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# ANNUAL REPORT

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*for the year ended August 31, 1976*

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

1967-76

Year Ended August 31	Assets	Income	Expenditures
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
1976	579,175,632	111,985,800	41,659,832

### Results of Operations for 1975-76

#### 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 \$46,007,876. This is 41.1 percent of the total income received during the year and 9.1 percent more 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 \$659 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 \$35,501,427 which was 31.7 percent of the total income during the year. This was \$5,202,802 or 17.2 percent more than the employer contributions for 1974-75.

#### **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 \$30,476,497. This is 27.2 percent of the total income received during the year.

The average rate of return on all corporate obligations except short-term notes held on August 31, 1976 was 7.34 percent as compared with 6.96 percent for the previous year. Dividends on common stocks amounted to 3.70 percent of the average cost of the stocks. This was greater than the 3.63 percent return on stocks for 1974-75.

#### **EXPENDITURES**

Total expenditures during the fiscal year amounted to \$41,659,832. This was \$4,860,017 or 13.2 percent greater than the expenditures for the previous year. The expenditures were as follows:

Annuities	\$24,287,646
Disability benefits	4,113,883
Death benefits	222,816
Survivors benefits	2,660,769
Refunds	9,563,119
Administrative expenses	811,599
<b>TOTAL</b>	<b>\$41,659,832</b>

### ASSETS

As of August 31, 1976, total assets were \$579,175,632. This is an increase of \$70,859,847 or 13.9 percent over the previous year.

### INVESTMENTS IN MARKETABLE SECURITIES

Marketable securities owned at August 31, 1976 consisted of the following:

	PRINCIPAL AMOUNT OR NUMBER OF SHARES	CARRYING AMOUNT	MARKET VALUE
<b>Bonds and notes:</b>			
U.S. Government and Federal Agencies	\$ 21,579,724	\$ 21,551,242	\$ 19,886,000
Canadian	9,012,000	8,787,541	7,859,000
Public Utilities	114,100,000	109,077,214	94,897,000
Railroads	4,564,000	4,567,609	4,535,000
Industrial	194,744,015	193,239,546	182,836,000
	<u>\$343,999,739</u>	<u>\$337,223,152</u>	<u>\$310,013,000</u>
<b>Short-term</b>			
Commercial Notes	\$ 12,193,000	12,193,000	12,193,000
Common Stocks	5,139,813	215,055,780	232,810,000
<b>TOTAL MARKETABLE SECURITIES</b>		<b>\$564,471,932</b>	<b>\$555,016,000</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 and dividend 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, 1976 and 1975

ASSETS		
	1976	1975
<b>RETIREMENT FUND</b>		
Cash	\$ 191,459	\$ (123,636)
Receivables		
Participants' contributions	\$ 2,695,821	\$ 2,210,419
Employer contributions		
Federal and trust funds	235,574	352,089
State appropriations	2,746,555	2,521,636
Reciprocating retirement systems	35,585	35,894
Other	66,417	86,812
	\$ 5,779,952	\$ 5,206,850
Investments		
Bonds, at amortized cost; market value \$322,205,000 (1976) and \$257,512,000 (1975)	\$349,416,152	\$306,868,585
Common stocks, at cost; market value \$232,810,000 (1976) and \$177,955,000 (1975)	215,055,780	190,405,210
Due from Building Fund	529,665	538,915
Accrued interest and dividends	8,202,624	5,419,861
	\$573,204,221	\$503,232,571
Total Assets	\$579,175,632	\$508,315,785
<b>BUILDING FUND</b>		
Funds transferred to Retirement Fund to be invested	\$ 41,992	\$ 45,359
Property, plant and equipment		
Land	\$ 70,000	\$ 70,000
Land improvements	12,799	12,799
Office building	559,621	559,621
Furniture and equipment	56,505	51,700
	\$ 698,925	\$ 694,120
Accumulated depreciation of building and land improvements	59,699	48,083
	\$ 639,226	\$ 646,037
Total Assets	\$ 681,218	\$ 691,396

