

TRS Springfield office building, 1979 - present



INTRODUCTION

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Teachers' Retirement System
of the State of Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Kim L. Rott
President

Jeffrey L. Esser
Executive Director



Letter of Transmittal

December 22, 2009

To the Board of Trustees and TRS Members:

We are pleased to present the *Comprehensive Annual Financial Report (CAFR)* for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2009. This year's report commemorates the 70th anniversary of the Teachers' Retirement System of the State of Illinois. The photos depicting "Seasons of Change" around the Springfield and Lisle office buildings symbolize the constant evolution of the retirement system.

Laws enacted during 2009 significantly impacted our executive leadership, Board of Trustees composure, Web site content, and investment policies. With every season of change that has been encountered in 70 years, TRS retirement security has remained constant. TRS was created by law in 1939 to provide members with better benefits and secure pensions. Now and in the future, TRS will provide retirement, disability, and survivor benefits for members and their loved ones. Our statement of purpose continues to be "Retirement Security for Illinois Educators."

Here are some benefit highlights from the past 70 years:

1939	TRS established on July 1, 1939.
1944	Retirement allowances became payable monthly instead of an annual payment.
1947	A defined benefit plan is created to protect teachers from market uncertainties and ties benefits to their final average salaries.
1953	Disability benefits improved. Member contribution increases to 6 percent.
1959	The survivor benefits program was enacted.
1967	Working four or more clock hours daily is considered full-time employment.
1969	Post-retirement annual increases became 1.5 percent.
1971	Average salary became determined based on the highest four consecutive years within the last 10 years.
1979	The Early Retirement Option was established for retirements on or after June 1, 1980.
1982	The 1 percent survivor benefit refund was established.
1984	Eligible disabled children, regardless of age, were considered dependents for survivor benefits.
1990	Compounding cost of living increases begins. Part-time and substitute teachers became members of TRS.
1998	2.2 Formula becomes law, bringing TRS benefits up to the national average for funds not covered by Social Security.
2004	Teachers' Retirement Insurance Program becomes permanent.
2009	The law allows up to two years of optional service credit for private school teaching for members who apply for it between August 1, 2009 through August 1, 2012.

In celebrating the 70th anniversary of TRS in this publication, we are also complying with state law that requires the annual creation of this report. It is intended to provide financial, investment, actuarial, and statistical information in a single publication. TRS management and staff are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. A framework of internal controls is maintained to establish reasonable assurance that assets are safeguarded, transactions are accurately executed, and financial statements are fairly presented.

Profile of TRS

TRS was established by the State of Illinois on July 1, 1939, to provide retirement, disability, and death benefits to teachers employed by Illinois public elementary and secondary schools outside the city of Chicago. A 13-member Board of Trustees governs TRS. The Board includes the state superintendent of education, four members of TRS who are elected by active members, six representatives of the public who are appointed by the governor, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the detailed administration of TRS.

The annual budget for TRS administrative expenses is prepared by staff and approved by the Board of Trustees. The TRS annual operating budget request is prepared in conjunction with a review of the long-range strategic plan.

Financial Information

Our staff issues a *CAFR* within six months of the close of each fiscal year. The report contains basic financial statements presented in conformity with generally accepted accounting principles (GAAP) within guidelines established by the Governmental Accounting Standards Board (GASB).

A system of internal controls helps us monitor and safeguard assets and promote efficient operations. Each year TRS's financial statements, records, and internal controls are examined by special assistant auditors employed by the Illinois Auditor General. In addition, an annual compliance attestation examination is performed to review compliance with applicable statutes and codes. The Independent Auditors' Report on TRS's financial statements is included in the Financial Section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Revenues and Expenses

The three sources of TRS funding include member contributions, investment income, and employer contributions through state appropriations and payments by school districts. TRS expenses include payments of benefits, refunds, and administrative expenses. Negative amounts are shown in parentheses () throughout this report.

Revenues (\$ millions)

Source	2009	2008	Increase/(Decrease)	
			Amount	% Change
Member contributions	\$876	\$865	\$11	1.3%
State of Illinois	1,452	1,041	411	39.5
Employer contributions	152	131	21	16.0
Total investment income (loss)	<u>(8,688)</u>	<u>(2,015)</u>	<u>(6,673)</u>	(331.2)
Total	<u>(\$6,208)</u>	<u>\$22</u>	<u>(\$6,230)</u>	(28,318.2%)

Expenses (\$ millions)

Source	2009	2008	Increase/(Decrease)	
			Amount	% Change
Benefits payments	\$3,654	\$3,424	\$230	6.7%
Refunds	54	60	(6)	10.0
Administrative/Other	<u>17</u>	<u>17</u>	<u>0</u>	0
Total	<u>\$3,725</u>	<u>\$3,501</u>	<u>\$224</u>	6.4%

Despite recent turmoil in the financial markets, the TRS Board of Trustees and staff believe the overall investment strategy remains sound. In the future, we will continue to prudently invest for the benefit of our membership and for the long-term success of the system.

