

Students who do not listen carefully when they decide to take no more courses. They might be able to hear the sound of closing doors.
James Caballero

Computers are composed of nothing more than logic gates stretched out to the horizon in a vast numerical irrigation system.
Stan Augusten

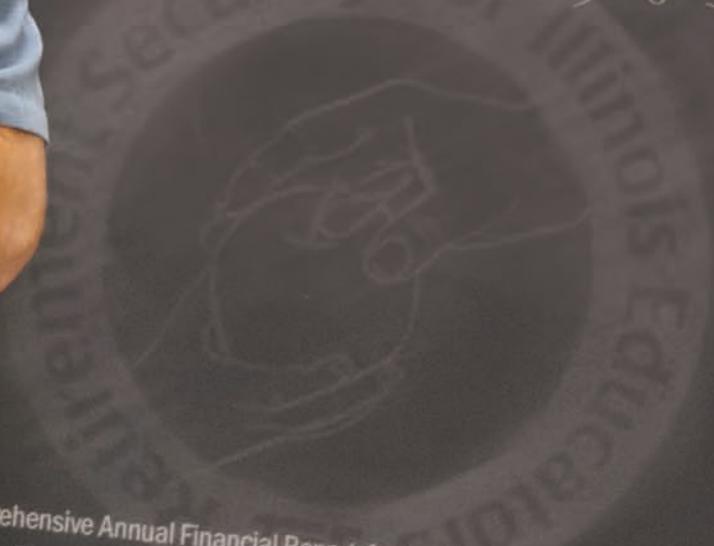
For the things of this world cannot be made known without a knowledge of mathematics.
Roger Bacon

Lif

STRENGTH in NUMBERS



$$\begin{array}{r} \$10,470,145,2121 \\ \$ 4,322,662,241 \\ \hline \$6,147,482,980 \end{array}$$



Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011
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.

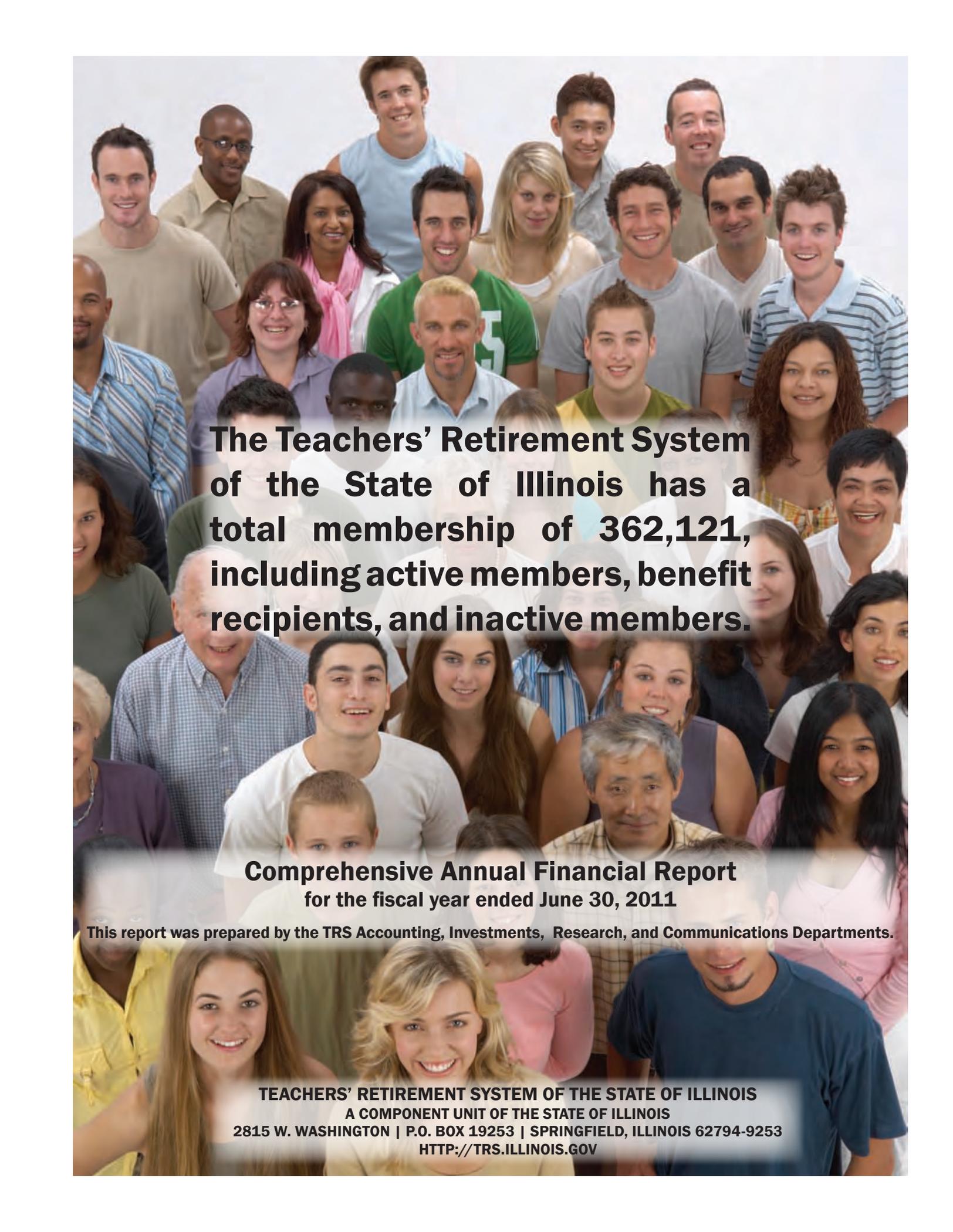
FISCAL YEAR HIGHLIGHTS

	2011	2010
Active contributing members	166,013	170,275
Inactive noncontributing members	94,820	104,222
Benefit recipients*	101,288	97,754
Total membership	362,121	372,251
Actuarial accrued liability (AAL)	\$81,299,745,000	\$77,293,198,000
Less actuarial value of assets (smoothed assets beginning in 2009)	37,769,753,000	37,439,092,000
Unfunded actuarial accrued liability (UAAL)	\$43,529,992,000	\$39,854,106,000
Funded ratio (% of AAL covered by assets, based on smoothed assets)	46.5%	48.4%
Total fund investment return, net of fees	23.6%	12.9%
Expenses		
Benefits paid	\$4,228,282,978	\$3,927,838,363
Refunds paid	76,587,192	60,349,779
Administrative expenses	17,792,071	16,950,679
Total expenses	\$4,322,662,241	\$4,005,138,821
Income		
Member contributions	\$909,577,109	\$899,401,028
Employer contributions	155,110,133	171,420,549
State of Illinois contributions	2,170,918,489	2,080,729,055
Total investment income	7,234,539,490	3,679,642,960
Total income	\$10,470,145,221	\$6,831,193,592

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

Cover photo:

High school math teacher Greg of Pleasant Plains highlights the TRS income of \$10 billion and expenses of \$4 billion in fiscal year 2011.



**The Teachers' Retirement System
of the State of Illinois has a
total membership of 362,121,
including active members, benefit
recipients, and inactive members.**

**Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2011**

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

**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](http://TRS.ILLINOIS.GOV)**

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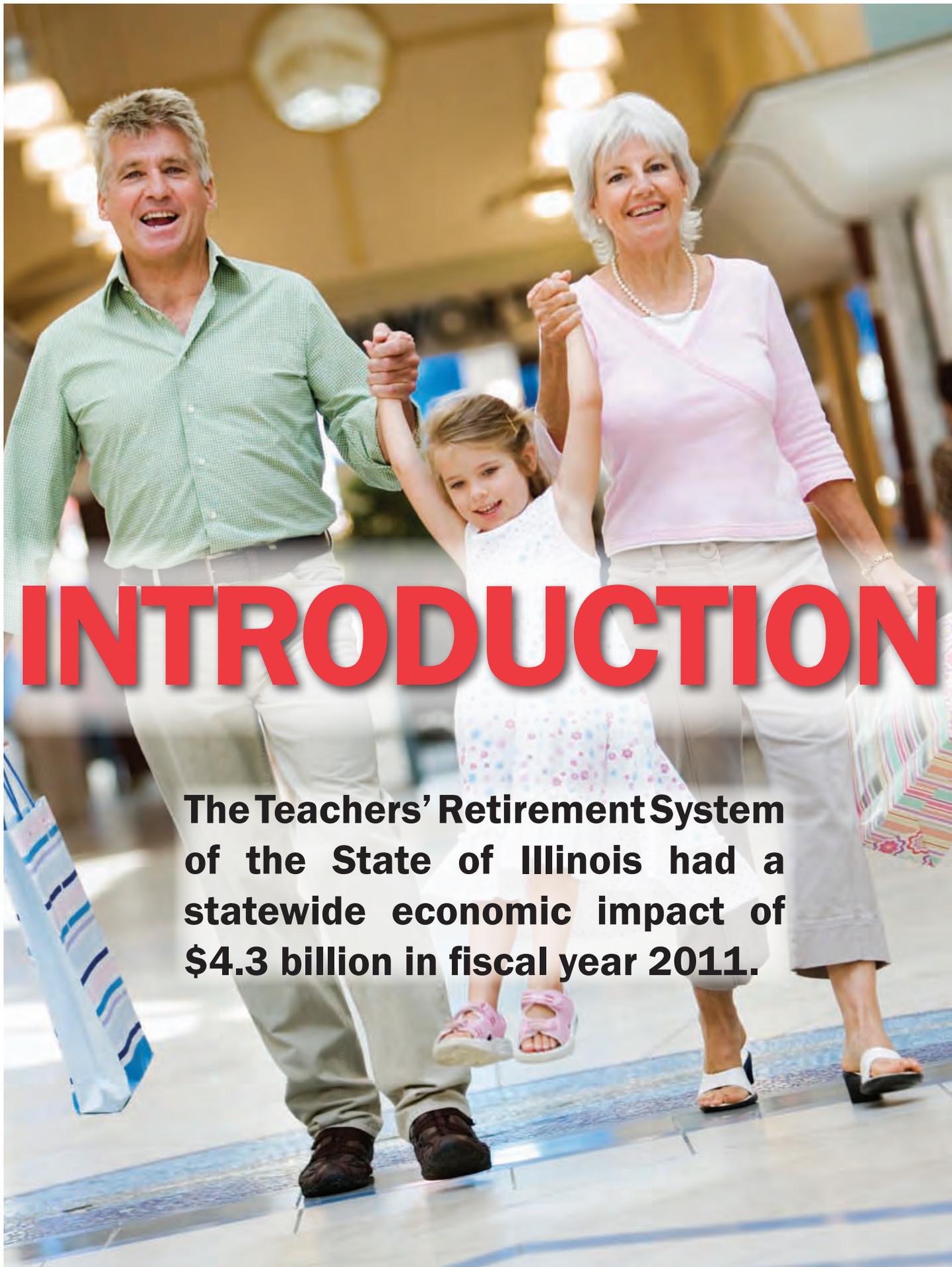
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Pensions paid to Teachers' Retirement System members recirculate throughout the Illinois economy, creating more than 30,000 jobs in every corner of the state with a total payroll of more than \$1.1 billion. TRS pensions enable thousands of men and women to lead fulfilling and secure lives in retirement.



INTRODUCTION

The Teachers' Retirement System of the State of Illinois had a statewide economic impact of \$4.3 billion in fiscal year 2011.

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, 2010

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.



Linda C. Sandson
President

Jeffrey L. Essex
Executive Director



LETTER OF TRANSMITTAL

December 19, 2011

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, 2011. The theme of this year's report centers on two main messages that TRS staff emphasizes with our members and their families:

- TRS is a strong and secure retirement fund, and
- our main purpose is to keep retirement promises made by the State of Illinois to educators almost a century ago.

TRS ranks among the country's largest public pension funds with \$37.5 billion in net assets at the end of fiscal year 2011. TRS is a major institutional investor and a driver of the Illinois economy. With 362,121 members, TRS is a vital and respected leader across the country.

The discipline we bring to our fiduciary duty is a tremendous asset to our members at a time when the national and state economies face many challenges. While the financial resources of TRS and other public pension systems in the State of Illinois are being called into question by some, the data provided in this CAFR shows the truth. The administration of TRS and the management of our members' money are sound. The System experienced record-level revenues during 2011. Further, the state made funding its pension obligations a priority when preparing the fiscal year 2012 budget by appropriating the full contribution required by statute.

The General Assembly's obligations regarding funding for public pensions are well established in statute, most recently in 1995. As long as state government, educators and school districts maintain their commitment to TRS, the System will meet its future obligations to its members and its financial stability will be ensured. Through images, statistics and anecdotes, this report will help members and the general public better understand the substantial resources of TRS and the world-wide reach of its extensive and diversified investment portfolio.

The stability and strength of TRS is the foundation of keeping the promise made by the State of Illinois that educators will have a secure retirement. Illinois first granted pensions to retired teachers in 1915. That commitment was reaffirmed in 1939 with the creation of TRS. Since then, in good times and bad, TRS has maintained trusted relationships with generations of educators and has never defaulted on the promises made long ago. Our relationships with our members, in most cases, thrive for many decades.

The state's promise is vital to school teachers in every corner of Illinois. TRS pensions provide our members with a stable income during their golden years that allows them to continue to be productive members of society. Moreover, benefits paid to TRS retirees recycle through the Illinois economy and create an economic impact that is estimated to support more than 30,000 jobs each year and provide an annual economic stimulus in excess of \$4 billion.

TRS is required by state law to publish an annual report to provide financial, investment, actuarial, and statistical information in a single publication. TRS management and staff are responsible for the accuracy of this report and for ensuring that all material disclosures have been made. A framework of internal controls is maintained

within TRS to establish a reasonable assurance that assets are safeguarded, monetary transactions are accurately executed and financial statements are fairly presented. Management recognizes there are inherent limitations in the effectiveness of any system of internal controls and provides the conclusion that the financial statements are not materially misstated.

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, six representatives of the public who are appointed by the governor, four members of TRS who are elected by active teachers, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the effective 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) applied 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 a professional accounting firm who serve as 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	2011	2010	Increase (Decrease)	
			Amount	% Change
Member contributions	\$910	\$899	\$11	1.2%
State of Illinois	2,171	2,081	90	4.3
Employer contributions	154	171	(17)	(9.9)
Total investment income	7,235	3,680	3,555	96.6
Total	<u>\$10,470</u>	<u>\$6,831</u>	<u>\$3,639</u>	53.3%

Expenses (\$ millions)

Source	2011	2010	Increase	
			Amount	% Change
Benefits payments	\$4,228	\$3,928	\$300	7.6%
Refunds	77	60	17	28.3
Administrative/Other	18	17	1	5.9
Total	<u>\$4,323</u>	<u>\$4,005</u>	<u>\$318</u>	7.9%

TRS staff and the Board of Trustees remain vigilant in our efforts to improve the retirement system's funded status for our current and future members. We continue to invest prudently and in a disciplined manner 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 and appropriate for our circumstances.

Investments

The TRS investment portfolio had a strong year, returning 24.3 percent, gross of fees, for the fiscal year ended June 30, 2011. Total TRS investments increased by approximately \$6.3 billion during the year ended June 30, 2011.

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.

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

Funding

During the year ended June 30, 2011, the funded ratio of the Teachers' Retirement System decreased from 48.4 percent to 46.5 percent. The actuarial value of assets at year end was \$37.8 billion and the actuarial accrued liability was \$81.3 billion. The decline in the funded ratio was due to an increase in the liability and the continued phase-in of 2009 investment losses in the calculation of the actuarial value of assets. Due to the five-year smoothing methodology required by Public Act 96-0043, the actuarial value of assets now recognizes 60 percent of the 2009 losses, 40 percent of the 2010 gains, and 20 percent of the 2011 gains.

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

Major Initiatives

In FY11, TRS implemented several initiatives that benefited its members and strengthened the retirement system by:

- increasing productivity and efficiency by enhancing core information systems;
- implementing necessary changes to information systems for the new second tier of benefits enacted by the Illinois General Assembly;
- providing extensive analysis and data to policymakers and other bodies regarding the impact of various proposals for benefit changes; and
- completing a national search for a new executive director, positioning TRS to move forward under strong and stable leadership.

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, 2010. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

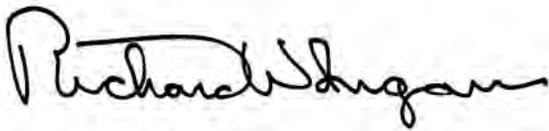
To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. TRS has received a certificate for the last 22 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

Acknowledgements

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

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



Richard Ingram
Executive Director



Jana Bergschneider, CPA
Director of Administration

BOARD OF TRUSTEES

As of December 1, 2011



Left to right: Dick Ingram, Executive Director; Cynthia O'Neill; Bob Lyons; Molly Phalen, Vice President; Cinda Klickna; Sharon Leggett; Jan Cleveland; Marcia Campbell; and Michael Busby.
Shown at right: Christopher A. Koch, Ed.D, President; Janice Reedus; and Sonia Walwyn.



Christopher A. Koch,
Ed.D.
President



Janice Reedus



Sonia Walwyn

EXECUTIVE STAFF MEMBERS

As of December 1, 2011



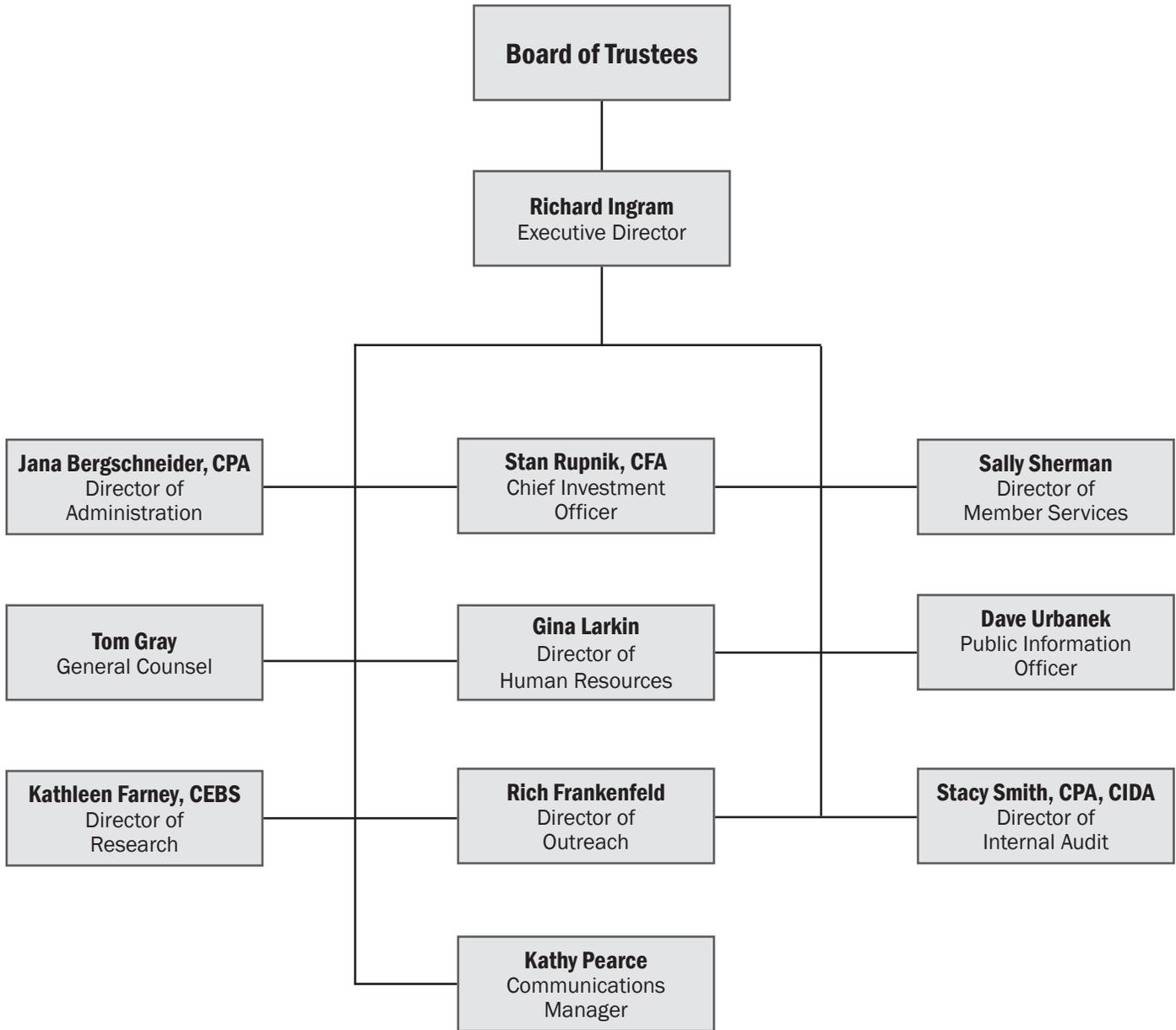
Left to right: Kathy Pearce, Communications Manager; Dick Ingram, Executive Director; Dave Urbanek, Public Information Officer; Gina Larkin, Director of Human Resources; Tom Gray, General Counsel; Jana Bergschneider, CPA, Director of Administration; Stan Rupnik, CFA, Chief Investment Officer; Richard Frankenfeld, Director of Outreach; Kathleen Farney, CEBS, Director of Research; and Stacy Smith, CPA, CIDA, Director of Internal Audit.
Shown at right: Sally Sherman, Director of Member Services.



Sally Sherman
Director of
Member Services

ORGANIZATIONAL STRUCTURE

Executive Staff Members as of December 1, 2011



CONSULTING AND PROFESSIONAL SERVICES

Actuary

Buck Consultants, LLC
Chicago, Illinois

External Auditors

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

McGladrey & Pullen, LLP
Schaumburg, Illinois

Information Systems

CTG Inc. of Illinois
Springfield, Illinois
Share Point Business Solutions, Inc.
Springfield, Illinois

Sentinel Technologies
Chicago, Illinois
SunGard Availability Services
Chicago, Illinois

Consultants

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

Houlihan Lokey Howard & Zukin Financial Advisors, Inc.
(private equity)
Los Angeles, California

Leinenweber Baroni & Daffada Consulting LLC
(legislative)
Springfield, Illinois

LP Capital Advisors, LLC
(private equity)
Sacramento, California

PCG Asset Management LLC
(private equity)
La Jolla, California

Risk Resources
(real estate insurance consulting)
Elmhurst, Illinois

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

Legal Services

Cavanagh & O'Hara
Springfield, Illinois

Heyl Royster Voelker & Allen
Springfield, Illinois

Holland & Knight LLP
Chicago, Illinois

Howard & Howard Attorneys PLLC
Peoria, Illinois

Jackson Walker LLP
Austin, Texas

Loewenstein Hagen & Smith PC
Springfield, Illinois

Mayer Brown LLP
Chicago, Illinois

Morgan Lewis & Bockius LLP
New York, New York

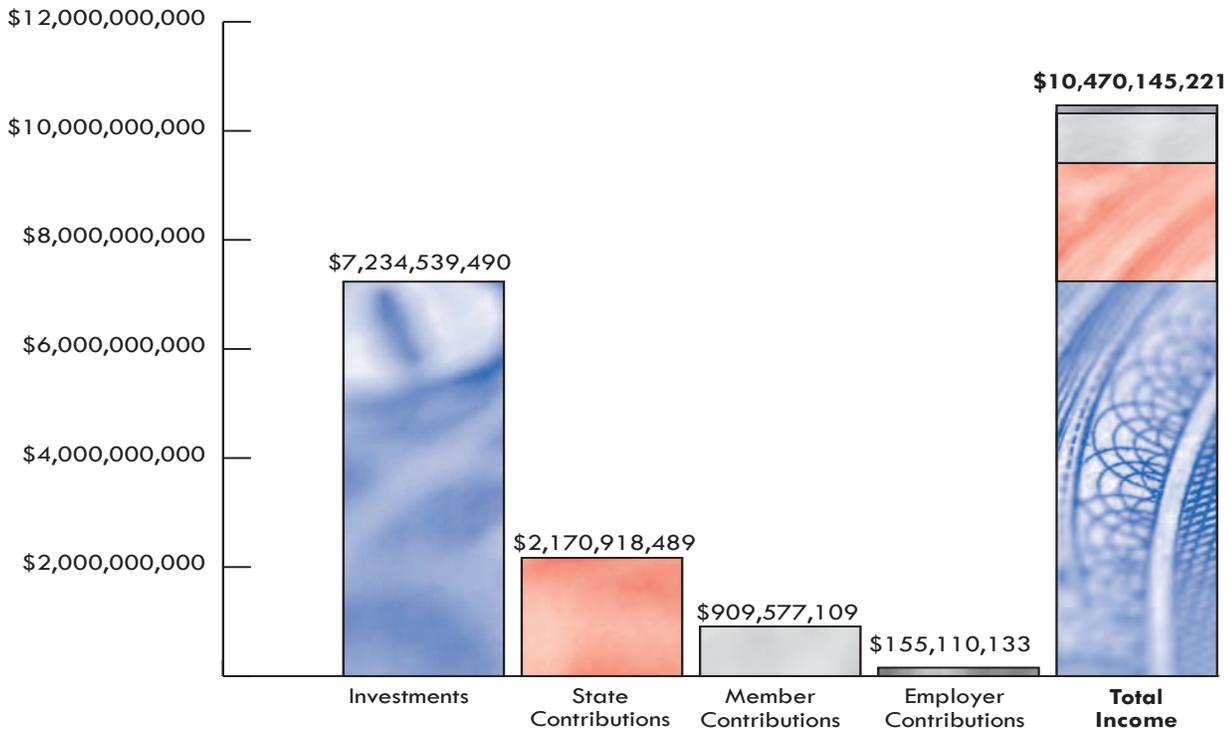
Sorling Northrup Hanna Cullen Cochran Ltd.
Springfield, Illinois

Master Trustee

State Street Bank and Trust Company
Boston, Massachusetts

Since its creation in 1939, TRS has never missed paying a pension check to a retired member. The retirement system's financial structure is secure enough to ensure continued pension payments well into the future.

