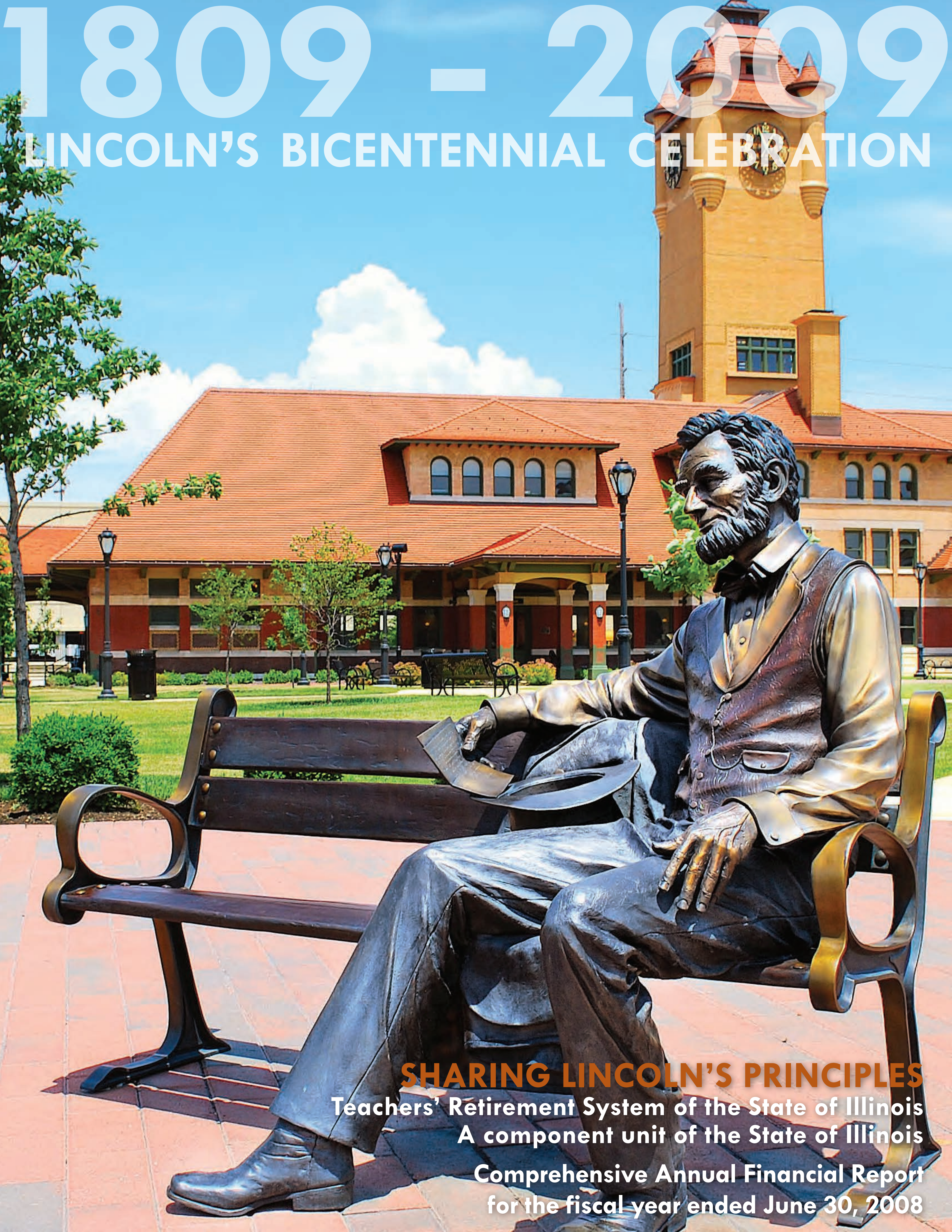


1809 - 2009
LINCOLN'S BICENTENNIAL CELEBRATION

SHARING LINCOLN'S PRINCIPLES
Teachers' Retirement System of the State of Illinois
A component unit of the State of Illinois

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2008

Statement of Purpose

Retirement Security for Illinois Educators

Mission Statement

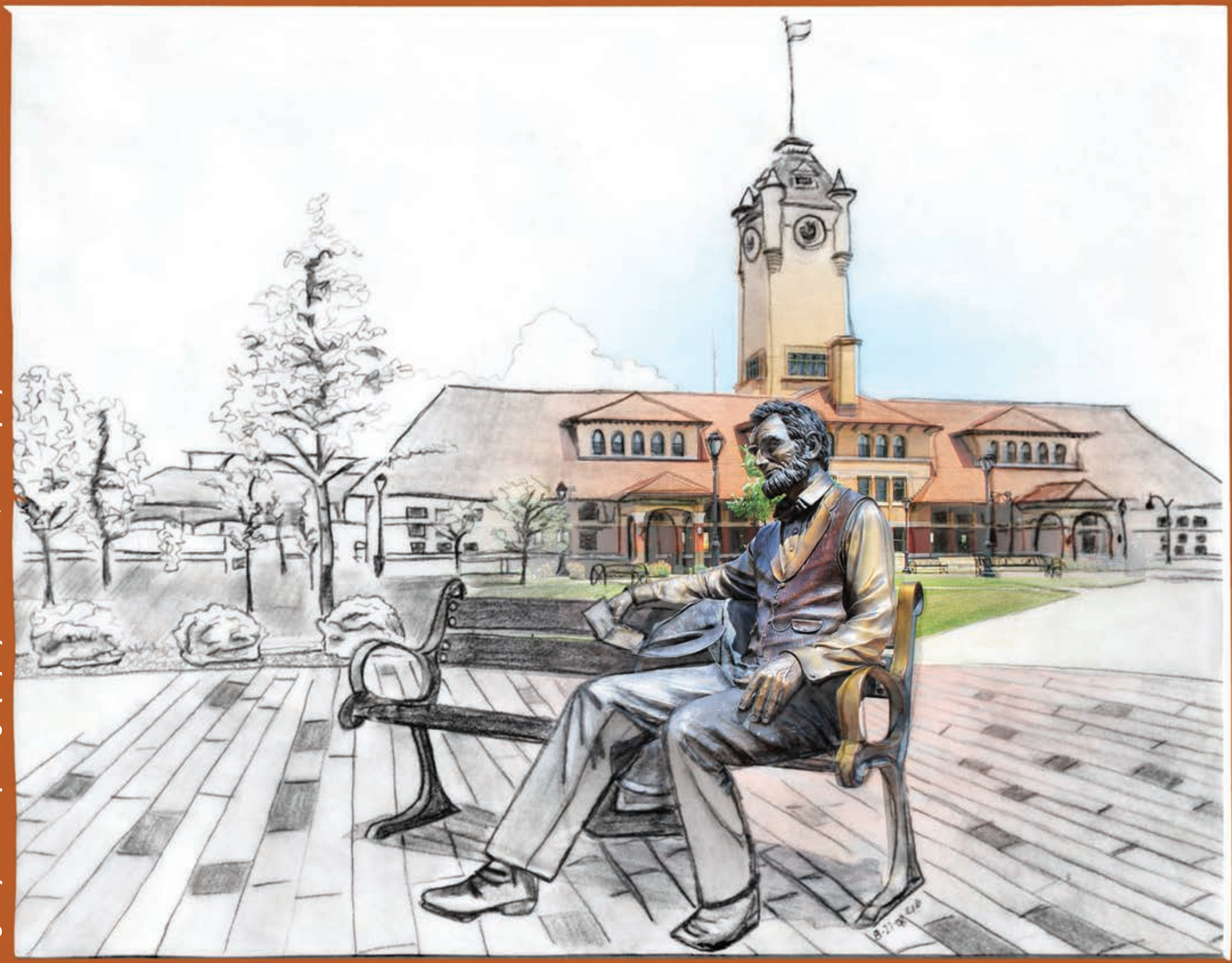
Safeguard benefit security through committed staff, engaged members, and responsible funding.

Fiscal Year Highlights

	2008	2007
Active contributing members	165,572	160,317
Inactive noncontributing members	98,550	94,879
Benefit recipients	91,462	89,236
Total membership	355,584	344,432
Actuarial accrued liability (AAL)	$68,632,367,000	$65,648,395,000
Less net assets held in trust for pension benefits	38,430,723,000	41,909,318,000
Unfunded actuarial accrued liability (UAAL)	$30,201,644,000	$23,739,077,000
Funded ratio (actuarial value of assets/AAL)	56.0%	63.8%
Total fund investment return (loss), net of fees	(5.0%)	19.2%
Expenses		
Benefits paid	$3,423,981,732	$3,111,752,675
Refunds paid	60,285,624	59,731,909
Administrative expenses	16,613,364	15,246,203
Total	$3,500,880,720	$3,186,730,787
Income		
Member contributions	$865,400,168	$826,249,007
Employer contributions	130,673,629	115,915,040
State of Illinois contributions	1,041,114,825	737,670,628
Total investment income (loss)	(2,014,902,366)	6,831,324,436
Total	$22,286,256	$8,511,159,111

Cover photography by Jael Bietsch, TRS employee.

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2008



Digitally-altered photography by Jael Bietsch, TRS employee.

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

This report was prepared by the TRS Accounting, Investments, Research, and Communications Departments.

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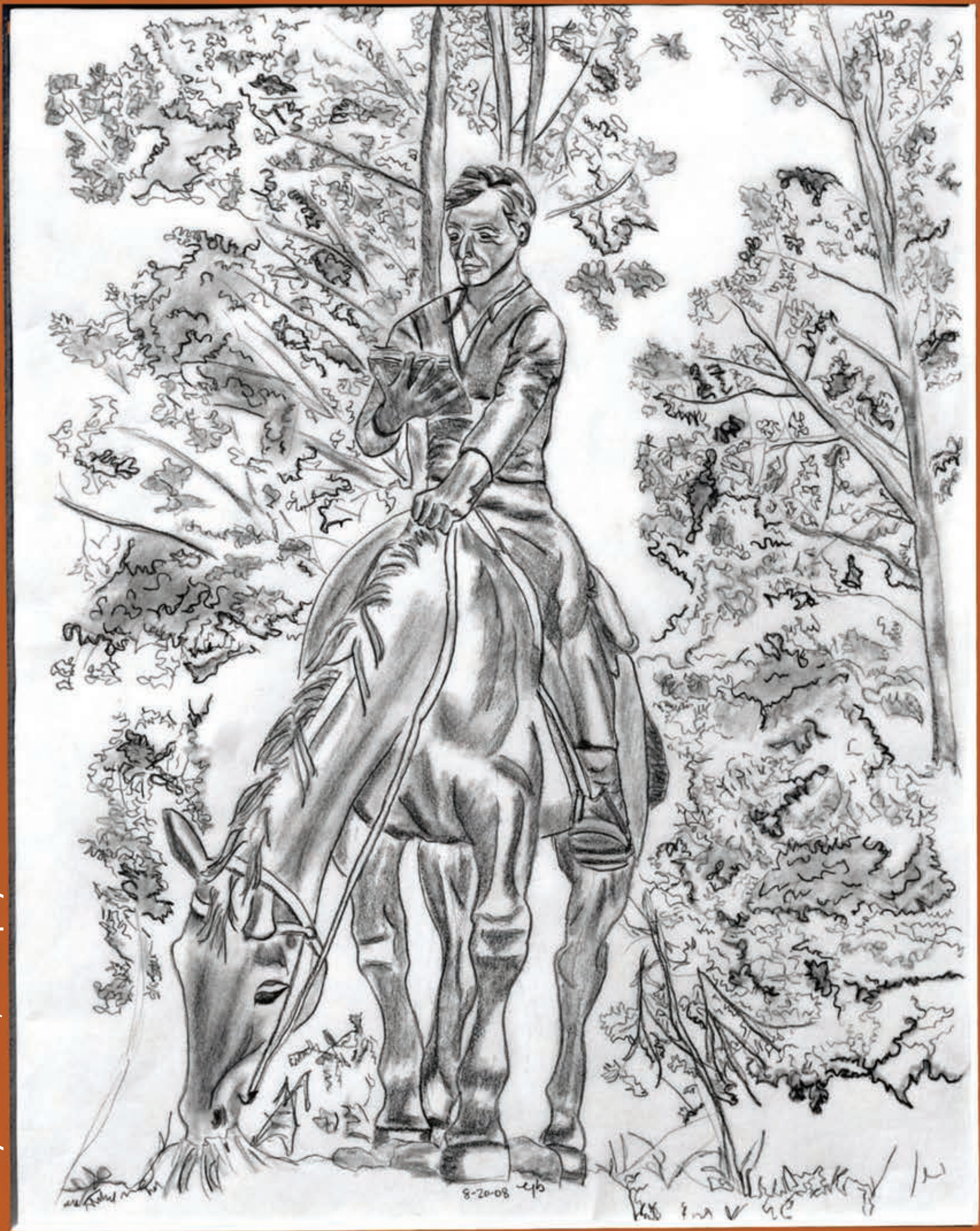
INTRODUCTION



Pencil by Jael Bietsch, TRS employee.

"A capacity and taste for reading gives access to whatever has been discovered by others."


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, 2007
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.
President
Executive Director

Retirement Security for Illinois Educators

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

Letter of Transmittal

December 10, 2008

To the Board of Trustees and TRS Members:

We are pleased to present the *Comprehensive Annual Financial Report (CAFR)* for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2008. This year's report commemorates Abraham Lincoln and the upcoming bicentennial of his birthday in February 2009.

Lincoln said in his first political announcement on March 9, 1832 at New Salem:

"Upon the subject of education... I can only say that I view it as the most important subject which we as a people can be engaged in. That everyone may receive at least a moderate education appears to be an objective of vital importance."

TRS may share a "hometown" with this great man, but our members share Lincoln's values in their professions. His desire for an education is widely published. As a man who had less than one year of formal education, Lincoln would be appreciative of the extensive public education system in Illinois. We believe that he would also recognize how fortunate today's students are to have dedicated teachers as instructors and mentors.

As the "Great Emancipator," Lincoln's leadership has made him an iconic role model for generations of Americans. As present role models, teachers have the powerful ability to be mentors and leaders to students who will contribute to our upcoming society. Our members' influence in the classroom will, in part, be measured by their students' future successes.

The pencil and graphite artwork in this year's report features a historical feel. Two TRS employees, Julie Dailey and Jael Bietsch, created the Lincoln artwork that appears throughout the report. Both were inspired by visiting the Lincoln sites. In displaying the artistic talents of our staff, we also are consciously depicting Lincoln throughout his life in Illinois. We hope you find this year's theme both educational and inspirational.

While commemorating Lincoln, we are also complying with state law that requires the annual publication of this report. It is intended to provide financial, investment, actuarial, and statistical information in a single publication. TRS management and staff are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. A framework of internal controls is maintained to establish reasonable assurance that assets are safeguarded, transactions are accurately executed, and financial statements are fairly presented.

Profile of TRS

TRS was established by the State of Illinois on July 1, 1939, to provide retirement, disability, and death benefits to teachers employed by Illinois public elementary and secondary schools outside the city of Chicago. An 11-member Board of Trustees governs TRS. The Board includes the state superintendent of education, four members of TRS who are elected by active members, four representatives of the public who are appointed by the governor, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the detailed administration of TRS.

The annual budget for TRS administrative expenses is prepared by staff and approved by the Board of Trustees. The TRS annual operating budget request is prepared in conjunction with a review of the long-range strategic plan.

Financial Information

Our staff issues a *CAFR* within six months of the close of each fiscal year. The report contains basic financial statements presented in conformity with generally accepted accounting principles (GAAP) within guidelines established by the Governmental Accounting Standards Board (GASB).

A system of internal controls helps us monitor and safeguard assets and promote efficient operations. 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.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Revenues and Expenses

The three sources of 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 shown in parentheses () throughout this report.

Revenues ($ millions)

			Increase/(Decrease)	
Source	**2008**	**2007**	**Amount**	**% Change**
Member contributions	$865	$826	$39	4.7%
State of Illinois	1,041	738	303	41.1
Employer contributions	131	116	15	12.9
Total investment income (loss)	(2,015)	6,831	(8,846)	(129.5)
Total	**$22**	**$8,511**	**($8,489)**	**(99.7%)**

Expenses ($ millions)

			Increase/(Decrease)	
Source	**2008**	**2007**	**Amount**	**% Change**
Benefits payments	$3,424	$3,112	$312	10.0%
Refunds	60	60	-	-
Administrative/Other	17	15	2	13.3
Total	**$3,501**	**$3,187**	**$314**	**9.9%**

Despite recent turmoil in the financial markets, the TRS Board of Trustees and staff believe the overall investment strategy remains sound. In the future, we will continue to prudently invest for the benefit of our membership and for the long-term success of the system.

Investments

TRS investments declined 4.5 percent gross of fees for the fiscal year ending June 30, 2008 as the United States and global markets entered a very difficult and prolonged period of economic uncertainty. Assets fell to $38.4 billion, down from $41.9 billion. The fund also modestly underperformed its performance benchmark, which declined 4.1 percent during the one-year period. In light of the changing economic environment, TRS staff and the Board of Trustees remained diligent in the prudent positioning of the fund for long-term rebalancing over the course of the fiscal year.

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

Funding

During the year ended June 30, 2008, the funded ratio of the Teachers' Retirement System decreased from 63.8 percent to 56.0 percent. The actuarial value of assets at year end (net assets at market value) was $38.4 billion and the actuarial accrued liability was $68.6 billion. The decline in the funded ratio was primarily a result of investment losses and asset sales which were offset slightly by actuarial gains during the year.

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

Major Initiatives

In 2006, TRS Board and staff members composed the following TRS mission statement "*Safeguard benefit security through committed staff, engaged members, and responsible funding.*" This statement reminds us of our commitment to make decisions that benefit and stabilize the retirement system. In the future, we will continue to prudently invest for the gain of our membership and attempt to improve our funded ratio.

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, 2007. 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 19 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

Acknowledgements

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 of determining responsible stewardship of the assets contributed by members and their employers.

This report is made available to members of the General Assembly, participating employers, and to other interested persons by request. The participating employers of TRS form a link between TRS and its members. Their cooperation contributes significantly to our success. We hope all recipients of this report find it informative and useful. This report is also available to the general public on our Web site, **trs.illinois.gov**.

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

Jon Bauman
Executive Director

Jana Bergschneider, CPA
Director of Administration

Pencil by Jael Bietsch, TRS employee.

Board of Trustees

As of December 1, 2008

Organizational Structure

Executive Staff Members as of December 1, 2008

Board of Trustees

Jon Bauman
Executive Director

Jana Bergschneider, CPA
Director of Administration

Kathleen Farney, CEBS
Director of Research

Eva Goltermann
Public Information Officer

Tom Gray
General Counsel

Gina Larkin
Director of Human Resources

Kathy Pearce
Communications Manager

Stan Rupnik, CFA
Chief Investment Officer

Sally Sherman
Director of Member Services

Stacy Smith, CPA
Director of Internal Audit

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, L.L.P.
Decatur, Illinois

Information Systems

E Loyalty Corporation
Chicago, Illinois

Sentinel Technologies
Chicago, Illinois

Systems Evaluation & Analysis
Springfield, Illinois

Hupp Information Technologies
Springfield, Illinois

SunGard Availability Services
Chicago, Illinois

VeriSign, Inc.
Toronto, Ontario

Investment Consultants

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

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

Risk Resources
(real estate insurance)
Elmhurst, Illinois

PCG Asset Management L.L.C.
(private equity consultant)
La Jolla, California

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

External Legal Counsel

Cavanagh & O'Hara
Springfield, Illinois

Holland & Knight L.L.P.
Chicago, Illinois

Loewenstein Hagen & Smith
Springfield, Illinois

Sorling Northrup Hanna Cullen
Springfield, Illinois

Heyl Royster Voelker & Allen
Springfield, Illinois

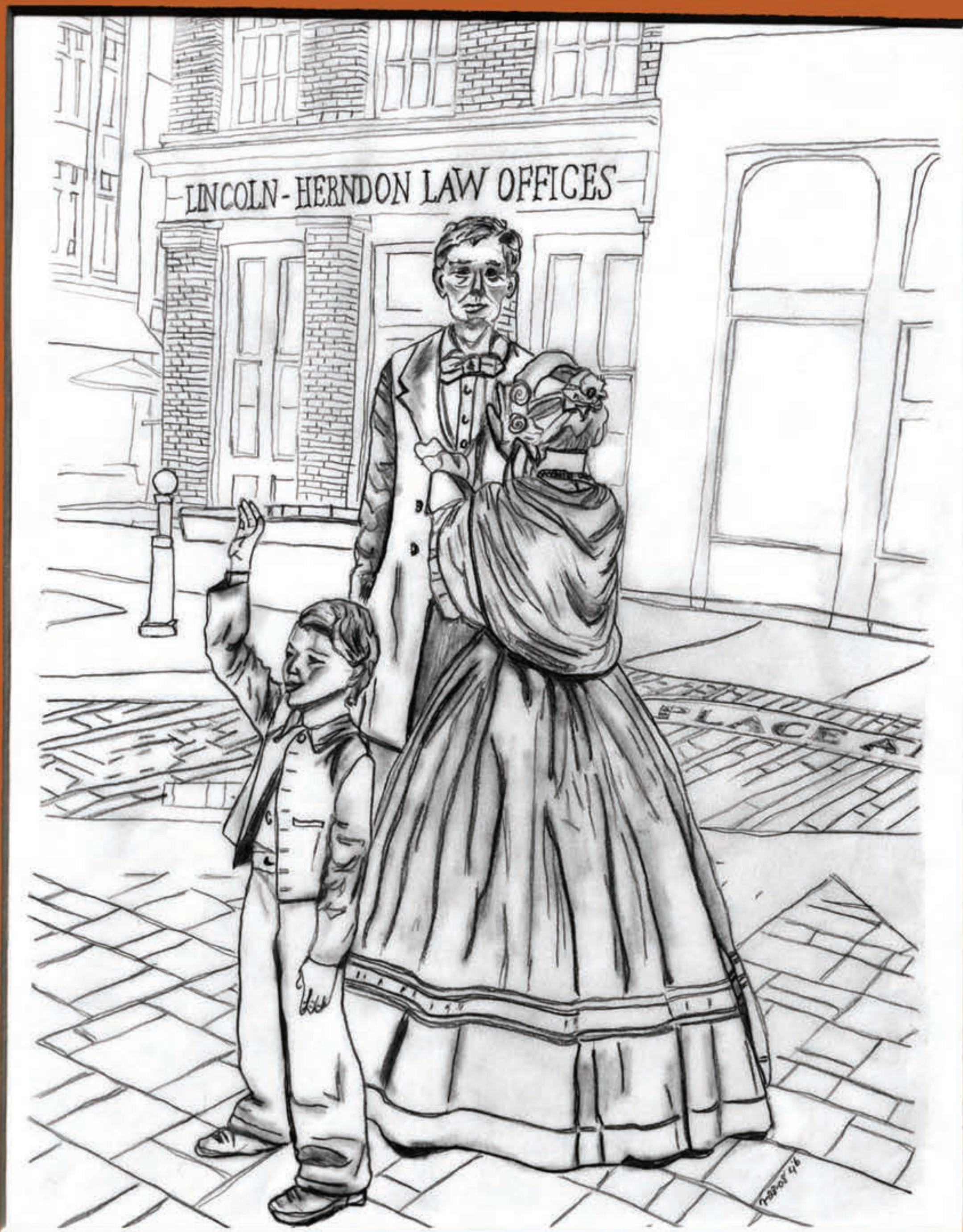
Howard & Howard
Peoria, Illinois

Mayer Brown Rowe & Maw
Chicago, Illinois

Master Trustee

The Northern Trust Company
Chicago, Illinois

FINANCIAL



Pencil by Jael Bietsch, TRS employee.

"It often requires more courage to dare to do right than to fear to do wrong."

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, 2008 and 2007, 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, 2008 and 2007, 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.

