DILIGENCE

DILIGENTLY PURSUING EXCELLENCE

Comprehensive Annual Financial Report
For the Fiscal Year ended June 30, 2006
Teachers' Retirement System of the State of Illinois
a component unit of the State of Illinois

Statement of Purpose

Retirement Security for Illinois Educators

Mission Statement

Deliver superior service through skilled staff, innovative technology, and careful investment.

Fiscal Year Highlights

	2006	2005
Active contributing members	159,272	155,850
Inactive noncontributing members	81,218	87,328
Benefit recipients	85,103	82,575
Total membership	325,593	325,753
Actuarial accrued liability (AAL)	$58,996,913,000	$56,075,029,000
Less net assets held in trust for pension benefits	36,584,889,000	34,085,218,000
Unfunded actuarial accrued liability (UAAL)	$22,412,024,000	$21,989,811,000
Funded ratio (actuarial value of assets/AAL)	62.0%	60.8%
Total fund investment return, net of fees	11.8%	10.8%
Expenses		
Benefits paid	$2,877,230,697	$2,533,102,848
Refunds paid	57,967,063	59,395,758
Administrative Expenses	15,303,370	14,403,715
Total	$2,950,501,130	$2,606,902,321
Income		
Member contributions*	$799,034,336	$761,790,009
Employer contributions	123,542,608	148,813,036
State of Illinois contributions	534,305,256	906,749,310
Total investment income	3,993,289,880	3,330,039,158
Total	$5,450,172,080	$5,147,391,513

* Includes member payments and accounts receivable under the Payroll Deduction Program.

Photos

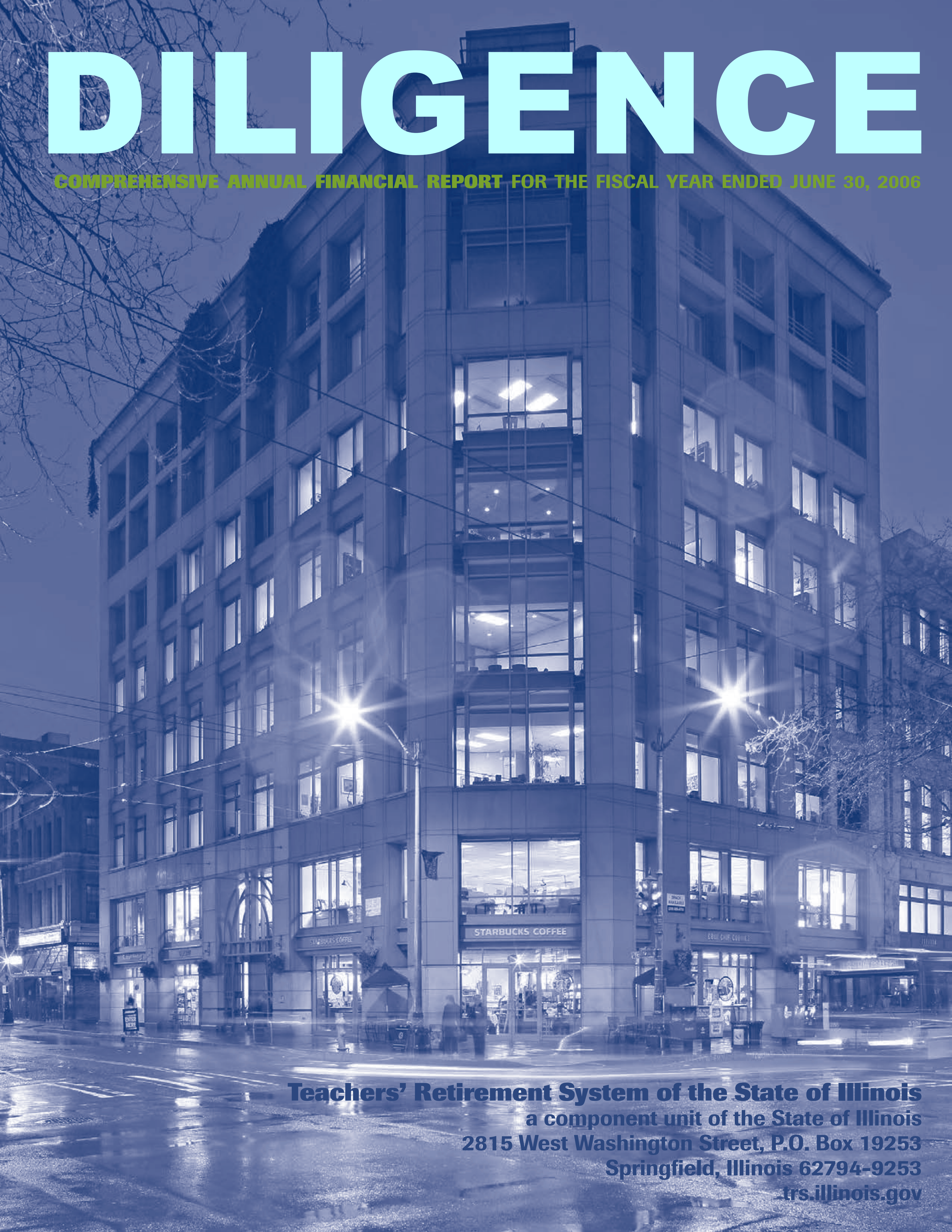
Cover: 101 South Second Street, San Francisco, California

Facing page: Olympic Block, Seattle, Washington

Buildings pictured in this report are part of the TRS investment portfolio. Some are wholly owned, while others are owned by a real estate fund in which TRS is a major investor.

DILIGENCE

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006



Teachers' Retirement System of the State of Illinois
a component unit of the State of Illinois
2815 West Washington Street, P.O. Box 19253
Springfield, Illinois 62794-9253
trs.illinois.gov

Contents

Introduction

Financial

Investments

Actuarial

Statistical

What we hope ever to do
with ease we may learn first
to do with diligence.
~Samuel Johnson
1709-1784

INTRODUCTION

THREE FIRST NATIONAL
CHICAGO, ILLINOIS

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers' Retirement System of the State of Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Teachers' Retirement System of the State of Illinois
Jon Bauman, Executive Director
2815 West Washington, P.O. Box 19253
Springfield, Illinois 62794-9253

Retirement Security for Illinois Educators

Letter of Transmittal

December 15, 2006

I am pleased to present the *Comprehensive Annual Financial Report* for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2006. TRS management and staff are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. To the best of our knowledge, the information presented is a fair and accurate portrayal of the financial position and operations of TRS as of June 30, 2006.

TRS was established by the State of Illinois on July 1, 1939, to provide retirement, disability, and death benefits to teachers at Illinois public elementary and secondary schools outside the city of Chicago.

This report consists of five sections:

- The Introduction Section contains the Certificate of Achievement for Excellence in Financial Reporting, this Letter of Transmittal, a message from our executive director, identification of the TRS Board of Trustees and organizational structure, and consulting and professional service providers.
- The Financial Section contains the Independent Auditors' Report, Management's Discussion and Analysis, the basic financial statements and related notes, required supplementary schedules, and other supplementary information.
- The Investment Section contains information detailing TRS performance, investment managers, and the TRS investment portfolio.
- The Actuarial Section contains the actuary's letter of certification, actuarial assumptions and methods, the latest actuarial valuation results, certain statistical information on active members and benefit recipients, and a plan summary including any changes in the plan.
- The Statistical Section contains information and additional statistical data pertaining to plan participants and historical data on revenue and expenses.

Financial Information

A system of internal controls helps TRS to monitor and safeguard assets and promote efficient operations. An annual external audit is conducted by the Illinois Auditor General in addition to regular reviews by our internal auditor. The annual budget for TRS administrative expenses is approved by the Board of Trustees, and financial statements are prepared in accordance with generally accepted accounting principles (GAAP) within the guidelines established by the Governmental Accounting Standards Board (GASB).

Please refer to the Management's Discussion and Analysis for an overview of the financial highlights and a financial analysis of TRS. Major TRS initiatives and accomplishments are contained in the executive director's message.

Revenues and Expenses

The three sources for TRS funding include member contributions, investment income, and employer contributions through state appropriations and payments by school districts. TRS expenses include payments of benefits, refunds, and administrative expenses. Negative amounts are enclosed in parentheses ( ) throughout this report.

Revenues ($ millions)

			Increase/(Decrease)	
Source	**2006**	**2005**	**Amount**	**% Change**
Member contributions	$799	$762	$37	4.9%
State of Illinois	534	907	(373)	(41.1)
Employer contributions	124	148	(24)	(16.2)
Total investment income	3,993	3,330	663	19.9
Total	**$5,450**	**$5,147**	**$303**	**5.9%**

Expenses ($ millions)

			Increase/(Decrease)	
Source	**2006**	**2005**	**Amount**	**% Change**
Benefits payments	$2,877	$2,533	$344	13.6%
Refunds	58	60	(2)	(3.3)
Administrative/Other	15	14	1	7.1
Total	**$2,950**	**$2,607**	**$343**	**13.2%**

Investments

TRS investments had an 11.8 percent return net of fees for the year. Total investment income for FY06 was $3,993 million. The TRS trust fund is invested by authority of the Illinois Pension Code under the prudent person rule that requires investments to be managed solely in the interest of TRS members and beneficiaries. The portfolio is fully diversified across different asset classes. Within each asset class there are a number of investment managers to ensure the appropriate mixture across the various investment styles, allowing the portfolio to achieve broad exposure to the market, while minimizing risk. This broad diversification serves as the best defense against the uncertainty of volatile world markets.

The Investment Section of this report contains a summary of the portfolio and investment activities.

Funding

The actuarial value of assets (net assets at market value) was $36.585 billion at June 30, 2006. Net assets increased $2.500 billion. TRS's actuarial accrued liability was $58.997 billion at June 30, 2006, resulting in a funded ratio of 62.0 percent. This funded ratio is an increase from the funding ratio of 60.8 percent for FY05. Despite significant actuarial gains due to FY06 investment returns, TRS's actuarial unfunded liability increased $0.422 billion during FY06 to $22.412 billion at June 30, 2006. The increase in the unfunded liability is mainly due to two factors: state contributions were too low to cover the cost of benefits earned by active members during the year, and no state contributions were made toward reducing or stabilizing TRS's longstanding unfunded liability.

The Actuarial Section of this report contains the actuary's letter and further information on TRS funding.

Independent Audit

Each year TRS's financial statements, records, and internal controls are examined by special assistant auditors employed by the Illinois Auditor General. In addition, an annual compliance attestation examination is performed to review compliance with applicable statutes and codes. The Independent Auditors' Report on TRS's financial statements is included in the Financial Section of this report.

GFOA Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. TRS has received a certificate for the last 17 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

Acknowledgments

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

This report is provided to members of the General Assembly, all participating employers, and to others by request. The participating employers of TRS form a link between TRS and its members. Their cooperation, for which we are grateful, contributes significantly to our success. We hope this report is both informative and helpful.

Jana Bergschneider

Jana Bergschneider
Director of Administration

A Message from the Executive Director

Prefer diligence before idleness
unless you esteem rust over brilliance
~ Plato
427-247 BC

December 15, 2006

Dear Friends:

As stewards of your retirement trust fund, TRS follows a consistent "due diligence" investment approach to assure that all contingencies are considered and all decisions are made with prudence and wisdom. Diligence is a part of our culture. Diligence leads to superior results in our investments, but equally important, in our service to members.

I am privileged to share an optimistic message with you. TRS members reported high satisfaction with our service, investment returns continued to rank in the top 25 percent of large public plans, and we continued to hold administrative costs below other Illinois state-funded systems. Outstanding investment returns enabled in an increase in our funded ratio, even though the State of Illinois reduced its contributions by $524 million in an effort to balance the state budget. We work hard and we strive for the best, making apt our annual report theme, "Diligently Pursuing Excellence." The impressive buildings that illustrate this report are part of TRS's real estate portfolio. I hope you enjoy seeing tangible examples of our stewardship of your retirement funds.

Pursuing the Best Each Time We Meet

Whether meeting members in the office, by telephone, or at one of our many field meetings, our member services personnel seek to provide the best service possible. Over 96 percent of members returning response cards rated our service "highly satisfactory." A new telephone system has helped reduce the average wait time for a member service representative to less than one minute. TRS uses the very best technology that allows us to retain our commitment to personal service. Although implementation challenged our staff, improved service and options for future improvements made the effort worthwhile. Our commitment to service extends to the employer community, who were served by 14 regional seminars and 38 individual meetings.

Achieving Investment Excellence

As in seven of the past 10 years, TRS investments recorded double digit returns. The total return after all expenses was 11.8 percent in FY06, compared to 10.8 percent in FY05. This consistent performance once again placed TRS in the top quartile of large public funds in the Wilshire Trust Universe Comparison Service (TUCS). This impressive record underscores the wisdom of our diversified investment approach. Noteworthy accomplishments include:

- Fund assets were $36.6 billion, a 7.3 percent increase and an all-time high.
- As in five of the last six years, TRS was the best performing Illinois state pension fund.
- International equity produced an impressive 27.3 percent one-year return.
- Private equity provided a one-year return in excess of 20 percent for the second consecutive year. The 10-year return is 19.5 percent.
- TRS secured a $13 million settlement for losses arising from the WorldCom bankruptcy.

Securing Legislative Accomplishments

Two legislative measures illustrate our diligence in securing needed legislation and assisting the General Assembly in its work. TRS worked productively to extend the 120-day post-retirement employment limitation. Our assistance role culminated in the enactment of Public Act 94-1057, which exempts certain types of salary adjustments from the requirement that employers pay the additional pension cost of salary increases in excess of 6 percent.

Last year's passage of Public Act 94-0004, which extended and modified the Early Retirement Option (ERO) and established new limitations on and contributions for certain sick leave and end-of-career salary adjustments, presented numerous challenges. TRS sought and achieved near-perfect consensus with all affected parties on rules to implement the legislation. Other challenges included adapting our information systems and providing up-to-the minute information to our members and their employers.

The TRS legal staff took a key role in negotiating a rulemaking to implement recently enacted changes in the QILDRO law. The law governs the division of public pension benefits in cases of marital dissolution.

Facing Challenges

As in life, TRS faced challenges and disappointments. Recent events involving a former trustee and a former outside counsel who breached the high standard we expect of those who serve TRS left us angered and disheartened. A sacred trust was betrayed. While the extensive media coverage makes an extended discussion unnecessary, I want to reassure you of three important points. First, at no time were any TRS assets used to fund illegal payments allegedly sought from current and potential TRS investment managers. Not one penny of TRS money was ever lost or put at risk by this scheme. Second, TRS has actively cooperated in the investigation, providing information, documents, and testimony. Finally, our investment process and the fundamental honesty of our staff, our current Board of Trustees, and the professional investment community proactively discourages and discovers such unethical behavior.

At TRS, we never consider our mission accomplished or our task completed. Rather, we work with diligence to better our record and improve our service.

Sincerely,

Jon Bauman
Executive Director

Board of Trustees

As of December 1, 2006

Christopher A. Koch, Ed.D.
Interim President
Bloomington

Molly Phalen,
Vice President
Rockford

James Bruner
Jacksonville

Jack Carriglio
Glenview

Jan Cleveland
Carmi

Cinda Klickna
Rochester

Sharon Leggett
Evanston

Bob Lyons
Hoffman Estates

Cynthia O'Neill
Carlyle

William Orrill
Carbondale

Organizational Structure

Executive Staff Members as of December 1, 2006

Board of Trustees

Jon Bauman
Executive Director

Jana Bergschneider, CPA
Director of Administration

Andrew Bodewes
Director of Government Affairs

Kathleen Farney
Director of Research

Eva Goltermann
Public Information Officer

Tom Gray
General Counsel

Gina Larkin
Director of Human Resources

Kathy Pearce
Communications Supervisor

Stan Rupnik, CFA
Chief Investment Officer

Stacy Smith, CPA
Internal Audits Manager

Terry Viar
Director of Member Services

Consulting and Professional Services

Actuary

Buck Consultants, an ACS Company
Chicago, Illinois

External Auditors

(As special assistants to the Office of the Auditor General)

BKD, LLP
Decatur, Illinois

Information Systems

Canaudit, Inc.
Simi Valley, California

IBM Corp.
Chicago, Illinois/Boulder, Colorado

SBC Datacomm
Saginaw, Michigan

VeriSign, Inc.
Toronto, Ontario

Hupp Information Technologies
Springfield, Illinois

Pro-Tech Search, Inc.
Petersburg, Illinois

Sentinel Technologies
Chicago, Illinois

Investment Consultants

(Investment management firms are listed throughout the Investment Section.)

Callan Associates Inc.
(real estate consultant)
San Francisco, California

R.V. Kuhns & Associates, Inc.
(general consultant)
Portland, Oregon

Risk Resources
(real estate insurance)
Elmhurst, Illinois

External Legal Counsel

Barnes & Thornburg LLP
Chicago, Illinois

Cavanagh & O'Hara
Springfield, Illinois

Heyl, Royster, Voelker & Allen
Springfield, Illinois

Howard & Howard Attorneys PC
Peoria, Illinois

Lerach Coughlin Stoia
Geller Rudman & Robbins LLP
San Diego, California

Calhoun Law Group, P.C.
Washington, D.C.

Foley & Lardner LLP
Chicago, Illinois

Holland & Knight LLP
Chicago, Illinois

Jenner & Block LLP
Chicago, Illinois

Loewenstein, Hagen & Smith, P.C.
Springfield, Illinois

Master Trustee

The Northern Trust Company
Chicago, Illinois

Patience and diligence,
like faith, remove
mountains.

~William Penn

1644-1718

FINANCIAL

600 LEXINGTON

NEW YORK, NEW YORK

Independent Auditors' Report

The Honorable William G. Holland, Auditor General – State of Illinois

Board of Trustees, Teachers' Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the Teachers' Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of June 30, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2006 and 2005, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue a report dated November 2, 2006 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying management's discussion and analysis and schedules of funding progress and contributions from employer and other contributing entities as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements. The other supplementary information in the financial section and the accompanying introduction, investment, actuarial and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as of and for the years ended June 30, 2006 and 2005, taken as a whole. The introduction, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BKD, LLP

November 2, 2006

Management's Discussion and Analysis

Our discussion and analysis of the Teachers' Retirement System of the State of Illinois provides an overview of financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Letter of Transmittal in the Introduction Section on page 7 and the Basic Financial Statements and related notes that follow this discussion.

Financial Highlights

- TRS net assets at June 30, 2006, were $36.6 billion.
- During FY06, TRS net assets increased $2.5 billion.
- Contributions from members, employers, and the State of Illinois were $1,457 million, a decrease of $360 million or 19.8 percent for the fiscal year.
- Total investment income was $3,993 million, an increase of $663 million compared to FY05.
- Benefits and refunds paid to members and annuitants were $2,935 million, an increase of $342 million or 13.2 percent compared to FY05.
- The pension benefit obligation or total actuarial accrued liability was $59.00 billion at June 30, 2006.
- The unfunded actuarial accrued liability increased from $21.99 billion at June 30, 2005 to $22.41 billion at June 30, 2006. The funded ratio increased from 60.8 percent at June 30, 2005 to 62.0 percent at June 30, 2006.

The Basic Financial Statements contained in this section of the *Comprehensive Annual Financial Report* consist of:

Statements of Plan Net Assets. This statement reports the pension trust fund's assets, liabilities, and resultant net assets available to pay benefits at the end of the fiscal year. It is the balance sheet of TRS and reflects the financial position of the Teachers' Retirement System as of June 30, 2006.

Statements of Changes in Plan Net Assets. This statement details transactions that occurred during the fiscal year. It is the income statement of TRS and reflects the revenues and expenses recorded throughout the fiscal year. The Statements of Changes in Plan Net Assets supports the change in the value of the net assets reported on the Statements of Plan Net Assets.

Notes to the Financial Statements. The notes are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The required supplementary information and other schedules following the notes to the financial statements provide historical and additional detailed information considered useful in evaluating the financial condition of the Teachers' Retirement System. The following are condensed comparative financial statements of the TRS pension trust fund.

Condensed Comparative Statement of Plan Net Assets as of June 30

	2006	Percentage Change	2005	Percentage Change	2004
Cash	$3,867,280	2.4%	$3,777,107	(11.5%)	$4,269,329
Receivables and prepaid expenses	352,050,422	(8.0)	382,518,911	8.1	353,725,714
Investments	37,336,880,818	7.0	34,898,361,784	8.9	32,046,373,325
Invested securities lending collateral	4,401,016,409	0.3	4,386,594,663	26.6	3,466,114,601
Capital assets	2,333,759	0.6	2,320,275	2.1	2,273,510
Total assets	**42,096,148,688**	**6.1**	**39,673,572,740**	**10.6**	**35,872,756,479**
Total liabilities	**5,511,259,261**	**(1.4)**	**5,588,354,263**	**29.1**	**4,328,027,194**
Net assets	**$36,584,889,427**	**7.3%**	**$34,085,218,477**	**8.1%**	**$31,544,729,285**

Condensed Comparative Statement of Changes in Plan Net Assets For the Year Ended June 30

	2006	Percentage Change	2005	Percentage Change	2004
Contributions	$1,456,882,200	(19.8%)	$1,817,352,355	(71.0%)	$6,258,086,538
Total investment income	3,993,289,880	19.9	3,330,039,158	(25.8)	4,485,729,345
Total additions	5,450,172,080	5.9	5,147,391,513	(52.1)	10,743,815,883
Benefits and refunds	2,935,197,760	13.2	2,592,498,606	12.2	2,310,349,123
Administrative expenses	15,303,370	6.2	14,403,715	6.2	13,560,546
Total deductions	2,950,501,130	13.2	2,606, 902,321	12.2	2,323,909,669
Net increase in net assets	**2,499,670,950**	**(1.6)**	**2,540,489,192**	**(69.8)**	**8,419,906,214**
Net assets beginning of year	**34,085,218,477**	**8.1**	**31,544,729,285**	**36.4**	**23,124,823,071**
Net assets end of year	**$36,584,889,427**	**7.3%**	**$34,085,218,477**	**8.1%**	**$31,544,729,285**

Financial Analysis

TRS was created to provide retirement, survivor, and disability benefits to qualified members. Increases or decreases in plan net assets serve as useful indicators of TRS's financial position. Net assets available to pay benefits were $36.6 and $34.1 billion at June 30, 2006 and 2005, respectively. Net assets increased $2.5 billion during both FY06 and FY05.

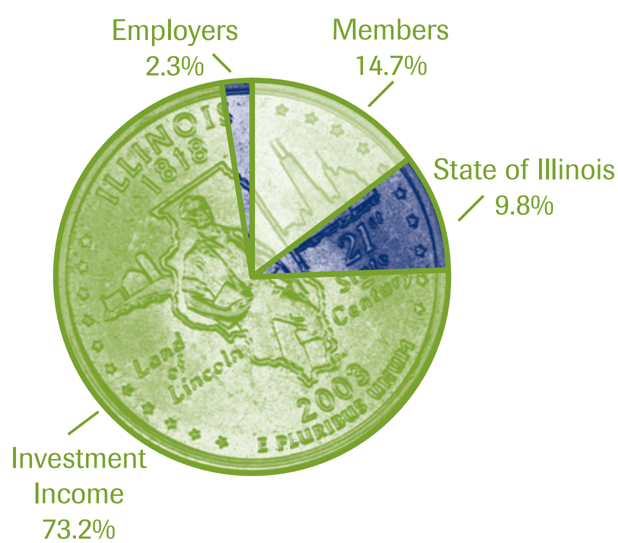
Contributions

Contributions decreased $360 and $4,441 million during FY06 and FY05, respectively. During FY06, member contributions increased $37 million and employer contributions from school districts decreased $24 million. During FY05, member contributions decreased $7 million and employer contributions from school districts increased $20 million. The majority of the decrease in the employer contributions from school districts in FY06 is attributable to a reduction in the contribution rate on federally-funded salaries from 10.5 percent in FY05 to 7.06 percent in FY06 and a decrease in employer Early Retirement Option contributions due to a lower number of members electing to retire under the Early Retirement Option.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois decreased $373 and $4,455 million in FY06 and FY05, respectively. The decrease in FY06 occurred because Public Act 94-0004 specified a lower appropriation that was not based on actuarial funding requirements. The large decrease in FY05 is due to the one-time receipt of pension obligation bond proceeds from the State of Illinois in FY04. On July 2, 2003, TRS deposited $4.330 billion in bond proceeds received from the State of Illinois. These funds represented a portion of the $10 billion of general obligation bonds issued by the State of Illinois for the purpose of reducing the unfunded liabilities for Teachers' Retirement System, State Employees' Retirement System, State Universities Retirement System, General Assembly Retirement System, and Judges' Retirement System.

State funding law provides for a 50-year funding plan that includes a 15-year phase-in period. Minimum state contribution rates were specified in the statute for FY99 through FY04. In FY05, state contributions were reduced in accordance with funding revisions contained in the pension obligation bond law. In FY06 and FY07, state contributions are based on dollar amounts specified by Public Act 94-0004. The legislation contained a two-year funding reduction of approximately 50 percent or over $1 billion for TRS. Higher state contributions will be needed in future years to make up for the two-year funding reduction, as the overall goal of 90 percent funding in the year 2045 is unchanged.

Revenues by Type for the Year Ended June 30, 2006



Investments

The TRS trust fund is invested according to law under the "prudent person rule" requiring investments to be managed solely in the interest of fund participants and beneficiaries. Principles guiding the investment of funds include preserving the long-term principal of the trust fund and maximizing total return within prudent risk parameters.

Total investments increased $2.4 billion from $34.9 billion at June 30, 2005 to $37.3 billion at June 30, 2006.

The TRS investment portfolio had another strong year. TRS investments earned an 11.8 and 10.8 percent rate of return, net of fees, for FY06 and FY05, respectively, as all asset classes again produced positive returns. Overall, the U.S. economy remained vibrant and inflation restrained, providing a healthy investment environment. Outside of the U.S., markets were even stronger with stock returns in the high 20 percent range led by continued expansion from emerging market economies. Substantial gains were accumulated in the private markets in FY06 with the TRS private equity portfolio returning 23.8 percent, net of fees, and the TRS real estate portfolio generating an 18.8 percent return, net of fees. The five- and 10-year returns are 7.9 percent and 9.0 percent, respectively. The long-term return continues to outperform the actuarial assumption rate of 8.5 percent.

