General Assembly Retirement System, State of Illinois

A Pension Trust Fund of the State of Illinois

Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2013 and 2012

General Assembly Retirement System of Illinois

2101 South Veterans Parkway, P. O. Box 19255
Springfield, Illinois 62794-9255
Phone 217-782-8500 • Fax 217-557-5154
Internet: http://www.state.il.us/srs
Email: gars@srs.illinois.gov

Fiscal Year 2013 Highlights

246	Total Membership
160	Active Contributing Members
$54,347,021	Net Position–Restricted for Pension Benefits, fair value
	Contributions
$1,451,227	Participants
$14,150,000	Employer
$6,492,598	Investment Income
14.1%	Investment Return
	Benefit Recipients
310	Retirement Annuities
118	Survivors' Annuities
1	Reversionary Annuities
$20,110,119	Benefits Paid
$320,461,498	Actuarial Accrued Liability
$51,849,558	Actuarial Value of Assets
$268,611,940	Unfunded Actuarial Liability
16.2%	Funded Ratio

Mission Statement

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

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

A Pension Trust Fund of the State of Illinois

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

GENERAL ASSEMBLY RETIREMENT SYSTEM,
STATE OF ILLINOIS

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

Prepared by the Accounting Division

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INTRODUCTORY SECTION

SRS STATE RETIREMENT SYSTEMS

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

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

December 30, 2013

The Board of Trustees and Members
General Assembly Retirement System,
State of Illinois
Springfield, IL 62794

Dear Board of Trustees and Members:

The comprehensive annual financial report (CAFR) of the General Assembly Retirement System, State of Illinois (System) as of and for the fiscal year ended June 30, 2013 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System.

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

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

The report consists of six sections:

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

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

3. The Investment Section contains a report on investment activity, investment policies, investment results and various investment schedules;

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

5. The Statistical Section contains significant statistical data; and

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

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

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

Based on the criteria of the Governmental Accounting Standards Board Statement No. 61, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

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

PLAN HISTORY & SERVICES PROVIDED

The General Assembly Retirement System was established as a public employee retirement system (PERS) by state statute on July 1, 1947. As of June 30, 1948, the end of the System's first fiscal year of operations, there were a total of 190 participants and the plan net position valued at cost amounted to approximately $39,000. The fair value of plan net position at the end of fiscal year 2013 amounted to approximately $54.3 million, and there were 246 total active and inactive participants.

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

INVESTMENTS

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

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

The ISBI maintains a wide diversification of investments within this fund which is intended to reduce overall risk and increase returns. As further detailed in the Investment Section, the ISBI Commingled Fund earned 14.1%, net of expenses for the fiscal year ended June 30, 2013.

FUNDING

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

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

For fiscal years up through 2010, the required state contributions, except for fiscal years 2006 and 2007, were to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state is contributing at the required level contribution rate to achieve the financing objective by the end of fiscal year 2045. For fiscal years 2013 and 2012, the statutorily required state contributions were $14,150,000 and $10,502,000, respectively. The total amount of contributions received from the state for fiscal years 2013 and 2012 was $14,150,000 and $10,502,000, respectively.

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

The actuarial determined liability of the System using the projected unit credit actuarial cost method at June 30, 2013, amounted to $320.5 million. The actuarial value of assets amounted to $51.9 million resulting in an unfunded accrued actuarial liability of $268.6 million as of the same date. A detailed discussion of funding is provided in the Actuarial Section of this report.

ACCOUNTING SYSTEM & INTERNAL CONTROL

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

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

The System also uses the State of Illinois, Statewide Accounting Management System (SAMS) as a basis for the preparation of the financial statements.

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

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by Gabriel, Roeder, Smith & Company, Chicago, Illinois. The System's investment function is managed by the Illinois State Board of Investment.

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

The purpose of the compliance attestation examination was to determine whether the System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the General Assembly Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2012.

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

A Certificate of Achievement is valid for a period of one year only. The General Assembly Retirement System has received a Certificate of Achievement for the past twenty-four consecutive years (fiscal years ended June 30, 1989 through June 30, 2012).

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

ACKNOWLEDGMENTS & COMMENTS

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

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

Respectfully submitted,

Timothy B. Blair

Timothy B. Blair
Executive Secretary

David M. Richter

David M. Richter, CPA
Accounting Division

SENATOR
James F. Clayborne, Jr.
Chairman

REPRESENTATIVE
David Harris

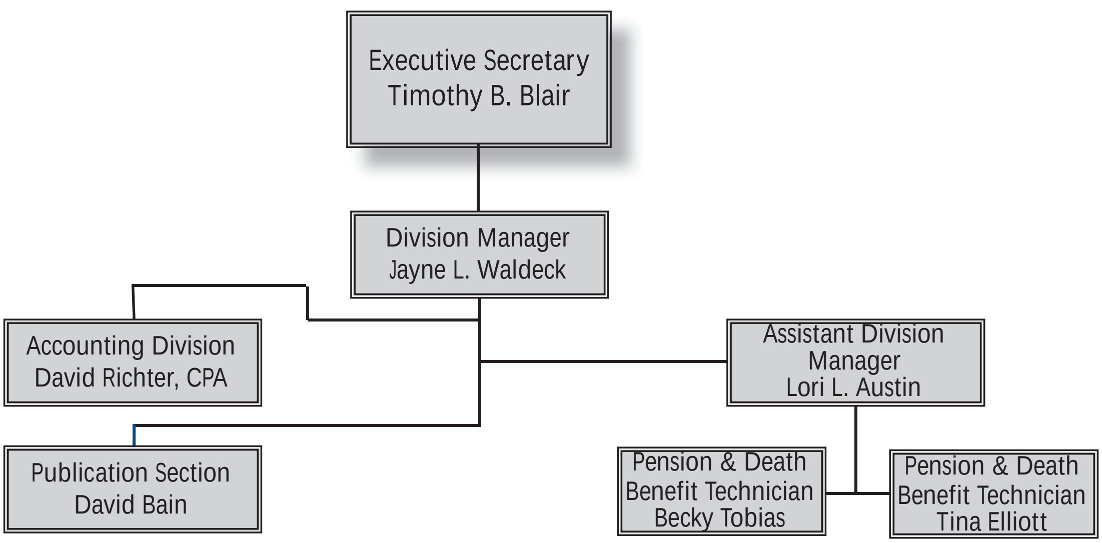
SENATOR
William Brady

SENATOR
Don Harmon

REPRESENTATIVE
Daniel Burke

REPRESENTATIVE
Elaine Nekritz

BOARD OF TRUSTEES



Advisors, Auditors, and Administrators

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

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

General Assembly

Retirement System, State of Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

FINANCIAL SECTION

BKD LLP
CPAs & Advisors

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

Independent Auditor's Report

The Honorable William G. Holland
Auditor General
State of Illinois
and
Board of Trustees
General Assembly Retirement System of the State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the General Assembly Retirement System of the State of Illinois (System), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2013 and 2012 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 85 percent, 90 percent, and 29 percent, respectively in 2013, and 90 percent, 93 percent, and (.80) percent, respectively, in 2012 of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the plan net position of the System as of June 30, 2013 and 2012, and the respective changes in plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplementary financial information in the financial section and the accompanying introductory, investment, actuarial, statistical and plan summary and legislative sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary financial information in the financial section as listed in the table of contents has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, the supplementary financial information in the financial section, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, statistical and plan summary and legislative sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we so not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated December 20, 2013 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

BKD, LLP

Decatur, Illinois
December 20, 2013

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

This section presents management's discussion and analysis of the financial position and performance of the General Assembly Retirement System (System) for the years ended June 30, 2013 and 2012. It is presented as a narrative overview and analysis. Readers are encouraged to consider the information presented here in conjunction with the Letter of Transmittal included in the Introductory Section, of the Comprehensive Annual Financial Report.

The System is a defined benefit, single-employer public employee retirement system. It provides services to 160 active participants and 429 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. *Basic Financial Statements.* For the fiscal years ended June 30, 2013 and 2012, basic financial statements are presented for the System. This information presents the System's net position restricted for pension benefits as of June 30, 2013 and 2012. This financial information also summarizes the changes in the net position restricted for pension benefits for the years then ended.

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

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

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

FINANCIAL HIGHLIGHTS

• The System's net position increased by approximately $1.6 million and decreased by approximately $7.7 million during fiscal years 2013 and 2012, respectively. These changes were primarily due to a $1.7 million increase in cash partially offset by a slight decrease in receivables during fiscal year 2013 and a $8.9 million decrease in cash and investments partially offset by a $1.3 million increase in receivables during fiscal year 2012.
• The System was actuarially funded at 16.2% as of June 30, 2013 which is a decrease from 18.5% as of June 30, 2012. For fiscal years 2013 and 2012, the actuarial value of assets equals the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
• The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 14.1% for fiscal year 2013 compared to 0.1% for fiscal year 2012.

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

Condensed Statements of Plan Net Position
(in thousands)

	As of June 30, 2013	2012	2011	Increase/(Decrease) from 2012 to 2013	2011 to 2012
Cash	$ 4,238.7	$ 2,481.3	$ 3,102.3	$ 1,757.4	$ (621.0)
Receivables	1,197.5	1,341.5	30.7	(144.0)	1,310.8
Investments, at fair value *	52,111.8	50,410.1	58,616.4	1,701.7	(8,206.3)
Equipment, net	2.9	3.6	1.7	(0.7)	1.9
Total assets	57,550.9	54,236.5	61,751.1	3,314.4	(7,514.6)
Liabilities *	3,203.9	1,492.6	1,356.2	1,711.3	136.4
Total plan net position	$ 54,347.0	$ 52,743.9	$ 60,394.9	$ 1,603.1	$(7,651.0)

** Including securities lending collateral*

ADDITIONS TO PLAN NET POSITION

Additions to Plan Net Position include employer and participant contributions and net income from investment activities. Participant contributions were approximately $1.5 million and $1.6 million for the years ended June 30, 2013 and 2012. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to $14.2 million in 2013 from $10.5 million in 2012. This increase was the result of the actuarially determined employer contributions required by the State's funding plan.

DEDUCTIONS FROM PLAN NET POSITION

Deductions from Plan Net Position are primarily benefit payments. During 2013 and 2012, the System paid out $20.2 million and $19.4 million, respectively, in benefits and refunds, an increase of 3.9% from 2012. These higher payments were mainly due to an increase in the number of annuitants as well as a 3% automatic annuity increase paid each year. The administrative costs of the System represented 1.7% and 1.5% of total deductions in 2013 and 2012, respectively.

FUNDED RATIO

The funded ratio of the plan measures the ratio of the actuarial value of assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2013 decreased to 16.2% from 18.5% at June 30, 2012. The major reason for the decline was the lingering effect of prior investment performance on the smoothed market value of assets. The amount by which actuarially determined liabilities exceeded the actuarial value of assets was $268.6 million at June 30, 2013 compared to $247.4 million at June 30, 2012.

