THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED
JUNE 30, 1999

A PENSION TRUST FUND OF
THE STATE OF ILLINOIS

STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS

SURS

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Universities Retirement System of Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1998

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

THE COMPREHENSIVE
ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 1999

PREPARED BY SURS FINANCE DIVISION

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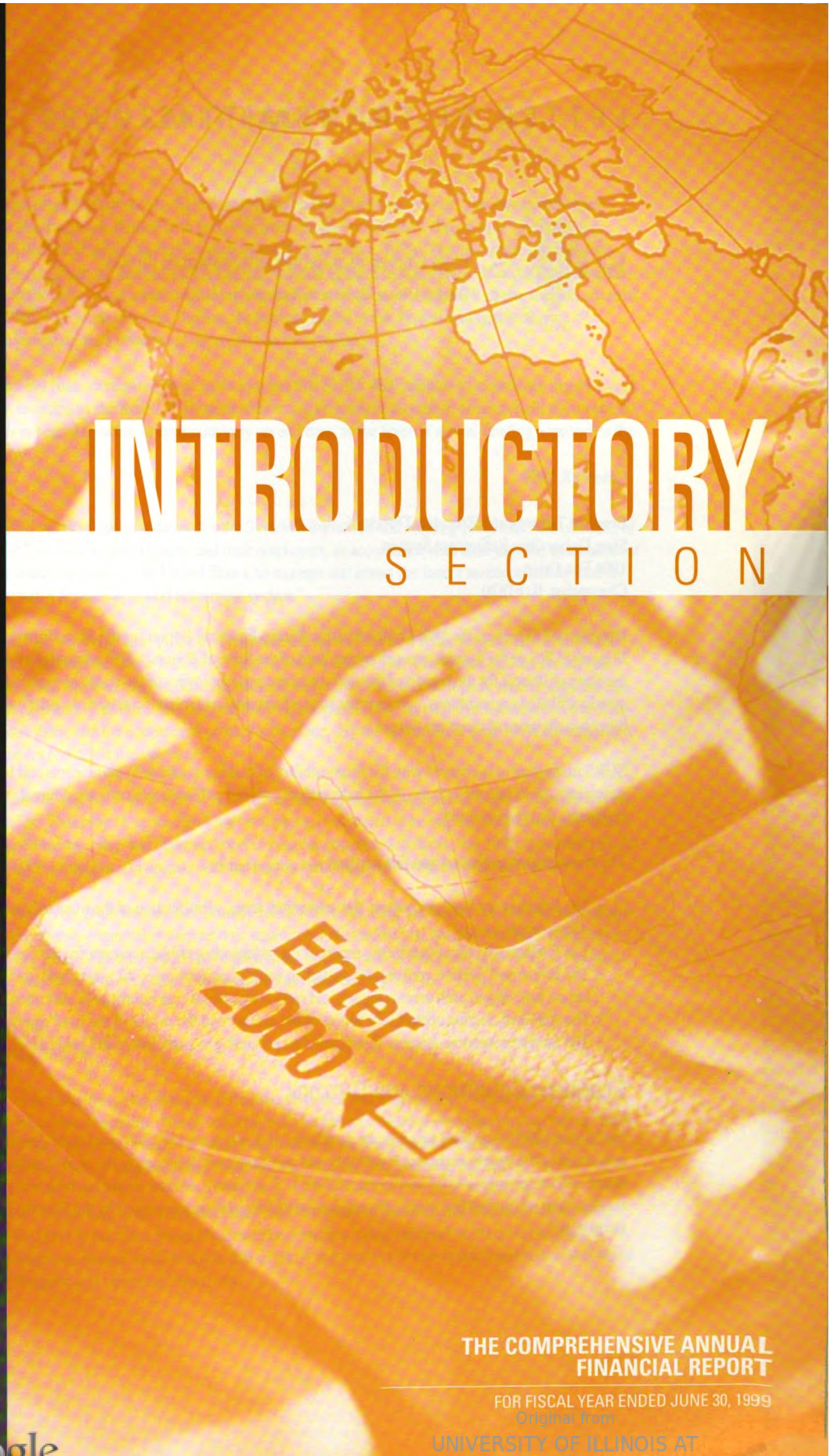


THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 1999

LETTER OF TRANSMITTAL

SURS State Universities Retirement System of Illinois
Serving Illinois Community Colleges and Universities
1901 Fox Drive • Champaign, IL 61820
1-800-ASK SURS • (217) 378-8800 (C-U)
(217) 378-9800 (FAX)

October 8, 1999

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

I am pleased to present the 58th Comprehensive Annual Financial Report for the State Universities Retirement System of Illinois (SURS or the System, a pension trust fund of the State of Illinois). 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, and 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 administrative organization;
- The Financial Section contains the report of the independent public accountants, the financial statements, and notes;
- The Investment Section contains the custodian bank's certification of the assets held in safekeeping, a list of the ten largest holdings in each asset category, and reports and tables concerning asset allocation and investment performance;
- The Actuarial Section contains the report of the actuary and the results of the most recent actuarial valuation; and
- The Statistical section contains significant data pertaining to participants and benefit recipients.

Economic Conditions and Outlook

Fiscal year 1999 began with a significant drop in the U.S. stock market, with most of the loss regained by January. The remainder of the year brought much volatility and moderate overall growth in the market value of System assets. International economies appear to be recovering, and the U.S. economy remains strong but with less potential for the large stock market gains of the past few years. No pension-related legislation was passed by the Illinois General Assembly during the fiscal year.

LETTER OF TRANSMITTAL

The State of Illinois, the largest employer covered by SURS, provides funding from two sources: the General Revenue Fund, and the State Pensions Fund which is funded with proceeds from unclaimed property. Fiscal year 1999 marked SURS' fourth year of funding under Public Act 88-0593 which took effect on July 1, 1995. This law addresses pension funding in two fundamental ways. First, the law calls for a 15-year phase-in (graded in equal steps) to an ultimate level of funding which will adequately provide for the annual employer's normal cost while amortizing 90% of the accrued actuarial unfunded liability over a period of 35 years. Second, funding the appropriations to the System was removed from the annual budgeting process by providing for a continuing appropriation mechanism.

While the state contributions have been increasing, projections indicate that SURS will continue to experience negative cash flow during fiscal year 2000, resulting in the Board of Trustees redirecting investment income to cover benefit payments. A return to positive cash flow is expected to occur in approximately seven years, as the level of annual funding approaches the normal cost requirement.

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 for SURS annuitants, participants, and their employers, in accordance with state law, the best and most cost effective benefit administration services in the United States, to manage and invest the fund's assets prudently, and to endeavor to achieve and maintain a financially sound retirement system."

A major initiative of fiscal year 1999 was the final phase of the implementation of the new retirement options available to our members as a result of the collaboration of the Illinois General Assembly and SURS. These new options include the addition of a portable benefit option to the traditional benefits available under the defined benefit plan, and the introduction of a new defined contribution plan known as the Self-Managed Plan. Throughout the year, employers announced the offering of the options to SURS members, and the educational process took place. By the end of fiscal year 1999, the majority of SURS' 77,000 active members had made their election.

Another major operational focus during fiscal year 1999 was the information systems development of new software responsible for the payment of benefits. This project, spanning almost two years, is expected to be implemented during the fall of 1999. Along with the redesigned membership and claims computer systems completed in fiscal year 1996, it provides SURS with systems which are Year 2000 compliant and operate with the newest technology and business practices available.

Finally, ensuring preparedness for Year 2000 was another primary focus for SURS staff, particularly in the information systems areas. Activities included extensive internal system testing, assessment of vendors and business partners' readiness, and development of contingency plans. Periodic reports have been made to the Board of Directors, and SURS is confident of its ability to maintain high standards of service to members on into the next 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. Market value has been used to present the assets of the System in accordance with Governmental Accounting Standards Board Statements #25 and #27, implemented effective July 1, 1996.

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 two internal auditors to determine that all controls are properly designed and operating effectively.

LETTER OF TRANSMITTAL

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 1999 totaled $1.57 billion, a decrease of 18% from 1998. As summarized below, this is chiefly due to lower investment income.

The expenses of the retirement system relate to the provision of retirement annuities and other benefits, refunds to terminated employees, and the cost of administering the System. These expenses for fiscal year 1999 were $569.2 million, an increase of 12.3% over expenses for 1998. As summarized below, this increase is primarily due to the growth in benefits paid.

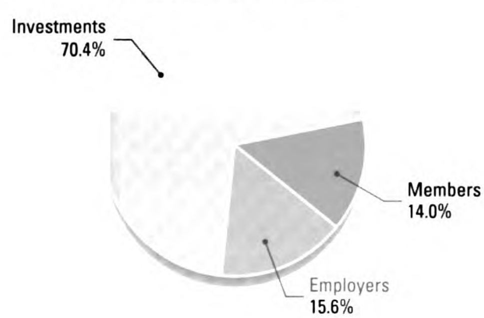
REVENUES ($ MILLIONS)

Source	**1999**	1998	% Change
Member Contributions	$ 219.7	$ 221.8	(.9)
Employer Contributions	244.3	227.8	7.2
Investment Income	1,104.5	1,474.6	(33.5)
	$ 1,568.5	$ 1,924.2	(18.5)

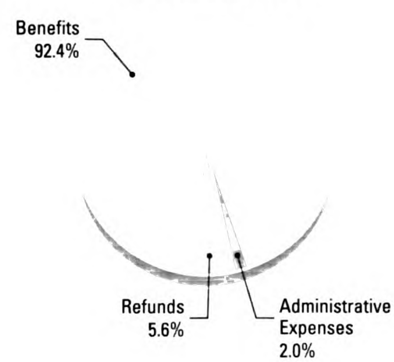
EXPENSES ($ MILLIONS)

Purpose	**1999**	1998	% Change
Benefits	$ 526.0	$ 466.5	12.8
Refunds	31.9	29.7	7.4
Administrative	11.3	10.6	6.6
	$ 569.2	$ 506.8	12.3

WHERE THE MONEY CAME FROM



WHERE THE MONEY WENT



FUNDING

The actuarial accrued liability for the defined benefit plan at June 30, 1999 was $12.6 billion as calculated by the projected unit credit method. The net assets available at June 30, 1999, equaled $10.8 billion. The amount by which the liability exceeds the assets is called the unfunded accrued actuarial liability. This liability amounts to $1.8 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. The current funding plan reaches that point at the end of a 15-year phase-in period that ends in 2010.

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 69% of the fund to be invested in equities, 20% of which may be invested in non-U.S. common stock and 2% in private equities; 30% in fixed income; and 1% in real estate. The System retains professional investment firms who serve as fiduciaries and are afforded full discretion to manage the assets entrusted to them in accordance with written policies and guidelines established by the Board of Trustees.

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.

Yield information is detailed in the Investment Section of this report. Taken as a whole, the SURS portfolio of investments produced a return of 11.5%, net of fees.

INDEPENDENT AUDIT

The Illinois Pension Code requires an annual audit of the financial statements of the System by independent 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 1999 financial statements 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, 1998. This is the fifteenth 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.

LETTER OF TRANSMITTAL

Appointment of Trustees

No changes were made in the composition of the SURS nine-member Board of Trustees who were appointed by Governor Jim Edgar on July 21, 1995. As of June 30, 1999, Dr. Arthur L. Aikman, Ms. Jane H. Henneman, and Ms. Emma Taylor had completed the second year of their six-year reappointed terms. Ms. Nancy C. DeSombre, Dr. J. Fred Giertz, and Dr. Stanley G. Rives were concluding the final year of their four-year terms. Ms. Pat McKenzie, Mr. Talat Othman, and Mr. John M. Schultz were beginning the fifth year of their six-year terms. Mr. Schultz, Ms. McKenzie, and Dr. Rives continue to serve as President, Vice-President, and Treasurer, respectively.

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 members 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.

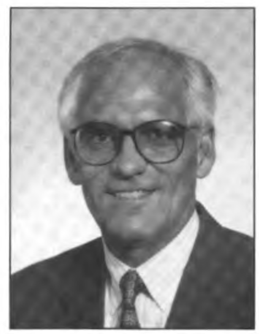
Respectfully submitted,

Shelley M. Porter

Shelley M. Porter, CPA
Deputy Director, Finance

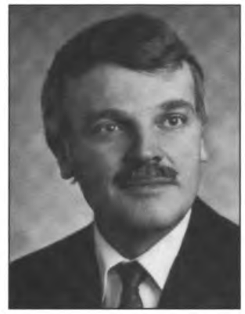
A PENSION TRUST FUND
OF THE STATE OF ILLINOIS

BOARD OF TRUSTEES



ADMINISTRATIVE STAFF

James M. Hacking
Executive Director



Kenneth E. Codlin
Chief Investment Officer

John R. Krimmel, CPA
Associate Investment Officer

Shelley M. Porter, CPA
Deputy Director Finance

Judy Rathgeber
Deputy Director Member Education

Judith A. Parker
Deputy Director Member Services

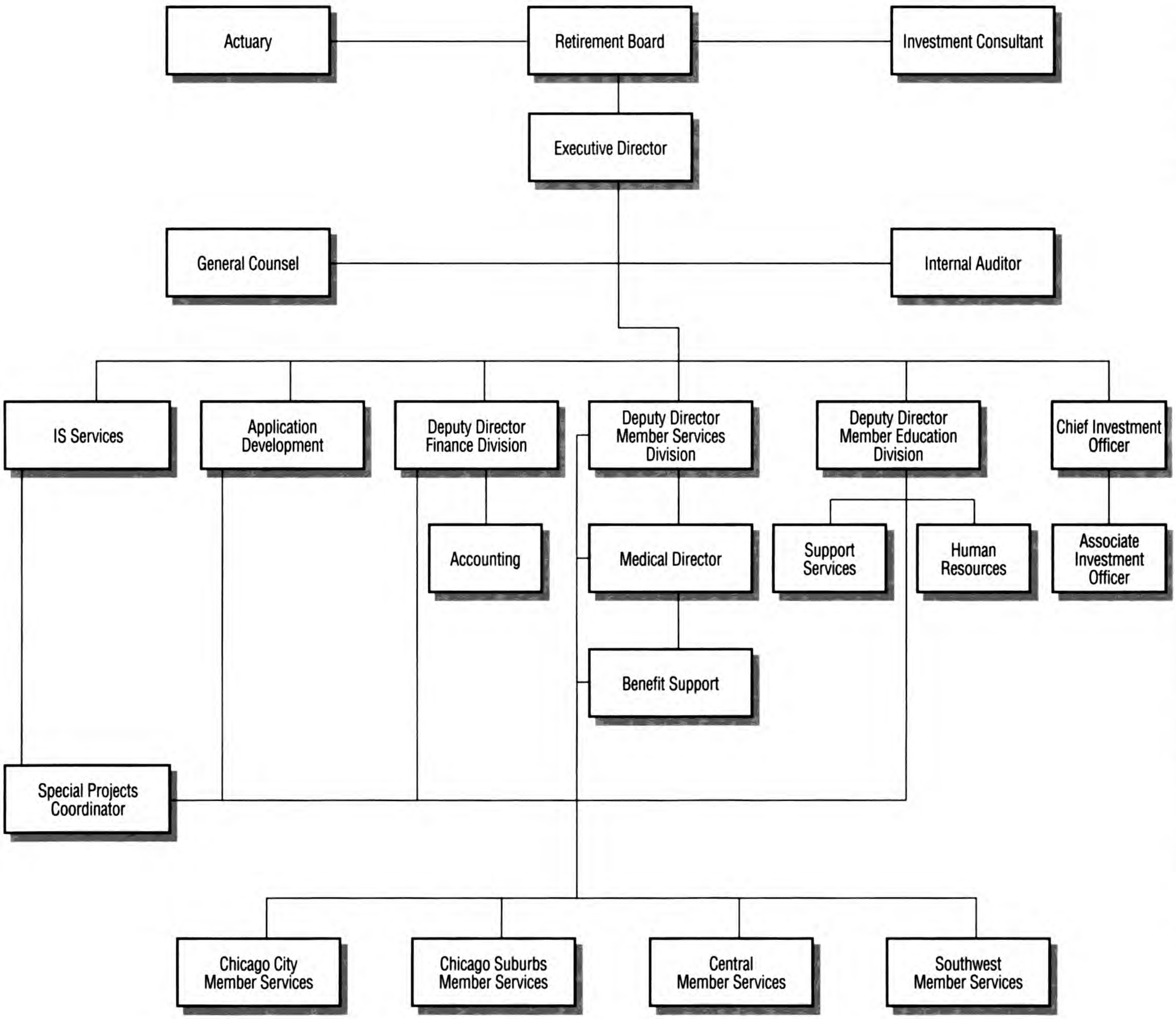
Steven L. Hayward, CPA
Internal Auditor

M. Christopher Hansen
Manager Information System Services

Douglas J. Steele
Manager Application Development

Dan M. Slack
General Counsel

ORGANIZATIONAL CHART



CONSULTING AND PROFESSIONAL SERVICES

ACTUARY
Gabriel, Roeder, Smith & Co. — Southfield, Michigan

AUDITOR
Arthur Andersen LLP — Chicago, Illinois
(Acting as Special Assistant Auditor for the Illinois Office of the Auditor General)

LEGAL COUNSEL
Mayer, Brown & Platt — Chicago, Illinois
Thomas, Mamer & Haughey — Champaign, Illinois

MASTER CUSTODIAN & PERFORMANCE MEASUREMENT
The Northern Trust Company — Chicago, Illinois

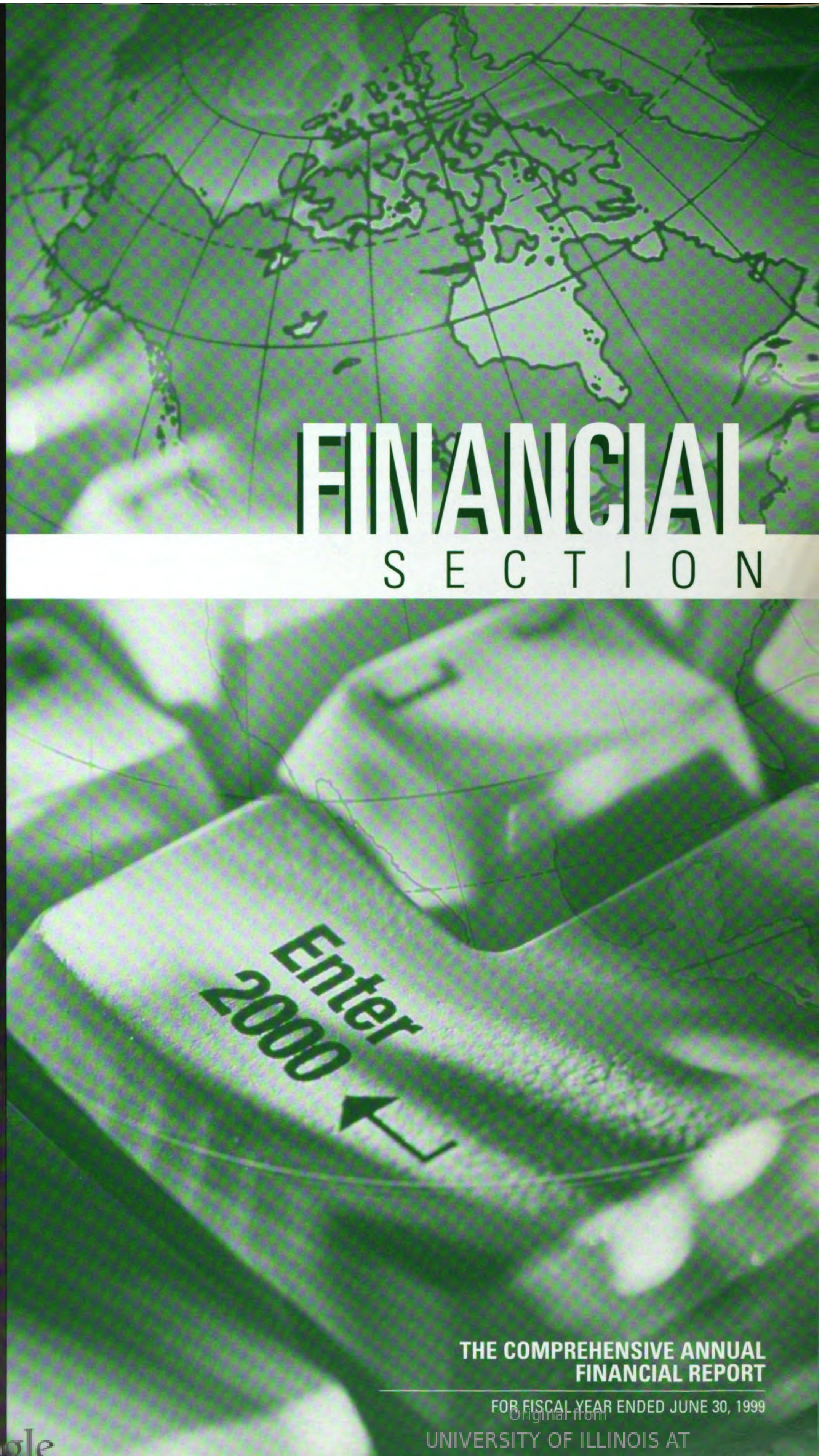
INVESTMENT CONSULTANT
Ennis, Knupp & Associates, Inc. — Chicago, Illinois
Strategic Investment Solutions, Inc. – San Francisco, California

