



COMPREHENSIVE ANNUAL FINANCIAL REPORT for the fiscal year ended June 30, 2010



**Teachers' Retirement System of the State of Illinois
a component unit of the State of Illinois**

Statement of Purpose

Retirement Security for Illinois Educators

Mission Statement

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

Fiscal Year Highlights

| | 2010 | 2009 |
|--|------------------|-------------------|
| Active contributing members | 170,275 | 169,158 |
| Inactive noncontributing members | 104,222 | 101,606 |
| Benefit recipients* | 97,754 | 94,424 |
| Total membership | 372,251 | 365,188 |
| Actuarial accrued liability (AAL) | \$77,293,198,000 | \$73,027,198,000 |
| Less actuarial value of assets (smoothed assets beginning in 2009) | 37,439,092,000 | 38,026,044,000 |
| Unfunded actuarial accrued liability (UAAL) | \$39,854,106,000 | \$35,001,154,000 |
| Funded ratio (% of AAL covered by assets, based on smoothed assets beginning in 2009) | 48.4% | 52.1% |
| Total fund investment return (loss), net of fees | 12.9% | (22.7%) |
| Expenses | | |
| Benefits paid | \$3,927,838,363 | \$3,653,713,951 |
| Refunds paid | 60,349,779 | 53,709,137 |
| Administrative expenses | 16,950,679 | 17,387,936 |
| Total expenses | \$4,005,138,821 | \$3,724,811,024 |
| Income | | |
| Member contributions | \$899,401,028 | \$876,182,122 |
| Employer contributions | 171,420,549 | 152,328,853 |
| State of Illinois contributions | 2,080,729,055 | 1,451,591,716 |
| Total investment income (loss) | 3,679,642,960 | (8,688,285,511) |
| Total income | \$6,831,193,592 | (\$6,208,182,820) |

* Benefit recipients includes retiree, disability, and survivor beneficiaries.

Many thanks to the teachers and retirees who represent the membership within our retirement system in this year's report. Thanks also to the students (and parents) who donated time for this project.

The cover photo and several other noted photographs were taken by TRS employee Michael Bracey. All other photographs were taken by TRS Communications Department employees Jael Dunn and Kathy Pearce.

Michael Bracey Photography



Retired reading teacher Nancy of Oak Park with Katherine.

COMPREHENSIVE ANNUAL FINANCIAL REPORT for the fiscal year ended June 30, 2010

Teachers' Retirement System of the State of Illinois
a component unit of the State of Illinois
2815 W. Washington | P.O. Box 19253 | Springfield, Illinois 62794-9253
<http://trs.illinois.gov>

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

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History teacher Mario of Springfield with Bryce.

I N T R O D U C T I O N

Certificate of Achievement for Excellence in Financial Reporting

Presented to

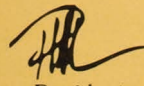
Teachers' Retirement System
of the State of Illinois

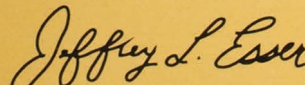
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2009

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



Letter of Transmittal

December 22, 2010

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, 2010. This year's report is one of the first external publications to use the new logo that has been adopted for the retirement system (see upper left). The new logo emphasizes people.

Our goal with this image is to send several messages at once. The apple is, of course, a universal symbol of education. We want to honor teachers and their contributions to our state and local communities. The small hand on the left, the student, represents all of society and can be thought of as thanking the teacher with the apple. The larger hand on the right represents our members. Both hands, together with the apple, also represent the everlasting connections between generations – bound together through the gift of education. Second, the gift of an apple is, in its most literal sense, meant to sustain the teacher through the day. Similarly, the goal of TRS is to sustain teachers in their retirement. They have earned what they receive. Third, the use of hands speaks to our reoccurring message that we are all about people. We have surrounded the image with our statement of purpose, "Retirement Security for Illinois Educators," which was adopted in 2001.

We also have incorporated the current "TRS" logo into the new mark for a couple of reasons: One, it is familiar to our members. Two, the "TRS" element can be used by itself on forms and paper, as needed and appropriate. Mindful of the state's budget situation, TRS will not go through the expensive process of redoing all stationary, forms, publications and signs on the outside of the buildings at once. The new logo will be added to publications, forms, letterhead and other items when they are changed or replenished.

This year's report uses the theme of our new logo with photographs of teachers we serve throughout the state. It also complies with the state law that requires its annual creation. 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. A 13-member Board of Trustees governs TRS. The Board includes the state superintendent of education, four members of TRS who are elected by active members, six 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)

| Source | 2010 | 2009 | Increase | |
|--------------------------------|----------------|------------------|-----------------|---------------|
| | | | Amount | % Change |
| Member contributions | \$899 | \$876 | \$23 | 2.6% |
| State of Illinois | 2,081 | 1,452 | 629 | 43.3 |
| Employer contributions | 171 | 152 | 19 | 12.5 |
| Total investment income/(loss) | 3,680 | (8,688) | 12,368 | 142.4 |
| Total | \$6,831 | (\$6,208) | \$13,039 | 210.0% |

Expenses (\$ millions)

| Source | 2010 | 2009 | Increase | |
|----------------------|----------------|----------------|--------------|-------------|
| | | | Amount | % Change |
| Benefits payments | \$3,928 | \$3,654 | \$274 | 7.5% |
| Refunds | 60 | 54 | 6 | 11.1 |
| Administrative/Other | 17 | 17 | 0 | 0 |
| Total | \$4,005 | \$3,725 | \$280 | 7.5% |

TRS staff and the Board of Trustees will remain vigilant in our efforts to improve the retirement system's funded status for our current and future members. We will continue to invest prudently for the benefit of our membership and for the long-term success of the retirement system. The TRS Board and staff believe the overall investment strategy remains sound.

Investments

The TRS investment portfolio had a strong year, returning 13.5 percent, gross of fees, for the fiscal year ending June 30, 2010. Total TRS investments increased by approximately \$2.5 billion during the year ending June 30, 2010.

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

Funding

During the year ended June 30, 2010, the funded ratio of the Teachers' Retirement System decreased from 52.1 percent to 48.4 percent. The actuarial value of assets at year end was \$37.4 billion and the actuarial accrued liability was \$77.3 billion. The decline in the funded ratio was due to asset sales and the continued phase-in of 2009 investment losses that were partially recognized in FY09, with the remainder recognized in fiscal years 2010 through 2013. The investment losses recognized in 2010 were partially offset by investment gains earned in FY10 and recognized in fiscal years 2010 through 2014.

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

Major Initiatives

In 2006, the 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 stress the importance of adequate funding.

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, 2009. 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 21 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 acting 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 mem-

bers. 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.



R. Stanley Rupnik, CFA
Acting Executive Director
and Chief Investment Officer



Jana Bergschneider, CPA
Director of Administration

Board of Trustees

As of December 1, 2010



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



Molly Phalen
Vice President
Rockford



Marcia Boone
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Michael Busby
Kenilworth



Jan Cleveland
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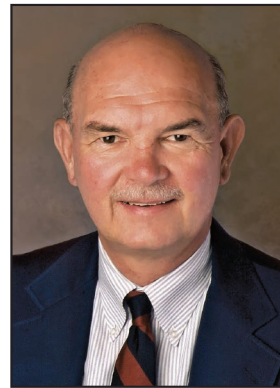
Livia Kiser
Downers Grove



Cinda Klickna
Rochester



Sharon Leggett
Evanston



Bob Lyons
Hoffman Estates



Sidney Marder
Springfield



Cynthia O'Neill
Carlyle



Janice Reedus
Indian Head Park



Sonia Walwyn
Naperville

Organizational Structure

Executive Staff Members as of December 1, 2010

Board of Trustees



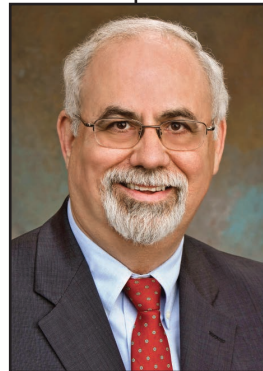
Stan Rupnik, CFA
Acting Executive Director
and Chief Investment Officer



Jana Bergschneider, CPA
Director of
Administration



Kathleen Farney, CEBS
Director of
Research



Rich Frankenfeld
Director of
Outreach



Tom Gray
General Counsel



Gina Larkin
Director of
Human Resources



Kathy Pearce
Communications
Manager



Sally Sherman
Director of
Member Services



Stacy Smith, CPA
Director of
Internal Audit



Dave Urbanek
Public Information
Officer

Consulting and Professional Services

Actuary

Buck Consultants, LLC
Chicago, Illinois

External Auditors

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

BKD, LLP
Decatur, Illinois

Information Systems

CTG Inc. of Illinois
Springfield, Illinois
Share Point Business Solutions, Inc.
Springfield, Illinois
Systems Evaluation & Analysis
Springfield, Illinois

Sentinel Technologies
Chicago, Illinois
SunGard Availability Services
Chicago, Illinois

Consultants

Callan Associates Inc.
(real estate)
San Francisco, California
PCG Asset Management LLC
(private equity)
La Jolla, California
R.V. Kuhns & Associates, Inc.
(general investment)
Portland, Oregon

Leinenweber Baroni & Daffada Consulting LLC
(legislative)
Springfield, Illinois
Risk Resources
(real estate insurance consulting)
Elmhurst, Illinois

Legal Services

Cavanagh & O'Hara
Springfield, Illinois
Holland & Knight LLP
Chicago, Illinois
Loewenstein Hagen & Smith PC
Springfield, Illinois
Sorling Northrup Hanna Cullen Cochran Ltd.
Springfield, Illinois

Heyl Royster Voelker & Allen
Springfield, Illinois
Howard & Howard Attorneys PC
Peoria, Illinois
Mayer Brown LLP
Chicago, Illinois

Master Trustee

State Street Bank and Trust Company
Boston, Massachusetts



Spanish teacher Elaine of Springfield with Natalie.

F I N A N C I A L

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, 2010 and 2009, 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, 2010 and 2009, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated December 20, 2010 on our consideration of the System's internal control over financial reporting and on our tests of the System's 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, 2010 and 2009, 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 20, 2010

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, 2010. 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, 2010 were \$31.3 billion.
- During FY10, TRS net assets increased \$2.8 billion.
- Contributions from members, employers, and the state were \$3,152 million, an increase of \$671 million or 27.1 percent for the fiscal year.
- Total investment gain was \$3,680 million, compared to investment loss of \$8,688 million in FY09, an increase of \$12,368 million.
- Benefits and refunds paid to members and annuitants were \$3,988 million, an increase of \$281 million or 7.6 percent compared to FY09.
- Total actuarial accrued liability was \$77.3 billion at June 30, 2010.
- The unfunded actuarial accrued liability increased from \$35.0 billion at June 30, 2009 to \$39.9 billion at June 30, 2010. The funded ratio decreased from 52.1 percent at June 30, 2009 to 48.4 percent at June 30, 2010. The unfunded liability and funded ratio for both years are calculated using a smoothed value of assets, as required under Public Act 96-0043.

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, 2010.

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

| | 2010 | Percentage Change | 2009 | Percentage Change | 2008 |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|
| Cash | \$11,878,310 | 208.6% | \$3,849,113 | 4.9% | \$3,668,043 |
| Receivables and prepaid expenses | 170,460,327 | (36.3) | 267,580,363 | (33.8) | 404,110,007 |
| Investments | 31,482,144,166 | 8.7 | 28,961,352,329 | (26.1) | 39,209,046,996 |
| Invested securities lending collateral | 3,501,404,035 | (17.7) | 4,251,858,945 | (4.4) | 4,445,553,283 |
| Capital assets | 4,032,313 | 8.8 | 3,707,543 | 45.5 | 2,548,814 |
| Total assets | 35,169,919,151 | 5.0 | 33,488,348,293 | (24.0) | 44,064,927,143 |
| Total liabilities | 3,846,134,937 | (22.9) | 4,990,618,850 | (11.4) | 5,634,203,856 |
| Net assets | <u>\$31,323,784,214</u> | 9.9% | <u>\$28,497,729,443</u> | (25.8%) | <u>\$38,430,723,287</u> |

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

| | 2010 | Percentage Change | 2009 | Percentage Change | 2008 |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|
| Contributions | \$3,151,550,632 | 27.1% | \$2,480,102,691 | 21.7% | \$2,037,188,622 |
| Total investment income/(loss) | 3,679,642,960 | 142.4 | (8,688,285,511) | (331.2) | (2,014,902,366) |
| Total additions/(reductions) | 6,831,193,592 | 210.0 | (6,208,182,820) | (27,956.6) | 22,286,256 |
| Benefits and refunds | 3,988,188,142 | 7.6 | 3,707,423,088 | 6.4 | 3,484,267,356 |
| Administrative expenses | 16,950,679 | (2.5) | 17,387,936 | 4.7 | 16,613,364 |
| Total deductions | 4,005,138,821 | 7.5 | 3,724,811,024 | 6.4 | 3,500,880,720 |
| Net increase/(decrease) in net assets | 2,826,054,771 | | (9,932,993,844) | | (3,478,594,464) |
| Net assets beginning of year | <u>28,497,729,443</u> | (25.8) | <u>38,430,723,287</u> | (8.3) | <u>41,909,317,751</u> |
| Net assets end of year | <u>\$31,323,784,214</u> | 9.9% | <u>\$28,497,729,443</u> | (25.8%) | <u>\$38,430,723,287</u> |

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 \$31.3 and \$28.5 billion at June 30, 2010 and 2009, respectively. Net assets increased \$2.8 billion in FY10 and decreased \$9.9 billion in FY09.

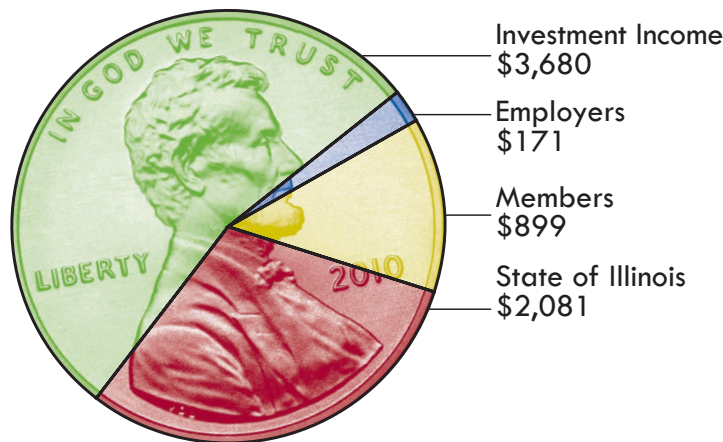
Contributions

Contributions increased \$671 million and \$443 million during FY10 and FY09, respectively. During FY10, member contributions increased \$23 million and employer contributions from school districts increased \$19 million. During FY09, member contributions increased \$11 million and employer contributions from school districts increased \$22 million. The majority of the increase in the employer contributions from school districts in FY10 is attributable to an increase in the federal funds rate and an increase in employer contributions for the 2.2 formula.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois increased \$629 million in FY10 compared to an increase of \$411 million in FY09. The increase in FY10 occurred because TRS received the full contribution rate required by state statute. The statute required a higher percent of pay because FY10 was the last year of the 15-year ramp.

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. In FY08 and FY09, 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, 2010 (\$ millions)

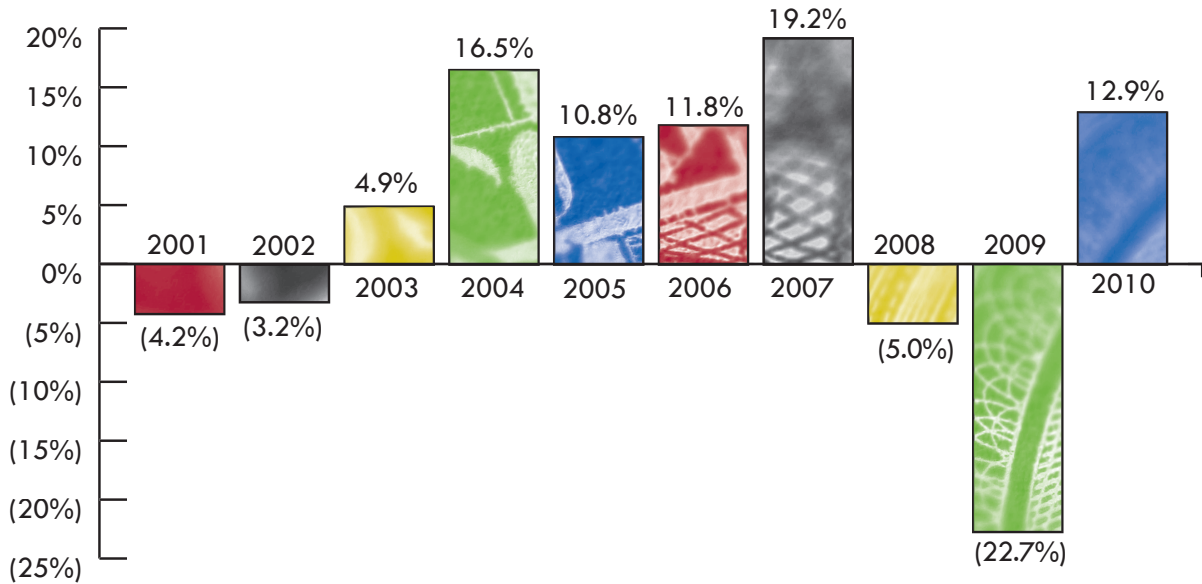


Investments

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.

Following two years of losses, global markets showed signs of recovery during the fiscal year. Within these improving market conditions, the TRS investment portfolio had a strong year, returning 13.5 percent, gross of fees, for the fiscal year ending June 30, 2010. Total TRS investment assets increased approximately \$2.5 billion during the year.

Annual Rate of Return (net of investment expenses)



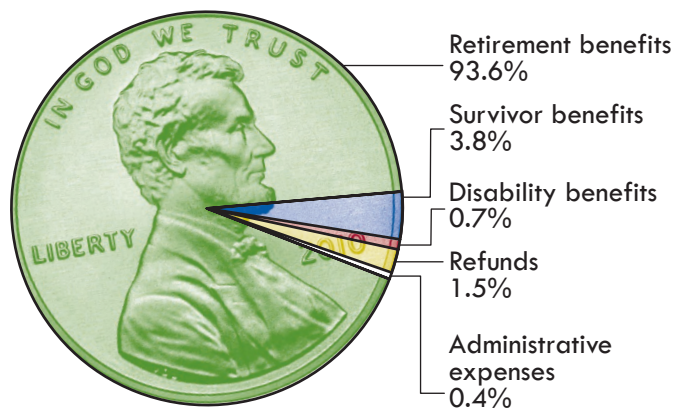
The annual rate of return is an indication of TRS investment performance and is provided by the TRS master trustee.

Benefits and Refunds

Retirement, survivor, and disability benefit payments increased \$274 and \$230 million during FY10 and FY09, respectively. During FY10, benefit payments increased from \$3,654 million with 94,424 recipients in FY09 to \$3,928 million with 97,754 recipients. The overall increase in benefit payments is due to an increase in retirement benefits and number of retirees. Retirement benefits were higher as a result of annual increases in retirement benefits and an increase in the number of retirees from 84,510 as of June 30, 2009 to 87,654 as of June 30, 2010.

Refunds of contributions increased \$6 million in FY10 and decreased \$6 million in FY09. The increase during FY10 is the result of a greater number of 2.2 upgrade refunds and ERO refunds.

Expenses by Type for the Year Ended June 30, 2010

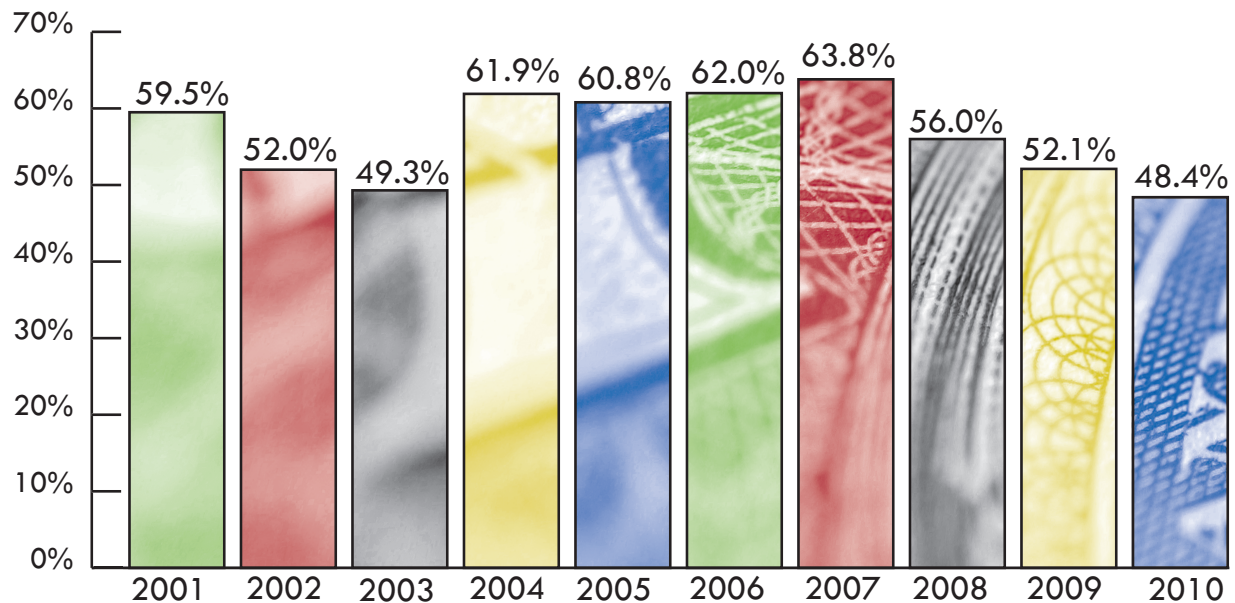


Actuarial

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 \$4.3 and \$4.4 billion during FY10 and FY09, respectively, to \$77.3 billion at June 30, 2010 and \$73.0 billion at June 30, 2009. The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The unfunded liability increased \$4.9 billion during FY10 to \$39.9 billion at June 30, 2010 compared to an increase of \$4.8 billion during FY09 to \$35.0 billion at June 30, 2009. The funded ratio reflects the percentage of the accrued liability covered by the actuarial value of assets. The funded ratio decreased to 48.4 percent at June 30, 2010 from 52.1 percent at June 30, 2009.

In 2010 and 2009, the unfunded liability and funded ratio are based on a smoothed value of assets. Public Act 96-0043 required the five state retirement systems to begin smoothing actuarial gains and losses on investments over a five-year period, beginning with the valuation for the year ended June 30, 2009.

Funded Ratio based on Actuarial Value of Assets



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. The actuarial value of assets was based on market value through 2008 and five-year smoothing beginning in 2009.

Legislation

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

Public Act 96-0889, which was signed into law in the spring of 2010, adds a new section to the Pension Code that applies different benefits to anyone who first contributes to TRS on or after January 1, 2011 and does not have any previous service credit with a pension system that has reciprocal rights with TRS. These members are referred to as "Tier II" members. Changes from the "Tier I" pension law include raising the minimum eligibility to draw a retirement benefit to age 67 with 10 years of service, initiating a cap on the salaries used to calculate retirement benefits, and limiting cost-of-living annuity adjustments to the lesser of 3 percent or $\frac{1}{2}$ of the annual increase in the Consumer Price Index, not compounded. The retirement formula is unchanged.

The new pension law does not apply to anyone who has TRS service prior to January 1, 2011. These members remain participants of Tier I, not Tier II.

