

**Annual report.**

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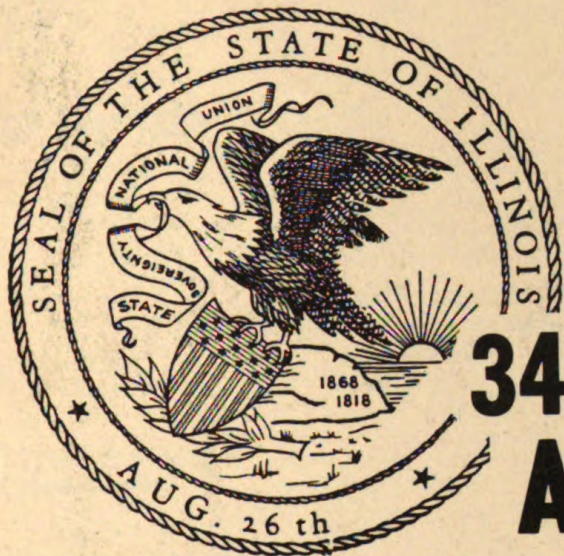
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# 34 th ANNUAL REPORT

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

JUNE 30, 1973

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TEACHERS' RETIREMENT SYSTEM  
of the State of Illinois  
450 Iles Park Place  
Springfield, Illinois 62706  
Telephone 217-782-6117

## ANNUAL REPORT

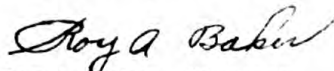
In accordance with Section 16-175 of the Act governing the Teachers' Retirement System of the State of Illinois, an annual report of the Board of Trustees of the System has been prepared each year since establishment of the present retirement system in 1939.

On behalf of the Board of Trustees, I herewith submit the Thirty-fourth Annual Report for the fiscal year ended June 30, 1973. The report summarizes activities of the retirement system during the fiscal year 1972-73 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-fourth 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, 1974

# CONTENTS

|   |        |
|---|--------|
| REPORT OF CERTIFIED PUBLIC ACCOUNTANTS.....                                   | 5      |
| FINANCIAL STATEMENTS:   |        |
| Balance Sheet.....  | 6      |
| Statement of Revenue and Expenditures<br>and Changes in Reserve Balances..... | 7--8   |
| Statement of Changes in Financial Position.....                               | 9      |
| Notes to Financial Statements.....  | 10--12 |
| SUPPLEMENTARY DATA:   |        |
| Schedule of Investment Income.....  | 13     |
| ACTUARY'S REPORT.....   | 14     |
| Actuarial Balance Sheet.....  | 15     |
| Actuarial Costs and Obligations of the State.....                             | 16     |





# Alexander Grant

8 COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

INTERNATIONAL FIRM  
ALEXANDER GRANT TANSLEY WITT

Auditor General  
State of Illinois

We have examined the balance sheet of the Teachers' Retirement System of the State of Illinois as of June 30, 1973 and the related statements of revenue and expenditures and changes in reserves and changes in financial position 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.

In our opinion, based upon our examination, the aforementioned financial statements present fairly the financial position of the Teachers' Retirement System of the State of Illinois at June 30, 1973 and the results of its revenues and expenditures and changes in reserves and financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

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, 1973, 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  
June 28, 1974





Teachers' Retirement System of the State of Illinois  
BALANCE SHEET  
June 30, 1973

---

ASSETS

|  |                  |                         |
|--|------------------|-------------------------|
| Cash on hand and on deposit with State Treasurer                               | \$               | 1,302,915               |
| Accrued interest and dividends receivable                                      |                  | 9,733,297               |
| Contributions receivable:  |                  |                         |
| From school districts  | \$ 9,355,144     |                         |
| From State of Illinois   | <u>7,598,000</u> | 16,953,144              |
| Investments (Notes A-1 and B)  |                  | 927,652,185             |
| Equipment (Note A-2)   |                  |                         |
| Office furniture and equipment<br>(less accumulated depreciation of \$123,918) |                  | 59,969                  |
| Other Asset:   |                  |                         |
| Unfunded obligation of the State of Illinois<br>(Notes A-3 and C)              |                  | <u>1,948,070,075</u>    |
|  |                  | <u>\$ 2,903,771,585</u> |

