Fiscal Focus

A Publication of the Illinois State Comptroller

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COMPTROLLER

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In This Issue:

Illinois State Pensions Continue to Put Pressure on the State Budget

Illinois' state pension systems continue to be seriously underfunded with the latest calculations placing the unfunded liability at over $40 billion. As of June 30, 2006, the five pension systems primarily supported by the state (the Downstate Teachers' Retirement System (TRS), the State Universities Retirement System (SURS), the State Employees' Retirement System (SERS), the Judges' Retirement System (JRS), and the General Assembly Retirement System (GARS)) had accumulated $103.1 billion in actuarial liabilities for pension, disability, and death benefits. The systems held assets valued at $62.3 billion leaving $40.7 billion in unfunded obligations, or a funded level of only 60.5%.

The systems currently have sufficient assets and income to easily meet obligations for the foreseeable future. In fiscal year 2006, the systems spent $5.3 billion for benefits, refunds, and contributions. Member and state contributions only totaled $2.3 billion; however, an additional $6.7 billion was earned in investment income from a healthy world equities market leading to a $3.7 billion increase in pension assets for the year.

However, pension systems by their nature need to plan for the distant future. Benefits being promised today to employees in their twenties and thirties may not actually be paid for forty or fifty years. Above average investment returns cannot be expected every year and actuaries have calculated there will be a steady and sizeable increase in required benefit payments as members of the baby boom generation retire and as life expectancies continue to rise.

Funding Policy for Illinois' Pension Systems

A look at the history of state contributions to the state pension systems indicates that the problem was aggravated by budgetary policy regarding state contributions between fiscal year 1981 and fiscal year 1995. Through fiscal year 1981, the budgetary policy for funding pensions was to have the employers' contribution pay the benefits, while the employees' contributions and investment income were dedicated to building a reserve for future payments. Although this funding plan had no relation to actuarial calculations of liability, it did guarantee a steady increase in state contributions.

During a period of fiscal stress, this policy was abandoned in fiscal year 1982 with repercussions notable today (see graph on page 5). State contributions declined sharply in fiscal years 1982 and 1983 and only increased modestly through fiscal year 1995. State contributions were $406

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FROM THE COMPTROLLER

Dear Readers:

This issue of *Fiscal Focus* reviews the status of the state's five retirement systems that support the pensions for retired downstate teachers, university employees and state employees (including judges and legislators). With several recent years of poor investment performance following years of inadequate pension funding, the required growth in contributions to meet the promises of the 1995 funding plan has contributed to the challenge of balancing Illinois' General Funds budget.

As discussed in the cover story, the five pension systems ended fiscal year 2006 with a funded ratio of 60.5% and $40.7 billion in unfunded liabilities. Under Illinois law, the state is expected to contribute approximately $2 billion in fiscal year 2008, or $604 million more than in fiscal year 2007, as a step toward reducing this liability.

The continuing financial struggle facing the General Funds has led to a search for ways to minimize the budgetary impact of the state's pension contributions. As various proposals for change surface in the next few months, these issues are expected to be thoroughly debated. It is my hope that this issue of *Fiscal Focus* will help provide relevant information for those observing and participating in these discussions.

As always, your comments about this newsletter or our other publications are welcome. Your input can be directed to (217)782-6000 in Springfield, (312)814-5421 in Chicago or via the web site at www.ioc.state.il.us.

Sincerely,

Daniel W. Hynes
Comptroller

Fiscal Focus

Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This report is designed to provide fiscal information of general interest.

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Chicago Transit Authority's Pension Obligations

As the operator of the second largest network of its kind in the United States, the Chicago Transit Authority (CTA) is responsible for meeting the needs of all who use the city's public transportation system. Around half of the CTA's operating expenses are funded through the use of fares, advertising, and various other revenues, with the second half subsidized by the Regional Transportation Authority (RTA), the CTA's governing body. The budget proposed for calendar year 2007 estimates CTA operating expenses at approximately $1.1 billion, with pension and medical insurance costs accounting for around 25% of that total.

The funded ratio of the CTA's Retirement Fund has declined steadily over the past six years, dropping from 79.9% in calendar year 2000 to 39.4% in calendar year 2005. This sharp drop has been caused by a variety of different factors in the last several years. Lower than expected investment returns, particularly in 2001 and 2002, significantly contributed to the decrease. For instance, in 2005, the actuarially assumed rate of return was 9%, but the actuarial rate of return was calculated at only 1.4% using a five-year smoothing rate of return. Second, retiree healthcare costs are financed out of the pension fund and higher than expected healthcare claims experiences and dependent premiums have also contributed to a lower pension funded ratio. In addition, over the last few years employees have been retiring at a higher rate than expected, actual

Chicago Transit *continued, page 13*

Illinois Pension Benefits Lower Than Most States

Pension benefits paid to regular state employees in Illinois are low relative to benefits provided by the other states. Illinois ranks in the bottom one-fifth of all states for retirement benefits for an average state worker.

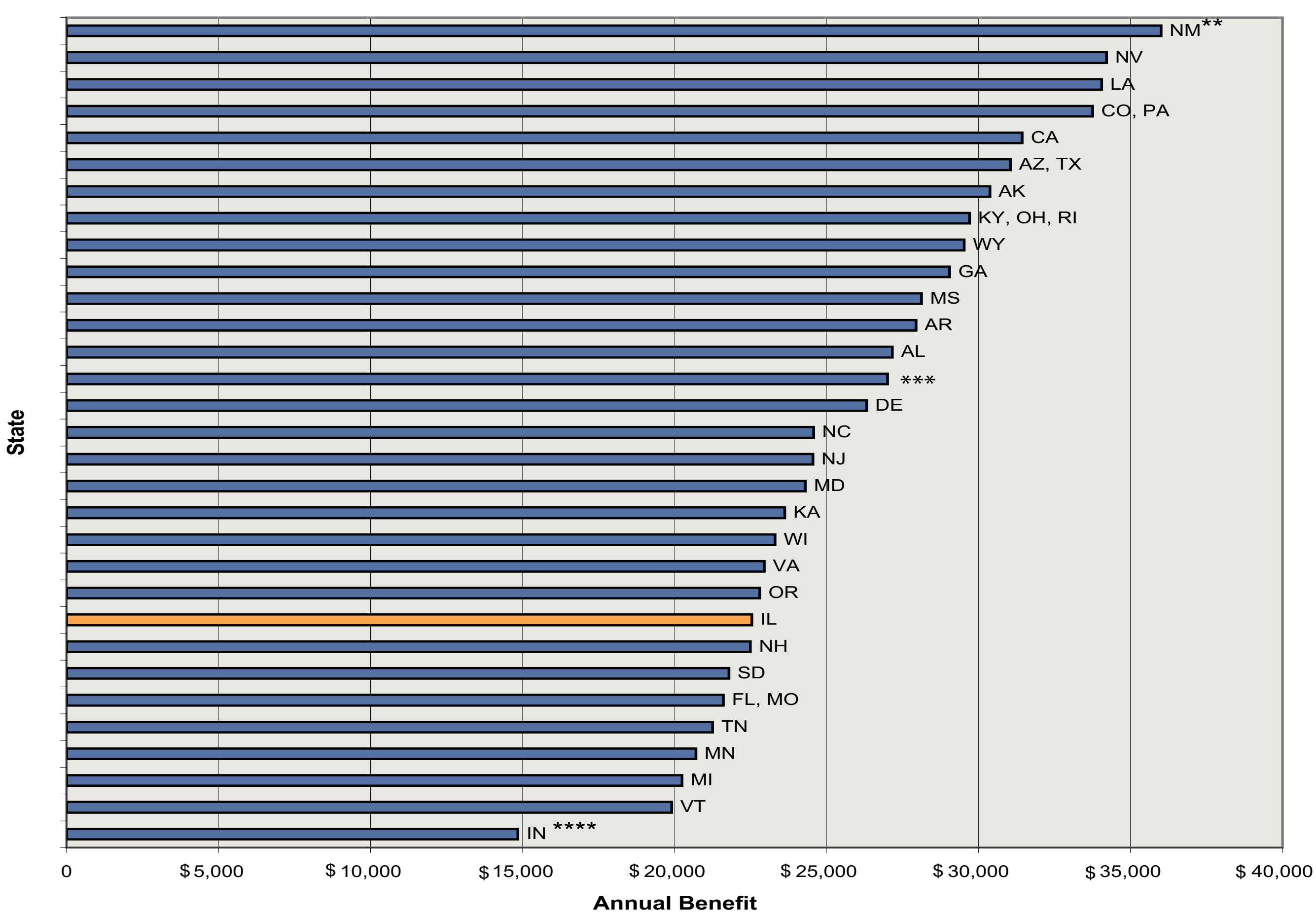
Historically, Illinois was one of the worst states in paying benefits to retired workers. According to the State Employees Retirement System (SERS), Illinois ranked 49th in the nation prior to enacting reforms in 1998 that changed the benefit factor of the retirement formula from a step rate ranging from 1.0% to 1.5% per year of service to a flat rate of 1.67%. However, even with this higher rate, Illinois continues to lag behind other states that use a factor greater than 1.67% per year of service.

