STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

A Pension Trust Fund of the State of Illinois

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2000

STATE EMPLOYEES' RETIREMENT
SYSTEM OF ILLINOIS

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

Prepared by the Accounting Division

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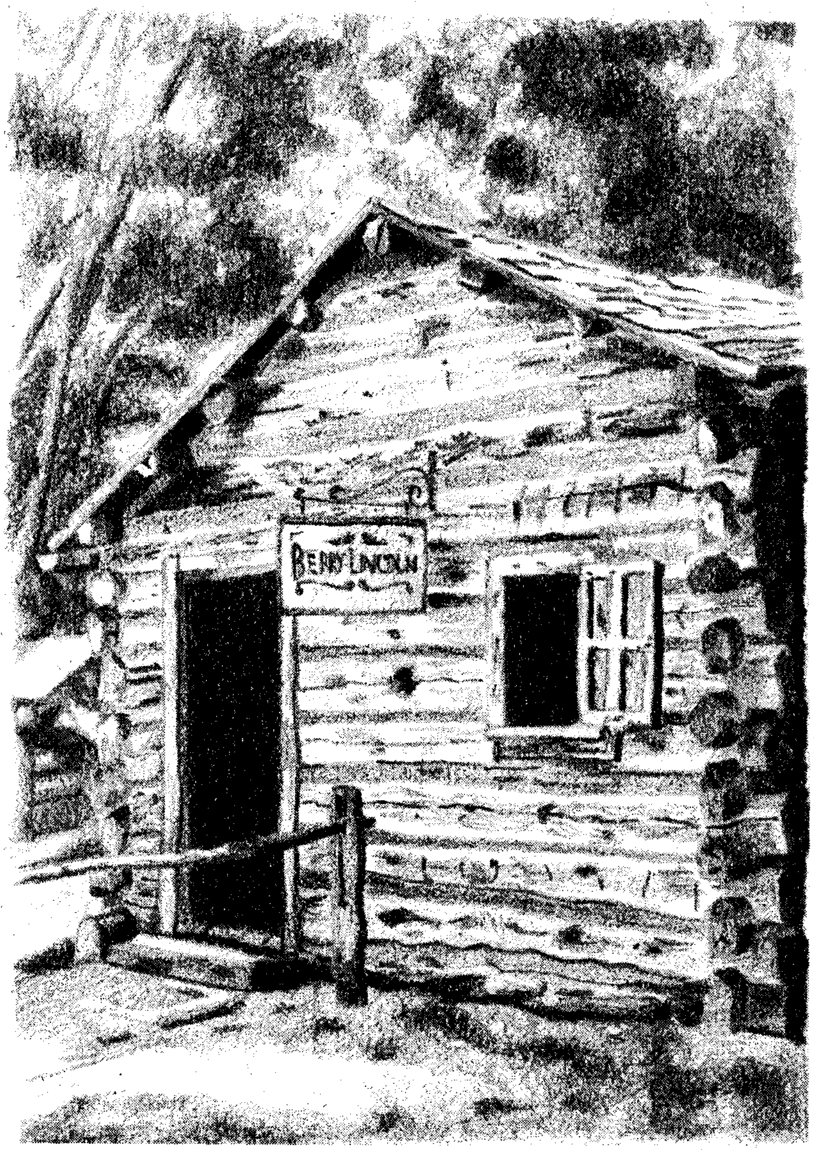
INTRODUCTORY SECTION



Lincoln was born in Hodgerville, Kentucky on February 12, 1809. He spent his childhood and early adult life on the brink of poverty. After living in Kentucky, Indiana and parts of Illinois, Lincoln arrived in New Salem in 1831 at the age of 22. The six years Lincoln lived here was a turning point in his life. Its social structure allowed the rough, uneducated Lincoln to try a variety of occupations–store clerk, railsplitter, postmaster, and deputy surveyor–before focusing on law and politics.

Ironically, only two years after Lincoln left the town, nearby Petersburg gained the county seat, causing New Salem to dwindle and die as rapidly as it once grew. Today, the National Park Service has restored the town to appear as it did in Lincoln's day.

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, Ph. (217)785-7444

December 1, 2000

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

Dear Board and Members:

The comprehensive annual financial report of the State Employees' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 2000 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included. The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization and the Certificate of Achievement for Excellence in Financial Reporting;
2. The Financial Section which contains the report of the Independent Auditors, the financial statements of the System, and certain required and other supplementary financial information;
3. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;
4. The Actuarial Section which contains an Actuary's Certification Letter and the results of the annual actuarial valuation;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

Generally accepted accounting principles require that the financial reporting entity include: (1) the primary government; (2) organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, 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 State Employees' Retirement System, Judges' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the State Employees' Retirement System do not include plan net asset information nor the changes in plan net assets of the General Assembly Retirement System or Judges' Retirement System.

PLAN HISTORY AND SERVICES PROVIDED

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

The System was established January 1, 1944 and 17,237 state employees became members on that date. As of June 30, 1944, net assets of the System amounted to $1,255,778. The fair value of plan net assets at the end of the fiscal year June 30, 2000 are approximately $8.9 billion, and there are 80,676 active members.

ADDITIONS TO PLAN NET ASSETS

The collection of employer and employee retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These revenue sources totaled $1,436.9 million during the fiscal year ending June 30, 2000 , which is a slight increase over revenue reported for fiscal year 1999, shown as follows:

	2000 (Millions)	1999 (Millions)	Increase/(Decrease) (Millions)	Increase/(Decrease) (Percentage)
Contributions:				
Employees	$ 164.8	$ 159.6	$ 5.2	3.3%
Employer	340.9	315.5	25.4	8.1
Investments	931.2	908.1	23.1	2.5
	$ 1,436.9	$ 1,383.2	$ 53.7	3.9%

As indicated in the above schedule, approximately 65% of the total revenue was attributable to investment income.

DEDUCTIONS FROM PLAN NET ASSETS

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses of the System for 2000 and 1999 are shown for comparison purposes.

	2000 (Millions)	1999 (Millions)	Increase/(Decrease) (Millions)	Increase/(Decrease) (Percentage)
Benefits:				
Retirement annuities	$ 405.9	$ 363.6	$ 42.3	11.6%
Survivors' annuities	42.7	40.5	2.2	5.4
Disability benefits	29.2	26.8	2.4	9.0
Lump-sum death benefits	12.1	9.9	2.2	22.2
	$ 489.9	$ 440.8	$ 49.1	11.1%
Refunds (including Transfers)	16.0	14.1	1.9	13.5
Administrative expenses	6.6	6.4	.2	3.1
	$ 512.5	$ 461.3	$ 51.2	11.1%

The increase is primarily due to an increase in the number of benefit recipients and higher final average salaries for retirees.

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 serves to reduce overall risk and increase returns.

Income from investments has, over the years, generally been a significant share of the total revenue of the System. Net investment income, combined with the net appreciation of fair value of investments, amounted to $931.2 million during fiscal year 2000, an increase of $23.1 million from fiscal year 1999. Income from investments represents 65% of total fund revenue. The Illinois State Board of Investment had an 11.8% rate of return on market values for the year ended June 30, 2000.

A detailed discussion of investment performance and strategies is provided in the Investment Section. Information regarding investment professionals providing services to the ISBI can be found in the separately issued ISBI report. To receive a copy of the ISBI annual financial report, please refer to the address contained in the Investment Section.

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.

Senate Bill 533, which was signed into law by former Governor Edgar on August 22, 1994, as Public Act 88-0593, enacted a new funding plan for the System. The financing objective of this funding plan 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 those fiscal years up through 2010, the required state contributions are 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. In addition, the funding legislation also provided for the establishment of a continuing appropriation of the required state contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 2000, amounted to $10.913 billion. The actuarial value of assets (at fair value) amounted to $8.911 billion as of the same date.

A detailed discussion of funding is provided in the Actuarial Section of this report.

MAJOR EVENTS/INITIATIVES

During the Fiscal Year 2000, the System entered the new millennium with a seamless transition of both computer hardware and software; implemented a new system to process Qualified Illinois Domestic Relations Orders (QILDRO's); reviewed various general ledger software packages; and conducted a review of the needs for future computer related projects of the various divisions.

Projects for Fiscal Year 2001 will primarily involve: implementation of a new general ledger system, expansion of the service purchase system, a document management and workflow analysis, expansion of internet services, a review of future mainframe computer needs and a Board of Trustees election.

ACCOUNTING SYSTEM AND 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. 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 Watson Wyatt Worldwide, Chicago, Illinois. Tax consulting services are provided by the accounting firm of KPMG Peat Marwick, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of Thomas Havey LLP, under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a one year compliance audit was also performed by the auditors. The purpose of the compliance audit was to determine whether the System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Employees' Retirement System of Illinois for its comprehensive annual financial report for the fiscal year ended June 30, 1999. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State Employees' Retirement System of Illinois has received a Certificate of Achievement for the past fourteen consecutive years (fiscal years ended June 30, 1986 through June 30, 1999). 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 AND COMMENTS

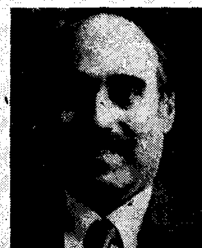
The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a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

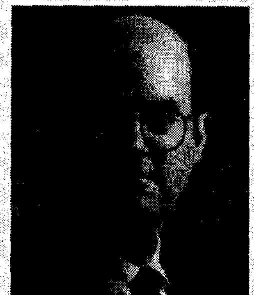
Michael L. Mory
Michael L. Mory
Executive Secretary

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

Administration



Loren Iglarsh
Representing Daniel W. Hynes
Comptroller



Mark W. Gallagher
Chairman, appointed
by the Governor

Stephen Schnorf
Director of the
Bureau of the Budget

Joseph T. Pisano
Annuitant, Appointed
by the Governor

Doris Clark
Elected Annuitant
Vice Chairman

Caryl Wadley-Foy
Elected Employee

Sharmin S. Doering
State Employee, Appointed
by the Governor

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  - Internal and External Investment Managers
- Medical Consultants
- Actuary
- Certified Public Accountants

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Employees' Retirement System of Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1999

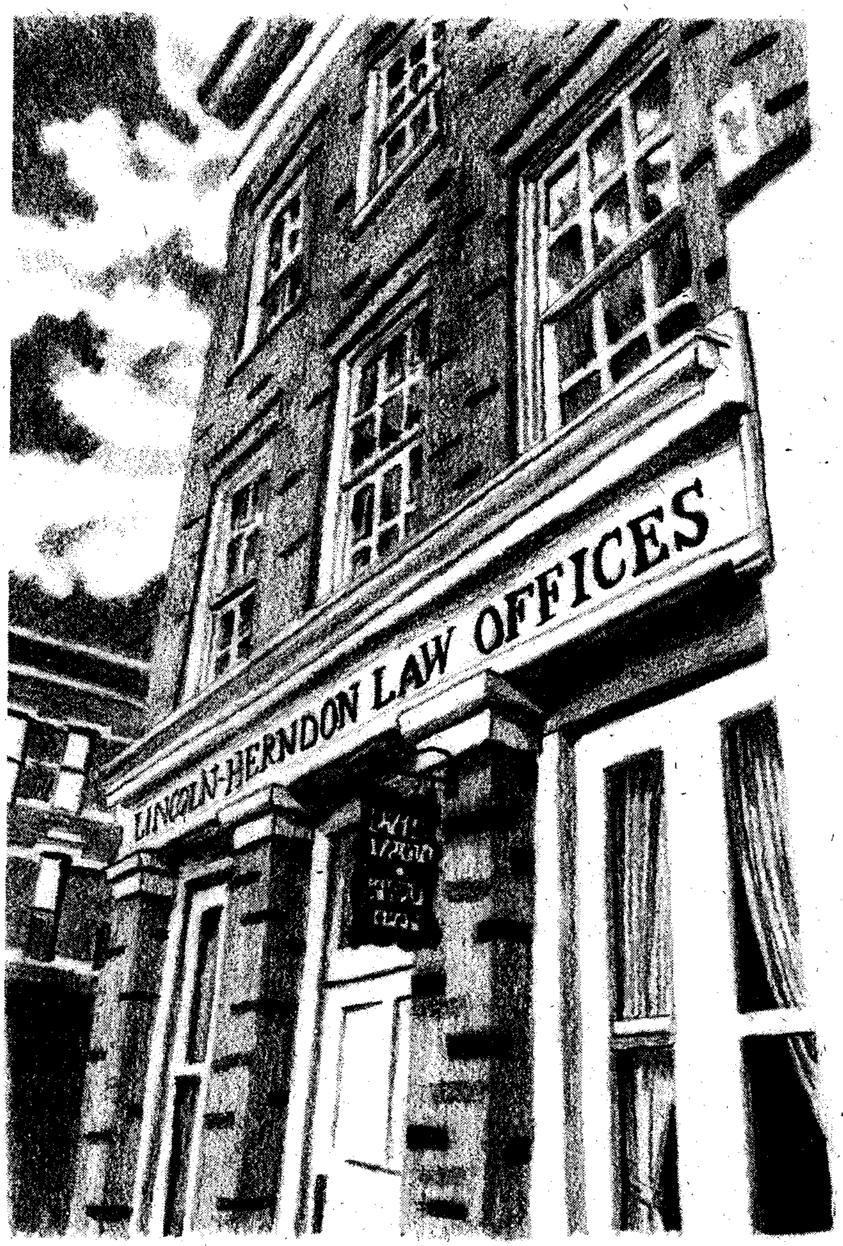
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

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

President

Executive Director

FINANCIAL SECTION



On April 15, 1837, Lincoln moved to Springfield from New Salem and began practicing law. Two years later Lincoln formed a partnership with Stephen Logan, and eventually moved into an office on the third floor of this building in 1843.