LIABILITIES AND RESERVES

|   |    |                         |
|---|----|-------------------------|
| Current liabilities for benefits and refunds            | \$ | 795,931                 |
| Administrative expenses payable                         |    | 22,446                  |
| Reserves (Notes A-3 and C):                             |    |                         |
| Members' accumulated contributions (including interest) |    | 542,300,740             |
| Retirement (annuity payments)                           |    | 856,001,720             |
| Survivors' benefits                                     |    | 103,476,143             |
| Supplementary payments                                  |    | 1,401,072               |
| Annual increase in base pension                         |    | 288,566,479             |
| Increased age retirement allowances                     |    | 90,834,612              |
| Employer contributions, unallocated                     |    | <u>1,020,372,442</u>    |
|   |    | <u>\$ 2,903,771,585</u> |

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

Teachers' Retirement System of the State of Illinois  
 STATEMENT OF REVENUE AND EXPENDITURES AND CHANGES IN RESERVE BALANCES  
 Year Ended June 30, 1973

|  | Total              | Members' Accumulated Contributions | Annuity Payments | Survivors' Benefits | Supplementary Payments | Annual Increase in Base Pension | Increased Age Retirement Allowance | Employers' Contributions Unallocated |
|--|--------------------|------------------------------------|------------------|---------------------|------------------------|---------------------------------|------------------------------------|--------------------------------------|
| <b>REVENUE:</b>  |                    |                                    |                  |                     |                        |                                 |                                    |                                      |
| Contributions and Payments by Members                          | \$ 95,145,143      | 77,443,410                         |                  | 11,714,237          | 102                    | 5,857,356                       | 130,155                            | (167)                                |
| Contributions by School Districts from Federal and Trust Funds | 2,912,174          |                                    |                  |                     |                        |                                 |                                    | 2,912,174                            |
| Contributions by State of Illinois                             | 91,979,900         |                                    | 352,479          | 9,677,700           | 1,176,000              | 4,838,400                       |                                    | 76,287,800                           |
| Reciprocity Payments   | 352,479            |                                    |                  |                     |                        |                                 |                                    |                                      |
| Investment Income  | 43,676,343         |                                    |                  |                     |                        |                                 |                                    | 43,676,343                           |
| <b>Total Revenue</b>   | <b>234,066,039</b> | <b>77,443,410</b>                  | <b>352,479</b>   | <b>21,391,987</b>   | <b>1,176,102</b>       | <b>10,695,756</b>               | <b>130,155</b>                     | <b>122,876,150</b>                   |

