

Annual report.

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TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS 1976 ANNUAL REPORT

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



**TROY ISON
MT. VERNON**



**JOSEPH M. CRONIN
PRESIDENT
STATE SUPERINTENDENT**



**ALEX NAIDENOVICH
ELMHURST**



**VIVIAN NAJIM
SPRINGFIELD**



**JOSEPH M. PASTERIS
DE KALB**



**JAMES R. WILLIAMS
SPRINGFIELD**

Professional Consultants

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Actuaries

Peat, Marwick, Mitchell and Co.
Auditors

Springfield Marine Bank
Investment Counsel

William J. Scott, Attorney General

Gillespie, Cadigan and Gillespie
Legal Advisors

Executive Staff

Roy A. Baker
Director

A. H. Sommer
Associate Director

Owen H. Guthrie
Assistant Director

Rodney C. Senn
Assistant Director

Teachers' Retirement System

450 Iles Park Place
Springfield, Illinois 62703

477 E. Butterfield Rd.
Lombard, Illinois 60148

DIRECTOR'S MESSAGE



ROY A. BAKER
DIRECTOR

The 1975-76 financial report, the 37th report prepared by the System, is a benchmark in our history because it is the first in its expanded format to be widely distributed throughout the educational community of Illinois.

Fiscal 1976 has been an outstanding year for the financial integrity of the System. The following pages show that the investment income of the System rose to an all-time high of \$76 million, an increase of 10.6% from last year's record earnings. The net assets are up 14.9% to \$1.4 billion; and most importantly, the System attained the highest funding level in ten years, at 44.4%. During the year, Becker Securities Corporation was retained to conduct comparative studies on our investment yields. These studies show that our System's investment performance, when compared to similar pension funds, ranked in the upper twenty-fifth percentile. While these are noteworthy accomplishments that give comfort to our members, they also provide the incentive for greater accomplishments next year.

The strides taken by our investment program are important to the improved funding level of the System. However, the need for a systematic approach to funding, by the State of Illinois, continues to exist. The System has taken, and will continue to take, a leadership position in suggesting alternatives to the General Assembly in arriving at a solution.

A discussion of adequate funding inevitably leads to a review of the benefit structure of the System. With this year's amendment increasing the amounts payable under the Survivor Benefit Program, the System ranks among the leaders when compared to retirement systems of other states. Nevertheless, legislative improvements are needed periodically if we are to maintain this standard.

The System will support legislative amendments in 1977 permitting retirement without discount at age 55 after 20 or more years of service, and increasing the cost of living multiplier for those in retirement. This support is contingent upon financial resources being provided to fund these additional benefits.

This past year also witnessed improved services to our members. Two additional consultants were employed to conduct informational workshops and individual conferences at various sites throughout the State. Extensive improvements in data processing and micrographics now allow the System to respond to inquiries in a more efficient manner. The success of these programs has stimulated the initiation of additional services for the coming year.

I wish to express my appreciation to the Board of Trustees for the dedication shown to the welfare of the System and its members. This dedication is most apparent in the Board's increased involvement in both our investment and legislative programs. Its concern for the interests of the members is reflected in the adoption of a stronger confidentiality of records policy.

Finally, I would like to thank our members for the confidence they have expressed in the System. With your continued support, Fiscal 1977 promises to be an even better year.

INVESTMENT PHILOSOPHY OF THE BOARD OF TRUSTEES

Teachers look forward to their retirement with the expectation that the Teachers' Retirement System will be able to provide them with a secure and adequate income to enjoy a new phase of their lives. Payments from the Teachers' Retirement System frequently constitute a major source of retirement income. Additionally, the System is often the principal protection of teachers against the contingencies of death or disability.

With the welfare of its members and annuitants in mind, the policy of the Teachers' Retirement System is to maintain the preservation of capital while allowing a sufficient return on investments to meet the legal requirements of the System for its beneficiaries. In other words, a conservative investment plan, which avoids the risks of speculation, and yet maintains a steady rate of return, is considered to be in the best interest of the System's members and annuitants.

The power to invest funds comes to the Board of Trustees in Section 16-179, Chapter 108½ of the Illinois Revised Statutes. In addition to the statutory directions and restrictions in this Section, the Trustees operate under the "prudent man" rule, exercising judgment and care under prevailing circumstances which men of ordinary prudence would employ in the management of their own affairs.

The Board's policy provides for the utilization of all appropriate avenues of investment authorized by statute to maintain a high-quality diversified portfolio of investments. Accordingly, the Board continually reviews and assesses its investments in stable companies as the economic climate changes. Flexibility and market timing are important elements in this policy, which emphasizes the consistent performance of the total portfolio.

Diversification of investments is perhaps the most important element of this policy. Risk limitation is accomplished by diversifying the types of assets, types of industries, companies within industries, quality of the investment, maturity dates, and geographic areas.

Diversification by asset types requires investment in bonds, mortgages, and high quality stocks. Active management of the bond portfolio improves the System's total portfolio in terms of quality, marketability, income, maturities, and refunding protection. The mortgage portfolio provides a high quality income stream that is less subject to fluctuations during changing economic conditions than some other types of investments. Equity investments of selected stock provide a long-term inflation hedge with flexibility in changing economic conditions and allow a higher total return from both fixed-income and equity investments. In addition, the Board's investment policy provides for the use of short-term investments in accordance with statute in order to maximize earnings of the System and to allow for flexibility in respect to market-timing of long-term investments.

The use of professional investment services by the Board secures for the System the most up-to-date information and experienced advice possible to make sound judgments concerning investments. The investment portfolio is managed by the Springfield Marine Bank. In addition, Becker Securities Corporation provides the Board with quarterly comparative studies of portfolio performance.

Participation in the affairs of any public body demands a high-level of personal integrity and conduct. This is especially true when the wise utilization of the funds of others is involved. Members of the Board discharge their responsibilities without prejudice or favor, avoiding at all times pressures from social issues and any conduct which creates a conflict of interest. The primary goal of the Board is to assure Illinois teachers a secure future in retirement.

SUMMARY OF OPERATIONS FOR TWELVE MONTHS ENDED JUNE 30, 1976

— in thousands of dollars —

NET ASSETS — July 1, 1975		\$ 1,250,363
INCOME —		
Employee Contributions		\$ 121,248
Employer Contributions —		
State Approp. — Common School Fund	\$ 129,298	
State Approp. — General Revenue Fund	8,600	
State Approp. — State Pension Fund	653	
From Federal and Trust Funds	<u>4,290</u>	142,841
Investment Income	<u>76,472</u>	<u>340,561</u>
		\$ 1,590,924
EXPENDITURES		
Annuities and Benefits —		
Age Retirement	\$ 113,275	
Post-retirement Benefits	18,769	
Survivor Benefits	5,155	
Disability Benefits	<u>1,858</u>	139,057
Refunds		14,118
Administrative Expenses	<u>1,239</u>	<u>(154,414)</u>
NET ASSETS — June 30, 1976		\$ 1,436,510

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ANALYSIS OF OPERATIONS

INCOME

Employee Contributions

All "teachers" in the public common schools of Illinois, outside the City of Chicago, are required to contribute 8% of their gross earnings to the System. This amount, after it is received by the System, is distributed to separate reserves in the following manner: 6½% of earnings to the Members' Contribution Reserve; ½% of earnings to the Annual Increase in Base Pension Reserve; and 1% to the Survivor Benefit Reserve. This income rose by \$8.3 million during fiscal 1976, an increase of 7.4%.