A year later Lincoln and Logan dissolved their partnership and Lincoln took on 26 year old William Herndon as his junior partner. Their practice flourished and became one of Springfield's leading law firms. They occupied the law office until late 1852, but the Lincoln-Herndon partnership lasted until Lincoln's death in 1865.

THOMAS
HAVEY
LLP

INDEPENDENT AUDITORS' REPORT

To the Honorable William G. Holland
Auditor General, State of Illinois
Springfield, Illinois

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets as of June 30, 2000 and 1999 of the State Employees' Retirement System of Illinois and the statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Employees' Retirement System of Illinois as of June 30, 2000 and 1999, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2000 on our consideration of the State Employees' Retirement System of Illinois' internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The required supplementary information, on pages 23 and 24, and other supplementary information, on page 25, are presented for the purpose of additional analysis and are not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The information for the years ended June 30, 1997 and 1998 has been derived from financial statements audited by other auditors whose reports thereon expressed an unqualified opinion.

The introductory, investment, actuarial, statistical, and plan summary and legislative sections listed in the table of contents were not audited by us and, accordingly, we do not express an opinion thereon.

Thomas Havey LLP

October 18, 2000

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
30 N. LASALLE STREET • SUITE 4200 • CHICAGO, IL 60602 • 312.368.0500 • 312.368.0746 FAX • www.havey.com

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2000 and 1999

	2000	1999
Assets		
Cash	$ 97,638,073	$ 100,578,832
Receivables:		
Contributions:		
Participants	12,549,083	11,492,314
Employing state agencies	12,616,750	12,035,734
Other accounts	2,754,312	2,444,565
Total Receivables	27,920,145	25,972,613
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	8,786,654,484	7,861,470,281
Property and equipment, net of accumulated depreciation	3,354,788	3,500,719
Total Assets	8,915,567,490	7,991,522,445
Liabilities		
Benefits payable	2,683,109	2,511,460
Refunds payable	146,104	390,800
Administrative expenses payable	1,068,721	979,514
Participants' deferred service credit accounts	768,904	1,207,702
Total Liabilities	4,666,838	5,089,476
Net assets held in trust for pension benefits	$ 8,910,900,652	$ 7,986,432,969

(A schedule of funding progress is presented on page 23.)

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years ended June 30, 2000 and 1999

	2000	1999
Additions:		
Contributions:		
Participants	$ 164,792,356	$ 159,580,234
Employing State agencies and appropriations	340,872,521	315,525,007
Total Contributions	505,664,877	475,105,241
Investment income:		
Net investment income	199,499,986	202,442,449
Interest earned on cash balances	6,079,096	4,787,485
Net appreciation in fair value of investments	725,684,217	700,891,860
Total net investment income	931,263,299	908,121,794
Total Additions	1,436,928,176	1,383,227,035
Deductions:		
Benefits:		
Retirement annuities	405,944,513	363,649,705
Survivors' annuities	42,672,462	40,506,748
Disability benefits	29,239,488	26,791,871
Lump-sum death benefits	12,058,958	9,894,097
Total Benefits	489,915,421	440,842,421
Refunds	15,898,980	13,989,387
Administrative	6,613,765	6,433,951
Transfers to reciprocating retirement systems	32,327	23,137
Total Deductions	512,460,493	461,288,896
Net Increase	924,467,683	921,938,139
Net assets held in trust for pension benefits:		
Beginning of year	7,986,432,969	7,064,494,830
End of year	$ 8,910,900,652	$ 7,986,432,969

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2000 and 1999

(1) Reporting Entity

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

The State Employees' Retirement System of Illinois (System) is administered by a Board of Trustees consisting of seven persons, which includes: a) the Director of the Bureau of the Budget; b) the Comptroller; c) one trustee, not a state employee, who shall be chairman, to be appointed by the Governor for a 5 year term; d) two members of the system, one of whom shall be an annuitant age 60 or over, having at least 8 years of creditable service, to be appointed by the Governor for terms of 5 years; e) one member of the System having at least 8 years of creditable service, to be elected from the contributing membership of the System by the contributing members; and f) one annuitant of the System who has been an annuitant for at least one full year, to be elected from and by the annuitants of the System.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report. Pursuant to federal tax laws and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of disbursing benefits in accordance with Section 415 of the Internal Revenue Code. Receipts and disbursements of the fund for fiscal years 2000 and 1999 were each less than $10,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the financial statements of the System.

(2) Plan Description

The System is the administrator of a single-employer, defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its employees.

At June 30, 2000 and 1999, the number of participating state agencies, boards and commissions totaled:

	2000	1999
State agencies	38	38
State boards and commissions	48	48
Total	86	86

At June 30, 2000 and 1999 the System membership consisted of:

		2000	1999
Retirees and beneficiaries currently receiving benefits:			
Retirement annuities		30,137	29,360
Survivors' annuities		9,860	9,810
Disability benefits		2,097	1,961
		42,094	41,131
Inactive employees entitled to benefits but not yet receiving them		4,032	3,749
Total		46,126	44,880
Current Employees:			
Vested:	Coordinated with Social Security	50,707	50,442
	Noncoordinated	3,497	3,924
Nonvested:	Coordinated with Social Security	25,619	24,476
	Noncoordinated	853	660
Total		80,676	79,502

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

Financial Statements

(a) Eligibility and Membership

Membership is automatic for most state employees who are not eligible for another state-sponsored retirement plan. Generally, all persons entering state service, except those in positions subject to membership in other state sponsored retirement systems, persons employed after June 30, 1979 as public service employment program participants under the Federal CETA program, and enrollees in the Illinois Young Adult Conservation Corps, become members of the System upon completion of six months service. Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System.

(b) Contributions

Participating members contribute specified percentages of their salaries for retirement annuities and survivors' annuities in accordance with Chapter 40, Section 5/14-133 of the Illinois Compiled Statutes (ILCS). Contributions are excluded from gross income for Federal and State income tax purposes. The total contribution rate is 4% if the member is covered by Social Security and 8% if the member is not covered. Certain employment categories which are eligible for benefits under alternative formulas contribute at the rate of 5 1/2% or 9 1/2 % depending upon whether or not the employee is covered by Social Security. Participants' contributions are fully refundable, without interest, upon withdrawal from state employment. Effective January 1, 1992, the State of Illinois initiated an employer pickup of employee retirement contributions for most state employees. The amount of the pickup is dependent upon the contribution rates specified above, however, the contributions made on behalf of the member are included in the individual member's account. The State of Illinois is obligated to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

(c) Benefits

The System is governed by Chapter 40, Article 5/14 of the ILCS. Vesting and benefit provisions of the System are defined in the ILCS. Employees who retire at or after age 60 with 8 years of credited service (or at age 55 with at least 30 years of credited service with reduced benefits) are entitled to an annual retirement benefit, payable monthly for life, in an amount based upon final average compensation and credited service. Employees with 35 years of credited service may retire at any age with full benefits. Final average compensation for retirement and survivors' annuities, is the employee's average salary, during a 48 consecutive month period within the last 120 months of service in which the total compensation was the highest. Alternative formula positions use their final rate of pay for the final average compensation. The retirement benefit formula available to general state employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. Alternative formula employees have a step rate formula based upon years of service and whether or not they have coverage under Social Security.

Occupational and nonoccupational (including temporary) disability benefits are available through the System. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of state employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

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

(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. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan. The System has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB Pronouncements.

(b) Cash and Investments

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.

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

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. The ISBI reports securities at fair value. Where appropriate, the fair value includes estimated disposition costs. Fair value for stocks is determined by using the closing price listed on the national securities exchanges as of June 30. Market value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled equity funds, the net asset value is determined and certified by the commingled equity fund manager as of June 30. Fair value for directly owned real estate investments is determined by appraisals. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. 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. The ISBI does not have any one investment which represents 5 percent or more of the ISBI's net assets.

The ISBI participates in a securities lending program at its custodian bank, whereby securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the ISBI's securities are eligible for the securities lending program. Collateral consists solely of cash, letters of credit, commercial paper and government securities having a market value equal to or greater than the securities loaned. There are no provisions for ISBI indemnification on the securities lending transactions. As of June 30, 2000 and 1999, the ISBI had outstanding loaned investment securities having market values of $1,030,242,633and $857,389,887, respectively; against which it had received collateral with values of $1,064,062,213 and $884,629,896, respectively.

The ISBI's global and international managers invest in derivative securities. During the year, the ISBI's derivative investments included forward foreign currency contracts, futures, and options. Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. The remaining derivative securities are used to improve yields, or to hedge changes in interest rates.

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

The System owns approximately 95% of the net investment assets of the ISBI Commingled Fund as of June 30, 2000. A Schedule of Investment Expenses is included in the ISBI Annual Report. For additional information regarding the ISBI's investments, please refer to the Annual Report of the ISBI as of June 30, 2000. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

ISBI investments, as categorized by ISBI, are categorized to indicate the level of risk assumed by the ISBI at year end. Category I includes investments that are insured or registered or the securities are held by the master custodian in the ISBI's name. Category II includes uninsured and unregistered investments with the securities held by the counterparty's agent in the ISBI's name.

Financial Statements

Category III includes uninsured and unregistered investments with the securities held by the counterparty but not in the ISBI's name. Investments in pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

At June 30, 2000, the ISBI's investments were categorized as follows:

	Fair Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 1,154,131,028	$ 1,154,131,028	$
Foreign Obligations	68,212,655	68,212,655	
Corporate Obligations	543,874,357	543,874,357	
Convertible Bonds	10,928,836	10,928,836	
Common Stock & Equity Funds	3,957,626,585	2,427,329,197	1,530,297,388
Convertible Preferred Stock	38,141,900	38,141,900	
Preferred Stock	6,764,833	6,764,833	
Foreign Equity Securities	2,086,712,466	1,906,428,442	180,284,024
Real Estate Funds	284,414,376		284,414,376
Alternative Investments	535,793,992		535,793,992
Money Market Instruments	606,334,768		606,334,768
Forward Foreign Exchange Contracts	341,876	341,876	
Total Investments	$ 9,293,277,672	$ 6,156,153,124	$ 3,137,124,548

(c) Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 1997.

(d) 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.

(e) 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.

(4) Funding - Statutory Contributions Required and 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 2000 and 1999, the actuary used the projected unit credit actuarial method for determining the proper employer contribution rate and amount.