Basic Financial Statements

Teachers' Retirement System of the State of Illinois Statements of Plan Net Assets as of June 30, 2010 and 2009

| | 2010 | 2009 |
|--|--------------------------------|--------------------------------|
| Assets | | |
| Cash | \$11,878,310 | \$3,849,113 |
| Receivables and prepaid expenses | | |
| Member payroll deduction | 396,472 | 24,807,518 |
| Member contributions | 50,954,327 | 54,894,577 |
| Employer contributions | 18,699,097 | 17,360,100 |
| Investment income | 94,799,065 | 163,986,012 |
| Prepaid expenses | 5,611,366 | 6,532,156 |
| Total receivables and prepaid expenses | <u>170,460,327</u> | <u>267,580,363</u> |
| Investments, at fair value | | |
| Fixed income | 6,551,272,735 | 6,374,168,717 |
| Equities | 14,411,659,754 | 13,519,469,802 |
| Real estate | 3,252,463,291 | 3,380,826,272 |
| Short-term investments | 683,859,686 | 1,062,916,049 |
| Private equity investments | 2,990,955,411 | 2,344,035,473 |
| Real return | 2,295,427,875 | 1,531,130,405 |
| Absolute return | 1,231,558,537 | 719,854,863 |
| Foreign currency | 68,454,294 | 35,797,184 |
| Derivatives | (3,507,417) | (6,846,436) |
| Total investments | <u>31,482,144,166</u> | <u>28,961,352,329</u> |
| Invested securities lending collateral | | |
| Short-term investments | 2,507,244,302 | 4,010,209,767 |
| Fixed income | 994,125,404 | 241,649,178 |
| Securities lending collateral w/State Treasurer | 34,329 | 0 |
| Total invested securities lending collateral | <u>3,501,404,035</u> | <u>4,251,858,945</u> |
| Property and equipment, at cost, net of accumulated depreciation of \$6,129,847 and \$5,601,711 in 2010 and 2009, respectively | <u>4,032,313</u> | <u>3,707,543</u> |
| Total assets | <u>35,169,919,151</u> | <u>33,488,348,293</u> |
| Liabilities | | |
| Benefits and refunds payable | 5,337,764 | 5,317,072 |
| Administrative and investment expenses payable | 64,443,676 | 104,848,696 |
| Payable to brokers for unsettled trades, net | 274,949,462 | 628,594,137 |
| Securities lending collateral | 3,501,404,035 | 4,251,858,945 |
| Total liabilities | <u>3,846,134,937</u> | <u>4,990,618,850</u> |
| Net assets held in trust for pension benefits | <u>\$31,323,784,214</u> | <u>\$28,497,729,443</u> |

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, 2010 and 2009

| | 2010 | 2009 |
|--|--------------------------------|--------------------------------|
| Additions | | |
| Contributions | | |
| Members | \$899,401,028 | \$876,182,122 |
| State of Illinois | 2,080,729,055 | 1,451,591,716 |
| Employers | | |
| Early retirement | 36,756,995 | 42,674,690 |
| Federal funds | 74,449,701 | 52,948,374 |
| 2.2 benefit formula | 53,953,836 | 51,997,483 |
| Excess salary/sick leave | <u>6,260,017</u> | <u>4,708,306</u> |
| Total contributions | <u>3,151,550,632</u> | <u>2,480,102,691</u> |
| Investment income | | |
| From investment activities | | |
| Net appreciation/(depreciation) in fair value | 2,999,370,225 | (9,453,113,362) |
| Interest | 291,830,747 | 367,244,822 |
| Real estate operating income, net | 174,189,540 | 191,035,234 |
| Dividends | 344,648,907 | 349,559,434 |
| Private equity income | 32,412,430 | 11,225,007 |
| Other investment income | <u>16,846,619</u> | <u>10,634,455</u> |
| Investment activity income/(loss) | 3,859,298,468 | (8,523,414,410) |
| Less investment expense | <u>(200,766,937)</u> | <u>(192,814,446)</u> |
| Net investment activity income/(loss) | <u>3,658,531,531</u> | <u>(8,716,228,856)</u> |
| From securities lending activities | | |
| Securities lending income | 19,544,789 | 47,582,364 |
| Securities lending management fees | (2,347,093) | (3,498,300) |
| Securities lending borrower rebates | <u>3,913,733</u> | <u>(16,140,719)</u> |
| Net securities lending activity income | <u>21,111,429</u> | <u>27,943,345</u> |
| Total investment income/(loss) | <u>3,679,642,960</u> | <u>(8,688,285,511)</u> |
| Total additions/(reductions) | <u>6,831,193,592</u> | <u>(6,208,182,820)</u> |
| Deductions | | |
| Retirement benefits | 3,749,665,623 | 3,486,697,218 |
| Survivor benefits | 151,073,880 | 140,694,965 |
| Disability benefits | 27,098,860 | 26,321,768 |
| Refunds | 60,349,779 | 53,709,137 |
| Administrative expenses | <u>16,950,679</u> | <u>17,387,936</u> |
| Total deductions | <u>4,005,138,821</u> | <u>3,724,811,024</u> |
| Net increase/(decrease) | <u>2,826,054,771</u> | <u>(9,932,993,844)</u> |
| Net assets held in trust for pension benefits | | |
| Beginning of year | <u>28,497,729,443</u> | <u>38,430,723,287</u> |
| End of year | <u>\$31,323,784,214</u> | <u>\$28,497,729,443</u> |

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)

| | 2010 | 2009 |
|------------------------|---------------------|---------------------|
| Local school districts | 867 | 867 |
| Special districts | 140 | 140 |
| State agencies | 23 | 23 |
| Total | <u>1,030</u> | <u>1,030</u> |

3. Members

TRS Membership (as of June 30)

| | 2010 | 2009 |
|--|-----------------------|-----------------------|
| Retirees and beneficiaries receiving benefits | 97,754 | 94,424 |
| Inactive members entitled to but not yet receiving benefits | 104,222 | 101,606 |
| Active members | <u>170,275</u> | <u>169,158</u> |
| Total | <u>372,251</u> | <u>365,188</u> |

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, 2010, 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 |
|--------------------------|----------------------------|-----------------------------|---------------|---------------------------------------|-----------------|---|
| 6/30/09 | \$38,026,044,000 | \$73,027,198,000 | 52.1% | \$35,001,154,000 | \$8,945,021,000 | 391.3% |
| 6/30/10 | 37,439,092,000 | 77,293,198,000 | 48.4 | 39,854,106,000 | 9,251,139,000 | 430.8 |

* Five-year prospective smoothing began in FY09.

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 regarding assumptions used in the actuarial valuations is as follows*:

| | |
|--|---|
| 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 reached in FY10; stay at level percent of pay until a 90% funding level is achieved in FY45 |
| Remaining Amortization Period: | |
| a) For GASB Statement #25 reporting purposes | 30 years, open |
| b) Per state statute | 35 years, closed (June 30, 2010) 36 years, closed (June 30, 2009) |
| Asset Valuation Method: | Five-year smoothing, prospective, beginning with June 30, 2009 valuation |
| 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. |

* See the Actuarial section for additional assumptions added in the 2010 valuation to project liabilities for Tier II members (hired beginning January 1, 2011).

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. Since July 1, 1995, state appropriations have been made through a continuing appropriation.

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. An additional source of state contributions has been the Educational Assistance 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. Since FY08, state contributions have increased according to the ramp schedule to reach a level percent of payroll by FY10.

Public Act 96-0043, effective July 15, 2009, requires TRS to use a five-year smoothing method for asset valuation beginning on June 30, 2009. It first affects state contribution requirements in FY11. The act also

authorized the sale of pension notes; proceeds received in January 2010 fulfilled the remainder of the FY10 state funding requirement. The overall goal of 90 percent funding in the year 2045 is unchanged.

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 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 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. TRS has implemented GASB 51 in the year ending June 30, 2010, with no significant financial statement impact.

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. TRS has implemented GASB 53 in the year ended June 30, 2010. Additional disclosures have been added to Note D.

In June 2010, GASB issued Statement No. 59, "Financial Instruments Omnibus." This statement addresses updating and improving existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this statement are effective for periods beginning after June 15, 2010.

4. Method Used to Value Investments

TRS reports investments at fair value. Fair value for publicly traded equities 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-publicly traded 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. Intangible assets are reported as part of property and equipment, with software having an estimated useful life from three to five 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, 2010, and 2009 totaled \$1,617,453 and \$1,504,938, 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 previously 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. TRS had outstanding balances in payroll deduction agreements totalling \$396,472 and \$24,807,518 as of June 30, 2010, and 2009, 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 was discontinued on June 30, 2010. However, employers had until July 10, 2010 to remit June deductions.

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 \$11,878,155 and \$11,878,310 at June 30, 2010, and \$4,825,486 and \$3,849,113 at June 30, 2009. Of the bank balance, \$11,877,810 and \$4,825,486 were on deposit with the state treasurer at June 30, 2010, and 2009, 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. 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, commercial paper, and repurchase agreements. 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 \$68,454,294 and \$35,797,184 at June 30, 2010 and June 30, 2009, 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, 2010, TRS held the following fixed income investments with respective quality ratings. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

| Quality Rating | Corporate Debt Securities | Foreign Debt Securities | U.S. Agency Obligations | Commingled Funds | Securities Lending Collateral | Total |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------|-------------------------------|-------------------------------|
| Aaa | \$492,355,834 | \$590,322,587 | \$2,059,283,400 | - | \$280,757,130 | \$3,422,718,951 |
| Aa1 | 20,586,071 | 35,988,983 | 1,041,798 | - | 369,530,972 | 427,147,824 |
| Aa2 | 97,533,313 | 66,272,495 | 28,775,075 | - | 213,949,247 | 406,530,130 |
| Aa3 | 72,965,663 | 21,184,279 | 14,150,755 | - | 129,888,055 | 238,188,752 |
| A1 | 113,261,803 | 118,611,128 | 18,512,839 | - | - | 250,385,770 |
| A2 | 241,945,705 | 51,387,506 | 2,612,575 | - | - | 295,945,786 |
| A3 | 152,491,630 | 32,239,381 | 22,961,828 | - | - | 207,692,839 |
| Baa1 | 196,308,469 | 171,420,089 | 29,158,741 | - | - | 396,887,299 |
| Baa2 | 261,879,317 | 72,500,229 | 21,793 | - | - | 334,401,339 |
| Baa3 | 236,993,631 | 82,430,521 | - | - | - | 319,424,152 |
| Ba1 | 169,913,124 | 21,367,442 | 14,219,524 | - | - | 205,500,090 |
| Ba2 | 56,922,047 | 87,397,418 | - | 45,615,342 | - | 189,934,807 |
| Ba3 | 101,504,265 | 17,769,942 | - | - | - | 119,274,207 |
| B1 | 55,589,087 | 7,014,542 | - | - | - | 62,603,629 |
| B2 | 63,816,797 | 14,910,482 | - | - | - | 78,727,279 |
| B3 | 56,064,616 | 13,602,240 | - | - | - | 69,666,856 |
| Caa1 | 41,916,969 | - | - | - | - | 41,916,969 |
| Caa2 | 42,749,872 | - | - | - | - | 42,749,872 |
| Caa3 | 20,810,781 | - | - | - | - | 20,810,781 |
| Ca | 8,126,453 | - | - | - | - | 8,126,453 |
| C | 423,428 | - | - | - | - | 423,428 |
| Not available | 23,955,215 | 101,395,376 | 159,191,018 | 26,253,241 | - | 310,794,850 |
| Not rated | 33,699,942 | 51,270,245 | 4,094,310 | - | - | 89,064,497 |
| Withdrawn | 6,478,250 | 3,329 | - | - | - | 6,481,579 |
| Total bonds, corporate notes and government obligations | <u>\$2,568,292,282</u> | <u>\$1,557,088,214</u> | <u>\$2,354,023,656</u> | <u>\$71,868,583</u> | <u>\$994,125,404</u> | <u>\$7,545,398,139</u> |

As of June 30, 2009, 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 | Securities Lending Collateral | Total |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------|-------------------------------|-------------------------------|
| Aaa | \$511,623,959 | \$363,659,030 | \$2,433,866,215 | - | - | \$3,309,149,204 |
| Aa1 | 27,315,513 | 33,377,187 | 1,410,747 | - | - | 62,103,447 |
| Aa2 | 90,997,364 | 90,541,261 | 2,144,177 | - | - | 183,682,802 |
| Aa3 | 86,447,606 | 7,212,552 | 38,024,756 | - | 99,952,000 | 231,636,914 |
| A1 | 173,836,310 | 18,193,541 | 1,221,766 | - | - | 193,251,617 |
| A2 | 297,306,368 | 145,657,206 | 4,385,534 | - | 141,697,178 | 589,046,286 |
| A3 | 185,577,638 | 28,981,824 | 1,862,496 | - | - | 216,421,958 |
| Baa1 | 265,736,167 | 128,435,299 | 6,866,014 | - | - | 401,037,480 |
| Baa2 | 292,671,988 | 71,254,779 | - | - | - | 363,926,767 |
| Baa3 | 236,976,608 | 4,905,906 | - | - | - | 241,882,514 |
| Ba1 | 105,343,636 | 22,574,202 | - | - | - | 127,917,838 |
| Ba2 | 44,574,784 | 3,360,800 | - | 1,712,536 | - | 49,648,120 |
| Ba3 | 60,921,723 | 55,456,022 | - | - | - | 116,377,745 |
| B1 | 23,994,077 | 4,707,185 | - | - | - | 28,701,262 |
| B2 | 36,358,825 | 3,129,211 | - | 47,943,707 | - | 87,431,743 |
| B3 | 56,337,181 | 10,312,418 | - | - | - | 66,649,599 |
| Caa1 | 67,401,182 | - | - | - | - | 67,401,182 |
| Caa2 | 53,134,171 | 512,230 | - | - | - | 53,646,401 |
| Caa3 | 13,040,181 | - | - | - | - | 13,040,181 |
| Ca | 22,629,181 | - | - | - | - | 22,629,181 |
| C | 842,629 | 160,774 | - | - | - | 1,003,403 |
| Not available | 35,523,793 | 12,705,408 | 1,099,945 | 35,743,487 | - | 85,072,633 |
| Not rated | 16,154,479 | 17,216,502 | 36,961 | - | - | 33,407,942 |
| Withdrawn | 9,668,428 | 150,900 | 3,349,879 | - | - | 13,169,207 |
| Total credit risk: debt securities | 2,714,413,791 | 1,022,504,237 | 2,494,268,490 | 85,399,730 | 241,649,178 | 6,558,235,426 |
| U.S. governments and agencies | 22,790,421 | - | 34,792,048 | - | - | 57,582,469 |
| Total bonds, corporate notes and government obligations | <u>\$2,737,204,212</u> | <u>\$1,022,504,237</u> | <u>\$2,529,060,538</u> | <u>\$85,399,730</u> | <u>\$241,649,178</u> | <u>\$6,615,817,895</u> |

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, 2010 is as follows:

| Type | 2010 Market Value | Maturity in Years | | | | | More Than 20 Years | Other* |
|---|-------------------------|----------------------|------------------------|------------------------|----------------------|------------------------|-----------------------|--------|
| | | Less Than 1 Year | 1 to 5 Years | 5 to 10 Years | 10 to 20 Years | | | |
| U.S. treasuries | \$649,461,814 | \$32,700,407 | \$337,096,311 | \$152,147,890 | \$63,935,608 | \$63,581,598 | - | |
| U.S. federal agencies | 253,893,175 | 136,971,690 | 35,638,903 | 42,894,488 | 20,995,626 | 17,392,468 | - | |
| U.S. government index-linked bonds | 287,871,078 | 13,662,829 | 72,786,779 | 44,715,268 | 138,643,299 | 18,062,903 | - | |
| U.S. government- backed mortgages | 955,686,526 | 100,509 | 1,343,462 | 97,912,352 | 117,062,446 | 739,267,757 | - | |
| U.S. municipals (taxable) | 67,915,609 | - | 10,315,198 | 3,194,494 | 18,859,159 | 35,546,758 | - | |
| U.S. government-backed bonds | 110,671,769 | 809,530 | 78,602,074 | 5,104,133 | - | 26,156,032 | - | |
| U.S. government special situations | 28,523,685 | - | - | - | - | - | 28,523,685 | |
| Credits | | | | | | | | |
| Bank loans | 988,929 | - | 988,929 | - | - | - | - | |
| Financial | 694,537,178 | 52,494,581 | 238,896,161 | 279,297,888 | 10,281,676 | 113,566,872 | - | |
| Industrial | 945,702,864 | 12,871,159 | 179,080,424 | 445,904,662 | 46,595,520 | 261,251,099 | - | |
| Utilities | 89,049,210 | 5,422,068 | 18,591,299 | 34,258,749 | 4,273,310 | 26,503,784 | - | |
| Asset-backed securities | 337,410,443 | 843,081 | 45,028,072 | 63,416,868 | 144,913,254 | 83,209,168 | - | |
| Commercial mortgage- backed securities | 136,703,649 | 8,175,680 | - | 1,580,841 | 3,940,280 | 123,006,848 | - | |
| Collateralized mortgage obligations | 322,117,221 | 517,602 | - | 24,985,397 | 7,245,073 | 289,369,149 | - | |
| Commingled/closed-end funds** | 71,868,583 | - | 26,253,241 | 45,615,342 | - | - | - | |
| Corporate convertible bonds | 41,782,788 | - | 5,735,250 | 1,956,938 | - | 34,090,600 | - | |
| Foreign debt obligations | 1,557,088,214 | 60,480,451 | 647,986,961 | 357,364,003 | 300,867,981 | 190,388,818 | - | |
| Total bonds, corporate notes and government obligations | 6,551,272,735 | 325,049,587 | 1,698,343,064 | 1,600,349,313 | 877,613,232 | 2,021,393,854 | 28,523,685 | |
| Securities lending collateral | 994,125,404 | 268,174,381 | 725,951,023 | - | - | - | - | |
| Derivatives | (3,507,417) | (4,312,180) | 1,556,261 | (751,498) | - | - | - | |
| Total bonds, corporate notes, government obligations, securities lending collateral, and derivatives | \$7,541,890,722 | \$588,911,788 | \$2,425,850,348 | \$1,599,597,815 | \$877,613,232 | \$2,021,393,854 | \$28,523,685 | |

* U.S. Government Special Situations are private funds and therefore do not have a maturity date.

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

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2009 is as follows:

| Type | 2009 Market Value | Maturity in Years | | | | |
|--|-------------------------|----------------------|------------------------|------------------------|----------------------|------------------------|
| | | Less Than 1 Year | 1 to 5 Years | 5 to 10 Years | 10 to 20 Years | More Than 20 Years |
| U.S. treasuries | \$300,375,693 | \$31,103,330 | \$110,406,350 | \$53,633,665 | \$54,143,308 | \$51,089,040 |
| U.S. federal agencies | 334,260,961 | 11,530,905 | 162,026,730 | 108,014,598 | 35,330,246 | 17,358,482 |
| U.S. government index-linked bonds | 195,845,375 | 5,108,518 | 25,329,264 | 97,904,655 | 66,274,270 | 1,228,668 |
| U.S. government backed mortgages | 1,642,564,054 | 632 | 1,851,364 | 114,633,937 | 149,415,120 | 1,376,663,001 |
| U.S. municipals (taxable) | 56,014,455 | - | 122,823 | 2,634,768 | 22,720,365 | 30,536,499 |
| Credits | | | | | | |
| Bank loans | 13,928,309 | - | 4,799,657 | 9,128,652 | - | - |
| Financial | 829,021,837 | 142,141,854 | 328,826,603 | 226,022,244 | 10,517,328 | 121,513,808 |
| Industrial | 766,386,520 | 16,594,560 | 161,485,951 | 314,377,802 | 29,394,362 | 244,533,845 |
| Utilities | 223,845,079 | 9,757,556 | 44,205,813 | 80,986,235 | 5,530,112 | 83,365,363 |
| Asset-backed securities | 242,291,664 | - | 23,655,001 | 37,414,399 | 91,603,874 | 89,618,390 |
| Commercial mortgage backed securities | 54,815,495 | 656,890 | 8,265,048 | - | 5,763,381 | 40,130,176 |
| Collateralized mortgage obligations | 604,540,058 | - | 2,820,665 | 28,957,082 | 76,813,256 | 495,949,055 |
| Commingled/closed end funds* | 85,399,730 | - | 85,399,730 | - | - | - |
| Corporate convertible bonds | 2,375,250 | 123,750 | 1,704,500 | - | - | 547,000 |
| Foreign debt obligations | 1,022,504,237 | 12,737,264 | 301,969,102 | 366,012,898 | 173,909,805 | 167,875,168 |
| Total bonds, corporate notes, and government obligations | 6,374,168,717 | 229,755,259 | 1,262,868,601 | 1,439,720,935 | 721,415,427 | 2,720,408,495 |
| Securities lending collateral | 241,649,178 | 241,649,178 | - | - | - | - |
| Derivatives | (6,846,436) | 8,812,144 | (5,654,593) | (1,524,665) | 362,393 | (8,841,715) |
| Total bonds, corporate notes, government obligations, securities lending collateral and derivatives | \$6,608,971,459 | \$480,216,581 | \$1,257,214,008 | \$1,438,196,270 | \$721,777,820 | \$2,711,566,780 |

* Weighted average maturity figures were used to plot 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, 2010 is as follows:

| Currency | Foreign Currency | Equities | Fixed Income | Derivatives | Total |
|--|----------------------------|--------------------------------|-------------------------------|-----------------------------|--------------------------------|
| Australian Dollar | \$530,520 | \$233,980,872 | \$59,135,175 | \$20,369 | \$293,666,936 |
| Brazilian Real | 4,248,306 | 91,517,002 | 35,812,383 | 1,575,903 | 133,153,594 |
| British Pound Sterling | 5,125,167 | 941,334,630 | 138,033,265 | - | 1,084,493,062 |
| Canadian Dollar | 2,010,719 | 115,155,532 | 171,777,428 | - | 288,943,679 |
| Chilean Peso | 2,669 | 749,403 | - | - | 752,072 |
| Czech Koruna | - | 14,124,750 | - | - | 14,124,750 |
| Danish Krone | 138,481 | 54,746,978 | - | - | 54,885,459 |
| Egyptian Pound | 744,176 | 13,096,163 | 18,265,490 | - | 32,105,829 |
| Euro | 23,863,130 | 1,257,802,546 | 161,835,796 | 255,452 | 1,443,756,924 |
| Hong Kong Dollar | 835,131 | 216,834,038 | - | - | 217,669,169 |
| Hungarian Forint | - | 23,792,178 | - | - | 23,792,178 |
| Indian Rupee | - | 89,914 | 12,253,127 | - | 12,343,041 |
| Indonesian Rupiah | 279,097 | 39,846,088 | 76,901,393 | - | 117,026,578 |
| Israeli Shekel | 62,691 | 5,392,286 | 14,755,162 | - | 20,210,139 |
| Japanese Yen | 13,030,927 | 1,057,124,623 | 26,618,739 | - | 1,096,774,289 |
| Malaysian Ringgit | 518,891 | 31,362,518 | 6,177,981 | - | 38,059,390 |
| Mexican Peso | 2,676,299 | 27,430,300 | 73,951,295 | - | 104,057,894 |
| Moroccan Dirham | 44,507 | 1,047,184 | - | - | 1,091,691 |
| New Taiwan Dollar | 1,224,357 | 117,043,979 | - | - | 118,268,336 |
| New Zealand Dollar | 1,984,295 | 11,425,880 | 17,179,583 | - | 30,589,758 |
| Norwegian Krone | 439,073 | 58,192,919 | - | - | 58,631,992 |
| Philippine Peso | 1,548 | 12,355,028 | - | - | 12,356,576 |
| Polish Zloty | 123 | 16,810,989 | 34,794,605 | - | 51,605,717 |
| Russian Rouble | - | 433,417 | - | - | 433,417 |
| Singapore Dollar | 227,043 | 70,755,904 | 730,929 | - | 71,713,876 |
| South African Rand | - | 38,986,055 | - | - | 38,986,055 |
| South Korean Won | 2,802,539 | 207,667,100 | 102,856,892 | 6,636 | 313,333,167 |
| Swedish Krona | 437,438 | 59,181,065 | 25,492,847 | - | 85,111,350 |
| Swiss Franc | 3,476,432 | 345,588,322 | - | - | 349,064,754 |
| Thai Baht | 3,747,600 | 68,102,695 | - | - | 71,850,295 |
| Turkish Lira | 3,135 | 93,539,588 | - | - | 93,542,723 |
| Total subject to foreign currency risk | 68,454,294 | 5,225,509,946 | 976,572,090 | 1,858,360 | 6,272,394,690 |
| Investments in international securities payable in United States dollars | - | 1,050,366,276 | 610,945,618 | - | 1,661,311,894 |
| Total international investment securities (including domestic securities payable in foreign currency) | 68,454,294 | 6,275,876,222 | 1,587,517,708 | 1,858,360 | 7,933,706,584 |
| Domestic investments (excluding securities payable in foreign currency) | - | 8,135,783,532 | 4,963,755,027 | (5,365,777) | 13,094,172,782 |
| Total fair value | <u>\$68,454,294</u> | <u>\$14,411,659,754</u> | <u>\$6,551,272,735</u> | <u>(\$3,507,417)</u> | <u>\$21,027,879,366</u> |

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2009 is as follows:

| Currency | Foreign Currency | Equities | Fixed Income | Derivatives | Total |
|--|----------------------------|--------------------------------|-------------------------------|-----------------------------|--------------------------------|
| Australian Dollar | \$486,482 | \$217,787,876 | \$41,675,825 | (\$150,075) | \$259,800,108 |
| Brazilian Real | 1,467,543 | 142,108,085 | 17,161,916 | 461,370 | 161,198,914 |
| British Pound Sterling | 5,558,214 | 833,579,445 | 86,346,515 | 2,976,925 | 928,461,099 |
| Canadian Dollar | 717,503 | 53,267,965 | 45,232,332 | - | 99,217,800 |
| Chinese Yuan | 5,728 | - | - | - | 5,728 |
| Czech Koruna | 29,288 | 4,146,661 | - | - | 4,175,949 |
| Danish Krone | 57,136 | 45,605,193 | - | - | 45,662,329 |
| Egyptian Pound | 321,135 | 8,032,414 | 179,782 | - | 8,533,331 |
| Euro | 7,264,257 | 1,238,083,511 | 164,068,384 | 566,536 | 1,409,982,688 |
| Hong Kong Dollar | 55,577 | 308,024,422 | - | - | 308,079,999 |
| Hungarian Forint | - | 8,957,190 | - | - | 8,957,190 |
| Iceland Krona | 110,418 | - | 1,054,059 | - | 1,164,477 |
| Indonesian Rupiah | 810,005 | 24,588,300 | 44,843,687 | - | 70,241,992 |
| Israeli Shekel | 16,528 | 3,140,892 | - | - | 3,157,420 |
| Japanese Yen | 2,431,194 | 969,169,984 | 26,643,290 | - | 998,244,468 |
| Malaysian Ringgit | 189,292 | 22,397,058 | 9,480,744 | - | 32,067,094 |
| Mexican Peso | 2,654,100 | 18,574,798 | 72,559,716 | - | 93,788,614 |
| Moroccan Dirham | 79,211 | 1,907,805 | - | - | 1,987,016 |
| New Taiwan Dollar | 2,772,528 | 123,840,246 | - | - | 126,612,774 |
| New Zealand Dollar | 1,115,056 | 12,990,950 | 47,090,926 | - | 61,196,932 |
| Norwegian Krone | 235,133 | 39,774,315 | - | - | 40,009,448 |
| Philippine Peso | 8,749 | 9,536,929 | - | - | 9,545,678 |
| Polish Zloty | 160,236 | 16,434,462 | 28,209,288 | - | 44,803,986 |
| Singapore Dollar | (176,812) | 74,006,997 | 645,705 | - | 74,475,890 |
| South African Rand | 1,007,407 | 40,923,436 | - | - | 41,930,843 |
| South Korean Won | 7,018,661 | 153,754,431 | 68,145,400 | (37,551) | 228,880,941 |
| Swedish Krona | 498,925 | 39,772,945 | 11,466,929 | - | 51,738,799 |
| Swiss Franc | 225,176 | 237,892,169 | - | - | 238,117,345 |
| Thai Baht | 678,859 | 47,421,199 | - | - | 48,100,058 |
| Turkish Lira | 2 | 60,310,039 | - | - | 60,310,041 |
| United Arab Emirates Dirham | (347) | - | - | - | (347) |
| Total subject to foreign currency risk | 35,797,184 | 4,756,029,717 | 664,804,498 | 3,817,205 | 5,460,448,604 |
| Investments in international securities payable in United States dollars | - | 719,884,153 | 380,431,412 | - | 1,100,315,565 |
| Total international investment securities (including domestic securities payable in foreign currency) | 35,797,184 | 5,475,913,870 | 1,045,235,910 | 3,817,205 | 6,560,764,169 |
| Domestic investments (excluding securities payable in foreign currency) | - | 8,043,555,932 | 5,328,932,807 | (10,663,641) | 13,361,825,098 |
| Total Fair Value | <u>\$35,797,184</u> | <u>\$13,519,469,802</u> | <u>\$6,374,168,717</u> | <u>(\$6,846,436)</u> | <u>\$19,922,589,267</u> |

In addition to the above, TRS's foreign currency investments in real estate and private equity were \$188,866,139 at June 30, 2010 and \$181,938,455 at June 30, 2009.

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 U.S.

securities and non-U.S. fixed income securities and 105 percent of the market value of non-U.S. equity securities, which may be reduced to 102 percent for matched currencies.

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. Under certain circumstances, 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 15 days. A portion of the cash collateral received is invested in one of the lending agent's short-term investment vehicles, which at year end has a weighted average maturity of 23 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, 2010 and June 30, 2009, TRS had outstanding loaned investment securities with a market value of \$3,473,627,126 and \$4,120,984,083, respectively, against which it had received collateral with a market value of \$3,568,594,875 and \$4,259,993,713, respectively. Securities lending collateral reflected on the Statements of Plan Net Assets reflects the securities purchased with cash collateral.

