ANNUAL REPORT

for the year ended August 31, 1967

STATE UNIVERSITIES RETIREMENT SYSTEM

Urbana, Illinois

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BOARD OF TRUSTEES AND OFFICERS

OF THE STATE UNIVERSITIES RETIREMENT SYSTEM

The State Universities Retirement System Office is located at
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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 1966-67

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 6 per cent 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 per cent 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 $13,538,153. This is 48.9 per cent of the total income received during the year and is an increase of 24.6 per cent over the total employee contributions received during the fiscal year 1965-66.

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 at least equal to an amount necessary to pay estimated benefits and expenses during each biennium, plus an amount necessary to maintain reserves sufficient to meet the payment of benefits and expenses for two years following the biennium. Employers also make contributions to the System from trust and federal funds under their control.

Employer contributions during the year amounted to $9,302,388. This is 33.6 per cent of the total income received during the year.

Investment Income

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

Income from investments during the year amounted to $4,844,699. This is 17.5 per cent of the total income received during the year.

The average rate of return on all bonds held during the past year was 4.36 per cent. The average rate of return on bonds purchased during the year was 5.68 per cent. Dividends on common stocks amounted to 3.41 per cent of the average cost of the stocks.

EXPENDITURES

Total expenditures during the fiscal year amounted to $9,364,749. This was $956,596 or 11.4 per cent greater than the expenditures for the previous year. The expenditures were as follows:

Retirement annuities		$4,616,140
Reversionary annuities		60,899
Beneficiary annuities		29,738
Disability benefits		864,206
Death benefits		371,617
Survivors benefits		585,380
Refunds and transfers		2,605,296
Administrative expenses		231,473
	TOTAL	$9,364,749

ASSETS

As of August 31, 1967, total assets were $130,598,517. This is an increase of $22,039,273 or 20.3 per cent over the previous year. Of the total assets $177,552 was in cash, $3,485,667 in receivables, $104,231,792 in bonds, and $22,703,506 in common stocks.

INVESTMENTS IN MARKETABLE SECURITIES

The marketable securities owned at August 31, 1967, were held by the Harris Trust and Savings Bank, Chicago, Illinois, as custodian, and are summarized as follows:

	PRINCIPAL OR NUMBER OF SHARES	BONDS (AMORTIZED COST), STOCKS (COST)	MARKET VALUE
Bonds:			
United States Government	$ 7,301,000.00	$ 7,348,734.34	$ 6,413,774
Public Utility	44,625,000.00	44,449,727.30	37,585,151
Industrial and Financial (including demand notes)	45,659,123.24	45,594,284.93	40,744,699
Railroad	6,885,000.00	6,839,045.78	6,541,825
Sub-total	$104,470,123.24	$104,231,792.35	**$ 91,285,449**
Common Stocks	447,419	22,703,506.03	**24,650,117**
TOTAL INVESTMENTS		**$126,935,298.38**	**$115,935,566**

ARTHUR ANDERSEN & CO.

Chicago, Illinois

AUDITORS' REPORT

To the 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, 1967, and the related statements 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 have previously examined and reported on the financial statements for the preceding year.

The provisions of Article 15 of the Illinois Pension Code (Code) which were in effect prior to amendment of the Code on

September 8, 1967, required that employer contributions from appropriations by the General Assembly shall not be less than the minimum requirements described in Note 1 to the financial statements. Appropriations made for the 74th biennium were not sufficient to meet these minimum requirements. In addition, state appropriations do not fully provide for benefits actuarially accrued. At August 31, 1967, unfunded reserve requirements for accrued pension credits approximated $143,600,000 as computed by the actuary retained by the System.

The State Universities Retirement System follows the practice of recording in its accounts only those funds for which it is accountable and its accounts do not reflect the employer contribu[illegible]ich would be required from state appropriations to [illegible]r the actuarial requirements of the employee benefits [illegible] for by the Code. Accordingly, the accompanying financial statements do not include the unrecorded benefits actuarially accrued.

In our opinion, the amounts shown in the accompanying financial statements for assets, accounts payable, employer contributions advanced, accumulated contributions and undistributed income as of August 31, 1967, and for income and expenditures, excluding full provision for the current cost of benefits accrued, and changes in fund balances for the year then ended, are presented fairly in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Chicago, Illinois,
October 16, 1967.

