

# COMPONENT UNIT FINANCIAL REPORT for the Fiscal Year Ended June 30, 1988



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

June 30, 1987

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



December 9, 1988

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

I am pleased to present the forty-seventh Annual Financial Report for the State Universities Retirement System of Illinois (SURS). This retirement system was created in 1941 by the State of Illinois for the benefit of the staff members and employees of the state universities and certain affiliated organizations, certain other state educational and scientific agencies, and the survivors, dependents, and other beneficiaries of those employees.

The management of SURS is charged with the responsibility of making available to participants and benefit recipients financial statements, including the opinion of the independent certified public accountants regarding those statements. This report contains these statements and reports and represents SURS management. The completeness and accuracy of the report rest with management. The financial statements are not comparative with 1987 inasmuch as 1987 was only 10 months in length.

The annual report is divided into five sections: 1) The Introductory Section contains this transmittal letter, identification of the trustees, staff, and consultants, and identification of the administrative organization; 2) the Financial Section contains the report of the independent public accountants and the financial statements and notes; 3) the Actuarial Section contains the report of the actuary and the results of the most recent actuarial valuation; 4) the Statistical Section contains significant data pertaining to participants and benefit recipients; and 5) the Investment Section contains the custodian bank's certification of the assets held in safekeeping, a list of those assets, and reports and tables concerning asset allocation and investment performance.

#### MAJOR INITIATIVES

The mission statement of SURS provides the foundation for the System's initiatives and ongoing programs. The mission of SURS is "To provide our annuitants, participants and their employers the best cost-effective pension and benefit services in the United States."

The most important service we can provide to our annuitants is accurate and timely benefit payments. At year-end, SURS was providing over 16,000 monthly benefit payments. More than 61 percent of these were paid via electronic funds transfer (EFT), ensuring that the monthly benefit is in the recipient's bank account on the day it is payable. We have actively recruited for increased use of EFTs this year. Many recipients, however, like to have a more tangible indication of payment; in an effort to provide this sense of security, SURS mails a monthly EFT statement to each benefit recipient's home to confirm the deposit made to his or her account. In addition, SURS keeps its benefit recipients up to date on pertinent pension developments with a bi-annual newsletter.

SURS participants are most interested in the accumulation of pension credits and future benefits. With our state-of-the-art, on-line computer system, they can verify account balances by merely picking up the telephone. Counseling regarding options at termination is often available at the same time. A new Personal Benefits Summary Statement was introduced this year and met with resounding approval. This statement provides, for the first time, every active participant with estimates of retirement, disability, death, and survivor benefits earned to date, as well as an estimate of the refund due should the participant terminate employment and request a refund of contributions. With the 1988 statement, participants will for the first time be able to directly see the benefit of one additional year of service credit.

SURS maintains an active counseling schedule at our Champaign office, at the location of individual employers, and at local off-campus sites. Pre-retirement planning continues to be at the forefront of our services to active employees. These conferences are filled well in advance, indicating they are meeting a crucial need.

Training is the most important service we can offer SURS employers. Each year, SURS hosts over 150 individuals at annual training seminars.

Numerous administrative projects are being designed to improve the services the System provides. A few of the most significant projects this year were these:

Records Tracking: The System maintains over 80,000 records each containing all correspondence, calculations, and information pertinent to the individual. An accurate inventory of these records is essential. This year SURS instituted an on-line system for tracking each record throughout the office. This means that at any time, every record is accounted for.

Disaster Recovery: The System continued to test its formal disaster recovery plan, adopted last year, at an off-site computer facility. In May of 1988, SURS was awarded the Government Finance Officers Association Award of Excellence for Financial Management for this plan.

SURS Video: A 25-minute video presentation of SURS benefits has been produced and is available to our employers.

Computer Application Enhancements: Plans have been made for improved computer applications, including a new benefit recipient payroll system, an enhanced payment inquiry and tracking system, and a new benefit processing system. These improvements will enable SURS to minimize processing efforts and provide further internal accounting controls.

## FINANCIAL INFORMATION

### Accounting System and Internal Control

SURS uses the accrual basis of accounting to record assets, liabilities, revenues, and expenses. Revenues for SURS are taken into account when earned, without regard to date of collection. 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 the accounting system, consideration has been given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding safekeeping of assets and reliability of financial records. SURS instituted an internal audit program and employs the services of an independent accountant to function as internal auditor to determine that all controls implemented are being accomplished.

## Revenues and Expenses

The reserves needed to finance the benefits provided by SURS are accumulated through the collection of member and employer contributions and through income on investments. These income sources for fiscal year 1988 totaled \$401.2 million, as follows:

| Source                 | Amount<br>(in millions) | Percent      |
|------------------------|-------------------------|--------------|
| Member Contributions   | \$132.3                 | 33.0         |
| Employer Contributions | 83.5                    | 20.8         |
| Investment Income      | <u>185.4</u>            | <u>46.2</u>  |
| <b>Total</b>           | <b>\$401.2</b>          | <b>100.0</b> |

Employer contributions did not meet the state's share of the benefits paid during the year.

The primary expense of a retirement system relates to the purpose for which it is created, namely, the payment of benefits. Consequently, contributions to terminated employees and the cost of administering the system comprise the total expenses. These expenses for fiscal year 1988 were \$173.7 million, as follows:

| Expense             | Amount<br>(in millions) | Percent      |
|---------------------|-------------------------|--------------|
| Retirement Benefits | \$124.1                 | 71.4         |
| Disability          | 7.7                     | 4.4          |
| Survivors           | 11.5                    | 6.6          |
| Deaths              | 5.3                     | 3.1          |
| Refunds             | 22.7                    | 13.1         |
| Administrative      | <u>2.4</u>              | <u>1.4</u>   |
| <b>Total</b>        | <b>\$173.7</b>          | <b>100.0</b> |

The cost of administering the System amounted to approximately .6 percent of the income generated. This means that out of every dollar received by SURS, 99.4 cents was available for payment of benefits. Income exceeded expenses by \$227.5 million.

## FUNDING

The actuarial liability of SURS at June 30, 1988, amounted to \$5.0 billion as calculated by the entry age normal method. The assets available at June 30, 1988, amounted to \$2.7 billion. The amount by which the liability exceeds the assets is called the "unfunded accrued actuarial liability." This liability amounts to \$2.3 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 seven years, employer contributions for FY 88 from state funds were less than the state's share of the benefits paid to retired and disabled employees and their survivors.

### INVESTMENTS

Investments are made under the authority of the "prudent person rule," which states that fiduciaries must discharge their duties solely in the interest of fund participants and beneficiaries. The rule has enabled the System to invest in different types of asset classes seeking to increase return while lowering risk through diversification.

Current investment policy provides for up to 50 percent of the fund to be invested in U.S. common stock, 5 percent in non-U.S. common stock, 30 percent in bonds, and 15 percent in real estate. The fund is managed by professional firms who serve as fiduciaries and are afforded full discretion.

All of SURS's investments are insured or collateralized with securities held by its agent except for mutual funds, which are not evidenced by securities that exist in physical or book entry form. The Government Accounting Standards Board concludes that risk in investments so held is minimal.

### INDEPENDENT AUDIT

The Illinois Pension Code requires an annual audit of the financial statements of the System by independent certified public accountants, selected by the State Auditor General. This requirement has been complied with, and the independent accountant's unqualified report on the System's 1988 financial statement has been included in this report.

### APPOINTMENT OF TRUSTEE

During this year the Board of Trustees of the University of Illinois appointed Mr. Charles P. Wolff to the SURS board. Mr. Wolff's term is for an indefinite period.

### AWARDS

#### Certificate of Achievement for Excellence in Financial Reporting

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 June 30, 1987. This is the fourth consecutive year the System has earned this award. 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. The report 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.

#### Award for Excellence in Financial Management

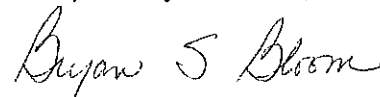
The GFOA presented SURS its Award for Excellence in Financial Management for professional leadership in developing a Disaster Contingency Plan. This award is presented to individuals whose organization's financial management systems and procedures are judged the winners in international competition in a specific financial discipline. Awards are granted to professionals whose work represents originality, transferability, technical competence, and practicality. SURS was the only retirement system to receive an award of this type.

### 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 System 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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# BOARD of TRUSTEES

## OFFICERS



JAMES A. GENTRY  
Urbana  
Participant Trustee  
President



JEROME R. BENDER  
Rockford  
State Board of Regents  
Vice President

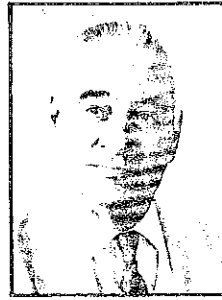


WILLIAM R. NORWOOD  
Rolling Meadows  
Board of Trustees of  
Southern Illinois University  
Treasurer

## MEMBERS



ARTHUR L. AIKMAN  
Carbondale  
Participant Trustee



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Springfield  
Board of Trustees of  
the University of Illinois



WILLIAM P. FROM  
DeKalb  
Participant Trustee



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Malta  
Participant Trustee



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Chicago  
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Colleges and Universities



ROBERT E. SECHLER  
Rockford  
Illinois Community College  
Board



CHARLES P. WOLFF  
Chicago  
Board of Trustees of  
the University of Illinois

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# CONSULTING AND PROFESSIONAL SERVICES

ACTUARY  
THE WYATT COMPANY  
Chicago, Illinois

INVESTMENT ADVISOR  
AETNA REALTY INVESTORS, INC.  
Hartford, Connecticut

AUDITOR  
PANNELL KERR FORSTER  
Chicago, Illinois

INVESTMENT ADVISOR  
BATTERYMARCH FINANCIAL MANAGEMENT  
Boston, Massachusetts

LEGAL COUNSEL  
EDWARD S. GIBALA  
Champaign, Illinois

INVESTMENT ADVISOR  
EQUITABLE REAL ESTATE MANAGEMENT, INC.  
New York, New York

MASTER TRUSTEE  
THE NORTHERN TRUST COMPANY  
Chicago, Illinois

INVESTMENT ADVISOR  
FAYEZ SAROFIM & COMPANY  
Houston, Texas

PERFORMANCE MEASUREMENT  
THE NORTHERN TRUST COMPANY  
Chicago, Illinois

INVESTMENT ADVISOR  
JMB INSTITUTIONAL REALTY CORPORATION  
Chicago, Illinois

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

INVESTMENT ADVISOR  
PACIFIC INVESTMENT MANAGEMENT COMPANY  
Newport Beach, California

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

INVESTMENT ADVISOR  
ROSENBERG REAL ESTATE EQUITY FUND  
Chicago, Illinois

SCENIC PHOTOGRAPHY  
KANFER PHOTOGRAPHY LTD.  
Champaign, Illinois

INVESTMENT ADVISOR  
WELLS FARGO INVESTMENT ADVISORS  
San Francisco, California



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# ADMINISTRATIVE STAFF

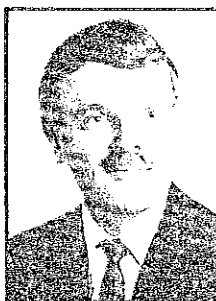
## SENIOR MANAGEMENT



DONALD E. HOFFMEISTER  
Secretary and Executive Director



DENNIS D. SPICE  
Associate Executive Director



KENNETH E. CODLIN  
Chief Investment Officer



JEANNE VALCIK, CPA  
Associate Investment Officer



BRYAN S. BLOOM, CPA  
Deputy Director  
Finance



JAMES S. BEEDIE  
Deputy Director  
Participant Services



WILLIAM B. JACKSON, JR.  
Deputy Director  
Benefit Services

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## DEPARTMENTAL MANAGEMENT STAFF

STEVEN L. HAYWARD, CPA  
Internal Auditor

LARRY HURSH  
Medical Director

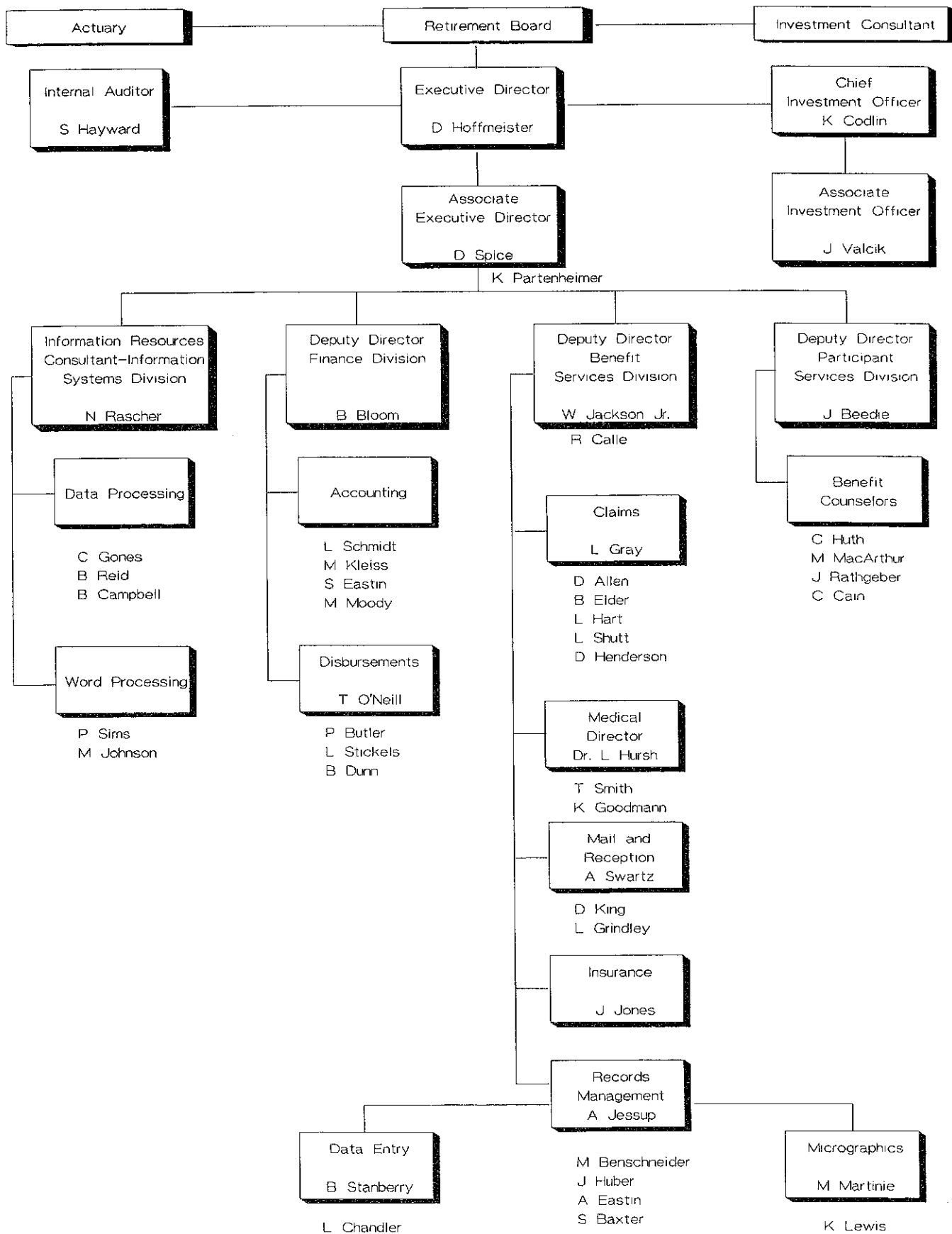
TERRY A. O'NEILL  
Disbursing Officer

LINDA L. GRAY  
Claims Manager

ANNIE L. JESSUP  
Records Manager

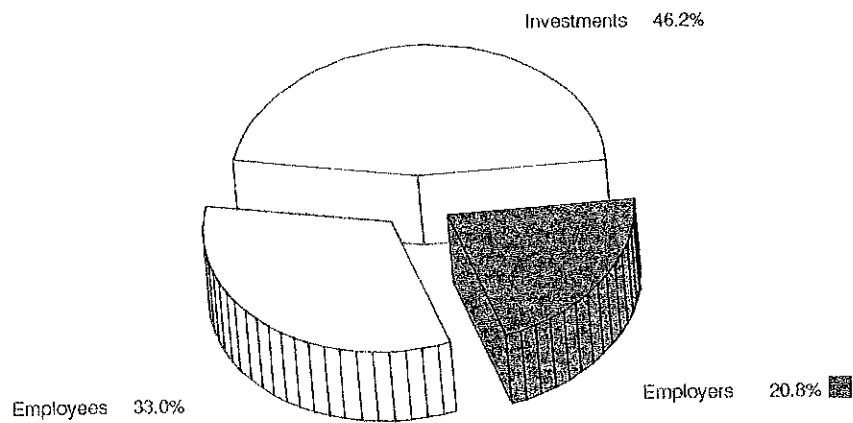
ANN F. SWARTZ  
Administrative Services Manager

# ORGANIZATIONAL CHART

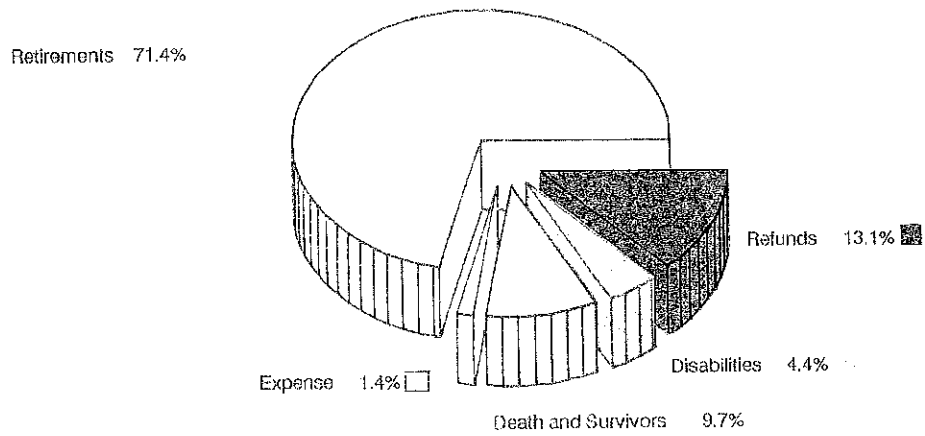


# FINANCIAL SECTION

## 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

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of the State Universities Retirement System of Illinois as of June 30, 1988, and the related statements of revenues, expenses and changes in fund balance and changes in financial position for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Universities Retirement System of Illinois at June 30, 1988, and the results of its operations and changes in its financial position for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 30 to 32 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 audit 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.

