107th Comprehensive Annual Financial Report

for the year ended
June 30, 2002
Chicago, Illinois

*Public School Teachers' Pension and Retirement Fund of Chicago

107th COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2002

Public School Teachers' Pension And Retirement Fund Of Chicago

Report prepared by the Public School Teachers' Pension and Retirement Fund of Chicago Staff

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As of June 30, 2002

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Adams Street Partners, LLC
Ariel Capital Management
Banc of America
The Blackstone Group, L.P.
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Dimensional Fund Advisors Inc.
Deutsche Asset Management
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Holland Capital Management
Iridian Asset Management, LLC
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LaSalle Investment Management
Lazard Asset Management
Lend Lease Real Estate Investments
Lincoln Capital Management Co.
MDL Capital Management, Inc.
Mesirow Financial, Inc.
Morgan Stanley Investments, L.P.
New Amsterdam Partners
The Northern Trust Co.
Northern Trust Global Investments (NTGI)
Olympus Real Estate Corp.
Oppenheimer Capital
Pantheon Ventures, Inc. (USA Fund III, USA Fund IV and Europe Fund II)
Prudential Financial (PRISA, PRISA II)
RREEF America Reit, Inc.
Schroder Investment Management North America
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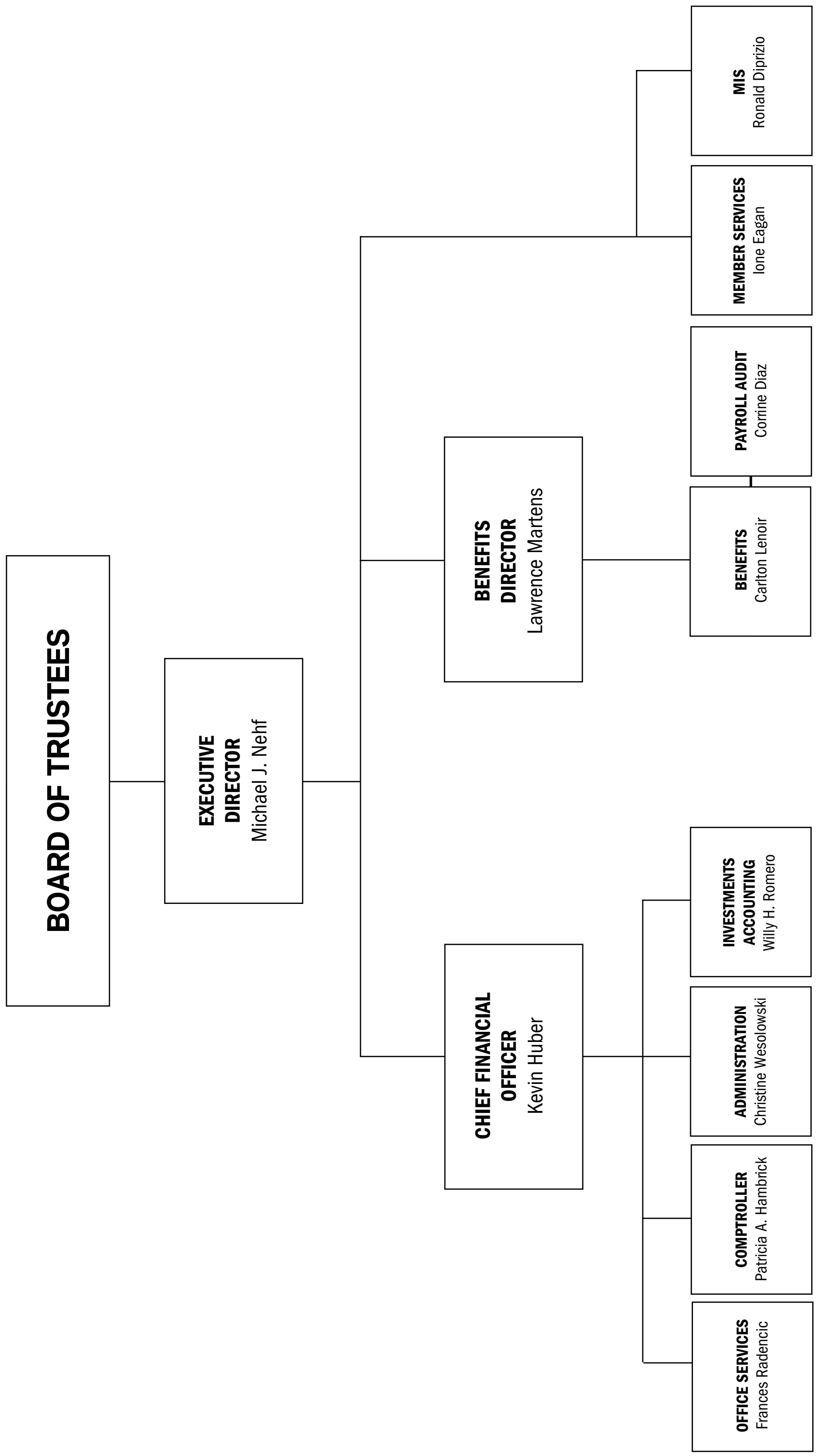
Smith Graham & Co.
Times Square Real Estate Investors
UBS Global Asset Management
UBS Realty Investors, LLC
Waddell & Reed Investment Management Co.
Walton Street Real Estate, L.P. (Fund I, Fund II and Fund III)
Wellington Management Co., LLP
William Blair & Co.
Zevenbergen Capital Inc.

Organization Chart

As of June 30, 2002



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public School Teachers' Pension and Retirement Fund of Chicago, Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Introductory Section

Letter of Transmittal

December 16, 2002

The Pension Board of Trustees and Fund Members
Public School Teachers' Pension & Retirement
Fund of Chicago
55 West Wacker Drive
Chicago, Illinois 60601

Dear Pension Board of Trustees, Contributors, and Pensioners, and Members of the Public:

This is the 107th Comprehensive Annual Report of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) that covers the fiscal year ending June 30, 2002. Illinois statutes provide for a Board of Trustees to be responsible for the administration of the Fund. An important aspect of the administration is the presentation of a detailed annual report of system finances and operations. This publication is intended for all parties-at-interest as well as for the public at large.

This report provides a review of the financial, actuarial, and operational conditions of the Fund. It contains comparative financial statements which were subject to an independent audit conducted by Illinois licensed certified public accountants, an actuarial valuation prepared by the Fund's consulting actuary, a description of benefits as specified in Illinois law, and other relevant information.

The Fund is a public employee retirement system established by the State of Illinois to provide annuity, disability, survivor, death, and health benefits for certain certified teachers and other employees of the Chicago Public Schools and approved City of Chicago charter schools. It is administered in accordance with Chapter 40, Act 5, Articles 1, 17, and 20 of the Illinois Compiled Statutes. The report consists of five sections.

1. The Introductory Section contains this letter of transmittal and administrative and organizational information.
2. The Financial Section contains the report of the independent public accountants, management's discussion and analysis of the financial statements, the financial statements of the Fund, and selected required supplemental financial information.
3. The Investment Section contains a synopsis of the Fund's investment authority, summary tables of investment data, and a digest of the current year's investment activity and performance.
4. The Actuarial Section contains a report of the Consulting Actuary, a summary of the major actuarial assumptions, and other data.
5. The Statistical Section contains relevant statistical summaries on contributors, pensioners, and revenue sources and uses.

Introductory Section

OVERVIEW

The Fund's membership rose to over 56,700 members as of June 30, 2002. The 107th year of continuous operations provided many challenges for the Fund, mostly driven by the uncertain economy and its impact on the Fund's investment portfolio. The June 30, 2002 value of net assets held in trust for pension and health benefits amounted to $9.34 billion, a 7.6% decrease from the $10.11 billion of the previous year. The actuarial value of assets, calculated on a 4 year smoothed market value basis and used in the determination of the funding ratio, amounted to $10.62 billion. When comparing the actuarial value of assets to the actuarial accrued liabilities of $11.03 billion, it provides for an actuarial funding ratio of approximately 96.3%.

The Financial Statements in this report were prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board. The specific accounting treatment of transactions is described in the Summary of Accounting Policies in the Notes to the Financial Statements.

INVESTMENT AUTHORITY AND PERFORMANCE

The Trustees' investment authority is found in the Illinois Compiled Statutes, Chapter 40, Act 5, Articles 1 and 17. A discussion of the specific investment authority, policy provisions, diversification posture, performance objective and asset allocation is provided in the Investment Section of this report.

As of June 30, 2002 investments at fair market value totaled $9.4 billion. This compares with $10.2 billion as of June 30, 2001. The Fund's investment performance rate of return for the year ending June 30, 2002 was (3.3%), compared to (1.5%), for the year ending June 30, 2001. The ten-year rate of return posted by the Fund for the period ending June 30, 2002 was 10.0%, which is a slight decrease from the previous year's ten-year return of 11.7%. Refer to the Investment Section of this report for more detailed performance information.

The Board of Trustees, with their professional staff, consultants, and multiple investment managers, maintain an asset allocation program designed to obtain the highest expected return on investments consistent with a level of risk appropriate for a large public employee retirement system. The Trustees continue to monitor and adjust their strategic asset allocation among investment types and manager styles. Opportunities to improve the financial strength of the Fund will continue to be explored in accordance with high standards long in effect.

ACCOUNTING SYSTEM AND INTERNAL CONTROLS

This report was prepared to conform to the principles of governmental accounting and reporting as pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting was used to record the assets, liabilities, revenues and expenses of the Fund. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

In developing the Fund's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the Fund administration at improving the level of internal accounting control to ensure the members of the Fund of a financially sound retirement system.

ECONOMIC REVIEW AND OUTLOOK

The economy and its recovery continue to be relevant to the Fund and its overall performance. The twelve-month period ended June 30, 2002 continued a turbulent trend for investment performance. Economic growth showed signs of life with an annualized GDP growth rate projected at 6% at June 2002, the highest since June 2000 and a significant improvement from the 1.4% growth rate from one year ago. The unemployment rate continued to rise to 6% at June 30, 2002 from 4.5% a year earlier; its highest level since November 1992. The underlying rate of inflation in fiscal year 2002 remained calm at 1.2% and allowed the Federal Reserve Board to aggressively cut short-term interest rates. The Fed continued to ease monetary policy through interest rate decreases (200 basis points) with the hopes of stimulating business and consumer spending. The federal funds rate was 1.75%, its lowest level in over 30 years. The loosening monetary policy, when taken in combination with the fiscal policy enacted by the Economic Growth and Tax Relief Reconciliation Act of 2001, were expected to continue to drive the increase in the gross domestic product.

MAJOR INITIATIVES

The Fund and its Trustees continued to work to enhance the Fund's investment program, strengthen the Fund's benefits, improve office operations, and safeguard the assets of the Fund.

Investments

The Fund's rate of return for the year ended June 30, 2002 was a negative 3.3%. The Fund maintained a diversified portfolio consisting of equities (domestic and international), fixed income, real estate and private equity and performed well in comparison to its peers. The Fund continued to attempt to maximize investment performance while maintaining acceptable levels of risk. The Board reviewed its target allocations, and there were no changes made in FY 2002. The Board chose to monitor the changes made in FY2001 (increased international equity exposure to 12.5% of the portfolio from 10%; this increase was offset by a decrease in domestic equity exposure).

During the year, the Board performed due diligence over its large cap core and mid cap equity managers in order to monitor performance and compliance. The Fund continued to monitor managers in other asset classes whose performance was suspect. The Fund made the decision to concentrate on reducing money managers in order to improve the economies of scale related to fees as well as eliminate overlapping/poor performers. As of June 30, 2002 the Fund had terminated one manager. The Fund terminated four other managers shortly after June 30, 2002. Finally, there was continued emphasis placed by the Board in further refining its minority brokerage policy and monitoring the Fund's investment manager compliance with the policy. The Fund directed over $950,000 of commissions to qualified minority brokers and recaptured over $373,000 of commissions to help lower the net investment expenses of the Fund.

Legislative

Many legislative developments occurred in 2002 that impacted the Fund. Major pension legislation that passed during the year and was signed into law by the Governor included the following:

House Bill 3440 (Public Act 92-008) appropriated $65,044,700 for the Fund from the State of Illinois for the period July 1, 2001- June 30, 2002; these funds were directed to the health insurance account.

House Bill 2157 (Public Act 92-0416) was passed by both houses of the Illinois General Assembly on May 31, 2001 and signed by the Governor on August 17, 2001.

- It provided for additional benefits to pensioner members who retired under the 1993 Early Retirement Incentive program offered by the Chicago Public Schools. It also provided for a retroactive calculation of their annuities payable in a lump sum and an increase in their annual annuity; these benefits were approximately $40 million for the period ending June 30, 2002;
- It eliminated the 2.2 upgrade costs for any teacher member who had at least 30 years of creditable service and all pensioner members who retired on or after July 1, 1998 with at least 30 years of creditable service. These benefits were approximately $21 million for the period ending June 30, 2002;

House Bill 5168 (Public Act 92-0599) was signed by the Governor on June 28, 2002 and provided for the following:

- It improved the benefits for surviving spouses by lessening the marriage restrictions (from 1.5 years before retirement or death to 1 year prior to death) and allowing for remarriage of the surviving spouse at any age without forfeiture of their pension;
- It allowed a teacher to purchase up to 36 months (up from 12 months) of optional service credit for any employer approved leave of absence;
- It allowed a pensioner to be reemployed by the employer on a temporary and non annual basis without limit (previously limited to 150 working days).

As PA 92-0599 was signed in late June 2002, it had no operational or financial impact on the Fund.

The Trustees and Fund administrators will continue to work diligently to represent the interests of the members through further accomplishment of the Trustees' legislative agenda. The Board, in conjunction with the Fund's consultants, continue to work in Springfield toward improving benefits for the members. The Trustees continue to pursue additional legislative initiatives that include (1) an ad hoc increase for our older pensioners, (2) increasing the maximum allowable pension from 75 to 80% of final average salary, and (3) making all income pensionable.

Operations

Fund operations continued to focus on strengthening operations, improving internal controls, and developing formalized policies and procedures. The Board continued to support numerous technology projects in fiscal year 2002.

- The Fund continued converting and storing all paper records electronically; this project has imaged over 3 million documents and is approximately 75% completed as of June 30, 2002. This project is beginning to shift its focus to establishing a sound process for imaging future documents. This project will not only improve the operations of the Fund, but also provide a new level of security over our records.
- The Board approved $3.2 million on August 23, 2001 for designing and implementing database solutions to the Fund's processing of pension payments, pensioner records, and active teacher records management, including contributions and membership statements. The vendor commenced work January 2002.

- The Board approved the segregation of the current benefits department into two separate units in order to continue to provide excellent customer service.

The Board has supported the administrative staff and is committed to moving into an automated work environment and organizational structure that will continue the Fund's long history of superior customer service. Detailed discussion regarding all the Fund's financial operations is found in the Management's Discussion and Analysis section of the Financial report.

AWARDS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting for the twelfth consecutive year to the Fund for the period ending June 30, 2001. In order to be awarded the Certificate, the Fund must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to the GFOA program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to conform to the Certificate of Achievement requirements, and we are submitting it to the GFOA for continued eligibility.

CONCLUDING COMMENTS

At the November 2001 meeting of the Board, new teacher trustee *Rose Mary Finnegan* and new principal trustee *Terri Katsulis* joined the Board for three-year terms. They replaced *John O'Brill* and *Dr. Walter E. Pilditch*. Also elected as pensioner trustee for two year terms were incumbents *Carole Nolan* and *James Ward* and new trustee *Zygmunt Sokolnicki*. *Mr. Sokolnicki* replaced *Edward O'Farrell*. In the election for officers, *Mary Sharon Reilly* was re-elected President, *Patricia A. Knazze*, Vice President, *Maria J. Rodriguez*, Recording Secretary, and *Jack Silver*, Financial Secretary. Chairs of standing committees included *Ms. Finnegan*, Claims and Service Credits, *Mr. Silver*, Finance, *Mr. Katsulis*, Pension Laws and Rules, and *Ms. Shirley J. Anderson*, Investments. We would like to take this opportunity to thank *Messrs. O'Brill, O'Farrell, and Dr. Pilditch* for their service to the Fund.

This annual report of the Public School Teachers' Pension and Retirement Fund of Chicago was prepared through the combined efforts of the Pension Board of Trustees, the Fund's actuary, certified public accountants, and administrative staff. We want to express our gratitude and appreciation for the diligence of all contributors in the preparation of this publication.

MICHAEL J. NEHF
Executive Director

KEVIN HUBER
Chief Financial Officer

Financial Section

Financial Section

303 East Wacker Drive
Chicago, IL 60601-5212

Telephone 312 665 1000
Fax 312 665 6000

Independent Auditors' Report

The Board of Trustees
Public School Teachers' Pension and
Retirement Fund of Chicago
Chicago, Illinois:

We have audited the accompanying Statement of Plan Net Assets of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) as of June 30, 2002, and the related Statement of Changes in Plan Net Assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Fund's 2001 financial statements and, in our report dated November 9, 2001, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2002, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Fund adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, during the year ended June 30, 2002.

The management's discussion and analysis, schedule of funding progress, and schedule of contributions on pages 18 through 23, 35, and 36, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Schedules 4 through 7 is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 1, 2002

KPMG LLP

Financial Section

Management's Discussion and Analysis

Management are pleased to provide this overview and analysis of the financial activities of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) for the year ended June 30, 2002. This information is intended to supplement the financial statements, which begin on Page 24 of this report. We encourage readers to consider additional information and data in the Fund's 2002 *Comprehensive Annual Financial Report*.

ANNUAL FINANCIAL REVIEW

Fiscal 2002 was not a good year financially for the Fund. Investment losses had a severe impact on funding for pension benefits. However, it is important to remember that the Fund is a long-term investor. Diversification of investments among U.S. stocks, real estate, international and fixed income investments enable the Fund to "ride out" short-term fluctuations in individual asset classes. In spite of investment losses the past two years, the Fund's compound rate of return over the past 10 years was 10% — exceeding the actuarial assumption of 8%.

The Fund's consulting actuary has certified the total actuarial liability of the Fund to be $11.03 billion as of June 30, 2002. This represents an increase in the total actuarial liability of $640 million compared to the valuation of $10.39 billion as of June 30, 2001. The unfunded actuarial liability increased from approximately $5.1 million to $406 million during the year. Refer to the Actuarial Section of the report for more valuation and funding information.

Financial Highlights

- Declining investment markets resulted in a loss for the Fund for the second consecutive year. The investment rate of return for fiscal 2002 was –3.3% following fiscal 2001's return of –1.5%. Five- and 10-year returns were much more favorable at 6.5% and 10.0%, respectively.

- Total plan net assets decreased in value by 8% during the fiscal year to $9.3 billion at June 30, 2002.

- Total benefit payments exceeded $600 million for the first time in the Fund's history. The Fund paid members more than $571 million in service retirement, disability and survivor benefits plus $44 million for health care benefits.

