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# ANNUAL REPORT

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*for the year ended August 31, 1974*

STATE  
UNIVERSITIES  
RETIREMENT  
SYSTEM

*Champaign, Illinois*

## **BOARD OF TRUSTEES AND OFFICERS**

OF THE STATE UNIVERSITIES RETIREMENT SYSTEM

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The State Universities Retirement System Office is located at  
50 Gerty Drive, Champaign, Illinois 61820  
Phone — 333-3860, Area Code 217

## Report of Executive Director

### TEN YEARS' PROGRESS

#### OF THE STATE UNIVERSITIES RETIREMENT SYSTEM

1965-1974

Year Ended August 31	Assets	Income	Expenditures
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
1974	444,078,972	94,379,742	33,513,308

1973-1974

#### IN BRIEF

	End of Year 1974	End of Year 1973	Percent Increase For the Year
Assets	\$444,078,972	\$383,174,386	15.9
Income	94,379,742	83,124,602	13.5
Expenditures	33,513,308	28,686,941	16.8

### Results of Operations for 1973-74

#### 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 not to exceed 4½ percent per year 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 prior to retirement or retires and does not have a beneficiary who could qualify for survivors insurance payments.

Total employee contributions during the year amounted to \$43,485,117. This is 46.1 percent of the total income received during the year and is an increase of 9.1 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 the normal 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 \$509 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 \$27,511,456 which was 29.1 percent of the total income during the year. This was \$3,317,117 or 13.7 percent more than the employer contributions for 1972-73.

#### **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 \$23,383,169. This is 24.8 percent of the total income received during the year.

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

was 6.93 percent as compared with 6.53 percent for the previous year. Dividends on common stocks amounted to 3.45 percent of the average cost of the stocks. This was greater than the 3.20 percent return on stocks for 1972-73.

### EXPENDITURES

Total expenditures during the fiscal year amounted to \$33,513,308. This was \$4,826,367 or 16.8 percent greater than the expenditures for the previous year. The expenditures were as follows:

Annuities	\$17,776,422
Disability benefits	3,134,952
Death benefits	215,089
Survivors benefits	2,036,059
Refunds	9,714,170
Administrative expenses	636,616
<b>TOTAL</b>	<b>\$33,513,308</b>

### ASSETS

As of August 31, 1974, total assets were \$444,078,972. This is an increase of \$60,904,586 or 15.9 percent over the previous year.

### INVESTMENTS IN MARKETABLE SECURITIES

Marketable securities owned at August 31, 1974 consisted of the following:

	PRINCIPAL AMOUNT OR NUMBER OF SHARES	CARRYING AMOUNT	MARKET VALUE
Bonds and notes:			
U.S. Government and Federal Agencies	\$ 19,917,977	\$ 19,888,875	\$ 16,104,459
Canadian	9,012,000	8,750,738	6,740,547
Public Utilities	92,441,000	87,303,986	60,809,354
Railroads	5,875,000	5,877,615	5,350,742
Industrial	148,502,812	147,066,542	116,870,227
	\$275,748,789	\$268,887,756	\$205,875,329
Short-term Commercial Notes	11,000,000	11,000,000	11,000,000
Common Stocks	3,464,795	153,064,120	121,107,864
<b>TOTAL MARKETABLE SECURITIES</b>		<b>\$432,951,876</b>	<b>\$337,983,193</b>

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.

Edward S. Gibala  
Executive Director

**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, 1974 and 1973 and the related statements of income and expenditures and changes in fund balances for the years 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.

In our opinion, the aforementioned financial statements present fairly the assets, liabilities, and fund balances of State Universities Retirement System as of August 31, 1974 and 1973, and its financial activities for the years then ended in conformity with generally accepted accounting principles, applied on a consistent basis, except for the change, with which we concur, in recognizing Building Fund depreciation.

Winakor, Bates & Brunson

Champaign, Illinois  
December 2, 1974

## STATE UNIVERSITIES RETIREMENT SYSTEM

### STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES

As of August 31, 1974 and 1973

	ASSETS	
	1974	1973
<b>RETIREMENT FUND</b>		
Cash	\$ 511,179	\$ 2,067,822
Receivables		
Participants' contributions	\$ 2,717,423	\$ 2,530,018
Employer contributions		
Federal and trust funds	308,415	519,093
State appropriations	2,140,095	793,792
Reciprocating retirement systems	38,364	164,491
Other	71,483	42,290
	<u>\$ 5,275,780</u>	<u>\$ 4,049,684</u>
Investments		
Bonds, at amortized cost; market value \$216,875,000 (1974) and \$221,256,000 (1973)	\$279,887,756	\$249,908,227
Common stocks, at cost; market value \$121,108,000 (1974) and \$139,172,000 (1973)	153,064,120	122,483,225
Due from Building Fund	547,643	555,876
Accrued interest on investments	4,792,494	4,109,552
	<u>\$438,292,013</u>	<u>\$377,056,880</u>
Total Assets	<b>\$444,078,972</b>	<b>\$383,174,386</b>
<b>BUILDING FUND</b>		
Cash	\$ 33,160	\$ 23,065
Property, plant and equipment		
Land	\$ 70,000	\$ 70,000
Land improvements	12,799	12,088
Office building	559,621	560,332
Furniture and equipment	49,683	48,215
	<u>\$ 692,103</u>	<u>\$ 690,635</u>
Accumulated depreciation of building and land improvements	36,467	—
	<u>\$ 655,636</u>	<u>\$ 690,635</u>
Total Assets	<b>\$ 688,796</b>	<b>\$ 713,700</b>