INFORMATION SYSTEMS
Bradley Consulting Services — Lockport, Illinois
Champaign Systems, Inc. — Champaign, Illinois
Computer Application Solutions, Inc. – Springfield, Illinois
Coe-Truman Technologies, Inc. – Savoy, Illinois
Levi, Ray & Shoup, Inc. — Champaign, Illinois
Pavik Consulting Concepts, Inc. – Plymouth, Minnesota
Phoenix Business Solutions, Inc. — Champaign, Illinois
Protege Systems, Inc. — Schaumburg, Illinois

INVESTMENT ADVISORS
American Express Asset Management International — London, England
Barclays Global Investors — San Francisco, California
Blackrock Financial Management — New York, New York
Brinson Partners, Inc. — Chicago, Illinois
Fayez Sarofim & Company — Houston, Texas
Global Asset Management – London, England
Lend Lease — New York, New York
Martin Currie, Inc. — Edinburgh, Scotland
Northern Trust Global Advisors — Stamford, Connecticut
Northern Trust Quantitative Advisors – Chicago, Illinois
Pacific Investment Management Company — Newport Beach, California
Progress Investment Management Company — San Francisco, California
Rosenberg Real Estate Equity Fund — Chicago, Illinois
Smith Barney Capital Management — New York, New York
The Chicago Trust Company — Chicago, Illinois

SELF-MANAGED PLAN SERVICE AGENT
ICMA Retirement Corporation — Washington, District of Columbia

SELF-MANAGED PLAN SERVICE PROVIDERS
Aetna Retirement Services — Hartford, Connecticut
ICMA Retirement Corporation — Washington, District of Columbia
Teachers Insurance Annuity Association College Retirement Equities Fund — New York, New York



FINANCIAL SECTION

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 1999

INDEPENDENT AUDITORS' REPORT

ARTHUR ANDERSEN LLP

Honorable William G. Holland
Auditor General
State of Illinois

Board of Trustees
State Universities Retirement System of Illinois:

As Special Assistant Auditors of the Auditor General, we have audited the accompanying Combining Statement of Plan Net Assets of the State Universities Retirement System of Illinois (System), a pension trust fund of the State of Illinois, as of June 30, 1999, and the related Combining Statement of Changes in Plan Net Assets for the year 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 audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards (1994 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the State Universities Retirement System of Illinois as of June 30, 1999, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

The Year 2000 supplementary information on page 31 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin 98-1 as amended are not sufficiently specific to permit meaningful results from the prescribed procedures. In addition, we did not provide assurance that the System is or will become Year 2000 compliant, that the System's remediation efforts will be successful in whole or in part, or the parties with which the System does business are or will be Year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 1999 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts.

Our audit was made for the purpose of forming an opinion on the financial statements of the System, taken as a whole. The required supplementary information, on page 30, and supporting schedules, on pages 32-35, are presented for the purpose of additional analysis and are not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The information for the years 1996 and 1997 has been derived from financial statements audited by other auditors whose reports thereon expressed an unqualified opinion.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois
October 8, 1999

FINANCIAL STATEMENTS

COMBINING STATEMENT OF PLAN NET ASSETS AS OF JUNE 30, 1999 WITH COMPARATIVE REPORTING ENTITY TOTALS AS OF JUNE 30, 1998

	1999			1998
	Defined Benefit Plan	Self-Managed Plan	Total	Total
ASSETS				
Cash and short-term investments	$ 319,260,567	$ –	$ 319,260,567	$ 460,282,838
Receivables				
Participants	8,507,010	514,852	9,021,862	16,170,335
Federal, trust funds, and other	1,126,081	1,349,804	2,475,885	1,337,723
Notes receivable long-term	1,913,758	–	1,913,758	1,794,167
Pending investment sales	121,072,974	–	121,072,974	126,243,506
Interest and dividends	20,968,780	–	20,968,780	27,736,948
Total receivables	153,588,603	1,864,656	155,453,259	173,282,679
Prepaid expenses	111,553	–	111,553	29,396
Investments, at fair value				
Equity investments	7,680,779,360	–	7,680,799,360	6,852,903,345
Fixed income investments	2,964,729,349	–	2,964,729,349	2,660,031,036
Real estate investments	59,883,071	–	59,883,071	134,492,069
Mutual funds and variable annuities	–	29,438,232	29,438,232	1,581,208
Total investments	10,705,411,780	29,438,232	10,734,850,012	9,649,007,658
Securities lending collateral	651,738,947	–	651,738,947	506,548,024
Properties, net of accumulated depreciation of $9,153,490 and $7,780,386, respectively	15,904,793	–	15,904,793	14,341,417
Total assets	**11,846,016,243**	**31,302,888**	**11,877,319,131**	**10,803,528,012**
LIABILITIES				
Benefits payable	5,005,000	–	5,005,000	4,202,000
Refunds payable	2,425,000	–	2,425,000	2,525,000
Securities lending collateral	651,738,947	–	651,738,947	506,584,024
Payable to brokers for unsettled trades	399,280,115	–	399,280,115	473,418,203
Bonds and interest payable	18,654,367	–	18,654,367	17,354,091
Administrative expenses payable	7,186,584	–	7,186,584	5,766,812
Total liabilities	**1,084,290,013**	–	**1,084,290,013**	**1,009,850,130**
Net assets held in trust for pension benefits (A Schedule of Funding Status is presented on page 30.)	**$ 10,761,726,230**	**$ 31,302,888**	**$ 10,793,029,118**	**$ 9,793,677,882**

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

FINANCIAL STATEMENTS

Combining Statement of Changes in Plan Net Assets for the Year Ended June 30, 1999 With Comparative Reporting Entity Totals for the Year Ended June 30, 1998

	1999			1998
	Defined Benefit Plan	Self-Managed Plan	Total	Total
ADDITIONS				
Contributions				
Employer	$ 237,874,032	$ 6,433,472	$ 244,307,504	$ 227,798,626
Participant	212,965,758	6,709,314	219,675,072	221,769,326
Total contributions	**450,839,790**	**13,142,786**	**463,982,576**	**449,567,952**
Investment income				
Net appreciation in fair value of investments	921,817,775	2,518,213	924,335,988	1,318,526,073
Interest	135,613,846	–	135,613,846	113,753,599
Dividends	57,071,338	–	57,071,338	54,520,698
Securities lending	2,553,919	–	2,553,919	1,680,414
	1,117,056,878	2,518,213	1,119,575,091	1,488,480,784
Less investment expense				
Asset management expense	14,249,419	–	14,249,419	13,265,935
Securities lending expense	775,746	–	775,746	625,221
Net investment income	1,102,031,713	2,518,213	1,104,549,926	1,474,589,628
Total additions	**1,552,871,503**	**15,660,999**	**1,568,532,502**	**1,924,157,580**
DEDUCTIONS				
Benefits	525,966,160	–	525,966,160	466,508,747
Refunds of contributions	31,329,858	593,750	31,923,608	29,680,325
Bond interest expense	1,300,276	–	1,300,276	1,209,635
Administrative expense	9,991,222	–	9,991,222	9,428,294
Total deductions	**568,587,516**	**593,750**	**569,181,266**	**506,827,001**
Net increase	**984,283,987**	**15,067,249**	**999,351,236**	**1,417,330,579**
Net assets held in trust for pension benefits				
Beginning of year	9,791,999,902	1,677,980	9,793,677,882	8,376,347,303
Equity transfer	(14,557,659)	14,557,659	–	–
End of year	**$10,761,726,230**	**$ 31,302,888**	**$10,793,029,118**	**$ 9,793,677,882**

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

NOTES TO THE FINANCIAL STATEMENTS

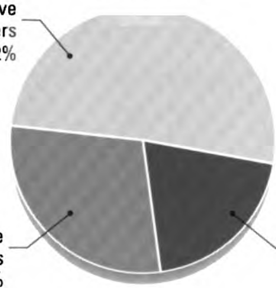
I. Description of Plans

Legislation effective January 1, 1998 required State Universities Retirement System (SURS or the System) to introduce a portable benefit option to the existing defined benefit plan, and to offer a defined contribution plan. As of June 30, 1999, the defined benefit plan has two options available. These options are known as the traditional benefit option and the portable benefit option. The defined contribution plan is known as the self-managed plan. The membership, contributions, and benefit provisions related to these plans are presented in the following summary of the provisions of SURS in effect as of June 30, 1999, as defined in the Illinois Compiled Statutes. Interested parties should refer to the SURS Member Guide or the Statutes for more complete information.

A. Defined Benefit Plan

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 included in the State of Illinois' financial reports as a pension trust fund. SURS is governed by Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes.* These statutes assign the authority to establish and amend the benefit provisions of the plan to the State Legislature. Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System. It is also these statutes that define the scope of SURS' reporting entity. 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.*

DEFINED BENEFIT PLAN



At June 30, 1999 and 1998, the number of participating employers was:

	1999	1998
Universities	**12**	12
Community Colleges	**39**	39
Allied Agencies	**14**	17
State of Illinois	**1**	1
	66	69

At June 30, 1999 and 1998, defined benefit plan membership consisted of:

	1999	1998
Benefit Recipients	**29,342**	28,032
Active Members	**74,666**	77,156
Inactive Members	**41,814**	38,054
	145,822	143,242

1. 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.

2. Benefit Provisions

Public Act 90-448 was enacted effective January 1, 1998 which established an alternative defined benefit program known as the portable benefit option. This option is offered in addition to the existing traditional benefit option. All members who are eligible for the traditional benefit option are eligible to choose the portable benefit option. Existing members are allowed one year from the date that their employer chooses to offer this alternative plan in which to make this irrevocable election. New employees are allowed 60 days from their date of hire to make an irrevocable election. The benefit provisions for these two defined benefit plan options are as follows:

SURS provides retirement, disability, death and survivor benefits as authorized in Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*.

Retirement benefits are payable to participants meeting minimum vesting requirements of 5 years of service credit at age 62, 8 years of service credit at age 55, or 35 years of service credit regardless of age. The annuity is the larger of (a) a percentage of the average of the highest 4 consecutive years earnings, with the percentage based upon total service credit, or (b) an actuarially determined benefit based upon the total employee and employer contributions and the individual's age at time of retirement. Retirement benefits are payable for life and are subject to a 3 percent compounded increase each January 1.

Disability benefits are payable to all participants with at least 2 years of service credit if they are unable to reasonably perform the duties of their assigned position due to a physical or mental impairment as certified by a physician. The benefit becomes payable when sick leave payments are exhausted or after 60 days of the disability, whichever is later. The benefit is payable at a rate of 50 percent of the monthly rate of compensation on the date the disability began. Disability benefits are reduced by any payments received under Workers' Compensation or the Occupational Diseases Act. If a participant remains disabled after receiving the maximum benefits due, they may be eligible for a disability retirement annuity equal to 35 percent of the monthly rate of compensation on the date the disability began.

Upon termination of service, a lump sum refund is available to all members. Under the traditional benefit option, this refund consists of all member contributions and interest at 4-1/2%. Under the portable benefit option, this refund consists of all member contributions and total interest credited, plus for those members with greater than or equal to 5 years of service credit, an equal amount of employer contributions. Under both defined benefit plan options, a member with 5 or more years of service credit who does not apply for a refund may apply for a normal retirement benefit payable at age 62.

Death benefits are payable to named beneficiaries upon the death of any participant of this System. Under the traditional benefit option, monthly survivor benefits may be paid to eligible survivors if the participant established a minimum of 1.5 years of service credit prior to the date of death. If no qualified survivor exists at the date of retirement, the member is paid a refund of all survivor contributions plus interest. Under the portable benefit option, survivor benefits are available through a reduction of the retirement annuity calculated as described above. No refund of survivor contributions is available if there is no qualified survivor at the time of retirement. These provisions are designed to allow the impact of the portable benefit option's enhanced refund opportunity to be cost neutral.

Upon the death of an annuitant, SURS will pay either a death benefit to a non-survivor beneficiary, or a monthly survivors benefit to an eligible survivor. The amount of the monthly survivor benefit will differ depending upon whether the annuitant had selected the traditional benefit option or the portable benefit option.

B. Self-Managed Plan

SURS is the plan sponsor and administrator of a defined contribution plan established as of January 1, 1998 by the Illinois General Assembly as an amendment to the Illinois Pension Code through Illinois Public Act 90-448. This plan is referred to as the self-managed plan (SMP) and is offered to employees of all SURS employers who elect to participate. This plan is a qualified money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the SMP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code.

At June 30, 1999 and 1998 the number of SMP participating employers was:

	1999	1998
Universities	**12**	6
Community Colleges	**39**	10
Allied Agencies	**12**	1
State of Illinois	**1**	0
	64	17

At June 30, 1999 and 1998 the SMP membership consisted of:

	1999	1998
Benefit Recipients	**0**	0
Active Members	**3,740**	845
Inactive Members	**0**	0
	3,740	845

1. Membership

A member may elect participation in the SMP if (a) all participation criteria for the defined benefit plan are met; (b) the employer has elected through Board action to offer the self-managed plan; (c) the employee is on active status at the plan offering date; and (d) the employee is not eligible to retire as of the employer plan offering date. The member election is irrevocable. Existing SURS members are allowed one year from the employer offering date in which to make their election. New employees are allowed 60 days from the date of hire in which to make their election. If no election is received, members are considered to be part of the defined benefit plan, under the traditional benefit option.

2. Benefit Provisions

The SMP provides retirement, disability, death and survivor benefits as authorized in Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, and amended by Public Act 90-448.

Retirement benefits are payable to participants meeting minimum vesting requirements of 5 years of service credit at age 62, 8 years of service credit at age 55, or 35 years of service credit regardless of age. The distribution options available upon reaching retirement eligibility are the following: a lump sum distribution consisting of all employee and employer contributions and related investment earnings; a single life annuity; a 50% or 100% joint and survivor annuity; a single life annuity with a guaranteed period of 10, 15, or 20 years as elected by the participant; and a 50% or 100% joint and survivor annuity with a guaranteed period of 10, 15, or 20 years as elected by the participant.

Disability benefits are payable to all participants with at least 2 years of service credit if they are unable to reasonably perform the duties of their assigned position due to physical impairment as certified by a physician. The benefit becomes payable when sick leave payments are exhausted or after 60 days of the disability, whichever is later. The benefit is payable at a rate of 50 percent of the monthly rate of compensation on the date the disability began. Disability benefits are reduced by any payments under Workers' Compensation or the Occupational Diseases Act.

Upon termination of service with less than 5 years of service credit, a lump sum distribution is available which consists of employee contributions and related investment earnings. The employer contributions and related investment earnings are forfeited. Upon termination of service with greater than 5 years of service credit but where the participant is not yet eligible for retirement, a lump sum distribution is available which consists of employee and employer contributions and related investment earnings.

Death benefits are payable to named beneficiaries upon the death of any participant of this plan. If the participant has less than 1-1/2 years of service credit, the death benefit payable is the employee contributions and related investment earnings. If the participant has 1-1/2 or more years of service credit, the death benefit payable is the employee and employer contributions and related investment earnings.

II. Summary of Significant Accounting Policies

A. Reporting Entity

The System is a pension trust fund of the State of Illinois. As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1. Appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2. Fiscal dependency on the primary government.

Based upon the required criteria, the System has no component units.

B. Basis of Accounting

For both the defined benefit plan and the SMP, the financial transactions are recorded on the accrual basis. Member and employer contributions are recognized as revenue in the period in which employee services are performed. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plans.

C. Investments

Investments are governed by Sections 5/1 and 5/15, Chapter 40, Act 5, Article 15, 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.

For the defined benefit plan, investments are reported at fair value. Marketable securities (stocks, bonds, warrants, and options) are traded on public exchanges. The Northern Trust Company, SURS' custodial bank, establishes these prices using third-party pricing services. Generally, these prices are reported at the last reported sales price. Certain investments that do not have an established market value are reported at estimated fair value obtained from a custodial bank or investment management firm. These investments include commingled investment pools, where the underlying assets are individually marked to market (i.e., estimated fair value) on a daily basis, and individually traded on publicly recognized exchanges. The investment manager, using methods approved by the Association for Investment Management Research (AIMR), values non-marketable securities (real estate and venture capital). These methods generally include detailed property level appraisals and discounted cash flow analysis. Short-term investments are generally reported at cost, which approximates fair value.

For the SMP, investments are reported at fair value by the Service Providers. These investments include both mutual and variable annuity funds where the underlying assets are marked to market (i.e., estimated fair value) on a daily basis, and individually traded on publicly recognized exchanges. Generally, the prices on the underlying investments are reported at the last reported sales price.

D. Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization are computed by the straight-line method based upon estimated useful lives of 50 years for building and improvements, three to 10 years for furniture and equipment, and 10 years for capitalized software development costs.

NOTES TO THE FINANCIAL STATEMENTS

E. Administrative Expenses

System administrative expenses (which include amounts for both the defined benefit and self-managed plans) are budgeted and approved by the System's Board of Trustees. Funding for these expenses is included in the employer contribution as determined by the annual actuarial valuation and appropriated by the State of Illinois. This funding is included in the allocation of the state employer contribution recognized in the defined benefit plan. Therefore, expenses to administer the self-managed plan are recognized as administrative expenses in the defined benefit plan in these financial statements.

F. Use of Estimates in Preparation of Financial Statements

The preparation of the System's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and when applicable, disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

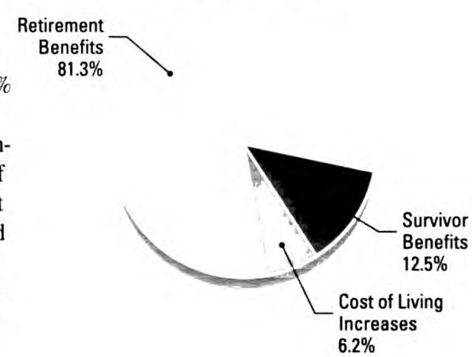
III. CONTRIBUTIONS AND RESERVES

A. Defined Benefit Plan

1. Membership Contributions

In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, members of the traditional benefit option 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. Members of the portable benefit option 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 enhanced refund benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. These statutes assign the authority to establish and amend the contribution provisions of the plan to the State Legislature.

MEMBER CONTRIBUTIONS



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 payments or to his or her beneficiary as a death and/or survivor benefit.

NOTES TO THE FINANCIAL STATEMENTS

2. Interest Credited on Member Contributions

For the traditional and portable benefit options, the interest rate credited is fixed by the Board of Trustees and is currently 9-1/2%. As of September 1, 1999, the rate will be 10%. For purposes of lump sum refunds to former members, the traditional benefit option offers an interest rate of 4-1/2%, compounded annually, and the portable benefit option offers an interest rate equal to the credited rate, compounded annually.

