ACTUARIAL

No arsenal, or no weapon in the arsenals of the world, is so formidable as the will and moral courage of free men and women.

Ronald Reagan

December 4, 2003

Board of Trustees
Teachers' Retirement System
of the State of Illinois
2815 West Washington Street
Springfield, Illinois 62794

Subject: Pension Benefit Obligation as of June 30, 2003

Ladies & Gentlemen:

Based upon our annual actuarial valuation of the Teachers' Retirement System of the State of Illinois, we have determined the pension benefit obligation of the System to be $46,933,432,000 as of June 30, 2003. The valuation was performed in accordance with generally accepted actuarial principles and procedures, using the projected unit-credit actuarial cost method.

The actuarial valuation was based on a census of retired members as of June 30, 2003, and a census of active and inactive members as of June 30, 2002, which were submitted to us by the System. While we did not verify the data at their source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation.

Presented in the Financial Section of the System's Annual Financial Report, there is a schedule of Required Supplementary Information. This schedule has been reviewed by the actuary and is consistent with the valuation report. The Actuarial Section of the Annual Financial Report also contains various schedules: Actuarial Valuation with Market Value Assets, Reconciliation of Unfunded Liability, State Funding Amounts, Funded Ratio Test, Unfunded Liability as a Percentage of Payroll Test and Solvency Test. While the actuary did not prepare these schedules, they are in agreement with the valuation report and their accuracy has been verified.

The amortization method established by PA 88-0593 and PA 93-0002, which is used for funding purposes, does not meet the parameters of GASB Statement No. 25. The amortization method used is a 15-year phase-in to a level percent of payroll – before reduction for the maximum state contribution limitations of the Act – until a 90% funding level is achieved by June 30, 2045, with the remaining amortization period being 42 years. The actuarial assumptions, actuarial cost method, and asset valuation method used for funding purposes do meet the parameters of GASB Statement No. 25.

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The valuation is based on the benefit provisions of TRS in effect on June 30, 2003. The actuarial assumptions used in the valuation are those specified by the Board of Trustees of the System based on recommendations made by the actuary.

In our opinion, the amount of $46,933,432,000 is a fair representation of the pension benefit obligation of the System as of June 30, 2003.

Respectfully submitted,

John W. Thompson
Consulting Actuary

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Actuaries estimate the cost of benefits members and survivors will receive over their lifetimes and calculate the amount that should be set aside each year to fund them.

TRS complies with the requirements issued by the Governmental Accounting Standards Board (GASB) under Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.*

ACTUARIAL ASSUMPTIONS AND METHODS

Each year the actuary reconciles the differences between major actuarial assumptions and experience in the process of explaining the change in TRS's unfunded liability. The unfunded liability is the difference between the accrued liability (the present value of benefits including the cost of annual increases) and the net assets that are available to cover the liability.

Many of the following assumptions were revised in the five-year experience review covering fiscal years 1997-2001. They were adopted in the FY02 valuation.

Inflation: 3.5 percent per annum. Implicit in investment and earnings progression assumptions. Adopted in the FY02 valuation.

Investment return: 8.5 percent per annum, compounded annually. Adopted in the FY97 valuation. Components revised in FY02 valuation: inflation 3.5 percent, real return 5.0 percent, with overall 8.5 percent assumption retained.

Earnings progression: Merit and longevity increases, adjusted for inflation. Approximates 6.5 percent per year to the earliest date of retirement eligibility. Adopted in the FY02 valuation.

Sample annual percentage salary increases:

Age	Male and Female
20	10.1%
25	9.2
30	7.7
40	6.5
50 and above	5.9

Retirement age: Graduated rates based on age and gender of active members. Inactive members are assumed to retire at age 62 if they have fewer than 10 years of service or at age 60 if they have 10 or more years of service. Adopted in the FY02 valuation.

Sample annual retirements per 1,000 participants:

Age	Male	Female
54	80.0	70.0
55	160.0	135.0
60	260.0	185.0
65	350.0	315.0
70	1,000.0	1,000.0

Mortality: For active members: 74.6 percent of the 1995 George B. Buck Mortality Table rates for males and 83 percent of the George B. Buck Mortality Table rates for females.