- Total additions to plan net assets were actually a negative $147.5 million. The net investment loss of $370.7 million was more than 1.5 times member and employer contributions totaling $222.3 million.

- Benefit payments, member refunds and administrative expenses totaled $622 million for the 2002 fiscal year, a 21.4% increase over fiscal 2001.

- The funded ratio for pension benefits declined to 96.3% as of July 1, 2002 from 99.9% the previous year.

Financial Section

OVERVIEW OF THE FINANCIAL STATEMENTS OF THE FUND

The two basic financial statements of the Fund are the *Statements of Plan Net Assets* and the *Statements of Changes in Plan Net Assets*. Statements are shown for the most recent and previous fiscal years for comparison and analysis of changes in individual line items. The statements are prepared in conformity with accounting principles generally accepted in the United States.

The *Statements of Plan Net Assets* are a measure of the Fund assets and liabilities at the close of the fiscal year. Total assets less liabilities equal net assets held in trust for future benefits.

The *Statements of Changes in Plan Net Assets* show revenues (additions) and expenses (deductions) for the fiscal year. The net increase (or decrease) is the change in net assets available for benefits since the end of the previous fiscal year.

For financial reporting purposes, the Fund assets are divided into two primary funds: the Pension Fund (Defined Benefit Plan) and the Health Insurance Fund (post employment health care plan). The Pension Fund includes member contributions and investment earnings for participants. This Fund pays service retirement benefits using a fixed formula based on years of service and salary, subjected to certain age requirements. In addition to service retirement, participants are eligible for disability and survivor benefits. The health insurance fund consist of assets set aside to subsidize health care premiums for members receiving pension benefits.

The *Notes to Financial Statements* are a fundamental part of the financial statements and provide important information to augment the figures in the financial statements. The notes describe accounting policies along with plan membership and benefits. Supplementary disclosures of selected financial data are included in the notes.

In addition to the basic financial statements and footnotes, a *Schedule of Funding Progress*, a *Schedule of Employer Contributions* and *Notes to the Trend Data* are included as required supplementary information. These schedules emphasize the long-term nature of pension plans and show progress of the Fund in accumulating sufficient assets to pay benefits when due.

The *Schedule of Funding Progress* shows actuarial trend information for the past six years. It includes the ratio of valuation assets to actuarial accrued liability (funded ratio). The funded ratio increases or decreases over time dependent upon the relationships between contributions, investment performance, benefit changes, and actuarial assumption changes based upon participant information and characteristics. The *Schedule of Funding Progress* also shows the unfunded actuarial accrued liability as a percentage of member payroll. This schedule shows the relationship between the funding status of the plan and the growth of payroll.

The *Schedule of Employer Contributions* shows the amount of required employer contributions determined in accordance with parameters established by Governmental Accounting Standards Board Statement 25 and the percentage actually contributed.

Financial Section

The *Notes to the Trend Data* provide the actuarial method and assumptions used to determine the data in the *Schedule of Funding Progress* and the *Schedule of Employer Contributions*.

A *Schedule of Administrative Expenses* and a *Schedule of Investment Expenses* are included to show detail of the administration and investment costs to operate the Fund.

INVESTMENT PERFORMANCE

For fiscal 2002, total investments resulted in an 3.3% loss. The U.S. and international stock portfolios suffered as the equity markets continued to decline in value. The Fund's portfolio of U.S. stocks lost 11.3% while international stocks realized a 1.5% loss for the 2002 fiscal year. Real estate and fixed income generated positive returns for the fiscal year of 8.2% and 6.8%, respectively.

1-Year Returns (2002)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	(3.3%)	Fund Benchmark Index	(5.5%)
Domestic Equity	(11.3%)	Russell 3000 Index	(17.2%)
International Equity	(1.5%)	MSCI AC World Free Ex US	(8.2%)
Fixed Income	8.2%	LB Aggregate Index	8.6%
Real Estate (Public and Private)	6.8%	Stylized Real Estate Index*	8.6%

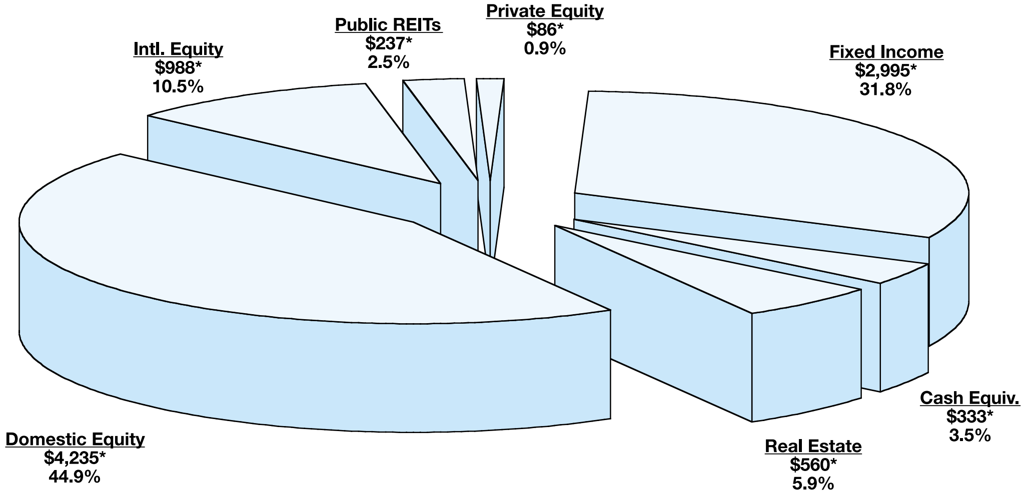
5-Year Returns (1998-2002)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	6.5%	Fund Benchmark Index	5.0%
Domestic Equity	(2.5%)	Russell 3000 Index	(7.9%)
International Equity	(1.2%)	MSCI AC World Free Ex US	(6.2%)
Fixed Income	7.5%	LB Aggregate Index	7.6%
Real Estate (Public and Private)	11.3%	Stylized Real Estate Index*	10.9%

Investment performance is calculated using a time-weighted rate of return with total returns, annualized on a fiscal-year basis, July 1-June 30.

*The stylized index is a combination of the NCREIF property index for private real estate and NAREIT index for public real estate weighted in proportion to the public and private components of the Fund's portfolio.

Asset Allocation at June 30, 2002



FINANCIAL STATEMENT ANALYSIS

Plan Net Assets

The value of plan net assets decreased more than $769 million (7.6%) during the fiscal year. The decrease was the direct result of the $722 million decrease (7.1%) in cash and investments. The decrease in investments was due to negative performance, while the decrease in cash/cash equivalents was a combination of negative performance and benefit payments/operating expenses exceeding contributions and other income on a cash basis.

As of June 30, 2002, total receivables decreased more than $129 million from 2001. This was mainly attributable to the decrease in investment activity at year-end. Due from brokers (represents the proceeds from investment sales) decreased by $107 million due to timing. More significant to operations was a decrease in employee receivables of $3 million due to new legislation that forgave the 2.2 upgrade balance for all active and retired members who reached 30 years of service.

Benefits and Refunds payable increased significantly due to a $2.6 million in new payables related to the 2.2 legislation, a $2 million increase in termination refund payables, and a $1.2 million increase in refund of contributions due to death.

Below is a summary of the plan net assets at June 30, 2002 and 2001 with the financial statements items with significant fluctuations.

(in millions)	FY 2002	FY 2001
Total Net Assets	$9,342.1	$10,111.5
Cash and cash equivalents	333.4	470.3
Due from Brokers	63.4	170.9
Receivables	149.6	279.2
Investments (fair value)	9,101.9	9,686.6
Benefits and Refunds Payable	12.5	5.9
Account and Administrative Payable	8.4	7.8
Due to brokers	223.0	311.2

Additions to Plan Assets

Additions to plan assets that are needed to finance statutory benefit obligations come from public sources such as State of Illinois appropriations, employee payroll deductions, net earnings on investments, and miscellaneous sources. For the year ending June 30, 2002, these additions totaled ($147.5), representing a 525% decrease from 2001 additions of $34.7 million. This decrease resulted from unrealized depreciation on the Fund's portfolio due to the poor investment environment; the Fund's portfolios lost approximately 3.3% for the year ended June 30, 2001 versus losing 1.5% for the year ended June 30, 2001. Employee and employer contributions remained relatively consistent between years.

(in millions)	FY 2002	FY 2001
Employer contributions	$ 76.9	$77.1
Employee contributions	145.5	149.1
Net investment income	(370.6)	(191.5)
Miscellaneous	.9	—
Total additions	($147.5)	$34.7

Deductions from Plan Assets

Deductions from plan assets represent many characteristics of an actuarially mature employee group, with modest increases in most benefit categories. Pension benefits increased as new pensioners were added to the pension payroll, with their benefits based on higher salaries and an improved benefit formula. Additionally, pension benefits increased ($40 million) due to new legislation that increased the annual pension for retirees under the 1993 early retirement program as well as awarded a retroactive lump sum based upon the new calculation. Refunds increased substantially (approximately $21 million) due to new legislation that eliminated the 2.2 upgrade payment for any teacher or pensioner (who retired after June 30, 1998) who had greater than 30 years of service. The health insurance rebate was disbursed at 85% of covered premiums for the 2002 and 2001 fiscal periods. Total deductions from plan assets amounted to $622.0 million, compared to $512.5 million for the previous year.

Financial Section

(in millions)	FY 2002	FY 2001
Pensions	$526.3	$445.2
Refunds	42.3	15.0
Death benefits	2.8	3.3
Insurance premiums	44.1	44.1
Administration	6.5	4.9
Total Deductions	$622.0	$512.5

Funding Analysis

Due to investment losses, the funded ratio for pension benefits declined to 96.3% as of July 1, 2002 from 99.9% the previous year. Due to the poor investment performance over the past 2.5 years, it is expected that the Fund's funded ratio will continue to decline as the Fund's actuary smoothes out these losses over a four-year period. With a rate of return for the period ending June 30, 2003 and 2004 projected at 8% and operations/benefits to remain consistent with slight increases between years, the funded ratio is expected to decline to 91.1% in FY2003 and 85.7% in FY2004. The funded ratio of the plan has ranged from 80.9% to 100.8% since 1994.

As previously mentioned, the Schedule of Employer Contributions shows the amount of required contributions in accordance with GASB Statement #25. As exhibited in the schedule, the employer is not making required contributions sufficient to meet the increasing liability of the Fund. Under the funding plan established by state statute, the employer is required to make a minimum contribution to the Fund in order to bring the total assets of the Fund up to 90% of the total actuarial liabilities by the end of fiscal year 2045. The employer is not required to make a contribution unless the Fund falls below the 90% level for a fiscal year. At such time, the minimum contribution is determined using the timeframe of that fiscal period until 2045. Based upon the actuarial projection at June 30, 2002, there is an estimated employer contribution required in fiscal year 2004 of $28.4 million. The Fund is required to communicate to the employer the actual contribution required for fiscal year 2004 by February 28, 2003.

REQUESTS FOR INFORMATION

Questions about any information provided in this report should be addressed to:

Public School Teachers' Pension and Retirement Fund of Chicago
ATTN: Executive Director
55 West Wacker Drive
Chicago, IL 60601

Statement of Plan Net Assets

June 30, 2002, with comparative totals for 2001

	Pension Fund	Health Insurance Fund	Total 2002	Total 2001
ASSETS				
Cash and cash equivalents	$278,986,839	54,446,520	333,433,359	470,282,798
Receivables:				
Intergovernmental	13,742,838	—	13,742,838	14,569,454
Employee	18,739,731	—	18,739,731	31,847,464
Accrued investment income	50,732,272	—	50,732,272	59,343,290
Due from brokers	63,383,709	—	63,383,709	170,978,228
Participating teachers' accounts for contributions	1,676,207	—	1,676,207	1,838,732
Other receivables	1,292,484	—	1,292,484	670,265
	149,567,241	—	149,567,241	279,247,433
Investments, at fair value:				
Fixed income	2,995,361,378	—	2,995,361,378	2,884,065,768
Equity	5,546,816,639	—	5,546,816,639	6,244,578,940
Real estate	559,753,718	—	559,753,718	557,938,843
	9,101,931,735	—	9,101,931,735	9,686,583,551
Securities lending collateral	1,206,137,144	—	1,206,137,144	1,258,880,972
Prepaid expenses	683,378	—	683,378	1,816
Fixed assets, net of accumulated depreciation	418,691	—	418,691	248,056
TOTAL ASSETS	**10,737,725,028**	**54,446,520**	**10,792,171,548**	**11,695,244,626**
LIABILITIES				
Benefits payable	2,735,064	—	2,735,064	3,122,611
Refunds payable	9,797,355	—	9,797,355	2,755,499
Accounts and administrative expenses payable	8,391,160	—	8,391,160	7,775,148
Securities lending collateral	1,206,137,144	—	1,206,137,144	1,258,880,972
Due to brokers	223,009,703	—	223,009,703	311,161,450
TOTAL LIABILITIES	**1,450,070,426**	**—**	**1,450,070,426**	**1,583,695,680**
Net assets held in trust for benefits (an unaudited schedule of funding progress is presented on page 35)	**$9,287,654,602**	**54,446,520**	**9,342,101,122**	**10,111,548,946**

See accompanying notes to financial statements.

Financial Section

Statement of Changes in Plan Net Assets

Year ended June 30, 2002, with comparative totals for 2001

	Pension Fund	Health Insurance Fund	Total 2002	Total 2001
ADDITIONS:				
Contributions:				
Intergovernmental, net	$ 11,805,305	65,044,700	76,850,005	77,065,122
Employee contributions	145,498,027	—	145,498,027	149,094,964
	157,303,332	65,044,700	222,348,032	226,160,086
Investment income:				
Net depreciation in fair value	(673,718,020)	—	(673,718,020)	(509,220,567)
Interest	235,449,859	1,167,878	236,617,737	255,667,530
Dividends	87,614,971	—	87,614,971	84,517,978
Securities lending	7,777,295	—	7,777,295	6,483,772
Less investment expense:				
Investment advisory and custodial fees	26,611,498	—	26,611,498	27,021,678
Securities lending expense	2,333,191	—	2,333,191	1,974,425
	(371,820,584)	1,167,878	(370,652,706)	(191,547,390)
Miscellaneous	829,063	—	829,063	70,078
TOTAL ADDITIONS	**(213,688,189)**	**66,212,578**	**(147,475,611)**	**34,682,774**
DEDUCTIONS:				
Pension benefits	526,327,706	—	526,327,706	445,265,874
Refunds	21,518,236	—	21,518,236	14,988,165
2.2 Legislative refunds	20,781,940	—	20,781,940	—
Refund of insurance premiums	—	44,068,275	44,068,275	44,088,569
Death benefits	2,816,322	—	2,816,322	3,310,913
	571,444,204	44,068,275	615,512,479	507,653,521
Administrative and miscellaneous expenses	6,459,734	—	6,459,734	4,856,487
TOTAL DEDUCTIONS	**577,903,938**	**44,068,275**	**621,972,213**	**512,510,008**
Net increase (decrease) before transfer	**(791,592,127)**	**22,144,303**	**(769,447,824)**	**(477,827,234)**
Transfers	**(32,302,217)**	**32,302,217**	**—**	**—**
Net increase (decrease)	**(823,894,344)**	**54,446,520**	**(769,447,824)**	**(477,827,234)**
Net assets held in trust for benefits at beginning of period	**10,111,548,946**	**—**	**10,111,548,946**	**10,589,376,180**
Net assets held in trust for benefits at end of period	**$ 9,287,654,602**	**54,446,520**	**9,342,101,122**	**10,111,548,946**

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2002, with comparative totals for 2001

(1) DESCRIPTION OF PENSION AND HEALTH INSURANCE PLAN

Pension Plan

The Public School Teachers' Pension and Retirement Fund of Chicago (Fund) is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system. The state legislature established the Fund in 1895 to provide retirement, survivor, and disability benefits for certain certified teachers and employees of the Chicago public schools and City of Chicago Charter Schools. The Fund is administered in accordance with Illinois Compiled Statutes (ILCS) Chapter 40 Act 5, Article 17. The Fund is governed by a 12-member Board of Trustees (six elected by the teacher contributors, three elected by the annuitants, one elected by the principal contributors, and two appointed by the principal employer, the Chicago Board of Education). The Board of Trustees is authorized by state law to make investments, pay benefits, hire staff and consultants, and carry out all the necessary functions of the Illinois Pension Code.

As of June 30, 2002 and 2001, the Fund membership consisted of the following:

	2002	2001
Retirees and beneficiaries currently receiving benefits	17,867	17,298
Terminated members entitled to benefits but not yet receiving them	1,552	1,316
Current members:		
Vested	23,296	23,930
Nonvested	14,078	13,718
	56,793	**56,262**

A member with at least 20 years of service and who has attained 55 years of age is entitled to a pension. A member with at least five years of service but less than 20 years of service is entitled to a pension on attainment of age 62. In the case of retirement prior to age 60 with less than 35 years of service, the retirement pension is reduced one-half of 1% for each month that the member is under age 60.

A retirement pension is determined by either (1) applying specified percentages which vary with years of service to the average salary earned or (2) applying a flat 2.2% to the average salary earned for each year of service. Public act 90-852 increased the retirement annuity formula to 2.2% of final average salary for each year of service earned after June 30, 1998. Employees may upgrade service to the 2.2 formula for years prior to July 1, 1998 by making certain additional contributions to the Fund. Beginning July 1, 1998, employee contributions increased from 8% to 9% of salary to account for the increased benefit. Annuitants who retired after 1959 receive an annual 3% increase in the retirement pension beginning January 1 following attainment of age 61 or following the first anniversary of retirement, whichever is later.

A survivor pension is payable upon the death of a contributor or pension member of the Fund. The benefit is the greater of 50% of earned pension or an amount based on the average of the four highest years of salary in the last ten years of service or on the average salary for the total service, if less than four years, with certain qualifications. A 3% automatic annual increase is paid on survivor pension benefits. A single-sum death benefit is also payable on the death of a contributor or pension member of the Fund, with certain qualifications.

A disability pension is payable in the event of total or permanent disability with certain qualifications and service requirements. A duty disability benefit, equal to 75% of final salary, is provided upon the total incapacity for further teaching as a result of an injury sustained while in teaching service. A non-duty disability is payable after ten or more years of service and is 1-2/3% of average annual rate of salary for every year of creditable service earned by the member. A 3% automatic annual increase is paid on disability pensions after the first anniversary of the pension or the pensioner's 61st birthday, whichever is later.

Health Insurance Plan

The Fund administers a health insurance program that includes four external health insurance providers. A recipient of a retirement pension, survivor pension, or disability pension may be eligible to participate in a health insurance program and premium rebate sponsored by the Fund, provided the Fund is the recipient's final pension system prior to retirement. The purpose of the program is to help defray the pension member's premium cost for health insurance. The member is responsible for paying the cost of the insurance and may purchase insurance from the Fund's providers or other outside providers. Each year, the Board of Trustees establishes a rebate percentage that is used to defray a portion of the cost of the insurance. The maximum cost subjected to the rebate cannot be greater than the highest Fund provider's cost. The rebate percentage was 85% of the individual member's cost for fiscal year 2002 and 2001. In accordance with Illinois Compiled Statutes (ILCS) Chapter 40 Act 5 Article 17 Section 142.1, the total health insurance benefits provided in any one year may not exceed $40,000,000 plus any previous year amounts authorized but not yet expended. The Fund has total discretion over the program, and no employee or employer contributions are made for the subsidy.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

(1) Appointment of a voting majority of the component unit's board and either a) the ability to impose will be the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

(2) Fiscal dependency on the primary government.

