ANNUAL FINANCIAL REPORT SUMMARY

For the Fiscal Year Ended June 30, 2018

ILLINOIS 200 BICENTENNIAL 1818 2018

Teachers' Retirement System
of the State of Illinois

a component unit of the State of Illinois

In 2018, Illinois celebrates 200 years of statehood. Two centuries of significant contributions to the United States and the world – a leader in commerce, agriculture, industry, transportation, learning, culture and the arts. llinois' dedication to the education of its youth has been interwoven throughout history.

BOARD OF TRUSTEES

As of December 1, 2018

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Superintendent of Education
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EXECUTIVE CABINET

As of December 1, 2018

Standing, left to right:
Director of Communications Dave Urbanek, Chief Human Resources Officer Gina Larkin, Chief Investment Officer Stan Rupnik, Executive Director Dick Ingram, Chief Benefits Officer Carlton Lenoir, Director of Operations Jeff Bennett and Chief Financial Officer Jana Bergschneider

Sitting, left to right:
Director of Internal Audit and Risk Stacy Smith and Chief Legal Counsel Marcilene Dutton

Cover photo credit:
Kimberly Blom-Roemer

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
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members@trsil.org | https://www.trsil.org
Richard W. Ingram, Executive Director

December 13, 2018

Dear TRS Members:

We are pleased to present the *Annual Financial Report Summary* for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2018.

As in the past, TRS met its responsibilities during fiscal year 2018 with an absolute commitment to the highest quality service to its members and their families and employers. The System continued its dedication to accountability and transparency as well as a resolve to overcome all challenges.

- TRS distributed more than $6.5 billion in retirement, disability and survivor benefits to more than 122,000 annuitants and beneficiaries.
- The successful delivery of TRS pensions generated a $6.6 billion economic stimulus in every corner of Illinois. Approximately $4.5 billion of TRS retirement benefits stay in Illinois, supporting more than 45,000 jobs with a payroll of $1.9 billion.
- TRS investments earned a positive 8.5 percent return, net of fees, for the fiscal year, which exceeded the System's custom benchmark. The portfolio's average 9.2 percent annual return for the past 40 years exceeded the long-term actuarial return assumption of 7 percent.

While we have substantial assets, the fiscal health of the Teachers' Retirement System is exposed to any future economic downturn. It would not take a significant change in current conditions to put TRS on a path towards significant difficulty.

As of June 30, 2018, TRS is 40.7 percent funded and carries a $75 billion unfunded liability. The System has $51.7 billion in assets and a long-term benefit obligation of $127 billion. In other words, TRS currently holds just 40 cents for every $1 it owes to all members.

Our first priority is to pay our member benefits and closely manage the liquidity of our portfolio to ensure that we have the cash needed to meet our obligations. The TRS funded ratio is at a level where the System's investment strategy could be negatively impacted by a future downturn in the investment markets. A plan like TRS with a funded ratio already below 50 percent would be unable to absorb any financial shocks created by a sustained downturn in the markets.

In the years ahead, we look forward to working with the new administration and legislative leaders to develop a sustainable solution to our chronic underfunding. Our members and many stakeholders deserve a serious effort to secure the future of TRS.

Information for this report was gathered by TRS staff under the leadership of the TRS Board of Trustees and the executive director and it is the responsibility of TRS management. 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, their employers and the State of Illinois.

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 W. Ingram
Executive Director

Jana Bergschneider, CPA
Chief Financial Officer

FINANCIAL HIGHLIGHTS

- The net position of TRS at June 30, 2018 was $52.0 billion.
- During fiscal year 2018, the net position of TRS increased $2.6 billion.
- Contributions from members, employers and the State of Illinois were $5.1 billion, an increase of $53 million or 1.0 percent for fiscal year 2018.
- Total net investment income was $4.0 billion, compared to $5.5 billion in fiscal year 2017, a decrease of $1.5 billion.
- Benefits and refunds paid to members and annuitants were $6.6 billion, an increase of $114 million or 1.8 percent.
- The actuarial accrued liability was $127.0 billion at June 30, 2018.
- The unfunded actuarial accrued liability was $75.3 billion at June 30, 2018. The funded ratio was 40.7 percent at June 30, 2018. The unfunded liability and funded ratio are calculated using a smoothed value of assets, as required under Public Act 96-0043.
- The total pension liability was $129.9 billion at June 30, 2018.
- The net pension liability was $77.9 billion at June 30, 2018. The plan fiduciary net position, as a percentage of total pension liability, was 40.0 percent.

