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ANNUAL
REPORT

OF THE BOARD OF TRUSTEES OF THE
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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ANNUAL REPORT

In accordance with Section 25-29 of the Act governing the Teachers' Retirement System of the State of Illinois, an annual report of the Board of Trustees of the system has been prepared each year since establishment of the present retirement system in 1939.

On behalf of the Board, I herewith submit the Nineteenth Annual Report for the fiscal year ending June 30, 1958. This report summarizes activities of the retirement system during the fiscal year 1957-58 and indicates the status of the system at the end of the year. Certain data for earlier years is also included for comparative purposes.

The accounts have been audited by Murphy, Turnbull & Jones, Certified Public Accountants, and an actuarial valuation has been prepared by Arthur Stedry Hansen Consulting Actuaries. Reports and financial statements of the auditor and the actuary follow the summary.

A copy of this Nineteenth Annual Report is being transmitted to the Honorable Vernon L. Nickell, Superintendent of Public Instruction, State of Illinois, for inclusion in his biennial report to the Governor.

Respectfully submitted,



Secretary, Board of Trustees
Teachers' Retirement System
of the State of Illinois

Springfield, Illinois
December 15, 1958



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1957-58 HIGHLIGHTS

MEMBER TEACHERS (Estimated)

Net increase in number during year	2,100
Total number June 30, 1958	62,400

RETIRED TEACHERS

Net increase in number during year	647
Total number June 30, 1958	8,361

ANNUAL ALLOWANCES JUNE 30, 1958

Age retirements	\$ 11,430,924
Disability retirements	\$ 207,444

ASSETS, LIABILITIES AND RESERVES JUNE 30, 1958

Assets	\$ 110,856,487
Liabilities and reserves	235,672,588
Excess of liabilities and reserves over assets . .	\$ 124,816,101

YEAR'S INCOME AND EXPENDITURES

Income:

Member contributions	\$15,362,148
State contributions	8,207,500
Return on investments, etc.	3,302,871
	\$ 26,872,519

Expenditures:

Allowances and benefits (net) .	\$11,035,452
Contribution refunds to members	2,298,039
General and administrative expenses	205,786
Other charges (net)	981,498
Excess of income over expenditures	\$ 12,351,744

ACTUARIAL COST

Accrued state cost for year	\$ 20,632,237
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Teachers' Retirement System of the State of Illinois

REPORT OF OPERATIONS FOR THE FISCAL YEAR 1957-58

During the fiscal year ending June 30, 1958, the Teachers' Retirement System again expanded substantially. The membership of teachers increased; the number of retired teachers increased; the assets of the system increased, and the State's outstanding obligation increased. Results of operations during the 1957-58 fiscal year as compared with prior years are summarized below. Statements of the auditor and the actuary follow the summary.

MEMBER TEACHERS AND RETIRED TEACHERS

As of June 30, 1958, the retirement system had a total estimated membership of 62,400 teachers, an increase of 39% over the 45 thousand teachers included within the system at the end of 1948. Of the 62,400, about 71% were teaching school at the end of the 1957-58 fiscal year. Approximately 4,000 additional members taught earlier in the year, but were not teaching at the end of the year. Members who were inactive during 1957-58 retained their membership by leaving their accumulated contributions in the system's funds. These members served on a full-time basis at included schools or institutions at some time or other within the period July 1, 1939, through June 30, 1957. In many cases their teaching careers were interrupted by family responsibilities, and they have not requested refunds because they intend to re-enter the teaching profession as soon as circumstances permit.

A total of 1113 members were granted age and disability retirement allowances effective during the fiscal year 1957-58. This represents an increase of 62% over 1956-57 retirements, the previous high record, and an increase of 163% over 1947-48. It should be noted, however, that the 1957-58 retirement figures include a number of teachers whose applications were received after June 30, 1958, but whose actual retirement occurred during the 1957-58 fiscal year. Figures for previous years cover applications received within the corresponding fiscal year.

