ANNUAL FINANCIAL REPORT SUMMARY

For the Fiscal Year Ended June 30, 2019

Teachers' Retirement System of the State of Illinois

a component unit of the State of Illinois

Table of Contents

The images that accompany the data in this report are examples of real estate investments owned by TRS on behalf of our 423,504 members. In all, TRS has $7.35 billion invested in real estate all over the world, or 14 percent of the overall $52.8 billion TRS investment portfolio. TRS manages a highly diversified portfolio comprised of four general categories in order to protect assets.

BOARD OF TRUSTEES

As of December 1, 2019

Dr. Carmen I. Ayala
President
Superintendent of Education
Downers Grove

Mark Bailey
Vice President
Elected
Palos Park

Norma Bellcoff
Appointed
Edwardsville

Devon Bruce
Appointed
Lake Forest

Marsha Byas
Elected
Marion

Andrew Hirshman
Elected
Oak Park

Matthew Hunt
Appointed
Frankfort

Maureen Mena
Appointed
Bolingbrook

David Miller
Appointed
Lynwood

Laura P. Pearl
Appointed
Glenview

Fred Peronto
Elected
Elmhurst

Larry Pfeiffer
Elected
Carlinville

Doug Strand
Elected
East Moline

EXECUTIVE CABINET

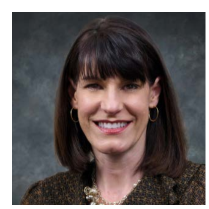
As of December 1, 2019

Dick Ingram
Executive Director

Jeff Bennett
Director of Operations

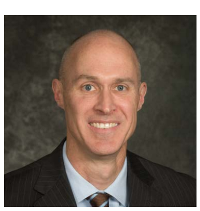
Jana Bergschneider, CPA
Chief Financial Officer

Marcilene Dutton, JD
Chief Legal Counsel



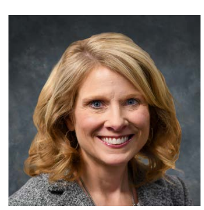
Gina Larkin
Chief Human Resources Officer

Carlton Lenoir, JD
Chief Benefits Officer



Stan Rupnik, CFA
Chief Investment Officer

Jay Singh
Chief Information Officer



Stacy Smith, CPA, CIDA
Director of Internal Audit and Risk

Dave Urbanek
Director of Communications

Cover photo: *7000 Central Park located in Atlanta, Georgia. Built in 1988 and acquired by TRS in 2018.*

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
2815 W. Washington St. | P.O. Box 19253 | Springfield, IL 62794-9253
877-927-5877 (877-9-ASK-TRS) | TTD: 800-526-0844 (or 711) | FAX: 217-753-0964
members@trsil.org | https://www.trsil.org
Richard W. Ingram, Executive Director

December 13, 2019

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, 2019.

Concluding its 80th year of operation in fiscal year 2019, TRS successfully distributed $6.7 billion in retirement, survivor and disability benefits to 124,299 members. However, the System continues to be buffeted by funding and policy uncertainties within state government that raise the possibility of future insolvency.

TRS ended the fiscal year with a funded ratio of 40.6 percent, which is one of the lowest in the nation for a retirement system its size. The System had an actuarial value of assets of $53 billion and a long-term benefit obligation of $131 billion, which creates an unfunded liability of $78 billion.

Since 1939, Illinois officials have never, in any year, appropriated enough money to "fully fund" the pension promises to be paid by TRS, as determined by the System's actuaries. This annual underfunding of TRS and the state's other public pension systems is, sadly, codified in state law. The statutory formula used to develop state government's annual contribution to its pension systems artificially lowers the state's cost of funding pensions. In fiscal year 2019, the state contribution to TRS calculated by the formula was $4.47 billion. Using actuarial calculations that are standard across the country, Illinois' contribution to TRS should have been $7.37 billion.

As a result of the unfunded liability created primarily by the state's consistent underfunding, 77 percent of the fiscal year 2019 state contribution to TRS was dedicated to paying off a portion of the unfunded liability and not the actual cost of benefits. If pensions had been properly funded over the last 80 years, the state appropriation for TRS would have been $1.03 billion and the System's future would be more secure.

Historically, TRS has relied on the belief that the state will stick to the 24-year-old statutory funding plan for TRS and the other public pension systems. This law requires state government to allocate enough money annually to eliminate most of the systems' unfunded liabilities over time. This plan mathematically brings TRS to a 90 percent funding ratio in 2045.

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.

