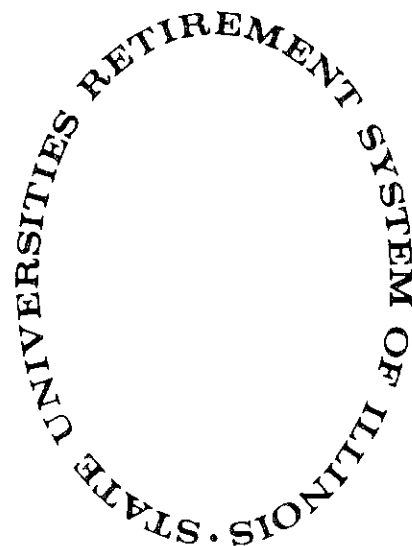


**COMPONENT UNIT FINANCIAL REPORT**  
**for the Fiscal Year Ended August 31, 1986**



Prepared by: The Accounting Department

50 Gerty Drive      Champaign, Illinois      Telephone (217)333-3860

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# INTRODUCTORY SECTION

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Universities Retirement  
System of Illinois

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 1985

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to governmental units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) are judged to substantially conform to program standards.



*Betty Jo Harker*  
President

*Jeffrey L. Esser*  
Executive Director



December 19, 1986

Board of Trustees and Executive Director  
State Universities Retirement System  
50 Gerty Drive  
Champaign, Illinois 61820

The Annual Report of the State Universities Retirement System (SURS) for the fiscal year ending August 31, 1986, is submitted herewith. The report is in five sections: 1) the Introductory Section contains this transmittal letter and identification of the trustees, staff, and consultants; 2) the Financial Section contains the report of the independent public accountants as well as the financial statements and notes; 3) the Actuarial Section contains the report of the actuary as well as the summary of assumptions and certain tables; 4) the Statistical Section contains the statistical tables; and 5) the Investment Section contains the custodian bank's certification of the assets held in safekeeping along with a list of those assets, and reports and tables concerning asset allocation and investment performance.

#### ACCOUNTING SYSTEM AND INTERNAL CONTROL

The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenues for the System are taken into account when earned, without regard to date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

In developing and evaluating SURS' accounting system, consideration has been given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. SURS has instituted an internal audit program and employs the services of an independent accountant to function as internal auditor and determine that all controls implemented are being accomplished.

#### REVENUES

The reserves needed to finance the benefits provided by SURS are accumulated through the collection of employer and employee contributions and through income on investments. These income sources for fiscal year 1986 totaled \$640.2 million, which is an increase of 84.1 percent over income for 1985. A large portion of this increase is due to the realization of gains on the sale of investments during 1986. Also partially responsible for this increase is the larger earnings base upon which contributions were calculated. Employee contributions accounted for 17.3 percent of the total income, compared to 28.1 percent for the preceding fiscal year. Employer contributions provided 14.8 percent of the total income, as opposed to 24.0 percent for FY 85. Investment income accounted for 67.9 percent of the total income, compared to 47.9 percent for FY 85. Employer contributions did not meet the state's share of the benefits paid during the year.

## EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created, namely, the payment of benefits. Consequently, recurring benefit payments prescribed by the plan, refunds of contributions to terminated employees, and the cost of administering the system comprise the total expenses. These expenses for fiscal year 1986 were \$134.5 million, an increase of 12.3 percent over fiscal year 1985. Contribution refunds for the same period increased 5.3 percent. This increase is attributable to higher participant turnover than was experienced the year before. Benefit payments for the year increased 13.5 percent due to growth in the number of annuitants and higher average benefit amounts. Administrative expenses in FY 86 increased 7.3 percent, reflecting the higher cost of providing services to a growing number of annuitants and participants. The cost of administering the System amounted to approximately .3 percent of income generated. This means that out of every dollar that was received by the System, 99.7 cents were available for the payment of benefits. Income exceeded expenses by \$505.7 million.

## INVESTMENTS

The investment portfolio must be regarded as a major contributor to the System. Income and net gain and loss resulting from the sale of long-term and short-term investments amounted to \$434.6 million, which represented 67.9 percent of total revenues, compared to \$166.4 million in 1985. This exceeded the 14.8 percent of total revenue received through employer contributions. Changes in the makeup of the total portfolio during the year are reflected in the "Schedule of Investment Portfolio at Book Value" in the Financial Section of this report.

## FUNDING

The actuarial liability of the System at August 31, 1986, amounted to \$4.2 billion. The reserve balances for participant contributions and benefits from employee and employer contributions amounted to \$2.3 billion as of the same date. The amount by which the liability exceeds the reserves is called the "unfunded accrued actuarial liability." The unfunded accrued actuarial liability amounts to \$1.9 billion and reflects the continuing State of Illinois policy of not appropriating sufficient funds to meet the normal costs of benefits being earned by current employees each year.

As in the past five years, the employer contributions for FY 86 from state funds were less than the state's share of the benefits paid to retired and disabled employees and their survivors.

## CURRENT AND FUTURE DEVELOPMENTS

### Economic and Fiscal Commission

The Auditor General of the State of Illinois completed an audit of the five state-funded pension plans in 1984. One of the major findings of the report was the incomparability of the accrued actuarial liabilities of

the different systems. Each system used its own economic assumptions, and several of the systems used different funding methods to compute their liabilities. The Economic and Fiscal Commission has since issued a report on pension funding in Illinois that uses common economic assumptions when computing the liabilities of the five state-funded pension plans. In addition to the accrued actuarial liabilities being reported, three methods of funding the retirement systems have been developed. SURS encourages our elected representatives to use this latest report of the Economic and Fiscal Commission to develop a sound funding policy for public pension plans in Illinois.

#### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Universities Retirement System for its component unit financial report for the fiscal year ended August 31, 1985.

In order to be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

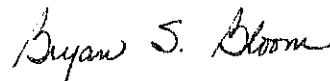
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

#### ACKNOWLEDGEMENTS

The preparation of this report reflects the combined efforts of the SURS staff under the leadership of the Board of Trustees. It is intended to be used by the Trustees and staff in making management decisions, in judging compliance with legal provisions, and in determining responsible stewardship for the assets contributed by the members and the State of Illinois. The report is being mailed to all employers covered by the State Universities Retirement System and is available to individual participants and other interested persons upon request.

On behalf of the Board of Trustees, I would like to express my gratitude to the staff, the consultants, and the many other people who work so effectively to assure the successful operation of this System.

Respectively submitted,



Bryan S. Bloom, CPA  
Chief Accountant

# Board of Trustees

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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JEROME R. BENDER, Rockford

EMPLOYEE TRUSTEES

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JAMES A. GENTRY, Urbana  
BETSY P. HARFST, Malta

OFFICERS OF THE BOARD

GEORGE W. HOWARD III, President  
DONALD E. HOFFMEISTER, Secretary and Executive Director  
JAMES A. GENTRY, Treasurer

# Consulting and Professional Services

ACTUARY  
THE WYATT COMPANY  
Chicago, Illinois

INVESTMENT ADVISOR  
AMERICAN NATIONAL BANK  
Chicago, Illinois

AUDITOR  
PANNELL KERR FORSTER  
Chicago, Illinois

INVESTMENT ADVISOR  
BATTERYMARCH FINANCIAL MANAGEMENT  
Boston, Massachusetts

MEDICAL DIRECTOR  
DR. L. M. HURSH  
Champaign, Illinois

INVESTMENT ADVISOR  
CRITERION INVESTMENT MANAGEMENT COMPANY  
Houston, Texas

MASTER TRUSTEE  
THE NORTHERN TRUST COMPANY  
Chicago, Illinois

INVESTMENT ADVISOR  
DIMENSIONAL FUND ADVISORS, INC.  
Santa Monica, California

PERFORMANCE MEASUREMENT  
THE NORTHERN TRUST COMPANY  
Chicago, Illinois

INVESTMENT ADVISOR  
FAYEZ SAROFIM & COMPANY  
Houston, Texas

INVESTMENT CONSULTANT  
& PERFORMANCE MEASUREMENT  
ENNIS, KNUPP & ASSOCIATES, INC.  
Chicago, Illinois

INVESTMENT ADVISOR  
LEHMAN MANAGEMENT COMPANY, INC.  
New York, New York

DATA PROCESSING SERVICE  
CAGLE & ASSOCIATES, INC.  
Champaign, Illinois

INVESTMENT ADVISOR  
PACIFIC INVESTMENT MANAGEMENT COMPANY  
Newport Beach, California

INVESTMENT ADVISOR  
AETNA REALTY INVESTORS, INC.  
Hartford, Connecticut

INVESTMENT ADVISOR  
ROSENBERG REAL ESTATE EQUITY FUND  
Chicago, Illinois

INVESTMENT ADVISOR  
WELLS FARGO INVESTMENT ADVISORS  
San Francisco, California



# Administrative Staff

DONALD E. HOFFMEISTER  
Secretary and Executive Director

DENNIS D. SPICE, CSP  
Assistant Executive Director

BRYAN S. BLOOM, CPA  
Chief Accountant

JAMES S. BEEDIE  
Public Information Officer

WILLIAM B. JACKSON, JR.  
Assistant Secretary

JEANNE VALCIK, CPA  
Pension & Investment Analyst

STEVEN L. HAYWARD, CPA  
Internal Auditor

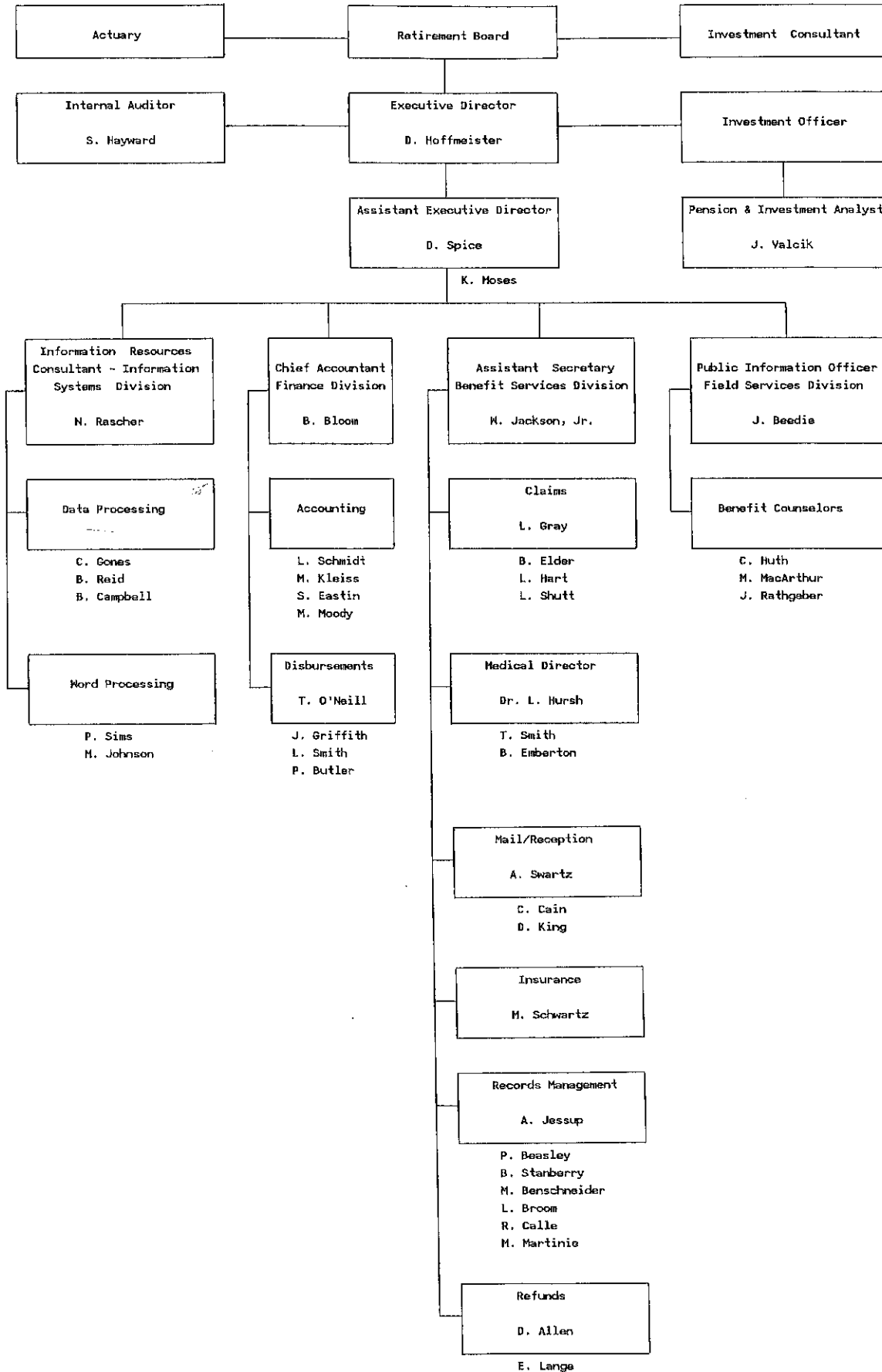
LINDA L. GRAY  
Claims Manager

TERRY A. O'NEILL  
Disbursing Officer

ANNIE L. JESSUP  
Records Manager

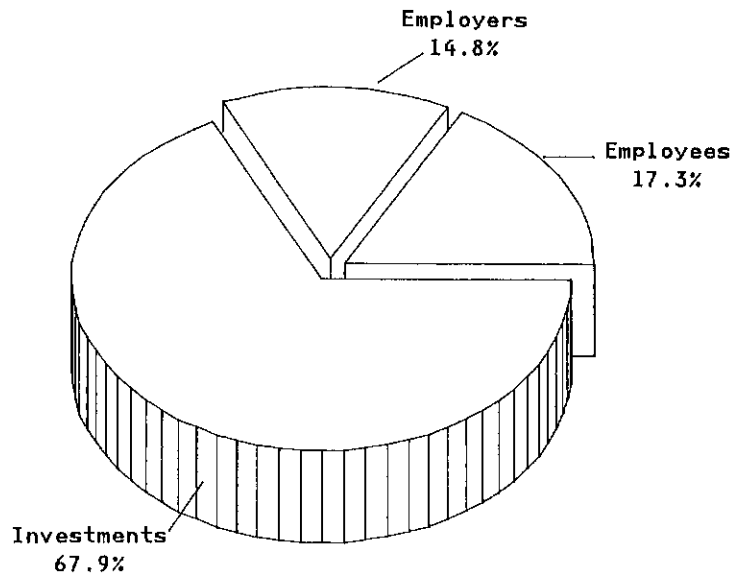
ANN F. SWARTZ  
Administrative Services Manager

# Organizational Chart

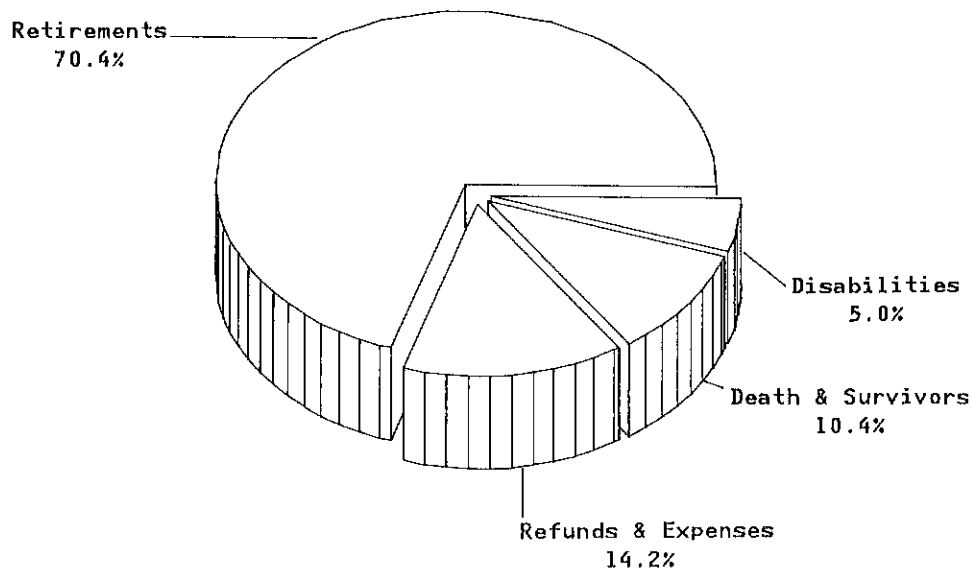


# FINANCIAL SECTION

## WHERE THE MONEY CAME FROM



## WHERE THE MONEY WENT



# Independent Auditor's Report

**PANNELL  
KERR  
FORSTER**

Certified Public Accountants

150 North Michigan Avenue  
Chicago, IL 60601  
Telephone (312) 781-0002  
Telex 28-0888

Honorable Robert G. Cronson  
Auditor General  
Springfield, Illinois

We have examined the balance sheets of the State Universities Retirement System of Illinois at August 31, 1986 and 1985, and the related statements of revenues, expenses and changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial audits contained in the U.S. General Accounting Office's Standards for Audits of Governmental Organizations, Programs, Activities and Functions 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 financial position of the State Universities Retirement System of Illinois at August 31, 1986 and 1985, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 31 to 33 provides additional analysis which is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Pannell Kerr Forster*

November 14, 1986

# Financial Statement 1986

## BALANCE SHEET August 31, 1986 and 1985

ASSETS	Totals	
	1986	1985
Contributions Receivable		
Participants	\$ 5,700,707	\$ 5,169,740
Federal, trust funds, and other	1,579,532	1,883,837
State of Illinois	109,708	8,236,033
	<u>7,389,947</u>	<u>15,289,610</u>
Prepaid Expenses	12,000	1,540
Accrued Investment Income Receivable	15,733,450	19,190,093
Investments (note III)		
(market value:		
\$2,525,312,928 @ 8/31/86		
\$1,877,068,489 @ 8/31/85)	2,249,287,907	1,725,946,575
Property and Equipment (notes II D and IV)	<u>778,839</u>	<u>636,011</u>
<b>TOTAL ASSETS</b>	<u><b>\$2,273,202,143</b></u>	<u><b>\$1,761,063,829</b></u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accounts payable	\$ 8,056,050	\$ 1,047,359
Benefits payable	261,183	307,048
Refunds payable	1,368,118	1,613,819
Deferred income (note II C)	<u>5,542,007</u>	<u>5,803,786</u>
Total Liabilities	15,227,358	8,772,012
Fund Balance (Reserved) (note II E)		
Participant contributions	1,134,749,442	1,018,209,150
Benefits from employee and employer		
contributions	3,047,428,905	2,743,646,730
Less unfunded accrued actuarial liability	<u>1,924,203,562</u>	<u>2,009,564,063</u>
Total Fund Balance	2,257,974,785	1,752,291,817
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><b>\$2,273,202,143</b></u>	<u><b>\$1,761,063,829</b></u>

The notes to the financial statements are an integral part of the Component Unit Financial Statements.

