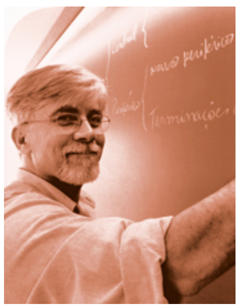




109th Comprehensive Annual Financial Report

for the year ended, June 30, 2004

Chicago, Illinois

trust. integrity. stability

Public School Teachers' Pension & Retirement Fund of Chicago

109th Comprehensive Annual Financial Report
for the year ended June 30, 2004

Public School Teachers' Pension And Retirement Fund Of Chicago

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

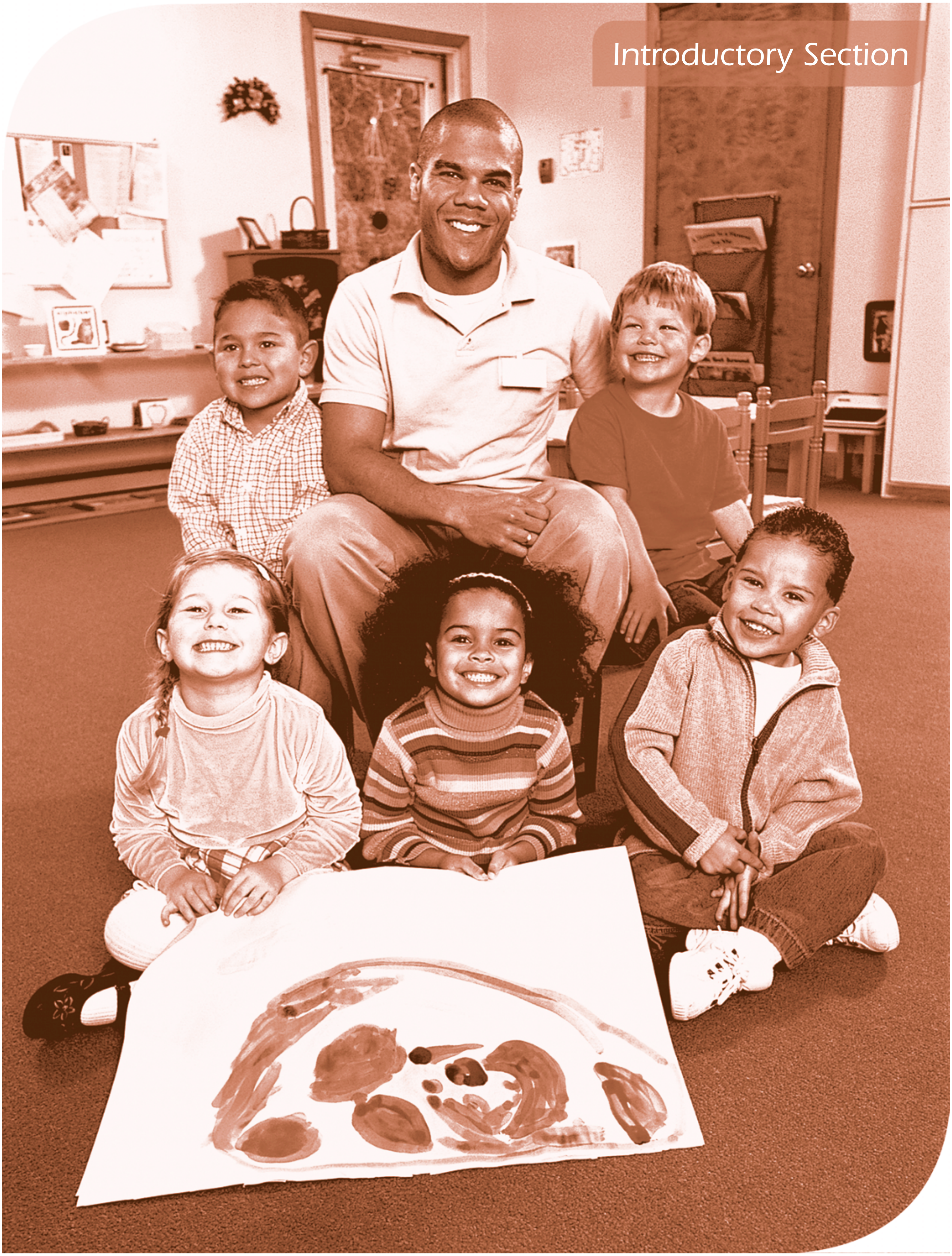
Table of Contents

INTRODUCTORY SECTION

FINANCIAL SECTION

INVESTMENT SECTION

Table of Contents



Introductory Section

Board Of Trustees

As of June 30, 2004

Consultants

LEGAL COUNSEL
Mr. Joseph Burns
Jacobs, Burns, Orlove, Stanton & Hernandez
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Chicago, Illinois 60603-6145

INVESTMENT CONSULTANTS
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Mercer Investment Consulting
10 South Wacker Drive
Chicago, Illinois 60606

Mr. Terry Ahern
The Townsend Group
1500 West Third Street, Suite 410
Cleveland, Ohio 44113

HEALTH INSURANCE CONSULTANT
Mr. Mitch Bramstaedt
The Segal Company
101 North Wacker Drive, Suite 500
Chicago, Illinois 60606

BANK CUSTODIAN
Ms. Kathryn M. Stevenson
The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60675

AUDITORS
Mr. Michael Huels
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8745 West Higgins
Chicago, Illinois 60631

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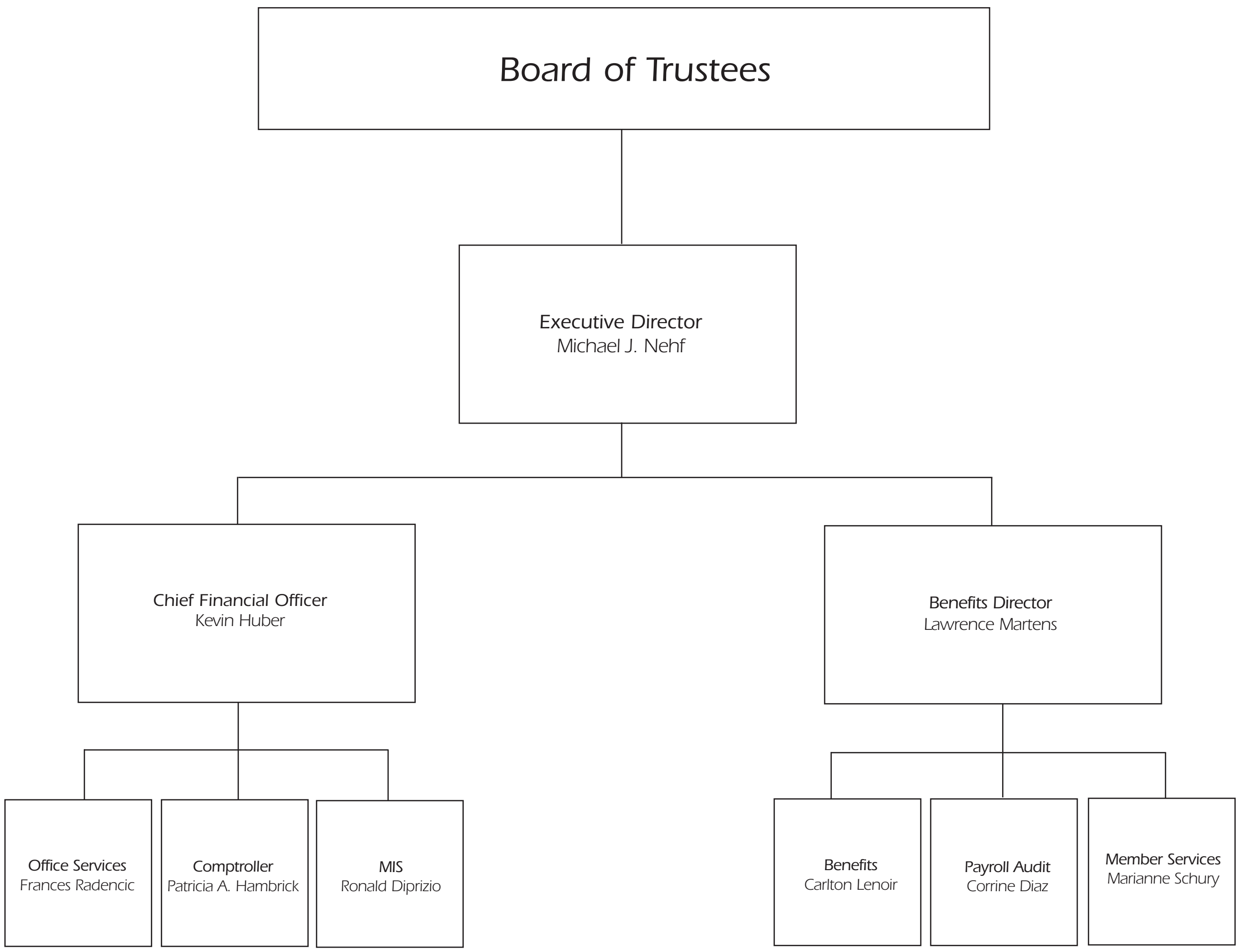
Ms. Judith Rice
City Treasurer
121 North LaSalle Street
Chicago, Illinois 60602

CONSULTING ACTUARY
Mr. Sandor Goldstein
Goldstein & Associates
29 S. LaSalle Street, Suite 735
Chicago, Illinois 60603

INVESTMENT ADVISORS
Adams Street Partners, LLC
Ariel Capital Management
Blackstone Group L.P.
Capri Capital Advisors
CB Richard Ellis Investors
Chicago Equity Partners
Dimensional Fund Advisors
Fidelity Capital Management Trust Co.
HarbourVest Partners, LLC
Harris Investment Management, Inc.
Hispania Capital Partners
Holland Capital Management
Intercontinental Real Estate Corp.
J & W Seligman & Co.
J.P. Morgan Fleming
Lazard Asset Management
Lincoln Capital Management Co.
MDL Capital Management, Inc.
Mesirow Financial, Inc.
MFS Institutional Advisors
Morgan Stanley Investments, LP
New Amsterdam Partners
Northern Trust Global Investments
Olympus Real Estate Corp.
Pantheon Ventures, Inc.
Prudential Investment Management
RREEF America REIT, Inc.
Smith Graham & Co.
UBS Global Asset Management
Urdang Investment Management
Waddell & Reed Asset Management Co.
Walton Street Real Estate, LP
Western Asset Management
Zevenbergen Capital, Inc.

Organization Chart

As of June 30, 2004



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public School Teachers' Pension and Retirement Fund of Chicago

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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.

President

Executive Director

Public School Teachers' Pension and Retirement Fund of Chicago

Letter of Transmittal

December 8, 2004

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 Trustees, Contributors, Pensioners, and Members of the Public:

This is the 109th Comprehensive Annual Report of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) that covers the fiscal year ending June 30, 2004. 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.

The financial statements and their content are the responsibility of the Fund's management. 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, approved City of Chicago charter schools, and Fund staff. 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 58,000 members as of June 30, 2004. The 109th year of continuous operations resulted in a recovery for the Fund. Improvements in the Fund's overall performance, driven by the recovering economy and its impact on the Fund's investment portfolio, exceeded the cumulative losses of the Fund over the last several years. The June 30, 2004 value of net assets held in trust for pension and health benefits amounted to $10.32 billion, an 11.4% increase over the $9.27 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 $10.39 billion. When comparing the actuarial value of assets to the actuarial accrued liabilities of $12.11 billion, it yields an actuarial funding ratio of approximately 85.8%.

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 management 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, 2004 investments at fair market value totaled $10.5 billion. This compares favorably with $9.5 billion as of June 30, 2003. The Fund's investment performance rate of return for the year ending June 30, 2004 was 15%, well above the actuarial projected return of 8%. The ten-year rate of return posted by the Fund for the period ending June 30, 2004 was 10.5%, which exceeds the actuarial assumption of 8% and reflects an 18% increase from the previous year's 8.9%. 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 of a financially sound retirement system.

ECONOMIC REVIEW AND OUTLOOK

The economy and its recovery continue to be relevant to the Fund and its overall performance. The twelve-month period ended June 30, 2004 reflects a continuing period of recovery from the previous year's turbulent trends for investment performance. The signs of economic recovery are very strong. Economic growth expanded with an annualized GDP growth rate projected at 3.0% at June 30, 2004. The unemployment rate fell slightly to 5.6% at June 30, 2004 but remains at a level that has been disappointing for the last year. The underlying rate of inflation has rapidly increased and was on an annual pace of 5% through June 2004. The Federal Reserve Board raised the federal funds rate 25 basis points in June 2004 in the face of rising inflation and signs of stronger economic growth. The Federal Reserve Board has signaled it's intention to control inflation by gradual rate increases over the next 12 months.

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, 2004 was 15%, due to a strong early performance of the portfolio. The Fund maintained a diversified portfolio consisting of equities (domestic and international), fixed income, real estate and private equity. The Fund's performance was average 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 2004.

During the year, the Board performed due diligence over its fixed income, international, domestic and private equity managers in order to monitor performance and compliance. The Fund continued to monitor managers in other asset classes whose performance was suspect. As of June 30, 2004 the Fund had terminated 3 managers (2 domestic equity, 1 Public REIT) and hired 5 managers (1 domestic equity, 1 public REIT, 1 private equity, and 2 real estate).

The Fund continued to concentrate on increasing allocations to minority and women owned money managers. There was continued emphasis placed by the Board on monitoring and enforcing its minority brokerage policy. The assets dedicated to top performing minority/female managers increased from 14% of active assets at June 30, 2003 to 17.5% of active assets at June 30, 2004. The Fund increased the pool of eligible minority brokers by 42% by re-defining significant Chicago presence as having a dedicated office and dedicated staff in Chicago. The Fund also strengthened its brokerage requirements. Managers must now trade from 25–50% of their portfolios through qualified minority and women owned brokers. The Fund directed $1,226,612 of commissions to qualified minority and women brokers and recaptured over $270,000 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 utilizing 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 significant legislative developments in 2004 that impacted the Fund. Pension legislation that passed during the year and was signed into law by the Governor included the following:

House Bill 1269 (Public Act 92-0538) allows the Fund to make total health insurance payments in any year up to $65,000,000, plus any amount that was authorized to be paid in prior years but was not actually paid, including any interest thereon. Prior to this important legislation, health insurance payments by the Fund were limited to $40,000,000 per year.