Condensed Comparative Statements of Fiduciary Net Position as of June 30

	2018	Percentage Change	2017
Cash	$32,034,294	(16.4%)	$38,331,642
Receivables and prepaid expenses	5,856,758,011	(41.8)	10,059,591,696
Investments	52,070,945,762	5.9	49,180,275,900
Invested securities lending collateral	2,323,876,849	(28.9)	3,268,211,165
Capital assets	2,851,122	(2.1)	2,913,530
Total assets	**60,286,466,038**	**(3.6)**	**62,549,323,933**
Total liabilities	**8,316,919,344**	**(36.9)**	**13,173,659,415**
Net position restricted for pensions	**$51,969,546,694**	**5.3%**	**$49,375,664,518**

Condensed Comparative Statements of Changes in Fiduciary Net Position for the Years Ended June 30

	2018	Percentage Change	2017
Contributions	$5,117,795,720	1.0%	$5,064,989,441
Net investment income	4,049,271,728	(26.6)	5,520,453,001
Total additions	9,167,067,448	(13.4)	10,585,442,442
Benefits and refunds	6,551,634,376	1.8	6,438,005,920
Administrative expenses	21,550,896	(5.2)	22,728,735
Total deductions	6,573,185,272	1.7	6,460,734,655
Net increase in net position	**2,593,882,176**	**(37.1%)**	**4,124,707,787**
Net position restricted for pensions - beginning of year	**49,375,664,518**	**9.1**	**45,250,956,731**
Net position restricted for pensions - end of year	**$51,969,546,694**	**5.3%**	**$49,375,664,518**

INVESTMENTS

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 TRS investment portfolio increased $2.9 billion over the past 12 months, ending with a value of $52.1 billion on June 30, 2018. The TRS portfolio remains fully diversified across different asset classes. Within each asset class, TRS uses a number of investment managers with various investment styles to ensure appropriate diversification, 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.

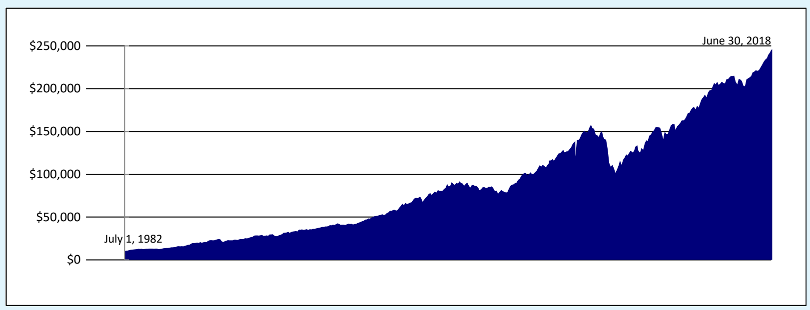
Global financial markets continued to experience modest growth, low financial volatility and tepid inflation for the fiscal year ended June 30, 2018. The System's global equities portfolio, including public and private assets, took advantage of these market conditions during the year by generating 12.8 percent, net of fee returns. All asset classes produced positive returns, contributing to the overall TRS portfolio posting a return of 8.5 percent, net of fees, for the fiscal year ended June 30, 2018.

TRS Investment Performance (net of fees)

Summary Data as of June 30, 2018	
Total fund fair value	$52.1 billion
1-year return (net of fees)	8.5%
3-year return (net of fees)	6.9%
5-year return (net of fees)	8.3%
10-year return (net of fees)	6.2%
20-year return (net of fees)	6.6%
30-year return (net of fees)	8.3%

Growth of $10,000

TRS's asset allocation has provided consistent overall returns throughout the years, as represented by the following chart showing the growth of $10,000 since July 1, 1982.



