

Annual update on financial status of staff benefits trust funds

Investment managers for the University of Missouri's Retirement, Disability and Death Benefit Fund have chalked up a 10.1 per cent total rate of return for the fiscal year 1975-76. With 1974-75 results added, the two-year performance showed a gain of 23.7 per cent. A more favorable economy, including a general rise in the stock market, and slower inflation provided a better investment climate.

At the end of the 1975-76 fiscal year the market value of the fund was \$71,682,475, a figure \$681,861 (or one per cent) more than the book value of the assets making up the fund. However, the amount deposited with the investment agent over the life of the fund through June 30, 1976 amounts to \$55.5 million. The market value thus exceeds the total deposits by approximately \$16 million.

The University's investment agent for the retirement fund is United Missouri Bank of Kansas City (UMB), which regularly reports details about the fund's performance to the Board

Copies of the *University of Missouri Financial Report Supplement* for 1975-76, which contains detailed information about the three funds reported on here, are available for review at University Information Services' main office (400 Lewis Hall, Columbia), the campus OPI's, the business offices and the staff benefits offices.

of Curators. The discussion here is taken from the University's *Financial Report Supplement*, 1975-76.

The University sets aside a regular monthly percentage of the full-time payroll for benefits and deposits into the retirement fund. These deposits are invested in stocks and other instruments. The objective of the fund is growth with reasonable current income. The investment approach is basically conservative and takes the long-range view. Market fluctuations have been characteristic historically. Pension fund management emphasizes protective strategy during unfavorable market periods while taking advantage of growth and earnings opportunities during more favorable market periods.

The graph on this page shows the amount of funds invested each year since the fund's beginning in 1958 and two indices showing market trends for the same period. Note that a considerable portion of the funds has been invested during the last eight to nine years, a period characterized by general stock declines. This fact has had a strong bearing upon UMB's investment strategy.

UM's retirement fund is composed primarily of four types of financial instruments: common stock; corporate bonds; U. S. government securities and a small category of

Nearly 1,500 draw benefits

As of June 30, 1976, a total of 1,486 persons were receiving benefits from the retirement, disability and death benefit fund.

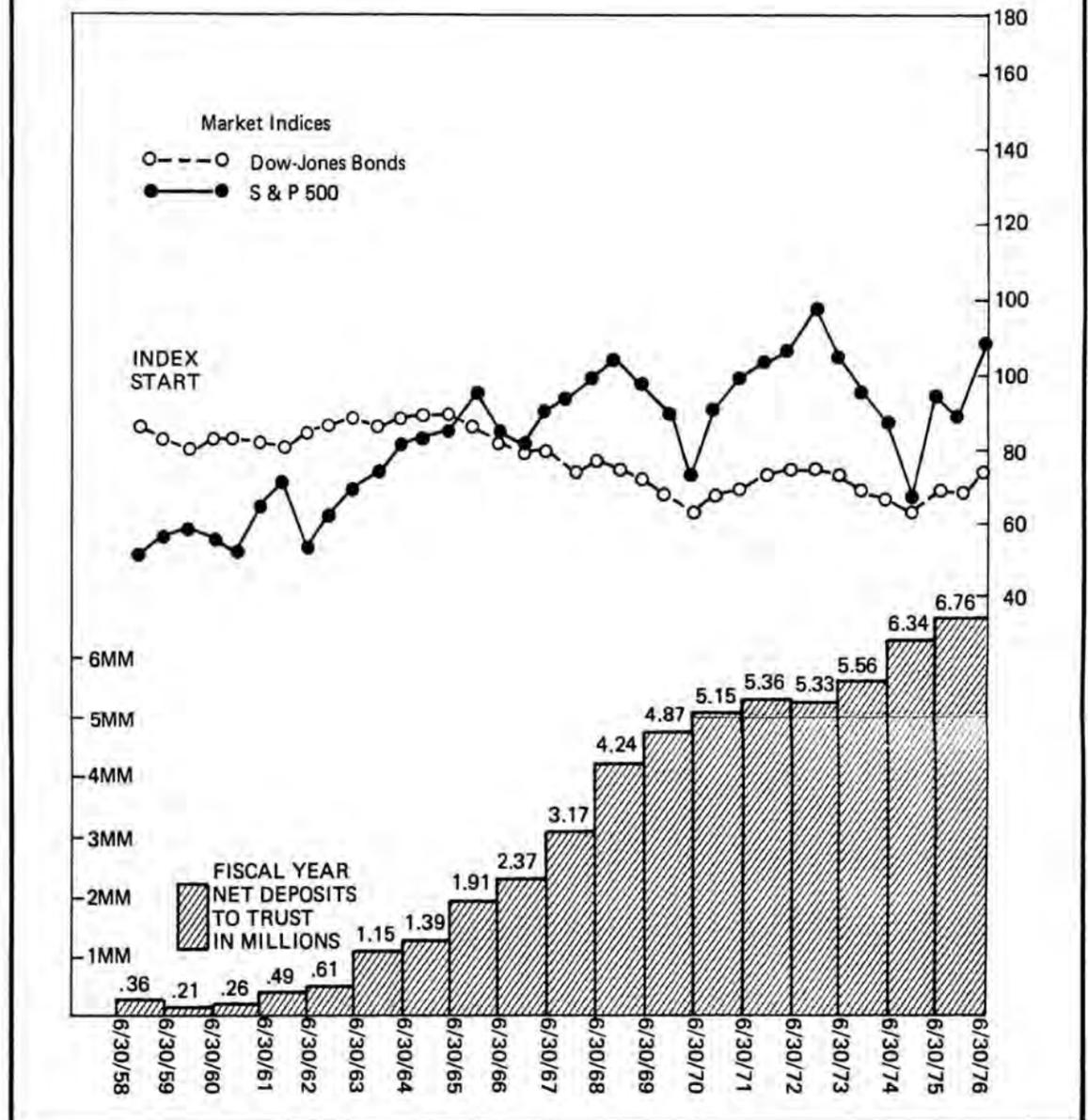
Of the 1,486, some 960 were retirees, 172 were disability retirees, 254 were widows or widowers and 100 were dependent children.

