ANNUAL FINANCIAL REPORT SUMMARY

for the fiscal year ended June 30, 2014

Prairie Dell Grade School
Piatt County, Illinois
1939

TEACHERS' RETIREMENT SYSTEM

OF THE STATE OF ILLINOIS

TRS ILLINOIS

ANNUAL FINANCIAL REPORT SUMMARY
for the fiscal year ended June 30, 2014

BOARD OF TRUSTEES
AS OF DECEMBER 1, 2014

Christopher A. Koch, Ed. D.
President by statute
Bloomington

Sharon Leggett
Vice President
Elected
Evanston

Mark Bailey
Elected
Palos Park

Michael Busby
Appointed
Kenilworth

Marcia Campbell
Appointed
O'Fallon

Mark Harris
Appointed
Park Ridge

Rainy Kaplan
Elected
Schaumburg

Cinda Klickna
Elected
Rochester

Bob Lyons
Elected
Hoffman Estates

Cynthia O'Neill
Elected
Carlyle

Sonia Walwyn
Appointed
Naperville

EXECUTIVE STAFF
AS OF DECEMBER 1, 2014

Back row, left to right:
Chief Investment Officer Stan Rupnik, CFA;
General Counsel Tom Gray;
Executive Director Dick Ingram;
Director of Outreach Rich Frankenfeld; and
Director of Communications Dave Urbanek

Front row, left to right:
Director of Internal Audit Stacy Smith, CPA, CIDA ;
Director of Research Kathleen Farney, CEBS;
Director of Human Resources Gina Larkin ;
Director of Member Services Sally Sherman; and
Director of Administration Jana Bergschneider, CPA

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253
Richard W. Ingram, Executive Director
members@trs.illinois.gov | http://trs.illinois.gov
(800) 877-7896 | for the hearing impaired: (866) 326-0087

January 6, 2015

Dear TRS Members:

This report summarizes the financial condition, investments, actuarial conclusions and statistical information about members, school districts, revenues, and benefits for the Teachers' Retirement System during the fiscal year ended June 30, 2014.

This report marks the 75th anniversary of the founding of TRS to replace the Illinois State Teachers' Pension and Retirement Fund and its commitment to maintain the State of Illinois' retirement promises to its public school teachers and their dependents.

By all accounts, TRS continues to face long-term financial challenges. The long-term funded status of TRS is among the worst in the nation. For funding purposes, the System's funded ratio at the end of the fiscal year on June 30 was 40.6 percent, on an actuarial basis, with a long-term unfunded liability of $61.6 billion. The unfunded obligations owed members have increased by more than 400 percent since 2000. For purposes of financial disclosure under new reporting methods, the plan fiduciary net position as a percentage of the total pension liability was 43.0 percent, with a net pension liability of $60.9 billion. Still, according to a media analysis, TRS currently ranks 40th, based on assets, among United States pension systems, both public and private, having a net position of $45.8 billion at the end of fiscal year 2014. If the System had been properly funded since its inception in 1939, TRS would be among the 10 largest U.S. systems.

For the last three years TRS has played a leading role in pinpointing and explaining the steep challenges faced by the State's five public pension systems. Led by the Board of Trustees, TRS has consistently warned that growing pension obligations and state government's consistent inability to provide actuarially adequate funding could lead to a calamity in less than 25 years.

In December of 2013, after more than three years of often-contentious debate, the Illinois General Assembly and Governor Pat Quinn enacted sweeping legislation designed to fix the System's long-term financial problems and eliminate the State's combined unfunded pension liability by 2044. However, by the end of fiscal year 2014, the implementation of this new law was indefinitely suspended by a state court pending the resolution of a legal challenge to the law's constitutionality. In December the Illinois Attorney General, charged with defending the constitutionality of the law, appealed the decision directly to the Illinois Supreme Court. The case is not expected to be resolved until sometime in 2015, at the earliest.

Ensuring the long-term stability and strength of TRS will enable the System to keep the promises made to educators by the State of Illinois for a secure retirement. In good times and bad, TRS has maintained trusted relationships with generations of teachers and has never defaulted on any promises.

TRS has more than fulfilled its duty to properly manage the money entrusted to the System by our members. For the fiscal year ended on June 30, 2014, TRS investments returned 17.4 percent net of fees, outperforming the System's custom benchmark of 16.4 percent. More importantly, the System's 30-year investment return exceeds 9.5 percent, outperforming the assumed rate of return of 8 percent.

