



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



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



Teachers' Retirement System of the State of Illinois

R. Stanley Rupnik, Acting Executive Director
2815 West Washington Street, P.O. Box 19253
Springfield, Illinois 62794-9253

December 22, 2010

Dear TRS Members:

This year's *Annual Financial Report Summary* is one of the first external publications to use the new logo that emphasizes people (see upper left image).

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

Active and retired teachers throughout Illinois were photographed with students and apples to personify this concept. We would like to thank our "models" for adding interest and reality to our publication.

This report is intended to summarize financial, investment, actuarial, and statistical information in a single publication. Information for this report was gathered by and reflects the combined efforts of TRS staff under the leadership of the Board of Trustees and the acting executive director. We hope all recipients of this report find it informative and useful. The *Comprehensive Annual Financial Report*, which contains more detailed information, and this report are 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.

Sincerely,

R. Stanley Rupnik
Acting Executive Director

Jana Bergschneider, CPA
Director of Administration



History teacher Bryant of Springfield with Noah.



Michael Bracey Photography

Retired reading teacher Nancy of Oak Park with Katherine.

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Fiscal Year 2010 Financial Highlights

- TRS net assets at June 30, 2010 were \$31.3 billion.
- During fiscal year 2010, TRS net assets increased \$2.8 billion. Net assets are determined by subtracting liabilities from total assets. Most TRS liabilities involve securities transactions.
- Contributions from members, employers, and the state were \$3,152 million, an increase of \$671 million or 27.1 percent for the fiscal year. The member contribution gain is attributable to a net increase of approximately 1,100 members since last year. The employer contribution increase is due to a rise in the federal funds rate and required contributions for certain members at retirement. The state increase was required by the statutory funding plan.
- Total investment gain was \$3,680 million, compared to investment loss of \$8,688 million in fiscal year 2009, an increase of \$12,368 million.
- Benefits and refunds paid to members and annuitants were \$3,988 million, an increase of \$281 million or 7.6 percent compared to fiscal year 2009.
- Total actuarial accrued liability was \$77.3 billion at June 30, 2010



History teacher Mario of Springfield with Bryce.

- The unfunded actuarial accrued liability increased from \$35.0 billion at June 30, 2009 to \$39.9 billion at June 30, 2010. The unfunded liability is the difference between the value of future pension benefits accrued minus the actuarial value of assets. The actuarial value of assets are calculated using a smoothed value of assets, as required under Public Act 96-0043.
- The funded ratio decreased from 52.1 percent at June 30, 2009 to 48.4 percent at June 30, 2010.

Condensed Comparative Statement of Plan Net Assets as of June 30

| | 2010 | 2009 | Percentage Change |
|--|-------------------------|-------------------------|-------------------|
| Cash | \$11,878,310 | \$3,849,113 | 208.6% |
| Receivables and prepaid expenses | 170,460,327 | 267,580,363 | (36.3) |
| Investments | 31,482,144,166 | 28,961,352,329 | 8.7 |
| Invested securities lending collateral | 3,501,404,035 | 4,251,858,945 | (17.7) |
| Capital assets | 4,032,313 | 3,707,543 | 8.8 |
| Total assets | 35,169,919,151 | 33,488,348,293 | 5.0 |
| Total liabilities | 3,846,134,937 | 4,990,618,850 | (22.9) |
| Net assets | \$31,323,784,214 | \$28,497,729,443 | 9.9% |

