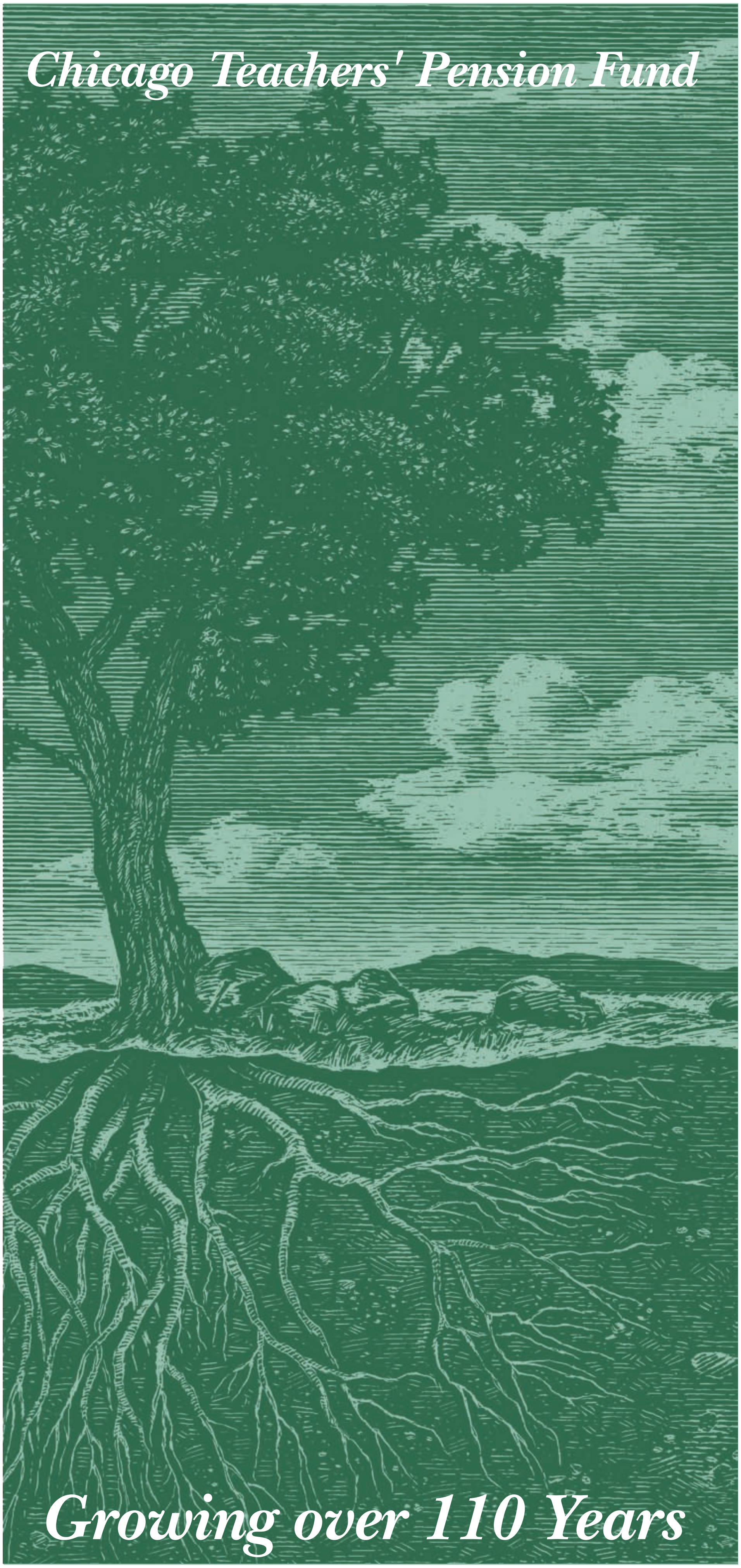

110th Comprehensive Annual Financial Report

for the year ended, June 30, 2005
Chicago, Illinois

Trust. Integrity. Stability.

CTPF
Chicago Teachers' Pension Fund

110th Comprehensive Annual Financial Report
for the year ended June 30, 2005

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

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STATISTICAL SECTION

Introductory Section

Board Of Trustees

As of June 30, 2005

Consultants

LEGAL COUNSEL

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Jacobs, Burns, Orlove, Stanton & Hernandez
122 South Michigan Avenue, Suite 1720
Chicago, Illinois 60603-6145

INVESTMENT CONSULTANTS

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Mercer Investment Consulting
10 South Wacker Drive
Chicago, Illinois 60606

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The Townsend Group
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1660 West Second Street, Suite 450
Cleveland, OH 44113

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City Treasurer
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Chicago, Illinois 60602

CONSULTING ACTUARY

Mr. Sandor Goldstein
Goldstein & Associates
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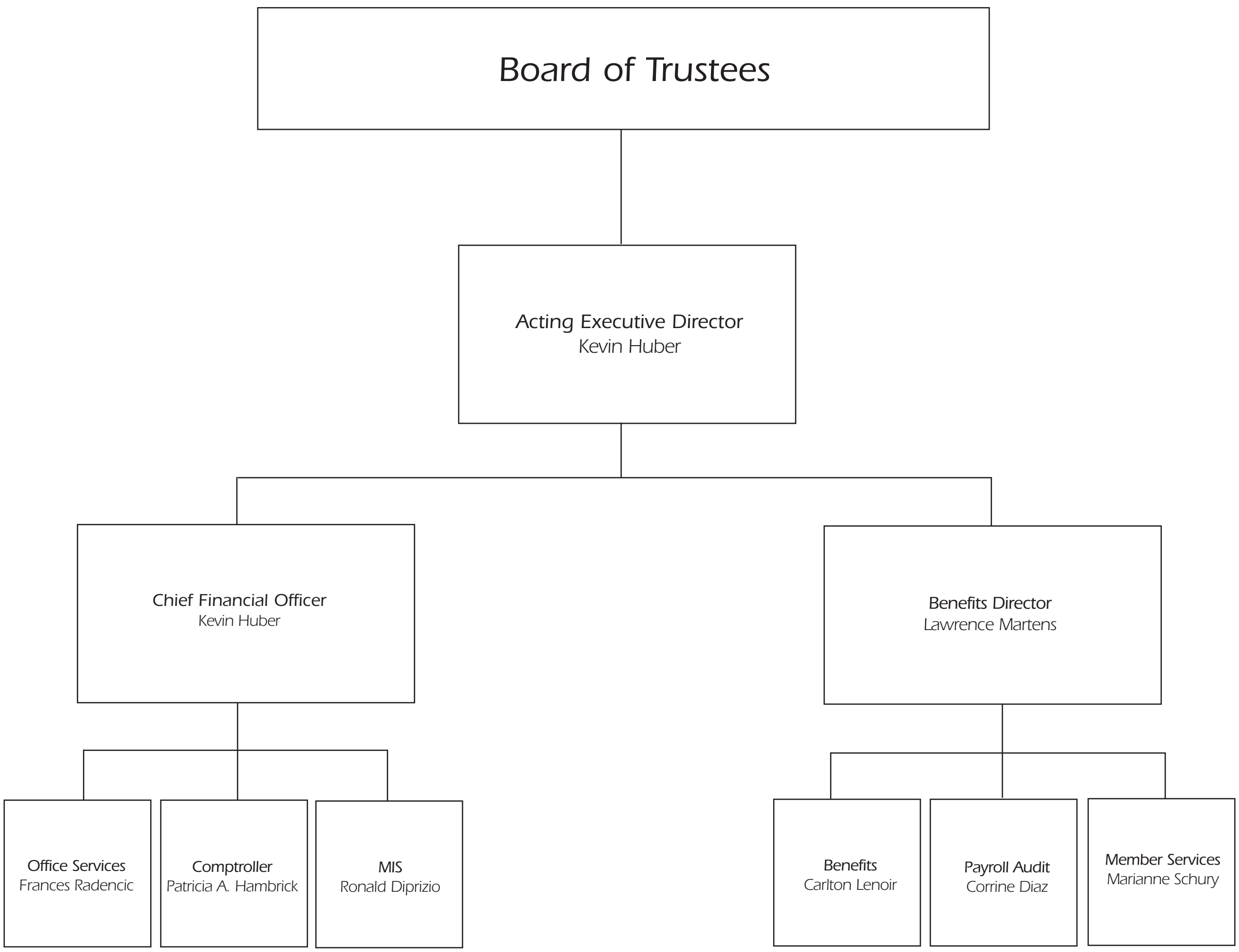
Chicago, Illinois 60603

INVESTMENT ADVISORS

Adams Street Partners, LLC
Ariel Capital Management
Attucks Asset Management
Blackstone Group L.P.
Capri Capital Advisors
CB Richard Ellis Investors
Chicago Equity Partners
Dimensional Fund Advisors
Fidelity Capital Management Trust Co.
Fremont Realty Capital
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 Asset Management
Lazard Asset Management
Lehman Brothers Asset Management
LM Capital Group
Mesirow Financial, Inc.
MFS Institutional Advisors
Morgan Stanley Investments, LP
Muller and Monroe Asset Management
New Amsterdam Partners
Northern Trust Global Investments
Olympus Real Estate Partners
Pantheon Ventures, Inc.
Progress Investment Management
Prudential Investment Management
RREEF America REIT, Inc.
Smith Graham & Co.
Taplin, Canida and Habacht
UBS Global Asset Management
Urdang Investment Management
Valenzuela Capital
Waddell & Reed Asset Management Co.
Walton Street Capital
Western Asset Management
Zenna Financial Services
Zevenbergen Capital, Inc.

Organization Chart

As of June 30, 2005



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, 2004

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

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

Nancy L. Zielke
President

Jeffrey R. Emser
Executive Director

Public School Teachers' Pension and Retirement Fund of Chicago

Letter of Transmittal

December 8, 2005

The Pension Board of Trustees and Fund Members
Public School Teachers' Pension & Retirement
Fund of Chicago
203 N. LaSalle
Chicago, Illinois 60601

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

This is the 110th Comprehensive Annual Report of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) that covers the fiscal year ending June 30, 2005. 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 and approved City of Chicago charter schools. It is administered in accordance with Chapter 40, Act 5, Articles 1, 17, and 20 of the Illinois Compiled Statutes. The report consists of five sections

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

OVERVIEW

The Fund's membership rose to over 60,000 members as of June 30, 2005. The 110th year of continuous operations resulted in continued improvement for the Fund. The June 30, 2005 value of net assets held in trust for pension and health benefits amounted to $10.87 billion, a 5.3% increase over the $10.32 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 $10.51 billion. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $13.30 billion, yields a 79.0% actuarial funding ratio, a 7.5% decrease from the prior year funding ratio of 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, 2005 investments at fair market value totaled $10.98 billion. This compares favorably with $10.5 billion as of June 30, 2004. The Fund's investment performance rate of return for the year ending June 30, 2005 was 10.8%, and exceeded the actuarial projected return of 8%. The ten-year rate of return posted by the Fund for the period ending June 30, 2005 was 9.7%, which also exceeds the actuarial assumption of 8% and reflects a 7.6% decrease from the previous year's 10.5%. Refer to the Investment Section of this report for more detailed performance information.

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

ACCOUNTING SYSTEM AND INTERNAL CONTROLS

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

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

ECONOMIC REVIEW AND OUTLOOK

The economy and its stabilization continues to be relevant to the Fund and its overall performance. The twelve-month period ended June 30, 2005 reflects a continuing period of slow steady growth . Higher oil prices, increasing short term interest rates, and doubts about the sustainability of the growth seen in the prior year made for nervous capital markets. The economy, however, progressed quite well. Economic growth expanded with an annualized GDP growth rate projected at 3.4% at June 2005. The unemployment rate fell slightly to 5.0% at June 30, 2005, the lowest level in nearly four years and jobless claims remain at low levels. The underlying rate of inflation through June 2005 is 2.5%. The Federal Reserve Board continued its policy of measured interest rate increases in order to control inflation, and raised the short-term interest rate 2.25% over the 12 months ended June 2005. At June 30, 2005 the Federal funds rate was 3.25%.

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, 2005 was 10.8%, due to consistent performance of the portfolio. The Fund maintained a diversified portfolio consisting of equities (domestic and international), fixed income, real estate and private equity and performed well in comparison to its peers. The Fund continued to attempt to maximize investment performance while maintaining acceptable levels of risk. The Board reviewed its target allocations, and there were no changes made in FY 2005.

During the year, the Board performed due diligence over its fixed income managers in order to monitor performance and compliance. The Fund continued to monitor managers in all asset classes whose performance was suspect. As of June 30, 2005 the Fund had terminated 1 fixed income manager, and hired 11 managers (5 domestic equity, 3 private equity, 2 fixed income, and 1 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 in monitoring and enforcing its minority brokerage policy. The Fund directed $2,632,317 of commissions to qualified minority and women brokers. The Board initiated a project with its investment consultant and outside legal counsel to standardize terms, conditions, and fees for all investment manager contracts. The Board formalized its manager performance review process and standardized termination and retention criteria.

Legislative

There were significant legislative developments in 2005 that impacted the Fund. Pension legislation that passed during the year and was signed into law by the Governor included the following:

- Passage of an Early Retirement Option enabling members to retire without a discounted pension.

Major legislative proposals that the Trustees continue to pursue include:

- Providing automatic annual increase of 3% beginning one year following retirement
- Allowing teachers employed prior to 1986, to contribute to Medicare
- Increasing the maximum pension percentage to 80%
- Implementing an ad-hoc increase for our older pensioners; and
- Providing a 75% health insurance rebate.

The Trustees and Fund administrators will continue to work diligently to represent the interests of the members through further accomplishment of the Trustees' legislative agenda. The Board, in conjunction with the Fund's consultants, continue to work in Springfield toward maintaining the financial stability of the Fund and 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 2005.

- The Fund offices were relocated to 203 N. LaSalle affording the Fund much needed additional space for staff and member services.

- The Fund conducted a search for and selected a new Executive Director.

- The Fund developed processes for the imaging of all incoming mail and continues to develop other work flow processes to safeguard Fund records and 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 new data base was implemented in August 2005.

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

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Public School Teachers' Pension and Retirement Fund of Chicago for its comprehensive annual financial report for the period ended June 30, 2004. This was the fifteenth consecutive year that the Fund has received this prestigious award. In order to be awarded a Certificate of Achievement, the Fund must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

CONCLUDING COMMENTS

In October 2004 teacher trustees Patricia Knazze and Rose Mary Finnegan were re-elected to three year terms. Principal Trustee Terri Katsulis was re-elected to a three-year term.

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

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

Kevin Huber Patricia A. Hambrick

KEVIN HUBER
Executive Director

PATRICIA A.HAMBRICK
Chief Financial Officer

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

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, 2005, 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 2004 financial statements and, in our report dated November 18, 2004, 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, 2005, 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.