Strategic Investment Listing Allocation Targets vs. Total Assets

Asset Class	Total Fund $ (Million)	Actual Percent	Interim Target	Long-term Target	Actual Percent	Long-term Target
	As of June 30, 2018				As of June 30, 2017	
Public equity	$18,511.6	35.9%	36.0%	34.0%	36.5%	36.0%
Private equity	6,792.6	13.2	12.0	15.0	13.2	14.0
Real estate (opportunistic)	1,445.5	2.8	3.0	5.0	3.1	4.0
Total Equity	**26,749.7**	**51.9**	**51.0**	**54.0**	**52.8**	**54.0**
Real estate (core - value add)	5,790.6	11.2	11.0	11.0	11.4	11.0
Other real assets	1,253.7	2.5	4.0	4.0	2.3	3.0
Total Real Assets	**7,044.3**	**13.7**	**15.0**	**15.0**	**13.7**	**14.0**
Total Diversifying Strategies	**5,864.1**	**11.4**	**13.0**	**14.0**	**12.0**	**16.0**
Global fixed income	10,692.0	20.7	20.0	17.0	19.5	16.0
Short-term	1,181.1	2.3	1.0	-	2.0	-
Total Income	**11,873.1**	**23.0**	**21.0**	**17.0**	**21.5**	**16.0**
Pending settlements/expenses	**539.7**	N/A	N/A	N/A	N/A	N/A
Total TRS Fund	**$52,070.9**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Sources: State Street Bank and Trust and TRS

ACTUARIAL

State Funding

The state's liability for benefits earned by active and inactive teachers and retirees is the actuarial accrued liability. It is based on the benefit provisions in effect on June 30, 2018 and the retirement system's economic and demographic assumptions. Dividing the accrued liability by assets yields the funded ratio, which is an indication of how much of the liability is covered by assets. The difference between the accrued liability and assets is the System's unfunded liability.

For statutory funding and financial reporting, an actuarial valuation is performed annually and measures the total liability for all benefits earned to date. The actuarial 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 $4.1 billion in fiscal year 2018 to $127.0 billion at June 30, 2018.

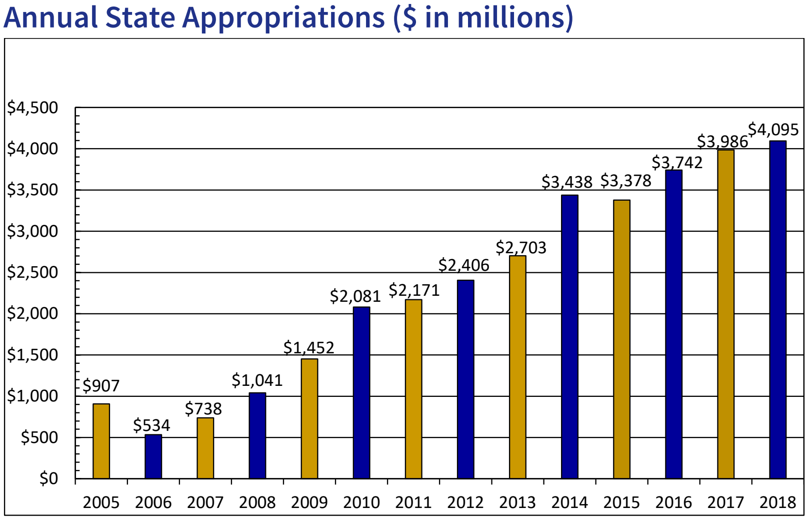
The unfunded liability is the present value of accrued benefits payable that are not covered by assets.

Actuarial Valuation ($ thousands)

	Year ended June 30, 2018
Based on actuarial value of assets	
Total actuarial accrued liability	$127,019,330
Less actuarial value of assets*	51,730,890
Unfunded liability	**$75,288,440**
Funded ratio*	40.7%
Based on fair value of assets	
Total actuarial accrued liability	$127,019,330
Less assets at fair value	51,969,547
Unfunded liability	**$75,049,783**
Funded ratio	40.9%

** Five-year prospective smoothing began in FY09.*

Annual State Appropriations ($ in millions)



The 2018 actuarial valuation reflects changes in assumptions resulting from the most recent experience analysis. Changes in assumptions included higher salary increases and severance payments; lower rates of termination and disability; and updates to rates of retirement, mortality, and mortality improvement. The rate of return assumed on investments was maintained at 7.0 percent.