September 8, 1988

*Pannell Kerr Forster*

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# FINANCIAL STATEMENT 1988

## BALANCE SHEET

June 30, 1988

### ASSETS

|  |                            |
|--|----------------------------|
| Contributions Receivable                       |                            |
| Participants                                   | \$ 4,669,495               |
| Federal, trust funds, and other                | 1,232,670                  |
| State of Illinois                              | <u>337,233</u>             |
|  | 6,239,398                  |
| <br>Prepaid Expenses                           | <br>9,053                  |
| <br>Accrued Investment Income Receivable       | <br>9,163,752              |
| <br>Investments (notes II-B and III)           |                            |
| (market value: \$3,020,015,968)                | 2,687,395,799              |
| <br>Property and Equipment (notes II-D and IV) | <br><u>912,053</u>         |
| <br>TOTAL ASSETS                               | <br><u>\$2,703,720,055</u> |

### LIABILITIES AND FUND BALANCE

|   |                            |
|---|----------------------------|
| Liabilities                               |                            |
| Accounts payable                          | \$ 1,881,846               |
| Benefits payable                          | 1,448,496                  |
| Refunds payable                           | 2,137,683                  |
| Deferred income (note II-C)               | <u>251,421</u>             |
| Total Liabilities                         | 5,719,446                  |
| <br>Fund Balance (Reserved) (note II-E)   |                            |
| Participant contributions                 | 1,360,624,347              |
| Benefits from employee and employer       |                            |
| contributions                             | 3,280,286,265              |
| Less unfunded accrued actuarial liability | <u>(1,942,910,003)</u>     |
| Total Fund Balance                        | 2,698,000,609              |
| <br>TOTAL LIABILITIES AND FUND BALANCE    | <br><u>\$2,703,720,055</u> |

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

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# FINANCIAL STATEMENT 1988

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE For the Year Ended June 30, 1988

### REVENUES

|                                 |                    |
|---------------------------------|--------------------|
| Contributions                   |                    |
| Participants                    | \$ 132,331,310     |
| Federal, trust funds, and other | 12,362,253         |
| State of Illinois               |                    |
| Employer units                  | 66,238,000         |
| Pension fund                    | 4,458,700          |
| Reciprocity                     | <u>377,401</u>     |
|                                 | 215,767,664        |
| Investment Income               |                    |
| Interest                        | 91,270,504         |
| Dividends                       | 61,551,142         |
| Other                           | <u>338,431</u>     |
|                                 | 153,160,077        |
| Less investment expense         | <u>6,704,232</u>   |
|                                 | 146,455,845        |
| Net Gain on Sale of Investments | <u>38,985,426</u>  |
| Total Revenues                  | <u>401,208,935</u> |

### EXPENSES

|                               |                        |
|-------------------------------|------------------------|
| Benefits                      |                        |
| Retirement                    | 123,715,516            |
| Disability                    | 7,696,865              |
| Survivors                     | 11,469,636             |
| Death                         | 5,323,957              |
| Reversionary                  | 236,948                |
| Beneficiary                   | <u>131,247</u>         |
|                               | 148,574,169            |
| Refunds                       | 22,708,289             |
| Administrative Expense        | <u>2,416,363</u>       |
| Total Expenses                | <u>173,698,821</u>     |
| Excess Revenues over Expenses | 227,510,114            |
| Fund Balance                  |                        |
| Beginning of year             | <u>2,470,490,495</u>   |
| End of year                   | <u>\$2,698,000,609</u> |

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

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# FINANCIAL STATEMENT 1988

## STATEMENT OF CHANGES IN FINANCIAL POSITION For the Year Ended June 30, 1988

|  |                             |
|--|-----------------------------|
| Sources of Working Capital                         |                             |
| Operations:  |                             |
| Excess of revenues over expenses                   | \$227,510,115               |
| Add back item not requiring<br>working capital:    |                             |
| Depreciation                                       | 110,035                     |
| Loss on Disposition of Property                    | <u>656</u>                  |
| Total Sources of Working Capital                   | <u>227,620,806</u>          |
| <br>Use of Working Capital                         |                             |
| Purchases of capital equipment                     | <u>111,633</u>              |
| <br>Net Increase in Working Capital                | <u><u>\$227,509,173</u></u> |
| <br>Elements of Net Increase<br>in Working Capital |                             |
| Contributions receivable                           | \$ 4,034,943                |
| Prepaid expense                                    | ( 90,947)                   |
| Accrued investment income receivable               | ( 3,570,834)                |
| Short-term cash equivalents                        | 226,751,851                 |
| Investments  | 2,637,515                   |
| Accounts payable                                   | ( 400,692)                  |
| Benefits payable                                   | 86,903                      |
| Refunds payable                                    | ( 1,845,661)                |
| Deferred income                                    | <u>( 93,905)</u>            |
| <br>Net Increase in Working Capital                | <u><u>\$227,509,173</u></u> |

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

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# NOTES TO THE FINANCIAL STATEMENTS 1988

## I. DESCRIPTION OF PLAN

The State Universities Retirement System of Illinois (SURS) is the administrator of a cost-sharing, 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." It is also these statutes that define the scope of SURS's reporting entity. SURS does not have oversight responsibility of any agencies. As a result, this financial report represents financial information of SURS only. 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, 1988, the number of participating employers was

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

At June 30, 1988, SURS membership consisted of

|                                      |              |
|--------------------------------------|--------------|
| Members currently receiving benefits | 16,201       |
| Current employees                    |              |
| Active                               | 52,722       |
| Inactive                             | <u>5,953</u> |
|                                      | 74,876       |

The following is a summary of the provisions of SURS in effect as of June 30, 1988, as defined in the "Illinois Revised Statutes." Interested parties should refer to 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 of employment, after which time participation is mandatory. Employees are ineligible to participate if (a) employed after having attained age 68; (b) employed less than 50 percent of full-time; (c) employed less than full-time and attending classes with an employer; or (d) receiving a retirement annuity from SURS.

### B. Member Contributions

Members contribute 8 percent of their gross earnings; 6-1/2 percent of those are designated for retirement annuities, 1/2 percent for post-retirement 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.



# NOTES TO THE FINANCIAL STATEMENTS 1988

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 are considered as previously taxed. Previously taxed contributions will be recovered tax-free when distributed to the employee in the form of benefits or refunds or to his or her beneficiary 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 7-1/2 percent. For purposes of lump sum refunds to former members, the interest rate is 4-1/2 percent, compounded annually.

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<br/>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%          |                                     |

- b. The actuarial equivalent of 2.4 times the accumulated member contributions plus interest for retirement annuities (6-1/2 percent of earnings). Purchase of other public employment is matched dollar for dollar. 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   |

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# NOTES TO THE FINANCIAL STATEMENTS 1988

- 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 full 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 for which he or she appeared on a payroll.
- c. The member and the employer make one-time lump sum payments to SURS based upon the member's highest full-time annual salary rate during the four-year average salary period or, if not full-time, the full-time equivalent. The member pays 7 percent of the base salary for each year or fraction of a year prior to age 60, or each year short of 35 years of service credit, whichever is lower. The employer payment is 20 percent of the base salary for each year or fraction of a year prior to age 60. These one-time payments do not increase the amount of service credit, but merely eliminate the 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 immediately following the date of retirement.

## 5. Reversionary Annuity

A participant nearing retirement age may elect to receive a reduced 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 or her lifetime in exchange for the reversionary annuity to be paid to the

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# NOTES TO THE FINANCIAL STATEMENTS 1988

dependent upon the participant's death. If the dependent predeceases the annuitant, the annuitant continues to receive 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 at least two years of covered service who are unable to perform the duties of their job because of illness, or members with any amount of covered service who are unable to perform their duties because of an accident, are eligible to receive disability benefits after 60 days of disability or when sick leave payments are exhausted, whichever is later.

The amount of the disability benefit is determined 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 August 31st following the employee's 70th birthday.
2. After cessation of the benefit in (1), a member with eight years of covered service may 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 or 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 an inactive participant with 10 or more years of covered service, the following amounts are paid to the member's survivors:

- a. a death benefit equal to the retirement and AAI 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

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# NOTES TO THE FINANCIAL STATEMENTS 1988

- 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 SURS. 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.

### A. Basis of Accounting

The financial transactions are recorded on the accrual basis.

### B. Investments

Investments are governed by Article 15, Chapter 108-1/2 of the "Illinois Revised Statutes." 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 that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time.

# NOTES TO THE FINANCIAL STATEMENTS 1988

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, 1988, are summarized below (in millions of dollars):

|                        | <u>Cost</u>  | <u>Percent<br/>of Cost</u> | <u>Market</u> | <u>Percent<br/>of Market</u> | <u>Risk<br/>Category</u> |
|------------------------|--------------|----------------------------|---------------|------------------------------|--------------------------|
| Short-term investments | \$ 380.5     | 14.2                       | \$ 383.1      | 12.7                         | 1                        |
| Fixed income           | 602.9        | 22.4                       | 601.6         | 19.9                         | 1                        |
| Equities               | 1,322.1      | 49.2                       | 1,636.3       | 54.2                         | 1                        |
| Real estate            | <u>381.9</u> | <u>14.2</u>                | <u>399.0</u>  | <u>13.2</u>                  | 1                        |
| Total                  | \$2,687.4    | 100.0                      | \$3,020.0     | 100.0                        |                          |

The investments have been categorized to give an indication of the level of risk assumed by the System at June 30, 1988. All investments subject to categorization are held by the Master Trustee in the System's name. Therefore, all SURS investments are Category 1.

Investments may also be categorized as Category 2, which includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name, and Category 3, which is defined as uninsured or unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent, but not in the System's name. The System has no investments that would be classified in Categories 2 or 3.

# NOTES TO THE FINANCIAL STATEMENTS 1988

## IV. PROPERTY AND EQUIPMENT

Property and equipment and the related accumulated depreciation at June 30, 1988, are summarized below:

|                               |                   |
|-------------------------------|-------------------|
| Land                          | \$ 70,000         |
| Land improvements             | 12,799            |
| Office building               | 559,621           |
| Office building improvements  | 52,765            |
| Furniture and fixtures        | <u>1,046,558</u>  |
|                               | 1,741,743         |
| Less accumulated depreciation | <u>( 829,690)</u> |
| Net property and equipment    | \$ 912,053        |

## 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, to assess progress made in accumulating sufficient assets to pay benefits when due, and to 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.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1988. 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, 1988, was as follows (in millions of dollars):

|   |                |
|---|----------------|
| Accumulated contributions of current employees  | \$1,261.5      |
| Accumulated contributions of inactive members   | 77.8           |
| Payable to retirees and beneficiaries   | 1,498.9        |
| Payable to terminated employees not yet receiving benefits--<br>Employer-financed portion | 99.0           |
| Payable to vested current employees--Employer-financed portion                            | 1,621.7        |
| Payable to nonvested current employees--Employer-financed portion                         | <u>82.0</u>    |
| Total Pension Benefit Obligation  | \$4,640.9      |
| Net Assets Available for Benefits (market value \$2,925.4 million)                        | <u>2,698.0</u> |
| Unfunded Pension Benefit Obligation   | \$1,942.9      |

During the year there were no changes in the actuarial assumptions. Changes in benefit provisions resulted in an increase of \$2.1 million in the pension benefit obligation.

# NOTES TO THE FINANCIAL STATEMENTS 1988

## 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, 1988, versus the actual funding from employers is presented below (in millions of dollars):

| <u>Basis</u>                    | <u>Required FY 88<br/>Funding</u> | <u>Receipts<br/>from Employers</u> |
|---------------------------------|-----------------------------------|------------------------------------|
| Employer Normal Cost & Interest | \$266.6                           | \$83.4                             |

## 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.

## D. Analysis of Funding Progress

| <u>Fiscal<br/>Year</u> | <u>Net Assets</u> | <u>Pension<br/>Benefit<br/>Obligation</u> | <u>Percent<br/>Funded</u> | <u>Unfunded<br/>PBO</u> | <u>Covered<br/>Payroll</u> | <u>Unfunded PBO<br/>as a Percent of<br/>Covered Payroll</u> |
|------------------------|-------------------|---|---------------------------|-------------------------|----------------------------|---|
| 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   |
| 1988                   | 2,698.0           | 4,640.9                                   | 58.1                      | 1,942.9                 | 1,427.6                    | 136.1   |

\*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

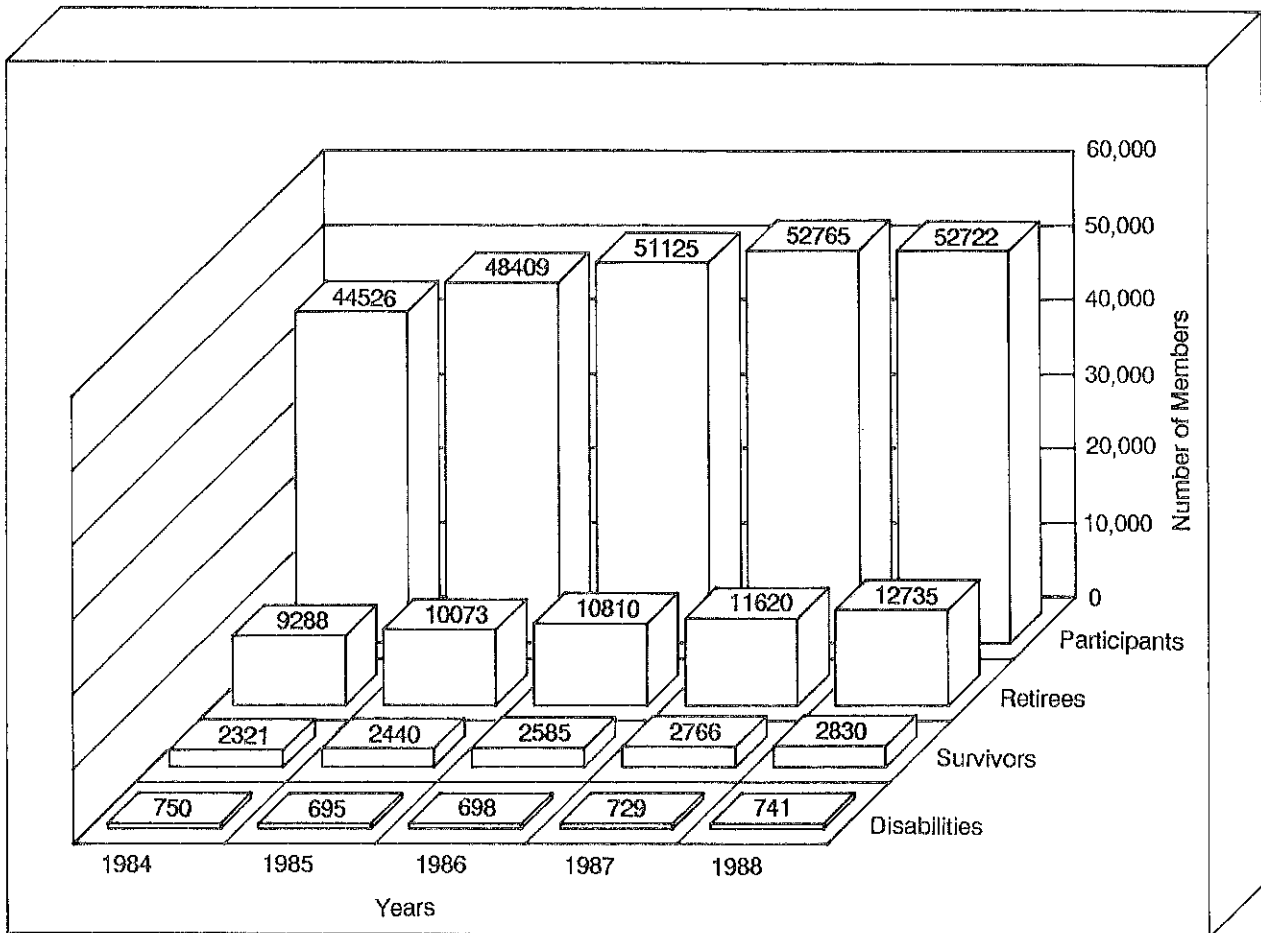
# NOTES TO THE FINANCIAL STATEMENTS 1988

retirement system is. Trends in the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjust for the effects of inflation and aid 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 448 hours of vacation and one-half of sick time earned since January 1, 1984. At June 30, 1988, the System had a liability of \$177,478 for compensated absences. The annual increase in liability is reflected in the financial statements as an increase in salary expense.