# Financial Statement 1986

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE For the Years Ended August 31, 1986 and 1985

REVENUES	Totals	
	1986	1985
Contributions		
Participants	\$ 110,844,617	\$ 97,776,613
Federal, trust funds, and other	14,332,637	12,741,215
State of Illinois		
Employer units	75,457,696	65,389,835
Pension fund	4,592,872	4,964,700
Reciprocity	363,124	387,017
	<u>205,590,946</u>	<u>181,259,380</u>
Investment Income		
Interest	95,710,835	94,236,038
Dividends	45,112,079	33,686,827
Other	523,017	465,660
	<u>141,345,931</u>	<u>128,388,525</u>
Less investment expense	5,155,987	4,332,978
	<u>136,189,944</u>	<u>124,055,547</u>
Net Gain on Sale of Investments	298,372,568	42,367,372
Total Revenues	<u>640,153,458</u>	<u>347,682,299</u>
EXPENSES		
Benefits		
Retirement	94,368,755	82,506,002
Disability	6,759,408	6,859,462
Survivors	9,414,574	8,653,288
Death	4,554,205	3,363,201
Reversionary	221,925	224,051
Beneficiary	63,304	64,291
	<u>115,382,171</u>	<u>101,670,295</u>
Refunds	17,221,317	16,351,508
Administrative Expense	1,867,002	1,739,929
Total Expenses	<u>134,470,490</u>	<u>119,761,732</u>
Excess Revenues over Expenses	505,682,968	227,920,567
Fund Balance		
Beginning of year	<u>1,752,291,817</u>	<u>1,524,371,250</u>
End of year	<u>\$2,257,974,785</u>	<u>\$1,752,291,817</u>

The notes to the financial statements are an integral part of the Component Unit Financial Statements.

# Financial Statement 1986

## STATEMENT OF CHANGES IN FINANCIAL POSITION For the Years Ended August 31, 1986 and 1985

	<u>Totals</u>	
	<u>1986</u>	<u>1985</u>
Sources of Working Capital		
Operations:		
Excess of revenues over expenses	\$505,682,968	\$227,920,567
Add back item not requiring working capital:		
Depreciation	55,933	119,013
Total Sources of Working Capital	<u>505,738,901</u>	<u>228,039,580</u>
Use of Working Capital		
Purchases of capital equipment	<u>198,762</u>	<u>64,516</u>
Net Increase in Working Capital	<u>\$505,540,139</u>	<u>\$227,975,064</u>
Elements of Net Increase in Working Capital		
Contributions receivable	\$ (7,899,663)	\$ 10,111,320
Prepaid expense	10,460	(392,267)
Accrued investment income receivable	(3,456,643)	3,425,065
Investments	523,341,332	210,635,408
Accounts payable	(7,008,692)	3,786,201
Benefits payable	45,865	176,820
Refunds payable	245,701	(658,549)
Deferred income	<u>261,779</u>	<u>891,066</u>
Net Increase in Working Capital	<u>\$505,540,139</u>	<u>\$227,975,064</u>

The notes to the financial statements are an integral part of the Component Unit Financial Statements.

# Notes to the Financial Statements 1986

## I. DESCRIPTION OF PLAN

The State Universities Retirement System of Illinois (SURS) was established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities and certain affiliated organizations, certain other state educational and scientific agencies, and their survivors, dependents, and other beneficiaries of such employees. SURS is a Component Unit of the State of Illinois and is governed by Article 15, Chapter 108-1/2 of the "Illinois Revised Statutes." Benefits under the System are defined in the Statutes. There are no statutory provisions for termination of the System. The Illinois Constitution provides that the pension obligation of the state "shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

The following is a summary of the provisions of the State Universities Retirement System in effect as of August 31, 1986, as defined in the "Illinois Revised Statutes." Participants should refer to the SURS brochures or the Statutes for more complete information.

### A. Membership

Participation is required as a condition of employment, except for residents in medical training and postdoctoral research associates at state universities. Employees may participate at any time during their first three years, after which time participation is mandatory. Employees are ineligible to participate if 1) employed after having attained age 68; 2) employed less than 50 percent of full-time; or 3) employed less than full-time and attending classes with an employer.

### B. Member Contributions

Members contribute 8 percent of their gross earnings; 6-1/2 percent of the 8 percent contributions are designated for retirement annuities, 1/2 percent for automatic annual increases, and 1 percent for survivor benefits. Police officers and fire fighters contribute 9-1/2 percent of earnings. The additional 1-1/2 percent is a normal retirement contribution.

The member contributions are "picked-up" by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings.

All contributions on pre-1981 earnings and service credit payments, plus future other public employment, prior service, refund repayments, and leave payments will be considered as previously taxed. Previously taxed contributions will be recovered tax-free when distributed to the employee as a retirement annuity or refund.



# Notes to the Financial Statements 1986

## C. Interest Credited on Member Contributions

The interest rate credited is fixed by the Board of Trustees and is currently 8 percent. For purposes of lump sum payments to former members, the interest rate is 4-1/2 percent.

## D. Retirement Benefits

### 1. Normal Retirement

Members are eligible for normal retirement at any age after 35 years of covered service, after eight years of covered service and age 60, or after five years of covered service and age 62. Police officers and fire fighters are eligible for normal retirement at age 55 with 20 years of service, or at age 50 with 25 years of service.

The annuity payable is based on the largest of three formulas:

- a. The following percentages of "average earnings," which is the average of the highest earnings for any four consecutive fiscal years:

	<u>General</u>	<u>Police and Fire Fighters</u>
i. For each of the first 10 years of service	1.67%	2.25%
ii. For each of the next 10 years of service	1.90%	2.50%
iii. For each of the next 10 years of service	2.10%	2.75%
iv. For each year of service over 30	2.30%	

- b. The actuarial equivalent of 2.4 times the accumulated member contributions for retirement annuities (6-1/2 percent of earnings). The actuarial equivalent assumes an annuity payable for life.

- c. For each year of service up to a maximum of 30 years, if employed half-time or more, the following monthly amounts based on average earnings:

<u>Average Annual Earnings</u>		
Under	\$3,500	\$ 8
3,500 -	4,499	9
4,500 -	5,499	10
5,500 -	6,499	11
6,500 and over		12

- d. The pre-1969 law provided a pension of 1.67 percent of average earnings during the highest five consecutive fiscal years multiplied by the total years of service.

# Notes to the Financial Statements 1986

For first-time participants hired after September 14, 1977, the maximum annuity under (a) or (b) is 75 percent of average earnings. The maximum is 80 percent of average earnings for members who participated on or before September 14, 1977.

## 2. Early Retirement

Members are eligible for early retirement after eight years of service and age 55, but the annuity calculated under formula (a) or (c) above is reduced by 1/2 percent for each month such retirement precedes age 60.

## 3. Early Retirement Without Discount

A member may retire between the ages of 55 and 60 with at least eight, but less than 35, years of service credit without the 1/2 percent reduction provided the following conditions are met:

- a. The member retires before September 1, 1992.
- b. The member retires within six months of the last day of employment.
- c. The member and the employer make one-time lump sum payments to the System based upon the member's highest full-time annual salary rate during the four-year average salary period or, if not full-time, the full-time equivalent. The member pays 7 percent of the base salary for each year or fraction of a year prior to age 60, or each year short of 35 years of service credit, whichever is lower. The employer payment is 20 percent of the base salary for each year or fraction of a year prior to age 60. These one-time payments do not increase the amount of service credit, but merely eliminate the 1/2 percent reduction for retiring before age 60 with less than 35 years of service.

The number of members using this provision may be limited, at the option of the employer, to no less than 15 percent of those eligible during any year. The right to participate is allocated among those applying on the basis of seniority in the service of the employer.

## 4. Automatic Increases

Retirement benefits are increased annually after retirement by 3 percent of the original retirement annuity. Note that the increase is not compounded and does not apply to survivors' or disability benefits. The first automatic annual increase in retirement annuity is paid on the January 1st nearest the annuitant's 61st birthday or the

# Notes to the Financial Statements 1986

January 1st nearest the first anniversary of retirement, whichever is later.

## 5. Disability Retirement Allowance

If a member's disability benefits (see E1) are discontinued due to the 50 percent of total earnings limitation, the member is entitled to a disability retirement allowance of 35 percent of the basic compensation that was payable at the time the disability began, provided at least two licensed and practicing physicians appointed by the Board certify that the member has a medically determined physical or mental impairment that would prevent him/her from engaging in any substantial gainful activity, and that can be expected to result in death, or that has lasted or can be expected to last for a continuous period of not less than 12 months. The disability retirement allowance is payable for life unless the member is able to accept substantial gainful employment or elects to receive a retirement annuity.

## 6. Reversionary Annuity

A participant nearing retirement age may elect to receive a smaller retirement annuity in order to provide the spouse or other dependent with a monthly income in addition to that which would be payable under the survivors' insurance program. This provision of the law, called a reversionary annuity, gives the individual electing this benefit two options. Under the first option, the participant receives a reduced retirement annuity throughout his/her lifetime in exchange for the reversionary annuity to be paid to the dependent upon the participant's death. If the dependent predeceases the annuitant, the System continues to pay the reduced retirement annuity. Under the second option, the annuitant's retirement annuity reverts to the full unreduced amount upon the death of the prospective reversionary annuitant.

## E. Disability Benefits

Members with two years of covered service who are unable to perform their duties because of illness, or members with any amount of covered service who are unable to perform their duties because of an accident, are eligible for disability benefits after 60 days of disability or the last day paid, whichever is later.

The amount of the disability benefit is as follows:

1. Fifty percent of basic compensation at disability or 50 percent of average earnings for the 24 months preceding disability, whichever is greater, payable until the total

# Notes to the Financial Statements 1986

benefits paid equal 50 percent of the total earnings in covered service, but in no event after September 1st following the employee's 70th birthday.

2. After cessation of the benefit in (1), a member with eight years of covered service will receive the normal retirement benefit commencing at or after age 55 (with no reduction for early retirement) if the member continues to be disabled.

The disability benefit ceases upon death or recovery.

## F. Death Benefits

### 1. Before Retirement

Upon death of an active member with 1-1/2 years of covered service or of a former member with 10 years of covered service, the following amounts are paid to the member's survivors:

- a. A death benefit equal to the retirement contributions (7 percent) and interest, plus
- b. A lump sum payment of \$1,000, plus
- c. A monthly survivors' annuity equal to the greater of 50 percent of the member's accrued normal retirement benefit or the following amounts if greater:
  - i) Thirty percent of average earnings to a spouse, child, or parent, up to \$400 monthly
  - ii) Sixty percent of average earnings to two dependents, up to \$600 monthly
  - iii) Eighty percent of average earnings to three or more dependents, up to \$600 monthly

Survivors' benefits are payable until children attain age 18, to a spouse after age 50, and to a dependent parent after age 55. The spouse's benefit is payable at any age while children are under 18 and living with the spouse. If death occurs after termination of employment, the monthly survivors' annuity may not exceed 80 percent of the earned retirement annuity.

If there are no dependent survivors, the member did not have necessary service, or the dependent survivors so elect in lieu of any other benefits, the following amounts will be paid:

- a. a death benefit equal to all contributions and interest, and

# Notes to the Financial Statements 1986

- b. if death occurred in active service, a lump sum payment of \$2,500 or, if the beneficiary is a dependent, an amount equal to the member's average annual earnings up to \$5,000.

## 2. After Retirement

A lump sum survivors' benefit of \$1,000 is payable to the member's spouse, children, or dependent parent. In addition, a survivors' annuity as outlined above is payable. If no survivor annuity is payable, a minimum death benefit of \$1,000 or an amount equal to the excess of the member's contributions and interest to retirement over the benefits paid is payable.

## G. Termination of Service

A lump sum refund of all member contributions and interest (at 4-1/2 percent) will be made. If a member has five years of covered service and does not apply for a refund, a normal retirement benefit will be payable at age 62.

## II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the State Universities Retirement System. The System has applied National Council of Governmental Accounting Statement #1 on a consistent basis. The accounts of the System are organized in one fund. The System's assets, liabilities, fund equity, revenues, and expenses; are recorded in that fund.

### A. Basis of Accounting

The financial transactions of the State Universities Retirement System of Illinois are recorded on the accrual basis.

### B. Investments

Investments are carried at acquisition cost. Gain or loss on the sale of investments is determined based on average cost for stocks and identified cost for debt securities. Dividend income is recognized based on dividends declared, and interest income is recognized on the accrual basis as earned.

### C. Deferred Income

Deferred income consists of prepaid employer and employee contributions.

### D. Property and Equipment

Property and equipment are carried at cost, except for the land, which is carried at the fair market value on the date it was received as a gift. Depreciation is computed by the

# Notes to the Financial Statements 1986

straight-line method based upon estimated useful lives of 50 years for building and improvements and five to 10 years for furniture and equipment.

## E. Fund Balance Accounts

The System maintains two reserve accounts that reflect the assignment of assets to participant and benefit accounts.

1. The Participant Contribution Reserve records the pension assets contributed by each participant.
2. The Benefits from Employee and Employer Contributions Reserve records the assets available for annuities in force and available for future retirement, death and disability benefits, and the undistributed investment income.

## III. INVESTMENTS

Investments at August 31, 1986 and 1985, are summarized below:

<u>1986</u>	<u>Cost</u>	<u>Percent of Cost</u>	<u>Market</u>	<u>Percent of Market</u>
Short-term investments	\$ 164,753,892	7.3	\$ 164,857,733	6.5
Bonds	790,503,460	35.1	822,539,271	32.6
Common & preferred stocks	1,130,499,736	50.3	1,369,270,750	54.2
Real estate	163,530,819	7.3	168,645,174	6.7
	<u>\$2,249,287,907</u>	100.0	<u>\$2,525,312,928</u>	100.0

<u>1985</u>	<u>Cost</u>	<u>Percent of Cost</u>	<u>Market</u>	<u>Percent of Market</u>
Short-term investments	\$ 192,691,739	11.2	\$ 192,881,713	10.3
Bonds	676,790,420	39.2	704,599,472	37.5
Common & preferred stocks	787,464,416	45.6	909,081,693	48.4
Real estate	69,000,000	4.0	70,505,611	3.8
	<u>\$1,725,946,575</u>	100.0	<u>\$1,877,068,489</u>	100.0

## IV. PROPERTY AND EQUIPMENT

Property and equipment and the related accumulated depreciation at August 31, 1986 and 1985, are summarized below:

	<u>1986</u>	<u>1985</u>
Land	\$ 70,000	\$ 70,000
Land improvements	12,799	12,799
Office building	559,621	559,621
Building improvements	52,765	52,765
Furniture & fixtures	823,705	639,838
	<u>1,518,890</u>	<u>1,335,023</u>
Less accumulated depreciation	<u>740,051</u>	<u>699,012</u>
Net property & equipment	\$ 778,839	\$ 636,011

# Notes to the Financial Statements 1986

Until January 1986 the system leased part of the building to a tenant under an agreement that required the lessor to furnish utilities, custodial service, repairs, and insurance. Rental income totaled \$16,435 and \$48,119 for the years ended August 31, 1986 and 1985, respectively, and is included in other investment income.

## V. FUNDING POLICY

### A. Statutory Requirement and Actual Appropriation

The law governing the System requires that the State shall make contributions to the System, which with employee contributions, investment income, and other income of the System

will be sufficient to meet the requirements of this Article in accordance with actuarial determinations. In no event shall the contributions of employers from State appropriations for any fiscal year be less than an amount which when added to contributions from other sources and investment income for that year is sufficient to meet (a) the total accruing normal costs plus interest at the prescribed rate on the unfunded accrued liabilities or (b) the accruing requirements necessary to retain qualified status under Section 401(a) of the United States Internal Revenue Code, or any similar provision as successor thereof.

The law defines normal cost as

the liability for pensions and other benefits which accrues to the system because of the credits earned for service rendered by the participants during the fiscal year and expenses of administering the system.

Section 401(a) of the Internal Revenue Code would require essentially the same contribution as required by (a) quoted above.

A comparison of the actuarially determined funding requirement for the year ended August 31, 1986, versus the actual funding from employers is presented below:

<u>Basis</u>	<u>Required FY 86 Funding</u>	<u>Receipts from Employers</u>
Employer Normal Cost & Interest	\$255,392,390	\$94,746,329

### B. Actuarial Cost Method and Assumptions

Employer contribution rates are determined using the entry age normal method. This method produces an employer contribution

# Notes to the Financial Statements 1986

rate consisting of 1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year) and 2) an amount for amortization of the unfunded actuarial accrued liability over a period of 40 years, which began September 1, 1986. Employers other than the State of Illinois pay employer contributions equal to (1) above.

The following significant assumptions were used in the actuarial valuation: 1) a rate of return on the investment of present and future assets of 8 percent per year compounded annually; 2) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; 3) additional projected salary increases of 2.5 percent per year, attributable to seniority and merit; 4) pre- and postmortality life expectancies of participants based on the 1986 Projected Experience Table; and 5) rates of withdrawal from active service before retirement for reasons other than death, rates of disability, and expected retirement ages developed on the basis of an investigation of actual plan experience.

## C. Actuarial Valuation

The System must annually have an actuarial determination of its liabilities and reserves and the amount and distribution of the required employer contributions.

In addition to the annual valuation, the actuary completed a five-year study as required by state law. This study resulted in a one-percent decrease in the projected salary increases from 1985 to 1986 and changes in the rates of withdrawal for reasons other than death, rates of disability, and expected retirement ages. Changes in these actuarial assumptions resulted in a decrease of \$44,113,029 in the actuarial present value of accumulated plan benefits.

