Chicago Teachers' Pension Fund

112th Comprehensive Annual Financial Report

For the year ended June 30, 2007
Chicago, Illinois

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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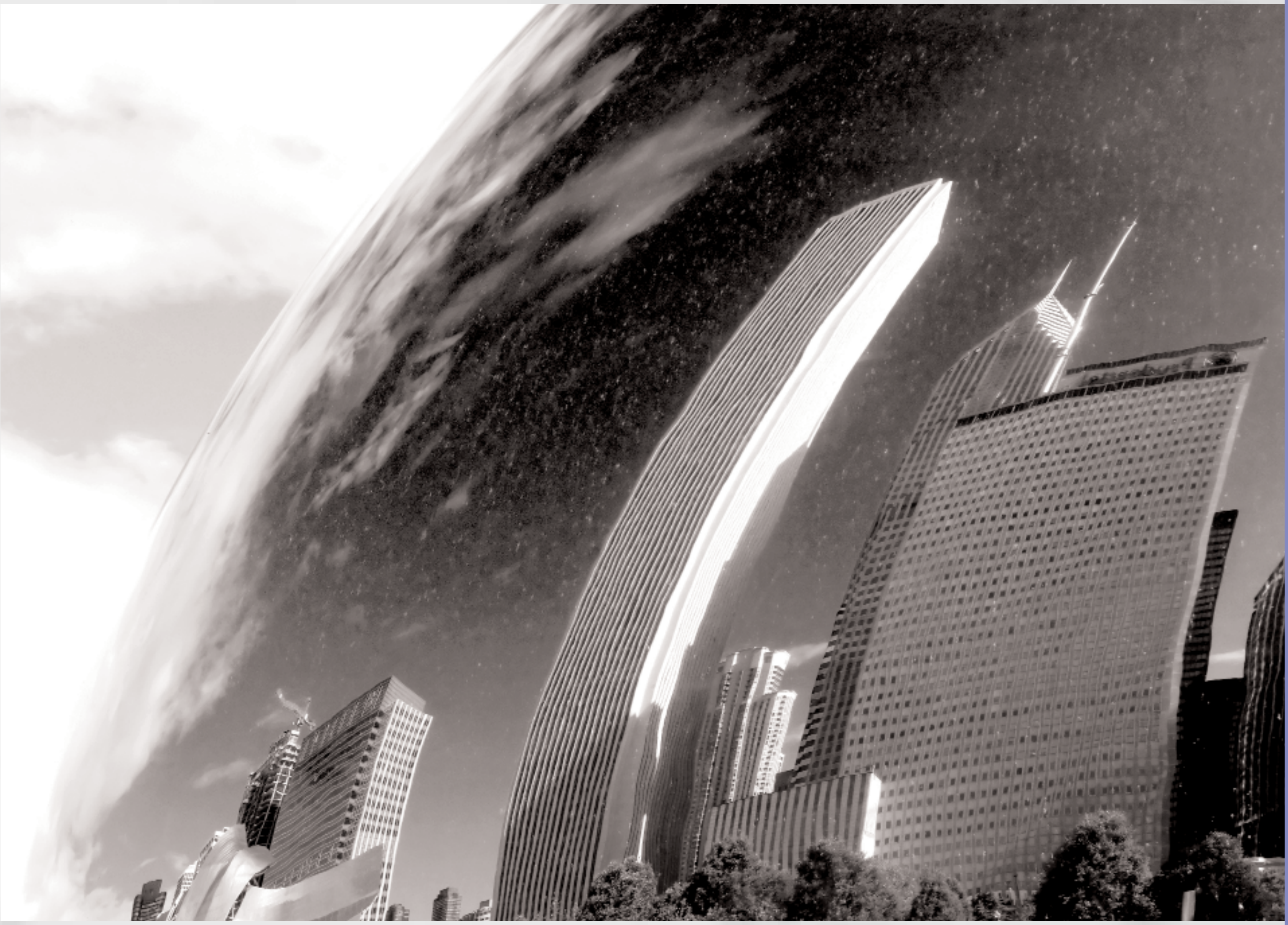


INTRODUCTION

This section provides information regarding the Chicago Teachers' Pension Fund Board of Trustees and its consultants, an organizational chart, a Certificate of Achievement, a Letter of Transmittal, and additional administrative information.

Board of Trustees

As of June 30, 2007


John F. O'Brill

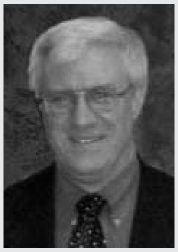

Lois Nelson


Mary Hanson


Maria J. Rodriguez


Vaughn J. Barber


Alberto A. Carrero, Jr.


James A. Cosme


Peggy A. Davis


Reina Otero


Walter E. Pilditch


James F. Ward


Nancy Williams

OFFICERS

President, John F. O'Brill

Vice President, Lois Nelson

Recording Secretary, Mary Hanson

Financial Secretary, Maria J. Rodriguez

MEMBERS

Representing the contributors

Mary Hanson
Lois Nelson
John F. O'Brill
Reina Otero
Maria J. Rodriguez
Nancy Williams

Representing the annuitants

Vaughn J. Barber
Walter E. Pilditch
James F. Ward

Representing the administrators/principals

James A. Cosme

Representing the Board of Education

Alberto A. Carrero, Jr.
Peggy A. Davis

Executive Staff

Executive Director, Kevin B. Huber

Chief Operating Officer, Patricia A. Hambrick

Consultants

As of June 30, 2007

LEGAL COUNSEL

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

INVESTMENT CONSULTANTS

Douglas Kryscio and Kristin R. Finney-Cooke
Mercer Investment Consulting
10 South Wacker Drive
Chicago, Illinois 60606

Robert Kochis
The Townsend Group
Skylight Office Tower
1660 West Second Street, suite 450
Cleveland, Ohio 44113

HEALTH INSURANCE CONSULTANT

Mitch Bramstaedt
The Segal Company
101 North Wacker Drive, suite 500
Chicago, Illinois 60606

BANK CUSTODIAN

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

AUDITORS

Michael Huels
Bansley and Kiener, L.L.P.
8745 West Higgins Road, suite 200
Chicago, Illinois 60631

CUSTODIAN

Stephanie D. Neely
City Treasurer
121 North LaSalle Street
Chicago, Illinois 60602

CONSULTING ACTUARY

Sandor Goldstein
Goldstein & Associates
29 South LaSalle Street, suite 735
Chicago, Illinois 60603

INVESTMENT ADVISORS

Acadian Asset Management, Inc.
Adams Street Partners, LLC
Adelante Capital Management, LLC
Ariel Capital Management, LLC
Attucks Asset Management, LLC
Blackstone Group, LP
Brandywine Global Investment Management, LLC
Capri Capital Partners, LLC
CB Richard Ellis Investors, LLC
Chicago Equity Partners, LLC
Dimensional Fund Advisors
DV Realty Advisors, LLC
Earnest Partners, LLC
Fidelity Capital Management Trust Co.
Fremont Realty Capital, LP
HarbourVest Partners, LLC
Harris Investment Management, Inc.
Hispania Capital Partners
Holland Capital Management, LP
ICV Capital Partners, LLC
Intercontinental Real Estate Corp.
J. & W. Seligman & Co. Incorporated
J. P. Morgan Fleming Asset Management
Lazard Asset Management, LLC
Lehman Brothers Asset Management, LLC
LM Capital Group, LLC
Lombardia Capital Partners, LLC
Lynmar Capital Group, Inc.
Mesirow Financial, Inc.
MFS Institutional Advisors, Inc.
Morgan Stanley Investment Management
Muller and Monroe Asset Management, LLC
New Amsterdam Partners, LLC
Northern Trust Global Investments
Olympus Real Estate Partners, LLC
Palladium Equity Partners, LLC
Pantheon Ventures, Inc.
Pharos Capital Group, LLC
Piedmont Investment Advisors, LLC
Progress Investment Management Company, LLC
Prudential Investment Management, Inc.
RhumbLine Advisers
RREEF America, LLC
Smith Graham & Co. Investment Advisors, L.P.
Syncom Partners, LLC
Taplin, Canida and Habacht, Inc.
UBS Global Asset Management
United Investment Managers, Inc.
Urban America, LP
Urdang Investment Management, Inc.
Waddell & Reed Asset Management Group
Walton Street Capital, LLC
Western Asset Management, Co.
William Blair & Company, LLC
Zenna Financial Services, LLC
Zevenbergen Capital Investments, LLC

Organizational Chart

As of June 30, 2007

Board of Trustees

Executive Director
Kevin B. Huber

Chief Financial Officer/Chief Operating Officer
Patricia A. Hambrick

Benefits
Denise Valentovich
Edgar Samayoa

Office Services
Frances Radencic

Member Services
Sheron Banks-Fallis

Accounting
Sandra Shelby

Information Systems
Robin Lynch

Certificate of Achievement for Excellence in Financial Reporting

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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

Oline S. Cox
President

Jeffrey R. Emer
Executive Director

Chicago Teachers' Pension Fund
203 N LaSalle Street, suite 2600
Chicago, IL 60601-1210

Letter of Transmittal

February 8, 2008

The Pension Board of Trustees and Fund Members
Public School Teachers' Pension and Retirement Fund of Chicago
203 North LaSalle Street, suite 2600
Chicago, Illinois 60601

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

This is the 112th Comprehensive Annual Report of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) that covers the fiscal year ending June 30, 2007. 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 the reports of the Consulting Actuary, a summary of the major actuarial assumptions, active member data and other data.
5. The Statistical Section contains relevant pensioner data and historical revenue sources and uses data.

Overview

The Fund's membership remained constant at just over 59,000 members as of June 30, 2007. The 112th year of continuous operations resulted in continued improvement for the Fund. The June 30, 2007, value of net assets held in trust for pension and health benefits amounted to \$12.82 billion, a 12.16% increase over the \$11.43 billion of the previous year. The actuarial value of assets of the Pension Fund, calculated on a 4-year smoothed market value basis and used in the determination of the funding ratio, amounted to \$11.76 billion. A comparison of the actuarial value of assets to the actuarial accrued liabilities of \$14.68 billion, yields an 80.1% actuarial funding ratio, a 2.7% increase from the prior year funding ratio of 78%. The actuarial value of assets of the Health Insurance Fund amounted to $47.4 million. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $2.02 billion yields a 2.3% actuarial funding ratio.

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 this introductory section, and in the overview and analysis sections of management's discussion and analysis 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, 2007, investments at fair market value totaled $12.95 billion. This compares favorably with $11.53 billion as of June 30, 2006. The Fund's investment performance rate of return for the year ending June 30, 2007, was 17.7%, and exceeded the actuarially projected return of 8%. The ten-year rate of return posted by the Fund for the period ending June 30, 2007, was 9%, which also exceeds the actuarial assumption of 8% and reflects a 2.2% decrease from the previous year's 9.2%. 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. Refer to the Manager Analysis and Broker Commission Report in the Investment Section of this report for information regarding investment professionals who provide services to the Fund.

Accounting System and Internal Controls

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

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

Economic Review and Outlook

The economy and its stability continue to be relevant to the Fund and its overall performance. Despite rising energy costs, continued concerns about inflation and a weakening housing market, the U.S. economy showed moderate year over year growth. Economic growth expanded with an annualized GDP growth rate projected at 3.4% at June 2007. Due to steady hiring by employers, the unemployment rate declined slightly, to 4.5% at June 30, 2007, nearly a six-year low.

The underlying rate of inflation rose at an annual rate of 2.7% due primarily to increasing food and energy prices. The Federal Reserve Board continues to monitor the economy and inflationary pressures and at June 30, 2007, the federal funds rate remained at 5.25%, unchanged since June 2006.

Funding Goals

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 by the year 2045. In years where the funding ratio exceeds 90%, no employer contribution is required.

Based upon the actuarial projection and funding rate of 79% at June 30, 2005, the employer and state were required to make additional contributions in the amount $90.6 million during fiscal year 2007.

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, 2007, was 17.7%, 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 made several changes in the allocation policy. The Fund increased its target allocations in international equity from 12.5% to 22%, the real estate allocation from 5% to 6.5%, the private equity allocation from 2% to 3%, and the public REITs allocation from 2% to 2.5%. The Fund decreased its domestic equity allocation from 48.5% to 41.5%, and its fixed income allocation from 28% to 20.5%. The Fund allocated 2% to infrastructure, a new asset class.

During the year, the Board performed due diligence over its investment managers in order to monitor performance and compliance. The Fund continued its formal manager performance review process in order to monitor managers in all asset classes whose performance was suspect. As of June 30, 2007, the Fund hired seven managers (five international equity, one passive domestic equity, and one real estate) while terminating one domestic equity manager.

The Fund continued to concentrate on increasing allocations to minority and women owned money managers. Approximately 20% ($2,489,399,172), of the Fund's assets are managed by qualified minority or female owned managers. Additionally, the Fund directed $3,139,545 of commissions to qualified minority and women brokers.

Legislative

There were no significant legislative developments in 2007 that impacted the Fund.

Major legislative proposals that the Trustees continue to pursue include:

- increasing State funding for retiree health insurance
- providing a permanent 75% health insurance rebate
- providing automatic annual increase of 3% beginning one year following retirement
- increasing the maximum pension percentage to 80%
- providing an ad-hoc increase for those on pension prior to 1980, and
- making all income pensionable.

The Trustees and Fund administrators will continue to work diligently to represent the interests of the members through further accomplishment of the Trustees' legislative agenda. The Board, in conjunction with the Fund's consultants, continues 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, modernizing key infrastructure components of the Fund, and emphasizing customer service for our members. The Board continued to support numerous technology projects in fiscal year 2007.

- The Fund continued to enhance the functionality of its benefit payment database.
- The Fund developed and implemented policy and procedure for the payment of pensions in the month immediately following the month of retirement.
- The Fund developed an alternative to the payment of an annual health insurance rebate, by providing an option for monthly health insurance payments to retired members.
- The Fund continued design, and established training and implementation timelines, for a paperless workflow.

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 of the Fund's financial operations is found in the Management's Discussion and Analysis section of the Financial report.

Awards

The Government Finance Officers Association 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, 2006. This was the 17th 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 2006, new teacher trustees Reina Otero and Nancy Williams were elected to three-year terms, replacing Connee R. Fitch-Blanks and Linda C. Porter. In November 2006 Peggy A. Davis was appointed to represent the Board of Education, replacing Rufus Williams.

In the election for officers, John F. O'Brill was elected president, Lois Nelson, vice president, Mary Hanson, recording secretary, and Maria J. Rodriguez, financial secretary. Chairs of standing committees included John F. O'Brill, Investments; Vaughn J. Barber, Pension Laws and Rules; Maria J. Rodriguez, Finance and Audit; and James F. Ward, Claims and Service.

We would like to take this opportunity to thank Trustees Fitch-Blanks, Porter, and Williams for their service to the Fund.

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

Kevin B. Huber
Executive Director

Patricia A. Hambrick
Chief Financial Officer


4.83
NY
-0.54
0.01
1.34
Tokyo
5.63
FTSE
-6.89

Financial

This section contains the report of the independent public accountants, the financial statements of the Fund and their analysis, and supplemental financial information.

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 AUDITOR'S 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, 2007, 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 2006 financial statements and, in our report dated November 21, 2006, 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, 2007, 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 Plan adopted Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* during the year ended June 30, 2007.

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

February 8, 2008

Management's Discussion and Analysis

Management is pleased to provide this overview and analysis of the financial activities of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) for the year ended June 30, 2007. This information is intended to supplement the financial statements which begin on page 22 of this report. We encourage readers to consider additional information and data in the Fund's *2007 Comprehensive Annual Financial Report*.

Annual Financial Review

The Fund returned 17.7% for the year ended June 30, 2007, 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, fixed income, and international investments provides risk adjusted returns while allowing the Fund to "ride out" short-term fluctuations in individual asset classes. The Fund reported an investment return in 2006 that was comparable to the investment return of 2005. The Fund's compound rate of return over the past 10 years was 9% which exceeded the actuarial assumption of 8%.

The Fund's consulting actuary has certified the total actuarial liability of the Pension Fund to be $14.7 billion as of June 30, 2007. This represents an increase in the total actuarial liability of approximately $641.5 million compared to the valuation of $14.0 billion as of June 30, 2006. The unfunded actuarial liability decreased from approximately $3.1 billion to $2.9 billion during the year. The Fund's consulting actuary has also certified the total actuarial liability of the Health Insurance Fund to be $2.0 billion as of June 30, 2007. Refer to the Actuarial Section of the report for more valuation and funding information.