As discussed more fully in Note G, the System experienced a significant decline in the fair market value of investments subsequent to June 30, 2008. The information presented in Note G has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

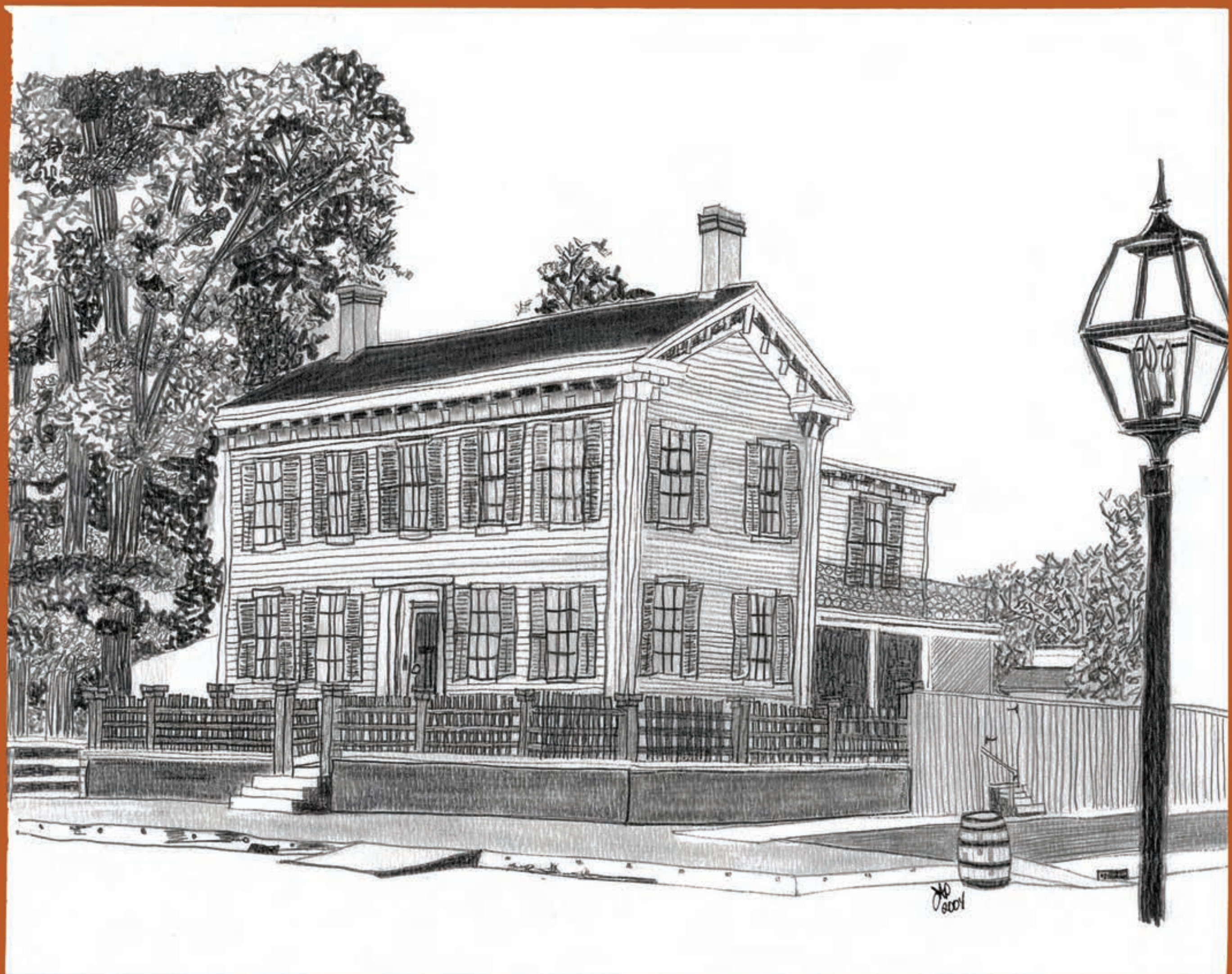
In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated December 8, 2008 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 employers 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, investments, 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, 2008 and 2007, taken as a whole. The introduction, investments, 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

December 8, 2008



Pencil and graphite by Julie Dailey, TRS employee.

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, 2008. 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, 2008 were $38.4 billion.
- During FY08, TRS net assets decreased $3.5 billion.
- Contributions from members, employers, and the State of Illinois were $2,037 million, an increase of $357 million or 21.3 percent for the fiscal year.
- Total investment loss was $2,015 million, compared to investment income of $6,831 million in FY07, a difference of $8,846 million.
- Benefits and refunds paid to members and annuitants were $3,484 million, an increase of $312 million or 9.9 percent compared to FY07.
- Total actuarial accrued liability was $68.6 billion at June 30, 2008.
- The unfunded actuarial accrued liability increased from $23.7 billion at June 30, 2007 to $30.2 billion at June 30, 2008. The funded ratio decreased from 63.8 percent at June 30, 2007 to 56.0 percent at June 30, 2008.

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 for the pension system and reflects the financial position of the Teachers' Retirement System as of June 30, 2008.

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 pension system's financial condition. The following are condensed comparative financial statements of the TRS pension trust fund.

Condensed Comparative Statement of Plan Net Assets as of June 30

	2008	Percentage Change	2007	Percentage Change	2006
Cash	$3,668,043	3.4%	$3,548,548	(8.2%)	$3,867,280
Receivables and prepaid expenses	404,110,007	4.9	385,352,096	9.5	352,050,422
Investments	39,209,046,996	(6.5)	41,953,080,943	12.4	37,336,880,818
Invested securities lending collateral	4,445,553,283	(11.4)	5,020,184,465	14.1	4,401,016,409
Capital assets	2,548,814	6.6	2,391,619	2.5	2,333,759
Total assets	**44,064,927,143**	**(7.0)**	**47,364,557,671**	**12.5**	**42,096,148,688**
Total liabilities	**5,634,203,856**	**3.3**	**5,455,239,920**	**(1.0)**	**5,511,259,261**
Net assets	**$38,430,723,287**	**(8.3%)**	**$41,909,317,751**	**14.6%**	**$36,584,889,427**

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

	2008	Percentage Change	2007	Percentage Change	2006
Contributions	$2,037,188,622	21.3%	$1,679,834,675	15.3%	$1,456,882,200
Total investment income (loss)	(2,014,902,366)	(129.5)	6,831,324,436	71.1	3,993,289,880
Total additions	22,286,256	(99.7)	8,511,159,111	56.2	5,450,172,080
Benefits and refunds	3,484,267,356	9.9	3,171,484,584	8.1	2,935,197,760
Administrative expenses	16,613,364	9.0	15,246,203	(0.4)	15,303,370
Total deductions	3,500,880,720	9.9	3,186,730,787	8.0	2,950,501,130
Net increase (decrease) in net assets	**(3,478,594,464)**		**5,324,428,324**		**2,499,670,950**
Net assets beginning of year	**41,909,317,751**	**14.6**	**36,584,889,427**	**7.3**	**34,085,218,477**
Net assets end of year	**$38,430,723,287**	**(8.3%)**	**$41,909,317,751**	**14.6%**	**$36,584,889,427**

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 $38.4 and $41.9 billion at June 30, 2008 and 2007, respectively. Net assets decreased $3.5 billion in FY08 and increased $5.3 billion in FY07.

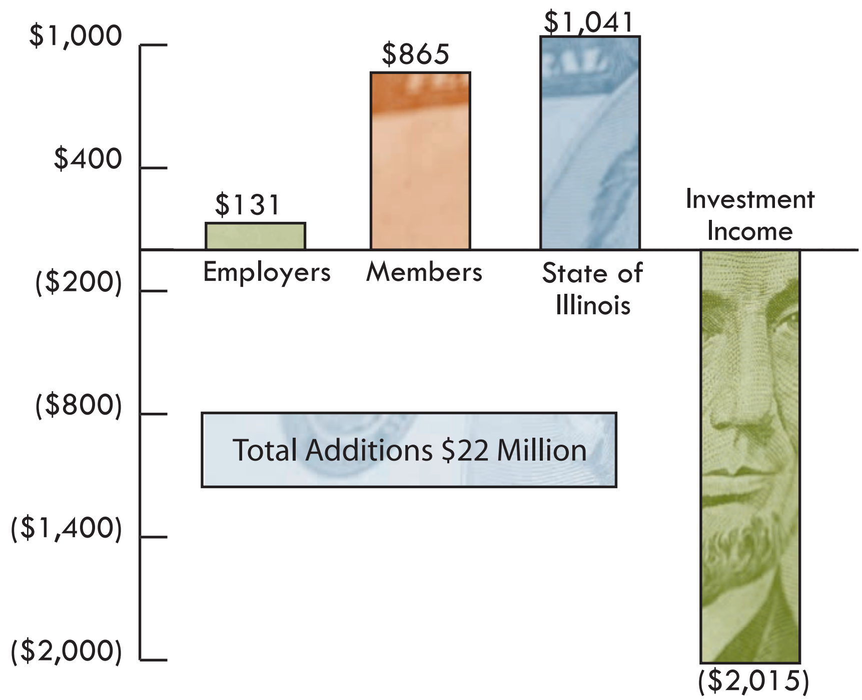
Contributions

Contributions increased $357 million and $223 million during FY08 and FY07, respectively. During FY08, member contributions increased $39 million and employer contributions from school districts increased $15 million. During FY07, member contributions increased $27 million and employer contributions from school districts decreased $8 million. The majority of the increase in the employer contributions from school districts in FY08 is attributable to an increase in the federal funds rate and the additional contributions received for salary increases in excess of 6 percent and sick leave granted above the normal annual allotment.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois increased $303 million in FY08 compared to an increase of $204 million in FY07. The increase in FY08 occurred because TRS received the full contribution rate required by state statute.

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 enacted when pension obligation bonds were issued in 2003. In FY06 and FY07, state contributions were 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. Beginning in FY08, state contributions increased according to the phase-in schedule to reach a level percent of payroll by FY10. The overall goal of 90 percent funding in the year 2045 is unchanged.

Revenues by Type for the Year Ended June 30, 2008
$ in millions



Investments

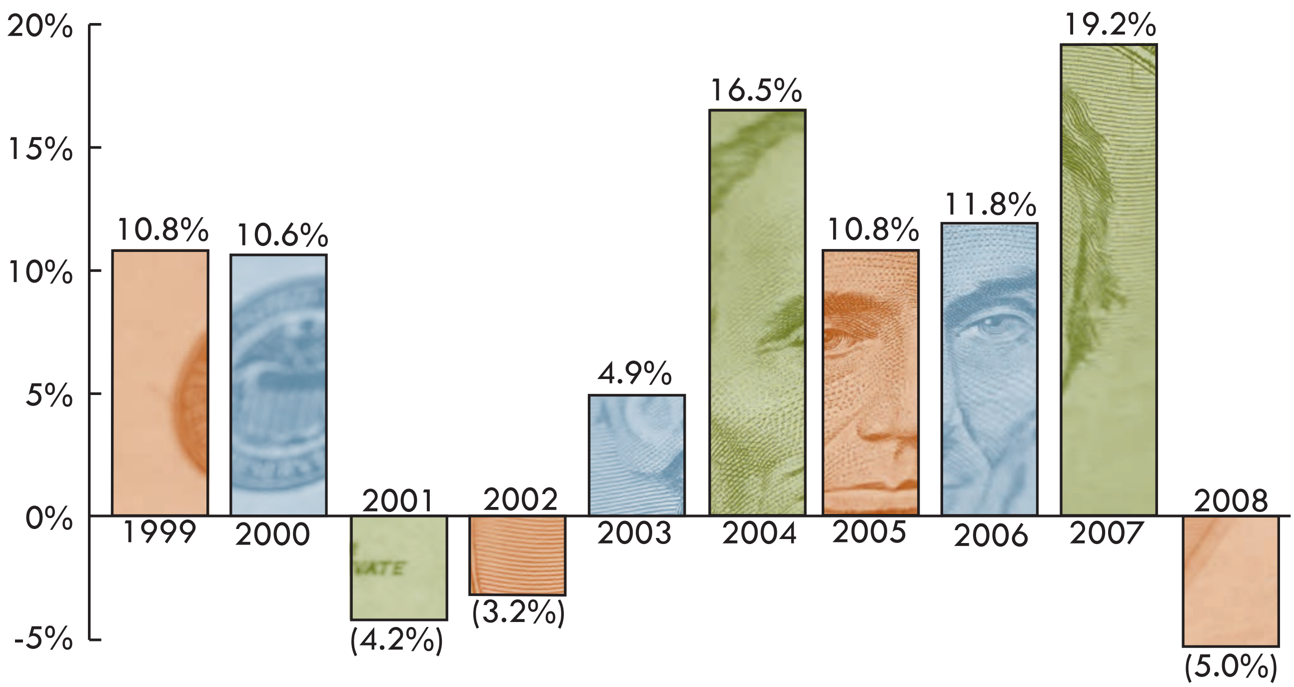
The TRS trust fund is invested according to law under the "prudent person rule" requiring investments to be managed solely in the interest of fund participants and beneficiaries. Principles guiding the investment of funds include preserving the long-term principal of the trust fund and maximizing total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

Total investments decreased $2.8 billion from $42.0 billion at June 30, 2007 to $39.2 billion at June 30, 2008.

The TRS investment portfolio had a challenging year as global economies entered a period of slowing growth, rising inflation, and credit market uncertainty. TRS investments fell 5.0 percent, net of fees, for FY08. The loss follows FY07's very strong return of 19.2 percent, net of fees. In particular, public market investments in both the United States and abroad began broad declines during the year falling 15.1 percent and 7.7 percent, respectively. Performance of the new real return asset class helped to offset losses. Real return assets, which represent assets focused on the impact of inflation, were added to the portfolio at the beginning of the fiscal year in an effort to further diversify and reduce the risk of the portfolio. With the onset of inflationary pressures in FY08, the asset class produced a 20.5 percent return for TRS.

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. Subsequent to June 30, 2008, the overall financial marketplace has experienced unprecedented declines due to the credit market turmoil, slowing global growth and investor uncertainty. TRS expects the market volatility to have a significant impact to the portfolio value during FY09.

Annual Rate of Return (net of investment expenses)



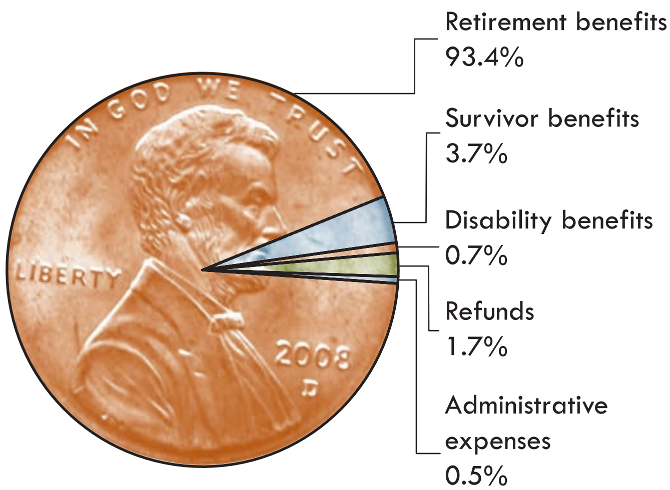
The annual rate of return is an indication of TRS investment performance and is provided by the TRS Master Trustee.

Benefits and Refunds

Retirement, survivor, and disability benefit payments increased $312 and $235 million during FY08 and FY07, respectively. During FY08, benefit payments increased from $3,112 million with 89,236 recipients during FY07 to $3,424 million with 91,462 recipients. The overall increase in benefit payments is due to an increase in retirement benefits and number of retirees. 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 79,728 as of June 30, 2007 to 81,773 as of June 30, 2008.

Refunds of contributions remained constant in FY08 and increased $2 million during FY07.

Expenses by Type for the Year Ended June 30, 2008

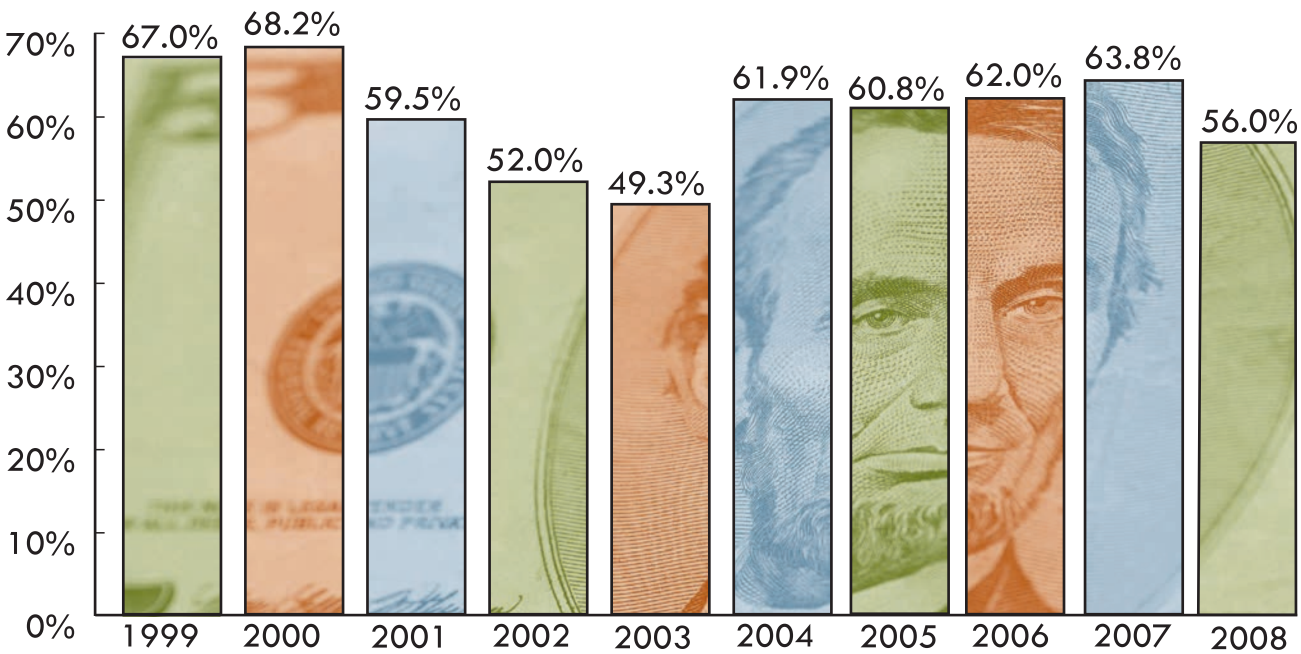


Actuarial

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 but not yet paid. The actuarial accrued liability increased $3.0 and $6.6 billion during FY08 and FY07, respectively, to $68.6 billion at June 30, 2008 and $65.6 billion at June 30, 2007. The unfunded liability is the present value of future benefits payable that are not covered by assets as of the valuation date but not yet paid out. The unfunded liability increased $6.5 billion during FY08 to $30.2 billion at June 30, 2008 compared to an increase of $1.3 billion during FY07 to $23.7 billion at June 30, 2007. The funded ratio reflects the percentage of the accrued liability covered by net assets at market value. The funded ratio decreased to 56.0 percent at June 30, 2008 from 63.8 percent at June 30, 2007.

To comply with the Illinois Pension Code, an actuarial experience analysis is performed once every five years to review the actuarial assumptions. An experience analysis was conducted in 2007 and the results were reflected in the June 30, 2007 actuarial valuation. The net effect of the experience analysis was a $2.4 billion increase in accrued liability.

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

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 was 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, 2008, and 2007

	2008	2007
Assets		
Cash	$3,668,043	$3,548,548
Receivables and prepaid expenses		
Member payroll deduction	47,611,856	44,453,137
Member contributions	49,508,062	39,064,004
Employer contributions	15,509,633	22,560,035
State of Illinois	-	168,740
Investment income	286,808,705	278,001,913
Prepaid expenses	4,671,751	1,104,267
Total receivables and prepaid expenses	404,110,007	385,352,096
Investments, at fair value		
Fixed income	8,970,063,123	10,140,998,668
Equities	19,343,733,243	23,487,980,117
Real estate	4,794,916,293	4,693,519,131
Short-term investments	1,043,222,891	1,196,341,853
Private equity investments	2,399,224,145	1,894,311,762
Real return	2,118,735,890	-
Absolute return	504,224,094	490,000,000
Foreign currency	60,605,839	49,081,933
Derivatives	(25,678,522)	847,479
Total investments	39,209,046,996	41,953,080,943
Collateral from securities lending	4,445,553,283	5,020,184,465
Property and equipment, at cost, net of accumulated depreciation of $5,305,018 and $5,245,254 in 2008 and 2007, respectively	2,548,814	2,391,619
Total assets	**44,064,927,143**	**47,364,557,671**
Liabilities		
Benefits and refunds payable	3,996,767	7,664,796
Administrative and investment expenses payable	148,806,825	134,210,939
Payable to brokers for unsettled trades, net	1,035,846,981	293,179,720
Securities lending transactions	4,445,553,283	5,020,184,465
Total liabilities	**5,634,203,856**	**5,455,239,920**
Net assets held in trust for pension benefits	**$38,430,723,287**	**$41,909,317,751**

(A schedule of funding progress is presented on page 47.)

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, 2008, and 2007

	2008	2007
Additions		
Contributions		
Members	$865,400,168	$826,249,007
State of Illinois	1,041,114,825	737,670,628
Employers		
Early retirement	35,296,963	34,759,550
Federal funds	42,381,001	32,469,278
2.2 benefit formula	49,673,988	47,448,169
Excess salary/sick leave	3,321,677	1,238,043
Total contributions	2,037,188,622	1,679,834,675
Investment income		
From investment activities		
Net appreciation (depreciation) in fair value	(3,235,738,717)	5,597,334,135
Interest	488,432,322	582,700,572
Real estate operating income, net	387,493,400	270,234,053
Dividends	451,129,219	424,294,335
Private equity income	40,935,894	92,106,866
Commodities income	5,080,645	-
Other investment income	2,242,175	1,755,249
Investment activity income (loss)	(1,860,425,062)	6,968,425,210
Less investment expense	(188,915,012)	(150,925,919)
Net investment activity income (loss)	(2,049,340,074)	6,817,499,291
From securities lending activities		
Securities lending income	200,288,427	192,912,271
Securities lending management fees	(6,073,425)	(2,437,458)
Securities lending borrower rebates	(159,777,294)	(176,649,668)
Net securities lending activity income	34,437,708	13,825,145
Total investment income (loss)	(2,014,902,366)	6,831,324,436
Total additions	**22,286,256**	**8,511,159,111**
Deductions		
Retirement benefits	3,268,108,083	2,965,355,617
Survivor benefits	130,368,599	121,822,272
Disability benefits	25,505,050	24,574,786
Refunds	60,285,624	59,731,909
Administrative expenses	16,613,364	15,246,203
Total deductions	**3,500,880,720**	**3,186,730,787**
Net increase (decrease)	**(3,478,594,464)**	**5,324,428,324**
Net assets held in trust for pension benefits		
Beginning of year	41,909,317,751	36,584,889,427
End of year	**$38,430,723,287**	**$41,909,317,751**

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 the 2.2 formula increase, 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 Status and Funding Progress" on page 27.

Number of Employers (as of June 30)

	2008	2007
Local school districts	867	870
Special districts	138	137
State agencies	23	24
Total	**1,028**	**1,031**

3. Members

TRS Membership (as of June 30)

	2008	2007
Retirees and beneficiaries receiving benefits	91,462	89,236
Inactive members entitled to but not yet receiving benefits	98,550	94,879
Active members	165,572	160,317
Total	**355,584**	**344,432**

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 at least 20 and 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.

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 Status and Funding Progress

The funded status of the plan as of June 30, 2008, the most recent actuarial valuation date, follows. The actuarial value of assets is rounded to the nearest thousand to be consistent with actuarial disclosures.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Annual Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
6/30/08	$38,430,723,000	$68,632,367,000	56.0%	$30,201,644,000	$8,521,717,000	354.4%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation follows.

Valuation Date	**June 30, 2008**
Actuarial cost method:	Projected unit credit
Amortization method:	
a) For GASB Statement #25 reporting purposes	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
Remaining amortization period:	
a) For GASB Statement #25 reporting purposes	30 years, open
b) Per state statute	37 years, closed
Asset valuation method:	Fair value
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	6.0% (at age 69) to 11.1% (at age 20); composite 7.0%; includes inflation and real wage growth (productivity) assumptions
Group size growth rate	0%
Assumed inflation rate	3.5%
Real wage growth (productivity)	1.2%
Post-retirement increase	3% compounded
Mortality table	1995 Buck Mortality Tables projected 16 years for males and one year for females. For beneficiaries, projected one year for both males and females, then rated forward two years for males and forward one year for females. Projected mortality improvements using Society of Actuaries Mortality Projection Scale AA are phased in over four years, beginning July 1, 2007.

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.

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 were 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. Beginning in FY08, state contributions increased according to the ramp schedule to reach a level percent of payroll by FY10. 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 were specified by statute rather than actuarial calculations. The FY08 state appropriation was based on the statutory formula.

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 these estimates.

3. New Accounting Pronouncements

In May 2007, GASB issued Statement No. 50, "Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27." This statement modifies and enhances note disclosure and required supplementary information (RSI) by pension plans and employers that provide pension benefits. The requirements of this statement are effective for periods beginning after June 15, 2007. TRS has implemented GASB 50 in the year ending June 30, 2008.

In June 2007, GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement establishes accounting and financial reporting requirements for intangible assets to improve comparability of such assets among state and local governments. The requirements of this statement are effective for periods beginning after June 15, 2009.

In June 2008, GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this statement are effective for periods beginning after June 15, 2009.

