
ANNUAL REPORT

for the year ended August 31, 1977

STATE
UNIVERSITIES
RETIREMENT
SYSTEM

Champaign, Illinois

BOARD OF TRUSTEES AND OFFICERS

OF THE STATE UNIVERSITIES RETIREMENT SYSTEM

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HARRIS TRUST AND SAVINGS BANK, Chicago

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

FINANCIAL SUMMARY

OF THE STATE UNIVERSITIES RETIREMENT SYSTEM

1968-77

Year Ended August 31	Assets	Income	Expenditures	Unfunded Accrued Liabilities*
1968	\$159,384,167	\$ 39,212,834	\$11,129,265	\$167,700,000
1969	181,296,152	43,514,123	13,431,798	193,990,000
1970	229,309,052	66,560,181	16,629,461	217,000,000
1971	281,547,309	71,511,781	19,109,259	248,000,000
1972	328,737,980	71,232,832	24,185,849	401,421,722
1973	383,174,386	83,124,602	28,686,941	467,896,311
1974	444,078,972	94,379,742	33,513,308	509,793,867
1975	508,315,785	100,899,023	36,799,815	587,893,456
1976	579,175,632	111,985,800	41,659,832	658,772,105
1977	661,559,703	128,007,396	48,309,540	730,570,416

* Amount which the State owes the System for benefits earned by employees covering service rendered prior to the end of the fiscal year.

Results of Operations for 1976-77

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 \$48,869,685. This is 38.2 percent of the total income received during the year and 6.2 percent more than the total employee contributions received during the previous fiscal year.

Employer Contributions

Employer contributions during the year amounted to \$41,275,044 which was 32.2 percent of the total income during the year. This was \$5,773,617 or 16.3 percent more than the employer contributions for 1975-76.

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 \$37,862,667. This is 29.6 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, 1977 was 7.37 percent as compared with 7.34 percent for the previous year. Dividends on common stocks amounted to 4.06 percent of the average cost of the stocks. This was greater than the 3.70 percent return on stocks for 1975-76.

EXPENDITURES

Total expenditures during the fiscal year amounted to \$48,309,540. This was \$6,649,708 or 16.0 percent greater than the expenditures for the previous year. The expenditures were as follows:

Retirement benefits	\$28,097,278
Disability benefits	4,680,790
Death benefits	213,832
Survivors benefits	3,089,241
Refunds	11,328,451
Administrative expenses	899,948
	<hr/>
TOTAL	\$48,309,540

ASSETS

As of August 31, 1977, total assets were \$661,559,703. This is an increase of \$82,384,071 or 14.2 percent over the previous year.

INVESTMENTS IN MARKETABLE SECURITIES

Marketable securities owned at August 31, 1977 consisted of the following:

	PRINCIPAL AMOUNT OR NUMBER OF SHARES	CARRYING AMOUNT	MARKET VALUE
Bonds and notes:			
U.S. Government and Federal Agencies	\$ 36,173,330	\$ 36,734,452	\$ 35,458,342
Canadian	9,012,000	8,805,942	8,210,300
Public Utilities	116,088,000	111,396,398	92,683,936
Railroads	3,990,000	3,992,703	4,049,700
Industrial	219,670,534	218,326,821	224,377,519
	<u>\$384,933,864</u>	<u>\$379,256,316</u>	<u>\$364,779,797</u>
Short-term Commercial Notes	\$ 26,368,000	26,368,000	26,368,000
Common Stocks	6,048,525	242,455,230	231,866,637
TOTAL MARKETABLE SECURITIES		\$648,079,546	\$623,014,434

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.

UNFUNDED ACCRUED LIABILITIES

The "Illinois Pension Code" provides that the State shall make contributions to the System each year which are at least equal to the State's share of the normal cost of benefits earned by active employees during the year, plus interest on the unfunded accrued liabilities. For the year ended August 31, 1977, the State should have appropriated 17.22 percent of payroll or about \$109,744,000 to meet this minimum statutory requirement. Actual contribu-

tions by the State amounted to only \$35,716,766, which was about \$74,027,000 less than the minimum requirement.

During the year, the unfunded accrued liabilities of the System increased from \$658,772,105 to \$730,570,416. This increase was due mainly to the failure of the General Assembly to appropriate funds to meet the cost of pensions and other benefits earned by active employees. The State has been paying the System only enough money to meet the State's share of the benefit payments to persons already retired, and no appropriations are made to meet the future pension payments to persons who are still employed.

