GENERAL ASSEMBLY RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2020

PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

General Assembly Retirement System
of the State of Illinois

Financial Audit

For the Year Ended June 30, 2020

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Other Reports Issued Under a Separate Cover

The General Assembly Retirement System's *Compliance Examination* for the year ended June 30, 2020, will be issued under a separate cover.

General Assembly Retirement System
of the State of Illinois

Financial Audit
For the Year Ended June 30, 2020

System Officials

Executive Secretary	Timothy B. Blair
Accounting Division Manager	Alan Fowler, CPA
Legal Counsel (12/1/2019 to present)	James Stivers
Legal Counsel (7/1/2019 to 12/1/2019)	Vacant
Division Manager	Angie Ackerson
Internal Audit	Casey Evans

Governing Board

Chair of the Board of Trustees (8/12/2019 – Present)	Senator Robert Martwick
Chair of the Board of Trustees (7/1/2019 – 8/12/2019)	Senator Don Harmon
Trustee (Vice-Chair)	Senator Sue Rezin
Trustee	Senator Napoleon Harris III
Trustee	Representative Charles Meier
Trustee	Representative Michael Zalewski
Trustee (7/1/2019 – Present)	Vacant
Trustee (2/14/2020 – Present)	Vacant
Trustee (7/1/2019 – 02/13/2020)	Representative Daniel Pierce, Retirement Annuitant Member

Office Locations

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

Chicago Office
State of Illinois Building
160 North LaSalle Street, Suite N725
Chicago, Illinois 60601

Financial Statement Report

Summary

The audit of the accompanying financial statements of the General Assembly Retirement System of the State of Illinois (System) was performed by RSM US LLP.

Based on their audit and the report of other auditors, the auditors expressed an unmodified opinion on the System's basic financial statements.

Exit Conference

The System waived an exit conference in a correspondence from Casey Evans, Chief Internal Auditor, on December 7, 2020.

RSM US LLP

Independent Auditor's Report

Honorable Frank J. Mautino, Auditor General – State of Illinois

Board of Trustees, General Assembly Retirement System of the State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Fiduciary Net Position of the General Assembly Retirement System of the State of Illinois (System), as of June 30, 2020, and the Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the 2020 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 89 percent, 91 percent and 9 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2020, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The actuarially determined net pension liability, calculated as required by GASB Statement No. 67, is dependent on several assumptions including the assumption that future required contributions from State sources are made based on statutory requirements in existence as of the date of this report. These assumptions and required contributions are discussed in Notes 5 and 6 of the financial statements on pages 24 through 26. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 6 and the required supplementary information as listed in the table of contents on pages 29 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary financial information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2020 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
December 17, 2020

This section presents management's discussion and analysis of the financial position and performance of the General Assembly Retirement System (System) for the year ended June 30, 2020. It is presented as a narrative overview and analysis.

The System is a defined benefit, single-employer public employee retirement system. It provides services to 124 active participants, 51 vested inactive participants, and 427 benefit recipients. Throughout this discussion and analysis, units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. Basic Financial Statements and Notes. For the fiscal year ended June 30, 2020, basic financial statements are presented for the System. This information presents the fiduciary net position restricted for pensions for the System as of June 30, 2020. This financial information also summarizes the changes in the fiduciary net position restricted for pensions for the year then ended. The notes to the financial statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.
2. Required Supplementary Information. The required supplementary information consists of three schedules and related notes concerning actuarial information, funded status, information on State contributions, and investment returns.
3. Other Supplementary Schedules. Other supplementary schedules include more detailed information pertaining to the System, including schedules of revenues by source, cash receipts and disbursements, and payments to consultants and advisors.

FINANCIAL HIGHLIGHTS

- The fiduciary net position increased by $3.3 million during fiscal year 2020. This change was primarily the result of increases in investments of $2.9 million during fiscal year 2020.
- The System's Plan Fiduciary Net Position as a percentage of the Total Pension Liability was 16.5% as of June 30, 2020.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was a gain of 4.6% in fiscal year 2020. The System's annual money-weighted rate of return on its investment in the ISBI Commingled Fund was a gain of 4.7% for fiscal year 2020.

Condensed Statements of Fiduciary Net Position
(in thousands)

	As of June 30, 2020	As of June 30, 2019	Increase/(Decrease) from 2019 to 2020
Cash	$ 5,913.8	$ 4,144.0	$ 1,769.8
Receivables	43.9	1,049.6	(1,005.7)
Investments, at fair value *	58,318.5	55,467.4	2,851.1
Capital Assets, net	38.4	32.0	6.4
Total assets	64,314.6	60,693.0	3,621.6
Liabilities *	1,302.8	973.8	329.0
Total fiduciary net position	$ 63,011.8	$ 59,719.2	$ 3,292.6

** Including securities lending collateral*

ADDITIONS TO FIDUCIARY NET POSITION

Additions to Fiduciary Net Position include employer and participant contributions and net income from investment activities. Participant contributions decreased from $1.3 million to $1.2 million in 2019 and 2020, respectively. Participant contribution rates are set by statute as a percentage of gross salary. For fiscal year 2020, employer contributions increased to approximately $25.8 million from $23.3 million in fiscal year 2019. This increase was the result of the actuarially determined employer contributions required by the State's funding plan.

DEDUCTIONS FROM FIDUCIARY NET POSITION

Deductions from Fiduciary Net Position are primarily benefit and refund payments. During fiscal years 2020 and 2019, the System paid out approximately $25.8 million and $24.7 million in benefits and refunds, respectively. This increase of 4.5% from 2019 to 2020 is mainly the result of the annual scheduled 3% increase in retirement and other benefit payments. The administrative costs of the System represented less than 2% of the total deductions in each of the fiscal years presented within the condensed statements.