4. Derivatives

TRS, through its investment managers, invests in derivative securities as a fundamental part of the overall investment process. All TRS derivatives are considered investments and the fair value is reported in the Statements of Plan Net Assets. TRS does not directly invest in derivatives but utilizes these instruments within the investment portfolio for a variety of purposes. TRS may hold derivatives to hedge investment transactions accounted for at fair value. The term "hedge" in this context denotes the broad economic activity of entering into contracts intended to offset risks associated with certain transactions, such as the changes in interest rates on investments in debt securities, commodities or instruments denominated in a foreign currency. Assets and liabilities that are measured at fair value, such as investments, do not qualify as hedgeable items and do not meet the requirements for hedge accounting.

A derivative security is an investment whose return depends upon the value of another financial instrument or security such as stocks, bonds, commodities, or a market index. The derivative investments in TRS's portfolio are used primarily to enhance performance and reduce volatility. TRS's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or call option), the full value of the obligation is primarily held in cash or cash equivalents. For obligations to sell (short a financial future or put options), the reference security is held in the portfolio.

To varying degrees, derivative transactions involve credit risk, sometimes known as default or counterparty 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 contract 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.

At June 30, 2010, derivative investments included currency forward contracts, rights, warrants, futures, options, swaps, and swaptions. Within the financial statements, currency forward contracts are reflected as investment payables/receivables, rights and warrants are reflected as equities, and all futures, options, swaps and swaptions are classified as derivatives. The change in fair value of derivative investments is included in investment income on the Statements of Changes in Plan Net Assets.

The following table summarizes the derivatives held within the TRS investment portfolio at June 30, 2010, and the change in fair value of derivative investments during the fiscal year. The contractual principal amounts shown represent TRS's financial exposure to these instruments in U.S. dollars. Comparative data for June 30, 2009 is not available due to the change in custodians that occurred last fiscal year.

The following table summarizes the derivatives held within the TRS investment portfolio at June 30, 2010, and the change in fair value, realized and unrealized, during the fiscal year.

| Investment Derivatives | Fair Value at June 30, 2010 | Change in Fair Value | Shares/Par | Notional |
|---|------------------------------------|-----------------------------|-------------------|-------------------------------|
| Rights | \$862,895 | \$1,995,876 | 6,120,046 | \$6,120,046 |
| Warrants | 17,054,863 | 14,466,580 | 2,679,239 | 2,679,239 |
| Currency forwards | 15,985,601 | 13,793,617 | - | - |
| U.S. stock index futures | | | | |
| – long | 0 | 94,251,519 | 431,250 | 442,721,250 |
| U.S. stock index futures | | | | |
| – short | 0 | (38,625) | - | - |
| Fixed income futures – long | 0 | 44,787,811 | 745,200,000 | 824,133,108 |
| Fixed income futures – short | 0 | (4,683,755) | (134,750,000) | (164,319,877) |
| Commodity futures – short | 0 | (980) | - | - |
| U.S. equity put index options purchased | 972,000 | 311,741 | 54,000 | 581,508 |
| U.S. equity put index options written | (2,051,550) | (339,669) | (42,300) | 1,716,534 |
| Currency forward put options purchased | 1,386,186 | (268,700) | 46,020,000 | 8,478,138 |
| Currency forward put options written | (1,279,068) | 65,288 | (31,820,000) | 6,610,384 |
| Inflation put options written | (392,868) | (87,388) | (35,100,000) | 35,100,000 |
| Options on futures bought | 489,244 | (3,926,582) | 279,827,000 | 284,031,892 |
| Options on futures written | (87,375) | 2,798,004 | (73,964,500) | 22,374,800 |
| Swaptions bought | 340,196 | (8,677,262) | 36,390,000 | 36,390,000 |
| Swaptions written | (4,113,619) | 8,640,073 | (465,500,000) | 12,482,754 |
| Credit default swaps buying protection | (57,332) | (901,506) | 49,560,000 | 49,574,322 |
| Credit default swaps selling protection | (1,791,827) | 7,947,954 | 221,335,911 | 219,805,767 |
| Pay fixed interest rate swaps | 114,032 | (7,186,725) | 3,200,000 | 1,889,344 |
| Receive fixed interest rate swaps | 2,773,830 | 19,330,480 | 7,977,300,000 | 196,236,562 |
| Receive fixed inflation swaps | 190,734 | (25,748) | 5,100,000 | 6,437,724 |
| Grand totals | <u>\$30,395,942</u> | <u>\$182,252,003</u> | | <u>\$1,993,043,495</u> |

Currency Forward Contracts

Objective: Currency forward contracts are agreements to exchange one currency for another at an agreed-upon price and settlement date. TRS's investment managers use these contracts primarily to hedge the currency exposure of its investments.

Terms: Currency forward contracts are two-sided contracts in the form of either forward purchases or forward sales. Forward purchases obligate TRS to purchase specific currency at an agreed upon price. Forward sales obligate TRS to sell specific currency at an agreed upon price. At June 30, 2010, TRS had currency forward purchase or sale contracts for 24 different currencies. These contracts have various settlement dates within 12 months of June 30, 2010.

Fair Value: As of June 30, 2010 and June 30, 2009, TRS's open currency forward contracts had a net fair value of \$15,985,601 and (\$5,359,472), respectively. The following table represents the unrealized gain/(loss) on the contracts at June 30.

| | As of June 30, 2010 | As of June 30, 2009 |
|----------------------------|------------------------|------------------------|
| Forward currency purchases | \$1,562,895,942 | \$1,121,894,107 |
| Forward currency sales | <u>(1,546,910,341)</u> | <u>(1,127,253,579)</u> |
| Unrealized gain/(loss) | <u>\$ 15,985,601</u> | <u>(\$5,359,472)</u> |

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 loss is recognized and paid to, or received from, the clearinghouse. At June 30, 2010 and June 30, 2009, TRS had outstanding futures contracts with a notional value, or exposure, of \$1,102,534,481 and \$1,823,819,047, respectively. Contractual principal values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through December 2011.

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. During the fiscal year ended June 30, 2010, the realized gain on futures contracts was \$151,189,581.

| Type | FY10 | | FY09 | |
|---|---------------------|------------------------|---------------------|------------------------|
| | Number of Contracts | Contractual Principal | Number of Contracts | Contractual Principal |
| Equity Futures | | | | |
| U.S. stock index futures – long | 7,973 | \$442,721,250 | 7,927 | \$575,437,525 |
| Fixed Income/Cash Equivalent Futures | | | | |
| Fixed income index futures – long | 2,227 | 297,157,704 | 1,713 | 253,979,373 |
| Fixed income index futures – short | (675) | (80,743,149) | (320) | (37,282,692) |
| International fixed income index futures – long | 572 | 84,533,808 | 238 | 20,111,589 |
| International fixed income index futures – short | (450) | (60,373,484) | (212) | (32,954,234) |
| Cash equivalent (Eurodollar) futures – long | 1,715 | 425,707,575 | 3,840 | 949,191,881 |
| Cash equivalent (Eurodollar) futures – short | (80) | (19,869,000) | 0 | 0 |
| Cash equivalent foreign yield curve – long | 84 | 16,734,021 | 548 | 108,536,958 |
| Cash equivalent foreign yield curve – short | (18) | (3,334,244) | (448) | (13,201,353) |
| Total Fixed Income/Cash Equivalent Futures | 3,375 | 659,813,231 | 5,359 | 1,248,381,522 |
| Total Futures (Net) | 11,348 | \$1,102,534,481 | 13,286 | \$1,823,819,047 |

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. The owner (buyer) of an option has all the rights, while the seller (writer) of an option has the obligations of the agreement. 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. The Options Clearing Corporation (OCC) performs much the same sort of function for options markets as the clearinghouse does for futures markets.

Terms: At June 30, 2010, the TRS investment portfolio held U.S. equity put options with notional value of \$2,298,042, currency forward put options with notional value of \$15,088,522, inflation put options with notional value of \$35,100,000, and options on futures with underlying notional value of \$306,406,692. At June 30, 2009, the TRS portfolio held options on futures with underlying notional value of \$84,541,396. Contractual principal/notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through May 2015.

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 at expiration. As of June 30, 2010 and June 30, 2009, the fair value of all option contracts, gross of premiums received, was (\$963,431) and \$16,675, 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 outstanding contracts at June 30, 2010 and June 30, 2009. 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.

| | FY10 | | FY09 | |
|--|---------------------|-----------------------|---------------------|-----------------------|
| | Number of Contracts | Contractual Principal | Number of Contracts | Contractual Principal |
| Equity index put options – purchased | 540 | \$581,508 | 0 | \$0 |
| Equity index put options – written | (423) | 1,716,534 | 0 | 0 |
| Currency forward put options – written | 2 | 6,610,384 | 0 | 0 |
| Currency forward put options – purchased | 4 | 8,478,138 | 0 | 0 |
| Inflation put options – written | 10 | 35,100,000 | 0 | 0 |
| Fixed income call options on futures USD | 155 | 2,653,280 | 109 | 30,509,219 |
| Fixed income put options on futures USD | 19 | 146,336,425 | 100 | 2,549,678 |
| Fixed income call options on futures (non-dollar) | 449 | 1,358,451 | 256 | 64,827,270 |
| Fixed income put options on futures (non-dollar) | 0 | 0 | 362 | (57,776,333) |
| Cash equivalent call options on futures – USD | 0 | 0 | 186 | 9,917,664 |
| Cash equivalent put options on futures – USD | 0 | 0 | (419) | 42,812,417 |
| Cash equivalent call options on futures (Non-dollar) – purchased | 191 | 0 | 603 | 14,153,206 |
| Cash equivalent put options on futures (non-dollar) | 1,096 | 156,058,536 | 537 | (22,451,725) |

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. TRS has both written and purchased interest rate swaptions in its portfolio. 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.

The TRS investment portfolio also holds credit default swaptions. A credit default swaption gives the holder the right, but not the obligation to buy (call) or sell (put) protection on a specified entity or index for a specified future time period.

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, 2010, TRS had outstanding written call swaption exposure of \$10,012,297, written put swaption exposure of \$2,470,457, and purchased put swaption exposure of \$36,390,000. The contracts have various maturity dates through April 2015. At June 30, 2009, TRS had outstanding purchased call swaption exposure of \$5,603,794, and written put swaption exposure of \$1,096,417. Exposure amounts for swaptions 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, 2010, and June 30, 2009, the fair value of swaption contracts was (\$3,773,423) and \$8,481,947, respectively.

Credit Default Swaps/Index Swaps

Objective: Credit default swaps are financial instruments used to replicate the effect of investing in debt obligations of corporate bond issuers as a means to manage bond exposure, effectively buying or selling insurance protection in case of default. Credit default swaps may be specific to an individual security or to a specific market sector (index swaps). The risk of the credit default/index swap is comparable to the credit risk of the underlying debt obligations of issuers that comprise the credit default/index swap, with the primary risk being counterparty risk. The owner/buyer of protection (long the swap) pays an agreed upon premium to the seller of protection (short the swap) for the right to sell the debt 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 is called, 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 debt to the counterparty in the event of a default. 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. If no default occurs, the buyer loses only the premium paid.

Written credit default swaps increase credit exposure (selling protection), obligating the portfolio to buy debt from counterparties in the event of a default. 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 obligation in exchange for the obligation. If no default occurs, the seller will have earned the premium paid.

Terms: At June 30, 2010, TRS had credit default/index swaps in its portfolio with various maturity dates through 2020. The total notional value of written credit default swaps (selling protection) was \$219,805,767 and \$439,414,604 at June 30, 2010 and 2009, respectively. The total notional value of purchased credit default swaps (buying protection) was \$49,574,322 at June 30, 2010.

Fair Value: The fair value of credit default swaps, including index swaps, held by TRS was (\$1,849,159) at June 30, 2010 and (\$20,473,467) at June 30, 2009. This represents the payments due from TRS to counterparties under the terms of the agreements.

Interest Rate Swaps

Objective: Interest rate swaps are agreements between parties to exchange a set of cash flow streams 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 interest rate/risk exposure.

Terms: At June 30, 2010 and June 30, 2009, TRS held interest rate swaps in various currencies with various expiration/maturity dates ranging from 2010 to 2015. Swap agreements typically are settled on a net basis, with a party receiving or paying only the net amount of the fixed/floating 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, 2010 and June 30, 2009.

| | June 30, 2010 Receivable | June 30, 2009 Receivable |
|----------------------------|-----------------------------|-----------------------------|
| Receive floating/pay fixed | \$114,032 | \$836,547 |
| Receive fixed/pay floating | 2,773,830 | 3,994,804 |

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 and are used to transfer inflation risk from one counterparty to another.

Terms: At June 30, 2010, TRS was a party to inflation-linked swaps denominated in Euros with a maturity date of October 15, 2010 and total par of 5.1 million. At June 30, 2009, TRS was a party to inflation-linked swaps denominated in Euros with maturity dates ranging from 2010 to 2012 and total par of 7.4 million. TRS receives a fixed rate for all current positions, reducing inflation risks in certain countries. 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 \$190,734 at June 30, 2010 and \$297,058 at June 30, 2009.

Derivative Interest Rate Risk

Interest rate risk for derivative securities is disclosed in Note D. 2. Both interest rate and inflation rate swaps have fair values that are sensitive to interest rate changes. TRS had the following interest rate and inflation swaps at June 30, 2010.

Interest Rate and Inflation Swaps

| Asset Description | Par | Gross Notional | TRS Receives | TRS Pays | Maturity Date | Fair Value 6/30/2010 |
|--|---------------|-------------------------|----------------------------------|----------------------------------|------------------|----------------------------|
| Pay Fixed Interest Rate Swaps | | | | | | |
| Interest rate swap BRL | 3,200,000 | \$1,889,344 | 3 mo. Brazilian CDI ¹ | 12.54% | 1/2/2012 | \$114,032 |
| Total Pay Fixed Interest Rate Swaps | | <u><u>1,889,344</u></u> | | | | <u><u>114,032</u></u> |
| Receive Fixed Interest Rate Swaps | | | | | | |
| Interest rate swap KRW | 3,899,000,000 | 3,205,159 | 2.82% | 3 mo. KWDC ² | 1/28/2011 | 3,246 |
| Interest rate swap KRW | 3,789,000,000 | 3,114,788 | 2.83 | 3 mo. KWDC | 1/28/2011 | 3,389 |
| Interest rate swap AUD | 3,600,000 | 3,103,048 | 6.00 | 6 mo. BB Australian ³ | 9/15/2012 | 62,308 |
| Interest rate swap AUD | 2,500,000 | 2,108,407 | 4.50 | 3 mo. BB Australian | 6/15/2011 | (7,384) |
| Interest rate swap AUD | 11,700,000 | 9,867,343 | 4.50 | 3 mo. BB Australian | 6/15/2011 | (34,556) |
| Interest rate swap USD | 16,500,000 | 16,739,615 | 2.00 | 3 mo. LIBOR ⁴ | 12/15/2012 | 239,615 |
| Interest rate swap USD | 4,700,000 | 4,845,941 | 3.00 | 3 mo. LIBOR | 12/15/2015 | 145,941 |
| Interest rate swap USD | 2,600,000 | 2,680,733 | 3.00 | 3 mo. LIBOR | 12/15/2015 | 80,733 |
| Interest rate swap USD | 500,000 | 515,526 | 3.00 | 3 mo. LIBOR | 12/15/2015 | 15,526 |
| Interest rate swap USD | 600,000 | 618,631 | 3.00 | 3 mo. LIBOR | 12/15/2015 | 18,631 |
| Interest rate swap USD | 900,000 | 927,946 | 3.00 | 3 mo. LIBOR | 12/15/2015 | 27,946 |

Continued

1. CDI - Cetip Interbank Deposit (interbank lending rate)

2. KWDC - Korean Won Certificate of Deposit

3. BB - Bank Bill Swap Reference Rate (Australian financial market)

4. LIBOR - London Interbank Offered Rate

Continued

| Asset Description | Par | Gross Notional | TRS Receives | TRS Pays | Maturity Date | Fair Value 6/30/10 |
|---|------------|--------------------|--------------|-----------------------|---------------|--------------------|
| Interest rate swap USD | 800,000 | \$824,841 | 3.00% | 3 mo. LIBOR | 12/15/2015 | \$24,841 |
| Interest rate swap USD | 13,500,000 | 13,696,048 | 2.00 | 3 mo. LIBOR | 12/15/2012 | 196,048 |
| Interest rate swap USD | 3,400,000 | 3,505,574 | 3.00 | 3 mo. LIBOR | 12/15/2015 | 105,574 |
| Interest rate swap USD | 3,600,000 | 3,933,693 | 4.00 | 3 mo. LIBOR | 12/16/2014 | 327,693 |
| Interest rate swap USD | 800,000 | 875,810 | 4.00 | 3 mo. LIBOR | 6/16/2015 | 74,477 |
| Interest rate swap USD | 300,000 | 328,095 | 4.00 | 3 mo. LIBOR | 6/16/2015 | 27,929 |
| Interest rate swap BRL | 1,500,000 | 800,090 | 10.58 | 3 mo. Brazilian CDI | 1/2/2012 | (32,088) |
| Interest rate swap BRL | 5,700,000 | 3,229,738 | 12.70 | 3 mo. Brazilian CDI | 1/2/2014 | 67,464 |
| Interest rate swap BRL | 4,100,000 | 2,420,722 | 12.54 | 3 mo. Brazilian CDI | 1/2/2012 | 146,104 |
| Interest rate swap BRL | 1,800,000 | 1,062,756 | 12.54 | 3 mo. Brazilian CDI | 1/2/2012 | 64,143 |
| Interest rate swap BRL | 1,500,000 | 831,482 | 11.63 | 3 mo. Brazilian CDI | 1/2/2012 | (695) |
| Interest rate swap BRL | 100,000 | 63,290 | 14.77 | 3 mo. Brazilian CDI | 1/2/2012 | 7,812 |
| Interest rate swap BRL | 7,400,000 | 4,186,267 | 12.83 | 3 mo. Brazilian CDI | 1/2/2013 | 80,859 |
| Interest rate swap BRL | 1,300,000 | 723,707 | 10.84 | 3 mo. Brazilian CDI | 1/2/2012 | 2,486 |
| Interest rate swap BRL | 1,200,000 | 668,037 | 10.84 | 3 mo. Brazilian CDI | 1/2/2012 | 2,295 |
| Interest rate swap BRL | 800,000 | 497,447 | 14.77 | 3 mo. Brazilian CDI | 1/2/2012 | 53,619 |
| Interest rate swap BRL | 2,100,000 | 1,179,083 | 12.17 | 3 mo. Brazilian CDI | 1/2/2013 | 14,034 |
| Interest rate swap BRL | 11,700,000 | 6,570,940 | 12.18 | 3 mo. Brazilian CDI | 1/2/2013 | 79,955 |
| Interest rate swap BRL | 1,400,000 | 795,906 | 11.60 | 3 mo. Brazilian CDI | 1/2/2012 | 19,207 |
| Interest rate swap BRL | 300,000 | 170,893 | 11.67 | 3 mo. Brazilian CDI | 1/2/2012 | 4,457 |
| Interest rate swap BRL | 8,000,000 | 4,391,414 | 11.14 | 3 mo. Brazilian CDI | 1/2/2012 | (46,866) |
| Interest rate swap BRL | 9,400,000 | 5,275,226 | 11.14 | 3 mo. Brazilian CDI | 1/2/2012 | 60,247 |
| Interest rate swap BRL | 1,700,000 | 945,837 | 10.99 | 3 mo. Brazilian CDI | 1/2/2012 | 2,703 |
| Interest rate swap BRL | 2,100,000 | 1,168,387 | 10.99 | 3 mo. Brazilian CDI | 1/2/2012 | 3,338 |
| Interest rate swap BRL | 84,200,000 | 47,044,837 | 11.36 | 3 mo. Brazilian CDI | 1/2/2012 | 331,940 |
| Interest rate swap BRL | 6,900,000 | 3,930,533 | 11.67 | 3 mo. Brazilian CDI | 1/2/2012 | 102,517 |
| Interest rate swap BRL | 1,800,000 | 1,028,968 | 12.65 | 3 mo. Brazilian CDI | 1/2/2014 | 30,355 |
| Interest rate swap BRL | 9,200,000 | 5,231,818 | 12.51 | 3 mo. Brazilian CDI | 1/2/2014 | 127,796 |
| Interest rate swap BRL | 5,600,000 | 3,188,038 | 12.54 | 3 mo. Brazilian CDI | 1/2/2014 | 81,242 |
| Interest rate swap BRL | 3,200,000 | 1,802,759 | 12.29 | 3 mo. Brazilian CDI | 1/2/2013 | 27,447 |
| Interest rate swap BRL | 1,500,000 | 836,956 | 11.98 | 3 mo. Brazilian CDI | 1/2/2013 | 4,778 |
| Interest rate swap BRL | 500,000 | 277,113 | 11.42 | 3 mo. Brazilian CDI | 1/2/2012 | (280) |
| Interest rate swap BRL | 900,000 | 498,492 | 11.39 | 3 mo. Brazilian CDI | 1/2/2012 | (815) |
| Interest rate swap BRL | 1,500,000 | 834,435 | 11.88 | 3 mo. Brazilian CDI | 1/2/2013 | 2,258 |
| Interest rate swap BRL | 200,000 | 111,848 | 12.11 | 3 mo. Brazilian CDI | 1/2/2014 | 891 |
| Interest rate swap BRL | 400,000 | 224,881 | 12.59 | 3 mo. Brazilian CDI | 1/2/2013 | 2,967 |
| Interest rate swap BRL | 7,800,000 | 4,343,402 | 11.89 | 3 mo. Brazilian CDI | 1/2/2013 | 16,079 |
| Interest rate swap BRL | 6,800,000 | 3,786,555 | 11.89 | 3 mo. Brazilian CDI | 1/2/2013 | 14,017 |
| Interest rate swap BRL | 200,000 | 112,576 | 12.25 | 3 mo. Brazilian CDI | 1/2/2014 | 1,619 |
| Interest rate swap BRL | 1,600,000 | 895,586 | 12.07 | 3 mo. Brazilian CDI | 1/2/2013 | 7,930 |
| Interest rate swap BRL | 12,500,000 | 6,950,487 | 11.90 | 3 mo. Brazilian CDI | 1/2/2013 | 15,675 |
| Interest rate swap BRL | 1,000,000 | 560,668 | 12.48 | 3 mo. Brazilian CDI | 1/2/2013 | 5,882 |
| Interest rate swap BRL | 400,000 | 224,594 | 12.20 | 3 mo. Brazilian CDI | 1/2/2014 | 2,680 |
| Interest rate swap BRL | 15,000,000 | 8,479,596 | 12.80 | 3 mo. Brazilian CDI | 1/2/2013 | 157,821 |
| Total Receive Fixed Interest Rate Swaps | | 196,236,562 | | | | 2,773,830 |
| Receive Fixed Inflation-linked Swaps | | | | | | |
| Inflation swap EUR | 1,300,000 | 1,641,477 | 2.10 | France CPI Ex-Tobacco | 10/15/2010 | 49,107 |
| Inflation swap EUR | 3,800,000 | 4,796,247 | 2.09 | France CPI Ex-Tobacco | 10/15/2010 | 141,627 |
| Total Receive Fixed Inflation-linked Swaps | | \$6,437,724 | | | | \$190,734 |

Derivative Credit Risk

Exchange traded derivatives are evaluated within the investment risk disclosure. Non-exchange traded derivative instruments may expose TRS to credit/counterparty risk. To minimize TRS's exposure to potential loss related to credit risk, TRS's policy requires all counterparties utilized by its external investment managers to have a minimum credit rating of A3/A- (Moody's/S&P) and above average market capitalizations.

The terms of non-exchange traded derivatives transactions are specified in standardized counterparty agreements such as International Swaps and Derivatives Association (ISDA) agreements for swaps, master agreements for non-exchange traded options, and forward agreements for forward settlement transactions. TRS utilizes its investment managers' composite ISDA agreements, which cover multiple clients, to participate in specific market transactions. Because the counterparty risk of a security will fluctuate with market movements, all TRS managers using non-exchange traded derivatives operate a collateral call process ensuring full collateralization of these derivatives. TRS does not have a policy regarding master netting arrangements.

The aggregate fair value of non-exchange traded derivative instruments in asset positions at June 30, 2010, was \$59,624,201. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

Counterparty Ratings for Non-Exchange Traded Derivatives

| Moody's Quality Rating | Market Values at 6/30/10 |
|-------------------------------------|-----------------------------------|
| Aaa | \$210,866 |
| Aa1 | 6,581,149 |
| Aa2 | 4,223,437 |
| Aa3 | 40,676,499 |
| A1 | 6,477,194 |
| A2 | 1,448,420 |
| NA | 6,636 |
| Total subject to credit risk | <u><u>\$59,624,201</u></u> |

Although the derivative instruments held within the TRS investment portfolio are executed with various counterparties, approximately 61 percent of the net market value exposure to credit risk is for non-exchanged traded derivative contracts held with three counterparties which are rated Aa3.

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

| | 2010 | 2009 |
|---------------------|------------------|------------------|
| Balances at June 30 | \$31,318,081,070 | \$28,492,427,203 |

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 \$39,854,106,000 in 2010 and \$35,001,154,000 in 2009.

2. Minimum Retirement Annuity

| | 2010 | 2009 |
|---------------------|-------------|-------------|
| Balances at June 30 | \$5,703,144 | \$5,302,240 |

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. For FY09, the State of Illinois also appropriated funds necessary to pay the minimum benefits provided in the legislation. For FY10, the necessary amount to pay benefits was received from general obligation bonds issued by the state. 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 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 or by writing to SERS at 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255. 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, or by writing to the office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858.

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 years ended June 30, 2010, 2009 and 2008 were actuarially determined according to a statutory schedule.

TRS contribution rates to SERS for its SERS-covered employees for the years ended June 30, 2010, 2009, and 2008 were 28.377 percent, 21.049 percent, and 16.561 percent, respectively. TRS contributions for the years ended June 30, 2010, 2009, and 2008, were \$1,648,041, \$1,168,335, and \$910,478, respectively.

Teachers' Retirement System (TRS)

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 0.58 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 2010, 2009, and 2008 were \$19,296, \$19,903, and \$24,719, respectively. These amounts represent 100 percent of the required contributions.

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 estab-

lished 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.