4. Method Used to Value Investments

TRS reports investments at fair value. Fair value for publically traded equities, commodities, and real return funds 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 directly-owned real estate investments is determined by appraisals. Fair value for private equity investments, absolute return funds, non-publically traded commodities, real return funds and partnership interests in real estate funds is determined by TRS staff and the general partners or investment managers in accordance with the provisions in the individual agreements. These agreements also require an independent audit be performed on an annual basis.

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 employment is terminated, TRS employees are entitled to receive compensation for all accrued 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, 2008, and 2007 totaled $1,396,978 and $1,397,845, 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 were allowed to 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.

TRS had outstanding balances in payroll deduction agreements totalling $47,611,856 and $44,453,137 as of June 30, 2008, and 2007 respectively.

TRS began phasing out the Payroll Deduction Program in FY08. Members were allowed to enter into new agreements through May 15, 2008. After that date, no new elections were accepted. The Payroll Deduction Program will be discontinued on June 30, 2010. Until that time, TRS will accept payments on existing agreements.

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 has a formal policy 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 $3,853,445 and $3,668,043 at June 30, 2008, and $3,147,575 and $3,548,548 at June 30, 2007. Of the bank balance, $3,492,263 and $2,956,389 were on deposit with the state treasurer at June 30, 2008, and 2007, 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 $361,182 and $191,186 at June 30, 2008 and 2007, respectively, are amounts TRS deposited and received credit which TRS had 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, and commercial paper. 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 $44,161,315 and $40,519,072 at June 30, 2008 and June 30, 2007, 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 has a formal policy to address custodial credit risk.

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. Most guidelines allow managers to hold bonds rated Caa2 or better. 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, 2008, 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	Commingled Funds	Total
Aaa	$1,421,159,960	$651,708,909	$2,680,497,930	-	$4,753,366,799
Aa1	62,855,933	40,202,282	3,762,496	-	106,820,711
Aa2	211,721,470	68,198,876	4,443,082	-	284,363,428
Aa3	267,124,545	119,799,910	5,668,753	-	392,593,208
A1	304,796,378	32,620,918	-	-	337,417,296
A2	242,993,407	108,656,145	4,581,722	-	356,231,274
A3	139,924,060	46,688,073	-	-	186,612,133
Baa1	173,208,129	96,021,620	-	-	269,229,749
Baa2	275,771,169	53,231,469	-	-	329,002,638
Baa3	199,529,720	6,835,588	-	-	206,365,308
Ba1	42,736,286	17,640,181	-	-	60,376,467
Ba2	44,655,598	3,276,730	-	39,403,736	87,336,064
Ba3	27,067,511	16,759,342	-	-	43,826,853
B1	55,516,320	336,506	-	-	55,852,826
B2	15,496,622	2,649,882	-	42,520,287	60,666,791
B3	36,654,737	14,890,098	-	-	51,544,835
Caa1	28,143,362	-	-	-	28,143,362
Caa2	1,723,330	-	-	-	1,723,330
Caa3	101,520	-	-	-	101,520
Ca	10,451,500	-	-	-	10,451,500
C	4,017,600	-	-	-	4,017,600
Not Available	10,408,921	4,792,778	-	-	15,201,699
Not Rated	64,628,470	28,383,395	-	-	93,011,865
Withdrawn	26,469,070	7,136,575	4,281,397	-	37,887,042
Total Credit Risk: Debt Securities	**3,667,155,618**	**1,319,829,277**	**2,703,235,380**	**81,924,023**	**7,772,144,298**
U.S. Governments and Agencies	**-**	**-**	**487,712,125**	**-**	**487,712,125**
U.S. Treasuries	**-**	**-**	**710,206,700**	**-**	**710,206,700**
Total Bonds, Corporate Notes and Government Obligations	**$3,667,155,618**	**$1,319,829,277**	**$3,901,154,205**	**$81,924,023**	**$8,970,063,123**

As of June 30, 2007, TRS held the following fixed income investments with respective quality ratings.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Total
Aaa	$1,870,015,009	$436,490,654	$3,642,120,574	-	$5,948,626,237
Aa1	172,096,911	29,329,507	301,251	-	201,727,669
Aa2	99,168,129	73,262,369	-	-	172,430,498
Aa3	301,927,557	52,146,114	-	-	354,073,671
A1	115,770,877	17,697,373	-	-	133,468,250
A2	169,624,811	87,889,578	-	-	257,514,389
A3	77,909,691	29,797,117	-	-	107,706,808
Baa1	139,575,896	45,033,480	-	-	184,609,376
Baa2	202,701,843	47,419,194	-	-	250,121,037
Baa3	158,601,893	11,600,439	-	-	170,202,332
Ba1	150,044,003	7,867,404	-	-	157,911,407
Ba2	54,382,116	19,667,790	-	-	74,049,906
Ba3	41,615,772	450,187	-	21,010,178	63,076,137
B1	109,440,280	4,229,231	-	-	113,669,511
B2	4,856,295	4,460,122	-	18,000,000	27,316,417
B3	4,302,668	3,544,764	-	-	7,847,432
Caa1	22,464,263	-	-	-	22,464,263
Not Available	41,460,490	20,476,217	-	-	61,936,707
Not Rated	32,366,471	4,837,210	-	-	37,203,681
P-1	4,510,317	-	-	-	4,510,317
Withdrawn	37,063,968	4,295,098	-	-	41,359,066
Total Credit Risk: Debt Securities	**3,809,899,260**	**900,493,848**	**3,642,421,825**	**39,010,178**	**8,391,825,111**
U.S. Governments and Agencies	**18,400,455**	**-**	**1,217,042,065**	**-**	**1,235,442,520**
U.S. Treasuries	**-**	**-**	**513,731,037**	**-**	**513,731,037**
Total Bonds, Corporate Notes and Government Obligations	**$3,828,299,715**	**$900,493,848**	**$5,373,194,927**	**$39,010,178**	**$10,140,998,668**

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.

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2008 and June 30, 2007 is as follows:

Type	2008 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	$710,206,700	$91,291,266	$274,016,593	$267,723,467	$42,435,218	$34,740,156
U.S. Federal Agencies	492,181,750	103,478,405	57,827,350	104,372,564	201,942,268	24,561,163
U.S. Government Index-Linked Bonds	296,216,084	67,584	115,760,305	49,024,141	92,502,397	38,861,657
U.S. Government Backed Mortgages	2,374,253,476	72,789	8,300,144	115,522,999	531,449,332	1,718,908,212
U.S. Municipals (Taxable)	28,296,195	-	-	1,833,199	12,558,725	13,904,271
Credits						
Bank Loans	30,986,760	-	17,541,298	13,445,462	-	-
Financial	1,319,616,385	267,971,793	490,353,362	235,529,674	12,355,334	313,406,222
Industrial	706,891,256	31,755,080	149,993,755	230,531,363	75,262,586	219,348,472
Utilities	112,941,987	12,280,973	29,313,650	33,597,320	7,041,101	30,708,943
Structured Notes	3,000,000	3,000,000	-	-	-	-
Asset-Backed Securities	370,453,273	-	92,058,753	24,725,828	20,174,867	233,493,825
Commercial Mortgage Backed Securities	361,639,452	-	7,738,032	919,823	8,451,715	344,529,882
Collateralized Mortgage Obligations	755,133,505	343,988	5,747,049	2,706,364	38,740,414	707,595,690
Commingled/Closed End Funds*	81,924,023	-	39,403,736	42,520,287	-	-
Corporate Convertible Bonds	6,493,000	-	400,625	-	-	6,092,375
Foreign Debt Obligations	1,319,829,277	80,943,999	365,558,421	431,304,549	125,658,624	316,363,684
Total Bonds, Corporate Notes and Government Obligations	**$8,970,063,123**	**$591,205,877**	**$1,654,013,073**	**$1,553,757,040**	**$1,168,572,581**	**$4,002,514,552**

Type	2007 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	$513,731,037	$127,407,511	$160,027,806	$81,795,781	$56,688,706	$87,811,233
U.S. Federal Agencies	1,217,042,065	457,795,132	281,483,375	230,568,834	220,462,889	26,731,835
U.S. Government Index-Linked Bonds	449,648,751	42,866,575	122,857,287	119,403,658	109,418,790	55,102,441
U.S. Government Backed Mortgages	3,192,471,823	246,741	23,280,482	72,669,284	960,480,006	2,135,795,310
U.S. Municipals (Taxable)	301,251	-	-	-	-	301,251
Credits						
Bank Loans	31,879,635	-	11,556,342	20,323,293	-	-
Financial	1,167,521,985	114,072,260	724,778,159	150,907,940	25,553,538	152,210,088
Industrial	576,206,932	41,543,108	201,307,125	152,971,423	72,831,840	107,553,436
Utilities	167,080,757	30,300,766	65,314,260	35,818,387	6,651,331	28,996,013
Structured Notes	2,998,179	-	2,998,179	-	-	-
Asset-Backed Securities	536,240,991	10,711,850	131,038,663	31,305,957	19,437,835	343,746,686
Commercial Mortgage Backed Securities	493,727,355	-	8,101,951	3,783,149	16,771,381	465,070,874
Collateralized Mortgage Obligations	848,151,787	-	13,722,966	1,099,539	20,817,026	812,512,256
Commingled/Closed End Funds*	39,010,178	-	-	39,010,178	-	-
Corporate Convertible Bonds	4,492,094	-	-	-	-	4,492,094
Foreign Debt Obligations	900,493,848	43,416,635	210,610,273	291,106,758	69,698,815	285,661,367
Total Bonds, Corporate Notes and Government Obligations	**$10,140,998,668**	**$868,360,578**	**$1,957,076,868**	**$1,230,764,181**	**$1,578,812,157**	**$4,505,984,884**

* *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. According to TRS's Investment Policy and investment manager agreements, 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, 2008 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Argentine Peso	$87,966	-	-	-	$87,966
Australian Dollar	1,708,956	369,540,069	15,521,132	(411,038)	386,359,119
Brazilian Real	1,080,784	237,193,303	12,622,041	(1,851,449)	249,044,679
British Pound Sterling	11,227,207	1,306,882,617	254,485,839	1,134,386	1,573,730,049
Canadian Dollar	1,288,309	88,741,915	22,762,906	-	112,793,130
Czech Koruna	-	34,104,972	-	-	34,104,972
Danish Krone	375,516	47,385,845	-	-	47,761,361
Egyptian Pound	210,404	7,399,976	28,383,395	-	35,993,775
Euro	19,363,441	2,063,993,345	304,539,812	(1,195,404)	2,386,701,194
Hong Kong Dollar	687,162	308,826,013	-	-	309,513,175
Hungarian Forint	1,526	34,778,957	-	-	34,780,483
Indonesian Rupiah	-	36,515,764	15,490,356	-	52,006,120
Japanese Yen	9,559,177	1,319,576,377	119,297,909	(37,869)	1,448,395,594
Malaysian Ringgit	46,877	35,322,529	10,758,855	-	46,128,261
Mexican Peso	2,024,547	29,132,589	69,972,827	(220,358)	100,909,605
Moroccan Dirham	(2,758)	1,500,023	-	-	1,497,265
New Israeli Shekel	28,343	10,554,166	-	-	10,582,509
New Taiwan Dollar	7,522,844	154,635,147	-	-	162,157,991
New Zealand Dollar	201,220	19,415,871	3,160,596	-	22,777,687
Norwegian Krone	399,799	99,351,221	8,163,596	-	107,914,616
Pakistan Rupee	-	10,945,957	-	-	10,945,957
Philippine Peso	-	12,860,662	-	-	12,860,662
Polish Zloty	213,531	9,664,100	28,228,936	-	38,106,567
Russian Ruble	-	1,080,708	-	-	1,080,708
Singapore Dollar	161,591	46,030,499	-	-	46,192,090
South African Rand	173,621	83,859,268	-	-	84,032,889
South Korean Won	3,999,410	210,109,775	43,542,884	-	257,652,069
Swedish Krona	596,964	49,331,232	44,538,342	-	94,466,538
Swiss Franc	167,938	432,089,525	11,775,300	-	444,032,763
Thai Baht	(518,537)	73,050,443	-	-	72,531,906
Turkish Lira	1	64,239,756	-	-	64,239,757
Total subject to foreign currency risk	**60,605,839**	**7,198,112,624**	**993,244,726**	**(2,581,732)**	**8,249,381,457**
Investments in international securities payable in United States dollars	**-**	**1,281,686,342**	**349,810,340**	**-**	**1,584,129,310**
Total international investment securities	**60,605,839**	**8,479,798,966**	**1,343,055,066**	**(2,581,732)**	**9,833,510,767**
Domestic Investments	**-**	**10,863,934,277**	**7,627,008,057**	**(23,096,790)**	**18,515,212,916**
Total Fair Value	**$60,605,839**	**$19,343,733,243**	**$8,970,063,123**	**($25,678,522)**	**$28,348,723,683**

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2007 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Argentine Peso	$30,807	-	$5,272,923	-	$5,303,730
Australian Dollar	41,863	307,945,874	13,313,323	35,168	321,336,228
Brazilian Real	122,228	171,362,443	669,464	244,168	172,398,303
British Pound Sterling	5,952,597	1,648,371,194	223,295,612	94,070	1,877,713,473
Canadian Dollar	1,048,696	109,163,035	24,905,582	(66,623)	135,050,690
Czech Koruna	-	25,521	-	-	25,521
Danish Krone	41,629	20,947,461	-	-	20,989,090
Egyptian Pound	187,097	-	-	-	187,097
Euro	7,389,747	2,811,418,315	145,296,229	254,078	2,964,358,369
Hong Kong Dollar	435,166	274,324,916	-	-	274,760,082
Hungarian Forint	10,657	6,899,667	-	-	6,910,324
Indonesian Rupiah	977,232	12,611,356	-	-	13,588,588
Japanese Yen	22,014,829	1,437,278,899	64,516,852	(17,116)	1,523,793,464
Malaysian Ringgit	749,202	79,723,796	-	-	80,472,998
Mexican Peso	1,116,860	44,277,179	3,730,231	45,473	49,169,743
New Israeli Shekel	63,110	9,534,447	-	-	9,597,557
New Taiwan Dollar	1,874,096	297,232,853	-	-	299,106,949
New Zealand Dollar	279,674	26,392,273	5,166,067	-	31,838,014
Norwegian Krone	325,824	67,724,568	-	-	68,050,392
Philippine Peso	45,627	32,984,695	-	-	33,030,322
Polish Zloty	-	33,434,114	-	-	33,434,114
Singapore Dollar	217,046	61,596,594	-	-	61,813,640
South African Rand	-	38,789,144	-	-	38,789,144
South Korean Won	1,555,883	378,119,533	-	-	379,675,416
Swedish Krona	3,955,104	96,833,676	21,357,496	-	122,146,276
Swiss Franc	646,956	402,852,099	-	-	403,499,055
Thai Baht	-	54,138,313	-	-	54,138,313
Turkish Lira	3	17,214,029	6,932,409	-	24,146,441
Total subject to foreign currency risk	**49,081,933**	**8,441,195,994**	**514,456,188**	**589,218**	**9,005,323,333**
Investments in international securities payable in United States dollars	**-**	**1,105,366,480**	**388,044,010**	**-**	**1,493,410,490**
Total international investment securities	**49,081,933**	**9,546,562,474**	**902,500,198**	**$589,218**	**10,498,733,823**
Domestic Investments	**-**	**13,941,417,643**	**9,238,498,470**	**258,261**	**23,180,174,374**
Total Fair Value	**$49,081,933**	**$23,487,980,117**	**$10,140,998,668**	**$847,479**	**$33,678,908,197**

In addition to the above, TRS's foreign currency investments in real estate and private equity were $92,549,817 at June 30, 2008 and $75,585,360 at June 30, 2007.

3. Securities Lending Program

The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions, which are 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 68 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 44 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, 2008 and June 30, 2007, TRS had outstanding loaned investment securities having a market value of $4,518,174,602 and $5,641,466,575, respectively, against which it had received collateral of $4,677,593,403 and $5,797,727,890, 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. 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, 2008, TRS had foreign currency forward purchase or sell contracts for approximately 40 different currencies. These contracts have various settlement dates within 12 months of June 30, 2008.

Fair Value: As of June 30, 2008 and June 30, 2007, TRS's open foreign currency forward contracts had a net fair value of $3,393,976 and $450,801, respectively. This represents the unrealized gain/(loss) on the contracts at June 30.

	Market Value as of June 30, 2008	Market Value as of June 30, 2007
Forward Currency Purchases	$1,514,086,181	$1,146,506,676
Forward Currency Sales	(1,510,692,205)	(1,146,055,875)
Unrealized Gain	$3,393,976	$450,801

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, 2008 and June 30, 2007, TRS had outstanding futures contracts with an underlying notional value of $3,585,833,414 and $4,258,096,923, 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 2010.

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	FY08 Number of Contracts	FY08 Contractual Principal	FY07 Number of Contracts	FY07 Contractual Principal
Fixed Income Index Futures – Long	2,029	$272,871,492	4,662	$521,228,625
Fixed Income Index Futures – Short	(914)	(120,406,258)	(5,686)	(662,466,859)
International Fixed Income Index Futures – Long	676	100,476,078	164	24,530,039
International Fixed Income Index Futures – Short	(568)	(120,083,188)	(50)	(17,591,815)
U.S. Stock Index Futures – Long	9,353	1,323,696,575	11,379	2,166,946,230
U.S. Stock Index Futures – Short	(163)	(10,440,965)	-	-
International Stock Index Futures – Long	174	11,578,390	-	-
Cash Equivalent (Eurodollar) Futures – Long	7,639	1,874,954,211	8,797	2,084,522,288
Cash Equivalent (Eurodollar) Futures – Short	(145)	(50,646,728)	(83)	(19,653,363)
Cash Equivalent Foreign Yield Curve – Long	1,113	319,537,511	647	160,581,778
Cash Equivalent Foreign Yield Curve – Short	(42)	(15,703,704)	-	-

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, 2008 and June 30, 2007, TRS had outstanding options contracts, including options on futures, with underlying notional value of $185,047,733 and $298,594,444, 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 July 2010.

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, 2008 and June 30, 2007, the fair value of option contracts written, gross of premiums received, was ($35,168) and $703,261, 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, 2008 and June 30, 2007. 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. Options on futures represent the corresponding futures exposure.

Type	FY08 Number of Contracts	FY08 Contractual Principal	FY07 Number of Contracts	FY07 Contractual Principal
Written Currency Forward Call Options	2	$2,068,000	6	$3,450,000
Written Currency Forward Put Options	2	1,280,000	6	(3,450,000)
Fixed Income Written Call Options	(456)	(39,377,000)	-	-
Fixed Income Written Put Options	(415)	9,478,000	-	-
Fixed Income Call Options on Futures	-	-	(10)	(130,000)
Fixed Income Put Options on Futures	-	-	(116)	1,972,000
Fixed Income Call Options on Futures (Non-dollar)	730	27,383,059	-	-
Cash Equivalent Call Options on Futures	1,084	144,172,500	373	78,853,750
Cash Equivalent Put Options on Futures	326	(815,000)	-	-
Cash Equivalent Call Options on Futures (Non-dollar)	6,803	38,741,500	3,961	21,653,993
Cash Equivalent Put Options on Futures (Non-dollar)	1,766	2,116,674	594	196,244,701

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. 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 and in a written put swaption, the seller has the obligation to receive a fixed rate in exchange for a floating rate if the swaption is exercised. 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 while a purchased (long) put swaption gives the buyer the right to pay a fixed rate in exchange for a floating rate 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, 2008, TRS had outstanding purchased call swaption exposure of $342,579,706, written call swaption exposure of ($181,036,154). The contracts have various expiration dates through February 2016. At June 30, 2007, TRS had outstanding purchased call swaption exposure of $252,384,575, written call swaption exposure of ($259,532,165). 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, 2008, and June 30, 2007, the fair value of swaption contracts was ($2,240,272) and ($68,882), 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, 2008 and June 30, 2007, TRS was a party to interest rate swaps in various currencies. The swap agreements, in conjunction with the underlying bonds, have various maturity dates ranging from 2008 to 2038. 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, 2008 and June 30, 2007.

	June 30, 2008 Receivable/ (Payable)	June 30, 2007 Receivable/ (Payable)
Receive Floating/Pay Fixed	$3,132,612	$6,711,796
Receive Fixed/Pay Floating	(5,708,018)	(7,007,342)

Credit Default Swaps

Objective: Credit default swaps are derivative instruments constructed to replicate the effect of investing in debt obligations of corporate bond issuers as a means to manage corporate bond exposure, effectively buying or selling insurance protection in case of default. 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, 2008, TRS had credit default swaps in its portfolio with various maturity dates through 2018. The total notional value of written credit default swaps (selling protection) was $256.6 million and $167.9 million par at June 30, 2008 and 2007, respectively. The total notional value of purchased credit default swaps (buying protection) was $61.4 million par at June 30, 2008.

Fair Value: The fair value of credit default swaps held by TRS was ($11,061,076) at June 30, 2008 and $105,711 at June 30, 2007. This amount represents the net amount of payments due to (from) TRS under these agreements.

Basket Default Swaps

Objective: Basket default swaps are exchange-traded 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, 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, 2008, TRS had basket default swaps buying protection with a notional value of 252.3 million par and selling protection of 91.1 million par, with various expiration dates ranging from 2008 to 2052. At June 30, 2007, TRS had basket default swaps buying protection with a notional value of 296.1 million par and selling protection of 30 million par.

Fair Value: The fair value of the basket default swaps held by TRS was ($8,925,311) and $431,761 at June 30, 2008 and 2007, respectively. This represents the payments due to (from) TRS to counterparties under the terms of the agreements, with all positions still open.

Inflation-linked Swaps

Objective: Inflation-linked swaps are agreements where a fixed payment is exchanged for a variable payment linked to an inflation index. These swaps can protect against unfavorable changes in inflation expectations. These swaps are utilized to transfer inflation risk from one counterparty to another.

Terms: At June 30, 2008, TRS was a party to inflation-linked swaps denominated in various currencies with maturity dates ranging from 2010 to 2027 and total par of 16.6 million. At June 30, 2007, TRS was a party to inflation-linked swaps denominated in Euros with total par of 14.8 million. TRS receives a fixed rate of inflation for all positions. Inflation-linked swaps initially have no net value; the value of the swap's outstanding payments will change as interest and inflation rates change. The value may be either positive or negative.

Fair value: The fair value of the inflation-linked swaps held by TRS was ($841,289) at June 30, 2008 and ($28,826) at June 30, 2007.

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

	2008	2007
Balances at June 30	$38,425,721,302	$41,904,599,048

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 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 $30,201,644,000 in 2008 and $23,739,077,000 in 2007.

2. Minimum Retirement Annuity

	2008	2007
Balances at June 30	$5,001,985	$4,718,703

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. Pension and Other Post-employment Benefits for TRS Employees

TRS employees are covered by either the State Employees' Retirement System of Illinois or the Teachers' Retirement System of the State of Illinois. Also, most employees are eligible for other types of post-employment benefits.

State Employees' Retirement System (SERS)

1. Plan Description for SERS

TRS employees who do not participate in TRS (see below) are covered by the State Employees' Retirement System (SERS), a pension trust fund in the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system. SERS provides retirement, disability, and death benefits to plan members and beneficiaries. Automatic annual post-retirement increases are provided. SERS is governed by Article 14 of the Illinois pension code, 5 ILCS 40/14-101 and following as well as the Illinois Administrative Code, Title 80, Subtitle D, Chapter I. SERS issues a publicly available financial report that includes financial statements and required supplemental information. It may be obtained at **www.state.il.us/srs,** by writing to SERS at 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255, or by calling (217) 754-7444. SERS's financial position and results of operations are also included in the *State of Illinois Comprehensive Annual Financial Report*. This report may be obtained at **www.ioc.state.il.us**, by writing to the office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858, or by calling (217) 782-2053.

2. Funding Policy for SERS

The contribution requirements of SERS members and the state are established by state statute and may be amended by action of the General Assembly and the Governor. TRS employees covered by SERS contribute 4.0 percent of their annual covered salaries. The state contribution rate for the year ended June 30, 2008 was actuarially determined according to a statutory schedule. The contribution rates for the years ended June 30, 2007 and 2006 were based on dollar amounts specified by statute and were not actuarially determined.

TRS contribution rates to SERS for its SERS-covered employees for the years ended June 30, 2008, 2007, and 2006 were 16.561 percent, 11.525 percent, and 7.792 percent, respectively. TRS contributions for the years ended June 30, 2008, 2007, and 2006 were $910,478, $614,434, and $416,093, respectively.