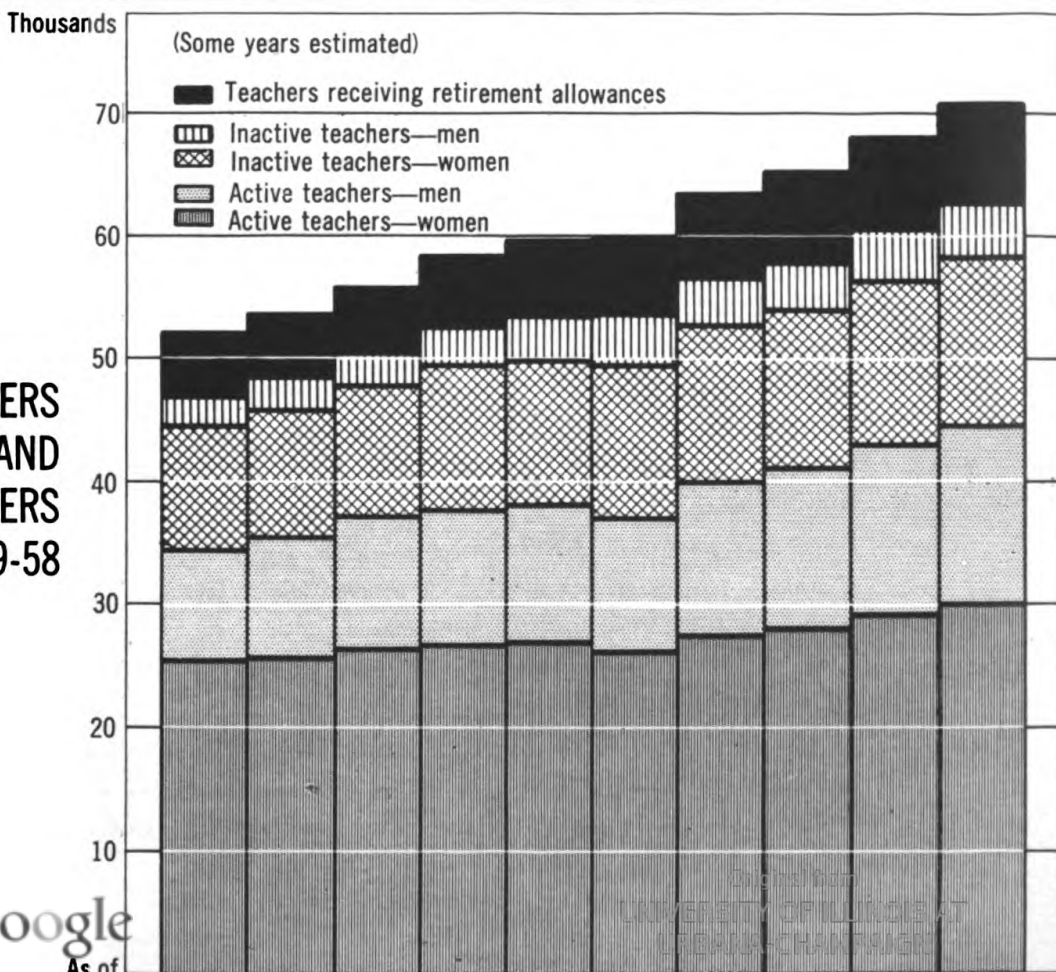
The new retirements brought total retirements as of June 30, 1958, to an all time high of 8,361 former teachers, a net increase of 8% over the previous year, and a 77% increase over June 30, 1948.

NEW RETIREMENTS DURING FISCAL YEAR ENDING JUNE 30

Year	Men	Women	Total
1940	113	385	498
1941	97	272	369
1942	121	324	445
1943	94	286	380
1944	143	298	441
1945	141	313	454
1946	112	271	383
1947	145	474	619
1948	134	290	424
1949	146	394	540
1950	108	399	507
1951	91	337	428
1952	120	377	497
1953	119	393	512
1954	157	442	599
1955	156	442	598
1956	157	507	664
1957	174	515	689
1958*	260	853	1113

* Includes retirement applications effective prior to July 1, but received after that date.