Required Supplementary Information

Schedule of Funding Progress¹

| 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) |
|--------------------------|--------------------------------|---|----------------------|---|----------------------|---|
| 6/30/01 | \$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 |
| 6/30/09 | 38,026,044,000 | 73,027,198,000 | 52.1 | 35,001,154,000 | 8,945,021,000 | 391.3 |
| 6/30/10 | 37,439,092,000 | 77,293,198,000 | 48.4 | 39,854,106,000 | 9,251,139,000 | 430.8 |

* Market value through FY08. Five-year prospective smoothing began in FY09.

Schedule of Contributions from Employers and Other Contributing Entities¹

| 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 |
|--------------------|----------------------------------|---|----------------------|---|------------------------|--|------------------------|
| 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 |
| 2009 | 1,449,889,000 | 151,716,000 | 1,601,605,000 | 2,109,480,000 | 75.9 | 1,556,737,000 | 102.9 |
| 2010 | 2,079,129,000 | 170,653,000 | 2,249,782,000 | 2,481,914,000 | 90.6 | 2,217,053,000 | 101.5 |

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 minimum retirement contributions. Excludes employer ERO contributions through FY07. Beginning in FY08, employer ERO contributions are included because the costs of the ERO program are now included in the actuarial accrued liability. 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.

See accompanying Independent Auditors' Report.

Other Supplementary Information

Schedule of Administrative Expenses For Years Ended June 30

| | 2010 | 2009 |
|--------------------------------------|----------------------------|----------------------------|
| Personal services | \$12,961,159 | \$12,860,131 |
| Professional services | 998,956 | 1,428,771 |
| Postage | 442,765 | 430,707 |
| Machine repair and rental | 650,835 | 642,351 |
| Other contractual services | 739,482 | 830,099 |
| Commodities | 376,038 | 474,844 |
| Occupancy expense | 242,712 | 250,955 |
| Depreciation | 538,732 | 481,614 |
| (Gain) on disposal of equipment | 0 | (11,536) |
| Total administrative expenses | <u>\$16,950,679</u> | <u>\$17,387,936</u> |

Schedule of Investment Expense For Years Ended June 30

| | 2010 | 2009 |
|-----------------------------------|-----------------------------|-----------------------------|
| Investment manager fees | \$180,486,189 | \$159,192,773 |
| Private equity investment expense | 2,176,648 | 12,654,785 |
| Miscellaneous | 18,104,100 | 20,966,888 |
| Total investment expense | <u>\$200,766,937</u> | <u>\$192,814,446</u> |

Schedule of Payments to Consultants For Years Ended June 30

| | 2010 | 2009 |
|--------------------------------------|-------------------------|---------------------------|
| Actuarial services | \$312,730 | \$238,638 |
| External auditors | 148,487 | 160,716 |
| Legal services | 204,115 | 908,838 |
| Management consultants | | |
| Information systems | 20,658 | 0 |
| Legislative consultant | 84,000 | 77,000 |
| Information systems audit | 23,203 | 0 |
| Actuarial audit | 73,467 | 0 |
| Executive director search | 97,310 | 0 |
| Board and staff training | 0 | 14,000 |
| Operations | 25,001 | 25,000 |
| Other | 9,985 | 4,579 |
| Total payments to consultants | <u>\$998,956</u> | <u>\$1,428,771</u> |

See accompanying Independent Auditors' Report.



History teacher Robert of Chatham with Alex.

I N V E S T M E N T S

Introduction

Financial markets rebounded during the fiscal year as global economies reflected signs of recovery from the deep recession and credit crisis. While debate continued as to the strength of any such recovery, FY10 was the first time since FY07 that the backdrop in the broad investment landscape was positive. Unemployment and real estate values remained concerning through the fiscal year, yet the United States and other developed countries continued implementing generous stimulus programs to aid the economic recovery. Equity returns in the United States led global markets over the past 12 months returning 15.7 percent, while international equity markets increased 11.5 percent.

Within this environment, the TRS investment portfolio posted a strong year, returning 13.5 percent, gross of fees, for the fiscal year ended June 30, 2010. Total TRS investments increased by approximately \$2.5 billion during the year, representing the sixth year of the past eight in which portfolio assets have increased.

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, State Street Bank and Trust 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, 2009 through June 30, 2010. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2010. Additionally, State Street Bank and Trust calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section. TRS staff, in collaboration with the staff of its custodian, prepared the Investments section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2010

| | |
|--------------------------------|----------------------------------|
| Total Fund Market Value | \$31.5 billion |
| 1-year return (net of fees) | 12.9% |
| 5-year return (net of fees) | 2.0% |
| 10-year return (net of fees) | 3.3% |
| Percent externally managed | 100.0% |
| Number of external managers | 137 |
| Custodian | State Street Bank and Trust |
| General consultant | R. V. Kuhns and Associates, Inc. |

TRS is ranked 38th out of the top 1,000 U.S. pension funds/plan sponsors in the February 8, 2010 issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2009.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2010, TRS's total investments at market value totaled \$31.5 billion, an increase of \$2.5 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 return of 13.5 percent, gross of fees, and 12.9 percent, net of fees, for the one-year period ending June 30, 2010. 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 FY10 surpassed the policy index by 2.0 percentage points for the year ended June 30, 2010. 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 surpassed the 8.5 percent actuarial return assumption and the real rate of return expectation, which is to exceed the rate of inflation, as measured by the Consumer Price Index, by 5.0 percent.

Performance Summary (net of fees)

| Asset Class/Index | Years ended June 30 | | | | | Annualized at 6/30/10 | | |
|-----------------------------------|---------------------|----------------|---------------|--------------|--------------|-----------------------|--------------|--------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 | 3 Years | 5 Years | 10 Years |
| TRS Total Fund | 12.9% | (22.7%) | (5.0%) | 19.2% | 11.8% | (6.0%) | 2.0% | 3.3% |
| TRS Weighted Policy Index | 10.9 | (18.6) | (4.1) | 17.9 | 11.3 | (4.7) | 2.6 | 3.1 |
| CPI (Inflation) | 1.1 | (1.4) | 5.0 | 2.7 | 4.3 | 1.5 | 2.3 | 2.4 |
| TRS Equity - U.S. | 17.0 | (27.3) | (15.1) | 19.4 | 9.6 | (10.3) | (1.1) | (0.7) |
| Russell 3000 Index | 15.7 | (26.6) | (12.7) | 20.1 | 9.6 | (9.5) | (0.5) | (0.9) |
| TRS Fixed Income | 16.8 | 4.9 | 5.1 | 5.9 | 0.1 | 8.8 | 6.4 | 6.7 |
| TRS Fixed Income Index | 9.5 | 6.1 | 7.1 | 6.1 | (0.7) | 7.6 | 5.6 | 6.3 |
| TRS Equity - International | 11.3 | (31.9) | (7.7) | 29.6 | 27.3 | (11.2) | 2.9 | 2.5 |
| Non-U.S. Equity Index | 11.5 | (30.5) | (6.2) | 30.2 | 28.4 | (10.1) | 4.0 | 2.4 |
| TRS Real Estate | (5.6) | (30.0) | 4.5 | 25.3 | 18.8 | (11.6) | 0.6 | 5.5 |
| Real Estate Property Index | (1.5) | (19.6) | 9.2 | 17.2 | 18.7 | (4.7) | 3.8 | 7.2 |
| TRS Private Equity | 16.5 | (17.9) | 3.3 | 29.3 | 23.8 | (0.4) | 9.6 | 4.4 |
| Russell 3000 Index + 3.0%* | 19.2 | (24.3) | (10.0) | 23.7 | 12.9 | (6.7) | 2.5 | 2.1 |
| TRS Real Return | 13.5 | (26.2) | 20.5 | - | - | 0.3 | - | - |
| CPI (Inflation) + 5.0%* | 6.1 | 3.5 | 10.3 | - | - | 6.6 | - | - |
| TRS Absolute Return | 9.6 | (13.9) | 0.9 | - | - | (1.7) | - | - |
| 90-Day Treasury Bill + 4.0%* | 4.2 | 5.0 | 7.8 | - | - | 5.6 | - | - |

* Index compounded monthly.

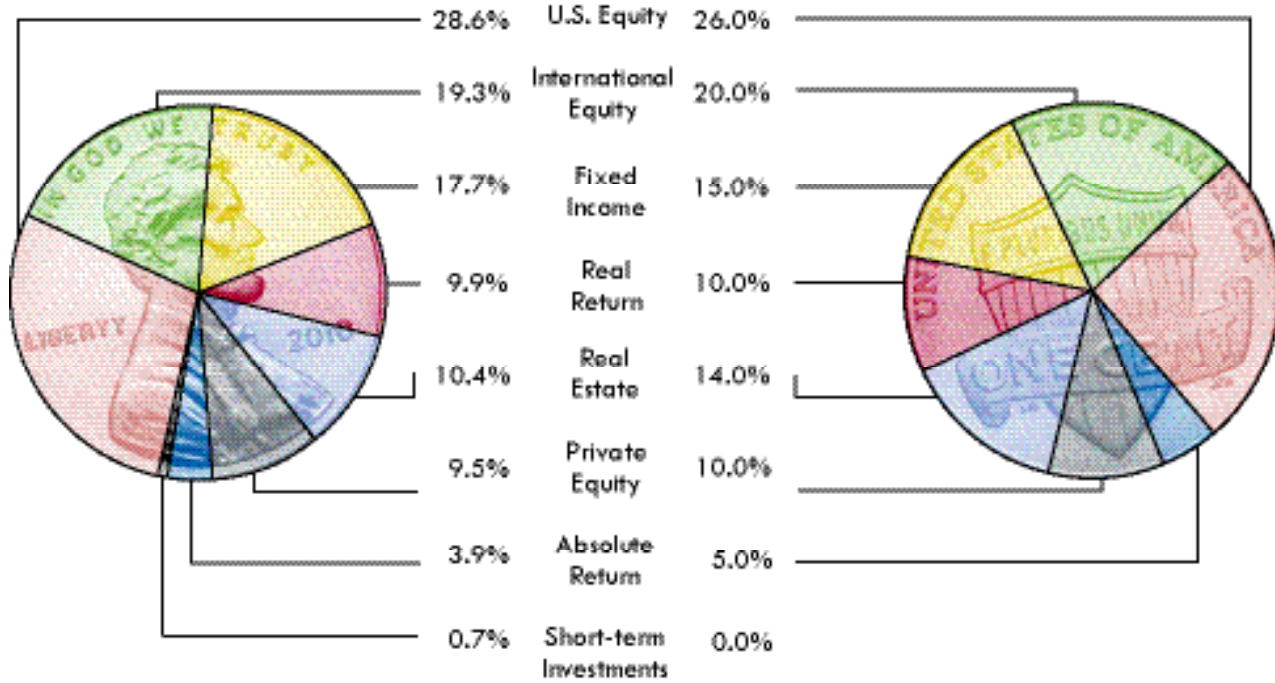
Note: Time-weighted rates of return based on the market rate of return are provided by State Street Bank and Trust.

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.

FY10 Asset Allocation

Long-term Target Allocation



In FY10, TRS continued implementation of the large scale asset allocation study that was completed three years ago. This implementation has progressed at a measured pace as two new asset classes, absolute return and real return, were introduced to further diversify the investment portfolio and to reduce risk. Within the fiscal year, the real return asset class reached its long-term target of 10.0 percent of the fund.

An additional interim asset allocation occurred during FY10 with the result of reducing interim targets to domestic equity and real estate and increasing interim targets to fixed income and absolute return. Longer term targets were not altered during FY10. Asset rebalancing to established targets has occurred more frequently in the past year as market volatility has been unprecedentedly high.

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 following 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, 2010.

Strategic Investment Listing Allocation Targets vs. Total Assets

| | 6/30/10 | FY10 | | | FY09 | |
|-------------------------------|-----------------------------|-------------------|-------------------|------------------|-------------------|------------------|
| | Total Fund (\$ millions) | Actual Percent | Interim Target | Policy Target | Actual Percent | Policy Target |
| U.S. equities | \$8,939 | 28.6% | 29.0% | 26.0% | 31.2% | 30.5% |
| International equities | 6,051 | 19.3 | 20.0 | 20.0 | 19.1 | 20.0 |
| Fixed income | 5,529 | 17.7 | 17.0 | 15.0 | 18.6 | 15.0 |
| Real return | 3,100 | 9.9 | 10.0 | 10.0 | 7.0 | 10.0 |
| Real estate | 3,252 | 10.4 | 12.0 | 14.0 | 11.9 | 14.0 |
| Private equity | 2,989 | 9.5 | 7.0 | 10.0 | 8.2 | 8.0 |
| Absolute return | 1,232 | 3.9 | 3.8 | 5.0 | 2.5 | 2.5 |
| Short-term investments | 211 | 0.7 | 1.2 | 0.0 | 1.5 | 0.0 |
| Pending settlements/expenses* | 179 | NA | NA | NA | NA | NA |
| Total fund | \$31,482 | 100.0% | 100.0% | 100.0% | 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

| | 2010 | | 2009 | |
|---|-------------------------|---------------|-------------------------|---------------|
| | Market Value | % of Total | Market Value | % of Total |
| U.S. Government Obligations | | | | |
| U.S. treasuries | \$649,461,814 | 2.1% | \$300,375,693 | 1.0% |
| U.S. federal agencies | 253,893,175 | 0.8 | 334,260,961 | 1.2 |
| U.S. government index linked bonds | 287,871,078 | 0.9 | 195,845,375 | 0.7 |
| U.S. government backed mortgages | 955,686,526 | 3.0 | 1,642,564,054 | 5.7 |
| U.S. municipals (taxable) | 67,915,609 | 0.2 | 56,014,455 | 0.2 |
| U.S. government backed bonds | 110,671,769 | 0.4 | - | - |
| U.S. government special situations | 28,523,685 | 0.1 | - | - |
| Credits | | | | |
| Bank loans | 988,929 | 0.0 | 13,928,309 | 0.0 |
| Financial | 694,537,178 | 2.2 | 829,021,837 | 2.9 |
| Industrial | 945,702,864 | 3.0 | 766,386,520 | 2.6 |
| Utilities | 89,049,210 | 0.3 | 223,845,079 | 0.8 |
| Asset backed securities | 337,410,443 | 1.1 | 242,291,664 | 0.8 |
| Commercial mortgage backed securities | 136,703,649 | 0.4 | 54,815,495 | 0.2 |
| Collateralized mortgage obligations | 322,117,221 | 1.0 | 604,540,058 | 2.1 |
| Commingled/closed-end funds | 71,868,583 | 0.2 | 85,399,730 | 0.3 |
| Corporate convertible bonds | 41,782,788 | 0.1 | 2,375,250 | 0.0 |
| Foreign debt obligations | 1,557,088,214 | 5.0 | 1,022,504,237 | 3.5 |
| Total Bonds, Corporate Notes, and Government Obligations | 6,551,272,735 | 20.8 | 6,374,168,717 | 22.0 |
| Equities | | | | |
| Common stock - U.S. | 8,098,482,440 | 25.7 | 7,988,982,368 | 27.6 |
| Preferred stock - U.S. | 37,372,707 | 0.1 | 57,209,873 | 0.2 |
| Common stock - international | 6,155,400,882 | 19.6 | 5,335,746,892 | 18.4 |
| Preferred stock - international | 120,403,725 | 0.4 | 137,530,669 | 0.5 |
| Total Equities | 14,411,659,754 | 45.8 | 13,519,469,802 | 46.7 |
| Real Return – Commingled Funds | | | | |
| Commodity funds | 262,150,416 | 0.8 | 340,890,337 | 1.2 |
| Global macro strategies | 2,033,277,459 | 6.5 | 1,190,240,068 | 4.1 |
| Total Real Return – Commingled Funds | 2,295,427,875 | 7.3 | 1,531,130,405 | 5.3 |
| Short-Term Investments/ Cash Equivalents | | | | |
| | 683,859,686 | 2.2 | 1,062,916,049 | 3.7 |
| Derivatives – Options, Futures, and Swaps | | | | |
| | (3,507,417) | 0.0 | (6,846,436) | 0.0 |
| Foreign Currency | | | | |
| | 68,454,294 | 0.2 | 35,797,184 | 0.1 |
| Absolute Return | | | | |
| | 1,231,558,537 | 3.9 | 719,854,863 | 2.5 |
| Private Equity | | | | |
| | 2,990,955,411 | 9.5 | 2,344,035,473 | 8.1 |
| Real Estate Equity | | | | |
| | 3,252,463,291 | 10.3 | 3,380,826,272 | 11.6 |
| TRS Total Portfolio | \$31,482,144,166 | 100.0% | \$28,961,352,329 | 100.0% |

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.

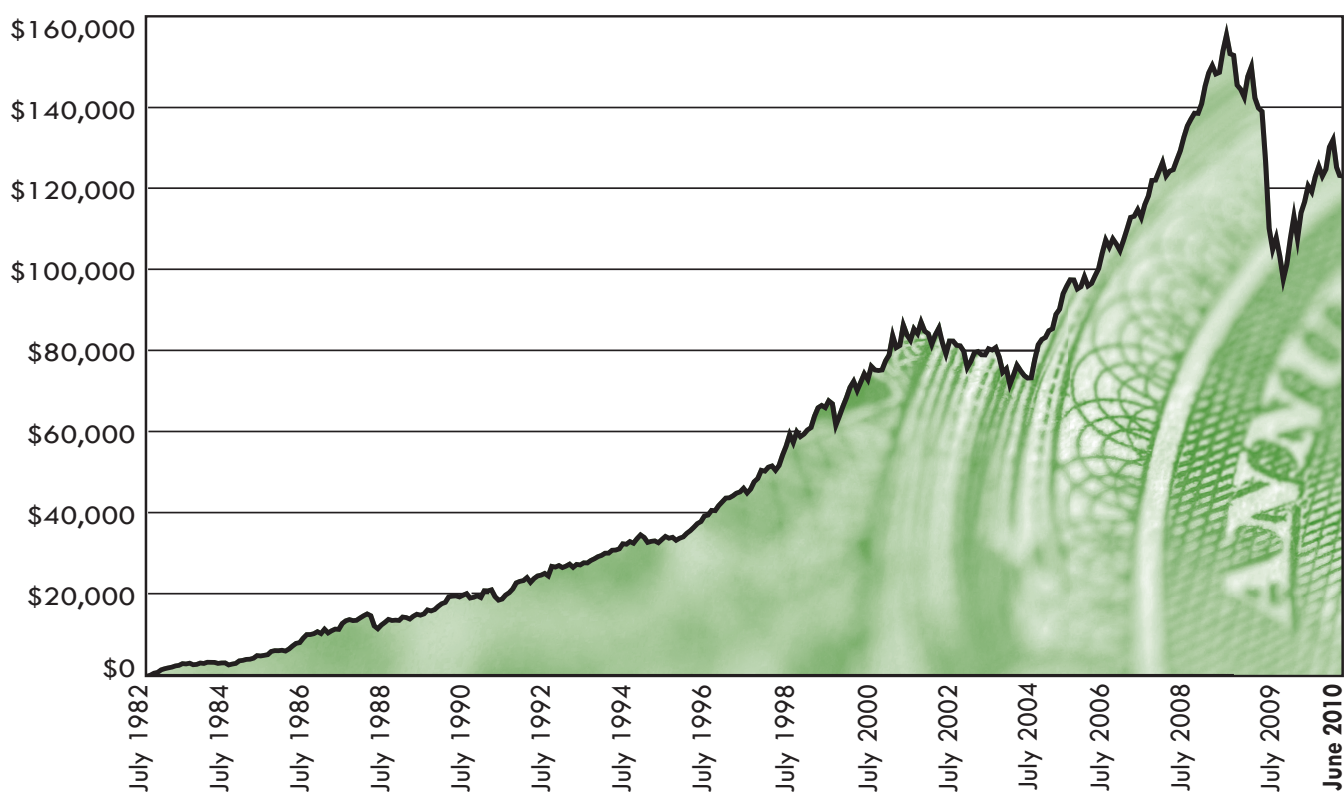
Securities Holdings for Years Ending June 30

| Asset Type | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---------------|---------------|---------------|---------------|---------------|
| Bonds, corporate notes, and government obligations | 20.8% | 22.0% | 22.7% | 24.0% | 27.9% |
| Equities - U.S. | 25.8 | 27.8 | 27.5 | 33.0 | 33.6 |
| Equities - international | 20.0 | 18.9 | 21.5 | 22.6 | 19.8 |
| Real return | 7.3 | 5.3 | 5.4 | - | - |
| Short-term investments/currency | 2.4 | 3.8 | 3.4 | 3.6 | 4.2 |
| Absolute return | 3.9 | 2.5 | 1.3 | 1.2 | - |
| Private equity | 9.5 | 8.1 | 6.1 | 4.5 | 4.0 |
| Real estate equity | 10.3 | 11.6 | 12.1 | 11.1 | 10.5 |
| 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 28 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, 2010.

U.S. Equity

U.S. equity, or common stock, represents shares or units of ownership in public corporations domiciled within the United States. TRS invests in equities because the asset class offers the opportunity to participate in the success of the U.S. 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 earned a 17.0 percent return on a net of fee basis, compared to the Russell 3000 Index gain of 15.7 percent. One-, three-, five-, and 10-year comparisons to this benchmark are noted below:

| | FY10 | 3-Year | 5-Year | 10-Year |
|-------------------------|--------------|----------------|---------------|----------------|
| TRS, net of fees | 17.0% | (10.3%) | (1.1%) | (0.7%) |
| Russell 3000 Index | 15.7 | (9.5) | (0.5) | (0.9) |

The top 10 U.S. equity holdings at June 30, 2010, are listed below and represent 9.3 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, 2010

| Firm | Market Value |
|-----------------------|-----------------------------|
| Apple, Inc. | \$127,963,121 |
| Wells Fargo & Co. | 92,150,758 |
| Exxon Mobil Corp. | 90,738,888 |
| JP Morgan Chase & Co. | 73,908,122 |
| PepsiCo, Inc. | 64,524,413 |
| Cisco Systems, Inc. | 64,486,340 |
| Microsoft Corp. | 64,329,333 |
| Chevron Corp. | 62,967,701 |
| Bank of America Corp. | 60,436,182 |
| General Electric Co. | 57,520,803 |
| Total | <u>\$759,025,661</u> |

Source: State Street Bank and Trust and TRS

At June 30, 2010, 28.6 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed the following U.S. equity managers during FY10.

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

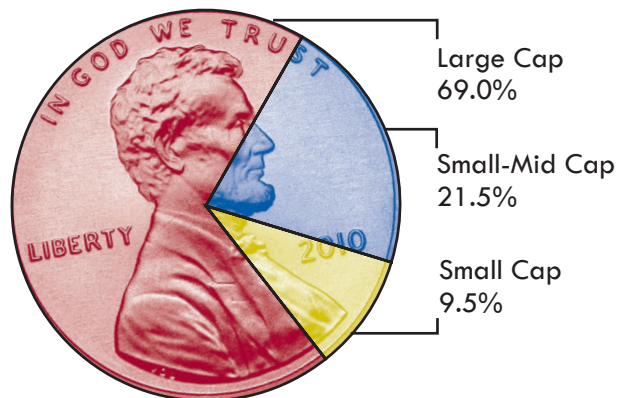
| | |
|--|-----------------|
| Index (Large Cap) | |
| RhumbLine Advisors, L.P. (7/06) | \$1,253,355,088 |
| Enhanced Index (Large Cap) | |
| Piedmont Investment Advisors, L.L.C. (6/07) | 86,548,974 |
| T. Rowe Price Associates, Inc. (6/05) | 607,555,955 |
| Large Cap Core | |
| Analytic Investors, L.L.C. (12/07) | 448,479,489 |
| EARNEST Partners, L.L.C. (2/02) | 87,449,466 |
| J.P. Morgan Investment Management, Inc. (12/07) | 440,756,846 |
| Pacific Investment Management Company, L.L.C. (8/91) | 428,953,815 |
| Large Cap Value | |
| Denali Advisors, L.L.C. (4/08) | 191,888,074 |
| Dodge & Cox (4/00) | 383,139,116 |
| Loomis, Sayles & Company, L.P. (3/10) | 235,898,791 |
| Robeco Boston Partners Asset Management, L.P. (1/03) | 344,884,834 |
| Robeco Boston Partners Asset Management, L.P. (3/10) | 89,310,131 |
| Large Cap Growth | |
| T. Rowe Price Associates, Inc. (11/06) | 429,707,255 |
| Turner Investment Partners, Inc. (6/04) | 619,765,956 |
| Wellington Management Company, L.P. (11/07) | 249,837,801 |
| Index (Small/Mid Cap Core) | |
| Rhumblin Advisors, L.P. (5/07) | 278,946,901 |
| Small/Mid Cap Value | |
| Boston Company Asset Management, L.L.C. (7/08) | 285,378,209 |
| Cramer Rosenthal McGlynn, L.L.C. (3/09) | 135,902,383 |
| LSV Asset Management (12/02) | 338,740,009 |
| State Street Global Advisors (6/06) | 132,208,277 |
| Small/Mid Cap Growth | |
| Boston Company Asset Management, L.L.C. (3/09) | 135,016,296 |
| Copper Rock Capital Partners, L.L.C. (12/06) | 182,472,544 |
| Fred Alger Management, Inc. (12/07) | 136,525,275 |
| Mazama Capital Management, Inc. (1/03) | 115,570,253 |
| Tygh Capital Management, Inc. (6/06) | 220,661,586 |
| Small Cap Growth | |
| Emerald Advisors, Inc. (11/04) | 188,747,934 |
| Frontier Capital Management, L.L.C. (7/09) | 185,479,068 |
| Mazama Capital Management, Inc. (11/04) | 141,775,228 |
| Small Cap Value | |
| AQR Capital Management, L.L.C. (11/06) | 193,404,825 |
| Thompson, Siegel & Walmsley, Inc. (11/04) | 187,003,254 |
| Emerging Manager | |
| Credo Capital Management (6/09) | 29,293,151 |
| Fiduciary Management Associates, L.L.C. (7/08) | 44,371,586 |
| Lombardia Capital Partners, L.L.C. (11/08) | 39,426,655 |
| Lombardia Capital Partners, L.L.C. (3/10) | 45,777,967 |
| Oakbrook Investments (11/09) | 25,095,474 |

Note: The list does not include managers terminated prior to June 30, 2010 with residual assets in the account.

