
ANNUAL REPORT

for the year ended August 31, 1975

STATE
UNIVERSITIES
RETIREMENT
SYSTEM

Champaign, Illinois

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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

1966-1975

Year Ended August 31	Assets	Income	Expenditures
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
1975	508,315,785	100,899,023	36,799,815

Results of Operations for 1974-75

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) income from 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 \$42,171,952. This is 41.8 percent of the total income received during the year and 3 percent less than 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 \$588 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 \$30,298,625 which was 30 percent of the total income during the year. This was \$2,787,169 or 10.1 percent more than the employer contributions for 1973-74.

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 \$28,428,446. This is 28.2 percent of the total income received during the year.

The average rate of return on all bonds held during the past year was 6.96 percent as compared with 6.93 percent for the previous year. Dividends on common stocks amounted to 3.63 percent of the average cost of the stocks. This was greater than the 3.45 percent return on stocks for 1973-74.

EXPENDITURES

Total expenditures during the fiscal year amounted to \$36,799,815. This was \$3,286,507 or 9.8 percent greater than the expenditures for the previous year. The expenditures were as follows:

Annuities	\$20,965,566
Disability benefits	3,589,230
Death benefits	220,363
Survivors benefits	2,325,858
Refunds	9,007,425
Administrative expenses	691,373
TOTAL	\$36,799,815

ASSETS

As of August 31, 1975, total assets were \$508,315,785. This is an increase of \$64,203,653 or 14.5 percent over the previous year.

INVESTMENTS IN MARKETABLE SECURITIES

Marketable securities owned at August 31, 1975 consisted of the following:

	PRINCIPAL AMOUNT OR NUMBER OF SHARES	CARRYING AMOUNT	MARKET VALUE
Bonds and notes:			
U.S. Government and Federal Agencies	\$ 24,768,988	\$ 24,746,344	\$ 21,835,000
Canadian	9,012,000	8,769,139	7,168,000
Public Utilities	95,498,000	90,551,752	69,053,000
Railroads	5,150,000	5,153,901	4,962,000
Industrial	163,846,685	162,481,448	139,328,000
	<u>\$298,275,673</u>	<u>\$291,702,584</u>	<u>\$242,346,000</u>
Short-term			
Commercial Notes	\$ 15,166,000	15,166,000	15,166,000
Common Stocks	4,394,298	190,405,209	177,955,000
TOTAL MARKETABLE SECURITIES		\$497,273,793	\$435,467,000

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

STATE UNIVERSITIES RETIREMENT SYSTEM

STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES

As of August 31, 1975 and 1974

	ASSETS	
	1975	1974
RETIREMENT FUND		
Cash	\$ (123,636)	\$ 544,339
Receivables		
Participants' contributions	\$ 2,210,419	\$ 2,717,423
Employer contributions		
Federal and trust funds	352,089	308,415
State appropriations	2,521,636	2,140,095
Reciprocating retirement systems	35,894	38,364
Other	86,812	71,483
	<u>\$ 5,206,850</u>	<u>\$ 5,275,780</u>
Investments		
Bonds, at amortized cost; market value \$257,512,000 (1975) and \$216,875,000 (1974)	\$306,868,585	\$279,887,756
Common stocks, at cost; market value \$177,955,000 (1975) and \$121,108,000 (1974)	190,405,210	153,064,120
Due from Building Fund	538,915	547,643
Accrued interest on investments	5,419,861	4,792,494
	<u>\$503,232,571</u>	<u>\$438,292,013</u>
Total Assets	\$508,315,785	\$444,112,132
BUILDING FUND		
Funds transferred to Retirement Fund to be invested	\$ 45,359	\$ 33,160
Property, plant and equipment		
Land	\$ 70,000	\$ 70,000
Land improvements	12,799	12,799
Office building	559,621	559,621
Furniture and equipment	51,700	49,683
	<u>\$ 694,120</u>	<u>\$ 692,103</u>
Accumulated depreciation of building and land improvements	48,083	36,467
	<u>\$ 646,037</u>	<u>\$ 655,636</u>
Total Assets	\$ 691,396	\$ 688,796