Fiscal Year 2011 Revenue



Fiscal Year 2011 Benefits Paid

Total: \$4,304,870,170

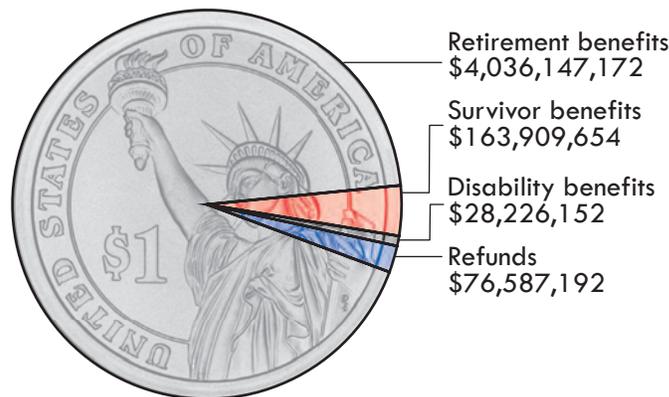
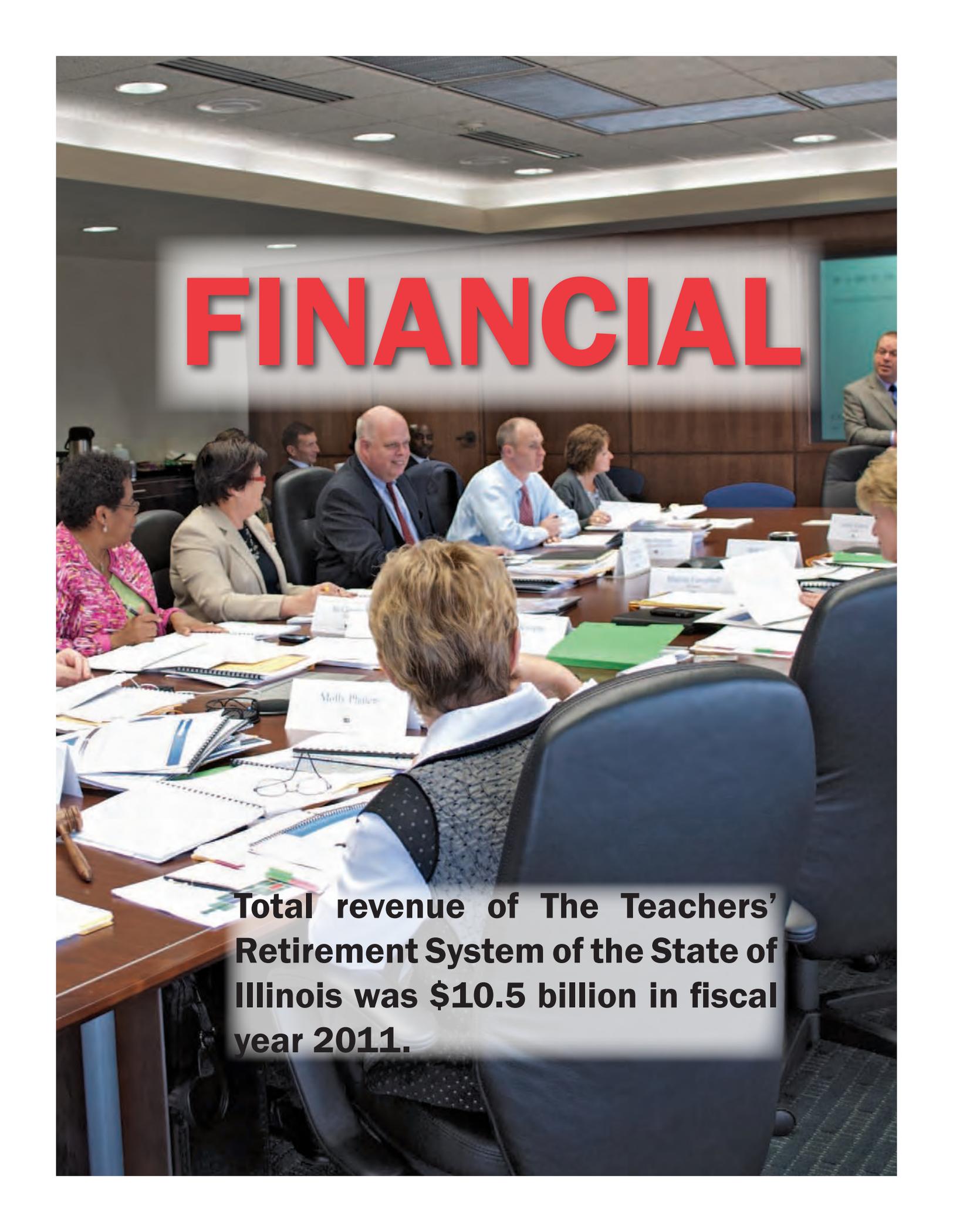


Photo at right:
The Investment Committee discusses future portfolio commitments during the October 2011 Board meeting held in Springfield.

A group of people in a conference room sitting around a table with papers and laptops. The room has wood-paneled walls and recessed ceiling lights. A man in a suit is standing at the head of the table, possibly presenting. The word "FINANCIAL" is overlaid in large red letters.

FINANCIAL

Total revenue of The Teachers' Retirement System of the State of Illinois was \$10.5 billion in fiscal year 2011.



Independent Auditors' Report

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 Statement 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, 2011, and the related Statement of Changes in Plan Net Assets for the year 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 audit. The basic financial statements of the System for the year ended June 30, 2010 were audited by other auditors whose report dated December 20, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the plan net assets of the Teachers' Retirement System of the State of Illinois as of June 30, 2011, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and the 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 audit was 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, are fairly stated, in all material respects, in relation to the basic financial statements as of and for the year ended June 30, 2011, taken as a whole. The other supplementary information in the financial section for the year ended June 30, 2010 was audited by other auditors whose report, dated December 20, 2010, expressed an unqualified opinion on such information in relation to the basic financial statements 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.

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 19, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This 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, 2011. 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, 2011 were \$37.5 billion.
- During FY11, TRS net assets increased \$6.1 billion.
- Contributions from members, employers, and the state were \$3,236 million, an increase of \$84 million or 2.7 percent for the fiscal year.
- Total investment gain was \$7,235 million, compared to investment gain of \$3,680 million in FY10, an increase of \$3,555 million.
- Benefits and refunds paid to members and annuitants were \$4,305 million, an increase of \$317 million or 7.9 percent compared to FY10.
- Total actuarial accrued liability was \$81.3 billion at June 30, 2011.
- The unfunded actuarial accrued liability increased from \$39.9 billion at June 30, 2010 to \$43.5 billion at June 30, 2011. The funded ratio decreased from 48.4 percent at June 30, 2010 to 46.5 percent at June 30, 2011. 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, 2011.

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

	2011	Percentage Change	2010	Percentage Change	2009
Cash	\$36,799,319	209.8%	\$11,878,310	208.6%	\$3,849,113
Receivables and prepaid expenses	176,673,155	3.6	170,460,327	(36.3)	267,580,363
Investments	37,748,341,891	19.9	31,482,144,166	8.7	28,961,352,329
Invested securities lending collateral	3,104,528,064	(12.2)	3,535,698,706	(16.8)	4,251,858,945
Capital assets	3,992,703	(1.0)	4,032,313	8.8	3,707,543
Total assets	41,070,335,132	16.7	35,204,213,822	5.1	33,488,348,293
Total liabilities	3,599,067,938	(7.3)	3,880,429,608	(22.2)	4,990,618,850
Net assets	<u>\$37,471,267,194</u>	19.6%	<u>\$31,323,784,214</u>	9.9%	<u>\$28,497,729,443</u>

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

	2011	Percentage Change	2010	Percentage Change	2009
Contributions	\$3,235,605,731	2.7%	\$3,151,550,632	27.1%	\$2,480,102,691
Total investment income/(loss)	7,234,539,490	96.6	3,679,642,960	142.4	(8,688,285,511)
Total additions/(reductions)	10,470,145,221	53.3	6,831,193,592	210.0	(6,208,182,820)
Benefits and refunds	4,304,870,170	7.9	3,988,188,142	7.6	3,707,423,088
Administrative expenses	17,792,071	5.0	16,950,679	(2.5)	17,387,936
Total deductions	4,322,662,241	7.9	4,005,138,821	7.5	3,724,811,024
Net increase/(decrease) in net assets	6,147,482,980		2,826,054,771		(9,932,993,844)
Net assets beginning of year	31,323,784,214	9.9	28,497,729,443	(25.8)	38,430,723,287
Net assets end of year	<u>\$37,471,267,194</u>	19.6%	<u>\$31,323,784,214</u>	9.9%	<u>\$28,497,729,443</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 \$37.5 billion and \$31.3 billion at June 30, 2011 and 2010, respectively. Net assets increased \$6.1 billion and \$2.8 billion during FY11 and FY10, respectively.

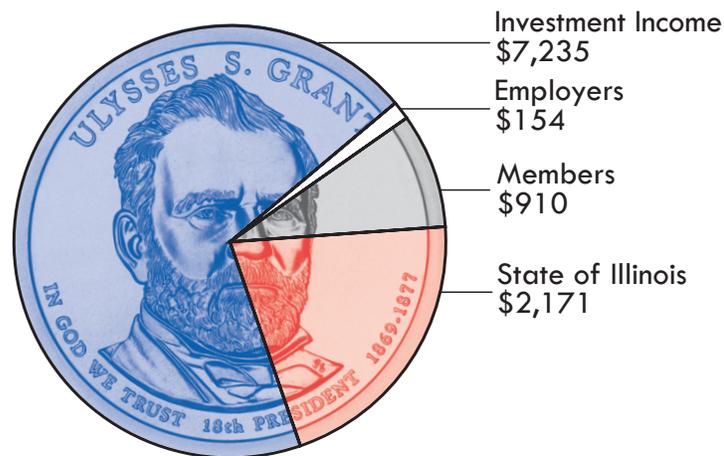
Contributions

Contributions increased \$84 million and \$671 million during FY11 and FY10, respectively. During FY11, member contributions increased \$11 million and employer contributions from school districts decreased \$17 million. During FY10, member contributions increased \$23 million and employer contributions from school districts increased \$19 million. The decrease in employer contributions from school districts in FY11 is attributable to a decrease in both federal funds contributions and early retirement employer contributions.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois increased \$90 million in FY11 compared to an increase of \$629 million in FY10. The increase in FY11 occurred because the amount recertified for FY11 recognizing lower costs for future hires was slightly higher than the FY10 requirement (see Legislation).

State funding law provides for a 50-year funding plan that included a 15-year phase-in period and a goal of 90 percent funding in the year 2045.

Revenues by Type for the Year Ended June 30, 2011 (\$ millions)

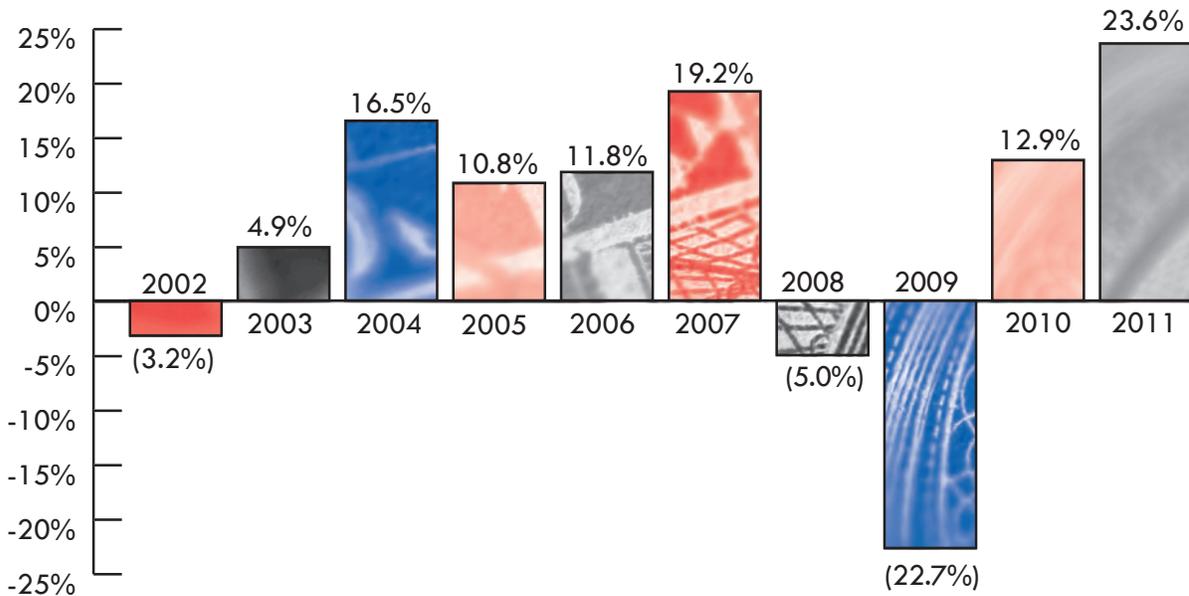


Investments

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.

The TRS investment portfolio had a strong year, returning 23.6 percent, net of fees, for the fiscal year ended June 30, 2011. Total TRS investment assets increased approximately \$6.3 billion during the year.

Annual Rate of Return (net of investment expenses)



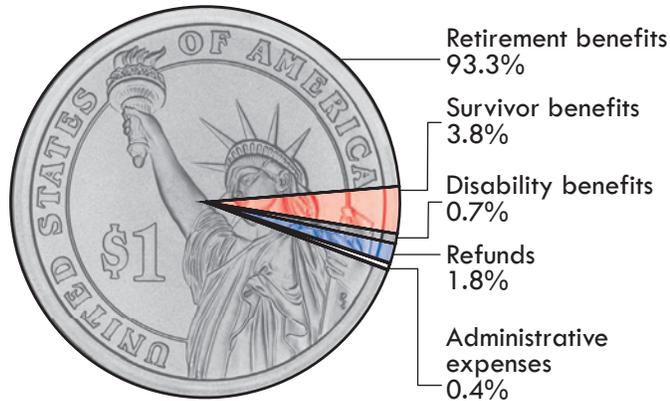
The annual rate of return is an indication of TRS investment performance and is provided by the TRS master trustee.

Benefits and Refunds

Retirement, survivor, and disability benefit payments increased \$300 million and \$274 million during FY11 and FY10, respectively. During FY11, benefit payments increased from \$3,928 million with 97,754 recipients in FY10 to \$4,228 million with 101,288 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 87,654 as of June 30, 2010 to 90,967 as of June 30, 2011.

Refunds of contributions increased \$17 million and \$6 million in FY11 and FY10, respectively. The increase during FY11 is the result of a greater number of member, survivor benefit, and retirement refunds.

Expenses by Type for the Year Ended June 30, 2011



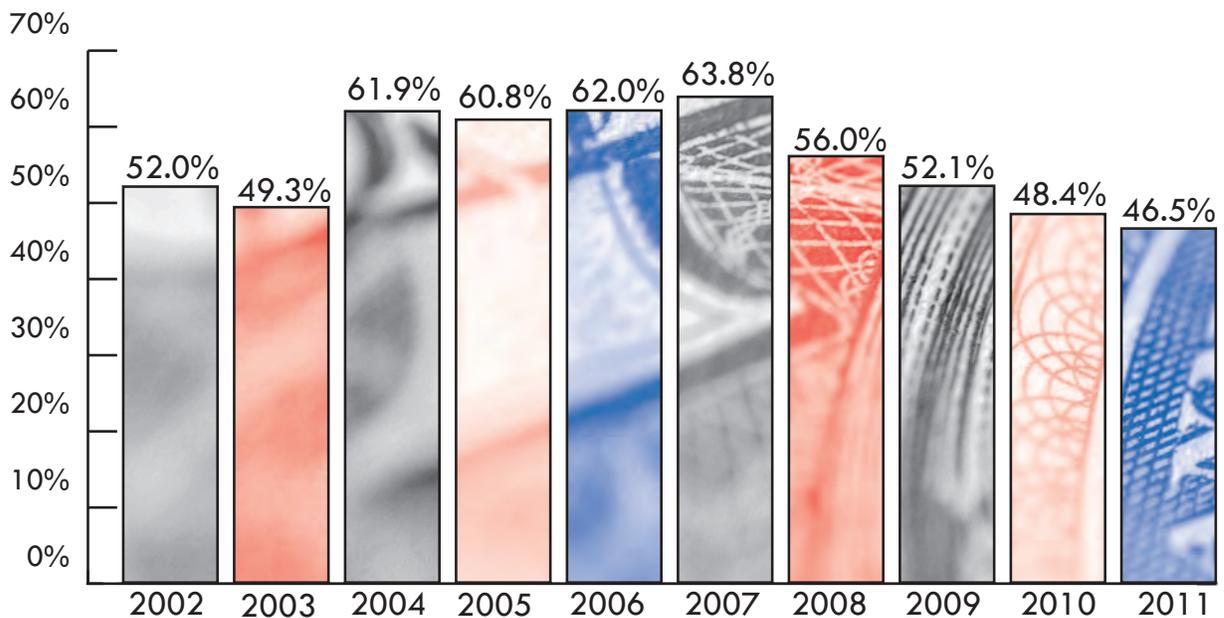
Actuarial

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 \$4.0 billion and \$4.3 billion during FY11 and FY10, respectively, to \$81.3 billion at June 30, 2011 and \$77.3 billion at June 30, 2010. 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 \$3.6 billion during FY11 to \$43.5 billion at June 30, 2011 compared to an increase of \$4.9 billion during FY10 to \$39.9 billion at June 30, 2010. The funded ratio reflects the percentage of the accrued liability covered by the actuarial value of assets. The funded ratio decreased to 46.5 percent at June 30, 2011 from 48.4 percent at June 30, 2010.

In 2011 and 2010, 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.

When the funded ratio was based on the market value of assets, the reported funded ratio was impacted immediately by changes in market conditions. State funding requirements based on market value assets were also immediately impacted and therefore more volatile. Using the smoothed value of assets will result in more stable reported funded ratios and state funding requirements over time.

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 the financial position of TRS.

Following the enactment of Public Act 96-0889 in 2010, which created the "Tier II" benefit structure for members entering the System after January 1, 2011, state officials estimated that the new law would reduce the five state systems' accrued liability by \$220 billion over 34 years. In calculating the state budget for FY12, state officials assumed that a portion of these cost savings would be realized immediately during FY11.

Accordingly, the state enacted Public Act 96-1511, which required the TRS Board of Trustees and the other state pension systems to officially certify a state contribution amount for FY11 that reflected the proportional savings from Public Act 96-0889. For TRS, the state contribution to be certified under Public Act 96-1511 was \$189.2 million lower than the state contribution originally certified for FY11. In January of 2011, the TRS Board rescinded its original certified contribution of \$2.358 billion and certified a new state contribution of \$2.169 billion.

For the first time in several years, the General Assembly prioritized its annual funding contribution for the state's pension systems, including TRS, instead of behind other state budget items. Public Act 97-0067 was enacted in April of 2011 and appropriated a \$2.406 billion contribution to TRS for FY12 – a full month before the scheduled end of the legislature's spring session. Public Act 97-0067 was also significant in that the funds for TRS would be generated by state tax revenues, and not from the sale of bonds. In the previous two fiscal years, state officials had relied on the sale of the bonds to raise the annual contribution for TRS and the other pension systems. Controversies surrounding the sale of those bonds delayed the receipt of the contributions for months, resulting in a higher-than-normal sale of assets to cover monthly pension payments and a loss of investment income.

BASIC FINANCIAL STATEMENTS

Teachers' Retirement System of the State of Illinois Statements of Plan Net Assets as of June 30, 2011 and 2010

	2011	2010
Assets		
Cash	\$36,799,319	\$11,878,310
Receivables and prepaid expenses		
Member payroll deduction	0	396,472
Member contributions	51,418,513	50,954,327
Employer contributions	16,801,065	18,699,097
Investment income	105,309,937	94,799,065
Prepaid expenses	3,143,640	5,611,366
Total receivables and prepaid expenses	176,673,155	170,460,327
Investments, at fair value		
Fixed income	7,087,432,551	6,551,272,735
Equities	17,395,697,752	14,411,659,754
Real estate	3,991,533,162	3,252,463,291
Short-term investments	1,299,196,172	683,859,686
Private equity investments	3,615,944,356	2,990,955,411
Real return	2,773,932,843	2,295,427,875
Absolute return	1,485,565,992	1,231,558,537
Foreign currency	89,428,959	68,454,294
Derivatives	9,610,104	(3,507,417)
Total investments	37,748,341,891	31,482,144,166
Invested securities lending collateral		
Short-term investments	1,936,368,305	2,507,244,302
Fixed income	1,128,000,759	994,125,404
Securities lending collateral w/State Treasurer	40,159,000	34,329,000
Total invested securities lending collateral	3,104,528,064	3,535,698,706
Property and equipment, at cost, net of accumulated depreciation of \$6,313,286 and \$6,129,847 in 2011 and 2010, respectively	3,992,703	4,032,313
Total assets	41,070,335,132	35,204,213,822
Liabilities		
Benefits and refunds payable	7,052,472	5,337,764
Administrative and investment expenses payable	38,689,480	64,443,676
Payable to brokers for unsettled trades, net	448,797,922	274,949,462
Securities lending collateral	3,104,528,064	3,535,698,706
Total liabilities	3,599,067,938	3,880,429,608
Net assets held in trust for pension benefits	\$37,471,267,194	\$31,323,784,214

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, 2011 and 2010

	2011	2010
Additions		
Contributions		
Members	\$909,577,109	\$899,401,028
State of Illinois	2,170,918,489	2,080,729,055
Employers		
Early retirement	28,419,125	36,756,995
Federal funds	66,065,322	74,449,701
2.2 benefit formula	53,253,976	53,953,836
Excess salary/sick leave	7,371,710	6,260,017
Total contributions	<u>3,235,605,731</u>	<u>3,151,550,632</u>
Investment income		
From investment activities		
Net appreciation in fair value	6,493,315,290	2,999,370,225
Interest	263,477,734	291,830,747
Real estate operating income, net	167,163,511	174,189,540
Dividends	418,407,718	344,648,907
Private equity income	77,727,706	32,412,430
Other investment income	14,903,813	16,846,619
Investment activity income	<u>7,434,995,772</u>	<u>3,859,298,468</u>
Less investment expense	<u>(218,249,613)</u>	<u>(200,766,937)</u>
Net investment activity income	<u>7,216,746,159</u>	<u>3,658,531,531</u>
From securities lending activities		
Securities lending income	15,664,263	19,544,789
Securities lending management fees	(1,982,926)	(2,347,093)
Securities lending borrower rebates	4,111,994	3,913,733
Net securities lending activity income	<u>17,793,331</u>	<u>21,111,429</u>
Total investment income	<u>7,234,539,490</u>	<u>3,679,642,960</u>
Total additions	<u>10,470,145,221</u>	<u>6,831,193,592</u>
Deductions		
Retirement benefits	4,036,147,172	3,749,665,623
Survivor benefits	163,909,654	151,073,880
Disability benefits	28,226,152	27,098,860
Refunds	76,587,192	60,349,779
Administrative expenses	17,792,071	16,950,679
Total deductions	<u>4,322,662,241</u>	<u>4,005,138,821</u>
Net increase	<u>6,147,482,980</u>	<u>2,826,054,771</u>
Net assets held in trust for pension benefits		
Beginning of year	<u>31,323,784,214</u>	<u>28,497,729,443</u>
End of year	<u>\$37,471,267,194</u>	<u>\$31,323,784,214</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 28.

Number of Employers (as of June 30)

	2011	2010
Local school districts	866	867
Special districts	141	140
State agencies	22	23
Total	<u>1,029</u>	<u>1,030</u>

3. Members

TRS Membership (as of June 30)

	2011	2010
Retirees and beneficiaries receiving benefits	101,288	97,754
Inactive members entitled to but not yet receiving benefits	94,820	104,222
Active members	166,013	170,275
Total	<u>362,121</u>	<u>372,251</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.

Public Act 96-0889, which was signed into law in the spring of 2010, added 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.

Tier II Benefits

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 ½ 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 made contributions to TRS prior to January 1, 2011. These members remain participants of Tier I.

Tier I 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, 2011, the most recent actuarial valuation date, follows and is compared to the 2010 funded status. 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
6/30/10	\$37,439,092,000	\$77,293,198,000	48.4%	\$39,854,106,000	\$9,251,139,000	430.8%
6/30/11	37,769,753,000	81,299,745,000	46.5	43,529,992,000	9,205,603,000	472.9

* 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; then 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	34 years, closed (June 30, 2011) 35 years, closed (June 30, 2010)
Asset Valuation Method:	Beginning with June 30, 2009 valuation, five-year smoothing, prospective
Actuarial Assumptions:	
Investment rate of return	8.5%
Projected salary increases	6.0% (at age 69) to 11.1% (at age 20); composite 7.0%; includes inflation and real wage growth (productivity) assumptions
Group size growth rate	0%
Assumed inflation rate	3.5%
Real wage growth (productivity)	1.2%
Post-retirement increase	3% compounded
Mortality table	1995 Buck Mortality Tables projected 16 years for males and one year for females. For beneficiaries, projected one year for both males and females, then rated forward two years for males and forward one year for females. Projected mortality improvements using Society of Actuaries Mortality Projection Scale AA are phased in over four years, beginning July 1, 2007.

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

State funding law provides for a 50-year funding plan that includes a 15-year phase-in period.

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 received an allocation of bond proceeds equal to \$4,330,373,948 on July 1, 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 because future state contributions are reduced by the state's debt service due on the TRS share of the proceeds. 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 and a 90 percent funded ratio at the end of FY45.

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.

In FY10 and FY11, pension bonds were issued by the State of Illinois to cover the state's share of TRS funding requirements not covered by state appropriations. These pension bonds did not reduce future state contributions like the 2003 pension obligation bonds.

- Public Act 96-0043, which also requires asset smoothing, authorized the sale of bonds for the remainder of the FY10 state funding requirement. In FY10, \$834,861,667 was received in Common School Fund appropriations and \$1,245,867,388 in pension bonds was received in January 2010.
- Public Act 96-1497 authorized the sale of bonds for the remainder of the FY11 state funding requirement. In FY11, \$110,000,000 was received in Common School Fund appropriations and \$2,060,918,489 in pension bonds was received in March 2011.

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. TRS uses an actuary to determine the actuarial accrued liability for the defined benefit plan and to determine the actuarially required contribution.