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the Judges' Retirement System, State Employees' Retirement System, and one other state agency. The investments of this other state agency are immaterial to the total commingled investment pool. Each participating entity owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage. Investment gains or losses are reported in the Statement of Changes in Plan Net Position of each participating entity.

The net investment income of the total ISBI Commingled Fund was approximately $1.6 billion during fiscal year 2013, versus $5.0 million during fiscal year 2012, resulting in returns of 14.1% and 0.1%, respectively. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as the result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three, five, and ten year period ended June 30, 2013, the ISBI Commingled Fund earned a compounded rate of return of 11.6%, 3.9%, and 6.6%, respectively.

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

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

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

Condensed Statements of Changes in Plan Net Position
(in thousands)

	For the Year Ended June 30, 2013	2012	2011	Increase/(Decrease) from 2012 to 2013	2011 to 2012
Additions					
Participant contributions	$ 1,451.2	$ 1,622.7	$ 2,006.2	$ (171.5)	$ (383.5)
Employer contributions	14,150.0	10,502.0	11,433.6	3,648.0	(931.6)
Investment income/(loss)	6,492.6	(81.4)	10,291.4	6,574.0	(10,372.8)
Miscellaneous	–	-	10.0	–	(10.0)
Total additions	22,093.8	12,043.3	23,741.2	10,050.5	(11,697.9)
Deductions					
Benefits	20,110.1	19,246.9	17,676.8	863.2	1,570.1
Refunds	41.1	149.3	61.5	(108.2)	87.8
Administrative expenses	339.5	298.1	299.1	41.4	(1.0)
Total deductions	20,490.7	19,694.3	18,037.4	796.4	1,656.9
Net increase/(decrease) in plan net position	$ 1,603.1	$ (7,651.0)	$ 5,703.8	$ 9,254.1	$(13,354.8)

LEGISLATIVE

Public Act 98-0599 ("The Act") was signed by the Governor on December 5, 2013. The Act amends the Illinois Pension Code, and is effective June 1, 2014. The Act applies to all active, inactive and retired Tier 1 members. Tier 2 members are not affected.

The Act's goal is to stabilize retirement system finances and eliminate the retirement system's unfunded liability by 2045. The Act reduces the annual pension adjustments for current and future retirees and requires the skipping of a certain number of the annual pension adjustments for future annuitants retiring on or after July 1, 2014.

The number of annual adjustments to be skipped is based on the future retiree's age at the time the Act becomes effective. In addition, the Act caps the pensionable salary amount and increases the retirement age on a graduated scale and creates a new defined contribution plan. The Act also reduces the employee contribution toward retirement benefits by one percentage point. It provides a funding guarantee requiring the State to make the applicable employer contributions. The System continues to analyze the implementation of this law and its overall effects.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Plan Net Position

June 30, 2013 and 2012

	2013	2012
Assets		
Cash	$ 4,238,695	$ 2,481,335
Receivables:		
Employer contributions	1,179,200	1,312,740
Participants' contributions	14,608	21,073
Refundable annuities	2,201	6,682
Interest on cash balances	1,495	968
Total receivables	1,197,504	1,341,463
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	49,003,784	49,025,145
Securities lending collateral with State Treasurer	3,108,000	1,385,000
Equipment, net of accumulated depreciation	2,961	3,610
Total Assets	57,550,944	54,236,553
Liabilities		
Benefits payable	-	12,169
Refunds payable	-	1,861
Administrative expenses payable	24,481	27,643
Due to Judges' Retirement System of Illinois	71,442	65,961
Securities lending collateral	3,108,000	1,385,000
Total Liabilities	3,203,923	1,492,634
Net position – restricted for pension benefits	$ 54,347,021	$ 52,743,919

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Changes in Plan Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Additions:		
Contributions:		
Participants	$ 1,451,227	$ 1,622,742
Employer	14,150,000	10,502,000
Total contributions	15,601,227	12,124,742
Investments:		
Net investment income	1,339,754	1,225,617
Interest earned on cash balances	13,959	14,849
Net appreciation (depreciation) in fair value of investments	5,138,885	(1,321,914)
Total investment income (loss)	6,492,598	(81,448)
Total Additions	22,093,825	12,043,294
Deductions:		
Benefits:		
Retirement annuities	16,602,650	15,903,041
Survivors' annuities	3,507,469	3,343,844
Total benefits	20,110,119	19,246,885
Refunds of contributions	41,110	149,294
Administrative expenses	339,494	298,104
Total Deductions	20,490,723	19,694,283
Net Increase (Decrease)	1,603,102	(7,650,989)
Net position - restricted for pension benefits:		
Beginning of year	52,743,919	60,394,908
End of year	$ 54,347,021	$ 52,743,919

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements June 30, 2013 and 2012

1. Reporting Entity

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

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

Based on the criteria of the Governmental Accounting Standards Board Statement No. 61, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal years 2013 and 2012 were each less than $44,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

2. Plan Description

The System is the administrator of a single-employer defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants. The plan is comprised of two tiers of contribution requirements and benefit levels. Tier 1 pertains to participants who first became a participant of the System prior to January 1, 2011. Tier 2 pertains to participants who first became a participant of the System on or after January 1, 2011.

a. Eligibility and Membership

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

b. Contributions

In accordance with Chapter 40, Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities, and automatic annual increases as shown on the next page. Tier 1 participants contribute based on total annual compensation. Beginning January 1, 2011, Tier 2 participants contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or the annual percentage increase in the Consumer Price Index. The calendar year 2013 and 2012 rate is $112,204 and $110,004, respectively. Contributions are excluded from gross income for Federal and State income tax purposes.

The statutes governing the General Assembly Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service.

At June 30, 2013 and 2012, the System membership consisted of:

	2013	2012
Retirees and beneficiaries		
currently receiving benefits:		
Retirement annuities	310	294
Survivors' annuities	118	119
Reversionary annuities	1	1
	429	414
Inactive participants entitled to benefits		
but not yet receiving them	86	79
Total	515	493
Current participants:		
Vested	111	121
Nonvested	49	55
Total	160	176

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

The total contribution rate is 11.5% as shown below:

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

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

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

c. Benefits

Retirement Annuity: Tier 1

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

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

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

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

Retirement Annuity: Tier 2

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

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

Other Benefits:

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

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

3. Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles.

Participant and employer contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan.

b. Cash

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

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

c. Implementation of New Accounting Standards

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in certain previously issued pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The System implemented this Statement for the year ending June 30, 2013.

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

d. General Litigation

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

e. Methods Used to Value Investments

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

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

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

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

f. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed for the period from July 1, 2006 to June 30, 2012 resulting in the adoption of new assumptions as of June 30, 2013.

g. Administrative Expenses

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

Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are allocated 25% to the General Assembly Retirement System and 75% to the Judges' Retirement System.

Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and the appropriate amount is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2013 and 2012, were $239,405 and $224,439, respectively.

h. Risk Management

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

i. Use of Estimates

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

j. Reclassifications

Certain fiscal year 2012 amounts have been reclassified to conform to the fiscal year 2013 presentation. These reclassifications have not changed the fiscal year 2012 results.

4. Investments

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

	June 30, 2013	June 30, 2012
U.S. govt. and agency obligations	$ 887,400,073	$ 958,131,279
Foreign obligations	415,070,013	385,628,617
Corporate obligations	674,154,128	656,977,663
Common stock & equity funds	3,916,478,305	3,253,103,566
Commingled funds	317,408,396	225,608,712
Foreign equity securities	2,329,387,630	2,012,774,573
Foreign preferred stock	481,493	592,156
Hedge funds	1,166,602,482	1,026,725,785
Real estate funds	1,294,600,976	967,346,450
Private equity	643,775,529	679,423,383
Money market instruments	237,649,781	255,922,180
Real assets	550,739,042	507,019,665
Bank loans	416,649,247	328,593,596
Forward foreign currency contracts	(412,825)	(43,859)
Total investments	$12,849,984,270	$11,257,803,766

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System's and ISBI's deposits may not be returned. All non-investment related bank balances at year-end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. As of June 30, 2013 and 2012, the ISBI had non-investment related bank balances of $449,417 and $25,096,663, respectively. Of the June 30, 2012 cash balance, $24,854,573 represents the transfer of the Illinois Power Agency Trust funds. This cash was held by the State Treasurer pending transfer to State Street Bank and Trust Company for investment. The transfer of these funds to State Street Bank and Trust for investment occurred on July 19, 2012. During fiscal year 2007, a Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July of 2007. The policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of State Street Bank and Trust Company. State Street Bank and Trust Company has an AA- Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 rating by Moody. Certain investments of the ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, the ISBI reports these types of cash equivalents as Money Market Instruments within their investments. As of June 30, 2013 and 2012, the ISBI had investment related bank balances of $21,092,710 and $20,601,170, respectively. These balances include USD and foreign cash balances. The USD cash balances had no exposure to custodial credit risk as a result of the passage of the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd Frank Act) in July, 2010. The FDIC must provide unlimited deposit insurance coverage for balances held in US dollar non-interest bearing transaction accounts (DDAs) for a period of two years, beginning on December 31, 2010 and ending on December 31, 2012. As of January 1, 2013, cash held in the investment related bank account is neither insured nor collateralized for amounts in excess of $250,000. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

Investment Commitments

The ISBI's real estate and private equity investment portfolios consist of passive interests in limited partnerships. The ISBI had outstanding commitments to these limited partnerships of approximately $278 million and $478 million, as of June 30, 2013 and 2012, respectively. Also, at the end of fiscal year 2013 and 2012, the ISBI had outstanding commitments of $7 million and $196 million, respectively, to separate real estate accounts. Also at the end of fiscal year 2013 and 2012, the ISBI had outstanding amounts of $60 million and $63 million, respectively, committed to real assets. The ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

Investment Liquidity

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

Alternative Investments

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

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

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

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

Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from the ISBI and through acquisition of debt. At June 30, 2013, real estate equities of approximately $1,295 million are reported at estimated fair value. Of this amount, $1,145 million is equity and $150 million is long term debt. At June 30, 2012 real estate equities of approximately $967 million were reported at estimated market value. Of this amount, $795 million was equity and $172 million was long term debt.

Required repayment of real estate debt, which is non-recourse debt is as follows as of June 30, 2013 and 2012:

Debt Maturities Year Ending June 30	2013	2012
2013	$ –	$ 38,336,179
2014	–	–
2015	–	39,603,847
2016	28,591,489	28,761,199
2017	56,179,026	64,845,576
2018–2022	43,165,198	–
2023–2026	22,382,920	–
	$ 150,318,633	$171,546,801

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

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

Concentration of Credit Risk and Credit Risk for Investments

The ISBI's portfolio of investments is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. The ISBI did not have any single issuer investment that exceeded 5% of the total net assets of the fund as of June 30, 2013 and 2012. The table to the right presents the quality ratings of debt securities held by the ISBI as of June 30, 2013 and 2012.