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. Illinois statutes provide that any potential unfunded liability be an obligation of the State of Illinois.

## D. Actuarial Statements

The results of the basic calculations prepared for the System by its actuary are presented in Section III of this report. The actuarial statements contained in Section III should be referred to in assessing the System's present and future ability to pay benefits when due.



# Notes to the Financial Statements 1986

## VI. COMPENSATED ABSENCES

The System is obligated to pay employees at termination for unused vacation and sick time. The maximum time for which any individual may be paid is 448 hours of vacation and one-half of sick time earned since January 1, 1984. At August 31, 1986, the System had a liability of \$124,553 for compensated absences. At August 31, 1985, the liability was \$104,424. The increase in liability is reflected in the financial statements as an increase in salary expense.

# Supporting Schedule 1986

## SUMMARY SCHEDULE OF COMPENSATION OF ADMINISTRATIVE OFFICIALS For the Year Ended August 31, 1986

<u>Official Position</u>	<u>Salary Paid</u>
Executive Director	\$65,833
Assistant Executive Director	45,000

## COMPARATIVE SCHEDULE OF ADMINISTRATIVE EXPENSES For the Years Ended August 31, 1986 and 1985

	<u>1986 Budget</u>	<u>1986 Expense</u>	<u>1985 Expense</u>
Salaries	\$ 958,863	\$ 923,443	\$ 844,404
Group health insurance and Medicare	46,200	36,691	35,665
Retirement contributions	90,202	90,202	83,029
Postage, freight, and expenses	77,500	71,339	64,604
Equipment repair and rental	79,276	65,659	61,173
Actuarial services	37,000	32,064	26,465
Other professional fees	257,700	261,797	224,652
EDP equipment, rental, and supplies	57,700	61,321	59,246
Telephone	13,600	19,909	14,464
Travel	35,000	36,983	24,769
Printing and copying services	47,000	62,137	48,554
Dues and subscriptions	4,250	6,097	4,101
Office supplies and expenses	51,350	45,361	26,781
Conference expenses	10,000	5,783	5,050
Building operation expenses	99,000	92,283	97,959
Depreciation	<u>65,853</u>	<u>55,933</u>	<u>119,013</u>
	<u>\$1,930,494</u>	<u>\$1,867,002</u>	<u>\$1,739,929</u>

# Supporting Schedule 1986

## SUMMARY SCHEDULE OF FEES AND COMMISSIONS

	Year Ended August 31	
	1986	1985
<u>Master Trustee and Custodian</u>		
Harris Trust		\$ 85,328
The Northern Trust Company	\$ 333,332	218,985
	<u>\$ 333,332</u>	<u>\$ 304,313</u>
<u>Investment Manager Firm</u>		
Aetna Realty Investors, Inc.	\$ 14,083	
Alliance Capital Management Company		\$ 276,777
American National Bank	177,614	135,624
Batterymarch Financial Management	418,785	371,026
Criterion Investment Management Company	353,783	373,590
Dimensional Fund Advisors, Inc.	95,990	136,748
Fayez Sarofim and Company	699,790	526,516
Guaranteed Investment Contracts	93,268	92,255
Lehman Management Company, Inc.	469,480	508,879
Pacific Investment Management Company	828,931	620,064
Rosenberg Real Estate Equity Fund	1,198,678	895,882
Wells Fargo Investment Advisors	300,006	
	<u>\$4,650,408</u>	<u>\$3,937,361</u>
<u>Investment Consultant and Measurement</u>		
Ennis, Knupp and Associates	\$ 159,747	\$ 70,338
Leland O'Brien Rubinstein and Associates	12,500	
SEI Financial Service Company		18,500
The Northern Trust Company		2,466
	<u>\$ 172,247</u>	<u>\$ 91,304</u>
<b>Total Investment Expense</b>	<u><b>\$5,155,987</b></u>	<u><b>\$4,332,978</b></u>
<u>Actuary</u>		
The Wyatt Company	\$ 32,064	\$ 26,465
<u>Legal</u>		
Mayer, Brown and Platt		\$ 4,345
<u>Investment Brokerage Firm</u>		
Bear, Stearns & Company	\$ 31,518	\$ 142,845
Cantor, Fitzgerald & Company, Inc.		34,052
Donaldson, Lufkin & Jenrette	27,245	
First Boston Corp.	41,216	
Goldman, Sachs & Company	25,894	70,260
Jefferies & Company		42,372
Lewco Securities Corp.	26,770	46,106
Merrill Lynch, Pierce, Fenner & Smith	58,347	87,944
Morgan Stanley & Company	24,480	30,160
Paine Webber Inc.	39,227	
Pershing & Company	47,080	
Salomon Brothers & Company	50,074	56,076
Shearson Lehman/American Express		37,683
Smith Barney Harris Upham & Company		32,819
All others	282,253	400,744
	<u>\$ 654,104</u>	<u>\$ 981,061</u>

# Supporting Schedule 1986

## INVESTMENT PORTFOLIO ACTIVITY AT BOOK VALUE For the Year Ended August 31, 1986

	<u>September 1</u>			<u>August 31</u>
	<u>Book Value</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Book Value</u>
Bonds	\$ 676,790,420	\$1,958,839,667	(\$1,845,126,627)	\$ 790,503,460
Equity securities	787,464,416	928,590,811	(585,555,491)	1,130,499,736
Real estate	69,000,000	94,530,819		163,530,819
Short-term cash equivalents	<u>192,691,739</u>	<u>1,398,337,468</u>	<u>( 1,426,275,315)</u>	<u>164,753,892</u>
TOTALS	<u>\$1,725,946,575</u>	<u>\$4,380,298,765</u>	<u>(\$3,856,957,433)</u>	<u>\$2,249,287,907</u>

## INVESTMENT PORTFOLIO AT MARKET VALUE For the Year Ended August 31, 1986

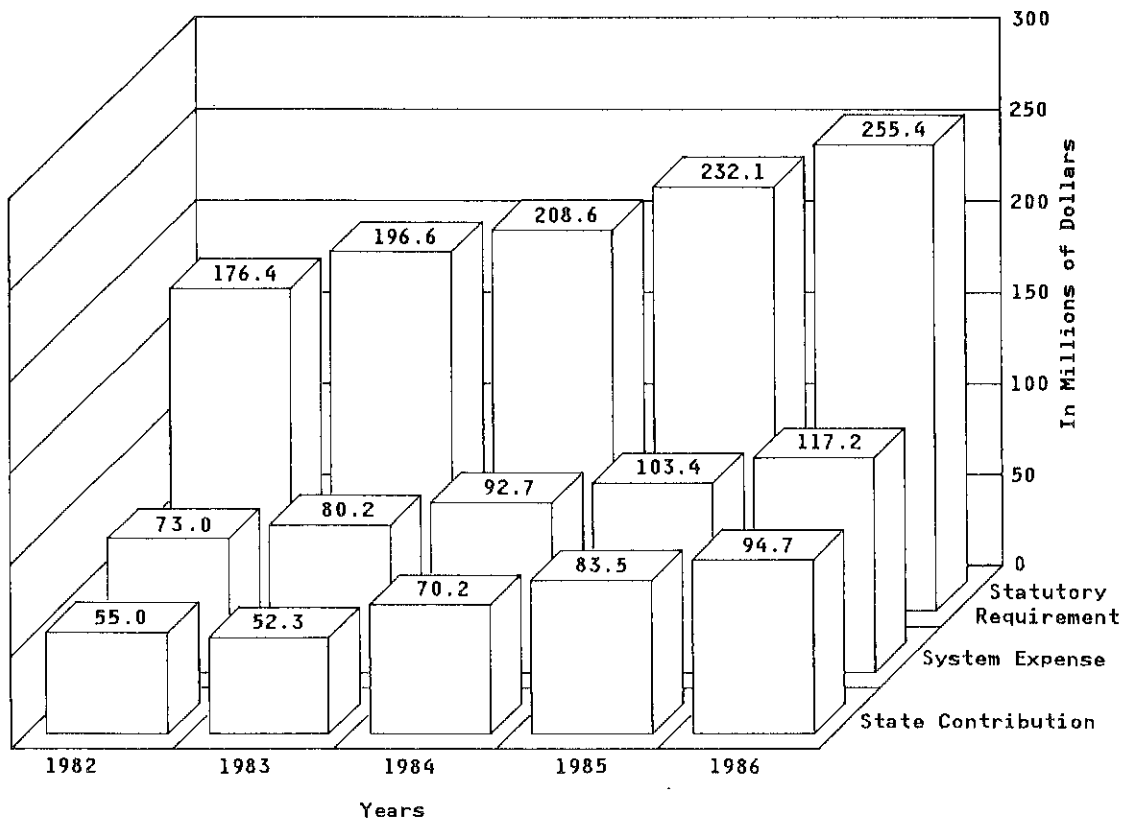
	<u>September 1</u>	<u>August 31</u>
	<u>Market Value</u>	<u>Market Value</u>
Bonds	\$ 704,599,472	\$ 822,539,271
Equity securities	909,081,693	1,369,270,750
Real estate	70,505,611	168,645,174
Short-term cash equivalents	<u>192,881,713</u>	<u>164,857,733</u>
TOTALS	<u>\$1,877,068,489</u>	<u>\$2,525,312,928</u>

## SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS For the Year Ended August 31, 1986

<b>Receipts</b>		
Member contributions		\$ 110,297,717
Employer contributions		103,148,076
Interest, dividends, and miscellaneous investment income		144,810,701
Investments redeemed	\$3,856,957,433	
Less trades not settled		(672,252)
Gain on disposition of investments		<u>298,372,568</u>
		<u>\$4,512,914,243</u>
<b>Disbursements</b>		
Benefit payments		\$ 115,550,245
Administrative expenses		1,770,019
Investment expenses		4,921,273
Refunds		17,467,018
Equipment purchased		198,762
Investments purchased	\$4,380,298,765	
Less trades not settled		(7,291,839)
		<u>4,373,006,926</u>
		<u>\$4,512,914,243</u>

# ACTUARIAL SECTION

## ANALYSIS OF FUNDING



# Certification Letter

THE *Wyatt* COMPANY

ACTUARIES AND CONSULTANTS

SUITE 5600 SEARS TOWER  
233 SOUTH WACKER DRIVE  
CHICAGO, ILLINOIS 60606

(312) 876-2000  
TELEX 270331

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December 19, 1986

Board of Trustees and Executive Director  
State Universities Retirement System  
50 Gerty Drive  
Champaign, Illinois 61820

We have completed the annual actuarial valuation of the assets and liabilities of the State Universities Retirement System of Illinois as of August 31, 1986. This valuation was made using actuarial assumptions which were changed from the prior year.

Pursuant to the law establishing the System, we reviewed the experience under the System for the last five years as it relates to the actuarial assumptions used in the valuation. Based on the results of this study, the assumptions were revised to reflect more optimistic economic conditions; the salary increase assumption was lowered from 8 percent per annum to 7 percent while the investment return assumption is unchanged at 8 percent per annum. Certain other changes were made to the demographic assumptions (withdrawal and mortality rates) to better reflect experience. We believe that in the aggregate, these revised assumptions relate reasonably to the past and anticipated experience of the plan.

A contribution rate has been determined using the entry age normal cost method providing for the current cost (normal cost) plus interest on the unfunded accrued actuarial liability. As the normal cost is expected to remain level, over time, as a percentage of payroll whereas the interest charge would be a fixed dollar amount, the total contribution rate can be expected to decrease as a percentage of payroll. Employer contributions in recent years have been insufficient to meet this financing objective, resulting in increases in the unfunded accrued actuarial liability.

For purposes of determining the contribution rate, assets have been valued at amortized cost value. The liabilities have been valued based on employee data which is supplied by the administrative staff of the System and verified by the System's auditor. We have made additional tests to ensure its accuracy. There have been no substantive changes in the benefits provided by the System since the last valuation.

In our opinion, the following schedule of valuation results fairly present the financial condition of the State Universities Retirement System of Illinois as of August 31, 1986. The contribution rate determined complies with the applicable law in force as of the valuation date.

THE WYATT COMPANY

BY S. Lynn Hill  
S. Lynn Hill  
Actuarial Assistant

BY Lloyd L. Nordstrom  
Lloyd L. Nordstrom  
Fellow Of The Society Of Actuaries

BY Robert L. Barnes  
Robert L. Barnes  
Fellow Of The Society Of Actuaries

# Actuarial Report 1986

## PENSION FINANCING

The State Universities Retirement System is financed by employee contributions, employer contributions (state appropriations and contributions from trust and federal funds), and investment earnings. Employee contributions are established by the "Illinois Revised Statutes" at 8 percent of pay. Investment earnings and state funding are primary determinants of the System's financial status.

Estimates of accrued benefit cost are obtained through annual actuarial valuations. To estimate the amount, actuaries use demographic data (such as employee age, salary, and service credits), economic assumptions (such as estimated salary increases and interest rates), and decrement assumptions (such as employee mortality and disability rates).

Accrued benefit cost is the present value of benefits earned by System members. It is the estimate of the value of pension benefits at the time the estimate is prepared. Although accrued during each member's employment, benefits are not paid until the member retires; thus the value changes as the member's salary and years of service change. Furthermore, membership continually changes as some members leave and are replaced by new members.

The amount of benefits payable in the future is estimated by the actuary for all participants at the valuation date. Important assumptions in this computation are the retirement age and earnings progression for active members and mortality for all participants. Once the amount of benefits is computed, the actuary estimates the money necessary to be invested at the valuation date to provide an amount adequate to fund benefit payments as they come due. Each year's adjusted benefit payments are discounted by an assumed interest rate to determine the present dollar value of benefits.

The final step in a valuation is to apply a cost method assigning portions of the total value of benefits to past, present, and future periods of employee service. This allocation is accomplished by development of normal cost and accrued benefit cost.

There are several accepted actuarial cost methods. The one used by the System is the entry age normal cost method. This method expresses the normal cost as a uniform percentage of each employee's earnings from entry into the plan until retirement. This is compatible with the idea that the cost of the pension plan should be accrued in an orderly manner over the employee's service. The past service liability is the actuarial value of all normal cost amounts accrued prior to the date of the valuation; it is determined at each valuation date.

The current normal cost is 15.6 percent of payroll. Eight percent of this normal cost is paid by the members' contributions. The remaining 7.6 percent is the employer's portion of the normal cost.

# Actuarial Report 1986

Actuarial funding of System benefits would require annual state appropriations funding the employer's normal cost (7.6 percent of payroll) plus interest on the System's unfunded accrued benefit cost. The employer's normal cost plus interest is called employer cost (see "Schedule of Payroll Percentages"). The state has not funded the System on this basis. Until 1982, the state funded the System by reimbursement of benefit payments. Since 1982, the state appropriation has been set to reimburse a portion of benefit payments averaging 60 percent of benefit payments. The current practices do not reflect an actuarially sound funding method (see "Schedule of Funding").

As the membership matures, as is happening with SURS, and more members retire, the benefit payments significantly escalate. When funding is based on benefit payments, the unfunded accrued benefit cost grows. If funding is based on actuarial recommendations, the unfunded accrued benefit cost stabilizes or decreases.

## VALUATION RESULTS

1. Actuarial Liability (Reserves)*	
a. For members receiving annuities	
i. Retirement annuities	\$1,013,249,742
ii. Survivor annuities	80,174,381
iii. Disability	<u>52,475,265</u>
iv. Total	\$1,145,899,388
b. For inactive members	189,903,271
c. For active members	<u>2,846,375,688</u>
d. Total	<u>\$4,182,178,347</u>
2. Assets (Amortized Cost Value)	\$2,257,974,785
3. Unfunded Accrued Actuarial Liability	\$1,924,203,562

## CONTRIBUTION RATES for Fiscal Year 1987

	Percent of Payroll*	Annual Contributions*
1. State Normal Cost	7.616	\$ 97,177,699
2. Normal Cost Plus 8% Interest on the Unfunded Accrued Actuarial Liability	19.260	245,742,384
3. Normal Cost Plus an Amount to Amortize the Unfunded Accrued Actuarial Liability over a 40-Year Period from September 1, 1986	19.822	252,910,930

\*Based on covered pay of \$1,275,917,532.



# Actuarial Report 1986

## CHANGES IN THE UNFUNDED ACCRUED ACTUARIAL LIABILITY

1. Unfunded Accrued Actuarial Liability at August 31, 1985	\$2,009,564,063
2. Increase Due to Prior Year's Contribution Being Less than the Amount Necessary to Fund the Normal Cost and Interest on the Unfunded Liability	149,412,875
3. Actuarial (Gains) Losses	
a. (Gain) from investment return greater than 8%	(291,534,349)
b. Loss from salary increases greater than 8%	69,083,701
c. Loss from other sources	31,790,301
4. Decrease Due to Change in Actuarial Assumptions	(44,113,029)
5. Unfunded Accrued Actuarial Liability at August 31, 1986	\$1,924,203,562

## ACTUARIAL COST METHOD

The entry age normal method is used for both the retirement and ancillary benefits. This method determines annual contributions that are expected to remain a constant percentage of each employee's compensation for each year of service. These contributions, when combined with the employee contributions, will be sufficient to fully provide for all employee benefits by the time employees retire, based on the assumptions used. Any unfunded liability determined under this method, as well as any actuarial gains or losses, is amortized over a 40-year period commencing September 1, 1986.

## EMPLOYEE DATA

Employee data are provided by the administrative staff of the State Universities Retirement System. Various tests are applied to check internal consistency as well as consistency from year to year. No calculations are made for employees not yet hired as of the valuation date.

# Actuarial Report 1986

## SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

### Assumption

Mortality: 1986 Projected Experience Table, a table based on experience underlying the 1971 Group Annuity Mortality Table, without margins, with a projection for mortality improvements to 1986, with a three-year setback for males and a two-year setback for females.

Interest: 8 percent per annum, compounded annually.

Termination: Illustrative rates of withdrawal from the plan are as follows:

<u>Age</u>	<u>Males</u>	<u>Females</u>
20	0.184	0.224
25	0.152	0.188
30	0.120	0.152
35	0.087	0.116
40	0.059	0.083
45	0.041	0.059
50	0.029	0.045
55		

It is assumed that terminated employees will not be rehired.

Salary Increases: 7 percent per annum, compounded annually.

Retirement Age: Retirement is assumed to occur at age 62.