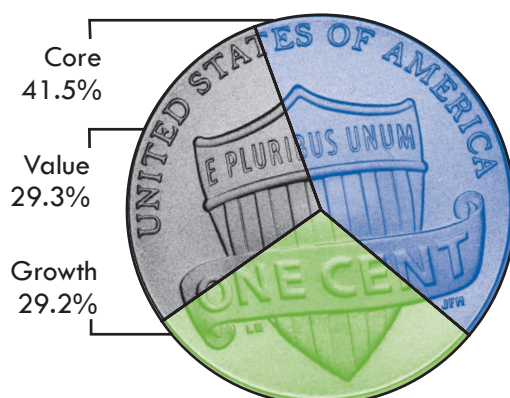
Discussion of U.S. Equity

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

The sharp recovery in the U.S. equity market that began in March 2009 continued through April 2010 as fear abated and investors sought higher investment returns. The broad U.S. stock market (Russell 3000 index) was up 33.3 percent from June 30, 2009 through April 30, 2010. The market then declined 13.2 percent during the remainder of the fiscal year sparked by European sovereign debt concerns. The TRS domestic equity portfolio was up 17.0 percent for the fiscal year, beating its Russell 3000 benchmark by approximately 1.3 percentage points. The outperformance was driven by a structural overweight to smaller companies as well as superior stock selection by investment managers in an environment characterized by a higher market focus on company fundamentals.

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, 2010

| Characteristic | TRS Domestic Equity | Russell 3000 Index |
|---|---------------------|--------------------|
| Weighted average market cap (\$ billions) | \$38.6 | \$59.0 |
| Price/earnings ratio | 20.0x | 17.5x |
| Dividend yield | 1.5% | 2.0% |
| Beta | 1.1 | 1.0 |
| 5-year EPS growth | 7.0% | 6.1% |
| Price/book ratio | 2.8x | 2.9x |

Source: State Street Bank and Trust

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2010

| Sector | TRS Domestic Equity Weighting | Russell 3000 Index Weighting |
|----------------------------|-------------------------------|------------------------------|
| Consumer discretionary | 14.3% | 11.9% |
| Consumer durables | 6.2 | 8.6 |
| Energy | 8.2 | 9.8 |
| Financial services | 17.5 | 17.4 |
| Health care | 12.4 | 12.2 |
| Industrials | 12.3 | 11.6 |
| Materials | 4.1 | 4.0 |
| Technology | 20.0 | 17.9 |
| Telecommunication services | 2.5 | 2.8 |
| Utilities | 2.5 | 3.8 |
| Total | 100.0% | 100.0% |

Source: State Street Bank and Trust and TRS

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 multi-nationally, or companies that are particularly strong in their own markets or industries.

For the year ended June 30, 2010, the international equity asset class returned 11.3 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country World Excluding U.S. Free Index (identified as Non-U.S. Equity Index in the following references) return of 11.5 percent. One-, three-, five-, and 10-year comparisons to this benchmark are in the following table:

| | FY10 | 3-Year | 5-Year | 10-Year |
|-------------------------|--------------|----------------|-------------|-------------|
| TRS, net of fees | 11.3% | (11.2%) | 2.9% | 2.5% |
| Non-U.S. Equity Index | 11.5 | (10.1) | 4.0 | 2.4 |

The top 10 international equity holdings as of June 30, 2010 follow and represent 8.7 percent of the total international equity holdings. These investments are diversified geographically and include companies that are dominant within their industry and familiar to the U.S. economy.

Top 10 International Equity Holdings at June 30, 2010

| Firm | Country | Market Value (USD) |
|--------------------|----------------|-----------------------------|
| Novartis AG | Switzerland | \$71,502,538 |
| GlaxoSmithKline | United Kingdom | 69,061,958 |
| Nestle SA | Switzerland | 66,020,039 |
| Vodafone Group PLC | United Kingdom | 56,266,978 |
| Carrefour | France | 49,622,379 |
| Canon, Inc. | Japan | 49,049,594 |
| Standard Chartered | United Kingdom | 48,665,426 |
| France Telecom | France | 45,916,573 |
| Deutsche Telekom | Germany | 44,400,412 |
| BG Group | United Kingdom | 43,667,930 |
| Total | | <u>\$544,173,827</u> |

Source: State Street Bank and Trust and TRS

At June 30, 2010, 19.3 percent of the TRS investment portfolio was assigned to international equity managers. TRS employed the following international equity managers during FY10.

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

| | |
|--|---------------|
| Large Cap Growth | |
| Jarislowsky, Fraser Limited (8/05) | \$333,869,902 |
| McKinley Capital Management, Inc. (8/05) | 829,208,544 |
| State Street Global Advisors (8/05) | 347,964,139 |
| Trilogy Global Advisors, L.L.C. (8/07) | 306,241,395 |
| Large Cap Value | |
| Brandes Investment Partners, L.P. (2/98) | 857,845,523 |
| Mondrian Investment Partners Limited (4/93) | 902,338,055 |
| Passive Non-U.S. | |
| Blackrock Institutional Trust Company, N.A. (5/07) | 152,347,940 |
| State Street Global Markets (6/09) | 249,527,890 |
| Small Cap | |
| American Century Global Investment Management, Inc. (6/08) | 183,456,746 |
| Dimensional Fund Advisors, L.P. (6/08) | 166,008,666 |
| Putnam Advisory Company, L.L.C. (3/09) | 180,586,464 |
| State Street Global Markets (8/07) | 104,438,598 |
| Emerging Markets | |
| Aberdeen Asset Management, Inc. (3/08) | 306,302,395 |
| Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03) | 781,281,259 |

Note: The list does not include managers terminated prior to June 30, 2010 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 has become more aligned with the targets as TRS prudently rebalanced 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. | 5.8% | 6.7% |
| Active core | 65.7 | 64.8 |
| Small cap | 12.0 | 10.5 |
| Emerging markets | 16.5 | 18.0 |
| Total | 100.0% | 100.0% |

International equity markets posted solid gains for the year ended June 30, 2010, advancing 11.5 percent as measured by the MSCI All Country Ex-U.S. Free Index (“ACWI”). Like the U.S. equity markets, international equities performed well over the first three quarters of fiscal year 2010, advancing over 25 percent. However, the Greek sovereign debt crisis brought renewed concerns over the stability of global markets and led to a 12.2 percent decline in the fourth quarter.

The best-performing international segment was the collective emerging markets regions, which are classified as developing economies in the international markets and represent a 24.0 percent weighting of the international index. Within the emerging markets, the Latin American region was the best performer, led by a strong 31.8 percent gain in Mexico. The smaller Latin American countries of Colombia and Peru had the best returns in the region up 53.6 and 52.2 percent, respectively. In the developed portion of the non-U.S. markets, Sweden, which represents just 1.75 percent of the international index, was the best-performing market for the year. Sweden benefited from its minimal exposure to the sovereign debt crisis that spread across the Euro-based European region. Europe, the largest international equity region representing 43.0 percent of the MSCI ACWI Index, underperformed the broad market advance, appreciating by 6.3 percent. Greece was the worst-performing European country due to its sovereign debt concerns, dropping 46.7 percent.

The TRS international equity portfolio recorded positive returns for FY10 gaining 11.3 percent, net of fees, but underperformed its index by 0.2 of a percentage point. The portfolio’s defensive positioning posted solid relative performance during the fourth quarter pullback outperforming its benchmark by 0.6 of a percentage point, but this defensive stance made the portfolio unable to keep up with the strong rally that began the fiscal year.

Portfolio Characteristics

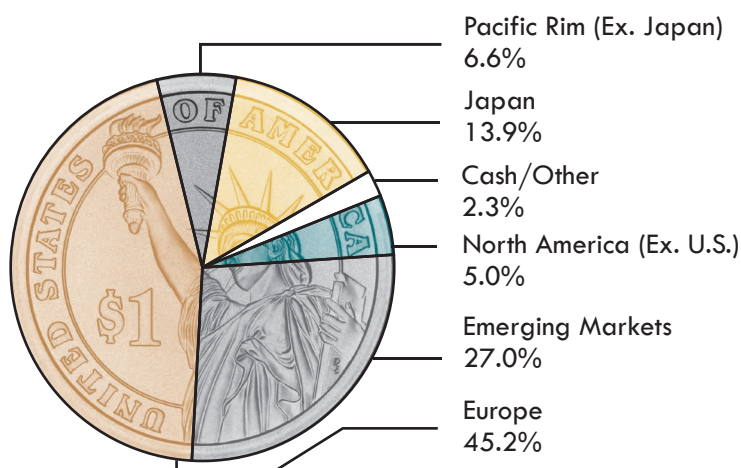
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

International Equity Fundamental Characteristics

| Characteristic | TRS International Equity | Non-U.S. Equity Index |
|---|-----------------------------|--------------------------|
| Weighted average market cap (\$ billions) | \$30.9 | \$37.0 |
| Price/earnings ratio | 17.3x | 17.9x |
| Dividend yield | 3.0% | 2.9% |
| Price/book ratio | 2.4x | 2.5x |

Source: State Street Bank and Trust

Regional Allocation Comparison June 30, 2010 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 low or 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, 2010, TRS's fixed income managers earned a 16.8 percent return, net of fees, compared to the 9.5 percent return of the benchmark, the Barclays Capital Aggregate Index. For periods longer than two years, 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:

| | FY10 | 3-Year | 5-Year | 10-Year |
|-------------------------|--------------|-------------|-------------|-------------|
| TRS, net of fees | 16.8% | 8.8% | 6.4% | 6.7% |
| TRS Fixed Income Index | 9.5 | 7.6 | 5.6 | 6.3 |

The following table lists the top 10 global fixed income securities held by all TRS's managers as of June 30, 2010. 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, 2010

| Security/Position | Rate | Market Value |
|---|-------|-----------------------------|
| U.S. Treasury Note | 0.75% | \$96,678,596 |
| Canada, Government of | 2.50 | 85,366,395 |
| Federal Home Loan Mortgage Corp. Discount Note | 0.25 | 78,568,560 |
| Federal National Mortgage Association TBA | 6.50 | 50,377,360 |
| U.S. Treasury Bond | 2.38 | 46,560,026 |
| Goldman Sachs Collective Trust Debt Implementation Fund | - | 45,615,342 |
| U.S. Treasury Note | 0.63 | 41,449,857 |
| American International Group, Inc. | 8.25 | 38,778,750 |
| U.S. Treasury Inflation Index Linked Note | 1.63 | 35,794,862 |
| U.S. Treasury Note | 5.13 | 33,077,198 |
| Total | | <u>\$552,266,946</u> |

Source: State Street Bank and Trust and TRS

At June 30, 2010, 17.7 percent of the TRS investment portfolio was assigned to global fixed income. The following table categorizes manager assignments. It excludes fixed income assets managed by managers in other asset classes which might invest in fixed income securities as a small part of their overall strategies.

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

| | |
|--|---------------|
| Core Plus | |
| Dolan McEniry Capital Management, L.L.C. (5/06) | \$189,397,134 |
| Goldman Sachs Asset Management, L.P. (5/06) | 1,022,578,281 |
| Pacific Investment Management Company, L.L.C. (7/82) | 1,228,443,369 |
| Taplin, Canida & Habacht (3/04) | 423,870,539 |
| International | |
| Franklin Advisers, Inc. (2/08) | 714,095,269 |
| Enhanced Indexed | |
| Prudential Investment Management, Inc. (12/08) | 1,017,228,572 |
| Long Duration | |
| Loomis Sayles & Company, L.P. (6/08) | 800,446,997 |
| Emerging Manager | |
| Davis Hamilton Jackson & Associates, L.P. (6/10) | 25,327,822 |
| LM Capital Group, L.L.C. (12/09) | 26,018,024 |
| Special Situations | |
| Oaktree PPIP Private Fund, L.P. (3/10) | 11,501,971 |
| Pacific Investment Management Company, L.L.C. (4/09) | 25,846,846 |
| PIMCO Private Funds II, L.P. (7/09) | 17,021,714 |

Note: This list does not include certain managers terminated prior to June 30, 2010 with residual assets in the account.

Discussion of Global Fixed Income

The TRS fixed income portfolio outperformed the Barclay's Capital Aggregate index by nearly 7.3 percentage points, net of fees, during the fiscal year. TRS's overweight to most spread sectors took advantage of unprecedented spread compression in the markets. Other areas of strength included foreign denominated bonds, which took advantage of the weak U.S. dollar and investments in special situations such as the term asset-backed loan facility (TALF). Although TRS began the year short relative duration, as the year progressed and it became evident the Federal Reserve was not going to increase rates, the portfolio shifted to a slightly longer duration taking advantage of higher yielding positioning. Throughout

the year, TRS maintained a similar risk profile relative to the index and a risk profile much lower than nominal treasury positions.

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

Statistical Data Global Fixed Income Profile

| Characteristic | TRS Fixed Income Portfolio 6/30/10 | Barclays Capital Aggregate Index 6/30/10 | TRS Fixed Income Portfolio 6/30/09 | Barclays Capital Aggregate Index 6/30/09 |
|------------------------|------------------------------------|--|------------------------------------|--|
| Average maturity | 9.3 years | 5.9 years | 7.8 years | 5.9 years |
| Effective duration | 4.8 years | 4.1 years | 4.8 years | 4.2 years |
| Average coupon | 4.8% | 4.5% | 5.0% | 5.0% |
| Average quality rating | Aa3 | Aa1 | Aa3 | Aaa |
| Current yield | 4.4% | 2.5% | 5.5% | 4.8% |

Source: TRS

Diversification by Quality Rating for Global Fixed Income Portfolios

| Moody's Quality Rating | 2010 | 2009 |
|------------------------|---------------|---------------|
| Agency | 0.0% | 1.0% |
| Aaa* | 48.0 | 51.9 |
| Aa1 through Aa3 | 5.5 | 5.9 |
| A1 through A3 | 11.5 | 13.4 |
| Baa1 through Baa3 | 16.0 | 15.8 |
| Ba1 through Ba3 | 7.9 | 4.6 |
| B1 through B3 | 3.2 | 2.9 |
| Other** | 7.9 | 4.5 |
| Total | 100.0% | 100.0% |

* Aaa includes Treasury securities

** Other includes under B3 and unrated securities.

Note: Chart includes enhance equity indexed underlying bond holdings.

Source: State Street Bank and Trust and TRS

Real Return

The real return asset class is 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 (CPI) by 5.0 percent over a five- to 10-year period of time. Real return strategies are generally 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. It should be noted that the CPI is not an investible benchmark, but is utilized as a benchmark given the intent of the asset class. For the year ended June 30, 2010, TRS's real return asset class earned 13.5 percent, net of fees, compared to the 6.1 percent return of the benchmark.

| | FY10 | 3-Year |
|---------------------------|--------------|-------------|
| TRS, net of fees | 13.5% | 0.3% |
| Consumer Price Index + 5% | 6.1 | 6.6 |

At June 30, 2010, 9.9 percent of TRS's investment portfolio was assigned to real return managers. TRS employed real return managers to use global inflation-linked, global macro, and commodity based strategies during FY10. As of June 30, 2010, 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) | \$71,577,135 |
| Pacific Investment Management Company, L.L.C. (5/07) | 328,273,823 |
| Western Asset Management Company (2/05) | 296,944,977 |
| Global Macro Strategies | |
| AQR Global Risk Premium Tactical Offshore Fund II, Ltd. (7/07) | 526,370,288 |
| Bridgewater All Weather Portfolio Offshore Limited (7/07) | 695,823,440 |
| PIMCO Global Multi-Asset Strategy (12/09) | 415,737,541 |
| Wellington Management Company - Diversified Inflation Hedges Portfolio, L.L.C. (9/07) | 502,703,921 |
| Commodities | |
| Gresham Investment Management Company, L.L.C. (3/09) | 101,464,023 |
| Schroder Commodity Offshore Portfolio, L.L.P. (3/08) | 160,686,393 |

Discussion of Real Return

The 13.5 percent return of the real return asset class during the fiscal year was lead by investments in the global macro sector which earned 17.7 percent, followed by global inflation-linked bonds earning 5.7 percent and commodities 5.4 percent, all net of fees. The real return portfolio continues to serve as a portfolio diversifier and protection against the effects of inflation on the fund. The asset class maintains a risk profile between stocks and bonds. During the fiscal year, TRS increased the real return asset class allocation from 7 percent in FY09 to the policy target of 10 percent in FY10.

Real Return Targets and Actual Allocation as of June 30, 2010

| Real Return Subclasses | Target | Actual |
|-------------------------------|---------------|---------------|
| Global inflation-linked bonds | 24.0% | 22.5% |
| Global macro strategies | 66.0 | 69.0 |
| Commodities | 10.0 | 8.5 |
| Total | 100.0% | 100.0% |

Source: TRS

Private Equity

Private equity includes investments that are placed and traded outside of the stock exchanges and other public markets. Over the long term, they are an attractive investment for pension funds, endowments, insurance companies, and other sophisticated investors. The investment class benefits the economy by providing needed capital to start-up companies and for continued growth in 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 as well. 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 against the Russell 3000 stock index plus 300 basis points (3 percentage points). This 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, 2010, private equity earned 16.5 percent on a net of fee basis, compared to the benchmark gain of 19.2 percent.

In general, an investor must look at a much longer-term investment horizon to measure the success of a private equity program. TRS's investments in private equity maintain a very strong long-term return, outperforming the benchmark by 2.3 percentage points 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:

| | FY10 | 3-Year | 5-Year | 10-Year |
|---------------------------|--------------|---------------|---------------|----------------|
| TRS, net of fees | 16.5% | (0.4%) | 9.6% | 4.4% |
| Russell 3000 Index + 3.0% | 19.2 | (6.7) | 2.5 | 2.1 |

At June 30, 2010, 9.5 percent of the TRS investment portfolio was assigned to the private equity asset class. The long-term target for private equity is 10 percent of the total fund. The following chart lists the private equity partnerships/funds (and the respective assets under management) that TRS has investments or commitments to invest with as of June 30, 2010.

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

Buyout

| | |
|--|--------------|
| Advent International GPE VI, L.P. (7/08) | \$22,441,945 |
| Apollo Investment Fund V, L.P. (5/01) | 62,564,617 |
| Apollo Investment Fund VI, L.P. (5/06) | 141,751,150 |
| Apollo Investment Fund VII, L.P. (1/08) | 125,722,506 |
| Banc Fund VI, L.P. (6/02) | 29,221,125 |
| Banc Fund VII, L.P. (5/05) | 23,232,584 |
| Carlyle Partners IV, L.P. (4/05) | 108,302,676 |
| Carlyle Partners V, L.P. (7/07) | 64,548,697 |
| Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03) | 44,594,145 |
| Carlyle/Riverstone Global Energy and Power Fund III, L.P. (4/06) | 97,145,563 |
| Castle Harlan Partners IV, L.P. (5/03) | 16,523,120 |
| Code Hennessy & Simmons V, L.P. (2/05) | 19,740,702 |
| DLJ Merchant Banking Partners II, L.P. (3/97) | 6,999,118 |
| DLJ Merchant Banking Partners III, L.P. (9/00) | 83,197,914 |
| Elevation Partners, L.P. (4/05) | 15,011,021 |
| Energy Capital Partners I, L.P. (4/06) | 28,659,384 |
| Energy Capital Partners II, L.P. (9/09) | 20,236,642 |
| Evercore Capital Partners II, L.P. (4/03) | 26,142,127 |
| GI Partners (1/09) | 6,496,291 |
| Glencoe Capital Partners III, L.P. (1/04) | 23,679,685 |
| Glencoe Capital Institutional Partners III, L.P. (6/04) | 5,754,778 |
| Green Equity Investors V, L.P. (8/07) | 42,243,779 |
| GTCR Fund VII/VIIA, L.P. (3/00) | 354,065 |
| GTCR Fund VIII, L.P. (7/03) | 21,602,329 |
| Hispania Private Equity, L.P. (5/04) | 761,185 |
| ICV Partners II, L.P. (1/06) | 7,190,120 |

Continued

| | |
|---|--------------|
| J.C. Flowers II, L.P. (2/07) | \$13,675,222 |
| KKR 1996 Fund, L.P. (5/97) | 7,863,718 |
| Madison Dearborn V, L.P. (7/06) | 66,304,408 |
| MBK Partners (5/09) | 10,197,737 |
| Mesirow Capital Partners VII, L.P. (6/97) | 1,699,437 |
| New Mountain Partners III, L.P. (8/07) | 29,267,483 |
| Onex Partners III, L.P. (04/09) | 2,262,850 |
| PAI Europe V, L.P. (4/08) | 7,494,867 |
| Pine Brook Capital Partners, L.P. (1/08) | 15,587,213 |
| Providence Equity Partners VI, L.P. (3/07) | 73,774,327 |
| Reliant Equity Partners, L.P. (6/04) | 215,043 |
| Riverstone/Carlyle GL IV (3/08) | 45,934,010 |
| Silver Lake Partners III, L.P. (8/07) | 40,950,843 |
| TCW/Latin America Private Equity Partners, L.P. (5/97) | 38,798 |
| Thayer Equity Investors V, L.P. (5/03) | 50,315,436 |
| TPG Partners IV, L.P. (12/03) | 30,302,140 |
| TPG Partners VI, L.P. (4/08) | 22,335,649 |
| Trilantic Capital Partners III, L.P. (4/05) | 33,527,477 |
| Trilantic Capital Partners IV, L.P. (10/07) | 17,380,271 |
| Trivest Fund II, Ltd. (4/96) | 394,642 |
| Vicente Capital Partners Growth Equity Fund, L.P. (4/08) | 2,920,449 |
| Vista Equity Partners Fund III, L.P. (11/07) | 53,846,444 |
| VS&A Communications Partners II, L.P. (8/95) | 2,408,913 |
| VSS Communication Partners IV, L.P. (3/05) | 30,574,800 |
| Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05) | 50,646,621 |
| Windpoint Partners VI, L.P. (2/06) | 21,890,721 |
| WPG Corporate Development Associates V, L.P. (11/97) | 1,041,577 |

Distressed Debt

| | |
|--|-------------|
| Avenue Europe Special Situations Fund, L.P. (5/08) | 36,190,930 |
| Avenue Special Situations Fund V, L.P. (10/07) | 114,982,596 |
| Blackstone/GSO Capital Partners (9/09) | 41,137,606 |
| Carlyle Strategic Partners, L.P. (10/04) | 28,191,927 |
| Clearlake Capital Partners, L.L.C. (7/09) | 7,716,715 |
| MatlinPatterson Global Opportunities Fund II, L.P. (1/04) | 23,280,420 |
| MatlinPatterson Global Opportunities Fund III, L.P. (6/07) | 49,744,787 |
| MatlinPatterson Preferred II (3/09) | 17,552,304 |
| Oaktree Opportunities Fund VIII, L.P. (3/10) | 27,916,601 |
| OCM Opportunities Fund V, L.P. (6/04) | 5,422,637 |
| OCM Opportunities Fund VIIIb, L.P. (6/08) | 124,325,940 |
| OCM European Principal Opportunities Fund II, L.P. (8/08) | 42,993,764 |

Subordinated Debt

| | |
|--|------------|
| Maranon Mezzanine Fund, L.P. (8/09) | 4,883,615 |
| Merit Mezzanine Fund IV, L.P. (1/05) | 48,017,949 |
| Prism Mezzanine Fund, L.P. (12/04) | 7,045,732 |
| SW Pelham Fund II, L.P. (9/03) | 7,983,266 |
| Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05) | 36,287,299 |
| William Blair Mezzanine Capital Fund II, L.P. (5/97) | 3,924,593 |
| William Blair Mezzanine Capital Fund III, L.P. (1/00) | 10,378,262 |

Venture Capital

| | |
|---|------------|
| 21st Century Communications T-E Partners, L.P. (2/95) | 255,346 |
| Apex Investment Fund V, L.P. (8/03) | 9,960,457 |
| Carlyle Venture Partners II, L.P. (10/02) | 62,098,720 |
| Carlyle Venture Partners III, L.P. (6/07) | 34,638,421 |
| Edgewater Growth Capital Partners, L.P. (11/03) | 16,583,026 |
| Edgewater Growth Capital Partners II, L.P. (2/06) | 21,852,362 |

Continued

| | |
|---|--------------|
| Evergreen Partners IV, L.P. (12/02) | \$11,453,453 |
| Evergreen Partners V, L.P. (6/07) | 9,547,257 |
| Granite Ventures II, L.P. (5/05) | 8,655,425 |
| HealthPoint Partners, L.P. (6/04) | 23,927,043 |
| Hopewell Ventures, L.P. (6/04) | 3,481,124 |
| Illinois Emerging Technologies Fund, L.P. (6/04) | 1,464,711 |
| Longitude Venture Partners, L.P. (3/08) | 14,276,466 |
| SCP Private Equity Partners, L.P. (5/97) | 1,309,826 |
| SCP Private Equity Partners II, L.P. (6/00) | 55,235,741 |
| Shasta Ventures, L.P. (1/05) | 16,312,189 |
| Starvest Partners, L.P. (1/09) | 2,988,009 |
| Technology Crossover Ventures VII, L.P. (10/08) | 6,982,764 |
| VantagePoint Venture Partners IV, L.P. (6/00) | 54,360,768 |
| VantagePoint Venture Partners 2006, L.P. (12/06) | 25,387,974 |
| Warburg Pincus International Partners, L.P. (9/00) | 67,788,263 |
| Warburg Pincus International Partners IX, L.P. (9/05) | 100,156,253 |
| Warburg Pincus Private Equity X, L.P. (10/07) | 112,178,731 |
| WPG Enterprise Fund II, L.P. (8/94) | 3,239,860 |
| WPG Enterprise Fund III, L.P. (3/97) | 8,932,119 |

Discussion of Private Equity

TRS's private equity portfolio increased 16.5 percent through the fiscal year. While under its benchmark over the one-year period, longer term private equity has outperformed on a three-, five- and 10-year basis. The overall performance strength of the private equity program and the asset class's diversification benefits the overall portfolio. TRS continues to steadily and prudently increase its exposure to private equity, with the full target allocation to the asset class expected in FY11. 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, 2010.

Private Equity Target and Actual Allocation as of June 30, 2010

| Subclasses | Target | Actual |
|--|--------|---------------|
| Buyout | 60-80% | 54.4% |
| Venture capital | 10-25 | 22.5 |
| Special situations/distressed debt/subordinated debt | 5-20 | 23.1 |
| Total | | 100.0% |

Source: TRS

TRS made new commitments to five separate funds totaling close to \$425 million during the fiscal year. Included in this total were funds that can strategically benefit during recessionary or distressed-market environments. TRS remains opportunistic and continues to diversify its private equity portfolio for the global opportunity set. For FY11, the TRS private equity tactical plan calls for new commitments of approximately \$800 to \$1,200 million within the asset class.

Absolute Return

The absolute return asset class includes investment mandates that are expected to provide attractive return and risk attributes while exhibiting low correlation to the traditional asset classes of public equities and fixed income. Along with the real return asset class, the absolute return class was established as a result of the FY07 asset allocation study.

Investments in absolute return are administered via both direct investment manager relationships and diversified fund of funds. The long-term target allocation for the asset class is 5.0 percent of the overall TRS investment portfolio. Managers in this strategy are benchmarked to a relative risk-free index of 90-Day Treasury Bills + 4.0 percent. It is important to note this is not an investible index but is used as a benchmark given the risk reduction intent of the asset class.