	Moody's Quality Rating	2013	2012
U.S. Government and Agency obligations	AAA	$ 874,539,113	$ 955,072,566
	AA	5,090,968	3,054,072
	Not Rated	7,769,992	4,641
Total U.S. govt. and agency obligations		$ 887,400,073	$ 958,131,279
Foreign Obligations	AAA	$ 76,120,555	$ 186,587,716
	AA	97,449,851	70,836,832
	A	22,791,044	38,941,615
	BAA	39,580,632	17,922,423
	BA	14,681,590	13,976,279
	B	22,678,015	16,044,688
	CAA	849,000	1,411,638
	Not rated	140,919,326	39,907,426
Total Foreign Obligations		$ 415,070,013	$ 385,628,617
Corporate Obligations			
Bank and Finance	AA	$ 2,299,452	$ 6,229,998
	A	61,974,814	65,118,722
	BAA	59,330,835	46,729,424
	BA	22,522,230	13,870,851
	B	20,262,545	17,295,104
	Not Rated	1,119	1,045
Total Bank and Finance		$ 166,390,995	$ 149,245,144
Collateralized Mortgage Obligations	AAA	$ 912,944	$ 1,076,456
Total Collateralized Mortgage Obligations		$ 912,944	$ 1,076,456
Industrial	AA	$ 13,517,204	$ 36,473,262
	A	35,977,341	29,602,573
	BAA	60,411,613	75,478,624
	BA	87,927,262	59,680,342
	B	188,374,139	193,691,505
	CAA	16,149,073	10,775,593
	Not Rated	6,775,458	6,530,791
Total Industrial		$ 409,132,090	$ 412,232,690
Other	AA	$ –	$ 1,127,225
	A	21,306,286	22,075,563
	BAA	9,007,159	7,428,269
	BA	23,383,605	19,369,553
	B	41,440,430	43,572,387
	Not rated	2,580,619	850,376
Total Other		$ 97,718,099	$ 94,423,373
Total Corporate Obligations		$ 674,154,128	$ 656,977,663
Money Market	Not Rated	$ 237,649,781	$ 255,922,180
Total Money Market		$ 237,649,781	$ 255,922,180

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the ISBI will not be able to recover the value of investments or collateral securities that are in the possession of a counterparty. As of June 30, 2013 and 2012, there were no investments that were uninsured and unregistered, securities held by the counterparty or by its trust department or agent but not in the ISBI's name.

Interest Rate Risk

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

Duration is the measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. As of June 30, 2013 and 2012, the ISBI benchmarked its debt security portfolio to Barclay's Capital Intermediate U.S. Government/Credit Bond Index. At June 30, 2013 and 2012, the effective duration of the Barclay's Capital Intermediate U.S. Government/Credit Bond Index was 5.5 years and 3.9 years, repectively. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2013 and 2012 was 4.8 years and 4.6 years, respectively. The table below shows the detail of the duration by investment type as of June 30, 2013 and 2012.

	2013		2012	
Investment Type	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
U.S. Govt. and Agency Obligations				
U.S. Government	$ 381,380,855	5.8	$ 383,122,214	6.7
Agency	506,019,218	2.9	575,009,065	2.7
Foreign Obligations	415,070,013	6.0	385,628,617	6.1
Corporate Obligations				
Bank & Finance	166,390,995	5.4	149,245,144	3.9
Collateralized Mortgage Obligations	912,944	1.8	1,076,456	2.2
Industrial	409,132,090	4.8	412,232,690	4.0
Other	97,718,099	4.8	94,423,373	4.2
Total	$ 1,976,624,214		$2,000,737,559	

Foreign Currency Risk

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

Certain investments held in infrastructure funds trade in a reported currency of Euro-based dollars valued at $56,700,762 and $53,539,234 as of June 30, 2013 and 2012, respectively. The table below presents the foreign currency risk by type of investment as of June 30, 2013 and 2012.

	2013		2012	
Currency	Foreign Equity Securities & Foreign Preferred Stock	Foreign Obligations	Foreign Equity Securities & Foreign Preferred Stock	Foreign Obligations
Australian Dollar	$ 84,939,975	$ 17,798,299	$ 82,314,617	$ 16,469,771
Brazilian Real	35,504,150	–	49,364,844	–
Canadian Dollar	128,661,034	22,047,815	126,199,484	27,179,367
Chilean Peso	1,319,421	2,742,742	1,098,684	2,308,184
Czech Koruna	422,126	2,955,792	536,589	2,520,227
Danish Krone	34,412,484	4,925,465	27,321,050	4,165,438
Egyptian Pound	1,067,693	–	1,810,173	–
English Pound Sterling	423,002,548	23,463,993	374,618,002	32,868,184
Euro Currency	531,593,533	124,284,551	394,894,819	103,642,653
Hong Kong Dollar	145,893,712	1,991,143	127,339,809	2,384,108
Hungarian Forint	1,691,945	–	1,457,562	–
Indonesian Rupian	8,906,965	–	9,446,308	–
Israeli Shekel	2,992,079	45,464	2,619,603	28,742
Japanese Yen	273,783,526	65,746,192	191,615,229	65,481,682
Malaysian Ringgit	8,246,099	3,588,730	7,106,044	2,848,977
Mexican Peso	22,585,252	15,855,407	20,566,508	13,648,235
Moroccan Dirham	195,607	–	219,512	–
New Zealand Dollar	3,914,051	2,392,523	5,008,123	1,783,525
Norwegian Krone	27,605,678	7,137,733	24,657,161	6,403,137
Philippine Peso	2,511,702	–	2,219,444	–
Polish Zloty	3,126,169	6,352,962	2,949,201	8,408,688
Singapore Dollar	33,907,567	4,791,667	42,090,664	3,813,610
South African Rand	23,845,529	5,047,409	25,078,599	4,116,002
South Korean Won	84,875,633	18,591,249	71,317,427	13,526,890
Swedish Krona	32,302,268	9,448,272	27,254,280	10,680,201
Swiss Franc	218,884,679	8,538,778	138,838,635	7,455,551
Thailand Baht	4,935,467	5,425,631	3,954,203	4,274,188
Turkish Lira	3,301,243	–	2,811,622	–
Foreign investments denominated in U.S. Dollars	185,440,988	61,898,196	248,658,533	51,621,257
Total	$ 2,329,869,123	$ 415,070,013	$ 2,013,366,729	$ 385,628,617

Securities Lending

The ISBI participates in a securities lending program with Credit Suisse AG, New York Branch who acts as securities lending agent. Securities are loaned to brokers and, in return, the ISBI receives cash and non-cash collateral. All of the securities are eligible for the securities lending program. Collateral consists solely of cash and government securities having a fair value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, Credit Suisse AG, New York Branch provides the ISBI with counterparty default indemnification. Investments in the cash collateral account represent securities that were distributed to the ISBI in connection with the in-kind redemption of the ISBI's ownership in the State Street Bank and Trust Company Quality Funds for Short-Term Investment (Quality D). Credit Suisse is not responsible for any losses with regards to these legacy investments. This arrangement subjects the ISBI to credit risk as the credit quality of these investments may decline over time. The credit risk on the legacy investments is the risk of a possible loss arising from the inability of a counterparty to meet its obligations. These losses could include the loss of principal, interest and/or decreased expected cash flows in any of the investments held in the ISBI's cash collateral account. In the event a counterparty defaults on its obligations, the ISBI would need to credit the cash collateral account with the amount of the default to make the account whole so that once loaned securities are returned, the cash pledged by borrowers can be returned to them. As of June 30, 2013 and 2012, respectively, the collateral received exceeded the fair value of the securities loaned. As of June 30, 2013 and 2012, there were outstanding loaned investment securities having fair values of $238,382,734 and $115,655,166, respectively; against which collateral was received with a fair value of $245,131,637 and $120,556,697, respectively. Collateral received at June 30, 2013 and 2012 consisted of $61,530,842 and $72,452,520, respectively, in cash and $183,600,796 and $48,104,177, respectively, in government securities for which the ISBI does not have the ability to pledge or sell.

The cash collateral received is invested in a short-term instrument having a fair value of $59,160,611 and $67,893,265 as of June 30, 2013 and 2012, respectively. This investment pool had an average duration of 29.80 days and 32.42 days as of June 30, 2013 and 2012, respectively. Any decrease in the fair value of invested cash collateral is recorded by the ISBI as unrealized losses and reported as a component of the investment income/loss on the ISBI's Statement of Changes in Net Position.

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

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

During fiscal years 2013 and 2012, Deutsche Bank AG lent U.S. Treasury and U.S. Agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2013 and 2012 on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. Deutsche Bank AG is obligated to indemnify the State Treasurer if the Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during fiscal years 2013 and 2012 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2013 and 2012, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending cash collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2013 were $6,763,623,576 and $6,742,892,101, respectively. The securities lending cash collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2012 were $4,556,511,251 and $4,551,829,732, respectively. The System's portion of securities lending collateral that was invested in repurchase agreements as of June 30, 2013 and June 30, 2012 were $3,108,000 and $1,385,000, respectively.

Derivative Securities

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

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

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

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

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

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

The table below presents the investment derivative instruments aggregated by type that were held by the ISBI as of June 30, 2013 and 2012.

	Changes in Fair Value		Fair Value at Year End		Notional Amount Number of Shares	
	2013	2012	2013	2012	2013	2012
FX Forwards	$ (2,963,240)	$ (1,693,910)	$ (412,825)	$ (43,859)	n/a	n/a
Futures	n/a	n/a	n/a	n/a	25,076,117	(16,717,412)
Options	6,068,549	2,744,205	9,078,690	2,811,004	8,040,934	27,000
Rights	(655,303)	(166,937)	22,104	30,249	35,139	153,435
Warrants	3,331,121	(9,022,293)	18	68,676,781	1	7,663,933
	$ 5,781,127	$ (8,138,935)	$ 8,687,987	$ 71,474,175	33,152,191	(8,873,044)

The table below shows the futures positions held by the ISBI as of June 30, 2013 and 2012.

	2013		2012	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity Futures Purchased	1,398	$113,135,073	1,410	$92,997,500
Fixed Income Futures Purchased	723	94,816,672	382	48,411,940
Fixed Income Futures Sold	371	66,975,628	421	63,940,695

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

Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. Market risk is the possibility that a change in interest (interest rate risk) or currency rates (foreign currency risk) will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and management of the ISBI and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. As of June 30, 2013 and 2012, respectively, the ISBI held futures contracts whose underlying instruments were exposed to interest risk but there were no GASB 53 reportable elements. The ISBI has not adopted a formal policy specific to master netting arrangements.