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

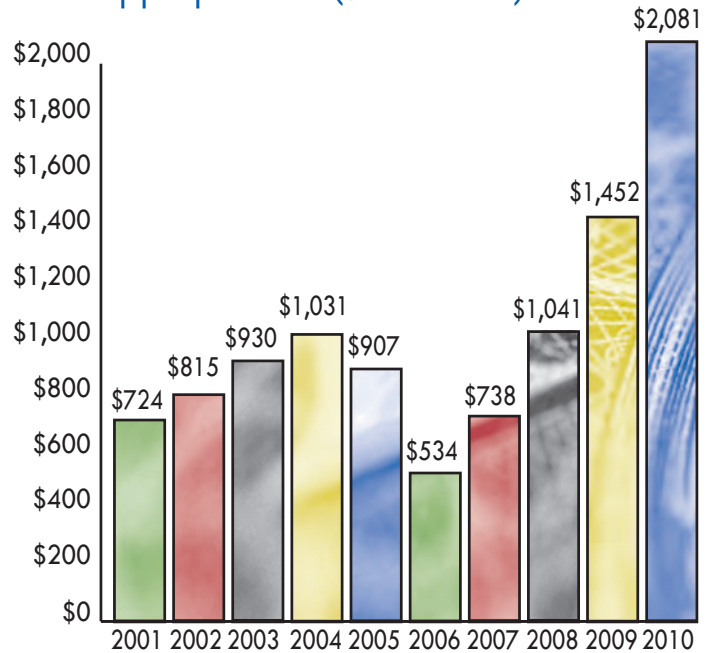
| | 2010 | 2009 | Percentage Change |
|--|-------------------------|-------------------------|-------------------|
| Contributions | \$3,151,550,632 | \$2,480,102,691 | 27.1% |
| Total investment income/(loss) | 3,679,642,960 | (8,688,285,511) | 142.4 |
| Total additions/(reductions) | 6,831,193,592 | (6,208,182,820) | 210.0 |
| Benefits and refunds | 3,988,188,142 | 3,707,423,088 | 7.6 |
| Administrative expenses | 16,950,679 | 17,387,936 | (2.5) |
| Total deductions | 4,005,138,821 | 3,724,811,024 | 7.5 |
| Net increase/(decrease) in net assets | 2,826,054,771 | (9,932,993,844) | |
| Net assets beginning of year | 28,497,729,443 | 38,430,723,287 | (25.8) |
| Net assets end of year | \$31,323,784,214 | \$28,497,729,443 | 9.9% |

State Funding

The chart shows changes in state appropriations over the past 10 years. A 50-year funding plan, first effective in fiscal year 1996, required state contributions to ramp up for the first 15 years. In accordance with that plan, state contributions continued to increase through fiscal year 2004. In fiscal year 2005, the contribution was reduced due to a new calculation method enacted when the state issued pension obligation bonds. Contributions for fiscal years 2006 and 2007 were specified by statute, not the funding method outlined in the bond legislation. In fiscal year 2008, state contributions returned to the 15-year ramp schedule, but the funding requirements were much higher because of the 2006 and 2007 reductions. The fiscal year 2009 and 2010 requirements were higher still so that by the end of the 15th year of the plan, state contributions could reach a point where they could remain essentially level for the following 35 years. This level contribution is subject to maximum amounts outlined in the bond legislation, and it can fluctuate due to economic or demographic experience different from what the actuaries project, particularly on investments.

In recent years, TRS has liquidated investments in order to cover benefit payments. However, those assets should remain in the trust fund to generate investment income and reduce state contribution requirements. Investment

State Appropriations (\$ in millions)



performance over the long term is solid, and member and school district contributions are reliable and predictable. Commitment to the funding plan will reduce state costs over the long term.

Investments

Financial markets rebounded during the fiscal year as global economies reflected signs of recovery from the deep recession and credit crisis. While debate continued as to the strength of any such recovery, fiscal year 2010 was the first time since fiscal year 2007 that the backdrop in the broad investment landscape was positive. The United States and other developed countries continued implementing generous stimulus programs to aid the economic recovery as key metrics, such as unemployment and real estate values, remained concerning through the fiscal year. Equity returns in the United States led global markets over the past 12 months returning 15.7 percent, while international equity markets increased 11.5 percent.

Investment Portfolio

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



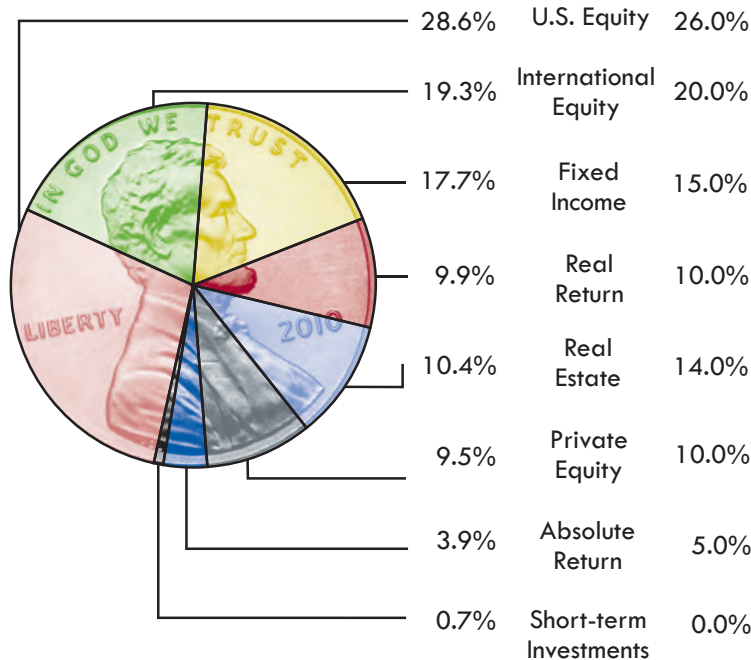
Middle school teacher Nina of South Holland with DaNae.

