

ANNUAL FINANCIAL REPORT SUMMARY

for the fiscal year ended June 30, 2015



*Teachers' Retirement System
of the State of Illinois*

*a component unit
of the State of Illinois*



Board of Trustees As of December 1, 2015



Dr. Tony Smith
President by statute
Springfield



Cinda Klickna
Vice President
Elected
Rochester



Mark Bailey
Elected
Palos Park



Michael Busby
Appointed
Kenilworth



Andrew Hirshman
Elected
Oak Park



Rainy Kaplan
Elected
Schaumburg



Bob Lyons
Elected
Hoffman Estates



Alexander Stuart
Appointed
Lake Forest



Sonia Walwyn
Appointed
Naperville



Daniel Winter
Elected
Decatur



Executive Cabinet As of December 1, 2015

Left to right:

*Chief Investment Officer Stan Rupnik, CFA
Chief Financial Officer Jana Bergschneider, CPA
Executive Director Dick Ingram
Chief Technology Officer Tom Smith
Chief Benefits Officer Sally Soderberg
Chief Human Resources Officer Gina Larkin*

Not pictured: Chief Legal Counsel Tom Gray

Cover photo: "The Eternal Indian" is a majestic 50-foot-tall monument to the heritage of Illinois that stands on a bluff in Lowden State Park near Oregon, Ill.



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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Richard W. Ingram, Executive Director

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(800) 877-7896 | for the hearing impaired: (866) 326-0087

December 17, 2015

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, 2015. This report illustrates the effective and efficient administration of one of the 30 largest public pension systems in the United States despite a large unfunded liability caused by seven decades of insufficient government funding, the on-going fiscal problems faced by the State of Illinois and increasing volatility in the world economy.

TRS continues to be a strong asset for Illinois and a positive influence on the state's economy.

During fiscal year 2015, TRS trustees and staff worked diligently to keep the promises made by the State of Illinois to its 400,598 members and to maintain a reputation for excellence with the people of Illinois:

- TRS distributed \$5.5 billion in retirement, disability and survivor benefits on time every month to approximately 115,000 beneficiaries.
- TRS benefit payments created economic activity in Illinois that helped support more than 41,000 jobs in every corner of Illinois. These jobs have an estimated payroll of \$1.6 billion. In all, economic models show that TRS benefits had a positive \$5.6 billion economic impact on the State of Illinois.
- TRS investments continued to post steady growth. The performance of the investment portfolio ended the year ranked among the 25th percentile among comparable retirement systems.
- TRS successfully dealt with more than 479,000 telephone calls, emails and pieces of correspondence with members and employers concerning benefits, service time, contributions and other issues affecting TRS activities – an average of more than 1,916 communications every working day.

TRS is required by law to publish a report annually with information about the System's financial condition, investment methods and performance, actuarial conclusions that determine financial needs and statistical information about members, school districts, revenues and benefits. This publication summarizes the required report.

Information for this report was gathered by TRS staff under the leadership of the Board of Trustees and the executive director. 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.

A handwritten signature in black ink that reads "Richard W. Ingram".

Richard Ingram
Executive Director

A handwritten signature in black ink that reads "Jana Bergschneider".

Jana Bergschneider, CPA
Chief Financial Officer

Financial Highlights

- The net position of TRS at June 30, 2015 was \$46.4 billion.
- During fiscal year 2015, the net position of TRS increased \$583 million.
- Contributions from members, employers, and the State were \$4.5 billion, a decrease of \$67 million or 1.5 percent for fiscal year 2015.
- Total net investment income was \$1.8 billion, compared to \$6.8 billion in fiscal year 2014, a decrease of \$5.0 billion.
- Benefits and refunds paid to members and annuitants were \$5.6 billion, an increase of \$304 million or 5.7 percent.
- The total actuarial accrued liability was \$108.1 billion at June 30, 2015.
- The unfunded actuarial accrued liability was \$62.7 billion at June 30, 2015. The funded ratio was 42.0 percent at June 30, 2015. 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 \$111.9 billion at June 30, 2015.
- The net pension liability was \$65.5 billion at June 30, 2015. The Plan Fiduciary Net Position, as a percentage of total pension liability, was 41.5 percent.

