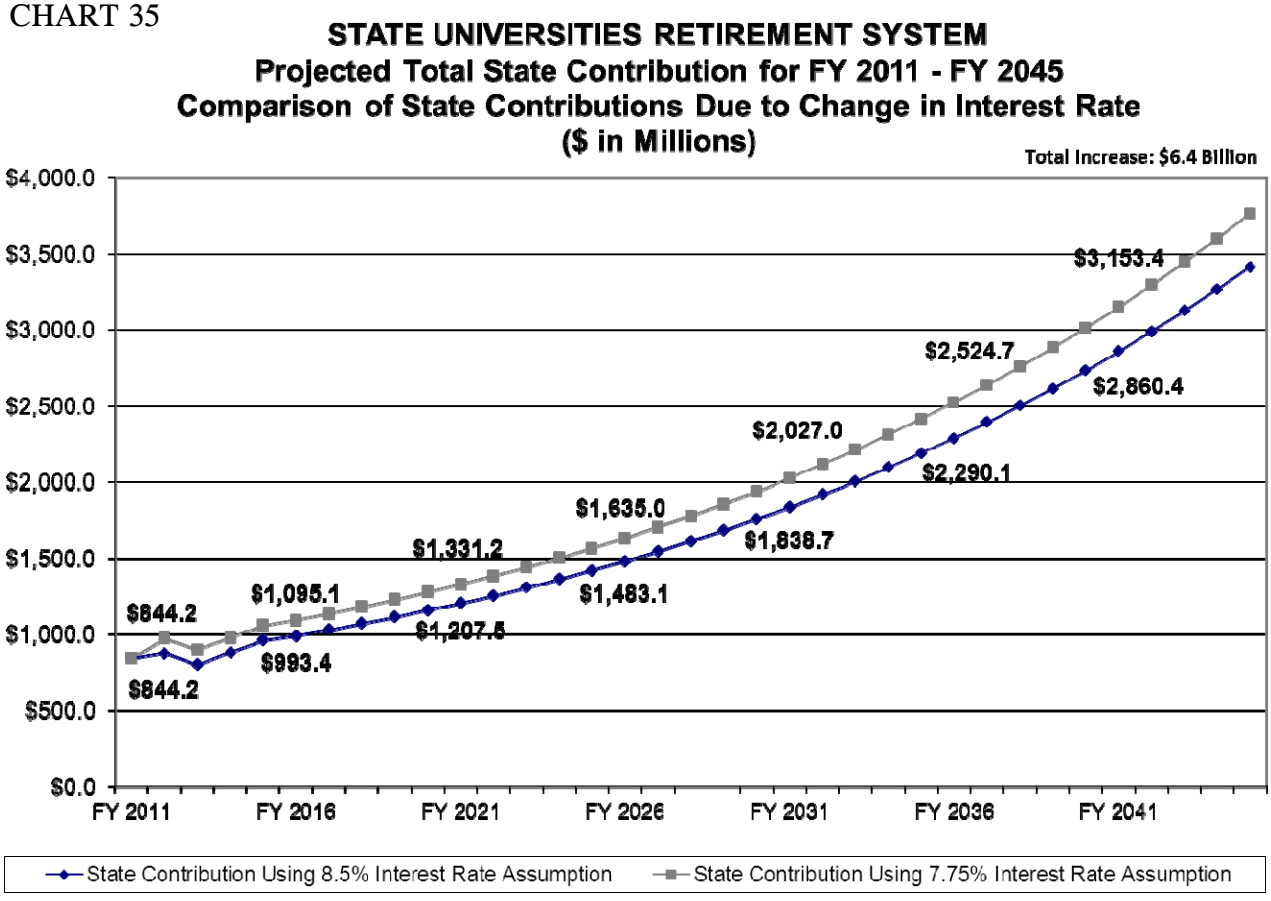
