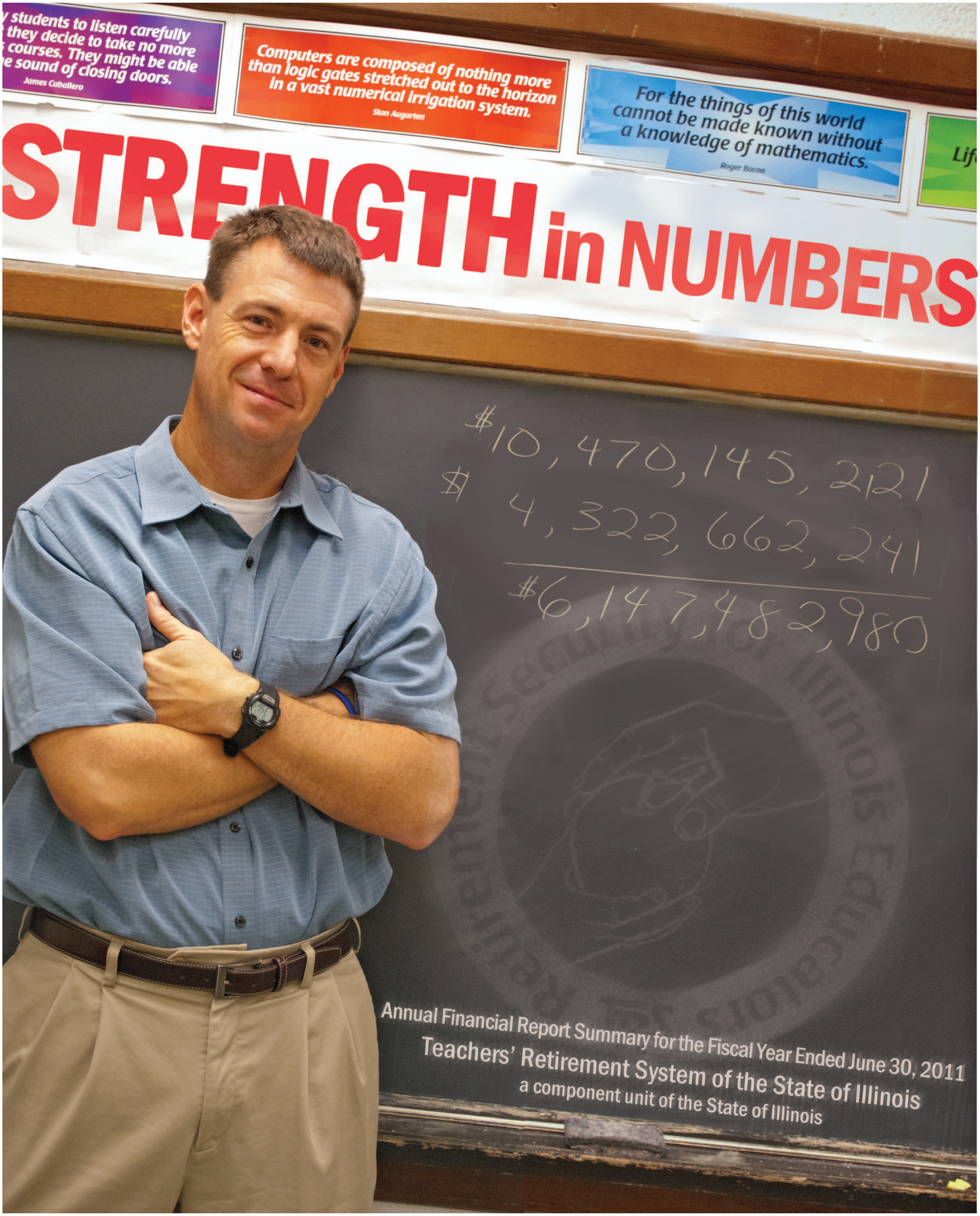


STRENGTH in NUMBERS

Annual Financial Report Summary for the Fiscal Year Ended June 30, 2011

Teachers' Retirement System of the State of Illinois

a component unit of the State of Illinois

Teachers' Retirement System of the State of Illinois
Richard W. Ingram, Executive Director
2815 West Washington Street, P.O. Box 19253
Springfield, Illinois 62794-9253

December 19, 2011

Dear TRS Members:

This year's *Annual Financial Report Summary* 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 report 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.

