

Annual report.

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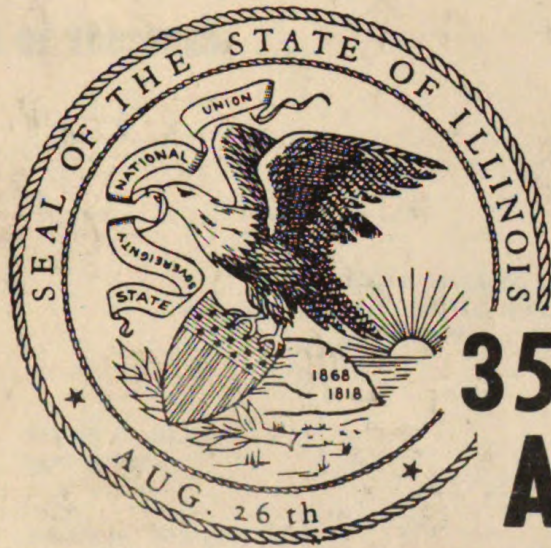
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UNIVERSITY OF ILLINOIS
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OF THE BOARD OF TRUSTEES OF THE
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

JUNE 30, 1974



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TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF ILLINOIS
450 Iles Park Place
Springfield, Illinois 62706
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ANNUAL REPORT

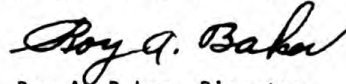
In accordance with Section 16-175 of the Act governing the Teachers' Retirement System of the State of Illinois, an annual report of the Board of Trustees of the System has been prepared each year since establishment of the present retirement system in 1939.

On behalf of the Board of Trustees, I herewith submit the Thirty-fifth Annual Report for the fiscal year ended June 30, 1974. The report summarizes activities of the retirement system during the fiscal year 1973-74 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-fifth 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, 1975

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Honorable Robert G. Cronson
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, 1974, 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, 1974, 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 which, except the change, with which we concur, in the method of accounting for the changes in actuarial valuation assumptions as referred to in note C have been applied on a basis consistent with that of the preceding year.

Alexander Grant & Company

Bloomington, Illinois
June 5, 1975

Teachers' Retirement System of the State of Illinois
BALANCE SHEET
June 30, 1974

ASSETS

Cash on hand and on deposit with State Treasurer	\$	1,498,095
Accrued interest and dividends receivable		10,804,216
Contributions receivable:		
From school districts	\$ 10,946,498	
From State of Illinois	<u>8,000,000</u>	18,946,498
Investments (Notes A-1 and B)		1,047,526,880
Equipment (Note A-2)		
Office furniture and equipment		
(less accumulated depreciation of \$134,575)		<u>60,182</u>
		<u>\$ 1,078,835,871</u>

LIABILITIES AND RESERVES

Current liabilities for benefits and refunds	\$	703,512
Administrative expenses payable		22,452
Reserves (Notes A-3 and C):		
Members' accumulated contributions (including interest)		606,069,275
Retirement (annuity payments)		929,367,272
Survivors' benefits		87,958,145
Supplementary payments		304,605
Annual increase in base pension		282,944,780
Increased age retirement allowances		95,423,220
Employer contributions, unallocated		749,518,757
Less unfunded obligation of the State of Illinois (Notes A-3 and C)		<u>(1,673,476,147)</u>
		<u>\$ 1,078,835,871</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, 1974

	Total	Members' Accumulated Contributions	Annuity Payments	Survivors' Benefits	Supplementary Payments	Annual Increase in Base Pension	Increased Age Retirement Allowance	Employers' Contributions Unallocated
REVENUE:								
Contributions and Payments by Members	\$ 101,317,226	82,505,044		12,479,238	110	6,239,860	93,157	(183)
Contributions by School Districts from Federal and Trust Funds	3,315,771							3,315,771
Contributions by State of Illinois	100,018,071			10,322,880		5,160,960		84,534,231
Reciprocity Payments	404,341		404,341					
Investment Income	53,453,535							53,453,535
Total Revenue	255,193,173	82,505,044	404,341	22,802,118	110	11,400,820	93,157	137,987,583
EXPENDITURES:								
Benefits	91,741,993		91,741,993					
Age Retirement	951,850					951,850		
Annual Increase in Base Pension	5,888,475						5,888,475	
Increased Age Retirement	4,410,550			4,410,550				
Survivors'	1,348,031		907,332					
Disability	1,162,181				1,162,181			440,699
Supplementary Payments	2,125,229		2,125,229					
Reciprocity Payments	107,628,309		94,774,554	4,410,550	1,162,181	951,850	5,888,475	440,699
Total Benefits	14,604,867	15,310,281	303,931	4,410,550	1,162,181	792,027	5,888,475	(1,801,372)
Re-Funds	863,755							863,755
Administrative Expense	123,096,931	15,310,281	95,078,485	4,410,550	1,162,181	1,743,877	5,888,475	(496,918)
Total Expenditures	132,096,242	67,194,763	(94,674,144)	18,391,568	(1,162,071)	9,656,943	(5,795,318)	138,484,501
Excess of Revenue over Expenditures Before (Loss) on Sale of Investments	(8,869,468)							(8,869,468)
(Loss) on Sale of Investments (Note D)	123,226,774	67,194,763	(94,674,144)	18,391,568	(1,162,071)	9,656,943	(5,795,318)	129,615,033
Excess of Revenue over Expenditures								
Reserve Transfers								