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

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 Fund consultants, continues 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 2004.

- The Fund completed conversion of all paper records to electronic images and has imaged 5 million documents. In furtherance of our technology plan, this project has now evolved into a process for imaging all incoming mail and developing work flow processes to eliminate the handling of paper documents.

- The Fund continued to work on the design and implementation of database solutions for the Fund's processing of pension payments, active teacher and pensioner records and member contribution data. The project was 80% complete as of June 30, 2004. The expected implementation date for the new database is July 2005.

- 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. The new phone system was implemented in February 2004 and has enabled Fund staff to provide a higher level of customer service.

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

AWARDS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting for the fourteenth consecutive year to the Fund for the period ending June 30, 2003. 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.

The National Association of Securities Professionals (NASP) awarded a Pacesetter Award to the Fund in recognition of the Fund's long history of promoting diversity and its recent decision to ensure and promote the full involvement of women and minorities in the securities industry.

CONCLUDING COMMENTS

At the November 2003 meeting of the Board, new Teacher-Trustee Dr. Connee Fitch-Blanks joined the Board for a three-year term. She replaced Jack Silver. Linda Porter was re-elected to a three-year term as Teacher-Trustee. Also elected as Pensioner-Trustee for two year terms were incumbents Carole Nolan and James Ward, and new pensioner trustee Dr. Walter Pilditch. Dr. Pilditch replaced Zygmunt Sokolnicki.

In the election for officers, Patricia Knazze was elected President, Dr. Walter Pilditch, Vice President, Earnestine Murphy, Recording Secretary, and Rose Mary Finnegan, Financial Secretary. Chairs of standing committees included Mr. James Ward, Claims and Service Credits Committee, and Health Insurance Committee; Ms. Finnegan, Finance and Audit Committee; Ms. Knazze, Personnel and Service Providers Committee; Ms. Murphy, Election and Ethics Committee; Dr. Pilditch, Pension Laws and Rules Committee, and Disability Committee; Ms. Nolan, Strategic Planning Committee, and Media and Education Committee; and Dr. Fitch-Blanks, Investments Committee. We would like to take this opportunity to thank Mr. Silver and Mr. Sokolnicki 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 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.

Kevin Huber Patricia A. Hambrick

KEVIN HUBER
Chief Financial Officer

PATRICIA A.HAMBRICK
Comptroller

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, 2004, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Fund's 2003 financial statements and, in our report dated September 10, 2003; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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, 2004, 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our Audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 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 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bansley and Kiener, L.L.P.

Certified Public Accountants

November 18, 2004

Management 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, 2004. 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 *2004 Comprehensive Annual Financial Report*.

Annual Financial Review

Fiscal 2004 was an impressive year financially for the Fund. The Fund returned 15% for the year ended June 30, 2004, well above the actuarial projected return of 8%. It is important to remember that the Fund is a long-term investor and results are more significant over longer periods. Diversification of investments among U.S. stocks, real estate, international and fixed income investments provide risk adjusted returns while allowing the Fund to "ride out" short-term fluctuations in individual asset classes. In spite of the small investment gain in 2003 and investment losses in 2002, the Fund's compound rate of return over the past 10 years was 10.5% which exceeded the actuarial assumption of 8%.

The Fund's consulting actuary has certified the total actuarial liability of the Fund to be $12.1 billion as of June 30, 2004. This represents an increase in the total actuarial liability of approximately $700 million compared to the valuation of $11.4 billion as of June 30, 2003. The unfunded actuarial liability increased from approximately $917 million to $1.7 billion during the year. Refer to the Actuarial Section of the report for more valuation and funding information.

Financial Highlights

- Favorable investment markets resulted in a significant gain from the previous year. The investment rate of return for fiscal 2004 was 15% following fiscal 2003's return of 4% and fiscal year 2002's return of –3.3%. Five and 10-year returns were favorable at 4.6 % and 10.5%, respectively.

- Total plan net assets increased in value during the fiscal year to $10.32 billion at June 30, 2004 from $9.27 billion at June 30, 2003.

- Total benefit payments continued to exceed $600 million for the third consecutive year. The Fund paid members more than $612.4 million in service retirement, disability and survivor benefits plus $53.1 million for health care benefits. Total benefit payments are expected to exceed $700 million in 2005.

- Total additions to plan net assets were $1.7 billion. The net investment gain of $1.4 billion was more than 5.9 times member and employer contributions totaling $247.7 million.

- Benefit payments, member refunds and administrative expenses totaled $672.8 million for the 2004 fiscal year, a 8.2% increase over fiscal 2003.

- The funded ratio for pension benefits declined to 85.8% as of June 30, 2004 from 92% the previous year.

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

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

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 2004, total investments returned 15.0%. The U.S. and international stock portfolios experienced significant increases. The Fund's portfolio of U.S. stocks gained 20.7% while international stocks realized a 30.3% gain for the 2004 fiscal year. Real estate and fixed income generated positive returns for the fiscal year of 15.8% and 0.2% respectively.

1-Year Returns (2004)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	15.0%	Fund Benchmark Index	16.2%
Domestic Equity	20.7%	Russell 3000 Index	20.5%
International Equity	30.3%	MSCI AC World Free Ex US	32.5%
Fixed Income	0.2%	LB Aggregate Index	0.3%
Real Estate (Public and Private)	15.8%	Stylized Real Estate Index*	16.7 %

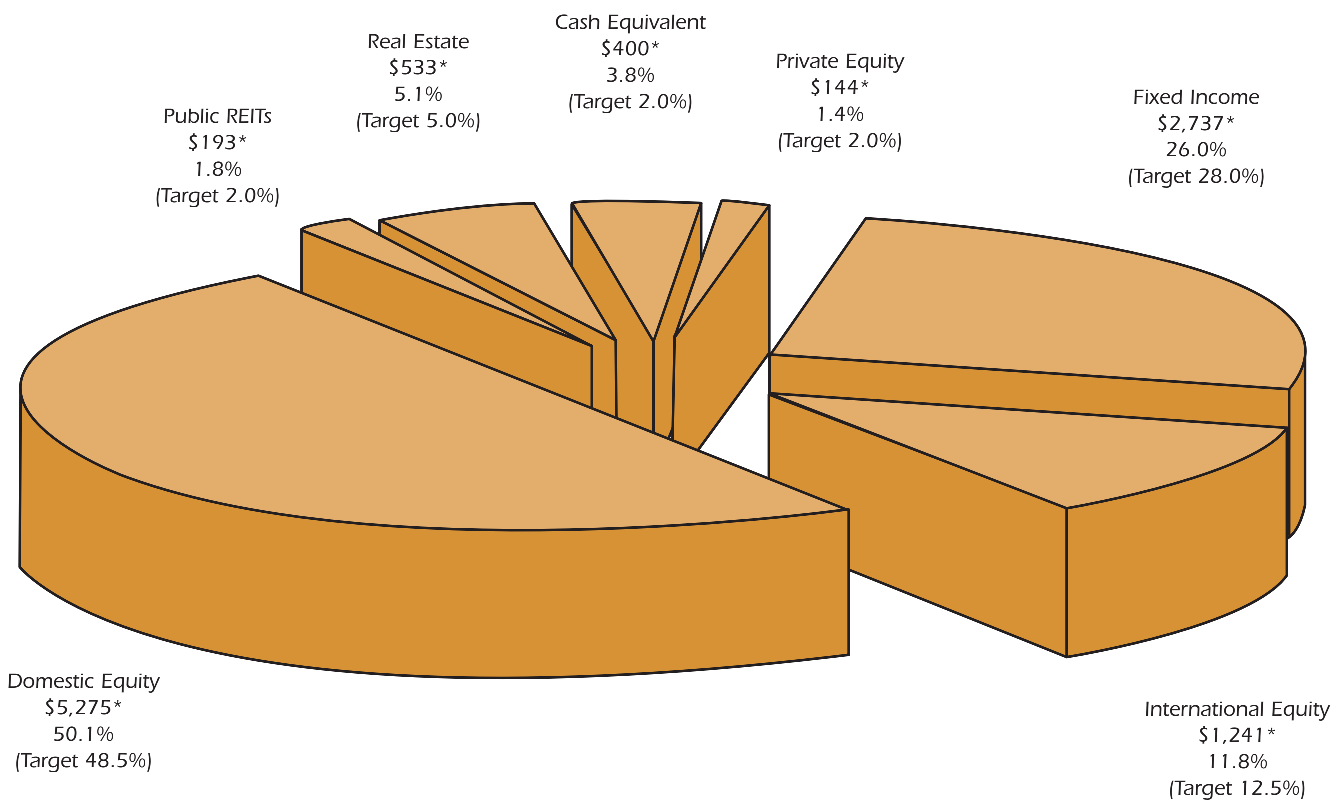
5-Year Returns (1999-2004)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	4.6%	Fund Benchmark Index	3.5%
Domestic Equity	2.2%	Russell 3000 Index	(1.1%)
International Equity	4.1%	MSCI AC World Free Ex US	1.0%
Fixed Income	7.0%	LB Aggregate Index	6.9%
Real Estate (Public and Private)	10.2%	Stylized Real Estate Index*	11.2%

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

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

Asset Allocation as of June 30, 2004



* in millions

Financial Statement Analysis

Plan Net Assets

The value of plan net assets increased $1.1 billion (11.4%) during the fiscal year. The increase was the direct result of the investments yielding a significantly higher rate of return for the year.

As of June 30, 2004, total receivables decreased more than $1.4 million from 2003. The decrease is 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 $82.9 million due to timing of investment sales at year end.

Refunds payable increased by $1.9 million due to an increase in termination refunds payable. Due to brokers (represents the cash due for investment purchases) increased by $80.6 million due to the timing of investment sales at year end. Accounts and administrative expenses payable increased by $6.5 million due to the accrual of approximately $5.8 million of investment expenses in fiscal year 2004.

Below is a summary of the plan net assets at June 30, 2004 and 2003 highlighting the financial statement items with significant fluctuations.

(in millions)	FY 2004	FY 2003
Total Net Assets	$ 10,321.6	$ 9,267.6
Cash and cash equivalents	400.3	419.9
Due from Brokers	236.7	153.9
Receivables	79.2	80.6
Investments (fair value)	10,122.8	9,043.0
Benefits and Refunds Payable	11.8	9.9
Accounts and Administrative Payable	14.4	7.9
Due to brokers	$ 494.7	$ 414.1

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, 2004, these additions totaled $1,726.6 million representing a 213% increase from 2003 additions of $552.2 million. This increase resulted from a rise in value of the investment portfolio; the Fund's portfolios gained 15% for the year ended June 30, 2004 versus 4% for the year ended June 30, 2003. Employee and employer contributions remained relatively consistent between years although there is a slight increase in the employee contributions due to high average salaries.

(in millions)	FY 2004	FY 2003
Employer contributions	$ 78.1	$ 78.8
Employee contributions	169.6	159.9
Net investment income	1,478.9	313.5
Total additions	$ 1,726.6	$ 552.2

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 benefits based on higher salaries and an improved benefit formula. Refunds increased due to legislation enacted in 2002 that eliminated the 2.2 upgrade payment for any teacher or pensioner (who retired after June 30, 1998) with greater than 30 years of service. The health insurance rebate was disbursed at 85% of covered premiums for the first nine months and 52% for the last three months of the 2004 fiscal year. The health insurance rebate was 85% for fiscal year 2003. Total deductions from plan assets amounted to $672.7 million, compared to $621.9 million for the previous year.

(in millions)	FY 2004	FY 2003
Pensions	$586.5	$543.8
Refunds	23.3	17.3
Death benefits	2.6	2.8
Insurance premiums	53.1	51.4
Administration	7.2	6.6
Total Deductions	$672.7	$621.9

Funding Analysis

Due to a smaller than expected investment gain in 2003 and investment losses from 2002 and 2001, the funded ratio for pension benefits declined to 85.8% as of July 1, 2004 from 92.0% the previous year. Due to the weak investment performance from 2001-2003, 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, 2005 and 2006 projected at 8% and operations/benefits projected to remain consistent with slight increases between years, the funded ratio is expected to decline to 82.6% in FY 2005 and 81.9% in FY 2006 due to a negative cash flow position of the fund. 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, 2004, it is estimated that the employer shall begin making contributions in fiscal year 2006 of approximately $15.8 million. The Fund is required to communicate to the employer the actual contribution required for fiscal year 2006 by February 28, 2005. State law also requires additional state and employer contributions when the funding level drops below 90%. Accordingly, the State of Illinois is required to remit $9.87 million and the primary employer at the Fund is required to remit $10.53 million during the fiscal year ending June 30, 2006.