Investments

TRS investments declined 22.3 percent gross of fees for the fiscal year ending June 30, 2009 as the United States and global markets entered a very difficult and prolonged period of economic uncertainty. Assets fell to \$28.5 billion, down from \$38.4 billion. The fund also modestly underperformed its performance benchmark, which declined 18.6 percent during the one-year period. In light of the changing economic environment, TRS staff and the Board of Trustees remained diligent in the prudent positioning of the fund for long-term rebalancing over the course of the fiscal year.

The Investment Section of this report contains a summary of the portfolio and investment activities.

Funding

During the year ended June 30, 2009, the funded ratio of the Teachers' Retirement System decreased from 56.0 percent to 52.1 percent. The actuarial value of assets at year end was \$38.0 billion and the actuarial accrued liability was \$73.0 billion. The decline in the funded ratio was primarily a result of investment losses and asset sales, which were offset by a statutorily-required change to a smoothed actuarial value of assets that will spread investment losses over five years.

The Actuarial Section of this report contains the actuary's letter and further information on TRS funding.

Major Initiatives

In 2006, the TRS Board and staff members composed the following TRS mission statement "*Safeguard benefit security through committed staff, engaged members, and responsible funding.*" This statement reminds us of our commitment to make decisions that benefit and stabilize the retirement system. In the future, we will continue to prudently invest for the gain of our membership and stress the importance of adequate funding.

GFOA Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2008. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. TRS has received a certificate for the last 20 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

Acknowledgements

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 acting 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 and their employers.

This report is made available to members of the General Assembly, participating employers, and to other interested persons by request. The participating employers of TRS form a link between TRS and its members. Their cooperation contributes significantly to our success. We hope all recipients of this report find it informative and useful. This report is also available to the general public 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.



R. Stanley Rupnik, CFA
Acting Executive Director
and Chief Investment Officer



Jana Bergschneider, CPA
Director of Administration

Board of Trustees

As of December 1, 2009



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Ed.D.**
President
Bloomington



Molly Phalen
Vice President
Rockford



Marcia Boone
O'Fallon



Michael Busby
Kenilworth



Jan Cleveland
Carmi



Livia Kiser
Downers Grove



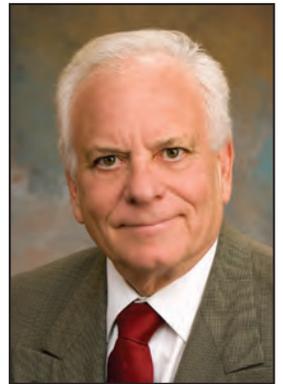
Cinda Klickna
Rochester



Sharon Leggett
Evanston



Bob Lyons
Hoffman Estates



Sidney Marder
Springfield



Cynthia O'Neill
Carlyle



Janice Reedus
Indian Head Park



Sonia Walwyn
Naperville

Organizational Structure

Executive Staff Members as of December 1, 2009

Board of Trustees



Stan Rupnik, CFA
Acting Executive Director
and Chief Investment Officer



Jana Bergschneider, CPA
Director of
Administration



Kathleen Farney, CEBS
Director of
Research



Rich Frankenfeld
Director of
Outreach



Tom Gray
General Counsel



Gina Larkin
Director of
Human Resources



Kathy Pearce
Communications
Manager



Sally Sherman
Director of
Member Services



Stacy Smith, CPA
Director of
Internal Audit

Consulting and Professional Services

Actuary

Buck Consultants, an ACS Company
Chicago, Illinois

External Auditors

(As special assistants to the Office of the Auditor General)

BKD, L.L.P.
Decatur, Illinois

Information Systems

CTG Inc of Illinois
Springfield, Illinois

Sentinel Technologies
Chicago, Illinois

Systems Evaluation & Analysis
Springfield, Illinois

Knowledge Peak Inc.
Apple Valley, Minnesota

SunGard Availability Services
Chicago, Illinois

Consultants

Callan Associates Inc.
(real estate)
San Francisco, California

PCG Asset Management L.L.C.
(private equity)
La Jolla, California

R.V. Kuhns & Associates, Inc.
(general investment)
Portland, Oregon

Leinenweber & Baroni
(legislative)
Springfield, Illinois

Risk Resources
(real estate insurance consulting)
Elmhurst, Illinois

Legal Services

Cavanagh & O'Hara
Springfield, Illinois

Holland & Knight LLP
Chicago, Illinois

Loewenstein Hagen & Smith PC
Springfield, Illinois

Sorling Northrup Hanna Cullen Cochran Ltd.
Springfield, Illinois

Heyl Royster Voelker & Allen
Springfield, Illinois

Howard & Howard Attorneys PC
Peoria, Illinois

Mayer Brown LLP
Chicago, Illinois

Master Trustee

The Northern Trust Company
Chicago, Illinois
(terminated March 31, 2009)

State Street Bank and Trust Company
Boston, Massachusetts
(effective April 1, 2009)