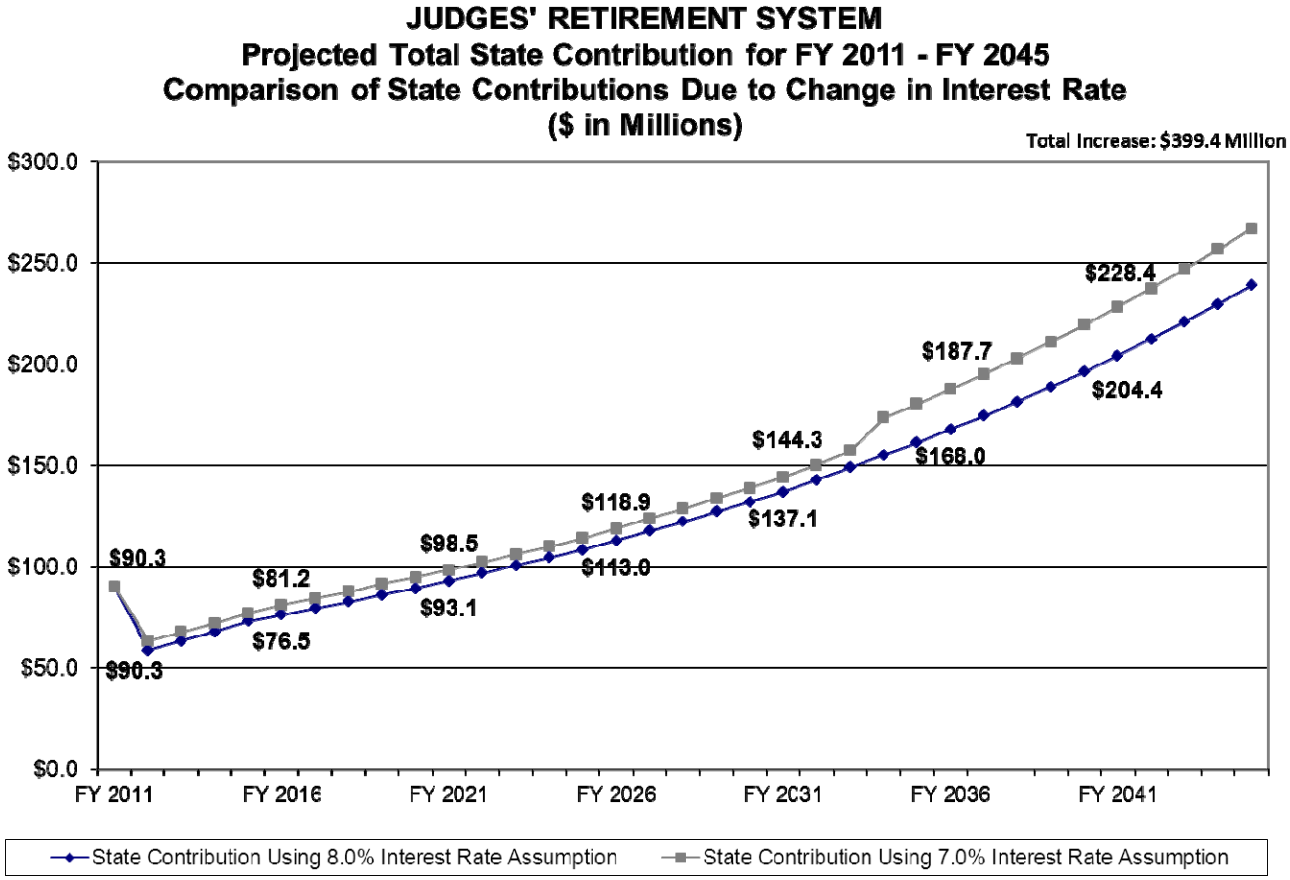