Edward S. Gibala
Executive Director

FILBEY, SUMMERS, ABOLT, GOOD & KIDDOO

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 the Retirement Fund and the Building Fund of State Universities Retirement System as of August 31, 1977 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.

In our opinion, the financial statements referred to above present fairly the assets, liabilities and fund balances of State Universities Retirement System as of August 31, 1977 and the results of its operations and the changes in its fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Filbey, Summers, Abolt, Good & Kiddoo

November 22, 1977

Exhibit A-1

STATE UNIVERSITIES RETIREMENT SYSTEM
Champaign, Illinois
RETIREMENT FUND
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
August 31, 1977 and 1976

ASSETS		
	1977	1976
Cash	\$ 286,695	\$ 191,459
Receivables		
Participants' contributions	1,812,344	2,695,821
Employer contributions:		
Federal and trust funds	593,410	235,574
State appropriations	1,336,350	2,746,555
Reciprocating retirement systems	35,288	35,585
Other	17,012	66,417
Total Receivables	3,794,404	5,779,952
Investments		
Bonds, at amortized costs; market value \$391,147,797 (1977) and \$322,206,000 (1976)	405,624,316	349,416,152
Common stocks, at cost; market value \$231,866,637 (1977) and \$232,810,000 (1976)	242,455,230	215,055,780
Due from Building Fund	519,859	529,665
Accrued interest and dividends	8,879,199	8,202,624
Total Investments	657,478,604	573,204,221
Total Assets	\$661,559,703	\$579,175,632
LIABILITIES AND FUND BALANCES		
Accounts Payable		
Refunds to participants	\$ 992,004	\$ 751,611
Benefits to annuitants and beneficiaries	111,295	184,677
Administrative	104,186	10,274
Unclaimed benefit and refund checks	24,302	16,263
Other	10,859	8,568
Funds transferred from building fund to be invested	50,561	41,992
Total Payables	1,293,207	1,013,385
Deferred income		
10/12ths of appropriation from State Pension Fund	1,374,168	399,000
Prepayment of contributions	1,436,933	5,708
Total Deferred Income	2,811,101	404,708
Fund balances (Exhibit A-3 and A-4)		
Participants' contributions	406,047,663	362,057,304
Annuitants' and employers' contributions	235,235,194	204,620,515
Undistributed investment income	16,172,538	11,079,720
Total Fund Balances	657,455,395	577,757,539
To be provided by future State of Illinois Appropriations	730,570,416	658,772,105
	1,388,025,811	1,236,529,644
Unfunded accrued liability	(730,570,416)	(658,772,105)
Total Fund Balances	657,455,395	577,757,539
Total Liabilities and Fund Balances	\$661,559,703	\$579,175,632

The notes following Exhibit B-3 are an integral part of this financial statement.

STATE UNIVERSITIES RETIREMENT SYSTEM

Champaign, Illinois

RETIREMENT FUND**STATEMENT OF INCOME AND EXPENDITURES**

For the Years Ended August 31, 1977 and 1976

	1977	1976
INCOME		
Participants' contributions	\$ 48,869,685	\$ 46,007,876
Employer contributions:		
State appropriations	35,716,766	30,246,874
Federal and trust funds	4,775,730	4,457,733
Reciprocating systems	782,548	796,820
Income on investments:		
Interest	27,464,810	23,550,979
Dividends	9,386,303	8,833,611
Gain (loss) on sales of securities	982,294	(1,937,253)
Interest from Building Fund	31,780	32,335
Income allocated to Building Fund	(2,520)	(3,175)
	<u>\$128,007,396</u>	<u>\$111,985,800</u>
EXPENDITURES		
Benefits:		
Retirement	28,097,278	24,287,646
Disability	4,680,790	4,113,883
Death	213,832	222,816
Survivors	3,089,241	2,660,769
Withdrawal of participants'		
Contributions and interest:		
Termination as employees	9,897,031	8,302,803
Death of participants	1,431,420	1,260,316
Administrative expenses	899,948	811,599
	<u>48,309,540</u>	<u>41,659,832</u>
Excess of Income Over Expenditures	<u>\$79,697,856</u>	<u>\$70,325,968</u>

The notes following Exhibit B-3 are an integral part of this financial statement.