As described in Note 2, the Fund adopted Governmental Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures*, during the year ended June 30, 2005.

Bansley and Kiener, L.L.P.
Certified Public Accountants

November 16, 2005

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, 2005. 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 *2005 Comprehensive Annual Financial Report*.

Annual Financial Review

The Fund returned 10.8% for the year ended June 30, 2005, 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. The fund reported a substantial investment gain in 2004 and a small investment gain in 2003; however the Fund's compound rate of return over the past 10 years was 9.7% which exceeded the actuarial assumption of 8%.

The Fund's consulting actuary has certified the total actuarial liability of the Fund to be $13.3 billion as of June 30, 2005. This represents an increase in the total actuarial liability of approximately $1.2 billion compared to the valuation of $12.1 billion as of June 30, 2004. The unfunded actuarial liability increased from approximately $1.7 billion to $2.8 billion during the year. Refer to the Actuarial Section of the report for more valuation and funding information.

Financial Highlights

- Due to slowing economic growth, investment returns declined from the previous year. The investment rate of return for fiscal year 2005 was 10.8% following fiscal year 2004's return of 15% and fiscal year 2003's return of 4%. Five and 10-year returns were at 4.8 % and 9.7%, respectively.

- Total plan net assets increased in value during the fiscal year to $10.87 billion at June 30, 2005 from $10.32 billion at June 30, 2004.

- Total benefit payments exceeded $700 million for the first time. The Fund paid members more than $679.1 million in service retirement, disability and survivor benefits plus $54.4 million for health care benefits.

- Total additions to plan net assets were $1.3 billion. The net investment gain of $1.0 billion was more than 4.2 times member and employer contributions totaling $249.6 million.

- Benefit payments, member refunds and administrative expenses totaled $741.0 million for the 2005 fiscal year, a 10.1% increase over fiscal 2004.

- The funded ratio for pension benefits declined to 79% as of June 30, 2005 from 85.8% 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 2005, total investments returned 10.8%. The U.S. and international stock portfolios generated positive returns. The Fund's portfolio of U.S. stocks reported 10.7% return and international stocks reported 14.5% return respectively. In addition, real estate and fixed income also generated positive returns for the fiscal year of 23.1% and 7.3% respectively.

1-Year Returns (2005)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	10.8%	Fund Benchmark Index	9.4%
Domestic Equity	10.7%	Russell 3000 Index	8.1%
International Equity	14.5%	MSCI AC World Free Ex US	16.9%
Fixed Income	7.3%	LB Aggregate Index	6.8%
Real Estate (Public and Private)	23.1%	Stylized Real Estate Index*	22.0 %

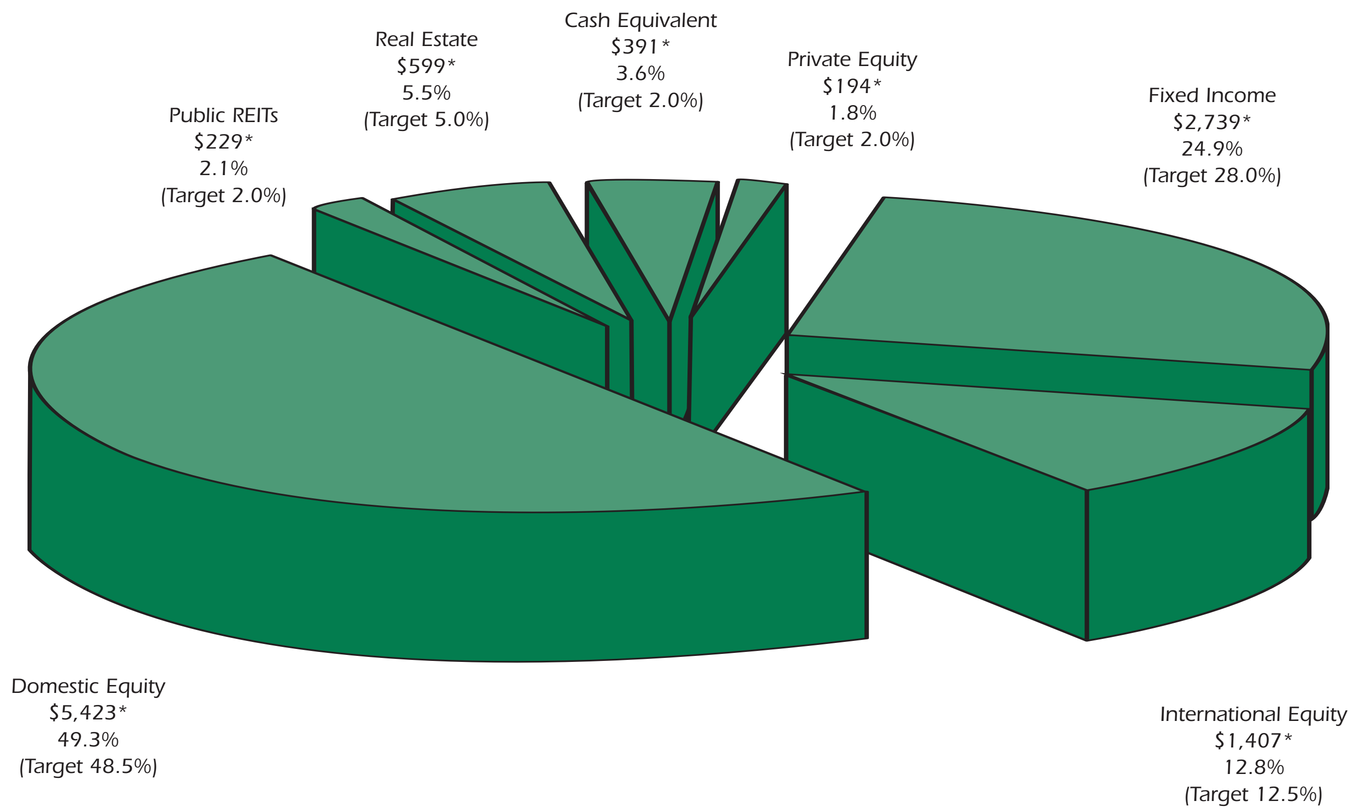
5-Year Returns (2000-2005)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	4.8%	Fund Benchmark Index	3.6%
Domestic Equity	2.1%	Russell 3000 Index	(1.4%)
International Equity	3.1%	MSCI AC World Free Ex US	0.8%
Fixed Income	7.6%	LB Aggregate Index	7.4%
Real Estate (Public and Private)	13.6%	Stylized Real Estate Index*	13.6%

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

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

Asset Allocation as of June 30, 2005



* in millions

Financial Statement Analysis

Plan Net Assets

The value of plan net assets increased $546.1 million (5.3%) during the fiscal year. The increase was the direct result of the investments yielding a positive rate of return for the year.

As of June 30, 2005, total receivables, without regard to due from broker, increased by more than $7.4 million from 2004. The increase is due to the Employer mandating that more teachers defer their salaries to be paid over a 12 month period. Due from brokers (represents the proceeds from investment sales) decreased $97.6 million due to timing of investment sales at year end.

Refunds payable decreased $1.8 million due to a decrease in refunds accrued at year end. Due to brokers (represents the cash due for investment purchases) decreased $173.7 million due to the timing of investment sales at year end.

Below is a summary of the plan net assets at June 30, 2005 and 2004 highlighting the financial statement items with significant fluctuations.

(in millions)	FY 2005	FY 2004
Cash and cash equivalents	$ 391.2	$ 400.3
Due from Brokers	139.1	236.7
Receivables	86.6	79.2
Investments (fair value)	10,591.1	10,122.8
Security lending collateral and other assets	1,789.5	1,449.0
Capital Assets	.7	.3
Total Assets	12,998.2	12,288.3
Benefits and Refunds Payable	10.2	11.8
Accounts and Administrative Payable	14.0	14.4
Security lending collateral	1,785.4	1,445.8
Due to brokers	321.0	494.7
Total Liabilities	2,130.6	1,966.7
Net Assets	10,867.6	10,321.6
Change in Net Assets	$ 546.1	$ 1,053.9

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, 2005, these additions totaled $1.3 billion representing a 25% decrease from 2004 additions of $1.7 billion. This decrease resulted from a decline in unrealized appreciation on the Fund's investment portfolio. The Fund's portfolio gained 10.8% for the year ended June 30, 2005 versus 15% for the year ended June 30, 2004. Employer contributions decreased by $4.2 million in fiscal year 2005. The decrease is due to the Employer's recovery of excess federal funds contributed in prior years. Employee contributions remained relatively consistent between years although there is a slight increase in the employee contributions due to higher average salaries.

(in millions)	FY 2005	FY 2004
Employer contributions	$ 73.9	$ 78.1
Employee contributions	175.7	169.6
Net investment income	1,036.9	1,478.9
Total additions	$ 1,287.1	$ 1,726.6

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 a larger volume of teachers with longer years of service taking refunds. The health insurance rebate was disbursed at 52% of covered premiums for the first month and 70% for the remaining eleven months of the 2005 fiscal year. The health insurance rebate was 85% for the first nine months and 52% for the last three months of fiscal year 2004. Total deductions from plan assets amounted to $741.0 million, compared to $672.7 million for the previous year.

(in millions)	FY 2005	FY 2004
Pensions	$651.8	$586.5
Refunds	24.8	23.3
Death benefits	2.5	2.6
Insurance premiums	54.4	53.1
Administration	7.5	7.2
Total Deductions	$741.0	$672.7

Funding Analysis

Although the fund reported investments gain in 2005 and 2004, the funded ratio for pension benefits declined from 85.8% in 2004 to 79% in 2005. The decline in the funded ratio is due to higher salaries and the actuarial smoothing over a four year period, of losses incurred during fiscal years 2002 through 2003. The rate of return for the periods ending June 30, 2005 and 2006 is projected at 8%. Operations and benefits are expected to increase slightly between the years. As a result the funded ratio is expected to decline to 78.4% in FY 2006 and slightly increase to 79.1% in FY 2007. The funded ratio of the plan has ranged from 79% to 100.8% since 1995.

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. Based upon the actuarial projection at June 30, 2005, it is estimated that the employer shall make contributions in fiscal year 2007 of approximately $69.4 million. The Fund is required to communicate to the employer the actual contribution required for fiscal year 2007 by February 28, 2006. 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 $10.2 million and the primary employer at the Fund is required to remit $10.9 million during the fiscal year ending June 30, 2007.

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
203 N. La Salle Suite 2600
Chicago, IL 60601

Statements of Plan Net Assets

June 30, 2005, with comparative totals for 2004

	Pension Fund	Health Insurance Fund	Total 2005	Total 2004
ASSETS				
Cash and cash equivalents	$ 295,874,283	$ 95,368,162	$ 391,242,445	$ 400,286,249
Receivables:				
Intergovernmental	6,535,623	–	6,535,623	15,143,639
Employee	36,580,306	–	36,580,306	21,844,190
Accrued investment income	38,359,549	–	38,359,549	38,604,219
Due from brokers	139,112,316	–	139,112,316	236,730,239
Participating teachers' accounts for contributions	3,450,948	–	3,450,948	2,415,326
Other receivables	1,647,627	–	1,647,627	1,154,035
	225,686,369	–	225,686,369	315,891,648
Investments, at fair value:				
Fixed income	2,739,290,003	–	2,739,290,003	2,737,145,410
Equity	7,253,215,858	–	7,253,215,858	6,852,478,337
Real estate	598,579,471	–	598,579,471	533,177,551
	10,591,085,332	–	10,591,085,332	10,122,801,298
Securities lending collateral	1,785,429,586	–	1,785,429,586	1,445,783,657
Prepaid expenses	4,107,764	–	4,107,764	3,183,556
Capital assets, net of accumulated depreciation	651,638	–	651,638	375,166
TOTAL ASSETS	12,902,834,972	95,368,162	12,998,203,134	12,288,321,574
LIABILITIES				
Benefits payable	1,466,955	–	1,466,955	1,358,104
Refunds payable	8,689,364	–	8,689,364	10,457,390
Accounts and administrative expenses payable	8,380,224	5,605,035	13,985,259	14,437,878
Securities lending collateral	1,785,429,586	–	1,785,429,586	1,445,783,657
Due to brokers	321,013,875	–	321,013,875	494,729,054
TOTAL LIABILITIES	2,124,980,004	5,605,035	2,130,585,039	1,966,766,083
Net assets held in trust for benefits (an unaudited schedule of funding progress is presented on page 37)	$ 10,777,854,968	$ 89,763,127	$ 10,867,618,095	$ 10,321,555,491

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

June 30, 2005, with comparative totals for 2004

	Pension Fund	Health Insurance Fund	Total 2005	Total 2004
ADDITIONS:				
Contributions:				
Intergovernmental, net	$ 8,872,764	$ 65,044,700	$ 73,917,464	$ 78,127,273
Employee contributions	175,706,081	–	175,706,081	169,598,212
	184,578,845	65,044,700	249,623,545	247,725,485
Investment income:				
Net appreciation (depreciation) in fair value	774,358,259	–	774,358,259	1,232,333,289
Interest	161,317,846	1,899,844	163,217,690	161,893,523
Dividends	126,998,253	–	126,998,253	107,116,062
Miscellaneous	218,150	–	218,150	–
Securities lending	4,132,370	–	4,132,370	5,999,478
Less investment expense:				
Investment advisory and custodial fees	(30,897,126)	–	(30,897,126)	(26,986,216)
Securities lending expense	(1,129,255)	–	(1,129,255)	(1,496,345)
	1,034,998,497	1,899,844	1,036,898,341	1,478,859,791
Miscellaneous	561,154	–	561,154	86,285
TOTAL ADDITIONS	**1,220,138,496**	**66,944,544**	**1,287,083,040**	**1,726,671,561**
DEDUCTIONS:				
Pension benefits	651,767,312	–	651,767,312	586,510,383
Refunds	24,169,382	–	24,169,382	20,892,047
2.2 Legislative refunds	689,313	–	689,313	2,434,674
Refund of insurance premiums	–	54,410,887	54,410,887	53,106,379
Death benefits	2,505,871	–	2,505,871	2,601,165
	679,131,878	54,410,887	733,542,765	665,544,648
Administrative and miscellaneous expenses	7,477,671	–	7,477,671	7,214,467
TOTAL DEDUCTIONS	**686,609,549**	**54,410,887**	**741,020,436**	**672,759,115**
Net increase (decrease)	**533,528,947**	**12,533,657**	**546,062,604**	**1,053,912,446**
Net assets held in trust for benefits:				
Beginning of period	10,244,326,021	77,229,470	10,321,555,491	9,267,643,045
End of period	$ 10,777,854,968	$ 89,763,127	$ 10,867,618,095	$ 10,321,555,491

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2005, with comparative totals for 2004

(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 and 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, 2005 and 2004, the Fund membership consisted of the following:

	2005	2004
Retirees and beneficiaries currently receiving benefits	20,954	19,266
Terminated members entitled to benefits but not yet receiving them	2,059	1,930
Current members:		
Vested	21,855	22,998
Nonvested	15,666	14,364
	60,534	58,558

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 qualifications. A 3% automatic annual increase is paid on survivor pension benefits. A single-sum death benefit is also payable on the death of a contributor or 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 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. 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 two 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 52% of the individual member's cost for the first month in fiscal year 2005 and 70% for the remaining eleven months in fiscal year 2005. 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. 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), a 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 consist of investments, which mature within six months of the date acquired by the Fund.