Assets: Assets available for benefits are used at book value.

Expenses: As estimated and advised by SURS staff, based on current expenses with an allowance for expected increases.

Spouse's Age: The female spouse is assumed to be three years younger than the male spouse.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, marriage, remarriage rates with ages, and number of children.

These assumptions were adopted September 1, 1985, and have been applied consistently since then.

# Actuarial Report 1986

## ANALYSIS OF FINANCIAL EXPERIENCE

Gains and losses in Accrued Actuarial Liability for Fiscal Year ending August 31, 1986.

<u>Activity</u>	<u>Gain (Loss)</u>
1. Actuarial Gains and Losses	
(a) Age & Service Retirements	(\$ 5,384,141)
(b) Incidence of Disability	( 7,762,178)
(c) In-Service Mortality	( 7,724,469)
(d) Retiree Mortality	( 4,018,285)
(e) Disabled Mortality	( 297,808)
(f) Termination of Employment	( 5,882,541)
(g) Salary Increases	( 69,083,701)
(h) Investment Income	291,534,349
(i) Other	( 720,879)
(j) Total Actuarial Gain (Loss)	\$190,660,347
2. Contribution Income	(\$149,412,875)
3. Non-Recurring Items (Plan amendments, change in actuarial assumptions, etc.)	\$ 44,113,029
4. Total Financial Gain (Loss)	\$ 85,360,501

# Analysis of Funding 1986

## 10-Year Summary

### TESTS OF FINANCIAL SOUNDNESS

The following four exhibits illustrate different measures of the financial soundness of the System.

The "Schedule of Funding" compares state appropriations to the actuarial funding requirements, statutory funding requirement, and System expense.

The "Funding Ratios" exhibit shows the percentage of the System's accrued benefit cost covered by net assets. This funding ratio is used to assess the System's ability to make future benefit payments. The exhibit illustrates the ratio of net assets to the System's accrued benefit cost over 10 years, with net assets valued both at cost and at market.

The "Percentage of Benefits Covered by Net Assets" exhibit compares the plan's net assets with the members' accumulated contributions, the amount necessary to cover the present value of benefits currently being paid, and the employer's portion of future benefits for active members.

The final test, "Payroll Percentages," compares member payroll to unfunded accrued benefit cost, normal cost, and normal cost plus interest. These percentages should decrease over the years if the System is growing stronger.

### SCHEDULE OF FUNDING (in millions of dollars)

FY Ended	Funding Requirements		System Expense	State Cont.	Covered Percentages		
	Statutory Requirement	With 40-Year Amortization			Statutory Requirement	With 40-Year Amortization	System Expense
August 31	(1)(A)	(2)	(3)(B)	(4)(C)	(5)(D)	(6)(E)	(7)(F)
1977	\$ 94.0	\$ 98.6	\$ 38.4	\$41.3	43.9%	41.9%	107.5%
1978	104.3	106.7	44.6	50.7	48.6	47.5	113.8
1979	116.7	121.0	50.4	61.6	52.8	50.9	112.2
1980	126.6	131.3	56.2	72.7	57.4	55.4	129.3
1981	133.9	141.8	63.4	74.4	55.6	52.4	117.4
1982	176.4	182.0	73.0	55.0	31.2	30.2	75.4
1983	196.6	203.4	80.2	52.3	26.6	25.7	65.2
1984	208.6	216.4	92.7	70.2	33.6	32.4	75.7
1985	232.1	241.6	103.4	83.5	36.0	34.6	80.7
1986	255.4	266.6	117.2	94.7	37.1	35.5	80.8

[A] The appropriation amount required by Sections 15-155, and 15-156 of the "Illinois Revised Statutes."

[B] Benefit and administrative expense.

[C] Contributions from the State of Illinois employer units and pension fund and employer contributions from trust and federal funds.

[D] State contributions divided by Statutory requirement (Column 4 ÷ Column 1).

[E] State contributions divided by 40-year amortization requirement (Column 4 ÷ Column 2).

[F] State contributions divided by System expense (Column 4 ÷ Column 3).

# Analysis of Funding 1986

## 10-Year Summary

### FUNDING RATIOS (in millions of dollars)

FY Ended August 31	Net	Net	Actuarial Funding Requirement	Funding Ratio	
	Assets at Cost	Assets at Market		Cost	Market
1977	\$ 657.5	\$ 632.4	\$1,388.0	47.4%	45.6%
1978	748.0	714.0	1,540.4	48.6	46.4
1979	857.0	813.2	1,706.7	50.2	47.6
1980	987.3	891.3	1,866.4	52.9	47.8
1981	1,124.4	932.5	2,513.6	44.7	37.1
1982	1,239.5	1,130.7	2,801.0	44.3	40.4
1983	1,403.4	1,444.6	3,043.4	46.1	47.5
1984	1,524.4	1,563.1	3,374.0	45.2	46.3
1985	1,752.3	1,903.4	3,761.9	46.6	50.6
1986	2,258.0	2,527.7	4,182.2	54.0	60.4

### PERCENTAGE OF BENEFITS COVERED BY NET ASSETS (in millions of dollars)

FY Ended August 31	Member	Members Currently	Active and	Net	Percentage of		
	Accumulated	Receiving Benefits	Inactive Members'		Assets	Benefits	
	Contributions		Employer Portion		Covered By	Net Assets for	
	(1)(A)	(2)(A)	(3)(A)		(1)	(2)	(3)
1977	\$ 406.0	\$ 358.9	\$ 623.1	\$ 657.5	100	70.0	0
1978	455.7	407.7	677.0	748.0	100	71.7	0
1979	511.0	446.5	749.2	857.0	100	77.5	0
1980	577.3	488.7	800.4	987.3	100	83.9	0
1981	654.2	597.2	1,262.2(B)	1,124.4	100	78.7	0
1982	741.0	712.8	1,347.3	1,239.5	100	70.0	0
1983	828.4	780.7	1,434.4	1,403.4	100	73.7	0
1984	918.2	861.2	1,594.7	1,524.4	100	70.4	0
1985	1,018.2	984.7	1,759.0	1,752.3	100	74.6	0
1986	1,134.7	1,145.9	1,901.6(C)	2,258.0	100	98.0	0

(A) A test of financial soundness of a system is its ability to pay all promised benefits when due. Column 1 represents the value of members' accumulated contributions. Column 2 represents the amount necessary to pay participants currently receiving benefits. Column 3 represents the employer's portion of future benefits for active members. Section 15-156 of the "Illinois Pension Code" provides an order of priority: that is, members' contributions would be covered first, then current benefit recipients and the employer portion of active and inactive employees.

For a system receiving actuarially determined contribution amounts, the total of actuarial values in Columns 1 and 2 should generally be fully covered by assets and the portion of the actuarial value of Column 3 covered by assets should increase over time.

(B) Actuarial assumptions were changed in fiscal year 1981. Interest rate assumption was changed from 5% to 8%. Salary increment assumption was changed from 4% to 8%.

(C) Actuarial assumptions were changed in fiscal year 1986. Salary increment assumption was changed from 8% to 7%.

# Analysis of Funding 1986

## 10 Year Summary

PAYROLL PERCENTAGES  
(in millions of dollars)

FY Ended	Member Payroll	Unfunded Accrued Benefit Cost		Employers' Cost			Total {C}	% of Payroll	State Contributions	
		Amount	% of Payroll	Employers' Normal Cost	% of Payroll	Interest on Unfunded			State Cont.	% of Payroll
August 31							\$ 94.0	17.3	\$41.3	7.6
1977	\$ 542.8	\$ 730.6	134.6	\$61.1	11.3	\$ 32.9	104.3	17.6	50.8	8.6
1978	593.2	792.4	133.6	67.8	11.4	36.5	116.7	18.1	61.6	9.6
1979	644.2	849.7	131.9	77.1	12.0	39.6	126.5	17.8	72.7	10.2
1980	710.1	879.1	123.8	84.1	11.8	42.4	133.9	17.1	74.4	9.5
1981	784.7	1,389.1	177.0	89.9	11.5(A)	44.0	176.4	20.2	55.0	6.3
1982	872.4	1,561.4	179.0	69.1	7.9	107.3	196.6	21.6	52.3	5.8
1983	908.3	1,640.0	180.6	76.0	8.4	120.6	208.6	20.5	70.2	6.9
1984	1,016.2	1,849.7	182.0	82.0	8.1	126.6	232.1	20.3	83.5	7.3
1985	1,141.9	2,009.6	176.0	89.3	7.8	142.8	255.4	20.0	94.7	7.4
1986	1,276.0	1,924.2	150.8	100.2	7.9(B)	155.2				

(A) Actuarial assumptions were changed in fiscal year 1981. Interest rate assumption was changed from 5% to 8%. Salary increment assumption was changed from 4% to 8%.

(B) Actuarial assumptions were changed in fiscal year 1986. Salary increment assumption was changed from 8% to 7%.

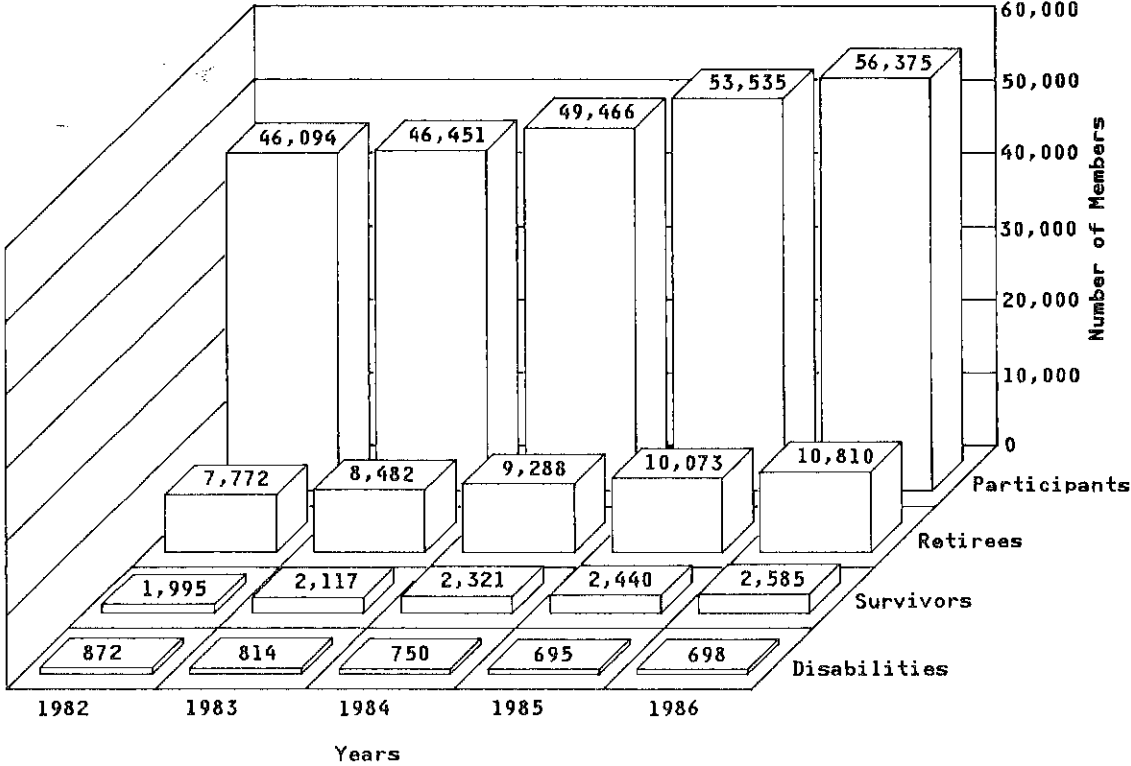
(C) Normal cost plus interest.

### SCHEDULE OF INCREASES AND DECREASES OF BENEFIT RECIPIENTS

Fiscal Year Ending August 31	Beginning Balance	Additions	Subtractions	Ending Balance
1982	10,185	1,595	939	10,841
1983	10,841	1,537	765	11,613
1984	11,613	1,700	753	12,560
1985	12,560	1,583	740	13,403
1986	13,403	1,720	735	14,388

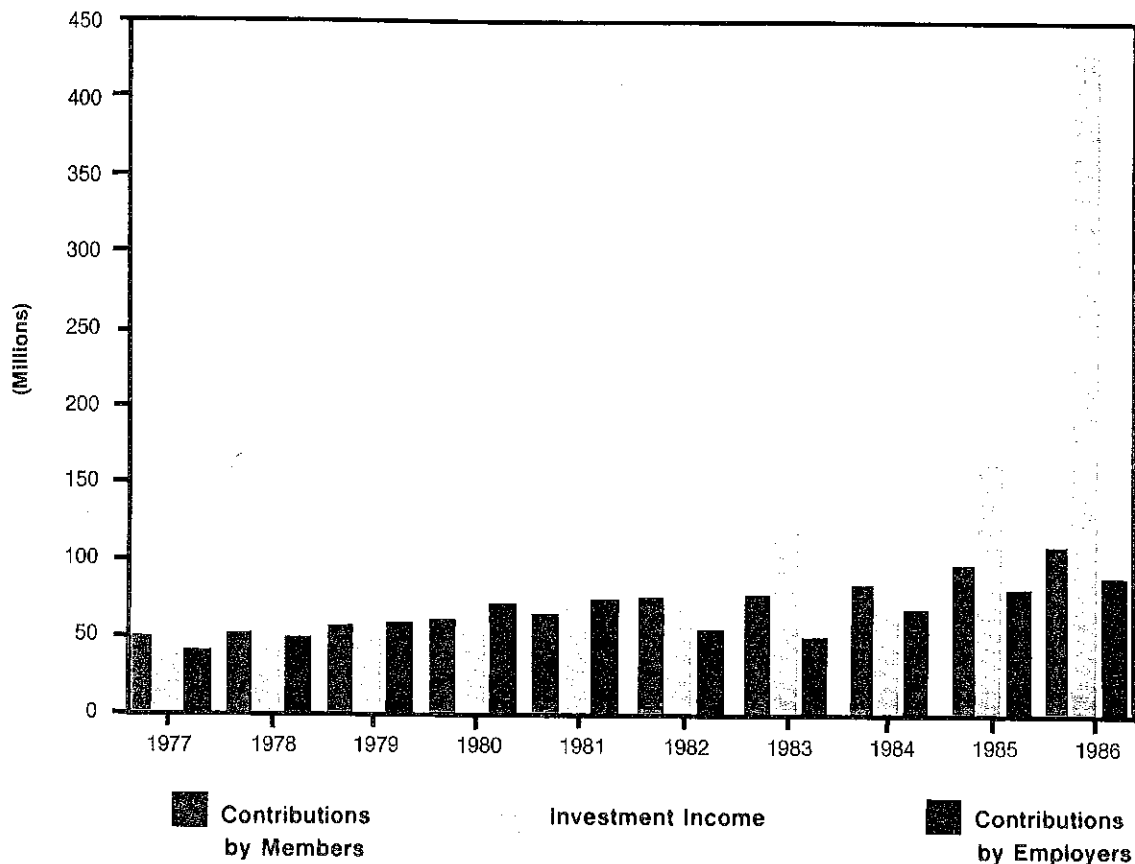
# STATISTICAL SECTION

## MEMBER DATA



# Revenue by Source

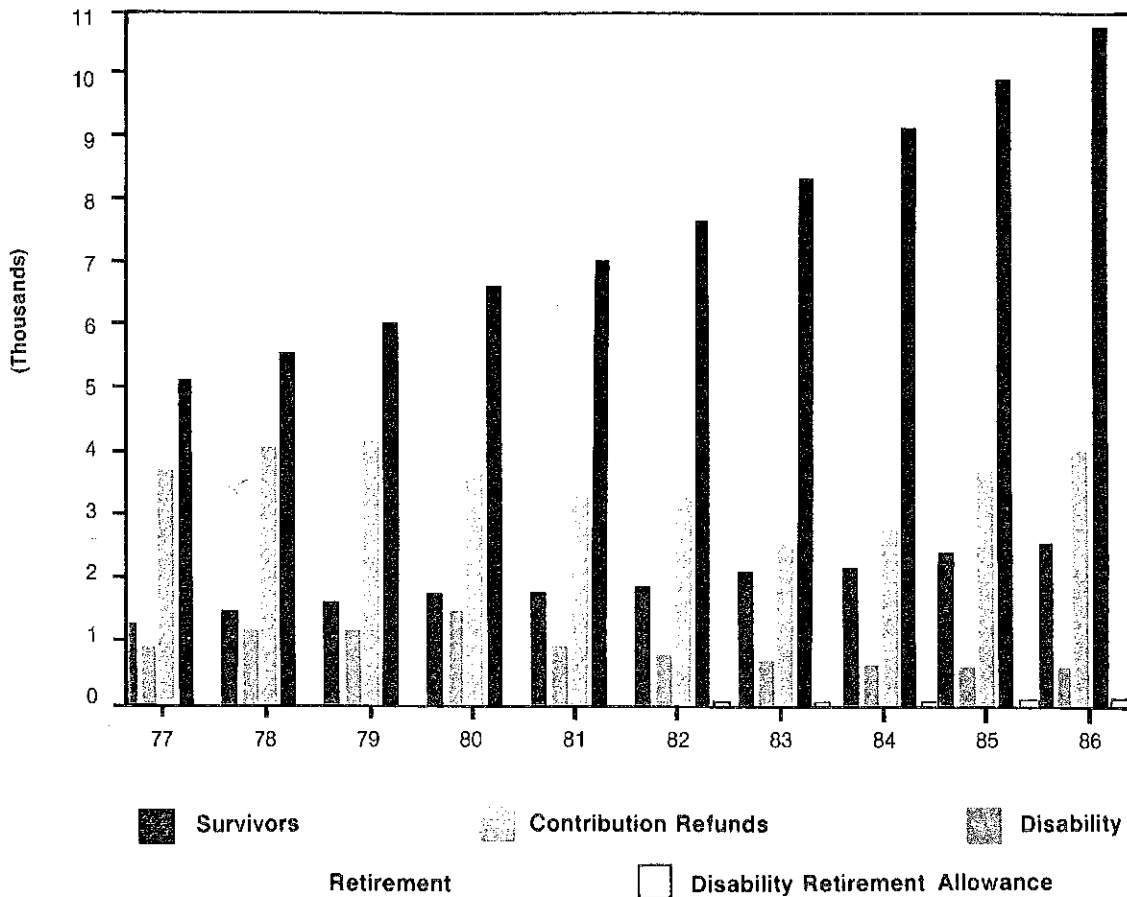
## 10-Year Summary



Fiscal Year Ending August 31	Contributions by Members	Investment Income	Contributions by Employers	Total
1977	\$ 48,869,685	\$ 37,862,667	\$41,275,044	\$128,007,396
1978	52,631,639	42,730,461	50,741,364	146,103,464
1979	56,503,802	53,364,829	61,595,360	171,463,991
1980	63,997,390	63,195,733	72,700,571	199,893,694
1981	68,822,427	71,406,341	74,395,430	214,624,198
1982	76,715,608	70,381,319	55,044,799	202,141,726
1983	78,358,894	125,614,839	52,264,542	256,238,275
1984	85,489,034	72,086,163	70,191,030	227,766,227
1985	97,776,613	166,422,919	83,482,767	347,682,299
1986	110,844,617	434,562,512	94,746,329	640,153,458