The ISBI's derivative investments in foreign currency forward contracts are held with counterparties. The credit ratings and net exposure as of June 30, 2013 and 2012 for the counterparties are as follows:

	2013			2012		
Moody's Rating	Fair Value	Net Exposure	Percentage of Net Exposure	Fair Value	Net Exposure	Pecentage of Net Exposure
Aa3	$ 196,480	$ 196,480	26.97%	$ 45,189	$ 45,189	11.57%
Aa2	68,353	68,353	9.39%	46,885	46,885	12.00%
A3	198,724	198,724	27.28%	84,367	84,367	21.59%
A2	106,379	106,379	14.61%	64,971	64,971	16.62%
A1	92,066	92,066	12.64%	3,119	3,119	0.80%
Baa1	66,323	66,323	9.11%	146,228	146,228	37.42%
	$ 728,325	$ 728,325	100.00%	$ 390,759	$ 390,759	100.00%

The following table presents the fair value of derivative investments exposed to foreign currency risk as of June 30, 2013 and 2012:

	2013				2012			
Currency	FX Forwards	Rights	Warrants	Options	FX Forwards	Rights	Warrants	Options
Australian Dollar	$ 7,424	$ 1,571	$ –	$ –	$(85,578)	$ –	$ –	$ –
Brazilian Real	7,385	–	–	–	1,589	–	–	–
Canadian Dollar	(43,143)	–	–	397,444	(13,256)	10,733	–	–
Chilean Peso	6,394	–	–	–	1,450	1,296	–	–
Columbian Peso	–	–	–	–	(15,312)	–	–	–
Czech Koruna	7,402	–	–	–	9,411	–	–	–
Danish Krone	9,832	–	–	–	(30)	–	–	–
Egyptian Pound	(137)	–	–	–	(148)	–	–	–
English Pound Sterling	(99,137)	–	–	2,107,735	49,917	–	–	–
Euro Currency	95,900	18,101	–	2,062,912	118,889	18,220	6,103	–
Hong Kong Dollar	321	3	–	–	234	–	–	–
Indonesian Rupiah	–	–	–	–	(619)	–	–	–
Israeli Shekel	1,440	–	–	–	–	–	–	–
Japanese Yen	(533,639)	–	–	–	(19,071)	–	–	–
Malaysian Ringgit	2,157	–	–	–	(1,234)	–	–	–
Mexican Peso	14,205	–	–	–	27,008	–	–	–
New Zealand Dollar	25,808	–	–	–	46,885	–	–	–
Norwegian Krone	48,222	–	–	–	4,157	–	–	–
Polish Zloty	(6,005)	–	–	–	(32,461)	–	–	–
Singapore Dollar	(25,115)	–	–	–	(13,207)	–	–	–
South African Rand	11,768	–	–	–	14,798	–	–	–
South Korean Won	(31,319)	–	–	–	23,502	–	–	–
Swedish Krona	16,622	–	–	–	(154,835)	–	–	–
Swiss Franc	72,344	–	–	–	(5,251)	–	–	–
Thailand Baht	(1,555)	–	–	–	(697)	–	–	–
Investments denominated in U.S. dollars	–	2,429	18	4,510,599	–	–	68,670,678	2,806,363
	$ (412,825)	$ 22,104	$ 18	$9,078,690	$(43,859)	$ 30,249	$68,676,781	$2,806,363

Other Information

The System owns approximately 1% of the net position of the ISBI Commingled Fund as of June 30, 2013 and 2012. A schedule of investment expenses is included in the ISBI's annual report.

For additional information on ISBI's investments, please refer to their Annual Report as of June 30, 2013. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

5. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 2013 and 2012 are listed below.

Administrative expenses for fiscal years 2013 and 2012

	2013	2012
Personal services	$126,791	$122,061
Employee retirement contributions paid by employer	2,209	2,194
Employer retirement contributions	48,235	41,758
Social security contributions	9,354	9,039
Group insurance	35,937	27,827
Contractual services	108,182	91,533
Travel	577	252
Printing	1,787	1,750
Commodities	242	238
Telecommunications	857	902
Information technology	1,284	2,335
Automotive	371	957
Depreciation	757	705
Change in accrued compensated absences	2,911	(3,507)
Loss on disposal of equipment	-	60
Total	$339,494	$298,104

6. Funding - Statutory Contributions Required & Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal years 2013 and 2012, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal years 2013 and 2012, the required employer contribution was computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

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

The total amount of statutorily required employer contributions for fiscal years 2013 and 2012 was $14,150,000 and $10,502,000, respectively. The total amount of employer contributions received from the state during fiscal years 2013 and 2012 was $14,150,000 and $10,502,000, respectively.

The funded status of the System as of June 30, 2013, the most recent actuarial valuation date, is listed below:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
$51,849,558	$320,461,498	$268,611,940	16.2%	$14,902,000	1,802.5%

Additional information on the latest actuarial valuation is as follows.

Valuation date: June 30, 2013

Actuarial cost method: Projected Unit Credit

Amortization method:

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

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

Remaining amortization period:

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

b. Per state statute: 32 years, closed

Asset valuation method:

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

Actuarial assumptions:

Investment rate of return:	7.0 percent per year, compounded annually
Projected salary increases:	3.5 percent per year (consisting of an inflation component of 3.0% per year, a productivity component of .40% per year, and a merit/promotion component of .10% per year), compounded annually
Assumed inflation rate:	3.0 percent
Group size growth rate:	0.0 percent
Post-retirement increase:	Tier 1: 3.0 percent per year, compounded annually Tier 2: 3.0 percent per year or the annual change in the Consumer Price Index, whichever is less, compounded annually

Mortality Rates:

Post-retirement mortality rates are based on the RP-2000 Combined Healthy Mortality Table, sex distinct, projected to 2015, setback 3 years for males and 2 years for females. Pre-retirement mortality rates are based on 85 percent for males and 70 percent for females of post-retirement mortality.

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

7. Pension Plan & Other Post-Employment Benefits

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

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

The financial position and results of operations of the SERS for fiscal years 2013 and 2012 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2013 and 2012, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling 217-785-7202.

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

A summary of SERS' benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

Funding Policy. The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2013, 2012, and 2011 the employer contribution rates were 37.987%, 34.190%, and 27.988%, respectively. The System's contributions to SERS for fiscal years 2013, 2012, and 2011 were $48,235, $41,758, and $36,776, respectively, and were equal to the required contributions for each fiscal year.

Other Post-Employment Benefits. The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits.

However, Public Act 97-0695, effective June 30, 2012, alters the contributions to be paid by the State, annuitants, survivors and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor or retired employee. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, Stratton Office Building, 401 South Spring Street, Springfield, Illinois, 62706.

8. Analysis of Changes in Reserve Balances

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

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

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

9. Accrued Compensation Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2013 and 2012 total $22,783 and $19,872, respectively and are included in administrative expenses payable.

Statements of Changes in Reserve Balances
Years Ended June 30, 2013 and 2012

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2011	$ 17,366,231	$ 43,028,677	$ 60,394,908
Add (deduct):			
Excess of revenues over (under) expenses	1,473,448	(9,124,437)	(7,650,989)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(1,467,945)	1,467,945	–
Balance at June 30, 2012	$ 17,371,734	$ 35,372,185	$ 52,743,919
Add (deduct):			
Excess of revenues over expenses	1,410,117	192,985	1,603,102
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(2,721,854)	2,721,854	–
Balance at June 30, 2013	$ 16,059,997	$ 38,287,024	$ 54,347,021

10. Equipment

Capital assets over $100 are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, and (3) certain electronic data processing equipment - 3 years.

Summary of the changes in equipment for fiscal years 2013 and 2012

2013

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 15,555	$ 108	$ (587)	$ 15,076
Accumulated depreciation	(11,945)	(757)	587	12,115
Equipment, net	$ 3,610	$ (649)	$ –	$ 2,961

2012

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 19,118	$ 2,618	$ (6,181)	$ 15,555
Accumulated depreciation	(17,361)	(705)	6,121	(11,945)
Equipment, net	$ 1,757	$ 1,913	$ (60)	$ 3,610

11. New Accounting Pronouncement

GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities”, establishes accounting and financial reporting standards that reclassify and recognize, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in financial statement presentations. The System is required to implement this Statement for the year ending June 30, 2014.

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

12. Subsequent Event

On December 5, 2013, Governor Patrick Quinn signed Public Act 98-0599 into law. This new law includes a reduction of the Automatic Annual Increase, capping pensionable earnings of Tier 1 employees, creating a new defined contribution plan, delaying the retirement age of members under age 46, reducing of employee contributions for Tier 1 employees and funding guarantees. It takes effect no earlier than June 1, 2014.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets * (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/08	$ 75,405,943	$ 235,780,071	$ 160,374,128	32.0%	$ 12,871,000	1,246.0%
6/30/09	71,573,865	245,226,299	173,652,434	29.2	14,728,000	1,179.1
6/30/10	66,212,244	251,764,834	185,552,590	26.3	14,775,000	1,255.9
6/30/11	63,161,047	298,408,371	235,247,324	21.2	15,188,000	1,548.9
6/30/12	56,090,081	303,469,263	247,379,182	18.5	15,275,000	1,619.5
6/30/13	51,849,558	320,461,498	268,611,940	16.2	14,902,000	1,802.5

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2008	$ 10,672,535	63.8%	$ 6,809,800	100.0%
2009	11,129,440	79.5	8,847,000	100.0
2010	12,064,078	86.3	10,454,000	99.6
2011	13,086,199	84.4	11,039,000	100.1
2012	13,365,820	78.6	10,502,000	100.0
2013	17,064,640	82.9	14,150,000	100.0

Notes to Required Supplementary Information

Valuation date	June 30, 2013	June 30, 2012
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method:		
GASB Statement 25 reporting purposes	Level percent of payroll	Level percent of payroll
Per State statute	15 year phase-in to a level percent of payroll until a 90% funding level is achieved	15 year phase-in to a level percent of payroll until a 90% funding level is achieved
Remaining amortization period:		
GASB Statement 25 reporting purposes	30 years, open	30 years, open
Per State statute	32 years, closed	33 years, closed
Asset valuation method	Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized over a 5 year period at a rate of 20 percent per year.	Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized over a 5 year period at a rate of 20 percent per year.
Actuarial assumptions:		
Investment rate of return	7.0 percent per year, compounded annually	7.0 percent per year, compounded annually
Projected salary increases	3.5 percent per year (consisting of an inflation component of 3.0 percent per year, a productivity component of .40 percent per year, and a merit/promotion component of .10 percent per year), compounded annually. In addition, no pay increases are assumed for the next 2 years.	4.0 percent per year (consisting of an inflation component of 3.0 percent per year, a seniority/merit component of 1.0 per year), compounded annually
Assumed inflation rate	3.0 percent	3.0 percent
Group size growth rate	0.0 percent	0.0 percent
Post-retirement increase	Tier 1: 3.0 percent per year, compounded annually. Tier 2: 3.0 percent per year or the annual change in the Consumer Price Index, whichever is less, compounded annually.	Tier 1: 3.0 percent per year, compounded annually. Tier 2: 3.0 percent per year or the annual change in the Consumer Price Index, which-ever is less, compounded annually.
Mortality rates	Post-retirement: RP-2000 Combined Healthy Mortality Table, sex distinct, projected to 2015, setback 3 years for males and 2 years for females. Pre-retirement: 85% of post-retirement mortality for males and 70% of post-retirement mortality for females.	Active and retired members: The UP-1994 Mortality Table for Males, rated down 4 years. Survivors: The UP-1994 Mortality Table for Females, rated down 1 year.