**EXPENDITURES:**

|   |                    |                   |                     |                   |                  |                  |                    |                    |
|---|--------------------|-------------------|---------------------|-------------------|------------------|------------------|--------------------|--------------------|
| <b>Benefits</b>   |                    |                   |                     |                   |                  |                  |                    |                    |
| Age Retirement  | 78,600,403         |                   | 78,600,403          |                   |                  |                  |                    |                    |
| Annual Increase in Base Pension   | 364,180            |                   |                     |                   | 364,180          |                  |                    |                    |
| Increased Age Retirement  | 5,083,372          |                   |                     |                   |                  |                  | 5,083,372          |                    |
| Survivors'  | 3,933,996          |                   |                     | 3,933,996         |                  |                  |                    |                    |
| Disability  | 1,138,014          |                   | 805,539             |                   |                  |                  |                    | 332,475            |
| Supplementary Payments  | 1,250,586          |                   |                     | 1,250,586         |                  |                  |                    |                    |
| Reciprocity Payments  | 2,426,996          |                   | 2,426,996           |                   |                  |                  |                    |                    |
| <b>Total Benefits</b>   | <b>92,797,547</b>  |                   | <b>81,832,938</b>   | <b>3,933,996</b>  | <b>1,250,586</b> | <b>364,180</b>   | <b>5,083,372</b>   | <b>332,475</b>     |
| <b>Refunds</b>  | <b>12,915,934</b>  |                   | <b>330,367</b>      |                   | <b>637,844</b>   |                  |                    | <b>(1,480,579)</b> |
| <b>Administrative Expense</b>   | <b>793,228</b>     |                   |                     |                   |                  |                  |                    | <b>793,228</b>     |
| <b>Total Expenditures</b>   | <b>106,506,709</b> | <b>13,428,302</b> | <b>82,163,305</b>   | <b>3,933,996</b>  | <b>1,250,586</b> | <b>1,002,024</b> | <b>5,083,372</b>   | <b>(354,876)</b>   |
| <b>Excess of Revenue over Expenditures Before (Loss) on Sale of Investments</b> | <b>127,559,330</b> | <b>64,015,108</b> | <b>(81,810,826)</b> | <b>17,457,991</b> | <b>(74,484)</b>  | <b>9,693,732</b> | <b>(4,953,217)</b> | <b>123,231,026</b> |
| <b>(Loss) on Sale of Investments (Note D)</b>                                   | <b>(1,261,450)</b> |                   |                     |                   |                  |                  |                    | <b>(1,261,450)</b> |
| <b>Excess of Revenue over Expenditures</b>                                      | <b>126,297,880</b> | <b>64,015,108</b> | <b>(81,810,826)</b> | <b>17,457,991</b> | <b>(74,484)</b>  | <b>9,693,732</b> | <b>(4,953,217)</b> | <b>121,969,576</b> |

Original from

|   |                 |             |              |             |  |  |  |               |
|---|-----------------|-------------|--------------|-------------|--|--|--|---------------|
| Reserve Transfers   |                 |             |              |             |  |  |  |               |
| Interest Credited for Year  | 19,760,572      | 6,055,091   | 65,675       | 1,461,828   |  |  |  | (27,343,166)  |
| Transfer Accumulated Contributions of Members Retiring During Year  | (27,773,037)    |             |              |             |  |  |  |               |
| Reinstate Contributions in Excess of Benefits Paid to Previously Retired Members Who Resumed Teaching This Year | 88,201          | (88,201)    |              |             |  |  |  |               |
| Contributions Credited to Accounts of Members Receiving Temporary Disability Payments                           | 65,422          | 10,065      |              | 5,029       |  |  |  | (80,516)      |
| Reserve Transfers, Net  | (7,858,842)     | 27,684,836  | 65,675       | 1,466,857   |  |  |  | (27,423,682)  |
| Increase in Unfunded Obligation of the State of Illinois for the Year Ended June 30, 1973                       | 88,069,109      | 134,256,762 | (16,018,341) | 20,801,417  |  |  |  | (48,193,450)  |
| Other Reserve Transactions:   |                 |             |              |             |  |  |  |               |
| Net Increase (Decrease) in Accounts Receivable from Members   | 465,551         | (209,671)   | 59,325       | 12,721      |  |  |  | 603,176       |
| Net Increase (Decrease) in Reserves for Year  | 214,832,540     | 55,946,595  | 80,130,772   | 7,564,131   |  |  |  | 46,955,620    |
| Reserve Balances at July 1, 1972, as Restated (Notes A3 and C)  | 2,688,586,219   | 486,819,696 | 775,870,948  | 95,912,012  |  |  |  | 973,416,822   |
| Accounts Receivable from Members at July 1, 1972 (Note A4)  | 6,976,696       | 6,976,696   |              |             |  |  |  |               |
| Less Accounts Receivable from Members at June 30, 1973 (Note A4)  | 2,910,395,455   | 549,742,987 | 856,001,720  | 103,476,143 |  |  |  | 1,020,372,442 |
| Reserve Balances at June 30, 1973   | 7,442,247       | 7,442,247   |              |             |  |  |  |               |
|   | \$2,902,953,208 | 542,300,740 | 856,001,720  | 103,476,143 |  |  |  | 1,020,372,442 |