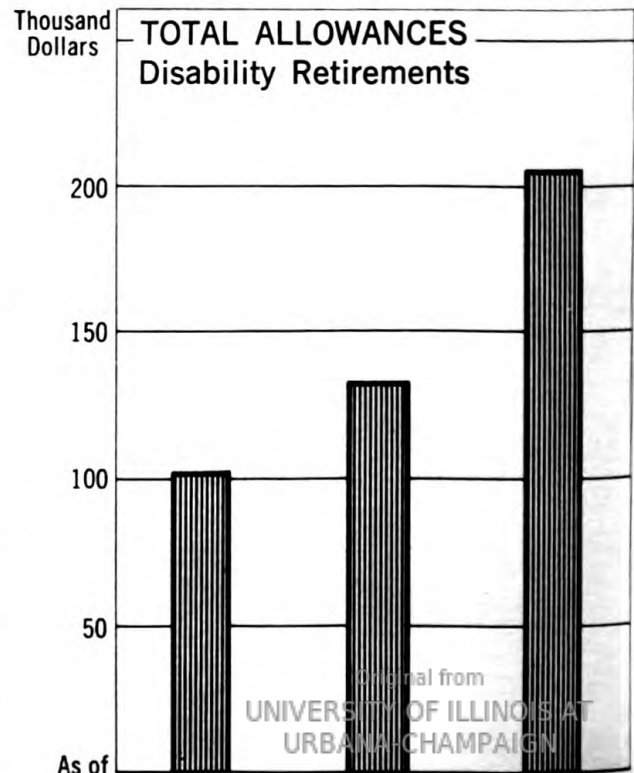
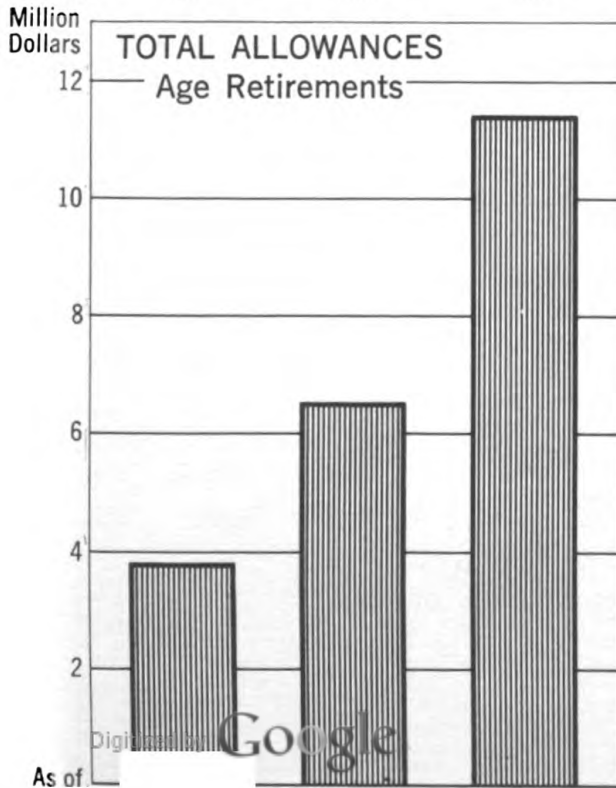
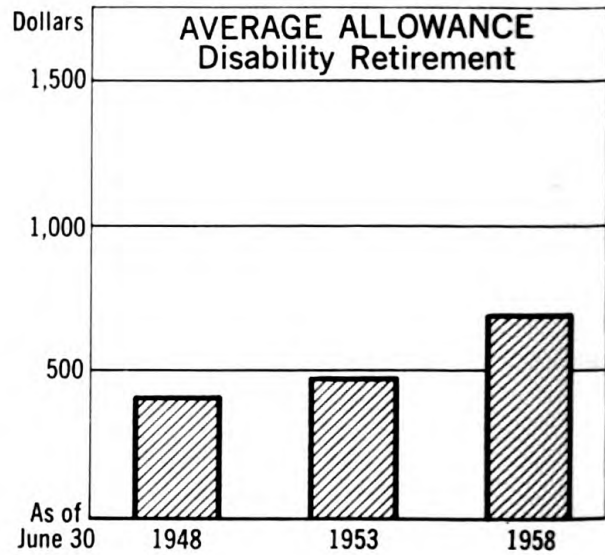
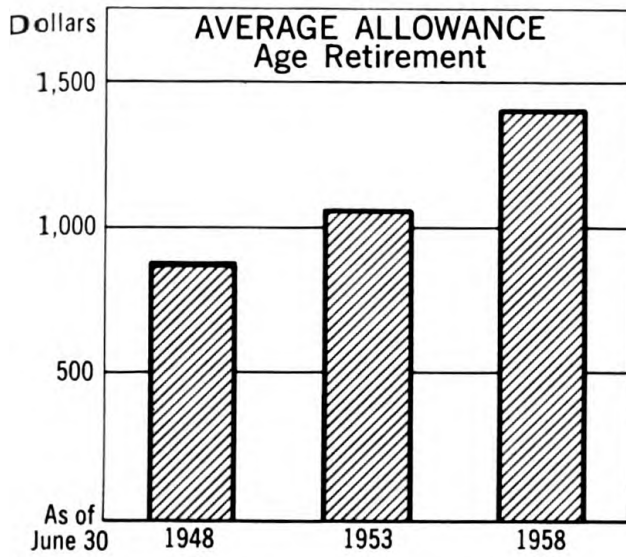
MEMBER TEACHERS AND RETIRED TEACHERS 1949-58