Annual Rate of Return (net of investment expenses)

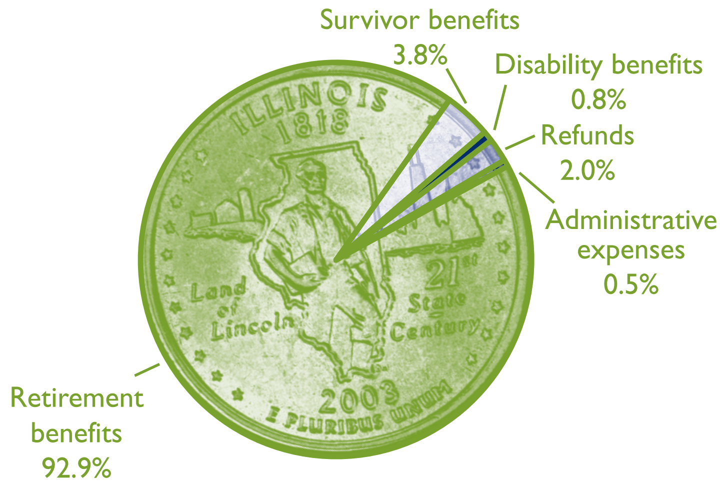
The annual rate of return is an indication of TRS investment performance and is provided by the TRS Master Trustee.

Benefits and Refunds

Survivor, disability, and retirement benefit payments increased $344 and $271 million during FY06 and FY05, respectively. During FY06, benefit payments increased from $2,533 million with 82,575 recipients during FY05 to $2,877 million with 85,103 recipients. The overall increase in benefit payments is due mainly to an increase in retirement benefit payments. Retirement benefits increased as a result of an automatic 3 percent annual increase in retirement benefits and an increase in the number of retirees from 73,464 as of June 30, 2005 to 75,747 as of June 30, 2006.

Refunds of contributions decreased $2 million during FY06 and increased $12 million during FY05. The decrease in refunds is a result of the decrease in 2.2 upgrade contribution refunds.

Expenses by Type for the Year Ended June 30, 2006



Actuarial

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 to date. The actuarial accrued liability increased $2.92 and $5.13 billion during FY06 and FY05, respectively, to $59.00 billion at June 30, 2006 and $56.08 billion at June 30, 2005. The unfunded liability is the present value of future benefits payable that are not covered by assets as of the valuation date. The unfunded liability increased $0.42 billion during FY06 to $22.41 billion at June 30, 2006 and increased $2.59 billion during FY05 to $21.99 billion at June 30, 2005. The funded ratio reflects the percentage of the accrued liability covered by net assets at market value. The funded ratio increased to 62.0 percent at June 30, 2006 from 60.8 percent at June 30, 2005.

To comply with the Illinois Pension Code, an actuarial experience analysis is performed once every five years to review the actuarial assumptions. The last experience analysis was conducted in 2002. TRS actuaries are scheduled to conduct an experience analysis for the five-year period ended June 30, 2006 in 2007.

Funded Ratio at Market Value

The funded ratio is the ratio of assets to liabilities. An increase in this ratio indicates an improvement in TRS's ability to meet future benefit obligations.

Legislation

GASB Statement Number 34 requires the Management Discussion and Analysis to include a description of currently known facts expected to have a significant effect on TRS's financial position.

The enactment of Public Act 94-0004 in June 2005 continues to have significant impact on TRS because it dramatically reduced the FY06 and FY07 state contributions. The $523.9 million reduction in FY06 is being followed by a $497.6 million reduction in FY07. State contributions will be higher in future years to make up for the funding reduction in FY06 and FY07, as the overall goal of 90 percent funding in year 2045 is unchanged.

Basic Financial Statements

Teachers' Retirement System of the State of Illinois
Statements of Plan Net Assets
as of June 30, 2006, and 2005

	2006	2005
Assets		
Cash	$3,867,280	$3,777,107
Receivables and prepaid expenses		
Member payroll deduction	51,724,086	57,506,146
Member contributions	45,424,593	41,216,097
Employer contributions	10,285,346	30,947,290
State of Illinois	194,093	441,044
Investment income	243,067,231	249,963,566
Prepaid expenses	1,355,073	2,444,768
Total receivables and prepaid expenses	352,050,422	382,518,911
Investments, at fair value		
Fixed income	10,537,985,786	10,325,741,083
Equities	20,031,392,346	18,787,194,875
Real estate	3,946,280,351	3,525,456,881
Short-term investments	1,273,184,193	1,163,168,990
Private equity investments	1,513,997,646	1,068,633,225
Foreign currency	34,040,496	28,166,730
Total investments	37,336,880,818	34,898,361,784
Collateral from securities lending	4,401,016,409	4,386,594,663
Property and equipment, at cost, net of accumulated depreciation of $5,149,154 and $5,235,129 in 2006 and 2005, respectively	2,333,759	2,320,275
Total assets	**42,096,148,688**	**39,673,572,740**
Liabilities		
Benefits and refunds payable	4,815,189	4,124,841
Administrative and investment expenses payable	125,120,198	118,607,225
Payable to brokers for unsettled trades, net	980,307,465	1,079,027,534
Securities lending transactions	4,401,016,409	4,386,594,663
Total liabilities	**5,511,259,261**	**5,588,354,263**
Net assets held in trust for pension benefits	**$36,584,889,427**	**$34,085,218,477**

(A schedule of funding progress is presented on page 49.)

The accompanying notes are an integral part of these statements.

Teachers' Retirement System of the State of Illinois
Statements of Changes in Plan Net Assets
Years Ended June 30, 2006, and 2005

	2006	2005
Additions		
Contributions		
Members	$799,034,336	$761,790,009
State of Illinois	534,305,256	906,749,310
Employers		
Early retirement	53,897,973	65,378,955
Federal funds	24,331,277	39,840,799
2.2 benefit formula	45,162,802	43,593,282
Excess salary/sick leave	150,556	0
Total contributions	1,456,882,200	1,817,352,355
Investment income		
From investment activities		
Net appreciation in fair value	2,971,529,661	2,569,878,360
Interest	489,976,262	352,219,842
Real estate operating income, net	270,388,389	222,603,171
Dividends	353,259,841	268,364,399
Private equity income	26,197,197	20,389,300
Other investment income	1,870,744	1,931,616
Investment activity income	4,113,222,094	3,435,386,688
Less investment expense	(132,196,285)	(114,896,886)
Net investment activity income	3,981,025,809	3,320,489,802
From securities lending activities		
Securities lending income	199,749,533	88,385,077
Securities lending management fees	(2,162,259)	(1,931,333)
Securities lending borrower rebates	(185,323,203)	(76,904,388)
Net securities lending activity income	12,264,071	9,549,356
Total investment income	3,993,289,880	3,330,039,158
Total additions	**5,450,172,080**	**5,147,391,513**
Deductions		
Retirement benefits	2,741,163,998	2,407,652,120
Survivor benefits	112,901,636	103,990,670
Disability benefits	23,165,063	21,460,058
Refunds	57,967,063	59,395,758
Administrative expenses	15,303,370	14,403,715
Total deductions	**2,950,501,130**	**2,606,902,321**
Net increase	**2,499,670,950**	**2,540,489,192**
Net assets held in trust for pension benefits		
Beginning of year	34,085,218,477	31,544,729,285
End of year	**$36,584,889,427**	**$34,085,218,477**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

A. Plan Description

1. Reporting Entity

The Teachers' Retirement System of the State of Illinois (TRS) is the administrator of a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). Membership is mandatory for all full-time, part-time, and substitute public school personnel employed outside of Chicago in positions requiring certification. Persons employed at certain state agencies are also members. Established by the State of Illinois, TRS is governed by the Illinois Pension Code (40 ILCS 5/16). TRS is a component unit of the State of Illinois and is included in the state's financial statements as a pension trust fund.

TRS uses criteria established by the Governmental Accounting Standards Board (GASB) to determine whether other entities should be included within its financial reporting entity. Based on the criteria, TRS includes no other entities in these financial statements.

2. Employers

Members of TRS are employed by school districts, special districts, and certain state agencies. Each employer remits member contributions to TRS. Employers are responsible for employer contributions for teachers paid from federal funds, employer contributions for member benefit increases, and for the employer's portion of the Early Retirement Option contributions. As a result of Public Act 94-0004, which became law on June 1, 2005, employers are also required to pay the cost of pension benefits resulting from end-of-career salary increases over 6 percent. Public Act 94-1057, which became law on July 31, 2006, provides additional exemptions from employer contributions for excess salary increases. Some of these exemptions are permanent while others are available for a limited time period. Employers also pay a contribution for sick leave days granted in excess of the member's normal annual allotment and used for service credit at retirement. The contributions do not apply to salary increases awarded or sick leave granted under contracts or collective bargaining agreements entered into, amended, or renewed prior to June 1, 2005. In addition, the State of Illinois provides employer contributions. For information about employer contributions made by the State of Illinois, see "Funding" on page 30.

Number of Employers (as of June 30)

	2006	2005
Local school districts	871	878
Special districts	137	139
State agencies	24	25
Total	**1,032**	**1,042**

3. Members

TRS Membership (as of June 30)

	2006	2005
Retirees and beneficiaries receiving benefits	85,103	82,575
Inactive members entitled to but not yet receiving benefits	81,218	87,328
Active members	159,272	155,850
Total	**325,593**	**325,753**

4. Benefit Provisions

Governed by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor, TRS provides retirement, death, and disability benefits. A member qualifies for an age retirement annuity after meeting one of the following requirements: age 62 with five years of service credit; age 60 with 10 years; or age 55 with 20 years. If a member retires between the ages of 55 and 60 with fewer than 35 years of service, the annuity will be reduced at the rate of 0.50 percent for each month the member is under age 60. A member who is age 55 and has fewer than 35 years of service credit may use the Early Retirement Option (ERO) to avoid a discount for early retirement if retirement occurs within six months of the last day of service requiring contributions, and if the member and employer both make a one-time contribution to TRS.

Public Act 94-0004, effective June 1, 2005, made several important changes to the ERO that was scheduled to expire on June 30, 2005. The ERO program will continue at least through 2012. Members are considered to be in the "pipeline" to retire under ERO without modifications if they have met all of the following requirements:

- On or before June 1, 2005, members notified their employer in writing of their intention to retire under the terms of their contract or collective bargaining agreement.
- Members have an effective date of retirement on or before July 1, 2007.

For this Pipeline ERO group only, member and employer contributions are waived for members with 34 years of service.

A Modified ERO is provided for all other members. ERO contribution rates are higher for the modified Early Retirement Option and the contribution waiver for members with 34 years of service is eliminated. Members and employers make a contribution for any member under the age of 60 who retires with less than 35 years of service.

A member with fewer than five years of creditable service and service on or after July 1, 1947, is entitled to a single-sum benefit payable once he or she reaches age 65.

A retirement benefit is determined by the average salary of the four highest consecutive salary rates within the last 10 years of creditable service and the percentage of average salary to which the member is entitled. This percentage is determined by the following formula for service earned before July 1, 1998: 1.67 percent for each of the first 10 years, plus 1.9 percent for each of the next 10 years, plus 2.1 percent for each of the next 10 years, plus 2.3 percent for each year over 30 years. The maximum retirement benefit, 75 percent of average salary, is achieved with 38 years of service under the graduated formula.

Public Act 90-0582 improved retirement benefits for TRS members by changing the rate at which members accrue benefits beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. Members may attain the maximum 75 percent benefit with 34 years of service under the 2.2 benefit formula. Members retiring on or after the effective date have the option of upgrading their service earned prior to July 1, 1998, to the flat 2.2 percent formula by making a payment to TRS. Additionally, for members who continue to teach, every three full years worked after July 1, 1998, count toward a full one-year reduction of the years to be upgraded.

A money purchase (actuarial) benefit is payable if it results in a higher annuity than either the graduated or 2.2 formula. The 75 percent cap does not apply to the money purchase benefit. Public Act 94-0004 eliminates the money purchase benefit for persons who become TRS members after June 30, 2005.

Essentially all retirees receive an annual 3 percent increase in the current retirement benefit beginning January 1 following the attainment of age 61 or January 1 following the first anniversary in retirement, whichever is later.

If a member leaves covered employment, TRS will refund a member's retirement contributions upon request. The refund consists of actual contributions, excluding the 1 percent death benefit contribution.

5. Funding

Member, employer, and state contributions are statutorily defined by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor.

Effective July 1, 1998, member contributions increased from 8 percent to 9 percent of salary. These contributions are allocated as follows: 7.5 percent for retirement, 0.50 percent for post-retirement increases, and 1 percent for death benefits. The contribution rate changed from 9.0 percent to 9.4 percent effective July 1, 2005 as a result of Public Act 94-0004. The additional 0.4 percent is to help cover the cost of ERO and is refundable if the member does not retire using ERO or if the ERO program terminates.

Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through state appropriations from the Common School Fund. Additional signficant sources of state contributions in prior years have been the Educational Assistance Fund, the General Revenue Fund, and the State Pensions Fund. Employers also make contributions for the 2.2 benefit formula and for teachers who are paid from federal funds. Additionally, employers contribute their portion of the cost of the Early Retirement Option and any excess salary increase or sick leave costs due.

On April 7, 2003, Public Act 93-0002 authorized the State of Illinois to issue $10 billion in general obligation bonds for the purpose of making contributions to designated retirement systems. TRS was one of the designated retirement systems for the purpose of this new law. In addition, the Pension Contribution Fund was created as a special fund in the State Treasury.

OVERLOOK III
ATLANTA, GEORGIA

On June 12, 2003, the State of Illinois issued $10 billion in general obligation bonds, pension funding series of June 2003, and deposited the net bond proceeds of $7,317,292,916 into the Pension Contribution Fund. Bond proceeds of $2,682,707,084 were utilized

- to reimburse the General Revenue Fund $2,160,000,000 for the last quarter of the state's FY03 required contributions and the total FY04 required contributions to the designated retirement systems,
- to fund $481,038,334 in interest payments due December 1, 2003 and June 1, 2004 on the general obligation bonds, pension funding series of June 2003, and
- to fund bond issuance and other costs totaling $41,668,750.

The net bond proceeds of $7,317,292,916 were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in Public Act 93-0002. Pursuant to the amendments to the General Obligation Bond Act (30 ILCS 330/7.2), the Governor's Office of Management and Budget determined the percentage distribution of the proceeds. The allocation of the proceeds was based on the percentage distribution of the state's total actuarial reserve deficiency as of June 30, 2002.

TRS received an allocation of bond proceeds equal to $4,330,373,948 on July 1, 2003. The monies were deposited into TRS's Master Trust account with The Northern Trust Company on July 2, 2003.

The $4.330 billion in pension obligation bond proceeds received in FY04 were not counted as contributions towards TRS's annual actuarial funding requirements for FY04. State funding law provides for a 50-year funding plan that includes a 15-year phase-in period. Minimum state contribution rates were specified in the statute for FY99 through FY04. In FY05, state contributions were reduced in accordance with funding revisions contained in the pension obligation bond law.

In FY06 and FY07, state contributions are based on dollar amounts specified by Public Act 94-0004. The legislation contains a two-year funding reduction of approximately 50 percent or over $1 billion for TRS. State contributions will be higher in future years to make up for the two-year funding reduction, as the overall goal of 90 percent funding in the year 2045 is unchanged.

Beginning July 1, 1995, state contributions have been made through a continuing appropriation. However, in FY06 and FY07 the total state appropriations are specified by the statute rather than actuarial calculations.

Administrative expenses are budgeted and approved by the TRS Board of Trustees. Funding for these expenses is included in the employer contribution, as determined by the annual actuarial valuation.

B. Summary of Significant Accounting Policies

1. Basis of Accounting

TRS's financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized as expenditures when they are due and payable in accordance with the terms of the plan.

2. Use of Estimates

The preparation of financial statements in conformity with accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from net assets during the reporting period. Actual results could differ from those estimates.

3. New Accounting Pronouncements

In April 2004, GASB issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (OPEB). The statement requires that OPEB plans accrue for the liabilities of such benefits over the working careers of plan members. Currently, most government sponsored OPEB plans are funded on a pay-as-you-go basis. The statement pertains to the plans themselves, not participating employers. TRS state agency employers participate in the State Employees Group Insurance Plan; other TRS employers participate in the Teachers' Retirement Insurance Program. For both of these postemployment benefit plans, the requirements of the statement are effective for periods beginning after December 15, 2005. The first disclosure will be for the year ending June 30, 2007.

In May 2004, GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section," an amendment of NCGA Statement 1. The statement establishes and modifies requirements related to the supplementary information presented in the statistical section. The requirements of this statement were effective for statistical sections prepared for periods beginning after June 15, 2005. TRS has implemented GASB 44 in the year ending June 30, 2006.

In June 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" (OPEB). The statement establishes standards of accounting and financial reporting for OPEB expense/expenditures and related OPEB liabilities or assets, note disclosures, and required supplementary information (RSI) in the financial reports of state and local government employers. The requirements of this statement are effective for TRS's financial statements for periods beginning after December 15, 2006. The first disclosure will be for the year ending June 30, 2008.

4. Method Used to Value Investments

TRS reports investments at fair value. Fair value for equities is determined by using the closing price listed on national and over-the-counter securities exchanges as of June 30. Fair value for fixed income securities is determined principally by using quoted market prices provided by independent pricing services. Fair value for real estate investments is determined by appraisals. Fair value for private equity assets is determined by reviewing and evaluating the reasonableness of the valuations provided by the general partner in accordance with the provisions in the individual agreements.

5. Property and Equipment

Equipment is stated on the basis of historical cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. Office furniture and equipment are assigned a useful life of three to 10 years while vehicles are assigned a five-year life. TRS's office building is depreciated over 40 years.

6. Accrued Compensated Absences

When they terminate employment, TRS employees are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned through December 31, 1997. (Lump-sum payments for sick leave earned prior to January 1, 1984, are subject to a maximum of 60 days or 420 hours.) Accrued compensated absences as of June 30, 2006, and 2005 totaled $1,376,394 and $1,371,271, respectively, and are included as administrative and investment expenses payable.

7. Receivables

Receivables consist primarily of 1) member and employer contributions owed and yet to be remitted by the employing districts as of June 30 and 2) interest, dividends, real estate and private equity income owed to TRS as of June 30.

TRS assesses penalties for late payment of contributions and may collect any unpaid amounts from the employing districts by filing a claim with the regional superintendent of education or the Office of the Comptroller against future state aid payments to the employer. TRS considers these amounts to be fully collectible.

Members may enter into Payroll Deduction Program agreements with their employers to pay for their optional service balances, to repay refunds previously taken from TRS, to pay for their 2.2 benefit formula upgrade balances, or to pay estimated ERO contributions. Terms and conditions of the agreements are:

- A member must be employed full time.
- The agreement is irrevocable and can be terminated only upon full payment of the member's balance or upon the member's death, disability, retirement, or termination of employment.
- The amount deducted must be a minimum of $50 per month and cannot be changed during the term of the agreement.
- Agreements may begin at the beginning of each calendar year quarter.
- The member may not make direct payments to TRS to reduce the balance under which an agreement has been entered.

If the agreement is to pay for a 2.2 formula upgrade balance, the maximum length of the agreement is 60 months. TRS had outstanding balances in payroll deduction agreements totalling $51,724,086 and $57,506,146 as of June 30, 2006, and 2005 respectively.

8. Prior Period Reclassification

Certain prior year amounts have been reclassified on a basis consistent with the current year presentation.

9. Risk Management

TRS, as a component unit of the State of Illinois, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. TRS obtains commercial insurance for fidelity, surety, and property. No material commercial insurance claims have been filed in the last three fiscal years.

C. Cash

Custodial credit risk for deposits is the risk that in the event of a bank failure, TRS's deposits may not be returned. TRS adopted a formal policy during FY06 to address custodial credit risk. The policy's purpose is to minimize custodial credit risk through proper due diligence of custody financial institutions and investment advisors; segregate safekeeping of TRS assets; establish investment guidelines and endeavor to have all investments held in custodial accounts through an agent, in the name of custodian's nominee, or in a corporate depository or federal book entry account system. For those investment assets held outside of the custodian, TRS will follow the applicable regulatory rules.

The non-investment bank balance and carrying amount of TRS's deposits were $3,691,765 and $3,867,280 at June 30, 2006, and $3,474,640 and $3,777,107 at June 30, 2005. Of the bank balance, $3,567,765 and $3,121,085 were on deposit with the state treasurer at June 30, 2006, and 2005, respectively. State treasurer deposits are in an internal investment pool collateralized at a third party custodial bank and are not subject to custodial credit risk. The remaining bank balance of $124,000 and $353,555 at June 30, 2006 and 2005, respectively, are amounts TRS deposited and received credit for at The Northern Trust Company, but Northern had not yet received the money from the payor's financial institution. The amounts, called uncollected funds, are not subject to custodial credit risk. Certain investments of TRS with maturities of 90 days or less would be considered cash equivalents; these consist of bank sponsored short-term investment funds, negotiable certificates of deposits, commercial paper, and various futures and option contracts. For financial statement presentation and investment purposes, TRS reports its cash equivalents as short-term investments in the Statements of Plan Net Assets.

For purposes of this disclosure, foreign currency held by investment managers is considered a deposit. However, for financial statement presentation and investment purposes ,TRS considers foreign currency an investment asset. Uncollateralized foreign currency subject to custodial credit risk was $26,484,325 and $20,862,357 at June 30, 2006 and June 30, 2005, respectively.

D. Investments

1. Investment Policies

Through the Board of Trustees, as authorized in the Illinois Pension Code, TRS serves as fiduciary for the members' trust funds and is responsible for investment of those funds by authority of the "prudent person rule." This rule establishes a standard for all fiduciaries by specifying fiduciary responsibility with regard to the members' trust funds.

2. Investment Risk

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a financial institution failure, TRS would not be able to recover the value of the investments in the possession of an outside party. TRS adopted a formal policy during FY06 to address custodial credit risk. The following table presents investments that were uninsured and unregistered, with the securities held by a counterparty, but not in TRS's name:

	6/30/06	6/30/05
Government Treasury Notes	–	$902,555
Index Linked Government Bonds	–	31,220,983
Negotiable Bank Certificates of Deposit	–	7,751,882
Short-term Bills and Notes Held with Brokers	$1,338,197	55,285,738
Cash Deposits Held with Brokers for Variation Margin	116,100	49,238,508
Total	**$1,454,297**	**$144,399,666**

Note: Beginning in FY06, foreign currency is considered a deposit for purposes of this disclosure. For comparative purposes, FY05 information was reclassified.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to TRS. Credit risk exposure is dictated by each investment manager's agreement. Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual security quality rating tiers, and/or the average credit quality of the overall portfolio. With the exception of commingled funds, bonds below B- are not permissible in any of the fixed income investment manager guidelines. However, in circumstances where position downgrades occur, investment managers have been given permission to hold securities due to circumstances such as a higher peer group rating from another nationally recognized statistical rating organization, the investment manager's internal ratings, or other mitigating factors.

As of June 30, 2006, TRS held the following fixed income investments with respective quality ratings, excluding those obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government, which are not considered to have credit risk.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Other*	Total
Aaa	$1,979,700,747	$235,375,908	$2,814,237,689	-	$5,029,314,344
Aa1	126,634,211	15,950,748	1,758,474	-	144,343,433
Aa2	76,775,612	37,053,499	28,000,300	-	141,829,411
Aa3	259,815,386	36,128,610	106,372	-	296,050,368
A1	111,207,193	7,268,977	201,766	-	118,677,936
A2	128,549,253	44,153,283	-	-	172,702,536
A3	137,714,809	42,971,816	-	-	180,686,625
Baa1	89,734,559	63,315,484	-	-	153,050,043
Baa2	212,134,786	43,346,880	-	-	255,481,666
Baa3	118,480,875	6,384,943	4,262,571	-	129,128,389
Ba1	115,729,024	12,453,489	-	-	128,182,513
Ba2	178,831,524	3,163,760	-	-	181,995,284
Ba3	18,517,672	17,143,177	-	-	35,660,849
B1	6,911,118	5,160,893	-	77,089,595	89,161,606
B2	26,089,728	2,173,375	-	-	28,263,103
B3	4,675,600	1,438,992	-	-	6,114,592
Caa1	874,881	295,572	-	-	1,170,453
Not Available	-	-	-	(3,157,583)	(3,157,583)
Not Rated	52,335,632	83,104,367	18,290,504	-	153,730,503
Withdrawn	70	-	-	-	70
Total Credit Risk: Debt Securities	$3,644,712,680	$656,883,773	$2,866,857,676	$73,932,012	$7,242,386,141
US Governments and Agencies**	-	-	1,861,894,930	-	1,861,894,930
U.S. Treasuries**	-	-	1,433,704,715	-	1,433,704,715
Total Bonds, Corporate Notes and Government Obligations	$3,644,712,680	$656,883,773	$6,162,457,321	$73,932,012	$10,537,985,786

** Includes commingled funds, interest rate and credit default swaps, and swaptions. Swap positions can be used to mitigate, or add to, the risk associated with various fixed income exposures, tiers, or sectors. The market value of swaps and swaptions is not indicative of actual exposure to counterparty risk.*

*** Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.*

As of June 30, 2005, TRS held the following fixed income investments with respective quality ratings.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled/ Closed End Funds	Total
Aaa	$1,063,700,016	$327,676,193	$2,377,363,562	-	$3,768,739,771
Aa1	84,205,161	8,856,817	955,170	-	94,017,148
Aa2	66,155,649	10,211,496	-	620,158,258	696,525,403
Aa3	540,277,352	21,399,522	-	-	561,676,874
AA	5,769,581	-	-	-	5,769,581
A1	117,260,305	8,712,788	560,530	-	126,533,623
A2	111,571,412	41,244,582	5,015,506	-	157,831,500
A3	129,264,431	28,028,454	-	-	157,292,885
Baa1	94,550,534	58,632,955	-	-	153,183,489
Baa2	381,901,008	31,160,219	-	-	413,061,227
Baa3	112,181,190	42,328,600	-	-	154,509,790
Ba1	63,826,208	18,671,420	-	-	82,497,628
Ba2	47,672,026	8,044,378	-	-	55,716,404
Ba3	27,299,705	9,317,791	-	48,406,505	85,024,001
B1	22,156,273	32,315,563	-	-	54,471,836
B2	15,877,496	1,217,650	-	-	17,095,146
B3	8,500,013	658,350	-	-	9,158,363
Caa1	6,609,388	-	-	-	6,609,388
Caa	3,611,418	-	-	-	3,611,418
Not Available	4,104,203	11,224,776	-	-	15,328,979
Not Rated	16,521,938	-	-	-	16,521,938
Withdrawn	35,368,161	-	-	-	35,368,161
Total Credit Risk: Debt Securities	$2,958,383,468	$659,701,554	$2,383,894,768	$668,564,763	$6,670,544,553
US Governments and Agencies*	-	-	1,697,385,355	-	1,697,385,355
U.S. Treasuries*	-	-	1,957,811,175	-	1,957,811,175
Total Fixed Income	$2,958,383,468	$659,701,554	$6,039,091,298	$668,564,763	$10,325,741,083

** Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.*

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of TRS's investment in a single issue. TRS's Investment Policy states securities representing debt and equity of any one company shall not exceed 5 percent of the fair value of any manager's portfolio without prior approval. At June 30, 2006 and June 30, 2005 TRS did not have investments in any one organization representing 5 percent or more of TRS assets other than those issued or explicitly guaranteed by the U.S. government.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. TRS's fixed income investments are managed in accordance with operational guidelines that are specific as to the degree of interest rate risk that can be taken. TRS manages the interest rate risk within the portfolio using various methods, including effective duration, option adjusted duration, average maturity, and segmented time distribution, which reflects total fair value of investments maturing during a given time period. In FY05, the System disclosed the option adjusted duration method, but has selected to disclose the segmented time distribution in FY06 for ease in comparability and statewide information compilation.