CONDENSED COMPARATIVE STATEMENTS OF FIDUCIARY NET POSITION AS OF JUNE 30

	2015	Percentage Change	2014
Cash	\$45,709,535	(24.9%)	\$60,859,067
Receivables and prepaid expenses	5,747,410,436	5.8	5,430,213,496
Investments	46,099,664,885	1.5	45,435,578,617
Invested securities lending collateral	2,943,517,231	5.2	2,798,549,336
Capital assets	3,947,730	(4.0)	4,114,038
Total assets	54,840,249,817	2.1	53,729,314,554
Total liabilities	8,433,334,224	6.7	7,904,932,040
Net position restricted for pensions	<u>\$46,406,915,593</u>	1.3%	<u>\$45,824,382,514</u>

CONDENSED COMPARATIVE STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEARS ENDED JUNE 30

	2015	Percentage Change	2014
Contributions	\$4,458,707,579	(1.5%)	\$4,525,463,343
Net investment income	1,770,549,533	(73.9)	6,782,031,720
Total additions	6,229,257,112	(44.9)	11,307,495,063
Benefits and refunds	5,625,037,173	5.7	5,320,662,979
Administrative expenses	21,686,860	2.2	21,218,069
Total deductions	5,646,724,033	5.7	5,341,881,048
Net increase in net position	582,533,079		5,965,614,015
Net position restricted for pensions -beginning of year	45,824,382,514	15.0	39,858,768,499
Net position restricted for pensions -end of year	<u>\$46,406,915,593</u>	1.3%	<u>\$45,824,382,514</u>

Investments

Global financial markets provided a relatively stable investment environment for the fiscal year ended June 30, 2015. While accommodative monetary policy and strong corporate fundamentals continued to provide tailwinds to investment performance, a strong rally in the U.S. dollar challenged international investments relative to domestic assets. The System's U.S. and international equity portfolios highlighted the impact, returning 8.8 percent and (4.7) percent, respectively, net of fees for the fiscal year. TRS's real estate assets led all asset classes with a 14.5 percent net of fees return, with positive net of fee returns also achieved in the private equity, absolute return and fixed income portfolios. Overall, the TRS investment portfolio again posted a positive overall result, returning 4.6 percent, gross of fees, for the fiscal year ended June 30, 2015.

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.

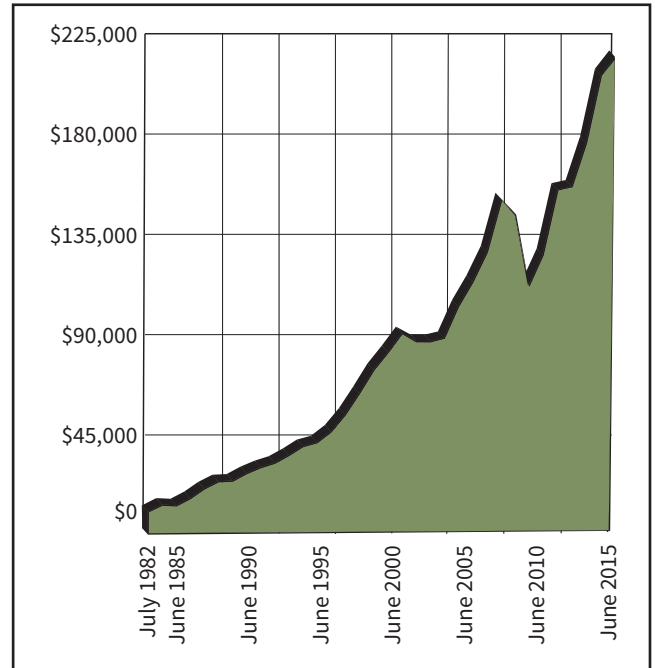
The TRS trust fund is invested by authority of the Illinois Pension Code under the "prudent person rule," requiring investments to be managed solely in the interest of fund participants and beneficiaries.

TRS INVESTMENT PERFORMANCE (NET OF FEES)

	1 year	3 years	5 years	10 years
Annualized return	4.0%	11.2%	11.4%	6.6%

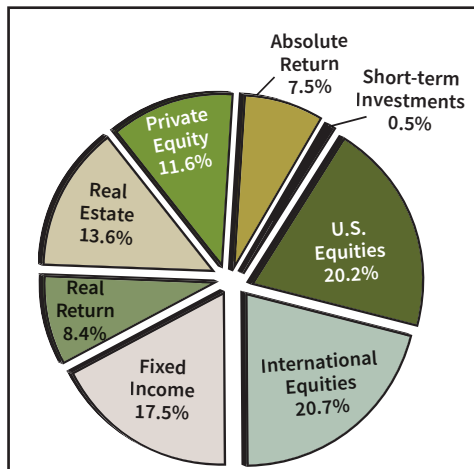
Growth of \$10,000

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.