ANNUAL ALLOWANCES

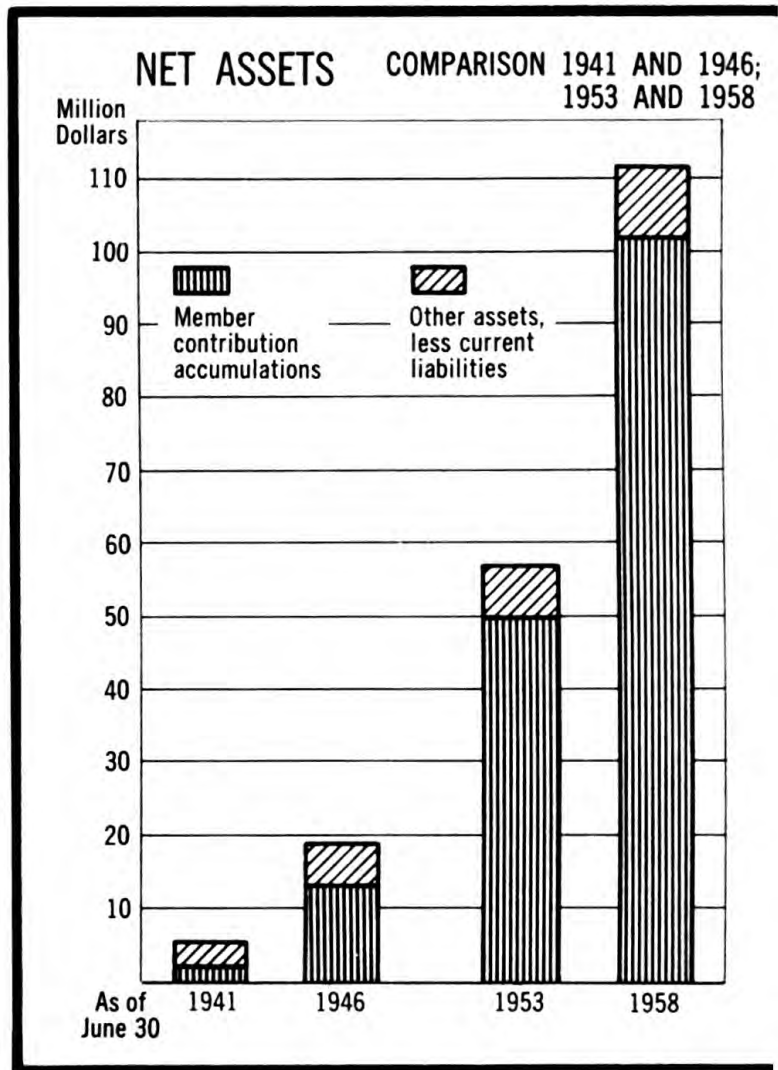
As of June 30, 1958, about eight thousand former teachers were receiving age retirement allowances totaling approximately 11½ million dollars a year. The annual average per teacher was \$1,418 as compared with \$865 in 1948, a 64% increase.

On June 30, 1958, approximately 300 former teachers received disability retirement allowances totaling more than 207 thousand dollars a year. The annual average per teacher was \$689, a 66% increase over the 1948 average of \$415.



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ASSETS, LIABILITIES AND RESERVES



Net assets of the system have increased rapidly, due mostly to teacher member contribution accumulations. On June 30, 1945, assets totaled a little under 15 million dollars, of which 70% was attributable to member contributions and interest thereon. By June 30, 1958, assets approached 111 million dollars, with 92% attributable to accumulated member contributions.

Assets are invested in United States government bonds, corporate bonds, and mortgages, and to a minor extent in municipal bonds. These were owned by the system in the following proportions as of the last day of the fiscal year 1957-58: United States government bonds, 37%; corporate bonds, 19%; mortgages, 43%; state and municipal bonds, 1%.