For the year ended June 30, 2010, TRS's absolute return investment asset class earned 9.6 percent, net of fees, compared to the 4.2 percent return of the benchmark.

| | FY10 | 3-Year |
|-------------------------|-------------|---------------|
| TRS, net of fees | 9.6% | (1.7%) |
| Treasury Bill + 4% | 4.2 | 5.6 |

At June 30, 2010, 3.9 percent of TRS's investment portfolio was assigned to absolute return managers and TRS employed the following managers including their respective assets under management.

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

| | |
|---------------------------------------|---------------|
| Diversified | |
| Bridgewater Pure Alpha Fund I (1/09) | \$326,389,216 |
| Diversified Fund of Funds | |
| Grosvenor Monarch Fund, L.L.C. (6/07) | 359,856,875 |
| K2 Bluegill Fund, L.L.C. (6/07) | 518,895,053 |
| Emerging Manager | |
| Lasair Capital L.L.C. (8/09) | 26,417,393 |

Discussion of Absolute Return

The absolute return asset class performed reasonably well given the severity and volatility associated with the market crisis and subsequent recovery. The absolute return portfolio outperformed its benchmark in FY10 due to strong performance of underlying managers combined with a tailwind associated with modest exposure to equity and credit markets. This modest equity exposure also explains the lagging performance for the trailing three-year period. Since its inception three years ago, the absolute return portfolio has outperformed U.S. equities by 8.6 percent, and has done so with less than one-third of the volatility.

Real Estate

Real estate investments are direct investments or ownership in land and buildings including apartments, offices, warehouses, shopping centers, and hotels. 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.

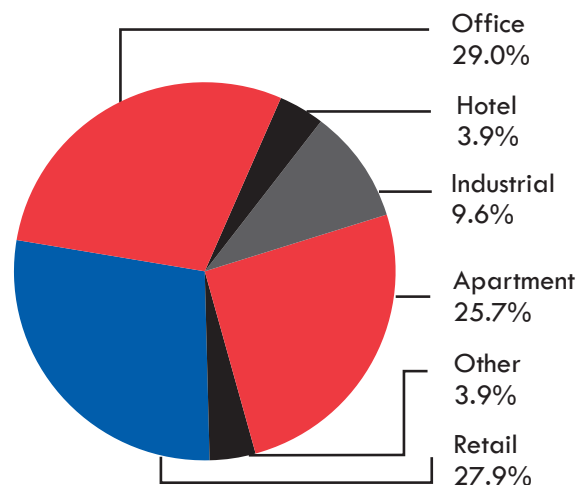
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2010, TRS held \$3.3 billion in real estate assets, or 10.4 percent of the total fund portfolio. For the fiscal year, TRS's real estate investments declined 5.6 percent. Real estate performance and benchmark comparison are noted in the following table:

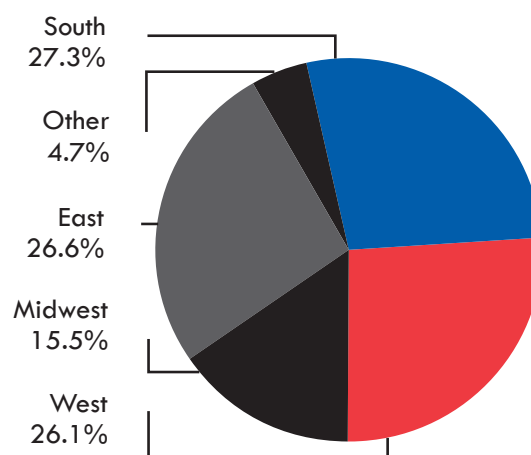
| | FY10 | 3-Year | 5-Year | 10-Year |
|----------------------------|---------------|----------------|---------------|----------------|
| TRS, net of fees | (5.6%) | (11.6%) | 0.6% | 5.5% |
| Real Estate Property Index | (1.5) | (4.7) | 3.8 | 7.2 |

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, 2010



Geographic Diversification of Real Estate Holdings as of June 30, 2010



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, 2010, 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) | \$601,352,044 |
| Cornerstone Real Estate Advisors, L.L.C. (7/08) | 226,723,870 |
| Cornerstone II S/A (7/09) | 6,178,044 |
| Cornerstone III S/A (8/09) | 105,098,615 |
| Cozad/Westchester Asset Management, Inc. (5/91)* | 4,227,333 |
| Heitman Capital Management, L.L.C. (7/09) | 793,131,137 |
| Invesco Institutional (N.A.), Inc. (7/08) | 243,214,587 |
| Koll Bren Schreiber Realty Advisors I (6/93) | 263,320,728 |
| LPC Realty Advisors I, Ltd. (7/92) | 225,987,070 |
| LPC Realty Advisors Core, Ltd. (4/07) | 26,240,654 |

Closed-End Accounts

| | |
|--|-------------|
| Beacon Capital Partners V, L.P. (8/07) | 26,537,057 |
| Blackstone Real Estate Partners VI, L.P. (9/07) | 20,271,652 |
| Capri/Capital Apartment Fund III (11/02) | 109,527,997 |
| Capri Select Income Fund II, L.L.C. (12/05) | 4,660,783 |
| Carlyle Realty Partners IV, L.P. (6/05) | 49,283,935 |
| Cornerstone Hotel Income & Equity Fund II, L.P. (7/08) | 3,702,067 |
| DLJ Real Estate Capital Partners, Inc. (3/96)* | 568,226 |
| JBC Opportunity Fund II, L.P. (5/03) | 22,043,703 |

* In liquidation mode.

Continued

| | |
|---|--------------|
| JER Real Estate Partners III, L.P. (1/05) | \$36,367,996 |
| RLJ Lodging Fund II, L.P. (9/06) | 29,216,288 |
| RLJ Lodging Fund III, L.P. (9/08) | 8,335,367 |
| Thayer Hotel IV, L.P. (5/04) | 6,270,720 |
| Walton Street Capital IV, L.L.C. (7/03) | 55,347,328 |
| Walton Street Capital VI, L.L.C. (4/09) | 19,772,626 |

Open-End Accounts

| | |
|---|-------------|
| Hines U.S. Core Office Fund, L.P. (12/05) | 122,032,575 |
| Lion Industrial Trust (4/05) | 131,477,257 |

International Real Estate Accounts

| | |
|---|------------|
| Carlyle Europe Real Estate Partners, L.P. (6/03) | 16,036,959 |
| Carlyle Europe Real Estate Partners III, L.P. (9/07) | 15,003,408 |
| CB Richard Ellis Strategic Partners Europe III (4/07) | 36,537,062 |
| CB Richard Ellis Strategic Partners U.K. III (5/07) | 12,167,204 |
| LaSalle Asia Opportunity Fund III, L.P. (11/07) | 7,626,019 |
| MGPA Asia Fund III, L.P. (12/07) | 24,202,980 |

Discussion of Real Estate

The commercial real estate market continued to experience negative performance for the fiscal year ending June 30, 2010. However, performance significantly improved throughout the fiscal year. Fundamentals such as occupancy and rental rates began to strengthen, if only slightly, during the fiscal year attributing to a stabilization of property values. Transactions within commercial property began to increase with a focus on fully-leased, well-located core properties. The TRS investment portfolio has a long-term allocation of 14 percent to real estate and is currently 10.4 percent invested in the asset class. The portfolio will continue its efforts to move toward the long-term allocation through strategic allocations and opportunistically taking advantage of the property transaction market.

Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2010 and 2009. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2010, TRS recaptured \$0.8 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 FY10, TRS used \$0.2 million of recaptured funds to offset expenditures.

Top 50 Brokers Used by TRS Managers

| Broker | FY10 Commission | FY09 Commission |
|--|--------------------|--------------------|
| Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide) | \$2,208,488 | \$2,250,354 |
| Credit Suisse (Worldwide) | 1,451,809 | 1,316,792 |
| Goldman Sachs & Co. (Worldwide) | 1,364,243 | 1,399,255 |
| J.P. Morgan Securities, Inc. (Worldwide) | 1,363,340 | 1,437,635 |
| UBS Warburg Securities and all Subsidiaries (Worldwide) | 1,180,196 | 897,741 |
| Morgan Stanley & Co., Inc. and Subsidiaries (Worldwide) | 958,438 | 1,103,759 |
| Barclays (Worldwide) | 935,045 | 577,860 |
| Citigroup, Inc. and all Subsidiaries (Worldwide) | 892,172 | 795,827 |
| Bank of New York Mellon (Worldwide) | 761,324 | 667,392 |
| Instinet, L.L.C. (Worldwide) | 697,429 | 809,675 |
| Deutsche Bank & Securities (Worldwide) | 579,915 | 750,059 |
| Liquidnet, Inc. | 516,936 | 620,586 |
| Macquarie Bank & Securities, Ltd. (Worldwide) | 381,794 | 250,924 |

Continued

| Broker | FY10 Commission | FY09 Commission |
|---|----------------------------|----------------------------|
| Investment Technology Group, Inc. (Worldwide) | \$356,336 | \$649,913 |
| State Street Brokerage Services (Worldwide) | 349,498 | 643,821 |
| Pipeline Trading Systems, L.L.C. | 331,741 | 97,075 |
| Ivy Securities, Inc. | 320,695 | 313,267 |
| Cabrera Capital Markets, Inc. | 312,754 | 279,410 |
| Jefferies & Company | 303,230 | 347,209 |
| Loop Capital Markets, L.L.C. | 285,386 | 123,384 |
| Weeden & Co. | 242,140 | 195,391 |
| M. Ramsey King Securities | 236,951 | 197,954 |
| Nomura International (Worldwide) | 233,562 | 82,250 |
| Stifel Nicolaus & Company (Worldwide) | 194,319 | 117,916 |
| Piper Jaffray, Inc. | 176,070 | 125,691 |
| Sanford Bernstein (Worldwide) | 171,960 | 169,557 |
| CL King & Associates, Inc. | 153,098 | 161,310 |
| Cantor Fitzgerald | 142,510 | 128,026 |
| Credit Lyonnais Securities (Worldwide) | 141,868 | 116,000 |
| Knight Securities, L.P. | 138,868 | 125,122 |
| Baird, Robert W., & Company, Incorporated | 138,691 | 139,187 |
| Raymond James (Worldwide) | 137,458 | 138,065 |
| RBC Dain Rauscher (Worldwide) | 135,481 | 125,113 |
| Oppenheimer & Company, Inc. (Worldwide) | 128,526 | 124,991 |
| Bloomberg Tradebook, L.L.C. | 126,754 | 165,291 |
| Credit Agricole | 120,848 | 17,049 |
| Wells Fargo (Worldwide) | 103,286 | 0 |
| Pulse Trading, L.L.C. | 101,407 | 137,757 |
| SG Cowen & Company (Worldwide) | 99,865 | 123,536 |
| Melvin Securities, L.L.C. | 98,568 | 125,353 |
| Thomas Weisel Partners, L.L.C. | 98,153 | 97,755 |
| Daiwa Securities | 92,093 | 35,515 |
| Keefe Bruyette & Woods, Inc. | 88,327 | 73,518 |
| Keybank Capital Markets | 82,948 | 29,747 |
| Suntrust Robinson Humphrey | 79,772 | 78,666 |
| Pacific Crest Securities | 79,010 | 65,263 |
| Guzman & Company | 76,753 | 86,546 |
| Williams Capital Group, L.P. | 73,903 | 99,546 |
| Citation Group | 72,133 | 2,776 |
| William Blair & Company | 71,019 | 10,305 |
| (All Others - 258 Brokers) | 3,768,840 | 4,489,088 |
| Total | <u>\$23,155,950</u> | <u>\$22,916,222</u> |

Source: State Street Bank and Trust and TRS

External Manager Fee Payments

For the year ended June 30, 2010, fee payments to external investment managers totaled \$180.6 million, an increase of 13.5 percent from the year ended June 30, 2009. The rise is attributable to the increase in public funds asset values and the respective fees that are based on average asset values.

Schedule of Investment Manager Fees

| Investment Manager/Account | FY10 | FY09 |
|---|-----------|-----------|
| 21st Century Communication T-E Partners, L.P. | \$0 | \$0 |
| Aberdeen Asset Management, Inc. | 1,989,881 | 1,568,764 |
| Advent International GPE VI, L.P. | 978,929 | 1,336,499 |
| American Century Global Investment Management, Inc. | 1,265,207 | 577,048 |
| Analytic Investors, L.L.C. | 2,129,975 | 2,029,793 |
| Apex Investment Fund III, L.P. | 0 | 6,351 |
| Apex Investment Fund V, L.P. | 376,002 | 444,375 |
| Apollo Investment Fund V, L.P. | 0 | 0 |
| Apollo Investment Fund VI, L.P. | 0 | 0 |
| Apollo Investment Fund VII, L.P. | 2,434,733 | 2,959,834 |
| AQR Capital Management, L.L.C. | 1,541,928 | 1,422,684 |
| AQR Global Risk Premium Tactical Offshore Fund II, Ltd. | 2,061,817 | 1,320,950 |
| Avenue Europe Special Situations Fund, L.P. | 557,843 | 460,240 |
| Avenue Special Situations Fund V, L.P. | 1,500,000 | 1,500,000 |
| Banc Fund VI, L.P. | 1,001,875 | 1,001,875 |
| Banc Fund VII, L.P. | 865,200 | 793,200 |
| Batterymarch Financial Management, Inc. | 0 | 423,785 |
| Beacon Capital Partners V, L.P. | 0 | 0 |
| BlackRock, Inc. | 711,721 | 1,083,517 |
| Blackstone Real Estate Partners VI, L.P. | 742,219 | 750,000 |
| Boston Company Asset Management, L.L.C. | 2,520,364 | 1,490,929 |
| Brandes Investment Partners, L.P. | 3,504,649 | 3,182,516 |
| Bridgewater All Weather Portfolio Offshore Limited | 1,787,315 | 1,547,758 |
| Bridgewater Pure Alpha Fund I | 7,204,655 | 2,743,678 |
| Capri/Capital Advisors, L.L.C. | 2,189,723 | 2,219,782 |
| Capri/Capital Apartment Fund III | 1,496,984 | 1,496,984 |
| Capri Select Income II, L.L.C. | 171,582 | 176,262 |
| Carlyle Europe Real Estate Partners, L.P. | 436,099 | 463,654 |
| Carlyle Europe Real Estate Partners III, L.P. | 1,162,718 | 1,207,375 |
| Carlyle Partners IV, L.P. | 584,960 | 583,146 |
| Carlyle Partners V, L.P. | 2,324,097 | 2,266,289 |
| Carlyle Realty Partners IV, L.P. | 890,346 | 879,141 |
| Carlyle/Riverstone Global Energy Fund II, L.P. | 584,219 | 686,791 |
| Carlyle/Riverstone Global Energy Fund III, L.P. | 712,979 | 638,516 |
| Carlyle Strategic Partners, L.P. | 140,160 | 306,283 |
| Carlyle U.S. Growth Fund III, L.P. | 1,000,000 | 1,000,000 |
| Carlyle Ventures Capital II, L.P. | 1,461,096 | 2,078,111 |
| Castle Harlan Partners IV, L.P. | 2,876 | 198,035 |
| CB Richards Ellis Strategic Partners Europe Fund III | 696,857 | 665,456 |
| CB Richards Ellis Strategic Partners UK Fund III | 452,674 | 519,098 |
| Clearlake Capital Partners II, L.P. | 485,005 | 306,692 |
| Code Hennessy & Simmons V, L.P. | 97,218 | 0 |
| Commonwealth Realty Advisors, Inc. | 0 | 3,981,517 |
| Copper Rock Capital Partners, L.L.C. | 1,206,170 | 841,135 |
| Cornerstone Hotel Income & Equity Fund II, L.P. | 138,722 | 115,942 |
| Cornerstone Real Estate Advisors, L.L.C. | 1,543,283 | 1,118,859 |
| Cozad/Westchester Asset Management, Inc. | 0 | 0 |
| Cramer Rosenthal McGlynn, L.L.C. | 902,144 | 258,856 |
| Credo Capital Management, L.L.C. | 171,090 | 11,763 |
| Davis Hamilton Jackson & Associates, L.P. | 3,367 | 0 |
| Denali Advisors, L.L.C. | 293,185 | 178,212 |
| Dimensional Fund Advisors, L.P. | 1,321,435 | 969,157 |
| DLJ Merchant Banking Partners II, L.P. | 23,860 | 142,893 |
| DLJ Merchant Banking Partners III, L.P. | 479,467 | 381,571 |
| DLJ Real Estate Capital Partners, Inc. | 0 | 0 |

Continued

| Investment Manager/Account | FY10 | FY09 |
|--|-------------|-------------|
| Dodge & Cox | \$1,314,471 | \$2,049,410 |
| Dolan McEniry Capital Management, L.L.C. | 470,531 | 379,428 |
| EARNEST Partners, L.L.C. | 1,152,749 | 440,568 |
| Edgewater Growth Capital Partners, L.P. | 274,846 | 28,869 |
| Edgewater Growth Capital Partners II, L.P. | 242,096 | 125,746 |
| Elevation Partners, L.P. | 375,000 | 344,560 |
| Emerald Advisers, Inc. | 1,200,609 | 1,090,079 |
| Energy Capital Partners I, L.P. | 646,544 | 723,968 |
| Energy Capital Partners II, L.P. | 630,502 | 0 |
| Evercore Asset Management, L.L.C. | 0 | 13,743 |
| Evercore Capital Partners II, L.P. | 215,322 | 225,177 |
| Evergreen Partners IV, L.P. | 445,089 | 376,659 |
| Evergreen Partners V, L.P. | 625,000 | 312,500 |
| Fiduciary Management Associates, L.L.C. | 295,631 | 252,719 |
| Franklin Advisers, Inc. | 1,872,069 | 1,253,125 |
| Fred Alger Management, Inc. | 895,507 | 808,927 |
| Frontier Capital Management, L.L.C. | 989,560 | 0 |
| GI Partners | 747,912 | 640,874 |
| Glencoe Capital Partners III, L.P. | 171,969 | 236,775 |
| Glencoe Capital Institutional Partners III, L.P. | 0 | 0 |
| Goldman Sachs Asset Management, L.P. | 1,529,539 | 1,419,386 |
| Granite Ventures II, L.P. | 500,000 | 500,000 |
| Grantham, Mayo, Van Otterloo & Co., L.L.C. | 6,542,346 | 4,968,639 |
| Green Equity Investors V, L.P. | 1,439,805 | 1,018,815 |
| Gresham Investment Management Company, L.L.C. | 412,856 | 140,495 |
| Grosvenor Monarch Fund, L.L.C. | 2,174,773 | 1,698,830 |
| GTCR Fund VII/VIIA, L.P. | 299,788 | 553,718 |
| GTCR Fund VIII, L.P. | 385,289 | 351,631 |
| HealthPoint Partners, L.P. | 471,894 | 566,528 |
| Heitman Capital Management, L.L.C. | 3,839,244 | 0 |
| Hines U.S. Core Office Fund, L.P. | 850,000 | 850,000 |
| Hispania Private Equity, L.P. | 139,475 | 174,907 |
| Hopewell Ventures, L.P. | 334,891 | 511,726 |
| ICV Partners II, L.P. | 250,330 | 245,897 |
| Illinois Emerging Technologies Fund, L.P. | 16,826 | 27,849 |
| ING Investment Management Company | 0 | 623,791 |
| Invesco Institutional (N.A.), Inc. | 1,195,606 | 1,203,067 |
| Jarislowsky, Fraser Limited | 803,525 | 745,541 |
| JBC Opportunity Fund II, L.P. | 333,580 | 368,839 |
| J.C. Flowers II, L.P. | 188,221 | 116,703 |
| JER Real Estate Partners III, L.P. | 387,040 | 577,675 |
| JP Morgan Investment Management, Inc. | 30,599 | 83,752 |
| JP Morgan Management Associates, L.L.C. | 3,691,120 | 3,023,572 |
| K2 Bluegill Fund, L.L.C. | 3,602,377 | 2,363,988 |
| KKR 1996 Fund, L.P. | 49,858 | 50,819 |
| Koll Bren Schreiber Realty Advisors | 1,379,008 | 1,338,813 |
| Lasair Capital L.L.C. | 230,017 | 0 |
| LaSalle Asia Opportunity Fund III, L.P. | 996,481 | 1,123,450 |
| Lehman Brothers Asset Management, L.L.C. | 0 | 166,138 |
| Lehman Brothers Asset Management Offshore Strategic Commodities Fund, Ltd., sub adviser | | |
| Gresham Investment Management Company, L.L.C. | 0 | 327,371 |
| Lion Industrial Trust | 1,426,538 | 2,125,518 |
| Littlejohn Fund IV, L.P. | 252,434 | 0 |
| LM Capital Group, L.L.C. | 20,098 | 0 |

Continued

| Investment Manager/Account | FY10 | FY09 |
|--|-------------|-------------|
| Lombardia Capital Partners, L.L.C. | \$311,517 | \$114,274 |
| Longitude Ventures Partners, L.P. | 750,000 | 750,000 |
| Loomis, Sayles & Company, L.P. | 2,533,237 | 1,752,336 |
| LPC Realty Advisors I, Ltd. | 1,164,844 | 2,918,464 |
| LSV Asset Management | 2,019,214 | 2,225,245 |
| MGPA Asia Fund III, L.P. | 1,140,064 | 1,136,095 |
| Madison Dearborn V, L.P. | 493,820 | 1,047,446 |
| Maranon Mezzanine Fund, L.P. | 444,178 | 167,898 |
| MatlinPatterson Global Opportunities Fund II, L.P. | 0 | 222,990 |
| MatlinPatterson Global Opportunities Fund III, L.P. | 1,497,631 | 1,415,420 |
| Mazama Capital Management, Inc. | 1,351,606 | 1,926,457 |
| MBK Partners | 396,857 | 553,279 |
| McKinley Capital Management, Inc. | 2,345,934 | 3,585,487 |
| Merit Mezzanine Fund IV, L.P. | 862,331 | 942,319 |
| Mesirow Capital Partners VII, L.P. | 0 | 0 |
| Mondrian Investment Partners Limited | 1,883,660 | 1,905,022 |
| New Century Advisors, L.L.C. | 179,635 | 67,198 |
| New Mountain Investments III, L.P. | 1,475,272 | 1,398,065 |
| OakBrook Investments, L.L.C. | 46,744 | 0 |
| Oaktree PPIP Private Fund, L.P. | 19,270 | 0 |
| OCM European Principal Opportunities Fund II, L.P. | 1,089,768 | 0 |
| OCM Opportunities Fund V, L.P. | 32,599 | 36,607 |
| OCM Opportunities Fund VIIIb, L.P. | 1,528,326 | 1,558,515 |
| OCM Opportunities Fund VIII, L.P. | 1,105,020 | 0 |
| Onex Partners III, L.P. | 404,595 | 487,432 |
| Pacific Investment Management Company, L.L.C. | 11,382,055 | 1,560,228 |
| PAI Europe V, L.P. | 790,519 | 983,155 |
| Piedmont Investment Advisors, L.L.C. | 197,501 | 44,184 |
| PIMCO Private Funds II, L.P. | 77,584 | 0 |
| Pine Brook Capital Partners, L.P. | 851,546 | 818,850 |
| Prism Mezzanine Fund, L.P. | 589,532 | 613,272 |
| Providence Equity Partners VI, L.P. | 1,478,605 | 677,176 |
| Prudential Investment Management, Inc. | 500,731 | 214,927 |
| Putnam Advisory Company, L.L.C. | 971,850 | 208,650 |
| Quantitative Management Associates, L.L.C. | 0 | 996,807 |
| Ranger Investment Management | 72,860 | 214,313 |
| Reliant Equity Partners, L.P. | 0 | 12,321 |
| RhumbLine Advisers, L.P. | 127,342 | 101,551 |
| Riverstone/Carlyle Global Energy and Power Fund IV, L.P. | 1,227,062 | 1,370,573 |
| RLJ Lodging Fund II, L.P. | 610,108 | 711,834 |
| RLJ Lodging Fund III, L.P. | 625,000 | 1,232,449 |
| Robeco Boston Partners Asset Management, L.P. | 967,568 | 954,549 |
| Schroder Commodity Offshore Portfolio, L.L.P. | 1,306,276 | 1,219,992 |
| SCP Private Equity Partners, L.P. | 0 | 0 |
| SCP Private Equity Partners II, L.P. | 935,599 | 570,338 |
| Shasta Ventures, L.P. | 0 | 0 |
| Silver Lake Partners III, L.P. | 1,052,524 | 1,183,865 |
| StarVest Partners, L.P. | 300,000 | 600,000 |
| State Street Bank and Trust Company (Custody) | 235,065 | 50,000 |
| State Street Global Advisors | 729,760 | 513,515 |
| State Street Global Markets | 0 | 0 |
| Stone-Levy, L.L.C. | 0 | 730,229 |
| SW Pelham Fund II, L.P. | 365,625 | 367,406 |
| T. Rowe Price Associates, Inc. | 3,500,373 | 3,458,011 |
| Taplin, Canida & Habacht | 604,525 | 597,432 |

Continued

| Investment Manager/Account | FY10 | FY09 |
|---|-----------------------------|-----------------------------|
| TCW/Latin American Private Equity Partners, L.P. | \$0 | \$0 |
| Technology Crossover Ventures VII, L.P. | 743,462 | 142,663 |
| Thayer Equity Investors V, L.P. | 395,470 | 368,883 |
| Thayer Hotel IV, L.P. | 90,988 | 143,157 |
| The Northern Trust Company (Custody) | 0 | 441,667 |
| Thompson, Siegel & Walmsley, Inc. | 1,290,579 | 1,443,768 |
| TPG Partners IV, L.P. | 0 | 0 |
| TPG Partners VI, L.P. | 1,408,193 | 1,608,214 |
| Trilantic Capital Partners III, L.P. | 295,136 | 294,431 |
| Trilantic Capital Partners IV, L.P. | 571,987 | 720,250 |
| Trilogy Global Advisors, L.L.C. | 1,142,673 | 997,862 |
| Trivest Fund II, Ltd. | 0 | 0 |
| Turner Investment Partners, Inc. | 2,082,745 | 1,979,053 |
| Tygh Capital Management, Inc. | 1,474,442 | 1,368,837 |
| VantagePoint Venture Partners IV, L.P. | 1,716,805 | 0 |
| VantagePoint Venture Partners 2006, L.P. | 969,388 | 3,637,351 |
| Vicente Capital Partners Growth Equity Fund, L.P. | 300,000 | 300,000 |
| Vista Equity Partners III, L.P. | 688,224 | 535,833 |
| VS&A Communications Partners II, L.P. | 0 | 0 |
| VSS Communications Partners IV, L.P. | 850,842 | 809,385 |
| Walton Street Capital IV, L.L.C. | 819,478 | 973,948 |
| Walton Street Capital VI, L.L.C. | 484,735 | 458,859 |
| Warburg Pincus International Partners, L.P. | 387,600 | 0 |
| Warburg Pincus Private Equity IX, L.P. | 1,081,036 | 0 |
| Warburg Pincus Private Equity X, L.P. | 3,748,177 | 6,255,634 |
| Wellington Management Company, L.P. | 1,134,716 | 1,103,552 |
| Wellington Management Company - Diversified Inflation Hedges Portfolio, L.L.C. | 4,458,075 | 3,161,042 |
| Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. | 484,631 | 238,634 |
| Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. | 264,186 | 235,654 |
| Western Asset Management Company | 354,796 | 395,168 |
| William Blair Mezzanine Capital Fund II, L.P. | 0 | 41,910 |
| William Blair Mezzanine Capital Fund III, L.P. | 139,235 | 129,743 |
| Wind Point Partners VI, L.P. | 0 | 36,960 |
| WPG Corporate Development Associates V, L.P. | 10,682 | 38,369 |
| WPG Enterprise Fund II, L.P. | 56,151 | 106,420 |
| WPG Enterprise Fund III, L.P. | 135,727 | 133,292 |
| Total fees paid by TRS | <u>\$180,641,485</u> | <u>\$159,222,616</u> |

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, State Street Bank and 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 |
|--|---------------|
| FY10 net securities lending income | \$21,111,429 |
| Total State Street collateral market value (6/30/10) | 3,568,594,875 |
| Total market value of securities on loan at State Street (6/30/10) | 3,473,627,126 |
| Total collateralized percentage | 103% |

Source: State Street Bank and Trust

Michael Bracey Photography



Middle School teacher Nina of South Holland with DeNae.