55 SECOND STREET
SAN FRANCISCO, CALIFORNIA

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2006 and June 30, 2005 is as follows:

Type	2006 Market Value	Maturity in Years: Less Than 1 Year	1 to 5 Years	6 to 10 Years	10 to 20 Years	More than 20 Years
U.S. Treasuries	$1,433,704,715	$270,592,002	$610,149,352	$325,812,394	$77,136,780	$150,014,187
U.S. Federal Agencies	1,612,335,642	833,744,349	367,432,569	175,687,738	214,431,570	21,039,416
U.S. Government Index Linked Bonds	263,914,841	3,824,332	84,168,037	84,694,942	39,202,072	52,025,458
U.S. Government Backed Mortgages	2,818,412,775	6,429	15,634,829	65,864,490	1,016,588,172	1,720,318,855
U.S. Municipals (Taxable)	11,619,751	0	0	0	0	11,619,751
U.S. Corporate Obligations						
Asset Backed Securities	721,905,881	2,203,740	265,683,818	46,975,450	25,847,123	381,195,750
Commercial Mortgage Backed Securities	527,255,346	0	0	35,652,693	17,402,809	474,199,844
Collateralized Mortgage Obligations	781,486,169	11,706	25,487,690	89,919	45,943,946	709,952,908
Commingled/Closed End Funds*	77,089,595	0	0	77,089,595	0	0
Corporate Convertible Bonds	2,945,437	0	0	0	0	2,945,437
Credit Obligations						
Financial	955,446,107	78,372,019	539,336,808	227,665,301	3,941,720	106,130,259
Industrial	544,794,865	27,036,179	174,739,721	168,075,086	61,905,703	113,038,176
Utilities	133,348,472	11,790,419	70,424,837	26,060,526	3,405,578	21,667,112
Swaps/Swaptions/ Other Assets	(3,157,583)	(445,532)	(2,171,659)	(86,433)	20,750	(474,709)
Foreign Debt Obligations	656,883,773	72,483,030	174,006,436	148,702,522	61,741,509	199,950,276
Total Bonds, Corporate Notes and Government Obligations	**$10,537,985,786**	**$1,299,618,673**	**$2,324,892,438**	**$1,382,284,223**	**$1,567,567,732**	**$3,963,622,720**

Type	2005 Market Value	Maturity in Years: Less Than 1 Year	1 to 5 Years	6 to 10 Years	10 to 20 Years	More than 20 Years
U.S. Treasuries	$1,957,811,175	$643,652,805	$894,956,787	$142,994,153	$118,568,913	$157,638,517
U.S. Federal Agencies	1,331,356,248	630,477,778	321,291,733	177,294,595	181,001,966	21,290,176
U.S. Government Index Linked Bonds	346,564,816	0	126,768,398	149,343,456	7,863,693	62,589,269
U.S. Government Backed Mortgages	2,371,367,541	383	7,528,571	74,772,484	816,749,099	1,472,317,004
U.S. Municipals (Taxable)	12,527,227	0	0	0	5,015,506	7,511,721
U.S. Corporate Obligations						
Asset Backed Securities	614,698,386	3,334,403	249,408,890	52,182,747	21,311,370	288,460,976
Commercial Mortgage Backed Securities	287,002,709	0	0	28,944,821	5,459,160	252,598,728
Collateralized Mortgage Obligations	587,153,543	0	2,942,085	123,630	64,169,826	519,918,002
Commingled/Closed End Funds*	668,564,763	0	0	668,564,763	0	0
Credit Obligations						
Financial	565,452,732	11,100,925	329,936,455	159,621,611	2,803,503	61,990,238
Industrial	821,791,248	56,658,118	297,886,836	246,938,711	60,672,278	159,635,305
Utilities	101,749,141	18,442,008	26,114,884	33,968,126	4,629,055	18,595,068
Foreign Debt Obligations	659,701,554	6,986,478	141,194,711	199,947,435	77,618,832	233,954,098
Total Bonds, Corporate Notes and Government Obligations	**$10,325,741,083**	**$1,370,625,898**	**$2,398,029,350**	**$1,934,696,532**	**$1,365,863,201**	**$3,256,499,102**

** Weighted average maturity figures were used to place the commingled funds within the schedule.*

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. TRS's currency risk exposure, or exchange rate risk, is primarily derived from its holdings in foreign currency-denominated equity, fixed income investments and foreign currency. TRS's international equity and global fixed income managers, at their discretion, may or may not hedge the portfolio's foreign currency exposures with currency forward contracts or options depending upon their views on a specific country or foreign currency relative to the U.S. dollar.

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2006 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Total
Argentine Peso	$37,365	-	-	$37,365
Australian Dollar	789,971	230,810,274	26,169,835	257,770,080
Brazilian Real	23,937	136,629,481	-	136,653,418
British Pound Sterling	1,765,664	1,349,240,757	85,095,411	1,436,101,832
Canadian Dollar	228,811	68,573,862	15,064,599	83,867,272
Czech Koruna	-	16,929	-	16,929
Danish Krone	10,663	30,964,077	-	30,974,740
Egyptian Pound	185,065	-	-	185,065
Euro	9,947,634	2,131,436,919	111,933,378	2,253,317,931
Hong Kong Dollar	227,425	191,574,469	-	191,801,894
Hungarian Forint	1,368	6,620,329	-	6,621,697
Iceland Krona	(719,953)	-	-	(719,953)
Indian Rupee	-	9,451	-	9,451
Indonesian Rupiah	231,881	4,983,090	-	5,214,971
Japanese Yen	18,050,855	1,116,078,296	44,374,037	1,178,503,188
Malaysian Ringgit	41,911	16,279,287	-	16,321,198
Mexican Peso	524,871	33,640,995	487,104	34,652,970
New Israeli Shekel	88,749	6,314,693	-	6,403,442
New Taiwan Dollar	543,290	190,826,183	-	191,369,473
New Zealand Dollar	758,417	18,346,596	6,758,259	25,863,272
Norwegian Krone	50,242	49,450,370	-	49,500,612
Philippine Peso	-	5,146,128	-	5,146,128
Polish Zloty	-	10,397,421	-	10,397,421
Singapore Dollar	286,826	46,123,066	-	46,409,892
South African Rand	41,103	78,664,878	-	78,705,981
South Korean Won	117,168	291,388,627	-	291,505,795
Swedish Krona	13,939	90,977,321	19,051,307	110,042,567
Swiss Franc	793,287	439,090,536	-	439,883,823
Thai Baht	-	18,270,368	-	18,270,368
Turkish Lira	7	8,058,889	-	8,058,896
Total Subject to Foreign Currency Risk	**$34,040,496**	**$6,569,913,292**	**$308,933,930**	**$6,912,887,718**
Investments in International Securities Payable in United States Dollars	**-**	**848,448,548**	**347,495,188**	**1,195,943,736**
Total International Investment Securities	**$34,040,496**	**$7,418,361,840**	**$656,429,118**	**$8,108,831,454**
Domestic Investments	**-**	**12,613,030,506**	**9,881,556,668**	**22,494,587,174**
Total Fair Value	**$34,040,496**	**$20,031,392,346**	**$10,537,985,786**	**$30,603,418,628**

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2005 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Total
Australian Dollar	$1,172,965	$186,055,772	$12,202,400	$199,431,137
Brazilian Real	40,406	97,423,708	-	97,464,114
British Pound Sterling	1,087,289	1,039,816,250	80,583,088	1,121,486,627
Canadian Dollar	410,967	41,389,874	17,124,339	58,925,180
Czech Koruna	4,108	24,093	-	28,201
Danish Krone	39,051	29,897,532	-	29,936,583
Egyptian Pound	319,899	5,432,914	-	5,752,813
Euro	3,852,761	1,760,075,362	172,011,459	1,935,939,582
Hong Kong Dollar	353,275	113,211,528	-	113,564,803
Hungarian Forint	348	31,515	-	31,863
Indonesian Rupiah	2,482,612	19,248,998	-	21,731,610
Japanese Yen	9,524,287	939,294,878	16,234,999	965,054,164
Malaysian Ringgit	299,367	22,337,230	-	22,636,597
Mexican Peso	892,188	27,908,148	8,550,901	37,351,237
New Israeli Shekel	543	498,067	-	498,610
New Taiwan Dollar	86,956	129,028,454	-	129,115,410
New Zealand Dollar	3,934,384	31,106,509	8,526,210	43,567,103
Norwegian Krone	195,589	24,559,777	-	24,755,366
Philippine Peso	-	6,001,588	-	6,001,588
Polish Zloty	148,640	11,227,832	-	11,376,472
Singapore Dollar	82,221	58,606,996	-	58,689,217
South African Rand	123,051	62,191,736	12,270	62,327,057
South Korean Won	2,724,788	212,608,084	-	215,332,872
Swedish Krona	184,820	79,148,408	16,091,882	95,425,110
Swiss Franc	187,156	374,041,213	-	374,228,369
Thai Baht	19,059	5,810,338	-	5,829,397
Turkish Lira	-	18,795,994	-	18,795,994
Total Subject to Foreign Currency Risk	**$28,166,730**	**$5,295,772,798**	**$331,337,548**	**$5,655,277,076**
Investments in International Securities Payable in United States Dollars	**-**	**931,685,057**	**328,364,006**	**1,260,049,063**
Total International investment Securities	**$28,166,730**	**$6,227,457,855**	**$659,701,554**	**$6,915,326,139**
Domestic Investments	**-**	**12,559,737,020**	**9,666,039,529**	**22,225,776,549**
Total Fair Value	**$28,166,730**	**$18,787,194,875**	**$10,325,741,083**	**$29,141,102,688**

In addition to the above, TRS's foreign currency investments in real estate were $50,484,037 at June 30, 2006 and $35,884,547 at June 30, 2005. TRS had foreign currency limited partnerships with fair values totaling $0 at June 30, 2006 and $9,964,474 at June 30, 2005.

3. Securities Lending Program

The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions — loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. TRS's master trustee is the primary lending agent for the plan's domestic securities for collateral of 102 percent of the market value of the securities and international securities for collateral of 105 percent of the market value of the securities.

At year end, TRS has no credit risk exposure to borrowers because the amount TRS owes the borrowers exceeds the amount the borrowers owe TRS. The contract with TRS's lending agent requires the agent to indemnify TRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay TRS for income distributions by the securities issuers while the securities are on loan. All securities loans can be terminated on demand either by TRS or the borrower, although the average term of the loans is 121 days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year end has a weighted average maturity of 54 days. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses known to the securities lending agent.

As of June 30, 2006 and June 30, 2005, TRS had outstanding loaned investment securities having a market value of $4,788,220,451 and $4,715,848,757, respectively, against which it had received collateral of $4,873,673,805 and $4,839,824,722, respectively. Collateral from securities lending reflected on the Statements of Plan Net Assets consists primarily of collateral received in the form of cash.

4. Derivatives

TRS invests in derivative securities as a fundamental part of the overall investment portfolio. A derivative security is an investment whose return depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. To varying degrees, derivative transactions involve credit risk, sometimes known as default risk, and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the established terms. To eliminate credit risk, derivative securities can be acquired through a clearinghouse that guarantees delivery and accepts the risk of default by either party.

Market risk is the possibility that a change in interest, currency, or other pertinent market rates will cause the value of a financial instrument to decrease or become more costly to settle. Imposing limits on the types, amounts, and degree of risk that investment managers may undertake regulates the market risk associated with the constantly fluctuating prices of derivatives. These limits are approved by the Board of Trustees and senior management, and the derivative positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

During the year, TRS's derivative investments included foreign currency forward contracts, index futures, cash equivalent futures, options, swaps, and swaptions.

Foreign Currency Forward Contracts

Objective: Foreign currency forward contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. TRS uses these contracts primarily to hedge the currency exposure of its investments.

Terms: Foreign currency forward contracts are in the form of either forward purchases or forward sales of foreign currency. Forward purchases obligate TRS to purchase specific foreign currency at an agreed upon price. Forward sales obligate TRS to sell specific foreign currency at an agreed upon price. At June 30, 2006, foreign currency forward purchase or sell contracts included the following currencies: Australian dollar, British pound sterling, Canadian dollar, Chinese yuan renminbi, euro, Japanese yen, Mexican peso, New Taiwan dollar, New Zealand dollar, Singapore dollar, South Korean won, Swedish krona, and U.S. dollar. These contracts have various settlement dates within 12 months of June 30, 2006.

Fair Value: As of June 30, 2006 and June 30, 2005, TRS's open foreign currency forward contracts had a net fair value of $(663,933) and $10,840,085, respectively. This represents the unrealized gain/(loss) on the contracts at June 30.

	Market Value as of June 30, 2006	Market Value as of June 30, 2005
Forward Currency Purchases	$512,644,262	$456,926,270
Forward Currency Sales	(513,308,195)	(446,086,185)
Unrealized Gain/(Loss)	($663,933)	$10,840,085

Financial Futures

Objective: Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, circumvent changes in interest rates, or to replicate an index.

Terms: Futures contracts are standardized and traded on organized exchanges, thereby minimizing TRS's credit risk. As the daily market value of the futures contract varies from the original contract price, a gain or a loss is recognized and paid to or received from the clearinghouse. At June 30, 2006 and June 30, 2005, TRS had outstanding futures contracts with an underlying notional value of $3,682,521,295 and $2,704,099,768, respectively. Contractual principal values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through March 2008.

Fair Value: Gains and losses on futures contracts are settled daily based on the change of the index or commodity price for the underlying notional value. Because of daily settlement, the futures contracts have no fair value.

Type	FY06 Number of Contracts	FY06 Contractual Principal	FY05 Number of Contracts	FY05 Contractual Principal
Fixed Income Index Futures – Long	5,447	$752,085,250	1,361	$168,664,063
Fixed Income Index Futures – Short	(3,508)	(365,874,031)	(2,204)	(246,377,719)
International Fixed Income Index Futures – Long*	24	3,348,324	1,422	18,811,006
International Fixed Income Index Futures – Short	0	0	(1,361)	(51,155,057)
U.S. Stock Index Futures – Long	11,744	1,930,275,240	11,657	1,899,948,375
Cash Equivalent (Eurodollar) Futures – Long	5,831	1,377,105,387	3,808	914,209,100
Cash Equivalent (Eurodollar) Futures – Short	(61)	(14,418,875)	0	0
Total	**19,477**	**$3,682,521,295**	**14,683**	**$2,704,099,768**

** Includes options on futures for FY05.*

Financial Options

Objective: Financial options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, TRS receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Premiums received are recorded as a liability when the financial option is written.

Terms: At June 30, 2006 and June 30, 2005, TRS had outstanding options contracts, including options on futures, with underlying notional value of $1,913,991,322 and $72,711,812, respectively. Contractual principal/notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through December 2007.

Fair Value: Fluctuations in the fair value of financial options are recognized in TRS's financial statements as incurred rather than at the time the options are exercised or when they expire. As of June 30, 2006 and June 30, 2005, the fair value of option contracts written, gross of premiums received, was ($9,977,064) and $380,116, respectively. The fair value represents the amount needed to close all positions as of that date. The following table presents the aggregate contractual principal (notional value) of TRS's outstanding contracts at June 30, 2006 and June 30, 2005. Contractual principal amounts are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. For FY06, all positions are options on futures representing the corresponding futures exposure.

Type	FY06 Number of Contracts	FY06 Contractual Principal	FY05 Number of Contracts	FY05 Contractual Principal
Fixed Income Written Call Options	0	$0	568	$15,697,907
Fixed Income Written Put Options	0	0	554	(4,405,895)
Fixed Income Call Options on Futures	(154)	2,789,600	0	0
Fixed Income Put Options on Futures	(242)	3,630,000	0	0
Cash Equivalent Written Call Options (Eurodollar)	0	0	1,468	61,419,800
Cash Equivalent Call Options on Futures	3,055	145,533,250	0	0
Cash Equivalent Put Options on Futures	5,203	1,122,213,000	0	0
Cash Equivalent Call Options on Futures (Non-dollar)	1,310	590,997,356	0	0
Cash Equivalent Put Options on Futures (Non-dollar)	55	48,828,116	0	0
Total	**9,227**	**$1,913,991,322**	**2,590**	**$72,711,812**

Swaptions

Objective: Swaptions are options on swaps that give the purchaser the right, but not the obligation, to enter into a swap at a specific date in the future. An interest-rate swaption gives the buyer the right to pay or receive a specified fixed rate in a swap in exchange for a floating rate for a stated time period. Conversely, the writer of a swaption sells the right to another party, and thus is obligated to pay or receive a fixed rate in exchange for a floating rate, if the buyer exercises the option. A purchased (long) call swaption gives the buyer the right to receive a fixed rate in exchange for a floating rate for a stated period of time. In a written call swaption, the seller (writer) has the obligation to pay a fixed rate in exchange for a floating rate for a stated period of time, if the swaption is exercised. A purchased (long) put swaption gives the buyer the right to pay a fixed rate in exchange for a floating rate for a stated period of time. In a written put swaption, the seller has the obligation to receive a fixed rate in exchange for a floating rate for a stated period of time, if the swaption is exercised. TRS has both written and purchased swaptions in its portfolio. As the writer of a swaption, TRS receives a premium at the outset of the agreement. Premiums are recorded as a liability when the swaption is written.

Terms: At June 30, 2006, TRS had outstanding purchased call swaption exposure of $138,072,686, written call swaption exposure of ($22,798,766), and written put swaption exposure of ($13,549,576). The contracts have various expiration dates through June 2007. The exposure amounts do not represent the actual values in the Statement of Plan Assets.

Fair Value: Fluctuations in the fair value of swaptions are recognized in TRS's financial statements as incurred rather than at the time the swaptions are exercised or when they expire. As of June 30, 2006, and June 30, 2005, the fair value of swaption contracts was ($485,657) and $0, respectively.

Interest Rate Swaps

Objective: Interest rate swaps are agreements between two or more parties to exchange sets of cash flows over a period of time. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure.

Terms: At June 30, 2006, TRS was a party to interest rate swaps in euro, pound sterling, and U.S. dollars. The swap agreements have various maturity dates ranging from 2007 to 2035. Swap agreements typically are settled on a net basis, which means that the two payment streams are netted out, with a party receiving or paying only the net amount of the two payments. Payments may be made at the conclusion of a swap agreement or periodically during its term.

Fair Value: The table below presents the fair value of TRS's interest rate swap exposure at June 30, 2006. The retirement system held no interest rate swaps at June 30, 2005.

	Par/Notional Value	Receivable/(Payable)
Receive Floating/Pay Fixed	$81,900,000	$1,018,351
Receive Fixed/Pay Floating	151,900,000	(3,256,206)

Credit Default Swaps

Objective: Credit default swaps are derivative instruments that are constructed to replicate the effect of investing in debt obligations of corporate bond issuers as a means to manage corporate bond exposure. The risk of the credit default swaps is comparable to the credit risk of the underlying debt obligations of corporate issuers that comprise the credit default swaps. The owner of protection (long the swap) pays an annual premium to the seller of protection (short the swap) for the right to sell a bond at a previously agreed upon value in the event of a default by the bond issuer. The premium is paid periodically over the term of the swap or until a credit event of the bond issuer occurs. In the event of a default, the swap expires, and the seller of protection makes a payment to the buyer, which is usually based on a fixed percentage of total par. Purchased credit default swaps decrease credit exposure (buying protection), providing the right to sell bonds to the counterparty in the event of a default. Written credit default swaps increase exposure (selling protection), obligating the portfolio to buy bonds from counterparties in the event of a default.

Terms: At June 30, 2006, TRS had both purchased and written credit default swaps in its portfolio. The swap agreements have various maturity dates ranging from 2006 to 2020. TRS held no credit default swaps during FY05. The total notional value of purchased credit default swaps (buying protection) was $28,220,000 at June 30, 2006. The total notional value of written credit default swaps (selling protection) was $8,900,000 at June 30, 2006.

Fair Value: The fair value of credit default swaps held by TRS at June 30, 2006 was $36,098. This amount represents the net amount of payments due to TRS under these agreements.

Basket Default Swaps

Objective: Basket default swap are products through which an investor gains either long or short exposure to a relatively small basket of credits or a specific market sector. The investor is either selling or buying protection against default on one of the credits in the basket to default, similar to a credit default swap. A seller of credit protection against a basket of securities receives an upfront or periodic payment to compensate against potential default events. If a default event occurs, the seller must pay the buyer the full notional value of the reference obligation in exchange for the reference obligation. If no default occurs, the buyer loses the premium paid. A buyer of credit protection against a basket of securities pays an upfront or periodic payment until either maturity or default. In the event of a default, the buyer receives a lump-sum payment.

Terms: At June 30, 2006, TRS had basket default swaps buying protection with a total notional value of $79,725,000. TRS held no basket default swaps at June 30, 2005. The swap agreements have expiration dates ranging from 2010 to 2020.

Fair Value: The fair value of the basket default swaps held by TRS at June 30, 2006, was ($470,171). This amount represents the payments due from TRS to counterparties under the terms of the agreements, with all positions still open.

E. Reserves

TRS maintains statutory reserve accounts in accordance with the provisions of 40 ILCS 5/16-101 *et seq*. In 1997, the Illinois General Assembly passed legislation that allowed the crediting of income at fair value, as opposed to book value, to the Benefit Trust Reserve.

1. Benefit Trust

	2006	2005
Balances at June 30	$36,580,437,823	$34,081,019,184

This reserve serves as a clearing account for TRS income and expenses. The reserve is credited with contributions from the State of Illinois that are not specifically allocated to the Minimum Retirement Annuity Reserve, member and employer contributions, income from TRS invested assets, and contributions from annuitants who qualify for automatic annual increases in annuity.

The reserve accumulates, with 6 percent interest, the contributions by members prior to retirement. Contributions have been 7.5 percent of salary since July 1, 1998. Contributions are fully refundable upon withdrawal from TRS, excluding interest credited thereon. The interest accrued is refundable only in the event of death. Interest is credited as of the date of retirement or death of those retiring or dying during the year and as of the end of the fiscal year for all other members. Interest is computed annually based upon the individual member's balance in the reserve at the beginning of the fiscal year.

This reserve is charged for transfers to the Minimum Retirement Annuity Reserve and all

- refunds to withdrawing members,
- retirement annuity payments (except as provided by the Minimum Retirement Annuity Reserve),
- benefits that are paid to temporarily or accidentally disabled members,
- death benefits paid, and
- refunds to annuitants for survivor benefit contributions.

The expected benefit payments do not equal the present value of the reserve. The additional amount needed (the unfunded actuarial accrued liability) as calculated by the actuary was $22,412,024,000 in 2006 and $21,989,811,000 in 2005.

2. Minimum Retirement Annuity

	2006	2005
Balances at June 30	$4,451,604	$4,199,293

The minimum annuity is set by law at $25 per month for each year of creditable service to a maximum of $750 per month after 30 or more years of creditable service. To qualify, annuitants are required to make a one-time contribution that is credited to the reserve. Interest at 6 percent is credited to the reserve annually based upon the average reserve balance. The State of Illinois also appropriated funds necessary to pay the minimum benefits provided in the legislation. All benefits paid under this program are charged to the reserve. This reserve is fully funded.

F. TRS Employee Pension Benefits

1. Plan Description

All TRS employees who are not eligible to participate in TRS participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system (PERS) in which state employees participate, except those who are covered by the State Universities Retirement System, Teachers' Retirement System, General Assembly Retirement System, and Judges' Retirement System. SERS's financial position and results of operations for FY06 and FY05 are included in the State of Illinois' *Comprehensive Annual Financial Report* (CAFR) for the years ended June 30, 2006, and 2005, respectively. SERS also issues a separate CAFR that may be obtained at www.state.il.us/srs, by writing to SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255, or by calling (217) 785-7444. The State of Illinois CAFR may be obtained at www.ioc.state.il.us, by writing to Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1858, or by calling (217) 782-2053.