In all, they received about \$2.5 million in benefits for the fiscal year compared with \$1.8 million paid to 1,322 persons in the previous fiscal year.

Investment income for fiscal 1975-76 exceeded \$3.6 million.

Since the fund was established in 1958, some \$11.6 million has been paid out in benefits to eligible recipients.

Market Indices and Contributions
UM Retirement Trust Fund



mortgages, preferred stock, convertible bonds and other instruments. The relative proportion of each of these four categories will change depending on market conditions. The graph headed "Ten-Year Comparison of Investment Diversification" shows how UMB has altered these proportions in the most favorable degree possible to stock market fluctuations and money market changes.

Over the past year, then, UMB's strategy has been to increase the proportion of stocks in the portfolio from 38 per cent at the end of the previous fiscal year, to 44 per cent at the end of the 1975-76 fiscal year. This action was designed to take advantage of the stock market's better performance during the period. At the same time the fund managers decreased the amount of reserves on hand, using those resources primarily for stock purchases as market trends so indicated.

Since the fund must exist "in perpetuity," a measure of its long-term health is important. One

such measurement is the actuarially assumed rate of return. UM's retirement fund has been earning income at a rate above the actuarially assumed rate for a large part of the nearly 20 years of the fund's existence. For the 1975-76 fiscal year the fund's current return was 6.77 per cent, while the actuarially assumed rate was 4.5 per cent.

The 1976 actuarial valuation completed in December by Seal and Lohse reports:

As of July 1, 1976, the University increased its contributions to the 40-year funding cost rate recommended in the Actuary's 1974 Valuation Report. The results of this 1976 Actuarial Valuation confirm that such University contributions are also sufficient to meet the 40 year funding cost rate determined by this 1976 Actuarial Valuation. Therefore, the Plan continues to be maintained by the University on an actuarially sound financial basis.

Thus the \$850,000 per year set aside by the Board of Curators as an additional annual contribution to the Retirement Fund beginning July 1, 1976, has accomplished its purpose by bringing the plan into actuarial soundness. This additional contribution has been built into the budget base and the monthly contribution rate as a percentage of salary. Contrary to some opinions, there is no need for further funding to meet actuarial requirements to support the plan as it now stands.

Contributions strengthen medical fund

The University's medical benefits program is financed through a trust fund which receives contributions from both the University and employees. Blomquist, Batte and Campbell, Wheaton, Ill., is consultant to the University in administering the program.

An increase in contribution levels which went into effect in October 1975 had the desired effect of strengthening the fund's reserves. Those reserves stood at \$560,000 at the beginning of the fiscal year because of rising medical costs and increasing claims. However, at the end of the 1975-76 fiscal year, the reserves stood at \$1,318,000. This is an important improvement since sound insurance practice suggests a reserve level in the range of 35-40 per cent of claims. The University's ratio of reserves to claims at the end of the fiscal year was 37 per cent.

The fund's reserves are invested in short-term financial instruments. Earnings in 1975-76 amounted to \$44,991 and accrued to benefit the trust fund. The First National Bank in St. Louis is investment agent for the monies accruing to the fund.

The table headed "Medical Benefits Program" contains a record of receipts and disbursements for the trust fund for the 1975-76 fiscal year.