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

	For the Year Ended June 30, 2020	For the Year Ended June 30, 2019	Increase/(Decrease) from 2019 to 2020
Additions			
Participant contributions	$ 1,205.9	$ 1,317.2	$ (111.3)
Employer contributions	25,754.0	23,253.4	2,500.6
Net Investment income gain/(loss)	2,581.1	3,449.4	(868.3)
Total additions	29,541.0	28,020.0	1,521.0
Deductions			
Benefits	25,709.9	24,558.4	1,151.5
Refunds	137.8	168.9	(31.1)
Administrative expenses	400.7	389.8	10.9
Total deductions	26,248.4	25,117.1	1,131.3
Net increase/(decrease) in fiduciary net position	$ 3,292.6	$ 2,902.9	$ 389.7

FUNDED RATIO

The funded ratio of the plan measures the ratio of the fiduciary net position against the total pension liability and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is performed. The most recent available valuation showed the funded status of the System was 16.5% on June 30, 2020. The amount by which the total pension liability exceeded the fiduciary net position was $319.3 million on June 30, 2020.

INVESTMENTS

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

The net investment income of the total ISBI Commingled Fund was approximately $878.5 million during fiscal year 2020, resulting in a return of 4.6%. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as the result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three, five, and ten year periods ended June 30, 2020, the ISBI Commingled Fund earned a compounded rate of return of 6.4%, 6.1%, and 8.7%, respectively.

The ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the ISBI's investment portfolio depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact the ISBI's financial condition. In light of the current global COVID-19 pandemic and associated national and global economic volatility, readers of these financial statements are advised that financial markets remain volatile and may experience significant changes on a daily basis.

FUTURE OUTLOOK

The actuarial assumptions adopted as of June 30, 2019 were based on the experience review for the three years ended June 30, 2018, and annual review of all economic assumptions. The state's statutory employer contribution for fiscal year 2021 will increase by $1.5 million, or 6.0%.

Tier 2 active members' annual earnings on which they can contribute were capped at $124,630 in 2020 and will be capped at $126,375 in 2021. The caps on Tier 2 members' earnings decreases the anticipated amount of future earnings credit as well as the associated contributions.

Benefit payments are projected to continue to grow at a rate of approximately 4% to 6%, primarily as a result of the increasing numbers of retirees and the 3% annual COLA.

The COVID-19 global pandemic continues to have an impact on our day to day business operations. Staff have modified work schedules so that they work from home but rotate into the office, as needed, to handle some of the priority transactions that can't be done, remotely. We will continue our operations in the safest possible way for the GARS staff while ensuring that transactions continue to be processed for all GARS members.

The ISBI plans to continue to improve the overall investment portfolio performance by increasing reliance on passive investment strategies and reducing investment advisor and management fees.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the System's finances. For questions concerning the information in this report or for additional information, contact the Accounting Division of the State Retirement Systems at srsacctgdiv@srs.illinois.gov.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statement of Fiduciary Net Position

June 30, 2020

Assets	
Cash	$ 5,913,822
Receivables:	
Participants' contributions	38,626
Refundable annuities	2,363
Interest on cash balances	2,864
Total receivables	43,853
Investments:	
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	57,128,519
Securities lending collateral with State Treasurer	1,190,000
Total Investments	58,318,519
Capital Assets, net	38,435
Total Assets	64,314,629
Liabilities	
Administrative expenses payable	42,115
Due to Judges' Retirement System of Illinois	70,711
Securities lending collateral	1,190,000
Total Liabilities	1,302,826
Net position – restricted for pensions	$ 63,011,803

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statement of Changes in Fiduciary Net Position
for the Year Ended June 30, 2020

Additions:	
Contributions:	
Participants	$ 1,205,930
Employer	25,754,000
Total contributions	26,959,930
Investment income:	
Net appreciation/(depreciation) in fair value of investments	1,970,444
Interest and dividends	686,875
Less investment expense	(76,255)
Net investment income (loss)	2,581,064
Total Additions	29,540,994
Deductions:	
Benefits:	
Retirement annuities	21,641,643
Survivors' annuities	4,068,261
Total benefits	25,709,904
Refunds of contributions	137,810
Administrative expenses	400,697
Total Deductions	26,248,411
Net increase/(decrease) in net position	3,292,583
Net position - restricted for pensions:	
Beginning of year	59,719,220
End of year	$ 63,011,803

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements June 30, 2020

1. Reporting Entity

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

The General Assembly Retirement System (System) is administered by a Board of Trustees consisting of seven persons, which include: three members of the Senate appointed by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants. Operation of the System and the direction of its policies are the responsibility of the Board of Trustees.

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

At June 30, 2020, the System membership consisted of:

Retirees and beneficiaries currently receiving benefits:	
Retirement annuities	318
* Survivors' annuities	109
Reversionary annuities	-
	427
Inactive participants entitled to benefits but not yet receiving them	51
Total	478
Active participants:	
Vested	57
Nonvested	67
Total	124

* *Excludes 11 alternate payees resulting from QILDRO's*

2. Plan Description

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

a. Eligibility and Membership

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

b. Contributions

In accordance with Chapter 40, Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities, and automatic annual increases as shown below. Tier 1 participants contribute based on total annual compensation. Beginning January 1, 2011, Tier 2 participants contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or the annual percentage increase in the Consumer Price Index. The compensation limitation for 2020 was $124,630. Contributions are excluded from gross income for Federal and State income tax purposes. The total contribution rate is 11.5% as shown below:

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

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

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

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

c. Benefits Retirement Annuity: Tier 1

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

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

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

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

Retirement Annuity: Tier 2

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

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

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

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

3. Summary of Significant Accounting Policies and Plan Asset Matters

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

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

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

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

c. Implementation of New Accounting Standards
The Governmental Accounting Standards Board (GASB) issued Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance" which postponed the effective dates for implementation of certain new pronouncements to provide relief to governments and other stakeholders in light of the COVID-19 pandemic.

GASB Statement No. 84, "Fiduciary Activities", established criteria for identifying fiduciary activities of state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This GASB is now effective for fiscal periods beginning after December 15, 2019 (FY 2021) and it will have no impact as the System is already accounted for as a fiduciary activity.

GASB Statement No. 87, "Leases", requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This GASB is effective for fiscal periods beginning after June 15, 2021 (FY 2022). The System is working with the Illinois Comptroller's Office to identify any impacts to its financial reporting process because of this pronouncement.