A summary of SERS's benefit provisions; changes in benefit provisions; employee eligibility requirements, including eligibility for vesting; and the authority under which benefit provisions are established are included as an integral part of the SERS CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

2. Funding Policy

TRS pays employer retirement contributions to SERS based on an actuarially determined percentage of the TRS employee payroll representing TRS employees who are members of SERS. For FY06, FY05, and FY04, the SERS employer contribution rates were 7.792 percent, 16.107 percent, and 13.439 percent, respectively. TRS made the required contributions to SERS for the current year and each of the two preceding years. TRS contributions for the years ending FY06, FY05, and FY04 were $416,093, $824,671, and $662,711, respectively. Effective for pay periods beginning after July 1, 1993, the TRS Board of Trustees opted to pay the employee contribution for all employees. The contribution pickup (4 percent for SERS members, 9.4 percent for TRS members beginning in FY06, formerly 9 percent during FY02 through FY05, and 8 percent in prior years) was included in the FY06 and FY05 administrative budgets approved by the board. Effective for pay periods beginning after July 1, 2005, the TRS Board of Trustees opted to begin phasing out paying the employee contribution for all employees. The contribution pickup for SERS members was reduced to 2 percent in FY06 and expired July 1, 2006. The contribution pickup for TRS members was reduced to 6 percent in FY06, will be reduced to 3 percent in FY07, and expires July 1, 2007.

TRS pays an employer contribution for its employees who are members of TRS. Additional employer contributions for these employees are paid by the State of Illinois and are included in the annual state contribution to TRS.

3. Post-Employment Benefits – TRS Employees

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971 requires certain health, dental, and life insurance benefits be provided by the state. Substantially all TRS employees may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for TRS retirees under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to $5,000 per annuitant who is age 60 or older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits that were provided to active employees and their dependents for the years ended June 30, 2006, and 2005. However, post-employment costs for the state as a whole for all state agencies or departments for dependent health, dental, and life insurance for annuitants and their dependents are disclosed in the state's Comprehensive Annual Financial Report. Cost information for retirees by individual state agency is not available. Payments are made on a "pay-as-you-go" basis.

Required Supplementary Information

Schedule of Funding Progress[1]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL-Projected Unit Credit) (b)	Funded Ratio (a)/(b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a percentage of Covered Payroll (b-a)/(c)
6/30/97	$17,393,108,000	$26,951,585,000	64.5%	$9,558,477,000	$5,013,583,000	190.7%
6/30/98	19,965,887,000	29,908,241,000	66.8	9,942,354,000	5,323,403,000	186.8
6/30/99	22,237,709,000	33,205,513,000	67.0	10,967,804,000	5,698,117,000	192.5
6/30/00	24,481,413,000	35,886,404,000	68.2	11,404,991,000	6,062,884,000	188.1
6/30/01	23,315,646,000	39,166,697,000	59.5	15,851,051,000	6,430,612,000	246.5
6/30/02	22,366,285,000	43,047,674,000	52.0	20,681,389,000	6,785,236,000	304.8
6/30/03	23,124,823,000	46,933,432,000	49.3	23,808,609,000	7,059,032,000	337.3
6/30/04	31,544,729,000	50,947,451,000	61.9	19,402,722,000	7,280,795,000	266.5
6/30/05	34,085,218,000	56,075,029,000	60.8	21,989,811,000	7,550,510,000	291.2
6/30/06	**36,584,889,000**	**58,996,913,000**	**62.0**	**22,412,024,000**	**7,765,752,000**	**288.6**

Schedule of Contributions from Employers and Other Contributing Entities[1]

Year Ended June 30	State Contributions[2]	Federal and Employer Contributions[2]	Total	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
1997	$377,969,000	$17,379,000	$395,348,000	$927,842,000	42.6%	$395,269,000	100.0%
1998	460,439,000	17,246,000	477,685,000	983,312,000	48.6	478,439,000	99.8
1999	567,068,000	36,535,000	603,603,000	932,909,000	64.7	592,547,000	101.9
2000	634,039,000	54,547,000	688,586,000	1,003,612,000	68.6	686,384,000	100.3
2001	719,357,000	58,985,000	778,342,000	1,102,441,000	70.6	775,732,000	100.3
2002	810,619,000	51,270,000	861,889,000	1,163,262,000	74.1	872,283,000	98.8
2003	926,066,000	44,779,000	970,845,000	1,427,519,000	68.0	963,858,000	100.7
2004	1,028,259,000	75,078,000	1,103,337,000	1,716,977,000	64.3	1,100,264,000	100.3
2005	903,928,000	83,434,000	987,362,000	1,683,212,000	58.7	986,269,000	100.1
2006	**531,828,000**	**69,645,000**	**601,473,000**	**1,679,524,000**	**35.8**	**601,555,000**	**100.0**

1 *For consistency with figures reported by TRS's actuaries, the amounts have been rounded to the nearest thousand. Actual contributions varied slightly from contributions that are required by statute mainly because of differences between estimated and actual federal contributions.*

Pension obligation bonds are not treated as a state contribution in FY04 because they do not count towards the annual funding requirement calculated by the actuary. In FY03, the annual contributions required per state statute is the state funding requirement certified after Public Act 92-0505 was enacted. The diversion to THIS Fund was effective for the entire fiscal year. In FY02, the annual contribution required per state statute is the state funding requirement certified before Public Act 92-0505 was enacted. This act allowed districts to reduce their contributions to TRS by the amount they contributed to the Teachers' Health Insurance Security Fund. The diversion was effective January 1, 2002 through June 30, 2003.

2 *Excludes employer ERO and ERI payments, minimum retirement, and supplemental annuity contributions. Beginning in FY01, the supplemental annuity appropriation was not requested. These amounts are not counted for actuarial purposes. Beginning in FY06, employer contributions for excess salary increases are included.*

See accompanying Independent Auditors' Report.

Notes to Required Supplementary Information

Valuation Dates	June 30, 2006	June 30, 2005
Actuarial cost method:	Projected unit credit	Projected unit credit
Amortization method:		
a) For GASB Statement #25 reporting purposes	Level percent of payroll	Level percent of payroll
b) Per state statute	15-year phase-in to a level percent of payroll until a 90% funding level is achieved	15-year phase-in to a level percent of payroll until a 90% funding level is achieved
	However, FY06 and FY07 state contributions are specified by Public Act 94-0004, not based on the 15-year phase-in. FY08 state contribution will increase from actual FY07 contribution, returning to the phase-in schedule.	FY05 is the first year that state contributions were calculated under the funding mechanism contained in Public Act 93-0002 Mimimum state contribution rates were eliminated.
Remaining amortization period:		
a) For GASB Statement #25 reporting purposes	40 years, open	40 years, open
b) Per state statute	40 years, closed	40 years, closed
Asset valuation method:	Fair value	Fair value
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases	5.9% (at age 69) to 10.2% (at age 19); composite 6.5%	5.9% (at age 69) to 10.2% (at age 19); composite 6.5%
Group size growth rate	0%	0%
Assumed inflation rate	3.5%	3.5%
Post-retirement increase	3% compounded	3% compounded
Mortality table	1995 Buck Mortality Tables (rated forward three years for male benefit recipients only; rated forward one year for female benefit recipients; and 95.6% times the table rates for male retirees.)	1995 Buck Mortality Tables (rated forward three years for male benefit recipients only; rated forward one year for female benefit recipients; and 95.6% times the table rates for male retirees.)

See accompanying Independent Auditors' Report.

Other Supplementary Information

Schedule of Administrative Expenses
For Years Ended June 30

	2006	2005
Personal services	$10,945,763	$10,787,362
Professional services	1,015,544	981,768
Postage	505,394	452,629
Machine repair and rental	876,807	462,559
Other contractual services	1,028,647	765,214
Commodities	457,939	506,844
Occupancy expense	169,096	172,652
Depreciation	303,203	277,617
Gain/(Loss) on disposal of equipment	977	(2,930)
Total administrative expenses	**$15,303,370**	**$14,403,715**

Schedule of Investment Expense
For Years Ended June 30

	2006	2005
Investment manager fees	$120,493,923	$104,343,041
Private equity investment expense	8,604,312	7,480,091
Miscellaneous	3,098,050	3,073,754
Total investment expense	**$132,196,285**	**$114,896,886**

Schedule of Payments to Consultants
For Years Ended June 30

	2006	2005
Actuarial services	$253,162	$390,392
External auditors	102,529	119,254
Legal services	454,861	140,011
Management consultants		
Information systems	155,496	227,000
TRS STAR audit	20,000	41,990
Benchmarking	0	30,000
Board and staff training	10,500	26,922
Operations	15,000	3,360
Other	3,996	2,839
Total payments to consultants	**$1,015,544**	**$981,768**

See accompanying Independent Auditors' Report.

He who labors diligently need never despair; for all things are accomplished by diligence and labor.

~Menander

342-291 BC

INVESTMENTS

720 OLIVE WAY

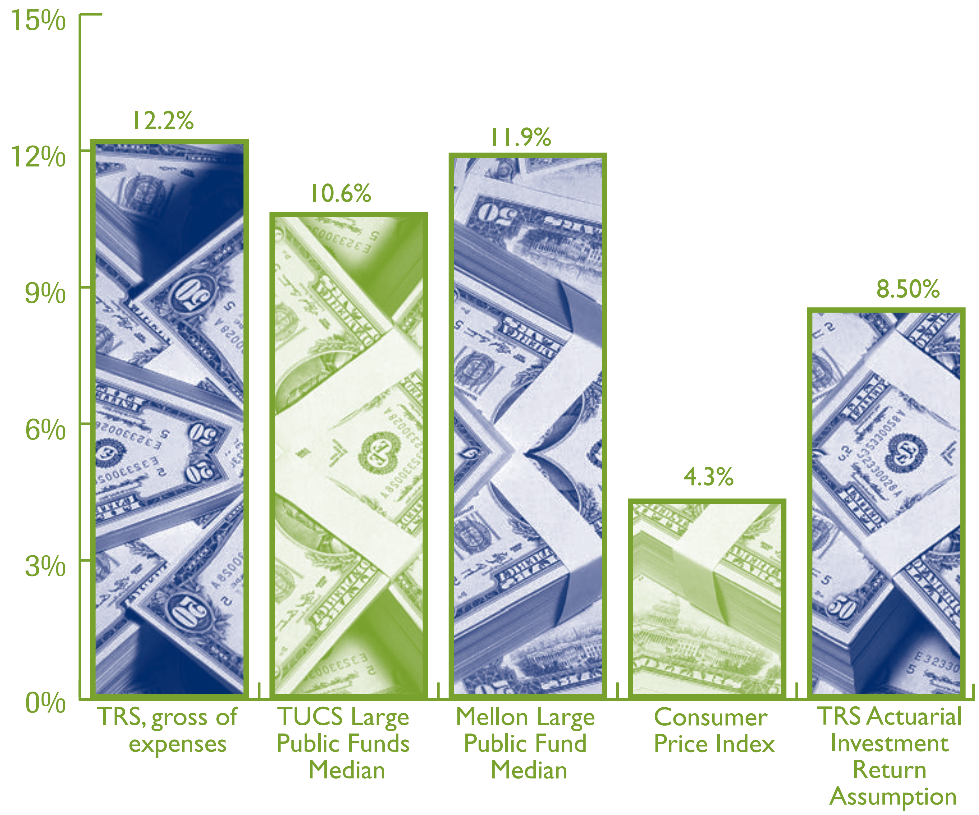
SEATTLE, WASHINGTON

Introduction

The TRS investment portfolio had another strong year, returning 12.2 percent, gross of fees. This number follows a successful FY05 performance of 11.1 percent, gross of fees, as all asset classes again produced positive returns. Overall, the U.S. economy remained vibrant and inflation restrained, providing a healthy investment environment. Outside of the U.S., markets were even stronger with stock returns in the high 20 percent range led by continued expansion from emerging market economies. Substantial gains were accumulated in the private markets in FY06 with the TRS private equity portfolio returning 23.8 percent, net of fees, and the TRS real estate portfolio generating an 18.8 percent return, net of fees.

The TRS investment portfolio continued to rank highly against its peers. Over the past 10 years, TRS ranks in the top quartile of the large public funds in the Wilshire Trust Universe Comparison Service (TUCS).

Return Comparison for the Year Ended June 30, 2006



Source: R.V. Kuhns & Associates, Inc., Wilshire Associates, The Northern Trust Company

Total TRS investments, including accrued income, increased by more than $2.4 billion during the year ended June 30, 2006. All asset classes had another positive year with international equity and private equity leading the way. Real estate had another stellar year, while domestic equity returns were a bit below historic norms and returned high single digits. Fixed income was flat in FY06, net of fees.

The TRS portfolio is fully diversified across different asset classes. A number of investment managers within each asset class ensure the appropriate mixture across the various investment styles, allowing the portfolio to achieve broad exposure to the market while minimizing risk. This broad diversification serves as the best defense against the uncertainty of volatile world markets.

The TRS trust fund is invested by authority of the Illinois Pension Code under the "prudent person rule," requiring investments to be managed solely in the interest of fund participants and beneficiaries. The TRS Investment Policy guides TRS's investments. Investment principles include preserving the long-term principal of the trust fund, maximizing total return within prudent risk parameters, and acting in the exclusive interest of TRS members.

As master trustee, The Northern Trust Company has provided to TRS, unless otherwise noted, detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities, and other transactions pertinent to the fund for the period July 1, 2005 through June 30, 2006. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2006. Additionally, The Northern Trust Company calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section. TRS staff, in collaboration with the staff of The Northern Trust Company, prepared the Investment Section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2006

Total Fund Market Value	**$37.580 billion**
One-Year Return (net of fees)	11.8%
Five-Year Return (net of fees)	7.9%
Ten-Year Return (net of fees)	9.0%
Percent Externally Managed	100.0%
Number of External Managers	101
Custodian	The Northern Trust Company
General Consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 32nd out of the top 200 U.S. pension funds/plan sponsors in the January 23, 2006, issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2005.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2006, TRS's total investments, including accrued investment income, at market value totaled $37.580 billion, an increase of $2.432 billion from last year.

A summary of holdings and assets is discussed throughout the Investment Section. The totals represent the actual assets (gross of any liabilities, amounts due to brokers, and expenses). The liabilities of the fund are included in the financial statements located on pages 26 and 27.

TRS had a total fund annualized return of 12.2 percent, gross of fees, and 11.8 percent, net of fees, for the one-year period ending June 30, 2006. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS's total return for FY06 surpassed the policy index return of 11.3 percent for the year ended June 30, 2006. The policy index represents a weighted average of each asset class benchmark, based on the total fund's target asset allocation. By exceeding the policy index, TRS showed consistent outperformance across its asset classes.

The total return also surpassed the 8.5 percent actuarial return assumption and the real rate of return expectation, which is to exceed the rate of inflation, as measured by the Consumer Price Index, by 5.0 percent.

Performance Summary (Net of fees)

Asset Class/Index	Years ended June 30					Annualized at 6/30/06		
	2006	2005	2004	2003	2002	3 Years	5 Years	10 Years
TRS Total Fund	**11.8%**	**10.8%**	**16.5%**	**4.9%**	**(3.2%)**	**13.0%**	**7.9%**	**9.0%**
TRS Weighted Policy Index	11.3	10.7	16.0	3.9	(4.2)	12.6	7.3	8.2
CPI (Inflation)	4.3	2.5	3.3	2.1	1.1	3.4	2.7	2.6
TRS Equity - U.S.	**9.6**	**8.1**	**21.6**	**0.5**	**(15.2)**	**13.0**	**4.2**	**8.1**
Russell 3000 Index	9.6	8.1	20.5	0.8	(17.2)	12.6	3.5	8.6
TRS Fixed Income*	**0.1**	**6.6**	**0.7**	**10.7**	**9.7**	**2.5**	**5.5**	**6.1**
TRS Weighted Fixed Income Index	(0.7)	6.8	0.3	11.1	10.0	2.1	5.4	5.6
Lehman Brothers Aggregate Index	(0.8)	6.8	0.3	10.4	8.6	2.1	5.0	6.2
TRS Equity - International	**27.3**	**17.3**	**32.8**	**(5.2)**	**(6.8)**	**25.6**	**11.9**	**8.5**
Non-U.S. Equity Index	28.4	17.0	32.5	(4.2)	(8.2)	25.8	11.9	7.2
TRS Real Estate	**18.8**	**19.9**	**13.2**	**8.8**	**2.4**	**17.3**	**12.4**	**12.1**
Real Estate Property Index	18.7	18.0	10.8	7.7	5.6	15.8	12.0	11.0
TRS Private Equity	**23.8**	**20.0**	**10.3**	**(11.4)**	**(12.7)**	**17.9**	**4.8**	**19.5**
Russell 3000 Index + 3.0%**	12.9	11.3	24.1	3.8	(14.7)	16.0	6.7	7.3
TRS Short-Term Investments	**4.2**	**2.2**	**1.1**	**1.5**	**2.7**	**2.5**	**2.3**	**4.0**
ML 91-Day Mark to Markets Index	4.0	2.2	1.0	1.5	2.7	2.4	2.3	3.8

The following chart shows the yearly returns for the previous benchmarks.

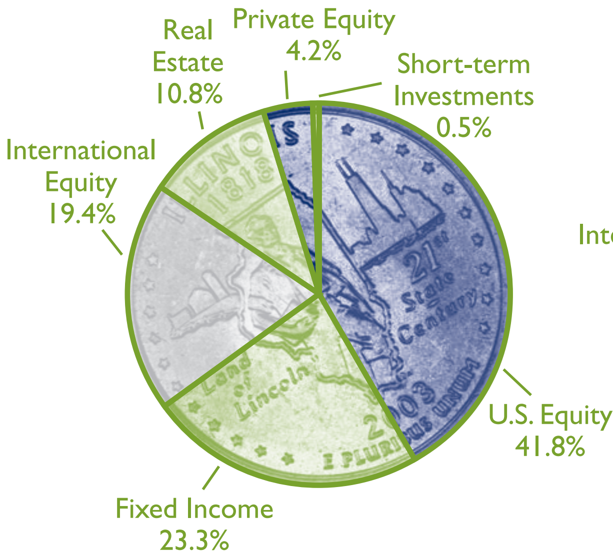
Asset Class/Index	Years ended June 30				
	2006	2005	2004	2003	2002
TRS Fixed Income - US*	**-**	**-**	**-**	**-**	**8.1%**
Citigroup Broad	-	-	-	-	8.5
TRS Fixed Income - International*	**-**	**-**	**-**	**-**	**15.9**
Non-U.S. Bond Index	-	-	-	-	15.8

** During FY03, U.S. fixed income was combined with international fixed income to create a total fixed income asset class. The benchmark assigned to total fixed income is a weighted benchmark, based upon the Lehman Brothers Aggregate Index and the Barclay's Global Investors Global Inflation-Linked Unhedged Index. The TRS fixed income returns provided are the combined U.S. fixed income and international fixed income returns for prior periods and the current fixed income return.*
*** Index compounded monthly.*
Note: Rates of return provided by the Northern Trust Company.

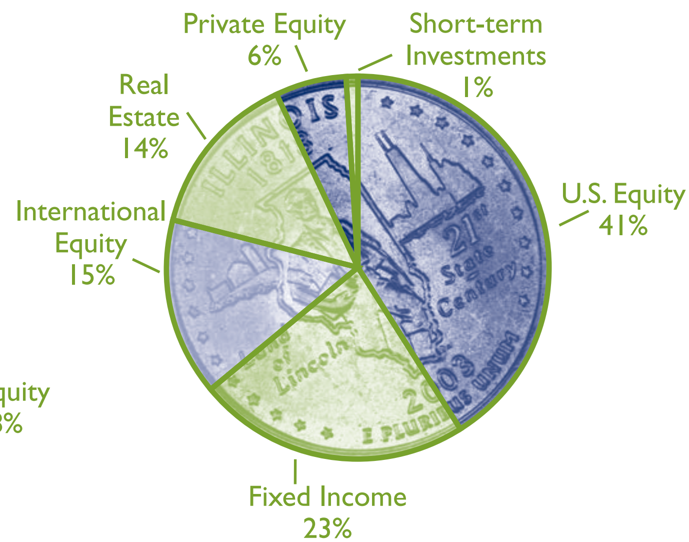
Asset Allocation vs. Targets

A pension fund's most important investment policy decision is the selection of its asset allocation. Similar to other large institutional funds, TRS maintains a well-diversified portfolio to manage risk effectively.

FY06 Asset Allocation



Long-term Target Allocation



From an asset allocation standpoint during FY06, TRS made no major changes to the target weightings and structure adopted in 2002. Over the past year, domestic equity's actual percentage dropped from 44.4 percent to 41.8 percent due to TRS's need to meet its obligation to its beneficiaries; it is not due to underperformance of this asset class. TRS continues to make investments in private equity and real estate as it attempts to increase the weightings of these asset classes up to target levels and is comfortable with the recent pace of investment. Private equity now stands at 4.2 percent with a longer term policy target of 6.0 percent.

The asset mix is periodically compared to the policy targets to determine when rebalancing of the fund or changes to the interim policy targets are necessary. The Strategic Investment Listing table shows the asset allocation targets, as adopted by the Board of Trustees in April 2002, compared to the total assets assigned to each particular asset class at June 30, 2006.

Strategic Investment Listing
Allocation Targets vs. Total Assets

	6/30/06	FY06			FY05	
	Total Fund $ Million	Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. Equities	$15,254	41.8%	43%	41%	44.4%	41%
Fixed Income	8,520	23.3	25	23	24.1	23
International Equities	7,082	19.4	15	15	17.5	15
Real Estate	3,946	10.8	12	14	10.5	14
Private Equity	1,514	4.2	4	6	3.2	6
Short-Term Investments	181	0.5	1	1	0.3	1
Pending Settlements/Expenses*	1,083	NA	NA	NA	NA	NA
Total Fund	**$37,580**	**100.0%**	**100%**	**100%**	**100.0%**	**100%**

** The liability portion is placed within the Statements of Plan Net Assets.*

Portfolio Securities Summary

The Portfolio Securities Summary table contains a detailed list of security types. The amounts in this table differ from the allocation percentages shown in the Strategic Investment Listing. The strategic listing represents assets assigned to managers within each asset class, whereas the security summary represents types of financial instruments. The differences are explained by the types of investments each manager is allowed to hold within its portfolio. For example, a U.S. equity manager holds not only common stock within its portfolio, but it may hold small amounts of short-term investments as well.

The principal differences between the strategic investment approach and the Portfolio Securities summary are:

- The Pacific Investment Management Company StocksPlus and Western Asset Management enhanced assignments are treated as equity on the Strategic Investment Listing, but they are categorized as bonds and corporate obligations in the securities summary. These managers provide enhanced index products that use both fixed income and futures to achieve an enhanced equity return.
- Short-term investments included within a manager's portfolio are categorized in the same way as the manager's primary assignment on the Strategic Investment Listing. In the securities summary, these investments are categorized as short-term investments.

Portfolio Securities Summary

	2006		2005	
	Market Value	% of Total	Market Value	% of Total
U.S. Government Obligations				
U.S. Treasuries	$1,433,704,715	3.8%	$1,957,811,175	5.6%
U.S. Federal Agencies	1,612,335,642	4.3	1,331,356,248	3.8
U.S. Government Index Linked Bonds	263,914,841	0.7	346,564,816	1.0
U.S. Government Backed Mortgages	2,818,412,775	7.5	2,371,367,541	6.7
U.S. Municipals (Taxable)	11,619,751	0.0	12,527,227	0.0
Total U.S. Government Obligations	**6,139,987,724**	**16.3**	**6,019,627,007**	**17.1**
U.S. Corporate Obligations				
Asset Backed Securities	721,905,881	1.9	614,698,386	1.8
Commercial Mortgage Backed Securities	527,255,346	1.4	287,002,709	0.8
Collateralized Mortgage Obligations	781,486,169	2.1	587,153,543	1.7
Commingled/Closed End Funds	77,089,595	0.2	668,564,763	1.9
Corporate Convertible Bonds	2,945,437	0.0	–	–
Credit Obligations				
Financial	955,446,107	2.5	565,452,732	1.6
Industrial	544,794,865	1.5	821,791,248	2.3
Utilities	133,348,472	0.4	101,749,141	0.3
Total U.S. Corporate Obligations	**3,744,271,872**	**10.0**	**3,646,412,522**	**10.4**
Swaps/Swaptions	**(3,157,583)**	**(0.0)**	**-**	**-**
Foreign Debt Obligations	**656,883,773**	**1.7**	**659,701,554**	**1.9**
Total Bonds, Corporate Notes, and Government Obligations	**10,537,985,786**	**28.0**	**10,325,741,083**	**29.4**
Equities				
Common Stock - U.S.	12,575,262,796	33.5	12,499,580,367	35.6
Preferred Stock - U.S.	37,767,710	0.1	60,156,653	0.2
Common Stock - International	7,244,296,966	19.3	6,118,615,710	17.4
Preferred Stock - International	174,064,874	0.5	108,842,145	0.3
Total Equities	**20,031,392,346**	**53.4**	**18,787,194,875**	**53.5**
Short-term Investments	1,516,251,424	4.0	1,413,132,556	4.0
Foreign Currency	34,040,496	0.1	28,166,730	0.1
Private Equity	1,513,997,646	4.0	1,068,633,225	3.0
Real Estate Equity	3,946,280,351	10.5	3,525,456,881	10.0
TRS Total Portfolio	**$37,579,948,049**	**100.0%**	**$35,148,325,350**	**100.0%**

Reconciliation of TRS Portfolio Securities Summary to Total Investments

	2006	2005
TRS Total Portfolio	$37,579,948,049	$35,148,325,350
Less accrued income	(243,067,231)	(249,963,566)
Investments at fair value	**$37,336,880,818**	**$34,898,361,784**

Securities Holdings (Historical)

Historically, TRS has adopted various asset allocation strategies. The Asset Allocation table shows the actual asset allocation based on asset types for the last five-year period.

