

ANNUAL REPORT

for the year ended August 31, 1980

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

GEORGE W. HOWARD III, Mt. Vernon

FROM THE BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

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NANCY FROELICH, Gridley

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FROM THE STATE BOARD OF REGENTS

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DR. L. M. HURSH, Medical Director

A. A. WEINBERG, Consulting Actuary

ALLSUP, VOLLBRACHT, COFFMAN & MORRIS, 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

1971-80

Year Ended August 31	Assets	Income	Expenditures	Unfunded Accrued Liabilities*
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
1979	863,141,804	171,463,991	62,426,338	849,722,361
1980	990,701,245	202,391,334	69,602,599	879,136,019

* 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 1979-80

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 \$63,997,390. This is 31.6 percent of the total income received during the year and 13.3 percent more than the total employee contributions received during the previous fiscal year.

Employer Contributions

Employer contributions during the year amounted to \$72,700,571 which was 35.9 percent of the total income during the year. This was \$11,105,211 or 18.0 percent more than the employer contributions for 1978-79.

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 \$65,693,373. This is 32.5 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, 1980 was 8.24 percent as compared with 7.76 percent for the previous year. Dividends on common stocks amounted to 4.52 percent of the average cost of the stocks. This was less than the 4.84 percent return on stocks for 1978-79.

EXPENDITURES

Total expenditures during the fiscal year amounted to \$69,602,599. This was \$7,176,261 or 11.5 percent greater than the expenditures for the previous year. The major increase in administrative expenses resulted from the purchase of an IBM 4331 computer.

EXPENSES	1979	1980	INCREASE	
			AMOUNT	PER-CENT-AGE
Retirement benefits	\$37,220,681	\$42,047,692	\$4,827,011	13.0
Disability benefits	5,708,948	6,165,988	457,040	8.0
Death benefits	219,266	217,962	(1,304)	(.6)
Survivors' benefits	3,998,473	4,451,890	453,417	11.3
Refunds	14,101,511	15,138,984	1,037,473	7.4
Administrative expenses	1,177,459	1,580,083	402,624	34.2
TOTAL	\$62,426,338	\$69,602,599	\$7,176,261	11.5

ASSETS

As of August 31, 1980, total assets were \$990,701,245. This is an increase of \$127,559,441 or 14.8 percent over the previous year.

INVESTMENTS IN MARKETABLE SECURITIES

Marketable securities owned at August 31, 1980 consisted of the following:

**STATE OF ILLINOIS
STATE UNIVERSITIES RETIREMENT SYSTEM
Retirement Fund**

STATEMENT OF CHANGES IN INVESTMENTS
Year ended August 31, 1980

	Total	U.S. Government and Federal obligations	Canadian obligations	Common stocks	Other corporate securities
BALANCE SEPTEMBER 1, 1979 (At Amortized Cost)	\$846,119,687	\$ 82,892,665	\$8,842,745	\$320,663,021	\$433,721,256
INCREASES					
Securities purchased:					
Short-term investments, at par	655,901,000	14,316,000	—	—	641,585,000
Long-term investments, at par	103,457,355	32,957,355	—	—	70,500,000
Common stock, at cost	64,693,654	—	—	64,693,654	—
Premium (discount) on purchases, net	824,052,009	47,273,355	—	64,693,654	712,085,000
	(3,584,610)	(2,738,195)	—	—	(846,414)
Amortization of (premium) and discount, net	820,467,399	44,535,159	—	64,693,654	711,238,586
	596,518	121,499	17,990	—	457,029
	821,063,917	44,656,658	17,990	64,693,654	711,695,615
DECREASES					
Sales and maturities:					
Short-term investments, at par	671,784,000	10,596,000	—	—	661,188,000
Long-term investments, at par	8,236,357	1,492,000	349,000	—	6,395,357
Common stock, at cost	23,579,215	—	—	23,579,215	—
Principal payments received	1,166,593	1,166,593	—	—	—
Net premium (discount) at time of disposition	(13,775)	—	(9,536)	—	(4,239)
	704,752,390	13,254,593	339,464	23,579,215	667,579,118
Net increase (decrease)	116,311,527	31,402,065	(321,474)	41,114,439	44,116,497
BALANCE AUGUST 31, 1980 (At Amortized Cost)	\$962,431,214	\$114,294,730	\$8,521,271	\$361,777,460	\$477,837,753
BALANCE AUGUST 31, 1980 (At Market)	\$866,435,068	\$ 94,147,176	\$5,805,892	\$404,300,896	\$362,181,104

