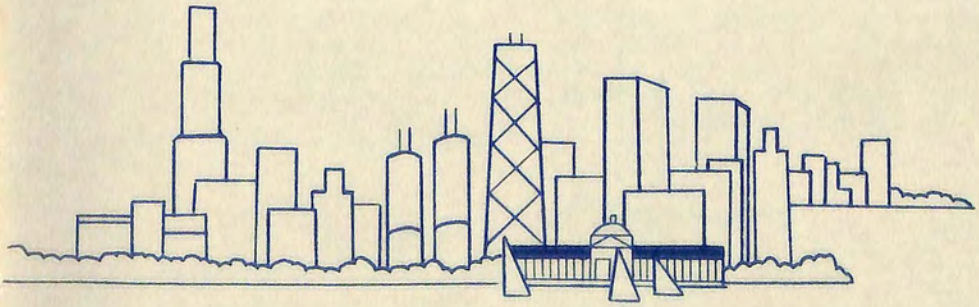
86TH ANNUAL REPORT

as of

August 31, 1981



Public School Teachers' Pension and Retirement Fund of Chicago

MOVING DAY

On April 30, 1982, the Pension Office will move to 205 W. Wacker Drive, Chicago, Illinois, 60606. It was in April of 1932 that the Pension Office moved to the 228 N. La Salle Building, and in these 50 years the Fund grew from 1,600 pensioners receiving $1,350,000 per year to 8,900 pensioners with annual benefits of $85,000,000.

ANNUAL REPORT

as of August 31, 1981

PUBLIC SCHOOL TEACHERS' PENSION AND RETIREMENT FUND OF CHICAGO

CONTENTS

86TH ANNUAL REPORT OF THE BOARD OF TRUSTEES

For the Fiscal Year Ended August 31, 1981

A SUMMARY OF THE YEAR'S OPERATION

On behalf of the Board of Trustees' of the Public School Teachers' Pension and Retirement Fund of Chicago, it is my pleasure to submit herewith the 86th ANNUAL REPORT covering the fiscal year ending August 31, 1981. This report is presented in fulfillment of the fiduciary responsibilities of the trustees in the management and direction of the affairs of the Fund for such year.

The first segment, the ANNUAL REPORT, reviews all significant developments arising during the 1981 fiscal year, and embodies a variety of financial facts and other essential data. Much of this data is derived from audited reports of Certified Public Accountants on an audit and examination of the books and accounts of the Fund for the year. The second segment, ACTUARIAL STATISTICS, is a collection of statistical information compiled by the administrative staff of the Fund, under the direction of James F. Ward, Executive Director. These statistics are presented on both contributors and pensioners, in current and cumulative forms, and are also useful for the formulation of policy for future operations and administration. The third segment, INVESTMENTS, provides a detailed account of the financial management of the Fund, summarizing investment activity and portfolio holdings, and outlining the investment authority granted to the Fund in the Illinois Pension Code.

GENERAL SUMMARY

The progress of the Fund and its continued growth are evidenced by a larger membership and increased revenues and assets. The results are reflected in an increase in the reserves of the Fund and in corresponding assets. Net revenues for the year (being the excess of total revenues from all sources over expenditures) were greater. The unfunded accrued liability, representing the excess of total liabilities over total assets, also increased due to the insufficiency of the revenues from the employer to meet the currently accruing cost over the amounts paid in by the contributors plus interest on the unfunded liability.

Income from investment operations maintained the usual upward trend and increased materially. This increase was due to the acquisition of high-quality fixed income securities such as U.S. Treasury and corporate bonds paying current high interest rates. As of August 31, 1981, the total amount of fixed income investment was equal to 61.2% of the total investment account, with 19.4% consisting of good quality common stocks, and another 19.4% in prime short-term securities. The average rate of investment income at the close of the year was 11.0% on fixed income securities and 5.9% on equities. The average yield on the entire investment account based upon amortized cost for bonds and the current rate of return on stocks and short-term investments at August 31, 1981 was 10.7%. This compares with a rate of 10.0% a year ago. Given the Fund's objectives of safety of principal, long-term growth, and maintenance of the standards required by the Illinois Pension Code, this rate of return is considered highly successful, particularly in light of the erratic character of the securities markets during the past year.

FINANCIAL REVIEW

Net present assets as of the close of the year amounted to $1,087,291,231. This compares with the amount of $934,765,476 a year ago. Revenues accruing to the Fund from all sources during the year amounted to $238,261,653 compared to $229,874,179 in the preceding fiscal

year. While total revenues increased during the year, the rate of increase was somewhat smaller than in the preceding year. This was due principally to recorded losses on the sale and conversion of securities during the year with the ultimate objective of increased income. The loss will be recovered through such increase in future income on the new securities. All revenues accruing to the Fund are credited to appropriate reserves to be applied for pension payouts to members on retirement.

THE PENSION

Reflecting the basic upward trend over the years, the pension payroll has shown the usual increase in terms of number of pensioners and in the amount of payments. The indications are that this trend will continue for an indefinite period, which points up the importance of maintaining increased revenues for the Fund, particularly from contributions by the employer and income from investments for maintaining the steadily increasing pension payroll.

INVESTMENTS

Over the years, the Board has maintained a practical policy in the investment of reserves consistent with prudence. As previously stated, investment income constitutes one of the three major sources of revenues for the Fund.

To assist the Board in this area of management of the Fund, the Board has retained investment counsel. The function of counsel is to advise and recommend in the investment operations with the final judgment to be with the Board. Investment of pension reserves has become increasingly important due to the upward trend in total assets of the Fund in keeping with their steadily rising revenue requirements. With the advice and counsel of the investment advisor, the Board has succeeded in maintaining a progressive and viable policy in the management of its investment account.