### MEMBER DATA





# SUPPORTING SCHEDULE 1988

## SCHEDULE OF ADMINISTRATIVE EXPENSES For the Year Ended June 30, 1988

|                      | <u>Budget</u>      | <u>Expense</u>     |
|----------------------|--------------------|--------------------|
| Personal services    | \$1,390,721        | \$1,360,758        |
| Supplies             | 44,000             | 38,336             |
| Contractual services | 967,200            | 907,233            |
| Depreciation         | 98,222             | 110,036            |
| TOTAL                | <u>\$2,500,143</u> | <u>\$2,416,363</u> |

## SUMMARY SCHEDULE OF FEES AND COMMISSIONS For the Year Ended June 30, 1988

|  |                    |
|--|--------------------|
| <u>Master Trustee &amp; Custodian</u>          |                    |
| The Northern Trust Company                     | \$ 347,509         |
| <br>   |                    |
| <u>Investment Management &amp; Consulting</u>  |                    |
| Aetna Realty Investors, Inc.                   | \$ 692,689         |
| Batterymarch Financial Management              | 518,329            |
| Equitable Real Estate Investment Management    | 119,367            |
| Fayez Sarofim & Company                        | 867,259            |
| Pacific Investment Management Company          | 951,902            |
| Rosenberg Real Estate Equity Fund              | 2,340,122          |
| Wells Fargo Investment Advisors                | 750,342            |
|  | <u>\$6,240,010</u> |
| <br>   |                    |
| <u>Investment Consulting &amp; Measurement</u> |                    |
| Ennis, Knupp & Associates                      | \$ 116,713         |
| <br>   |                    |
| Total Investment Expense                       | <u>\$6,704,232</u> |
| <br>   |                    |
| <u>Actuary</u>                                 |                    |
| The Wyatt Company                              | \$ 40,242          |
| <br>   |                    |
| <u>Investment Brokerage Firm</u>               |                    |
| Abel Noser Corporation                         | \$ 9,400           |
| Bear, Stearns & Company                        | 51,847             |
| Drexel Burnham Lambert, Inc.                   | 6,510              |
| First Boston Corporation                       | 11,542             |
| Goldman, Sachs & Company                       | 19,824             |
| Instinet                                       | 35,946             |
| Jones & Associates                             | 10,050             |
| Merrill Lynch, Pierce, Fenner & Smith          | 10,834             |
| Morgan Stanley & Company                       | 8,100              |
| Paine Webber Inc.                              | 11,541             |
| All others                                     | 55,922             |
|  | <u>\$ 231,516</u>  |

# SUPPORTING SCHEDULE 1988

## INVESTMENT PORTFOLIO ACTIVITY AT BOOK VALUE For the Year Ended June 30, 1988 (in millions of dollars)

|                             | July 1            |                     |                     | June 30           |
|-----------------------------|-------------------|---------------------|---------------------|-------------------|
|                             | <u>Book Value</u> | <u>Acquisitions</u> | <u>Dispositions</u> | <u>Book Value</u> |
| Fixed income                | \$ 909.5          | \$ 625.4            | (\$ 932.0)          | \$ 602.9          |
| Equity securities           | 1,175.8           | 321.6               | ( 175.3)            | 1,322.1           |
| Real estate                 | 218.6             | 163.4               | ( 0.1)              | 381.9             |
| Short-term cash equivalents | <u>154.1</u>      | <u>2,000.3</u>      | <u>( 1,773.9)</u>   | <u>380.5</u>      |
| TOTAL                       | <u>\$2,458.0</u>  | <u>\$3,110.7</u>    | <u>(\$2,881.3)</u>  | <u>\$2,687.4</u>  |

## INVESTMENT PORTFOLIO AT MARKET VALUE For the Year Ended June 30, 1988 (in millions of dollars)

|                             | Beginning of Year   | End of Year         |
|-----------------------------|---------------------|---------------------|
|                             | <u>Market Value</u> | <u>Market Value</u> |
| Fixed income                | \$ 898.1            | \$ 601.6            |
| Equity securities           | 1,634.2             | 1,636.3             |
| Real estate                 | 226.2               | 399.0               |
| Short-term cash equivalents | <u>154.5</u>        | <u>383.1</u>        |
| TOTAL                       | <u>\$2,913.0</u>    | <u>\$3,020.0</u>    |

## SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS For the Year Ended June 30, 1988 (in millions of dollars)

|  |                  |
|--|------------------|
| Receipts   |                  |
| Member contributions                                     | \$ 129.1         |
| Employer contributions                                   | 82.7             |
| Interest, dividends, and miscellaneous investment income | 156.7            |
| Investments redeemed                                     | 2,881.3          |
| Gain on disposition of investments                       | <u>39.0</u>      |
|  | <u>\$3,288.8</u> |
| Disbursements  |                  |
| Benefit payments   | \$ 148.7         |
| Administrative expenses                                  | 2.2              |
| Investment expenses                                      | 6.2              |
| Refunds  | 20.9             |
| Equipment purchased                                      | 0.1              |
| Investments purchased                                    | <u>3,110.7</u>   |
|  | <u>\$3,288.8</u> |

# SUPPORTING SCHEDULE 1988

## REVENUE BY SOURCE 10-YEAR SUMMARY (in millions of dollars)

| <u>Fiscal Year (A)</u> | <u>Contributions<br/>by Members</u> | <u>Investment<br/>Income</u> | <u>Contributions<br/>by Employers</u> | <u>Total</u> |
|------------------------|-------------------------------------|------------------------------|---------------------------------------|--------------|
| 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        |
| 1988                   | 132.3                               | 185.5                        | 83.4                                  | 401.2        |

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.

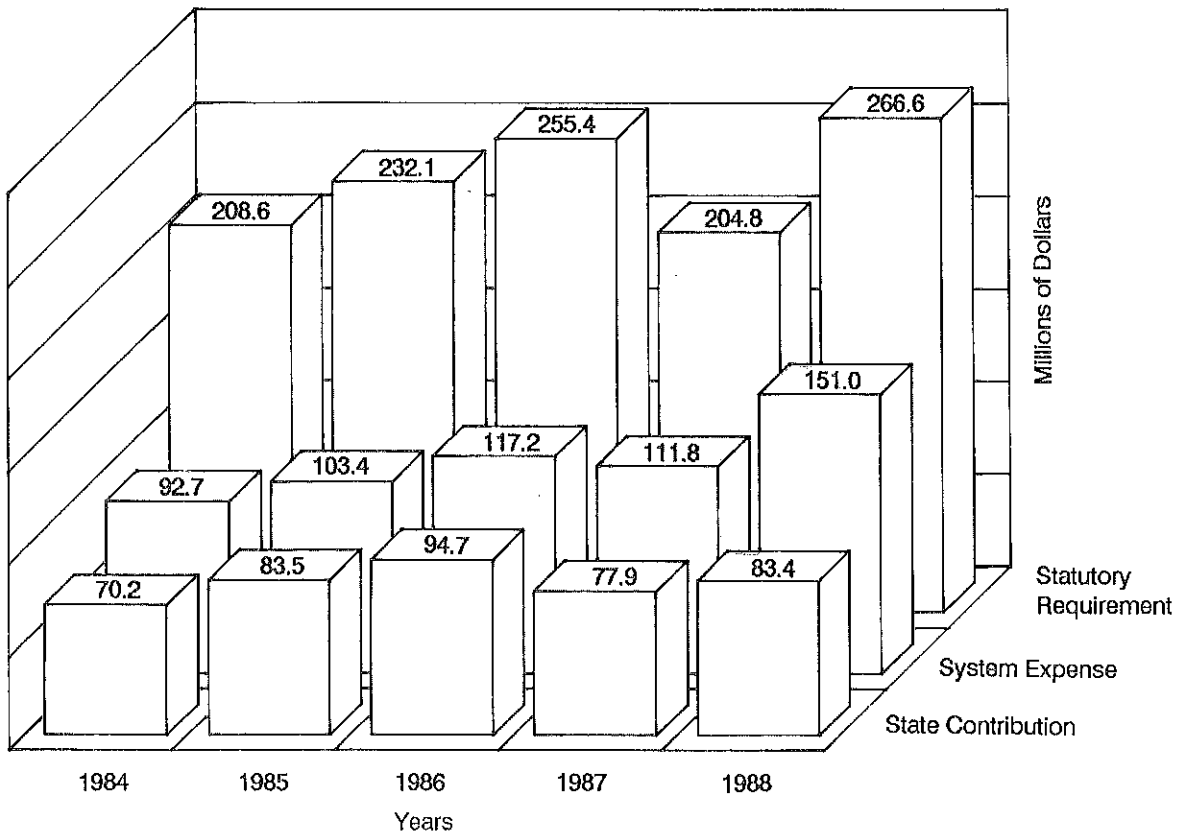
## TOTAL EXPENSES 10-YEAR SUMMARY (in millions of dollars)

| <u>Fiscal Year (A)</u> | <u>Benefits</u> | <u>Contribution<br/>Refunds</u> | <u>Administrative<br/>Expenses</u> | <u>Total</u> |
|------------------------|-----------------|---------------------------------|------------------------------------|--------------|
| 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        |
| 1988                   | 148.6           | 22.7                            | 2.4                                | 173.7        |

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.

# ACTUARIAL SECTION

## ANALYSIS OF FUNDING



# CERTIFICATION LETTER

## THE *Wyatt* COMPANY

ACTUARIES AND CONSULTANTS

EMPLOYEE BENEFITS  
COMPENSATION PROGRAMS  
EMPLOYEE COMMUNICATIONS  
ADMINISTRATIVE SYSTEMS  
RISK MANAGEMENT  
INTERNATIONAL SERVICES  
ORGANIZATION SURVEYS

SUITE 2400  
303 WEST MADISON STREET  
CHICAGO, ILLINOIS 60606-3308  
312. 704 0600

OFFICES IN PRINCIPAL CITIES  
AROUND THE WORLD

October 31, 1988

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, 1988. This valuation was made using the same actuarial assumptions as used for the prior year. Since the last valuation there was one amendment (HB2712) which had an impact on costs and liabilities. All employees who were receiving earnings and making contributions to SURS on January 26, 1988 will qualify for the automatic annual increase on the January 1 immediately following the date their retirement annuity begins instead of on the January 1 nearest the later of their 61st birthday or the first anniversary of their retirement.

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, 1988. The contribution rate determined complies with the applicable law in force as of the valuation date.

THE WYATT COMPANY

By *S. Lynn Hill*  
S. Lynn Hill  
Actuarial Assistant

By *Lloyd L. Nordstrom*  
Lloyd L. Nordstrom  
Fellow Of The Society of Actuaries

By *Robert L. Barnes*  
Robert L. Barnes  
Fellow Of The Society Of Actuaries

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# ACTUARIAL REPORT 1988

## PENSION FINANCING

The State Universities Retirement System of Illinois (SURS) 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 SURS 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 SURS 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 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. Beginning in 1982, the state appropriation has been set to reimburse a portion of benefit payments averaging 60 percent. In 1988, the appropriation averaged 48 percent. 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.

# ACTUARIAL REPORT 1988

## VALUATION RESULTS (in millions of dollars)

|   |                  |
|---|------------------|
| 1. Actuarial Liability (Reserves)         |                  |
| a. For members receiving annuities        | \$1,340.4        |
| i. Retirement annuities                   | 99.1             |
| ii. Survivor annuities                    | 59.5             |
| iii. Disability                           | \$1,499.0        |
| iv. Total                                 | 176.8            |
| b. For inactive members                   | <u>3,302.1</u>   |
| c. For active members                     | <u>\$4,977.9</u> |
| d. Total                                  |                  |
|   | \$2,698.0        |
| 2. Assets (Amortized Cost Value)          | \$2,279.8        |
| 3. Unfunded Accrued Actuarial Liabilities |                  |

## CONTRIBUTION RATES for Fiscal Year 1989

|  | <u>Percent of<br/>Payroll</u> | <u>Annual<br/>Contributions<br/>(in millions<br/>of dollars)</u> |
|--|-------------------------------|--|
| 1. State Normal Cost   | 7.608                         | \$108.6  |
| 2. Normal Cost Plus 8% Interest on the Unfunded<br>Accrued Actuarial Liability   | 19.938                        | 284.6  |
| 3. Normal Cost Plus an Amount to Amortize the<br>Unfunded Accrued Actuarial Liability over a 40-Year<br>Period from July 1, 1988 | 20.533                        | 293.1  |

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# ACTUARIAL REPORT 1988

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

|  |           |
|--|-----------|
| 1. Unfunded Accrued Actuarial Liability at June 30, 1987   | \$2,090.5 |
| 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 | 166.9     |
| 3. Actuarial (Gains) Losses  |           |
| a. Loss from investment return less than 8%  | 13.8      |
| b. (Gain) from salary increases less than 7%   | (74.5)    |
| c. Loss from other sources   | 22.8      |
| 4. Increase Due to Plan Amendments & Procedural Changes  | 60.3      |
| 5. Unfunded Accrued Actuarial Liability at June 30, 1988   | \$2,279.8 |

### 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, 1988.

### 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.



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# ACTUARIAL REPORT 1988

## 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: General employees are assumed to retire 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 1988

## ANALYSIS OF FINANCIAL EXPERIENCE

Gains and losses in Accrued Actuarial Liability for Fiscal Year ending June 30, 1988 (in millions of dollars);

|    | <u>Activity</u>  | <u>Gain (Loss)</u> |
|----|--|--------------------|
| 1. | Actuarial Gains and Losses   |                    |
|    | (a) Age & Service Retirements  | (\$ 16.9)          |
|    | (b) Incidence of Disability  | 5.1                |
|    | (c) In-Service Mortality   | ( 2.0)             |
|    | (d) Retiree Mortality  | ( 6.2)             |
|    | (e) Disabled Mortality   | ( 1.0)             |
|    | (f) Termination of Employment  | 4.0                |
|    | (g) Salary Increases   | 74.5               |
|    | (h) Investment Income  | ( 13.8)            |
|    | (i) Other  | ( 5.8)             |
|    | (j) Total Actuarial Gain (Loss)  | \$ 37.9            |
| 2. | Contribution Income  | (\$166.9)          |
| 3. | Non-Recurring Items<br>(Plan amendments, change in<br>actuarial assumptions, etc.) | (\$ 60.3)          |
| 4. | Total Financial Gain (Loss)  | (\$189.3)          |

## 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                |
| 1988                   | 15,231                   | 1,872            | 662                 | 16,441                |

(A) Fiscal years 1982 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.

# ANALYSIS OF FUNDING

## 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 SURS is growing stronger.

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

| Fiscal<br>Year {A} | Funding Requirements            |   | System<br>Expense | State<br>Cont. | Covered Percentages                 |   |                              |
|--------------------|---------------------------------|---|-------------------|----------------|-------------------------------------|---|------------------------------|
|                    | Statutory<br>Requirement<br>(1) | With 40-Year<br>Amortization<br>(2) {B} |                   |                | Statutory<br>Requirement<br>(5) {E} | With 40-Year<br>Amortization<br>(6) {F} | System<br>Expense<br>(7) {G} |
| 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                         |
| 1988               | 266.6                           | 274.4                                   | 151.0             | 83.4           | 31.3                                | 30.4                                    | 55.3                         |

{A} Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.

{B} 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).

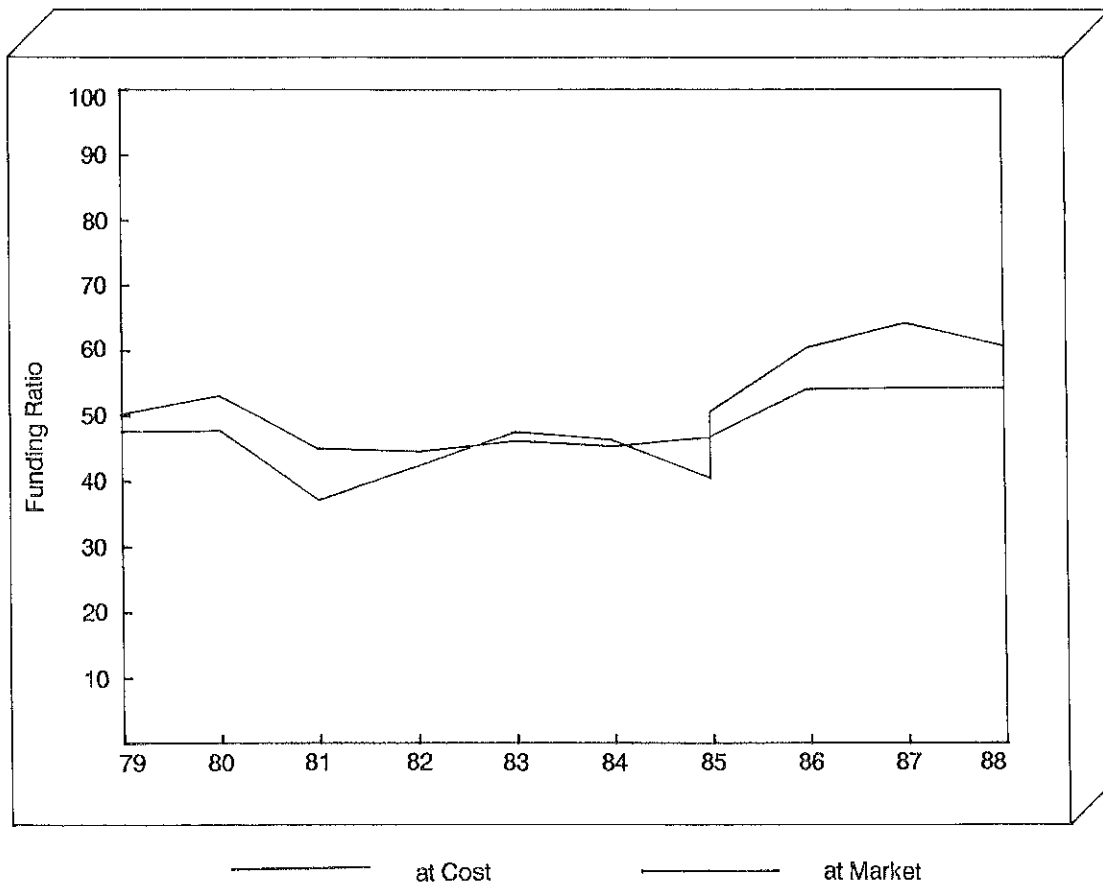
# ANALYSIS OF FUNDING 1988

## 10-YEAR SUMMARY

### FUNDING RATIOS (in millions of dollars)

| Fiscal<br>Year (A) | Net            | Net              | Actuarial Funding<br>Requirement | Funding Ratio |        |
|--------------------|----------------|------------------|----------------------------------|---------------|--------|
|                    | Assets at Cost | Assets at Market |                                  | Cost          | Market |
| 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   |
| 1988               | 2,698.0        | 3,020.0          | 4,977.9                          | 54.2          | 60.7   |

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.