A Defined Benefit Comparison

How do the pension benefits of SERS compare to those of other states? For the purpose of making state comparisons, information was collected for all fifty states for a regular state government employee in a non-hazardous job title.

Illinois Lower Than Most States continued, page 6

Estimated State Employee Defined Pension Benefits *



* Estimates based on the assumption of a regular state employee in a non-hazardous job title with a final average compensation of $45,000 who retired at age 60 after 30 years of service.

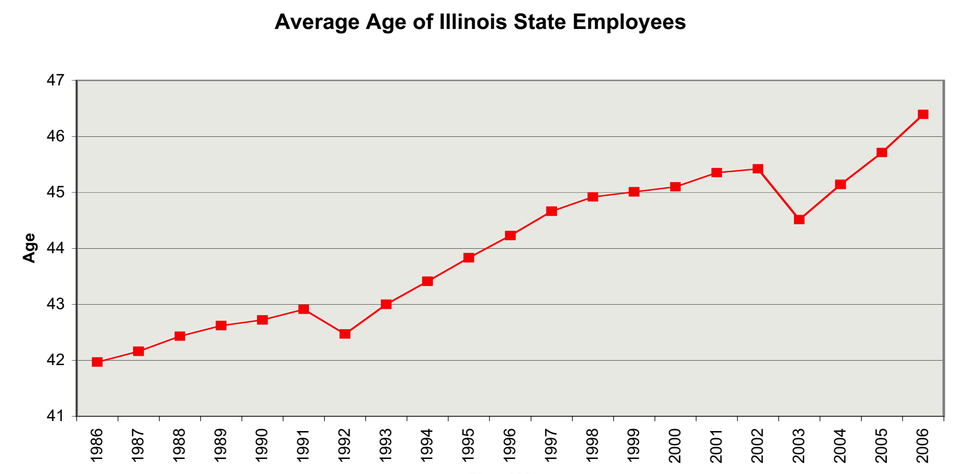
** New Mexico's benefit factor of 3.0% yields a calculated annual benefit of $40,500 but actual benefits are limited by a ceiling of 80% of final compensation which, in this case, is $36,000.

*** CT, HI, IA, ID, MA, ME, MT, ND, NY, OK, UT, WA, WV - These thirteen states use a benefit factor of 2.0% per year of credited service which is the most common percentage for defined benefit calculations.

**** In 1998, Indiana allowed workers to invest in a defined contribution plan to add to their defined benefit.

State Government Workforce Getting Older

One aspect of projecting the financial position of the State Employees' Retirement System (SERS) is to look ahead at how many employees will be retiring in the near future. Nationwide the effects of the "Baby Boomer" generation will begin to be felt on workforces, pension systems and social security as the oldest members reach their early 60s. In state government (where the average retirement age for a SERS participant at the end of fiscal year 2006 was 59.78 years) employees tend to be slightly younger when they retire than in other sectors, resulting in the baby boomer impact being felt sooner than expected.



Source: State Employees' Retirement System.

In fiscal year 1986, the average age of a state employee was 41.97 years old. By fiscal year 2006, the average age had climbed to 46.39 years of age, an increase of 4.42 years. The ascent in age from 1986 to 2006 has been gradual and steady. Only twice over the entire 20-year span examined did the average age of a state employee decrease from the year before. Both decreases were in years when a significant reduction in overall headcount occurred. The most recent decrease was in 2003 and was a result of the early retirement incentives. Active participants in the retirement system decreased from 81,680 in fiscal year 2002 to 70,192 in fiscal year 2003.

The accompanying table examines the number of state employees within age ranges and is perhaps more revealing as to the aging of the state workforce. In fiscal year 1986, 16.7% of state employees were in their 20s; however, by fiscal year 2006 only 5.9% of state employees fell within this range. Along the same lines, in 1986, 31.5% of employees were in their 30s compared to just 19.9% in 2006. The percentage of employees in their 40s and 50s totaled 40.8% in fiscal year 1986 and 65.0% in fiscal year 2006.

The mode age, or the age of the largest number of state employees, at the end of fiscal year 2006, is 51 with 2,603 employees. Second is the age of 49 with 2,600 and third is 50 with 2,574 employees. The youngest active participant in the state retirement system at the end of fiscal year 2006 was 17 while two active participants were 93 years old. There are 51 participants aged 80 or older and 102 under the age of 20.

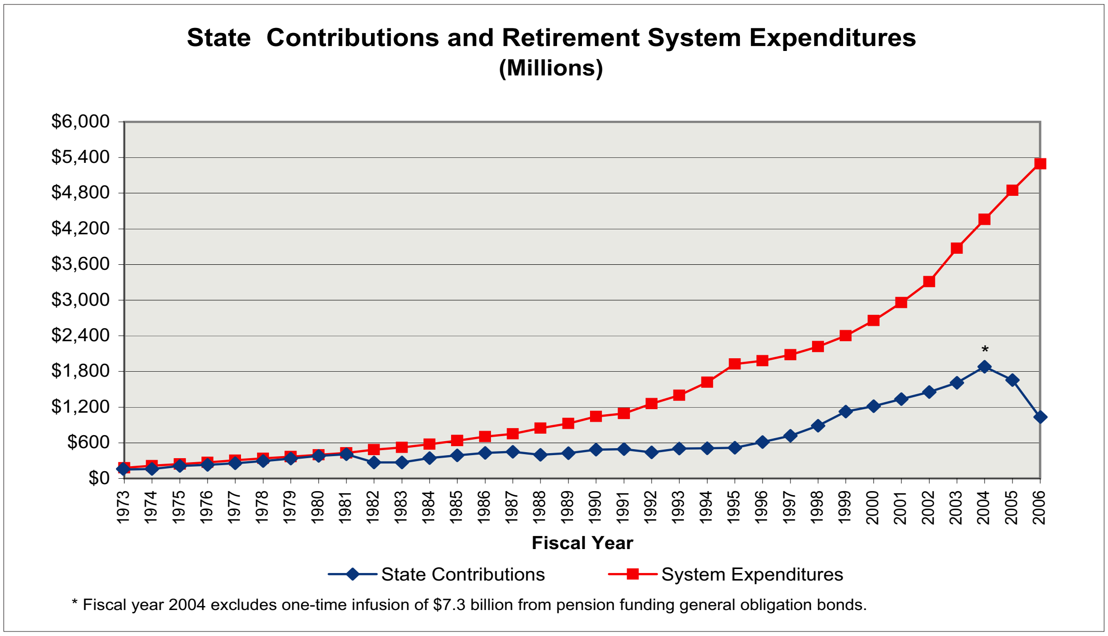
With 40.6% of the state's workforce age 50 or older and 74.1% age 40 or older, a two-pronged negative effect on state government is a possibility in the future. One negative effect would be a void in experience among the state workforce given that the average retirement age for a state employee is just under 60 years. The state could be looking at losing over 40% of its current workforce in the next ten years and over 74% in the next 20 years. A second negative effect will be a significantly increased and concentrated financial burden on the State Employees' Retirement System which will have large increases in annual expenditures as the number of retirees claiming pension benefits increases. ■

Age of Illinois State Employees by Range

Age of State Employees	1986	% of Total	2006	% of Total
Under 20	156	0.2	102	0.1
20 - 29	12,327	16.7	4,021	5.9
30 - 39	23,292	31.4	13,525	19.9
40 - 49	17,031	23.0	22,791	33.5
50 - 59	13,184	17.8	21,441	31.5
Over 60	7,908	10.7	6,195	9.1
Unaccounted	114	0.2	0	0.0
Total	74,012	100.0	68,075	100.0

Source: State Employees' Retirement System.

million in fiscal year 1981 compared to pension system expenditures of $431 million. Fourteen years later, state contributions were up 28% to $519 million. Over the same interval, retirement fund expenditures increased almost 4.5 times to $1.9 billion.



