CELEBRATING DIVERSITY IN ILLINOIS SCHOOLS

“Diversity” in Illinois is older than the state itself. Throughout history, a nonstop march of different cultures has prospered southwest of the Great Lakes, north of the Ohio River and east of the Mississippi River.

Diversity encompasses much more than the origin of your forebears. Across the 55,000 square miles of modern Illinois, a multitude of languages, dress, beliefs, customs and abilities have continually clashed, merged, grown, sacrificed and evolved. But mostly, through it all our rich diversity has contributed greatly to who each of us are today. In Illinois, we celebrate diversity.

And nowhere is the diversity of Illinois better reflected than in our schools – the living nexus of past, present and future.
TRS BOARD OF TRUSTEES AS OF DECEMBER 1, 2021

Matthew Hunt
President
Appointed
Glen Ellyn

Andrew Hirshman
Vice President
Elected
Oak Park

Beth Anderson
Elected
Ashkum

Dr. Carmen I. Ayala
Ex Officio
Downers Grove

Norma Bellcoff
Appointed
Edwardsville

Kevin (Duffy) Blackburn
Appointed
Joliet

Joseph Blomquist
Elected
St. Charles

Marsha Byas
Elected
Marion

Maria "Mia" Jazo-Harris
Appointed
Bolingbrook

David Miller
Appointed
Lynwood

Fred Peronto
Elected
Elmhurst

Larry Pfeiffer
Elected
Carlinville

Doug Strand
Elected
East Moline

TRS ORGANIZATION
EXECUTIVE CABINET AS OF DECEMBER 1, 2021

Stan Rupnik, CFA
Executive Director & Chief Investment Officer

Jeff Bennett
Director of Operations

Deron Bertolo
Chief Financial Officer

Lori Dour
Acting Chief Benefits Officer

Emily Peterson
General Counsel

Stacy Smith, CPA, CIDA
Director of Internal Audit and Risk

Jamie Stults, MA, SPHR, SHRM-SCP
Director of Human Resources

Dave Urbanek
Director of Communications

Christopher Wiedel
Director of Information Technology

December 13, 2021

Dear TRS Members:

We are pleased to present the Annual Financial Report Summary for the Teachers’ Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2021. This report details the on-going work of the System’s trustees and staff to fulfill the TRS mission and keep the retirement promises made by the State of Illinois to educators in its public schools.

Concluding its 82nd year of operation in fiscal year 2021, TRS successfully distributed $7.3 billion in retirement and disability benefits to 127,518 members, despite ongoing challenges created by the world-wide COVID-19 pandemic.

Yet, despite the pervasive influence of the coronavirus on Illinois families and the economy, for the first time since 2018 the System’s funded ratio ticked up during the year to 42.5 percent from the 40.5 percent recorded at the end of fiscal year 2020. This is good news for TRS members and the taxpayers of Illinois.

For the last four years, the TRS funded ratio remained steady, averaging 40.5 percent. This stability was the direct result of consistent annual contributions by Gov. JB Pritzker and the General Assembly, and decent investment returns from a lengthy bull market. These positive actions are now beginning to create modest improvements in the long-term fiscal condition of TRS and will continue if state officials continue to follow a prudent pension funding policy.

Nonetheless, TRS continues to carry one of the lowest funded ratios in the nation for a retirement system its size. The System had an actuarial value of $59.0 billion in assets and a long-term benefit obligation of $138.9 billion, which creates an unfunded liability of $79.9 billion.

Despite the economic upheaval caused by the COVID-19 pandemic, TRS investments closed out fiscal year 2021 with a strong rate of return and record assets under management. The TRS investment return in fiscal year 2021 was a positive 25.5 percent, net of fees.