Requests for Information

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

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

Statements of Plan Net Assets

June 30, 2004, with comparative totals for 2003

	Pension Fund	Health Insurance Fund	Total 2004	Total 2003
ASSETS				
Cash and cash equivalents	$ 317,620,228	$ 82,666,021	$ 400,286,249	$ 419,892,256
Receivables:				
Intergovernmental	15,143,639	–	15,143,639	14,536,394
Employee	21,844,190	–	21,844,190	19,947,662
Accrued investment income	38,604,219	–	38,604,219	42,536,509
Due from brokers	236,730,239	–	236,730,239	153,850,561
Participating teachers' accounts for contributions	2,415,326	–	2,415,326	2,249,146
Other receivables	1,154,035	–	1,154,035	1,329,482
	315,891,648	–	315,891,648	234,449,754
Investments, at fair value:				
Fixed income	2,737,145,410	–	2,737,145,410	2,885,819,941
Equity	6,852,478,337	–	6,852,478,337	5,653,632,162
Real estate	533,177,551	–	533,177,551	503,549,840
	10,122,801,298	–	10,122,801,298	9,043,001,943
Securities lending collateral	1,445,783,657	–	1,445,783,657	1,210,526,939
Prepaid expenses	3,183,556	–	3,183,556	2,002,472
Capital assets, net of accumulated depreciation	375,166	–	375,166	268,544
TOTAL ASSETS	12,205,655,553	82,666,021	12,288,321,574	10,910,141,908
LIABILITIES				
Benefits payable	1,358,104	–	1,358,104	1,399,741
Refunds payable	10,457,390	–	10,457,390	8,539,624
Accounts and administrative expenses payable	9,001,327	5,436,551	14,437,878	7,898,224
Securities lending collateral	1,445,783,657	–	1,445,783,657	1,210,526,939
Due to brokers	494,729,054	–	494,729,054	414,134,335
TOTAL LIABILITIES	1,961,329,532	5,436,551	1,966,766,083	1,642,498,863
Net assets held in trust for benefits (an unaudited schedule of funding progress is presented on page 35)	$ 10,244,326,021	$ 77,229,470	$ 10,321,555,491	$ 9,267,643,045

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

June 30, 2004, with comparative totals for 2003

	Pension Fund	Health Insurance Fund	Total 2004	Total 2003
ADDITIONS:				
Contributions:				
Intergovernmental, net	$ 13,032,273	$ 65,095,000	$ 78,127,273	$ 78,747,983
Employee contributions	169,598,212	–	169,598,212	159,931,110
	182,630,485	65,095,000	247,725,485	238,679,093
Investment income:				
Net appreciation in fair value	1,232,333,289	–	1,232,333,289	42,175,284
Interest	160,965,026	928,497	161,893,523	201,105,722
Dividends	107,116,062	–	107,116,062	90,153,258
Securities lending	5,999,478	–	5,999,478	6,301,773
Less investment expense:				
Investment advisory and custodial fees	(26,986,216)	–	(26,986,216)	(24,601,146)
Securities lending expense	(1,496,345)	–	(1,496,345)	(1,632,721)
	1,477,931,294	928,497	1,478,859,791	313,502,170
Miscellaneous	86,285	–	86,285	35,775
TOTAL ADDITIONS	**1,660,648,064**	**66,023,497**	**1,726,671,561**	**552,217,038**
DEDUCTIONS:				
Pension benefits	586,510,383	–	586,510,383	543,802,165
Refunds	20,892,047	–	20,892,047	15,623,466
2.2 Legislative refunds	2,434,674	–	2,434,674	1,727,682
Refund of insurance premiums	–	53,106,379	53,106,379	51,395,920
Death benefits	2,601,165	–	2,601,165	2,821,493
	612,438,269	53,106,379	665,544,648	615,370,726
Administrative and miscellaneous expenses	7,214,467	–	7,214,467	6,576,953
TOTAL DEDUCTIONS	**619,652,736**	**53,106,379**	**672,759,115**	**621,947,679**
Net increase (decrease)	**1,040,995,328**	**12,917,118**	**1,053,912,446**	**(69,730,641)**
Net assets held in trust for benefits:				
Beginning of period	9,203,330,693	64,312,352	9,267,643,045	9,337,373,686
End of period	$ 10,244,326,021	$ 77,229,470	$ 10,321,555,491	$ 9,267,643,045

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2004, with comparative totals for 2003

(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, 2004 and 2003, the Fund membership consisted of the following:

	2004	2003
Retirees and beneficiaries currently receiving benefits	19,266	18,565
Terminated members entitled to benefits but not yet receiving them	1,930	1,444
Current members:		
Vested	22,998	22,313
Nonvested	14,364	14,235
	58,558	56,557

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 retired 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 retired 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 three 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 retired 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 rebate percentage was 85% of the individual member's cost for the first nine months in fiscal year 2004 and 52% for the last three months in fiscal year 2004. The rebate percentage was 85% for fiscal year 2003. 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 $65,000,000 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

(Reporting Entity continued)

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 financial statements are prepared using the accrual basis of accounting, following standards promulgated by GASB. Employee and employer contributions are recognized as additions when due, pursuant to formal commitments, as well as statutory or contractual requirements. 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 investment managers. Short-term investments consists 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.

(3) Receivables

As of June 30, 2004 and 2003, 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:

	2004	2003
Board of Education —		
Early retirement programs	$ 6,702,243	$ 6,702,243
Deficiencies	2,188,928	1,282,473
State of Illinois appropriations	5,415,000	5,420,392
Federal funds	837,468	1,131,286
	$ 15,143,639	$ 14,536,394

Employee receivables 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 $21,213,441 and $17,150,098 at June 30, 2004 and 2003, respectively. Employees owed the Fund $630,749 and $2,797,564 for the 2.2 formula upgrade at June 30, 2004 and 2003, respectively.

(4) Deposits and Investments

At June 30, 2004, the bank balance and carrying amount of the Fund deposits amounted to $415,865,628 and $400,286,249, respectively. At June 30, 2003, the bank balance and carrying amount of the Fund deposits were $423,175,489 and $419,892,256, respectively.

The deposits of the Fund are insured or collateralized by securities recorded in the Fund's name and held by the Fund agent, its master custodian (Northern Trust Bank). The following table presents a summarization of the fair values of Fund investments at June 30, 2004 and June 30, 2003. All categorized investments are insured or registered and are held by the Fund 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.

(Deposits and Investments continued)

	Fair Value June 30, 2004	Fair Value June 30, 2003
CATEGORIZED:		
Long-term investments:		
Fixed income securities:		
Government	$ 914,949,842	$ 1,116,243,142
Corporate	758,479,331	816,789,044
Other miscellaneous	185,058,824	201,398,332
Total fixed income securities	1,858,487,997	2,134,430,518
Equity securities	6,172,206,491	5,118,230,119
Total long-term investments	**8,030,694,488**	**7,252,660,637**
NON-CATEGORIZED:		
Real estate	533,177,551	503,549,840
Private equity	143,935,703	109,341,277
Securities lending:		
Investments held by master trustee under securities loans	1,414,993,556	1,177,450,189
Securities lending cash collateral investment pool	1,445,783,657	1,210,526,939
TOTAL INVESTMENTS	**$11,568,584,955**	**$ 10,253,528,882**

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, 2004 and 2003, the Fund held forward currency contracts representing agreements to buy or sell U.S. dollars, Japanese yen, U.K. sterling, Euro, Swedish krona, and Norwegian krone 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, 2004 and 2003, the fair values of the obligations under the purchase side of these forward contracts amounted to $23,305,207 and $23,977,433, respectively, and the fair values of the obligations under the sale side of these forward contracts amounted to $23,149,793 and $23,485,816, respectively.

As of June 30, 2004, the Fund held 31,935,569 units (15.9%) 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, 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. 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 worth 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, 2004	June 30, 2003
Fair value of securities loaned for cash collateral	$ 1,414,993,556	$ 1,177,450,189
Fair value of securities loaned for non-cash collateral	384,080,926	322,399,965
Total fair value of securities loaned	1,799,074,482	1,499,850,154
Fair value of cash collateral from borrowers	1,445,783,657	1,210,526,939
Fair value of non-cash collateral from borrowers	396,805,059	331,179,925
Total fair value of collateral from borrowers	$ 1,842,588,716	$ 1,541,706,864

(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 pension benefits. Fund employees also participate as members in the Fund and are included in the total current members. Contributions made by Fund employers total $192,005, $184,529 and $167,928 for the years ended June 30, 2004, 2003, and 2002 respectively which is 100% of the required employee contribution.

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, 2004 and June 30, 2003 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 has not paid the required employer contributions related to the early retirement optional program during the year ended June 30, 2004 and June 2003. The remaining employer contribution of $1,160,530 at June 30, 2004 and June 30, 2003, 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 $65,000,000 ($40,000,000 in 2003) plus any previous year amounts authorized but not yet expended. Of the net assets available for benefits in the health insurance fund, previous year amounts authorized but not yet expended at June 30, 2004 and June 30, 2003 are $21,041,420 and $9,147,799 respectively.

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

(Health Insurance Rollforward continued)

Year Ended June 30, 2004	
Amount available for expenditure at July 1, 2003	$ 9,147,799
Add statutory annual limit	65,000,000
Less FY 2004 expenditures	(53,106,379)
Amount available for expenditure at June 30, 2004	$ 21,041,420

Accumulated interest earned on unspent reserves was included in the original transfer of $32.3 million from the Pension Fund to the Health Insurance fund in 2002. The Fund's attorney determined 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, 2004.

Schedule of Funding Progress (Unaudited)

June 30, 2004 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, 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	10,640,947	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
June 30, 2004	10,392,193	12,105,680	1,713,487	85.85	1,767,631	96.94

(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 increase assumptions for the fiscal year ended June 30, 2000. The impact of the assumption changes increased the total actuarial liability by approximately $525 million

See accompanying independent auditors' report.

Schedule of Contributions (Unaudited)

June 30, 2004

Schedule 2

	Employer Contributions			Employee Contributions			Total contribtutions as a % of annual required contributions
Period ended	Annual required	Employer	% of annual required	Annual required	Employee	% of annual required	
August 31,1999(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	78,747,983	49.18	158,314,127	159,931,110	101.02	74.94
June 30, 2004	202,971,485	78,127,273	38.50	153,558,523	169,598,212	110.45	69.49

(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, 2004 Schedule 3

Valuation Date	June 30, 2004
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 4.6% per year.
Inflation rate	3% per year
Post-retirement 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, 2004 and 2003 Schedule 4

	2004	2003
Salaries	$ 3,433,501	$ 3,472,840
Accrued leave	228,194	113,519
Actuary fees	57,000	53,470
Auditing	36,000	44,000
Conferences, seminars, and membership dues	15,371	13,874
Data processing	21,676	28,061
Depreciation	247,611	195,442
Document imaging	48,164	122,207
Election expense	213,471	32,835
Employees' health insurance	843,027	696,960
Consulting	52,406	45,000
Health insurance consulting	107,201	44,766
Insurance premium	33,976	25,660
Legal fees	277,889	256,880
Legislative expense	91,711	91,476
Maintenance of equipment, systems, software, and support	69,459	71,213
Medical fees	53,638	32,288
Office forms and supplies	78,096	55,028
Office rent and utilities	612,342	603,348
Postage	246,540	165,884
Printing and binding	161,657	169,315
Temporary staffing	51,414	61,728
Trustee conferences, seminars, and meetings	84,317	98,511
Legacy fund disbursements	11,678	10,722
Tuition and Training	32,060	19,429
Studies and evaluation	76,676	–
Miscellaneous	29,392	52,497
Total	$ 7,214,467	$ 6,576,953

See accompanying independent auditors' report.

Schedule of Cash Receipts and Disbursements

Years ended June 30, 2004 and 2003 Schedule 5

	2004	2003
Cash and cash equivalents at beginning of period	$ 419,892,256	$ 333,433,359
Add receipts:		
Member contributions	166,629,049	158,150,240
Public revenues	78,426,483	77,954,427
Interest and dividends	278,941,353	305,756,516
Miscellaneous	200,341	(1,223)
Total cash receipts	**524,197,226**	**541,859,960**
Less disbursements:		
Benefit payments	589,153,185	547,958,981
Refunds	18,974,281	16,881,197
2.2	2,434,674	1,727,682
Refund of insurance premiums	53,106,379	50,686,805
Investment and administrative	35,820,239	39,909,254
Net investment purchases (sales)	(155,685,526)	(201,762,856)
Total cash disbursements	**543,803,232**	**455,401,063**
Net increase (decrease) in cash and cash equivalents	(19,606,007)	86,458,897
Cash and cash equivalents at end of period	**$ 400,286,249**	**$ 419,892,256**

See accompanying independent auditors' report.

Summary Schedule of Manager Fees

Years ended June 30, 2004 and 2003

Schedule 6

	2004	2003
Adams Street Partners, LLC	$ 853,080	$ 859,148
Ariel Capital Management	852,797	676,825
Bank of America	–	90,868
Blackstone Group L.P.	166,135	211,611
Capri Capital Advisors	222,516	222,515
CB Richard Ellis Investors	171,895	–
Chicago Equity Partners	345,620	–
Dimensional Fund Advisors	649,663	538,145
Fidelity Capital Management Trust Co.	1,358,416	1,220,672
HarbourVest Partners, LLC	999,996	1,000,000
Harris Investment Management, Inc.	687,547	604,192
Hispania Capital Partners	356,363	–
Holland Capital Management	245,633	143,662
Intercontinental Real Estate Corp.	218,150	–
Iridian Asset Management, LLC	317,210	696,138
J & W Seligman & Co.	1,069,530	810,071
J.P. Morgan Fleming	1,151,693	1,266,735
LaSalle Investment Management	200,830	521,831
Lazard Asset Management	558,462	525,011
Lincoln Capital Management Co.	245,923	265,727
MDL Capital Management, Inc.	175,405	126,833
Mesirow Financial, Inc.	777,908	779,476
MFS Institutional Advisors	1,357,330	671,101
Morgan Stanley Investments, LP	3,261,000	2,941,319
New Amsterdam Partners	450,009	336,985
Northern Trust Global Investments	675,794	549,978
Olympus Real Estate Corp.	301,828	301,753
Oppenheimer Capital	–	36,462
Pantheon Ventures, Inc.	565,837	493,286
Prudential Investment Management	1,056,222	985,016
RREEF America REIT, Inc.	1,337,533	1,388,160
Smith Graham & Co.	161,376	165,352
Times Square Real Estate Investors	–	608,705

Schedule 6 (continued)

	2004	2003
UBS Global Asset Management	$ 2,069,482	$ 1,682,238
Urdang Investment Management	322,724	–
Waddell & Reed Asset Management Co.	579,373	551,827
Walton Street Real Estate, LP	471,999	446,519
Wellington Management Co., LLP	–	391,047
Western Asset Management	918,104	365,096
William Blair & Co.	249,969	523,021
Zevenbergen Capital, Inc.	223,105	244,063
Zurich Scudder Investment, Inc.	–	410,904
Total manager fees	25,626,457	23,652,292
Mercer - General investment consultant	259,893	267,000
Northern Trust - Master custodian	575,689	514,527
The Townsend Group - Real estate consultant	120,000	121,206
Total consultant fees	955,582	902,733
Fees for foreign exchange and real estate	404,177	46,121
Total	$ 26,986,216	$ 24,601,146

See accompanying independent auditors' report

Summary Schedule of Consultant Payments

Years ended June 30, 2004 and 2003 Schedule 7

	2004	2003
Anselmo & Associates	$ 52,206	$ 52,206
Bansley & Kiener, LLP	36,000	–
Bradley Consulting Group, Inc.	504,330	518,520
Buck Consultants	–	44,999
Cahill Printing Co.	189,528	106,093
CEM Technologies, Inc.	–	25,237
Chicago Press Corporation	65,516	66,094
Computronics	7,638	8,858
Corig Elan	38,943	–
Data Summary, Inc.	29,264	39,680
Data Consultants	223,819	–
The Direct Response Resource	21,149	23,387
E. M. Barnes & Associates	39,155	39,155
Goldstein & Associates	57,000	53,470
Jacobs, Burns, Orlove & Stanton & Hernandez	179,993	257,154
KPMG LLP	–	44,000
Lebenson Advanced Systems	–	14,906
Levi, Ray & Shoup, Inc.	625,425	513,537
Peterson & Houpt	34,423	–
Ray Mangarelli	–	59,580
The Segal Company	107,201	42,839
Walker Printery, Inc.	21,825	31,586
Wildman,Harrold,Allen & Dixon	34,735	–
Total consultant payments	$ 2,268,150	$ 1,941,301

See accompanying independent auditors' report.