The Illinois General Assembly appropriates the employer's payroll contribution based upon the actuarial review, as well as a specific dollar amount for the non-payroll contributions. Public Act 88-0593, which was effective July 1, 1995, provided for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarially funded ratio of 90%. The funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

In order to finance a general benefit increase which took effect on January 1, 1998, the Illinois General Assembly passed Public Act 90-0065, effective July 15, 1997. This legislation, in addition to increasing pension benefits for nearly 60,000 state employees, also included a provision to raise the employer's required payroll contribution, effective July 1, 1997. The legislation also stipulated a minimum required employer contribution rate for fiscal years 1999-2009. The employer contribution rates for fiscal years 2000 and 1999 were 10.0% and 9.8%, respectively (including the employer contribution from the State Pension Fund).

(5) Administrative Expenses and Other Post-Employment Benefits

A summary of the administrative expenses of the System for fiscal years 2000 and 1999 are as follows:

	2000	1999
Personal services	$ 2,846,805	$ 2,708,479
Employer retirement pickup	112,922	108,102
Retirement contributions	276,867	258,763
Social Security contributions	212,255	201,074
Group insurance	394,840	351,111
Contractual services	1,179,898	1,251,424
Travel	56,100	51,231
Commodities	19,683	27,897
Printing	53,505	59,448
Electronic data processing	1,114,457	1,051,425
Telecommunications	48,131	61,504
Automotive	12,784	10,647
Depreciation	245,148	245,015
Other	40,370	47,831
Total	$ 6,613,765	$ 6,433,951

Effective January 1, 1992, the System began making payment of the required employee retirement contributions on behalf of its employees. This "pickup" of employee retirement contributions was included in the fiscal year 1992 operating budget approved by the System's Board of Trustees, and was, in part, paid in lieu of a salary increase.

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System. Substantially all state employees including the System's employees may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2000. However, post-employment costs for the State as a whole for all State agencies/departments for health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois Comprehensive Annual Financial Report. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

(6) Property and Equipment

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

A summary of the changes in fixed assets for 2000 and 1999 is as follows:

	2000			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land improvements	218,425	4,410	-	222,835
Building	3,302,821	3,035	-	3,305,856
Equipment	1,915,395	96,224	(109,033)	1,902,586
Total	6,091,882	103,669	(109,033)	6,086,518
Accumulated depreciation	(2,591,163)	(245,148)	104,581	(2,731,730)
Property and equipment, net	$ 3,500,719	$ (141,479)	$ (4,452)	$ 3,354,788

	1999			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land improvements	215,508	2,917	-	218,425
Building	3,284,580	18,241	-	3,302,821
Equipment	2,024,855	103,103	(212,563)	1,915,395
Total	6,180,184	124,261	(212,563)	6,091,882
Accumulated depreciation	(2,557,880)	(245,015)	211,732	(2,591,163)
Property and equipment, net	$ 3,622,304	$ (120,754)	$ (831)	$ 3,500,719

(7) Accrued Compensated Absences

Employees of the System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned on and after January 1, 1984 and before January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2000 and 1999 totaled $877,865 and $840,649, respectively, and are included in Administrative Expenses Payable.

(8) Analysis of Changes in Reserve Balances

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

(a) Participants' contributions - accounts for assets contributed by each participant,

(b) Interest accumulations - accounts for interest credited to each participant's account, and

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

State Employees' Retirement System
Statements of Changes in Reserve Balances
Years ended June 30, 2000 and 1999

	Participants' Contributions	Interest Accumulations	Other Future Benefits	Total Reserve Balances
Balance at June 30, 1998	$ 1,370,486,891	$ 853,645,759	$ 4,840,362,180	$ 7,064,494,830
Add (deduct):				
Excess of revenue over expenses	134,549,974	-	787,388,165	921,938,139
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(62,568,145)	-	62,568,145	-
Interest credited to members' accounts	-	73,834,044	(73,834,044)	-
Balance at June 30, 1999	1,442,468,720	927,479,803	5,616,484,446	7,986,432,969
Add (deduct):				
Excess of revenue over expenses	138,907,749	-	785,559,934	924,467,683
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(67,946,756)	-	67,946,756	-
Interest credited to members' accounts	-	73,801,641	(73,801,641)	-
Balance at June 30, 2000	$ 1,513,429,713	$1,001,281,444	$ 6,396,189,495	$ 8,910,900,652

(9) Social Security Division - Administrative Expenses

The Social Security Division of the State Employees' Retirement System was created by 40 ILCS 5/21, to administer the state's responsibilities under Title II Section 218 of the Federal Social Security Act and the master federal-state agreement. The state's responsibilities include extending Social Security coverage by agreement to any of the state's retirement systems or units of local government requesting social security coverage for their members or employees. In addition, the Social Security Division was responsible for collecting wage information and contribution payments from covered retirement systems and units of local government on wages paid prior to January 1, 1987.

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

	2000	1999
Personal services	$ 38,175	$ 36,084
Employer retirement pickup	1,527	1,443
Retirement contributions	3,708	3,438
Social Security contributions	2,834	2,703
Contractual services	24,131	23,531
Travel	1,933	1,495
Commodities	388	367
Equipment	-	435
Electronic data processing	700	700
Telecommunications	304	448
Total	$ 73,700	$ 70,644

Schedule of Funding Progress (1)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Covered Payroll ([b-a]/c)
6/30/97	$ 6,048,027,225	$ 7,548,207,778	$ 1,500,180,553	80.1%	$ 3,003,628,000	49.9%
6/30/98	7,064,494,830	9,341,897,641	2,277,402,811	75.6	3,096,087,000	73.6
6/30/99	7,986,432,969	9,998,204,988	2,011,772,019	79.9	3,212,569,000	62.6
6/30/00	8,910,900,652	10,912,987,912	2,002,087,260	81.7	3,370,696,000	59.4

Schedule of Employer Contributions (1)

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25 (2)	Percentage Contributed	(A) Annual Required Payroll Contribution per State Statute(3)	(B) State Pension Fund Contribution	(A) + (B) Total Required State Contribution	Percentage Contributed
1997	$ 211,125,012	74.9%	$ 149,070,058	$ 8,489,800	$157,559,858	100%
1998	206,725,718	97.1	190,686,970	9,208,400	199,895,370	100
1999	319,746,993	98.7	306,093,574	8,523,961	314,617,535	100
2000	299,081,856	114.0	327,429,409	12,720,000	340,149,409	100

(1) The required Schedules of Funding Progress and Employer Contributions are to include information for the current year and as many of the prior years as information according to the parameters stipulated in Governmental Accounting Standards Board Statement No. 25 entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," issued November 1994, (GASB Statement No. 25) is available. The schedules should not include information that does not meet the parameters. The System has only four years of information which meet the requirements of the parameters, therefore, that is all the information which is presented.

(2) This amount includes both payroll and non-payroll employer required contributions.

(3) Employer required contribution determined in accordance with HB110 (P.A. 90-0065) and SB533 (P.A. 88-0593). These amounts reflect only payroll required contributions.

Required Supplementary Information

Notes to Required Supplementary Information

Valuation date	June 30, 2000
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 percent funding level is achieved
Remaining amortization period:	
a) For GASB Statement No. 25 reporting purposes	40 years, open
b) Per state statute	45 years, closed
Asset valuation method	Fair Value
Actuarial assumptions:	
Investment rate of return	8.5 percent
Projected salary increases	0.5 to 4.7 percent, based upon member's age
Assumed inflation rate	3.5 percent
Group size growth rate	0.0 percent
Post-retirement increase	3.0 percent - compounded
Mortality table	1983 Group Annuity Mortality Table for males (with a one-year setback) and females (with no setback). Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

SUMMARY OF REVENUES BY SOURCE

	2000	1999
Contributions:		
Participants	$ 157,998,310	$ 150,977,303
Repayments of contributions refunded	1,452,350	1,583,751
Interest received from participants	5,341,696	7,019,180
Total participants contributions	164,792,356	159,580,234
Employing state agencies	328,152,521	307,001,046
State Pension Fund appropriation	12,720,000	8,523,961
Total state contributions and appropriations	340,872,521	315,525,007
Investments:		
Net investments income	199,499,986	202,442,449
Interest earned on cash balances	6,079,096	4,787,485
Net appreciation in fair value of investments	725,684,217	700,891,860
Total investment revenue	931,263,299	908,121,794
Total Revenue	$1,436,928,176	$1,383,227,035

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

	2000	1999
Cash balance, beginning of year	$ 100,578,832	$ 79,514,954
Receipts:		
Participant contributions	154,741,978	148,644,908
Employer contributions	327,168,237	301,705,762
State Pension Fund contribution	12,720,000	8,523,961
Transfers from Illinois State Board of Investment	18,000,000	11,000,000
Interest income on cash balance	5,959,477	4,784,772
Claims receivable payments	3,700,916	2,996,069
Installment payments - prior service credit	5,787,179	4,951,024
Other	199,698	163,642
Total cash receipts	528,277,485	482,770,138
Disbursements:		
Annuity payments:		
Retirement annuities	406,241,896	363,947,660
Widow's annuities	2,004,014	2,140,577
Survivors' annuities	40,803,649	38,506,494
Death benefits	12,198,347	10,085,897
Disability benefits	28,406,540	25,570,953
Refunds	17,108,410	14,910,864
Administrative expenses	6,455,388	6,543,815
Transfers to Illinois State Board of Investment	18,000,000	-
Total cash disbursements	531,218,244	461,706,260
Cash balance, end of year	$ 97,638,073	$ 100,578,832

SCHEDULE OF PAYMENTS TO CONSULTANTS AND ADVISORS

	2000	1999
Legal Fees	$ 266,869	$ 285,203
Actuarial Costs	88,470	114,844
Audit Expense	53,206	50,510
Physicians and Disability Inspections	13,866	50,506
Financial Planning	38,383	34,159
Tax Advice and Consultation	8,500	17,500
	$ 469,294	$ 552,722

INVESTMENT SECTION

The only home Lincoln ever owned was built as a one story cottage in 1839. The Lincoln's bought the house in 1844 for $1,200 and enlarged it to a full two stories in 1856. They lived in it until his election to the Presidency in 1861.

Today, Lincoln's home is restored to its 1860 appearance, and reveals Lincoln as husband, father, and politician. The home stands in the midst of a four-block historic neighborhood resembling the way Lincoln would have remembered it.

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI). The ISBI was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. In addition to the assets of the State Employees' Retirement System, the ISBI also manages the investment function for the General Assembly and Judges' Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund). As of June 30, 2000, total net assets under management valued at market, amounted to $9.270 billion. Of the total market value of assets under management, $8.787 billion or 95% represented assets of the State Employees' Retirement System.

A summary of the portfolio's largest holdings, as well as the complete listing of the ISBI portfolio, are included in the ISBI Annual Report. A schedule of fees and commissions paid by brokerage firm 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 by the ISBI.

Investment Policy

The ISBI operates under a strategic investment policy which is reviewed and approved every two years. 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. Over an investment cycle, the ISBI seeks to achieve a rate of return which is:

1) at least equal to the assumed actuarial interest rate, currently 8.5% per year, and
2) at least equal to the return of the policy-weighted benchmark, a theoretical "indexed" implementation of the ISBI's asset allocation policy.

Asset Allocation

The investment policy of the ISBI Board establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. The policy is implemented by allocations to investment managers with assignments to invest in specific asset classes, with defined security selection styles and methodologies. The policy asset allocation at June 30, 2000 was 45% U.S. equities, 20% international equities, 25% fixed income, 5% real estate, and 5% alternative investments.

The actual asset allocation of the portfolio at June 30, 2000, as relative to the policy target, is set forth below. As shown, the actual weights were very close to policy targets. U.S. equities, international equity, and alternative investments were slightly overweighted, with modest underweights in fixed income and real estate.

	Actual Asset Allocattion	Policy Target
U.S. Equities	46%	45%
International Equities	21	20
Fixed Income	24	25
Real Estate	3	5
Alternative Investments	6	5
Total	100%	100%

During fiscal 2000, the ISBI Board completed its biannual review of the ISBI Fund's strategic asset allocation. The new policy, which will become effective at the start of fiscal 2001, modestly decreases the allocation to publicly traded asset classes (U.S. equities; fixed income) and increases the allocation to private investments (real estate; alternative investments). The policy asset allocation at July 1, 2000 will be 43% U.S. equities, 20% international equities, 22% fixed income, 7% real estate, and 8% alternative investments.

