Annual Financial Report Summary for the Fiscal Year Ended June 30, 2009

Seasons of Change

TRS Celebrates 70 Years

Teachers' Retirement System of the State of Illinois
A component unit of the State of Illinois

CELEBRATING SEVENTY YEARS
1939 – 2009

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, 2009

Dear TRS Members:

This year's *Annual Financial Report Summary* commemorates the 70th anniversary of the Teachers' Retirement System of the State of Illinois. The photos depicting "Seasons of Change" around the Springfield and Lisle office buildings also symbolize the continuing evolution of the retirement system.

Laws enacted during 2009 significantly impacted our executive leadership, Board of Trustees composure, Web site content, and investment policies. With every season of change that has been encountered in 70 years, TRS retirement security has remained constant. TRS was created by law in 1939 to provide members with better benefits and secure pensions. Now and in the future, TRS will provide retirement, disability, and survivor benefits for you and your loved ones. Our statement of purpose continues to be "Retirement Security for Illinois Educators."

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

Michael Bracey Photography

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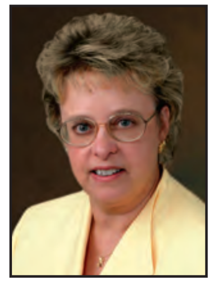

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Fiscal Year 2009 Financial Highlights

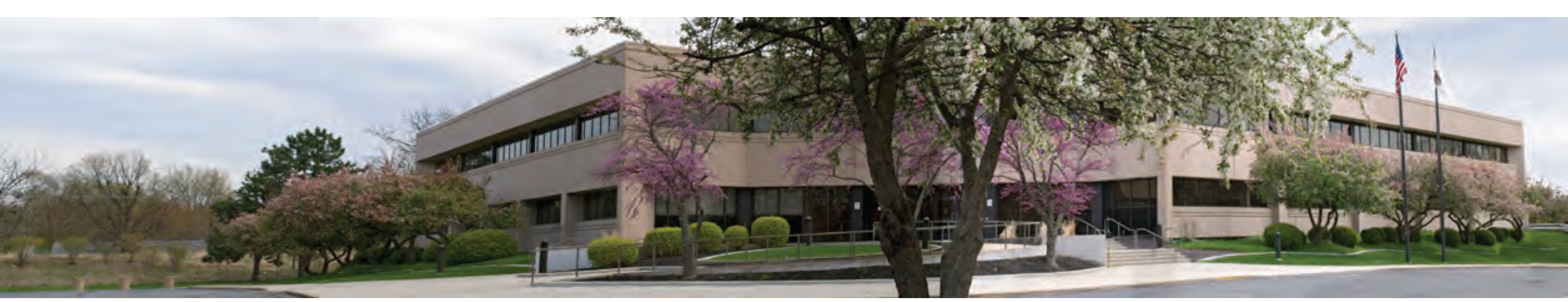
- TRS net assets at June 30, 2009 were $28.5 billion.
- During fiscal year 2009, TRS net assets decreased $9.9 billion. Net assets are determined by subtracting liabilities from total assets. Most TRS liabilities involve securities transactions.
- Contributions from members, employers, and the state were $2,480 million, an increase of $443 million or 21.7 percent for the fiscal year. The member contribution gain is attributable to a net increase of approximately 3,500 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 loss was $8,688 million, compared to investment loss of $2,015 million in fiscal year 2008, a difference of $6,673 million.
- Benefits and refunds paid to members and annuitants were $3,707 million, an increase of $223 million or 6.4 percent from fiscal year 2008.
- Total actuarial accrued liability was $73.0 billion at June 30, 2009.
- The unfunded actuarial accrued liability increased from $30.2 billion at June 30, 2008 to $35.0 billion at June 30, 2009. 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 was based on market value in 2008 and five-year smoothing in 2009.
- The funded ratio decreased from 56.0 percent at June 30, 2008 to 52.1 percent at June 30, 2009.

Condensed Comparative Statement of Plan Net Assets as of June 30

	2009	**2008**	**Percentage Change**
Cash	$3,849,113	$3,668,043	4.9%
Receivables and prepaid expenses	267,580,363	404,110,007	(33.8)
Investments	28,961,352,329	39,209,046,996	(26.1)
Invested securities lending collateral	4,251,858,945	4,445,553,283	(4.4)
Capital assets	3,707,543	2,548,814	45.5
Total assets	**33,488,348,293**	**44,064,927,143**	**(24.0)**
Total liabilities	**4,990,618,850**	**5,634,203,856**	**(11.4)**
Net assets	**$28,497,729,443**	**$38,430,723,287**	**(25.8%)**