Financial Highlights

- Investment returns were favorable in comparison to previous years. The investment rate of return for fiscal year 2007 was 17.7% following fiscal year 2006's return of 10.7% and fiscal year 2005's return of 10.8%. Five and 10-year returns were 11.5 % and 9%, respectively.
- Total plan net assets increased in value during the fiscal year to $12.82 billion at June 30, 2007, from $11.43 billion at June 30, 2006.
- Total benefit payments were $898 million. The Fund paid members more than $837 million in service retirement, disability and survivor benefits, and an additional $61 million for health care benefits.
- Total additions to plan net assets were $2.3 billion. The net investment gain of $1.9 billion was more than 5.6 times member and employer contributions which totaled $347.8 million.
- Benefit payments, member refunds, and administrative expenses totaled $906.5 million for the 2007 fiscal year, a 10.8% increase over fiscal 2006.
- The funded ratio for pension benefits increased to 80.1% as of June 30, 2007, from 78% at the end of the previous year.

Overview of the Financial Statements of the Fund

The two basic financial statements of the Fund are the *Statement of Plan Net Assets* and the *Statement 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 *Statement of Plan Net Assets* is a measure of the Fund's assets and liabilities at the close of the fiscal year. Total assets less liabilities equal net assets held in trust for future benefits.

The *Statement of Changes in Plan Net Assets* shows 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's assets are divided into two primary funds: the Pension Fund (a defined benefit plan) and the Health Insurance Fund (a post employment health care plan). The Pension Fund includes member contributions and investment earnings for participants. The Fund pays service retirement benefits using a fixed formula based on years of service and salary, subject 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 Pension Fund for the past six years and the actuarial trend information of the Health Insurance Fund for the past two years. It includes the ratio of valuation assets to the actuarial accrued liability (funded ratio). The funded ratio increases or decreases over time based upon the relationships between contributions, investment performance, benefit changes, and actuarial assumption changes based upon participant information and characteristics. This schedule 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 the Governmental Accounting Standards Board (GASB) Statement No. 25 and Statement No. 43, 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 year 2007, total investments returned 17.7%. The U.S. and international stock portfolios generated positive returns. The Fund's portfolio of U.S. stocks reported a 19.8% return and international stocks reported a 25.2% return. Real estate generated a positive return of 19.5% while fixed income realized a positive return of 6.2%.

1-Year Returns (2007)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	17.7%	Fund Benchmark Index	18.0%
Domestic Equity	19.8%	Russell 3000 Index	20.1%
International Equity	25.2%	MSCI AC World Free Ex US	30.1%
Fixed Income	6.2%	LB Aggregate Index	6.1%
Real Estate (Public and Private)	19.5%	Stylized Real Estate Index*	17.2%
Private Equity	22.0%	Private Equity	N/A

5-Year Returns (2002-2007)

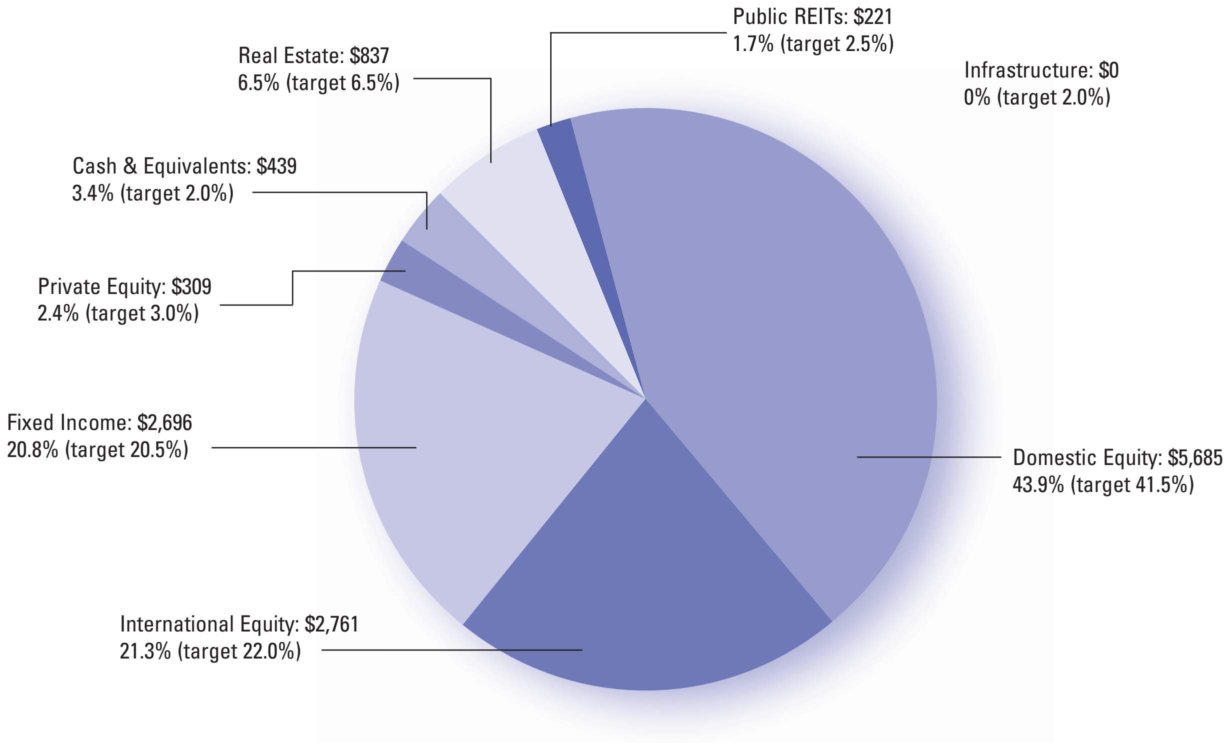
Asset Category	Fund Return	Index Name	Index Return
Total Fund	11.5%	Fund Benchmark Index	11.1%
Domestic Equity	12.2%	Russell 3000 Index	11.5%
International Equity	17.6%	MSCI AC World Free Ex US	19.9%
Fixed Income	4.7%	LB Aggregate Index	4.5%
Real Estate (Public and Private)	17.4%	Stylized Real Estate Index*	16.2%
Private Equity	12.6%	Private Equity	N/A

Investment performance returns are calculated using a time-weighted rate of return, annualized on a fiscal year basis from 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, 2007

in millions of dollars



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

Financial Statement Analysis

Plan Net Assets

The value of plan net assets increased $1.4 billion (12.2%) during the fiscal year. This increase was due largely to the 12.6% appreciation of investment holdings.

As of June 30, 2007, total receivables, without regard to amounts due from brokers, increased by more than $9.9 million from 2006. The change in receivables is the net result of increases in the year end accrual for employee contributions along with an increase in accrued investment income. Due from brokers (the proceeds from investment sales) increased $71.9 million due to timing of investment sales at year end.

Refunds payable increased $7.9 million in 2007. This increase was due to the increase in the volume of retirees in fiscal year 2007. The decrease in Accounts and Administrative expense payable of $3.7 million is a result of a decrease in the year end accrual of investment expense. Due to brokers (the cash due for investment purchases) increased $108 million due to the timing of investment purchases at year end.

Below is a summary of the plan net assets at June 30, 2007 and 2006, highlighting the financial statement items with significant fluctuations.

(IN MILLIONS)	FY 2007	FY 2006
Cash and Cash Equivalents	$ 439.5	$ 418.3
Due from Brokers	221.2	148.9
Receivables	100.7	90.8
Investments (fair value)	12,509.8	11,108.9
Security Lending Collateral and Other Assets	2,485.2	1,972.2
Capital Assets	4.0	4.6
Total Assets	**15,760.4**	**13,743.7**
Benefits and Refunds Payable	23.4	15.5
Accounts and Administrative Payable	16.6	20.3
Security Lending Collateral	2,485.2	1,972.2
Due to Brokers	415.2	307.2
Total Liabilities	**2,940.4**	**2,315.2**
Net Assets	**12,820.0**	**11,428.5**
Change in Net Assets	**$ 1,391.5**	**$ 560.9**

Additions to Plan Assets

Additions to plan assets that are needed to finance statutory benefit obligations come from public sources such as state and federal appropriations, employer and employee contributions, net earnings on investments, and miscellaneous sources. For the year ending June 30, 2007, these additions totaled $2.3 billion, representing a 66.6% increase from 2006 additions of $1.4 billion. Intergovernmental and employer contributions decreased by $3.4 million in fiscal year 2007 due to a decrease in federal funds received from the employer. The slight increase of employee contributions is consistent between years and is the result of higher average salaries. Minimum funding requirement represents the additional state and employer contributions required by state law when the funding level drops below 90%. Based upon the actuarial projection at June 30, 2005, the employer and state were required to make additional contributions in fiscal year 2007 in the amount of $90.6 million. Net investment income increased due to the unrealized appreciation of the Fund's investment portfolio. The Fund's portfolio gained 17.7% for the year ended June 30, 2007, versus 10.7% for the year ended June 30, 2006.

(IN MILLIONS)	FY 2007	FY 2006
Intergovernmental and Employer contributions	$ 78.2	$ 81.6
Employee contributions	179.0	163.4
Minimum funding requirement	90.6	36.2
Net investment income	1,950.2	1,097.9
Miscellaneous	0.0	0.1
Total additions	$ 2,298.0	$ 1,379.2

Deductions from Plan Assets

Deductions from plan assets represent many characteristics of an actuarially mature employee group, with modest increases in most benefit categories. Pension benefits increased as new pensioners were added to the pension payroll, with benefits based on higher salaries and an improved benefit formula. Refunds increased due to a higher volume of retirees which included a higher percentage of unmarried retirees. At the time of retirement, unmarried retirees receive a refund of amounts contributed to provide survivor pensions. The survivor contribution refund is equal to 1% of total contributions. The health insurance rebate was disbursed at 70% of covered premiums for fiscal year 2007 and 2006. Total deductions from plan assets amounted to $906.5 million for the year ended June 30, 2007, compared to $818.4 million for the previous year.

(in millions)	FY 2007	FY 2006
Pensions	$ 797.8	$ 718.5
Refunds	36.4	30.7
Death benefits	2.9	2.6
Insurance premiums	61.0	58.3
Administration	8.4	8.3
Total Deductions	$ 906.5	$ 818.4

Funding Analysis

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 of the Fund, 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 through 2045.

Based upon the actuarial projection at June 30, 2006, it is estimated that the employer must make contributions in fiscal year 2008 of approximately $120.5 million. Based upon the actuarial projection at June 30, 2007, it is estimated that the employer must make contributions in fiscal year 2009 of approximately $177.8 million. The Fund is required to communicate to the employer the actual contribution required for fiscal year 2009 by February 28, 2008. State law also requires additional state and employer contributions to provide for benefit increases when the funding level drops below 90%. Accordingly, the State of Illinois is required to remit $9.8 million and the primary employer of the Fund is required to remit $10.4 million during the fiscal year ending June 30, 2009.

The funded ratio for pension benefits increased from 78% in 2006 to 80.1% in 2007. The increase in the funded ratio is due to an investment gain for 2007. Employer contributions are expected to increase, due to required minimum employer contributions, and a slight increase in operational and benefits costs is expected. The rate of return for the period ending June 30, 2007 and 2008 is projected at 8%. As a result, the funded ratio is expected to increase to 82.2% in fiscal year 2008. The funded ratio of the plan has ranged from 78% to 100.8% since 1998.

During the current year, the Fund adopted GASB Statement No. 43. As previously mentioned, the *Schedule of Employer Contributions* shows the amount of required contributions in accordance with GASB Statement No. 25 and GASB Statement No. 43. As exhibited in the schedules, the employer is not making required contributions sufficient to meet the increasing liability of the Pension Fund or Health Insurance Fund.

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 North LaSalle Street, suite 2600
Chicago, Illinois 60601

Statement of Plan Net Assets

June 30, 2007, with comparative totals for 2006

	Pension Fund	Health Insurance Fund	Total 2007	Total 2006
Assets				
Cash and cash equivalents	$ 386,269,106	$ 53,201,758	$ 439,470,864	$ 418,269,986
Receivables:				
Intergovernmental	14,109,992	–	14,109,992	14,854,607
Employee	38,898,810	–	38,898,810	31,738,843
Accrued investment income	42,543,007	–	42,543,007	39,091,469
Due from brokers	221,204,572	–	221,204,572	148,894,426
Participating teachers' accounts for contributions	3,781,314	–	3,781,314	3,754,353
Other receivables	1,358,530	–	1,358,530	1,317,210
	321,896,225	–	321,896,225	239,650,908
Investments, at fair value:				
Fixed income	2,696,170,921	–	2,696,170,921	2,691,741,585
Equity	8,976,632,819	–	8,976,632,819	7,710,157,169
Real estate	836,970,146	–	836,970,146	706,998,185
	12,509,773,886	–	12,509,773,886	11,108,896,939
Securities lending collateral	2,485,185,205	–	2,485,185,205	1,972,243,566
Prepaid expenses	–	–	–	2,113
Capital assets, net of accumulated depreciation	4,042,962	–	4,042,962	4,620,173
Total assets	**15,707,167,384**	**53,201,758**	**15,760,369,142**	**13,743,683,685**
Liabilities				
Benefits payable	1,112,734	–	1,112,734	1,095,511
Refunds payable	22,259,768	–	22,259,768	14,368,643
Accounts and administrative expenses payable	10,795,858	5,800,000	16,595,858	20,282,412
Securities lending collateral	2,485,185,205	–	2,485,185,205	1,972,243,566
Due to brokers	415,204,568	–	415,204,568	307,175,069
Total liabilities	**2,934,558,133**	**5,800,000**	**2,940,358,133**	**2,315,165,201**
Net assets held in trust for benefits (an unaudited schedule of funding progress is presented on page 33)	**$ 12,772,609,251**	**$ 47,401,758**	**$ 12,820,011,009**	**$ 11,428,518,484**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For fiscal year ended June 30, 2007, with comparative totals for 2006

	Pension Fund	Health Insurance Fund	Total 2007	Total 2006
Additions:				
Contributions:				
Intergovernmental, net	$ 13,179,750	$ 65,000,000	$ 78,179,750	$ 81,562,706
Employee contributions	179,017,663	–	179,017,663	163,419,386
Minimum funding requirement	90,582,000	–	90,582,000	36,227,000
	282,779,413	65,000,000	347,779,413	281,209,092
Investment income:				
Net appreciation in fair value	1,636,254,566	–	1,636,254,566	804,849,270
Interest	184,871,685	2,373,014	187,244,699	177,029,734
Dividends	156,989,222	–	156,989,222	142,577,238
Miscellaneous	73,354	–	73,354	63,009
Securities lending	7,991,999	–	7,991,999	7,437,548
Less investment expense:				
Investment advisory and custodial fees	(37,125,935)	–	(37,125,935)	(32,791,552)
Securities lending expense	(1,244,540)	–	(1,244,540)	(1,221,869)
	1,947,810,351	2,373,014	1,950,183,365	1,097,943,378
Miscellaneous	1,923	–	1,923	139,509
Total additions	**2,230,591,687**	**67,373,014**	**2,297,964,701**	**1,379,291,979**
Deductions:				
Pension benefits	797,776,955	–	797,776,955	718,487,994
Refunds	30,646,952	–	30,646,952	24,283,009
2.2 Legislative Refunds	5,707,557	–	5,707,557	6,402,290
Refund of insurance premiums	–	61,028,841	61,028,841	58,279,900
Death benefits	2,877,183	–	2,877,183	2,618,057
	837,008,647	61,028,841	898,037,488	810,071,250
Administrative and miscellaneous expenses	8,434,688	–	8,434,688	8,320,340
Total deductions	**845,443,335**	**61,028,841**	**906,472,176**	**818,391,590**
Net increase	1,385,148,352	6,344,173	1,391,492,525	560,900,389
Net assets held in trust for benefits:				
Beginning of period	11,387,460,899	41,057,585	11,428,518,484	10,867,618,095
End of period	**$ 12,772,609,251**	**$ 47,401,758**	**$ 12,820,011,009**	**$ 11,428,518,484**

See accompanying notes to financial statements.

(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 and administrator contributors, and two appointed by the primary 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 necessary functions in compliance with the Illinois Pension Code. As of June 30, 2007 and 2006, the Fund membership consisted of the following:

	2007	2006
Retirees and beneficiaries currently receiving benefits	23,623	22,105
Terminated members entitled to benefits but not yet receiving them	2,752	2,408
Current members:		
Vested	20,594	21,157
Non-vested	12,374	13,525
	59,343	59,195

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 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 of the 4 highest years of salary earned or (2) applying a flat 2.2% to the average of the 4 highest years of 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 the member's 61st birthday or 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 4 highest years of salary in the last 10 years of service or on the average salary for the total service, if less than 4 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 member'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 70% of the individual member's cost for fiscal years 2007and 2006. In accordance with Chapter 40, Act 5, Article 17, Section 17-142.1 of the Illinois Compiled Statutes, 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 government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

(2) Fiscal dependency on the primary government.

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

Basis of Accounting

The Fund's financial statements are prepared using the accrual basis of accounting, following standards promulgated by GASB. Employee and employer contributions are recognized as additions 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.

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. During fiscal year 2006, the Fund's new computer system, Pension Gold, was implemented and the depreciation was computed at 10 years using the straight-line method.