# ANALYSIS OF FUNDING 1988

## 10-YEAR SUMMARY

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

| Fiscal<br>Year {A} | Member        | Members Currently  | Active and        | Net      | Percentage of |                |     |
|--------------------|---------------|--------------------|-------------------|----------|---------------|----------------|-----|
|                    | Accumulated   | Receiving Benefits | Inactive Members' |          | Assets        | Benefits       |     |
|                    | Contributions |                    | Employer Portion  |          | Covered By    | Net Assets for |     |
|                    | (1){B}        | (2){B}             | (3){B}            | Assets   | (1)           | (2)            | (3) |
| 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              | 1,916.4{C}        | 1,124.4  | 100           | 78.7           | 0   |
| 1982               | 741.0         | 712.7              | 2,088.3           | 1,239.6  | 100           | 70.0           | 0   |
| 1983               | 828.4         | 780.7              | 2,262.8           | 1,403.4  | 100           | 73.7           | 0   |
| 1984               | 918.2         | 861.2              | 2,512.9           | 1,524.4  | 100           | 70.4           | 0   |
| 1985               | 1,018.2       | 984.7              | 2,777.2           | 1,752.3  | 100           | 74.6           | 0   |
| 1986               | 1,134.7       | 1,145.9            | 3,036.3{D}        | 2,258.0  | 100           | 98.0           | 0   |
| 1987               | 1,237.0       | 1,289.0            | 3,272.0           | 2,470.5  | 100           | 95.7           | 0   |
| 1988               | 1,360.6       | 1,498.9            | 3,478.9           | 2,698.0  | 100           | 89.2           | 0   |

{A} Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months long. Fiscal year 1988 ended June 30 and was 12 months long.

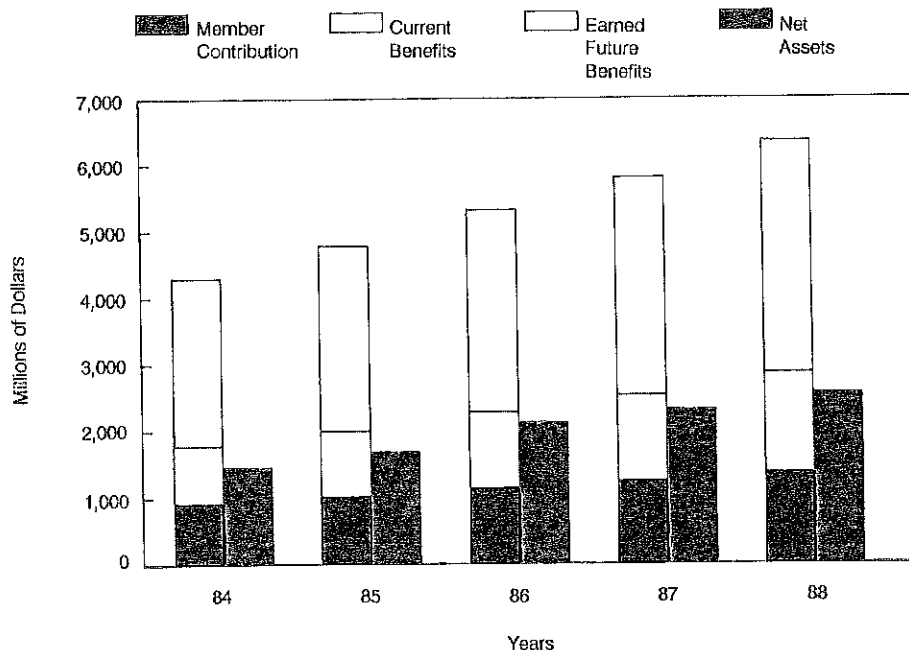
{B} A test of financial soundness of a system is its ability to pay all promised benefits when due. Column 1 represents the value of members' accumulated contributions. Column 2 represents the amount necessary to pay participants currently receiving benefits. Column 3 represents the employer's portion 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%.

### BENEFITS COVERED BY NET ASSETS



# ANALYSIS OF FUNDING 1988

## 10-YEAR SUMMARY

### PAYROLL PERCENTAGES (in millions of dollars)

| Fiscal Year {A} | Member Payroll | Unfunded Accrued Benefit Cost |              | Employer's Cost        |              |                      |           |              | State Contributions |              |
|-----------------|----------------|-------------------------------|--------------|------------------------|--------------|----------------------|-----------|--------------|---------------------|--------------|
|                 |                | Amount                        | % of Payroll | Employers' Normal Cost | % of Payroll | Interest on Unfunded | Total {D} | % of Payroll | State Cont.         | % of Payroll |
| 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                 | 126.5     | 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          |
| 1988            | 1,427.6        | 2,279.8                       | 159.7        | 105.2                  | 7.4          | 161.4                | 266.6     | 18.7         | 83.4                | 5.8          |

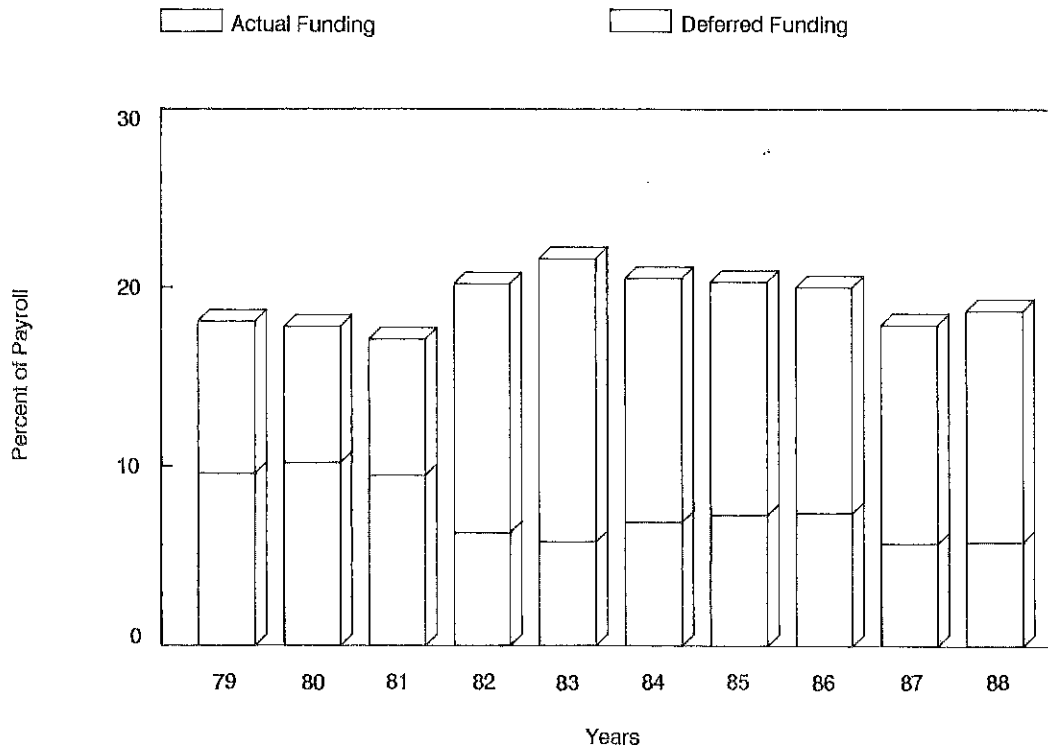
{A} Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June and was 12 months in length.

{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%.

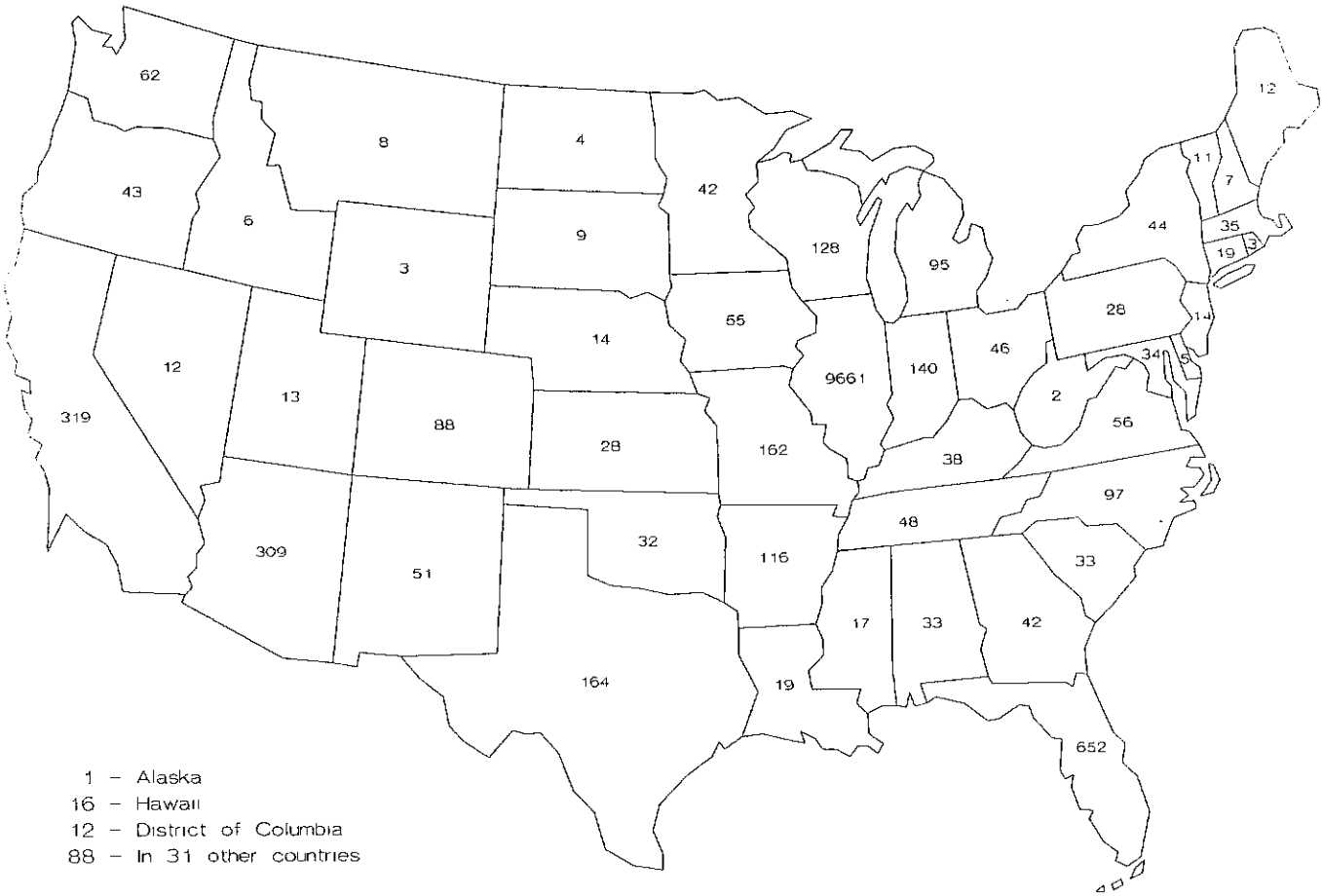
{D} Normal cost plus interest.