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

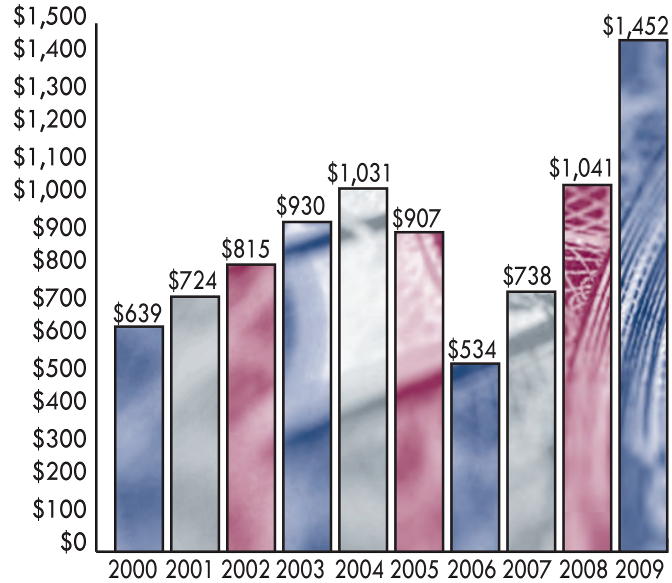
	2009	**2008**	**Percentage Change**
Contributions	$2,480,102,691	$2,037,188,622	21.7%
Total investment income (loss)	(8,688,285,511)	(2,014,902,366)	(331.2)
Total additions (reductions)	(6,208,182,820)	22,286,256	(27,956.6)
Benefits and refunds	3,707,423,088	3,484,267,356	6.4
Administrative expenses	17,387,936	16,613,364	4.7
Total deductions	3,724,811,024	3,500,880,720	6.4
Net increase (decrease) in net assets	**(9,932,993,844)**	**(3,478,594,464)**	
Net assets beginning of year	**38,430,723,287**	**41,909,317,751**	**(8.3)**
Net assets end of year	**$28,497,729,443**	**$38,430,723,287**	**(25.8%)**



State Funding

State contributions are determined under a funding plan that became effective in fiscal year 1996. Although that law was subsequently amended, it remains a 50-year funding plan: 15 years of increasing state contributions followed by a 35-year period of more level contributions. The goal is to achieve an asset level that covers 90 percent of the System's actuarial liability for benefits earned (a 90 percent funded ratio) by June 30, 2045.

State Appropriations ($ in millions)



The chart shows changes in state appropriations over the past 10 years. In fiscal years 2000 through 2004, state contributions gradually increased in accordance with the law. 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 based on the new funding schedule. In fiscal year 2008, state contributions returned to the statutory schedule, but the funding requirements were much higher because of the previous years' reductions. The fiscal year 2009 requirement and the 2010 requirement (not shown) were higher still so that by the end of the 15th year of the plan, state contributions would reach a point where they could remain essentially level for the following 35 years.

To help make the fiscal year 2010 contribution of $2.089 billion, the state plans to issue pension notes. The fiscal year 2011 requirement of $2.358 billion is based on a new asset valuation method that requires actuarial gains and losses to be smoothed over five years. This means that 20 percent of the June 30, 2009 investment loss is recognized in the fiscal year 2011 funding requirement, and the remaining 80 percent will be reflected in the actuarial valuations that will occur in fiscal years 2010 through 2013.

Investments

The TRS investment portfolio declined 22.3 percent, gross of fees, for the fiscal year ending June 30, 2009 as the United States and global financial markets suffered one of their worst years in history. The loss was a continuation and acceleration of the modest loss of 4.5 percent experienced in fiscal year 2008, with total fund assets declining from $39.2 billion to $29.0 billion at the end of the fiscal year.

Fears of a collapse in the global financial system were evidenced by the fall of Lehman Brothers in September 2008 and severe distress among other large financial institutions. Credit market turmoil continued through the fiscal year, leading to substantial declines in the global equity markets with U.S. and international stocks falling 27.3 percent and 31.9 percent, respectively. Following unprecedented levels of federal stimulus, the global

markets did manage to stabilize late in the year with the stock indices posting a strong rally from March through the end of the fiscal year.