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.

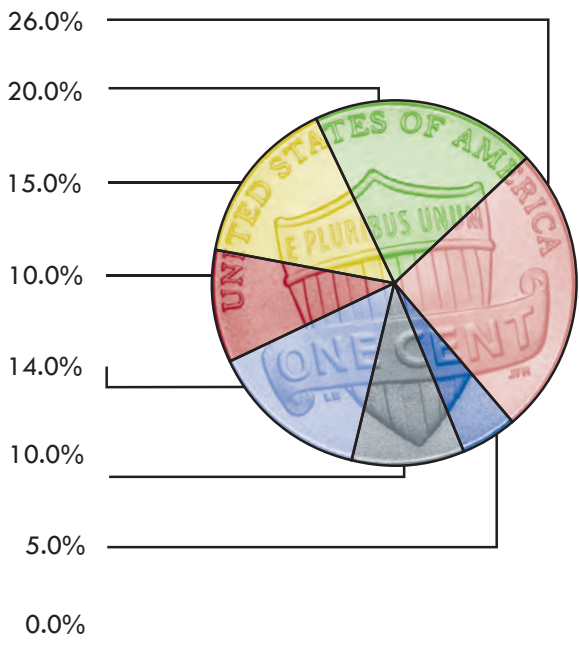
TRS Investment Performance
(net of fees)

| | 1 year | 3 years | 5 years | 10 years |
|----------------|--------|---------|---------|----------|
| Rate of return | 12.9% | (6.0%) | 2.0% | 3.3% |

Fiscal Year 2010 Asset Allocation

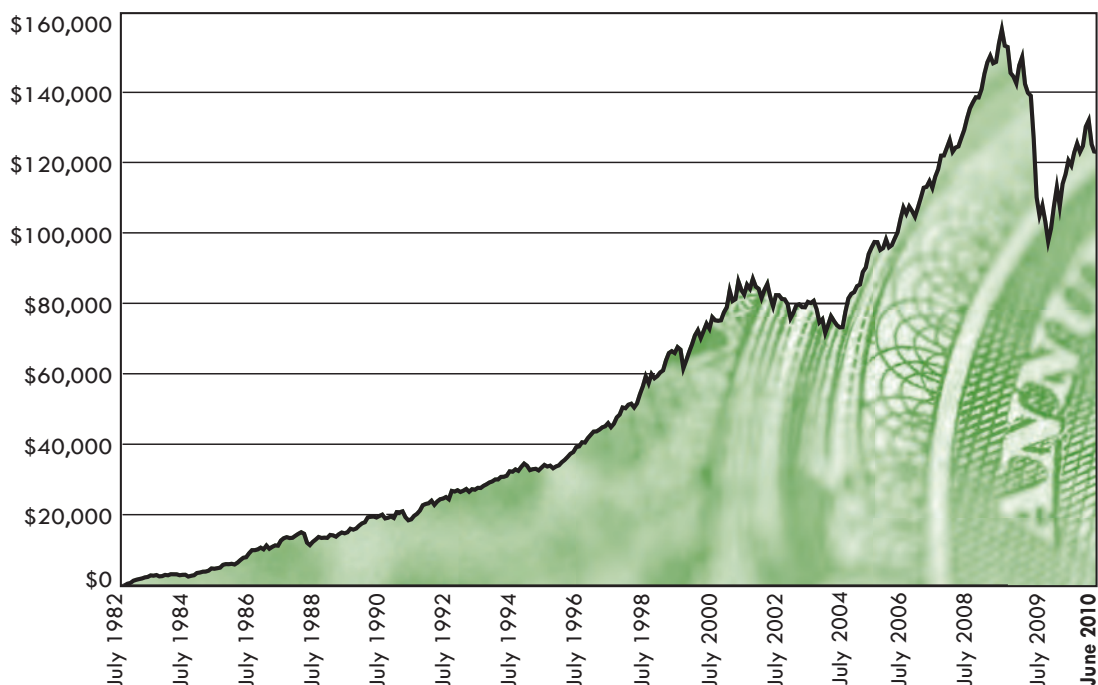


Long-term Target Allocation



Growth of \$10,000

Over the years, TRS's asset allocation has provided consistent overall returns, as represented by the following chart showing the growth of \$10,000 over the last 28 years. Despite market fluctuations, the overall trend line is solidly favorable.