3. Employer Contributions

On an annual basis, an actuarial valuation is performed in order to determine the amount of statutorily required contributions from the State of Illinois. An actuarial experience study is performed every 5 years to determine the assumptions to be used in the annual valuation. The last actuarial experience study was performed during FY1997. To determine the funding methodology, Public Act 88-0593 was passed by the Illinois General Assembly in 1994. This act, which took effect on July 1, 1995, provides a 15-year phase-in to a 35-year plan that requires the state to make continuing appropriations to meet the normal actuarial-determined cost of the System, plus amortize the unfunded accrued liability. Under this plan, the System is expected to be 90% funded by the year 2045.

4. Net Asset Accounts

The System maintains two reserve accounts that reflect the assignment of net assets to employee and benefit accounts:

a. The Employee Contribution Reserve records the pension assets contributed by each employee and the interest income earned by those contributions.

b. 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, the undistributed investment income, the unexpended administrative expense allocation, and the variations in actuarial assumptions.

Balances in these reserves as of June 30, 1999 are as follows:

Employee contribution reserve	$ 3,459,728,106
Benefits from employee and employer contributions reserve	7,301,998,124
Total Net Assets	**$10,761,726,230**

5. Ownership of Greater than 5 Percent of Net Assets Available for Benefits

Other than U.S. Government and agency bond issues and treasury notes, there are no significant investments in any one organization that represent 5% or more of net assets available for benefits.

6. Equity Transfer

For members of the defined benefit plan who chose to participate in the SMP, the transfer of the employee contributions and interest is reported as an equity transfer from the defined benefit plan to the SMP.

B. Self-Managed Plan

1. Membership Contributions

In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, members contribute 8% of their gross earnings. These statutes assign the authority to establish and amend the contribution provisions of the plan to the State Legislature.

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 eligible service credit purchase 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.

2. Employer Contributions

In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, employer contributions credited to the SMP participant are at a rate of 7.6% of the participant's gross earnings, less the amount retained by SURS (currently 1%) to provide disability benefits to the participant. The amounts credited are paid into the participant's account. The State of Illinois shall make the employer contribution to SURS on behalf of the SMP participants.

3. Net Asset Accounts

The SMP maintains two reserve accounts that reflect the assignment of assets to employee and disability benefit accounts:

a. The Employee Contribution Reserve records the pension assets contributed by each employee and the corresponding employer contribution, and the investment income earned by those contributions.

b. The Disability Benefits Reserve reflects the pension assets contributed by the employer and held to fund member disability benefits.

Balances in these reserves as of June 30, 1999 are as follows:

Employee contribution reserve	$ 30,447,663
Disability benefits reserve	855,225
Total Net Assets	**$ 31,302,888**

4. Ownership of Greater Than 5 Percent of Net Assets Available for Benefits

There are no significant investments in any one organization that represent 5% or more of net assets available for benefits.

NOTES TO THE FINANCIAL STATEMENTS

IV. Investments

Investments at June 30, 1999 are summarized below:

	Carrying Value 1999
Category 1	
Equity securities	
Common stock	$ 3,358,847,716
Preferred stock	60,313,551
Fixed income securities	
Government securities	776,821,486
Corporate securities	687,467,494
Asset-backed securities	221,558,874
Mortgage-backed securities	120,708,804
Short-term investments	
Commercial paper	11,945,576
Collective investment funds	1,609,995
Other	25,002,596
	$ 5,264,276,092
Category 3	
Equity securities	
Common stock	$ 1,520,519
Fixed income securities	
Government securities	330,190
Corporate securities	14,121,940
Asset-backed securities	1,314,784
Short-term investments	
U.S. Treasury bills	5,991,376
Collective investment funds	5,533,822
	$ 28,812,631
Not Categorized	
Fixed income	
Financial futures and options	$ (355,110)
Short-term investments	
U.S. Treasury bills and notes	11,944,320
Collective investment funds	133,823,636
Other	4,878,593
Real estate equity	59,883,071
Commingled funds	3,931,416,825
Self-managed plan mutual and variable annuity funds	29,438,232
Alternative investments	
Limited partnerships	958,016,223
Securities lending	
Investments held by Master Trustee under securities loans	631,976,066
Securities lending short-term collateral investment pool	651,738,947
	$ 11,705,849,526
Reconciliation to Combining Statement of Plan Net Assets	
Cash and short-term investments	$ 319,260,567
Total investments	10,734,850,012
Securities lending collateral	651,738,947
	$ 11,705,849,526

The investments have been categorized to give an indication of the level of custodial credit risk assumed by the System at June 30, 1999. Investments held by the Master Trustee, as an agent, in the System's name are Category 1. Investments may also be categorized as Category 2, which includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name; and Category 3, which is defined as uninsured and unregistered investments for which the securities are held by the counterparty in the System's name or held by the counterparty's trust department or agent but not in the System's name. As of June 30, 1999, the System had $5,264,276,092 in Category 1, no assets classified as Category 2, and $28,812,631 in securities that are classified as Category 3. The remaining assets are not subject to custodial credit risk categorization.

Derivative Securities

The System invests in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. The System's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, SURS' derivative investments included foreign currency forward contracts, collateralized mortgage obligations (CMOs), options, and futures.

Foreign currency forward contracts are used to hedge against the currency risk in SURS' foreign stock and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. Foreign currency forward contracts represent an off-balance sheet obligation as there are no balance sheet assets or liabilities associated with those contracts.

SURS fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 1999, the carrying value of the System's CMO holdings totaled $120,708,804.

SURS investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, SURS investment managers use futures contracts to improve the yield or adjust the duration of the fixed income portfolio. A financial future contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off-balance sheet obligation as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to fulfill these obligations are held in the investment portfolio.

SURS investment managers use options in an attempt to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, the System receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the System pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the derivative positions held by SURS as of June 30, 1999:

Derivative Contracts Outstanding

	1999		
	Number of Contracts	Contractual Principal*	Carrying Value
Domestic Interest Rate Products			
Fixed income futures purchased	2,892	$ 289,200,000	$ –
Fixed income futures sold	246	24,600,000	–
Fixed income purchased put options	467	46,700,000	(346,188)
Fixed income written call options	457	45,700,000	(8,922)
International Interest Rate Products			
International fixed income futures purchased	758	758,000,000	–
International fixed income purchased put options	30	30,000,000	(1)
Foreign Currency Products			
Forward foreign currency purchases	–	–	228,682,276
Forward foreign currency sales	–	–	(223,803,683)

* The contractual principal amounts listed above represent the market value of the underlying assets the derivative contracts control. Contractual principal amounts are often used to express the volume of the transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contractual principal values do not represent actual balance sheet values.

Securities Lending

SURS Board of Trustees policies permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Northern Trust Company, the System's custodian, lends securities of the type on loan at year end for collateral in the form of cash, irrevocable letters of credit or other securities of 102 percent, and international securities for collateral of 105 percent. Securities lent at year end for cash collateral are presented as unclassified in the preceding schedule of custodial credit risk; securities lent for securities collateral are also presented as uncategorized in the preceding schedule. At year end, the System has no credit risk exposure to borrowers because the amount the System owes to the borrowers exceeds the amounts the borrowers owe to the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are out on loan.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is 29 days. Cash collateral is invested in the lending agent's short-term investment pool, which at year end has a weighted average maturity of 30 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. The System cannot pledge or sell collateral securities received unless the borrower defaults.

Loans outstanding as of June 30, 1999 (*$ millions*)

Market value of securities loaned	$ 632.0
Market value of collateral received from borrowers	$ 651.7

Self-Managed Plan
The SMP participants have the ability to invest their account balances in 40 mutual and variable annuity funds. These funds are offered by three providers, Aetna Retirement Services, ICMA Retirement Corporation, and Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA CREF). As of June 30, 1999, the SMP had assets of $29,438,232. A detailed schedule (unaudited) of the funds and balances at June 30, 1999 is located in the Investment Section.

V. Property and Equipment

Property and equipment and the related accumulated depreciation and amortization at June 30, 1999 are summarized below:

Land	$ 528,901
Office building	6,308,764
Information system equipment and software	16,294,553
Furniture and fixtures	1,926,065
	25,058,283
Less accumulated depreciation and amortization	(9,153,490)
Net property and equipment	**$ 15,904,793**

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, Act 5, 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 System. 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 System 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, 1999 are summarized below:

Bonds Payable	$9,999,751
Accrued Interest	8,654,616
	$18,654,367

The annual requirements to amortize the Bonds outstanding as of June 30, 1999, 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 between January 1, 1984 and December 31, 1997. No sick time earned after December 31, 1997 will be compensable at termination. At June 30, 1999, the System had a liability of $666,554 for compensated absences. The annual increase or decrease in liability is reflected in the financial statements as an increase or decrease 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. Most 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 $5,000 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. Insurance Coverage

The System is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The System has minimized the risk of loss through private insurance carriers for commercial, business owners, and automobile policies. The deductible for this insurance coverage ranges from $250 to $500 per occurrence. The System has not experienced a material fluctuation between insurance claims filed and paid in the past two years.

IX. Pending Litigation

The System is a defendant in a possible class-action suit involving the application of employer contributions relating to the calculation of early retirement benefits. The trial court initially dismissed the case filed by a member. The appellate court reversed and reinstated the case and the Illinois Supreme Court has refused to hear the System's appeal. The case has been remanded to the trial court for further proceedings, where the plaintiff is undertaking discovery. The System and its legal counsel are unable to predict the outcome or the ultimate impact of this case. No provisions for liabilities, if any, that may result from this case has been made in the accompanying financial statements. The System is also involved in other legal and administrative proceedings with respect to benefit claims in the normal course of business operations. Although unable to predict the outcome of these matters, the System believes that the final outcome of these actions will not have a material adverse effect on the results of operation or the financial position of the System.

REQUIRED SUPPLEMENTARY INFORMATION

Defined Benefit Plan
Schedule of Funding Status ($ millions)

Fiscal Year	Assets	Accrued Actuarial Liabilities	Unfunded Accrued Actuarial Liabilities	Funding Ratio	Payroll	UAAL as % of Payroll
1996	6,959.8	10,155.0	3,195.2	68.5%	2,330.0	137.1%
1997	8,376.3	10,552.2	2,175.9	79.4%	2,298.0	94.7%
1998	9,792.0	11,416.1	1,624.1	85.8%	2,377.6	68.3%
1999	10,761.7	12,617.5	1,855.8	85.3%	2,411.1	77.0%

Schedule of Employer Contributions ($ millions)

Fiscal Year	Total ARC*	Member Contributions	Net ER/State ARC	Actual ER/State Contribution	State Contributions as % of Net ARC	Total Contributions as % of Total ARC
1996	787.1	197.0	590.1	147.4	25.0%	43.8%
1997	634.8	202.2	432.6	182.0	42.1%	60.5%
1998	512.1	221.7	290.4	227.7	78.4%	87.8%
1999	509.2	213.0	296.2	237.9	80.3%	88.6%

* Annual Required Contribution as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

Notes to Trend Data

Valuation date	June 30, 1999
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization period	36 years, open
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases*	5.5%
Postretirement benefits	3.0%

* Includes inflation at cost-of-living adjustments

Year 2000 Readiness Disclosure (UNAUDITED)

The State Universities Retirement System has been actively working on the Year 2000 issue since 1993. A Y2K Steering Committee was formed and has submitted quarterly status reports to the SURS Board of Trustees. Below is a condensed version regarding the status of SURS efforts to prepare for the transition to the Year 2000:

Critical Computer Systems – Three computer systems were identified that are critical to the operation of SURS. The Membership and Claims systems are Year 2000 compliant and have been in production since December 1995. They have been through year rollovers in each of the last four years, and since they were developed with four digit years, the programs should not be any more sensitive to the Year 2000 rollover than they were to the previous ones. Additionally, these two systems have been fully and successfully tested for specific year 2000 compliance. The third critical system called Pay Benefits will be implemented prior to January, 2000. This system was also developed with four digit years, and specific Year 2000 date testing has taken place in the normal test cycles.

These three critical systems were developed to improve functionality, reduce maintenance costs, and enable SURS to migrate to an updated hardware platform, as well as to ensure compliance with Year 2000 processing needs. The total cost to design and program these systems over the past five years is approximately $10 million.

In addition to the host computer applications, all user desktops and most servers have been upgraded to Y2K compliant hardware and software. The remaining server upgrades will be completed prior to January, 2000.

Computer System Interdependencies – Data is exchanged with several entities, including vendors, employers, and reciprocal systems. A Business Partner Tracking Report and a separate listing of employing agencies has been developed to track Year 2000 compliance. In some cases, SURS will use a windowing technique to derive a four digit year when processing incoming payroll tapes which use two digit years.

Embedded Systems - The building controls, including the HVAC and Security systems, will be upgraded by the vendor before January, 2000. The telephone equipment is year 2000 compliant at this time. No other identified embedded systems have been deemed critical.

Contingency Plans - Contingency plans have been developed from a list of applications/functions and processes that were identified in the original disaster recovery plan. These processes have been listed in a separate tracking worksheet that identifies a priority, responsible person and a short contingency statement. Specific entities not covered in this list of applications/functions are listed in the Business Partner Tracking report and in an Information Systems Specific Y2K Readiness Document.

Management cannot assure that SURS is or will be year 2000 ready, that SURS' remediation efforts will be successful in whole or in part, or that the parties with whom SURS does business will be year 2000 ready.

SUPPORTING SCHEDULES

Defined Benefit Plan
Summary Schedule of Administrative Expenses
For the Years Ended June 30, 1999 and 1998

	1999	1998
Personnel services		
Salary and wages	$ 4,026,521	$ 3,137,123
Retirement contributions	377,009	285,085
Insurance	457,787	355,347
	4,861,317	3,777,555
Professional services		
Computer services	902,758	1,066,438
Medical consultation	820	1,606
Technical and actuarial	226,175	357,201
Legal services	434,059	229,656
	1,563,812	1,654,901
Communications		
Postage	458,952	468,936
Printing and copying	332,474	405,970
Telephone	136,304	116,792
	927,730	991,698
Other services		
Equipment repairs, rental, and maintenance	129,415	231,418
Building operations and maintenance	175,111	176,174
Surety bonds and insurance	26,747	27,094
Memberships and subscriptions	33,766	20,352
Transportation and travel	160,644	123,702
Education	1,580	20,747
Supplies	97,269	55,768
	624,532	655,255
Self-managed plan administration		
Technical and actuarial	424,012	503,246
Legal services	21,603	40,372
Postage	98,074	142,253
Printing	97,039	372,727
	640,728	1,058,598
Depreciation and amortization	1,373,103	1,290,287
Total administrative expenses	**$ 9,991,222**	**$ 9,428,294**

SUPPORTING SCHEDULES

Defined Benefit Plan
Summary Schedule of Consultant Payments
For the Years Ended June 30, 1999 and 1998

	1999	1998
Defined Benefit Plan		
Technical and actuarial services		
Bank One, Illinois, NA	$ 16,730	$ 13,816
Coe Truman Technologies, Inc.	13,645	9,591
Deloitte & Touche, LLP	11,750	135,108
James Dulebohn	36,609	10,435
Gabriel, Roeder, Smith & Co.	75,325	100,500
KPMG Peat Marwick, LLP	1,400	4,800
Sorling, Northrup, Hanna, Cullen & Cochran, Ltd.	30,212	33,208
The Northern Trust	19,187	34,436
University of Illinois Printing Services	11,295	8,240
Bonnie Woolard	10,022	7,067
	226,175	357,201
Legal services		
Internal Revenue Service-Private Letter Ruling Fee	9,100	–
Mayer, Brown & Platt	404,238	189,262
Skadden, Arps, Slate, Meagher & Flom	6,182	5,185
Thomas, Mamer & Haughey	14,539	35,209
	434,059	229,656
Self-Managed Plan		
Technical and actuarial services		
Aetna	41,244	–
Benefit Planning Consultants, Inc.	16,549	29,000
Deloitte & Touche, LLP	130,078	474,246
Ennis & Knupp, Investment Consulting	75,000	–
ICMA Retirement Corporation	161,141	–
	424,012	503,246
Legal services		
Mayer, Brown & Platt	21,603	40,372
Total consultant payments	**$ 1,105,849**	**$ 1,130,475**

SUPPORTING SCHEDULES

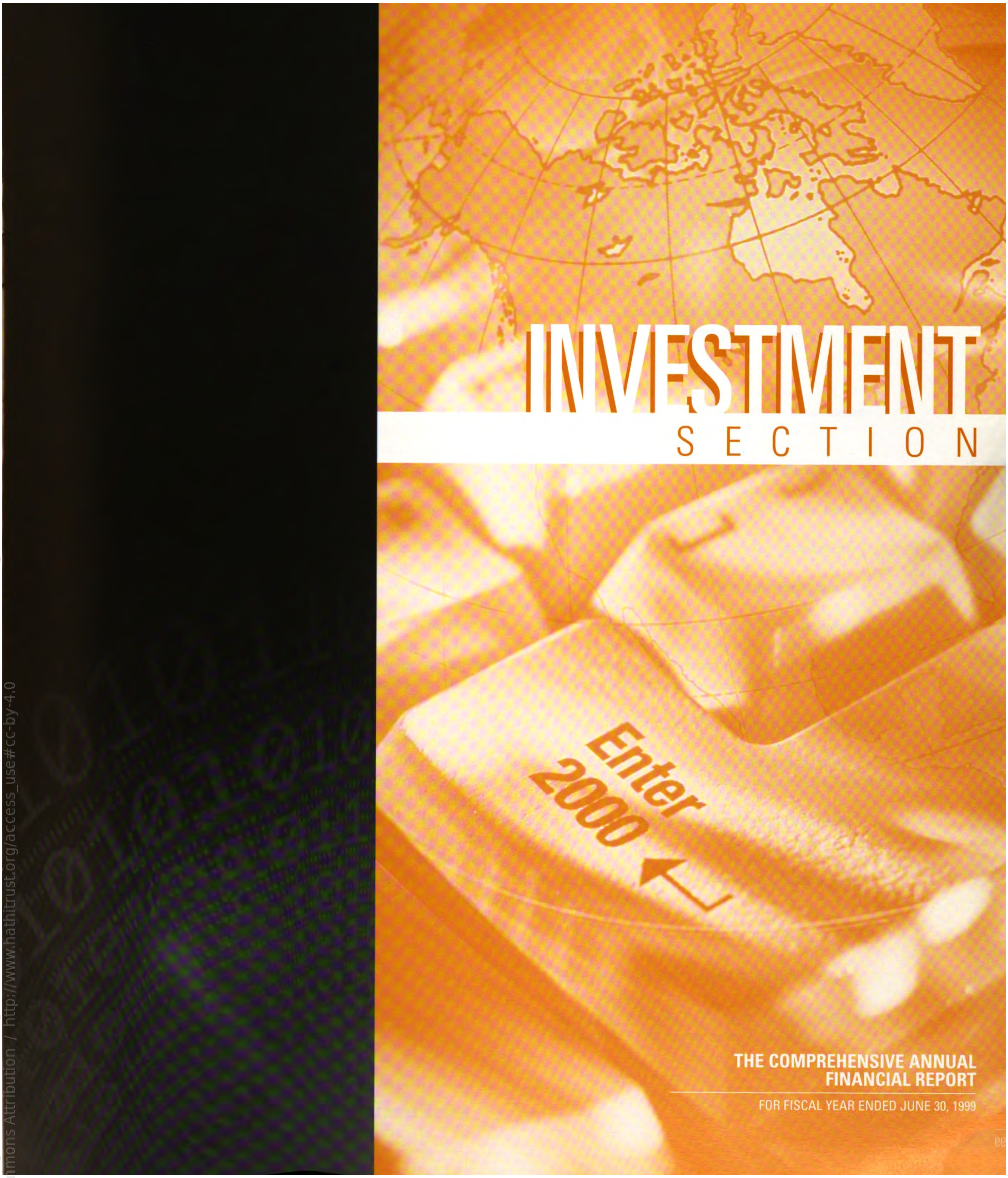
Defined Benefit Plan
Summary Schedule of Investment Fees, Commissions, and Administrative Expenses
For the Years Ended June 30, 1999 and 1998

	1999	1998
Master Trustee & Custodian		
The Northern Trust Company	$ 125,000	$ 125,000
Investment Manager Firm		
American Express Asset Management	1,284,535	1,234,770
Barclays Global Investors	1,399,050	1,848,457
Blackrock Financial Management	532,163	534,731
Brinson Partners, Inc.	1,734,797	1,468,765
Fayez Sarofim and Company	1,425,703	1,238,506
Global Asset Management	698,503	–
Lend Lease	222,516	442,603
Martin Currie, Inc.	1,451,751	686,975
Northern Trust Global Advisors	495,334	452,458
Pacific Investment Management Company	2,168,909	1,865,192
Progress Investment Management Company	641,149	595,497
Rosenberg Real Estate Equity Fund	635,306	951,374
Scudder Kemper	–	28,608
Smith Barney Capital Management	504,432	503,215
Standish, Ayer & Wood, Inc.	68,817	554,609
The Chicago Trust Company	192,516	115,083
	13,455,481	12,520,843
Investment Consultant, Measurement, & Counsel		
Ennis, Knupp and Associates, Inc.	236,285	246,495
Mayer, Brown & Platt	11,551	–
Thomas, Mamer & Haughey	–	410
	13,828,317	12,892,748
Investment Administrative Expenses		
Personnel and Research Assistants	335,503	312,420
Resources, Board, and Travel	40,626	39,692
Performance Measurement and Database	44,973	21,075
	421,102	373,187
Total investment expenses	**$ 14,249,419**	**$ 13,265,935**

SUPPORTING SCHEDULES

Defined Benefit Plan
Summary Schedule of Cash Receipts and Disbursements
For the Year Ended June 30, 1999 ($ millions)

Beginning Cash and Short-Term Investments Balance	$ 460.3
Receipts	
Member contributions	$ 220.6
Employer contributions	237.9
Investment income	201.2
Investments redeemed	12,232.5
Total Receipts	$ 12,892.2
Disbursements	
Benefit payments	$ 525.3
Administrative expenses	8.8
Investment expenses	12.8
Refunds	14.6
Equity transfer	31.3
Fixed assets purchased	2.9
Investments purchased	12,437.6
Total Disbursements	$ 13,033.3
Ending Cash and Short-Term Investments Balance	**$ 319.2**



INVESTMENT SECTION

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 1999

LETTER OF CERTIFICATION

To the Board of Trustees and the Executive Director:

The Northern Trust Company as Master Trustee has provided annual Statements of Account for the State Universities Retirement System of Illinois Trust ("Trust") which provide a complete and accurate reflection of The Northern Trust Company's record of the investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Trust for the period July 1, 1998 through June 30, 1999.