Employer Contributions

There are four sources of employer contributions. Three of them are direct appropriations made by the General Assembly of the State of Illinois. The Common School Fund appropriation of \$129,298,000 meets most of the benefit payments of the Retirement System. The General Revenue Fund appropriation of \$8,600,000 meets the expenses of two post-retirement benefits — the Supplementary Retirement Income, enacted in 1961, and a Minimum Retirement Allowance, enacted in 1974. The third appropriation of \$653,000 from the State Pension Fund is the System's share in the distribution of unclaimed assets that have escheated to the State. In addition, school districts, as required by law, contributed \$4,290,000 from special trusts and Federal funds under their control. The total employer contributions increased by \$8.4 million in Fiscal 1976, a 6.3% increase.

Investment Income

In accordance with statutory directions and restrictions as set forth in Section 16–179, Chapter 108½ of the Illinois Revised Statutes, the System invests its assets in conservative stocks, selected bonds, etc. Investment income for Fiscal 1976 was \$76,472,000, a 10.6% increase over the income of Fiscal 1975.

The total income of \$340,561,000 for Fiscal 1976 is an 8.7% increase over Fiscal 1975.

EXPENDITURES

Expenditures for Fiscal 1976 included \$113,275,000 for age retirement; \$18,769,000 for post-retirement benefits; \$5,155,000 for survivor benefits; and \$1,858,000 for disability benefits. An additional \$14,118,000 was refunded to teachers who left the System and withdrew their contributions. Administrative expenses for the year were \$1,239,000 which represents .8% of the total expenditures of the System. The combined total expenditures amounted to \$154,414,000, an increase of 9.6%.

NET ASSETS

The net assets at June 30, 1976, were \$1,436,510,000. This is an increase of \$186,146,128 over the net assets at June 30, 1975, up 14.9%.

STATEMENT OF ASSETS, LIABILITIES AND RESERVES JUNE 30, 1976

— in thousands of dollars —

ASSETS

Cash on Deposit With State Treasurer		\$	2,324
Contributions Receivable From School Districts —			
Member Salary Deductions	\$ 10,029		
Federal and Trust Fund	<u>1,240</u>	\$ 11,269	
From State of Illinois —			
Common School Fund	\$ 10,774		
General Revenue Fund	<u>575</u>	<u>11,349</u>	22,618
Accrued Interest and Dividends Receivable			14,796
Investments (at Amortized Cost)			1,397,156
Mineral Rights			3
Land, Office Furniture and Equipment (Less Accumulated Depreciation)			<u>165</u>
GROSS LEDGER ASSETS			<u>\$ 1,437,062</u>

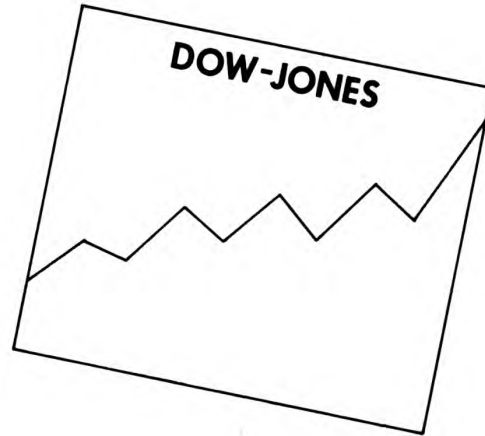
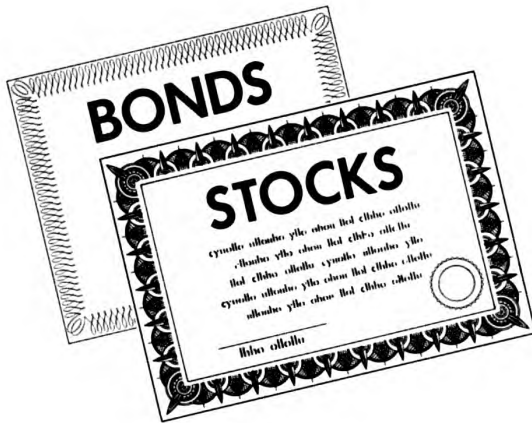
LIABILITIES AND RESERVES

Current Liabilities —			
Annuities and Benefits Payable	\$ 316		
Refunds Payable	205		
Administrative Expenses Payable	<u>32</u>		553
Reserves —			
Members' Contribution Reserve			764,559
Retirement Reserve			1,157,670
Survivor Benefit Reserve			233,838
Annual Increase in Base Pension Reserve			76,617
Minimum Retirement Reserve			685
Supplementary Payment Reserve			184
Employer Contribution Reserve*			<u>(797,044)</u>
GROSS LEDGER LIABILITIES AND RESERVES			<u>\$ 1,437,062</u>

*Deficit to be provided by future State of Illinois appropriations

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INVESTMENTS

The following pages list the investment holdings of the System at June 30, 1976.

The statement below reflects only the earnings of securities held at June 30, 1976, and does not reflect the net gain resulting from the sales of securities, such gain being included in the total investment income shown on Page 4.