Investment Results

In spite of some market jitters, including a technology sell-off in March, continued confidence in the stock market resulted in double digit returns for the ISBI fund for the sixth year in a row. The ISBI total fund earned a rate of return for fiscal 2000, net of expenses, of 11.8%. This was well ahead of its long-term objectives of exceeding the 8.5% assumed actuarial interest rate. The return also significantly outperformed the policy-weighted benchmark return of 10.4%. The average annual returns for the three and five year periods ended June 30, 2000, were 14.2% and 15.6%, respectively, both of which are in line with the benchmark returns.

U.S. Equities

For the twelve months ended June 30, 2000, U.S. equity markets, while not exhibiting the torrid growth of the previous five years, continued their upward climb. The Russell 3000 Index, a broad representation of the U.S. market, rose 9.6%. The Russell 3000 Growth Index returned 25.9%, far exceeding the Russell 3000 Value Index return of -8.4%. Small capitalization stocks, breaking a pattern set in the four previous fiscal years, outperformed large capitalization stocks, with a return for the Russell 2000 Index of 14.3% vs. 7.3% for the S&P 500.

The ISBI's U.S. equity portfolio earned a return of 10.3%, approximately 70 basis points ahead of the Russell 3000. This result achieved both of the ISBI Board's goals, which are to limit tracking error relative to the benchmark and to add value with active management.

During fiscal 2000, the ISBI Board added an all-cap growth manager (Geewax, Terker) and ended two relationships (Sloate, Weisman; Seligman).

	1 Year	3 Years	5 Years
ISBI	10.3%	18.2%	21.3%
S&P 500 Stock Index	7.3	19.7	23.8
Russell 3000 Index	9.6	19.2	22.8

International Equities

Foreign stock markets, as represented by the Morgan Stanley All-Country Free ex US ("MS-AC Free ex US") Index, earned a strong 18.1% for the fiscal year, significantly exceeding the U.S. equity market return. Japan had the most positive impact, with a 27% return for the year, while Europe lagged. Developed markets as a whole outperformed emerging markets, returning 19.1% and 9.5%, respectively.

The ISBI's international equity portfolio modestly lagged the benchmark for the fiscal year, earning 17.7%. As with the U.S. equity portfolio, the ISBI Board has the twin objectives of limiting tracking error relative to the benchmark and adding value with active management. The ISBI Board, through structure analysis, rebalancing, and risk management, has achieved the objective of tracking the market. For longer time periods, the ISBI has also demonstrated the ability to add value relative to the index return.

As part of the ongoing review of optimal structure, the ISBI made one international equity manager change in fiscal 2000, replacing Delaware International with Capital Guardian.

	1 Year	3 Years	5 Years
ISBI	17.7%	11.0%	14.3%
MS-AC Free ex US Index	18.1	9.5	11.1

Fixed Income

During fiscal 2000, U.S. fixed income markets were weak, as the Federal Reserve sought to dampen perceived inflation threats with a series of interest rate increases. The Lehman Aggregate Bond Index earned 4.6% for the 12-month period. High yield bonds, as represented by the Merrill Lynch High Yield Index, were hurt by widening spreads and lost 1.4%.

Substantially all fixed income assets are managed internally, except approximately $125 million allocated to an external high yield bond manager. The internal account was in line with the Lehman Aggregate Bond index, with a return of 4.5%. Lower returns from the external high yield manager resulted in a total fixed income return of 4.0%.

	1 Year	3 Years	5 Years
ISBI	4.0%	6.1%	6.9%
Lehman Aggregate Bond Index	4.6	6.0	6.2

Real Estate

The ISBI Board's current real estate policy seeks higher return real estate opportunities while controlling for risk. Therefore, new investments generally fall into the value-added or opportunistic categories. All of the ISBI's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

Real estate continued to provide solid returns during fiscal 2000, with the NCREIF Real Estate Index earning 12.0%. The ISBI's real estate portfolio, dominated by a number of less mature investments, earned a more modest 4.5%. During fiscal 2000, the ISBI Board committed $65 million to three real estate partnerships: DLJ Real Estate Partners; Koll Bren VII, and RREEF Value-Added Fund.

	1 Year	3 Years	5 Years
ISBI	4.5%	11.6%	10.6%
NCREIF Real Estate Index	12.0	14.7	12.9

Alternative Investments

The alternative investments portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities.

Fiscal 2000 proved to be another outstanding year for alternative investments. Even with the technology correction in March and a less exuberant initial public offering (IPO) market, a number of portfolio companies gained access to the auction markets, thereby producing liquidity and/or actual cash returns to the ISBI. Overall, the ISBI's alternative investments portfolio earned 56.1% for the fiscal year. Longer term results are equally impressive.

The ISBI Board made commitments totaling $263.2 million to 11 limited partnerships in fiscal 2000. New commitments are necessary to maintain the strategic allocation as more mature funds return capital. The ISBI Board is also seeking to better diversify the portfolio, by adding mezzanine and distressed debt funds, and by increasing the exposure to venture capital. The new partnerships are:

Venture Capital:	Boston Millennia II; InterWest VIII; Invesco Venture Partners Fund III; SCP Partners II; Summit Accelerator Fund
Buyouts:	Behrman Capital III; GTCR VII; Thomas Lee V
Mezzanine Debt:	Blackstone Mezzanine Partners; DLJ Investment Partners II
Distressed Debt:	OCM Opportunities Fund III

Management Expenses

Total net assets increased almost $1 billion in fiscal 2000, from $8.3 billion at June 30, 1999 to $9.3 billion at June 30, 2000. Concurrently, total expenses increased, from $15.9 million in fiscal 1999 to $20.7 million in the current fiscal year. The resulting expense ratio (expenses divided by total net assets) was .23% in fiscal 2000, compared to .21% in fiscal 1999. This increase is largely explained by two factors. First, asset-based fees to external managers represent almost 90% of operating expenses. Actual expenses will increase as assets increase, but at a somewhat lower rate due to volume discounts. The other significant factor in the increase was the ISBI Board's strategic policy decision in fiscal 1999 to transfer 10% of the total fund from fixed income to U.S. equities. Since fixed income is internally managed, no management fee is incurred. Equities, on the other hand, are externally managed; therefore, the shift from fixed income to equities resulted in higher total management fees. Fiscal 2000 was the first full year under the new allocation.

The ISBI Board recognized the fee implications of the decision, but felt that the higher long-term expected return from equities relative to fixed income more than offset the higher fee structure. Certainly fiscal 2000 confirmed that view, with U.S. equities outpacing fixed income by over 600 basis points.

Additional Information

For additional information regarding the System's investment function, please refer to the June 30, 2000 Annual Report of the Illinois State Board of Investment, . A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 2000		June 30, 1999	
Investments, at market value				
U.S. Government and Agency Obligations	$ 1,154,131,028	12.45%	$ 1,081,840,850	13.02%
Foreign Obligations	68,212,655	0.74	43,324,091	0.51
Corporate Obligations	543,874,357	5.87	476,507,428	5.74
Convertible Bonds	10,928,836	0.12	10,802,791	0.13
Common Stock & Equity Funds	3,957,626,585	42.69	3,946,786,728	47.50
Convertible Preferred Stock	38,141,900	0.41	34,850,689	0.42
Preferred Stock	6,764,833	0.07	25,085,532	0.30
Foreign Equity Securities	2,086,712,466	22.51	1,714,207,025	20.63
Real Estate Funds	284,414,376	3.07	216,350,722	2.60
Alternative Investments	535,793,992	5.78	355,128,394	4.27
Money Market Instruments	606,334,768	6.54	421,186,286	5.07
Forward Foreign Exchange Contracts	341,876	0.00	442,111	0.01
	9,293,277,672	100.25	8,326,512,647	100.20
Other Assets, Less Liabilities	(22,948,274)	(0.25)	(17,552,581)	(0.20)
Net Assets, at Market Value	$ 9,270,329,398	100.00%	$ 8,308,960,066	100.00%

ANALYSIS OF INVESTMENT PERFORMANCE[1]

	2000	1999	1998	1997	1996
Total Return* - Past 3 years		14.2%			
Total Return* - Past 5 years			15.6%		
Total Return* - year by year	11.8%	12.9%	18.1%	18.8%	16.6%
Actuarial Assumed Rate of Return		8.5%		8.0%	
Average Net Income Yield*	2.4%	2.8%	3.4%	3.9%	4.0%
	Comparative rates of return on fixed income securities				
Total fixed income - ISBI	4.0%	3.4%	11.1%	9.5%	6.6%
Comparison index:					
Shearson Lehman Aggregate	4.6%	3.1%	10.5%	8.2%	5.0%
	Comparative rates of return on equities				
Domestic equities - ISBI	10.3%	17.3%	27.6%	26.3%	25.9%
Comparison index:					
S&P 500	7.3%	22.7%	30.2%	34.6%	26.1%

[1] The Northern Trust Company, the ISBI's master custodian, provides performance rates of return by portfolio, portfolio aggregation and the respective indices in accordance with the Association for Investment Management and Research (AIMR) performance presentation standards.

* Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

Additional Investment Information

The following table shows a comparison of ISBI investment operations for fiscal years 2000 and 1999:

	2000	1999	Increase/(Decrease) Amount	Percentage
Balance at beginning of year, at fair value	$ 7,861,470,281	$ 6,969,135,972	$ 892,334,309	12.8%
Cash transferred from ISBI (net)	-0-	(11,000,000)	11,000,000	100.0
Net ISBI investments revenue:				
ISBI Commingled Fund income	$ 219,125,496	$ 217,487,777	$ 1,637,719	.8
Less ISBI Expenses	(19,625,510)	(15,045,328)	(4,580,182)	30.4
Net ISBI investments income	$ 199,499,986	$ 202,442,449	$ (2,942,463)	(1.5)
Net appreciation in fair value of ISBI investments	725,684,217	700,891,860	24,792,357	3.5
Net ISBI investments revenue	$ 925,184,203	$ 903,334,309	$ 21,849,894	2.4
Balance at end of year, at fair value	$ 8,786,654,484	$ 7,861,470,281	$ 925,184,203	11.8

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2000 was $6,079,096 compared to $4,787,485 during FY 1999.

ACTUARIAL SECTION

The Old State Capitol served as the Illinois statehouse from 1839 to 1876. Its design reflects Greek Revival architecture, which was popular in Illinois during the early 1800s. The building's balanced design symbolizes the ancient Greek example of orderly progress and democracy.

Abraham Lincoln spent much of his time as an attorney in the Old State Capitol. Here he did some of his most important and precedent-setting legal work in the state Supreme Court, pleading more than 300 cases in the court's first floor chambers. In the late 1950s, a decade-long effort was made to restore the Old State Capitol to its Lincoln-era appearance.

Watson Wyatt
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October 16, 2000

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

Actuarial Certification

We have completed the annual actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois (SERS) as of June 30, 2000. This report describes the current actuarial condition of SERS, analyzes the changes since the prior year, and determines the required employer contribution rate for the year beginning July 1, 2001 and ending June 30, 2002.

The contribution rate has been determined under the Projected Unit Credit Cost Method, providing for a 90% funding of total actuarial liabilities by fiscal year 2045 as required by 40 ILCS Section 5/14-131(e). Future contribution rates through fiscal year 2009 are not less than the specified percentages under HB110. A level contribution rate is determined for fiscal year 2010 through 2045. The required contribution rates and amounts for fiscal year 2002 are shown below.

	Total	**Net****
Required Rate	10.400%	10.040%
Required Contribution	$367,120,000	$354,400,000

** *These values reflect the $12,720,000 received from the unclaimed property fund for fiscal year 2000.*

For purposes of determining contribution rates, the market value of assets as reported by the Illinois State Board of Investment is used for the 2000 fiscal year. Assets have been projected using expected market value for subsequent fiscal years. The liabilities have been valued based on 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.

We certify that the information presented herein is accurate and fairly portrays the actuarial position of SERS as of June 30, 2000. We prepared the accompanying Summary of Actuarial Cost Method and Major Actuarial Assumptions, but the SERS staff prepared the other supporting schedules in this section and the trend tables in the financial section, based on information supplied in our report.