Securities Holdings for Years Ending June 30

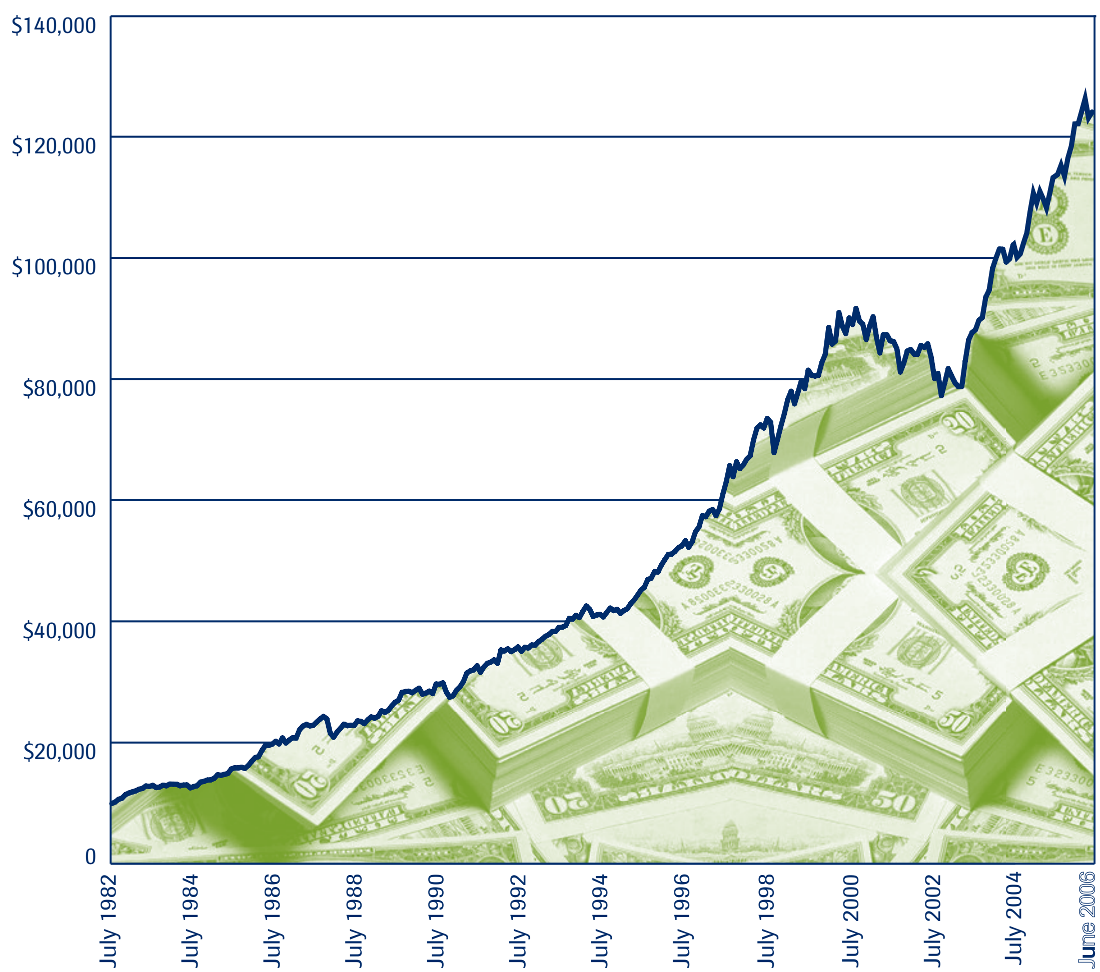
Asset Type	2006	2005	2004	2003	2002
Bonds, Corporate Notes, and Government Obligations	28.0%	29.4%	28.2%	30.3%	37.9%
Equities - International	19.8	17.7	16.7	13.9	14.4
Equities - U.S.	33.6	35.8	40.9	38.6	29.3
Private Equity	4.0	3.0	2.6	2.8	2.6
Real Estate Equity	10.5	10.0	8.3	10.0	9.5
Short-Term Investments/Currency	4.1	4.1	3.3	4.4	6.3
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: TRS

Note: During FY03, the U.S. fixed income asset class was combined with the international fixed income asset to create a total fixed income asset class. TRS's allocation percentage of bonds for prior years is the combined total of U.S. bonds and international bonds.

Over the years, TRS's asset allocation has provided consistent overall returns, as represented by the following chart showing the growth of $10,000 over the last 24 years. Despite the economic downturn in 2000 through 2003, the overall trend is solidly favorable.

Growth of $10,000



Source: TRS

The following sections provide a brief and informative overview of the various asset classes utilized by TRS for the period ending June 30, 2006.

U.S. Equity

U.S. equity, or common stock, represents shares or units of ownership in a public corporation. TRS invests in equities because the asset class offers the opportunity to participate in the success of the economy and specific corporations within it. Stockholders share in the growth of a company through an increase in stock price, as well as through the distribution of corporate profits in the form of dividends.

For the fiscal year, TRS's U.S. equity portfolio returned 9.6 percent on a net of fee basis, in line with the Russell 3000 Index return of 9.6 percent. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	FY06	3-Year	5-Year	10-Year
TRS, net of fees	**9.6%**	**13.0%**	**4.2%**	**8.1%**
Russell 3000 Index	9.6	12.6	3.5	8.6

At June 30, 2006, 41.8 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed U.S. equity managers to use active, index, or enhanced index management strategies during FY06.

The top 10 domestic equity holdings, excluding index funds, at June 30, 2006, are listed below and represent 11.4 percent of total U.S. equity holdings. A complete listing of investment holdings is available as a separate report.

Top 10 U.S. Equity Holdings at June 30, 2006

Firm	Market Value
General Electric Co.	$226,825,051
Exxon Mobil Corp.	194,288,517
Citigroup, Inc.	176,535,775
Pfizer, Inc.	157,261,439
Hewlett-Packard Co.	126,546,932
Chevron Corp.	122,811,030
Microsoft Corp.	114,343,329
Comcast Corp.	112,716,715
Cisco Systems, Inc.	108,328,184
ConocoPhillips	99,137,323
Total	**$1,438,794,295**

Source: The Northern Trust Company

As of June 30, 2006, TRS employed 22 domestic equity managers. The following chart lists the managers and assets under management.

U.S. Equity Managers and Assets Under Management (inception date of account)

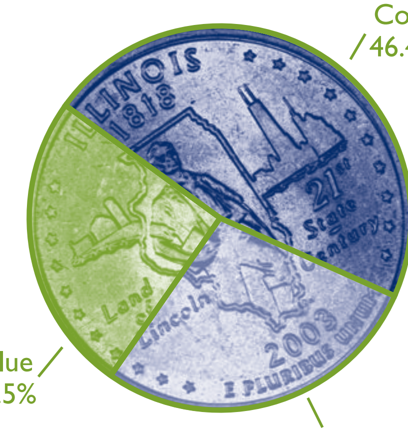
Index	
RhumbLine Advisors, L.P. (5/06)	$428,569,910
State Street Global Advisors (1/06)	1,524,984,689
Enhanced Index	
Barclays Global Investors (6/05)	990,370,626
Pacific Investment Management Company, L.L.C. (8/91)	937,762,903
T. Rowe Price Associates, Inc. (6/05)	981,764,094
Western Asset Management Company, L.L.C. (4/05)	972,965,671
Large Cap Value	
Boston Partners Asset Management, L.P. (1/03)	862,223,512
Dodge & Cox (4/00)	1,892,138,065
EARNEST Partners, L.L.C. (2/02)	183,824,379
Great Lakes Advisors, Inc. (9/02)	162,534,916
Large Cap Growth	
Holland Capital Management, L.P. (2/02)	315,598,501
State Street Global Advisors-Russell 1000 Growth (12/05)	347,980,948
Turner Investment Partners, Inc. (6/04)	1,168,233,419
Voyageur Asset Management, Inc. (11/04)	756,121,176
Small/Mid Cap Core	
State Street Global Advisors-Russell Completeness (6/02)	447,617,709
Small/Mid Cap Value	
LSV Asset Management (12/02)	720,339,910
State Street Global Advisors-Optimized Russell 2500 Value (6/06)	204,147,868
Small/Mid Cap Growth	
Delaware Investment Advisers (12/02)	352,968,915
Mazama Capital Management, Inc. (1/03)	369,879,822
Tygh Capital Management, Inc. (6/06)	397,924,765
Small Cap Growth	
Batterymarch Financial Management, Inc. (11/04)	244,766,835
Emerald Advisors, Inc. (11/04)	259,202,178
Mazama Capital Management, Inc. (11/04)	110,153,243
Small Cap Value	
Byram Capital Management, L.L.C. (11/04)	203,385,987
Thompson, Siegel & Walmsley, Inc. (11/04)	261,856,870
State Street Global Advisors-Optimized Russell 2000 Value (8/04)	106,754,472
Emerging Manager	
NCM Capital Advisors, Inc. (5/06)	49,566,996

Discussion of U.S. Equity

The long-term target for TRS investments in U.S. equities is 41 percent. Investment managers are chosen to diversify the portfolio on both a capitalization and style basis. This diversification is important for controlling the risk of the portfolio, as well as balancing the portfolio against the broad benchmark and economy.

Capitalization

Market Style



Source: TRS Investment Policy

The 9.6 percent return for the Russell 3000 was slightly below the historical annual return for the broad stock market of just over 10 percent. Overall, performance was generally consistent with the previous two fiscal years. Small cap stocks outperformed large cap stocks, and value stocks outperformed growth stocks. Small cap stocks had a meteoric and unexpected rise in the first three months of calendar 2006, followed by a somewhat predictable fall in the subsequent three months.

New additions to TRS's pool of managers include Tygh Capital, a small-mid cap growth manager based in Portland, Oregon, and NCM Capital Advisors, a mid cap growth manager based in Durham, North Carolina. NCM was funded through the new Emerging Manager program, which seeks to fund quality managers that would otherwise be too small for consideration. In addition, a new index manager, Boston-based RhumbLine Advisors, was hired to manage an S&P 500 portfolio. Bear Stearns Asset Management, J&W Seligman, Sands Capital Management, Northern Trust, and Ariel Capital Management were all terminated during the year for either organizational or performance reasons.

Statistical Data

The following tables convey various statistics, including attribution and sector analysis, of the U.S. equity portfolio as compared to TRS's domestic equity benchmark, the Russell 3000 Index. The Russell 3000 Index is a broad market benchmark representing 98 percent of the investible U.S. equity market.

TRS Domestic Equity as of June 30, 2006

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted Average Market Cap (billions)	$51.9	$70.0
Price/Earnings Ratio	17.2x	17.7x
Dividend Yield	1.4%	1.8%
5-Year EPS Growth	19.2%	15.8%
Price/Book Ratio	2.6x	2.7x

Source: The Northern Trust Company

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2006

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer Discretionary	11.4%	15.1%
Consumer Durables	8.3	6.7
Energy	9.0	10.2
Financial Services	21.9	19.2
Health Care	12.5	13.3
Industrials	11.6	11.5
Materials	3.4	3.5
Technology	15.1	15.7
Telecommunication Services	3.1	2.0
Utilities	3.7	2.8
Total	**100.0%**	**100.0%**

Source: The Northern Trust Company

International Equity

International equity, or common stock, represents shares or units of ownership in public corporations domiciled outside the United States. International investing provides important diversification benefits to the TRS portfolio. While the international economy has increasingly become more global in nature, not all economies move in tandem. TRS's international equity managers are able to participate in the strength of individual markets, thus enhancing the TRS total portfolio. Additionally, corporations worldwide have expanded their global reach. The international equity portfolio is able to seek out superior companies operating multinationally, or companies that are particularly strong in their own markets or industries.

For the year ended June 30, 2006, the international equity asset class returned 27.3 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country World Excluding U.S. Free Index (identified as Non-U.S. Equity Index in the following and future references) return of 28.4 percent. One-, three-, five- and 10-year comparisons to this benchmark are in the following table:

	FY06	3-Year	5-Year	10-Year
TRS, net of fees	**27.3%**	**25.6%**	**11.9%**	**8.5%**
Non-U.S. Equity Index	28.4	25.8	11.9	7.2

At June 30, 2006, 19.4 percent of the TRS investment portfolio was assigned to international equity managers. The following table lists the top 10 international equity holdings of active managers as of June 30, 2006. As is evident in the holdings list, these investments are diversified geographically and include companies that are dominant within their industry and familiar to the U.S. economy. These securities represent 12.2 percent of the total international equity holdings. A complete listing of investment holdings is available as a separate report.

Top 10 International Equity Holdings at June 30, 2006

Firm	Country	Market Value (USD)
GlaxoSmithKline	United Kingdom	$163,097,434
Nestle	Switzerland	96,396,225
BP	United Kingdom	95,433,041
Novartis AG	Switzerland	94,429,625
Takeda Pharmaceutical	Japan	85,329,134
Royal Bank of Scotland Group	United Kingdom	78,723,787
Canon, Inc.	Japan	78,537,055
Telefonica	Spain	74,000,333
Total SA	France	71,459,715
Roche Holdings AG Genusscheine	Switzerland	67,623,485
Total		**$905,029,834**

Source: The Northern Trust Company

As of June 30, 2006, TRS employed nine international equity managers. The following chart lists these managers and the assets under management.

International Equity Managers and Assets Under Management (inception date of account)

Active Core	
Brandes Investment Partners, L.P. (2/98)	$1,071,944,544
Harris Associates L.P. (3/03)	509,112,212
INVESCO Global Asset Management (N.A.), Inc. (6/00)	1,021,820,668
Jarislowsky, Fraser Limited (8/05)	468,885,185
McKinley Capital Management, Inc. (8/05)	513,969,078
Mondrian Investment Partner Limited (4/93)	1,059,343,038
Pyramis Global Advisors (6/03)	1,067,212,352
State Street Global Advisors-Optimized EAFE Growth (8/05)	474,131,247
Emerging Markets	
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	895,721,969

Discussion of International Equity

The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio.

International Equity Manager Structure

International Equity Classification	Target
Passive Non-U.S.	7.5%
Active Core	82.5
Emerging Markets	10.0
Total	**100.0%**

International equity markets continued to post impressive results for the year ended June 30, 2006, returning 28.4 percent as measured by the Non-U.S. Equity Index. The emerging markets, which are the developing economies in the international markets and represent a 13.4 percent weighting in the international index, propelled the international advances and were up 34.9 percent. Within the emerging markets, the Europe, Middle East, and African (EMEA) region was the most impressive gainer, led by Russia's rise of 105.1 percent. Russia, an oil producing country, greatly benefited from the rise in crude oil prices and the strong performance from the energy sector. The energy sector led all international equity sectors last year returning 38.9 percent. For the first time since 1999, Japan was the best performing developed international market for the year ended June 2006, rallying by 36.0 percent. Japan was driven by better relative economic growth and more transparency into the financial services markets. Europe appreciated by 14.0 percent, which was slightly ahead of the U.S. domestic advances.

The TRS international equity portfolio had strong results for FY06 returning 27.3 percent, net of fees. Despite the impressive return, the portfolio underperformed its index by 1.1 percent, primarily due to an underexposure to Japan and Canada, regions that returned in excess of 32 percent.

On the sector level, TRS was underexposed to energy and basic materials, which are industries often considered much more cyclical in nature and not possessing the quality long-term characteristics sought by TRS's international equity managers. Energy and materials were the top two performing sectors. Overall, the TRS international portfolio proved to be too defensive in early 2006 when a more balanced portfolio would have performed well.

Portfolio Characteristics

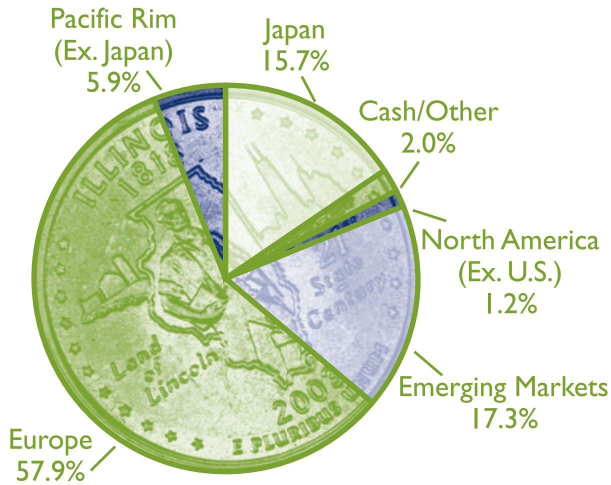
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted Average Market Cap (billions)	$48.7	$48.8
Price/Earnings Ratio	14.9x	15.8x
Dividend Yield	2.6%	2.5%
Price/Book Ratio	2.3x	2.3x

Source: The Northern Trust Company and Wilshire Associates

Regional Allocation Comparison June 30, 2006
TRS International Equity Exposure



Global Fixed Income

Fixed income is a financial obligation of an entity including, but not limited to, corporations, governments, agencies, indices, or municipalities. These entities promise to pay a specified sum of money at a future date and represent a contractual obligation of a debt or a loan. The issuer of debt is the borrower of capital and the purchaser, or holder of bonds, is the creditor or lender.

Fixed income is an important asset class as, in a well-diversified portfolio, these investments can reduce volatility, offer negative correlation to other asset classes and provide income streams, or coupons, essential to the growth of the overall portfolio.

For the year ended June 30, 2006, TRS fixed income managers earned a 0.1 percent return, net of fees, compared to the (0.7) percent return of the benchmark, the Fixed Income Blended Index. The blended index is a weighted index, based on U.S., non-dollar and global inflation-linked targets. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	FY06	3-Year	5-Year	10-Year
TRS, net of fees	**0.1%**	**2.5%**	**5.5%**	**6.1%**
TRS Fixed Income Blended Index	(0.7)	2.1	5.4	5.6

As of June 30, 2006, TRS employed 12 fixed income managers overseeing assets of over $8.5 billion, as identified in the Global Fixed Income Managers and Assets Under Management table. This table categorizes manager assignments by core plus, core, global inflation-linked, emerging manager, and enhanced indexed. It excludes fixed income assets managed by other asset classes as part of other underlying strategies.

Core plus managers are firms with particular skills in the extended bonds markets, such as high yield, non-dollar denominated, and out-of-benchmark investments. Following defined parameters, these managers are able to offer enhanced returns while maintaining a similar risk profile to that of a core manager.

Global Fixed Income Managers and Assets Under Management (inception date of account)

Core Plus	
BlackRock, Inc. (6/97)	$1,309,021,347
Goldman Sachs Asset Management, L.P. (5/06)	84,124,091
ING Investment Management Company (5/06)	651,649,899
Pacific Investment Management Company, L.L.C. (7/82)	1,651,337,191
Payden & Rygel (6/97)	635,556,129
Weiss, Peck & Greer/Robeco USA (12/91)	828,455,374
Core	
Dodge & Cox (11/03)	835,290,466
EARNEST Partners Limited, L.L.C. (2/02)	211,610,412
Taplin, Canida & Habacht (3/04)	422,453,804
Global Inflation-Linked	
Western Asset Management Company (2/05)	427,584,729
Emerging Manager	
Dolan McEniry Capital Management, L.L.C. (5/06)	24,934,298
Enhanced Indexed	
Lehman Brothers Asset Management, L.L.C. (2/06)	654,248,617

The following table lists the top 10 fixed income securities held by TRS's managers as of June 30, 2006. These securities represent 9.4 percent of the total fixed income assets. To-be-announced (TBA) mortgages are underlying contracts on mortgage-backed securities (MBS) to buy or sell a MBS which will be delivered at an agreed-upon date in the future. A complete listing of investment holdings is available as a separate report.

Top 10 Global Fixed Income Holdings at June 30, 2006

Security/Position	Rate	Maturity Date	Market Value
Federal National Mortgage Association TBA	5.00%	1/15/2036	$233,260,737
Federal National Mortgage Association TBA	6.00	7/15/2034	128,272,482
Federal National Mortgage Association TBA	4.50	8/15/2018	127,533,150
Federal National Mortgage Association TBA	5.00	12/15/2020	85,671,012
U.S. Treasury Notes	5.13	5/15/2016	83,473,055
U.S. Treasury Notes	4.88	4/30/2008	76,656,483
U.S. Treasury Notes	4.50	11/15/2015	75,757,088
U.S. Treasury Notes	4.88	5/15/2009	60,516,852
U.S. Treasury Notes	3.63	6/30/2007	59,390,708
U.S. Treasury Notes	3.13	5/15/2007	58,898,460
Total			**$989,430,027**

Source: The Northern Trust Company

Discussion of Global Fixed Income

At June 30, 2006, 23.3 percent of TRS's investment portfolio was assigned to fixed income managers, just slightly under the interim target of 25.0 percent. Overall, TRS returned 0.1 percent, net of fees, compared to the Lehman Brothers Aggregate Index return of (0.7) percent, or exceeding the benchmark by 80 basis points.

As seen in the performance chart, longer-term returns continue to exceed the benchmark as evidenced by the outperformance over the one-, three-, five- and 10-year periods. The 10-year annualized fixed income return, net of fees, is 6.1 percent relative to the blended benchmark return of 5.6 percent, or in excess of 50 basis points.

The Federal Reserve continued its "measured pace" tightening throughout the year, raising the federal funds target rate eight times over the past year from 3.25 percent to a level of 5.25 percent at June 30, 2006. However, atypical during federal tightening cycles, long-term rates actually declined amidst rising headline inflation.

As a result of rising interest rates, as interest rates and bond prices moved inversely, TRS external managers maintained a defensive posture for most of the year. In addition, the credit rating downgrades of Ford and General Motors, and subsequent price depreciation, slightly reduced the portfolio's return. Positive relative performance was generated from inflation-indexed securities, mortgage positions, and various extended markets positions, primarily in emerging market debt.

The following data provides statistical information on TRS's global fixed income portfolio.

Statistical Data

Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/06	Lehman Brothers Aggregate Bond Index 6/30/06	TRS Fixed Income Portfolio 6/30/05	Lehman Brothers Aggregate Bond Index 6/30/05
Average Maturity	7.3 years	7.4 years	6.6 years	6.8 years
Effective Duration	4.7 years	5.0 years	4.1 years	4.2 years
Average Coupon	5.1%	5.2%	4.7%	5.2%
Average Quality Rating (Moody's)	AAA	AA+	Aa1	Aa1
Current Yield	5.3%	5.2%	4.8%	5.0%

Source: Lehman Brothers, BGI, and TRS

Global Fixed Income Managers Sector Weighting

TRS Fixed Income Portfolio	6/30/06
U.S. Treasury	16.0%
Government Bonds – Foreign	1.0
U.S. Federal Agency	10.1
Agency Bonds – Foreign	0.2
Asset Backed Securities – U.S. and Foreign	6.1
U.S. Mortgage-Backed Securities	30.9
Commercial Mortgage Backed and Collateralized Mortgages	11.5
U.S. Corporate or Credit Securities	16.2
Corporate or Credit Securities – Foreign	1.8
Inflation-Linked Securities – U.S. and Foreign	5.0
Municipal and Province	0.2
Preferred Stock	0.3
Net Short-term Investments	0.7
Total	**100.0%**
Total U.S. and Non-U.S. Futures Exposure	19.3%
Total Foreign Currency Exposure	4.8
Total Swap Exposure – Ex-Swaptions	3.7
Total High Yield Exposure	5.0
Total Emerging Markets Debt Exposure	1.2

Source: The Northern Trust Company and TRS

Diversification by Quality Rating for Global Fixed Income Portfolios

Moody's Quality Rating	06/30/06	06/30/05
Agency	15.2%	13.1%
Treasury	13.6	19.0
Aaa	50.2	43.9
Aa1 through Aa3	5.5	9.1
A1 through A3	4.5	4.3
Baa1 through Baa3	5.1	7.0
Ba1 through Ba3	3.3	2.2
B1 through B3	1.2	0.7
Other*	1.4	0.7
Total	**100.0%**	**100.0%**

** Other includes under B3 and unrated securities.*
Note: Chart includes Enhanced Equity Indexed underlying bond holdings
Source: The Northern Trust Company and TRS

Private Equity

Private equity includes investments that are placed and traded outside of the stock exchanges and other public markets. Over the long term, they are an attractive investment for pension funds, endowments, insurance companies, and other sophisticated investors. The investment class benefits the economy by providing needed capital to start-up companies and for continued growth in companies, privately held firms, and firms that are restructuring to better compete. There is additional risk investing in private equity, but with skillful selection of managers, returns can be significantly higher than public equity investments.

The asset class is commonly referred to as private equity, even though it includes privately placed debt instruments. Often, the debt includes a control position that is similar to equity because it allows the debt holder to influence the operations and management of the company. TRS is widely diversified across all sub-sectors within private equity, including buyout, venture capital, subordinated debt, and distressed debt.

TRS measures private equity performance using the Russell 3000 stock index plus 300 basis points (3 percentage points). The benchmark does not specifically compare performance to the private equity industry, but rather to the TRS long-term expectation that private equity produce returns superior to the public markets. For the one-year period ending June 30, 2006, private equity outperformed the benchmark by 10.9 percent.

In general, an investor must look at a much longer-term investment horizon to measure the success of a private equity program. TRS's investments in private equity maintain a very strong long-term result as well, outperforming the benchmark by 12.2 percent over the 10-year period. One-, three-, five- and 10-year comparisons to this benchmark are noted in the following table:

	FY06	3-Year	5-Year	10-Year
TRS, net of fees	**23.8%**	**17.9%**	**4.8%**	**19.5%**
Russell 3000 Index + 3.0%	12.9	16.0	6.7	7.3

At June 30, 2006, 4.2 percent of the TRS investment portfolio was assigned to the private equity asset class. TRS has hired, or made commitments to, 66 private equity partnerships/funds. The following chart lists the partnerships and the current assets under management.

