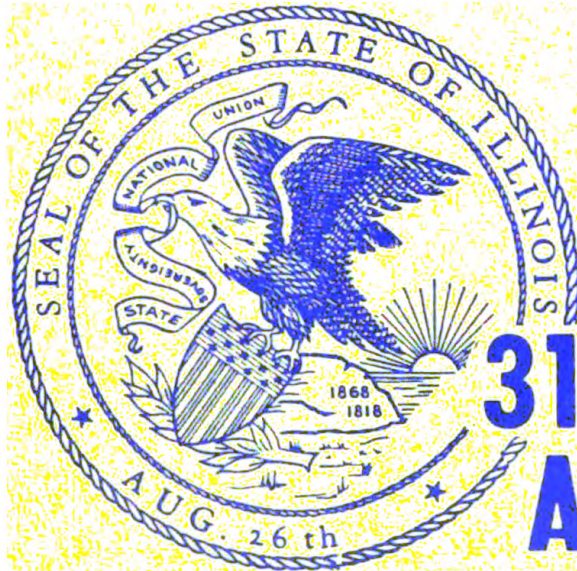


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31st ANNUAL REPORT

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UNIVERSITY OF ILLINOIS
AT URBANA-CHAMPAIGN

ISL

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

June 30, 1970

BOARD OF TRUSTEES

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Actuary

Springfield Marine Bank

Investment Counsel

TEACHERS' RETIREMENT SYSTEM
of the State of Illinois
450 Iles Park Place
Springfield, Illinois 62706
Phone (217) 525-6117

ANNUAL REPORT

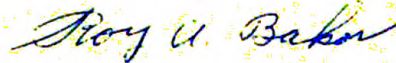
In accordance with Section 16-175 of the Act governing the Teachers' Retirement System of the State of Illinois, an annual report of the Board of Trustees of the System has been prepared each year since establishment of the present retirement system in 1939.

On behalf of the Board of Trustees, I herewith submit the Thirty-first Annual Report for the fiscal year ended June 30, 1970. The report summarizes activities of the retirement system during the fiscal year 1969-70 and indicates the status of the System at the end of the year.

The accounts have been audited by McGladrey, Hansen, Dunn, and Company, 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 Thirty-first Annual Report is being transmitted to The Honorable Michael J. Bakalis, Superintendent of Public Instruction, State of Illinois, for inclusion in his biennial report to the Governor.

Respectfully submitted,



Roy A. Baker, Director
Teachers' Retirement System
State of Illinois

Springfield, Illinois
May 15, 1971



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**UNIVERSITY OF ILLINOIS AT
URBANA-CHAMPAIGN**

CONTENTS

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS	5
FINANCIAL STATEMENTS:	
Statement of Assets, Liabilities, and Reserves	6
Statement of Income, Expenditures, and Changes in Reserve Accounts	7-8
Notes to Financial Statements	9-14
SUPPLEMENTARY DATA:	
Schedule of Investment Income	15
ACTUARY'S REPORT	16
Actuarial Balance Sheet	17
Actuarial Costs and Obligations of the System	18

McGLADREY, HANSEN, DUNN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Auditor General
State of Illinois
Springfield, Illinois

We have examined the accompanying statement of assets, liabilities and reserves of Teachers' Retirement System of the State of Illinois at June 30, 1970, and the related statement of income and expenditures and changes in reserve balances 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.

As more extensively described in Notes 1 and 2 of the Notes to Financial Statements, the accompanying statements do not reflect certain actuarially determined financial data. Accordingly, they do not purport to present the financial position and results of operations of the System in accordance with generally accepted accounting principles.

In our opinion, the financial statements mentioned above present fairly the individual assets, liabilities and reserves shown on the statement of assets, liabilities and reserves of Teachers' Retirement System of the State of Illinois at June 30, 1970 and the income and expenditures and the changes in reserve balances for the year then ended in conformity with the System's accounting policy as described in Note 1 of the Notes to Financial Statements, applied on a consistent basis.

