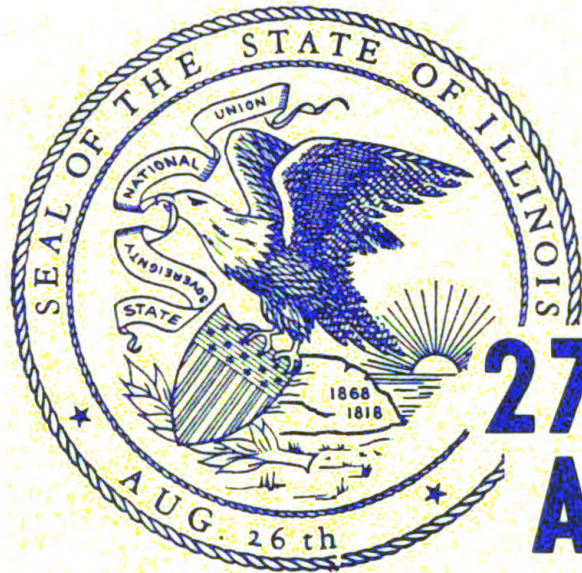


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27th ANNUAL REPORT

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OF THE BOARD OF TRUSTEES OF THE
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
JUNE 30, 1966

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BOARD OF TRUSTEES

RAY PAGE
Superintendent of Public Instruction
President

THELMA ELSON
Peoria

WALTER SHIPP
Centralia

EVERETT F. KERR
Blue Island

JAMES H. VAUGHN
Lincoln

AUBREY J. HOLMES
Executive Secretary

Treasurer	- Adlai E. Stevenson, III Treasurer, State of Illinois
Legal Adviser	- William G. Clark Attorney General, State of Illinois
Actuary	- Arthur Stedry Hansen Consulting Actuaries
Investment Counsel	- Springfield Marine Bank

ANNUAL REPORT

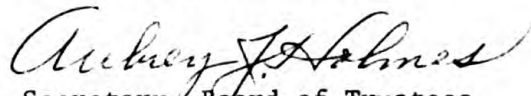
In accordance with Section 16-175 of the Act governing the Teachers' Retirement System of the State of Illinois, an annual report of the Board of Trustees of the System has been prepared each year since establishment of the present retirement system in 1939.

On behalf of the Board, I herewith submit the Twenty-eighth Annual Report for the fiscal year ended June 30, 1967. The report summarizes activities of the retirement system during the fiscal year 1966-67 and indicates the status of the System at the end of the year.

The accounts have been audited by Whitney, Hakman & Conaghan, 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 are included in this report.

A copy of this Twenty-eighth Annual Report is being transmitted to the Honorable Ray Page, 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
State of Illinois

Springfield, Illinois
April 1, 1968



WHITNEY, HAKMAN & CONAGHAN

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES

SPRINGFIELD, ILLINOIS
JACKSONVILLE, ILLINOIS
LASALLE, ILLINOIS
LITCHFIELD, ILLINOIS

MEMBERS

ILLINOIS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' REPORT

Auditor General
State of Illinois
Springfield, Illinois

We have examined the balance sheet of Teachers' Retirement System of the State of Illinois at June 30, 1966 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.

The accompanying statements reflect the financial position and results of operations of Teachers' Retirement System as they are shown in its accounts, which are maintained on an accrual basis of accounting. The statements do not purport to reflect the actuarial position of the System except for the reserve for annuity payments to retired members. This reserve is stated at the amount determined by the regularly retained actuaries of the System.

In our opinion, subject to an actuarial determination of all reserve requirements for the various annuities and benefits for both active and retired members, the accompanying statements present fairly the financial position of Teachers' Retirement System of the State of Illinois at June 30, 1966 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The accompanying schedules of securities owned and investment income have been subjected to the tests and other auditing procedures applied in the examination of the financial statements mentioned above and, in our opinion, are fairly stated in all material respects when considered in connection with the financial statements taken as a whole.