Disability fund up 40 per cent to \$1,868,860

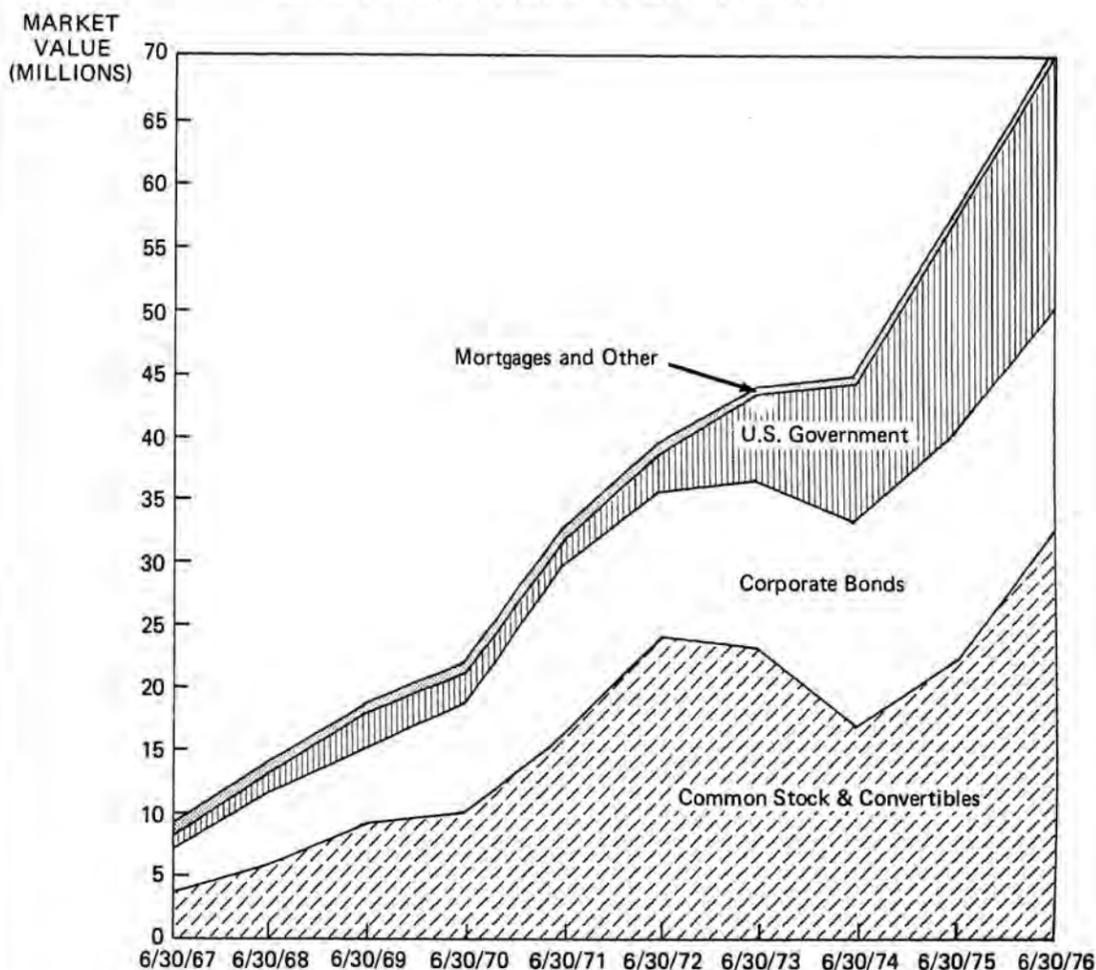
The University's long-term disability program was authorized in 1973 by the Board of Curators as a self-administered program. It is financed entirely by employe contributions. Blomquist, Batte and Campbell of Wheaton, Ill., is consultant to the University in administering the program.

During the 1975-76 fiscal year the balance in the fund grew by 40 per cent from \$1,336,205 to \$1,868,860. Claims against the fund also rose from \$215,292 to \$378,484, an increase of 76 per cent. An increase in claims is to be expected as the still-young program matures and the number of participants increases.

The investment agent for the fund, First National Bank in St. Louis, invests the funds primarily in short-term financial instruments. There was little change in investment income during the fiscal year even though investable balances were larger, because rates of return declined during the year.

The table headed "Long-Term Disability Program" contains a record of receipts and disbursements from the long-term disability trust fund for the fiscal year.

Ten-Year Comparison of Investment Diversification UM Retirement Trust Fund



Medical Benefits Program July 1, 1975 through June 30, 1976

Balance July 1, 1975		\$ 559,567.89
Receipts:		
Employer contributions	\$2,001,735.28	
Employe contributions	2,355,572.67	
Investment income	<u>44,990.71</u>	
		4,402,298.66
Disbursements:		
Reimbursement of medical expense	3,546,822.80	
Administration fee	<u>96,802.39</u>	
		<u>3,643,625.19</u>
Balance June 30, 1976		\$1,318,241.36

Long-Term Disability Program July 1, 1975 through June 30, 1976

Balance July 1, 1975		\$1,336,204.55
Receipts:		
Employe contributions	\$ 840,751.88	
Investment income	<u>86,150.30</u>	
		926,902.18
Disbursements:		
Benefits	378,484.11	
Administration fee	15,000.00	
Required physical exam*	<u>762.28</u>	
		<u>394,246.39</u>
		\$1,868,860.34

*In the event that there is question whether a claim meets the conditions required for disability status, an independent physical examination may be required at no cost to the claimant. This figure represents the total cost of physical examinations conducted during the fiscal year for this purpose.