TRS is funded according to a schedule described in the Illinois Pension Code. It is a 50-year schedule that began in fiscal year 1996 and will end in fiscal year 2045. By the end of the funding period, 90 percent of the retirement system's liability for benefits will be covered by its assets. The law contains a continuing appropriation provision that requires the statutory contribution to be paid automatically to TRS, subject to the availability of state funds.

The TRS Board of Trustees recommends that the state adopt a different funding policy that would improve TRS's financial position more quickly. State contribution requirements would be much higher initially. Over the long term, however, financing costs would be greatly reduced and the unfunded liability would start decreasing immediately.

State Funding for Fiscal Year 2019 and Fiscal Year 2020

Most of the TRS unfunded liability is due to insufficient state contributions accumulated since 1939. Because state contributions annually failed to meet actuarial requirements, the largest share of the annual state contribution (about 75 percent) is dedicated to paying off the unfunded liability.

The TRS Board of Trustees certifies two state funding requirements each year. One is based on current law and the other is based on the board's recommended funding policy.

The daughters and sons of Illinois have been innovators and explorers, creators of beauty, champions of the oppressed and defenders of freedom. Presidents, poets, astronauts, inventors and musicians have emerged from one-room rural schools and urban classrooms. When called to defend liberty at home or abroad, Illinoisans have responded with courage and sacrifice.

#IllinoisProud

Public Act 100-0587 requires the fiscal year 2019 state contribution to be recertified in June 2019. The state budget for fiscal year 2019 assumes that savings will occur in fiscal year 2019 due to other changes that were contained in the act (temporary benefit buyout programs and the reduction in the cap on salary increases used in final average salary calculations). The recertification will be based on the retirement system's actual and expected experience with both programs.

Funding Analysis By Tier

Public Act 96-0889 established a new tier of benefits for teachers who first contributed to TRS or another reciprocal pension system on or after Jan. 1, 2011. Tier 2 teachers have later retirement dates, longer vesting requirements, salary caps for pensions lower than the Social Security wage base and lower cost of living increases after retirement that start later and are not compounded. The member contribution rate for both tiers is 9.0 percent.

The employer normal cost rate measures the employer's cost of the benefits being earned by active teachers during the year. It does not include any contributions towards the unfunded liability. The chart shows that while the combined employer normal cost of both tiers in 2020 is over 10 percent of pay, the cost of Tier 2 is negative and stays negative through 2045.

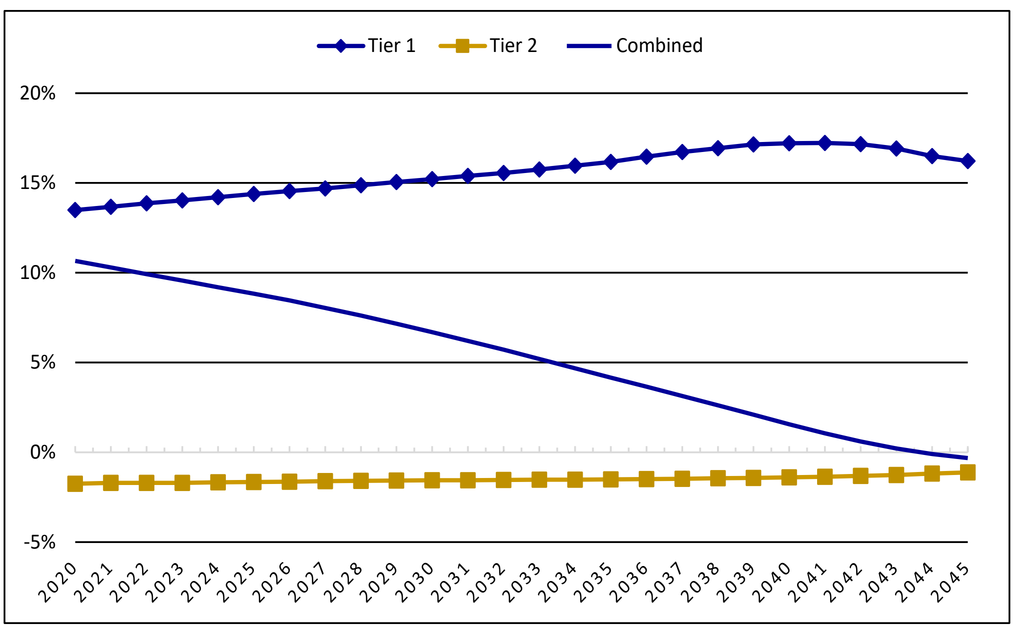
As more Tier 2 members enter TRS, the combined employer normal cost continues to fall. By 2044, the combined employer normal cost is negative. In the meantime, the cost of Tier 1 (a closed group) continues to increase as Tier 1 members age and accrue more service. The increases in employer normal cost for both tiers is a function of the projected unit credit actuarial cost method required by the Illinois Pension Code.