* Fiscal year 2004 excludes one-time infusion of $7.3 billion from pension funding general obligation bonds.

To correct this condition and limit future underfunding of state pension benefits, Public Act 88-593, effective July 1, 1995, created a fifty-year funding plan with an ultimate target of achieving 90% funding of system liabilities. The funding plan includes a 15-year phase-in period to allow the state to adapt to the increased financial commitment. Once the phase-in period is complete (fiscal year 2010), the state's contribution is to remain a level percentage of payrolls for 35 years until the 90% funded level is achieved.

Thanks to a booming stock market, some progress was made in improving the financial condition of the Illinois pension systems between 1995 and 2000. The combined funded ratio, which had fallen to 52.4% in fiscal year 1995, reached 74.7% in fiscal year 2000. It should be noted that part of this improvement is due to an accounting change for valuing assets. The value of assets had been accounted for at the purchase price. A switch to market value added any price appreciation since purchase to the asset total.

Unfortunately, the period from fiscal year 2000 to fiscal year 2003 proved to be disastrous for the financial health of the state pension systems. With a decline in the value of equities, the value of system assets declined from $45.9 billion at the end of fiscal year 2000 to $40.7 billion at the end of fiscal year 2003. Over the same period, the steady increase in liabilities continued, in part due to benefit increases, with total system liabilities growing from $61.5 billion at the end of fiscal year 2000 to $83.8 billion at the close of fiscal year 2003. As a result, the value of unfunded liabilities almost tripled from $15.6 billion at the end of fiscal year 2000 to $43.1 billion three years later and the funded ratio declined to 48.6% at the end of this period.

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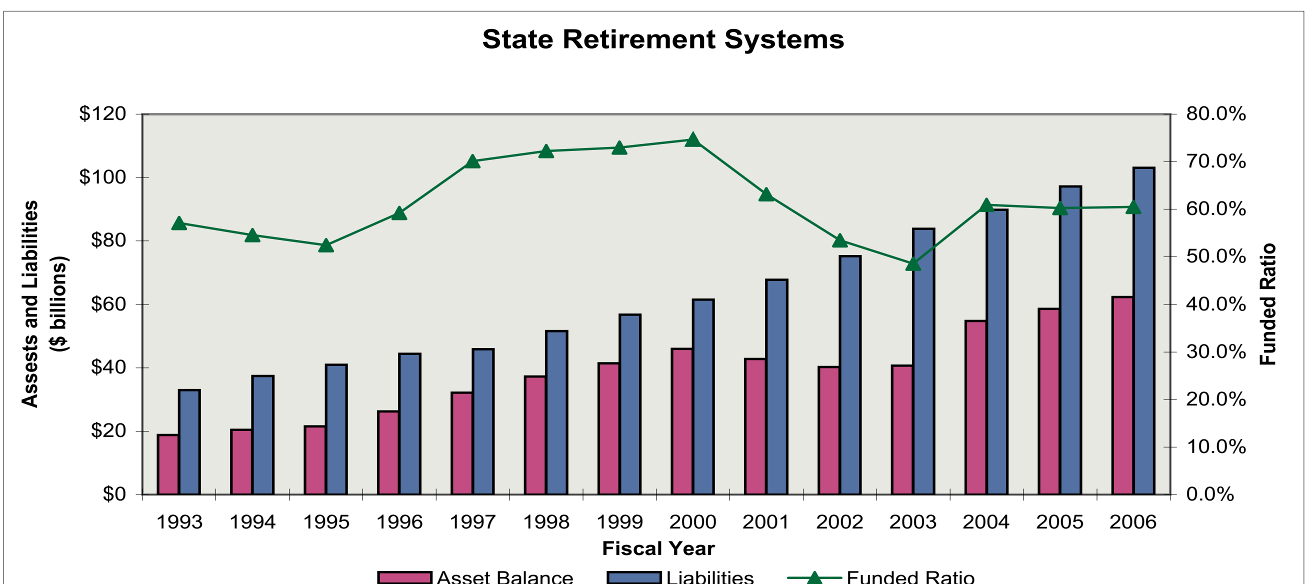


Reporting of assets switched from cost basis in 1997 for TRS and in 1996 for the other state systems.

Source: Annual Actuarial Valuation Reports.

Illinois Lower Than Most States concluded from page 3

Data collection was limited to defined benefit systems similar to SERS and excluded systems devoted to teachers, university employees, judges or legislators. Also excluded were groups such as state police or corrections employees who often receive benefits based on alternate formulas that use higher rates for calculating benefits.

Comparing pension benefits among states can be complicated because of differences in how retirement benefits are administered. For example, there are differences in the minimum age for retirement, in the number of years required to become vested, in the number of years used to calculate average final compensation, in the credits for occupational hazards and in the benefit factor (or percentage) that is used in the formula to calculate the pension benefit. Some states, such as Indiana, have added defined contribution plans in which employees can opt to participate.

To calculate pension benefits for this hypothetical example, it was assumed that the state retiree received final average compensation of $45,000 and retired at age 60 after 30 years of service. Nebraska was excluded from the analysis because it does not operate a traditional, defined benefit plan.

Most state retirement systems calculate employee retirement benefits based on a formula that includes three factors: years of service multiplied by final average compensation multiplied by a benefit factor. Since the years of service and final compensation are fixed for this comparison, the estimated state benefits vary primarily because of the differences in state benefit factors. Benefit factors range from a low of 1.1% per year of service in Indiana to a high of 3.0% in New Mexico. The most prevalent factor used in calculating benefits was 2.0%; among all 49 states with defined benefit systems, 13 states used that percentage to calculate their pension benefits.

In Indiana, the hypothetical retiree would receive the lowest defined benefit of $14,850 per year. New Mexico would have the highest defined benefit of $36,000 per year followed by Nevada at $34,209, Louisiana at $34,050, and Colorado and Pennsylvania at $33,750. Illinois' benefit factor of 1.67% would yield an annual retirement benefit of $22,545.

Relative to other Midwestern states, Illinois' benefit is higher than Missouri ($21,600), Minnesota ($20,700) and Michigan ($20,250), but lower than Iowa ($27,000) and Wisconsin ($23,308).

Illinois is also low compared to other large states. California's benefit would be $31,440 followed by Texas ($31,050), Ohio ($29,700), and New York ($27,000).

Conclusion

Recent Illinois budgets have had to address the issue of adequate pension funding to meet actuarial levels, and in 2003, $10 billion in pension obligation bonds were issued. Pension payments were restructured in fiscal years 2006 and 2007 to reduce state contributions below planned levels, and attention is being paid again to the unfunded liability of the state retirement system and to the pension bond debt that has to be repaid. Decreasing investment returns, increasing liabilities, a larger than expected early retirement initiative in 2002 and underfunding are some of the factors that have contributed to the current situation. Compared to other states, Illinois' situation does not appear to be related to overly generous benefits to regular state employees. ■