Reserve Transfers								
Interest Credited for Year								
Transfer Accumulated Contributions of Members Retiring During Year	21,999,234		7,209,440	65,604	2,004,687			(31,278,965)
Reinstate Contributions in Excess of Benefits Paid to Previously Retired Members Who Resumed Teaching This Year	(25,142,825)	25,142,825						
Contributions Credited to Accounts of Members Receiving Temporary Disability Payments	18,549	(18,549)						
Transfer Sufficient Interest Earnings in Excess of 4% to Balance Reserve	69,974		10,765		5,382			(86,121)
						4,096,507		(4,096,507)
Reserve Transfers, Net								
Increase in Unfunded Obligation of the State of Illinois for the Year Ended June 30, 1974	(3,055,068)	25,124,276	7,220,205	65,604	2,010,069	4,096,507		(35,461,593)
Other Reserve Transactions:								
Net Increase (Decrease) in Accounts Receivable from Members	729,171	358,011	78,941		23,630			268,589
Net Increase (Decrease) in Reserves for Year	181,684,929	64,497,706	5,515,150	(1,096,467)	38,227,143	5,754,792		(31,874,187)
Reserve Balances at July 1, 1973, as Restated	2,902,953,208	542,300,740	856,001,720	1,401,072	288,566,479	90,834,612		1,020,372,442
Less Actuarial Re-valuation as of July 1, 1973 (Decrease) in Unfunded Obligation of the State of Illinois	(332,322,912)	(27,295,240)	(21,033,148)	(43,848,842)		(1,166,184)		(238,979,498)
Balance July 1, 1973, as Adjusted (Note C)	2,570,630,296	542,300,740	828,706,480	1,401,072	244,717,637	89,668,428		781,392,944
Accounts Receivable from Members (Note A-4)								
July 1, 1973	7,442,247	7,442,247						
June 30, 1974	(8,171,418)	(8,171,418)						
Balance June 30, 1974	\$2,751,586,054	606,069,275	87,958,145	304,605	282,944,780	95,423,220		749,518,757

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, 1974

Sources of working capital		
From operations		
Excess of revenue over expenditures		\$123,226,774
Charges (credits) to earnings not using (providing) working capital		
Depreciation of equipment	\$ 12,244	
Amortization of premium or discount (net)	(4,848,511)	
Net premium at time of disposition of investments	<u>(2,288,082)</u>	<u>(7,124,349)</u>
Working capital provided from operations		116,102,425
Proceeds from payment of principal		4,184,423
Proceeds from sales, maturities and redemptions of investments		415,915,552
Increase in unfunded obligation receivable from the State of Illinois		<u>57,728,984</u>
		<u>593,931,384</u>
Applications of working capital		
Purchase of equipment	12,457	
Purchase of investments	532,838,077	
Increase in reserve balances for actuarially determined accrued liability	<u>57,728,984</u>	<u>590,579,518</u>
INCREASE IN WORKING CAPITAL		3,351,866
Working capital at July 1, 1973		<u>27,170,979</u>
Working capital at June 30, 1974		<u>\$ 30,522,845</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets		
Cash		\$ 195,180
Accrued interest and dividends receivable		1,070,919
Contributions receivable		1,993,354
(Increase) decrease in current liabilities		
Benefits payable		293,021
Refunds payable - former members		(200,602)
Accounts payable		<u>(6)</u>
INCREASE IN WORKING CAPITAL		<u>\$ 3,351,866</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, 1974

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, 1974

NOTE B - INVESTMENTS

Securities held by the System at June 30, 1974 are as follows:

	Cost or amortized Cost	Market value
U.S. Government obligations	\$ 43,044,104	\$ 43,044,104
Common stocks	370,106,624	323,807,393
Corporate bonds	143,092,284	110,686,424
Corporate debentures	239,092,318	203,670,059
Corporate notes	154,384,394	131,861,850
Equipment trust certificates	44,400,289	41,801,560
Real estate mortgage loans		
Insured by F.H.A.	53,404,224	53,404,224
Mineral rights	2,643	2,643
	\$1,047,526,880	\$908,278,257
	=====	=====

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, 1974. The market values of corporate bonds, debentures, notes and equipment trust certificates are based on prices quoted by investment counsel at May 29, 1974.

