

Annual report.

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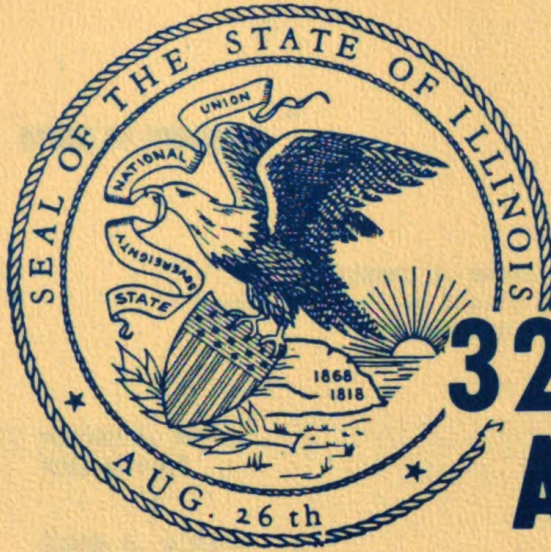
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UNIVERSITY OF ILLINOIS
AT URBANA-CHAMPAIGN

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OF THE BOARD OF TRUSTEES OF THE
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
JUNE 30, 1971

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

ANNUAL REPORT

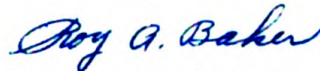
In accordance with Section 16-175 of the Act governing the Teachers' Retirement System of the State of Illinois, an annual report of the Board of Trustees of the System has been prepared each year since establishment of the present retirement system in 1939.

On behalf of the Board of Trustees, I herewith submit the Thirty-second Annual Report for the fiscal year ended June 30, 1971. The report summarizes activities of the retirement system during the fiscal year 1970-71 and indicates the status of the System at the end of the year.

The accounts have been audited by Alexander Grant 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-second 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
June 15, 1972

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ALEXANDER GRANT & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

210 EAST WASHINGTON STREET

BLOOMINGTON, ILLINOIS 61701

David B. Thomas
Auditor General
State of Illinois

We have examined the statement of assets and liabilities of the Teachers' Retirement System of the State of Illinois as of June 30, 1971, and the related statements of revenues and expenditures and changes in reserves 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 is more fully described in note A, the accompanying financial statements do not reflect the actuarially determined reserves for employee benefits and the resultant receivable from the State, as prescribed by the Illinois Pension Code.

Because of the significance of the matter discussed in the preceding paragraph, we are of the opinion that the financial statements referred to above do not present fairly the financial position of the Teachers' Retirement System of the State of Illinois at June 30, 1971 or the results of its operations for the year then ended in conformity with generally accepted accounting principles. In our opinion, however, based upon our examination, the following items in the financial statements referred to above are presented fairly at June 30, 1971 and for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year: Cash; contributions receivable; accrued interest and dividends receivable; investments; equipment; benefits payable; refunds payable; accounts payable; advance contributions by members; income from school districts; State of Illinois; reciprocity payments; investment income; benefit payments; refunds; administrative expenses and gain on sale of investments..

Our examination was made primarily for the purpose of formulating the opinion stated in the preceding paragraph. The supplemental schedule of investment income for the year ended June 30, 1971, although not considered necessary for a fair presentation of results of operations, is presented as supplementary information and has been subjected to the audit procedures applied in the examination of the basic financial statements. In our opinion, the supplemental schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alexander Grant & Company

Bloomington, Illinois
April 28, 1972

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Teachers' Retirement System of the State of Illinois
 STATEMENT OF ASSETS, LIABILITIES, AND RESERVES
 June 30, 1971

ASSETS

Cash on hand and on deposit with State Treasurer		\$ 2,379,789
Contributions receivable:		
from school districts	\$6,551,906	
from State of Illinois	<u>4,865,401</u>	11,417,307
Accrued interest and dividends receivable		6,293,219
Investments at cost or amortized cost (Note C)		703,464,597
Office furniture and equipment, at cost, less allowance for depreciation		<u>65,675</u>
		<u><u>723,620,587</u></u>

LIABILITIES AND RESERVES

Current liabilities for benefits and refunds		772,157
Administrative costs and expenses payable		14,495
Reserves (Note B):		
Members' accumulated contributions (including interest)		443,804,949
Retirement (annuity payments)		511,197,275
Survivors' benefits		98,577,500
Supplementary benefits		1,418,744
Annual increase in base pension		16,623,390
Increased age retirement allowances		10,873,391
Employers contributions, unallocated (deficit)		<u>(359,661,314)</u>
		<u><u>\$ 723,620,587</u></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, 1971