CHART 36


JUDGES' RETIREMENT SYSTEM
Projected Total State Contribution for FY 2011 - FY 2045
Comparison of State Contributions Due to Change in Interest Rate
($ in Millions)
Total Increase: $399.4 Million
$300.0
$250.0
$200.0
$150.0
$100.0
$50.0
$0.0
$90.3
$81.2
$76.5
$90.3
$98.5
$93.1
$118.9
$113.0
$144.3
$137.1
$187.7
$168.0
$228.4
$204.4
FY 2011
FY 2016
FY 2021
FY 2026
FY 2031
FY 2036
FY 2041
State Contribution Using 8.0% Interest Rate Assumption
State Contribution Using 7.0% Interest Rate Assumption

State Retirement Systems Letters Concerning 90% Funding Ratio

- All State Retirement Systems Combined
- Teachers' Retirement System
- State Employees' Retirement System
- State Universities Retirement System
- Judges' Retirement System
- General Assembly Retirement System

STATE RETIREMENT SYSTEMS

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

Internet: http://www.state.il.us/srs E-Mail: ser@mail.state.il.us

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

February 7, 2011

Senator Jeffrey Schoenberg
Co-Chairman, CGFA
830 Davis Street, Suite 102
Evanston, IL 60201

Representative Patricia Bellock
Co-Chairman, CGFA
1 S. Cass Avenue, Suite 205
Westmont, IL 60559

Dear Senator Schoenberg and Representative Bellock,

Public Act 88-0593 established a funding goal for the five state pension systems with a 90% funding ratio by the year 2045, and to maintain the funding ratio thereafter. This Act also called for the 90% funding goal to be reviewed every five years by the Systems and the Governor's office of management and budget.

It is not certain why the 90% target was initially included in the legislation, but in view of the length of the funding plan and the consensus of the public funds, we would recommend this goal be raised to 100%. We believe the long term funding target should equal the total obligations, and over 35 years, the increased contributions should be relatively small.

Very truly yours,

Timothy B. Blair, Executive Secretary
State Retirement Systems

Richard W. Ingram, Director
Teachers' Retirement System

William E. Mabe, Executive Director
State Universities Retirement System

TBB/db
cc: Dan Long, CGFA

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STATE OF ILLINOIS
EXECUTIVE OFFICE OF THE GOVERNOR
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
SPRINGFIELD 62706

PAT QUINN
GOVERNOR

April 15, 2011

Senator Jeffery Schoenberg
Co-Chair, CGFA
218 Capitol Building
Springfield, IL 62706

Representative Patricia Bellock
Co-Chair, CGFA
205-N Stratton Office Building
Springfield, IL 62706

Dear Senator Schoenberg and Representative Bellock:

The Illinois Pension Code (40 ILCS 5/1-103.3) establishes a funding ratio (the ratio of a retirement system's total assets to its total actuarial liabilities) of 90% as an appropriate goal for State-funded retirement systems in Illinois. It further provides that:

> "(c) Every 5 years, beginning in 1999, the Commission on Government Forecasting and Accountability, in consultation with the affected retirement systems and the Governor's Office of Management and Budget (formerly Bureau of the Budget), shall consider and determine whether the 90% funding ratio adopted in subsection (b) continues to represent an appropriate goal for State-funded retirement systems in Illinois, and it shall report its findings and recommendations on this subject to the Governor and the General Assembly."

It is the view of the Governor's Office of Management and Budget that the 90% funding ratio is consistent with sound actuarial practices and continues to represent an appropriate goal for State-funded retirement systems in Illinois.

Appropriateness of the 90% Funding Ratio

The intent of Public Act 88-593 (the "Act") was to commit the State to a funding plan that would ultimately result in an appropriate funding ratio, in an effort to reverse the State's historical practice of forgoing annual pension contributions. Since enactment of the Act, the State has followed the statutory funding plan established by the Act, including the use of the 90% funding ratio as its target. This has allowed the State to better anticipate its funding

obligations to the retirement systems, resulting in improved budgeting practices and resource allocation. Accordingly, adhering to the goal of a 90% funding ratio was and continues to be a sound public policy choice.

Recent actions by bond ratings agencies further support adherence to a consistent funding plan based on a 90% funding ratio. Moody's Investors Services and Standard & Poor's have recently revised ratings models by expanding the definition of debt to encompass unfunded pension liabilities. Historically, rating agencies restricted various quantitative measures of debt burden solely to *bonded* debt. Given these recent revisions, which formally incorporate unfunded pension liabilities in calculating various debt measures, any reduction in the State's target funding ratio would likely be viewed negatively by the ratings agencies and the market as a whole. This could result in lowered credit ratings for the State, increasing the State's borrowing costs. Conversely, the State's maintenance of a high target funding ratio indicates to the ratings agencies and the market that the State has the political will to address its current underfunding issues. Ultimately, attainment of the 90% funding ratio will be considered a "credit positive" when assessing credit quality and assigning bond ratings to the State. Higher bond ratings will result in reduced borrowing costs to the State. This provides a strong rationale not to reduce the current target funding ratio below 90%.