A C T U A R I A L

December 6, 2010

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, 2010

Ladies & Gentlemen:

Based upon our annual actuarial valuation of the Teachers' Retirement System of the State of Illinois, we have determined the pension benefit obligation of the System to be \$77,293,198,000 as of June 30, 2010. 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, 2010, and a census of active and inactive members as of June 30, 2009, 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 and terminated 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%. This increase is based on the increase in payroll from the prior year to the current year.

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, the Annual Required Contribution per State Statute, and the GASB Statement No. 25 Annual Required Contribution that appear in this section. The actuary reviewed 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 Actuarial Value of Assets, Reconciliation of Unfunded Liability, State Funding Amounts, Funded Ratio Test, Unfunded Liability as a Percentage of Payroll Test and Solvency Test. While the actuary did not prepare these schedules, they are in agreement with the valuation report and their accuracy has been verified. The actuary neither reviewed nor prepared any items beyond those specifically listed in this paragraph and the preceding paragraph.

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312.846.3000 • 312.846.3999 (fax)

The amortization method established by PA 88-0593 – as amended by PA 90-0582, PA 93-0002, and PA 94-0004 – is used for funding purposes and does not meet the parameters of GASB Statement No. 25. The amortization method used is a 15-year phase-in to a level percent of payroll – before reduction for the maximum state contribution limitations of the Act – until a 90% 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, 2010 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, 2010. The actuarial assumptions used in the valuation are those specified by the Board of Trustees of the System based on recommendations made by the actuary. The actuarial assumptions used for the June 30, 2010 actuarial valuation include additional assumptions for new hires who will be covered by PA 96-0889. These assumptions apply to the "Tier 2" members entering service on or after January 1, 2011. The assumptions for members in the "Tier 1" group who entered service before January 1, 2011 are unchanged. As required under PA 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation from market value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year in equal amounts over the ensuing five-year period. The System incurred a gain of \$1,257,176,000 in FY 2010. Per statutory requirement, 20% is recognized in the actuarial value of assets as of June 30, 2010, and recognition of the remaining 80%, or \$1,005,741,000, will be deferred and recognized in equal amounts over the next four valuations. Depending on whether the total net deferral is an investment gain or loss, the smoothing method will produce a contribution rate that is more or less than the rate based on the market value. As of the June 30, 2010 valuation the total net deferral is a \$6,115,308,000 loss, resulting in a contribution that is lower than it would be if the assets were valued at market.

The valuation was prepared under the supervision of Larry Langer in accordance with generally accepted actuarial principles and practice, and peer reviewed by Paul Wilkinson. To the best of our knowledge, it is complete and accurate. Mr. Langer and Mr. Wilkinson 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



Marco Ruffini
Senior Consultant, Retirement



Paul R. Wilkinson,
Director, Consulting Actuary

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 assets that are available to cover the liability. Many of the assumptions below were revised in the 2007 actuarial experience analysis. Additional assumptions for new hires who will be covered by Public Act 96-0889 were adopted in the 2010 actuarial valuation. While the new hire (“Tier II”) assumptions do not apply to current (“Tier I”) participants, they were adopted in order to develop funding projections through FY45 as well as the FY12 state funding requirement.

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. No change for Tier II.

Earnings progression: Merit and longevity increases, adjusted for inflation. Approximates 7.0 percent per year over a typical career. Adopted in the FY07 valuation. No change for Tier II.

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. Tier I rates adopted in the FY07 valuation. Tier II rates adopted in the FY10 valuation.

Sample annual retirement rates per 100 participants:

a) Tier I, for those entering service before January 1, 2011 (includes ERO retirees):

| Age | Years of Service | | | | |
|-----|------------------|-------|-----|-------|-----|
| | 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 |

b) Tier II, for those entering service on or after January 1, 2011:

| Age | Years of Service | | | | |
|-----|------------------|-------|-----|-------|-----|
| | 5-18 | 19-30 | 31 | 32-33 | 34 |
| 61 | 13 | 15 | 20 | 25 | 25 |
| 65 | 20 | 10 | 15 | 20 | 20 |
| 67 | 20 | 40 | 40 | 40 | 40 |
| 70 | 100 | 100 | 100 | 100 | 100 |

Utilization of ERO among Tier I members retiring from active service:

| 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: Rates for all groups adapted in the FY07 valuation. No change for Tier II.

For retirees, the 1995 Buck Mortality tables projected 16 years for males and one year for females as of June 30, 2007. For beneficiaries, projected one year for both males and females, then rated forward two years for males and forward one year for females as of June 30, 2007. Projected mortality improvements using Society of Actuaries Mortality Projection Scale AA are phased in over the four year period that began July 1, 2007.

Sample active member annual death rates in 2010 per 100 participants:

| Age | Male | Female |
|-----|-------|--------|
| 25 | 0.057 | 0.013 |
| 30 | 0.059 | 0.017 |
| 40 | 0.082 | 0.041 |
| 50 | 0.152 | 0.100 |
| 55 | 0.240 | 0.153 |
| 60 | 0.473 | 0.234 |
| 65 | 0.951 | 0.486 |

Disability: Tier I rates adopted in the FY07 valuation. Tier II rates adopted in the FY10 valuation.

Sample annual disability rates per 100 participants:

| Age | Tier I Members | | Tier II Members | |
|-----|----------------|--------|-----------------|--------|
| | Male | Female | Male | Female |
| 25 | 0.034 | 0.045 | 0.102 | 0.135 |
| 30 | 0.030 | 0.100 | 0.090 | 0.300 |
| 40 | 0.060 | 0.110 | 0.180 | 0.330 |
| 50 | 0.110 | 0.190 | 0.330 | 0.570 |
| 55 | 0.130 | 0.200 | 0.390 | 0.600 |
| 60 | 0.200 | 0.350 | 0.600 | 1.050 |
| 65 | 0.600 | 1.500 | 1.800 | 4.500 |

Termination from active service: Tier I rates adopted in FY07 valuation. Tier II rates adopted in FY10 valuation.

Sample annual termination rates per 100 participants:

| Age | Tier I | | | | Tier II | | | |
|-----|-------------------|--------|----------------|--------|-------------------|--------|----------------|--------|
| | Nonvested Members | | Vested Members | | Nonvested Members | | Vested Members | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| 25 | 7.0 | 8.1 | 6.0 | 9.0 | 7.0 | 8.1 | 6.0 | 9.0 |
| 30 | 6.5 | 9.0 | 3.7 | 8.0 | 6.5 | 9.0 | 3.7 | 8.0 |
| 40 | 8.0 | 6.6 | 1.6 | 2.4 | 8.0 | 6.6 | 1.6 | 2.4 |
| 50 | 9.4 | 6.2 | 1.1 | 1.3 | 9.4 | 6.2 | 1.1 | 1.3 |
| 55 | 12.0 | 8.7 | 1.4 | 1.7 | 12.0 | 8.7 | 10.0 | 12.0 |
| 60 | 12.6 | 11.1 | 2.6 | 2.9 | 12.6 | 11.1 | 3.0 | 3.2 |
| 65 | 12.6 | 11.1 | 3.1 | 3.0 | 12.6 | 11.1 | 3.1 | 3.0 |

Severance pay: Increases with years of service at retirement, adjusted as described below table. Adopted in the FY07 valuation. Not applicable to Tier II.

| 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 | 14.29 |
| 30 or more | 75 | 15.35 |

The percentages in the “percent retiring with severance pay” column above were multiplied by 33.3 percent in FY10 and will be multiplied 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. No change for Tier II.

| 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. No change for Tier II.

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: Five-year prospective asset smoothing was adopted in the FY09 valuation as required by Public Act 96-0043.

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 the actuarial value of assets on the valuation date.

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

Actuarial Valuation (\$ thousands)

| | Years Ended June 30 | |
|--|---------------------|---------------------|
| | 2010 | 2009 |
| Total actuarial accrued liability | \$77,293,198 | \$73,027,198 |
| Less actuarial value of assets* | 37,439,092 | 38,026,044 |
| Unfunded liability | \$39,854,106 | \$35,001,154 |
| Funded ratio* | 48.4% | 52.1% |

* Five-year prospective smoothing began in FY09.

Analysis of Financial Experience: Reconciliation of Unfunded Liability

The net increase in the June 30, 2010, unfunded liability of \$4.9 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 2010, this shortfall was \$1.6 billion and in 2009 it was \$1.8 billion.

In 2009, a statutorily-required **change in asset valuation methods** reduced the reported unfunded liability by \$9.5 billion. Public Act 96-0043 required actuarial gains or losses to be smoothed over a five-year period that began with the year ended June 30, 2009, meaning that only 20 percent of the 2009 actuarial loss on investments would be recognized in 2009. The \$9.5 billion in the 2009 column is the remaining 80 percent of the loss to be recognized in the four following years.

TRS experienced actuarial gains under the **salary increase** assumption in both FY10 and FY09. Salary increases for continuing active members were \$210 million lower than expected in 2010 and \$29 million lower than expected in 2009. Under the **investment return** assumption, losses occurred both years. In FY10, smoothed assets were assumed to earn \$3.2 billion, but earnings were actually \$0.3 billion. The actuarial loss due to investments was \$2.9 billion in FY10, compared to a loss of \$11.9 billion in FY09.

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. **Delayed reporting** of retirements also increased the unfunded liability because more people were receiving benefits than expected.

Other, which is a balancing item, reflects actuarial losses in both 2010 and 2009. “Other” includes the effect of either more or fewer retirements than expected, retirements that were reported late to the actuary, and several other factors.

Reconciliation of Unfunded Liability (\$ thousands)

| | Years Ended June 30 | |
|---|---------------------|---------------------|
| | 2010 | 2009 |
| Unfunded liability at beginning of year | \$35,001,154 | \$30,201,644 |
| Additions (deductions) | | |
| Employer cost in excess of contributions | 1,572,252 | 1,782,855 |
| Change in actuarial assumptions effective 6/30/09, asset valuation method changes to five-year smoothing | - | (9,494,731) |
| Net additions (deductions) | 1,572,252 | (7,711,876) |
| Actuarial losses (gains) | | |
| Salary increases for continuing active members | (210,215) | (29,162) |
| Investment return | 2,929,300 | 11,868,414 |
| New entrant loss | 26,484 | 30,694 |
| Mortality other than expected | 40,736 | 40,644 |
| Fewer terminations than expected | 42,044 | 35,951 |
| Repayments of refunded member contributions ¹ | 27,030 | 30,441 |
| Delayed reporting of retirements (effect on assets) ² | 10,974 | 11,508 |
| Other | 414,347 | 522,896 |
| Net actuarial losses | 3,280,700 | 12,511,386 |
| Unfunded liability at end of year | \$39,854,106 | \$35,001,154 |

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

² 461 retirements which occurred prior to 7/1/08 were not reported to the actuary until 6/30/09.

460 retirements which occurred prior to 7/1/09 were not reported to the actuary until 6/30/10.

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 were 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, provided state funds are available.

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 reached a level percentage of pay, with part of the state contribution paid in pension notes authorized for sale under Public Act 96-0043. The FY10 rate is to be maintained for the following 35 years, subject to state maximum contributions, until the 90 percent funded ratio is achieved in FY45.

State Funding Amounts

The FY10 actuarial valuation was used to determine the required FY12 state contributions and the FY12 employer's normal cost. For FY12, two amounts were certified because it is not clear whether the full FY11 certified contribution will be received. The FY09 actuarial valuation was used to determine the required FY11 state contributions and the FY11 employer's normal cost.

State Funding Amounts

| | FY12 | | FY11 |
|--|---|--|-------------------------------|
| | Assuming \$110,000,000 of the FY11 Certified Amount is Received | Assuming FY11 Certified Amount is Received | Certified Amount |
| Benefit Trust Reserve (excludes federal contributions; excludes school district contributions) | \$2,553,318,000 | \$2,405,172,000 | \$2,357,041,000 |
| Minimum benefit reserve | 1,300,000 | 1,300,000 | 1,400,000 |
| Total state funding amount | <u>\$2,554,618,000</u> | <u>\$2,406,472,000</u> | <u>\$2,358,441,000</u> |
| Employer's normal cost as a percentage of active member payroll | 8.43% | 8.43% | 8.77% |

Tests of Financial Condition

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

Funded Ratio Test (\$ thousands)

| As of June 30 | Actuarial Value of Assets* | Actuarial Accrued Liability | Funded Ratio* |
|------------------|----------------------------------|-----------------------------------|------------------|
| 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 |
| 2009 | 38,026,044 | 73,027,198 | 52.1 |
| 2010 | 37,439,092 | 77,293,198 | 48.4 |

* Market value through FY08. Five-year prospective smoothing began in FY09.

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 (\$ thousands)

| Year Ended June 30 | Approximate Member Payroll | Unfunded Liability* | Percentage of Payroll |
|--------------------|----------------------------|---------------------|-----------------------|
| 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 |
| 2009 | 8,945,021 | 35,001,154 | 391.3 |
| 2010 | 9,251,139 | 39,854,106 | 430.8 |

* Market value through FY08. Five-year prospective smoothing began in FY09.

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 last passed the minimum standards of the solvency test in 2001.

Solvency Test (\$ thousands)

| Year Ended June 30 | Aggregate Accrued Liabilities for | | | Actuarial Value of Assets* | Percentage of Benefits Covered by Net Assets | | |
|--------------------|--|---|-------------------------------------|----------------------------|--|-----------|----------|
| | Members' Accumulated Contributions (1) | Participants Currently Receiving Benefits (2) | Active Members Employer Portion (3) | | (1) | (2) | (3) |
| 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 | - |
| 2009 | 7,320,600 | 44,495,917 | 21,210,681 | 38,026,044 | 100 | 69 | - |
| 2010 | 7,715,984 | 47,475,906 | 22,101,308 | 37,439,092 | 100 | 63 | - |

* Market value through FY08. Five-year prospective smoothing began in FY09.

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 | | Average Annual Allowance | |
|--------------------|-----------------------------|-----------------------|---------------------------|-----------------------|-------------------------------|------------|--------------------------|------------|
| | | | | | Amount | % Increase | Amount | % Increase |
| 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 |
| 2009 | 91,462 | 5,520 | 2,558 | 94,424 | 3,815,292,869 | 7.4 | 40,406 | 4.1 |
| 2010 | 94,424 | 5,711 | 2,381 | 97,754 | 4,109,018,971 | 7.7 | 42,034 | 4.0 |

* 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.

| | Amount Added to Rolls** | | Amount Removed from Rolls |
|-------------|--------------------------|------------------------|---------------------------|
| | Annual Benefit Increases | New Benefit Recipients | |
| 2007 | \$81,629,966 | \$295,571,869 | \$51,335,633 |
| 2008 | 93,731,561 | 174,119,867 | 61,448,244 |
| 2009 | 108,144,294 | 219,175,023 | 63,144,284 |
| 2010 | 114,879,927 | 247,234,501 | 68,388,326 |

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

Average Annual Salary for Active Members by Years of Service

| Years of Service* | | 2010 | 2009 | 2008 | 2007 |
|-------------------|---|------------------------|------------------------|------------------------|------------------------|
| under 5 | Number | 33,487 | 37,293 | 42,725 | 41,244 |
| | Average salary | \$46,324 | \$45,464 | \$44,916 | \$43,446 |
| 5-9 | Number | 34,529 | 33,494 | 31,959 | 30,520 |
| | Average salary | \$57,105 | \$55,945 | \$55,436 | \$53,062 |
| 10-14 | Number | 25,051 | 23,133 | 21,395 | 20,469 |
| | Average salary | \$66,788 | \$65,168 | \$64,705 | \$62,447 |
| 15-19 | Number | 17,790 | 17,417 | 14,753 | 14,422 |
| | Average salary | \$76,001 | \$73,770 | \$71,802 | \$69,368 |
| 20-24 | Number | 11,391 | 11,084 | 10,447 | 9,814 |
| | Average salary | \$82,184 | \$79,805 | \$78,080 | \$74,894 |
| 25-29 | Number | 7,786 | 7,790 | 8,654 | 9,484 |
| | Average salary | \$86,566 | \$84,282 | \$82,013 | \$78,831 |
| 30-34 | Number | 6,554 | 6,858 | 5,763 | 5,301 |
| | Average salary | \$91,077 | \$87,973 | \$85,738 | \$82,508 |
| 35 + | Number | 1,251 | 1,265 | 790 | 694 |
| | Average salary | \$95,486 | \$90,698 | \$88,478 | \$84,065 |
| | Total number | 137,839 | 138,334 | 136,486 | 131,948 |
| | Average salary | \$64,385 | \$62,319 | \$60,254 | \$58,116 |
| | % Change average salary | 3.3% | 3.4% | 3.7% | 2.1% |
| | Total payroll full & part-time | \$8,874,727,268 | \$8,620,836,546 | \$8,223,827,444 | \$7,668,289,968 |

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.

* From FY01-FY08, years of service increments were as follows: 0-5, 6-10, 11-15, 16-20, 21-25, 26-30, 31-35, and 35+. However, figures for those years are not restated because the differences would be minor.

| 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---------------------------------------|---------------------------------------|---|---------------------------------------|---------------------------------------|---------------------------------------|
| 40,930 \$42,404 | 39,728 \$41,444 | 36,951 \$37,633 | 38,074 \$37,960 | 41,120 \$36,242 | 38,585 \$34,614 |
| 28,847 \$51,314 | 26,557 \$49,536 | 26,027 \$45,568 | 25,020 \$46,740 | 24,258 \$45,300 | 24,351 \$43,457 |
| 20,222 \$60,476 | 20,295 \$58,195 | 18,307 \$52,771 | 17,334 \$53,931 | 16,812 \$52,761 | 16,367 \$50,875 |
| 14,086 \$67,343 | 13,429 \$65,276 | 13,358 \$59,820 | 12,860 \$60,788 | 12,215 \$59,011 | 11,692 \$56,521 |
| 9,619 \$72,531 | 9,431 \$70,278 | 10,868 \$64,881 | 11,152 \$65,427 | 12,575 \$63,599 | 13,091 \$61,188 |
| 10,349 \$76,616 | 10,667 \$74,127 | 12,488 \$69,276 | 12,429 \$70,066 | 13,256 \$68,501 | 13,885 \$65,913 |
| 6,134 \$83,165 | 5,900 \$79,236 | 9,186 \$75,643 | 7,107 \$76,676 | 7,484 \$76,413 | 7,555 \$73,433 |
| 785 \$84,524 | 744 \$81,497 | 1,162 \$77,805 | 804 \$78,091 | 843 \$78,831 | 809 \$75,469 |
| 130,972 \$56,916 | 126,751 \$55,237 | 128,347 \$52,181 | 124,780 \$52,408 | 128,563 \$50,895 | 126,335 \$49,230 |
| 3.0% \$7,454,402,352 | 5.9% \$7,001,344,987 | (0.4%) \$6,697,274,807 | 3.0% \$6,539,470,240 | 3.4% \$6,543,213,885 | 3.3% \$6,219,472,050 |

Active Members by Age and Years of Service as of June 30, 2010

| Age | | Subs | Years of Service | | | |
|-------|-----------------------|----------------|------------------|-----------------|-----------------|-----------------|
| | | | under 5 | 5-9 | 10-14 | 15-19 |
| 20-24 | Number | 4,032 | 4,107 | - | - | - |
| | Average salary | \$4,317 | \$39,542 | - | - | - |
| 25-29 | Number | 5,266 | 14,659 | 6,500 | - | - |
| | Average salary | \$4,795 | \$45,080 | \$53,040 | - | - |
| 30-34 | Number | 2,737 | 5,371 | 12,558 | 4,130 | - |
| | Average salary | \$4,509 | \$48,215 | \$56,914 | \$64,820 | - |
| 35-39 | Number | 2,945 | 2,865 | 5,091 | 8,640 | 2,591 |
| | Average salary | \$4,386 | \$48,937 | \$58,546 | \$67,591 | \$74,789 |
| 40-44 | Number | 4,282 | 2,547 | 3,376 | 3,988 | 5,939 |
| | Average salary | \$4,214 | \$48,336 | \$58,503 | \$67,768 | \$77,180 |
| 45-49 | Number | 3,959 | 1,730 | 2,744 | 2,597 | 2,731 |
| | Average salary | \$4,653 | \$49,077 | \$58,167 | \$66,015 | \$77,411 |
| 50-54 | Number | 3,246 | 1,187 | 2,257 | 2,502 | 2,492 |
| | Average salary | \$4,857 | \$50,689 | \$58,239 | \$65,851 | \$74,434 |
| 55-59 | Number | 2,881 | 685 | 1,394 | 2,238 | 2,711 |
| | Average salary | \$4,955 | \$57,873 | \$60,849 | \$66,358 | \$74,791 |
| 60-64 | Number | 1,907 | 286 | 528 | 832 | 1,155 |
| | Average salary | \$4,680 | \$63,330 | \$67,448 | \$68,948 | \$75,277 |
| 65-69 | Number | 783 | 45 | 72 | 108 | 156 |
| | Average salary | \$4,153 | \$60,369 | \$65,784 | \$75,032 | \$77,594 |
| 70-74 | Number | 258 | 3 | 8 | 12 | 14 |
| | Average salary | \$3,791 | \$46,878 | \$54,715 | \$60,980 | \$83,323 |
| 74 + | Number | 140 | 2 | 1 | 4 | 1 |
| | Average salary | \$3,449 | \$25,333 | \$57,069 | \$60,253 | \$31,770 |
| | Total number | 32,436 | 33,487 | 34,529 | 25,051 | 17,790 |
| | Average salary | \$4,565 | \$46,324 | \$57,105 | \$66,788 | \$76,001 |

| Years of Service | | | | | | | Full and Part-time Member |
|------------------|--------------|--------------|--------------|------------|-----------|-----------|---------------------------|
| 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50+ | Totals |
| - | - | - | - | - | - | - | 4,107 |
| - | - | - | - | - | - | - | \$39,542 |
| - | - | - | - | - | - | - | 21,159 |
| - | - | - | - | - | - | - | \$47,525 |
| - | - | - | - | - | - | - | 22,059 |
| - | - | - | - | - | - | - | \$56,276 |
| - | - | - | - | - | - | - | 19,187 |
| - | - | - | - | - | - | - | \$63,378 |
| 1,630 | - | - | - | - | - | - | 17,480 |
| \$81,988 | - | - | - | - | - | - | \$67,671 |
| 3,825 | 1,420 | - | - | - | - | - | 15,047 |
| \$83,359 | \$86,082 | - | - | - | - | - | \$71,008 |
| 2,355 | 3,338 | 2,395 | 1 | - | - | - | 16,527 |
| \$81,504 | \$86,215 | \$89,397 | \$116,147 | - | - | - | \$74,775 |
| 2,457 | 2,173 | 3,530 | 602 | - | - | - | 15,790 |
| \$80,680 | \$87,401 | \$92,459 | \$94,468 | - | - | - | \$78,983 |
| 999 | 776 | 555 | 399 | 113 | - | - | 5,643 |
| \$83,474 | \$86,501 | \$89,852 | \$96,273 | \$96,326 | - | - | \$79,340 |
| 117 | 72 | 67 | 34 | 56 | 15 | - | 742 |
| \$81,537 | \$88,539 | \$88,339 | \$95,521 | \$96,431 | \$87,672 | - | \$80,131 |
| 5 | 5 | 7 | 5 | 10 | 4 | 4 | 77 |
| \$77,764 | \$83,187 | \$91,744 | \$84,748 | \$101,290 | \$101,711 | \$159,704 | \$83,194 |
| 3 | 2 | - | - | 1 | 3 | 4 | 21 |
| \$58,419 | \$70,292 | - | - | \$90,598 | \$96,164 | \$86,356 | \$67,661 |
| 11,391 | 7,786 | 6,554 | 1,041 | 180 | 22 | 8 | 137,839 |
| \$82,184 | \$86,566 | \$91,077 | \$95,168 | \$96,603 | \$91,382 | \$123,030 | \$64,385 |

| | Average Age | Average Years of Service | Number |
|----------------------------|-------------|--------------------------|-----------------------|
| Full and part-time members | 42 | 12 | 137,839 |
| Substitutes | 41 | 3 | 32,436 |
| All | 42 | 10 | <u>170,275</u> |

Plan Summary

Administration

TRS was created and is governed by Article 16 of the Illinois Pension Code, contained in the Illinois Compiled Statutes (ILCS). A 13-member Board of Trustees is authorized to carry out duties granted to it under the article.

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 FY10, 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 FY10, 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 ended June 30, 2010. Active and certain inactive members could 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 was phased out to comply with 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 hired before January 1, 2011.

| 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 accrue 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.

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.



History teacher Bryant of Springfield with Noah.

S T A T I S T I C A L

Statistical Section

The tables in this section present detailed information on benefit payments and recipients, member and employer contributions, employer contribution rates, and the largest TRS employers.

Section Contents

Retired Members by Years of Service and Years in Retirement – Pages 104-105

This schedule shows the number of retirees by their years of service and years in retirement in five-year increments. It also shows their average current monthly benefits and average benefits when they first retired. A column on the right shows the average age of retirees in each “years retired” increment.

10-Year Financial Trends – Pages 106-107

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 109

This schedule offers information on the contribution rates for employees, the state, and employers to the system over a 10-year period.