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:

	1974	1973 As adjusted
Reserve balances recorded on the books of the System at June 30	\$1,078,109,907	\$ 954,883,133
Unfunded accrued liability of the System as actuarially computed	<u>1,673,476,147</u>	<u>1,615,747,163</u>
Reserve balance, as modified at June 30	\$2,751,586,054	\$2,570,630,296
	=====	=====

During the year ended June 30, 1974, the actuarial valuation assumptions were adjusted as of July 1, 1973. The primary changes were the assumed rate of investment return was increased from 5% to 5½% and the rate of disability retirement was significantly reduced.

Teachers' Retirement System of the State of Illinois

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 1974

NOTE D - LOSS ON SALE OF INVESTMENTS

During the year ended June 30, 1974, the System on advise 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 \$18,623,201 for the current year. The System expects that the long-term cash advantage resulting from these transactions will approximate \$5,521,000 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	\$18,623,201
Less, net gain, sale of common stock, and miscellaneous	<u>9,753,733</u>
Net loss, sale or exchange of investments	<u>\$ 8,869,468</u>

NOTE E - LEASE COMMITMENTS

The System has two leases for office space, in effect, which expire in September and November 1976.

The annual rent obligation for the succeeding fiscal years are as follows:

June 30, 1975	\$64,508
June 30, 1976	\$64,508
June 30, 1977	\$17,603

SCHEDULE OF INVESTMENT INCOME
July 1, 1973 - June 30, 1974

U. S. Government Obligations	\$ 2,596,785
Common Stock	10,603,020
Other Corporate Securities:	
Bonds	8,111,583
Debentures	14,478,070
Notes	12,205,235
Equipment Trust Certificates	3,014,905
Real Estate Mortgage Loans - FHA Insured	2,436,350
Royalties and Miscellaneous Income	<u>7,587</u>
	<u>\$ 53,453,535</u>

A. S. Hansen, inc.
ACTUARIES AND CONSULTANTS

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

March 13, 1975

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, 1974

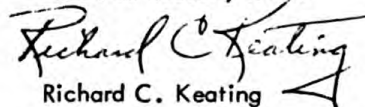
In accordance with the provisions of the Teachers' Retirement System of the State of Illinois, we have made an estimate of the required Reserves and Unfunded Obligation of the System as of June 30, 1974.

The estimate is based on a census and valuation of retired members as of June 30, 1974 and a census and valuation of active and inactive members as of June 30, 1973. 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, 1974.

Respectfully submitted,

A. S. HANSEN, INC.


Richard C. Keating

RCK:jl
175-01-85
Enc.

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Teachers' Retirement System
of the State of Illinois

ACTUARIAL BALANCE SHEET
(June 30, 1974)

Resources

Assets Less Current Liabilities \$1,108,988,907*

Unfunded Past Requirement 1,681,647,565

Total Resources \$2,790,636,472

Requirements

Present Value of Benefits

Retired \$1,146,937,280

Active Members 2,898,624,861

Inactive Members 160,604,070

Total Present Value of Benefits \$4,206,166,211

Present Value of Future Normal Cost 1,415,529,739

Total Requirements \$2,790,636,472

* Includes \$30,879,000 to reflect retained earnings on equities used for actuarial valuation purposes.

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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, 1974)

Determination of Accrued State Costs

Costs for benefits earned by members' service during year		\$ 170,518,041
Members' contributions for year		<u>101,317,229</u>
State cost for service during year		\$ 69,200,812
Unfunded obligation of State at beginning of year	\$1,623,189,407	
Interest rate	<u>x 5½%</u>	
Interest on unfunded obligation of State		<u>89,275,417</u>
Total accrued State cost for year		<u>\$ 158,476,229</u>

Change in Unfunded Obligation

Unfunded obligation of State at beginning of year		\$1,623,189,407
Accrued State cost for year	\$ 158,476,229	
Employer contribution for year	<u>100,018,071</u>	
Excess of cost over contribution		<u>\$ 58,458,158</u>
Unfunded obligation of State as of June 30, 1974		\$1,681,647,565

175-01-85

A. S. Hansen, Inc.

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Illinois Teachers' Retirement System

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Springfield, Illinois