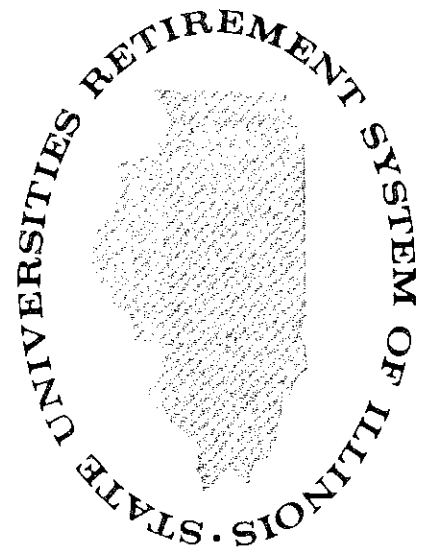


COMPONENT UNIT FINANCIAL REPORT **for the Fiscal Year Ended June 30, 1987**



Prepared by: The Accounting Department

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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, 1986

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.



A handwritten signature in black ink, reading "Paul C. Elison".

President

A handwritten signature in black ink, reading "Jeffrey L. Essler".

Executive Director



December 11, 1987

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 June 30, 1987, 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.

On January 23, 1987, Governor James Thompson signed into law legislation that changed the SURS fiscal year end from August 31 to June 30. As a consequence this report was compiled with fiscal year 1987 being 10 months long. The 1987 financial statements are not being shown comparative with 1986 to avoid the confusion that can result from comparing nonequitable items. Each 10-year statistical table is footnoted for the appearance of the 10-month year.

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. Governmental Accounting Standards Board Statement 5 has been followed in the preparation of this report.

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 1987 totaled \$339.1 million. Employee contributions accounted for 28.2 percent of the total income. Employer contributions provided 22.9 percent

of the total income. Investment income accounted for 48.9 percent of the total income. 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 1987 were \$126.6 million. Contribution refunds for the same period were \$14.8 million, or 11.7 percent of total expenses. Benefit payments for the year amounted to \$109.9 million, or 86.8 percent of total expenses. Administrative expenses in FY 87 were 1.5 percent of the System's total expenses. The cost of administering the System amounted to approximately .6 percent of income generated. This means that out of every dollar that was received by the System, 99.4 cents were available for the payment of benefits. Income exceeded expenses by \$212.5 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 \$165.4 million, which represented 48.9 percent of total revenues. This exceeded the 22.9 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 June 30, 1987, amounted to \$4.6 billion as calculated by the entry age normal method. The reserve balances for participant contributions and benefits from employee and employer contributions amounted to \$2.5 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 \$1.7 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 six years, the employer contributions for FY 87 from state funds were less than the state's share of the benefits paid to retired and disabled employees and their survivors.

SIGNIFICANT EVENTS AND ACCOMPLISHMENTS

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, 1986. This is the third consecutive year the System has earned this award.

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.

Appointment of Trustees

Dr. William P. Froom was appointed as an annuitant trustee by Governor Thompson. The governor also reappointed Mr. Eugene T. Flynn to another six-year term.

Service Enhancements

During FY 87 the SURS undertook a number of projects that led to improved service to our participants and annuitants. These projects were developed in keeping with the System's Mission Statement of "Providing our Annuitants, Participants and their Employers the Best Possible Pension and Benefit Services in the United States."

New Checks

During 1987, SURS initiated a program to provide benefit recipients with better information on their check stubs. The first phase was to design a new check format with the flexibility of providing numerous variable deductions as well as year-to-date information. In its complete format, the check will carry personalized messages to explain changes in the amount from one month to the next.

Home Notification of Electronic Funds Transfer (EFT)

Over 65 percent of all benefit payments are being electronically deposited in the accounts of our benefit recipients at their financial institutions each month. There has been an increasing trend in the banking industry to cease sending notifications to clientele when EFT deposits are made. In response to this trend, SURS instituted the mailing of notifications to all EFT participants to assure them of their monthly deposits. These notifications carry all the same data as check stubs.

Newsletters

SURS publishes newsletters each year: Newsnotes for annuitants and The Participant for participants. During the year we increased the number of editions of The Participant from two per year to three. The newsletters report information of interest to each group, including legislative changes, counseling schedules, tax changes, financial reviews of the System, benefit recipient statistics, and answers to commonly asked questions.

Changes in Taxation of Benefits

The Tax Reform Act of 1986 included two provisions that affect SURS' participants. The most significant of these changes was the elimination of the "36-month rule." Under this provision, most retirees could recover their previously taxed contributions first. Once these contributions were recovered, the pension was fully taxable. All SURS annuitants who retire after July 1, 1986, are now required to report their payments to the Internal Revenue Service (IRS) using the monthly exclusion method. Under this method, a portion of each annuity check is taxable and a portion is nontaxable. SURS has made the necessary changes to provide this tax information both at the time of retirement and each January in 12-month summary form using IRS Form W-2P.

The second significant change affects participants who accept refunds upon separation. The Tax Reform Act imposes a 10 percent federal tax penalty in addition to income tax, unless the taxable portion of the refund is rolled over to a rollover Individual Retirement Account (IRA) or transferred to another qualified plan. This IRS-imposed penalty does not apply to the previously taxed portion of the refund or to refunds paid to participants over 59 1/2 years old.

Enhanced W-2P Reporting

SURS has acquired equipment to produce W-2P's that will carry all original typing on the W-2P. SURS annuitants will no longer be faced with reading W-2P carbon copies.

Benefits Summary Statement

November 1987 saw the first issuance of a comprehensive "Benefits Summary Statement." The statement shows historical information such as account balance, certification date, and birth date; and current information such as benefits earned to date, including disability, retirement, separation refund, and death and survivor benefits. This statement replaced the annual participant Statement of Account, which showed only a summary of contributions during the year by pay period.

Expansion of Benefit and Participant Services

The establishment of "hot lines" is making fast telephone service a reality at SURS. There is now a direct-access number for participants to inquire about the status of a benefit calculation, as well as a direct number for them to acquire counseling regarding any of SURS many benefits.

Financial Counseling

SURS makes staff available throughout the state during the year to provide face-to-face counseling for participants with questions about their benefits. Possibilities exist for on-campus conferences, off-campus conferences at area hotels, and preretirement seminar weekends in Champaign, where our counselors are joined by a lawyer and financial planner to discuss planning for retirement. During the next year we hope to provide a video presentation of SURS benefits to each of our employers.

We are currently testing hardware and software to provide communication links between personal computers used off-site and our main computer center in Champaign. This link would make available "live data" at counseling sites.

Security of Records

In the last two years an emphasis has been placed on disaster recovery. A formal plan was adopted late last year, and implementation has been underway throughout this year. There are two major parts to the plan. The first was the establishment of an off-site computer facility. A site in Ohio was chosen, and all application programs are being tested at that facility. The second is the transformation of all our paper records into a format that allows easy retrieval and updating. This project entails converting more than 2 million pieces of paper to microfische. Copies of the microfische will be stored in our building as well as in Springfield, Illinois.

PROSPECTS FOR THE FUTURE

Governor James Thompson used his amendatory veto to reduce the FY 88 appropriation for SURS to approximately 47 percent of estimated payout. This 13 percent reduction in the Retirement System appropriation compares to a 4 percent reduction for other state agencies. The FY 88 appropriation as a percentage of payout represents the lowest in the history of SURS.

A reduction in the appropriation to the Retirement System does not reduce the cost to the state. A liability is created for the Retirement System when an employer pays salary to an employee. When the employer's share of that liability is not met by an adequate appropriation, the state is in effect operating with borrowed funds. The funds are borrowed from future taxpayers and, more than likely, future employees. Future employees will be affected because the portion of the higher-education budget that must be allocated to pay benefits to people already retired will continue to increase as we continue to postpone payment of the state's cost for benefits being earned each year. As each year passes, it becomes increasingly essential that a sound funding policy be adopted for SURS.

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 for use 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
Deputy Director - Finance Division

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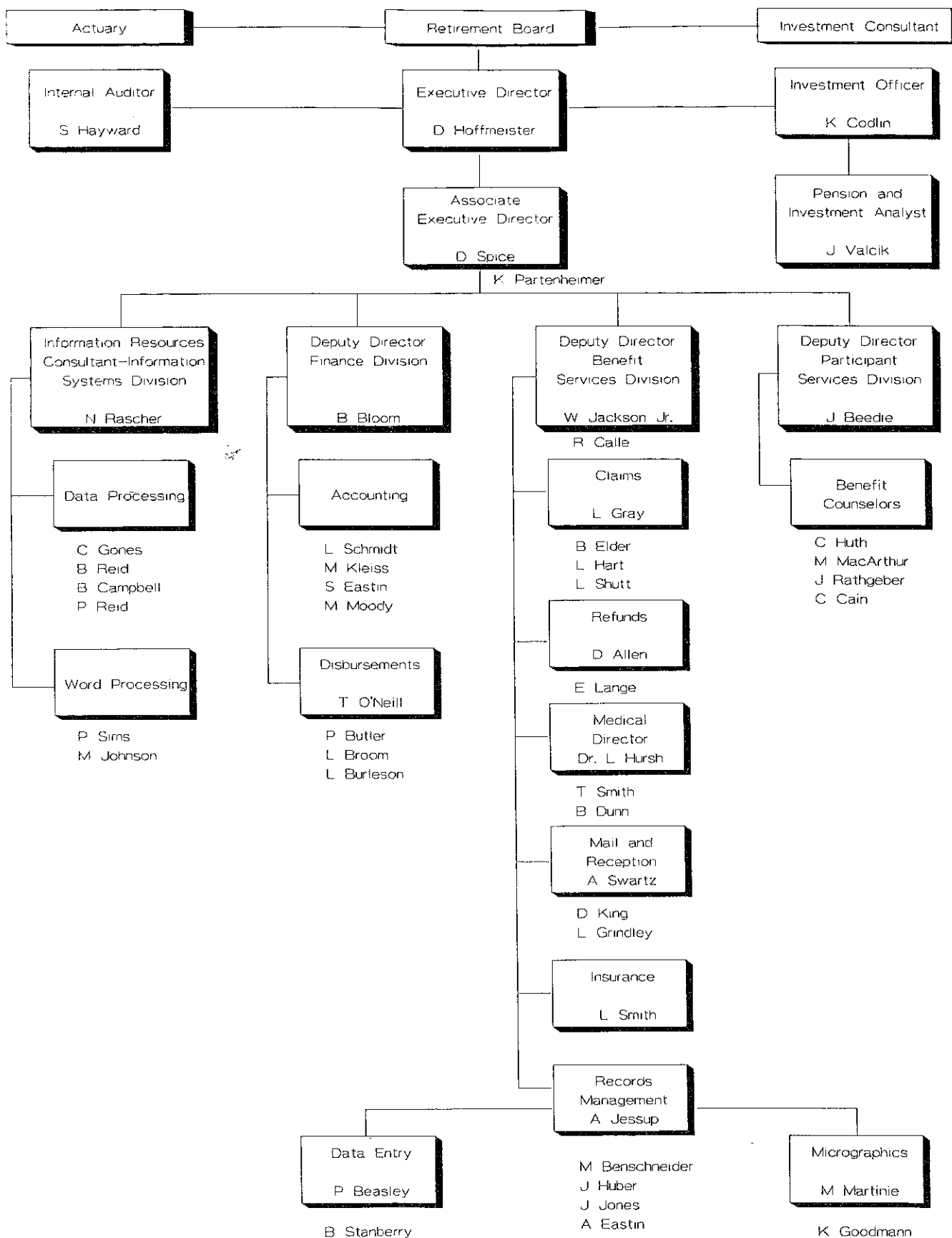
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TERRY A. O'NEILL
Disbursing Officer

ANNIE L. JESSUP
Records Manager

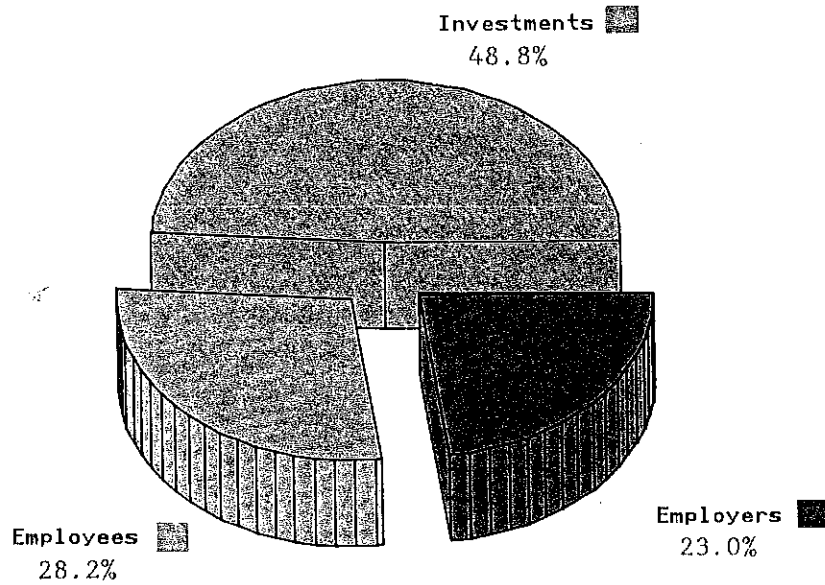
ANN F. SWARTZ
Administrative Services Manager

Organizational Chart

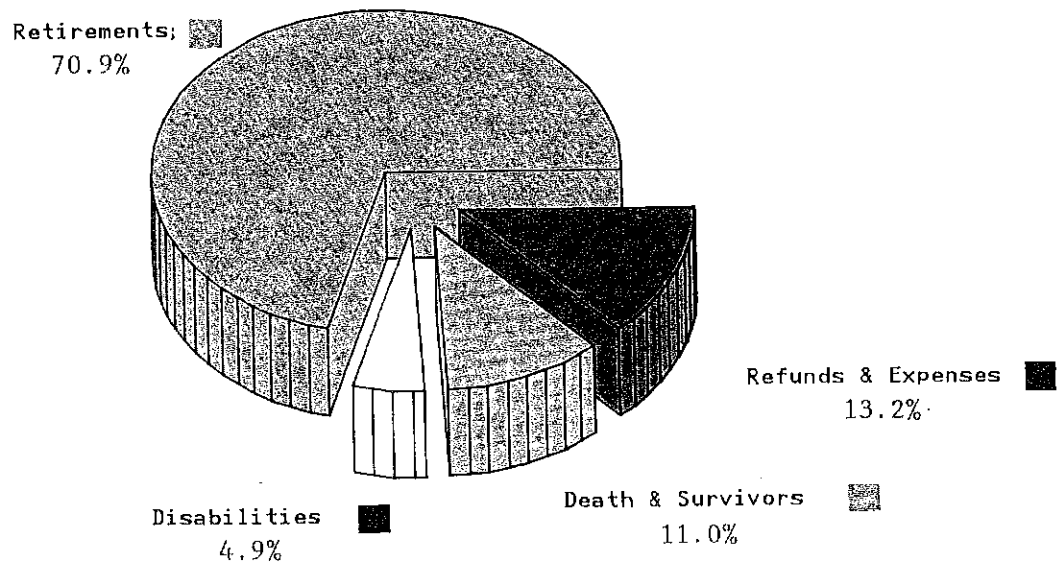


FINANCIAL SECTION

WHERE THE MONEY CAME FROM



WHERE THE MONEY WENT



Independent Auditor's Report

**PANNELL
KERR
FORSTER**

Certified Public Accountants

150 N. Michigan Avenue
Chicago, IL 60601
Telephone (312) 781-0002
Telefax 312-781-6899 or
312-845-9620

Honorable Robert G. Cronson
Auditor General
Springfield, Illinois

We have examined the balance sheet of the State Universities Retirement System of Illinois at June 30, 1987, and the related statements of revenues, expenses and changes in fund balance and changes in financial position for the ten months then ended. Our examination was 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 June 30, 1987, and the results of its operations and the changes in its financial position for the ten months then ended, in conformity with generally accepted accounting principles, which, except for the change, with which we concur, in the method of computing the pension benefit obligation as described in Note V to the financial statements, have been applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 33-34 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 examination 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.