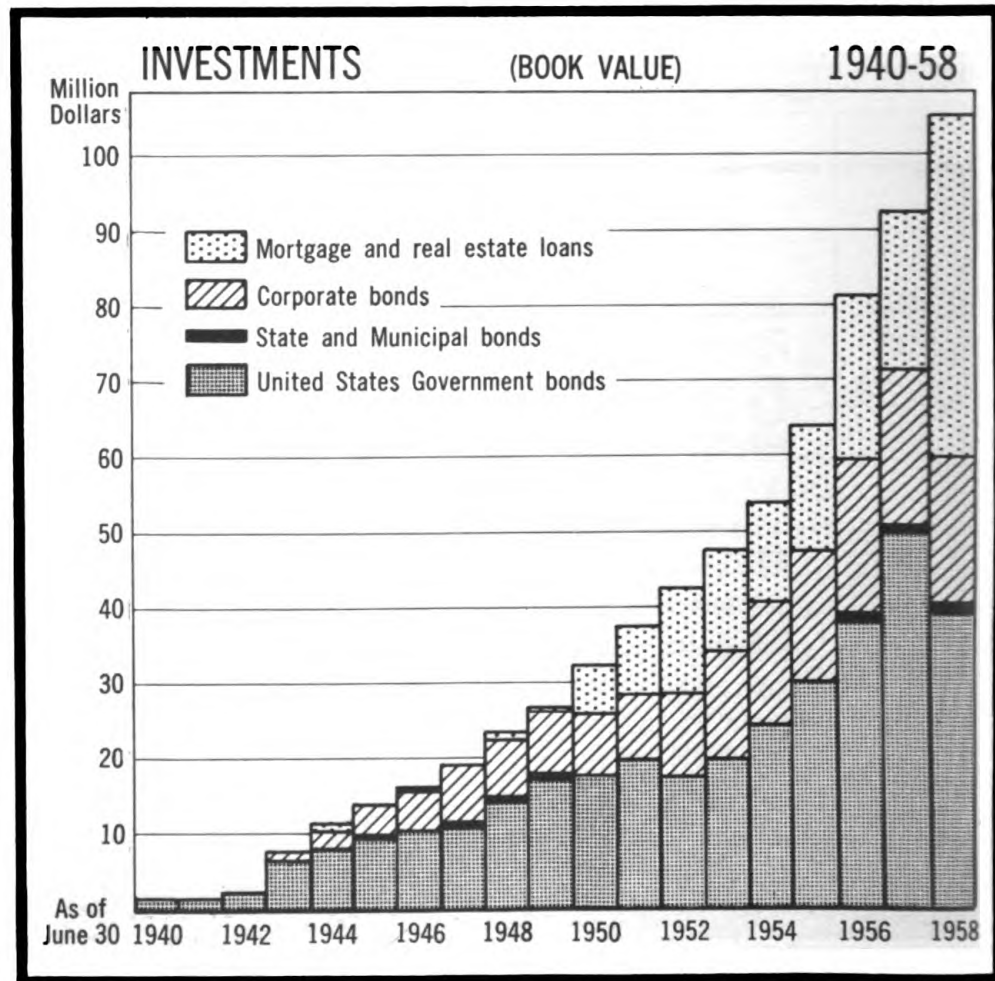
Investments yielded a return of 2.6% on June 30, 1945. Thereafter annual determinations showed a downward trend for a few years, and then rising rates of return to a high of 3.4% on June 30, 1958.

This higher investment yield is due primarily to an improved investment policy whereby corporate bonds and mortgages have been purchased in increasing quantities.

The auditor's statement shows that as of June 30, 1958, the following reserves were established against the system's assets: Accumulated member contributions \$101,794,089; present value of age and disability retirement allowances for members on retirement, \$133,776,253. The total of these two reserves exceeded assets less liabilities by \$124,816,101. This difference is by law an obligation of the State. It is estimated that approximately 12 million dollars of the reserve for retirement allowances will be required for 1958-59 benefit payments.

**RATE OF RETURN
ON INVESTMENTS
(AT BOOK VALUE)
AS OF JUNE 30**

<u>Year</u>	<u>%</u>
1942	2.63
1943	2.58
1944	2.54
1945	2.56
1946	2.53
1947	2.54
1948	2.48
1949	2.39
1950	2.76
1951	2.80
1952	3.01
1953	3.03
1954	3.06
1955	3.07
1956	3.18
1957	3.21
1958	3.39