Board of Trustees and Executive Secretary
October 16, 2000
Page 2

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. 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. The undersigned are independent actuaries. Both are Enrolled Actuaries and Fellows of the Society of Actuaries, and both are experienced in performing valuations for public retirement systems.

Watson Wyatt & Company

By: Denise Patterson
Denise Patterson, FSA, EA, MAAA
Actuary

By: Michael R. Kivi
Michael R. Kivi, FSA, EA, MAAA
Consultant

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INTRODUCTION

The System receives contributions from several sources which can be considered as employer contributions, with the largest source being the regular state appropriation. The System also receives an annual appropriation from the State Pension Fund.

Annually, the System's actuarial consultant prepares a valuation of the liabilities and reserves of the System in order to make a determination of the amount of contributions required from the state. The amortization period required by Illinois state statutes is not in accordance with the parameters defined in Governmental Accounting Standards Board Statement No. 25. In fiscal years 2000 and 1999, the actuary has determined the required employer contribution rate and amount using the projected unit credit cost method.

The employers' contribution amount, together with members' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Chapter 40, Section 5/14-131 of the Illinois Compiled Statutes. The statutes define "actuarial reserves" as "An accumulation of funds in advance of benefit payments which will be sufficient with respect to each member and his beneficiaries, if any, to pay the prescribed benefits, computed according to the actuarial tables, without further contributions by or on behalf of the member."

In August, 1994, then Governor Jim Edgar signed Senate Bill 533 (SB533) into law as Public Act 88-0593, effective July 1, 1995. In addition, Public Act 90-0065 (HB110) was signed into law by Governor Edgar on July 15, 1997. Not only did these comprehensive bills dramatically increase state employee pension benefits, effective January 1, 1998, they also mandated an increase of employer retirement contributions. In general, state law governing the System under SB533 and HB110 provides that:

- For fiscal years 1998 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. In accordance with HB110, State contribution rates for fiscal years 2001 through 2009 will not be less than the following schedule:

Fiscal Year	Statutory Rate	Fiscal Year	Statutory Rate
2001	10.2%	2006	11.2%
2002	10.4	2007	11.4
2003	10.6	2008	11.6
2004	10.8	2009	11.8
2005	11.0		

- 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.

Most importantly, the SB533 funding legislation also provided for the establishment of a continuing appropriation of the required employer contributions to the System. This has, in effect, removed the appropriation of these funds from the annual budgetary process. Although long-term in nature, we believe that this legislation has been an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the State Employees' Retirement System.

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 for funding purposes meet the parameters set for the disclosures presented in the financial section by GASB Statement No. 25.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For fiscal years 2000 and 1999, a projected unit credit normal cost method is used. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current or attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. For purposes of determining future employer contributions, however, the actuarial gains and losses are amortized in accordance with the funding plan established in state law by Public Act 88-0593, as amended. Public Act 90-0065 also addressed the required level of employer retirement contributions.

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

A description of the actuarial assumptions utilized for FY-00 and FY-99 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; all other assumptions were adopted June 30, 1997.

Mortality: FY97 - 1983 Group Annuity Mortality Table for males (with a one-year setback) and females (with no setback). Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

Interest: 8.5% per annum, compounded annually

Termination: Illustrative rates follow. It is assumed that terminated employees will not be rehired.

Age	Rate Males	Females
20	.159	.339
25	.107	.129
30	.073	.086
35	.052	.065
40	.040	.050
45	.031	.037
50	.027	.027
55+	.026	.027

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

Age	Males & Females	Components: Merit	Components: Inflation
20	8.2%	4.7%	3.5%
25	7.7	4.2	3.5
30	7.2	3.7	3.5
35	6.7	3.2	3.5
40	6.2	2.7	3.5
45	5.7	2.2	3.5
50	5.2	1.7	3.5
55	4.7	1.2	3.5
60	4.2	.7	3.5
65	4.0	.5	3.5

Retirement Rates: Listed below are rates of retirement that vary by age:

Age	General Employees	Alternative Formula Employees*
50-54	--	10.0%
55-59	10.0%	15.0
60	12.5	20.0
61	15.0	22.0
62	17.5	24.0
63	20.0	26.0
64	22.5	28.0
65	25.0	30.0
66-69	25.0	30.0
70	100.0	100.0

*An additional 10% are assumed to retire in the year in which the employee completes 30 years of service. The rates apply only to employees who have fulfilled the service requirement necessary for retirement at any given age.

Assets: Assets available for benefits are valued at fair value (market).

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

Marital Status: 85% of employees are assumed to be married.

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

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

Postretirement Benefit Increases: 3% annually, compounded

Experience Review: Pursuant to state law, the System had the actuary's perform this review for the seven year period ended June 30, 1997. In the future, an Experience Review will be performed every five years.

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

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 during the valuation process.

VALUATION RESULTS

Actuarial Liability (Reserves)	FY-00	FY-99
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$ 4,478,884,487	$ 4,036,586,530
Survivor Annuities	410,538,712	374,951,369
Disability Annuities	138,424,374	124,600,197
Deferred:		
Retirement Annuities	4,835,368	4,026,911
Survivor Annuities	7,269,111	7,238,169
Total	$ 5,039,952,052	$4,547,403,176
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	224,468,925	202,902,640
Eligible for Return of Contributions Only	14,903,133	13,636,729
Total	$ 239,372,058	$ 216,539,369
For Active Members	$ 5,633,663,802	$ 5,234,262,443
Actuarial Present Value of Credited Projected Benefits	$ 10,912,987,912	$ 9,998,204,988
Assets, Fair Value	8,910,900,652	7,986,432,969
Unfunded Actuarial Present Value of Credited Projected Benefits	$ 2,002,087,260	$ 2,011,772,019

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/91	81,023	2,461,352,000	30,378	6.0%
6/30/92	77,194	2,439,708,000	31,605	4.0
6/30/93	77,146	2,450,350,000	31,763	0.5
6/30/94	78,440	2,623,793,000	33,450	5.3
6/30/95	78,796	2,756,072,000	34,977	4.6
6/30/96	79,212	2,871,501,000	36,251	3.6
6/30/97	79,697	3,003,628,000	37,688	4.0
6/30/98	78,060	3,096,087,000	39,663	5.2
6/30/99	79,502	3,212,569,000	40,409	1.9
6/30/00	80,676	3,370,696,000	41,781	3.4

SHORT-TERM SOLVENCY TEST

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

Computed Actuarial Values (in thousands of dollars)

Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Net Assets Available For Benefits*	Percentage of Actuarial Values Covered by Net Assets Available (1)	(2)	(3)
1991	$ 897,690	$ 2,078,059	$ 1,974,131	$ 2,981,415	100.0%	100.0%	0.3%
1992	867,003	3,047,923	1,685,841	3,278,248	100.0	79.1	0.0
1993	939,207	3,221,630	1,883,628	3,496,486	100.0	79.4	0.0
1994	1,029,390	3,242,857	2,229,874	3,721,891	100.0	83.0	0.0
1995	1,120,553	3,387,197	2,480,720	3,923,097	100.0	82.7	0.0
1996	1,212,037	3,431,768	2,747,087	5,178,680	100.0	100.0	19.5
1997	1,311,265	3,563,672	2,673,271	6,048,027	100.0	100.0	43.9
1998	1,370,487	4,044,429	3,926,981	7,064,495	100.0	100.0	42.0
1999	1,442,469	4,547,403	4,008,333	7,986,433	100.0	100.0	49.8
2000	1,513,430	5,039,952	4,359,606	8,910,901	100.0	100.0	54.1

*Net assets are reported at fair value for fiscal years after 1995. All other years presented are reported at cost (book value).

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES (ANALYSIS OF FUNDING)

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

(in thousands of dollars)

Fiscal Year	Total Actuarial Liability	Net Assets*	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Member Payroll	Unfunded Actuarial Liability as a % of Member Payroll
1991	$ 4,949,880	$ 2,981,415	60.2%	$ 1,968,465	$ 2,461,352	80.0%
1992	5,600,767	3,278,248	58.5	2,322,519	2,439,708	95.2
1993	6,044,465	3,496,486	57.8	2,547,979	2,450,350	104.0
1994	6,502,121	3,721,891	57.2	2,780,230	2,623,793	106.0
1995	6,988,470	3,923,097	56.1	3,065,373	2,756,072	111.2
1996	7,390,892	5,178,680	70.1	2,212,212	2,871,501	77.0
1997	7,548,208	6,048,027	80.1	1,500,181	3,003,628	49.9
1998	9,341,898	7,064,495	75.6	2,277,403	3,096,087	73.6
1999	9,998,205	7,986,433	79.9	2,011,772	3,212,569	62.6
2000	10,912,988	8,910,901	81.7	2,002,087	3,370,696	59.4

*Net assets are reported at fair value for fiscal years after 1995. All other years presented are reported at cost (book value).

SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1991	23,864	1,428	(1,009)	24,283
1992	24,283	5,270	(1,052)	28,501
1993	28,501	974	(1,167)	28,308
1994	28,308	944	(1,123)	28,129
1995	28,129	1,058	(1,285)	27,902
1996	27,902	1,167	(1,169)	27,900
1997	27,900	1,017	(1,227)	27,690
1998	27,690	2,365	(1,281)	28,774
1999	28,774	1,841	(1,255)	29,360
2000	29,360	2,075	(1,298)	30,137

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1991	8,629	576	(386)	8,819
1992	8,819	564	(432)	8,951
1993	8,951	605	(441)	9,115
1994	9,115	569	(439)	9,245
1995	9,245	630	(474)	9,401
1996	9,401	583	(522)	9,462
1997	9,462	588	(485)	9,565
1998	9,565	715	(491)	9,789
1999	9,789	581	(560)	9,810
2000	9,810	605	(555)	9,860

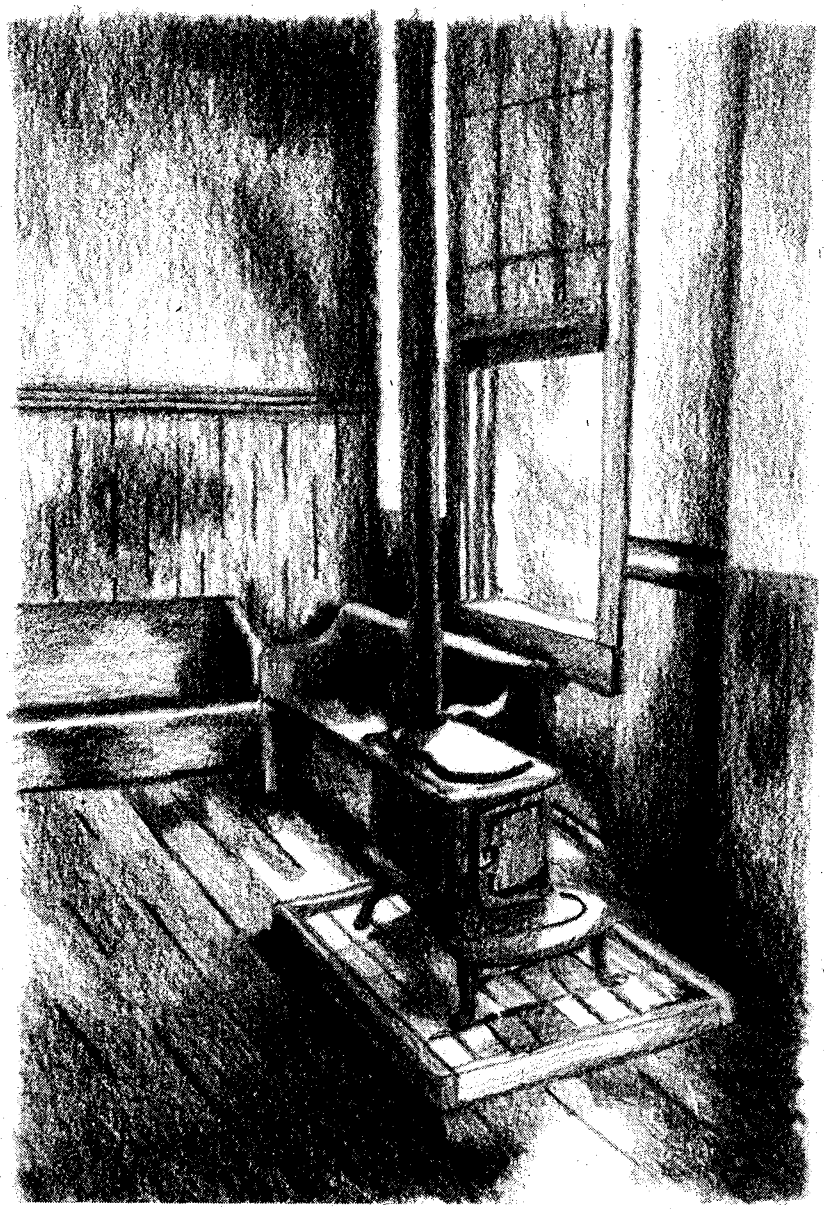
SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1991	1,501	2,027	(1,945)	1,583
1992	1,583	2,057	(2,081)	1,559
1993	1,559	2,005	(1,921)	1,643
1994	1,643	2,094	(2,029)	1,708
1995	1,708	2,085	(1,992)	1,801
1996	1,801	1,992	(1,923)	1,870
1997	1,870	2,097	(1,991)	1,976
1998	1,976	1,912	(2,020)	1,868
1999	1,868	2,000	(1,907)	1,961
2000	1,961	2,099	(1,963)	2,097