Deposit and Investment Disclosures

During the year ended June 30, 2005, the Fund adopted Government Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. As a result, the Fund has addressed certain deposit and investment risk disclosures.

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, 2005 and 2004, 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:

	2005	2004
Board of Education —		
Early retirement programs	$ -	$ 6,702,243
Deficiencies	1,165,231	2,188,928
State of Illinois appropriations	5,370,392	5,415,000
Federal funds	-	837,468
	$ 6,535,623	$ 15,143,639

The early retirement program receivable due at the end of Fiscal year 2004 was paid by the Board of Education during fiscal year 2005. Due to an excess of federal funds received in previous years, no receivable was due for federal funds for fiscal year ended 2005. Employee receivables include amounts deducted from employee's compensation during the year to be remitted to the Fund by the Employer as well as contributions made by employees to upgrade to the 2.2 pension formula. The Employer owed on behalf of the employees $35,764,132 and $21,213,441 at June 30, 2005 and 2004, respectively. Employees owed the Fund $816,174 and $630,749 for the 2.2 formula upgrade at June 30, 2005 and 2004, respectively.

(4) Deposits and Investments

At June 30, 2005, the bank balance and carrying amount of the Fund deposits amounted to $393,372,655 and $391,242,445, respectively. At June 30, 2004, the bank balance and carrying amount of the Fund deposits were $415,865,628 and $400,286,249, respectively.

The deposits of the Fund are insured or collateralized by securities recorded in the Fund's name and held by the Fund's agent, its master custodian (Northern Trust Bank). As of June 30, 2005 $19,245,995 of the Fund's bank balance deposits were exposed to custodial credit risk. The deposits exposed to credit risk are uninsured and uncollateralized. The following table presents a summarization of the fair values of Fund investments at June 30, 2005 and June 30, 2004. All categorized investments are insured or registered and are held by the Fund's 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, 2005	June 30, 2004
CATEGORIZED:		
Long-term investments:		
Fixed income securities:		
Government	$ 791,414,460	$ 914,949,842
Corporate	723,965,687	758,479,331
Other miscellaneous	188,055,320	185,058,824
Total fixed income securities	1,703,435,467	1,858,487,997
Equity securities	6,354,965,930	6,172,206,491
Total long-term investments	**8,058,401,397**	**8,030,694,488**
NON-CATEGORIZED:		
Real estate	598,579,471	533,177,551
Private equity	194,107,731	143,935,703
Securities lending:		
Investments held by master trustee under securities loans	1,739,996,733	1,414,993,556
Securities lending cash collateral investment pool	1,785,429,586	1,445,783,657
TOTAL INVESTMENTS	$ 12,376,514,918	$ 11,568,584,955

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, 2005 and 2004, the Fund held forward currency contracts representing agreements to buy or sell U.S. dollars, Japanese yen, U.K. sterling, Euro, and Switzerland franc 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, 2005 and 2004, the fair values of the obligations under the purchase side of these forward contracts amounted to $32,894,835 and $23,305,207, respectively, and the fair values of the obligations under the sale side of these forward contracts amounted to $32,859,303 and $23,149,793, respectively. As of June 30, 2005, the Fund held 25,865,943 units (5.4%) 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, 2004, the Fund held 31,935,569 units (15.9%) of five commingled equity trust fund. 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, 2005	June 30, 2004
Fair value of securities loaned for cash collateral	$ 1,739,996,733	$ 1,414,993,556
Fair value of securities loaned for non-cash collateral	233,746,029	384,080,926
Total fair value of securities loaned	1,973,742,762	1,799,074,482
Fair value of cash collateral from borrowers	1,785,429,586	1,445,783,657
Fair value of non-cash collateral from borrowers	240,515,054	396,805,059
Total fair value of collateral from borrowers	$ 2,025,944,640	$ 1,842,588,716

Foreign Currency Risk

The Fund's exposure to foreign currency risk at June 30, 2005 was as follows:

Currency	Fair Value	%
Australian Dollar	$10,110,324	.79%
Canadian Dollar	9,569,089	.75
Swiss Franc	121,068,237	9.48
Euro	491,317,439	38.47
British pound Sterling	298,593,740	23.38
Hong Kong Dollar	15,573,032	1.22
Indonesian Rupiah	2,001,393	.16
Japanese Yen	261,778,720	20.50
Mexican Peso	3,435,370	.27
Norweigain Krone	3,289,616	.26
New Zealand Dollar	5,085,616	.40
Polish Zloty	2,423,680	.19
Swedish Krona	35,174,868	2.75
Singapore Dollar	15,582,426	1.22
Thai Baht	2,274,482	.18
Total	$1,277,278,032	100.00%

All foreign currency-denominated investments are in equities and foreign cash.

Interest Rate Risk

As of June 30, 2005, the Fund had the following investments and maturities:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Asset Backed Securities	$ 96,850,407	.48
Commercial Mortgage-Backed	39,917,492	.38
Corporate Bonds	841,523,475	2.51
Government Agencies	398,129,493	.70
Government Bonds	914,034,195	2.25
Government Mortgage Backed Securities	325,832,226	1.47
Gov't-issued Commercial Mortgage-Backed	2,732,234	.01
Index Linked Government Bonds	58,221,860	.18
Municipal/Provincial Bonds	10,761,201	.05
Non-Government Backed C.M.O.s	51,287,420	.46
Total	$2,739,290,003	8.49

The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

Credit Risk

The following table presents the Plan's ratings as of June 30, 2005 (expressed in thousands)

S&P Ratings	Asset Backed	Commercial Mortgage Backed	Corporate Bonds	Government Agencies	Government Bonds	Government Mortgage Backed	Gov't Issued Comm'l Backed	Index Linked Gov't Bonds	Municipal Prov.Bonds	Non-Gov't Backed CMO
AAA	$79,129	$32,208	$57,609	$227,867	$794,150	$67	$ -	$58,222	$ -	$50,215
AA+	-	-	4,482	-	-	-	-	-	-	-
AA	-	249	12,693	525	3,288	-	-	-	5,580	-
AA-	-	-	38,805	2,072	9,056	-	-	-	2,993	-
A+	1,082	-	135,483	1,523	-	-	-	-	2,188	-
A	1,129	-	145,402	1,031	4,350	-	-	-	-	460
A-	2,713	-	90,776	-	2,811	-	-	-	-	190
BBB+	116	-	110,642	-	2,108	-	-	-	-	-
BBB	1,557	-	84,112	-	21,333	-	-	-	-	7
BBB-	-	-	42,867	-	-	-	-	-	-	-
BB+	-	-	26,072	-	-	-	-	-	-	-
BB	-	-	7,210	-	-	-	-	-	-	-
BB-	601	-	1,119	-	-	-	-	-	-	-
B+	-	-	3,912	-	-	-	-	-	-	-
B	-	-	5,351	-	-	-	-	-	-	-
B-	1,038	-	2,562	-	-	-	-	-	-	-
CCC	255	-		-	-	-	-	-	-	-
D	-	-	263	-	-	-	-	-	-	-
NR	5,918	7,460	71,589	-	28,176	-	-	-	-	415
TSY	-	-	-	-	48,762	-	-	-	-	-
US Govt Agency	3,312	-	574	165,111	-	325,765	2,732	-	-	-
Total Debt Securities	$96,850	$39,917	$841,523	$398,129	$914,034	$325,832	$2,732	$58,222	$10,761	$51,287

(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 an 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 $201,944, $192,005 and $184,529 for the years ended June 30, 2005, 2004, and 2003 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 is shown as an intergovernmental receivable in the accompanying financial statements. This receivable was paid during fiscal year 2005.

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 paid the required employer contributions related to the early retirement optional program of $1,160,530 during the year ended June 30, 2005. The amount was previously shown as an intergovernmental receivable at June 30 2004, 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 four 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 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, 2005 and June 30, 2004 are $31,630,533 and $21,041,420 respectively.

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

Year Ended June 30, 2005	
Amount available for expenditure at June 30, 2004	$ 21,041,420
Add statutory annual limit	65,000,000
Less FY 2005 expenditures	(54,410,887)
Amount available for expenditure at June 30, 2005	$ 31,630,533

(9) Operating Leases

The Fund has a lease agreement in place for office space. The lease expires November 30, 2007. The minimum future rental lease payments through November 30, 2007 are $956,675.

During the current year, the Fund negotiated a lease agreement for a new office location. This lease provides that the lessee pay its proportionate share of the operating costs plus a base rental amount. Included in this lease are provisions for thirty-two monthly periods of "free rent." In conformity with accounting requirements, the Fund will recognize office rent expense on a straight-line basis over the sixteen-year lease term. As an inducement, the lessor agreed to provide the Fund an allowance of $1,971,610 to be used for leasehold improvements, fixed asset purchases or monthly rental payments. If the allowance is used for leasehold improvements or fixed asset purchases, the Fund must submit the paid invoices to the lessor for reimbursement. If the Fund chooses to use the allowance for a monthly rental payment, the Fund must inform the lessor of this intent. The minimum future rental lease payments through April 30, 2021 are $7,118,015.

Minimum future rental payments under all non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2005, for each of the next five years and thereafter is as follows:

Year Ending June 30,	Amount
2006	$394,393
2007	404,949
2008	385,177
2009	462,017
2010	474,675
Thereafter	5,953,479
Total minimum future rental payments	$ 8,074,690

Rent paid was $385,042 in 2005 and $373,964 in 2004.

Schedule of Funding Progress (Unaudited)

June 30, 2005 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
June 30, 2000 (B)	$ 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	0.30
June 30, 2002	10,619,061	11,025,482	406,421	96.31	1,759,046	23.10
June 30, 2003	10,494,755	11,411,528	916,773	91.97	1,706,205	53.73
June 30, 2004	10,392,193	12,105,680	1,713,487	85.85	1,767,631	96.94
June 30, 2005	10,506,471	13,295,876	2,789,405	79.02	1,968,612	141.69

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

Schedule of Contributions (Unaudited)

June 30, 2005 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	
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	67.41
June 30, 2003	160,195,509	78,747,983	49.16	158,314,127	159,931,110	101.02	74.93
June 30, 2004	202,971,485	78,127,273	38.49	153,558,523	169,598,212	110.45	69.48
June 30, 2005	258,883,211	73,917,464	28.55	159,086,818	175,706,081	110.45	59.72

Notes to Trend Data (Unaudited)

June 30, 2005 Schedule 3

Valuation Date	June 30, 2005
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

Administrative and Miscellaneous Expenses

Years ended June 30, 2005 and 2004 — Schedule 4

	2005	2004
Salaries	$ 3,553,707	$3,433,501
Accrued leave	166,936	228,194
Actuary fees	51,500	57,000
Auditing	36,000	36,000
Conferences, seminars, and membership dues	15,126	15,371
Data processing	39,619	21,676
Depreciation	275,371	247,611
Document imaging	13,748	48,164
Election expense	81,070	213,471
Employees' health insurance	931,993	843,027
Consulting	47,200	52,406
Health insurance consulting	58,250	107,201
Insurance premium	38,193	33,976
Legal fees	339,599	277,889
Legislative expense	97,179	91,711
Maintenance of equipment, systems, software, and support	273,776	69,459
Medical fees	16,311	53,638
Office forms and supplies	52,888	78,096
Office rent and utilities	775,086	612,342
Postage	168,753	246,540
Printing and binding	153,823	161,657
Temporary staffing	119,447	51,414
Trustee conferences, seminars, and meetings	112,448	84,317
Legacy fund disbursements	9,664	11,678
Tuition and Training	4,198	32,060
Studies and evaluation	13,840	76,676
Miscellaneous	31,946	29,392
Total	$ 7,477,671	$ 7,214,467

Schedule of Cash Receipts and Disbursements

Years ended June 30, 2005 and 2004

Schedule 5

	2005	2004
Cash and cash equivalents at beginning of period	$ 400,286,249	$ 419,892,256
Add receipts:		
Member contributions	159,934,343	166,629,049
Public revenues	82,525,481	78,426,482
Interest and dividends	294,811,133	278,941,353
Miscellaneous	67,562	200,341
Total cash receipts	**537,338,519**	**524,197,225**
Less disbursements:		
Benefit payments	654,164,332	589,153,185
Refunds	25,937,408	18,974,281
2.2	689,313	2,434,674
Refund of insurance premiums	48,805,852	53,106,379
Investment and administrative	46,762,387	35,820,239
Net investment purchases (sales)	(229,976,969)	(155,685,526)
Total cash disbursements	**546,382,323**	**543,803,232**
Net increase (decrease) in cash and cash equivalents	(9,043,804)	(19,606,007)
Cash and cash equivalents at end of period	**$ 391,242,445**	**$ 400,286,249**

Summary Schedule of Manager Fees

Years ended June 30, 2005 and 2004 — Schedule 6

	2005	2004
Adams Street Partners, LLC	$ 867,238	$ 853,080
Ariel Capital Management	803,564	852,797
Attucks Asset Management	681,738	–
Blackstone Group L.P.	46,502	166,135
Capri Capital Advisors	222,516	222,516
CB Richard Ellis Investors	315,000	171,895
Chicago Equity Partners	572,363	345,620
Dimensional Fund Advisors	546,354	649,663
Fidelity Capital Management Trust Co.	1,198,093	1,358,416
Fremont Realty Capital	377,668	–
HarbourVest Partners, LLC	999,995	999,996
Harris Investment Management, Inc.	736,328	687,547
Hispania Capital Partners	305,099	356,363
Holland Capital Management	467,807	245,633
Intercontinental Real Estate Corp.	436,301	218,150
Iridian Asset Management, LLC	–	317,210
J & W Seligman & Co.	1,129,983	1,069,530
J.P. Morgan Fleming	1,391,776	1,151,693
LaSalle Investment Management	–	200,830
Lazard Asset Management	662,461	558,462
Lehman Brothers	237,286	245,923
LM Capital Group	38,770	–
MDL Capital Management, Inc.	146,189	175,405
Mesirow Financial, Inc.	777,023	777,908
MFS Institutional Advisors	1,545,845	1,357,330
Morgan Stanley Investments, LP	3,433,000	3,261,000
Muller and Monroe Asset Management	145,833	–
New Amsterdam Partners	614,960	450,009
Northern Trust Global Investments	1,310,257	675,794
Olympus Real Estate Corp.	301,796	301,828
Pantheon Ventures, Inc.	620,442	565,837
Prudential Investment Management	1,238,995	1,056,222