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 2013 and 2012

	2013	2012
Contributions:		
Participants:		
Participants	$ 1,451,227	$ 1,568,759
Interest paid by participants	–	32,093
Repayment of refunds	–	21,890
Total participant contributions	1,451,227	1,622,742
Employer:		
General Revenue Fund	14,150,000	10,502,000
Total employer contributions	14,150,000	10,502,000
Total contributions revenue	15,601,227	12,124,742
Investments:		
Net investment income	1,339,754	1,225,617
Interest earned on cash balances	13,959	14,849
Net appreciation (depreciation) in fair value of investments	5,138,885	(1,321,914)
Total investment revenue (loss)	6,492,598	(81,448)
Total revenues	$ 22,093,825	$ 12,043,294

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2013 and 2012

	2013	2012
Actuary	$ 38,485	$ 24,000
Audit fees	38,975	39,975
Legal Services	3,227	518
Medical services	1,447	779
Total	$ 82,134	$65,272

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2013 and 2012

	2013	2012
Cash balance, beginning of year	$ 2,481,335	$ 3,102,265
Receipts:		
Participant contributions	1,452,244	1,566,217
Employer contributions:		
General Revenue Fund	14,283,540	9,189,260
Interest income on cash balances	13,432	15,326
Tax-deferred installment payments	5,611	11,744
Cancellation of annuities	40,635	16,190
Repayment of refunds	–	52,915
Transfers from Illinois State Board of Investment	6,500,000	8,225,000
Miscellaneous	50	70
Total cash receipts	22,295,512	19,076,722
Disbursements:		
Benefit payments:		
Retirement annuities	16,618,112	15,910,304
Survivors' annuities	3,509,601	3,347,653
Refunds	73,862	147,434
Administrative expenses	336,577	292,261
Total cash disbursements	20,538,152	19,697,652
Cash balance, end of year	$ 4,238,695	$ 2,481,335

INVESTMENT SECTION

INVESTMENT REPORT

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

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

As of June 30, 2013, the total net position under management valued at market, amounted to $12.866 billion. Of the total market value of the net position under management, $49.0 million or approximately 1% represented assets of the General Assembly Retirement System.

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

INVESTMENT POLICY

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

EMERGING & MINORITY PARTICIPATION

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

As of fiscal year 2013, the ISBI allocated 22.4% of its assets to minority and female owned firms, of which 11.1% was allocated to emerging firms. 6.5% of the ISBI's assets were allocated to minority owned investment firms, and 16.7% to female owned investment firms. Some investment firms qualify as both female owned and minority owned. Within asset classes, the ISBI has allocated 31.0% of equities, 17.1% of fixed income, and 1.5% of alternative investments to minority and female owned firms. Alternative investments include allocations to real assets, real estate, and private equity.

The ISBI Board has established a goal of allocating 20% of brokerage commissions to broker dealers owned by females, minorities, or persons with disabilities. Investment advisers are required to execute trades directly with disadvantaged broker dealers and are prohibited from utilizing step-outs. During fiscal year 2013, utilization of such broker dealers by the ISBI Board's investment advisers exceeded the policy goals: approximately 44.2% utilization for domestic equity advisers, 34.6% utilization for domestic fixed income advisers (based on par value) and 33.7% utilization for international equity advisers. In addition, the ISBI Board has set a goal of allocating 0% to 5% of international fixed income brokerage commissions to disadvantaged broker dealers. Approximately 1.0% of international fixed income trades (based on par value) were allocated to such broker dealers. The ISBI Board's investment advisers also exceeded the ISBI's goal to direct 25% of trades to Illinois based broker/dealers: approximately 27.1% utilization by domestic and international equity advisers and 27.8% utilization by fixed income advisers (based on par value).

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

ASSET ALLOCATION

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

In compliance with the ISBI Board's procurement policy and state law, the ISBI issued a request for proposal this past year for general investment consulting services.

	Actual Asset Allocation	Policy Target
U.S. Equity	30%	30%
U.S. Equity Hedge Funds	9	10
International Equity	18	20
Commingled Funds	3	-
Fixed Income	16	16
Bank Loans	3	4
Real Estate	10	10
Private Equity	5	5
Real Assets	4	5
Cash	2	-
Total	100%	100%

In March, 2013, at the conclusion of that process, the ISBI Board retained the incumbent consultant, Marquette Associates ("Marquette"). Upon their retention, Marquette immediately executed an asset allocation study that was submitted to, and accepted by, the ISBI Board at its June, 2013 meeting. While the revised asset allocation recommendation made no changes to the broad asset classes, adjustments were made within the various classes. Changes which Marquette recommended included reducing exposure to investment grade bonds, new allocations to emerging market debt and equity, increasing exposure to credit strategies, and modestly de-constraining the ISBI Board's hedge fund mandates. The goal of these changes is to reduce portfolio volatility and reduce the portfolio's linkage to the domestic equity markets. The ISBI's Board, upon the recommendation of the ISBI staff, adopted the recommended changes to the asset allocation. These portfolio changes contained within the revised asset allocation model will be implemented throughout fiscal year 2014.

The asset allocation policy for fiscal year 2013 is set forth above.

INVESTMENT RESULTS

In fiscal year 2013, investors benefited from positive returns in U.S. equity, hedge funds, international equity, fixed income, real estate, and private equity as measured by market indices. The ISBI's total fund was up 14.1% for fiscal year 2013, net of expenses. This follows positive returns of 0.1%, 21.7%, and 9.1% for fiscal years 2012, 2011, and 2010, respectively, with a negative return of 20.1% for fiscal year 2009.

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

REAL ESTATE

In fiscal year 2013, the ISBI's real estate portfolio earned a return of 13.0%. The NFI-ODCE (NCREIF Fund Index Open-End Diversified Core Equity), a measure of core, leveraged and, open-end real estate funds, earned a return of 11.1%. The ISBI has maintained its 80% Core/20% Non-Core real estate balance and made new investments to diversify the core component.

New investing is planned for fiscal year 2014 to achieve and maintain the ISBI's 10% real estate allocation target, as the portfolio's separate accounts are now fully committed. The ISBI's Real Estate portfolio is invested primarily through interests in separate accounts, limited partnerships, trusts, and other forms of pooled investments.

REAL ESTATE

	1 Year	3 Years	5 Years
ISBI	13.0%	11.7%	(2.7)%
NCREIF Real Estate Index	11.1	13.0	2.7

U. S. EQUITIES

In fiscal year 2013, the Russell 3000 Index, a broad representation of the U.S. market, was up 21.5%. Value stocks exceeded growth stocks with the Russell 3000 Value Index up 25.3%, compared to the Russell 3000 Growth Index up 17.6%. Small capitalization stocks outperformed large capitalization stocks with the Russell 2000 up 24.2%, compared to a 20.6% return for the S&P 500. The ISBI's U.S. equity portfolio was up 23.3% for fiscal year 2013, 1.8% above the Russell 3000. The portfolio's exposure to small and middle capitalization stocks positively contributed to the overall performance. Through structure analysis, rebalancing and risk management, the U.S. equity portfolio continues to track the market with predictable consistency to achieve its objective.

U.S. EQUITIES

	1 Year	3 Years	5 Years
ISBI	23.3%	18.7%	8.0%
Russell 3000 Index	21.5	18.6	7.3

INTERNATIONAL EQUITIES

The Morgan Stanley ACWI ex US Index is a broad index of global equities, including emerging markets but excluding the United States. In fiscal year 2013, that index returned 14.4%, or 7.1% below the U.S. index. The ISBI's international equity portfolio was up 16.8%, 2.4% above the ACWI ex US Index.

INTERNATIONAL EQUITIES

	1 Year	3 Years	5 Years
ISBI	16.8%	11.4%	2.1%
MSCI-ACWI ex US Index	14.4	8.6	(1.2)

FIXED INCOME

In fiscal year 2013, the ISBI's fixed income portfolio had a return of 2.4%, compared to the 0.2% return for the Barclay's Capital Universal Bond Index. Exposure to the high yield and bank loans added to the performance of the overall fixed income portfolio.

FIXED INCOME

	1 Year	3 Years	5 Years
ISBI	2.4%	4.9%	3.5%
Barclays Capital U.S. Universal Index	0.2	4.1	5.5

U. S. EQUITY HEDGE FUNDS

The ISBI's U.S. equity hedge fund portfolio had a return of 12.6% for fiscal year 2013, compared to the 8.3% return for the HFRX Equity Hedge Index.

The ISBI Board has continued to monitor the structure of the U.S. equity hedge fund portfolio, as well as associated costs. The consequence has been a reduction in hedge fund fees and increased confidence in the portfolio structure. Specifically, the ISBI has reduced its annual cost by $2 million by restructuring the hedge fund portfolio and reducing the fee expenses imposed by these managers.

U.S. EQUITY HEDGE FUNDS

	1 Year	3 Years	5 Years
ISBI	12.6%	6.7%	2.3%
HFRX Equity Hedge	8.3	0.0	(3.8)

PRIVATE EQUITY

On average, the ISBI invests $100 million each year by making five or six allocations to private equity funds.

The ISBI's private equity portfolio consists of interests in limited partnerships and other commingled vehicles that invest in management buyouts, venture capital, and other private placement equity strategy activities. The private equity portfolio has recovered from previous market disruptions and continues to be one of the best performing asset classes since its inception date with an IRR of 14.5%. In fiscal year 2013, net of all fees, the ISBI's private equity portfolio returns were 16.2%, which slightly underperformed the benchmark return of 16.5%.

SECURITIES LENDING

The ISBI's securities lending program continues to be managed with the third party securities lending agent, Credit Suisse AG, New York Branch (Credit Suisse). The ISBI's securities lending program remains structured to achieve the overall goal of reducing exposure and investment risk. Credit Suisse continues to adhere to specific investment parameters, which include increasing utilization of non-cash collateral, limiting the reinvestment of cash collateral to overnight repurchase agreements and managing the legacy assets transferred from the ISBI's Custodian. The value of the legacy assets managed by Credit Suisse for fiscal year 2013 was $43 million, a decrease from $54 million in fiscal year 2012. The loan balance at the end of fiscal year 2013 was approximately $244 million. Approximately 75% of the loan balance was attributed to non-cash collateral loans, a significant increase from 39% in fiscal year 2012. For fiscal year 2013, the ISBI generated $4.8 million in securities lending revenue, compared to approximately $2.9 million for fiscal year 2012.