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.

Other Postemployment Benefits

During the year ended June 30, 2007, the Fund implemented Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. As a result, the Fund has adopted the accounting and disclosure requirements related to other postemployment benefits.

(3) Receivables

As of June 30, 2007 and 2006, intergovernmental receivables include contributions due from the Board of Education and appropriations due from the State of Illinois as follows:

	2007	2006
Board of Education —		
Early retirement program	$ 6,670,869	$ 7,034,359
Deficiencies	1,165,231	1,165,231
State of Illinois appropriations	6,273,892	6,655,017
	$ 14,109,992	$ 14,854,607

The Board of Education passed a resolution to offer an early retirement program for fiscal years 2006 and 2007. The Early Retirement Program receivable represents the Board of Education's portion of the early retirement costs.

Employee receivables include the employees' portion of the early retirement costs, retirement contributions deducted from employees' compensation by the employer during the year to be remitted to the Fund, and contributions to be made by employees to upgrade to the 2.2 pension formula. The Employer owed $36,637,474 and $30,746,510, on behalf of the employees, at June 30, 2007 and 2006, respectively. Employees owed the Fund $2,261,336 and $992,333 for the 2.2 formula upgrade at June 30, 2007 and 2006, respectively.

(4) Deposits and Investments

At June 30, 2007, the bank balance and carrying amount of the Fund's deposits amounted to $441,446,466 and $439,470,864, respectively. At June 30, 2006, the bank balance and carrying amount of the Fund's deposits amounted $420,338,013 and $418,269,986, respectively.

The deposits of the Fund are insured or collateralized by securities recorded in the Fund's name and held by the Fund's agent, its master custodian (Northern Trust Bank). The amount of the Fund's bank balance deposits that were exposed to custodial credit risk was $40,176,553 and $28,658,435 at June 30, 2007 and 2006, respectively. The deposits exposed to credit risk are uninsured and uncollateralized and the Fund does not have a deposit policy relating to custodial risk. The following table presents a summarization of the fair values of Fund investments at June 30, 2007 and 2006. 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.

	FAIR VALUE	
	June 30, 2007	June 30, 2006
CATEGORIZED:		
Long-term investments:		
Fixed income securities:		
Government	$ 654,064,465	$ 843,098,239
Corporate	397,873,472	693,452,044
Other miscellaneous	272,217,113	272,848,142
Total fixed income securities	1,324,155,050	1,809,398,425
Equity securities	7,614,210,649	6,395,398,945
Total long-term investments	8,938,365,699	8,204,797,370
NON-CATEGORIZED:		
Real estate	836,970,146	706,998,185
Private equity	309,264,342	259,562,522
Securities lending:		
Investments held by master trustee under securities loans	2,425,173,699	1,937,538,862
Securities lending cash collateral investment pool	2,485,185,205	1,972,243,566
TOTAL INVESTMENTS	**$ 14,994,959,091**	**$ 13,081,140,505**

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 mini-cap domestic equity portfolios established for hedging or risk reduction and not for speculative purposes.

As of June 30, 2007 and 2006, the Fund held forward currency contracts representing agreements to buy or sell U.S. dollars, Japanese yen, U.K. pounds sterling, Euros, Australian dollars, Canadian dollars, Czechoslovakian korunas, Hong Kong dollars, Indonesian rupiah, Mexican pesos, Norwegian kroner, Singapore dollars, and Swiss francs, upon established future dates for agreed-upon prices. These forward currency contracts held by the Fund allow it to lock in future foreign exchange rates, thereby reducing risk stemming from currency fluctuations. As of June 30, 2007 and 2006, the fair values of the obligations under the purchase side of these forward contracts amounted to $30,897,631 and $78,056,942, respectively, and the fair values of the obligations under the sale side of these forward contracts amounted to $30,925,061 and $78,657,796, respectively. As of June 30, 2007, the Fund held 23,683,302 units (18.0%) of three commingled equity trust funds. The total obligation to purchase stocks under the futures contracts held by these commingled funds represented less than 1% of the commingled funds' total assets. As of June 30, 2006, the Fund held 31,726,141 units (2.4%) of four commingled equity trust funds. The total obligation to purchase stocks under the futures contracts held by these commingled funds represented less than 1% of the commingled funds' total assets. The 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 funds, 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 summarization of investment fair values; 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 68 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, 2007	JUNE 30, 2006
Fair value of securities loaned for cash collateral	$ 2,425,173,699	$ 1,937,538,862
Fair value of securities loaned for non-cash collateral	259,713,313	340,752,747
Total fair value of securities loaned	2,684,887,012	2,278,291,609
Fair value of cash collateral from borrowers	2,485,185,205	1,972,243,566
Fair value of non-cash collateral from borrowers	268,834,822	351,085,690
Total fair value of collateral from borrowers	$ 2,754,020,027	$ 2,323,329,256

Foreign Currency Risk

The Fund's exposure to foreign currency risk at June 30, 2007, was as follows:

Currency	Fair Value	%
Argentine Peso	$ 67,727	0.00%
Australian Dollar	38,401,370	1.48%
Brazilian Real	10,326,277	0.40%
Canadian Dollar	31,637,787	1.22%
Swiss Franc	208,866,753	8.04%
Czech Koruna	4,314,277	0.17%
Danish Krone	1,496,923	0.06%
Euro	943,281,608	36.31%
British Pound Sterling	654,735,052	25.20%
Hong Kong Dollar	38,785,043	1.49%
Hungarian Forint	1,334,427	0.05%
Indonesian Rupiah	2,325,736	0.09%
New Israeli Shekel	324,346	0.01%
Indian Rupee	1,657,196	0.06%
Japanese Yen	504,863,436	19.43%
South Korean Won	29,670,253	1.14%
Mexican Peso	14,097,272	0.54%
Malaysian Ringgit	2,013,481	0.08%
Norwegian Krone	17,770,437	0.68%
New Zealand Dollar	6,150,768	0.24%
Philippine Peso	239,527	0.01%
Polish Zloty	6,328	0.00%
Swedish Krona	26,893,285	1.04%
Singapore Dollar	40,317,087	1.56%
Thai Baht	2,719,824	0.11%
Turkish Lira	15,339,342	0.59%
New Taiwan Dollar	102,242	0.00%
South African Rand	80,913	0.00%
Total	**$ 2,597,818,717**	**100.00%**

All foreign currency-denominated investments are in equities and foreign cash. The Fund does not have a formal policy relating to foreign currency risk.

Interest Rate Risk

As of June 30, 2007, the Fund had the following investments and maturities:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Asset Backed Securities	$ 83,671,030	0.53
Commercial Mortgage-Backed	188,546,083	2.42
Corporate Bonds	808,458,798	3.33
Government Agencies	417,549,198	1.00
Government Bonds	732,851,943	2.34
Government Mortgage Backed Securities	453,647,516	1.81
Municipal/Provincial Bonds	11,446,353	0.06
Total	**$2,696,170,921**	**11.49**

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, 2007

S&P Credit Ratings	Asset Backed	Commercial Mortgage Backed	Corporate Bonds	Government Agencies	Government Bonds	Government Mortgage Backed	Municipal Prov. Bonds
AAA	$ 75,676,958	$ 156,163,408	$ 41,204,235	$ 348,518,063	$ 667,686,674	$ 1,011,970	$ —
AA	—	234,288	134,546,886	2,715,422	—	—	5,984,380
A	2,301,301	—	264,476,540	4,701,691	15,905,103	—	3,458,679
BBB	67,452	—	243,925,999	—	12,059,453	—	—
BB	523,430	—	21,915,428	—	—	—	—
B	876,622	—	13,552,202	—	—	—	—
CCC	245,133	—	1,728,687	—	—	—	—
NR	3,980,134	32,148,387	85,670,814	14,999,423	—	2,005,479	2,003,294
U.S. Government Agency	—	—	1,438,007	46,614,599	37,200,713	450,630,067	—
Total Debt Securities	**$83,671,030**	**$188,546,083**	**$808,458,798**	**$417,549,198**	**$732,851,943**	**$453,647,516**	**$11,446,353**

(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 by 2045. In years where the funding rate exceeds 90%, no employer contribution is required. Based upon the actuarial projection at June 30, 2005, and June 30, 2004, the employer and state were required to make contributions in the amount of $90.6 million and $36.2 million in fiscal years 2007 and 2006, respectively.

Member Contributions

Member contributions, established by the Illinois Compiled Statutes, are 9% of the full salary rate, of which 1% applies to survivor's 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 the Fund for Fund employees total $233,450, $197,705 and $201,944 for the years ended June 30, 2007, 2006, and 2005 respectively, which is 100% of the employee contributions required to be made by the Fund.

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 Program

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; and
- 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 member'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.

During the years ended June 30, 2007 and 2006, the Board of Education passed an Early Retirement Option resolution and was required to contribute $7,744,824 and $7,034,359 respectively, for the optional retirement program. During fiscal year 2007, the Board of Education paid the amount due for fiscal year 2006. The unpaid portion of fiscal year 2007 contributions of $6,670,869, is reflected as a receivable in the 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 up to $1,000 per occurrence. The amount of settlements has not exceeded insurance coverage in any of the previous five 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 Chapter 40, Act 5, Article 17, Section 17-142.1, 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 including any interest earned on the unspent balances. Of the net assets available for benefits in the health insurance fund, previous year amounts authorized but not yet expended at June 30, 2007 and 2006, are $47,401,758 and $41,057,585, respectively.

Year Ended June 30, 2006	
Amount available for expenditure at July 1, 2005	$ 31,630,533
Add statutory annual limit	65,000,000
Add cumulative interest since 2003	2,420,040
Add other adjustments	286,912
Less FY 2006 expenditures	(58,279,900)
Amount available for expenditure at June 30, 2006	**$ 41,057,585**

Year Ended June 30, 2007	
Amount available for expenditure at July 1, 2006	$ 41,057,585
Add statutory annual limit	65,000,000
Add interest	2,373,014
Add other adjustments	–
Less FY 2007 expenditures	(61,028,841)
Amount available for expenditure at June 30, 2007	**$ 47,401,758**

(9) Operating Leases

The Fund has a lease agreement in place for its former office space. The lease expires November 30, 2007. The minimum future rental lease payments through November 30, 2007, are $157,330. During fiscal year 2006, the Fund agreed to sub-lease its former office space. The Fund expects to receive $370,250 from the sub-lease during the term of the lease.

During fiscal year 2005, 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 32 monthly periods of "free rent." In conformity with accounting requirements, the Fund will recognize office rent expense on a straight-line basis over the 16-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 1 year as of June 30, 2007, for each of the next 5 years and thereafter is as follows:

Year Ended June 30,	Amount
2008	$ 385,177
2009	462,017
2010	474,675
2011	487,333
2012	499,991
Thereafter	4,966,152
Total minimum future rental payments	**$ 7,275,345**

Rent paid was $405,318 in 2007 and $394,096 in 2006. The Fund received $247,791 from the sublease during fiscal year 2007.

(10) Other Postemployment Benefits

Funded Status

An actuarial valuation of the retiree health insurance benefits provided by the Public School Teachers' Pension and Retirement Fund of Chicago was performed as of June 30, 2007. The purpose of the valuation was to determine the total actuarial liability and annual required contributions for retiree health insurance benefits provided by the Fund, for financial reporting purposes, pursuant to GASB Statement No. 43. Actuarially determined information is presented from a long-term perspective, about the funded status of the health insurance plan and the progress being made in accumulating sufficient assets to pay benefits when due.

The following represents the funded status of the health insurance plan.

Actuarial Liability as of June 30, 2007	
Actuarial Liability for Active Members	$ 933,442,036
Actuarial Liability for Members Receiving Benefits	1,088,565,607
Total Actuarial Liability	$ 2,022,007,643
Less Actuarial Value of Assets	47,401,758
Unfunded Actuarial Liability	$ 1,974,605,885
Funded Ratio	2.3%

The annual covered payroll for funding progress is $1,863,182,086 and the ratio of the total unfunded actuarial accrued liability to annual covered payroll is 106.0%.

Actuarial Methods and Significant Assumptions

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Because actuarial calculations reflect a long-term perspective, actuarially determined amounts are subject to continual revision, as results are compared to past expectations and new estimates made about the future. Calculations are based on the benefits provided under the terms of the health insurance plan as of the June 30, 2007, and the actuarial value of assets is based on the amount of net assets that is segregated on the financial statements for payment of retiree health insurance. See required supplementary information, *Notes to Trend Data - Health Insurance,* for actuarial methods and significant assumptions used.

The required *schedule of funding progress* for the retiree health insurance plan following the notes to the financial statements, presents multi-year trend information about the accrued liability for benefits over time.

Required Supplementary Information

Schedule of Funding Progress (Unaudited)
Pension Fund

June 30, 2007 (in thousands, except for percentages)

Schedule 1

Valuation Date	Net Assets Available for Benefits (A)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	AAL Funding Ratio	Annual Covered Payroll	UAAL as a Percent of Annual Covered Payroll
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
June 30, 2006	10,947,998	14,035,627	3,087,629	78.00	1,944,358	158.80
June 30, 2007(B)	11,759,699	14,677,184	2,917,485	80.12	1,863,182	156.59

(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) Pension benefits only

Schedule of Funding Progress (Unaudited)
Health Insurance

June 30, 2007 (in thousands, except for percentages)

Schedule 2

Valuation Date	Net Assets Available for Benefits (A)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	AAL Funding Ratio	Annual Covered Payroll	UAAL as a Percent of Annual Covered Payroll
June 30, 2006	$ 41,058	$ 2,373,774	$ 2,332,716	1.73%	$ 1,944,358	119.97%
June 30, 2007	47,402	2,022,008	1,974,606	2.34	1,863,182	105.98

Required Supplementary Information

Schedule of Contributions (Unaudited)
Pension Fund
June 30, 2007

Schedule 3

Period Ended	Annual Required	Employer	% of Annual Required	Annual Required	Employee	% of Annual Required	Total Contributions as a % of Annual Required Contributions
	Employer Contributions			Employee Contributions			
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
June 30, 2006	328,365,821	117,789,706	35.87	163,544,149	163,419,386	99.92	57.17
June 30, 2007(A)	311,139,800	103,761,750	33.35	156,716,250	179,017,663	114.23	66.00

(A) Pension benefits only

Schedule of Contributions (Unaudited)
Health Insurance
June 30, 2007

Schedule 4

	Employer Contributions		
	Annual Required Contributions (ARC)	Employer	Employer Contributions as a % of ARC
June 30, 2006	$ 213,315,753	$ 65,000,000	30.47%
June 30, 2007	209,446,107	65,000,000	31.03

Required Supplementary Information

Notes to Trend Data
Pension Fund (Unaudited)

June 30, 2007

Schedule 5

Valuation Date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	30 year level percent of payroll amortization of the unfunded liability
Amortization approach	Open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market value
Actuarial Assumptions:	
Investment rate of return	8% 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
Postretirement benefit increase	3% per year

* *Includes inflation at cost-of-living adjustments*

Notes to Trend Data
Health Insurance (Unaudited)

June 30, 2007

Schedule 6

Valuation Date	June 30, 2007	
Actuarial cost method	Projected unit credit	
Amortization method	30 year level percent of payroll amortization of the unfunded liability	
Amortization approach	Open	
Remaining amortization period	30 years	
Actuarial Assumptions:		
Investment rate of return	5% per year	
Inflation rate	3% per year	
Postretirement benefit increase	2008	5%
	2009	9%
	2010	8%
	2011	7%
	2012	6%
	2013 and later	5%

Administrative and Miscellaneous Expenses

Years ended June 30, 2007 and 2006

Schedule 7

	2007	2006
Salaries	$ 3,815,159	$ 3,617,543
Accrued leave	178,954	248,583
Actuary fees	48,956	47,500
Auditing	46,565	37,500
Banking Fees	17,861	–
Conferences, seminars, and membership dues	13,876	22,910
Consulting	28,630	59,000
Data processing	87,797	–
Depreciation	728,583	537,593
Document imaging	22,483	25,534
Election expense	178,385	220,041
Employees' health insurance	461,990	633,916
Field Services/Pension Rep	80,620	–
Health insurance consulting	33,174	84,323
Insurance premium	36,595	40,918
Legal fees	222,008	189,927
Legislative expense	105,760	100,724
Maintenance of equipment, systems, software, and support	303,581	310,030
Medical fees	59,445	64,075
Office forms and supplies	36,451	64,169
Office rent and utilities	704,629	832,832
Postage	212,044	287,649
Printing and binding	245,947	177,775
Studies and evaluation	3,638	13,701
System Consulting	559,680	382,668
Temporary staffing	11,785	–
Trustee conferences, seminars, and meetings	128,448	88,786
Tuition and training	29,820	19,179
Miscellaneous	31,824	213,464
Total	$ 8,434,688	$ 8,320,340