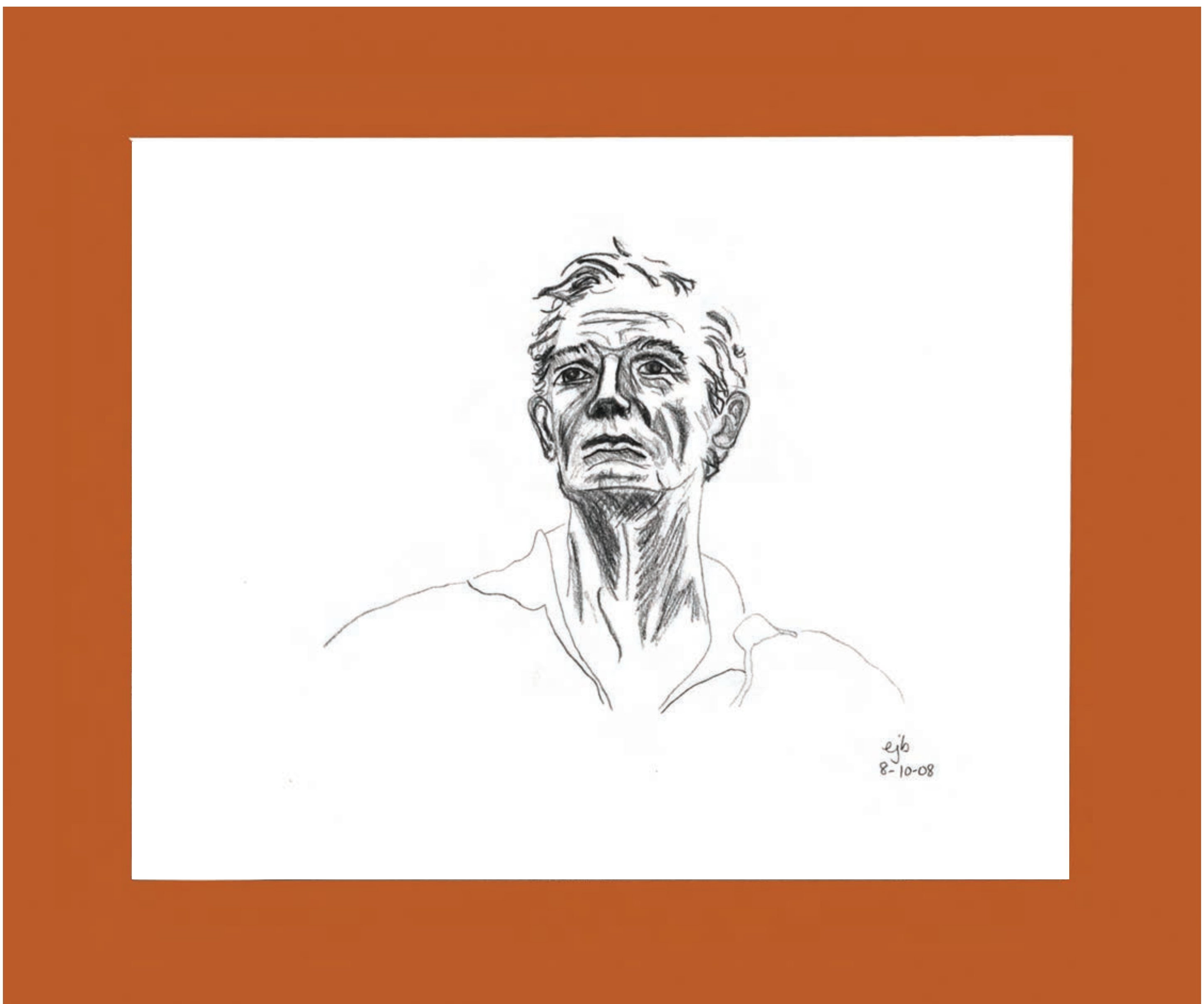
Teachers' Retirement System

1. Plan Description for TRS

A summary description of the TRS plan can be found within these notes to the financial statements at "A. Plan Description."

2. Funding Policy for TRS

TRS employees who participate in TRS are required to contribute 9.4 percent of their annual covered salaries. For employees who were members of TRS on August 17, 2007 and for employees hired on or after that date, TRS contributes .058 percent of the employees annual covered salaries. Additional employer contributions for these employees are paid by the state of Illinois and are included in the annual state contribution to TRS. TRS's contributions for participating employees for the years ended June 30 in 2008, 2007, and 2006 were $24,719, $21,558, and $18,992, respectively.



Other Post-employment Benefits for TRS Employees

The state provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all state employees become eligible for post-employment benefits if they eventually become annuitants of one of the state-sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the state's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the state, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Employees of the system who retired before January 1, 1998 who are vested in either the State Employees' Retirement System or the Teachers' Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5 percent for each year of credited service with the state allowing those annuitants with 20 or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The state pays the TRS portion of employer costs for the benefits provided. The total cost of the state's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the state in the *Illinois Comprehensive Annual Financial Report*. The state finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment 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 financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

G. Subsequent Events (Unaudited)

Subsequent to the June 30 fiscal year end, the overall financial markets experienced an unprecedented decline in value. The decline in TRS's investments as of November 30, 2008 is depicted in the strategic asset allocation chart below. The chart represents assets assigned to investment managers within each asset class, not by security type. Therefore, amounts noted in the chart below will differ from those as presented in the Statements of Plan Net Assets. The chart represents the most current information available for both public and private market investments as compared to June 30, 2008.

	June 30 $ Millions	Nov. 30* $ Millions	Increase/ (Decline) $ Millions	% Increase/ (Decline)
U.S. Equities	$12,749	$8,202	($4,547)	(35.7%)
International Equities	8,191	4,619	(3,572)	(43.6)
Fixed Income	6,588	5,494	(1,094)	(16.6)
Real Return	3,058	1,821	(1,237)	(40.5)
Real Estate	4,798	4,768	(30)	(0.6)
Private Equity	2,404	2,654	250	10.4
Absolute Return	504	442	(62)	(12.3)
Short-Term Investments	58	519	461	794.8
Investments Subtotal	**$38,350**	**$28,519**	**(9,831)**	**(25.6%)**
Pending Settlements/Expenses	1,146	678		
Less Accrued Interest Included in Above Amounts	(287)	(117)		
Total Investments	**$39,209**	**$29,808**		

**November 30, 2008 information is based upon best available data on December 2, 2008 as recorded by TRS's custodian and is preliminary and unaudited.*

During FY08, TRS's cash management program was allocated partially to a Northern Trust Global Investment commingled cash vehicle, the Short Term Extendable Portfolio (STEP). On September 19, 2008, market events and the bankruptcy of Lehman Brothers Holdings, Inc. caused the STEP fund to encounter liquidity problems that led to the fund halting future withdrawals. On October 14, 2008, Northern Trust segregated TRS's $391.7 million investment in the STEP fund. On November 19, 2008, Northern Trust offered clients the opportunity to redeem a portion of their STEP units for cash. TRS received a distribution of $38,930,259 on November 25, 2008. TRS's balance in the STEP fund as of June 30, 2008 was $645,690,093 and was contained within various TRS investment manager and operating accounts. TRS's segregated balance in the STEP fund at November 30, 2008 was $307,334,294, which is included in short-term investments in the chart above.

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)
6/30/99	$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
6/30/07	41,909,318,000	65,648,395,000	63.8	23,739,077,000	8,149,849,000	291.3
6/30/08	**38,430,723,000**	**68,632,367,000**	**56.0**	**30,201,644,000**	**8,521,717,000**	**354.4**

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
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
2007	735,515,000	81,155,000	816,670,000	2,052,396,000	39.8	822,890,000	99.2
2008	**1,039,195,000**	**130,578,000**	**1,169,773,000**	**1,949,463,000**	**60.0**	**1,135,127,000**	**103.1**

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. Beginning in FY08, lump-sum payments for ERO are included as employer contributions, further increasing the difference.*

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 contribution 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 ERI payments, minimum retirement, and supplemental annuity contributions. Excludes employer ERO contributions through FY07. 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. However, employer contributions for excess sick leave, which also began in FY06, are not included because there is no assumption for excess sick leave and it is not included in the funding requirements. Beginning in FY08, employer ERO contributions are included because the costs of the ERO program are now included in the actuarial accrued liability.*

See accompanying Independent Auditors' Report.

Other Supplementary Information

Schedule of Administrative Expenses
For Years Ended June 30

	2008	2007
Personal services	$12,190,988	$11,350,376
Professional services	1,164,400	911,832
Postage	481,642	407,568
Machine repair and rental	660,156	593,364
Other contractual services	1,062,093	1,024,358
Commodities	457,052	447,519
Occupancy expense	210,654	173,508
Depreciation	386,165	336,969
Loss on disposal of equipment	214	709
Total administrative expenses	**$16,613,364**	**$15,246,203**

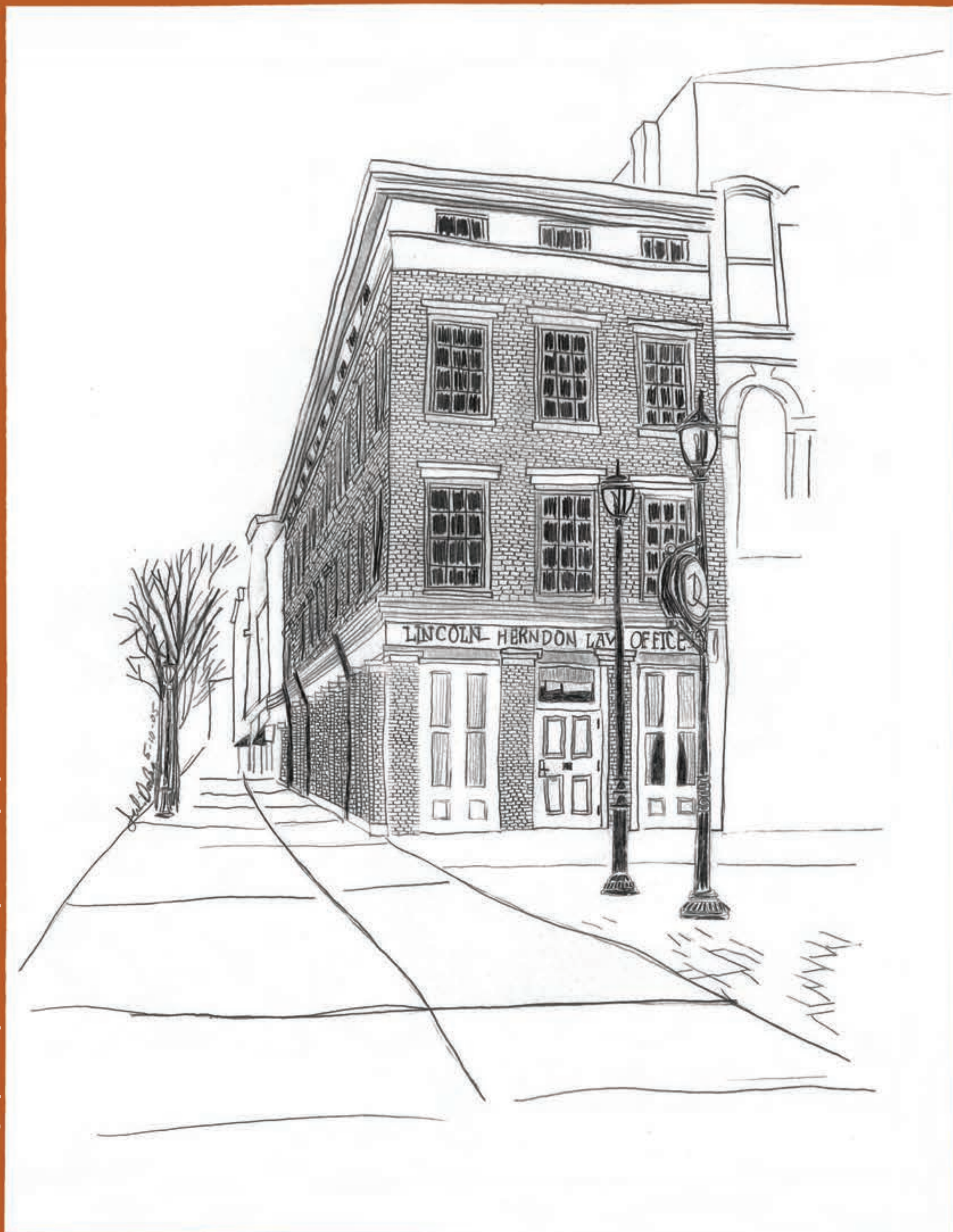
Schedule of Investment Expense
For Years Ended June 30

	2008	2007
Investment manager fees	$170,114,892	$138,275,663
Private equity investment expense	11,169,758	8,548,359
Miscellaneous	7,630,362	4,101,897
Total investment expense	**$188,915,012**	**$150,925,919**

Schedule of Payments to Consultants
For Years Ended June 30

	2008	2007
Actuarial services	$202,606	$179,450
External auditors	153,712	150,107
Legal services	543,583	286,647
Management consultants		
Information systems	193,020	243,601
Legislative consultant	24,000	-
TRS STAR audit	9,495	23,978
Board and staff training	3,500	-
Operations	29,648	23,375
Other	4,836	4,674
Total payments to consultants	**$1,164,400**	**$911,832**

See accompanying Independent Auditors' Report.



Pencil and graphite by Julie Dailey, TRS employee.

INVESTMENTS

Pencil by Jael Bietsch, TRS employee.

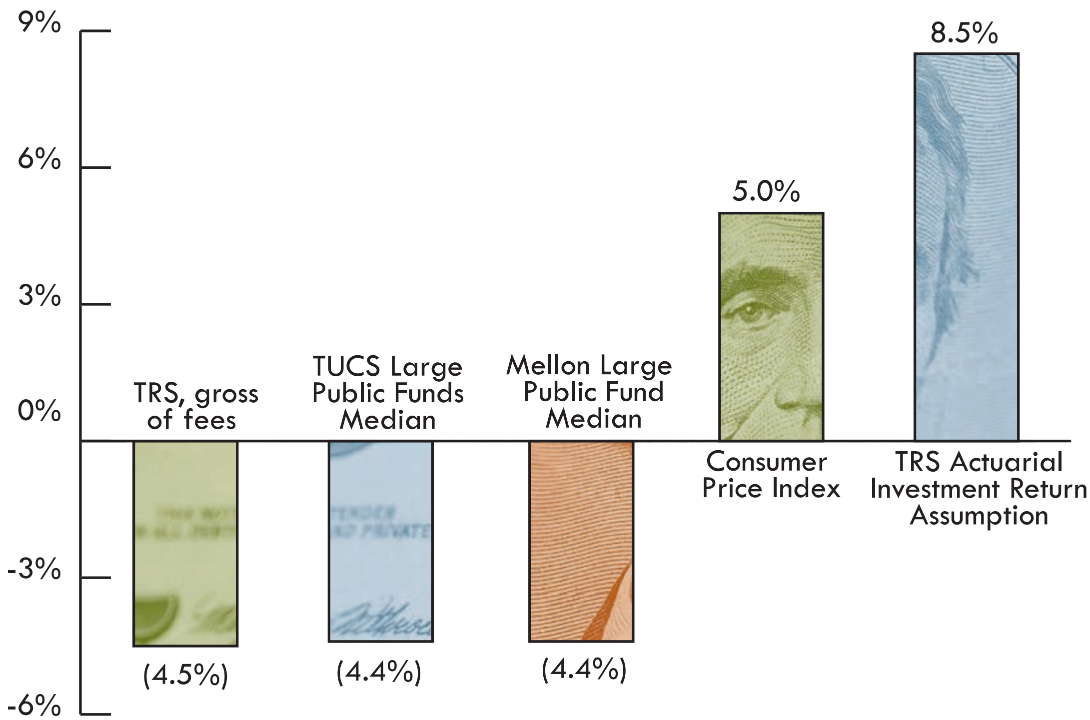
"Every blade of grass is a study; and to produce two, where there was but one, is both a profit and a pleasure."

Introduction

The TRS investment portfolio declined 4.5 percent, gross of fees, for the fiscal year ending June 30, 2008 as the United States and global markets entered an unprecedented period of economic uncertainty. The loss follows strong FY07 performance of 19.6 percent, gross of fees, with total fund assets falling from a peak of $42.0 billion to $39.2 billion. Slowing global growth, inflationary pressures, and credit market turmoil were especially challenging to the global equity markets with U.S. and international stocks falling 15.1 percent and 7.7 percent, respectively. Helping to offset these losses somewhat was the strong performance of TRS's new real return asset class which was added to the System's asset allocation at the beginning of the fiscal year as a means to protect the portfolio in an inflationary environment. As the inflation rate increased through the year, TRS real return asset class produced a 20.5 percent return.

The TRS investment portfolio continued to rank highly against its peers. Over the past 10 years, TRS ranks in the top 15 percent of the large public funds in the Wilshire Trust Universe Comparison Service (TUCS).

Return Comparison for the Year Ended June 30, 2008



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

Total TRS investments, including accrued income, decreased by approximately $2.7 billion during the year ended June 30, 2008. This represents the first loss following five years of positive returns.

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

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, 2007 through June 30, 2008. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2008. Additionally, The Northern Trust Company calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2008

Total Fund Market Value	**$39.5 billion**
One-Year Return (net of fees)	(5.0%)
Five-Year Return (net of fees)	10.3%
Ten-Year Return (net of fees)	6.9%
Percent Externally Managed	100.0%
Number of External Managers	128
Custodian	The Northern Trust Company
General Consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 33rd out of the top 1,000 U.S. pension funds/plan sponsors in the January 21, 2008, issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2007.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2008, TRS's total investments, including accrued investment income, at market value totaled $39.5 billion, a decrease of $2.7 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 Statements of Plan Assets located on page 24.

TRS had a total fund annualized decline of 4.5 percent, gross of fees, and 5.0 percent, net of fees, for the one-year period ending June 30, 2008. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS total fund performance for FY08 lagged the policy index decline of 4.1 percent for the year ended June 30, 2008. The policy index represents a weighted average of each asset class benchmark, based on the total fund's target asset allocation. The total return also lagged 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 2008	2007	2006	2005	2004	Annualized at 6/30/08 3 Years	5 Years	10 Years
TRS Total Fund	**(5.0%)**	**19.2%**	**11.8%**	**10.8%**	**16.5%**	**8.2%**	**10.3%**	**6.9%**
TRS Weighted Policy Index	(4.1)	17.9	11.3	10.7	16.0	8.0	10.1	6.3
CPI (Inflation)	5.0	2.7	4.3	2.5	3.3	4.0	3.6	3.0
TRS Equity - U.S.	**(15.1)**	**19.4**	**9.6**	**8.1**	**21.6**	**3.6**	**7.9**	**3.2**
Russell 3000 Index	(12.7)	20.1	9.6	8.1	20.5	4.7	8.4	3.5
TRS Fixed Income	**5.1**	**5.9**	**0.1**	**6.6**	**0.7**	**3.7**	**3.7**	**5.3**
TRS Weighted Fixed Income Index	7.1	6.1	(0.7)	6.8	0.3	4.1	3.9	5.5
Lehman Brothers Aggregate Index	7.1	6.1	(0.8)	6.8	0.3	4.1	3.9	5.7
TRS Equity - International	**(7.7)**	**29.6**	**27.3**	**17.3**	**32.8**	**15.0**	**18.8**	**8.2**
Non-U.S. Equity Index	(6.2)	30.2	28.4	17.0	32.5	16.2	19.4	7.8
TRS Real Estate	**4.5**	**25.3**	**18.8**	**19.9**	**13.2**	**15.9**	**16.1**	**12.3**
Real Estate Property Index	9.2	17.2	18.7	18.0	10.8	15.0	14.7	11.9
TRS Private Equity	**3.3**	**29.3**	**23.8**	**20.0**	**10.3**	**18.3**	**17.0**	**16.7**
Russell 3000 Index + 3.0%*	(10.0)	23.7	12.9	11.3	24.1	7.9	11.7	6.0
TRS Real Return	**20.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
CPI (Inflation) + 5.0%	10.3	-	-	-	-	-	-	-
TRS Absolute Return	**0.9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
90-Day Treasury Bill + 4.0%*	7.8	-	-	-	-	-	-	-
TRS Short-Term Investments	**2.3**	**5.4**	**4.2**	**2.2**	**1.1**	**4.0**	**3.0**	**3.7**
ML 3 Month T-bill Index	3.6	5.2	4.0	2.2	1.0	4.3	3.2	3.6

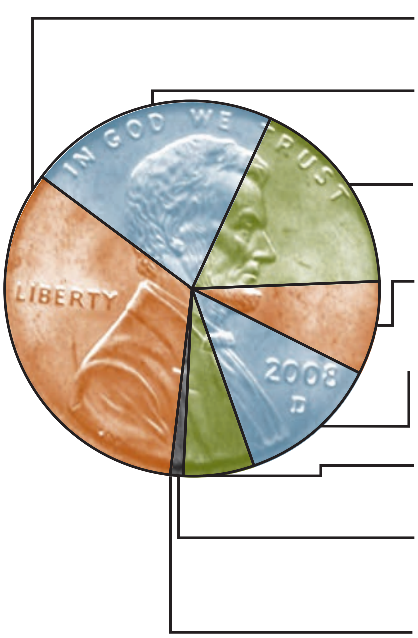
** Index compounded monthly.*

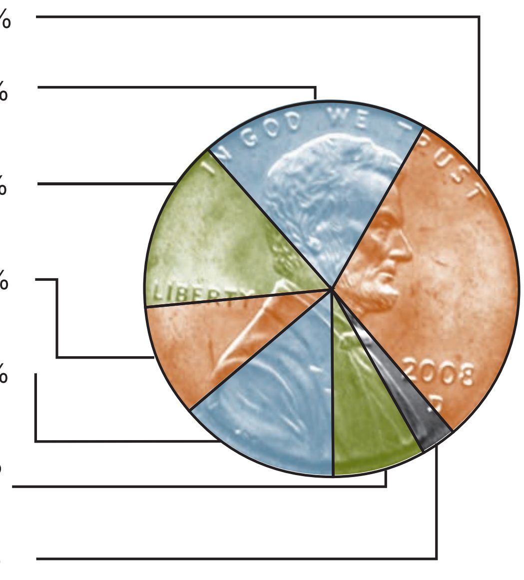
Note: Rates of return provided by The Northern Trust Company.

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.

FY08 Asset Allocation		Long-term Target Allocation
33.2%	U.S. Equity	30.5%
21.4%	International Equity	20.0%
17.2%	Fixed Income	15.0%
8.0%	Real Return	10.0%
12.5%	Real Estate	14.0%
6.3%	Private Equity	8.0%
1.3%	Absolute Return	2.5%
0.1%	Short-term Investments	0.0%





In FY08, TRS continued implementation of the latest asset allocation study that was completed in FY07. Following five years of strong investment performance, in FY07 the TRS Board of Trustees approved a new asset allocation, including initial investments within the real return and absolute return asset classes, as a means to further diversify the overall investment portfolio and reduce risk.

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, compared to the total assets assigned to each particular asset class at June 30, 2008.