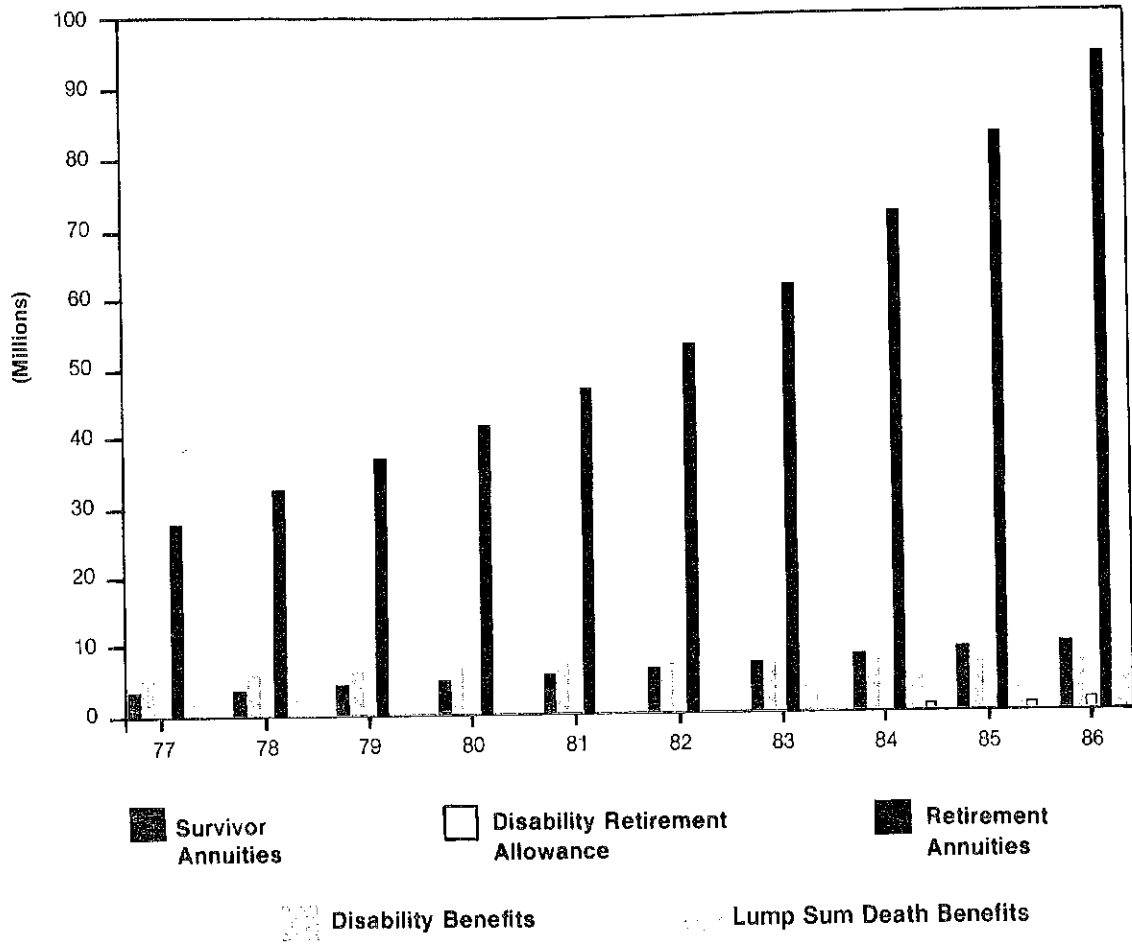
# Benefit Recipients 10-Year Summary



Fiscal Year Ending August 31	Survivors	Disability	Contribution Refunds	Retirement	Disability Retirement Allowance
1977	1,370	972	3,892	5,075	
1978	1,491	1,240	4,088	5,612	
1979	1,726	1,222	4,160	6,119	
1980	1,808	1,420	3,852	6,677	
1981	1,847	988	3,476	7,127	
1982	1,995	872	3,461	7,737	35
1983	2,117	814	2,657	8,432	50
1984	2,321	750	2,832	9,217	71
1985	2,440	695	3,943	9,982	91
1986	2,585	698	4,305	10,809	101

# Benefit Expenses

## 10-Year Summary



Fiscal Year Ending August 31	Survivors' Annuities	Disability Benefits	Disability Retirement Allowance	Retirement Annuities	Lump Sum Death Benefits	Total
1977	\$3,089,241	\$4,680,790		\$28,097,278	\$1,645,255	\$ 37,512,564
1978	3,476,991	5,324,788		32,982,948	1,772,479	43,557,206
1979	3,998,473	5,708,948		37,220,681	2,299,323	49,227,425
1980	4,451,890	6,165,988		42,047,692	1,960,455	54,626,025
1981	5,144,058	6,739,832		46,795,065	3,165,542	61,844,497
1982	6,034,706	6,668,410	\$ 65,465	53,391,815	3,847,120	70,007,516
1983	6,789,840	6,787,871	142,915	61,705,978	3,306,214	78,732,818
1984	7,769,863	7,050,685	219,784	71,425,175	4,675,492	91,140,999
1985	8,653,280	6,859,462	289,966	82,504,378	3,363,201	101,670,295
1986	9,414,574	6,759,408	403,365	94,250,619	4,554,205	115,382,171

# Benefit Summary

## SCHEDULE OF NEW BENEFIT PAYMENTS September 1, 1985, through August 31, 1986

Age	Retirement		Disability		Survivors	
	Number	Average Benefit	Number	Average Benefit	Number	Average Benefit
Under 9					11	\$176
10-14					11	171
15-19					15	200
20-24						
25-29			5	\$730	1	225
30-34			9	870	1	300
35-39			4	937	3	160
40-44			10	703	4	201
45-49			8	778	3	195
50-54	6	\$1,811	15	944	20	400
55-59	217	970	25	985	20	567
60-64	376	899	34	898	41	464
65-69	283	916	14	870	36	473
70-74	126	855	1	708	22	372
Over 74	1	1,579			48	289
TOTALS	1,009	\$ 920	125	\$886	236	\$367

## SCHEDULE OF AVERAGE BENEFIT PAYMENTS For Retirees As Of August 31, 1986

	Years of Credited Service					
	0-10	11-15	16-20	21-25	26-30	30+
Average Gross Annuity	\$ 223	\$ 351	\$ 582	\$ 807	\$ 1,101	\$ 1,606
Final Average Salary	\$13,771	\$16,194	\$19,430	\$20,858	\$22,378	\$24,763
Number of Retirees	2,070	2,172	2,088	1,342	1,077	2,060

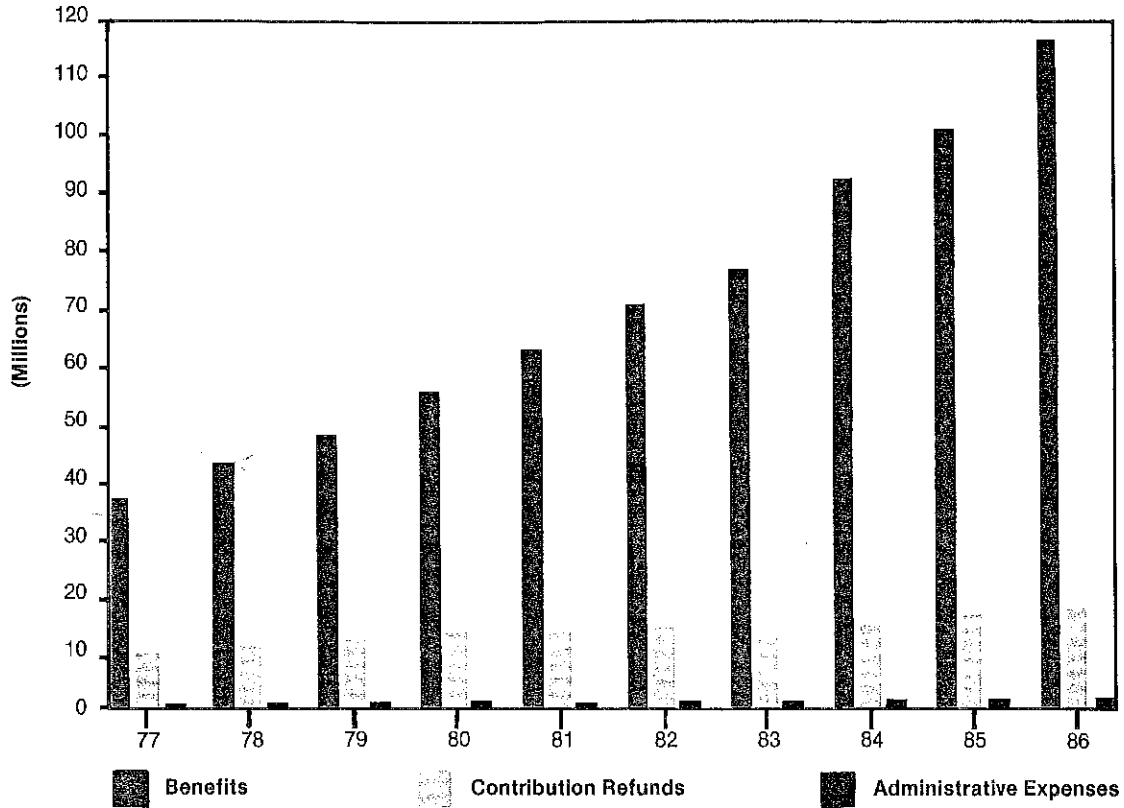
# Benefit Summary

## SCHEDULE OF BENEFIT RECIPIENTS BY TYPE OF BENEFIT August 31, 1986

Amount of Benefit	Total Recipients	General Formula	Money Purchase	Police or Fire	Other (A)	Long-Term Disability	Temporary Disability	Survivors
\$0-200	2,895	1,218	311		598	4	5	759
201-400	3,877	1,816	415		254	74	34	1,284
401-600	2,045	1,204	248	2	23	16	212	340
601-800	1,355	909	121	1	8	4	206	106
801-1000	877	669	83	4	2	3	65	51
1001-1200	748	591	64	9	2		65	17
1201-1400	590	479	33	13	1		47	17
1401-1600	489	400	33	6	2		42	6
1601-1800	338	296	22	5	1		13	1
1801-2000	263	248	9	2			3	1
2001-2200	230	218	5	3			3	1
2201-2400	141	133	2	2			3	1
2401-2600	114	108	4	1				1
2601-2800	71	70	1					
2801-3000	50	50						
Over 3000	<u>110</u>	<u>106</u>	<u>4</u>					
	<u>14,193</u>	<u>8,515</u>	<u>1,355</u>	<u>48</u>	<u>891</u>	<u>101</u>	<u>698</u>	<u>2,585</u>

(A) Minimum annuity and retirements of participants who terminated prior to 1969.

# Total Expenses 10-Year Summary



Fiscal Year Ending August 31	Benefits	Contribution Refunds	Administrative Expenses	Total
1977	\$ 37,512,561	\$ 9,897,031	\$ 899,948	\$ 48,309,540
1978	42,557,206	11,008,076	1,017,592	54,582,874
1979	49,227,425	12,021,454	1,177,459	62,426,338
1980	54,626,025	13,396,491	1,173,966	69,196,482
1981	61,844,497	14,099,953	945,591	76,890,041
1982	70,007,516	14,040,075	1,153,986	85,201,577
1983	78,732,818	12,185,593	1,457,354	92,375,765
1984	91,140,999	14,458,547	1,567,454	107,167,000
1985	101,670,295	16,351,508	1,739,929	119,761,732
1986	115,382,171	17,221,317	1,867,002	134,470,490

# Assets and Liabilities

## 10-Year Summary

### ASSETS

<u>Fiscal Year</u> <u>Ending August 31</u>	<u>Receivables</u>	<u>Investments</u>	<u>Property</u> <u>and Equipment</u>	<u>Total</u>
1977	\$12,673,603	\$ 648,886,100	\$ 55,269	\$ 661,614,972
1978	14,873,963	736,195,397	82,931	751,152,291
1979	16,523,670	845,863,426	94,547	862,481,643
1980	25,925,331	964,775,914	382,793	991,084,038
1981	25,220,315	1,104,523,073	443,704	1,130,187,092
1982	32,208,558	1,212,141,374	458,610	1,244,808,542
1983	23,437,678	1,389,025,669	558,686	1,413,022,033
1984	21,337,125	1,516,001,675	690,508	1,538,029,308
1985	34,481,243	1,725,946,575	636,011	1,761,063,829
1986	23,135,397	2,249,287,907	778,839	2,273,202,143

### LIABILITIES

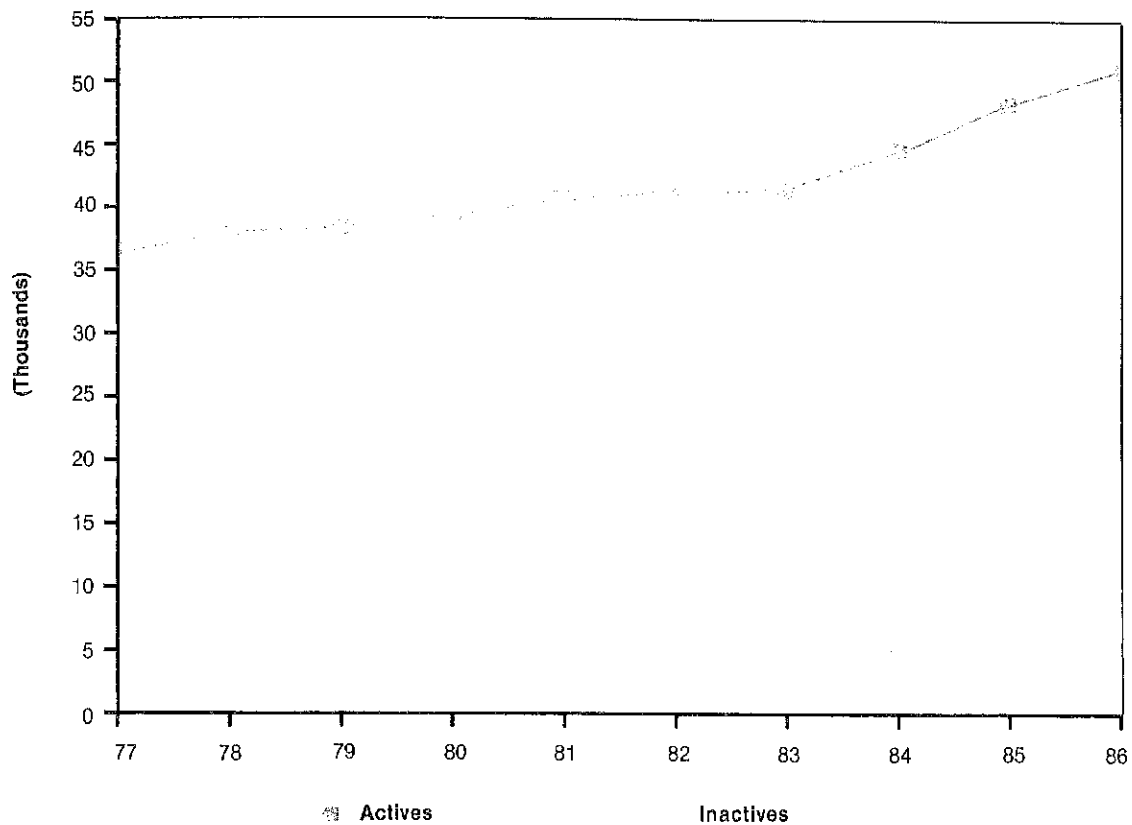
<u>Fiscal Year</u> <u>Ending August 31</u>	<u>Accounts</u> <u>Payable</u>	<u>Deferred</u> <u>Income</u>	<u>Fund Balances</u>	<u>Total</u>
1977	\$1,293,207	\$2,811,101	\$ 657,455,395	\$ 661,559,703
1978	1,307,701	1,785,675	747,975,984	751,069,360
1979	993,674	4,379,785	857,013,637	862,387,096
1980	1,219,101	2,177,412	987,304,732	990,701,245
1981	2,050,444	3,249,465	1,124,443,479	1,129,743,388
1982	2,973,502	1,844,840	1,239,531,590	1,244,349,932
1983	2,510,749	6,180,575	1,403,772,023	1,412,463,347
1984	6,272,698	6,694,852	1,524,371,250	1,537,338,800
1985	2,968,226	5,803,786	1,752,291,817	1,761,063,829
1986	9,685,351	5,542,007	2,257,974,785	2,273,202,143

# Active and Inactive Participants

## 10-Year Summary

<u>Fiscal Year</u> <u>Ending August 31</u>	<u>Total</u> <u>Actives</u>	<u>Average</u> <u>Age</u>	<u>Average Length</u> <u>of Service for</u> <u>Actives</u>	<u>Total</u> <u>Inactive</u>	<u>Combined Total of</u> <u>Active and Inactive</u> <u>Participants</u>
1977	36,468	43.3	8.1	5,576	42,044
1978	38,222	43.1	8.3	4,845	43,067
1979	38,553	43.3	8.4	5,061	43,614
1980	39,551	43.1	8.7	5,049	44,600
1981	40,624	42.7	8.8	5,185	45,809
1982	41,319	43.5	9.0	4,775	46,094
1983	41,589	43.3	9.7	4,862	46,451
1984	44,527	43.1	8.9	4,939	49,466
1985	48,410	42.6	8.5	5,125	53,535
1986	51,126	42.4	8.4	5,249	56,375

