

108th Comprehensive Annual Financial Report

for the year ended, June 30, 2003


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Trust.Integrity.Stability.

Public School Teachers' Pension & Retirement Fund of Chicago

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for the year ended June 30, 2003

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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Board Of Trustees

As of June 30, 2003

Consultants

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BANK CUSTODIAN

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AUDITORS

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CUSTODIAN

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City Treasurer
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Chicago, Illinois 60602

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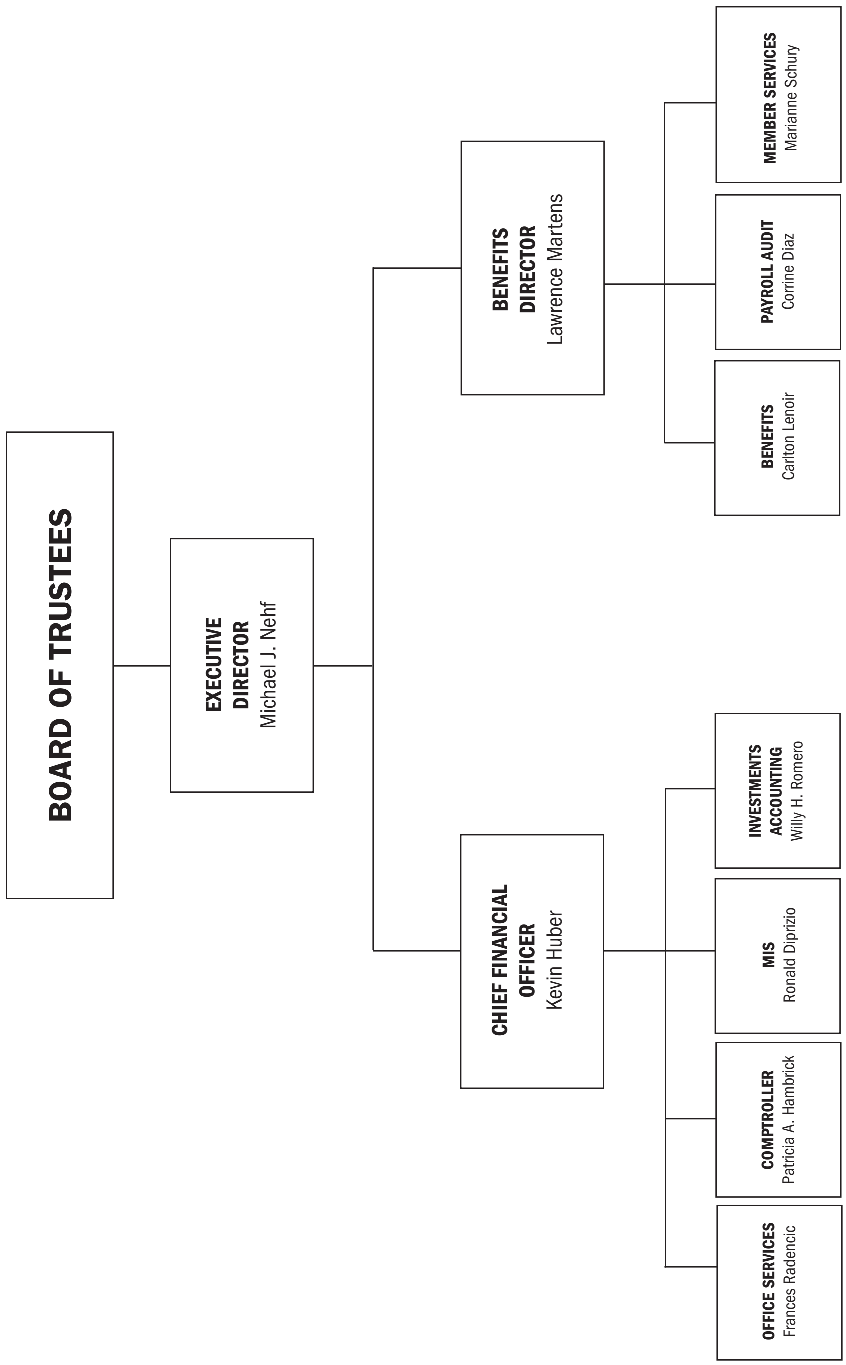
INVESTMENT ADVISORS

Adams Street Partners, LLC
Ariel Capital Management
Blackstone Group L.P.
Capri Capital Advisors
Dimensional Fund Advisors
Fidelity Capital Management Trust Co.
HarbourVest Partners, LLC
Harris Investment Management, Inc.
Holland Capital Management
Iridian Asset Management, LLC
J & W Seligman & Co.
J.P. Morgan Fleming
LaSalle Investment Management
Lazard Asset Management
Lend Lease Office Opportunity Funds, L.P.
Lincoln Capital Management Co.
MDL Capital Management, Inc.
Mesirow Financial, Inc.
MFS Advisors
Morgan Stanley Investments, LP
New Amsterdam Partners
Northern Trust Global Investments
Olympus Real Estate Corp.
Pantheon Ventures, Inc.
Prudential Securities
RREEF America REIT, Inc.
Smith Graham & Co.
UBS Brinson Partners, Inc.
UBS Realty Investors, LLC
Waddell & Reed Asset Management Co.
Walton Street Real Estate, LP
Wellington Management Co., LLP
Western Asset Management
William Blair & Co.
Zevenbergen Capital, Inc.

Organization Chart

As of June 30, 2003



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, 2002

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

November 12, 2003

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 108th Comprehensive Annual Report of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) that covers the fiscal year ending June 30, 2003. 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.

OVERVIEW

The Fund's membership rose to over 56,000 members as of June 30, 2003. The 108th year of continuous operations provided many challenges for the Fund, mostly driven by a recovering, but uncertain economy and its impact on the Fund's investment portfolio. The June 30, 2003 value of net assets held in trust for pension and health benefits amounted to $9.27 billion, relatively unchanged from the $9.34 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 $10.49 billion. Comparing the actuarial value of assets to the actuarial accrued liabilities of $11.41 billion yields an actuarial funding ratio of approximately 92%.

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. We encourage readers to consider additional financial information in the narrative, introduction, overview, and analysis section of the managements discussion and analysis section of the financial report.

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, 2003 investments at fair market value totaled $9.5 billion. This compares with $9.4 billion as of June 30, 2002. The Fund's investment performance rate of return for the year ending June 30, 2003 was 4%, compared to -3.3% for the year ending June 30, 2002. The ten-year rate of return posted by the Fund for the period ending June 30, 2003 was 8.9%, which is a slight decrease from the previous year's ten-year return of 10.0%. Refer to the Investment Section of this report for more detailed performance information.

The Board of Trustees, along 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 a financially sound retirement system.

Introductory Section

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, 2003 continued a turbulent trend for investment performance, although there were economic signs that a recovery had begun. Economic growth stabilized with an annualized GDP growth rate projected at 2.5% at June 2003. The unemployment rate continued to remain above 6% at June 30, 2003 a level that has been consistently disappointing for the last year. The underlying rate of inflation in fiscal year 2003 remained calm at 2.1% and allowed the Federal Reserve Board to forego rate increases and add an additional 25 basis point cut in June 2003. The federal funds rate at 1% at June 30, 2003 was at the lowest level since 1958. The loosening monetary policy, when taken in combination with the fiscal policy enacted by the Economic Growth and Tax Relief Reconciliation Act of 2002, was expected to continue to move the economy out of the stagnant and disappointing periods of 2001 and 2002.

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, 2003 was 4%, due to a strong quarterly return of 11% for the quarter ended June 30, 2003. 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 2003.

During the year, the Board performed due diligence over its international equity and fixed income 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 continue 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, 2003 the Fund had terminated 5 managers (3 fixed income, 1 domestic equity and 1 international equity) and hired 2 managers (1 fixed income and 1 international equity). There was continued emphasis placed by the Board in monitoring and enforcing its minority brokerage policy. The Fund directed over $1,670,026 of commissions to qualified minority brokers and recaptured over $752,002 of commissions to help lower the net investment expenses of the Fund. The Board initiated a project with its investment consultant and outside legal counsel to standardize terms, conditions, and fees for all investment manager contracts. Finally, the Board continued to improve its corporate governance policies and procedures by hiring outside counsel to strengthen its procedures over issues including securities litigation, proxy voting, conflict of interest and due diligence by corporate board of directors.

Legislative

There were few legislative developments in 2003 that impacted the Fund. Pension legislation that passed during the year and was signed into law by the Governor included the following:

Senate Bill 2393 (Public Act 92-0538) appropriated $65,044,700 for the Fund for the period July 1, 2002- June 30, 2003; these funds were directed to the health insurance account.

House Bill 5168 (Public Act 92-0599) was signed by the Governor on June 28, 2002 and was fully in place for 2003. It 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).

Major legislative proposals that the Trustees continue to pursue include:

- Increasing the maximum pension percentage to 80%;
- Implementing an ad-hoc increase for our older pensioners;
- Making all income pensionable; and
- Increasing the maximum allowable health insurance rebate from $40 to $65 million.

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.

Operations

Fund management continued to focus on strengthening operations, improving internal controls, and modernizing key processes of the Fund. The Board continued to support numerous technology projects in fiscal year 2003.

- The Fund continued converting and storing all paper records electronically; this project has imaged over 4 million documents and is approximately 95% completed as of June 30, 2003. 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 Fund continued to work on the design and implemention of database solutions to the Fund's processing of pension payments, pensioner records, and active teacher records management, including contributions and membership statements. The project was 40% complete as of June 30, 2003. The expected implementation date for the new database was July 2004.
- The Board authorized staff to modernize and upgrade the current phone system in order to serve its members in a more comprehensive and timely manner. This project began in the latter half of 2003 and continues in fiscal year 2004 with an expected implementation date of January 2004.

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, 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 thirteenth consecutive year to the Fund for the period ending June 30, 2002. 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 2002 meeting of the Board, new teacher trustees *Linda Porter-Milton* and *Earnestine Murphy* joined the Board for one-year and three-year terms respectively. They replaced *Mary Sharon Reilly and Shirley Anderson* who retired from service. Additionally, *Maria Rodriguez* was elected for her second three-year term. In the election for officers, *Maria Rodriguez* was elected President, *Jack Silver*, Vice President, *Linda Porter-Milton*, Recording Secretary, and *Rose Mary Finnegan*, Financial Secretary. Chairs of standing committees included *Mr. James Ward*, Claims and Service Credits, *Ms. Finnegan*, Finance, *Mr. Terri Katsulis*, Pension Laws and Rules, and *Ms. Particia Knazze*, Investments. We would like to take this opportunity to thank *Ms. Reilly and Ms. Anderson* 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

BANSLEY AND KIENER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

O'HARE PLAZA
8745 WEST HIGGINS ROAD, SUITE 200
CHICAGO, ILLINOIS 60631
AREA CODE 312 263-2700

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 Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2003, 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 financial statements of Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2002, which were audited by other auditors whose report dated November 1, 2002, expressed an unqualified opinion on those 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 audit 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 2003 financial statements referred to above present fairly, in all material respects, the plan net assets of Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2003, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the schedules of funding progress and contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 2003 supplementary information. However, we did not audit the 2003 information and express no opinion on it. The supplementary information for 1997 through 2002 was not audited by other auditors and they expressed no opinion on it.

Our audit was made for the purpose of forming an opinion on the 2003 basic financial statements taken as a whole. The accompanying 2003 schedules of administrative and miscellaneous expenses, cash receipts and disbursements, manager fees, and consultant payments are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such 2003 information has been subjected to the auditing procedures applied in the audit of the 2003 basic financial statements and, in our opinion, is fairly state in all material respects in relation to the 2003 basic financial statements taken as a whole. The 2002 schedules were audited by other auditors whose report dated November 1, 2002, expressed an unqualified opinion on those schedules.

Bansley and Kiener, L.L.P.

December 10, 2003

Certified Public Accountants

Financial Section

Management's Discussion and Analysis

Management is 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, 2003. 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 2003 *Comprehensive Annual Financial Report.*

ANNUAL FINANCIAL REVIEW

Fiscal 2003 was a less than stellar year financially for the Fund. Saved by a strong return for the quarter ending June 30, 2003, the Fund returned 4% for the year ended June 30, 2003, well below the actuarial projected return of 8%. 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 the small investment gain in 2003 and investment losses the prior two years, the Fund's compound rate of return over the past 10 years was 8.9% which exceeds the actuarial assumption of 8%.