Investment Section

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

Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as custodian ("Master Custodian") of assets of the Public School Teachers' Pension and Retirement Fund of Chicago ("Fund") held by it in a custodial account (the "Account") has provided annual Statements of Account for the Account to the Fund which, 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, 2003 through June 30, 2004.

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

MERCER
Investment Consulting

December 7, 2004

Board of Trustees
Public School Teachers' Pension and Retirement Fund of Chicago
55 West Wacker Drive, 14th Floor
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, 2004.

As of June 30, 2004, the Fund's market value totaled $10.2 billion, an approximate $1.0 billion increase since June 30, 2003, due primarily to positive investment performance. During the past twelve month period:

- Economic growth was strong as consumer confidence remained positive and interest rates remained at low absolute levels.
- Within this environment, domestic equity markets were very strong during the second half of 2003 and continued to produce positive results in the first half of 2004. The S&P 500 Index, an index of domestic large capitalization stocks, returned 19.1% during the one year period while smaller stocks, as measured by the Russell 2000 Index, rose 33.3%.
- Developed international equity markets outperformed their domestic equity counterparts during the one year period, gaining 32.8% as measured by the MSCI EAFE (Europe, Australasia, Far East) Index. Emerging markets were also very strong, advancing 33.5%, as measured by the MSCI Emerging Markets Index.
- Fixed income markets were generally flat during the twelve month period, reacting negatively to increasing interest rates, returning 0.3%.

Within this environment, the Fund returned 15.0% during the 12 month period ending June 30, slightly behind the 16.2% Index return. Annual results were bolstered by the strong equity rally during the fourth quarter of 2004, coupled with strong absolute performance in domestic and international equities. The Fund outperformed its peers and the Index over the three and five year period.

The Fund's domestic equity managers returned a collective 20.7% during the year ended June 30, leading the 20.5% Russell 3000 Index return. The domestic equity allocation benefited from the small and mid capitalization equity component, as the managers in these asset classes outperformed their peers and the Index return, but was hampered by lagging results in large capitalization equity. Longer term performance has been ahead of benchmark.

(Mercer Investment Consulting Continued)

The Fund's international equity allocation returned 30.3% during the year ending June 30, trailing its benchmark index and ranking at median relative to peers. Absolute performance was improved by the portfolio's value tilt, as value stocks outperformed growth stocks globally. Long-term international equity results have been strong.

The fixed income portfolio was in line with benchmarks over both shorter and longer term periods measured. The portfolio continues to be diversified across sectors.

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.

All performance returns for the Public School Teachers' Pension & Retirement Fund of Chicago presented in this report have been calculated by Mercer Investment Consulting using the Modified Dietz method as described by the AIMR Performance Presentation Standards.

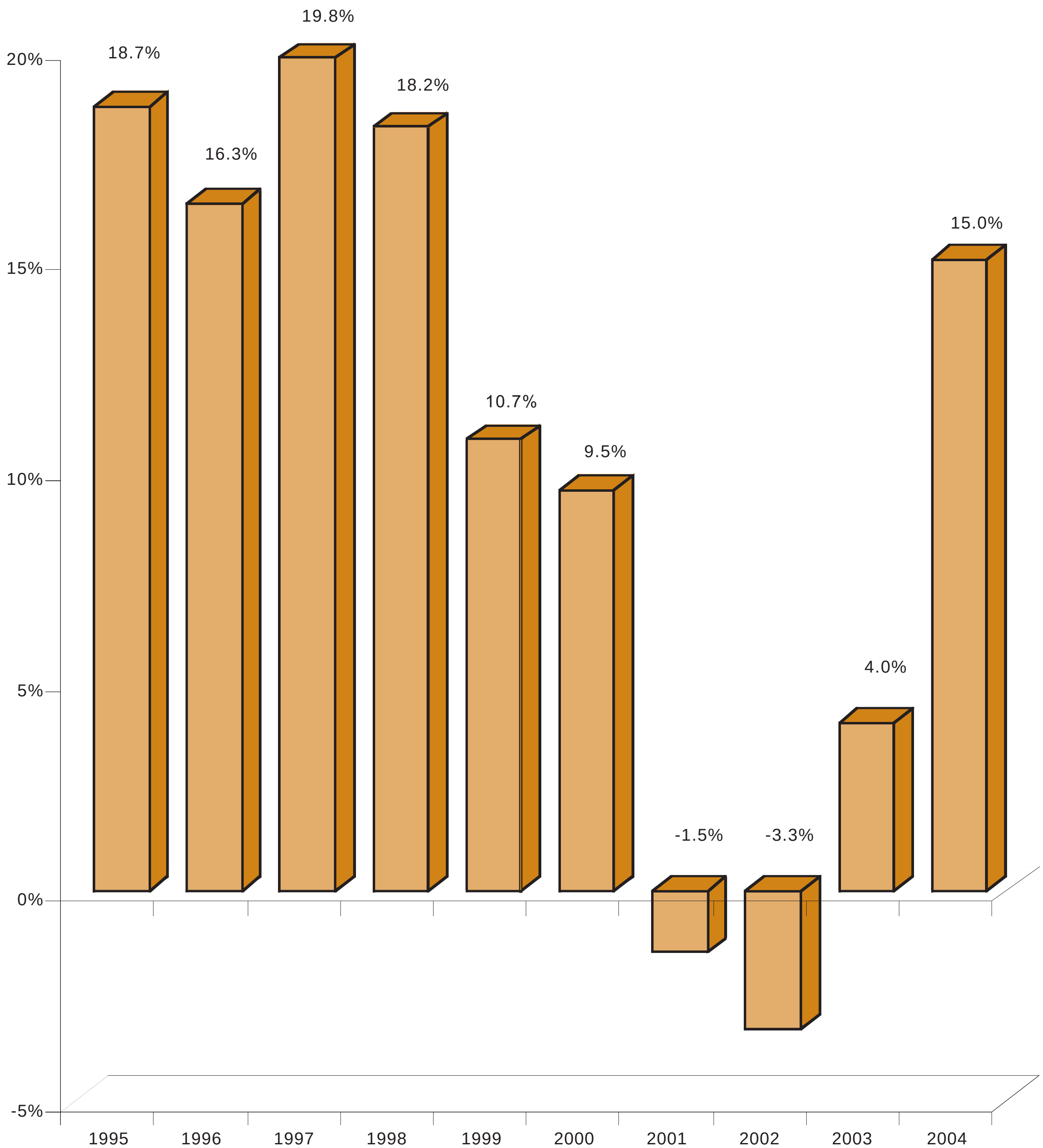
Sincerely,

Brad A Blalock

Brad A. Blalock, CFA
Principal

TOTAL ANNUAL FUND RATE OF RETURN *

As of June 30
1995 - 2004



* Time weighted rate of return.

SCHEDULE OF INVESTMENT RESULTS

	FOR THE YEAR ENDED JUNE 30,					ANNUALIZED RETURNS (%)		
	2000	2001	2002	2003	2004	3 Years	5 Years	10 Years
Total Fund	9.5 %	(1.5) %	(3.3) %	4.0 %	15.0 %	5.0	4.6	10.5
Large Cap Equity	9.2	(10.4)	(16.6)	(0.7)	18.5	(0.6)	(0.8)	12.1
Russell 1000 Index			(17.9)	1.0	19.5	(0.3)	(1.6)	11.8
S&P 500	7.3	(14.8)	(18.0)	0.3	19.1	(0.7)	(2.2)	11.8
Mid Cap Equity	9.7	12.0	(5.7)	(1.1)	28.6	6.3	8.1	N/A
S&P Mid Cap	17.0	8.9	(4.7)	(0.7)	28.0	6.6	9.0	N/A
Small Cap Equity	18.6	(2.1)	(2.1)	1.4	35.7	10.4	9.4	14.1
Russell 2000	14.3	0.6	(8.6)	(1.7)	33.4	6.2	6.6	10.9
International Equity	20.3	(18.6)	(1.5)	(2.7)	30.3	7.7	4.1	N/A
MSCI ACWI ex US	18.1	(23.8)	(8.2)	(4.2)	32.5	5.2	1.0	N/A
Fixed Income	4.3	11.4	8.2	11.2	0.2	6.5	7.0	7.3
LB Aggregate	4.6	11.2	8.6	10.4	0.3	6.4	6.9	7.4
REITs	4.4	22.1	14.6	3.7	25.8	14.3	14.5	N/A
NAREIT	3.0	24.4	16.2	4.0	27.1	15.4	14.5	N/A
Real Estate	13.1	11.6	5.1	7.2	12.0	8.0	9.7	N/A
NCREIF (NPI)	12.6	11.5	5.6	7.6	10.8	8.0	9.4	N/A
Private Equity*	35.5	(9.8)	(20.7)	(8.8)	6.3	(8.4)	(1.2)	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.

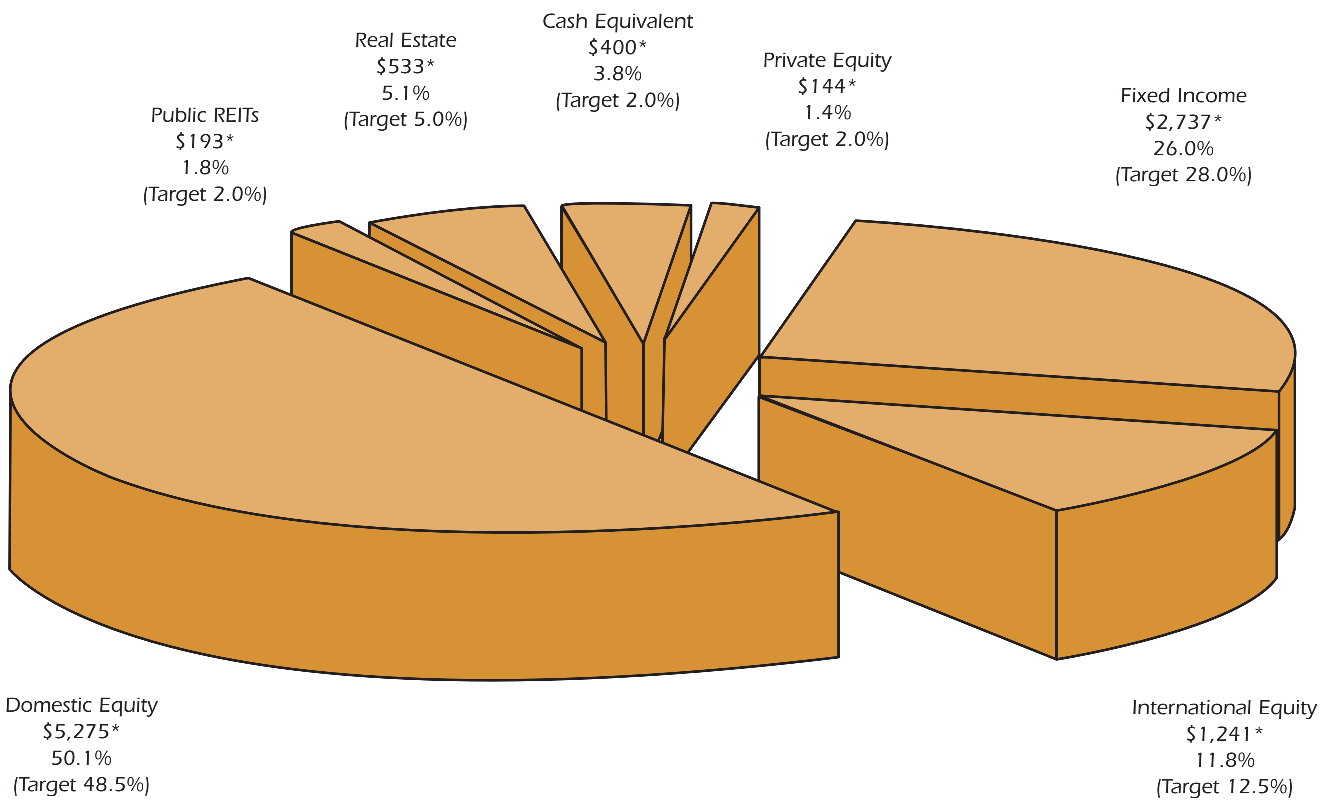
INVESTMENT PORTFOLIO SUMMARY

(IN MILLIONS OF DOLLARS)

	FAIR VALUE 6/30/03	PURCHASES	SALES (FAIR VALUE)	FAIR VALUE ADJUSTMENTS	FAIR VALUE 6/30/04-	PERCENT OF TOTAL
FIXED INCOME						
Government	$ 1,722.8	$ 5,743.3	$ 5,628.7	$ (135.6)	$ 1,701.8	16.17%
Corporate	961.6	1,655.2	1,792.8	26.2	850.2	8.08
Miscellaneous	201.4	167.1	175.4	(8.1)	185.0	1.76
FIXED INCOME	2,885.8	7,565.6	7,596.9	(117.5)	2,737.0	26.01
EQUITY						
Stocks	5,301.4	2,246.8	2,297.8	1,265.8	6,516.2	61.92
Private Equity	109.3	56.4	15.3	(6.5)	143.9	1.37
Public REITS	242.9	137.9	238.9	50.4	192.3	1.83
EQUITY	5,653.6	2,441.1	2,552.0	1,309.7	6,852.4	65.12
REAL ESTATE	503.6	50.4	48.4	27.6	533.2	5.07
CASH & CASH EQUIV.	419.9	(19.6)*	-	12.5	400.3	3.80
TOTAL PORTFOLIO	$ 9,462.9	$ 10,037.5	$ 10,197.3	$ 1,232.3	$ 10,522.9	100.00%

*Net of cash receipts & disbursements for year ending 6/30/04 .

