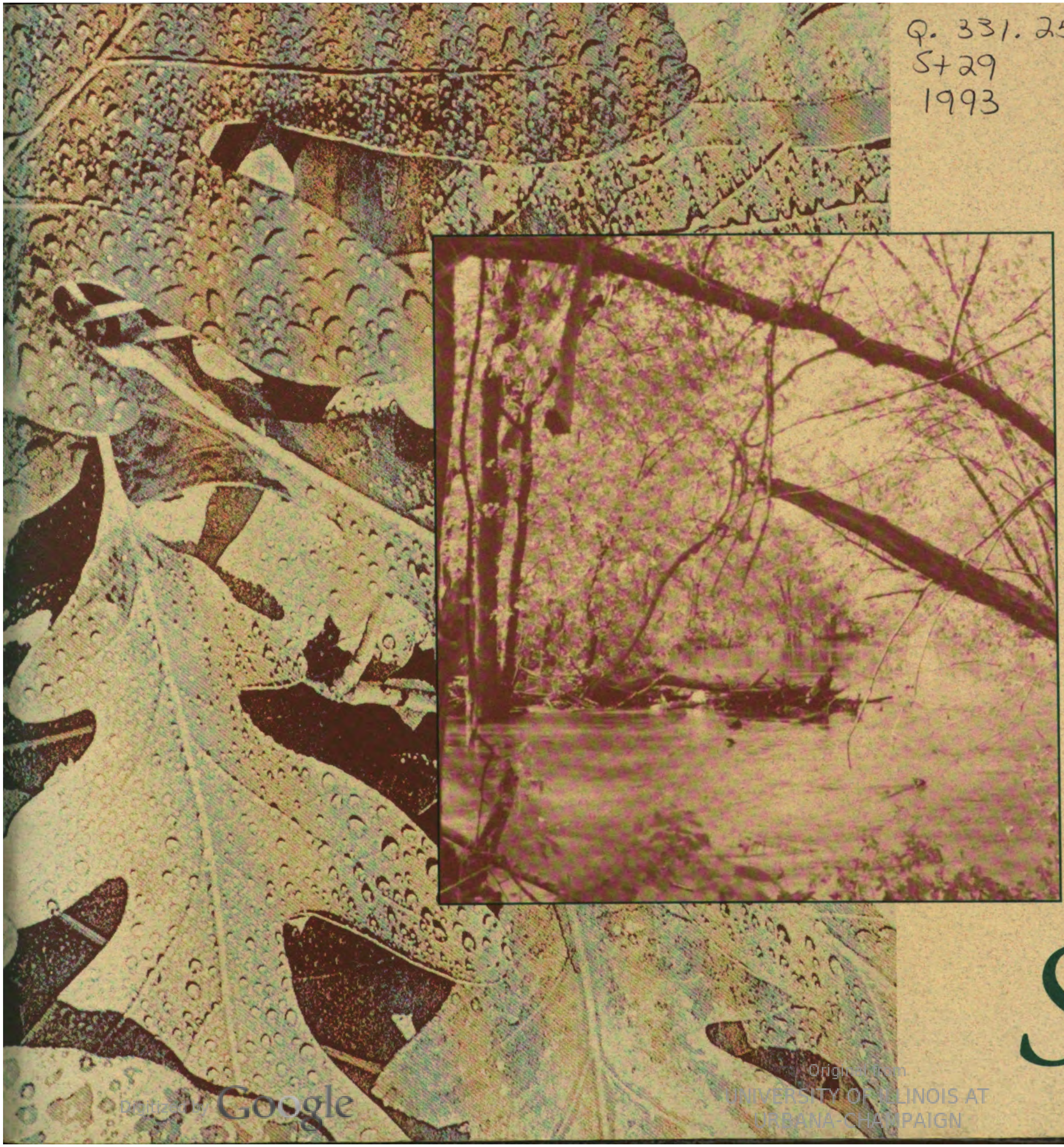

COMPONENT UNIT FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1993

STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS
SURS

State Universities Retirement
System of Illinois

COMPONENT UNIT FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1993

Prepared by the Finance Division

SURS

STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS

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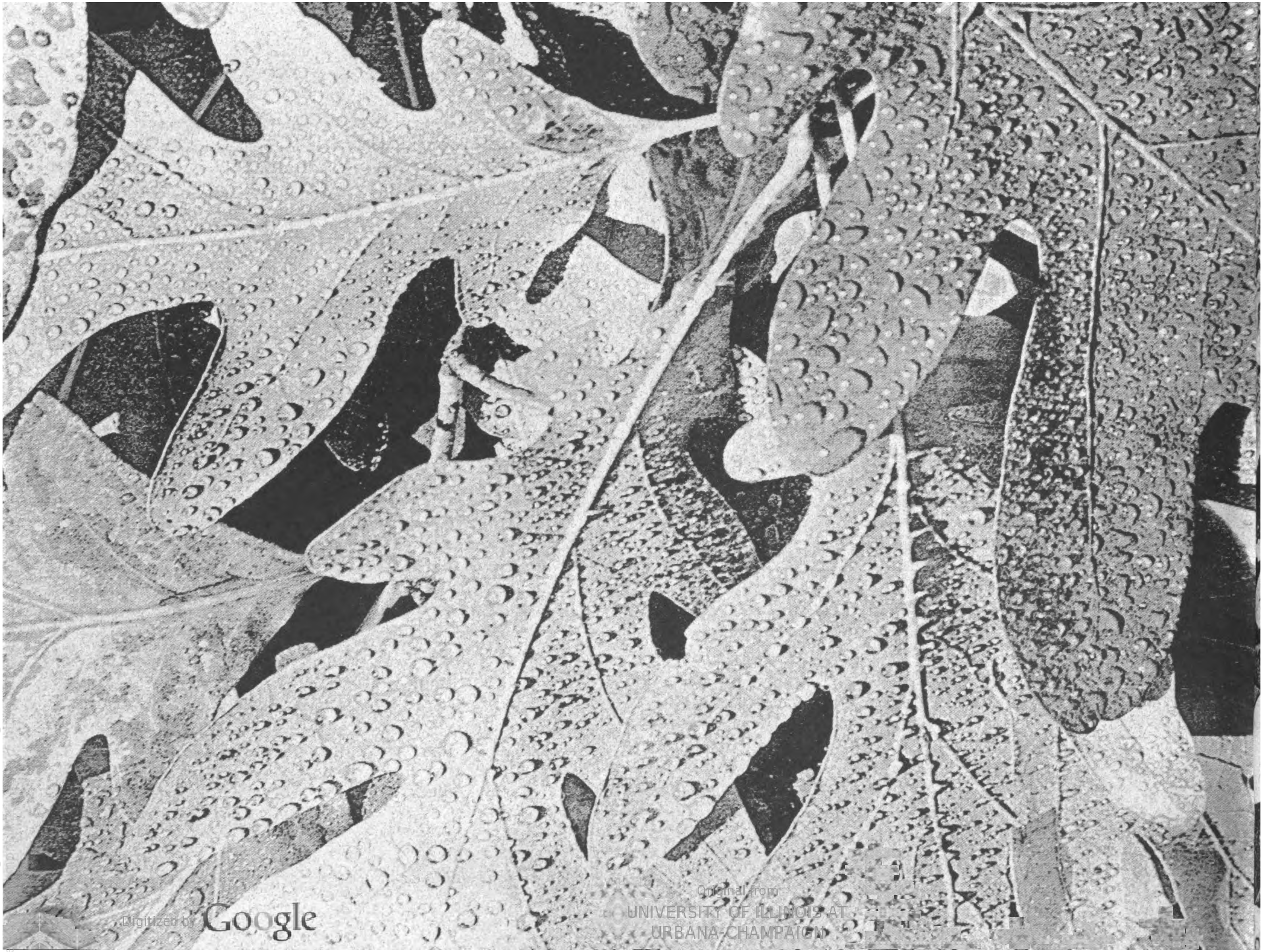


INTRODUCTORY SECTION

VIGILANCE.

The agile deer is wary and cautious of the unknown, always searching for tranquility and camouflage in its native habitat. The deer is expert at evading predators and protecting its family.

CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Universities Retirement System of Illinois

For its Component Unit
Financial Report
for the Fiscal Year Ended
June 30, 1992

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 component unit financial reports (CUFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

LETTER OF TRANSMITTAL

S U R S — Universities Retirement System of Illinois State

State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities

1901 Fox Drive
Champaign, IL 61820-7333
(217) 333-3860 • (217) 333-8255 (FAX)

December 10, 1993

Board of Trustees and Executive Director
State Universities Retirement System
1901 Fox Drive
Champaign, Illinois 61820-7333

I am pleased to present the 52nd Annual Component Unit 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, community colleges, certain affiliated organizations, certain other state educational and scientific agencies, and the survivors, dependents, and other beneficiaries of those employees.

SURS management is charged with the responsibility of making available to participants and benefit recipients its financial statements, including the opinion of the independent certified public accountants regarding those statements. This report represents that responsibility.

The annual report is divided into five sections:

- The Introductory Section contains this transmittal letter, identification of the trustees, staff, consultants, and the administrative organization;
- The Financial Section contains the report of the independent public accountants, the financial statements, and notes;
- The Actuarial Section contains the report of the actuary and the results of the most recent actuarial valuation;
- The Statistical Section contains significant data pertaining to participants and benefit recipients; and
- The Investment Section contains the custodian bank's certification of the assets held in safekeeping, reports and tables concerning asset allocation, and investment performance.

The 52nd Annual Component Unit Financial Report for the State Universities Retirement System has a nature theme, focusing on the characteristics of animals indigenous to the state of Illinois. Many times we look to the parables of nature to help us understand the nature of humans. Understandably, these are also the characteristics of organizations: Vigilance; Initiative; Loyalty; Organization; and Attentiveness. Through this report SURS provides you with a look at nature, to illustrate the underlying values of this organization.

ECONOMIC CONDITIONS AND OUTLOOK

The U.S. economy grew slightly during fiscal year 1993; however, the recession of the early 1990's continued to have a negative impact on many state and local governments, including Illinois. The impact of new federal regulations on the state level also contribute to uncertainties relating to state budget distribution.

The State of Illinois, the largest employer covered by SURS, again looked to its pension funds to solve its budget woes. The State adopted *Public Act 86-0273* in August 1989, which was to implement a financing objective that would ultimately provide adequate funding of SURS. The Act was ignored as a basis of funding SURS during 1993, just as it has been ignored since the law was enacted. It appears that this policy will continue.

The state funding of SURS comes from two sources:

- The General Revenue Fund provides the largest portion of state funding. In the legislative session just ended, an additional $2.4 million was appropriated over the fiscal year 1993 level.
- The State Pension Fund is the only dedicated source of funds to the state's five public pension plans. The State Pension Fund is funded with the proceeds from unclaimed property. During 1993, the unclaimed property laws were amended, changing the definition of unclaimed property from seven years to five years. This bolstered the fund during 1993. The amount anticipated from this fund in fiscal year 1994 will be $5 million less than during fiscal year 1993.

In summary, the state funding of SURS will drop $2.6 million during fiscal year 1994.

SURS exists for the benefit of the employees of public higher education in Illinois. If benefits are to be improved, the funding of current benefits must be addressed as well as the adoption of a policy for funding such benefit improvements.

During fiscal year 1993, an early retirement incentive was enacted for the members of SURS. The costs of the Early Retirement Option Window was addressed in full, and the benefit improvement was enacted with full funding. The SURS Board of Trustees has taken the position that any new, enhanced or incentive benefits must be fully funded before they can support such legislation.

Projections indicate that the System will experience a negative cash flow during fiscal year 1994, resulting in the Board of Trustees redirecting investment income to cover benefit payments. The funding of Illinois' public employee retirement systems must become a priority.

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 21,100 monthly benefit payments. More than 80% of these were paid via electronic funds transfer (EFT), ensuring that the monthly benefit is in the recipient's account on the day it is payable. Many recipients like to have a more tangible indication of payment;

therefore, in an effort to provide this sense of security and still encourage the use of EFTs, SURS mails a monthly EFT statement to each benefit recipient's home to confirm their deposit has been made.

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. The *Personal Benefits Summary Statement* was issued for the sixth consecutive year allowing participants to compare this year's projected benefits with projections from the years before. This comparison gives participants a greater sense of what an additional year of service is worth. The statement provides 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.

SURS maintains an active counseling schedule at its Champaign and Oak Brook offices, at the location of individual employers, and at 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. In addition, SURS keeps all of its members up-to-date on pertinent pension developments with three newsletters each year.

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

A new department was added to the SURS organization during 1993. The Customer Service Department was added to better serve the members in their inquiries to the System. This department has enhanced responsiveness and at the same time allows other SURS employees to specialize in what they do best.

One administrative project in particular is being designed to improve the services the System provides:

SURS Information Engineering

While demands for information accelerate, constant improvement cannot always provide the best solution. There comes a time when an organization must look at how it does business and reengineer its processes and information systems. In March 1993, SURS began such a project. Currently, strategic and tactical planning have been completed. Before May 1995, the processes that drive SURS will be analyzed and application programs will be redesigned into an information system that will serve SURS well into the 21st century.

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 maintains an internal audit program that employs the services of an independent accountant to function as internal auditor to determine that all controls implemented are being accomplished.

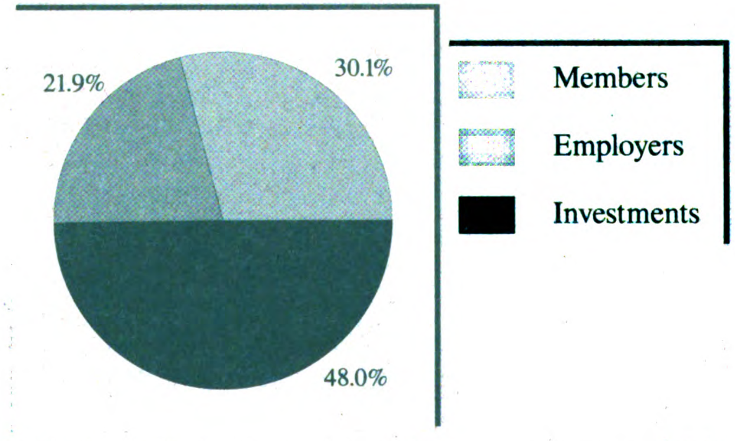
Revenues and Expenses

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 1993 totaled $583.2 million, a decrease of 9.1% over 1992. As summarized, the decrease is due to realized gains on securities during the year being less than the previous year.

REVENUES *($ MILLIONS)*

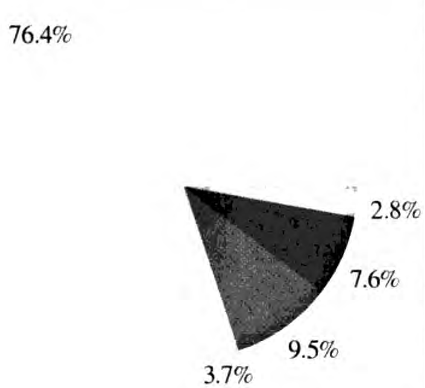
SOURCE	1993	1992	% CHANGE
Member Contributions	$175.7	$170.4	3.1
Employer Contributions	127.8	108.6	17.7
Investment Income	279.7	362.4	-22.8
	$583.2	$641.4	-9.1

Where the Money Came From



The primary expense of a retirement system relates to the purpose for which it is created, namely, the payment of benefits. Consequently, benefits, refunds to terminated employees, and the cost of administering the system comprise the total expenses. These expenses for fiscal year 1993 were $296.1 million, an increase of 9.8% over expenses for 1992. As summarized, the increase is due to an overall growth in benefits paid.