October 9, 1987

Financial Statement 1987

BALANCE SHEET
June 30, 1987

ASSETS

Contributions Receivable	
Participants	\$ 1,360,231
Federal, trust funds, and other	813,082
State of Illinois	<u>31,142</u>
	2,204,455
Prepaid Expenses	100,000
Accrued Investment Income Receivable	12,734,586
Investments (notes II B and III) (market value: \$2,912,938,471)	2,458,006,433
Property and Equipment (notes II D and IV)	<u>911,112</u>
	<u>\$2,473,956,586</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts payable	\$ 1,481,154
Benefits payable	1,535,399
Refunds payable	292,022
Deferred income (note II C)	<u>157,516</u>
Total Liabilities	3,466,091
Fund Balance (Reserved) (note II E)	
Participant contributions	1,236,969,565
Benefits from employee and employer contributions	2,998,022,586
Less unfunded accrued actuarial liability	<u>1,764,501,656</u>
Total Fund Balance	2,470,490,495
TOTAL LIABILITIES AND FUND BALANCE	<u>\$2,473,956,586</u>

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

Financial Statement 1987

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE For the Ten Months Ended June 30, 1987

REVENUES

Contributions	
Participants	\$ 95,779,518
Federal, trust funds, and other	9,943,913
State of Illinois	
Employer units	63,447,296
Pension fund	4,255,227
Reciprocity	<u>266,711</u>
	173,692,665
Investment Income	
Interest	72,961,748
Dividends	43,590,619
Other	<u>223,891</u>
	116,776,258
Less investment expense	<u>5,731,220</u>
	111,045,038
Net Gain on Sale of Investments	<u>54,387,183</u>
Total Revenues	<u>339,124,886</u>

EXPENSES

Benefits	
Retirement	89,587,148
Disability	6,205,065
Survivors	8,658,397
Death	5,206,273
Reversionary	201,690
Beneficiary	<u>68,699</u>
	109,927,272
Refunds	14,776,020
Administrative Expense	<u>1,905,884</u>
Total Expenses	<u>126,609,176</u>
Excess Revenues over Expenses	212,515,710
Fund Balance	
Beginning of year	<u>2,257,974,785</u>
End of year	<u>\$2,470,490,495</u>

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

Financial Statement 1987

STATEMENT OF CHANGES IN FINANCIAL POSITION For the Ten Months Ended June 30, 1987

Sources of Working Capital

Operations:

Excess of revenues over expenses	\$212,515,710
Add back item not requiring working capital:	
Depreciation	79,722
Loss on Disposition of Property	<u>201</u>
Total Sources of Working Capital	212,595,633

Use of Working Capital

Purchases of capital equipment	<u>212,196</u>
--------------------------------	----------------

Net Increase in Working Capital \$212,383,437

Elements of Net Increase in Working Capital

Contributions receivable	\$ (5,185,492)
Prepaid expense	88,000
Accrued investment income receivable	(2,998,864)
Investments	208,718,526
Accounts payable	6,574,896
Benefits payable	(1,274,216)
Refunds payable	1,076,096
Deferred income	<u>5,384,491</u>

Net Increase in Working Capital \$212,383,437

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

Notes to the Financial Statements 1987

I. DESCRIPTION OF PLAN

The State Universities Retirement System of Illinois (SURS) is the administrator of a multiple-employer public employee retirement system established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies, and for survivors, dependents, and other beneficiaries of such employees. SURS is considered part of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by Article 15, Chapter 108-1/2 of the "Illinois Revised 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."

At June 30, 1987, the number of participating employers was

Universities	12
Community Colleges	38
Allied Agencies	18
State of Illinois	<u>1</u>
	69

At June 30, 1987, SURS membership consisted of

Members currently receiving benefits	15,231
Current employees	
Active	52,765
Inactive	<u>5,072</u>
	73,068

The following is a summary of the provisions of the State Universities Retirement System in effect as of June 30, 1987, 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. Such 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

Notes to the Financial Statements 1987

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, and the employee portion of Early Retirement Option 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 or to his/her survivor as a death and/or survivor benefit.

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 as a police officer or fire fighter or at age 50 with 25 years of service. The annuity payable is based on the largest calculation of three formulas:

- a. The following percentages of "average earnings," which is the average of the highest earnings for any four consecutive academic years or, in some cases, the 48 months immediately preceding retirement, whichever is larger:

	<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 second 10 years of service	1.90%	2.50%
iii. For each of the third 10 years of service	2.10%	2.75%
iv. For each year of service over 30	2.30%	

Notes to the Financial Statements 1987

- 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. The following monthly amounts, based on average earnings, for each year of service at half-time or greater employment to a maximum of 30 years:

<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 -	7,499	12
7,500 -	8,499	13
8,500 -	9,499	14
9,500 and over		15

- 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.

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

Notes to the Financial Statements 1987

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

5. 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 when sick leave payments are exhausted, whichever is later.

Notes to the Financial Statements 1987

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 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. 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.

G. 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 50 percent of the member's accrued normal retirement benefit or the following amounts if greater:
 - i) 30 percent of average earnings to a spouse, child, or parent, up to \$400 monthly

Notes to the Financial Statements 1987

- ii) 60 percent of average earnings to two dependents, up to \$600 monthly
- iii) 80 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
- 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.

H. 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 may 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's financial statements have been prepared in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB). 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.

Notes to the Financial Statements 1987

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 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 June 30, 1987, are summarized below (in millions of dollars):

	<u>Cost</u>	<u>Percent of Cost</u>	<u>Market</u>	<u>Percent of Market</u>
Short-term investments	\$ 154.1	6.2	\$ 154.5	5.3
Fixed income	909.5	37.0	898.1	30.8
Equities	1,175.8	47.8	1,634.1	56.1
Real estate	<u>218.6</u>	<u>8.9</u>	<u>226.2</u>	<u>7.8</u>
	\$2,458.0	100.0	\$2,912.9	100.0

All SURS investments are insured or collateralized with securities held by its agent. The Government Accounting Standards Board concludes that risk in investments so held is minimized.

Notes to the Financial Statements 1987

IV. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 1987, are summarized below:

Land and land improvements	\$	82,799
Office building and improvements		612,386
Furniture & fixtures		<u>995,668</u>
		1,690,853
Less accumulated depreciation		<u>779,741</u>
Net property & equipment	\$	911,112

V. FUNDING POLICY

A. Funding Status and Progress

The "Pension Benefit Obligation" shown below is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. The amount is computed using a unit credit actuarial method required by GASB Statement #5. This measure is different from the entry age normal method used to determine contributions to SURS as presented in the Actuarial Section of this report. Had the entry age normal method been used as in prior years, the pension benefit obligation would have been \$326.1 million higher.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1987. Significant actuarial assumptions used include a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually; b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; and c) additional projected salary increases of 2.5 percent per year, attributable to seniority and merit.

The unfunded pension benefit obligation at June 30, 1987 was as follows (in millions of dollars):

Accumulated contributions of current employees	\$1,151.5
Accumulated contributions of inactive members	65.0
Payable to retirees and beneficiaries	1,289.0
Payable to terminated employees not yet receiving benefits-Employer-financed portion	88.1
Payable to vested current employees-Employer-financed portion	1,566.8
Payable to nonvested current employees-Employer-financed portion	<u>74.5</u>
Total Pension Benefit Obligation	\$4,234.9
Net Assets Available for Benefits (market value \$2,925.4 million)	<u>2,470.5</u>
Unfunded Pension Benefit Obligation	\$1,764.4

Notes to the Financial Statements 1987

During the year there were no changes in the actuarial assumptions. Changes in benefit provisions resulted in an increase of \$39.8 million in the pension benefit obligation.

B. Contributions Required and Contributions Made

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 June 30, 1987, versus the actual funding from employers is presented below (in millions of dollars):

<u>Basis</u>	<u>Required FY 87 Funding</u>	<u>Receipts from Employers</u>
Employer Normal Cost & Interest	\$204.8	\$77.9

C. Actuarial Statements

The results of the basic calculations prepared for the System by its actuary are presented in Section III of this report, along with 10-year historical trend information designed to provide information about SURS progress in accumulating sufficient assets to pay benefits when due.

Notes to the Financial Statements 1987

D. Analysis of Funding Progress

Fiscal Year	Net Assets	Pension Benefit Obligation	Percent Funded	Unfunded PBO	Covered Payroll	Unfunded PBO as a Percent of Covered Payroll
1985	\$1,752.3	\$3,549.1	49.4	\$1,796.8	\$1,141.9	157.3
*1986	2,258.0	3,886.0	58.1	1,628.0	1,275.9	127.6
1987	2,470.5	4,234.9	58.3	1,764.4	1,370.2	128.8

*Actuarial assumptions were changed in fiscal year 1986. Salary increment assumption was changed from 8 percent to 7 percent.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of SURS funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger a retirement system is. Trends in the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of SURS progress in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system is.

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 56 days of vacation and one-half of sick time earned since January 1, 1984. At June 30, 1987, the System had a liability of \$146,959 for compensated absences. The annual increase in liability is reflected in the financial statements as an increase in salary expense.

VII. CHANGE IN FISCAL YEAR

On January 23, 1987, Governor James Thompson signed legislation that changed the SURS fiscal year from August 31 to June 30. The financial statements and accompanying supporting schedules were prepared in accordance with this legislation. Fiscal year 1987 is therefore presented as only 10 months in length.

Supporting Schedule 1987

SCHEDULE OF ADMINISTRATIVE EXPENSES For the Ten Months Ended June 30, 1987

	<u>Budget</u>	<u>Expense</u>
Personal services	\$1,077,970	\$ 993,783
Supplies	27,500	31,598
Contractual services	826,958	800,781
Depreciation	79,722	79,722
	<u>\$2,012,150</u>	<u>\$1,905,884</u>

SUMMARY SCHEDULE OF FEES AND COMMISSIONS For the Ten Months Ended June 30, 1987

<u>Master Trustee and Custodian</u>	
The Northern Trust Company	<u>\$ 268,157</u>
	<u>\$ 268,157</u>
<u>Investment Management & Consulting</u>	
Aetna Realty Investors, Inc.	\$ 607,529
American National Bank	46,806
Batterymarch Financial Management	403,676
Ennis, Knupp and Associates	140,913
Fayez Sarofim and Company	726,981
Pacific Investment Management Company	758,444
Rosenberg Real Estate Equity Fund	1,757,049
Wells Fargo Investment Advisors	<u>1,021,665</u>
	<u>\$5,463,063</u>
Total Investment Expense	<u>\$5,731,220</u>
<u>Actuary</u>	
The Wyatt Company	<u>\$ 39,665</u>
<u>Investment Brokerage Firm</u>	
Bear, Stearns & Company	\$ 52,499
First Boston Corporation	5,871
Goldman, Sachs & Company	19,462
Hutton, E. F. & Company, Inc.	5,480
Jefferies & Company	6,718
Jones Associates	8,424
Merrill Lynch, Pierce, Fenner & Smith	27,544
Morgan Stanley & Company	10,320
Oppenheimer & Company	7,173
Paine Webber Inc.	9,864
All others	<u>36,644</u>
	<u>\$ 189,999</u>

Supporting Schedule 1987

INVESTMENT PORTFOLIO ACTIVITY AT BOOK VALUE For the Ten Months Ended June 30, 1987

	September 1 Book Value	Acquisitions	Dispositions	June 30 Book Value
Fixed income	\$ 790.5	\$ 605.9	(\$ 486.9)	\$ 909.5
Equity securities	1,130.5	254.4	(209.1)	1,175.8
Real estate	163.5	55.1		218.6
Short-term cash equivalents	164.8	1,579.5	(1,590.1)	154.1
TOTALS	<u>\$2,249.3</u>	<u>\$2,494.9</u>	<u>(\$2,286.1)</u>	<u>\$2,458.0</u>

INVESTMENT PORTFOLIO AT MARKET VALUE For the Ten Months Ended June 30, 1987

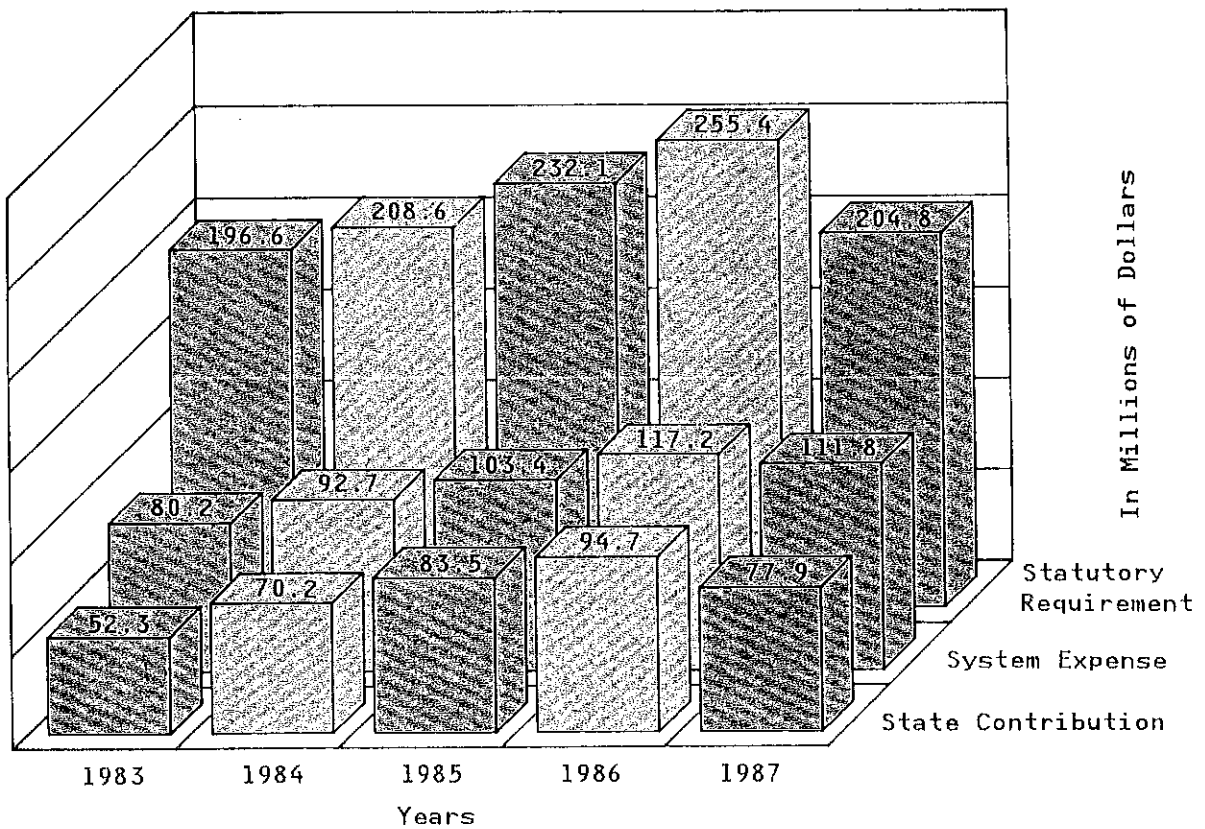
	September 1 Market Value	June 30 Market Value
Fixed income	\$ 822.5	\$ 898.1
Equity securities	1,369.3	1,634.1
Real estate	168.6	226.2
Short-term cash equivalents	164.9	154.5
TOTALS	<u>\$2,525.3</u>	<u>\$2,912.9</u>