The accompanying notes are an integral part of this statement

Teachers' Retirement System of the State of Illinois

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended June 30, 1973

|   |                   |                      |
|---|-------------------|----------------------|
| <b>Sources of working capital</b>   |                   |                      |
| From operations   |                   |                      |
| Excess of revenue over expenditures                                       |                   | \$126,297,880        |
| Charges (credits) to earnings not using (providing) working capital       |                   |                      |
| Depreciation of equipment   | \$ 12,738         |                      |
| Amortization of premium or discount (net)                                 | (2,171,371)       |                      |
| Net premium at time of disposition of investments                         | (1,006,533)       |                      |
| Gain on exchange of equipment   | <u>(1,040)</u>    | <u>(3,166,206)</u>   |
| Working capital provided from operations                                  |                   | 123,131,674          |
| Proceeds from sale of investments   |                   | 348,745,501          |
| Increase in unfunded obligation receivable from the State of Illinois     |                   | <u>88,069,109</u>    |
|   |                   | <u>559,946,284</u>   |
| <b>Applications of working capital</b>                                    |                   |                      |
| Purchase of equipment   | 11,068            |                      |
| Purchase of investments   | 466,391,640       |                      |
| Increase in reserve balances for actuarially determined accrued liability | <u>88,069,109</u> | <u>554,471,817</u>   |
| INCREASE IN WORKING CAPITAL   |                   | 5,474,467            |
| Working capital at July 1, 1972   |                   | <u>21,696,512</u>    |
| Working capital at June 30, 1973  |                   | <u>\$ 27,170,979</u> |
| <b>Changes in components of working capital</b>                           |                   |                      |
| <b>Increase (decrease) in current assets</b>                              |                   |                      |
| Cash  |                   | \$ (364,722)         |
| Accrued interest and dividends receivable                                 |                   | 2,170,747            |
| Contributions receivable  |                   | <u>3,719,971</u>     |
|   |                   | <u>5,525,996</u>     |
| <b>(Increase) decrease in current liabilities</b>                         |                   |                      |
| Benefits payable  |                   | (32,649)             |
| Refunds payable - former members  |                   | (40,301)             |
| Accounts payable  |                   | <u>21,421</u>        |
|   |                   | <u>(51,529)</u>      |
| INCREASE IN WORKING CAPITAL   |                   | <u>\$ 5,474,467</u>  |

The accompanying notes are an integral part of this statement.

Teachers' Retirement System of the State of Illinois

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 1973

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the System's significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. Investments

Investments are carried on the System's books at-cost or amortized cost with no provision being made for unrealized gains or losses.

2. Equipment

Equipment is recorded at-cost on the books of the System. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, on the straight-line basis.

3. Method of accounting

The financial statements presented herein reflect the contributions that would be required from State appropriations to provide for the actuarial requirements of the employee benefits as defined by the Illinois Pension Code. The books of the System reflect only the unfunded portion allocable to the Retirement (annuity payments) Reserve. The financial statements have been modified accordingly to reflect the total unfunded obligation.

4. Accounts receivable - members

The system follows the policy of reporting accounts receivable for members who have verified that they are qualified to join the system (but are not obligated to pay the qualifying contributions until they elect to do) on the cash basis. The current collections are classified as income, while the ending accounts receivable balance is deducted from the member's accumulated contribution reserve.

Teachers' Retirement System of the State of Illinois

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 1973

NOTE B - INVESTMENTS

Securities held by the System at June 30, 1973 are as follows:

|                              | <u>Cost or<br/>amortized<br/>Cost</u> | <u>Market value</u>  |
|------------------------------|---------------------------------------|----------------------|
| U.S. Government obligations  | \$ 24,374,405                         | \$ 24,374,405        |
| Common stocks                | 308,017,906                           | 320,138,469          |
| Corporate bonds              | 117,109,934                           | 95,939,905           |
| Corporate debentures         | 182,687,238                           | 166,401,485          |
| Corporate notes              | 212,933,485                           | 206,273,297          |
| Equipment trust certificates | 24,995,785                            | 25,317,780           |
| Real estate mortgage loans   |                                       |                      |
| Insured by F.H.A.            | 57,530,789                            | 57,530,789           |
| Mineral rights               | <u>2,643</u>                          | <u>2,643</u>         |
|                              | <u>\$927,652,185</u>                  | <u>\$895,978,773</u> |
|                              | =====                                 | =====                |

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 29, 1973. The market values of corporate bonds, debentures, notes and equipment trust certificates are based on prices quoted by investment counsel at May 24, 1973.