GASB Statement No. 90, "Majority Equity Interests", addresses whether a government's majority equity interest in a legally separate organization represents an investment or a component unit. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This GASB is now effective for fiscal periods beginning after December 31, 2019 (FY 2021) but should not impact the System significantly, due to a pension fund's ability to account for a majority equity investment at fair value under GASB 72.

GASB Statement No. 92, "Omnibus 2020" modifies requirements related to leases, reinsurance recoveries, and the terminology used to refer to derivative instruments. This portion of this GASB that pertains to the System is now effective for FY 2021 (terminology used for derivative instruments), however, it has been implemented by the System and the ISBI for the FY 2020 fiscal period.

d. General Litigation

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

e. Methods Used to Value Investments

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

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

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

f. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every three years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed for the period from July 1, 2015 to June 30, 2018 resulting in the adoption of new assumptions as of June 30, 2019. Assumptions changes include changes to the investment returns, rate of inflation, mortality and others as detailed in the Required Supplementary Information of this CAFR.

g. Administrative Expenses

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

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

Invoices/vouchers covering common expenses incurred are paid by the Judges’ Retirement System, and the appropriate amount is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2020 was $268,496. The total administrative expenses attributable to the General Assembly Retirement System is $400,697 for fiscal year 2020.

h. Risk Management

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

i. Use of Estimates

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

4. Investments

Introduction

Investments of the System are combined in a commingled internal investment pool and held by the Illinois State Board of Investment (ISBI). The System owns approximately 0.3% ($57,128,519) of the net position of the ISBI commingled fund as of June 30, 2020. A schedule of investment expenses is included in the ISBI's annual report.

For additional information on ISBI's investments, please refer to their Annual Report as of June 30, 2020. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601 or by visiting their website, https://www.isbinvestment.com.

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

	June 30, 2020
U.S. govt. agency and municipal obligations	$ 237,703,276
Domestic Equities	2,852,607,404
International Equities	235,312,041
Domestic Bank Loans	242,975,580
Domestic Obligations	733,705,710
International Obligations	284,182,790
Commingled Funds	10,918,731,709
Hedge Funds	46,354,758
Real Estate Funds	1,960,846,320
Private Equity Funds	942,875,216
Infrastructure Funds	279,399,854
Opportunistic Debt Funds	822,484,844
Restricted cash (subscription advance)	40,000,000
Measured at amortized cost:	
Money market instruments	212,665,371
Total investments	$ 19,809,844,873

Rate of Return

For the fiscal year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.7%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System's and ISBI's deposits may not be returned. All non-investment related bank balances at year end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. As of June 30, 2020, the ISBI had a non-investment related bank balance of $993,049. A Custodial Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July of 2007. The policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of Northern Trust. Northern Trust has an AA- Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 rating by Moody's. Certain investments of the ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, the ISBI reports these types of cash equivalents as Money Market Instruments within their investments. As of June 30, 2020, the ISBI had an investment related bank balance of $12,817,741. This balance includes USD and foreign cash balances. Cash held in the investment related bank account is neither federally insured nor collateralized for amounts in excess of $250,000. However, the ISBI is the beneficiary of multiple policies and bonds held by Northern Trust providing for recovery of various potential losses related to services provided by Northern Trust as the ISBI's custodian. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

Investment Commitments

The ISBI had total investment commitments of $2.4 billion at the end of fiscal year 2020. The ISBI's real estate, private equity, infrastructure and opportunistic debt investment portfolios consist of passive interests in limited partnerships. The ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

Investment Liquidity

The majority of the ISBI's portfolio is highly liquid. However, the ISBI holds investments in hedge funds, real estate funds, opportunistic debt funds, private equity funds, commingled funds, bank loans and infrastructure funds that are considered illiquid by the very nature of the investment. Market risk exists with respect to these investments as the ISBI may not be able to exit from the illiquid investments during periods of significant market value declines.

Alternative Investments

The ISBI's investments in alternative investment vehicles consist of Commingled Funds, Private Equity Funds, Hedge Funds, Infrastructure Funds, Opportunistic Debt Funds and Real Estate Funds. These types of vehicles are used for making investments in various equity and debt securities according to the investment strategies as determined by the fund managers at the commencement of the fund.

Fair Value Measurements

Fair value is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e. exit price). The fair value measurements are determined within a framework that utilizes a three-tier hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 – Unadjusted quoted prices in active markets for identical assets.
- Level 2 – Inputs other than quoted prices that are observable for the asset, either directly or indirectly. These inputs include:
    a. quoted prices for similar assets in active markets;
    b. quoted prices for identical or similar assets in markets that are not active;
    c. inputs other than quoted prices that are observable for the asset; or
    d. inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs that are unobservable for the asset. The valuation of these investments requires significant judgment due to the absence of quoted market values, inherent lack of liquidity, and changes in market conditions.

The valuation methodologies are as follows:

- U.S. Treasuries and U.S. Agencies: quoted prices for identical securities in markets that are not active;
- International Government and Corporate Obligations: broker's quote in an active market;
- Corporate Bonds: quoted prices for similar securities in active markets;
- Municipal Bonds: quoted prices for similar securities in active markets;
- Bank Loans: discounted cashflow, internal assumptions, weighting of the best available pricing inputs and third party pricing services;
- Common Stock and Equity Funds, International Preferred Stocks, International Equity Securities and Commingled funds made up entirely of index tracking marketable securities: quoted prices for identical securities in an active market. Broker's quote in an active market;
- Money Market Funds: amortized cost which approximates fair value;
- Derivative Instruments: valued using a market approach that considers foreign exchange rates.