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS For the Ten Months Ended June 30, 1987

Receipts		
Member contributions		\$ 99.9
Employer contributions		73.5
Interest, dividends, and miscellaneous investment income		119.8
Investments redeemed	\$2,286.1	
Plus trades not settled	.7	2,286.8
Gain on disposition of investments		54.4
		<u>\$2,634.4</u>
Disbursements		
Benefit payments		\$ 108.6
Administrative expenses		1.8
Investment expenses		5.8
Refunds		15.9
Equipment purchased		0.2
Investments purchased	\$2,494.9	
Plus trades not settled	7.2	2,502.1
		<u>\$2,634.4</u>

ACTUARIAL SECTION

ANALYSIS OF FUNDING



Certification Letter

THE *Wyatt* COMPANY

ACTUARIES AND CONSULTANTS

EMPLOYEE BENEFITS
COMPENSATION PLANNING
EMPLOYEE MORALE TRAINING
ADMINISTRATIVE SYSTEMS
RISK MANAGEMENT
INTERNATIONAL SERVICES

SUITE 6000 BEARS TOWER
233 SOUTH WACKER DRIVE
CHICAGO, ILLINOIS 60606

312 878-2000
TELEFAX 312-878-2033

1987-1988 ANNUAL REPORT
AND FINANCIAL STATEMENTS

October 28, 1987

Board of Trustees and Executive Director
State Universities Retirement System
50 Gerty Drive
P.O. Box 2710 - Station A
Champaign, Illinois 61820

ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the assets and liabilities of the State Universities Retirement System of Illinois as of June 30, 1987. This valuation was made using the same actuarial assumptions as used for the prior year. Certain benefits were increased by legislation (HB2630) since the last valuation as follows: Ad Hoc benefit increases were granted to survivors and retirees who began receiving benefits on or before January 1, 1977 and three tiers were added to the minimum annuity benefit. For certain employees the computation of Final Rate of Earnings may now be based on their average earnings during the 48 consecutive calendar months ending with the last day of employment. A lump sum payment for up to 56 days of accrued vacation may also be included in this computation. In addition, the fiscal year end was changed from August 31 to June 30 effective with the 1987 valuation.

Pursuant to the law establishing the System, the actuary shall investigate the experience under the System at least once every five years and recommend as a result of such investigation the actuarial assumptions to be adopted. The Wyatt Company, as the actuary, completed such a review for the five years ending August 31, 1986 and the assumptions used for the current valuation were based on that study. We believe that, in the aggregate, the current 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.

In our opinion, the following schedule of valuation results fairly presents the financial condition of the State Universities Retirement System of Illinois as of June 30, 1987. 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. Batnes
Robert L. Batnes
Fellow Of The Society Of Actuaries

Actuarial Report 1987

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 for funding requirements 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 15.7 percent of payroll. Eight percent of this normal cost is paid by the members' contributions. The remaining 7.7 percent is the employer's portion of the normal cost.

Actuarial Report 1987

Actuarial funding of System benefits would require annual state appropriations funding the employer's normal cost (7.7 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 (in millions of dollars)

1. Actuarial Liability (Reserves)*	
a. For members receiving annuities	
i. Retirement annuities	\$1,143.2
ii. Survivor annuities	88.5
iii. Disability	<u>57.3</u>
iv. Total	\$1,289.0
b. For inactive members	153.1
c. For active members	<u>3,118.9</u>
d. Total	<u>\$4,561.0</u>
2. Assets (Amortized Cost Value)	\$2,470.5
3. Unfunded Accrued Actuarial Liability	\$2,090.5

CONTRIBUTION RATES for Fiscal Year 1988

	Percent of <u>Payroll*</u>	Annual Contributions* (in millions of dollars)
1. State Normal Cost	7.676	\$105.2
2. Normal Cost Plus 8% Interest on the Unfunded Accrued Actuarial Liability	19.455	266.6
3. Normal Cost Plus an Amount to Amortize the Unfunded Accrued Actuarial Liability over a 40-Year Period from July 1, 1987	20.024	274.4

*Based on covered pay of \$1,370.2 million dollars.

Actuarial Report 1987

CHANGES IN THE UNFUNDED ACCRUED ACTUARIAL LIABILITY (in millions of dollars)

1. Unfunded Accrued Actuarial Liability at August 31, 1986	\$1,924.2
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	121.0
3. Actuarial (Gains) Losses	
a. (Gain) from investment return greater than 8%	(14.3)
b. Loss from salary increases greater than 8%	6.6
c. Loss from other sources	6.6
4. Increase Due to Plan Amendments	46.4
5. Unfunded Accrued Actuarial Liability at June 30, 1987	\$2,090.5

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 July 1, 1987.

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 1987

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.

Analysis of Funding 1987

ANALYSIS OF FINANCIAL EXPERIENCE

Gains and losses in Accrued Actuarial Liability for Fiscal Year ending June 30, 1987 (in millions of dollars).

<u>Activity</u>	<u>Gain (Loss)</u>
1. Actuarial Gains and Losses	
(a) Age & Service Retirements	(\$ 7.4)
(b) Incidence of Disability	1.5
(c) In-Service Mortality	(5.4)
(d) Retiree Mortality	(4.8)
(e) Disabled Mortality	(.6)
(f) Termination of Employment	3.5
(g) Salary Increases	(6.6)
(h) Investment Income	14.3
(i) Other	<u>6.6</u>
(j) Total Actuarial Gain (Loss)	\$ 1.1
2. Contribution Income	(\$121.0)
3. Non-Recurring Items (Plan amendments, change in actuarial assumptions, etc.)	(\$ 46.4)
4. Total Financial Gain (Loss)	(\$166.3)

SCHEDULE OF INCREASES AND DECREASES OF BENEFIT RECIPIENTS

<u>Fiscal Year (A)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Ending Balance</u>
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
1987	14,388	1,440	597	15,231

(1) Fiscal years 1982 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

Analysis of Funding 1987

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)

Fiscal Year (A)	Funding Requirements		System Expense (3)(C)	State Cont. (4)(D)	Covered Percentages		
	Statutory Requirement (1)	With 40-Year Amortization (2)(B)			Statutory Requirement (5)(E)	With 40-Year Amortization (6)(F)	System Expense (7)(G)
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	122.2
1980	126.5	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
1987	204.8	210.8	111.8	77.9	38.0	37.0	69.7

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

(B) The appropriation amount required by Sections 15-155 and 15-156 of the "Illinois Revised Statutes."

(C) Benefit and administrative expense.

(D) Contributions from The State of Illinois employer units and Pension Fund, and employer contributions from trust and federal funds.

(E) State contributions divided by Statutory Requirement (Column 4 ÷ Column 1).

(F) State contributions divided by the 40-year amortization requirement (Column 4 ÷ Column 2).

(G) State contributions divided by System expense (Column 4 ÷ Column 3).

Analysis of Funding 1987

10-Year Summary

FUNDING RATIOS (in millions of dollars)

Fiscal Year (A)	Net	Net	Actuarial Funding Requirement	Funding Ratio	
	Assets at Cost	Assets at Market		Cost	Market
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
1987	2,470.5	2,925.4	4,561.0	54.2	64.1

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

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

Fiscal Year (A)	Member	Members Currently Receiving Benefits (2)(B)	Active and Inactive Members' Employer Portion (3)(B)	Net Assets	Percentage of Benefits Covered By Net Assets for		
	Accumulated Contributions (1)(B)				(1)	(2)	(3)
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(C)	1,124.4	100	78.7	0
1982	741.0	712.7	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	1,594.2	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(D)	2,258.0	100	98.0	0
1987	1,237.0	1,289.0	2,035.0	2,470.5	100	95.7	0

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months long.

(B) 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.

(C) 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%.

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

Analysis of Funding 1987

10-Year Summary

PAYROLL PERCENTAGES (in millions of dollars)

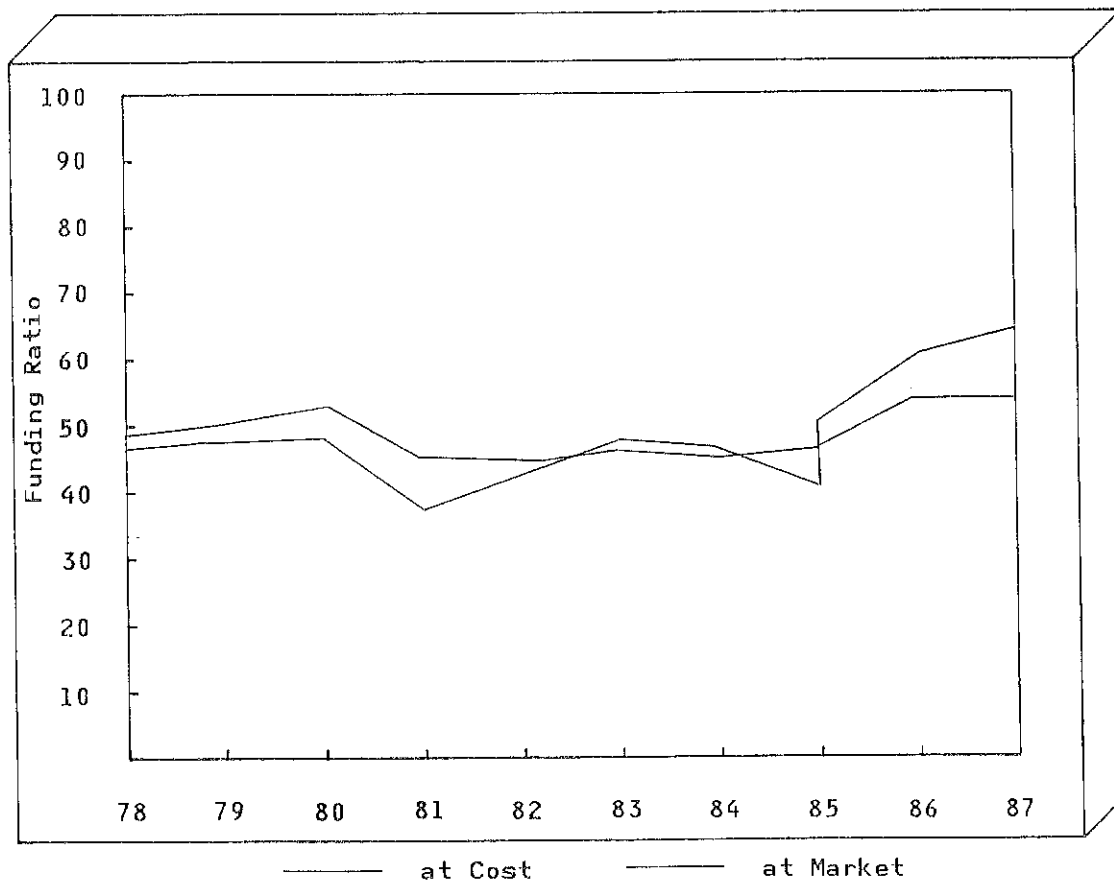
Fiscal Year (A)	Member Payroll	Unfunded Accrued Benefit Cost		Employers' Cost				State Contributions		
		Amount	% of Payroll	Employers' Normal Cost	% of Payroll	Interest		% of Payroll	State Cont.	
						on Unfunded	Total (D)			
1978	\$ 593.2	\$ 792.4	133.6	\$67.8	11.4	\$ 36.5	\$104.3	17.6	50.7	8.6
1979	644.2	849.7	131.9	77.1	12.0	39.6	116.7	18.1	61.6	9.6
1980	710.1	879.1	123.8	84.1	11.8	42.5	126.6	17.8	72.7	10.2
1981	784.7	1,389.1	177.0	89.9	11.5	44.0	133.9	17.1	74.4	9.5
1982	872.4	1,561.4	179.0	69.1	7.9(B)	107.3	176.4	20.2	55.0	6.3
1983	908.3	1,640.0	180.6	76.0	8.4	120.6	196.6	21.6	52.3	5.8
1984	1,016.2	1,849.7	182.0	82.0	8.1	126.6	208.6	20.5	70.2	6.9
1985	1,141.9	2,009.6	176.0	89.3	7.8	142.8	232.1	20.3	83.5	7.3
1986	1,275.9	1,924.2	150.8	100.2	7.9(C)	155.2	255.4	20.0	94.7	7.4
1987	1,370.2	2,090.5	152.6	97.2	7.1	148.6	245.7	17.9	77.9	5.7

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

(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%.