NOTE C - RESERVES

The financial statements of the Teachers' Retirement System of the State of Illinois have been modified to reflect the accrued liability of the System for the actuarially computed benefits and the resultant unfunded obligation of the State of Illinois as required by the Illinois Pension Code. The reserves as recorded on the books of the System and the modification thereto, as computed by an actuarial consultant, are as follows:

|  | <u>1973</u>            | <u>1972</u>            |
|--|------------------------|------------------------|
| Reserve balances recorded on the books of the System at June 30  | \$ 954,883,133         | \$ 828,585,253         |
| Unfunded accrued liability of the System as actuarially computed | <u>1,948,070,075</u>   | <u>1,860,000,966</u>   |
| Reserve balance, as modified at June 30                          | <u>\$2,902,953,208</u> | <u>\$2,688,586,219</u> |
|  | =====                  | =====                  |



Teachers' Retirement System of the State of Illinois

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 1973

NOTE D - LOSS ON SALE OF INVESTMENTS

During the year ended June 30, 1973 the System on advice of investment counsel, sold certain securities and purchased others in an effort to upgrade its portfolio and increase long-term cash flow to the System. These transactions resulted in accounting recognition of a loss of \$2,111,803 for the current year. The System expects that the long-term cash advantage resulting from these transactions will approximate \$749,000 due to higher interest rates to be realized on the new holdings. An analysis of the net loss on sale of investments is as follows:

|   |                              |
|---|------------------------------|
| Net loss of sale or exchange of securities              | \$ 2,111,803                 |
| Less, net gain, sale of common stock, and miscellaneous | <u>850,353</u>               |
| Net loss, sale or exchange of investments               | <u>\$ 1,261,450</u><br>===== |

**SCHEDULE OF INVESTMENT INCOME**  
**July 1, 1972 - June 30, 1973**

|                                    |                      |
|------------------------------------|----------------------|
| U. S. Government Obligations       | \$ 1,175,249         |
| Common Stock                       | 8,699,008            |
| Other Corporate Securities:        |                      |
| Bonds                              | 6,234,500            |
| Debentures                         | 11,193,339           |
| Notes                              | 12,615,322           |
| Equipment Trust Certificates       | 1,142,096            |
| Real Estate Mortgage Loans         |                      |
| Insured by FHA                     | 2,609,999            |
| Other                              | 168                  |
| Royalties and Miscellaneous Income | <u>6,662</u>         |
|                                    | <u>\$ 43,676,343</u> |

**A. S. Hansen, inc.**  
ACTUARIES AND CONSULTANTS

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

April 19, 1974

Board of Trustees  
Teachers' Retirement System  
of the State of Illinois  
450 Iles Park Place  
South Sixth and Ash Streets  
Springfield, Illinois 62706

Gentlemen:

Actuarial Estimate as of June 30, 1973

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, 1973.

The estimate is based on a census and valuation of retired members as of June 30, 1973 and a census and valuation of active and inactive members as of June 30, 1971. The asset statements contained herein are subject to final audit.

In our opinion the attached statements are a fair representation of the actuarial condition of the Fund as of June 30, 1973.

Respectfully submitted,

A. S. HANSEN, INC.

  
Richard C. Keating

RCK:jl  
175-01-85  
Enc.