3. Risks and Uncertainties

TRS investments are diversified and include various investment securities. Investment securities are exposed to a variety of risk including credit, market and interest rate risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that value changes will occur in the near-term and such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

4. New Accounting Pronouncements

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. There was no material impact to the financial statements as TRS implemented GASB 59 in the year ended June 30, 2011.

Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position," was established to provide a framework that specifies where deferred outflows of resources and deferred inflows of resources, assets, liabilities and net position should be displayed on the financial statements. TRS is required to implement this Statement for the year ending June 30, 2013.

Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment to GASB Statement No. 53," was established to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. TRS is required to implement this Statement for the year ending June 30, 2012.

Management has not yet completed its assessment of these pending Statements; however, they are not expected to have a material effect on the overall financial statement presentation.

5. Method Used to Value Investments

TRS reports investments at fair value. Fair value for publicly traded real return funds, equities, foreign currency, and exchange traded derivatives is determined by using the closing price listed on national securities exchanges as of June 30. Fair value for fixed income securities and over-the-counter derivatives is determined primarily by using quoted market prices provided by independent pricing services. Short-term investments are generally reported at average cost, which approximates fair value. Appraisals are used to determine fair value on directly-owned real estate investments. 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.

6. 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.

7. 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, 2011, and 2010 totaled \$1,577,399 and \$1,617,453, respectively, and are included as administrative and investment expenses payable.

8. 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 purchase service credit or upgrade their benefit formulas. The program was discontinued on June 30, 2010. Employers had until July 10, 2010 to remit June deductions.

9. Prior Period Reclassification

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

10. 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 \$36,799,082 and \$36,799,319 at June 30, 2011 and \$11,878,155 and \$11,878,310 at June 30, 2010. Of the bank balance, \$36,798,819 and \$11,877,810 were on deposit with the state treasurer at June 30, 2011, and 2010, 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 \$89,428,959 and \$68,454,294 at June 30, 2011 and June 30, 2010, 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, 2011, TRS held the following fixed income investments with respective Moody's quality ratings. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Moody's Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Securities Lending Collateral	Total
Aaa	\$396,039,937	\$646,447,393	\$1,842,804,827	\$-	\$341,027,329	\$3,226,319,486
Aa1	16,745,645	31,364,918	4,094,353	-	317,488,185	369,693,101
Aa2	71,754,273	130,771,498	11,877,400	-	317,699,361	532,102,532
Aa3	42,049,634	38,432,155	17,864,936	-	151,785,884	250,132,609
A1	56,715,352	130,802,616	26,378,270	-	-	213,896,238
A2	163,887,018	57,114,009	6,822,685	-	-	227,823,712
A3	102,939,556	38,546,443	4,085,168	-	-	145,571,167
Baa1	194,772,146	142,776,021	-	-	-	337,548,167
Baa2	202,152,604	69,130,548	-	-	-	271,283,152
Baa3	223,764,152	197,890,854	-	-	-	421,655,006
Ba1	165,647,514	92,520,001	-	-	-	258,167,515
Ba2	122,809,370	18,678,334	-	53,767,507	-	195,255,211
Ba3	107,193,105	14,968,528	-	-	-	122,161,633
B1	88,692,232	15,563,353	-	-	-	104,255,585
B2	70,898,522	35,314,065	-	-	-	106,212,587
B3	68,939,251	33,003,761	-	-	-	101,943,012
Caa1	24,811,634	1,720,400	-	-	-	26,532,034
Caa2	32,235,663	3,994,750	-	-	-	36,230,413

(continued)

(continued)

Moody's Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Securities Lending Collateral	Total
Caa3	\$25,617,957	\$-	\$-	\$-	\$-	\$25,617,957
Ca	10,677,503	6,600,590	-	-	-	17,278,093
C	1,214,310	-	-	-	-	1,214,310
Not available	72,210,814	202,349,806	19,028,505	842,536,539	-	1,136,125,664
Not rated	4,958,409	14,801,639	-	42,629,906	-	62,389,954
Withdrawn	21,002,391	925,835	4,095,946	-	-	26,024,172
Total bonds, corporate notes and government obligations	<u>\$2,287,728,992</u>	<u>\$1,923,717,517</u>	<u>\$1,937,052,090</u>	<u>\$938,933,952</u>	<u>\$1,128,000,759</u>	<u>\$8,215,433,310</u>

As of June 30, 2010, TRS held the following fixed income investments with respective quality ratings.

Moody's 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>

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, 2011 is as follows:

Type	2011 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	\$308,087,946	\$24,160,625	\$152,264,689	\$87,800,633	\$33,286,643	\$10,575,356	\$-	
U.S. federal agencies	160,285,470	1,456,249	38,670,490	26,574,708	85,864,336	7,719,687	-	
U.S. government index-linked bonds	583,141,471	16,282,167	229,067,829	96,791,739	194,284,144	46,715,592	-	
U.S. government-backed mortgages	789,535,623	211,721,754	1,887,207	87,132,790	87,341,438	401,452,434	-	
U.S. government-backed bonds	2,381,562	-	2,381,562	-	-	-	-	
U.S. government special situations	18,121,454	-	-	-	-	-	18,121,454	
Municipals (taxable)	75,498,564	-	728,745	3,229,689	18,270,266	53,269,864	-	
Credits								
Bank loans	25,751,829	19,766,660	5,985,169	-	-	-	-	
Financial	629,597,186	90,786,051	222,344,603	221,342,829	1,083,084	94,040,619	-	
Industrial	821,577,307	3,315,113	170,981,117	415,250,861	55,258,858	176,771,358	-	
Utilities	92,406,632	95,301	22,876,749	42,860,530	4,193,860	22,380,192	-	
Asset-backed securities	270,560,959	1,270	68,927,465	28,632,136	76,889,580	96,110,508	-	
Commercial mortgage-backed securities	151,249,137	-	-	3,332,547	16,338,264	131,578,326	-	
Collateralized mortgage obligations	220,255,229	-	-	27,120,771	14,419,404	178,715,054	-	
Commingled/closed-end funds**	938,933,952	-	-	693,188,375	53,767,507	-	191,978,070	
Corporate convertible bonds	76,330,713	-	15,749,156	12,332,819	1,707,200	46,541,538	-	
Foreign debt/corporate obligations	1,923,717,517	200,890,974	602,176,812	626,539,533	280,446,302	213,663,896	-	
Total bonds, corporate notes and government obligations	7,087,432,551	568,476,164	1,534,041,593	2,372,129,960	923,150,886	1,479,534,424	210,099,524	
Securities lending collateral	1,128,000,759	826,622,245	301,378,514	-	-	-	-	
Derivatives	9,610,104	2,059,056	9,278,459	(22,188)	(34,557)	(1,670,666)	-	
Total bonds, corporate notes, government obligations, securities lending collateral and derivatives	\$8,225,043,414	\$1,397,157,465	\$1,844,698,566	\$2,372,107,772	\$923,116,329	\$1,477,863,758	\$210,099,524	

* Maturity date is not available or applicable.

** 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, 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. 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	
Municipals (taxable)	67,915,609	-	10,315,198	3,194,494	18,859,159	35,546,758	-	
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/corporate 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.

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, 2011 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	\$2,207,124	\$265,883,255	\$91,902,274	(\$110)	\$359,992,543
Brazilian Real	3,274,286	131,559,478	47,791,959	1,450,586	184,076,309
British Pound	8,513,950	1,123,212,750	216,407,908	-	1,348,134,608
Canadian Dollar	10,018,701	293,181,855	111,787,729	-	414,988,285
Chilean Peso	30,622	984,227	2,621,704	-	3,636,553
Chinese Yuan	(72,935)	-	-	-	(72,935)
Czech Koruna	-	11,865,812	-	-	11,865,812
Danish Krone	1,080,858	37,451,229	-	-	38,532,087
Egyptian Pound	276,852	11,650,936	19,984,677	-	31,912,465
Euro	31,723,764	1,482,988,943	402,001,894	866,562	1,917,581,163
Ghana Cedi	-	-	15,568,615	-	15,568,615
Hong Kong Dollar	2,400,349	375,346,540	-	-	377,746,889
Hungarian Forint	211,432	21,428,306	44,728,892	-	66,368,630
Indian Rupee	1,641,914	79,515,688	13,403,550	-	94,561,152
Indonesian Rupiah	1,952,876	67,372,072	51,181,797	-	120,506,745
Israeli Shekel	152,902	12,439,119	21,939,596	-	34,531,617
Japanese Yen	15,606,662	1,046,231,673	33,780,611	-	1,095,618,946
Malaysian Ringgit	659,913	41,576,390	6,417,566	-	48,653,869
Mexican Peso	2,208,665	18,805,169	73,296,502	764	94,311,100
Moroccan Dirham	86,839	968,003	-	-	1,054,842
New Taiwan Dollar	491,855	170,583,748	-	-	171,075,603
New Zealand Dollar	173,763	10,005,710	18,989,921	-	29,169,394
Norwegian Krone	277,460	63,655,559	-	-	63,933,019
Philippine Peso	83,434	13,546,371	8,256,865	-	21,886,670
Polish Zloty	1,789	34,948,424	39,117,915	-	74,068,128
Singapore Dollar	596,186	117,407,798	829,464	-	118,833,448
South African Rand	40,025	45,724,666	-	-	45,764,691
South Korean Won	1,771,513	240,136,720	101,314,269	-	343,222,502
Swedish Krona	46,893	79,066,312	34,974,456	-	114,087,661
Swiss Franc	1,998,879	395,285,670	-	-	397,284,549
Thai Baht	1,342,331	98,104,330	-	-	99,446,661
Turkish Lira	630,057	46,945,784	-	-	47,575,841
Ukraine Hryvnia	-	-	5,511,510	-	5,511,510
Total subject to foreign currency risk	89,428,959	6,337,872,537	1,361,809,674	2,317,802	7,791,428,972
Investments in international securities payable in United States dollars	-	1,078,456,348	646,644,985	-	1,725,101,333
Total international investment securities (including domestic securities payable in foreign currency)	89,428,959	7,416,328,885	2,008,454,659	2,317,802	9,516,530,305
Domestic investments (excluding securities payable in foreign currency)	-	9,979,368,867	5,078,977,892	7,292,302	15,065,639,061
Total fair value	\$89,428,959	\$17,395,697,752	\$7,087,432,551	\$9,610,104	\$24,582,169,366

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	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 domesti. 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	\$68,454,294	\$14,411,659,754	\$6,551,272,735	(\$3,507,417)	\$21,027,879,366

In addition to the above, TRS's foreign currency investments in real estate and private equity were \$260,358,904 and \$188,866,139 at June 30, 2011 and 2010, respectively.

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 or other entities. The borrower of the security must post collateral in excess of the fair value of the security. Agreements are in place for TRS to return the collateral in exchange for the original securities upon demand or when the security is no longer borrowed. TRS's master trustee is the primary lending agent for the plan's domestic securities for collateral of 102 percent of the fair value of U.S.

securities and non-U.S. fixed income securities and 105 percent of the fair 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. 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 16 days.

The cash collateral received is invested in a separate account managed by the lending agent, which at year end has a weighted average maturity of 29 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, 2011 and June 30, 2010, TRS had outstanding loaned investment securities with a fair value of \$3,132,542,532 and \$3,473,627,126, respectively, against which it had received cash and non-cash collateral with a fair value of \$3,217,193,460 and \$3,568,594,875, respectively. Securities lending collateral reflected on the Statements of Plan Net Assets reflects the fair value of securities purchased with cash collateral. As of June 30, 2011 and 2010, these amounts were \$3,064,369,064 and \$3,501,369,706 respectively. TRS also reports the income earned and costs from securities lending activities on the Statements of Changes in Plan Net Assets.

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 allows certain external managers to utilize these instruments within the investment portfolio for a variety of purposes. TRS managers 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 through borrowing. 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, 2011, 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 tables summarize the derivatives held within the TRS investment portfolio and the change in fair value of derivative investments, realized and unrealized, during the fiscal year. The notional amounts shown represent TRS's financial exposure to these instruments in U.S. dollars.

As of June 30, 2011, the TRS investment portfolio held the following derivatives.

Investment Derivatives	Fair Value at June 30, 2011	Change in Fair Value	Shares/Par	Notional
Rights	\$256,860	\$2,255,476	2,031,943	\$2,031,943
Warrants	7,459,444	3,054,262	676,140	676,140
Currency forwards	(3,486,543)	(366,715)	-	-
Equity index futures long	-	84,094,926	449,085	43,985,473
Fixed income futures long	-	8,984,889	2,675,250,000	2,811,528,570
Fixed income futures short	-	(7,579,118)	(21,000,000)	(23,781,628)
Commodity futures long	-	2,382,182	77,000	7,580,820
Commodity futures short	-	18,460	-	-
U.S. equity put index options purchased	1,721,558	(3,807,017)	194,800	1,573,087
U.S. equity put index options written	-	1,455,731	-	-
Currency forward put options purchased	954,734	(595,023)	47,220,000	6,062,074
Currency forward put options written	(110)	664,999	(3,800,000)	399,912
Currency forward call options purchased	44,925	1,612	138,200,000	2,061,970
Options on futures bought	-	(1,201,628)	-	-
Options on futures written	(119,338)	1,911,079	(1,299,000)	38,586,130
Swaptions bought	4,038,309	96,255	142,790,000	18,757,608
Swaptions written	(3,057,157)	4,935,312	(434,300,000)	81,386,375
Inflation options written	(64,588)	214,220	(22,600,000)	22,600,000
Credit default swaps buying protection	11,228	842,824	58,721,545	58,749,181
Credit default swaps selling protection	7,619,238	1,669,796	535,029,273	561,506,120
Pay fixed interest rate swaps	(2,739,647)	(12,158,273)	433,400,000	430,675,477
Receive fixed interest rate swaps	1,200,952	2,084,700	204,000,000	155,197,356
Grand Totals	\$13,839,865	\$88,958,949		\$4,219,576,608

As of June 30, 2010, the TRS investment portfolio held the following derivatives.

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	-	-
Equity index futures long	-	94,251,519	431,250	442,721,250
Equity stock index futures short	-	(38,625)	-	-
Fixed income futures long	-	44,787,811	745,200,000	824,133,108
Fixed income futures short	-	(4,683,755)	(134,750,000)	(164,319,877)

(continued)

(continued)

Investment Derivatives	Fair Value at June 30, 2010	Change in Fair Value	Shares/Par	Notional
Commodity futures short	\$-	(\$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 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, 2011, TRS had currency forward purchase or sale contracts for 25 different currencies with various settlement dates.

Fair Value: As of June 30, 2011 and June 30, 2010, TRS's open currency forward contracts had a net fair value of (\$3,486,543) and \$15,985,601, respectively. The following table represents the unrealized gain/(loss) on the contracts at June 30.

	As of June 30, 2011	As of June 30, 2010
Forward currency purchases	\$2,080,108,512	\$1,562,895,942
Forward currency sales	<u>(2,083,595,055)</u>	<u>(1,546,910,341)</u>
Unrealized gain/(loss)	<u>(\$3,486,543)</u>	<u>\$15,985,601</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. As of June 30, 2011 and June 30, 2010, TRS had outstanding futures contracts with a notional value, or exposure, of \$2,839,313,235 and \$1,102,534,481, respectively. Notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through June 2014.

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. The realized gain on futures contracts was \$66,874,716 and \$151,189,581 during the fiscal years 2011 and 2010, respectively.

Type	FY11		FY10	
	Number of Contracts	Notional Principal	Number of Contracts	Notional Principal
Commodity Futures				
Commodity futures - long	77	\$7,580,820	-	\$-
Equity Futures				
U.S. stock index futures - long	297	19,535,175	7,973	442,721,250
International equity index futures - long	347	24,450,298	-	-
Fixed Income/Cash Equivalent Futures				
Fixed income index futures – long	2,676	490,987,109	2,227	297,157,704
Fixed income index futures – short	(125)	(15,372,578)	(675)	(80,743,149)
International fixed income index futures – long	405	71,796,522	572	84,533,808
International fixed income index futures – short	-	-	(450)	(60,373,484)
Cash equivalent (Eurodollar) futures – long	8,193	2,034,460,338	1,715	425,707,575
Cash equivalent (Eurodollar) futures – short	(34)	(8,409,050)	(80)	(19,869,000)
Cash equivalent foreign yield curve – long	604	214,284,601	84	16,734,021
Cash equivalent foreign yield curve – short	-	-	(18)	(3,334,244)
Total Futures (Net)	<u>12,440</u>	<u>\$2,839,313,235</u>	<u>11,348</u>	<u>\$1,102,534,481</u>

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: As of June 30, 2011, the TRS investment portfolio held U.S. equity options with notional value of \$1,573,087, currency forward options with notional value of \$8,523,956, inflation options with notional value of \$22,600,000, and options on futures with underlying notional value of \$38,586,130. As of June 30, 2010, the TRS investment portfolio held U.S. equity options with notional value of \$2,298,042, currency forward options with notional value of \$15,088,522, inflation options with notional value of \$35,100,000, and options on futures with underlying notional value of \$306,406,692. Contractual principal/notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through October 2020.

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, 2011 and June 30, 2010, the fair value of all option contracts, gross of premiums received, was \$2,537,181 and (\$963,431), 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, 2011 and June 30, 2010. Notional 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.

Financial Options

Type	FY11		FY10	
	Number of Contracts	Notional Principal	Number of Contracts	Notional Principal
Equity Options				
Equity index put options - purchased	1,948	\$1,573,087	540	\$581,508
Equity index put options - written	-	-	(423)	1,716,534
Currency Forward Options				
Currency forward call options - purchased	6	2,061,970	-	-
Currency forward put options - written	4	399,912	2	6,610,384
Currency forward put options - purchased	4	6,062,074	4	8,478,138
Inflation Options				
Inflation put options - written	12	22,600,000	10	35,100,000
Options on Futures				
Fixed income call options on futures USD	(183)	7,510,485	155	2,653,280
Fixed income put options on futures USD	(531)	31,075,645	19	146,336,425
Fixed income call options on futures (non-dollar)	-	-	449	1,358,451
Cash equivalent call options on futures (non-dollar) - purchased	-	-	191	-
Cash equivalent put options on futures (non-dollar)	-	-	1,096	156,058,536

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: As of June 30, 2011, TRS had outstanding written call swaption exposure of \$51,768,599, written put swaption exposure of \$29,617,776, purchased put swaption exposure of \$1,838,773, and purchased call swaption exposure of \$16,918,835. The contracts have various maturity dates through November 2020. As of 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. 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, 2011, and June 30, 2010, the fair value of swaption contracts was \$981,152 and (\$3,773,423), 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: As of June 30, 2011, TRS had credit default/index swaps in its portfolio with various maturity dates through 2051. The total notional value of written credit default swaps (selling protection) was \$561,506,120 and \$219,805,767 at June 30, 2011 and 2010, respectively. The total notional value of purchased credit default swaps (buying protection) was \$58,749,181 and \$49,574,322 at June 30, 2011 and 2010, respectively.

Fair Value: The fair value of credit default swaps, including index swaps, held by TRS was \$7,630,466 as of June 30, 2011 and (\$1,849,159) as of June 30, 2010. This represents the amount due to or (from) TRS under the terms of the counterparty 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: As of June 30, 2011 and June 30, 2010, TRS held interest rate swaps in various currencies with various expiration/maturity dates ranging from 2011 to 2044. 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 as of June 30, 2011 and June 30, 2010.

	June 30, 2011 Payable/Receivable	June 30, 2010 Payable/Receivable
Receive floating/pay fixed	(\$2,739,647)	\$114,032
Receive fixed/pay floating	1,200,952	2,773,830

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: TRS was not a party to any inflation-linked swaps as of June 30, 2011. 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 as of June 30, 2010. 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: TRS did not hold any inflation-linked swaps as of June 30, 2011. The June 30, 2010 fair value of inflation-linked swaps held was \$190,734.

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, 2011.

Interest Rate and Inflation Swaps

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/11
Pay Fixed Interest Rate Swaps						
Interest rate swap USD	700,000	\$695,813	3 mo. LIBOR	2.50%	12/21/2016	(\$4,187)
Interest rate swap USD	2,200,000	2,197,997	3 mo. LIBOR	3.50	12/21/2021	(2,002)
Interest rate swap USD	11,900,000	11,776,231	3 mo. LIBOR	4.00	12/21/2026	(123,769)
Interest rate swap USD	8,100,000	8,051,552	3 mo. LIBOR	2.50	12/21/2016	(48,448)
Interest rate swap USD	13,400,000	13,153,215	3 mo. LIBOR	3.25	12/21/2018	(246,785)
Interest rate swap USD	238,600,000	238,563,983	3 mo. LIBOR	0.75	6/30/2013	(36,017)
Interest rate swap USD	3,500,000	3,731,544	3 mo. LIBOR	3.16	2/15/2026	230,378
Interest rate swap USD	5,200,000	5,325,216	3 mo. LIBOR	2.00	8/15/2017	123,484
Interest rate swap USD	3,900,000	3,983,590	3 mo. LIBOR	3.96	5/15/2037	83,590
Interest rate swap USD	15,100,000	15,211,505	3 mo. LIBOR	4.60	7/1/2044	111,505
Interest rate swap USD	4,000,000	3,872,111	3 mo. LIBOR	4.25	6/15/2041	(128,328)
Interest rate swap USD	500,000	484,014	3 mo. LIBOR	4.25	6/15/2041	(16,041)
Interest rate swap USD	200,000	195,667	3 mo. LIBOR	3.50	6/15/2021	(4,355)
Interest rate swap USD	47,400,000	45,884,521	3 mo. LIBOR	4.25	6/15/2041	(1,520,682)
Interest rate swap USD	17,600,000	17,037,291	3 mo. LIBOR	4.25	6/15/2041	(564,641)
Interest rate swap USD	5,600,000	5,420,955	3 mo. LIBOR	4.25	6/15/2041	(179,659)
Interest rate swap USD	7,400,000	7,163,406	3 mo. LIBOR	4.25	6/15/2041	(237,406)
Interest rate swap USD	2,000,000	1,936,056	3 mo. LIBOR	4.25	6/15/2041	(64,164)
Interest rate swap USD	100,000	96,803	3 mo. LIBOR	4.25	6/15/2041	(3,208)
Interest rate swap USD	300,000	290,408	3 mo. LIBOR	4.25	6/15/2041	(9,625)
Interest rate swap USD	100,000	97,833	3 mo. LIBOR	3.50	6/15/2021	(2,178)
Interest rate swap USD	1,100,000	1,076,166	3 mo. LIBOR	3.50	6/15/2021	(23,955)
Interest rate swap USD	2,800,000	2,739,331	3 mo. LIBOR	3.50	6/15/2021	(60,976)
Interest rate swap USD	5,700,000	5,517,759	3 mo. LIBOR	4.25	6/15/2041	(182,867)
Interest rate swap USD	2,700,000	2,641,498	3 mo. LIBOR	3.50	6/15/2021	(58,798)
Interest rate swap USD	300,000	290,408	3 mo. LIBOR	4.25	6/15/2041	(9,625)
Interest rate swap USD	3,100,000	3,032,831	3 mo. LIBOR	3.50	6/15/2021	(67,509)
Interest rate swap USD	3,800,000	3,714,581	3 mo. LIBOR	3.00	6/15/2018	(85,836)
Interest rate swap USD	5,100,000	4,936,942	3 mo. LIBOR	4.25	6/15/2041	(163,618)
Interest rate swap USD	15,200,000	15,662,987	3 mo. LIBOR	4.00	12/21/2041	462,987
Interest rate swap USD	3,900,000	4,018,793	3 mo. LIBOR	4.00	12/21/2041	118,793
Interest rate swap USD	200,000	206,092	3 mo. LIBOR	4.00	12/21/2041	6,092
Interest rate swap USD	100,000	103,046	3 mo. LIBOR	4.00	12/21/2041	3,046
Interest rate swap USD	1,600,000	1,565,332	3 mo. LIBOR	3.50	6/15/2021	(34,843)
Total Pay Fixed Interest Rate Swaps:		\$430,675,477				(\$2,739,647)

(continued)

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/11
Receive Fixed Interest Rate Swaps						
Interest rate swap USD	6,100,000	\$6,212,343	3.25%	3 mo. LIBOR	12/21/2018	\$112,342
Interest rate swap USD	7,000,000	7,181,058	4.25	3 mo. LIBOR	12/21/2031	181,058
Interest rate swap USD	8,200,000	7,843,638	2.56	3 mo. LIBOR	10/20/2020	(397,764)
Interest rate swap USD	27,100,000	26,952,104	4.48	3 mo. LIBOR	7/1/2024	(147,896)
Interest rate swap USD	900,000	893,131	1.25	3 mo. LIBOR	12/21/2014	(6,869)
Interest rate swap MXN	1,100,000	94,565	6.50	4 wk. Mexican TIE	3/5/2013	764
Interest rate swap BRL	800,000	554,327	12.54	3 mo. Brazilian CDI	1/2/2012	42,245
Interest rate swap BRL	900,000	623,617	12.54	3 mo. Brazilian CDI	1/2/2012	47,526
Interest rate swap BRL	1,800,000	1,247,235	12.54	3 mo. Brazilian CDI	1/2/2012	95,051
Interest rate swap EUR	100,000	144,985	3.50	6 mo. EURIBOR	9/21/2021	(282)
Interest rate swap BRL	100,000	74,731	14.77	3 mo. Brazilian CDI	1/2/2012	10,720
Interest rate swap BRL	2,900,000	1,847,363	11.29	3 mo. Brazilian CDI	1/2/2012	(8,933)
Interest rate swap EUR	300,000	434,955	3.50	6 mo. EURIBOR	9/21/2021	(845)
Interest rate swap EUR	5,400,000	7,844,396	3.50	6 mo. EURIBOR	9/21/2021	15,211
Interest rate swap BRL	600,000	389,037	10.84	3 mo. Brazilian CDI	1/2/2012	4,976
Interest rate swap EUR	100,000	144,985	3.50	6 mo. EURIBOR	9/21/2021	(282)
Interest rate swap EUR	200,000	289,970	3.50	6 mo. EURIBOR	9/21/2021	(563)
Interest rate swap BRL	500,000	373,653	14.77	3 mo. Brazilian CDI	1/2/2012	53,602
Interest rate swap EUR	1,600,000	2,319,758	3.50	6 mo. EURIBOR	9/21/2021	(4,507)
Interest rate swap BRL	1,000,000	636,590	11.25	3 mo. Brazilian CDI	1/2/2012	(3,512)
Interest rate swap BRL	900,000	585,970	12.17	3 mo. Brazilian CDI	1/2/2013	9,879
Interest rate swap BRL	1,400,000	929,208	11.60	3 mo. Brazilian CDI	1/2/2012	33,065
Interest rate swap BRL	300,000	199,557	11.67	3 mo. Brazilian CDI	1/2/2012	7,526
Interest rate swap BRL	700,000	457,917	11.14	3 mo. Brazilian CDI	1/2/2012	9,846
Interest rate swap BRL	1,100,000	712,586	10.99	3 mo. Brazilian CDI	1/2/2012	8,474
Interest rate swap BRL	700,000	453,464	10.99	3 mo. Brazilian CDI	1/2/2012	5,392
Interest rate swap BRL	73,000,000	47,584,633	11.36	3 mo. Brazilian CDI	1/2/2012	857,187
Interest rate swap BRL	6,900,000	4,589,804	11.67	3 mo. Brazilian CDI	1/2/2012	173,100
Interest rate swap BRL	200,000	132,280	12.65	3 mo. Brazilian CDI	1/2/2014	4,259
Interest rate swap BRL	100,000	65,838	12.54	3 mo. Brazilian CDI	1/2/2014	1,828
Interest rate swap BRL	3,200,000	2,091,246	12.29	3 mo. Brazilian CDI	1/2/2013	42,919
Interest rate swap BRL	1,500,000	969,864	11.98	3 mo. Brazilian CDI	1/2/2013	9,711
Interest rate swap BRL	500,000	322,400	11.42	3 mo. Brazilian CDI	1/2/2012	2,349
Interest rate swap BRL	1,500,000	966,620	11.88	3 mo. Brazilian CDI	1/2/2013	6,467
Interest rate swap BRL	200,000	129,101	12.11	3 mo. Brazilian CDI	1/2/2014	1,081
Interest rate swap BRL	16,600,000	10,529,805	11.94	3 mo. Brazilian CDI	1/2/2014	(95,888)
Interest rate swap BRL	18,100,000	11,658,090	11.91	3 mo. Brazilian CDI	1/2/2013	72,244
Interest rate swap BRL	6,200,000	3,999,825	11.89	3 mo. Brazilian CDI	1/2/2013	31,193
Interest rate swap BRL	2,300,000	1,483,806	11.89	3 mo. Brazilian CDI	1/2/2013	11,572
Interest rate swap BRL	200,000	130,034	12.25	3 mo. Brazilian CDI	1/2/2014	2,013
Interest rate swap BRL	1,300,000	843,514	12.07	3 mo. Brazilian CDI	1/2/2013	11,381
Interest rate swap BRL	400,000	259,353	12.20	3 mo. Brazilian CDI	1/2/2014	3,312
Total Receive Fixed Interest Rate Swaps:		\$155,197,356				\$1,200,952

CDI - Cetip Interbank Deposit (interbank lending rate)

EURIBOR - Euro Interbank Offer Rate

LIBOR - London Interbank Offered Rate

TIE - Mexico Interbank Equilibrium Interest Rate

TRS had the following interest rate and inflation swaps at June 30, 2010.