In addition to the custody of assets, pursuant to and in accordance with the terms of the agreement establishing the Trust, The Northern Trust Company provided and continues 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 connection with investment transactions in accordance with the instructions of appointed Investment Managers.
3. Collect dividends and registered interest payments.
4. Collect matured or called securities and coupons to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.
5. Lend Securities pursuant to a Securities Lending Agreement entered into by and between the Board of Trustees and The Northern Trust Company.
6. Begin, maintain or defend any litigation necessary in connection with the investment, reinvestment of the Trust Fund and the administration of the 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 with respect to securities held in the trust fund, including but not limited to, proxy voting in accordance with the instructions of appointed Investment Managers; respond to stock subscriptions, conversion rights, and other capital changes pursuant to procedures set forth in the operating guidelines of The Northern Trust Company in effect from time to time.
9. Hold securities in the name of the Trust or nominee form or other means as provided in the agreement establishing the Trust.
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 other securities.
11. Employ agents with the consent of the Board of Trustees to the extent provided in the agreement establishing the Trust.
12. Provide disbursement services.
13. Provide security fail float income to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.

THE NORTHERN TRUST COMPANY

By: Kathryn M. Stevenson

Kathryn M. Stevenson, Vice President

Northern Trust

LETTER OF TRANSMITTAL

SURS State Universities Retirement System of Illinois
Serving Illinois Community Colleges and Universities
1901 Fox Drive • Champaign, IL 61820
1-800-ASK SURS • (217) 378-8800 (C-U)
(217) 378-9800 (FAX)
Investment Department

September 1, 1999

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

It is a privilege for us to present this year's investment section of the State Universities Retirement System of Illinois (SURS) Comprehensive Annual Financial Report. A few of the highlights from the recently completed fiscal year are noted below.

- SURS' assets as of June 30, 1999 exceed $10 billion, making the System one of the 100 largest defined benefit pension plans in the United States. The System's assets grew nearly $1 billion during the past 12 months, with the fund earning a return of 11.5% net of expenses.
- During the past three years, the total market value of SURS' assets has grown from $6.9 billion to $10.8 billion, an increase of more than $3.8 billion, or a compounded average annual rate of return exceeding 16.8%.
- Investment management expenses, as a percent of assets, paid by the System declined nearly 7% during the past twelve months. This continues the trend of decreasing investment management fees that began in fiscal year 1993. Over the past six fiscal years, investment management fees have declined 35%.

It is always easy to point out the areas in which the investment program has done well. It is harder to discuss the areas in which the program has fallen short. During the recently completed fiscal year, SURS' total return trailed its market goal or policy portfolio as well as the median public pension fund return. The underperformance of the total fund can be attributed to the equity portfolios, both the domestic and international portfolios. In each of the portfolios, a majority of the underperformance was caused by one of the individual investment portfolios.

The longer-term results of this investment program are quite a different story. For both the five- and ten-year periods ending June 30, 1999, the total fund return exceeds both the market goal as well as the median public pension fund return. Measures have been taken to address the recent underperformance, which should result in above-benchmark returns during the coming fiscal year.

LETTER OF TRANSMITTAL

The end of fiscal year 1999 also marks the first full year of the new Self-Managed Plan (SMP). As of June 30, 1999, the SMP had nearly $30 million in assets, a significant increase from the $1.6 million as of the end of fiscal year 1998. SMP participants, as a group, have allocated assets to each of the available investment options. There were no changes to the vendors or the investment options within this plan during the year. A new investment option, the CREF Inflation Linked Bond Account will be available for investment by SMP participants beginning July 1, 2000. This will bring the total number of investment options to 41. A complete listing of the investment options and plan-wide balances can be found in the supporting schedules located in the Investment Section.

A challenge that will face us during the upcoming fiscal year is the Year 2000 or Y2K Issue. SURS has taken appropriate measures to ensure that the System's investment managers, custody bank, and other vendors are fully compliant. The measures we have taken include surveying vendor compliance, reviewing regulatory filings, and discussing the issue during the annual vendor review. Additional information on SURS Y2K endeavors can be found in the Required Supplementary Information located in the Financial Section of this report.

Other challenges, issues, or changes will undoubtedly occur during fiscal year 2000. We will strive to meet these head on and deal with them keeping in mind the interests of plan participants, annuitants, and beneficiaries.

Until next year,

Kenneth E. Codlin
Chief Investment Officer

John R. Krimmel, CPA
Associate Investment Officer

INVESTMENT SUMMARY

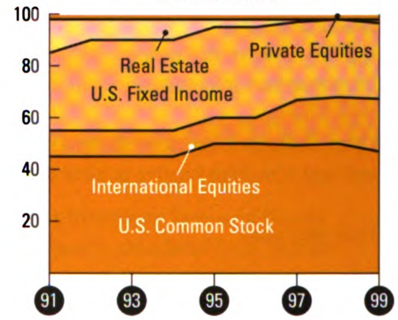
The SURS Board of Trustees is charged with the responsibility of investing the assets entrusted to them solely for the benefit of the System's participants and beneficiaries. The Trustees, in carrying out their responsibilities, adhere to applicable Illinois Statutes, and the Prudent Person Rule which states that the Trustees must "act as a prudent man or woman would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments." In carrying out their fiduciary duties, the Trustees have set forth clearly defined investment policy, objectives, and strategies.

Investment Policy

During fiscal year 1999, SURS made several changes to its investment policy. The net result was an increase in non-U.S. equities (+2.5%) and a reduction in U.S. equities (-1.5%) and real estate (-1.0%). Additionally, private equities (which account for 2% of the total fund) were split out of the U.S. equity allocation total. As of June 30, 1999, SURS' investment policy is to invest 47% of the total fund in U.S. equities, 20% in non-U.S. equities, 2% in private equities, 30% in fixed income, and 1% in real estate. The graph titled Asset Allocation History details the various investment policy changes during the past 10 years.

ASSET ALLOCATION HISTORY

% of Total Fund

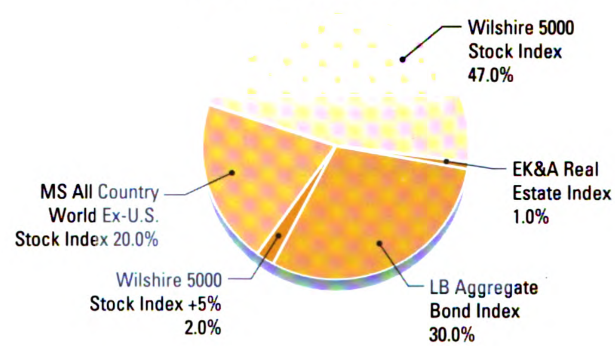


Investment Objectives

The investment objective of the total portfolio is to produce annualized investment returns, net of all management fees, which exceed the return of a composite market benchmark or policy portfolio. The policy portfolio is comprised of market indices, which are consistent with the overall investment policy. The policy portfolio has been continually updated to reflect a passive implementation of the investment policy. The current policy portfolio is comprised of 47% of the Wilshire 5000 Stock Index, 20% of the Morgan Stanley All Country World Ex-US Index, 2% of the Wilshire 5000 Stock Index plus 5%, 30% of the Lehman Brothers Aggregate Bond Index, and 1% of the Ennis, Knupp & Associates Real Estate (EK&A) Index.

Comparisons of total fund performance are also made with a universe of public pension funds implementing generally comparable investment policies. The public pension fund index used for comparative purposes is the EK&A Public Funds Index.

POLICY PORTFOLIO as of JUNE 30, 1999



INVESTMENT SUMMARY

Investment Strategies

Asset Allocation

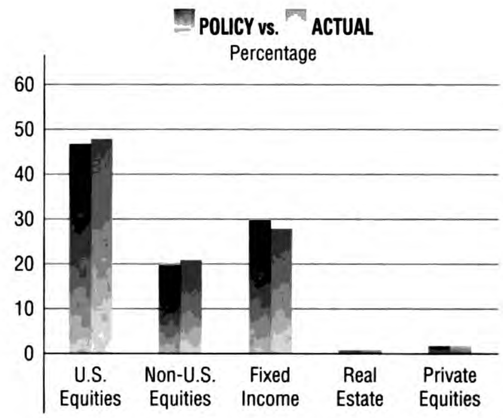
The investment policy of SURS provides an efficient allocation of assets to achieve overall risk and return objectives. Periodically, asset allocation studies are conducted and the results of these studies guide the setting of investment policy. An asset allocation study was completed during fiscal year 1999 and implemented accordingly.

Diversification

SURS invests in different types of assets and uses multiple investment managers as a method to ensure overall fund diversification. As of June 30, 1999, the System had retained the services of 13 investment management firms, several of which manage multiple portfolios. Each investment management firm is afforded full discretion to diversify its portfolio(s) 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.

Rebalancing

Proper implementation of the investment 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. The fund required rebalancing once during fiscal year 1999, as U.S. equities rose above their target allocation. At year end, the 71% of the fund invested in equity securities was slightly above the 69% target. Bonds, at 28%, were slightly below the 30% target. Real estate was right on target at 1% of the total fund assets.



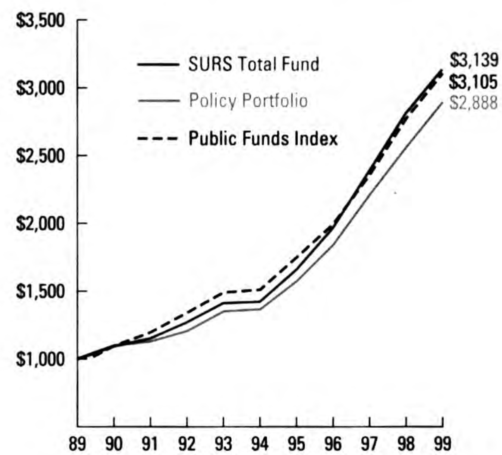
INVESTMENT RESULTS

Long-Term Investment Results

The 10 years ended June 30, 1999 provided returns that, by historical measures, were exceptional. SURS' total portfolio earned an annualized total return, net of all investment management expenses, of 12.4%. As shown in the investment results table, SURS' total fund return remains ahead of its market goal (policy portfolio) for the 5-, and 10-year periods. SURS' total fund return exceeds the median return for public pension funds (public funds index) for the 3-, 5-, and 10-year periods.

This consistent long-term above-benchmark performance is best illustrated by the growth of $1,000 invested in SURS total fund, the policy portfolio, and median public funds index during the past 10 years. The ending points indicate that $1,000 invested in SURS' total fund would have grown to $3,139, while the same $1,000 invested in the policy portfolio and median public funds index would have grown to $2,888 and $3,105, respectively.

TOTAL FUND GROWTH OF $1,000



Fiscal Year 1999 Results

For the fiscal year ended June 30, 1999, SURS' total fund returned 11.5% (net of all investment management fees), falling short of the market goal, or policy portfolio by 1.5%. SURS' one-year return also underperformed the median public pension fund return, as measured by the Ennis, Knupp & Associates Public Pension Funds Index, by 0.6%. The below policy portfolio return was due primarily to the underperformance of SURS U.S. and non-U.S. stock portfolio returns. This underperformance was partially offset by a slight overweighting to the U.S. stock market, the best performing asset class, as well as better than market performance from the private equity and real estate portfolios.

INVESTMENT RESULTS

INVESTMENT RETURNS

	Fiscal Year Ended June 30					Annualized		
	1995	1996	1997	1998	1999	3 yrs	5 yrs	10 yrs
Total Fund								
SURS	16.5%	18.3%	21.4%	17.8%	11.5%	16.8%	17.1%	12.4%
Policy Portfolio	15.3	17.0	20.2	18.2	13.0	17.1	16.7	11.4
Public Retirement Funds Index	15.7	14.0	18.2	17.7	12.1	15.6	15.5	11.9
CPI	3.0	2.7	2.3	1.7	2.0	2.0	2.3	3.0
U.S. Common Stock Returns								
SURS	25.6	26.9	30.1	26.9	17.0	24.5	25.1	17.1
Wilshire 5000	24.7	26.2	29.3	28.9	19.6	25.8	25.7	18.2
Foreign Stock Returns								
SURS	(1.9)	23.0	17.3	3.3	7.7	9.2	9.4	4.2
Performance Benchmark	(2.9)	21.8	17.3	2.3	9.2	9.0	8.9	4.1
Private Equity								
SURS	13.8	55.2	23.9	30.7	43.0	32.6	33.6	28.8
Wilshire 5000 + 5%	18.2	37.2	20.5	52.7	18.1	29.5	28.6	25.6
Bond Returns								
SURS	12.6	6.6	9.4	10.6	3.4	7.8	8.4	8.7
Lehman Brothers Aggregate Bond Index	12.6	5.0	8.2	10.5	3.1	7.2	7.8	8.2
Real Estate Returns								
SURS	8.6	6.4	11.2	16.6	12.3	13.4	11.0	2.5
Ennis, Knupp & Associates Real Estate Index	3.7	6.1	11.5	17.0	11.4	13.3	9.9	1.8

Return calculations were prepared using a time-weighted rate of return methodology in accordance with the performance presentation standards of the Association for Investment Management and Research (AIMR).

INVESTMENT RESULTS

U.S. Equities

For the fiscal year 1999, SURS U.S. equity portfolio returned 17.0%, underperforming its benchmark, the Wilshire 5000 Index, by 2.6%. This marks the second consecutive year in which SURS U.S. equity portfolio has underperformed its market goal. The below-market performance of the portfolio was due primarily to the actively managed components.

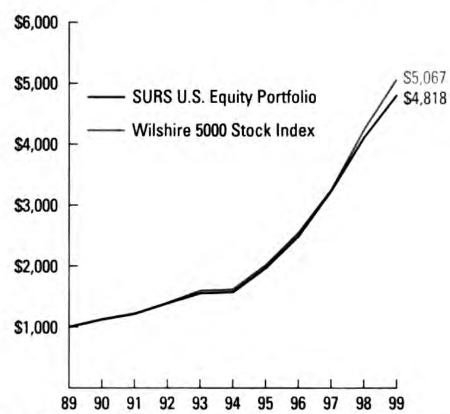
The broad U.S. equity market, however, continued to post significant gains during fiscal year 1999. As the following table indicates, these robust returns for the broad market were not realized by all sectors of the U.S. equity market. Small caps continued to lag their large capitalization counterparts. Within the same size (market capitalization) segment of the market, the returns from growth stocks continued to dominate the value counterparts. This is the fifth continuous year (July 1–June 30) where the returns from large cap stocks have dominated those of small cap stocks. The growth versus value trend has also been present in larger companies; however, this does not hold true in smaller companies.

The SURS U.S. equity portfolio is by design both size and style neutral relative to the Wilshire 5000 Index. This should lead to market-like performance over longer periods of time. However, the disappointing results over the past two fiscal years has widened the gap in returns between SURS U.S. stock portfolio and the market. Steps have been taken, both within the active and passive components of the U.S. stock portfolio, which over time should yield positive results relative to the portfolio's market goal.

	FY 99	3 yr.	5 yr.	10 yr.
SURS	**17.0%**	**24.5%**	**25.1%**	**17.1%**
Wilshire 5000	19.6	25.8	25.7	18.2
Wilshire Large 750	22.4	28.7	27.6	19.0
Wilshire Large Growth	29.7	33.4	32.2	21.0
Wilshire Large Value	9.0	21.2	22.1	16.4
Wilshire Small 1750	2.7	13.0	17.0	14.5
Wilshire Small Growth	(2.0)	6.3	15.4	12.9
Wilshire Small Value	(8.1)	11.4	13.7	15.0

The accompanying chart indicates the growth of $1,000 invested in the U.S. equity market during the past 10 years. The ending points indicate that $1,000 invested in SURS U.S. equity portfolio would have grown to $4,814 (net investment management expenses), while the same $1,000 invested in the Wilshire 5000 Index would have grown to $5,067.

U.S. EQUITY PORTFOLIO GROWTH OF $1,000



TEN LARGEST U.S. EQUITY HOLDINGS (excludes commingled funds)	Shares	Carrying Value
GENERAL ELECTRIC CO	1,068,948	$ 120,791,124
MICROSOFT CORP	846,900	76,379,794
COCA COLA CO	1,085,200	67,282,400
MERCK & CO INC	880,400	64,819,450
INTEL CORP	955,000	56,822,500
PFIZER INC	498,200	54,303,800
CITIGROUP INC	1,047,600	49,761,000
WAL-MART STORES INC	1,016,600	49,050,950
CISCO SYS INC	685,862	44,195,233
PHILIP MORRIS COS INC	1,062,800	42,711,275

INVESTMENT RESULTS

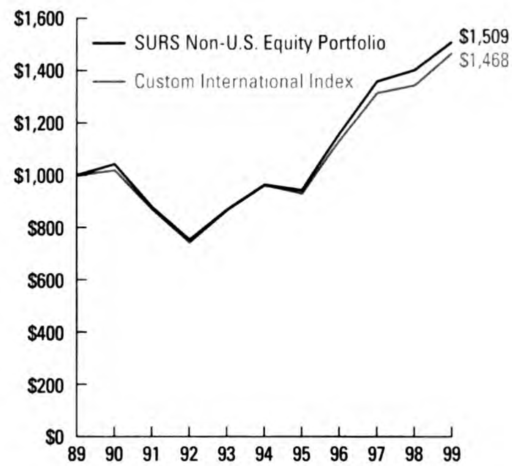
NON-U.S. EQUITIES

For fiscal year 1999, SURS non-U.S. equity portfolio returned 7.7%, underperforming its benchmark by 1.5%. The non-U.S. performance benchmark, the Morgan Stanley All Country World Ex-US Index, represents a mixture of both developed and emerging markets. The mixture, which varies over time depending on market performance, best represents the manner in which SURS non-U.S. equity investments are allocated. As the following table indicates, over longer periods, SURS non-U.S. equity investment returns have been slightly better than the performance benchmark.