Based upon the required criteria, the Fund has no component units and is not a component unit of any other entity.

Basis of Accounting

The Fund's financial statements are prepared using the accrual basis of accounting, following standards promulgated by GASB. Employee and employer contributions are recognized as additions in the period in which the employee services are performed. Benefits and refunds are recognized as deductions when due and payable in accordance with the terms of the plan.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits and uninvested funds held by the Fund's investment managers. Short-term investments consist of investments, which mature within six months of the date acquired by the Fund.

Investments are governed by Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*. These statutes authorize the Fund to invest in accordance with the prudent person rule, which states that fiduciaries will exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity with such matters would use in the conduct of an enterprise of a like character with like aims.

Plan investments are reported at fair value. Fair value for equities is determined by using the closing price listed on the national securities exchanges as of June 30. Fair value for fixed income securities is determined principally by using quoted market prices provided by independent pricing services. Fair value for real estate investments is determined by appraisals.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed by the straight-line method based upon estimated useful lives of 50 years for building and improvements and three to five years for furniture and equipment.

Administrative Expenses

Administrative expenses are budgeted and approved by the Fund's Board of Trustees. Funding for these expenses is included in the employer contributions as determined by the annual actuarial valuation.

New Accounting Announcement

During the year ended June 30, 2002, the Fund adopted the Provisions of GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — For State and Local Governments*, effective July 1, 2001. This statement required the inclusion of a management's discussion and analysis, which is presented on pages 18 through 23.

(3) RECEIVABLES

As of June 30, 2002 and 2001, intergovernmental receivables include contributions due from the Board of Education, appropriations due from the State of Illinois and federal funds due for employees working under federal grants as follows:

	2002	2001
Board of Education —		
Early retirement programs	$ 6,702,243	8,399,459
Deficiencies	731,965	—
State of Illinois appropriations	5,420,392	5,420,392
Federal funds	888,238	749,603
	$13,742,838	**14,569,454**

Employee contributions include amounts deducted from the employee's compensation during the year to be remitted to the Fund by the Employer as well as contributions made by the employees to upgrade their service cost to the new 2.2 formula. The Employer owed on behalf of the employees $12,325,288 and $15,327,505 at June 30, 2002 and 2001, respectively. Employees owed the Fund $6,414,443 and $16,519,959 for the 2.2 formula upgrade at June 30, 2002 and 2001, respectively.

(4) DEPOSITS AND INVESTMENTS

At June 30, 2002, the bank balance and carrying amount of the Fund's deposits amounted to $338,885,490 and $333,433,359, respectively. At June 30, 2001, the bank balance and carrying amount of the funds deposits were $471,877,043 and $470,282,798, respectively.

The deposits of the Fund are insured or collateralized by securities recorded in the Fund's name and held by the Fund's agent, its master custodian (Northern Trust Bank). The following table presents a summarization of the fair values of the Fund's investments at June 30, 2002 and June 30, 2001. All categorized investments are insured or registered and are held by the Fund's agent, its master custodian, in the Fund's name. Investments in commingled funds are not categorized because the relationship between the Fund and the investment agent is a direct contractual relationship, and a transferable instrument that evidences ownership or creditorship does not support the investments.

	Fair Value	
	June 30, 2002	June 30, 2001
CATEGORIZED:		
Long-term investments:		
Fixed income securities:		
Government	$ 952,948,972	799,047,751
Corporate	903,309,251	944,743,435
Other miscellaneous	171,283,431	184,166,242
Total fixed income securities	2,027,541,654	1,927,957,428
Equity securities	4,997,915,422	5,642,084,245
Total long-term investments	**7,025,457,076**	**7,570,041,673**
NON-CATEGORIZED:		
Real estate	559,753,717	557,938,843
Private equity	86,394,068	87,175,989
Securities lending:		
Investments held by master trustee under securities loans	1,430,326,874	1,471,427,046
Securities received from securities lending	1,206,137,144	1,258,880,972
TOTAL INVESTMENTS	**$10,308,068,879**	**10,945,464,523**

Ownership of Greater than 5% of Net Assets Available for Benefits

There are no significant investments in any organization that represent 5% or more of net assets available for benefits.

Derivatives

The Fund periodically invests in forward and futures contracts representing agreements to buy or sell a specified amount of an underlying security at a given delivery or maturity date for an agreed-upon price. The Fund's use of these securities is limited to small positions in the Fund's international equity and commingled minicap domestic equity portfolios established for hedging or risk reducing, not for speculative purposes.

As of June 30, 2002 and 2001, the Fund held forward currency contracts representing agreements to buy or sell U.S. dollars, Japanese yen, U.K. sterling, French francs, Spanish pesetas, Swedish kroners, Australian dollars, Deutsche marks, Austrian shillings, Netherland guilders, and Swiss francs upon established future dates for agreed-upon prices. These forward currency contracts held by the Fund allow it to lock in future foreign exchange rates, thus reducing risk stemming from currency fluctuations. As of June 30, 2002 and 2001, the fair values of the obligations under the purchase side of these forward contracts amounted to $79,501,251 and $75,037,494, respectively, and the fair values of the obligations under the sale side of these forward contracts amounted to $77,793,867 and $77,152,699, respectively.

As of June 30, 2002, the Fund held 28,646,241 units (20.6%) of five commingled equity trust funds. The total obligation to purchase stocks under the futures contracts held by this commingled fund represented less than 1% of the commingled funds total assets. As of June 30, 2001, the Fund held 20,189,076 units (28.9%) of two commingled equity trust funds. The total obligation to purchase stocks under the futures contracts held by this commingled fund represented 2.2% of the commingled fund's total assets. These futures contracts held allow the commingled fund to maintain exposure to the market without incurring the transaction costs involved in immediate reinvestment of dividend payments. Since these futures positions are covered by the cash received through dividend payments on stocks held in the commingled fund, this does not represent a leveraged or speculative position. Rather, in order to reduce the risk of being out of the market, the investment manager has chosen to use futures contracts as a low-cost substitute for direct ownership of the underlying securities.

Securities Lending

Fund policies permit the Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Northern Trust Company, the Fund's master custodian, lends securities of the type on loan at year-end for collateral in the form of cash, irrevocable letters of credit or other securities of at least 102% of the lent securities' fair value, and international securities for collateral of at least 105%. Securities lent at year end for cash collateral are presented as not categorized in the preceding schedule of custodial credit risk; securities lent for securities collateral are classified according to the risk categorization for the collateral received. At year end, the Fund has no credit risk exposure to borrowers because the amount the Fund owes to the borrowers exceeds the amounts the borrowers owe to the Fund. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities issuers while the securities are out on loan. All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is one week. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted average maturity of 72 days.

The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities without borrower default.

Loans outstanding as of	June 30, 2002	June 30, 2001
Fair value of securities loaned	$1,430,326,874	1,471,427,046
Fair value of cash collateral from borrowers	1,206,137,144	1,258,880,972
Fair value of non cash collateral from borrowers	266,669,274	255,563,958

(5) CONTRIBUTIONS AND RESERVES

The funding policy of the Fund provides for employer contributions which, when added to contributions received from employee members and earnings on investments, will be sufficient for the requirements of the Fund.

On annual basis, an actuarial valuation is performed in order to determine the amount of required contributions on behalf of the Fund. The Illinois Compiled Statutes (Public Act 89-15) provide for an actuarially determined funding plan intended to maintain the assets of the Fund to a level equal to 90% of the liabilities of the Fund.

The Chicago Board of Education (employer) is required by law to make contributions to the Fund only to the extent that the Fund's actuarially determined funding level drops below 90% by the end of the fiscal year. The employer is then required to make contributions to the Fund in order to ensure the actuarial value of assets is 90% of the actuarial value of liabilities. In years where the funding rate exceeds 90%, no employer contribution is required.

Member Contributions

Member contributions, established by the Illinois Compiled Statutes, are 9% of the full salary rate, of which 1% applies to survivors' and children's pensions benefits.

Other Contributions

The State of Illinois makes an annual contribution to the Fund to supplement any employer contribution. This contribution is considered an intergovernmental contribution.

Federal funds are actuarially based amounts contributed to the Fund for the accruing pension cost of teachers whose salaries are paid from special trusts or federal funds.

Early Retirement Programs

Incentive Program — In accordance with the Illinois Compiled Statutes, early retirements were made available to eligible Chicago teachers during the 1993 and 1994 years (early retirement incentive programs). Under the early retirement incentive programs, teachers who had attained age 50 and had at least 5 years of creditable service were able to establish up to 5 years of additional creditable service by making such election. An employer contribution of $5,541,713 at June 30, 2002 and June 30, 2001 is shown as an intergovernmental receivable in the accompanying financial statements.

Optional Program — Eligible Chicago Teachers age 55 to 60 may retire without discount if the Board of Education passes a resolution for the early retirement without discount program in accordance with the Illinois Compiled Statutes. A contributor is eligible if they:

- have at least 20 but less than 34 years of service or 33.95 years of service upgraded to 2.2;
- retire within 6 months of the last day of teaching service (or payroll period) for which pension contributions were made.

The contributor and the Board of Education must each make a one-time contribution to the Fund. The employee contribution equals 7% of the member's last full-time salary rate multiplied by (1) the number of years the member is under 60, or (2) the number of years the employee's creditable service is less than 34, whichever is less. The employer contribution equals 20% of such salary multiplied by the number of years used in the employee contribution calculation. The number of teachers who may retire under this election may be limited by the Board of Education.

The Board of Education paid $1,697,216 and $7,468,784 of the required employer contributions related to early retirement optional program during the year ended June 30, 2002 and June 2001, respectively. The remaining employer contribution of $1,160,530 and $2,857,746 at June 30, 2002 and June 30, 2001 is shown as an intergovernmental receivable in the accompanying financial statements.

(6) INSURANCE COVERAGE

The Fund is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund has minimized the risk of loss through private insurance carriers with deductibles for coverage ranging from $250 to $500 per occurrence. The amount of settlements has not exceeded insurance coverage in any of the previous three fiscal years.

(7) LITIGATION

There are several pending lawsuits in which the Fund is involved. Management believes that the potential claims against the Fund would not materially affect the financial statements of the Fund.

(8) HEALTH INSURANCE ROLLFORWARD

In accordance with Illinois Compiled Statutes (ILCS) Article 40 Chapter 5 Article 17 Section 142.1, the total health insurance benefits provided in any one year may not exceed $40,000,000 plus any previous year amounts authorized but not yet expended. Of the net assets available for benefits in the health insurance fund at June 30, 2002 and 2001, $28,233,942 and $32,302,217 represent previous year amounts authorized but not yet expended.

FY 2001	
Excess amount available for expenditure at July 1, 2000	$36,390,786
Add statutory annual limit	40,000,000
Less FY 2001 expenditures	44,088,569
Excess amount available for expenditure at June 30, 2001	$32,302,217

FY 2002	
Excess amount available for expenditure at July 1, 2001	$32,302,217
Add statutory annual limit	40,000,000
Less FY 2002 expenditures	44,068,275
Excess amount available for expenditure at June 30, 2002	$28,233,942

Schedule of Funding Progress (Unaudited)

June 30, 2002 **Schedule 1**
(In thousands, except for percentages)

Valuation date	Net assets available for benefits (A)	Actuarial accrued liability (AAL)	Unfunded (assets in excess of) actuarial accrued liability (UAAL)	AAL funding ratio	Annual covered payroll	UAAL as a percent of annual covered payroll
August 31, 1997	$ 7,264,692	7,248,110	(16,582)	100.23%	$1,362,611	(1.22)%
August 31, 1998 (B)	7,798,404	8,015,603	217,199	97.29	1,434,015	15.15
June 30, 1999 (C)	8,620,060	8,551,880	(68,180)	100.80	1,521,182	(4.48)
June 30, 2000 (D)	9,612,203	9,940,372	328,169	96.70	1,651,810	19.87
June 30, 2001	10,387,569	10,392,704	5,135	99.95	1,690,264	.30
June 30, 2002	10,619,061	11,025,482	406,421	96.31	1,759,046	23.10

(A) The actuarial value of assets available for benefits was determined by adjusting the value of assets at cost by the average excess of the market value of assets over assets at cost as of the last four fiscal periods.

(B) Public act 90-582 increased the retirement annuity formula effective July 1, 1999 which resulted in an increase in the actuarial accrued liability of approximately $491 million as of August 31, 1999.

(C) During 1999, the fund elected to change its fiscal year end from August 31 to June 30.

(D) The Fund made changes in the mortality, retirement, disability, termination and salary increases assumptions for the fiscal year ended June 30, 2000. The impact of the assumption changes increased the total actuarial liability by $524,787,368.

See accompanying independent auditors' report.

Schedule of Contributions (Unaudited)

June 30, 2002

Schedule 2

Period ended	Employer Contributions: Annual required	Employer Contributions: Employer	Employer Contributions: % of annual required	Employee Contributions: Annual required	Employee Contributions: Employee	Employee Contributions: % of annual required	Total contributions as a % of annual required contributions
August 31, 1997	178,350,144	91,776,705	51.46	102,299,093	103,870,728	101.54	69.71
August 31, 1998	113,719,995	75,069,133	66.01	109,008,889	115,155,574	105.64	85.41
June 30, 1999 (A)	125,335,153	60,201,082	48.03	129,061,352	150,421,632	116.55	82.79
June 30, 2000	138,440,544	79,519,385	57.44	136,906,335	145,458,741	106.25	81.71
June 30, 2001	188,922,506	77,065,122	40.79	148,662,908	149,094,964	100.29	66.99
June 30, 2002 (B)	178,954,824	11,805,305	6.60	152,123,775	145,498,027	95.64	47.51

(A) During 1999, the Fund elected to change its fiscal year end from August 31 to June 30. As a result, the 1999 contributions are reported for a ten month period.

(B) Beginning 2002, the Fund has segregated its retiree health insurance into a separate fund. Accordingly, $65 million of state contributions, previously classified as employer contributions, are excluded from this schedule.

See accompanying independent auditors' report.

Notes to Trend Data (Unaudited)

June 30, 2002 **Schedule 3**

Valuation Date	June 30, 2002
Actuarial cost method	Projected unit credit
Amortization method	40 year level percent of payroll amortization of the unfunded liability
Amortization approach	Open
Remaining amortization period	40 years
Asset valuation method	4 year smoothed market value
Actuarial Assumptions:	
Investment rate of return	8.0% per year
Projected salary increases *	Rate of increase varying by age. In terms of the impact on liabilities and costs, the assumed rates of increase are equivalent to an average salary increase of 5.5% per year.
Inflation rate	3% per year
Postretirement benefit increase	3% per year

* Includes inflation at cost-of-living adjustments

See accompanying independent auditors' report.

Administrative and Miscellaneous Expenses

Years ended June 30, 2002 and 2001 **Schedule 4**

	2002	2001
Salaries	$3,161,403	2,766,610
Accrued leave	829,778	—
Actuary fees	40,500	45,500
Auditing	34,000	31,000
Conferences, seminars, and membership dues	16,117	27,373
Consulting fees	—	76,095
Data processing	32,230	29,463
Depreciation	123,841	90,836
Document imaging	136,315	9,767
Election expense	75,192	1,035
Employees' health insurance	579,550	461,078
Health insurance consulting	139,570	69,870
Insurance premium	17,743	14,452
Legal fees	138,730	162,538
Legislative expense	89,186	83,055
Maintenance of equipment, systems, software, and support	68,956	54,353
Medical fees	21,169	19,820
Office forms and supplies	61,938	52,296
Office rent and utilities	462,635	340,266
Postage	143,030	161,141
Printing and binding	117,891	212,047
Temporary staffing	43,006	4,096
Trustee conferences, seminars, and meetings	47,160	70,547
Legacy fund disbursements	9,082	6,307
Miscellaneous	70,712	66,942
Total	**$6,459,734**	**4,856,487**

See accompanying independent auditors' report.

Schedule of Cash Receipts and Disbursements

Years ended June 30, 2002 and 2001 **Schedule 5**

	2002	2001
Cash and cash equivalents at beginning of period	$470,282,798	388,323,946
Add receipts:		
Member contributions	158,768,285	154,605,195
Public revenues	77,676,62	81,020,612
Interest and dividends	340,621,021	342,013,241
Miscellaneous	206,844	(150,738)
Total cash receipts	**577,272,771**	**577,488,310**
Less disbursements:		
Benefit payments	529,531,575	448,624,614
Refunds	14,476,380	13,751,235
2.2 Refunds	20,781,940	–
Refund of insurance premiums	44,068,275	44,088,569
Investment and administrative	35,640,608	31,391,183
Net investment purchases (sales)	69,623,432	(42,326,143)
Total cash disbursements	**714,122,210**	**495,529,458**
Net increase (decrease) in cash and cash equivalents	(136,849,439)	81,958,852
Cash and cash equivalents at end of period	**$333,433,359**	**470,282,798**

See accompanying independent auditors' report.

Summary Schedule of Manager Fees

Years ended June 30, 2002 and 2001 **Schedule 6**

	2002	2001
Adams Street Partners, LLC	$ 861,668	642,658
Ariel Capital Management	708,488	636,823
Banc of America	161,690	135,152
Blackstone Group L.P.	225,624	306,590
Brinson Partners, Inc.	770,465	765,303
Capri Capital Advisors	168,203	149,012
Dimensional Fund Advisors	568,465	523,819
Fidelity Capital Management Trust Co.	1,424,550	1,703,161
HarbourVest Partners, LLC	1,006,287	730,412
Harris Investment Management, Inc.	632,747	653,750
Holland Capital Management	172,648	244,973
Iridian Asset Management, LLC	781,455	756,213
J & W Seligman & Co.	977,720	1,094,220
J.P. Morgan Fleming	1,238,019	1,892,606
LaSalle Investment Management	516,625	458,170
Lazard Asset Management	701,350	483,229
Lend Lease Office Opportunity Funds, L.P.	198,915	238,576
Lincoln Capital Management Co.	273,768	268,794
MDL Capital Management, Inc.	88,965	74,710
Mesirow Financial, Inc.	774,732	327,500
Morgan Stanley Investments, LP	3,166,229	3,121,847
New Amsterdam Partners	379,445	425,786
NTGI 500 Index Fund	132,620	151,526
NTGI Fixed Income	157,792	153,329
NTGI Midcap 400 Index	26,668	26,058
NTGI Minicap	294,738	287,598
Olympus Real Estate Corp.	289,313	327,051
Oppenheimer Capital	358,408	395,483
Pantheon Ventures, Inc.	358,129	346,803
Prudential Securities	989,605	—
RREEF America REIT, Inc.	516,970	755,571
Schroder Investment Management	458,783	582,230
Smith Graham & Co.	158,924	154,198

Schedule 6 (continued)

SSR Tower - Metropolitan Life	—	431,625
Times Square Real Estate Investors	792,785	938,805
UBS Realty Investors, LLC	767,344	547,591
Waddell & Reed Asset Management Co.	640,756	771,837
Walton Street Real Estate, LP	414,649	369,811
Wellington Management Co., LLP	701,132	695,679
William Blair & Co.	619,640	615,352
Woodford Capital Management, LLC	114,304	159,173
Zevenbergen Capital, Inc.	316,098	480,587
Zurich Scudder Investment, Inc.	1,336,187	1,607,991
Total manager fees	**25,242,903**	**25,431,602**
Mercer - General investment consultant	240,000	245,000
Northern Trust - Master custodian	619,470	650,655
The Townsend Group - Real estate consultant	120,365	128,799
Total consultant fees	**979,835**	**1,024,454**
Fees for foreign exchange and real estate	388,760	565,622
Total	**$26,611,498**	**27,021,678**

See accompanying independent auditors' report.

