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ANNUAL REPORT

for the year ended August 31, 1973

**STATE
UNIVERSITIES
RETIREMENT
SYSTEM**

Champaign, Illinois

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The State Universities Retirement System Office is located at
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Phone — 333-3860, Area Code 217

TEN YEARS' PROGRESS
OF THE STATE UNIVERSITIES RETIREMENT SYSTEM
1964—1973

Year Ended August 31	Assets	Income	Expenditures
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
1968	159,384,167	39,212,834	11,129,265
1969	181,296,152	43,514,123	13,431,798
1970	229,309,052	66,560,181	16,629,461
1971	281,547,309	71,511,781	19,109,259
1972	328,737,980	71,232,832	24,185,849
1973	383,174,386	83,124,602	28,686,941

1972—1973

IN BRIEF

	End of Year 1973	End of Year 1972	Percent Increase For the Year
Assets	\$383,174,386	\$328,737,980	16.6
Income	83,124,602	71,232,832	16.7
Expenditures	28,686,941	24,185,849	18.6

Results of Operations for 1972-73

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 of earnings which is used to finance a part of the cost of survivors insurance benefits to widows, widowers, children under age 18, 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 \$39,873,003. This is 48.0 percent of the total income received during the year and is an increase of 12.2 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 of not less than an amount which is needed to fund fully the current service costs and to cover interest on the unfunded accrued liabilities. However, the General Assembly has failed to appropriate funds to meet this minimum statutory requirement. As a result, the *deficit* for prior service amounted to about \$467 million at the end of the fiscal year. Employers also make contributions to the System from trust and Federal funds under their control.

Employer contributions during the year amounted to \$24,194,339 which was 29.1 percent of the total income during the year. This was \$4,866,630 or 25.2 percent more than the employer contributions for 1971-72.

Investment Income

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

Income from investments during the year amounted to \$19,057,261. This is 22.9 percent of the total income received during the year.

The average rate of return on all bonds held during the past year

was 6.53 percent as compared with 6.33 percent for the previous year. Dividends on common stocks amounted to 3.20 percent of the average cost of the stocks. This was slightly less than the 3.25 percent return on stocks for 1971-72.

EXPENDITURES

Total expenditures during the fiscal year amounted to \$28,686,941. This was \$4,501,092 or 18.6 percent greater than the expenditures for the previous year. The expenditures were as follows:

Annuities	\$14,654,159
Disability benefits	2,550,727
Death benefits	1,052,149
Survivors benefits	1,712,233
Refunds	8,171,073
Administrative expenses	546,600
TOTAL	\$28,686,941

ASSETS

As of August 31, 1973, total assets were \$383,174,386. This is an increase of \$54,436,406 or 16.6 percent over the previous year.

INVESTMENTS IN MARKETABLE SECURITIES

Marketable securities owned at August 31, 1973 consisted of the following:

	PRINCIPAL AMOUNT OR NUMBER OF SHARES	CARRYING AMOUNT	MARKET VALUE
Bonds and notes:			
U.S. Government and Federal Agencies	\$ 17,002,000	\$ 16,995,103	\$ 14,917,247
Canadian Corporation	9,012,000	8,732,337	7,861,745
	231,055,230	224,180,787	198,476,768
Total Bonds	\$257,069,230	\$249,908,227	\$221,255,760
Common Stocks	2,760,829	122,483,225	139,172,269
TOTAL MARKETABLE SECURITIES		\$372,391,452	\$360,428,029

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.

WINAKOR, BATES, & BRUNSON
CERTIFIED PUBLIC ACCOUNTANTS
Champaign, Illinois

AUDITORS' OPINION

Board of Trustees of the
State Universities Retirement System
and
Auditor General of the State of Illinois

We have examined the statements of assets, liabilities and fund balances of State Universities Retirement System as of August 31, 1973, 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.

In our opinion, the aforementioned financial statements present fairly the assets, liabilities and fund balances of State Universities Retirement System as of August 31, 1973, and its financial activities for the year then ended in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Winakor, Bates & Brunson

Champaign, Illinois
November 13, 1973

STATE UNIVERSITIES RETIREMENT SYSTEM

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES

As of August 31, 1973 and 1972

RETIREMENT FUND		
	1973	1972
ASSETS		
Cash	\$ 2,067,822	\$ 41,428
Receivables		
Participants' contributions	\$ 2,530,018	\$ 2,299,302
Employer contributions		
Federal and trust funds	519,093	310,177
State appropriations	793,792	29,184
Reciprocating retirement systems	164,491	6,742
Other	42,290	40,018
	\$ 4,049,684	\$ 2,685,423
Investments		
Bonds, at amortized cost;		
market value \$221,256,000 (1973)		
and \$200,075,000 (1972)	\$249,908,227	\$217,455,560
Common stocks, at cost;		
market value \$139,172,000 (1973)		
and \$128,445,000 (1972)	122,483,225	104,385,546
Due from Building Fund	555,876	563,643
Accrued interest on investments	4,109,552	3,606,380
	\$377,056,880	\$326,011,129
Total Assets	\$383,174,386	\$328,737,980
BUILDING FUND		
Cash	\$ 23,065	\$ 12,789
Property, plant and equipment		
Land	\$ 70,000	\$ 70,000
Land improvements	12,088	12,088
Office building	560,332	560,332
Furniture and equipment	48,215	43,790
	\$ 690,635	\$ 686,210
Total Assets	\$ 713,700	\$ 698,999

The accompanying notes are a part of the financial statements.