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

August 31, 1967

ASSETS		
Cash		$ 177,551.59
Accounts receivable		2,336,262.54
Accrued interest receivable		1,149,404.20
Marketable securities –		
Bonds, at amortized cost (market value $91,285,449) (Note 3)	$104,231,792.35	
Common stocks, at cost (market value $24,650,117)	22,703,506.03	126,935,298.38
		$130,598,516.71
LIABILITIES AND FUND BALANCES		
Accounts payable		$ 363,968.09
Employer contributions advanced		9,752,400.00
Fund balances (Note 1) –		
Accumulated contributions (Note 2) –		
Employee	$78,367,097.23	
Other	36,360,247.54	114,727,344.77
Undistributed income on investments		5,754,803.85
		$130,598,516.71

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENTS OF INCOME AND EXPENDITURES

STATE UNIVERSITIES RETIREMENT SYSTEM

For the years ended August 31, 1967 and 1966

INCOME:	1967	1966	Increase
Employee contributions	$ 13,538,153.35	$ 10,864,373.64	$ 2,673,779.71
Employer contributions – Retirement annuities – Federal and trust funds	2,293,928.71	1,168,940.99	1,124,987.72
State appropriations	4,322,290.55	3,716,690.55	605,600.00
Disability benefits	1,190,905.39	910,181.50	280,723.89
Death benefits	109,558.46	84,992.79	24,565.67
Survivors' insurance benefits	957,094.32	630,948.32	326,146.00
Reciprocal benefits	182,720.65	123,576.12	59,144.53
Administrative expenses	245,889.65	211,914.68	33,974.97
Interest on bonds, plus accumulated discount, less amortized premiums	4,033,733.84	3,397,224.22	636,509.62
Dividends	683,162.71	511,308.55	171,854.16
Gains on sale or redemptions of securities	127,802.10	25,812.65	101,989.45
	$27,685,239.73	**$21,645,964.01**	**$6,039,275.72**
EXPENDITURES:			
Annuity payments – Retirement	$ 4,616,139.86	$ 4,098,089.11	$ 518,050.75
Reversionary	60,899.13	59,315.76	1,583.37
Beneficiary	29,737.80	25,330.35	4,407.45
Benefit payments – Disability	864,206.05	776,628.63	87,577.42
Death	371,616.78	346,532.83	25,083.95
Survivors' insurance	585,380.28	491,711.19	93,669.09
Administrative expenses	231,473.39	205,186.08	26,287.31
Contributions refunded to employees upon separation from service, including interest	2,605,295.83	2,405,359.40	199,936.43
	$ 9,364,749.12	**$ 8,408,153.35**	**$ 956,595.77**
Balance available for distribution to fund balances	**$18,320,490.61**	**$13,237,810.66**	**$5,082,679.95**
DISTRIBUTED AS FOLLOWS:			
Accumulated contributions – Employee	$ 10,663,651.43	$ 8,183,494.54	$ 2,480,156.89
Other	2,812,140.53	1,119,970.70	1,692,169.83
Undistributed income on investments	4,844,698.65	3,934,345.42	910,353.23
	$18,320,490.61	**$13,237,810.66**	**$5,082,679.95**

The accompanying notes to the financial statements are an integral part of these statements.

STATEMENT OF CHANGES IN FUND BALANCES · STATE UNIVERSITIES RETIREMENT SYSTEM

for the year ended August 31, 1967

	Balance Aug. 31, 1966	Balance Available From Income	Interest Distribution	Transfers	Balance Aug. 31, 1967
ACCUMULATED CONTRIBUTIONS (Note 2):					
From employees	$ 66,628,685.58	$ 10,663,651.43	$ 2,886,666.06	$ (1,811,905.84)	$ 78,367,097.23
From others –					
Retirement annuities accruing provided from Federal and trust funds	$ 8,569,196.55	$ 2,293,928.71	$ 385,613.84	$ (227,475.43)	$ 11,021,263.67
Retirement annuities in force provided from –					
Annuitants and Federal and trust funds	7,068,703.82	(908,264.62)	318,091.67	1,894,647.42	8,373,178.29
State appropriations	6,682,129.35	669,984.43	300,695.82	–	7,652,809.60
Beneficiary annuities in force	274,789.04	(29,737.80)	12,365.51	75,250.44	332,667.19
Disability benefits	2,262,538.53	326,699.34	101,814.23	–	2,691,052.10
Death benefits	982,288.37	7,064.02	44,202.98	(1,000.00)	1,032,555.37
Survivors' insurance benefits	1,772,972.09	371,714.04	79,783.74	62,395.31	2,286,865.18
Reciprocal benefits	27,957.73	66,336.15	1,258.10	–	95,551.98
Administrative expenses	334,267.83	14,416.26	15,042.05	–	363,726.14
Variations in mortality, interest, and turnover experience	2,402,467.00	–	108,111.02	–	2,510,578.02
TOTAL OTHER	$ 30,377,310.31	$ 2,812,140.53	$ 1,366,978.96	$ 1,803,817.74	$ 36,360,247.54
UNDISTRIBUTED INCOME ON INVESTMENTS	$ 5,155,662.12	$ 4,844,698.65	$ (4,253,645.02)	$ 8,088.10	$ 5,754,803.85
	$102,161,658.01	**$18,320,490.61**	–	–	**$120,482,148.62**