Summary Schedule of Consultant Payments

Years ended June 30, 2002 and 2001 **Schedule 7**

	2002	2001
Anselmo & Associates	$ 50,963	47,460
Bradley Consulting Group, Inc.	108,985	—
Burns, Burke & Pinelli, Ltd.	1,869	—
Cahill Printing Co.	66,708	94,508
CEM Technologies, Inc.	5,839	—
Chicago Press Corporation	71,227	120,900
Computronics	12,077	3,765
Data Summary, Inc.	24,640	—
The Direct Response Resource	22,147	17,672
E. M. Barnes & Associates	38,223	35,595
Freedom Imaging Systems, Inc.	3,633	13,251
Goldstein & Associates	40,500	45,500
Grossman, Patti & Brill	4,780	—
Hill, Taylor LLC	8,500	—
Jacobs, Burns, Orlove, Stanton & Hernandez	136,860	162,538
KPMG LLP	34,000	31,000
Lebenson Advanced Systems	—	6,095
Levi, Ray & Shoup, Inc.	220,965	75,642
Ray Mangarelli	25,170	—
The Segal Company	139,570	69,870
Walker Printery, Inc.	29,878	22,919
Total consultant payments	**$1,046,534**	**746,715**

See accompanying independent auditors' report.

Investment Section

The Northern Trust Company
50 South La Salle Street
Chicago, Illinois 60675
(312) 630-6000

Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as custodian ("Master Custodian") of assets of the Public School Teachers' Pension and Retirement Fund of Chicago ("Fund") held by it in a custodial account (the "Account") has provided annual Statements of Account for the Account to the Fund which provide a complete and accurate reflection of The Northern Trust Company's record of the investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Account for the period July 1, 2001 through June 30, 2002.

In addition to the custody of assets in the Account, pursuant to and in accordance with the terms of the Master Custody Agreement among the Board of Trustees of the Fund, The City Treasurer of the City of Chicago, and The Northern Trust Company dated October 25th, 1989 as amended (the "Custody Agreement"), The Northern Trust Company provided and continues to provide the following services as Master Custodian:

1. Receive and hold all amounts paid to the Account by the Board of Trustees.
2. Accept and deliver securities in connection with investment transactions in the Account in accordance with the instructions of appointed Investment Managers.
3. Collect dividends and registered interest payments.
4. Collect matured or called securities and coupons to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.
5. Lend Securities in the Account pursuant to a Securities Lending Agreement entered into by and between the Board of Trustees, the City Treasurer of the City of Chicago, and The Northern Trust Company.
6. Invest cash balances held from time to time in the individual investment management accounts of the Account in short term-cash equivalent securities.
7. Facilitate the exercising of rights of ownership, including but not limited to, proxy voting, stock subscriptions and conversion rights as directed by the Fund or its appointed investment managers.
8. Hold securities in the Account in the name of the Fund or nominee form or other means as provided in the Custody Agreement.
9. Use the Federal Book Entry Account System for deposit of Treasury securities and clearing corporations as defined in Article 8 of the Illinois Uniform Commercial Code for the deposit of securities.
10. Employ agents to the extent provided in the Custody Agreement.
11. Provide disbursement services.
12. Provide security fail float income to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.

THE NORTHERN TRUST COMPANY

Kathryn M Stevenson

Kathryn M. Stevenson, Vice President

Investment Section

December 4, 2002

MERCER
Investment Consulting

Board of Trustees
Public School Teachers' Pension and Retirement Fund of Chicago
55 West Wacker Drive, Suite 1300
Chicago, Illinois 60601

Dear Trustees:

Mercer Investment Consulting is pleased to provide the following summary of investment results for the Public School Teachers' Pension & Retirement Fund of Chicago for the fiscal year ended June 30, 2002.

As of June 30, 2002, the Fund had a $9.3 billion market value. Assets decreased by $0.7 billion since June 30, 2001, due to turbulent global equity markets and net withdrawals, which offset gains in fixed income and real estate.

- Equity markets declined before September 11 and fell further after the terrorist attacks. Despite a brief rally in the fourth quarter of 2001, equity markets continued their decline through the first half of 2002, as investors' confidence was shaken by continued national security concerns and disclosures of accounting irregularities.
- During the twelve month period value strategies surpassed growth strategies. Smaller capitalization stocks outperformed larger counterparts. Mid and small cap value stocks were the only areas within domestic equity in positive territory for the trailing year. The S&P 500 Index returned -18.0% over this period, while the Russell 2000 declined 8.6%.
- Developed international markets outperformed their domestic counterparts. The MSCI EAFE Index fell 9.2% in dollar terms over the twelve-month period. Emerging markets ended the trailing year in positive territory, returning 1.3% in dollar terms.
- Fixed Income served as an anchor amidst equity market volatility with all investment grade segments posting positive returns during the past year. The Lehman Brothers Aggregate Index returned 8.6%.

The Fund declined slightly within this environment, returning -3.3% over the trailing year ended June 30, outperforming the-5.5% Index benchmark return as well as the Russell/Mellon Public Fund Universe median, which declined 5.9%. Absolute performance was bolstered by the fixed income and real estate allocations, which had positive returns amidst significant equity declines. Performance versus benchmarks was also enhanced by the Fund's domestic and international equity asset classes, which outperformed their Index benchmarks.

The domestic equity portfolio returned -11.3% during the year ending June 30, ahead of the Russell 3000 Index return of -17.2%. Outperformance primarily resulted from the overweighted small and mid capitalization equity segments, coupled with strong performance by the Fund's small and large cap active managers.

The international equity portfolio declined 1.5% during the twelve-month period, while the MSCI All Country Free Ex-US Index returned -8.2%. The Fund's emerging markets allocation, coupled with outperformance by several of the Fund's developed international equity managers generated this strong relative result. Over longer time periods, relative performance was strong.

The Fund's fixed income portfolio returned 8.2% over the twelve-month period ending June 30, as compared to the Lehman Brothers Aggregate return of 8.6%. Over longer periods, the portfolio approximated the Index. Lagging relative results over the twelve month period were the result of the investment managers' overweighting of Corporate securities relative to the Index, as these firms expected the economy to recover over this time period. This overweighting, which hampered fiscal year 2002 performance was additive to results during fiscal year 2001. In addition, opportunistic allocations to high yield fixed income detracted from the portfolio's results over the trailing year.

The Townsend Group stated that real estate performance results were calculated in accordance with the Association for Investment Management and Research (AIMR) performance presentation standards. Mercer calculated non-real estate performance results in accordance with AIMR standards.

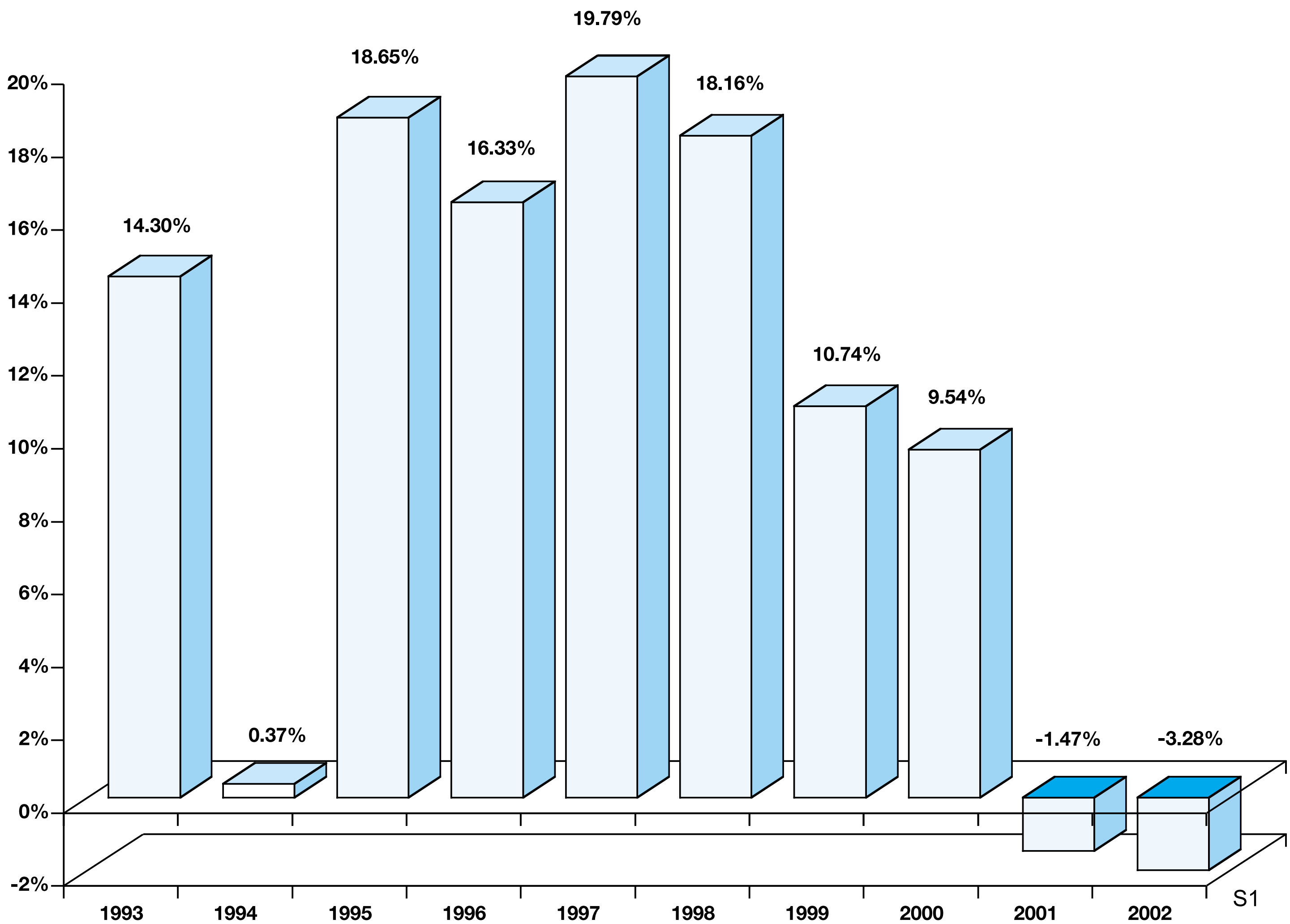
The Public School Teachers' Pension & Retirement Fund of Chicago maintains an appropriately diversified strategy, designed to maximize return with an acceptable risk level. During the fiscal year, the Fund streamlined its international and fixed income mandates in order to reduce cost and optimize expected results. Mercer continues to support such strategic goals of the investment program.

Sincerely,

Brad A Blalock

Brad A. Blalock, CFA
Principal

TOTAL ANNUAL FUND RATE OF RETURN *
As of June 30
1993 - 2002



* Time weighted rate of return.

SCHEDULE OF INVESTMENT RESULTS

	FOR THE YEAR ENDED JUNE 30,					ANNUALIZED RETURNS (%)		
	1998	1999	2000	2001	2002	3 Years	5 Years	10 Years
Total Fund	18.16 %	10.74 %	9.54 %	-1.47 %	-3.28 %	1.52	6.48	10.01
Large Cap Equity	30.11	20.87	9.24	-10.38	-16.56	-6.53	5.14	11.98
Russell 1000 Index					-17.89	-8.63	3.90	11.40
S&P 500	30.15	22.76	7.26	-14.83	-17.99	-9.17	3.66	11.42
Mid Cap Equity	N/A	N/A	9.72	11.98	-5.71	5.03	N/A	N/A
S&P Mid Cap	N/A	N/A	17.00	8.87	-4.72	6.67	N/A	N/A
Small Cap Equity	21.93	1.64	18.56	-2.09	-2.11	4.36	7.09	12.09
Russell 2000	16.49	1.50	14.33	0.57	-8.60	1.67	4.44	10.96
International Equity-Developed	11.23	8.62	21.97	-16.78	-2.04	-0.19	3.74	8.68
MSCI EAFE	6.38	7.92	17.44	-23.32	-9.21	-6.49	-1.26	5.71
International Equity-Emerging	-27.80	14.66	12.18	-27.56	2.75	-5.84	-7.13	N/A
MSCI Emerging Markets Free	-39.08	28.71	9.47	-25.83	1.32	-6.30	-8.39	N/A
Fixed Income	10.94	2.85	4.32	11.44	8.24	7.96	7.50	7.32
LB Aggregate	10.55	3.13	4.56	11.23	8.63	8.11	7.57	7.34
REITs	9.68	-3.36	4.43	22.13	14.64	14.78	N/A	N/A
NAREIT	8.04	-8.98	3.03	24.42	16.21	14.21	N/A	N/A
Real Estate	17.26	14.13	13.08	11.60	5.11	9.88	12.16	N/A
NCREIF (NPI)	18.20	13.60	12.59	11.51	5.60	9.56	11.75	N/A
Private Equity*	N/A	N/A	35.47	-9.81	-20.68	-1.04	N/A	N/A

* Private Equity returns may not be entirely reflective of the actual performance of the Fund due to the continual draw down of funds.

Note: Returns are calculated based upon a time weighted rate of return.

INVESTMENT PORTFOLIO SUMMARY

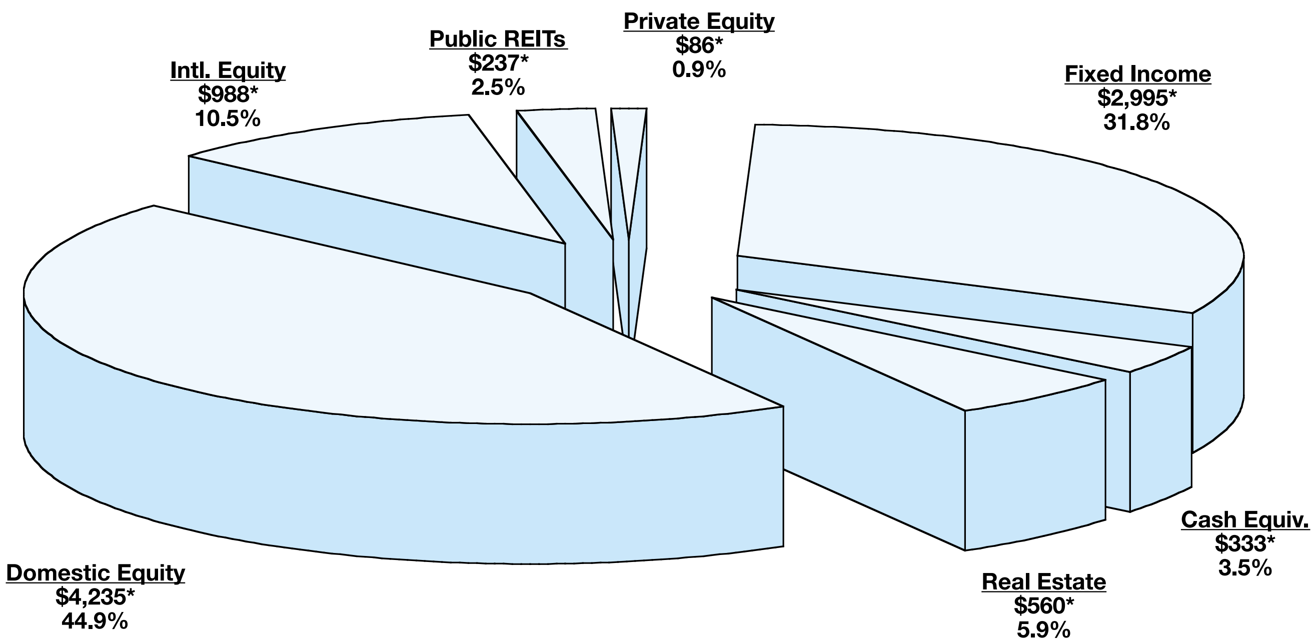
(IN MILLIONS OF DOLLARS)

	FAIR VALUE 6/30/01	PURCHASES	SALES (FAIR VALUE)	FAIR VALUE ADJUSTMENTS	FAIR VALUE 6/30/02	PERCENT OF TOTAL
FIXED INCOME						
Government	$ 1,623.7	2,812.3	2,700.2	32.4	1,768.2	18.74%
Corporate	1,076.2	374.7	415.3	20.3	1,055.9	11.19
Miscellaneous	184.2	178.0	195.5	4.6	171.3	1.82
FIXED INCOME	2,884.1	3,365.0	3,311.0	57.3	2,995.4	31.75
EQUITY						
Stocks	5,949.5	1,949.5	1,962.5	(713.3)	5,223.2	55.36
Private Equity	87.2	26.3	8.3	(18.8)	86.4	0.92
Public REITS	207.9	75.7	59.5	13.1	237.2	2.51
EQUITY	6,244.6	2,051.5	2,030.3	(719.0)	5,546.8	58.79
REAL ESTATE	557.9	148.9	132.3	(14.7)	559.8	5.93
CASH & CASH EQUIV.	470.3	(140.4) *		2.7	333.4	3.53
TOTAL PORTFOLIO	$10,156.9	5,425.0	5,473.6	(673.7)	9,435.4	100.00%

*Net of cash receipts & disbursements for year ending 6/30/02.

Note: 11.29% of fair value is invested in foreign currency securities.