The accompanying schedule of investment income for the year ended June 30, 1970 is not a basic financial statement but is presented for supplementary purposes. It has been subjected to the applicable audit procedures we performed in our examination of the related basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey, Hansen, Dunn & Company

Springfield, Illinois
March 23, 1971



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Teachers' Retirement System of the State of Illinois
STATEMENT OF ASSETS, LIABILITIES, AND RESERVES
June 30, 1970

ASSETS

Cash on hand and on deposit with State Treasurer		\$ 3,173,069
Contributions receivable:		
from school districts	\$5,612,946	
from State of Illinois	<u>4,880,315</u>	10,493,261
Accrued interest and dividends receivable		5,131,503
Investments at cost or amortized cost (Note 3)		601,593,723
Office furniture and equipment, at cost, less allowance for depreciation		<u>62,803</u>
		<u>620,454,359</u>

LIABILITIES AND RESERVES

Current liabilities for benefits and refunds		381,636
Administrative costs and expenses payable		13,425
Reserves (Notes 1, 2, 5, and 6):		
Members' accumulated contributions (including interest)		386,469,495
Retirement (annuity payments)		505,360,657
Survivors' benefits		80,517,197
Supplementary payments		1,418,337
Annual increase in base pension		7,924,519
Increased age retirement allowances		3,852,080
Employers contributions, unallocated (deficit)		<u>(365,482,987)</u>
		<u>\$ 620,454,359</u>

The Notes to Financial Statements
are an integral part of this statement



Teachers' Retirement System of the State of Illinois
 STATEMENT OF INCOME, EXPENDITURES, AND CHANGES IN RESERVE BALANCES
 Year Ended June 30, 1970

	Total	Members' Accumulated Contributions	Annuity Payments	Survivors' Benefits	Supplementary Payments	Annual Increase in Base Pension	Increased Age Retirement Allowance	Employers' Contributions Unallocated
INCOME:								
Contributions and Payments by Members	\$ 70,747,474	55,626,369		9,070,926	106	4,539,891	1,510,287	(105)
Contributions by School Districts from Federal and Trust Funds	1,852,342							1,852,342
Contributions by State of Illinois (Note 5)	57,783,000			6,471,122	1,483,000	3,235,561		46,593,317
Reciprocity Payments (Note 7)	53,726		53,726					
Investment Income	26,721,205							26,721,205
Total Income	157,157,747	55,626,369	53,726	15,542,048	1,483,106	7,775,452	1,510,287	75,166,759
EXPENDITURES:								
Benefits								
Age Retirement	47,253,710		47,253,710					
Increased Age Retirement	2,600,105						2,600,105	
Survivors'	2,421,339			2,416,456				4,883
Disability	763,028		484,209					278,819
Supplementary Payments	1,536,456				1,536,456			
Reciprocity Payments (Note 7)	372,469		372,469					
Total Benefits	54,947,107		48,110,388	2,416,456	1,536,456		2,600,105	283,702
Refunds	10,093,296	10,843,513	181,500	(42,409)		10,175		(899,483)
Administrative Expenses	591,052							591,052
Total Expenditures	65,631,455	10,843,513	48,291,888	2,374,047	1,536,456	10,175	2,600,105	(24,729)
Excess of Income over Expenditures before Gain on Sale of Investments	91,526,292	44,782,856	(48,238,162)	13,168,001	(53,350)	7,765,277	(1,089,818)	75,191,488
Gain on Sale of Investments	550,665							550,665
Excess of Income over Expenditures	92,076,957	44,782,856	(48,238,162)	13,168,001	(53,350)	7,765,277	(1,089,818)	75,742,153

