

RETIREMENT SECURITY FOR ILLINOIS EDUCATORS



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

**Annual Financial Report Summary
for the fiscal year ended June 30, 2007**



December 10, 2007

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, 2007. In this edition, we have used nest eggs to depict the financial security that TRS provides for members and their loved ones.

Unlike defined contribution plans, such as 401(k) plans, members can depend on TRS to pay benefits even when the financial markets are not performing well. TRS members are part of a defined benefit plan which means their retirement benefits will be provided for their lifetimes. Others dependent solely upon personal investments do not have this guarantee; their financial futures are determined by the uncertain ebb and flow of the markets.

The promise of financial security is the same regardless of who is holding the nest egg in this report. To the active member, it is the promise of a pension. To the child, it is a disability benefit that is depended upon for essentials when a parent is disabled. To the surviving spouse, it is the continued financial support received after a primary income is gone. To the retiree, it is the reliable income source earned after serving as an Illinois educator. Now and in the future, members can count on TRS benefits being there for themselves and their loved ones.

Members can also count on the board and staff at TRS to keep member service a priority; we continually strive to do more for our membership. In fiscal year 2007, member surveys rated our service levels in the 97th percentile. These fiscal year 2007 changes continued to improve our Member Service programs:

- Added a personalized benefit estimate section in the secure Member Account Access area of our Web site.
- Revamped the Web site for faster page downloads and increased security.
- Informed members and the media by developing an online Press Room which contains press releases and information about benefits and funding.
- Ensured that members who changed addresses continued to receive important mail from us; over 30,000 member addresses were automatically updated using software approved by the U.S. Postal Service.

With our purpose of Retirement Security for Illinois Educators in mind, we have completed this year's report. It 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 on our Web site, 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,

Jon Bauman
Executive Director

Jana Bergschneider, CPA
Director of Administration

Board of Trustees as of December 1, 2007



Christopher A. Koch, Ed. D.
President
Bloomington



Molly Phalen
Vice President
Rockford



Marcia Boone
O'Fallon



James Bruner
Jacksonville



Jan Cleveland
Carmi



Cinda Klickna
Rochester



Sharon Leggett
Evanston



Bob Lyons
Hoffman
Estates



Cynthia O'Neill
Carlyle



William Orrill
Carbondale

Executive Staff Members as of December 1, 2007



Jon Bauman
Executive
Director



Jana Bergschneider, CPA
Director of
Administration



Andrew Bodewes
Director of
Government Affairs



Kathleen Farney, CEBS
Director of
Research



Eva Goltermann
Public Information
Officer



Tom Gray
General
Counsel



Gina Larkin
Director of
Human Resources



Kathy Pearce
Communications
Supervisor



Stan Rupnik, CFA
Chief Investment
Officer



Stacy Smith, CPA
Internal Audits
Manager

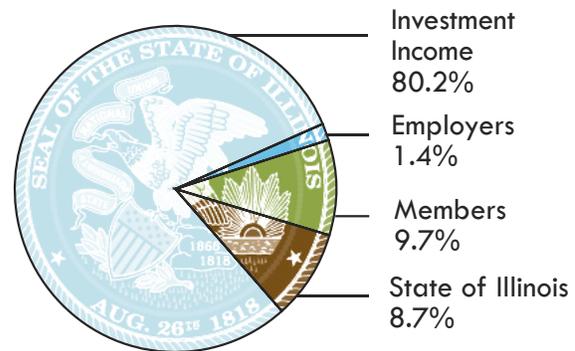


Terry Viar
Director of
Member Services

Fiscal Year 2007 Financial Highlights

- TRS net assets at June 30, 2007, were \$41.9 billion.
- During fiscal year 2007, TRS net assets increased \$5.3 billion. Net assets are determined by subtracting liabilities from total assets. Most TRS liabilities involve securities transactions.
- Contributions from members, employers, and the State of Illinois were \$1,680 million, an increase of \$223 million or 15.3 percent for the fiscal year.
- TRS's investment portfolio returned 19.6 percent, gross of fees, for one of our most successful years since the 1980s.
- Total investment income was \$6,831 million, an increase of \$2.8 billion compared to fiscal year 2006.
- Benefits and refunds paid to members and annuitants were \$3,171 million, an increase of \$236 million or 8.1 percent compared to fiscal year 2006.
- The pension benefit obligation or total actuarial accrued liability was \$65.6 billion at June 30, 2007.
- The unfunded actuarial accrued liability increased from \$22.4 billion at June 30, 2006 to \$23.7 billion at June 30, 2007. The unfunded liability is the difference between the value of future pension benefits accrued minus the net assets currently available to pay these future benefits.
- The funded ratio increased from 62.0 percent at June 30, 2006 to 63.8 percent at June 30, 2007.