Investments in common stocks consist exclusively of high quality equity securities of domestic corporations. The types of securities in which investment may be made are prescribed by the law governing the Fund, and must be limited to such investment authority.

1981 LEGISLATION

During the last session of the General Assembly, a number of changes in law governing the Public School Teachers' Pension and Retirement Fund were made, improving benefits for our contributors and pensioners.

> Effective July 1, 1981, survivor's benefit maximums were increased from $300 to $400 per month for a spouse or minor child. Family survivor's benefits were increased from $500 to $600 per month. These changes apply for all service or disability pensioners eligible for pension as of July 1, 1981.
>
> Effective January 1, 1981, benefits are being increased by $1.00 per month for each year of service for members who retired before January 1, 1977. Survivor's pensions that commenced after January 1, 1971 and before January 1, 1981 are being increased by 1% per month for each full year which has elapsed from the date pension began.
>
> Effective January 1, 1982, the waiting period for a refund of contributions is being changed from four months to two months.

During the last session of the Illinois General Assembly, $41,092,732.00 was appropriated for the Fund, and $700,000 was appropriated for the Retired Teachers' Supplementary Payment. Although the Illinois General Assembly originally approved a $66,278,600.00 appropriation for the Fund, Governor Thompson reduced the payment to the $41,092,732.00 amount, stating that this was a one-time decrease.

In addition, the General Assembly passed legislation to provide for one pensioner to be elected to the Board of Trustees, expanding the membership of the Board to 10 members. In October, 1981, Mrs. Edna C. Fanning was elected by the pensioners of the Fund to serve a two-year term. Mrs. Fanning has previously served as a trustee, and was the Executive Director of the Fund for seven years. We are pleased at Mrs. Fanning's return to the Board, and welcome her expertise and dedication.

CONCLUDING COMMENTS

The results of operations for the 1981 fiscal year display constructive progress, notwithstanding the inadequacy of revenues to meet the normal cost plus, at least, the interest accrued on the unfunded accrued liability. The benefit schedule for the contributors and other provisions of the pension law have been improved to bring about a greater measure of security for teachers. The efforts of the trustees will continue to be directed toward improved funding of the accruing costs with the view of insuring greater security and improved financial stability for the Fund.

Acknowledgement is hereby recorded of the dedicated and conscientious service of members of the administrative staff and more particularly of the outstanding service given by James F. Ward, Executive Director, who is largely responsible for the highest standard of efficiency maintained in the administration of the Fund.

ROBERT T. WILKIE
President

A. A. WEINBERG
Actuary

REPORT OF THE ACTUARY

We have completed an actuarial valuation of the Public School Teachers' Pension and Retirement Fund of Chicago as of August 31, 1981. This valuation is required for the purpose of establishing the actuarial liabilities and accruing costs under the plan of benefits and contribution provisions applicable to the Fund, as provided by the pension law. A presentation is made of the results of this valuation in the form of an Actuarial Balance Sheet showing the total pension liabilities at the aforesaid date and the amount of net assets available to meet these liabilities. By this process, it is determined whether the assets of the Fund are adequate to meet these accrued liabilities.

ACTUARIAL VALUATION

An actuarial valuation is basically a statistical analysis of the mortality experience among the pensioners and contributors. The data compiled for this valuation includes a variety of statistical information including: (a) new entrants into the Fund; (b) withdrawals from service without vested rights in an annuity expectancy; (c) those members who may survive at the prescribed ages for retirement and qualify for annuities; (d) members whose service will terminate by death; (e) members who may become totally and permanently disabled for service before attaining the age of service retirement; (f) deaths among the retired members and their beneficiaries for the receipt of an annuity or other payments.

All of these factors are pertinent in the calculation of costs and liabilities and in establishing a contribution rate schedule for funding the accruing costs and liabilities.

ACCRUING PENSION LIABILITY

The pension cost is predicated upon the specific benefits to be provided by the retirement plan and upon the characteristics of the membership with respect to their age distribution. Costs may be lower for one group of employees, as compared to another group, because of the differences in their ages. The pension costs, therefore, must be calculated for the specific group of employees who are members of the pension plan. A schedule of benefits may be prescribed by the retirement plan requiring higher or lower costs for certain specific groups of participants because of their special characteristics.

Calculations are made to determine the pension liability under the prescribed benefit schedule in the case of the employees who are members of the pension plan. In this calculation process, rates of contribution are established, as previously stated, that will produce the reserves for meeting the lifetime costs for the members of the pension plan. The principal factors to be considered in this procedure include mortality among the members, turnover in employment and the expected earnings on the investments. In this process, for the purpose of effectuating the funding process, a long term average earning's expectancy rate is determined by the Actuary.

Other factors are taken into account in this procedure, such as the employees' salary rates and their progression over the years. This is accomplished by means of a projected salary scale. In the valuation presently being made, the rates reflecting such factors that were used in the preceding year's valuation and survey of the Fund's operating experience were applied in the current valuation with such adjustments or revisions as necessary. In this manner, current conditions affecting the membership and changes in employment policies are taken into account in the current valuation and in the determination of the actuarial liabilities and reserve requirements.

FUNDING THE PENSION LIABILITY

The current valuation was made according to a well recognized and accepted method of funding, technically referred to as "entry-age-normal cost". Under this method, a level cost of funding the pension liability from the ages at which the members entered service to the assumed ages for their retirement, taking into account in the process deaths occurring while in service and separations from service due to other causes, such as resignations or dismissals. The accumulated value of the liabilities incurred prior to the date of the valuation constitutes the total accrued pension liability. The amount of such accrued liability is offset by the value of the net present assets of the Fund at the date of valuation, consisting of the total assets less the current liabilities.