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, 1976 and 1975

	LIABILITIES AND FUND BALANCES	
	1976	1975
<b>RETIREMENT FUND</b>		
Accounts payable		
Refunds to participants	\$ 751,611	\$ 527,263
Benefits to annuitants and beneficiaries	184,677	148,826
Administrative	10,274	6,701
Unclaimed benefit and refund checks	16,263	8,444
Other	8,568	7,619
Funds transferred from		
Building Fund to be invested	41,992	45,359
	<u>\$ 1,013,385</u>	<u>\$ 744,212</u>
Deferred income, ten-twelfths of		
appropriation from State Pension Fund	\$ 399,000	\$ 130,583
Prepayment of contributions	5,708	9,419
	<u>\$ 404,708</u>	<u>\$ 140,002</u>
Fund balances		
Participants' contributions	\$ 362,057,304	\$ 316,206,316
Annuitants' and employers' contributions	204,620,515	177,036,238
Undistributed investment income	11,079,720	14,189,017
	<u>\$ 577,757,539</u>	<u>\$ 507,431,571</u>
To be provided by future		
State of Illinois appropriations	658,772,105	587,893,456
	<u>\$1,236,529,644</u>	<u>\$1,095,325,027</u>
Unfunded accrued liability	(658,772,105)	(587,893,456)
Total fund balances	<u>\$ 577,757,539</u>	<u>\$ 507,431,571</u>
Total Liabilities and Fund Balances	<u>\$579,175,632</u>	<u>\$508,315,785</u>
<b>BUILDING FUND</b>		
Due to Retirement Fund	\$ 529,665	\$ 538,915
Fund balances provided by:		
Gift of land	\$ 70,000	\$ 70,000
Retirement Fund expenditures		
for furniture and equipment	56,505	51,700
Accumulated excess of income over		
expenditures and depreciation	25,048	30,781
	<u>\$ 151,553</u>	<u>\$ 152,481</u>
Total Liabilities and Fund Balances	<u>\$ 681,218</u>	<u>\$ 691,396</u>

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, 1976 and 1975

	1976	1975
<b>INCOME</b>		
Participants' contributions	\$46,007,876	\$42,171,952
Employer contributions		
State appropriations	30,246,874	25,591,043
Federal and trust funds	4,457,733	3,477,781
Reciprocating systems	796,820	1,229,801
Income on investments		
Interest	23,550,979	20,524,890
Dividends	8,833,611	6,169,956
Gain (loss) on sales of securities	(1,937,253)	1,703,394
Interest from Building Fund	32,335	32,859
Income allocated to Building Fund	(3,175)	(2,653)
<b>TOTAL INCOME</b>	<b>\$111,985,800</b>	<b>\$100,899,023</b>
<b>EXPENDITURES</b>		
Benefits		
Retirement	\$24,287,646	\$20,965,566
Disability	4,113,883	3,589,230
Death	222,816	220,363
Survivors	2,660,769	2,325,858
Withdrawal of participants' contributions and interest		
Terminations as employees	8,302,803	7,932,634
Death of participants	1,260,316	1,074,791
Administrative expenses	811,599	691,373
<b>TOTAL EXPENDITURES</b>	<b>\$ 41,659,832</b>	<b>\$ 36,799,815</b>
Excess of income over expenditures	<b>\$ 70,325,968</b>	<b>\$ 64,099,208</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, 1976 and 1975

	1976	1975
<b>INCOME</b>		
Office space rental, including \$46,000 from Retirement Fund	\$81,840	\$81,840
Interest	3,175	2,653
	\$85,015	\$84,493
<b>EXPENDITURES AND DEPRECIATION</b>		
Interest paid to Retirement Fund	\$32,335	\$32,859
Building operating expenses	46,797	30,707
Depreciation	11,616	11,616
	\$90,748	\$75,182
Excess (deficiency) of income over expenditures and depreciation	<b>\$(5,733)</b>	<b>\$9,311</b>