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ive Transfers (Note 6)									
Interest Credited for Year	10,601,922	3,302,154	60,807	155,564	(14,120,447)				
Transfer Accumulated Contributions of Members Retiring During Year	(16,324,802)	16,324,802							
Instate Contributions in excess of Benefits Paid to Previously Retired Members who Resumed Teaching this Year	210,225	(210,225)							
Contributions Credited to Accounts of Members Receiving Temporary Disability Payments	41,818	6,970		3,485	(52,273)				
Transfer to Adjust Annuity Payments Reserve to Actuarial Computation		70,689,703			(70,689,703)				
Transfer Investment Earnings in excess of 4% per annum (Note 6)			4,941,898		(4,941,898)				
Reserve Transfers, Net	(5,470,837)	86,804,280	60,807	159,049	(89,804,321)				
Reserve Transactions:									
Increase (Decrease) in Accounts Receivable from Members	534,985	43,958	65,722	193	425,112				
Increase (Decrease) in Reserves for Year	92,611,942	39,355,977	7,457	7,924,519	(13,637,056)				
Balance (Deficit) Including Accounts Receivable from Members at Beginning of Year	533,555,487	353,221,649	1,410,880		(351,845,931)				
Balance (Deficit) Including Accounts Receivable from Members at End of Year	626,167,429	392,577,626	1,418,337	7,924,519	(365,482,987)				
Accounts Receivable from Members	(6,108,131)	(6,108,131)							
Balance (Deficit) Ending (Notes 1, 2, 5, and 6)	\$ 620,059,298	386,469,495	1,418,337	7,924,519	(365,482,987)				

The Notes to Financial Statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

Note 1. Method of Accounting

The Teachers' Retirement System follows the practice of recording of its accounts only those funds for which it is accountable and its accounts do not reflect the employer contributions which would be required from State appropriations to provide for the actuarial requirements of the employee benefits provided for by the Illinois Pension Code. Accordingly, the accompanying financial statements also do not include the unrecorded benefits actuarially accrued for active members; however, the Retirement (Annuity Payments) reserve is stated at an amount representing the estimated total liability to members then retired for benefits chargeable to this reserve as determined by the actuary regularly retained by the System. (See also Notes 2 and 6) Expenditures for benefits are included on the basis of those actually paid which are applicable to the year ended June 30, 1970, rather than on the basis of full provision for the current cost of benefits accrued as actuarially determined. Certain actuarial data is shown in Note 2.

The assets, liabilities, members' accumulated contribution reserve, retirement (annuity payment) reserve, income and expense are stated in accordance with generally accepted accounting principles.

Note 2. Actuarial Data

Cumulative contributions by the State of Illinois to the Teachers' Retirement System have not provided for the funding of benefits on an actuarial basis as determined by the regularly retained actuaries as of June 30, 1969, the latest date on which a determination had been completed as of March 23, 1971. The amounts reported by the actuary as of June 30, 1969, and 1968 are shown in the following summary:

	-- June 30, --	--
	1969	1968
Reserve requirements as shown by the actuarial balance sheet:		
Active and inactive members (not retired)	\$ 776,836,894	\$ 729,172,761
Retired members	478,373,820	436,706,799
	<u>\$1,255,210,714</u>	<u>\$1,165,879,560</u>
Net present assets of the System at the respective dates (equal to the reserves shown on the books of the System)	<u>527,982,342</u>	<u>462,748,641</u>
	\$ 727,228,372	\$ 703,130,919
Less amount included in actuarial balance sheet to reflect a portion of the unrealized appreciation in value of common stocks	<u>5,208,536</u>	<u>3,313,531</u>
Unfunded accrued liability and unfunded obligation of the State of Illinois as reported by the actuary	<u>\$ 722,019,836</u>	<u>\$ 699,817,388</u>

NOTES TO FINANCIAL STATEMENTS

The actuaries report that the total reserve requirements as shown above represent the actuarially determined total accrued liability for all annuities and benefits for both present and retired members for services rendered to the respective dates, and a provision for increase in future benefits resulting from anticipated future salary increases of present members.

As of June 30, 1970, the actuarial determinations are being made utilizing a 5% interest assumption whereas in the prior period the assumed rate had been 4 1/4%.

At March 23, 1971, the actuaries had submitted data with regard to the reserve requirements applicable to retired members as of June 30, 1970, (utilizing the 5% interest assumption) which is compared to June 30, 1969, (when a 4 1/4% interest assumption was utilized) as follows:

	-- June 30, --	--
Reserve requirements for:	1970	1969
Age retirement benefits which are chargeable to the Retirement (Annuity Payments Reserve, which is included in the accompanying statements at this amount	\$505,360,657	\$466,794,539
Provision for increase in age retirement benefits which are chargeable to the Increased Age Retirement Allowance Reserve	75,772,415	--
Provision for increase in age retirement allowances which are chargeable to the Annual Increase in Base Pension Reserve	9,712,305	--
Survivor benefits which are being paid, or processed and scheduled to be paid, which are chargeable to the Survivor Benefit Reserve	<u>14,434,755</u>	<u>11,579,281</u>
Total reserve requirements applicable to retired members	<u>\$605,280,132</u>	<u>\$478,373,820</u>

Note 3. Investments

A summary of investments of the System at June 30, 1970, which indicates approximate market value of major classes of securities, appears on the page immediately following.