The Fund's consulting actuary has certified the total actuarial liability of the Fund to be $11.4 billion as of June 30, 2003. This represents an increase in the total actuarial liability of approximately $400 million compared to the valuation of $11.03 billion as of June 30, 2002. The unfunded actuarial liability increased from approximately $406 million to $917 million during the year. Refer to the Actuarial Section of the report for more valuation and funding information.

Financial Highlights

- Unstable investment markets resulted in a small gain, bouncing back from two consecutive years of losses. The investment rate of return for fiscal 2003 was 4% following fiscal 2002's return of –3.3% and fiscal year 2001's return of –1.5%. Five- and 10-year returns were favorable at 3.8% and 8.9%, respectively.

- Total plan net assets decreased slightly in value during the fiscal year to $9.27 billion at June 30, 2003 from $9.34 billion at June 30, 2002.

- Total benefit payments continued to exceed $600 million for the second consecutive year. The Fund paid members more than $563.9 million in service retirement, disability and survivor benefits plus $51.4 million for health care benefits.

- Total additions to plan net assets were $552.2 million. The net investment gain of $313.5 million was more than 1.3 times member and employer contributions totaling $238.7 million.

- Benefit payments, member refunds and administrative expenses totaled $622 million for the 2003 fiscal year, with no increase over fiscal 2002.

- The funded ratio for pension benefits declined to 92% as of July 1, 2003 from 96.3% 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 consists 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 seven 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 administrative and investment costs to operate the Fund.

INVESTMENT PERFORMANCE

For fiscal 2003, total investments resulted in a 4.0% gain. The U.S. and international stock portfolios suffered in negative territory although the equity markets continued to recover in value from the previous year's lows. The Fund's portfolio of U.S. stocks lost 0.3% while international stocks realized a 2.7% loss for the 2003 fiscal year. Real estate and fixed income generated positive returns for the fiscal year of 5.5 % and 11.2%, respectively.

1-Year Returns (2003)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	4.0%	Fund Benchmark Index	3.3%
Domestic Equity	(0.3%)	Russell 3000 Index	0.8%
International Equity	(2.7%)	MSCI AC World Free Ex US	(4.2%)
Fixed Income	11.2%	LB Aggregate Index	10.4%
Real Estate (Public and Private)	5.5%	Stylized Real Estate Index*	7.5%

5-Year Returns (1998-2003)

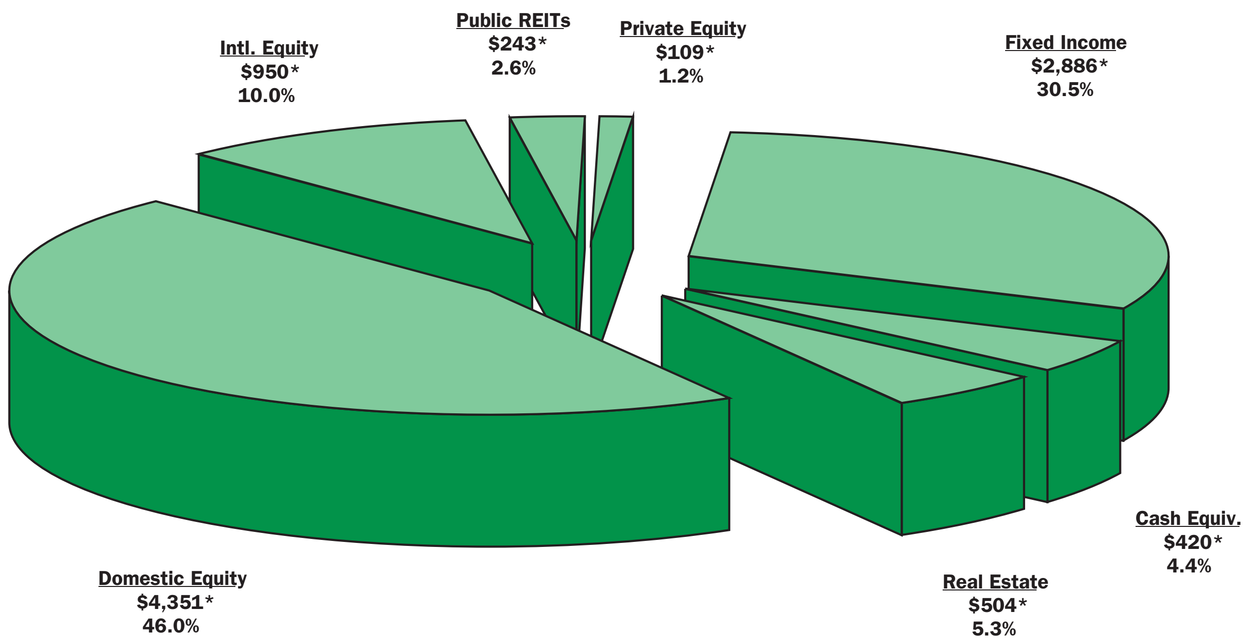
Asset Category	Fund Return	Index Name	Index Return
Total Fund	3.8%	Fund Benchmark Index	2.6%
Domestic Equity	1.4%	Russell 3000 Index	(1.1%)
International Equity	0.6%	MSCI AC World Free Ex US	(2.8%)
Fixed Income	7.6%	LB Aggregate Index	7.5%
Real Estate (Public and Private)	8.8%	Stylized Real Estate Index*	9.6%

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.

Financial Section

Asset Allocation at June 30, 2003



FINANCIAL STATEMENT ANALYSIS

Plan Net Assets

The value of plan net assets decreased $74.5 million (1%) during the fiscal year. The decrease was the direct result of negative cash flow of the Fund. Plan expenses were greater than plan contributions and investment income for the year as the investment rate of return was insufficient to cover the operating costs.

As of June 30, 2003, total receivables decreased more than $5.6 million from 2002. There was a significant decrease in employee receivables of $3 million due to legislation that forgave the 2.2 upgrade balance for all active and retired members who reached 30 years of service. Due from brokers (represents the proceeds from investment sales) increased by $90.5 million due to timing of investment sales at year end.

Benefits and Refunds payable decreased due to a decrease in lump sum death payments and refund of contributions due to death. Due to brokers (represents the cash due for investment purchases) increased by $191.5 million due to timing of investment sales at year end.

Below is a summary of the plan net assets at June 30, 2003 and 2002 with the financial statements items with significant fluctuations.

Financial Section

(in millions)	FY 2003	FY 2002
Total Net Assets	$9,267.6	$9,342.1
Cash and cash equivalents	419.9	333.4
Due from Brokers	153.9	63.4
Receivables	80.6	86.2
Investments (fair value)	9043.0	9,101.9
Benefits and Refunds Payable	9.9	12.5
Account and Administrative Payable	7.9	8.4
Due to brokers	414.1	223.0

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, 2003, these additions totaled $522.2, representing a 454% increase from 2002 additions of ($147.5) million. This increase resulted from the recovering investment portfolio; the Fund's portfolios gained 4% for the year ended June 30, 2003 versus a loss of 3.3% for the year ended June 30, 2002. Employee and employer contributions remained relatively consistent between years although there is a slight increase in the employee contributions due to higher average salaries.

(in millions)	FY 2003	FY 2002
Employer contributions	$78.8	$76.9
Employee contributions	159.9	145.5
Net investment income	313.5	(370.7)
Miscellaneous	-	.8
Total additions	$552.2	($147.5)

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. Refunds decreased substantially (approximately $21 million) due to legislation enacted in 2002 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 2003 and 2002 fiscal periods. Total deductions from plan assets amounted to $621.9 million, compared to $622.0 million for the previous year.

(in millions)	FY 2003	FY 2002
Pensions	$543.8	$526.3
Refunds	17.3	42.3
Death benefits	2.8	2.8
Insurance premiums	51.4	44.1
Administration	6.6	6.5
Total Deductions	$621.9	$622.0

Funding Analysis

Due to a smaller than expected investment gain and investment losses from the preceding two years, the funded ratio for pension benefits declined to 92% as of July 1, 2003 from 96.3% the previous year. Due to the weak investment performance over the past 3.5 years, it is expected that the Fund's funded ratio will continue to decline as the Fund's actuary smooths out these losses over a four-year period. With a rate of return for the period ending June 30, 2004 and 2005 projected at 8% and operations/benefits to remain consistent with slight increases between years, the funded ratio is expected to decline to 85.5% in FY2004 and 81.0% in FY2005. 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, 2003, it is estimated that the employer shall begin making contributions in fiscal year 2006 of approximately $36.0 million. The Fund is required to communicate to the employer the actual contribution required for fiscal year 2005 by February 28, 2004.

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, Suite 1400
Chicago, IL 60601

Financial Section

Statement of Plan Net Assets

June 30, 2003, with comparative totals for 2002

	Pension Fund	Health Insurance Fund	Total 2003	Total 2002
ASSETS				
Cash and cash equivalents	$350,143,353	69,748,903	419,892,256	333,433,359
Receivables:				
Intergovernmental	14,536,394	—	14,536,394	13,742,838
Employee	19,947,662	—	19,947,662	18,739,731
Accrued investment income	42,536,509	—	42,536,509	50,732,272
Due from brokers	153,850,561	—	153,850,561	63,383,709
Participating teachers' accounts for contributions	2,249,146	—	2,249,146	1,676,207
Other receivables	1,329,482	—	1,329,482	1,292,484
	234,449,754	—	234,449,754	149,567,241
Investments, at fair value:				
Fixed income	2,885,819,941	—	2,885,819,941	2,995,361,378
Equity	5,653,632,162	—	5,653,632,162	5,546,816,639
Real estate	503,549,840	—	503,549,840	559,753,718
	9,043,001,943	—	9,043,001,943	9,101,931,735
Securities lending collateral	1,210,526,939	—	1,210,526,939	1,206,137,144
Prepaid expenses	2,002,472	—	2,002,472	683,378
Capital assets, net of accumulated depreciation	268,544	—	268,544	418,691
TOTAL ASSETS	**10,840,393,005**	**69,748,903**	**10,910,141,908**	**10,792,171,548**
LIABILITIES				
Benefits payable	1,399,741	—	1,399,741	2,735,064
Refunds payable	8,539,624	—	8,539,624	9,797,355
Accounts and administrative expenses payable	2,461,673	5,436,551	7,898,224	8,391,160
Securities lending collateral	1,210,526,939	—	1,210,526,939	1,206,137,144
Due to brokers	414,134,335	—	414,134,335	223,009,703
TOTAL LIABILITIES	**1,637,062,312**	**5,436,551**	**1,642,498,863**	**1,450,070,426**
Net assets held in trust for benefits (an unaudited schedule of funding progress is presented on page 35)	**$9,203,330,693**	**64,312,352**	**9,267,643,045**	**9,342,101,122**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

Year ended June 30, 2003, with comparative totals for 2002

	Pension Fund	Health Insurance Fund	Total 2003	Total 2002
ADDITIONS:				
Contributions:				
Intergovernmental, net	$ 13,703,283	65,044,700	78,747,983	76,850,005
Employee contributions	159,931,110	—	159,931,110	145,498,027
	173,634,393	65,044,700	238,679,093	222,348,032
Investment income:				
Net appreciation (depreciation) in fair value	42,175,284	—	42,175,284	(673,718,020)
Interest	200,161,234	944,488	201,105,722	236,617,737
Dividends	90,153,258	—	90,153,258	87,614,971
Securities lending	6,301,773	—	6,301,773	7,777,295
Less investment expense:				
Investment advisory and custodial fees	(24,601,146)	—	(24,601,146)	(26,611,498)
Securities lending expense	(1,632,721)	—	(1,632,721)	(2,333,191)
	312,557,682	944,488	313,502,170	(370,652,706)
Miscellaneous	35,775	—	35,775	829,063
TOTAL ADDITIONS	**486,227,850**	**65,989,188**	**552,217,038**	**(147,475,611)**
DEDUCTIONS:				
Pension benefits	543,802,165	—	543,802,165	526,327,706
Refunds	15,623,466	—	15,623,466	21,518,236
2.2 Legislative refunds	1,727,682	—	1,727,682	20,781,940
Refund of insurance premiums	—	51,395,920	51,395,920	44,068,275
Death benefits	2,821,493	—	2,821,493	2,816,322
	563,974,806	51,395,920	615,370,726	615,512,479
Administrative and miscellaneous expenses	6,576,953	—	6,576,953	6,459,734
TOTAL DEDUCTIONS	**570,551,759**	**51,395,920**	**621,947,679**	**621,972,213**
Net increase (decrease)	**(84,323,909)**	**14,593,268**	**(69,730,641)**	**(769,447,824)**
Net assets held in trust for benefits:				
Beginning of period, as restated	**9,287,654,602**	**49,719,084**	**9,337,373,686**	**10,111,548,946**
Net assets held in trust for benefits at end of period	**$ 9,203,330,693**	**64,312,352**	**9,267,643,045**	**9,342,101,122**

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2003, with comparative totals for 2002

(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 as well as Fund employees. 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 in compliance with the Illinois Pension Code. As of June 30, 2003 and 2002, the Fund membership consisted of the following:

	2003	2002
Retirees and beneficiaries currently receiving benefits	18,565	17,867
Terminated members entitled to benefits but not yet receiving them	1,444	1,552
Current members:		
Vested	22,313	23,296
Nonvested	14,235	14,078
	56,557	**56,793**

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 qualification. 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 2003 and 2002. 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. 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 by 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 17 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 3 to 5 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.