Through fiscal year 2021, the TRS Investment Department successfully navigated the perils of the pandemic’s attack on the economy and was able to rebuild the value of the System’s portfolio to prepandemic levels – and beyond. As of June 30, TRS managed investments totaling $63.9 billion – a record for the System and a 24.1 percent increase in assets from the prior year. TRS closed fiscal year 2020 with $51.5 billion.

The TRS Board of Trustees and staff remain vigilant in their efforts to improve the retirement system’s funded status for current and future members. TRS continues to invest prudently and in a disciplined manner for the benefit of TRS membership and for the long-term success of the retirement system. The TRS board and staff believe the overall investment strategy remains sound and appropriate for their circumstances.

Information for this report was gathered by TRS staff under the leadership of the TRS Board of Trustees and the executive director and it is the responsibility of TRS management. It is intended to provide complete and reliable information as a basis for making management decisions, to determine TRS compliance with legal provisions and as a means of determining responsible stewardship of the assets contributed by members, their employers and the State of Illinois.

We would like to take this opportunity to express our gratitude to staff, professional consultants and others who have worked so diligently to ensure TRS’s successful operation.

R. Stanley Rupnik
Executive Director and Chief Investment Officer

Deron Bertolo
Chief Financial Officer
FINANCIAL HIGHLIGHTS

- The net position of TRS at June 30, 2021 was $64.2 billion.
- During fiscal year 2021, the net position of TRS increased $11.9 billion.
- Contributions from members, employers and the State of Illinois were $6.3 billion, an increase of $361.3 million or 6.1 percent for fiscal year 2021.
- Total net investment income was $13.0 billion, compared to $275.7 million in fiscal year 2020, an increase of $12.8 billion.
- Benefits and refunds paid to members and annuitants were $7.4 billion, an increase of $288.6 million or 4.1 percent.
- The actuarial accrued liability was $138.9 billion at June 30, 2021.
- The unfunded actuarial accrued liability was $79.9 billion at June 30, 2021. The funded ratio was 42.5 percent at June 30, 2021. The unfunded liability and funded ratio are calculated using a smoothed value of assets, as required under Public Act 96-0043.
- The total pension liability (TPL) was $142.2 billion at June 30, 2021.
- The net pension liability (NPL) was $78.0 billion at June 30, 2021. The plan fiduciary net position, as a percentage of total pension liability, was 45.1 percent.

Condensed Comparative Statements of Fiduciary Net Position as of June 30

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>Percentage Change</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$16,263,026</td>
<td>(33.2%)</td>
<td>$24,329,683</td>
</tr>
<tr>
<td>Receivables and prepaid expenses</td>
<td>4,468,795,311</td>
<td>(0.6)</td>
<td>4,496,792,625</td>
</tr>
<tr>
<td>Investments</td>
<td>63,851,832,280</td>
<td>24.1</td>
<td>51,454,158,912</td>
</tr>
<tr>
<td>Invested securities lending collateral</td>
<td>2,425,695,348</td>
<td>19.9</td>
<td>2,023,876,139</td>
</tr>
<tr>
<td>Capital assets</td>
<td>8,453,925</td>
<td>37.9</td>
<td>6,130,809</td>
</tr>
<tr>
<td>Total assets</td>
<td>70,771,039,890</td>
<td>22.0</td>
<td>58,005,288,168</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>6,558,534,870</td>
<td>15.3</td>
<td>5,688,810,397</td>
</tr>
<tr>
<td>Net position restricted for pensions</td>
<td>$64,212,505,020</td>
<td>22.7%</td>
<td>$52,316,477,771</td>
</tr>
</tbody>
</table>

Condensed Comparative Statements of Changes in Fiduciary Net Position for the Years Ended June 30