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, 1976

	Balance August 31, 1975	Income	Expenditures	Investment Income Distribution	Transfers in (Out)	Balance August 31, 1976
<b>ACCUMULATED CONTRIBUTIONS:</b>						
From participants	\$316,206,316	\$46,005,420	\$ 9,563,119	\$ 20,851,426	\$(11,542,739)	\$362,057,304
From employers and other sources:						
Retirement annuities accruing provided from federal and trust funds	\$ 30,336,220	\$ 3,059,467	\$ —	\$ 2,123,535	\$ (1,141,458)	\$ 34,377,764
Retirement and reversionary annuities in force provided from annuities and from federal and trust funds	46,737,591	796,820	6,485,293	3,271,631	11,506,644	55,827,393
Retirement and reversionary annuities accruing and in force provided from State appropriations	990,610	11,158,509	16,198,352	69,343	—	(3,979,890)
Beneficiary annuities in force	719,119	—	65,637	50,339	54,058	757,879
Disability benefits	11,227,780	3,314,502	4,113,883	785,944	—	11,214,343
Death benefits	4,660,958	1,063,250	222,816	326,267	(5,000)	5,822,639
Survivors' insurance benefits	60,055,811	11,693,818	2,660,769	4,203,907	813,519	74,106,286
Annual increases in annuities to past retirees	—	2,334	244,165	241,831	—	—
Annual increase in annuities	16,616,039	3,542,657	1,294,199	1,163,123	314,976	20,342,596
Administrative expenses	1,878,652	872,546	811,599	131,506	—	2,071,105
Variations in mortality, interest and turnover experience	3,813,458	—	—	266,942	—	4,080,400
	\$177,036,238	\$35,503,883	\$32,096,713	\$ 12,634,368	\$ 11,542,739	\$204,620,515
Undistributed investment income	\$ 14,189,017	\$30,476,497	\$ —	\$(33,585,794)	\$ —	\$ 11,079,720
<b>TOTAL</b>	<b>\$507,431,571</b>	<b>\$111,985,800</b>	<b>\$41,659,832</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$577,757,539</b>

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
<b>ACCUMULATED CONTRIBUTIONS:</b>						
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 annuities 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	2,203,363	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 increases in annuities	13,090,067	2,767,733	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
<b>TOTAL</b>	<b>\$443,332,363</b>	<b>\$100,899,023</b>	<b>\$36,799,815</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$507,431,571</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, 1976 and 1975

	Total	Gift of Land	Provided By		Accumulated Excess of Income Over Expenditures
			Expenditures From Retirement Fund	Excess of Income Over Expenditures	
<b>BALANCE — AUGUST 31, 1974</b>	\$141,153	\$70,000	\$49,683		\$21,470
<b>ADDITIONS (REDUCTIONS):</b>					
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
<b>BALANCE — AUGUST 31, 1975</b>	\$152,481	\$70,000	\$51,700		\$30,781
<b>ADDITIONS (REDUCTIONS):</b>					
Excess (deficiency) of income over expenditures and depreciation for the year ended August 31, 1976	\$ (5,733)	\$ —	\$ —		\$ (5,733)
Retirement Fund expenditures for furniture and equipment	5,992	—	5,992		—
Dispositions	(1,187)	—	(1,187)		—
	\$ (928)	\$ —	\$ 4,805		\$ (5,733)
<b>BALANCE — AUGUST 31, 1976</b>	\$151,553	\$70,000	\$56,505		\$25,048

The accompanying notes are a part of the financial statements.

## **STATE UNIVERSITIES RETIREMENT SYSTEM**

### **NOTES TO THE FINANCIAL STATEMENTS**

August 31, 1976 and 1975

#### 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 \$27,211,000 as of August 31, 1976, and \$49,357,000 as of August 31, 1975. The cost of common stocks exceeded market value by approximately \$12,450,000 as of August 31, 1975; market value exceeded cost as of August 31, 1976.

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

##### *Depreciation*

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.

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.

### 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, 1976, the percentage was 16.53 and the amount was approximately \$95,400,000; the percentage for the prior year was 16.26 and the amount was approximately \$85,000,000. Actual contributions by State appropriations were \$30,246,874 for 1976 and \$25,591,043 for 1975, or approximately \$65,200,000 (1976) and \$59,400,000 (1975) less than the statutory requirement.

The consulting actuary has reported that the unfunded accrued liability was \$658,772,105 as of August 31, 1976, and \$587,893,456 as of August 31, 1975. The increase in unfunded accrued liability was approximately \$70,900,000 for the 1975-1976 year and \$78,100,000 for the 1974-1975 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 — salary progression of participants, employee turnover, mortality rates, and investment yields.

### 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, 1976, twenty-five 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.

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**

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

and

Board of Trustees of  
State Universities Retirement System

We have examined the statement of assets, liabilities and fund balances of State Universities Retirement System as of August 31, 1976 and 1975, and the related statements of income and expenditures and changes in fund balances for the years then ended. Our examinations were 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, 1976 and 1975, 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.

Winakor, Bates & Brunson, P.C.

Champaign, Illinois  
December 20, 1976