Schedule 6 (continued)

	2005	2004
Progress Investment Mangement	666,191	–
RREEF America REIT, Inc.	795,884	1,337,533
Smith Graham & Co.	161,492	161,376
Taplin, Canida and Habacht	77,667	–
UBS Global Asset Management	2,272,442	2,069,482
Urdang Investment Management	528,624	322,724
Valenzuela Capital	146,984	–
Waddell & Reed Asset Management Co.	570,624	579,373
Walton Street Real Estate, LP	510,332	471,999
Western Asset Management	914,346	918,104
William Blair & Co.	–	249,969
Zenna Finacial Services	3,748	–
Zevenbergen Capital, Inc.	201,853	223,105
Total manager fees	**29,021,369**	**25,626,457**
Mercer - General investment consultant	249,995	259,893
Northern Trust - Master custodian	631,003	575,689
The Townsend Group - Real estate consultant	120,000	120,000
Total consultant fees	**1,000,998**	**955,582**
Fees for foreign exchange and real estate	874,759	404,177
Total	$ 30,897,126	$ 26,986,216

Summary Schedule of Consultant Payments

Years ended June 30, 2005 and 2004 Schedule 7

	2005	2004
Anselmo & Associates	$ 54,816	$ 52,206
Bansley & Kiener,LLP	36,000	36,000
Bradley Consulting Group, Inc.	756,418	504,330
Cahill Printing Co.	113,471	189,528
Chicago Press Corporation	66,559	65,516
Computronics	13,344	7,638
Corig Elan	36,131	38,943
Data Summary, Inc.	19,520	29,264
Data Consultants	127,191	223,819
The Direct Response Resource	25,583	21,149
Election Service Corporation	66,497	–
E. M. Barnes & Associates	41,113	39,155
Kirkland & Ellis, LLP	176,486	–
Goldstein & Associates	52,220	57,000
Jacobs, Burns, Orlove & Stanton & Hernandez	139,487	179,993
Levi, Ray & Shoup, Inc.	374,135	625,425
Peterson & Houpt	–	34,423
The Segal Company	61,411	107,201
Walker Printery, Inc.	–	21,825
Wildman,Harrold,Allen & Dixon	–	34,735
Total consultant payments	$ 2,160,382	$ 2,268,150

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, 2004 through June 30, 2005.

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

January 12, 2006

Board of Trustees
Public School Teachers' Pension and Retirement Fund of Chicago
203 North LaSalle, Suite 2600
Chicago, Illinois 60601-1210

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, 2005.

As of June 30, 2005, the Fund's market value totaled $10.7 billion, an approximate $.5 billion increase since June 30, 2004, due primarily to positive investment performance. During the past twelve month period:

- The economy continued to show steady growth during the year despite Hurricanes Katrina and Rita. Consumer confidence plummeted in the third quarter of 2004 due to concerns over rising energy prices, but turned positive in December due to continued economic expansion and improved labor market conditions.
- Within this environment, domestic equity markets posted mixed results with a market rally in the fourth quarter of 2004, but faltered during first quarter of 2005 amid concerns over weaker earnings, higher interest rates, rising oil prices and increased inflation. The S&P 500 Index, an index of domestic large capitalization stocks, returned 6.3% during the one year period while smaller stocks, as measured by the Russell 2000 Index, rose 9.5%.
- Developed international equity markets outperformed their domestic equity counterparts during the one year period, gaining 14.1% as measured by the MSCI EAFE (Europe, Australasia, Far East) Index. Emerging markets were also very strong, advancing 34.9%, as measured by the MSCI Emerging Markets Index.
- During the year bond yields remained relatively flat and spreads continued to tighten as the Fed raised rates nine times from June 2004 until June 2005. The fed funds rate ended up at 3.25% from the 1% level seen in the previous year.

Within this environment, the Fund returned 10.8% during the 12 month period ending June 30, ahead of the 9.4% Index return, placing the Fund in the 40th percentile for one year performance. Annual results were bolstered by the strong equity rally during the fourth quarter of 2004. The Fund outperformed the Index over the one, three and five year periods and its peer group over the one and five year periods.

The Fund's domestic equity managers returned a collective 10.7% during the year ended June 30, leading the 8.1% Russell 3000 Index return. The domestic equity allocation benefited from the large and mid capitalization equity compo-

(Mercer Investment Consulting Continued)

nent, as the managers in these asset classes outperformed their peers and the Index return, but was hampered by lagging results in small capitalization equity. Longer term performance has been ahead of benchmark.

The Fund's international equity allocation returned 14.5% during the year ending June 30, slightly 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 ahead of its 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

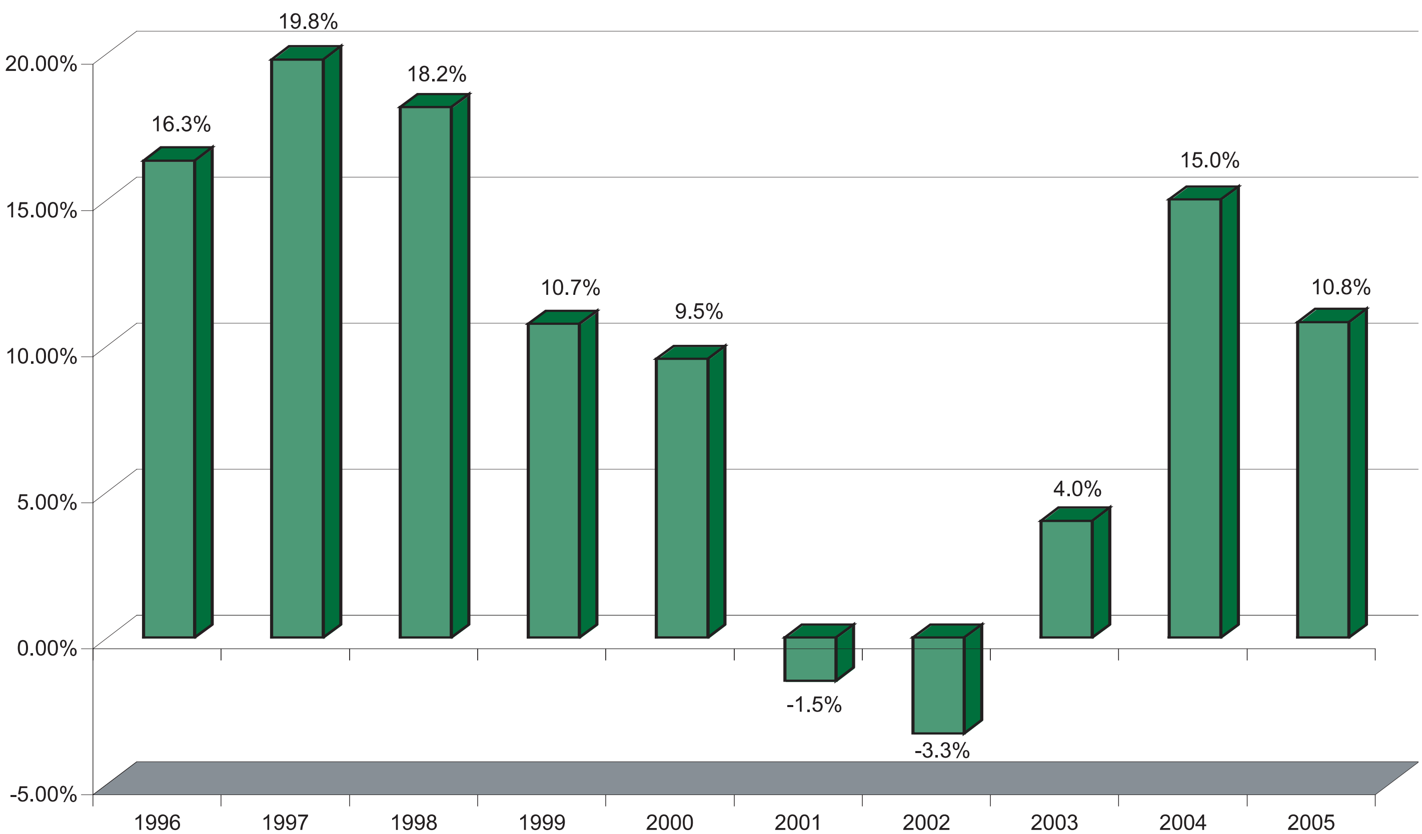
Kristin R. Finney-Cooke

Kristin R. Finney-Cooke

TOTAL ANNUAL FUND RATE OF RETURN *

As of June 30

1996 - 2005



* Time weighted rate of return.

SCHEDULE OF INVESTMENT RESULTS

	FOR THE YEAR ENDED JUNE 30,					ANNUALIZED RETURNS (%)		
	2001	2002	2003	2004	2005	3 Years	5 Years	10 Years
Total Fund	(1.5) %	(3.3) %	4.0 %	15.0 %	10.8 %	9.8 %	4.8 %	9.7 %
Large Cap Equity	(10.4)	(16.6)	(0.7)	18.5	8.9	8.6	(0.9)	10.5
Russell 1000 Index	n/a	(17.9)	1.0	19.5	7.9	9.2	(1.9)	10.2
S&P 500	(14.8)	(18.0)	0.3	19.1	6.3	8.3	(2.4)	9.9
Mid Cap Equity	12.0	(5.7)	(1.1)	28.6	14.3	13.3	9.0	n/a
S&P Mid Cap	8.9	(4.7)	(0.7)	28.0	14.0	13.2	8.5	14.7
Small Cap Equity	(2.1)	(2.1)	1.4	35.7	10.0	14.8	7.7	12.5
Russell 2000	0.6	(8.6)	(1.7)	33.4	9.4	12.8	5.7	9.9
International Equity	(18.6)	(1.5)	(2.7)	30.3	14.5	13.2	3.1	n/a
MSCI ACWI ex US	(23.8)	(8.2)	(4.2)	32.5	16.9	14.1	0.8	5.8
Fixed Income	11.4	8.2	11.2	0.2	7.3	6.2	7.6	6.8
Lehman Brothers Aggregate	11.2	8.6	10.4	0.3	6.8	5.8	7.4	6.8
REITs	22.1	14.6	3.7	25.8	37.7	21.5	20.3	n/a
NAREIT	24.4	16.2	4.0	27.1	32.7	20.6	20.4	14.9
Real Estate	11.6	5.1	7.2	12.0	17.5	12.1	10.6	n/a
NCREIF (NPI)	11.5	5.6	7.6	10.8	18.0	12.1	10.6	11.4
Private Equity*	(9.8)	(20.7)	(8.8)	6.3	17.6	5.3	(3.5)	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.

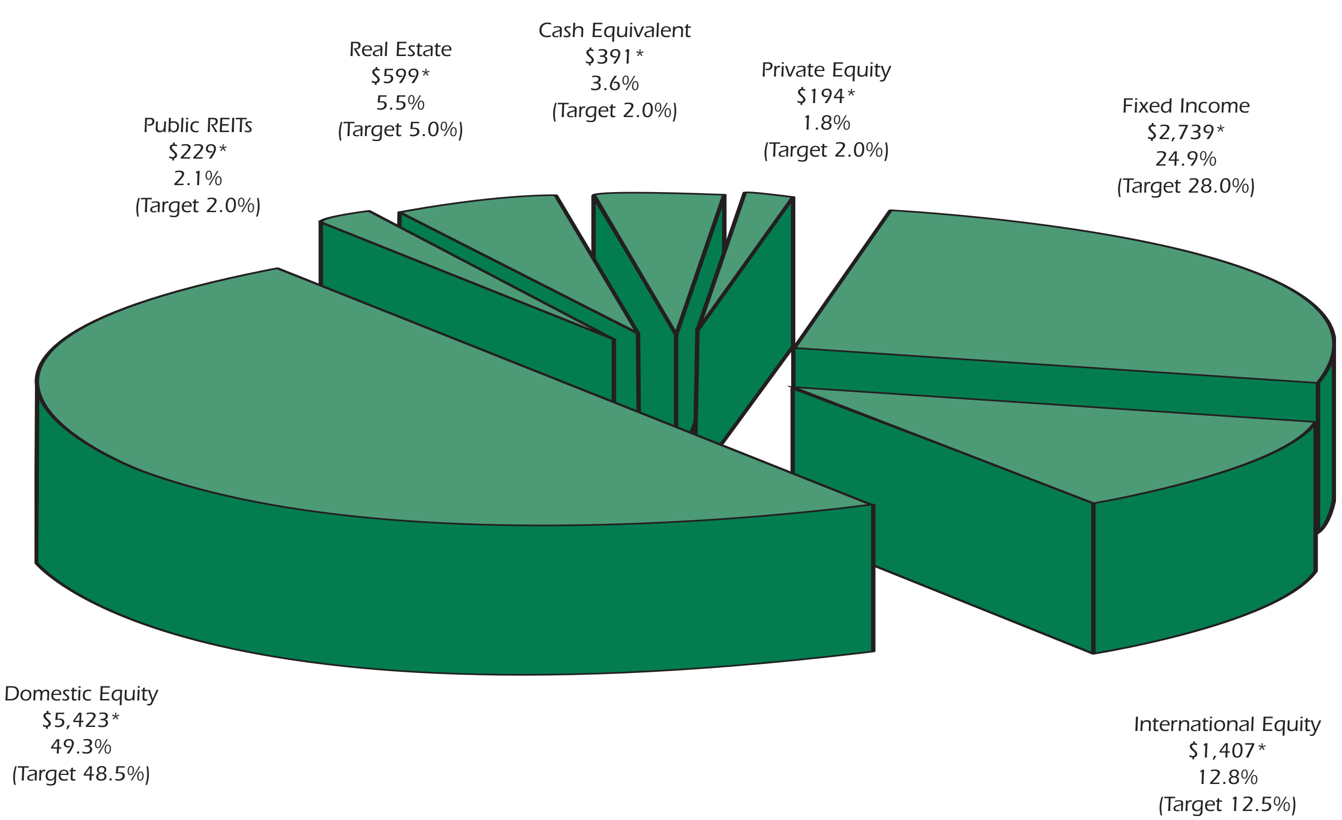
INVESTMENT PORTFOLIO SUMMARY

(IN MILLIONS OF DOLLARS)

	FAIR VALUE 6/30/04	PURCHASES	SALES (FAIR VALUE)	FAIR VALUE ADJUSTMENTS	FAIR VALUE 6/30/05	PERCENT OF TOTAL
FIXED INCOME						
Government	$ 1,701.8	$ 4,084.8	$ 4,115.6	$ 38.7	$ 1,709.7	15.5%
Corporate	850.2	338.2	382.1	35.2	841.5	7.7
Miscellaneous	185.0	144.6	137.3	(4.2)	188.1	1.7
FIXED INCOME	2,737.0	4,567.6	4,635.0	69.7	2,739.3	24.9
EQUITY						
Stocks	6,516.2	2,578.3	2,827.4	562.6	6,829.7	62.1
Private Equity	143.9	68.9	39.5	20.8	194.1	1.8
Public REITS	192.3	104.3	125.7	58.5	229.4	2.1
EQUITY	6,852.4	2,751.5	2,992.6	641.9	7,253.2	66.0
REAL ESTATE	533.2	82.4	58.1	41.1	598.6	5.5
CASH & CASH EQUIV.	400.3	(9.1)*	0.0	0.0	391.2	3.6
TOTAL PORTFOLIO	$ 10,522.9	$ 7,392.4	$ 7,685.7	$ 752.7	$10,982.3	100.00%

*Net of cash receipts & disbursements for year ending 6/30/05 .