Restatement of Beginning Balance

In November 2002, the Fund paid $4,727,436 in health insurance rebates that relate to health insurance costs incurred for the 12 months ended June 30, 2002. Accordingly, this amount has been included as a reduction to the beginning balance in the Health Insurance Fund.

(3) RECEIVABLES

As of June 30, 2003 and 2002, 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:

	2003	2002
Board of Education —		
Early retirement programs	$ 6,702,243	$ 6,702,243
Deficiencies	1,282,473	731,965
State of Illinois appropriations	5,420,392	5,420,392
Federal funds	1,131,286	888,238
	$14,536,394	**$13,742,838**

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 $17,150,098 and $12,325,288 at June 30, 2003 and 2002, respectively. Employees owed the Fund $2,797,564 and $6,414,443 for the 2.2 formula upgrade at June 30, 2003 and 2002, respectively.

(4) DEPOSITS AND INVESTMENTS

At June 30, 2003, the bank balance and carrying amount of the Fund's deposits amounted to $423,175,489 and $419,892,256, respectively. At June 30, 2002, the bank balance and carrying amount of the funds deposits were $338,885,490 and $333,433,359, 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, 2003 and June 30, 2002. 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, 2003	**June 30, 2002**
CATEGORIZED:		
Long-term investments:		
Fixed income securities:		
Government	$ 1,116,243,142	1,192,075,322
Corporate	816,789,044	911,862,938
Other miscellaneous	201,398,332	171,283,431
Total fixed income securities	2,134,430,518	2,275,221,691
Equity securities	5,118,230,119	5,010,021,108
Total long-term investments	**7,252,660,637**	**7,285,242,799**
NON-CATEGORIZED:		
Real estate	503,549,840	559,753,717
Private equity	109,341,277	86,394,068
Securities lending:		
Investments held by master trustee under securities loans	1,177,450,189	1,170,541,151
Securities received from securities lending	1,210,526,939	1,206,137,144
TOTAL INVESTMENTS	**$10,253,528,882**	**$10,308,068,879**

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, 2003 and 2002, 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, 2003 and 2002, the fair values of the obligations under the purchase side of these forward contracts amounted to $23,977,433 and $79,501,251, respectively, and the fair values of the obligations under the sale side of these forward contracts amounted to $23,485,816 and $77,152,699, respectively.

As of June 30, 2003, the Fund held 36,752,956 units (12.0%) 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, 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. 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 with at least 102% of the lent securities' fair value, and international securities for collateral worth 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 of 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, 2003	June 30, 2002
Fair value of securities loaned for cash collateral	$1,177,450,189	1,170,541,151
Fair value of securities loaned for non-cash collateral	322,399,965	259,785,723
Total fair value of securities loaned	1,499,850,154	1,430,326,874
Fair value of cash collateral from borrowers	1,210,526,939	1,206,137,144
Fair value of non-cash collateral from borrowers	331,179,925	266,669,274
Total fair value of collateral from borrowers	1,541,706,864	1,472,806,418

(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 to meet the actuarially determined obligations 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 at 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 school 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, 2003 and June 30, 2002 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 $0 and $1,697,216 of the required employer contributions related to early retirement optional program during the year ended June 30, 2003 and June 2002, respectively. The remaining employer contribution of $1,160,530 at June 30, 2003 and June 30, 2002, respectively, 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, 2003 and 2002, $9,147,799 and $28,233,942 represent previous year amounts authorized but not yet expended.

Year Ended June 30, 2002	
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)
Amount available for expenditure at June 30, 2002	$28,233,942

Year Ended June 30, 2003	
Amount available for expenditure at July 1, 2002	$28,233,942
Add statutory annual limit	40,000,000
Less FY 2003 expenditures	(51,395,920)
Less unallowed accumulated interest	(7,690,223)
Amount available for expenditure at June 30, 2003	$9,147,799

Accumulated interest earned on unspent reserves was included in the original transfer of $32.3 million for the year ended June 30, 2002. The Fund's attorney determined that that interest is not to be included in the amount available for expenditure under ILCS Article 40, Chapter 5, Article 17 Section 142.1 and therefore it has been excluded from the amount available for expenditure at June 30, 2003.

Schedule of Funding Progress (Unaudited)

June 30, 2003 **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
June 30, 2003	10,494,755	11,411,528	916,773	91.97	1,706,205	53.73

(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, 2003

Schedule 2

	Employer Contributions			Employee Contributions			Total contributions as a % of
Period ended	Annual required	Employer	% of annual required	Annual required	Employee	% of annual required	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	178,954,824	77,679,068	43.41	152,123,775	145,498,027	95.64	47.51
June 30, 2003	160,195,509	78,783,758	49.18	158,314,127	159,931,110	101.02	74.94

(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.

See accompanying independent auditors' report.

Notes to Trend Data (Unaudited)

June 30, 2003 **Schedule 3**

Valuation Date	June 30, 2003
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, 2003 and 2002 **Schedule 4**

	2003	2002
Salaries	$3,472,840	3,161,403
Accrued leave	113,519	829,778
Actuary fees	53,470	40,500
Auditing	89,000	34,000
Conferences, seminars, and membership dues	13,874	16,117
Data processing	28,061	32,230
Depreciation	195,442	123,841
Document imaging	122,207	136,315
Election expense	32,835	75,192
Employees' health insurance	696,960	579,550
Health insurance consulting	44,766	139,570
Insurance premium	25,660	17,743
Legal fees	256,880	138,730
Legislative expense	91,476	89,186
Maintenance of equipment, systems, software, and support	71,213	68,956
Medical fees	32,288	21,169
Office forms and supplies	55,028	61,938
Office rent and utilities	603,348	462,635
Postage	165,884	143,030
Printing and binding	169,315	117,891
Temporary staffing	61,728	43,006
Trustee conferences, seminars, and meetings	98,511	47,160
Legacy fund disbursements	10,722	9,082
Miscellaneous	71,926	70,712
Total	**$6,576,953**	**6,459,734**

See accompanying independent auditors' report.

Schedule of Cash Receipts and Disbursements

Years ended June 30, 2003 and 2002 **Schedule 5**

	2003	2002
Cash and cash equivalents at beginning of period	$333,433,359	470,282,798
Add receipts:		
Member contributions	158,150,240	158,768,285
Public revenues	77,954,427	77,676,621
Interest and dividends	305,756,516	340,621,021
Miscellaneous	(1,223)	206,844
Total cash receipts	**541,859,960**	**577,272,771**
Less disbursements:		
Benefit payments	547,958,981	529,531,575
Refunds	16,881,197	14,476,380
2.2	1,727,682	20,781,940
Refund of insurance premiums	50,686,805	44,068,275
Investment and administrative	39,909,254	35,640,608
Net investment purchases (sales)	(201,762,856)	69,623,432
Total cash disbursements	**455,401,063**	**714,122,210**
Net increase (decrease) in cash and cash equivalents	86,458,897	(136,849,439)
Cash and cash equivalents at end of period	**$419,892,256**	**333,433,359**

See accompanying independent auditors' report.

Summary Schedule of Manager Fees

Years ended June 30, 2003 and 2002 **Schedule 6**

	2003	2002
Adams Street Partners, LLC	$ 859,148	861,668
Ariel Capital Management	676,825	708,488
Bank of America	90,868	161,690
Blackstone Group L.P.	211,611	225,624
Brinson Partners, Inc.	767,512	770,465
Capri Capital Advisors	222,515	168,203
Dimensional Fund Advisors	538,145	568,465
Fidelity Capital Management Trust Co.	1,220,672	1,424,550
HarbourVest Partners, LLC	1,000,000	1,006,287
Harris Investment Management, Inc.	604,192	632,747
Holland Capital Management	143,662	172,648
Iridian Asset Management, LLC	696,138	781,455
J & W Seligman & Co.	810,071	977,720
J.P. Morgan Fleming	1,266,735	1,238,019
LaSalle Investment Management	521,831	516,625
Lazard Asset Management	525,011	701,350
Lend Lease Office Opportunity Funds, L.P.	147,685	198,915
Lincoln Capital Management Co.	265,727	273,768
MDL Capital Management, Inc.	126,833	88,965
Mesirow Financial, Inc.	779,476	774,732
MFS Advisors	671,101	—
Morgan Stanley Investments, LP	2,793,634	3,166,229
New Amsterdam Partners	336,985	379,445
Northern Trust Global Investments	549,978	611,818
Olympus Real Estate Corp.	301,753	289,313
Oppenheimer Capital	36,462	358,408
Pantheon Ventures, Inc.	493,286	358,129
Prudential Securities	985,016	989,605
RREEF America REIT, Inc.	1,388,160	516,970
Schroder Investment Management	–	458,783
Smith Graham & Co.	165,352	158,924
Times Square Real Estate Investors	608,705	792,785
UBS Realty Investors, LLC	914,726	767,344

Schedule 6 (continued)

Waddell & Reed Asset Management Co.	551,827	640,756
Walton Street Real Estate, LP	446,519	414,649
Wellington Management Co., LLP	391,047	701,132
Western Asset Management	365,096	–
William Blair & Co.	523,021	619,640
Woodford Capital Management, LLC	–	114,304
Zevenbergen Capital, Inc.	244,063	316,098
Zurich Scudder Investment, Inc.	410,904	1,336,187
Total manager fees	**23,652,292**	**25,242,903**
Mercer - General investment consultant	267,000	240,000
Northern Trust - Master custodian	514,527	619,470
The Townsend Group - Real estate consultant	121,206	120,365
Total consultant fees	**902,733**	**979,835**
Fees for foreign exchange and real estate	46,121	388,760
Total	**$24,601,146**	**26,611,498**

See accompanying independent auditors' report

Summary Schedule of Consultant Payments

Years ended June 30, 2003 and 2002 **Schedule 7**

	2003	2002
Anselmo & Associates	$ 52,206	50,963
Bradley Consulting Group, Inc.	518,520	108,985
Buck Consultants	44,999	1,869
Cahill Printing Co.	106,093	66,708
CEM Technologies, Inc.	25,237	5,839
Chicago Press Corporation	66,094	71,227
Computronics	8,858	12,077
Data Summary, Inc.	39,680	24,640
The Direct Response Resource	23,387	22,147
E. M. Barnes & Associates	39,155	38,223
Goldstein & Associates	53,470	40,500
Jacobs, Burns, Orlove, Stanton & Hernandez	257,154	136,860
KPMG LLP	44,000	34,000
Lebenson Advanced Systems	14,906	—
Levi, Ray & Shoup, Inc.	513,537	220,965
Ray Mangarelli	59,580	25,170
The Segal Company	42,839	139,570
Walker Printery, Inc.	31,586	29,878
Total consultant payments	**$1,941,301**	**1,046,534**

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 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, to the best of its knowledge, 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, 2002 through June 30, 2003.

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 2, 2003

MERCER
Investment Consulting

Board of Trustees
Public School Teachers' Pension and Retirement Fund of Chicago
55 West Wacker Drive, Suite 1400
Chicago, Illinois 60601

Dear Trustees:

Mercer Investment Consulting is pleased to present the Public School Teachers' Pension and Retirement Fund ("Fund") results for the fiscal year ended June 30, 2003.