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

ANNUAL FINANCIAL REPORT SUMMARY
for the fiscal year ended June 30, 2014

FINANCIAL HIGHLIGHTS

- The net position of TRS at June 30, 2014 was $45.8 billion.
- During FY14, the net position of TRS increased $6.0 billion.
- Contributions from members, employers, and the State was $4.5 billion, an increase of $744 million or 19.7 percent for FY14.
- Total investment gain was $6.8 billion, compared to an investment gain of $4.6 billion in FY13, an increase of $2.2 billion.
- Benefits and refunds paid to members and annuitants was $5.3 billion, an increase of $339 million or 6.8 percent.
- The total actuarial accrued liability was $103.7 billion at June 30, 2014.
- The unfunded actuarial accrued liability was $61.6 billion at June 30, 2014. The funded ratio was 40.6 percent at June 30, 2014. 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 $106.7 billion at June 30, 2014.
- The net pension liability was $60.9 billion at June 30, 2014. The Plan Fiduciary Net Position, as a percentage of total pension liability, was 43.0 percent.

Condensed Comparative Statements of Fiduciary Net Position as of June 30

	2014	Percentage Change	2013
Cash	$60,859,067	315.2%	$14,659,145
Receivables and prepaid expenses	5,430,213,496	21.0	4,488,401,761
Investments	45,435,578,617	14.5	39,681,752,953
Invested securities lending collateral	2,798,549,336	44.8	1,932,554,323
Capital assets	4,114,038	(5.6)	4,358,587
Total assets	**53,729,314,554**	**16.5**	**46,121,726,769**
Total liabilities	**7,904,932,040**	**26.2**	**6,262,958,270**
Net position restricted for pensions	**$45,824,382,514**	15.0%	**$39,858,768,499**

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

	2014	Percentage Change	2013
Contributions	$4,525,463,343	19.7%	$3,781,914,113
Net investment income	6,782,031,720	48.7	4,561,768,383
Total additions	11,307,495,063	35.5	8,343,682,496
Benefits and refunds	5,320,662,979	6.8	4,981,481,783
Administrative expenses	21,218,069	4.7	20,257,553
Total deductions	5,341,881,048	6.8	5,001,739,336
Net increase in net position	**5,965,614,015**		**3,341,943,160**
Net position restricted for pensions -beginning of year	**39,858,768,499**	**9.2**	**36,516,825,339**
Net position restricted for pensions -end of year	**$45,824,382,514**	15.0%	**$39,858,768,499**

INVESTMENTS

Global financial markets continued to provide a strong investment environment for the fiscal year ended June 30, 2014. As with the prior year, market volatility remained very low in fiscal year 2014. Accommodative monetary policy, solid corporate fundamentals and a strong rebound in European shares drove investment performance, led by double-digit gains in global equity markets. Once again, all TRS asset classes produced positive returns during the year. Net of fees, the retirement system's U.S. and international equity portfolios returned 25.5 percent and 21.6 percent, respectively. TRS also enjoyed double-digit investment returns within its private equity, real estate and real return portfolios. The TRS investment portfolio posted a positive result, returning 18.1 percent, gross of fees, for the fiscal year ended June 30, 2014.

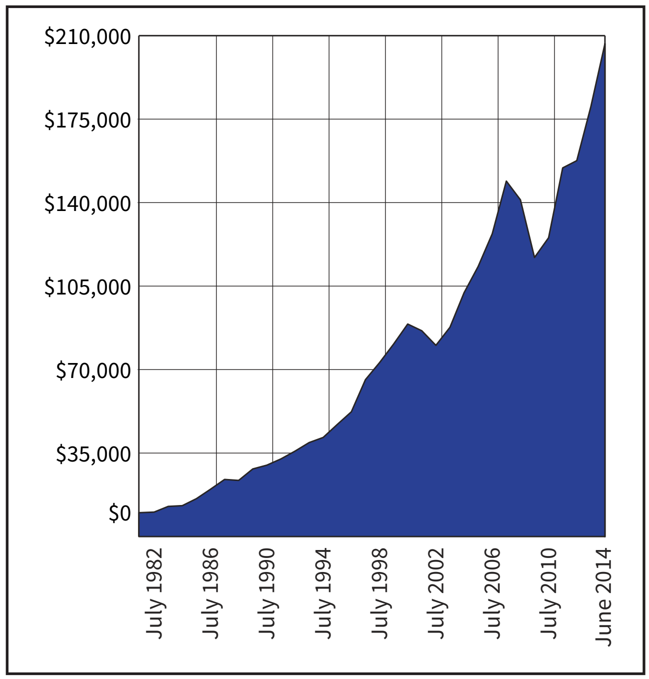
The TRS portfolio remains fully diversified across different asset classes. A number of investment managers are employed within each asset class to ensure the appropriate mixture of various investment styles, allowing the portfolio to achieve broad exposure to the market while minimizing overall risk. 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
Annualized return	17.4%	10.1%	13.2%	7.3%