Schedule of Cash Receipts and Disbursements

Years ended June 30, 2007 and 2006

Schedule 8

	2007	2006
Cash and cash equivalents at beginning of period	$ 418,269,986	$ 391,242,445
Add receipts:		
Member contributions	171,830,735	167,957,444
Public revenues	169,506,365	109,470,722
Interest and dividends	348,847,736	326,375,609
Miscellaneous	–	469,926
Net investment sales/purchases	271,096,972	263,416,747
Total cash receipts	**961,281,808**	**867,690,448**
Less disbursements:		
Benefit payments	800,636,915	721,477,495
Contribution refunds	22,755,827	18,603,730
2.2 contribution refunds	5,707,557	6,402,290
Refund of insurance premiums	55,228,841	52,820,028
Investment and administrative expenses	55,712,393	41,359,364
Miscellaneous	39,397	–
Total cash disbursements	**940,080,930**	**840,662,907**
Net increase in cash and cash equivalents	21,200,878	27,027,541
Cash and cash equivalents at end of period	**$ 439,470,864**	**$ 418,269,986**

Summary Schedule of Manager Fees

Years ended June 30, 2007 and 2006

Schedule 9

	2007	2006
Acadian Asset Management, Inc.	$ 574,682	$ –
Adams Street Partners, LLC	915,674	922,610
Adelante Capital Management, LLC	316,010	23,695
Ariel Capital Management, LLC	662,535	669,443
Attucks Asset Management, LLC	851,753	783,062
Blackstone Group, LP	–	12,291
Brandywine Global Investment Management	298,521	–
Capri Capital Partners, LLC	335,140	194,787
CB Richard Ellis Investors, LLC	292,209	285,314
Chicago Equity Partners, LLC	482,114	533,991
Dimensional Fund Advisors	559,866	549,922
DV Urban Realty Advisors, LLC	312,500	78,125
Earnest Partners, LLC	159,081	–
Fidelity Capital Management Trust Co.	673,057	1,090,398
Fremont Realty Capital, LP	450,000	450,000
HarbourVest Partners, LLC	1,000,000	1,000,000
Harris Investment Management, Inc.	690,500	778,785
Hispania Capital Partners	307,840	316,825
Holland Capital Management, LP	499,661	476,956
ICV Capital Partners, LLC	148,520	140,342
Intercontinental Real Estate Corp.	437,500	437,500
J. & W. Seligman & Co. Incorporated	999,749	1,125,150
J.P. Morgan Fleming Asset Management	1,953,441	1,679,265
Lazard Asset Management, LLC	888,128	792,313
Lehman Brothers Asset Management, LLC	230,022	229,420
LM Capital Group, LLC	131,344	138,044
Lombardia Capital Partners, LLC	466,466	226,066
Lynmar Capital Group, Inc.	357,548	–
Mesirow Financial, Inc.	986,000	1,011,622
MFS Institutional Advisors	1,848,924	1,786,910
Morgan Stanley Investment Management, LP	3,620,112	3,668,475
Muller and Monroe Asset Management, LLC	250,000	250,000

Continued on page 42

Summary Schedule of Manager Fees (Continued)

Years ended June 30, 2007 and 2006

Schedule 9 Continued

	2007	2006
New Amsterdam Partners, LLC	713,911	671,216
Northern Trust Global Investments	1,533,195	1,445,510
Olympus Real Estate Corp.	56,708	188,954
Palladium Equity Partners, LLC	150,000	255,299
Pantheon Ventures, Inc.	655,338	624,296
Pharos Capital Group	187,500	234,597
Piedmont Investment Advisors	322,831	–
Progress Investment Management	863,192	773,898
Prudential Investment Management	1,848,389	1,701,087
RhumbLine Advisers	10,277	–
RREEF America, LLC	540,899	8,890
Smith Graham & Co. Investment Advisors, L.P.	157,543	157,339
Syncom Partners	196,875	–
Taplin, Canida & Habacht, Inc.	200,049	200,362
UBS Global Asset Management	2,716,065	2,511,534
United Investment Managers, Inc.	277,372	–
UrbanAmerica, LP	334,477	–
Urdang Investment Management, Inc.	485,562	574,070
Waddell & Reed Asset Management Co.	524,796	604,940
Walton Street Capital, LLC	885,034	623,435
Western Asset Management	905,940	902,056
William Blair & Company	288,301	–
Zenna Financial Services	14,852	15,988
Zevenbergen Capital Investments, LLC	255,480	237,289
Total manager fees	35,823,483	31,382,071
Mercer - General investment consultant	360,000	380,000
Northern Trust - Master custodian	500,000	477,066
The Townsend Group - Real estate consultant	120,000	120,000
Total consultant fees	980,000	977,066
Fees for foreign exchange and real estate	322,452	432,415
Total	**$ 37,125,935**	**$ 32,791,552**

Summary Schedule of Consultant Payments

Years ended June 30, 2007 and 2006

Schedule 10

	2007	2006
Anselmo & Associates	$ 60,434	$ 57,556
Bansley & Kiener, L.L.P.	46,565	37,500
Bogfire Inc.	36,375	19,030
Bradley Consulting Group, Inc.	570,930	562,910
Cahill Printing Co.	31,907	115,925
Chicago Press Corporation	70,651	105,000
Data Consultants	32,762	27,326
Data Summary, Inc.	–	240
Diamond Graphics	98	21,080
E. M. Barnes & Associates	45,326	43,168
Election Services Corporation	85,550	270,075
Goldstein & Associates	48,956	47,680
Michelle Holleman	49,837	18,695
Imaging Office Systems	31,974	–
Jacobs, Burns, Orlove, Stanton & Hernandez	105,338	114,601
Kirkland & Ellis, LLP	60,518	73,000
Levi, Ray & Shoup, Inc.	277,783	573,812
Microsystems	22,797	25,534
National Data Service of Chicago	250,728	233,464
North Shore Printers	94,451	–
The Segal Company	33,174	84,323
Total	**$ 1,956,154**	**$ 2,430,919**

INVESTMENT

This section includes 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.

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, 2006 through June 30, 2007.

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

By: Kathryn M Stevenson

Kathryn M. Stevenson, Senior Vice President

Kristin Finney-Cooke

MERCER

MARSH MERCER KROLL
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Kristin.FinneyCooke@mercer.com
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December 13, 2007

Board of Trustees
Public School Teachers' Pension and Retirement Fund of Chicago
203 North LaSalle, Suite 2600
Chicago, IL 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, 2007.

As of June 30, 2007, the Fund's market value totaled $12.7 billion, an approximate $1.47 billion increase since June 30, 2006, due primarily to positive investment performance. During the past twelve month period:

- Domestic equity markets produced positive results. The S&P 500 Index, an index of domestic large capitalization stocks, returned 20.6% during the one year period while smaller stocks, as measured by the Russell 2000 Index, rose 16.4%. The largest contributors to performance were technology, integrated oils, materials and processing and utilities.
- Developed international equity markets outperformed their domestic equity counterparts during the one year period, gaining 27.5% as measured by the MSCI EAFE (Europe, Australasia, Far East) Index. Emerging markets were also very strong, advancing 45.5%, as measured by the MSCI Emerging Markets Index.
- Fixed income performance was impacted by the shifts in the bond yield curve. During the year, the yield curve move from a flat and slightly inverted posture to a slightly normalized curve. Investment grade securities posted positive results during the year gaining 6.1% as measured by the Lehman Brothers Aggregate.

Within this environment, the Fund had an absolute return of 17.7% during the 12 month period ending June 30, 2007. This was in-line with the benchmark and the overall peer group performance. Over longer periods the Fund is ahead of the benchmark for both the three and five year time frame while in line relative to its peer group over the same time periods

The Fund's domestic equity managers returned a collective 19.8% during the year ending June 30, approximating the 20.1% Russell 3000 Index return. The domestic equity allocation benefited from the small capitalization equity component, as the managers in this asset class outperformed their peers and the Index return. Additionally, the Funds absolute performance was improved across all capitalization levels by its growth managers.

The Fund's international equity allocation produced the best absolute performance, an impressive 25.2% return, but trailed its benchmark index. Long-term international equity results have been positive.

Given a rising interest rate environment, the fixed income portfolio produced positive results of 6.2%, which was in line with benchmark. Over longer periods, the fixed income portfolio has matched its benchmark.

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.

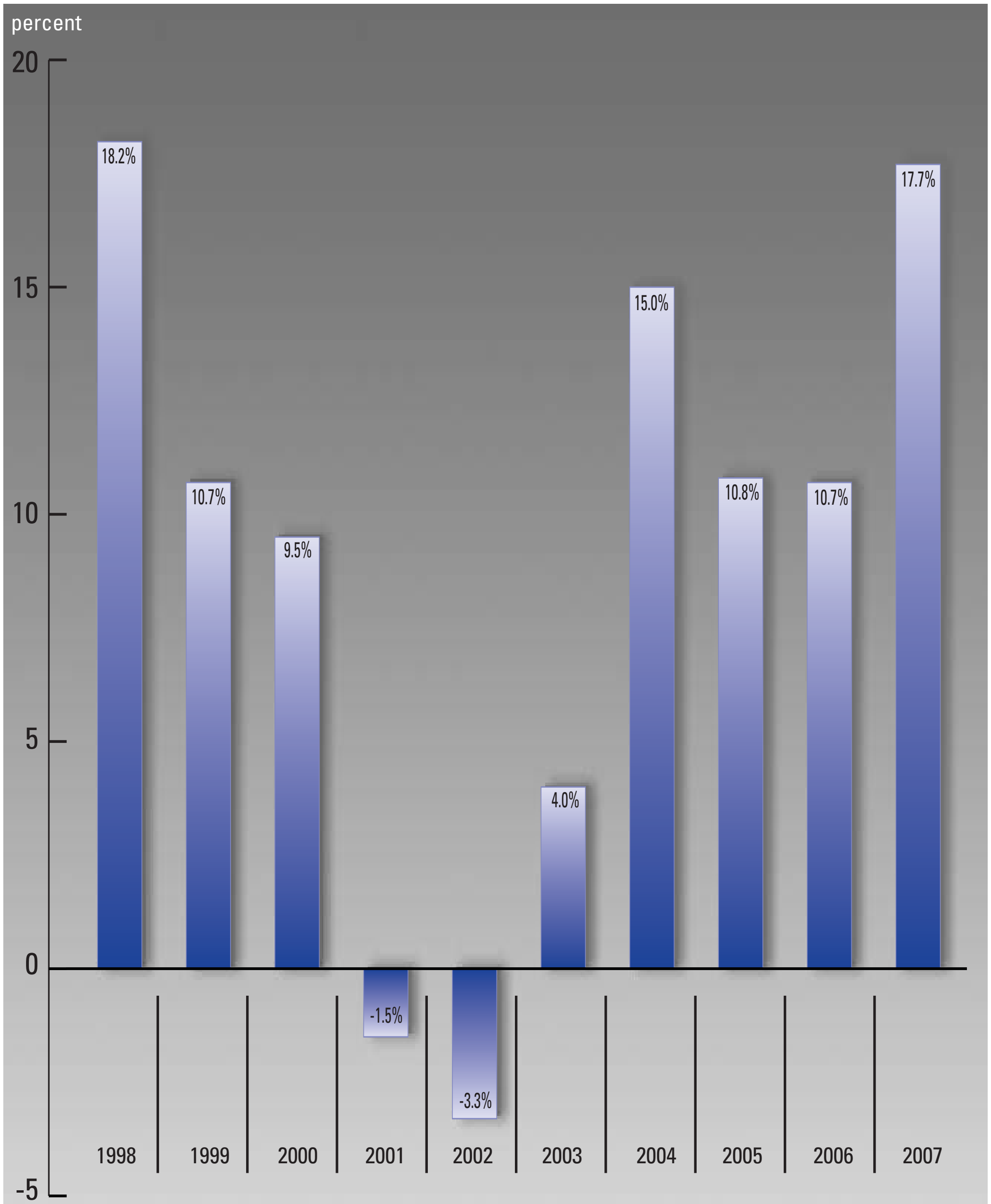
All performance returns for the Public School Teachers' Pension & Retirement Fund of Chicago presented in this report have been calculated by Mercer Investment Consulting based upon a Modified Dietz methodology.

Sincerely,

Kristin R. Finney-Cooke　　　　Douglas J. Kryscio, CFA

Total Annual Fund Rate of Return*

as of June 30, 1998-2007



*Time-weighted rate of return

Schedule of Investment Results

	For the Year Ended June 30, 2003	2004	2005	2006	2007	Annualized Returns 3 Years	5 Years	10 Years
Total Fund	4.0%	15.0%	10.8%	10.7%	17.7%	13.0%	11.5%	9.0%
Large Cap Equity	(0.7)	18.5	8.9	9.8	19.9	12.7	11.0	8.0
Russell 1000 Index	1.0	19.5	7.9	9.1	20.4	12.3	11.3	7.5
S&P 500	0.3	19.1	6.3	8.6	20.6	11.7	10.7	7.1
Mid Cap Equity	(1.1)	28.6	14.3	12.6	18.3	15.1	14.2	n/a
S&P Mid Cap	(0.7)	28.0	14.0	13.0	18.5	15.1	14.2	n/a
Small Cap Equity	1.4	35.7	10.0	12.9	19.7	14.1	15.4	11.2
Russell 2000	(1.7)	33.4	9.4	14.6	16.4	13.4	13.9	9.1
International Equity	(2.7)	30.3	14.5	23.9	25.2	21.1	17.6	10.4
MSCI ACWI ex US	(4.2)	32.5	16.9	28.4	30.1	25.0	19.9	8.6
Fixed Income	11.2	0.2	7.3	(0.9)	6.2	4.1	4.7	6.1
Lehman Brothers Aggregate	10.4	0.3	6.8	(0.8)	6.1	4.0	4.5	6.0
REITs	3.7	25.8	37.7	23.3	20.7	27.0	21.7	21.5
NAREIT	4.0	27.1	32.7	19.1	12.6	21.1	18.6	13.2
Real Estate	7.2	12.0	17.5	20.6	18.5	18.9	15.0	13.6
NCREIF (NPI)	7.6	10.8	18.0	18.7	17.3	18.0	14.4	13.1
Private Equity*	(8.8)%	6.3%	17.6%	27.2%	22.0%	22.1%	12.6%	n/a

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

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

Investment Portfolio Summary

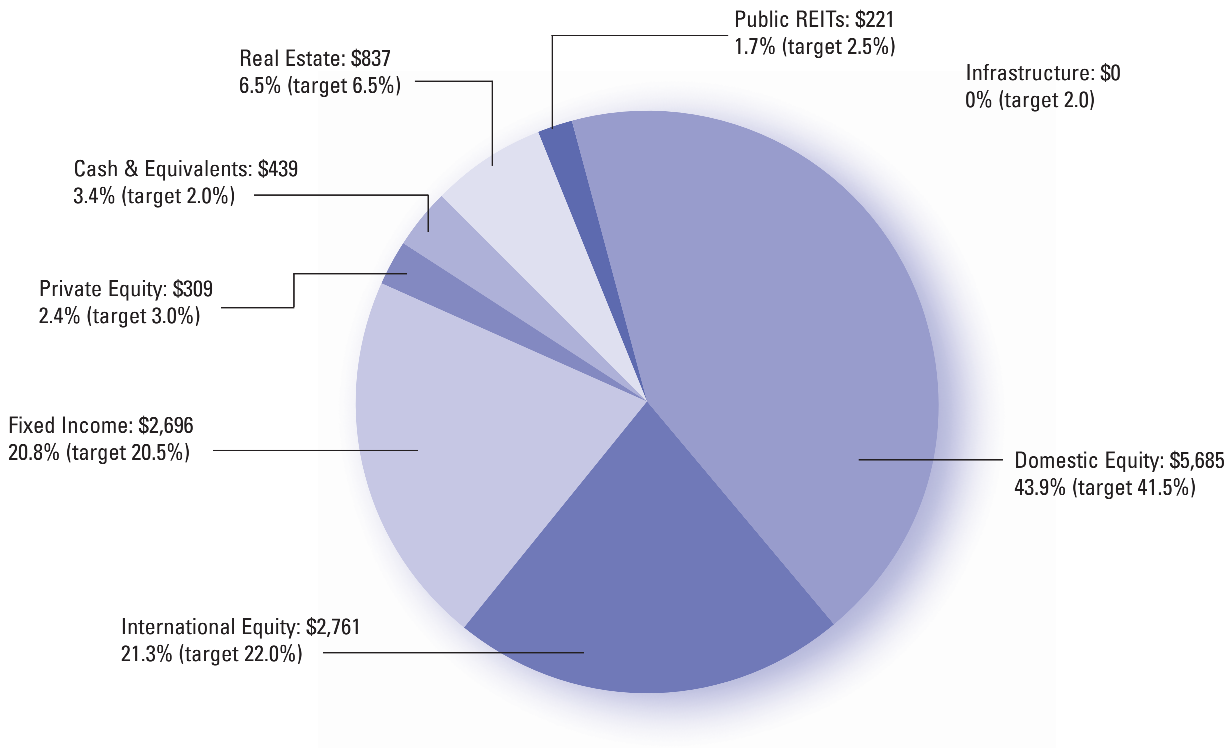
IN MILLIONS OF DOLLARS

	June 30, 2006 Fair Value	Purchases	Sales	Adjustments	June 30, 2007 Fair Value	Percent of Total
Fixed Income						
Government	1,622.2	4,322.3	4,342.4	13.4	1,615.5	12.5%
Corporate	796.7	214.7	208.0	5.1	808.5	6.2
Miscellaneous	272.8	144.9	145.8	0.3	272.2	2.1
Total Fixed Income	2,691.7	4,681.9	4,696.2	18.8	2,696.2	20.8
Equity						
Stocks	7,190.7	4,573.5	4,720.6	1,402.5	8,446.1	65.2
Private Equity	259.6	45.6	33.2	37.3	309.3	2.4
Public REITs	259.8	164.7	237.7	34.4	221.2	1.7
Total Equity	7,710.1	4,783.8	4,991.5	1,474.2	8,976.6	69.3
Real Estate	707.0	118.4	56.8	68.4	837.0	6.5
Cash & Equivalents	418.3	21.1*			439.4	3.4
Total Portfolio	**$ 11,527.1**	**$ 9,605.2**	**$ 9,744.5**	**$ 1,561.4**	**$ 12,949.2**	**100.0%**