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.

ALLSUP, VOLLBRACHT, COFFMAN & MORRIS

CERTIFIED PUBLIC ACCOUNTANTS

300 Unity Building
Bloomington, Illinois 61701
(309) 829-7081

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

We have examined the statement of assets, liabilities and fund balances of the Retirement Fund and the Building Fund of the STATE UNIVERSITIES RETIREMENT SYSTEM as of August 31, 1980 and the related statements of revenue and expenses 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 the State Universities Retirement System Retirement Fund and Building Fund as of August 31, 1980 and the revenues and expenses and changes in fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Allsup, Vollbracht, Coffman + Morris
Professional Corporation

November 25, 1980

**STATE OF ILLINOIS
STATE UNIVERSITIES RETIREMENT SYSTEM
Retirement Fund**

**STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
August 31, 1980 and 1979**

ASSETS

	<u>1980</u>	<u>1979</u>
Cash	\$ 1,857,931	\$ —
Receivables		
Contributions by participants	3,094,560	2,136,553
Contributions by State of Illinois	6,642,942	1,487,392
Contributions from Federal and Trust funds and other	1,879,655	1,298,343
Reciprocity payments	32,232	33,201
Accrued interest and dividends	14,275,942	11,567,994
	<u>25,925,331</u>	<u>16,523,483</u>
Prepaid expenses	—	187
Investments	962,431,215	846,119,687
Notes receivable		
Due from Building Fund	486,768	498,447
	<u>\$ 990,701,245</u>	<u>\$ 863,141,804</u>

LIABILITIES AND FUND BALANCES

Bank overdraft	\$ —	\$ 754,708
Accounts payable		
Benefits and other accrued items	1,137,822	921,929
Funds transferable from Building Fund	81,279	71,745
	<u>1,219,101</u>	<u>993,674</u>
Deferred income	2,177,412	4,379,785
Fund balances	987,304,732	857,013,637
To be provided by future State of Illinois appropriations	879,136,019	849,722,361
	<u>1,866,440,751</u>	<u>1,706,735,998</u>
Unfunded accrued liability	(879,136,019)	(849,722,361)
	<u>987,304,732</u>	<u>857,013,637</u>
	<u>\$ 990,701,245</u>	<u>\$ 863,141,804</u>

The accompanying notes are an integral part of these financial statements.