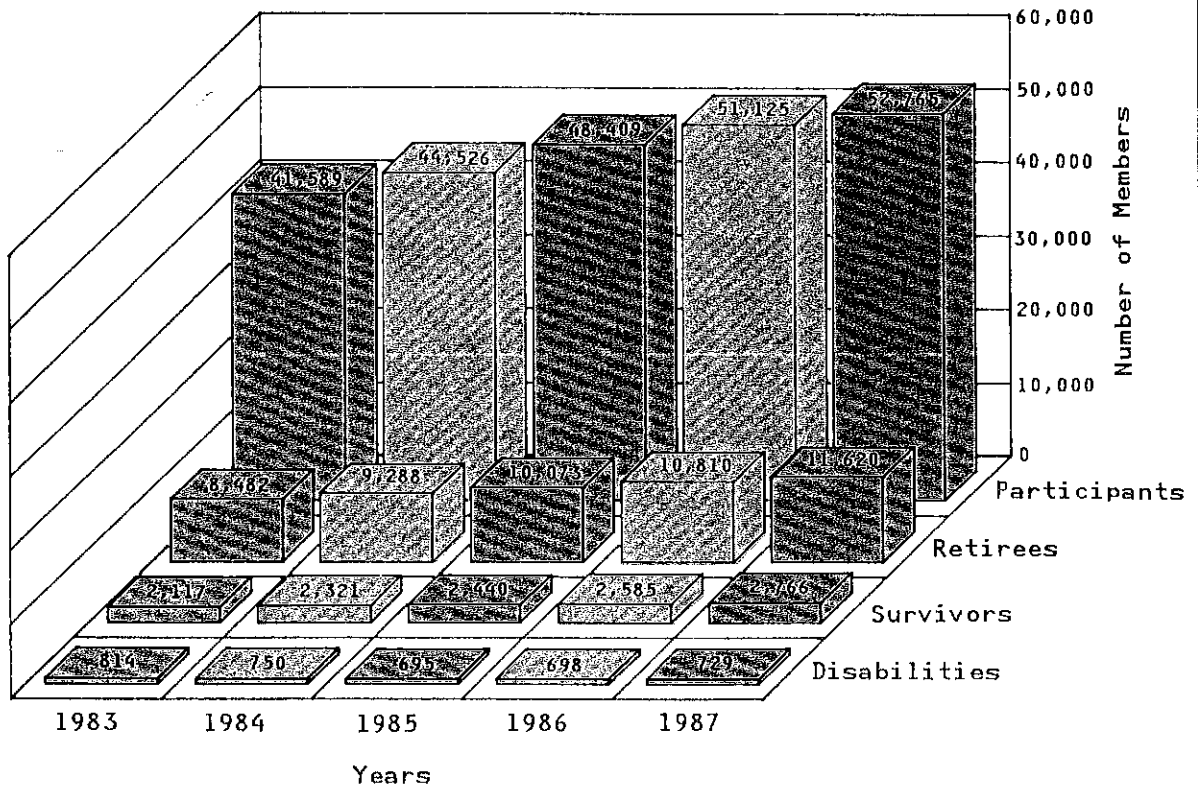
(C) Actuarial assumptions were changed in fiscal year 1986. Salary increment assumption was changed from 8% to 7%.

(D) Normal cost plus interest.

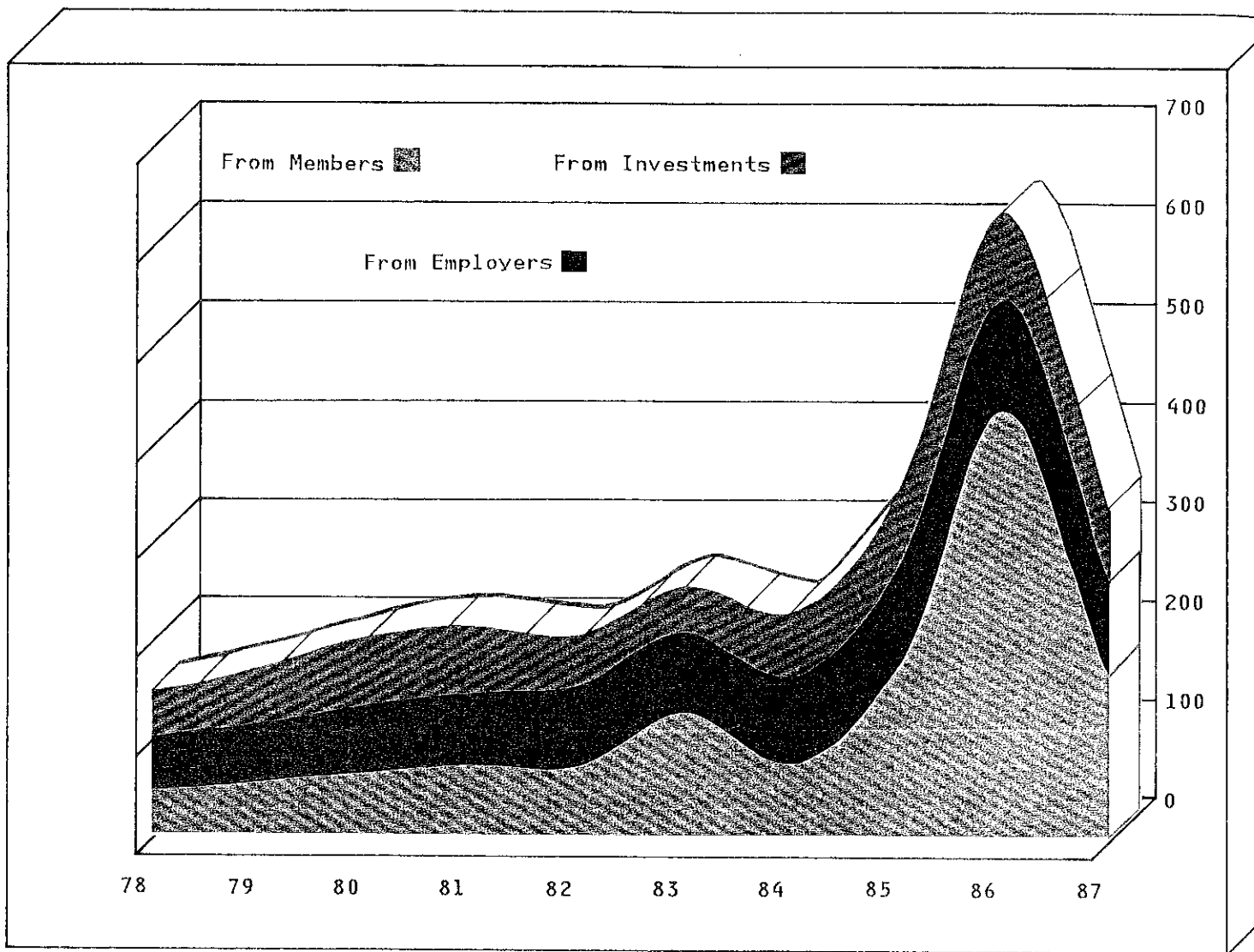


STATISTICAL SECTION

MEMBER DATA



Revenue by Source 10-Year Summary

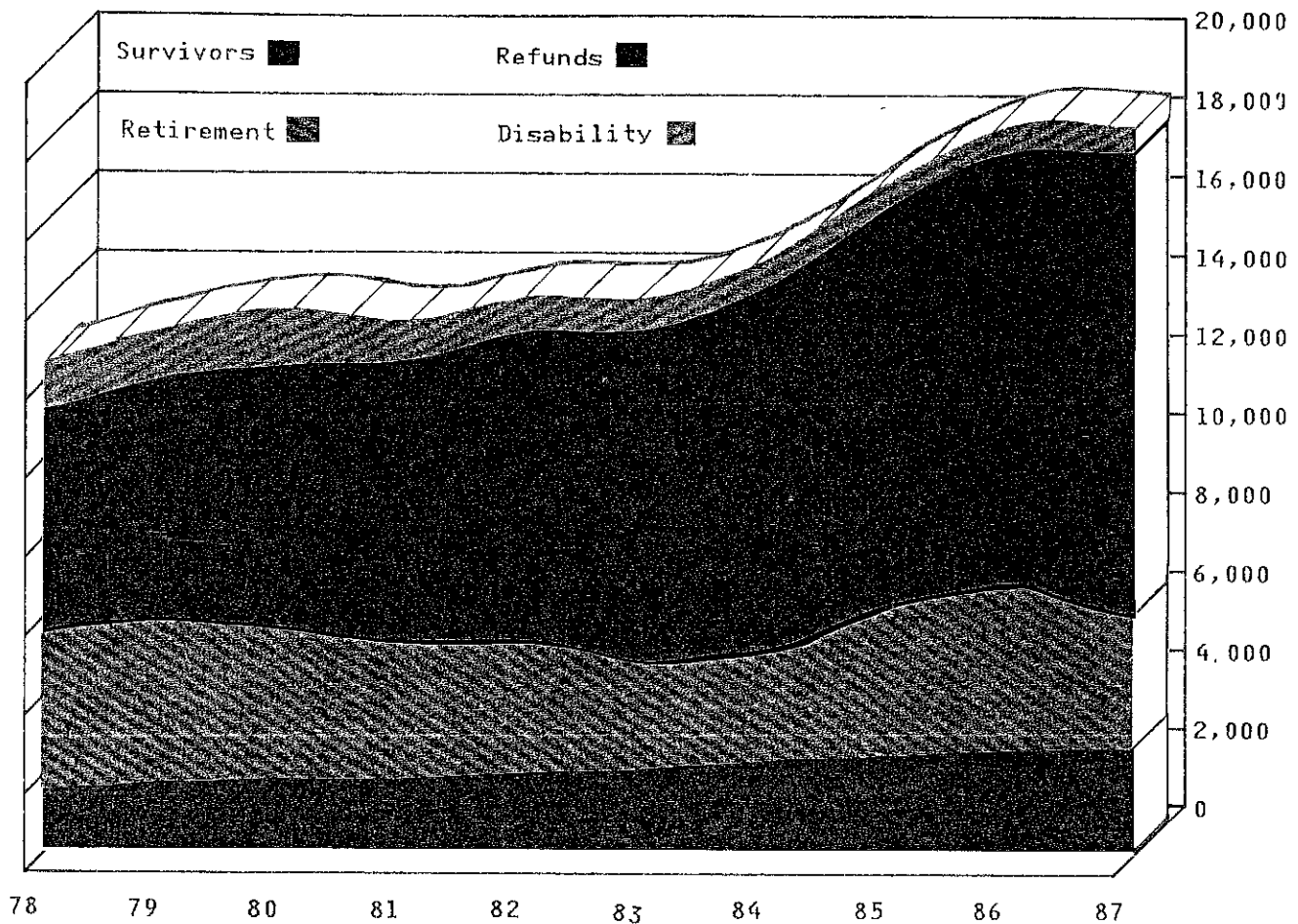


(in millions of dollars)

Fiscal Year (A)	Contributions by Members	Investment Income	Contributions by Employers	Total
1978	\$ 52.6	\$ 42.7	\$50.7	\$146.0
1979	56.5	53.4	61.6	171.5
1980	64.0	63.2	72.7	199.9
1981	68.8	71.4	74.4	214.6
1982	76.7	70.4	55.0	202.1
1983	78.4	125.6	52.3	256.3
1984	85.5	72.1	70.2	227.8
1985	97.8	166.4	83.5	347.7
1986	110.8	434.6	94.7	640.1
1987	95.8	165.4	77.9	339.1

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

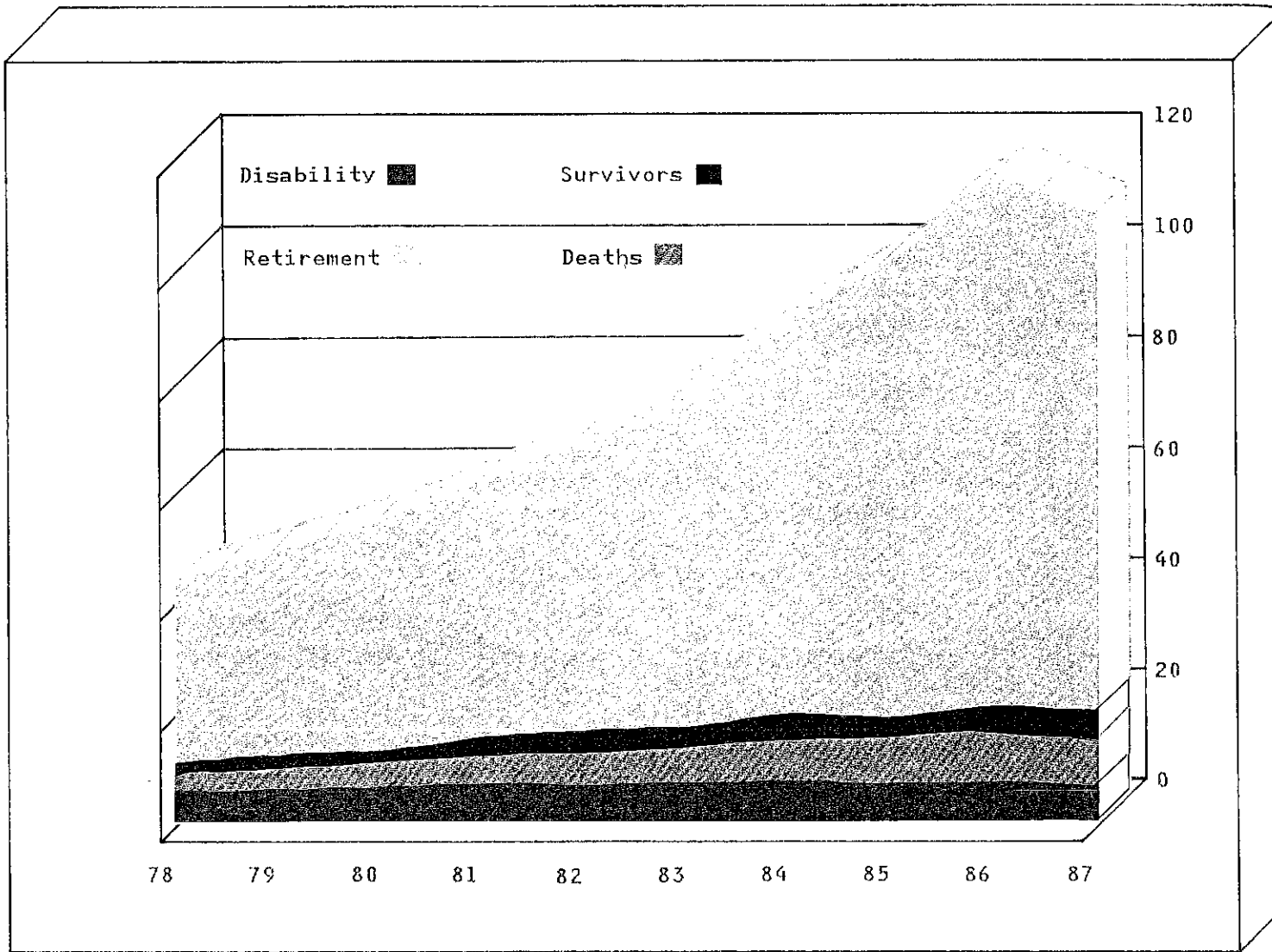
Benefit Recipients 10-Year Summary



Fiscal Year (A)	Survivors	Disability	Contribution		Disability Retirement Allowance
			Refunds	Retirement	
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
1987	2,766	729	3,421	11,620	116

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

Benefit Expenses 10-Year Summary



(in millions of dollars)

<u>Fiscal Year (A)</u>	<u>Survivors' Annuities</u>	<u>Disability Benefits</u>	<u>Disability Retirement Allowance</u>	<u>Retirement Annuities</u>	<u>Lump Sum Death Benefits</u>	<u>Total</u>
1978	\$3.5	\$5.3		\$33.0	\$1.8	\$ 43.6
1979	4.0	5.7		37.2	2.3	49.2
1980	4.5	6.2		42.0	2.0	54.7
1981	5.1	6.7		46.8	3.2	61.8
1982	6.0	6.7	\$0.1	53.4	3.8	70.0
1983	6.8	6.8	0.1	61.7	3.3	78.7
1984	7.8	7.1	0.2	71.4	4.7	91.2
1985	8.7	6.9	0.3	82.5	3.4	101.8
1986	9.4	6.8	0.4	94.3	4.6	115.5
1987	8.7	6.2	0.4	89.4	5.2	109.9