ASSET ALLOCATION
as of June 30, 2005

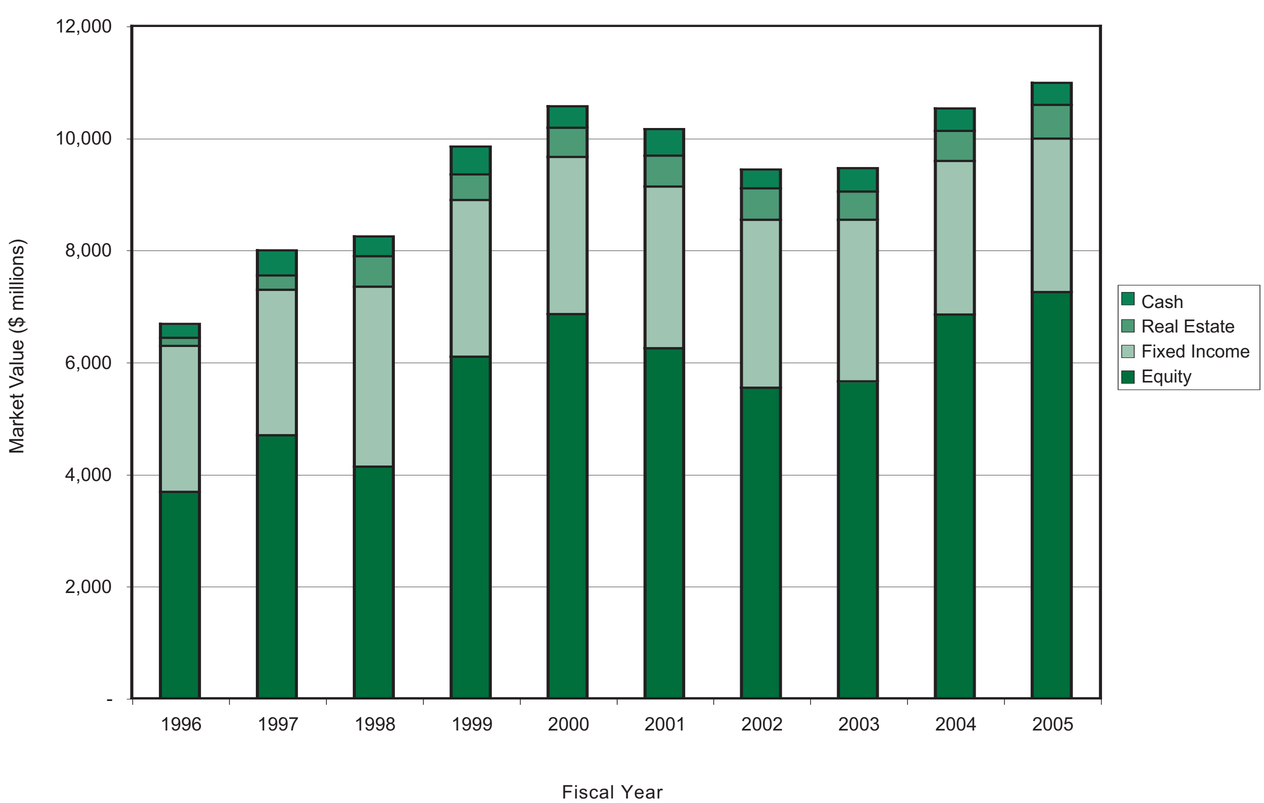


* in millions

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

Historical Asset Allocation

	2001		2002		2003		2004		2005	
	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)	Actual (%)	Policy (%)
Equity:										
Domestic	48.8	48.5	44.9	48.5	46.0	48.5	50.1	48.5	49.3	48.5
International	9.8	12.5	10.6	12.5	10.0	12.5	11.8	12.5	12.8	12.5
Public REITs	2.0	2.0	2.5	2.0	2.6	2.0	1.8	2.0	2.1	2.0
Private Equity	0.9	2.0	0.9	2.0	1.2	2.0	1.4	2.0	1.8	2.0
Total Equity	61.5	65.0	58.9	65.0	59.8	65.0	65.1	65.0	66.0	65.0
Fixed Income	28.4	28.0	31.7	28.0	30.5	28.0	26.0	28.0	24.9	28.0
Real Estate	5.5	5.0	5.9	5.0	5.3	5.0	5.1	5.0	5.5	5.0
Cash & Equiv.	4.6	2.0	3.5	2.0	4.4	2.0	3.8	2.0	3.6	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, 2005

Economic Sector Holdings

S&P Economic Sector	Number of Shares	Market Value ($)	% of Total	S&P 500 Index Allocation
Financials	27,958,469	1,082,555,568	20.0%	20.1%
Information Technology	45,452,159	815,532,543	15.0	15.4
Consumer Discretionary	31,658,907	772,344,721	14.2	11.4
Health Care	21,650,738	713,245,205	13.2	13.4
Industrials	21,218,353	701,326,330	12.9	11.5
Energy	9,805,271	455,028,914	8.4	8.5
Consumer Staples	9,775,586	391,895,123	7.2	10.3
Utilities	6,216,252	207,985,408	3.8	3.3
Materials	5,411,400	152,085,388	2.8	3.0
Telecommunication Services	5,337,055	111,369,079	2.1	3.1
Miscellaneous	N/A	19,608,069	0.4	0.0
Total Domestic Equity	**184,484,190**	**5,422,976,348**	**100.0%**	**100.0%**

Top 10 Domestic Equity Holdings

Description	Number of Shares	Market Value ($)	% of Total
General Electric Co.	3,286,755	113,867,418	2.10%
Exxon Mobil Corp.	1,858,763	106,897,983	1.97
Citigroup, Inc.	1,627,213	75,202,313	1.39
Microsoft Corp.	3,015,809	74,944,139	1.38
Johnson & Johnson	1,047,456	68,080,048	1.26
Pfizer, Inc.	1,997,615	55,041,912	1.01
Bank America Corp.	1,138,374	51,856,713	0.96
Intel Corp.	1,879,060	48,933,080	0.90
Dell, Inc.	1,077,494	42,571,788	0.79
ConocoPhillips Co.	707,032	40,647,270	0.74
Total Top 10 Domestic Equity	17,635,571	678,042,664	12.50%
Total Domestic Equity		**5,422,976,348**	**100.0%**

* A complete list of the portfolio holdings at 6/30/05 is available at the Pension Fund office.

INTERNATIONAL EQUITY SUMMARY

As of June 30, 2005

Country Holdings	Number of Shares	Market Value ($)	% of Total	MSCI ACWI ex US Index Allocation
Europe				
United Kingdom	86,002,293	316,808,124	22.5%	20.6%
France	3,438,275	176,115,391	12.5	7.9
Switzerland	1,452,221	118,292,126	8.4	5.6
Netherlands	4,011,001	96,903,101	6.9	4.0
Germany	1,847,098	85,910,532	6.1	5.6
Italy	7,596,792	39,490,220	2.8	3.3
Sweden	3,168,847	36,870,643	2.6	2.0
Spain	2,120,649	35,977,872	2.6	3.2
Other	4,902,740	79,488,150	5.7	8.2
Total Europe	114,539,916	985,856,159	70.1%	60.4%
Asia/Pacific Basin				
Japan	19,293,295	256,497,896	18.2	17.9
South Korea	343,207	31,040,091	2.2	2.0
Singapore	6,900,213	16,295,890	1.2	0.7
Hong Kong	20,628,526	15,525,744	1.1	1.5
Other	16,814,392	42,479,573	3.0	9.3
Total Asia/Pacific Basin	63,979,633	361,839,194	25.7%	31.4%
Americas				
Canada	326,820	16,344,405	1.2	6.0
Brazil	2,840,797	13,614,089	1.0	1.1
Mexico	1,462,857	12,311,290	0.9	0.7
Other	2,639,607	16,735,552	1.1	0.4
Total Americas	7,270,081	59,005,336	4.2%	8.2%
Total International Equity	185,789,630	1,406,700,689	100.0%	100.0%

Top 10 International Equity Holdings

Description	Number of Shares	Market Value ($)	% of Total
Nestle SA (Switzerland)	139,561	35,731,799	2.54%
Total SA (France)	151,859	35,721,684	2.54
France Telecom (France)	1,095,901	32,054,340	2.28
Unilever NV (Netherlands)	896,905	27,713,556	1.97
Vodafone Group (United Kingdom)	9,955,123	24,267,923	1.72
BP ORD (United Kingdom)	2,311,223	24,069,388	1.71
Telefonica SA (Spain)	1,415,455	23,202,414	1.65
Reckitt Benckiser (United Kingdom)	771,324	22,743,108	1.62
UBS AG (Switzerland)	268,157	20,931,777	1.49
Samsung Electrs, LTD (South Korea)	80,731	20,811,512	1.48
Total Top 10 International Equity	17,086,239	267,247,501	19.00%
Total International Equity		1,406,700,689	100.00%

* A complete list of the portfolio holdings at 6/30/05 is available at the Pension Fund office.

FIXED INCOME SUMMARY

As of June 30, 2005

Fixed Income Holdings

Asset Category	Par Value	Market Value ($)	% of Total	Lehman Aggregate Index Allocation
Government Bonds	945,191,915	1,016,601,712	37.1%	25.5%
Corporate Bonds	744,547,088	807,866,431	29.5	20.1
Government Agencies	387,280,951	399,455,128	14.6	11.1
Mortgage Backed	377,684,481	384,112,849	14.0	34.4
Asset Backed Securities	94,725,581	93,016,786	3.4	1.3
Commercial Mortgage Backed	38,682,705	39,580,614	1.4	3.4
Other	163,382,520	(1,343,517)	0.0	4.2
Total Fixed Income	**2,751,495,241**	**2,739,290,003**	**100.0%**	**100.0%**

REAL ESTATE SUMMARY

As of June 30, 2005

Real Estate Holdings

Description	Number of Shares	Market Value ($)	% of Total
JP Morgan Strategic Property Fund	121,072	150,131,798	25.2%
UBS Real Estate Separate Account	110,049,050	144,915,590	24.2
Prudential Real Estate Separate Account I	4,600	116,681,069	19.5
Prudential Real Estate Separate Account II	2,626	40,271,422	6.7
Walton Street Real Estate Fund IV	21,590,947	23,873,624	4.0
Capital Associates Apartment Fund	20,376,901	21,646,040	3.6
RREEF America REIT I	773,536	21,597,778	3.6
Intercontinental Real Estate Investment Fund III	19,744,397	17,991,460	3.0
CB Richard Ellis Strategic Partners III	14,098,701	14,134,314	2.4
Walton Street Real Estate Fund II	11,839,988	13,742,011	2.3
Walton Street Real Estate Fund III	11,691,566	13,035,048	2.2
Olympus Real Estate Fund II	16,392,540	10,990,705	1.8
Blackstone Real Estate Partners II	3,162,036	4,299,288	0.7
Fremont Strategic Property Partners II	3,411,531	3,175,136	0.5
Morgan Stanley Office Opportunity Fund C	1,622,782	1,370,764	0.2
Walton Street Real Estate Fund I	2,372,241	723,424	0.1
Total Real Estate	**237,254,514**	**598,579,471**	**100.0%**

* A complete list of the portfolio holdings at 6/30/05 is available at the Pension Fund office.

PUBLIC REITs Summary

As of June 30, 2005

Public REITs Holdings

Property Type	Number of Shares	Market Value ($)	% of Total	NAREIT Property Index Allocation
Office	1,431,844	51,896,911	22.6%	16.9%
Multifamily	872,170	40,743,227	17.8	14.0
Regional Malls	607,534	35,530,405	15.5	12.1
Hotel	1,139,644	27,453,823	12.0	5.2
Shopping Centers	450,170	21,885,766	9.5	10.8
Industrial	351,354	14,022,777	6.1	6.1
Self Storage	179,928	10,200,455	4.4	3.8
Office/Industrial	233,960	8,470,077	3.7	3.2
Diversified	125,475	6,772,716	3.0	7.7
Health Care	281,250	6,362,658	2.8	4.9
Specialty	107,945	2,557,611	1.1	4.5
Manufactured Homes	56,650	2,252,404	1.0	0.8
Other	18,060	1,282,260	0.5	10.0
Total Public REITs	5,855,984	229,431,090	100.0%	100.0%

Top 10 Public REITs Holdings

Description	Number of Shares	Market Value ($)	% of Total
Simon Property Group Inc.	253,559	18,380,492	8.01%
Avalonbay Cmntys REIT	128,563	10,387,890	4.53
Starwood Hotels & Resorts	155,096	9,083,973	3.96
Brookfield Properties Corp.	315,130	9,075,744	3.96
Boston Properties, Inc.	127,385	8,916,950	3.89
Host Marriott Corp.	479,285	8,387,488	3.66
Federal Realty Invt. Trust	133,910	7,900,690	3.44
Equity Office Properties	223,949	7,412,712	3.23
Public Storage, Inc.	111,681	7,063,823	3.08
Equity Residential Properties	183,612	6,760,594	2.94
Total Top 10 Public REITs	2,112,170	93,370,356	40.70
Total Public REITs		229,431,090	100.0%

* A complete list of the portfolio holdings at 6/30/05 is available at the Pension Fund office.