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>Percentage Change</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$6,261,774,388</td>
<td>6.1%</td>
<td>$5,900,510,333</td>
</tr>
<tr>
<td>Net investment income</td>
<td>13,046,153,685</td>
<td>4,632.5</td>
<td>275,669,398</td>
</tr>
<tr>
<td>Total additions</td>
<td>19,307,928,073</td>
<td>212.6</td>
<td>6,176,179,731</td>
</tr>
<tr>
<td>Benefits and refunds</td>
<td>7,388,142,712</td>
<td>4.1</td>
<td>7,099,524,955</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>23,758,112</td>
<td>3.4</td>
<td>22,966,372</td>
</tr>
<tr>
<td>Total deductions</td>
<td>7,411,900,824</td>
<td>4.1</td>
<td>7,122,491,327</td>
</tr>
<tr>
<td>Net increase/decrease in net position</td>
<td>11,896,027,249</td>
<td>1,357.1</td>
<td>(946,311,596)</td>
</tr>
<tr>
<td>Net position restricted for pensions - beginning of year</td>
<td>52,316,477,771</td>
<td>(1.8)</td>
<td>53,262,789,367</td>
</tr>
<tr>
<td>Net position restricted for pensions - end of year</td>
<td>$64,212,505,020</td>
<td>22.7%</td>
<td>$52,316,477,771</td>
</tr>
</tbody>
</table>
INVESTMENTS

The TRS investment portfolio added $12.4 billion over the past 12 months, ending with a value of $63.9 billion on June 30, 2021. The TRS portfolio remains fully diversified across different asset classes. Within each asset class, TRS utilizes a number of investment managers with various investment styles to ensure appropriate diversification, allowing the portfolio to achieve broad exposure to the market while minimizing overall risk. This broad diversification serves as the best defense against the uncertainty of volatile global markets.

Investment performance rebounded significantly during the fiscal year in all asset classes as the economy recovered from the global pandemic. Markets were able to stabilize and subsequently rallied for impressive results, however volatility persists due to COVID-19 variants and resurges. Within the equity asset class, private equity outperformed public assets during the year, generating 57.2 percent, net of fee return, versus 41.0 percent in public equity. All asset classes had outperformance comparative to assigned benchmarks and the System’s diversification allowed a positive return of 25.5 percent, net of fees, for the fiscal year ended June 30, 2021.

Left to right: Students at Glenview Middle School in East Moline created a colorful display during Hispanic Heritage Month that honored the contributions of Hispanic women. Submitted by Belinda Rusch of the Parapro/Sped/Success Program.

At Nichols Middle School in Evanston, teachers Brian Sommer and Demetra Stratakos show off their creative reminder that students need to wear masks during the pandemic.

Martha, a certified member of Alliance of Therapy Dogs, works with students in the Literacy Program at Morris Grade School in Morris. Submitted by reading teacher Trudy DesLauriers.
This section discusses the System’s funded status and measures changes over time. The actuarial accrued liability, actuarial value of assets and unfunded liability presented are used to determine state funding requirements.

Actuarial Assumptions and Methods
All actuarial assumptions used to prepare the actuarial valuation are reviewed every three years. The last review, called an actuarial experience analysis, was conducted in 2021. The major economic assumptions are reviewed every year as recommended by the state actuary. Using these assumptions, the actuary reconciles the differences between actuarial assumptions and experience to explain the change in TRS’s valuation.

Annual Actuarial Valuation
The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned by TRS members to date but not yet paid. The unfunded liability is the difference between the accrued liability (the present value of benefits including the cost of annual increases) and the assets that are available to cover the liability. The funded ratio shows the percentage of the accrued liability covered by assets.