ASSET ALLOCATION
as of June 30, 2002

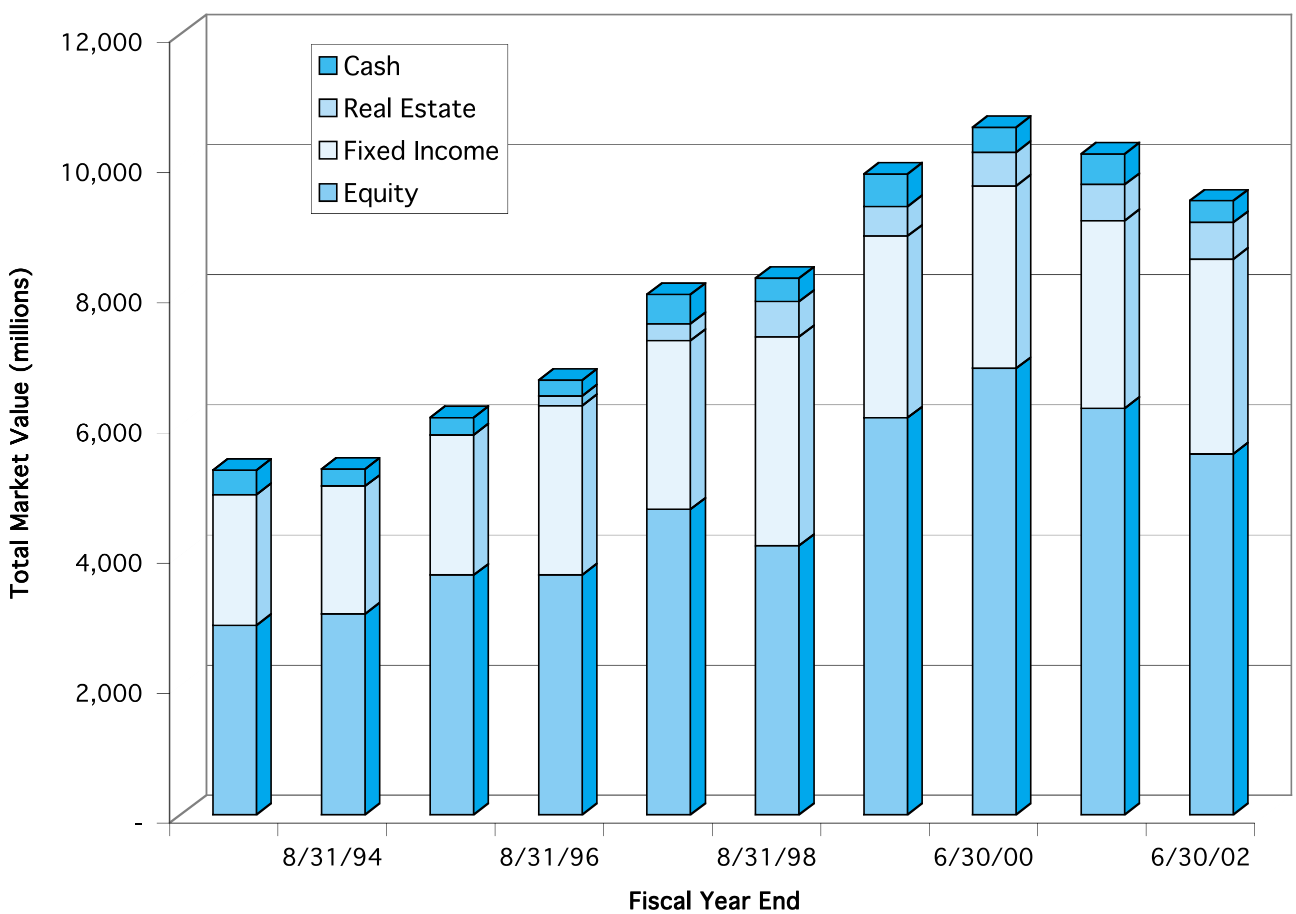


* in millions

Note: Percentage indicates actual category weight as a percentage of the entire portfolio.

HISTORICAL ASSET ALLOCATION

	1998		1999		2000		2001		2002	
	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)
Equity:										
Domestic	42.6	41.0	52.2	51.0	53.4	51.0	48.8	48.5	44.9	48.5
International	7.5	10.0	8.0	10.0	9.2	10.0	9.8	12.5	10.6	12.5
Public REITs	1.8	2.0	1.6	2.0	1.6	2.0	2.0	2.0	2.5	2.0
Private Equity	0.0	0.0	0.1	2.0	0.7	2.0	0.9	2.0	0.9	2.0
Total Equity	**51.9**	**53.0**	**61.9**	**65.0**	**64.9**	**65.0**	**61.5**	**65.0**	**58.9**	**65.0**
Fixed Income	**39.0**	**40.0**	**28.4**	**28.0**	**26.5**	**28.0**	**28.4**	**28.0**	**31.7**	**28.0**
Real Estate	**4.8**	**5.0**	**4.6**	**5.0**	**4.9**	**5.0**	**5.5**	**5.0**	**5.9**	**5.0**
Cash & Equiv.	**4.3**	**2.0**	**5.1**	**2.0**	**3.7**	**2.0**	**4.6**	**2.0**	**3.5**	**2.0**
Total Portfolio	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**



DOMESTIC EQUITY SUMMARY
As of June 30, 2002

Economic Sector Holdings

S&P Economic Sector	Number of Shares	Market Value ($)	Fund Allocation	S&P 500 Index Allocation
Finance	15,806,768	658,427,791	19.8%	20.5%
Technology	23,190,087	517,417,741	15.5	15.1
Consumer Services	17,101,789	479,753,924	14.4	11.7
Health Services	13,272,116	466,421,695	14.0	13.0
Consumer Non-Durables	8,816,985	292,502,565	8.8	10.1
Energy	7,442,277	266,678,568	8.0	7.8
Utilities	8,781,838	204,724,636	6.1	6.9
Capital Goods	6,659,832	192,190,311	5.8	7.1
Basic Industry	3,158,752	112,267,181	3.4	3.8
Consumer Durables	2,949,999	96,330,385	2.9	3.1
Transportation	1,462,061	43,751,932	1.3	0.9
Total Classified Equities	**108,642,504**	**3,330,466,729**	**100.0%**	**100.0%**
Commingled Funds	20,420,866	901,928,856		
Non-Classified	25	2,729,137		
Total Domestic Equity	**129,063,395**	**4,235,124,722**		

Top 10 Domestic Equity Holdings (excludes Commingled Funds)

Description	Number of Shares	Market Value ($)	Percentage of Total
Microsoft Corp.	1,541,909	84,342,422	1.99%
Pfizer, Inc.	1,977,033	69,196,155	1.63
Exxon Mobil Corp.	1,587,908	64,977,195	1.53
General Electric Co.	1,960,975	56,966,324	1.35
Citigroup, Inc.	1,263,122	48,945,978	1.16
American International Group	690,275	47,097,463	1.11
Johnson & Johnson	798,933	41,752,239	0.99
Wal-Mart Stores	726,850	39,984,019	0.94
Lockheed Martin Corp.	561,030	38,991,585	0.92
Intel Corp.	2,076,573	37,938,989	0.90
Total Top 10 Domestic Equity	**13,184,608**	**530,192,369**	**12.52**
Total Domestic Equity		**4,235,124,722**	**100.00%**

* A complete list of the portfolio holdings at 6/30/02 is available at the Pension Fund office.

INTERNATIONAL EQUITY SUMMARY
As of June 30, 2002

Country Holdings	Number of Shares	Market Value ($)	Fund Allocation	MSCI EAFE Index Allocation
Europe				
United Kingdom	42,932,944	235,336,934	27.7%	26.6%
France	1,728,522	97,279,519	11.4	9.6
Netherlands	3,742,967	81,914,738	9.7	6.0
Switzerland	1,105,965	71,118,901	8.4	8.1
Germany	971,584	39,399,162	4.6	7.1
Italy	3,869,288	36,140,011	4.3	3.6
Spain	1,638,435	22,099,229	2.6	3.0
Finland	816,900	13,405,236	1.6	1.7
Other	3,049,875	27,996,391	3.3	5.7
Total Europe	**59,856,480**	**624,690,121**	**73.6**	**71.4**
Asia / Pacific Basin				
Japan	14,169,718	181,244,690	21.3	21.8
South Korea	140,247	12,806,452	1.5	0.0
Australia	3,233,042	11,563,872	1.4	4.2
Other	2,365,538	11,143,604	1.3	2.5
Total Asia / Pacific Basin	**19,908,545**	**216,758,618**	**25.5**	**28.5**
Americas				
Canada	175,796	3,906,705	0.4	0.1
Bermuda	1,143,851	1,841,600	0.2	0.0
Mexico	731,717	1,288,258	0.2	0.0
Brazil	70,500	741,556	0.1	0.0
Total Americas	**2,121,864**	**7,778,119**	**0.9**	**0.1**
Total Classified Intl. Equity	**81,886,889**	**849,226,858**	**100.0%**	**100.0%**
Commingled Funds	12,087,071	138,846,830		
Total International Equity	**93,973,960**	**988,073,688**		

Top 10 International Equity Holdings (excludes Commingled Funds)

Description	Number of Shares	Market Value ($)	Percentage of Total
Glaxosmithkline (United Kingdom)	1,201,760	25,974,693	2.63%
Novartis AG (Switzerland)	506,571	22,277,891	2.25
Total Fina Elf (France)	128,012	20,784,124	2.10
Royal Dutch Petrol (Netherlands)	345,040	19,218,867	1.95
Vodafone Group PLC (United Kingdom)	13,339,329	18,299,235	1.85
BP ORD (United Kingdom)	2,117,672	17,785,527	1.80
ENI (Italy)	1,040,310	16,541,233	1.67
Aventis SA (France)	232,800	16,496,208	1.67
Nestle SA (Switzerland)	67,034	15,629,631	1.58
Toyota Motor Corp. (Japan)	536,200	14,225,897	1.44
Total Top 10 International Equity	**19,514,728**	**187,233,306**	**18.94**
Total International Equity		**988,073,688**	**100.00%**

* A complete list of the portfolio holdings at 6/30/02 is available at the Pension Fund office.

FIXED INCOME SUMMARY
As of June 30, 2002

Fixed Income Holdings

Asset Category	Market Value ($)	Fund Allocation	Lehman Aggregate Index Allocation
Corporate Bonds	1,018,788,331	36.9%	22.5%
Government Bonds	779,293,966	28.2	21.0
Government Agencies	393,220,908	14.2	12.4
Government Mortgage Backed Securities	389,062,980	14.1	36.4
Asset Backed Securities	131,121,410	4.8	1.7
Non-Government Backed C.M.O.s	40,162,021	1.5	0.0
Municipal/Provincial Bonds	7,218,615	0.3	0.0
Other	—	0.0	6.0
Total Classified Fixed Income	**2,758,868,231**	**100.0%**	**100.0%**
Commingled Funds	236,493,147		
Total Fixed Income	**2,995,361,378**		

REAL ESTATE SUMMARY
As of June 30, 2002

Real Estate Holdings

Description	Number of Shares	Market Value ($)	Percentage of Total
JP Morgan - Strategic Property Fund	102,637	86,977,570	15.5%
TimesSquare RE	17,033	84,946,109	15.2
Prudential PRISA I Real Estate Fund	4,723	82,787,894	14.8
UBS Asset Management	61,272,380	82,675,901	14.7
RREEF America REIT	648,720	61,262,007	11.0
Olympus Real Estate Fund II	23,291,288	28,207,237	5.1
JP Morgan - Special Situation Property Fund	27,997	22,547,289	4.0
Prudential PRISA II Real Estate Fund	2,184	21,308,329	3.8
Capital Associates	20,003,181	21,143,406	3.7
Walton Street Real Estate Fund II	15,810,256	18,665,346	3.3
Lend Lease RE Investments	20,194,764	17,326,145	3.1
Blackstone RE Partners	14,405,781	15,686,710	2.8
Walton Street Real Estate Fund III	10,747,297	11,538,172	2.1
Walton Street Real Estate Fund I	4,177,503	4,681,602	0.9
Total Real Estate	**170,705,744**	**559,753,717**	**100.0%**

* A complete list of the portfolio holdings at 6/30/02 is available at the Pension Fund office.

PRIVATE EQUITY SUMMARY
As of June 30, 2002

Private Equity Holdings

Description	Number of Shares	Market Value ($)	Percentage of Total
Mesirow Partnership Fund I	19,581,709	17,082,597	19.7%
Pantheon Venture Fund III	22,511,685	16,705,968	19.3
Harbourvest Partners VI-Buyout	13,603,910	12,968,071	15.0
Harbourvest Partners VI-Partnership	13,078,954	10,092,070	11.7
Brinson Partnership - 1998 Primary Fund	6,651,746	6,245,771	7.2
Pantheon USA Fund IV	6,295,413	6,016,765	7.0
Brinson Partnership - 2000 Primary Fund	3,780,903	3,184,514	3.7
Pantheon Europe Fund	2,826,380	2,901,371	3.4
Brinson Partnership - 1999 Primary Fund	3,287,220	2,681,328	3.1
Mesirow Partnership Fund II	2,157,629	2,091,738	2.4
Brinson Partnership - 2001 Primary Fund	2,060,896	1,945,144	2.3
Brinson Partnership - 1996 Fund	1,191,670	1,352,472	1.6
Mesirow Capital Partners VIII	923,880	1,048,045	1.2
Brinson Partnership - 2002 Primary Fund	760,203	762,861	0.9
Brinson Partnership - 1997 Primary Fund	449,797	469,747	0.5
Brinson Non US Partnership - 2001	352,944	338,051	0.4
Brinson Partnership - 2002 Secondary Fund	222,840	222,840	0.3
Brinson Non US Partnership - 2002	149,518	149,518	0.2
Brinson Partnership - 1998 Secondary Fund	51,300	135,197	0.1
Total Private Equity	**99,938,597**	**86,394,068**	**100.0%**

* A complete list of the portfolio holdings at 6/30/02 is available at the Pension Fund office.

MANAGER ANALYSIS

Asset Category	Fair Value 06/30/02	Percentage of Portfolio	F.Y. 2002 Manager Fees
EQUITY			
Domestic			
Ariel Capital Management	$ 249,804,193	2.68%	$ 708,488
Dimensional Fund Advisors, Inc.	131,520,264	1.41	568,465
Fidelity Management Trust Co.	389,054,438	4.17	1,424,550
Harris Investment Management, Inc.	269,473,689	2.89	632,747
Holland Capital Management	40,341,443	0.43	172,648
Iridian Asset Management, LLC	108,607,373	1.16	781,455
J. & W. Seligman & Co., Inc.	220,820,683	2.37	977,720
New Amsterdam Partners	122,093,412	1.31	379,445
Northern Trust Global Investment (NTGI)	1,938,194,674	20.77	454,026
Oppenheimer Capital	91,394,450	0.98	358,408
UBS Global Asset Management	232,346,482	2.49	770,465
Waddell & Reed Investment Management Co.	430,131,712	4.61	640,756
William Blair & Co.	111,791,481	1.20	619,640
Zevenbergen Capital, Inc.	37,688,525	0.40	316,098
Total	**4,373,262,819**	**46.86**	**8,804,911**
International Equity			
Deutsche Asset Management	313,160,581	3.36	1,336,187
Lazard Asset Management	259,852,238	2.78	701,350
Morgan Stanley Investments, L.P.	443,880,192	4.76	1,847,098
Total	**1,016,893,011**	**10.90**	**3,884,635**
Public REITS			
LaSalle Investment Management	117,265,791	1.26	516,625
Morgan Stanley Investments, L.P.	124,066,969	1.33	739,098
Total	**241,332,760**	**2.59**	**1,255,723**
Private Equity			
Adams Street Partners, LLC	17,487,443	0.19	861,668
HarbourVest Partners, LLC	24,001,298	0.26	1,006,287
Mesirow Financial, Inc.	20,222,537	0.22	774,732
Pantheon Ventures, Inc.	25,624,103	0.27	358,129
Total	**87,335,381**	**0.94**	**3,000,816**
TOTAL EQUITY	**$5,718,823,971**	**61.28%**	**$16,946,085**

Notes:

Fair value includes accrual income and trades payable and receivable.

N/A applies to accounts for which the Fund does not pay manager fees.

MANAGER ANALYSIS (continued)

Asset Category	Fair Value 06/30/02	Percentage of Portfolio	F.Y. 2002 Manager Fees
FIXED INCOME			
Banc of America	$ 104,477,159	1.12%	$ 161,690
Internal	6,039,773	0.06	N/A
Lincoln Capital Management Co.	514,202,251	5.51	273,768
MDL Capital Management, Inc.	53,057,647	0.57	88,965
Morgan Stanley Investments, L.P.	340,444,171	3.65	580,033
Northern Trust Global Investment (NTGI)	1,538,984,588	16.49	157,792
Smith Graham & Co.	64,640,823	0.69	158,924
Wellington Management Co., LLP	342,072,509	3.67	701,132
Total	**2,963,918,921**	**31.76**	**2,122,304**
REAL ESTATE			
The Blackstone Group, L.P.	15,686,710	0.17	225,624
Capri/Capital Advisors, LLC	21,143,406	0.23	168,203
JP Morgan Fleming	109,524,860	1.17	1,238,019
Lend Lease Real Estate Investments	17,326,364	0.19	198,915
Olympus Real Estate Corp.	28,207,237	0.30	289,313
Prudential Financial	104,095,986	1.12	989,605
RREEF America Reit, Inc.	61,262,007	0.66	516,970
TimesSquare Real Estate Investors	84,946,109	0.91	792,785
UBS Realty Investors, LLC	82,675,901	0.89	767,344
Walton Street Real Estate, L.P.	34,885,120	0.37	414,649
Total	**559,753,700**	**6.00**	**5,601,427**
CASH EQUIVALENT			
The Northern Trust Co.	90,194,145	0.97	N/A
Terminated Managers	—	0.00	573,087
TOTAL MANAGER FEES	**$9,332,690,737**	**100.00%**	**$25,242,903**

Notes:

Fair value includes accrual income and trades payable and receivable.

N/A applies to accounts for which the Fund does not pay managers fees.