Actuarial Assumptions. The benefit and contribution provisions of the retirement plan in effect are summarized in the appendix of this report. The principal actuarial assumptions applied in the valuation are as follows:

1. **Mortality Standard:** 1971 Group Annuity Mortality Table (GAM)
2. **Rate of Interest:** 6% per annum
3. **Rates of turnover:** Assumed rates stated at 5-year intervals:

	Rate per 1,000	
Age	*Male*	*Female*
20	17.7	30.3
25	14.2	22.4
30	12.3	20.3
35	8.8	18.4
40	7.7	9.5
45	5.2	7.6
50	3.0	5.3
55	1.2	2.9
56 and over	Mortality only	

4. **Salary Scale:** Average of 5% per year
5. **Assumed age of retirement:** 63 years
6. **Disability Retirement:** Actual Fund experience. Assumed 15% of disablements to be occupational.
7. **Marital status:** 85% of male teachers and 60% of female teachers in service were assumed to be married. The average differential between employees and spouse was assumed to be 4 years in the case of retirements. 65% of all retirements assumed to be married.
8. **Administrative Expense:** Current operating costs.
9. **Normal Costs:** Applying the costs of funding the current provisions of the retirement plan, the annual cost requirements for the several benefits prescribed by law, as a percentage of total payroll currently in effect, are as follows:

	Per Cent of Payroll	*Annual Amount Based Upon Valuation Payroll*
Service retirement annuity	13.4%	
Post-retirement increment	2.7	
Survivors' annuities	2.8	
Disability benefits	0.4	
Death benefits	0.3	
Refunds	1.0	
Administrative expense	0.1	
Total annual costs	20.7%	
Less, teachers' contributions	8.0	
Normal Cost to employer as of September 1, 1981	12.7%	$85,812,700

10. **Unfunded Accrued Liability:** The accrued pension liability and the amount unfunded at August 31, 1981, after applying the net present assets of the Fund, are as follows:

Accrued pension liability	$2,126,574,926
Less, net present assets	1,087,291,231
Unfunded Accrued Liability	$1,039,283,695

The security ratio, being the ratio of net present assets to the long term liability, was 51.1%, which compares favorably with other public retirement systems in Illinois.

11. **Current Requirements from the Employer for Pensions:** The annual pension liability of the employer, assuming only the accrual of interest on the unfunded accrued liability, is as follows:

	Percent of Payroll	*Annual Pension Liability*
Normal Cost	12.7%	$ 85,812,700
Interest on Accrued Liability	8.9	60,136,459
Total	21.6%	$145,949,159

The foregoing amounts were based upon an assumed payroll as of August 31, 1981 of $675,690,544.

12. **Valuation Balance Sheet.** The appended Valuation Balance Sheet presents the results of computations of the reserves and liabilities. Present assets and current liabilities shown in the Balance Sheet were taken from the report of Ernst & Whinney, Certified Public Accountants, dated November 13, 1981, on an audit of the books, accounts and records of the Fund. The procedure followed in the preparation of the Valuation Balance Sheet is broader in scope. In addition to the present assets and current liabilities, the Valuation Balance Sheet displays the results of the Actuary's valuation of the accrued liabilities on the pensioners and contributors, comprising the membership of the Fund.

CERTIFICATION

In our opinion, the appended Valuation Balance Sheet correctly sets forth the financial condition of the Public School Teachers' Pension and Retirement Fund of Chicago as of August 31, 1981, giving effect to the total accrued liabilities and actuarial reserve requirements under the benefit provisions of the retirement plan in effect at such date.

A. A. WEINBERG
Actuary

VALUATION BALANCE SHEET

Statement of Assets, Liabilities and Reserves

August 31, 1981

ASSETS

PRESENT ASSETS:		
Cash and temporary investments		$ 196,614,535
Accounts receivable:		
Tax levies	$ 71,031,420	
Chicago Board of Education	4,131,413	
Employer contributions for federally subsidized programs	1,935,541	
Other receivables	11,634	77,110,008
Accrued interest on investments		21,404,503
Other interest income		5,231
Investment in bonds at amortized cost (market value $489,000,000)		620,000,948
Common stocks at cost (approximate market value $221,000,000)		196,408,551
DEFERRED ASSETS:		
Deferred obligations of the employer (unfunded accrued pension credits)		1,039,283,695
Total Assets		$2,150,827,471

VALUATION BALANCE SHEET

Statement of Assets, Liabilities and Reserves

August 31, 1981

LIABILITIES AND RESERVES

CURRENT LIABILITIES:		
Refunds and pensions payable		$ 1,117,720
Accounts payable		6,126,128
Deferred Income		17,008,697
ACTUARIAL RESERVE REQUIREMENTS:		
Members' contribution credits		425,391,717
Employer's contributions		943,783,507
Pensions in force and deferred:		
Retirement pensions	$704,620,662	
Disability pensions	20,187,521	
Survivor's pensions	30,022,693	
Reversionary pensions	721,801	
Deferred pensions	1,847,025	757,399,702
Total liabilities and reserves		$2,150,827,471

Note: Supplementary pension payments are provided for certain retired members who retired years ago. Since these payments pertain to a closed group of teachers and are funded by a separate State appropriation, the liability for these pensions is not included in this Balance Sheet.

The following statement is presented as an explanation of the several accounts comprising the assets, liabilities and reserves of the Fund with respect to their functions and meaning.

Present Assets: The assets on hand at the Balance Sheet date.