Challenge of the Statutory Funding Plan

Despite having a target funding ratio that is consistent with sound actuarial practices, the current statutory funding plan is not an actuarially-based funding plan. An actuarially-based funding plan would entail an annual contribution consisting of: (1) the normal cost (i.e., accrued benefits earned) for the current year, (2) an interest charge based upon the assumed earnings rate and the outstanding unfunded accrued actuarial liability (UAAL), and (3) an amortization of the UAAL over some defined period of time, generally not to exceed thirty years. The Act adopted a funding plan whereby, during the first 15 years, the annual contribution would incrementally increase (i.e., the "ramp up" period) up to an amount that would be based upon a constant percentage of salaries starting in FY2010. The use of that constant percentage, consistently applied, would then result in sufficient funding by FY2045 so as to attain the 90% funded goal. Since that funding approach is not actuarially based, the result is what is termed a "back-loaded" financing pattern. The funding model in the Act means that the annual statutory funding requirement continues to fall below the annual contribution of an actuarially-based funding plan until FY2034. That means the funding plan called for in the Act will continue to increase the UAAL until that year, after which the UAAL will decrease, resulting in an increased funding ratio each subsequent fiscal year and culminating in the 90% goal by FY2045.

The State has experienced rising costs of pension benefits in the face of declines in economically-sensitive revenues (i.e., income and sales taxes) and in the equity markets, due to the Great Recession and current fiscal difficulties. Together with the back-loaded funding requirements of the Act, these present challenges to attaining the 90% funding ratio. The State has thus far adhered to the statutory funding plan set forth in the Act. Increasing the target funding ratio above 90%, however, would increase the State's annual pension contribution

obligations. In the current economic climate, this would put added and undue budgetary pressures on the State at a time of great strain on the State's finances.

A more appropriate response to these economic changes is the recent action of two pension boards to lower their assumed rate of investment return. This action was recommended by the Governor during the proceedings of the Pension Reform Task Force in 2009. While this change will tend to increase the required annual contribution, it more closely aligns the return assumption with future expected returns, not just past history.

Impact of Pension Reforms

Recent reforms to the pension systems enacted pursuant to S.B. 1946 (Public Act 96-889) in the 96th General Assembly positively impacted the State's ability to meet the 90% funding ratio in FY2045. Those reforms resulted in a "two-tier" pension system beginning with new employees hired after January 1, 2011, that reduce benefits for such employees by increasing retirement age, eliminating compounding and reducing annual cost of living adjustments, expanding the base period of years upon which the initial benefit is calculated, placing a cap on the maximum salary applicable to the benefit calculation, and suspending benefit payments if an annuitant subsequently accepts another public sector job. Reduction of such benefits results in a significant reduction of future statutory contributions. For example, in FY2045, the statutory contribution is estimated to be approximately $19 billion, while prior to Public Act 96-889, the estimate was $25.1billion. These reforms support the State's efforts in adhering to the statutory funding plan under the Act.

In conclusion, any decrease in the 90% funding ratio would adversely impact both the State's credit rating (resulting in higher costs to the State) and the State's ultimate ability to adequately fund its pension obligations. Any increase in the 90% funding ratio at this time, given the current economic climate and significant fiscal challenges faced by the State, would be inadvisable and would put undue budgetary pressures on the State and its finances, which, like those of so many other States, are significantly strained. Therefore, the 90% funding ratio continues to represent an appropriate goal for State-funded retirement systems in Illinois.