BROKER COMMISSION REPORT
Domestic Agency Trades
For the year ended June 30, 2002

Broker Name	Number of Shares	Transaction Amount ($)	Commissions Paid ($)	Commission Per Share (cents)
Berean Capital, Inc.	6,280,141	171,586,115	306,336	4.9
Citation Group	4,716,476	163,659,514	234,330	5.0
Merrill Lynch Pierce Fenner & Smith	3,308,705	78,283,126	163,288	4.9
Instinet	5,392,429	143,245,926	159,233	3.0
Lehman Brothers, Inc.	3,128,414	84,589,000	158,552	5.1
Loop Capital Markets	3,112,999	108,459,427	146,013	4.7
Goldman Sachs & Co.	2,865,778	80,182,353	143,577	5.0
Gardner Rich & Co.	2,963,497	97,260,342	141,906	4.8
Correspondent Services Corp.	2,570,141	77,486,320	121,197	4.7
Bear Stearns	2,912,290	96,575,178	119,340	4.1
Lynch Jones & Ryan	1,865,183	51,992,185	88,890	4.8
Smith Barney, Inc.	1,782,723	46,617,026	88,047	4.9
First Boston Corp.	1,774,386	42,889,649	87,260	4.9
Mesirow Financial, Inc.	1,606,662	51,891,849	78,369	4.9
Morgan Stanley & Co.	1,496,135	41,951,960	70,850	4.7
Deutsche Bank Securities, Inc.	1,266,500	37,400,462	63,976	5.1
UBS Warburg Dillon Reed	1,275,069	30,332,473	63,328	5.0
Prudential Securities, Inc.	1,208,905	36,496,150	60,250	5.0
Bernstein, Sanford C. & Co.	1,167,603	44,433,468	59,766	5.1
First Union Capital Markets	1,095,506	28,904,639	55,467	5.1
Montgomery Securities	1,093,600	31,807,626	54,995	5.0
SG Cowen & Co.	1,049,500	29,678,110	53,924	5.1
BNY Clearing Services	1,181,400	43,700,934	52,944	4.5
Weeden & Co.	963,050	25,698,881	50,269	5.2
Jefferies & Co.	993,535	27,153,524	47,905	4.8
Robertson Stephens & Co.	930,031	30,689,787	46,313	5.0
Investment Technology Group	1,969,172	56,532,396	40,516	2.1
M. Ramsey King Securities	741,200	22,551,911	34,665	4.7
Blair, William & Co.	629,925	9,538,643	31,556	5.0
JP Morgan Securities	624,090	18,429,785	31,289	5.0
Bank of America Securities	597,950	19,277,911	30,088	5.0
Oppenheimer & Co.	615,410	13,659,521	27,811	4.5
Bridge Trading Company	468,850	17,032,250	23,443	5.0
Lazard Freres & Co.	457,300	13,816,783	23,168	5.1
Legg Mason Wood Walker, Inc.	458,600	12,097,360	22,930	5.0
Robert W. Baird & Co.	414,010	8,336,256	20,844	5.0
Abel Noser Corp.	1,284,414	41,821,610	19,118	1.5
Broadcort Capital Corp.	395,600	7,240,940	19,105	4.8
Green Street Advisors, Inc.	357,800	9,428,268	17,890	5.0
ABN AMRO Securities	318,100	9,418,103	16,949	5.3
Donaldson Lufkin & Jenrette Securities	325,900	9,939,905	16,796	5.2
Thomas Weisel Partners	316,010	8,247,815	16,092	5.1
Fidelity Capital Markets	307,950	9,893,978	15,398	5.0
Others Paid < $15,000 (107 Brokers)	7,915,380	226,581,899	370,181	4.7
GRAND TOTAL	**76,198,319**	**2,216,811,358**	**3,494,164**	**4.6**

BROKER COMMISSION REPORT
International Agency Trades
For the year ended June 30, 2002

Broker Name	Number of Shares	Transaction Amount ($)	Commissions Paid ($)	Commission Per Share (cents)
Merrill Lynch & Co.	21,776,422	242,142,921	454,857	2.1
Credit Suisse First Boston	7,201,370	92,597,508	176,227	2.4
Salomon Smith Barney	8,632,190	92,570,268	133,149	1.5
JP Morgan Securities	5,260,248	55,362,957	107,946	2.1
Lehman Brothers, Inc.	6,177,335	57,615,228	106,517	1.7
Morgan Stanley & Co.	5,827,924	69,236,017	104,333	1.8
HSBC Securities	5,109,765	60,245,164	98,171	1.9
Deutsche Bank Securities, Inc.	5,059,438	48,969,234	97,949	1.9
Goldman Sachs & Co.	4,078,002	54,336,777	92,817	2.3
UBS AG London	3,450,911	32,728,920	74,908	2.2
Bear Stearns	2,282,500	27,838,111	53,601	2.3
Cazenove & Co.	3,104,309	24,904,897	45,368	1.5
SBC Warburg Dillon Reed	936,374	22,859,741	39,063	4.2
Instinet	2,089,511	19,660,002	37,039	1.8
Morgan Grenfell & Co.	1,348,905	17,913,648	36,467	2.7
Kleinwort Benson Securities	2,531,874	22,619,301	34,958	1.4
Nomura International	1,446,730	18,705,371	31,479	2.2
ABN AMRO Securities	1,360,684	14,655,351	28,415	2.1
Bank of America	1,605,665	11,004,795	20,795	1.3
UBS Warburg	714,879	13,187,497	19,357	2.7
Credit Lyonnais	1,248,114	6,010,546	15,918	1.3
Others Paid < $15,000 (64 Brokers)	13,307,204	122,723,335	232,692	1.7
GRAND TOTAL	**104,550,354**	**1,127,887,589**	**2,042,026**	**2.0**

Directed Commissions Program
For the year ended June 30, 2002

Directed Commissions	Commission ($)
Directed to Chicago Based Minority & Woman Business - Domestic	567,357
Directed to Chicago Based Minority & Woman Business - International	25,151
Directed to Non-Local Based Minority & Woman Business - International	357,341
Directed to Commission recapture program - Domestic	627,402
Recaptured Commissions - Domestic	(372,375)
Directed to Commission recapture program - International	162,649
Recaptured Commissions - Domestic - International	(101,656)
Net Commission Recapture Fees	**316,020**

INVESTMENT AUTHORITY
ILLINOIS PENSION CODE

SECTION 5/17-146. TO MAKE INVESTMENTS

To make investments. To invest the monies of the Fund, subject to the requirements and restrictions set forth in this Article and in Sections 1-109, 1-109.1, 1-109.2, 1-110, 1-111, 1-114 and 1-115. No bank or savings and loan association shall receive investment funds as permitted by this Section, unless it has complied with the requirements established pursuant to Section 6 of the Public Funds Investment Act. Those requirements shall be applicable only at the time of investment and shall not require the liquidation of any investment at any time.

The Board of Trustees shall have the authority to enter into any agreements and to execute any documents that it determines to be necessary to complete any investment transaction.

All investments shall be clearly held and accounted for to indicate ownership by the Fund. The Board of Trustees may direct the registration of securities or the holding of interests in real property in the name of the Fund or in the name of a nominee created for the express purpose of registering securities or holding interests in real property by a national or state bank or trust company authorized to conduct a trust business in the State of Illinois. The Board of Trustees may hold title to interests in real property in the name of the Fund or in the name of a title holding corporation created for the express purpose of holding title to interests in real property.

Investments shall be carried at cost or at a value determined in accordance with generally accepted accounting principles and accounting procedures approved by the Board of Trustees.

The value of investments held by the Fund in one or more commingled investment accounts shall be determined in accordance with generally accepted accounting principles.

The Board of Trustees of any Fund established under this Article may not transfer its investment authority, nor transfer the assets of the Fund to any other person or entity for the purpose of consolidating or merging its assets and management with any other pension fund or public investment authority, unless the Board of Trustees resolution authorizing such transfer is submitted for approval to the contributors and pensioners of the Fund at elections held not less than 30 days after the adoption of such resolution by the Board of Trustees, and such resolution is approved by a majority of the votes cast on the question in both the contributors election and the pensioners election. The election procedures and qualifications governing the election of trustees shall govern the submission of resolutions for approval under this paragraph, insofar as they may be made applicable.

SECTION 5/17-146.2. TO LEND SECURITIES

To lend securities. The Board of Trustees may lend securities owned by the Fund to a borrower upon such written terms and conditions as may be mutually agreed. The agreement shall provide that during the period of the loan the Fund (or the custodian of the Fund, or agent thereof, as applicable) shall retain the right to receive or collect from the borrower all dividends, interest and distributions to which the Fund would have otherwise been entitled. The borrower shall deposit with the Fund collateral for the loan equal to the market value of the securities at the time the loan is made, and shall increase the amount of collateral if the Board of Trustees requests an additional amount because of subsequent increased market value of the securities. The Board of Trustees may accept from the borrower cash collateral or collateral consisting of assets described in Section 1-113 of this Act. To the extent that the Fund participates in a securities lending program established and maintained by (1) a national or State bank which is authorized to do business in the State of Illinois, or (2) an investment manager, the Board of Trustees may accept collateral consisting of an undivided interest in a pool of commingled collateral that has been established by the bank or investment manager for the purpose of pooling collateral received for the loans of securities owned by substantially all of the participants in such bank's or investment manager's securities lending program. Nothing in Sections 1-109, 1-110 or 1-113 of this Act shall be construed to prohibit the Fund's lending of securities in accordance with this Section.

SECTION 5/17-147. CUSTODY OF FUND-BONDS-LEGAL PROCEEDINGS

Custody of fund-Bonds-Legal proceedings. The city treasurer, ex-officio, shall be the custodian of the fund, and shall secure and safely keep it, subject to the control and direction of the Board of Trustees. He shall keep his books and accounts concerning the Fund in the manner prescribed by the Board of Trustees. The books and accounts shall always be subject to the inspection of the Board of Trustees or any member thereof. The city treasurer shall be liable on his official bond for the proper performance of his duties and the conservation of the Fund.

Payments from the Fund shall be made upon warrants signed by the president and the secretary of the Board of Education, the president of the Board of Trustees, and countersigned by the executive director or by such person as the Board of Trustees may designate from time to time by appropriate resolution.

Neither the treasurer nor any other officer having the custody of the Fund is entitled to retain any interest accruing thereon, but such interest shall accrue and inure to the benefit of such Fund, become a part thereof, subject to the purposes of this Article.

Any legal proceedings necessary for the enforcement of the provisions of this Article shall be brought by and in the name of the Board of Trustees of the Fund.

Actuarial Section

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

29 SOUTH LaSALLE STREET SUITE 735
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December 12, 2002

Board of Trustees
Public School Teachers' Pension
and Retirement Fund of Chicago
55 West Wacker Drive - 13th Floor
Chicago, Illinois 60601-1613

ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the Public School Teachers' Pension and Retirement Fund of Chicago (the Fund) as of June 30, 2002. The purpose of the valuation was to determine the financial condition and funding requirements of the Fund.

Since the effective date of the last actuarial valuation, Public Act 92-0416, effective August 17, 2001 and Public Act 92-0599, effective June 28, 2002, have made certain changes in the benefit provisions of the Fund. The major benefit changes which had an impact on the results of the valuation were as follows: (1) For teachers who retired under the 1993 Early Retirement Incentive Program, an additional year of service credit and an additional year of age enhancement was provided; (2) the requirement that a surviving spouse be married for 1 1/2 years prior to a member's death or retirement to be eligible for survivor benefits was removed, and instead, the member is required to be married to the surviving spouse for 1 year prior to the member's death; and (3) provides that surviving spouses may marry at any age without forfeiting the survivor's annuity. We have estimated that these benefit changes had the impact of increasing the Fund's total actuarial liability by $71,343,528.

Under the funding plan established by Public Act 89-15, the minimum contribution to the Fund by the Board of Education shall be an amount determined by the Fund to be sufficient to bring the total assets of the Fund up to 90% of the total actuarial liabilities by the end of fiscal year 2045. The required Board of Education contribution is to be calculated as a level percent of payroll over the years through 2045. For fiscal years 1999 through 2010, the Board of Education's contribution, as a percentage of the applicable payroll, is to be increased in equal annual increments so that by Fiscal Year 2011, the Board of Education is contributing at the required rate.

Public Act 90-548, signed into law on December 4, 1997 revised the above funding plan to provide that the Board of Education contribution shall not be in excess of the amounted needed to maintain the ratio of assets to total actuarial liability at the 90% level.

Based on the results of the June 30, 2002 actuarial valuation, the ratio of the actuarial value of assets to the total actuarial liability as of June 30, 2004 is projected to be 85.7%. Thus, on the basis of the funding plan established by Public Act 89-15 as revised by Public Act 90-548, we have calculated the Board of Education contribution requirement for Fiscal Year 2004 to be $28,400,000.

The principal actuarial assumptions used for the June 30, 2002 actuarial valuation were based on an experience analysis of the Fund over the three-year period 1997-1999 and were adopted as of June 30, 2000. The assumption regarding the percent of members married has been change from 75% to 80% to reflect the changes in the law regarding eligibility for survivor benefits. All other actuarial assumptions used for the June 30, 2002 valuation are the same as the assumptions that were used for the June 30, 2001 valuation. The projected unit credit actuarial cost method was used for the June 30, 2002 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2001 valuation. This cost method was adopted as of August 31, 1991.

The funding plan currently in effect does not meet the requirements for amortizing the unfunded liability provided under GASB Statement No. 25. In all other respects, the assumptions and methods used for funding purposes meet the parameters set forth for the disclosures presented in the financial section by GASB Statement No. 25.

The asset values used for the valuation were based on the asset information contained in the audited financial statements prepared by the Fund. For purposes of the actuarial valuation, a 4-year smoothed market value of assets was used to determine the actuarial value of assets. The valuation has been based on the membership data, which was supplied by the administrative staff of the Fund. We have made additional tests to ensure its accuracy.

The trend data schedules presented in the financial section of the Comprehensive Annual Financial Report (CAFR) were prepared by the staff of the Fund based on information contained in our actuarial reports. All exhibits, tables, schedules, and appendices included in the accompanying actuarial section were prepared by us based on information provided by the Fund.

In our opinion, the following valuation results fairly represent the financial condition of the Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2002.

Respectfully submitted,

Sandor Goldstein

Sandor Goldstein, F.S.A.
Consulting Actuary

Carl J. Smedinghoff

Carl J. Smedinghoff, A.S.A.
Associate Actuary

Actuarial Report

A. PURPOSE AND SUMMARY

We have carried out an actuarial valuation of the Public School Teachers' Pension and Retirement Fund of Chicago (the Fund) as of June 30, 2002. The purpose of the valuation was to determine the financial position and funding requirements of the Fund. This report is intended to present the results of the valuation. The results of the valuation are summarized below:

1. Total Actuarial Liability	$ 11,025,482,210
2. Actuarial Value of Assets	10,619,061,458
3. Unfunded Actuarial Liability	406,420,752
4. Funded Ratio	96.3%
5. Employer's Normal Cost for FY 03 as a percent of payroll	8.16%
6. Annual Required Contribution for FY 03 Based on GASB Statement No. 25	160,195,509
7. Board of Education Contribution Requirement For FY 04 Based on Public Act 89-15 and Public Act 90-548	28,400,000

B. DATA USED FOR THE VALUATION

Participant Data. The participant data required to carry out the valuation was supplied by the Fund. The membership of the Fund as of June 30, 2002, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 37,374 active contributors, 17,867 pensioners, and 1,552 vested terminated members included in the valuation. The total active payroll as of June 30, 2002 was $1,759,045,853.

Exhibit 1

Summary of Membership Data

1. Number of Members

(a) Active Members

(i)	Vested Board of Education Employees	23,199
(ii)	Non-vested Board of Education Employees	13,490
(iii)	Vested Charter School Employees	97
(iv)	Non-vested Charter School Employees	588
(v)	**Total Active Members**	37,374

(b) Members Receiving	
(i) Retirement Pensions	15,313
(ii) Disability Pensions	364
(iii) Survivor Pensions	2,117
(iv) Reversionary Pensions	73
(v) Total Pensioners	17,867
(c) Vested Terminated Members	1,552
(d) Total	56,793

2. Annual Salaries

(a) Salary for Board of Education Employees	$1,734,216,412
(b) Salary for Charter School Employees	24,829,441
(c) Total Salary	$1,759,045,853
(d) Average Salary	47,066

3. Total Accumulated Contributions of Active Members	$1,227,035,375

4. Annual Benefit Payments Currently Being Made

(a) Retirement Pensions	$470,430,426
(b) Disability Pensions	7,571,076
(c) Survivor Pensions	22,958,292
(d) Reversionary Pensions	559,706
(e) Total Pensions	$501,519,500

Assets. In November of 1994, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 25, which establishes standards of financial reporting for governmental pension plans. The statement is effective for periods beginning after June 15, 1996. Under GASB Statement No. 25, the actuarial value of assets to be used for determining a plan's funded status and annual required contribution needs to be market related. In determining the actuarial value of assets, smoothing changes in the market value of assets over a period of three to five years is considered to be appropriate.

The asset values used for the valuation were based on the asset information contained in the audited financial statements for the year ending June 30, 2002 prepared by the Fund. The actuarial value of assets was determined by smoothing unexpected gains or losses over a period of 4 years.

The resulting actuarial value of assets is $10,619,061,458. The development of this actuarial value of assets is outlined in Exhibit 2.

Exhibit 2

Actuarial Value of Assets

A. Development of Investment Gain / (Loss) For Year Ending June 30, 2002

1. Actuarial Value of Assets as of 6 / 30 / 01	$10,387,568,945
2. Employer Contributions	12,634,368
3. Employee Contributions	145,498,027
4. Expenses	577,903,938
5. Expected Investment Income	814,537,675
6. Actual Investment Income	(371,820,584)
7. Investment Gain / (Loss) (6 – 5)	$(1,186,358,259)

B. Development of Actuarial Value of Assets

8. Expected Actuarial Value of Assets as of June 30, 2002 (1 + 2 + 3 – 4 + 5)	$10,782,335,077
9. One-fourth of Investment Gain / (Loss) For Year Ending August 31, 1999	305,328,710
10. One-fourth of Investment Gain / (Loss) For Year Ending June 30, 2000	65,310,416
11. One-fourth of Investment Gain / (Loss) For Year Ending June 30, 2001	(237,323,180)
12. One-fourth of Investment Gain / (Loss) For Year Ending June 30, 2002	(296,589,565)
13. Actuarial Value of Assets as of June 30, 2002 (8+9+10+11+12)	$10,619,061,458

C. FUND PROVISIONS

Our valuation was based on the provisions of the Fund in effect as of June 30, 2002 as provided in Article 17 of the Illinois Pension Code. Since the effective date of our last actuarial valuation, Public Act 92-0416, effective August 17, 2001, and Public Act 92-0599, effective June 28, 2002, made certain changes in the benefit provisions of the Fund. The major benefit changes which had an impact on the results of our actuarial valuation were as follows: (1) For teachers who retired under the 1993 Early Retirement Incentive Program, an additional year of service credit and an additional year of age enhancement was provided; (2) the requirement that a surviving spouse be married for 1 1/2 years prior to a member's death or retirement to be eligible for survivor benefits was removed, and instead, the member is required to be married to the surviving spouse for 1 year prior to the member's death; and (3) provides that surviving spouses may marry at any age without forfeiting the survivor's annuity.

A summary of the principal provisions of the Fund on which the valuation was based is provided in Appendix 2.

D. ACTUARIAL ASSUMPTIONS AND COST METHOD

The principal actuarial assumptions used for the June 30, 2002 actuarial valuation are the same as those used for the June 30, 2001 valuation. The assumption regarding the percent married has been changed from 75% to 80%. This change was made to take into account recent changes in the law regarding eligibility for survivor benefits. The actuarial assumptions used for the June 30, 2002 valuation are outlined in Appendix 1. In our opinion, the actuarial assumptions used for the valuation are reasonable, in the aggregate, taking into account Fund experience and future expectations and represent our best estimate of anticipated experience.

The projected unit credit actuarial cost method was used for the June 30, 2002 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2001 valuation.

E. ACTUARIAL LIABILITY

The actuarial liability as determined under the valuation for the various classes of members is summarized in Exhibit 3. The total actuarial liability is then compared with the actuarial value of assets in order to arrive at the unfunded actuarial liability.

As of June 30, 2002, the total actuarial liability is $11,025,482,210, the actuarial value of assets is $10,619,061,458, and the unfunded liability is $406,420,752. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 96.3%.

