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# ANNUAL REPORT

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*for the year ended August 31, 1978*

STATE  
UNIVERSITIES  
RETIREMENT  
SYSTEM

*Champaign, Illinois*

## **BOARD OF TRUSTEES AND OFFICERS**

OF THE STATE UNIVERSITIES RETIREMENT SYSTEM

FROM THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS

**WILLIAM D. FORSYTH, JR.**, Springfield

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FROM THE BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

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OFFICERS OF THE BOARD

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**EDWARD S. GIBALA**, Urbana, Secretary and Executive Director

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OTHER OFFICERS AND CONSULTANTS

**DR. L. M. HURSH**, Medical Director

**A. A. WEINBERG**, Consulting Actuary

**FILBEY, SUMMERS, ABOLT, GOOD & KIDDOO**, Auditors

DEPOSITORY

**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

1969-78

| Year Ended<br>August 31 | Assets        | Income        | Expenditures | Unfunded<br>Accrued<br>Liabilities* |
|-------------------------|---------------|---------------|--------------|-------------------------------------|
| 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                         |
| 1978                    | 751,209,345   | 146,103,464   | 55,582,874   | 792,374,137                         |

\* 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 1977-78

#### 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

Each participating employee contributes 8 percent of earnings which includes (a) normal retirement contributions of 6½ percent, (b) contributions of ½ of 1 percent for annual increases in retirement benefits, and (c) survivors insurance contributions of 1 percent.

Total employee contributions during the year amounted to \$52,631,639. This is 36.0 percent of the total income received during the year and 7.7 percent more than the total employee contributions received during the previous fiscal year.

**Employer Contributions**

Employer contributions during the year amounted to \$50,741,364 which was 34.7 percent of the total income during the year. This was \$9,466,320 or 22.9 percent more than the employer contributions for 1976-77.

**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 \$42,730,461. This is 29.3 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, 1978 was 7.48 percent as compared with 7.37 percent for the previous year. Dividends on common stocks amounted to 4.42 percent of the average cost of the stocks. This was greater than the 4.06 percent return on stocks for 1976-77.

**EXPENDITURES**

Total expenditures during the fiscal year amounted to \$55,582,874. This was \$7,273,334 or 15.1 percent greater than the expenditures for the previous year. The expenditures were as follows:

|                         |              |
|-------------------------|--------------|
| Retirement benefits     | \$32,982,948 |
| Disability benefits     | 5,324,788    |
| Death benefits          | 165,897      |
| Survivors benefits      | 3,476,991    |
| Refunds                 | 12,614,658   |
| Administrative expenses | 1,017,592    |
|                         | <hr/>        |
| TOTAL                   | \$55,582,874 |

**ASSETS**

As of August 31, 1978, total assets were \$751,209,345. This is an increase of \$89,649,642 or 13.6 percent over the previous year.

**INVESTMENTS IN MARKETABLE SECURITIES**

Marketable securities owned at August 31, 1978 consisted of the following:

|  | PRINCIPAL<br>AMOUNT OR<br>NUMBER OF<br>SHARES | CARRYING<br>AMOUNT   | MARKET<br>VALUE      |
|--|---|----------------------|----------------------|
| Bonds and notes:                           |   |                      |                      |
| U.S. Government<br>and Federal<br>Agencies | \$ 46,182,848                                 | \$ 46,243,147        | \$ 43,167,262        |
| Canadian                                   | 9,012,000                                     | 8,824,343            | 7,734,375            |
| Public Utilities                           | 73,488,000                                    | 70,952,311           | 60,407,100           |
| Railroads                                  | 3,814,000                                     | 3,815,680            | 3,722,379            |
| Industrial                                 | 295,082,271                                   | 292,052,055          | 269,261,867          |
|  | <u>\$427,579,119</u>                          | <u>\$421,887,536</u> | <u>\$384,292,983</u> |
| Short-Term<br>Commercial<br>Notes          | <u>\$ 34,918,000</u>                          | 34,918,000           | 34,918,000           |
| Common Stocks                              | 6,753,298                                     | 279,020,381          | 282,628,648          |
| <b>TOTAL MARKETABLE SECURITIES</b>         |   | <b>\$735,825,917</b> | <b>\$701,839,631</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.

#### LEGISLATION

The General Assembly and the Governor approved House Bill 1803, which raised the automatic annual increase in pensions from 2 to 3 percent of the initial pension payable at retirement. The first increase will be reflected in the January 1, 1979 pension checks.

The annual increases begin on January 1 nearest the 61st birthday of the retiree who terminated employment after August 14, 1969 and on January 1 nearest the 65th birthday of the retiree who terminated employment on or before that date.