### ACTUAL vs. REQUIRED EMPLOYER FUNDING



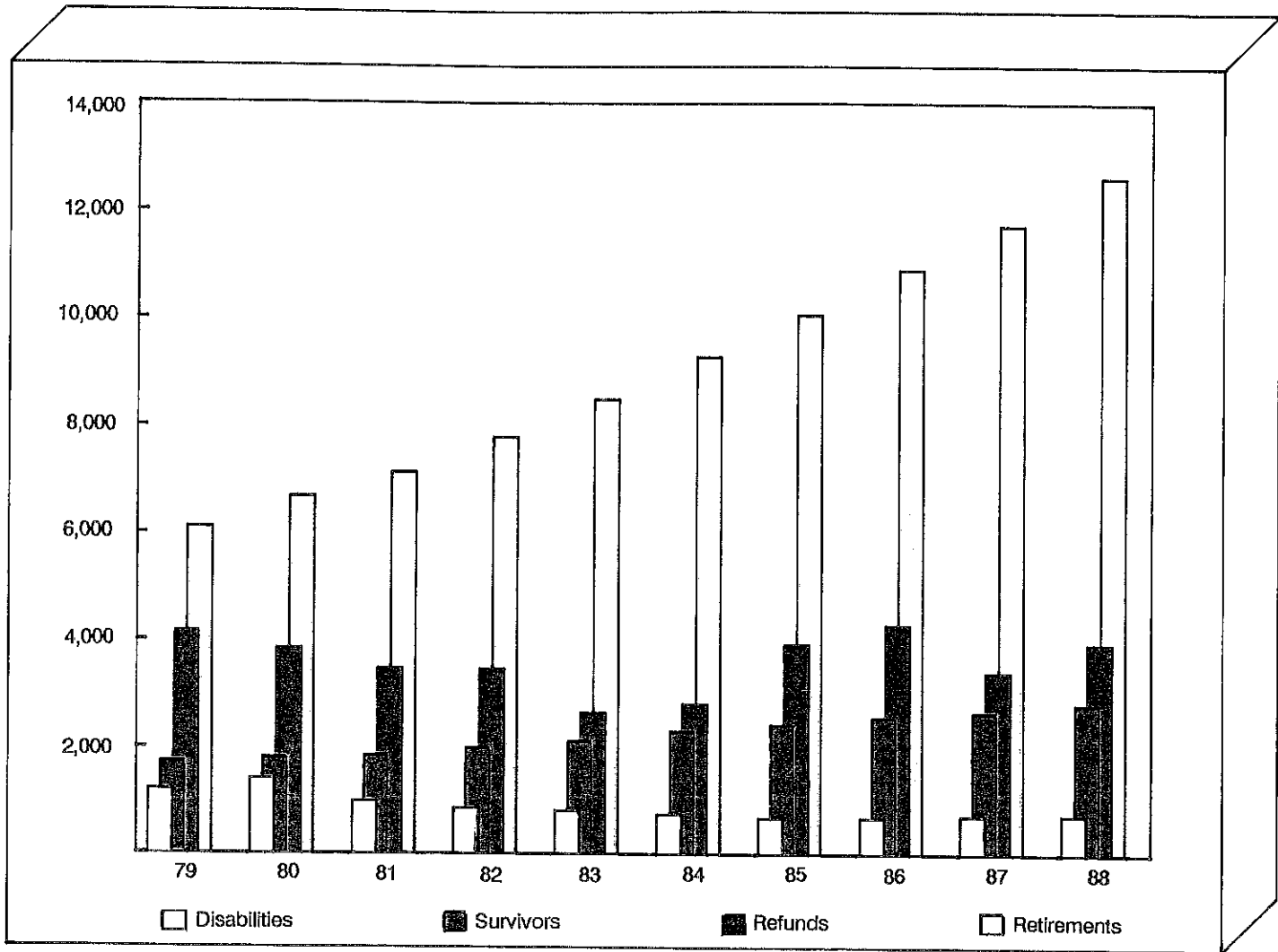
# STATISTICAL SECTION

LOCATION OF SURS RETIREES WORLDWIDE



# BENEFIT RECIPIENTS

10-YEAR SUMMARY



Number of Recipients

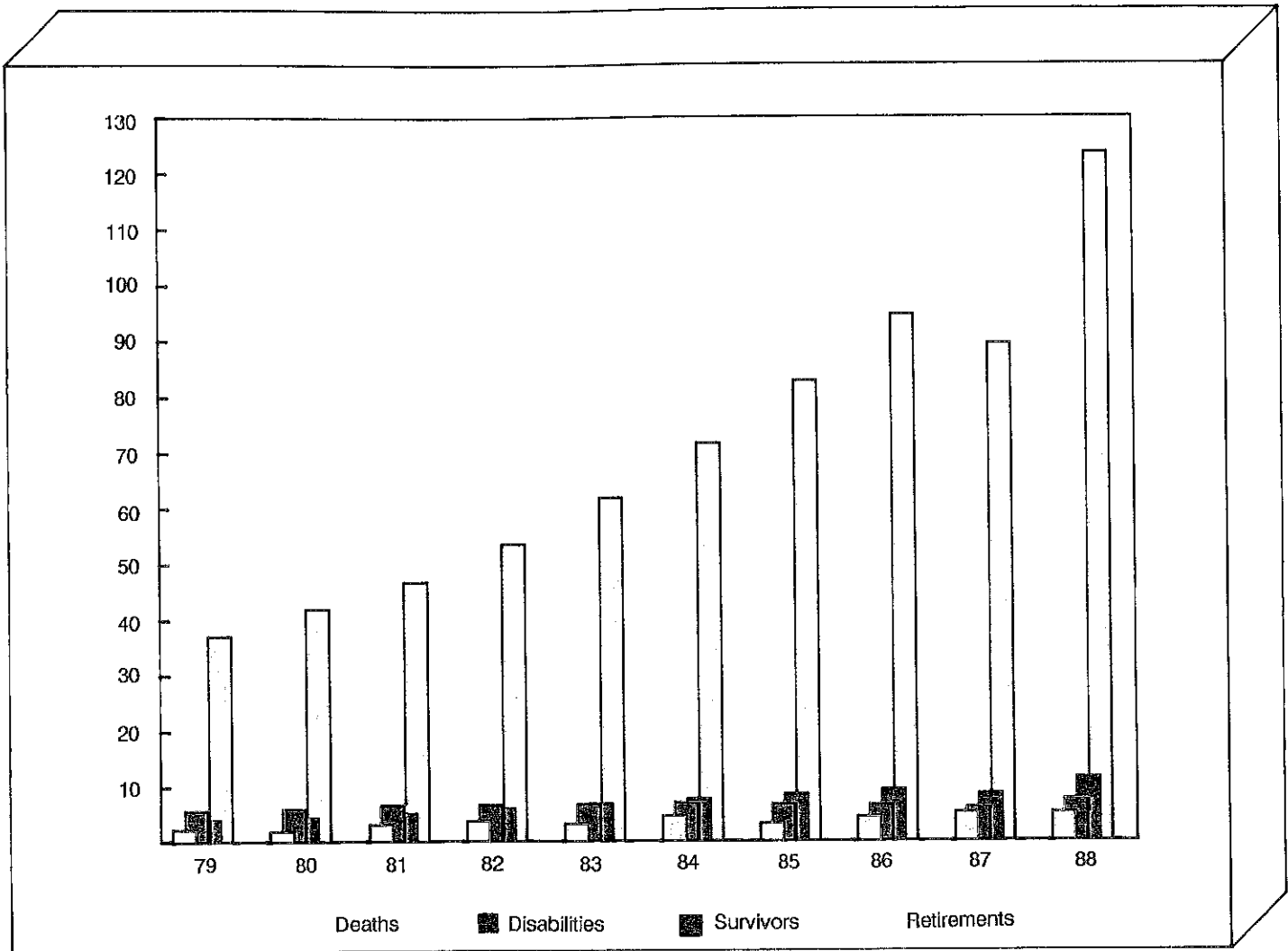
| <u>Fiscal Year (A)</u> | <u>Survivors</u> | <u>Disability</u> | <u>Contribution Refunds</u> | <u>Retirement</u> | <u>Disability Retirement Allowance</u> |
|------------------------|------------------|-------------------|-----------------------------|-------------------|--|
| 1979                   | 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                   | 2,664            | 729               | 3,421                       | 11,584            | 116                                    |
| 1988                   | 2,830            | 741               | 3,955                       | 12,495            | 135                                    |

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.



# BENEFIT EXPENSES

## 10-YEAR SUMMARY



(in millions of dollars)

| <u>Fiscal Year (A)</u> | <u>Survivors'</u><br><u>Annuities</u> | <u>Disability</u><br><u>Benefits</u> | <u>Disability</u><br><u>Retirement</u><br><u>Allowance</u> | <u>Retirement</u><br><u>Annuities</u> | <u>Lump Sum</u><br><u>Death Benefits</u> | <u>Total</u> |
|------------------------|---------------------------------------|--------------------------------------|--|---------------------------------------|--|--------------|
| 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        |
| 1988                   | 11.5                                  | 7.7                                  | 0.5  | 123.6                                 | 5.3                                      | 148.6        |

(A) Fiscal years 1978 through 1987 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.

# BENEFIT SUMMARY

## SCHEDULE OF NEW BENEFIT PAYMENTS July 1, 1987 through June 30, 1988

| Age                    | Retirement |                         | Disability |                         | Survivors |                         |
|------------------------|------------|-------------------------|------------|-------------------------|-----------|-------------------------|
|                        | Number     | Average Monthly Benefit | Number     | Average Monthly Benefit | Number    | Average Monthly Benefit |
| Under 9                |            |                         |            |                         | 12        | \$227                   |
| 10-14                  |            |                         |            |                         | 8         | 237                     |
| 15-19                  |            |                         |            |                         | 6         | 344                     |
| 20-24                  |            |                         |            |                         |           |                         |
| 25-29                  |            |                         | 3          | \$ 639                  | 1         | 300                     |
| 30-34                  |            |                         | 12         | 707                     |           |                         |
| 35-39                  |            |                         | 11         | 903                     | 1         | 225                     |
| 40-44                  |            |                         | 11         | 795                     | 2         | 256                     |
| 45-49                  |            |                         | 20         | 862                     | 5         | 326                     |
| 50-54                  | 13         | \$1,830                 | 17         | 1,075                   | 23        | 441                     |
| 55-59                  | 257        | 1,084                   | 45         | 1,047                   | 24        | 523                     |
| 60-64                  | 458        | 1,028                   | 39         | 1,020                   | 38        | 453                     |
| 65-69                  | 318        | 1,199                   | 10         | 821                     | 42        | 583                     |
| 70-74                  | 89         | 1,389                   |            |                         | 37        | 460                     |
| Over 74                | 2          | 356                     |            |                         | 55        | 349                     |
| TOTALS                 | 1,137      | \$1,123                 | 168        | \$ 950                  | 254       | \$432                   |
| Average Age 62.9 years |            |                         |            |                         |           |                         |

## SCHEDULE OF AVERAGE BENEFIT PAYMENTS For Retirees As Of June 30, 1988

|                          | Years of Credited Service |          |          |          |          |          | Total    |
|--------------------------|---------------------------|----------|----------|----------|----------|----------|----------|
|                          | 0-10                      | 11-15    | 16-20    | 21-25    | 26-30    | 30+      |          |
| Fiscal Year 1985         |                           |          |          |          |          |          |          |
| 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    |
| Fiscal Year 1986         |                           |          |          |          |          |          |          |
| 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    |
| Fiscal Year 1987         |                           |          |          |          |          |          |          |
| 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    |
| Fiscal Year 1988         |                           |          |          |          |          |          |          |
| Number of Retirees       | 2,428                     | 2,326    | 2,371    | 1,742    | 1,303    | 2,325    | 12,495   |
| Average Monthly Annuity  | \$ 277                    | \$ 380   | \$ 649   | \$ 937   | \$ 1,250 | \$ 1,820 | \$ 847   |
| Final Average Salary     | \$14,343                  | \$17,863 | \$20,856 | \$23,743 | \$24,800 | \$27,338 | \$21,132 |
| Average Credited Service |                           |          |          |          |          |          | 19.54    |

# BENEFIT SUMMARY

## SCHEDULE OF BENEFIT RECIPIENTS BY TYPE OF BENEFIT For the Year Ended June 30, 1988

| Monthly<br>Amount of<br>Benefit | Total<br>Recipients | General<br>Formula | Money<br>Purchase | Police<br>or Fire | Other<br>{A} | Long-Term<br>Disability | Temporary<br>Disability | Survivors |
|---------------------------------|---------------------|--------------------|-------------------|-------------------|--------------|-------------------------|-------------------------|-----------|
| \$0-200                         | 2,810               | 620                | 285               |                   | 1,196        | 5                       | 3                       | 701       |
| 201-400                         | 4,350               | 1,382              | 429               |                   | 889          | 92                      | 18                      | 1,540     |
| 401-600                         | 2,060               | 1,077              | 319               | 1                 | 198          | 28                      | 155                     | 282       |
| 601-800                         | 1,629               | 988                | 210               | 2                 | 28           | 5                       | 237                     | 159       |
| 801-1000                        | 1,099               | 801                | 107               | 3                 | 3            | 4                       | 108                     | 73        |
| 1001-1200                       | 876                 | 669                | 95                | 6                 | 2            | 1                       | 74                      | 29        |
| 1201-1400                       | 744                 | 581                | 61                | 14                | 1            |                         | 60                      | 27        |
| 1401-1600                       | 610                 | 498                | 53                | 9                 |              |                         | 41                      | 9         |
| 1601-1800                       | 484                 | 404                | 40                | 11                | 2            |                         | 23                      | 4         |
| 1801-2000                       | 374                 | 329                | 24                | 8                 | 1            |                         | 11                      | 1         |
| 2001-2200                       | 318                 | 289                | 16                | 6                 |              |                         | 5                       | 2         |
| 2201-2400                       | 233                 | 214                | 9                 | 4                 |              |                         | 3                       | 3         |
| 2401-2600                       | 163                 | 154                | 4                 | 3                 |              |                         | 2                       |           |
| 2601-2800                       | 126                 | 115                | 10                | 1                 |              |                         |                         |           |
| 2801-3000                       | 87                  | 84                 | 2                 |                   |              |                         | 1                       |           |
| 3000-3200                       | 63                  | 61                 | 2                 |                   |              |                         |                         |           |
| 3200-3400                       | 47                  | 46                 | 1                 |                   |              |                         |                         |           |
| 3400-3600                       | 35                  | 32                 | 3                 |                   |              |                         |                         |           |
| 3600-3800                       | 30                  | 29                 | 1                 |                   |              |                         |                         |           |
| 3800-4000                       | 12                  | 12                 |                   |                   |              |                         |                         |           |
| Over 4000                       | <u>51</u>           | <u>51</u>          | —                 | —                 | —            | —                       | —                       | —         |
|                                 | 16,201              | 8,436              | 1,671             | 68                | 2,320        | 135                     | 741                     | 2,830     |

{A} Minimum annuity and retirements of participants who terminated prior to 1969.

# ASSETS AND LIABILITIES

## 10-YEAR SUMMARY

### ASSETS (in millions of dollars)

| <u>Fiscal Year (A)</u> | <u>Receivables</u> | <u>Investments</u> | <u>Property<br/>and Equipment</u> | <u>Total</u> |
|------------------------|--------------------|--------------------|-----------------------------------|--------------|
| 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      |
| 1988                   | 15.4               | 2,687.4            | 0.9                               | 2,703.7      |

### LIABILITIES (in millions of dollars)

| <u>Fiscal Year (A)</u> | <u>Accounts<br/>Payable</u> | <u>Deferred<br/>Income</u> | <u>Fund Balances</u> | <u>Total</u> |
|------------------------|-----------------------------|----------------------------|----------------------|--------------|
| 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      |
| 1988                   | 5.5                         | 0.3                        | 2,698.0              | 2,703.7      |

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.

# ACTIVE PARTICIPANT STATISTICS

## 10-YEAR SUMMARY

| Fiscal Year<br><u>(A)</u> | <u>Males</u> | <u>Females</u> | Total<br><u>Actives</u> | Percent<br><u>Change</u> | Average<br><u>Salary</u> | Average<br><u>Age</u> | Average<br>Service<br><u>Credit</u> |
|---------------------------|--------------|----------------|-------------------------|--------------------------|--------------------------|-----------------------|-------------------------------------|
| 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                                 |
| 1988                      | 25,824       | 26,898         | 52,722                  | -0.1                     | 27,078                   | 42.8                  | 9.0                                 |

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.

## ANALYSIS OF CHANGE IN MEMBERSHIP

| Fiscal Year<br><u>(A)</u> | Beginning<br><u>Members</u> | <u>Additions</u> | <u>Retired</u> | <u>Died</u> | Other<br><u>Terminations</u> | Ending<br><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                   |
| 1988                      | 52,765                      | 6,790            | 904            | 109         | 5,820                        | 52,722                   |

(A) Fiscal years 1978 through 1986 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal year 1988 ended June 30 and was 12 months in length.

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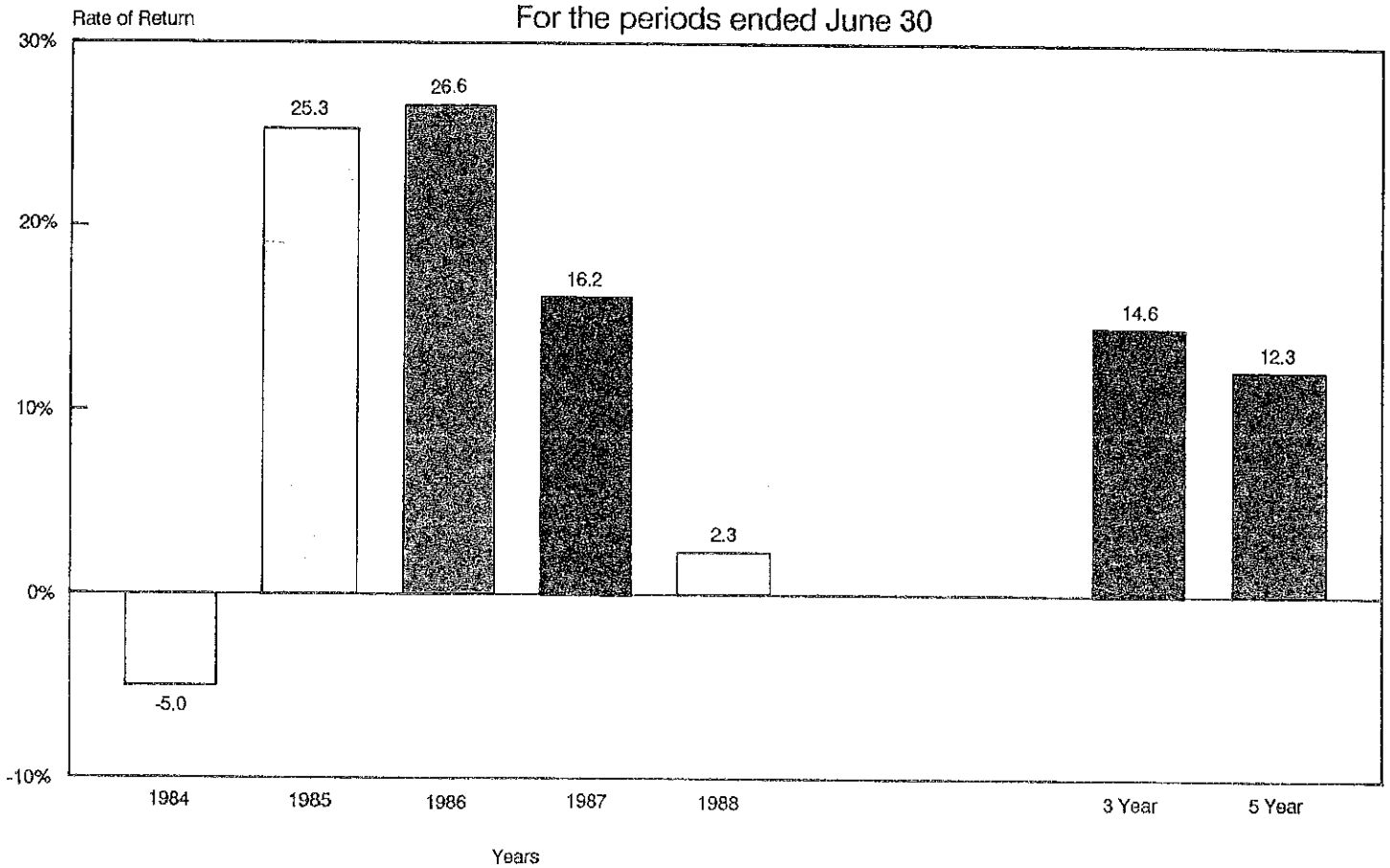
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# PARTICIPATING EMPLOYERS 1988

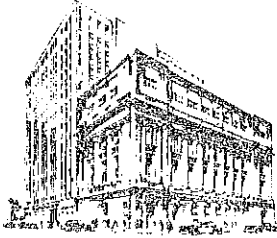
|   |  |
|---|--|
| Belleville Area College                         | Northeastern Illinois University                       |
| Black Hawk College                              | Northern Illinois University                           |
| Board of Governors                              | Oakton Community 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                         | South Suburban College                                 |
| Governors State University                      | Southeastern Illinois College                          |
| William Rainey Harper College                   | Southern Illinois University - Carbondale              |
| Highland Community College                      | Southern Illinois University - Edwardsville            |
| Illinois Board of Higher Education              | Southern Illinois University Foundation - Carbondale   |
| Illinois Central College                        | Southern Illinois University Foundation - Edwardsville |
| Illinois Community College Board                | Southern Illinois University - School of Medicine      |
| Illinois Community College Trustees Association | Spoon River College                                    |
| Illinois Eastern Community Colleges             | State Community College of East St. Louis              |
| Illinois Mathematics and Science Academy        | State Geological Survey                                |
| Illinois State University                       | State Natural History Survey                           |
| Illinois Valley Community College               | State Universities Civil Service System                |
| Joliet Junior College                           | State Universities Retirement System                   |
| Kankakee Community College                      | State Water Survey                                     |
| Kaskaskia College                               | Triton College   |
| Kishwaukee College                              | The University of Illinois at Chicago                  |
| Lake Land College                               | University of Illinois - Alumni Association            |
| Lewis & Clark Community College                 | University of Illinois - Athletic Association          |
| Lincoln Land Community College                  | University of Illinois - Foundation                    |
| John A. Logan College                           | University of Illinois - Urbana                        |
| Moraine Valley Community College                | Waubonsee Community College                            |
| Morton College                                  | Western Illinois University                            |
| McHenry College                                 | John Wood Community College                            |

# INVESTMENT SECTION

## PERFORMANCE SUMMARY ANNUALIZED PERCENT RETURN For the periods 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 July 1, 1987 through June 30, 1988. Also, a statement of assets together with their fair market value was provided, showing the properties held as of June 30, 1988. The Northern Trust Company certifies that the statements contained therein are fairly presented and are true and accurate.