(A) Fiscal years 1978 through 1987 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

Benefit Summary

SCHEDULE OF NEW BENEFIT PAYMENTS September 1, 1986 through June 30, 1987

Age	Retirement		Disability		Survivors	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 9					9	\$243
10-14					4	257
15-19					4	276
20-24						
25-29			2	\$637		
30-34			7	693	1	300
35-39			7	774	3	241
40-44			14	858	1	180
45-49			16	833		
50-54	17	\$1,745	14	883	11	565
55-59	183	1,067	30	940	16	602
60-64	342	1,054	30	945	32	564
65-69	202	1,051	12	1,145	26	481
70-74	110	1,172			28	424
Over 74					35	498
TOTALS	854	\$1,085	132	\$ 906	170	\$478

SCHEDULE OF AVERAGE BENEFIT PAYMENTS For Retirees As Of June 30, 1987

	Years of Credited Service						Total
	0-10	11-15	16-20	21-25	26-30	30+	
<u>Fiscal Year 1985</u>							
Number of Retirees	1,940	2,074	1,858	1,163	992	1,955	9,982
Average Monthly Annuity	\$ 219	\$ 335	\$ 544	\$ 751	\$ 1,031	\$ 1,523	\$ 701
Final Average Salary	\$13,484	\$15,550	\$18,364	\$19,360	\$21,127	\$23,674	\$18,256
Average Credited Service							19.53
<u>Fiscal Year 1986</u>							
Number of Retirees	2,070	2,172	2,088	1,342	1,077	2,060	10,809
Average Monthly Annuity	\$ 223	\$ 351	\$ 582	\$ 807	\$ 1,101	\$ 1,606	\$ 741
Final Average Salary	\$13,771	\$16,194	\$19,430	\$20,858	\$22,378	\$24,763	\$19,181
Average Credited Service							19.54
<u>Fiscal Year 1987</u>							
Number of Retirees	2,161	2,372	2,242	1,484	1,183	2,178	11,620
Average Monthly Annuity	\$ 229	\$ 370	\$ 616	\$ 860	\$ 1,169	\$ 1,710	\$ 790
Final Average Salary	\$13,984	\$16,723	\$20,177	\$22,006	\$23,502	\$25,920	\$19,996
Average Credited Service							19.63

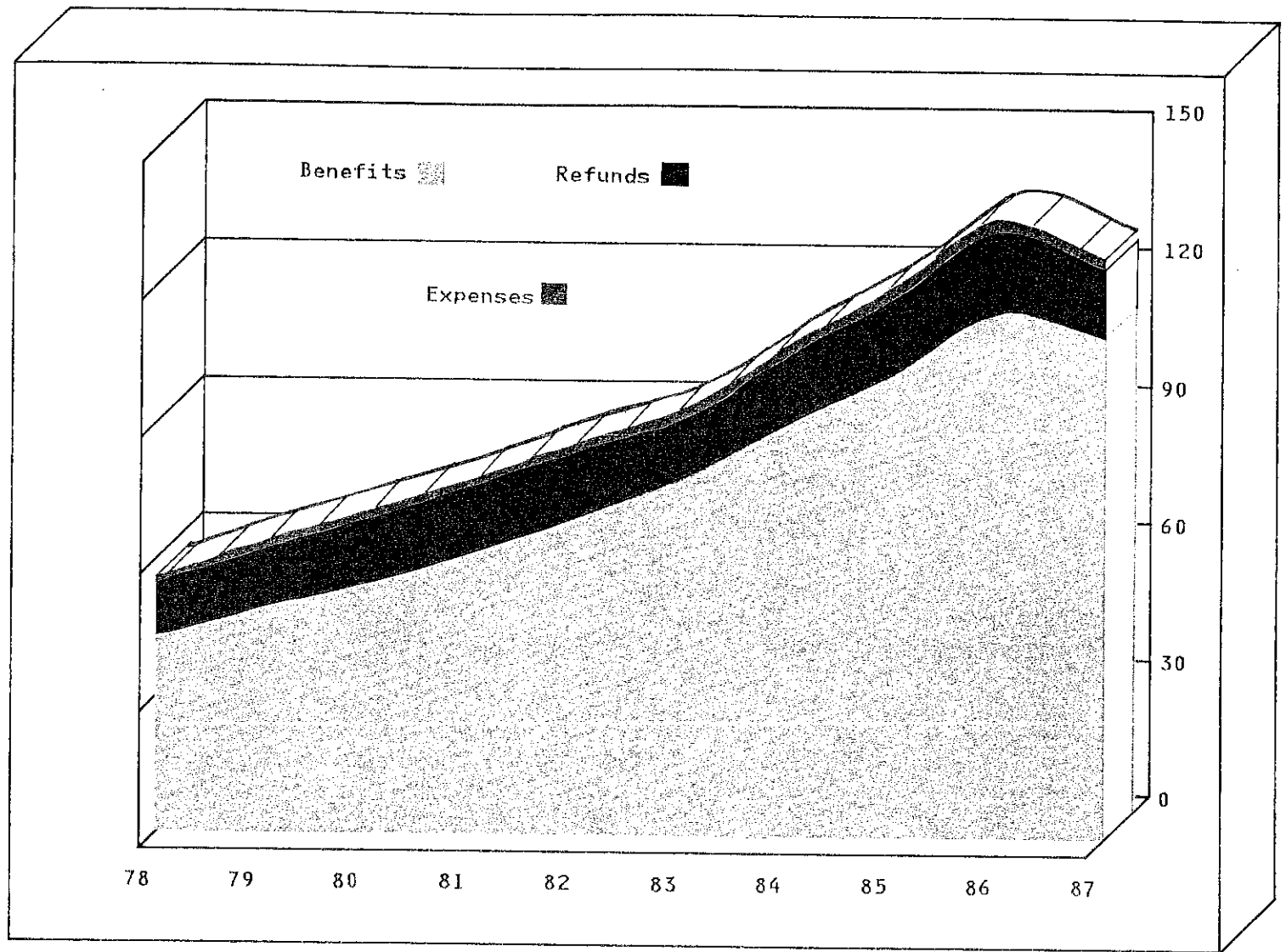
Benefit Summary

SCHEDULE OF BENEFIT RECIPIENTS BY TYPE OF BENEFIT For the Ten Months Ended June 30, 1987

Monthly Amount of Benefit	Total Recipients	General Formula	Money Purchase	Police or Fire	Other (A)	Long-Term Disability	Temporary Disability	Survivors
\$0-200	2,753	564	274		1,221	5	1	688
201-400	4,136	1,332	408		904	79	23	1,569
401-600	2,089	1,120	284	2	202	24	202	255
601-800	1,479	932	163	1	25	5	220	133
801-1000	993	737	91	4	2	3	93	63
1001-1200	803	623	80	10	2		64	24
1201-1400	655	529	45	10	1		49	21
1401-1600	537	438	39	8	2		44	6
1601-1800	386	337	25	8			14	2
1801-2000	315	282	16	6	1		9	1
2001-2200	287	264	11	6			5	1
2201-2400	174	162	6	1			3	2
2401-2600	132	123	5	2			1	1
2601-2800	89	88	1					
2801-3000	60	59	1					
3000-3200	51	51						
3200-3400	30	28	2					
3400-3600	29	27	2					
3600-3800	20	20						
3800-4000	6	6						
Over 4000	<u>27</u>	<u>27</u>						
	<u>15,231</u>	<u>7,749</u>	<u>1,453</u>	<u>58</u>	<u>2,360</u>	<u>116</u>	<u>729</u>	<u>2,766</u>

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

Total Expenses 10-Year Summary



(in millions of dollars)

Fiscal Year (A)	Benefits	Contribution		Administrative Expenses	Total
		Refunds			
1978	\$ 42.6	\$11.0		\$1.0	\$ 54.6
1979	49.2	12.0		1.2	62.4
1980	54.6	13.4		1.2	69.2
1981	61.8	14.1		0.9	76.8
1982	70.0	14.0		1.2	85.2
1983	78.7	12.2		1.5	92.4
1984	91.1	14.5		1.6	107.2
1985	101.7	16.4		1.7	119.8
1986	115.4	17.2		1.9	134.5
1987	109.9	14.8		1.9	126.6

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

Assets and Liabilities

10-Year Summary

ASSETS (in millions of dollars)

<u>Fiscal Year (A)</u>	<u>Receivables</u>	<u>Investments</u>	<u>Property and Equipment</u>	<u>Total</u>
1978	\$14.9	\$ 736.2	\$0.1	\$ 751.2
1979	16.5	845.9	0.1	862.5
1980	25.9	964.8	0.4	991.1
1981	25.2	1,104.5	0.4	1,130.1
1982	32.2	1,212.1	0.5	1,244.8
1983	23.4	1,389.0	0.6	1,413.0
1984	21.3	1,516.0	0.7	1,538.0
1985	34.5	1,725.9	0.6	1,761.0
1986	23.1	2,249.3	0.8	2,273.2
1987	15.1	2,458.0	0.9	2,474.0

LIABILITIES (in millions of dollars)

<u>Fiscal Year (A)</u>	<u>Accounts Payable</u>	<u>Deferred Income</u>	<u>Fund Balances</u>	<u>Total</u>
1978	\$1.3	\$1.8	\$ 748.0	\$ 751.1
1979	1.0	4.4	857.0	862.4
1980	1.2	2.2	987.3	990.7
1981	2.1	3.2	1,124.4	1,129.7
1982	3.0	1.8	1,239.5	1,244.3
1983	2.5	6.2	1,403.8	1,412.5
1984	6.3	6.7	1,524.4	1,537.4
1985	3.0	5.8	1,752.3	1,761.1
1986	9.7	5.5	2,258.0	2,273.2
1987	3.3	0.2	2,470.5	2,474.0

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

Active Participant Statistics

10-Year Summary

<u>Fiscal Year</u> <u>(A)</u>	<u>Males</u>	<u>Females</u>	<u>Total</u> <u>Actives</u>	<u>Percent</u> <u>Change</u>	<u>Average</u> <u>Salary</u>	<u>Average</u> <u>Age</u>	<u>Average</u> <u>Service</u> <u>Credit</u>
1978	21,593	16,554	38,147	4.6	\$15,550	43.1	8.3
1979	21,590	16,963	38,553	1.1	16,709	43.3	8.4
1980	21,812	17,739	39,551	2.5	17,954	43.1	8.7
1981	22,134	18,490	40,624	2.6	19,316	42.7	8.8
1982	22,111	19,208	41,319	1.7	21,114	43.5	9.0
1983	22,004	19,585	41,589	0.6	21,840	43.3	9.7
1984	22,919	21,607	44,526	6.6	22,823	43.1	8.9
1985	24,327	24,082	48,409	8.0	23,589	42.6	8.5
1986	25,259	25,866	51,125	5.3	24,956	42.4	8.4
1987	26,009	26,756	52,765	3.1	25,968	42.7	7.8

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length.

ANALYSIS OF CHANGE IN MEMBERSHIP

<u>Fiscal Year</u>	<u>Beginning</u> <u>Members</u>	<u>Additions</u>	<u>Retired</u>	<u>Died</u>	<u>Other</u> <u>Terminations</u>	<u>Ending</u> <u>Members</u>
1984	41,589	7,700	464	130	4,169	44,526
1985	44,526	8,861	459	85	4,434	48,409
1986	48,409	8,191	513	95	4,867	51,125
1987	51,125	5,228	346	77	3,165	52,765

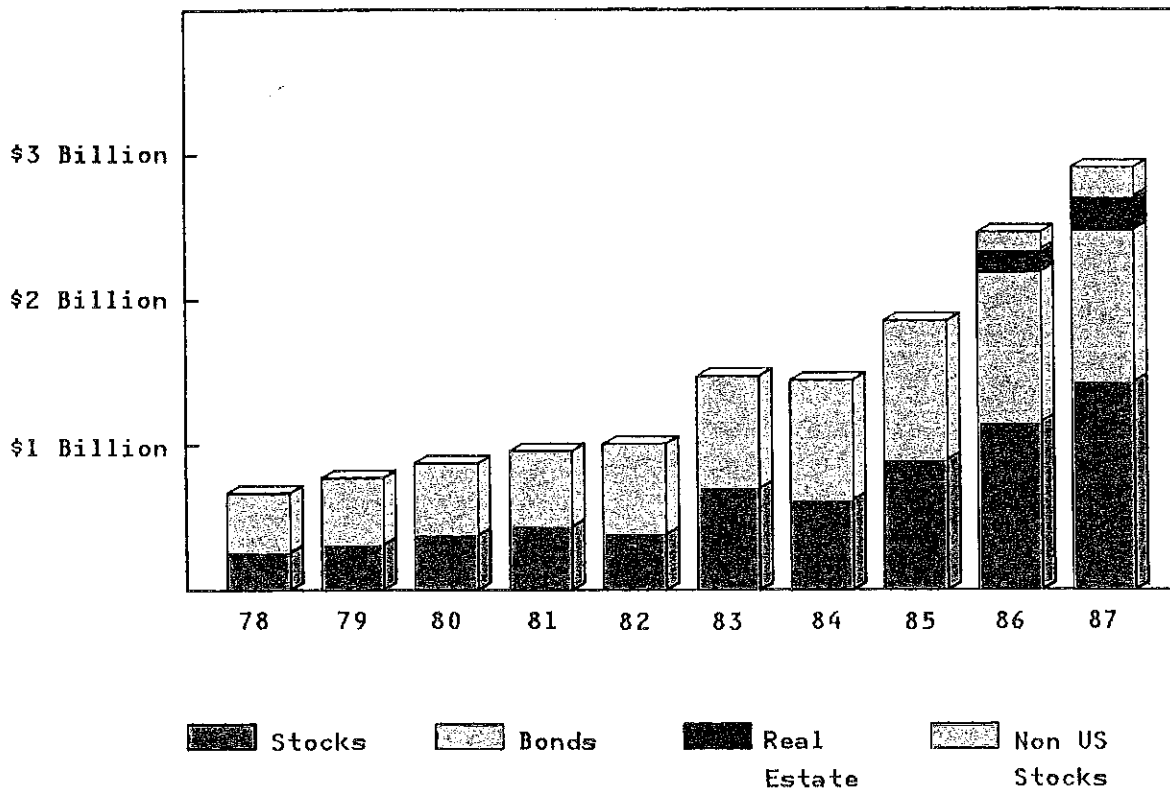
Participating Employers 1987

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 Mathematics and Science Academy	State Natural History Survey
Illinois State University	State Universities Civil Service System
Illinois Valley Community College	State Universities Retirement System
Joliet Junior College	State Water Survey
Kankakee Community College	Triton College
Kaskaskia College	The University of Illinois at Chicago
Kishwaukee College	University of Illinois - Alumni Association
Lake Land College	University of Illinois - Athletic Association
Lewis & Clark Community College	University of Illinois - Foundation
Lincoln Land Community College	University of Illinois - Urbana
John A. Logan College	Maubonsee Community College
Moraine Valley Community College	Western Illinois University
Morton College	John Wood Community College
McHenry College	

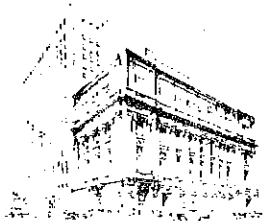
INVESTMENT SECTION

INVESTMENTS AT MARKET

Years Ended June 30



Certification Letter



THE NORTHERN TRUST COMPANY

FIFTY SOUTH LA SALLE STREET

CHICAGO, ILLINOIS 60675

TELEPHONE 312 630-6000

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, 1986 through June 30, 1987. Also, a statement of assets together with their fair market value was provided, showing the properties held as of June 30, 1987. 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. Received 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 1987

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 June 30, 1987, the System had retained the services of six 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.