Strategic Investment Listing
Allocation Targets vs. Total Assets

	6/30/08	FY08			FY07	
	Total Fund $ Millions	**Actual Percent**	**Interim Target**	**Policy Target**	**Actual Percent**	**Policy Target**
U.S. Equities	$12,749	33.2%	37.0%	30.5%	40.1%	41.0%
International Equities	8,191	21.4	20.0	20.0	22.0	15.0
Fixed Income	6,588	17.2	16.0	15.0	18.6	23.0
Real Return	3,058	8.0	7.7	10.0	2.0	-
Real Estate	4,798	12.5	12.0	14.0	11.3	14.0
Private Equity	2,404	6.3	6.0	8.0	4.6	6.0
Absolute Return	504	1.3	1.3	2.5	1.2	-
Short-Term Investments	58	0.1	-	-	0.2	1.0
Pending Settlements/Expenses*	1,146	NA	NA	NA	NA	NA
Total Fund	**$39,496**	**100.0%**	**100%**	**100%**	**100.0%**	**100.0%**

** 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 assignment is treated as equity on the Strategic Investment Listing, but categorized as bonds and corporate obligations in the securities summary. This manager provides 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

	2008 Market Value	2008 % of Total	2007 Market Value	2007 % of Total
U.S. Government Obligations				
U.S. Treasuries	$710,206,700	1.8%	$513,731,037	1.2%
U.S. Federal Agencies	492,181,750	1.3	1,217,042,065	2.9
U.S. Government Index Linked Bonds	296,216,084	0.8	449,648,751	1.0
U.S. Government Backed Mortgages	2,374,253,476	6.0	3,192,471,823	7.6
U.S. Municipals (Taxable)	28,296,195	0.1	301,251	-
Credits				
Bank Loans	30,986,760	0.1	31,879,635	0.1
Financial	1,319,616,385	3.3	1,167,521,985	2.8
Industrial	706,891,256	1.8	576,206,932	1.3
Utilities	112,941,987	0.3	167,080,757	0.4
Structured Notes	3,000,000	-	2,998,179	-
Asset Backed Securities	370,453,273	0.9	536,240,991	1.3
Commercial Mortgage Backed Securities	361,639,452	0.9	493,727,355	1.2
Collateralized Mortgage Obligations	755,133,505	1.9	848,151,787	2.0
Commingled/Closed End Funds	81,924,023	0.2	39,010,178	0.1
Corporate Convertible Bonds	6,493,000	-	4,492,094	-
Foreign Debt Obligations	1,319,829,277	3.3	900,493,848	2.1
Total Bonds, Corporate Notes, and Government Obligations	**8,970,063,123**	**22.7**	**10,140,998,668**	**24.0**
Equities				
Common Stock - U.S.	10,833,227,881	27.4	13,908,176,627	32.9
Preferred Stock - U.S.	30,706,395	0.1	33,817,240	0.1
Common Stock - International	8,183,568,806	20.7	9,360,153,385	22.2
Preferred Stock - International	296,230,161	0.8	185,832,865	0.4
Total Equities	**19,343,733,243**	**49.0**	**23,487,980,117**	**55.6**
Real Return – Commingled Funds				
Commodity Funds	652,811,731	1.7	-	-
Global Macroeconomic Strategies	1,465,924,159	3.7	-	-
Total Real Return – Commingled Funds	**2,118,735,890**	**5.4**	**-**	**-**
Short-term Investments/Cash Equivalents	**1,330,031,596**	**3.4**	**1,474,343,766**	**3.5**
Derivatives–Options, Futures, and Swaps	**(25,678,522)**	**(0.1)**	**847,479**	**-**
Foreign Currency	**60,605,839**	**0.1**	**49,081,933**	**0.1**
Absolute Return	**504,224,094**	**1.3**	**490,000,000**	**1.2**
Private Equity	**2,399,224,145**	**6.1**	**1,894,311,762**	**4.5**
Real Estate Equity	**4,794,916,293**	**12.1**	**4,693,519,131**	**11.1**
TRS Total Portfolio	**$39,495,855,701**	**100.0%**	**$42,231,082,856**	**100.0%**

Reconciliation of TRS Portfolio Securities Summary to Total Investments

	2008	2007
TRS Total Portfolio	$39,495,855,701	$42,231,082,856
Less Accrued Income	(286,808,705)	(278,001,913)
Investments at Fair Value	**$39,209,046,996**	**$41,953,080,943**

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.

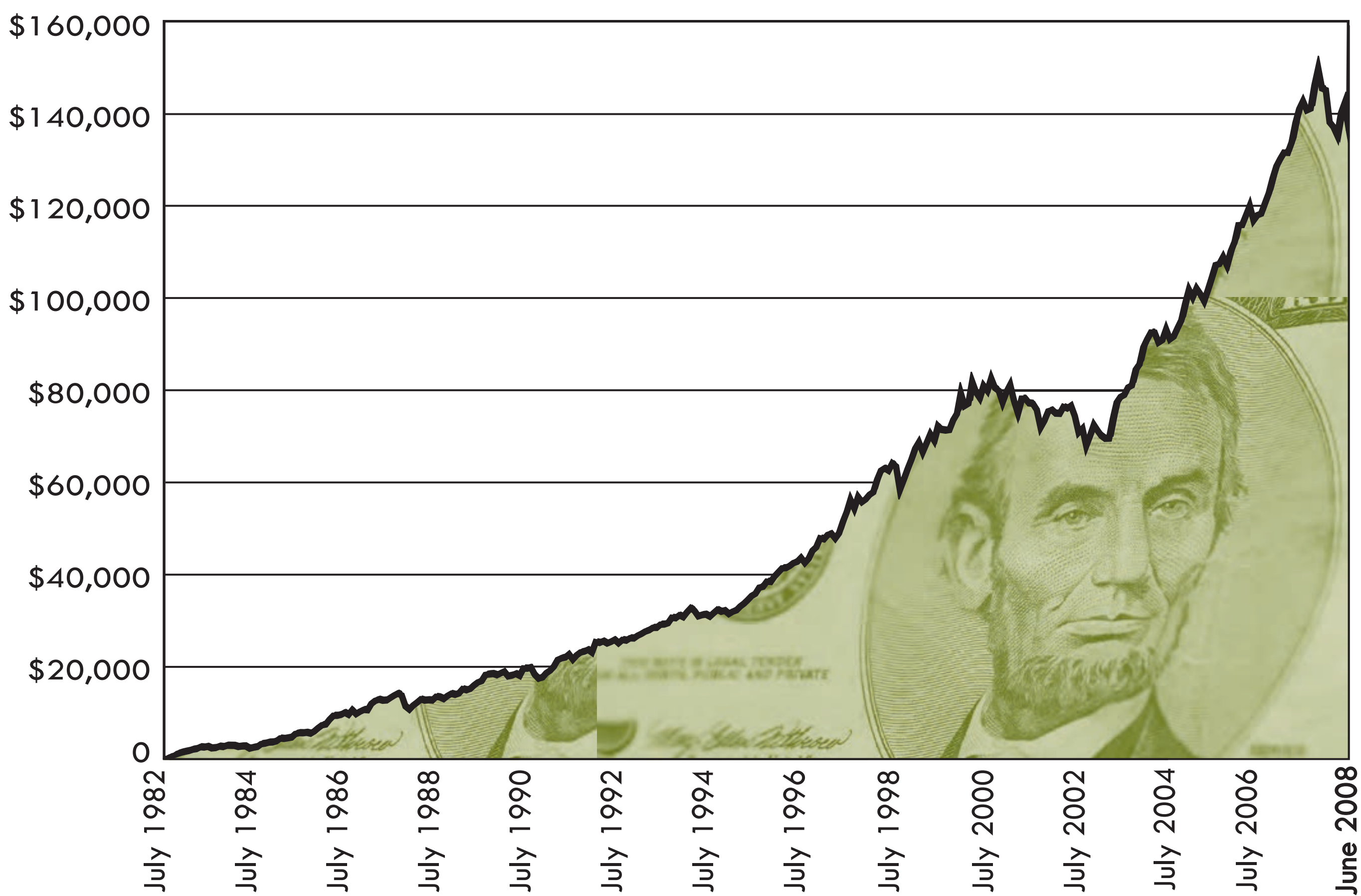
Securities Holdings for Years Ending June 30

Asset Type	2008	2007	2006	2005	2004
Bonds, Corporate Notes, and Government Obligations	22.7%	24.0%	27.9%	29.4%	28.2%
Equities - U.S.	27.5	33.0	33.6	35.8	40.9
Equities - International	21.5	22.6	19.8	17.7	16.7
Real Return	5.4	-	-	-	-
Short-Term Investments/Currency	3.4	3.6	4.2	4.1	3.3
Absolute Return	1.3	1.2	-	-	-
Private Equity	6.1	4.5	4.0	3.0	2.6
Real Estate Equity	12.1	11.1	10.5	10.0	8.3
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: TRS

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 26 years.

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, 2008.

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 declined 15.1 percent on a net of fee basis, compared to the Russell 3000 Index loss of 12.7 percent. One-, three-, five-, and 10-year comparisons to this benchmark are noted below:

	FY08	3-Year	5-Year	10-Year
TRS, net of fees	**(15.1%)**	**3.6%**	**7.9%**	**3.2%**
Russell 3000 Index	(12.7)	4.7	8.4	3.5

At June 30, 2008, 33.2 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 FY08.

The top 10 domestic equity holdings at June 30, 2008, are listed below and represent 10.4 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, 2008

Firm	Market Value
Exxon Mobil Corp.	$192,968,479
Microsoft Corp.	125,530,111
Chevron Corp.	124,225,850
Hewlett-Packard Co.	117,597,583
Apple, Inc.	105,733,169
General Electric Co.	104,156,391
Google, Inc.	101,212,141
Cisco Systems, Inc.	94,122,544
Wal-Mart Stores, Inc.	90,348,244
Gilead Sciences, Inc.	79,285,212
Total	**$1,135,179,724**

Source: The Northern Trust Company

As of June 30, 2008, TRS employed the following domestic equity managers including their respective assets under management.

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

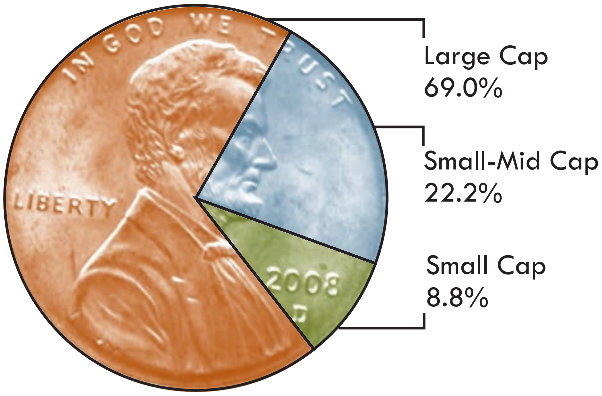
Index (Large Cap)	
RhumbLine Advisors, L.P. (5/06)	$827,192,353
Enhanced Index (Large Cap)	
Barclays Global Investors (6/05)	817,419,738
Pacific Investment Management Company, L.L.C. (8/91)	862,460,591
T. Rowe Price Associates, Inc. (6/05)	820,664,192
Pacific Investment Management Company, L.L.C. (1/08)	430,558,107
Large Cap Core	
Analytic Investors, L.L.C. (12/07)	490,760,126
J.P. Morgan Investment Management, Inc. (12/07)	489,771,610
Large Cap Value	
Dodge & Cox (4/00)	1,126,357,779
EARNEST Partners, L.L.C. (2/02)	182,378,089
Robeco Boston Partners Asset Management, L.P. (1/03)	652,831,072
Large Cap Growth	
T. Rowe Price Associates, Inc. (11/06)	709,188,984
Turner Investment Partners, Inc. (6/04)	1,027,246,791
Wellington Management Company, L.P. (11/07)	407,914,940
Index (Small/Mid Cap Core)	
Rhumbline Advisors, L.P. (5/07)	417,066,586
Small/Mid Cap Value	
LSV Asset Management (12/02)	616,297,406
State Street Global Advisors (6/06)	149,766,140
Small/Mid Cap Growth	
Copper Rock Capital Partners, L.L.C. (12/06)	156,158,186
Mazama Capital Management, Inc. (1/03)	307,705,115
Tygh Capital Management, Inc. (6/06)	462,576,933
Fred Alger Management, Inc. (12/07)	192,302,714
Small Cap Growth	
Batterymarch Financial Management, Inc. (11/04)	214,916,876
Emerald Advisors, Inc. (11/04)	237,277,276
Mazama Capital Management, Inc. (11/04)	173,360,720
Small Cap Value	
AQR Capital Management, L.L.C. (11/06)	249,367,043
Thompson, Siegel & Walmsley, Inc. (11/04)	313,458,205
Emerging Manager	
Denali Advisors, L.L.C. (4/08)*	47,670,608
Evercore Asset Management, L.L.C. (2/07)**	15,484,059
Piedmont Investment Advisors, L.L.C. (2/07)***	21,473,936
Transition Manager	
Barclays Global Investors (6/08)	329,233,602

** Style is large cap value.*
*** Style is small cap value.*
**** Style is enhanced index.*

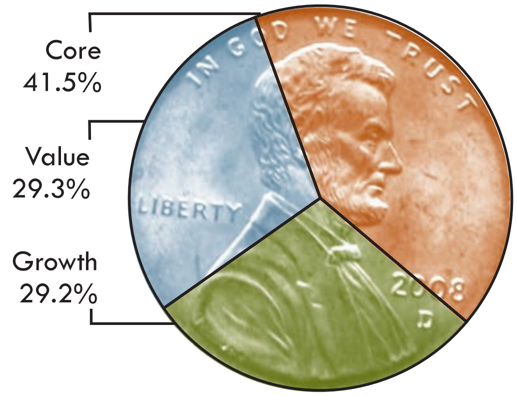
Discussion of U.S. Equity

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

Following four years of positive returns with modest volatility, the domestic equity market began a reversal in July 2007 and ended a tumultuous year down 12.7 percent (Russell 3000 index). The TRS domestic portfolio lagged the index by 2.4 percent for the year, losing 15.1 percent. Style allocation contributed to the underperformance as value stocks declined more than growth. This factor was exacerbated by TRS's manager positioning within these style mandates which were negatively impacted in the declining market while unprecedented market dynamics created a difficult environment for rational investors. We were also disappointed by the weak defensive posture of certain managers.

Implementation of the 2007 structure changes continued with the addition of five new managers. J.P. Morgan and Analytic Investors were hired to fill the new large cap short extension allocations (130/30), while Wellington and Fred Alger filled vacancies in the large cap growth and small/mid cap growth styles, respectively. Additionally, Denali Advisors was hired for a large cap value mandate in our emerging manager program.

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, 2008

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted Average Market Cap (billions)	$48.9	$73.0
Price/Earnings Ratio	15.7x	16.9x
Dividend Yield	1.6%	2.1%
Beta	1.1	1.0
5-Year EPS Growth	26.5%	19.9%
Price/Book Ratio	2.2x	2.4x

Source: The Northern Trust Company

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2008

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer Discretionary	11.9%	9.3%
Consumer Durables	6.1	9.3
Energy	12.6	15.1
Financial Services	13.4	14.4
Health Care	14.0	11.8
Industrials	12.0	11.8
Materials	4.4	4.5
Technology	20.2	16.5
Telecommunication Services	2.5	3.0
Utilities	2.9	4.3
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, 2008, the international equity asset class declined 7.7 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 references) loss of 6.2 percent. One-, three-, five-, and 10-year comparisons to this benchmark are in the following table:

	FY08	3-Year	5-Year	10-Year
TRS, net of fees	**(7.7%)**	**15.0%**	**18.8%**	**8.2%**
Non-U.S. Equity Index	(6.2)	16.2	19.4	7.8

At June 30, 2008, 21.4 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, 2008. 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 10.0 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, 2008

Firm	Country	Market Value (USD)
BP	United Kingdom	$119,598,875
GlaxoSmithKline	United Kingdom	109,198,307
Nestle	Switzerland	98,996,569
Novartis AG	Switzerland	87,937,813
Telefonica	Spain	78,055,057
Banco Santander	Spain	77,455,973
BG Group	United Kingdom	73,911,593
BHP Billiton PLC	United Kingdom	71,508,161
Vodafone Group	United Kingdom	69,028,522
Canon, Inc.	Japan	65,716,911
Total		**$851,407,781**

Source: The Northern Trust Company

As of June 30, 2008, TRS employed the following international equity managers including their respective assets under management.

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

Active Core	
Brandes Investment Partners, L.P. (2/98)	$1,179,021,772
Jarislowsky, Fraser Limited (8/05)	417,042,014
McKinley Capital Management, Inc. (8/05)	1,347,419,783
Mondrian Investment Partners Limited (4/93)	1,243,072,549
State Street Global Advisors (8/05)	377,217,951
Trilogy Global Advisors, L.L.C. (8/07)	436,406,402
Enhanced Index	
Quantitative Management Associates, L.L.C. (8/07)	641,458,629
State Street Global Advisors (8/07)	226,292,401
Small Cap	
American Century Global Investment Management, Inc. (6/08)	115,416,655
Dimensional Fund Advisors, L.P. (6/08)	183,994,655
State Street Global Advisors (8/07)	88,633,047
Passive Non-U.S.	
Barclays Global Advisors (5/07)	576,582,522
Emerging Markets	
Aberdeen Asset Management, Inc. (3/08)	351,064,759
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	999,024,625

Note: The list does not include managers terminated prior to June 30, 2008 with residual assets in the account.

Discussion of International Equity

The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio. The actual allocation will become more aligned with the targets as TRS prudently rebalances investments from transitional passive assets to active core accounts while implementing the asset allocation study approved in FY07.

International Equity Manager Structure

International Equity Classification	Target	Actual
Enhanced Passive Non-U.S.	11.5%	17.8%
Active Core	60.0	61.0
Small Cap	12.0	4.7
Emerging Markets	16.5	16.5
Total	**100.0%**	**100.0%**

International equity markets posted modest losses for the year ended June 30, 2008, falling 6.2 percent as measured by the MSCI All Country Ex-U.S. Free Index. The emerging markets sector, which are the developing economies in the international markets and represent a 19.8 percent weighting in the international index, was the only region to post positive returns, returning 4.9 percent. Within the emerging markets, the Latin American region was the biggest gainer, led by Brazil's rise of 53.9 percent. In the developed portion of the non-U.S. markets, Canada, which represents 7.4 percent in the international index, was the best-performing developed market for the year ended June 2008, advancing by 14.5 percent. Europe, the largest international equity region representing 50.0 percent of the MSCI ACWI Index dropped more compared to the broad market advance, depreciating by 10.8 percent. Ireland, with its heavy financial exposure was the worst-performing European country, dropping 36.2 percent.

The TRS international equity portfolio recorded negative returns for FY08 losing 7.7 percent, net of fees, underperforming its index by 1.5 percent. Even though the portfolio held an overweight position in the emerging markets, TRS managers have underweighted some of the more risky markets such as Russia and China, and overweighted the more developed emerging countries of Korea and Taiwan, which underperformed. The TRS portfolio also holds a considerable underweight exposure to Canada, which led all developed markets last year.

At the sector level, TRS was underexposed to basic materials and energy, sectors that have continued to advance beyond TRS managers' expectations. These industries are often considered much more cyclical in nature and do not possess the long-term quality sought by TRS international equity managers. TRS managers have moved assets into lower risk sectors such as telecom, health care, and consumer staples, which have not kept up with the cyclical sectors.

Portfolio Characteristics

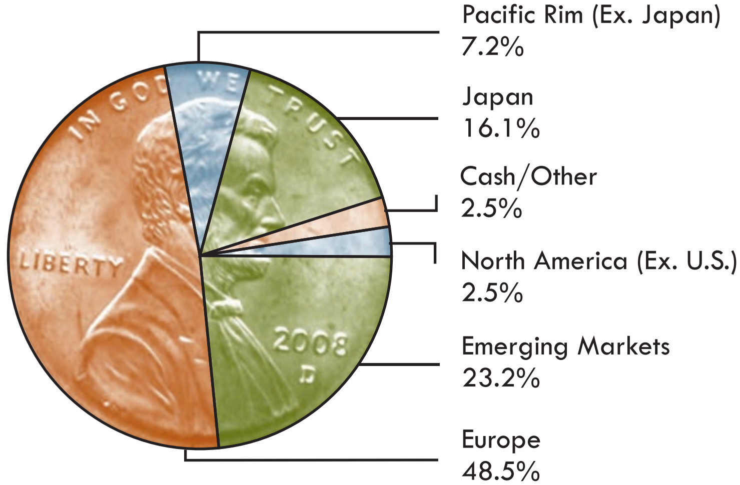
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted Average Market Cap (billions)	$49.4	$59.9
Price/Earnings Ratio	12.6x	12.8x
Dividend Yield	3.2%	3.3%
Price/Book Ratio	1.8x	1.9x

Source: The Northern Trust Company

Regional Allocation Comparison June 30, 2008
TRS International Equity Exposure



Global Fixed Income

Global fixed income is a financial obligation of an entity including, but not limited to, U.S. and foreign 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.

Global fixed income is an important asset class 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, 2008, TRS's fixed income managers earned a 5.1 percent return, net of fees, compared to the 7.1 percent return of the benchmark, the Lehman Brothers U.S. Aggregate Index. For periods longer than one year, TRS utilized a blended index of U.S. and non-dollar targets.

One-, three-, five-, and 10-year comparisons to the relative benchmarks are noted below:

	FY08	3-Year	5-Year	10-Year
TRS, net of fees	**5.1%**	**3.7%**	**3.7%**	**5.3%**
TRS Fixed Income Index	7.1	4.1	3.9	5.5

As of June 30, 2008, TRS employed fixed income managers overseeing assets of $6.6 billion, as identified in the Global Fixed Income Managers and Assets Under Management table. This table categorizes manager assignments by core plus, international, enhanced indexed, and long duration. 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 seek to offer enhanced returns while maintaining a similar risk profile to that of the index.

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

Core Plus	
Dodge & Cox (11/03)	$533,156,327
Dolan McEniry Capital Management, L.L.C. (5/06)	169,812,988
EARNEST Partners Limited, L.L.C. (2/02)	238,599,143
Goldman Sachs Asset Management, L.P. (5/06)	987,604,434
ING Investment Management Company (5/06)	779,677,438
Pacific Investment Management Company, L.L.C. (7/82)	1,370,221,786
Taplin, Canida & Habacht (3/04)	501,519,458
International	
Franklin Advisors, Inc. (2/08)	382,435,011
Enhanced Indexed	
Lehman Brothers Asset Management, L.L.C. (2/06)	987,923,142
Long Duration	
Loomis Sayles & Company, L.P. (6/08)	529,537,693

Note: This list does not include mangers terminated prior to June 30, 2008 with residual assets in the account.

The following table lists the top 10 global fixed income securities held by TRS's managers as of June 30, 2008. These securities represent 11.4 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, 2008

Security/Position	Rate	Maturity Date	Market Value
U.S. Treasury Note	3.88%	5/15/2018	$189,282,451
Federal National Mortgage Association TBA	5.50	7/01/2038	126,879,506
Federal National Mortgage Association TBA	5.00	7/01/2023	114,096,806
Federal National Mortgage Association TBA	5.00	1/15/2038	107,004,811
U.S. Treasury Note	3.50	5/31/2013	106,383,763
Federal Home Loan Mortgage Corporation Gold	5.50	7/01/2038	99,233,825
Federal National Mortgage Association	5.00	3/01/2036	89,024,673
Federal National Mortgage Association TBA	6.00	12/31/2040	79,308,934
U.S. Treasury Note	3.38	6/30/2013	58,422,797
Federal Home Loan Mortgage Corporation Gold	6.00	7/15/2034	55,785,330
Total			**$1,025,422,896**

Source: The Northern Trust Company and TRS

Discussion of Global Fixed Income

At June 30, 2008, 17.2 percent of TRS's investment portfolio was assigned to global fixed income managers. During FY08, TRS reduced global fixed income towards the long-term target of 15.0 percent.

A flight to quality occurred during FY08 as treasuries and inflation-linked securities outperformed nearly every debt sector. Spreads in corporate bonds, mortgages, commercial mortgage-backed securities, and other mortgage-related debt issued widened significantly over the last 12 months. Most TRS managers were overweight to spread, or non-treasury, sectors that detracted from TRS's short-term global fixed income performance. Though FY08 performance was nearly 2.0 percent under the Lehman Aggregate, longer term performance remains in line with the investment grade aggregate index.

After easing interest rates by 2.25 percent during FY08, the Federal Reserve left the federal funds rate unchanged at its meeting in June 2008. With global liquidity remaining a significant concern, the Federal Reserve and Department of the Treasury continued to take action to "unfreeze" the credit markets. Going forward, the TRS global fixed income portfolio is positioned to take advantage of liquidity improvements and as corporate and mortgage spreads eventually decrease approaching historical averages.

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

Statistical Data

Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/08	Lehman Brothers Aggregate Bond Index 6/30/08	TRS Fixed Income Portfolio 6/30/07	Lehman Brothers Aggregate Bond Index 6/30/07
Average Maturity	9.9 years	7.5 years	7.2 years	7.3 years
Effective Duration	4.7 years	4.7 years	4.2 years	4.9 years
Average Coupon	5.2%	5.4%	4.7%	5.4%
Average Quality Rating	Aa1	Aa2	Aa2	Aa2
Current Yield	5.3%	5.3%	5.0%	5.5%

Source: Lehman Brothers and TRS

Global Fixed Income Managers Sector Weighting

TRS Fixed Income Portfolio	2008	2007
U.S. Treasury	9.9%	5.4%
Government Bonds — Foreign	4.0	0.7
U.S. Federal Agency	5.6	10.1
Agency Bonds — Foreign	0.7	0.2
Asset Backed Securities — U.S. and Foreign	3.1	3.2
U.S. Mortgage-Backed Securities	33.5	36.5
Commercial Mortgage Backed and Collateralized Mortgages	12.4	12.4
U.S. Corporate or Credit Securities	26.8	18.5
Corporate or Credit Securities — Foreign	4.2	2.2
Inflation-Linked Securities — U.S. and Foreign	1.0	0.9
Municipal and Province	0.4	0.1
Preferred Stock	0.3	0.3
Bank Loans — U.S.	0.2	0.0
U.S. Corporate Convertibles — U.S. and Foreign	0.3	0.0
Net Short-term Investments	(2.4)	9.5
Total	**100.0%**	**100.0%**
Total U.S. and Non-U.S. Futures Exposure	22.9%	17.2%
Total Foreign Currency Exposure	11.4	2.7
Total Swap Exposure — Ex-Swaptions	12.6	7.6
Total High Yield Exposure	4.7	2.6
Total Emerging Markets Debt Exposure	4.2	1.0

Source: The Northern Trust Company and TRS

Diversification by Quality Rating for Global Fixed Income Portfolios

Moody's Quality Rating	2008	2007
Agency	5.4%	12.2%
Treasury	7.9	5.1
Aaa	53.0	58.7
Aa1 through Aa3	8.8	7.2
A1 through A3	9.8	4.9
Baa1 through Baa3	9.0	6.0
Ba1 through Ba3	1.7	2.9
B1 through B3	1.4	1.4
Other*	3.0	1.6
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

Real Return

The real return asset class is a recognition of the significant impact inflation can have on an investment portfolio and its return objectives. Traditional asset classes, such as stocks and bonds, tend to perform well in periods of stable or falling inflation. However, inflationary periods have historically been very challenging for these asset classes.