The future of teacher pensions in Illinois will be determined over the next few years by how strongly state officials, our members, stakeholders and the public support real solutions required to reverse the erosion of the System's finances.

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, 2019 was $53.3 billion.
- During fiscal year 2019, the net position of TRS increased $1.3 billion.
- Contributions from members, employers and the State of Illinois were $5.5 billion, an increase of $401 million or 7.8 percent for fiscal year 2019.
- Total net investment income was $2.6 billion, compared to $4.0 billion in fiscal year 2018, a decrease of $1.4 billion.
- Benefits and refunds paid to members and annuitants were $6.8 billion, an increase of $267 million or 4.1 percent.
- The actuarial accrued liability was $131.5 billion at June 30, 2019.
- The unfunded actuarial accrued liability was $78.1 billion at June 30, 2019. The funded ratio was 40.6 percent at June 30, 2019. 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 $134.4 billion at June 30, 2019.
- The net pension liability was $81.1 billion at June 30, 2019. The plan fiduciary net position, as a percentage of total pension liability, was 39.6 percent.

121 WEST TRADE
Charlotte, NC
Built in 1990
Acquired in 2015

Condensed Comparative Statements of Fiduciary Net Position as of June 30

	2019	Percentage Change	2018
Cash	$27,358,430	(14.6%)	$32,034,294
Receivables and prepaid expenses	7,164,874,414	22.3	5,856,758,011
Investments	52,825,807,531	1.4	52,070,945,762
Invested securities lending collateral	2,540,713,046	9.3	2,323,876,849
Capital assets	2,856,794	0.2	2,851,122
Total assets	**62,561,610,215**	**3.8**	**60,286,466,038**
Total liabilities	**9,298,820,848**	**11.8**	**8,316,919,344**
Net position restricted for pensions	**$53,262,789,367**	**2.5%**	**$51,969,546,694**

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

	2019	Percentage Change	2018
Contributions	$5,518,507,593	7.8%	$5,117,795,720
Net investment income	2,617,831,332	(35.4)	4,049,271,728
Total additions	8,136,338,925	(11.2)	9,167,067,448
Benefits and refunds	6,818,760,572	4.1	6,551,634,376
Administrative expenses	24,335,680	12.9	21,550,896
Total deductions	6,843,096,252	4.1	6,573,185,272
Net increase in net position	**1,293,242,673**	**(50.1)**	**2,593,882,176**
Net position restricted for pensions - beginning of year	**51,969,546,694**	**5.3**	**49,375,664,518**
Net position restricted for pensions - end of year	**$53,262,789,367**	**2.5%**	**$51,969,546,694**

INVESTMENTS

The TRS investment portfolio increased $754.9 million over the past 12 months, ending with a value of $52.8 billion on June 30, 2019. The TRS portfolio remains fully diversified across different asset classes. Within each asset class, TRS utilizes 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.

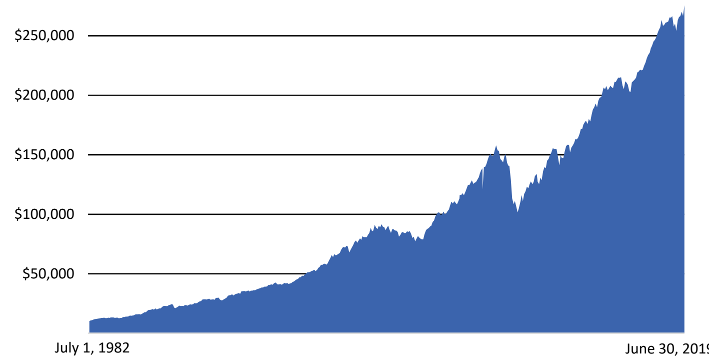
The global public equity market has continued to rally since the Global Financial Crisis ended in early 2009; however, global central bank narratives became more dovish as global growth began to slow and geopolitics contributed to brief periods of market volatility. Under these market conditions, the System's private assets in private equity and opportunistic real estate outperformed public assets during the fiscal year; generating 12.3 percent and 8.2 percent, net of fee returns, respectively. All asset classes produced positive returns, contributing to the overall TRS portfolio posting a return of 5.2 percent, net of fees, for the fiscal year ended June 30, 2019.

TRS Investment Performance (net of fees)

Summary Data as of June 30, 2019	
Total fund fair value	$52.8 billion
1-year return (net of fees)	5.2%
3-year return (net of fees)	8.7%
5-year return (net of fees)	5.9%
10-year return (net of fees)	9.5%
20-year return (net of fees)	6.3%
30-year return (net of fees)	8.0%

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.