The recurring fair value measurements for the year ended June 30, 2020 are as follows:

	At June 30, 2020 Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Totals
Investments by fair value level				
Debt Securities				
US Government, agency, and municipal obligations	$ 263,763	$ 237,439,513	$ -	$ 237,703,276
Domestic bank loans	-	214,364,449	28,611,131	242,975,580
Domestic corporate obligations	1,400,276	703,425,133	28,880,301	733,705,710
International obligations	-	279,863,625	4,319,165	284,182,790
Total debt securities	$ 1,664,039	$ 1,435,092,720	$ 61,810,597	$ 1,498,567,356
Equity Securities				
Domestic equities	$ 2,849,678,420	$ 467,928	$ 2,461,056	$ 2,852,607,404
International equities	232,538,953	-	2,773,088	235,312,041
Total equity securities	$ 3,082,217,373	$ 467,928	$ 5,234,144	$ 3,087,919,445
Other				
Commingled funds [1]	$ 9,575,456,371	$ -	$ -	$ 9,575,456,371
Total other	$ 9,575,456,371	$ -	$ -	$ 9,575,456,371
Total investments by fair value level	$ 12,659,337,783	$ 1,435,560,649	$ 67,044,740	$ 14,161,943,172
Investments measured at the Net Asset Value (NAV)				
Commingled funds [2]				$ 1,343,275,338
Real estate funds				1,960,846,320
Private equity				942,875,216
Infrastructure				279,399,854
Opportunistic debt				822,484,844
Hedge funds				46,354,758
Restricted cash (subscription advance)				40,000,000
Total investments measured at the NAV				$ 5,435,236,330
Investments not measured at fair value				
Money market instruments				$ 212,665,371
Total investments				$ 19,809,844,873

1. Commingled funds with readily determinable fair value reported as Level 1.
2. Commingled funds with limited individual investment look through priced using Net Asset Value

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered “alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The ISBI values these investments based on the partnerships’ audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is adjusted from the most recently available valuation taking into account subsequent calls and distributions, adjusted for unrealized appreciation/depreciation, other income and fees.

The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for alternative investments measured at NAV:

	June 30, 2020			
	Fair Value	Unfunded Commitments*	Redemption Frequency	Redemption Notice Period
Commingled funds	$ 1,343,275,338	-	Quarterly	90 Days
Real estate funds	1,960,846,320	$ 458.0 million	Quarterly	90 Days
Private equity	942,875,216	1,015.9 million	N/A	N/A
Infrastructure	279,399,854	105.6 million	Quarterly	90 Days
Opportunistic Debt	822,484,844	875.7 million	N/A	N/A
Hedge funds	46,354,758	-	Quarterly	90 Days
Restricted cash (subscription advance)	40,000,000	-	Quarterly	90 Days
Total Investments measured at the NAV	$ 5,435,236,330			

* *In millions*

1) Commingled Funds measured at NAV – The ISBI's assets in this category consist of various investments that are blended together in order to provide economies of scale, allowing for lower trading costs per dollar of investment and diversification. These investments provide primarily liquid exposure to publicly traded equity and fixed income markets. The equity and fixed income portfolios provide diversification benefits and return enhancement to the overall fund in both domestic and international markets. Commingled funds are also called "pooled funds" and "master trusts". The ISBI's current NAV measured Commingled fund exposure consists of investments in twenty-five domestic and international public equity (twenty-four) and fixed income (one) funds. Eight of these funds are domestic and seventeen are international. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. The ISBI has no plans to liquidate these investments as of June 30, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

2) Private Equity Funds – The ISBI's assets in this category consist of investments in funds not listed on public exchanges. The ISBI's current Private Equity exposure consists of investments in seventy-four funds with the goals of generating returns significantly greater than typically available in the public market and diversifying the ISBI's overall portfolio that is comprised predominantly of equity and fixed income assets. The strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital and growth capital. Returns are commensurate with the risks presented by this asset class which include illiquidity. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. The ISBI has no plans to liquidate these investments as of June 30, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest

3) Hedge Funds – The ISBI's assets in this category have historically consisted of investments in funds that seek to generate better than average return and provide a hedge against a downward trend in the overall market. The ISBI is currently in the process of transitioning investments in hedge fund vehicles to long-only equity vehicles. The ISBI's current Hedge Fund exposure consists of investments in six funds including hedge fund and long only equity assets. Returns are commensurate with the risks presented by this asset class which include illiquidity. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

4) Infrastructure Funds – The ISBI's assets in this category consist of investments in funds that target infrastructure assets that provide essential services or facilities to a community (ports, bridges, toll roads, etc.). The ISBI's current infrastructure exposure consists of investments in nine funds that seek to diversify the ISBI's overall portfolio (comprised predominantly of equity and fixed income assets) and provide capital appreciation and income generation. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. The ISBI has no plans to liquidate these investments as of June 30, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

5) Opportunistic Debt Funds – The ISBI's assets in this category consist of investments in private fixed income markets. The ISBI's current Opportunistic Debt exposure consists of investments in forty-two funds with the goals of diversifying the ISBI's overall portfolio, providing downside protection through assets that are capital collateralized, and supplementing the total return of the portfolio which is comprised predominantly of equity and fixed income assets. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. The ISBI has no plans to liquidate these investments as of June 30, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

6) Real Estate Funds – The ISBI's assets in this category consist of investments in Core and Non-Core Real Estate Fund categories. The ISBI's current Real Estate exposure consists of investments in forty-eight funds with the goals of diversifying the ISBI's overall portfolio, providing capital appreciation and supplementing the total return of the portfolio through exposure to private real estate assets in both open-end and closed-end structures. Investments in this category are globally diversified and consist of office, industrial, multi-family, retail, storage and other types of assets. Core assets are expected to provide strong diversification through primary markets and high-income potential. Non-Core assets are typically higher risk assets with stronger capital appreciation. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year-end. The ISBI has no plans to liquidate these investments as of June 30, 2020. It is not probable that any investment will be sold at an amount different from the NAV of the plan's ownership interest.

7) Restricted Cash (Subscription Advance) – The ISBI's assets in this category consist of cash contributed to alternative investment managers prior to June 30 that is being held for a pending new investment subscription on July 1. The ISBI's current exposure consists of one subscription advance in Durable Capital Onshore Fund LP (a domestic equity commingled fund). Restricted cash held at period end rolled into the designated investment vehicle to be tracked as a traditional commingled investment effective July 1, 2020.