#### NEW EXECUTIVE DIRECTOR

Donald E. Hoffmeister has been appointed by the Board of Trustees as Executive Director of the System effective September

1, 1979. He will replace current Executive Director Edward S. Gibala, who will retire at that time.

Mr. Hoffmeister, a graduate of Eastern Illinois University, has been the Assistant and Associate Executive Director of the System since 1969. Prior to that time, he was employed by the Illinois State Teachers Retirement System and the State Employees Retirement System of Illinois for 11 years.

**FILBEY, SUMMERS, ABOLT, GOOD & KIDDOO**

CERTIFIED PUBLIC ACCOUNTANTS  
2507 South Neil Street  
P.O. Box B  
Champaign, Illinois 61820  
(217) 351-5600

Offices  
Champaign, Illinois  
Aurora, Illinois

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, 1978 and 1977 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 financial statements referred to above present fairly the assets, liabilities and fund balances of State Universities Retirement System as of August 31, 1978 and 1977 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.

*Filbey, Summers, Abolt, Good & Kiddoo*

November 22, 1978

## Exhibit A-1

**STATE UNIVERSITIES RETIREMENT SYSTEM**  
Champaign, Illinois  
**RETIREMENT FUND**  
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES  
August 31, 1978 and 1977

| ASSETS   |                      |                      |
|--|----------------------|----------------------|
|  | 1978                 | 1977                 |
| Cash   | \$ ---               | \$ 286,695           |
| Receivables  |                      |                      |
| Participants' Contributions  | 2,380,139            | 1,812,344            |
| Employer Contributions:  |                      |                      |
| Federal and Trust Funds  | 1,027,807            | 593,410              |
| State Appropriations   | 1,382,017            | 1,336,350            |
| Reciprocating Retirement Systems   | 33,597               | 35,288               |
| Other  | 20,798               | 13,614               |
| Total Receivables  | 4,844,358            | 3,791,006            |
| Prepaid Expenses   | 45,213               | 3,398                |
| Investments  |                      |                      |
| Bonds, At Amortized Cost; Market Value \$419,210,983 (1978) and \$391,147,797 (1977) | 456,805,536          | 405,624,316          |
| Common Stocks, At Cost; Market Value \$282,628,648 (1978) and \$231,866,637 (1977)   | 279,020,381          | 242,455,230          |
| Due from Building Fund   | 509,465              | 519,859              |
| Accrued Interest and Dividends   | 9,984,392            | 8,879,199            |
| Total Investments  | 746,319,774          | 657,478,604          |
| Total Assets   | <b>\$751,209,345</b> | <b>\$661,559,703</b> |
| LIABILITIES AND FUND BALANCES  |                      |                      |
| Bank Overdraft   | \$ 139,985           | \$ ---               |
| Accounts Payable   |                      |                      |
| Refunds to Participants  | 969,432              | 992,004              |
| Benefits to Annuitants and Beneficiaries   | 133,906              | 111,295              |
| Administrative   | 112,025              | 104,186              |
| Unclaimed Benefit and Refund Checks  | 15,026               | 24,302               |
| Other  | 17,243               | 10,859               |
| Funds Transferred From Building Fund To Be Invested                                  | 60,069               | 50,561               |
| Total Payables   | 1,307,701            | 1,293,207            |
| Deferred Income  |                      |                      |
| 10/12ths of Appropriation From State Pension Fund                                    | 829,167              | 1,374,168            |
| Prepayment of Contributions  | 956,508              | 1,436,933            |
| Total Deferred Income  | 1,785,675            | 2,811,101            |
| Fund Balances (Exhibit A-3 and A-4)  |                      |                      |
| Participants' Contributions  | 455,668,777          | 406,047,663          |
| Annuitants' and Employers' Contributions   | 273,502,416          | 235,235,194          |
| Undistributed Investment Income  | 18,804,791           | 16,172,538           |
| Total Fund Balances  | 747,975,984          | 657,455,395          |
| To Be Provided By Future State of Illinois Appropriations                            | 792,374,137          | 730,570,416          |
| Total Liabilities and Fund Balances  | 1,540,350,121        | 1,388,025,811        |
| Unfunded Accrued Liability   | ( 792,374,137)       | ( 730,570,416)       |
| Total Fund Balances  | 747,975,984          | 657,455,395          |
| Total Liabilities and Fund Balances  | <b>\$751,209,345</b> | <b>\$661,559,703</b> |