For annuitants: 95.6 percent of the 1995 George B. Buck Mortality Table rates for males and 100 percent of the George B. Buck Mortality Table rates for females. For beneficiaries, the 1995 George B. Buck Mortality Tables rated forward three years for males and rated forward one year for females. For the period after disability retirement, the Pension Benefit Guaranty Corporation rates for male disabled lives not necessarily receiving Social Security benefits, rated back two years for females and rated forward five years for males, but not less than the rate at age 65 (after the setback). Adopted in the FY02 valuation.

Disability: Adopted in the FY02 valuation.

Sample annual disabilities per 1,000 participants:

Age	Male	Female
25	0.34	0.72
30	0.38	0.81
40	0.53	1.11
50	1.10	2.31
60	3.66	7.70

Termination from active service: Adopted in the FY02 valuation.

Sample annual terminations per 1,000 participants:

	Nonvested Members		Vested Members	
Age	Male	Female	Male	Female
25	88.0	105.0	61.1	90.0
30	88.0	105.0	41.2	80.0
40	88.0	75.0	15.8	25.0
50	88.0	65.0	10.4	16.5
60	88.0	65.0	18.6	22.8

Severance pay: Increases with years of service at retirement. Adopted in the FY02 valuation.

Years of Service at Retirement	Percent of Retirees Who Receive Severance Pay	Severance Pay as a Percent of Final Salary
fewer than 20	0.0%	0.0%
20–24	51.0	12.9
25–29	65.0	14.9
30 or more	79.0	16.9

Optional service at retirement: The accrued liability for retirement benefits for active members who have not previously purchased optional service is increased by 1.9 percent to cover the employer cost of optional service purchased in the last two years of service. The overall assumption for optional service (out-of-system plus leaves of absence and layoff) is an average of 0.969 of a year per full-time/part-time service retiree. Adopted in the FY02 valuation.

Unused and uncompensated sick leave: Equals 2.83 percent of regular service at retirement. Adopted in the FY02 valuation.

Actuarial cost method: Projected unit credit. Gains and losses are reflected in the unfunded liability. Adopted in the FY89 valuation.

Asset valuation method: Market value. Adopted in the FY97 valuation.

Under the projected unit credit cost method used by TRS, the resulting liability for benefits earned is called the "pension benefit obligation," or PBO. A broader term for this liability is "actuarial accrued liability," or AAL. In other words, the PBO is a type of AAL.

Also, measures of TRS's financial condition for both June 30, 2003, and June 30, 2002, are shown using market value of assets. These tests are consistent with TRS's financial statements, which are prepared in accordance with GASB Statement No. 25. The change to market value was first effective June 30, 1997, for determining state funding requirements for FY99.

The actuarial value of assets for FY02 and FY01 is equal to the "net assets held in trust for pension benefits" as shown in the financial statements.

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 to date. The unfunded liability is the present value of future benefits payable that are not covered by assets as of the valuation date.

The **funded ratio** shows the percentage of the accrued liability covered by net assets at market value.

Actuarial Valuation with Market Value Assets ($ in thousands)

	Years Ended June 30	
	2003	**2002**
Total actuarial accrued liability	**$46,933,432**	**$43,047,674**
Less actuarial value of assets		
(net assets at market value)	$23,124,823	$22,366,285
Unfunded liability	**$23,808,609**	**$20,681,389**
Funded ratio	49.3%	52.0%

RECONCILIATION OF UNFUNDED LIABILITY

The net increase in the June 30, 2003, unfunded liability of $3.127 billion was caused by a combination of factors.

The **employer cost in excess of contributions** is the shortfall between actual employer contributions and the amount needed to cover the cost of benefits earned during the year and to keep the unfunded liability from growing. In 2003, this shortfall was $1.416 billion.

TRS experienced an actuarial loss under the **salary increase** assumption in FY03, with salary increases $172 million higher than expected. Actuarial losses also occurred under the **investment return** assumption. Assets were assumed to earn $1.888 billion, but asset gains were actually $1.061 billion. Therefore, the total actuarial loss due to investments was $827 million.