14

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Teachers' Retirement System  
of the State of Illinois

ACTUARIAL BALANCE SHEET  
(June 30, 1973)

Resources

|                                 |                        |
|---------------------------------|------------------------|
| Assets Less Current Liabilities | \$ 978,855,119*        |
| Unfunded Past Requirement       | <u>1,948,070,075</u>   |
| <u>Total Resources</u>          | <u>\$2,926,925,194</u> |

Requirements

|                                     |                        |
|-------------------------------------|------------------------|
| Present Value of Benefits           |                        |
| Retired                             | \$1,040,563,856        |
| Active Members                      | 3,378,933,093          |
| Inactive Members                    | <u>118,479,832</u>     |
| Total Present Value of Benefits     | \$4,537,976,781        |
| Present Value of Future Normal Cost | <u>1,611,051,587</u>   |
| <u>Total Requirements</u>           | <u>\$2,926,925,194</u> |

\* Includes \$23,971,985 to reflect retained earnings on equities used for actuarial valuation purposes.

175-01-85  
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A. S. Hansen, inc.

Teachers' Retirement System  
of the State of Illinois

ACTUARIAL COSTS AND OBLIGATIONS  
OF THE STATE

(Year Ended June 30, 1973)

Determination of Accrued State Costs

|   |                 |                       |
|---|-----------------|-----------------------|
| Costs for benefits earned by members' service during year |                 | \$ 183,930,096        |
| Members' contributions for year                           |                 | <u>95,145,143</u>     |
| State cost for service during year                        |                 | \$ 88,784,953         |
| Unfunded obligation of State at beginning of year         | \$1,860,001,139 |                       |
| Interest rate   | <u>x 5%</u>     |                       |
| Interest on unfunded obligation of State                  |                 | <u>93,000,057</u>     |
| Total accrued State cost for year                         |                 | <u>\$ 181,785,010</u> |

Change in Unfunded Obligation

|   |                   |                      |
|---|-------------------|----------------------|
| Unfunded obligation of State at beginning of year |                   | \$1,860,001,139      |
| Accrued State cost for year                       | \$ 181,785,010    |                      |
| Employer contribution for year                    | <u>93,716,074</u> |                      |
| Excess of cost over contribution                  |                   | <u>\$ 88,068,936</u> |
| Unfunded obligation of State as of June 30, 1973  |                   | \$1,948,070,075      |

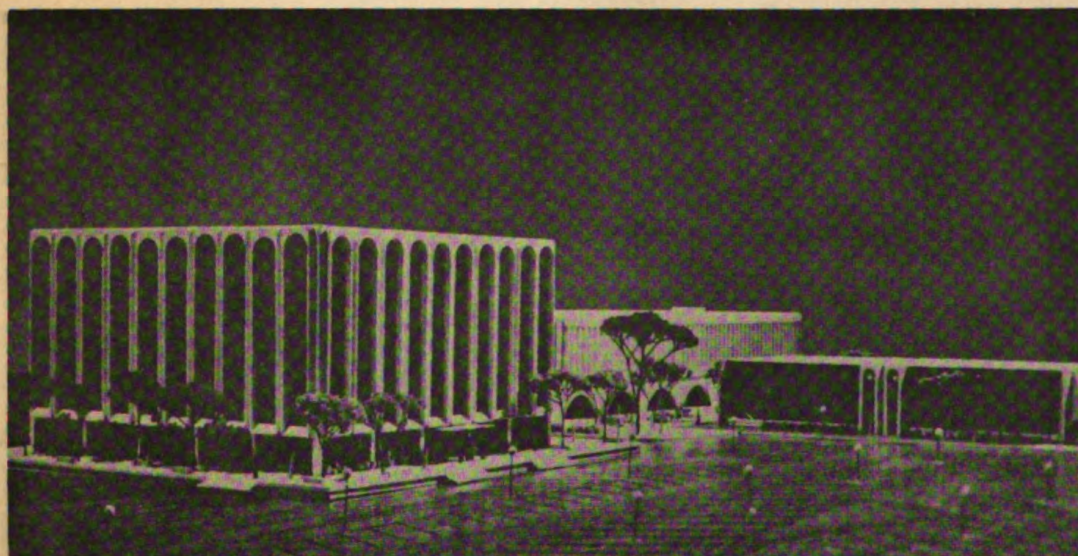
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UNIVERSITY OF ILLINOIS-URBANA



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## Illinois Teachers' Retirement System

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