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-00	FY-99
Unfunded Liability, Beginning of Fiscal Year	$ 2,011,772,019	2,277,402,811
Contributions Due		
Interest on the Unfunded Liability	171,000,622	193,579,239
Total Normal Cost	155,767,247	149,863,359
Participants (includes Repayment of Refunds)	164,792,356	159,580,234
Interest on Normal Cost	13,345,965	12,883,168
Total Due	$ 504,906,190	$ 515,906,000
Contributions Paid		
Participants (includes Repayment of Refunds)	$ 164,792,356	$ 159,580,234
Employing State Agencies and Appropriations	340,872,521	315,525,007
Interest on Contributions	21,052,514	19,780,215
Total Paid	$ 526,717,391	$ 494,885,456
Increase(Decrease) in the Unfunded Liability	$ (21,811,201)	$ 21,020,544
+		
Actuarial (Gains) Losses		
(a) Incidence of Disability	$ 8,274,874	$ 2,698,708
(b) In-Service Mortality	35,582,191	16,347,327
(c) Retiree Mortality	12,735,992	8,302,276
(d) Disabled Mortality	4,325,647	523,844
(e) Termination of Employment	147,401,095	91,687,454
(f) Salary Increases	14,642,937	(12,536,220)
(g) Investment Income	(252,699,421)	(307,064,512)
(h) Other	41,863,127	30,450,772
Total Actuarial (Gain) Loss	$ 12,126,442	$ (169,590,351)
+		
Non-recurring items (Gains) Losses:		
Change in valuation model	-	(117,060,985)
Total non-recurring items	$ -	(117,060,985)
=		
Total Increase (Decrease) in Actuarial Liability	$ (9,684,759)	$ (265,630,792)
Unfunded Liability, End of Fiscal Year	$ 2,002,087,260	$ 2,011,772,019

STATISTICAL SECTION



The Great Western Depot, known as the Lincoln Depot, is the site where Abraham Lincoln bade farewell to Springfield and boarded a train for Washington, D. C. to be inaugurated the 16th president of the United States. Visitors entering this typical 19th century train station, find the men's waiting room on one side and the ladies on the other, away from the language and tobacco spitting of the men.

ASSET BALANCES

FY Ended June 30	Cash	Receivables	Investments*	Fixed Assets, Net of Accumulated Depreciation	Total
1991	$ 18,682,979	$ 12,050,151	$ 2,949,573,783	$ 4,436,451	$ 2,984,743,364
1992	12,413,156	8,546,535	3,257,144,759	4,311,268	3,282,415,718
1993	13,750,680	7,755,870	3,477,072,371	4,834,164	3,503,413,085
1994	9,590,906	9,125,040	3,703,548,563	4,485,387	3,726,749,896
1995	19,796,262	9,669,056	3,894,060,006	4,099,793	3,927,625,117
1996	51,602,122	13,215,401	5,115,275,081	3,811,862	5,183,904,466
1997	69,478,145	14,423,277	5,965,539,268	3,771,484	6,053,212,174
1998	79,514,954	17,870,937	6,969,135,972	3,622,304	7,070,144,167
1999	100,578,832	25,972,613	7,861,470,281	3,500,719	7,991,522,445
2000	97,638,073	27,920,145	8,786,654,484	3,354,788	8,915,567,490

* Investments are reported at fair value for fiscal years 1996 - 2000. For all other fiscal years investments are reported at cost (book value).

LIABILITIES AND RESERVE BALANCES

		RESERVES				
FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Interest Accumulations	Reserve For Future Operations*	Total Reserves	Total
1991	$ 3,328,811	$ 897,689,637	$ 432,192,642	$ 1,651,532,274	$ 2,981,414,553	$ 2,984,743,364
1992	4,168,161	867,002,526	417,372,947	1,993,872,084	3,278,247,557	3,282,415,718
1993	6,926,685	939,206,550	473,504,132	2,083,775,718	3,496,486,400	3,503,413,085
1994	4,858,736	1,029,390,486	544,137,677	2,148,362,997	3,721,891,160	3,726,749,896
1995	4,528,552	1,120,553,065	620,397,585	2,182,145,917	3,923,096,565	3,927,625,117
1996	5,224,109	1,212,036,712	701,647,209	3,264,996,436	5,178,680,357	5,183,904,466
1997	5,184,949	1,311,265,106	793,131,686	3,943,630,433	6,048,027,225	6,053,212,174
1998	5,649,337	1,370,486,891	853,645,759	4,840,362,180	7,064,494,830	7,070,144,167
1999	5,089,476	1,442,468,720	927,479,803	5,616,484,446	7,986,432,969	7,991,522,445
2000	4,666,838	1,513,429,713	1,001,281,444	6,396,189,495	8,910,900,652	8,915,567,490

* The Reserve for Future Operations reflects investments reported at fair value for fiscal years 1996 - 2000. For all other fiscal years, the Reserve for Future Operations reflects investments reported at cost (book value).

REVENUES BY SOURCE

FY Ended June 30	Member Contributions	State Contributions	Investment Income*	Total
1991	$ 120,263,354	$ 115,979,568	$ 180,520,373	$ 416,763,295
1992	141,862,797	98,532,783	344,237,850	584,633,430
1993	120,041,823	114,413,597	310,470,496	544,925,916
1994	128,481,556	127,649,961	312,095,169	568,226,686
1995	131,657,816	136,589,471	290,780,045	559,027,332
1996	137,220,037	146,397,934	736,163,262	1,019,781,233
1997	145,683,543	158,179,514	952,611,008	1,256,474,065
1998	155,898,112	200,741,736	1,080,235,182	1,436,875,030
1999	159,580,234	315,525,007	908,121,794	1,383,227,035
2000	164,792,356	340,872,521	931,263,299	1,436,928,176

* The Investment Income includes both realized and unrealized gains and losses on investments for fiscal years 1996 - 2000. For all other fiscal years, the Investment Income includes only realized gains and losses on investments.

EXPENSES BY TYPE - SYSTEM TRUST FUND

FY Ended June 30	Benefits	Contribution Refunds (Incl. Transfers)	Administrative Expenses	Total
1991	$ 215,290,386	$ 11,851,930	$ 3,773,536	$ 230,915,852
1992	266,652,372	16,918,761	4,229,293	287,800,426
1993	309,936,732	12,009,124	4,741,217	326,687,073
1994	326,330,535	11,411,111	5,080,280	342,821,926
1995	338,862,417	13,430,507	5,529,003	357,821,927
1996	352,478,133	13,382,158	5,654,407	371,514,698
1997	368,668,943	12,722,427	5,735,827	387,127,197
1998	399,440,085	14,812,967	6,154,373	420,407,425
1999	440,842,421	14,012,524	6,433,951	461,288,896
2000	489,915,421	15,931,307	6,613,765	512,460,493

BENEFIT EXPENSES BY TYPE

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
1991	$ 166,360,086	$ 23,592,609	$ 16,655,172	$ 8,682,519	$ 215,290,386
1992	215,470,012	25,104,054	17,764,029	8,314,277	266,652,372
1993	256,666,173	26,958,900	17,893,919	8,417,740	309,936,732
1994	268,772,969	28,934,211	19,708,185	8,915,170	326,330,535
1995	276,614,073	31,066,250	21,368,962	9,813,132	338,862,417
1996	286,277,462	32,972,599	22,435,912	10,792,160	352,478,133
1997	298,359,093	35,239,862	23,813,616	11,256,372	368,668,943
1998	322,676,817	38,184,192	24,711,911	13,867,165	399,440,085
1999	363,649,705	40,506,748	26,791,871	9,894,097	440,842,421
2000	405,944,513	42,672,462	29,239,488	12,058,958	489,915,421

TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Members
	Male	Female	Total	Male	Female	Total			
1991	[illegible]	45,939	93,162	5,608	3,499	9,107	52,831	49,438	102,269
1992	46,536	[illegible]	[illegible]	4,316	2,639	6,955	50,852	47,770	98,622
1993	47,471	[illegible]	[illegible]	3,983	2,528	6,511	51,454	48,105	99,559
1994	[illegible]	[illegible]	[illegible]	3,952	2,425	6,377	52,127	48,394	100,521
1995	[illegible]	[illegible]	[illegible]	3,877	2,270	6,147	52,376	48,858	101,234
1996	[illegible]	[illegible]	[illegible]	3,801	2,156	5,957	50,871	47,637	98,508
1997	[illegible]	[illegible]	[illegible]	3,819	2,060	5,879	50,716	47,702	98,418
1998	[illegible]	[illegible]	[illegible]	3,445	1,852	5,297	50,510	47,295	97,805
1999	[illegible]	[illegible]	[illegible]	3,274	1,656	4,930	51,656	48,234	99,890
2000	[illegible]	[illegible]	[illegible]	3,257	1,424	4,681	53,410	48,402	101,812

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS			NONCOORDINATED MEMBERS			Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
	Male	Female	Total	Male	Female	Total				
1991	[illegible]	[illegible]	[illegible]	5,325	3,253	8,578	41,309	39,714	81,023	$2,461,352,000
1992	[illegible]	[illegible]	[illegible]	4,069	2,415	6,484	39,332	37,862	77,194	2,439,708,000
1993	[illegible]	[illegible]	[illegible]	3,734	2,306	6,040	39,516	37,630	77,146	2,450,350,000
1994	[illegible]	[illegible]	[illegible]	3,719	2,204	5,923	40,369	38,071	78,440	2,623,793,000
1995	[illegible]	[illegible]	[illegible]	3,644	2,069	5,713	40,421	38,375	78,796	2,756,072,000
1996	[illegible]	[illegible]	[illegible]	3,584	1,978	5,562	40,637	38,575	79,212	2,871,501,000
1997	[illegible]	[illegible]	[illegible]	3,617	1,892	5,509	40,896	38,801	79,697	3,003,628,000
1998	[illegible]	[illegible]	[illegible]	3,246	1,686	4,932	40,222	37,838	78,060	3,096,087,000
1999	[illegible]	[illegible]	74,918	3,072	1,512	4,584	41,013	38,489	79,502	3,212,569,000
2000	[illegible]	[illegible]	[illegible]	3,061	1,289	4,350	41,816	38,860	80,676	3,370,696,000

NUMBER OF RECURRING BENEFIT PAYMENTS

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
1991	24,283	8,819	1,583	34,685
1992	28,501	8,951	1,559	39,011
1993	28,308	9,115	1,643	39,066
1994	28,129	9,245	1,708	39,082
1995	27,902	9,401	1,801	39,104
1996	27,900	9,462	1,870	39,232
1997	27,690	9,565	1,976	39,231
1998	28,774	9,789	1,868	40,431
1999	29,360	9,810	1,961	41,131
2000	30,137	9,860	2,097	42,094