PRIVATE EQUITY SUMMARY

As of June 30, 2005

Private Equity Holdings

Description	Number of Shares	Market Value ($)	% of Total
HarbourVest Partners VI - Buyout Partnership Fund	26,909,626	37,231,669	19.2%
HarbourVest Partners VI - Partnership Fund	18,668,961	19,369,013	10.0
Mesirow Partnership Fund I	20,068,715	19,343,895	10.0
Pantheon USA Fund IV	17,929,929	19,341,630	10.0
Pantheon USA Fund III	27,448,607	17,342,676	8.9
Mesirow Partnership Fund II	12,646,532	14,873,456	7.7
Pantheon Europe Fund II	6,811,223	10,795,332	5.6
Brinson Partnership - 2002 Primary Fund	7,518,709	9,207,111	4.7
Brinson Partnership - 2001 Primary Fund	8,274,509	8,115,997	4.2
Brinson Partnership - 2003 Primary Fund	5,616,569	5,895,607	3.0
Brinson Partnership - 2000 Primary Fund	5,378,896	4,960,051	2.6
Brinson Partnership - 1998 Primary Fund	4,960,560	4,246,308	2.2
Mesirow Capital Partners VIII	2,813,272	3,087,281	1.6
Brinson Partnership - 1999 Primary Fund	3,598,134	2,743,140	1.4
Brinson Partnership - 2002 Non-US Primary Fund	2,397,515	2,559,870	1.3
Brinson Partnership - 2004 Primary Fund	2,542,196	2,540,739	1.3
Brinson Partnership - 2002 Secondary Fund	1,871,856	2,518,691	1.3
Brinson Partnership - 2004 Non-US Primary Fund	1,303,056	1,374,132	0.7
Brinson Partnership - 2002 Non-US Secondary Fund	859,180	1,368,482	0.7
Brinson Partnership - 2003 Secondary Fund	930,946	1,239,911	0.6
Brinson Partnership - 2001 Non-US Primary Fund	838,242	1,127,397	0.6
Brinson Partnership - 2003 Non-US Primary Fund	1,056,685	1,065,271	0.5
Hispania Private Equity	813,753	813,753	0.4
Brinson Partnership - 2004 Non-US Secondary Fund	670,527	791,698	0.4
Brinson Partnership - 1996 Fund	687,440	567,450	0.3
Illinois Private Equity Fund of Funds	684,456	509,512	0.3
Brinson Partnership - 2003 Non-US Secondary Fund	243,275	343,453	0.2
Brinson Partnership - 1997 Primary Fund	338,346	279,348	0.1
Adams Street Partnership - 2005 US Fund	278,012	274,956	0.1
Adams Street Partnership - 2005 Non-US Fund	116,056	114,039	0.1
Brinson Partnership - 1998 Secondary Fund	20,979	65,863	0.0
Total Private Equity	**184,296,762**	**194,107,731**	**100.0%**

* A complete list of the portfolio holdings at 6/30/05 is available at the Pension Fund office.

MANAGER ANALYSIS

Asset Category	Fair Value 06/30/05	Percentage of Portfolio	FY 2005 Manager Fees
EQUITY			
Domestic Equity			
Ariel Capital Management	$216,530,440	2.0%	$803,564
Attucks Asset Management	107,274,126	1.0	681,738
Chicago Equity Partners	217,367,342	2.0	572,363
Dimensional Fund Advisors	106,785,051	1.0	546,354
Fidelity Capital Management Trust Co.	314,394,652	2.9	1,198,093
Harris Investment Management	395,641,212	3.6	736,328
Holland Capital Management	120,882,351	1.1	467,807
J. & W. Seligman & Co.	260,992,399	2.4	1,129,983
New Amsterdam Partners	242,633,956	2.2	614,960
Northern Trust Global Investments	2,450,761,784	22.3	1,159,777
Progress Investment Mangement	109,118,114	1.0	666,191
UBS Global Asset Management	329,707,570	3.0	865,833
Valenzuela Capital	41,760,973	0.4	146,984
Waddell & Reed Asset Management	404,900,271	3.7	570,624
Zenna Financial Services	50,452,725	0.4	3,748
Zevenbergen Capital	51,030,248	0.4	201,853
Other Managers Equity Holdings	2,743,134	0.0	0
Total	5,422,976,348	49.4%	10,366,200
International Equity			
Lazard Asset Management	372,172,788	3.4	662,461
MFS Institutional Advisors	418,289,470	3.8	1,545,845
Morgan Stanley Investments	616,238,431	5.6	2,665,923
Total	1,406,700,689	12.8%	4,874,229
Public REITS			
Morgan Stanley Investments	113,428,371	1.0	753,591
Urdang Investment Management	116,002,719	1.1	528,624
Total	229,431,090	2.1%	1,282,215
Private Equity			
Adams Street Partners	51,399,514	0.5	867,238
HarbourVest Partners	56,600,682	0.5	999,995
Hispania Capital Partners	813,753	0.0	305,099
Mesirow Financial	37,304,632	0.3	777,023
Muller and Monroe Asset Management	509,512	0.0	145,833
Pantheon Ventures	47,479,638	0.4	620,442
Total	194,107,731	1.7%	3,715,630
TOTAL EQUITY	$ 7,253,215,858	66.0%	$ 20,238,274

MANAGER ANALYSIS (continued)

Asset Category	Fair Value 06/30/05	Percentage of Portfolio	FY 2005 Manager Fees
FIXED INCOME			
Lehman Brothers Asset Management	$459,570,438	4.2%	$237,286
LM Capital Group	61,450,332	0.6	38,770
Northern Trust Global Investments	1,499,275,630	13.6	150,480
Smith Graham & Co.	64,272,955	0.6	161,492
Taplin, Canida and Habacht	97,390,808	0.9	77,667
Western Asset Management	557,328,049	5.0	914,346
Terminated Managers	1,791	0.0	146,189
Total	2,739,290,003	24.9%	1,726,230
REAL ESTATE			
Blackstone Group	4,299,288	0.1	46,502
Capri Capital Advisors	21,646,040	0.2	222,516
CB Richard Ellis Investors	14,134,314	0.1	315,000
Fremont Realty Capital	3,175,136	0.0	377,668
Intercontinental Real Estate Corp.	17,991,460	0.2	436,301
J.P. Morgan Fleming Asset Management	150,131,798	1.4	1,391,776
Morgan Stanley Investments	1,370,764	0.0	13,486
Olympus Real Estate Partners	10,990,705	0.1	301,796
Prudential Investment Management	156,952,491	1.4	1,238,995
RREEF America REIT	21,597,778	0.2	795,884
UBS Global Asset Management	144,915,590	1.3	1,406,609
Walton Street Capital	51,374,107	0.5	510,332
Total	598,579,471	5.5%	7,056,865
CASH EQUIVALENT			
Northern Trust	391,242,445	3.6%	0
Grand Total	$ 10,982,327,777	100.0%	$ 29,021,369

BROKER COMMISSION REPORT

Domestic Agency Trades
For the year ended June 30, 2005

Broker Name	Number of Shares Traded	Commission Amount ($)	Commission Per Share ($)
Loop Capital Markets	10,114,390	448,508	0.044
Gardner Rich & Co.	11,486,903	436,671	0.038
Cabrera Capital Markets, Inc.	4,522,616	206,551	0.046
Berean Capital, Inc.	4,131,542	190,812	0.046
Melvin Securities	4,728,683	190,076	0.040
Cheevers & Co., Inc.	3,391,945	131,987	0.039
M. Ramsey King Securities, Inc.	2,935,879	124,027	0.042
Lehman Brothers, Inc.	2,388,619	117,432	0.049
Jefferies & Company	2,388,108	111,784	0.047
Bear Stearns & Co.	2,632,411	109,745	0.042
Merrill Lynch	2,723,187	105,294	0.039
Investment Technology Group (ITG)	6,178,535	104,708	0.017
Capital Management Group	2,093,940	97,403	0.047
Benchmark Financial Services	2,334,697	90,807	0.039
Instinet	3,608,767	83,008	0.023
Prudential Securities, Inc.	1,600,830	78,416	0.049
LiquidNet, Inc.	2,653,737	74,048	0.028
Credit Suisse First Boston	1,535,032	73,511	0.048
Morgan Stanley	1,507,135	72,794	0.048
Williams Capital Group	1,694,502	72,004	0.042
Sanford C. Bernstein & Co.	1,549,969	71,534	0.046
Ramirez & Co.	1,514,125	62,709	0.041
Capital Institutional Services	1,319,811	62,185	0.047
Bank of New York	1,251,963	61,704	0.049
Citigroup Global Markets	1,255,768	59,028	0.047
Goldman Sachs & Co.	1,913,068	56,857	0.030
Siebert Capital Markets	1,325,168	56,633	0.043
Nutmeg Securities	1,331,862	52,972	0.040
UBS Securities	1,050,892	49,776	0.047
Legg Mason Wood Walker, Inc.	1,352,424	48,787	0.036
Thomas Weisel & Co.	948,863	46,606	0.049
B-Trade Services	1,573,430	45,791	0.029
SBK-Brooks Investment Corp.	975,318	44,953	0.046
CIBC World Markets Corp.	923,912	44,891	0.049
Weeden and Co.	899,089	42,628	0.047
Morgan Keegan & Co.	825,814	41,038	0.050
J.P. Morgan Securities	875,450	40,274	0.046
Citation Group	994,890	38,307	0.039
BOE Securities, Inc.	836,064	36,331	0.043
Bridge Trading	752,930	36,232	0.048
Others (159 Brokers)	19,748,574	815,522	0.041
Total	**117,870,842**	**4,734,344**	**0.040**

BROKER COMMISSION REPORT

International Agency Trades
For the year ended June 30, 2005

Broker Name	Number of Shares Traded	Commission Amount ($)	Commission Per Share ($)
Credit Suisse First Boston	4,877,550	122,365	0.03
Deutsche Bank	8,703,283	114,691	0.01
Loop Capital	3,936,752	109,792	0.03
Merrill Lynch	5,653,267	99,082	0.02
Goldman Sachs	12,073,910	88,805	0.01
JP Morgan	3,790,858	85,084	0.02
Citigroup Global Markets	6,702,117	76,693	0.01
Gardner Rich	3,028,663	69,177	0.02
Morgan Stanley	4,081,424	64,318	0.02
UBS Securities	6,746,280	61,269	0.01
Credit Lyonnais Corp.	2,253,361	59,479	0.03
Lehman Brothers	7,526,090	45,944	0.01
Berean Capital	3,846,206	38,654	0.01
Melvin Securities	1,828,364	32,768	0.02
ABN Amro	1,105,147	25,860	0.02
Nomura Securities	940,308	25,268	0.03
Macquarie Equities	1,148,779	24,756	0.02
Cabrera Capital Markets	2,829,810	23,875	0.01
Sanford Bernstein	870,434	23,232	0.03
E*Trade Institutional	1,056,200	21,111	0.02
Redburn Partners	1,351,115	21,067	0.02
Collins Stewart	1,330,759	19,852	0.01
Dresdner Kleinwort Wasserstein	648,379	19,333	0.03
BOE Securities	553,834	14,306	0.03
Credit Agricole Indo	162,934	11,789	0.07
Bear Stearns & Co.	476,717	11,304	0.02
Execution	2,264,359	9,789	0.00
ITG Posit	1,268,273	7,639	0.01
Chevreux	90,200	7,387	0.08
Davy Stockbrokers	284,070	7,315	0.03
Cazenove & Co.	430,110	7,274	0.02
SBSH	873,348	6,867	0.01
ABG Securities	814,387	6,822	0.01
Nikko Citigroup	4,998	5,961	1.19
Fox Pitt Kelton	390,995	5,852	0.01
Instinet	1,605,483	5,777	0.00
Daiwa Securities	59,300	5,676	0.10
Neue Zuercher Bank	13,800	5,169	0.37
Goodbody	182,056	4,977	0.03
TD Newcrest	131,040	4,407	0.03
Others (37 Brokers)	4,356,502	47,403	0.01
Total	100,291,462	1,448,189	0.01

Directed Brokerage Program
For the year ended June 30, 2005

Domestic local Minority & Women Owned Business

Broker Name	Number of Shares Traded	Commission Amount ($)	Commission Per Share ($)
Loop Capital Markets	10,114,390	448,508	0.044
Gardner Rich & Co.	11,486,903	436,671	0.038
Cabrera Capital Markets, Inc.	4,522,616	206,551	0.046
Berean Capital, Inc.	4,131,542	190,812	0.046
Melvin Securities	4,728,683	190,076	0.040
Cheevers & Co., Inc.	3,391,945	131,987	0.039
M. Ramsey King Securities, Inc.	2,935,879	124,027	0.042
Capital Management Group	2,093,940	97,403	0.047
Benchmark Financial Services	2,334,697	90,807	0.039
Williams Capital Group	1,694,502	72,005	0.042
Ramirez & Co.	1,514,125	62,709	0.041
Siebert Capital Markets	1,325,168	56,633	0.043
Nutmeg Securities	1,331,862	52,972	0.040
SBK-Brooks Investment Corp.	975,318	44,953	0.046
BOE Securities, Inc.	836,064	36,331	0.043
Acento Securities	864,875	33,729	0.039
Pryor Doley Securities	663,328	24,322	0.037
Pacific American Securities	260,291	13,278	0.051
Magna Securities Corp.	200,807	9,958	0.050
Divine Capital Markets	184,161	7,837	0.043
Podesta & Co.	232,975	7,703	0.033
Guzman & Co.	27,000	1,300	0.048
Total Directed Domestic Brokerage	**55,851,071**	**2,340,572**	**0.042**
Total Domestic Brokerage	**117,870,842**	**4,734,344**	**0.040**

International local Minority & Women Owned Business

Broker Name	Number of Shares Traded	Commission Amount ($)	Commission Per Share ($)
Loop Capital	3,936,752	109,792	0.028
Gardner Rich	3,028,663	69,177	0.023
Berean Capital	3,846,206	38,654	0.010
Melvin Securities	1,828,364	32,768	0.018
Cabrera Capital Markets	2,829,810	23,874	0.008
BOE Securities	553,834	14,306	0.026
M. Ramsey King	228,253	3,174	0.014
Total Directed International Brokerage	16,251,882	291,745	0.018
Total International Brokerage	**100,291,462**	**1,448,189**	**0.014**

INVESTMENT AUTHORITY
ILLINOIS PENSION CODE

SECTION 5/17-146. TO MAKE INVESTMENTS

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

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

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

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

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

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

SECTION 5/17-146.2. TO LEND SECURITIES

To lend securities. The Board of Trustees may lend securities owned by the Fund to a borrower upon such written terms and conditions as may be mutually agreed. The agreement shall provide that during the period of the loan the Fund (or the custodian of the Fund, or agent thereof, as applicable) shall retain the right to receive or collect from the borrower all dividends, interest and distributions to which the Fund would have otherwise been entitled.