**Net of cash receipts and disbursements for year ending 6/30/07*

Asset Allocation as of June 30, 2007

IN MILLIONS OF DOLLARS

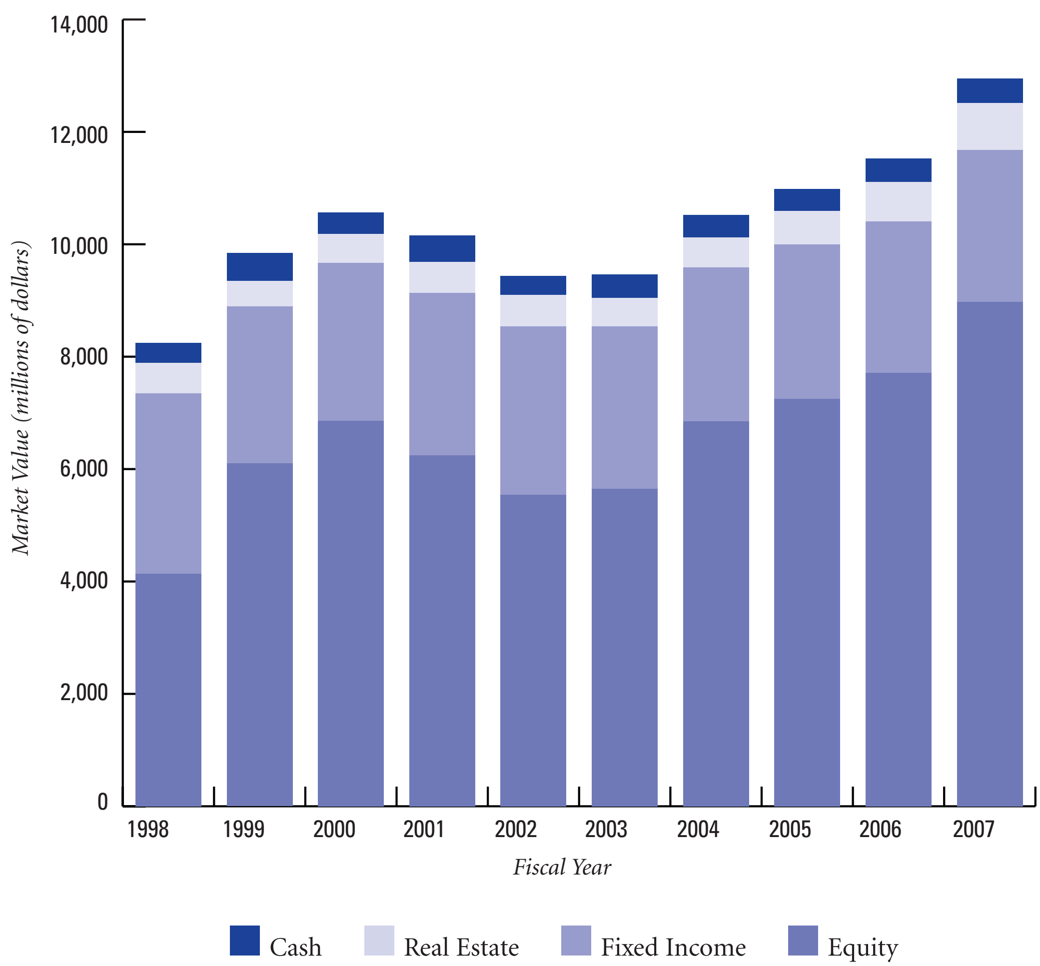


**Note: percentage indicates actual category weight as a percentage of the entire portfolio.*

Historical Asset Allocation

	2003		2004		2005		2006		2007	
	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy
Equity:										
Domestic	46.0	48.5	50.1	48.5	49.3	48.5	47.7	48.5	43.9	41.5
International	10.0	12.5	11.8	12.5	12.8	12.5	14.6	12.5	21.3	22.0
Public REITs	2.6	2.0	1.8	2.0	2.1	2.0	2.3	2.0	1.7	2.5
Private Equity	1.2	2.0	1.4	2.0	1.8	2.0	2.3	2.0	2.4	3.0
Total Equity	59.8	65.0	65.1	65.0	66.0	65.0	66.9	65.0	69.3	69.0
Fixed Income	30.5	28.0	26.0	28.0	24.9	28.0	23.4	28.0	20.8	20.5
Real Estate	5.3	5.0	5.1	5.0	5.5	5.0	6.1	5.0	6.5	6.5
Infrastructure	—	—	—	—	—	—	—	—	—	2.0
Cash & Equiv.	4.4	2.0	3.8	2.0	3.6	2.0	3.6	2.0	3.4	2.0
Total Portfolio	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Historical Asset Allocation by Dollar Amount



Domestic Equity Summary

As of June 30, 2007

Economic Sector Holdings

S&P Economic Sector	Number of Shares	Market Value	Percent of Total	S&P 500 Index Allocation
Financials	26,469,026	$ 1,113,099,558	19.6%	20.9%
Information Technology	38,280,503	937,363,530	16.5	15.5
Industrials	18,611,244	779,836,571	13.7	11.1
Consumer Discretionary	25,042,399	703,736,620	12.4	10.2
Health Care	19,475,891	647,289,091	11.4	11.8
Energy	9,226,206	511,831,156	9.0	10.8
Consumer Staples	8,958,183	405,116,965	7.1	9.3
Materials	5,401,900	221,418,807	3.9	3.1
Utilities	5,379,900	196,249,369	3.4	3.5
Telecommunication Services	5,325,522	162,712,437	2.9	3.8
Miscellaneous	25,313	6,336,459	0.1	0.0
Total Domestic Equity	**162,196,087**	**$ 5,684,990,563**	**100.0%**	**100.0%**

Top 10 Domestic Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
Exxon Mobil Corp.	1,458,396	$ 122,330,272	2.15%
General Electric Co.	2,301,859	88,115,158	1.55
AT&T, Inc.	1,647,552	68,373,390	1.20
Citigroup, Inc.	1,257,853	64,515,305	1.13
Microsoft Corp.	2,130,297	62,779,869	1.10
JP Morgan Chase	1,185,558	57,440,279	1.01
Cisco Systems, Inc.	1,854,182	51,638,959	0.91
Hewlett Packard Co.	1,127,170	50,294,310	0.89
American International Group, Inc.	716,727	50,192,377	0.88
Procter & Gamble Co.	747,959	45,767,625	0.81
Total Top 10 Domestic Equity	**14,427,553**	**661,447,544**	**11.63**
Total Domestic Equity		**$ 5,684,990,563**	**100.00%**

A complete list of the portfolio holdings is available at the pension fund office.

International Equity Summary

as of June 30, 2007

Country Holdings

Country	Number of Shares	Market Value	Percent of Total	MSCI ACWI ex US Index Allocation
Europe				
United Kingdom	57,360,424	$ 647,706,488	23.5%	18.0%
France	4,143,045	301,706,698	10.9	8.1
Germany	2,684,531	210,996,980	7.6	6.5
Switzerland	2,079,300	207,566,852	7.5	5.1
Netherlands	2,974,164	122,664,431	4.4	2.7
Italy	5,736,308	89,264,869	3.2	2.9
Spain	2,269,150	40,958,928	1.5	3.1
Other	16,402,602	289,280,462	10.6	11.9
Total Europe	**93,649,524**	**1,910,145,708**	**69.2**	**58.3**
Asia/Pacific Basin				
Japan	24,642,560	495,712,560	17.9	16.4
South Korea	1,283,915	62,300,547	2.3	2.5
Singapore	13,139,189	37,418,049	1.4	0.8
Australia	3,576,806	33,536,750	1.2	4.8
Other	36,794,638	84,446,761	3.0	7.7
Total Asia/Pacific Basin	**79,437,108**	**713,414,667**	**25.8%**	**32.2**
Americas				
Canada	1,702,055	46,171,040	1.7	6.1
Brazil	185,804,953	35,998,024	1.3	1.8
Mexico	4,246,898	22,145,142	0.8	1.0
Other	4,389,344	33,245,047	1.2	0.6
Total Americas	**196,143,250**	**137,559,253**	**5.0**	**9.5**
Total International Equity	**369,229,882**	**$ 2,761,119,628**	**100.0%**	**100.0%**

Top 10 International Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
Nestle SA (Switzerland)	165,154	$ 62,795,173	2.27%
Reckitt Benckiser (United Kingdom)	914,757	50,196,078	1.82
ENI SPA (Italy)	1,216,082	44,180,009	1.60
BP (United Kingdom)	3,328,791	40,272,683	1.46
Novartis (Switzerland)	700,524	39,438,770	1.43
Imperial Tobacco Group (United Kingdom)	835,156	38,656,445	1.40
Glaxosmithkline (United Kingdom)	1,415,017	37,049,204	1.34
Vodafone Group (United Kingdom)	10,583,989	36,446,728	1.32
Cadbury Schweppes (United Kingdom)	2,567,201	35,687,493	1.29
BNP PARIBAS (France)	291,591	34,796,894	1.26
Total Top 10 International Equity	**22,018,262**	**419,519,477**	**15.19**
Total International Equity		**$ 2,761,119,628**	**100.00%**

A complete list of the portfolio holdings is available at the pension fund office.

Fixed Income Summary

AS OF JUNE 30, 2007

Fixed Income Holdings

Asset Category	Par Value	Market Value	Percent of Total	Lehman Aggregate Index Allocation
Corporate Bonds	$ 757,802,742	$ 807,510,230	30.0%	18.6%
Government Bonds	727,502,000	745,072,980	27.6	23.0
Mortgage Backed	587,173,967	571,347,732	21.2	37.9
Government Agencies	418,050,000	417,549,198	15.5	10.8
Asset Backed Securities	85,743,747	83,671,030	3.1	1.0
Commercial Mortgage Backed	72,358,314	70,845,866	2.6	5.3
Other	216,775,366	173,885	0.0	3.4
Total Fixed Income	**$ 2,865,406,136**	**$ 2,696,170,921**	**100.0%**	**100.0%**

Real Estate Summary

AS OF JUNE 30, 2007

Real Estate Holdings

Description	Number of Shares	Market Value	Percent of Total
JP Morgan Strategic Property Fund	118,859	$ 207,296,235	24.8%
UBS Real Estate Separate Account	104,509,707	191,771,124	22.9
Prudential Real Estate Separate Account I	4,183	152,351,995	18.2
Prudential Real Estate Separate Account II	2,944	66,585,656	8.0
Intercontinental Real Estate Investment Fund III	35,879,397	40,178,129	4.8
CB Richard Ellis Strategic Partners III	32,182,285	39,626,342	4.7
Walton Street Real Estate Fund IV	22,952,811	34,630,707	4.1
Walton Street Real Estate Fund V	26,417,080	26,915,916	3.2
Capri Select Income II	21,016,000	21,444,875	2.6
Fremont Strategic Property Partners II	16,602,835	15,804,766	1.9
Walton Street Real Estate Fund II	9,244,763	10,475,842	1.3
Walton Street Real Estate Fund III	6,384,694	9,355,348	1.1
RREEF Global Opportunities Fund II	9,939,713	9,189,719	1.1
Urban America II	3,564,951	3,564,951	0.4
DV Urban Realty Partners I	4,374,720	3,190,744	0.4
Olympus Real Estate Fund II	11,363,889	3,171,383	0.4
Walton Street Real Estate Fund I	2,372,241	980,653	0.1
RREEF America REIT I	773,536	322,340	0.0
Capital Associates Apartment Fund	1	109,525	0.0
Morgan Stanley Office Opportunity Fund C	233,571	3,896	0.0
Total Real Estate	**307,938,180**	**$ 836,970,146**	**100.0%**

A complete list of the portfolio holdings is available at the pension fund office.

Public REITs Summary

as of June 30, 2007

Public REITs Holdings

Property Type	Number of Shares	Market Value	Percent of Total	NAREIT Property Index Allocation
Multifamily	1,017,748	$ 44,751,502	20.2%	17.4%
Office	1,389,259	42,287,216	19.1	13.8
Regional Malls	477,754	31,327,685	14.1	13.6
Hotel	1,090,556	29,194,786	13.2	8.8
Shopping Centers	1,436,728	20,187,318	9.1	10.5
Industrial	731,869	13,708,304	6.2	7.2
Diversified	424,853	12,322,403	5.6	7.3
Health Care	403,184	7,223,066	3.3	6.5
Self Storage	504,251	6,650,898	3.0	4.6
Mixed Use - Office/Industrial	760,880	5,887,182	2.7	3.1
Specialty	94,745	4,325,643	2.0	4.6
Other	381,453	2,042,168	0.9	2.0
Manufactured Homes	19,158	1,350,115	0.6	0.6
Total Public REITs	**8,732,438**	**$ 221,258,286**	**100.0%**	**100.0%**

Top 10 Public REITs Holdings

Description	Number of Shares	Market Value	Percent of Total
Simon Property Group, Inc.	158,154	$ 14,714,648	6.65%
Equity Residential Properties Trust	273,582	12,483,547	5.64
Brookfield Properties Corp.	398,117	9,678,224	4.37
AvalonBay Communities, Inc.	80,064	9,518,008	4.30
Vornado Realty Trust	83,655	9,188,665	4.15
Host Hotels and Resorts, Inc.	388,377	8,979,276	4.06
Boston Properties, Inc.	77,919	7,957,868	3.60
Starwood Hotels and Resorts Worldwide, Inc.	106,086	7,115,188	3.22
SL Green Realty Corp.	50,804	6,294,108	2.85
BRE Properties, Inc.	105,315	6,244,126	2.82
Total Top 10 Public REITs	**1,722,073**	**92,173,658**	**41.66**
Total Public REITs		**$ 221,258,286**	**100.00%**

A complete list of the portfolio holdings is available at the pension fund office.

Private Equity Summary

as of June 30, 2007

Private Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
HarbourVest Partners VI - Buyout Partnership Fund	29,774,635	$ 54,535,152	17.6%
Mesirow Partnership Fund II	21,822,457	34,551,900	11.2
HarbourVest Partners VI - Partnership Fund	23,304,663	29,230,814	9.5
Pantheon USA Fund IV	21,863,986	27,625,895	8.9
Mesirow Partnership Fund I	19,471,811	27,496,373	8.9
Pantheon USA Fund III	27,135,528	15,059,906	4.9
Pantheon Europe Fund II	1,127,923	14,219,041	4.6
Brinson Partnership - 2002 Primary Fund	8,450,503	13,946,113	4.5
Brinson Partnership - 2003 Primary Fund	9,593,212	13,620,906	4.4
Brinson Partnership - 2001 Primary Fund	9,427,875	12,289,950	4.0
Brinson Partnership - 2004 Primary Fund	5,156,004	7,524,054	2.4
Brinson Partnership - 2000 Primary Fund	5,146,485	6,494,038	2.1
Brinson Partnership - 2004 Non-US Primary Fund	3,390,118	5,595,425	1.8
Brinson Partnership - 2002 Non-US Primary Fund	2,717,055	5,092,864	1.7
Illinois Private Equity Fund of Funds	5,897,783	4,857,214	1.6
Mesirow Capital Partners IX	5,200,000	4,809,996	1.6
Brinson Partnership - 2003 Non-US Primary Fund	1,684,585	3,545,296	1.2
Pharos Capital Partners II-A	3,487,500	3,216,319	1.0
Brinson Partnership - 2002 Secondary Fund	1,738,157	3,043,489	1.0
Brinson Partnership - 1998 Primary Fund	3,626,923	2,915,621	0.9
Palladium Equity Partners III	2,806,037	2,854,973	0.9
Adams Street Partnership - 2005 US Fund	2,623,012	2,802,075	0.9
Mesirow Capital Partners VIII	2,814,411	2,635,653	0.9
Brinson Partnership - 1999 Primary Fund	2,761,171	2,220,664	0.7
Brinson Partnership - 2001 Non-US Primary Fund	798,675	1,641,215	0.5
Brinson Partnership - 2003 Secondary Fund	493,008	1,247,712	0.4
Adams Street Partnership - 2005 Non-US Fund	1,088,639	1,222,697	0.4
Hispania Private Equity	1,774,563	1,167,994	0.4
ICV Partners II	1,142,136	815,774	0.3
Syndicated Communications Venture Partners V	978,740	753,561	0.2
Brinson Partnership - 2002 Non-US Secondary Fund	368,231	671,865	0.2
Brinson Partnership - 2004 Non-US Secondary Fund	410,774	614,969	0.2
Brinson Partnership - 2003 Non-US Secondary Fund	190,830	380,865	0.1
Brinson Partnership - 1996 Fund	607,527	378,797	0.1
Brinson Partnership - 1997 Primary Fund	267,394	146,133	0.0
Brinson Partnership - 1998 Secondary Fund	20,979	39,029	0.0
Total Private Equity	**229,163,330**	**$ 309,264,342**	**100.0%**

A complete list of the portfolio holdings is available at the pension fund office.