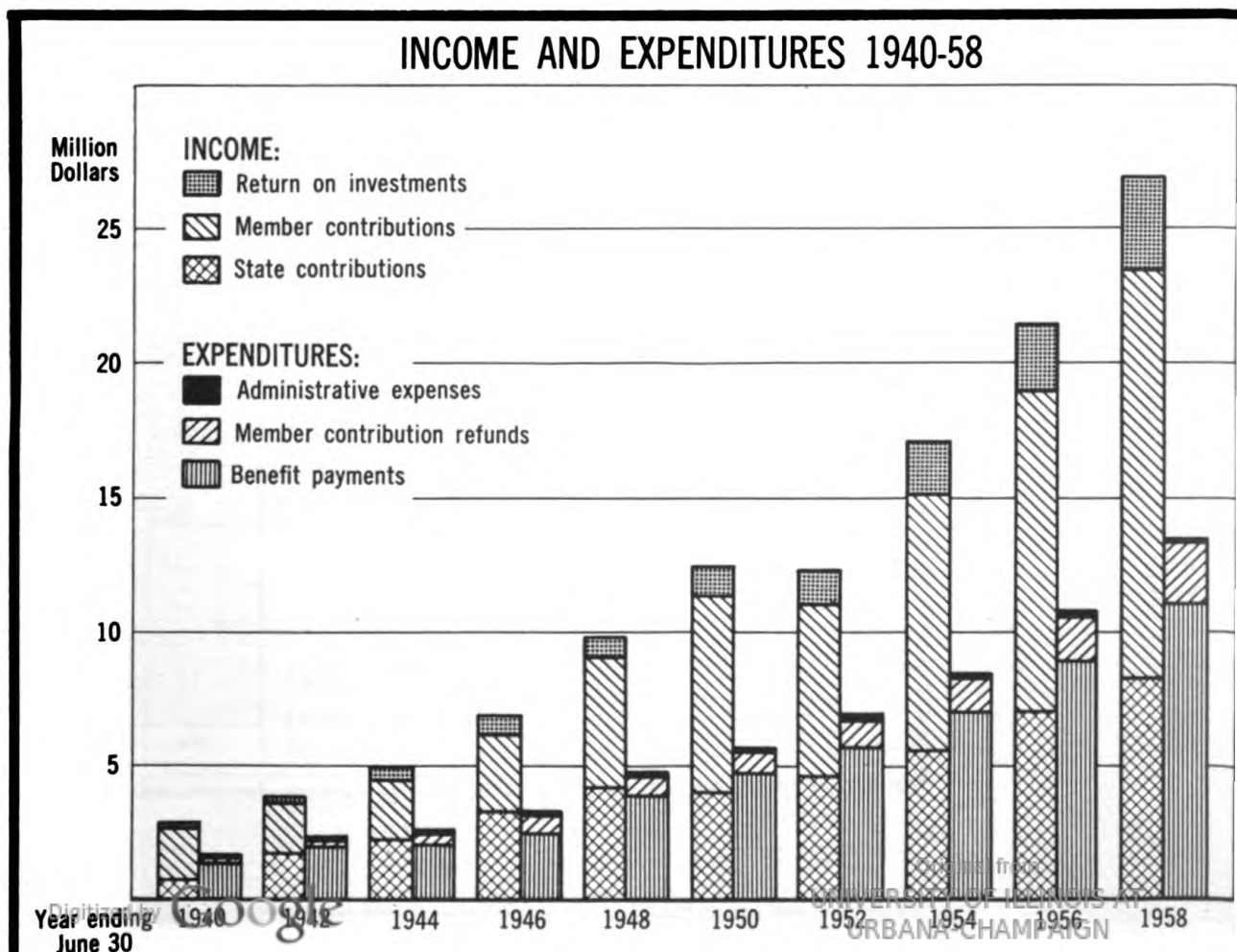
INCOME AND EXPENDITURES

As shown in the auditor's statement, income for the fiscal year 1957-58 was close to 27 million dollars. Of this amount 57%, or more than 15 million dollars, came from teacher member contributions, and 31%, or about eight million, from State contributions. The remaining 12%, approximately three million dollars, was comprised of income earned by invested assets, other interest, and royalties.

Corresponding figures for 1948 are: Total income approximately nine and a half million dollars, of which 51%, or almost five million, came from teacher members; 43%, or about four million, from the State, and six per cent, or a half million dollars, from investment earnings.

The significant increase in investment yield over the years is attributable to the growing accumulation of assets and the higher rate of return on investments.

Yearly expenditures, like income, have also shown marked increases. Expenditures for the fiscal year ending June 30, 1958, totaled 13½ million dollars, almost three times the four and a half million expended in 1947-48.



ACTUARIAL COST

The actuary determines the cost of the system on the basis of benefits which have been earned, even though such benefits may not be paid until some time in the future.

The Actuarial Balance Sheet as of June 30, 1958, shows the total amount required to meet the cost of all allowances and other benefits which had been earned but not received to date of the report. Amounts included under "Requirements for retired members" on the Actuarial Balance Sheet are identical to those included in the audit Balance Sheet item "Reserve for annuity payments to retired members." They consist of anticipated future payments to teachers who retired on or before June 30, 1958.

Amounts included under "Requirements for active members" and "Requirements for inactive members" on the actuarial report do not appear on the audit report. As member teachers from these groups retire and become eligible for allowances, however, cost of their future payments will be added to the reserve in the audit report.

Total actuarial requirements as of June 30, 1958, were \$534,306,512. Requirements exceeded total net assets of the system by \$423,552,272. This unfunded difference is an obligation of the State, and State appropriations will be necessary in future years to meet benefit payments as they become due.

ACTUARIAL STATUS

Year ended June 30, 1958

Resources	Requirements
Unfunded obligation of State \$423,552,272	Retired members (Age and disability retirement allowances) \$133,776,253
Net assets \$110,754,240	Active and inactive members (Age and disability retirement allowances; death benefits; refunds) \$400,530,259

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Some of this obligation was incurred in 1939 when the Teachers' Retirement System superseded other state retirement systems and assumed payment of benefits earned during prior years by members of those systems. Another portion of the obligation was incurred at the time of amendments to the present system, particularly the 1947 amendments which provided substantial benefit increases applicable to service prior to the amendment. A third large portion has been incurred because State contributions each year have been less than the State cost for such year.

Actuarial reports for the fiscal year 1957-58 show that the cost of benefits earned by members' service during the year was \$23,660,559. Interest at 3% on the State's unfunded obligation at the beginning of the year amounted to \$12,333,826, bringing total accrued costs for the year to \$35,994,385.

Member contributions were \$15,362,148; State contributions, \$8,207,500, for a total of \$23,569,648.