Actuarial losses also occurred under the **mortality** and **turnover** assumptions. Additionally, many members repaid refunds in FY03, and the repurchased service increased the unfunded liability. There were also losses associated with the ERO contribution rates and the ERO contribution waivers for members who have 34 years of service. **Delayed reporting** of retirements also increased the unfunded liability because more people were receiving benefits than expected. **Other**, which is a balancing item, includes the effect of retirements effective in June 2002 or earlier that were not reported to TRS and the actuary until after June 30, 2002 and several other factors. For example, individuals may delay applying for benefits and receive back payments. Also, teachers retiring under the provisions of the Illinois Reciprocal Act may retire with higher benefits than expected. Another factor that would offset some of these actuarial losses is fewer disablements and lower benefit payments than expected.

Reconciliation of Unfunded Liability ($ in thousands)

	Years Ended June 30	
	2003	**2002**
Unfunded liability at beginning of year	$20,681,389	$15,851,051
Additions (Deductions)		
Employer cost in excess of contributions	1,415,610	1,074,422
Change in actuarial assumptions	0	(346,000)
Change in data reporting methodology	0	1,040,736
Maximum sick leave credit increased to two years	37,000	0
State ERI	10,850	0
Extend 24 months benefit reductions for 2.2 upgrades	6,000	0
Actuarial losses (gains) compared to assumptions		
Salary increases for continuing active members	171,802	4,934
Investment return	827,434	2,696,199
New entrant loss	27,026	27,032
Mortality other than expected	(31,913)	(8,832)
Fewer terminations than expected	17,211	31,991
Repayments of refunded member contributions[1]	28,742	25,698
ERO costs waived for those with 34 years of service	334,583	273,219
Delayed reporting of retirements (effect on assets)[2]	28,377	77,536
Other	254,498	(66,597)
Net actuarial losses	1,657,760	3,061,180
Net additions	3,127,220	4,830,338
Unfunded liability at end of year	**$23,808,609**	**$20,681,389**

1 Includes the employer-paid portion of the benefit that was restored when members repaid previously refunded contributions.

2 1,851 retirements which occurred prior to 7/1/01 were not reported to the actuary until 6/30/02. 798 retirements which occurred prior to 7/1/02 were not reported to the actuary until 6/30/03.

STATE FUNDING

Three significant changes to TRS funding have been made in the past 10 years. All of them are evidence of the state's commitment to strengthen TRS's financial condition over the long-term.

Public Act 88-593 was enacted in 1994 and first affected state contributions in FY96. The law established the current 50-year funding plan that includes a 15-year phase in period. During the phase-in period, contributions are gradually increased to a percentage level of active member payroll that will be attained in FY10. By the end of the funding period in FY45, TRS will have a 90 percent funded ratio. A key feature of this act is the "continuing appropriation" language that requires state contribution to be made automatically to TRS. Pension contributions are no longer subject to budget negotiations.

Public Act 90-582, the 2.2 legislation, was enacted in 1998 and first affected state contributions in FY99. The act established minimum state contribution rates so that the state's cost of the formula change would be paid as a level percent of pay instead of being phased in. Those minimum state contribution rates were in effect from FY99 through FY04.

Public Act 93-002, the pension obligation bond (POB) legislation, was enacted in 2003 and first affects state contributions in FY05. Of the total $10 billion in POB proceeds, $523 million was used to cover initial interest payments and to fund bond issuance and other costs. The next $2.160 billion was used to make contributions to the five state retirement systems for some of FY03 and all of FY04. The remaining $7.317 billion was allocated among the systems to invest and to reduce their unfunded liabilities. The allocation was based on the relative sizes of the systems' June 30, 2002, unfunded liabilities. The TRS share of the proceeds, $4.330 billion, was received on July 2, 2003.

Beginning with FY05 state contributions, appropriations to the state retirement systems will be reduced by the amount of debt service owed on each system's share of the POB proceeds. The actuaries will go through a multi-step process to calculate state funding requirements that do not exceed certain maximums specified in the act. This will continue through FY33, the last year that debt service is due.

The integrity of the funding plan, particularly its continuing appropriation provision, remains a top priority for TRS.

STATE FUNDING AMOUNTS

The FY03 actuarial valuation was used to determine the required state contributions for FY05 and the FY05 employer's normal cost. The FY02 actuarial valuation was used to determine FY04 state funding requirements and the FY04 employer's normal cost.