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.

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 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.

Richard W. Ingram

Richard Ingram
Executive Director

Jana Bergschneider

Jana Bergschneider, CPA
Director of Administration

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.

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

FISCAL YEAR 2011 FINANCIAL HIGHLIGHTS

- TRS net assets at June 30, 2011 were $37.5 billion.
- During fiscal year 2011, TRS net assets increased $6.1 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 $3,236 million, a net increase of $84 million or 2.7 percent for the fiscal year. Most of the increase was due to state appropriations made under the amended state funding plan. Employer contributions from school districts were down about $17 million, mainly because of lower contributions from federal funds and for early retirement.
- Total investment gain was $7,235 million, compared to investment gain of $3,680 million in fiscal year 2010, 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 fiscal year 2010.
- 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 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 48.4 percent at June 30, 2010 to 46.5 percent at June 30, 2011.

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	**$37,471,267,194**	**19.6%**	**$31,323,784,214**	**9.9%**	**$28,497,729,443**

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	**$37,471,267,194**	**19.6%**	**$31,323,784,214**	**9.9%**	**$28,497,729,443**

STATE FUNDING

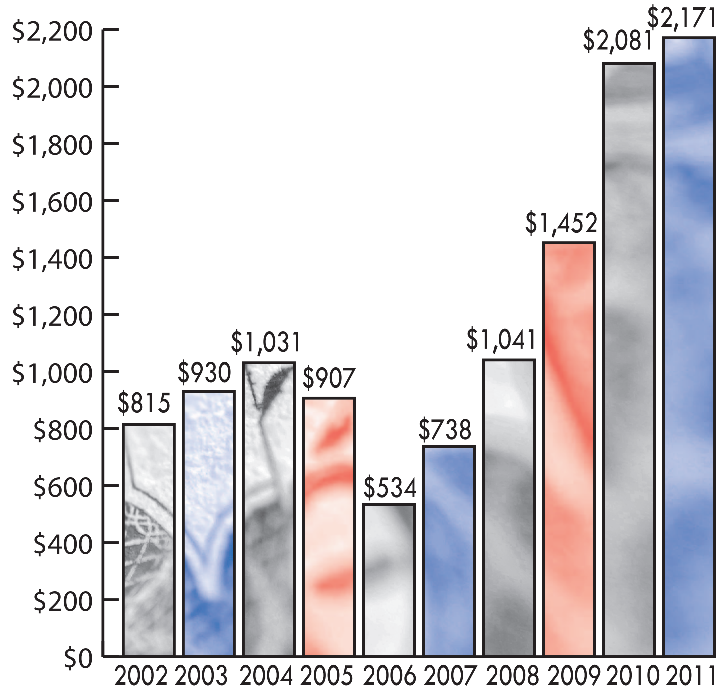
A 50-year funding plan first became effective in fiscal year 1996. For the first 15 years of the plan, state contributions were to increase gradually through fiscal year 2010. This long phase-in was enacted because of the significant gap between actual contributions and the amounts required under a sound funding method. For the remaining 35 years, the plan called for state contributions to be at a level percent of active teacher payroll so that 90 percent of the liability for benefits would be covered by TRS assets by fiscal year 2045. That level percent of payroll would be adjusted by the actuaries each year due to demographic and economic experience, especially on investments.

Changes to the original funding plan were enacted. In 2003, the state issued pension obligation bonds, lowering the fiscal year 2005 state contribution and limiting state contributions until the state's debt service on the bonds ends in fiscal year 2033. In fiscal years 2006 and 2007, state contributions were set by statute, not the new debt service limits, resulting in contributions that were about half the amounts required by the funding plan. In fiscal years 2008-2010, state appropriations returned to the statutory schedule. However, the prior years' funding cuts resulted in steep increases for the rest of the 15-year phase-in period and a higher level percent of pay for the following 35 years. Part of the increase in the fiscal year 2010 requirement was due to fiscal year 2008 investment losses

In 2009, another change to the funding law was enacted in response to dramatic investment losses in fiscal year 2009. A new five-year asset smoothing method required one-fifth of the investment gains or losses to be recognized each year going forward. Using smoothed assets in fiscal year 2009 lowered the fiscal year 2011 funding requirement. In 2011, a statutory change required TRS to assume that Tier II benefits (affecting teachers first contributing on January 1, 2011 or later) had been in effect since 2009, lowering the fiscal year 2011 contribution another $189 million.