STATE UNIVERSITIES RETIREMENT SYSTEM

Exhibit A-3

Champaign, Illinois
RETIREMENT FUND

STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended August 31, 1977

	Balance August 31, 1976	Income	Expenditures	Investment Income Distribution	Transfers In (Out)	Balance August 31, 1977
ACCUMULATED CONTRIBUTIONS:						
From participants	\$362,057,304	\$ 48,869,685	\$ 11,328,452	\$ 20,492,619	(\$ 14,043,493)	\$406,047,663
From employers and other sources:						
Retirement annuities accruing provided from federal and trust funds	34,377,764	3,231,989	—	2,062,666	(1,381,061)	38,291,358
Retirement and reversionary annuities in force provided from annuitants and from federal and trust funds	55,827,393	782,548	7,568,650	3,349,644	13,999,143	66,390,078
Retirement and reversionary annuities accruing and in force provided from State appropriations	(3,979,890)	12,263,190	18,567,851	(238,794)	—	(10,523,345)
Beneficiary annuities in force	757,879	—	64,435	45,473	—	738,917
Disability benefits	11,214,343	4,262,270	4,680,790	672,860	—	11,468,683
Death benefits	5,822,639	1,204,337	213,832	349,359	—	7,162,503
Survivors' insurance benefits	74,106,286	12,882,488	3,089,241	4,446,377	1,031,376	89,377,286
Annual increase in annuities	20,342,596	5,630,920	1,896,342	1,220,556	394,035	25,691,765
Administrative expenses	2,071,105	1,017,300	899,947	124,267	—	2,312,725
Variations in mortality, interest and turnover experience	4,080,400	—	—	244,824	—	4,325,224
Undistributed investment income	204,620,515	41,225,042	36,981,088	12,227,232	14,043,493	235,235,194
	11,079,720	37,862,669	—	(32,769,851)	—	16,172,538
TOTAL (EXHIBIT A-1)	\$577,757,539	\$128,007,396	\$ 48,309,540	\$ —	\$ —	\$657,455,395

The notes following Exhibit B-3 are an integral part of this financial statement.

STATE UNIVERSITIES RETIREMENT SYSTEM
 Champaign, Illinois
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
ACCUMULATED CONTRIBUTIONS:						
From participants	\$316,206,316	\$ 46,005,420	\$ 9,563,119	\$ 20,951,426	(\$ 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	1,063,230	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
TOTAL (EXHIBIT A-1)	\$507,431,571	\$111,985,800	\$ 41,659,832	\$ —	\$ —	\$577,757,539

The notes following Exhibit B-3 are an integral part of this financial statement.

Exhibit B-1

STATE UNIVERSITIES RETIREMENT SYSTEM
Champaign, Illinois
BUILDING FUND
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
August 31, 1977 and 1976

	1977	1976
ASSETS		
Funds transferred to retirement fund to be invested	\$ 50,561	\$ 41,992
Properly, plant and equipment		
Land	70,000	70,000
Land improvements	12,799	12,799
Office buildings	559,621	559,621
Furniture and equipment	55,269	56,505
	697,689	698,925
Accumulated depreciation of building and land improvements	71,315	59,699
	626,374	639,226
Total Assets	\$676,935	\$681,218
LIABILITIES AND FUND BALANCES		
Due to retirement fund	\$519,859	\$529,665
Fund balances provided by (Exhibit B-3):		
Gift of land	70,000	70,000
Retirement fund expenditures for furniture and equipment	55,269	56,505
Accumulated excess of income over expenditures and depreciation	31,807	25,048
	157,076	151,553
Total Liabilities and Fund Balances	\$676,935	\$681,218

The notes following Exhibit B-3 are an integral part of this financial statement.

Exhibit B-2

STATE UNIVERSITIES RETIREMENT SYSTEM
Champaign, Illinois
BUILDING FUND
STATEMENT OF INCOME, EXPENDITURES AND DEPRECIATION
For the Years Ended August 31, 1977 and 1976

	1977	1976
INCOME		
Office space rental, including \$46,333 from retirement fund for 1977 and \$46,000 for 1976 (Note 4d)	\$ 82,422	\$ 81,840
Interest	2,520	3,175
	84,942	85,015
EXPENDITURES AND DEPRECIATION		
Interest paid to retirement fund	31,780	32,335
Building operating expenses	34,787	46,797
Depreciation	11,616	11,616
	78,183	90,748
Excess (deficiency) of income over expenditures and depreciation	\$ 6,759	(\$ 5,733)

The notes following Exhibit B-3 are an integral part of this financial statement.