State Funding Amounts

	FY05	FY04
Employers' Contribution Reserve* (excludes federal contributions; excludes school district contributions for 2.2)	$903,928,000	$1,028,259,000
Minimum benefit reserve	3,100,000	3,400,000
Total state funding amount	**$907,028,000**	**$1,031,659,000**
Employer's normal cost as a percentage of active member payroll	8.32%	8.15%

* *Includes $1,684,000 and $1,000,000 in state contributions in FY05 and FY04 respectively, pursuant to Public Act 92-0566. The act established an early retirement incentive for state employees, including state employees covered by TRS.*

TESTS OF FINANCIAL CONDITION

The **funded ratio** shows the percentage of the accrued liability covered by net assets.

Funded Ratio Test ($ in thousands)

As of June 30	Net Assets at Market	Actuarial Accrued Liability	Funded Ratio at Market
1994	$12,038,688	$21,746,875	55.4%
1995	13,374,278	23,980,566	55.8
1996	15,103,927	26,141,794	57.8
1997	17,393,108	26,951,585	64.5
1998	19,965,887	29,908,241	66.8
1999	22,237,709	33,205,513	67.0
2000	24,481,413	35,886,404	68.2
2001	23,315,646	39,166,697	59.5
2002	22,366,285	43,047,674	52.0
2003	23,124,823	46,933,432	49.3

The **unfunded liability as a percentage of payroll** is a standard measure of the relative size of the unfunded liability. Decreases in this percentage indicate improvements in a system's financial position.

Unfunded Liability as a Percentage of Payroll Test
($ in thousands)

Year Ended June 30	Approximate Member Payroll	Unfunded Liability	Percentage of Payroll
1994	$4,413,000	$9,754,651	221.0%
1995	4,417,000	11,338,701	256.7
1996	4,734,000	11,037,867	233.1
1997	5,013,000	9,558,477	190.7
1998	5,323,000	9,942,354	186.8
1999	5,698,000	10,967,804	192.5
2000	6,063,000	11,404,991	188.1
2001	6,431,000	15,851,051	246.5
2002	6,785,000	20,681,389	304.8
2003	7,059,000	23,808,609	337.3

Beginning in FY96, unfunded liabilities are calculated using assets at market value.

The **solvency test** measures TRS's ability to cover different types of obligations if the plan was terminated and is hypothetical. The columns are in the order that assets would be used to cover certain types of obligations. Employee contributions would be refunded first, amounts due for current beneficiaries would be covered next, and the employer's obligation for active members would be covered last. Columns 1 and 2 should be fully covered by assets. The portion of column 3 that is covered by assets should increase over time. TRS passed the minimum standards of the solvency test from 1997 through 2001.

Solvency Test ($ in thousands)

	Aggregate Accrued Liabilities for						
Year Ended June 30	Members' Accumulated Contributions (1)	Participants Currently Receiving Benefits (2)	Active Members Employer Portion (3)	Actuarial Value of Assets*	Percentage of Benefits Covered by Net Assets (1)	(2)	(3)
1994	$2,850,319	$10,088,901	$8,807,655	$11,992,224	100%	91%	0%
1995	2,846,405	12,702,258	8,431,903	12,641,865	100	77	0
1996	3,002,052	13,351,367	9,788,375	15,103,927	100	91	0
1997	3,329,075	13,091,057	10,531,453	17,393,108	100	100	9
1998	3,651,119	13,830,583	12,426,539	19,965,887	100	100	20
1999	3,956,022	14,935,811	14,313,680	22,237,709	100	100	23
2000	4,179,403	16,481,570	15,225,431	24,481,413	100	100	25
2001	4,386,648	18,718,472	16,061,577	23,315,646	100	100	1
2002	4,688,042	22,105,192	16,254,440	22,366,285	100	80	0
2003	5,622,026	25,188,870	16,122,536	23,124,823	100	69	0

* *Beginning in FY96, assets are at market value.*

OTHER INFORMATION

The following three schedules are presented in this section, rather than the statistical section, to comply with GFOA guidelines.

- Retirees and Beneficiaries Added to and Removed from Rolls
- Average Annual Salary for Active Members by Years of Service (June 30, 1994, through June 30, 2003)
- Active Members by Age and Years of Service (as of June 30, 2003)

These schedules were prepared by TRS staff, not our actuarial consulting firm.

In preparing the annual actuarial valuation each June 30, the TRS actuaries use active and inactive member data as of the previous June 30, with active member salaries increased by 4.0 percent. The current year's valuation is the basis of the state funding certification for the next fiscal year and must be submitted annually by November 15.