STATE UNIVERSITIES RETIREMENT SYSTEM

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES

As of August 31, 1973 and 1972

	1973	1972
RETIREMENT FUND		
LIABILITIES AND FUND BALANCES		
Accounts payable		
Refunds to participants	\$ 471,639	\$ 396,287
Benefits to annuitants and beneficiaries	110,538	90,634
Administrative	9,862	53,771
Unclaimed benefit and refund checks	6,229	5,563
Other	5,939	7,540
	\$ 604,207	\$ 553,795
Deferred income; ten-twelfths of appropriation from State Pension Fund	\$ 104,250	\$ 155,917
Fund balances		
Participants' contributions	\$229,548,931	\$197,300,403
Annuitants' and employers' contributions	128,769,899	111,578,810
Undistributed investment income	24,147,099	19,149,055
	\$382,465,929	\$328,028,268
Total Liabilities and Fund Balances	\$383,174,386	\$328,737,980
BUILDING FUND		
Due to Retirement Fund	\$ 555,876	\$ 563,643
Fund balances provided by:		
Gift of land	\$ 70,000	\$ 70,000
Retirement Fund expenditures for furniture and equipment	48,215	43,790
Accumulated excess of income over expenditures	39,609	21,566
	\$ 157,824	\$ 135,356
Total Liabilities and Fund Balances	\$ 713,700	\$ 698,999

The accompanying notes are a part of the financial statements.

STATE UNIVERSITIES RETIREMENT SYSTEM
STATEMENT OF INCOME AND EXPENDITURES —
RETIREMENT FUND

For the Years Ended August 31, 1973 and 1972

	1973	1972
INCOME		
Participants' contributions	\$39,873,003	\$35,539,911
Employer contributions		
State appropriations	18,368,517	15,410,795
Trust funds	3,156,693	2,992,961
Federal funds	80,010	71,807
Reciprocating systems	2,589,119	852,146
Income on investments		
Interest	15,250,377	13,119,772
Dividends	3,635,358	2,973,862
Net gain on sales of securities	137,708	237,601
Interest from Building Fund	33,818	33,977
TOTAL INCOME	\$83,124,602	\$71,232,832
EXPENDITURES		
Benefits		
Retirement	\$14,654,159	\$11,641,547
Disability	2,550,727	2,017,177
Death	1,052,149	906,523
Survivors' insurance	1,712,233	1,461,965
Participants' withdrawals of own contributions and interest upon termination	8,171,073	7,641,835
Administrative expenses	546,600	516,802
TOTAL EXPENDITURES	\$28,686,941	\$24,185,849
Excess of income over expenditures	\$54,437,661	\$47,046,983

The accompanying notes are a part of the financial statements.

STATE UNIVERSITIES RETIREMENT SYSTEM
STATEMENT OF INCOME AND EXPENDITURES —
BUILDING FUND

For the years ended August 31, 1973 and 1972

	1973	1972
INCOME		
Office space rental, including \$46,000 from Retirement Fund	\$81,840	\$81,467
EXPENDITURES		
Interest paid to Retirement Fund	\$33,818	\$33,977
Building operating expenses	29,979	31,051
TOTAL EXPENDITURES	\$63,797	\$65,028
Excess of income over expenditures	\$18,043	\$16,439

The accompanying notes are a part of the financial statements.