Pension Bonds

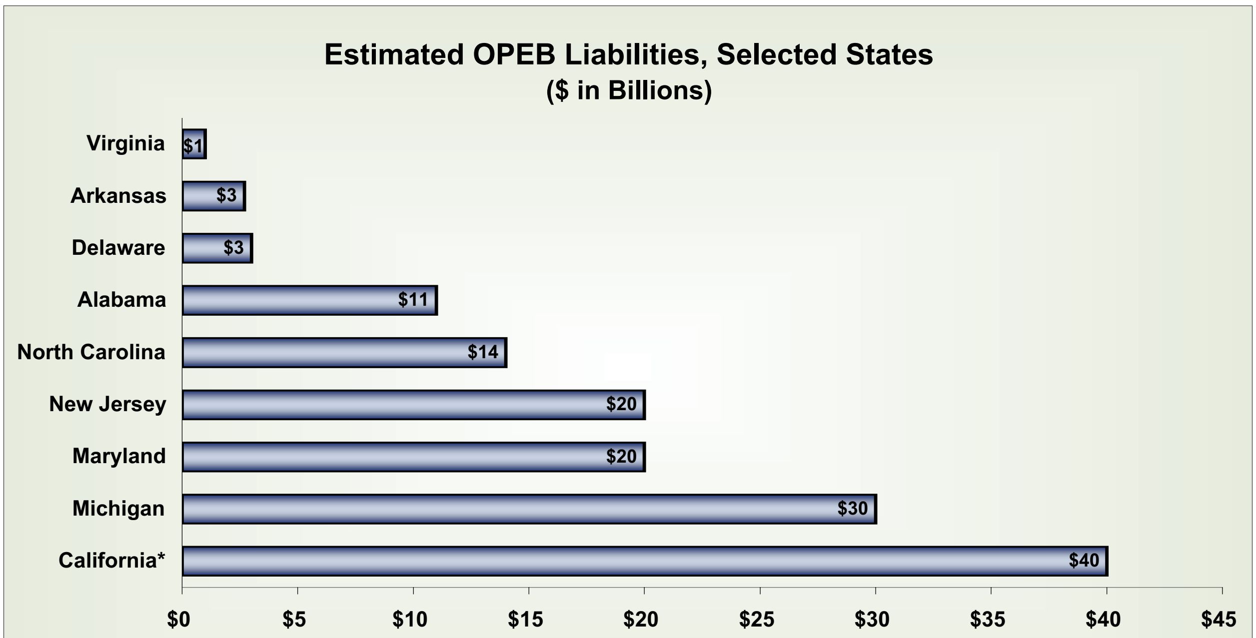
In June 2003, Illinois issued $10 billion worth of pension funding general obligation bonds. These general obligation bonds are to be paid from the general revenues of the state over a 30-year period.

The proceeds were divided as follows: $7.3 billion deposited into the retirement systems, $2.2 billion to cover state contributions to the pension funds for the fourth quarter of fiscal year 2003 and for fiscal year 2004, and $500 million as capitalized interest to cover the first year's debt service.

The bonds were sold at a low 5.05% interest rate. The plan is that the invested funds will earn a substantially higher yield (the pension systems currently expect an average annual return on their investments of either 8.0% or 8.5%) making the pension system earnings on their additional investments greater than the new state debt service payments. Of course, like all investment strategies, this plan must assume the possibility of long-term returns falling short of expectations. Such a possibility would require the state to make additional payments to meet pension liabilities, as well as to continue to pay debt service on the pension bonds. Fortunately for Illinois, investment returns have exceeded interest payments for the first few years. ■

Rules Changes Shed Light on Other Retirement Liabilities

Many governments over recent decades have offered their employees various retirement benefits, in addition to a pension, to sweeten their overall compensation package. The benefits generally included items such as health insurance, prescription-drug benefits, dental care, vision care and some types of life insurance and term-care coverage. These types of benefits are referred to as other post-employment benefits (OPEB) because they are retirement benefits received other than pension payments. While these benefits have made it attractive for employees to work for the government, they have created significant financial challenges. These benefits are becoming increasingly costly as the baby boomers retire, and as the costs for health care continue to rise. In addition to these difficulties, new accounting changes are increasing the pressure on governments by forcing them to detail the extent of OPEB costs for the present, as well as the future.



* California estimate ranges from $40 to $70 billion

Source : Ohio Public Employees Retirement System Presentation to Board Members

Under previous standards, the Government Accounting Standards Board (GASB) did not require governments to disclose the cost of OPEB until the promised benefits were paid. This allowed governments to pay an annual amount that is equal to the benefits distributed or claimed by retirees in that year. This is referred to as a "pay-as-you-go" basis. This approach did not force governments to pre-fund the benefit packages, which translated into many governments failing to set aside revenues for the long-term costs of the benefits.

New rules, GASB Statements 43 and 45, seek to address this problem by requiring the disclosure of the annually required contribution (ARC). The ARC is the amount a government should contribute or set aside each year to meet its actuarial accrued liability for all post-employment benefits. That means the annual expenses for both the retired and current employee benefits plus the cost of those same employees for past and future years of service. In other words, the new rules force employers to report these costs during the period of time when the employee's service occurs, rather than when the benefits are paid. However, if the government fails to contribute the appropriate ARC to a trust, the difference will be reported as a liability. Early analysis has shown that numerous governments will have significant underfunded OPEB liabilities. These liabilities will have a serious effect on budgeting, bond ratings and other financial obligations.

The accounting change that has been implemented by the GASB will begin to affect big governments in fiscal year 2008, which generally begins on July 1, 2007. Since these rules were adopted, state governments across the nation have been trying to estimate how much money

Rules Changes, continued page 13

The financial condition of the systems improved in fiscal year 2004 due to the receipt of $7.3 billion in excess of regular contributions from the proceeds from the $10 billion pension obligation bond sale. The funded ratio rose to 60.9% but has since dropped to 60.5%.

State Retirement Systems
Fiscal Year 2006
($ in thousands)

	State Employees	Downstate Teachers	State Universities	General Assembly	Judges	Total
Beginning Net Asset Balance	$ 10,494,148	$ 34,085,218	$ 13,350,278	$ 83,273	$ 564,999	$ 58,577,916
Income	1,537,840	5,450,172	1,965,035	13,540	104,501	9,071,088
Member contributions	214,109	799,034	252,922	1,492	13,833	1,281,390
State contributions	210,500	601,472	180,018	4,175	29,338	1,025,503
Investment income	1,113,231	3,993,290	1,532,095	7,873	61,330	6,707,819
Other	-	56,376	-	-	-	56,376
Expenditures	1,132,135	2,950,501	1,140,166	14,558	70,266	5,307,626
Benefits and Refunds	1,123,996	2,935,198	1,128,183	14,253	69,819	5,271,449
Administration	8,139	15,303	11,983	305	447	36,177
Ending Net Asset Balance	10,899,853	36,584,889	14,175,147	82,255	599,234	62,341,378
Actuarial Liability	20,874,542	58,996,913	21,688,935	221,713	1,291,395	103,073,498
Unfunded Accrued Liability	9,974,689	22,412,024	7,513,788	139,458	692,161	40,732,120
Net Asset/Actuarial Liabilities Ratio	52.2%	62.0%	65.4%	37.1%	46.4%	60.5%

Source: Anuual Actuarial Valuation Reports, 2006. (Preliminary)

Recent Changes

During fiscal years 2006 and 2007, the state of Illinois has stepped away from the annual pension funding requirements set forth in the 1995 pension funding plan. Instead, pension payments were restructured with required contributions temporarily reduced from those amounts recommended by the plans' actuaries in the fall of 2005. Required contributions for the five systems were lowered from $2.1 billion to $938 million for fiscal year 2006 and from $2.5 billion to almost $1.4 billion for fiscal year 2007.

Accompanying the pension payment adjustments was legislation enacting pension benefit changes. Reduced assets from lower contributions would be offset by lower liabilities from benefit reductions and increased contribution requirements for school districts and universities that were forecast to follow. Since pension benefits are established in the Illinois Constitution as a contractual obligation of the state, most of the benefit reductions applied to future Illinois employees. A more limited number of new Department of Corrections employees will be covered by the alternative higher benefit formula for specified high-risk employees than was previously the case. The money purchase option for computing pension benefits will no longer be available for new SURS and TRS members. The value of SURS and TRS pensions is equal to the larger of a formula based on years worked and salary or the money purchase formula based on the amount the member contributed, a matching state contribution, and the interest that was earned on the sum for employees on the payroll prior to the benefit changes.

The legislation also changed how costs associated with increased liabilities due to end of career pay raises are handled. To address the belief that some school districts and universities may have been inflating payments to employees in their last years of employment so as to provide them with larger retirement benefits with the extra cost of these benefits borne by the state budget, universities, school districts, and employees will now be liable for additional payments in certain cases where there are large pay increases in the later years of employment. For the years used to determine final average salary, SURS and TRS employers are to pay their respective pension system the present value of the increase in benefits resulting from salary increases above 6%. TRS employers are also to pay TRS the normal cost of benefits received from granting excess sick leave. Finally, the long standing Early Retirement Option for teachers was continued with increased contributions required from employees and employers to avoid discounted benefits.