The borrower shall deposit with the Fund collateral for the loan equal to the market value of the securities at the time the loan is made, and shall increase the amount of collateral if the Board of Trustees requests an additional amount because of subsequent increased market value of the securities. The Board of Trustees may accept from the borrower cash collateral or collateral consisting of assets described in Section 1-113 of this Act. To the extent that the Fund participates in a securities lending program established and maintained by (1) a national or State bank which is authorized to do business in the State of Illinois, or (2) an investment manager, the Board of Trustees may accept collateral consisting of an undivided interest in a pool of commingled collateral that has been established by the bank or investment manager for the purpose of pooling collateral received for the loans of securities owned by substantially all of the participants in such bank's or investment manager's securities lending program. Nothing in Sections 1-109, 1-110 or 1-113 of this Act shall be construed to prohibit the Fund's lending of securities in accordance with this Section.

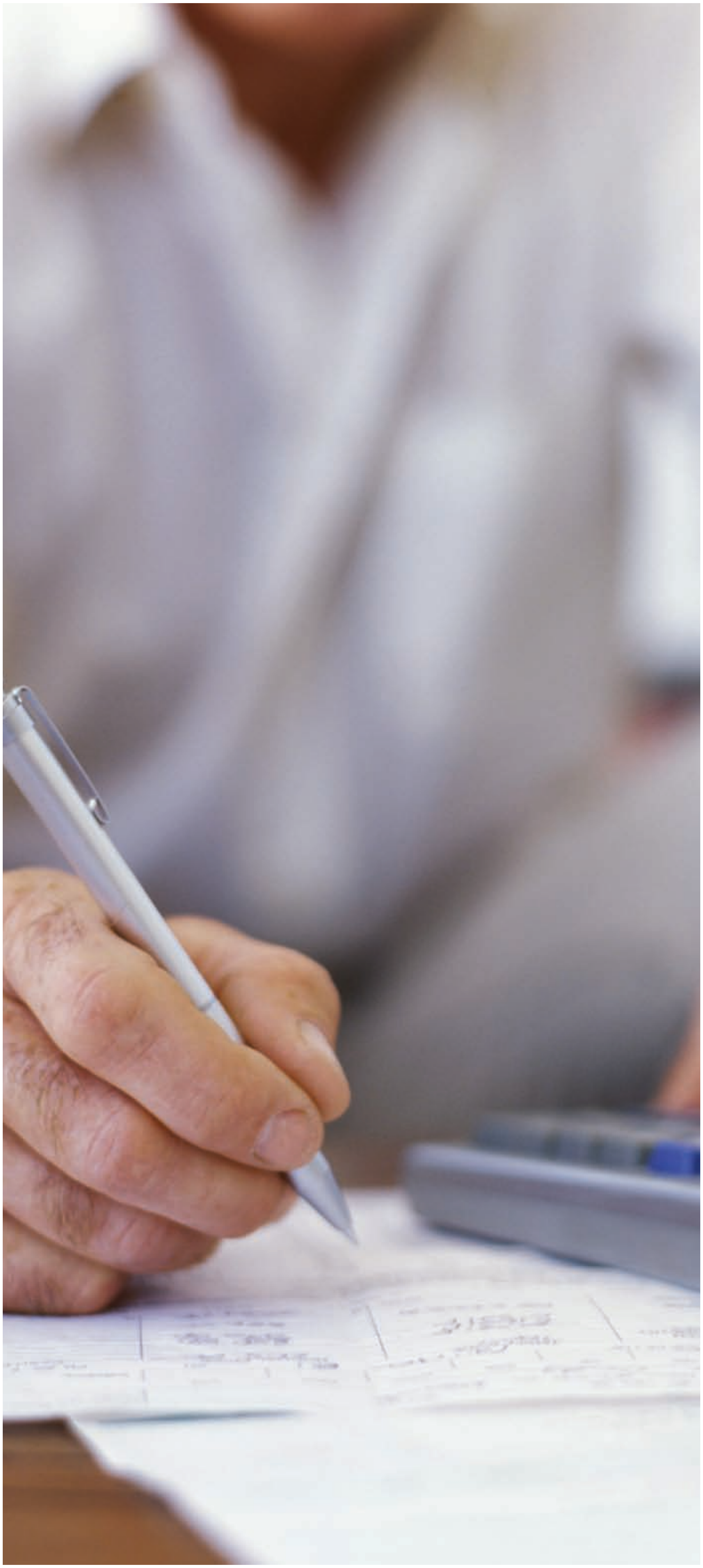
SECTION 5/17-147. CUSTODY OF FUND-BONDS-LEGAL PROCEEDINGS

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

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

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

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



Actuarial Section

GOLDSTEIN & ASSOCIATES
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December 20, 2005

Board of Trustees
Public School Teachers' Pension
and Retirement Fund of Chicago
203 N. LaSalle Street, Suite 2600
Chicago, Illinois 60601

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, 2005. 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, Senate Bill 27, which was signed into law on June 1, 2005 as Public Act 94-0004, made some changes in the benefit provisions of the fund. The bill extended the "early retirement without discount" option, subject to the approval of the employer, from June 30, 2005 to June 30, 2010.

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

Based on the results of the June 30, 2005 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 2007 to be $69,420,000. Based on Sections 17-127 and 17-127.2 of the Illinois Pension Code, an additional State contribution of $10,242,000 and an additional Board of Education contribution of $10,920,000 is required for Fiscal Year 2007.

The same actuarial assumptions were used for the June 30, 2005 actuarial valuation as had been used for the June 30, 2004 valuation. 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, 2003 upon the recommendation of the actuary.

The projected unit credit actuarial cost method was used for the June 30, 2005 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2004 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, 2005.

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, 2005. 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	$ 13,295,876,206
2. Actuarial Value of Assets	10,506,471,213
3. Unfunded Actuarial Liability	2,789,404,993
4. Funded Ratio	79.0%
5. Employer's Normal Cost for FY 06 as a percent of payroll	9.70%
6. Annual Required Contribution for FY 06 Based on GASB Statement No. 25	328,365,821
7. Board of Education Contribution Requirement For FY 07 Based on Public Act 89-15 and Public Act 90-548	$ 69,420,000

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, 2005, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 37,521 active contributors, 20,954 pensioners, and 2,059 vested terminated members included in the valuation. The total active payroll as of June 30, 2005 was $1,968,612,235.

Exhibit 1

Summary of Membership Data

1. Number of Members		
(a) Active Members		
	(i) Vested Employees	21,855
	(ii) Non-vested Employees	15,666
	(iii) Total Active Members	37,521

	(b) Members Receiving	
	(i) Retirement Pensions	18,108
	(ii) Disability Pensions	417
	(iii) Survivor Pensions	2,429
	(iv) Total Pensioners	20,954
	(c) Vested Terminated Members	2,059
	(d) Total	**60,534**
2.	Total Annual Salaries	**$1,968,612,235**
	(d) Average Salary	52,467
3.	Total Accumulated Contributions of Active Members	$1,350,467,025
4.	Annual Benefit Payments Currently Being Made	
	(a) Retirement Pensions	$647,276,797
	(b) Disability Pensions	10,440,914
	(c) Survivor Pensions	30,541,807
	(e) Total Pensions	**$688,259,518**

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, 2005 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 $10,506,471,213. The development of this actuarial value of assets is outlined in Exhibit 2. As of June 30, 2005, the market value of the assets of the fund amounted to $10,867,618,095.

Exhibit 2
Actuarial Value of Assets

A. Development of Investment Gain/(Loss) For Year Ending June 30, 2005		
1.	Actuarial Value of Assets as of 6/30/04	$ 10,392,193,115
2.	Employer Contributions	74,478,618
3.	Employee Contributions	175,706,081
4.	Expenses	741,020,436
5.	Expected Investment Income	812,119,725
6.	Actual Investment Income	1,036,898,341
7.	Investment Gain/(Loss) (6 – 5)	$ 224,778,616
B. Development of Actuarial Value of Assets		
8.	Expected Actuarial Value of Assets as of June 30, 2005 (1 + 2 + 3 – 4 + 5)	$ 10,713,477,103
9.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2002	(296,503,324)
10.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2003	(130,684,796)
11.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2004	163,987,576
12.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2005	56,194,654
13.	Actuarial Value of Assets as of June 30, 2005 (8+9+10+11+12)	$ 10,506,471,213

C. FUND PROVISIONS

Our valuation was based on the provisions of the Fund in effect as of June 30, 2005 as provided in Article 17 of the Illinois Pension Code. A summary of the principal provisions of the Fund on which the valuation was based is provided in Appendix 2.

D. ACTUARIAL ASSUMPTIONS AND COST METHOD

The actuarial assumptions used for the June 30, 2005 actuarial valuation are the same as those used for the June 30, 2004 valuation. The actuarial assumptions used for the June 30, 2005 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, 2005 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2004 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, 2005, the total actuarial liability is $13,295,876,206, the actuarial value of assets is $10,506,471,213, and the unfunded liability is $2,789,404,993. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 79.0%.

Exhibit 3

Actuarial Liability as of June 30, 2005

1. Actuarial Liability for Active Members		
(a)	Basic Retirement Annuity	$ 3,501,620,924
(b)	Post Retirement Increase	914,409,287
(c)	Lump Sum Death Benefit	11,288,108
(d)	Survivor's Pension	358,462,394
(e)	Disability Pension	88,330,577
(f)	Withdrawal Benefit	289,225,324
(g)	Total	$5,163,336,614
2. Actuarial Liability Members Receiving Benefits		
(a)	Retirement Pensions	$ 7,583,831,701

(b)	Survivor Pensions	293,391,893
(c)	Disability Pensions	122,214,539
(d)	Total	$ 7,999,438,133
3.	Actuarial Liability for Inactive Members	$ 133,101,459
4.	Total Actuarial Liability	$ 13,295,876,206
5.	Actuarial Value of Assets	$ 10,506,471,213
6.	Unfunded Actuarial Liability	$ 2,789,404,993
7.	Funded Ratio	79.0%

F. EMPLOYER'S NORMAL COST

The employer's share of the normal cost for the year beginning July 1, 2005 is developed in Exhibit 4. The total normal cost is $356,602,574, employee contributions are estimated to be $165,584,207, resulting in the employer's share of the normal cost of $191,018,367.

Based on a payroll of $1,968,612,235 as of June 30, 2005, the employer's share of the normal cost can be expressed as 9.70% of payroll.

Exhibit 4

Employer's Normal Cost For Year Beginning July 1, 2005

		Dollar Amount	Percent Of Payroll
1.	Basic Retirement Pension	$ 178,314,403	9.06%
2.	Post Retirement Increases	46,712,447	2.37
3.	Lump Sum Death Benefits	886,116	.04
4.	Survivor's Pension	20,433,800	1.04
5.	Disability Benefits	6,634,654	.34
6.	Withdrawal Benefits	35,572,792	1.81
7.	Health Insurance Reimbursement	59,651,860	3.03
8.	Administrative Expenses	8,396,502	.42

9.	Total Normal Cost	$ 356,602,574	18.11%
10.	Employee Contributions	165,584,207	8.41
11.	Employer's Share of Normal Cost	$ 191,018,367	9.70%

Note. The above figures are based on a total active payroll of $1,968,612,235 as of June 30, 2005.

G. BOARD OF EDUCATION CONTRIBUTION REQUIREMENT FOR FISCAL YEAR 2007

Additional State Contributions. According to Section 17-127 of the 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, 2005 actuarial valuation, the ratio of the actuarial value of assets to total actuarial liabilities, or funded ratio, amounts to 79.0%. Therefore, additional State contributions will be required for Fiscal Year 2007. Based on a projected payroll of $2,014,544,000 for Fiscal Year 2007, we have determined the additional State contributions under Section 17-127 of the Pension Code to be $10,242,000.

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, 2005 is 79.0%, additional Board of Education contributions will be required for Fiscal Year 2007. Based on a projected payroll of $2,014,544,000 for Fiscal Year 2007, we have determined the additional Board of Education contribution under Section 17-127.2 of the Pension Code to be $10,920,000.

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, 2005, the ratio of the actuarial value of assets to the total actuarial liability is 79.0%. Using the results of the June 30, 2005 valuation as a starting point, we have projected the ratio of the actuarial value of assets to the total actuarial liability as of June 30, 2006 to be 78.4%. 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 2007 to be $167,245,000. State appropriations are estimated to be $65,000,000. As indicated above, additional state contributions amount to $10,242,000, and additional Board of Education contributions amount to $10,920,000. Other employer contributions are estimated to be $11,663,000. Thus, based on the total employer required contribution for Fiscal Year 2007 and other sources of employer contribution, the net Board of Education contribution requirement for Fiscal Year 2007 under the funding plan specified in Section 17-129 of the Pension Code is calculated to be $69,420,000. Additional details regarding our calculations are shown below:

Board of Education Required Contribution For FY 2007

1.Total required employer contribution for FY 2007	$ 167,245,000
2.State appropriations	65,000,000
3.Additional State contributions	10,242,000
4.Additional Board of Education contribution	10,920,000
5.Other employer contributions	11,663,000
6.Board of Education required contribution (1 – 2 – 3 – 4 – 5)	$ 69,420,000

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, 2005 actuarial valuation, we have therefore calculated the annual required contribution for Fiscal Year 2006. 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 2006 has been determined to be as follows:

	Fiscal Year 2006
1. Employer's normal cost	$ 191,018,367
2. Annual amount to amortize the unfunded liability (surplus) over 40 years as a level percent of payroll	137,347,454
3. Annual required contribution (1 + 2)	$ 328,365,821

I. RECONCILIATION OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY

The net actuarial experience during the period July 1, 2004 to June 30, 2005 resulted in an increase in the Fund's unfunded actuarial liability of $1,075,917,531. This increase in unfunded actuarial liability is a result of several kinds of gains and losses. The financial effect of the most significant gains and losses is illustrated in Exhibit 5.

The employer contribution requirement for the year of normal cost plus interest on the unfunded actuarial liability amounted to $306,417,164. The total actual employer contribution for the year amounted to $74,478,618. Thus, the employer contribution for the year fell short of the funding requirement of normal cost plus interest on the unfunded liability by $231,938,546. 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 6.0%, in comparison to the assumed rate of 8.0%. This resulted in an increase in the unfunded liability of $207,005,890. Salary increases higher than expected resulted in an increase in the unfunded liability of $158,843,367.

The various other aspects of the Fund's experience, primarily more retirements than expected, resulted in a net increase in the unfunded liability of $478,129,728. The aggregate financial experience of the Fund resulted in an increase in the unfunded liability of $1,075,917,531.