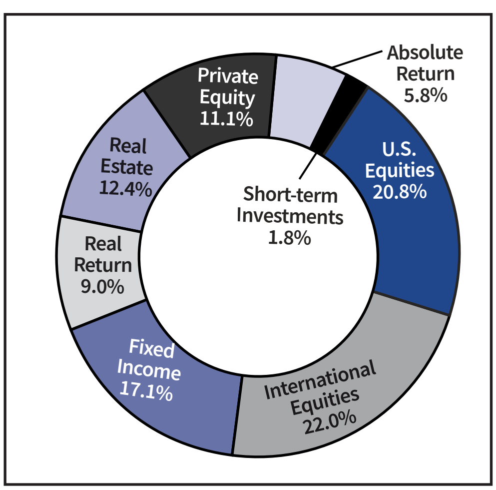
GROWTH OF $10,000

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

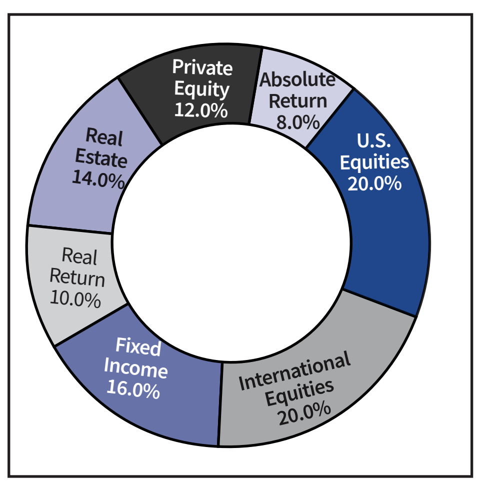


Source: TRS

Fiscal Year 2014 Asset Allocation



Long-Term Target Allocation



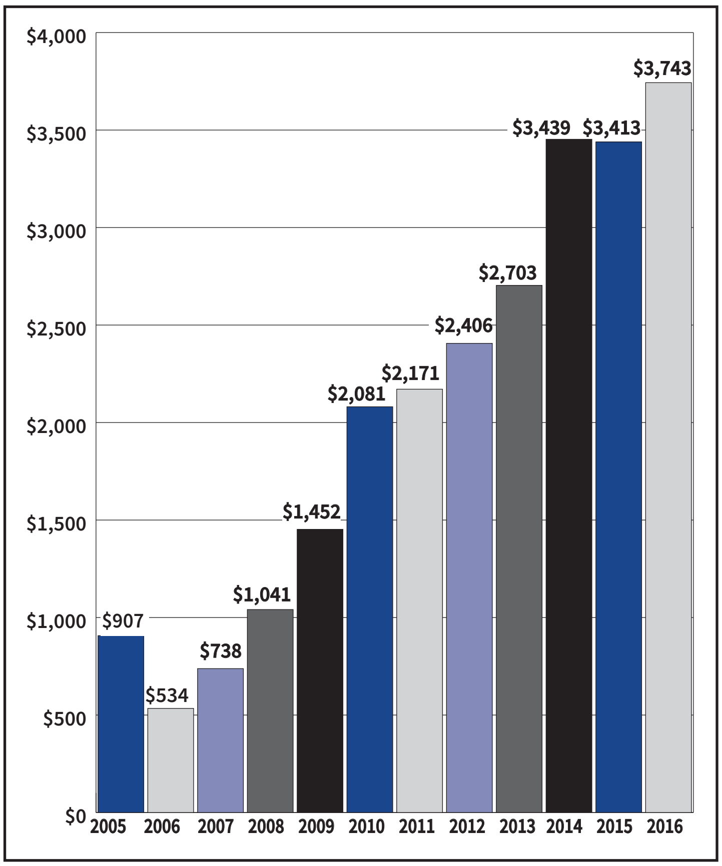
ACTUARIAL

STATE FUNDING REQUIREMENTS

The State's liability for benefits earned by active and inactive teachers and retirees is called the actuarial accrued liability. It is based on the benefit provisions in effect on June 30, 2014 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.