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	(22.7%)	(4.3%)	1.7%	3.1%

Top 10 U.S. Equity Holdings at June 30, 2009

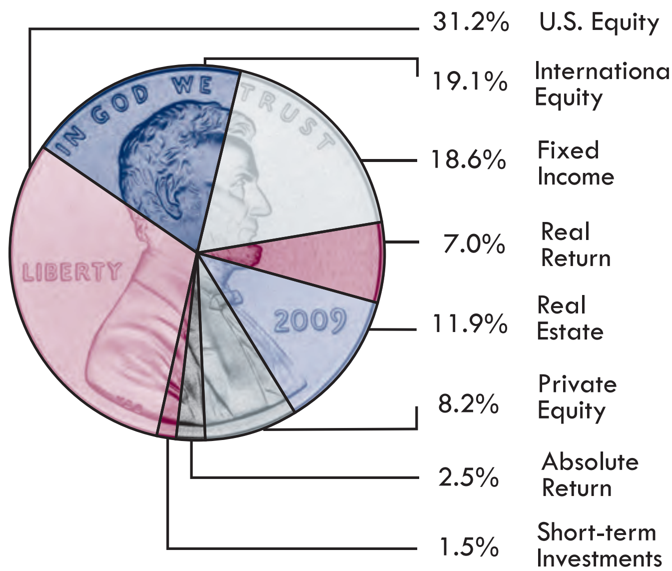
Firm	Market Value
Exxon Mobil Corp.	$109,153,140
Microsoft Corp.	78,975,064
Chevron Corp.	74,819,239
Qualcomm, Inc.	71,117,680
Wells Fargo and Company	69,904,753
Hewlett-Packard Co.	69,667,282
International Business Machines Corp.	67,997,051
Google, Inc.	66,311,891
JP Morgan Chase & Co.	65,932,720
Johnson & Johnson	58,663,381
Total	**$732,542,201**

Source: State Street Bank and Trust

Investment Portfolio

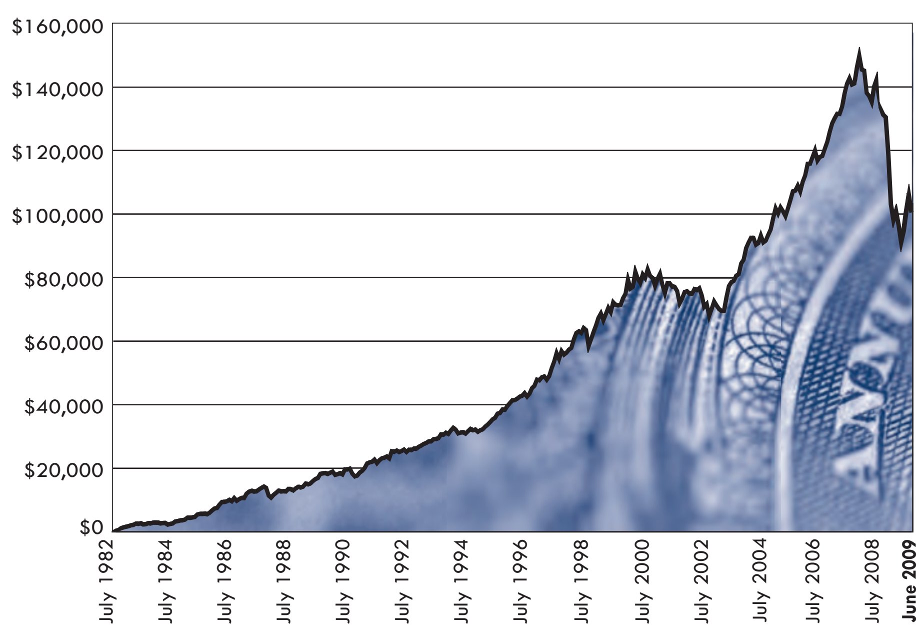
Total TRS investments decreased by approximately $10.2 billion during the year ended June 30, 2009. This represents the second year of losses following five years of positive returns. The TRS investment portfolio is well diversified as shown below in the Fiscal Year 2009 Asset Allocation chart. By investing in a broad range of asset classes, TRS minimizes risk and achieves more consistent investment returns.

Fiscal Year 2009 Asset 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 27 years. Despite market fluctuations, the overall trend line is solidly favorable.



Actuarial

The accrued liability is a present value estimate of the benefits already earned by active and retired members. If this liability were completely covered by assets, TRS would have a 100 percent funded ratio.

Every year, TRS's actuarial firm calculates the accrued liability based on a set of economic and demographic assumptions. The actuarial value of assets, table shown in right column, is then subtracted from the accrued liability to determine the unfunded liability. The state's annual funding requirements are based on the actuary's estimate of the cost of benefits that will be earned during the coming fiscal year and the amount needed to amortize a portion of the unfunded liability.

In fiscal years 2008 and 2009, investment losses occurred in the portfolios of TRS and most other investors. Investments were also liquidated to cover benefit payments, adding to the decline in asset levels each year. To mitigate the impact of the 2009 losses on the state budget, a different method of calculating the actuarial value of assets was enacted.