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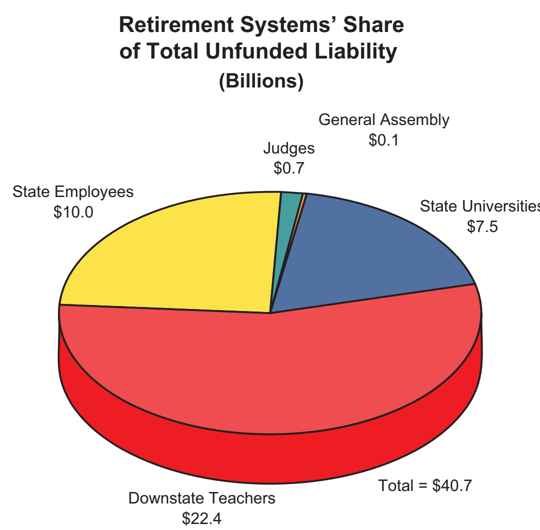
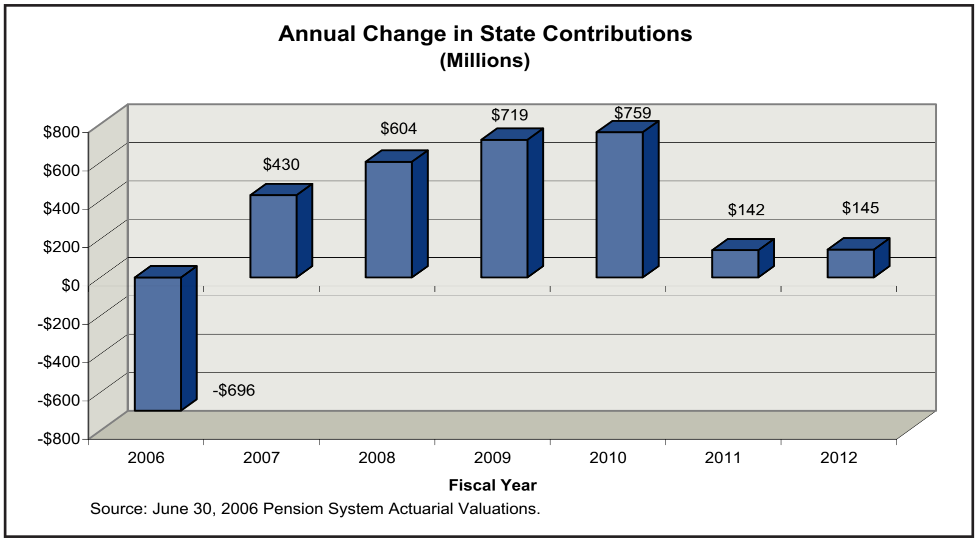


Future Budget Concerns



A key concern for the fiscal year 2008 budget is how to get pension funding back on track with the 1995 funding plan and whether to fund this amount from the General Funds or to create a special funding mechanism (permanent or temporary) to meet state pension obligations. A large increase in pension payments is required under current statute as the state returns to the 1995 funding plan provisions. The 1995 funding plan is to resume with contributions ramping up between fiscal years 2008 and 2010 to a level where the funded ratio will reach 90% in fiscal year 2045. If the plan is followed, state contributions to the pension systems for fiscal year 2010 will be 2 1/2 times the level of fiscal year 2007 contributions. End of fiscal year 2006 actuarial valuations for each of the systems indicate state contributions, which include monies from unclaimed property deposited into the State Pensions Fund and from Highway, Special State, and Federal Funds that have state payrolls as well as payments

Illinois State Pensions continued page 10

Measuring the Financial Condition of a Pension System

Each of the five state systems offers a defined benefit pension plan with a guaranteed lifetime benefit calculated upon retirement as well as disability benefits and death benefits for survivors. The pension calculation formula takes into account compensation level, years of service, provision for survivors who may also receive benefits, and whether the employee is covered by social security.

Unlike the other four systems, SURS also offers a defined contribution plan option where the employer is only liable for its contribution. Upon retirement, the member receives an annuity based on the accumulated value of employee and employer contributions plus investment income earned on those contributions.

Pension benefits are a form of deferred compensation serving as a future payment for work that is currently being performed. Accounting rules require the cost of such compensation be charged to the period when they are incurred. Actuaries for the state systems compute the current value of benefits earned each year. The sum of the current values of outstanding benefits that have been earned equals the total liabilities of the pension systems.

One of the simplest ways to measure the financial condition of pension systems is the **funded ratio** which is calculated by dividing the current value of assets held by the systems by the current value of liabilities. If assets equal the accrued liability, the funded ratio is 100% and the systems have sufficient assets to cover the amount of pension benefits that have been earned at the time the calculation was performed.

If assets are less than the accrued liability (i.e. a funded ratio less than 100%), the difference is called an **unfunded liability**. While unfunded liabilities are often less concern for public pension plans than for private plans (which may be terminated when a private sponsor goes out of business or is acquired by another firm), significant unfunded liabilities indicate that future taxpayers likely will have to pay for liabilities incurred in past years.

Once a large pension system becomes seriously underfunded, eliminating the shortfall can prove to be very difficult. With a fully funded system, the employer normally only needs to contribute its share of the value of benefits earned during the year (known as normal costs) to remain fully funded. In order to keep the funded ratio from getting worse with a seriously underfunded system, the employer needs to contribute 1) the value of benefits earned during the year, 2) the additional investment income that would have been earned if the system had been fully funded, and 3) a payment toward reducing the unfunded liability. ■

from the General Funds, should increase from \$1.4 billion in fiscal year 2007 to \$2.0 billion in fiscal year 2008, \$2.7 billion in fiscal year 2009, and \$3.5 billion in fiscal year 2010.

Annual increases in required state contributions currently are expected to be \$604 million for fiscal year 2008, \$719 million for fiscal year 2009, and \$759 million for fiscal year 2010. With the completion of the ramp-up in fiscal year 2010, the growth rate for required state contributions will moderate with an expected contribution increase of \$142 million in fiscal year 2011 and \$145 million in fiscal year 2012.

Conclusion

With ongoing demands for increased funding for education and health care among other state priorities, it will take serious discipline on the part of budget makers to meet the steep funding requirements set by the 1995 pension funding plan based on likely growth of current state General Funds revenues. The recent history of pension funding, as described in this article, shows how monies from alternative revenue sources (the proceeds from the sale of pension obligation bonds) have been used to satisfy the funding obligations. Other methods employed recently include shifting some pension costs to employees and other employers and reducing benefits to new employees.

It is quite possible that this pattern of limiting the use of General Funds monies to meet pension funding requirements will continue in future budgets or further attempts to limit benefits may be explored. Several reports have looked at possible policy options. These include the Pension Reform Report and Recommendations from the Governor's Pension Commission (February 11, 2005) and Facing Facts, A Report of the Civic Committee's Task Force on Illinois State Finance (December 2006). Among the choices possible is the sale of additional pension obligation bonds if interest rates remain favorable, using alternative sources of monies for pensions such as the proceeds from the sale of state assets, tapping employees, universities, and school districts for additional funds or reducing future liabilities by changing the benefit plan for new employees. None of these options are attractive to all parties, but as the history of the Illinois pension problem has shown, delay in dealing with the problem only makes its solution more difficult. ■

Pension Plan Types

Illinois' five state-funded retirement systems all offer defined benefit plans (SURS also offers a defined contribution plan). Under a defined benefit plan, an employee's retirement benefit is determined by a formula that is usually based on compensation and the number of years of service.

With a defined benefit plan, the pension benefit is guaranteed for as long as the employee lives. While the employee contributes a percentage of salary, employer contributions are generally based on actuarial estimates for the funding necessary to meet pension obligations. This puts the risk on the employer for any shortfalls if the funding policies fail to generate enough money to cover the benefits. While the benefit is fixed, the necessary contributions can fluctuate based on investment returns and the adequacy of the employer's funding plan. With a defined benefit plan, the employer carries the responsibility to meet the promised pension benefit.

On the other hand, defined contribution plans make no promise of benefits beyond what can be paid out of the employee's account in the fund at retirement. Under this type of plan, a specified employer contribution, often a multiple of the employee contribution, is made to a pension fund every year. The amount of pension benefit that the employee receives upon retirement is no longer guaranteed, nor is there a guarantee that the employee cannot outlive those assets. All that is guaranteed is that whatever has been set aside (plus investment gains or losses) will be available upon retirement. Because a defined contribution plan does not guarantee a specified benefit level, the employee, not the employer, takes the risk that the invested contributions may not produce enough to generate a certain level of retirement benefit.