( ) Denotes negative balance or deduction.

The accompanying notes to the financial statements are an integral part of this statement.

FINANCIAL STATEMENTS

15, Section 15-155 of the Illinois Pension Code pro- State of Illinois shall make contributions to the biennial appropriations which, together with contribu- employers out of trust, Federal, and other funds under the control, contributions of participating employees and income of the System, will be necessary to meet the costs of and administering the System. The Code further that the amount of the employer contribution for any shall be the amounts estimated to be necessary, based tables adopted by the Board of Trustees of the Sys- the disability benefits, additional death benefits, the portion of the cost of annuities and survivors' insur- and expenses to be paid during the year and to the accumulation of assets at the end of the year equal of the following:

liability for all annuities expected to be paid to the tants, and the survivors insurance benefits expected

liability for all accumulated additional, normal, and insurance contributions of the then participants;

single premium reserve required for the employers' portion of the cost of all annuities which have then accrued be- previous earnings of the then participants;

additional reserves which may reasonably be required be- tions in mortality, interest, and turnover experience;

amount estimated to be necessary to meet the payments ding biennium of the employers' portion of all vivors insurance benefits, disability benefits, addi- benefits, and benefits in lieu thereof, and expense of administration."

further provided prior to amendment on September 8, a minimum, employer contributions from funds deral and trust funds "shall not be less than an ry to meet all payments of benefits and expenses he biennium, and to make the assets of the system e biennium equal to the sum of the accumulated al, and survivors insurance contributions and the reserve required for that portion of the annuities employees' normal and additional contributions u thereof, the liabilities arising out of employer m trust and Federal funds, and the amounts provided in (d) and (e) of this paragraph 1." Employer contributions provided from state appropriations by the 74th General Assembly were not sufficient to meet these minimum requirements. In addition, the present method of providing for contributions to the System from state appropriations recognizes the cost of benefits only when such benefits are paid to retired employees or their beneficiaries, without regard to the amounts required to fully provide for benefits which have actuarially accrued to active and retired employees, or their beneficiaries. Unfunded reserve requirements for accrued pension credits at August 31, 1967, approximated $143,600,000, representing the amount which would be necessary to fully provide for all benefits which have been actuarially accrued at that date.

On September 8, 1967, Article 15 of the Code was amended to provide that contributions of employers from state appropriations for any fiscal year shall not be less than an amount which is required to fund fully the current service costs in accordance with actuarial reserve requirements plus interest at the prescribed rate (currently 3½ per cent) on the unfunded accrued liabilities. This amendment became effective subsequent to the date that the appropriation was made for the 75th biennium.

(2) Accumulated contributions reflected in the accompanying financial statements represent contributions from employees, unexpended annuitant contributions, unexpended employer contributions from Federal and trust funds, and unexpended employer contributions from state appropriations. Each account balance also includes interest which has been distributed from Undistributed Income on Investments. The System segregates contributions from members and employers according to the purpose for which the contributions were made which include retirement annuities, beneficiary annuities, disability benefits, death benefits, survivors' insurance benefits, reciprocal benefits, administrative expenses and variations in mortality, interest and turnover experience.

(3) The cost of bonds held by the System at August 31, 1967, exceeded the market value at that date by approximately $12,946,000. The System intends to hold substantially all of the bonds until maturity, so that losses, if any, resulting from the sale of securities would not be significant.

(4) The System follows the practice of charging to expense furniture and fixtures when purchased. As of August 31, 1967, the System was using furniture and fixtures which cost approximately $26,000.