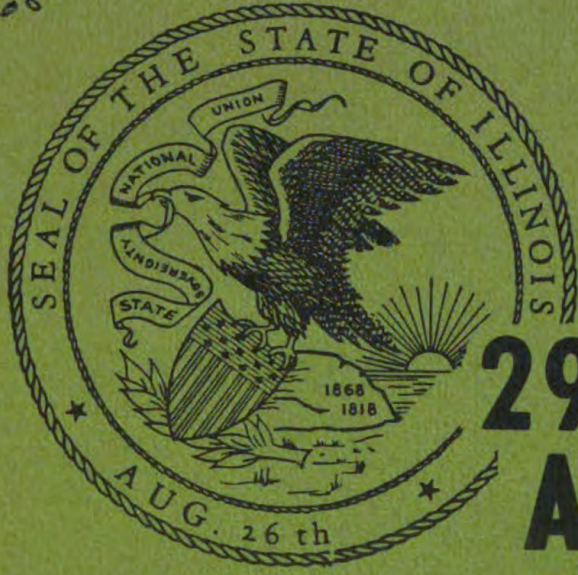


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29 th ANNUAL REPORT

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

June 30, 1968

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BOARD OF TRUSTEES

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Superintendent of Public Instruction
President

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Peoria

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Lincoln

AUBREY J. HOLMES
Executive Secretary

Treasurer	- Adlai E. Stevenson, III Treasurer, State of Illinois
Legal Adviser	- William J. Scott Attorney General, State of Illinois
Actuary	- A. S. Hansen, Inc.
Investment Counsel	- Springfield Marine Bank

in March 1909

ANNUAL REPORT

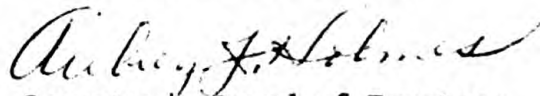
In accordance with Section 16-175 of the Act governing the Teachers' Retirement System of the State of Illinois, an annual report of the Board of Trustees of the System has been prepared each year since establishment of the present retirement system in 1939.

On behalf of the Board, I herewith submit the Twenty-Ninth Annual Report for the fiscal year ended June 30, 1968. The report summarizes activities of the retirement system during the fiscal year 1967-68 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 A. S. Hansen, Inc., Consulting Actuaries. Reports and financial statements of the auditor and the actuary are included in this report.

A copy of this Twenty-Ninth 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
February 1, 1969



WHITNEY, HAKMAN & CONAGHAN

CERTIFIED PUBLIC ACCOUNTANTS

MYERS BUILDING

SPRINGFIELD, ILLINOIS 62701

OFFICES

SPRINGFIELD, ILLINOIS
JACKSONVILLE, ILLINOIS
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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, 1968 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 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, 1968 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
January 16, 1969

Teachers' Retirement System of the State of Illinois

BALANCE SHEET

JUNE 30, 1968

ASSETS

Cash on hand and on deposit with State Treasurer	\$	2,891,189.00
Receivables:		
From School Districts	\$3,628,483.14	
From State of Illinois (June 1968)	<u>3,741,597.30</u>	7,370,080.44
Accrued interest and dividends receivable		3,838,959.01
Investments, at amortized cost		448,942,992.98
Office furniture and equipment - net		<u>79,842.60</u>
		<u>\$ 463,123,064.03</u>

LIABILITIES AND RESERVES

Current liabilities for benefits and refunds	\$	346,954.86
Administrative expenses payable		27,468.41
Reserve for members' accumulations (including approximately \$59,000,000 interest)		311,251,408.73
Reserve for benefit payments to retired members		426,892,415.00
Reserve for survivor benefits		50,973,403.37
Reserve for supplementary retirement benefits		1,522,054.28
Reserve for employers' contributions (deficit)		<u>(327,890,640.62)</u>
		<u>\$ 463,123,064.03</u>

See accompanying notes to financial statements

Teachers' Retirement System of the State of Illinois

STATEMENT OF INCOME AND EXPENDITURES

Year ended JUNE 30, 1968

INCOME

Contributions and payments by members	\$ 48,224,073.36
Contributions by School Districts	
from Federal Funds	1,529,852.44
Contributions by State of Illinois	43,258,133.09
Investment income	<u>18,712,727.43</u>
	\$111,724,786.32

EXPENDITURES

Annuities and benefits:	
Age retirement	\$38,144,376.96
Disability	621,758.17
Survivor	2,065,088.88
Supplementary	<u>1,750,542.72</u>
	\$42,581,766.73
Refunds of contributions:	
Withdrawals	\$7,006,518.56
Death of members	683,698.35
Death of annuitants	<u>146,450.87</u>
	7,836,667.78
Administrative expense	<u>511,705.81</u>
	50,930,140.32
Excess of income over expenditures before gain or loss on sale of investments	\$ 60,794,646.00
Gain or (loss) on sale of investments:	
Loss - sale of U. S. Gov't Bonds	\$(4,642,401.79)
Gain - sale of common stock	<u>1,380,765.84</u>
	(3,261,635.95)
Excess of Income over Expenditures - Net	<u>\$ 57,533,010.05</u>

See accompanying notes to financial statements

Teachers' Retirement System of the State of Illinois

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1968

1. The accompanying statements reflect the financial position and results of operations of Teachers' Retirement System as 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 amount determined by the actuaries regularly retained by the System.