Deferred Assets: The accured liability which constitutes an indebtedness of the employer for service of the employees rendered prior to the Balance Sheet date. This indebtedness is to be discharged by future revenues.

Current Liabilities: These represent current accounts payable at the Balance Sheet date for accrued benefits, refunds and expenses. It also includes deferred income applicable to the succeeding year.

Actuarial Reserve Requirements: These represent amounts determined as of the valuation date as the reserve to be maintained for full actuarial funding of the accrued pension liabilities, computed according to actuarial criteria.

Members' Contribution Credits: This reserve represents the amounts contributed by the teacher members in active service as their share of the cost of the pension benefits, including contributions made by teachers who left service having retained their pension credits in the Fund.

Pensions in Force and Deferred: This account contains the amount at the valuation date necessary to pay pensions and benefits to present pensioners and their beneficiaries during their lifetime.

PROJECTION OF PENSION AND BENEFIT PAYOUTS

The continuous increase in pension and benefit payments by the Fund is clearly illustrated in the following projection of estimated payments in future years:

Fiscal Year Ended August 31	*Estimated Payments (in millions)*
1982	$ 81.0
1985	95.8
1990	115.7
1995	143.2
2000	170.7

Changes occurring in the future in the membership of the Fund, or in the age or service qualifying conditions for retirement would alter this projection and require a revision thereof.

CONCLUDING COMMENT

As has been mentioned, the full funding requirements under the prescribed benefit schedule are not being met from the revenues provided by the established tax levy and the State appropriations. Investment income above the 6% actuarial rate will continue to meet partially the additional requirements; however, this source is not dependable to provide revenues for a definite and accruing obligation. It is necessary, therefore, that the efforts of the Board of Trustees continue to be directed towards obtaining larger revenues from taxes and appropriations.

The Fund is fulfilling satisfactorily its stated objective as an integral part of a progressive personnel policy for the employer, namely the Chicago Board of Education. For the teachers, the retirement plan meets their social welfare needs by providing a systematic method for their retirement upon attaining an age of superannuation, thus assuring a reasonable income following the end of their productive period in teaching service.

A. A. WEINBERG
Actuary

February 28, 1982

STATISTICAL DATA

The statistical data forming the basis of this report was compiled by the administrative staff of the Fund and submitted in excellent form. Detailed tables of statistics were prepared reflecting the age, service and other characteristics of the contributors and pensioners. These are presented in a comprehensive form in a separate publication. A summary of the data represented by these tables is as follows:

Contributors	*Male*	*Female*
Number	8,238	19,933
Proportion of total number	29.2%	70.8%
Annual salaries	$209,763,787	$465,926,768
Average salary	$25,463	$23,375
Average age at August 31, 1981	43.4 yrs.	42.2 yrs.
Average length of validated service	14.4 yrs.	12.6 yrs.

New Contributors During Year	*Male*	*Female*
Number	98	276
Proportion of total number	26.2%	73.8%
Average age at entry of regular teachers	39.8 yrs.	32.8 yrs.
Average age at entry of substitute teachers	32.6 yrs.	33.4 yrs.

Deceased Contributors During Year	*Male*	*Female*
Number	24	33
Proportion of total number	42.1%	57.9%
Average age at death	51.1 yrs.	49.6 yrs.

Full Service Retirement Pensions	*Male*	*Female*
Number	1,132	6,269
Proportion of total number	15.3%	84.7%
Aggregate annual payments	$12,233,647	$54,580,395
Average annual payment	$10,807	$8,706
Average age at August 31, 1981	73.5 yrs.	75.5 yrs.
Average age at retirement	62.2 yrs.	61.9 yrs.
Average length of service	32.5 yrs.	33.5 yrs.

Reduced Service Retirement Pensions Under Reversionary Option	*Male*	*Female*
Number	52	67
Aggregate annual payments	$1,033,004	$693,515
Average annual payment	$19,865	$13,337
Average age at August 31, 1981	68.5 yrs.	75.6 yrs.

Disability Pensions	*Male*	*Female*
Number	47	195
Proportion of total number	19.4%	80.6%
Aggregate annual payments	$331,554	$990,481
Average annual payment	$7,054	$5,079
Average age at August 31, 1981	60.3 yrs.	67.2 yrs.
Average age at retirement	62.2 yrs.	61.9 yrs.
Average length of service	22.1 yrs.	22.5 yrs.

Service Pensioners Added to the Roll During Year Ended August 31, 1981	*Male*	*Female*
Number	75	243
Proportion of total number	23.6%	76.4%
Aggregate annual pensions	$945,557	$2,837,627
Average annual pension	$12,607	$11,677
Average age at retirement	62.3 yrs.	62.1 years.
Average length of service	26.8 yrs.	26.5 yrs.
Ratio of outside service to total service	1.3%	2.2%

Disability Pensioners Added to the Roll During Year Ended August 31, 1981	*Male*	*Female*
Number	4	19
Aggregate annual pensions	$26,841	$158,442
Average annual pensions	$6,710	$8,839
Average age at retirement	51.0 yrs.	52.4 yrs.
Average length of service	17.4 yrs.	20.5 yrs.

Service Retirement Pensions Vested at Age 55	*Male*	*Female*
Number	2	3
Proportion of total number	40.0%	60.0%
Aggregate prospective pensions	$11,019	$9,188
Average pension payment	$5,509	$3,063
Average age at August 31, 1981	60.5 yrs.	60.3 yrs.

Service Retirement Pensions Deferred to Age 62	*Male*	*Female*
Number	99	271
Aggregate prospective pensions	$265,424	$650,646
Average pension payment	$2,681	$2,401
Average age at August 31, 1981	44.3 yrs.	44.8 yrs.