Retirees and Beneficiaries Added to and Removed from Rolls

Year Ended June 30	Number at Beginning of Year	Added to Rolls	Removed from Rolls	Number at End of Year	End-of-Year Annual Allowances		Average Annual Allowance	
					Amount	% Increase	Amount	% Increase
1995	54,888	6,822	2,076	59,634	$1,074,305,808	22.2%	$18,015	12.6%
1996	59,634	2,063	2,033	59,664	1,132,033,161	5.4	18,973	5.3
1997	59,664	1,847	2,159	59,352	1,173,889,332	3.7	19,778	4.2
1998	59,352	1,954	2,156	59,150	1,218,829,800	3.8	20,606	4.2
1999	59,150	3,445	2,287	60,308	1,322,451,864	8.5	21,928	6.4
2000	60,308	4,168	2,354	62,122	1,457,736,912	10.2	23,466	7.0
2001	62,122	5,197	2,442	64,877	1,643,900,223	12.8	25,339	8.0
2002	64,877	5,391	2,319	67,949	1,852,194,540	12.7	27,259	7.6
2003*	67,949	9,404	3,922	73,431	2,181,186,831	17.8	29,704	9.0

* *In the year ended June 30, 2003, statistical programs were revised and improved. This resulted in a much larger number reported as added to the rolls.*

Please refer to the Statistical Section for the following information:

- Retired Members by Years of Service and Years in Retirement, June 30, 2003
- Schedules of Average Monthly Benefits, June 30, 2003
  - Retirement Benefits
  - Disability Benefits
  - Survivor Benefits

The schedules appearing in the Statistical Section were also prepared by TRS staff. The Statistical Section also contains schedules for Revenue by Source, Expenses by Type, Benefit Expenses by Type, and Participating Employers.

Average Annual Salary for Active Members by Years of Service

Years of Service		1994	1995	1996	1997
0-5	**Number**	**28,573**	**34,193**	**33,700**	**33,134**
	Average Salary	$28,120	$28,851	$29,867	$30,717
6-10	**Number**	**18,158**	**18,757**	**19,716**	**20,340**
	Average Salary	$35,349	$36,465	$37,315	$38,170
11-15	**Number**	**13,380**	**12,686**	**13,013**	**13,830**
	Average Salary	$40,413	$41,715	$42,905	$44,258
16-20	**Number**	**15,916**	**14,775**	**14,579**	**14,295**
	Average Salary	$45,523	$46,662	$47,929	$49,309
21-25	**Number**	**17,233**	**16,030**	**15,754**	**15,235**
	Average Salary	$49,998	$51,295	$52,679	$54,096
26-30	**Number**	**10,134**	**9,608**	**11,474**	**12,977**
	Average Salary	$54,071	$55,543	$56,865	$58,168
31-35	**Number**	**3,523**	**1,930**	**2,456**	**3,525**
	Average Salary	$58,913	$58,460	$59,383	$61,434
35 +	**Number**	**771**	**541**	**549**	**611**
	Average Salary	$60,109	$59,672	$61,618	$62,841
	Total Number	**107,688**	**108,520**	**111,241**	**113,947**
	Average Salary	$40,618	$40,455	$41,903	$43,398
	% Change Average Salary	**3.7%**	**(0.4%)**	**3.6%**	**3.6%**
	Total Payroll Full & Part-time	**$4,374,071,184**	**$4,390,176,600**	**$4,661,331,623**	**$4,945,071,906**

Annual salaries are computed using full- and part-time salary rates only; substitute and hourly employee salaries are omitted.

Total payroll shown will be lower than payroll figures used elsewhere in this report.