Where the Money Went



EXPENSES *($ MILLIONS)*

SOURCE	1993	1992	% CHANGE
Retirement	$226.1	$199.7	13.2
Disability	10.8	10.1	6.9
Survivors	20.2	18.1	11.6
Deaths	8.0	9.4	-14.9
Refunds	22.6	24.7	-8.5
Administrative	8.4	7.6	10.5
	$296.1	$269.6	9.8

Income exceeded expenses by $287.1 million.

FUNDING

The pension benefit obligation at June 30, 1993, amounted to $7.8 billion as calculated by the projected unit credit method. The assets available at June 30, 1993, amounted to $4.2 billion. The amount by which the liability exceeds the assets is called the ***unfunded accrued actuarial liability.*** This liability amounts to $3.6 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.

Public Act 86-0273 requires increased state appropriations, so that by 1996 the appropriation will be equal to normal cost plus an amount to amortize the unfunded liability over 40 years as a level percent of payroll. The financing objective adopted by the State is disclosed in greater detail in the Actuarial Section. For fiscal year 1993, State funding for retirement fell $41.1 million short of fulfilling the financing objective prescribed by *Public Act 86-0273.* This material violation of State Statutes is detailed in the notes to the financial statements.

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.

Investment policy provides for a goal of 55% of the fund to be invested in common stock, 10% of which may be invested in non-U.S. common stock; 35% in fixed income; and 10% in real estate. The fund is managed by professional firms who serve as fiduciaries and are afforded full discretion.

All SURS 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.

Yield information is detailed in the Investment section of this report. Taken as a whole, the SURS portfolio of investments produced a return of 11.2%.

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 1993 financial statement has been included in this report.

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 SURS for its component unit financial report for the fiscal year ended June 30, 1992. This is the ninth 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.

APPOINTMENT OF TRUSTEES

During the year, four appointments were made to the SURS Board of Trustees. Additionally, Mr. William R. Norwood was re-elected President of the Board, Mr. Eugene T. Flynn was elected Vice President, and Dr. Arthur L. Aikman was re-elected Treasurer.

Dr. Arthur L. Aikman was re-appointed by Governor James Edgar as an annuitant trustee of the Board. His previous appointment was as a member trustee. The Governor also appointed Dr. Stanley G. Rives as a member trustee of the Board.

Mr. Thomas R. Lamont was appointed by the University of Illinois replacing Mr. Donald W. Grabowski.

Ms. Nancy H. Froelich was appointed by the Board of Governors, replacing Mr. Robert J. Ruiz.

ACKNOWLEDGEMENTS

The preparation of the annual report by the Finance Division 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.

Respectfully submitted,

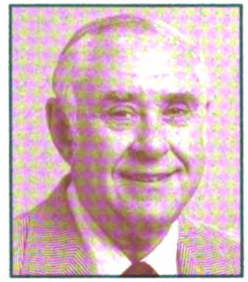
Bryan S. Bloom

Bryan S. Bloom, CPA, CCM
Assistant Executive Director

BOARD OF TRUSTEES

William R. Norwood, President
Rolling Meadows
Board of Trustees of Southern Illinois University

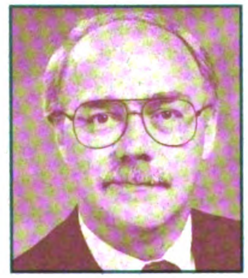
Eugene T. Flynn, Vice-President
Neoga
Member Trustee



Arthur L. Aikman, Treasurer
Carbondale
Annuitant Trustee

James A. Gentry
Urbana
Member Trustee

Robert E. Sechler
Rockford
Illinois Community College Board



Emil C. Haeflinger
Washington
Illinois Community College Board

Sylvia R. Nichols
Edwardsville
Board of Regents

Kenneth R. Boyle
Chatham
Board of Trustees of the University of Illinois

Stanley G. Rives
Charleston
Member Trustee

Thomas R. Lamont
Springfield
Board of Trustees of The University of Illinois

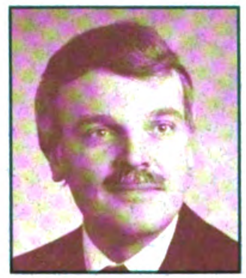
Nancy H. Froelich
Lake Bloomington
Board of Governors

ADMINISTRATIVE STAFF

Dennis D. Spice
Executive Director

James S. Beedie
Associate Executive Director

Bryan S. Bloom, CPA, CCM
Assistant Executive Director



Kenneth E. Codlin
Chief Investment Officer

Jeanne Valcik, CPA
Associate Investment Officer

Shelley M. Porter, CPA
Deputy Director
Finance

Judy Rathgeber
Deputy Director
Participant Services

Judith P. Weathington
Deputy Director
Benefit Services

ORGANIZATIONAL CHART

CONSULTING AND PROFESSIONAL SERVICES

ACTUARY

The Wyatt Company - Chicago, Illinois

AUDITOR

Deloitte & Touche - Springfield, Illinois (Acting as Special Assistant Auditor for the Illinois office of the Auditor General)

LEGAL COUNSEL

Skadden, Arps, Slate, Meagher & Flom - Chicago, Illinois

Thomas, Mamer & Haughey - Champaign, Illinois

MASTER CUSTODIAN & PERFORMANCE MEASUREMENT

The Northern Trust Company - Chicago, Illinois

INVESTMENT CONSULTANT

Ennis, Knupp & Associates, Inc. - Chicago, Illinois

INFORMATION SYSTEMS

Cagle & Associates, Inc. - Champaign, Illinois

INVESTMENT ADVISORS

Aetna Realty Investors, Inc. - Hartford, Connecticut

Amerindo Investment Advisors - San Francisco, California

Ariel Capital Management - Chicago, Illinois

Brinson Partners, Inc. - Chicago, Illinois

Equitable Real Estate Management, Inc. - New York, New York

Fayez Sarofim & Company - Houston, Texas

Fisher Investments, Inc. - Woodside, California

IDS International, Inc. - Minneapolis, Minnesota

JMB Institutional Realty Corporation - Chicago, Illinois

Martin Currie, Inc. - Edinburgh, Scotland

Pacific Investment Management Company - Newport Beach, California

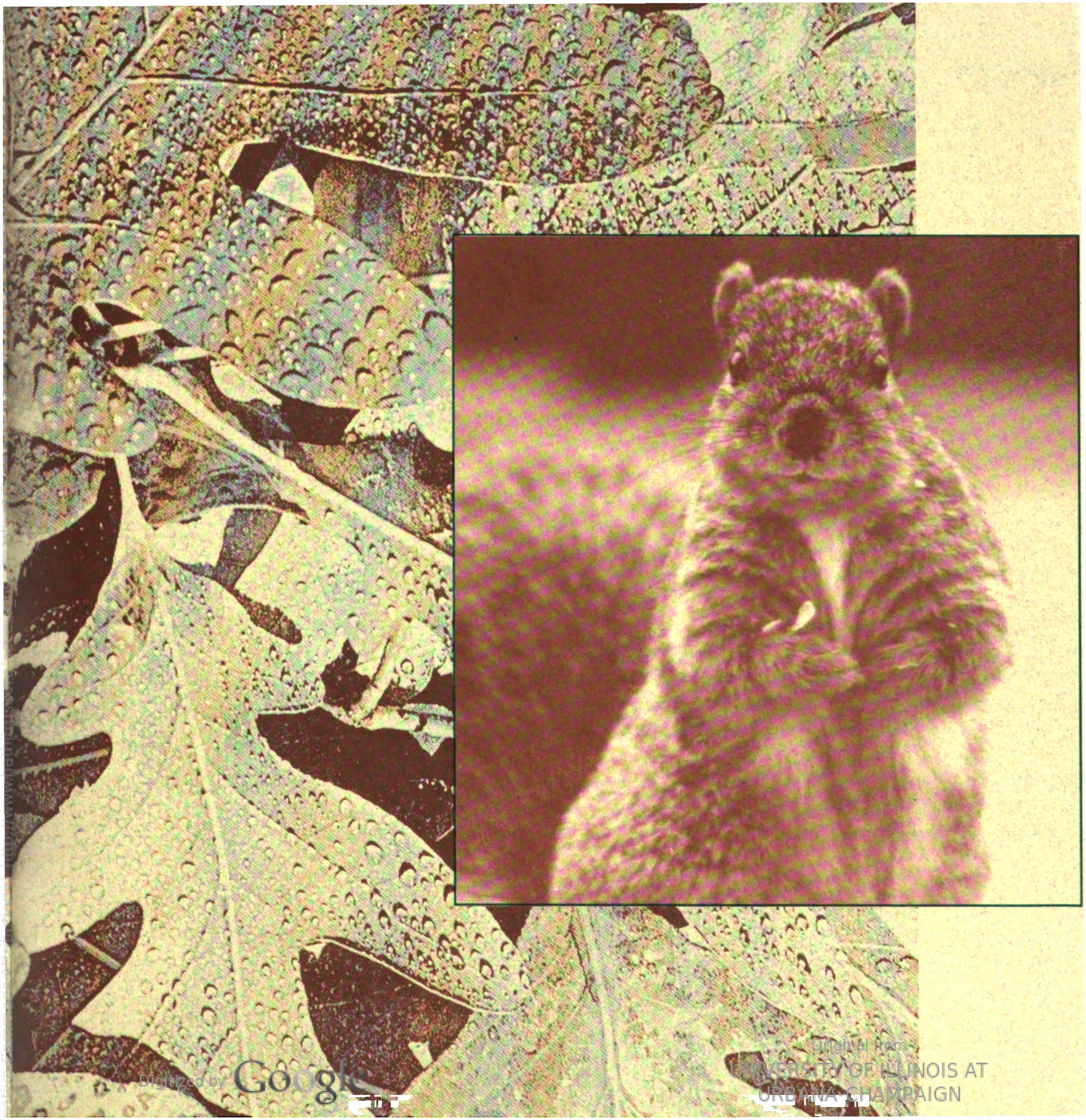
Rosenberg Institutional Equity Management - Orinda, California

Rosenberg Real Estate Equity Fund - Chicago, Illinois

Smith Barney Capital Management- New York, New York

Wells Fargo Nikko Investment Advisors - San Francisco, California

Zevenbergen Capital, Inc. - Seattle, Washington



FINANCIAL SECTION

ORGANIZATION. While appearing playful to onlookers, the squirrel works diligently throughout the warm months of plentiful food to store nourishment for the winter. This planning and forethought is unparalleled in the animal kingdom.

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

Suite 645
First National Bank Building
Springfield, Illinois 62794-9428

Telephone: (217) 753-1375
Facsimile: (217) 744-0193

Honorable William G. Holland
Auditor General
State of Illinois

Board of Trustees
State Universities Retirement System of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying balance sheets of the State Universities Retirement System of Illinois as of June 30, 1993 and 1992 and the related statements of revenues, expenses and changes in fund balance for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the State Universities Retirement System of Illinois at June 30, 1993 and 1992 and the results of its operations for the years then ended, in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the System's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche

October 22, 1993

FINANCIAL STATEMENT 1993

BALANCE SHEETS

June 30, 1993 and 1992

	1993	1992
ASSETS		
Contributions Receivable		
Participants	**$8,180,899**	$8,103,814
Federal, trust funds, and other	**4,185,870**	1,883,738
State of Illinois	**7,371,983**	2,777,383
	19,738,752	12,764,935
Prepaid Expenses	**36,032**	36,032
Accrued Investment Income Receivable	**15,379,251**	12,685,166
Investments (notes II-B and III)	**4,164,567,919**	3,886,174,516
Market Value:		
$5,132,202,991 at 6-30-93		
$4,624,357,729 at 6-30-92		
Property and Equipment (notes II-D and IV)	**9,780,343**	8,333,117
Total Assets	**$4,209,502,297**	$3,919,993,766

	1993	1992
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	**$2,583,067**	$2,195,167
Benefits payable	**3,222,038**	2,871,848
Refunds payable	**3,069,693**	2,125,275
Bonds and interest payable (note VI)	**12,092,410**	11,249,556
Deferred income (note II-C)	**0**	35,214
Total Liabilities	**20,967,208**	18,477,060
Fund Balance (Reserved) (note II-E)		
Participant contributions	**2,196,593,367**	2,011,513,823
Benefits from employee and employer contributions	**5,641,592,633**	5,348,078,731
Unfunded accrued actuarial liability	**(3,649,650,911)**	(3,458,075,848)
Total Fund Balance	**4,188,535,089**	3,901,516,706
Total Liabilities and Fund Balance	**$4,209,502,297**	$3,919,993,766

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

FINANCIAL STATEMENT 1993

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE

For the Years Ended June 30, 1993 and 1992

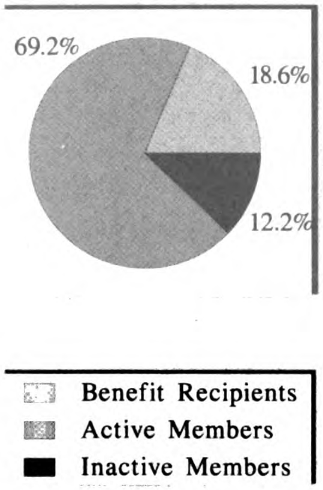
	1993	1992
REVENUES		
Members	$175,700,619	$170,426,227
Employers		
Federal, trust funds, and other	22,823,652	$19,143,747
Employer units	85,771,100	85,771,100
Pension fund	18,957,000	3,495,500
Reciprocity	255,071	228,721
	127,806,823	108,639,068
Investment Income		
Interest	118,788,911	128,727,649
Dividends	86,458,211	89,253,029
Other	127,035	214,433
	205,374,157	218,195,111
Investment expense	(10,568,554)	(9,969,159)
Net Gain on Sale of Investments	84,922,022	154,088,129
Total Revenues	$583,235,067	$641,379,376

	1993	1992
EXPENSES		
Benefits		
Retirement	$225,591,269	$199,255,007
Disability	10,871,306	10,127,131
Survivors	20,198,826	18,140,212
Death	8,007,554	9,421,405
Reversionary	278,439	256,177
Beneficiary	192,785	182,072
	265,140,179	237,382,004
Refunds	22,598,508	24,653,552
Administrative Expense	7,565,143	6,803,546
Bond Interest Expense	842,854	783,469
Total Expenses	296,146,684	269,622,571
Excess Revenues over Expenses	287,088,383	371,756,805
Fund Balance		
Beginning of year	3,901,516,706	3,529,759,901
Disposal of Donated Land	(70,000)	0
End of year	$4,188,535,089	$3,901,516,706

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

NOTES TO THE FINANCIAL STATEMENTS 1993

SURS Membership 1993



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 a component unit 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 Section 5/15, Chapter 40, of the *Illinois Compiled 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, 1993 and 1992, the number of participating employers was:

	1993	1992
Universities	**12**	12
Community Colleges	**39**	39
Allied Agencies	**16**	16
State of Illinois	**1**	1
	68	68

At June 30, 1993 and 1992, SURS membership consisted of:

	1993	1992
Benefit Recipients	**21,171**	20,173
Active Members	**78,605**	76,298
Inactive Members	**13,890**	10,508
	113,666	106,979

NOTES TO THE FINANCIAL STATEMENTS 1993

The following is a summary of the provisions of SURS in effect as of June 30, 1993, as defined in the *Illinois Compiled Statutes.* Interested parties should refer to the SURS Member Guide or the Statutes for more complete information.