Asset Category	Market Value 6/30/2007	Percentage of Portfolio	FY 2007 Manager Fees
Equity			
Domestic Equity			
Ariel Capital Management	$ 214,839,440	1.7%	$ 662,535
Attucks Asset Management	136,876,196	1.1	851,753
Chicago Equity Partners	179,197,053	1.4	482,114
Dimensional Fund Advisors	112,802,023	0.9	559,866
Fidelity Capital Management Trust Co.	318,366,638	2.4	673,057
Harris Investment Management	277,909,498	2.1	690,500
Holland Capital Management	141,064,214	1.1	499,661
J. & W. Seligman & Co.	284,096,396	2.2	999,749
Lombardia Capital Partners	139,506,137	1.1	466,466
Lynmar Capital Group	55,923,385	0.4	357,548
New Amsterdam Partners	287,562,205	2.2	713,911
Northern Trust Global Investments	2,122,362,468	16.4	1,388,364
Piedmont Investment Advisors	116,699,874	0.9	322,831
Progress Investment Management	141,650,448	1.1	863,192
RhumbLine Advisers	501,470,850	3.9	10,277
UBS Global Asset Management	275,876,103	2.1	814,753
Waddell & Reed Asset Management	305,208,569	2.3	524,796
Zevenbergen Capital Investments	71,403,281	0.6	255,480
Other Holdings	2,175,785	0.0	14,852
Total	**5,684,990,563**	**43.9**	**11,151,705**
International Equity			
Acadian Asset Management	432,731,726	3.3	574,682
Brandywine Global Investment Management	198,486,905	1.5	298,521
Earnest Partners	102,812,668	0.8	159,081
Lazard Asset Management	609,650,069	4.7	888,128
MFS Institutional Advisors	445,617,546	3.5	1,848,924
Morgan Stanley Investment Management	762,979,994	5.9	2,865,430
United Investment Managers	106,193,152	0.8	277,372
William Blair & Company	102,647,568	0.8	288,301
Total	**2,761,119,628**	**21.3**	**7,200,439**
Public REITs			
Adelante Capital Management	48,513,824	0.4	316,010
Morgan Stanley Investment Management	93,831,460	0.7	754,682
Urdang Investment Management	78,913,002	0.6	485,562
Total	**$ 221,258,286**	**1.7%**	**$ 1,556,254**

Continued on page 59

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Asset Category	Market Value 6/30/2007	Percentage of Portfolio	FY 2007 Manager Fees
Private Equity			
Adams Street Partners	$ 85,433,777	0.7%	$ 915,674
HarbourVest Partners	83,765,966	0.7	1,000,000
Hispania Capital Partners	1,167,994	0.0	307,840
ICV Capital Partners	815,774	0.0	148,520
Mesirow Financial	69,493,922	0.5	986,000
Muller and Monroe Asset Management	4,857,214	0.1	250,000
Palladium Equity Partners	2,854,973	0.0	150,000
Pantheon Ventures	56,904,842	0.4	655,338
Pharos Capital Group	3,216,319	0.0	187,500
Syncom Partners	753,561	0.0	196,875
Total	**309,264,342**	**2.4**	**4,797,747**
Total Equity	**8,976,632,819**	**69.3**	**24,706,145**
Fixed Income			
Lehman Brothers Asset Management	445,567,702	3.4	$230,022
LM Capital Group	60,352,403	0.5	131,344
Northern Trust Global Investments	1,402,876,638	10.8	144,831
Smith Graham & Co.	63,211,207	0.5	157,543
Taplin, Canida and Habacht	116,513,357	0.9	200,049
Western Asset Management	607,647,690	4.7	905,940
Other Holdings	1,924	0.0	0
Total	**2,696,170,921**	**20.8**	**1,769,729**
Real Estate			
Capri Capital Partners	21,554,400	0.2	335,140
CB Richard Ellis Investors	39,626,342	0.3	292,209
DV Realty Advisors	3,190,744	0.0	312,500
Fremont Realty Capital	15,804,766	0.1	450,000
Intercontinental Real Estate Corp.	40,178,129	0.3	437,500
J.P. Morgan Fleming Asset Management	207,296,235	1.6	1,953,441
Morgan Stanley Investment Management	3,896	0.0	0
Olympus Real Estate Partners	3,171,383	0.0	56,708
Prudential Investment Management	218,937,651	1.7	1,848,389
RREEF America	9,512,059	0.1	540,899
UBS Global Asset Management	191,771,124	1.5	1,901,312
Urban America	3,564,951	0.0	334,477
Walton Street Capital	82,358,466	0.7	885,034
Total	**836,970,146**	**6.5**	**9,347,609**
Cash & Equivalents			
Northern Trust	439,470,864	3.4	0
Grand Total	**$ 12,949,244,750**	**100.0%**	**$ 35,823,483**

Broker Commission Report

Domestic Agency Trades for the Year Ended June 30, 2007

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets, LLC	12,750,971	$ 475,400	$ 0.037
Cabrera Capital Markets, Inc.	11,054,757	443,742	0.040
Gardner Rich & Co.	5,171,628	240,854	0.047
Melvin Securities, LLC	3,525,434	177,542	0.050
Williams Capital Group, L.P.	3,100,563	135,288	0.044
Lehman Brothers, Inc.	1,808,251	132,056	0.073
Cheevers & Co., Inc.	2,712,842	120,929	0.045
Liquidnet, Inc.	4,390,136	118,774	0.027
Siebert Capital Markets	2,161,711	118,650	0.055
M. Ramsey King Securities, Inc.	2,570,209	118,622	0.046
M.R. Beal & Company	2,194,227	105,827	0.048
Jackson Securities	2,265,539	103,645	0.046
Investment Technology Group (ITG)	4,964,785	100,566	0.020
Nutmeg Securities, Ltd.	2,111,234	99,783	0.047
Bear, Stearns & Co.	2,071,327	93,802	0.045
Pryor Doley Securities	2,813,688	92,655	0.033
Goldman Sachs & Co.	1,893,603	71,669	0.038
Interstate Group	1,383,363	68,817	0.050
Stifel, Nicolaus & Co., Inc.	2,683,770	68,604	0.026
Magna Securities Corp.	1,267,250	66,625	0.053
Merrill Lynch & Co., Inc.	1,298,136	58,059	0.045
Morgan Stanley & Co.	924,249	51,949	0.056
Instinet Corp.	3,460,113	49,889	0.014
Credit Suisse First Boston	1,137,463	46,325	0.041
Pacific American Securities, LLC	977,387	37,916	0.039
Jefferies & Co.	641,773	37,408	0.058
Weeden & Co.	799,666	35,446	0.044
Jones & Associates, Inc.	771,677	33,567	0.043
Divine Capital Markets, LLC	558,013	29,970	0.054
Bank of America Securities, LLC	473,115	28,276	0.060
Morgan Keagan & Company	564,182	28,045	0.050
Podesta & Co.	810,476	27,049	0.033
J.P. Morgan Securities, Inc.	463,778	25,994	0.056
SBK-Brooks Investment Corp.	619,341	25,007	0.040
Guzman & Co.	532,430	23,684	0.044
Bank of New York, Inc.	580,980	23,559	0.041
Reynolds T.P. Securities	505,050	22,254	0.044
BOE Securities, Inc.	575,953	21,462	0.037
Deutsche Bank Securities	579,534	21,321	0.037
Others (137 Brokers)	15,621,780	658,506	0.042
Total	**104,790,384**	**$ 4,239,536**	**$ 0.040**

Broker Commission Report

International Agency Trades for the Year Ended June 30, 2007

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Credit Suisse First Boston	9,368,392	$ 204,907	$ 0.022
Cabrera Capital Markets, Inc.	9,942,302	136,529	0.014
Goldman Sachs & Co.	6,664,484	134,328	0.020
Deutsche Bank Securities	5,158,472	125,644	0.024
Gardner Rich & Co.	6,159,539	115,191	0.019
J.P. Morgan Securities, Inc.	3,598,242	97,776	0.027
ABN Amro	11,443,526	83,639	0.007
Lehman Brothers, Inc.	6,774,684	83,341	0.012
Morgan Stanley & Co.	3,965,731	74,451	0.019
Jackson Securities	2,724,088	65,893	0.024
M. Ramsey King Securities, Inc.	2,871,749	63,070	0.022
Melvin Securities, LLC	1,779,833	62,490	0.035
Merrill Lynch & Co., Inc.	4,260,264	59,715	0.014
Nomura Securities International, Inc.	2,396,877	53,662	0.022
Divine Capital Markets, LLC	1,568,818	49,680	0.032
Lambright Financial Solutions, LLC	615,400	44,300	0.072
Credit Lyonnaise Securities	1,802,206	43,515	0.024
Citigroup Capital Markets	1,929,815	36,460	0.019
BOE Securities, Inc.	788,236	35,139	0.045
Sanford C. Bernstein & Co., LLC	1,296,161	31,808	0.025
Macuire Equities	2,818,747	31,101	0.011
HSBC Securities	672,224	26,456	0.039
UBS Securities	2,212,040	24,674	0.011
Dresdner Kleinwort Benson	858,834	24,640	0.029
Bear, Stearns & Co.	875,123	23,163	0.026
Loop Capital Markets, LLC	456,421	18,314	0.040
Redburn Partners, LLP	1,249,967	17,054	0.014
Daiwa Securities	499,420	16,750	0.034
M.R. Beal & Company	296,823	16,431	0.055
Investec	591,600	12,989	0.022
Liquidnet, Inc.	691,925	11,547	0.017
Mizuho Financial Group	418,204	11,026	0.026
Mitsubishi Securities	425,153	10,993	0.026
Execution, Ltd.	575,985	9,722	0.017
Williams Capital Group, L.P.	257,209	9,552	0.037
Brockhouse & Copper	2,265,817	8,658	0.004
Guzman & Co.	168,700	8,613	0.051
Credit Agricole	142,492	8,431	0.059
Intermonte	173,223	7,977	0.046
Others (41 Brokers)	7,722,130	101,880	0.013
Total	**108,480,856**	**$ 2,001,509**	**$ 0.018**

Directed Brokerage Program

for the Year Ended June 30, 2007

Domestic Local Minority and Women Owned Brokers

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets, LLC	12,750,971	$ 475,400	$ 0.037
Cabrera Capital Markets, Inc.	11,054,757	443,742	0.040
Gardner Rich & Co.	5,171,628	240,854	0.047
Melvin Securities, LLC	3,525,434	177,542	0.050
Williams Capital Group, L.P.	3,100,563	135,288	0.044
Cheevers & Co., Inc.	2,712,842	120,929	0.045
Siebert Capital Markets	2,161,711	118,649	0.055
M. Ramsey King Securities, Inc.	2,570,209	118,622	0.046
M.R. Beal & Company	2,194,227	105,827	0.048
Jackson Securities	2,265,539	103,645	0.046
Nutmeg Securities, Ltd.	2,111,234	99,783	0.047
Pryor Doley Securities	2,813,688	92,655	0.033
Magna Securities Corp.	1,267,250	66,624	0.053
Pacific American Securities, LLC	977,387	37,916	0.039
Divine Capital Markets, LLC	558,013	29,970	0.054
Podesta & Co.	810,476	27,049	0.033
SBK-Brooks Investment Corp.	619,341	25,007	0.040
Guzman & Co.	532,430	23,684	0.044
BOE Securities, Inc.	575,953	21,462	0.037
Benchmark Financial Services	497,490	19,714	0.040
Ramirez & Co.	570,548	18,397	0.032
Acento Securities, LLC	189,411	7,972	0.042
Lambright Financial Solutions, LLC	70,200	3,424	0.049
Total Directed Domestic Brokerage	**59,101,302**	**2,514,155**	**0.043**
Total Domestic Brokerage	**104,790,384**	**$ 4,239,536**	**$ 0.040**

Directed Brokerage Program

for the Year Ended June 30, 2007

International Local Minority and Women Owned Brokers

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Cabrera Capital Markets, Inc.	9,942,302	$ 136,529	$ 0.014
Gardner Rich & Co.	6,159,539	115,191	0.019
Jackson Securities	2,724,088	65,893	0.024
M. Ramsey King Securities, Inc.	2,871,749	63,070	0.022
Melvin Securities, LLC	1,779,833	62,490	0.035
Divine Capital Markets, LLC	1,568,818	49,680	0.032
Lambright Financial Solutions, LLC	615,400	44,300	0.072
BOE Securities, Inc.	788,236	35,139	0.045
Loop Capital Markets, LLC	456,421	18,314	0.040
M.R. Beal & Company	296,823	16,431	0.055
Williams Capital Group, L.P.	257,209	9,552	0.037
Guzman & Co.	168,700	8,613	0.051
Magna Securities Corp.	4,700	188	0.040
Total Directed International Brokerage	**27,633,818**	**625,390**	**0.023**
Total International Brokerage	**108,480,856**	**$ 2,001,509**	**$ 0.018**

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

This section includes the actuarial reports and summarizes actuarial liability and unfunded actuarial liability. Schedules of data summarizing information about members and beneficiaries, actuarial assumptions, and a glossary of terms are also included.

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

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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 valuations of the Public School Teachers' Pension and Retirement Fund of Chicago (the Fund) as of June 30, 2007. We performed the following actuarial valuations: (1) an actuarial valuation of the pension benefits provided under the fund for financial reporting purposes pursuant to GASB Statement No. 25, (2) an actuarial valuation of the retiree health insurance benefits provided under the fund for financial reporting purposes pursuant to GASB Statement No. 43, and (3) a combined actuarial valuation of the pension and retiree health insurance benefits provided under the fund to determine the contribution requirements of the fund under the funding plan established by Public Act 89-15 and Public Act 90-548 .

This is the first year that we have performed separate actuarial valuations of pension benefits for GASB Statements No. 25 and of retiree health insurance benefits for GASB Statement No. 43. The actuarial assumptions and actuarial methods used for these valuations are indicated in the actuarial reports that we prepared based on these valuations.

Since the effective date of the last combined actuarial valuation, there have not been any changes in benefit provisions that have had an impact on the actuarial liabilities and costs of the fund.

Based on the results of the June 30, 2007 combined 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 2009 to be $177,798,000.

The same actuarial assumptions were used for the June 30, 2007 combined actuarial valuation as had been used for the June 30, 2006 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, 2007 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2006 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 and GASB Statement No. 43. 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 and GASB Statement No. 43.

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, 2007.

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 — Pension Fund

We have carried out an actuarial valuation of the Public School Teachers' Pension and Retirement Fund of Chicago. The purpose of the valuation was to determine the financial position and annual required contribution of the Fund for reporting purposes pursuant to GASB Statement No. 25. According to GASB Statement No. 25, postemployment healthcare benefits provided by the fund are not included in this valuation. Pursuant to GASB Statement No. 43, postemployment health care benefits were valued separately and the results of that valuation are presented separately.

This report is intended to present the results of the valuation of the pension benefits provided under the fund. The results of the valuation are summarized below:

1. Total Actuarial Liability	$ 14,677,184,345
2. Actuarial Value of Assets	11,759,699,063
3. Unfunded Actuarial Liability	2,917,485,282
4. Funded Ratio	80.1%
5. Employer's Normal Cost for FY 08 as a percent of payroll	6.71%
6. Annual Required Contribution for FY 08 Based on GASB Statement No. 25	290,072,885
7. Board of Education Contribution Requirement For FY 09 Based on Public Act 89-15 and Public Act 90-548	$ 177,798,000

B. Data Used for the Pension Fund 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, 2007, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 32,968 active contributors, 23,623 pensioners, and 2,752 vested terminated members included in the valuation. The total active payroll as of June 30, 2007, was $1,863,182,086.