MANAGEMENT EXPENSES

The ISBI's total expenses for fiscal year 2013, based on $12.9 billion in total assets, were $37.9 million, compared to $36.4 million based on $11.3 billion in total assets for fiscal year 2012. The resulting expense ratio (expenses divided by average fair value of assets) was .28% for fiscal year 2013, as compared to .33% for fiscal year 2012. Decreased aggregate expenses in fiscal year 2013 were mainly a result of reduced fees paid to investment managers. The ISBI's fees paid to investment advisory firms are aggressively managed which has contributed to the reduction in the cost of investment advisory services.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 2013		June 30, 2012	
Investments, at fair value				
U.S. Govt. and Agency Obligations	$ 887,400,073	6.90%	$ 958,131,279	8.49%
Foreign Obligations	415,070,013	3.22	385,628,617	3.42
Corporate Obligations	674,154,128	5.24	656,977,663	5.82
Common Stock & Equity Funds	3,916,478,305	30.44	3,253,103,566	28.83
Commingled Funds	317,408,396	2.47	225,608,712	2.00
Foreign Equity Securities	2,329,387,630	18.10	2,012,774,573	17.84
Foreign Preferred Stock	481,493	0.00	592,156	0.01
Hedge Funds	1,166,602,482	9.07	1,026,725,785	9.10
Real Estate Funds	1,294,600,976	10.06	967,346,450	8.57
Private Equity	643,775,529	5.00	679,423,383	6.02
Money Market Instruments	237,649,781	1.85	255,922,180	2.27
Real Assets	550,739,042	4.28	507,019,665	4.49
Bank Loans	416,649,247	3.24	328,593,596	2.91
Foreign Currency Forward Contracts	(412,825)	0.00	(43,859)	0.00
	12,849,984,270	99.87	11,257,803,766	99.77
Other Assets, Less Liabilities	16,472,966	0.13	26,132,919	.23
Net Position, at Fair Value	$12,866,457,236	100.00%	$ 11,283,936,685	100.00%

ANALYSIS OF INVESTMENT PERFORMANCE

	2013	2012	2011	2010	2009
Total Return* - Past 3 years		11.6%			
Total Return* - Past 5 years			3.9%		
Total Return* - year by year	14.1%	0.1%	21.7%	9.1%	(20.1)%
System's Actuarial Assumed Rate of Return		7.0%		8.0%	
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	2.4%	6.8%	5.7%	5.5%	(2.4)%
Comparison index:					
Barclays Capital U. S. Universal Index	0.2%	7.4%	4.8%	10.6%	4.9%
Comparative rates of return on equities					
U.S. equities - ISBI	23.3%	1.3%	33.9%	17.3%	(25.1)%
Comparison index:					
Russell 3000 Index	21.5%	3.8%	32.4%	15.7%	(26.6)%

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

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

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

ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations of the System for fiscal years 2013 and 2012:

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Balance at beginning of year, at fair value	$ 49,025,145	$ 57,346,442	$ (8,321,297)	(14.51)%
Cash transferred (from) ISBI,net	(6,500,000)	(8,225,000)	1,725,000	20.97
Net ISBI investment revenue:				
ISBI Commingled Fund income	1,491,417	1,391,187	100,230	7.20
Less ISBI expenses	(151,663)	(165,570)	13,907	8.40
Net ISBI investment income	1,339,754	1,225,617	114,137	9.31
Net appreciation (depreciation) in fair value of ISBI investments	5,138,885	(1,321,914)	6,460,799	488.75
Net ISBI investment revenue (loss)	6,478,639	(96,297)	6,574,936	6,827.77
Balance at end of year, at fair value	$ 49,003,784	$ 49,025,145	$ (21,361)	(0.04)%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2013 was $13,959 compared to $14,849 during FY 2012.

ACTUARIAL SECTION

GRS

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October 23, 2013

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

Re: Actuarial Certification

At your request, we have performed the annual actuarial valuation of the assets and liabilities of the General Assembly Retirement System of Illinois ("GARS") as of June 30, 2013. This valuation has been performed to measure the funding status of the System and determine the employer statutory contribution rate for the year beginning July 1, 2014, and ending June 30, 2015. In addition, it includes disclosure information required under GASB Statement No. 25 and Statement No. 27.

The required statutory contribution rate has been determined under the Projected Unit Credit Cost Method, providing for a 90 percent funding of total actuarial liabilities by fiscal year 2045 as required by 40 ILCS Section 5/2-124(c). Contribution rates are determined according to P.A. 93-0589 reflecting the infusion of the proceeds from the sale of general obligation bonds. The contribution rates reflect the impact of P.A. 96-0889, which created a second tier for members of GARS hired after December 31, 2010.

The required statutory contribution rates and amounts for fiscal year beginning July 1, 2014, as determined in the June 30, 2013, actuarial valuation are shown below.

	Total
Required Rate	122.170%
Required Contribution	15,809,000

Based on the provisions of P.A. 97-0694, the required statutory contribution for the fiscal year beginning July 1, 2014, is submitted to the state actuary, governor, and General Assembly. Under the act, the state actuary is required to review the assumptions and methods used to perform the actuarial valuation and develop the required statutory contributions. The final certification of the required statutory contribution is due by January 15, 2014.

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

Pursuant to P.A. 96-0043, for purposes of determining the statutory contribution rate, an actuarial value of the System's assets was used. The actuarial value of assets is assumed to earn a rate of return equal to the System's actuarially assumed rate of return.

Gabriel Roeder Smith & Company

Board of Trustees and Executive Secretary
October 23, 2013
Page 2

The liabilities have been valued based on financial and employee data, which is supplied by the administrative staff of the System and verified by the System's auditor. We did not audit this data, but have reviewed the statistical support and concluded that the data is reasonable and consistent with the prior year's data.

For the actuarial valuation as of June 30, 2013, the assumed rate of return used to discount liabilities and project assets was 7.0 percent.

This valuation assumes that the plan sponsor will be able to make future contributions on a timely basis. Failure to receive employer contributions on a timely basis could jeopardize the sustainability of the fund. We did not perform an analysis of the ability of the plan sponsor to make future contributions.

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

We certify that the information presented herein is accurate and fairly portrays the actuarial position of GARS as of June 30, 2013. We prepared the accompanying Summary of Actuarial Cost Method and Major Actuarial Assumptions, but the GARS staff prepared the other supporting schedules in this section and the trend tables in the financial section, based on information supplied in our report.

This actuarial certification is provided to the Board of Trustees in conjunction with the GARS actuarial valuation as of June 30, 2013. Additional information regarding actuarial assumptions and methods, and important additional disclosures are provided in the full actuarial valuation report as of June 30, 2013, which is available on the GARS website, and is an integral part of this certification.

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

Respectfully submitted,

Gabriel, Roeder, Smith & Company

Alex Rivera

David T Kausch

Paul T Wood

Alex Rivera, FSA, EA, MAAA	David Kausch, FSA, EA, MAAA	Paul T. Wood, ASA, MAAA
Senior Consultant	Senior Consultant	Consultant

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Gabriel Roeder Smith & Company

INTRODUCTION

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

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

The employers' contribution amount, together with participants' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial requirements, pursuant to Chapter 40, Section 5/2-146 of the Illinois Compiled Statutes.

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

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

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

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

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

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

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

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

The total amount of statutorily required employer contributions for fiscal years 2013 and 2012 was $14,150,000 and $10,502,000, respectively. The total amount of employer contributions received from the state during fiscal years 2013 and 2012 was $14,150,000 and $10,502,000, respectively.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

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

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

A description of the actuarial assumptions utilized for fiscal years 2013 and 2012 follows:

Dates of Adoption: The Projected Unit Credit Actuarial Cost Method was adopted June 30, 1987; all other assumptions were adopted June 30, 2013.

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

Mortality Rates: Fiscal year 2013: Post-retirement mortality - RP-2000 Combined Healthy Mortality Table, sex distinct, projected to 2015, setback 3 years for males and 2 years for females. The mortality table used is a static table with the provision for future mortality improvement in the projection to 2015 which is in sync with the next scheduled experience study. Pre-retirement mortality - rates are based on 85% for males and 70% for females of post-retirement mortality. Fiscal year 2012: Active and retired members – the UP-1994 Mortality Table for Males, rated down 4 years. Survivors – The UP-1994 Mortality Table for Females, rated down 1 year. No adjustment is made for post-disabled mortality. The mortality table used is a static table with no provision for future mortality improvement.

Salary Increase: Fiscal year 2013: 3.50% per year (consisting of an inflation component of 3.0% per year, a productivity component of .40% per year, and a merit/promotion component of .10% per year), compounded annually. Fiscal year 2012: 4.0% per year (consisting of an inflation component of 3.0% per year and a seniority/merit component of 1.0% per year), compounded annually. In determining total covered payroll, the size of the active group is assumed to remain constant.

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

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

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

Post-Retirement Increase: Tier 1: 3.0% per year, compounded annually. Tier 2: 3.0% per year or the annual change in the Consumer Price Index, whichever is less, compounded annually.

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

Age	Rate of Termination
20 - 65	.040

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

Disability Rates: Fiscal year 2013: The disability assumption was eliminated. Fiscal year 2012: Disability rates based on the recent experience of the System as well as on published disability rate tables were used. The following is a sample of the disability rates that were used:

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

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

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

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

Experience Review: An experience review was last performed for the period from July1, 2006 to June 30, 2012, resulting in the adoption of new assumptions as of June 30, 2013.

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Active Members Number	Annual Payroll	Annual Average Pay	% Increase/(Decrease) In Average Pay
2004	181	$12,993,000	$ 71,785	3.4%
2005	182	12,851,000	70,610	(1.6)%
2006	182	12,739,000	69,995	(0.9)%
2007	182	12,701,000	69,786	(0.3)%
2008	182	12,871,000	70,720	1.3%
2009	181	14,728,000	81,370	15.1%
2010	182	14,775,000	81,181	(0.2)%
2011	180	15,188,000	84,378	3.9%
2012	176	15,275,000	86,790	2.9%
2013	160	14,902,000	93,138	7.3%

SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

Please refer to the Plan Summary and Legislative Section for a summary of the plan provisions and legislative amendments that were evaluated and considered by the actuary.