A. MEMBERSHIP

Participation is required as a condition of employment. Employees are ineligible to participate if (a) employed less than full-time and attending classes with an employer; (b) receiving a retirement annuity from SURS; or (c) excluded by subdivision (a)(7)(f) or (a)(19) of Section 210 of the Federal Social Security Act from the definition of employment given in that Section.

B. MEMBER CONTRIBUTIONS

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

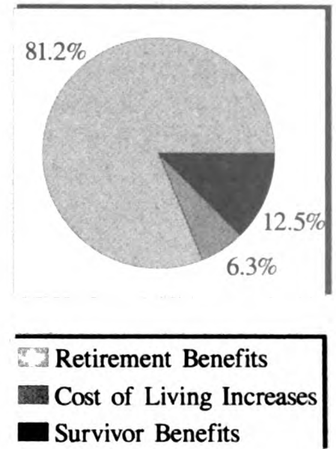
The member contributions are picked up by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings.

All contributions on pre-1981 earnings and service credit payments, plus future other public employment, prior service, refund repayments, leave payments, military service payments, and the employee portion of Early Retirement Option payments are considered as previously taxed, unless qualifying 401(a) funds are rolled over to SURS to make these purchases. 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 8%. For purposes of lump sum refunds to former members, the interest rate is 4-1/2%, compounded annually.

Member Contributions



Members contribute 8% of their salary divided into 3 categories of benefits.

NOTES TO THE FINANCIAL STATEMENTS 1993

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 55, 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 four formulas:

a. The following percentages of average earnings, which are 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.

	GENERAL	POLICE & FIRE FIGHTERS
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%	2.75%

b. The actuarial equivalent of 2.4 times the accumulated member contributions plus interest for retirement annuities (6-1/2% of earnings), divided by an annuity conversion factor. 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:

AVERAGE ANNUAL EARNINGS	
Under $3,500	$8
3,500 - 4,499	9
4,500 - 5,499	10
5,500 - 6,499	11
6,500 - 7,499	12
7,500 - 8,499	13
8,500 - 9,499	14
9,500 and over	15

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

For first-time participants after September 14, 1977, the maximum annuity under (a) or (b) is 75% of average earnings. The maximum is 80% of average earnings for members who participated on or before September 14, 1977. The maximum for police or fire fighters, regardless of when they were hired, is 75% of average earnings.

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% 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% reduction provided the following conditions are met:

a. The member retires on or before September 1, 1997.
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% 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 less. The employer payment is 20% 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% 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 Annual Increases (AAI)

Retirement benefits are increased annually after retirement by 3%.

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 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% of average earnings for the 24 months preceding disability, which ever is greater.

2. Expiration of benefit occurs (1) on the September 1 following the participant's 70th birthday, (2) at the end of the month

following the fifth anniversary of the date the disability benefit commenced, if disability occurs after age 65, or (3) when total benefits paid equal 50% of total earnings in covered service, provided the participant continues to be disabled.

3. After cessation of the benefit, 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), or if at least five years of covered service, an annuity beginning at age 62.

4. The disability benefit is increased 7% on the January 1 following the fourth anniversary of the beginning date of the disability. The benefit is then increased 3% each January 1 thereafter.

F. DISABILITY RETIREMENT ALLOWANCE (DRA)

If a member's disability benefits (see note E1) are discontinued due to the 50% of total earnings limitation, the member is entitled to a DRA of 35% 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 DRA is payable for life unless the member is able to accept substantial gainful employment or elects to receive a retirement annuity. The DRA is increased 7% on the January 1 following the fourth anniversary of the beginning date of the DRA. The benefit is then increased 3% each January 1 thereafter.

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%) and interest, plus

b. a lump sum payment of $1,000, plus

c. a monthly survivors' annuity equal to 50% of the member's accrued normal retirement benefit or the following amounts if greater:

i) 30% of average earnings to a spouse, child, or parent, up to $400 monthly

ii) 60% of average earnings to two dependents, up to $600 monthly

iii) 80% of average earnings to three or more dependents, up to $600 monthly

Survivors' benefits are payable until unmarried children attain age 18 (benefits continue if the child is disabled), 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% of the earned retirement annuity. Survivor benefits are increased annually by 3%.

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%) 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

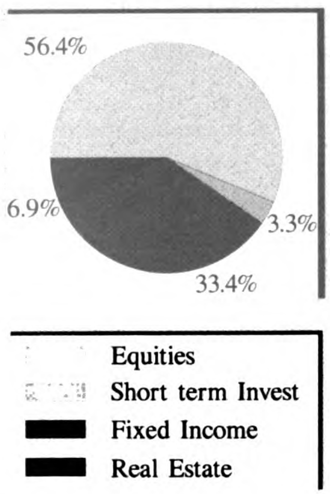
Investments are governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes.* The most important aspect of the Statutes is the prudent person rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management 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.

In addition to the prudent person rule, Section 1, Chapter 40, of the *Illinois Compiled Statutes* enumerates a number of prohibited transactions. Prior to 1987, the list contained ERISA-type prohibitions against imprudent actions by trustees. In 1987, the statutes were amended to prohibit any new investment in companies increasing their investment in South Africa. Investments in U.S. companies are in compliance as U.S. national corporations are covered by Federal legislation containing the same prohibition. However, new investments in non-U.S. companies must be carefully monitored to insure compliance.

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.

NOTES TO THE FINANCIAL STATEMENTS 1993

1993
Market Value of Investments



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 or purchased. Depreciation is computed by the straight-line method based upon estimated useful lives of 50 years for building and improvements and three 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

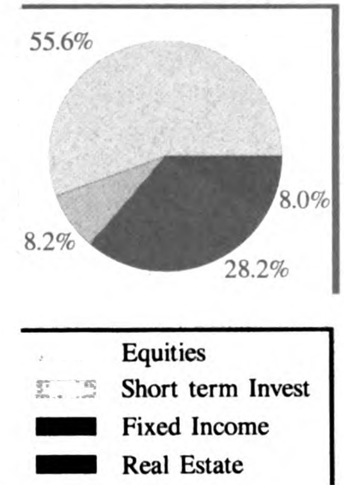
Investments at June 30, 1993 and 1992, are summarized below (*$ millions*):

1993	COST	% OF COST	MARKET	% OF MARKET	RISK CATEGORY
Short-term investments (primarily money market funds)	$169.9	4.1	$171.7	3.3	
Fixed income	1,636.1	39.3	1,716.6	33.4	1
Equities	1,925.7	46.2	2,891.6	56.4	1
Real estate	432.9	10.4	352.3	6.9	
	$4,164.6	100.0	$5,132.2	100.0	

NOTES TO THE FINANCIAL STATEMENTS 1993

1992	COST	% OF COST	MARKET	% OF MARKET	RISK CATEGORY
Short-term investments (primarily money market funds)	$378.3	9.7	$378.6	8.2	
Fixed income	1,260.3	32.4	1,305.4	28.2	1
Equities	1,806.6	46.6	2,571.7	55.6	1
Real estate	441.0	11.3	368.7	8.0	
	$3,886.2	100.0	$4,624.4	100.0	

1992
Market Value of Investments



The investments have been categorized to give an indication of the level of risk assumed by the System at June 30, 1993 and 1992. All investments subject to categorization are held by the Master Trustee in the System's name. Therefore, all categorizable 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 which would be classified in Categories 2 or 3. Real estate investments are valued at cost, subject to adjustment for market declines judged to be other than temporary. During 1993, the System wrote down its real estate investments by approximately $23 million.

SURS lends securities (both equity and fixed income) to securities firms on a temporary basis through the Master Trustee, The Northern Trust. SURS receives fees for all loans and retains the right to all interest and dividend payments while the securities are on loan. All security loan agreements are collateralized by cash, U.S. Treasury securities or letters of credit having market values equal to or exceeding the value of the loaned securities. Whenever adjustments are needed to reflect changes in market values of the securities loaned, the collateral is adjusted accordingly. SURS has the right to close the loan at any time. When the loan is closed, the securities on loan are returned to SURS and the collateral associated with the loan is returned to the borrower.

Loans outstanding as of June 30, *($ millions)*	**1993**	1992
Market Value of Securities Loaned	**$48.0**	$22.4
Market Value of Collateral received from Borrowers	**$49.5**	$22.9

NOTES TO THE FINANCIAL STATEMENTS 1993

IV. PROPERTY AND EQUIPMENT

Property and equipment and the related accumulated depreciation at June 30, 1993 and 1992, are summarized below:

	1993	1992
Land	**$528,901**	$598,901
Land improvements	**0**	12,799
Office building	**6,212,273**	559,621
Building improvements	**0**	52,766
Furniture and fixtures	**5,330,883**	3,794,438
Construction in process	**0**	5,088,569
	12,072,057	10,107,094
Accumulated depreciation	**(2,291,714)**	(1,773,977)
Net property and equipment	**$9,780,343**	$8,333,117

V. FUNDING POLICY

A. ACTUARIAL COST METHOD

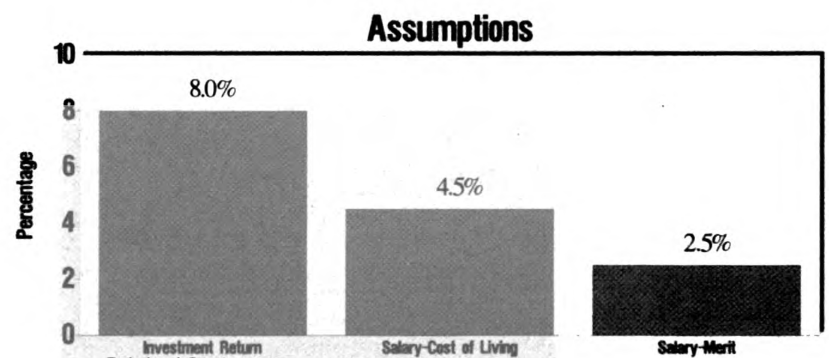
The projected unit credit cost method is used for both the retirement and ancillary benefits. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current or attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

The actuarial liability at any point in time is the value of the projected pensions at that time less the value of future normal costs. For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits, and the post-retirement increases, the same procedure as outlined above is followed. Estimated annual administrative expenses are added to the normal cost. For valuation purposes assets are valued at cost.

B. FUNDING STATUS AND PROGRESS

The *Pension Benefit Obligation* shown on the next page 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.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1993 and 1992. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 2.5% per year, attributable to seniority and merit.



The unfunded pension benefit obligation at June 30, 1993 and 1992, was as follows (*$ millions*):

	1993	1992
Accumulated contributions of current employees	**$1,923.5**	$1,800.0
Accumulated contributions of inactive members	**175.1**	134.7
Payable to retirees and beneficiaries	**2,653.2**	2,296.9
Payable to terminated employees not yet receiving benefits —Employer-financed portion	**78.0**	219.6
Payable to vested current employees —Employer-financed portion	**2,809.8**	2,790.5
Payable to nonvested current employees —Employer-financed portion	**198.6**	117.9
Total Pension Benefit Obligation	**7,838.2**	7,359.6
Net Assets Available for Benefits (market value: $5,156.2 million in 1993 and $4,639.7 million in 1992)	**4,188.5**	3,901.5
Unfunded Pension Benefit Obligation	**$3,649.7**	$3,458.1

During the year adjustments in the valuation model resulted in a decrease in the unfunded pension benefit obligation of $135.6 million.

C. 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.

NOTES TO THE FINANCIAL STATEMENTS 1993

A comparison of the actuarially determined funding requirement for the year ended June 30, 1993, versus the actual funding is presented below (*$ millions*):

	PENSION CONTRIBUTIONS REQUIRED			MADE
	NORMAL COST	UNFUNDED ACCRUED ACTUARIAL LIABILITY AMORTIZATION (A)	TOTAL	
Members	$156.7	0	$156.7	$175.7
% of Pay	7.4		7.4	8.3
Employers	$201.3	$274.8	$476.1	$127.8
% of Pay	9.6	13.0	22.6	6.1
Total	$358.0	$274.8	$632.8	$303.5
% of Pay	17.0	13.0	30.0	14.4
Member Payroll	$2,106.2			

(A) Unfunded Accrued Actuarial Liability amortized over 40 years.

D. 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.

VI. BONDS AND INTEREST PAYABLE

Special Revenue Bonds, Series 1990, Capital Appreciation Bonds (the Bonds), in the principal amount of $10 million which will mature October 1, 2001, 2003, and 2005, with interest rates ranging from 7.25% to 7.45%, were issued November 15, 1990.

The Bonds are special revenue obligations of the Board of Trustees of the State Universities Retirement System of Illinois issued pursuant to Section 5/15-167.2 of Chapter 40 of the *Illinois Compiled Statutes*, as amended, and a Resolution of the Board. The Bonds are payable solely from and secured by a pledge of and first lien on the Net Revenues derived from investments of the Board. The Bonds are not payable from any employee or employer contributions to the System derived from appropriations from the State of Illinois nor do they constitute obligations or indebtedness of the State of Illinois or of any municipal corporation or other body politic and corporate of the State (other than the Board), and the owners thereof shall never have the right to demand payment of the Bonds or interest thereon out of any funds other than the revenues and income of the Board pledged for payment thereof. The Bonds are not subject to redemption prior to maturity. Regularly scheduled payments on the Bonds are insured under a financial guaranty insurance policy issued by Municipal Bond Investors Assurance Corporation.

Bonds payable and related accrued interest at June 30, 1993, are summarized below:

Bonds Payable	$9,999,751
Accrued Interest	2,092,659
	$12,092,410

NOTES TO THE FINANCIAL STATEMENTS 1993

The annual requirements to amortize the Bonds outstanding as of June 30, 1993, including interest payments of $15,825,249, are as follows:

MATURITY OCTOBER 1	YIELD TO MATURITY	PRINCIPAL	INTEREST	TOTAL
2001	7.25%	$2,684,451	$3,140,549	$5,825,000
2003	7.35%	3,947,300	6,052,700	10,000,000
2005	7.45%	3,368,000	6,632,000	10,000,000
		$9,999,751	$15,825,249	$25,825,000

VII. COMPENSATED ABSENCES AND POSTEMPLOYMENT BENEFITS

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 unused sick time earned since January 1, 1984. At June 30, 1993, the System had a liability of $418,520 for compensated absences. At June 30, 1992, the liability was $376,493. The annual increase in liability is reflected in the financial statements as an increase in salary expense.

In addition to providing pension benefits, the State of Illinois provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the State Universities Retirement System. Substantially all State employees including the system's employees may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan currently in force. Life insurance benefits for annuitants under age 60 are equal to their annual salary at the time of retirement; for annuitants age 60 or older, life insurance benefits are limited to five thousand dollars per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go basis.

