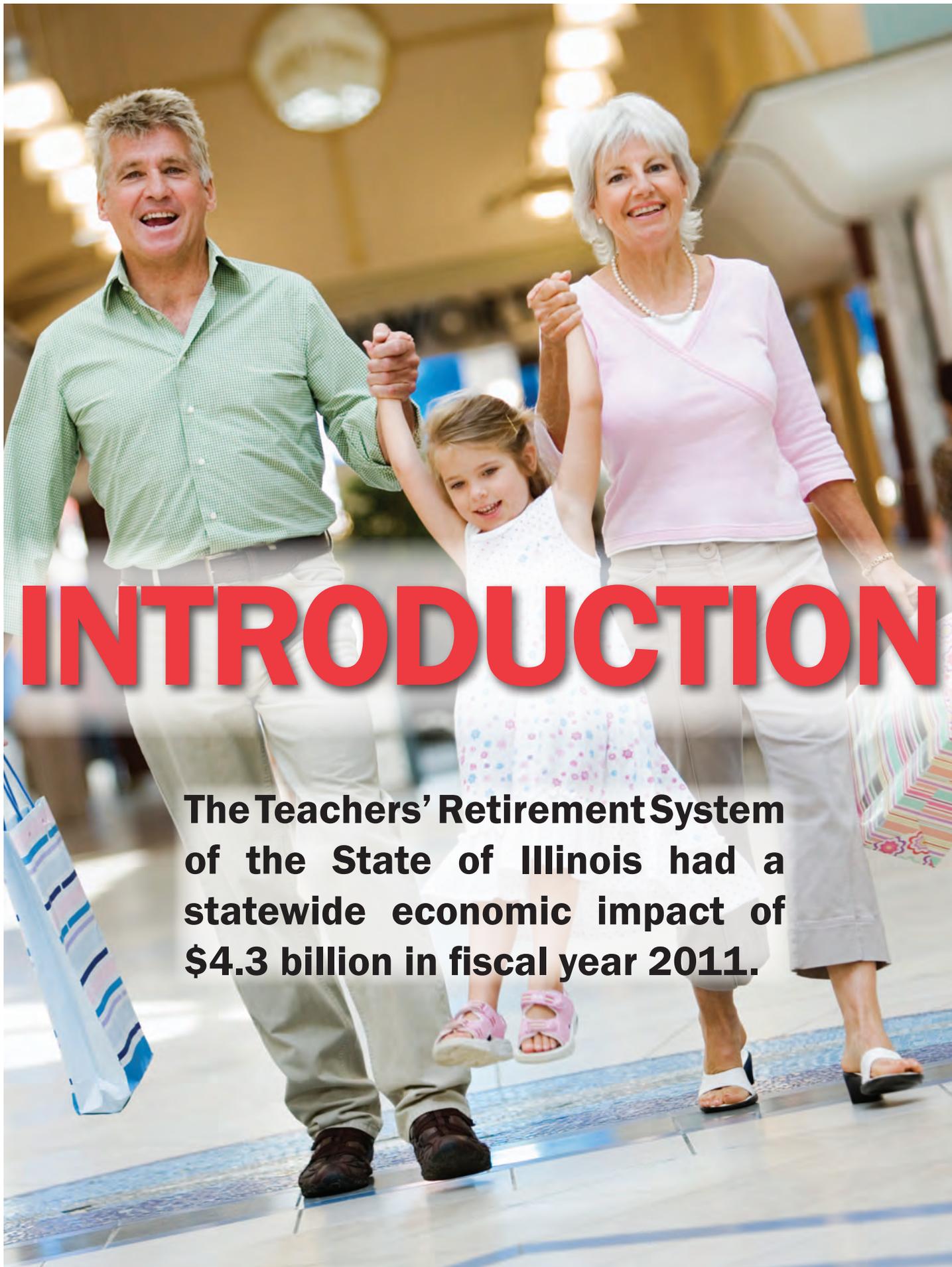


**P**ensions paid to Teachers' Retirement System members recirculate throughout the Illinois economy, creating more than 30,000 jobs in every corner of the state with a total payroll of more than \$1.1 billion. TRS pensions enable thousands of men and women to lead fulfilling and secure lives in retirement.



# INTRODUCTION

**The Teachers' Retirement System of the State of Illinois had a statewide economic impact of \$4.3 billion in fiscal year 2011.**

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, 2010

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.