Accrued costs for the year exceeded contributions by \$12,424,737. This amount by law is an obligation of the State and was therefore added to the unfunded obligation of the State.

When State contributions for the year are less than the State cost for the year the unfunded obligation of the State increases by the amount of the difference. In turn, interest on the additional obligation will cause an increase in accrued State costs for subsequent years.

If on the other hand State contributions for the year are more than the State cost for the year, the unfunded obligation is reduced. Consequently interest on the unfunded obligation will be less in succeeding years, resulting in a decrease in accrued State costs during those years.

ACTUARIAL CHANGES

June 30, 1958


Accrued Costs	Increase in Resources
Benefits earned \$23,660,559	Unfunded obligation of State \$12,424,737
Interest on unfunded obligation of State \$12,333,826	State contributions \$8,207,500
	Member contributions \$15,362,148

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UNIVERSITY OF ILLINOIS AT
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SUMMARY

The Teachers' Retirement System has been expanding rapidly both as to benefits paid and the accumulation of assets. Benefits due which are payable from contributions other than the teacher members' own accumulation are by law a fixed obligation of the State. Accordingly, the protection of each individual member's benefit is secured by the entire resources of the State.

State contributions have been less than accruing State costs. Future State contributions should be substantially increased to at least the amount of cost accruing each year.

**Reports and Financial Statements
of the Auditor and the Actuary Pages 13-19** 

ROBERT J. MURPHEY, C. P. A.
DAVID JONES, C. P. A.
RALPH W. TURNBULL, C. P. A.
WILLIAM B. PETTY, C. P. A.
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MURPHEY, TURNBULL & JONES
CERTIFIED PUBLIC ACCOUNTANTS

Springfield, Illinois
October 8, 1958

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We have examined the Balance Sheet of the Teachers' Retirement System of the State of Illinois as of June 30, 1958, and the related Statement of Income and Expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

It is our opinion that the accompanying Balance Sheet presents fairly the assets, the current liabilities, the deferred income and the Members' Accumulations of the Teachers' Retirement System of the State of Illinois as of June 30, 1958, and that the related Statement of Income and Expenditures presents fairly the operations of the System for the year ended on the same date. The Reserve for Annuity Payments represents an actuarial determination of amounts due in future years, and we do not express an opinion concerning its propriety as a presently existing liability.

Murphey, Turnbull & Jones
Certified Public Accountants

Teachers' Retirement System of the State of Illinois

BALANCE SHEET

June 30, 1958

ASSETS

Cash on deposit with State Treasurer, and office cash fund.....	\$	741,318.09
Receivables		
From members	\$2,312,487.59	
From School Boards.....	813,961.93	
From State of Illinois (4th quarter 1957-58).....	2,050,000.00	
Checks returned by banks.....	64.00	5,176,513.52
Interest receivable on investments.....		744,508.85
Investments (cost plus accumulated discount, less amortized premium)*		104,156,200.54
Office furniture and equipment (cost less depreciation reserve)		37,945.65
		<u>\$110,856,486.65</u>

LIABILITIES AND RESERVES

Current liability for benefits and refunds.....	\$	94,746.24
Deferred income		7,500.00
Liability for benefit payments to retired members estimated to be payable during fiscal year 1958-59		12,000,000.00
Reserve for Members' Accumulations (including approximately \$13,000,000 interest).....		101,794,088.85
Reserve for Annuity Payments to retired members (less \$12,000,000 for fiscal year 1958-59).....		121,776,253.06
		<u>\$235,672,588.15</u>
Excess of liabilities and reserves over present assets of the System.....		124,816,101.50
		<u>\$110,856,486.65</u>

*Note: Additional information about investments appears on pages 7, 8 and 16. A complete Statement of Securities Owned may be examined at the System's offices.

Teachers' Retirement System of the State of Illinois

STATEMENT OF INCOME AND EXPENDITURES

Year ended June 30, 1958

INCOME

Contributions by members in all categories.....		\$15,362,148.49
State of Illinois.....		8,207,500.00
Interest on investments.....		3,264,095.06
Other interest and royalties.....		38,776.19
		<u>\$26,872,519.74</u>

EXPENDITURES

Annuities and Benefits:

Age retirement—new law.....		\$ 9,287,136.09
Age retirement—old law.....		1,054,338.93
Disability.....		522,115.32
Death.....		215,307.52
Reciprocity.....		95.21
		<u>\$11,078,993.07</u>

Less benefits returned.....		43,540.77
Net Annuities and Benefits.....		<u>\$11,035,452.30</u>

Refunds of Contributions:

Withdrawals.....	\$2,001,101.73	
Death of members.....	259,159.71	
Death of annuitants.....	37,777.90	2,298,039.34

General and Administrative Expenses:

Salaries.....	\$140,528.81	
Professional services—		
Actuarial.....	7,431.00	
Professional services—		
Annual audit.....	2,750.00	
Investment services—		
Springfield Marine Bank	19,433.73	
Other investment expenses	1,687.34	
Printing and paper.....	14,858.37	
Postage and express.....	5,092.56	
Travel.....	5,132.40	
Machine repairs and rental	2,843.73	
Office expenses, general...	2,593.00	
Telephone and telegraph..	1,790.34	
Depreciation in value—		
equipment traded.....	1,644.20	205,785.48
		<u>13,539,277.12</u>

Excess of current income over expenditures \$13,333,242.62

OTHER CHARGES:

Loss on sale and exchange of investments..	\$973,100.42	
Allowance for depreciation of equipment...	8,397.49	981,497.91
		<u>\$12,351,744.71</u>

Excess of income over expenditures and other charges \$12,351,744.71

* Represents exchange of 3% U. S. Gov't. Bonds due 2/15/95 for 3 1/2%

Teachers' Retirement System of the State of Illinois

SUMMARY OF SECURITIES OWNED

June 30, 1958

Bonds	Market Value	Book Value
U. S. Government.....	\$38,841,507.47	\$ 38,567,843.50
State and Municipal.....	800,000.00	1,000,000.00
Public Utilities.....	17,303,744.00	18,830,482.25
Railroads.....	872,210.00	941,990.58
Industrials.....	414,808.00	424,057.17
	<u>\$58,232,269.47</u>	<u>\$ 59,764,373.50</u>
F.H.A. mortgage loans.....		43,640,938.88
Other real estate mortgage loans.....		715,888.16
Savings and Loan shares.....		35,000.00
		<u><u>\$104,156,200.54</u></u>

SUMMARY OF INVESTMENT INCOME

Year ending June 30, 1958

Bonds	
U. S. Government.....	\$1,385,689.90
State and Municipal.....	37,500.00
Public Utilities.....	560,603.07
Railroads.....	27,195.32
Industrials.....	11,892.38
	<u>\$2,022,880.67</u>
F.H.A. mortgage loans.....	1,209,785.24
Other real estate mortgage loans.....	29,691.65
Savings and Loan shares.....	1,737.50
	<u><u>\$3,264,095.06</u></u>

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December 12, 1958

**Actuarial Valuation
as of June 30, 1958**

In accordance with the provisions of the Teachers' Retirement System of the State of Illinois, we have made a determination of the required Reserves and Unfunded Obligations of the System as of June 30, 1958.

The basic data on which our determination was based was submitted by the System office. Our determination was made in accordance with assumptions and tables of experience derived from our analysis of the experience of the System in prior years and in accordance with actuarial methods which we believe to be reasonable and acceptable.

On the basis of the foregoing, it is our opinion that the attached statements are a fair representation of the actuarial condition of the Fund as of June 30, 1958.

Respectfully submitted,

Arthur Stedry Hansen
Consulting Actuaries

Teachers' Retirement System of the State of Illinois

ACTUARIAL BALANCE SHEET

June 30, 1958

RESOURCES

Assets less Current Liabilities from Audit Report..		\$110,754,240
Unfunded obligation of State.....		<u>423,552,272</u>
Total resources.....		<u><u>\$534,306,512</u></u>

REQUIREMENTS

For retired members:

Age retirement allowance.....	\$130,770,714	
Disability retirement allowance..	<u>3,005,539</u>	\$133,776,253

For active members:

Age retirement allowance.....	\$357,017,790	
Disability retirement allowance..	7,149,940	
Death benefit	3,588,831	
Refund of contributions.....	<u>12,565,745</u>	380,322,306

For inactive members:

Age retirement allowance.....	\$ 17,908,860	
Disability retirement allowance..	367,702	
Death benefit	283,802	
Refund of contributions.....	<u>1,647,589</u>	20,207,953
Total requirements.....		<u><u>\$534,306,512</u></u>

Teachers' Retirement System of the State of Illinois

ACTUARIAL COSTS AND OBLIGATIONS OF THE STATE

Year ended June 30, 1958

Determination of Accrued State Cost

Cost for benefits earned by members' service	
during year	\$ 23,660,559
Member contributions for year	15,362,148
State cost for benefits earned during year	<u>\$ 8,298,411</u>
Unfunded obligation of State	
at beginning of year	\$411,127,535
Interest rate	x 3%
Interest on unfunded obligation of State	12,333,826
Total accrued State cost for year	<u><u>\$ 20,632,237</u></u>

Change in Unfunded Obligation

Unfunded obligation of State at beginning of year . .	\$411,127,535
Accrued State cost for year	\$ 20,632,237
State contribution for year	8,207,500
Excess of cost over contribution	<u>12,424,737</u>
Unfunded obligation of State	
as of June 30, 1958	<u><u>\$423,552,272</u></u>

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