NOTES TO FINANCIAL STATEMENTS

	<u>Amortized Cost or Cost</u>	<u>Approximate Market Value</u>
U. S. Government Obligations	\$ 17,110,938	\$ 16,931,145
Common Stocks	157,189,022	128,695,059
Other Corporate Securities -		
Bonds	102,873,297	77,798,725
Debentures	96,162,979	69,623,220
Notes	152,258,420	140,285,078
Equipment Trust Certificates	5,845,482	
Real Estate Mortgage Loans		
Insured by FHA	70,002,469	
Other	148,473	
Mineral rights	<u>2,643</u>	
	<u>\$601,593,723</u>	

Investments of the System have consistently been carried at amortized cost (or cost in the case of common stocks) and no provision is made for unrealized gains and losses. The market value of U. S. Government obligations is based on bid prices, and the market value of common stocks on closing prices at June 30, 1970. The market values of corporate bonds, debentures, and notes are based on prices quoted by investment counsel at June 9, 1970.

Between June 30, 1970 and March 23, 1971, the System sold common stocks which it held at June 30, 1970 with a cost of \$21,757,799 and realized a net gain of \$2,421,985. The remainder of the common stocks, held at June 30, 1970 with a cost of \$135,431,223, had a market value of \$148,709,359 at March 23, 1971 based on closing prices at that date. No other investments owned at June 30, 1970 except short-term U. S. Treasury bills had been sold at March 23, 1971.

Note 4. Investment Purchase Commitments

At June 30, 1970, Teachers' Retirement System had entered into commitments to purchase corporate bonds and notes, having an aggregate par value of \$20,000,000 between November 1970 and January 1971. The anticipated net yield of these securities varies from 6% to 10.75%, and maturity dates range from 1987 to 1999.

Note 5. Allocation of Contributions from Common School Fund

The statutes governing operation of the Teachers' Retirement System specify that the State of Illinois shall make contributions from the Common School Fund and other State Funds for their share of retirement annuity payments in an amount not less than 1.2 times members' contributions. The statutes further provide that the State shall

NOTES TO FINANCIAL STATEMENTS

match members' contributions for survivors' benefits and annual increase in base pension (Note 6). The amount of State contributions so specified were intended to provide for the funding of all benefits on an actuarially determined basis. As described in Note 2, cumulative contributions by the State of Illinois have not been sufficient to do so.

The amount of the contributions from the Common School Fund for the years ended June 30, 1970 has been allocated to the applicable reserves in the same proportion as described above, determined as follows:

<u>Reserve</u>	Rate of Members' Contribution (% of Salary)	----- State Specified Multiplier	Contribution Specified Rate (% of Salary)	----- % of Total
Employer's contributions (unallocated)	6.0%*	1.2	7.2%	82.759%
Survivors' benefits	1.0	1.0	1.0	11.494
Annual increase in base pension	<u>.5</u>	<u>1.0</u>	<u>.5</u>	<u>5.747</u>
	<u>7.5</u>		<u>8.7%</u>	<u>100.000%</u>

*Members' contributions are credited to the members' accumulated contributions reserve.

Note 6. Reserves

Members' Accumulated Contributions:

The amounts represent the cumulative refundable portion of contributions since July 1, 1939 by members not yet retired (members contribute at a rate of 6% of salary to this reserve) and the cumulative amount of annual interest credited thereon (approximately \$72,000,000 at June 30, 1970) which amount is refundable only in the event of death.