The objective of the real return asset class is to exceed the Consumer Price Index by 5.0 percent. Real return strategies are less correlated with traditional stock and bond portfolios and provide inflation protection and excess returns during periods of rising inflation while reducing overall risk to the total fund.

For the year ended June 30, 2008, TRS's real return investment managers earned a 20.5 percent return, net of fees, compared to the 10.3 percent return of the benchmark. FY08 was the first full year of implementation for the real return asset class; therefore, performance information is only available for the one-year period.

At June 30, 2008, 8.0 percent of TRS's investment portfolio was assigned to real return managers. TRS employed real return managers to use global inflation-linked, global macroeconomic and broad commodities strategies during FY08. As of June 30, 2008, TRS employed the following managers and or funds including their respective assets under management.

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

Global Inflation-Linked Bonds	
New Century Advisors, L.L.C. (2/08)	$25,426,104
Pacific Investment Management Company, L.L.C. (5/07)	449,842,877
Western Asset Management Company (2/05)	464,375,809
Global Macroeconomic Strategies	
AQR Global Risk Premium Tactical Offshore Fund II, Ltd. (7/07)	233,925,187
Bridgewater All Weather Portfolio Offshore Limited (7/07)	584,719,500
Wellington Management Company Diversified Inflation Hedges Portfolio, L.L.C. (9/07)	647,279,472
Commodities	
Lehman Brothers Asset Management Offshore Strategic Commodities Fund, Ltd., sub adviser Gresham Investment Management Company, L.L.C. (3/08)	220,963,902
PIMCO Commodity Real Return Fund, L.L.C. (3/08)	207,579,629
Schroder Commodity Offshore Portfolio, L.L.P. (3/08)	224,268,200

Discussion of Real Return

In FY08, TRS's $3.1 billion real return portfolio provided strong performance results. With the commodities markets continuing to rally during the year fueling headlines and core inflation, combined with the continued weakness of the U.S. dollar, the real return portfolio generated a one-year return of 20.5 percent, net of fees. The following chart provides a breakdown of TRS's diversified target allocation relative to the actual allocation as of June 30, 2008.

Real Return Target and Actual Allocation as of June 30, 2008

Real Return Subclasses	Target	Actual
Global Inflation-linked Bonds	20.0%	29.9%
Global Macroeconomic Strategies	70.0	48.8
Commodities	10.0	21.3
Total	**100.0%**	**100.0%**

TRS moved $1.7 billion into real return mandates in FY08, primarily from domestic stocks, further reducing TRS's volatility and overall risk exposure. During FY09, TRS will complete its long-term target 10.0 percent allocation to the real return asset class, adding an additional global macroeconomic strategy and slightly reducing overall commodity exposure.

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 privately held companies 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, 2008, private equity outperformed the benchmark by 13.3 percentage points.

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 10.7 percent over the 10-year period. This performance, as well as the performance of the private equity portfolio since TRS first began investing in private equity, is well above expectations. One-, three-, five-, and 10-year comparisons to this benchmark are noted in the following table:

	FY08	3-Year	5-Year	10-Year
TRS, net of fees	**3.3%**	**18.3%**	**17.0%**	**16.7%**
Russell 3000 Index + 3.0%	(10.0)	7.9	11.7	6.0

At June 30, 2008, 6.3 percent of the TRS investment portfolio was assigned to the private equity asset class. The following chart lists the private equity partnerships/funds (and the respective assets under management) that TRS has hired or made commitments as of June 30, 2008.

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

Buyout	
Advent International Global VI, L.P. (2/08)*	$0
Apollo Investment Fund V, L.P. (5/01)	117,469,704
Apollo Investment Fund VI, L.P. (8/05)	117,937,736
Apollo Investment Fund VII, L.P. (8/07)	23,294,142
Banc Fund VI, L.P. (12/02)	36,450,928
Banc Fund VII, L.P. (5/05)	23,245,337
Carlyle Partners IV, L.P. (12/04)	103,489,773
Carlyle Partners V, L.P. (5/07)	40,240,002
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	83,596,895
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (2/06)	85,119,904
Castle Harlan Partners IV, L.P. (5/03)	27,431,097
Code Hennessy & Simmons V, L.P. (2/05)	16,217,486
DLJ Merchant Banking Partners II, L.P. (3/97)	14,195,650
DLJ Merchant Banking Partners III, L.P. (9/00)	106,538,278
Elevation Partners, L.P. (2/05)	10,840,737
Energy Capital Partners I, L.P. (2/06)	17,753,463
Evercore Capital Partners II, L.P. (4/03)	40,382,177
Glencoe Capital Partners III, L.P. (1/04)	11,684,333
Glencoe Capital Institutional Partners III, L.P. (6/04)	5,204,169
Green Equity Investors V, L.P. (2/07)	13,594,154
GTCR Fund VII/VIIA, L.P. (3/00)	13,009,299
GTCR Fund VIII, L.P. (7/03)	39,119,177
Hispania Private Equity, L.P. (5/04)	110,106
ICV Partners II, L.P. (12/05)	2,486,404
J.C. Flowers II, L.P. (2/07)	32,836,448
KH Growth Equity Fund, L.P. (2/08)	538,159
KKR 1996 Fund, L.P. (5/97)	11,028,935
Lehman Brothers Merchant Banking III, L.P. (2/05)	39,401,690
Lehman Brothers Merchant Banking IV, L.P. (2/07)	1,482,355
Madison Dearborn V, L.P. (7/06)	82,446,852
Mesirow Capital Partners VII, L.P. (6/97)	1,251,341
New Mountain Capital Partners III, L.P. (5/07)	10,689,184
PAI Europe V, L.P. (2/08)	57,429
Pine Brook Capital Partners, L.P. (12/07)	7,241,373
Providence Equity Partners (3/07)	49,926,063
Reliant Equity Partners, L.P. (6/04)	520,387
Riverstone/Carlyle Global Energy and Power Fund IV, L.P. (12/07)	4,502,260
Silver Lake Partners III, L.P. (2/07)	10,889,358
TCW/Latin America Private Equity Partners, L.P. (5/97)	122,692
Technology Crossover Ventures VII, L.P. (10/07)*	0
Thayer Equity Investors V, L.P. (5/03)	36,979,174
TPG Partners IV, L.P. (12/03)	41,969,658
TPG Partners VI, L.P. (4/08)	3,900,757
Trivest Fund II, Ltd. (6/96)	3,411,499
Vista Equity Partners Fund III, L.P. (10/07)	19,978,253
VS&A Communications Partners II, L.P. (9/95)	3,132,055
VSS Communication Partners IV, L.P. (2/05)	37,036,999
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	49,401,746

Partnership was not funded at June 30, 2008; date reflects the TRS Board of Trustees approval.

Continued

Windpoint Partners VI, L.P. (5/05)	$16,780,334
WPG Corporate Development Associates V, L.P. (11/97)	3,585,525
Distressed Debt	
Avenue Europe Special Situations Fund, L.P. (5/08)	7,734,711
Avenue Special Situations Fund V, L.P. (8/07)	44,480,119
Carlyle Strategic Partners, L.P. (2/04)	23,311,405
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	48,327,671
MatlinPatterson Global Opportunities Fund III, L.P. (6/07)	41,829,677
OCM Opportunities Fund V, L.P. (6/04)	9,384,233
OCM Opportunities Fund VIIb, L.P. (12/07)	7,203,305
Subordinated Debt	
Merit Mezzanine Fund IV, L.P. (2/04)	39,817,044
Prism Mezzanine Fund, L.P. (5/04)	7,400,227
SW Pelham Fund II, L.P. (9/03)	12,361,643
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	35,214,877
William Blair Mezzanine Capital Fund II, L.P. (5/97)	9,163,123
William Blair Mezzanine Capital Fund III, L.P. (1/00)	11,530,813
Venture Capital	
21st Century Communications T-E Partners, L.P. (2/95)	336,041
Apex Investment Fund III, L.P. (6/96)	2,990,505
Apex Investment Fund V, L.P. (8/03)	19,977,480
Carlyle Venture Partners II, L.P. (10/02)	109,509,501
Carlyle Venture Partners III, L.P. (6/07)	15,003,536
Edgewater Growth Capital Partners, L.P. (11/03)	18,215,912
Edgewater Growth Capital Partners II, L.P. (2/05)	14,828,786
Evergreen Partners IV, L.P. (12/02)	17,213,103
Evergreen Partners V, L.P. (6/07)	6,739,563
Granite Ventures II, L.P. (5/05)	4,649,695
HealthPoint Partners, L.P. (6/04)	39,887,669
Hopewell Ventures, L.P. (6/04)	1,866,682
Illinois Emerging Technologies Fund, L.P. (6/04)	1,713,504
Longitude Venture Partners, L.P. (2/08)	877,227
SCP Private Equity Partners, L.P. (5/97)	9,546,766
SCP Private Equity Partners II, L.P. (6/00)	67,232,680
Shasta Ventures, L.P. (12/04)	15,613,505
VantagePoint Venture Partners IV, L.P. (6/00)	66,054,653
VantagePoint Venture Partners 2006, L.P. (12/06)	11,861,530
Warburg Pincus Private Equity, L.P. (9/00)	87,434,336
Warburg Pincus Private Equity IX, L.P. (8/05)	107,331,008
Warburg Pincus Private Equity X, L.P. (8/07)	44,173,852
WPG Enterprise Fund II, L.P. (8/94)	10,655,633
WPG Enterprise Fund III, L.P. (3/97)	9,230,653

Discussion of Private Equity

In FY08, TRS's private equity portfolio continued to generate strong performance results. With the strength of the program and the increasing quality of the portfolio, the TRS Board of Trustees affirmed its commitment to private equity, raising the asset class's long-term target to 8.0 percent, effective FY08. As such, TRS continues to steadily and prudently increase its exposure to private equity, with the full target allocation to the asset class expected in 2009. Successful implementation of this target is subject to many factors, including public market performance and sufficient availability of quality opportunities in the market. The following chart provides a further breakdown of TRS's targeted style allocation as compared to the actual allocation at June 30, 2008.

Private Equity Target and Actual Allocation as of June 30, 2008

Subclasses	Target	Actual
Buyout	60-70%	59.0%
Venture Capital	10-20	28.4
Special Situations/Distressed Debt/Subordinated Debt	5-15	12.6
Total		**100.0%**

Source: TRS and The Northern Trust Company

TRS made commitments to 14 private equity funds totaling $1.4 billion during the year. Three of those commitments were to funds that will invest primarily in European opportunities, which should serve to further diversify the portfolio. Going forward, the TRS Tactical Plan calls for committing approximately $800 to $1,200 million per year as TRS invests toward its long-term allocation goal.

Absolute Return

Along with the real return asset class, the absolute return class was established as a result of the FY07 asset allocation study. Like the addition of real return assets, investments in the absolute return class are designed to reduce the risk and volatility of the overall TRS portfolio. The asset class is designed to protect assets, even in the most difficult investment environments for traditional stocks and bonds.

Investments in this asset class are administered via diversified fund of funds investment managers, with a long-term target of 2.5 percent of the overall TRS investment portfolio. Managers in this strategy are benchmarked a relative risk-free index of 90-Day Treasury Bills + 4.0 percent.

For the year ended June 30, 2008, TRS's absolute return investment managers earned a 0.9 percent return, net of fees, compared to the 7.8 percent return of the benchmark. FY08 was the first full year of implementation for the absolute return asset class; therefore, performance information is only available for the one-year period.

At June 30, 2008, 1.3 percent of TRS's investment portfolio was assigned to absolute return managers. As of June 30, 2008, TRS employed the following managers including their respective assets under management.

Absolute Return Managers and Assets Under Management (inception date of account)

Diversified Fund of Funds	
Grosvenor Monarch Fund, L.L.C. (6/07)	$248,524,886
K2 Bluegill Fund, L.L.C. (6/07)	255,699,208

Discussion of Absolute Return

The first year of TRS's Absolute Return Program was in FY08. While the returns were well below the official benchmark of 90-Day Treasury Bills + 4%, the portfolio outperformed its peer group benchmark and managed to preserve value in a sharply negative equity market. Going forward, TRS plans to continue implementation of this asset class toward its target 2.5 percent allocation.

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.

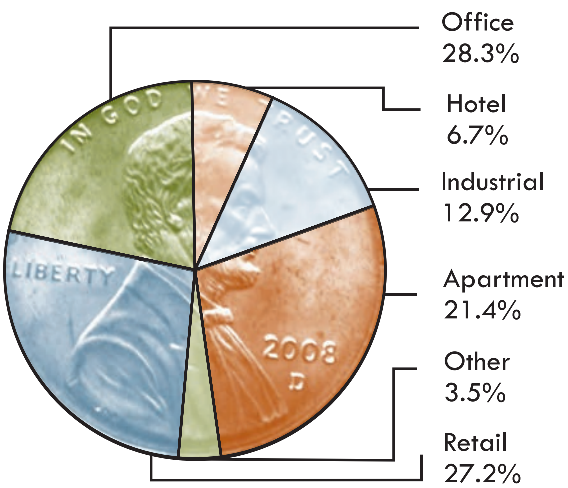
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2008, TRS held $4.8 billion in real estate assets, or 12.5 percent of the total fund portfolio. For the year, TRS's real estate investments returned 4.5 percent. Real estate performance and benchmark comparison are noted in the following table:

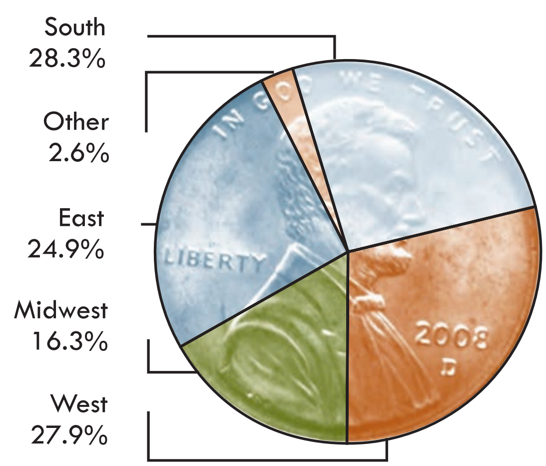
	FY08	3-Year	5-Year	10-Year
TRS, net of fees	**4.5%**	**15.9%**	**16.1%**	**12.3%**
Real Estate Property Index	9.2	15.0	14.7	11.9

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

Real Estate Holdings by Type as of June 30, 2008



Geographic Diversification of Real Estate Holdings as of June 30, 2008



Professional real estate advisors manage real estate owned by TRS. Separate account managers administer TRS's direct investments in real estate assets. Closed-end and open-end accounts represent partnership interests in real estate funds including TRS's international real estate accounts. As of June 30, 2008, TRS employed the following managers including their respective assets under management.

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

Separate Accounts	
Capri/Capital Advisors, L.L.C. (12/91)	$1,424,919,208
Cozad/Westchester Asset Management, Inc. (5/91)	26,100,818

Continued

Commonwealth Realty Advisors, Inc. I (9/91)	$951,095,502
Commonwealth Realty Advisors, Inc. II (11/92)	181,407,584
Koll Bren Schreiber Realty Advisors I (6/93)	459,480,815
Koll Bren Schreiber Realty Advisors II (5/96)	12,128
LPC Realty Advisors I, Ltd. (7/92)	380,540,363
LPC Realty Advisors Core, Ltd. (4/07)	46,209,368
Stone-Levy, L.L.C. (4/95)	213,352,787
Closed End Accounts	
Beacon Capital Partners V, L.P. (8/07)	49,479,270
Blackstone Real Estate Partners VI, L.P. (9/07)	23,274,703
Capri/Capital Apartment Fund III (3/90)	152,482,289
Capri Select Income Fund II, L.L.C. (12/05)	19,968,022
Carlyle Realty Partners IV (6/05)	54,729,667
DLJ Real Estate Capital Partners, Inc. (3/96)*	872,090
JBC Opportunity Fund II, L.P. (7/03)	24,737,785
JER Real Estate Partners III, L.P. (1/05)	40,217,542
RLJ Lodging Fund II, L.P. (9/06)	44,363,595
Thayer Hotel IV, L.P. (5/04)	13,875,617
Walton Street Capital, L.L.C. (7/03)	97,265,036
Open End Accounts	
Hines-Sumisei U.S. Core Office Fund, L.P. (12/05)	234,654,256
Lion Industrial Trust (4/05)	259,050,335
International Real Estate Accounts	
Carlyle Europe Real Estate Partners, L.P. (6/03)	55,588,767
Carlyle Europe Real Estate Partners III, L.P. (9/07)	15,329,990
CB Richard Ellis Strategic Partners Europe III (4/07)	4,864,107
CB Richard Ellis Strategic Partners U.K. III (5/07)	8,974,813
LaSalle Asia Opportunity Fund III, L.P. (11/07)	2,891,873
Macquarie Global Partners Asia Fund III, L.P. (12/07)	12,142,058

* *In liquidation mode.*

Discussion of Real Estate

Competition among institutional investors for quality real estate assets has made the search for new investments more challenging, but TRS was able to achieve some growth toward the long-term target of 14 percent. In FY08, the TRS real estate portfolio grew from 11.3 percent of the total investment portfolio to 12.5 percent. TRS will continue toward the long-term target by prudently seeking new investments that meet TRS return expectations. Separately, TRS continued to upgrade the quality of the real estate portfolio by selling older assets and recognizing profits. This activity will continue in FY09. Finally, TRS began further diversification of its real estate portfolio through international investments. Through the selection of highly qualified international fund sponsors, TRS expects to further enhance the return expectations of the portfolio.

Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2008 and 2007. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2008, TRS recaptured $1.3 million in cash that was reinvested in the fund. In addition, TRS uses a portion of these commission recapture refunds to pay for Investment Department expenses. During FY08, TRS used $1.7 million of recaptured funds to offset expenditures.

Top 50 Brokers Used by TRS Managers

Broker	FY08 Commission	FY07 Commission
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	$4,331,740	$1,400,230
Goldman Sachs & Co. (Worldwide)	3,071,886	1,716,043
Morgan Stanley & Co., Inc. and all Subsidiaries (Worldwide)	2,253,082	690,317
Credit Suisse (Worldwide)	1,321,142	828,315
J.P. Morgan Securities, Inc. (Worldwide)	1,297,380	716,283
Citigroup Inc., and all Subsidiaries (Worldwide)	1,062,492	853,951
UBS Warburg Securities and all Subsidiaries (Worldwide)	863,445	1,051,721
Deutsche Bank & Securities (Worldwide)	842,254	402,561
Lehman Brothers, Inc. (Worldwide)	695,927	941,406
Liquidnet, Inc.	661,182	483,064
Bank of New York Mellon (Worldwide)	659,766	907,517
Investment Technology Group, Inc. (Worldwide)	651,209	564,341
Bear Stearns Securities Corp. (Worldwide)	591,339	596,282
Jefferies & Company	494,142	302,342
Banc of America Securities	382,367	267,801
Credit Lyonnais Securities (Worldwide)	364,804	134,710
Ivy Securities, Inc.	354,734	261,772
Macquarie Bank & Securities, Ltd. (Worldwide)	344,856	259,331
Societe Generale (Worldwide)	331,238	368,858
Instinet, L.L.C. (Worldwide)	308,801	130,727
Union Bank of Switzerland (New York)	299,806	63,958
State Street Brokerage Services	259,487	543,543
ABN AMRO Securities (Worldwide)	235,407	117,399
Knight Securities, L.P.	204,425	145,352
Piper Jaffray, Inc.	184,361	131,757
Thomas Weisel Partners, L.L.C.	183,514	134,272
Pulse Trading, L.L.C.	179,404	170,655
SG Cowen & Company (Worldwide)	176,996	168,377
PCS Securities, Inc.	167,843	14,690
Raymond James (Worldwide)	146,250	73,771
Kepler Equities (Worldwide)	139,209	49,017
Cheuvreux De Virieu (Worldwide)	136,035	56,111
Pacific Crest Securities, Inc. (Worldwide)	131,740	93,723
Magna Securities Corp.	130,186	124,293
Cantor Fitzgerald	127,565	104,298
Loop Capital Markets, L.L.C.	127,384	109,844
Guzman & Company	124,622	136,852
M. Ramsey King Securities	121,544	96,911
Dresdner Kleinwort Wasserstein (Worldwide)	121,424	75,033
B-Trade Services, L.L.C.	121,001	315,430
Nomura International (Worldwide)	119,869	121,151
Pipeline Trading Systems, L.L.C.	119,156	96,542
Williams Capital Group, L.P.	117,918	103,205
Hyundai Securities Company, Ltd.	117,394	36,421
Melvin Securities, Inc.	117,332	169,929
Cabrera Capital Markets, Inc.	117,261	75,172
Sanford Bernstein (Worldwide)	115,749	21,814
Cazenove & Co (Worldwide)	113,591	10,877
CL King & Associates, Inc.	113,092	128,165
Weeden & Co.	106,857	92,150
All Others (FY08, 252 Brokers)	4,602,416	4,757,703
Totals	**$29,962,624**	**$21,215,987**

Source: The Northern Trust Company and TRS

External Manager Fee Payments

For the year ended June 30, 2008, fee payments to external investment managers totaled $171.2 million, an increase of 23.7 percent from the year ended June 30, 2007. The increase is attributable to TRS's increased allocation to the private equity, real return, and absolute return asset classes.