Contributions and Investment Income



Condensed Comparative Statement of Plan Net Assets as of June 30

	2007	2006	Percentage Change
Cash	\$3,548,548	\$3,867,280	(8.2%)
Receivables and prepaid expenses	385,352,096	352,050,422	9.5
Investments	41,953,080,943	37,336,880,818	12.4
Invested securities lending collateral	5,020,184,465	4,401,016,409	14.1
Capital assets	2,391,619	2,333,759	2.5
Total assets	47,364,557,671	42,096,148,688	12.5
Total liabilities	5,455,239,920	5,511,259,261	(1.0)
Net assets	\$41,909,317,751	\$36,584,889,427	14.6%

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

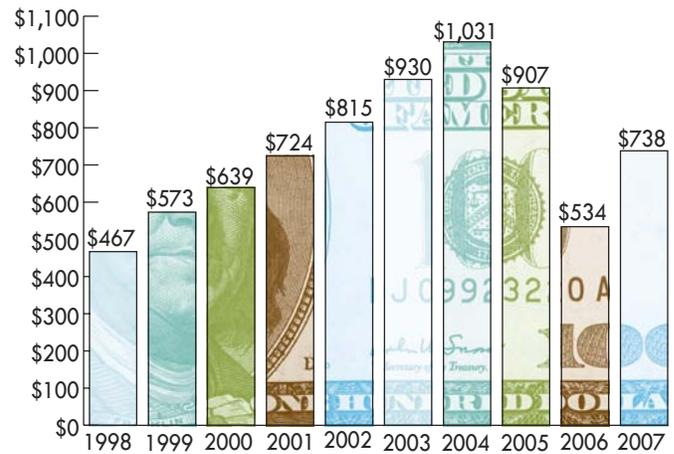
	2007	2006	Percentage Change
Contributions	\$1,679,834,675	\$1,456,882,200	15.3%
Total investment income	6,831,324,436	3,993,289,880	71.1
Total additions	8,511,159,111	5,450,172,080	56.2
Benefits and refunds	3,171,484,584	2,935,197,760	8.1
Administrative expenses	15,246,203	15,303,370	(0.4)
Total deductions	3,186,730,787	2,950,501,130	8.0
Net increase in net assets	5,324,428,324	2,499,670,950	7.3
Net assets beginning of year	36,584,889,427	34,085,218,477	7.3
Net assets end of year	\$41,909,317,751	\$36,584,889,427	14.6%

State Funding

The State of Illinois is the major source of funding for employer contributions. Beginning in 1996, the state adhered to a 50-year funding plan for nine successive fiscal years. In fiscal year 2005, the appropriation was reduced to recognize pension obligation bond proceeds. As shown on the accompanying chart, the funding plan changes resulted in a reduction in the contributions for fiscal year 2005.

State contributions for fiscal years 2006 and 2007 were set by law and not based on actuarial funding requirements. In both years, state appropriations were about half the amounts that would have been required under the 50-year funding plan. However, in fiscal year 2008, state appropriations are based on the 50-year plan and increased by \$303 million over the fiscal year 2007 amount. Significant increases will also be required in fiscal years 2009 and 2010. The

State Appropriations (\$ in millions)



ultimate funding plan goal is to achieve a 90 percent funding level by the year 2045.

Investments

The TRS investment portfolio had another strong year, returning 19.6 percent, gross of fees. This number follows a successful fiscal year 2006 performance of 12.2 percent, gross of fees, as all asset classes again produced positive returns. This represents the fourth consecutive year for this accomplishment.



The overall global economies remained strong throughout the year. International stock markets, again led by the emerging market economies, rallied to a 30 percent return for the year. Within the U.S., large cap stocks led the overall market to a 20 percent increase. TRS's private markets investments continued to post substantial gains for fiscal year 2007, with the TRS private equity portfolio returning 29.3 percent, net of fees, and the TRS real estate portfolio generating a 25.3 percent return, net of fees.

The TRS investment portfolio continued to rank highly against its peers. Over the past 10 years, TRS ranks in the top decile of the large public funds in the Wilshire Trust Universe Comparison Service (TUCS).

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.