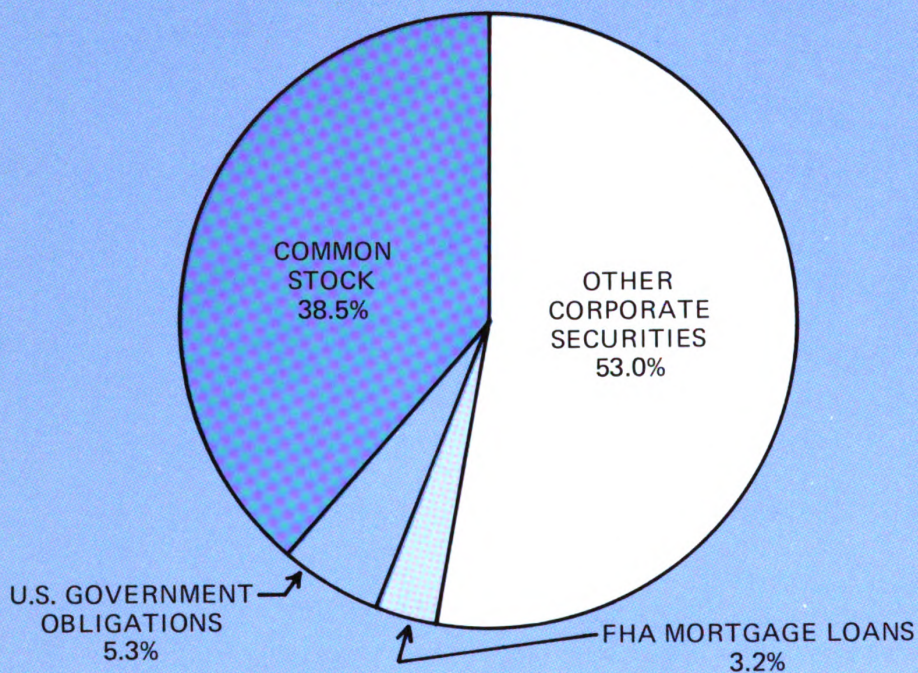
INVESTMENT STATEMENT

Description	Book Value at June 30, 1976	Earnings Fiscal 1976
U. S. Government Securities	\$ 73,403,451	\$ 3,000,727
Corporate Bonds	149,321,835	10,763,929
Corporate Debentures	353,330,262	24,989,590
Corporate Notes	194,881,998	13,434,153
Equipment Trust Certificates	43,397,414	3,526,415
Common Stock	538,239,954	16,325,681
F.H.A. Mortgage Loans	44,581,763	2,069,771
Totals	\$1,397,156,677	\$74,110,271

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COMPOSITION OF INVESTMENTS



U. S. Government Securities		Equip Trust Certificates	
Description	Book Value	Description	Book Value
U.S. Treasury Bonds	4,919,553	Burlington Northern Inc.	4,982,393
U.S. Treasury Bills	68,483,898	Gen. Am. Transport. Corp.	9,000,000
Total Government Securities	\$73,403,451	Pullman Transport Leasing Corp.	10,000,000
		Union Tank Car Corp.	19,415,021
		Total Trust Certificates	\$43,397,414

CORPORATE BONDS

Description	Book Value	Book Value	
American Export Isbrandtsen Lines Inc.	4,599,000	Bethlehem Steel Corp.	10,000,000
Arizona Public Service Co.	3,000,000	Borg Warner Acceptance Corp.	9,979,323
Brooklyn Union Gas Co.	6,110,000	Caterpillar Tractor Co.	6,000,000
Central Illinois Public Service	50,099	Chase Manhattan Corp.	5,000,000
Chicago Union Station Co.	3,845,086	C I T Financial Corp.	9,791,910
Citizens Utilities Co.	1,000,000	Cities Service Gas Co.	10,000,000
Commonwealth Edison Co.	8,397,868	Clark Equipment Credit Corp.	2,111,645
Connecticut Light & Power Co.	500,174	Commonwealth Edison Co.	1,438,588
Consolidated Edison Co.	8,774,739	Deere and Co.	10,000,000
Duke Power Co.	504,336	Dow Chemical Co.	10,000,000
Duquesne Light Co.	99,349	Eltra Corp.	4,982,400
General Telephone Co. of Calif.	2,982,032	F M C Corp.	4,457,089
General Telephone Co. of Ill.	4,000,000	Federal Intermediate Credit Bank	10,000,000
General Telephone of Ohio	3,000,000	Flintkote Co.	10,000,000
Illinois Bell Telephone Co.	498,630	Ford Motor Credit Co.	10,000,000
Illinois Power Co.	150,000	General Electric Co.	5,000,000
Indianapolis Water Co.	1,506,208	General Motors Acceptance Corp.	4,097,042
International Bank for Rec. & Dev.	25,433,930	General Motors Corp.	9,952,076
Kansas City Power & Light Co.	99,202	Georgia Pacific Corp.	1,630,000
Kansas Power & Light Co.	2,000,000	W. T. Grant Co.	3,168,000
Kerr Glass Manufacturing Corp.	5,000,000	Gulf Oil Corp.	8,965,118
Long Island Lighting Co.	7,000,000	Household Finance Corp.	7,960,564
Natural Gas Pipeline of America	3,979,180	Illinois Bell Telephone Co.	10,000,000
New York Telephone Co.	3,596,142	International Harvester Credit Corp.	8,922,385
Ohio Edison Co.	3,026,405	John Deere Credit Co.	4,000,000
Ohio Power Co.	150,272	Marine Midland Banks Inc.	9,638,355
Pacific Gas & Electric Co.	4,739,763	Masco Corp.	4,975,045
Peoples Gas Light & Coke	3,280,000	May Dept. Stores Credit Co.	3,396,303
Philadelphia Electric Co.	3,537,288	Memorex Corp.	900,000
Prudential Grace Lines Inc.	7,881,000	Monsanto Co.	9,952,024
Public Service Electric & Gas Co.	10,183,001	Mountain Fuel Supply Co.	1,968,707
Rochester Telephone Co.	248,980	Mountain States Telephone & Telegraph Co.	3,045,717
Southern Calif. Edison Co.	9,756,291	New England Mutual Life Insurance Co.	9,916,676
Southern Calif. Gas Co.	499,113	New England Telephone & Telegraph Co.	4,875,588
Tucson Gas & Electric Co.	2,000,000	P. P. G. Industries Inc.	4,980,559
Union Electric Co.	3,024,376	Pacific Telephone & Telegraph Co.	11,038,736
Virginia Electric & Power Co.	3,423,348	J. C. Penney Credit Corp.	5,500,452
Washington Gas Light Co.	1,446,000	Pennzoil United Inc.	830,000
		Philadelphia Electric Co.	1,380,000
Total Corporate Bonds	\$149,321,835	Province of Ontario Canada	3,967,042
		Public Service Electric & Gas Co.	1,376,231
		Quebec Hydro Electric Comm.	4,000,000
		Southern Bell Telephone & Telegraph Co.	2,017,977
		Southwestern Bell Telephone Co.	6,525,752
		Standard Oil of Calif.	9,551,232
		Swift and Co.	916,870
		Travelers Corp.	5,000,000
		Union Carbide Corp.	10,000,000
		Union Oil Co. of Calif.	10,000,000
		United Gas Pipeline	2,792,823
		Westinghouse Electric Corp.	5,453,201
		Westinghouse Electric Credit Co.	4,373,194
		Total Corporate Debentures	\$353,330,262

CORPORATE DEBENTURES

Description	Book Value
American Telephone & Telegraph Co. Associates Corp. of North America	18,215,554
BankAmerica Corp.	4,373,551
Beneficial Finance Corp.	9,900,515
	5,001,994

