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ANNUAL REPORT

for the year ended August 31, 1965

STATE
UNIVERSITIES
RETIREMENT
SYSTEM

Urbana, Illinois

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UNIVERSITY OF ILLINOIS

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The State Universities Retirement System Office is located at
807 South Lincoln Avenue, Urbana, Illinois 61801
Phone — 333-3860 Area Code 217

**TEN YEARS' PROGRESS
OF THE STATE UNIVERSITIES RETIREMENT SYSTEM
1958-1967**

Year Ended August 31	Assets	Income	Expenditures
1958	33,393,459	7,150,943	2,783,084
1959	38,828,867	7,837,770	3,133,438
1960	45,574,789	10,309,798	3,520,008
1961	53,726,418	11,128,044	3,853,843
1962	62,104,132	12,968,022	4,616,137
1963	71,767,205	14,045,512	5,226,533
1964	82,377,948	16,402,809	5,820,321
1965	94,309,890	18,102,186	6,858,114
1966	108,559,244	21,645,964	8,408,153
1967	130,598,517	27,685,240	9,364,749

**1966-1967
IN BRIEF**

	End of Year 1967	End of Year 1966	Per Cent Increase For the Year
Assets	\$130,598,517	\$108,559,244	20.3
Income	27,685,240	21,645,964	27.9
Expenditures	9,364,749	8,408,153	11.4

Results of Operations for 1969-70

INCOME

The income of the System is derived from (1) employee contributions, (2) employer contributions from the State of Illinois and from trust and Federal funds, and (3) interest on investments.

Employee Contributions

Every employee under the System contributes 7 percent of his earnings to finance part of the cost of his annuity. If he resigns prior to establishing eligibility for a retirement annuity, his contributions plus interest are refunded to him, or, upon his death, to his beneficiary.

Employees also contribute an additional 1 percent on earnings which is used to finance a part of the cost of survivors insurance benefits to widows, children under age 18, dependent widowers, and dependent parents. If a person resigns and withdraws his contributions, the survivors insurance contributions are refunded with interest. Survivors insurance contributions are also refunded with interest if a person dies or retires and does not have a beneficiary who could qualify for survivors insurance payments.

Total employee contributions during the year amounted to \$29,820,815. This is 44.8 percent of the total income received during the year and is an increase of 36.9 percent over the total employee contributions received during the previous fiscal year.

Employer Contributions

The Act governing the Retirement System provides that the State of Illinois, through appropriations to the various employers covered by the System, shall make employer contributions sufficient to fund fully the current service costs and to cover interest on the unfunded accrued liabilities. Employers also make contributions to the System from trust and Federal funds under their control.

Employer contributions during the year amounted to \$26,533,989 which was 39.9 percent of the total income during the year. This was \$12,811,961 or 93.4 percent more than the employer contributions for 1968-69. A portion of this increase is due to a

change in the method of accounting. (See Note E to Financial Statements.)

Investment Income

Income from the System in excess of the amount necessary to meet current obligations is invested promptly in good quality corporation bonds and common stocks.

Income from investments during the year amounted to \$10,205,377. This is 15.3 percent of the total income received during the year.

The average rate of return on all bonds held during the past year was 5.6 percent as compared with 5.08 percent for the previous year. Dividends on common stocks amounted to 3.34 percent of the average cost of the stocks. This was slightly less than the 3.48 percent return on stocks for 1968-69.

EXPENDITURES

Total expenditures during the fiscal year amounted to \$16,629,461. This was \$3,197,663 or 23.8 percent greater than the expenditures for the previous year. The expenditures were as follows:

Annuities	\$ 7,633,206
Disability benefits	1,333,770
Death benefits	640,044
Survivors benefits	1,016,474
Refunds	5,616,123
Administrative expenses	389,844
	<hr/>
TOTAL	\$16,629,461

ASSETS

As of August 31, 1970, total assets were \$229,309,052. This is an increase of \$48,012,900 or 26.5 percent over the previous year. Of the total assets \$175,275 was in cash, \$5,430,086 in receivables, \$171,504,487 in bonds, and \$52,009,785 in common stocks.

INVESTMENTS IN MARKETABLE SECURITIES

Marketable securities owned at August 31, 1970, consisted of the following:

	PRINCIPAL AMOUNT OR NUMBER OF SHARES	CARRYING AMOUNT	MARKET VALUE
Bonds and notes:			
United States			
Government	\$ 20,001,000	\$ 20,028,316	\$ 16,625,735
Canadian	9,012,000	8,677,133	7,355,620
Public Utility	57,217,000	57,181,494	44,742,425
Industrial and Financial	76,805,617	76,466,094	60,465,574
Railroad	9,165,000	9,151,450	7,386,450
Total Bonds	\$172,200,617	171,504,487	136,575,804
Common Stocks	1,178,815	52,009,785	48,974,545
TOTAL MARKETABLE SECURITIES		\$223,514,272	\$185,550,349

The securities are held in safekeeping by the Harris Trust and Savings Bank, Chicago, Illinois, as trustee for the System. Bonds are carried at amortized cost and common stocks are carried at cost. Interest income earned but not received at August 31 was accrued.