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active and inactive participant contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active and inactive participants. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active and inactive participants (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

COMPUTED ACTUARIAL VALUES

	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
Fiscal Year	(1) Active and Inactive Participant Contributions	(2) Retirement and Survivor Annuitants	(3) Active and Inactive Participants (Employer Financed Portion)	Actuarial Value of Assets *	(1)	(2)	(3)
2004	$ 14,952,319	$ 136,267,303	$ 56,373,070	$ 83,208,002	100.0%	50.1%	0.0%
2005	15,061,845	143,516,668	54,327,141	83,273,042	100.0	47.5	0.0
2006	15,417,924	155,534,185	50,761,191	82,254,832	100.0	43.0	0.0
2007	15,994,185	162,006,322	53,913,481	87,182,175	100.0	43.9	0.0
2008	16,766,150	167,065,987	51,947,934	75,405,943	100.0	35.1	0.0
2009	16,875,510	174,259,645	54,091,144	71,573,865	100.0	31.4	0.0
2010	17,746,754	179,696,573	54,321,507	66,212,244	100.0	27.0	0.0
2011	17,366,231	218,660,407	62,381,733	63,161,047	100.0	20.9	0.0
2012	17,371,734	228,860,428	57,237,101	56,090,081	100.0	16.9	0.0
2013	16,059,997	250,515,633	53,885,868	51,849,558	100.0	14.3	0.0

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

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

Fiscal	Annuitants				Survivors*				
Year	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	Total
2004	254	19	14	259	129	12	3	138	397
2005	259	16	12	263	138	9	13	134	397
2006	263	12	8	267	134	5	11	128	395
2007	267	15	10	272	128	6	7	127	399
2008	272	12	15	269	127	8	9	126	395
2009	269	16	10	275	126	7	7	126	401
2010	275	9	6	278	126	3	9	120	398
2011	278	22	9	291	120	7	8	119	410
2012	291	15	12	294	119	9	8	120	414
2013	294	28	12	310	120	6	7	119	429

**Includes reversionary annuities*

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

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active participant payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Fiscal Year	Total Actuarial Liability	Actuarial Value of Assets *	Actuarial Value of Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Annual Covered Payroll
2004	$ 207,592,692	$ 83,208,002	40.1%	$ 124,384,690	$ 12,993,000	957.3%
2005	212,905,654	83,273,042	39.1%	129,632,612	12,851,000	1,008.7%
2006	221,713,300	82,254,832	37.1%	139,458,468	12,739,000	1,094.7%
2007	231,913,988	87,182,175	37.6%	144,731,813	12,701,000	1,139.5%
2008	235,780,071	75,405,943	32.0%	160,374,128	12,871,000	1,246.0%
2009	245,226,299	71,573,865	29.2%	173,652,434	14,728,000	1,179.1%
2010	251,764,834	66,212,244	26.3%	185,552,590	14,775,000	1,255.9%
2011	298,408,371	63,161,047	21.2%	235,247,324	15,188,000	1,548.9%
2012	303,469,263	56,090,081	18.5%	247,379,182	15,275,000	1,619.5%
2013	320,461,498	51,849,558	16.2%	268,611,940	14,902,000	1,802.5%

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

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	2013	2012
Unfunded actuarial liability, beginning of fiscal year	$247,379,182	$235,247,324
Contributions due:		
Interest on the unfunded actuarial liability	17,316,543	16,372,969
Participant contributions	1,451,227	1,622,742
Employer normal cost	3,108,142	3,199,203
Interest on participant contributions and employer normal cost	156,879	165,914
Total contributions due	22,032,791	21,360,828
Contributions paid:		
Participant contributions	1,451,227	1,622,742
State - General Revenue Fund	14,150,000	10,502,000
Interest on participant contributions and State contributions	536,808	417,189
Total contributions paid	16,138,035	12,541,931
Contribution shortfall	5,894,756	8,818,897
Actuarial (gain) loss:		
Retirements	3,806,517	7,097
Incidence of disability	(14,065)	(12,961)
In-service mortality	84,973	71,469
Retiree mortality	(1,499,875)	2,383,050
Salary increases	(42,413)	(1,912,815)
Terminations	704,954	129,415
Investment	3,109,095	3,662,246
New entrant liability	90,076	41,666
Other	330,370	291,566
Total actuarial loss	6,569,632	4,660,733
Salary increases for inactive members	345,365	-
Decrease in unfunded actuarial liability due to new actuary	-	(1,347,772)
Assumption changes	8,423,005	-
Total increase in unfunded actuarial liability	21,232,758	12,131,858
Unfunded actuarial liability, end of fiscal year	$268,611,940	$247,379,182

VALUATION RESULTS

Actuarial Liability:	June 30, 2013	June 30, 2012
For Active Participants:		
Pension benefits	$ 30,012,959	$ 34,708,558
Cost-of-living adjustments	10,242,064	11,892,148
Death benefits	1,178,802	1,929,634
Withdrawal benefits	3,775,991	3,688,794
Disability benefits	–	222,617
Total	45,209,816	52,441,751
For Participants Receiving Benefits:		
Retirement annuities	218,862,903	199,338,967
Survivor annuities	31,652,730	29,521,461
Total	250,515,633	228,860,428
For Inactive Participants	24,736,049	22,167,084
Total Actuarial Liability	320,461,498	303,469,263
Actuarial Value of Assets	51,849,558	56,090,081
Unfunded Actuarial Liability	$ 268,611,940	$ 247,379,182

STATISTICAL SECTION

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

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

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

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

ASSET BALANCES

Fiscal Year Ended June 30	Cash	Receivables	Investments	Securities lending collateral with State Treasurer	Fixed Assets Net of Accumulated Depreciation	Total
2004	$ 2,029,406	$ 4,344	$ 81,287,682	$ -	$ 947	$ 83,322,379
2005	2,220,504	375,087	80,772,801	-	2,033	83,370,425
2006	3,314,237	28,197	79,016,741	-	2,737	82,361,912
2007	3,234,905	145,554	83,864,942	-	1,945	87,247,346
2008	2,823,304	732,349	71,923,943	-	2,128	75,481,724
2009	3,705,657	3,777,472	47,693,753	-	1,695	55,178,577
2010	3,099,436	50,015	51,638,586	1,143,000	1,867	55,932,904
2011	3,102,265	30,652	57,346,442	1,270,000	1,757	61,751,116
2012	2,481,335	1,341,463	49,025,145	1,385,000	3,610	54,236,553
2013	4,238,695	1,197,504	49,003,784	3,108,000	2,961	57,550,944

LIABILITIES AND RESERVE BALANCES

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Future Operations	Total
2004	$ 114,377	$ 14,952,319	$ 68,255,683	$ 83,322,379
2005	97,383	15,061,845	68,211,197	83,370,425
2006	107,080	15,417,924	66,836,908	82,361,912
2007	65,171	15,994,185	71,187,990	87,247,346
2008	75,781	16,766,150	58,639,793	75,481,724
2009	86,452	16,875,510	38,216,615	55,178,577
2010	1,241,748	17,746,754	36,944,402	55,932,904
2011	1,356,208	17,366,231	43,028,677	61,751,116
2012	1,492,634	17,371,734	35,372,185	54,236,553
2013	3,203,923	16,059,997	38,287,024	57,550,944

NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
2004	181	99	280
2005	182	93	275
2006	182	83	265
2007	182	85	267
2008	182	75	257
2009	181	78	259
2010	182	73	255
2011	180	86	266
2012	176	79	255
2013	160	86	246

CHANGES IN NET POSITION

Fiscal Year

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Participant contributions	$ 1,596,695	$ 1,451,282	$ 1,491,811	$ 1,703,344	$ 1,772,860	$ 1,697,575	$ 1,680,603	$ 2,006,200	$ 1,622,742	$ 1,451,227
Employer Contributions:										
State of Illinois	32,863,983	4,675,000	4,157,000	5,220,300	6,809,800	8,847,000	10,411,274	11,047,010	10,502,000	14,150,000
Other sources	87,771	-	18,390	250,129	-	9,422	-	386,604	–	–
Total employer contributions	32,951,754	4,675,000	4,175,390	5,470,429	6,809,800	8,856,422	10,411,274	11,433,614	10,502,000	14,150,000
Net investment income/(loss)	11,851,709	7,642,461	7,872,989	12,990,985	(4,708,297)	(14,662,285)	4,770,533	10,291,381	(81,448)	6,492,598
Miscellaneous	-	-	-	-	-	-	-	10,000	–	–
Total additions to /(deduction from) plan net position	46,400,158	13,768,743	13,540,190	20,164,758	3,874,363	(4,108,288)	16,862,410	23,741,195	12,043,294	22,093,825
Deductions										
Benefit Payments:										
Retirement annuities	10,299,820	10,953,940	11,623,511	12,180,739	12,653,183	13,020,316	13,770,131	14,564,699	15,903,041	16,602,650
Survivors' annuities	2,166,151	2,409,402	2,442,249	2,538,553	2,605,438	2,836,903	2,998,901	3,112,152	3,343,844	3,507,469
Total benefit payments	12,465,971	13,363,342	14,065,760	14,719,292	15,258,621	15,857,219	16,769,032	17,676,851	19,246,885	20,110,119
Refunds:										
Termination	-	9,072	22,639	273,748	12,290	5,494	38,465	43,842	31,604	–
Other	97,835	14,128	165,278	24,042	135,514	66,095	183,629	17,634	117,690	41,110
Total refunds	97,835	23,200	187,917	297,790	147,804	71,589	222,094	61,476	149,294	41,110
Administrative expenses	304,652	317,161	304,723	220,333	244,170	276,722	272,253	299,116	298,104	339,494
Total deductions from plan net position	112,868,458	13,703,703	14,558,400	15,237,415	15,650,595	16,205,530	17,263,379	18,037,443	19,694,283	20,490,723
Change in net position	$ 33,531,700	$ 65,040	$ (1,018,210)	$ 4,927,343	$ (11,776,232)	$ (20,313,818)	$ (400,969)	$ 5,703,752	$ (7,650,989)	$ 1,603,102

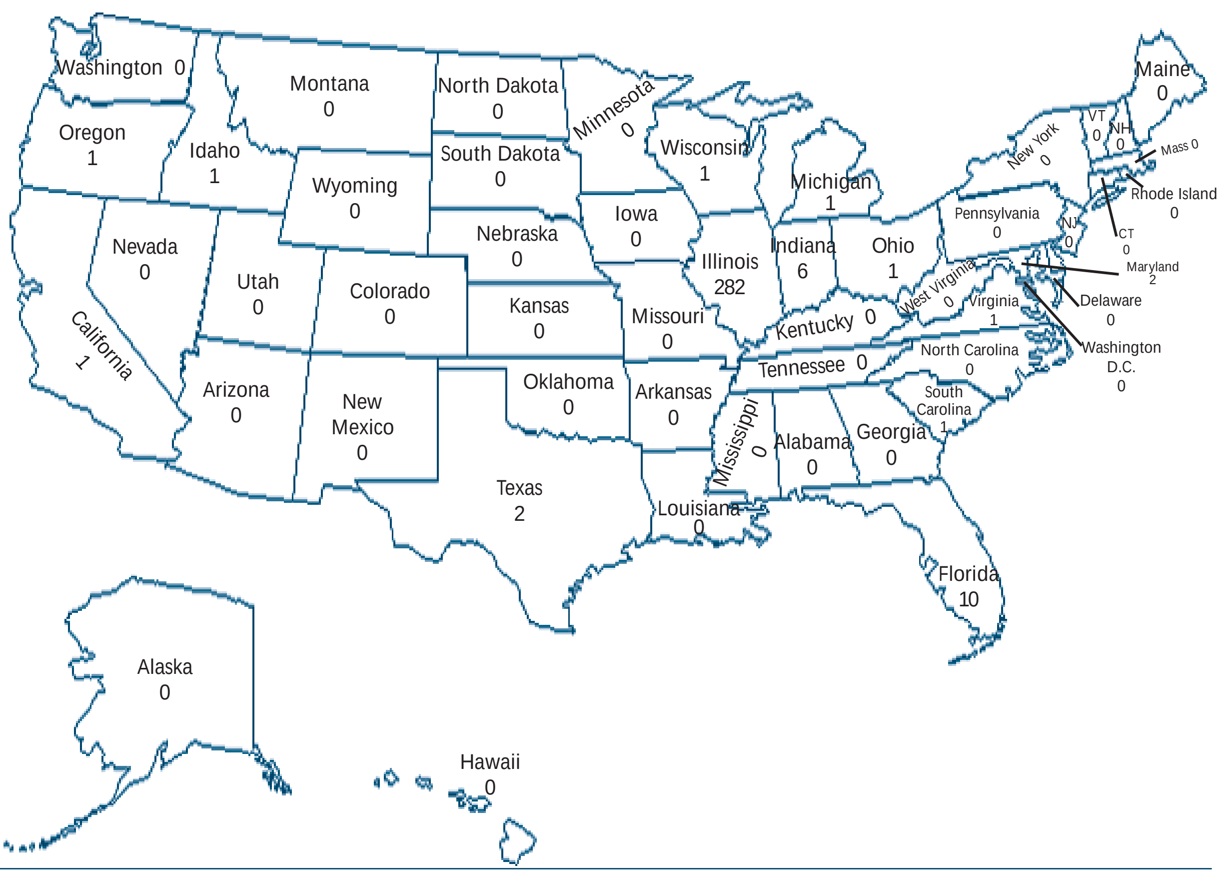
NUMBER OF RECURRING BENEFIT PAYMENTS / TERMINATION REFUNDS