### PARTICIPANT GROWTH



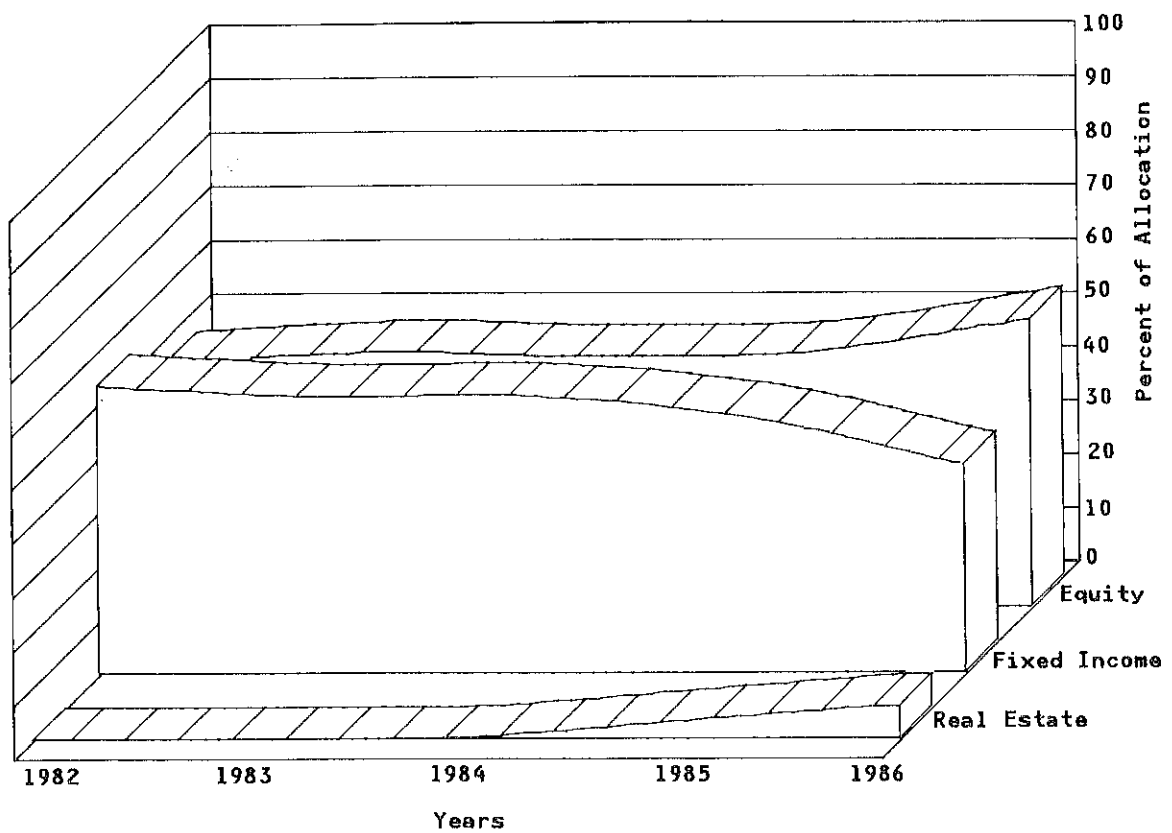
# Participating Employers 1986

Belleville Area College	Northeastern Illinois University
Black Hawk College	Northern Illinois University
Board of Governors	Oakton Community College
Board of Governors Cooperative Computer Center	Parkland College
Board of Regents	Prairie State College
Chicago State University	Rend Lake College
City Colleges of Chicago	Richland Community College
College of DuPage	Rock Valley College
College of Lake County	Carl Sandburg College
Danville Area Community College	Sangamon State University
Division of Services for Crippled Children	Sauk Valley College
Eastern Illinois University	Shawnee College
Elgin Community College	Southeastern Illinois College
Governors State University	Southern Illinois University - Carbondale
William Rainey Harper College	Southern Illinois University - Edwardsville
Highland Community College	Southern Illinois University Foundation - Carbondale
Illinois Board of Higher Education	Southern Illinois University Foundation - Edwardsville
Illinois Central College	Southern Illinois University - School of Medicine
Illinois Community College Board	Spoon River College
Illinois Community College Trustees Association	State Community College of East St. Louis
Illinois Eastern Community Colleges	State Geological Survey
Illinois State University	State Natural History Survey
Illinois Valley Community College	State Universities Civil Service System
Joliet Junior College	State Universities Retirement System
Kankakee Community College	State Water Survey
Kaskaskia College	Triton College
Kishwaukee College	The University of Illinois at Chicago
Lake Land College	University of Illinois - Alumni Association
Lewis & Clark Community College	University of Illinois - Athletic Association
Lincoln Land Community College	University of Illinois - Foundation
John A. Logan College	University of Illinois - Urbana
Moraine Valley Community College	Maubonsee Community College
Morton College	Western Illinois University
McHenry College	John Wood Community College



# INVESTMENT SECTION

## ASSET ALLOCATION



# Certification Letter



## THE NORTHERN TRUST COMPANY

FIFTY SOUTH LA SALLE STREET

CHICAGO, ILLINOIS 60675

TELEPHONE (312) 530-6000

### Master Trustee's Comments on the Services Provided

To the Board of Trustees and the Executive Director:

The Northern Trust Company as Master Trustee has provided detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Fund for the period September 1, 1985 through August 29, 1986. Also, a statement of assets together with their fair market value was provided, showing the properties held as of August 29, 1986. The Northern Trust Company certifies that the statements contained therein are fairly presented and are true and accurate.

In addition to the Custody of the assets, The Northern Trust Company provided and will continue to provide the following services as Master Trustee:

1. Receive and hold all amounts paid to the Trust Fund by the Board of Trustees.
2. Accept and deliver securities in accordance with the instructions of appointed Investment Managers.
3. Collect dividends and registered interest payments.
4. Collect matured or called securities and coupons.
5. Securities Lending.
6. Begin, maintain or defer any litigation necessary in connection with the investment, reinvestment of the Trust Fund and the administration of the Master Trust.
7. Invest cash balances held from time to time in the individual investment management accounts in short term - cash equivalent securities.
8. Exercise rights of ownership in accordance with pre-described jurisdiction and direction of proxy voting, stock subscriptions and conversion rights.
9. Hold securities in the name of the Master Trust or nominee form.
10. Use the Federal Book Entry Account System for deposit of Treasury securities and clearing corporations as defined in Article 8 of the Illinois Uniform Commercial Code for the deposit of securities.
11. Employ agents with the consent of the Board of Trustees.
12. Provide disbursement and security fail float income.

THE NORTHERN TRUST COMPANY

By:

*Randall C. Hampton*  
Randall C. Hampton  
Vice President

# Investment Summary 1986

## INVESTMENT SECTION

### Investment Authority

The State Universities Retirement System's investments are governed by Illinois Revised Statutes, Chapter 108-1/2 -- Pensions. The most important aspect of the statutes is the "prudent person" rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.) The prudent person rule states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence which a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time.

## STATEMENT OF INVESTMENT POLICY

### Investment Policy

#### Permissible Equity Investment

Up to 55 percent of the market value of the fund may be invested in equity securities with a target of 5 percent of the market value of the fund invested in non-U.S. equity securities.

#### Permissible Real Estate Investment

Up to 15 percent of the market value of the fund may be invested in diversified equity real estate or mortgages.

### Diversification

The State Universities Retirement System invests in different types of assets and uses multiple managers as a method to ensure overall fund diversification. As of August 31, 1986, the System had retained the services of seven investment managers.

Each investment management firm is afforded full discretion to diversify its portfolio in a manner it deems appropriate. The Trustees have created guidelines to direct the investment managers in their execution of the overall investment policy. The guidelines are specific to the type of portfolio managed.

## FY 86 ALLOCATIONS

The continuing inability of the majority of the nation's active managers to outperform market indexes was the driving force in the restructuring of SURS Fund during 1986. As a result of an extensive review of the System's investment policy by the SURS Board of Trustees, passive management more than doubled. Passive management does not attempt to make specific security selections, but rather buys the entire market as represented by the specified index. Passive management is much cheaper than active management in both transaction costs and management fees.

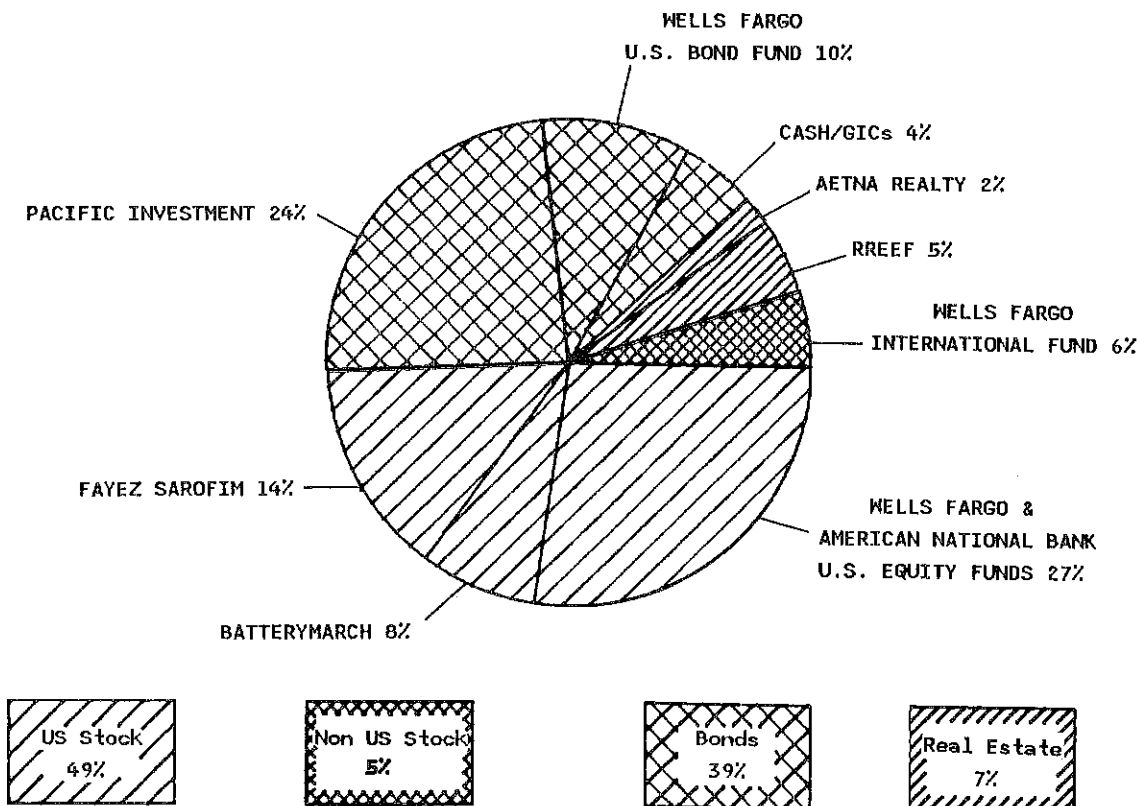
# Investment Summary 1986

Four managers, with assets totaling \$1 billion, were terminated as a result of this transaction. The SURS portfolio of U.S. passive assets have been invested to track the Wilshire 5000 Stock Index and Salomon Brothers Broad Investment Grade Bond Index, which are particularly representative of the U.S. stock and bond markets. In addition, 5 percent of the total fund was invested to track the Europe, Australia, and Far East Index, a move designed to increase total return without additional risk. Wells Fargo Investment Advisors was selected to manage the passive accounts.

Additional allocations were made to real estate by purchasing an existing real estate position in the Rosenberg Real Estate Equity Funds (RREEF) of \$37 million, increasing the commitment to RREEF MidAmerica/East-V by \$5 million, and by investing \$50 million in the Aetna Realty Investors Real Estate Separate Account. These investments provide additional geographic and property type diversification and the potential for good real (inflation-adjusted) return.

The Board hired Wells Fargo to run a one-year portfolio insurance program for all U.S. marketable securities. Portfolio insurance is a hedging strategy used to control risk. Portfolio insurance is increasingly being used to lock in the gains produced by the recent rises in the stock and bond markets.

## ASSET ALLOCATION AS OF AUGUST 31, 1986



# Investment Summary 1986

## ASSET ALLOCATION AS OF AUGUST 31, 1986 (\$000)

	<u>Common Stocks</u>	<u>Fixed-Income Securities</u>	<u>Real Estate</u>	<u>Total</u>	<u>Percent</u>
<u>Common Stock Managers - Passive</u>					
American National Bank Extended Market Fund	\$ 70,874			\$ 70,874	3
Wells Fargo Investment Advisors U.S. Equity Fund	608,666	\$ 93		608,759	24
Wells Fargo Investment Advisors International Fund	144,995	147		145,142	5
Subtotal	<u>824,535</u>	<u>240</u>		<u>824,775</u>	<u>32</u>
<u>Common Stock Managers - Active</u>					
Batterymarch Financial Management	196,919	1,862		198,781	8
Fayez Sarofim & Co. Subtotal	<u>345,109</u>	<u>3,504</u>		<u>348,613</u>	<u>14</u>
	542,028	5,366		547,394	22
<u>Fixed-Income Managers - Passive</u>					
Wells Fargo Investment Advisors U.S. Debt Fund Subtotal		<u>250,586</u>		<u>250,586</u>	<u>10</u>
		250,586		250,586	10
<u>Fixed-Income Managers - Active</u>					
Pacific Investment Management Co.	2,708	601,971		604,679	24
The Northern Trust Co. (short-term cash acct. & GICs)		95,533		95,533	4
Wells Fargo Investment Advisors (hedging cash acct.) Subtotal		<u>33,701</u>		<u>33,701</u>	<u>1</u>
	2,708	731,205		733,913	29
<u>Real Estate Managers</u>					
Rosenberg Real Estate Equity Funds			\$118,645	118,645	5
Aetna Realty Investors Real Estate Separate Account Subtotal			<u>50,000</u>	<u>50,000</u>	<u>2</u>
			168,645	168,645	7
TOTAL	<u>\$1,369,271</u>	<u>\$987,397</u>	<u>\$168,645</u>	<u>\$2,525,313</u>	<u>100</u>
PERCENT	54	39	7	100	

# Investment Summary 1986

## INVESTMENT RESULTS

### Investment Objectives

Overall fund performance will be compared with the performance of a "policy portfolio" comprised of 50 percent of the Wilshire 5000 Stock Index, 5 percent of the Capital International Europe, Australia, Far East (EAFE) Index, a percentage of a real estate index equal to the fund's real estate investment at the beginning of a quarter, and the balance in the Salomon Brothers Broad Investment-Grade Bond Index. The investment objective is to equal or exceed the policy portfolio rate of return. The policy portfolio has been continually updated to reflect a passive implementation of the investment policy. Comparisons of total fund performance will also be made with a universe of funds implementing generally comparable investment policies.

### FY 86 Market Environment

The year ended August 31, 1986 was very favorable for institutional investors as the stock and bond markets continued to provide extremely attractive rates of return. The steady downward trend of interest rates, 90-day T-Bills declined to 7.1 percent, resulted in rising bond prices throughout most of the last 12 months. Bonds, as measured by the Salomon Brothers Broad Investment Grade Bond Index, returned 22.6 percent. Common stock, as measured by the Wilshire 5000 Stock Index, earned an even greater return of 36.1 percent.

The returns earned on marketable securities were particularly attractive in light of the minimal inflation during the past year. The Consumer Price Index increased 1.6 percent, meaning stocks and bonds earned real returns (inflation-adjusted) in excess of 30 and 20 percent, respectively. During the year, the market value of the SURS portfolio increased by \$600 million, a return of 28.6 percent.

### PERFORMANCE SUMMARY

Annualized Percent for Periods Ending August 31

	1982	1983	1984	1985	1986	Annualized	
						3 Years	5 Years
Total Fund							
SURS	15.8	25.8	4.8	18.6	28.6	16.9	18.4
Policy Portfolio	20.2	31.7	6.1	22.4	30.1	19.1	21.7
CPI	5.9	2.6	4.2	3.4	1.6	3.1	3.5
Common Stock Returns (less cash)							
SURS	1.4	36.1	-1.2	15.4	38.3	16.4	16.8
S&P 500 Stock Index	3.3	44.1	6.1	18.2	39.1	20.4	20.9
Wilshire 5000	-0.9	48.1	2.3	19.8	36.1	18.6	19.6
Bond Returns (less cash)							
SURS	31.4	21.9	9.4	25.4	25.9	20.0	22.6
Shearson/Lehman G/C Bond Index	28.6	16.4	9.4	23.3	22.8	18.3	19.9
Salomon Broad Grade Investment Index	29.2	16.1	9.7	24.0	22.6	18.6	20.1
Real Estate Returns							
SURS			7.4*	7.0*	8.6	7.7	
Asset Allocation (% at fiscal year end)							
Common Stock	46	48	47	48	54	48	47
Bonds	54	52	52	48	39	51	52
Real Estate			1	4	7	2	1

\*Properties are appraised after being held one year. Prior to 1986, the returns are not representative of total return, but are the income component only.