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

TERMINATION REFUNDS - NUMBER/AMOUNT

1991	3,235	$ 10,488,713
1992	3,257	11,634,268
1993	2,797	10,737,417
1994	2,961	10,303,901
1995	3,025	11,782,320
1996	2,930	11,943,623
1997	2,244	11,349,768
1998	2,140	11,953,276
1999	2,190	11,523,273
2000	2,425	13,090,272

RETIREMENT ANNUITIES

Average Monthly Benefit For Current Year Retirees By Type

Fiscal Year Ending June 30	2000	1999	1998	1997	1996
Not Coordinated with Social Security	$ 2,395.02	$ 2,376.11	$ 2,316.28	$ 1,586.25	$ 1,303.20
Coordinated with Social Security	1,256.22	1,164.79	1,071.29	547.38	556.97
Alternative Formula	4,492.47	4,487.89	4,088.79	3,945.25	3,491.74
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	3,114.97	2,775.73	2,711.11	2,363.71	2,145.22
Dept. of Corrections - Special Formula Coordinated with Social Security	2,240.61	1,959.66	1,606.80	1,608.99	1,414.94
Air Pilots - Coordinated with Social Security	-	-	-	-	-
Court Reporters - Not Coordinated with Social Security	-	-	1,795.04	1,851.45	854.78
Court Reporters - Coordinated with Social Security	-	-	1,333.75	1,490.00	1,362.34
Total Average	$ 1,674.54	$ 1,693.99	$ 1,469.67	$ 1,036.51	$ 855.84

RETIREMENT ANNUITIES

Current Age of Active Recipients

	Fiscal Year Ending June 30				
Age	2000	1999	1998	1997	1996
Under 51	21	18	35	56	91
51-55	681	628	529	445	484
56-60	1,917	1,690	1,555	1,368	1,531
61-65	4,845	4,528	4,345	3,845	3,939
66-70	5,963	5,888	5,833	5,807	5,953
71-75	5,853	5,958	6,052	5,981	6,018
76-80	4,996	4,897	4,821	4,708	4,657
81-85	3,376	3,400	3,346	3,349	3,241
86-89	1,562	1,502	1,463	1,380	1,250
Over 89	923	851	795	751	736
Total	30,137	29,360	28,774	27,690	27,900
Average age	72.29	72.45	72.56	72.77	72.45

RETIREMENT ANNUITIES

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

Fiscal Year Ending June 30	2000	1999	1998	1997	1996
Not Coordinated with Social Security	402.86	400.05	392.94	378.95	372.90
Coordinated with Social Security	267.00	263.90	253.08	228.55	232.28
Alternative Formula	347.01	347.51	346.37	347.12	343.09
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	370.51	377.58	376.69	371.85	350.03
Dept. of Corrections -Special Formula - Coordinated with Social Security	319.19	303.03	300.28	299.08	287.70
Air Pilots - Coordinated with Social Security	-	-	-	-	-
Court Reporters - Not Coordinated with Social Security	-	-	282.00	369.33	204.00
Court Reporters - Coordinated with Social Security	-	-	319.57	314.20	316.00
Total Average	300.22	302.58	288.52	273.12	266.23

Annuitants by Benefit Range (Monthly) June 30, 2000

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	513	513	1.7	1.7
101-200	2,079	2,592	6.9	8.6
201-300	2,944	5,536	9.8	18.4
301-400	2,704	8,240	9.0	27.4
401-500	2,335	10,575	7.7	35.1
501-600	1,972	12,547	6.5	41.6
601-700	1,710	14,257	5.7	47.3
701-800	1,481	15,738	4.9	52.2
801-900	1,278	17,016	4.2	56.4
901-1000	1,051	18,067	3.5	59.9
1001-1100	919	18,986	3.0	62.9
1101-1200	837	19,823	2.8	65.7
1201-1300	827	20,650	2.7	68.4
1301-1400	789	21,439	2.6	71.0
1401-1500	660	22,099	2.2	73.2
1501-1600	603	22,702	2.0	75.2
1601-1700	537	23,239	1.8	77.0
1701-1800	560	23,799	1.9	78.9
1801-1900	456	24,255	1.5	80.4
1901-2000	453	24,708	1.5	81.9
2001-2100	362	25,070	1.2	83.1
2101-2200	360	25,430	1.2	84.3
2201-5000	4,562	29,992	15.2	99.5
5000- & over	145	30,137	0.5	100.0

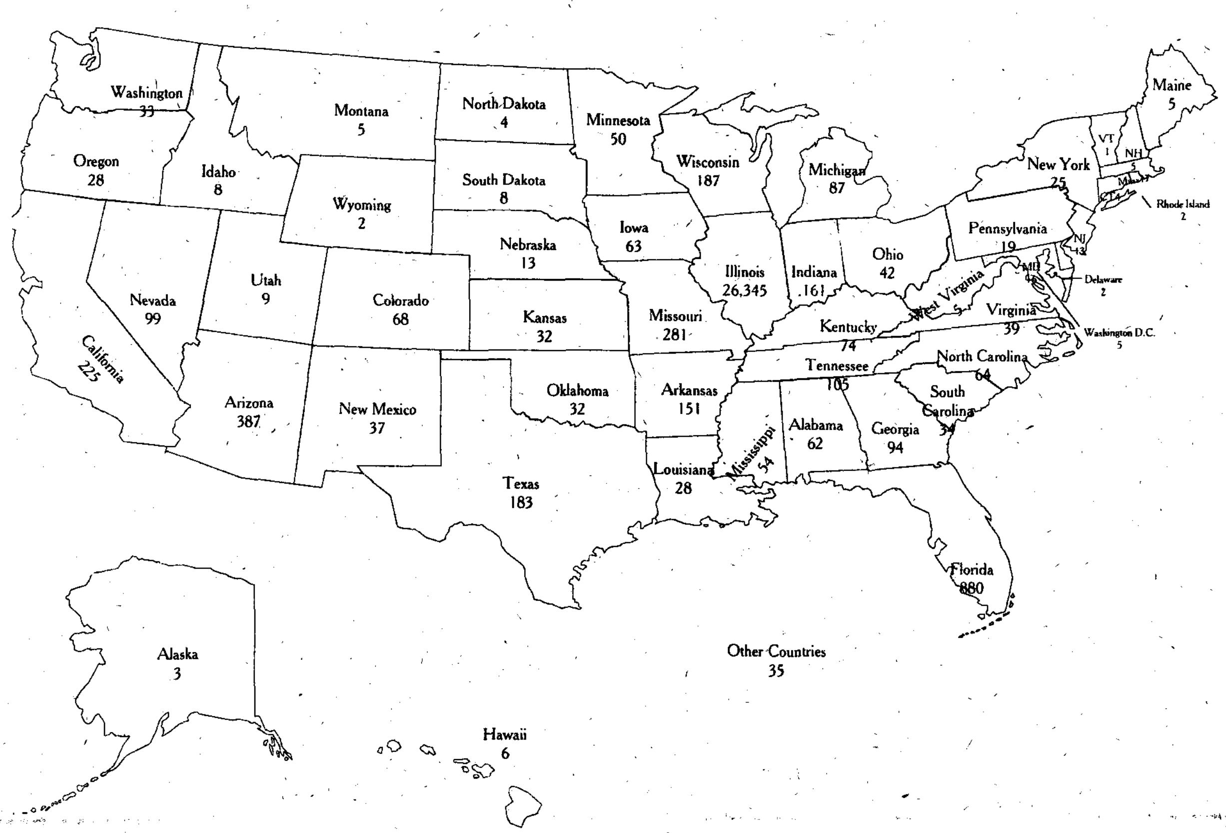
Widow's and Survivors' by Benefit Range (Monthly) June 30, 2000

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	1,647	1,647	16.7	16.7
101-200	1,843	3,490	18.7	35.4
201-300	1,865	5,355	18.9	54.3
301-400	1,386	6,741	14.1	68.4
401-500	1,145	7,886	11.6	80.0
501-600	602	8,488	6.1	86.1
601-700	288	8,776	2.9	89.0
701-800	227	9,003	2.3	91.3
801-900	178	9,181	1.8	93.1
901-1000	140	9,321	1.4	94.5
1001-1100	132	9,453	1.3	95.8
1101-1200	87	9,540	0.9	96.7
1201-1300	74	9,614	0.8	97.5
1301-1400	53	9,667	0.5	98.0
1401-1500	35	9,702	0.4	98.4
1501-1600	34	9,736	0.3	98.7
1601-1700	24	9,760	0.2	98.9
1701-1800	27	9,787	0.3	99.2
1801-1900	20	9,807	0.2	99.4
1901-2000	16	9,823	0.2	99.6
2001-2100	12	9,835	0.1	99.7
2101-2200	10	9,845	0.1	99.8
2201-5000	15	9,860	0.2	100.0
5000- & over	0	9,860	0.0	100.0

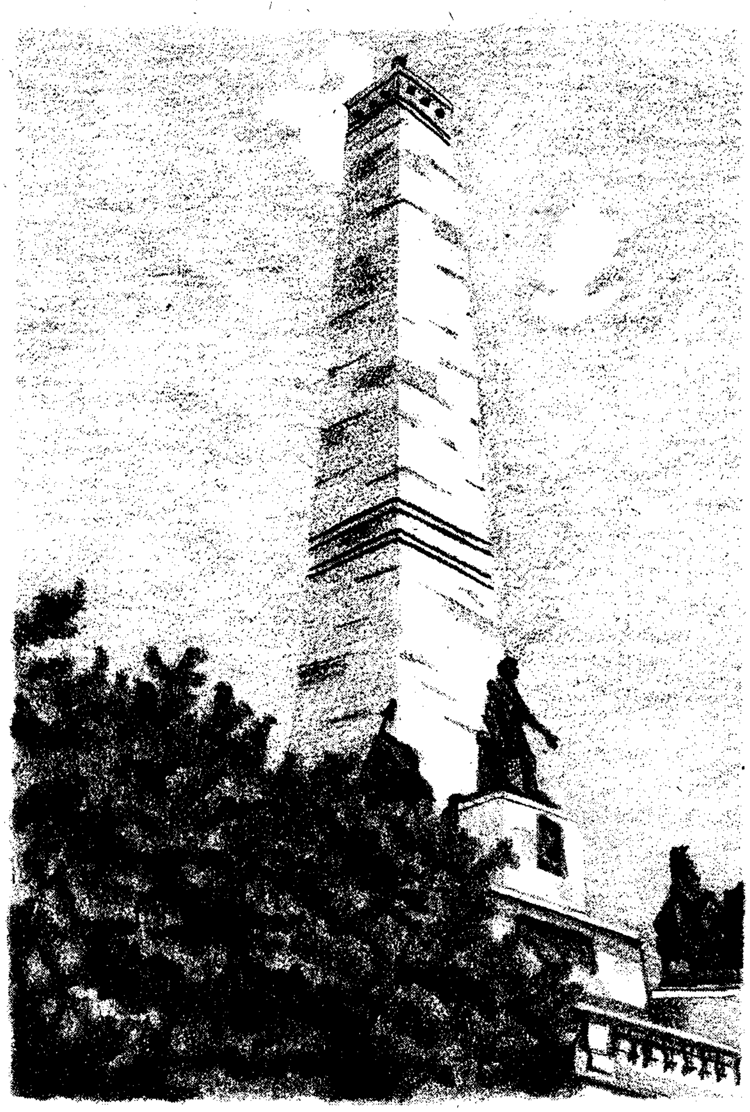
Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 2000

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	30	30	1.4	1.4
101-200	65	95	3.1	4.5
201-300	138	233	6.6	11.1
301-400	191	424	9.1	20.2
401-500	198	622	9.4	29.6
501-600	162	784	7.7	37.3
601-700	102	886	4.9	42.2
701-800	79	965	3.8	46.0
801-900	71	1,036	3.4	49.4
901-1000	64	1,100	3.1	52.5
1001-1100	95	1,195	4.5	57.0
1101-1200	130	1,325	6.2	63.2
1201-1300	94	1,419	4.5	67.7
1301-1400	94	1,513	4.5	72.2
1401-1500	60	1,573	2.9	75.1
1501-1600	91	1,664	4.3	79.4
1601-1700	76	1,740	3.6	83.0
1701-1800	86	1,826	4.1	87.1
1801-1900	55	1,881	2.6	89.7
1901-2000	36	1,917	1.7	91.4
2001-2100	49	1,966	2.3	93.7
2101-2200	29	1,995	1.4	95.1
2201-5000	100	2,095	4.8	99.9
5000- & over	2	2,097	0.1	100.0

Active Retirees by State



PLAN SUMMARY & LEGISLATIVE SECTION



After Lincoln's death in 1865, a Springfield committee was formed to build a tomb for his remains. Lincoln's body arrived in the cemetery after his body had traveled nearly 1,700 miles in a special railroad car on a circuitous route from Washington, D.C. The tomb was finished in 1874.