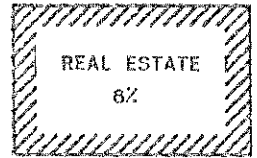
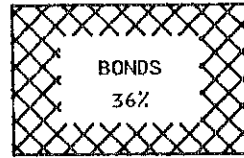
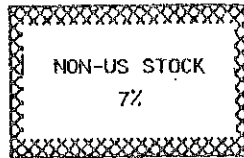
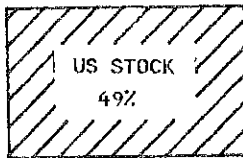
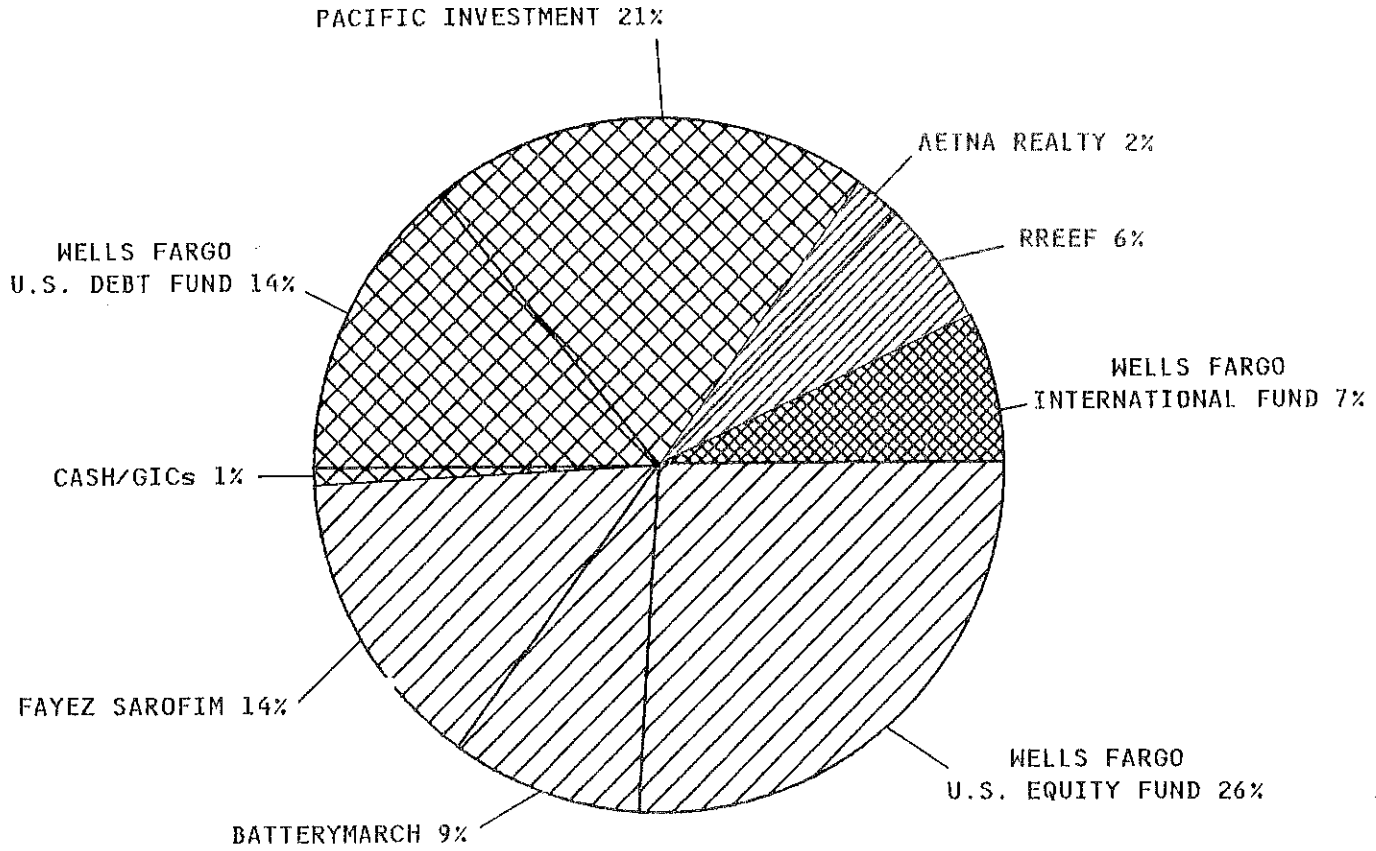
INVESTMENT SUMMARY

No major reallocations among active managers took place in fiscal year 1987. In keeping with SURS asset allocation policy of holding stocks at 55 percent of the total fund, \$172 million was shifted from stocks to bonds as the stock market rose. This rebalancing helped to limit SURS exposure to stock market volatility and maintained diversification according to established policy.

Following a one-year trial, portfolio insurance was removed. Although the program performed as expected, portfolio insurance was deemed unnecessary given SURS broad diversification and long-term orientation.

Investment Summary 1987

ASSET ALLOCATION AS OF JUNE 30, 1987



Investment Summary 1987

ASSET ALLOCATION AS OF JUNE 30, 1987 (\$000)

	<u>Stocks</u>	<u>Bonds</u>	<u>Real Estate</u>	<u>Total</u>	<u>Percent</u>
<u>Stock Managers - Passive</u>					
Wells Fargo Investment Advisors U.S. Equity Fund	\$ 754,034			\$ 754,034	26
Wells Fargo Investment Advisors International Fund	200,632			200,632	7
Subtotal	<u>954,666</u>			<u>954,666</u>	<u>33</u>
<u>Stock Managers - Active</u>					
Batterymarch Financial Management	252,245	\$ 2,450		254,695	9
Fayez Sarofim & Co.	<u>427,242</u>	<u>2,213</u>		<u>429,455</u>	<u>14</u>
Subtotal	<u>679,487</u>	<u>4,663</u>		<u>684,150</u>	<u>23</u>
<u>Bond Managers - Passive</u>					
Wells Fargo Investment Advisors U.S. Debt Fund		<u>397,132</u>		<u>397,132</u>	<u>14</u>
Subtotal		<u>397,132</u>		<u>397,132</u>	<u>14</u>
<u>Bond Managers - Active</u>					
Pacific Investment Management Co.		622,466		622,466	21
The Northern Trust Co. (short-term cash acct. & GICs)		<u>28,282</u>		<u>28,282</u>	<u>1</u>
Subtotal		<u>650,748</u>		<u>650,748</u>	<u>22</u>
<u>Real Estate Managers</u>					
Rosenberg Real Estate Equity Funds			\$173,067	173,067	6
Aetna Realty Investors Real Estate Separate Account			<u>53,175</u>	<u>53,175</u>	<u>2</u>
Subtotal			<u>226,242</u>	<u>226,242</u>	<u>8</u>
TOTAL	<u>\$1,634,153</u>	<u>\$1,052,543</u>	<u>\$226,242</u>	<u>\$2,912,938</u>	<u>100</u>
PERCENT	56	36	8	100	

Investment Summary 1987

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 87 Market Environment

The year ended June 30, 1987 was again favorable for stocks. In particular, larger company stocks performed exceptionally well, as indicated by a return of 25.0 percent for the year on the S&P 500. Smaller company stocks tended to have lesser, though still positive, returns, resulting in a lower return of 20.2 percent for the Wilshire 5000 Index, which includes roughly 30 percent in smaller company stocks and 70 percent in S&P companies.

Foreign stock returns were spectacular in the first year of SURS' program. While part of the result is attributable to currency changes, foreign stocks, especially in Japan, experienced dramatic increases.

Bond returns did not share in the success of stocks, providing a total return for the year of 5.6 percent as measured by the Salomon Brothers Broad Investment Grade Index. Rising interest rates caused longer maturity bonds to decline in value, partially offsetting the interest yield earned.

Real estate results declined somewhat due to problems of overcapacity in certain areas. Nevertheless, occupancy rates remain high and returns continue to be ahead of inflation.

Inflation continued to be low, although a disturbing upward trend commenced early in 1987. Nevertheless, total fund return of 16.3 percent exceeded inflation (3.3 percent) by 13 percent for the year.

Summary of Investment Results

Investment results for the fiscal year ended June 30, 1987, exceeded established goals for all categories except real estate. Total fund results exceeded the policy portfolio goal by 1.2 percent for FY 87. U.S. stocks exceeded their goal by 2.9 percent. Foreign stocks exceeded their goal by 1.0 percent and bonds by 0.8 percent. Real estate underperformed by 4.3 percent, due in part to the early stage of SURS investments.

Investment Summary 1987

Longer-term results still have not equalled the goal for the total fund. While progress is being made, there remains a sizeable gap to close. The difficulty of the goal we have selected can be seen in comparisons, both long- and short-term, with other public funds represented in CDA's Public Retirement Funds Index. The policy portfolio, which is our goal, outperforms most other benchmarks. The fact that SURS' longer-term results are less than the goal is in part a reflection of the difficulty of the goal. The following table summarizes investment results for the past five years.

PERFORMANCE SUMMARY Annualized Percent Return for Periods Ending June 30

	1983	1984	1985	1986	1987	Annualized	
						3 Years	5 Years
Total Fund							
SURS	41.9	- 5.0	25.3	26.9	16.3	22.7	20.0
Policy Portfolio	44.1	- 1.5	29.3	27.3	15.1	23.8	21.9
CDA Public Retirement Funds Index	43.5	- 4.6	26.6	26.1	13.7	21.9	20.0
CPI	2.6	4.2	3.7	1.9	3.3	3.0	3.1
U.S. Common Stock Returns							
SURS	57.0	-14.3	25.9	35.1	26.5	29.1	23.7
S&P 500 Stock Index	61.0	- 4.6	31.2	35.8	25.0	30.6	27.9
Wilshire 5000	66.5	- 8.7	31.2	35.3	20.2	28.7	26.5
Foreign Stock Returns							
SURS					60.2		
EAFE Index					59.2		
Bond Returns							
SURS	38.0	2.2	28.5	25.1	6.4	19.6	19.3
Shearson/Lehman G/C Bond Index	29.1	1.8	28.7	20.6	4.7	17.6	16.4
Salomon Broad Investment Grade Index	29.7	1.8	29.9	19.9	5.6	18.0	16.8
Real Estate Returns							
SURS				8.4	5.3		
Ennis, Knupp & Assoc-Real Estate Index				9.6	7.6		
Asset Allocation							
U.S. Stock	47	43	48	47	49	48	47
Non U.S. Stock				5	7	4	2
Bonds	53	57	52	42	36	43	48
Real Estate				6	8	5	3

Investment Portfolio 1987

EQUITIES

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
CONSUMER DURABLES			
AUTOMOTIVE - ACCESSORIES			
SEALED POWER CORP.....	47,400	\$ 1,555,148	\$ 1,706,400
STEWART WARNER CORP.....	21,400	637,078	633,975
AUTOMOTIVE - CARS			
FORD MOTOR CO.....	319,750	10,380,524	31,655,250
GENERAL MOTORS CORP.....	64,100	4,483,975	5,296,263
FURNISHINGS - APPLIANCES			
MOHASCO CORP.....	11,600	315,622	403,100
SSMC INC.....	4,075	56,124	82,519
SINGER CO.....	30,600	1,413,551	1,155,150
RUBBER			
GOODYEAR TIRE & RUBBER CO.....	17,986	485,982	1,218,552
CONSUMER NON-DURABLES & SERVICES			
CHEMICALS - PHOTOGRAPHIC			
EASTMAN KODAK CO.....	100,000	5,866,362	8,612,500
COMMUNICATIONS			
AMER T.V. & COM CORP.....	50,000	925,000	1,250,000
TIME INC.....	70,000	2,561,424	6,842,500
COSMETICS			
GILLETTE CO.....	90,000	2,005,980	3,431,250
HELENE CURTIS IND INC.....	18,500	619,218	608,188
TAMBRANDS INC.....	80,000	2,019,500	4,740,000
DRUGS			
AMERICAN HOME PRODUCTS CORP.....	90,000	4,021,538	7,661,250
BERGEN BRUNSWIG CORP CL A.....	32,300	689,476	775,200
ELI LILLY & CO.....	100,000	3,804,295	9,387,500
MERCK & CO INC.....	55,000	2,325,459	9,377,500
PFIZER INC.....	160,000	5,501,174	11,520,000
SHAKLEE CORP.....	63,000	1,441,590	1,456,875
SMITHKLINE BECKMAN CORP.....	150,000	7,092,267	8,962,500

Investment Portfolio 1987

EQUITIES

<u>COMMON STOCKS</u>	Shares	Book Value	Market Value
CONSUMER NON-DURABLES AND SERVICES (continued)			
DRUGS (continued)			
STERLING DRUG INC.....	75,000	\$ 2,213,882	\$ 4,303,125
WARNER-LAMBERT CO.....	60,000	2,968,963	4,335,000
FOOD - CHAIN STORES			
AMERICAN STORES CO.....	75,000	4,184,725	5,493,750
GEN NUTRITION INC.....	122,200	658,047	717,925
SUPÉR VALU STORES INC.....	70,000	965,236	1,968,750
FOOD - GENERAL			
ANHEUSER-BUSCH CO.....	300,000	3,258,680	10,200,000
COCA COLA CO.....	315,000	5,912,865	14,017,500
COCA COLA ENTERPRISES INC.....	75,000	1,237,500	1,443,750
CULLUM COMPANIES INC.....	20,000	492,900	627,500
FEDERAL CO.....	2,000	32,770	89,500
H J HEINZ CO.....	125,000	3,770,328	6,062,500
KELLOGG CO.....	160,000	5,158,472	10,460,000
KRAFT INC NEW.....	150,000	4,040,435	9,018,750
PEPSICO INC.....	135,000	2,316,506	4,860,000
SAVANNAH FOODS & IND INC.....	2,500	76,613	67,500
UNIVERSAL FOODS CORP.....	35,550	853,674	959,850
HEALTH CARE			
HOSPITAL CORP AMER.....	52,800	2,226,706	2,448,600
R P SCHERER CORP.....	43,200	685,983	783,000
THOMPSON MED CO INC.....	42,900	714,071	804,375
LEISURE TIME & RECREATION			
AMFAC INC.....	55,000	1,286,759	1,808,125
MERCHANDISING - CONSUMER SPECIALTY			
BROWN GROUP INC.....	21,400	561,964	914,850
EDISON BROS STORES INC.....	23,100	855,850	848,925
NIKE INC.....	87,600	1,609,650	1,478,250
MERCHANDISING - GENERAL			
BIG BEAR INC.....	5,290	111,642	134,895
DAYTON-HUDSON CORP.....	75,000	3,391,575	3,796,875
F W WOOLWORTH CO.....	25,200	470,315	1,341,900