VIII. MATERIAL VIOLATION OF STATE STATUTES BY THE STATE OF ILLINOIS

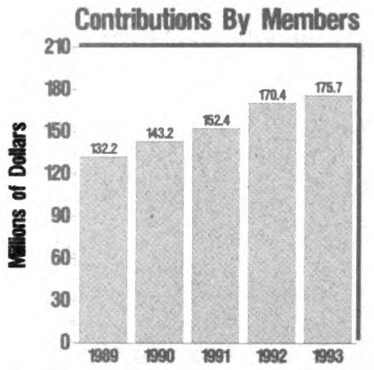
In 1989, Public Act 86-0273 was passed by the Illinois General Assembly providing for a financing objective for SURS. The Act mandates a level of funding that would pay the normal cost of benefits earned each year plus an amount to amortize the unfunded accrued actuarial liability over 40 years after a seven-year phase in.

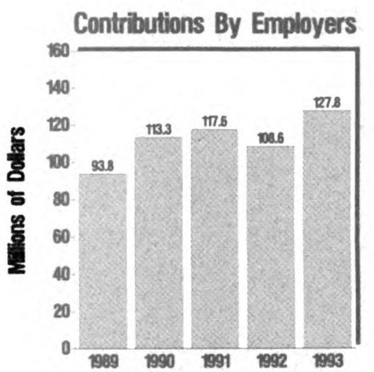
The General Assembly has not appropriated sufficient funds to SURS to satisfy the requirements of Public Act 86-0273 in any of the phase-in years. In 1993, the deficiency is calculated as follows:

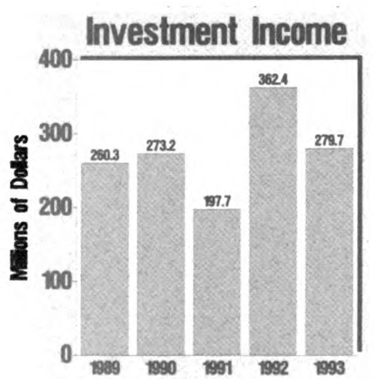
Required Contribution by Public Act 86-0273	$168,925,200
Employer Contributions Received	127,806,823
Deficiency	($41,118,377)

While the deficiency calculated above represents a violation of the *Illinois Compiled Statutes* by the State of Illinois, it should be noted that Public Act 86-0273 does not conform with official accounting pronouncements, specifically Opinion No. 8 of the Accounting Principles Board, which is the source of the requirement calculated for financial statement purposes as described in note V.

REQUIRED SUPPLEMENTAL INFORMATION 1993







REVENUE BY SOURCE

10-YEAR SUMMARY

($ MILLIONS)

Required Supplemental Schedules of historical trend information are presented below. These are designed to provide information on the System's progress in accumulating assets to pay benefits when due.

FISCAL YEAR (A)	CONTRIBUTIONS BY MEMBERS	INVESTMENT INCOME	CONTRIBUTIONS BY EMPLOYERS AMOUNT	CONTRIBUTIONS BY EMPLOYERS % OF PAYROLL	TOTAL
1984	$85.5	$72.1	$70.2	6.9	$227.8
1985	97.8	166.4	83.5	7.3	347.7
1986	110.8	434.6	94.7	7.4	640.1
1987	95.8	165.4	77.9	5.7	339.1
1988	132.3	185.5	83.4	5.8	401.2
1989	132.2	260.3	93.8	6.1	486.3
1990	143.2	273.2	113.3	6.8	529.7
1991	152.4	197.7	117.6	6.6	467.7
1992	170.4	362.4	108.6	5.6	641.4
1993	**175.7**	**279.7**	**127.8**	**6.1**	**583.2**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.

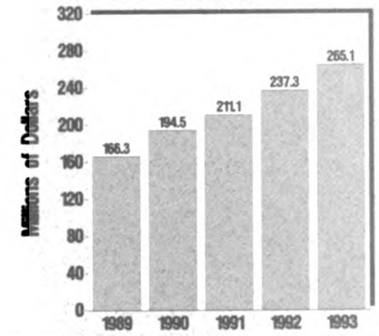
REQUIRED SUPPLEMENTAL INFORMATION 1993

TOTAL EXPENSES
10-YEAR SUMMARY
($ MILLIONS)

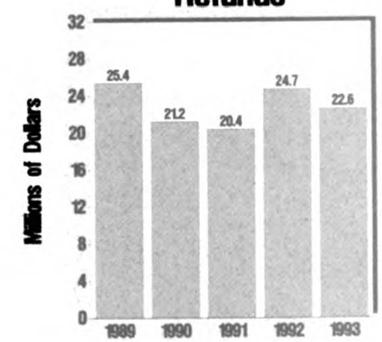
FISCAL YEAR (A)	BENEFITS	CONTRIBUTION REFUNDS	ADMINISTRATIVE EXPENSES	BOND INTEREST	TOTAL
1984	$91.1	$14.5	$1.6		$107.2
1985	101.7	16.4	1.7		119.8
1986	115.4	17.2	1.9		134.5
1987	109.9	14.8	1.9		126.6
1988	148.6	22.7	2.4		173.7
1989	166.3	25.4	2.6		194.3
1990	194.5	21.2	4.0		219.7
1991	211.1	20.4	5.9	0.5	237.9
1992	237.3	24.7	6.8	0.8	269.6
1993	**265.1**	**22.6**	**7.6**	**0.8**	**296.1**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.

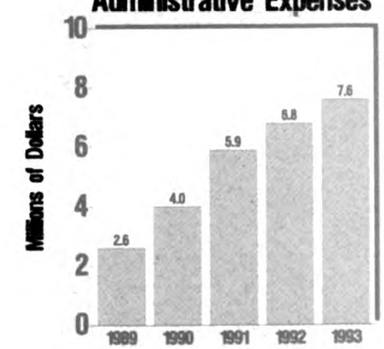
Benefits



Refunds

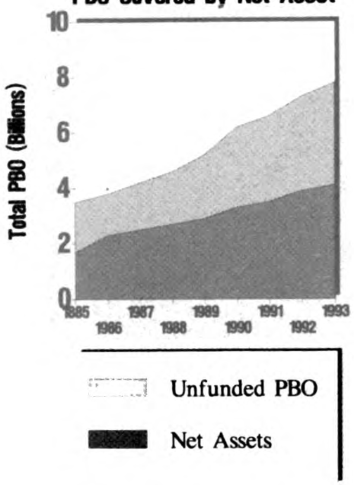


Administrative Expenses

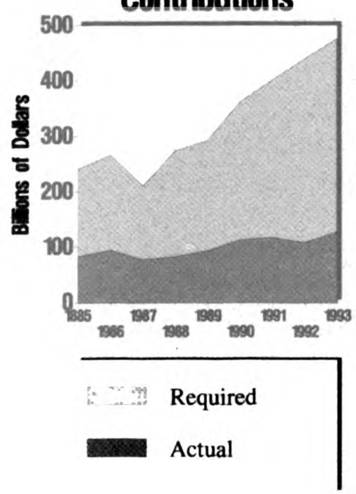


REQUIRED SUPPLEMENTAL INFORMATION 1993

PBO Covered by Net Asset



Contributions



ANALYSIS OF FUNDING PROGRESS

In 1985, SURS adopted the projected unit credit cost method for financial presentation purposes, consequently only nine years are presented.

FISCAL YEAR	NET ASSETS	PENSION BENEFIT OBLIGATION	% FUNDED	UNFUNDED PBO	COVERED PAYROLL	UNFUNDED PBO AS A % OF COVERED PAYROLL	CONTRIBUTIONS REQUIRED	CONTRIBUTIONS ACTUAL
1985	$1,752.3	$3,549.1	49.4	$1,796.8	$1,141.9	157.4	$241.6	$83.5
1986*	2,258.0	3,886.0	58.1	1,628.0	1,275.9	127.6	266.6	94.7
1987	2,470.5	4,234.9	58.3	1,764.4	1,370.2	128.8	210.8	77.9
1988	2,698.0	4,640.9	58.1	1,942.9	1,427.6	136.1	274.4	83.4
1989	2,990.0	5,216.3	57.3	2,226.3	1,536.7	144.9	293.1	93.8
1990	3,300.0	6,238.4	52.9	2,938.4	1,676.0	175.3	362.3	113.3
1991	3,529.8	6,647.5	53.1	3,117.7	1,768.5	176.3	401.8	117.6
1992	3,901.5	7,359.6	53.0	3,458.1	1,947.9	177.5	439.7	108.6
1993	**4,188.5**	**7,838.2**	**53.4**	**3,649.7**	**2,106.2**	**173.3**	**476.1**	**127.8**

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

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 the retirement system. 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.

SUPPORTING SCHEDULE 1993

SUMMARY SCHEDULE OF FEES, COMMISSIONS, AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED JUNE 30, 1993 and 1992

	1993	1992
Master Trustee & Custodian		
The Northern Trust Company	$872,841	$558,409
Investment Management Firms		
Aetna Realty Investors, Inc.	635,054	736,961
Amerindo Investment Advisors	110,575	96,460
Ariel Capital Management	100,000	98,690
Brinson Partners, Inc.	551,185	88,824
Equitable Real Estate	702,439	764,463
Fayez Sarofim & Company	1,355,535	1,317,388
Fisher Investments	147,535	197,294
IDS International	366,647	0
Martin Currie	306,397	0
Pacific Investment Management Co.	1,746,698	2,192,812
Rosenberg Institutional Equity	162,649	55,451
Rosenberg Real Estate Equity Fund	2,005,584	2,301,941
Smith Barney	116,605	106,275
Wells Fargo/Nikko	921,678	1,038,467
Zevenbergen	122,294	119,577
	9,350,875	9,114,603
Investment Consultant, Measurement and Counsel		
Ennis, Knupp & Associates, Inc.	222,503	245,980
Skadden, Arps, Slate, Meagher and Flom	92,335	50,167
Washington Hackett	30,000	
Total Investment Fees	$10,568,554	$9,969,159

	1993	1992
Investment Brokerage Firms		
Abel Noser Corporation	$13,801	$900
Bear, Stearns & Company	67,768	82,530
Chicago Corporation	16,292	7,971
Instinet	27,047	29,124
Investment Technology Group	12,338	0
Jefferies and Co., Inc.	11,923	13,885
Morgan Stanley	11,793	17,886
Paine Webber Inc.	18,577	25,269
Shearson Lehman Brothers Inc.	15,110	25,568
Smith Barney Harris Upham	48,339	88,387
All others	192,422	267,169
Total Commissions	$435,410	$558,689
Administrative Expenses		
Personnel services	$2,574,199	$2,264,596
Professional services	2,665,424	2,341,878
Communications	658,418	712,823
Miscellaneous	661,641	646,814
Depreciation	1,005,461	837,435
Total Administrative Expenses	$7,565,143	$6,803,546

SUPPORTING SCHEDULE 1993

INVESTMENT PORTFOLIO ACTIVITY AT BOOK VALUE

FOR THE YEAR ENDED JUNE 30, 1993

($ MILLIONS)

	JULY 1 BOOK VALUE	ACQUISITIONS	DISPOSITIONS	JUNE 30 BOOK VALUE
Fixed income	$1,260.3	$820.0	($444.2)	$1,636.1
Equity securities	1,806.6	521.8	(402.7)	1,925.7
Real estate	441.0	24.8	(32.9)	432.9
Short-term securities	378.3	198.9	(407.3)	169.9
Total Book Value	$3,886.2	$1,565.5	($1,287.1)	$4,164.6

INVESTMENT PORTFOLIO AT MARKET VALUE

FOR THE YEAR ENDED JUNE 30, 1993

($ MILLIONS)

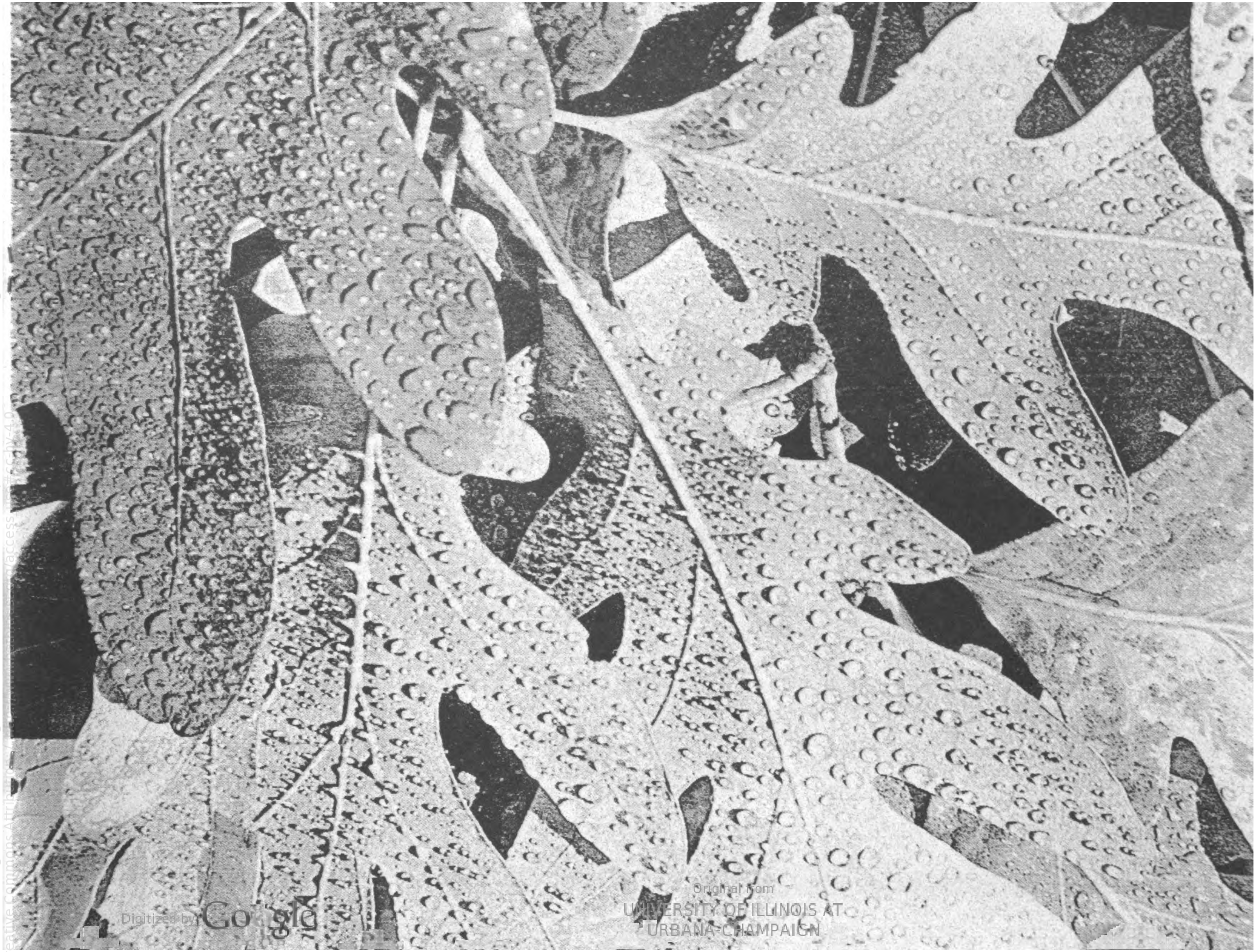
	JULY 1 MARKET VALUE	JUNE 30 MARKET VALUE
Fixed income	$1,305.4	$1,716.6
Equity securities	2,571.7	2,891.6
Real estate	368.7	352.3
Short-term securities	378.6	171.7
Total Market Value	$4,624.4	$5,132.2

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

FOR THE YEAR ENDED JUNE 30, 1993

($ MILLIONS)

Receipts	
Member contributions	$175.6
Employer contributions	122.3
Investment income	201.5
Investments redeemed	1,287.1
Gain on sale of investments	84.9
Total Receipts	$1,871.4
Disbursements	
Benefit payments	$264.8
Administrative expenses	6.6
Investment expenses	10.2
Refunds	21.7
Fixed assets purchased	2.6
Investments purchased	1,565.5
Total Disbursements	$1,871.4



ACTUARIAL SECTION

INITIATIVE.