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the ISBI will not be able to recover the value of investments or collateral securities that are in the possession of a counterparty. As of June 30, 2020, there were no investments that were uninsured and unregistered securities held by the counterparty or by its trust department or agent but not in the ISBI's name.

Interest Rate Risk

The ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted duration consistent with the Barclay's U.S. Universal Index (benchmark index). As of June 30, 2020, the effective weighted duration of the ISBI's fixed income portfolio was 4.6 years and the effective duration of the benchmark index was 6.3 years.

Duration is the measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. The table below shows the detail of the duration by investment type as of June 30, 2020:

Investment Type	Fair Value	Effective Weighted Duration Years
U.S. government, agency, and municipal obligations		
U.S. Government	$ 64,308,682	2.4
U.S. federal agency	171,718,409	0.3
U.S. municipal bonds	1,676,185	-
Total U.S. government, agency, and municipal obligations	237,703,276	
Domestic obligations		
Banks	290,392,146	5.5
Media	79,104,790	6.6
Insurance	39,671,215	7.4
Other	324,537,559	4.6
Total domestic obligations	733,705,710	
International obligations	284,182,790	6.0
Grand Total	$1,255,591,776	

For the ISBI's bank loan portfolio, the appropriate measure of interest rate risk is weighted average maturity. Weighted average maturity is the average time it takes for securities in a portfolio to mature weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. At June 30, 2020, the weighted average maturity of ISBI's bank loan portfolio was 4.8 years.

Concentration of Credit Risk and Credit Risk for Investments

The ISBI's portfolio of investments is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. The ISBI did not have any issuer investment that exceeded 5% of the total investments of the fund as of June 30, 2020. The table on the next page, presents the quality ratings of debt securities held by the ISBI as of June 30, 2020.

	Moody's Quality Rating	
U.S. Government and Agency Obligations		
	AAA	$ 235,558,975
	B	468,116
Total U.S. Government and Agency Obligations		$ 236,027,091
U.S. municipal bonds		
	BA	$ 67,125
	BAA	254,081
	CA	420,410
	Not rated	934,569
Total U.S. municipal bonds		$ 1,676,185
Domestic corporate obligations		
Banks	A	$ 263,165,926
	B	3,841,550
	Not Rated	23,384,670
Total banks		290,392,146
Media	A	61,329,076
	BA	966,206
	B	11,026,775
	CAA	3,758,053
	Not rated	2,024,680
Total media		$ 79,104,790
Insurance	A	30,105,880
	BA	2,475,789
	CAA	7,089,846
Total insurance		$ 39,671,215
Other	AAA	$ 1,080,998
	AA	7,006,652
	A	70,987,895
	BAA	10,448,214
	BA	51,021,037
	B	40,600,349
	CAA	43,976,776
	CA	1,265,753
	C	56,000
	Not rated	98,093,885
Total other		324,537,559
Total domestic corporate obligations		$ 733,705,710

	Moody's Quality Rating	
Domestic bank loans		
	BA	$ 1,789,700
	B	95,081,167
	CAA	45,530,738
	CA	2,289,692
	Not rated	98,284,283
Total bank loans		$ 242,975,580
International obligations		
	AAA	$ 3,082,474
	AA	5,423,058
	A	21,731,231
	BAA	62,302,697
	BA	57,305,098
	B	44,795,256
	CAA	21,854,110
	CA	3,280,616
	C	79,638
	Not rated	64,328,612
Total international obligations		$ 284,182,790
Money market instruments		
	Not rated	$ 212,665,371
Total money market instruments		$ 212,665,371

Foreign Currency Risk

The ISBI's international portfolio is constructed on the principles of diversification, quality, growth, and value. Risk of loss arises from changes in currency exchange rates and other factors. Certain investments held in infrastructure, opportunistic debt, private equity and real estate funds trade in a reported currency of Euro-based dollars valued at $164,136,390 as of June 30, 2020. The table below presents the foreign currency risk by type of investment as of June 30, 2020.

Currency	Foreign Equities	Foreign Obligations
Argentine Peso	$ -	$ 36,904
Australian Dollar	3,895,539	-
Brazilian Real	955,409	671,712
British Pound Sterling	20,842,921	-
Canadian Dollar	6,561,841	-
Danish Krone	2,033,859	-
Euro Currency	82,570,654	5,341,098
Hong Kong Dollar	14,060,309	-
Indonesian Rupiah	-	538,388
Japanese Yen	43,605,460	-
Kazakhstan Tenge	-	333,620
Mexican Peso	1,605,317	318,626
New Israeli Shekel	175,509	-
New Taiwan Dollar	1,279,127	-
New Zealand Dollar	327,853	-
Norwegian Krone	333,257	-
Peruvian Nuevo Sol	-	1,902,832
Russian Ruble	-	835,809
Singapore Dollar	970,531	-
South African Rand	473,094	543,017
South Korean Won	9,522,094	-
Swedish Krona	1,879,068	-
Swiss Franc	22,544,505	-
Thailand Baht	1,783,087	-
United Arab Emirates Dirham	239,619	-
Ukrainian Hryvnia	-	361,784
Uruguayan Peso Uruguayo	-	790,054
Foreign investments denominated in U.S. Dollars	19,652,997	272,508,946
Total	$ 235,312,050	$ 284,182,790

Securities Lending

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

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

During fiscal year 2020, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.The State Treasurer did not impose any restrictions during fiscal year 2020 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2020 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2020, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2020 were $4,344,267,500 and $4,290,619,359, respectively. The System's portion of securities lending collateral that was invested in repurchase agreements as of June 30, 2020 was $1,190,000.

Derivative Securities

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

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

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

Rights and warrants allow the ISBI investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. These investments are reported at fair value in the investment section of the Statement of Net Position within the common stock and foreign equity classifications. The gain or loss associated with rights and warrants is recognized in the net increase/decrease in the fair value of investments in the ISBI Statement of Changes in Net Position.