*Linda C. Sandson*  
President

*Jeffrey L. Esser*  
Executive Director



## LETTER OF TRANSMITTAL

December 19, 2011

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, 2011. The theme of this year's report centers on two main messages that TRS staff emphasizes with our members and their families:

- TRS is a strong and secure retirement fund, and
- our main purpose is to keep retirement promises made by the State of Illinois to educators almost a century ago.

TRS ranks among the country's largest public pension funds with \$37.5 billion in net assets at the end of fiscal year 2011. TRS is a major institutional investor and a driver of the Illinois economy. With 362,121 members, TRS is a vital and respected leader across the country.

The discipline we bring to our fiduciary duty is a tremendous asset to our members at a time when the national and state economies face many challenges. While the financial resources of TRS and other public pension systems in the State of Illinois are being called into question by some, the data provided in this CAFR shows the truth. The administration of TRS and the management of our members' money are sound. The System experienced record-level revenues during 2011. Further, the state made funding its pension obligations a priority when preparing the fiscal year 2012 budget by appropriating the full contribution required by statute.

The General Assembly's obligations regarding funding for public pensions are well established in statute, most recently in 1995. As long as state government, educators and school districts maintain their commitment to TRS, the System will meet its future obligations to its members and its financial stability will be ensured. Through images, statistics and anecdotes, this report will help members and the general public better understand the substantial resources of TRS and the world-wide reach of its extensive and diversified investment portfolio.

The stability and strength of TRS is the foundation of keeping the promise made by the State of Illinois that educators will have a secure retirement. Illinois first granted pensions to retired teachers in 1915. That commitment was reaffirmed in 1939 with the creation of TRS. Since then, in good times and bad, TRS has maintained trusted relationships with generations of educators and has never defaulted on the promises made long ago. Our relationships with our members, in most cases, thrive for many decades.

The state's promise is vital to school teachers in every corner of Illinois. TRS pensions provide our members with a stable income during their golden years that allows them to continue to be productive members of society. Moreover, benefits paid to TRS retirees recycle through the Illinois economy and create an economic impact that is estimated to support more than 30,000 jobs each year and provide an annual economic stimulus in excess of \$4 billion.

TRS is required by state law to publish an annual report to provide financial, investment, actuarial, and statistical information in a single publication. TRS management and staff are responsible for the accuracy of this report and for ensuring that all material disclosures have been made. A framework of internal controls is maintained

within TRS to establish a reasonable assurance that assets are safeguarded, monetary transactions are accurately executed and financial statements are fairly presented. Management recognizes there are inherent limitations in the effectiveness of any system of internal controls and provides the conclusion that the financial statements are not materially misstated.

## 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, six representatives of the public who are appointed by the governor, four members of TRS who are elected by active teachers, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the effective 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) applied 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 a professional accounting firm who serve as 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	2011	2010	Increase (Decrease)	
			Amount	% Change
Member contributions	\$910	\$899	\$11	1.2%
State of Illinois	2,171	2,081	90	4.3
Employer contributions	154	171	(17)	(9.9)
Total investment income	7,235	3,680	3,555	96.6
<b>Total</b>	<b><u>\$10,470</u></b>	<b><u>\$6,831</u></b>	<b><u>\$3,639</u></b>	<b>53.3%</b>

## Expenses (\$ millions)

Source	2011	2010	Increase	
			Amount	% Change
Benefits payments	\$4,228	\$3,928	\$300	7.6%
Refunds	77	60	17	28.3
Administrative/Other	18	17	1	5.9
<b>Total</b>	<b><u>\$4,323</u></b>	<b><u>\$4,005</u></b>	<b><u>\$318</u></b>	<b>7.9%</b>

TRS staff and the Board of Trustees remain vigilant in our efforts to improve the retirement system's funded status for our current and future members. We continue to invest prudently and in a disciplined manner for the benefit of our membership and for the long-term success of the retirement system. The TRS Board and staff believe the overall investment strategy remains sound and appropriate for our circumstances.

## Investments

The TRS investment portfolio had a strong year, returning 24.3 percent, gross of fees, for the fiscal year ended June 30, 2011. Total TRS investments increased by approximately \$6.3 billion during the year ended June 30, 2011.