STATE OF ILLINOIS
STATE UNIVERSITIES RETIREMENT SYSTEM
Retirement Fund

STATEMENT OF REVENUE AND EXPENSES

Years ended August 31, 1980 and 1979

	<u>1980</u>	<u>1979</u>
REVENUE		
Contributions by participants		
Salary deductions and qualifying payments	\$ 63,997,390	\$ 56,503,802
Contributions by State of Illinois		
Employer units	61,823,683	53,051,033
State Pension Fund	2,476,833	1,247,167
Automatic increases in annuities	—	147,900
	<u>64,300,516</u>	<u>54,446,100</u>
Contributions from Federal and trust funds and other	7,659,473	6,397,307
Reciprocity payments	740,582	751,953
Investment income	65,663,466	53,100,968
Interest from Building Fund	29,907	30,568
	<u>202,391,334</u>	<u>171,230,698</u>
EXPENSES		
Benefits		
Age retirement	42,047,692	37,220,681
Disability	6,165,988	5,708,948
Death	217,962	219,266
Survivors	4,451,890	3,998,473
	<u>52,883,532</u>	<u>47,147,368</u>
Withdrawal of participants		
Refunds	13,396,491	12,021,454
Death	1,742,493	2,080,057
	<u>15,138,984</u>	<u>14,101,511</u>
Administrative expenses	1,580,083	1,177,459
	<u>69,602,599</u>	<u>62,426,338</u>
Excess of revenue over expenses before gain (loss) on sale of investments	132,788,735	108,804,360
Gain (loss) on sale of investments, net	(2,497,640)	233,293
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 130,291,095</u>	<u>\$ 109,037,653</u>

The accompanying notes are an integral part of these financial statements.

STATE OF ILLINOIS
STATE UNIVERSITIES RETIREMENT SYSTEM
Retirement Fund

STATEMENT OF CHANGES IN FUND BALANCES
For the year ended August 31, 1980

	Balance September 1, 1979	Income	Expenditures	Investment Income distribution	Transfers in (out)	Balance August 31, 1980
ACCUMULATED CONTRIBUTIONS:						
From participants	\$510,986,382	\$ 63,997,390	\$15,138,984	\$33,699,583	\$(16,221,481)	\$577,322,890
From employers and other sources	48,498,626	4,297,996	—	3,394,904	(1,546,273)	54,645,253
Retirement annuities accruing provided from Federal and trust funds	89,144,324	740,583	11,445,730	6,240,103	15,763,419	100,442,699
Retirement and reversionary annuities in force provided from annuities and from Federal and trust funds	(15,089,451)	29,975,705	26,750,737	(1,056,262)	—	(12,920,745)
Retirement and reversionary annuities accruing and in force provided from State appropriations	710,642	—	64,329	49,745	44,930	740,988
Beneficiary annuities in force	14,547,792	8,041,692	6,165,988	1,018,345	—	17,441,841
Disability benefits	10,405,601	550,423	217,962	728,392	—	11,466,454
Death benefits	125,661,497	15,773,511	4,451,890	8,796,305	1,389,155	147,168,578
Survivors' insurance benefits	39,646,646	11,719,379	3,786,896	2,775,265	570,250	50,924,644
Annual increase in annuities	2,984,418	1,601,282	1,580,083	208,909	—	3,214,526
Administrative expenses	4,917,293	—	—	344,211	—	5,261,504
Variations in mortality, interest and turnover experience	321,427,388	72,700,571	54,463,615	22,499,917	16,221,481	378,385,742
	24,599,867	63,195,733	—	(56,199,509)	—	31,596,100
UNDISTRIBUTED INVESTMENT INCOME	<u>\$857,013,637</u>	<u>\$199,893,694</u>	<u>\$69,602,599</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$987,304,732</u>

The accompanying notes are an integral part of these financial statements.