Private Equity Partnerships and Assets Under Management (inception date of account)

Buyout	
Apollo Investment Fund V, L.P. (5/01)	$120,188,894
Apollo Investment Fund VI, L.P. (8/05)*	0
Carlyle Partners IV, L.P. (12/04)	41,094,914
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	137,349,340
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (2/06)	8,624,275
Castle Harlan Partners IV, L.P. (5/03)	20,009,295
Code Hennessy & Simmons V, L.P. (2/05)	2,901,591
DLJ Merchant Banking Partners, L.P. (9/92)	3,935,357
DLJ Merchant Banking Partners II, L.P. (3/97)	25,491,583
DLJ Merchant Banking Partners III, L.P. (9/00)	92,052,662
Elevation Partners, L.P. (2/05)*	3,812,324
Energy Capital Partners I, L.P. (2/06)*	0
Evercore Capital Partners II, L.P. (4/03)	46,108,115
Glencoe Capital Partners III, L.P. (1/04)	7,802,116
Glencoe Capital Institutional Partners III, L.P. (6/04)	7,325,867
GTCR Fund VII/VIIA, L.P. (3/00)	49,086,643
GTCR Fund VIII, L.P. (7/03)	34,113,334
Hispania Private Equity, L.P. (5/04)	962,891
ICV Partners II, L.P. (12/05)	1,405,943
KKR 1996 Fund, L.P. (5/97)	23,000,347
Lehman Brothers Merchant Banking III, L.P. (2/05)	35,924,016
Mesirow Capital Partners VII, L.P. (6/97)	3,110,414
Reliant Equity Partners, L.P. (6/04)	4,696,552
TCW/Latin America Private Equity Partners, L.P. (5/97)	1,179,856
Thayer Equity Investors V, L.P. (5/03)	38,257,286
TPG Partners IV, L.P. (12/03)	29,968,899
Trivest Fund II, Ltd. (6/96)	17,198,353
VS&A Communications Partners II, L.P. (9/95)	2,516,049
VSS Communication Partners IV, L.P. (2/05)	9,813,033
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	12,023,441
Windpoint Partners VI, L.P. (5/05)	1,024,168
WPG Corporate Development Associates V, L.P. (11/97)	9,091,723

** Partnership was not funded at June 30, 2006; date reflects the TRS Board of Trustees approval.*

Continued

Distressed Debt	
Carlyle Strategic Partners, L.P. (2/04)	24,672,878
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	31,531,435
OCM Opportunities Fund V, L.P. (6/04)	32,812,701
Special Situations	
Banc Fund VI, L.P. (12/02)	55,177,654
Banc Fund VII, L.P. (5/05)	16,513,574
Subordinated Debt	
Merit Mezzanine Fund IV, L.P. (2/04)	13,093,368
Prism Mezzanine Fund, L.P. (5/04)	3,925,737
SW Pelham Fund II, L.P. (9/03)	15,515,213
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	23,986,171
William Blair Mezzanine Capital Fund II, L.P. (5/97)	15,316,758
William Blair Mezzanine Capital Fund III, L.P. (1/00)	22,215,990
Venture Capital	
Apex Investment Fund III, L.P. (6/96)	2,591,279
Apex Investment Fund V, L.P. (8/03)	22,503,190
Carlyle Venture Partners II, L.P. (10/02)	104,659,286
Edgewater Growth Capital Partners, L.P. (11/03)	17,321,375
Edgewater Growth Capital Partners II, L.P. (2/05)	3,668,737
Evergreen Partners IV, L.P. (12/02)	11,958,069
Frontenac VI, L.P. (6/93)	1,047,073
Granite Ventures II, L.P. (5/05)	1,542,573
HealthPoint Partners, L.P. (6/04)	28,808,223
Hopewell Ventures, L.P. (6/04)	1,386,016
Illinois Emerging Technologies Fund, L.P. (6/04)	741,854
Penman Private Equity and Mezzanine Fund, L.P. (10/94)	3,492,171
Periscope Fund I, L.P. (6/97)	125,391
21st Century Communication T-E Partners, L.P. (2/95)	1,617,032
SCP Private Equity Partners, L.P. (5/97)	9,424,891
SCP Private Equity Partners II, L.P. (6/00)	58,123,535
Shasta Ventures, L.P. (12/04)	5,136,250
VantagePoint Venture Partners IV, L.P. (6/00)	48,952,565
Warburg Pincus International Partners, L.P. (9/00)	67,161,572
Warburg Pincus International Partners IX, L.P. (8/05)	28,983,845
WPG Enterprise Fund, L.P. (11/89)	417,557
WPG Enterprise Fund II, L.P. (8/94)	19,342,228
WPG Enterprise Fund III, L.P. (3/97)	30,165,604

Discussion of Private Equity

In April 2003, the TRS Board of Trustees adopted a target for private equity of 6.0 percent. Since this decision, the portfolio has been steadily and prudently increasing exposure to private equity and is now 4.2 percent of total fund value. The target of 6.0 percent is expected to be accomplished by 2009, but is subject to many factors, such as public market performance and availability of quality private equity partnerships in the market. The following charts provide a further breakdown of the targeted style allocation adopted by the TRS Board as compared to the actual breakdown at June 30, 2006.

Private Equity Target and Actual Allocation as of June 30, 2006

Subclasses	Target	Actual
Buyout	60-70%	52%
Venture Capital	10-20	31
Special Situations/Distressed Debt/Subordinated Debt	5-15	17
Total		**100%**

Source: TRS

During FY06, TRS made new commitments to eight private equity funds totaling $630 million. Many of the investments over the past year have been within the buyout sector of the private equity universe because many established buyout firms have been coming back to market for additional capital. Venture capital continues to provide opportunities, but investments must be entered into prudently. Going forward, the TRS Tactical Plan calls for investing approximately $600 to $800 million per year for the next four years.

Real Estate

Real estate investments are direct investments or ownership in land and buildings including apartments, offices, warehouses, shopping centers, hotels, and farm land. TRS also holds partnership interests in entities that purchase and manage property and pass rent and sale income back to TRS. Investment in real estate is intended to increase the TRS total portfolio long-term rate of return and reduce year-to-year volatility.

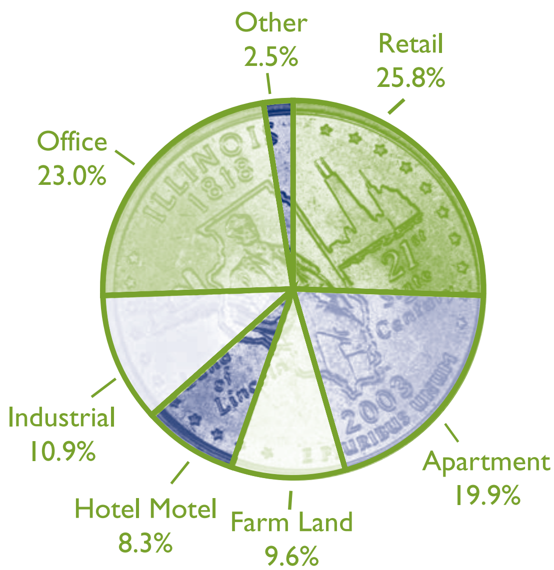
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay program benefits to plan participants and survivors.

As of June 30, 2006, TRS had over $3.9 billion in real estate assets, or 10.8 percent of the total fund portfolio. For the year, TRS's real estate investments returned 18.8 percent on a net of fee basis and outperformed the Real Estate Property Index for the fourth consecutive year. Real estate performance and benchmark comparison are noted in the following table:

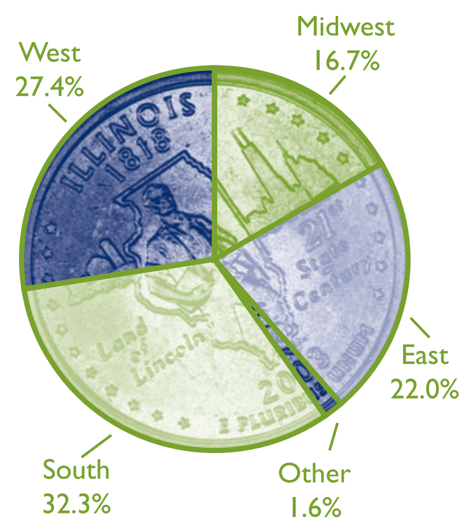
	FY06	3-Year	5-Year	10-Year
TRS, net of fees	**18.8%**	**17.3%**	**12.4%**	**12.1%**
Real Estate Property Index	18.7	15.8	12.0	11.0

To enhance returns and reduce risk, TRS acquires high quality properties diversified by type and in locations throughout the United States. TRS's real estate holdings by type and geography are exhibited in the following charts.

Real Estate Holdings by Type as of June 30, 2006



Geographic Diversification of Real Estate Holdings as of June 30, 2006



Note: The geographic diversification chart does not include farm land.

Professional real estate advisors manage real estate owned by TRS. Separate account managers administer TRS's direct investments in real estate assets. Closed end accounts represent partnership interests in real estate funds. As of June 30, 2006, TRS had the following managers and assets under management.

Real Estate Managers and Assets Under Management (inception date of account)

Separate Accounts	
Capri/Capital Advisors, L.L.C. (12/91)	$1,137,268,478
Cozad/Westchester Asset Management, Inc. (5/91)	377,965,284
Commonwealth Realty Advisors, Inc. I (9/91)	713,863,660
Commonwealth Realty Advisors, Inc. II (11/92)	149,578,213
Commonwealth Realty Advisors, Inc. III (5/03)	10,000
Koll Bren Schreiber Realty Advisors I (6/93)	421,659,667
Koll Bren Schreiber Realty Advisors II (5/96)	3,545,431
LPC Realty Advisors I, Ltd. (7/92)	297,383,056
Stone-Levy, L.L.C. (4/95)	276,073,374

Closed End Accounts	
Capri/Capital Apartment Fund III (3/90)	105,663,358
Capri Select Income Fund II, L.L.C.	4,992,438
Carlyle Europe Real Estate Partners, L.P. (6/03)	50,484,037
Carlyle Realty Partners IV (6/05)	34,069,919
DLJ Real Estate Capital Partners, Inc. (3/96)	7,833,678
JBC Opportunity Fund II, L.P.	44,023,174
JER Real Estate Partners III, L.P. (1/05)	44,020,080
RREEF Capital II, L.L.C. (11/96)*	312,629
Thayer Hotel IV	4,974,265
Walton Street Capital, L.L.C. (7/03)	137,059,987

Open End Accounts	
Hines-Sumisei U.S. Core Office (12/05)	25,846,510
Lion Industrial Trust (4/05)	109,681,719

** In liquidation mode.*

Discussion of Real Estate

In FY06, the TRS real estate portfolio grew from 10.5 percent of the total investment portfolio to 10.8 percent. Over the year, a new commitment was made to the Hines-Sumisei U.S. Core Office fund, increasing the portfolio's exposure in the core office sector.

Competition among institutional investors for quality real estate assets has made it challenging to make new investments, but TRS was able to afford some growth toward the interim target of 12 percent. TRS will continue toward this target by prudently seeking new investments that meet TRS return expectations. Also in FY06, TRS continued in earnest to upgrade the quality of the real estate portfolio by recognizing profits and selling older assets. This activity will continue in FY07.

Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2006 and 2005. TRS manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2006, TRS recaptured over $1.4 million in cash that was reinvested back into the fund. In addition, TRS uses a portion of commission recapture refunds to pay for investment administrative expenses. During FY06, TRS used $863,819 of commission recaptured to offset expenditures.

Top 50 Brokers Used by TRS Managers

Broker	FY06 Commission	FY05 Commission
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	$1,490,020	$1,243,057
Goldman Sachs & Co. (Worldwide)	1,444,989	841,114
Lynch Jones & Ryan (Worldwide)	1,122,078	914,439
UBS Investment Bank and all Subsidiaries (Worldwide)	1,001,870	912,476
J.P. Morgan Securities, Inc. (Worldwide)	729,448	545,788
Citigroup and all Subsidiaries (Worldwide)	701,306	712,569
Morgan Stanley & Co., Inc. (Worldwide)	680,192	615,194
Credit Suisse (Worldwide)	679,830	475,421
Pershing Securities Ltd. (Worldwide)	637,463	166,761
Lehman Brothers, Inc. (Worldwide)	551,360	654,493
State Street Brokerage Services and all Subsidiaries (Worldwide)	430,258	951,834
Deutsche Bank and all Subsidiaries (Worldwide)	396,709	463,998
Liquidnet, Inc.	395,219	225,547
Bear Stearns (Worldwide)	337,475	297,196
B-Trade Services L.L.C.	325,621	224,752
Jefferies & Company (Worldwide)	282,813	157,792
Investment Technology Group, Inc. (Worldwide)	270,857	400,765
Dresdner Kleinwort Wasserstein	198,289	229,276
Ivy Securities, Inc.	170,178	7,825
Thomas Weisel Partners L.L.C.	166,091	106,903
Banc of America Securities	158,775	109,650
Cabrera Capital Markets, Inc.	156,206	182,567
Melvin Securities, Inc.	136,538	39,129
Abel/Noser Corporation	134,078	180,615
BMO Nesbitt Burns	128,957	9,051
Weeden & Co.	127,551	173,536
ABN AMRO and all Subsidiaries (Worldwide)	123,653	240,568
Societe Generale (Worlwide)	115,701	55,835
Cantor Fitzgerald & Co.	111,002	65,675
Macquarie Securities (Worldwide)	105,183	55,185
CIBC World Markets Corp.	100,861	131,059
Credit Lyonnais Securities (Worldwide)	99,918	87,576
Capital Institutional Services, Inc.	98,501	108,893
Bernstein, Sanford C. & Co.	98,169	82,406
Guzman & Company	97,230	36,059
M. Ramsey King Securities	95,602	110,478
Piper Jaffray & Co.	94,608	23,205
RBC Capital Markets, Inc.	91,463	54,391
Frank Russell, Inc.	88,938	30,589
Raymond James	84,092	64,847
Prudential Equity Group	81,043	98,852
Pulse Trading, L.L.C.	80,397	84,272
Instinet, L.L.C.	80,206	32,809
Robert W. Baird & Company, Inc.	78,380	110,327
Jones & Associates	77,354	76,898
Gardner Rich & Co.	76,771	244,234
Daiwa Securities (Worldwide)	71,988	32,628
Needham & Company	71,877	24,359
Banco Pactual	71,690	5,332
Pacific Crest Securities	71,262	21,559
All Others (FY06, 325 Brokers)	3,653,787	3,641,054
Totals	**$18,673,847**	**$16,360,838**

Source: The Northern Trust Company and TRS

External Manager Fee Payments

For the year ended June 30, 2006, fee payments to external investment managers totaled $120.384 million, an increase of 15.5 percent from the year ended June 30, 2005. The increase is attributable to TRS's increased allocation to the private markets asset classes, as well as the decreasing allocation to TRS passive index funds.

A summary is provided in the Schedule of Investment Manager Fees table.

Schedule of Investment Manager Fees

Investment Manager/Account	FY06	FY05
21st Century Communication T-E Partners, L.P.	$4,527	$41,434
Advisory Research, Inc.	145,094	304,811
Apex Investment Fund III, L.P.	324,969	433,325
Apex Investment Fund V, L.P.	478,985	561,640
Apollo Investment Fund V, L.P.	0	1,069,197
Apollo Investment Fund VI, L.P.	711,929	0
Ariel Capital Management, Inc.	945,982	1,385,454
Artisan Partners Limited Partnership	26,950	207,604
Banc Fund VI, L.P.	1,001,875	892,733
Banc Fund VII, L.P.	235,207	8,988
Barclays Global Investors	1,677,979	73,841
Batterymarch Financial Management, Inc.	1,484,440	782,316
Bear Stearns Asset Management, Inc.	574,511	1,590,779
BlackRock, Inc.	1,665,194	2,338,609
Boston Partners Asset Management, L.P.	1,384,779	1,264,108
Brandes Investment Partners, L.P.	3,872,812	3,463,353
Byram Capital Management, L.L.C.	1,109,261	665,683
Capital Guardian Trust Company	0	1,429,465
Capri/Capital Advisors, L.L.C.	4,299,881	3,824,618
Capri Capital Apartment Fund III	1,277,372	1,177,859
Capri Select Income II, L.L.C.	374,818	0
Castle Harlan Partners IV, L.P.	330,316	557,406
Code Hennessy & Simmons V, L.P.	82,945	0
Commonwealth Realty Advisors, Inc.	3,983,186	4,842,927
Cozad/Westchester Asset Management, Inc.	1,842,085	1,916,448
Delaware Investment Advisers	3,284,008	2,946,669
DLJ Merchant Banking Partners, L.P.	0	0
DLJ Merchant Banking Partners II, L.P.	195,597	191,138
DLJ Merchant Banking Partners III, L.P.	33,120	1,425,427
DLJ Real Estate Capital Partners, Inc.	128,151	205,541
Dodge & Cox	4,790,009	4,243,556
Dolan McEniry Capital Management, L.L.C.	6,234	0
EARNEST Partners, L.L.C.	1,141,435	559,372
Edgewater Growth Capital Partners, L.P.	0	0
Elevation Partners, L.P.	149,359	203,707
Emerald Advisers, Inc.	1,418,263	690,250
Energy Capital Partners I, L.P.	360,189	0
Evercore Capital Partners II, L.P.	815,485	1,000,000
Evergreen Partners IV, L.P.	619,180	619,180
Frontenac VI, L.P.	0	0
Geewax, Terker & Company	0	181,902
Glencoe Capital Partners III, L.P.	307,606	374,287
Goldman Sachs Asset Management, L.P.	104,604	0
Granite Ventures II, L.P.	194,740	0
Grantham, Mayo, Van Otterloo & Co., L.L.C.	6,903,426	4,766,309
Great Lakes Advisors, Inc.	374,621	262,726
GTCR Fund VII/VIIA, L.P.	0	156,728
GTCR Fund VIII, L.P.	0	154,679
Harris Associates, L.P.	2,419,282	2,208,246
HealthPoint Partners, L.P.	344,935	890,180

Continued

Investment Manager/Account	FY06	FY05
Heitman Capital Management	0	0
Hines-Sumisei U.S. Core Office Fund, L.P.	60,008	0
Hispania Private Equity, L.P.	316,119	305,099
Holland Capital Management, L.P.	958,086	1,055,381
Hopewell Ventures, L.P.	383,273	280,946
ICV Partners II, L.P.	280,685	0
Illinois Emerging Technologies Fund, L.P.	44,563	53,130
ING Investment Management Company	79,694	0
INVESCO Global Asset Management (N.A.), Inc.	2,564,225	2,230,882
J & W Seligman & Co., Inc.	525,451	1,117,268
Jarislowsky, Fraser Limited	745,668	0
JBC Opportunity Fund II, L.P.	1,250,000	1,250,000
JER Real Estate Partners III, L.P.	956,249	1,626,935
KKR 1996 Fund, L.P.	18,936	27,714
Koll Bren Schreiber Realty Advisors	4,384,896	3,754,886
Lehman Brothers Asset Management, L.L.C.	98,091	0
Lehman Brothers Merchant Banking Partners III, L.P.	750,000	536,301
Lion Industrial Trust	903,095	83,703
LM Capital Group, L.L.C.	98,619	282,705
LPC Realty Advisors I, Ltd.	2,426,821	1,534,943
LSV Asset Management	3,489,731	2,999,110
MatlinPatterson Global Opportunities Fund II, L.P.	986,173	1,709,173
Mazama Capital Management, Inc.	2,691,432	1,992,959
McKinley Capital Management, Inc.	1,927,935	0
Merit Mezzanine Fund IV, L.P.	885,887	436,077
Mesirow Capital Partners VII, L.P.	31,250	98,590
Mondrian Investment Partners Limited	2,165,400	1,652,689
NCM Capital Advisers, Inc.	20,721	0
Northern Trust Global Investments	34,682	97,916
NorthPointe Capital	0	213,216
OCM Opportunities Fund V, L.P.	312,500	312,499
Pacific Investment Management Company, L.L.C.	2,927,368	3,555,816
Payden & Rygel	929,479	901,134
Penman Private Equity & Mezzanine Fund, L.P.	0	0
Periscope I Fund, L.P.	3,553	25,904
Prism Mezzanine Fund, L.P.	626,973	1,080,126
Pyramis Global Advisors	2,580,473	2,403,258
Reliant Equity Partners, L.P.	186,213	219,390
RhumbLine Advisers, L.P.	5,766	0
RREEF Capital II, L.L.C.	0	113,411
Sands Capital Management, Inc.	1,013,061	1,008,171
SCP Private Equity Partners, L.P.	148,415	192,796
SCP Private Equity Partners II, L.P.	2,000,000	2,000,000
Shasta Ventures, L.P.	0	0
State Street Global Advisors	530,047	555,995
Stone-Levy, L.L.C.	1,725,390	1,929,380
SW Pelham Fund II, L.P.	265,416	333,021
T. Rowe Price Associates, Inc.	2,729,431	122,535
Taplin, Canida & Habacht	471,057	284,040
TCW/Latin American Private Equity Partners, L.P.	0	70,232
Thayer Equity Investors V, L.P.	354,473	670,374
Thayer Hotel IV	0	39,119
The Carlyle Europe Real Estate Partners, L.P.	199,526	524,501
The Carlyle Group	3,750,000	3,750,000
The Carlyle Group Partners IV, L.P.	1,276,903	333,332
The Carlyle Group/Realty Partners IV, L.P.	922,625	525,000
The Carlyle Group/Riverstone Global Energy Fund II, L.P.	862,502	1,346,301
The Carlyle Group/Riverstone Global Energy Fund III, L.P.	909,864	0
The Carlyle Group/Strategic Partners, L.P.	749,830	400,026
The Northern Trust Company (Custody)	533,891	508,080

Continued

Investment Manager/Account	FY06	FY05
Thompson, Siegel & Walmsley, Inc.	1,569,773	835,610
TPG Partners IV, L.P.	0	538,310
Trivest Fund II, Ltd.	12,994	42,389
Turner Investment Partners, Inc.	1,988,040	1,239,147
Tygh Capital Management, Inc.	157,915	0
UBS Global Asset Management (Americas), Inc.	1,432,903	1,082,183
VantagePoint Venture Partners IV, L.P.	0	0
Voyageur Asset Management, Inc.	1,299,376	659,200
VS&A Communications Partners II, L.P.	0	0
VSS Communications Partners IV, L.P.	738,232	387,500
Walton Street Capital, L.L.C.	993,097	377,866
Warburg Pincus International Partners, L.P.	0	0
Warburg Pincus Private Equity IX, L.P.	746,534	0
Weiss, Peck & Greer Investments/Robeco USA	633,533	656,706
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	250,864	0
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	825,859	0
Western Asset Management Company	2,041,662	436,313
William Blair Mezzanine Capital Fund II, L.P.	113,246	147,928
William Blair Mezzanine Capital Fund III, L.P.	383,744	563,512
Wind Point Partners VI, L.P.	135,704	0
WPG Corporate Development Associates V, L.P.	129,872	237,836
WPG Enterprise Fund, L.P.	0	1,837
WPG Enterprise Fund II, L.P.	150,955	158,104
WPG Enterprise Fund III, L.P.	262,332	400,360
Total fees paid by TRS	**$120,384,422**	**$104,221,360**

Note: This schedule captures investment manager fees applicable to the fiscal year(s) reported and differs from investment fees reported within the Financial Section.

Securities Lending

TRS participates in securities lending activity with its custodian, The Northern Trust Company, acting as the securities lending agent. The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, and the amount of collateral for these securities.

Securities Lending Summary

Income Source	Amount
Northern Trust FY06 Net Securites Lending Income	$12,264,071
Total Northern Trust (6/30/06) Collateral Market Value	$4,873,673,805
Total Market Value of Securities on Loan Northern Trust (6/30/06)	$4,788,220,451
Total Collateralized Percentage	102%

Source: The Northern Trust Company

During the year, TRS also participated in securities lending within its passive or indexed fund investments managed by State Street Global Advisors and Northern Trust Global Investments. The income earned from securities lending activities within these indexed funds is reinvested back into the respective fund.

Learning is not attained by chance.
It must be sought for with ardor and
attended with diligence.
~Abigail Adams
1744-1818

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an ACS company

December 19, 2006

Board of Trustees
Teachers' Retirement System
of the State of Illinois
2815 West Washington Street
Springfield, Illinois 62794

Subject: Pension Benefit Obligation as of June 30, 2006

Ladies & Gentlemen:

Based upon our annual actuarial valuation of the Teachers' Retirement System of the State of Illinois, we have determined the pension benefit obligation of the System to be $58,996,913,000 as of June 30, 2006. The valuation was performed in accordance with generally accepted actuarial principles and procedures, using the projected unit-credit actuarial cost method.

The actuarial valuation was based on a census of retired members as of June 30, 2006, and a census of active and inactive members as of June 30, 2005, which were submitted to us by the System. While we did not verify the data at their source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation. Based on our normal procedures, we adjusted for the one-year lag in reporting of the active membership by assuming that the population was stationary with regard to age and service and by increasing reported payroll and member account balances by 4%.

Presented in the Financial Section of the System's Annual Financial Report, there is a schedule of Required Supplementary Information. The actuary has provided the Unfunded Actuarial Accrued Liability and the Annual Required Contribution Per State Statute that appear in this section. The actuary has also provided the Normal Cost Percentage, which is a component of the Annual Required Contribution under GASB #25. The actuary did not calculate the GASB #25 Annual Required Contribution, but did review this calculation, as well as the remainder of the figures that appear in the Required Supplementary Information to ensure their consistency with the valuation report.

The Actuarial Section of the Annual Financial Report also contains various schedules: Actuarial Valuation with Market Value Assets, Reconciliation of Unfunded Liability, State Funding Amounts, Funded Ratio Test, Unfunded Liability as a Percentage of Payroll Test and Solvency Test. While the actuary did not prepare these schedules, they are in agreement with the valuation report and their accuracy has been verified. The actuary neither reviewed nor prepared any items beyond those specifically listed in this paragraph and the preceding paragraph.