Less than one-third of the state's current contributions is for benefits earned during the year by active teachers. The remainder helps amortize the unfunded liability which is primarily due to past underfunding. The longer funding is delayed, the more expensive it becomes.

State Appropriations ($ in millions)



INVESTMENTS

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 U.S. stocks up 32.4 percent and international stocks rising 30.3 percent.

Investment Portfolio

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

Photo at right: One North Wacker in Chicago is a real estate property held by TRS. Real estate composes 10.8 percent of the total investment portfolio.

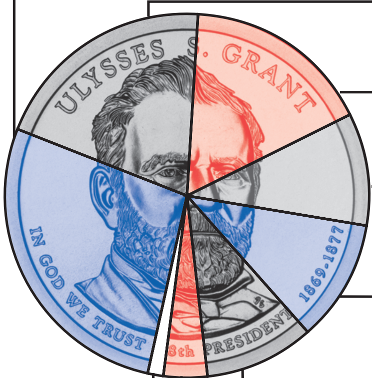
approximately $6.3 billion, representing the seventh year of the past nine in which portfolio assets have increased.

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.

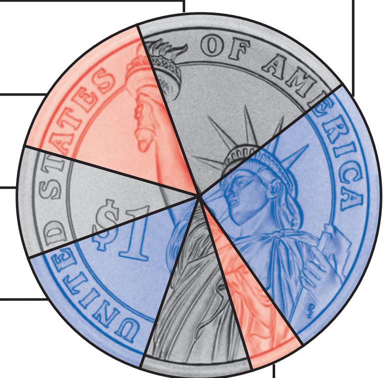
TRS Investment Performance (net of fees)