Sincerely,

David H. Vaught
Director

APPENDICES

Appendix A reflects the State-by-State rankings as shown in the NASRA Public Fund Survey Summary of Findings for FY 2009

APPENDIX A

State	Plan	Actuarial Funding Ratio (%)	Actuarial Value of Assets ($000s)	Liabilities ($000s)	Unfunded Accrued Liability ($000s)	Latest Actuarial Valuarion Date	As of FYE
AK	Alaska PERS	78.8	7,210,772	9,154,282	1,943,510	6/30/2008	6/30/2009
AK	Alaska Teachers	70.2	3,670,086	5,231,654	1,561,568	6/30/2008	6/30/2009
AL	Alabama Teachers	74.7	20,582,348	27,537,400	6,955,052	9/30/2009	9/30/2009
AL	Alabama ERS	72.2	9,928,104	13,756,176	3,828,072	9/30/2009	9/30/2009
AR	Arkansas Teachers	75.7	10,617,000	14,019,000	3,402,000	6/30/2009	6/30/2009
AR	Arkansas PERS	78.0	5,413,000	6,938,000	1,525,000	6/30/2009	6/30/2009
AZ	Arizona SRS	79.0	27,094,000	34,290,000	7,196,000	6/30/2009	6/30/2009
AZ	Arizona Public Safety PRS	70.0	5,445,497	7,778,394	2,332,897	6/30/2009	6/30/2009
AZ	Phoenix ERS	75.3	1,895,148	2,518,094	622,946	6/30/2009	6/30/2009
CA	California PERF	86.9	233,272,000	268,324,000	35,052,000	6/30/2008	6/30/2009
CA	California Teachers	78.2	145,142,000	185,683,000	40,541,000	6/30/2009	6/30/2009
CA	LA County ERS	94.5	39,662,361	41,975,631	2,313,270	6/30/2008	6/30/2009
CA	San Francisco City & County	96.3	15,358,824	15,941,390	582,566	7/1/2008	6/30/2009
CA	San Diego County	91.5	8,413,065	9,198,636	785,571	6/30/2009	6/30/2009
CA	Contra Costa County	88.4	5,282,505	5,972,471	689,966	12/31/2008	12/31/2009
CO	Colorado School	69.2	21,054,910	30,412,815	9,357,905	12/31/2009	12/31/2009
CO	Colorado State	67.0	13,382,736	19,977,217	6,594,481	12/31/2009	12/31/2009
CO	Colorado Municipal	76.2	2,932,628	3,850,821	918,193	12/31/2009	12/31/2009
CO	Denver Schools	88.3	2,917,927	3,304,766	386,839	1/1/2010	12/31/2009
CO	Denver Employees	91.8	1,924,991	2,095,887	170,896	1/1/2009	12/31/2009
CO	Colorado Affiliated Local	89.2	1,855,493	2,081,304	225,811	1/1/2009	12/31/2009
CO	Colorado Fire & Police	101.0	856,090	847,821	-8,269	1/1/2009	12/31/2009
CT	Connecticut Teachers	70.0	15,271,000	21,801,000	6,530,000	6/30/2008	6/30/2009
CT	Connecticut SERS	51.9	9,990,200	19,243,400	9,253,200	6/30/2008	6/30/2009
DC	DC Police & Fire	100.7	3,048,400	3,027,900	-20,500	10/1/2009	9/30/2009
DC	DC Teachers	92.2	1,445,000	1,567,500	122,500	10/1/2009	9/30/2009
DE	Delaware State Employees	98.8	6,744,050	6,827,006	82,956	6/30/2009	6/30/2009
FL	Florida RS	87.1	118,764,692	136,375,597	17,610,905	7/1/2009	6/30/2009
GA	Georgia Teachers	91.9	54,354,284	59,133,777	4,779,493	6/30/2008	6/30/2009
GA	Georgia ERS	85.7	13,613,606	15,878,022	2,264,416	6/30/2009	6/30/2009