Several states and the federal government have so called blended or hybrid retirement plans that include both defined benefit and defined contribution components. Under these plans, the guaranteed benefit is reduced and the defined contribution account adds to retirement income. Generally with blended plans, employer contributions pay for the defined benefit component and employee contributions go to the defined contribution account.

The cash balance plan shares features of both defined benefit and defined contribution plans. Under this plan, a certain annual rate of return on required contributions is guaranteed rather than a benefit level. Funds are administered collectively as under defined benefit plans. Excess earnings from investment returns that exceed the guaranteed level build up reserve funds to offset periods of lagging returns.

For the five state-funded retirement systems, the state's failure to fund them on an actuarially-determined basis has resulted in a large and growing unfunded liability. In Illinois, as in many other states, public employee pension benefits are considered a contractual obligation that cannot be reduced and are protected by the state Constitution. Therefore, many states have begun to look at alternatives to the defined benefit retirement plan to offer new and future employees. ■

States Attempt to Change Pension Plans

As the funded ratios of many state pension plans decreased significantly early in this decade, many states have been looking for ways to change their pension systems to try to limit the impact of pension costs on their budgets. The push for changes may be further strengthened as states disclose their retiree health insurance liabilities in the near future (see page 7).

The funded ratios of many state pension plans fell following asset value declines tied to poor performance in the stock market and increased liability costs tied to benefit enhancements passed in the late 1990s. However, state options are somewhat limited due to the fact that approximately half of the fifty states have some type of constitutional or statutory protection of benefits for current employees. This article takes a closer look at Oregon's recent attempt at pension changes and looks briefly at activity in a few other states.

Oregon

In 2003, the State of Oregon passed several pieces of legislation aimed at trimming the costs of the state's Public Employees Retirement System (PERS) which provides retirement benefits to an array of local and state government employees. According to estimates by the system, the plan had gone from 100% funded to approximately 65% funded by early 2003 with an unfunded actuarial accrued liability (UAAL) of approximately $16 billion.

The apparent source of this increase in UAAL, aside from poor stock market performance which affected most pension systems, was an aspect of the benefit formula that allowed certain members to retire under a "money match" calculation alternative instead of Oregon's traditional formula method. Under the traditional formula, most members would receive 1.67% of final average salary credited for each year of service, similar to Illinois' SERS calculation, so that a 30 year employee would retire at just over 50% of final average salary. The money match calculation created member accounts where the member's annual 6% contributions were set aside and invested – similar to the "money purchase option" offered in Illinois to SURS and TRS employees. These accounts had an earnings minimum guaranteed return of 8% a year, but effectively had no cap and the system would credit the members' accounts with the actual return. When the member retired, the member's total account balance was matched by PERS and converted to an annual pension if the benefit paid under money match would be higher than the traditional formula.

After the strong stock market performance in the late 1990s, this money match option resulted in generous pensions for PERS retirees. Between 1996 and 2002, the average member with 30 years of service retired with an annual pension that exceeded 85% of final salary, including many retirees retiring at or above their final salary.

The reforms enacted in 2003 changed several aspects of the PERS systems. For future employees, the system was switched to a hybrid system where most members would receive 1.5% of their final salary for each year of service (slightly higher for higher risk occupations) and then additionally the members would have 6% of their salary set aside in a 401(k)-type account that is invested and allowed to fluctuate with the market. The value of the account at retirement, with no match from the state, is the employee's to keep.

The 2003 reforms aimed at existing employees were more complicated and went through several rounds of litigation before being settled in the Oregon Supreme Court. Reforms included stopping deposit of the 6% into the regular accounts that were guaranteed an 8% return and instead directing contributions to an Individual Account Program – with no match of state money and no guaranteed return. Changes also were upheld to require the usage of updated life expectancy tables by the system. Attempts also were made to change the guaranteed 8% return in existing regular accounts and limit the cost-of-living adjustments for employees who retired between 2000 and 2004, but these were struck down by the Supreme Court.

Alaska

In 2005, Alaska adopted a mandatory defined contribution plan for all employees hired after July 1, 2006. Facing an actuarial shortfall of approximately $5.7 billion (around 65% funded ratio) in the systems for state employees and teachers at the end of the end of 2004 (including healthcare costs), the push to a 401(k)-type plan was seen as a way to allow the state the opportunity to budget more predictably. The new system imposed a mandatory contribution of 8% from employees' pay to the system (and the ability to deposit more up to federal

States Attempt *continued, page 12*

States Attempt concluded from page 11

limits as desired by the employees) and 5% or 7% deposited into the system by the employer. This employer contribution does not include the mandatory employer contributions (bringing the total to more than 10% of salary) for medical and disability programs that are also provided to employees. The employees are not fully vested in the employer contributions until they work for the state for 5 years.

Nebraska

The state employees' retirement system plan was a defined contribution plan from the 1960's through 2002. However, it was closed to new employees on January 1, 2003, and replaced with a cash balance plan. Current employees at that time were allowed to keep the defined contribution benefit or switch to the cash balance benefit. In the Nebraska cash balance plan, employees contribute approximately 4.8% of salary and the employer contributes about 7.5% of salary to an employee account. Employees are vested after 3 years. Although the employee does not control investment of the account in the cash balance plan, there is a guaranteed annual return of at least 5% a year, which may be higher, depending on investment earnings. At retirement, the employee may buy an annuity, or withdraw the balance in a lump sum or in installments.

Other Recent State Attempts

In January 2005, California Governor Arnold Schwarzenegger, in a plan to reduce state spending, included a proposal to amend the state Constitution to change the state employee retirement system. The proposal, which would have covered state employees and teachers, was to switch from a defined benefit pension plan to a defined contribution plan for new state employees. Employees vested in the current system could invest under the proposed new 401(k) plan or remain in the current system but pay additional rates. Controversy arose when an analysis of the proposed plan said the 401 (k)-style plan would eliminate existing benefits. Firefighters and law enforcement groups claimed the plan would strip death and disability benefits. Eventually Governor Schwarzenegger withdrew the proposal and abandoned pursuing the idea until later.

In 2006, there was a ballot initiative push in Colorado to switch the retirement system for public employees to a defined contribution system. As in other states, this proposal was a source of controversy and eventually the ballot proposal was withdrawn after a compromise was reached in the Legislature for some changes to the existing defined benefit program. The primary change called for employees to pay an additional 3% of salary to the retirement system (phased in over six years) in lieu of some salary increases. Some minor changes were included affecting only new hires beginning in 2007, including increasing the retirement age to a "rule of 85" and some limits on cost-of-living adjustments after retiring. ■

Profile of Illinois' Pension Systems

	TRS	SURS	SERS	JRS	GARS	Total
Active Members	155,946	74,941	68,075	917	182	300,061
Beneficiaries	85,153	41,638	54,678	912	393	182,774

Source: Annual Actuarial Valuation Reports, 2006.

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Rules Changes concluded from page 7

is needed in order to fulfill their OPEB obligations. Some of these estimates are staggering and are billions of dollars more than previously thought. According to its budget office, Maryland estimated a $20 billion OPEB liability which means they must put aside $1.6 billion more a year from their budget for the ARC. That is roughly 13% of their $12 billion fiscal year 2006 General Fund appropriations, from which $770 million was already set aside annually for employee benefits. Other states are beginning to realize a similar problem after conducting their own studies. Based on a study conducted by California's Debt and Investment Advisory Commission, the state is estimated to have roughly $40 to $70 billion in unfunded OPEB liabilities compared to Michigan's estimated $30 billion shortfall in its OPEB funds. This is becoming a problem not only at the state level, but at the municipal level as well. Large municipalities across the nation have been estimating billions of dollars in unfunded liabilities. New York City's Office of Budget and Management has estimated that the city has $5 billion in liabilities, while the Los Angeles Unified School District's claims have been estimated at $4.9 billion.

There have been a handful of states that are starting to develop initiatives to decrease unfunded healthcare liabilities. Alabama has increased healthcare premiums for state employees who smoke and also increased healthcare premiums for those who retire before 25 years of service. Nevada's General Assembly tried to pass legislation to end retiree healthcare for any employees hired after July 1, 2006, but the bill was eventually rejected. Many other states are scrambling to try to find solutions to their unfunded liabilities, but up until this point there does not seem to be a universal fix. While the best solution is still unknown, it is apparent that the new GASB rules are forcing governments to confront a very serious and challenging issue. ■

Chicago Transit concluded from page 2

benefits have been higher than expected benefits, and employee pay increases have gone up more than assumed. Furthermore, contributions to the retirement fund by the CTA and CTA employees have been limited.