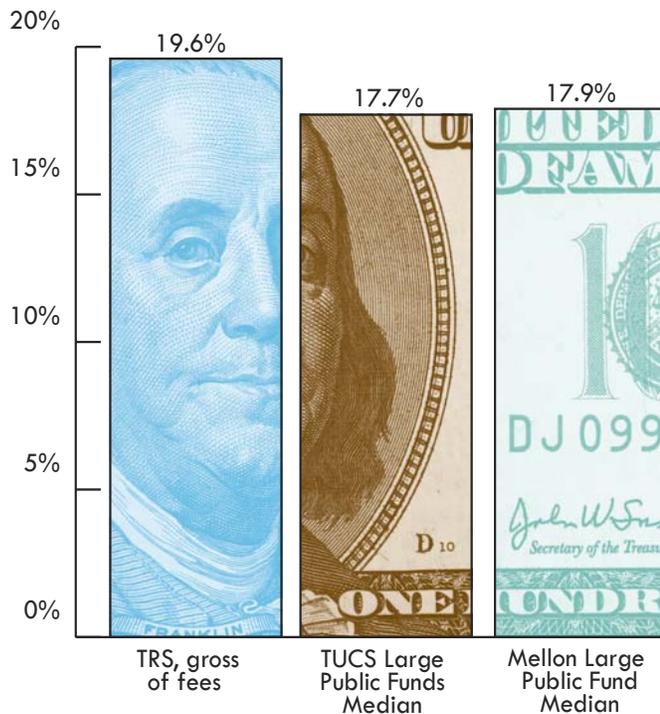


Top 10 U.S. Equity Holdings at June 30, 2007

Firm	Market Value
General Electric Co.	\$268,315,927
Exxon Mobil Corp.	216,142,068
Citigroup, Inc.	158,576,576
Microsoft Corp.	153,115,187
Hewlett-Packard Co.	138,933,606
Chevron Corp.	132,146,446
Google, Inc.	126,662,147
Pfizer, Inc.	126,105,794
Cisco Systems, Inc.	120,102,011
ConocoPhillips	101,185,951
Total	\$1,541,285,713

Source: The Northern Trust Company

TRS Returns Compared to Other Large Public Funds*



*The total return also surpassed the 8.5 percent actuarial return assumption and the real rate of return expectation, which is to exceed the rate of inflation, as measured by the Consumer Price Index, by 5.0 percent.

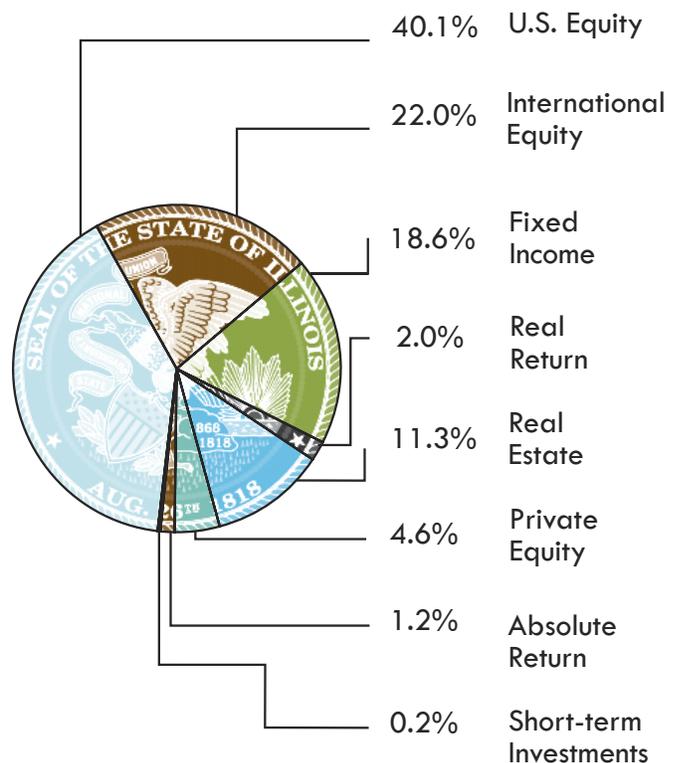
TRS Investment Performance (net of fees)