Whitney, Hakman & Conaghan

Springfield, Illinois
March 23, 1967

Teachers' Retirement System of the State of Illinois

BALANCE SHEET

JUNE 30, 1967

ASSETS

Cash on deposit with State Treasurer		\$	722,741.58
Receivables:			
From School Districts	\$3,250,097.77		
From State of Illinois (June 1967)	<u>2,948,543.51</u>		6,198,641.28
Accrued interest and dividends receivable			3,407,368.42
Investments, at amortized cost			395,146,197.82
Office furniture and equipment - net			<u>84,773.54</u>
			<u>\$405,559,722.64</u>

LIABILITIES AND RESERVES

Current liabilities for benefits and refunds		\$	331,291.97
Administrative expenses payable			12,799.96
Reserve for members' accumulations (including approximately \$53,300,000 interest)			280,817,732.66
Reserve for benefit payments to retired members			390,476,347.00
Reserve for Survivor Benefits			39,061,246.23
Reserve for supplementary retirement benefits			1,455,944.73
Reserve for employers' contributions (deficit)			<u>(306,595,639.91)</u>
			<u>\$405,559,722.64</u>

See accompanying notes to financial statements

Teachers' Retirement System of the State of Illinois

STATEMENT OF INCOME AND EXPENDITURES

Year ended JUNE 30, 1967

INCOME

Contributions and payments by members	\$42,204,881.89
State of Illinois	35,061,949.32
Investment income	<u>16,075,306.96</u>
	\$93,342,138.17

EXPENDITURES

Annuities and benefits:	
Age Retirement	\$34,524,042.40
Disability	562,962.21
Survivor	1,697,081.93
Supplementary	<u>1,859,219.76</u>
	\$38,643,306.30
Refunds of contributions:	
Withdrawals	\$6,154,779.99
Death of members	549,187.26
Death of annuitants	<u>128,967.06</u> 6,832,934.31
General and administrative expense	<u>431,452.06</u> 45,907,692.67
Excess of Income over Expenditures	<u>\$47,434,445.50</u>

See accompanying notes to financial statements

Teachers' Retirement System of the State of Illinois

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1967

1. The accompanying statements reflect the financial position and results of operations of Teachers' Retirement System as they are shown in its accounts, which are maintained on an accrual basis. The statements do not purport to reflect the actuarial position of the System except for the reserve for annuity payments to retired members which is stated at an actuarially computed amount.

Using this basis of accounting, the accompanying balance sheet reflects a deficit in the employer's contribution (unallocated) reserve of \$306,595,639.91 at June 30, 1967. Based on the report of regularly retained actuaries, the total unfunded obligation of the State of Illinois at June 30, 1966 amounted to \$493,389,225.00. At the date of this report, the actuarial study to determine the total unfunded obligation of the State of Illinois had not been completed for the year ended June 30, 1967.

2. In prior years, cash receipts on June 30 for loan payments, accrued interest and salary deductions have not been included as cash until the first business day in July when they were deposited. These collections for June 30, 1967 in the total amount of \$699,811.92 have been included in the accompanying balance sheet and the corresponding reduction made in receivables and loans. This is a change in method of presentation only and has no effect upon net income or total assets.
3. It has been the consistent practice that investments are carried at amortized cost and no provision is made for increases or declines in market value until disposition. The market values of U. S. Government obligations and certain corporate securities are shown in the accompanying summary of securities owned. The total amortized cost of such securities amounted to \$314,263,071.01 and the market value, determined on the basis shown in the schedule, amounted to \$294,323,541.98.

Teachers' Retirement System of the State of Illinois

SUMMARY OF SECURITIES OWNED

JUNE 30, 1967

	<u>Market Value</u>	<u>Book Value</u>
U. S. Government obligations	\$ 22,204,091.73 (1)	\$ 26,549,345.30
Common Stock	46,968,719.25 (2)	43,416,220.28
Corporate bonds	64,158,653.00 (1)	72,232,067.06
Corporate debentures	56,271,429.00 (3)	62,453,592.17
Corporate notes	104,720,649.00 (3)	109,611,846.20
Equipment trust certificates		981,254.02
Real estate mortgage loans:		
Insured by F.H.A.		79,584,187.45
Other		315,042.34
Mineral rights		<u>2,643.00</u>
		<u>\$395,146,197.82</u>

- (1) Based on bid prices at June 30.
 (2) Based on closing prices at June 30.
 (3) Based on prices reported by investment
 counsel at May 23, 1967.