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, 1978 and 1977

|   | 1978                | 1977                |
|---|---------------------|---------------------|
| <b>INCOME</b>   |                     |                     |
| Participants' Contributions                             | \$ 52,631,639       | \$ 48,869,685       |
| Employer Contributions:                                 |                     |                     |
| State Appropriations                                    | 44,495,600          | 35,716,766          |
| Federal and Trust Funds                                 | 5,479,532           | 4,775,730           |
| Reciprocating Systems                                   | 766,232             | 782,548             |
| Income on Investments:                                  |                     |                     |
| Interest  | 31,664,225          | 27,462,290          |
| Dividends   | 11,792,209          | 9,386,303           |
| Gain (Loss) on Sales of Securities                      | ( 757,165)          | 982,294             |
| Interest From Building Fund                             | 31,192              | 31,780              |
|   | <u>146,103,464</u>  | <u>128,007,396</u>  |
| <b>EXPENDITURES</b>                                     |                     |                     |
| Benefits:   |                     |                     |
| Retirement  | 32,982,948          | 28,097,278          |
| Disability  | 5,324,788           | 4,680,790           |
| Death   | 165,897             | 213,832             |
| Survivors   | 3,476,991           | 3,089,241           |
| Withdrawal of Participants' Contributions and Interest: |                     |                     |
| Termination as Employees                                | 11,008,076          | 9,897,031           |
| Death of Participants                                   | 1,606,582           | 1,431,420           |
| Administrative Expenses                                 | 1,017,592           | 899,948             |
|   | <u>55,582,874</u>   | <u>48,309,540</u>   |
| <b>Excess of Income Over Expenditures</b>               | <b>\$90,520,590</b> | <b>\$79,697,856</b> |

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



**STATE UNIVERSITIES RETIREMENT SYSTEM**  
Champaign, Illinois  
**RETIREMENT FUND**

Exhibit A-3

STATEMENT OF CHANGES IN FUND BALANCES  
For the Year Ended August 31, 1978

|   | Balance<br>August 31, 1977 | Income               | Expenditures         | Investment<br>Income<br>Distribution | Transfers<br>In (Out) | Balance<br>August 31, 1978 |
|---|----------------------------|----------------------|----------------------|--------------------------------------|-----------------------|----------------------------|
| <b>ACCUMULATED CONTRIBUTIONS:</b>   |                            |                      |                      |                                      |                       |                            |
| From Participants   | \$406,047,663              | \$ 52,631,639        | \$12,614,658         | \$24,807,918                         | (\$15,203,785)        | \$455,668,777              |
| From Employers and Other Sources:   |                            |                      |                      |                                      |                       |                            |
| Retirement Annuities Accruing Provided<br>From Federal and Trust Funds                                      | 38,291,358                 | 3,590,087            | —                    | 2,488,938                            | ( 1,242,057)          | 43,128,326                 |
| Retirement and Reversionary Annuities<br>in Force Provided From Annuity<br>and From Federal and Trust Funds | 66,390,078                 | 766,232              | 8,930,470            | 4,315,355                            | 14,779,263            | 77,320,458                 |
| Retirement and Reversionary Annuities<br>Accruing and In Force Provided<br>From State Appropriations        | ( 10,523,345)              | 18,852,776           | 21,685,890           | ( 684,017)                           | —                     | ( 14,040,476)              |
| Beneficiary Annuities In Force  | 738,917                    | —                    | 62,969               | 48,030                               | —                     | 723,978                    |
| Disability Benefits   | 11,468,683                 | 5,469,965            | 5,324,788            | 745,464                              | —                     | 12,359,325                 |
| Death Benefits  | 7,162,503                  | 1,257,877            | 165,897              | 465,563                              | —                     | 8,720,045                  |
| Survivors' Insurance Benefits   | 89,377,286                 | 13,507,049           | 3,476,991            | 5,809,524                            | 1,200,335             | 106,417,203                |
| Annual Increase in Annuities  | 25,691,765                 | 6,180,905            | 2,303,619            | 1,669,965                            | 466,244               | 31,705,260                 |
| Administrative Expenses   | 2,312,725                  | 1,116,473            | 1,017,592            | 150,327                              | —                     | 2,561,933                  |
| Variations in Mortality, Interest<br>and Turnover Experience  | 4,325,224                  | —                    | —                    | 281,140                              | —                     | 4,606,364                  |
|   | 235,235,194                | 50,741,364           | 42,968,216           | 15,290,289                           | 15,203,785            | 273,502,416                |
| Undistributed Investment Income   | 16,172,538                 | 42,730,461           | —                    | ( 40,098,207)                        | —                     | 18,804,791                 |
| <b>TOTAL (EXHIBIT A-1)</b>  | <b>\$657,455,395</b>       | <b>\$146,103,464</b> | <b>\$ 55,582,874</b> | <b>\$ —</b>                          | <b>\$ —</b>           | <b>\$747,975,984</b>       |