1998	1999	2000	2001	2002	2003
33,325	**34,831**	**35,192**	**38,585**	**41,120**	**38,074**
$31,495	$32,430	$33,070	$34,614	$36,242	$37,960
20,329	**21,540**	**24,053**	**24,351**	**24,258**	**25,020**
$39,047	$40,320	$41,616	$43,457	$45,300	$46,740
14,571	**15,461**	**15,661**	**16,367**	**16,812**	**17,334**
$45,659	$47,430	$49,109	$50,875	$52,761	$53,931
13,004	**11,969**	**11,304**	**11,692**	**12,215**	**12,860**
$50,650	$52,477	$54,335	$56,521	$59,011	$60,788
14,494	**14,006**	**13,363**	**13,091**	**12,575**	**11,152**
$55,498	$57,256	$58,918	$61,188	$63,599	$65,427
13,904	**14,541**	**14,278**	**13,885**	**13,256**	**12,429**
$59,694	$61,866	$64,254	$65,913	$68,501	$70,066
4,845	**6,018**	**6,895**	**7,555**	**7,484**	**7,107**
$63,985	$67,373	$70,455	$73,433	$76,413	$76,676
644	**692**	**713**	**809**	**843**	**804**
$65,222	$67,453	$71,036	$75,469	$78,831	$78,091
115,116	**119,058**	**121,459**	**126,335**	**128,563**	**124,780**
$44,769	$46,306	$47,665	$49,230	$50,895	$52,408
3.2%	**3.4%**	**2.9%**	**3.3%**	**3.4%**	**3.0%**
$5,153,628,204	**$5,513,099,748**	**$5,789,343,235**	**$6,219,472,050**	**$6,543,213,885**	**$6,539,470,240**

Active Members by Age and Years of Service as of June 30, 2003

			Years of Service			
Age		**Subs**	**0-5**	**6-10**	**11-15**	**16-20**
20-24	**Number**	**3,855**	**4,333**	**1**		
	Average Salary	$3,257	$32,696	$50,515		
25-29	**Number**	**3,540**	**15,096**	**2,326**		
	Average Salary	$3,849	$36,993	$42,218		
30-34	**Number**	**2,338**	**6,005**	**8,880**	**1,456**	
	Average Salary	$3,844	$39,491	$45,709	$49,800	
35-39	**Number**	**2,650**	**3,166**	**3,524**	**4,806**	**986**
	Average Salary	$3,716	$39,413	$47,643	$52,890	$58,939
40-44	**Number**	**3,984**	**3,174**	**2,680**	**2,595**	**3,796**
	Average Salary	$3,865	$38,244	$46,579	$54,252	$59,798
45-49	**Number**	**3,700**	**2,870**	**3,005**	**2,712**	**2,518**
	Average Salary	$4,234	$39,831	$47,214	$53,130	$60,711
50-54	**Number**	**3,374**	**2,195**	**3,056**	**3,567**	**3,253**
	Average Salary	$4,417	$42,264	$49,652	$55,381	$60,682
55-59	**Number**	**2,163**	**936**	**1,239**	**1,773**	**1,838**
	Average Salary	$4,204	$44,257	$50,776	$57,158	$63,391
60-64	**Number**	**1,020**	**254**	**267**	**377**	**408**
	Average Salary	$4,212	$45,449	$51,720	$57,741	$64,121
65-69	**Number**	**448**	**33**	**35**	**40**	**55**
	Average Salary	$3,637	$37,891	$55,962	$53,824	$62,086
70-74	**Number**	**167**	**9**	**7**	**8**	**5**
	Average Salary	$3,265	$49,903	$38,201	$57,096	$33,993
74 +	**Number**	**98**	**3**			**1**
	Average Salary	$3,303	$44,299			$94,343
	Total Number	**27,337**	**38,074**	**25,020**	**17,334**	**12,860**
	Average Salary	**$3,909**	**$37,960**	**$46,740**	**$53,931**	**$60,788**

			Years of Service				Full and Part-time Member Totals
21-25	26-30	31-35	36-40	41-45	46-50	51-55	
							4,334
							$32,700
							17,422
							$37,690
							16,341
							$43,788
							12,482
							$48,468
895	**2**						**13,142**
$62,962	$55,986						$51,017
4,790	**1,827**						**17,722**
$64,991	$67,630						$55,751
3,235	**7,964**	**3,234**					**26,504**
$65,893	$70,093	$74,116					$62,274
1,715	**2,133**	**3,396**	**322**				**13,352**
$66,889	$71,933	$79,472	$77,017				$66,284
448	**429**	**409**	**342**	**26**			**2,960**
$66,661	$70,853	$74,709	$79,265	$80,125			$65,301
61	**68**	**55**	**40**	**47**	**6**		**440**
$62,292	$69,396	$69,427	$72,867	$85,283	$77,167		$64,773
7	**5**	**8**	**7**	**3**	**5**	**1**	**65**
$55,773	$69,055	$67,563	$56,987	$52,833	$68,614	$57,755	$54,964
1	**1**	**5**		**3**		**2**	**16**
$56,852	$71,720	$88,897		$71,081		$118,193	$78,120
11,152	**12,429**	**7,107**	**711**	**79**	**11**	**3**	**124,780**
$65,427	**$70,066**	**$76,676**	**$77,668**	**$81,814**	**$73,279**	**$98,047**	**$52,408**