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CORPORATE NOTES

Description	Book Value
American Investment Co. of Illinois	1,440,000
Associates Corp. of North America	5,000,000
Beneficial Corp.	3,000,000
Bay State Gas Co.	2,050,000
CIT Financial Corp.	2,987,343
City Investing Co.	4,250,000
Commercial Credit Co.	4,920,112
Countrywide Stations Inc.	9,637,000
Darmad Corp.	2,252,486
Delaware Western Properties Inc.	4,475,000
E I DuPont Denemours & Co.	5,000,000
Esmark Inc.	5,000,000
Explorer Pipeline Co.	10,000,000
General Electric Credit Corp.	11,057,315
General Motors Acceptance Corp.	5,000,000
Gromarco Inc.	1,852,000
Humble Transportation Co.	10,000,000
Interway Corp.	1,370,000
Kroger Co.	1,000,000
Marathon Pipe Line Co.	5,000,000
Mercantile Trust Co.	3,000,000
Midcontinent Properties Inc.	10,000,000
J P Morgan & Co. Inc.	4,958,739
P P G Industries Inc.	4,983,805
Pan American World Airways Inc.	9,040,907
Pennsylvania Life Co.	908,130
Pfizer Inc.	10,000,000
Republic National Corp.	2,454,954
Research Properties Inc.	5,000,000
G D Searle & Co.	4,989,651
Stauffer Chemical Co.	5,000,000
Texaco Inc.	2,475,000
Union Bank of Los Angles	2,000,000
United California Bank	3,000,000
Western Electric Co. Inc.	10,000,000
Western Slope Gas Co.	10,000,000
Goodyear Financial Corp.	6,537,262
John Deere Credit Corp.	1,919,311
Borg Warner Acceptance Corp.	3,322,975
Total Corporate Notes	\$194,881,998

FHA MORTGAGE LOANS

Description	Book Value
A.L.C. Housing #1	1,013,490
A.L.C. Housing #2	769,947
A.L.C. Housing #3	943,249
Arundeland Inc.	1,201,279
Beale AFB Housing #3	1,240,341
Beale AFB Housing #4	1,206,809
Columbus AFB Housing #3	865,142
Columbus AFB Housing #4	970,024
Columbus AFB Housing #5	1,085,897
Cumberland Housing Inc.	1,335,458
Dow AFB #5	383,435
Dow AFB #6	1,627,771
Dow AFB #7	1,561,809
East Navy Homes Inc.	474,501
Fort Eustis Homes Inc.	3,216,446
Greenlawn Apt. Inc.	163,168
Hamilton AFB Housing	868,212
Hamilton AFB #2 Inc.	1,075,498
Hamilton AFB #3	1,162,292
Hamilton AFB #4	930,770
Iowa-East Corp.	33,401
Lawrence G. Hanscom #2	977,850
Lawrence G. Hanscom #3	987,313
McChord AFB Housing Inc.	691,341
McChord AFB Housing #2	764,307
McChord AFB Housing #3	739,716
McChord AFB Housing #4	670,544
McChord AFB Housing #5	675,022
McChord AFB Housing #6	463,837
New London NSB, 8th	1,545,837
New London NSB, 9th	1,451,717
New London NSB, 10th	1,701,743
Oak Ridge, Tenn.	1,182,196
Redstone Housing Corp.	1,350,847
Shafter Schofield Inc. 2nd	1,268,691
Shafter Schofield 3rd	755,253
Shafter Schofield 4th	1,088,465
Schilling AFB (Smoky Hill) Housing Inc.	2,818,086
Turner AFB Inc.	1,486,415
The Woodner Rock Creek Plaza Inc.	1,833,625
Total FHA Mortgage Loans	\$44,581,763

COMMON STOCKS

Description	Book Value
Aetna Life & Casulty Co.	9,414,132
Air Products & Chemicals Inc.	4,386,986
Aluminum Co. of America	11,078,543
American Home Products Corp.	13,409,122
Amax Inc.	4,562,764
American Standard Inc.	4,263,549
American Telephone & Telegraph Co.	14,080,746
Ara Services Inc.	5,476,815
Armstrong Cork Co.	1,475,000
Atlantic Richfield Co.	7,621,827
Baxter Laboratories Inc.	799,991
Becton-Dickinson & Co.	3,363,105
Beneficial Corp.	6,553,924
Burroughs Corp.	4,923,502
C I T Financial Corp.	1,385,464
Carrier Corp.	4,808,570
Caterpillar Tractor Co.	3,999,005
Central Illinois Light Co.	1,350,030
Chase Manhattan Bank	7,709,550
Clark Equipment Co.	3,492,635
Coco Cola Bottling Co. of N.Y.	2,845,925
Columbia Broadcasting System	9,343,256
Consolidated Foods Corp.	4,865,178
Corning Glass Works	2,553,564
Cummins Engine Co.	2,207,386
Delta Air Lines Inc.	5,120,345
Walt Disney Productions	4,656,137
Dow Chemical Co.	8,154,857
E.I. DuPont Denemours Inc.	908,211
Eastman Kodak Co.	8,274,774
Emerson Electric Co.	7,318,564
F W Woolworth Co.	6,409,679
Federated Dept. Stores	4,360,631
Firestone Tire & Rubber Co.	1,917,112
Citicorp	14,265,504
Ford Motor Co.	10,292,396
General American Transportation Co.	4,521,697
General Electric Corp.	19,202,999
General Food Inc.	4,767,397
General Mills Inc.	8,306,750
General Motors Corp.	15,333,953
General Telephone & Electronics Corp.	3,125,381
Gillette Co.	2,963,370
Greyhound Corp.	2,448,106
Gulf Oil Corp.	2,187,137
Halliburton Co.	5,604,560
Household Finance Co.	2,704,086
I B M Corp.	19,899,359
Illinois Power Co.	2,668,293

COMMON STOCKS

Description	Book Value
Inland Steel Co.	2,524,445
International Paper Co.	4,855,970
International Telephone & Telegraph Corp.	10,281,769
Jewel Companies Inc.	3,126,299
S.S. Kresge Co.	4,681,810
Libbey Owens Ford Co.	2,230,200
Marathon Oil Co.	5,734,619
Marlennan Corp.	3,511,551
Masco Corp.	3,576,549
Masonite Corp.	4,526,810
Merck and Co.	2,480,332
Minnesota Mining & Mfg. Co.	9,828,843
Nabisco Inc.	4,624,481
Nalco Chemical Co.	3,944,771
Oklahoma Gas & Electric Co.	1,090,905
Owens Corning Fiberglass Co.	5,006,465
Owens Illinois Inc.	7,101,077
J C Penney Co. Inc.	4,535,894
Peoples Gas Light & Coke Co.	1,201,747
Pepsico Inc.	12,541,355
Pitney Bowes Inc.	3,398,551
Pittston Co.	2,800,836
Procter & Gamble Co.	7,447,187
Radio Corp. of America	6,592,048
Ralston Purina Co.	9,620,810
Richardson Merrell Inc.	4,753,638
Sears Roebuck & Co.	9,810,926
Schering-Plough Corp.	5,862,282
Scott and Fetzer Co.	2,848,141
Scott Paper Co.	3,455,311
Shell Oil Co.	2,046,295
Smith Kline & French Labs	5,306,279
Southern Co.	1,588,476
Exxon Corp.	4,578,132
Sterling Drug	4,620,320
Texaco Inc.	6,787,612
Thomas & Betts Corp.	2,407,835
Trans Union Corp.	3,674,181
Transamerica Corp.	2,531,539
Union Carbide Corp.	7,726,037
Union Pacific Corp.	5,841,068
Warner Lambert Co.	9,180,829
Westinghouse Electric Co.	5,591,976
Weyerhaeuser Co.	5,344,856
Whirlpool Corp.	4,450,988
Xerox Corp.	8,885,939
Zenith Radio Corp.	1,900,057
Total Common Stock	\$538,239,954

A. S. Hansen, inc.
ACTUARIES AND CONSULTANTS

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

February 16, 1977

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, 1976

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, 1976.