Exhibit 1 Summary of Membership Data

1. Number of Members	
(a) Active Members	
(i) Vested Employees	20,594
(ii) Non-vested Employees	12,374
Total Active Members	**32,968**
(b) Members Receiving	
(i) Retirement Pensions	20,660
(ii) Disability Pensions	448
(iii) Survivor Pensions	2,515
Total Pensioners	**23,623**
(c) Vested Terminated Members	2,752
Total	**59,343**
2. Total Annual Salaries	$ 1,863,182,086
Average Salary	56,515
3. Total Accumulated Contributions of Active Members	$ 1,289,062,329

Continued on following page

(Exhibit 1 continued from page 69)

4. Annual Benefit Payments Currently Being Made	
(a) Retirement Pensions	$ 807,145,067
(b) Disability Pensions	12,124,815
(c) Survivor Pensions	35,049,958
Total Pensions	**$ 854,319,840**

An age and service distribution for active members is provided in Exhibit 2.

Exhibit 2 Age and Service Distribution of Active Members

2007 Number of Members and Average Salaries by Age and Service Grouping

(Male and Female Combined)

	Years of Service									
Age	<1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35+	Total
Under 25	385	794	1	0	0	0	0	0	0	1,180
Average Salary	$23,814	40,690	55,773	0	0	0	0	0	0	$ 35,197
25-29	626	3,482	769	0	0	0	0	0	0	4,877
Average Salary	$27,745	45,444	53,837	0	0	0	0	0	0	$44,496
30-34	341	2,087	2,091	321	0	0	0	0	0	4,840
Average Salary	$26,642	46,151	55,574	66,387	0	0	0	0	0	$50,190
35-39	247	1,111	1,397	1,235	191	0	0	0	0	4,181
Average Salary	$25,161	44,821	56,440	67,563	73,629	0	0	0	0	$55,575
40-44	189	683	729	847	610	99	0	0	0	3,157
Average Salary	$24,307	45,140	56,498	67,651	71,245	73,311	0	0	0	$58,483
45-49	178	593	630	735	551	481	98	1	0	3,267
Average Salary	$24,704	41,728	56,619	66,694	71,308	74,080	77,148	54,529	0	$60,107
50-54	161	506	586	710	661	581	517	497	6	4,225
Average Salary	$23,601	39,964	54,303	66,911	69,993	72,869	72,972	75,872	93,206	$63,419
55-59	143	421	492	652	722	554	388	923	342	4,637
Average Salary	$25,552	37,783	53,238	65,009	70,676	72,481	74,118	79,583	89,834	$67,341
60-64	81	208	208	274	327	240	153	194	274	1,959
Average Salary	$19,454	38,048	48,511	67,810	70,472	73,380	76,960	81,110	84,071	$66,034
65-69	36	55	52	72	67	45	33	47	66	473
Average Salary	$28,442	25,364	50,753	61,500	72,470	76,608	75,564	84,828	80,078	$62,483
70+	25	27	16	14	22	7	11	15	35	172
Average Salary	$19,377	29,509	33,435	57,175	63,772	75,021	82,977	71,791	77,060	$53,671
Members	2,412	9,967	6,971	4,860	3,151	2,007	1,200	1,677	723	32,968
Average Salary	$25,442	$43,992	$55,178	$66,826	$70,901	$73,226	$74,355	$78,722	$86,169	$56,515

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, 2007, prepared by the Fund. The actuarial value of assets was determined by smoothing unexpected gains or losses over a period of four years. The resulting actuarial value of assets is $11,759,699,063. The development of this actuarial value of assets is outlined in Exhibit 3. As of June 30, 2007, the market value of the assets of the fund for pension benefits amounted to $12,772,609,251.

Exhibit 3 Actuarial Value of Assets

A. Development of Investment Gain/(Loss) for Year Ending June 30, 2007	
1. Actuarial Value of Assets as of 6/30/06	$ 10,947,998,433
2. Employer Contributions	168,763,673
3. Employee Contributions	179,017,663
4. Expenses	906,472,176
5. Expected Investment Income	853,922,162
6. Actual Investment Income	1,950,183,365
7. Investment Gain/(Loss) (6 – 5)	$ 1,096,261,203
B. Development of Actuarial Value of Assets	
8. Expected Value of Assets as of June 30, 2007 (1 + 2 + 3 – 4 + 5)	$ 11,243,229,755
9. One-fourth of Investment Gain/(Loss) for Year Ending June 30, 2004	163,987,576
10. One-fourth of Investment Gain/(Loss) for Year Ending June 30, 2005	56,194,654
11. One-fourth of Investment Gain/(Loss)for Year Ending June 30, 2006	69,623,535
12. One-fourth of Investment Gain/(Loss) for Year Ending June 30, 2007	274,065,301
13. Total Actuarial Value of Assets as of 6-30-07 (8 + 9 + 10 + 11 + 12)	**$ 11,807,100,821**
14. Assets For Retiree Health Insurance Benefits	47,401,758
15. Actuarial Value of Assets for Pension Benefits (13 – 14)	**$ 11,759,699,063**

C. Fund Provisions

Our valuation was based on the provisions of the Fund in effect as of June 30, 2007, 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, 2007, actuarial valuation are the same as those used for the June 30, 2006, valuation. The actuarial assumptions used for the June 30, 2007, 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, 2007, actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2006, valuation.

E. Actuarial Liability

The actuarial liability as determined under the valuation for the various classes of members is summarized in Exhibit 4. 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, 2007, the total actuarial liability is $14,677,184,345, the actuarial value of assets is $11,759,699,063, and the unfunded liability is $2,917,485,282. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 80.1%.

Exhibit 4 Actuarial Liability as of June 30, 2007

1. Actuarial Liability for Active Members	
(a) Basic Retirement Annuity	$ 3,099,748,179
(b) Post Retirement Increase	813,485,274
(c) Lump Sum Death Benefit	9,823,142
(d) Survivor's Pension	321,944,663
(e) Disability Pension	87,024,625
(f) Withdrawal Benefit	219,272,803
Total	**$ 4,551,298,686**
2. Actuarial Liability for Members Receiving Benefits	
(a) Retirement Pensions	$ 9,515,767,481
(b) Survivor Pensions	331,667,530
(c) Disability Pensions	140,281,663
Total	**$ 9,987,716,674**
3. Actuarial Liability for Inactive Members	138,168,985
4. Total Actuarial Liability	**$ 14,677,184,345**
5. Actuarial Value of Assets	11,759,699,063
6. Unfunded Actuarial Liability	**$ 2,917,485,282**
7. Funded Ratio	80.1%

F. Employer's Normal Cost

The employer's share of the normal cost for pension benefits for the year beginning July 1, 2007, is developed in Exhibit 5. The total normal cost is $281,656,407, employee contributions are estimated to be $156,716,250, resulting in the employer's share of the normal cost of $124,940,157.

Based on a payroll of $1,863,182,086 as of June 30, 2007, the employer's share of the normal cost can be expressed as 6.71% of payroll.

Exhibit 5 Employer's Normal Cost for Year Beginning July 1, 2007

	Dollar Amount	Percent of Payroll
1. Basic Retirement Pension	$ 173,510,900	9.31%
2. Post Retirement Increases	45,465,222	2.44
3. Lump Sum Death Benefits	773,486	.04
4. Survivor's Pension	19,856,497	1.06
5. Disability Benefits	7,047,097	.38
6. Withdrawal Benefits	26,927,618	1.45
7. Administrative Expenses	8,075,587	.43
8. Total Normal Cost	**$281,656,407**	**15.11%**
9. Employee Contributions	156,716,250	8.41
10. Employer's Share of Normal Cost	**$ 124,940,157**	**6.71%**

Note. The above figures are based on a total active payroll of $1,863,182,086 as of June 30, 2007.

G. Employer Contribution Requirements for Fiscal Year 2009

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, 2007, actuarial valuation, the ratio of the actuarial value of assets to total actuarial liabilities, or funded ratio (for funding purposes), amounts to 80.4%. Therefore, additional State contributions will be required for Fiscal Year 2009. Based on a projected payroll of $1,923,362,000 for Fiscal Year 2009, we have determined the additional State contributions under Section 17-127 of the Pension Code to be $9,778,000.

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 (for funding purposes), at June 30, 2007, is 80.4%, additional Board of Education contributions will be required for Fiscal Year 2009. Based on a projected payroll of $1,923,362,000 for Fiscal Year 2009, we have determined the additional Board of Education contribution under Section 17-127.2 of the Pension Code to be $10,426,000.

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, 2007, the ratio of the actuarial value of assets to the total actuarial liability, for funding purposes, is 80.4%. Using the results of the June 30, 2007, 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, 2008, to be 82.2%. 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 2009 to be $263,002,000. State appropriations are estimated to be $65,000,000. As indicated above, additional state contributions amount to $9,778,000, and additional Board of Education contributions amount to $10,426,000. Thus, based on the total employer required contribution for Fiscal Year 2009 and other sources of employer contribution, the net Board of Education contribution requirement for Fiscal Year 2009 under the funding plan specified in Section 17-129 of the Pension Code is calculated to be $177,798,000. Additional details regarding our calculations are shown below:

Board of Education Required Contribution for FY 2009

1. Total required employer contribution for FY 2009	$ 263,002,000
2. State appropriation	65,000,000
3. Additional state contribution	9,778,000
4. Additional Board of Education contribution	10,426,000
5. Board of Education required contribution (1 – 2 – 3 – 4)	$ 177,798,000

In past years, the Board of Education has made certain contributions to the pension fund from federal funds. Any contribution by the Board of Education from federal funds in FY 2009 is to be applied to the Board of Education required contribution of $177,798,000.

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, 2007, actuarial valuation, we have therefore calculated the annual required contribution for Fiscal Year 2008. In accordance with the parameters prescribed in GASB Statement No. 25, in calculating the annual required contribution, we have used a 30-year level-percent-of-payroll amortization of the unfunded liability. On this basis, the annual required contribution for Fiscal Year 2008 has been determined to be as follows:

	Fiscal Year 2008
1. Employer's normal cost	$ 124,940,157
2. Annual amount to amortize the unfunded liability over 30 years as a level percent of payroll	165,132,728
3. Annual required contribution (1 + 2)	$ 290,072,885

The same actuarial assumptions and actuarial cost method were used to determine the annual required contribution for GASB Statement No. 25 as were used to determine funding requirements in Section G. 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 financial statement disclosure in GASB Statement No. 25.

Additional historical trend information required under GASB Statement No. 25 is provided in a supplement to this actuarial report.

A. Purpose and Summary — Health Insurance

We have performed an actuarial valuation as of June 30, 2007, of the retiree health insurance benefits provided under the Public School Teachers' Pension and Retirement Fund of Chicago. The purpose of the valuation was to determine the total actuarial liability and annual required contribution for retiree health insurance benefits provided by the Fund for financial reporting purposes pursuant to GASB Statement No. 43. GASB Statement 43 does not apply to the funding of retiree health insurance benefits and valuations for funding purposes may differ significantly from the results presented here.

This report is intended to present the results of the valuation of the retiree health insurance benefits provided under the fund for purposes of GASB Statement No. 43. The results of the valuation are summarized below:

1. Total Actuarial Liability	$ 2,022,007,643
2. Actuarial Value of Assets	47,401,758
3. Unfunded Actuarial Liability	1,974,605,885
4. Annual Required Contribution For Year Beginning July 1, 2007	150,033,070

B. Data Used for the Health Insurance Valuation

Participant Data. The participant data required to carry out the valuation was supplied by the Fund. The membership of the retiree health insurance plan as of June 30, 2007, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 32,968 active employees, 14,169 retirees and beneficiaries currently receiving benefits, and 2,752 terminated employees entitled to benefits but not yet receiving them.

Exhibit 1 Summary of Membership Data

1.	Retiree and Beneficiaries Currently Receiving Health Insurance Benefits	14,169
2.	Terminated Employees Entitled To Benefits But Not Yet Receiving Them	2,752
3.	Active Employees	32,968
4.	**Total Number of Members**	**49,889**

Assets. According to the financial statements of the fund for the year ending June 30, 2007, the assets segregated for the payment of retiree health insurance benefits as of June 30, 2007, amount to $47,401,758. Therefore, as of June 30, 2007, the actuarial value of assets of the retiree health insurance plan can be considered to be $47,401,758.

C. Plan Provisions

Our valuation was based on the provisions of the Fund in effect as of June 30, 2007, as provided in Articles 17 of the Illinois Pension Code.

According to Section 17-142.1 of the Illinois Pension Code, the Fund may pay to each recipient of a service retirement, disability retirement 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. The total amount of payments in any year may not exceed 75% of the total cost of health insurance coverage. For the last several years, the Board has provided reimbursement of 70% of the cost of pensioners' health insurance coverage. According to Section 17-142.1 of the Pension Code, total payments in any year may not exceed $65,000,000 plus any previous year amounts authorized but not yet spent.

GASB Statement No. 43 provides that the actuarial valuation of a retiree health insurance plan should include all benefits to be provided by the plan to plan members or beneficiaries in accordance with the current substantive plan. GASB has indicated that in addition to the written plan document, other information should also be taken into consideration in determining the benefits to be provided, including an established pattern or practice with regard to the sharing of benefit costs between the employer and plan members.

The actuarial valuation of the Chicago Teachers' Pension Fund Retiree Health Insurance Program for purposes of GASB Statement No. 43 does not take into account the current $65,000,000 maximum on the annual benefits that may be paid from the fund as there has been a history of increases in the dollar maximum.

We have therefore not taken into account the current $65,000,000 maximum on the annual benefits that may be paid from the Fund in performing the June 30, 2007, actuarial valuation.

D. Actuarial Assumptions and Cost Method

In performing the actuarial valuation of the retiree health insurance program for purposes of GASB Statement No. 43, we used such parameters and assumptions as are prescribed in GASB Statement No. 43 for actuarial valuations of retiree health insurance benefits. These parameters and assumptions are described below:

Interest Rate Assumption. Under GASB Statement No. 43, if a retiree health insurance plan is not funded on an actuarial basis, the interest rate assumption is to be based on the investments of the employer. Although some assets are being accumulated for the payment of retiree health insurance benefits, these assets currently represent only 2.3% of the total actuarial liabilities. As governmental employers are able to invest only in short term, fixed income securities, we have used an interest rate assumption of 5.0% in performing the actuarial valuation of the retiree health insurance plan.

Medical Trend Rate Assumption. One of the most important assumptions is the medical trend rate assumption used to increase per member medical costs in future years. The medical trend rate assumption that we have used is 5.0% in 2008, 9.0% in 2009, and gradually declines to 5.0% by the year 2013, as follows:

Year	Medical Trend
2008	5.0%
2009	9.0%
2010	8.0%
2011	7.0%
2012	6.0%
2013 and later	5.0%

Per Member Costs

Current Pensioners. We have been provided with information regarding premium rates as of June 30, 2007, for each pensioner currently participating in the retiree health insurance program. We applied the pension fund's current 70% reimbursement rate to these premiums to determine the per member cost to the pension fund for pensioners currently participating in the retiree health insurance program.

Currently Active Employees. We have been provided with information regarding premium rates as of June 30, 2007, for each of the health insurance plans available to retirees and the number of retirees participating in each plan.

Based on this information, we developed average per member pension fund costs to be used for currently active employees. We developed average per member pension fund costs separately for the following categories:

Member Category	Average Cost Per Retiree
Members under age 65	$842.92
Members over age 65	$402.43

GASB Statement No. 43 provides projection of future retiree health care benefits should be based on actuarial standards issued by the Actuarial Standards Board. Actuarial Standards of Practice No. 6 provides that actuaries should consider the variation of health care costs by age and should use appropriate age bands if the costs vary significantly.

We have therefore developed age-adjusted costs per retiree that are equivalent to the above average costs per retiree by using the Aging Curve for Health Care Costs that is included in Table 4 of the study *Aging Curves for Health Care Costs in Retirement,* by Jeffrey P. Petertil, published in the July 2005 issue of the *North American Actuarial Journal.*

The percent increases in health care costs by age are as follows:

Age Band	Representative One Year Aging Factor
50-54	3.3%
55-59	3.6%
60-64	4.2%
65-69	3.0%
70-74	2.5%
75-79	2.0%
80-84	1.0%
85-89	0.5%
90 and over	0.0%

Applying the above rates of increases in health care costs by age, we developed costs per retiree by five-year age groups that were equivalent to the above average costs per retiree. This was done separately for the under age 65 costs per retiree and the over age 65 costs per retiree, for both employee retirees and spouse retirees. The cost per retiree by five-year age groups were developed so the total of the age-adjusted costs was equal to the total of the level average costs.