# Investment Portfolio 1986

## EQUITIES

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
CONSUMER DURABLES			
AUTOMOTIVE - CARS			
FORD MOTOR CO.....	314,750	\$ 9,975,799	\$ 18,806,313
GENERAL MOTORS CORP.....	155,500	11,009,141	11,196,000
FURNISHINGS APPLIANCES			
LANE CO INC.....	15,900	846,993	719,475
MOHASCO CORP.....	1,000	22,520	38,750
SINGER CO.....	16,300	815,326	933,175
RUBBER			
FIRESTONE TIRE & RUBBER CO.....	47,500	973,130	1,175,625
GOODYEAR TIRE & RUBBER CO.....	34,200	924,084	1,188,450
CONSUMER NON-DURABLES & SERVICES			
CHEMICALS - PHOTOGRAPHIC			
EASTMAN KODAK CO.....	67,500	3,447,032	3,839,063
COMMUNICATIONS			
CBS INC.....	29,813	1,849,881	4,225,993
TIME INC.....	60,000	1,851,599	4,845,000
COSMETICS			
CHESEBROUGH-POND S INC.....	54,700	1,860,894	2,646,113
GILLETTE CO.....	80,000	3,661,423	3,620,000
PROCTER & GAMBLE CO.....	90,000	4,789,957	7,200,000
TAMBRANDS INC.....	40,000	2,019,500	4,680,000
DRUGS			
A H ROBINS CO INC.....	6,500	135,818	73,125
AMERICAN HOME PROD CORP.....	90,000	4,021,538	8,223,750
ELI LILLY & CO.....	100,000	3,804,295	7,800,000
MERCK & CO INC.....	50,000	1,648,859	5,781,250
PFIZER INC.....	150,000	4,909,929	10,200,000
SMITHKLINE BECKMAN CORP.....	88,800	7,695,088	8,025,300
STERLING DRUG INC.....	75,000	2,213,882	3,806,250
WARNER-LAMBERT CO.....	55,000	2,681,438	3,286,250

# Investment Portfolio 1986

## EQUITIES (continued)

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
FOOD - CHAIN STORES			
AMERICAN STORES CO.....	60,000	\$ 3,290,411	\$ 3,720,000
SUPER VALU STORES INC.....	140,000	1,930,472	3,325,000
FOOD - GENERAL			
ANHEUSER-BUSCH CO INC.....	168,000	3,649,722	9,072,000
COCA COLA CO.....	315,000	5,912,865	11,930,625
DART & KRAFT INC.....	135,000	3,597,752	8,454,375
FEDERAL CO.....	2,000	32,770	76,500
H J HEINZ CO.....	110,000	3,094,428	5,156,250
KELLOGG CO.....	160,000	5,158,472	8,840,000
PEPSICO INC.....	135,000	2,316,506	4,303,125
SAVANNAH FOODS & IND INC.....	2,500	76,613	65,625
UNIVERSAL FOODS CORP.....	35,550	853,674	853,200
HEALTH CARE			
C R BARD INC.....	92,600	1,956,389	3,356,750
HOSPITAL CORP OF AMERICA.....	52,800	2,226,706	1,999,800
MEDTRONIC INC.....	48,500	2,116,783	4,158,875
MERCHANDISING - CONSUMER SPECIALTY			
BROWN GROUP INC.....	21,400	561,964	751,675
EDISON BROS STORES INC.....	3,900	114,916	152,100
MERCHANDISING - GENERAL			
ALLIED STORES CORP.....	79,200	2,059,505	3,999,600
ASSOCIATED DRY GOODS.....	31,600	922,466	1,903,900
FEDERATED DEPT STORES INC.....	98,300	3,890,248	8,355,500
F M WOOLMORTH CO.....	25,200	470,315	1,086,750
K MART CORP.....	209,600	6,142,361	10,794,400
MAY DEPT STORES CO.....	204,800	4,675,173	7,449,600
PENNEY J.C CO INC.....	60,000	3,085,640	4,702,500
SERVICE INDUSTRIES			
STONE & WEBSTER INC.....	17,300	865,346	901,763
TEXTILES			
J P STEVENS & CO INC.....	91,100	1,675,785	3,279,600
RUSS TOGS INC.....	10,300	229,484	292,263
V F CORP.....	39,000	777,936	1,355,250



# Investment Portfolio 1986

## EQUITIES (continued)

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
TOBACCO			
PHILIP MORRIS COMPANIES INC.....	270,000	\$ 7,119,259	\$ 20,520,000
RJR NABISCO INC.....	100,000	4,438,845	5,350,000
TECHNOLOGY			
ELECTRONICS - INSTRUMENTATION			
CTS CORP.....	16,200	662,419	475,875
CUBIC CORP.....	38,600	733,916	641,725
JOHN FLUKE MFG CO INC.....	31,700	836,722	693,438
TELEDYNE INC.....	22,000	3,596,012	7,078,500
OFFICE EQUIPMENT			
CTL DATA CORP.....	19,900	685,736	502,475
DIEBOLD INC.....	41,700	1,548,773	1,652,363
HONEYWELL INC.....	27,300	1,575,434	1,945,125
INTL BUSINESS MACH CORP.....	65,000	5,048,992	9,018,750
MINN MNG & MFG CO.....	45,000	4,096,484	5,056,875
NCR CORP.....	42,300	1,186,301	2,326,500
SPERRY CORP.....	35,400	2,640,978	2,708,100
ENERGY			
COAL			
PITTSSTON CO.....	137,100	1,878,455	1,902,263
OIL SERVICES			
BAKER INTL CORP.....	5,000	111,975	56,875
DIAMOND SHAMROCK CORP.....	208,600	3,731,107	2,372,825
DIAMOND SHAMROCK OFFSHORE LTD.....	4,484	107,897	78,470
DRESSER IND INC.....	32,900	675,481	583,975
ENRON CORP.....	56,200	2,055,574	2,802,975
GEARHART IND INC.....	42,800	685,741	69,550
HALLIBURTON CO.....	65,000	2,735,674	1,413,750
HELMERICH & PAYNE INC.....	24,800	490,296	483,600
HUGHES TOOL CO.....	129,200	2,106,753	1,065,900
MC DERMOTT INTL INC.....	11,500	320,793	264,500
SCHLUMBERGER LTD.....	61,735	3,507,913	2,098,990
SOUTHDOWN INC.....	7,500	241,088	241,875
TEXACO INC.....	63,000	2,159,451	2,118,375
TIDEWATER INC.....	22,000	612,835	110,000
ZAPATA CORP.....	21,000	527,672	76,125

# Investment Portfolio 1986

## EQUITIES (continued)

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
PETROLEUM - DOMESTIC			
ATLANTIC RICHFIELD CO.....	22,500	\$ 817,851	\$ 1,293,750
CHEVRON CORP.....	194,000	8,364,131	8,584,500
KERR-MC GEE CORP.....	30,700	1,198,254	901,813
LOUISIANA LAND & EXPL CO.....	11,600	351,070	352,350
MURPHY OIL COR.....	53,500	1,682,728	1,391,000
NL INDS INC DEPOSITARY RCPT.....	62,000	660,613	713,000
NL INDS INC.....	62,000	185,377	310,000
NORTON CO....	19,300	712,074	745,463
OCCIDENTAL PETRO CORP.....	69,100	2,013,920	2,021,175
OCEAN DRILLING & EXPL CO.....	19,800	528,996	259,875
PENNZOIL CO.....	179,400	5,989,266	9,485,775
PHILLIPS PETROLEUM CO.....	28,683	340,059	294,001
POGO PROD CO.....	13,700	330,345	71,925
READING & BATES CORP.....	96,100	890,847	180,188
SABINE CORP.....	61,700	849,609	832,950
STD OIL CO OHIO.....	7,000	367,150	340,375
UNOCAL CORP.....	12,146	464,224	264,176
PETROLEUM - INTERNATIONAL			
AMOCO CORP.....	97,900	2,572,570	6,742,863
MOBIL CORP.....	232,600	3,289,555	8,286,375
ROYAL DUTCH PETRO CO.....	70,000	3,591,889	6,291,250
BASIC INDUSTRIES			
ALUMINUM			
ALUM CO AMER.....	101,900	3,463,026	3,770,300
BUILDING - CEMENT			
IDEAL BASIC IND INC.....	7,600	138,852	17,100
BUILDING - GENERAL			
BUTLER MFG CO.....	1,800	49,950	55,800
CECO IND INC.....	10,000	231,450	362,500
DALLAS CORP.....	45,000	871,875	635,625
GEORGIA-PACIFIC CORP.....	31,500	799,430	1,074,938
JIM WALTER CORP.....	41,000	1,115,856	2,101,250
JUSTIN IND INC.....	15,150	220,938	255,656
LOUISIANA-PACIFIC CORP.....	35,295	1,009,479	988,260
OWENS-CORNING FIBERGLAS CORP.....	44,700	1,481,519	3,536,888
WINNEBAGO IND .....	44,200	834,717	442,000

# Investment Portfolio 1986

## EQUITIES (continued)

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
CHEMICALS - GENERAL			
BIG 3 IND INC.....	111,400	\$ 2,796,050	\$ 3,147,050
CELANESE CORP.....	12,000	854,240	2,712,000
DU PONT E I DE NEMOURS & CO.....	118,200	6,125,489	9,736,725
NCH CORP.....	3,800	116,926	105,450
NATL DISTILLERS & CHEM CORP.....	24,400	667,438	951,600
REICHHOLD CHEM INC.....	8,900	258,255	284,800
UNIVAR CORP.....	39,100	391,910	395,888
CONTAINERS			
AMERICAN CAN CO.....	60,000	3,498,910	5,295,000
CHESAPEAKE CORP.....	8,400	278,050	416,850
CROWN CORK & SEAL CO INC.....	37,900	1,728,071	4,150,050
MOTOR CARRIERS			
CONSOLIDATED FREIGHTWAYS INC.....	35,250	755,395	1,088,344
NON-FERROUS METALS			
AMAX INC.....	34,000	936,893	488,750
BATTLE MOUNTAIN GOLD CO.....	49,400	375,716	901,550
HOMESTAKE MNG CO.....	19,900	697,495	497,500
NEWMONT MNG CORP.....	52,400	2,712,338	2,816,500
STANADYNE INC.....	36,000	688,190	1,449,000
PAPER			
BOISE CASCADE CORP.....	34,000	1,297,368	2,065,500
CHAMPION INTL CORP.....	99,900	2,302,191	2,709,788
INTL PAPER CO.....	19,000	891,718	1,289,625
JAMES RIVER CO.....	33,809	623,907	1,069,194
REXHAM CORP.....	20,300	378,291	598,850
TEMPLE INLAND INC.....	31,240	867,002	1,733,820
WILLAMETTE IND INC.....	38,000	932,662	1,558,000
PRINTING AND PUBLISHING			
MC GRAW-HILL INC.....	80,000	2,201,964	4,750,000
TIMES MIRROR CO.....	70,000	3,648,425	4,742,500
RAILROADS			
KANSAS CITY SO INDS INC.....	12,000	649,620	670,500
NORFOLK SO CORP.....	11,500	795,168	940,125

# Investment Portfolio 1986

## EQUITIES (continued)

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
SANTA FE SO PAC CORP.....	32,105	\$ 594,772	\$ 987,229
UNION PACIFIC CORP.....	60,000	3,244,518	3,577,500
STEEL			
ARMCO INC.....	149,700	2,918,669	1,085,325
BETHLEHEM STEEL CORP.....	2,000	33,540	17,000
CCX INC.....	1,700	10,226	7,863
CHROMALLOY AMER CORP.....	25,000	294,250	593,750
COPPERWELD CORP.....	8,600	155,797	56,975
FLORIDA STEEL CORP.....	23,900	406,778	755,838
HARSCO CORP.....	87,000	1,629,215	2,153,250
INLAND STEEL IND INC.....	25,900	770,433	462,963
LTV CORP.....	48,600	493,047	121,500
NATL INTERGROUP INC.....	37,900	858,246	696,413
WHEELING-PITTSBURGH STEEL CORP.....	13,400	389,256	128,975
USX CORP.....	26,500	646,618	500,188
AIRLINES - TRANSPORTATION			
NWA INC.....	80,000	3,245,282	3,850,000
PSA INC.....	28,800	600,914	892,800
MISCELLANEOUS BASIC INDUSTRIES			
ALLIED SIGNAL INC.....	95,400	2,970,437	3,923,325
AMER ECOLOGY CORP.....	5,000	25,503	106,250
CAMERON IRON WK.....	81,000	801,905	870,750
ITT CORP.....	75,000	3,217,104	4,050,000
J L CLARK MFG CO.....	5,000	148,850	141,250
CAPITAL GOODS INDUSTRIES			
AEROSPACE			
BOEING CO.....	64,950	1,893,591	3,905,119
LOCKHEED CORP.....	85,000	4,304,135	4,080,000
ROHR IND INC.....	8,000	244,080	233,000
SUNDSTRAND CORP.....	13,400	841,118	790,600
ELECTRONICS - GENERAL			
GENERAL ELECTRIC CO.....	130,000	3,941,600	10,221,250
MACHINERY - AGRICULTURE			
ALLIS-CHALMERS CORP.....	26,600	427,957	86,450

# Investment Portfolio 1986

## EQUITIES (continued)

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
CATERPILLAR INC.....	89,300	\$ 3,897,798	\$ 4,453,838
DEERE & CO.....	131,000	3,524,572	3,291,375
MACHINERY - GENERAL			
AMER HOIST & DERRICK CO.....	30,300	404,806	204,525
EATON CORP.....	30,800	1,232,616	2,171,400
FOSTER WHEELER CORP.....	3,000	36,435	36,750
HENLEY GROUP INC.....	23,850	310,344	479,981
MISCELLANEOUS CAPITAL GOODS INDUSTRIES			
COMBUSTION ENGR INC.....	22,700	772,481	698,025
KOPPERS CO INC.....	48,800	879,489	1,384,700
FINANCIAL SERVICES			
BANKS			
ALLIED BANCSHARES TEX INC.....	71,100	1,541,508	1,377,563
INTERFIRST CORP.....	134,400	1,425,028	1,024,800
TEX COMM BANCSHARES INC.....	68,700	2,297,487	1,837,725
FINANCIAL			
AMERICAN EXPRESS CO.....	160,476	4,486,766	10,571,357
PAINE WEBBER GROUP INC.....	55,100	2,083,677	2,186,781
INSURANCE - LIFE			
AETNA LIFE & CASUALTY CO.....	70,000	2,765,994	4,497,500
AMERICAN GENERAL CORP.....	153,187	4,066,222	6,472,151
CIGNA CORP.....	66,403	2,805,796	4,166,788
UTILITIES			
UTILITIES - ELECTRIC			
CAROLINA POWER & LIGHT CO.....	65,600	1,394,925	2,763,400
CENTRAL HUDSON GAS & ELEC CORP.....	11,500	192,855	452,813
COMMONWEALTH EDISON CO.....	46,500	1,395,930	1,615,875
CONSUMERS POWER CO.....	39,300	792,569	491,250
F P L GROUP INC.....	39,000	1,162,980	1,379,625
HOUSTON INDUSTRIES INC.....	55,200	1,532,904	2,001,000
KANSAS CITY POWER & LIGHT CO.....	27,900	424,623	875,363
MIDDLE SOUTH UTILITIES INC.....	165,800	2,236,441	2,362,650
N Y STATE ELEC & GAS CORP.....	21,400	452,503	807,850

# Investment Portfolio 1986

## EQUITIES (continued)

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
NIAGARA MOHAWK POWER CORP.....	69,600	\$ 904,705	\$ 1,670,400
OHIO EDISON CO.....	77,700	1,089,354	1,748,250
PHILADELPHIA ELEC CO.....	54,700	855,782	1,278,613
TEXAS UTILITIES CO.....	52,100	1,401,230	1,921,188
WICOR INC.....	3,200	87,664	139,600
UTILITIES - NATURAL GAS			
PEOPLES ENERGY CORP.....	21,900	219,438	509,175
SONAT INC....	40,700	1,424,120	1,098,900
TEXAS EASTERN CORP.....	4,300	118,874	121,475
UTILITIES - TELEPHONE			
AMER INFOR TECHNOLOGIES CORP.....	15,404	1,589,516	2,543,403
BELL ATLANTIC CORP.....	22,252	727,328	1,680,026
BELLSOUTH CORP.....	35,682	1,051,209	2,435,297
NYNEX CORP.....	20,808	632,858	1,511,181
PACIFIC TELESIS GROUP.....	60,748	2,091,672	3,705,628
SO NEW ENGLAND TELECOM CORP.....	29,600	991,970	1,805,600
SOUTHWESTERN BELL CORP.....	25,404	1,844,817	2,943,689
U.S. WEST.....	22,272	620,833	1,366,944
MISCELLANEOUS			
MISCELLANEOUS			
VWR CORP.....	39,100	454,496	586,485
MUTUAL FUNDS			
AMER NATL BANK MKT EXPANSION FD.....	2,209,695	48,346,618	70,873,978
WELLS FARGO EXT'D EQTY MKT FD.....	6,226,665	138,039,111	138,126,209
WELLS FARGO S&P 500 INDEX FD.....	10,671,547	460,371,321	470,539,487
WELLS FARGO INTERNATIONAL MKT FD.....	3,970,304	118,460,309	144,994,517
<u>CONVERTIBLE PREFERRED STOCK</u>			
FINANCIAL SERVICES			
INSURANCE - LIFE			
CIGNA CORP.....	7,110	103,213	245,295
Total Equities		<u>\$1,130,499,736</u>	<u>\$1,369,270,750</u>

# Investment Portfolio 1986

## FIXED INCOME SECURITIES

	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
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### GOVERNMENT OBLIGATIONS