STATE UNIVERSITIES RETIREMENT SYSTEM
Champaign, Illinois
BUILDING FUND

STATEMENT OF CHANGES IN FUND BALANCES
For the Years Ended August 31, 1977 and 1976

	Total	Gift of Land	Expenditures From Retirement Fund	Accumulated Excess of Income Over Expenditures
BALANCE — AUGUST 31, 1975	\$152,481	\$ 70,000	\$ 51,700	\$ 30,781
ADDITIONS (REDUCTIONS):				
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)
BALANCE — AUGUST 31, 1976	151,553	70,000	56,505	25,048
ADDITIONS (REDUCTIONS):				
Excess (deficiency) of income over expenditures and depreciation for the year ended August 31, 1977	6,759	—	—	6,759
Retirement fund expenditures for furniture and equipment	2,389	—	2,389	—
Dispositions	(3,625)	—	(3,625)	—
BALANCE — AUGUST 31, 1977	\$157,076	\$70,000	\$55,269	\$31,807

The notes following this Exhibit are an integral part of this financial statement.

STATE UNIVERSITIES RETIREMENT SYSTEM

Champaign, Illinois

NOTES TO FINANCIAL STATEMENTS

August 31, 1977

1. Significant Accounting Policies

a. Method of Accounting

The financial records of the System are maintained on the cash basis method of accounting and converted to the accrual basis for reporting purposes. The accrual basis method of accounting recognizes income when earned and expenditures when liability is incurred.

b. 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.

c. Valuation of Marketable Securities

The amortized cost of bonds held by the System exceeded market value by approximately \$14,476,519 as of August 31, 1977, and \$27,211,000 as of August 31, 1976. The cost of common stocks exceeded market value by approximately \$10,588,600 as of August 31, 1977 and market value exceeded cost as of August 31, 1976 by approximately \$17,754,200.

d. 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.

2. Unfunded Accrued Liability

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, 1977, the percentage was 17.22 and the amount was approximately \$109,744,000; the percentage for the prior year was 16.53 and the amount was approximately \$95,400,000. Actual contributions by State appropriations were \$35,716,766 for 1977 and \$30,246,874 for 1976, or approximately \$74,027,000 (1977) and \$65,200,000 (1976) less than the statutory requirement.

The consulting actuary has reported that the unfunded accrued liability was \$730,570,416 as of August 31, 1977, and \$658,772,105 as of August 31, 1976. The increase in unfunded accrued liability was approximately \$71,800,000 for the 1976-1977 year and \$70,900,000 for the 1975-1976 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.

3. Fund Balance Accounts

Following is an explanation of the various categories of the Retirement Fund fund balances. Interest is distributed from the investment income fund balance account to each of the other fund balance account categories. The amount distributed for the 1976-1977 year was 6% of the August 31, 1976 balances, with these modifications:

- a. When a participant retires, dies or withdraws his accumulated contributions, interest is credited to his account for the number of whole months from September 1, 1976 through the end of the month preceding the distribution.

- b. In the event of a withdrawal of the participant's contribution resulting from termination as an employee, interest is credited from September 1, 1974, at the annual rate of 4½%. Any interest credited for a prior year at a rate above 4½% is recomputed at 4½% for such prior year.
- c. A transfer to the fund balance account called "Annual Increases in Annuities to Past Retirees" is made from "Undistributed Investment Income" to exactly defray the cost of that benefit. A legislative change was made effective January 1, 1976, so that the cost of that benefit is no longer funded by investment income.

Accumulated Contributions from Participants — \$406,047,663

Contributions received on behalf of participants are credited to this account, and interest is also added annually to each of the participant's accounts. The contribution rate is 8% of the participant's earnings. Prior to September 1, 1969, the rate was 7% and was less than that in earlier years. The 8% rate is comprised of three separate rates:

- 6.5% which is for regular retirement benefits
 - .5 which is the participant's contribution toward the cost of the automatic annual increases in retirement annuities
 - 1.0 which is for survivors' insurance benefits
-
- 8.0%

When a participant's status changes — by retirement, death, or termination — his account balance is transferred to other fund balance categories, it is refunded to him or his beneficiaries, or a combination transfer/refund occurs.

If an employee terminates before being eligible for retirement benefits, he may leave his contributions with the System to qualify for retirement benefits upon attaining retirement age. Those former employees are called inactive participants.

At August 31, 1976, there were 35,544 active participants and 5,565 inactive participants.