	Total	Members' Accumulated Contributions	Annuity Payments	Survivors' Benefits	Supplementary Payments	Annual Increase in Base Pension	Increased Age Retirement Allowance	Employers' Contributions Unallocated
	\$ 78,990,316	63,193,352		10,355,425		5,178,132	263,412	(5)
Contributions and Payments by Members								
Contributions by School Districts from Federal and Trust Funds	2,039,986							2,039,986
Contributions by State of Illinois	60,117,000			6,472,271	1,379,000	3,236,136		49,029,593
Reciprocity Payments	5,773		5,773					
Investment Income	30,595,253							30,595,253
Total income	171,748,328	63,193,352	5,773	16,827,696	1,379,000	8,414,268	263,412	61,664,827
EXPENDITURES:								
Age Retirement	54,133,248		54,133,248					
Annual Increase in Base Pension	2,111					2,111		
Increased Age Retirement	3,597,520						3,597,520	
Survivors'	2,889,229			2,889,229				
Disability	866,793		543,946					
Supplementary Payments	1,439,487				1,439,487			322,847
Reciprocity Payments	146,335		146,335					
Total Benefits	63,074,723		54,823,529	2,889,229	1,439,487	2,111	3,597,520	322,847
Administrative Expenses	11,148,051	11,118,477	331,215			267,490		(569,131)
Total Expenditures	74,835,182	11,118,477	55,154,744	2,889,229	1,439,487	269,601	3,597,520	366,124
Excess of Income over Expenditures Before Gain on Sale of Investments	96,913,146	52,074,875	(55,148,971)	13,938,467	(60,487)	8,144,667	(3,334,108)	81,298,703
Gain on Sale of Investments	5,861,491							5,861,491
Excess of Income over Expenditures	102,774,637	52,074,875	(55,148,971)	13,938,467	(60,487)	8,144,667	(3,334,108)	87,160,194

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 UNIVERSITY OF ILLINOIS AT
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serve Transfers									
Interest Credited for Year	11,782,253	4,063,285	60,894	541,763					(16,448,195)
Transfer Accumulated Contributions of Members Retiring During Year									
Reinstated Contributions in Excess of Benefits Paid to Previously Retired Members Who Resumed Teaching This Year	(6,685,022)	6,685,022							
Contributions Credited to Accounts of Members Receiving Temporary Disability Payments	177,847	(177,847)							
Transfer to Adjust Annuity Payments Reserve to Actuarial Computation	47,851	7,975		3,988					(59,814)
Transfer Investment Earnings in Excess of 4% Per Annum		54,478,415							(54,478,415)
		10,355,419							(10,355,419)
Reserve Transfers, Net	5,322,929	60,985,590	60,894	545,751	10,355,419	(81,341,843)			
her Reserve Transactions:									
Net Increase (Decrease) in Accounts Receivable from Members	130,331	67,979	50,577	8,453					3,322
t Increase (Decrease) in Reserves for Year	102,904,968	57,465,783	5,836,618	18,060,304	407	8,698,871	7,021,311		5,821,674
serve Balances (Deficit) Including Accounts Receivable from Members at Beginning of Year	626,167,429	392,577,628	505,360,657	80,517,196	1,418,337	7,924,519	3,852,080		(365,482,988)
serve Balances (Deficit) Including Accounts Receivable from Members at End of Year	729,072,397	450,043,411	511,197,275	98,577,500	1,418,744	16,623,390	10,873,391		(359,661,314)
Less Accounts Receivable from Members	(6,238,462)	(6,238,462)							
serve Balances (Deficit) Ending	722,833,935	443,804,949	511,197,275	98,577,500	1,418,744	16,623,390	10,873,391		(359,661,314)

The accompanying notes are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

NOTE A - METHOD OF ACCOUNTING

The accounts of the Teachers' Retirement System of the State of Illinois do not reflect the employer contributions which would be required from State of Illinois appropriation to provide for the actuarial requirements of the employee benefits provided for by the Illinois Pension Code. Accordingly, the financial statements presented herein do not contain the unrecorded benefits actuarially accrued for active members. However, an actuary retained by the Board of Trustees as a technical advisor has actuarially determined the total liability to members then retired for benefits chargeable to the Retirement (Annuity Payments) Reserve, and this provision is included in that reserve balance. Expenditures for benefits are reported at amounts actually paid during the year ended June 30, 1971 rather than on the basis for full provision for the current cost of benefits as actuarially determined.