ASSET ALLOCATION
as of June 30, 2004

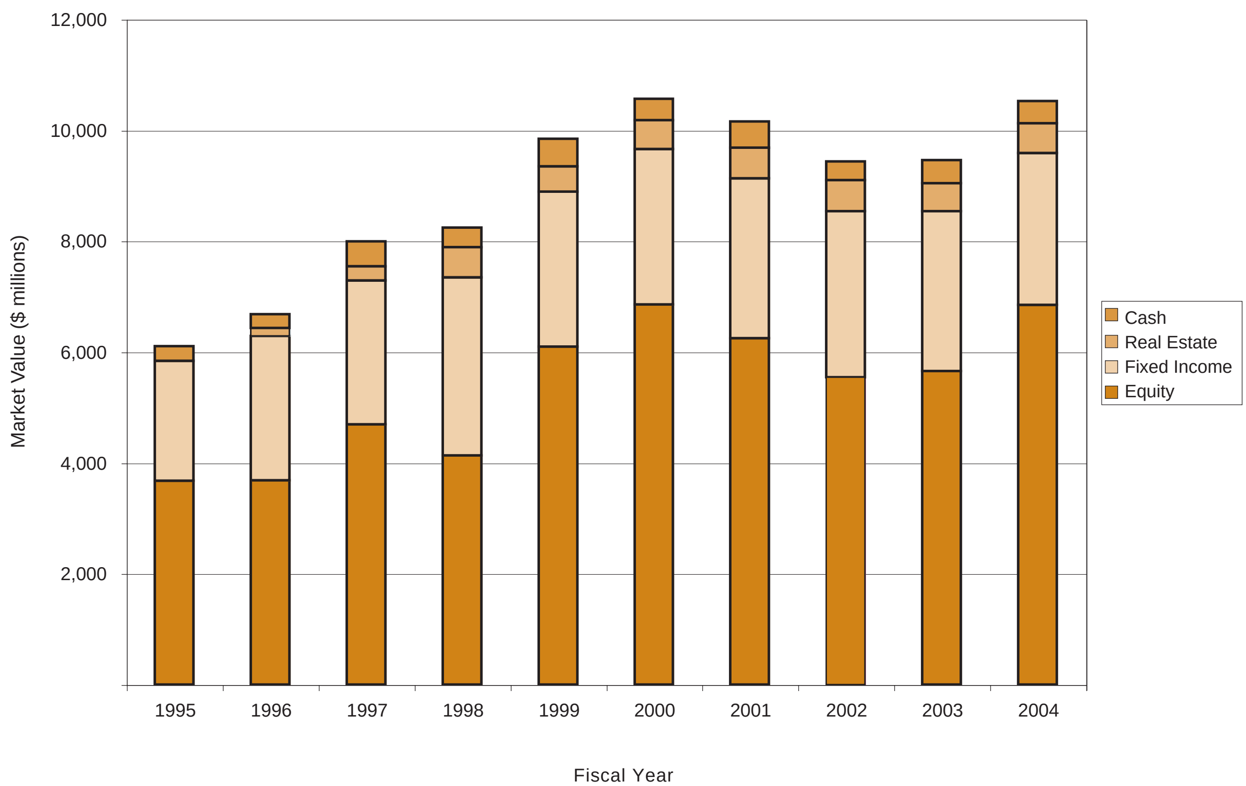


* in millions

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

Historical Asset Allocation

	2000		2001		2002		2003		2004	
	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)
Equity:										
Domestic	53.4	51.0	48.8	48.5	44.9	48.5	46.0	48.5	50.1	48.5
International	9.2	10.0	9.8	12.5	10.6	12.5	10.0	12.5	11.8	12.5
Public REITs	1.6	2.0	2.0	2.0	2.5	2.0	2.6	2.0	1.8	2.0
Private Equity	0.7	2.0	0.9	2.0	0.9	2.0	1.2	2.0	1.4	2.0
Total Equity	64.9	65.0	61.5	65.0	58.9	65.0	59.8	65.0	65.1	65.0
Fixed Income	26.5	28.0	28.4	28.0	31.7	28.0	30.5	28.0	26.0	28.0
Real Estate	4.9	5.0	5.5	5.0	5.9	5.0	5.3	5.0	5.1	5.0
Cash & Equiv.	3.7	2.0	4.6	2.0	3.5	2.0	4.4	2.0	3.8	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, 2004

Economic Sector Holdings

S&P Economic Sector	Number of Shares	Market Value ($)	% of Total	S&P 500 Index Allocation
Financials	19,888,506	836,239,174	20.0%	20.3%
Information Technology	27,495,559	641,855,564	15.4	17.1
Consumer Discretionary	19,755,630	573,190,422	13.7	10.9
Health Care	14,303,316	557,035,461	13.4	13.5
Industrials	15,069,191	541,944,488	13.0	11.4
Consumer Staples	9,570,710	392,519,928	9.4	11.1
Energy	6,873,549	303,156,060	7.3	6.6
Utilities	4,245,908	125,806,935	3.0	2.7
Telecommunication Services	4,617,656	101,618,304	2.4	3.4
Materials	2,898,477	98,303,832	2.4	3.0
Total Classified Equities	**124,718,502**	**4,171,670,168**	**100.0%**	**100.0%**
Commingled Funds	24,956,821	1,103,550,406		
Total Domestic Equity	**149,675,323**	**5,275,220,574**		

Top 10 Domestic Equity Holdings (excludes Commingled Funds)

Description	Number of Shares	Market Value ($)	Percentage of Total
General Electric Co.	2,712,075	87,871,230	2.11%
Exxon Mobil Corp.	1,958,340	86,969,879	2.08
Citigroup, Inc.	1,722,022	80,074,023	1.92
Microsoft Corp.	2,629,418	75,096,178	1.80
Pfizer, Inc.	2,151,371	73,748,998	1.77
American International Group	698,375	49,780,170	1.19
Intel Corp.	1,771,548	48,894,725	1.17
Wal-Mart Stores	890,400	46,977,504	1.13
Cisco Systems	1,913,335	45,346,040	1.09
Johnson & Johnson	773,391	43,077,879	1.03
Total Top 10 Domestic Equity	**17,220,275**	**637,836,626**	**15.29%**
Total Classified Equity		4,171,670,168	100.00%

* A complete list of the portfolio holdings at 6/30/04 is available at the Pension Fund office.

INTERNATIONAL EQUITY SUMMARY

As of June 30, 2004

Country Holdings	Number of Shares	Market Value ($)	% of Total	SCI ACWI ex US Index Allocation
Europe				
United Kingdom	90,605,164	319,115,682	28.0%	21.2%
France	2,873,730	136,084,341	11.9	8.0
Switzerland	1,565,745	100,058,304	8.8	6.1
Netherlands	3,093,626	76,839,927	6.8	4.1
Germany	1,137,086	54,599,465	4.8	5.8
Sweden	3,713,820	34,429,061	3.0	2.0
Italy	7,190,645	31,961,008	2.8	3.2
Spain	1,545,376	25,874,276	2.3	3.0
Other	3,128,293	54,990,267	4.8	7.8
Total Europe	114,853,485	833,952,331	73.2%	61.2%
Asia/Pacific Basin				
Japan	11,131,353	207,068,747	18.2	20.4
Australia	3,512,648	25,432,993	2.2	4.1
South Korea	197,681	14,196,878	1.2	1.8
Other	12,831,121	23,508,001	2.1	5.5
Total Asia/Pacific Basin	27,672,803	270,206,619	23.7%	31.8%
Americas				
Canada	387,271	14,310,208	1.3	5.3
Others	3,448,613	21,001,276	1.8	1.7
Total Americas	3,835,884	35,311,484	3.1%	7.0%
Total Classified Intl. Equity	146,362,172	1,139,470,434	100.0%	100.0%
Commingled Funds	7,714,023	101,512,306		
Total International Equity	154,076,195	1,240,982,740		

Top 10 International Equity Holdings (excludes Commingled Funds)

Description	Number of Shares	Market Value ($)	Percentage of Total
Vodafone Group PLC (United Kingdom)	12,262,393	26,852,204	2.36%
Total SA (France)	135,531	25,838,856	2.27
Royal Bank of Scotland (United Kingdom)	861,652	24,814,182	2.18
Nestle SA (Switzerland)	79,160	21,111,019	1.85
Glaxosmithkline (United Kingdom)	989,932	20,034,897	1.76
Reckitt Benckiser (United Kingdom)	693,641	19,636,099	1.72
Royal Dutch Petrol (Netherlands)	373,980	19,192,016	1.68
Canon, Inc. (Japan)	361,600	19,055,125	1.67
Unilever (Netherlands)	278,714	19,023,363	1.67
France Telecom (France)	726,775	18,940,223	1.66
Total Top 10 International Equity	16,763,378	214,497,984	18.82%
Total Classified Int. Equity		1,139,470,434	100.00%

* A complete list of the portfolio holdings at 6/30/04 is available at the Pension Fund office.

FIXED INCOME SUMMARY

As of June 30, 2004

Fixed Income Holdings

Asset Category	Par Value	Market Value ($)	Percentage of Total	Lehman Aggregate Index Allocation
Government Bonds	866,551,000	915,289,043	34.3%	23.9%
Corporate Bonds	733,815,538	781,250,115	29.3	20.5
Mortgage Backed	408,485,569	413,930,353	15.5	35.8
Government Agencies	360,636,491	370,031,385	13.9	11.3
Asset Backed Securities	114,889,711	112,932,209	4.2	1.6
Commercial Mortgage Backed	72,512,136	73,506,192	2.8	2.8
Other	105,620,000	249,954	0.0	4.1
Total Classified Fixed Income	**2,662,510,445**	**2,667,189,251**	**100.0%**	**100.0%**
Commingled Funds	4,081,705	69,956,159		
Total Fixed Income	**2,666,592,150**	**2,737,145,410**		

REAL ESTATE SUMMARY

As of June 30, 2004

Real Estate Holdings

Description	Number of Shares	Market Value ($)	Percentage of Total
JP Morgan - Strategic Property Fund	122,173	125,879,014	23.6%
UBS Global Asset Management	111,401,967	121,193,913	22.7
Prudential PRISA I Real Estate Fund	4,641	100,360,089	18.8
RREEF America REIT	773,536	54,138,060	10.2
Prudential PRISA II Real Estate Fund	2,143	25,859,990	4.9
Capital Associates Apartment Fund	20,140,813	21,236,679	4.0
Olympus Real Estate Fund II	22,244,480	19,938,974	3.8
Intercontinental RE Investment Fund III	16,925,693	16,558,715	3.1
Walton Street Real Estate Fund III	14,309,625	15,902,578	3.0
Walton Street Real Estate Fund II	11,957,141	12,445,421	2.3
Lend Lease Office Opportunity Fund C	12,265,745	8,638,674	1.6
Blackstone RE Partners	3,775,946	3,331,295	0.6
Walton Street Real Estate Fund I	4,163,429	2,875,939	0.5
CB Richard Ellis Strategic Partners III	2,524,046	2,524,046	0.5
Walton Street Real Estate Fund IV	2,318,500	2,294,164	0.4
Total Real Estate	**222,929,878**	**533,177,551**	**100.0%**

* A complete list of the portfolio holdings at 6/30/04 is available at the Pension Fund office.

PRIVATE EQUITY SUMMARY

As of June 30, 2004

Private Equity Holdings

Description	Number of Shares	Market Value ($)	Percentage of Total
HarbourVest Partners VI - Buyout	23,180,866	25,459,538	17.7%
Mesirow Partnership Fund I	21,764,068	19,346,758	13.5
Pantheon USA Fund III	25,532,624	16,142,432	11.2
Pantheon USA Fund IV	14,200,587	14,937,644	10.4
HarbourVest Partners VI - Partnership	16,258,688	13,734,410	9.5
Mesirow Partnership Fund II	9,729,003	10,122,828	7.0
Pantheon Europe Fund II	6,111,366	7,175,505	5.0
Brinson Partnership - 2002 Fund	5,416,605	6,859,254	4.8
Brinson Partnership - 2001 Fund	5,603,061	5,323,634	3.7
Brinson Partnership - 1998 Fund	5,851,873	4,578,632	3.2
Brinson Partnership - 2000 Fund	5,259,580	4,166,758	2.9
Brinson Partnership - 2003 Fund	3,474,298	3,480,559	2.4
Mesirow Capital Partners VIII	3,037,782	3,452,348	2.4
Brinson Partnership - 1999 Fund	3,758,982	2,831,388	2.0
Brinson Non US Partnership - 2002 Fund	1,923,106	2,302,338	1.6
Brinson Non US Partnership - 2004 Fund	793,101	809,137	0.6
Brinson Non US Partnership - 2001 Fund	705,888	791,093	0.5
Brinson Partnership - 1996 Fund	813,029	755,667	0.5
Brinson Non US Partnership - 2003 Fund	692,670	712,547	0.5
Brinson Partnership - 2004 Fund	358,056	358,056	0.2
Brinson Partnership - 1997 Fund	400,640	325,109	0.2
Hispania Private Equity	270,069	270,069	0.2
Total Private Equity	**155,135,942**	**143,935,704**	**100.0%**

PUBLIC REIT SUMMARY

As of June 30, 2004

Public REIT Holdings

Manager	Number of Shares	Market Value ($)	Percentage of Total
Morgan Stanley	3,186,179	97,917,126	50.9%
Urdang	3,121,263	94,422,193	49.1
Total Public REIT	**6,307,442**	**192,339,319**	**100.0%**

* A complete list of the portfolio holdings at 6/30/04 is available at the Pension Fund office.