Accumulated Contributions from Federal and Trust Funds for Retirement Annuities Accruing — \$38,291,358

This account represents employer contributions for participants whose salaries have been paid from federal and trust

funds. Such contributions for the 1976-1977 year were made primarily at the rate of 7.72%. The 7.72% rate was determined by the System's consulting actuary. The employers' contributions and interest are transferred at the time of an employee's retirement to the accounting for Retirement Annuities in Force.

Accumulated Contributions from Annuitants and from Federal and Trust Funds for Retirement and Reversionary Annuities in Force — \$66,390,078

Additions are made to this account when a participant retires. The additions are the participant's accumulated contributions, the employer contributions (which were from federal and trust funds) and funds transferred from other reciprocating retirement systems. A proportional part of the annuities paid are charged to this account.

Accumulated Contributions (Deficit) from State Appropriations for Retirement and Reversionary Annuities Accruing and in Force — (\$10,523,345)

This account balance represents the excess of the State's share of the cost of retirement and reversionary annuities over the appropriations received. The System has structured the fund balance accounts so that each account descriptive of benefits accruing or in force reflects the actuarially determined liability, except this one. If the August 31, 1977 unfunded accrued liability of \$730,570,416 were funded, all of it would be credited to this account.

This account shows a decrease for the year because the actuarial liability for all other benefit categories are deemed to be fully funded, with the result that the income allocated to this benefit was less than the benefits actually distributed.

Accumulated Contributions for Beneficiary Annuities in Force — \$738,917

This account is used to record the amounts transferred from Accumulated Contributions from Participants and from Accumulated Contributions for Death Benefits for those participants or their beneficiaries who elected to have the death benefit paid in the form of an annuity. Beneficiary annuities paid during the year are charged to the account.

Accumulated Contributions for Disability Benefits and Death Benefits — \$11,468,683 and \$7,162,503 respectively

These accounts represent accumulated contributions from employers (provided from state appropriations and from trust funds) for payment of disability and death benefits. Disability and death benefits paid during the year are charged to the accounts.

Accumulated Contributions for Survivors' Insurance Benefits — \$89,377,286

The balance in this account represents unexpended contributions from employers (including amounts provided from State appropriations) and unexpended contributions of participants who have retired or died. Survivors' benefits paid during the year are charged to the account.

Accumulated Contributions for Annual Increases in Annuities — \$25,691,765

The Pension Code provides for automatic annual increases of 2% of the retiree's initial annuity. The annual increases are to be partially financed by the employees' contributions (½% of earnings).

The additions to the account are employer contributions (from State appropriations and trust funds) and transfers from participants accumulated contributions, the transfer occurring when the participants retire. Annuity increases paid are charged to this account.

Accumulated Contributions for Administrative Expenses — \$2,312,725

This account is used to accumulate the portion of the employers' contributions used to pay the administrative costs incurred by the System. Administrative costs are charged to the account.

A portion of the income received from State appropriations is allocated to defray administrative costs. A portion of employer contributions from trust funds also applies to administrative expenses.

Accumulated Contributions for Variations in Mortality, Interest and Turnover Experience — \$4,325,224

This account represents contributions in prior years provided

from appropriations of the State for contingencies arising from variations in mortality, interest and turnover experience. There was no activity in this account during the year, except for the interest added.

Undistributed Income on Investments — \$16,172,538

The balance in this account represents the accumulated excess of investment income over (1) interest distributed to the other fund balance accounts, and (2) distributions to Accumulated Contributions for Annual Increases in Annuities to Past Retirees. The Pension Code was amended effective January 1, 1976, so that the annual increases in annuities is no longer funded by "excess interest."

4. Building Fund

- a. The System completed construction of a building in 1971 on land donated by the University of Illinois.
- b. 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, 1977, twenty-four 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.
- c. The assets of the Building Fund are carried at cost, except the land is carried at the fair market value when received by gift.
- d. The Building Fund leases part of the building to the University Civil Service System Merit Board on a year-to-year basis. The lessor is required to furnish utilities, custodial service, repairs and insurance. The rental rate varies from \$4.00 to \$5.20 per square foot. Rental income received from this agreement during the fiscal year ending August 31, 1977 was \$32,055.

The Retirement Fund has an unwritten lease with the Building Fund whereby it rents the west half of the building based on a per square footage charge varying from \$4.00 to \$5.20. Rental income to the Building Fund was \$46,333 for the fiscal year ending August 31, 1977.

The Adler Zone Center rents excess space from the Building Fund. Adler does not pay cash for the space rented but rather provides engineering services to the Building Fund of \$4,034, which is equal to the value of the space rented.