Fiscal Year 2019 & Fiscal Year 2020 State Contribution Requirements

	FY19 Requirements*	FY20 Requirements
Based on Statutory Funding Plan		
Benefit Trust Reserve	$4,465,578,109	$4,813,077,696
Minimum Annuity Reserve	600,000	500,000
Total State Contribution	$4,466,178,109	$4,813,577,696
Based on TRS Board Funding Policy		
Benefit Trust Reserve	$7,370,330,484	$7,878,170,709
Minimum Annuity Reserve	600,000	500,000
Total State Contribution	$7,370,930,484	$7,878,670,709
Employer Normal Cost Rate		
Tier 1	12.65%	13.75%
Tier 2	(1.89%)	(1.48%)
Combined	9.85%	10.66%

Fisal year 2019 state contribution must be recertified in June 2019, pursuant to Public Act 100-0587. Shown are the original amounts.

Employer Normal Cost by Tier



STATISTICAL

Member Statistics for the Fiscal Year Ended 2018			
Full and Part-time Active Members		**Retired Members**	
Average age	42	Average age	71
Average service	13 years	Average service	27 years
Average annual salary	$73,028	Average annual benefit	$57,312
Oldest full-time teacher	78	Oldest retired teacher	107

TRS RECEIVES GFOA AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Teachers' Retirement System of the State of Illinois (TRS) for its Popular Annual Financial Report for the fiscal year ended June 30, 2017. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular financial reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. TRS has received a Popular Award for the last 18 consecutive years. We believe this June 30, 2018 report also conforms to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

Dec. 3, 1818 - Illinois became the 21st state. The lessons learned in classrooms all over the state from 1818 on have blossomed again and again to advance the human condition in innumerable ways.

Happy 200th birthday, Illinois!

FISCAL YEAR HIGHLIGHTS

	As of June 30, 2018
Active contributing members	160,859
Inactive noncontributing members	134,010
Benefit recipients*	122,423
Total membership	417,292
Investment return	
Total fund investment return, net of fees	8.5%
For funding purposes	
Actuarial accrued liability (AAL)	$127,019,330,164
Less actuarial value of assets (smoothed assets)	51,730,889,960
Unfunded actuarial accrued liability (UAAL)	$75,288,440,204
Funded ratio (% of AAL covered by assets, based on smoothed assets)	40.7%
For financial disclosure	
Total pension liability (TPL)	$129,914,383,296
Less fiduciary net position (FNP)	51,969,546,694
Net pension liability (NPL)	$77,944,836,602
FNP as a percentage of TPL	40.0%
Income	
Member contributions	$938,037,245
Employer contributions	84,633,117
State of Illinois contributions	4,095,125,358
Total investment income	4,049,271,728
Total income	$9,167,067,448
Expenses	
Benefits paid	$6,458,709,645
Refunds paid	92,924,731
Administrative expenses	21,550,896
Total expenses	$6,573,185,272

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

FULL REPORT ONLINE

This publication is a summary of the *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2018.

The comprehensive report is available online at: **https://www.trsil.org/financial/cafrs/fy2018**.

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