As of June 30, 2003, the Fund's market value totaled $9.2 billion, a $0.1 billion decrease since June 30, 2002, due primarily net cash outflows, which offset positive investment performance. During the past twelve month period,

- Continued concerns regarding corporate malfeasance weighed on the equity markets globally, coupled with concerns about continued weak economic growth in the United States, Europe, and Japan. Political uncertainty also hampered equity market results as the United States-led war on Iraq and potential terrorist backlash increased market volatility.
- Global equity markets rallied during the second quarter as the war on Iraq appeared to be won, consumers continued to spend, the housing market remained strong, and economic growth accelerated.
- Within this environment, domestic equity markets faltered in the second half of 2002 through the beginning of March 2003, then rallied significantly through June 30 to produce a slightly positive return through June. The S&P 500 Index, an index of domestic large capitalization stocks, returned 0.3% during the one year period while smaller stocks, as measured by the Russell 2000 Index, fell 1.6%.
- Developed international equity markets underperformed their domestic equity counterparts during the one year period, falling 6.1% as measured by the MSCI EAFE (Europe, Australasia, Far East) Index. Emerging markets were the strongest performing equity markets worldwide, advancing 6.9%, as measured by the MSCI Emerging Markets Index.
- Fixed income markets performed well during the twelve month period, benefiting from declining interest rates, returning 10.4%. Corporate bonds rallied strongly in the first half of 2003 as investors sought yield.

Within this environment, the Fund returned 4.0% during the 12 month period ending June 30, outpacing the 3.3% Index return and ranking in the top half of its public fund peers as measured by the Russell/Mellon Public Fund Universe. Annual results were bolstered by the strong equity rally during the second quarter of 2003, coupled with strong relative performance in international equity and fixed income. The Fund also outperformed its peers and the Index over the three and five year period.

The Fund's domestic equity managers returned a collective -0.3% during the year ended June 30, trailing the 0.8% Russell 3000 Index return and ranking at the median of similarly managed funds. The domestic equity allocation benefited from small capitalization equity, as these managers outperformed their peers and the Index return, but was hampered by lagging results in large and mid capitalization equity. Longer term performance was mixed largely due to the Fund's significant index allocation in 2000 through 2002, a time period in which active management outperformed.

The Fund's international equity allocation returned -2.7% during the year ending June 30, surpassing its benchmarks. Outperformance was driven by the portfolio's value tilt, coupled with strong active management results. During the past twelve month period, the Fund implemented an integrated international equity management approach, allowing its investment managers to invest in both developed and emerging markets countries.

The fixed income portfolio benefited from a Corporate bond rally during the first half of 2003 and longer duration during the twelve month period, returning 11.2%, surpassing the Lehman Brothers Aggregate Index by 0.8% and outpacing the average fixed income manager. Longer term performance exceeded benchmarks

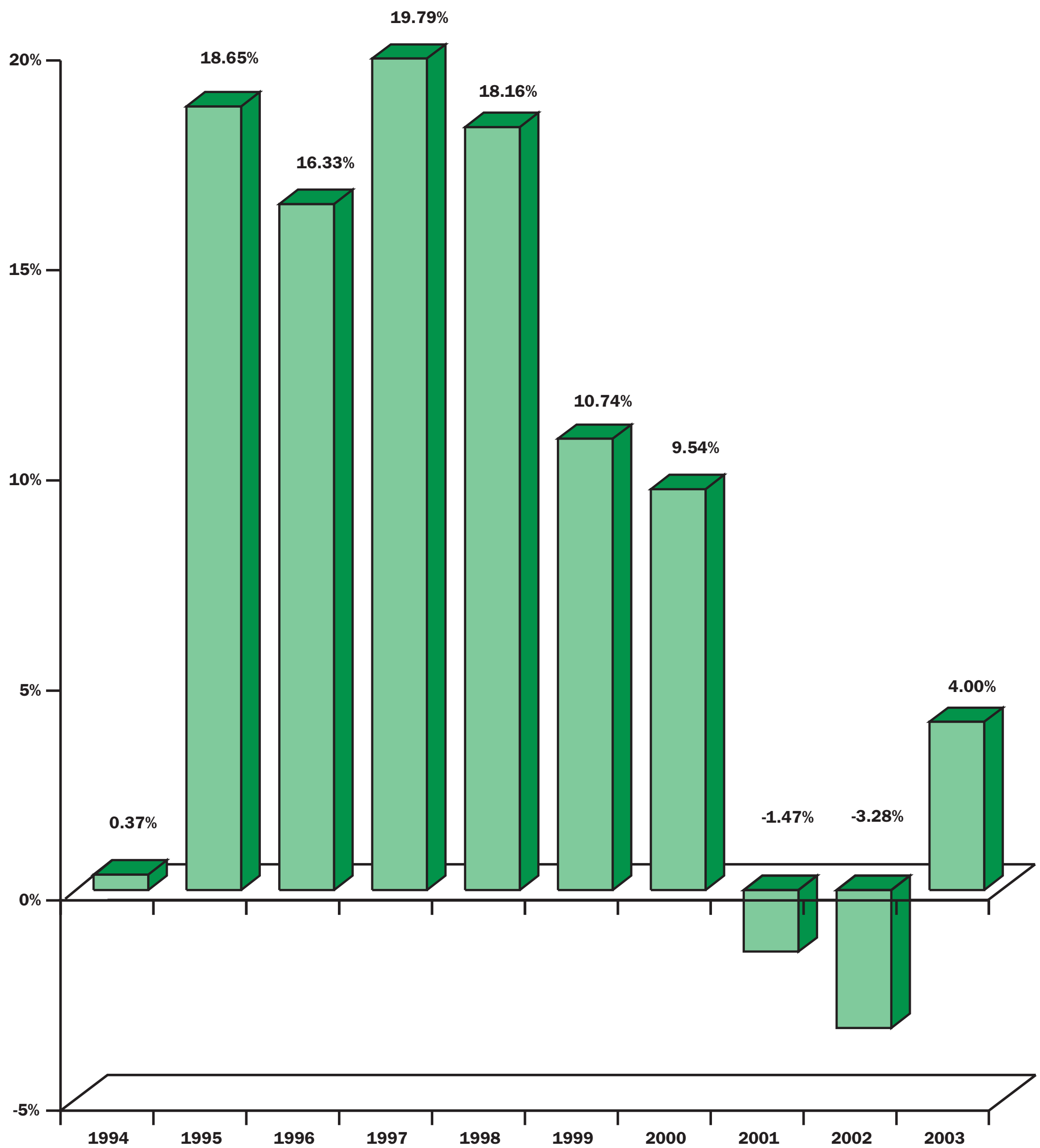
The Public School Teachers' Pension & Retirement Fund of Chicago maintains an appropriately diversified strategy, designed to maximize return with an acceptable risk level. Mercer supports the Fund's ongoing efforts to enhance investment results and its continued due diligence activities.

Sincerely,

Brad A. Blalock, CFA
Principal

Stephanie Grieser Braming, CFA
Principal

TOTAL ANNUAL FUND RATE OF RETURN *
As of June 30
1994 - 2003



* Time weighted rate of return.

SCHEDULE OF INVESTMENT RESULTS

	FOR THE YEAR ENDED JUNE 30,					ANNUALIZED RETURNS (%)		
	1999	2000	2001	2002	2003	3 Years	5 Years	10 Years
Total Fund	10.74 %	9.54 %	-1.47 %	-3.28 %	4.00 %	-0.28	3.79	8.97
Large Cap Equity	20.87	9.24	-10.38	-16.56	-0.72	-9.45	-0.39	10.26
Russell 1000 Index				-17.89	0.95	N/A	N/A	N/A
S&P 500	22.76	7.26	-14.83	-17.99	0.25	-11.20	-1.61	10.04
Mid Cap Equity	N/A	9.72	11.98	-5.71	-1.05	1.47	N/A	N/A
S&P Mid Cap	N/A	17.00	8.87	-4.72	-0.71	0.99	N/A	N/A
Small Cap Equity	1.64	18.56	-2.09	-2.11	1.40	-0.94	3.21	10.11
Russell 2000	1.50	14.33	0.57	-8.60	-1.65	-3.30	0.96	8.25
International Equity	9.58	20.31	-18.61	-1.51	-2.69	-7.94	0.56	N/A
MSCI EAFE	7.92	17.44	-23.32	-9.21	-6.07	-13.21	-3.69	N/A
MSCI ACWI ex US	9.53	18.10	-23.81	-8.16	-4.20	-12.48	-2.81	N/A
Fixed Income	2.85	4.32	11.44	8.24	11.22	10.28	7.55	7.16
LB Aggregate	3.13	4.56	11.23	8.63	10.40	10.08	7.54	7.21
REITs	-3.36	4.43	22.13	14.64	3.65	13.29	8.68	N/A
NAREIT	-8.98	3.03	24.42	16.21	4.00	14.57	7.11	N/A
Real Estate	14.13	13.08	11.60	5.11	7.15	7.92	10.16	N/A
NCREIF (NPI)	13.60	12.59	11.51	5.60	7.64	8.21	9.79	N/A
Private Equity*	N/A	35.47	-9.81	-20.68	-8.80	-13.26	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

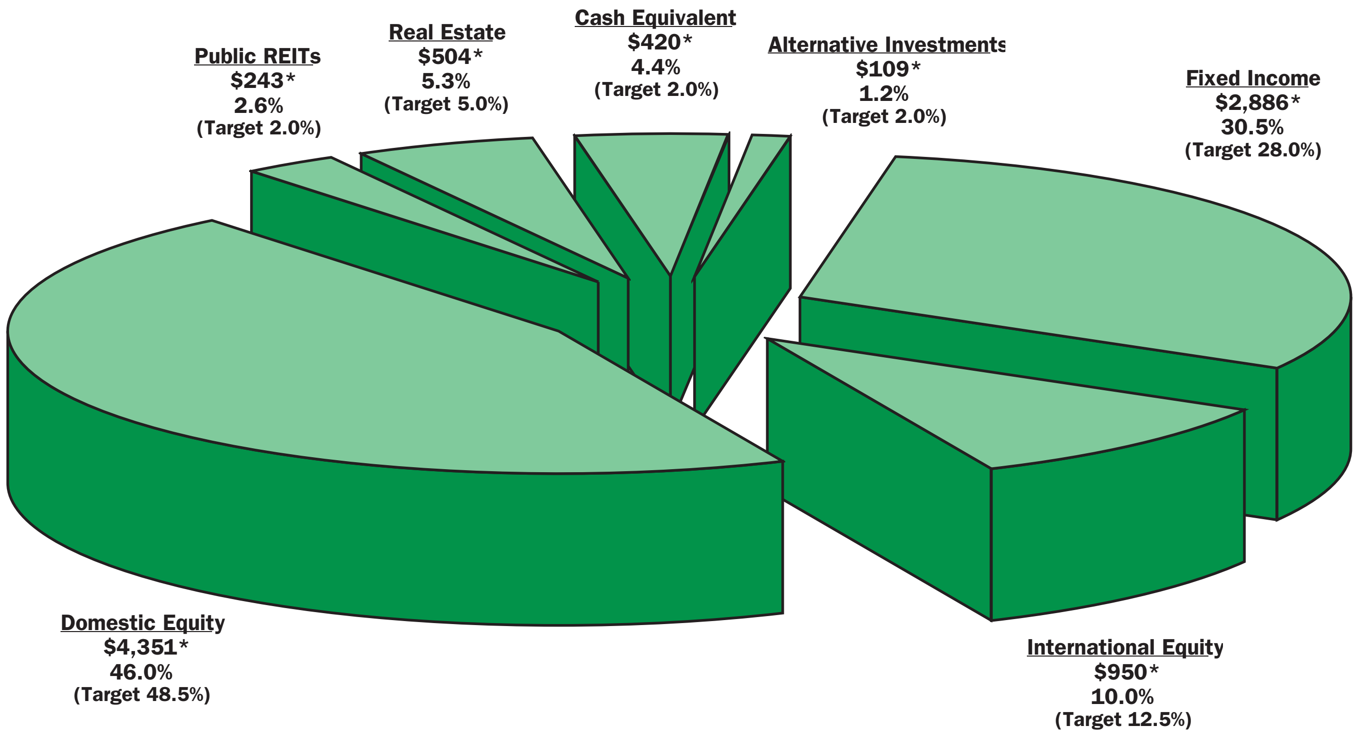
(IN MILLIONS OF DOLLARS)

	FAIR VALUE 6/30/02	PURCHASES	SALES (FAIR VALUE)	FAIR VALUE ADJUSTMENTS	FAIR VALUE 6/30/03	PERCENT OF TOTAL
FIXED INCOME						
Government	$ 1,768.2	3,797.1	3,924.7	82.2	1,722.8	18.21%
Corporate	1,055.9	396.5	572.7	81.9	961.6	10.16
Miscellaneous	171.3	209.0	179.1	0.2	201.4	2.13
FIXED INCOME	2,995.4	4,402.6	4,676.5	164.3	2,885.8	30.50
EQUITY						
Stocks	5,223.2	1,878.9	1,779.1	(21.6)	5,301.4	56.01
Private Equity	86.4	41.2	6.2	(12.1)	109.3	1.16
Public REITS	237.2	57.5	47.1	(4.7)	242.9	2.57
EQUITY	5,546.8	1,977.6	1,832.4	(38.4)	5,653.6	59.74
REAL ESTATE	559.8	94.7	61.9	(89.0)	503.6	5.32
CASH & CASH EQUIV.	333.4	81.2 *		5.3	419.9	4.44
TOTAL PORTFOLIO	9,435.4	6,556.1	6,570.8	42.2	9,462.9	100.00%

*Net of cash receipts & disbursements for year ending 6/30/03.