SUMMARY OF INVESTMENT INCOME

Year ended JUNE 30, 1967

U. S. Government obligations	\$ 846,082.34
Common Stock	1,106,255.05
Corporate bonds	2,931,931.54
Corporate debentures	2,618,294.78
Corporate notes	4,974,989.04
Equipment trust certificates	45,938.76
Real estate mortgage loans	
Insured by F.H.A.	3,527,123.40
Other	12,705.12
Royalties	10,583.17
Net gain on investment transactions	<u>1,403.76</u>
	<u>\$16,075,306.96</u>

ARTHUR STEDRY HANSEN CONSULTING ACTUARIES, INC.

GENERAL OFFICES
1080 GREEN BAY ROAD
LAKE BLUFF, ILL. 60044
CE 4-3400
FROM CHICAGO: BR 3-2345

July 5, 1968

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

Gentlemen:

Actuarial Valuation as of June 30, 1967

In accordance with Section 16-176 of the Illinois Statutes for the Teachers' Retirement System of the State of Illinois, we have made an analysis of the actuarial experience rates applicable to the active, inactive and retired teachers and determined revised actuarial tables based on this experience. In addition, in accordance with Section 16-161 of the Illinois Statutes, we have made a valuation of actuarial requirements of the System as of June 30, 1967 based on a census of the membership as of that date.

The following statements indicate results of our computation of the actuarial position of the Fund as of June 30, 1967. This valuation was prepared subsequent to the completion of the accountants report as of June 30, 1967. Footnote # 1 of the accountants report indicates the estimate of the total unfunded obligation of the State as of June 30, 1966. The unfunded obligation of the State as of June 30, 1967, determined in accordance with the principles established under Opinion No. 8 of the Accounting Principles Board of the American Institute of Certified Public Accountants effective as of January 1, 1967 (which measures the accrued liability for benefits earned) would be \$573,876,000.

In our valuation as of June 30, 1967 we have changed the actuarial method to determine an unfunded past service cost based upon the expected future salaries of present members which would be used for benefit purposes. The purpose of determining this unfunded past service cost is to develop the amount which, if financed, would place the Fund in a current fully financed actuarial position, assuming benefits based upon such future salaries.

The attached statements show, in addition to an actuarial balance sheet as of June 30, 1967, based upon the above procedure, annual costs considering alternative financing approaches based upon policies adopted for placing the Fund in a fully financed position at some future date and, in accordance with Section 16-158, show the State contribution required as related to teachers' membership contributions for each of these alternatives.

Respectfully submitted,

Arthur Stedry Hansen
Consulting Actuaries

Teachers' Retirement System
of the State of Illinois

ACTUARIAL BALANCE SHEET
(June 30, 1967)

Resources

Assets	\$ 407,115,630*
Unfunded Past Requirement	<u>683,312,577</u>

Total Resources \$1,090,428,207

Requirements

Present Value of Benefits

Retired \$ 384,964,723**

Active Members		
Retirement	\$1,134,682,485	
Refund of Contributions	60,797,134	
Death	<u>206,912,872</u>	1,402,392,491

Inactive Members		
Retirement	\$ 37,059,131	
Refund of Contributions	3,234,870	
Death	<u>5,064,174</u>	<u>45,358,175</u>

Total Present Value of Benefits 1,832,715,389

Present Value of Future Normal Cost 742,287,182

Total Requirements \$1,090,428,207

* Includes \$1,900,000 to reflect retained earnings on equities used for actuarial valuation purposes.

**Varies from the amount of \$390,476,347 shown in auditors' statements due to revisions in interest and mortality assumptions.

Teachers' Retirement System
of the State of Illinois

DERIVATION OF STATE COSTS

Basic Requirements

Normal Cost	\$ 66,818,510
Member Contributions	<u>42,204,882</u>
State Normal Cost	\$ 24,613,628
Unfunded Past Service Requirement	\$683,312,577

Contribution Requirements Alternative Bases

	<u>Dollar Amount</u>	<u>Ratio to Members' Contributions</u>
To meet Normal Cost and pay interest on unfunded past service requirement	\$53,654,413	1.271
To meet Normal Cost and amortize unfunded past service requirement over 40 years	60,431,506	1.432
To meet Normal Cost and amortize unfunded past service requirement over 30 years	65,339,058	1.548