An insatiable appetite for exploration enhances the Raccoon's reputation for intelligence. Curious and inquisitive, the Raccoon investigates many interesting alternatives in the search for a reward.

CERTIFICATION LETTER

The Wyatt Company
Consultants and Actuaries

Suite 2400
303 West Madison Street
Chicago, Illinois 60606-3308

Telephone 312 704 0600
Fax 312 7048114
Fax 312 704 8206

Wyatt

November 6, 1993

Board of Trustees
State Universities Retirement System of Illinois
1901 Fox Drive
Champaign, IL 61820

Dear Members of the Board:

At your request, we have performed an actuarial valuation for the State Universities Retirement System of Illinois (SURS) as of June 30, 1993. Actuarial valuations of the System are performed annually.

This actuarial valuation is based upon:

(a) Data relative to the Members of SURS - Data for all Members was provided by SURS staff. Such data is tested for reasonableness by the actuary but is used unaudited.

(b) The values of assets of the System provided by SURS staff - Book values of assets are used to develop actuarial results.

(c) Actuarial method - The actuarial method utilized by SURS is the Projected Unit Credit Cost Method. The objective of this method is to finance the benefits of SURS as such benefits accrue to each Member. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

(d) Actuarial assumptions - The actuarial assumptions used in this valuation are set out in the attached Summary of Actuarial Assumptions and Methods. This set of assumptions was adopted by the Board, effective July 1, 1992.

Wyatt

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the System when due. The financing objective of SURS is set out in Section 5/15-555, Chapter 40, *Illinois Compiled Statutes.* That Section sets out a funding process to be used for SURS. Since its establishment, the State contributions to SURS have been less than those produced by this process.

The valuation results set out in this report are based on the data and actuarial techniques described above, and upon the provisions of SURS as of the valuation date. Based on these items, we certify these results to be true and correct.

Sincerely,

Norman S. Losk
Actuary

Denise Patterson
Actuary

ACTUARIAL REPORT 1993

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 Compiled Statutes* at 8% of pay. Investment earnings and state funding are primary determinants of the System's financial status.

Employer (state) contributions are determined through annual actuarial valuations. 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 turnover, mortality, and disability rates) in performing these valuations. The actuarial valuation process flows generally as follows:

1) Based on the demographic data and actuarial assumptions described above, the amount and timing 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 turnover, retirement age and earnings progression for active members, and mortality for all participants.

2) The actuary then calculates the Actuarial Present Value of these benefits. This is the amount necessary to be invested at the valuation interest rate, at the valuation date to provide benefit payments as they come due. Each year's estimated benefit payments are discounted by an assumed interest rate to determine the present dollar value of benefits.

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

There are several accepted actuarial cost methods. The one used by SURS is the projected unit credit cost method. Under this method, the Actuarial Present Value of the projected pension at retirement age is determined at the individual member's current or attained age. The normal cost for the member for the current year is equal to the portion of the value so determined assigned to this year. The normal cost for the plan for the year is the sum of the normal costs of all active members.

Accrued benefit cost is the portion of the present value of benefits assigned by the cost method to years of service up to the valuation dates 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 normal cost during FY 93 was 18.3% of payroll. Eight percent of this normal cost is paid by the members' contributions. The remaining 10.3% is the employer's portion of the normal cost.

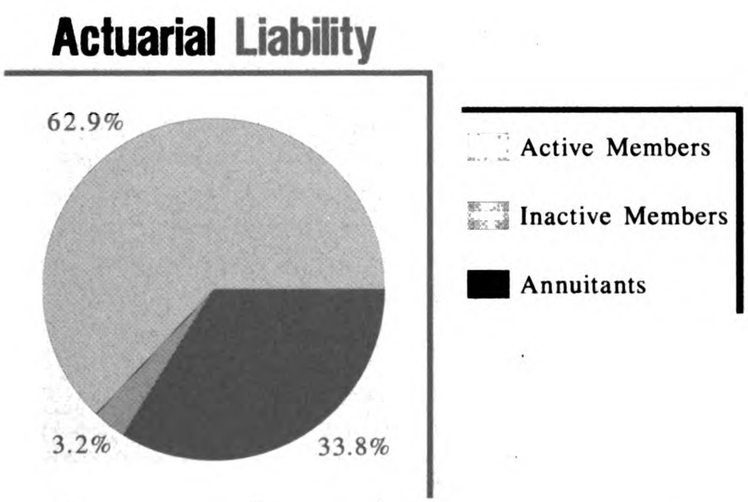
Actuarial funding of System benefits would require annual state appropriations which at least cover the employer's normal cost (10.3% of payroll) plus an amortization of the System's unfunded accrued benefit cost. The employer's normal cost plus amortization is called employer cost (see *Schedule of Payroll Percentages*). The state has not funded the System on this basis. Historically, the state funded the System by reimbursement (in full or in part) of benefit payments. In August 1989, then Governor James Thompson signed legislation that phased-in, over seven years, a financing objective that would ultimately provide adequate funding of SURS (see *Financing Objective*).

ACTUARIAL REPORT 1993

VALUATION RESULTS

($ MILLIONS)

Actuarial Liability (Reserves)		
For members receiving annuities		
Retirement annuities	$2,351.4	
Survivor annuities	210.9	
Disability benefits	90.9	
Total		$2,653.2
For inactive members		253.1
For active members		4,931.9
Total		$7,838.2
Assets Available for Benefits		$4,188.5
Unfunded Accrued Actuarial Liability		$3,649.7



CHANGES IN THE UNFUNDED ACCRUED ACTUARIAL LIABILITY

($ MILLIONS)

Unfunded Accrued Actuarial Liability at June 30, 1992	$3,458.1
Increase due to prior year's contribution being less than the amount necessary to fund the normal cost and interest on the unfunded liability	369.4
Actuarial Differences	
Investments other than 8%	44.1
Salary increases other than 7%	(44.0)
Age and service retirement differences	(45.6)
Termination differences	(3.1)
Other actuarial differences	6.4
Non-Recurring Items	
Gain due to adjustments in valuation model	(135.6)
Unfunded Accrued Actuarial Liability at June 30, 1993	$3,649.7

ACTUARIAL REPORT 1993

ACTUARIAL COST METHOD

The projected unit credit cost method is used for retirement benefits. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

The actuarial liability at any point in time is the value of the projected pensions at that time less the value of future normal costs. For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits, and the post-retirement increases, the same procedure as outlined above is followed. Estimated annual administrative expenses are added to the normal cost. For valuation purposes assets are valued at book.

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.

FINANCING OBJECTIVE

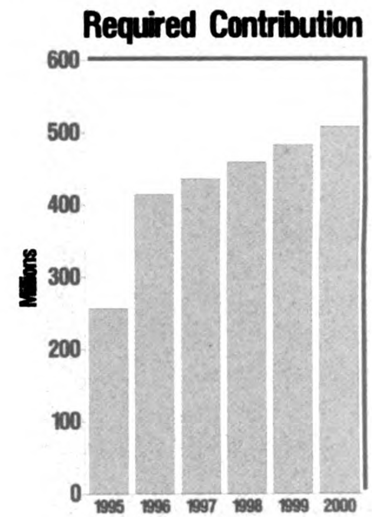
The Statutes governing the System provides that...
Starting with... fiscal year... 1990, the State's contribution shall be increased incrementally over a 7-year period so that by... fiscal year... 1996, the minimum contribution... shall be... sufficient to meet the normal cost and amortize the unfunded liability over 40 years as a level percentage of payroll, determined under the projected unit credit actuarial cost method. (Chapter 40, Par. 5/15-155(a)). This objective was not met during 1993 as follows:

Employer Contributions Received		
State Appropriations	$85,771,100	
State Pension Fund	18,957,000	
Federal and Trust Funds	22,823,652	
Reciprocity	255,071	$127,806,823
Required Employer Contributions		$168,925,200
Progress toward financing objective		($41,118,377)

In addition, the state's projected contribution of $114,015,800 to SURS for fiscal year 1994 will be insufficient to meet the System's total required contribution for that year of $207,125,000. As a result, the 7-year phase in period called for in the law has been reduced to a 3-year period starting with fiscal year 1994. The target date for completely amortizing the unfunded accrued actuarial liability remains unchanged at June 30, 2035. The required contribution rates and amounts are as follows:

ACTUARIAL REPORT 1993

FISCAL YEAR	NORMAL COST	AMORTIZATION OF UNFUNDED LIABILITY	TOTAL REQUIRED RATE	ASSUMED PAYROLL ($ BILLIONS)	TOTAL REQUIRED CONTRIBUTION
1995	9.640%	1.381%	11.021%	$2.333	$257,136,000
1996	9.640	7.259	16.899	2.456	414,969,000
1997	9.640	7.259	16.899	2.585	436,755,000
1998	9.640	7.259	16.899	2.720	459,685,000
1999	9.640	7.259	16.899	2.863	483,818,000
2000	9.640	7.259	16.899	3.013	509,219,000



Contribution levels are shown on a gross basis. The net State appropriation requirements can be determined by adjusting for such items as State Pension Fund appropriations and contributions from federal and trust funds.

The results are based on the projected unit credit actuarial cost method, and on the data provided, and assumptions used, for the June 30, 1993 actuarial valuations. In order to determine projected contribution rates and amounts, the following additional assumptions and estimates were used:

1) Covered payroll of $2,217,000,000 for fiscal year 1994.
2) 5.25% per annum rate of increase in covered payroll.
3) Total employer contributions of $114,015,800 for fiscal year 1994.

As of June 30, 1993, the Unfunded Accrued Actuarial Liability (UAAL) to be amortized was $3,649,650,911.

SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

MORTALITY

1996 Projected Experience Table, a table based on experience for mortality improvements to 1986, with a three-year setback for males and a two-year setback for females.

INTEREST

8% per annum, compounded annually.

TERMINATION

Illustrative rates of withdrawal from the plan are as follows:

Age	Males	Females
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

It is assumed that terminated employees will not be rehired.

SALARY INCREASES

7% per annum, compounded annually. 4.5% attributed to inflation, 2.5% due to seniority and merit.

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 1993

ANALYSIS OF FINANCIAL EXPERIENCE

GAINS & LOSSES IN ACCRUED ACTUARIAL LIABILITY FOR FISCAL YEAR ENDING JUNE 30, 1993 *($ MILLIONS)*

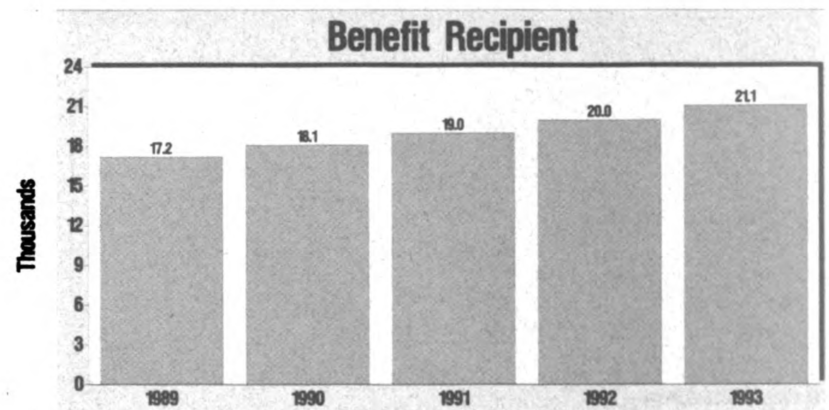
Actuarial (Gains) and Losses	
Age and service retirements	$(45.6)
Incidence of disability	.3
In-Service mortality	0.8
Retiree mortality	6.3
Disabled mortality	0.1
Termination of employment	(3.1)
Salary increases	(44.0)
Investment income	44.1
Other	(1.1)
Total Actuarial Loss	$(42.2)
Contribution income less than amount needed to fund normal cost	$369.4
Non-Recurring items	
Gain due to adjustments in valuation model	(135.6)
Total Financial Loss	$191.6

SCHEDULE OF INCREASES AND DECREASES OF BENEFIT RECIPIENTS

10-YEAR SUMMARY

FISCAL YEAR (A)	BEGINNING BALANCE	ADDITIONS	SUBTRACTIONS	ENDING BALANCE
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
1989	16,441	1,672	835	17,278
1990	17,278	1,732	868	18,142
1991	18,142	1,779	834	19,087
1992	19,087	1,895	949	20,033
1993	**20,033**	**2,071**	**933**	**21,171**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.



ACTIVE MEMBER VALUATION DATA

ACTIVE PARTICIPANT STATISTICS

10-YEAR SUMMARY

FISCAL YEAR (A)	MALES	FEMALES	TOTAL ACTIVES	PERCENT CHANGE	AVERAGE SALARY	AVERAGE AGE	AVERAGE SERVICE CREDIT
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
1989	25,694	27,602	53,296	1.1	28,834	43.0	9.1
1990	26,187	28,783	54,970	3.0	30,878	43.2	9.1
1991	26,401	29,674	56,075	2.0	31,735	44.0	9.1
1992	35,916	40,382	76,298	36.1	25,912	43.7	7.3
1993	**36,789**	**41,816**	**78,605**	**3.0**	**26,794**	**43.9**	7.1

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.

ANALYSIS OF CHANGE IN MEMBERSHIP

10-YEAR SUMMARY

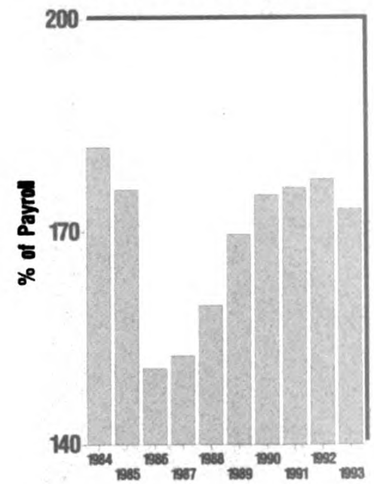
FISCAL YEAR (A)	BEGINNING MEMBERS	ADDITIONS	RETIRED	DIED	OTHER TERMINATIONS	ENDING MEMBERS
1984	41,589	7,700	464	130	4,169	44,526
1985	44,526	8,861	459	85	4,434	48,409
1986	48,409	8,191	513	95	4,867	51,125
1987	51,125	5,228	346	77	3,165	52,765
1988	52,765	6,790	904	109	5,820	52,722
1989	52,722	7,503	759	101	6,069	53,296
1990	53,296	7,923	673	114	5,462	54,970
1991	54,970	7,135	552	82	5,396	56,075
1992	56,075	25,799	807	110	4,659	76,298
1993	**76,298**	**12,543**	**1,022**	**63**	**9,151**	**78,605**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

In an inflationary economy, the value of dollars is decreasing. This environment results in employee pays increasing in dollar amounts, retirement benefits increasing in dollar amounts, and then, unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities dollars divided by active employee payroll dollars provide an index which helps understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Unfunded Accrued Liabilities as a % of Payroll



A decreasing trend indicates a system is becoming financially stronger.