### Reconciliation of Unfunded Liability

<table>
<thead>
<tr>
<th>Reconciliation of Unfunded Liability</th>
<th>Year ended June 30, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unfunded liability at beginning of year</strong></td>
<td>$80,707,571,185</td>
</tr>
<tr>
<td>Additions</td>
<td></td>
</tr>
<tr>
<td>Employer cost in excess of contributions</td>
<td>1,414,463,477</td>
</tr>
<tr>
<td>Net experience (gain)</td>
<td>(1,670,972,826)</td>
</tr>
<tr>
<td>Changes in actuarial assumptions</td>
<td>(516,709,885)</td>
</tr>
<tr>
<td><strong>Net decrease in unfunded liability</strong></td>
<td>(773,219,234)</td>
</tr>
<tr>
<td><strong>Unfunded liability at end of year</strong></td>
<td>$79,934,351,951</td>
</tr>
</tbody>
</table>

The first factor shown in the table is the difference between actual employer/state contributions and the amount that would cover the employer/state’s cost of benefits earned during the year and prevent the prior year’s unfunded liability from growing. The shortfall was $1.4 billion.

Secondly, actuarial gains and losses occurred under the assumptions used to prepare the valuation. The most significant gain was on investments. Other gains occurred under the assumptions for buyouts, salary increases, disabilities, mortality and new members. Gains under these assumptions mean that experience was more favorable (less costly) than originally assumed.
In summary, the $0.8 billion decrease in the unfunded liability is due to the $1.4 billion employer cost in excess of contributions and the $1.7 billion reduction due to experience and the $0.5 billion reduction due to assumption changes.

**Pension Funding Policies and Contributions**

A funding policy outlines the framework for calculating the contribution rate to the System for the purpose of steadily funding future benefit payments. There are three elements that are important in this framework: actuarial cost for the total present value of future benefits, recognition of investment gains/losses and the amortization of the unfunded liability.

In 2012, the TRS Board of Trustees resolved to begin certifying state funding amounts that were in accordance with generally accepted actuarial principles and standards. These amounts, one based on the board’s funding policy and the other on the statutory funding plan, are submitted to the legislative and executive branches. By certifying two funding amounts, the board serves to illustrate the gap between sound funding policy and current practice under Illinois law.

**State Funding Amounts**

The Fiscal Years 2022 & 2023 State Contributions Requirements table below shows funding requirements under the statutory funding plan and the TRS Board of Trustee’s funding plan that was adopted in 2015.

The fiscal year 2022 certifications are based on the June 30, 2020 actuarial valuation. The state actuary will review the proposed certifications for fiscal year 2023 as well as the preliminary June 30, 2021 valuation. Final certifications for fiscal year 2023 are due Jan. 15, 2022 pursuant to Public Act 97-0674.

### Fiscal Years 2022 & 2023 State Contribution Requirements

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2022 Requirements</th>
<th>Fiscal Year 2023 Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Based on Statutory Funding Plan</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Trust Reserve</td>
<td>$5,693,706,973</td>
<td>$5,893,732,209</td>
</tr>
<tr>
<td>Minimum Annuity Reserve</td>
<td>400,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Total State Contribution</td>
<td>$5,694,106,973</td>
<td>$5,894,032,209</td>
</tr>
<tr>
<td><strong>Based on TRS Board Funding Policy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Trust Reserve</td>
<td>$8,850,055,308</td>
<td>$9,101,333,224</td>
</tr>
<tr>
<td>Minimum Annuity Reserve</td>
<td>400,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Total State Contribution</td>
<td>$8,850,455,308</td>
<td>$9,101,633,224</td>
</tr>
<tr>
<td><strong>Employer Normal Cost Rate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>13.99%</td>
<td>14.58%</td>
</tr>
<tr>
<td>Tier 2</td>
<td>(1.29%)</td>
<td>(1.34%)</td>
</tr>
<tr>
<td>Combined</td>
<td>10.31%</td>
<td>10.49%</td>
</tr>
</tbody>
</table>

### Funding Analysis by Tier

Public Act 96-0889 established a new tier of benefits for teachers who first contributed to TRS or another reciprocal pension system on or after Jan. 1, 2011. Tier 2 teachers have later retirement dates, longer vesting requirements, salary caps for pensions lower than the Social Security wage base and lower cost of living increases after retirement that are not compounded. On July 1, 2016, the member contribution rate for both tiers decreased from 9.4 percent to 9.0 percent.