Note: 12.7% of fair value is invested in foreign currency securities.

ASSET ALLOCATION
as of June 30, 2003

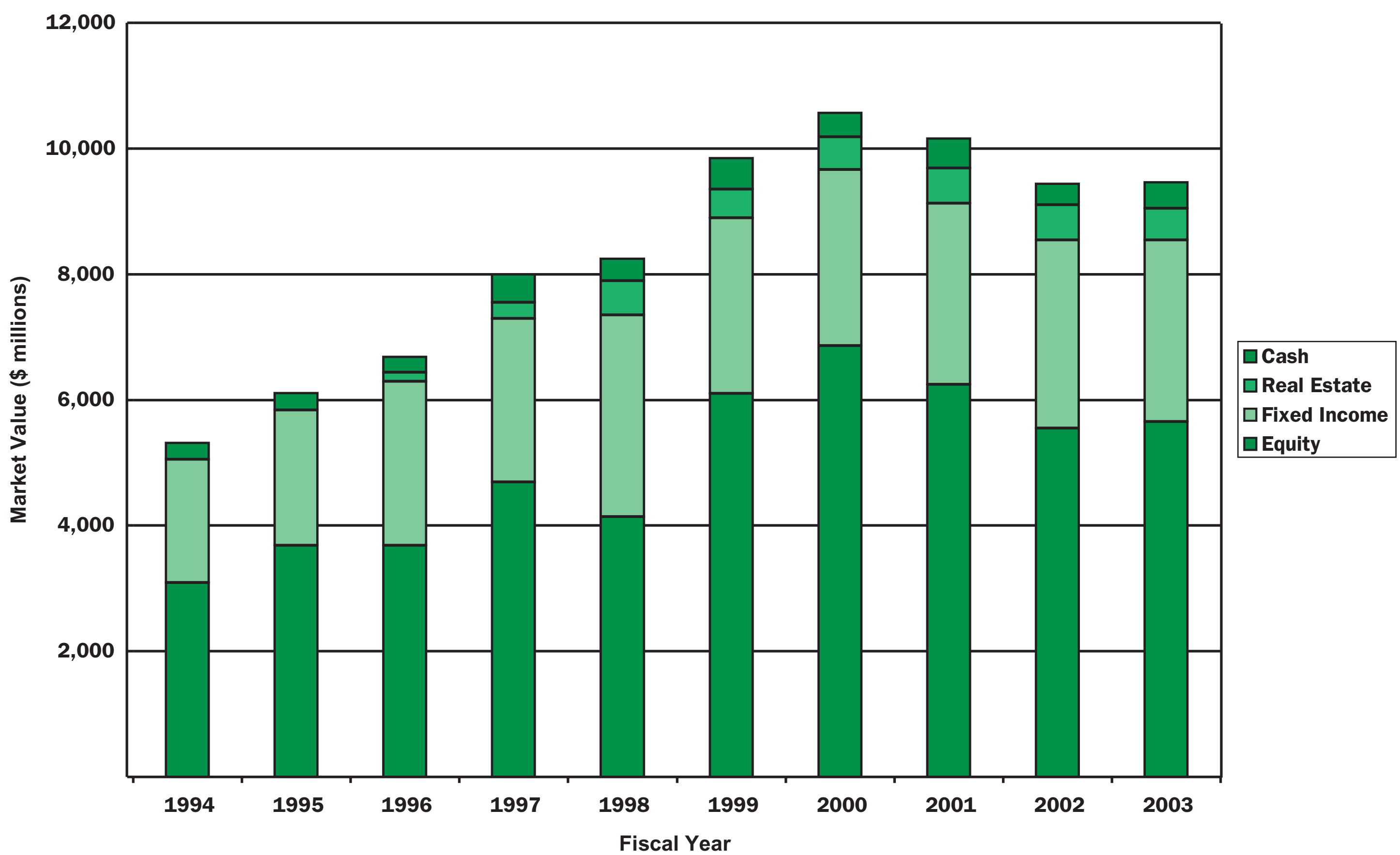


* in millions

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

HISTORICAL ASSET ALLOCATION

	1999		2000		2001		2002		2003	
	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)
Equity:										
Domestic	52.2	51.0	53.4	51.0	48.8	48.5	44.9	48.5	46.0	48.5
International	8.0	10.0	9.2	10.0	9.8	12.5	10.6	12.5	10.0	12.5
Public REITs	1.6	2.0	1.6	2.0	2.0	2.0	2.5	2.0	2.6	2.0
Private Equity	0.1	2.0	0.7	2.0	0.9	2.0	0.9	2.0	1.2	2.0
Total Equity	**61.9**	**65.0**	**64.9**	**65.0**	**61.5**	**65.0**	**58.9**	**65.0**	**59.8**	**65.0**
Fixed Income	**28.4**	**28.0**	**26.5**	**28.0**	**28.4**	**28.0**	**31.7**	**28.0**	**30.5**	**28.0**
Real Estate	**4.6**	**5.0**	**4.9**	**5.0**	**5.5**	**5.0**	**5.9**	**5.0**	**5.3**	**5.0**
Cash & Equiv.	**5.1**	**2.0**	**3.7**	**2.0**	**4.6**	**2.0**	**3.5**	**2.0**	**4.4**	**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, 2003

Economic Sector Holdings

S&P Economic Sector	Number of Shares	Market Value ($)	Fund Allocation	S&P 500 Index Allocation
Financials	17,783,185	673,976,356	19.8%	20.4%
Health Care	13,027,403	511,268,034	14.9%	14.8
Information Technology	26,792,904	511,204,717	14.9%	16.2
Consumer Discretionary	16,952,634	464,404,545	13.5%	11.1
Industrials	13,929,031	427,620,525	12.5%	10.4
Consumer Staples	7,207,946	282,712,898	8.2%	11.7
Energy	5,956,249	226,435,745	6.6%	5.8
Telecommunication Services	5,526,152	121,705,793	3.5%	3.9
Utilities	3,305,300	109,846,220	3.2%	3.0
Materials	3,245,898	100,502,974	2.9%	2.7
Total Classified Equities	**113,726,702**	**3,429,677,807**	**100.0%**	**100.0%**
Commingled Funds	28,318,465	921,144,176		
Non-Classified	3,159	26		
Total Domestic Equity	**142,048,326**	**4,350,822,009**		

Top 10 Domestic Equity Holdings (excludes Commingled Funds)

Description	Number of Shares	Market Value ($)	Percentage of Total
Pfizer, Inc.	2,472,521	84,436,592	1.94%
Microsoft Corp.	2,829,018	72,451,151	1.67
Exxon Mobil Corp.	1,824,890	65,531,800	1.51
Citigroup, Inc.	1,497,922	64,111,062	1.47
General Electric Co.	1,953,275	56,019,927	1.29
Johnson & Johnson	937,883	48,488,551	1.11
Wal-Mart Stores	823,650	44,205,296	1.02
Intel Corp.	1,883,073	39,137,789	0.90
American International Group	687,825	37,954,184	0.87
Bank of America Corp.	472,786	37,364,278	0.86
Total Top 10 Domestic Equity	**15,382,843**	**549,700,630**	**12.64**
Total Domestic Equity		**4,350,822,009**	**100.00%**

*A complete list of the portfolio holdings at 6/30/03 is available at the Pension Fund office.

INTERNATIONAL EQUITY SUMMARY
As of June 30, 2003

Country Holdings	Number of Shares	Market Value ($)	Fund Allocation	MSCI EAFE Index Allocation
Europe				
United Kingdom	43,956,651	250,836,212	28.8%	27.2%
France	1,674,831	101,060,485	11.6	9.8
Switzerland	1,605,325	87,405,105	10.1	7.5
Netherlands	3,077,869	72,664,084	8.4	5.2
Italy	4,204,561	30,522,326	3.5	3.9
Spain	1,448,891	21,047,094	2.4	3.8
Germany	589,586	20,101,827	2.3	6.4
Sweden	968,068	9,885,397	1.1	2.1
Other	2,862,241	35,556,174	4.1	5.9
Total Europe	**60,388,023**	**629,078,704**	**72.3**	**71.8**
Asia/Pacific Basin				
Japan	12,803,153	166,143,119	19.1	20.5
Australia	5,286,440	23,614,068	2.7	5.2
Hong Kong	1,028,500	2,485,474	0.3	1.5
Other	6,679,865	21,480,780	2.5	1.0
Total Asia/Pacific Basin	**25,797,958**	**213,723,441**	**24.6**	**28.2**
Americas				
Canada	486,640	15,413,208	1.8%	0.0
Others	3,024,318	11,314,050	1.3%	0.0
Total Americas	**3,510,958**	**26,727,258**	**3.1%**	**0.0**
Total Classified Intl. Equity	**89,696,939**	**869,529,403**	**100.0%**	**100.0%**
Commingled Funds	8,434,490	81,039,752		
Total International Equity	**98,131,429**	**950,569,155**		

Top 10 International Equity Holdings (excludes Commingled Funds)

Description	Number of Shares	Market Value ($)	Percentage of Total
Total SA (France)	169,415	25,602,616	2.69%
Glaxosmithkline (United Kingdom)	1,136,789	22,941,749	2.41
Vodafone Group PLC (United Kingdom)	11,587,632	22,658,609	2.38
Royal Dutch Petrol (Netherlands)	442,690	20,548,145	2.16
Novartis AG (Switzerland)	516,790	20,449,554	2.15
BP ORD (United Kingdom)	2,889,932	20,040,823	2.11
Unilever (Netherlands)	306,578	16,448,277	1.73
Cannon, Inc. (Japan)	345,000	15,831,355	1.67
UBS (Switzerland)	284,342	15,817,186	1.66
Nestle SA (Switzerland)	75,582	15,595,710	1.64
Total Top 10 International Equity	**17,754,750**	**195,934,024**	**20.60**
Total International Equity		**950,569,155**	**100.00%**

* A complete list of the portfolio holdings at 6/30/03 is available at the Pension Fund office.

FIXED INCOME SUMMARY
As of June 30, 2003

Fixed Income Holdings

Asset Category	Par Value	Market Value ($)	Percentage of Total	Lehman Aggregate Index Allocation
Government Bonds	786,800,000	901,246,235	32.2%	21.9%
Corporate Bonds	776,484,267	875,082,617	31.2	23.2
Mortgage Backed	442,256,789	459,346,865	16.4	34.2
Government Agencies	369,610,986	409,358,307	14.6	12.2
Asset Backed Securities	138,079,035	136,714,447	4.9	1.8
Commercial Mortgage Backed	16,654,793	18,763,062	0.7	2.5
Non-Corporate	—	—	0.0	4.2
Total Classified Fixed Income	**2,529,885,870**	**2,800,511,533**	**100.0%**	**100.0%**
Commingled Funds	5,530,238	85,308,408		
Total Fixed Income	**2,535,416,108**	**2,885,819,941**		

REAL ESTATE SUMMARY
As of June 30, 2003

Real Estate Holdings

Description	Number of Shares	Market Value ($)	Percentage of Total
JP Morgan - Strategic Property Fund	123,450	114,575,524	22.7%
UBS Asset Management	106,361,421	110,370,233	21.9
Prudential PRISA I Real Estate Fund	4,681	90,251,892	17.9
RREEF America REIT	738,153	58,830,394	11.7
Olympus Real Estate Fund II	24,081,681	23,420,716	4.7
Prudential PRISA II Real Estate Fund	2,163	23,070,437	4.6
Capital Associates	19,814,664	19,969,727	3.9
Walton Street Real Estate Fund III	15,815,085	16,374,177	3.3
Walton Street Real Estate Fund II	14,565,526	15,340,308	3.0
Blackstone RE Partners	13,932,878	14,891,512	3.0
Lend Lease RE Investments	16,429,224	12,898,730	2.6
Walton Street Real Estate Fund I	4,580,890	3,556,190	0.7
Total Real Estate	**216,449,816**	**503,549,840**	**100.0%**

* A complete list of the portfolio holdings at 6/30/03 is available at the Pension Fund office.