ERNST & ERNST

Chicago, Illinois

AUDITOR'S REPORT

Board of Trustees of the
State Universities Retirement System
and

Auditor General of the State of Illinois:

We have examined the statement of assets, liabilities and fund balances of the State Universities Retirement System (an Illinois Public Corporation) as of August 31, 1970, and the related state-

ments of income and expenditures and changes in fund balances for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the year ended August 31, 1969.

As explained in Note D to the financial statements, appropriations made for the fiscal year ended June 30, 1970 by the 76th General Assembly were not sufficient to meet the requirements of Article 15 of the "Illinois Pension Code," as amended.

In our opinion, the accompanying financial statements identified above present fairly the assets, liabilities, and fund balances of the State Universities Retirement System at August 31, 1970, and a summary of income and expenditures and changes in fund balances for the year then ended, in conformity with the method of accounting described in Note A to the financial statements which, except for the change (which we approve) in the method of recognizing income from State appropriations as described in Note E to the financial statements, have been applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Chicago, Illinois
October 23, 1970

STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES • STATE UNIVERSITIES RETIREMENT SYSTEM

August 31, 1970

ASSETS	\$
Cash	175,275
Contributions receivable	2,904,935
Accrued interest receivable	2,525,151
Marketable securities — Note B:	
Bonds and notes, at amortized cost (market value \$136,575,804)	\$171,504,487
Common stocks, at cost (market value \$48,974,545)	52,009,785
Prepaid staff services — University of Illinois	10,000
Building construction in progress — Note C	179,419
Furniture and fixtures, carried at no value (cost \$36,087)	
	\$229,309,052
LIABILITIES AND FUND BALANCES	
Accounts payable	
Benefits payable	\$ 49,860
Fund balances — Notes A and D:	680,429
Accumulated contributions	\$217,237,379
Undistributed income on investments	11,341,384
	228,578,763
	\$229,309,052

See notes to financial statements.

STATEMENTS OF INVESTMENT IN FUND BALANCES - STATE UNIVERSITIES RETIREMENT SYSTEM
 Year ended August 31, 1970

	Balance Sept. 1, 1969	Balance Available From Income (Note E)	Interest Distribution	Transfers	Balance Aug. 31, 1970
ACCUMULATED CONTRIBUTIONS:					
From employees	\$113,275,586	\$23,730,435	\$4,845,792	(\$3,316,986)	\$138,534,827
From employers and other sources:					
Retirement annuities accruing provided from Federal and trust funds	13,818,938	2,287,405	621,852	(447,640)	16,280,555
Retirement and reversionary annuities in force provided from:					
Annuitants and Federal and trust funds	11,403,464	(1,179,961)	513,454	3,520,304	14,257,261
State appropriations	15,259,486	5,924,591	715,808	647,357	22,547,242
Beneficiary annuities in force	410,292	(43,252)	18,463	100,012	485,515
Disability benefits	3,996,416	2,345,278	179,839	(215)	6,521,318
Death benefits	1,178,188	224,303	53,018	(5,754)	1,449,755
Survivors insurance benefits	6,401,787	4,439,517	288,080	127,676	11,257,060
Reciprocal benefits	653,992			(653,992)	
Annual increase in annuities to past retirees — Note F		(159,283)	159,283		
Annual increase in annuities — Note F	838,149	1,929,237		5,569	1,934,806
Administrative expenses		227,074	37,717	1,113	1,104,053
Variations in mortality, interest, and turnover experience	2,741,614		123,373		2,864,987
	56,702,326	15,994,909	2,710,887	3,294,430	78,702,552
UNDISTRIBUTED INCOME ON INVESTMENTS	8,670,131	10,205,376	(7,556,679)	22,556	11,341,384
TOTAL	\$178,648,043	\$49,930,720	\$ -	\$ -	\$228,578,763

See notes to financial statements.
 () Denotes deduction.