The estimate is based on a census and valuation of retired members as of June 30, 1976 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, 1976.

Respectfully submitted,

A. S. HANSEN, INC.

Richard C. Keating
Richard C. Keating, FCA
Member, American Academy
of Actuaries

ACTUARIAL BALANCE SHEET

— June 30, 1976 —

Resources

Assets Less Current Liabilities	\$1,479,116,151*
Unfunded Past Requirement	1,849,861,629**
Total Resources	\$3,328,977,780

Requirements

Present Value of Benefits	
Retired	\$1,435,358,409
Active Members	3,308,233,995
Inactive Members	183,396,657
Total Present Value of Benefits	\$4,926,989,061
Present Value of Future Normal Cost	1,598,011,281
Total Requirements	\$3,328,977,780

* Includes \$42,604,000 to reflect retained earnings on equities used for actuarial valuation purposes.

** This represents the additional amount required from the State of Illinois to meet the future obligations of the System based on the established service credit of the members at June 30, 1976.

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ACTUARIAL COSTS AND OBLIGATIONS OF THE STATE

— June 30, 1976 —

Determination of Accrued State Costs

Costs for benefits earned by members' service during year		\$ 209,316,138
Members' contributions for year		<u>121,248,450</u>
State cost for service during year		\$ 88,067,688
Unfunded obligation of State at beginning of year	\$1,797,191,000	
Interest Rate	<u>x 5½%</u>	
Interest on unfunded obligation of State		\$ 98,845,505
Total accrued State cost for year		<u>\$ 186,913,193</u>

Change in Unfunded Obligation

Unfunded obligations of State at beginning of year		\$1,723,890,065
Amendment, July 1, 1975		<u>73,300,935</u>
		\$1,797,191,000
Accrued State cost for year	\$ 186,913,193	
Employer contribution for year	<u>134,242,564</u>	
Excess of cost over contribution		<u>52,670,629</u>
Unfunded obligation of State as of June 30, 1976		<u>\$1,849,861,629</u>

ALLOCATION OF REQUIREMENTS

— June 30, 1976 —

Automatic Increase:

Sec. 16 — 133.1 Retired		\$ 148,551,468
Sec. 16 — 133.1 Active and Inactive		207,879,238
Sec. 16 — 136.1 Retired		93,045,420

Survivor Program:

Survivors receiving payments		\$ 36,090,624
Potential survivors of retired members		67,706,456
Potential survivors of Active and Inactive		115,395,681

Regular pension death, refund:

Retired		\$1,089,964,441
Active and Inactive		1,570,344,452
Total Requirements		\$3,328,977,780

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THE YEAR IN REVIEW

Growth and Operations

- The total number of monthly benefit recipients at June 30, 1976, increased by 1,015 to a total of 28,244.
- Benefit payments increased from \$124,998,584 to \$139,058,933.
- Monthly Survivor Benefit recipients increased from 1,309 to 1,400. Payments, including lump sum payments, increased by \$123,408 to a total of \$5,155,184.
- Disability recipients increased by 70 to a total of 653. This resulted in an increase of \$270,142 in benefit payments to a total of \$1,858,535.
- Active membership remained stable at approximately 105,000 members.

Administrative Improvements

- Additional consultants were employed to conduct informational workshops and individual conferences.
- Informational workshops were conducted with 9,467 members, an increase of 1,661 from the previous year.
- Individual conferences were conducted with 3,772 members, an increase of 1,574 from the previous year.
- Expanded microfiche services were incorporated into the administrative functions, eliminating considerable supply expenses and storage problems.
- Increased efficiency of office procedures was accomplished through improvements in our Data Processing Department.
- Daily up-date of members files has provided improved services to members and to school districts.

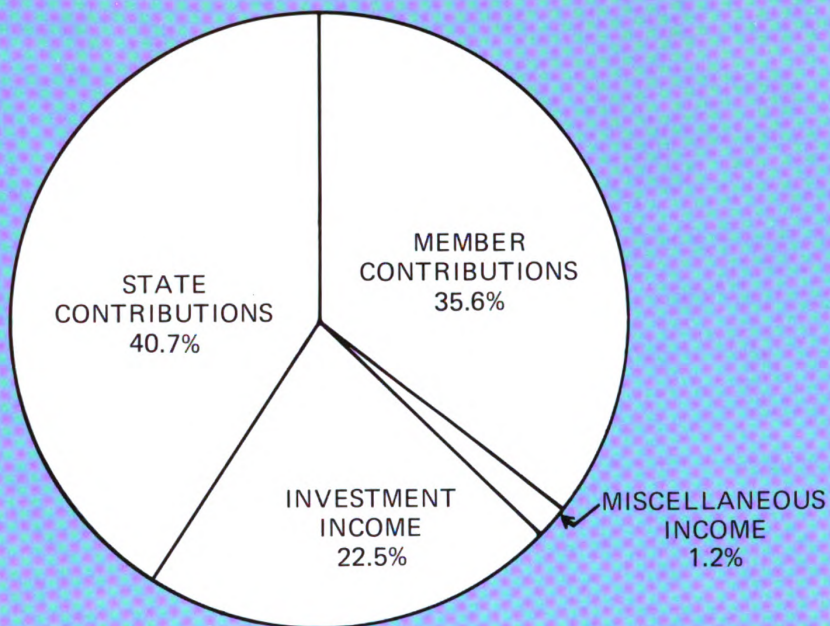
Financial Growth

- Investment earnings increased by \$10,644,881 to a total of \$76,473,331, an increase of 10.6%.
- Net assets of the System rose by \$186,148,279 to a total of \$1,436,512,151, an increase of 14.8%.
- The funding level of the System rose from 42.7% to 44.4%.
- Becker Securities Corporation was hired to analyze investment performance.