Exhibit 3

Actuarial Liability as of June 30, 2002

1. Actuarial Liability for Active Members	
(a) Basic Retirement Annuity	$3,547,585,473
(b) Post Retirement Increase	928,342,894
(c) Lump Sum Death Benefit	12,137,462
(d) Survivor's Pension	377,209,337
(e) Disability Pension	63,490,868
(f) Withdrawal Benefit	161,627,694
(g) Total	$5,090,393,728

2.	**Actuarial Liability Members Receiving Benefits**	
	(a) Retirement Pensions	$ 5,493,664,257
	(b) Survivor Pensions	235,896,358
	(c) Disability Pensions	100,167,920
	(d) Total	$ 5,829,728,535
3.	**Actuarial Liability for Inactive Members**	$ 105,359,947
4.	**Total Actuarial Liability**	$11,025,482,210
5.	**Actuarial Value of Assets**	$10,619,061,458
6.	**Unfunded Actuarial Liability**	$406,420,752
7.	**Funded Ratio**	96.3%

Estimate of Impact of Benefit Changes. We have estimated that the benefit changes enacted under Public Act 92-0416 and Public Act 92-0599 had the impact of increasing the Fund's total actuarial liability by $71,343,528.

F. EMPLOYER'S NORMAL COST

The employer's share of the normal cost for the year beginning July 1, 2002 is developed in Exhibit 4. The total normal cost is $301,833,184; employee contributions are estimated to be $158,314,127, resulting in the employer's share of the normal cost of $143,519,057.

Based on a payroll of $1,759,045,853 as of June 30, 2002, the employer's share of the normal cost can be expressed as 8.16% of payroll.

Exhibit 4

Employer's Normal Cost For Year Beginning July 1, 2001

		Dollar Amount	Percent Of Payroll
1.	**Basic Retirement Pension**	$ 196,137,677	11.15%
2.	**Post Retirement Increases**	51,624,967	2.94
3.	**Lump Sum Death Benefits**	961,835	.05
4.	**Survivor's Pension**	23,232,427	1.32

5.	**Disability Benefits**	4,249,498	.24
6.	**Withdrawal Benefits**	19,999,699	1.14
8.	**Administrative Expenses**	5,627,081	.32
9.	**Total Normal Cost**	$ 301,833,184	17.16%
10.	**Employee Contributions**	158,314,127	9.00
11.	**Employer's Share of Normal Cost**	$ 143,519,057	8.16%

Note. The above figures are based on a total active payroll of $1,759,045,853 as of June 30, 2002.

G. BOARD OF EDUCATION CONTRIBUTION REQUIREMENT FOR FISCAL YEAR 2004

Under the funding plan established by Public Act 89-15, the minimum contribution to the Fund by the Board of Education shall be an amount determined by the Fund to be sufficient to bring the total assets of the Fund up to 90% of the total actuarial liabilities by the end of fiscal year 2045. The required Board of Education contribution is to be calculated as a level percent of payroll over the years through 2045. For fiscal years 2000 through 2010, the Board of Education's contribution, as a percentage of the applicable payroll, is to be increased in equal annual increments so that by Fiscal Year 2011, the Board of Education is contributing at the required rate.

Public Act 90-548, signed into law on December 4, 1997 revised the above funding plan to provide that the Board of Education contribution shall not be in excess of the amounted needed to maintain the ratio of assets to total actuarial liability at the 90% level.

As of June 30, 2002, the ratio of the actuarial value of assets to the total actuarial liability is 96.3%. Using the results of the June 30, 2002 valuation as a starting point and assuming no Board of Education contribution in Fiscal Year 2003, we have projected the ratio of the actuarial value of assets to the total actuarial liability as of June 30, 2004 to be 85.7%. Thus, on the basis of the funding plan established by Public Act 89-15 as revised by Public Act 90-548, we have calculated the Board of Education contribution requirement for Fiscal Year 2004 to be approximately $28.4 million. The Fund is required to communicate the actual contribution requirement for fiscal year 2004 by February 28, 2003.

H. ANNUAL REQUIRED CONTRIBUTION FOR GASB STATEMENT NO. 25

GASB Statement No. 25 requires the disclosure of the annual required employer contribution (ARC), calculated in accordance with certain parameters. Based on the results of the June 30, 2002 actuarial valuation, we have therefore calculated the annual required contribution for Fiscal Year 2003. In accordance with the parameters prescribed in GASB Statement No. 25, in calculating the annual required contribution, we have used a 40-year level-percent-of-payroll amortization of the unfunded liability. On this basis, the annual required contribution for Fiscal Year 2002 has been determined to be as follows:

	Fiscal Year 2003
1. Employer's normal cost	$143,519,057
2. Annual amount to amortize the unfunded liability (surplus) over 40 years as a level percent of payroll	16,676,452
3. Annual required contribution (1 + 2)	$160,195,509

I. RECONCILIATION OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY

The net actuarial experience during the period July 1, 2001 to June 30, 2002 resulted in an increase in the Fund's unfunded actuarial liability of $401,285,038. This increase in unfunded actuarial liability is a result of several kinds of gains and losses. The financial effect of the most significant gains and losses is illustrated in Exhibit 5.

The employer contribution requirement for the year of normal cost plus interest on the unfunded actuarial liability amounted to $179,139,440, whereas the total actual employer contribution, including the amount allocated to the health insurance fund, for the year amounted to $77,679,068. Thus, the employer contribution for the year fell short of the funding requirement of normal cost plus interest on the unfunded liability by $101,460,372. Had all other aspects of the Fund's experience been in line with the actuarial assumptions, the unfunded liability would have increased by this amount.

Starting with the financial statements for the year ended June 30, 2002, the fund is segregating assets that are being accumulated to pay retiree health insurance premiums in a separate Health Insurance Fund. As of June 30, 2002, the assets in this separate fund amounted to $54,446,520. Such assets would have previously been included in the assets of the pension fund. Thus, the segregation of certain assets in a Health Insurance Fund had the impact of increasing the unfunded liability by $54,446,520.

The net rate of investment return earned by the Fund during the year, based on the actuarial value of assets, was approximately 6.4%, in comparison to the assumed rate of 8.0%. This resulted in an increase in the unfunded liability of $163,273,619. Salary increases lower than expected resulted in a decrease in the unfunded liability of $137,391,641.

We have estimated that the changes in benefits enacted under Public Act 92-0416 and Public Act 92-0599 had the impact of increasing the unfunded liability by $71,343,528.

The various other aspects of the Fund's experience resulted in a net increase in the unfunded liability of $148,152,640. The aggregate financial experience of the Fund resulted in an increase in the unfunded liability of $401,285,038.

Exhibit 5

Reconciliation of Change in Unfunded Actuarial Liability
Over the Period July 1, 2001 to June 30, 2002

1.	**Unfunded Actuarial Liability as of 7/1/01**	$ 5,135,714
2.	**Employer Contribution Requirement of Normal Cost Plus Interest on Unfunded Liability for Period 7/1/01 to 6/30/02**	179,139,440
3.	**Actual Employer Contribution for the Year**	77,679,068
4.	**Increase in Unfunded Liability Due to Employer Contribution Being Less Than Normal Cost Plus Interest on Unfunded Liability (2 – 3)**	$ 101,460,372
5.	**Increase in Unfunded Liability Due to Separate Accounting For Health Insurance Fund**	54,446,520
6.	**Increase in Unfunded Liability Due to Investment Return Lower Than Assumed**	163,273,619
7.	**Decrease in Unfunded Liability Due to Salary Increases Lower Than Assumed**	137,391,641
8.	**Increase in Unfunded Liability Due to Changes in Benefits**	71,343,528
9.	**Increase in Unfunded Liability Due to Other Sources**	148,152,640
10.	**Net Increase in Unfunded Liability for the Year (4 + 5 + 6 – 7 + 8 + 9)**	401,285,038
11.	**Unfunded Actuarial Liability as of June 30, 2002 (1 + 10)**	$ 406,420,752

Additional Actuarial Tables

Summary of Actuarial Liability and Unfunded Actuarial Liability

Fiscal Year	Total Actuarial Liability	Actuarial Value of Assets	Assets as a % of Actuarial Liability	Unfunded Actuarial Liability (UAL)	Active Member Payroll	UAL as a % of Active Member Payroll
1993	$ 5,904,364,135	$ 4,658,030,036	78.9%	$1,246,334,099	$ 1,223,533,870	101.9%
1994	6,247,417,779	5,106,254,796	81.7%	1,141,162,983	1,162,159,018	98.2%
1995	6,523,543,057	5,276,538,889	80.9%	1,247,004,168	1,169,319,610	106.6%
1996	6,949,831,870	6,533,031,737	94.0%	416,800,133	1,278,738,666	32.6%
1997	7,248,109,505	7,264,691,704	100.2%	(16,582,199)	1,362,611,111	(1.2%)
1998	8,015,603,364	7,798,404,136	97.3%	217,199,228	1,434,015,017	15.1%
1999	8,551,879,683	8,620,059,765	100.8%	(68,180,082)	1,521,181,503	(4.5%)
2000	9,940,371,587	9,612,202, 813	96.7%	328,168,774	1,651,810,084	19.9%
2001	10,392,704,659	10,387,568,945	99.9%	5,135,714	1,690,264,167	.3%
2002	11,025,482,210	10,619,061,458	96.3%	406,420,752	1,759,045,853	23.1%

Solvency Test

	ACCRUED LIABILITIES FOR						
Fiscal Year	(1) Active Members Accumulated Contributions	(2) Members Currently Receiving Benefits	(3) Active Member Employer Portion	Actuarial Value of Assets	Percent of Accrued Liabilities Covered by Assets (1)	(2)	(3)
1993	$ 914,065,627	$1,823,039,371	$ 3,167,259,137	$ 4,658,030,036	100%	100%	61%
1994	853,538,324	2,942,839,717	2,451,039,738	5,106,254,796	100%	100%	53%
1995	847,054,700	3,391,248,620	2,285,239,737	5,276,538,889	100%	100%	45%
1996	937,992,220	3,485,257,311	2,526,582,339	6,533,031,737	100%	100%	84%
1997	1,011,117,705	3,541,795,771	2,695,196,029	7,264,691,704	100%	100%	100%
1998	1,080,981,685	3,669,980,250	3,264,641,429	7,798,404,136	100%	100%	93%
1999	1,143,906,163	3,923,581,558	3,484,391,962	8,620,059,765	100%	100%	100%
2000	1,185,452,979	4,744,351,443	4,010,567,165	9,612,202,813	100%	100%	92%
2001	1,212,958,502	5,211,311,326	3,968,434,831	10,387,568,945	100%	100%	100%
2002	1,227,035,375	5,829,728,535	3,968,718,300	10,619,061,458	100%	100%	90%

Additional Actuarial Tables

Schedule of Actual Employer Contributions and Actuarially Determined Contribution Requirements

Fiscal Year	Active Member Payroll	Actual Employer Contribution: Dollar Amount	Actual Employer Contribution: Percent of Payroll	Actuarially Determined Contribution Requirement as a Percent of Payroll
1993	$ 1,223,533,870	$ 164,010,589 (a)	13.40%	14.44%
1994	1,162,159,018	257,438,703 (b)	22.15%	16.57%
1995	1,169,319,610	86,171,177 (c)	7.37%	16.71%
1996	1,278,738,666	72,580,416	5.68%	16.42%
1997	1,362,611,111	91,776,705	6.74%	15.42%
1998	1,434,015,017	75,072,817	5.24%	7.93%
1999	1,521,181,503	60,781,723	4.00%	8.25%
2000	1,651,810,084	79,729,145	4.83%	8.38%
2001	1,690,264,167	77,135,200	4.65%	11.18%
2002	1,759,045,853	77,679,068 (d)	4.42%	10.17%

(a) The Fiscal Year 1993 employer contribution of $164,010,589 includes special employer contributions of $69,485,416 required for establishing additional service credit under the early retirement incentive program. Excluding these special employer contributions, the regular employer contribution for Fiscal Year 1993 was $94,525,173, which can be expressed as 7.73% of payroll.

(b) The Fiscal Year 1994 employer contribution of $257,438,703 includes special employer contributions of $26,532,254 required for establishing additional service credit under the second early retirement incentive program. Excluding these special employer contributions, the regular employer contribution for Fiscal Year 1994 was $230,906,449, which can be expressed as 19.87% of payroll.

(c) The Fiscal Year 1995 employer contribution of $86,171,177 includes special employer contributions of $3,753,006 required for establishing additional service credit under the second early retirement incentive program. Excluding these special employer contributions, the regular employer contribution for Fiscal Year 1995 was $82,418,171, which can be expressed as 7.05% of payroll.

(d) This amount is based upon the total Fund employer contributions as the actuarial determined contribution requirement, calculated in the June 30, 2001 valuation, did not include the segregation of the health insurance fund.

Additional Actuarial Tables

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase (Decrease) In Average Pay
8-31-93	31,592	$ 1,223,533,870	$ 38,729	6.6%
8-31-94	30,804	1,162,159,018	37,728	(2.6%)
8-31-95	31,308	1,169,319,610	37,349	(1.0%)
8-31-96	32,824	1,278,738,666	38,957	4.3%
8-31-97	33,632	1,362,611,111	40,515	4.0%
8-31-98	34,875	1,434,015,017	41,119	1.5%
6-30-99	34,720	1,521,181,503	43,813	6.5%
6-30-00	35,400	1,651,810,084	46,661	6.5%
6-30-01	37,648	1,690,264,167	44,897	(3.8)%
6-30-02	37,374	1,759,045,853	47,066	4.8%

Schedule of Retiree and Beneficiaries Added to and Removed from Rolls

Year Ended	Added-To-Rolls No.	Added-To-Rolls Annual Benefits	Removed-From-Rolls No.	Removed-From-Rolls Annual Benefits	Rolls-End-of-Year No.	Rolls-End-of-Year Annual Benefits	Average Annual Benefit	% Increase in Average Annual Benefit
1994	3,269	$93,533,665	626	$ 9,118,867	14,698	$274,594,634	$18,682	18.4%
1995	1,583	$45,829,213	544	$ 7,341,802	15,737	$313,082,045	$19,895	6.5%
1996	635	$22,252,071	573	$ 9,606,994	15,799	$325,727,122	$20,617	3.6%
1997	690	$21,078,404	658	$11,865,685	15,831	$334,939,841	$21,157	2.6%
1998	765	$26,445,632	642	$12,840,824	15,954	$348,544,649	$21,847	3.3%
1999	888	$34,999,366	552	$10,960,322	16,290	$372,583,693	$22,872	4.7%
2000	1,045	$41,279,538	647	$14,920,719	16,688	$398,942,512	$23,096	4.5%
2001	1,332	$52,778,231	722	$16,693,883	17,298	$435,026,860	$25,149	5.2%
2002	1,279	$79,552,055	710	$13,059,415	17,867	$501,519,500	$28,070	11.6%

(1) Detailed information prior to 1994 is unavailable.

Appendix 1

Summary of Actuarial Assumptions and Actuarial Cost Method

Actuarial Assumptions. The actuarial assumptions used for the June 30, 2002 valuation are summarized below. The assumptions were adopted as of June 30, 2000.

Mortality Rates. The UP-94 Table, rated down six years, for active members and pensioners.

Termination Rates. Termination rates based on the recent experience of the Fund. The following is a sample of the termination rates that were used:

Age	Rate of Termination Per 1,000 Members
20	56
25	56
30	45
35	32
40	21
45	13
50	9
55	7
60	7
62 and later	0

Disability Rates. Disability rates based on the recent experience of the Fund. The following is a sample of the disability rates that were used:

Age	Disabilities Per 1,000 Members
20	.4
30	.4
40	.6
50	1.3
60	1.6
62 and over	.0

Retirement Rates. Rates of retirement for each age from 55 to 75 based on the recent experience of the Fund were used. The following are samples of the rates of retirement that were used:

Age	Rate of Retirement Per 1,000 Members
55	71
60	103
65	155
70	186
75	1,000

Salary Progression. Rates of salary increase, which vary by age. The following is a sample of the assumed rates of salary increase.

Age	Assumed Rate of Increase
25	12.2%
30	9.9%
35	8.3%
40	7.2%
45	6.4%
50	5.7%
55	5.0%
60 and later	4.5%

Interest Rate. 8.0% per year, compounded annually.

Marital Status. 80% of participants were assumed to be married.

Spouse's Age. The age of the spouse was assumed to be 1 year older than the age of the employee.

Assumption Regarding Total Service Credit At Retirement. It was assumed that a teacher's total service credit at retirement would be 103.3% of the teacher's regular period of service at retirement.

Actuarial Cost Method. The projected unit credit actuarial cost method was used. Actuarial gains and losses are reflected in the unfunded actuarial liability. This actuarial cost method was adopted as of August 31, 1991.

Appendix 2

Summary of Principal Provisions

1. Eligibility for Pension. The right to a retirement pension vests (1) after 20 years of validated service, with the pension payable at age 55 or over; or (2) after 5 years validated service, with the pension payable at age 62 or over.

2. Amount of Retirement Pension. For service earned before July 1, 1998, the retirement pension is 1.67% of "final average salary" for each of the first 10 years of validated service, 1.90% for each of the next 10 years, 2.10% for each of the next 10 years, and 2.30% for each year above 30. For service earned after June 30, 1998, the pension is 2.2% of "final average salary" for each year of service.

Service earned before July 1, 1998 can be upgraded to the 2.2% formula through the payment of additional employee contributions of 1% of the teacher's highest salary within the last four years for each year of prior service. Maximum payment is 20% of salary, but all years are upgraded. The number of years for which contributions are required is reduced by one for each three full years of service after June 30, 1998. No contribution is required if the employee has at least 30 years of service.

The maximum pension is 75% of final average salary or $1,500 per month, whichever is greater.

3. Final Average Salary Defined. "Final average salary" for pension computation is the average of the highest rates of salary for any 4 consecutive years of validated service within the last 10 years of service.

4. Reduction in Pension for Early Retirement. Except for retirement after 34 years of service, the retirement pension in the case of retirement prior to age 60 is reduced 1/2 of 1% for each month that the teacher is under age 60.

5. Early Retirement Without Discount. Subject to authorization by the employer, an employee who retires on or before June 30, 2005 may elect to make a one-time contribution and thereby avoid the early retirement reduction. The exercise of this election by the employee also obligates the employer to make a one-time nonrefundable contribution.

6. Non-Duty Disability Retirement. A disability retirement pension is payable in the event of total or permanent disability for teaching service after 10 or more years of service, irrespective of age. The rate of pension is 1 2/3% of average salary for each year of service. Upon disability retirement after 20 years or more of contributing service, but under age 55, the accrued retirement pension is payable, discounted 1/2 of 1% for each month the disabled teacher is under age 55, down to a minimum of 50 years.

If total service is 20 years or more and the member has attained age 55, the accrued retirement pension is payable without reduction. After 25 years of service, regardless of age, the accrued retirement pension is payable without reduction.