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, 1975 and 1974

LIABILITIES AND FUND BALANCES

	1975	1974
RETIREMENT FUND		
Accounts payable		
Refunds to participants	\$ 527,263	\$ 380,763
Benefits to annuitants and beneficiaries	148,826	131,181
Administrative	6,701	40,154
Unclaimed benefit and refund checks	8,444	5,717
Other	7,619	10,054
Funds transferred from		
Building Fund to be invested	45,359	33,160
	\$ 744,212	\$ 601,029
Deferred income; ten-twelfths of appropriation from State Pension Fund	\$ 130,583	\$ 132,667
Prepayment of contributions	9,419	46,073
	\$ 140,002	\$ 178,740
Fund balances		
Participants' contributions	\$ 316,206,316	\$271,993,294
Annuitants' and employers' contributions	177,036,238	152,137,348
Undistributed investment income	14,189,017	19,201,721
	\$ 507,431,571	\$443,332,363
To be provided by future		
State of Illinois appropriations	587,893,456	509,793,867
	\$1,095,325,027	\$953,126,230
Unfunded accrued liability	(587,893,456)	(509,793,867)
	\$ 507,431,571	\$443,332,363
Total Liabilities and Fund Balances	\$508,315,785	\$444,112,132
BUILDING FUND		
Due to Retirement Fund	\$ 538,915	\$ 547,643
Fund balances provided by:		
Gift of land	\$ 70,000	\$ 70,000
Retirement Fund expenditures for furniture and equipment	51,700	49,683
Accumulated excess of income over expenditures and depreciation	30,781	21,470
	\$ 152,481	\$ 141,153
Total Liabilities and Fund Balances	\$ 691,396	\$ 688,796

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, 1975 and 1974

	1975	1974
INCOME		
Participants' contributions	\$42,171,952	\$43,485,117
Employer contributions		
State appropriations	25,591,043	20,965,412
Trust and Federal funds	3,477,781	3,301,229
Reciprocating systems	1,229,801	3,244,815
Income on investments		
Interest	20,524,890	18,697,437
Dividends	6,169,956	4,652,399
Net gain on sales of securities	1,703,394	(19)
Interest from Building Fund	32,859	33,352
Income allocated to Building Fund	(2,653)	—
TOTAL INCOME	\$100,899,023	\$94,379,742
EXPENDITURES		
Benefits		
Retirement	\$20,965,566	\$17,776,422
Disability	3,589,230	3,134,952
Death	220,363	215,089
Survivors	2,325,858	2,036,059
Withdrawal of participants' contributions and interest		
Terminations as employees	7,932,634	8,620,893
Death of participants	1,074,791	1,093,277
Administrative expenses	691,373	636,616
TOTAL EXPENDITURES	\$ 36,799,815	\$33,513,308
Excess of income over expenditures	\$ 64,099,208	\$60,866,434

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, 1975 and 1974

	1975	1974
INCOME		
Office space rental, including \$46,000 from Retirement Fund	\$81,840	\$81,840
Interest	2,653	—
	\$84,493	\$81,840
EXPENDITURES AND DEPRECIATION		
Interest paid to Retirement Fund	\$32,859	\$33,352
Building operating expenses	30,707	30,160
Depreciation	11,616	11,616
	\$75,182	\$75,128
Excess of income over expenditures and depreciation before cumulative effect of a change in accounting principle	\$ 9,311	\$ 6,712
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	\$9,311	\$(18,139)
Pro forma amounts assuming the new accounting principle had been applied retroactively:		
Excess of income over expenditures and depreciation	\$9,311	\$ 6,712

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, 1975

	Balance August 31, 1974	Income	Expenditures	Investment Income Distribution	Transfers In (Out)	Balance August 31, 1975
ACCUMULATED CONTRIBUTIONS:						
From participants	\$271,993,294	\$42,169,242	\$ 9,007,425	\$ 20,548,362	\$(9,497,157)	\$316,206,316
From employers and other sources:						
Retirement annuities accruing provided from federal and trust funds	\$ 26,795,944	\$ 2,545,158	\$ —	\$ 2,143,675	\$(1,148,557)	\$ 30,336,220
Retirement and reversionary annuities in force provided from annuitants and from federal and trust funds	38,416,004	1,229,801	5,730,359	3,073,280	9,748,865	46,737,591
Retirement and reversionary annuities accruing and in force provided from State appropriations	5,562,613	8,932,835	13,949,847	445,009	—	990,610
Beneficiary annuities in force	671,183	—	62,766	53,695	57,007	719,119
Disability benefits	11,055,221	2,877,371	3,589,230	884,418	—	11,227,780
Death benefits	3,792,900	786,577	220,363	303,432	(1,588)	4,660,958
Survivors' insurance benefits	47,426,983	10,528,194	2,325,858	3,794,159	632,333	60,055,811
Annual increases in annuities to past retirees	—	2,710	724,511	721,801	—	—
Annual increase in annuities	13,090,067	2,767,753	498,083	1,047,205	209,097	16,616,039
Administrative expenses	1,795,453	630,936	691,373	143,636	—	1,878,652
Variations in mortality, interest and turnover experience	3,530,980	—	—	282,478	—	3,813,458
	\$152,137,348	\$30,301,335	\$27,792,390	\$ 12,892,788	\$ 9,497,157	\$177,036,238
Undistributed investment income	\$ 19,201,721	\$28,428,446	\$ —	\$(33,441,150)	\$ —	\$ 14,189,017
TOTAL	\$443,332,363	\$100,899,023	\$36,799,815	\$ —	\$ —	\$507,431,571