The accompanying table also indicates that the returns between developed and emerging markets varied significantly during the fiscal year. Emerging markets reversed the prior year's trend and provided investors with superior returns. This segment of the market increased nearly 27% during the most recent fiscal year. Developed markets, on the other hand, provided investors with returns in line with the historical average. This segment of the market returned 7.6%.

The accompanying chart indicates the growth of $1,000 invested in the non-U.S. equity markets during the past 10 years. The ending points indicate that $1,000 invested in SURS non-U.S. equity portfolio would have grown to $1,509 (net of investment management expenses), while the same $1,000 invested in the performance benchmark would have grown to $1,468.

NON-U.S. EQUITY PORTFOLIO GROWTH OF $1,000



	FY 99	3 YR	5 YR	10 YR
SURS	**7.7%**	**9.2%**	**9.4%**	**4.2%**
Peformance Benchmark	9.2	9.0	8.9	4.1
Developed Markets	7.6	8.7	8.2	7.0
Emerging Markets	(26.7)	(3.9)	(1.2)	6.3

TEN LARGEST NON-U.S. EQUITY HOLDINGS (excludes commingled funds)	Shares	Carrying Value
ROYAL DUTCH PETROLEUM (NETHERLANDS)	345,600	$ 20,822,400
MANNESMANN AG (GERMANY)	116,437	17,374,893
GENERAL ELECTRIC CO (UNITED KINGDOM)	1,673,186	17,063,638
(TOTAL) FINA (FRANCE)	121,738	15,705,294
TELEFONICA SA (SPAIN)	323,525	15,584,049
NOKIA (FINLAND)	165,362	14,494,968
ELF AQUITAINE (FRANCE)	89,044	13,066,888
BQE NATL PARIS (FRANCE)	155,146	12,927,500
PHILIPS ELECTRIC (NETHERLANDS)	120,284	11,864,664
FUJITSU (JAPAN)	588,000	11,828,982

INVESTMENT RESULTS

Private Equities

This marks the first year that SURS has segregated its private markets investments from the U.S. equity portfolio. This segregation is due to both the size and emphasis now being placed on this portfolio. The private equity portfolio, as of June 30, 1999, now totals $213.1 million or 2.0% of assets. The SURS Board of Trustees has adopted an investment policy, which over the next several years will further increase the size of this portfolio to 4.0% of total assets. SURS began investing in this asset class in July 1990. As of the end of the fiscal year, SURS had invested in more than 100 limited partnerships and has retained the services of two investment managers.

During fiscal year 1999, this portfolio had an internal rate of return of 43.0%. Unfortunately, a direct comparison against a market-related benchmark cannot be made due to the return calculation methodology (Internal Rate of Return versus Time-Weighted Rate of Return) and the lack of a suitable benchmark. However, the stated benchmark for this portfolio is the Wilshire 5000 Index plus 5%. The accompanying table shows the return of this portfolio since its inception (July 1990) and the return from the stated benchmark.

	FY 99	3 YR	5 YR	10 YR
SURS	**43.0%**	**32.6%**	**33.6%**	**28.8%**
Performance Benchmark	18.1	29.5	28.6	25.6

TEN LARGEST PRIVATE EQUITY PARTNERSHIPS (based upon committed capital)	**Committed Capital**	**Carrying Value**
HERITAGE FUND II	$ 10,000,000	$ 6,071,203
BROCKWAY MORAN & PARTNERS FUND, L.P.	8,501,617	1,580,247
J.W. CHILDS EQUITY PARTNERS II, L.P.	8,500,000	2,181,713
OCM OPPORTUNITIES FUND II, L.P.	8,250,000	7,772,500
RSTW PARTNERS III, L.P.	8,000,000	2,287,772
KIRTLAND CAPITAL PARTNERS III, L.P.	8,000,000	666,461
JOSEPH, LITTLEJOHN & LEVY FUND III	8,000,000	2,320,785
CODE, HENNESSY & SIMMONS III	8,000,000	4,392,678
WCAS CAPITAL PARTNERS FUND III	8,000,000	4,542,250
CONTRARIAN CAPITAL FUND II	8,000,000	5,878,575

INVESTMENT RESULTS

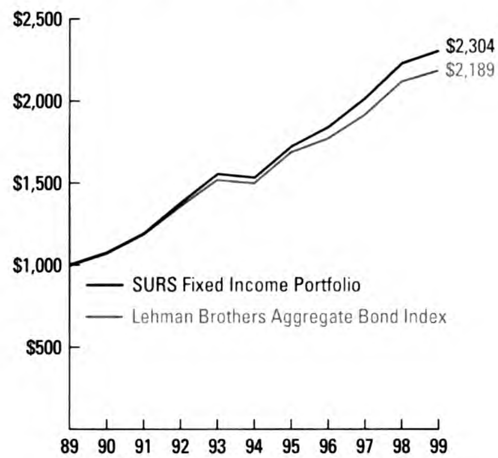
Bonds

The SURS bond portfolio returned 3.4% for the year, exceeding the 3.1% benchmark return of the Lehman Brothers Aggregate Index. The annual excess return from the fixed income portfolio continued its long-term trend of above-benchmark performance. In each of the past 11 years, SURS fixed income portfolio has outperformed its benchmark.

As the following table indicates, the returns from fixed income securities were not uniform. Longer maturity bonds were impacted more negatively with the anticipated, and then realized, federal funds rate increase during the second half of the fiscal year. Due to the uncertainties surrounding the economy last fall, corporate bonds tended to underperform their higher rated government counterparties. Mortgages outperformed the broad market, as the rise in interest rates slowed the pace of homeowner refinancings. SURS fixed income portfolio is structured to capture the return of the broad market. Consequently, the returns from this portfolio will tend to track that of the broad fixed income market (Lehman Brothers Aggregate Index) over longer periods of time.

The accompanying chart indicates the growth of $1,000 invested in the U.S. fixed income market during the past 10 years. The ending points show that $1,000 invested in SURS U.S. fixed income portfolio would have grown to $2,304 (net of investment management expenses), while the same $1,000 invested in the Lehman Brothers Aggregate Index would have grown to $2,189.

FIXED INCOME PORTFOLIO GROWTH OF $1,000



	FY 99	3 YR	5 YR	10 YR
SURS	**3.4%**	**7.8%**	**8.4%**	**8.7%**
Aggregate	3.1	7.2	7.8	8.2
Long Term Govt.	(0.3)	9.1	9.9	9.9
Intermediate Govt.	4.4	6.6	6.9	7.5
Long Term Corp.	(1.1)	7.9	9.4	9.5
Intermediate Corp.	3.6	6.9	7.8	8.3
Mortgage-Backed	4.0	7.3	8.0	8.1

TEN LARGEST FIXED INCOME HOLDINGS

(excludes commingled funds)	S & P Rating	Interest Rate	Maturity Date	Par Value	Carrying Value
FEDERAL HOME LOAN MORTGAGE CORP	AAA	6.00	1-Jul-28	127,402,453	$ 120,005,692
U.S. TREASURY INFLATION INDEX NOTE	AAA	3.54	15-Jan-07	73,635,000	74,039,187
FEDERAL HOME LOAN MORTGAGE CORP	AAA	5.50	16-Aug-29	50,000,000	45,796,500
NACIONAL FINANCIER	BA	17.40	1-Dec-00	41,750,000	42,167,500
FEDERAL HOME LOAN MORTGAGE CORP	AAA	6.50	1-Jun-29	37,833,157	36,532,206
RESDNTL FDG MTG SECS	AAA	5.90	25-Jun-29	34,824,000	34,834,795
PETROLEOS MEXICANOS	BB	7.49	15-Jul-05	32,000,000	30,880,000
TCI COMMUNICATIONS INC	BBB-	6.03	11-Sep-00	30,000,000	30,281,100
HELLER FINL INC	A-	5.48	25-Jun-01	30,000,000	30,030,900
U.S. TREASURY INFLATION INDEX NOTE	AAA	3.73	15-Jan-08	30,000,000	29,977,853

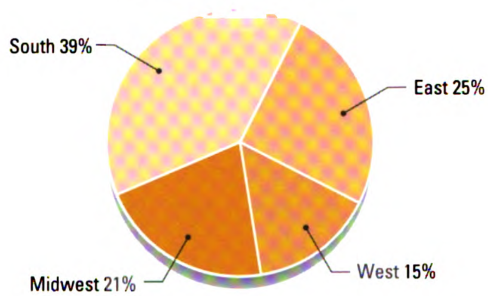
INVESTMENT RESULTS

Real Estate

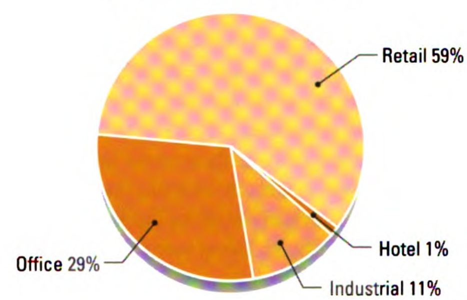
SURS real estate portfolio returned 12.3% during the past year, outperforming its benchmark, the EK&A Real Estate Index, by 0.9%. On a relative basis, the real estate portfolio was the second best performing asset class during the year.

SURS continued to reduce its exposure to real estate as an asset class during fiscal year 1999. As of June 30, 1999, the real estate holding at the total fund level accounted for less than 1% of the total assets of the System. SURS received more than $85 million in principal repayments from the liquidation of its real estate holdings during the year. It is anticipated that the liquidation of the real estate portfolio will be completed during fiscal year 2000. In the meantime, SURS real estate managers continue to hold high quality properties. As the two charts below indicate, SURS remaining real estate properties are diversified by both property types and locations.

GEOGRAPHIC DIVERSIFICATION



PROPERTY TYPE DIVERSIFICATION



TEN LARGEST REAL ESTATE INVESTMENTS	Carrying Value
USA III	$ 25,599,434
LEND LEASE PRIME PROPERTY FUND	14,281,229
MID AMERICA EAST V	9,510,732
MID AMERICA EAST IV	7,406,105
USA II	1,543,182
MID AMERICA EAST III	707,450
MID AMERICA EAST II	486,083
WEST VI	182,447
USA I	120,907
MID AMERICA EAST I	36,390

Self-Managed Plan

Fiscal year 1999 marked the first complete year of the Self-Managed Plan. As of June 30, 1999, the plan had more than 5,000 participants with total plan assets exceeding $29 million. A detailed schedule of the funds available in this plan, along with the investment totals for each fund can be found in the accompanying table of Self-Managed Plan Asset Allocation as of June 30, 1999.

ASSET ALLOCATION

Defined Benefit Plan Asset Allocation
June 30, 1999 ($ Thousands)

	Equity	Fixed Income	Real Estate	Market Value	% of Fund
U.S. Stock Managers - Passive					
Barclays Global Investors					
U.S. Equity Market	$ 707,842	$ –	$ –	$ 707,842	7
Extended Market	624,182	–	–	624,182	6
Northern Trust Quant. Advisors	1,956,940	6,822	–	1,963,762	18
Subtotal	3,288,964	6,822	–	3,295,786	31
Non-U.S. Stock Managers - Passive					
Barclays Global Investors					
Custom International Fund	1,091,074	–	–	1,091,074	10
Emerging Markets Fund	4	–	–	4	–
Subtotal	1,091,078	–	–	1,091,078	10
U.S. Stock Managers - Active					
Fayez Sarofim	716,575	936	–	717,511	7
Northern Trust Global Advisors	81,934	–	–	81,934	1
Pacific Investment - StocksPlus	750,241	–	–	750,241	7
Progress Emerging Managers	74,784	6,323	–	81,107	1
Smith Barney	296,615	3,744	–	300,359	2
Subtotal	1,920,149	11,003	–	1,931,152	18
Non-U.S. Managers - Active					
American Express Asset Management	336,414	19,456	–	355,870	3
Brinson Partners	254,303	4,894	–	259,197	2
Global Asset Management	137,884	4,121	–	142,005	2
Martin Currie	254,412	8,815	–	263,227	2
Martin Currie Emerging Markets	149,557	–	–	149,557	2
Martin Currie - Malaysia	1,611	–	–	1,611	–
Subtotal	1,134,181	37,286	–	1,171,467	11
Private Equity Managers					
Brinson Acquisition Fund	2,665	–	–	2,665	0
Brinson Partnerships	201,725	2,267	–	203,992	2
Brinson Non-U.S. Partnerships	2,048	–	–	2,048	0
Progress Investment	3,757	601	–	4,358	0
Subtotal	210,195	2,868	–	213,063	2
Bond Managers - Passive					
Barclays Global Investors					
Corporate/Government	–	775,162	–	775,162	7
Subtotal	–	775,162	–	775,162	7
Bond Managers - Active					
BlackRock	–	354,440	–	354,440	4
BlackRock Enhanced	633	118,799	–	119,432	1
Chicago Trust	3,766	103,603	–	107,369	1
Pacific Investment	49,045	1,454,873	–	1,503,918	14
Pacific Investment - U.S. TIPS	–	100,745	–	100,745	1
Cash	–	30,675	–	30,675	0
Subtotal	53,444	2,163,135	–	2,216,579	21
Real Estate Managers					
Lend Lease	–	1,822	14,281	16,103	0
RREEF	–	15,779	41,265	57,044	1
Subtotal	–	17,601	55,546	73,147	1
Total Fund	**$7,698,011**	**$3,013,877**	**$55,546**	**$10,767,434 (A)**	**100**
% of Total Fund	**71%**	**28%**	**1%**	**100%**	

(A) Amount includes accrued investment income receivable of $20,969 at June 30, 1999 and includes net pending transactions of $178,207.

ASSET ALLOCATION

SELF-MANAGED PLAN ASSET ALLOCATION
JUNE 30, 1999

	U.S. Stocks	Non-U.S. Stocks	Fixed Income	Balanced	Total
Aetna Funds					
Aetna Fixed Account	$ –	$ –	$ 105,103	$ –	$ 105,103
Aetna Bond Fund	–	–	180,616	–	180,616
MFS Total Return (Class A)	–	–	–	118,079	118,079
Evergreen Foundation Fund	–	–	–	62,717	62,717
Aetna Growth and Income Fund	132,333	–	–	–	132,333
MFS Mass. Investors (Class A)	376,374	–	–	–	376,374
Aetna Index Plus Fund	305,253	–	–	–	305,253
Aetna Growth Fund	435,848	–	–	–	435,848
MFS Research Fund	278,429	–	–	–	278,429
Aetna Small Company Fund	259,583	–	–	–	259,583
Janus Worldwide	–	1,225,514	–	–	1,225,514
Aetna International Growth Fund	–	87,335	–	–	87,335
Ariel Growth	251,273	–	–	–	251,273
Neuberger & Berman Genesis Trust	261,463	–	–	–	261,463
Aetna Total	2,300,556	1,312,849	285,719	180,796	4,079,920
% of Total Fund					13.9%
ICMA Funds					
ICMA-RC Plus Fund	–	–	133,661	–	133,661
ICMA-RC U.S. Government Securities Fund	–	–	22,142	–	22,142
ICMA-RC Core Bond Index	–	–	38,977	–	38,977
PIMCO Total Return (Inst'l)	–	–	58,607	–	58,607
ICMA-RC Conservative Growth Portfolio	–	–	–	22,002	22,002
ICMA-RC Traditional Growth Portfolio [1]	–	–	–	8,888,696	8,888,696
ICMA-RC Long Term Growth Portfolio	–	–	–	221,410	221,410
ICMA-RC International Fund	–	91,723	–	–	91,723
Vanguard Wellington Fund	–	–	–	273,104	273,104
Fidelity Growth and Income Fund	653,720	–	–	–	653,720
Vanguard Index 500	2,329,076	–	–	–	2,329,076
ICMA-RC Growth Stock Fund	251,396	–	–	–	251,396
Fidelity Contra Fund	441,117	–	–	–	441,117
Investment Company of America	220,016	–	–	–	220,016
BGI Mid & Small Cap Index	175,960	–	–	–	175,960
American Century Ultra Investors	571,188	–	–	–	571,188
Templeton Global Smaller Company	–	67,851	–	–	67,851
Neuberger & Berman Socially Resp. Fund	61,043	–	–	–	61,043
ICMA Total	4,703,516	159,574	253,387	9,405,212	14,521,689
% of Total Fund					49.3%
TIAA-CREF Funds					
CREF Money Market Account	–	–	665,950	–	665,950
TIAA Traditional Annuity	–	–	764,219	–	764,219
CREF Bond Market Account	–	–	551,207	–	551,207
CREF Stock Account	2,435,064	–	–	–	2,435,064
CREF Equity Index Account	1,415,151	–	–	–	1,415,151
CREF Growth Account	3,242,824	–	–	–	3,242,824
CREF Global Equities Account	–	913,486	–	–	913,486
CREF Social Choice Account	–	–	–	848,722	848,722
TIAA-CREF Total	7,093,039	913,486	1,981,376	848,722	10,836,623
% of Total Fund					36.8%
GRAND TOTALS	**$14,097,111**	**$2,385,909**	**$2,520,482**	**$10,434,730**	**$29,438,232**
% of Total Fund	**47.9%**	**8.1%**	**8.6%**	**35.4%**	**100.0%**

[1] ICMA-RC Traditional Growth Portfolio is the default fund for members who have selected the self-managed plan but have not yet selected individual mutual/variable annuity funds.