STATE OF ILLINOIS
STATE UNIVERSITIES RETIREMENT SYSTEM
Retirement Fund

STATEMENT OF CHANGES IN FUND BALANCES
For the year ended August 31, 1979

	Balance September 1, 1978	Income	Expenditures	Investment income distribution	Transfers in (out)	Balance August 31, 1979
ACCUMULATED CONTRIBUTIONS:						
From participants	\$455,668,777	\$ 56,503,802	\$15,101,511	\$29,108,342	\$(16,193,028)	\$510,986,382
From employers and other sources						
Retirement annuities accruing provided from Federal and trust funds	43,128,326	4,125,784	—	2,911,162	(1,666,646)	48,498,626
Retirement and reversionary annuities in force provided from annuities and from Federal and trust funds	77,320,458	751,953	10,141,514	5,219,131	15,994,296	89,144,324
Retirement and reversionary annuities accruing and in force provided from State appropriations	(14,040,476)	23,961,180	24,062,423	(947,732)	—	(15,089,451)
Beneficiary annuities in force	723,978	—	62,204	48,868	—	710,642
Disability benefits	12,359,325	7,063,161	5,708,948	834,254	—	14,547,792
Death benefits	8,720,045	1,316,220	219,267	588,603	—	10,405,601
Survivors' insurance benefits	106,417,203	14,728,640	3,998,473	7,183,161	1,330,966	125,661,497
Annual increase in annuities	31,705,260	8,221,409	2,954,540	2,140,105	534,412	39,646,646
Administrative expenses	2,561,933	1,427,013	1,177,459	172,931	—	2,984,418
Variations in mortality, interest and turnover experience	4,606,364	—	—	310,929	—	4,917,293
	273,502,416	61,595,360	48,324,828	18,461,412	16,193,028	321,427,388
	18,804,791	53,438,534	73,704	(47,569,754)	—	24,599,867
UNDISTRIBUTED INVESTMENT INCOME	\$747,975,984	\$117,537,696	\$62,500,043	\$ —	\$ —	\$837,013,637

The accompanying notes are an integral part of these financial statements.

**STATE OF ILLINOIS
STATE UNIVERSITIES RETIREMENT SYSTEM**

Building Fund

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
August 31, 1980 and 1979

	1980	1979
ASSETS		
Funds transferable to Retirement Fund	\$ 81,279	\$ 71,745
Property and equipment		
Land	70,000	70,000
Land improvements	12,799	12,799
Office building	559,621	559,621
Building improvements	52,213	—
Furniture and fixtures	382,793	76,834
	1,077,426	719,254
Accumulated depreciation	106,163	94,547
	971,263	624,707
	\$1,052,542	\$696,452
LIABILITIES AND FUND BALANCES		
Notes payable		
Due to Retirement Fund	\$ 486,768	\$498,447
Fund balances		
Gift of land	70,000	70,000
Building improvements	52,213	—
Furniture and fixtures	382,793	76,834
Excess of income over expenses	60,768	51,171
	565,774	198,005
	\$1,052,542	\$696,452

The accompanying notes are an integral part of these financial statements.

**STATE OF ILLINOIS
STATE UNIVERSITIES RETIREMENT SYSTEM**

Building Fund

STATEMENT OF REVENUE AND EXPENSES
Years ended August 31, 1980 and 1979

	1980	1979
REVENUE		
Office space rental	\$ 90,064	\$ 90,576
Interest	5,022	4,055
	95,086	94,631
EXPENSES		
Building operations	43,966	41,369
Interest paid to Retirement Fund	29,907	30,568
Depreciation	11,616	11,616
	85,489	83,553
EXCESS OF REVENUE OVER EXPENSES	\$ 9,597	\$ 11,078

The accompanying notes are an integral part of these financial statements.

STATE OF ILLINOIS
STATE UNIVERSITIES RETIREMENT SYSTEM
Building Fund

STATEMENT OF CHANGES IN FUND BALANCES
 Years ended August 31, 1980 and 1979

	<u>Total</u>	<u>Gift of land</u>	<u>Furniture and fixtures</u>	<u>Building improvements</u>	<u>Excess of revenue over expenses</u>
BALANCE SEPTEMBER 1, 1978	\$179,741	\$70,000	\$ 69,648	\$ —	\$40,093
Excess of income over expenses	11,078	—	—	—	11,078
Furniture and fixtures, net	7,186	—	7,186	—	—
	<u>18,264</u>	<u>—</u>	<u>7,186</u>	<u>—</u>	<u>11,078</u>
BALANCE AUGUST 31, 1979	198,005	70,000	76,834	—	51,171
Excess of income over expenses	9,597	—	—	—	9,597
Furniture and fixtures, net	305,959	—	305,959	—	—
Building improvements	52,213	—	—	52,213	—
	<u>367,769</u>	<u>—</u>	<u>305,959</u>	<u>52,213</u>	<u>9,597</u>
BALANCE AUGUST 31, 1980	\$565,774	\$70,000	\$382,793	\$52,213	\$60,768

The accompanying notes are an integral part of these financial statements.