HI	Hawaii ERS	68.8	11,380,961	16,549,069	5,168,108	6/30/2008	6/30/2008
IA	Iowa PERS	81.2	21,123,980	26,018,594	4,894,614	6/30/2009	6/30/2009
ID	Idaho PERS	73.7	8,646,000	11,732,200	3,086,200	7/1/2009	6/30/2009
IL	Illinois Teachers	52.1	38,026,044	73,027,198	35,001,154	7/1/2009	6/30/2009
IL	Illinois Municipal	83.2	22,754,804	27,345,113	4,590,309	12/31/2009	12/31/2009
IL	Illinois Universities	54.3	14,282,000	26,316,200	12,034,200	6/30/2009	6/30/2009
IL	Chicago Teachers	73.3	11,493,255	15,683,242	4,189,987	6/30/2009	6/30/2009
IL	Illinois SERS	43.5	10,999,954	25,298,346	14,298,392	6/30/2008	6/30/2009
IN	Indiana PERF	97.5	9,293,952	9,034,573	-259,379	7/1/2008	6/30/2009
IN	Indiana Teachers	48.2	9,034,048	18,750,063	9,716,015	6/30/2008	6/30/2009
KS	Kansas PERS	58.8	11,827,619	20,106,787	8,279,168	12/31/2008	6/30/2009
KY	Kentucky Teachers	63.6	14,885,981	23,400,426	8,514,445	6/30/2009	6/30/2009
KY	Kentucky County	70.6	7,402,277	10,491,358	3,089,081	6/30/2009	6/30/2009
KY	Kentucky ERS	46.7	5,297,114	11,332,961	6,035,847	6/30/2009	6/30/2009
LA	Louisiana Teachers	59.1	13,500,766	22,839,411	9,338,645	6/30/2009	6/30/2009
LA	Louisiana SERS	60.8	8,499,662	13,986,847	5,487,185	6/30/2009	6/30/2009
MA	Massachusetts Teachers	63.0	21,262,462	33,738,966	12,476,504	1/1/2010	12/31/2009
MA	Massachusetts SERS	76.5	19,019,062	24,862,421	5,843,359	1/1/2010	12/31/2009
MD	Maryland Teachers	66.0	20,600,000	31,200,000	10,600,000	6/30/2009	6/30/2009
MD	Maryland PERS	63.8	11,800,000	18,500,000	6,700,000	6/30/2009	6/30/2009
ME	Maine State and Teacher	74.0	8,631,558	11,668,033	3,036,475	6/30/2008	6/30/2009
ME	Maine Local	112.7	2,201,653	1,953,629	-248,024	6/30/2008	6/30/2009
MI	Michigan Public Schools	83.6	45,677,000	54,608,000	8,931,000	9/30/2008	9/30/2009
MI	Michigan SERS	82.8	11,403,000	13,766,000	2,363,000	9/30/2008	9/30/2009
MI	Michigan Municipal	75.0	6,245,500	8,321,900	2,076,400	12/31/2008	12/31/2009
MN	Minnesota Teachers	77.4	17,882,408	23,114,802	5,232,394	7/1/2009	6/30/2009
MN	Minnesota PERF	70.0	13,158,490	18,799,416	5,640,926	6/30/2009	6/30/2009
MN	Minnesota State Employees	85.9	9,030,401	10,512,760	1,482,359	6/30/2009	6/30/2009
MN	St. Paul Teachers	72.2	1,049,954	1,454,314	404,360	6/30/2009	6/30/2009
MN	Duluth Teachers	76.5	279,256	364,811	85,555	7/1/2009	6/30/2009
MO	Missouri Teachers	79.9	28,826,075	36,060,121	7,234,046	6/30/2009	6/30/2009
MO	Missouri State Employees	83.0	7,876,079	9,494,807	1,618,728	6/30/2009	6/30/2009
MO	Missouri Local	80.0	3,330,663	4,161,775	831,112	2/28/2009	6/30/2009
MO	Missouri PEERS	80.7	2,792,182	3,458,044	665,862	6/30/2009	6/30/2009
MO	Missouri DOT and Highway	47.3	1,471,497	3,113,394	1,641,897	6/30/2009	6/30/2009