One North Dearborn Street, Suite 1400 • Chicago, IL 60602-4336
312.846.3000 • 312.846.3999 (fax)

The amortization method established by PA 88-0593 – as amended by PA 90-0582, PA 93-0002, and PA 94-0004 – is used for funding purposes and does not meet the parameters of GASB Statement No. 25. The amortization method used is a 15-year phase-in to a level percent of payroll – before reduction for the maximum state contribution limitations of the Act – until a 90% funding level is achieved by June 30, 2045. PA 94-0004 interrupted the phase-in methodology by specifying the amount of the state's fiscal year 2006 and 2007 contributions, and that the phase-in to a level percent of payroll contribution would resume with the fiscal year 2008 contribution. At June 30, 2006 the remaining GASB amortization period is 30 years. The actuarial assumptions, actuarial cost method, and asset valuation method used for funding purposes do meet the parameters of GASB Statement No. 25.

The valuation is based on the benefit provisions of TRS in effect on June 30, 2006. The actuarial assumptions used in the valuation are those specified by the Board of Trustees of the System based on recommendations made by the actuary.

The pension benefit obligation of $58,996,913,000 at June 30, 2006 includes liability for expected retirements under the Modified Early Retirement Option (ERO) program, but does not include liability for expected fiscal year 2007 retirements under the Pipeline ERO program. The liability for fiscal year 2007 Pipeline ERO retirements will be determined and recognized at June 30, 2007.

Respectfully submitted,

Kim M Nicholl

Kim M. Nicholl
Principal, Consulting Actuary

KMN:pl
7228/C5190RET01-PBO-2006.doc

Actuaries estimate the cost of benefits members and survivors will receive over their lifetimes and calculate the amount that should be set aside each year to fund them.

TRS complies with the requirements issued by the Governmental Accounting Standards Board (GASB) under Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Actuarial Assumptions and Methods

Each year the actuary reconciles the differences between major actuarial assumptions and experience in the process of explaining the change in TRS's unfunded liability. The unfunded liability is the difference between the accrued liability (the present value of benefits including the cost of annual increases) and the net assets that are available to cover the liability.

Inflation: 3.5 percent per annum. Implicit in investment and earnings progression assumptions. Adopted in the FY02 valuation.

Investment return: 8.5 percent per annum, compounded annually. Adopted in the FY97 valuation. Components revised in FY02 valuation: inflation 3.5 percent, real return 5.0 percent, with overall 8.5 percent assumption retained.

Earnings progression: Merit and longevity increases, adjusted for inflation. Approximates 6.5 percent per year over a typical career. Adopted in the FY02 valuation.

Rates shown below include the inflation assumption.

Sample annual percentage salary increases:

Age	Male and Female
20	10.1%
25	9.2
30	7.7
40	6.5
50 and above	5.9

Retirement age: Graduated rates based on age and gender of active members. Inactive members are assumed to retire at age 62 if they have fewer than 10 years of service or at age 60 if they have 10 or more years of service. Adopted in the FY02 valuation. Modified rates of retirement for members retiring under the Pipeline ERO in FY06 and FY07 were adopted in the FY05 valuation.

Sample annual retirements per 1,000 participants:

Age	Male	Female
54	80.0	70.0
55	160.0	135.0
60	260.0	185.0
65	350.0	315.0
70	1,000.0	1,000.0

Mortality: For active members: 74.6 percent of the 1995 George B. Buck Mortality Table rates for males and 83 percent of the George B. Buck Mortality Table rates for females. For annuitants: 95.6 percent of the 1995 George B. Buck Mortality Table rates for males and 100 percent of the George B. Buck Mortality Table rates for females. For beneficiaries, the 1995 George B. Buck Mortality Tables rated forward three years for males and rated forward one year for females. For the period after disability retirement, the Pension Benefit Guaranty Corporation rates for male disabled lives not necessarily receiving Social Security benefits, rated back two years for females and rated forward five years for males, but not less than the rate at age 65 (after the setback). Adopted in the FY02 valuation.

Disability: Adopted in the FY02 valuation.

Sample annual disabilities per 1,000 participants:

Age	Male	Female
25	0.34	0.72
30	0.38	0.81
40	0.53	1.11
50	1.10	2.31
60	3.66	7.70

Termination from active service: Adopted in the FY02 valuation.

Sample annual terminations per 1,000 participants:

	Nonvested Members		Vested Members	
Age	Male	Female	Male	Female
25	88.0	105.0	61.1	90.0
30	88.0	105.0	41.2	80.0
40	88.0	75.0	15.8	25.0
50	88.0	65.0	10.4	16.5
60	88.0	65.0	18.6	22.8

Severance pay: Increases with years of service at retirement. Adopted in the FY02 valuation.

Years of Service at Retirement	Percent of Retirees Who Receive Severance Pay	Severance Pay as a percent of Final Salary
fewer than 20	0.0%	0.0%
20–24	51.0	12.9
25–29	65.0	14.9
30 or more	79.0	16.9

Optional service at retirement: The accrued liability for retirement benefits for active members who have not previously purchased optional service is increased by 1.9 percent to cover the employer cost of optional service purchased in the last two years of service. The overall assumption for optional service (out-of-system plus leaves of absence and layoff) is an average of 0.969 of a year per full-time/part-time service retiree. Adopted in the FY02 valuation.

Unused and uncompensated sick leave: Equals 2.83 percent of regular service at retirement. Adopted in the FY02 valuation.

Actuarial cost method: Projected unit credit. Gains and losses are reflected in the unfunded liability. Adopted in the FY89 valuation.

Asset valuation method: Market value. Adopted in the FY97 valuation.

Under the projected unit credit cost method used by TRS, the resulting liability for benefits earned is called the "pension benefit obligation," or PBO. A broader term for this liability is "actuarial accrued liability," or AAL. In other words, the PBO is a type of AAL.

Also, measures of TRS's financial condition for both June 30, 2006, and June 30, 2005, are shown using market value of assets. These tests are consistent with TRS's financial statements, which are prepared in accordance with GASB Statement No. 25. The change to market value was first effective June 30, 1997, for determining state funding requirements for FY99.

The actuarial value of assets for FY06 and FY05 is equal to the "net assets held in trust for pension benefits" as shown in the financial statements.

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 to date. The unfunded liability is the present value of future benefits payable that are not covered by assets as of the valuation date.

The **funded ratio** shows the percentage of the accrued liability covered by net assets at market value.

Actuarial Valuation with Market Value Assets
($ in thousands)

	Years Ended June 30	
	2006	**2005**
Total actuarial accrued liability	**$58,996,913**	**$56,075,029**
Less actuarial value of assets (net assets at market value)	$36,584,889	$34,085,218
Unfunded liability	**$22,412,024**	**$21,989,811**
Funded ratio	62.0%	60.8%

Analysis of Financial Experience: Reconciliation of Unfunded Liability

The net increase in the June 30, 2006, unfunded liability of $422 million was caused by a combination of factors.

The **employer cost in excess of contributions** is the shortfall between actual employer contributions and the amount needed to cover the cost of benefits earned during the year and to keep the unfunded liability from growing. In 2006, this shortfall was $1.913 billion. In 2005, the shortfall under this measurement was $1.300 billion.

In 2006, there were no plan amendents increasing the unfunded liability. In 2005, Public Act 94-0004 extended the Early Retirement Option under modified terms. The additional $771 million in liability is expected to be covered by member and school district contributions. The extended program is designed to be revenue neutral to the state.

TRS experienced an actuarial loss under the **salary increase** assumption in FY06, with salary increases for continuing active members $68 million higher than expected, compared to $237 million higher than expected in 2005. However, actuarial gains occurred in both years under the **investment return** assumption. In FY06, assets were assumed to earn $2.833 billion, but earnings were actually $3.993 billion. Therefore, the total actuarial gain due to investments was $1.160 billion in FY06. The actuarial gain on investments was $682 million in FY05.

In both years, actuarial losses occurred under the **mortality** assumptions because fewer people died than expected. Actuarial losses were also incurred under the turnover assumption because fewer people left service than assumed. Additionally, many members repaid refunds, and the repurchased service increased the unfunded liability. There were also losses associated with the ERO contribution rates and the ERO contribution waivers for members who have 34 years of service. **Delayed reporting** of retirements also increased the unfunded liability because more people were receiving benefits than expected.

Other, which is a balancing item, reflects a significant actuarial gain in 2006 because fewer Pipeline ERO retirements occurred than assumed. Among non-ERO retirements, benefits were lower than expected, adding to the actuarial gain. "Other" also includes the effect of retirements that were reported late to the actuary, the effect of salary increases higher than assumed for retiring teachers, and several other factors. Due to the potential expiration of the Early Retirement Option in 2005, "Other" reflected a loss because more retirements than expected occurred.

Reconciliation of Unfunded Liability
($ in thousands)

	Years Ended June 30	
	2006	**2005**
Unfunded liability at beginning of year	**$21,989,811**	**$19,402,722**
Net additions (deductions)		
Employer cost in excess of contributions	1,913,368	1,299,840
Modified ERO under PA94-0004	–	771,248
Change in actuarial assumptions for retirement rates in FY06 and FY07	–	26,425
Net additions (deductions)	**1,913,368**	**2,097,513**
Net actuarial losses (gains)		
Salary increases for continuing active members	68,398	236,687
Investment return	(1,159,525)	(682,294)
New entrant loss	21,735	23,509
Mortality other than expected	16,811	19,022
Fewer terminations than expected	20,116	18,830
Repayments of refunded member contributions[1]	28,543	23,459
ERO costs waived for those with 34 years of service	198,867	487,173
Delayed reporting of retirements (effect on assets)[2]	12,190	8,779
Other	(698,290)	354,411
Net actuarial losses (gains)	**(1,491,155)**	**489,576**
Unfunded liability at end of year	**$22,412,024**	**$21,989,811**

1 *Includes the employer-paid portion of the benefit that was restored when members repaid previously refunded contributions.*

2 *401 retirements which occurred prior to 7/1/04 were not reported to the actuary until 6/30/05.*
390 retirements which occurred prior to 7/1/05 were not reported to the actuary until 6/30/06.

State Funding

Public Act 88-0593 was enacted in 1994 and first affected state contributions in FY96. The law established a 50-year funding plan that includes a 15-year phase-in period. Contributions are gradually increased to a percentage level of active member payroll during the phase-in period, with the exceptions noted below. By the end of the funding period in FY45, TRS will have a 90 percent funded ratio. A key feature of this act is the "continuing appropriation" language that requires state contributions to be made automatically to TRS.

Public Act 90-0582, the 2.2 legislation, was enacted in 1998 and first affected state contributions in FY99. The act established minimum state contribution rates so that the state's cost of the formula change would be paid as a level percent of pay instead of being phased in. Those minimum state contribution rates were in effect from FY99 through FY04.

Public Act 93-0002, the pension obligation bond (POB) legislation, was enacted in 2003 and first affected state contributions in FY05. Of the total $10 billion in POB proceeds, $523 million was used to cover initial interest payments and to fund bond issuance and other costs. The next $2.160 billion was used to reimburse the state for contributions it made to the five state retirement systems for some of FY03 and all of FY04. The remaining $7.317 billion was allocated among the systems to invest and to reduce their unfunded liabilities. The allocation was based on the relative sizes of the systems' June 30, 2002, unfunded liabilities. The TRS share of the proceeds, $4.330 billion, was deposited on July 2, 2003.

The FY05 state contribution to TRS was reduced by the system's share of the POB debt service. The calculation was performed through a multi-step process that ensured that state contributions did not exceed certain maximums provided in the act.

Public Act 94-0004 specified certain dollar contributions to TRS for FY06 and FY07, as described below. The FY08 state contribution will increase from the FY07 state contribution, and state contributions will continue increasing as a percentage of active member payroll until FY10. In FY10, the end of the 15-year ramp period, state contributions reach a level percentage of pay. That rate is to be maintained for the following 35 years until the 90 percent funded ratio is achieved in FY45.

State Funding Amounts

The FY06 actuarial valuation was used to determine the required state contributions for FY08 and the FY08 employer's normal cost. The amount being contributed to TRS in FY07 is specified by Public Act 94-0004 and is not based on actuarial funding requirements. However, the employer's normal cost for FY07 was determined by the FY05 actuarial valuation.

State Funding Amounts

	FY08	FY07
Benefit Trust Reserve (excludes federal contributions; excludes school district contributions)	$1,039,195,000	$735,514,500
Minimum benefit reserve	2,100,000	2,500,000
Total state funding amount	**$1,041,295,000**	**$738,014,500**
Employer's normal cost as a percentage of active member payroll	8.22%	8.20%

Tests of Financial Condition

The **funded ratio** shows the percentage of the accrued liability covered by net assets.

Funded Ratio Test

($ in thousands)

As of June 30	Net Assets at Market	Actuarial Accrued Liability	Funded Ratio at Market
1997	$17,393,108	$26,951,585	64.5%
1998	19,965,887	29,908,241	66.8
1999	22,237,709	33,205,513	67.0
2000	24,481,413	35,886,404	68.2
2001	23,315,646	39,166,697	59.5
2002	22,366,285	43,047,674	52.0
2003	23,124,823	46,933,432	49.3
2004	31,544,729	50,947,451	61.9
2005	34,085,218	56,075,029	60.8
2006	**36,584,889**	**58,996,913**	**62.0**

The **unfunded liability as a percentage of payroll** is a standard measure of the relative size of the unfunded liability. Decreases in this percentage indicate improvements in a system's financial position.

Unfunded Liability as a Percentage of Payroll Test

($ in thousands)

Year Ended June 30	Approximate Member Payroll	Unfunded Liability	Percentage of Payroll
1997	$5,013,000	$9,558,477	190.7%
1998	5,323,000	9,942,354	186.8
1999	5,698,000	10,967,804	192.5
2000	6,063,000	11,404,991	188.1
2001	6,431,000	15,851,051	246.5
2002	6,785,000	20,681,389	304.8
2003	7,059,000	23,808,609	337.3
2004	7,281,000	19,402,722	266.5
2005	7,550,510	21,989,811	291.2
2006	**7,765,752**	**22,412,024**	**288.6**

The **solvency test** measures TRS's ability to cover different types of obligations if the plan was terminated and is hypothetical. The columns are in the order that assets would be used to cover certain types of obligations. Employee contributions would be refunded first, amounts due for current beneficiaries would be covered next, and the employer's obligation for active members would be covered last. Columns 1 and 2 should be fully covered by assets. The portion of column 3 that is covered by assets should increase over time. TRS passed the minimum standards of the solvency test from 1997 through 2001.

Solvency Test
($ in thousands)

	Aggregate Accrued Liabilities for				Percentage of Benefits Covered by Net Assets		
Year Ended June 30	Members' Accumulated Contributions (1)	Participants Currently Receiving Benefits (2)	Active Members Employer Portion (3)	Actuarial Value of Assets	(1)	(2)	(3)
1997	$3,329,075	$13,091,057	$10,531,453	$17,393,108	100%	100%	9%
1998	3,651,119	13,830,583	12,426,539	19,965,887	100	100	20
1999	3,956,022	14,935,811	14,313,680	22,237,709	100	100	23
2000	4,179,403	16,481,570	15,225,431	24,481,413	100	100	25
2001	4,386,648	18,718,472	16,061,577	23,315,646	100	100	1
2002	4,688,042	22,105,192	16,254,440	22,366,285	100	80	0
2003	5,622,026	25,188,870	16,122,536	23,124,823	100	69	0
2004	5,853,274	28,286,916	16,807,261	31,544,729	100	91	0
2005	5,925,696	32,861,473	17,287,860	34,085,218	100	86	0
2006	**6,303,750**	**35,315,529**	**17,377,634**	**36,584,889**	**100**	**86**	**0**

Other Information

The following three schedules are presented in this section, rather than the statistical section, to comply with GFOA guidelines.

- Retirees and Beneficiaries Added to and Removed from Rolls
- Average Annual Salary for Active Members by Years of Service (June 30, 1997, through June 30, 2006)
- Active Members by Age and Years of Service (as of June 30, 2006)

These schedules were prepared by TRS staff, not our actuarial consulting firm.

In preparing the annual actuarial valuation each June 30, the TRS actuaries use active and inactive member data as of the previous June 30, with active member salaries increased by 4.0 percent. The state funding certification for the next fiscal year must be submitted annually by November 15.

Retirees and Beneficiaries Added to and Removed from Rolls

Year Ended June 30	Number at Beginning of Year	Added to Rolls	Removed from Rolls	Number at End of Year	End-of-Year Annual Allowances Amount	End-of-Year Annual Allowances % Increase	Average Annual Allowance Amount	Average Annual Allowance % Increase
1997	59,664	1,847	2,159	59,352	$1,173,889,332	3.7%	$19,778	4.2%
1998	59,352	1,954	2,156	59,150	1,218,829,800	3.8	20,606	4.2
1999	59,150	3,445	2,287	60,308	1,322,451,864	8.5	21,928	6.4
2000	60,308	4,168	2,354	62,122	1,457,736,912	10.2	23,466	7.0
2001	62,122	5,197	2,442	64,877	1,643,900,223	12.8	25,339	8.0
2002	64,877	5,391	2,319	67,949	1,852,194,540	12.7	27,259	7.6
2003*	67,949	9,404	3,922	73,431	2,181,186,831	17.8	29,704	9.0
2004	73,431	6,016	2,542	76,905	2,432,132,334	11.5	31,625	6.5
2005	76,905	7,897	2,227	82,575	2,806,341,054	15.4	33,985	7.5
2006	**82,575**	**5,147**	**2,619**	**85,103**	**3,018,848,450**	**7.6**	**35,473**	**4.4**

* *In the year ended June 30, 2003, statistical programs were revised and improved. This resulted in a much larger number reported as added to the rolls.*

SCOTTSDALE FINANCIAL CENTER III
SCOTTSDALE, ARIZONA

Average Annual Salary for Active Members by Years of Service

Years of Service		2006	2005	2004	2003
0-5	**Number**	**40,930**	**39,728**	**36,951**	**38,074**
	Average Salary	$42,404	$41,444	$37,633	$37,960
6-10	**Number**	**28,847**	**26,557**	**26,027**	**25,020**
	Average Salary	$51,314	$49,536	$45,568	$46,740
11-15	**Number**	**20,222**	**20,295**	**18,307**	**17,334**
	Average Salary	$60,476	$58,195	$52,771	$53,931
16-20	**Number**	**14,086**	**13,429**	**13,358**	**12,860**
	Average Salary	$67,343	$65,276	$59,820	$60,788
21-25	**Number**	**9,619**	**9,431**	**10,868**	**11,152**
	Average Salary	$72,531	$70,278	$64,881	$65,427
26-30	**Number**	**10,349**	**10,667**	**12,488**	**12,429**
	Average Salary	$76,616	$74,127	$69,276	$70,066
31-35	**Number**	**6,134**	**5,900**	**9,186**	**7,107**
	Average Salary	$83,165	$79,236	$75,643	$76,676
35 +	**Number**	**785**	**744**	**1,162**	**804**
	Average Salary	$84,524	$81,497	$77,805	$78,091
	Total Number	**130,972**	**126,751**	**128,347**	**124,780**
	Average Salary	$56,916	$55,237	$52,181	$52,408
	% Change Average Salary	**3.0%**	**5.9%**	**(0.4%)**	**3.0%**
	Total Payroll Full & Part-time	**$7,454,402,352**	**$7,001,344,987**	**$6,697,274,807**	**$6,539,470,240**

Annual salaries are computed using full- and part-time salary rates only; substitute and hourly employee salaries are omitted. Total payroll shown will be lower than payroll figures used elsewhere in this report.

2002	2001	2000	1999	1998	1997
41,120	**38,585**	**35,192**	**34,831**	**33,325**	**33,134**
$36,242	$34,614	$33,070	$32,430	$31,495	$30,717
24,258	**24,351**	**24,053**	**21,540**	**20,329**	**20,340**
$45,300	$43,457	$41,616	$40,320	$39,047	$38,170
16,812	**16,367**	**15,661**	**15,461**	**14,571**	**13,830**
$52,761	$50,875	$49,109	$47,430	$45,659	$44,258
12,215	**11,692**	**11,304**	**11,969**	**13,004**	**14,295**
$59,011	$56,521	$54,335	$52,477	$50,650	$49,309
12,575	**13,091**	**13,363**	**14,006**	**14,494**	**15,235**
$63,599	$61,188	$58,918	$57,256	$55,498	$54,096
13,256	**13,885**	**14,278**	**14,541**	**13,904**	**12,977**
$68,501	$65,913	$64,254	$61,866	$59,694	$58,168
7,484	**7,555**	**6,895**	**6,018**	**4,845**	**3,525**
$76,413	$73,433	$70,455	$67,373	$63,985	$61,434
843	**809**	**713**	**692**	**644**	**611**
$78,831	$75,469	$71,036	$67,453	$65,222	$62,841
128,563	**126,335**	**121,459**	**119,058**	**115,116**	**113,947**
$50,895	$49,230	$47,665	$46,306	$44,769	$43,398
3.4%	**3.3%**	**2.9%**	**3.4%**	**3.2%**	**3.6%**
$6,543,213,885	**$6,219,472,050**	**$5,789,343,235**	**$5,513,099,748**	**$5,153,628,204**	**$4,945,071,906**

Active Members by Age and Years of Service as of June 30, 2006

Age		Subs	Years of Service 0-5	6-10	11-15	16-20
20-24	**Number**	**3,401**	**5,147**	**0**	**0**	**0**
	Average Salary	$3,930	$35,923	$0	$0	$0
25-29	**Number**	**3,963**	**16,576**	**3,599**	**0**	**0**
	Average Salary	$4,166	$41,125	$47,658	$0	$0
30-34	**Number**	**2,352**	**6,234**	**10,381**	**1,743**	**0**
	Average Salary	$4,102	$43,828	$51,017	$57,206	$0
35-39	**Number**	**2,836**	**3,674**	**4,608**	**6,828**	**1,207**
	Average Salary	$3,946	$44,273	$52,175	$59,917	$64,851
40-44	**Number**	**4,090**	**3,318**	**2,777**	**3,014**	**4,115**
	Average Salary	$4,121	$43,149	$51,604	$61,653	$67,530
45-49	**Number**	**3,573**	**2,612**	**2,825**	**2,562**	**2,512**
	Average Salary	$4,737	$43,829	$51,134	$59,866	$67,134
50-54	**Number**	**3,217**	**1,881**	**2,655**	**3,104**	**2,895**
	Average Salary	$4,678	$47,493	$53,015	$60,916	$66,672
55-59	**Number**	**2,695**	**1,144**	**1,585**	**2,399**	**2,699**
	Average Salary	$4,841	$57,541	$54,717	$62,275	$68,658
60-64	**Number**	**1,325**	**291**	**365**	**508**	**578**
	Average Salary	$4,571	$61,683	$56,020	$63,095	$69,468
65-69	**Number**	**568**	**44**	**42**	**60**	**64**
	Average Salary	$4,026	$47,521	$59,726	$68,994	$68,468
70-74	**Number**	**190**	**5**	**8**	**4**	**15**
	Average Salary	$3,769	$33,573	$52,533	$61,054	$58,732
74 +	**Number**	**90**	**4**	**2**	**0**	**1**
	Average Salary	$3,094	$31,793	$46,966	$0	$48,702
	Total Number	**28,300**	**40,930**	**28,847**	**20,222**	**14,086**
	Average Salary	**$4,308**	**$42,404**	**$51,314**	**$60,476**	**$67,343**

Years of Service							Full and Part-time Member
21-25	26-30	31-35	36-40	41-45	46-50	51-55	Totals
0	**0**	**0**	**0**	**0**	**0**	**0**	**5,147**
$0	$0	$0	$0	$0	$0	$0	$35,923
0	**0**	**0**	**0**	**0**	**0**	**0**	**20,175**
$0	$0	$0	$0	$0	$0	$0	$42,290
0	**0**	**0**	**0**	**0**	**0**	**0**	**18,358**
$0	$0	$0	$0	$0	$0	$0	$49,163
0	**0**	**0**	**0**	**0**	**0**	**0**	**16,317**
$0	$0	$0	$0	$0	$0	$0	$54,573
963	**0**	**0**	**0**	**0**	**0**	**0**	**14,187**
$71,101	$0	$0	$0	$0	$0	$0	$57,704
3,439	**1,494**	**0**	**0**	**0**	**0**	**0**	**15,444**
$72,007	$74,036	$0	$0	$0	$0	$0	$60,813
2,618	**5,890**	**2,655**	**0**	**0**	**0**	**0**	**21,698**
$73,034	$76,847	$82,188	$0	$0	$0	$0	$67,943
2,054	**2,405**	**3,122**	**356**	**0**	**0**	**0**	**15,764**
$72,800	$77,598	$84,477	$85,301	$0	$0	$0	$70,890
481	**478**	**305**	**283**	**47**	**0**	**0**	**3,336**
$75,202	$76,594	$79,381	$84,712	$79,757	$0	$0	$70,539
55	**74**	**47**	**35**	**37**	**7**	**0**	**465**
$73,159	$79,808	$77,552	$85,831	$76,216	$121,968	$0	$71,771
8	**6**	**4**	**1**	**8**	**5**	**1**	**65**
$73,667	$72,431	$62,793	$66,283	$86,401	$84,523	$67,372	$65,168
1	**2**	**1**	**0**	**2**	**1**	**2**	**16**
$55,948	$44,099	$81,071	$0	$61,031	$75,206	$69,566	$51,964
9,619	**10,349**	**6,134**	**675**	**94**	**13**	**3**	**130,972**
$72,531	**$76,616**	**$83,165**	**$85,053**	**$78,530**	**$103,969**	**$68,835**	**$56,916**

	Average Age	Average Years of Service	Number
Full and Part-time Members	42	12	130,972
Substitutes	41	NA	28,300
All	**41**		**159,272**

Plan Summary

Administration

TRS was created and is governed by the Illinois Pension Code, Article 16. An 11-member Board of Trustees is authorized to carry out duties granted to it under the article. The board is comprised of the state superintendent of education, four persons appointed by the Governor, four elected members of TRS, and two elected annuitants. One trustee position for an appointed member is currently vacant. The Board of Trustees appoints an executive director who is responsible for the detailed administration of TRS.

Membership

Membership is mandatory for all full-time, part-time, and substitute public school personnel employed outside the city of Chicago in positions requiring certification. Persons employed at certain state agencies are also members.