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/10
Pay Fixed Interest Rate Swaps:						
Interest rate swap BRL	3,200,000	<u>\$1,889,344</u>	3 mo. Brazilian CDI	12.54%	1/2/2012	<u>\$114,032</u>
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. KWCDC	1/28/2011	\$3,246
Interest rate swap KRW	3,789,000,000	3,114,788	2.83	3 mo. KWCDC	1/28/2011	3,389
Interest rate swap AUD	3,600,000	3,103,048	6.00	6 mo. BB Australian	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	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
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

(continued)

(continued)

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/10
Receive Fixed Interest Rate Swaps:						
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	<u>8,479,596</u>	12.80	3 mo. Brazilian CDI	1/2/2013	<u>157,821</u>
Total Receive Fixed Interest Rate Swaps:		<u>\$196,236,562</u>				<u>\$2,773,830</u>
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	<u>4,796,247</u>	2.09	France CPI Ex-Tobacco	10/15/2010	<u>141,627</u>
Total Receive Fixed Inflation-linked Swaps:		<u>\$6,437,724</u>				<u>\$190,734</u>

CDI - Cetip Interbank Deposit (interbank lending rate)

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

LIBOR - London Interbank Offered Rate

KWDCD - Korean Won Certificate of Deposit

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.

As of June 30, 2011 and June 30, 2010, the aggregate fair value of non-exchange traded derivative instruments in asset positions was \$44,360,684 and \$59,624,201, respectively. 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 6/30/11	Market Values at 6/30/10
Aaa	\$-	\$210,866
Aa1	3,812,411	6,581,149
Aa2	1,083,333	4,223,437
Aa3	24,440,890	40,676,499
A1	11,957,448	6,477,194
A2	3,066,602	1,448,420
NA	-	6,636
Total subject to credit risk	<u>\$44,360,684</u>	<u>\$59,624,201</u>

Although the derivative instruments held within the TRS investment portfolio are executed with various counterparties, approximately 85 percent of the net market value exposure to credit risk is for non-exchanged traded derivative contracts held with six counterparties.

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

	2011	2010
Balances at June 30	\$37,465,181,383	\$31,318,081,070

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 \$43,529,992,000 in 2011 and \$39,854,106,000 in 2010.

2. Minimum Retirement Annuity

	2011	2010
Balances at June 30	\$6,085,811	\$5,703,144

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 FY11 and 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, 2011, 2010 and 2009 were actuarially determined according to a statutory schedule.

TRS contribution rates to SERS for its SERS-covered employees for the years ended June 30, 2011, 2010, and 2009 were 27.988 percent, 28.377 percent, and 21.049 percent, respectively. TRS contributions for the years ended June 30, 2011, 2010, and 2009 were \$1,615,531, \$1,648,041, and \$1,168,335, 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, 2001 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 2011, 2010, and 2009 were \$79,676, \$19,296, and \$19,903, 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 and are vested in either SERS or TRS do not contribute towards health and vision benefits. A premium is required for dental. 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 and vision benefits. A premium is required for dental. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

G. Subsequent Events (Unaudited)

The System has suffered a decline in its investment portfolio subsequent to June 30, 2011. As of October 31, 2011, the market value of the assets has declined approximately \$2.004 billion or 5.4 percent. These numbers represent the most current available information for both public and private market investments as compared to June 30, 2011. The decline in asset values is the result of a continued worldwide economic slowdown.

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)
6/30/02	\$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
6/30/11	37,769,753,000	81,299,745,000	46.5	43,529,992,000	9,205,603,000	472.9

* 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
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
2011	2,169,518,000	154,150,000	2,323,668,000	2,743,221,000	84.7	2,293,321,000	101.3

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 THIS 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

	2011	2010
Personal services	\$13,829,954	\$12,961,159
Professional services	794,316	998,956
Postage	364,863	442,765
Machine repair and rental	648,765	650,835
Other contractual services	958,708	739,482
Commodities	375,310	376,038
Occupancy expense	254,435	242,712
Depreciation	569,222	538,732
(Gain) on disposal of equipment	(3,502)	0
Total administrative expenses	\$17,792,071	\$16,950,679

Schedule of Investment Expense For Years Ended June 30

	2011	2010
Investment manager fees	\$186,707,816	\$180,486,189
Private equity investment expense	4,855,792	2,176,648
Miscellaneous	26,686,005	18,104,100
Total investment expense	\$218,249,613	\$200,766,937

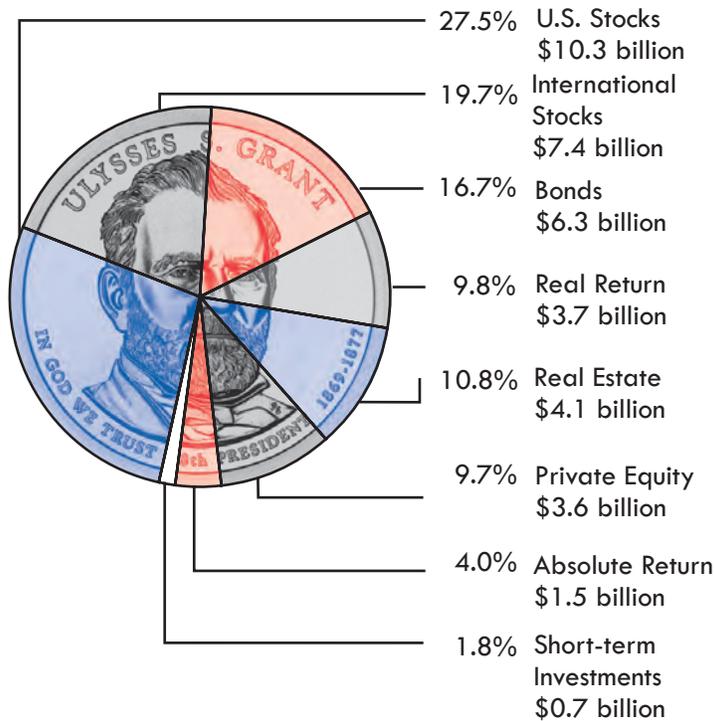
Schedule of Payments to Consultants For Years Ended June 30

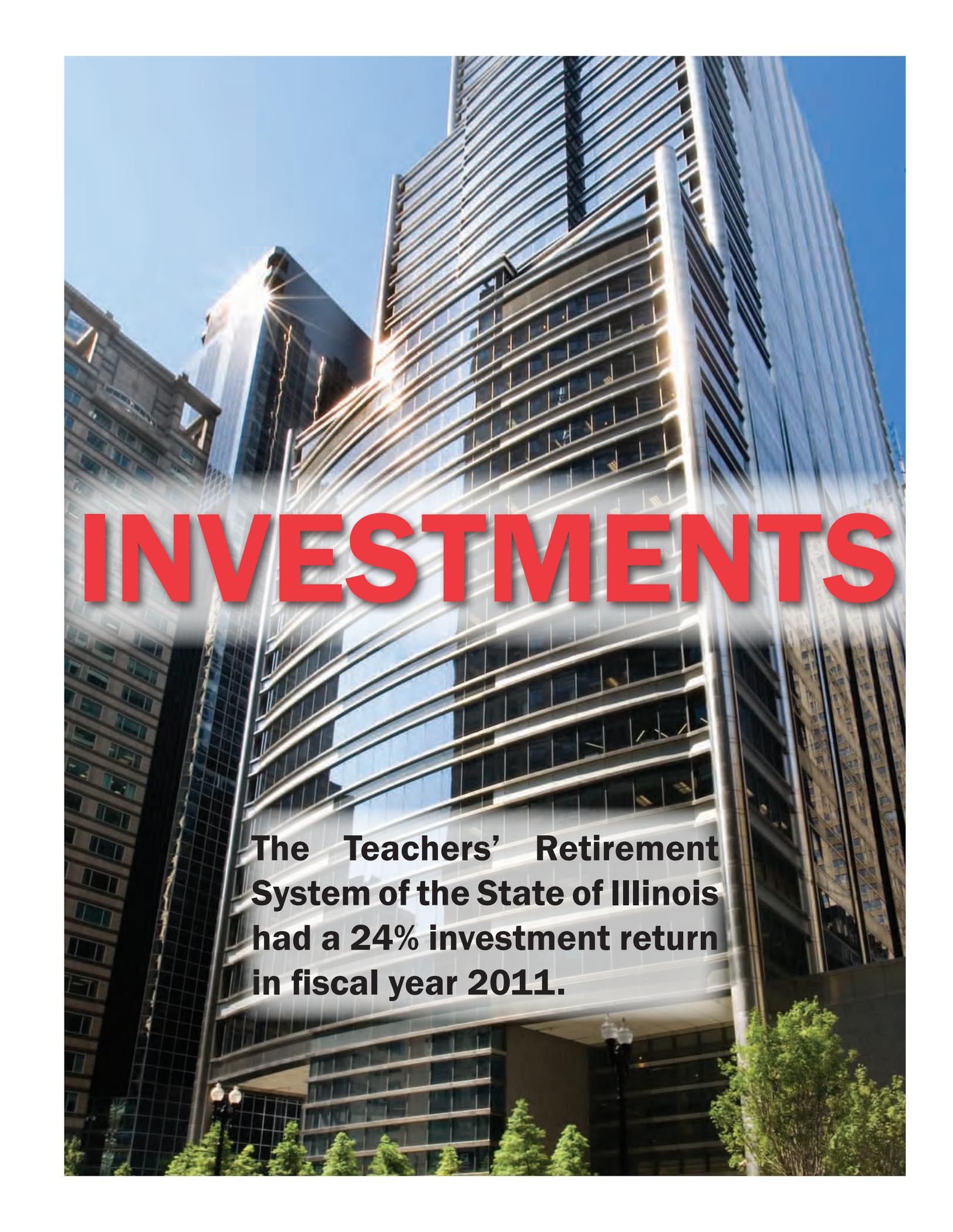
	2011	2010
Actuarial services	\$201,154	\$312,730
External auditors	138,347	148,487
Legal services	164,438	204,115
Management consultants		
Information systems	13,606	20,658
Legislative consultant	84,000	84,000
Information systems audit	0	23,203
Actuarial audit	0	73,467
Executive director search	114,700	97,310
Board and staff training	47,250	0
Operations	26,332	25,001
Other	4,489	9,985
Total payments to consultants	\$794,316	\$998,956

See accompanying Independent Auditors' Report.

Teachers' Retirement System recorded positive returns in all eight classes of investment assets with a total rate of return for fiscal year 2011 of 23.6 percent. The TRS target rate of return was 8.5 percent.

FISCAL YEAR 2011 ASSET ALLOCATION





INVESTMENTS

The Teachers' Retirement System of the State of Illinois had a 24% investment return in fiscal year 2011.

INTRODUCTION

Global financial markets remained strong through the fiscal year ended June 30, 2011 as improved economic fundamentals and generally reduced risk aversion provided a favorable investment environment. Investors were largely more optimistic during the year, focusing on low global stock and bond market valuations, and global stimulus measures continued across developed countries. However, despite the strong gains for the year, investors remained mindful of the persistent economic challenges from the recent recession and credit crisis, including high unemployment and weakness in the housing market. Through the year, public equity returns outpaced all other markets with United States stocks up 32.4 percent and international stocks rising 30.3 percent.

Within this environment, the TRS investment portfolio posted a strong year, returning 24.3 percent, gross of fees, for the fiscal year ended June 30, 2011. Total TRS investments increased by approximately \$6.3 billion during the year, representing the seventh year of the past nine 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, 2010 through June 30, 2011. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2011.

Investment performance is calculated using a time-weighted rate of return. Returns are calculated by State Street Bank and Trust using industry best practices. 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, 2011

Total Fund Market Value	\$37.7 billion
1-Year Return (net of fees)	23.6%
5-Year Return (net of fees)	4.1%
10-Year Return (net of fees)	6.0%
Percent externally managed	100.0%
Number of external managers	146
Custodian	State Street Bank and Trust
General consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 39th out of the top 1,000 U.S. pension funds/plan sponsors according to *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2010.

FUND PERFORMANCE VS. BENCHMARKS AND MARKET VALUES

As of June 30, 2011, TRS's total investments at market value totaled \$37.7 billion, an increase of \$6.3 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 24.3 percent, gross of fees, and 23.6 percent, net of fees, for the one-year period ended June 30, 2011. 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 surpassed the policy index by 2.1 percentage points for the year ended June 30, 2011. The policy index represents a weighted average of each asset class benchmark, based on the total fund's interim 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 percentage points.

Performance Summary (net of fees)

Asset Class / Index	Years ended June 30					Annualized at 6/30/11		
	2011	2010	2009	2008	2007	3 Years	5 Years	10 Years
TRS Total Fund	23.6%	12.9%	(22.7)%	(5.0)%	19.2%	2.6%	4.1%	6.0%
TRS Weighted Policy Index	21.5	10.9	(18.6)	(4.1)	17.9	3.1	4.4	5.8
CPI (Inflation)	3.6	1.1	(1.4)	5.0	2.7	1.0	2.2	2.4
TRS Equity - U.S.	32.9	17.0	(27.3)	(15.1)	19.4	4.2	2.7	3.5
Russell 3000 Index	32.4	15.7	(26.6)	(12.7)	20.1	4.0	3.4	3.4
TRS Equity - International	30.3	11.3	(31.9)	(7.7)	29.6	(0.4)	3.4	7.5
Non-U.S. Equity Index	30.3	11.5	(30.5)	(6.2)	30.2	0.3	4.3	8.0
TRS Fixed Income	8.9	16.8	4.9	5.1	5.9	10.1	8.2	6.9
TRS Fixed Income Index	3.9	9.5	6.1	7.1	6.1	6.5	6.5	6.0
TRS Real Estate	17.8	(5.6)	(30.0)	4.5	25.3	(8.0)	0.4	6.2
Real Estate Property Index	16.7	(1.5)	(19.6)	9.2	17.2	(2.6)	3.4	7.6
TRS Private Equity	22.3	16.5	(17.9)	3.3	29.3	5.4	9.3	7.1
Russell 3000 Index +3.0%*	36.2	19.2	(24.3)	(10.0)	23.7	7.1	6.5	6.6
TRS Real Return	23.4	13.5	(26.2)	20.5	-	1.1	-	-
CPI (Inflation) +5.0%*	8.7	6.1	3.5	10.3	-	6.1	-	-
TRS Absolute Return	12.4	9.6	(13.9)	0.9	-	2.0	-	-
90-day Treasury Bill +4.0%*	4.2	4.2	5.0	7.8	-	4.4	-	-

* Index compounded monthly.

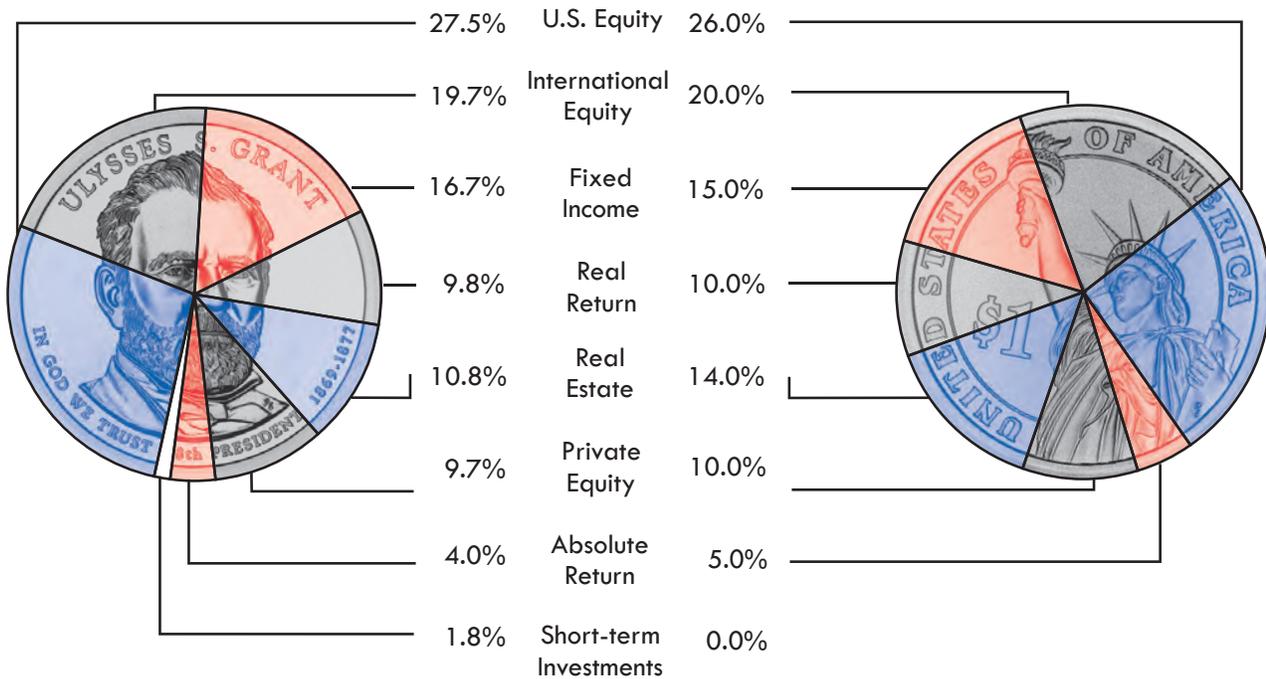
Note: Time-weighted rates of return based on the market rate of return are provided by State Street Bank and Trust.

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.

FY11 Asset Allocation

Long-term Target Allocation



Through the fiscal year, TRS continued implementation of the asset allocation study adopted in May 2009. That study focused primarily on additional funding to the retirement system's newer asset classes, real return and absolute return. In FY11, TRS was successful in allocating these classes toward their 10 percent and 5 percent respective targets. Funding for the increases came largely from the strength of the global public equity markets and the retirement system's ability to effectively rebalance from those classes during the year.

TRS also conducted a new asset allocation study within the fiscal year, with revised targets adopted by the Board of Trustees in April 2011. Implementation of the new targets will begin in FY12 and include a continued evolution of the fund's diversification into the absolute return and private equity asset classes (to 8 percent and 12 percent of fund respectively), as well as a slight increase to fixed income investments (to 16 percent of fund). These increases are focused on controlling the overall volatility of the investment portfolio within an uncertain economic landscape. Balancing the allocation increases is a corresponding decrease to U.S. equity (to 20 percent of fund).

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, 2011.

Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/2011 Total Fund \$ Million	FY11			FY10	
		Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. equities	\$10,290	27.5%	28.0%	26.0%	28.6%	26.0%
International equities	7,356	19.7	20.0	20.0	19.3	20.0
Fixed income	6,261	16.7	17.0	15.0	17.7	15.0
Real return	3,676	9.8	10.0	10.0	9.9	10.0
Real estate	4,054	10.8	12.0	14.0	10.4	14.0
Private equity	3,624	9.7	8.0	10.0	9.5	10.0
Absolute return	1,486	4.0	3.8	5.0	3.9	5.0
Short-term investments	657	1.8	1.2	0.0	0.7	0.0
Pending settlements/expenses*	344	NA	NA	NA	NA	NA
Total fund	\$37,748	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 previous Strategic Investment Listing table. The strategic investment listing represents assets assigned to managers within each asset class, whereas the portfolio securities summary represents specific types of financial instruments. The principal differences can be explained by the types of investments a manager is allowed to hold within its portfolio. For example, cash and currency held within a manager's portfolio is categorized in the same way as the manager's primary assignment on the Strategic Investment Listing. However, in the portfolio securities summary, these investments are categorized as short-term investments and foreign currency.

Portfolio Securities Summary

	2011		2010	
	Market Value	% of Total	Market Value	% of Total
U.S. Government Obligations				
U.S. treasuries	\$308,087,946	0.8%	\$649,461,814	2.1%
U.S. federal agencies	160,285,470	0.4	253,893,175	0.8
U.S. government index-linked bonds	583,141,471	1.5	287,871,078	0.9
U.S. government-backed mortgages	789,535,623	2.1	955,686,526	3.0
U.S. government-backed bonds	2,381,562	0.0	110,671,769	0.4
U.S. government special situations	18,121,454	0.0	28,523,685	0.1
Municipals (taxable)	75,498,564	0.2	67,915,609	0.2
Credits				
Bank loans	25,751,829	0.1	988,929	0.0
Financial	629,597,186	1.7	694,537,178	2.2
Industrial	821,577,307	2.2	945,702,864	3.0
Utilities	92,406,632	0.3	89,049,210	0.3
Asset-backed securities	270,560,959	0.7	337,410,443	1.1
Commercial mortgage-backed securities	151,249,137	0.4	136,703,649	0.4
Collateralized mortgage obligations	220,255,229	0.6	322,117,221	1.0

(continued)

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	2011		2010	
	Market Value	% of Total	Market Value	% of Total
Commingled/closed-end funds	\$938,933,952	2.5%	\$71,868,583	0.2%
Corporate convertible bonds	76,330,713	0.2	41,782,788	0.1
Foreign debt/corporate obligations	1,923,717,517	5.1	1,557,088,214	5.0
Total Bonds, Corporate Notes, and Government Obligations	7,087,432,551	18.8	6,551,272,735	20.8
Equities				
Common stock - U.S.	9,954,432,992	26.3	8,098,482,440	25.7
Preferred stock - U.S.	25,036,843	0.1	37,372,707	0.1
Common stock - international	7,283,625,451	19.3	6,155,400,882	19.6
Preferred stock - international	132,602,466	0.4	120,403,725	0.4
Total Equities	17,395,697,752	46.1	14,411,659,754	45.8
Real Return - Commingled Funds				
Commodity funds	324,692,417	0.8	262,150,416	0.8
Global macro strategies	2,449,240,426	6.5	2,033,277,459	6.5
Total Real Return - Commingled Funds	2,773,932,843	7.3	2,295,427,875	7.3
Short-Term Investments/ Cash Equivalents	1,299,196,172	3.5	683,859,686	2.2
Derivatives - Options, Futures, and Swaps	9,610,104	0.0	(3,507,417)	0.0
Foreign Currency	89,428,959	0.2	68,454,294	0.2
Absolute Return	1,485,565,992	3.9	1,231,558,537	3.9
Private Equity	3,615,944,356	9.6	2,990,955,411	9.5
Real Estate Equity	3,991,533,162	10.6	3,252,463,291	10.3
TRS Total Portfolio	\$37,748,341,891	100.0%	\$31,482,144,166	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.