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

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

THE NORTHERN TRUST COMPANY

By:

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



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# INVESTMENT SUMMARY 1988

## 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 (SURS) invests in different types of assets and uses multiple managers as a method to ensure overall fund diversification. As of June 30, 1988, the System had retained the services of eight 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

The investment policy of SURS provides an efficient allocation of assets to achieve overall risk and return objectives. Proper implementation of this policy requires that a periodic adjustment, or "rebalancing," of assets be made to ensure conformance with policy target levels. Such rebalancing is necessary to reflect sizable cash flows and performance imbalances among asset classes and investment managers.

Because the stock market increased faster than the bond market in the spring and summer of 1987, the fund was rebalanced back to the target of 55 percent equity. Two moves were made: May 1987 for \$90 million and August 1987 for \$82 million. These two rebalancing moves reduced the impact of the October decline by about \$25 million. The unprecedented October decline required a \$150 million transfer from bonds to stocks during the fourth quarter of 1987. No further rebalancing was required in the fiscal year.

In September 1987, StocksPlus, a limited partnership, became the fund's first investment to use futures contracts exclusively as its investment medium. StocksPlus seeks to achieve a consistent extra margin of return over the S&P 500 Index by purchasing S&P 500 Index futures contracts and actively managing the cash reserve held to guarantee the contracts. There is no fee charged until the performance exceeds that of the S&P 500 Index. StocksPlus has performed as expected even during the turbulent markets of the fourth quarter of 1987.

The Board of Trustees authorized new investments of \$145 million in real estate during the fiscal year. These moves increased the real estate allocation towards the target of 15 percent of the total fund.

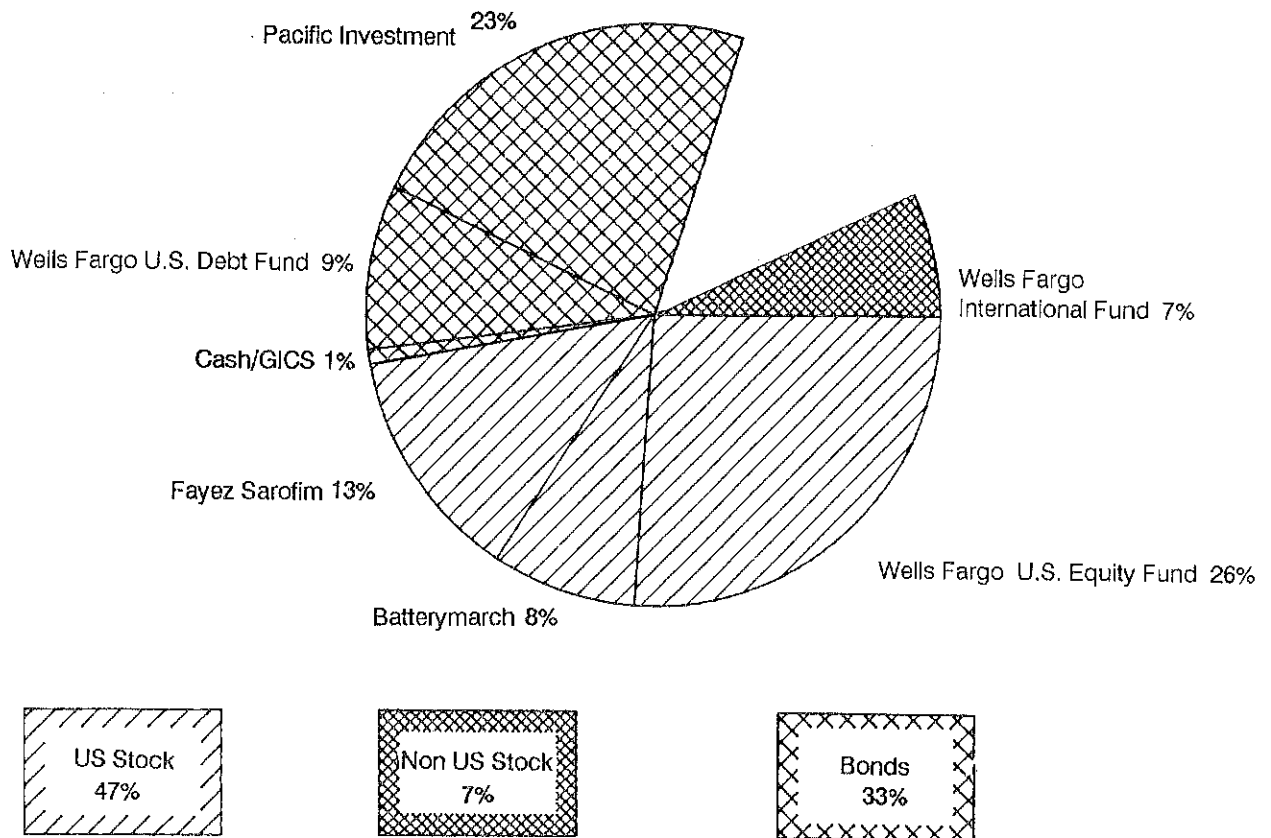
SURS's real estate investments are in high quality properties throughout the United States and Canada. SURS utilizes four managers for its real estate program.

The managers were selected to provide a total fund real estate portfolio diversified as to property type and geographic location.

# INVESTMENT SUMMARY 1988

By investing in real estate, SURS is seeking diversification and long-term appreciation. Real estate offers protection against inflation. SURS diversifies its investments by investing in three asset classes: stocks, bonds and real estate. Because there is not an overreliance on any one type of investment, the risk of the portfolio is significantly reduced.

## ASSET ALLOCATION AS OF JUNE 30, 1988



# INVESTMENT SUMMARY 1988

ASSET ALLOCATION AS OF JUNE 30, 1988  
(\$000)

|  | <u>Stocks</u>      | <u>Bonds</u>     | <u>Real<br/>Estate</u> | <u>Total</u>       | <u>Percent</u> |
|--|--------------------|------------------|------------------------|--------------------|----------------|
| <u>Stock Managers - Passive</u>  |                    |                  |                        |                    |                |
| Wells Fargo Investment Advisors<br>U.S. Equity Fund                    | \$ 791,173         |                  |                        | \$ 791,173         | 26             |
| Wells Fargo Investment Advisors<br>International Fund                  | 210,296            |                  |                        | 210,296            | 7              |
| Subtotal   | 1,001,469          |                  |                        | 1,001,469          | 33             |
| <u>Stock Managers - Active</u>   |                    |                  |                        |                    |                |
| Batterymarch Financial Management                                      | 240,830            | \$ 6,084         |                        | 246,914            | 8              |
| Fayez Sarofim & Co.<br>Pacific Investment Management Co.<br>StocksPlus | 384,143            | 7,292            |                        | 391,435            | 13             |
| Subtotal   | <u>633,788</u>     | <u>13,376</u>    |                        | <u>647,164</u>     | <u>21</u>      |
| <u>Bond Managers - Passive</u>   |                    |                  |                        |                    |                |
| Wells Fargo Investment Advisors<br>U.S. Debt Fund                      |                    | <u>259,184</u>   |                        | <u>259,184</u>     | <u>9</u>       |
| Subtotal   |                    | 259,184          |                        | 259,184            | 9              |
| <u>Bond Managers - Active</u>  |                    |                  |                        |                    |                |
| Pacific Investment Management Co.                                      | 1,081              | 683,895          |                        | 684,976            | 23             |
| The Northern Trust Co.<br>(short-term cash acct. & GICs)               |                    | <u>26,681</u>    |                        | <u>26,681</u>      | <u>1</u>       |
| Subtotal   | 1,081              | 710,576          |                        | 711,657            | 24             |
| <u>Real Estate Managers</u>  |                    |                  |                        |                    |                |
| Aetna Realty Investors<br>Real Estate Separate Account                 |                    |                  | \$ 76,548              | \$ 76,548          | 3              |
| Equitable Real Estate Management<br>Prime Property Fund                |                    |                  | 76,074                 | 76,074             | 2              |
| JMB Institutional Realty<br>Cadillac Fairview                          |                    | 1,515            | 56,453                 | 57,968             | 2              |
| Rosenberg Real Estate Equity Funds                                     |                    |                  | <u>189,951</u>         | <u>189,951</u>     | <u>6</u>       |
| Subtotal   |                    | <u>1,515</u>     | <u>399,026</u>         | <u>400,541</u>     | <u>13</u>      |
| TOTAL  | <u>\$1,636,338</u> | <u>\$984,651</u> | <u>\$399,026</u>       | <u>\$3,020,015</u> | <u>100</u>     |
| PERCENT  | 54                 | 33               | 13                     | 100                |                |

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# INVESTMENT SUMMARY 1988

## 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, 30 percent of the Salomon Brothers Broad Investment Grade Bond Index, and 15 percent of the Ennis, Knupp & Associates Real Estate 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 88 Market Environment

The year ended June 30, 1988, gave a new meaning to the term "stock market volatility." However, in spite of the largest one-day decline ever, stocks recovered much of their loss returning -6 percent for the year.

Diversification proved to be especially important during the volatile year. Foreign stocks, although also affected by the crash, recovered and finished the year slightly up. U.S. bonds also contributed positive returns for the year, as did real estate.

### Summary of Investment Results

Investment results for the fiscal year ended June 30, 1988, exceeded established goals for all categories. Total fund results exceeded the policy portfolio goal by 1.8 percent and the public fund's median by 1.9 percent for FY 88. U.S. stocks exceeded their goal by 0.2 percent and foreign stocks by 0.4 percent. Bonds and real estate exceeded their goals by 0.9 percent and 1.1 percent, respectively.

Less favorably, a poor stock market, together with mediocre bond, real estate, and foreign stock markets combined to provide a barely positive +0.5 percent policy goal return for the fiscal year. This market result, combined with the +1.8% above market performance, resulted in a +2.3 percent SURS total fund return for fiscal 1988.

A +2.3 percent result is less than the 8 percent needed to meet benefit funding requirements, but prior years' returns have been substantially in excess of 8 percent. Furthermore, by using book value to measure assets for funding purposes, the wide yearly fluctuations in market value are smoothed out over many years.

Longer-term results still have not equaled 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's longer-term results are less than the goal is in part a reflection of the difficulty of the goal.

While returns over the past five years have been substantially in excess of inflation, employer funding has lagged. Past inadequate funding, in addition to creating future cost problems for the System, has meant missing the important opportunity during the past five years to earn a very high return over inflation. It is unlikely that the same opportunity will occur again soon.

# INVESTMENT SUMMARY 1988

The following table summarizes investment results for the past five years.

## PERFORMANCE SUMMARY Annualized Percent Return for Periods Ending June 30

|  | 1984  | 1985 | 1986 | 1987 | 1988 | Annualized |         |
|--|-------|------|------|------|------|------------|---------|
|  |       |      |      |      |      | 3 Years    | 5 Years |
| <b>Total Fund</b>                      |       |      |      |      |      |            |         |
| SURS                                   | - 5.0 | 25.3 | 26.6 | 16.2 | 2.3  | 14.6       | 12.3    |
| Policy Portfolio                       | - 1.5 | 29.3 | 27.3 | 15.0 | 0.5  | 13.7       | 13.4    |
| CDA Public Retirement Funds Index      | - 4.6 | 26.6 | 26.1 | 13.7 | 0.4  | 12.9       | 11.8    |
| CPI                                    | 4.2   | 3.7  | 1.9  | 3.3  | 3.9  | 3.0        | 3.4     |
| <b>U.S. Common Stock Returns</b>       |       |      |      |      |      |            |         |
| SURS                                   | -14.3 | 26.6 | 35.2 | 22.9 | -5.8 | 16.1       | 11.2    |
| S&P 500 Stock Index                    | - 4.6 | 31.2 | 35.8 | 25.1 | -6.9 | 14.6       | 16.5    |
| Wilshire 5000                          | - 8.7 | 31.2 | 35.3 | 20.1 | -6.0 | 15.1       | 12.8    |
| <b>Foreign Stock Returns</b>           |       |      |      |      |      |            |         |
| SURS                                   |       |      |      | 60.2 | 4.8  |            |         |
| EAFE Index                             |       |      |      | 59.0 | 4.4  |            |         |
| <b>Bond Returns</b>                    |       |      |      |      |      |            |         |
| SURS                                   | 2.2   | 27.7 | 21.8 | 6.3  | 9.0  | 12.2       | 12.6    |
| Shearson/Lehman G/C Bond Index         | 1.8   | 28.7 | 20.6 | 4.7  | 7.5  | 10.7       | 12.2    |
| Salomon Broad Investment Grade Index   | 1.8   | 29.9 | 19.9 | 5.6  | 8.1  | 11.0       | 12.6    |
| <b>Real Estate Returns</b>             |       |      |      |      |      |            |         |
| SURS                                   |       |      | 8.9  | 5.3  | 7.4  | 7.2        |         |
| Ennis, Knupp & Assoc-Real Estate Index |       |      | 8.4  | 6.4  | 6.4  | 7.1        |         |
| <b>Asset Allocation</b>                |       |      |      |      |      |            |         |
| U.S. Stock                             | 43    | 48   | 47   | 49   | 47   | 48         | 47      |
| Non-U.S. Stock                         |       |      | 5    | 7    | 7    | 6          | 4       |
| Bonds                                  | 57    | 52   | 42   | 36   | 33   | 37         | 44      |
| Real Estate                            |       |      | 6    | 8    | 13   | 9          | 5       |

# INVESTMENT PORTFOLIO 1988

## EQUITIES

| COMMON STOCK             | Shares  | Book Value | Market Value |
|--------------------------|---------|------------|--------------|
| 1st Republic Bank Corp.  | 86,800  | \$609,336  | \$130,200    |
| Abbott Lab.              | 85,000  | 4,549,405  | 3,825,000    |
| Allied Signal Inc.       | 95,400  | 2,970,437  | 3,291,300    |
| Aluminum Co Amer.        | 101,900 | 3,463,026  | 5,426,175    |
| Amax Inc.                | 34,000  | 936,893    | 794,750      |
| Amer Info Technology     | 15,606  | 664,516    | 1,420,146    |
| Amer T.V. & Comm Corp.   | 50,000  | 925,000    | 1,262,500    |
| American Ecology Corp.   | 5,000   | 25,503     | 63,750       |
| American Express Co.     | 340,952 | 5,020,941  | 9,376,180    |
| American General Corp.   | 319,141 | 9,546,887  | 9,853,478    |
| American Home Prod Corp. | 90,000  | 4,021,538  | 6,648,750    |
| American Software Inc.   | 51,400  | 894,103    | 732,450      |
| American Stores Co.      | 75,000  | 4,184,725  | 3,881,250    |
| American Tel & Tel Co.   | 163,700 | 4,181,487  | 4,378,975    |
| Amfac Inc.               | 55,000  | 1,286,759  | 2,557,500    |
| Amoco Corp.              | 92,900  | 2,689,657  | 6,758,475    |
| Andrew Corp.             | 41,900  | 680,875    | 712,300      |
| Anheuser-Busch.          | 300,000 | 3,258,680  | 9,562,500    |
| Argonaut Group Inc.      | 22,000  | 235,714    | 946,000      |
| Armco Inc.               | 149,700 | 2,918,669  | 1,534,425    |
| Ashland Oil Inc.         | 12,800  | 649,856    | 928,000      |
| Ask Computer Sys Inc.    | 27,400  | 398,069    | 417,850      |
| AST Research Inc.        | 48,900  | 666,263    | 782,400      |
| Atlantic Richfield Co.   | 22,500  | 817,851    | 1,811,250    |
| Avon Products Inc.       | 7,100   | 165,080    | 170,400      |
| Baker Hughes Inc.        | 108,360 | 2,218,728  | 1,666,035    |
| Banta George Co Inc.     | 32,000  | 788,640    | 768,000      |
| Battle Mountain Gold.    | 74,100  | 375,716    | 1,241,175    |
| Bell Atlantic Corp.      | 22,252  | 727,328    | 1,599,363    |
| Bellsouth Corp.          | 54,935  | 1,105,799  | 2,362,205    |
| Bemis Co Inc.            | 81,800  | 1,365,043  | 2,024,550    |
| Bergen Brunswig Corp.    | 44,251  | 689,476    | 1,017,773    |
| Bethlehem Steel Corp.    | 116,400 | 1,323,028  | 2,779,050    |
| Big Bear Inc.            | 6,083   | 111,633    | 159,679      |
| Boeing Co.               | 64,950  | 1,893,591  | 3,815,813    |
| Brown Group Inc.         | 21,400  | 561,964    | 674,100      |
| Burlington Northern Inc. | 29,000  | 1,999,805  | 2,033,625    |
| Burndy Corp.             | 50,800  | 884,952    | 660,400      |
| Butler Mfg Co.           | 1,800   | 49,950     | 58,950       |
| Cabot Corp.              | 28,700  | 883,099    | 1,144,413    |
| Carolina Pwr & Lt Co.    | 43,100  | 1,336,630  | 1,476,175    |
| CBI Ind Inc.             | 26,600  | 745,598    | 814,625      |
| Champion Intl Corp.      | 99,900  | 2,302,191  | 3,608,888    |
| Champion Spark Plug      | 63,800  | 646,576    | 797,500      |
| Chase Manhattan Corp.    | 64,800  | 1,775,844  | 1,935,900    |
| Chemical Bkg Corp.       | 6,183   | 277,150    | 189,354      |
| Chevron Corp.            | 269,000 | 12,875,506 | 12,205,875   |
| Cigna Corp.              | 151,000 | 7,049,108  | 7,078,125    |
| CMS Energy Corp.         | 39,300  | 792,569    | 854,775      |
| Coca Cola Co.            | 315,000 | 5,801,881  | 12,285,000   |
| Coca Cola Enterprise     | 75,000  | 1,237,500  | 1,200,000    |
| Combustion Engr Inc.     | 34,000  | 1,137,657  | 1,224,000    |
| Commercial Intertec      | 35,500  | 528,288    | 692,250      |
| Commodore Intl Ltd.      | 88,300  | 805,481    | 1,136,863    |
| Commonwealth Edison Co.  | 44,700  | 1,341,894  | 1,251,600    |