FISCAL YEAR (A)	ACCRUED LIABILITIES	NET ASSETS	ASSETS AS A % OF ACCRUED LIABILITIES	UNFUNDED ACCRUED LIABILITIES (UAL)	ACTIVE MEMBER PAYROLL	UAL AS A % OF ACTIVE MEMBER PAYROLL
1984	$3,374.0	$1,524.4	45.2%	$1,849.7	$1,016.2	182.0%
1985	3,761.9	1,752.3	46.6	2,009.6	1,141.9	176.0
1986	4,182.2	2,258.0	54.0	1,924.2	1,275.9	150.8
1987	4,561.0	2,470.5	54.2	2,090.5	1,370.2	152.6
1988	4,977.8	2,698.0	54.2	2,279.8	1,427.6	159.7
1989	5,597.2	2,990.0	53.4	2,607.2	1,536.7	169.7
1990	6,238.3	3,300.0	52.9	2,938.3	1,676.0	175.3
1991	6,647.5	3,529.8	53.1	3,117.7	1,768.5	176.3
1992	7,359.6	3,901.5	53.0	3,458.1	1,947.9	177.5
1993	**7,838.2**	**4,188.5**	**53.4**	**3,649.7**	**2,106.2**	**173.3**

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

ANALYSIS OF FUNDING 1993

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 *($ MILLIONS)*

	FUNDING REQUIREMENTS				COVERED PERCENTAGES		
FISCAL YEAR (A)	NORMAL COST & INTEREST {1}	WITH 40-YEAR AMORTIZATION {2}(B)	SYSTEM EXPENSE {3}(C)	STATE CONT. {4}(D)	NORMAL COST & INTEREST {5}(E)	WITH 40-YEAR AMORTIZATION {6}(F)	SYSTEM EXPENSE {7}(G)
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
1989	284.6	293.1	168.9	93.8	33.0	32.0	55.5
1990(H)	352.6	362.3	198.5	113.3	32.1	31.3	57.1
1991	389.9	401.8	216.9	117.6	30.2	29.3	54.2
1992	426.7	439.7	244.2	108.6	25.5	24.7	44.5
1993	**461.3**	**476.1**	**272.7**	**127.8**	**27.7**	**26.8**	**46.9**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.
(B) Appropriation amount required by Sections 5/15-115 and 5/15-156 of the Illinois Compiled 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 divided by Column 1).
(F) State contributions divided by the 40-year amortization requirement (Column 4 divided by Column 2).
(G) State contributions divided by System expense (Column 4 divided by Column 3).
(H) Funding method changed from entry age normal to projected unit credit.

ANALYSIS OF FUNDING 1993

FUNDING RATIOS

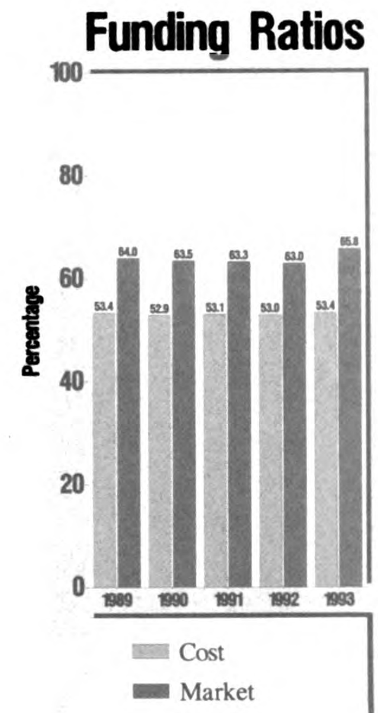
10-YEAR SUMMARY *($ MILLIONS)*

FISCAL YEAR (A)	NET ASSETS AT COST	NET ASSETS AT MARKET	ACTUARIAL FUNDING REQUIREMENTS	FUNDING RATIO COST	FUNDING RATIO MARKET
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(C)	54.0	60.4
1987	2,470.5	2,912.9	4,561.0	54.2	63.9
1988	2,698.0	3,030.6	4,977.8	54.2	60.9
1989	2,990.0	3,582.4	5,597.2	53.4	64.0
1990(B)	3,300.0	3,961.5	6,238.3	52.9	63.5
1991	3,529.8	4,209.1	6,647.5	53.1	63.3
1992	3,901.5	4,639.7	7,359.6	53.0	63.0
1993	**4,188.5**	**5,156.2**	**7,838.2**	**53.4**	**65.8**

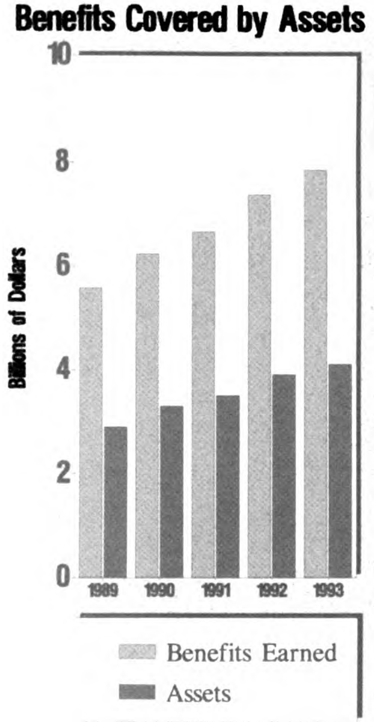
(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.

(B) Funding method changed from entry age normal to projected unit credit.

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



ANALYSIS OF FUNDING 1993



PERCENTAGE OF BENEFITS COVERED BY NET ASSETS

10-YEAR SUMMARY *($ MILLIONS)*

FISCAL YEAR (A)	MEMBER ACCUMULATED CONTRIBUTIONS {1}(B)	MEMBERS CURRENTLY RECEIVING BENEFITS {2}(B)	ACTIVE/ INACTIVE MEMBERS/ EMPLOYERS PORTION {3}(B)	NET ASSETS	% OF BENEFITS COVERED BY NET ASSETS FOR {1}	{2}	{3}
1984	$918.2	$861.2	$1,594.2	$1,524.4	100	70.4	0
1985	1,018.2	984.7	1,759.0	1,752.3	100	74.6	0
1986	1,134.7	1,145.9	1,901.6(C)	2,258.0	100	98.0	0
1987	1,237.0	1,289.0	2,035.0	2,470.5	100	95.7	0
1988	1,360.6	1,498.9	2,118.3	2,698.0	100	89.2	0
1989	1,493.0	1,677.1	2,427.1	2,990.0	100	71.9	0
1990	1,644.7	2,035.5	2,558.1	3,300.0	100	81.3	0
1991	1,822.1	2,042.1	2,783.3	3,529.8	100	83.6	0
1992	2,011.5	2,296.9	3,051.2	3,901.5	100	82.3	0
1993	**2,196.6**	**2,653.2**	**2,988.4**	**4,188.5**	**100**	**75.1**	**0**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.

(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 5/15-156 of the *Illinois Compiled Statutes* 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 1986. Salary increment assumption was changed from 8% to 7%.

ANALYSIS OF FUNDING 1993

PAYROLL PERCENTAGES

10-YEAR SUMMARY *($ MILLIONS)*

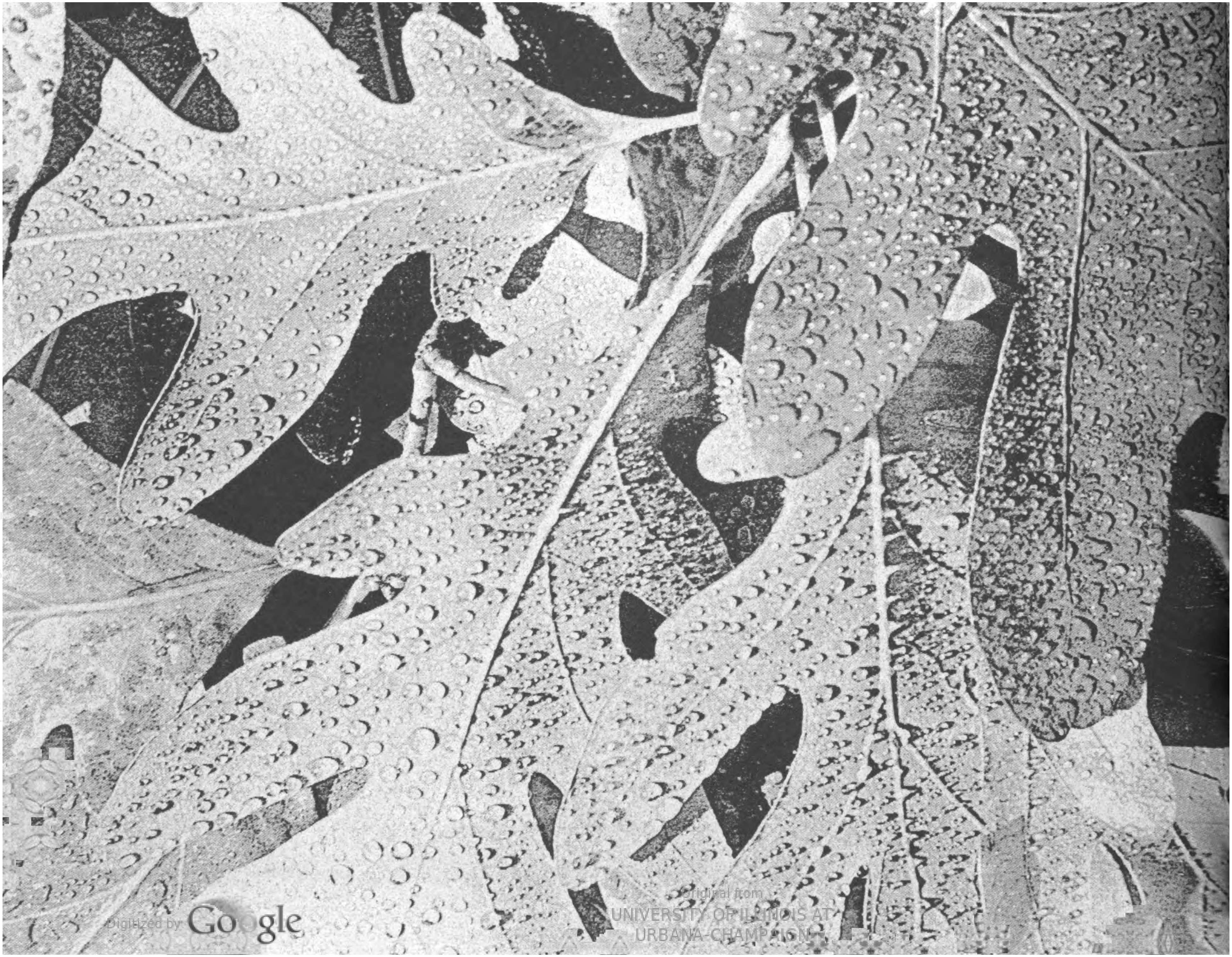
		UNFUNDED ACCRUED BENEFIT COST		EMPLOYER COST					STATE CONTRIBUTIONS	
FISCAL YEAR (A)	MEMBER PAYROLL	AMOUNT	% OF PAYROLL	EMPLOYER NORMAL COST	% OF PAYROLL	AMORTIZATION OF UNFUNDED	TOTAL (C)	% OF PAYROLL	STATE CONT.	% OF PAYROLL
1984	$1,016.2	$1,849.7	182.0	$82.0	8.1	$134.4	$216.4	20.5	$70.2	6.9
1985	1,141.9	2,009.6	176.0	89.3	7.8	152.3	241.6	20.3	83.5	7.3
1986	1,275.9	1,924.2	150.8	100.2	7.9(B)	166.4	266.6	20.0	94.7	7.4
1987	1,370.2	2,090.5	152.6	97.2	7.1	113.6	210.8	14.9	77.9	5.7
1988	1,427.6	2,279.8	159.7	105.2	7.4	169.2	274.4	18.7	83.4	5.8
1989	1,536.7	2,607.2	169.7	108.6	7.1	184.5	293.1	18.5	93.8	6.1
1990(D)	1,676.0	2,938.4	175.3	151.9	9.1	210.4	362.3	21.0	113.3	6.8
1991	1,768.5	3,117.7	176.3	163.1	9.2	238.7	401.8	22.0	117.6	6.6
1992	1,947.9	3,458.1	177.5	177.0	9.1	262.7	439.7	22.6	108.6	5.6
1993	**2,106.2**	**3,649.7**	**173.3**	**201.3**	**9.6**	**274.8**	**476.1**	**22.6**	**127.8**	**6.1**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.

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

(C) Normal cost plus amortization.

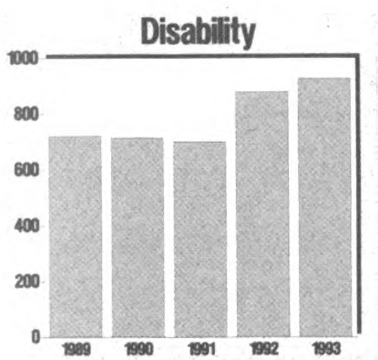
(D) Funding method changed from entry age normal to projected unit credit.

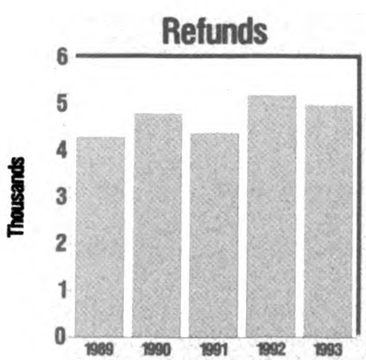


STATISTICAL SECTION

ATTENTIVE. The Owl builds its nest in early winter and refuses to leave, often denying itself nourishment during the nesting. About the time the young hatch, the winter freeze destroys the natural cover for the Owl's prey, providing ample food for the hatchlings needs.