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, 1977

Exhibit A-4

|   | Balance<br>August 31, 1976 | Income               | Expenditures         | Investment<br>Income<br>Distribution | Transfers<br>In (Out) | Balance<br>August 31, 1977 |
|---|----------------------------|----------------------|----------------------|--------------------------------------|-----------------------|----------------------------|
| <b>ACCUMULATED CONTRIBUTIONS:</b>   |                            |                      |                      |                                      |                       |                            |
| 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<br>From Federal and Trust Funds                                      | 34,377,764                 | 3,231,989            | —                    | 2,062,666                            | ( 1,381,061)          | 38,291,358                 |
| Retirement and Reversionary Annuities<br>in Force Provided From Annuity<br>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<br>Accruing and in Force Provided<br>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<br>and Turnover Experience  | 4,080,400                  | —                    | —                    | 244,824                              | —                     | 4,325,224                  |
|   | 204,620,515                | 41,275,042           | 36,981,088           | 12,277,232                           | 14,043,493            | 235,235,194                |
| Undistributed Investment Income   | 11,079,720                 | 37,862,669           | —                    | ( 32,769,851)                        | —                     | 16,172,538                 |
| <b>TOTAL (EXHIBIT A-1)</b>  | <b>\$577,757,539</b>       | <b>\$128,007,396</b> | <b>\$ 48,309,540</b> | <b>\$ —</b>                          | <b>\$ —</b>           | <b>\$657,455,395</b>       |

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, 1978 and 1977

|  | 1978             | 1977             |
|--|------------------|------------------|
| <b>ASSETS</b>                              |                  |                  |
| Funds Transferred to Retirement            |                  |                  |
| Fund To Be Invested                        | \$ 60,069        | \$ 50,561        |
| Property, Plant and Equipment              |                  |                  |
| Land                                       | 70,000           | 70,000           |
| Land Improvements                          | 12,799           | 12,799           |
| Office Buildings                           | 559,621          | 559,621          |
| Furniture and Equipment                    | 69,648           | 55,269           |
|  | 712,068          | 697,689          |
| Accumulated Depreciation of                |                  |                  |
| Building and Land Improvements             | 82,931           | 71,315           |
|  | 629,137          | 626,374          |
| <b>Total Assets</b>                        | <b>\$689,206</b> | <b>\$676,935</b> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                  |                  |
| Due to Retirement Fund                     | \$509,465        | \$519,859        |
| Fund Balances Provided By (Exhibit B-3):   |                  |                  |
| Gift of Land                               | 70,000           | 70,000           |
| Retirement Fund Expenditures               |                  |                  |
| For Furniture and Equipment                | 69,648           | 55,269           |
| Accumulated Excess of Income Over          |                  |                  |
| Expenditures and Depreciation              | 40,093           | 31,807           |
|  | 179,741          | 157,076          |
| <b>Total Liabilities and Fund Balances</b> | <b>\$689,206</b> | <b>\$676,935</b> |

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, 1978 and 1977

|   | 1978            | 1977            |
|---|-----------------|-----------------|
| <b>INCOME</b>   |                 |                 |
| Office Space Rental, including \$48,000<br>from Retirement Fund for 1978 and<br>\$46,333 for 1977 (Note 4d) | \$ 86,206       | \$ 82,422       |
| Interest  | 3,286           | 2,520           |
|   | 89,492          | 84,942          |
| <b>EXPENDITURES AND DEPRECIATION</b>  |                 |                 |
| Interest Paid to Retirement Fund  | 31,192          | 31,780          |
| Building Operating Expenses   | 38,398          | 34,787          |
| Depreciation  | 11,616          | 11,616          |
|   | 81,206          | 78,183          |
| Excess of Income Over Expenditures<br>and Depreciation  | <b>\$ 8,286</b> | <b>\$ 6,759</b> |