PRIVATE EQUITY SUMMARY
As of June 30, 2003

Private Equity Holdings

Description	Number of Shares	Market Value ($)	Percentage of Total
Harbourvest Partners VI-Buyout	20,402,306	19,172,865	17.5%
Mesirow Partnership Fund I	20,334,659	16,428,192	15.0
Pantheon Venture Fund III	24,363,550	14,900,701	13.6
Pantheon USA Fund IV	10,724,743	10,750,348	9.8
Harbourvest Partners VI-Partnership	14,353,546	10,384,105	9.5
Mesirow Partnership Fund II	5,664,176	5,608,099	5.1
Pantheon Europe Fund	4,743,402	5,320,577	4.9
Brinson Partnership - 2002 Fund	4,884,654	5,288,186	4.8
Brinson Partnership - 1998 Fund	6,414,083	4,963,424	4.6
Brinson Partnership - 2000 Fund	4,615,405	3,340,781	3.1
Brinson Partnership - 2001 Fund	3,606,568	3,190,506	2.9
Mesirow Capital Partners VIII	2,788,640	2,683,959	2.5
Brinson Partnership - 1999 Fund	3,521,878	2,337,429	2.2
Brinson Partnership - 2003 Fund	1,450,704	1,450,704	1.3
Brinson Non US Partnership - 2002	1,231,781	1,298,188	1.2
Brinson Partnership - 1996 Fund	1,050,040	1,038,878	1.0
Brinson Non US Partnership - 2001	595,593	572,840	0.5
Brinson Partnership - 1997 Fund	436,464	370,083	0.3
Brinson Non US Partnership - 2003	241,412	241,412	0.2
Total Private Equity	**131,423,604**	**109,341,277**	**100.0%**

PUBLIC REIT SUMMARY
As of June 30, 2003

Public REIT Holdings

Description	Number of Shares	Market Value ($)	Percentage of Total
Lasalle Investment Management	4,091,615	118,229,143	48.7%
Morgan Stanley Investments, L.P.	5,073,659	124,670,578	51.3
Total Public REIT	**9,165,274**	**242,899,721**	**100.0%**

* A complete list of the portfolio holdings at 6/30/03 is available at the Pension Fund office.

MANAGER ANALYSIS

Asset Category	Fair Value 06/30/03	Percentage of Portfolio	FY 2003 Manager Fees
EQUITY			
Domestic Equity			
Ariel Capital Management	$ 248,280,238	2.7%	$ 676,825
Dimensional Fund Advisors	128,492,989	1.4	538,145
Fidelity Capital Management	382,597,568	4.1	1,220,672
Harris Investment Management	293,733,510	3.2	604,192
Holland Capital Management	39,271,329	0.4	143,662
Iridian Asset Management	105,399,345	1.1	696,138
J. & W. Seligman	209,612,141	2.3	810,071
New Amsterdam Partners	122,160,941	1.3	336,985
Northern Trust Global Investment	2,080,633,082	22.5	394,174
Oppenheimer Capital	-	0.0	36,462
UBS Global Asset Management	274,235,983	3.0	767,512
Waddell & Reed Asset Management	402,249,353	4.3	551,827
William Blair	108,825,770	1.2	523,021
Zevenbergen Capital, Inc.	41,045,863	0.4	244,063
Total	**4,436,538,112**	**47.9**	**7,543,749**
International Equity			
Lazard Asset Management	255,460,803	2.8	525,011
MFS Advisors	298,416,949	3.2	671,101
Morgan Stanley	430,962,850	4.7	1,741,008
Zurich Scudder	1,347,854	0.0	410,904
Total	**986,188,456**	**10.7**	**3,348,024**
Public REITS			
LaSalle Investment Management	119,634,456	1.3	521,831
Morgan Stanley	128,930,827	1.4	745,643
Total	**248,565,283**	**2.7**	**1,267,474**
Alternative Investments			
Adams Street Partners	24,092,431	0.3	859,148
HarbourVest Partners	29,556,970	0.3	1,000,000
Mesirow Financial	24,720,250	0.3	779,476
Pantheon Ventures	30,971,626	0.3	493,286
Total	**109,341,277**	**1.2**	**3,131,910**
TOTAL EQUITY	**$ 5,780,633,128**	**62.5%**	**$ 15,291,157**

Note- Fair value includes accrual income and trades payable and receivable.

MANAGER ANALYSIS (continued)

Asset Category	Fair Value 06/30/03	Percentage of Portfolio	F Y 2003 Manager Fees
FIXED INCOME			
Bank of America	$ -	0.0%	$ 90,868
Lincoln Capital Management	450,018,732	4.9	265,727
MDL Capital Management	135,143,662	1.5	126,833
Morgan Stanley	-	0.0	306,983
Northern Trust Global Investments	1,602,153,109	17.2	155,804
Smith Graham	66,792,856	0.7	165,352
Wellington Management	-	0.0	391,047
Western Asset Management	515,137,605	5.6	365,096
Total	**2,769,245,964**	**29.9**	**1,867,710**
REAL ESTATE			
Blackstone Group	14,891,512	0.2	211,611
Capri/Capital Advisors	19,969,727	0.2	222,515
JP Morgan Fleming	114,575,525	1.2	1,266,735
Lend Lease	12,898,743	0.1	147,685
Olympus Real Estate	23,420,716	0.3	301,753
Prudential Securities	113,322,329	1.2	985,016
RREEF	71,425,191	0.8	1,388,160
TimesSquare	-	0.0	608,705
UBS Realty Investors	110,370,233	1.2	914,726
Walton Street	35,270,675	0.4	446,519
Total	**516,144,651**	**5.6**	**6,493,425**
CASH EQUIVALENT			
Northern Trust	187,555,916	2.0	-
Grand Total	**$ 9,253,579,659**	**100.0%**	**$ 23,652,292**

Note- Fair value includes accrual income and trades payable and receivable.

BROKER COMMISSION REPORT
Domestic Agency Trades
For the year ended June 30, 2003

Broker Name	Number of Shares	Transaction Amount ($)	Commissions Paid ($)	Commission Per Share (cents)
Citation Group	8,448,935	234,481,770	376,177	4.5
Loop Capital Markets	8,449,589	236,943,957	346,405	4.1
Gardner Rich & Co.	7,591,507	151,518,276	342,027	4.5
BNY Securities Co.	5,841,277	165,475,499	233,613	4.0
Berean Capital, Inc.	4,660,703	103,155,055	218,426	4.7
Lynch Jones & Ryan	4,871,939	125,324,214	192,512	4.0
Goldman Sachs & Co.	3,770,795	74,986,811	175,351	4.7
Merrill Lynch Pierce Fenner & Smith	3,690,167	70,952,409	166,478	4.5
Instinet	4,420,974	87,204,996	138,838	3.1
Smith Barney, Inc.	2,947,321	67,457,053	123,357	4.2
Lehman Brothers, Inc.	2,545,070	55,814,473	118,025	4.6
Morgan Stanley & Co.	2,692,435	61,435,887	112,398	4.2
Correspondent Services Corp.	2,497,013	75,675,065	111,621	4.5
Jefferies & Co.	1,864,945	42,996,18	88,418	4.7
PXP Securities	1,978,529	51,017,52	74,780	3.8
JP Morgan Securities	1,401,290	28,412,485	68,265	4.9
Prudential Securities, Inc.	1,351,655	28,232,000	66,277	4.9
Bear Stearns	1,314,009	25,435,281	59,399	4.5
Credit Suisse First Boston	1,134,527	26,089,887	56,641	5.0
UBS Warburg Dillon Reed	1,311,988	32,050,639	51,102	3.9
SG Cowen & Co.	1,247,086	20,680,361	50,131	4.0
Bernstein, Sanford C. & Co.	914,330	16,550,470	45,873	5.0
M. Ramsey King Securities	952,990	19,896,915	44,193	4.6
Charles Schwab	905,649	10,659,560	33,976	3.8
CIBC	680,517	12,884,506	33,737	5.0
Mesirow Financial, Inc.	633,125	13,568,352	31,220	4.9
Weeden & Co.	718,110	11,450,074	29,484	4.1
Bank of America Securities	654,996	9,424,068	28,809	4.4
Investment Technology Group	1,731,458	40,755,583	28,216	1.6
UBS Securities	594,576	11,445,605	25,966	4.4
B-Trade Services	858,838	17,159,454	23,803	2.8
Donaldson Lufkin & Jenrette Securities	476,336	11,846,854	23,600	5.0
Deutsche Bank Securities, Inc.	469,448	9,928,198	23,422	5.0
Bridge Trading Company	409,900	9,297,219	20,495	5.0
RBC Dain Rauscher	394,628	9,764,186	19,731	5.0
Robert W. Baird & Co.	396,722	11,290,84	19,204	4.8
BHC Securities	410,700	12,509,044	18,482	4.5
Adams, Harkness & Hill, Inc.	381,125	5,764,791	17,830	4.7
US Bancorp	328,483	5,830,976	16,307	5.0
Abel Noser Corp.	1,139,703	30,346,540	15,497	1.4
Others (121 Brokers)	7,804,360	186,650,993	359,408	4.6
GRAND TOTAL	**94,887,748**	**2,222,364,060**	**4,029,494**	**4.2**

BROKER COMMISSION REPORT
International Agency Trades
For the year ended June 30, 2003

Broker Name	Number of Shares	Transaction Amount ($)	Commissions Paid ($)	Commission Per Share (cents)
ABN AMRO Securities	3,069,661	28,849,359	23,707	0.8
Citigroup	1,149,704	14,610,682	18,643	1.6
Credit Suisse First Boston	5,963,302	45,466,714	89,651	1.5
Deutsche Bank Securities, Inc.	855,472	13,287,730	24,018	2.8
Dresdner Kleinwort Wasserstein	880,299	14,557,363	21,915	2.5
Goldman Sachs & Co.	4,417,823	46,660,484	83,322	1.9
HSBC Securities	2,452,699	30,176,698	57,011	2.3
Instinet	1,998,399	18,690,090	36,898	1.8
JP Morgan Securities	3,134,188	30,047,466	59,731	1.9
Lehman Brothers, Inc.	3,639,305	46,298,679	79,577	2.2
Merrill Lynch & Co.	44,353,309	457,896,619	528,178	1.2
Morgan Stanley & Co.	3,011,816	26,704,827	55,452	1.8
Nomura International	1,613,018	17,456,587	32,142	2.0
Salomon Smith Barney	4,708,140	32,060,809	52,981	1.1
Societe Generale	678,570	9,107,485	16,551	2.4
Sanford Bernstein	2,537,735	19,168,263	36,507	1.4
SG Securities	624,587	9,511,320	21,895	3.5
UBS	3,715,004	34,913,227	70,389	1.9
Others (68 Brokers)	24,819,877	165,502,525	292,348	1.2
GRAND TOTAL	**113,622,908**	**1,060,966,927**	**1,600,916**	**1.4**

Directed Commissions Program
For the year ended June 30, 2003

Directed Commissions	Commission ($)
Directed to Chicago Based Minority & Woman Business - Domestic	1,365,250
Directed to Chicago Based Minority & Woman Business - International	112,364
Directed to Non-Local Based Minority & Woman Business	192,412
Directed to Commission recapture program - Domestic	733,562
Recaptured Commissons - Domestic	(498,908)
Directed to Commission recapture program - International	404,950
Recaptured Commissions - International	(253,094)
Net Commission Recapture Fees	**386,510**

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.