SUPPORTING SCHEDULES

Summary Schedule of Domestic Investment Commissions For the Years Ended June 30, 1999 and 1998

Investment Brokerage Firm	1999 Commission	1999 Shares Traded	1999 Commission per Share	1998 Commission	1998 Shares Traded	1998 Commission per Share
ALEX, BROWN & SONS, INC	$ –	$ –	$ –	$ 600	$ 10,000	$ 0.06
AUTRANET	120	2,000	0.06	1,200	20,000	0.06
BEAR STEARNS	2,700	45,000	0.06	3,750	75,000	0.05
BEREAN CAPITAL INC II	6,000	100,000	0.06	660	11,000	0.06
BERNSTEIN, SANFORD C. & CO	600	10,000	0.06	2,700	45,000	0.06
BROWN BROTHERS	1,440	24,000	0.06	–	–	–
CHAPMAN CO.	2,802	46,700	0.06	5,340	89,000	0.06
COWEN AND COMPANY	2,220	37,000	0.06	7,500	125,000	0.06
CREDIT SUISSE FIRST BOSTON	6,930	115,500	0.06	2,750	45,000	0.06
CROMWELL, MILLER AND GREER	–	–	–	500	10,000	0.05
DB CLEARING SERVICES	600	10,000	0.06	–	–	–
DEUTSCHE MORGAN	2,916	48,600	0.06	–	–	–
DONALDSON & CO.	–	–	0	1,800	30,000	0.06
DONALDSON LUFKIN & JENRETTE	4,572	76,200	0.06	2,400	40,000	0.06
ERNST AND COMPANY	620	15,500	0.04	–	–	–
FIDELITY	600	12,000	0.05	–	–	–
FIRST BOSTON CORPORATION	–	–	–	1,200	20,000	0.06
FURMAN SELZ MAGER DIETZ & BIRNEY	1,140	19,000	0.06	–	–	–
GARDNER RICH & CO.	17,940	299,000	0.06	16,280	280,000	0.06
GOLDIS PITTSBURG	24,150	402,500	0.06	13,970	252,000	0.06
GOLDMAN SACHS & COMPANY	6,398	108,846	0.06	4,098	71,956	0.06
INSTINET	35,322	2,432,813	0.01	188	5,061	0.04
INSTITUTIONAL SERVICES UNLIMITED	25,320	422,000	0.06	29,301	525,185	0.06
INVESTMENT TECHNOLOGY GROUP INC	176,830	8,841,500	0.02	–	–	–
ISI GROUP	1,800	30,000	0.06	–	–	–
J.P. MORGAN SECURITIES INC	7,860	131,000	0.06	2,890	48,500	0.06
JAMES CAPEL SECURITIES, INC.	1,320	22,000	0.06	–	–	–
JEFFERIES & COMPANY	235	7,817	0.03	2,967	51,907	0.06
LEHMAN BROTHERS	1,800	30,000	0.06	14,960	290,000	0.05
LEWCO SECURITIES	1,200	20,000	0.06	–	–	–
MELVIN SECURITIES	30,120	502,000	0.06	22,999	409,324	0.06
MERRILL LYNCH	6,006	100,100	0.06	4,638	77,300	0.06
MONTGOMERY SECURITIES	300	5,000	0.06	8,460	141,000	0.06
MORGAN STANLEY & CO INC.	6,810	113,500	0.06	17,580	305,000	0.06
OPPENHEIMER	1,800	30,000	0.06	300	5,000	0.06
PAINE WEBBER	–	–	–	4,110	75,500	0.05
PIERCE B. & CO.	–	–	–	750	15,000	0.05
PRUDENTIAL SECURITIES INC.	3,768	62,800	0.06	510	8,500	0.06
RAMSEY KING	37,500	630,000	0.06	6,460	111,000	0.06
SANFORD BERNSTEIN	4,440	74,000	0.06	–	–	–
SCHRODER & CO.	2,040	34,000	0.06	–	–	–
SMITH BARNEY INC.	461	7,680	0.06	5,760	96,000	0.06
UNITED CAPITAL GROUP	1,800	30,000	0.06	4,380	73,000	0.06
WARBURG S.G.	2,700	45,000	0.06	–	–	–
WEEDEN & CO	756	23,110	0.03	–	–	–
WILLIAM O'NEIL	420	7,000	0.06	–	–	–
YSC GLOBAL	–	–	–	4,211	70,345	0.06
TOTAL	**$ 432,354**	**$14,973,166**	**$ 0.03**	**$ 195,222**	**$3,431,578**	**$ 0.06**

SUPPORTING SCHEDULES

Summary Schedule of International Investment Commissions For the Years Ended June 30, 1999 and 1998

Investment Brokerage Firm	1999 Commission	1999 Shares Traded	1999 Commission per Share	1998 Commission	1998 Shares Traded	1998 Commission per Share
AB ASESORES BURSATILLES	$ 6,588	$ 40,182	$ 0.16	$ 28	$ 104	$ 0.27
ABN AMRO	47,084	2,054,389	0.02	–	–	–
ABN AMRO HOARE GOVETT	82,689	2,832,606	0.03	43,918	2,868,770	0.02
ALFRED BERG	4,809	12,106	0.40	3,915	10,500	0.37
AMSTGELD NV	18,692	284,302	0.07	7,976	53,500	0.15
ASIA EQUITY LTD	1,509	126,000	0.01	2,855	345,000	0.01
BANCO J.P. MORGAN	2,084	220,980	0.01	–	–	–
BANCO SANTANDER	14,208	75,398	0.19	–	–	–
BANK AM BELLEVUE	821	355	2.31	1,181	365	3.24
BANK JULIUS BAER	–	–	–	3,874	901	4.30
BANKERS TRUST	37,077	949,301	0.04	2,761	134,000	0.02
BANQUE PARIBAS	5,505	15,911	0.35	90	2,500	0.04
BARING SECURITIES	6,128	346,000	0.02	18,895	767,700	0.02
BCO SANTANDER DE NEGOCIOS	21,506	99,000	0.22	–	–	–
BEAR STEARNS	2,922	48,700	0.06	–	–	–
BERENBERG BANK	1,768	10,275	0.17	2,730	960	2.84
BNP	8,760	16,403	0.53	–	–	–
BSN SA SOCIADAD DE VALO	7,797	48,800	0.16	–	–	–
BT ALEX BROWN	57,245	2,021,761	0.03	48,244	1,274,043	0.04
BUNTING WARBURG	11,870	261,000	0.05	10,400	213,906	0.05
BZW SECURITIES LIMITED	965	36,000	0.03	11,666	453,512	0.03
CARNEGIE	2,670	64,270	0.04	–	–	–
CAZENOVE & CO	4,164	368,042	0.01	4,679	386,800	0.01
CDC INTL	4,656	11,108	0.42	–	–	–
CHARTERHOUSE TILNEY	13,828	1,090,300	0.01	1,133	81,000	0.01
CHEUVREUX DE VIRIEU	41,078	440,552	0.09	35,855	204,103	0.18
CITIBANK	876	17,510	0.05	–	–	–
CLALEX LAING & CRUICHSHANK	–	–	–	945	30,000	0.03
COLLINS STEWART	16,508	2,184,000	0.01	2,939	500,000	0.01
COMMERZBANK	–	–	–	10,727	66,000	0.16
COUNTY NATWEST SECS	–	–	–	4,126	191,300	0.02
CREDIT AGRICOLE INDOSUEZ	2,190	3,889	0.56	–	–	–
CREDIT LYONNAIS	3,513	745,600	–	9,725	1,839,401	0.01
CREDIT SUISSE ASSET MGMT LTD	26,075	75,758	0.34	19,475	140,716	0.14
CREDIT SUISSE FIRST BOSTON N.Z	3,408	353,000	0.01	–	–	–
CROSBY SECURITIES	7,410	363,300	0.02	26,259	1,654,600	0.02
CSFB	144,077	4,461,220	0.03	32,130	2,692,408	0.01
DAIWA LTD	13,766	445,500	0.03	3,642	516,000	0.01
DAVY STOCKBROKERS	6,450	90,000	0.07	–	–	–
DEUTSCHE BANK	26,725	728,800	0.04	–	–	–
DEUTSCHE MORGAN GRENFELL	70,650	1,671,215	0.04	52,444	2,022,518	0.03
DEUTSCHE SECURITIES	3,608	203,800	0.02	–	–	–
DMG C.J. LAWRENCE INC.	2,303	29,000	0.08	–	–	–
DONALDSON LUFKIN	1,819	42,500	0.04	–	–	–
DOYLE PATERSON BROWN WELLINGTON	2,283	397,700	0.01	757	85,400	0.01
DRESDNER KLEINWORT BENSON SECS	678	98,000	0.01	–	–	–
DURLACHER AND CO	–	–	–	3,980	73,100	0.05
ENSKILDA SECURITIES	2,268	26,350	0.09	6,544	44,600	0.15
ESPONOSIA PARTNERS	–	–	–	13,670	77,305	0.18
EUROMOBILIARE SPA	620	38,000	0.02	–	–	–
EUROPEAN STOCK BROKERS	610	6,512	0.09	–	–	–
EXANE	15,225	22,918	0.66	–	–	–
FIBA NORDIC SECS	–	–	–	10,655	34,950	0.30

SUPPORTING SCHEDULES

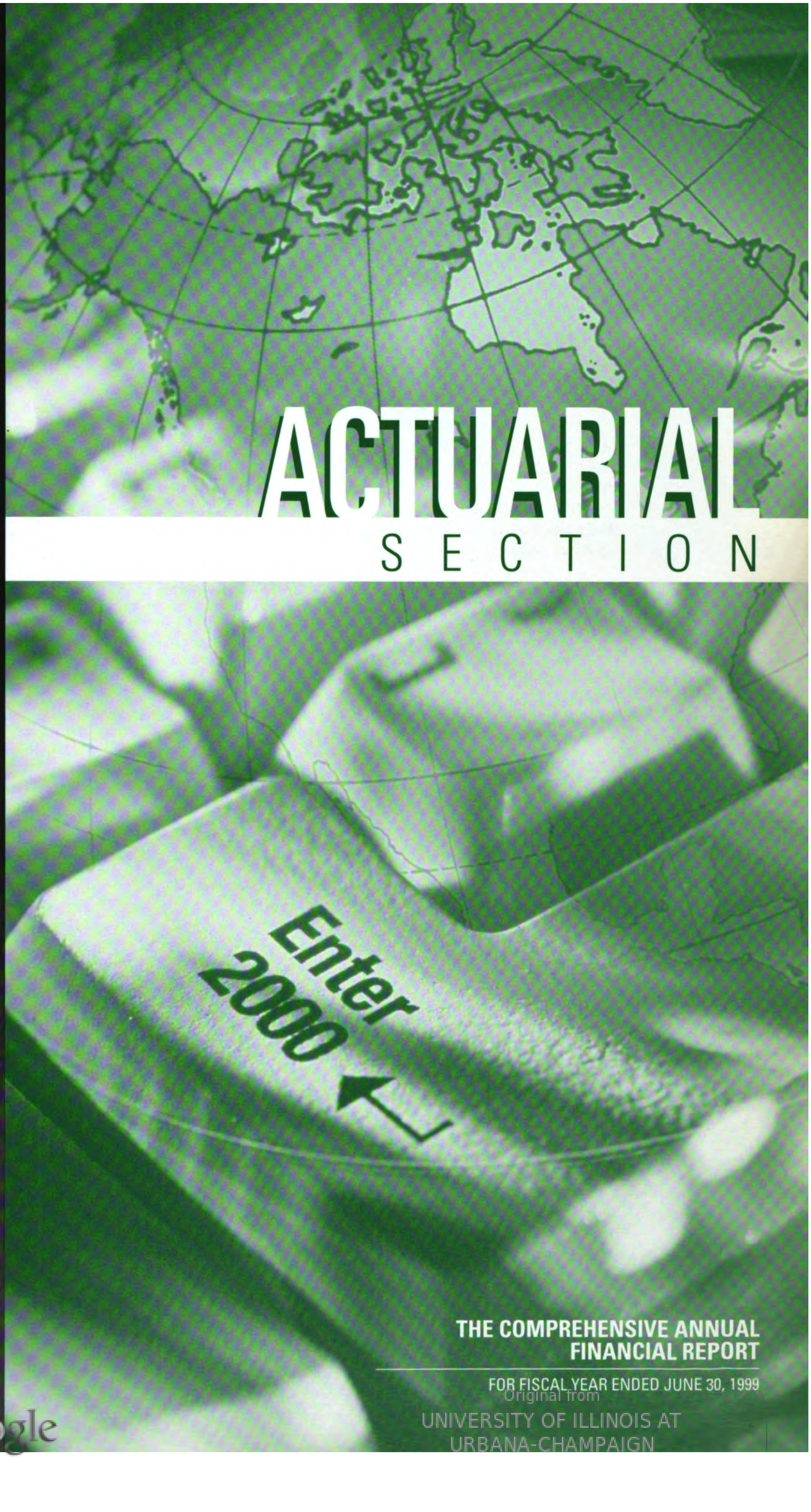
SUMMARY SCHEDULE OF INTERNATIONAL INVESTMENT COMMISSIONS FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	1999			1998		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
FLEDGELING NOMINEES LTD	$ –	$ –	$ –	$ 2,591	$ 130,000	$ 0.02
GK GOH SECS	6,178	168,000	0.04	8,093	458,250	0.02
GOLDMAN SACHS & CO	205,619	14,604,416	0.01	182,083	6,319,234	0.03
HARTLEY POYNTON	–	–	–	3,258	477,400	0.01
HOARE GOVETT	13,126	1,772,100	0.01	–	–	–
HOENIG & CO INC	5,270	186,000	0.03	–	–	–
HONG KONG & SHANGHAI BKG CORP	–	–	–	67	12,000	0.01
HSBC INVESTMENT BANK PLC	133,312	3,049,943	0.04	63,270	2,665,750	0.02
IMI SIGECO	22,781	3,026,388	0.01	13,743	1,600,000	0.01
ING BARINGS	4,095	756,000	0.01	3,683	141,000	0.03
INSTINET SERVICES	46,812	1,892,789	0.02	13,440	1,106,751	0.01
INTERMOBILIARE	23,818	921,285	0.03	–	–	–
JAMES CAPEL HSBC SECS	11,587	305,416	0.04	35,850	1,220,834	0.03
JARDINE FLEMING SECURITIES	2,862	168,000	0.02	–	–	–
JB WERE & SON	11,084	1,213,656	0.01	19,145	2,000,960	0.01
JP MORGAN	76,631	2,738,400	0.03	12,469	110,972	0.11
KEMPEN & CO	4,835	56,285	0.09	–	–	–
KIM ENG SECURITIES	5,922	476,000	0.01	12,622	840,200	0.02
KLEINWORT BENSON SECS	167,295	4,650,818	0.04	168,844	3,991,458	0.04
LATINVEST SECURITIES	–	–	–	3,014	1,702,500	–
LEHMAN BROTHERS	74,379	1,994,282	0.04	20,420	385,463	0.05
MACQUARIE EQUITIES LTD	–	–	–	3,797	160,000	0.02
MAXWELL ESPINOSA	26,381	248,013	0.11	–	–	–
MCINTOSH & CO	–	–	–	2,722	413,200	0.01
MERRILL LYNCH	467,965	22,258,322	0.02	252,969	9,160,496	0.03
MIDLAND BANK PLC	2,129	48,000	0.04	–	–	–
MM WARBURG & CO	3,528	7,102	0.50	437	3,100	0.14
MORGAN GRENFELL & CO LTD	13,735	40,333	0.34	76,528	2,703,273	0.03
MORGAN STANLEY	154,545	3,497,497	0.04	125,360	3,929,209	0.03
NATWEST INTERNATIONAL SECS	–	–	–	11,610	2,225	5.22
NEW JAPAN SECS CO LTD	–	–	–	436	35,000	0.01
NIKKO SECURITIES	3,699	380,000	0.01	3,885	138,152	0.03
NOMURA SECS	31,630	1,055,134	0.03	4,564	74,000	0.06
ODDO	19,779	106,200	0.19	–	–	–
ORD MINNETT	5,166	211,000	0.02	31,256	1,956,265	0.02
ORD MINNETT TJ THOMPSON & PARTNERS	3,995	447,950	0.01	–	–	–
PANMURE GORDON & CO	431	55,000	0.01	–	–	–
PARIBAS CAPITAL MKTS	45,348	992,175	0.05	15,278	60,800	0.25
PERSHING SECURITIES LTD	8,663	445,000	0.02	84,815	5,353,000	0.02
PHILEO ALLIED SECURITIES	–	–	–	2,135	80,000	0.03
PICTET & CO	15,794	3,030	5.21	17,362	10,084	1.72
RBC DOMINION SECS	20,330	414,404	0.05	8,992	170,061	0.05
ROBERT FLEMING & CO LTD	12,691	390,233	0.03	40,189	2,485,721	0.02
ROBERTSON STEPHENS	–	–	–	1,398	23,300	0.06
RODERICK SUTHERLAND	–	–	–	4,265	228,000	0.02
ROTHSCHILD BANK	4,449	3,154	1.41	–	–	–
ROYAL BANK OF CANADA	–	–	–	1,070	21,800	0.05
SAL OPPENHEIM	3,104	17,217	0.18	1,935	1,200	1.61
SALOMON BROTHERS	60,230	5,356,095	0.01	30,956	3,187,252	0.01
SALOMON SMITH BARNEY	12,178	309,160	0.04	–	–	–
SBC WARBURG & CO LTD	157,565	6,324,230	0.02	194,761	5,699,680	0.03
SCHRODER SECS LTD	25,869	1,170,649	0.02	19,688	211,914	0.09
SCHRODER WERTHEIM LEWCO	7,380	157,361	0.05	–	–	–
SCOTIA MCLEOD	9,821	117,525	0.08	12,653	237,200	0.05

SUPPORTING SCHEDULES

Summary Schedule of International Investment Commissions For the Years Ended June 30, 1999 and 1998

Investment Brokerage Firm	1999 Commission	1999 Shares Traded	1999 Commission per Share	1998 Commission	1998 Shares Traded	1998 Commission per Share
SKANDINAVISKA ENSKILDA SECS	$ 27,334	$ 807,060	$ 0.03	$ –	$ –	$ –
SMITH BARNEY SHEARSON	–	–	–	1,507	106,000	0.01
SOCIETE GEN STRAUSS TURNBULL	17,235	47,947	0.36	–	–	–
SOCIETE GENERALE	20,036	146,246	0.14	19,068	708,543	0.03
STANDARD CHARTERED BANK	–	–	–	2,569	5,489	0.47
UBS AG	45,601	462,909	0.10	–	–	–
UBS PHILLIPS & DREW	–	–	–	20,272	838,100	0.02
VONTOBELL SECURITIES LTD	10,096	4,764	2.12	17,673	6,933	2.55
WARBURG DILLON READ	5,669	321,228	0.02	–	–	–
WI CARR & SONS CO	–	–	–	8,505	518,900	0.02
WILLIAM DE BROE	479	100,850	–	–	–	–
TOTAL	**$ 2,815,947**	**$107,403,879**	**$ 0.03**	**$ 1,979,464**	**$78,457,631**	**$ 0.03**



ACTUARIAL
SECTION

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 1999

LETTER OF CERTIFICATION

GRS

GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

1600 Golf Road • Suite 1200 • Rolling Meadows, IL 60008 • 847-981-4092 • FAX 847-981-40

November 10, 1999

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

Re: Certification of Actuarial Results

Dear Members of the Board:

At your request, we have performed an actuarial valuation of the State Universities Retirement System of Illinois ("SURS") as of June 30, 1999. An actuarial valuation of the defined benefit plans of SURS is performed annually.

The actuarial valuation is based upon:

a. *Data relative to the Members of SURS* – Data for all Members, including those participating in the Self Managed Plan, was provided by SURS staff. Such data is tested for reasonableness, but is used unaudited.

b. *Assets of the Fund* – The values of SURS assets are provided by SURS staff. The market value of assets of the defined benefit plans is 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 summarized in the next few pages. This set of assumptions was adopted by the Board effective July 1, 1996.

The actuarial assumptions and methods used are in accordance with paragraph 36 of GASB Statement Number 25.

The trend data in the Financial Section and the schedules and other data in this Section are prepared by SURS staff with our guidance.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of SURS when due and to achieve an asset value equal to 90% of the Actuarial Accrued Liability by the end of fiscal year 2045. The financing objective of SURS and the funding process to reach that objective are set out in Section 5/15-155, Chapter 40, *Illinois Compiled Statutes*.

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

Sincerely,

Norman S. Losk, F.S.A.
Senior Consultant

NSL:cm

ACTUARIAL REPORT

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 99 was 17.01% of payroll, 8.0% of which is paid by the members' contributions. The remaining 9.01% 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 (9.01% 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.

On August 22, 1994, Governor Jim Edgar signed legislation which requires a 15-year phase-in to a 35-year funding plan which provides adequate annual funding of the employer's normal cost while amortizing the unfunded accrued actuarial liability. This law went into effect on July 1, 1995. A significant difference between the 1989 and 1994 funding legislation is that the latter takes the form of a continuing appropriation. This removes the pension funding from the General Assembly's annual budget negotiations and requires that the actuarially determined annual funding become an automatic contribution (see Financing Objective). Ultimately, this funding plan will increase the State's pension funding from its current level of 85% to approximately 90%.