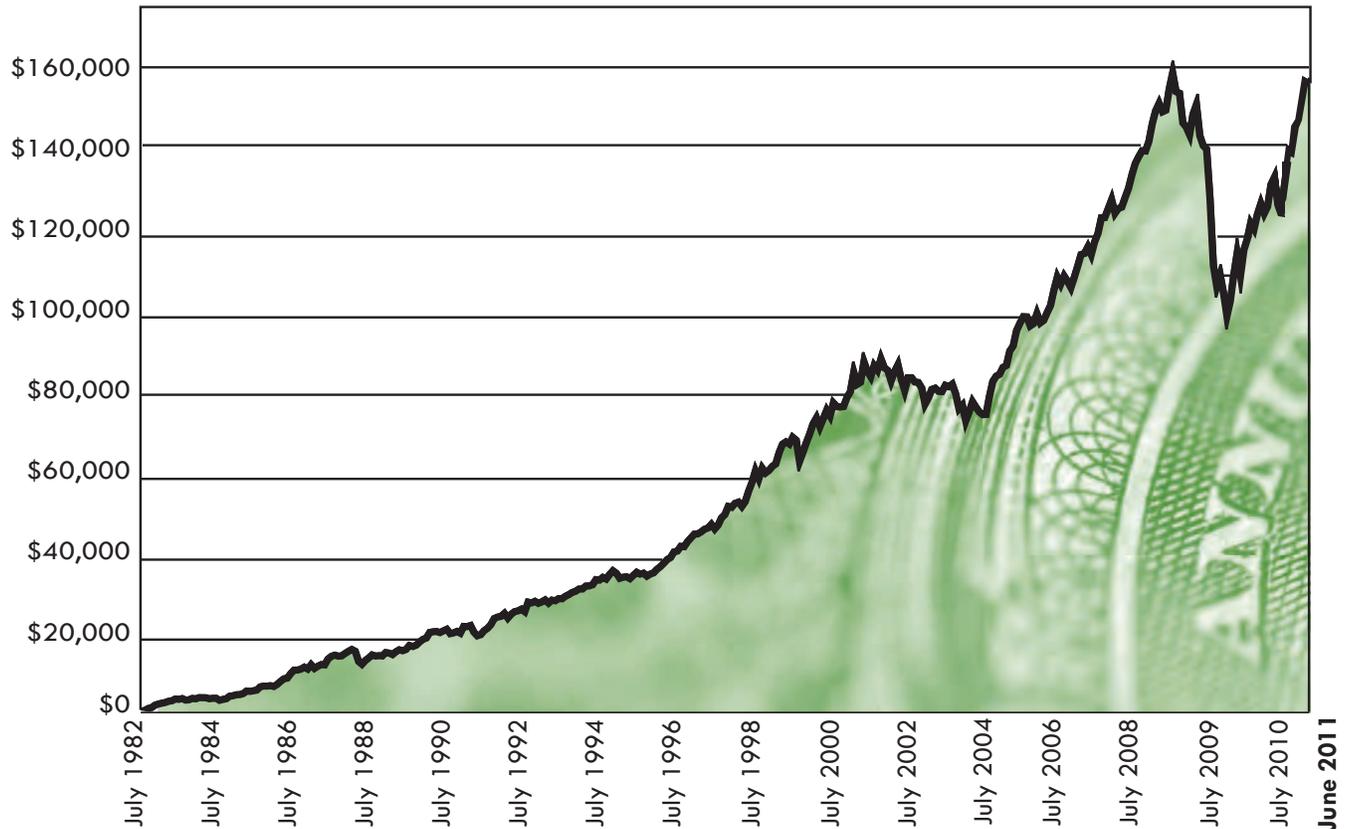
Securities Holdings for Years Ended June 30

Asset Type	2011	2010	2009	2008	2007
Bonds, corporate notes, and government obligations	18.8%	20.8%	22.0%	22.7%	24.0%
Equities - U.S.	26.4	25.8	27.8	27.5	33.0
Equities - international	19.7	20.0	18.9	21.5	22.6
Real estate equity	10.6	10.3	11.6	12.1	11.1
Private equity	9.6	9.5	8.1	6.1	4.5
Real return	7.3	7.3	5.3	5.4	-
Absolute return	3.9	3.9	2.5	1.3	1.2
Short-term investments/currency	3.7	2.4	3.8	3.4	3.6
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 \$10,000 over the last 29 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 ended June 30, 2011.

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 32.9 percent return on a net of fee basis, compared to the Russell 3000 Index gain of 32.4 percent. One-, three-, five-, and 10-year comparisons to this benchmark follow.

	FY11	3-Year	5-Year	10-Year
TRS, net of fees	32.9%	4.2%	2.7%	3.5%
Russell 3000 Index	32.4	4.0	3.4	3.4

The following top 10 U.S. equity holdings at June 30, 2011 represent 10.6 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, 2011

Firm	Market Value
Apple, Inc.	\$182,177,508
Exxon Mobil Corp.	163,348,540
JP Morgan Chase & Co.	114,439,377
Chevron Corp.	99,049,421
Microsoft Corp.	95,654,364
Pfizer, Inc.	91,606,016
Oracle Corp.	81,315,015
Wells Fargo & Co.	79,551,597
General Electric Co.	78,633,262
AT&T, Inc.	76,798,392
Total	\$1,062,573,492

Source: State Street Bank and Trust and TRS.

At June 30, 2011, 27.5 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed the following U.S. equity managers during FY11.

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

Index (Large Cap)	
RhumbLine Advisors, L.P. (7/06)	\$2,475,198,519
Enhanced Index (Large Cap)	
MFS Institutional Advisors, Inc. (10/10)	288,357,442
T. Rowe Price Associates, Inc. (6/05)	732,146,970
Large Cap Core	
EARNEST Partners, L.L.C. (2/02)	209,417,803
J.P. Morgan Investment Management, Inc. (12/07)	565,697,837
Levin Capital Strategies, L.P. (10/10)	284,171,766
Large Cap Value	
Denali Advisors, L.L.C. (4/08)	252,144,061
Loomis, Sayles & Company, L.P. (3/10)	536,718,917
Robeco Boston Partners Asset Management, L.P. (3/10)	510,421,005
Large Cap Growth	
T. Rowe Price Associates, Inc. (11/06)	516,075,181
Turner Investment Partners, Inc. (6/04)	535,620,549
Wellington Management Company, L.P. (11/07)	323,150,647
Index (Small/Mid Cap Core)	
Rhumblin Advisors, L.P. (5/07)	220,318,161
Small/Mid Cap Value	
Boston Company Asset Management, L.L.C. (7/08)	303,041,126
Cramer Rosenthal McGlynn, L.L.C. (3/09)	209,644,600
LSV Asset Management (12/02)	309,621,467

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Small/Mid Cap Growth

Boston Company Asset Management, L.L.C. (3/09)	\$257,229,230
Fred Alger Management, Inc. (12/07)	249,030,501
State Street Global Markets (4/11)	243,062,134

Small Cap Growth

Emerald Advisors, Inc. (11/04)	256,475,481
Frontier Capital Management, L.L.C. (7/09)	241,825,923

Small Cap Value

AQR Capital Management, L.L.C. (11/06)	203,177,553
Fiduciary Management Associates, L.L.C. (7/08)	203,671,938
Lombardia Capital Partners, L.L.C. (11/08)	203,537,869

Emerging Manager

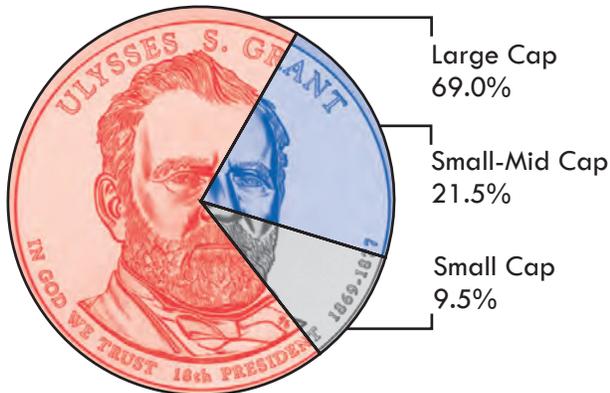
Credo Capital Management (6/09)	42,050,088
Herndon Capital Management, L.L.C. (3/11)	27,014,297
Lombardia Capital Partners, L.L.C. (3/10)	58,094,569
Oakbrook Investments (11/09)	32,780,585

Note: The list does not include managers terminated prior to June 30, 2011 with residual assets in the account.

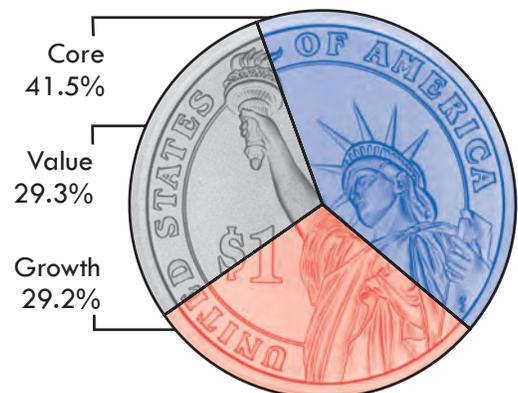
Discussion of U.S. Equity

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

Following a decline to end the prior fiscal year, the U.S. equity market produced strong returns through FY11. As fear abated and investors sought higher returns, the broad U.S. stock market (Russell 3000 Index) increased 32.4 percent for the year ended June 30, 2011. While gains were consistent through much of the year, investors began to sell equity securities during the last fiscal quarter due to renewed European sovereign debt concerns. Within this environment, the TRS domestic equity portfolio gained 32.9 percent for the fiscal year, beating its Russell 3000 benchmark by approximately 0.5 of a percentage point. The retirement system’s structural overweight to smaller companies was the key contributor to the portfolio’s outperformance.

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, 2011

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted average market cap (\$ billions)	\$55.5	\$73.2
Price/earnings ratio	20.5x	20.2x
Dividend yield	1.4%	1.8%
Beta	1.1	1.0
5-year EPS growth	6.9%	5.6%
Price/book ratio	3.4x	3.5x

Source: State Street Bank and Trust

U.S. Equity – Diversification by Industry Sector for Year Ended June 30, 2011

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer discretionary	13.3%	11.9%
Consumer durables	6.5	8.7
Energy	10.6	11.3
Financial services	15.8	16.2
Health care	11.9	11.4
Industrials	13.2	12.0
Materials	4.4	4.6
Technology	19.0	17.6
Telecommunication services	2.4	2.8
Utilities	2.9	3.5
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, 2011, the international equity asset class returned 30.3 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country Excluding U.S. Investable Market Index (identified as Non-U.S. Equity Index in the following references) return of 30.3 percent. One-, three-, five-, and 10-year comparisons to this benchmark are in the following table.

	FY11	3-Year	5-Year	10-Year
TRS, net of fees	30.3%	(0.4%)	3.4%	7.5%
Non-U.S. Equity Index	30.3	0.3	4.3	8.0

The top 10 international equity holdings as of June 30, 2011 follow and represent 8.8 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 Holdings at June 30, 2011

Firm	Country	Market Value (USD)
Vodafone Group PLC	United Kingdom	\$84,158,994
Nestle SA	Switzerland	76,035,292
Eni SpA	Italy	70,285,072
Sanofi	France	66,288,356
Novartis AG	Switzerland	64,903,517
GlaxoSmithKline PLC	United Kingdom	62,278,476
BP plc	United Kingdom	60,658,270
Canon, Inc.	Japan	59,400,334
British American Tobacco PLC	United Kingdom	57,948,439
HSBC Holdings PLC	United Kingdom	54,378,094
Total		<u>\$656,334,844</u>

Source: State Street Bank and Trust and TRS

At June 30, 2011, 19.7 percent of the TRS investment portfolio was assigned to international equity managers. TRS employed the following international equity managers during FY11.

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

Large Cap Core

Aberdeen Asset Management, Inc. (7/10)	\$526,832,162
Northern Trust Investments, N.A. (8/10)	1,439,838,944

Large Cap Growth

Jarislowsky, Fraser Limited (8/05)	389,316,100
McKinley Capital Management, Inc. (8/05)	885,358,353
Trilogy Global Advisors, L.L.C. (8/07)	393,807,362

Large Cap Value

Brandes Investment Partners, L.P. (2/98)	805,476,528
Mondrian Investment Partners Limited (4/93)	860,291,096

Small/Mid Cap

American Century Global Investment Management, Inc. (6/08)	206,538,214
Dimensional Fund Advisors, L.P. (6/08)	242,990,758
Putnam Advisory Company, L.L.C. (3/09)	201,371,790
State Street Global Markets (8/07)	145,382,932

Emerging Manager

Strategic Global Advisors, L.L.C. (3/11)	25,298,085
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Emerging Markets

Aberdeen Asset Management, Inc. (3/08)	329,728,897
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	901,508,102

Note: The list does not include managers terminated prior to June 30, 2011 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.

International Equity Manager Structure

International Equity Classification	Target	Actual
Large Cap Core	32.5%	26.8%
Large Cap Growth	20.0	22.8
Large Cap Value	20.0	22.7
Small/Mid Cap	11.0	10.9
Emerging Markets	16.5	16.8
Total	100.0%	100.0%

International equity markets posted strong gains for the year ended June 30, 2011. Market expectations were very positive during the first half of the fiscal year as investors focused on improving global economic conditions. Economically sensitive sectors such as energy, materials and industrials led equity markets higher during this period.

However, entering the new calendar year markets faced renewed uncertainty and volatility on a number of fronts. The tragic devastation of the Japanese tsunami disrupted supply chains to multiple industries and contributed to global economic uncertainty. Growing concerns over the Greek sovereign debt crisis and the potential for similar pressures in other European countries raised fears of another global financial crisis. Increasing inflation in many emerging market countries brought about new concerns over the stability and growth prospects for the global economy.

The TRS international equity portfolio recorded positive returns for the fiscal year gaining 30.3 percent, net of fees, matching the return of its benchmark. This performance was achieved despite the portfolio's defensive positioning, as TRS managers overweighted sectors such as telecom, consumer staples and healthcare at the expense of more economically sensitive sectors such as materials, energy and industrials.

Portfolio Characteristics

The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio as of June 30, 2011.

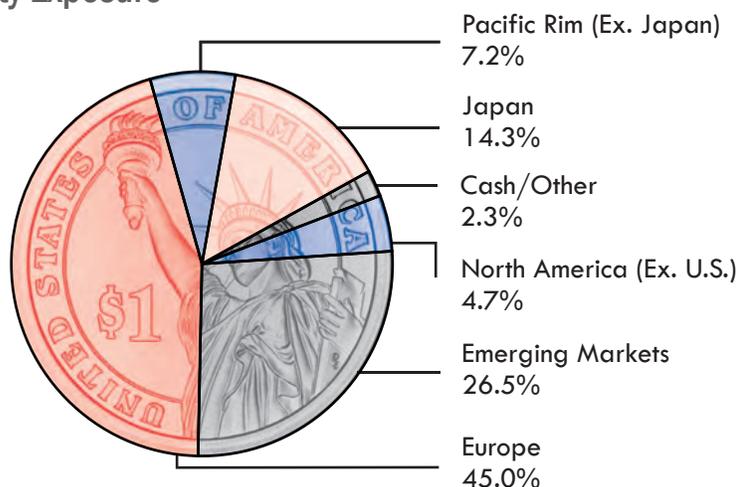
International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted average market cap (\$ billions)	\$41.3	\$46.9
Price/earnings ratio	14.5x	15.1x
Dividend yield	3.1%	3.1%
Price/book ratio	2.5x	2.5x

Source: State Street Bank and Trust

Regional Allocation Comparison at June 30, 2011

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, while paying specified interest during the term of the issue. A fixed income security represents a contractual obligation of a debt or a loan, with the issuer of debt as the borrower of capital, and the purchaser, or holder of bonds, as the creditor or lender.

Global fixed income is an important asset class in a well-diversified portfolio. Fixed income 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, 2011, the TRS fixed income portfolio returned 8.9 percent, net of fees, compared to the 3.9 percent return of the benchmark, the Barclays Capital U.S. Aggregate Index. For periods longer than five years, TRS utilized a blended index of U.S. and non-dollar indices.

One-, three-, five-, and 10-year comparisons to the relative benchmark follow.

	FY11	3-Year	5-Year	10-Year
TRS, net of fees	8.9%	10.1%	8.2%	6.9%
TRS Fixed Income Index	3.9	6.5	6.5	6.0

The following table lists the top 10 global fixed income investments held by TRS's managers as of June 30, 2011. 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, 2011

Security/Position	Market Value
Franklin Templeton Emerging Market Debt Fund	\$414,737,490
PIMCO Global Advantage Strategy Bond Fund	235,820,979
Loomis Sayles Absolute Strategies Trust	174,768,000
Federal National Mortgage Association TBA	71,123,938
Buoni Poliennali Del Tes	69,414,426
United Kingdom of Great Britain Treasury	62,336,432
Goldman Sachs Collective Trust Debt Implementation Fund	53,391,876
U.S. Treasury Inflation Linked Bond	48,913,207
U.S. Treasury Inflation Linked Bond	46,265,949
Goldman Sachs Collective Trust High Yield Fund	42,629,906
Total	<u>\$1,219,402,203</u>

Source: State Street Bank and Trust and TRS

At June 30, 2011, 16.7 percent of the TRS investment portfolio was assigned to global fixed income. TRS employed the following fixed income managers during FY11. This excludes fixed income-type assets overseen by managers in other asset classes containing fixed income securities as a small part of their overall strategies.

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

Dolan McEniry Capital Management, L.L.C. (5/06)	\$368,925,331
Franklin Advisers, Inc. (2/08)	803,533,952
Franklin Templeton Investment Management Limited (12/10)	414,737,490
Garcia Hamilton & Associates, L.P. (6/10)	26,740,584
Goldman Sachs Asset Management, L.P. (5/06)	869,760,512
Hartford Investment Management Company (3/11)	271,050,707
LM Capital Group, L.L.C. (12/09)	27,514,184
Loomis Sayles & Company, L.P. (6/08)	806,578,383
Loomis Sayles Trust Company L.L.C. (3/11)	174,768,000
Oaktree PPIP Private Fund, L.P. (3/10)	18,121,454
Pacific Investment Management Company, L.L.C. (7/82)	1,027,101,960
Pacific Investment Management Company - Bank Recapitalization and Value Opportunities Bravo Fund, L.P. (1/11)	17,210,100
Pacific Investment Management Company - Global Advantage Strategy Bond Fund (3/11)	235,820,979
Prudential Investment Management, Inc. (12/08)	815,685,293
Taplin, Canida & Habacht (3/04)	358,795,233

Note: This list does not include certain managers terminated prior to June 30, 2011 with residual assets in the account.

Discussion of Global Fixed Income

TRS's fixed income portfolio outperformed the Barclays Capital U.S. Aggregate index by 5.0 percentage points, net of fees, during the fiscal year. TRS held an overweight position to most spread sectors going into the fiscal year with significant exposures to corporate bonds. These positions benefitted substantially as spreads compressed throughout the year. Other areas of strength included higher allocations to foreign denominated bonds, which took advantage of higher yields, and specific investments in special situations such as the Term Asset-backed Loan Facility (TALF) and the Public Private Investment Partnership (PPIP).

TRS's fixed income portfolio began the year with shorter duration than the benchmark. As the year progressed, the TRS portfolio moved toward a slightly longer duration position as it became evident the U.S. Federal Reserve remained committed to low interest rates. TRS also maintained an overweight to higher yielding non-U.S. securities. Throughout the year, the TRS fixed income portfolio held a similar risk profile relative to the index with lower volatility than duration matched nominal U.S. treasuries.

Statistical Data

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

Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/11	Barclays Capital Aggregate Index 6/30/11	TRS Fixed Income Portfolio 6/30/10	Barclays Capital Aggregate Index 6/30/10
Average maturity	7.2 years	7.0 years	9.3 years	5.9 years
Effective duration	5.0 years	5.0 years	4.8 years	4.1 years
Average coupon	4.9%	4.3%	4.8%	4.5%
Average quality rating	A2	Aa1	Aa3	Aa1
Current yield	4.3%	2.8%	4.4%	2.5%

Source: TRS

Diversification by Quality Rating for Individual Bonds

Moody's Quality Rating	2011	2010
Aaa*	46.9%	48.0%
Aa1 through Aa3	5.9	5.5
A1 through A3	9.6	11.5
Baa1 through Baa3	16.8	16.0
Ba1 through Ba3	8.5	7.9
B1 through B3	5.1	3.2
Under B3	1.7	1.7
Other**	5.5	6.2
Total	100.0%	100.0%

* Aaa includes treasury securities

** Other includes unrated securities

Source: State Street Bank and Trust and TRS

REAL RETURN

The real return asset class was established during 2007 in recognition of the significant impact inflation has on an investment portfolio and its return objectives. Traditional asset classes, such as equities and fixed income, tend to perform well in periods of stable or falling inflation yet face meaningful challenges in periods of rising inflation.

The objective of the real return asset class is to exceed the Consumer Price Index (CPI) by 5.0 percentage points 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 inflation focus of the asset class. For the year ended June 30, 2011, TRS's real return asset class earned 23.4 percent, net of fees, compared to the 8.7 percent return of the benchmark.

	FY11	3-Year	Since Inception
TRS, net of fees	23.4%	1.1%	5.7%
Consumer Price Index + 5%	8.7	6.1	7.1

At June 30, 2011, 9.8 percent of TRS's investment portfolio was assigned to real return managers. TRS employed real return managers to use global inflation-linked bonds, global macro, and long-only commodity strategies during the fiscal year. The asset class maintains a risk profile between equities and fixed income. As of June 30, 2011, 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)	\$252,643,207
Pacific Investment Management Company, L.L.C. (5/07)	605,072,644

Global Macro Strategies

AQR Global Risk Premium Tactical Offshore Fund II, Ltd. (7/07)	615,243,782
Bridgewater All Weather Portfolio Offshore Limited (7/07)	719,356,938
PIMCO Global Multi-Asset Strategy (12/09)	541,435,525
Wellington Management Company – Diversified Inflation Hedges Portfolio, L.L.C. (9/07)	617,937,966

Commodities

Gresham Investment Management Company, L.L.C. (3/09)	114,378,384
Schroder Commodity Offshore Portfolio, L.L.P. (3/08)	210,314,033

Discussion of Real Return

The 23.4 percent return of the real return asset class during the fiscal year was led by commodities earning 28.9 percent. Investments in the global macro sector earned 25.6 percent and global inflation-linked bonds followed with 14.3 percent, all net of fees. The U.S. inflation rate increased from 1.1 percent to 3.6 percent over the fiscal year, driven primarily by commodity and rental prices. TRS recognized significant profits from the real return asset class during the fiscal year, selling investments for rebalancing purposes as needed.

The real return portfolio continues to serve as a portfolio diversifier and protection against the harmful effects of inflation on the total fund. The policy target for real return remains 10 percent of total fund.

Real Return Targets and Actual Allocation as of June 30, 2011

Real Return Subclasses	Target	Actual
Global inflation-linked bonds	24.0%	23.3%
Global macro strategies	66.0	67.9
Commodities	10.0	8.8
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, growth equity, 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 ended June 30, 2011, private equity earned 22.3 percent on a net of fee basis, compared to the benchmark gain of 36.2 percent.

In general, an investor must look at a 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 2.8 and 0.5 percentage points over the five- and 10-year period. This performance, as well as the performance of the private equity portfolio since TRS first began investing in private equity, is above expectations. One-, three-, five-, and 10-year comparisons to this benchmark are noted in the following table.

	FY11	3-Year	5-Year	10-Year
TRS, net of fees	22.3%	5.4%	9.3%	7.1%
Russell 3000 Index + 3.0%	36.2	7.1	6.5	6.6

At June 30, 2011, 9.7 percent of the TRS investment portfolio was assigned to the private equity asset class. The FY11 policy 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 with as of June 30, 2011.