Growth of $10,000



"In order to assist System participants in achieving their financial security objectives, the TRS Board shall adopt a long-term plan by which the assets of the System will be maintained and enhanced through prudent investments."

- TRS Board of Trustees, April 7, 2000

JAMISON AT BRIER CREEK
Raleigh, NC
Built in 2012
Acquired in 2013

ACTUARIAL

This section discusses the System's funded status and measures changes over time. The actuarial accrued liability, actuarial value of assets and unfunded liability presented are used to determine state funding requirements.

Actuarial Assumptions and Methods

All actuarial assumptions, both demographic and economic, used to prepare the actuarial valuation are reviewed every three years. The last review, called an actuarial experience analysis, was conducted in 2018. At the recommendation of the state actuary, the major economic assumptions are reviewed every year for reasonableness prior to the preparation of the valuation. Using these assumptions, the actuary reconciles the differences between actuarial assumptions and experience to explain the change in TRS's valuation.

Annual Actuarial Valuation

The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned by TRS members to date but not yet paid. The unfunded liability is the difference between the accrued liability (the present value of benefits including the cost of annual increases) and the assets that are available to cover the liability. The funded ratio shows the percentage of the accrued liability covered by assets.

Actuarial Valuation ($ thousands)

	Year ended June 30, 2019
Based on actuarial value of assets	
Total actuarial accrued liability	$131,456,969
Less actuarial value of assets*	53,391,193
Unfunded liability	**$78,065,776**
Funded ratio*	40.6%
Based on fair value of assets	
Total actuarial accrued liability	$131,456,969
Less assets at fair value	53,262,789
Unfunded liability	**$78,194,180**
Funded ratio	40.5%

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

The table above shows the funded ratio based on the actuarial value of assets and the fair value of assets.

Explaining the Unfunded Liability

Based on the actuarial valuation, the increase in the unfunded liability for 2019 is $2.8 billion. This increase in the liability was caused by a variety of factors.

Reconciliation of Unfunded Liability

Reconciliation of Unfunded Actuarial Accrued Liability	Year ended June 30, 2019
Unfunded liability at beginning of year	$75,288,440,204
Additions	
Employer cost in excess of contributions	1,754,692,034
Net experience (gain)/loss	941,925,998
Changes in actuarial assumptions on buyout utilization	80,717,984
Net increase in unfunded liability	2,777,336,016
Unfunded liability at end of year	$78,065,776,220

The first factor shown in the table is the difference between actual employer/state contributions and the amount that would cover the employer/state's cost of benefits earned during the year and prevent the prior year's unfunded liability from growing. The shortfall was $1.8 billion.

Secondly, actuarial gains and losses occurred under the assumptions used to prepare the valuation. Losses occurred under the investments, retirement, terminations and rehire assumptions. Gains occurred under the assumptions for salary increases, disabilities and new members, meaning that experience was more favorable (less costly) than originally assumed.

Changes in actuarial assumptions for the accelerated pension benefit payments based on the first year of utilization experience lowered the liability savings and added to the unfunded liability.

In summary, the $2.8 billion increase in the unfunded liability is due to the $1.8 billion employer cost in excess of contributions, the $0.9 billion increase due to experience and the $0.1 billion increase due to assumption changes.

Pension Funding Policies and Contributions

A funding policy outlines the framework for calculating the contribution rate to the System for the purpose of steadily funding future benefit payments. There are three elements that are important in this framework: actuarial cost for the total present value of future benefits, recognition of investment gains/losses and the amortization of the unfunded liability.

In 2012, the TRS Board of Trustees resolved to begin certifying state funding amounts that were in accordance with generally accepted actuarial principles and standards. These amounts, one based on the board's funding policy and the other on the statutory funding plan, are submitted to the legislative and executive branches. By certifying two funding amounts, the board serves to illustrate the gap between sound funding policy and current practice under Illinois law.

STERLING PARC

Cedar Knolls, NJ
Phase 1 built in 1988
and phase 2 built in 2001
Acquired in 2016

State Funding Amounts

The fiscal year 2020 certified state contributions are based on the June 30, 2018 actuarial valuation and the fiscal year 2021 certifications are based on the June 30, 2019 actuarial valuation. The state actuary will review the proposed certifications for fiscal year 2021 as well as the preliminary June 30, 2019 valuation. Final certifications for fiscal year 2021 are due Jan. 15, 2020 pursuant to Public Act 97-0674.