	1 year	5 years	10 years
Rate of return	19.2%	12.5%	9.1%

Investment Portfolio

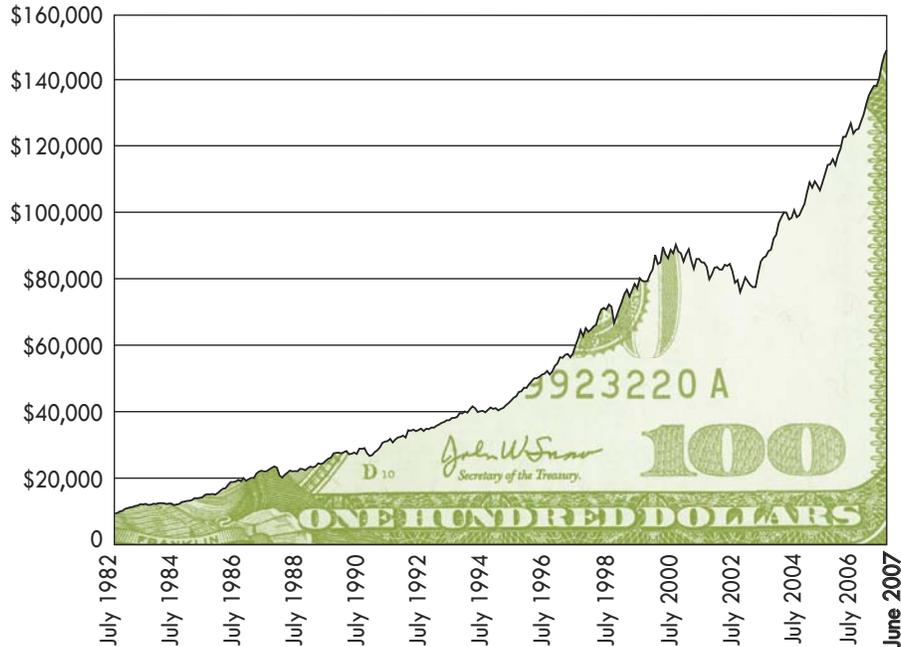
The TRS investment portfolio is well-diversified and is shown in actual figures as of June 30, 2007, on the chart below. By investing in a broad range of asset classes, TRS minimizes risk and achieves more consistent investment returns.

Fiscal Year 2007 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 25 years. Despite the economic downturn in 2000 through 2003 and other market fluctuations, the overall trend line is solidly favorable.



Actuarial

Every year, TRS's actuarial firm estimates the value of all of the benefits earned by members and retirees that have not already been paid. Based on the difference between the accrued liability for benefits and the assets accumulated to cover them, the annual state funding requirement is determined.

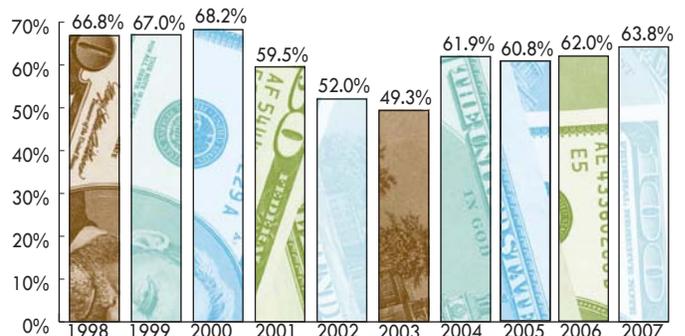
In 2007, the actuaries compared TRS experience over the past five years to the long-term actuarial assumptions. The net effect of all the changes in assumptions was a \$2.4 billion increase in the accrued liability.

Here are the key results of the current actuarial valuation compared to the prior year's valuation:

Actuarial Valuation with Market Value Assets (\$ in thousands)

	Years Ended June 30	
	2007	2006
Total actuarial accrued liability	\$65,648,395	\$58,996,913
Net assets at market value	41,909,318	36,584,889
Unfunded liability	\$23,739,077	\$22,412,024
Funded ratio	63.8%	62.0%

Funded Ratio



Statistical

Member Statistics

Full and Part-time Active Members

Average age	41
Average years of service	12
Average annual salary	\$58,116
Oldest full-time teacher	86

Retired Members

Average age	69
Average service	29
Average annual benefit	\$40,128
Oldest retired teacher	106

Fiscal Year Highlights

	2007	2006
Active contributing members	160,317	159,272
Inactive noncontributing members	94,879	81,218
Benefit recipients	89,236	85,103
Total membership	<u>344,432</u>	<u>325,593</u>
Actuarial accrued liability (AAL)	\$65,648,395,000	\$58,996,913,000
Less net assets held in trust for pension benefits	41,909,318,000	36,584,889,000
Unfunded actuarial accrued liability (UAAL)	<u>\$23,739,077,000</u>	<u>\$22,412,024,000</u>
Funded ratio (actuarial value of assets/AAL)	63.8%	62.0%
Total fund investment return, net of fees	19.2%	11.8%
Expenses		
Benefits paid	\$3,111,752,675	\$2,877,230,697
Refunds paid	59,731,909	57,967,063
Administrative expenses	15,246,203	15,303,370
Total	<u>\$3,186,730,787</u>	<u>\$2,950,501,130</u>
Income		
Member contributions	\$826,249,007	\$799,034,336
Employer contributions	115,915,040	123,542,608
State of Illinois contributions	737,670,628	534,305,256
Total investment income	6,831,324,436	3,993,289,880
Total	<u>\$8,511,159,111</u>	<u>\$5,450,172,080</u>

This publication is a summary of the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. The comprehensive report, which has more detailed information, is available on our Web site, trs.illinois.gov, or by calling (800) 877-7896.