MANAGER ANALYSIS

Asset Category	Fair Value 06/30/04	Percentage of Portfolio	FY 2004 Manager Fees
EQUITY			
Domestic Equity			
Ariel Capital Management	$ 321,989,930	3.1%	$ 852,797
Chicago Equity Partners	272,744,288	2.6	345,620
Dimensional Fund Advisors	127,948,145	1.2	649,663
Fidelity Capital Management	355,218,747	3.3	1,358,416
Harris Investment Management	355,445,087	3.4	687,547
Holland Capital Management	117,274,998	1.1	245,633
J. & W. Seligman	262,814,353	2.5	1,069,530
New Amsterdam Partners	211,897,267	2.0	450,009
Northern Trust Global Investments	2,537,845,882	24.1	519,664
UBS Global Asset Management	318,499,109	3.0	833,274
Waddell & Reed Asset Management	342,957,411	3.3	579,373
Zevenbergen Capital	50,585,357	0.5	223,105
Terminated Managers	-	0.0	567,179
Total	5,275,220,574	50.1%	8,381,810
International Equity			
Lazard Asset Management	313,863,594	3.0	558,462
MFS Institutional Advisors	374,203,766	3.6	1,357,330
Morgan Stanley Investments	551,720,385	5.2	2,304,833
Terminated Managers	1,194,995	0.0	-
Total	1,240,982,740	11.8%	4,220,625
Public REITS			
Morgan Stanley Investments	97,917,126	0.9	838,900
Urdang Investment Management	94,422,193	0.9	322,724
Terminated Managers	-	0.0	200,830
Total	192,339,319	1.8%	1,362,454
Private Equity			
Adams Street Partners	33,294,172	0.3	853,080
HarbourVest Partners	39,193,948	0.4	999,996
Hispania Capital Partners	270,069	0.0	356,363
Mesirow Financial	32,921,934	0.3	777,908
Pantheon Ventures	38,255,581	0.4	565,837
Total	143,935,704	1.4%	3,553,184
TOTAL EQUITY	$ 6,852,478,337	65.1%	$ 17,518,073

MANAGER ANALYSIS (continued)

Asset Category	Fair Value 06/30/04	Percentage of Portfolio	FY 2004 Manager Fees
FIXED INCOME			
Lincoln Capital Management	$ 502,831,426	4.8%	$ 245,923
MDL Capital Management	125,793,360	1.2	175,405
Northern Trust Global Investments	1,469,509,819	14.0	156,130
Smith Graham	61,386,527	0.6	161,376
Western Asset Management	577,624,278	5.4	918,104
Total	2,737,145,410	26.0%	1,656,938
REAL ESTATE			
Blackstone Group	3,331,295	0.0	166,135
Capri Capital Advisors	21,236,679	0.2	222,516
CB Richard Ellis Investors	2,524,046	0.0	171,895
Intercontinental Real Estate Corp.	16,558,715	0.2	218,150
J.P. Morgan Fleming	125,879,014	1.2	1,151,693
Morgan Stanley Investments	8,638,674	0.1	117,267
Olympus Real Estate	19,938,974	0.2	301,828
Prudential Investment Management	126,220,079	1.2	1,056,222
RREEF America REIT	54,138,060	0.5	1,337,533
UBS Global Asset Management	121,193,913	1.2	1,236,208
Walton Street	33,518,102	0.3	471,999
Total	533,177,551	5.1%	6,451,446
CASH EQUIVALENT			
Northern Trust	400,286,249	3.8%	-
Grand Total	$ 10,523,087,547	100.0%	$ 25,626,457

BROKER COMMISSION REPORT

Domestic Agency Trades
For the year ended June 30, 2004

Broker Name	Number of Shares	Transaction Amount ($)	Commissions Paid ($)	Commission Per Share (cents)
Gardner Rich & Co.	12,982,468	336,078,736	606,001	4.7
Lynch Jones & Ryan	9,375,169	233,597,231	389,440	4.2
Citation Group	7,241,256	216,599,855	333,125	4.6
Berean Capital, Inc.	6,852,790	187,583,100	315,671	4.6
Loop Capital Markets	6,019,592	191,121,429	283,159	4.7
Merrill Lynch Pierce Fenner & Smith	4,121,418	127,656,362	195,607	4.7
Lehman Brothers, Inc.	3,869,619	110,137,837	150,268	3.9
Correspondent Services Corp.	2,589,948	86,484,715	113,097	4.4
National Financial Services	2,419,464	98,395,015	99,686	4.1
Liquidnet, Inc.	3,512,613	114,622,756	95,595	2.7
Jefferies & Co.	2,077,331	62,523,120	91,561	4.4
Bear Stearns Securities Corp.	2,249,607	69,932,106	89,966	4.0
Instinet	3,672,072	97,405,788	88,540	2.4
Morgan Stanley & Co.	2,586,451	91,926,358	83,496	3.2
B-Trade Services	2,777,521	89,191,619	83,309	3.0
Smith Barney, Inc.	1,454,822	47,761,045	72,145	5.0
M. Ramsey King Securities	1,464,774	46,472,730	71,890	4.9
First Southwest Co.	1,369,976	49,317,868	64,206	4.7
Credit Suisse First Boston	1,276,911	38,351,737	63,339	5.0
BNY Securities Co.	1,471,337	41,502,124	62,587	4.3
UBS Securities	1,508,073	49,209,297	61,074	4.0
Bernstein, Sanford C. & Co.	1,102,383	33,492,714	54,837	5.0
Weeden & Co.	1,071,565	26,616,944	52,978	4.9
Mesirow Financial, Inc.	1,137,543	35,906,703	52,655	4.6
JP Morgan Securities	987,789	28,376,381	48,578	4.9
Investment Technology Group	1,779,848	59,084,672	47,755	2.7
Prudential Securities, Inc.	954,995	30,033,206	47,478	5.0
CIBC World Markets Corp.	960,567	17,401,930	46,183	4.8
Greentree Brokerage	1,001,122	16,715,947	45,747	4.6
Bank of America Securities	901,574	24,243,406	45,016	5.0
Goldman Sachs & Co.	917,638	23,544,456	44,216	4.8
Jones, AD	919,100	27,784,168	44,090	4.8
Thomas Weisel Partners	883,546	25,375,217	42,145	4.8
Cantor Fitzgerald & Co.	810,750	22,011,738	40,538	5.0
SG Cowen & Co.	786,074	20,889,158	38,144	4.9
Wachovia Capital Markets	724,399	19,687,915	36,110	5.0
Charles Schwab	714,879	16,665,885	33,688	4.7
Deutsche Bank Securities, Inc.	615,258	18,507,467	30,763	5.0
RBC Dain Rauscher	591,889	10,691,954	29,040	4.9
ABN AMRO Securities, Inc.	587,064	15,447,012	26,239	4.5
Others (109 Brokers)	12,024,137	325,187,456	531,567	4.4
Grand Total	110,365,332	3,183,535,157	4,751,529	4.3

BROKER COMMISSION REPORT

International Agency Trades
For the year ended June 30, 2004

Broker Name	Number of Shares	Transaction Amount ($)	Commissions Paid ($)	Commission Per Share (cents)
Merrill Lynch & Co.	11,931,629	142,233,234	249,076	2.1
Lehman Brothers, Inc.	9,306,955	101,637,630	142,576	1.5
Credit Suisse First Boston	5,483,916	78,160,863	125,326	2.3
UBS Securities	4,022,921	65,929,437	120,371	3.0
Deutsche Bank Securities, Inc.	4,304,650	61,612,701	108,924	2.5
Citigroup	5,905,323	76,338,966	106,772	1.8
Goldman Sachs & Co.	10,548,142	75,807,967	90,092	0.1
JP Morgan Securities	3,294,555	37,893,870	68,404	2.1
Nomura International	2,207,049	35,474,199	65,308	3.0
Morgan Stanley & Co.	4,442,917	38,203,459	64,363	1.4
HSBC Securities	2,193,322	30,090,253	56,572	2.6
Sanford Bernstein	2,339,245	26,985,329	47,818	2.0
Dresdner Kleinwort Wasserstein	1,322,910	23,674,518	43,394	3.3
ABN AMRO Securities	1,845,982	30,114,722	41,571	2.3
DBP Daiwa Securities	1,297,238	13,655,465	27,362	2.1
ING Baring Securities	579,517	16,177,680	22,864	3.9
Credit Lyonnais Securities	775,344	11,114,167	19,469	2.5
Pershing	958,137	13,841,700	18,135	1.9
Cheuvreux de Virieu	182,587	7,716,906	15,420	8.4
Societe Generale	174,890	7,450,768	14,775	8.4
Others (68 Brokers)	14,388,132	137,153,803	225,287	1.6
Grand Total	87,505,361	1,031,267,637	1,673,879	1.9

Directed Commissions Program

For the year ended June 30, 2004

Directed Commissions	Commission ($)
Directed to local Minority & Woman Business - Domestic	1,161,515
Directed to local Minority & Woman Business - International	65,097
Total Directed to local Minority & Woman Business	1,226,612
Directed to Commission recapture program - Domestic	634,494
Recaptured Commissions - Domestic	(435,488)
Directed to Commission recapture program - International	193,150
Recaptured Commissions - International	(120,719)
Net Commission Recapture Fees	271,437

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

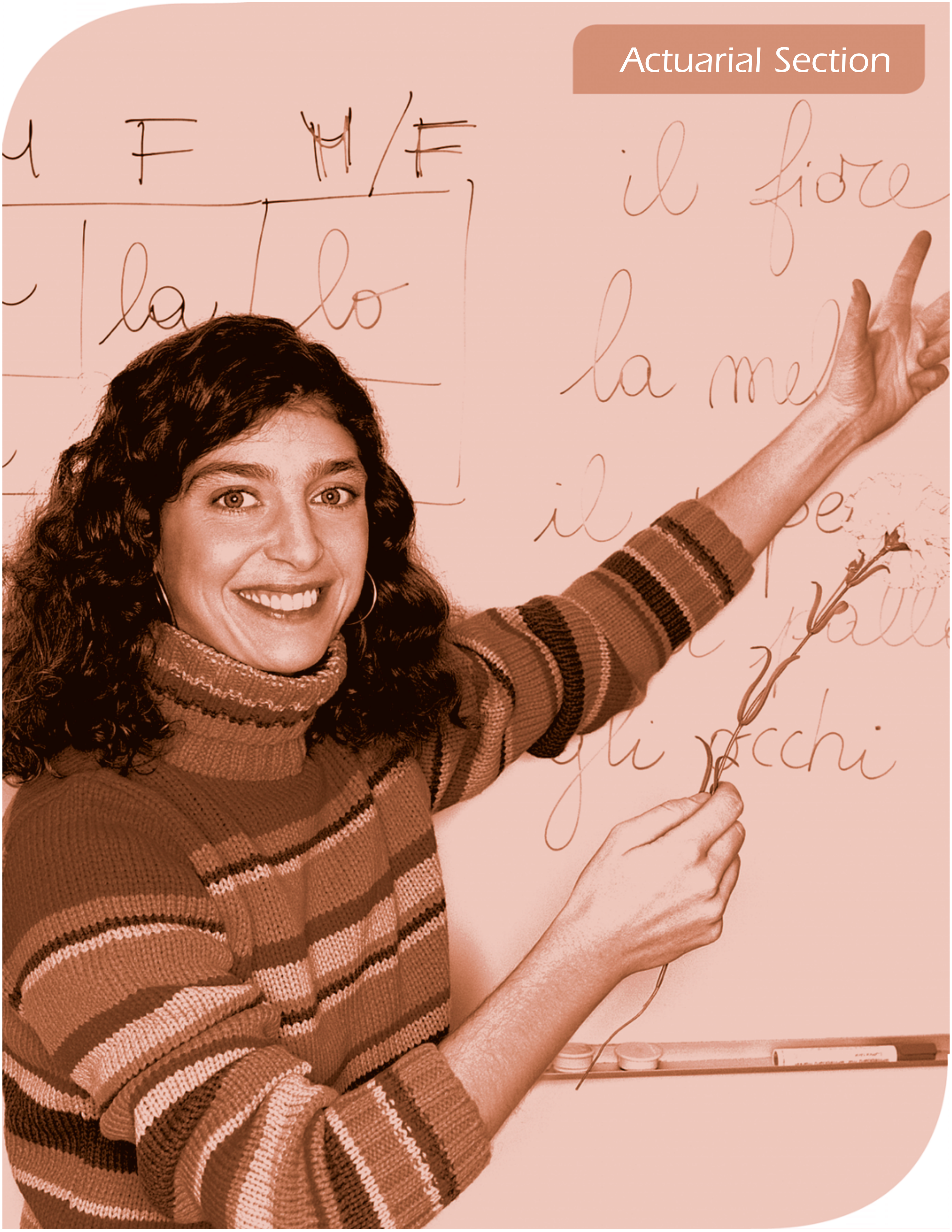
Custody of Fund-Bonds-Legal proceedings. The city treasurer, ex-officio, shall be the custodian of the Fund, and shall secure and safely keep it, subject to the control and direction of the Board of Trustees. He shall keep his books and accounts concerning the Fund in the manner prescribed by the Board 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 9, 2004

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, 2004. 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, House Bill 1269, which was signed into law on June 28, 2004 as Public Act 93-0677, made some changes in the benefit provisions of the fund. The bill increased the maximum amount of reimbursement for health insurance coverage that the fund may pay in any year from $40 million to $65 million. The bill also provided that the total amount of payment may not exceed 75% of the total cost of health insurance coverage for the year.