Investment Portfolio 1987

EQUITIES

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
CONSUMER NON-DURABLES AND SERVICES (continued)			
MERCHANDISING - GENERAL (continued)			
FEDERATED DEPT STORES.....	196,600	\$ 3,890,248	\$ 10,272,350
INTERCO INC.....	23,850	846,993	1,082,194
J C PENNEY CO INC.....	120,000	3,085,640	6,300,000
K MART CORP.....	314,400	6,142,361	13,283,400
MAY DEPT STORES CO.....	185,000	5,020,765	8,787,500
SERVICE INDUSTRIES			
STONE & WEBSTER INC.....	17,300	865,346	1,182,888
TEXTILES			
NORTEK INC.....	44,100	667,895	611,888
RUSS TOGS INC.....	10,300	229,484	334,750
V F CORP.....	39,000	777,936	1,589,250
TOBACCO			
PHILIP MORRIS CO INC.....	280,000	7,919,334	25,095,000
RJR NABISCO INC.....	110,000	4,907,045	5,830,000
MISC CONSUMER NON-DURABLES AND SERVICES			
PROCTER & GAMBLE CO.....	85,000	4,523,849	8,330,000
TECHNOLOGY			
ELECTRONICS - INSTRUMENTATION			
COMMODORE INTL LTD.....	59,700	613,359	567,150
CTS CORP.....	16,200	662,419	411,075
CUBIC CORP.....	38,600	733,916	781,650
HARRIS CORP.....	65,000	2,063,380	2,331,875
JOHN FLUKE MFG CO INC.....	33,285	836,722	965,265
N. AMER PHILIPS CORP.....	20,600	870,762	880,650
SCI SYS INC.....	13,800	166,225	269,100
TELEDYNE INC.....	22,000	3,360,298	7,496,500
UNITRODE CORP.....	40,200	623,904	557,775
OFFICE EQUIPMENT			
AST RESEARCH INC.....	48,900	666,263	696,825
ANDREW CORP.....	41,900	680,875	638,975
CTL DATA CORP.....	19,900	685,736	569,638

Investment Portfolio 1987

EQUITIES

COMMON STOCKS

TECHNOLOGY (continued)

OFFICE EQUIPMENT (continued)

	Shares	Book Value	Market Value
DIEBOLD INC.....	41,700	\$ 1,548,773	\$ 2,283,075
ISC SYSTEMS CORP.....	65,600	700,612	582,200
INTL BUSINESS MACH CORP.....	75,200	9,379,344	12,220,000
MINN MNG & MFG CO.....	90,000	4,096,484	6,378,750
NCR CORP.....	42,300	1,186,301	3,151,350

MISCELLANEOUS TECHNOLOGY

FISHER SCIENTIFIC GROUP.....	1,490	10,195	24,585
MATRIX CORP.....	63,600	788,322	659,850
SEQUA CORP CL A.....	8,500	294,250	615,188
SYS INTERGRATORS.....	53,300	479,800	473,038

ENERGY

COAL

PITTSTON CO.....	137,100	1,878,455	2,073,638
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OIL SERVICES

BAKER HUGHES INC.....	108,360	2,218,728	2,465,190
DRESSER IND INC.....	47,000	929,422	1,468,750
GEARHART IND INC.....	42,800	685,741	133,750
HALLIBURTON CO.....	65,000	2,735,674	2,470,000
HELMERICH & PAYNE INC.....	24,800	490,296	778,100
SCHLUMBERGER LTD.....	61,735	3,507,913	2,824,376
SOUTHDOWN INC.....	7,875	241,088	300,234
TIDEWATER INC.....	22,000	612,835	203,500
ZAPATA CORP.....	6,000	150,764	27,750

PETROLEUM - DOMESTIC

ATLANTIC RICHFIELD CO.....	22,500	817,851	2,143,125
CHEVRON CORP.....	249,000	11,639,231	15,438,000
DIAMOND SHAMROCK R & M INC.....	37,989	752,910	622,070
KERR-MC GEE CORP.....	49,500	1,783,592	1,819,125
LOUISIANA LAND & EXPL CO.....	11,600	351,070	443,700
MURPHY OIL CORP.....	53,500	1,682,728	1,959,438
NL INDS INC ADR.....	62,000	660,613	937,750
NL IND INC.....	62,000	185,377	519,250
NORTON CO.....	34,100	1,289,718	1,577,125
OCCIDENTAL PETRO CORP.....	69,100	2,013,920	2,599,888
OCEAN DRILLING & EXPL CO.....	19,800	528,996	529,650

Investment Portfolio 1987

EQUITIES

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
ENERGY (continued)			
PETROLEUM - DOMESTIC (continued)			
PENNZOIL CO.....	130,000	\$ 4,340,048	\$ 9,782,500
POGO PROD CO.....	13,700	330,345	101,038
QUAKER STATE CORP.....	52,500	1,392,300	1,161,563
READING & BATES CORP.....	96,100	890,847	468,488
SABINE CORP.....	61,700	849,609	1,095,175
UNOCAL CORP.....	73,746	2,177,583	2,922,185
PETROLEUM - INTERNATIONAL			
AMOCO CORP.....	92,900	2,689,657	8,128,750
EXXON CORP.....	61,800	4,273,161	5,762,850
MOBIL CORP.....	232,600	3,289,555	11,833,525
ROYAL DUTCH PETROLEUM.....	70,000	3,591,889	9,240,000
TEXACO INC.....	63,000	2,159,451	2,551,500
MISCELLANEOUS ENERGY			
CMS ENERGY CORP.....	39,300	792,569	727,050
ENRON CORP.....	56,200	2,055,574	2,606,275
MAXUS ENERGY CORP.....	151,956	1,965,039	2,070,401
PETROLITE CORP.....	18,500	593,510	666,000
BASIC INDUSTRIES			
ALUMINUM			
ALUM CO AMER.....	101,900	3,463,026	5,438,913
BUILDING - GENERAL			
BUTLER MFG CO.....	1,800	49,950	61,200
CERTAIN-TEED CORP.....	27,100	971,352	1,141,588
DALLAS CORP.....	45,000	871,875	624,375
JIM WALTER CORP.....	41,000	1,115,856	2,126,875
JUSTIN IND INC.....	15,150	220,938	210,206
LOUISIANA-PACIFIC CORP.....	36,353	1,009,456	1,131,487
CHEMICALS - GENERAL			
DU PONT.....	118,200	6,125,489	14,184,000
NCH CORP.....	3,800	116,926	129,200
OLIN CORP.....	5,000	248,600	263,750
PENNWALT CORP.....	25,600	1,635,155	1,606,400
REICHHOLD CHEM INC.....	37,200	1,504,021	2,259,900

Investment Portfolio 1987

EQUITIES

<u>COMMON STOCKS</u>	Shares	Book Value	Market Value
BASIC INDUSTRIES (continued)			
CONTAINERS			
BEMIS CO INC.....	2,700	\$ 89,829	\$ 99,225
CROWN CORK & SEAL CO INC.....	37,900	1,728,071	4,434,300
MOTOR CARRIERS			
CONS FREIGHTWAYS INC.....	35,250	755,395	1,286,625
NON-FERROUS METALS			
AMAX INC.....	34,000	936,893	701,250
BATTLE MTN GOLD.....	49,400	375,716	1,475,825
CSC IND INC.....	8,600	45,943	25,800
ENGELHARD CORP.....	59,100	1,616,688	1,521,825
HOMESTAKE MNG CO.....	19,900	697,495	711,425
INTERLAKE CORP.....	28,800	1,143,201	1,198,800
STANADYNE INC.....	36,000	688,190	1,791,000
WYMAN-GORDON CO.....	74,700	1,340,132	1,325,925
PAPER			
CHAMPION INTL CORP.....	99,900	2,302,191	3,633,863
DENNISON MFG CO.....	48,400	1,547,868	1,645,600
MOSINEE PAPER CORP.....	24,000	411,158	312,000
REXHAM CORP.....	20,300	378,291	796,775
TEMPLE INLAND INC.....	39,050	867,002	2,382,050
WILLAMETTE IND INC.....	38,000	932,662	1,871,500
PRINTING AND PUBLISHING			
MC GRAW-HILL INC.....	90,000	2,755,279	6,176,250
TIMES MIRROR CO.....	70,000	3,648,425	6,457,500
RAILROADS			
BURLINGTON NORTHERN INC.....	29,000	1,999,805	2,399,750
CSX CORP.....	57,500	1,747,713	2,005,313
KANSAS CITY SO IND INC.....	12,000	649,620	705,000
NORFOLK SOUTHERN CORP.....	68,700	1,752,996	2,267,100
SANTA FE SO PACIFIC CORP.....	15,105	279,833	755,250
UNION PACIFIC CORP.....	55,000	2,974,141	4,310,625
STEEL			
ARMCO INC.....	149,700	2,918,669	1,497,000

Investment Portfolio 1987

EQUITIES

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
BASIC INDUSTRIES (continued)			
STEEL (continued)			
BETHLEHEM STEEL CORP.....	2,000	\$ 33,540	\$ 30,000
HARSCO CORP.....	87,000	1,629,215	2,914,500
LUKENS INC.....	26,700	508,101	981,225
NATIONAL INTERGROUP INC.....	37,900	858,246	615,875
USX CORP.....	125,000	4,019,505	3,937,500
AIRLINES (TRANSPORTATION)			
NWA INC.....	60,000	2,433,962	4,200,000
MISCELLANEOUS BASIC INDUSTRIES			
AMERICAN ECOLOGY CORP.....	5,000	25,503	112,500
CAMERON IRON WORKS.....	81,000	801,905	1,761,750
ITT CORP.....	60,000	2,573,684	3,525,000
J L CLARK MFG CO.....	5,000	148,850	149,375
CAPITAL GOODS INDUSTRIES			
AEROSPACE			
ALLIED SIGNAL INC.....	95,400	2,970,437	4,161,825
BOEING CO.....	64,950	1,893,591	3,044,531
GENERAL DYNAMICS CORP.....	37,200	2,685,524	2,483,100
GRUMMAN CORP.....	63,400	1,628,443	1,624,625
LOCKHEED CORP.....	100,000	5,079,925	5,162,500
ROCKWELL INTL CORP.....	180,000	4,203,381	4,815,000
ROHR IND INC.....	44,700	1,323,036	1,318,650
SUNDSTRAND CORP.....	24,500	1,421,217	1,399,563
UNITED INDL CORP.....	46,800	761,436	760,500
ELECTRONICS - GENERAL			
EDO CORP.....	5,200	88,004	79,950
GENERAL ELECTRIC CO.....	350,000	7,324,815	19,031,250
HONEYWELL INC.....	27,300	1,575,434	2,252,250
MACHINERY - AGRICULTURE			
CATERPILLAR INC.....	89,300	3,897,798	4,777,550
MACHINERY - GENERAL			
AMER HOIST & DERRICK CO.....	30,300	404,806	314,363

Investment Portfolio 1987

EQUITIES

<u>COMMON STOCKS</u>	Shares	Book Value	Market Value
CAPITAL GOODS INDUSTRIES (continued)			
MACHINERY - GENERAL (continued)			
CABOT CORP.....	28,700	\$ 883,099	\$ 1,011,675
CRANE CO.....	54,600	1,325,758	1,610,700
EATON CORP.....	30,800	1,232,616	2,849,000
EMHART CORP.....	26,500	924,718	1,185,875
FOSTER WHEELER CORP.....	3,000	36,435	60,750
GOULDS PUMPS INC.....	10,000	161,450	200,000
HENLEY GROUP INC.....	23,850	300,145	611,156
RESEARCH-COTTRELL INC.....	23,500	681,640	1,025,188
MISCELLANEOUS CAPITAL GOODS INDUSTRIES			
COMBUSTION ENGR INC.....	34,000	1,137,657	1,275,000
KOPPERS CO INC.....	48,800	879,489	1,970,300
VNR CORP.....	39,100	454,522	962,838
FINANCIAL SERVICES			
BANKS			
CHEMICAL N Y CORP.....	6,183	277,150	259,686
CHEMICAL N Y CORP CL B.....	68,700	519,209	455,138
NATL LN BK HOUSTON TEX.....	68,700	170,085	180,338
FINANCIAL			
AMERICAN EXPRESS CO.....	330,952	4,773,991	11,335,106
PRIMERICA CORP.....	120,000	3,498,910	4,995,000
INSURANCE - FIRE AND CASUALTY			
MARSH & MC LENNAN CO S INC.....	75,000	4,814,445	4,659,375
INSURANCE - LIFE			
AETNA LIFE & CASUALTY CO.....	65,000	2,568,423	3,867,500
AMERICAN GENERAL CORP.....	200,187	5,950,840	7,932,410
ARGONAUT GROUP INC.....	22,000	235,714	731,500
CIGNA CORP.....	60,003	2,535,370	3,802,690
LOEMS C.....	75,000	4,998,420	4,912,500
UTILITIES			
UTILITIES - ELECTRIC			
CAROLINA POWER & LIGHT CO.....	90,600	2,346,675	3,374,850

Investment Portfolio 1987

EQUITIES

	Shares	Book Value	Market Value
<u>COMMON STOCKS</u>			
UTILITIES (continued)			
UTILITIES - ELECTRIC (continued)			
CENTRAL HUDSON GAS & ELEC COR.....	11,500	\$ 192,855	\$ 304,750
COMMONWEALTH EDISON CO.....	46,500	1,395,930	1,610,063
F P L GROUP INC.....	39,000	1,162,980	1,228,500
HOUSTON INDUSTRIES INC.....	55,200	1,532,904	1,835,400
KANSAS CITY POWER & LIGHT.....	27,900	424,623	728,888
MIDDLE S. UTILS INC.....	165,800	2,236,441	1,761,625
N Y ST ELEC & GAS CORP.....	21,400	452,503	588,500
NIAGARA MOHAWK PWR CORP.....	69,600	904,705	1,157,100
PHILADELPHIA ELECTRIC CO.....	54,700	855,782	1,155,538
TEXAS UTILITIES CO.....	52,100	1,401,230	1,680,225
MICOR INC.....	6,900	239,438	257,025
UTILITIES - NATURAL GAS			
PEOPLES ENERGY CORP.....	63,500	1,219,858	1,293,813
SONAT INC.....	40,700	1,424,120	1,414,325
TEXAS EASTERN CORP.....	69,500	2,002,828	2,536,750
UTILITIES - TELEPHONE			
AMERICAN TEL & TEL CO.....	163,700	4,181,487	4,522,213
AMER INFORMATION TECHNOLOGIES.....	15,606	664,516	1,357,722
BELL ATLANTIC CORP.....	22,252	727,328	1,515,918
BELLSOUTH CORP COM S.....	54,936	1,105,809	2,245,489
NYNEX CORP.....	20,808	632,858	1,459,161
PACIFIC TELESIS GROUP.....	121,496	2,091,672	3,219,644
SO NEW ENG TELECOMMUNICATIONS.....	29,600	991,970	1,587,300
SOUTH WESTERN BELL CORP.....	76,212	1,844,817	2,962,742
U S WEST.....	22,272	620,806	1,172,049
MUTUAL FUNDS			
WELLS FARGO EXTD EQTY MKT.....	8,756,334	201,642,260	216,798,511
WELLS FARGO INTL INVT MKT F.....	3,974,709	120,407,797	200,631,867
WELLS FARGO S&P 500 INDEX.....	9,882,793	439,607,207	537,235,180
<u>PREFERRED STOCK</u>			
FINANCIAL SERVICES			
BANKS			
CHEM N Y SER C ADJ RATE PFD.....	64,918	782,465	738,442
Total Equities	<u>37,169,406</u>	<u>\$1,175,790,451</u>	<u>\$1,634,153,277</u>