Using this basis of accounting, the accompanying balance sheet reflects a deficit in the employer's contribution (unallocated) reserve of \$327,890,640.62 at June 30, 1968.

The regularly retained actuaries report that the total unfunded obligation of the State of Illinois to the System at June 30, 1967 amounted to \$573,876,000.00, based on a calculation of the liability for benefits accrued to that date. The actuaries further report that this calculation is based on revised assumptions derived from an analysis of the experience of the System through June 30, 1967. The last similar experience analysis was prepared for the period to June 30, 1963 and the actuarial estimates in the intervening years have been based primarily on the assumptions derived from that analysis.

The actuarial balance sheet at June 30, 1967 reflected an unfunded past requirement (unfunded obligation of the State of Illinois) of \$683,312,577.00. The actuaries report that the calculations leading to this amount consider, among other things, probable future increases in salaries. They state that this is an appropriate figure from the point of view of testing the State contribution requirements but is not a proper measure of benefits accrued to June 30, 1967, which amounted to \$573,876,000.00 as noted above.

The actuarial determination of the total unfunded obligation of the State of Illinois at June 30, 1968 had not been completed at the date of this report (January 16, 1969).

2. 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 \$371,264,012.10 and the market value, determined on the basis shown in the schedule, amounted to \$348,550,846.78.

Teachers' Retirement System of the State of Illinois

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 1968

3. At June 30, 1968, Teachers' Retirement System had entered into commitments to purchase corporate bonds and notes, having an aggregate par value of \$58,000,000.00, between September, 1968 and November, 1970. The anticipated net yield of these securities varies from 5.95% to 6.6% and maturity dates range from 1988 to 1995.

4. The statutes establishing the survivor benefit program provide that the State of Illinois is to equally match the members' contributions for survivor benefits, but that during the year ended June 30, 1961 (the period in which the survivor benefit program was initiated) the contributions by the State of Illinois were not to exceed \$750,000.00. Because total contributions by the State of Illinois since June 30, 1961 have not been sufficient to meet the actuarially computed requirements for all benefits, the System, by administrative decision, elected to continue to allocate \$750,000.00 annually to the survivor benefit reserve each year through June 30, 1967. For the year ended June 30, 1968, the System changed this practice and, upon advice of its actuaries, elected to allocate 12.195% of the contribution from the Common School Fund to the survivor benefit reserve. This percentage represents the proportion of State contributions which would be applicable to survivor benefits if the State were contributing at the rate of 1.2 times member contributions for retirement, and were matching member contributions for survivor benefits.

5. During the year ended June 30, 1968, the System, upon advice of its regularly retained investment counsel, sold U. S. Government bonds and purchased corporate bonds as summarized below:

Sale of 3 1/2% U. S. Government bonds due	
February 15, 1990, par value \$18,831,000.00:	
Book value at amortized cost	\$ 19,195,236.79
Proceeds of sale	<u>14,552,835.00</u>
Book loss	<u>\$ 4,642,401.79</u>

The proceeds of the sale plus \$49,250.00 were reinvested in corporate bonds as follows:

Teachers' Retirement System of the State of Illinois

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 1968

	<u>Stated Interest</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Cost</u>
American Telephone and Telegraph Consolidated Edison Beneficial Finance	4.375% 4.6 4.5	5-1-99 10-15-94 3-1-92	\$ 8,531,000.00 5,300,000.00 <u>5,000,000.00</u>	6,704,835.00 4,072,250.00 <u>3,825,000.00</u>
			<u>\$ 18,831,000.00</u>	<u>14,602,085.00</u>

Investment counsel, in their recommendation, pointed out that the System will receive the same amount of par value at maturity and will receive additional income as follows:

Interest to be received on corporate securities purchased to maturity date of U. S. Government bonds sold	\$ 18,524,687.50
Interest that would have been received on U. S. Government bonds if held to maturity	<u>14,499,870.00</u> 4,024,817.50
Less cost of corporate securities purchased in excess of proceeds of sale (\$14,602,085.00 - \$14,552,835.00)	<u>49,250.00</u>
Additional income to be received over period to maturity of securities sold (February 15, 1990)	\$ <u>3,975,567.50</u>

Teachers' Retirement System of the State of Illinois

SUMMARY OF SECURITIES OWNED

JUNE 30, 1968

	<u>Market Value</u>	<u>Book Value</u>
U. S. Government obligations	\$ 16,130,775.15 (1)	\$ 16,370,104.73
Common stock	77,698,013.63 (2)	67,499,235.96
Corporate bonds	71,070,757.00 (3)	83,786,837.46
Corporate debentures	72,530,151.00 (3)	83,393,477.08
Corporate notes	111,121,150.00 (3)	120,214,356.87
Equipment trust certificates		984,692.86
Real estate mortgage loans:		
Insured by F.H.A.		76,430,060.43
Other		261,584.59
Mineral rights		<u>2,643.00</u>
		<u>\$448,942,992.98</u>

- (1) Based on bid prices at June 30, 1968.
 (2) Based on closing prices at June 30, 1968.
 (3) Based on bid or closing prices at June 30, 1968, if available,
 otherwise on prices quoted by investment counsel at May 29, 1968.