BENEFIT RECIPIENTS





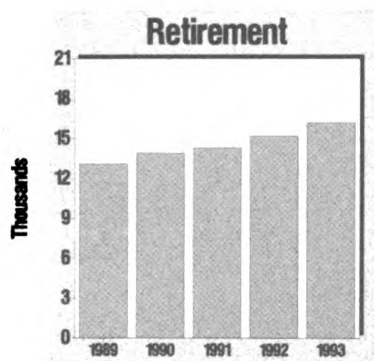
10-YEAR SUMMARY

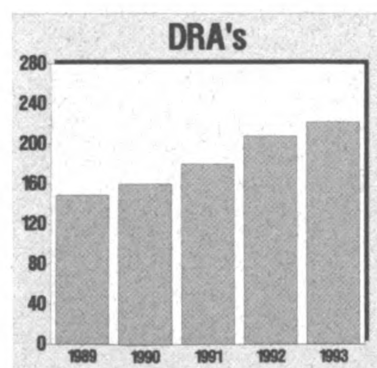
FISCAL YEAR (A)	SURVIVORS	DISABILITY	CONTRIBUTION REFUNDS	RETIREMENT	DISABILITY RETIREMENT ALLOWANCE
1984	2,321	750	2,832	9,217	71
1985	2,440	695	3,943	9,982	91
1986	2,585	698	4,305	10,809	101
1987	2,766	729	3,421	11,620	116
1988	2,830	741	3,955	12,495	135
1989	2,959	722	4,399	13,132	149
1990	3,183	715	4,834	13,958	160
1991	3,377	701	4,407	14,321	180
1992	3,816	880	5,279	15,269	208
1993	**3,981(B)**	**927(C)**	**5,047**	**16,201**	**222**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.

(B) Includes 82 widows and widowers who, because of age, are pending survivor recipients.

(C) Includes 78 members receiving payments from an employer disability insurance contract or workers' compensation for which the SURS benefit is offset.



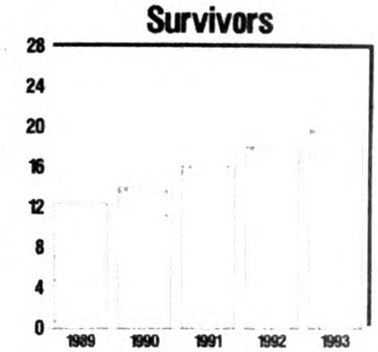


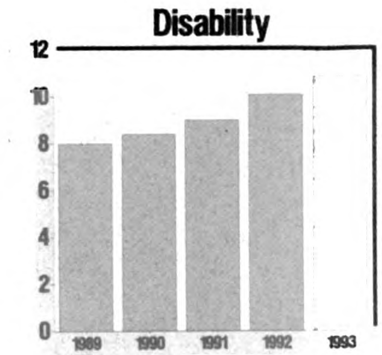
BENEFIT EXPENSES

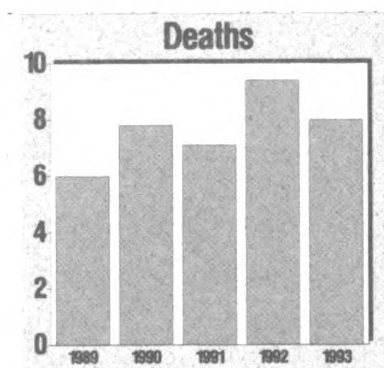
10-YEAR SUMMARY *($ MILLIONS)*

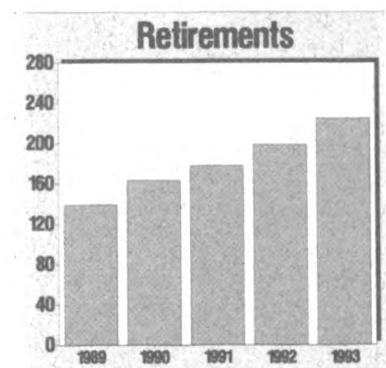
FISCAL YEAR (A)	SURVIVOR ANNUITIES	DISABILITY BENEFITS	DISABILITY RETIREMENT ALLOWANCE	RETIREMENT ANNUITIES	LUMP SUM DEATH BENEFITS	TOTAL
1984	$7.8	$7.1	$0.2	$71.4	$4.7	$91.2
1985	8.7	6.9	0.3	82.5	3.4	101.8
1986	9.4	6.8	0.4	94.3	4.6	115.5
1987	8.7	6.2	0.4	89.4	5.2	109.9
1988	11.5	7.7	0.5	123.6	5.3	148.6
1989	12.5	8.0	0.6	139.2	6.0	166.3
1990	14.1	8.4	0.7	163.5	7.8	194.5
1991	16.2	9.0	0.8	178.0	7.1	211.1
1992	18.1	10.1	1.0	198.8	9.4	237.4
1993	**20.2**	**10.8**	**1.2**	**224.9**	**8.0**	**265.1**

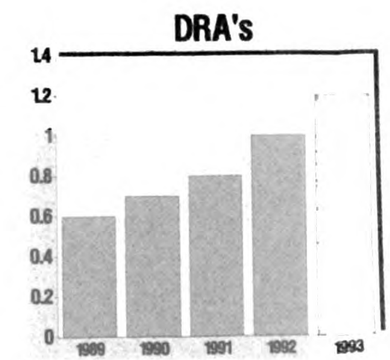
(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.











BENEFIT SUMMARY

SCHEDULE OF NEW BENEFIT PAYMENTS

JULY 1, 1992 THROUGH JUNE 30, 1993

	RETIREMENT		DISABILITY		SURVIVORS	
AGE	NUMBER	AVERAGE MONTHLY BENEFIT	NUMBER	AVERAGE MONTHLY BENEFIT	NUMBER	AVERAGE MONTHLY BENEFIT
Under 9					8	$267
10-14					16	243
15-19					13	293
20-24					2	244
25-29			4	$656	1	146
30-34			14	769	1	232
35-39			17	1,006	0	0
40-44			29	889	4	238
45-49			26	1,104	5	248
50-54	16	$2,090	35	1,184	38	595
55-59	260	1,639	35	1,070	28	678
60-64	522	1,693	34	1,146	30	665
65-69	402	1,757	16	1,285	53	749
70-74	146	1,994	5	705	49	622
Over 74	16	988	0	0	84	472
	1,362	$1,730	215	$1,055	332	$555

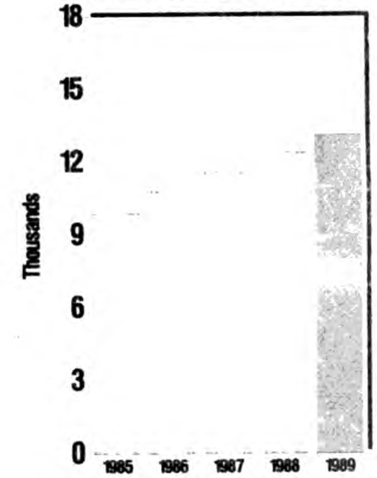
Average Age 61.7 years

BENEFIT SUMMARY

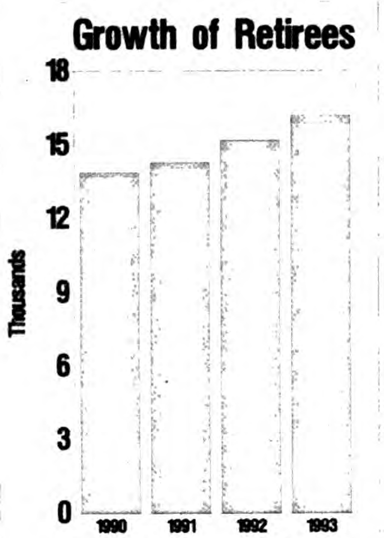
SCHEDULE OF AVERAGE BENEFIT PAYMENTS
FOR RETIREES AS OF JUNE 30

	YEARS OF CREDITED SERVICE						
	0-10	11-15	16-20	21-25	26-30	30+	TOTAL
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
FISCAL YEAR 1989							
Number of Retirees	2,385	2,402	2,492	1,981	1,424	2,448	13,132
Average Monthly Annuity	$244	$399	$686	$1,011	$1,337	$1,933	$905
Final Average Salary	$14,702	$18,369	$21,680	$25,245	$26,170	$28,755	$22,154
Average Credited Service							19.86

Growth of Retirees



BENEFIT SUMMARY



SCHEDULE OF AVERAGE BENEFIT PAYMENTS

FOR RETIREES AS OF JUNE 30

	YEARS OF CREDITED SERVICE						
	0-10	11-15	16-20	21-25	26-30	30+	TOTAL
FISCAL YEAR 1990							
Number of Retirees	2,658	2,433	2,572	2,187	1,540	2,568	13,958
Average Monthly Annuity	$306	$431	$736	$1,106	$1,445	$2,083	$985
Final Average Salary	$15,020	$18,964	$22,309	$26,651	$27,496	$30,331	$23,175
Average Credited Service							19.72
FISCAL YEAR 1991							
Number of Retirees	2,526	2,501	2,643	2,326	1,665	2,660	14,321
Average Monthly Annuity	$265	$452	$772	$1,171	$1,550	$2,224	$1,051
Final Average Salary	$15,400	$18,672	$22,947	$27,584	$29,067	$32,028	$24,020
Average Credited Service							20.06
FISCAL YEAR 1992							
Number of Retirees	3,088	2,575	2,769	2,487	1,751	2,599	15,269
Average Monthly Annuity	$287	$514	$858	$1,326	$1,714	$2,395	$1,120
Final Average Salary	$16,271	$19,698	$24,269	$30,015	$31,129	$33,803	$25,226
Average Credited Service							20.11
FISCAL YEAR 1993							
Number of Retirees	2,336	2,346	2,558	2,463	2,110	4,388	16,201
Average Monthly Annuity	$455	$464	$720	$1,100	$1,505	$2,229	$1,214
Final Average Salary	$18,571	$19,034	$22,012	$26,499	$29,393	$35,082	$26,268
Average Credited Service							22.49

BENEFIT SUMMARY

SCHEDULE OF BENEFIT RECIPIENTS BY TYPE OF BENEFIT
FOR THE YEAR ENDED JUNE 30, 1993

MONTHLY AMOUNT OF BENEFIT	TOTAL RECIPIENTS	GENERAL FORMULA	MONEY PURCHASE	POLICE OR FIRE	OTHER (A)	LONG-TERM DISABILITY	TEMPORARY DISABILITY	SURVIVORS
$0-200	2,536	584	400		808	3	0	741
201-400	4,188	960	820		721	87	16	1,584
401-600	2,885	1,040	734		195	97	47	772
601-800	1,944	851	585	3	30	15	182	278
801-1000	1,683	791	416	3		13	248	212
1001-1200	1,189	667	286	4		4	112	116
1201-1400	1,011	603	251	10		2	57	88
1401-1600	876	558	204	13		0	57	44
1601-1800	776	519	171	12		1	55	18
1801-2000	709	476	166	17			31	19
2001-2200	611	431	131	18			18	13
2201-2400	503	379	98	10			11	5
2401-2600	459	326	101	18			7	7
2601-2800	327	258	56	9			2	2
2801-3000	305	232	62	7			4	
3001-3200	237	185	50	2			0	
3201-3400	187	139	42	4			2	
3401-3600	143	99	41	3				
3601-3800	125	103	22	0				
3801-4000	84	65	18	1				
Over 4000	393	332	59	2				
	21,171	9,598	4,713	136	1,754	222	849	3,899

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

ASSETS AND LIABILITIES

10-YEAR SUMMARY

ASSETS ($ MILLIONS)

FISCAL YEAR (A)	RECEIVABLES	INVESTMENTS	PROPERTY AND EQUIPMENT	TOTAL
1984	$21.3	$1,516.0	$0.7	$1,538.0
1985	34.5	1,726.0	0.6	1,761.1
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	2,687.5	0.9	2,703.8
1989	28.1	2,967.7	1.0	2,996.8
1990	24.1	3,281.4	2.0	3,307.5
1991	27.7	3,513.5	4.6	3,545.8
1992	25.5	3,886.2	8.3	3,920.0
1993	**35.2**	**4,164.6**	**9.7**	**4,209.5**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 and were 12 months in length.

10-YEAR SUMMARY

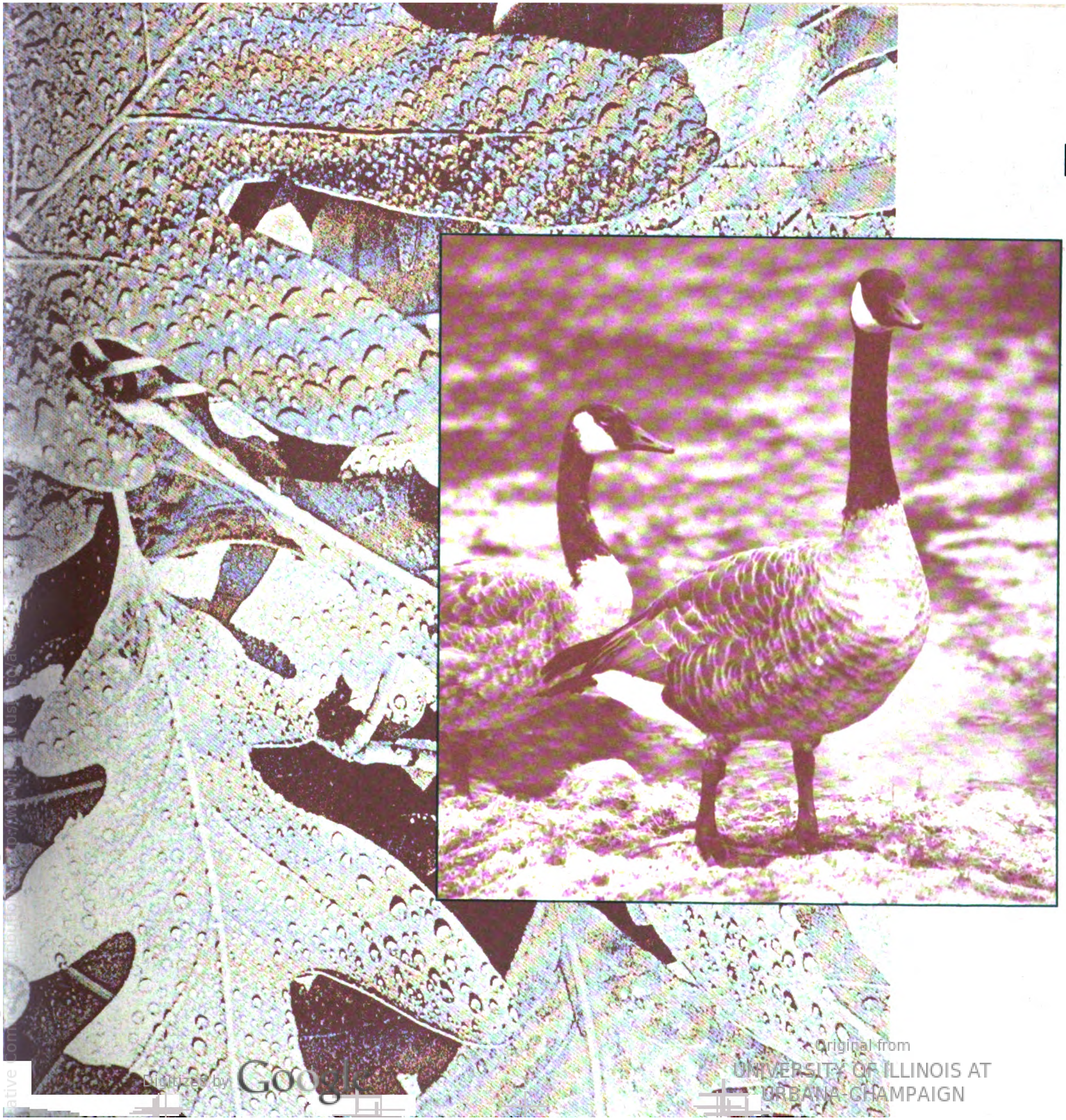
LIABILITIES ($ MILLIONS)

FISCAL YEAR (A)	ACCOUNTS PAYABLE	DEFERRED INCOME	FUND BALANCES	TOTAL
1984	$6.3	$6.7	$1,525.0	$1,538.0
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	2,703.8
1989	6.5	0.3	2,990.0	2,996.8
1990	7.3	0.2	3,300.0	3,307.5
1991	16.0	0.0	3,529.8	3,545.8
1992	18.5	0.0	3,901.5	3,920.0
1993	**21.0**	**0.0**	**4,188.5**	**4,209.5**

(A) Fiscal years 1984-86 ended August 31. Fiscal year 1987 ended June 30 and was 10 months in length. Fiscal years 1988 and after ended June 30 were 12 months in length.