Exhibit 5

Reconciliation of Change in Unfunded Actuarial Liability
Over the Period July 1, 2004 to June 30, 2005

1.	Unfunded Actuarial Liability as of 07/01/04	$ 1,713,487,462
2.	Employer Contribution Requirement of Normal Cost Plus Interest on Unfunded Liability for Period 07/01/04 to 06/30/05	306,417,164
3.	Actual Employer Contribution for the Year	74,478,618
4.	Increase in Unfunded Liability Due to Employer Contribution Being Less Than Normal Cost Plus Interest on Unfunded Liability (2 – 3)	$ 231,938,546
5.	Increase in Unfunded Liability Due to Investment Return Lower Than Assumed	207,005,890
6.	Increase in Unfunded Liability Due to Salary Increases Higher Than Assumed	158,843,367
7.	Increase in Unfunded Liability Due to Other Sources	478,129,728
8.	Net Increase in Unfunded Liability for the Year (4 + 5 + 6 + 7)	$ 1,075,917,531
9.	Unfunded Actuarial Liability as of June 30, 2005 (1 + 8)	$ 2,789,404,993

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
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%
2005	13,295,876,206	10,506,471,213	79.0%	2,789,404,993	1,968,612,235	141.7%

Solvency Test

	ACCRUED LIABILITIES FOR:						
Fiscal Year	(1) Active Members Accumulated Contributions	(2) Members Currently Receiving Benefits	(3) Active Member Employer Portion	Actuarial Value of Assets	Percent of Accrued Liabilities Covered by Assets (1)	(2)	(3)
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%
2005	1,350,467,025	7,999,438,133	3,945,971,048	10,506,471,213	100%	100%	29%

Additional Actuarial Tables

Schedule of Actual Employer Contributions and Actuarially Determined Contribution Requirements

		Actual Employer Contribution		
Fiscal Year	Active Member Payroll	Dollar Amount	Percent of Payroll	Actuarially Determined Contribution Requirement as a Percent of Payroll
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%
2005	1,968,612,235	73,917,464	3.75%	13.15%

Additional Actuarial Tables

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase (Decrease) In Average Pay
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%
6-30-05	37,521	1,968,612,235	52,467	10.9%

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
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%
2005	2,631	117,025,483	943	23,137,112	20,954	688,259,518	32,846	6.5%

Appendix 1

Summary of Actuarial Assumptions and Actuarial Cost Method

Actuarial Assumptions. The actuarial assumptions used for the June 30, 2005 valuation are summarized below. The assumptions were adopted as of June 30, 2004.

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 designated beneficiary or the estate of the teacher. Upon death after retirement, the death benefit consists of the excess, if any, of the total contributions over the total pension payments paid to the member or his beneficiary. In addition, the following death benefit is payable:

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

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

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

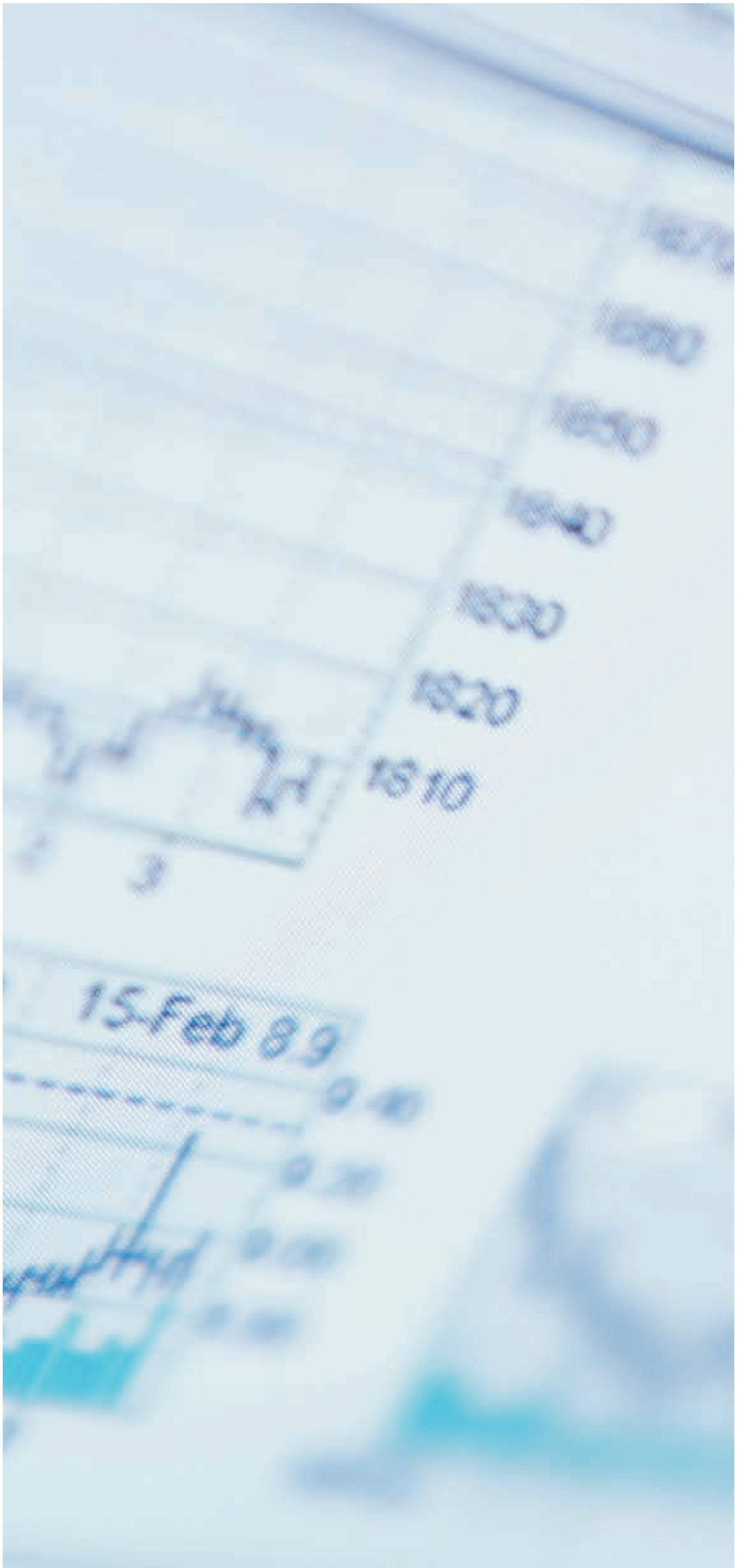
7. Projected Unit Credit Actuarial Cost Method. A cost method under which the projected benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial present value of benefits allocated to a valuation year is called the normal cost.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

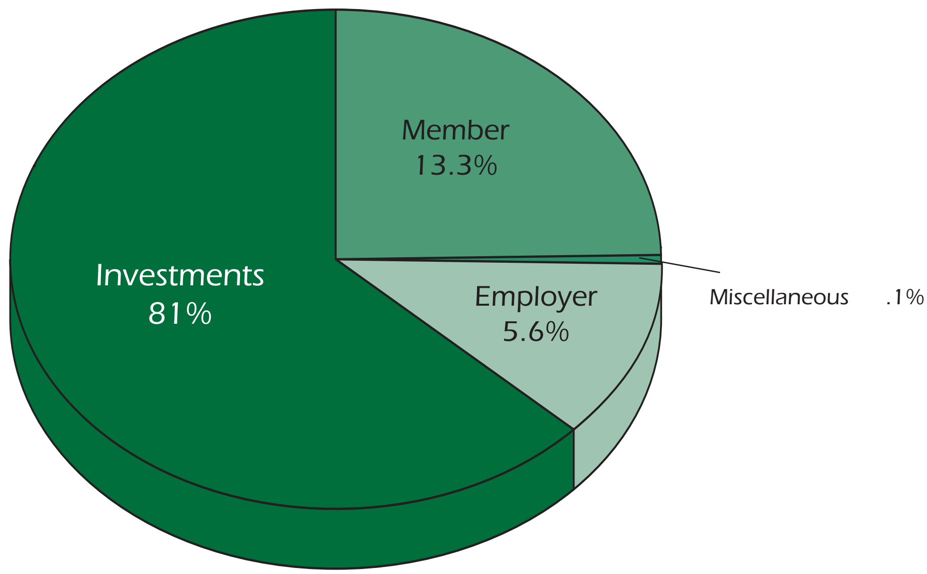
9. Actuarial Valuation. The determination, as of the valuation date, of the normal cost, actuarial liability, actuarial value of assets, and related actuarial present values for a pension plan.

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



Statistical Section

2005 Revenue - Sources and Applications



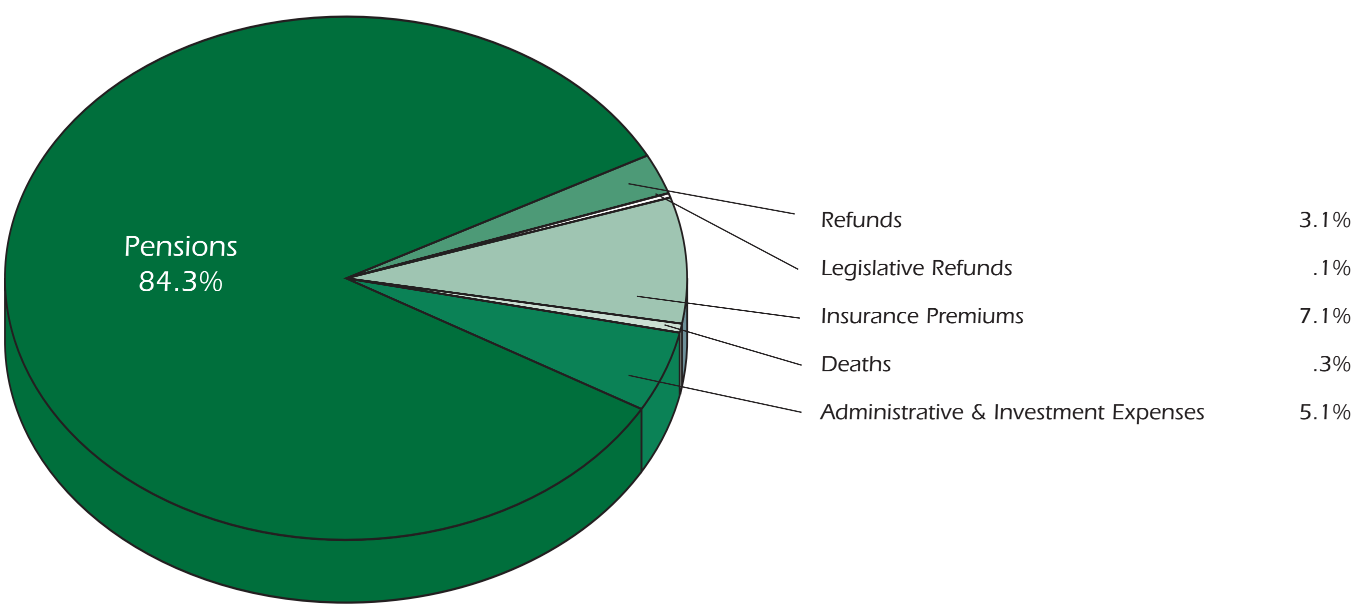


Table 1

Participating Members

Salary Distribution

Fiscal Year	Total Salaries ($)	Average Salary ($)	Average Attained Age	Average Years of Service
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
2005	1,968,612,235	52,467	43.3	10.8

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
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
2005	37,521	4,578	11,095	6,671	5,006	10,171

Number of Members

Fiscal Year	Male Participants	Female Participants	Total
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
2005	9,061	28,460	37,521

Table 2

Annuitants

Changes In The Number Of Recurring Benefit Payments

Fiscal Year	Additions Annuity	Additions Disability	Deletions Annuity	Deletions Disability	End of Year Annuity	End of Year Disability
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
2005	5,769*	54	608	30	18,108**	419

* Includes 3,480 reciprocal annuitants who retired prior to June 30,2004 but were not included in the count of annuitants in 2004 and prior years.

** Includes both regular and reciprocal annuitants.

Average Benefit Payment Amounts

Fiscal Year	Single Sum Payments: Separation Refunds ($)	Single Sum Payments: Lump Sum Death Benefit ($)	Recurring Payments: Annual Disability ($)	Recurring Payments: Annual Retirement ($)	Trend Total ($)
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
2005	4,247	4,014	25,038	35,745	69,044

* Single sum benefit averages are lower than in prior years due to the payment of more than 5,000 nominal refunds and death benefits to inactive members and beneficiaries.

Distribution Of Current Annuitants By Pension Amount

Monthly Pension Amount	Retirement Males	Retirement Females	Disability Males	Disability Females	Survivor Males	Survivor Females	Total Males	Total Females
$0 TO UNDER 500	483	1,008	3	11	211	386	697	1405
$500 TO UNDER $1,000	361	774	18	41	303	431	682	1246
$1,000 TO UNDER $1,500	272	789	20	49	199	276	491	1114
$1,500 TO UNDER $2,000	291	1,028	18	49	162	254	471	1331
$2,000 TO UNDER $2,500	355	1,095	10	50	36	90	401	1235
$2,500 TO UNDER $3,000	398	1,338	19	38	8	40	425	1416
$3,000 TO UNDER $3,500	501	1,372	14	42	4	17	519	1431
$3,500 TO UNDER $4,000	986	2,329	4	17	0	10	990	2356
$4,000 TO UNDER $4,500	955	1,962	2	4	0	1	957	1967
$4,500 TO UNDER $5,000	290	271	1	2	0		291	273
$5,000 TO UNDER $5,500	246	244	2	2	0		248	246
$5,500 TO UNDER $6,000	118	138	2	1	0		120	139
$6,000 TO UNDER $6,500	115	99			1		116	99
$6,500 TO UNDER $7,000	83	65					83	65
$7,000 TO UNDER $7,500	48	38					48	38
$7,500 TO UNDER $8,000	22	8					22	8
$8,000 TO UNDER $8,500	7	7					7	7
$8,500 TO UNDER $9,000	3	3					3	3
$9,000 TO UNDER $100,000	5	1					5	1
TOTAL	5,539	12,569	113	306	924	1,505	6,575	14,380

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)
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
2005	617,684,571	24,520,785	9,561,956	2005	16,877,637	3,572,619	4,408,438

Fiscal Year	Death Benefits ($) Heirs of Active Teachers	Death Benefits ($) Heirs of Annuitants	Fiscal Year	Health Insurance Premium Rebate ($) Amount	Grand Total
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
2005	470,537	2,035,333	2005	54,410,887	733,542,765

(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
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
2005	175.7	1,036.9	.6	73.9	3.8	1,257.1

(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
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
2005	651.7	24.9	2.5	54.4	7.5	741.0