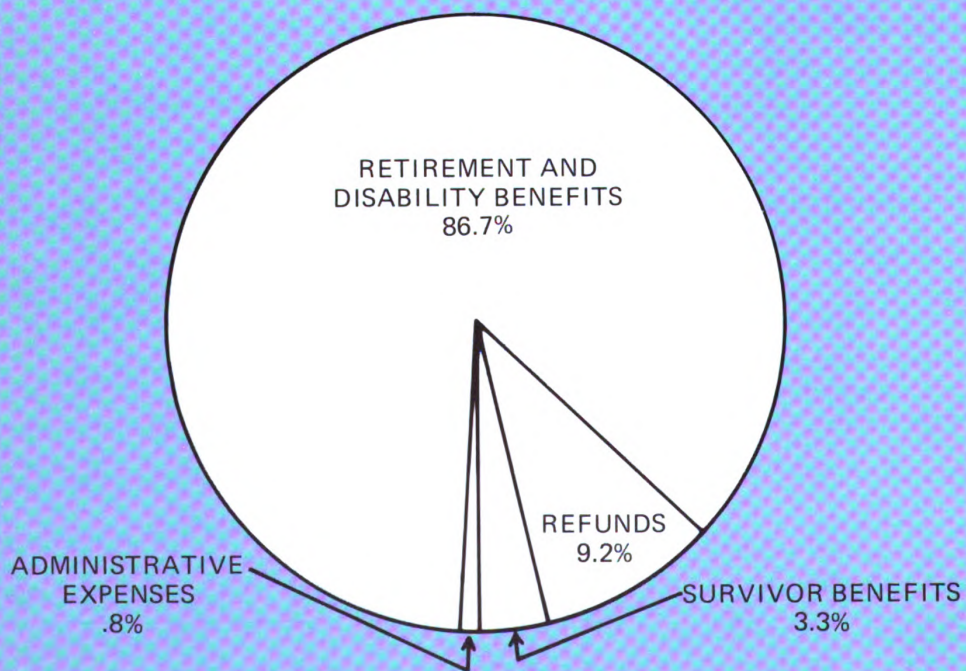
Legislation Enacted

- S.B. 659 – redefined “average salary” for a member retiring under the Retirement System’s Reciprocal Act.
- H.B. 1586 – raises the amounts payable under the Survivor Benefits Program.
- H.B. 1831 – permits credit for certain part-time teaching completed prior to July 1, 1969.
- H.B. 1831 – simplifies the procedure for securing approval of Accidental Disability claims.

1975-76 INCOME SUMMARY



1975-76 EXPENDITURE SUMMARY

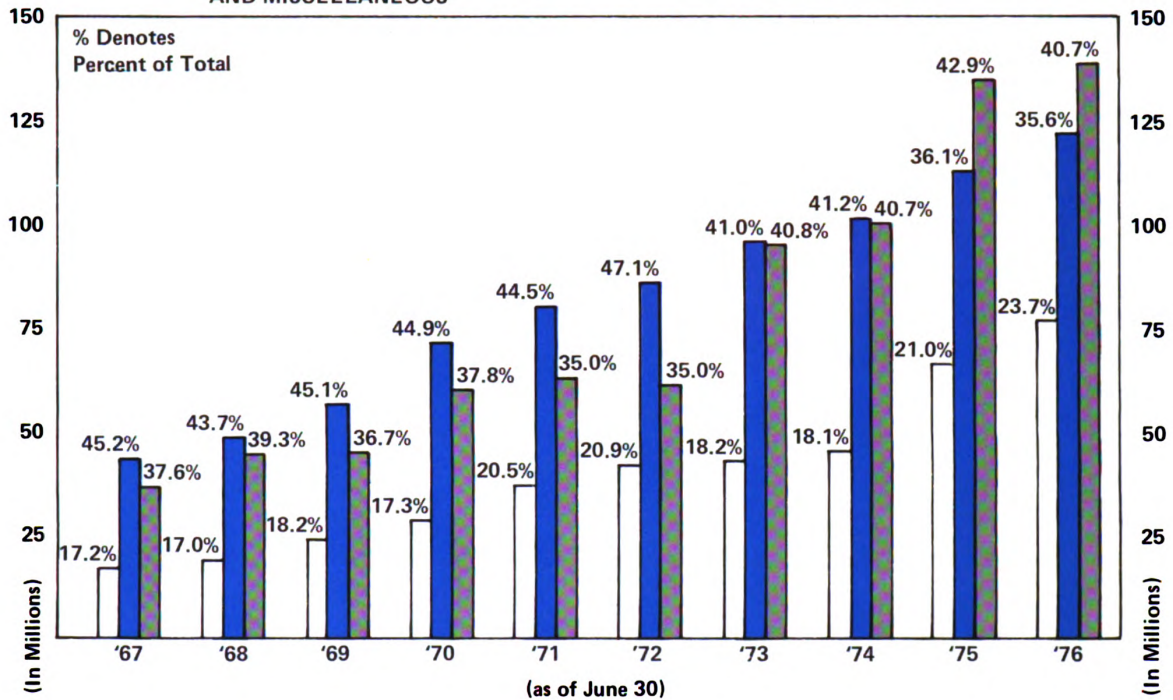


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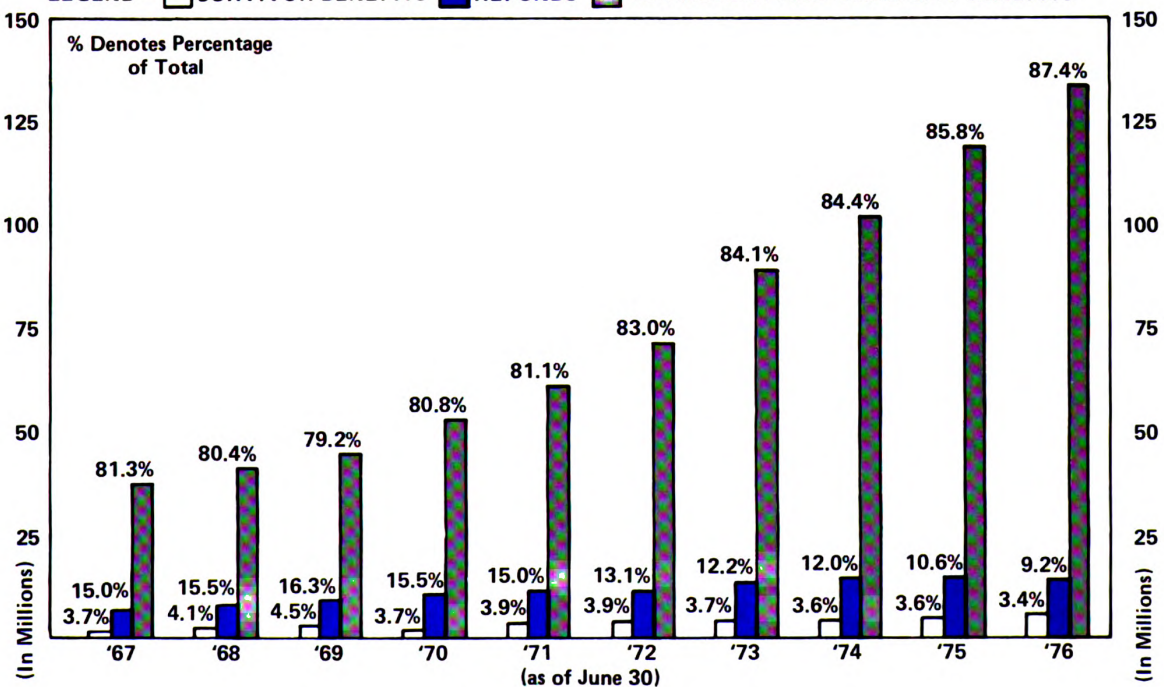
10 YEAR SUMMARY OF INCOME