Survivors' Pensions In Force	*Survivors of Teachers*	*Survivors of Pensioners*
Number	495	449
Aggregate annual pensions	$1,296,762	$1,060,161
Average annual pension per survivor	$2,620	$2,361
Aggregate contributions by teachers and pensioners	$985,572	$666,181

Revisionary Annuities	*Male*	*Female*
Number	11	28
Aggregate annual annuities	$26,675	$89,741
Average annual annuity	$2,425	$3,205
Average age at August 31, 1981	76.5 yrs.	71.6 yrs.

Survivors' Pensions Deferred to Age 55 and Age 50	*To Age 55*	*To Age 50*
Number	11	14
Aggregate annual payments	$28,590	$46,762
Average annual payments	$2,599	$3,340
Average age at August 31, 1981	51.9 yrs.	42.9 years.

ACCOUNTANTS' REPORT

on the

Public School Teachers' Pension and Retirement Fund of Chicago

ERNST & WHINNEY
Certified Public Accountants
150 South Wacker Drive
Chicago, Illinois 60606

The Board of Trustees
Public School Teachers' Pension and
Retirement Fund of Chicago

We have examined the balance sheets of Public School Teachers' Pension and Retirement Fund of Chicago as of August 31, 1981 and 1980, and the related statements of revenue, expenditures, reserve provisions and deficit for the years then ended. Our examinations were 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, the financial statements referred to above present fairly the financial position of Public School Teachers' Pension and Retirement Fund of Chicago at August 31, 1981 and 1980 and the results of its financial transactions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Chicago, Illinois
November 13, 1981, except for
Note C as to which the date is
December 30, 1981.

BALANCE SHEETS

Public School Teachers' Pension and Retirement Fund of Chicago

	August 31 1981	August 31 1980
ASSETS		
Cash and short-term investments:		
Cash	$ 54,066	$ 223,031
Short-term investments, at cost	196,560,469	239,319,044
	196,614,535	239,542,075
Receivables:		
Taxes, less reserve for loss and costs—Note B	71,031,420	64,167,964
Participating teachers' accounts for contributions	11,634	12,121
Board of Education, City of Chicago:		
Portion of State Distributive Fund allocation and salary deductions	4,125,762	5,923,497
Employer contributions for federally subsidized teaching programs	1,935,541	744,829
Contributions for early retirement	5,651	—
	6,066,954	6,668,326
Accrued interest on investments	21,404,503	16,201,574
Other	5,231	3,713
	98,519,742	87,053,698
Investments:		
Bonds, at amortized cost (approximate market value: 1981—$489,000,000; 1980—$428,500,000)	620,000,948	495,141,811
Common and preferred stocks, at cost (approximate market value: 1981—$221,000,000; 1980—$162,000,000)	196,408,551	132,999,699
	816,409,499	628,141,510
	$1,111,543,776	$954,737,283

	August 31 1981	1980
LIABILITIES, RESERVES AND FUND DEFICIT		
Accrued benefits and refunds payable:		
Pension payable	$ 259,230	$ 230,313
Refunds payable due to:		
Resignations	497,384	921,720
Deaths	133,450	181,553
	630,834	1,103,273
Death benefits payable	137,938	165,027
Unclaimed pension and refund checks	89,718	16,624
	1,117,720	1,515,237
Accounts payable:		
Security purchases	5,669,917	2,297,600
Blue Cross/Blue Shield	434,568	191,294
Other	21,643	15,167
	6,126,128	2,504,061
Deferred income:		
Tax levy—Note B	16,425,364	15,327,509
Retired teachers' supplementary payment Note G	583,333	625,000
	17,008,697	15,952,509
Reserves:		
Actuarial liabilities—Note C:		
Pensions in force and deferred	757,399,702	721,916,307
Members' contributions	425,391,717	391,709,690
Employer's contributions	943,783,507	799,517,728
	2,126,574,926	1,913,143,728
Fund deficit—Note C	(1,039,283,695)	(978,378,252)
	$1,111,543,776	$954,737,283

See notes to financial statements.

STATEMENTS OF REVENUE, EXPENDITURES, RESERVE PROVISIONS AND DEFICIT

Public School Teachers' Pension and Retirement Fund of Chicago

	Year Ended August 31 1981	1980
Revenue:		
Tax levies:		
Tax levy, less provision for loss and costs (1981—$1,639,333, 1980—$1,287,750)	$45,748,138	$43,178,771
Collections of taxes from tax levies peviously written off	16,846	54,352
Adjustment of prior years' tax levies—Note B	(1,633,033)	(1,041,809)
	44,131,951	42,191,314
Contributions from participating employees:		
Salary deductions for regular and survivor pensions	48,681,291	47,349,209
Salary deductions for automatic and annual increases in pensions—Note D	3,242,862	3,154,593
Collections from teachers validating their credit service—Note D	541,403	411,623
	52,465,556	50,915,425
Employer's contribution for early retirement	220,467	—
Appropriation from State of Illinois for Retired Teachers' Supplementary Payment Fund	741,667	791,667
State Distributive Fund allocation—Note F	58,519,219	57,254,981
Payments on reciprocal retirements received from participating systems	15,343	15,682
Contributions for federally subsidized teaching programs	5,860,511	5,835,836
Earnings on investments:		
Interest, including amortization of bond premium and discount	89,910,418	72,057,107
Dividends	9,768,701	7,276,394
Loss on sale and exchange of securities	(23,317,415)	(6,405,115)
	76,361,704	72,928,386
Less investment counsel expense	149,000	136,667
	76,212,704	72,791,719
Miscellaneous	94,235	77,555
Total revenue	238,261,653	229,874,179