The ISBI investment managers use swaps to periodically exchange cash flows or liabilities with a defined counterparty, primarily as a method to hedge against specific risk exposures (e.g., interest rate risk, currency risk). Principal is usually not exchanged between the counterparties as part of these agreements. The fair values of the swap contracts represent current outstanding settlement receivables (assets) or payables (liabilities). These investments are reported at fair value in either the Investments Purchased or Investments Sold lines depending on their period end position as an outstanding receivable or payable. Gains or losses are recognized in the net increase/decrease in the fair value of investments in the ISBI Statement of Change in Net Position.

The table below presents the investment derivative instruments aggregated by type that were held by the ISBI as of June 30, 2020.

	Changes in Fair Value	Fair Value at Year End	Notional Amount Number of Shares
Fixed Income Futures	$ -	$ -	23
Options	(111,808)	(111,808)	(8,670,000)
Rights/Warrants	24,995	26,421	580,428
Swaps	2,131,396	506,818	17,824,917
	$ 2,044,583	$ 421,431	9,735,368

Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. Market risk is the possibility that a change in interest (interest rate risk) or currency rates (foreign currency risk) will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and management of the ISBI and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits.

5. Funding - Statutory Contributions Required & Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal year 2020, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal year 2020, the required employer contribution was computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

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

The total amount of statutorily required employer contributions for fiscal year 2020 was $25,754,000. The total amount of employer contributions received from the state and other sources during fiscal year 2020 was $25,754,000.

6. Net Pension Liability of the State

The components of the State's net pension liability for this plan at June 30, 2020 are as follows:

Total Pension Liability (TPL)	Plan Fiduciary Net Position (FNP)	Net Pension Liability	Plan FNP as % of TPL
$382,275,599	$63,011,803	$319,263,796	16.48%

The System is significantly underfunded which raises concerns about its future financial solvency should there be a significant market downturn coupled with the State's inability or unwillingness to pay the employer contributions.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, which were based on the results of an actuarial experience study for the period from July 1, 2015 to June 30, 2018, applied to all periods included in the measurement:

Actuarial Cost Method:	Individual Entry-Age
Mortality rates:	
Post retirement:	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, with scaling factors of 99 percent for males and females, and the MP-2018 two-dimensional generational mortality Improvement scale, providing a margin for future mortality improvements.
Pre-retirement:	Including terminated vested members prior to attaining age 50. Pub-2010 Above-Median Income General Employee Mortality tables, sex distinct, with no scaling factors, and the MP-2018 two-dimensional generational mortality improvement scale. This assumption provides a margin for future mortality improvements. Future mortality improvements are reflected by projecting the base mortality tables forward from the year 2010 using the MP-2018 projection scale.
Inflation:	2.25%
Investment rate of return:	6.5%
Salary increases:	2.5% per year (consisting of an inflation component of 2.25% per year, a productivity component of .25% per year).

Group size growth rate:	Based on recent experience, the size of the current active group is projected to decrease by approximately 50% by the year 2055 due to the assumption that 50% of future members will elect to opt out of participating in the System.
Post-retirement increase:	Tier 1: 3.0% per year, compounded annually. Tier 2: 3.0% per year or the annual change in the Consumer Price Index, whichever is less, compounded annually.

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments is reviewed annually by the System's actuary, Gabriel Roeder Smith and Company (GRS), as part of the economic assumptions review. The actuarial assumptions are developed using historical data and projections employed to model future returns as provided by the Illinois State Board of Investments (ISBI) in conjunction with its investment consultant. The assumed rate of inflation which must be combined with the projected real return is 2.25%.

The target allocations and forward looking annualized geometric real rates of return for each major asset class, which are applicable for a 20-year projection period, are summarized in the following table. The 20-year projections produced an estimated annual real return of 5.26% and a standard deviation of 12.0% for the aggregate portfolio.

	Asset Allocation	
Asset Class	Target Allocation	20 Year Simulated Real Rate of Return
U.S. Equity	23%	5.5%
Developed Foreign Equity	13%	5.9%
Emerging Market Equity	8%	7.8%
Private Equity	7%	7.5%
Intermediate Investment Grade Bonds	14%	1.1%
Long-term Government Bonds	4%	1.1%
TIPS	4%	1.0%
High Yield and Bank Loans	5%	3.7%
Opportunistic Debt	8%	4.7%
Emerging Market Debt	2%	2.7%
Real Estate	10%	3.2%
Infrastructure	2%	3.9%
Total	100%	

Discount Rate

A single discount rate of 6.37% was used to measure the total pension liability as of June 30, 2020. This represents a decrease of 0.04% from the discount rate used for the June 30, 2019 valuation, 6.41%.

The single discount rate was based on the June 30, 2020 expected rate of return on pension plan investments of 6.5% and a municipal bond rate, based on an index of 20-year general obligation bonds with an average AA credit rating as published by the Federal Reserve, of 2.45% as of June 30, 2020. The projection of cash flows used to determine the single discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between statutory contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2074 at June 30, 2020. As a result, for fiscal year 2020, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2074, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

For fiscal year 2020, the following table presents the plan's net pension liability using a single discount rate of 6.37%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher.

	June 30, 2020		
	1% decrease 5.37%	Current Discount Rate 6.37%	1% increase 7.37%
State's net pension liability	$361,762,086	$319,263,796	$283,707,448

7. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal year 2020 is listed below.

Personal services	$141,624
Employee retirement contributions paid by employer	1,563
Employer retirement contributions	76,954
Social security contributions	10,447
Group insurance	29,024
Contractual services	119,436
Travel	673
Printing	98
Commodities	34
Telecommunications	344
Information technology	14,853
Automotive	302
Depreciation/amortization	2,535
Change in accrued compensated absences	2,810
Total	$400,697

8. Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time upon termination of employment. Additionally, employees of the System are entitled to receive compensation for one-half of the unused sick days that were earned on and after January 1, 1984 and before January 1, 1998, upon termination of employment. Accrued compensated absences, which are included in administrative expenses payable, are shown in the following table:

	Beginning Balance	Additions	Deletions	Ending Balance
Accrued Compensated Absences	$ 10,565	$ 14,730	$ (11,920)	$ 13,375

9. Pension Plan & Other Post-Employment Benefits

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

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

The financial position and results of operations of the SERS for fiscal year 2020 is included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2020. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255 or by calling 217-785-7202.