SUMMARY OF INVESTMENT INCOME

Year ended JUNE 30, 1968

U. S. Government obligations	\$ 693,805.44
Common stock	1,793,577.95
Corporate bonds	3,683,219.72
Corporate debentures	3,610,300.32
Corporate notes	5,462,473.68
Equipment trust certificates	45,938.76
Real estate mortgage loans:	
Insured by F.H.A.	3,398,200.67
Other	10,734.42
Royalties	<u>14,476.47</u>
	<u>\$18,712,727.43</u>

A. S. Hansen, inc.
ACTUARIES AND CONSULTANTS

1080 Green Bay Road
Lake Bluff, Illinois 60044
Telephone 312-234-3400

February 1, 1969

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

Gentlemen:

Actuarial Estimate as of June 30, 1968

In accordance with the provisions of the Teachers' Retirement System of the State of Illinois, we have made an estimate of the required Reserves and Unfunded Obligation of the System as of June 30, 1968.

The estimate is based on a census and valuation of retired members as of June 30, 1968 and a census and valuation of active and inactive members as of June 30, 1967, adjusted for growth of the System since that date.

In our opinion the attached statements are a fair representation of the actuarial condition of the Fund as of June 30, 1968.

Respectfully submitted,

A. S. HANSEN, INC.


R. C. Keating

RCK:du
175-01-85
Enc.

Teachers' Retirement System
of the State of Illinois

ACTUARIAL BALANCE SHEET

(June 30, 1968)

Resources

Assets Less Current Liabilities	\$ 466,062,172 *
Unfunded Past Requirement	<u>699,817,388</u>

Total Resources

\$1,165,879,560

Requirements

Present Value of Benefits	
Retired	\$ 436,706,799
Active Members	1,572,327,343
Inactive Members	<u>50,854,615</u>
Total Present Value of Benefits	\$2,059,888,757
Present Value of Future Normal Cost	<u>894,009,197</u>

Total Requirements

\$1,165,879,560

* Includes \$3,313,531 to reflect retained earnings on equities used for actuarial valuation purposes.

Teachers' Retirement System
of the State of Illinois

ACTUARIAL COSTS AND OBLIGATIONS
OF THE STATE

(Year Ended June 30, 1968)

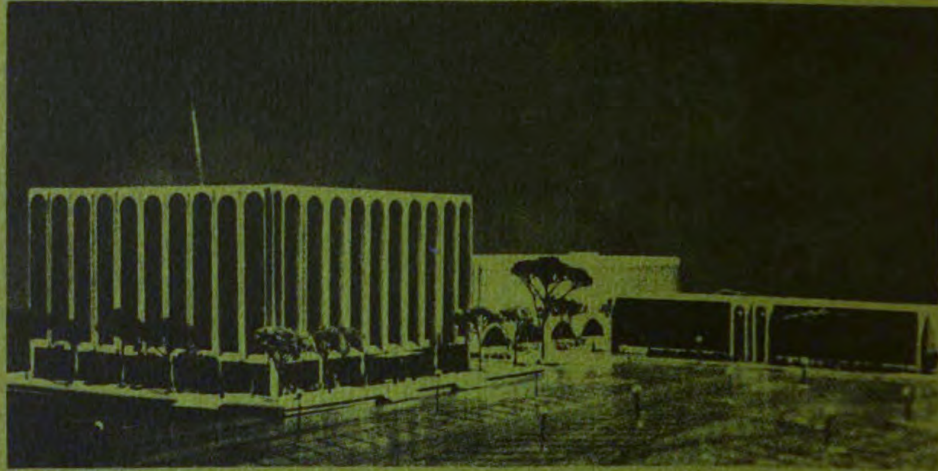
Determination of Accrued State Costs

Costs for benefits earned by members' service during year		\$ 80,476,085
Members' contributions for year		<u>48,224,073</u>
		\$ 32,252,012
Unfunded obligation of State at beginning of year	\$683,312,577	
Interest rate	<u>x 4.25%</u>	
Interest on unfunded obligation of State		<u>29,040,785</u>
Total accrued State cost for year		<u>\$ 61,292,797</u>

Change in Unfunded Obligation

Unfunded obligation of State at beginning of year		\$683,312,577
Accrued State cost for year	\$ 61,292,797	
State contribution for year	<u>44,787,986</u>	
Excess of cost over contribution		<u>16,504,811</u>
Unfunded obligation of State as of June 30, 1968		<u>\$699,817,388</u>

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Illinois Teachers' Retirement System

450 Iles Park Place
(6th and Ash Streets)
Springfield, Illinois