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

Buyout

Advent International GPE VI, L.P. (7/08)	\$40,731,524
Apollo Investment Fund V, L.P. (5/01)	61,597,851
Apollo Investment Fund VI, L.P. (5/06)	170,021,977
Apollo Investment Fund VII, L.P. (1/08)	183,842,711
Banc Fund VI, L.P. (6/02)	31,953,861
Banc Fund VII, L.P. (5/05)	25,161,382
Baring Asia Private Equity Fund V, L.P. (3/11)	86,336
Carlyle Partners IV, L.P. (4/05)	96,147,930
Carlyle Partners V, L.P. (7/07)	132,004,603
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	62,162,236
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (4/06)	98,570,628
Castle Harlan Partners IV, L.P. (5/03)	8,958,852
Code Hennessy & Simmons V, L.P. (2/05)	25,651,581
DLJ Merchant Banking Partners II, L.P. (3/97)	3,385,980
DLJ Merchant Banking Partners III, L.P. (9/00)	75,587,238
Elevation Partners, L.P. (4/05)	18,376,555
Energy Capital Partners I, L.P. (4/06)	25,790,234

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Energy Capital Partners II-A, L.P. (9/09)	\$13,112,769
EnerVest Energy Institutional Fund XII-A, L.P. (12/10)	9,507,399
Evercore Capital Partners II, L.P. (4/03)	25,196,667
GI Partners (1/09)	36,463,036
Glencoe Capital Partners III, L.P. (1/04)	16,010,205
Glencoe Capital Institutional Partners III, L.P. (6/04)	4,892,387
Green Equity Investors V, L.P. (8/07)	80,468,440
GTCR Fund VII/VIIA, L.P. (3/00)	315,681
GTCR Fund VIII, L.P. (7/03)	19,961,566
Hispania Private Equity, L.P. (5/04)	1,190,752
ICV Partners II, L.P. (1/06)	12,465,562
J.C. Flowers II, L.P. (2/07)	13,387,564
KKR 1996 Fund, L.P. (5/97)	3,491,782
Littlejohn Fund IV, L.P. (7/10)	17,893,720
Madison Dearborn V, L.P. (7/06)	84,481,190
MBK Partners Fund II, L.P. (5/09)	17,514,155
Mesirow Capital Partners VII, L.P. (6/97)	602,270
Morgan Creek Partners Asia, L.P. (1/11)	20,129,949
New Mountain Partners III, L.P. (8/07)	55,759,455
Onex Partners III, L.P. (04/09)	13,158,308
PAI Europe V, L.P. (4/08)	21,903,921
Pine Brook Capital Partners, L.P. (1/08)	21,756,828
Providence Equity Partners VI, L.P. (3/07)	100,904,682
Reliant Equity Partners, L.P. (6/04)	215,043
Riverstone/Carlyle GL IV (3/08)	82,772,764
Silver Lake Partners III, L.P. (8/07)	67,309,604
Stone Point Capital Trident V, L.P. (12/10)	14,901,986
TCW/Latin America Private Equity Partners, L.P. (5/97)	31,089
Thayer Equity Investors V, L.P. (5/03)	52,942,516
TPG Partners IV, L.P. (12/03)	35,449,634
TPG Partners VI, L.P. (4/08)	59,570,327
Trilantic Capital Partners III, L.P. (4/05)	17,428,839
Trilantic Capital Partners IV, L.P. (10/07)	20,914,244
Trivest Fund II, Ltd. (4/96)	2,772,130
Veritas Capital Fund IV, L.P. (11/10)	23,846,658
Veritas Capital Fund IV, L.P. Annex A (2/11)	7,500,000
Vicente Capital Partners Growth Equity Fund, L.P. (4/08)	3,593,619
Vista Equity Partners Fund III, L.P. (11/07)	52,094,522
VS&A Communications Partners II, L.P. (8/95)	1,350,080
VSS Communications Partners IV, L.P. (3/05)	32,819,222
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	54,881,755
Windpoint Partners VI, L.P. (2/06)	22,986,681
WPG Corporate Development Associates V, L.P. (11/97)	873,381

Distressed Debt

Avenue Europe Special Situations Fund, L.P. (5/08)	35,571,616
Avenue Special Situations Fund V, L.P. (10/07)	13,651,742

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Blackstone/GSO Capital Partners (9/09)	\$47,766,541
Carlyle Strategic Partners, L.P. (10/04)	24,412,278
Clearlake Capital Partners II, L.P. (7/09)	14,006,065
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	13,102,613
MatlinPatterson Global Opportunities Fund III, L.P. (6/07)	57,946,927
MatlinPatterson Preferred II (3/09)	10,379,471
Oaktree Annex A (11/10)	16,829,984
Oaktree Opportunities Fund VIII, L.P. (3/10)	82,057,603
OCM Opportunities Fund V, L.P. (6/04)	6,138,706
OCM Opportunities Fund VIIb, L.P. (6/08)	103,917,366
OCM European Principal Opportunities Fund II, L.P. (8/08)	63,388,251

Subordinated Debt

Maranon Mezzanine Fund, L.P. (8/09)	10,265,030
Merit Mezzanine Fund IV, L.P. (1/05)	49,426,405
Prism Mezzanine Fund, L.P. (12/04)	6,773,854
SW Pelham Fund II, L.P. (9/03)	6,519,843
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	33,772,105
William Blair Mezzanine Capital Fund II, L.P. (5/97)	3,882,993
William Blair Mezzanine Capital Fund III, L.P. (1/00)	5,690,629

Venture Capital

21st Century Communications T-E Partners, L.P. (2/95)	276,862
Apex Investment Fund V, L.P. (8/03)	9,113,761
Carlyle Venture Partners II, L.P. (10/02)	41,961,872
Carlyle U.S. Growth Fund III, L.P. (6/07)	43,098,079
Edgewater Growth Capital Partners, L.P. (11/03)	20,760,987
Edgewater Growth Capital Partners II, L.P. (2/06)	22,445,657
Evergreen Partners IV, L.P. (12/02)	13,210,776
Evergreen Partners V, L.P. (6/07)	10,617,478
Granite Ventures II, L.P. (5/05)	11,527,391
HealthPoint Partners, L.P. (6/04)	21,616,360
Hopewell Ventures, L.P. (6/04)	4,653,262
Illinois Emerging Technologies Fund, L.P. (6/04)	1,633,316
JMI Equity Fund VII, L.P. (2/11)	2,089,407
Longitude Venture Partners, L.P. (3/08)	26,294,566
SCP Private Equity Partners, L.P. (5/97)	128,230
SCP Private Equity Partners II, L.P. (6/00)	56,695,766
Shasta Ventures, L.P. (1/05)	18,155,253
Starvest Partners, L.P. (1/09)	5,622,117
Technology Crossover Ventures VII, L.P. (10/08)	18,564,223
VantagePoint Venture Partners IV, L.P. (6/00)	45,476,406
VantagePoint Venture Partners 2006, L.P. (12/06)	38,973,168
Warburg Pincus International Partners, L.P. (9/00)	79,059,502
Warburg Pincus Private Equity IX, L.P. (9/05)	104,843,818
Warburg Pincus Private Equity X, L.P. (10/07)	197,736,136
WPG Enterprise Fund II, L.P. (8/94)	2,247,218
WPG Enterprise Fund III, L.P. (3/97)	8,944,505

Discussion of Private Equity

TRS's private equity portfolio earned 22.3 percent, net of fees, through the fiscal year. While under its one-year benchmark, private equity outperformed on a five- and 10-year basis. The long-term performance strength of the private equity program and the asset class's diversification benefits the overall portfolio. TRS continues to prudently increase its exposure to private equity. In April 2011, the Board of Trustees adopted a new asset allocation study that increased the private equity allocation target to 12 percent. Successful implementation of this target is subject to many factors, including public market performance and sufficient availability of quality private equity 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, 2011.

Private Equity Target and Actual Allocation as of June 30, 2011

Subclasses	Target	Actual
Buyout	60-80%	58.7%
Venture capital	5-20	22.2
Special situations/distressed debt/subordinated debt	10-25	19.1
Total		100.0%

Source: TRS

TRS made new commitments to 10 separate private equity funds totaling nearly \$590 million during the fiscal year. Included in this total were funds designed to 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 FY12, the TRS private equity tactical plan calls for new commitments of approximately \$900 to \$1,400 million within the asset class.

ABSOLUTE RETURN

The absolute return asset class includes mandates designed to provide attractive return and risk attributes while exhibiting low correlation to traditional public equity and fixed income investments. Along with the real return asset class, the absolute return class was established as a result of an asset allocation study adopted in FY07.

Investments in absolute return are administered via both direct investment manager relationships and diversified fund of funds. During the fiscal year, TRS began implementation of a program whereby the retirement system, with the assistance of existing fund of funds relationships, will build direct positions in higher conviction mandates.

The fiscal year target allocation for absolute return is 5.0 percent of the overall TRS investment portfolio. The asset class is measured against a relative risk-free index of 90-Day Treasury Bills + 4.0 percent. While this is not an investible index, the benchmark represents the intended risk reduction characteristic of the asset class.

For the year ended June 30, 2011, TRS's absolute return investment asset class earned 12.4 percent, net of fees, compared to the 4.2 percent return of the benchmark.

	FY11	3-Year
TRS, net of fees	12.4%	2.0%
Treasury Bill + 4%	4.2	4.4

At June 30, 2011, 4.0 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 Funds

Bridgewater Pure Alpha Fund I (1/09) \$380,231,003

Diversified Fund of Funds

Grosvenor Monarch Fund, L.L.C. (6/07) 397,560,365

K2 Bluegill Fund, L.L.C. (6/07) 577,176,785

Direct Investment Funds

Grosvenor Monarch Fund, L.L.C. (Monarch Series B) (3/11) 50,465,502

K2 Bluegill Fund, L.L.C. (Bluegill Series B) (3/11) 51,078,950

Emerging Manager

Lasair Capital L.L.C. (8/09) 29,053,387

\$1,485,565,992

Discussion of Absolute Return

The absolute return asset class performed reasonably well given the severity and volatility of the global market crisis and subsequent recovery. The absolute return portfolio outperformed its benchmark in FY11 due to strong performance of underlying managers combined with modest exposure to both the equity and credit markets. Longer term, this modest equity exposure also explains the lagging performance for the trailing three-year period. Importantly and consistent with the intent of the asset class, the absolute return portfolio continues to exhibit a low risk profile with volatility less than one-third that of U.S. equities. In April 2011, the Board of Trustees raised the long-term absolute return policy target by 3.0 percent to 8.0 percent of total fund.

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.

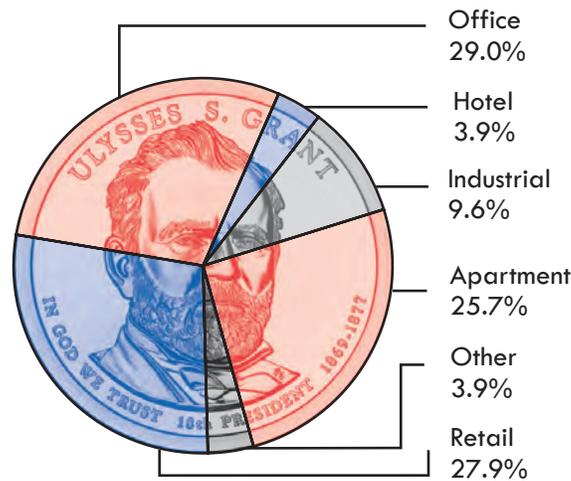
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2011, TRS held \$4.1 billion in real estate assets, or 10.8 percent of the total fund portfolio. For the fiscal year, TRS's real estate investments earned 17.8 percent, net of fees. Real estate performance and benchmark comparisons are noted in the following table.

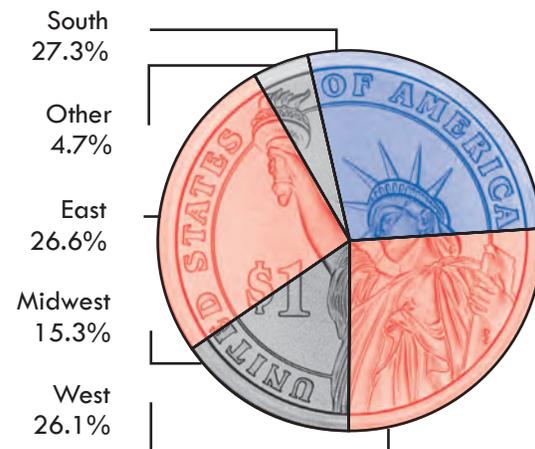
	FY11	3-Year	5-Year	10-Year
TRS, net of fees	17.8%	(8.0%)	0.4%	6.2%
Real Estate Property Index	16.7	(2.6)	3.4	7.6

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, 2011



Geographic Diversification of Real Estate Holdings as of June 30, 2011



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, 2011, 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)	\$773,186,870
Cornerstone Real Estate Advisors, L.L.C. (7/08)	237,637,410
Cornerstone Real Estate Advisors, L.L.C. II (7/09)	10,597,160
Cornerstone Real Estate Advisors, L.L.C. III (8/09)	92,525,521
Heitman Capital Management, L.L.C. (7/09)	888,947,923
Invesco Institutional (N.A.), Inc. (7/08)	254,117,374
Koll Bren Schreiber Realty Advisors I (6/93)	314,195,751
LPC Realty Advisors I, Ltd. (7/92)	347,247,426
LPC Realty Advisors Core, Ltd. (4/07)	101,908,735

Closed-End Accounts

Beacon Capital Strategic Partners V, L.P. (8/07)	38,219,664
Blackstone Real Estate Partners VI, L.P. (9/07)	53,073,443
Capri Capital Advisors Apartment Fund III, L.P. (11/02)	138,033,145
Capri Select Income Fund II, L.L.C. (12/05)	4,454,380
Carlyle Realty Partners IV, L.P. (6/05)	42,166,340
Cornerstone Hotel Income & Equity Fund II, L.P. (7/08)	14,784,506
JBC Opportunity Fund II, L.P. (5/03)	16,628,882
JER Real Estate Qualified Partners III, L.P. (1/05)	26,419,541
RLJ Lodging Fund II, L.P. (9/06)	30,617,630
RLJ Lodging Fund III, L.P. (9/08)	32,735,223
Thayer Hotel Investors IV, L.P. (5/04)	7,729,832

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Walton Street Real Estate Fund IV, L.P. (7/03)	\$65,380,039
Walton Street Real Estate Fund VI, L.P. (4/09)	63,690,883
Open-End Accounts	
Hines U.S. Core Office Fund, L.P. (12/05)	157,751,662
Lion Industrial Trust (4/05)	153,502,161
International Real Estate Accounts	
Carlyle Europe Real Estate Partners, L.P. (6/03)	10,639,923
Carlyle Europe Real Estate Partners III, L.P. (9/07)	40,520,982
CB Richard Ellis Strategic Partners Europe Fund III, L.P. (4/07)	35,428,127
CB Richard Ellis Strategic Partners UK Fund III, L.P. (5/07)	12,174,561
LaSalle Asia Opportunity Fund III, L.P. (11/07)	26,938,211
MGPA Asia Fund III, L.P. (12/07)	62,574,616
	<u>\$4,062,261,189</u>

Discussion of Real Estate

TRS's real estate portfolio earned 17.8 percent during the fiscal year. Following a couple very challenging years for the asset class due to the global financial crisis, commercial real estate markets have steadily improved for the past several quarters. Market fundamentals such as property level income, rental rates, and sales have been improving in core markets such as New York, Boston, and Washington D.C., while secondary and tertiary markets have been slower to recover. Investors have demonstrated a flight to quality that has driven core values higher and led to improving near term performance. The TRS investment portfolio maintains a long-term target allocation of 14 percent to real estate and is currently 10.8 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.

SECURITIES LENDING

TRS participates in securities lending with its custodian, State Street Bank and Trust Company, acting as the securities lending agent. The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions, which are loans of securities to broker-dealers or other entities. Additional information regarding securities lending activity is included in the Notes to Financial Statements under "D. Investments."

For the year ended June 30, 2011, TRS earned net income of \$17.8 million through its securities lending program. The income from this program was less than the prior fiscal year mainly due to a decrease in the average on loan balance. The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, the amount of collateral for these securities, and the average utilization rate information.

Securities Lending Summary

	FY11	FY10
Net securities lending income	\$17,793,331	\$21,111,429
Values as of fiscal year-end (June 30):		
Total State Street collateral market value	3,217,193,460	3,568,594,875
Total market value of securities on loan at State Street	3,132,542,532	3,473,627,126
Total collateralized percentage	103%	103%
Fiscal year 12 month averages:		
Average lendable	17,791,565,341	16,747,267,594
Average on loan	3,329,090,638	3,891,585,303
Average utilization	18.7%	23.2%

Source: State Street Bank and Trust

Note: Securities lending collateral reflected on the Statements of Plan Net Assets reflects the securities purchased with cash collateral.

BROKERAGE ACTIVITY

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2011 and 2010. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2011, TRS recaptured \$0.9 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 FY11, TRS used \$0.6 million of recaptured funds to offset expenditures.

Top 50 Brokers Used by TRS Managers

Broker	FY11 Commission	FY10 Commission
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	\$2,475,734	\$2,208,488
J.P. Morgan Securities, Inc. (Worldwide)	1,614,848	1,363,340
Credit Suisse (Worldwide)	1,236,294	1,451,809
Goldman Sachs & Co. (Worldwide)	1,117,886	1,364,243
State Street Brokerage Services (Worldwide)	942,354	349,498
Citigroup, Inc. and all Subsidiaries (Worldwide)	905,820	892,172
UBS Warburg Securities and all Subsidiaries (Worldwide)	904,869	1,180,196
Deutsche Bank & Securities (Worldwide)	863,557	579,915
Morgan Stanley & Co., Inc. and Subsidiaries (Worldwide)	723,188	958,438
Bank of New York Mellon (Worldwide)	611,265	761,324
Barclays (Worldwide)	540,107	935,045
Instinet, L.L.C. (Worldwide)	478,808	697,429
Cabrera Capital Markets, Inc.	439,970	312,754
Macquarie Bank & Securities, Ltd. (Worldwide)	417,620	381,794
Liquidnet, Inc.	358,781	516,936
RBC Dain Rauscher (Worldwide)	323,895	135,481
Investment Technology Group, Inc. (Worldwide)	323,675	356,336
Jefferies & Company	303,459	303,230
Credit Agricole	244,698	120,848
Stifel Nicolaus & Company (Worldwide)	244,292	194,319
Loop Capital Markets, L.L.C.	238,541	285,386
Nomura International (Worldwide)	221,746	233,562
Bloomberg Tradebook, L.L.C.	218,492	126,754
M. Ramsey King Securities	206,378	236,951
Williams Capital Group, L.P.	200,074	73,903
Baird, Robert W., & Company, Incorporated	182,206	138,691
Ivy Securities, Inc.	181,956	320,695
Cantor Fitzgerald	174,613	142,510
G-Trade Services, L.L.C.	161,085	50,026
BNP Paribas (Worldwide)	157,146	63,621
Sanford Bernstein (Worldwide)	151,402	171,960
HSBC (Worldwide)	135,929	68,335
Knight Securities, L.P.	133,563	138,868
Raymond James (Worldwide)	125,143	137,458
Piper Jaffray, Inc.	120,479	176,070
Bley Investment Group, Inc.	111,709	32,431

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Broker	FY11 Commission	FY10 Commission
Weeden & Co.	\$108,314	\$242,140
Pipeline Trading Systems, L.L.C.	104,647	331,741
CLSA Securities	101,543	38,237
Credit Lyonnais Securities (Worldwide)	100,592	141,868
M.R. Beal & Company	95,485	50,313
Societe Generale	91,439	57,452
Morgan Keegan & Co., Inc.	91,037	67,482
Guzman & Company	88,622	76,753
Pulse Trading, L.L.C.	88,154	101,407
Melvin Securities, L.L.C.	79,202	98,568
ISI Group Inc.	76,942	51,349
Citation Group	74,917	72,133
Suntrust Robinson Humphrey	72,333	79,772
Oppenheimer & Company, Inc. (Worldwide)	70,967	128,526
(All Others - 272 Brokers in FY11, 258 Brokers in FY10)	3,425,371	4,157,393
Total	<u>\$22,461,147</u>	<u>\$23,155,950</u>

Source: State Street Bank and Trust and TRS

EXTERNAL MANAGER FEE PAYMENTS

For the year ended June 30, 2011, fee payments to external investment managers totaled \$188.3 million, an increase of 3.5 percent from the year ended June 30, 2010. 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	FY11	FY10
Aberdeen Asset Management, Inc.	\$3,181,347	\$1,989,881
Advent International GPE VI, L.P.	976,430	978,929
American Century Global Investment Management, Inc.	1,541,838	1,265,207
Analytic Investors, L.L.C.	769,938	2,129,975
Apex Investment Fund V, L.P.	300,573	376,002
Apollo Investment Fund VII, L.P.	4,224,498	903,212
AQR Capital Management, L.L.C.	1,482,883	1,541,928
AQR Global Risk Premium Tactical Offshore Fund II, Ltd.	2,899,979	2,061,817
Avenue Europe Special Situations Fund, L.P.	634,705	571,271
Avenue Special Situations Fund V, L.P.	1,228,273	1,500,000
Banc Fund VI, L.P.	1,001,875	1,001,875
Banc Fund VII, L.P.	901,200	865,200
Baring Asia Private Equity Fund V	933,333	0
BlackRock, Inc.	0	711,721
Blackstone Capital Partners VI, L.P.	925,442	0
Blackstone Real Estate Partners VI, L.P.	746,421	742,219
Blackstone/GSO Capital Solutions Fund, L.P.	20,417	0
Boston Company Asset Management, L.L.C.	3,078,727	2,520,364
Brandes Investment Partners, L.P.	3,591,290	3,504,649
Bridgewater All Weather Portfolio Offshore Limited	2,140,032	1,787,315
Bridgewater Pure Alpha Fund I	10,372,005	7,204,655
Capri Select Income II, L.L.C.	56,695	171,583
Capri/Capital Advisors, L.L.C.	2,395,282	2,189,723
Capri Capital Advisors Apartment Fund III, L.P.	1,496,984	1,496,984
Carlyle Europe Real Estate Partners III, L.P.	905,572	1,162,718

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Investment Manager/Account	FY11	FY10
Carlyle Europe Real Estate Partners, L.P.	\$76,174	\$436,099
Carlyle Partners IV, L.P.	391,385	584,960
Carlyle Partners V, L.P.	2,128,644	2,324,097
Carlyle Realty Partners IV, L.P.	890,346	890,346
Carlyle Strategic Partners, L.P.	2,791	140,160
Carlyle U.S. Growth Fund III, L.P.	1,000,000	1,000,000
Carlyle Ventures Capital II, L.P.	1,014,317	1,461,096
Carlyle/Riverstone Global Energy Fund II, L.P.	549,708	584,219
Carlyle/Riverstone Global Energy Fund III, L.P.	717,941	712,979
Castle Harlan Partners IV, L.P.	0	2,876
CB Richards Ellis Strategic Partners Europe Fund III, L.P.	572,240	696,857
CB Richards Ellis Strategic Partners UK Fund III, L.P.	378,605	452,674
Clearlake Capital Partners II, L.P.	448,773	485,005
Code Hennessy & Simmons V, L.P.	132,563	97,218
Copper Rock Capital Partners, L.L.C.	402,703	1,206,170
Cornerstone Hotel Income & Equity Fund II, L.P.	186,373	138,722
Cornerstone Real Estate Advisors, L.L.C.	1,307,577	1,509,955
Cramer Rosenthal McGlynn, L.L.C.	1,074,831	902,144
Credo Capital Management, L.L.C.	206,338	171,090
Denali Advisors, L.L.C.	577,089	293,185
Dimensional Fund Advisors, L.P.	1,422,092	1,321,435
DLJ Merchant Banking Partners II, L.P.	0	23,860
DLJ Merchant Banking Partners III, L.P.	189,553	479,467
Dodge & Cox	312,156	1,314,471
Dolan McEniry Capital Management, L.L.C.	576,630	470,531
EARNEST Partners, L.L.C.	506,509	1,152,749
Edgewater Growth Capital Partners II, L.P.	289,098	242,096
Edgewater Growth Capital Partners, L.P.	220,438	274,846
Elevation Partners, L.P.	161,294	375,000
Emerald Advisers, Inc.	1,409,225	1,200,609
Energy Capital Partners I, L.P.	454,598	646,544
Energy Capital Partners Fund II-A, L.P.	667,913	630,502
Envest Energy Institutional Fund XII-A, L.P.	1,148,352	0
EQT VI	134,092	0
Evercore Capital Partners II, L.P.	116,563	215,322
Evergreen Partners IV, L.P.	219,582	445,089
Evergreen Partners V, L.P.	625,000	625,000
Fiduciary Management Associates, L.L.C.	1,078,197	295,631
Franklin Advisers, Inc.	2,207,935	1,872,069
Franklin Templeton Investment Management Limited	939,284	0
Fred Alger Management, Inc.	1,258,686	895,507
Frontier Capital Management, L.L.C.	1,163,594	989,560
Garcia Hamilton & Associates, L.P.	65,764	3,367
GI Partners	613,565	744,058
Glencoe Capital Partners III, L.P.	85,535	171,969
Goldman Sachs Asset Management, L.P.	1,307,267	1,529,539
Granite Ventures II, L.P.	378,538	500,000
Grantham, Mayo, Van Otterloo & Co., L.L.C.	6,459,866	6,542,346
Green Equity Investors V, L.P.	533,714	1,439,805
Gresham Investment Management Company, L.L.C.	478,261	412,856
Grosvenor Monarch Fund, L.L.C.	2,845,281	2,174,773
GTCR Fund VII/VIIA, L.P.	38,562	299,788
GTCR Fund VIII, L.P.	413,718	385,289
Hartford Investment Management Company	73,084	0
HealthPoint Partners, L.P.	435,512	471,894
Heitman Capital Management, L.L.C.	3,763,605	3,839,244
Herndon Capital Management, L.L.C.	52,227	0

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Investment Manager/Account	FY11	FY10
Hines U.S. Core Office Fund, L.P.	\$850,000	\$850,000
Hispania Private Equity, L.P.	132,331	139,475
Hopewell Ventures, L.P.	325,379	334,891
ICV Partners II, L.P.	235,571	250,330
Illinois Emerging Technologies Fund, L.P.	15,922	16,826
Invesco Institutional (N.A.), Inc.	1,156,164	1,195,606
J.C. Flowers II, L.P.	294,997	188,221
Jarislowsky, Fraser Limited	825,264	803,525
JBC Opportunity Fund II, L.P.	248,972	333,580
JER Real Estate Qualified Partners III, L.P.	306,499	387,040
JMI Equity Fund VII, L.P.	131,246	0
JP Morgan Investment Management, Inc.	93,645	30,599
JP Morgan Management Associates, L.L.C.	3,725,854	3,691,120
K2 Bluegill Fund, L.L.C.	4,446,118	3,602,377
KKR 1996 Fund, L.P.	27,883	49,858
Koll Bren Schreiber Realty Advisors	970,193	1,379,008
Lasair Capital L.L.C.	288,125	230,017
LaSalle Asia Opportunity Fund III, L.P.	845,392	994,017
Levin Capital Strategies, L.P.	436,368	0
Lion Industrial Trust	1,534,004	1,426,538
Littlejohn Fund IV, L.P.	765,276	252,434
LM Capital Group, L.L.C.	81,855	20,098
Lombardia Capital Partners, L.L.C.	1,348,933	311,517
Longitude Ventures Partners, L.P.	750,000	750,000
Loomis, Sayles & Company, L.P.	3,766,996	2,533,237
LPC Realty Advisors I, Ltd.	1,496,229	1,164,844
LSV Asset Management	1,628,460	2,019,214
Madison Dearborn V, L.P.	382,992	493,820
Maranon Mezzanine Fund, L.P.	267,912	444,178
MatlinPatterson Global Opportunities Fund III, L.P.	1,572,146	1,497,631
Mazama Capital Management, Inc.	622,536	1,351,606
MBK Partners Fund II, L.P.	412,655	396,857
McKinley Capital Management, Inc.	2,033,636	2,345,934
Merit Mezzanine Fund IV, L.P.	689,075	862,331
MFS Institutional Advisors, Inc.	378,174	0
MGPA Asia Fund III, L.P.	986,257	1,140,064
Mondrian Investment Partners Limited	1,829,899	1,883,660
Morgan Creek Partners Asia, L.P.	1,031,662	0
New Century Advisors, L.L.C.	291,284	179,635
New Mountain Investments III, L.P.	1,353,490	1,475,272
Northern Trust Investments, N.A.	171,392	0
OakBrook Investments, L.L.C.	82,133	46,744
Oaktree PPIP Private Fund, L.P.	56,365	19,270
OCM European Principal Opportunities Fund II, L.P.	1,232,492	1,089,768
OCM Opportunities Fund V, L.P.	120,106	28,672
OCM Opportunities Fund VIIb, L.P.	1,434,389	1,528,326
OCM Opportunities Fund VIII, L.P.	1,359,192	1,105,020
Onex Partners III, L.P.	486,183	404,595
Pacific Investment Management Company, L.L.C.	8,755,933	11,403,390
PAI Europe V, L.P.	463,989	790,519
Piedmont Investment Advisors, L.L.C.	61,856	197,501
PIMCO Private Funds II, L.P.	39,317	77,584
Pine Brook Capital Partners, L.P.	851,546	851,546
Prism Mezzanine Fund, L.P.	503,023	589,532
Providence Equity Partners VI, L.P.	639,169	1,478,605
Prudential Investment Management, Inc.	439,956	500,731
Putnam Advisory Company, L.L.C.	1,249,784	971,850