A red marble marker inside the tomb stands above the area where Lincoln's body lies below the floor in a steel and concrete-reinforced vault, partly because of a grave robbing attempt made in 1876. The 117-foot granite tomb also contains the bodies of his wife Mary, and three of their four sons.

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 2000)

1. PURPOSE

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

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 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

Generally all persons entering state service become members of the System after serving a six-month qualifying period unless their position is subject to membership in another state supported system. Any enrollee of the Young Adult Conservation Corps is excluded from membership. Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System. Several other exceptions may also apply.

4. MEMBER CONTRIBUTIONS

Members are required to contribute a percentage of salary as their share of meeting the cost of the various benefits. Contribution rates are as shown below:

A. Members Coordinated with Social Security - 4% of salary

B. Members Without Social Security - 8% of salary

C. State Policemen, State Police Special Agents, Firefighters, Secretary of State Investigators, Conservation Police Officers, Department of Revenue Investigators, Central Management Services Security Police, Mental Health Police Officers, Dangerous Drug Investigators for Department of Alcoholism and Substance Abuse, State Police Investigators, Attorney General Investigators, Controlled Substance Inspectors, State's Attorneys Appellate Prosecutor Investigators, Commerce Comission Police Officers, and Arson Investigators - 9 1/2% of salary

D. Security Employees of the Department of Corrections; Department of Human Services - Chester Mental Health, Air Pilots -
(1) Coordinated with Social Security - 5 1/2% of salary
(2) Without Social Security - 9 1/2% of salary

Members coordinated with social security also pay the current social security tax rate.

Effective January 1, 1992, most state agencies began participation in an employer pickup of employee retirement contributions program in lieu of a pay increase. The employer (i.e. the State of Illinois) now pays all or a part of the required employee contributions on behalf of its employees.

5. RETIREMENT ANNUITY

A. Qualification of Member

Upon termination of state service, a member is eligible for a retirement annuity at age 60 with at least eight years of service credit; at any age with 35 or more years of credit; between ages 55 and 60 with 30 to 35 years of credit with the retirement annuity reduced by one-half of 1% for each month the member is under age 60. Security employees of the Department of Corrections and the Department of Mental Health and Developmental Disabilities - Chester, Illinois who are not eligible for the Alternative Formula must have at least 20 years of membership service to qualify for special retirement formulas which will apply only to the service earned while in a security position.

Members in Alternative Formula positions are eligible at age 50 with at least 25 years of eligible creditable service or at age 55 with at least 20 years of eligible creditable service in such a position.

B. Amount of Retirement Annuity

The retirement annuity is based on the member's final average compensation and the number of years of service credit that have been established as follows:

Years of Credit	Employees Under Social Security	Employees Not Under Social Security	Full Time Security Employees-Dept. of Corrections* Under S.S./Not Under S.S.		Alternative Formula, i.e. Police and other positions Under S.S./Not Under S.S.	
			Under S.S.	Not Under S.S.	Under S.S.	Not Under S.S.
Each of the first 10 years of credit	1.67%	2.2%	1.67%	1.90%	1.67%	2.25%
Each of the second 10 years of credit	1.67%	2.2%	1.90%	2.10%	1.90%	2.50%
Each of the third 10 years of credit	1.67%	2.2%	2.10%	2.25%	2.10%	2.75%
Each year above 30 years	1.67%	2.2%	2.30%	2.50%	2.30%	2.75%

*Who are not eligible for the Alternative Formula. Also included in this group are Department of Mental Health - Chester, Illinois security employees.

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

C. Optional Forms of Payment

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

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

D. Annual Increase in Benefit

Post retirement increases of 3% are granted to members effective each January 1, after receipt of benefits for one full year.

6. SURVIVORS' ANNUITY

A. Qualification of Survivor

If death occurs while in state employment, the member must have established at least 18 months of service credit. If death occurs after termination of state service and the member was not receiving a retirement annuity, the member must have established at least eight years of service credit.

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

A spouse that is the sole nominated beneficiary and sole survivor may elect other death benefits as described in Number 9.

B. Amount of Payment

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

An eligible spouse receives a monthly annuity equal to 30% of the member's final average compensation subject to a maximum of $400. If children of the member are under the care of the spouse, the annuity is increased for each child, subject to a maximum of $600 or 80% of final average compensation. If only eligible children survive, the monthly annuity may not exceed the lessor of $600 or 80% of final average compensation. The maximum combined monthly payment to parents may not exceed $400. If the member's death occurs after retirement or after termination of state employment, but before the member receives a retirement annuity, the monthly benefit is the same as during active employment or 80% of the earned retirement annuity at date of death.

The minimum total survivor benefit payable to the survivors' annuity beneficiaries of a deceased member or annuitant shall be 50% of the amount of retirement annuity that was or would have been payable to the deceased member on the date of death. Monthly benefits payable to survivors of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits they are eligible to receive from social security, from the deceased member's account. The social security offset may not reduce the benefit by more than 50%.

C. Duration of Payment

The monthly annuity payable to a spouse terminates upon death or remarriage prior to attainment of age 55; to children upon death, marriage, or attainment of age 18 (age 22 if a full time student), except for a child who at age 18 is physically or mentally disabled and unable to accept gainful employment, which terminate at death or gainful employment. Dependent parents' benefits terminate at death or remarriage.

D. Annual Increase in Benefit

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

7. WIDOW'S ANNUITY

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

A. Qualification of Widow

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

B. Amount of Payment

The Widow's Annuity consists of a lump sum payment of $500, plus a monthly annuity equal to 50% of the retirement annuity earned or received by the member at the date of death. If the widow has in her care eligible children of the member, the monthly annuity is increased 5% because of each child, subject to a maximum payment equal to 66 2/3% of the earned retirement annuity. Monthly benefits payable to a widow of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits she is eligible to receive from social security as a widow. The social security offset may not reduce the benefit by more than 50%.

C. Duration of Payment

The monthly payment to the widow continues for her lifetime whether or not she remarries. If the amount of benefit was increased because of eligible children, it is adjusted downward as these children's benefits are terminated due to death, marriage or attainment of age 18, (age 22 if a full time student).

D. Annual Increase in Benefit

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

8. OCCUPATIONAL DEATH BENEFIT

A. Qualification of Survivors

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

B. Amount of Payment

The nominated beneficiary receives a lump sum payment consisting of all contributions made by the member plus the interest credited to the member's account. A surviving spouse is entitled to a monthly benefit equal to 50% of the member's final average compensation. If children under age 18 (age 22 if a full time student) also survive, the annuity is increased by 15% of such average because of each child subject to a maximum of 75%. If there is no eligible spouse and children under age 18 (age 22 if a full time student) survive, each child receives a monthly allowance of 15% of the final average compensation. The combined payment to children may not exceed 50% of the member's final average compensation. If there is no eligible spouse or eligible children, a benefit of 25% of final average compensation is payable to each surviving dependent parent for life. The monthly benefit is reduced by any payments awarded under the Workers' Compensation Act or Workers' Occupational Diseases Act.

C. Duration of Payment

The monthly annuity payable to a spouse terminates at death, or remarriage before age 55; to children at death, or attainment of age 18 (age 22 if a full time student), or marriage.

D. Annual Increase in Benefit

The Occupational Death Benefit is increased by 3% each January 1 after receipt of benefits for one full year.

9. OTHER DEATH BENEFITS

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

A. Before Retirement

If a member's death occurred while in state service, the benefit consists of: (1) a refund of all contributions plus the interest credited to the member's account; and (2) a payment equal to one month's salary for each full year of service credit not to exceed six month's salary.

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

B. After Retirement

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

10. NONOCCUPATIONAL DISABILITY BENEFITS

A. Qualification and Amount of Payment

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

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

B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events: (1) disability ceases; (2)

resumption of gainful employment; (3) payments are made for a period of time equal to one-half of the service credit established as of the date disability began; (4) attainment of age 65, if benefit commenced prior to the attainment of age 60; (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (6) death of the member.

C. Increase in Benefit

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

11. OCCUPATIONAL DISABILITY BENEFIT

A. Qualification and Amount of Payment

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

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

B. Duration of Payment

Monthly benefits are payable until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; or (3) attainment of age 65, if benefit commenced prior to the attainment of age 60; (4) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (5) death of the member.

C. Increase in Benefit

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

12. TEMPORARY DISABILITY BENEFIT

A. Qualification and Amount of Benefit

Available to any member who becomes disabled, has established at least 18 months of creditable service, has been denied benefits under the Workers' Compensation Act or the Workers' Occupational Diseases Act, or had benefits terminated, and has filed an appeal with the Industrial Commission of Illinois. The benefit is 50% of final average compensation plus credit to the member's account of service and contributions. The benefit shall begin to accrue on the 31st day of absence from service and shall be payable upon the expiration of 31 days from the day the member last received compensation.

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

B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; (3) payments are made for a period of time equal to one-half of the service credit established as of the date disability began; or (4) attainment of age 65, if the benefit commenced prior to the attainment of age 60; or (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (6) death of the member; or (7) benefits are paid or awarded under the Workers' Compensation Act or the Workers' Occupational Diseases Act.

13. SEPARATION BENEFITS

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

LEGISLATION

LEGISLATIVE AMENDMENTS - Amendments with an effective date during Fiscal Year 2000:

House Bill 1612 (P.A. 90-0731; Effective July 1, 1999)

* Amends the general provisions of the Illinois Pension Code to provide for a method to recognize the existence of an alternate payee's right to receive all or a portion of a member's accrued benefits in a retirement system through the issuance of a Qualified Illinois Domestic Relations Order (QILDRO) pursuant to Section 503(b)(2) of the Illinois Marriage and Dissolution of Marriage Act.

NEW LEGISLATION - Amendments with an effective date subsequent to June 30, 2000, affecting the operation of the System:

House Bill 1583 (P.A. 91-0887; Effective July 6, 2000)

* This bill contains several changes which affect all Illinois public pension funds, and some that only affect the System.

  The general changes affecting all Illinois public pension funds are as follows:

  *Section 1-116 (a-5), Federal Contribution and Benefit Limitations.

  Adds the compliance language for Internal Revenue Code Section 415 to Article 1.

  *Section 1-120, Payment to Trust.

  Adds a new provision to Article 1 that allows the system to pay benefits for a minor (under 18 and unmarried) or disabled adult to a trustee of a trust created for the sole benefit of that person. The trustee must advise the system that the benefits will be held for the sole benefit of the person.

  Legislative changes affecting the System are as follows:

  *Section 14-118, Widow's Annuity - Conditions for Payment
  *Section 14-120, Survivors' Annuity - Conditions for Payment.
  "One Year Marriage Requirement".

  This change is identical for the widow and survivor benefit. It eliminates the one year marriage requirement at retirement or withdrawal for deaths occurring on or after July 6, 2000. The member or annuitant, as in prior law, must still be married one year prior to death.

  *Section 14-120, Survivors' Annuity - Conditions for Payment
  *Section 14-128, Occupational Death Benefit.
  " Remarriage Before Age 55".

  These changes are identical for the survivor annuity and occupational death benefit. This change eliminates the terminating provision due to remarriage before age 55 for marriages that occur on or after July 6, 2000, the effective date of the law. It does not reinstate benefits that were terminated due to remarriage before age 55 before July 6, 2000. The changes apply to all members and annuitants regardless of their date of withdrawal.