Under its labor contracts, the CTA is required to contribute 6% of payroll to the pension fund and CTA employees are required to contribute 3% each year. Yet this is far below the amount needed to be set aside to meet the cost of annual new liabilities. The plan's actuaries estimated contributions should have stood at 16.7% in 2005 to meet the pension plan's normal cost plus interest. Changes in contribution rates and pension benefits, however, require union negotiations. Other escalating CTA operating budget costs impose yet another barrier to increased pension contributions. Accounting for a large part of CTA's projected budget increases are labor expenditures that are expected to increase a total of $131 million between 2004 and 2008. Additional pension contributions must compete against the higher costs of healthcare, wages, and FICA for funding. If changes are not made, the CTA predicted in the spring of 2006 that the retiree healthcare portion of the fund would be bankrupt by 2007 and the overall pension fund would be insolvent by 2012.

To ensure that the pension plan remains solvent and that retirees receive their pension payouts, the state government recently enacted Public Act 94-0839, effective June 6, 2006, requiring the CTA to increase its minimum funded ratio. RTA and CTA will be mandated to adhere to a prescribed amortization schedule during the next half century. P.A. 94-0839 requires that the CTA reach a 90% funded ratio for its pension obligations by 2058, which will add a huge financial burden.

As recently outlined in the Commission on Government Forecasting and Accountability's (CoGFA) December 2006 monthly briefing, the commission's actuary estimated CTA employer contributions to the pension fund will need to increase from $36.1 million to $152 million between 2008 and 2009, or an increase from a 6% employer payroll contribution to a 24.67% contribution rate. The payroll contribution rate then is estimated to remain at 24.67% for the next 50 years in order to meet the 90% funded ratio in 2058. These figures do not include the cost of retiree healthcare, as P.A. 94-0839 also requires the CTA to separate retiree healthcare funding from pension funding. The separation of retiree healthcare funding from pension funding will allow for a better understanding of the true condition of the pension fund. CoGFA estimates that the separation raises the CTA pension funded ratio to 60.3% when using the January 1, 2005 actuarial value of assets. On January 1, 2009, both the pension amortization schedule and the separation of pension and retiree healthcare funding will go into effect. This gives the CTA a mere two years to find a way to finance a plan that will meet its pension requirements without sacrificing operations. Possible funding mechanisms might include new taxes, fewer trains and operators, higher fares, and an increase in Chicago's RTA sales tax. ■

DECEMBER 2006

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

	Dec. 2006	FY 2007 (Six Months)	Change From Prior Year $	Change From Prior Year %
Total General Funds				
Available Balance	$ 520	$ 590	$ 93	18.7 %
Revenues	2,226	13,121	(1,074)	(7.6)
Expenditures	2,317	13,282	(924)	(6.5)
Ending Balance	$ 429	$ 429	$ (57)	(11.7) %
General Revenue Fund				
Available Balance	$ 66	$ 66	$ (132)	(66.7) %
Revenues	1,876	11,100	(1,101)	(9.0)
Expenditures	1,925	11,149	(1,052)	(8.6)
Ending Balance	$ 17	$ 17	$ (181)	(91.4) %
Common School Special Account Fund				
Available Balance	$ 75	$ 41	$ 25	156.3 %
Revenues	159	925	38	4.3
Expenditures	159	891	63	7.6
Ending Balance	$ 75	$ 75	$ 0	0.0 %
Education Assistance Fund				
Available Balance	$ 355	$ 463	$ 208	81.6 %
Revenues	122	681	35	5.4
Expenditures	157	824	123	17.5
Ending Balance	$ 320	$ 320	$ 120	60.0 %
Common School Fund				
Available Balance	$ 24	$ 20	$ (8)	(28.6) %
Revenues	310	1,654	153	10.2
Expenditures	318	1,658	142	9.4
Ending Balance	$ 16	$ 16	$ 3	23.1 %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

Revenues:	Dec. 2006	FY 2007 (Six Months)	Change From Prior Year $	Change From Prior Year %
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 622	$ 3,785	$ 232	6.5 %
Corporate	238	676	122	22.0
Total, Income Taxes	$ 860	$ 4,461	$ 354	8.6 %
Sales Taxes	638	3,695	154	4.3
Other Sources:				
Public Utility Taxes	96	530	(11)	(2.0)
Cigarette Taxes	29	175	(25)	(12.5)
Inheritance Tax (gross)	18	149	15	11.2
Liquor Gallonage Taxes	17	80	1	1.3
Insurance Taxes and Fees	63	147	0	0.0
Corporation Franchise Tax and Fees	13	96	4	4.3
Investment Income	17	103	38	58.5
Cook County IGT	0	62	(27)	(30.3)
Riverboat Gambling Taxes	0	0	(4)	(100.0)
Other	24	202	(21)	(9.4)
Total, Other Sources	$ 277	$ 1,544	$ (30)	(1.9) %
Total, Cash Receipts	$ 1,775	$ 9,700	$ 478	5.2 %
Transfers In:				
Lottery Fund	$ 43	$ 271	$ (59)	(17.9) %
State Gaming Fund	60	355	10	2.9
Other Funds	18	358	167	87.4
Total, Transfers In	$ 121	$ 984	$ 118	13.6 %
Total, State Sources	$ 1,896	$ 10,684	$ 596	5.9 %
Federal Sources	$ 330	$ 2,161	$ (670)	(23.7) %
Total, Base Revenues	**$ 2,226**	**$ 12,845**	**$ (74)**	**(0.6) %**
Short-Term Borrowing	0	0	(1,000)	(100.0)
Transfer from Budget Stabilization Fund	0	276	0	0.0
Total, Revenues	$ 2,226	$ 13,121	$ (1,074)	(7.6) %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

Expenditures:	Dec. 2006	FY 2007 (Six Months)	Change From Prior Year $	Change From Prior Year %
Awards and Grants:				
Healthcare & Family Services	$ 513	$ 3,479	$ (710)	(16.9) %
Elem. & Sec. Education:				
State Board of Education	701	2,910	161	5.9
Teachers Retirement	68	407	103	33.9
Total, Elem. & Sec. Education	$ 769	$ 3,317	$ 264	8.6 %
Human Services	250	1,573	(23)	(1.4)
Higher Education	24	408	7	1.7
All Other Grants	151	689	21	3.1
Total, Awards and Grants	$ 1,707	$ 9,466	$ (441)	(4.5) %
Operations:				
Other Agencies	$ 433	$ 2,589	$ 104	4.2 %
Higher Education	146	812	(101)	(11.1)
Total, Operations	$ 579	$ 3,401	$ 3	0.1 %
Regular Transfers Out	$ 187	$ 1,389	$ 104	8.1 %
All Other	$ 2	$ 7	$ 1	16.7 %
Vouchers Payable Adjustment	$ (158)	$ (981)	$ (591)	N/A
Total, Base Expenditures	**$ 2,317**	**$ 13,282**	**$ (924)**	**(6.5) %**
Transfers to Repay GRF Short-Term Borrowing	0	0	0	0.0
Total, Expenditures	$ 2,317	$ 13,282	$ (924)	(6.5) %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

	Dec. 2006	FY 2007 (Six Months)	Change From Prior Year $	Change From Prior Year %
Personal Services:				
Regular Positions	$ 304	$ 1,798	$ (30)	(1.6) %
Other Personal Services	15	89	(16)	(15.2)
Total, Personal Services	$ 319	$ 1,887	$ (46)	(2.4) %
Contribution Retirement	43	199	38	23.6
Contribution Social Security	15	90	4	4.7
Contribution Group Insurance	94	519	(24)	(4.4)
Contractual Services	42	311	4	1.3
Travel	1	10	1	11.1
Commodities	10	56	(4)	(6.7)
Printing	1	3	(1)	(25.0)
Equipment	2	13	(4)	(23.5)
Electronic Data Processing	4	24	4	20.0
Telecommunications	4	24	(3)	(11.1)
Automotive Equipment	2	13	0	0.0
Other Operations	42	252	34	15.6
Total, Operations	$ 579	$ 3,401	$ 3	0.1 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