The Fiscal Years 2020 & 2021 State Contribution Requirements table on the right shows funding requirements under the Illinois statutory funding plan and the TRS Board of Trustee's funding plan that was adopted in 2015.

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 are not compounded. On July 1, 2016, the member contribution rate for both tiers decreased from 9.4 percent to 9.0 percent.

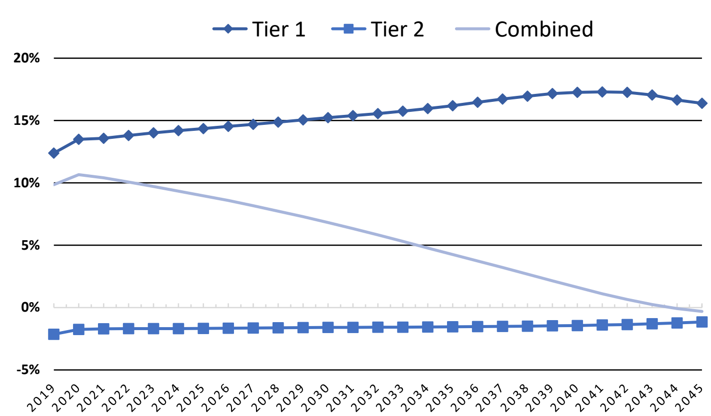
The employer normal cost rate measures the employer's cost of the benefits being earned by active teachers during the year. It does not include any contributions towards the unfunded liability. The chart shows that while the combined employer normal cost of both tiers in 2019 is nearly 10 percent of 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, which is 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 Years 2020 & 2021 State Contribution Requirements

	Fiscal Year 2020 Requirements	Fiscal Year 2021 Requirements
Based on Statutory Funding Plan		
Benefit Trust Reserve	$4,813,077,696	$5,140,336,721
Minimum Annuity Reserve	500,000	400,000
Total State Contribution	$4,813,577,696	$5,140,736,721
Based on TRS Board Funding Policy		
Benefit Trust Reserve	$7,878,170,709	$8,343,796,301
Minimum Annuity Reserve	500,000	400,000
Total State Contribution	$7,878,670,709	$8,344,196,301
Employer Normal Cost Rate		
Tier 1	13.75%	13.85%
Tier 2	(1.48%)	(1.43%)
Combined	10.66%	10.41%

Employer Normal Cost by Tier



STATISTICAL

Member Statistics for the Fiscal Year Ended 2019			
Full and Part-time Active Members			
Average age	42	Tier 1 members	115,839
Average service	13	Tier 2 members	47,188
Average annual salary	$74,158	Both tiers combined	163,027
Oldest full-time teacher	78		
Retired Members			
Average age	72	Average annual benefit	$58,860
Average service	27 years	Oldest retired teacher	108

TRS RECEIVES 19TH NATIONAL 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, 2018. 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 19 consecutive years. We believe this June 30, 2019 report also conforms to the Popular Annual Financial Reporting requirements and we are submitting it to GFOA.

FISCAL YEAR HIGHLIGHTS

	As of June 30, 2019
Active contributing members	163,027
Inactive noncontributing members	136,178
Benefit recipients*	124,299
Total membership	423,504
Investment return	
Total fund investment return, net of fees	5.2%
Actuarial information	
Actuarial accrued liability (AAL)	$131,456,968,953
Less actuarial value of assets (AVA)	53,391,192,733
Unfunded actuarial accrued liability, AVA basis (UAAL)	$78,065,776,220
Funded ratio (AVA/AAL)	40.6%
Less fair value of assets (FVA)	53,262,789,267
Unfunded actuarial accrued liability, FVA basis (UAAL)	$78,194,179,586
Funded ratio (FVA/AAL)	40.5%
GASB Statement No. 67 disclosure	
Total pension liability (TPL)	$134,370,954,628
Less fiduciary net position (FNP)	53,262,789,367
Net pension liability (NPL)	$81,108,165,261
FNP as a percentage of TPL	39.6%
Income	
Member contributions	$963,972,120
Employer contributions	88,514,781
State of Illinois contributions	4,466,020,692
Total investment income	2,617,831,332
Total income	$8,136,338,925
Expenses	
Benefits paid	$6,745,544,182
Refunds paid	73,216,390
Administrative expenses	24,335,680
Total expenses	$6,843,096,252

** 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, 2019.

The comprehensive report is available online at: **https://www.trsil.org/financial/cafrs/fy2019**.

Printed by the authority of the State of Illinois
54,500 | Pub21 | 12/19