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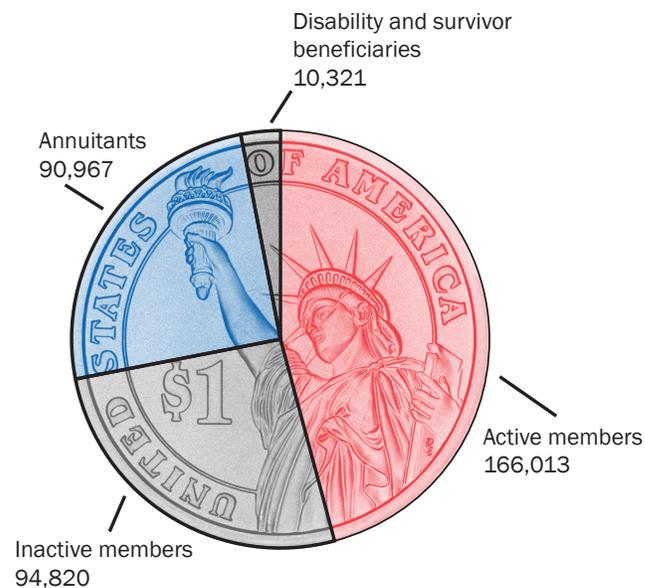
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Investment Manager/Account	FY11	FY10
Ranger Investment Management	\$0	\$72,860
RhumbLine Advisers, L.P.	180,932	127,342
Riverstone/Carlyle Global Energy and Power Fund IV, L.P.	1,329,465	1,227,062
RLJ Lodging Fund II, L.P.	533,007	610,108
RLJ Lodging Fund III, L.P.	485,392	625,000
Robeco Boston Partners Asset Management, L.P.	1,019,991	967,568
Schroder Commodity Offshore Portfolio, L.L.P.	1,853,483	1,306,276
SCP Private Equity Partners II, L.P.	796,730	935,599
Shasta Ventures, L.P.	4,154,514	0
Silver Lake Partners III, L.P.	622,196	1,052,524
StarVest Partners, L.P.	250,000	300,000
State Street Bank and Trust Company (Custody)	200,000	235,065
State Street Global Advisors	94,552	729,760
Stone Point Capital Trident V, L.P.	1,077,271	0
Strategic Global Advisors	49,074	0
SW Pelham Fund II, L.P.	92,626	365,625
T. Rowe Price Associates, Inc.	3,594,133	3,500,373
Taplin, Canida & Habacht	510,161	604,525
Technology Crossover Ventures VII, L.P.	786,617	1,093,462
Thayer Equity Investors V, L.P.	159,872	395,470
Thayer Hotel Investors IV, L.P.	183,142	90,988
Thompson, Siegel & Walmsley, Inc.	427,136	1,290,579
TPG Partners VI, L.P.	1,217,790	1,408,193
Trilantic Capital Partners III, L.P.	214,917	295,136
Trilantic Capital Partners IV, L.P.	571,987	571,987
Trilogy Global Advisors, L.L.C.	1,311,811	1,142,673
Turner Investment Partners, Inc.	1,823,081	2,082,745
Tygh Capital Management, Inc.	479,247	1,474,442
VantagePoint Venture Partners 2006, L.P.	1,295,496	972,953
VantagePoint Venture Partners IV, L.P.	0	255,095
Veritas Capital Fund IV, L.P.	216,339	0
Vicente Capital Partners Growth Equity Fund, L.P.	300,000	300,000
Vista Equity Partners III, L.P.	570,546	688,224
VSS Communications Partners IV, L.P.	658,068	850,842
Walton Street Real Estate Fund IV, L.P.	687,631	805,505
Walton Street Real Estate Fund VI, L.P.	812,211	484,725
Warburg Pincus International Partners, L.P.	442,046	1,045,441
Warburg Pincus Private Equity IX, L.P.	1,430,963	4,372,416
Warburg Pincus Private Equity X, L.P.	3,303,398	3,748,177
Wellington Management Company Diversified Inflation Hedges Portfolio, L.L.C.	5,026,566	4,458,075
Wellington Management Company, L.P.	1,159,914	1,134,716
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	520,144	484,635
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	303,267	264,186
Western Asset Management Company	181,033	354,796
William Blair Mezzanine Capital Fund III, L.P.	142,940	139,235
WPG Corporate Development Associates V, L.P.	9,025	10,682
WPG Enterprise Fund II, L.P.	25,539	56,151
WPG Enterprise Fund III, L.P.	134,998	135,727
Total Fees Paid by TRS	<u>\$188,274,897</u>	<u>\$181,928,252</u>

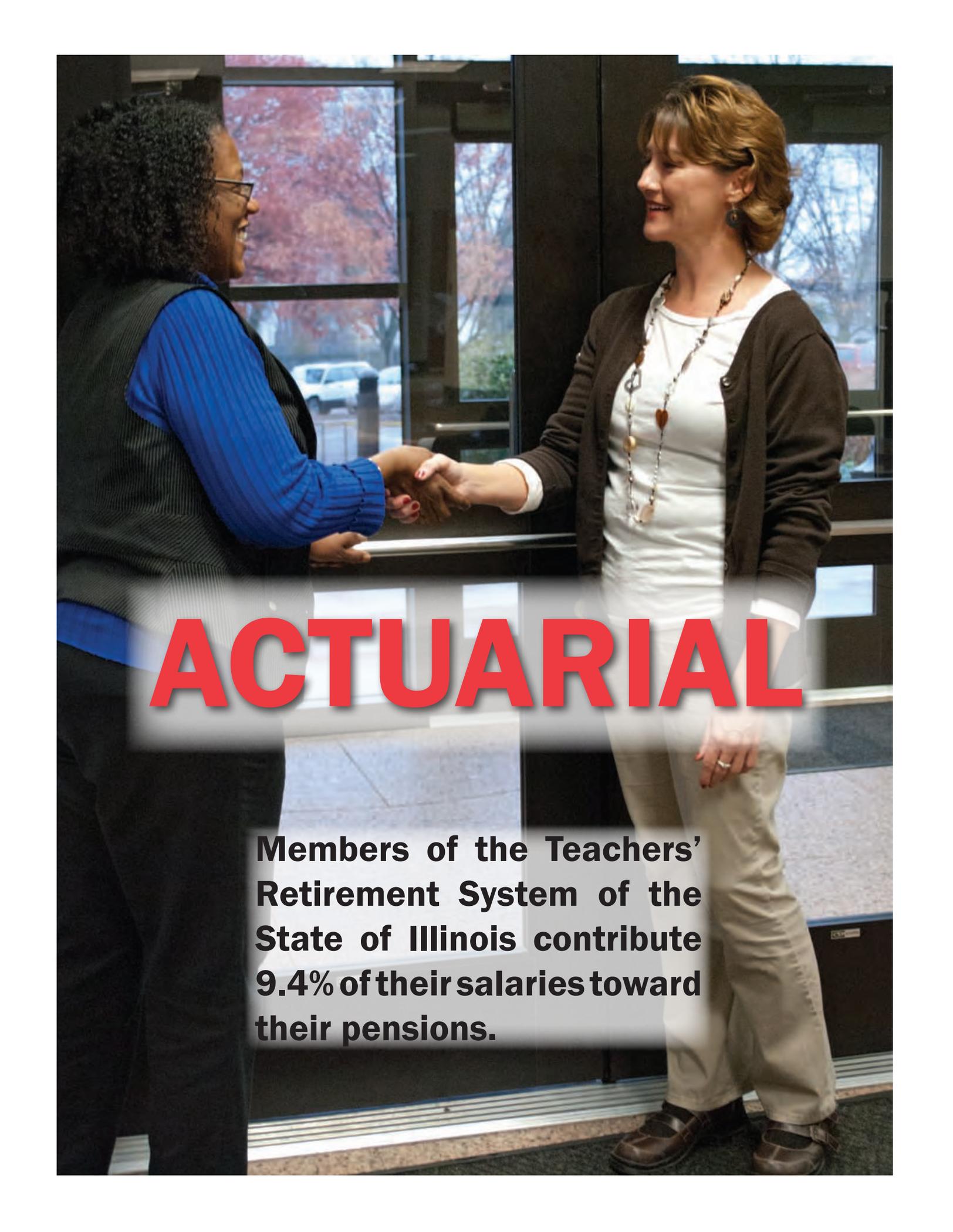
Note: This schedule captures investment manager fees applicable to the fiscal year(s) reported and differs from investment fees reported within the Financial Section.

By law, active members contribute 9.4 percent of their salary toward their pension. In FY11, teacher contributions paid for more than half of the \$1.7 billion total cost of benefits because the 9.4 percent member contribution is more than half the total cost of current pensions. The remaining 8.6 percent is split between state and employer contributions.

362,121 TOTAL MEMBERS



Only six states have a higher teacher pension contribution rate than the 9.4 percent TRS members pay: Kentucky, Missouri, Nevada, Ohio, Rhode Island, and Vermont.

A photograph of two women shaking hands in front of a large window. The woman on the left has dark curly hair, wears glasses, a blue long-sleeved shirt, and a dark vest. The woman on the right has short brown hair, wears a white top, a dark cardigan, and a long necklace. The window behind them shows a view of trees and a white car. The word "ACTUARIAL" is overlaid in large red letters across the middle of the image.

ACTUARIAL

Members of the Teachers' Retirement System of the State of Illinois contribute 9.4% of their salaries toward their pensions.

December 7, 2011

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, 2011

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 \$81,299,745,000 as of June 30, 2011. 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, 2011, and a census of active and inactive members as of June 30, 2010, 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.

The contributions to the System are based on the provisions of Public Act 94-0004, as amended by subsequent acts. The actuary and the Board are required to follow Public Act 94-0004 for purposes of developing contributions to the System. Public Act 94-0004 has resulted in contributions to the System much less than those that would be contributed under a prudent funding policy. Under a prudent funding policy, a funded ratio of 100% would be achieved within 30 years as opposed to the 90% funded ratio achieved by 2045 under Public Act 94-0004. In addition, under a prudent funding policy contributions would not be based on members not currently in the System as is done under Public Act 94-0004, particularly given the lower value of Tier II benefits in the System for members hired on or after

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January 1, 2011. Finally, under a prudent policy, contributions to the System would not be arbitrarily lowered as they were in fiscal year 2006 and 2007 when the state specified the amount. The continued use of Public Act 94-0004 in its current form will continue the history of an inadequate funded ratio of less than 100%. It should be noted that at least one of the undersigned has made this message very clear in public forums several times in the past. In addition, the Net Pension Obligation clearly exhibits the shortfall of the Public Act 94-0004 contributions when compared to the GASB 25/27 ARC, which is a prudent funding policy.

At June 30, 2011 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

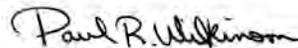
The valuation is based on the benefit provisions of TRS in effect on June 30, 2011. The actuarial assumptions used in the valuation are those specified by the Board of Trustees of the System based on recommendations made by the actuary. The actuarial assumptions used for the June 30, 2011 actuarial valuation are unchanged from the June 30, 2010 actuarial valuation. 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 \$4,618,217,733 in FY 2011. Per statutory requirement, 20% is recognized in the actuarial value of assets as of June 30, 2011, and recognition of the remaining 80%, or \$3,694,574 186, will be deferred and recognized in equal amounts over the next four valuations. Depending on the 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, 2011 valuation the total net deferral is a \$298,485,778 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



Paul R. Wilkinson,
Director, Consulting Actuary

LL/PW:pl

7228/Buck cert letter 2011 CAFR Draft 1.doc

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

TRS complies with the requirements issued by the Governmental Accounting Standards Board (GASB) under Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended by GASB Statement No. 50.

ACTUARIAL ASSUMPTIONS AND METHODS

Each year the actuary reconciles the differences between major actuarial assumptions and experience to explain 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 following assumptions 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 state funding requirements.

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.

The following rates 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 were phased in over the four year period that began July 1, 2007.

Sample active member annual death rates per 100 participants (mortality improvements fully phased-in):

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 in the following 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 preceding “percent retiring with severance pay” column 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	
	2011	2010
Total actuarial accrued liability	\$81,299,745	\$77,293,198
Less actuarial value of assets*	37,769,753	37,439,092
Unfunded liability	\$43,529,992	\$39,854,106
Funded ratio*	46.5%	48.4%

* Five-year prospective smoothing began in FY09.

ANALYSIS OF FINANCIAL EXPERIENCE: RECONCILIATION OF UNFUNDED LIABILITY

The net increase in the June 30, 2011, unfunded liability of \$3.6 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 2011, this shortfall was \$1.9 billion and in 2010 it was \$1.6 billion.

TRS experienced actuarial gains under the salary increase assumption in both FY11 and FY10. Salary increases for continuing active members were \$546 million lower than expected in 2011 and \$210 million lower than expected in 2010. Under the investment return assumption, losses occurred both years. In FY11, smoothed assets were assumed to earn \$3.1 billion, but earnings were actually \$1.4 billion. The actuarial loss due to investments was \$1.7 billion in FY11, compared to a loss of \$2.9 billion in FY10.

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 2011 and 2010. "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	
	2011	2010
Unfunded liability at beginning of year	\$39,854,106	\$35,001,154
Additions		
Employer cost in excess of contributions	1,913,647	1,572,252
Actuarial losses (gains)		
Salary increases for continuing active members	(545,612)	(210,215)
Investment return	1,718,405	2,929,300
New entrant loss	21,230	26,484
Mortality other than expected	52,319	40,736
Fewer terminations than expected	50,761	42,044
Repayments of refunded member contributions ¹	30,392	27,030
Delayed reporting of retirements (effect on assets) ²	11,222	10,974
Other	423,522	414,347
Net actuarial losses	1,762,239	3,280,700
Unfunded liability at end of year	\$43,529,992	\$39,854,106

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

2 460 retirements which occurred prior to 7/1/09 were not reported to the actuary until 6/30/10.

509 retirements which occurred prior to 7/1/10 were not reported to the actuary until 6/30/11.

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. 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 the actual contributions to TRS for FY06 and FY07 that were not based on actuarial calculations. State contributions from FY08 through FY11 were based on the statutory schedule, subject to the maximums contained in the POB legislation. Bonds were sold in FY10 and FY11 to cover some of the state contributions due TRS, but the debt service on those bonds does not affect future state contributions. Actuarial smoothing of assets, required by Public Act 96-0043, first affected the FY11 state contribution.

State Funding Amounts

The FY11 actuarial valuation was used to determine the required FY13 state contributions and the FY13 employer's normal cost. 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 due to uncertainty over state appropriations during FY11. The appropriation shown for FY12 is based on receipt of the required FY11 appropriation.

State Funding Amounts

	FY13	FY12
Benefit Trust Reserve (excludes federal contributions; excludes school district contributions)	\$2,702,278,000	\$2,405,172,000
Minimum benefit reserve	1,200,000	1,300,000
Total state funding amount	<u>\$2,703,478,000</u>	<u>\$2,406,472,000</u>
Employer's normal cost as a percentage of active member payroll	8.23%	8.43%

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*
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
2011	37,769,753	81,299,745	46.5

* 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
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
2011	9,205,603	43,529,992	472.9

* 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.

Solvency Test (\$ thousands)

Year Ended June 30	Aggregate Accrued Liabilities for				Percentage of Benefits Covered by Net Assets		
	Members' Accumulated Contributions (1)	Participants Currently Receiving Benefits (2)	Active Members Employer Portion (3)	Actuarial Value of Assets*	(1)	(2)	(3)
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	-
2011	8,048,689	50,567,881	22,683,175	37,769,753	100	59	-

* 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
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
2011	97,754	6,377	2,843	101,288	4,418,500,521	7.5	43,623	3.8

*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
2011	125,124,423	263,213,399	78,856,272

**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*		2011	2010	2009	2008
under 5	Number	27,960	33,487	37,293	42,725
	Average salary	\$47,292	\$46,324	\$45,464	\$44,916
5-9	Number	34,626	34,529	33,494	31,959
	Average salary	\$57,416	\$57,105	\$55,945	\$55,436
10-14	Number	26,865	25,051	23,133	21,395
	Average salary	\$67,691	\$66,788	\$65,168	\$64,705
15-19	Number	17,935	17,790	17,417	14,753
	Average salary	\$77,268	\$76,001	\$73,770	\$71,802
20-24	Number	11,682	11,391	11,084	10,447
	Average salary	\$83,563	\$82,184	\$79,805	\$78,080
25-29	Number	7,834	7,786	7,790	8,654
	Average salary	\$88,416	\$86,566	\$84,282	\$82,013
30-34	Number	5,839	6,554	6,858	5,763
	Average salary	\$93,299	\$91,077	\$87,973	\$85,738
35 +	Number	1,179	1,251	1,265	790
	Average salary	\$98,678	\$95,486	\$90,698	\$88,478
	Total number	133,920	137,839	138,334	136,486
	Average salary	\$66,044	\$64,385	\$62,319	\$60,254
	% Change average salary	2.6%	3.3%	3.4%	3.7%
	Total payroll full & part-time	\$8,844,612,480	\$8,874,727,268	\$8,620,836,546	\$8,223,827,444

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 FY02-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.

2007	2006	2005	2004	2003	2002
41,244 \$43,446	40,930 \$42,404	39,728 \$41,444	36,951 \$37,633	38,074 \$37,960	41,120 \$36,242
30,520 \$53,062	28,847 \$51,314	26,557 \$49,536	26,027 \$45,568	25,020 \$46,740	24,258 \$45,300
20,469 \$62,447	20,222 \$60,476	20,295 \$58,195	18,307 \$52,771	17,334 \$53,931	16,812 \$52,761
14,422 \$69,368	14,086 \$67,343	13,429 \$65,276	13,358 \$59,820	12,860 \$60,788	12,215 \$59,011
9,814 \$74,894	9,619 \$72,531	9,431 \$70,278	10,868 \$64,881	11,152 \$65,427	12,575 \$63,599
9,484 \$78,831	10,349 \$76,616	10,667 \$74,127	12,488 \$69,276	12,429 \$70,066	13,256 \$68,501
5,301 \$82,508	6,134 \$83,165	5,900 \$79,236	9,186 \$75,643	7,107 \$76,676	7,484 \$76,413
694 \$84,065	785 \$84,524	744 \$81,497	1,162 \$77,805	804 \$78,091	843 \$78,831
131,948 \$58,116	130,972 \$56,916	126,751 \$55,237	128,347 \$52,181	124,780 \$52,408	128,563 \$50,895
2.1%	3.0%	5.9%	(0.4%)	3.0%	3.4%
\$7,668,289,968	\$7,454,402,352	\$7,001,344,987	\$6,697,274,807	\$6,539,470,240	\$6,543,213,885

Active Members by Age and Years of Service as of June 30, 2011

Age		Years of Service				
		Subs	Under 5	5-9	10-14	15-19
20-24	Number	4,148	3,101	1	-	-
	Average Salary	\$4,109	\$39,075	\$41,223	-	-
25-29	Number	5,606	12,851	6,599	-	-
	Average Salary	\$4,421	\$45,075	\$52,984	-	-
30-34	Number	2,786	4,560	13,061	4,584	-
	Average Salary	\$4,157	\$48,454	\$57,296	\$65,353	-
35-39	Number	2,733	2,298	4,939	9,278	2,450
	Average Salary	\$4,066	\$49,582	\$59,318	\$68,366	\$76,570
40-44	Number	4,155	2,048	3,395	4,426	6,490
	Average Salary	\$4,197	\$57,084	\$58,619	\$69,042	\$78,041
45-49	Number	3,672	1,420	2,618	2,683	2,789
	Average Salary	\$4,351	\$49,415	\$58,713	\$67,197	\$78,778
50-54	Number	3,118	849	2,129	2,633	2,346
	Average Salary	\$4,391	\$52,211	\$58,531	\$66,908	\$75,233
55-59	Number	2,798	533	1,260	2,185	2,503
	Average Salary	\$4,693	\$62,937	\$60,963	\$67,553	\$76,108
60-64	Number	1,930	256	539	930	1,174
	Average Salary	\$4,359	\$74,306	\$67,920	\$69,022	\$77,137
65-69	Number	768	37	78	129	171
	Average Salary	\$3,804	\$72,695	\$76,803	\$75,044	\$77,296
70-74	Number	227	5	6	10	10
	Average Salary	\$3,889	\$46,064	\$47,828	\$67,386	\$106,608
Over 74	Number	152	2	1	7	2
	Average Salary	\$3,088	\$29,987	\$29,592	\$64,963	\$86,558
	Total Number	32,093	27,960	34,626	26,865	17,935
	Average Salary	\$4,283	\$47,292	\$57,416	\$67,691	\$77,268

Years of Service

Years of Service							Full and Part-time Member Totals
20-24	25-29	30-34	35-39	40-44	45-49	50+	
-	-	-	-	-	-	-	3,102
-	-	-	-	-	-	-	\$39,076
-	-	-	-	-	-	-	19,450
-	-	-	-	-	-	-	\$47,758
-	-	-	-	-	-	-	22,205
-	-	-	-	-	-	-	\$57,144
-	-	-	-	-	-	-	18,965
-	-	-	-	-	-	-	\$64,793
1,830	-	-	-	-	-	-	18,189
\$83,065	-	-	-	-	-	-	\$70,372
3,901	1,500	-	-	-	-	-	14,911
\$85,146	\$87,481	-	-	-	-	-	\$72,916
2,324	3,311	2,017	-	-	-	-	15,609
\$82,261	\$88,334	\$91,165	-	-	-	-	\$76,182
2,332	2,037	3,170	545	-	-	-	14,565
\$82,196	\$88,550	\$94,614	\$98,291	-	-	-	\$80,605
1,133	885	577	402	110	-	-	6,006
\$84,259	\$89,881	\$94,002	\$98,718	\$99,428	-	-	\$81,627
150	88	65	31	52	11	-	812
\$84,759	\$89,947	\$90,281	\$96,211	\$95,674	\$96,348	-	\$82,627
12	9	9	4	6	6	3	80
\$82,551	\$91,842	\$89,442	\$83,634	\$126,326	\$109,056	\$181,755	\$89,644
-	4	1	1	1	4	3	26
-	\$73,048	\$55,519	\$90,908	\$93,269	\$96,592	\$90,270	\$73,327
11,682	7,834	5,839	983	169	21	6	133,920
\$83,563	\$88,416	\$93,299	\$98,333	\$99,192	\$100,025	\$136,013	\$66,044

	Average Age	Average Years of Service	Number
Full and part-time members	42	12	133,920
Substitutes	41	3	32,093
All	42	10	<u>166,013</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 FY11, 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 FY11, the member contribution was 0.88 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.

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.

An actuarial study will be conducted in 2012 to review the adequacy of ERO contributions. Continuation of the ERO program beyond June 30, 2013 will depend on the results of that study and legislative action.

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

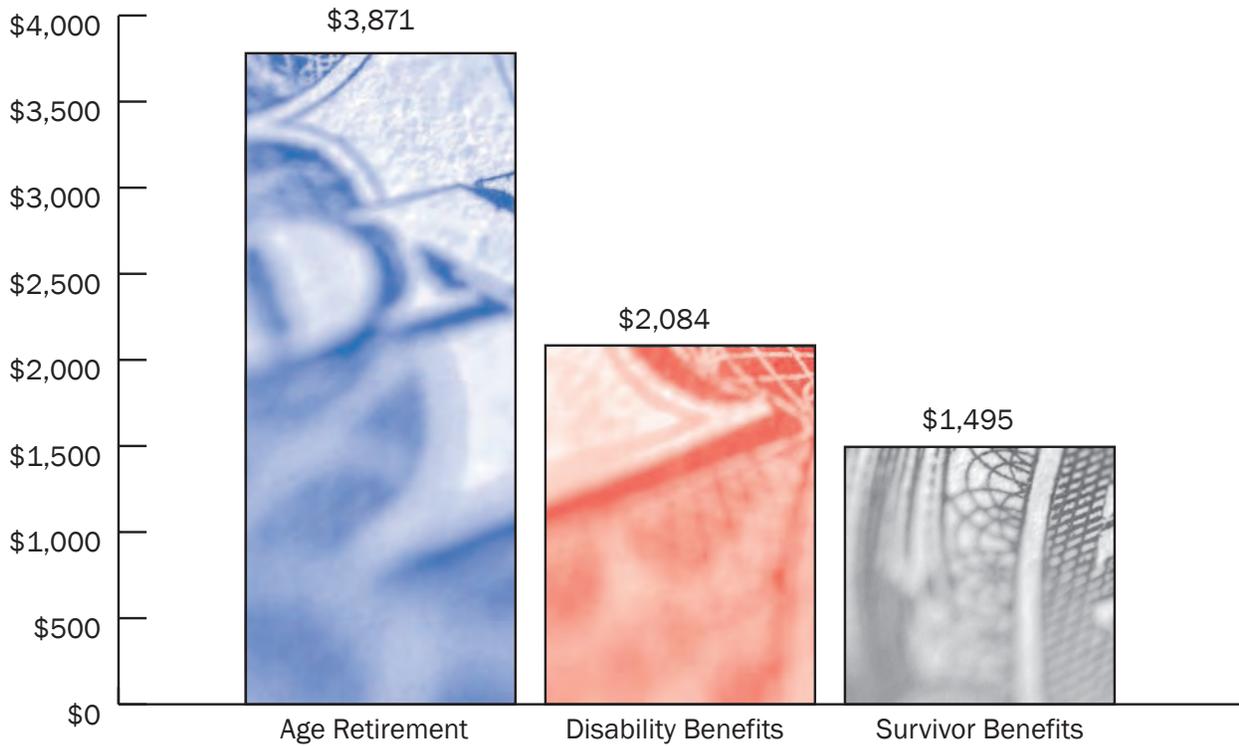
TRS is one of 13 public retirement systems that are included in the provisions of the Illinois Retirement Systems' Reciprocal Act. This act ensures continuous pension credit for public employment in Illinois.