Actuarial

The TRS actuaries calculate the system's funded status and state-funding requirements each year based on economic and demographic assumptions and state law. The accrued liability is the value in today's dollars of all the benefits participants have earned that have not yet been paid. The actuarial value of assets is subtracted from the accrued liability to determine the unfunded liability. The state's funding requirements are based on the actuary's estimate of the cost of benefits that teachers will earn in the coming year plus an amount to amortize a portion of the unfunded liability.

In fiscal year 2009, investment losses for TRS and most other investors were dramatic. In Illinois, changes in state funding law were enacted requiring investment gains and losses (compared to the 8.5 percent investment return assumption) to be prospectively "smoothed" over a five-year period. This smoothing method is standard

among many public retirement systems in the United States and reduces the volatility of employer (state) funding requirements. The fiscal year 2010 investment gains are also smoothed, with 20 percent recognized immediately and the remainder recognized in fiscal years 2011 through 2014.

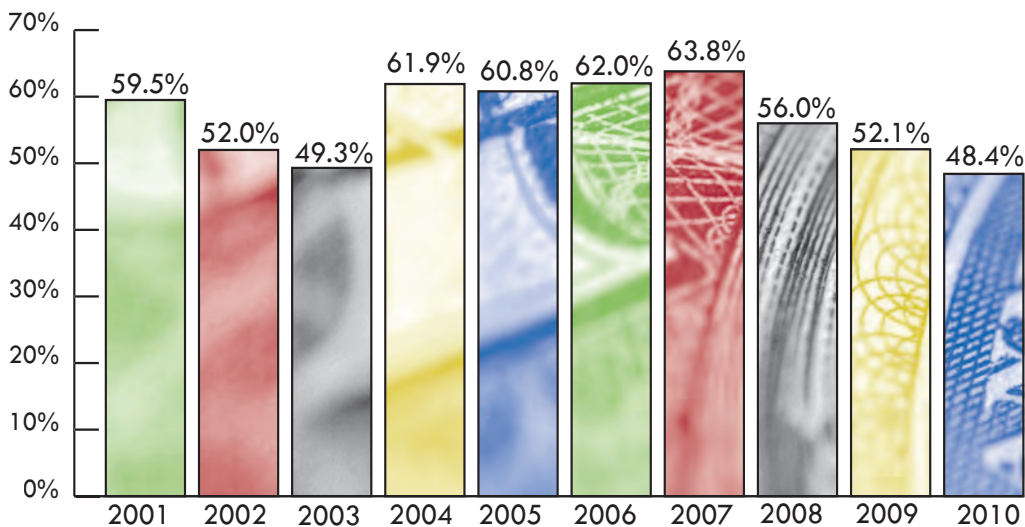
Here are the key results of the current actuarial valuation compared to the prior year's valuation:

Actuarial Valuation (\$ in thousands)

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

* Five-year prospective smoothing began in fiscal year 2009.

Funded Ratio



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.

Statistical

Member Statistics

Full and Part-time Active Members

| | |
|--------------------------|----------|
| Average age | 42 |
| Average years of service | 12 |
| Average annual salary | \$64,385 |
| Oldest full-time teacher | 80 |

Retired Members

| | |
|------------------------|----------|
| Average age | 69 |
| Average service | 28 |
| Average annual benefit | \$44,844 |
| Oldest retired teacher | 109 |

Fiscal Year Highlights

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

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

This publication is a summary of the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. The comprehensive report, which has more detailed information, is available on our Web site, <http://trs.illinois.gov>.

Photo credits: Cover photo and other noted photos by TRS employee, Michael Bracey. All other photos by TRS Communications Dept.



History teacher Robert of Chatham with Alex.



Special Education teacher Robin of Springfield with Natalie.