Retirement (Annuity Payments):

When a member retires for reason of age or permanent disability, the amount of his contributions and interest included in the members' accumulated contribution reserve is transferred to this reserve. Annuity payments are charged to this reserve. At the end of each fiscal year, this reserve is adjusted by means of a transfer from the employer's contribution (unallocated) reserve to an actuarially determined amount representing the estimated total liability to members then retired. (See Note 2)

Survivors' Benefits:

Members contribute 1% of their salaries to this reserve and a portion of contributions by the State are credited as explained in Note 5 of

NOTES TO FINANCIAL STATEMENTS

the Notes to Financial Statements. Members' contributions so credited are not refundable. Payments made under the survivor benefit program are charged to this reserve, and other changes are shown in the accompanying financial statements. The balance of this reserve is not stated at an actuarially determined amount. (See Note 2)

Supplementary Payments:

Legislation was enacted in 1961 to provide for increased annuities to certain members then retired. In order to qualify for the increase, the members were required to make a contribution which was credited to this reserve, and the State has also appropriated funds which are credited to this reserve when received by the System. The amount of the annuity increase resulting from this legislation is charged to this reserve. The balance of this reserve is not stated at an actuarially determined amount.

Annual Increase in Base Pension:

Legislation enacted by the 76th General Assembly provided for an automatic annual increase of 1-1/2% in the amount of retirement annuity of members completing creditable service and retiring on or after August 26, 1969 and meeting certain other requirements specified in the Act. This legislation further provided that members should contribute .5% of their salary to be credited to this reserve, and that the State should make a contribution equal to that amount. (See Note 5) The contributions by members credited to this reserve are refundable subject to the conditions specified by statute. Payments from this reserve are to begin January 1, 1971. The amount of this reserve is not stated at an actuarially determined amount. (See Note 2)

Increased Age Retirement Allowances:

Legislation enacted by the 76th General Assembly provides for an increase of 1-1/2% of the original monthly retirement allowance multiplied by the number of years in retirement to members who were receiving an age retirement allowance at June 30, 1969 and to members retiring after that date who met certain conditions specified in the Act. The Act also provided for additional annual increases to these annuitants in an amount equal to 1-1/2% of the original retirement allowance.

In order to qualify for this increase in benefits, eligible members were required to make a one-time qualifying payment as specified by statute. The statutes further provided that "The benefits provided in this section shall be paid exclusively from funds received by the System under this section and from investment income which exceeds 4% per annum, all being credited to the reserve established for this purpose . . ."

The balance of this reserve is not stated at an actuarially determined amount. (See Note 2)

NOTES TO FINANCIAL STATEMENTS

Employer's Contribution, Unallocated:

Contributions by the State of Illinois which are not allocated to other reserves as described above, contributions by School Districts from Trust and Federal Funds, and investment income are credited to this reserve. Reserve transfers and other transactions affecting this reserve are shown in the accompanying financial statements. The deficit balance does not represent the total actuarially determined unfunded obligation of the State of Illinois which is described in Notes 1 and 2 of the Notes to Financial Statements, but is the residual amount representing net present assets of the System, less the amount of other reserves described above, as carried on the books.

Note 7. Reciprocity Payments

The 76th General Assembly enacted legislation which enabled the Teachers' Retirement System to enter into agreements with other State funded retirement systems to modify the procedures for paying benefits to persons whose retirement benefit is determined under the Reciprocal Act (those persons who have credit in more than one State-funded retirement system). During the year ended June 30, 1970, the Teachers' Retirement System entered into such an agreement with the State Universities Retirement System.

Under the revised procedure, the system paying the benefit receives from the other system an amount equal to the actuarially determined present value of that portion of the total annuity which is attributable to creditable service in such other systems. The former practice was for a payment to be made between the Systems each month for the respective share of the monthly benefit being paid to the members and the Teachers' Retirement System had charged the amounts paid other systems to retirement benefits monthly and had credited the amounts received from other systems to retirement benefits monthly.

During the year ended June 30, 1970, Teachers' Retirement System paid \$372,469 for 129 retired members to the State Universities Retirement System and received \$53,726 for 17 retired members from that System.