STATE UNIVERSITIES RETIREMENT SYSTEM — RETIREMENT FUND
 STATEMENT OF CHANGES IN FUND BALANCES

For the year ended August 31, 1973

	Balance August 31, 1972	Income	Expenditures	Interest Distribution	Transfers In (Out)	Balance August 31, 1973
ACCUMULATED CONTRIBUTIONS:						
From participants	\$197,300,403	\$39,870,990	\$ 9,023,328	\$ 8,424,058	\$(7,023,191)	\$229,548,931
From employers and other sources:						
Retirement annuities accruing provided from Federal and trust funds	\$ 21,221,493	\$ 2,406,677	\$ —	\$ 954,967	\$ (906,488)	\$ 23,676,649
Retirement and reversionary annuities in force provided from annuitants and from Federal and trust funds	21,793,995	2,589,119	4,024,017	980,730	7,333,012	28,672,840
Retirement and reversionary annuities accruing and in force provided from State appropriations	17,276,118	3,659,455	9,816,154	777,425	—	11,896,844
Beneficiary annuities in force	575,149	—	57,271	25,882	95,956	639,715
Disability benefits	10,072,263	2,549,854	2,550,727	453,252	—	10,524,642
Death benefits	2,392,033	683,205	199,894	107,641	(500)	2,982,485
Survivors' insurance benefits	26,541,112	9,300,424	1,712,233	1,194,350	399,819	35,723,472
Annual increases in annuities to past retirees	—	2,013	616,126	614,113	—	—
Annual increase in annuities	6,996,963	2,448,675	140,591	314,863	101,392	9,721,302
Administrative expenses	1,581,047	556,929	546,600	71,147	—	1,662,524
Variations in mortality, interest and turnover experience	3,128,637	—	—	140,789	—	3,269,426
	\$111,578,810	\$24,196,351	\$19,663,613	\$ 5,635,159	\$ 7,023,191	\$128,769,899
Undistributed investment income	\$ 19,149,055	\$19,057,261	\$ —	\$(14,059,217)	\$ —	\$ 24,147,099
TOTAL	\$328,028,268	\$83,124,602	\$28,686,941	\$ —	\$ —	\$382,465,929

The accompanying notes are a part of the financial statements.

STATE UNIVERSITIES RETIREMENT SYSTEM — BUILDING FUND
STATEMENT OF CHANGES IN FUND BALANCES

For the year ended August 31, 1973

	Provided By			
	Total	Gift of Land	Expenditures From Retirement Fund	Accumulated Excess of Income Over Expenditures
BALANCE AT AUGUST 31, 1972	\$135,356	\$70,000	\$43,790	\$21,566
ADDITIONS:				
Income in excess of expenditures for the year ended August 31, 1973	\$ 18,043	\$ —	\$ —	\$18,043
Retirement Fund expenditures for furniture and equipment	4,425	—	4,425	—
	\$ 22,468	\$ —	\$ 4,425	\$18,043
BALANCE AT AUGUST 31, 1973	\$157,824	\$70,000	\$48,215	\$39,609

The accompanying notes are a part of the financial statements.

STATE UNIVERSITIES RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

August 31, 1973

Note A — Accounting Policies:

Employer Contributions

The System follows the policy of accounting only for the employer contributions which have been paid to it, rather than accounting for the employer contributions which the System would have received if the State of Illinois made appropriations adequate to (1) cover current service costs plus interest on the accrued unfunded liabilities, which is the minimum funding permitted by the Illinois Pension Code or (2) provide amortization of the unfunded liabilities in addition to funding current service costs and interest on the unfunded portion.

Accordingly, the balance sheet does not include the \$467,-896,311 accrued unfunded liability; similarly, the prospective assets to offset that liability are excluded. The statement of income and expenditures does not include as an expense the portion of the current year's service costs which were not funded, which amount was approximately \$50,200,000.

Fixed Asset Accounting and Depreciation

The System records as Retirement Fund administrative expenditures the cost of purchases of furniture and equipment. The cost of such furniture and equipment has been added to the Building Fund assets.

In accordance with the practice generally followed by not-for-profit organizations, no provision has been made for depreciation of the property, plant and equipment.

Note B — Marketable Securities:

The carrying amount of bonds held by the System exceeded the market value by approximately \$28,652,000 as of August 31, 1973, and \$17,380,000 as of August 31, 1972. The System considers those losses to be the result of temporary market conditions. Therefore, no provision for losses has been recognized within the financial statements.

Note C — State of Illinois Appropriations:

Article 15, Section 155 of the Illinois Pension Code, 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 fund fully the current service costs in accordance with actuarial reserve requirements, plus interest at the prescribed rate on the unfunded accrued liabilities."

Each year, the System's consulting actuary determines the percent of personal services which the employer units within the System need to contribute to meet the statutory requirement. For the year ended August 31, 1973, that percentage was 14.76% and the dollar amount was approximately \$68,600,000. Actual contributions via State appropriations were \$18,368,517, or approximately \$50,200,000 less than the statutory requirement.

The consulting actuary has reported that the unfunded accrued liability was \$467,896,311 as of August 31, 1973, and \$401,421,722 as of August 31, 1972. The increase for the 1972-1973 year was \$60,474,589, of which \$50,200,000 is the major part. Other causes of the increase are variations between actual experiences for the year and actuarial assumptions, such as investment yields, market values of the investment portfolio, mortality rates, salary rate changes, etc.

Note D — Building Fund:

The Illinois Pension Code allows 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 building was occupied in June 1971.

The building was constructed on land donated by the University of Illinois. The land is included at the fair market value on the date of the gift. The land improvements, building, and furniture and equipment are carried at cost.

The cost of the office building is being financed through the Retirement Fund over a period not to exceed 30 years with interest at 6%. The funds to retire the indebtedness and to defray the operating expenses are derived from rentals from Retirement Fund and from lessees of surplus space.





UNIVERSITY OF ILLINOIS-URBANA



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