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, 2004 actuarial valuation and the funding plan established by Public Act 89-15 and Public Act 90-548, we have calculated the Board of Education contribution requirement for Fiscal Year 2006 to be $15,820,000. Based upon Section 17-127.2 of the Illinois Compiled Statues, an additional State contribution of $9.88 million and an additional Board of Education contribution of $10.5 million are required for fiscal year 2006 due to the Funds unfunded actuarial liability dropping below 90%.

The same actuarial assumptions were used for the June 30, 2004 actuarial valuation as had been used for the June 30, 2003 valuations. These actuarial assumptions were based on an experience analysis of the Fund over the three-year period 2000-2002 and were adopted by the board as of June 30, 2004 upon the recommendation of the actuary.

The projected unit credit actuarial cost method was used for the June 30, 2004 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2003 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, 2004.

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, 2004. 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	$ 12,105,680,577
2. Actuarial Value of Assets	10,392,193,115
3. Unfunded Actuarial Liability	1,713,487,462
4. Funded Ratio	85.8%
5. Employer's Normal Cost for FY 05 as a percent of payroll	9.87%
6. Annual Required Contribution for FY 05 Based on GASB Statement No. 25	258,883,211
7. Board of Education Contribution Requirement For FY 06 Based on Public Act 89-15 and Public Act 90-548	$ 15,820,000

B. DATA USED FOR THE VALUATION

Participant Data. The participant data required to carry out the valuation was supplied by the Fund. The membership of the Fund as of June 30, 2004, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 37,362 active contributors, 19,266 pensioners, and 1,930 vested terminated members included in the valuation. The total active payroll as of June 30, 2004 was $1,767,631,306.

Exhibit 1

Summary of Membership Data

1. Number of Members		
(a) Active Members		
(i)	Vested Board of Education Employees	22,789
(ii)	Non-vested Board of Education Employees	13,424
(iii)	Vested Charter School Employees	209
(iv)	Non-vested Charter School Employees	940
(v)	Total Active Members	37,362

	(b) Members Receiving	
	(i) Retirement Pensions	16,542
	(ii) Disability Pensions	393
	(iii) Survivor Pensions	2,254
	(iv) Reversionary Pensions	77
	(v) Total Pensioners	19,266
	(c) Vested Terminated Members	1,930
	(d) Total	**58,558**
2.	Annual Salaries	
	(a) Salary for Board of Education Employees	$1,724,047,999
	(b) Salary for Charter School Employees	43,583,307
	(c) Total Salary	$1,767,631,306
	(d) Average Salary	47,311
3.	Total Accumulated Contributions of Active Members	$1,193,225,162
4.	Annual Benefit Payments Currently Being Made	
	(a) Retirement Pensions	$556,756,912
	(b) Disability Pensions	9,476,817
	(c) Survivor Pensions	27,491,224
	(d) Reversionary Pensions	646,194
	(e) Total Pensions	**$594,371,147**

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, 2004 prepared by the Fund. The actuarial value of assets was determined by smoothing unexpected gains or losses over a period of 4 years. The resulting actuarial value of assets is $10,392,193,115. The development of this actuarial value of assets is outlined in Exhibit 2. As of June 30, 2004, the market value of the assets of the fund amounted to $10,321,555,491.

Exhibit 2
Actuarial Value of Assets

A. Development of Investment Gain/(Loss) For Year Ending June 30, 2004		
1.	Actuarial Value of Assets as of 6/30/03	$ 10,494,754,698
2.	Employer Contributions	78,213,558
3.	Employee Contributions	169,598,212
4.	Expenses	672,759,115
5.	Expected Investment Income	822,909,486
6.	Actual Investment Income	1,478,859,791
7.	Investment Gain/(Loss) (6 – 5)	$ 655,950,305
B. Development of Actuarial Value of Assets		
8.	Expected Actuarial Value of Assets as of June 30, 2004 (1 + 2 + 3 – 4 + 5)	$ 10,892,716,839
9.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2001	(237,323,180)
10.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2002	(296,503,324)
11.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2003	(130,684,796)
12.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2004	163,987,576
13.	Actuarial Value of Assets as of June 30, 2004 (8+9+10+11+12)	$ 10,392,193,115

C. FUND PROVISIONS

Our valuation was based on the provisions of the Fund in effect as of June 30, 2004 as provided in Article 17 of the Illinois Pension Code. Since the date of the last actuarial valuation, House Bill 1269, which was signed into law on June 28, 2004 as Public Act 93-0677, made some changes in the benefit provisions of the fund. The bill increased the maximum amount of reimbursement for health insurance coverage that the fund may pay in any year from $40 million to $65 million. The bill also provided that the total amount of payment may not exceed 75% of the total cost of health insurance coverage for the year.

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

D. ACTUARIAL ASSUMPTIONS AND COST METHOD

The actuarial assumptions used for the June 30, 2004 actuarial valuation are the same as those used for the June 30, 2003 valuation. The actuarial assumptions used for the June 30, 2004 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, 2004 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2003 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, 2004, the total actuarial liability is $12,105,680,577, the actuarial value of assets is $10,392,193,115, and the unfunded liability is $1,713,487,462. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 85.8%.

Exhibit 3
Actuarial Liability as of June 30, 2004

1. Actuarial Liability for Active Members		
(a)	Basic Retirement Annuity	$ 3,549,372,581
(b)	Post Retirement Increase	920,197,987
(c)	Lump Sum Death Benefit	12,340,764
(d)	Survivor's Pension	316,956,723
(e)	Disability Pension	85,571,170
(f)	Withdrawal Benefit	267,487,052
(g)	Total	$5,151,926,277
2. Actuarial Liability Members Receiving Benefits		
(a)	Retirement Pensions	$ 6,419,325,862

(b)	Survivor Pensions	273,071,442
(c)	Disability Pensions	110,500,135
(d)	Total	$ 6,802,897,439
3.	Actuarial Liability for Inactive Members	$ 150,856,861
4.	Total Actuarial Liability	$ 12,105,680,577
5.	Actuarial Value of Assets	$ 10,392,193,115
6.	Unfunded Actuarial Liability	$ 1,713,487,462
7.	Funded Ratio	85.8%

F. EMPLOYER'S NORMAL COST

The employer's share of the normal cost for the year beginning July 1, 2004 is developed in Exhibit 4. The total normal cost is $333,599,656, employee contributions are estimated to be $159,086,818, resulting in the employer's share of the normal cost of $174,512,838.

Based on a payroll of $1,767,631,306 as of June 30, 2004, the employer's share of the normal cost can be expressed as 9.87% of payroll.

Exhibit 4

Employer's Normal Cost For Year Beginning July 1, 2004

		Dollar Amount	Percent Of Payroll
1.	Basic Retirement Pension	$ 170,178,116	9.63%
2.	Post Retirement Increases	43,918,552	2.48
3.	Lump Sum Death Benefits	864,501	.05
4.	Survivor's Pension	18,009,837	1.02
5.	Disability Benefits	6,204,861	.35
6.	Withdrawal Benefits	31,859,474	1.80
7.	Health Insurance Reimbursement	55,186,459	3.12
8.	Administrative Expenses	7,377,856	.42

9.	Total Normal Cost	$ 333,599,656	18.87%
10.	Employee Contributions	159,086,818	9.00
11.	Employer's Share of Normal Cost	$ 174,512,838	9.87%

Note. Based on a payroll of $1,767,631,306 as of June 30, 2004, the employer's share of the normal cost can be expressed as 9.87% of payroll.

G. BOARD OF EDUCATION CONTRIBUTION REQUIREMENT FOR FISCAL YEAR 2005

Additional State Contributions. According to Section 17-127 of the Illinois Compiled Statues (Pension Code), the State shall make additional contributions of .544% of payroll to the Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-582, except that no additional contributions are required if for the previous fiscal year the ratio of the fund's assets to total actuarial liabilities was at least 90%.

Based on the June 30, 2004 actuarial valuation, the ratio of the actuarial value of assets to total actuarial liabilities, or funded ratio, amounts to 85.8%. Therefore, additional State contributions will be required for Fiscal Year 2006. Based on a projected payroll of $1,815,597,000 for Fiscal Year 2006, we have determined the additional State contributions under Section 17-127 of the Pension Code to be $9,877,000.

Additional Board of Education Contributions. According to Section 17-127.2 of the Pension Code, the Board of Education shall make additional contributions of .58% of each teacher's salary to the Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-582, except that no additional contributions are required if for the previous fiscal year the ratio of the fund's assets to total actuarial liabilities was at least 90%.

As the funded ratio as of June 30, 2004 is 85.8%, additional Board of Education contributions will be required for Fiscal Year 2006. Based on a projected payroll of $1,815,597,000 for Fiscal Year 2006, we have determined the additional Board of Education contribution under Section 17-127.2 of the Pension Code to be $10,530,000.

Board of Education Required Contribution. 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, 2004, the ratio of the actuarial value of assets to the total actuarial liability is 85.8%. Using the results of the June 30, 2004 valuation as a starting point and assuming no Board of Education contribution in Fiscal Year 2005, we have projected the ratio of the actuarial value of assets to the total actuarial liability as of June 30, 2005 to be 82.6%. 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 2006 to be $114,721,000. State appropriations are estimated to be $65,000,000. As indicated above, additional state contributions amount to $9,877,000, and additional Board of Education contributions amount to $10,530,000. Other employer contributions are estimated to be $13,494,000. Thus, based on the total employer required contribution for Fiscal Year 2006 and other sources of employer contribution, the net Board of Education contribution requirement for Fiscal Year 2006 under the funding plan specified in Section 17-129 of the Pension Code is calculated to be $15,820,000. Additional details regarding our calculations are shown below:

Board of Education Required Contribution For FY 2006

1.Total required employer contribution for FY 2006	$ 114,721,000
2.State appropriations	65,000,000
3.Additional State contributions	9,877,000
4.Additional Board of Education contribution	10,530,000
5.Other employer contributions	13,494,000
6.Board of Education required contribution (1 – 2 – 3 – 4 – 5)	$ 15,820,000

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, 2004 actuarial valuation, we have therefore calculated the annual required contribution for Fiscal Year 2005. 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 2005 has been determined to be as follows:

		Fiscal Year 2005
1.	Employer's normal cost	$ 174,512,838
2.	Annual amount to amortize the unfunded liability (surplus) over 40 years as a level percent of payroll	84,370,373
3.	Annual required contribution (1 + 2)	$ 258,883,211

I. RECONCILIATION OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY

The net actuarial experience during the period July 1, 2003 to June 30, 2004 resulted in an increase in the Fund's unfunded actuarial liability of $796,713,796. 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.

Certain adjustments were made to the active membership data used for the June 30, 2003 actuarial valuation. Making these adjustments to the June 30, 2003 active membership data resulted in a net increase in the unfunded liability of $74,043,562.

The employer contribution requirement for the year of normal cost plus interest on the unfunded actuarial liability amounted to $235,927,256. The total actual employer contribution for the year amounted to $78,213,558. Thus, the employer contribution for the year fell short of the funding requirement of normal cost plus interest on the unfunded liability by $157,713,698. 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 3.1%, in comparison to the assumed rate of 8.0%. This resulted in an increase in the unfunded liability of $500,523,724. Salary increases lower than expected resulted in a decrease in the unfunded liability of $163,105,603.

The various other aspects of the Fund's experience resulted in a net increase in the unfunded liability of $227,549,415. The aggregate financial experience of the Fund resulted in an increase in the unfunded liability of $796,713,796.

Exhibit 5

Reconciliation of Change in Unfunded Actuarial Liability
Over the Period July 1, 2003 to June 30, 2004

1. Unfunded Actuarial Liability as of 7/1/03	$ 916,773,666
2. Increase in Unfunded Liability due to Adjustments in June 30, 2003 Actives Data	74,032,562
3. Employer Contribution Requirement of Normal Cost Plus Interest on Unfunded Liability for Period 7/1/02 to 6/30/03	235,927,256
4. Actual Employer Contribution for the Year	78,213,558
5. Increase in Unfunded Liability Due to Employer Contribution Being Less Than Normal Cost Plus Interest on Unfunded Liability (3 –4)	$ 157,713,698
6. Increase in Unfunded Liability Due to Investment Return Lower Than Assumed	500,523,724
7. Decrease in Unfunded Liability Due to Salary Increases Lower Than Assumed	163,105,603
8. Increase in Unfunded Liability Due to Other Sources	227,549,415
9. Net Increase in Unfunded Liability for the Year (2 +5 + 6 – 7 + 8)	796,713,796
10. Unfunded Actuarial Liability as of June 30, 2004 (1 + 9)	$ 1,713,487,462

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
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	10,640,947,039	96.5%	384,535,171	1,759,045,853	21.9%
2003	11,411,528,364	10,494,754,698	92.0%	916,773,666	1,706,205,814	53.7%
2004	12,105,680,577	10,392,193,115	85.8%	1,713,487,462	1,767,631,306	96.9%

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)
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	10,640,947,039	100%	100%	90%
2003	1,158,355,645	6,241,474,235	4,011,698,484	10,494,754,698	100%	100%	77%
2004	1,193,225,162	6,802,897,439	4,109,557,976	10,392,193,115	100%	100%	58%

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
1995	1,169,319,610	86,171,177	7.37%	16.71%
1996	1,278,738,666	72,580,416	5.68%	16.42%
1997	1,362,611,111	91,776,705	6.74%	15.42%
1998	1,434,015,017	75,072,817	5.24%	7.93%
1999	1,521,181,503	60,781,723	4.00%	8.25%
2000	1,651,810,084	79,729,145	4.83%	8.38%
2001	1,690,264,167	77,135,200	4.65%	11.18%
2002	1,759,045,853	77,679,068	4.42%	10.17%
2003	1,706,205,814	78,747,983	4.62%	9.39%
2004	1,767,631,306	78,127,273	4.42%	11.48%

Additional Actuarial Tables

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase (Decrease) In Average Pay
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%)
6-30-04	37,362	1,767,631,306	47,311	1.3%

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	23,906	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%
2004	1,336	63,484,844	635	13,595,626	19,266	594,371,147	30,851	5.2%

Appendix 1

Summary of Actuarial Assumptions and Actuarial Cost Method

Actuarial Assumptions. The actuarial assumptions used for the June 30, 2004 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. Male spouses are assumed to be 2 years older than female spouses.