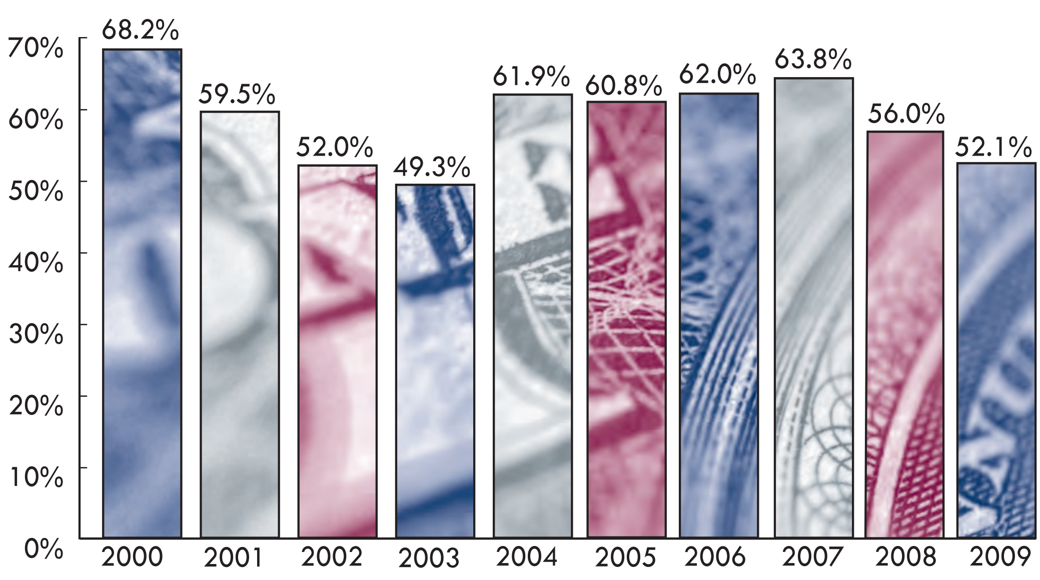
The June 30, 2009 actuarial value of assets is based on a five-year smoothing period. Actuarial gains and losses on investments will be spread out over five years, beginning with the value reported for June 30, 2009. The remaining 80 percent of the 2009 losses will be reflected in the actuarial valuations for fiscal years 2010 through 2013. The June 30, 2008 actuarial value of assets was the same as the market value of assets reported on the financial statements.

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	
	2009	**2008**
Total actuarial accrued liability	**$73,027,198**	**$68,632,367**
Actuarial value of assets*	38,026,044	38,430,723
Unfunded liability	**$35,001,154**	**$30,201,644**
Funded ratio	52.1%	56.0%

Funded Ratio*



** Market value until 2008. Five-year smoothing beginning in 2009.*

Statistical

Member Statistics

Full and Part-time Active Members		**Retired Members**	
Average age	42	Average age	69
Average years of service	12	Average service	29
Average annual salary	$62,319	Average annual benefit	$43,164
Oldest full-time teacher	81	Oldest retired teacher	108

Fiscal Year Highlights

	2009	2008
Active contributing members	169,158	165,572
Inactive noncontributing members	101,606	98,550
Benefit recipients*	94,424	91,462
Total membership	365,188	355,584
Actuarial accrued liability (AAL)	$73,027,198,000	$68,632,367,000
Less actuarial value of assets (smoothed assets in 2009 and market value assets in 2008)	38,026,044,000	38,430,723,000
Unfunded actuarial accrued liability (UAAL)	$35,001,154,000	$30,201,644,000
Funded ratio (% of AAL covered by assets, based on smoothed assets in 2009 and market value assets in 2008)	52.1%	56.0%
Total fund investment return (loss), net of fees	(22.7)%	(5.0%)
Expenses		
Benefits paid	$3,653,713,951	$3,423,981,732
Refunds paid	53,709,137	60,285,624
Administrative expenses	17,387,936	16,613,364
Total expenses	$3,724,811,024	$3,500,880,720
Income		
Member contributions	$876,182,122	$865,400,168
Employer contributions	152,328,853	130,673,629
State of Illinois contributions	1,451,591,716	1,041,114,825
Total investment income (loss)	(8,688,285,511)	(2,014,902,366)
Total income	($6,208,182,820)	$22,286,256

* 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, 2009. The comprehensive report, which has more detailed information, is available on our Web site,* **http://trs.illinois.gov**.

Photo Credits: *Lisle building photos on page 2 by TRS employee Michael Bracey. All Springfield building photos by TRS employee Jael Bietsch.*