	Average Age	Average Years of Service	Number
Full and Part-time Members	42	13	124,780
Substitutes	41	N/A	27,337
Total	**42**		**152,117**

PLAN SUMMARY

ADMINISTRATION

TRS was created and is governed by the Illinois Pension Code, Article 16. An 11-member Board of Trustees is authorized to carry out duties granted to it under the article. The board is comprised of the state superintendent of education, four persons appointed by the Governor, four elected members of TRS, and two elected annuitants. One trustee position for an appointed member is currently vacant. The Board of Trustees appoints an executive director who is responsible for the detailed administration of TRS.

MEMBERSHIP

Membership is mandatory for all full-time, part-time, and substitute public school personnel employed outside the city of Chicago in positions requiring certification. Persons employed at certain state agencies are also members.

CONTRIBUTIONS

During FY03, members contributed 9 percent of gross creditable earnings designated as 7.5 percent for retirement annuity, 0.5 percent for post-retirement increases, and 1 percent for death benefits. Active members do not contribute to Social Security for TRS-covered employment; however, members hired after March 31, 1986, are required to contribute to Medicare. In addition, virtually all members pay a contribution to the Teachers' Health Insurance Security Fund, a separate fund in the State Treasury that is not a part of this retirement plan. For FY03, the member contribution was 0.65 percent of pay.

SERVICE CREDIT

A member is granted a maximum of one year of service credit for 170 paid days per school year, defined by statute as July 1 through June 30. Optional service credit is available for periods of public school teaching in other states or under the auspices of the United States government, substitute or part-time teaching prior to July 1, 1990, leaves of absence, involuntary layoffs, military service, and gaps in teaching due to pregnancy or adoption prior to July 1, 1983, and teaching in Illinois private schools. Up to two years of unused, uncompensated sick leave that has been certified by former employers may also be added at retirement.

A payroll deduction program became effective July 1, 1998. Active and certain inactive members can make tax-sheltered contributions to TRS to purchase various types of optional service, to upgrade their service under the graduated retirement formula to the 2.2 formula, or to make the required contributions under the Early Retirement Option.

REFUNDS

After a four-month waiting period from the date that he or she last taught, a member ceasing covered employment may withdraw all contributions, except the 1 percent death benefit. When accepting a refund, the member forfeits all service credit and benefit rights. Credit can be re-established if the member returns to a covered position for one year or to a reciprocal system for two years and repays the refund with interest. A member receiving disability benefits is not eligible for a refund.

RETIREMENT BENEFITS

Years of Service	Age
5	62
10	60
20	55 (discounted)
35	55 (nondiscounted)

To be eligible to receive a monthly retirement annuity, a member must terminate active service and meet specific age and service requirements. If a member retires at an age less than 60 with fewer than 35 years of service and does not elect the Early Retirement Option (discussed under "Early Retirement"), the benefit will be reduced by 6 percent for each year the member is under age 60.

A member with fewer than five years of creditable service who taught after July 1, 1947, is eligible to receive a single-sum retirement benefit at age 65.

Most members retire under a retirement benefit formula. This retirement annuity is determined by two factors: average salary and years of creditable service. Average salary is the average of the creditable earnings in the highest four consecutive years within the last 10 years of creditable service. Years of service determine the percentage of the final average salary to which members are entitled. Some members retire under a money purchase style "actuarial" benefit. By law, the higher of the formula benefit or the actuarial benefit is paid.

Years of service earned before July 1, 1998, were earned under a four-step graduated formula:

- 1.67 percent for each of years one through 10,
- 1.9 percent for each of years 11 through 20,
- 2.1 percent for each of years 21 through 30, and
- 2.3 percent for each year over 30.