Schedule of Investment Manager Fees

Investment Manager/Account	FY08	FY07
21st Century Communication T-E Partners, L.P.	$8,504	$8,622
Aberdeen Asset Management, Inc.	649,569	0
Analytic Investors, L.L.C.	1,509,108	0
American Century Global Investment Management, Inc.	40,156	0
Apex Investment Fund III, L.P.	46,088	111,319
Apex Investment Fund V, L.P.	455,624	450,000
Apollo Investment Fund V, L.P.	0	0
Apollo Investment Fund VI, L.P.	0	728,254
Apollo Investment Fund VII, L.P.	1,888,954	0
AQR Capital Management, L.L.C.	2,031,230	1,162,623
AQR Global Risk Premium Tactical Offshore Fund II, Ltd.	1,423,469	0
Avenue Europe Special Situations Fund V, L.P.	57,296	0
Avenue Special Situations Fund V, L.P.	1,734,246	0
Banc Fund VI, L.P.	1,001,875	1,001,875
Banc Fund VII, L.P.	741,045	512,595
Barclays Global Investors	1,762,560	1,896,168
Batterymarch Financial Management, Inc.	1,531,961	1,594,576
Beacon Capital Strategic Partners V, L.P.	0	0
BlackRock, Inc.	73,792	857,265
Blackstone Real Estate Partners VI, L.P.	541,667	0
Brandes Investment Partners, L.P.	4,842,701	4,608,014
Bridgewater All Weather Portfolio Offshore Limited	1,812,668	0
Byram Capital Management, L.L.C.	0	1,040,534
Capri/Capital Advisors, L.L.C.	4,447,741	4,272,463
Capri Capital Apartment Fund III	1,496,984	1,426,565
Capri Select Income II, L.L.C.	189,906	250,000
Carlyle Europe Real Estate Partners, L.P.	232,321	278,683
Carlyle Europe Real Estate Partners III, L.P.	1,267,752	0
Carlyle Group Partners IV, L.P.	131,472	573,479
Carlyle Group Partners V, L.P.	1,828,687	0
Carlyle Group/Realty Partners IV, L.P.	813,221	688,354
Carlyle Group/Riverstone Global Energy Fund II, L.P.	819,616	724,023
Carlyle Group/Riverstone Global Energy Fund III, L.P.	895,307	1,267,627
Carlyle Group/Strategic Partners, L.P.	371,464	350,000
Carlyle Ventures Capital II, L.P.	2,221,839	1,906,673
Carlyle Ventures Capital III, L.P.	1,000,000	1,082,191
Castle Harlan Partners IV, L.P.	65,220	211,227
CB Richards Ellis Strategic Partners Europe Fund III	725,942	216,003
CB Richards Strategic Partners Ellis UK Fund III	632,783	153,814
Code Hennessy & Simmons V, L.P.	0	0
Commonwealth Realty Advisors, Inc.	4,066,582	3,944,398
Copper Rock Capital Partners, L.L.C.	1,126,051	254,563
Cozad/Westchester Asset Management, Inc.	2,157,467	2,129,118
Delaware Investment Advisers	0	1,886,789
Denali Advisors, L.L.C.	45,689	0
Dimensional Fund Advisors, L.P.	60,396	0
DLJ Merchant Banking Partners II, L.P.	158,446	218,046
DLJ Merchant Banking Partners III, L.P.	374,809	305,266

Continued

Investment Manager/Account	FY08	FY07
DLJ Real Estate Capital Partners, Inc.	$0	$55,750
Dodge & Cox	3,981,071	4,891,882
Dolan McEniry Capital Management, L.L.C.	92,091	78,292
EARNEST Partners, L.L.C.	684,796	907,699
Edgewater Growth Capital Partners, L.P.	242,073	0
Edgewater Growth Capital Partners II, L.P.	95,551	0
Elevation Partners, L.P.	285,505	291,531
Emerald Advisers, Inc.	1,576,072	1,612,484
Energy Capital Partners I, L.P.	530,077	482,849
Epoch Investment Partners, Inc.	190,693	0
Evercore Asset Management, L.L.C.	176,345	79,683
Evercore Capital Partners II, L.P.	641,564	682,670
Evergreen Partners IV, L.P.	542,785	615,864
Evergreen Partners V, L.P.	624,999	655,907
Franklin Advisers, Inc.	390,179	0
Fred Alger Management, Inc.	642,338	0
Glencoe Capital Partners III, L.P.	473,338	373,422
Goldman Sachs Asset Management, L.P.	1,429,236	1,304,252
Granite Ventures II, L.P.	470,235	378,474
Grantham, Mayo, Van Otterloo & Co., L.L.C.	10,713,143	8,801,051
Great Lakes Advisors, Inc.	0	38,840
Green Equity Investors V, L.P.	396,419	0
Grosvenor Capital Management, L.L.C.	1,874,106	0
GTCR Fund VII/VIIA, L.P.	704,205	359,034
GTCR Fund VIII, L.P.	0	0
Harris Associates, L.P.	0	2,425,272
HealthPoint Partners, L.P.	566,528	261,633
Hines-Sumisei U.S. Core Office Fund, L.P.	706,359	336,757
Hispania Private Equity, L.P.	289,269	310,925
Holland Capital Management, L.P.	0	536,453
Hopewell Ventures, L.P.	538,092	534,750
ICV Partners II, L.P.	265,013	260,776
Illinois Emerging Technologies Fund, L.P.	32,000	36,000
ING Investment Management Company	1,131,825	1,030,781
INVESCO Global Asset Management (N.A.), Inc.	0	2,702,958
Jarislowsky, Fraser Limited	1,032,774	986,720
JBC Opportunity Fund II, L.P.	164,169	953,496
J.C. Flowers & Co., L.L.C.	206,977	527,537
JER Real Estate Partners III, L.P.	957,567	894,099
JP Morgan Investment Management, Inc.	29,384	0
JP Morgan Management Associates, L.L.C.	2,089,885	0
K2 Advisors, L.L.C.	2,149,630	0
KH Growth Equity Fund, L.P.	405,833	0
KKR 1996 Fund, L.P.	63,647	90,474
Koll Bren Schreiber Realty Advisors	4,667,168	6,455,559
LaSalle Asia Opportunity Fund III, L.P.	1,135,796	0
Lehman Brothers Asset Management, L.L.C.	544,200	386,375
Lehman Brothers Merchant Banking Partners III, L.P.	292,010	674,590
Lehman Brothers Merchant Banking Partners IV, L.P.	813,549	0
Lehman Brothers Asset Management Offshore Strategic Commodities Fund, Ltd., sub adviser Gresham Investment Management Company, L.L.C.	225,854	0
Lion Industrial Trust	2,078,952	1,318,769
Longitude Ventures Partners, L.P.	483,333	0
Loomis Sayles & Company, L.P.	31,936	0

Continued

Investment Manager/Account	FY08	FY07
LPC Realty Advisors I, Ltd.	$2,860,125	$6,536,021
LSV Asset Management	3,565,897	3,942,090
Macquarie Global Properties Asia Fund III, L.P.	1,300,506	0
Madison Dearborn Partners, L.L.C.	641,643	1,112,044
MatlinPatterson Global Opportunities Fund II, L.P.	536,745	1,009,340
MatlinPatterson Global Opportunities Fund III, L.P.	1,435,398	312,409
Mazama Capital Management, Inc.	3,421,775	3,110,594
McKinley Capital Management, Inc.	5,957,131	2,994,981
Merit Mezzanine Fund IV, L.P.	836,371	865,956
Mesirow Capital Partners VII, L.P.	0	0
Mondrian Investment Partners Limited	2,990,156	2,910,449
NCM Capital Advisers, Inc.	0	246,763
New Century Advisors, L.L.C.	25,242	0
New Mountain Investments III, L.P.	1,498,494	0
OCM Opportunities Fund V, L.P.	287,586	311,997
OCM Opportunities Fund VIIb, L.P.	261,193	0
Pacific Investment Management Company, L.L.C.	7,258,708	2,063,579
PAI Europe V, L.P.	197,501	0
Payden & Rygel	0	475,559
Penman Private Equity & Mezzanine Fund, L.P.	70,304	0
Piedmont Investment Advisors, L.L.C.	47,362	3,289
PIMCO Commodity Real Return Fund, L.L.C.	0	0
Pine Brook Capital Partners, L.P.	382,248	0
Prism Mezzanine Fund, L.P.	651,616	639,962
Providence Equity Partners VI, L.P.	545,059	320,146
Pyramis Global Advisors	0	2,618,206
Quantitative Management Associates, L.L.C.	1,654,000	0
Reliant Equity Partners, L.P.	127,984	160,639
RhumbLine Advisers, L.P.	134,684	112,747
Riverstone/Carlyle Global Energy and Power Fund IV, L.P.	786,997	0
RLJ Lodging Fund II, L.P.	617,666	722,603
Robeco Boston Partners Asset Management, L.P.	1,387,490	1,494,198
Schroder Commodity Offshore Portfolio, L.P.	590,894	0
SCP Private Equity Partners, L.P.	0	136,594
SCP Private Equity Partners II, L.P.	1,130,714	1,137,320
Shasta Ventures, L.P.	0	0
Silver Lake Partners III, L.P.	1,094,025	0
State Street Global Advisors	608,387	475,527
Stone-Levy, L.L.C.	1,240,078	1,597,208
SW Pelham Fund II, L.P.	304,411	355,051
T. Rowe Price Associates, Inc.	5,277,422	4,336,108
Taplin, Canida & Habacht	664,903	604,745
TCW/Latin American Private Equity Partners, L.P.	0	0
Thayer Equity Investors V, L.P.	558,760	500,202
Thayer Hotel IV, L.P.	161,270	328,806
The Northern Trust Company (Custody)	550,000	550,000
Thompson, Siegel & Walmsley, Inc.	2,092,311	1,844,131
TPG Partners IV, L.P.	0	50,481
TPG Partners VI, L.P.	610,324	0
Trilogy Global Advisors, L.L.C.	1,397,618	0
Trivest Fund II, Ltd.	0	(12,994)
Turner Investment Partners, Inc.	3,254,578	3,267,811
Tygh Capital Management, Inc.	2,728,410	2,437,786
VantagePoint Venture Partners IV, L.P.	0	0
Vista Equity Partners III, L.P.	709,971	0

Continued

Investment Manager/Account	FY08	FY07
Voyageur Asset Management, Inc.	$0	$1,364,685
VS&A Communications Partners II, L.P.	0	0
VSS Communications Partners IV, L.P.	790,962	708,379
Walton Street Capital, L.L.C.	1,078,271	1,314,459
Warburg Pincus International Partners, L.P.	0	0
Warburg Pincus Private Equity IX, L.P.	1,161,410	2,182,692
Warburg Pincus Private Equity X, L.P.	2,505,641	0
Weiss, Peck & Greer Investments/Robeco USA	0	490,014
Wellington Management Company	1,028,390	0
Wellington Management Company Diversified Inflation Hedges Portfolio, L.L.C.	4,079,718	0
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	352,695	327,622
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	721,191	755,275
Western Asset Management Company	1,458,159	2,102,306
William Blair Mezzanine Capital Fund II, L.P.	97,357	122,623
William Blair Mezzanine Capital Fund III, L.P.	158,490	252,432
Wind Point Partners VI, L.P.	44,125	305,887
WPG Corporate Development Associates V, L.P.	70,682	107,973
WPG Enterprise Fund II, L.P.	109,765	120,218
WPG Enterprise Fund III, L.P.	196,857	229,914
Total fees paid by TRS	**$171,248,449**	**$138,401,562**

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

	Amount
Northern Trust FY08 Net Securities Lending Income	$34,437,708
Total Northern Trust (6/30/08) Collateral Market Value	4,677,593,403
Total Market Value of Securities on Loan at Northern Trust (6/30/08)	4,518,174,602
Total Collateralized Percentage	104%

Source: The Northern Trust Company

ACTUARIAL

Pencil and graphite by Julie Dailey, TRS employee.

"You cannot escape the responsibility of tomorrow by evading it today."

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an ACS company

December 17, 2008

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, 2008

Ladies & Gentlemen:

Based upon our annual actuarial valuation of the Teachers' Retirement System of the State of Illinois (TRS), we have determined the pension benefit obligation of the System to be $68,632,367,000 as of June 30, 2008. The valuation was performed using the projected unit-credit actuarial cost method. Throughout the actuarial valuation report we reference the term Pension Benefit Obligation (PBO) when discussing the TRS actuarial accrued liability (AAL) because the TRS AAL is equivalent to the GASB Statement 5 PBO. Users of the TRS actuarial valuation report should consider the terms PBO and AAL to be equivalent and interchangeable.

The actuarial valuation was based on a census of retired members as of June 30, 2008, and a census of active and inactive members as of June 30, 2007, 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. In accordance with 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 did not calculate the GASB Statement No. 25 Annual Required Contribution, but provided the Normal Cost Percentage used in the calculation, and reviewed the 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

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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.

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% funded ratio 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 the phase-in to level percent of payroll funding has resumed with the fiscal year 2008 contribution. At June 30, 2008 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, 2008. 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. On August 10, 2007, the Board approved recommendations resulting from a comprehensive review of the system's experience during the five-year period July 1, 2001 through June 30, 2006. These changes were effective with the June 30, 2007 valuation. The actuarial assumptions used for the June 30, 2008 actuarial valuation are unchanged from last year.

The valuation was prepared under the supervision of Larry Langer in accordance with generally accepted actuarial principles and practice, and reviewed by Janet Cranna and S. Lynn Hill. To the best of our knowledge, it is complete and accurate. Mr. Langer and Ms. Cranna are members of the American Academy of Actuaries and meet the Academy's Qualification Standards to render the actuarial opinion contained herein.

Sincerely,

Larry Langer
Principal, Consulting Actuary

S. Lynn Hill
Director, Retirement Consulting

Janet Cranna
Principal, Consulting Actuary

LL/SLH/JC:pl

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,* as amended by GASB Statement No. 50.

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. Many of the assumptions below were revised in the 2007 actuarial experience analysis.

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.

Real wage growth (productivity): 1.2%. Adopted in the FY02 valuation.

Earnings progression: Merit and longevity increases, adjusted for inflation. Approximates 7.0 percent per year over a typical career. Adopted in the FY07 valuation.

Rates shown below include the inflation and real wage growth (productivity) assumptions.

Sample annual percentage salary increases:

Age	Male and Female
25	10.2%
30	8.4
40	7.2
50 and above	6.0

Retirement age: Graduated rates based on age and service 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 FY07 valuation. Modified rates of retirement by age and gender for members retiring under the Pipeline ERO in FY07 were adopted in the FY05 valuation.

Sample annual retirement rates per 100 participants (includes ERO retirees):

	Years of Service				
Age	5-18	19-30	31	32-33	34
54	-	7	12	38	40
55	-	12	20	38	40
60	14	27	45	45	37
65	23	33	45	45	30
70	100	100	100	100	100

Utilization of ERO among all active service retirees:

Years of Service on June 30 prior to Retirement	Age					
	54	55	56	57	58	59
19 – 30	63%	70%	69%	65%	63%	25%
31	72	72	71	71	71	38
32	66	68	68	67	66	45
33	66	68	68	67	66	45

Mortality: The 1995 Buck Mortality tables projected 16 years for males and one year for females. For beneficiaries, projected one year for both males and females, then rated forward two years for males and forward one year for females. Projected mortality improvements using Society of Actuaries Mortality Projection Scale AA are phased in over four years, beginning July 1, 2007. Adopted in the FY07 valuation.

Disability: Adopted in the FY07 valuation.

Sample annual disability rates per 100 participants:

Age	Male	Female
25	.034	.045
30	.030	.100
40	.060	.110
50	.110	.190
60	.200	.350

Termination from active service: Adopted in the FY07 valuation.

Sample annual termination rates per 100 participants:

	Nonvested Members		Vested Members	
Age	Male	Female	Male	Female
25	7.0	8.1	6.0	9.0
30	6.5	9.0	3.7	8.0
40	8.0	6.6	1.6	2.4
50	9.4	6.2	1.1	1.3
60	12.6	11.1	2.6	2.9

Severance pay: Increases with years of service at retirement, adjusted as described below table. Adopted in the FY07 valuation.

Years of Service at Retirement	Percent Retiring with Severance Pay	Severance Pay as a Percent of Final Salary
10–20	41%	13.81%
20–24	52	13.24
25–29	58	41.29
30 or more	75	15.35

The percentages in the “percent retiring with severance pay” column above were multiplied by 66.7 percent in FY08. They will be multiplied by 50 percent in FY09, 33.3 percent in FY10, and by 10 percent for retirements assumed to occur in FY11 and later because the percent of members retiring with severance is expected to decrease.

Optional service at retirement: The accrued liability for retirement benefits for active members who have not previously purchased optional service is increased to cover the employer cost of optional service purchased in the last two years of service. Sample purchases at retirement follow. Adopted in the FY07 valuation.

Years of Regular Service at Retirement	Maximum Service Purchased
10	0.388 years
20	1.131 years
25	1.245 years
30	0.886 years
34 or more	None

Unused and uncompensated sick leave: Varies by the amount of regular service at retirement. Adopted in the FY07 valuation.

Sample amount of sick leave at retirement:

Years of Service at Retirement	Sick Leave Service Credit
20	1.080 years
25	1.224 years
30	1.277 years
34	1.000 years
35 or more	none

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.

Measures of TRS's financial condition for both June 30, 2008, and June 30, 2007, are shown using market value of assets. These tests are consistent with TRS's financial statements, which are prepared in accordance with GASB Statement Nos. 25 and 50. The change to market value was first effective June 30, 1997, for determining state funding requirements for FY99.

The actuarial value of assets for FY08 and FY07 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 but not yet paid. 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	
	2008	**2007**
Total actuarial accrued liability	**$68,632,367**	**$65,648,395**
Less actuarial value of assets (net assets at market value)	38,430,723	41,909,318
Unfunded liability	**$30,201,644**	**$23,739,077**
Funded ratio	56.0%	63.8%

Analysis of Financial Experience: Reconciliation of Unfunded Liability

The net increase in the June 30, 2008, unfunded liability of $6.5 billion 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 2008, this shortfall was $1.5 billion. In 2007, the shortfall under this measurement was $1.7 billion.

The results of the July 1, 2002 to June 30, 2006 **actuarial experience analysis** were included in the June 30, 2007 valuation. The net effect of the changes was a **$2.4 billion increase** in the 2007 unfunded liability.

- The major factors increasing the liability were higher rates of service retirement; mortality improvements for retirees and beneficiaries; higher salary increases for continuing active members; and an increase in sick leave used for service credit at retirement.
- Other factors, such as lower assumed utilization of the Early Retirement Option; lower severance pay; and lower optional service purchases, offset some of the liability increase.

TRS experienced an actuarial gain under the **salary increase** assumption in FY08, with salary increases for continuing active members $154 million lower than expected, compared to an actuarial loss of $150 million in 2007 when salary increases were higher than expected. Under the **investment return** assumption, a loss occurred in FY08 and a gain occurred in FY07. In FY08, assets were assumed to earn $3.5 billion, but earnings were actually ($2.0) billion. The actuarial loss due to investments was $5.5 billion in FY08, compared to a gain of $3.8 billion in FY07.

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 an actuarial gain in 2008 and an actuarial loss in 2007. “Other” includes the effect of either more or fewer retirements than expected, retirements that were reported late to the actuary, and several other factors. The actuarial gain is primarily due to fewer retirements than expected and the cost of benefits earned during the year that were less than expected.

Reconciliation of Unfunded Liability
($ in thousands)

	Years Ended June 30	
	2008	**2007**
Unfunded liability at beginning of year	**$23,739,077**	**$22,412,024**
Additions (deductions)		
Employer cost in excess of contributions	1,529,701	1,739,187
Change in actuarial assumptions effective 6/30/07, based on 2002-2006 experience review	-	2,410,756
Net additions (deductions)	**1,529,701**	**4,149,943**
Actuarial losses (gains)		
Salary increases for continuing active members	(153,987)	149,682
Investment return	5,514,988	(3,785,653)
New entrant loss	28,587	34,305
Mortality other than expected	3,079	34,848
Fewer terminations than expected	32,821	26,924
Repayments of refunded member contributions[1]	33,390	35,889
ERO costs waived for those with 34 years of service	7,722	288,832
Delayed reporting of retirements (effect on assets)[2]	17,066	7,276
Other	(550,800)	385,007
Net actuarial losses (gains)	**4,932,866**	**(2,822,890)**
Unfunded liability at end of year	**$30,201,644**	**$23,739,077**

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

2 *379 retirements which occurred prior to 7/1/06 were not reported to the actuary until 6/30/07.*
616 retirements which occurred prior to 7/1/07 were not reported to the actuary until 6/30/08.

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 and were not based on actuarial calculations. State contributions in FY08 and FY09 are based on the statutory schedule, with the continuing appropriation provisions being used to reach the certified funding amount in FY09. 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 FY08 actuarial valuation was used to determine the required FY10 state contributions and the FY10 employer's normal cost. The FY07 actuarial valuation was used to determine the required FY09 state contributions and the FY09 employer's normal cost.

State Funding Amounts

	FY10	FY09
Benefit Trust Reserve (excludes federal contributions; excludes school district contributions)	$2,087,668,000	$1,449,889,000
Minimum benefit reserve	1,600,000	1,900,000
Total state funding amount	**$2,089,268,000**	**$1,451,789,000**
Employer's normal cost as a percentage of active member payroll	9.15%	9.27%

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
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
2007	41,909,318	65,648,395	63.8
2008	**38,430,723**	**68,632,367**	**56.0**

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
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
2007	8,149,849	23,739,077	291.3
2008	**8,521,717**	**30,201,644**	**354.4**

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 1998 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)
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	-
2003	5,622,026	25,188,870	16,122,536	23,124,823	100	69	-
2004	5,853,274	28,286,916	16,807,261	31,544,729	100	91	-
2005	5,925,696	32,861,473	17,287,860	34,085,218	100	86	-
2006	6,303,750	35,315,529	17,377,634	36,584,889	100	86	-
2007	6,500,318	39,785,368	19,362,709	41,909,318	100	89	-
2008	**6,931,518**	**41,849,964**	**19,850,885**	**38,430,723**	**100**	**75**	**-**

Other Information

Retirees and Beneficiaries Added to and Removed from Rolls

Year Ended June 30	Number at Beginning of Year	Number Added to Rolls	Number 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
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
2007**	85,103	6,473	2,340	89,236	3,344,714,652	10.8	37,482	5.7
2008	**89,236**	**4,912**	**2,686**	**91,462**	**3,551,117,836**	**6.2**	**38,826**	**3.6**

* *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.*

** *Amounts added to and removed from rolls are available beginning with the year ended June 30, 2007.*

	Amount Added to Rolls: Annual Benefit Increases	Amount Added to Rolls: New Benefit Recipients	Amount Removed from Rolls
2007	$81,629,966	$295,571,869	$51,335,633
2008	93,731,561	174,119,867	61,448,244

Pencil by Jael Bietsch, TRS employee.

Average Annual Salary for Active Members by Years of Service

Years of Service		2008	2007	2006	2005
0-5	**Number**	**42,725**	**41,244**	**40,930**	**39,728**
	Average Salary	$44,916	$43,446	$42,404	$41,444
6-10	**Number**	**31,959**	**30,520**	**28,847**	**26,557**
	Average Salary	$55,436	$53,062	$51,314	$49,536
11-15	**Number**	**21,395**	**20,469**	**20,222**	**20,295**
	Average Salary	$64,705	$62,447	$60,476	$58,195
16-20	**Number**	**14,753**	**14,422**	**14,086**	**13,429**
	Average Salary	$71,802	$69,368	$67,343	$65,276
21-25	**Number**	**10,447**	**9,814**	**9,619**	**9,431**
	Average Salary	$78,080	$74,894	$72,531	$70,278
26-30	**Number**	**8,654**	**9,484**	**10,349**	**10,667**
	Average Salary	$82,013	$78,831	$76,616	$74,127
31-35	**Number**	**5,763**	**5,301**	**6,134**	**5,900**
	Average Salary	$85,738	$82,508	$83,165	$79,236
35 +	**Number**	**790**	**694**	**785**	**744**
	Average Salary	$88,478	$84,065	$84,524	$81,497
	Total Number	**136,486**	**131,948**	**130,972**	**126,751**
	Average Salary	$60,254	$58,116	$56,916	$55,237
% Change Average Salary		**3.7%**	**2.1%**	**3.0%**	**5.9%**
Total Payroll Full & Part-time		**$8,223,827,444**	**$7,668,289,968**	**$7,454,402,352**	**$7,001,344,987**

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. FY08 salary information may vary slightly from final audited figures.

2004	2003	2002	2001	2000	1999
36,951	**38,074**	**41,120**	**38,585**	**35,192**	**34,831**
$37,633	$37,960	$36,242	$34,614	$33,070	$32,430
26,027	**25,020**	**24,258**	**24,351**	**24,053**	**21,540**
$45,568	$46,740	$45,300	$43,457	$41,616	$40,320
18,307	**17,334**	**16,812**	**16,367**	**15,661**	**15,461**
$52,771	$53,931	$52,761	$50,875	$49,109	$47,430
13,358	**12,860**	**12,215**	**11,692**	**11,304**	**11,969**
$59,820	$60,788	$59,011	$56,521	$54,335	$52,477
10,868	**11,152**	**12,575**	**13,091**	**13,363**	**14,006**
$64,881	$65,427	$63,599	$61,188	$58,918	$57,256
12,488	**12,429**	**13,256**	**13,885**	**14,278**	**14,541**
$69,276	$70,066	$68,501	$65,913	$64,254	$61,866
9,186	**7,107**	**7,484**	**7,555**	**6,895**	**6,018**
$75,643	$76,676	$76,413	$73,433	$70,455	$67,373
1,162	**804**	**843**	**809**	**713**	**692**
$77,805	$78,091	$78,831	$75,469	$71,036	$67,453
128,347	**124,780**	**128,563**	**126,335**	**121,459**	**119,058**
$52,181	$52,408	$50,895	$49,230	$47,665	$46,306
(0.4%)	**3.0%**	**3.4%**	**3.3%**	**2.9%**	**3.4%**
$6,697,274,807	**$6,539,470,240**	**$6,543,213,885**	**$6,219,472,050**	**$5,789,343,235**	**$5,513,099,748**

Active Members by Age and Years of Service as of June 30, 2008

Age		Subs	Years of Service 0-5	6-10	11-15	16-20
20-24	**Number**	**3,345**	**5,022**	**-**	**-**	**-**
	Average Salary	$4,172	$37,975	-	-	-
25-29	**Number**	**4,204**	**17,911**	**3,758**	**-**	**-**
	Average Salary	$4,499	$43,538	$51,262	-	-
30-34	**Number**	**2,306**	**6,508**	**12,069**	**1,798**	**-**
	Average Salary	$4,311	$46,747	$54,918	$61,326	-
35-39	**Number**	**2,823**	**3,954**	**5,326**	**7,724**	**1,329**
	Average Salary	$4,358	$47,131	$56,601	$64,734	$69,553
40-44	**Number**	**4,143**	**3,473**	**3,120**	**3,427**	**4,557**
	Average Salary	$4,396	$45,946	$56,340	$66,038	$72,497
45-49	**Number**	**3,569**	**2,510**	**2,810**	**2,524**	**2,509**
	Average Salary	$4,944	$46,922	$55,491	$64,247	$72,807
50-54	**Number**	**3,187**	**1,817**	**2,591**	**2,716**	**2,545**
	Average Salary	$5,125	$49,343	$57,085	$64,257	$70,256
55-59	**Number**	**2,819**	**1,052**	**1,678**	**2,358**	**2,853**
	Average Salary	$5,202	$57,595	$58,669	$65,455	$72,044
60-64	**Number**	**1,655**	**401**	**527**	**754**	**842**
	Average Salary	$4,802	$64,248	$59,368	$67,270	$72,575
65-69	**Number**	**682**	**64**	**73**	**82**	**112**
	Average Salary	$4,443	$59,499	$68,582	$64,941	$71,842
70-74	**Number**	**262**	**10**	**6**	**12**	**4**
	Average Salary	$4,508	$55,731	$59,811	$58,752	$60,113
74 +	**Number**	**91**	**3**	**1**	**-**	**2**
	Average Salary	$3,490	$71,000	$67,165	-	$44,953
	Total Number	**29,086**	**42,725**	**31,959**	**21,395**	**14,753**
	Average Salary	$4,622	$44,916	$55,436	$64,705	$71,802

FY08 salary information may vary slightly from final audited figures.