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 pension are provided. The increases accrued from the anniversary date of retirement or the 61st birthday, whichever is later.

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

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

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

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

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

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

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

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

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

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

13. Health Insurance Reimbursement. The board may pay each recipient of a retirement, disability, or survivor's pension an amount to be determined by the board, which shall represent partial reimbursement for the cost of the recipient's health insurance coverage, with the total amount of payment not to exceed $65,000,000, or 75% of the total cost of health insurance coverage 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.

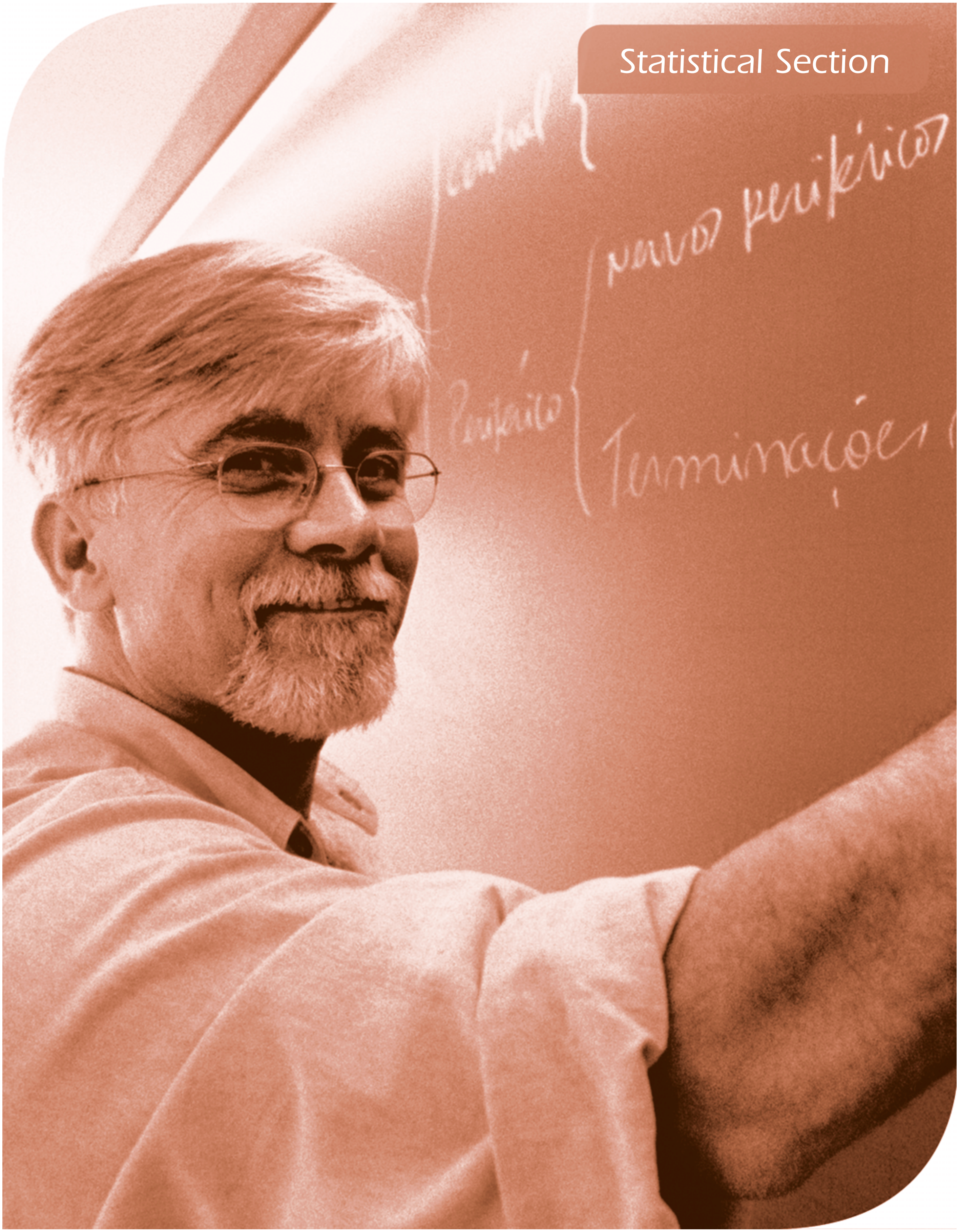
Under this method, the actuarial gains (losses), as they occur, generally reduce (increase) the unfunded actuarial liability.

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

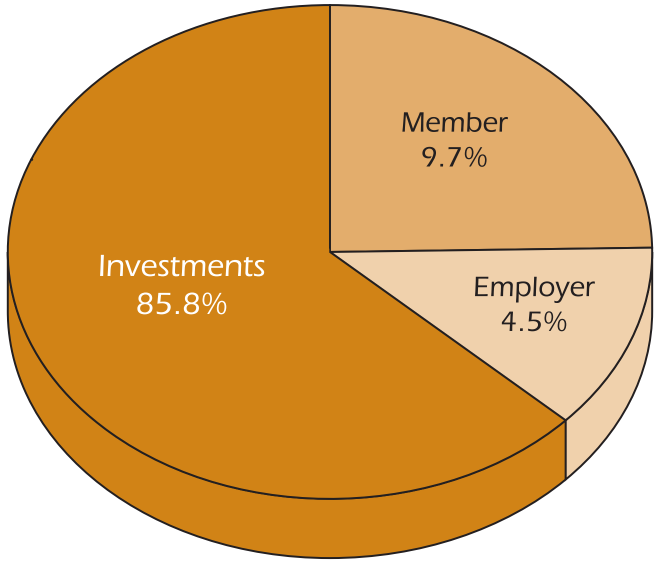
9. Actuarial Valuation. The determination, as of the valuation date, of the normal cost, actuarial liability, actuarial value of assets, and related actuarial present values for a pension plan.

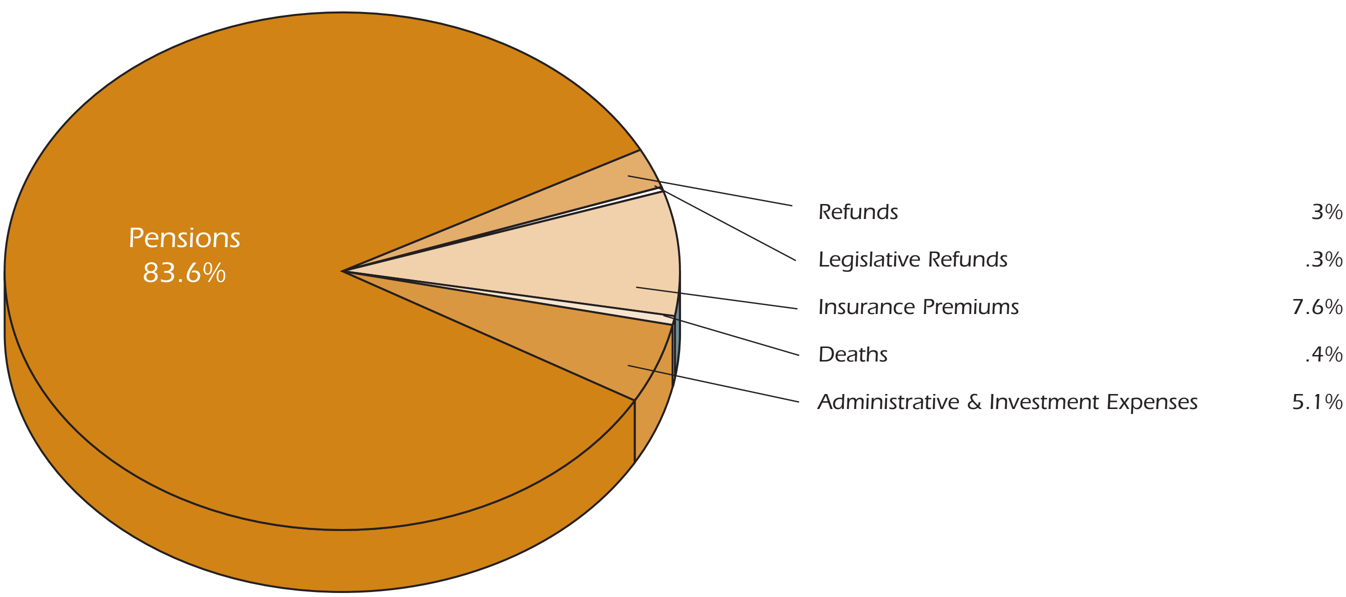
10. Vested Benefits. Benefits that are not contingent on an employee's future service.

Statistical Section



2004 Revenue - Sources and Applications





Participating Members

Table 1

Salary Distribution

Fiscal Year	Total Salaries ($)	Average Salary ($)	Average Attained Age	Average Years of Service
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
2004	1,767,631,306	47,311	44.2	11.8

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
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
2004	37,362	3,431	10,935	6,744	5,106	11,146

Number of Members

Fiscal Year	Male Participants	Female Participants	Total
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
2004	9,478	27,884	37,362

Table 2

Annuitants

Changes In The Number Of Recurring Benefit Payments

Fiscal Year	Additions		Deletions		End of Year	
	Annuity	Disability	Annuity	Disability	Annuity	Disability
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
2004	863	42	382	26	12,947	393

Average Benefit Payment Amounts

Fiscal Year	Single Sum Payments		Recurring Payments		
	Separation Refunds ($)	Lump Sum Death Benefit ($)	Annual Disability ($)	Annual Retirement ($)	Trend Total ($)
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
2004	10,021	5,636	24,114	33,657	73,428

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

Distribution Of Current Annuitants By Pension Amount

	Retirement		Disability		Survivor		Reversionary		Reciprocal		All Annuities	
Monthly Pension Amount	Males	Females	Males	Females	Males	Females	Males	Females	Males	Females	Males	Females
UNDER $500	68	220	4	13	186	412	7	30	399	762	673	1437
$500 TO UNDER $1,000	132	454	20	44	301	400	1	15	237	332	719	1245
$1,000 TO UNDER $1,500	126	553	18	49	186	263	2	11	137	226	478	1102
$1,500 50 UNDER $2,000	209	837	20	52	128	219	1	7	109	216	476	1331
$2,000 TO UNDER $2,500	305	974	11	50	26	68	0	1	78	192	420	1285
$2,500 TO UNDER $3,000	369	1147	16	34	4	35	0	1	54	189	443	1406
$3,000 TO UNDER $3,500	460	1202	12	34	3	14	0	1	91	212	566	1463
$3,500 TO UNDER $4,000	987	2135	3	8	1	7	0	0	63	141	1054	2291
$4,000 TO UNDER $4,500	509	981	2	3	0	0	0	0	33	27	544	1011
$4,500 TO UNDER $5,000	243	196	0	0	0	0	0	0	22	20	265	216
$5,000 TO UNDER $5,500	156	177	0	0	0	0	0	0	13	11	169	188
$5,500 TO UNDER $6,000	98	91	0	0	1	0	0	0	9	5	108	96
$6,000 TO UNDER $6,500	84	63	0	0	0	0	0	0	6	2	90	65
$6,500 TO UNDER $7,000	60	43	0	0	0	0	0	0	3	2	63	45
$7,000 TO UNDER $7,500	26	12	0	0	0	0	0	0	0	1	26	13
$7,500 TO UNDER $8,000	12	4	0	0	0	0	0	0	0	0	12	4
$8,000 TO UNDER $8,500	4	1	0	0	0	0	0	0	1	0	5	1
$8,500 TO UNDER $9,000	1	2	0	0	0	0	0	0	0	0	1	2
$9,000 AND ABOVE	4	2	0	0	0	0	0	0	1	1	5	3
TOTAL	3853	9094	106	287	890	1418	11	66	1257	2339	6117	13204

Table 3

Benefits Paid

Benefit Expense By Type

Fiscal Year	Annuities ($) Retirement	Annuities ($) Survivors	Annuities ($) Disability	Fiscal Year	Refunds ($) Separation	Refunds ($) Death	Refunds ($) Other (1)
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
2004	554,975,291	22,885,524	8,649,568	2004	9,565,261	3,588,032	10,173,428

Fiscal Year	Death Benefits ($) Heirs of Active Teachers	Death Benefits ($) Heirs of Annuitants	Fiscal Year	Health Insurance Premium Rebate ($) Amount	Grand Total
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
2004	505,842	2,095,323	2004	53,106,379	665,544,648

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

Table IV

Schedule of Revenue By Source

10-year Summary ($ Millions)

Fiscal Year	Contributions by Members	Investment Income (B)	Miscellaneous	Contributions by Employers Amount	Contributions by Employers % of Payroll	Total
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
2004	169.6	1,478.9	—	78.1	4.4	1,726.6

(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.

Schedule of Total Expenses

10-year Summary ($ Millions)

Fiscal Year	Pension Benefits	Refunds	Death Benefits	Insurance Premium Refunds	Administrative Miscellaneous Expenses	Total
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
2004	586.5	23.3	2.6	53.1	7.2	672.7