State	Plan	Actuarial Funding Ratio (%)	Actuarial Value of Assets ($000s)	Liabilities ($000s)	Unfunded Accrued Liability ($000s)	Latest Actuarial Valuarion Date	As of FYE
MO	St. Louis School Employees	87.6	963,900	1,099,900	136,000	1/1/2009	12/31/2009
MS	Mississippi PERS	67.3	20,597,581	30,594,546	9,996,965	6/30/2009	6/30/2009
MT	Montana PERS	83.5	4,002,212	4,792,819	790,607	6/30/2009	6/30/2009
MT	Montana Teachers	63.8	2,762,200	4,331,000	1,568,800	7/1/2009	6/30/2009
NC	North Carolina Teachers and	99.3	55,127,658	55,518,745	391,087	12/31/2008	6/30/2009
NC	North Carolina Local	99.6	17,100,739	17,173,975	73,236	12/31/2008	6/30/2009
ND	North Dakota Teachers	77.7	1,900,300	2,445,900	545,600	7/1/2009	6/30/2009
ND	North Dakota PERS	85.1	1,617,100	1,901,200	284,100	6/30/2009	6/30/2009
NE	Nebraska Schools	86.6	7,007,582	8,092,339	1,084,757	7/1/2009	6/30/2009
NH	New Hampshire Retirement	58.3	4,937,320	8,475,052	3,537,732	6/30/2009	6/30/2009
NJ	New Jersey Teachers	65.0	34,708,001	53,418,429	18,710,428	6/30/2009	6/30/2009
NJ	New Jersey PERS	64.9	28,879,176	44,470,403	15,591,227	6/30/2009	6/30/2009
NJ	New Jersey Police & Fire	70.7	22,937,838	32,442,101	9,504,263	6/30/2009	6/30/2009
NM	New Mexico PERF	84.2	12,575,142	14,932,624	2,357,482	6/30/2009	6/30/2009
NM	New Mexico Teachers	67.5	9,366,300	13,883,300	4,517,000	6/30/2009	6/30/2009
NV	Nevada Regular Employees	73.4	19,158,282	26,087,621	6,929,339	6/30/2009	6/30/2009
NV	Nevada Police Officer and	68.9	4,813,594	6,987,537	2,173,943	6/30/2008	6/30/2009
NY	NY State & Local ERS	107.3	128,916,000	120,183,000	-8,733,000	4/1/2008	3/31/2009
NY	New York State Teachers	106.6	88,254,700	82,777,500	-5,477,200	6/30/2008	6/30/2009
NY	New York City ERS	79.7	40,722,200	51,063,300	10,341,100	6/30/2008	6/30/2009
NY	New York City Teachers	66.9	33,902,600	50,667,600	16,765,000	6/30/2008	6/30/2009
NY	NY State & Local Police &	108.0	22,767,000	21,072,000	-1,695,000	4/1/2008	3/31/2009
OH	Ohio PERS	75.3	55,315,148	73,466,166	18,151,018	12/31/2008	12/31/2009
OH	Ohio Teachers	60.0	54,902,859	91,440,955	36,538,096	6/30/2009	6/30/2009
OH	Ohio School Employees	82.0	9,723,000	14,221,000	4,498,000	6/30/2009	6/30/2009
OH	Ohio Police & Fire	65.1	9,309,000	14,307,000	4,998,000	1/1/2008	12/31/2009
OK	Oklahoma Teachers	49.8	9,439,000	18,950,900	9,511,900	6/30/2009	6/30/2009
OK	Oklahoma PERS	66.8	6,208,245	9,291,458	3,083,213	7/1/2009	6/30/2009
OR	Oregon PERS	80.2	43,520,600	54,259,500	10,738,900	12/31/2008	6/30/2009
PA	Pennsylvania School	86.0	60,922,100	70,845,600	9,923,500	6/30/2008	6/30/2009
PA	Pennsylvania State ERS	84.4	30,205,000	35,797,000	5,592,000	12/31/2009	12/31/2009
RI	Rhode Island ERS	56.2	6,231,411	11,083,014	4,851,603	6/30/2007	6/30/2008
RI	Rhode Island Municipal	90.3	1,064,615	1,179,233	114,618	6/30/2007	6/30/2008
SC	South Carolina RS	69.3	24,699,678	35,663,419	10,963,741	7/1/2008	6/30/2009
SC	South Carolina Police	77.9	3,363,136	4,318,955	955,819	7/1/2008	6/30/2009
SD	South Dakota PERS	91.8	6,778,500	7,387,400	608,900	6/30/2008	6/30/2009
TN	TN State and Teachers	96.2	26,214,995	27,240,151	1,025,156	7/1/2007	6/30/2009
TN	TN Political Subdivisions	89.5	4,897,974	5,475,620	577,646	7/1/2007	6/30/2009
TX	Texas Teachers	83.1	106,384,000	128,030,000	21,646,000	8/31/2009	8/31/2009