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, 1974 and 1973

LIABILITIES AND FUND BALANCES

	1974	1973
<b>RETIREMENT FUND</b>		
Accounts payable		
Refunds to participants	\$ 380,763	\$ 471,639
Benefits to annuitants and beneficiaries	131,181	110,538
Administrative	40,154	9,862
Unclaimed benefit and refund checks	5,717	6,229
Other	10,054	5,939
	<u>\$ 567,869</u>	<u>\$ 604,207</u>
Deferred income; ten-twelfths of appropriation from State Pension Fund	\$ 132,667	\$ 104,250
Prepayment of employer contributions	46,073	—
	<u>\$ 178,740</u>	<u>\$ 104,250</u>
Fund balances		
Participants' contributions	\$271,993,294	\$229,548,931
Annuitants' and employers' contributions	152,137,348	128,769,899
Undistributed investment income	19,201,721	24,147,099
	<u>\$443,332,363</u>	<u>\$382,465,929</u>
Total Liabilities and Fund Balances	<b>\$444,078,972</b>	<b>\$383,174,386</b>
<b>BUILDING FUND</b>		
Due to Retirement Fund	\$ 547,643	\$ 555,876
Fund balances provided by:		
Gift of land	\$ 70,000	\$ 70,000
Retirement Fund expenditures for furniture and equipment	49,683	48,215
Accumulated excess of income over expenditures and depreciation	21,470	39,609
	<u>\$ 141,153</u>	<u>\$ 157,824</u>
Total Liabilities and Fund Balances	<b>\$ 688,796</b>	<b>\$ 713,700</b>

The accompanying notes are a part of the financial statements.

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

For the Years Ended August 31, 1974 and 1973

	1974	1973
<b>INCOME</b>		
Participants' contributions	\$43,485,117	\$39,873,003
Employer contributions		
State appropriations	20,965,412	18,368,517
Trust funds	3,225,378	3,156,693
Federal funds	75,851	80,009
Reciprocating systems	3,244,815	2,589,119
Income on investments		
Interest	18,697,437	15,250,377
Dividends	4,652,399	3,635,358
Net gain on sales of securities	(19)	137,708
Interest from Building Fund	33,352	33,818
<b>TOTAL INCOME</b>	<b>\$94,379,742</b>	<b>\$83,124,602</b>
<b>EXPENDITURES</b>		
Benefits		
Retirement	\$17,776,422	\$14,654,159
Disability	3,134,952	2,550,727
Death	215,089	199,894
Survivors	2,036,059	1,712,233
Withdrawal of participants' contributions and interest		
Terminations as employees	8,620,893	8,171,073
Death of participants	1,093,277	852,255
Administrative expenses	636,616	546,600
<b>TOTAL EXPENDITURES</b>	<b>\$33,513,308</b>	<b>\$28,686,941</b>
Excess of income over expenditures	<b>\$60,866,434</b>	<b>\$54,437,661</b>

The accompanying notes are a part of the financial statements.

**STATE UNIVERSITIES RETIREMENT SYSTEM  
BUILDING FUND**

**STATEMENT OF INCOME, EXPENDITURES AND DEPRECIATION**

For the Years Ended August 31, 1974 and 1973

	1974	1973
<b>INCOME</b>		
Office space rental, including \$46,000 from Retirement Fund	\$ 81,840	\$81,840
<b>EXPENDITURES AND DEPRECIATION</b>		
Interest paid to Retirement Fund	\$ 33,352	\$33,818
Building operating expenses	30,160	29,979
Depreciation	11,616	—
	\$ 75,128	\$63,797
Excess of income over expenditures and depreciation before cumulative effect of a change in accounting principle	\$ 6,712	\$18,043
Cumulative effect on prior years (to August 31, 1973) of change in accounting principle to recognize depreciation of building and land improvements	(24,851)	—
Excess (deficiency) of income over expenditures and depreciation	\$ (18,139)	\$18,043
Pro forma amounts assuming the new accounting principle had been applied retroactively:		
Excess of income over expenditures and depreciation	\$ 6,712	\$ 6,427