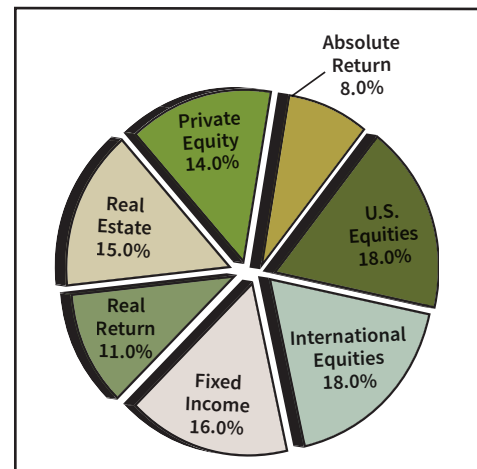
Source: TRS

FISCAL YEAR 2015 ASSET ALLOCATION



Source: TRS

LONG-TERM TARGET ALLOCATION



Source: TRS

Actuarial State Funding

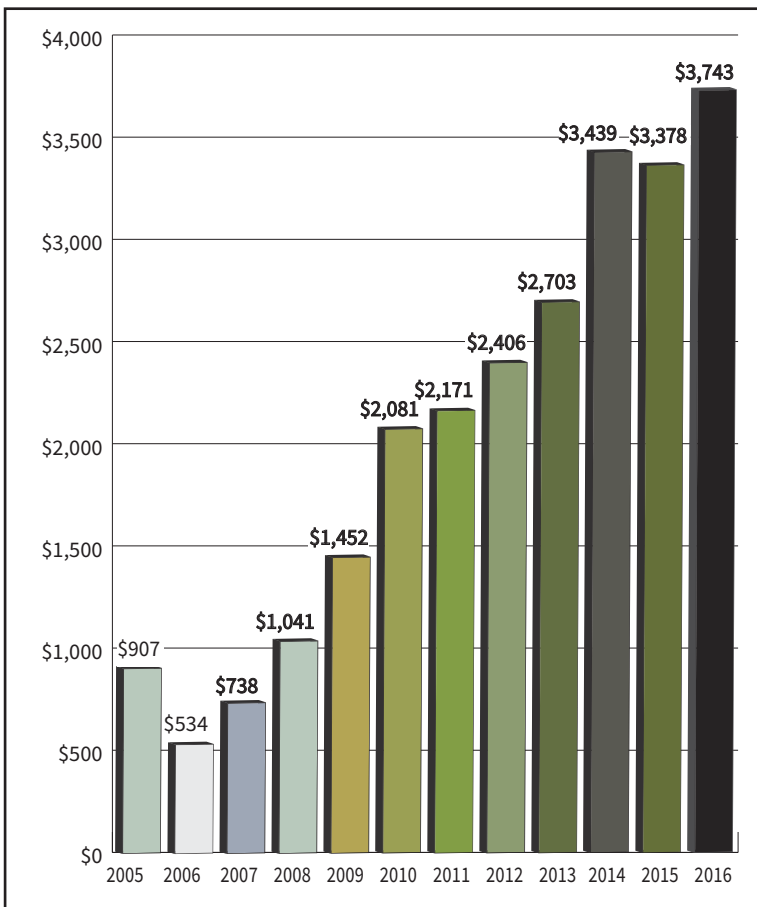
Public Act 88-0593 was enacted in 1994 and first affected state contributions in fiscal year 1996. The law established a 50-year funding plan that includes a 15-year phase-in period. By the end of the funding period in fiscal year 2045, TRS will have a 90 percent funded ratio. A key feature of this act is the “continuing appropriation” language that requires State contributions to be made automatically to TRS, provided State funds are available.

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, 2015 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 \$4.4 billion in fiscal year 2015 to \$108.1 billion at June 30, 2015.

The actuarial unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The actuarial unfunded liability increased \$1.1 billion during fiscal year 2015 to \$62.7 billion at June 30, 2015. The funded ratio reflects the percentage of the actuarial accrued liability covered by the actuarial value of assets. The funded ratio increased from 40.6 percent on June 30, 2014 to 42.0 percent on June 30, 2015.

ANNUAL STATE APPROPRIATIONS (\$ IN MILLIONS)



ACTUARIAL VALUATION (\$ THOUSANDS)

Year ended June 30, 2015	
Based on actuarial value of assets	
Total actuarial accrued liability	\$108,121,825
Less actuarial value of assets*	45,435,193
Unfunded liability	<u>\$62,686,632</u>
Funded ratio*	42.0%
Based on fair value of assets	
Total actuarial accrued liability	\$108,121,825
Less assets at fair value	46,406,916
Unfunded liability	<u>\$61,714,909</u>
Funded ratio	42.9%

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

STATE FUNDING REQUIREMENTS UNDER THE CURRENT STATUTORY FUNDING PLAN

Fiscal Year 2017	
Benefit Trust Reserve (excludes federal and school district contributions)	\$3,985,783,351
Minimum benefit reserve	800,000
Total State funding amount	<u>\$3,986,583,351</u>
Employer’s normal cost as a percentage of active member payroll	8.27%

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 2017, the Board certified two State contribution amounts:

FY2017 TRS Board Certified State Contribution Amounts	
Funding law in effect on June 30, 2015 (90% funded in 50 years with projected unit credit cost method)	\$3.987 billion
Actuarial standard (100% funded in 20 years with layered amortization and entry age normal cost method)	\$6.071 billion

Funding 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 higher than the cost of Tier II benefits.