The employer normal cost rate measures the employer’s cost of the benefits being earned by active teachers during the year. It does not include any contributions towards the unfunded liability.

As more Tier 2 members enter TRS, the combined employer normal cost continues to fall. In the meantime, the cost of Tier 1, which is a closed group, continues to increase, until 2042, as Tier 1 members age and accrue more service. The increases in employer normal cost for both tiers is a function of the projected unit credit actuarial cost method required by the Illinois Pension Code.

**Employer Normal Cost by Tier**

![Graph showing employer normal cost by tier]

**Note:** Combined rate includes administrative expenses.

**Source:** 2019 valuation for 2021 data, 2020 valuation for 2022 data, 2021 valuation for subsequent years.

“Captain Bullet,” is the mascot for the Williamsville High School Bullets. Submitted by teacher Lynsey Bonner.
**FISCAL YEAR HIGHLIGHTS**

<table>
<thead>
<tr>
<th></th>
<th>As of June 30, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Active contributing members</strong></td>
<td>159,027</td>
</tr>
<tr>
<td><strong>Inactive noncontributing members</strong></td>
<td>145,769</td>
</tr>
<tr>
<td><strong>Benefit recipients</strong></td>
<td>127,518</td>
</tr>
<tr>
<td><strong>Total membership</strong></td>
<td>432,314</td>
</tr>
</tbody>
</table>

**Investment return**
- Total fund investment return, net of fees: 25.5%

**Actuarial information**
- Actuarial accrued liability (AAL): $138,914,274,917
- Less actuarial value of assets (AVA): 58,979,922,966
- Unfunded actuarial accrued liability, AVA basis (UAAL): $79,934,351,951
- Funded ratio (AVA/AAL): 42.5%
- Less far value of assets (FVA): $64,212,505,020
- Unfunded actuarial accrued liability, FVA basis (UAAL): $74,701,769,897
- Funded ratio (FVA/AAL): 46.2%

**GASB Statement No. 67 disclosure**
- Total pension liability (TPL): $142,223,798,748
- Less fiduciary net position (FNP): 64,212,505,020
- Net pension liability (NPL): $78,011,293,728
- FNP as a percentage of TPL: 45.1%

**Additions**
- Member contributions: $1,023,531,951
- Employer contributions: 97,594,081
- State of Illinois contributions: 5,140,648,356
- Total investment income: 13,046,153,685
- Total additions: $19,307,928,073

**Deductions**
- Benefits paid: $7,323,948,701
- Refunds paid: 64,194,011
- Administrative expenses: 23,758,112
- Total deductions: $7,411,900,824

*Includes retiree, disability, & survivor benefit recipients.*

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**STATISTICAL**

<table>
<thead>
<tr>
<th>Member Statistics for the Fiscal Year Ended 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full and Part-time Active Members</td>
</tr>
<tr>
<td>Average age</td>
</tr>
<tr>
<td>Average service</td>
</tr>
<tr>
<td>Average annual salary</td>
</tr>
<tr>
<td>Oldest full-time teacher</td>
</tr>
<tr>
<td>Total Tier 1 members</td>
</tr>
<tr>
<td>Total Tier 2 members</td>
</tr>
<tr>
<td>Total active members</td>
</tr>
</tbody>
</table>

| Retired Members                               |                     |
| Average age                                   | 72                  |
| Average service                               | 27                  |
| Average annual benefit                        | $61,860             |
| Average years receiving benefits              | 13                  |
| Total retired members                         | 114,252             |
| Oldest retired teacher                        | 107                 |

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**21ST CONSECUTIVE NATIONAL POPULAR AWARD RECEIVED**


The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular financial reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. TRS has received a Popular Award for the last 21 consecutive years. We believe this June 30, 2021 report also conforms to the Popular Annual Financial Reporting requirements and we are submitting it to GFOA.