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, 1978 and 1977

Exhibit B-3

|   | Total     | Provided by     |  | Accumulated<br>Excess of<br>Income Over<br>Expenditures |
|---|-----------|-----------------|--|---|
|   |           | Gift of<br>Land | Expenditures<br>From<br>Retirement<br>Fund |   |
| <b>BALANCE — AUGUST 31, 1976</b>  | \$151,553 | \$ 70,000       | \$ 56,505                                  | \$ 25,048   |
| <b>ADDITIONS (REDUCTIONS):</b>  |           |                 |  |   |
| Excess of Income Over Expenditures<br>and Depreciation for the Year Ended August 31, 1977 | 6,759     | —               | —  | 6,759   |
| Retirement Fund Expenditures for<br>Furniture and Equipment                               | 2,389     | —               | 2,389                                      | —   |
| Dispositions  | ( 3,625)  | —               | ( 3,625)                                   | —   |
|   | 5,523     | —               | ( 1,236)                                   | 6,759   |
| <b>BALANCE — AUGUST 31, 1977</b>  | 157,076   | 70,000          | 55,269                                     | 31,807  |
| <b>ADDITIONS (REDUCTIONS):</b>  |           |                 |  |   |
| Excess of Income Over Expenditures<br>and Depreciation for the Year Ended August 31, 1978 | 8,286     | —               | —  | 8,286   |
| Retirement Fund Expenditures for<br>Furniture and Equipment                               | 15,580    | —               | 15,580                                     | —   |
| Dispositions  | ( 1,201)  | —               | ( 1,201)                                   | —   |
| <b>BALANCE — AUGUST 31, 1978</b>  | \$179,741 | \$70,000        | \$69,648                                   | \$40,093  |

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, 1978

#### 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 received, 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. 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.

##### D. Fund Balance Accounts

Following is an explanation of the various categories of 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 1977-78 year was 6½% of the August 31, 1977 balances, with these modifications.

1. 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, 1977 through the end of the month preceding the distribution.
2. 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.
3. 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.

*Accumulated Contributions from Participants — \$455,668,-777*

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 becoming eligible for retirement benefits, he may leave his contributions with the System to qualify for the retirement benefits upon attain-

ing retirement age. Such former employees are called inactive participants.

At August 31, 1977, there were 36,458 active participants and 5,576 inactive participants.

*Accumulated Contributions from Federal and Trust Funds for Retirement Annuities Accruing — \$43,128,326*

This account represents employer contributions for participants whose salaries have been paid from federal and trust funds. Such contributions for the 1977-78 year were made primarily at the rate of 7.70%. The 7.70% 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 account for Retirement Annuities in Force.

*Accumulated Contributions from Annuitants and from Federal and Trust Funds for Retirement and Reversionary Annuities in Force — \$77,320,458*

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 — (\$14,040,476)*

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, 1978 unfunded accrued liability of \$792,374,137 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 — \$723,978*

This account represents 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 — \$12,359,325 and \$8,720,045 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 — \$106,417,203*

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 — \$31,705,260*

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 ( $\frac{1}{2}\%$  of earnings).

Additions to this 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 — \$2,561,933*

This account is used to accumulate that portion of 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 — \$4,606,364*

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 — \$18,804,791*

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.

2. Valuation of Marketable Securities

The amortized cost of bonds held by the System exceeded market value by approximately \$37,594,551 as of August 31, 1978, and \$14,476,519 as of August 31, 1977. The market value of common stocks exceeded cost by approximately \$3,608,300 at August 31, 1978. The cost of common stocks exceeded market value by \$10,588,600 at August 31, 1977.

At November 30, 1978, the amortized cost of bonds held by the System exceeded market value by approximately \$48,477,369 and the cost of common stocks exceeded market value by approximately \$19,727,700.

3. 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, 1978, the percentage was 17.82 and the amount was approximately \$120,124,000; the percentage for the prior year was 17.22 and the amount was approximately \$109,744,000. Actual contributions by State appropriations were \$44,495,600 for 1978 and \$35,716,766 for 1977, or approximately \$75,628,400 (1978) and \$74,027,000 (1977) less than the statutory requirement.

The consulting actuary has reported that the unfunded accrued liability was \$792,374,137 as of August 31, 1978, and \$730,570,416 as of August 31, 1977. The increase in unfunded accrued liability was approximately \$61,800,000 for the 1977-78 year and \$71,800,000 for the 1976-77 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.

#### 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, including interest at 6%. As of August 31, 1978, twenty-three 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 State Universities 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 \$4.20 to \$5.40 per square foot. Rental income received from this agreement during the fiscal year ending August 31, 1978 was \$33,132.

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 \$4.20 to \$5.40. Rental income to the Building Fund was \$48,000 for the fiscal year ending August 31, 1978.

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 \$4,200 which is equal to the value of the space rented.

The University of Illinois entered into a lease with the Building Fund on July 1, 1978 to rent excess space. The lease is for one year and requires the lessee to pay \$437 per month. The lessor is required to pay utilities, custodial service, repairs and insurance. Rental income received from this agreement during the fiscal year ending August 31, 1978 was \$874.