STATEMENT OF INCOME AND EXPENDITURES
STATE UNIVERSITIES RETIREMENT SYSTEM

INCOME	Year Ended August 31		Increase (Decrease)
	1970	1969	
Employee contributions	\$29,820,815	\$21,788,767	\$ 8,032,048
Employer contributions — Note E: Retirement and reversionary annuities:			
Federal and trust funds	2,287,405	1,752,591	534,814
State appropriations	11,363,355	6,511,212	4,852,143
Disability benefits	3,679,049	1,561,816	2,117,233
Death benefits	390,089	170,446	219,643
Survivors insurance benefits	5,455,992	2,628,105	2,827,887
Reciprocal benefits	566,023	577,783	(11,760)
Annual increase in annuities — Note F	2,175,158		2,175,158
Administrative expenses	616,918	520,075	96,843
Interest on bonds and notes	8,883,201	6,787,808	2,095,393
Dividends	1,410,269	1,115,249	295,020
Net gain (loss) on sale of securities	(88,093)	100,271	(188,364)
TOTAL INCOME	\$66,560,181	\$43,514,123	\$23,046,058
EXPENDITURES			
Retirement, reversionary, and beneficiary annuity payments	\$ 7,228,002	\$ 6,214,062	\$ 1,013,940
Annual increase in annuities to past retirees — Note F	405,204		405,204
Benefit payments:			
Disability	1,333,770	1,150,223	183,547
Death	640,044	541,148	98,896
Survivors insurance	1,016,474	856,739	159,735
Administrative expenses	389,844	336,725	53,119
Contributions refunded to employees upon separation from service	5,616,123	4,332,901	1,283,222
TOTAL EXPENDITURES	\$16,629,461	\$13,431,798	\$3,197,663
INCOME IN EXCESS OF EXPENDITURES	\$49,930,720	\$30,082,325	\$19,848,395
Income in excess of expenditures distributed to fund balances as follows:			
Accumulated contributions:			
Employees	\$23,730,435	\$17,099,188	\$ 6,631,247
Employers and other sources	15,994,909	4,979,808	11,015,101
Undistributed income from investments	10,205,376	8,003,329	2,202,047
TOTAL	\$49,930,720	\$30,082,325	\$19,848,395

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
STATE UNIVERSITIES RETIREMENT SYSTEM
August 31, 1970

Note A — Method of Accounting:

The State Universities Retirement System follows the practice of recording in its accounts only those funds for which it is accountable. Therefore, the accounts do not reflect employer contributions which would be required from the State of Illinois through appropriations to provide for the actuarial requirements of the employee benefits provided for by the "Illinois Pension Code." Accordingly, the financial statements do not include the unrecorded benefits actuarially accrued.

Furniture and fixtures purchased by the System are charged to expense.

In substantially all other respects, the System employs the accrual basis of accounting.

Note B — Marketable Securities:

The carrying amount of bonds held by the System on August 31, 1970, exceeded the market value at that date by approximately \$34,900,000. The System intends to hold substantially all of the bonds until maturity so that losses, if any, would not be significant.

Note C — Building Construction in Progress:

In July 1969, Article 15 of the "Illinois Pension Code" was amended to allow the Board of Trustees of the System to invest in an office building for the use of the System at a total cost not to exceed \$575,000. The office building is being constructed on land to be donated by the University of Illinois. Under this method of financing the office building, the cost of the building is to be amortized over a period of not more than thirty years at 6 percent interest with payments coming from State appropriations and rentals of surplus space.

Note D — State of Illinois Appropriations:

Article 15, Section 15-155 of the "Illinois Pension Code," as amended, provides that the State of Illinois shall make contributions to the System by appropriations "which for any fiscal year shall not be less than an amount which is required to fully fund the current service costs in accordance with actuarial reserve

requirements" as prescribed by such Article and Section of the Code, "plus interest at the prescribed rate on the unfunded accrued liabilities." For the year ended August 31, 1970, employer contributions provided from State appropriations by the 76th General Assembly were not sufficient to meet these requirements by \$31,500,000. The unfunded accrued liabilities increased from \$193,990,000 as of August 31, 1969, to \$217,000,000 as of August 31, 1970, according to computations by the Actuary retained by the System.

Note E — Change in Method of Accounting for State Appropriations:

In prior years, the System recognized income from State appropriations on the basis of the fiscal year for the State of Illinois. Under this method the income recorded by the System for its fiscal year represented the appropriation for the State's fiscal year ended June 30. Amounts received in July and August applicable to appropriations for periods subsequent to June 30 were recorded as deferred income as of year-end. Accordingly, as of August 31, 1969, \$2,239,012 received under the 76th General Assembly appropriation was recorded as "Employer Contributions Advanced" and subsequently included in income for the year ended August 31, 1970.

The System now is invoicing the employer institutions monthly for their contributions from State appropriations, and for the year ended August 31, 1970, has changed its method of accounting for State appropriations by recording income on the basis of the fiscal year of the System. This change in accounting had the effect of increasing income from State appropriations in the amount of \$4,087,480 for the year ended August 31, 1970, which amount represents that portion of the 77th General Assembly appropriation applicable to July and August 1970.

Note F — Changes in State Universities Retirement System:

In 1969, the Pension Code relating to the State Universities Retirement System was amended to provide, among other things, for increased retirement benefits, automatic annual increases in retirement benefits to past and future retirees, increased survivors benefits, an increase in the employees' contribution rate, and an increase in the percentage of assets that can be invested in common stocks. These amendments were effective during the year ended August 31, 1970.