SCHEDULE OF INVESTMENT INCOME
June 30, 1970

U. S. Government Obligations	\$ 1,157,497
Common Stock	3,457,135
Other Corporate Securities:	
Bonds	5,072,956
Debentures	5,012,455
Notes	8,545,810
Equipment Trust Certificates	301,858
Real Estate Mortgage Loans:	
Insured by FHA	3,123,562
Other	6,565
Royalties and Miscellaneous	43,367
	<hr/>
	<u>\$ 26,721,205</u>

A. S. Hansen, inc.
ACTUARIES AND CONSULTANTS

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

May 6, 1971

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

Gentlemen:

Actuarial Estimate as of June 30, 1970

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, 1970.

The estimate is based on a census and valuation of retired members as of June 30, 1970 and a census and valuation of active and inactive members as of June 30, 1967.

In our opinion the attached statements are a fair representation of the actuarial condition of the Fund as of June 30, 1970.

Respectfully submitted,

A. S. HANSEN, INC.

Richard C. Keating
Richard C. Keating

RCK:du
175-01-85

Enc.

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16

Teachers' Retirement System
of the State of Illinois

ACTUARIAL BALANCE SHEET
(June 30, 1970)

Resources

Assets Less Current Liabilities	\$ 634,315,850*
Unfunded Past Requirement	<u>936,169,700</u>

Total Resources \$1,570,485,550

Requirements

Present Value of Benefits	
Retired	\$ 605,280,132
Active Members	2,196,523,418
Inactive Members	<u>57,052,000</u>
Total Present Value of Benefits	\$2,858,855,550
Present Value of Future Normal Cost	<u>1,288,370,000</u>

Total Requirements \$1,570,485,550

* Includes \$14,256,552 to reflect retained earnings on equities used for actuarial valuation purposes.

175-01-85
5/6/71

A. S. Hansen, Inc.

Teachers' Retirement System
of the State of Illinois

ACTUARIAL COSTS AND OBLIGATIONS
OF THE STATE
(Year Ended June 30, 1970)

Determination of Accrued State Costs

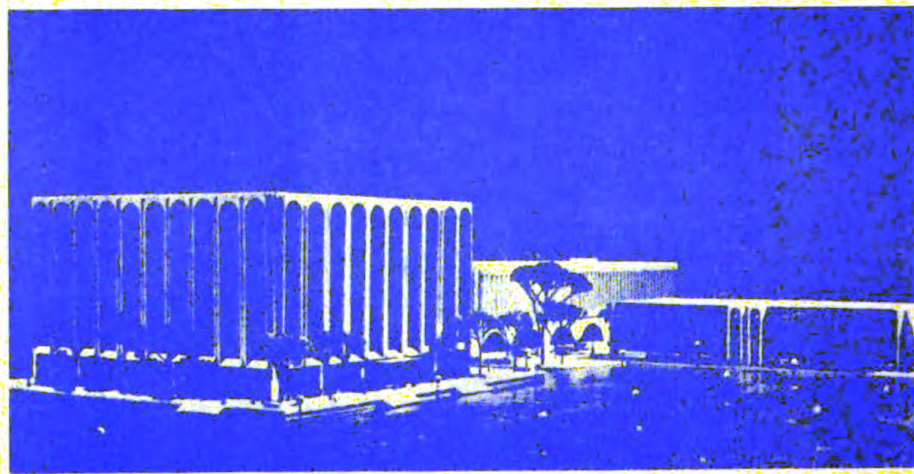
Costs for benefits earned by members' service during year		\$115,032,968
Members' contributions for year		<u>68,052,253</u>
State cost for service during year		\$ 46,980,715
Unfunded obligation of State at beginning of year	\$900,465,700	
Interest rate	<u> x 5%</u>	
Interest on unfunded obligation of State		<u>45,023,285</u>
Total accrued State cost for year		<u>\$ 92,004,000</u>

Change in Unfunded Obligation

Unfunded obligation of State at beginning of year		\$900,465,700
Accrued State cost for year	\$ 92,004,000	
State contribution for year	<u>56,300,000</u>	
Excess of cost over contribution		<u>35,704,000</u>
Unfunded obligation of State as of June 30, 1970		\$936,169,700

175-01-85
5/6/71

A. S. Hansen, Inc.



Illinois Teachers' Retirement System

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

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