TX	Texas ERS	87.4	23,509,622	26,907,779	3,398,157	8/31/2009	8/31/2009
TX	Texas County & District	89.8	16,564,213	18,448,162	1,883,949	12/31/2009	12/31/2009
TX	Texas Municipal	75.8	16,305,700	21,525,100	5,219,400	12/31/2009	12/31/2009
TX	Houston Firefighters	95.6	2,945,100	3,080,500	135,400	7/1/2008	6/30/2009
TX	City of Austin ERS	71.8	1,672,500	2,330,900	658,400	12/31/2009	12/31/2009
TX	Texas LECOS	86.1	780,808	907,102	126,294	8/31/2009	8/31/2009
UT	Utah Noncontributory	85.6	16,622,548	19,429,734	2,807,186	12/31/2009	12/31/2009
VA	Virginia Retirement System	84.0	52,548,000	62,554,000	10,006,000	6/30/2008	6/30/2009
VA	Fairfax County Schools	76.9	1,733,946	2,255,298	521,352	12/31/2008	6/30/2009
VT	Vermont Teachers	65.4	1,374,079	2,101,838	727,759	6/30/2009	6/30/2009
VT	Vermont State Employees	78.9	1,217,638	1,544,144	326,506	6/30/2009	6/30/2009
WA	Washington PERS 2/3	101.1	16,692,700	16,508,000	-184,700	6/30/2008	6/30/2009
WA	Washington PERS 1	70.9	9,852,900	13,901,000	4,048,100	6/30/2008	6/30/2009
WA	Washington Teachers Plan 1	76.8	8,262,300	10,753,900	2,491,600	6/30/2008	6/30/2009
WA	Washington Teachers Plan 2/3	107.9	5,681,000	5,263,800	-417,200	6/30/2008	6/30/2009
WA	Washington LEOFF Plan 1	128.0	5,592,500	4,367,700	-1,224,800	6/30/2008	6/30/2009
WA	Washington LEOFF Plan 2	126.4	5,052,700	3,998,200	-1,054,500	6/30/2008	6/30/2009
WA	Washington School Employees	104.3	2,302,600	2,207,300	-95,300	6/30/2008	6/30/2009
WI	Wisconsin Retirement System	99.8	78,911,300	79,104,600	193,300	12/31/2009	12/31/2009
WV	West Virginia PERS	79.7	3,930,701	4,930,158	999,457	7/1/2009	6/30/2009
WV	West Virginia Teachers	41.3	3,554,771	8,607,869	5,053,098	6/30/2009	6/30/2009
WY	Wyoming Public Employees	87.5	5,742,542	6,565,677	823,135	1/1/2010	12/31/2009
	Total	79.8	$2,561,175,228	$3,208,469,565	$647,294,337		

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

1) Preparation of annual revenue estimates with periodic updates;

2) Analysis of the fiscal impact of revenue bills;

3) Preparation of State debt impact notes on legislation which would appropriate bond funds or increase bond authorization;

4) Periodic assessment of capital facility plans;

5) Annual estimates of public pension funding requirements and preparation of pension impact notes;

6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;

7) Administration of the State Facility Closure Act.

The Commission also 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 it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a “Monthly Briefing”, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The “Legislative Capital Plan Analysis” examines the State's capital appropriations plan and debt position. “The Financial Conditions of the Illinois Public Retirement Systems” provides an overview of the funding condition of the State’s retirement systems. Also published are an Annual Fiscal Year “Budget Summary”; “Report on the Liabilities of the State Employees’ Group Insurance Program”; and “Report of the Cost and Savings of the State Employees’ Early Retirement Incentive Program”. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission’s website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)
http://www.ilga.gov/commission/cgfa2006/home.aspx