At June 30	Retirement Annuities	Survivors' Annuities	Reversionary Annuities	Total Recurring Benefit Payments	Termination Refunds
2004	259	136	2	397	-
2005	263	132	2	397	1
2006	267	126	2	395	2
2007	272	125	2	399	4
2008	269	125	1	395	1
2009	275	125	1	401	2
2010	278	119	1	398	2
2011	291	118	1	410	1
2012	294	119	1	414	2
2013	310	118	1	429	–

NUMBER ON ACTIVE PAYROLLS

At June 30	Elected State Officers	House Members	Senate Members	Miscellaneous	Total
2004	6	118	59	-	183
2005	6	118	59	-	183
2006	6	118	59	-	183
2007	6	118	59	-	183
2008	6	118	59	-	183
2009	5	118	59	-	182
2010	5	118	59	1	183
2011	6	119	59	1	185
2012	6	118	59	1	184
2013	6	118	59	1	184

ACTIVE RETIREES BY STATE



RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

	At Retirement			
Fiscal Year Ended June 30	Average Age	Average Length of Service *	Average Current Age	Average Current Monthly Benefit
2004	59.5	13.7	71.2	$ 3,380
2005	59.7	13.7	71.3	3,534
2006	59.6	13.6	71.6	3,650
2007	59.8	13.8	71.8	3,788
2008	59.7	13.6	71.8	3,922
2009	59.8	13.5	72.0	4,026
2010	59.6	13.4	72.3	4,149
2011	59.9	13.6	72.4	4,349
2012	59.9	13.7	72.3	4,486
2013	60.0	13.4	72.0	4,544

* in years

Annuitants by Benefit Range (Monthly) on June 30, 2013

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-1000	36	36	11.6%	11.6%
1001-2000	40	76	12.9	24.5
2001-3000	41	117	13.2	37.7
3001-4000	34	151	11.0	48.7
4001-5000	27	178	8.7	57.4
5001-6000	37	215	11.9	69.3
6001-7000	35	250	11.3	80.6
7001-8000	17	267	5.5	86.1
8001-9000	13	280	4.2	90.3
9001-10000	15	295	4.8	95.1
10001-11000	5	300	1.6	96.7
11001-12000	6	306	1.9	98.6
12001- 13000	2	308	0.6	99.2
13001-14000	0	308	0.0	99.2
14001-15000	1	309	0.4	99.6
15001-16000	0	309	0.0	99.6
16001-17000	0	309	0.0	99.6
17001-18000	1	310	0.4	100.0

Survivors* by Benefit Range (Monthly) on June 30, 2013

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-1000	29	29	24.4%	24.4%
1001-2000	26	55	21.8	46.2
2001-3000	27	82	22.7	68.9
3001-4000	17	99	14.3	83.2
4001-5000	10	109	8.4	91.6
5001-6000	2	111	1.7	93.3
6001-7000	6	117	5.0	98.3
7001-8000	2	119	1.7	100.0

** includes reversionary annuities*

Average Benefit Payments
Fiscal Years 2004 through 2013

Retirement Effective Dates	Years Credited Service 0-5	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/03 to 6/30/04							
Average monthly benefit	$ 6,151	$ 3,420	$ 3,333	$ 2,834	$ 4,769	$ –	$ –
Average final average salary	$ 8,199	$ 6,202	$ 6,019	$ 5,503	$ 13,625	$ –	$ –
Number of retired members*	5	2	3	4	1	–	–
Period 7/1/04 to 6/30/05							
Average monthly benefit	$ 2,998	$ 4,758	$ 1,283	$ 3,861	$ 5,467	$ 5,205	$ 2,910
Average final average salary	$ 6,093	$ 7,102	$ 2,333	$ 6,262	$ 6,432	$ 6,124	$ 6,531
Number of retired members*	4	4	1	2	1	1	2
Period 7/1/05 to 6/30/06							
Average monthly benefit	$ 6,252	$ 1,991	$ 2,552	$ –	$ –	$ –	$ 5,278
Average final average salary	$ 7,715	$ 5,532	$ 6,244	$ –	$ –	$ –	$ 6,210
Number of retired members*	5	1	1	–	–	–	1
Period 7/1/06 to 6/30/07							
Average monthly benefit	$ 1,606	$ 2,188	$ 4,778	$ 1,538	$ 5,640	$ 9,231	$ 4,334
Average final average salary	$ 5,843	$ 5,806	$ 11,129	$ 14,332	$ 6,635	$ 10,860	$ 6,714
Number of retired members*	2	2	3	1	2	1	3
Period 7/1/07 to 6/30/08							
Average monthly benefit	$ 7,626	$ 1,099	$ 3,025	$ –	$ 6,038	$ –	$ –
Average final average salary	$ 9,783	$ 2,770	$ 5,455	$ –	$ 7,103	$ –	$ –
Number of retired members*	2	2	4	–	1	–	–
Period 7/1/08 to 6/30/09							
Average monthly benefit	$ 3,934	$ 3,598	$ 5,160	$ 4,439	$ 2,123	$ 6,267	$ 6,751
Average final average salary	$ 7,392	$ 5,909	$ 5,017	$ 6,513	$ 6,066	$ 7,373	$ 7,942
Number of retired members*	4	2	2	2	1	1	2
Period 7/1/09 to 6/30/10							
Average monthly benefit	$ 8,935	$ 4,098	$ 3,518	$ –	$ –	$ 1,373	$ –
Average final average salary	$ 9,890	$ 6,513	$ 8,014	$ –	$ –	$ 2,770	$ –
Number of retired members*	2	1	3	–	–	2	–
Period 7/1/10 to 6/30/11							
Average monthly benefit	$ 377	$ 2,078	$ 5,136	$ 6,370	$ 8,035	$ 7,006	$ 6,207
Average final average salary	$ 5,653	$ 6,329	$ 8,579	$ 8,158	$ 12,696	$ 7,338	$ 7,302
Number of retired members*	1	6	2	8	2	2	1
Period 7/1/11 to 6/30/12							
Average monthly benefit	$ 235	$ 810	$ 3,388	$ 4,553	$ –	$ 6,085	$ 10,255
Average final average salary	$ 3,131	$ 2,972	$ 6,919	$ 6,448	$ –	$ 7,159	$ 12,519
Number of retired members*	2	1	4	4	–	1	1
Period 7/1/12 to 6/30/13							
Average monthly benefit	$ 1,200	$ 2,430	$ 2,949	$ 5,109	$ 5,674	$ –	$ –
Average final average salary	$ 3,920	$ 5,370	$ 6,600	$ 6,944	$ 6,675	$ –	$ –
Number of retired members*	1	5	10	7	4	–	–

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

PLAN SUMMARY
AND LEGISLATIVE SECTION

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 2013)

1. Purpose

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

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

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

2. Administration

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees.

Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. Employee Membership

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

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

4. Participant Contributions

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

Retirement Annuity	8.5%
Automatic Annual Increase	1.0%
Survivors' Annuity	2.0%
Total	11.5%

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

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

5. Retirement Annuity

A. Qualification of Participant

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

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

The retirement annuity of a participant who retires between the ages of 62 and 67 with at least 8 years of credit shall be reduced ½ of 1% for each month the participant's age is under 67.

B. Amount of Annuity

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

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

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

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

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

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

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

- 3.0% for each year of credit

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

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

C. Optional Forms of Payment

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

D. Annual Increases in Retirement Annuity

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

For participants who first became members of the System on or before August 8, 2003 and remain in service after attaining 20 years of creditable service, the 3% annual increases shall begin to accrue on the January 1 following the date when the participant (1) attains age 55, or (2) attains 20 years of creditable service, whichever occurs later. In addition, the annual increases shall continue to accrue while the participant remains in service; however, such increases shall not become payable until (1) the January 1 or the July 1 next following the first anniversary of retirement, or (2) the first of the month following attainment of age 60, whichever occurs later.

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

E. Suspension of Retirement Annuity

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

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

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

6. Survivors' Annuity

A. Qualification of Survivor

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

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

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

B. Amount of Payment

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

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

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

C. Duration of Payment

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

D. Annual Increases in Survivors' Annuity

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

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

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

7. Death Benefits

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

A. Before Retirement

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

B. After Retirement

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

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

A. Death of Survivor Annuitant

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

8. Disability Benefit

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

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

9. Refund of Contributions

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

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

LEGISLATIVE AMENDMENTS

Legislative amendments with an effective date during fiscal year 2013 having an impact on the System.

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

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

NEW LEGISLATION

Legislative amendments with an effective date subsequent to June 30, 2013, having an impact on the System.

House Bill 1871 (P.A. 98-0235; effective August 9, 2013)
Requires the System to implement a secure website for its annuitants to access an electronic version of their earnings statements issued for annuity payments payable for state fiscal year 2015 and beyond.

Senate Bill 0001 (P.A. 98-0599; effective June 1, 2014)
Requires the implementation of the following pension changes to active, inactive and retired Tier 1 members:

- Limits the annual pension adjustments for current and future retirees
- Requires skipping certain annual pension adjustments based on age at June 1, 2014
- Establishes a pensionable salary cap with some grandfathering
- Increases the retirement age on a graduated scale
- Creates a new defined contribution plan
- Reduces the employee contribution by one percentage point
- Provides a funding guarantee