#### GOVERNMENT AGENCIES

FED HOME LN MTG CORP..	AAA	4.500%	10/01/96	\$ 16,891	\$ 13,946	\$ 14,131
FED HOME LN MTG CORP..	AAA	7.000	07/01/08	185,494	165,090	169,031
FED HOME LN MTG CORP..	AAA	8.750	04/01/08	1,066,797	852,104	1,038,793
FED HOME LN MTG CORP..	AAA	9.000	04/01/08	29,767	28,335	29,507
FED HOME LN MTG CORP..	AAA	9.000	06/01/10	33,306	31,703	33,015
FED HOME LN MTG CORP..	AAA	9.400	09/15/08	2,311,200	1,640,952	2,330,845
FED HOME LN MTG CORP..	AAA	9.500	10/01/08	163	133	164
FED HOME LN MTG CORP..	AAA	16.250	11/01/11	1,142,688	1,191,253	1,205,536
FED HSG ADMIN.....	AAA	7.430	06/01/22	1,694	1,298	1,508
FED HSG ADMIN.....	AAA	7.430	05/01/23	1,296	954	1,154
FED HSG ADMIN.....	AAA	7.430	06/01/23	4,243	3,120	3,778
FED HSG ADMIN.....	AAA	7.430	08/01/25	1,436	1,103	1,279
FED HSG ADMIN.....	AAA	11.930	06/01/24	4,996,438	5,673,456	5,304,219
FED NATL MTG ASSN.....	AAA	14.750	08/01/12	4,018,781	4,418,147	4,500,633
FED NATL MTG ASSN.....	AAA	15.500	12/01/12	297,244	313,307	337,669
FED NATL MTG ASSN.....	AAA	15.750	12/01/11	2,209,263	2,322,487	2,513,036
FED NATL MTG ASSN.....	AAA	16.000	09/01/12	1,388,730	1,486,394	1,581,763
FED NATL MTG ASSN.....	AAA	16.000	09/15/12	2,977,847	3,163,107	3,391,768
GOV NATL MORT ASSN....	AAA	5.500	08/15/98	284,326	201,693	254,472
GOV NATL MORT ASSN....	AAA	8.000	01/15/08	6,518	4,637	6,349
GOV NATL MORT ASSN....	AAA	8.500	12/15/05	190,518	160,362	187,184
GOV NATL MORT ASSN....	AAA	8.500	02/15/07	237,155	199,618	233,005
GOV NATL MORT ASSN....	AAA	9.000	09/15/08	18,282	16,180	18,402
GOV NATL MORT ASSN....	AAA	9.000	11/15/08	30,228	26,752	30,427
GOV NATL MORT ASSN....	AAA	9.000	01/15/09	40,382	35,738	40,647
GOV NATL MORT ASSN....	AAA	9.000	04/15/09	951	842	958
GOV NATL MORT ASSN....	AAA	9.000	05/15/09	903	799	909
GOV NATL MORT ASSN....	AAA	9.500	05/15/09	88,722	79,961	91,273
GOV NATL MORT ASSN....	AAA	9.500	05/15/13	73,439	66,187	75,551
GOV NATL MORT ASSN....	AAA	9.500	06/15/09	248,387	224,263	255,528
GOV NATL MORT ASSN....	AAA	9.500	07/15/09	1,815	1,637	1,867
GOV NATL MORT ASSN....	AAA	9.500	08/15/09	1,185,928	997,130	1,220,023
GOV NATL MORT ASSN....	AAA	9.500	09/15/09	387,834	349,727	398,984
GOV NATL MORT ASSN....	AAA	9.500	10/15/09	153,163	138,009	157,566
GOV NATL MORT ASSN....	AAA	9.500	11/15/09	122	111	126
GOV NATL MORT ASSN....	AAA	9.500	01/15/10	87,530	78,887	90,047
GOV NATL MORT ASSN....	AAA	10.500	09/15/10	19,605	19,409	20,947
GOV NATL MORT ASSN....	AAA	10.500	12/20/13	858,994	739,949	917,783
GOV NATL MORT ASSN....	AAA	10.500	01/25/16	24,932	24,682	26,638
GOV NATL MORT ASSN....	AAA	11.000	08/20/15	2,109,262	1,894,967	2,254,274
GOV NATL MORT ASSN....	AAA	11.500	06/15/10	615	578	658
GOV NATL MORT ASSN....	AAA	11.500	10/15/10	10,644	10,069	11,379
GOV NATL MORT ASSN....	AAA	11.500	04/15/13	18	17	19
GOV NATL MORT ASSN....	AAA	11.500	07/15/13	429	411	459

# Investment Portfolio 1986

## FIXED INCOME SECURITIES (continued)

	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
<u>GOVERNMENT OBLIGATIONS</u>						
GOV NATL MORT ASSN....	AAA	11.500%	08/15/13	\$ 13,911	\$ 13,303	\$ 14,872
GOV NATL MORT ASSN....	AAA	11.500	10/20/13	3,105,300	2,865,047	3,319,752
GOV NATL MORT ASSN....	AAA	11.500	12/20/13	944,830	871,226	1,010,080
GOV NATL MORT ASSN....	AAA	11.500	01/15/14	12	12	13
GOV NATL MORT ASSN....	AAA	11.500	02/15/14	1,442	1,381	1,542
GOV NATL MORT ASSN....	AAA	11.500	04/20/14	419,146	382,345	448,092
GOV NATL MORT ASSN....	AAA	12.000	12/15/12	17,007	18,251	18,272
GOV NATL MORT ASSN....	AAA	12.000	03/15/13	7	7	8
GOV NATL MORT ASSN....	AAA	12.000	01/15/14	19	18	20
GOV NATL MORT ASSN....	AAA	12.000	02/15/15	1,842	1,819	1,979
GOV NATL MORT ASSN....	AAA	12.000	03/15/15	558	547	599
GOV NATL MORT ASSN....	AAA	12.250	05/15/15	688	688	738
GOV NATL MORT ASSN....	AAA	12.500	11/15/10	630	657	677
GOV NATL MORT ASSN....	AAA	13.500	05/15/10	109,545	118,810	118,685
GOV NATL MORT ASSN....	AAA	13.500	06/15/10	279,423	303,523	302,738
GOV NATL MORT ASSN....	AAA	13.500	07/15/10	178,012	192,475	192,865
GOV NATL MORT ASSN....	AAA	13.500	04/15/11	1,392,401	1,505,534	1,508,583
GOV NATL MORT ASSN....	AAA	13.500	05/15/11	2,427,860	2,627,780	2,630,441
GOV NATL MORT ASSN....	AAA	13.500	10/15/12	1,839,197	1,992,763	1,992,659
GOV NATL MORT ASSN....	AAA	13.500	11/15/12	474,644	513,540	514,248
GOV NATL MORT ASSN....	AAA	13.500	12/15/12	918,205	992,809	994,820
GOV NATL MORT ASSN....	AAA	13.500	02/15/13	260,596	281,770	282,341
GOV NATL MORT ASSN....	AAA	13.500	08/15/14	2,842,157	3,081,597	3,079,307
GOV NATL MORT ASSN....	AAA	13.500	09/15/14	4,097,736	4,448,148	4,439,651
GOV NATL MORT ASSN....	AAA	13.500	10/20/14	1,408,033	1,527,113	1,525,519
GOV NATL MORT ASSN....	AAA	13.500	11/15/14	1,121,220	1,215,477	1,214,775
GOV NATL MORT ASSN....	AAA	13.500	12/15/14	582,266	630,487	630,850
GOV NATL MORT ASSN....	AAA	14.000	06/15/11	153,709	168,071	167,206
GOV NATL MORT ASSN....	AAA	14.000	05/15/12	324,884	302,954	353,412
GOV NATL MORT ASSN....	AAA	14.000	08/15/14	866,491	947,454	942,578
GOV NATL MORT ASSN....	AAA	14.000	09/15/14	4,076,301	4,457,180	4,434,241
GOV NATL MORT ASSN....	AAA	14.000	10/20/14	1,216,391	1,330,047	1,323,202
GOV NATL MORT ASSN....	AAA	14.000	11/15/14	938,356	1,026,033	1,020,753
GOV NATL MORT ASSN....	AAA	14.000	12/15/14	287,274	314,117	312,500
GOV NATL MORT ASSN....	AAA	14.750	06/15/97	509,161	551,804	562,623
GOV NATL MORT ASSN....	AAA	14.750	07/15/97	186,520	202,141	206,105
GOV NATL MORT ASSN....	AAA	15.000	05/15/11	59,553	65,806	67,630
GOV NATL MORT ASSN....	AAA	15.000	03/15/12	74,237	82,774	84,305
GOV NATL MORT ASSN....	AAA	15.000	07/15/12	497	554	564
GOV NATL MORT ASSN....	AAA	15.000	08/15/12	37,294	41,024	42,351
GOV NATL MORT ASSN....	AAA	15.000	09/15/12	248,298	256,269	281,973
GOV NATL MORT ASSN....	AAA	16.000	12/15/11	189,023	212,770	215,131
GOV NATL MORT ASSN....	AAA	16.000	03/15/12	95	106	110
Total Government Agencies				58,348,752	60,125,732	63,012,111



# Investment Portfolio 1986

## FIXED INCOME SECURITIES (continued)

	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
<u>GOVERNMENT OBLIGATIONS</u>						
U.S. GOVERNMENT						
U.S. T-NOTE STRPD INT.	AAA		02/15/14	\$ 28,000,000	\$ 3,324,804	\$ 3,293,080
U.S. TREASURY NOTES...	AAA	8.750	01/15/93	57,200,000	60,825,597	62,616,268
U.S. TREASURY NOTES...	AAA	9.500	11/15/95	66,000,000	75,095,625	76,662,960
U.S. TREASURY NOTES...	AAA	9.875	11/15/15	5,500,000	6,782,160	6,964,375
U.S. TREASURY NOTES...	AAA	10.625	08/15/15	39,100,000	49,161,132	52,662,617
U.S. TREASURY NOTES...	AAA	11.250	02/15/15	5,000,000	6,605,859	7,089,050
U.S. TREASURY NOTES...	AAA	11.750	11/15/14	2,000,000	2,706,396	2,872,500
U.S. TREASURY NOTES...	AAA	12.000	08/15/13	32,300,000	43,937,438	46,733,901
U.S. TREASURY NOTES...	AAA	12.750	11/15/10	10,700,000	15,211,172	16,023,250
U.S. TREASURY NOTES...	AAA	13.125	05/15/94	5,000,000	6,556,250	6,765,600
Total U.S. Government				250,800,000	270,206,434	281,683,601
Total All Government Obligations				<u>\$309,148,752</u>	<u>\$330,332,166</u>	<u>\$344,695,712</u>
<u>CONVERTABLE CORPORATE BONDS</u>						
FINANCIAL SERVICES						
INSURANCE - LIFE						
AMER GEN CORP CONV....	AA	11.000	11/04/08	956,000	1,031,285	2,203,580
Total Convertable Corporate Bonds				956,000	1,031,285	2,203,580
<u>CORPORATE OBLIGATIONS</u>						
FINANCE						
CITICORP.....	AA	11.875	02/01/95	13,442,000	14,432,675	14,924,518
INDUSTRIALS						
ACF INDUSTRIES.....	B	15.250	12/15/96	10,000,000	9,864,800	10,650,000
CHRYSLER CORP.....	BBB	12.000	11/15/15	3,000,000	3,318,750	3,313,830
REYNOLDS R.J. IND INC.	A	11.750	08/01/15	2,750,000	3,080,000	3,054,398
SHELLER-GLOBE CORP....	NR	13.750	06/01/01	598,500	164,234	281,295
OFFICE EQUIPMENT						
HONEYWELL INC.....	A	14.125	02/01/11	4,000,000	4,440,000	4,438,640
PETROLEUM-DOMESTIC						
PHILLIPS PETRO CO.....	B	14.750	03/15/20	3,750,000	4,094,063	4,134,375
PHILLIPS PETRO CO.....	BB	12.250	10/15/12	20,000,000	17,856,200	20,350,000

# Investment Portfolio 1986

## FIXED INCOME SECURITIES (continued)

	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
<u>CORPORATE OBLIGATIONS</u>						
PETROLEUM-INTERNATIONAL						
OCCIDENTAL PETRO CORP.	BBB	9.650%	10/15/94	\$ 20,500,000	\$ 15,865,000	\$ 19,063,565
RETAIL						
K-MART CORP.....	A	12.750	03/01/15	3,000,000	3,386,250	3,390,000
UTILITIES						
CONN LT & PWR CO.....	BBB	17.750	11/01/91	973,000	952,324	1,058,663
DAYTON PWR & LT CO....	BBB	16.750	03/01/12	2,123,000	2,444,104	2,409,456
GEORGIA PWR CO.....	BBB	16.250	07/01/12	2,819,000	3,048,749	3,064,394
GULF STATES UTILS CO..	BB	15.000	09/01/12	1,750,000	2,023,438	1,995,000
GULF STATES UTILS CO..	BB	13.750	03/01/94	6,000,000	6,660,000	6,450,000
HARTFORD ELEC & LT CO.	BBB	15.625	05/01/92	977,000	1,090,576	1,086,238
LA PWR & LT CO.....	BB	15.250	12/01/14	8,600,000	10,063,539	9,865,404
OHIO EDISON Co.....	BBB	15.500	04/15/10	4,300,000	4,866,125	4,848,207
OHIO EDISON CO.....	BBB	11.875	06/15/10	5,000,000	5,189,975	5,276,800
PHIL ELEC CO.....	BB	14.500	02/15/09	7,800,000	9,052,500	9,111,882
PHIL ELEC CO.....	BB	14.750	04/15/05	6,150,000	6,695,239	7,183,877
PHIL ELEC CO.....	BB	11.000	04/01/11	8,500,000	8,453,910	8,521,250
PHIL ELEC CO.....	BB	10.375	02/15/96	1,500,000	1,524,375	1,530,000
PUB SERV CO INDIANA...	BB	12.125	09/01/90	3,447,000	3,515,940	3,498,705
PUB SERV CO INDIANA...	BB	14.750	02/01/11	7,480,000	8,073,399	8,281,407
TOLEDO EDISON CO.....	BB	15.000	09/01/12	2,500,000	2,918,750	2,880,525
UNITED GAS PIPELINE...	BBB	15.500	06/01/91	4,195,000	4,546,414	4,484,413
Total Corporate Obligations				155,154,500	157,621,327	165,146,842
Total Convertible Corporate & Corporate Obligations				156,110,500	158,652,612	167,350,422
<u>MISCELLANEOUS FIXED INCOME SECURITIES</u>						
MORTGAGE PASS THROUGH						
1ST HOME MTG C.M.O....	AAA	9.400	02/01/97	3,938,162	3,941,854	3,957,853
BANK AMER MTG BKD SER.	BBB	11.875	07/01/09	583,617	456,497	587,994
CITIBANK CTF.....	NR	10.000	09/01/12	10,413	9,697	11,597
HOME S&L MTG-BKD CTF..	AA	10.000	07/01/09	779,964	719,517	809,213
INVST GNMA SEC CMO....	AAA	11.625	08/25/02	450,421	450,421	450,421
INVST GNMA SEC CMO....	AAA	11.900	01/25/14	5,000,000	4,717,000	5,775,000
MANFRS HSG MTG PC.....	AAA	13.250	01/01/99	4,584,801	4,555,064	5,296,363
MANFRS HSG MTG PC.....	AAA	13.250	01/15/99	2,778,282	2,760,011	3,209,472
RYLAND ACCEP CORP CMO.	AAA	9.950	10/01/96	49,006	49,005	50,376
SALOMON BROS CMO.....	AAA	10.000	03/01/96	3,994,718	4,023,430	4,049,646

# Investment Portfolio 1986

## FIXED INCOME SECURITIES (continued)

	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
<u>MISCELLANEOUS FIXED INCOME SECURITIES</u>						
MUTUAL FUNDS						
WELLS FARGO U.S DEBT..	NR	N/A	N/A	\$241,979,050	\$245,790,964	\$250,452,237
PRIVATE PLACEMENTS						
BRIDGEPORT CONN ELEC..	NR	18.000	11/30/94	12,000,000	14,400,000	15,750,000
LONG ISLAND LTG CO....	NR	16.000	08/01/93	9,600,000	9,576,000	10,023,744
INSURANCE CONTRACTS						
NEW YORK LIFE GIC.....	NR	14.570	07/31/88	5,057,965	5,057,965	5,057,965
UNION CENTRAL GIC.....	NR	13.890	08/15/87	2,011,257	2,011,257	2,011,257
CONN MUTUAL GIC.....	NR	13.000	08/15/92	3,000,000	3,000,000	3,000,000
Total Miscellaneous Fixed Income				<u>\$295,817,656</u>	<u>\$301,518,683</u>	<u>\$310,493,137</u>
Total Fixed Income Securities				<u>\$761,076,908</u>	<u>\$790,503,460</u>	<u>\$822,539,271</u>

## SHORT-TERM INVESTMENTS

RJR NABISCO.....	NR	5.650%	09/10/86	\$ 375,000	\$ 374,294	\$ 374,470
U.S. TREASURY BILLS...	AAA	5.850	10/23/86	25,000	24,655	24,805
U.S. TREASURY BILLS...	AAA	5.950	10/02/86	330,000	324,982	328,423
U.S. TREASURY BILLS...	AAA	6.260	09/25/86	40,000	39,400	39,875
U.S. TREASURY BILLS...	AAA	6.228	05/14/87	6,640,000	6,306,661	6,392,062
U.S. TREASURY BILLS...	AAA	6.289	03/19/87	600,000	573,943	582,660
U.S. TREASURY BILLS...	AAA	6.300	09/04/86	385,000	379,207	384,688
WELLS FRGO MONEY MKT..	NR	*	*	240,006	240,006	240,006
NORTHERN TRUST INV FD.	NR	*	*	<u>156,490,744</u>	<u>156,490,744</u>	<u>156,490,744</u>
Total Short-Term Investments				<u>\$165,125,750</u>	<u>\$164,753,892</u>	<u>\$164,857,733</u>

\*The short-term investment funds of The Northern Trust Company and Wells Fargo provide a vehicle for investments of liquid reserves on a daily basis. The interest rate varies with market conditions.

## REAL ESTATE

	Units	Book Value	Market Value
AETNA REAL ESTATE SEPARATE ACCT.....	19,770	\$ 50,000,000	\$ 50,000,000
RREEF MIDAMERICA EAST I.....	13	2,404,909	2,404,909
RREEF MIDAMERICA EAST II.....	17	3,335,007	3,335,007
RREEF MIDAMERICA EAST III.....	33	8,352,267	8,352,267
RREEF MIDAMERICA EAST IV.....	100	20,125,325	21,297,192
RREEF USA III.....	63	63,250,649	66,389,909
RREEF WEST VI.....	.80	<u>16,062,662</u>	<u>16,865,890</u>
Total Real Estate	20,076	<u>\$163,530,819</u>	<u>\$168,645,174</u>

# Investment Portfolio 1986

## FUTURES

	Number of Contracts	Expiration Date
U.S. TREASURY-BONDS - LONG.....	73	09/30/86
U.S. TREASURY-BONDS - SHORT.....	44	09/30/86
U.S. TREASURY-BONDS - SHORT.....	22	12/31/86
U.S. TREASURY-NOTES - LONG.....	235	12/31/86
U.S. TREASURY-NOTES - SHORT.....	88	09/18/86
NYSE COMPOSITE INDEX - SHORT.....	32	12/31/86
VALUE LINE INDEX - SHORT.....	19	12/31/86
EURODOLLAR - SHORT.....	5	09/30/86

One mechanism the futures market uses to assure performance under futures contracts is to require holders of futures to deposit cash and/or T-Bills with their respective brokers. U.S. Treasury Bills, included in short-term investments, are used to meet this requirement.