	Year Ended August 31 1981	1980
Expenditures:		
Pensions (excluding payments for automatic annual increases, post retirement increases and retired teachers' supplementary payments)	$ 63,097,086	$ 59,467,619
Automatic annual increases	9,534,278	8,300,906
Post retirement increases	1,027,304	1,073,808
Retired teachers' supplementary payments	595,425	651,421
	74,254,093	69,493,754
Refunds of member contributions due to:		
Resignations	8,517,179	8,092,269
Deaths	1,057,093	950,033
Excess contributions	35,761	32,325
Retirement—no eligible survivor	255,858	158,567
Other	13,306	18,714
	9,879,197	9,251,908
Death benefits:		
Heirs of participating teachers	391,022	393,503
Heirs of annuitants	488,677	418,500
	879,699	812,003
Administrative and miscellaneous expenses	722,909	686,577
Total Expenditures	85,735,898	80,244,242
Excess of revenue over expenditures—used to meet reserve provisions	152,525,755	149,629,937
Reserve provisions (deficit)—Note C:		
Actuarial liabilities:		
Pensions in force and deferred	35,483,395	40,802,505
Members' contributions	33,682,027	39,686,040
Employer's contributions	144,265,776	98,473,390
	213,431,198	178,961,935
Deficit for the year	(60,905,443)	(29,331,998)
Deficit at beginning of the year	(978,378,252)	(949,046,254)
Deficit at end of year	$(1,039,283,695)	$ (978,378,252)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Public School Teachers' Pension and Retirement Fund of Chicago

Note A—Significant Accounting Policies

Administration of Fund

The Public School Teachers' Pension and Retirement Fund of Chicago is administered in accordance with Chapter 108½, Article 17 of the Illinois Revised Statutes. References to this Article are included in notes describing Fund activities that are accountable or otherwise restricted by statute.

Method of Reporting

The financial statements of the Public School Teachers' Pension and Retirement Fund of Chicago have been prepared on the accrual basis of accounting whereas the Fund follows the cash basis for its interim financial reporting.

Furniture, Fixtures and Office Equipment

Furniture, fixtures and office equipment (not material) are not capitalized in accordance with the established practice of the Fund.

Amortization of Bond Premium and Discount

Bond premium and discount is amortized on the compound interest method which reflects bond earnings at a level earnings rate.

Note B—Tax Levies, Receivables and Revenue

Chapter 108½, Article 17, Section 128 of the Illinois Revised Statutes provides that the City of Chicago levy a tax for the benefit of the Fund which will provide a specific percentage of prior years' member contributions. Taxes are levied on a calendar year basis and adjusted to reflect tax revenues of the Fund's fiscal year.

The calendar year levy is deferred to the extent that it applies to the Fund's succeeding fiscal year. Tax revenue of the Fund for the years ended August 31, 1981 and 1980 is as follows:

	1981	*1980*
Estimated calendar year levy, net of provision for loss and costs	$46,845,993	$44,113,356
Portion recorded as revenue in current year	$30,420,629	$28,785,847
Portion deferred to following year	16,425,364	15,327,509
	$46,845,993	$44,113,356

Tax levy receivables are carried for three years. After the third year, the receivable is written off. This write-off represents the receivable balance uncollected in excess of the original allowance provided for loss and costs. Such receivables net of the allowance for loss and costs, written off in 1981 and 1980 were $1,633,033 and $1,041,809, respectively.

Note C—Reserves for Actuarial Liabilities

The reserves for actuarial liabilities are based on an annual valuation submitted by the Fund's consulting actuary. During the year ended August 31, 1980 the Fund's actuary determined that increases in actuarial reserves of $143,873,708 were required. The actuarial reserve increase resulted in an increased deficit of $29,331,998 in 1980.

During 1981 the Illinois Legislature eliminated the statutory reserves for post retirement and automatic annual increases. Consequently, these reserves, as presented in the 1980 balance sheet, have been reclassified into the actuarial reserves to which they apply in order to conform to the 1981 presentation.

The statutory reserves previously offset actuarial estimates which otherwise would have been included in the determination of the actuarial liabilities for those years the statutes were in force. Consequently, the increase in Fund deficit for 1981 ($60,905,443) included a one time adjustment of approximately $40 million representing the difference between the statutory reserves for automatic annual increases and post retirement increases and reserves which otherwise would have been determined by actuarial estimates.

Note D—Validation of Creditable Service

Chapter 108½, Article 17, Sections 133 through 135 of the Illinois Revised Statutes provides that qualifying teachers shall be granted creditable service with the option to validate the service by payment of contributions for the period of creditable service plus interest at 5% per annum. Of the total amounts collected, $184,700 in fiscal 1981 and $161,192 in fiscal 1980 represent the interest portion of collections from teachers validating their creditable service. The contingent receivable of $231,715 at August 31, 1981 and $220,860 at August 31, 1980 is not reflected in the accompanying financial statements because the portion which will eventually be collected is not presently determinable. For similar reasons, the reserves for actuarial liablities in the accompanying financial statements do not reflect a provision for the future validation of creditable service. The contingent liability resulting from the future validation of creditable service should be in excess of the contingent receivable arising from that source.

Note E—Retired Teachers' Supplementary Payments

The State of Illinois annually appropriates funds for the purpose of making supplementary payments for service and disability pensions to certain retired teachers who met conditions prescribed when the Retired Teachers' Supplementary Payment Fund was established. In July 1975, Chapter 108 ½, Article 17, Sections 154 and 155 of the Illinois Revised Statutes was revised to increase both the number of persons eligible for the payments and the amount of the payments. The amount of the appropriation is taken into income monthly during the fiscal year of the Fund.