	1 year	3 years	5 years	10 years
Rate of return	23.6%	2.6%	4.1%	6.0%

Fiscal Year 2011 Asset Allocation



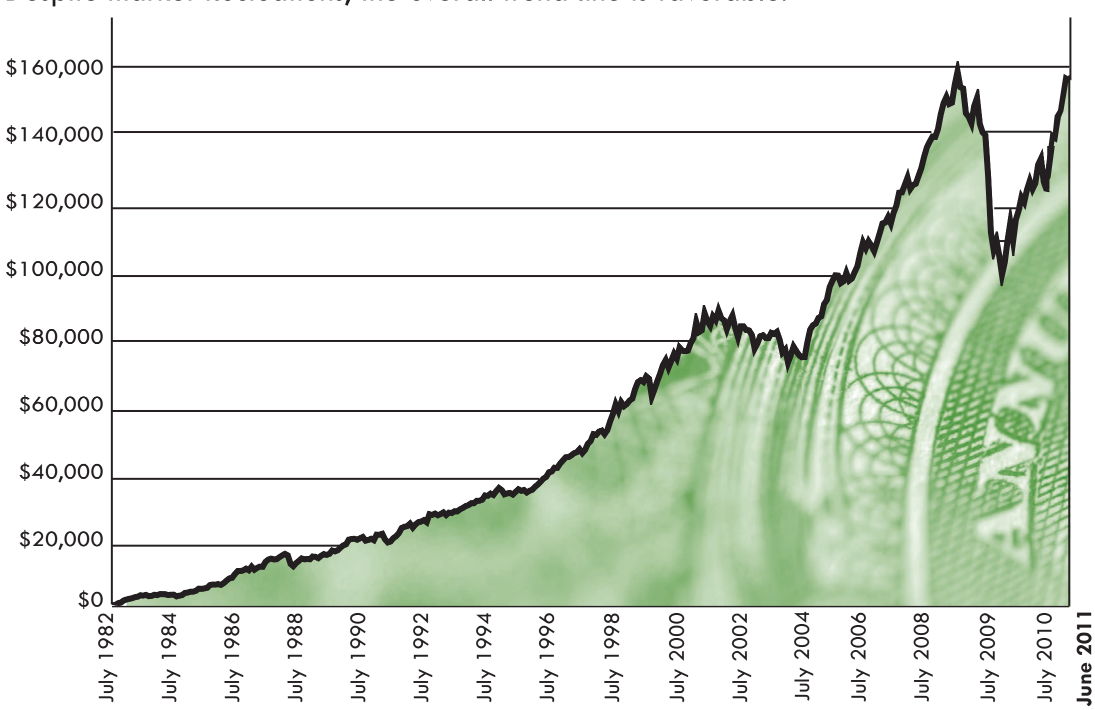
Long-term Target Allocation



Fiscal Year 2011 Asset Allocation		Long-term Target Allocation
27.5%	U.S. Equity	26.0%
19.7%	International Equity	20.0%
16.7%	Fixed Income	15.0%
9.8%	Real Return	10.0%
10.8%	Real Estate	14.0%
9.7%	Private Equity	10.0%
4.0%	Absolute Return	5.0%
1.8%	Short-term Investments	0.0%

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 29 years. Despite market fluctuations, the overall trend line is favorable.



ACTUARIAL

Every year, the TRS actuaries measure the state's liability for the benefits already earned by active and inactive teachers and retirees. This actuarial accrued liability is based on economic and demographic assumptions and benefit formulas described in the TRS article of the Illinois Pension Code. The accrued liability is compared to TRS assets to calculate the funded ratio and state funding requirements for the coming fiscal year. The difference between the actuarial accrued liability and assets is the unfunded liability.

Actuarial Valuation ($ in 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%

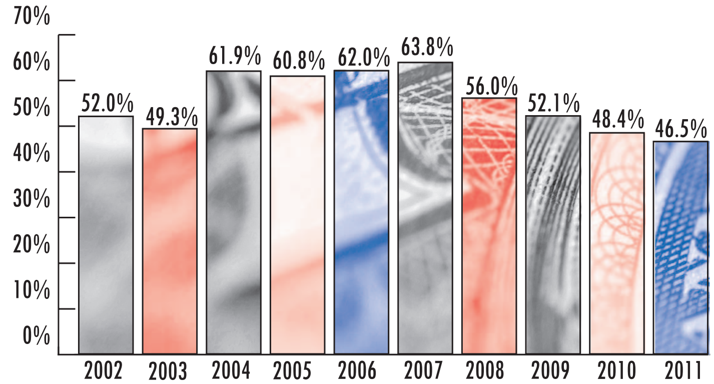
** Five-year prospective smoothing began in fiscal year 2009.*

The 2011 actuarial valuation was used to determine the fiscal year 2013 state funding requirements, and the 2010 valuation was used to determine the fiscal year 2012 funding requirements.

State Funding Amounts

	Fiscal Year 2013	Fiscal Year 2012
Benefit Trust Reserve	$2,702,278,000	$2,405,172,000
Minimum benefit reserve	1,200,000	1,300,000
Total state funding amount	**$2,703,478,000**	**$2,406,472,000**

Funded Ratio



Even though TRS returns in fiscal years 2010 and 2011 were well above the 8.5 percent assumed rate of return, the investment losses from fiscal year 2009 are still being phased in. The actuarial value of assets now includes 60 percent of the 2009 losses, 40 percent of the 2010 gains, and 20 percent of the 2011 gains.

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

Retirees pose at the October 2011 Springfield Town Hall meeting.

STATISTICAL

Member Statistics

Full and Part-time Active Members

Average age	42
Average years of service	12
Average annual salary	$66,044
Oldest full-time teacher	81

Retired Members

Average age	70
Average service	28
Average annual benefit	$46,452
Oldest retired teacher	107

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.

Julie, who is a TRS member, is greeted by Benefits Counselor Sonya as she arrives at the Springfield TRS office.

This publication is a summary of the Comprehensive Annual Financial Report *for the fiscal year ended June 30, 2011. The comprehensive report, which has more detailed information, is available on our Web site,* **http://trs.illinois.gov.**

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