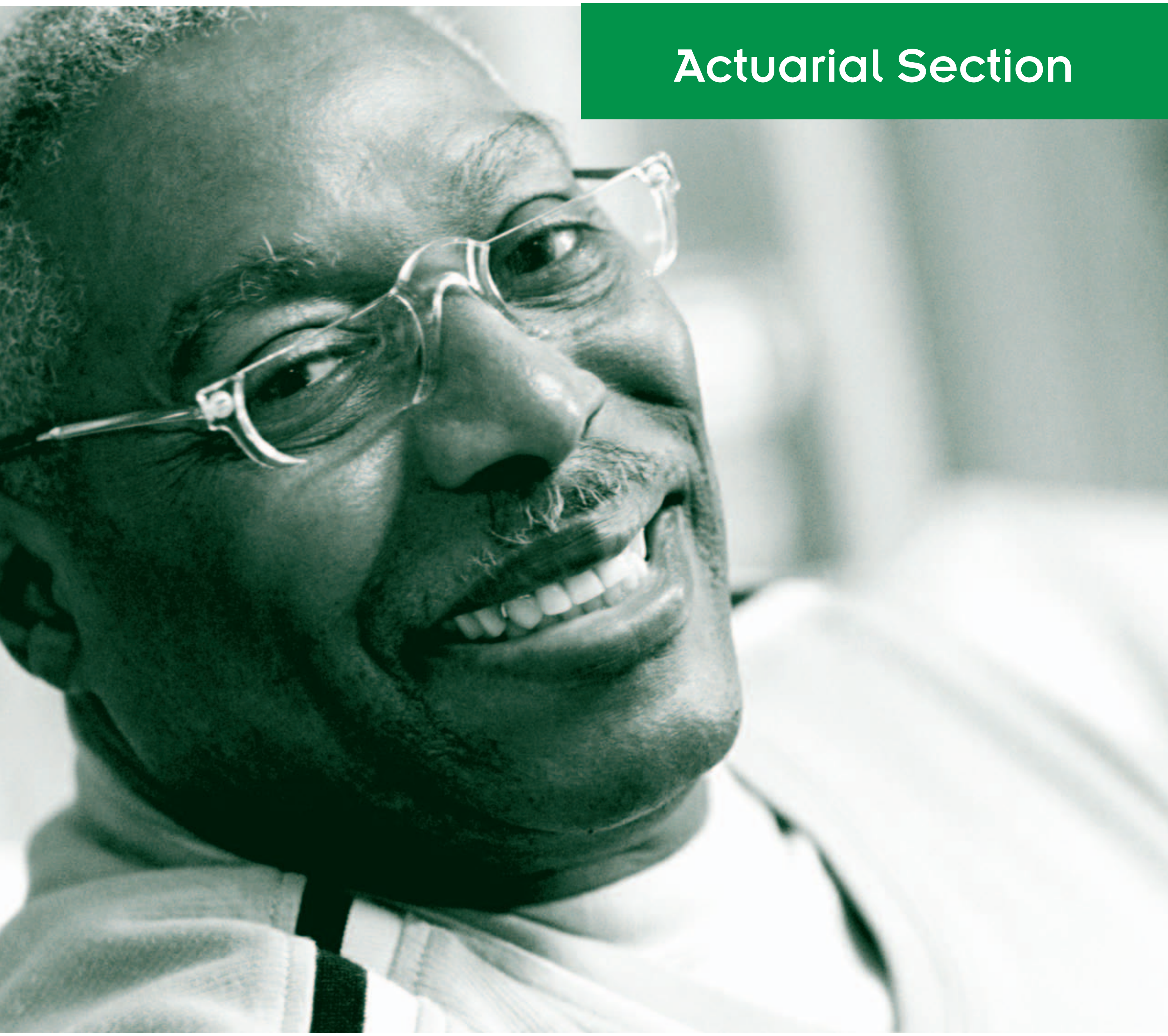
SECTION 5/17-147. CUSTODY OF FUND-BONDS-LEGAL PROCEEDINGS

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

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December 26, 2003

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, 2003. 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, there have been no changes in the benefit provisions of the Fund. 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, 2003 actuarial valuation and the funding plan established by Public Act 89-15 and Public Act 90-548, we have estimated the Board of Education contribution requirement for Fiscal Year 2005 to be $0.

The actuarial assumptions used for the June 30, 2003 actuarial valuation were based on an experience analysis of the Fund over the three-year period 2000-2002. Based on this experience analysis, we recommended certain changes in actuarial assumptions from the assumptions used for the June 30, 2002 actuarial valuation. The assumptions used for the June 30, 2003 valuation were adopted by the board as of June 30, 2003 upon recommendation of the actuary. We have estimated that the changes made in the actuarial assumptions used for the June 30, 2003 valuation had the impact of increasing the fund's total actuarial liability by $130,707,000.The projected unit credit actuarial cost method was used for the June 30, 2003 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2002 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, 2003.

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, 2003. 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	$ 11,411,528,364
2. Actuarial Value of Assets	10,494,754,698
3. Unfunded Actuarial Liability	916,773,666
4. Funded Ratio	92.0%
5. Employer's Normal Cost for FY 04 as a percent of payroll	9.69%
6. Annual Required Contribution for FY 04 Based on GASB Statement No. 25	202,971,485
7. Board of Education Contribution Requirement For FY 04 Based on Public Act 89-15 and Public Act 90-548	0

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, 2003, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 36,548 active contributors, 18,565 pensioners, and 1,444 vested terminated members included in the valuation. The total active payroll as of June 30, 2003 was $1,706,205,814.

Exhibit 1

Summary of Membership Data

1. Number of Members

(a) Active Members

(i)	**Vested Board of Education Employees**	22,182
(ii)	**Non-vested Board of Education Employees**	13,444
(iii)	**Vested Charter School Employees**	131
(iv)	**Non-vested Charter School Employees**	791
(v)	**Total Active Members**	36,548

(b) Members Receiving		
	(i) Retirement Pensions	15,930
	(ii) Disability Pensions	371
	(iii) Survivor Pensions	2,191
	(iv) Reversionary Pensions	73
	(v) Total Pensioners	18,565
(c) Vested Terminated Members		1,444
(d) Total		56,557

2. Annual Salaries	
(a) Salary for Board of Education Employees	$1,671,928,207
(b) Salary for Charter School Employees	34,277,607
(c) Total Salary	$1,706,205,814
(d) Average Salary	46,684
3. Total Accumulated Contributions of Active Members	$1,158,355,645
4. Annual Benefit Payments Currently Being Made	
(a) Retirement Pensions	$510,625,004
(b) Disability Pensions	8,126,443
(c) Survivor Pensions	25,133,425
(d) Reversionary Pensions	597,057
(e) Total Pensions	$544,481,929

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, 2003 prepared by the Fund. All assets of the fund were included in the valuation, including assets that are being segregated by the fund in a separate Health Insurance Account for the payment of retiree health insurance premiums. For the last actuarial valuation, such segregated assets were not included in the valuation.

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 $10,494,754,698. 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, 2003

1. Revised Actuarial Value of Assets as of 6/30/02	$ 10,640,947,039
2. Employer Contributions	78,783,758
3. Employee Contributions	159,931,110
4. Expenses	621,947,679
5. Expected Investment Income	836,241,354
6. Actual Investment Income	313,502,170
7. Investment Gain/(Loss) (6 – 5)	$ (522,739,184)

B. Development of Actuarial Value of Assets

8. Expected Actuarial Value of Assets as of June 30, 2003 (1 + 2 + 3 – 4 + 5)	$ 11,093,955,582
9. One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2000	65,310,416
10. One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2001	(237,323,180)
11. One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2002	(296,503,324)
12. One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2003	(130,684,796)
13. Actuarial Value of Assets as of June 30, 2003 (8+9+10+11+12)	$ 10,494,754,698

C. FUND PROVISIONS

Our valuation was based on the provisions of the Fund in effect as of June 30, 2003 as provided in Article 17 of the Illinois Pension Code. 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

Based on a study of the experience of the Fund over the period 2000-2002 we have made some changes in the actuarial assumptions used for the June 30, 2003 actuarial valuation. The mortality rates, disability rates, withdrawal rates and retirement rates for teachers with 33 or more years of service have been changed to bring them in line with recent experience. The salary increase assumption has been reduced to bring it in line with recent experience, with the reduction being 1% per year at most ages. The other actuarial assumptions used for the June 30, 2003 actuarial valuation are the same as those used for the June 30, 2002 valuation. The actuarial assumptions used for the June 30, 2003 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, 2003 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2002 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, 2003, the total actuarial liability is $11,411,528,364, the actuarial value of assets is $10,494,754,698, and the unfunded liability is $916,773,666. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 92%.

Exhibit 3

Actuarial Liability as of June 30, 2003

1. Actuarial Liability for Active Members	
(a) Basic Retirement Annuity	$ 3,506,248,463
(b) Post Retirement Increase	916,606,144
(c) Lump Sum Death Benefit	12,574,185
(d) Survivor's Pension	311,505,097
(e) Disability Pension	82,170,188
(f) Withdrawal Benefit	242,547,915
(g) Total	$5,071,651,992
2. Actuarial Liability Members Receiving Benefits	
(a) Retirement Pensions	$ 5,897,876,168

	(b) Survivor Pensions	250,121,418
	(c) Disability Pensions	93,476,649
	(d) Total	$ 6,241,474,235
3.	Actuarial Liability for Inactive Members	$ 98,402,137
4.	Total Actuarial Liability	$ 11,411,528,364
5.	Actuarial Value of Assets	$ 10,494,754,698
6.	Unfunded Actuarial Liability	$ 916,773,666
7.	Funded Ratio	92.0%

Estimate of Impact of Changes in Assumptions. We have estimated that the changes in assumptions used for the June 30, 2003 actuarial valuation had the impact of increasing the Fund's total actuarial liability by $130,706,801.

F. EMPLOYER'S NORMAL COST

The employer's share of the normal cost for the year beginning July 1, 2003 is developed in Exhibit 4. The total normal cost is $318,912,509, employee contributions are estimated to be $153,558,523, resulting in the employer's share of the normal cost of $165,353,986.

Based on a payroll of $1,706,205,814 as of June 30, 2003, the employer's share of the normal cost can be expressed as 9.69% of payroll.

Exhibit 4

Employer's Normal Cost For Year Beginning July 1, 2002

		Dollar Amount	Percent Of Payroll
1.	Basic Retirement Pension	$ 173,133,388	10.15%
2.	Post Retirement Increases	45,501,718	2.67
3.	Lump Sum Death Benefits	952,652	.05
4.	Survivor's Pension	17,769,486	1.04
5.	Disability Benefits	5,740,125	.34
6.	Withdrawal Benefits	29,011,844	1.70

7.	**Health Insurance Reimbursement**	40,000,000	2.34
8.	**Administrative Expenses**	6,803,296	.40
9.	**Total Normal Cost**	$ 318,912,509	18.69%
10.	**Employee Contributions**	153,558,523	9.00
11.	**Employer's Share of Normal Cost**	$ 165,353,986	9.69%

Note. The above figures are based on a total active payroll of $1,706,205,814 as of June 30, 2003.

G. BOARD OF EDUCATION CONTRIBUTION REQUIREMENT FOR FISCAL YEAR 2005

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 amount needed to maintain the ratio of assets to total actuarial liability at the 90% level.

As of June 30, 2003, the ratio of the actuarial value of assets to the total actuarial liability is 92.0%. Using the results of the June 30, 2003 valuation as a starting point and assuming no Board of Education contribution in Fiscal Year 2004, we have projected the ratio of the actuarial value of assets to the total actuarial liability as of June 30, 2005 to be 81.0%. 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 total employer required contribution for Fiscal Year 2005 to be $76,100,000. State appropriations are estimated to be $65 million and other employer contributions are estimated to be $13.7 million. Thus, based on the total employer required contribution for Fiscal Year 2005, estimated State appropriations and other employer contributions for Fiscal Year 2005, the net Board of Education contribution requirement for Fiscal Year 2005 is estimated to be $0.

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, 2003 actuarial valuation, we have therefore calculated the annual required contribution for Fiscal Year 2004. 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 2004 has been determined to be as follows:

	Fiscal Year 2004
1. Employer's normal cost	$ 165,353,986
2. Annual amount to amortize the unfunded liability (surplus) over 40 years as a level percent of payroll	37,617,499
3. Annual required contribution (1 + 2)	$ 202,971,485

I. RECONCILIATION OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY

The net actuarial experience during the period July 1, 2002 to June 30, 2003 resulted in an increase in the Fund's unfunded actuarial liability of $510,352,914. 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.