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	Investment Income Distribution	Transfers In (Out)	Balance August 31, 1974
ACCUMULATED CONTRIBUTIONS:						
From participants	\$229,548,931	\$43,480,657	\$ 9,714,170	\$ 17,357,563	\$(8,579,687)	\$271,993,294
From employers and other sources:						
Retirement annuities accruing provided from federal and trust funds	\$ 23,676,649	\$2,450,931	\$ —	\$ 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	786,905	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 Administrative expenses	9,721,302	2,720,264	290,311	777,704	161,108	13,090,067
Variations in mortality, interest and turnover experience	1,657,524	636,543	636,616	133,002	—	1,795,453
	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
TOTAL	\$382,465,929	\$94,379,742	\$33,513,308	\$ —	\$ —	\$443,332,363

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, 1975 and 1974

	Total	Provided By		
		Gift of Land	Expenditures From Retirement Fund	Accumulated Excess of Income Over Expenditures
BALANCE — AUGUST 31, 1973	\$157,824	\$70,000	\$48,215	\$ 39,609
ADDITIONS (REDUCTIONS):				
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	3,887	—	3,887	—
Dispositions	(2,419)	—	(2,419)	—
	\$ (16,671)	\$ —	\$ 1,468	\$(18,139)
BALANCE — AUGUST 31, 1974	\$141,153	\$70,000	\$49,683	\$ 21,470
ADDITIONS (REDUCTIONS):				
Excess of income over expenditures and depreciation for the year ended August 31, 1975	\$ 9,311	\$ —	\$ —	\$ 9,311
Retirement Fund expenditures for furniture and equipment	2,017	—	2,017	—
	\$ 11,328	\$ —	\$ 2,017	\$ 9,311
BALANCE — AUGUST 31, 1975	\$152,481	\$70,000	\$51,700	\$ 30,781

The accompanying notes are a part of the financial statements.

STATE UNIVERSITIES RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

August 31, 1975 and 1974

Significant Accounting Policies

Employer Contributions and Benefits Distributed

The System follows the policy of accounting for the employer contributions which have been paid to it, rather than accounting for the employer contributions required to meet actuarially determined requirements. Expenditures include the benefits which were distributed to participants, annuitants and beneficiaries, rather than the future benefits accruing to present participants.

Valuation of Marketable Securities

The amortized cost of bonds held by the System exceeded market value by approximately \$49,357,000 as of August 31, 1975, and \$63,013,000 as of August 31, 1974. The cost of common stocks exceeded market value by approximately \$12,450,000 as of August 31, 1975, and \$31,956,000 as of August 31, 1974.

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

Depreciation

Effective September 1, 1973, the System adopted the practice of recognizing depreciation of its building and land improvements. 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.

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, 1975, the percentage was 16.26 and the amount was approximately \$85,000,000; the percentage for the prior year was 14.76 and the amount was approximately \$76,300,000. Actual contributions via State appropriations were \$25,591,043 for 1975 and \$20,965,412 for 1974, or approximately \$59,400,000 (1975) and \$55,300,000 (1974) less than the statutory requirement.

The consulting actuary has reported that the unfunded accrued liability was \$587,893,456 as of August 31, 1975, and \$509,793,867 as of August 31, 1974. The increase in unfunded accrued liability was approximately \$78,100,000 for the 1974-1975 year and \$41,900,000 for the 1973-1974 year. The increases in unfunded accrued liability are caused by deficiencies in State funding, changes in benefits, and variations between actual experience and actuarial assumptions—investment yields, market values of investments, mortality rates, salary progression of participants, etc.

Building Fund

The System completed construction of a building in 1971 on land donated by the University of Illinois.

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%. As of August 31, 1975, twenty-six 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 leasees of surplus space.

The assets of the Building Fund are carried at cost, except the land is carried at the fair market value when received by gift.

WINAKOR, BATES & BRUNSON, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Champaign, Illinois

AUDITORS' OPINION

Board of Trustees of
State Universities Retirement System
and

The Honorable Robert G. Cronson,
Auditor General, State of Illinois

We have examined the statement of assets, liabilities and fund balances of State Universities Retirement System as of August 31, 1975 and 1974 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 statements present fairly the assets, liabilities and fund balances of State Universities Retirement System as of August 31, 1975 and 1974, and the results of its operations and the changes in its fund balances 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, P.C.

Champaign, Illinois

December 5, 1975