NOTE B - RESERVES

Appropriations to the Teachers' Retirement System by the State of Illinois have not provided for the funding of benefits on an actuarial basis. The amounts reported by the actuary as of June 30, 1970 and 1969 are shown in the following summary:

	June 30	
	1970	1969
Reserve requirements shown by the actuarial balance sheet		
Active and inactive members (not retired)	\$ 965,205,418	\$ 776,836,894
Retired members	605,280,132	478,373,820
	<u>1,570,485,550</u>	<u>1,255,210,714</u>
Reserves as shown by the System	620,059,298	527,982,342
	<u>950,426,252</u>	<u>727,228,372</u>
Less amount included in actuarial balance sheet to reflect a portion of the unrealized appreciation in value of common stocks	<u>14,256,552</u>	<u>5,208,536</u>
Unfunded accrued liability and unfunded obligation of the State of Illinois as reported by the actuary	<u>\$ 936,169,700</u>	<u>\$ 722,019,836</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE B - RESERVES - CONTINUED

The above reserve requirements present the actuarially determined accrued liability for all annuities and benefits for both present and retired members for services rendered at the respective dates, and also includes a provision for increase in future benefits resulting from anticipated increases in wages of present members.

As of June 30, 1971 and 1970, the actuarial determinations were made with a 5% interest assumption.

The actuaries had submitted data concerning reserve requirements at June 30, 1971 applicable to retired members, which is compared to data for June 30, 1970 (both assuming a 5% interest rate) as follows:

	June 30	
	1971	1970
Reserve requirements for:		
*Age retirement benefits, chargeable to Retirement (Annuity Payments) Reserve	\$511,197,275	\$505,360,657
Increased age retirement benefits, chargeable to Increased Age Retirement Allowance Reserve	65,914,800	75,772,415
Increase in age retirement allowances chargeable to the Annual Increase in Base Pension Reserve	10,041,287	9,712,305
Survivor benefits Chargeable to the Survivor Benefits Reserve	<u>19,659,182</u>	<u>14,434,755</u>
	\$606,812,544	\$605,280,132
	=====	=====

* This is the only provision which is reflected in the books of the System.

NOTE C - INVESTMENTS

Investments of the Teachers' Retirement System are carried at cost or amortized cost with no provision being made for unrealized gains and losses.

Securities held by the System at June 30, 1971 are as follows:

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE C - INVESTMENTS - CONTINUED

	<u>Cost or amortized cost</u>	<u>Market value</u>
U.S. Government obligations	\$ 16,062,479	\$ 16,060,105
Common stocks	207,407,350	229,094,587
Corporate bonds	103,740,756	80,594,211
Corporate debentures	144,142,560	124,420,478
Corporate notes	159,793,794	147,585,771
Equipment trust certificates	5,848,393	6,010,933
Real estate mortgage loans		
Insured by F.H.A.	66,377,962	66,377,962
Other	88,660	88,660
Mineral rights	<u>2,643</u>	<u>2,643</u>
	\$703,464,597	\$670,235,350
	=====	=====

The market values of U.S. Government obligations are based on bid prices and the market prices of common stocks on closing prices at June 30, 1971. The market values of corporate bonds, debentures, notes, and equipment trust certificates are based on prices quoted by investment counsel at June 1, 1971.

SCHEDULE OF INVESTMENT INCOME
June 30, 1971

U. S. Government Obligations	\$ 1,116,600
Common Stock	5,363,796
Other Corporate Securities:	
Bonds	5,267,805
Debentures	6,168,766
Notes	9,183,959
Equipment Trust Certificates	504,205
Real Estate Mortgage Loans:	
Insured by FHA	2,975,913
Other	4,360
Royalties and Miscellaneous	<u>9,849</u>
	<u>\$ 30,595,253</u>

A. S. Hansen, inc.
ACTUARIES AND CONSULTANTS

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

August 8, 1972

Board of Trustees
Teachers' Retirement System
of the State of Illinois
450 Iles Park Place
Springfield, Illinois 62706

Gentlemen:

In accordance with the provisions of the Teachers' Retirement System of the State of Illinois we have made an actuarial valuation of the System as of June 30, 1971. The valuation is based on revised assumptions and procedures derived from an analysis of the experience of the System through June 30, 1971.