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. The TRS Investment Policy guides TRS's investments. Investment principles include preserving the long-term principal of the trust fund, maximizing total return within prudent risk parameters, and acting in the exclusive interest of TRS members.

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

## Funding

During the year ended June 30, 2011, the funded ratio of the Teachers' Retirement System decreased from 48.4 percent to 46.5 percent. The actuarial value of assets at year end was \$37.8 billion and the actuarial accrued liability was \$81.3 billion. The decline in the funded ratio was due to an increase in the liability and the continued phase-in of 2009 investment losses in the calculation of the actuarial value of assets. Due to the five-year smoothing methodology required by Public Act 96-0043, the actuarial value of assets now recognizes 60 percent of the 2009 losses, 40 percent of the 2010 gains, and 20 percent of the 2011 gains.

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

## Major Initiatives

In FY11, TRS implemented several initiatives that benefited its members and strengthened the retirement system by:

- increasing productivity and efficiency by enhancing core information systems;
- implementing necessary changes to information systems for the new second tier of benefits enacted by the Illinois General Assembly;
- providing extensive analysis and data to policymakers and other bodies regarding the impact of various proposals for benefit changes; and
- completing a national search for a new executive director, positioning TRS to move forward under strong and stable leadership.

## 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, 2010. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

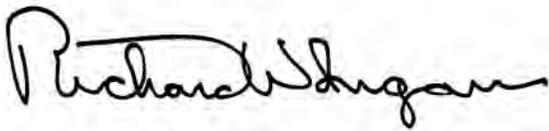
To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. TRS has received a certificate for the last 22 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 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, <http://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.



Richard Ingram  
Executive Director



Jana Bergschneider, CPA  
Director of Administration

## BOARD OF TRUSTEES

As of December 1, 2011



Left to right: Dick Ingram, Executive Director; Cynthia O'Neill; Bob Lyons; Molly Phalen, Vice President; Cinda Klickna; Sharon Leggett; Jan Cleveland; Marcia Campbell; and Michael Busby.  
Shown at right: Christopher A. Koch, Ed.D, President; Janice Reedus; and Sonia Walwyn.