Due to litigation, the benefit and funding reductions of the State's new pension law, Public Act 98-0599, are not reflected in the actuarial valuation or in funding projections.

Annual State Appropriations ($ in millions)



Actuarial Valuation ($ thousands)

	Year ended June 30, 2014
Based on actuarial value of assets	
Total actuarial accrued liability	**$103,740,377**
Less actuarial value of assets*	42,150,765
Unfunded liability	**$61,589,612**
Funded ratio*	40.6%
Based on fair value of assets	
Total actuarial accrued liability	$103,740,377
Less assets at fair value	45,824,383
Unfunded liability	**$57,915,994**
Funded ratio	44.2%

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

The actuarial valuation is used to determine the State funding requirements for the coming fiscal year. The objective of the statutory funding plan in effect on June 30, 2014 is to achieve a 90 percent funded ratio by the end of fiscal year 2045. The fiscal year 2016 State contribution certified by the TRS Board of Trustees is higher than the fiscal year 2015 contribution mainly due to changes in actuarial assumptions. Fiscal year 2014 investment performance and gains in earlier years helped offset the increase in the contribution.

State Funding Requirements Under the Current Statutory Funding Plan

	FY16
Benefit Trust Reserve (excludes federal and school district contributions)	$3,741,802,194
Minimum benefit reserve	900,000
Total State funding amount	**$3,742,702,194**
Employer's normal cost as a percentage of active member payroll	9.36%

HISTORICAL UNDERFUNDING

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 is dedicated to paying off the unfunded liability.

In 2012, the TRS Board of Trustees resolved to certify State funding requirements under generally accepted actuarial principles and standards. For fiscal year 2016, the Board certified three State contribution amounts:

2016 TRS Board Certified State Contribution Amounts	
Funding law in effect on June 30, 2014 (90% funded in 50 years)	$3.743 billion
Minimum actuarial standards (100% funded in 30 years)	$4.365 billion
Keep unfunded liability from growing during fiscal year 2016	$5.338 billion

FUNDED ANALYSIS BY TIER

Public Act 96-0889 established a new tier of benefits for teachers who first contribute to TRS on or after January 1, 2011. These Tier II 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 are not compounded. Members in both tiers pay 9.4 percent of pay towards the cost of their benefits.

Under the current 50-year funding plan, TRS will attain a funded ratio of 90 percent by 2045. The chart below illustrates how the tiers would be funded if they were operated as separate retirement plans. Tier II would be “overfunded” because member contributions are larger than the cost of Tier II benefits.