Investment Portfolio 1987

FIXED INCOME SECURITIES

	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
<u>GOVERNMENT OBLIGATIONS</u>						
GOVERNMENT AGENCIES						
FED HOME LN MTG CORP..	AAA	8.000%	12/31/01	\$ 1,871,995	\$ 1,843,623	\$ 1,769,035
FED HOME LN MTG CORP..	AAA	8.250	08/01/01	4,982,444	4,856,325	4,705,868
FED HOME LN MTG CORP..	AAA	8.500	10/01/01	3,152	3,156	3,034
FED HOME LN MTG CORP..	AAA	8.750	04/01/08	921,750	736,248	862,988
FED HOME LN MTG CORP..	AAA	9.400	09/15/08	2,008,800	1,426,248	2,038,932
FED HOME LN MTG CORP..	AAA	16.250	11/01/11	673,422	702,043	723,680
FED NATL MTG ASSN....	AAA	8.500	VARIOUS	9,154,942	8,765,588	8,589,790
FED NATL MTG ASSN....	AAA	14.750	08/01/12	2,625,060	2,885,926	2,810,442
FED NATL MTG ASSN....	AAA	15.500	12/01/12	164,524	173,416	176,546
FED NATL MTG ASSN....	AAA	15.750	12/01/11	1,441,419	1,515,292	1,549,627
FED NATL MTG ASSN....	AAA	16.000	VARIOUS	2,633,824	2,804,249	2,836,681
GOV NATL MORT ASSN....	AAA	8.000	VARIOUS	4,990,776	4,572,495	4,535,367
GOV NATL MORT ASSN....	AAA	8.500	VARIOUS	378,565	318,654	353,618
GOV NATL MORT ASSN....	AAA	9.000	VARIOUS	79,459	70,321	76,181
GOV NATL MORT ASSN....	AAA	9.500	VARIOUS	2,010,013	1,746,675	1,982,375
GOV NATL MORT ASSN....	AAA	10.500	VARIOUS	788,245	680,876	820,761
GOV NATL MORT ASSN....	AAA	11.000	08/20/13	1,524,815	1,368,206	1,614,398
GOV NATL MORT ASSN....	AAA	11.500	VARIOUS	3,154,787	2,898,285	3,391,396
GOV NATL MORT ASSN....	AAA	13.000	VARIOUS	1,161,623	1,245,841	1,287,949
GOV NATL MORT ASSN....	AAA	13.500	VARIOUS	297,813	322,103	334,667
GOV NATL MORT ASSN....	AAA	14.750	VARIOUS	646,301	700,430	739,208
GOV NATL MORT ASSN....	AAA	15.000	09/15/12	175,377	179,956	201,245
Total Government Agencies				41,689,107	39,815,955	41,403,789
U.S. GOVERNMENT						
U S T-NOTE STRPD INT..	AAA	0.000	02/15/14	28,000,000	3,324,804	2,923,480
U S T-NOTE STRPD INT..	AAA	0.000	02/15/98	2,100,000	908,362	830,949
U S TREASURY NOTES....	AAA	7.250	05/15/16	17,700,000	15,931,344	15,166,599
U S TREASURY NOTES....	AAA	7.500	11/15/16	27,800,000	24,140,500	24,603,000
U S TREASURY NOTES....	AAA	7.875	06/30/91	3,000,000	2,998,470	2,993,430
U S TREASURY NOTES....	AAA	8.125	05/15/91	10,250,000	10,791,328	10,320,418
U S TREASURY NOTES....	AAA	8.750	01/15/93	15,100,000	16,136,647	15,524,612
U S TREASURY NOTES....	AAA	9.875	11/15/15	2,500,000	3,082,800	2,820,300
U S TREASURY NOTES....	AAA	10.625	08/15/15	44,100,000	55,483,007	53,333,217
U S TREASURY NOTES....	AAA	11.750	VARIOUS	27,000,000	32,629,453	30,860,535
Total U.S. Government				177,550,000	165,426,715	159,376,540
Total U.S. Government Obligations				\$219,239,107	\$205,242,670	\$200,780,329
<u>CORPORATE OBLIGATIONS</u>						
FORD MTR CR CO FLOATING	NR	6.125	10/21/92	1,500,000	1,498,500	1,496,250
CHASE MANHATTAN CORP..	AA	6.750	12/01/89	3,000,000	2,873,970	2,881,680
GEN MTR ACCEPT CORP...	NR	6.950	12/11/89	5,000,000	4,814,450	4,856,250

Investment Portfolio 1987

FIXED INCOME SECURITIES

	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
<u>CORPORATE OBLIGATIONS</u>						
NIAGRA MOHAWK PWR CORP	NR	9.100%	05/15/91	\$ 4,000,000	\$ 3,998,000	\$ 3,909,400
CHRYSLER BLDG N.Y. INC	NR	9.125	05/01/99	3,900,000	3,884,400	3,836,781
OCCIDENTAL PETRO CORP.	BBB	9.650	10/15/94	20,500,000	15,865,000	19,680,000
PHILADELPHIA ELEC CO..	BB	10.375	02/15/96	6,500,000	6,461,875	6,630,000
MAZDA MTR MFG U.S CORP	NR	10.400	07/01/08	3,300,000	3,300,000	3,205,944
C.I.T FNCL CORP.....	AA	10.750	04/15/91	3,000,000	3,063,900	3,065,310
AMER GEN CORP CONV....	AA	11.000	11/04/08	956,000	1,031,285	2,136,660
DOW CHEMICAL.....	A	11.250	07/15/10	3,000,000	3,264,600	3,221,250
INTERNORTH INC.....	BBB	11.500	12/01/94	5,300,000	5,881,350	5,483,115
LONG IS LIGHTING CO...	B	11.750	11/15/94	3,000,000	3,000,000	2,880,000
CITICORP.....	AA	11.875	02/01/95	13,442,000	14,432,675	14,380,386
OH EDISON CO.....	BBB	11.875	06/15/10	5,000,000	5,189,975	4,677,050
CHRYSLER CORP.....	BBB	12.000	11/15/15	4,000,000	4,441,250	4,330,000
GULF ST UTILS.....	B	12.125	07/01/16	2,000,000	2,012,500	1,900,000
PHILLIPS PETRO CO.....	BB	12.250	10/15/12	20,000,000	17,856,200	21,200,000
TEXACO CAP INC.....	NR	13.250	06/01/99	12,000,000	12,000,000	10,950,000
GULF ST UTILS.....	B	13.750	03/01/94	6,000,000	6,660,000	6,180,000
AMER AIRL INC.....	NR	14.375	01/06/05	3,000,000	3,772,500	3,652,140
PHILADELPHIA ELEC CO..	BB	14.500	02/15/09	7,800,000	9,052,500	8,775,000
PHILLIPS PETRO CO.....	B	14.750	03/15/00	3,750,000	4,094,063	4,321,875
PHILADELPHIA ELEC CO..	BB	14.750	04/15/05	6,150,000	6,695,239	7,103,250
TOLEDO EDISON.....	BBB	15.000	09/01/12	2,500,000	2,918,750	2,820,100
GULF ST UTILS.....	B	15.000	09/01/12	1,750,000	2,023,438	1,890,000
CONN LT & PWR CO.....	BBB	15.000	10/01/12	3,000,000	3,429,750	3,336,240
LA PWR & LT CO.....	BB	15.250	12/01/14	8,600,000	10,063,539	9,791,358
UNITED GAS PIPELN CO..	NR	15.500	06/01/99	3,153,000	3,417,126	3,325,627
OH EDISON CO.....	BBB	15.500	04/15/10	4,300,000	4,866,125	5,157,678
GEORGIA PWR CO.....	BBB	16.250	07/01/12	2,790,000	3,017,385	3,142,405
BRIDGEPORT ELEC CO....	NR	18.000	11/30/94	<u>25,750,000</u>	<u>33,448,438</u>	<u>33,029,525</u>
Total Corporate Obligations				197,941,000	208,328,782	213,245,274

MISCELLANEOUS FIXED INCOME OBLIGATIONS

FOREIGN

SUMITOMO TR & BK CORP.	NR	8.350	05/19/89	3,000,000	2,995,530	2,995,530
SUMITOMO TR & BK CORP.	NR	8.850	05/23/90	5,000,000	4,995,000	4,995,000
EUROPEAN COAL & STL...	AAA	9.750	08/15/99	7,000,000	7,402,500	6,895,000
EUROPEAN INVT BANK....	AAA	9.875	02/15/99	12,000,000	12,780,000	12,045,000
ONTARIO PROV CANADA...	AA	15.750	03/15/12	1,025,000	1,570,679	1,450,375
B.C. HYDRO & PWR AUTH.	AA	15.000	04/15/11	7,000,000	9,887,500	9,537,500
B.C. HYDRO & PWR AUTH.	AA	15.500	07/15/11	1,500,000	2,246,595	2,079,375
B.C. HYDRO & PWR AUTH.	AA	15.500	11/15/11	5,000,000	7,325,000	6,968,750

MORTGAGE PASS THROUGH

BANK AMER NATL TR & SVG	BBB	11.875	07/15/10	283,304	221,596	290,387
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Investment Portfolio 1987

FIXED INCOME SECURITIES

	Moody's Rating	Interest Rate	Maturity Date	Par Value	Book Value	Market Value
<u>MISCELLANEOUS FIXED INCOME OBLIGATIONS</u>						
MORTGAGE PASS THROUGHS (continued)						
CMO COLLATERALIZED MTG	NR	7.250%	04/23/17	\$ 6,366,341	\$ 6,143,519	\$ 5,803,317
CMO INVES GNMA MTG BKD	NR	11.900	01/25/14	5,000,000	4,717,000	5,509,375
CMO ISFA MTG CORP.....	NR	10.950	11/01/15	4,703,639	4,737,621	4,956,459
CMO RYLAND ACCEP CORP.	NR	11.600	06/01/03	3,668,702	3,783,349	3,830,354
CMO SALOMON BROS MTG..	NR	10.000	03/01/96	1,073,924	1,081,642	1,077,280
HOME S&L, LA CA MTG BKD	AA	10.000	07/15/09	585,110	539,764	617,291
MANUFACTURED HSG MTG PC	AAA	13.250	01/01/99	3,599,769	3,574,152	4,129,295
MANUFACTURED HSG MTG PC	AAA	13.250	01/15/99	2,158,742	2,143,887	2,476,293
MUTUAL FUNDS						
WELLS FARGO U.S. DEBT.	NR	N/A	N/A	37,696,365	408,513,879	397,128,604
INSURANCE CONTRACTS						
CONNECTICUT MUTUAL GIC	NR	13.000	08/15/92	3,339,763	3,339,763	3,339,763
NEW YORK LIFE GIC.....	NR	14.570	07/31/88	5,662,567	5,662,567	5,662,567
UNION CENTRAL GIC.....	NR	13.890	08/15/87	2,242,449	2,242,449	2,242,449
Total Miscellaneous Fixed Income				<u>117,905,674</u>	<u>495,903,992</u>	<u>484,029,965</u>
Total Fixed Income Securities				<u>\$535,085,781</u>	<u>\$909,475,444</u>	<u>\$898,055,568</u>

SHORT-TERM INVESTMENTS

ELECTRICITE DE FRANCE.	NR	6.920%	07/01/87	\$ 15,000,000	\$ 14,901,967	\$ 15,000,000
GEN ELEC CREDIT CORP..	NR	6.875	07/06/87	31,000,000	30,816,476	30,971,389
MERRILL LYNCH & CO....	NR	6.870	07/27/87	31,000,000	30,810,693	30,851,601
NORTHERN TR GOVT FD...	NR	*	*	17,867,543	17,867,543	17,867,543
NORTHERN TR INV FD....	NR	*	*	45,000,070	44,183,057	44,183,057
ROYAL BANK OF CANADA..	NR	6.920	07/13/87	10,000,000	9,938,489	9,977,722
SHEARSON LEHMAN BROS..	NR	6.850	07/07/87	4,000,000	3,972,699	3,995,586
U S TREAS BILL.....	AAA	5.400	07/02/87	650,000	641,152	649,857
U S TREAS BILL.....	AAA	5.470	09/10/87	35,000	34,516	34,608
U S TREAS BILL.....	AAA	5.520	08/20/87	555,000	547,361	550,749
U S TREAS BILL.....	AAA	5.600	07/23/87	255,000	251,311	254,174
U S TREAS BILL.....	AAA	5.640	09/17/87	25,000	24,644	24,691
U S TREAS BILL.....	AAA	5.660	09/03/87	25,000	24,642	24,746
U S TREAS BILL.....	AAA	5.780	09/24/87	100,000	98,539	98,650
WELLS FARGO MONEY MKT.	NR	*	*	<u>3,543</u>	<u>3,543</u>	<u>3,543</u>
Total Short Investments				<u>\$155,516,156</u>	<u>\$154,116,632</u>	<u>\$154,487,916</u>

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

Investment Portfolio 1987

REAL ESTATE

	Units	Book Value	Market Value
AETNA REAL ESTATE SEPARATE ACCT.....	19,770	\$ 53,175,092	\$ 53,175,092
RREEF MIDAMERICA EAST I.....	13	2,196,585	2,106,545
RREEF MIDAMERICA EAST II.....	17	3,196,028	3,333,094
RREEF MIDAMERICA EAST III.....	33	8,030,647	8,691,600
RREEF MIDAMERICA EAST IV.....	100	20,000,000	21,979,262
RREEF MIDAMERICA EAST V.....	25	5,000,000	5,203,435
RREEF USA FUND I.....	4	5,759,374	6,155,345
RREEF USA FUND II.....	6	6,832,562	6,037,676
RREEF USA FUND III.....	86	86,000,000	89,127,711
RREEF WEST III.....	12	2,726,391	2,892,187
RREEF WEST IV.....	20	3,399,133	3,741,143
RREEF WEST V.....	10	2,308,094	2,415,286
RREEF WEST VI.....	100	20,000,000	21,383,334
 Total Real Estate		<u>\$218,623,906</u>	<u>\$226,241,710</u>

FUTURES

	Number of Contracts	Expiration Date
U.S. TREASURY NOTE - LONG.....	862	September, 1987
MUNICIPAL BOND - LONG.....	93	September, 1987

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.