PARTICIPATING EMPLOYERS

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



INVESTMENT SECTION

LOYALTY. The Canadian Goose demonstrates loyalty to its family and nest whenever threatened. At risk to her own existence, the Goose will fight off foes to ensure the future of her family.

CERTIFICATION LETTER

THE NORTHERN TRUST COMPANY

FIFTY SOUTH LA SALLE STREET

CHICAGO, ILLINOIS 60675

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, 1992 through June 30, 1993. Also, a statement of assets together with their fair market value was provided, showing the properties held as of June 30, 1993. 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.

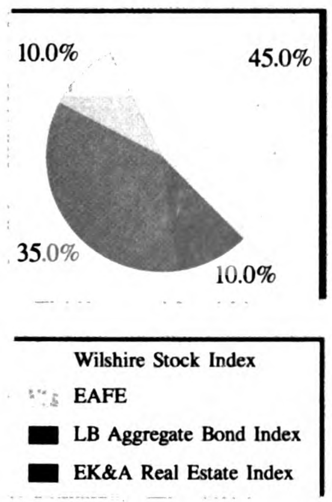
THE NORTHERN TRUST COMPANY

By Mary G. Fedorak

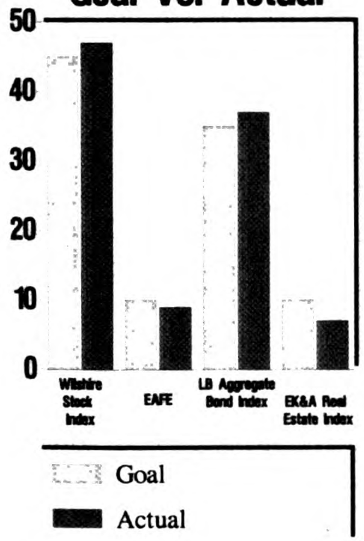
Mary G. Fedorak, Second Vice President

INVESTMENT SUMMARY 1993

Policy Portfolio



Goal vs. Actual



STATEMENT OF INVESTMENT POLICY

INVESTMENT POLICY

Permissible Equity Investment

A goal of 55% of the market value of the fund is to be invested in equity securities with a target of 10% of the market value of the fund invested in non-U.S. equity securities.

Permissible Real Estate Investment

Up to 10% 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, 1993, the System had retained the services of 16 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 OBJECTIVES

Overall fund performance is compared with the performance of a *policy portfolio* comprised of 45% of the Wilshire 5000 Stock Index, 10% of the currency hedged Europe, Australia, and Far East Index (EAFE), 35% of the Lehman Brothers Aggregate Bond Index, and 10% 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 are also made with a universe of funds implementing generally comparable investment policies.

ASSET ALLOCATION

TOTAL FUND

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.

INVESTMENT SUMMARY 1993

WILSHIRE STYLE INDICES				
	FY 93	3 Yrs	5 Yrs	10 Yrs
Large Growth	6.7%	11.6%	15.9%	13.8%
Large Value	23.1%	14.5%	14.0%	16.6%
Small Growth	30.7%	13.2%	11.4%	8.2%
Small Value	24.9%	22.1%	15.6%	19.1%

The fund did not require rebalancing during fiscal year 1993, as the asset allocation stayed within target levels throughout the year. At year end, the 57% of the fund invested in stocks was slightly over the 55% target. Bonds, with a goal of 35%, stood at 36%. The combined overweighting in stocks and bonds (3% of the total fund) was offset by a like underweighting in real estate, 7% invested versus a 10% goal.

LONG TERM INVESTMENT RESULTS

The 10 years ended June 30, 1993, provided returns that, by historical standards, were exceptionally good. SURS portfolio earned an annualized total return of 11.5%. SURS remains ahead of the market goal for 3, 5, and 10 year periods. SURS lags the public fund median for these periods because of SURS greater than typical diversification into non-U.S. stocks and real estate.

The unfortunate part of the story is the missing piece of the pie; the contribution that should have been made to the fund by the State of Illinois. Each extra dollar received could have grown at these exceptional rates, closing the funding gap that exists today.

FISCAL YEAR INVESTMENT RESULTS

SURS investment portfolio returned 11.2% for the fiscal year ended June 30, 1993. SURS U.S. stocks, non-U.S. stocks, and bonds achieved double digit returns. SURS goal for the total fund, stocks, bonds, and real estate, is to do better than the markets in which each is invested. SURS stock portfolio underperformed the market goal. SURS bond results were excellent, in absolute terms and relative to the goal. Real estate continued to decline; however, SURS real estate fared better than the market.

For the first time since fiscal year 1986, SURS investment results trailed the market goal. SURS total fund trailed the goal by 0.9%. The factors contributing to this underperformance had been previously identified and changes are being implemented. It should also be noted that SURS results matched the Public Funds Index.

SURS U.S. stock portfolio underperformed the 16.2% return of the market by 4.2%. As indicated in the table, the best performers for the fiscal year were small company growth stocks. Conversely, the worst performers for the same period were large company growth stocks. Small company growth stocks outperformed large company growth stocks by a full 24%. SURS active portfolio has a strong large company growth bias. The SURS Board of Trustees has made several moves in the past three years to alleviate this bias. Further actions are currently underway. Longer term, large company growth stocks have been excellent performers.

INVESTMENT SUMMARY 1993

SURS non-U.S. stocks underperformed the 17.4% return of the market. The Japanese market, which makes up almost 50% of the non-U.S. market, returned 29.4%. SURS active managers chose to focus on non-Japanese markets. Consequently, they underperformed.

SURS bond portfolio exceeded the 11.8% return of the market by 1.1%. The bond market performed well because interest rates continued to decline. In general, when interest rates fall, bond prices rise.

SURS real estate portfolio exceeded the -9.8% return of the market by 4.2%. This excess return was due to SURS U.S. real estate managers previously marking down the value of SURS properties. Most U.S. real estate managers are just now recognizing declines that occurred in prior periods. The absence of leverage has also worked in SURS favor in the U.S. portfolio. SURS Canadian real estate, however, fell short of the goal, as further value declines were worsened by high leverage.

INVESTMENT RETURNS

	FISCAL YEAR ENDED JUNE 30					ANNUALIZED		
	1989	1990	1991	1992	1993	3 YRS	5 YRS	10 YRS
Total Fund								
SURS	17.1%	9.7%	5.5%	10.3%	11.2%	9.0%	10.7%	11.5%
Policy Portfolio	15.2	8.5	3.6	6.9	12.1	7.5	9.2	11.3
Public Retirement Funds Index	14.4	10.2	8.5	12.0	11.2	10.6	11.3	11.5
CPI	5.0	4.6	4.6	3.1	3.0	3.6	4.1	3.8
U.S. Common Stock Returns								
SURS	21.7	12.9	8.2	14.5	12.0	11.5	13.8	13.8
S&P 500 Stock Index	20.6	16.5	7.4	13.5	13.6	11.5	14.2	14.4
Wilshire 5000	19.5	12.7	7.0	13.9	16.2	12.3	13.8	13.3
Foreign Stock Returns								
SURS	17.3	4.2	-15.8	-13.9	15.3	-5.8	0.5	N/A
Currency Hedged EAFE Index	17.4	1.9	-14.6	-14.6	17.4	-5.0	0.5	N/A
Bond Returns								
SURS	13.4	7.6	10.9	16.1	12.9	13.3	12.2	12.6
Lehman Brothers Aggregate Bond Index	12.2	7.9	10.7	14.1	11.8	12.2	11.3	11.9
Real Estate Returns								
SURS	9.1	8.1	-4.7	-13.0	-5.6	-7.9	-1.6	N/A
Ennis, Knupp & Assoc.-Real Estate Index	6.8	4.9	-6.7	-12.3	-9.8	-9.6	-3.7	N/A

"The unfortunate part of the story is the missing piece of the pie; the contribution that should have been made to the fund by the State of Illinois. Each extra dollar received could have grown at these exceptional rates, closing the funding gap that exists today."

Geographic Diversification

- Canada (12%)
- West (34%)
- Midwest (16%)
- South (17%)
- East (21%)

SURS REAL ESTATE

Real estate gained favor among institutional investors in the 1980's. Those who marketed real estate investments to pension funds and other institutions generally pointed to four characteristics of the historical performance of commercial real estate.

- Attractive inflation hedge
- Low volatility
- Competitive returns
- Negative correlation with stocks and bonds

Taken together, these four performance characteristics provided an argument which SURS found compelling. SURS, along with many institutions, increased their allocations to real estate accordingly.

Unfortunately, the bright promise evident in historical return trends was not repeated. Several factors contributed to real estate's recent poor performance. Buyers tolerated low initial yields because they expected compounded value growth in the range of 5% to 7%. Investors focused less on the risks associated with real estate investments and more on the expected total returns and portfolio diversification benefits ascribed to real estate. Increasing numbers of foreign institutional investors began buying U.S. real estate assets in the 80's. Tax-oriented syndications became a major force in demand for real estate assets during the 80's. The flood of capital seeking to acquire commercial real estate caused a breakdown in the supply and demand relationship within the space market. Too often, the motivation for construction was the availability of capital to buy a real estate asset once it was built. In short, too much capital was chasing too few deals.

Although SURS lost money in real estate in the past five years, SURS lost less than the typical pension plan. The primary reason for this is the process by which SURS Trustees invested in real estate. SURS real estate policy is to invest in wholly owned, well-leased existing property with little leverage. By electing the lower risk/lesser reward strategy to not use leverage and not do development deals, SURS avoided two of the biggest pitfalls of the 80's. SURS does have leverage in the portfolio with Cadillac Fairview. Viewed in a portfolio context, SURS leverage is low. At the deal level, however, the amount of leverage has been a major hindrance to achieving return goals.

Do the problems of the 80's mean real estate is not an appropriate vehicle for pension plans? No. Real estate is experiencing a bear market because of a disequilibrium in the market. Capital markets are self-adjusting for disequilibriums. Capital markets are also cyclical. Real estate remains an efficient diversifier against bear markets in stocks and bonds and will, as the current excess supply becomes occupied, again be a hedge against inflation.

INVESTMENT SUMMARY 1993

SURS, in recognition of the supply/demand disequilibrium in the market, ceased making investments in real estate five years ago. We are currently keeping a close watch on real estate markets for re-deployment opportunities.

UTILIZATION OF MINORITY/WOMEN OWNED BUSINESS ENTERPRISES

SURS recognizes that as a public fund, it has important affirmative action obligations. SURS is very proud of our accomplishments in providing opportunities to emerging managers, and we believe that SURS compares very favorably with other public funds throughout the U.S. SURS Board has actively sought increased participation of Minority/ Women Business Enterprises (MWBE) and will continue to do so as opportunities arise. This program is important to our Board of Trustees and has received the highest priority.

Accomplishments

- SURS has established and maintains an emerging manager database.
- SURS requires annual reports from all of our managers on their affirmative action programs. Affirmative action efforts are part of the manager's annual performance evaluation.
- SURS invests 4% of the active portfolio with minority/women owned firms.
- SURS Board has adopted a policy to seek to achieve increased participation of minority/women owned business enterprise firms as active investment managers and brokers.
- SURS does not have barriers which exclude participation by emerging managers in the search process. Individual records of investment experience are utilized.
- Since 1986, SURS Board has hired nine active investment managers. Three of the nine were minority/women owned business enterprises: Amerindo Investments (minority owned), Ariel Capital (minority owned), and Zevenbergen Capital (women owned).

"This program (Minority/ Women Business Enterprises) is important to our Board of Trustees and has received the highest priority."

INVESTMENT PORTFOLIO 1993

ASSET ALLOCATION AS OF JUNE 30, 1993 *($ THOUSANDS)*

	EQUITY	FIXED INCOME	REAL ESTATE	MARKET VALUE	% OF FUND
U.S. Stock Managers - Passive					
Wells Fargo/Nikko Investment Advisors					
U.S. Equity Market	$1,346,674	$0	$0	$1,346,674	26
Extended Market	162,641	0	0	162,641	3
Subtotal	1,509,315	0	0	1,509,315	29
Non-U.S. Stock Managers - Passive					
Wells Fargo/Nikko Investment Advisors	242,759	24	0	242,783	5
U.S. Stock Managers - Active					
Amerindo Investment	22,979	136	0	23,115	0
Ariel Capital	34,997	1,592	0	36,589	1
Fayez Sarofim	591,047	2,568	0	593,615	12
Fisher Investments	32,746	158	0	32,904	1
Pacific Investment - StocksPlus	46,437	0	0	46,437	1
Rosenberg Institutional	67,168	143	0	67,311	1
Smith Barney	64,748	787	0	65,535	1
Zevenbergen Capital	17,685	323	0	18,008	0
Subtotal	877,807	5,707	0	883,514	17
Non-U.S. Stock Managers - Active					
Brinson Partners	105,886	6,374	0	112,260	2
IDS International	55,016	3,830	0	58,846	1
Martin Currie	54,725	2,369	0	57,094	1
Subtotal	215,627	12,573	0	228,200	4

INVESTMENT PORTFOLIO 1993

ASSET ALLOCATION AS OF JUNE 30, 1993 *($ THOUSANDS)*

	EQUITY	FIXED INCOME	REAL ESTATE	MARKET VALUE	% OF FUND
Venture Capital Manager					
Brinson Acquisition Fund II	$5,715	$2,825	$0	$8,540	0
Brinson Partnerships	12,818	700	0	13,518	1
Brinson Post Venture	10,981	5	0	10,986	0
Subtotal	29,514	3,530	0	33,044	1
Bond Manager - Passive					
Wells Fargo/Nikko U.S. Debt	0	809,287	0	809,287	16
Bond Managers - Active					
Pacific Investment	18,769	1,014,921	0	1,033,690	20
Cash	0	54,106	0	54,106	1
Subtotal	18,769	1,069,027	0	1,087,796	21
Real Estate Managers					
Aetna Real Estate	0	0	69,188	69,188	1
Equitable Prime Property Fund	0	0	69,600	69,600	2
JMB - Cadillac Fairview	0	0	44,128	44,128	1
Rosenberg Real Estate	0	1,342	169,385	170,727	3
Subtotal	0	1,342	352,301	353,643	7
Total Asset Allocation	**$2,893,791**	**$1,901,490**	**$352,301**	**$5,147,582(A)**	**100**
% of Total Fund	56%	37%	7%	100%	

(A) Amount includes accrued investment income receivable of $15,379,251 at June 30, 1993.

A listing of the investments held as of June 30, 1993 is available upon request.

Printed by the Authority of the State of Illinois: 2,000 copies

Printed on recycled paper.