	Dec. 2006	FY 2007 (Six Months)	Change From Prior Year $	Change From Prior Year %
State Board of Education:				
General State Aid	$ 341	$ 1,709	$ 71	4.3 %
All Other	360	1,201	90	8.1
Healthcare & Family Services	513	3,479	(710)	(16.9)
Human Services	250	1,573	(23)	(1.4)
Higher Education:				
Student Assistance Commission	17	211	16	8.2
Community College Board	4	180	4	2.3
Other	3	17	(13)	(43.3)
Teacher's Retirement	68	407	103	33.9
Children and Family Services	60	303	(26)	(7.9)
Aging	24	174	32	22.5
Revenue	2	10	1	11.1
All Other	65	202	14	7.4
Total, Awards and Grants	$ 1,707	$ 9,466	$ (441)	(4.5) %

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

	Jan. 2007	Seven Months FY 2007	Change From Prior Year $	Change From Prior Year %
Total General Funds				
Available Balance	$ 429	$ 590	$ 93	18.7 %
Revenues	2,968	16,089	(511)	(3.1)
Expenditures	2,912	16,194	(366)	(2.2)
Ending Balance	$ 485	$ 485	$ (52)	(9.7) %
General Revenue Fund				
Available Balance	$ 17	$ 66	$ (132)	(66.7) %
Revenues	2,588	13,689	(585)	(4.1)
Expenditures	2,522	13,672	(537)	(3.8)
Ending Balance	$ 83	$ 83	$ (180)	(68.4) %
Common School Special Account Fund				
Available Balance	$ 75	$ 41	$ 25	156.3 %
Revenues	163	1,088	43	4.1
Expenditures	151	1,042	64	6.5
Ending Balance	$ 87	$ 87	$ 4	4.8 %
Education Assistance Fund				
Available Balance	$ 320	$ 463	$ 208	81.6 %
Revenues	132	814	57	7.5
Expenditures	165	990	159	19.1
Ending Balance	$ 287	$ 287	$ 106	58.6 %
Common School Fund				
Available Balance	$ 16	$ 20	$ (8)	(28.6) %
Revenues	330	1,985	198	11.1
Expenditures	319	1,978	173	9.6
Ending Balance	$ 27	$ 27	$ 17	170.0 %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

Revenues:	Jan. 2007	Seven Months FY 2007	Change From Prior Year $	Change From Prior Year %
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 1,138	$ 4,923	$ 373	8.2 %
Corporate	56	732	132	22.0
Total, Income Taxes	$ 1,194	$ 5,655	$ 505	9.8 %
Sales Taxes	650	4,345	176	4.2
Other Sources:				
Public Utility Taxes	115	645	40	6.6
Cigarette Taxes	29	204	(29)	(12.4)
Inheritance Tax (gross)	15	164	6	3.8
Liquor Gallonage Taxes	13	93	3	3.3
Insurance Taxes and Fees	8	155	5	3.3
Corporation Franchise Tax and Fees	15	111	4	3.7
Investment Income	16	119	41	52.6
Cook County IGT	22	84	(38)	(31.1)
Riverboat Gambling Taxes	0	0	(4)	(100.0)
Other	66	268	(2)	(0.7)
Total, Other Sources	$ 299	$ 1,843	$ 26	1.4 %
Total, Cash Receipts	$ 2,143	$ 11,843	$ 707	6.3 %
Transfers In:				
Lottery Fund	$ 58	$ 330	$ (44)	(11.8) %
State Gaming Fund	45	400	20	5.3
Other Funds	79	436	177	68.3
Total, Transfers In	$ 182	$ 1,166	$ 153	15.1 %
Total, State Sources	$ 2,325	$ 13,009	$ 860	7.1 %
Federal Sources	$ 643	$ 2,804	$ (371)	(11.7) %
Total, Base Revenues	**$ 2,968**	**$ 15,813**	**$ 489**	**3.2 %**
Short-Term Borrowing	0	0	(1,000)	(100.0)
Transfer from Budget Stabilization Fund	0	276	0	0.0
Total, Revenues	$ 2,968	$ 16,089	$ (511)	(3.1) %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

Expenditures:	Jan. 2007	Seven Months FY 2007	Change From Prior Year $	Change From Prior Year %
Awards and Grants:				
Healthcare & Family Services	$ 653	$ 4,132	$ (376)	(8.3) %
Elem. & Sec. Education:				
State Board of Education	442	3,352	181	5.7
Teachers Retirement	68	474	119	33.5
Total, Elem. & Sec. Education	$ 510	$ 3,826	$ 300	8.5 %
Human Services	260	1,834	9	0.5
Higher Education	46	453	(2)	(0.4)
All Other Grants	111	800	26	3.4
Total, Awards and Grants	$ 1,580	$ 11,045	$ (43)	(0.4) %
Operations:				
Other Agencies	$ 457	$ 3,047	$ 195	6.8 %
Higher Education	145	956	(128)	(11.8)
Total, Operations	$ 602	$ 4,003	$ 67	1.7 %
Regular Transfers Out	$ 240	$ 1,630	$ 59	3.8 %
All Other	$ 2	$ 8	$ 1	14.3 %
Vouchers Payable Adjustment	$ 488	$ (492)	$ (450)	N/A
Total, Base Expenditures	**$ 2,912**	**$ 16,194**	**$ (366)**	**(2.2) %**
Transfers to Repay GRF Short-Term Borrowing	0	0	0	0.0
Total, Expenditures	$ 2,912	$ 16,194	$ (366)	(2.2) %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

	Jan. 2007	Seven Months FY 2007	Change From Prior Year $	Change From Prior Year %
Personal Services:				
Regular Positions	$ 307	$ 2,105	$ (54)	(2.5) %
Other Personal Services	15	104	(17)	(14.0)
Total, Personal Services	$ 322	$ 2,209	$ (71)	(3.1) %
Contribution Retirement	35	234	56	31.5
Contribution Social Security	15	105	4	4.0
Contribution Group Insurance	99	619	30	5.1
Contractual Services	54	365	9	2.5
Travel	2	12	2	20.0
Commodities	11	66	(4)	(5.7)
Printing	1	4	0	0.0
Equipment	1	14	(4)	(22.2)
Electronic Data Processing	2	26	4	18.2
Telecommunications	4	28	(4)	(12.5)
Automotive Equipment	1	14	(1)	(6.7)
Other Operations	55	307	46	17.6
Total, Operations	$ 602	$ 4,003	$ 67	1.7 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

	Jan. 2007	Seven Months FY 2007	Change From Prior Year $	Change From Prior Year %
State Board of Education:				
General State Aid	$ 342	$ 2,052	$ 91	4.6 %
All Other	100	1,300	90	7.4
Healthcare & Family Services	653	4,132	(376)	(8.3)
Human Services	260	1,834	9	0.5
Higher Education:				
Student Assistance Commission	30	241	(2)	(0.8)
Community College Board	4	183	1	0.5
Other	12	29	(1)	(3.3)
Teacher's Retirement	68	474	119	33.5
Children and Family Services	54	357	(24)	(6.3)
Aging	30	204	35	20.7
Revenue	2	11	1	10.0
All Other	25	228	14	6.5
Total, Awards and Grants	$ 1,580	$ 11,045	$ (43)	(0.4) %

Did You Know…

- ★ The State of Illinois administers five separate pension systems: the State Employees' Retirement System (SERS), the Downstate Teachers' Retirement System (TRS), the State Universities Retirement System (SURS), the Judges' Retirement System (JRS) and the General Assembly Retirement System (GARS).
- ★ At the end of fiscal year 2006, these five systems held assets valued at $62.3 billion. However, actuarial liabilities for pension, disability and death benefits totaled $103.1 billion, leaving an unfunded actuarial liability of $40.7 billion.
- ★ The Downstate Teachers' Retirement System accounted for $22.4 billion or 55% of the total unfunded liability.
- ★ Compared to other state employee retirement systems, SERS defined benefit payments rank in the bottom 20%.
- ★ Illinois' state government workforce is getting older. In fiscal year 2006, the average age climbed to 46.39, an increase of 4.42 years from the average in fiscal year 1986.
- ★ With 74.1% of Illinois' workforce age 40 or older, the state will soon be facing a two-pronged problem of losing a sizeable portion of its experienced workers and increased expenditures from its retirement systems.

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Fiscal Focus

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