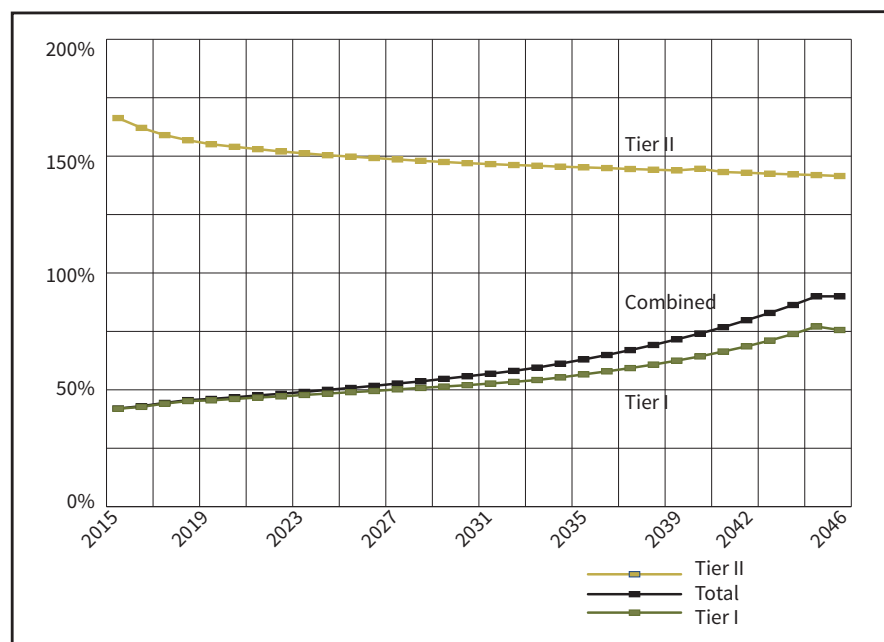
If operated as separate tiers, Tier I would be 77 percent funded by 2045 and Tier II would be 142 percent funded, with the combined plan attaining the 90 percent target funded ratio. The surplus Tier II assets lower the employer/State contributions required for Tier I.

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	\$69,538	Average annual benefit	\$52,752
Oldest full-time teacher	84	Oldest retired teacher	107

FUNDED RATIO BY TIER



Fiscal Year Highlights

	As of June 30, 2015
Active contributing members	159,707
Inactive noncontributing members	125,969
Benefit recipients*	114,922
Total membership	400,598
Investment return	
Total fund investment return, net of fees	4.0%
For funding purposes	
Actuarial accrued liability (AAL)	\$108,121,825,171
Less actuarial value of assets (smoothed assets)	45,435,192,645
Unfunded actuarial accrued liability (UAAL)	\$62,686,632,526
Funded ratio (% of AAL covered by assets, based on smoothed assets)	42.0%
For financial disclosure	
Total pension liability (TPL)	\$111,916,989,345
Less fiduciary net position (FNP)	46,406,915,593
Net pension liability (NPL)	\$65,510,073,752
FNP as a percentage of TPL	41.5%
Income	
Member contributions	\$935,451,049
Employer contributions	145,591,585
State of Illinois contributions	3,377,664,945
Total investment income	1,770,549,533
Total income	\$6,229,257,112
Expenses	
Benefits paid	\$5,536,399,447
Refunds paid	88,637,726
Administrative expenses	21,686,860
Total expenses	\$5,646,724,033

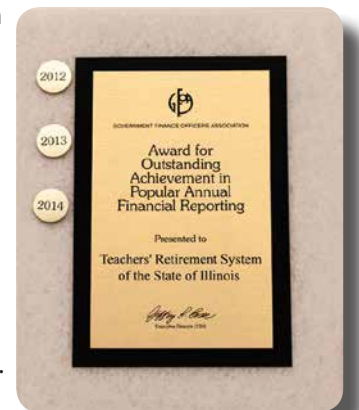
*Benefit recipients includes retiree, disability, and survivor beneficiaries.

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, 2014. 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 15 consecutive years. We believe this June 30, 2015 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, 2015.