Conflicts

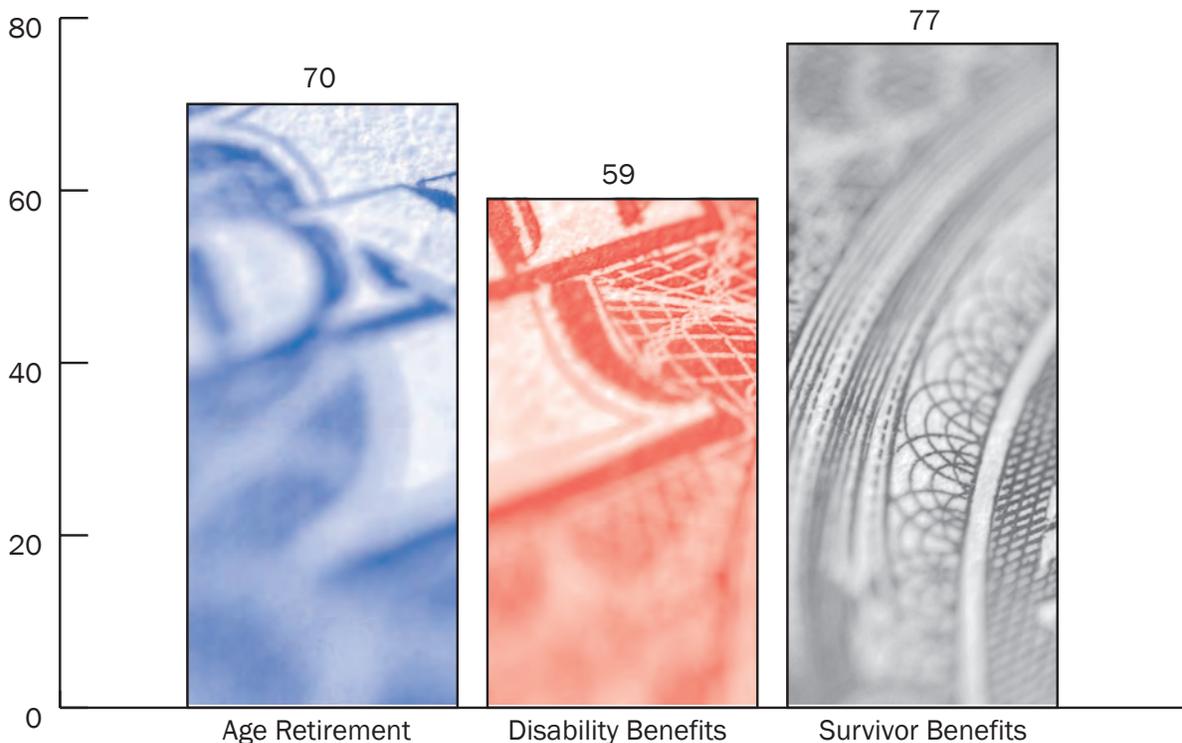
Conditions involving a claim for benefits may require further clarification. If conflicts arise between material in this summary and that of the law, the law takes precedence.

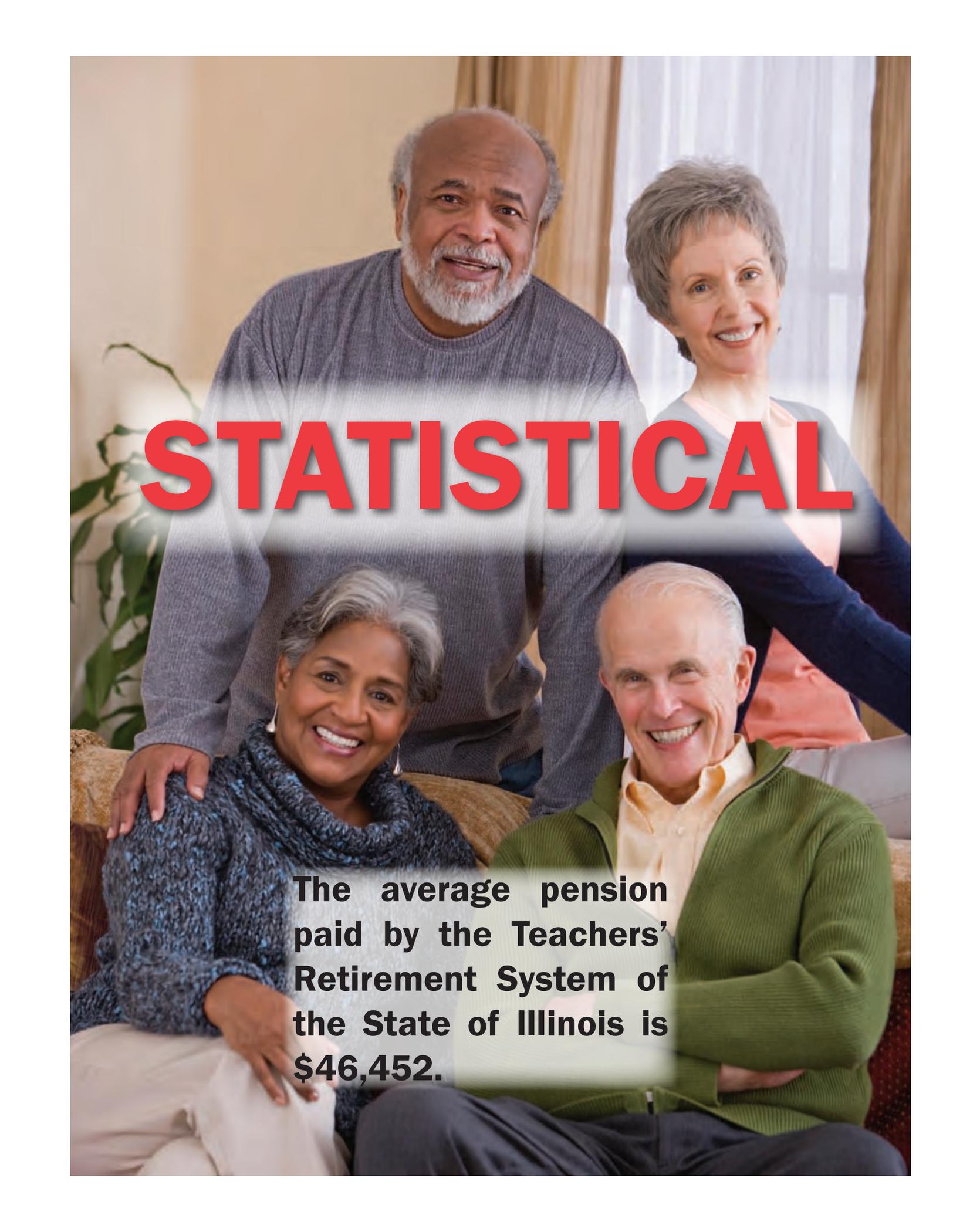
During fiscal year 2011, the majority of TRS benefits went to retired members who earned a pension during a lengthy career in education. Other types of benefits established by law are for disabilities and for eligible survivors of deceased members.

Average Monthly Benefit



Average Age for Benefit Recipients





STATISTICAL

The average pension paid by the Teachers' Retirement System of the State of Illinois is \$46,452.

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 108-109

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 110-111

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 112

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 114-115

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

Average Benefit Payments – Pages 116-117

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 118

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, 2011

Years Retired		Years of Service				
		Under 5	5-9	10-14	15-19	20-24
Under 1	Number	160	328	348	357	596
	Average current benefit	\$281	\$712	\$1,318	\$2,172	\$3,000
	Average original benefit	\$281	\$712	\$1,316	\$2,171	\$2,990
1-4	Number	746	1,346	1,260	1,320	2,040
	Average current benefit	\$275	\$674	\$1,243	\$2,120	\$2,966
	Average original benefit	\$259	\$634	\$1,167	\$2,004	\$2,840
5-9	Number	906	1,151	1,156	1,085	2,331
	Average current benefit	\$262	\$640	\$1,251	\$2,040	\$2,856
	Average original benefit	\$216	\$526	\$1,031	\$1,687	\$2,389
10-14	Number	700	694	593	538	1,368
	Average current benefit	\$282	\$654	\$1,102	\$1,891	\$2,670
	Average original benefit	\$200	\$462	\$785	\$1,358	\$1,929
15-19	Number	388	474	439	402	693
	Average current benefit	\$253	\$647	\$1,028	\$1,316	\$1,932
	Average original benefit	\$153	\$392	\$613	\$789	\$1,167
20-24	Number	182	353	470	482	1,367
	Average current benefit	\$218	\$541	\$892	\$1,419	\$2,051
	Average original benefit	\$113	\$274	\$460	\$741	\$1,091
25-29	Number	82	181	329	385	948
	Average current benefit	\$199	\$406	\$794	\$1,251	\$1,687
	Average original benefit	\$91	\$162	\$346	\$565	\$774
30-34	Number	23	48	133	185	449
	Average current benefit	\$195	\$334	\$631	\$963	\$1,274
	Average original benefit	\$76	\$97	\$226	\$372	\$507
35-39	Number	10	10	33	42	162
	Average current benefit	\$103	\$173	\$570	\$898	\$1,040
	Average original benefit	\$27	\$45	\$173	\$287	\$334
40-44	Number	-	1	-	1	31
	Average current benefit	-	\$37	-	\$783	\$895
	Average original benefit	-	-	-	\$252	\$202
45-49	Number	-	-	-	-	6
	Average current benefit	-	-	-	-	\$867
	Average original benefit	-	-	-	-	\$130
Total Number		3,197	4,586	4,761	4,797	9,991
Average current benefit		\$264	\$637	\$1,126	\$1,817	\$2,469
Average original benefit		\$208	\$508	\$887	\$1,450	\$1,912

Years of Service						Weighted Average	Avg Age
25-29	30-34	35-39	40-44	45-49	50+		
560	905	1,356	112	18	3	4,743	60
\$4,110	\$5,201	\$5,702	\$6,390	\$6,961	\$9,058	\$3,987	
\$4,101	\$5,190	\$5,702	\$6,390	\$6,961	\$9,058	\$3,982	
2,095	4,611	4,857	312	53	5	18,645	62
\$4,003	\$5,234	\$5,600	\$6,170	\$6,739	\$9,561	\$3,946	
\$3,826	\$5,070	\$5,479	\$5,790	\$6,418	\$8,974	\$3,816	
2,786	11,397	4,503	326	49	8	25,698	65
\$4,011	\$5,470	\$6,011	\$6,092	\$6,672	\$7,886	\$4,446	
\$3,340	\$4,601	\$5,025	\$5,010	\$5,535	\$6,424	\$3,725	
1,565	4,380	2,657	205	28	2	12,730	70
\$3,854	\$5,395	\$5,880	\$5,665	\$6,153	\$7,000	\$4,133	
\$2,785	\$3,974	\$4,262	\$4,042	\$4,389	\$5,124	\$3,012	
1,236	1,985	3,972	5,450	12	1	15,052	75
\$2,520	\$3,326	\$4,476	\$4,988	\$5,217	\$4,551	\$3,818	
\$1,523	\$2,011	\$2,723	\$3,042	\$3,205	\$2,792	\$2,322	
1,266	1,593	1,343	89	12	2	7,159	81
\$2,763	\$3,846	\$4,784	\$5,105	\$4,056	\$3,697	\$2,891	
\$1,475	\$2,049	\$2,557	\$2,747	\$2,175	\$2,074	\$1,540	
818	943	726	44	6	-	4,462	86
\$2,332	\$3,258	\$4,175	\$3,966	\$4,098	-	\$2,385	
\$1,080	\$1,513	\$1,949	\$1,826	\$1,909	-	\$1,102	
368	338	238	37	3	-	1,822	91
\$1,743	\$2,473	\$2,698	\$2,934	\$2,294	-	\$1,696	
\$707	\$1,018	\$1,097	\$1,194	\$934	-	\$683	
112	79	109	21	3	-	581	95
\$1,351	\$1,673	\$2,456	\$2,494	\$2,923	-	\$1,446	
\$452	\$576	\$870	\$874	\$1,030	-	\$491	
12	14	3	4	-	-	66	99
\$1,092	\$1,283	\$1,676	\$2,051	-	-	\$1,104	
\$247	\$331	\$519	\$634	-	-	\$276	
3	-	-	-	-	-	9	103
\$1,137	-	-	-	-	-	\$957	
\$180	-	-	-	-	-	\$147	
10,821	26,245	19,764	6,600	184	21	90,967	
\$3,440	\$5,014	\$5,352	\$5,116	\$6,159	\$7,810	\$3,871	
\$2,673	\$4,077	\$4,266	\$3,326	\$5,117	\$6,696	\$3,040	

CHANGES IN NET ASSETS, LAST 10 FISCAL YEARS

(\$ thousands)

	2011	2010	2009	2008
Additions				
Member contributions*	\$909,577	\$899,401	\$876,182	\$865,400
State of Illinois	2,170,918	2,080,729	1,451,592	1,041,115
Pension Obligation Bond proceeds	-	-	-	-
Employer contributions**	155,111	171,421	152,329	130,673
Investment income (loss) net of expenses	7,234,539	3,679,643	(8,688,286)	(2,014,902)
Total additions to/reductions from plan net assets	10,470,145	6,831,194	(6,208,183)	22,286
Deductions				
Benefit payments	4,228,283	3,927,838	3,653,714	3,423,982
Refunds	76,587	60,350	53,709	60,286
Administrative expenses	17,792	16,951	17,388	16,613
Other expenses	-	-	-	-
Total deductions from plan net assets	4,322,662	4,005,139	3,724,811	3,500,881
Changes in net assets				
Beginning of year	31,323,784	28,497,729	38,430,723	41,909,318
Net increase (decrease)	6,147,483	2,826,055	(9,932,994)	(3,478,595)
End of year	\$37,471,267	\$31,323,784	\$28,497,729	\$38,430,723

* 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)

	2011	2010	2009	2008
Type of benefit				
Retirement	\$4,036,147	\$3,749,666	\$3,486,697	\$3,268,108
Survivor	163,910	151,074	140,695	130,369
Disability	28,226	27,098	26,322	25,505
Total benefits	4,228,283	3,927,838	3,653,714	3,423,982
Type of refund				
Withdrawals	22,528	17,149	17,357	17,280
Death benefits and excess contribution refunds paid to survivors	16,404	15,161	15,076	17,182
2.2 and optional service	19,861	15,050	11,013	14,082
Survivor contributions refunded to retirees	10,252	7,967	6,916	8,522
ERO and other	7,542	5,023	3,347	3,220
Total refunds	\$76,587	\$60,350	\$53,709	\$60,286

2007	2006	2005	2004	2003	2002
\$826,249	\$799,034	\$761,790	\$768,661	\$732,020	\$681,152
737,671	534,305	906,749	1,031,478	929,710	814,740
-	-	-	4,330,374	-	-
115,915	123,543	148,813	127,573	91,552	92,618
6,831,324	3,993,290	3,330,040	4,485,730	1,060,853	(723,987)
8,511,159	5,450,172	5,147,392	10,743,816	2,814,135	864,523
3,111,753	2,877,231	2,533,103	2,262,329	1,998,622	1,759,749
59,732	57,967	59,396	48,020	43,115	38,756
15,245	15,303	14,404	13,561	13,859	13,487
-	-	-	-	-	1,892
3,186,730	2,950,501	2,606,903	2,323,910	2,055,596	1,813,884
36,584,889	34,085,218	31,544,729	23,124,823	22,366,284	23,315,645
5,324,429	2,499,671	2,540,489	8,419,906	758,539	(949,361)
\$41,909,318	\$36,584,889	\$34,085,218	\$31,544,729	\$23,124,823	\$22,366,284

2007	2006	2005	2004	2003	2002
\$2,965,356	\$2,741,164	\$2,407,652	\$2,145,187	\$1,890,512	\$1,660,998
121,822	112,902	103,991	97,155	88,997	80,461
24,575	23,165	21,460	19,987	19,113	18,290
3,111,753	2,877,231	2,533,103	2,262,329	1,998,622	1,759,749
17,147	17,155	15,526	14,858	13,204	13,976
17,081	16,747	16,541	16,145	17,734	14,927
14,145	12,666	15,181	7,977	3,699	3,483
8,808	10,198	10,354	7,835	7,024	5,587
2,551	1,201	1,794	1,205	1,454	783
\$59,732	\$57,967	\$59,396	\$48,020	\$43,115	\$38,756

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	
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
2011	9.40	22.38	0.58	0.72	23.68

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. FY11 rate is based on recertification requirements of Pubic Act 96-1511.

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, 23.38 percent in FY10, and 23.10 percent in FY11, with further increases according to the statutory schedule under 40 ILCS 5/16-158 (b-3)].

6 Totals shown are rates certified by the TRS Board of Trustees 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 Board of Trustees because the diversion of the health insurance contributions that began in the middle of the year was not anticipated.

During 2011, TRS Executive Director Dick Ingram met with more than 2,200 TRS members, their families and interested members of the public at Town Hall meetings throughout Illinois. At these meetings, Director Ingram explained the current status of TRS, issues facing public pensions in Illinois and member concerns regarding health insurance, Social Security and state funding.



DEMOGRAPHICS OF BENEFIT RECIPIENTS AND ACTIVE MEMBERS AS OF JUNE 30, 2011

(excludes inactive members)

Age	Retirees			Disability Benefit Recipient			Survivors		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Under 20	-	-	-	-	-	-	29	20	49
20-24	-	-	-	-	-	-	8	13	21
25-29	-	-	-	-	7	7	3	-	3
30-34	-	-	-	-	11	11	1	1	2
35-39	-	-	-	3	19	22	11	15	26
40-44	-	-	-	7	56	63	11	10	21
45-49	-	-	-	15	48	63	15	27	42
50-54	18	25	43	18	105	123	48	78	126
55-59	2,051	5,385	7,436	47	219	266	102	212	314
60-64	7,632	17,638	25,270	41	197	238	251	496	747
65-69	7,457	13,677	21,134	26	78	104	341	700	1,041
70-74	4,934	8,533	13,467	6	41	47	341	901	1,242
75-79	3,790	5,693	9,483	11	44	55	404	1,059	1,463
80-84	2,609	4,557	7,166	7	20	27	421	1,302	1,723
85-89	1,287	2,906	4,193	1	18	19	400	973	1,373
90+	434	2,341	2,775	-	4	4	254	825	1,079
Total	30,212	60,755	90,967	182	867	1,049	2,640	6,632	9,272

BENEFIT RECIPIENTS BY TYPE AS OF JUNE 30, 2011

Monthly Benefit Range	Number of Recipients (all)	Type of Monthly Benefit				
		Retirement	Disability Retirement	Non-occupational Disability	Occupational Disability	Survivor Monthly Benefits
Under \$500	6,551	5,281	6	1	-	1,263
\$500 - \$999	7,597	5,313	83	2	-	2,199
\$1,000 - \$1,499	7,185	5,108	227	17	-	1,833
\$1,500 - \$1,999	7,314	5,535	196	87	-	1,496
\$2,000 - \$2,499	7,131	5,859	97	77	2	1,096
\$2,500 - \$2,999	7,055	6,296	51	38	1	669
\$3,000 - \$3,499	7,609	7,176	37	24	1	371
\$3,500 - \$3,999	8,188	7,959	31	5	-	193
\$4,000 - \$4,499	8,302	8,217	17	4	-	64
\$4,500 - \$4,999	7,658	7,605	14	1	-	38
\$5,000 - \$5,499	6,270	6,236	11	-	-	23
\$5,500 - \$5,999	4,881	4,861	8	1	-	11
\$6,000 - \$6,499	4,059	4,046	5	-	-	8
\$6,500 - \$6,999	3,360	3,355	2	-	1	2
\$7,000 - \$7,499	2,605	2,603	-	-	-	2
\$7,500 - \$7,999	1,914	1,913	-	1	-	-
\$8,000 or more	3,609	3,604	1	-	-	4
Total benefit recipients:	101,288	90,967	786	258	5	9,272

Summary Statistics, All Benefit Recipients, as of June 30, 2011

	Age Retirement	Disability Benefits (3 types)	Survivor Benefits
Average monthly benefit	\$3,871	\$2,084	\$1,495
Average age	70	59	77
Average years of service	28	17	NA

Active Members			Total Retirees, Disabilitants, Survivors, and Active Members			Percent Distribution of Retirees, Disabilitants, Survivors, and Active Members		
Male	Female	Total	Male	Female	Total	Male	Female	Total
-	-	-	29	20	49	59%	41%	100%
1,641	5,609	7,250	1,649	5,622	7,271	23	77	100
5,930	19,126	25,056	5,933	19,133	25,066	24	76	100
6,207	18,784	24,991	6,208	18,796	25,004	25	75	100
5,713	15,985	21,698	5,727	16,019	21,746	26	74	100
5,502	16,842	22,344	5,520	16,908	22,428	25	75	100
4,164	14,419	18,583	4,194	14,494	18,688	22	78	100
3,739	14,988	18,727	3,823	15,196	19,019	20	80	100
3,440	13,923	17,363	5,640	19,739	25,379	22	78	100
1,782	6,154	7,936	9,706	24,485	34,191	28	72	100
542	1,038	1,580	8,366	15,493	23,859	35	65	100
148	209	357	5,429	9,684	15,113	36	64	100
48	45	93	4,253	6,841	11,094	38	62	100
12	11	23	3,049	5,890	8,939	34	66	100
0	3	3	1,688	3,900	5,588	30	70	100
1	8	9	689	3,178	3,867	18	82	100
38,869	127,144	166,013	71,903	195,398	267,301	27%	73%	100%

Subtypes of Age Retirement Benefit

Regular 2.2 Flat Formula	Graduated Formula	Actuarial Benefit	ERO (2.2 & Grad. Form.)	ERI (State or TRS)	Other	Retirement Total
935	1,738	2,596	5	3	4	5,281
789	1,909	2,479	45	74	17	5,313
889	1,780	1,805	338	253	43	5,108
1,064	1,569	1,352	1,032	488	30	5,535
1,218	1,402	845	1,556	801	37	5,859
1,474	1,156	551	1,996	1,077	42	6,296
2,004	1,035	345	2,426	1,327	39	7,176
2,479	1,049	267	2,773	1,306	85	7,959
2,597	1,052	242	2,952	1,268	106	8,217
2,560	956	187	2,748	1,043	111	7,605
2,180	832	121	2,307	681	115	6,236
1,660	706	91	1,736	577	91	4,861
1,430	569	66	1,410	497	74	4,046
1,229	456	51	1,186	359	74	3,355
877	400	22	1,004	250	50	2,603
685	296	20	735	130	47	1,913
1,275	649	47	1,249	268	116	3,604
25,345	17,554	11,087	25,498	10,402	1,081	90,967

Percentage of Age Retirement Benefits by Subtype

28%	19%	12%	28%	12%	1%	100%
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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, 2010 through June 30, 2011					
Average monthly benefit	\$281	\$712	\$1,317	\$2,171	\$2,989
Average final average salary	\$59,267	\$40,317	\$48,191	\$62,212	\$71,841
Number of retired members	160	328	349	357	599
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

* 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+			
\$4,097 \$81,416 562	\$5,190 \$86,636 905	\$5,708 \$91,033 1,359	\$6,527 \$92,605 134	\$3,984 \$76,805 4,753	age 60	27 years
\$3,891 \$77,352 536	\$5,063 \$84,466 887	\$5,621 \$89,648 1,410	\$5,819 \$82,289 118	\$3,960 \$75,507 4,541	age 60	27 years
\$3,941 \$78,684 425	\$4,940 \$82,544 779	\$5,411 \$86,467 1,301	\$6,457 \$92,170 65	\$3,840 \$73,725 4,029	age 59	27 years
\$3,505 \$71,223 398	\$4,737 \$80,631 695	\$5,098 \$81,570 884	\$5,413 \$79,227 67	\$3,536 \$69,412 3,260	age 59	26 years
\$3,744 \$75,511 575	\$5,080 \$83,693 1,858	\$5,598 \$89,451 1,506	\$5,887 \$89,442 139	\$4,260 \$77,499 5,433	age 58	29 years
\$3,372 \$68,902 404	\$4,728 \$77,920 1,205	\$5,161 \$82,558 1,005	\$5,600 \$85,399 84	\$3,789 \$70,764 3,791	age 59	28 years
\$3,467 \$70,637 737	\$4,700 \$76,980 2,992	\$5,264 \$84,774 1,637	\$5,270 \$81,371 123	\$4,070 \$73,078 6,908	age 58	30 years
\$3,227 - 510	\$4,546 - 1,988	\$5,056 - 1,184	\$5,206 - 95	\$3,892 \$70,359 4,817	age 58	30 years
\$3,147 - 508	\$4,281 - 1,995	\$4,628 - 1,144	\$4,598 - 81	\$3,534 \$62,728 4,915	age 58	29 years
\$3,080 - 481	\$4,301 - 2,117	\$4,543 - 831	\$4,700 - 74	\$3,512 \$61,714 4,582	age 59	29 years

PRINCIPAL PARTICIPATING EMPLOYERS

Participating Employer	City	Year ended June 30, 2011			Year ended June 30, 2002		
		Rank	Covered Employees	Percentage of Total TRS Membership	Rank	Covered Employees	Percentage of Total TRS Membership
School District U46	Elgin	1	2,838	1.7%	1	3,132	2.0%
Indian Prairie CUSD 204	Naperville	2	2,635	1.6	3	2,271	1.5
Plainfield SD 202	Plainfield	3	2,431	1.5	-	-	-
Rockford SD 205	Rockford	4	2,302	1.4	2	2,312	1.5
Naperville CUSD 203	Naperville	5	1,769	1.1	4	1,649	1.1
Springfield SD 186	Springfield	6	1,641	1.0	6	1,448	0.9
Community USD 300	Carpentersville	7	1,619	1.0	9	1,379	0.9
Valley View CUSD 365	Romeoville	8	1,563	0.9	-	-	-
Schaumburg CCSD 54	Schaumburg	9	1,500	0.9	7	1,414	0.9
Waukegan CUSD 60	Waukegan	10	1,416	0.9	10	1,160	0.7
Peoria SD 150	Peoria	-	-	-	5	1,615	1.0
Community Unit SD 200	Wheaton	-	-	-	8	1,381	0.9
Total, largest 10 employers			19,714	11.9%		17,761	11.4%
All other (1,019 employers in 2011* 1,047 employers in 2002)			146,299	88.1%		138,218	88.6%
Grand Total			166,013	100.0%		155,979	100.0%

*Other Employers by Type as of June 30, 2011	Number of Other Employers	Other Covered Employees
Local school districts	856	138,670
Special Districts	141	6,990
State Agencies	22	639
Total, employers other than largest 10	1,019	146,299

Total Employers by Type as of June 30, 2011	Total Number of Employers	Total Covered Employees
Local school districts	866	158,384
Special Districts	141	6,990
State Agencies	22	639
Total, all employers	1,029	166,013



Teachers' Retirement System of the State of Illinois

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