ACTUARIAL REPORT

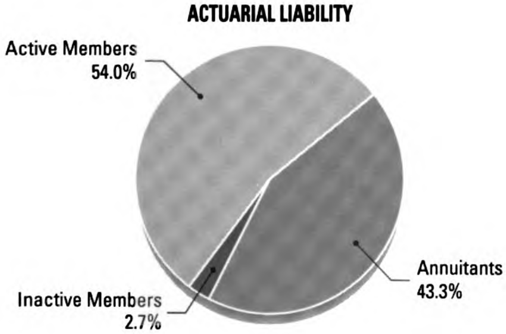
Valuation Results ($ millions)

Actuarial liability (reserves)	
For members receiving annuities	$ 5,462.7
For inactive members	347.6
For active members	6,807.2
Total	12,617.5
Assets available for benefits	10,761.7
Unfunded accrued actuarial liability	**$ 1,855.8**

Changes in the Unfunded Accrued Actuarial Liability ($ millions)

Unfunded accrued actuarial liability at June 30, 1998	$ 1,624.1
Increase due to prior year's contribution being less than the amount necessary to fund the normal cost and interest on the unfunded liability	145.8
Actuarial differences	
Investments other than 8.5%	(273.3)
Salary increases other than 5.5%	44.3
Age and service retirement differences	58.2
Termination differences	(18.3)
Mortality and disability incidence differences	<18.1>
Benefit recipient differences	162.7
New entrants	24.1
Other actuarial differences	(106.3)
Net Actuarial (Gain)/Loss	85.9
Unfunded accrued actuarial liability at June 30, 1999	**$ 1,855.8**

ACTUARIAL LIABILITY



ACTUARIAL REPORT

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 postretirement 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 market.

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

Beginning in fiscal year 1996 the required contribution rates were based upon Public Act 88-0593, which calls for a 15-year phase-in to a 35-year funding plan which provides for adequate annual funding of the employer's normal cost while amortizing the unfunded accrued actuarial liability. Annual funding under this plan will occur as a continuing appropriation.

Defined Benefit Plan	
Employer Contributions Received in FY 1999	
State appropriations (a)	$ 200,030,317
State pension fund	12,363,289
Federal and trust funds	25,351,228
Reciprocity	129,198
Total	**$ 237,874,032**

(a)Reconciliation to Total State Appropriations:	
Defined Benefit Plan–State Appropriations Received	$ 200,030,317
Defined Contribution Plan–State Appropriations Received	5,238,583
Total State Appropriations Received	**$ 205,268,900**

ACTUARIAL REPORT

The projected required contribution rates and amounts are as follows:

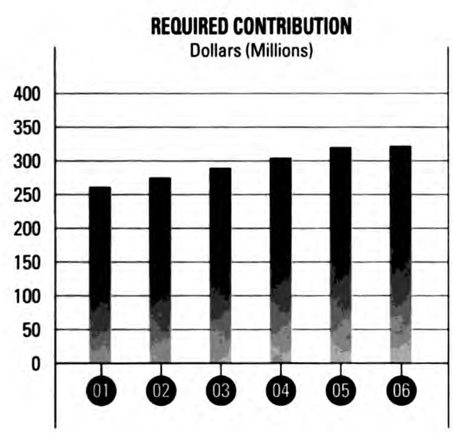
Fiscal Year	Normal Cost	Assumed Payroll ($ Billions)	Required Contribution
2001	9.46%	2.73	258,604,000
2002	9.54%	2.83	269,992,000
2003	9.61%	2.94	282,672,000
2004	9.70%	3.03	294,308,000
2005	9.76%	3.15	307,897,000
2006	9.86%	3.27	322,163,000

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, 1999 actuarial valuations. In order to determine projected contribution rates and amounts, the following additional assumptions and estimates were used:

1) Covered payroll of $2.57 billion for fiscal year 2000.
2) 5.5% per annum rate of increase in covered payroll.
3) Total employer contributions of $237,874,032 for fiscal year 1999.

As of June 30, 1999, the Unfunded Accrued Actuarial Liability (UAAL) to be amortized was $1,855,769,229.



ACTUARIAL REPORT

Summary of Major Actuarial Assumptions

Mortality

Mortality rates are based upon the Uninsured Pensions Mortality Table for 1994, without adjustment.

Interest

8.5% per annum, compounded annually.

Termination

Rates of withdrawal are based upon ages and years of service as developed from plan experience. Shown at right is a table of termination rates based upon experience in the 1991-96 period. The assumption consists of a table of ultimate turnover rates by age subject to multipliers for adjustment of those ultimate rates for those with less than 10 years of service.

Age	All Members
20	.0650
30	.0546
40	.0312
50	.0172
60	.0339
70	.0696

Salary Increases

Each member's compensation is assumed to increase by 5.5% each year, except that rate is increased for members with less than 6 years of service as shown at right:

Service Year	Multiplier
0	1.0400
1	1.0300
2-4	1.0175
5	1.0100

The payroll of the entire system is assumed to increase at 5.00% per year for purposes of calculating employer required contribution.

Retirement Age

Upon eligibility, active members are assumed to retire as shown at right:

Age	Males	Females
50-55	.06	.07
56	.05	.05
57	.06	.05
58	.07	.05
59	.09	.07
60	.11	.10
61	.14	.11
62	.15	.14
63	.14	.12
64	.17	.16
65	.24	.24
66	.22	.18
67	.21	.22
68	.24	.20
69	.28	.23
70	1.00	1.00

Assets

Assets available for benefits are used at market 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 as of July 1, 1996 and have been applied consistently since then. They were developed based upon an experience study completed in December 1996.

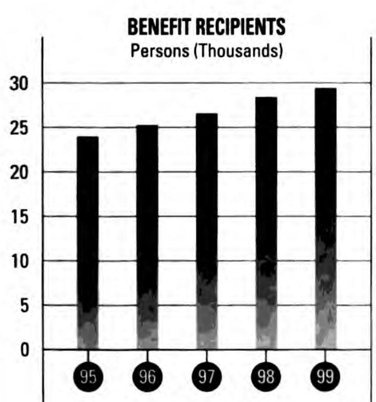
ANALYSIS OF FUNDING

Analysis of Financial Experience
Gains & Losses in Accrued Actuarial Liability
For Fiscal Year Ending June 30, 1999 ($ millions)

Actuarial (gains) and losses	
Investments other than 8.5%	(273.3)
Salary increases other than 5.5%	44.3
Age and service retirement differences	58.2
Termination differences	(18.3)
Mortality and disability incidence differences	(18.1)
Benefit recipient differences	162.7
New entrants	24.1
Other actuarial differences	106.3
Total actuarial loss	85.9
Contribution income less than amount needed to fund normal cost	145.8
Total financial loss	**$231.7**

Schedule of Increases and Decreases of Benefit Recipients
10-Year Summary

Fiscal Year	Beginning Balance	Additions	Subtractions	Ending Balance
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
1994	21,171	2,426	1,025	22,572
1995	22,572	2,312	1,004	23,880
1996	23,880	2,299	1,175	25,004
1997	25,004	2,292	1,138	26,158
1998	26,158	2,673	799	28,032
1999	28,032	2,229	919	29,342



ANALYSIS OF FUNDING

ACTIVE PARTICIPANT STATISTICS
10-YEAR SUMMARY

Fiscal Year	Males	Females	Total Actives	Percent Change	Average Salary	Percent Change	Average Age	Average Service Credit
1990	26,187	28,783	54,970	3.1%	30,878	7.1%	43.2	9.1
1991	26,401	29,674	56,075	2.0%	31,735	2.8%	44.0	9.1
1992	35,916	40,382	76,298	36.1%	25,912	(18.3%)	43.7	7.3
1993	36,789	41,816	78,605	3.0%	26,794	3.4%	43.9	7.1
1994	35,842	40,473	76,315	(2.9%)	26,635	(0.6%)	44.0	7.2
1995	34,188	39,339	73,527	(3.7%)	30,425	14.2%	44.7	8.0
1996	35,582	40,506	76,088	3.5%	30,623	0.7%	44.9	9.3
1997	34,803	40,978	75,781	(0.4%)	30,325	(1.0%)	45.2	8.7
1998	35,872	41,284	77,156	1.8%	31,107	2.6%	45.1	8.7
1999	34,588	40,080	74,668	(3.2%)	32,291	3.8%	44.2	9.1

ANALYSIS OF CHANGE IN MEMBERSHIP
10-YEAR SUMMARY

Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
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
1994	78,605	12,446	1,182	91	13,463	76,315
1995	76,315	11,744	954	122	13,456	73,527
1996	73,527	9,884	1,369	96	5,858	76,088
1997	76,088	14,656	1,001	111	13,851	75,781
1998	75,781	10,249	1,824	123	6,927	77,156
1999	77,156	10,293	1,612	128	11,041	74,668

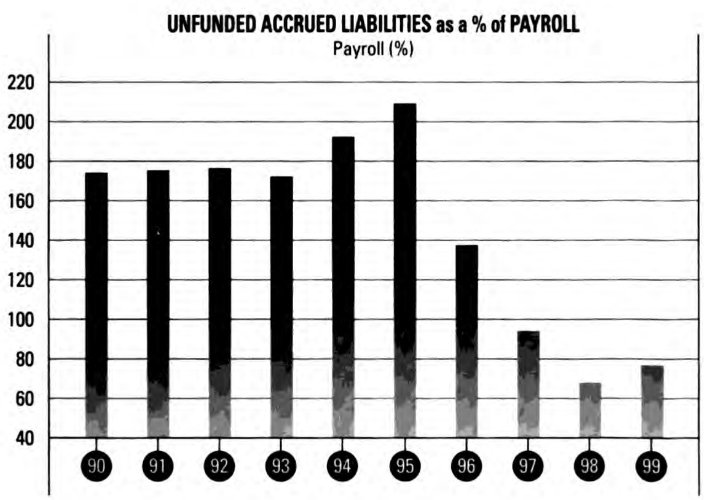
ANALYSIS OF FUNDING

In an inflationary economy, the value of dollars is decreasing. This environment results in employee pay 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 provides a helpful index which shows that 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.

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES ($ MILLIONS)

Fiscal Year	Accrued Liabilities	Net Assets	Assets as a % of Accrued Liabilities	Unfunded Accrued Liabilities (UAL)	Active Member Payroll	UAL as a % of Active Member Payroll
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%
1994	8,585.5	4,446.9	51.8%	4,138.6	2,140.1	193.4%
1995	9,379.4	4,674.2	49.8%	4,705.2	2,237.0	210.3%
1996	10,155.0	6,959.8	68.5%	3,195.2	2,330.0	137.1%
1997(A)	10,552.2	8,376.3	79.4%	2,175.9	2,298.0	94.7%
1998	11,416.1	9,792.0	85.8%	1,624.1	2,377.6	68.3%
1999	12,617.5	10,761.7	85.3%	1,855.8	2,411.1	77.0%

(A) As of June 30, 1997, assets are presented at market value according to GASB Statement No. 25. For comparative purposes, results as of June 30, 1996 have been restated accordingly.



TESTS OF FINANCIAL SOUNDNESS

The following four exhibits illustrate different measures of the financial soundness of the System. The Schedule of Funding compares State appropriations to the actuarial funding requirements, statutory funding requirement, and System expense. The Funding Ratios exhibit shows the percentage of the System's accrued benefit cost covered by net assets. This funding ratio is used to assess the System's ability to make future benefit payments. The exhibit illustrates the ratio of net assets to the System's accrued benefit cost over 10 years, with net assets valued both at cost and at market. The Percentage of Benefits Covered by Net Assets exhibit compares the plan's net assets with the members' accumulated contributions, the amount necessary to cover the present value of benefits currently being paid, and the employer's portion of future benefits for active members. The final test, Payroll Percentages, compares member payroll to unfunded accrued benefit cost, normal cost, and total required contributions. These percentages should decrease over the years if SURS is growing stronger.

SCHEDULE OF FUNDING: FISCAL YEAR 1990-1996 ($ MILLIONS)

	Funding Requirements				Covered Percentages		
Fiscal Year	Normal Cost & Interest {1}	With 40-Year Amortization {2}(A)	System Expense {3}(B)	Employer Contribution {4}(C)	Normal Cost & Interest {5}(D)	With 40-Year Amortization {6}(E)	System Expense {7}(F)
1990(G)	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%
1994	508.3	523.7	311.8	133.8	26.3%	25.5%	42.9%
1995	537.2	553.6	350.5	128.1	23.8%	23.1%	42.9%
1996	571.7	590.1	386.5	147.4	25.8%	25.0%	38.1%

(A) Appropriation amount required by Sections 5/15-115 and 5/15-156 of the *Illinois Compiled Statutes*.
(B) Benefit and administrative expense.
(C) Contributions from The State of Illinois General Revenue Fund and Pension Fund, and employer contributions from trust and federal funds.
(D) State contributions divided by Statutory Requirement (Column 4 divided by Column 1).
(E) State contributions divided by the 40-year amortization requirement (Column 4 divided by Column 2).
(F) State contributions divided by System expense (Column 4 divided by Column 3).
(G) Funding method changed from entry age normal to projected unit credit.

SCHEDULE OF FUNDING: FISCAL YEAR 1997-1999 ($ MILLIONS)

	Funding Requirements				Covered Percentages		
Fiscal Year	Gross ARC {1} (A)	Net ARC {2}(B)	System Expense {3}(C)	Employer Contribution {4}(D)	Gross ARC {5}(E)	Net ARC {6}(F)	System Expense {7}(G)
1997	837.0	634.8	426.7	182.0	21.7%	28.7%	42.7%
1998	589.8	368.1	475.9	227.7	38.6%	61.9%	47.8%
1999	509.2	296.2	536.0	237.9	46.7%	80.3%	44.4%

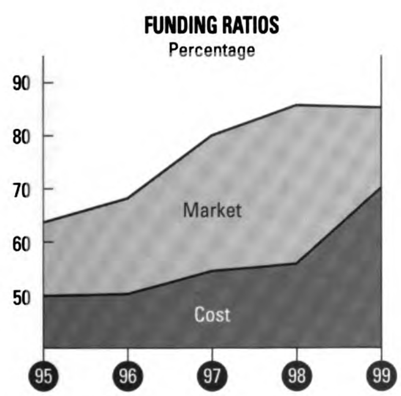
(A) The annual required contribution as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."
(B) The annual required contribution per Note A, less member contributions.
(C) Benefit and administrative expense.
(D) Contributions from The State of Illinois employer units and Pension Fund, and employer contributions from trust and federal funds.
(E) Employer contributions divided by the total required contribution (Column 4 divided by Column 1).
(F) Employer contributions divided by the employer required contribution (Column 4 divided by Column 2).
(G) Employer contributions divided by System expense (Column 4 divided by Column 3).

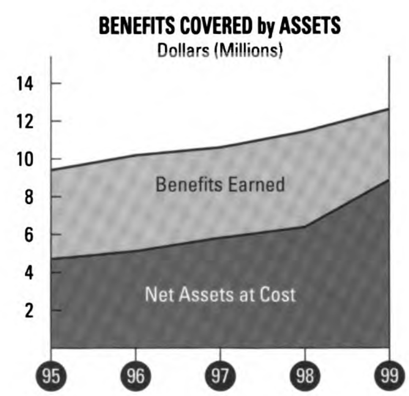
TESTS OF FINANCIAL SOUNDNESS

FUNDING RATIOS
10-YEAR SUMMARY ($ MILLIONS)

Fiscal Year	Net Assets at Cost	Net Assets at Market	Actuarial Funding Requirement	Funding Ratio Cost	Funding Ratio Market
1990(A)	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%
1994	4,446.9	5,175.3	8,585.5	51.8%	60.3%
1995	4,674.2	5,951.0	9,379.4	49.8%	63.4%
1996	5,082.9	6,959.8	10,155.0	50.1%	68.5%
1997	5,749.6	8,376.3	10,552.2	54.5%	79.4%
1998	6,378.7	9,792.0	11,416.1	55.9%	85.8%
1999	8,863.7	10,761.7	12,617.5	70.2%	85.3%

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





TESTS OF FINANCIAL SOUNDNESS

PERCENTAGE OF BENEFITS COVERED BY NET ASSETS
10-YEAR SUMMARY ($ MILLIONS)

Fiscal Year	Member Accumulated Contributions {1}(A)	Members Currently Receiving Benefits {2}(A)	Active/Inactive Members/ Employers' Portion {3}(A)	Net Assets (B)	% of Benefits Covered by Net Assets for {1}	{2}	{3}
1990	1,644.7	2,035.5	2,558.1	3,300.0	100.0	81.3	0
1991	1,822.1	2,042.1	2,783.3	3,529.8	100.0	83.6	0
1992	2,011.5	2,296.9	3,051.2	3,901.5	100.0	82.3	0
1993	2,196.6	2,653.2	2,988.4	4,188.5	100.0	75.1	0
1994	2,362.7	3,046.3	3,176.5	4,446.9	100.0	68.4	0
1995	2,533.4	3,421.9	3,424.1	4,674.2	100.0	62.6	0
1996	2,761.9	4,138.4	3,254.7	6,959.8	100.0	100.0	1.8
1997	2,978.6	4,259.1	3,314.5	8,376.3	100.0	100.0	34.4
1998	3,249.9	4,792.2	3,374.0	9,792.0	100.0	100.0	51.9
1999	3,459.7	5,462.7	3,695.1	10,761.7	100.0	100.0	49.8

(A) A test of financial soundness of a system is its ability to pay all promised benefits when due. Column 1 represents the value of members' accumulated contributions. Column 2 represents the amount necessary to pay participants currently receiving benefits. Column 3 represents the employer's portion of future benefits for active members. Section 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.

(B) As of June 30, 1997, assets are presented at market value according to GASB Statement No. 25. For comparative purposes, results as of June 30, 1996 have been restated accordingly.

TESTS OF FINANCIAL SOUNDNESS

Payroll Percentages: Fiscal Year 1990-1996 ($ millions)

		Unfunded Accrued Benefit Cost		Employer Cost					Employer Contributions	
Fiscal Year	Member Payroll	Amount	% of Payroll	Employer Normal Cost	% of Payroll	Amortization of Unfunded Liability	Total (A)	% of Payroll	Emp Cont.	% of Payroll
1990 (B)	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	22.7%	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%
1994	2,140.1	4,138.6	193.4%	213.0	10.0%	310.7	523.7	24.5%	133.8	6.3%
1995	2,237.0	4,705.2	210.3%	224.9	10.1%	328.7	553.6	24.8%	128.1	5.7%
1996	2,330.0	3,195.2	217.7%	219.0	9.4%	371.1	590.1	25.3%	147.4	6.3%

(A) Normal cost plus amortization.

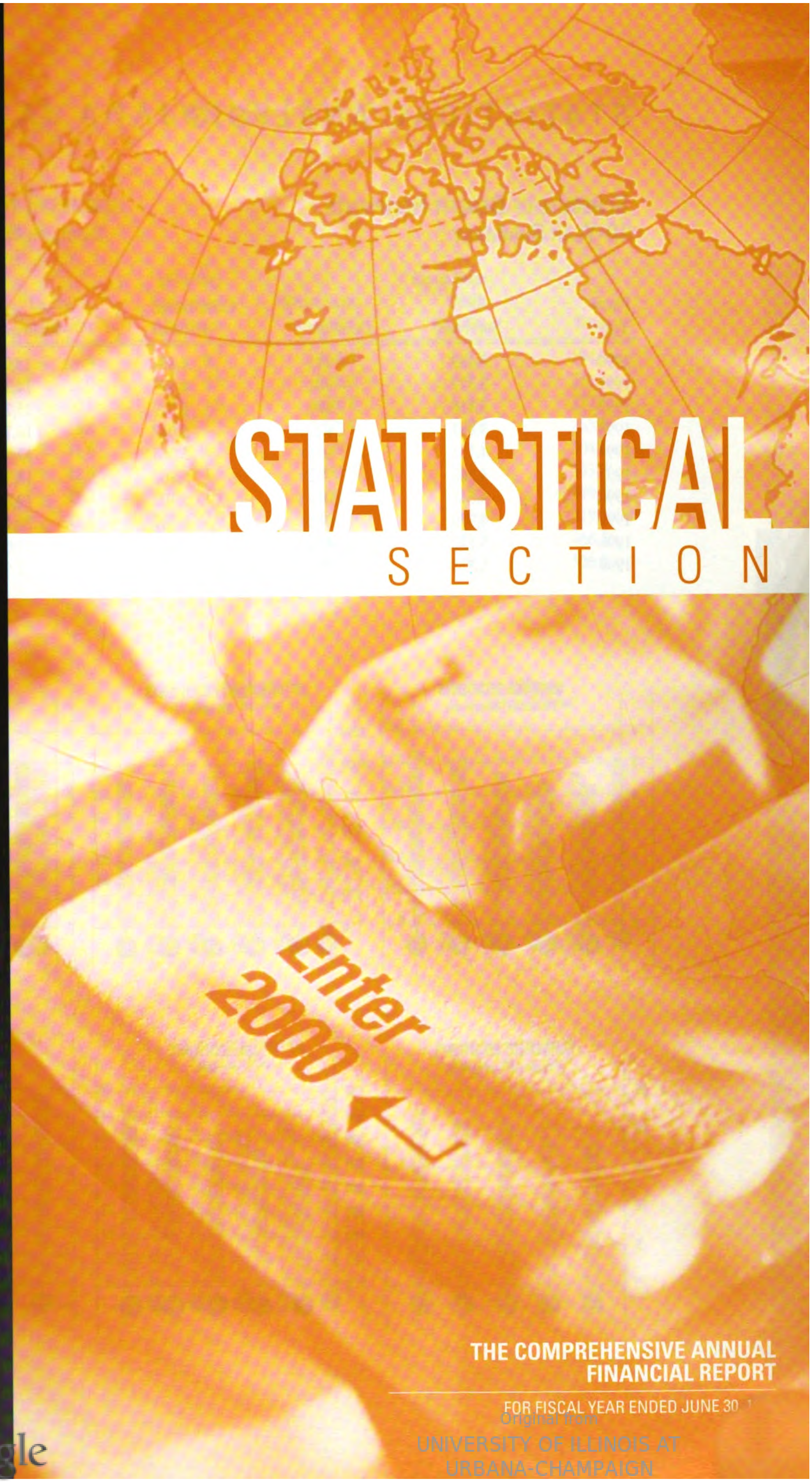
(B) Funding method changed from entry age normal to projected unit credit.