Years of service earned after June 30, 1998, are earned at 2.2 percent of final average salary.

Public Act 90-582 improved retirement benefits for TRS members by changing the rate at which TRS members accrue benefits beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. The maximum 75 percent benefit is attained with 34 years of service under the 2.2 formula. Members who retire on or after the effective date have the option of upgrading their service earned prior to July 1, 1998, to the flat-rate 2.2 percent formula by making a payment to TRS. Additionally, for members who continue to teach, every three full years worked after July 1, 1998, count toward a full one-year reduction of the years to be upgraded.

Public Act 91-17 reduced the 2.2 formula upgrade cost on a sliding scale for members who have more than 34 years of service credit. The legislation also made a technical correction in the benefit accrual rate for members who do not upgrade their pre-July 1998 service.

The maximum annuity, 75 percent of final average salary, is achieved with 34 years under the 2.2 formula and with 38 years of service under the graduated formula. The minimum retirement benefit is $25 per month for each year of creditable service up to 30 years of service.

A money purchase (actuarial) benefit is payable if it results in a higher annuity than either the graduated or 2.2 formula. The 75 percent cap does not apply to the money purchase benefit.

DISABILITY BENEFITS

TRS offers occupational and nonoccupational disability benefits to active members. Nonoccupational disability benefits are payable as disability benefits or as a disability retirement annuity to members who have three years of creditable service. There is no minimum service requirement for occupational disability benefits for duty-related accidents or illnesses. Members continue to accrue service credit while they are receiving disability benefits but not while they are receiving disability retirement annuities. On January 1 following the fourth anniversary of the granting of the disability benefit, the monthly benefit is increased 7 percent. Thereafter, the benefit increases by 3 percent each January 1.

DEATH BENEFITS

There are two types of death benefits: a return of the member's accumulated contributions and survivor benefits.

The return of member contributions includes the retirement contributions, 6.5 percent of salary through June 30, 1998, and 7.5 percent after that date, with interest and the 0.5 percent paid toward annual increases in annuity. Beneficiaries of annuitants receive the accumulated contributions minus the amount that the member had already received as a retirement annuity.

Survivor benefits can be paid in either a lump-sum or a monthly payment. A lump-sum benefit is the only method payable to nondependent beneficiaries. A dependent beneficiary may choose either a lump-sum benefit or a monthly payment. Survivor benefit recipients who are beneficiaries of a retired member are eligible for an annual 3 percent increase effective January 1 following the granting of the survivor benefit. Survivor benefit recipients who are beneficiaries of an active or eligible inactive member are eligible for an annual 3 percent increase on January 1 following the first anniversary of their receiving the survivor benefit.

EARLY RETIREMENT

Members who are age 55 or older and have more than 20 but fewer than 35 years of service may choose the Early Retirement Option (ERO) to avoid a discounted annuity. Under the ERO, both the member and the employer must make a one-time contribution. However, both the member and employer contributions are waived if the member has 34 years of service. Public Act 91-17 extended the expiration of the ERO through June 30, 2005. Members who have 35 or more years of service can retire and receive a nondiscounted annuity.

Some TRS-covered members employed by state agencies were eligible for an early retirement incentive (ERI) during FY03. Public Act 92-566, enacted in June 2002, allowed certain state employees to purchase five years of service credit and an equal amount of age enhancement. Retirement must have occurred between August 1, 2002 and December 31, 2002, with deferrals until April 30, 2003, for key employees. Some employees who were not yet eligible to retire could also purchase the age and service enhancements if they terminated state employment.

POST-RETIREMENT INCREASE

Annuitants who meet certain service credit criteria receive an annual 3 percent increase in their gross annuity on the January 1 after they turn age 61 or the January 1 following their first anniversary in retirement, whichever is later.

EMPLOYMENT-RELATED FELONY CONVICTION

Any member convicted of a felony related to or in connection with teaching is not eligible for TRS benefits; however, the member may receive a refund of contributions.

CONTINUITY OF CREDIT WITHIN ILLINOIS

TRS is one of 13 public retirement systems that are included in the provisions of the Illinois Retirement Systems' Reciprocal Act. This act ensures continuous pension credit for public employment in Illinois.

CONFLICTS

Conditions involving a claim for benefits may require further clarification. If conflicts arise between material in this summary and that of the law, the law takes precedence.