Christopher A. Koch,  
Ed.D.  
President



Janice Reedus



Sonia Walwyn

## EXECUTIVE STAFF MEMBERS

As of December 1, 2011



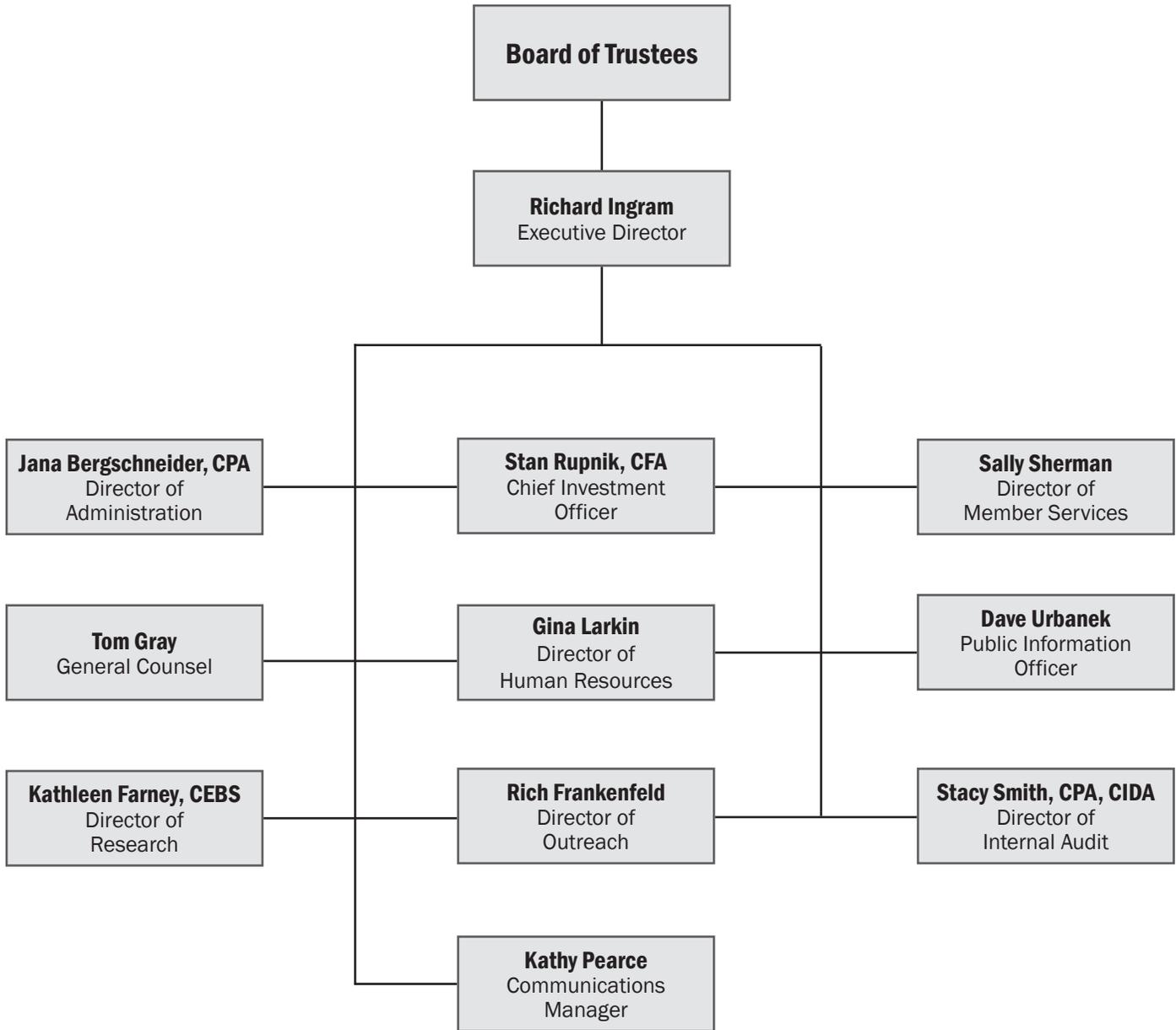
Left to right: Kathy Pearce, Communications Manager; Dick Ingram, Executive Director; Dave Urbanek, Public Information Officer; Gina Larkin, Director of Human Resources; Tom Gray, General Counsel; Jana Bergschneider, CPA, Director of Administration; Stan Rupnik, CFA, Chief Investment Officer; Richard Frankenfeld, Director of Outreach; Kathleen Farney, CEBS, Director of Research; and Stacy Smith, CPA, CIDA, Director of Internal Audit.  
Shown at right: Sally Sherman, Director of Member Services.



Sally Sherman  
Director of  
Member Services

# ORGANIZATIONAL STRUCTURE

Executive Staff Members as of December 1, 2011



# CONSULTING AND PROFESSIONAL SERVICES

## Actuary

**Buck Consultants, LLC**  
Chicago, Illinois

## External Auditors

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

**McGladrey & Pullen, LLP**  
Schaumburg, Illinois

## Information Systems

**CTG Inc. of Illinois**  
Springfield, Illinois  
**Share Point Business Solutions, Inc.**  
Springfield, Illinois

**Sentinel Technologies**  
Chicago, Illinois  
**SunGard Availability Services**  
Chicago, Illinois

## Consultants

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

**Houlihan Lokey Howard & Zukin Financial Advisors, Inc.**  
(private equity)  
Los Angeles, California

**Leinenweber Baroni & Daffada Consulting LLC**  
(legislative)  
Springfield, Illinois

**LP Capital Advisors, LLC**  
(private equity)  
Sacramento, California

**PCG Asset Management LLC**  
(private equity)  
La Jolla, California

**Risk Resources**  
(real estate insurance consulting)  
Elmhurst, Illinois

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

## Legal Services

**Cavanagh & O'Hara**  
Springfield, Illinois

**Heyl Royster Voelker & Allen**  
Springfield, Illinois

**Holland & Knight LLP**  
Chicago, Illinois

**Howard & Howard Attorneys PLLC**  
Peoria, Illinois

**Jackson Walker LLP**  
Austin, Texas

**Loewenstein Hagen & Smith PC**  
Springfield, Illinois

**Mayer Brown LLP**  
Chicago, Illinois

**Morgan Lewis & Bockius LLP**  
New York, New York

**Sorling Northrup Hanna Cullen Cochran Ltd.**  
Springfield, Illinois

## Master Trustee

**State Street Bank and Trust Company**  
Boston, Massachusetts