Restating the June 30, 2002 actuarial value of assets to include assets segregated in the Health Insurance Fund had the impact of decreasing the unfunded liability by $21,885,581.

The employer contribution requirement for the year of normal cost plus interest on the unfunded actuarial liability amounted to $213,120,588. The total actual employer contribution for the year, including the amount allocated to the Health Insurance Fund, amounted to $78,783,758. Thus, the employer contribution for the year fell short of the funding requirement of normal cost plus interest on the unfunded liability by $134,336,830. 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.

The net rate of investment return earned by the Fund during the year, based on the actuarial value of assets, was approximately 2.3%, in comparison to the assumed rate of 8.0%. This resulted in an increase in the unfunded liability of $599,200,884. Salary increases lower than expected resulted in a decrease in the unfunded liability of $360,506,774.

Certain changes were made in the valuation of benefits, based on the actuarial audit performed by Buck Associates. The result of these changes in the valuation of benefits was to increase the unfunded liability by $70,470,829. We have estimated that the changes in actuarial assumptions used for the June 30, 2003 actuarial valuation had the impact of increasing the unfunded liability by $130,706,801.

The various other aspects of the Fund's experience resulted in a net decrease in the unfunded liability of $41,970,075. The aggregate financial experience of the Fund resulted in an increase in the unfunded liability of $510,352,914.

Exhibit 5

Reconciliation of Change in Unfunded Actuarial Liability
Over the Period July 1, 2002 to June 30, 2003

1.	**Unfunded Actuarial Liability as of 7/1/02**	$ 406,420,752
2.	**Decrease in Unfunded Liability due to Revision of Actuarial Value of Assets to include all assets**	21,885,581
3.	**Employer Contribution Requirement of Normal Cost Plus Interest on Unfunded Liability for Period 7/1/02 to 6/30/03**	213,120,588
4.	**Actual Employer Contribution for the Year**	78,783,758
5.	**Increase in Unfunded Liability Due to Employer Contribution Being Less Than Normal Cost Plus Interest on Unfunded Liability (2 – 3)**	$ 134,336,830
6.	**Increase in Unfunded Liability Due to Investment Return Lower Than Assumed**	599,200,884
7.	**Decrease in Unfunded Liability Due to Salary Increases Lower Than Assumed**	360,506,774
8.	**Increase in Unfunded Liability Due to Changes in Valuation of Benefits**	70,470,829
9.	**Increase in Unfunded Liability Due to Changes in Actuarial Assumptions**	130,706,801
10.	**Decrease in Unfunded Liability Due to Other Sources**	41,970,075
11.	**Net Increase in Unfunded Liability for the Year (5 – 2 + 6 – 7 + 8 + 9 – 10)**	510,352,914
12.	**Unfunded Actuarial Liability as of June 30, 2003 (1 + 11)**	$ 916,773,666

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
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%
2003	11,411,528,364	10,494,754,698	92.0%	916,773,666	1,706,205,814	53.7%

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)
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%
2003	1,158,355,645	6,241,474,235	4,011,698,484	10,494,754,698	100%	100%	77%

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
1994	1,162,159,018	257,438,703 (a)	22.15%	16.57%
1995	1,169,319,610	86,171,177 (b)	7.37%	16.71%
1996	1,278,738,666	72,580,416 (c)	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	4.42%	10.17%
2003	1,706,205,814	78,783,758	4.62%	9.39%

(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.

Additional Actuarial Tables

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase (Decrease) In Average Pay
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%
6-30-03	36,548	1,706,205,814	46,684	(0.8%)

Schedule of Retirees 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
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%
2003	1,363	63,184,471	665	20,222,042	18,565	544,481,929	29,328	4.5%

(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, 2003 valuation are summarized below. The assumptions were adopted as of June 30, 2003.

Mortality Rates. For males, the UP-94 Table for Males, rated down three years; for females, the UP-94 Table for Females, rated down two years.

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

1. Employees With 5 or Less Years of Service - Rates of Termination Per 1,000 Members

Years of Service	Under Age 60	Over Age 60
Less than 1 year	360	180
1 - 2 years	71	71
2 – 3 years	70	70
3 - 4 years	68	68
4 - 5 years	63	63

2. Employees With 5 to 10 Years of Service

Age	Rate of Termination 1,000 Members
25	46
30	48
35	44
40	37
45	32
50	30
55	30
60	30
62 and later	0

3. Employees With 10 or More Years of Service

Age	Rate of Termination Per 1,000 Members
30	24
35	25
40	19
45	12
50	10
55	10
60	10
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
30	.7
40	1.0
50	2.0
60	2.5
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:

1. Employees With Less Than 33 Years of Service

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

2. Employees With 33 or More Years of Service

Age	Rate of Retirement Per 1,000 Members
55	100
60	270
65	250
70	180
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	11.2%
30	8.9
35	7.3
40	6.2
45	5.4
50	4.7
55 and later	4.0

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 2.2% of average salary for each year of service after June 30, 1998 and for each year of service that has been upgraded, and 1-2/3% of average salary for each other 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 pensions 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 pension is payable without interest to a designated 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 for Chicago Public School Teachers. Charter School contributions may be contributed at various rates by the employers and teachers.

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.

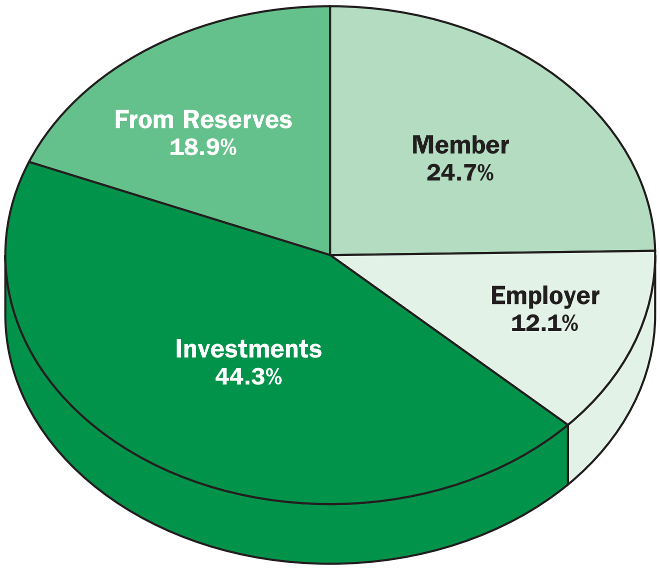
9. Actuarial Valuation. The determination, as of the valuation date, of the normal cost, actuarial liability, actuarial value of assets, and related actuarial present values for a pension plan.

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

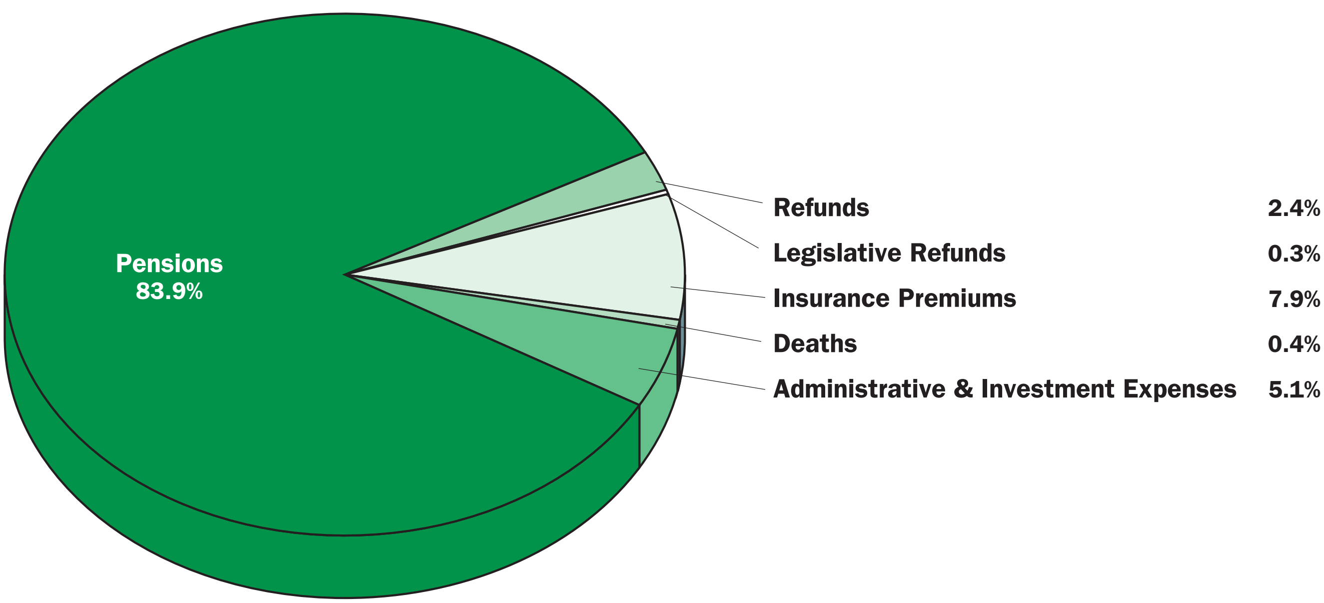
Statistical Section

2003 Revenue — Sources and Applications

Sources



Applications



Statistical Section

Participating Members

Table I

Salary Distribution

Fiscal Year	Total Salaries ($)	Average Salary ($)	Average Attained Age	Average Years of Service
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
2003	1,706,205,814	46,684	45.2	11.6

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
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
2003	36,548	4,211	10,025	6,919	4,063	11,330

Number of Members

Fiscal Year	Male Participants	Female Participants	Total
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
2003	9,284	27,264	36,548

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
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
2003	904	29	437	22	12,466	371

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 ($)
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
2003	8,161	5,533	21,904	32,054	67,652

* 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	64	228	4	16	208	449	7	30	395	735	678	1,458
$500 TO UNDER $1,000	133	489	21	45	330	394	1	13	238	317	723	1,258
$1,000 TO UNDER $1,500	135	597	17	48	196	256	0	12	142	227	490	1,140
$1,500 TO UNDER $2,000	228	884	18	48	78	167	1	6	106	223	431	1,328
$2,000 TO UNDER $2,500	319	1,075	12	42	14	46	0	1	66	184	411	1,348
$2,500 TO UNDER $3,000	392	1,169	15	36	2	32	0	1	63	195	472	1,433
$3,000 TO UNDER $3,500	526	1,296	8	30	2	10	0	1	91	205	627	1,542
$3,500 TO UNDER $4,000	1,011	2,028	2	5	0	5	0	0	51	101	1,064	2,139
$4,000 TO UNDER $4,500	330	507	2	2	0	0	0	0	29	20	361	529
$4,500 TO UNDER $5,000	228	178	0	0	0	0	0	0	15	12	243	190
$5,000 TO UNDER $5,500	124	127	0	0	0	0	0	0	13	12	137	139
$5,500 TO UNDER $6,000	89	74	0	0	2	0	0	0	12	3	103	77
$6,000 TO UNDER $6,500	71	55	0	0	0	0	0	0	1	1	72	56
$6,500 TO UNDER $7,000	47	20	0	0	0	0	0	0	2	3	49	23
$7,000 TO UNDER $7,500	20	6	0	0	0	0	0	0	0	0	20	6
$7,500 TO UNDER $8,000	3	3	0	0	0	0	0	0	0	0	3	3
$8,000 TO UNDER $8,500	1	3	0	0	0	0	0	0	1	0	2	3
$8,500 TO UNDER $9,000	2	0	0	0	0	0	0	0	0	0	2	0
$9,000 AND ABOVE	3	1	0	0	0	0	0	0	1	0	4	1
TOTAL	3726	8740	99	272	832	1359	9	64	1226	2238	5892	12673

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)
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
2003	509,945,240	25,730,482	8,126,443	2003	7,648,527	2,747,859	6,954,762

Fiscal Year	Death Benefits ($) Heirs of Active Tea.	Death Benefits ($) Heirs of Ann.	Fiscal Year	Health Ins. Premium Rebate ($) Amount	Grand Total
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
2003	482,493	2,339,000	2003	51,395,920	615,370,726

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

Statistical Section

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
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)
2003	159.9	313.5	—	78.8	4.6	552.2

(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
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
2003	543.8	17.4	2.8	51.4	6.6	622.0