LEGEND — INVESTMENT INCOME AND MISCELLANEOUS TEACHER CONTRIBUTIONS STATE CONTRIBUTIONS



10 YEAR SUMMARY OF BENEFIT AND REFUND EXPENDITURES

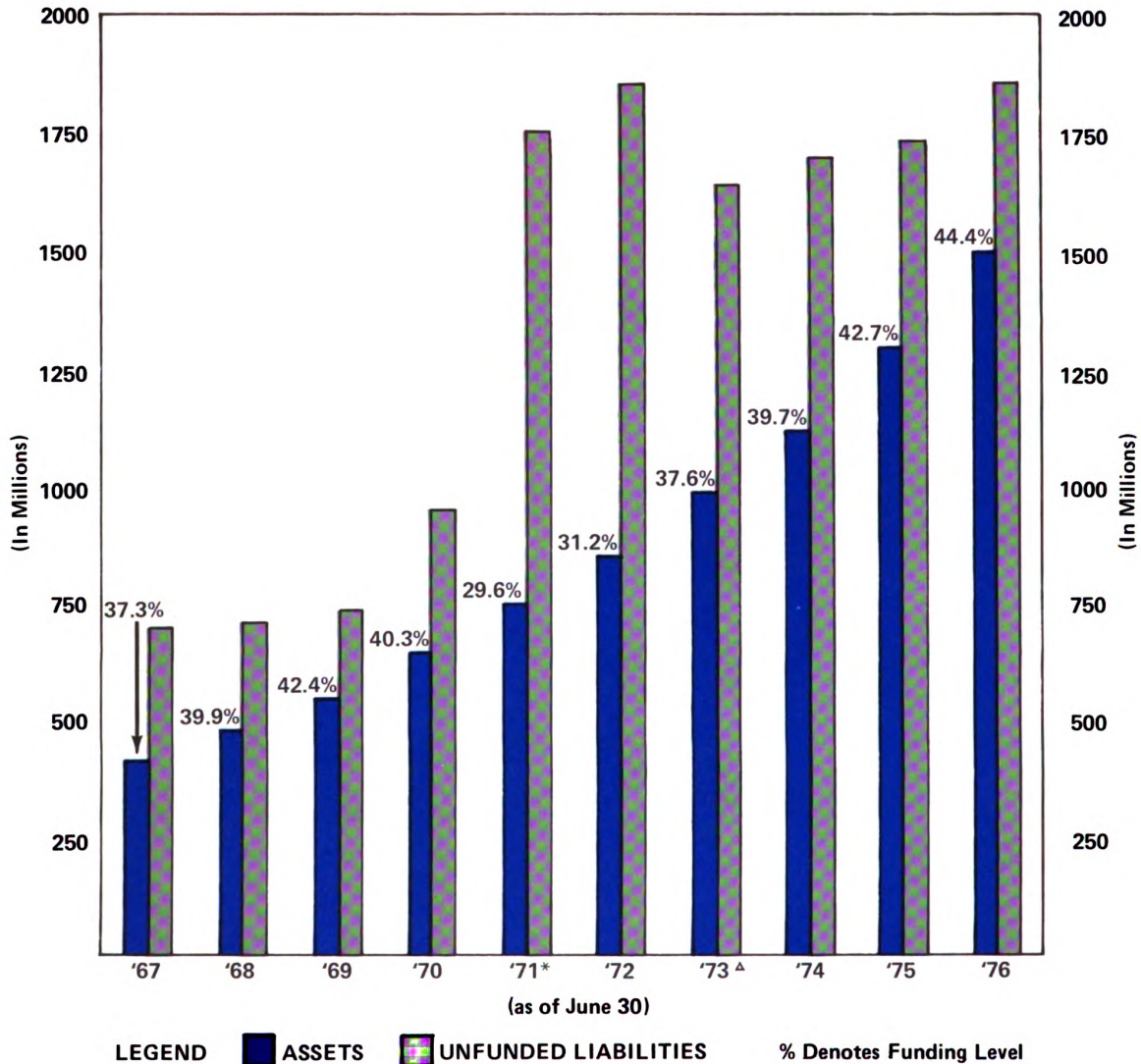
LEGEND — SURVIVOR BENEFITS REFUNDS RETIREMENT AND DISABILITY BENEFITS



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10 YEAR SUMMARY ASSETS AND UNFUNDED LIABILITIES



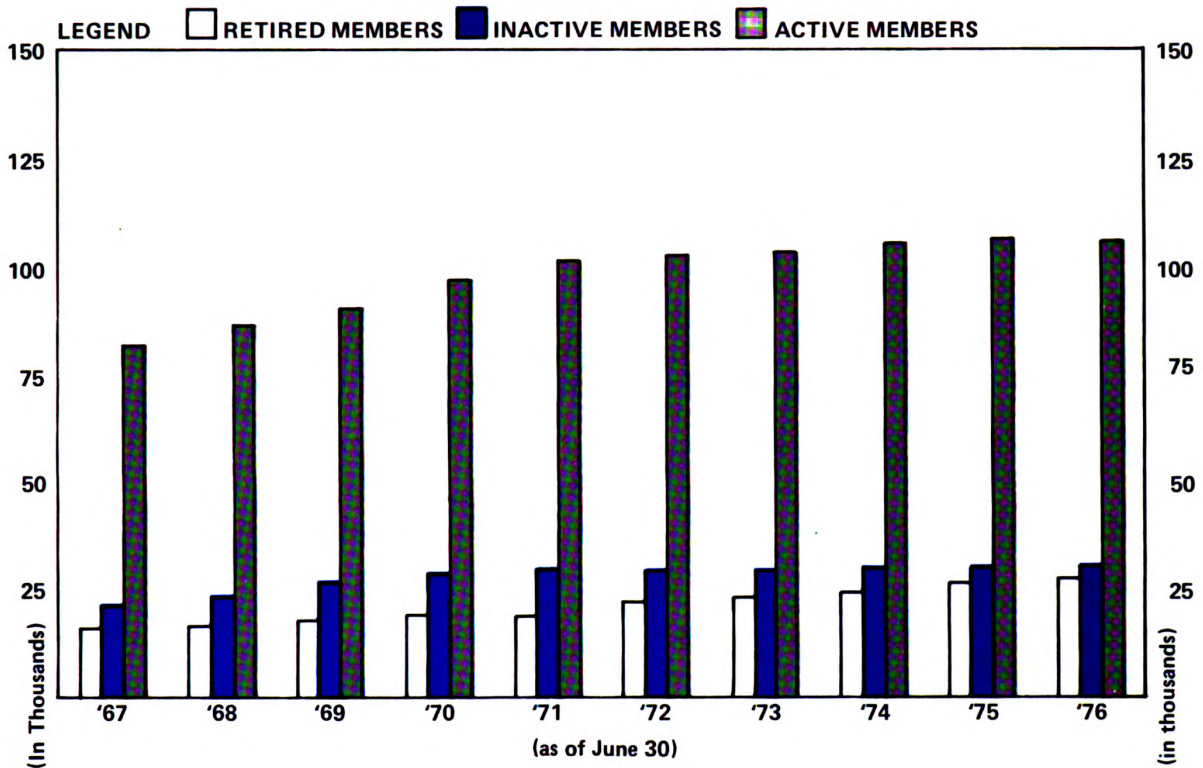
*On June 1, 1971 legislation incorporating the following points was enacted:

- 1) redefined the "average salary" as a four year average rather than a five year average.
- 2) established a more liberal formula to be used in determining the retirement benefits payable.
- 3) permitted the use of this new formula in determining the benefits of members retiring with less than twenty years of service.

These changes resulted in the dramatic increase in the unfunded liabilities of the System.

^Δ As required by statute, the System's actuaries, A.S. Hansen, Inc., conducted an analysis of experience for the four-year period ended June 30, 1973. As the result, several changes were made in assumptions and projections including an increased assumed rate of return on the invested assets of the System. The actuaries then made a complete re-evaluation of liabilities of the System, resulting in a decrease in the unfunded liabilities at June 30, 1973.

10 YEAR MEMBERSHIP PROFILE



DISTRIBUTION OF ACTIVE MEMBERS BY AGE
(at June 30, 1976)

AGE	MALE	FEMALE	TOTAL
20-24	2,059	7,775	9,834
25-29	9,477	18,235	27,712
30-34	8,645	8,875	17,520
35-39	5,442	6,279	11,721
40-44	4,642	5,599	10,241
45-49	3,953	5,794	9,747
50-54	3,057	4,908	7,965
55-59	1,656	4,579	6,235
60-64	781	2,904	3,685
65-69	113	445	558
70 or older	29	69	98
TOTAL	39,854	65,462	105,316

DISTRIBUTION OF ACTIVE MEMBERS BY SERVICE
(at June 30, 1976)

YEARS OF SERVICE	MALE	FEMALE	TOTAL
Under 1	345	1,499	1,844
1-4	9,684	23,957	33,641
5-9	11,017	19,364	30,381
10-14	6,720	8,128	14,848
15-19	5,526	5,027	10,553
20-24	3,168	3,349	6,517
25-29	2,419	1,990	4,409
30-34	513	1,295	1,808
35 or more	462	853	1,315
TOTAL	39,854	65,462	105,316

MANAGEMENT STAFF

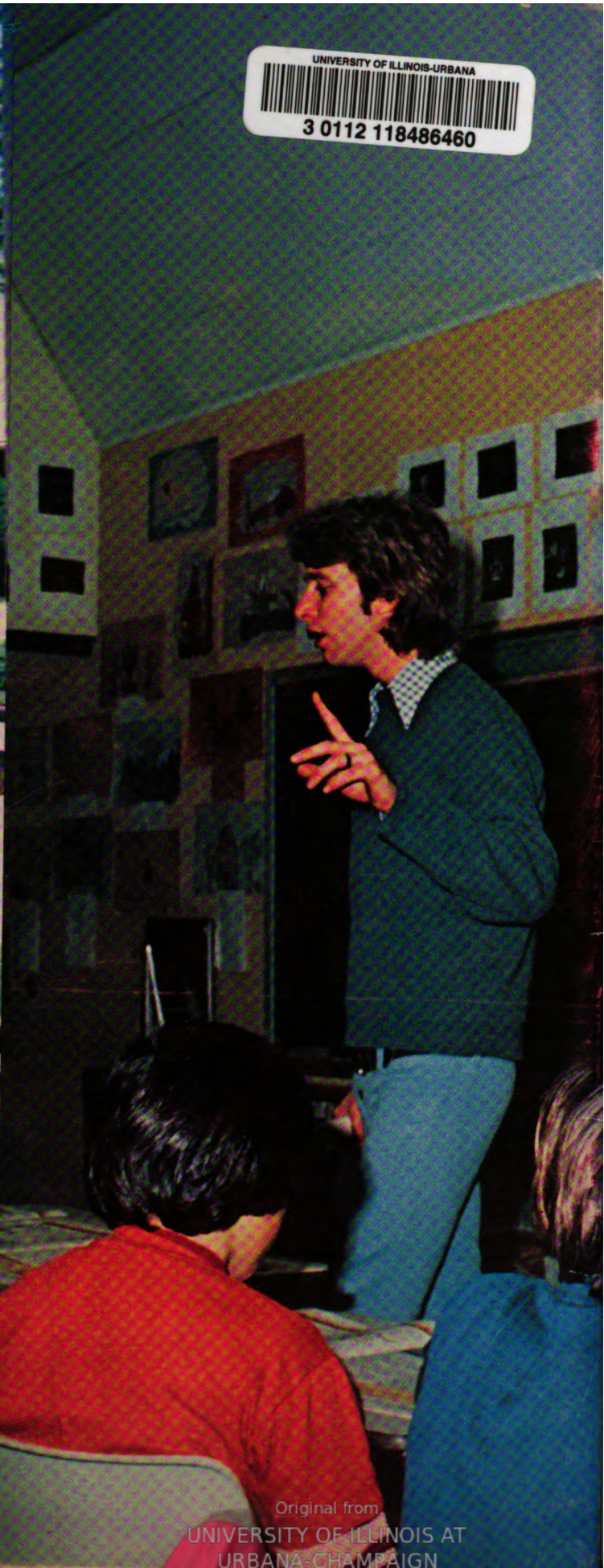
Department	Supervisor
Annuities and Benefits Survivor Benefits Supervisor	William Brewer, Jr. Carol Harwood
Data Processing Data Input Supervisor	David L. Boyer Helen Nicholls
General Administration	Genevieve Curry
General Services	James H. Walker
Informational Services Consultant (Springfield) Consultant (Lombard)	Chester C. Wozniak E. Darrell Elder Charlie Campbell
Internal Audit	Cline L. Brillhart
Member Records Records Supervisor	Richard Y. Reid Eleanor Cicciarelli
Receipts – Refunds	Bert C. Pettyjohn



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