# INVESTMENT PORTFOLIO 1988

## EQUITIES

| <u>COMMON STOCK</u>       | Shares  | Book Value | Market Value |
|---------------------------|---------|------------|--------------|
| Cons Freightways Inc.     | 35,250  | 755,395    | 1,057,500    |
| Conti Corp.               | 46,900  | 2,165,911  | 1,834,963    |
| Control Data Corp.        | 114,600 | 3,488,230  | 3,065,550    |
| Crane Co.                 | 54,600  | 1,325,758  | 1,706,250    |
| CSC Ind Inc.              | 8,600   | 45,943     | 16,125       |
| CTS Corp.                 | 16,200  | 662,419    | 425,250      |
| Cubic Corp.               | 38,600  | 733,916    | 607,950      |
| Cullum Companies Inc.     | 30,000  | 492,900    | 607,500      |
| Dallas Corp.              | 45,000  | 871,875    | 540,000      |
| Damon Corp.               | 46,750  | 792,150    | 1,244,719    |
| Dayton-Hudson Corp.       | 75,000  | 3,391,575  | 2,662,500    |
| Dennison Mfg Co.          | 48,400  | 1,547,868  | 1,318,900    |
| Diebold Inc.              | 41,700  | 1,548,773  | 1,699,275    |
| Dow Chem Co.              | 95,000  | 8,093,027  | 8,633,125    |
| Dresser Ind Inc.          | 83,600  | 2,128,804  | 2,434,850    |
| Du Pont E I De Nemours    | 116,700 | 6,803,826  | 10,838,513   |
| Eastman Kodak Co.         | 150,000 | 5,866,362  | 6,787,500    |
| Edison Bros Stores        | 23,100  | 855,850    | 615,038      |
| EDO Corp.                 | 5,200   | 88,004     | 92,300       |
| Electromagnetic Sci.      | 28,000  | 476,560    | 357,000      |
| Engelhard Corp.           | 59,100  | 1,616,688  | 1,174,613    |
| Enron Corp.               | 56,200  | 2,055,574  | 2,297,175    |
| Exxon Corp.               | 123,600 | 4,273,161  | 5,608,350    |
| F P L Group Inc.          | 39,000  | 1,162,980  | 1,189,500    |
| Fluke John Mfg Co.        | 34,949  | 836,716    | 598,502      |
| Ford Motor Co.            | 430,500 | 7,286,158  | 22,924,125   |
| Gen Nutrition Inc.        | 122,200 | 658,047    | 595,725      |
| General Motor Corp.       | 63,700  | 4,455,994  | 5,103,963    |
| General Dynamics Corp.    | 37,200  | 2,685,524  | 1,971,600    |
| General Electric Co.      | 350,000 | 7,324,815  | 15,356,250   |
| Greentree Accep Inc.      | 20,700  | 321,418    | 331,200      |
| Greyhound Corp.           | 25,300  | 633,006    | 755,838      |
| Grumman Corp.             | 63,400  | 1,628,443  | 1,378,950    |
| Halliburton Co.           | 65,000  | 2,735,674  | 1,909,375    |
| Harris Corp.              | 65,000  | 2,063,380  | 1,917,500    |
| Harsco Corp.              | 87,000  | 1,629,215  | 2,936,250    |
| Heinz H J Co.             | 125,000 | 3,770,328  | 5,062,500    |
| Helmerich & Payne         | 24,800  | 490,296    | 514,600      |
| Henley Group Inc.         | 23,850  | 286,358    | 560,475      |
| Henley Mfg Corp.          | 1,192   | 13,782     | 65,560       |
| Home Group Inc.           | 101,400 | 1,865,253  | 1,318,200    |
| Honeywell Inc.            | 27,300  | 1,575,434  | 1,934,888    |
| Houston Ind Inc.          | 55,200  | 1,532,904  | 1,711,200    |
| Hunt Mfg Co.              | 37,500  | 850,500    | 1,068,750    |
| Inco Ltd.                 | 275,000 | 7,705,958  | 8,937,500    |
| Ingersoll-Rand Co.        | 55,000  | 1,757,440  | 2,303,125    |
| Integrated Resources Inc. | 36,900  | 750,970    | 604,238      |
| Interco Inc.              | 23,850  | 846,993    | 1,067,288    |
| Interlake Corp Co.        | 28,800  | 1,143,201  | 1,310,400    |
| Intl Business Machine.    | 75,200  | 9,379,344  | 9,578,600    |
| Intl Multifoods Corp.     | 24,000  | 636,480    | 774,000      |
| ISC Sys Corp.             | 65,600  | 700,612    | 442,800      |
| ITT Corp.                 | 30,000  | 1,286,842  | 1,548,750    |
| K Mart Corp.              | 336,500 | 6,772,763  | 11,819,563   |
| Kansas City Pwr & Lt Co.  | 27,900  | 424,623    | 812,588      |

# INVESTMENT PORTFOLIO 1988

## EQUITIES

| <u>COMMON STOCK</u>       | Shares  | Book Value | Market Value |
|---------------------------|---------|------------|--------------|
| Kellogg Co.               | 160,000 | 5,158,472  | 8,740,000    |
| Kerr-Mc Gee Corp.         | 49,500  | 1,783,592  | 1,732,500    |
| Kraft Inc.                | 150,000 | 4,040,435  | 7,781,250    |
| Lennar Corp.              | 44,000  | 660,880    | 852,500      |
| Lilly Ell & Co.           | 100,000 | 3,804,295  | 8,375,000    |
| Lockheed Corp.            | 100,000 | 5,079,925  | 4,425,000    |
| Loews Corp.               | 100,000 | 6,742,410  | 6,562,500    |
| Logicon Inc.              | 18,000  | 468,540    | 362,250      |
| Louisiana Land & Expl Co. | 11,600  | 351,070    | 358,150      |
| Lukens Inc.               | 14,300  | 272,129    | 597,025      |
| Marsh & Mc Lennan Co.     | 75,000  | 4,814,445  | 4,134,375    |
| May Dept Stores Co.       | 200,000 | 5,451,190  | 6,775,000    |
| Mc Graw-Hill Inc.         | 90,000  | 2,755,279  | 5,197,500    |
| Mercantile Stores Co.     | 51,900  | 1,869,957  | 2,173,313    |
| Merck & Co Inc.           | 270,000 | 8,254,980  | 15,187,500   |
| Merrill Lynch & Co.       | 282,300 | 6,536,971  | 7,586,813    |
| MFR Hanover Corp.         | 7,200   | 179,244    | 216,900      |
| Middle States Utils.      | 165,800 | 2,236,441  | 2,279,750    |
| Minn Mng & Mfg Co.        | 90,000  | 4,096,484  | 5,940,000    |
| Mobil Corp.               | 232,600 | 3,289,555  | 10,118,100   |
| Mohasco Corp.             | 17,400  | 315,622    | 600,300      |
| Mosinee Paper Corp.       | 24,000  | 411,158    | 330,000      |
| Murphy Oil Corp.          | 53,500  | 1,682,728  | 1,665,188    |
| National Intergroup Inc.  | 37,900  | 858,246    | 620,613      |
| NCH Corp.                 | 3,800   | 116,926    | 168,150      |
| NCR Corp.                 | 42,300  | 1,186,301  | 2,781,225    |
| Newport Corp.             | 47,200  | 613,600    | 725,700      |
| Niagara Mohawk Power      | 69,600  | 904,705    | 1,052,700    |
| Nike Inc Cl B.            | 87,600  | 1,609,650  | 2,496,600    |
| NI Inds Inc Depositary    | 62,000  | 660,613    | 937,750      |
| NL Industries Inc.        | 62,000  | 185,377    | 418,500      |
| Norfolk So Corp.          | 68,700  | 1,752,996  | 2,000,888    |
| Nortek Inc.               | 65,300  | 959,819    | 546,888      |
| Norton Co.                | 31,500  | 1,191,381  | 1,874,250    |
| Nynex Corp.               | 20,808  | 632,858    | 1,388,934    |
| N.W.A Inc.                | 50,000  | 2,028,302  | 2,300,000    |
| Occidental Petro Co.      | 139,900 | 3,757,532  | 3,707,350    |
| Olin Corp.                | 34,600  | 1,429,042  | 1,730,000    |
| Optical Radiation.        | 27,400  | 684,648    | 369,900      |
| Outboard Marine Corp.     | 29,700  | 1,066,082  | 1,028,363    |
| Owens Corning             | 125,000 | 2,422,482  | 2,593,750    |
| Pac Telesis Group Co.     | 121,496 | 2,091,672  | 3,629,693    |
| Penney J.C. Co Inc Co.    | 125,000 | 3,325,215  | 6,078,125    |
| Pennwalt Corp.            | 25,600  | 1,635,155  | 2,076,800    |
| Pennzoil Co.              | 130,000 | 4,340,048  | 9,896,250    |
| Peoples Energy Corp.      | 63,500  | 1,219,858  | 1,238,250    |
| Pepsico Inc.              | 175,000 | 3,713,806  | 6,518,750    |
| Perkin-Elmer Corp.        | 61,300  | 2,315,301  | 1,578,475    |
| Petrolite Corp.           | 18,500  | 593,510    | 444,000      |
| Pfizer Inc.               | 160,000 | 5,501,174  | 8,260,000    |
| Phillip Morris            | 258,900 | 7,563,195  | 22,186,000   |
| Primerica Corp.           | 93,000  | 2,711,655  | 2,534,250    |
| Procter & Gamble Co.      | 85,000  | 4,523,849  | 6,587,500    |
| Quaker St Corp.           | 52,500  | 1,392,300  | 1,115,625    |
| Regis Corp.               | 33,000  | 553,410    | 561,000      |



# INVESTMENT PORTFOLIO 1988

## EQUITIES

|  | Shares            | Book Value             | Market Value           |
|--|-------------------|------------------------|------------------------|
| <u>COMMON STOCK</u>                          |                   |                        |                        |
| RJR Nabisco Inc.                             | 144,800           | 7,245,265              | 6,932,300              |
| Rohr Ind Inc.                                | 44,700            | 1,323,036              | 1,441,575              |
| Royal Dutch Petro Co.                        | 70,000            | 3,591,889              | 7,708,750              |
| Russ Togs Inc.                               | 15,450            | 229,484                | 214,369                |
| Savannah Foods & Ind.                        | 2,500             | 76,613                 | 70,000                 |
| Scherer R P Corp.                            | 43,200            | 685,983                | 1,188,000              |
| Sequa Corp.                                  | 8,500             | 294,250                | 575,875                |
| Shaklee Corp.                                | 63,000            | 1,441,590              | 1,409,625              |
| Smithkline Beckman                           | 150,000           | 7,092,267              | 6,693,750              |
| South Western Bell Corp.                     | 76,212            | 1,844,817              | 3,019,901              |
| SPX Corp.                                    | 47,400            | 1,555,148              | 1,771,575              |
| Stone & Webster Inc.                         | 17,300            | 865,346                | 1,163,425              |
| Sun Electric Corp.                           | 35,900            | 514,677                | 619,275                |
| Sundstrand Corp.                             | 24,500            | 1,421,217              | 1,387,313              |
| Sys Intergrators                             | 53,300            | 479,800                | 406,413                |
| Tambrands Inc.                               | 80,000            | 2,019,500              | 4,280,000              |
| Tandy Corp.                                  | 46,000            | 2,111,170              | 2,208,000              |
| Teledyne Inc.                                | 22,000            | 3,360,298              | 7,485,500              |
| Temple Inland Inc Co.                        | 47,550            | 1,242,772              | 2,543,925              |
| Texaco Inc.                                  | 63,000            | 2,159,451              | 2,953,125              |
| Texas Eastern Corp.                          | 69,500            | 2,002,828              | 1,780,938              |
| Texas Instr Inc.                             | 12,700            | 622,554                | 617,538                |
| TGI Fridays Inc.                             | 13,300            | 108,379                | 113,050                |
| Thomas & Betts Corp.                         | 12,500            | 748,020                | 700,000                |
| Thompson Med Co Inc.                         | 42,900            | 714,071                | 916,988                |
| Time Inc.                                    | 70,000            | 2,561,424              | 6,720,000              |
| Times Mirror Co.                             | 160,000           | 4,348,554              | 5,400,000              |
| Travelers Corp.                              | 183,600           | 6,784,493              | 6,747,300              |
| Un Pac Corp.                                 | 55,000            | 2,974,141              | 3,568,125              |
| Unisys Corp.                                 | 20,100            | 620,990                | 718,575                |
| Unitrode Corp.                               | 69,700            | 967,597                | 592,450                |
| Unocal Corp.                                 | 73,746            | 2,177,583              | 2,525,801              |
| Unvl Foods Corp.                             | 58,750            | 1,550,370              | 1,784,531              |
| USX Corp.                                    | 125,000           | 4,019,505              | 3,968,750              |
| U.S. West                                    | 22,272            | 620,833                | 1,255,584              |
| V F Corp.                                    | 39,000            | 777,936                | 1,150,500              |
| Varian Assoc Inc.                            | 46,800            | 1,837,836              | 1,444,950              |
| Veeco Instr Inc.                             | 43,000            | 860,860                | 881,500                |
| VWR Corp.                                    | 39,100            | 454,522                | 850,425                |
| Warner Communication                         | 140,000           | 4,221,945              | 5,092,500              |
| Warner-Lambert Co.                           | 85,000            | 4,865,517              | 5,758,750              |
| Webb Del Corp.                               | 23,600            | 516,722                | 339,250                |
| Willamette Ind Inc.                          | 38,000            | 932,662                | 1,928,500              |
| Woolworth F.W Co.                            | 25,200            | 470,315                | 1,313,550              |
| Wyman-Gordon Co.                             | 82,700            | 1,485,542              | 1,281,850              |
| Zayre Corp.                                  | 94,500            | 1,620,994              | 1,960,860              |
| <u>MUTUAL FUNDS AND LIMITED PARTNERSHIPS</u> |                   |                        |                        |
| Stockplus, Ltd Partnership                   | 100,000           | 10,000,000             | 8,814,590              |
| Wells Fargo Bnk Index Fd.                    | 11,136,994        | 514,016,856            | 563,156,034            |
| Wells Fargo Extd Eqty Mkt Fd.                | 9,531,970         | 217,051,572            | 228,017,448            |
| Wells Fargo International Fd.                | 3,974,709         | 123,124,929            | 210,295,843            |
| <u>PREFERRED STOCK</u>                       |                   |                        |                        |
| Toledo Edison Co.                            | 50,000            | 1,000,000              | 1,081,250              |
| <b>TOTAL EQUITIES</b>                        | <b>40,718,311</b> | <b>\$1,322,096,548</b> | <b>\$1,636,338,233</b> |