Demographics of Benefit Recipients – Pages 110-111

These schedules help the reader understand the specific groups of benefit recipients and active members of the Teachers' Retirement System.

Average Benefit Payments – Pages 112-113

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

Participating Employers – Page 114

This schedule allows the reader to view the 10 largest participating employers of the Teachers' Retirement System. The reader can also view the percentages of total membership covered by the largest employers in the current year and nine years ago.

Retired Members by Years of Service and Years in Retirement as of June 30, 2010

| Years Retired | Years of Service | | | | | |
|------------------------------|--------------------------|--------------|----------------|----------------|----------------|--------------|
| | Under 5 | 5-9 | 10-14 | 15-19 | 20-24 | |
| Under 1 | Number | 143 | 311 | 303 | 335 | 495 |
| | Average current benefit | \$280 | \$669 | \$1,227 | \$2,122 | \$2,950 |
| | Average original benefit | \$280 | \$669 | \$1,227 | \$2,121 | \$2,947 |
| 1-4 | Number | 760 | 1,207 | 1,132 | 1,169 | 1,930 |
| | Average current benefit | \$263 | \$654 | \$1,225 | \$2,042 | \$2,865 |
| | Average original benefit | \$249 | \$617 | \$1,151 | \$1,930 | \$2,753 |
| 5-9 | Number | 877 | 1,038 | 1,084 | 1,006 | 2,283 |
| | Average current benefit | \$249 | \$629 | \$1,195 | \$1,975 | \$2,752 |
| | Average original benefit | \$204 | \$518 | \$989 | \$1,638 | \$2,320 |
| 10-14 | Number | 631 | 649 | 505 | 457 | 1,120 |
| | Average current benefit | \$284 | \$636 | \$1,014 | \$1,735 | \$2,491 |
| | Average original benefit | \$204 | \$449 | \$721 | \$1,247 | \$1,808 |
| 15-19 | Number | 365 | 460 | 496 | 454 | 915 |
| | Average current benefit | \$237 | \$616 | \$978 | \$1,300 | \$1,917 |
| | Average original benefit | \$145 | \$373 | \$585 | \$777 | \$1,147 |
| 20-24 | Number | 182 | 372 | 453 | 495 | 1,335 |
| | Average current benefit | \$208 | \$491 | \$856 | \$1,357 | \$1,921 |
| | Average original benefit | \$108 | \$243 | \$441 | \$707 | \$1,024 |
| 25-29 | Number | 74 | 166 | 318 | 382 | 898 |
| | Average current benefit | \$184 | \$387 | \$743 | \$1,149 | \$1,581 |
| | Average original benefit | \$84 | \$154 | \$322 | \$519 | \$727 |
| 30-34 | Number | 25 | 44 | 134 | 182 | 460 |
| | Average current benefit | \$165 | \$314 | \$597 | \$918 | \$1,166 |
| | Average original benefit | \$62 | \$93 | \$212 | \$355 | \$459 |
| 35-39 | Number | 9 | 11 | 20 | 38 | 137 |
| | Average current benefit | \$41 | \$208 | \$537 | \$865 | \$976 |
| | Average original benefit | \$3 | \$58 | \$154 | \$278 | \$312 |
| 40-44 | Number | - | - | 1 | - | 31 |
| | Average current benefit | - | - | \$471 | - | \$846 |
| | Average original benefit | - | - | \$39 | - | \$179 |
| 45-49 | Number | - | - | - | - | 6 |
| | Average current benefit | - | - | - | - | \$859 |
| | Average original benefit | - | - | - | - | \$126 |
| 50 + | Number | - | - | - | - | - |
| | Average current benefit | - | - | - | - | - |
| | Average original benefit | - | - | - | - | - |
| Total number | 3,066 | 4,258 | 4,446 | 4,518 | 9,610 | |
| Avg. current benefit | \$254 | \$613 | \$1,072 | \$1,722 | \$2,341 | |
| Avg. original benefit | \$201 | \$487 | \$840 | \$1,363 | \$1,813 | |

Years of Service

| Years of Service | | | | | | Average | Average Age |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------------|
| 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50 + | | |
| 535 | 883 | 1,410 | 97 | 21 | - | 4,533 | 60 |
| \$3,902 | \$5,073 | \$5,621 | \$5,642 | \$6,637 | - | \$3,964 | |
| \$3,893 | \$5,065 | \$5,621 | \$5,642 | \$6,637 | - | \$3,961 | |
| 1,954 | 5,078 | 4,260 | 278 | 41 | 6 | 17,815 | 62 |
| \$3,885 | \$5,123 | \$5,512 | \$6,186 | \$6,601 | \$9,895 | \$3,897 | |
| \$3,719 | \$4,991 | \$5,384 | \$5,780 | \$6,217 | \$9,512 | \$3,776 | |
| 2,782 | 11,872 | 4,545 | 309 | 51 | 7 | 25,854 | 65 |
| \$3,906 | \$5,302 | \$5,862 | \$5,831 | \$6,342 | \$6,812 | \$4,373 | |
| \$3,294 | \$4,528 | \$4,909 | \$4,826 | \$5,258 | \$5,598 | \$3,704 | |
| 1,253 | 2,716 | 2,091 | 280 | 26 | 3 | 9,731 | 70 |
| \$3,621 | \$5,067 | \$5,654 | \$5,835 | \$5,765 | \$6,277 | \$3,762 | |
| \$2,635 | \$3,751 | \$4,099 | \$4,065 | \$4,131 | \$4,620 | \$2,744 | |
| 1,490 | 2,301 | 4,185 | 5,450 | 14 | 3 | 16,133 | 74 |
| \$2,477 | \$3,270 | \$4,300 | \$4,809 | \$4,639 | \$3,866 | \$3,638 | |
| \$1,507 | \$2,002 | \$2,661 | \$3,016 | \$2,817 | \$2,313 | \$2,256 | |
| 1,199 | 1,531 | 1,236 | 80 | 9 | - | 6,892 | 81 |
| \$2,614 | \$3,661 | \$4,537 | \$4,670 | \$4,048 | - | \$2,699 | |
| \$1,394 | \$1,958 | \$2,423 | \$2,521 | \$2,136 | - | \$1,438 | |
| 800 | 893 | 666 | 58 | 7 | 1 | 4,263 | 86 |
| \$2,200 | \$3,057 | \$3,888 | \$3,707 | \$3,579 | \$3,490 | \$2,227 | |
| \$1,024 | \$1,425 | \$1,834 | \$1,716 | \$1,663 | \$1,607 | \$1,035 | |
| 367 | 301 | 258 | 39 | 5 | - | 1,815 | 91 |
| \$1,578 | \$2,142 | \$2,582 | \$2,733 | \$2,560 | - | \$1,549 | |
| \$638 | \$883 | \$1,053 | \$1,105 | \$1,040 | - | \$622 | |
| 106 | 77 | 117 | 24 | 4 | - | 543 | 96 |
| \$1,243 | \$1,576 | \$2,308 | \$2,270 | \$2,689 | - | \$1,415 | |
| \$410 | \$546 | \$829 | \$801 | \$964 | - | \$484 | |
| 10 | 14 | 3 | 3 | - | - | 62 | 99 |
| \$1,097 | \$1,231 | \$1,393 | \$1,904 | - | - | \$1,045 | |
| \$255 | \$319 | \$344 | \$591 | - | - | \$249 | |
| 5 | 1 | - | - | - | - | 12 | 102 |
| \$1,075 | \$1,168 | - | - | - | - | \$975 | |
| \$173 | \$249 | - | - | - | - | \$156 | |
| - | - | 1 | - | - | - | 1 | 109 |
| - | - | \$1,168 | - | - | - | \$1,168 | |
| - | - | \$199 | - | - | - | \$199 | |
| 10,501 | 25,667 | 18,772 | 6,618 | 178 | 20 | 87,654 | |
| \$3,275 | \$4,825 | \$5,168 | \$4,936 | \$5,805 | \$7,049 | \$3,737 | |
| \$2,555 | \$4,011 | \$4,127 | \$3,261 | \$4,771 | \$5,933 | \$2,964 | |

Changes in Net Assets, Last 10 Fiscal Years

(\$ thousands)

| | 2010 | 2009 | 2008 | 2007 |
|---|---------------------|---------------------|---------------------|---------------------|
| Additions | | | | |
| Member contributions* | \$899,401 | \$876,182 | \$865,400 | \$826,249 |
| State of Illinois | 2,080,729 | 1,451,592 | 1,041,115 | 737,671 |
| Pension Obligation Bond proceeds | - | - | - | - |
| Employer contributions** | 171,421 | 152,329 | 130,673 | 115,915 |
| Investment income (loss) net of expenses | 3,679,643 | (8,688,286) | (2,014,902) | 6,831,324 |
| Total additions to/reductions from plan net assets | 6,831,194 | (6,208,183) | 22,286 | 8,511,159 |
| Deductions | | | | |
| Benefit payments | 3,927,838 | 3,653,714 | 3,423,982 | 3,111,753 |
| Refunds | 60,350 | 53,709 | 60,286 | 59,732 |
| Administrative expenses | 16,951 | 17,388 | 16,613 | 15,245 |
| Other expenses | - | - | - | - |
| Total deductions from plan net assets | 4,005,139 | 3,724,811 | 3,500,881 | 3,186,730 |
| Changes in net assets | | | | |
| Beginning of year | 28,497,729 | 38,430,723 | 41,909,318 | 36,584,889 |
| Net increase (decrease) | 2,826,055 | (9,932,994) | (3,478,595) | 5,324,429 |
| End of year | \$31,323,784 | \$28,497,729 | \$38,430,723 | \$41,909,318 |

* Member contributions increased from 9.0 percent to 9.4 percent beginning in FY06. 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

(\$ thousands)

| | 2010 | 2009 | 2008 | 2007 |
|--|------------------|------------------|------------------|------------------|
| Type of benefit | | | | |
| Retirees | \$3,749,666 | \$3,486,697 | \$3,268,108 | \$2,965,356 |
| Survivors | 151,074 | 140,695 | 130,369 | 121,822 |
| Disability benefits | 27,098 | 26,322 | 25,505 | 24,575 |
| Total benefits | 3,927,838 | 3,653,714 | 3,423,982 | 3,111,753 |
| Type of refund | | | | |
| Withdrawals | 17,149 | 17,357 | 17,280 | 17,147 |
| Death benefits and excess contribution refunds paid to survivors | 15,161 | 15,076 | 17,182 | 17,081 |
| 2.2 and optional service | 15,050 | 11,013 | 14,082 | 14,145 |
| Survivor contributions refunded to retirees | 7,967 | 6,916 | 8,522 | 8,808 |
| ERO and other | 5,023 | 3,347 | 3,220 | 2,551 |
| Total refunds | \$60,350 | \$53,709 | \$60,286 | \$59,732 |

| 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$799,034 | \$761,790 | \$768,661 | \$732,020 | \$681,152 | \$643,563 |
| 534,305 | 906,749 | 1,031,478 | 929,710 | 814,740 | 724,008 |
| - | - | 4,330,374 | - | - | - |
| 123,543 | 148,813 | 127,573 | 91,552 | 92,618 | 97,618 |
| 3,993,290 | 3,330,040 | 4,485,730 | 1,060,853 | (723,987) | (1,015,256) |
| 5,450,172 | 5,147,392 | 10,743,816 | 2,814,135 | 864,523 | 449,933 |
| 2,877,231 | 2,533,103 | 2,262,329 | 1,998,622 | 1,759,749 | 1,566,793 |
| 57,967 | 59,396 | 48,020 | 43,115 | 38,756 | 35,849 |
| 15,303 | 14,404 | 13,561 | 13,859 | 13,487 | 12,641 |
| - | - | - | - | 1,892 | 417 |
| 2,950,501 | 2,606,903 | 2,323,910 | 2,055,596 | 1,813,884 | 1,615,700 |
| 34,085,218 | 31,544,729 | 23,124,823 | 22,366,284 | 23,315,645 | 24,481,412 |
| 2,499,671 | 2,540,489 | 8,419,906 | 758,539 | (949,361) | (1,165,767) |
| \$36,584,889 | \$34,085,218 | \$31,544,729 | \$23,124,823 | \$22,366,284 | \$23,315,645 |

| 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$2,741,164 | \$2,407,652 | \$2,145,187 | \$1,890,512 | \$1,660,998 | \$1,475,490 |
| 112,902 | 103,991 | 97,155 | 88,997 | 80,461 | 74,631 |
| 23,165 | 21,460 | 19,987 | 19,113 | 18,290 | 16,672 |
| 2,877,231 | 2,533,103 | 2,262,329 | 1,998,622 | 1,759,749 | 1,566,793 |
| 17,155 | 15,526 | 14,858 | 13,204 | 13,976 | 13,824 |
| 16,747 | 16,541 | 16,145 | 17,734 | 14,927 | 14,343 |
| 12,666 | 15,181 | 7,977 | 3,699 | 3,483 | 1,740 |
| 10,198 | 10,354 | 7,835 | 7,024 | 5,587 | 5,174 |
| 1,201 | 1,794 | 1,205 | 1,454 | 783 | 768 |
| \$57,967 | \$59,396 | \$48,020 | \$43,115 | \$38,756 | \$35,849 |



Special Education teacher Robin of Springfield with Natalie.

Employee and Employer Contribution Rates, Last 10 Fiscal Years

| Fiscal Year | Employee Rate (%) ¹ | Employer Rate (%) ² | | | Total ⁶ |
|-------------|--------------------------------|--------------------------------|---|--|--------------------|
| | | State ³ | School Districts for 2.2 Formula ⁴ | School Districts from Federal Sources ⁵ | |
| 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 | 12.53 | 0.58 | 0.58 | 13.69 |
| 2009 | 9.40 | 16.44 | 0.58 | 0.63 | 17.66 |
| 2010 | 9.40 | 22.56 | 0.58 | 0.82 | 23.96 |

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 through FY10 rates are 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, 13.11 percent in FY08, 17.08 percent in FY09, and 23.38 percent in FY10 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. Actual amounts collected do not equal amounts estimated by actuaries due to differences between estimated and actual payroll. 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, 2010

(excludes inactive members)

| | Retirees | | | Disability Benefit Recipients | | | Survivors | | |
|--------------|---------------|---------------|---------------|-------------------------------|------------|--------------|--------------|--------------|--------------|
| | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| Under 20 | - | - | - | - | - | - | 28 | 24 | 52 |
| 20-24 | - | - | - | - | - | - | 10 | 13 | 23 |
| 25-29 | - | - | - | - | 6 | 6 | 2 | - | 2 |
| 30-34 | - | - | - | - | 13 | 13 | 2 | 2 | 4 |
| 35-39 | - | - | - | 3 | 16 | 19 | 14 | 7 | 21 |
| 40-44 | - | - | - | 6 | 55 | 61 | 7 | 14 | 21 |
| 45-49 | - | - | - | 14 | 38 | 52 | 17 | 25 | 42 |
| 50-54 | 24 | 33 | 57 | 26 | 113 | 139 | 56 | 83 | 139 |
| 55-59 | 2,447 | 6,104 | 8,551 | 44 | 236 | 280 | 106 | 233 | 339 |
| 60-64 | 7,831 | 16,130 | 23,961 | 45 | 187 | 232 | 245 | 473 | 718 |
| 65-69 | 7,015 | 12,636 | 19,651 | 24 | 71 | 95 | 306 | 680 | 986 |
| 70-74 | 4,719 | 7,851 | 12,570 | 9 | 45 | 54 | 334 | 887 | 1,221 |
| 75-79 | 3,685 | 5,474 | 9,159 | 10 | 40 | 50 | 402 | 1,082 | 1,484 |
| 80-84 | 2,455 | 4,410 | 6,865 | 8 | 21 | 29 | 386 | 1,235 | 1,621 |
| 85-89 | 1,145 | 2,981 | 4,126 | - | 15 | 15 | 396 | 915 | 1,311 |
| 90+ | 419 | 2,295 | 2,714 | - | 6 | 6 | 268 | 797 | 1,065 |
| Total | 29,740 | 57,914 | 87,654 | 189 | 862 | 1,051 | 2,579 | 6,470 | 9,049 |

Benefit Recipients by Type as of June 30, 2010

| Monthly Benefit Range | Number of Recipients (all) | Type of Monthly Benefit | | | | | Survivor Monthly Benefits |
|---------------------------------|----------------------------|-------------------------|-----------------------|----------------------------|-------------------------|--------------|---------------------------|
| | | Age Retirement | Disability Retirement | Nonoccupational Disability | Occupational Disability | | |
| Under \$500 | 6,569 | 5,234 | 7 | 1 | - | 1,327 | |
| \$500 - \$999 | 7,719 | 5,342 | 92 | 3 | - | 2,282 | |
| \$1,000 - \$1,499 | 7,340 | 5,166 | 236 | 20 | - | 1,918 | |
| \$1,500 - \$1,999 | 7,313 | 5,661 | 182 | 79 | - | 1,391 | |
| \$2,000 - \$2,499 | 7,133 | 5,932 | 94 | 87 | 2 | 1,018 | |
| \$2,500 - \$2,999 | 7,107 | 6,473 | 50 | 38 | 1 | 545 | |
| \$3,000 - \$3,499 | 7,743 | 7,364 | 35 | 28 | 1 | 315 | |
| \$3,500 - \$3,999 | 8,157 | 7,972 | 33 | 4 | - | 148 | |
| \$4,000 - \$4,499 | 8,171 | 8,114 | 14 | 3 | - | 40 | |
| \$4,500 - \$4,999 | 7,166 | 7,127 | 16 | - | - | 23 | |
| \$5,000 - \$5,499 | 5,561 | 5,531 | 11 | 1 | - | 18 | |
| \$5,500 - \$5,999 | 4,501 | 4,483 | 7 | - | - | 11 | |
| \$6,000 - \$6,499 | 3,650 | 3,640 | 3 | - | 1 | 6 | |
| \$6,500 - \$6,999 | 2,979 | 2,976 | - | - | - | 3 | |
| \$7,000 - \$7,499 | 2,291 | 2,291 | - | - | - | - | |
| \$7,500 - \$7,999 | 1,551 | 1,550 | - | - | - | 1 | |
| \$8,000 or more | 2,803 | 2,798 | 1 | 1 | - | 3 | |
| Total benefit recipients | 97,754 | 87,654 | 781 | 265 | 5 | 9,049 | |

Summary Statistics, All Benefit Recipients, as of June 30, 2010

| | Age Retirement | Disability Benefits (3 types) | Survivor Benefits |
|--------------------------|----------------|-------------------------------|-------------------|
| Average monthly benefit | \$3,737 | \$2,045 | \$1,409 |
| Average age | 69 | 59 | 76 |
| Average years of service | 28 | 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 | 24 | 52 | 54% | 46% | 100% |
| 1,874 | 6,265 | 8,139 | 1,884 | 6,278 | 8,162 | 23 | 77 | 100 |
| 6,280 | 20,145 | 26,425 | 6,282 | 20,151 | 26,433 | 24 | 76 | 100 |
| 6,286 | 18,510 | 24,796 | 6,288 | 18,525 | 24,813 | 25 | 75 | 100 |
| 5,844 | 16,288 | 22,132 | 5,861 | 16,311 | 22,172 | 26 | 74 | 100 |
| 5,360 | 16,402 | 21,762 | 5,373 | 16,471 | 21,844 | 25 | 75 | 100 |
| 4,169 | 14,837 | 19,006 | 4,200 | 14,900 | 19,100 | 22 | 78 | 100 |
| 3,974 | 15,799 | 19,773 | 4,080 | 16,028 | 20,108 | 20 | 80 | 100 |
| 3,741 | 14,930 | 18,671 | 6,338 | 21,503 | 27,841 | 23 | 77 | 100 |
| 1,798 | 5,752 | 7,550 | 9,919 | 22,542 | 32,461 | 31 | 69 | 100 |
| 534 | 991 | 1,525 | 7,879 | 14,378 | 22,257 | 35 | 65 | 100 |
| 171 | 201 | 372 | 5,233 | 8,984 | 14,217 | 37 | 63 | 100 |
| 40 | 44 | 84 | 4,137 | 6,640 | 10,777 | 38 | 62 | 100 |
| 10 | 10 | 20 | 2,859 | 5,676 | 8,535 | 33 | 67 | 100 |
| - | 1 | 1 | 1,541 | 3,912 | 5,453 | 28 | 72 | 100 |
| 8 | 11 | 19 | 695 | 3,109 | 3,804 | 18 | 82 | 100 |
| 40,089 | 130,186 | 170,275 | 72,597 | 195,432 | 268,029 | 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 |
|--------------------------|-------------------|-------------------------|-------------------------|--------------------|--------------|----------------------|
| 882 | 1,831 | 2,509 | 5 | 5 | 2 | 5,234 |
| 728 | 2,131 | 2,340 | 49 | 78 | 16 | 5,342 |
| 842 | 1,954 | 1,646 | 400 | 280 | 44 | 5,166 |
| 961 | 1,716 | 1,233 | 1,186 | 537 | 28 | 5,661 |
| 1,079 | 1,541 | 762 | 1,621 | 886 | 43 | 5,932 |
| 1,383 | 1,243 | 440 | 2,170 | 1,192 | 45 | 6,473 |
| 1,846 | 1,135 | 290 | 2,625 | 1,417 | 51 | 7,364 |
| 2,299 | 1,142 | 205 | 2,908 | 1,332 | 86 | 7,972 |
| 2,364 | 1,097 | 197 | 3,017 | 1,317 | 122 | 8,114 |
| 2,262 | 949 | 136 | 2,709 | 958 | 113 | 7,127 |
| 1,810 | 817 | 94 | 2,049 | 658 | 103 | 5,531 |
| 1,422 | 711 | 61 | 1,624 | 575 | 90 | 4,483 |
| 1,204 | 514 | 53 | 1,315 | 480 | 74 | 3,640 |
| 1,015 | 428 | 27 | 1,145 | 304 | 57 | 2,976 |
| 750 | 370 | 22 | 906 | 200 | 43 | 2,291 |
| 533 | 231 | 12 | 600 | 132 | 42 | 1,550 |
| 983 | 542 | 29 | 940 | 211 | 93 | 2,798 |
| 22,363 | 18,352 | 10,056 | 25,269 | 10,562 | 1,052 | 87,654 |

Percentage of Age Retirement Benefits by Subtype

| | | | | | | |
|-----|-----|-----|-----|-----|----|------|
| 26% | 21% | 11% | 29% | 12% | 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, 2009 through June 30, 2010 | | | | | |
| Average monthly benefit | \$280 | \$670 | \$1,228 | \$2,121 | \$2,947 |
| Average final average salary | \$61,557 | \$38,116 | \$44,679 | \$62,156 | \$71,152 |
| Number of retired members | 144 | 312 | 304 | 335 | 495 |
| Period July 1, 2008 through June 30, 2009 | | | | | |
| Average monthly benefit | \$247 | \$642 | \$1,181 | \$2,012 | \$2,920 |
| Average final average salary | \$55,946 | \$39,118 | \$42,853 | \$57,824 | \$70,216 |
| Number of retired members | 155 | 295 | 240 | 297 | 472 |
| 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 |

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

| Years of Service | | | | All Fiscal Year Retirees | Average Age For All Fiscal Year Retirees | Average Service For All Fiscal Year Retirees |
|-------------------------|--------------|--------------|------------|-------------------------------------|---|---|
| 25-29 | 30-34 | 35-39 | 40+ | | | |
| \$3,891 | \$5,063 | \$5,621 | \$5,819 | \$3,960 | age 60 | 27 years |
| \$77,352 | \$84,466 | \$89,648 | \$82,289 | \$75,507 | | |
| 536 | 887 | 1,410 | 118 | 4,541 | | |
| \$3,941 | \$4,940 | \$5,411 | \$6,457 | \$3,840 | age 59 | 27 years |
| \$78,684 | \$82,544 | \$86,467 | \$92,170 | \$73,725 | | |
| 425 | 779 | 1,301 | 65 | 4,029 | | |
| \$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 | | |

Principal Participating Employers

| Participating Employer | City | Year ended June 30, 2010 | | | Year Ended June 30, 2001 | | |
|--|-----------------|--------------------------|-----------------------------|-------------------------|--------------------------|-----------------------------|-------------------------|
| | | Rank | Covered Employees with Subs | % of Total TRS Mmbrshp. | Rank | Covered Employees with Subs | % of Total TRS Mmbrshp. |
| School District U46 | Elgin | 1 | 3,167 | 1.9% | 1 | 2,937 | 1.9% |
| Indian Prairie CUSD 204 | Naperville | 2 | 2,763 | 1.6 | 3 | 1,972 | 1.3 |
| Plainfield SD 202 | Plainfield | 3 | 2,533 | 1.5 | - | - | - |
| Rockford School District 205 | Rockford | 4 | 2,453 | 1.4 | 2 | 2,232 | 1.5 |
| Naperville CUSD 203 | Naperville | 5 | 1,725 | 1.0 | 4 | 1,579 | 1.0 |
| Community USD 300 | Carpentersville | 6 | 1,712 | 1.0 | 8 | 1,282 | 0.9 |
| Springfield SD 186 | Springfield | 7 | 1,676 | 1.0 | 6 | 1,450 | 1.0 |
| Valley View CUSD 365 | Romeoville | 8 | 1,611 | 0.9 | - | - | - |
| Schaumburg CCSD 54 | Schaumburg | 9 | 1,538 | 0.9 | 7 | 1,359 | 0.9 |
| Waukegan CUSD 60 | Waukegan | 10 | 1,455 | 0.9 | - | - | - |
| Peoria SD 150 | Peoria | - | - | - | 5 | 1,565 | 1.0 |
| Community Unit SD 200 | Wheaton | - | - | - | 9 | 1,259 | 0.8 |
| Palatine CCSD 15 | Palatine | - | - | - | 10 | 1,172 | 0.8 |
| Total, largest 10 employers | | | 20,633 | 12.1% | | 16,807 | 11.1% |
| All other (1,020 employers in 2010*; 1,044 employers in 2001) | | | 149,642 | 87.9% | | 133,976 | 88.9% |
| Grand total | | | 170,275 | 100.0% | | 150,783 | 100.0% |

| *Other Employers by Type as of June 30, 2010 | Number of Other Employers | Other Covered Employees |
|---|------------------------------|----------------------------|
| Local school districts | 857 | 141,665 |
| Special districts | 140 | 7,316 |
| State agencies | 23 | 661 |
| Total, employers other than largest 10 | 1,020 | 149,642 |

| Total Employers by Type as of June 30, 2010 | Total Number of Employers | Total Covered Employees |
|--|------------------------------|----------------------------|
| Local school districts | 867 | 162,298 |
| Special districts | 140 | 7,316 |
| State agencies | 23 | 661 |
| Total, all employers | 1,030 | 170,275 |