STATE OF ILLINOIS

STATE UNIVERSITIES RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

August 31, 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Depreciation has been computed on the straight-line method over the estimated useful lives of the building and improvement accounts. Depreciation is not recorded with respect to furniture and fixtures, and the costs of all new property and equipment are acquired by the Retirement Fund and included as an administrative expense.

2. INVESTMENTS

Investments owned at August 31, 1980 and 1979 consisted of the following:

	Amortized cost	Market value
August 31, 1980	\$962,431,214	\$866,435,068
August 31, 1979	\$846,119,687	\$802,291,380

Market value quotes are provided by Merrill Lynch, Pierce, Fenner and Smith as a service of Harris Trust and Savings Bank.

During the year ended August 31, 1980, the System participated in commingled investment funds with American National Bank and Trust Company of Chicago in accordance with Article 15-167.1 of the Illinois Pension Code.

3. DEFERRED INCOME

Deferred income consists of prepaid employee and employer unit contributions.

4. FUND BALANCES

Following are brief descriptions of the various fund balance accounts:

Accumulated contributions from participants

Contributions received on behalf of participants are credited to this account. The contribution rate is 8% of the participant's earnings. When a participant's status changes by retirement, death or termination, the account balance is transferred to other fund balances or is refunded. If an employee terminates before becoming eligible for retirement benefits, the employee may leave the contributions with the System to qualify for retirement benefits upon attaining retirement age. Such former employees are called inactive participants.

Accumulated contributions from Federal and trust funds for retirement annuities accruing

This account represents employer contributions for participants whose salaries have been paid from Federal and trust funds.

Accumulated contributions from annuitants and from Federal and trust funds for retirement and reversionary annuities in force

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 from State appropriations for retirement and reversionary annuities accruing and in force

This account balance represents the excess of the State's share of the cost of retirement and reversionary annuities over the appropriations received.

Accumulated contributions for beneficiary annuities in force

This account represents the amounts transferred from accumulated contributions from participants and from accumulated contributions for death benefits for those participants or 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

This account represents accumulated contributions from employers, provided from State appropriations and from trust funds, for payment of disability benefits.

Accumulated contributions for death benefits

This account represents accumulated contributions from employers, provided from State appropriations and from trust funds, for payment of death benefits.

Accumulated contributions for survivors' insurance benefits

This account represents unexpended contributions from employers, including amounts provided from State appropriations, and unexpended contributions of participants who have retired or died.

Accumulated contributions for annual increases in annuities

This account represents employer contributions, from State appropriations and trust funds, and transfers from participants' accumulated contributions; the transfer occurring when the participant retires.

Accumulated contributions for administrative expenses

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

Accumulated contributions for variations in mortality, interest and turnover experience

This account represents contributions in prior years provided from appropriations of the State of contingencies arising from variations in mortality, interest and turnover experience.

Undistributed income on investments

This account represents the accumulated excess of investment income over interest distributed to the other fund balance accounts.

5. UNFUNDED ACCRUED LIABILITY

The unfunded accrued liability represents the actuarial liability resulting from the difference between the total net assets

of the System and the actuarial requirement to fund the System's benefits. However, Illinois statutes provide that any potential unfunded liability be an obligation of the State of Illinois.

6. 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, including interest at 6%. As of August 31, 1980, 21 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 the lease 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.

The Building Fund leases part of the building to the State Universities Civil Service System 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, 1980 was \$33,132.

The Retirement Fund has an unwritten agreement 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, 1980.

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 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, 1980 was \$4,478.

* On July 1, 1980, a new lease was entered into which requires the lessee to pay \$272 per month.