The results of the analysis and certain statistical information pertaining to the System are set forth in the following report. The basic data were submitted by the System office; the summaries and actuarial figures were prepared by us from such data.

On the basis of the foregoing and the assumptions indicated herein, we hereby certify that, to the best of our knowledge and belief, the attached statements are a true and correct representation of the actuarial condition of the System as of June 30, 1971.

Respectfully submitted,

A. S. HANSEN, INC.



RCK:jl
175-01-85

Teachers' Retirement System
of the State of Illinois

ACTUARIAL BALANCE SHEET
(June 30, 1971)

Resources

Assets	\$ 735,028,801*
Unfunded Past Requirement	<u>1,748,375,624</u>

Total Resources

\$2,483,404,425

Requirements

Present Value of Benefits	
Retired	\$ 606,812,544
Active Members	3,064,791,921
Inactive Members	<u>107,464,700</u>

Total Present Value of Benefits

3,779,069,165

Present Value of Future Normal Cost

1,295,664,740

Total Requirements

\$2,483,404,425

*Includes retained earnings of \$11,408,214.

Teachers' Retirement System
of the State of Illinois

NORMAL COST
(June 30, 1971)

Present Value of Future Normal Cost	\$1,295,664,740
Present Value of Future Payroll	<u>8,470,605,000</u>
Normal Cost Percent	15.296%
Payroll of members under expected retirement age	<u>\$984,322,183</u> x 15.296%
Normal Cost for Year	\$ 150,561,920

Teachers' Retirement System
of the State of Illinois

DERIVATION OF STATE COSTS

Basic Requirements

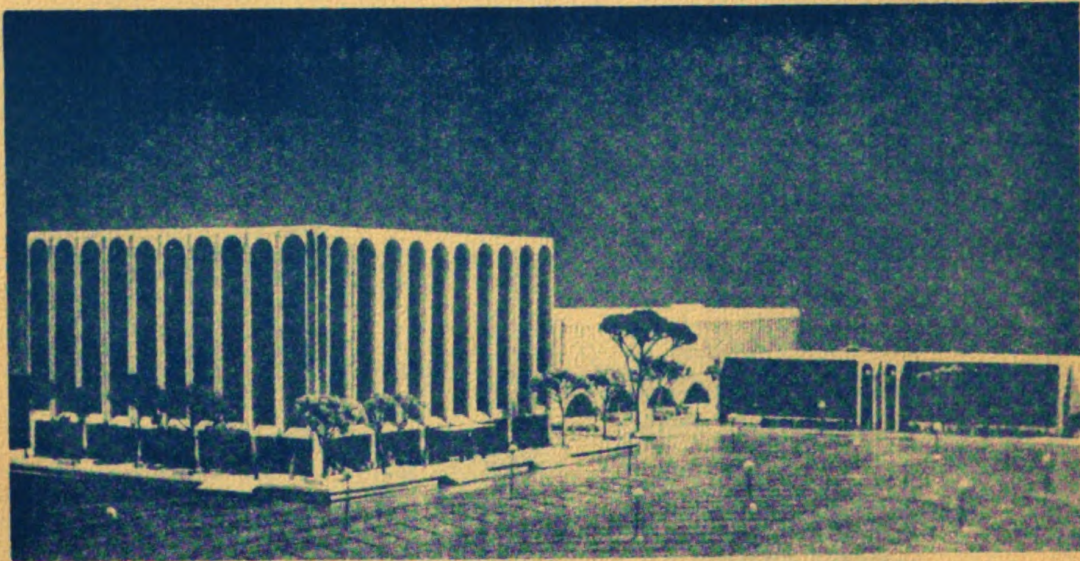
Normal Cost	\$ 150,561,920
Member Contributions	<u>77,881,442</u>
State Normal Cost	72,680,479
Unfunded obligation of State	\$1,748,375,624

Contribution Requirements Alternative Bases

	<u>Dollar Amount</u>	<u>Ratio to Members' Contributions</u>
To meet Normal Cost and pay interest on unfunded obligation	\$160,099,260	2.056
To meet Normal Cost and amortize unfunded obligation over 40 years	174,572,314	2.242
To meet Normal Cost and amortize unfunded obligation over 30 years	186,414,062	2.394



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Illinois Teachers' Retirement System

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