Payroll Percentages: Fiscal Year 1997-1999 ($ millions)

		Unfunded Accrued Benefit Cost		Employer Cost					Employer Contributions	
Fiscal Year	Member Payroll	Amount	% of Payroll	Employer Normal Cost (A)	% of Payroll	Amortization of Unfunded Liability	Total (B)	% of Payroll	Emp Cont.	% of Payroll
1997	2,298.0	2,175.9	94.7%	199.8	8.7%	637.2	837.0	36.4%	182.0	7.9%
1998	2,377.6	1,624.1	68.3%	181.5	7.6%	408.3	589.8	24.8%	227.7	9.6%
1999	2,411.1	1,855.8	77.0%	245.8	10.2%	263.4	509.2	21.1%	237.9	9.9%

(A) Actuarially determined normal cost less member contributions.

(B) Total annual required contribution as defined by GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."



STATISTICAL SECTION

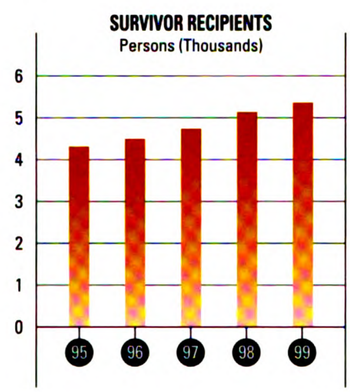
THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

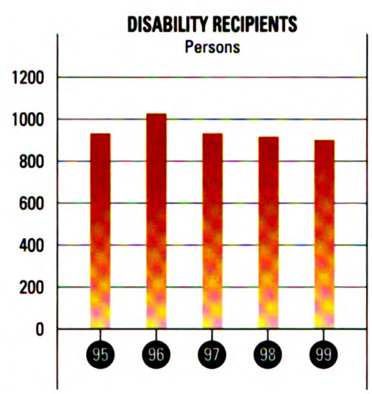
FOR FISCAL YEAR ENDED JUNE 30, 1

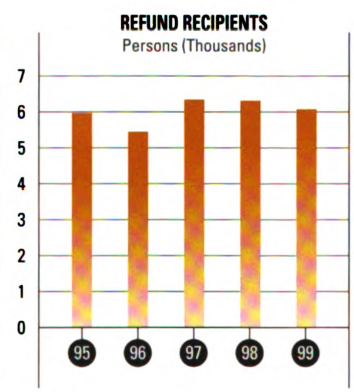
STATISTICAL ANALYSIS

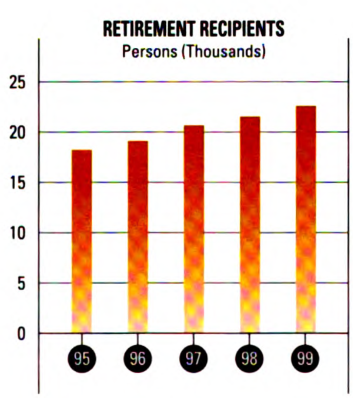
Schedule of Benefit Recipients
10-Year Summary

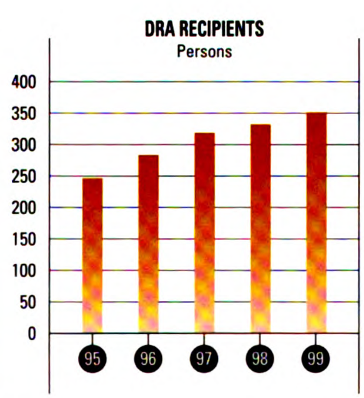
Fiscal Year	Survivors	Disability	Contribution Refunds	Retirement	Disability Retirement Allowance
1990	3,183	715	4,834	13,958	160
1991	3,377	701	4,407	14,321	180
1992	3,816	880	5,279	15,269	208
1993	3,981	927	5,047	16,201	222
1994	4,161	935	5,068	17,401	226
1995	4,363	932	5,960	18,341	244
1996	4,641	1,013	5,402	19,255	283
1997	4,779	941	6,387	20,119	319
1998	5,152	924	6,331	21,623	333
1999	5,374	903	6,075	22,652	352







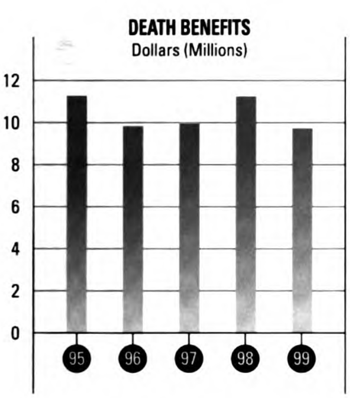


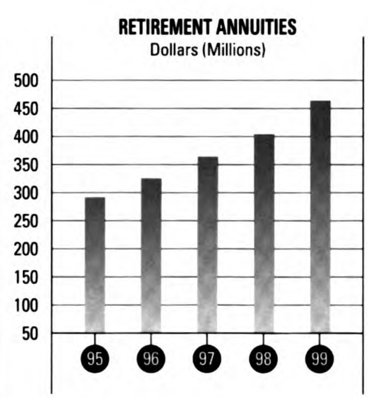


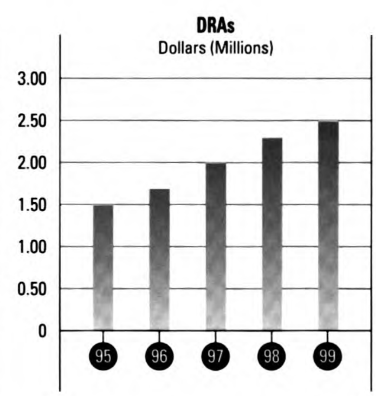
STATISTICAL ANALYSIS

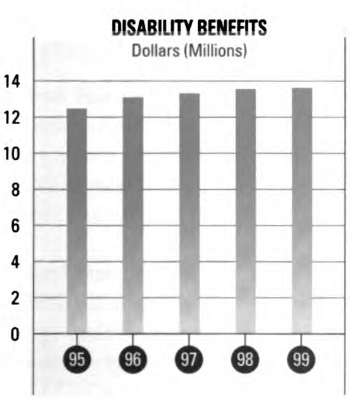
Schedule of Benefit Expenses
10-Year Summary ($ millions)

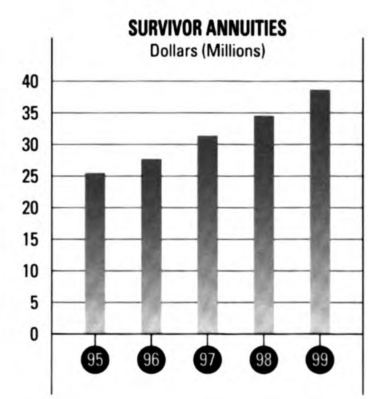
Fiscal Year	Survivor Annuities	Disability Benefits	Disability Retirement Allowance	Retirement Annuities	Lump Sum Death Benefits	Total
1990	14.1	8.4	0.7	163.5	7.8	194.5
1991	16.2	9.0	0.8	178.0	7.1	211.1
1992	18.1	10.1	1.0	198.8	9.4	237.4
1993	20.2	10.8	1.2	224.9	8.0	265.1
1994	22.8	11.6	1.3	259.9	8.5	304.1
1995	25.4	12.6	1.5	292.8	11.4	343.7
1996	27.9	13.2	1.7	326.9	9.8	379.5
1997	31.2	13.4	2.0	362.6	10.0	419.2
1998	34.8	13.6	2.3	404.5	11.3	466.5
1999	38.8	13.7	2.5	461.3	9.7	526.0











BENEFIT SUMMARY

Schedule of New Benefit Payments
July 1, 1998 through June 30, 1999

	Retirement		Disability		Survivors	
Age	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 10					4	$ 193
10-14					12	343
15-19					21	243
20-24					6	220
25-29			2	$ 673	1	206
30-34			3	968	-	-
35-39			9	896	2	265
40-44			24	1,090	7	367
45-49			50	1,046	8	380
50-54	47	$ 2,992	47	1,024	21	556
55-59	549	2,265	37	1,304	38	927
60-64	568	2,321	31	1,386	38	1,016
65-69	313	2,328	14	1,369	54	678
70-74	110	2,420	2	923	54	916
Over 74	25	1,316	1	278	131	771
Totals	**1,612**	**$ 2,314**	**220**	**$ 1,143**	**397**	**$ 731**

Average Age 62.3 Years

BENEFIT SUMMARY

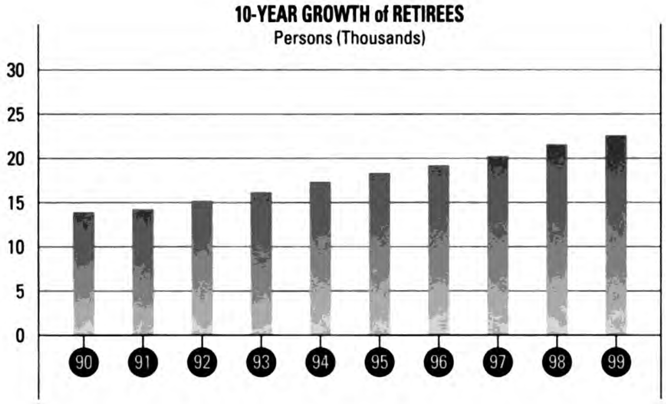
Schedule of Average Benefit Payments For Retirees as of June 30

	Years of Credited Service						
	0–10	11–15	16–20	21–25	26–30	30+	Total
Fiscal Year 1990							
Number of Retirees	2,658	2,433	2,572	2,187	1,540	2,568	13,958
Avg 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
Avg Credited Service							19.7
Fiscal Year 1991							
Number of Retirees	2,526	2,501	2,643	2,326	1,665	2,660	14,321
Avg 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
Avg Credited Service							20.1
Fiscal Year 1992							
Number of Retirees	3,088	2,575	2,769	2,487	1,751	2,599	15,269
Avg 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
Avg Credited Service							20.1
Fiscal Year 1993							
Number of Retirees	2,336	2,346	2,558	2,463	2,110	4,388	16,201
Avg 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
Avg Credited Service							22.5
Fiscal Year 1994							
Number of Retirees	2,525	2,463	2,662	2,609	2,362	4,780	17,401
Avg Monthly Annuity	$ 451	500	758	1,159	1,626	2,362	1,296
Final Average Salary	$ 14,774	19,992	23,091	27,785	31,075	36,705	26,973
Avg Credited Service							22.6
Fiscal Year 1995							
Number of Retirees	2,481	2,584	2,784	2,767	2,584	5,141	18,341
Avg Monthly Annuity	$ 465	531	799	1,231	1,734	2,473	1,382
Final Average Salary	$ 16,526	20,752	23,946	28,917	32,550	37,905	28,367
Avg Credited Service							22.9
Fiscal Year 1996							
Number of Retirees	3,041	2,601	2,768	2,798	2,721	5,326	19,255
Avg Monthly Annuity	$ 622	566	845	1,303	1,834	2,607	1,465
Final Average Salary	$ 13,867	21,050	23,860	30,627	34,328	41,193	29,190
Avg Credited Service							22.7
Fiscal Year 1997							
Number of Retirees	2,890	2,755	2,943	2,963	2,919	5,649	20,119
Avg Monthly Annuity	$ 583	614	896	1,370	1,950	2,760	1,559
Final Average Salary	$ 23,273	22,498	25,559	30,628	35,038	41,070	31,329
Avg Credited Service							23.1

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 1998							
Number of Retirees	3,637	2,922	3,054	3,040	2,416	6,554	21,623
Avg Monthly Annuity	$ 699	646	938	1,445	2,005	2,854	1,630
Final Average Salary	$ 14,201	21,581	24,344	31,245	35,546	42,167	29,889
Avg Credited Service							22.4
Fiscal Year 1999							
Number of Retirees	2,900	3,095	3,107	3,244	3,226	7,080	22,652
Avg Monthly Annuity	$ 747	627	920	1,405	2,084	3,044	1,757
Final Average Salary	$ 12,215	16,818	17,886	22,762	29,847	35,995	25,076
Avg Credited Service							22.82



BENEFIT SUMMARY

Schedule of Benefit Recipients by Type of Benefit For the Year Ended June 30, 1999

Monthly Amount of Benefit	Total Recipients	General Formula	Money Purchase	Police or Fire	Other (A)	Long-Term Disability	Temporary Disability	Survivors
$0-200	2,049	637	428		229	4	10	741
201-400	4,278	843	1,232		673	44	26	1,460
401-600	3,924	946	1,076		256	188	27	1,431
601-800	2,404	788	941		82	56	80	457
801-1000	2,029	717	755	2	4	25	198	328
1001-1200	1,790	630	634	1		16	212	297
1201-1400	1,442	634	502	5		8	93	200
1401-1600	1,232	535	477	7		8	47	158
1601-1800	1,057	500	383	5			51	118
1801-2000	941	463	337	13		1	42	85
2001-2200	832	450	291	14		1	39	37
2201-2400	794	443	262	22	2		22	43
2401-2600	738	429	245	20			17	27
2601-2800	694	410	239	16			11	18
2801-3000	651	373	242	15			8	13
3001-3200	573	351	191	20			2	9
3201-3400	507	308	176	10			6	7
3401-3600	493	303	172	11			3	4
3601-3800	386	246	134	4			2	
3801-4000	396	232	154	7			3	
Over 4000	2,132	1,409	701	15			4	3
Totals	**29,342**	**11,647**	**9,572**	**187**	**1,246**	**351**	**903**	**5,436**

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

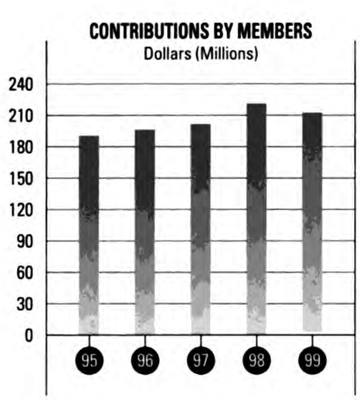
FINANCIAL SCHEDULES

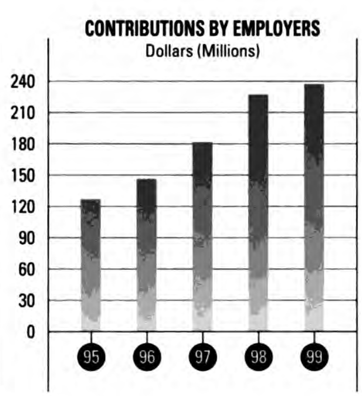
SCHEDULE OF REVENUE BY SOURCE - DEFINED BENEFIT PLAN
10-YEAR SUMMARY ($ MILLIONS)

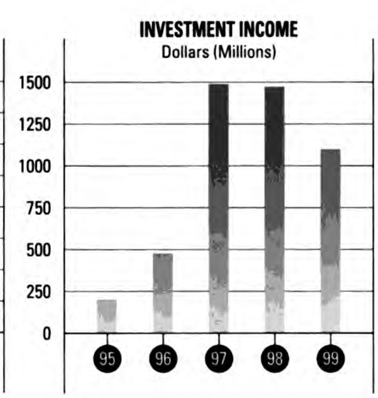
The historical trend information presented below is designed to provide information on the System's progress in accumulating assets to pay benefits when due.

Fiscal Year (A)	Contributions by Members	Investment Income	Contributions by Employers Amount	Contributions by Employers % of Payroll	Total
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
1994	183.1	276.9	133.8	6.3	593.8
1995	185.9	293.8	128.1	5.7	607.8
1996	197.0	477.6	147.4	6.3	822.0
1997 (A)	202.2	1,490.0	182.0	7.9	1,874.2
1998	221.7	1,474.6	227.7	9.6	1,924.0
1999	213.0	1,102.0	237.9	9.3	1,552.9

(A) As of June 30, 1997, assets are presented at market value according to GASB Statement No. 25. For comparative purposes, results as of June 30, 1996 have been restated accordingly.



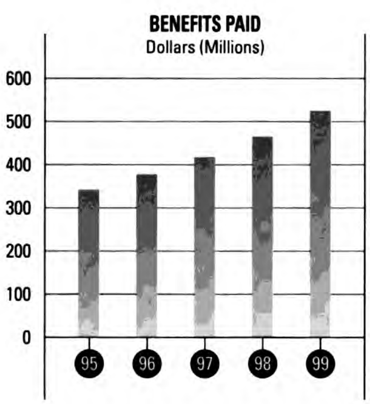


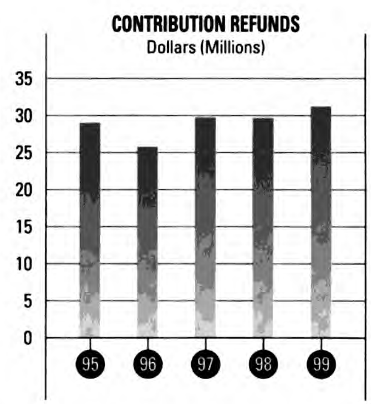


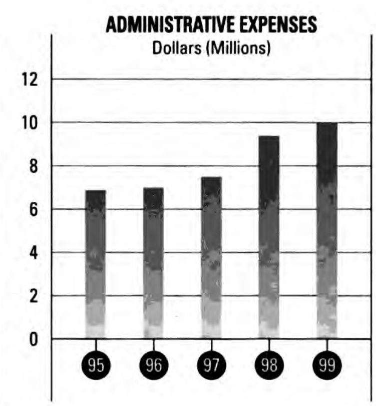
FINANCIAL SCHEDULES

Schedule of Total Expenses - Defined Benefit Plan
10-Year Summary ($ millions)

Fiscal Year	Benefits	Contribution Refunds	Administrative Expenses	Bond Interest	Total
1990	$ 194.5	$ 21.2	$ 4.0	$ –	$ 219.7
1991	211.1	20.4	5.9	0.5	237.9
1992	237.4	24.7	6.8	0.8	269.7
1993	265.1	22.6	7.6	0.8	296.1
1994	304.0	22.7	7.8	0.9	335.4
1995	343.6	29.1	6.9	1.0	380.6
1996	379.5	25.8	7.0	1.0	413.3
1997	419.2	29.8	7.5	1.1	457.7
1998	466.5	29.7	9.4	1.2	506.8
1999	526.0	31.3	10.0	1.3	568.6







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College of DuPage
College of Lake County
Danville Area Community College
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