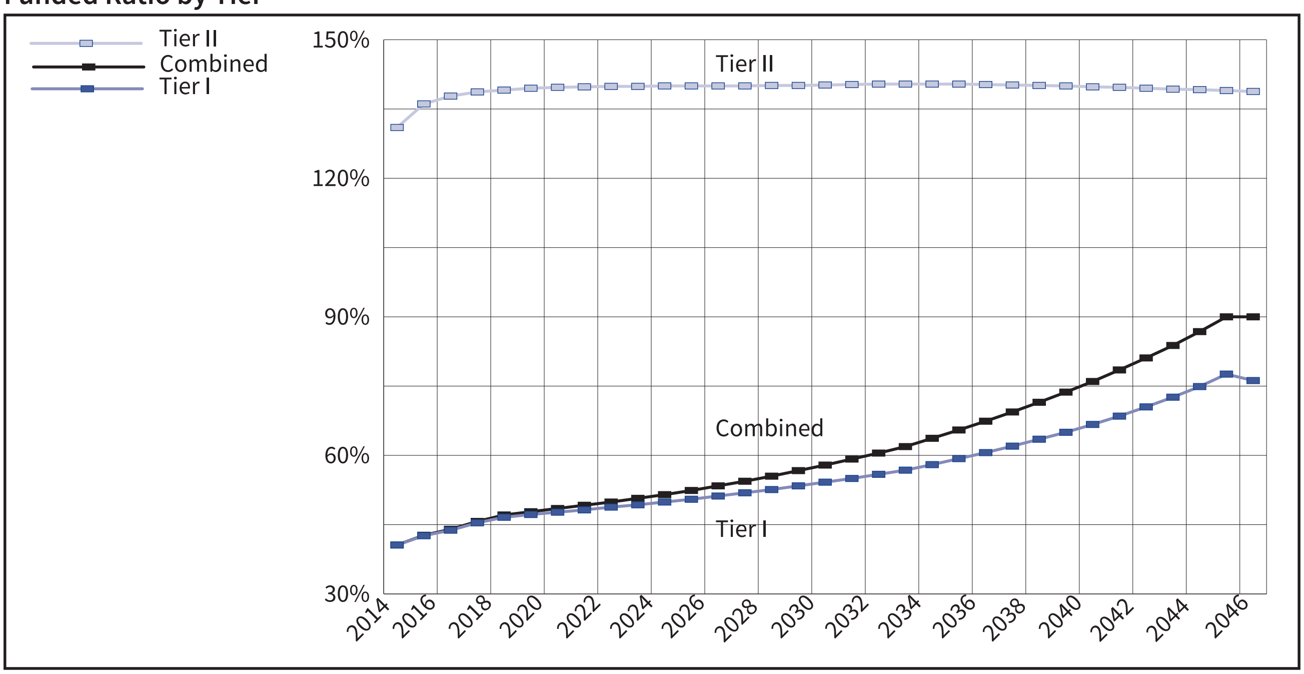
If operated as separate tiers, Tier I would be 76 percent funded by 2045 and Tier II would be 139 percent funded, with the combined plan attaining the 90 percent target funded ratio. The surplus Tier II assets lower the employer/State contributions required for Tier I.

In practice, the two tiers are combined for administrative and funding purposes and their assets are commingled.

STATISTICAL

Member Statistics			
Full and Part-time Active Members		**Retired Members**	
Average age	42	Average age	70
Average years of service	13	Average service	28
Average annual salary	$68,556	Average annual benefit	$51,288
Oldest full-time teacher	82	Oldest retired teacher	107

Funded Ratio by Tier



ANNUAL FINANCIAL REPORT SUMMARY

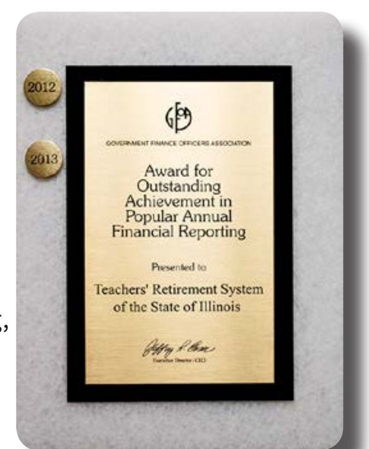
for the fiscal year ended June 30, 2014

Fiscal Year Highlights

	As of June 30, 2014
Active contributing members	159,838
Inactive noncontributing members	122,964
Benefit recipients*	112,333
Total membership	395,135
Investment return	
Total fund investment return, net of fees	17.4%
For funding purposes	
Actuarial accrued liability (AAL)	$103,740,377,267
Less actuarial value of assets (smoothed assets)	42,150,765,261
Unfunded actuarial accrued liability (UAAL)	$61,589,612,006
Funded ratio (% of AAL covered by assets, based on smoothed assets)	40.6%
For financial disclosure	
Total pension liability (TPL)	$106,682,654,886
Less fiduciary net position (FNP)	45,824,382,514
Net pension liability (NPL)	60,858,272,372
FNP as a percentage of TPL	43.0%
Income	
Member contributions	$928,745,853
Employer contributions	158,334,598
State of Illinois contributions	3,438,382,892
Total investment income	6,782,031,720
Total income	$11,307,495,063
Expenses	
Benefits paid	$5,225,206,828
Refunds paid	95,456,151
Administrative expenses	21,218,069
Total expenses	$5,341,881,048

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

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, 2013. 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 14 consecutive years. We believe this June 30, 2014 report also conforms to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

This publication is a summary of the *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2014. The comprehensive report is available online, http://trs.illinois.gov.

Printed by the Authority of the State of Illinois
Pub21–1/15