Contributions

During FY06, members contributed 9.4 percent of gross creditable earnings designated as 7.5 percent for retirement annuity, 0.5 percent for post-retirement increases, 0.4 percent for the Early Retirement Option, and 1 percent for death benefits. Active members do not contribute to Social Security for TRS-covered employment; however, members hired after March 31, 1986, are required to contribute to Medicare. In addition, virtually all members pay a contribution to the Teachers' Health Insurance Security Fund, a separate fund in the State Treasury that is not a part of this retirement plan. For FY06, the member contribution was 0.8 percent of pay.

Service Credit

A member is granted a maximum of one year of service credit for 170 paid days per school year, defined by statute as July 1 through June 30. Optional service credit is available for periods of public school teaching in other states or under the authority of the United States government, substitute or part-time teaching prior to July 1, 1990, leaves of absence, involuntary layoffs, military service, and gaps in teaching due to pregnancy or adoption prior to July 1, 1983. Up to two years of unused, uncompensated sick leave that has been certified by former employers may also be added at retirement.

A payroll deduction program became effective July 1, 1998. Active and certain inactive members can make tax-sheltered contributions to TRS to purchase various types of optional service, to upgrade their service under the graduated retirement formula to the 2.2 formula, or to make the required contributions under the Early Retirement Option.

Refunds

After a four-month waiting period from the date that he or she last taught, a member ceasing covered employment may withdraw all contributions, except the 1 percent death benefit. When accepting a refund, the member forfeits all service credit and benefit rights. Credit can be re-established if the member returns to a covered position for one year or to a reciprocal system for two years and repays the refund with interest. A member receiving disability benefits is not eligible for a refund.

Retirement Benefits

The following vesting schedule applies to all members.

Years of Service	Age
5	62
10	60
20	55 (discounted)
35	55 (nondiscounted)

To be eligible to receive a monthly retirement annuity, a member must terminate active service and meet specific age and service requirements. If a member retires at an age less than 60 with fewer than 35 years of service and does not elect the Early Retirement Option (discussed under "Early Retirement"), the benefit will be reduced by 6 percent for each year the member is under age 60.

A member with fewer than five years of creditable service who taught after July 1, 1947, is eligible to receive a single-sum retirement benefit at age 65.

Most members retire under a retirement benefit formula. This retirement annuity is determined by two factors: average salary and years of creditable service. Average salary is the average of the creditable earnings in the highest four consecutive years within the last 10 years of creditable service. Years of service determine the percentage of the final average salary to which members are entitled. Members with contributing service before July 1, 2005, can retire under a money purchase style "actuarial" benefit instead of a retirement benefit formula. By law, the higher of the formula benefit or the actuarial benefit is paid. The maximum formula benefit is 75 percent of FAS; there is no maximum for the actuarial benefit.

Public Act 90-0582 improved retirement benefits for TRS members by changing the rate at which TRS member accrue benefits beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. Members who retire on or after the effective date have the option of upgrading their service earned prior to July 1, 1998, to the flat-rate 2.2 percent formula by making a payment to TRS. Additionally, for members who continue to teach, every three full years worked after July 1, 1998, count toward a full one-year reduction of the years to be upgraded.

Public Act 91-0017 reduced the 2.2 formula upgrade cost on a sliding scale for members who have more than 34 years of service credit. The legislation also made a technical correction in the benefit accrual rate for members who do not upgrade their pre-July 1998 service.

Years of service earned before July 1, 1998, were earned under a four-step graduated formula:

- 1.67 percent for each of years one through 10,
- 1.9 percent for each of years 11 through 20,
- 2.1 percent for each of years 21 through 30, and
- 2.3 percent for each year over 30.

The maximum annuity, 75 percent of final average salary, is achieved with 34 years under the 2.2 formula and with 38 years of service under the graduated formula. The minimum retirement benefit is $25 per month for each year of creditable service up to 30 years of service.

Early Retirement

Original ERO. Under a provision that was originally scheduled to sunset June 30, 2005, members who were age 55 or older and had more than 20 but fewer than 35 years of service could choose the Early Retirement Option (ERO) to avoid a discounted annuity. Under the ERO, both the member and the employer had to make a one-time contribution. However, both the member and the employer contributions were waived if the member had 34 years of service.

Pipeline ERO. Public Act 94-0004 extends, for certain members, the terms of the program that was scheduled to sunset. The "Pipeline" ERO applies to members who notified their employers on or before June 1, 2005 of their intention to retire under the terms of contracts or collective bargaining agreements. These members have until July 1, 2007 to retire using the Pipeline ERO provision. The contribution rates remain the same as they were for the ERO program that ended June 30, 2005.

Modified ERO. Public Act 94-0004 also includes a new Modified ERO program. These provisions apply to members who retire after June 30, 2005, and who do not qualify for Pipeline ERO. The member contribution changed from 7 percent to 11.5 percent for each year under the age of 60 or number of years under 35 years of service, whichever is less. The employer contribution changed from 20 percent to 23.5 percent for each year the member is under the age of 60. There is no longer a contribution waiver for employers and members with 34 years of service.

Post-Retirement Increase

Annuitants who meet certain service credit criteria receive an annual 3 percent increase in their gross annuities on the January 1 after they turn age 61 or the January 1 following the first anniversary in retirement, whichever is later.

Disability Benefits

TRS offers occupational and nonoccupational disability benefits to active members. Nonoccupational disability benefits are payable as disability benefits or as a disability retirement annuity to members who have three years of creditable service. There is no minimum service requirement for occupational disability benefits for duty-related accidents or illnesses. Members continue to accrue service credit while they are receiving disability benefits but not while they are receiving disability retirement annuities. On January 1 following the fourth anniversary of the granting of the disability benefit, the monthly benefit is increased 7 percent. Thereafter, the benefit increases by 3 percent each January 1.

Public Act 94-0539 allows individuals who have received TRS disability benefits for one year or more to return to teaching if their medical conditions improve, allowing part-time work.

This act allows members on a limited basis to tutor, substitute, or part-time teach for a TRS-covered employer without loss of disability benefits as long as the combined earnings from teaching and disability benefits do not exceed 100 percent of the salary rate upon which the benefit was based.

Death Benefits

There are two types of death benefits: a return of the member's accumulated contributions and survivor benefits.

The return of member contributions includes the retirement contributions (6.5 percent of salary through June 30, 1998 and 7.5 percent after that date), with interest and the 0.5 percent paid toward annual increases in annuity. Beneficiaries of an annuitant receive the accumulated contributions minus the amount that the member had already received as a retirement annuity.

Survivor benefits can be paid in either a lump-sum or a monthly payment. A lump-sum benefit is the only method payable to nondependent beneficiaries. A dependent beneficiary may choose either a lump-sum benefit or a monthly payment. Survivor benefit recipients who are beneficiaries of a retired member are eligible for an annual 3 percent increase effective January 1 following the granting of the survivor benefit. Survivor benefit recipients who are beneficiaries of an active or eligible inactive member are eligible for an annual 3 percent increase on January 1 following the first anniversary of their receiving the survivor benefit.

Employment-Related Felony Conviction

Any member convicted of a felony related to or in connection with teaching is not eligible for TRS benefits; however, the member may receive a refund of contributions.

Continuity of Credit within Illinois

TRS is one of 13 public retirement systems that are included in the provisions of the Illinois Retirement Systems' Reciprocal Act. This act ensures continuous pension credit for public employment in Illinois.

Conflicts

Conditions involving a claim for benefits may require further clarification. If conflicts arise between material in this summary and that of the law, the law takes precedence.

Diligence is the basis
of wealth, and thrift
the source of riches.

~Chinese Proverb

STATISTICAL

1250 HANCOCK

QUINCY, MASSACHUSETTS

Changes in Net Assets, Last 10 Fiscal Years
($ in thousands)

	2006	2005	2004	2003
Additions				
Member contributions*	$799,034	$761,790	$768,661	$732,020
State of Illinois	534,305	906,749	1,031,478	929,710
Pension Obligation Bond proceeds	-	-	4,330,374	-
Employer contributions**	123,543	148,813	127,573	91,552
Investment Income (net of expenses)	3,993,290	3,330,040	4,485,730	1,060,853
Total Additions to Plan Net Assets	**$5,450,172**	**$5,147,392**	**$10,743,816**	**$2,814,135**
Deductions				
Benefit payments	$2,877,231	$2,533,103	$2,262,329	$1,998,622
Refunds	57,967	59,396	48,020	43,115
Administrative expenses	15,303	14,404	13,561	13,859
Other expenses	-	-	-	-
Total Deductions from Plan Net Assets	**$2,950,501**	**$2,606,903**	**$2,323,910**	**$2,055,596**
Changes in Net Assets				
Beginning of year	$34,085,218	$31,544,729	$23,124,823	$22,366,284
Net increase (decrease)	2,499,671	2,540,489	8,419,906	758,539
End of year	36,584,889	34,085,218	31,544,729	23,124,823

** Member contributions increased from 9.0 percent to 9.4 percent beginning in FY 2006 and from 8.0 percent to 9.0 percent in FY 1999. Also included are member contributions for purchases of optional service, early retirement, and upgrades to the 2.2 formula.*

*** Employer contributions include contributions from federal funds, for early retirement, and for the 2.2 formula.*

Benefit and Refund Deductions from Net Assets by Type, Last 10 Fiscal Years
($ in thousands)

	2006	2005	2004	2003
Type of Benefit				
Retirees	$2,741,164	$2,407,652	$2,145,187	$1,890,512
Survivors	112,902	103,991	97,155	88,997
Disability benefits	23,165	21,460	19,987	19,113
Total Benefits	**$2,877,231**	**$2,533,103**	**$2,262,329**	**$1,998,622**
Total Refunds	**$57,967**	**$59,396**	**$48,020**	**$43,115**

	2002	2001	2000	1999	1998	1997
	$681,152	$643,563	$619,623	$866,376	$441,016	$416,739
	814,740	724,008	639,299	572,951	466,948	385,130
	-	-	-	-	-	-
	92,618	97,618	91,298	63,645	35,985	36,049
	(723,987)	(1,015,256)	2,336,217	2,089,661	2,873,103	2,643,775
	$864,523	**$449,933**	**$3,686,437**	**$3,592,633**	**$3,817,052**	**$3,481,693**
	$1,759,749	$1,566,793	$1,402,246	$1,284,127	$1,209,957	$1,160,917
	38,756	35,849	28,797	25,859	24,372	21,726
	13,487	12,641	11,681	10,680	9,761	9,469
	1,892	417	10	145	182	400
	$1,813,884	**$1,615,700**	**$1,442,734**	**$1,320,811**	**$1,244,272**	**$1,192,512**
	$23,315,645	$24,481,412	$22,237,709	$19,965,887	$17,393,107	$15,103,926
	(949,361)	(1,165,767)	2,243,703	2,271,822	2,572,780	2,289,181
	22,366,284	23,315,645	24,481,412	22,237,709	19,965,887	17,393,107

	2002	2001	2000	1999	1998	1997
	$1,660,998	$1,475,490	$1,317,841	$1,205,865	$1,138,530	$1,096,601
	80,461	74,631	68,798	63,586	57,996	51,975
	18,290	16,672	15,607	14,676	13,431	12,341
	$1,759,749	**$1,566,793**	**$1,402,246**	**$1,284,127**	**$1,209,957**	**$1,160,917**
	$38,756	**$35,849**	**$28,797**	**$25,859**	**$24,372**	**$21,726**

101 SOUTH SECOND STREET
SAN FANCISCO, CALIFORNIA

Employee and Employer Contribution Rates, Last 10 Fiscal Years

Fiscal Year	Employee Rate (%)[1]	Employer Rate (%)[2] State[3]	School Districts for 2.2 Formula[4]	School Districts from Federal Sources[5]	Total[6]
1997	8.0%	7.71%	-	0.35%	8.06%
1998	8.0	8.75	-	0.34	9.09
1999	9.0	10.20	0.30%	0.33	10.83
2000	9.0	10.77	0.58	0.31	11.66
2001	9.0	11.47	0.58	0.32	12.37
2002	9.0	12.16	0.38	0.35	12.89
2003	9.0	13.01	0.18	0.35	13.55
2004	9.0	13.98	0.58	0.40	14.96
2005	9.0	11.76	0.58	0.49	12.84
2006	**9.4**	**6.75**	**0.58**	**0.31**	**7.64**

1 *Member rate increase in FY99 was for the 2.2 formula change; rate increase in FY06 was for the Early Retirement Option.*

2 *Employer contributions exclude contributions for Early Retirement Option.*

3 *State contributions increased through FY04 pursuant to statutory ramp schedule under 40 ILCS 5/16-158 (b-3). FY05 decline is due to calculation required under pension obligation bond (POB) legislation. FY06 decline is due to specific dollar appropriation specified in Public Act 94-0004 that is not based on the statutory ramp schedule. Also, POB proceeds that were received in FY04 are not state contributions and are not included in this schedule.*

4 *Employer contributions for the 2.2 formula change were 0.3 percent of pay in FY99 and 0.58 percent of pay thereafter, with waivers for certain employers under collective bargaining agreements. From January 1, 2002 through June 30, 2003, 40 ILCS 5/16-158 (e) allowed 0.4 percent of the 2.2 contribution to be diverted to cover a new employer contribution for retiree health insurance.*

5 *Federal contributions above are expressed as percentages of total active member payroll. Through FY05, employers contributed 10.5 percent of pay as the employer contribution for members paid from federal sources. Beginning in FY06, the employer contribution rate paid on behalf of members paid from federal sources is the same as the employer contribution rate paid by the State of Illinois on behalf of members not paid from federal sources (7.06 percent in FY06, with increases according to the statutory schedule under 40 ILCS 5/16-158 (b-3)).*

6 *Totals shown are rates certified by the actuaries and may not total due to rounding. Also, the total rate shown in FY02 is lower than the total contribution requirement certified by the actuaries because the diversion of the health insurance contributions that began in the middle of the year was not anticipated.*

Demographics of Benefit Recipients and Active Members as of June 30, 2006

(Excludes inactive members)

	Retirees			Disability Benefit Recipients			Survivors		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Under 20	-	-	-	-	-	-	29	42	71
20-24	-	-	-	-	-	-	15	11	26
25-29	-	-	-	-	5	5	1	-	1
30-34	-	-	-	2	8	10	4	7	11
35-39	-	-	-	4	30	34	6	5	11
40-44	-	-	-	9	27	36	9	16	25
45-49	-	-	-	8	56	64	22	33	55
50-54	69	156	225	31	148	179	51	121	172
55-59	5,006	8,284	13,290	64	270	334	124	293	417
60-64	6,928	11,012	17,940	36	118	154	208	436	644
65-69	5,069	8,382	13,451	8	54	62	224	620	844
70-74	4,190	6,060	10,250	16	52	68	289	775	1,064
75-79	3,188	5,229	8,417	11	30	41	388	1,080	1,468
80-84	1,927	3,861	5,788	3	27	30	460	966	1,426
85-89	730	2,982	3,712	2	13	15	325	845	1,170
90+	336	2,338	2,674	-	4	4	261	654	915
Total	**27,443**	**48,304**	**75,747**	**194**	**842**	**1,036**	**2,416**	**5,904**	**8,320**

Benefit Recipients by type as of June 30, 2006

		Type of Monthly Benefit				
Monthly Benefit Range	**Number of Recipients (all)**	**Age Retirement**	**Disability Retirement**	**Nonoccupational Disability**	**Occupational Disability**	**Survivor Monthly Benefits**
Under $500	6,870	5,066	13	3	-	1,788
$500-$999	8,388	5,645	152	3	-	2,588
$1,000-$1,499	8,141	6,032	283	38	-	1,788
$1,500-$1,999	7,674	6,405	118	87	-	1,064
$2,000-$2,499	7,293	6,544	66	70	3	610
$2,500-$2,999	7,374	7,033	42	27	1	271
$3,000-$3,499	7,810	7,621	46	14	-	129
$3,500-$3,999	7,595	7,545	19	2	-	29
$4,000-$4,499	6,537	6,489	25	1	1	21
$4,500-$4,999	4,692	4,667	11	1	-	13
$5,000-$5,499	3,816	3,798	7	-	-	11
$5,500-$5,999	2,866	2,861	1	-	1	3
$6,000-$6,499	2,236	2,235	-	-	-	1
$6,500-$6,999	1,458	1,458	-	-	-	-
$7,000-$7,499	950	949	-	-	-	1
$7,500-$7,999	543	540	1	-	-	2
$8,000 or more	860	859	-	-	-	1
Total benefit recipients	**85,103**	**75,747**	**784**	**246**	**6**	**8,320**

Summary Statistics, All Benefit Recipients, as of June 30, 2006

	Age Retirement	**Disability Benefits (3 types)**	**Survivor Benefits**
Average monthly benefit	$3,173	$1,807	$1,127
Average age	69	58	76
Average years of service	29	18	NA

Active Members			Total Retirees, Disabilitants, Survivors, and Active Members			Percent Distribution of Retirees, Disabilitants, Survivors, and Active Members		
Male	Female	Total	Male	Female	Total	Male	Female	Total
-	-	-	29	42	71	41%	59%	100%
1,774	6,774	8,548	1,789	6,785	8,574	21	79	100
5,553	18,585	24,138	5,554	18,590	24,144	23	77	100
5,512	15,198	20,710	5,518	15,213	20,731	27	73	100
5,129	14,024	19,153	5,139	14,059	19,198	27	73	100
4,405	13,873	18,278	4,423	13,916	18,339	24	76	100
3,812	15,204	19,016	3,842	15,293	19,135	20	80	100
5,337	19,578	24,915	5,488	20,003	25,491	22	78	100
4,166	14,293	18,459	9,360	23,140	32,500	29	71	100
1,233	3,428	4,661	8,405	14,994	23,399	36	64	100
380	653	1,033	5,681	9,709	15,390	37	63	100
103	152	255	4,598	7,039	11,637	40	60	100
35	49	84	3,622	6,388	10,010	36	64	100
5	12	17	2,395	4,866	7,261	33	67	100
2	3	5	1,059	3,843	4,902	22	78	100
-	-	-	597	2,996	3,593	17	83	100
37,446	**121,826**	**159,272**	**67,499**	**176,876**	**244,375**	**28%**	**72%**	**100%**

Subtypes of Age Retirement Benefits

Regular 2.2 Flat Formula	Graduated Formula	Actuarial Benefit Style	ERO (2.2 & Grad. Form.)	ERI (State or TRS)	Other	Age Retirement Total
569	2,314	2,161	7	8	7	5,066
476	3,134	1,789	92	126	28	5,645
564	3,013	1,223	771	410	51	6,032
641	2,545	728	1,617	815	59	6,405
742	2,085	389	2,034	1,248	46	6,544
1,045	1,598	149	2,574	1,611	56	7,033
1,390	1,475	107	2,959	1,614	76	7,621
1,452	1,334	96	2,994	1,550	119	7,545
1,484	1,090	52	2,642	1,091	130	6,489
1,049	888	39	1,853	750	88	4,667
895	688	22	1,464	652	77	3,798
626	491	27	1,175	469	73	2,861
536	405	12	925	301	56	2,235
368	271	6	598	162	53	1,458
244	181	6	380	109	29	949
171	103	3	189	50	24	540
259	207	5	257	92	39	859
12,511	**21,822**	**6,814**	**22,531**	**11,058**	**1,011**	**75,747**

Percentage of Age Retirement Benefits by Subtype

17%	29%	9%	29%	15%	1%	100%

Average Benefit Payments, Last 10 Fiscal Years

	Years of Service				
Retirement Effective Dates	**Under 5**	**5-9**	**10-14**	**15-19**	**20-24**
Period July 1, 2005 through June 30, 2006					
Average monthly benefit	$210	$515	$1,139	$1,744	$2,509
Average final average salary	$55,558	$36,036	$44,715	$53,349	$62,206
Number of retired members	114	202	202	199	376
Period July 1, 2004 through June 30, 2005					
Average monthly benefit	$228	$544	$1,074	$1,715	$2,475
Average final average salary	$59,538	$39,038	$44,000	$52,488	$61,882
Number of retired members	170	198	233	251	567
Period July 1, 2003 through June 30, 2004					
Average monthly benefit	$208	$575	$1,052	$1,635	$2,359
Average final average salary*	–	–	–	–	–
Number of retired members	106	152	182	181	419
Period July 1, 2002 through June 30, 2003					
Average monthly benefit	$206	$522	$960	$1,573	$2,350
Average final average salary*	–	–	–	–	–
Number of retired members	213	191	197	191	395
Period July 1, 2001 through June 30, 2002					
Average monthly benefit	$198	$509	$898	$1,486	$2,140
Average final average salary*	–	–	–	–	–
Number of retired members	156	183	169	174	397
Period July 1, 2000 through June 30, 2001					
Average monthly benefit	$191	$468	$910	$1,398	$2,057
Average final average salary*	–	–	–	–	–
Number of retired members	191	175	163	170	396
Period July 1, 1999 through June 30, 2000					
Average monthly benefit	$210	$448	$795	$1,390	$1,915
Average final average salary*	–	–	–	–	–
Number of retired members	194	159	144	138	347
Period July 1, 1998 through June 30, 1999					
Average monthly benefit	$235	$526	$766	$1,331	$1,780
Average final average salary*	–	–	–	–	–
Number of retired members	157	160	120	121	309
Period July 1, 1997 through June 30, 1998					
Average monthly benefit	$172	$418	$607	$1,037	$1,452
Average final average salary*	–	–	–	–	–
Number of retired members	130	117	99	60	149
Period July 1, 1996 through June 30, 1997					
Average monthly benefit	$164	$371	$618	$895	$1,424
Average final average salary*	–	–	–	–	–
Number of retired members	84	132	83	71	141

** The average for the final average salary by years of service are not available for periods before July 1, 2004.*

Years of Service						
25-29	30-34	35-39	40+	All Fiscal Year Retirees	Average Age For All Fiscal Year Retirees	Average Service For All Fiscal Year Retires
					age 59	28 years
$3,372	$4,728	$5,161	$5,600	$3,789		
$68,902	$77,920	$82,558	$85,399	$70,764		
404	1,205	1,005	84	3,791		
					age 58	30 years
$3,467	$4,700	$5,264	$5,270	$4,070		
$70,637	$76,980	$84,774	$81,371	$73,078		
737	2,992	1,637	123	6,908		
					age 58	30 years
$3,227	$4,546	$5,056	$5,206	$3,892		
–	–	–	–	$70,359		
510	1,988	1,184	95	4,817		
					age 58	29 years
$3,147	$4,281	$4,628	$4,598	$3,534		
–	–	–	–	$62,728		
508	1,995	1,144	81	4,915		
					age 59	29 years
$3,080	$4,301	$4,543	$4,700	$3,512		
–	–	–	–	$61,714		
481	2,117	831	74	4,582		
					age 59	28 years
$2,857	$4,113	$4,436	$4,198	$3,250		
–	–	–	–	$58,144		
442	1,677	762	67	4,043		
					age 59	28 years
$2,767	$3,850	$4,236	$3,991	$3,053		
–	–	–	–	$55,634		
404	1,348	751	71	3,556		
					age 60`	27 years
$2,680	$3,627	$4,090	$3,842	$2,772		
–	–	–	–	$52,277		
395	737	623	60	2,682		
					age 60	23 years
$2,260	$2,965	$3,797	$4,041	$2,012		
–	–	–	–	$42,595		
131	141	249	47	1,123		
					age 61	24 years
$1,938	$2,844	$3,696	$3,795	$1,960		
–	–	–	–	$40,977		
134	104	260	45	1,054		

Principal Participating Employers

Participating Employer	City	Year ended June 30, 2006: Rank	Year ended June 30, 2006: Covered Employees (including subs)	Year ended June 30, 2006: Percentage of Total TRS Membership	Year Ended June 30, 1997: Rank	Year Ended June 30, 1997: Covered Employees (including subs)	Year Ended June 30, 1997: Percentage of Total TRS Membership
School District U46	Elgin	1	3,024	1.9%	1 (tie)	2,475	1.8%
Indian Prairie CUSD #204	Naperville	2	2,561	1.6	7	1,359	1.0
Rockford School District #205	Rockford	3	2,280	1.4	1 (tie)	2,475	1.8
Plainfield School District #202	Plainfield	4	2,095	1.3	-	-	-
Naperville CUSD #203	Naperville	5	1,714	1.1	5	1,524	1.1
Peoria School District #150	Peoria	6	1,569	1.0	4	1,571	1.2
Springfield School District #186	Springfield	7	1,428	0.9	3	1,605	1.2
Schaumburg CCSD #54	Schaumberg	8	1,418	0.9	6	1,469	1.1
Valley View CUSD #365	Romeoville	9	1,414	0.9	-	-	-
Community USD #300	Carpentersville	10	1,406	0.9	-	-	-
Community USD #200	Wheaton	-	-	-	8	1,289	0.9
Decatur School District #61	Decatur	-	-	-	9	1,227	0.9
Township High School District #214	Arlington Heights	-	-	-	10	1,174	0.8
Total, largest 10 employers			**18,909**	**11.9%**		**16,168**	**11.8%**
All other (1,022 employers in 2006; 1,061 employers in 1997)*			**140,363**	**88.1%**		**120,436**	**88.2%**
Total (1,032 employers in 2006; 1,071 employers in 1997)			**159,272**	**100.0%**		**136,604**	**100.0%**

** For the year ended June 30, 2006, "all other" consisted of :*

Type	Number of employers	Total covered employees
Local school districts	861	132,450
Special districts	137	7,243
State agencies	24	670
Total	**1,022**	**140,363**

In Memoriam

Marjorie Cashin Shea
1922–2005

The Teachers' Retirement System and staff honor the memory of Marjorie Cashin Shea, a member of the TRS Board of Trustees from 1988 to 1992.

Mrs. Shea was a retired teacher who taught in the public schools of central Illinois for 28 years. While serving on the board, she focused on improving state pension funding. Mrs. Shea worked tirelessly with the Illinois Retired Teachers Association and devoted special attention to the benefits of TRS's oldest annuitants.

The board and staff extend sympathy to her husband Lawrence and their children.