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

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

Other Post-Employment Benefits. The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5% for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary on the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are separated by individual department or fund for annuitants and their dependents and active employees and their dependents after the State adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The System and the State Comptroller has determined that it would be inappropriate for the System to record its allocated share of the State's other post-employment benefits (OPEB) expense and liability associated with its employees because accounting standards would require that those costs be reallocated and recovered from other state agencies and funds through employer pension contributions.

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

10. Capital Assets

Capital assets over $1,000 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) certain electronic data processing equipment - 3 years, and (4) internally developed software - 20 years. The summary of changes in Capital Assets for fiscal year 2020 is as follows:

	Beginning Balance	Current Year Additions	Current Year Deletions	Ending Balance
Fixed Assets				
Equipment	$ 15,983	$ -	$ -	$ 15,983
Capitalized Software Costs	36,333	9,018	-	45,351
Total	52,316	9,018	-	61,334
Accumulated Depreciation				
Equipment	(15,282)	(267)	-	(15,549)
Capitalized Software Costs	(5,082)	(2,268)	-	(7,350)
Total	(20,364)	(2,535)	-	(22,899)
Net Capital Assets	$ 31,952	$ 6,483	$ -	$ 38,435

SCHEDULE OF CHANGES IN THE STATE'S NET PENSION LIABILITY AND RELATED RATIOS
Fiscal Years Ended June 30, 2020 through 2014

	2020
Total pension liability	
Service cost	$ 2,859,384
Interest on the total pension liability	23,720,171
Difference between expected and actual experience	(1,547,100)
Assumption changes	1,929,204
Benefit payments	(25,709,904)
Refunds	(137,810)
Administrative expense	(400,697)
Net change in total pension liability	713,248
Total pension liability - beginning	381,562,351
Total pension liability - ending (a)	$382,275,599
Plan fiduciary net position	
Contributions - employer	$ 25,754,000
Contributions - participant	1,205,930
Net investment income	2,581,064
Benefit payments	(25,709,904)
Refunds	(137,810)
Administrative expense	(400,697)
Net change in plan fiduciary net position	3,292,583
Plan fiduciary net position - beginning	59,719,220
Plan fiduciary net position - ending (b)	$ 63,011,803
State's net pension liability - ending (a)-(b)	$319,263,796
Plan fiduciary net position as a percentage of the total pension liability	16.48%
Covered payroll	$ 10,190,658
State's net pension liability as a percentage of covered payroll	3,132.91%
Single discount rate, Beginning of Year	6.41%
Single discount rate, End of Year	6.37%
Long-term municipal bond rate	2.45%
Long-term municipal bond rate date	6/30/20

2019	2018	2017	2016	2015	2014
$ 3,280,072	$ 3,535,911	$ 3,879,813	$ 3,577,188	$ 5,957,132	$ 5,383,133
24,852,899	24,541,949	24,045,958	22,395,292	19,911,100	20,110,452
4,007,760	1,197,364	2,093,742	(5,400,812)	2,366,032	12,389,130
(8,252,643)	(1,213,112)	(2,430,609)	42,122,612	(70,538,690)	-
(24,558,440)	(23,283,020)	(22,362,526)	(21,841,237)	(21,274,949)	(20,800,502)
(168,920)	(44,856)	(130,885)	(141,817)	(191,755)	(245,133)
(389,833)	(348,384)	(355,711)	(382,340)	(394,695)	(334,628)
(1,229,105)	4,385,852	4,739,782	40,328,886	(64,165,825)	16,502,452
382,791,456	378,405,604	373,665,822	333,336,936	397,502,761	381,000,309
$381,562,351	$382,791,456	$378,405,604	$373,665,822	$333,336,936	$397,502,761
$ 23,253,426	$ 21,155,000	$ 21,721,000	$ 16,073,000	$ 15,870,941	$ 13,956,669
1,317,187	1,255,232	1,284,707	1,309,697	1,487,346	1,502,605
3,449,416	3,733,504	5,140,250	(539,494)	2,287,916	8,363,428
(24,558,440)	(23,283,020)	(22,362,526)	(21,841,237)	(21,274,949)	(20,800,502)
(168,920)	(44,856)	(130,885)	(141,817)	(191,755)	(245,133)
(389,833)	(348,384)	(355,711)	(382,340)	(394,695)	(334,628)
2,902,836	2,467,476	5,296,835	(5,522,191)	(2,215,196)	2,442,439
56,816,384	54,348,908	49,052,073	54,574,264	56,789,460	54,347,021
$ 59,719,220	$ 56,816,384	$ 54,348,908	$ 49,052,073	$ 54,574,264	$ 56,789,460
$321,843,131	$325,975,072	$324,056,696	$324,613,749	$278,762,672	$340,713,301
15.65%	14.84%	14.36%	13.13%	16.37%	14.29%
$ 10,159,312	$ 10,711,024	$ 10,996,284	$ 11,297,614	$ 11,587,285	$ 12,754,356
3,167.96%	3,043.36%	2,946.97%	2,873.29%	2,405.76%	2,671.35%
6.68%	6.66%	6.60%	6.91%	5.11%	5.39%
6.41%	6.68%	6.66%	6.60%	6.91%	5.11%
3.13%	3.62%	3.56%	2.85%	3.80%	4.29%
6/30/19	6/30/18	6/30/17	6/30/16	6/30/15	6/30/14

Notes to the Schedule of Changes in the State's Net Pension Liability and Related Ratios

Valuation Date: June 30, 2020

This Schedule is intended to show information for ten (10) years. Information prior to 2014 is not available. The additional years will be added, prospectively, as they become available.

Key Assumption Changes Related to the Schedule of Changes in the State's Net Pension Liability and Related Ratios

2020 Changes in Assumptions:

- There were no significant assumption changes.