7. Duty Disability Benefit. A duty-connected disability benefit is provided equal to 75% of final average salary upon total incapacity for teaching service as a result of an injury sustained while in the performance of teaching service. The benefit is reduced by "Workers' Compensation" payments.

8. Post-Retirement Increases. Automatic annual increases in pension equal to 3% of the current amount of pension are provided. The increases accrued from the anniversary date of retirement or the 61st birthday, whichever is later.

9. Survivor's Pensions. Pensions are payable to survivors of teachers and pensioners under the following conditions:

Upon the death of a teacher or pensioner occurring on or after July 1, 1981, the maximum benefit is $400 per month to a spouse alone and $600 per month if there are other dependents. Payment of a survivor's pension is conditioned upon marriage having been in effect at least 1 year prior to death. On death after retirement, the total survivor's pension may not exceed retirement or disability pension paid to the deceased pensioner.

Upon the death of a teacher or pensioner occurring after December 31, 1986, the minimum total survivor's pension payable shall be 50% of the earned retirement pension of such teacher or pensioner.

If the surviving spouse is under age 50, and no unmarried minor children under age 18 survive, payment of the survivor's pension is deferred until age 50.

Survivor's pensions are subject to annual automatic increases of 3% of the current amount of pension.

10. Reversionary Pension. By accepting a reduced retirement pension, a member can provide a reversionary pension for a surviving beneficiary. If the reversionary pension was elected on or after January 1, 1984, and the beneficiary survives the date of the teacher's retirement, but does not survive the retired teacher, the teacher's pension shall be restored to the full amount of pension.

11. Refund of Contributions. Upon separation of service, a teacher is entitled to receive a refund of his total contributions and those contributions made on his behalf, without interest.

12. Death Benefits. Upon death while in service, a refund equal to the total contributions less contributions for survivor's pensions is payable without interest to a designed beneficiary or the estate of the teacher. Upon death after retirement, the death benefit consists of the excess, if any, of the total contributions over the total pension payments paid to the member or his beneficiary. In addition, the following death benefit is payable:

Death in service. The amount of the benefit is equal to the last month's salary for each year of validated service up to 6 month's salary but not exceeding $10,000.

Death while on pension. The death benefit is equal to 6 month's salary but not to exceed $10,000 less 1/5 of the death benefit for each year or part of a year that the member has been on pension, down to a minimum of $5,000.

13. Health Insurance Reimbursement. The board may pay each recipient of a retirement, disability, or survivor's pension an amount to be determined by the board, which shall represent partial reimbursement for the cost of the recipient's health insurance coverage, with the total amount of payment not to exceed $40,000,000 in any year.

14. Financing. Teachers are required to contribute a total of 9% of salary consisting of 7 1/2% towards the retirement pensions, 1% towards the survivor pension, and 1/2% towards the post-retirement increment. As of September 1981, the Board of Education has been paying 7% of the required teacher contributions.

The remainder of the cost of benefits is financed by (1) contributions by the Chicago Board of Education; (2) allocations by the State of Illinois from the State Distributive Fund; and (3) investment income.

15. Retirement Systems Reciprocal Act. The Fund complies with the Retirement Systems Reciprocal Act (Chapter 40 Act 5 Article 20 of the Illinois Compiled Statutes) to provide reciprocal benefits if a member has service credit for other public employment in Illinois.

Appendix 3

Glossary of Terms used in Report

1. Actuarial Present Value. The value of an amount or series of amounts payable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

2. Actuarial Cost Method or Funding Method. A procedure for determining the actuarial present value of pension plan benefits and for determining an actuarially equivalent allocation of such value to time periods, usually in the form of a normal cost and an actuarial accrued liability.

3. Normal Cost. That portion of the present value of pension plan benefits, which is allocated to a valuation year by the actuarial cost method.

4. Actuarial Accrued Liability or Accrued Liability. That portion, as determined by a particular actuarial cost method, of the actuarial present value of pension benefits which is not provided for by future normal costs.

5. Actuarial Value of Assets. The value assigned by the actuary to the assets of the pension plan for purposes of an actuarial valuation.

6. Unfunded Actuarial Liability. The excess of the actuarial liability over the actuarial value of assets.

7. Projected Unit Credit Actuarial Cost Method. A cost method under which the projected benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial present value of benefits allocated to a valuation year is called the normal cost. The actuarial present value of benefits allocated to all periods prior to a valuation year is called the actuarial liability.

Under this method, the actuarial gains (losses), as they occur, generally reduce (increase) the unfunded actuarial liability.

8. Actuarial Assumptions. Assumptions as to future events affecting pension costs.

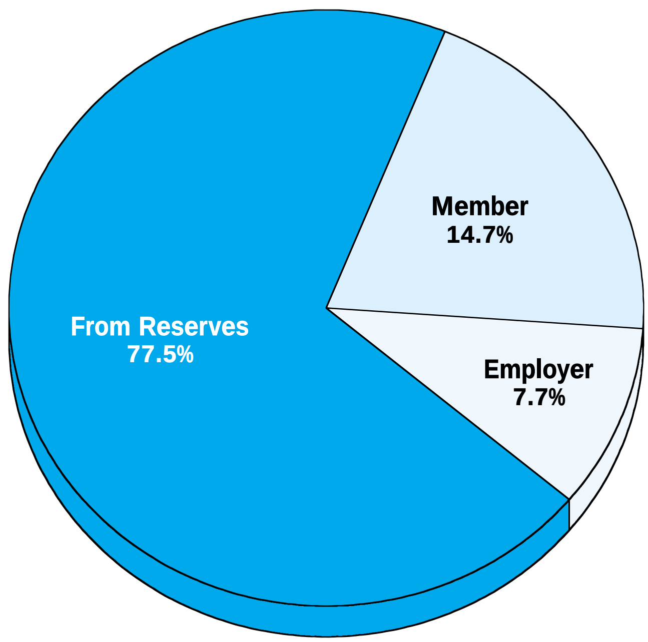
9. Actuarial Valuation. The determination, as of the valuation date, of the normal cost, actuarial liability, actuarial value of assets, and related actuarial present values for a pension plan.

10. Vested Benefits. Benefits that are not contingent on an employee's future service.

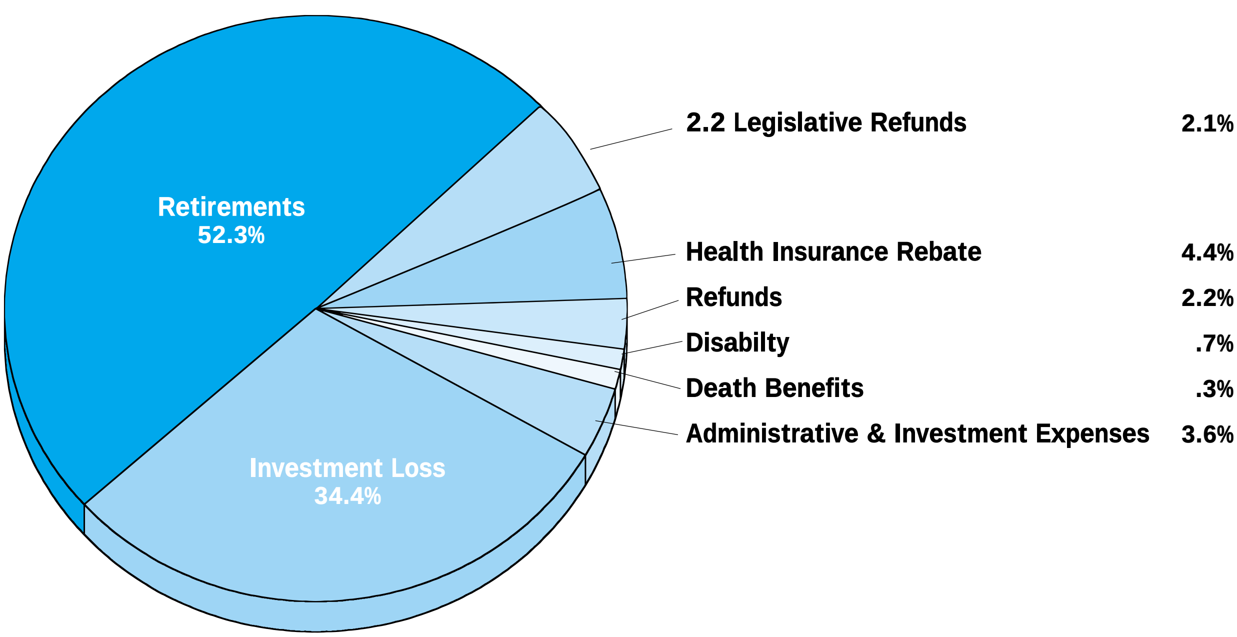
Statistical Section

2002 Revenue — Sources and Applications

Sources



Applications



Statistical Section

Table I

Participating Members

Salary Distribution

Fiscal Year	Total Salaries ($)	Average Salary ($)	Average Attained Age	Average Years of Service
1993	1,223,533,870	38,718	46.6	15.1
1994	1,162,159,018	37,728	45.6	13.7
1995	1,169,319,610	37,349	45.2	13.0
1996	1,278,738,666	38,957	45.7	13.0
1997	1,362,611,111	40,515	45.7	13.2
1998	1,434,015,017	41,119	46.4	13.1
1999	1,521,181,503	43,813	46.2	13.3
2000	1,651,810,084	46,661	46.1	13.2
2001	1,690,264,167	44,897	44.8	12.3
2002	1,759,045,853	47,066	44.7	12.1

Length of Service

Fiscal Year	Total Active Member	Under 1 Year	1 to 4 Years	5 to 9 Years	10 to 14 Years	15 Years and Over
1993	31,592	2,397	6,356	4,159	2,403	16,277
1994	30,804	3,517	6,640	4,161	2,357	14,129
1995	31,820	3,150	8,082	4,766	2,598	13,224
1996	32,824	2,982	8,468	5,020	3,154	13,200
1997	33,632	3,037	8,566	5,397	3,366	13,266
1998	34,875	3,502	8,971	5,725	3,428	13,249
1999	34,720	3,074	8,204	6,944	3,450	13,048
2000	35,400	3,042	8,533	7,101	3,882	12,842
2001	37,648	4,713	9,032	7,019	4,120	12,764
2002	37,374	4,021	9,770	6,977	4,146	12,460

Number of Members

Fiscal Year	Male Participants	Female Participants	Total
1993	8,549	23,043	31,592
1994	8,089	22,715	30,804
1995	8,248	23,572	31,820
1996	8,400	24,424	32,824
1997	8,501	25,131	33,632
1998	8,782	26,093	34,875
1999	8,674	26,046	34,720
2000	8,638	26,762	35,400
2001	9,311	28,337	37,648
2002	9,084	28,290	37,374

Table II

Annuitants

Changes In The Number Of Recurring Benefit Payments

Fiscal Year	Additions Annuity	Additions Disability	Deletions Annuity	Deletions Disability	End of Year Annuity	End of Year Disability
1993	426	23	398	25	8,183	306
1994	2,595	13	428	28	10,350	291
1995	1,069	19	426	23	10,993	287
1996	303	15	370	24	10,926	278
1997	268	22	437	17	10,757	283
1998	405	34	423	18	10,739	299
1999	600	33	365	20	10,974	312
2000	657	29	434	21	11,197	320
2001	860	33	465	25	11,592	328
2002	1,125	60	718	24	11,999	364

Average Benefit Payment Amounts

Fiscal Year	Single Sum Payments: Separation Refunds ($)	Single Sum Payments: Lump Sum Death Benefit ($)	Recurring Payments: Annual Disability ($)	Recurring Payments: Annual Retirement ($)	Trend Total ($)
1993	7,319	5,049	11,825	19,123	43,316
1994	7,212	5,183	12,051	22,368	46,814
1995	7,834	5,338	12,520	23,904	49,596
1996	7,645	5,141	12,970	24,926	50,682
1997	8,272	5,083	13,649	25,851	52,855
1998	7,140	5,028	14,701	26,819	53,688
1999	6,926	5,216	16,244	28,010	56,396
2000	7,310	5,075	17,546	29,305	59,236
2001	8,156	5,088	18,885	30,807	62,936
2002	10,309	5,137	20,800	30,721	66,967

* Averages were calculated from the Annual Statistical Reports, except for lump sum death benefits.

Distribution Of Current Annuitants By Pension Amount

Monthly Pension Amount	Retirement Males	Retirement Females	Disability Males	Disability Females	Survivor Males	Survivor Females	Reversionary Males	Reversionary Females	Reciprocal Males	Reciprocal Females	All Annuities Males	All Annuities Females
UNDER $500	62	248	4	18	215	451	9	31	388	726	678	1,474
$500 TO UNDER $1,000	131	516	23	45	310	386	1	13	232	299	697	1,259
$1,000 TO UNDER $1,500	148	682	18	61	173	237	0	9	140	235	479	1,224
$1,500 TO UNDER $2,000	243	962	18	44	93	166	1	6	104	219	459	1,397
$2,000 TO UNDER $2,500	344	1,168	13	38	6	36	0	1	72	179	435	1,422
$2,500 TO UNDER $3,000	423	1,169	13	33	3	29	0	1	72	187	511	1,419
$3,000 TO UNDER $3,500	665	1,559	6	23	0	9	0	1	80	172	751	1,764
$3,500 TO UNDER $4,000	812	1,550	0	3	0	2	0	0	41	73	853	1,628
$4,000 TO UNDER $4,500	214	157	2	2	0	0	0	0	23	19	239	178
$4,500 TO UNDER $5,000	199	156	0	0	0	0	0	0	13	9	212	165
$5,000 TO UNDER $5,500	82	97	0	0	0	0	0	0	10	6	92	103
$5,500 TO UNDER $6,000	106	77	0	0	1	0	0	0	6	2	113	79
$6,000 TO UNDER $6,500	48	39	0	0	0	0	0	0	1	1	49	40
$6,500 TO UNDER $7,000	43	24	0	0	0	0	0	0	1	2	44	26
$7,000 TO UNDER $7,500	18	19	0	0	0	0	0	0	0	0	18	19
$7,500 TO UNDER $8,000	9	6	0	0	0	0	0	0	1	0	10	6
$8,000 TO UNDER $8,500	2	4	0	0	0	0	0	0	0	0	2	4
$8,500 TO UNDER $9,000	2	0	0	0	0	0	0	0	0	0	2	0
$9,000 TO UNDER $9,500	4	0	0	0	0	0	0	0	0	0	4	0
$9,500 TO UNDER $10,000	0	2	0	0	0	0	0	0	0	0	0	2
$10,000 AND ABOVE	5	4	0	0	0	0	0	0	1	0	6	4
TOTAL	3,560	8,439	97	267	801	1,316	11	62	1,185	2,129	5,654	12,213

Table III

Benefits Paid

Benefit Expense By Type

Fiscal Year	Annuities ($) Retirement	Annuities ($) Survivors	Annuities ($) Disability	Fiscal Year	Refunds ($) Separation	Refunds ($) Death	Refunds ($) Other (1)
1993	191,675,794	8,201,323	3,413,666	1993	3,238,519	2,673,518	1,648,439
1994	268,755,485	9,148,457	3,449,195	1994	3,902,576	2,955,143	9,102,027
1995	303,013,708	10,002,639	3,630,122	1995	5,314,556	3,290,569	1,672,805
1996	314,533,780	11,245,347	3,588,271	1996	4,432,055	3,085,766	1,128,778
1997	324,195,727	12,883,617	3,830,135	1997	5,649,447	3,470,452	1,553,306
1998	338,637,028	14,143,840	4,205,876	1998	5,732,601	3,419,274	2,618,705
1999	300,230,642	12,695,424	4,107,184	1999	5,952,734	2,220,725	1,552,617
2000	383,938,150	16,424,100	5,732,425	2000	7,607,244	3,574,259	3,538,496
2001	421,343,859	17,759,804	6,162,211	2001	7,645,767	2,697,514	4,644,884
2002	495,238,632	23,517,998	7,571,076	2002	9,036,757	4,043,552	29,219,867

Fiscal Year	Death Benefits ($) Heirs of Active Tea.	Death Benefits ($) Heirs of Ann.	Fiscal Year	Health Ins. Premium Rebate ($) Amount	Grand Total
1993	672,832	2,078,833	1993	25,367,192	238,970,116
1994	792,990	2,336,000	1994	21,409,221	321,851,094
1995	799,070	2,676,250	1995	26,003,656	356,403,375
1996	694,809	2,501,083	1996	28,540,558	369,750,447
1997	804,963	2,364,869	1997	22,796,866	377,549,382
1998	745,541	2,886,964	1998	24,225,631	396,615,460
1999	381,432	1,855,000	1999	22,013,995	351,009,753
2000	724,089	2,669,708	2000	26,144,939	450,353,410
2001	457,746	2,853,167	2001	44,088,569	507,653,521
2002	746,322	2,070,000	2002	44,068,275	615,512,479

(1) Includes excess contributions and return of contributions for survivor benefits when no survivors exist.

Table IV

Schedule of Revenue By Source

10-year Summary ($ Millions)

Fiscal Year	Contributions by Members	Investment Income (B)	Miscellaneous	Contributions by Employers Amount	Contributions by Employers % of Payroll	Total
1993	$ 120.3	$ 315.9	—	$ 164.0	13.4	$ 600.2
1994	104.3	411.4	.3	257.4	22.2	773.4
1995	92.9	350.0	.6	86.1	7.4	529.6
1996	97.7	730.6	.4	72.6	5.7	901.3
1997	103.9	1,564.6	.7	91.8	6.7	1,761.0
1998	115.1	420.5	—	75.1	5.2	610.7
1999	150.4	1,732.5	.6	60.2	4.0	1,943.7
2000	145.5	941.8	.2	79.6	4.8	1,167.0
2001	149.1	(191.5)	.1	77.0	4.6	34.7
2002	145.5	(370.7)	.8	76.9	4.4	(147.5)

(A) As of June 30, 1997, assets are presented at market value according to GASB Statement No. 25. For comparative purposes, results as of June 30, 1996 have been restated accordingly.

(B) Investment income reflects deductions of investment advisory and custodial fees.

Table V

Schedule of Total Expenses

10-year Summary ($ Millions)

Fiscal Year	Pension Benefits	Refunds	Death Benefits	Insurance Premium Refunds	Administrative Miscellaneous Expenses	Total
1993	$ 203.3	$ 7.6	$ 2.8	$ 25.4	$ 3.1	$ 242.2
1994	281.4	16.0	3.1	21.4	3.4	325.3
1995	316.8	10.3	3.5	26.0	2.9	359.3
1996	329.4	8.6	3.2	28.5	2.7	372.5
1997	340.9	10.7	3.2	22.8	3.1	380.7
1998	357.0	11.8	3.6	24.2	3.4	400.0
1999	317.0	9.7	2.3	22.0	25.6	376.6
2000	406.1	14.7	3.4	26.2	4.5	454.9
2001	445.3	15.0	3.3	44.1	4.8	512.5
2002	526.3	42.3	2.8	44.1	6.5	622.0

Notes

Notes

Public School Teachers' Pension and Retirement Fund of Chicago

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