Note F—State Distributive Fund Allocation

Chapter 122, Article 34, Section 87 of the Illinois Revised Statutes provides that the Board of Education is required to pay to the Public School Teachers' Pension and Retirement Fund of Chicago the excess of the sum received from the State Distributive Fund over the amount required to meet emeritus pay obligations.

ERNST & WHINNEY
Certified Public Accountants
150 South Wacker Drive
Chicago, Illinois 60606

The Board of Trustees
Public School Teachers' Pension and
Retirement Fund of Chicago

The audited financial statements of Public School Teachers' Pension and Retirement Fund of Chicago and our report thereon are presented in the preceding section of this report. The information presented hereinafter is for purposes of additional analysis and is not required for a fair presentation of the financial position or results of financial transactions of the Fund. Such information has been subjected to the auditing procedures applied in our examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Whinney

Chicago, Illinois
November 13, 1980

SCHEDULE 1—INVESTMENTS

Public School Teachers' Pension and Retirement Fund of Chicago

August 31, 1981

Description	*Amortized Cost*	*Original Cost*	*Par Value*	*Amortized Cost*	*Average Yield (%)*
Bonds:					
United States Federal Government agency securities	$ 45,926,902	$ 45,866,158	$ 47,392,238	4.5%	10.2%
Canadian provincial and municipal bonds	14,311,090	13,931,629	17,160,000	1.4	10.2
Railroad equipment trust certificates	11,153,405	11,125,631	11,400,254	1.1	10.3
Public utility bonds	81,944,754	80,011,358	112,106,000	8.1	10.1
Industrial and finance corporations	152,619,283	151,237,949	181,274,134	15.1	10.4
United States Treasury obligations	314,045,514	313,177,870	327,940,000	31.0	11.6
Total Bonds	620,000,948	$615,350,595	$697,272,626	61.2	11.0%
Common and preferred stocks	196,408,551			19.4	5.9%
Long-Term Investments	816,409,499			80.6	9.7%
Short-term investments	196,560,469			19.4	14.8%
Total Investments	$1,012,969,968			100.0%	10.7%

The securities owned by the Fund and held in safekeeping by the Treasurer of the City of Chicago at August 31, 1981 were inspected on a test basis (random selection) by the auditors. In addition, the auditors reviewed the filing control procedures filed at the Treasurer's office for securities held in safekeeping. The inspection disclosed no discrepancies. The auditors also obtained confirmations of securities in transit at August 31, 1981 and tested purchases and sales of investments during the year by examining brokers' advices. In addition to the examination by our auditors, the City Treasurer has a separate audit conducted annually of all securities in his safekeeping.

SCHEDULE 2—TAXES RECEIVABLE

Public School Teachers' Pension and Retirement Fund of Chicago

August 31, 1981

Levy year	*Gross levy*	*Uncollected balance*	*Percent of gross levy uncollected*	*Reserve for loss and costs*	*Uncollected balance less reserve*
1979	43,025,892	$ 1,517,427	3.5%	$1,246,030	$ 271,397
1980	45,401,106	25,201,780	55.5	1,287,750	23,914,030
	88,426,998	26,719,207	30.2	2,533,780	24,185,427
1981	48,485,326	48,485,326	100.0	1,639,333	46,845,993
	$136,912,324	$75,204,533		$4,173,113	$71,031,420

SCHEDULE 3—ADMINISTRATIVE AND MISCELLANEOUS EXPENSES

Public School Teachers' Pension and Retirement Fund of Chicago

	Year Ended August 31	
	1981	*1980*
Salaries	$423,113	$395,975
Actuary fees	10,000	10,000
Auditing	12,000	12,200
Data processing expense	47,406	55,863
Duplicating unit charge	2,705	2,417
Election expense	3,682	2,396
Employees' hospitalization expense	31,393	26,008
Insurance premium	4,320	2,850
Legal fees	28,832	44,920
Legislative expense	136	124
Maintenance of equipment	4,280	3,714
Medical fees	4,798	4,166
Membership dues, convention attendance, etc.	11,621	15,402
Microfilm system expense	1,607	730
New office equipment and equipment rental	3,486	5,274
Office forms and supplies	19,603	14,662
Office rent and light	39,790	36,817
Postage	31,198	25,024
Printing and binding	19,475	17,131
Telephone	5,023	4,501
Trustees' expenses	1,000	1,575
Miscellaneous	17,441	4,828
TOTAL	$722,909	$686,577

APPENDIX

- **SUMMARY OF PRINCIPAL BENEFIT AND CONTRIBUTION PROVISIONS OF THE PENSION LAW**

SUMMARY OF PRINCIPAL BENEFIT AND CONTRIBUTION PROVISIONS OF THE PENSION LAW

VESTING OF PENSION CREDIT. The right to a retirement pension vests (1) after 20 years of validated service with the retirement pension payable at age 55 or over; or (2) after 5 years of validated service with the pension payable at age 62 or over.

AMOUNT OF RETIREMENT PENSION. The rate of retirement pension is 1.67% of "final average salary" (as defined below) for each of the first 10 years of validated service, 1.90% for each of the next 10 years, 2.10% for each of the third 10 years, and 2.30% for each year above 30 up to 45 years. Maximum pension is 75% of final average salary or $1,500 per month, whichever is greater.

REDUCTION IN PENSION FOR EARLY RETIREMENT. Except as to retirement after 35 years of service, the retirement pension upon retirement prior to age 60 is reduced ½ of 1% for each month that the age of the teacher is less than 60 years down to age 55.