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, 1974

	Balance August 31, 1973	Income	Expenditures	Interest Distribution	Transfers In (Out)	Balance August 31, 1974
<b>ACCUMULATED CONTRIBUTIONS:</b>						
From participants	\$229,548,931	\$43,480,657	\$ 9,714,170	\$ 17,357,563	\$(8,679,687)	\$271,993,294
From employers and other sources:						
Retirement annuities accruing provided from federal and trust funds	\$ 23,676,649	\$ 2,450,951	\$ —	\$ 1,894,132	\$(1,225,788)	\$ 26,795,944
Retirement and reversionary annuities in force provided from annuities and from federal and trust funds	28,672,840	3,244,815	4,940,974	2,293,827	9,145,496	38,416,004
Retirement and reversionary annuities accruing and in force provided from State appropriations	11,896,844	4,524,025	11,810,004	951,748	—	5,562,613
Beneficiary annuities in force	639,715	—	61,280	51,177	41,571	671,183
Disability benefits	10,524,642	2,823,560	3,134,952	841,971	—	11,055,221
Death benefits	2,982,485	785,905	215,089	238,599	—	3,792,900
Survivors' insurance benefits	35,723,472	10,324,392	2,036,059	2,857,878	557,300	47,426,983
Annual increases in annuities to past retirees	—	4,460	673,853	669,393	—	—
Annual increase in annuities	9,721,302	2,720,264	290,311	777,704	161,108	13,090,067
Administrative expenses	1,662,524	636,543	636,616	133,002	—	1,795,453
Variations in mortality, interest and turnover experience	3,269,426	—	—	261,554	—	3,530,980
	\$128,769,899	\$27,515,915	\$23,799,138	\$ 10,970,985	\$ 8,679,687	\$152,137,348
Undistributed investment income	\$ 24,147,099	\$23,383,170	\$ —	\$(28,328,548)	\$ —	\$ 19,201,721
<b>TOTAL</b>	<b>\$382,465,929</b>	<b>\$94,379,742</b>	<b>\$33,513,308</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$443,332,363</b>

The accompanying notes are a part of the financial statements.

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

For the Years Ended August 31, 1974 and 1973

	Total	Gift of Land	Expenditures From Retirement Fund	Accumulated Excess of Income Over Expenditures
<b>BALANCE — AUGUST 31, 1972</b>	\$135,356	\$70,000	\$43,790	\$ 21,566
<b>ADDITIONS:</b>				
Excess of income over 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
<b>BALANCE — AUGUST 31, 1973</b>	\$157,824	\$70,000	\$48,215	\$ 39,609
<b>ADDITIONS (REDUCTIONS):</b>				
Excess (deficiency) of income over expenditures and depreciation for the year ended August 31, 1974	\$ (18,139)	\$ —	\$ —	\$(18,139)
Retirement Fund expenditures for furniture and equipment, including \$99 assigned value of items traded in Dispositions	3,887 (2,419)	—	3,887 (2,419)	—
	\$ (16,671)	\$ —	\$ 1,468	\$(18,139)
<b>BALANCE — AUGUST 31, 1974</b>	\$141,153	\$70,000	\$49,683	\$21,470

The accompanying notes are a part of the financial statements.

## STATE UNIVERSITIES RETIREMENT SYSTEM

### NOTES TO THE FINANCIAL STATEMENTS

August 31, 1974 and 1973

#### Note A — Significant 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 \$509,793,867 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 amounts were approximately \$55,300,000 for 1974 and \$50,200,000 for 1973.

##### *Valuation of Marketable Securities*

The amortized cost of bonds held by the System exceeded market value by approximately \$63,013,000 as of August 31, 1974, and \$28,652,000 as of August 31, 1973. The cost of common stocks exceeded market value by approximately \$31,956,000 as of August 31, 1974, compared with an excess of market value over cost of approximately \$16,689,000 as of August 31, 1973.

No provision for losses has been recognized, which is the accounting policy generally accepted for noncurrent investments.

Note B — 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, 1974, the percentage was 14.76 and the dollar amount was approximately \$76,300,000. Actual contributions via State appropriations were \$20,965,412 for 1974 and \$18,368,517 for 1973, or approximately \$55,300,000 (1974) and \$50,200,000 (1973) less than the statutory requirement.

The consulting actuary has reported that the unfunded accrued liability was \$509,793,867 as of August 31, 1974, and \$467,896,311 as of August 31, 1973. The increase in unfunded accrued liability was approximately \$41,900,000 for the 1973-1974 year and \$60,500,000 for the 1972-1973 year. The cause of the increases in unfunded liability are deficiencies in State funding, changes in actuarial assumptions, and variations between actual experience and actuarial assumptions — investment yields, market values of investments, mortality rates, salary progression of participants, etc.

#### Note C — Depreciation

Effective September 1, 1973, the System adopted the practice of recognizing depreciation of its building and land improvements. Previously, depreciation had not been recorded.

The Building Fund has existed from its inception to reflect the property, plant, and equipment of the System, to collect rentals from the Retirement Fund and from other lessees, to operate the physical plant, and to retire the amount borrowed from the Retirement Fund. Consistent with the nature of the purposes and operations of the Building Fund, the System determined that it should recognize depreciation of its building and land improvements.

Depreciation is not recorded with respect to furniture and equipment, since the Building Fund receives no rental income therefrom, and the costs of new items or replacements are borne by the Retirement Fund as an administrative expense.

Depreciation has been computed by the straight line method with estimated useful lives of fifty years for the building and twenty-five years for land improvements.

#### 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 was financed through a loan from the Retirement Fund. That loan is to be repaid in thirty equal annual installments of \$41,586, which includes interest at 6 percent. As of August 31, 1974, twenty-seven installments remain to be paid. 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.