Years of Service							
21-25	26-30	31-35	36-40	41-45	46-50	51-55	Full and Part-time Member Totals
-	**-**	**-**	**-**	**-**	**-**	**-**	**5,022**
-	-	-	-	-	-	-	$37,975
-	**-**	**-**	**-**	**-**	**-**	**-**	**21,669**
-	-	-	-	-	-	-	$44,878
-	**-**	**-**	**-**	**-**	**-**	**-**	**20,375**
-	-	-	-	-	-	-	$52,874
-	**-**	**-**	**-**	**-**	**-**	**-**	**18,333**
-	-	-	-	-	-	-	$58,924
985	**-**	**-**	**-**	**-**	**-**	**-**	**15,562**
$78,104	-	-	-	-	-	-	$62,265
3,721	**908**	**-**	**-**	**-**	**-**	**-**	**14,982**
$78,166	$80,153	-	-	-	-	-	$65,556
2,420	**4,706**	**1,875**	**-**	**-**	**-**	**-**	**18,670**
$77,739	$82,121	$86,241	-	-	-	-	$71,086
2,514	**2,395**	**3,418**	**313**	**-**	**-**	**-**	**16,581**
$77,716	$82,572	$85,770	$88,959	-	-	-	$74,366
709	**554**	**417**	**323**	**38**	**-**	**-**	**4,565**
$80,473	$82,327	$83,968	$89,031	$82,055	-	-	$74,137
86	**83**	**46**	**34**	**45**	**5**	**-**	**630**
$75,854	$79,045	$79,552	$87,764	$89,040	$65,384	-	$73,408
11	**6**	**7**	**3**	**12**	**8**	**1**	**80**
$71,018	$76,082	$81,666	$74,052	$82,514	$128,399	$75,865	$74,830
1	**2**	**-**	**-**	**4**	**1**	**3**	**17**
$51,991	$56,262	-	-	$61,899	$76,554	$73,627	$63,507
10,447	**8,654**	**5,763**	**673**	**99**	**14**	**4**	**136,486**
$78,080	$82,013	$85,738	$88,867	$84,471	$102,191	$74,187	$60,254

	Average Age	Average Years of Service	Number
Full and Part-time Members	41	12	136,486
Substitutes	42	NA	29,086
All	**41**		**165,572**

Plan Summary

Administration

TRS was created and is governed by Article 16 of the Illinois Pension Code, contained in the Illinois Compiled Statutes (ILCS). An 11-member Board of Trustees is authorized to carry out duties granted to it under the article. One trustee position for an appointed member is currently vacant.

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 FY08, 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 FY08, the member contribution was 0.84 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 as service credit at retirement.

A payroll deduction program became effective July 1, 1998 and will end June 30, 2010. 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. Members were allowed to join the program until May 15, 2008. The program is being phased out over the next two years to comply with recent guidance from the Internal Revenue Service.

Refunds

After a four-month waiting period from the date last taught, a member ceasing TRS-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 TRS-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 the final average salary; 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 benefits are accrued 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

Members who are age 55 but under age 60 who have at least 20 but fewer than 35 years of service can elect the Early Retirement Option (ERO) to avoid a discounted annuity. Both the member and employer make one-time contributions at retirement. Under the terms of the ERO program described in Public Act 94-0004, the member pays 11.5 percent for each year that his or her age is under 60 or years of service is under 35, whichever is less. The employer pays 23.5 percent for each year the member is under age 60. The ERO provisions apply to members who retire after June 30, 2005 who did not qualify for a temporary extension of the original ERO program that required lower contribution rates.

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 a minimum of 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. It allows members on a limited basis to tutor, substitute, or teach part-time 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 disability 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, as well as 0.5 percent paid toward annual increases in annuity, and 0.4 percent paid for the Early Retirement Option. 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.

STATISTICAL

Pencil by Jael Bietsch, TRS employee.

"In this country, one can scarcely be so poor, but that, if he will, he can acquire sufficient education to get through the world respectably."

Pencil and graphite by Julie Dailey, TRS employee.

Statistical Section

This part of the Teachers' Retirement System's comprehensive annual financial report presents detailed information as a context for understanding the financial statements, note disclosures, and required supplementary information in context to the Teachers' Retirement System's overall health.

Section Contents

10-Year Financial Trends - Pages 104-105

These schedules contain information that allows the reader to view the change in net assets and benefit and refund deductions from net assets over a 10-year period. Both schedules help the reader understand the financial changes that have occurred over time.

Employee and Employer Contribution Rates – Page 107

This schedule offers information on the contribution rates for employees, the state, and employers to the system over a 10-year period. This schedule also allows the reader to view the percentage of contributions made to the system.

Demographics of Benefit Recipients - Pages 108-109

These schedules help the reader understand the specific groups of benefit recipients and active members of the Teachers' Retirement System including the multiple types of benefits recipients receive.

Average Benefit Payments - Pages 110-111

This schedule contains information regarding the average benefits paid to recipients over a 10-year period. The schedule allows the reader to view average payments of recipients by years of service.

Participating Employers - Page 112

This schedule allows the reader to view the 10 largest participating employers of the Teachers' Retirement System. The reader can also view the top 10 employers' total TRS membership percentage.

Changes in Net Assets, Last 10 Fiscal Years

($ in thousands)

	2008	2007	2006	2005
Additions				
Member contributions*	$865,400	$826,249	$799,034	$761,790
State of Illinois	1,041,115	737,671	534,305	906,749
Pension Obligation Bond proceeds	-	-	-	-
Employer contributions**	130,673	115,915	123,543	148,813
Investment income (net of expenses)	(2,014,902)	6,831,324	3,993,290	3,330,040
Total Additions to Plan Net Assets	**$22,286**	**$8,511,159**	**$5,450,172**	**$5,147,392**
Deductions				
Benefit payments	3,423,982	$3,111,753	$2,877,231	$2,533,103
Refunds	60,286	59,732	57,967	59,396
Administrative expenses	16,613	15,245	15,303	14,404
Other expenses	-	-	-	-
Total Deductions from Plan Net Assets	**$3,500,881**	**$3,186,730**	**$2,950,501**	**$2,606,903**
Changes in Net Assets				
Beginning of year	$41,909,318	$36,584,889	$34,085,218	$31,544,729
Net increase (decrease)	(3,478,595)	5,324,429	2,499,671	2,540,489
End of year	$38,430,723	$41,909,318	$36,584,889	$34,085,218

** 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. Beginning in FY06, it includes employer contributions for salary increases in excess of 6 percent used in final average salary calculations and for excess sick leave used for service credit.*

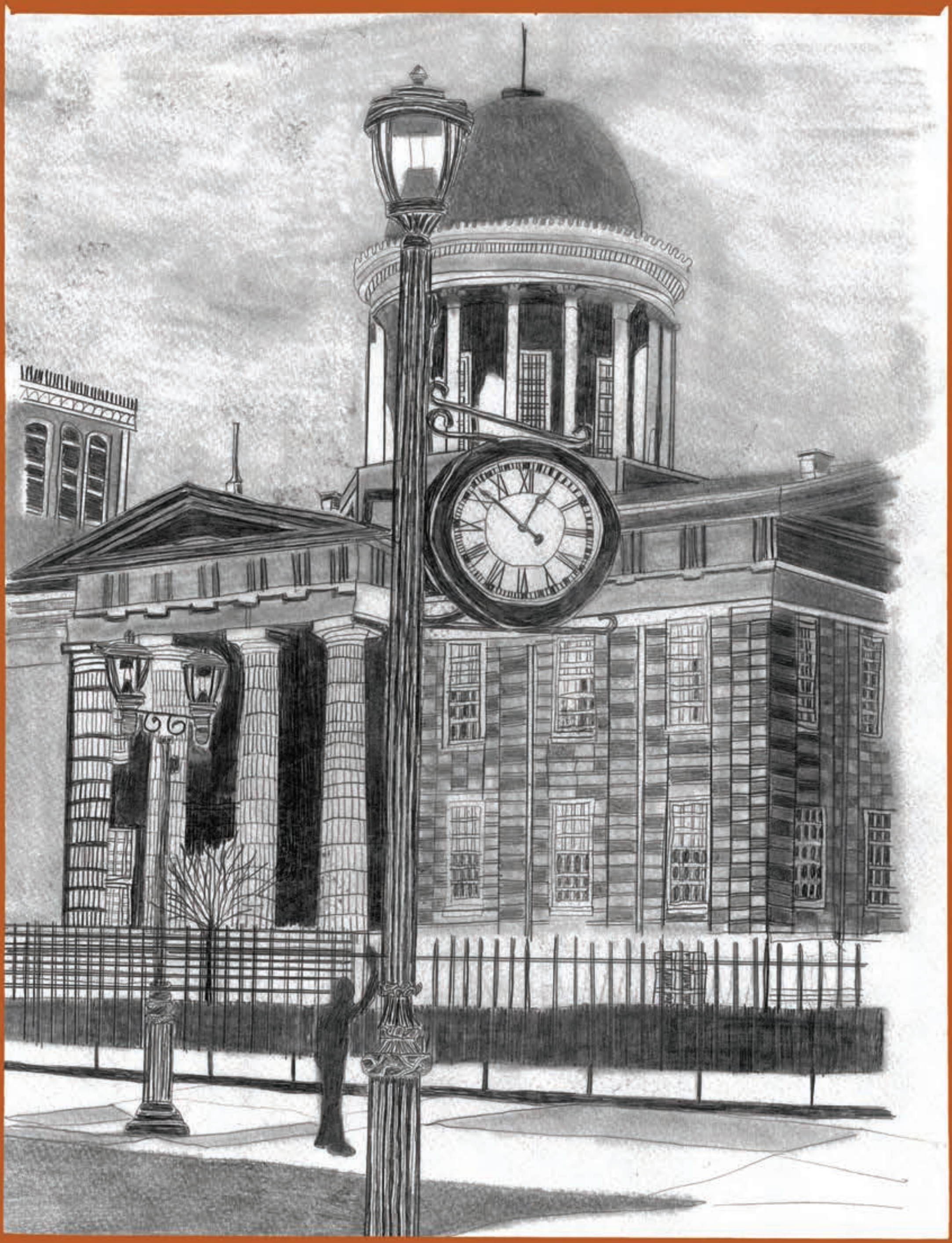
Benefit and Refund Deductions from Net Assets by Type, Last 10 Fiscal Years

($ in thousands)

	2008	2007	2006	2005
Type of Benefit				
Retirees	$3,268,108	$2,965,356	$2,741,164	$2,407,652
Survivors	130,369	121,822	112,902	103,991
Disability benefits	25,505	24,575	23,165	21,460
Total Benefits	**$3,423,982**	**$3,111,753**	**$2,877,231**	**$2,533,103**
Type of Refund				
Withdrawals	$17,280	$17,147	$17,155	$15,526
Death benefits and excess contribution refunds paid to survivors	17,182	17,081	16,747	16,541
2.2 and optional service	14,082	14,145	12,666	15,181
Survivor contributions refunded to retirees	8,522	8,808	10,198	10,354
Other	3,220	2,551	1,201	1,794
Total Refunds	**$60,286**	**$59,732**	**$57,967**	**$59,396**

2004	2003	2002	2001	2000	1999
$768,661	$732,020	$681,152	$643,563	$619,623	$866,376
1,031,478	929,710	814,740	724,008	639,299	572,951
4,330,374	-	-	-	-	-
127,573	91,552	92,618	97,618	91,298	63,645
4,485,730	1,060,853	(723,987)	(1,015,256)	2,336,217	2,089,661
$10,743,816	**$2,814,135**	**$864,523**	**$449,933**	**$3,686,437**	**$3,592,633**
$2,262,329	$1,998,622	$1,759,749	$1,566,793	$1,402,246	$1,284,127
48,020	43,115	38,756	35,849	28,797	25,859
13,561	13,859	13,487	12,641	11,681	10,680
-	-	1,892	417	10	145
$2,323,910	**$2,055,596**	**$1,813,884**	**$1,615,700**	**$1,442,734**	**$1,320,811**
$23,124,823	$22,366,284	$23,315,645	$24,481,412	$22,237,709	$19,965,887
8,419,906	758,539	(949,361)	(1,165,767)	2,243,703	2,271,822
$31,544,729	$23,124,823	$22,366,284	$23,315,645	$24,481,412	$22,237,709

2004	2003	2002	2001	2000	1999
$2,145,187	$1,890,512	$1,660,998	$1,475,490	$1,317,841	$1,205,865
97,155	88,997	80,461	74,631	68,798	63,586
19,987	19,113	18,290	16,672	15,607	14,676
$2,262,329	**$1,998,622**	**$1,759,749**	**$1,566,793**	**$1,402,246**	**$1,284,127**
$14,858	$13,204	$13,976	$13,824	$14,130	$13,410
16,145	17,734	14,927	14,343	11,768	10,757
7,977	3,699	3,483	1,740	50	-
7,835	7,024	5,587	5,174	2,828	1,692
1,205	1,454	783	768	21	-
$48,020	**$43,115**	**$38,756**	**$35,849**	**$28,797**	**$25,859**



Pencil and graphite by Julie Dailey, TRS employee.

*"Government of the people,
by the people, for the people…"*

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]
1999	9.00%	10.20%	0.30%	0.33%	10.83%
2000	9.00	10.77	0.58	0.31	11.66
2001	9.00	11.47	0.58	0.32	12.37
2002	9.00	12.16	0.38	0.35	12.89
2003	9.00	13.01	0.18	0.35	13.55
2004	9.00	13.98	0.58	0.40	14.96
2005	9.00	11.76	0.58	0.49	12.84
2006	9.40	6.75	0.58	0.31	7.64
2007	9.40	9.26	0.58	0.52	10.36
2008	**9.40**	**12.61**	**0.58**	**0.50**	**13.69**

1 *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). Pension obligation bond (POB) proceeds that were received in FY04 are not state contributions and are not included in this schedule. FY05 decline was due to calculation required under POB legislation. FY06 and FY07 rates were due to specific dollar appropriation specified in Public Act 94-0004 that were not based on the statutory ramp schedule. FY08 rate is based on statutory ramp 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, 9.78 percent in FY07, and 13.11 percent in FY08 with further increases according to the statutory schedule under 40 ILCS 5/16-158 (b-3)].*

6 *Totals shown are rates certified by the actuaries based on estimated payrolls 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, 2008
(Excludes inactive members)

	Retirees			Disability Benefit Recipients			Survivors		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Under 20	-	-	-	-	-	-	28	33	61
20-24	-	-	-	-	-	-	10	19	29
25-29	-	-	-	-	3	3	1	-	1
30-34	-	-	-	-	9	9	6	3	9
35-39	-	-	-	4	28	32	7	9	16
40-44	-	-	-	9	41	50	6	14	20
45-49	-	-	-	15	56	71	18	36	54
50-54	34	53	87	26	110	136	53	89	142
55-59	3,544	7,312	10,856	57	260	317	121	285	406
60-64	7,776	13,616	21,392	39	158	197	217	456	673
65-69	6,031	10,585	16,616	17	59	76	267	650	917
70-74	4,448	6,771	11,219	12	54	66	302	838	1,140
75-79	3,426	5,344	8,770	7	33	40	387	1,084	1,471
80-84	2,238	4,001	6,239	6	19	25	433	1,070	1,503
85-89	897	3,051	3,948	-	17	17	347	867	1,214
90+	379	2,267	2,646	-	3	3	263	728	991
Total	**28,773**	**53,000**	**81,773**	**192**	**850**	**1,042**	**2,466**	**6,181**	**8,647**

Benefit Recipients by Type as of June 30, 2008

		Type of Monthly Benefit				
Monthly Benefit Range	Number of Recipients (all)	Age Retirement	Disability Retirement	Nonoccupational Disability	Occupational Disability	Survivor Monthly Benefits
Under $500	6,664	5,140	8	2	-	1,514
$500-$999	8,011	5,437	114	10	-	2,450
$1,000-$1,499	7,648	5,493	276	24	-	1,855
$1,500-$1,999	7,389	5,894	136	86	-	1,273
$2,000-$2,499	7,304	6,333	88	79	3	801
$2,500-$2,999	7,297	6,822	39	32	1	403
$3,000-$3,499	7,979	7,705	45	21	-	208
$3,500-$3,999	7,893	7,800	23	3	-	67
$4,000-$4,499	7,631	7,584	18	1	-	28
$4,500-$4,999	6,045	6,008	15	1	-	21
$5,000-$5,499	4,513	4,494	9	-	-	10
$5,500-$5,999	3,776	3,762	5	-	-	9
$6,000-$6,499	3,016	3,010	1	-	1	4
$6,500-$6,999	2,194	2,194	-	-	-	-
$7,000-$7,499	1,531	1,530	-	-	-	1
$7,500-$7,999	963	963	-	-	-	-
$8,000 or more	1,608	1,604	1	-	-	3
Total benefit recipients	**91,462**	**81,773**	**778**	**259**	**5**	**8,647**

Summary Statistics, All Benefit Recipients, as of June 30, 2008

	Age Retirement	Disability Benefits (3 types)	Survivor Benefits
Average monthly benefit	$3,461	$1,916	$1,266
Average age	69	59	76
Average years of service	29	17	n/a

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
-	-	-	28	33	61	46%	54%	100%
1,833	6,534	8,367	1,843	6,553	8,396	22	78	100
5,866	20,008	25,874	5,867	20,011	25,878	23	77	100
5,891	16,790	22,681	5,897	16,802	22,699	26	74	100
5,595	15,560	21,155	5,606	15,597	21,203	26	74	100
4,785	14,920	19,705	4,800	14,975	19,775	24	76	100
3,880	14,671	18,551	3,913	14,763	18,676	21	79	100
4,496	17,361	21,857	4,609	17,613	22,222	21	79	100
3,968	15,432	19,400	7,690	23,289	30,979	25	75	100
1,549	4,671	6,220	9,581	18,901	28,482	34	66	100
475	837	1,312	6,790	12,131	18,921	36	64	100
155	187	342	4,917	7,850	12,767	39	61	100
39	43	82	3,859	6,504	10,363	37	63	100
7	9	16	2,684	5,099	7,783	34	66	100
2	1	3	1,246	3,936	5,182	24	76	100
2	5	7	644	3,003	3,647	18	82	100
38,543	**127,029**	**165,572**	**69,974**	**187,060**	**257,034**	**27%**	**73%**	**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
744	2,046	2,332	6	8	4	5,140
624	2,597	2,021	71	100	24	5,437
720	2,370	1,435	578	342	48	5,493
786	2,056	972	1,390	651	39	5,894
904	1,841	585	1,894	1,063	46	6,333
1,198	1,467	272	2,460	1,376	49	6,822
1,645	1,334	179	2,927	1,538	82	7,705
1,833	1,227	146	3,071	1,414	109	7,800
1,873	1,115	117	3,027	1,317	135	7,584
1,657	977	62	2,418	795	99	6,008
1,205	764	36	1,745	658	86	4,494
1,044	588	36	1,461	556	77	3,762
817	480	25	1,232	390	66	3,010
632	376	16	893	229	48	2,194
473	246	8	617	146	40	1,530
287	179	7	373	90	27	963
565	345	13	497	133	51	1,604
17,007	**20,008**	**8,262**	**24,660**	**10,806**	**1,030**	**81,773**

Percentage of Age Retirement Benefits by Subtype

21%	25%	10%	30%	13%	1%	100%

Average Benefit Payments for New Retirees
Last 10 Fiscal Years

Retirement Effective Dates	Years of Service: Under 5	5-9	10-14	15-19	20-24
Period July 1, 2007 through June 30, 2008					
Average monthly benefit	$228	$623	$1,077	$1,836	$2,713
Average final average salary	$54,905	$41,044	$40,557	$52,692	$66,593
Number of retired members	112	197	256	251	400
Period July 1, 2006 through June 30, 2007					
Average monthly benefit	$208	$595	$1,118	$1,932	$2,716
Average final average salary	$55,395	$40,331	$46,226	$56,872	$66,645
Number of retired members	132	212	233	286	492
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

** 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 Retirees
	$3,505	$4,737	$5,098	$5,413	$3,536	age 59	26 years
	$71,223	$80,631	$81,570	$79,227	$69,412		
	398	695	884	67	3,260		
	$3,744	$5,080	$5,598	$5,887	$4,260	age 58	29 years
	$75,511	$83,693	$89,451	$89,442	$77,499		
	575	1,858	1,506	139	5,433		
	$3,372	$4,728	$5,161	$5,600	$3,789	age 59	28 years
	$68,902	$77,920	$82,558	$85,399	$70,764		
	404	1,205	1,005	84	3,791		
	$3,467	$4,700	$5,264	$5,270	$4,070	age 58	30 years
	$70,637	$76,980	$84,774	$81,371	$73,078		
	737	2,992	1,637	123	6,908		
	$3,227	$4,546	$5,056	$5,206	$3,892	age 58	30 years
	–	–	–	–	$70,359		
	510	1,988	1,184	95	4,817		
	$3,147	$4,281	$4,628	$4,598	$3,534	age 58	29 years
	–	–	–	–	$62,728		
	508	1,995	1,144	81	4,915		
	$3,080	$4,301	$4,543	$4,700	$3,512	age 59	29 years
	–	–	–	–	$61,714		
	481	2,117	831	74	4,582		
	$2,857	$4,113	$4,436	$4,198	$3,250	age 59	28 years
	–	–	–	–	$58,144		
	442	1,677	762	67	4,043		
	$2,767	$3,850	$4,236	$3,991	$3,053	age 59	28 years
	–	–	–	–	$55,634		
	404	1,348	751	71	3,556		
	$2,680	$3,627	$4,090	$3,842	$2,772	age 60	27 years
	–	–	–	–	$52,277		
	395	737	623	60	2,682		

Principal Participating Employers

Participating Employer	City	Rank (2008)	Covered Employees (including subs) (2008)	Percentage of Total TRS Membership (2008)	Rank (1999)	Covered Employees (including subs) (1999)	Percentage of Total TRS Membership (1999)
		Year ended June 30, 2008			Year Ended June 30, 1999		
School District U46	Elgin	1	3,142	1.9%	1	2,635	1.9%
Indian Prairie CUSD #204	Naperville	2	2,758	1.7%	3	1,540	1.1%
Plainfield SD #202	Plainfield	3	2,578	1.6%	-	-	0.0%
Rockford School District #205	Rockford	4	2,408	1.5%	2	2,039	1.4%
Naperville CUSD #203	Naperville	5	1,761	1.1%	5	1,472	1.0%
Community USD #300	Carpentersville	6	1,568	0.9%	8	1,188	0.8%
Valley View CUSD #365	Romeoville	7	1,564	0.9%	-	-	0.0%
Springfield SD #186	Springfield	8	1,547	0.9%	6	1,380	1.0%
Peoria SD #150	Peoria	9	1,511	0.9%	4	1,486	1.0%
Schaumburg CCSD #54	Schaumburg	10	1,428	0.9%	7	1,374	1.0%
Community Unit SD #200	Wheaton	-	-	-	9	1,174	0.8%
Palatine CCSD #13	Palatine	-	-	-	10	1,082	0.8%
Total, largest 10 employers			**20,265**	**12.2%**		**15,370**	**10.8%**
All other (1,018 employers in 2008*; 1,050 employers in 1999)			**145,307**	**87.8%**		**126,816**	**89.2%**
			165,572	**100.0%**		**142,186**	**100.0%**

*Other Employers by Type as of June 30, 2008	Number of Other Employers	Other Covered Employees
Local school districts	857	137,422
Special districts	138	7,205
State agencies	23	680
Total, employers other than largest 10	**1,018**	**145,307**

Total Employers by Type as of June 30, 2008	Total Number of Employers	Total Covered Employees
Local school districts	867	157,687
Special districts	138	7,205
State agencies	23	680
Total, all employers	**1,028**	**165,572**