EARLY RETIREMENT WITHOUT DISCOUNT. A member attaining age 58 between June 1980 and July 1985 with 20 to 35 years of service may elect to retire without discount for retirement under age 60. A one-time, nonrefundable contribution, based on the member's age at retirement, must be made to the Fund by the member and the Board of Education to apply this option.

FINAL AVERAGE SALARY DEFINED. "Final average salary" for pension computation is the average for the highest rates of salary for any 4 consecutive years of validated service within the last 10 years of service.

NON-DUTY DISABILITY RETIREMENT. A disability retirement pension is (1) payable during total and permanent disability for teaching service after 10 years of validated service irrespective of age. The rate of pension is $1^2/_3$% of average salary (4-year average) for each year of validated service. Upon disability retirement after 20 years or more of contributing service, but under age 55, the service retirement pension is payable but is discounted ½ of 1% for each month the disabled teacher is under age 55, down to a minimum age of 50 years.

(2) If total service is 20 years or more and the teacher has attained age 55, the rate of pension is that prescribed for service retirement without the actuarial reduction. After 25 years of service, regardless of age, the service retirement pension is payable without reduction.

DUTY DISABILITY BENEFIT. A duty-connected disability benefit is provided equal to 75% of final average salary upon total incapacity for teaching service as a result of an injury sustained while in the performance of teaching service. The benefit is reduced by "Workmen's Compensation" payments.

OPTIONAL REVERSIONARY ANNUITY. A contributor has the option, to be exercised at any time prior to retirement, of accepting a reduced service retirement pension and providing, with the remainder of the retirement pension equity, a pension to a designated beneficiary, computed on an actuarially equated basis.

POST-RETIREMENT INCREMENT. Systematic annual increases in pension are equal to 3% of the base pension for each year on retirement for service or disability. Increases accrue from the anniversary date of retirement or the 61st birthday, whichever is later. They are payable beginning in the month of January in each year.

PENSIONERS RE-ENTERING SERVICE. (1) A pensioner may be re-employed by the Chicago Board of Education as a substitute teacher up to a maximum of 75 days in any school year and continue to receive service retirement payments for such period. If employment is for more than 75 days, the pension is cancelled. Repayment must then be made of all moneys received during the period of last re-employment from the beginning of the 75-day period and the member is reinstated as a contributor to the Fund. In the latter case, upon subsequent retirement a new pension is computed (a) according to the law in force at the time of previous retirement if re-employed for less than 3 years, or (b) according to the law in force at the time of final retirement if reemployed 3 years or more.

(2) A pensioner may be employed by the Board of Education of any other public school system in the State of Illinois as a substitute teacher up to a maximum of 75 days in any school year without loss of pension payments.

SURVIVORS' PENSIONS. Pensions are payable to survivors of teachers and pensioners under the following conditions:

DEATH OR RETIREMENT AFTER JULY 1 , 1981. Upon death of a teacher occurring on or after July 1, 1981, the maximum payments are $400 per month to a spouse alone and $600 per month to a family. In addition, a refund of contributions for retirement pension is payable upon death of a teacher occurring while in service on or after July 1, 1967. Since July 1, 1971, the contributions toward the automatic annual increases are also refundable.

Payments of a survivor's pension is conditioned upon marriage having been in the effect at least 1½ years prior to death or retirement. On death after retirement, the total survivor's pension may not exceed the retirement or disability pension paid to the deceased pensioner.

If the spouse is under 50, and no unmarried minor children under age 18 survive, payment of the survivor's pension is deferred until age 50. Remarriage of a spouse results in a termination of pension regardless of future changes in marital status.

REFUNDS OF EMPLOYEES CONTRIBUTIONS. Upon separation from service, a teacher may receive a refund of his total contributions and those contributions made on his behalf without interest. Application for a refund may be filed upon expiration of 4 months from the date of separation from service. Effective January 1, 1981, this waiting period is decreased to two months from the date of separation from service. Upon re-entry into service following re-employment for at least 2 years, a teacher may repay the refund, plus interest, and have his previous pension credit restored to his account in the Fund.

DEATH BENEFITS. (1) Upon death while in service, a refund equal to the total contributions less contributions for survivors' pensions, if applicable, is payable without interest to a designated beneficiary or estate of the teacher . (2) Upon death after retirement, the death benefit consists of the excess, if any, of (a) the contributions over (b) the amounts paid by the Fund in pension payments to the member or his beneficiary. The following additional benefits are payable:

1. Death in Service. The amount of the benefit is equal to the last month's salary for each year of validated service up to 6 months' salary but not to exceed $7,500. The benefit is payable beginning with the first year as a contributor.

2. Death or Pension. If retirement occurred on or after July 22, 1971, the death benefit is equal to 6 months' salary not to exceed $7,500 less 1/5 of the death benefit for each year or part of a year that the member has been on pension down to a minimum of $1,500. If death occurs during the first year on pension, the amount payable would be that provided upon death prior to retirement.

FINANCING. All teachers contributed 6½% of salary towards the retirement pension. Teachers, both male and female, contribute an additional 1% toward survivors' pensions. All active teachers have been required to make a contribution ½ of 1% of salary toward the post-retirement increment. Thus, the total contribution is 8% of salary. As of September 21, 1981, the Board of Education pays ⅞ths (or 7% of salary) of each teacher's pension contribution.

The remainder of the cost of the benefit is provided by (1) a separate tax levy for the Fund in Chicago; (2) any excess of the allocations by the State of Illinois from the State Distributive Fund to the Board of Education for certain emeritus pensions over the amount of the actual payments made by the Board on account of such pensions, and (3) grants by the federal government on account of teachers being paid from special trusts or federal funds.