2019 Changes in Assumptions:

- The investment rate of return assumption decreased from 6.75% to 6.5%.
- The rate of inflation decreased from 2.5% to 2.25%.
- The salary increase assumption decreased from 2.75% to 2.5%.
- The mortality tables were updated to Pub-2010 Above-Median Income General Healthy Retiree and Employee Mortality Tables with adjustments for the System's credibility factors and future mortality improvements using scale MP-2018.
- The normal and early retirement rates were updated to better reflect observed experience.
- The turnover rates were updated to better reflect observed experience.

2018 Changes in Assumptions:

- The rate of inflation decreased from 2.75% to 2.50%.
- The salary increase assumption was decreased to 2.75% from 3.00%.

2017 Changes in Assumptions:

- There were no significant assumption changes.

2016 Changes in Assumptions:

- The rate of inflation decreased from 3.00% to 2.75%.
- The investment return assumption was decreased from 7.00% to 6.75%.
- The salary increase assumption was decreased from 3.5% to 3.00%.
- Turnover rates were increased for both Tier 1 and Tier 2 members. For Tier 2 members with less than five years of service, the turnover rate was increased to a flat rate of 10%.
- The overall salary increase rates were decreased to better reflect observed experience.
- The overall normal retirement rates were increased to better reflect observed experience.
- Generational mortality improvement factors were added to reflect future mortality improvements. The new mortality tables move from a single dimensional age-based table to a two dimensional table where the year of a person's birth influences their mortality rate.

2015 Changes in Assumptions:

- Future members electing to participate in the System changed from 100% to 50%.

SCHEDULE OF INVESTMENT RETURNS

	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	4.7%	7.2%	7.5%	12.3%	0.3%	3.2%	18.1%

*** NOTE:** This Schedule is intended to show information for ten (10) years. Information prior to 2014 is not available. The additional years will be added, prospectively, as they become available.

SCHEDULE OF STATE CONTRIBUTIONS

Fiscal Year Ended June 30	Actuarially determined contribution	Contributions received	Contribution (deficiency) excess	Covered Payroll	Contributions received as a percentage of covered payroll
2011	$ 13,086,199	$ 11,433,614	$ (1,652,585)	$ 15,188,000	75.28%
2012	13,365,820	10,502,000	(2,863,820)	15,263,164	68.81%
2013	17,064,640	14,150,000	(2,914,640)	14,876,335	95.12%
2014	17,110,135	13,956,669	(3,153,466)	12,754,356	109.43%
2015	16,900,876	15,870,941	(1,029,935)	11,587,285	136.97%
2016	17,140,656	16,073,000	(1,067,656)	11,297,614	142.27%
2017	26,984,621	21,721,000	(5,263,621)	10,996,284	197.53%
2018	32,082,644	21,155,000	(10,927,644)	10,711,024	197.51%
2019	32,650,450	23,253,426	(9,397,024)	10,159,312	228.89%
2020	34,410,810	25,754,000	(8,656,810)	10,190,658	252.72%

Notes to Schedule of State Contributions:

Valuation Date: June 30, 2018

Notes: Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

Covered payroll for fiscal years on and after June 30, 2012, were restated to comply with the requirements of GASB Statement No. 82. For fiscal years prior to June 30, 2012, covered payroll was not restated to comply with the requirements of GASB Statement No. 82 due to system limitations.

Methods and Assumptions as of the Valuation Date:

Actuarial Cost Method: Projected Unit Credit

Amortization Method: Normal cost plus a 20 year level percentage of capped payroll closed-period amortization of the unfunded accrued liability.

Remaining Amortization Period:	17 years, closed.
Asset Valuation Method:	5 year smoothed market
Inflation:	2.5%
Salary Increases:	A salary increase rates based on age-related productivity and merit rated plus inflation.
Post Retirement Benefit:	Post-retirement benefit increases of 3.00%, compounded, for Tier 1; and 3.00% or the annual change in the Consumer Price Index, whichever is less, simple for Tier 2.
Investment Rate of Return:	6.75%
Retirement Age:	Experienced based table of rates that are specific to the type of eligibility.

Mortality:

Post-retirement:	RP-2014 White Collar Healthy Annuitant mortality table, sex distinct, and generational mortality improvements using the MP-2014 two-dimensional mortality improvement scales.
Pre-retirement:	RP-2014 White Collar Total Employee mortality table, sex distinct, and generational mortality improvement using MP-2014 two-dimensional mortality improvement scales.

SUMMARY OF REVENUES BY SOURCE
Year Ended June 30, 2020

Contributions:	
Participants:	
Participants	$ 1,195,556
Interest paid by participants	10,374
Total participant contributions	1,205,930
Employer:	
General Revenue Fund	25,754,000
Total contributions revenue	26,959,930
Investment income:	
Net appreciation/(depreciation) in fair value of investments	1,970,444
Interest and dividends from investments	629,898
Interest earned on cash balances	56,977
Less investment expense, other than from securities lending	(76,255)
Net investment income (loss)	2,581,064
Total revenues	$29,540,994

SCHEDULE OF PAYMENTS TO CONSULTANTS
Year Ended June 30, 2020

Actuary	$ 50,095
Audit fees	35,522
Legal services	118
Total	$ 85,735

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended June 30, 2020

Cash balance, beginning of year	$ 4,144,035
Receipts:	
Participant contributions	1,234,901
Employer contributions: - General Revenue Fund	26,721,540
Interest income on cash balances	60,003
Tax-deferred installment payments	6,176
Cancellation of annuities, net overpayments	1,008
Total cash receipts	28,023,628
Disbursements:	
Benefit payments:	
Retirement annuities	21,641,816
Survivors' annuities	4,069,086
Refunds	137,809
Administrative expenses	405,130
Total cash disbursements	26,253,841
Cash balance, end of year	$ 5,913,822

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RSM US LLP

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Frank J. Mautino
Auditor General, State of Illinois

Board of Trustees
General Assembly Retirement System of the State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position of the General Assembly Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents, and we have issued our report thereon dated December 17, 2020. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting (internal control) or compliance and other matters of the Illinois State Board of Investment that are reported on separately by those auditors. Our report also includes a reference to the fact that the actuarially determined net pension liability is dependent on several assumptions, including the assumption that future required contributions from State sources are made based on statutory requirements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
December 17, 2020