# INVESTMENT PORTFOLIO 1988

## FIXED INCOME SECURITIES

|                               | Moody's<br>Rating | Interest<br>Rate | Maturity<br>Date | Par Value  | Book Value | Market Value |
|-------------------------------|-------------------|------------------|------------------|------------|------------|--------------|
| <u>GOVERNMENT OBLIGATIONS</u> |                   |                  |                  |            |            |              |
| GOVERNMENT AGENCIES           |                   |                  |                  |            |            |              |
| Fed Home Ln Mtg Corp.         | AAA               | 8.750            | 04/01/08         | \$ 789,168 | \$ 630,348 | \$ 734,171   |
| Fed Home Ln Mtg Corp.         | AAA               | 9.400            | 09/15/08         | 1,760,400  | 1,249,884  | 1,724,083    |
| Fed Home Ln Mtg Corp.         | AAA               | 16.250           | 11/01/11         | 344,923    | 359,582    | 379,429      |
| Fed Natl Mtg Assn.            | AAA               | 8.500            | 05/15/01         | 101,732    | 99,984     | 97,154       |
| Fed Natl Mtg Assn.            | AAA               | 8.500            | 08/01/01         | 39,236     | 38,562     | 37,470       |
| Fed Natl Mtg Assn.            | AAA               | 8.500            | 09/01/01         | 511,332    | 502,543    | 488,322      |
| Fed Natl Mtg Assn.            | AAA               | 8.500            | 10/01/01         | 1,367,859  | 1,344,349  | 1,306,305    |
| Fed Natl Mtg Assn.            | AAA               | 8.500            | 05/01/02         | 945,192    | 897,341    | 902,658      |
| Fed Natl Mtg Assn.            | AAA               | 8.500            | 06/01/02         | 5,723,783  | 5,436,369  | 5,466,213    |
| Fed Natl Mtg Assn.            | AAA               | 14.750           | 08/01/12         | 1,830,685  | 2,012,610  | 2,009,177    |
| Fed Natl Mtg Assn.            | AAA               | 15.500           | 12/01/12         | 103,571    | 109,169    | 114,704      |
| Fed Natl Mtg Assn.            | AAA               | 15.750           | 12/01/11         | 1,076,195  | 1,131,353  | 1,191,875    |
| Fed Natl Mtg Assn.            | AAA               | 16.000           | 09/01/12         | 488,402    | 522,892    | 538,464      |
| Fed Natl Mtg Assn.            | AAA               | 16.000           | 09/12/12         | 1,210,212  | 1,285,503  | 1,334,259    |
| Gov Natl Mort Assn.           | AAA               | 8.000            | 11/15/16         | 970,467    | 821,864    | 864,618      |
| Gov Natl Mort Assn.           | AAA               | 8.000            | 02/15/17         | 1,189,816  | 1,007,625  | 1,060,042    |
| Gov Natl Mort Assn.           | AAA               | 8.000            | 03/15/17         | 1,622,126  | 1,367,367  | 1,445,152    |
| Gov Natl Mort Assn.           | AAA               | 8.000            | 04/15/17         | 1,188,753  | 1,005,199  | 1,059,096    |
| Gov Natl Mort Assn.           | AAA               | 8.000            | 05/15/17         | 1,162,562  | 984,545    | 1,035,762    |
| Gov Natl Mort Assn.           | AAA               | 8.000            | 06/15/17         | 4,860,090  | 4,388,726  | 4,372,483    |
| Gov Natl Mort Assn.           | AAA               | 8.000            | 07/15/17         | 248,133    | 207,501    | 221,069      |
| Gov Natl Mort Assn.           | AAA               | 8.500            | 12/15/05         | 141,362    | 118,987    | 133,675      |
| Gov Natl Mort Assn.           | AAA               | 8.500            | 02/15/07         | 190,929    | 160,709    | 180,547      |
| Gov Natl Mort Assn.           | AAA               | 9.000            | 09/15/08         | 13,033     | 11,534     | 12,638       |
| Gov Natl Mort Assn.           | AAA               | 9.000            | 11/15/08         | 24,490     | 21,674     | 23,747       |
| Gov Natl Mort Assn.           | AAA               | 9.000            | 01/15/09         | 31,532     | 27,906     | 30,576       |
| Gov Natl Mort Assn.           | AAA               | 9.500            | 05/15/09         | 77,982     | 70,282     | 77,203       |
| Gov Natl Mort Assn.           | AAA               | 9.500            | 06/15/09         | 208,631    | 188,381    | 205,846      |
| Gov Natl Mort Assn.           | AAA               | 9.500            | 08/15/09         | 977,295    | 822,173    | 955,306      |
| Gov Natl Mort Assn.           | AAA               | 9.500            | 09/15/09         | 324,124    | 292,282    | 316,831      |
| Gov Natl Mort Assn.           | AAA               | 9.500            | 10/15/09         | 111,480    | 100,472    | 108,972      |
| Gov Natl Mort Assn.           | AAA               | 9.500            | 01/15/10         | 78,043     | 70,336     | 76,287       |
| Gov Natl Mort Assn.           | AAA               | 9.500            | 05/15/13         | 55,467     | 49,990     | 54,219       |
| Gov Natl Mort Assn.           | AAA               | 10.500           | 09/15/10         | 12,660     | 12,534     | 13,088       |
| Gov Natl Mort Assn.           | AAA               | 10.500           | 01/15/16         | 20,260     | 20,058     | 20,919       |
| Gov Natl Mort Assn.           | AAA               | 11.000           | 08/20/13         | 1,427,340  | 1,272,412  | 1,512,538    |
| Gov Natl Mort Assn.           | AAA               | 11.500           | 10/20/13         | 1,278,647  | 1,168,926  | 1,381,335    |
| Gov Natl Mort Assn.           | AAA               | 11.500           | 12/20/13         | 540,247    | 492,676    | 583,635      |
| Gov Natl Mort Assn.           | AAA               | 11.500           | 04/20/14         | 225,316    | 201,742    | 243,411      |
| Gov Natl Mort Assn.....       | AAA               | 13.500           | 05/15/10         | 1,491      | 1,608      | 1,685        |
| Gov Natl Mort Assn.           | AAA               | 13.500           | 10/15/12         | 11,655     | 12,601     | 13,173       |
| Gov Natl Mort Assn.           | AAA               | 14.750           | 06/15/97         | 353,671    | 383,291    | 372,568      |
| Gov Natl Mort Assn.           | AAA               | 14.750           | 07/15/97         | 35,228     | 38,178     | 37,110       |
| Gov Natl Mort Assn.           | AAA               | 15.000           | 09/15/12         | 85,005     | 86,781     | 98,181       |
| Total Government Agencies     |                   |                  |                  | 33,760,526 | 31,028,846 | 32,835,994   |
| U.S. GOVERNMENT               |                   |                  |                  |            |            |              |
| U.S. T-note Strpd int.        | AAA               | 0.000            | 08/15/98         | 10,000,000 | 3,685,000  | 4,050,400    |
| U.S. Treasury Notes.          | AAA               | 7.125            | 04/30/89         | 5,000,000  | 5,012,109  | 4,981,250    |
| U.S. Treasury Notes.          | AAA               | 7.250            | 05/16/16         | 33,400,000 | 26,704,446 | 27,450,458   |

# INVESTMENT PORTFOLIO 1988

## FIXED INCOME SECURITIES

|                                   | Moody's<br>Rating | Interest<br>Rate | Maturity<br>Date | Par Value            | Book Value           | Market Value         |
|-----------------------------------|-------------------|------------------|------------------|----------------------|----------------------|----------------------|
| <u>GOVERNMENT OBLIGATIONS</u>     |                   |                  |                  |                      |                      |                      |
| U.S. GOVERNMENT                   |                   |                  |                  |                      |                      |                      |
| U.S. Treasury Notes.              | AAA               | 8.125            | 02/15/98         | 30,600,000           | 28,691,356           | 29,184,750           |
| U.S. Treasury Notes.              | AAA               | 8.500            | 09/30/89         | 22,000,000           | 22,491,563           | 22,178,640           |
| U.S. Treasury Notes.              | AAA               | 9.500            | 08/15/88         | 5,185,000            | 5,229,559            | 5,200,399            |
| U.S. Treasury Notes.              | AAA               | 12.375           | 04/15/91         | 4,750,000            | 5,219,805            | 5,238,348            |
| Total U.S. Government             |                   |                  |                  | 110,935,000          | 97,033,836           | 98,284,245           |
| Total U.S. Government Obligations |                   |                  |                  | <u>\$144,695,526</u> | <u>\$128,062,683</u> | <u>\$131,120,239</u> |

## CORPORATE OBLIGATIONS

|                             |      |        |          |             |             |             |
|-----------------------------|------|--------|----------|-------------|-------------|-------------|
| Ford Mtr Cr Floating Rt.    | A    | 6.125  | 10/21/92 | 1,500,000   | 1,498,500   | 1,496,250   |
| Gen Mtr Accept Corp.        | AA3  | 6.950  | 12/11/89 | 5,000,000   | 4,814,450   | 4,906,250   |
| Sumitomo Tr & Bk Corp:      | AAA  | 8.350  | 05/15/89 | 3,000,000   | 2,995,530   | 2,992,500   |
| Consumer Pwr Co.            | BBB  | 8.750  | 02/15/98 | 3,900,000   | 3,889,080   | 3,829,020   |
| Niagra Mohawk Pwr Corp.     | A    | 9.100  | 05/15/91 | 4,000,000   | 3,998,000   | 3,797,800   |
| Chrysler Finl Corp.         | BAA2 | 9.650  | 10/31/89 | 5,000,000   | 5,124,200   | 5,068,750   |
| Occidental Petro Corp.      | BBB  | 9.650  | 10/15/94 | 9,500,000   | 7,352,073   | 9,250,625   |
| Phil Elec Co.               | BB   | 10.375 | 02/15/96 | 6,500,000   | 6,461,875   | 6,500,000   |
| Texaco Cap Euro Note.       | BAA2 | 10.500 | 11/15/90 | 3,776,000   | 3,799,600   | 3,780,720   |
| Bvps Funding Corp.          | BBB  | 11.000 | 06/01/17 | 10,500,000  | 10,500,000  | 10,639,440  |
| Internorth Inc.             | BBB  | 11.500 | 12/01/94 | 5,300,000   | 5,881,350   | 5,512,000   |
| Citicorp                    | AA   | 11.875 | 02/01/95 | 13,442,000  | 14,432,675  | 14,022,829  |
| Ohio Edison Co.             | BBB  | 11.875 | 06/15/10 | 5,000,000   | 5,189,975   | 5,287,500   |
| Chrysler Corp.              | BBB  | 12.000 | 11/15/15 | 4,000,000   | 4,441,250   | 4,271,240   |
| Gulf St Utils Co.           | B    | 12.125 | 07/01/16 | 1,000,000   | 1,006,250   | 945,000     |
| Phillips Petro Co.          | BB   | 12.250 | 10/15/12 | 20,000,000  | 17,856,200  | 21,100,000  |
| Long Island Ltg.            | B    | 13.250 | 06/15/95 | 3,000,000   | 3,044,400   | 3,217,500   |
| Carolina Pwr & Lt Co.       | A    | 13.375 | 04/01/94 | 3,750,000   | 4,115,625   | 4,011,375   |
| Gulf St Utils Co.           | B    | 13.750 | 03/01/94 | 6,000,000   | 6,660,000   | 6,137,640   |
| American Airlines.          | A1   | 14.375 | 01/06/05 | 3,000,000   | 3,772,500   | 3,611,100   |
| Philadelphia Elec Co.       | BB   | 14.500 | 02/15/09 | 6,800,000   | 7,891,923   | 7,692,500   |
| Phillips Petro Co.          | BB   | 14.750 | 03/15/00 | 3,750,000   | 4,094,063   | 4,321,875   |
| B.C. Hydro & Pwr Auth..     | AA   | 15.000 | 04/15/11 | 5,000,000   | 7,062,500   | 6,506,250   |
| Gulf St Utils Co.           | B    | 15.000 | 09/01/12 | 1,750,000   | 2,023,438   | 1,828,750   |
| Conn Lt & Pwr Co.           | BBB  | 15.000 | 10/01/12 | 445,000     | 508,746     | 459,587     |
| Long Island Ltg.            | B    | 15.250 | 10/01/00 | 3,750,000   | 4,087,500   | 4,111,875   |
| Louisiana Pwr & Lt Co..     | BB   | 15.250 | 12/01/14 | 8,600,000   | 10,063,539  | 8,858,000   |
| B.C. Hydro & Pwr Auth..     | AA   | 15.500 | 07/15/11 | 500,000     | 748,865     | 670,625     |
| Long Island Ltg.            | B    | 17.125 | 06/01/12 | 5,000,000   | 5,643,758   | 5,663,454   |
| Total Corporate Obligations |      |        |          | 152,763,000 | 158,957,865 | 160,490,455 |

## MISCELLANEOUS FIXED INCOME SECURITIES

### INSURANCE CONTRACTS

|                     |    |        |          |           |           |           |
|---------------------|----|--------|----------|-----------|-----------|-----------|
| Connecticut Mututal | 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 | 5,662,746 | 5,662,746 | 5,662,746 |

# INVESTMENT PORTFOLIO 1988

## FIXED INCOME SECURITIES

|  | Moody's<br>Rating | Interest<br>Rate | Maturity<br>Date | Par Value            | Book Value           | Market Value         |
|--|-------------------|------------------|------------------|----------------------|----------------------|----------------------|
| <u>MISCELLANEOUS FIXED INCOME SECURITIES</u> |                   |                  |                  |                      |                      |                      |
| MORTGAGE BACKED SECURITIES                   |                   |                  |                  |                      |                      |                      |
| Rural Housing                                | AAA               | 6.330            | 06/01/97         | 5,000,000            | 4,157,500            | 4,604,688            |
| Rural Housing                                | AAA               | 6.830            | 05/01/94         | 1,959,999            | 1,857,099            | 1,912,224            |
| Trust One                                    | AAA               | 7.250            | 04/23/17         | 4,714,176            | 4,549,180            | 4,331,149            |
| USAT Mtg Secs Inc.                           | AAA               | 8.600            | 06/25/03         | 3,203,277            | 3,173,246            | 3,163,236            |
| Ryland Accep Corp.                           | AAA               | 8.900            | 02/01/02         | 4,214,083            | 4,216,717            | 4,153,506            |
| Home Svg & Ln Assn.                          | AAA               | 10.000           | 07/01/09         | 496,655              | 458,164              | 476,789              |
| Mtg & Tr Inc Mtg.                            | AAA               | 10.500           | 12/20/13         | 754,771              | 644,174              | 779,301              |
| ISFA Mtg Fdg Corp.                           | AAA               | 10.950           | 11/01/15         | 5,240,225            | 4,737,621            | 5,290,989            |
| Ryland Accep Corp.                           | AAA               | 11.600           | 06/01/03         | 2,260,272            | 2,330,905            | 2,306,183            |
| Bank of America.                             | BBB               | 11.875           | 04/01/10         | 178,120              | 139,321              | 181,487              |
| Investors GNMA Bkd.                          | AAA               | 11.900           | 01/25/14         | 5,000,000            | 4,717,000            | 5,428,125            |
| Manufactured Hsg.                            | AAA               | 13.250           | 01/15/99         | 2,978,476            | 2,953,790            | 3,462,776            |
| Manufactured Hsg.                            | AAA               | 13.250           | 01/15/99         | 1,658,648            | 1,643,963            | 1,928,344            |
| MUTUAL FUNDS                                 |                   |                  |                  |                      |                      |                      |
| Wells Fargo U.S. Debt..                      | NR                | N/A              | 12/31/99         | 22,761,244           | 267,957,910          | 259,184,516          |
| PRIVATE PLACEMENTS                           |                   |                  |                  |                      |                      |                      |
| Mazda Mtr Mfg.                               | AAA               | 10.500           | 07/01/08         | 3,300,000            | 3,300,000            | 3,729,271            |
| Total Miscellaneous Fixed Income.            |                   |                  |                  | 63,719,946           | 315,839,100          | 309,935,093          |
| Total Fixed Income Securities                |                   |                  |                  | <u>\$361,178,472</u> | <u>\$602,859,647</u> | <u>\$601,545,786</u> |

## SHORT-TERM INVESTMENTS

|                              |     |       |          |                      |                      |                      |
|------------------------------|-----|-------|----------|----------------------|----------------------|----------------------|
| Assoc Corp-N America.        | P1  | 7.300 | 07/19/88 | 34,000,000           | \$33,717,328         | \$33,880,433         |
| Bnk New Eng E-Dollr.         | P1  | 7.435 | 07/07/88 | 17,000,000           | 17,000,000           | 17,081,498           |
| Borden Inc.                  | P1  | 7.350 | 07/06/88 | 3,000,000            | 2,994,488            | 2,997,047            |
| Fedi Business Devel Bk.      | P1  | 7.300 | 07/20/88 | 17,000,000           | 16,858,664           | 16,936,902           |
| Ford Mtr Cr Corp.            | P1  | 7.770 | 07/08/88 | 2,400,000            | 2,400,000            | 33,955,610           |
| Ford Mtr Cr Corp.            | P1  | 7.100 | 07/08/88 | 34,000,000           | 33,664,722           | 2,400,495            |
| Ford Mtr Cr Corp.            | P1  | 7.550 | 07/07/88 | 1,800,000            | 1,800,000            | 1,800,729            |
| Gen Mtr Accep Corp.          | P1  | 7.400 | 07/06/88 | 34,000,000           | 33,748,400           | 33,969,173           |
| Gen Mtr Accep Corp.          | P1  | 6.650 | 08/01/88 | 33,000,000           | 32,256,308           | 33,967,517           |
| General Elec Credit Cor.     | P1  | 7.125 | 07/06/88 | 34,000,000           | 33,677,000           | 33,381,027           |
| General Elec Finl Svcs.      | P1  | 7.375 | 07/19/88 | 33,500,000           | 33,252,938           | 32,876,303           |
| Northern Tr Govt Fd.         | NR  | *     | *        | 18,020,322           | 17,677,417           | 17,697,420           |
| Northern Tr Inv Fd.          | NR  | *     | *        | 53,446,458           | 53,446,458           | 53,446,458           |
| Sears Roebuck Accept.        | P1  | 7.100 | 07/05/88 | 34,000,000           | 33,671,428           | 33,974,098           |
| Toronto Domin US Hldg.       | P1  | 6.940 | 07/06/88 | 34,000,000           | 33,593,624           | 33,968,335           |
| U.S. Treas Bill              | AAA | 6.410 | 09/01/88 | 300,000              | 294,618              | 296,571              |
| U.S. Treas Bill              | AAA | 5.980 | 07/07/88 | 200,000              | 196,907              | 199,776              |
| U.S. Treas Bill              | AAA | 6.600 | 09/29/88 | 210,000              | 206,404              | 206,518              |
| U S Treas Bill               | AAA | 5.890 | 08/04/88 | 70,000               | 68,878               | 69,563               |
| Total Short-Term Investments |     |       |          | <u>\$383,946,780</u> | <u>\$380,525,582</u> | <u>\$383,105,473</u> |

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

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# INVESTMENT PORTFOLIO 1988

## REAL ESTATE

|  | Book Value           | Market Value         |
|--|----------------------|----------------------|
| Aetna Realty, Real Estate Separate Acct.       | \$77,731,416         | \$76,547,908         |
| CFCL Acquisition Corp, Common Stock            | 39,473,684           | 45,064,318           |
| CFCL Acquisition Corp, 13.5% Deb, Due 10/31/12 | 10,526,316           | 11,389,265           |
| Equitable Real Estate Prime Property Fund.     | 75,733,791           | 76,073,655           |
| Rosenberg Real Estate Equity Funds.            | 178,448,815          | 189,951,330          |
| Total Real Estate                              | <u>\$381,914,022</u> | <u>\$399,026,476</u> |

## FUTURES

|                           | Number of Contracts | Expiration Date |
|---------------------------|---------------------|-----------------|
| U.S. Treasury Bond - Long | 1,379               | September, 1988 |
| U.S. Treasury Bond - Long | 1,260               | September, 1988 |

One mechanism that 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.

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