The age adjusted retiree costs to the pension fund that we developed using the above approach are as follows:

Age Band	Representative One Year Aging Factor
50-54	$610.78
55-59	$723.67
60-64	$876.21
65-69	$337.19
70-74	$386.17
75-79	$431.61
80-84	$464.94
85 and above	$482.63

Participation Rates. Based on the percent of retirees currently participating in the retiree health insurance plan, we assumed the percent of future retirees that will participate in the plan to be as follows:

Member Category	Participation Rate
Under age 65	51%
Over age 65	86%

Other Actuarial Assumptions. The other actuarial assumptions that we used in performing the actuarial valuation of the retiree health insurance benefits provided under the fund are similar to the actuarial assumptions that we use in the actuarial valuation of pension benefits. These assumptions are outlined in Appendix 1.

The projected unit credit actuarial cost method was used for the June 30, 2007, valuation. This is the same actuarial cost method that we use for the actuarial valuation of pension benefits provided under the fund.

E. Actuarial Liability

The actuarial liability as determined under the valuation for the various classes of members is summarized in Exhibit 2. 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, 2007, the total actuarial liability for retiree health insurance benefits provided under the fund is $2,022,007,643, the actuarial value of assets is $47,401,758, and the unfunded actuarial liability is $1,974,605,885.

Exhibit 2 Actuarial Liability as of June 30, 2007

1. Actuarial Liability for Active Members	$ 933,442,036
2. Actuarial Liability for Members Receiving Benefits	1,088,565,607
3. Total Actuarial Liability	**$ 2,022,007,643**
4. Actuarial Value of Assets	47,401,758
5. Unfunded Actuarial Liability	**$ 1,974,605,885**
6. Funded Ratio	2.3%

F. Normal Cost

The normal cost for the year beginning July 1, 2007, is shown below. The total normal cost is $72,978,062. Based on a payroll of $1,863,182,086 as of July 1, 2007, the total normal cost can be expressed as 3.92% of payroll.

Employer's Normal Cost for Year Beginning July 1, 2007

	Dollar Amount	Percent of Payroll
Total Normal Cost	$ 72,978,062	3.92%

G. Annual Required Contribution for GASB Statement No. 43.

Pursuant to GASB Statement No. 43, we have calculated the annual required contribution for the year beginning July 1, 2007, as the normal cost plus a 30-year level-percent-of-payroll amortization of the unfunded actuarial liability. Therefore, the annual required contribution (ARC) for the year beginning July 1, 2007, for purposes of GASB Statement No. 43 is as follows:

1. Total normal cost	$ 72,978,0622
2. Annual amount to amortize the unfunded liability over 30 years as a level percent of payroll	77,055,008
3. Annual required contribution (1 + 2)	$ 150,033,070

Additional Actuarial Tables

Summary of Actuarial Liability and Unfunded Actuarial Liability Pension Fund

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
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%
2006	14,035,627,452	10,947,998,433	78.0%	3,087,629,019	1,944,358,215	158.8%
2007*	14,677,184,345	11,759,699,063	80.1%	2,917,485,282	1,863,182,086	156.6%

* *Pension fund benefit*

Summary of Actuarial Liability and Unfunded Actuarial Liability Health Insurance

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
2006	2,373,773,770	41,057,585	1.7%	2,332,716,185	1,944,358,215	120.0%
2007	2,022,007,643	47,401,758	2.3%	1,974,605,885	1,863,182,086	106.0%

SOLVENCY TEST — PENSION FUND

Fiscal Year	ACCRUED LIABILITIES FOR (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)
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%
2006	1,568,239,525	8,914,312,590	3,553,075,337	10,947,998,433	100%	100%	13%
2007	1,289,062,329	9,987,716,674	3,400,405,342	11,759,699,063*	100%	100%	14%

* *Pension fund benefit*

Additional Actuarial Tables

Schedule of Actual Employer Contributions and Actuarially Determined Contribution Requirements for Pension Fund

Fiscal Year	Active Member Payroll	Actual Employer Contribution: Dollar Amount	Actual Employer Contribution: Percent of Payroll	Actuarially Determined Contribution Requirement as a Percent of Payroll
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%
2006	1,944,358,215	117,789,706	6.06%	16.89%
2007	1,863,182,086	103,761,750 (1)	5.57%	16.70%

(1) Pension benefits only

Schedule of Actual Employer Contributions and Actuarially Determined Contribution Requirements for Retiree Health Insurance Benefits

Fiscal Year	Active Member Payroll	Actual Employer Contribution: Dollar Amount	Actual Employer Contribution: Percent of Payroll	Actuarially Determined Contribution Requirement as a Percent of Payroll
2006	1,944,358,215	65,000,000	3.34%	10.97%
2007	1,863,182,086	65,000,000	3.49%	11.24%

Schedule of Active Member Valuation Data
Pension Fund

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase (Decrease) in Average Pay
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%
6-30-06	34,682	1,944,358,215	56,062	6.9%
6-30-07	32,968	1,863,182,086	56,515	.8%

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls Pension Fund

Year Ended	Added-To-Rolls		Removed-From-Rolls		Rolls-End-of-Year		Average Annual Benefit	% Increase in Average Annual Benefit
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits		
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%
2006	1,788	$91,991,917	637	$15,910,849	22,105	$764,340,586	$34,578	5.3%
2007	2,055	$104,043,221	537	$14,063,967	23,623	$854,319,840	$36,165	4.6%

Appendix 1

Summary of Actuarial Assumptions and Actuarial Cost Method

Actuarial Assumptions. The actuarial assumptions used for the June 30, 2007, valuation are summarized below. The assumptions were adopted as of June 30, 2003.

Mortality Rates. For males, the UP-94 Table for Males, rated down three years; for females, the UP-94 Table for Females, rated down two years. For disabled males, the UP-94 Table for Males, rated up 5 years; for disabled females, the UP-94 Table for Males without adjustment.

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 per 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 are 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

Based on the above salary increase assumption, the assumption regarding general increases in salaries can be considered to be 4% per year.

Interest Rate. For the Pension Fund valuation — 8.0% per year, compounded annually. Of this 8.0% per year assumption, 3.0% can be attributed to inflation. For the Health Insurance valuation — 5.0% 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.

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, 2010, 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. Upon disability retirement after 20 years or more of contributing service, but under age 55, the accrued retirement pension is payable based on the rate of pension at 2.2% of average salary for each year of service.

7. Duty Disability Benefit. A duty-connected disability benefit is provided equal to 75% of final 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 accrue 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 or her 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 months' 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% toward the retirement pensions, 1% toward the survivor pension, and 1/2% toward 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.

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.

11. Entry Age Actuarial Cost Method. A cost method under which the present value of the projected benefits of each individual included in an actuarial valuation is allocated as a level dollar amount or level percent of the individual's earnings between entry age and assumed exit age. The portion of this actuarial present value of benefits allocated to a valuation year is called the normal cost. The portion of this actuarial present value of benefits not provided at a valuation date by the actuarial present value of future value of normal costs is called the actuarial liability.

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


+4.23
12.53
16.14
+16.4
12.5
19.95
16.75
19.42

Statistical

This section includes information about the Chicago Teachers' Pension Fund revenue sources and applications. It also includes summaries of statistical information about the participating members and annuitants and the benefits paid to them.

Statement of Changes in Plan Net Assets

For Year ended June 30, 2007, with comparative totals for 9 years

	2007	2006	2005	2004	2003
Additions:					
Contributions:					
Intergovernmental, net (employer)	$ 168,761,750	$ 117,789,706	$ 73,917,464	$ 78,127,273	$ 78,747,983
Employee contributions	179,017,663	163,419,386	175,706,081	169,598,212	159,931,110
	347,779,413	**281,209,092**	**249,623,545**	**247,725,485**	**238,679,093**
Investment income:					
Net investment income	1,950,183,365	1,097,943,378	1,036,898,341	1,478,859,791	313,502,170
Miscellaneous	1,923	139,509	561,154	86,285	35,775
Total additions	**2,297,964,701**	**1,379,291,979**	**1,287,083,040**	**1,726,671,561**	**552,217,038**
Deductions:					
Pension benefits					
Retirement	759,346,660	682,245,353	617,684,571	554,975,291	509,945,240
Survivors	27,532,256	25,854,248	24,520,785	22,885,524	25,730,482
Disability	10,898,039	10,388,393	9,561,956	8,649,568	8,126,443
Refunds					
Separation	12,829,988	10,633,789	16,877,637	9,565,261	7,648,527
Death	3,942,853	4,028,201	3,572,619	3,588,032	2,747,859
Other	19,581,668	16,023,309	4,408,439	10,173,428	6,954,762
Health Insurance Premium Rebate	61,028,841	58,279,900	54,410,887	53,106,379	51,395,920
Death benefits					
Heirs of Active Teachers	554,765	535,142	470,537	505,842	482,493
Heirs of Annuitants	2,322,418	2,082,915	2,035,334	2,095,323	2,339,000
Uncollectable Receivables	–	–	–	–	–
	898,037,488	**810,071,250**	**733,542,765**	**665,544,648**	**615,370,726**
Administrative and miscellaneous expenses	8,434,688	8,320,340	7,477,671	7,214,467	6,576,953
Total deductions	**906,472,176**	**818,391,590**	**741,020,436**	**672,759,115**	**621,947,679**
Net increase (decrease)	1,391,492,525	560,900,389	546,062,604	1,053,912,446	(69,730,641)
Net assets held in trust for benefits:					
Beginning of period, as restated	11,428,518,484	10,867,618,095	10,321,555,491	9,267,643,045	9,337,373,686
End of period	**$ 12,820,011,009**	**$ 11,428,518,484**	**$ 10,867,618,095**	**$ 10,321,555,491**	**$ 9,267,643,045**

CONTINUED FROM PAGE 94

	2002	2001	2000	1999*	1998**
ADDITIONS:					
Contributions:					
Intergovernmental, net (employer)	$ 76,850,005	$ 77,065,122	$ 79,519,385	$ 60,201,082	$ 75,069,133
Employee contributions	145,498,027	149,094,964	145,458,741	150,421,632	115,155,574
	222,348,032	**226,160,086**	**224,978,126**	**210,622,714**	**190,224,707**
Investment income:					
Net investment income	(370,652,706)	(191,547,390)	941,836,171	1,732,456,051	420,505,788
Miscellaneous	829,063	70,078	209,760	580,641	3,684
Total additions	**(147,475,611)**	**34,682,774**	**1,167,024,057**	**1,943,659,406**	**610,734,179**
DEDUCTIONS:					
Pension benefits					
Retirement	495,238,632	421,343,859	383,938,150	300,230,642	338,637,028
Survivors	23,517,998	17,759,804	16,424,100	12,695,424	14,143,840
Disability	7,571,076	6,162,211	5,732,425	4,107,184	4,205,876
Refunds					
Separation	9,036,757	7,645,767	7,607,244	5,952,734	5,732,601
Death	4,043,552	2,697,514	3,574,259	2,220,725	3,419,274
Other	29,219,867	4,644,884	3,538,496	1,552,617	2,618,705
Health Insurance Premium Rebate	44,068,275	44,088,569	26,144,939	22,013,995	24,225,631
Death benefits					
Heirs of Active Teachers	746,322	457,746	724,089	381,432	745,541
Heirs of Annuitants	2,070,000	2,853,167	2,669,708	1,855,000	2,886,964
Uncollectable Receivables	–	–	–	22,230,625	–
	615,512,479	**507,653,521**	**450,353,410**	**373,240,378**	**396,615,460**
Administrative and miscellaneous expenses	6,459,734	4,856,487	4,509,764	3,361,971	3,429,338
Total deductions	**621,972,213**	**512,510,008**	**454,863,174**	**376,602,349**	**400,044,798**
Net increase (decrease)	(769,447,824)	(477,827,234)	712,160,883	1,567,057,057	210,689,381
Net assets held in trust for benefits:					
Beginning of period, as restated	10,111,548,946	10,589,376,180	9,877,215,297	8,310,158,240	8,099,468,859
End of period	**$ 9,342,101,122**	**$ 10,111,548,946**	**$ 10,589,376,180**	**$ 9,877,215,297**	**$ 8,310,158,240**

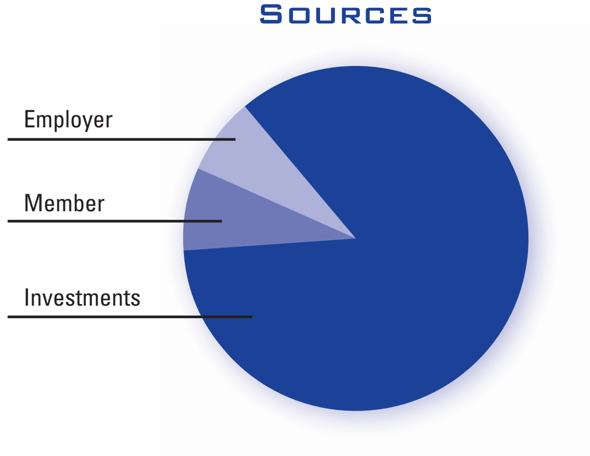
* *Only 10 months*

* * *Denotes the information is for year ended August 31st*

See accompanying notes to financial statements.

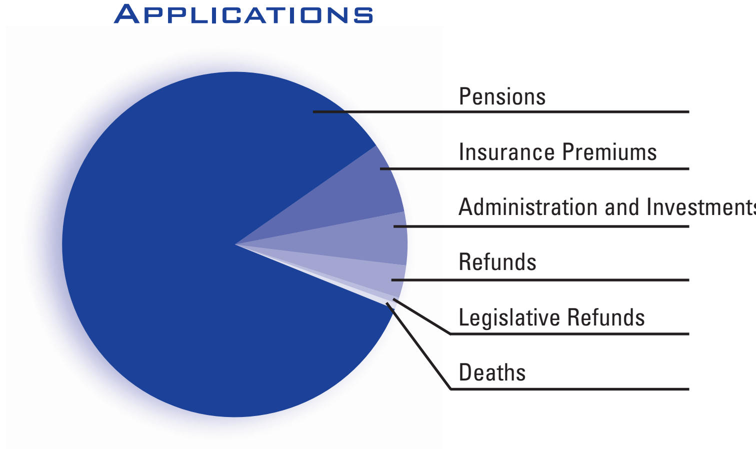
2007 Revenue—Sources and Applications

Sources



Investments	$ 1,988,553,840	85.1%
Member	179,017,663	7.7%
Employer	168,761,750	7.2%
Miscellaneous	1,923	0.0%
Total	**$ 2,336,335,176**	**100.0%**

Applications



Pensions	$ 797,776,955	84.4%
Insurance Premiums	61,028,841	6.5%
Administration and Investments	46,805,163	5.0%
Refunds	30,646,952	3.2%
Legislative Refunds	5,707,557	0.6%
Deaths	2,877,183	0.3%
Total	**$ 944,842,651**	**100.0%**

Distribution of Current Annuitants by Benefit Type

Monthly Pension Amount	Retirement		Disability		Survivor		Total	
	Males	Females	Males	Females	Males	Females	Males	Females
$ 0 – 499	472	1,015	3	8	175	314	650	1,337
$ 500 – 999	351	780	16	35	311	474	678	1,289
$ 1,000 – 1,499	282	740	22	49	205	257	509	1,046
$ 1,500 – 1,999	279	986	15	51	170	266	464	1,303
$ 2,000 – 2,499	328	1,114	12	52	62	146	402	1,312
$ 2,500 – 2,999	386	1,333	21	41	11	50	418	1,424
$ 3,000 – 3,499	456	1,390	13	50	9	40	478	1,480
$ 3,500 – 3,999	852	2,195	9	31	0	13	861	2,239
$ 4,000 – 4,499	1,272	3,038	2	7	0	8	1,274	3,053
$ 4,500 – 4,999	486	1,004	2	1	0	0	488	1,005
$ 5,000 – 5,499	314	308	0	3	0	1	314	312
$ 5,500 – 5,999	173	248	3	1	0	0	176	249
$ 6,000 – 6,499	124	144	0	0	1	1	125	145
$ 6,500 – 6,999	116	118	0	0	0	0	116	118
$ 7,000 – 7,499	77	86	1	0	0	1	78	87
$ 7,500 – 7,999	50	51	0	0	0	0	50	51
$ 8,000 – 8,499	30	26	0	0	0	0	30	26
$ 8,500 – 8,999	10	14	0	0	0	0	10	14
$ 9,000+	7	5	0	0	0	0	7	5
Total	**6,065**	**14,595**	**119**	**329**	**944**	**1,571**	**7,128**	**16,495**

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Annuitants

Distribution of Current Annuitants by Benefit Type

Monthly Pension Amount	Health Insurance	
	Males	Females
$ 0 – 499	74	243
$ 500 – 999	189	454
$ 1,000 – 1,499	168	559
$ 1,500 – 1,999	196	773
$ 2,000 – 2,499	223	884
$ 2,500 – 2,999	273	1,003
$ 3,000 – 3,499	328	1,094
$ 3,500 – 3,999	606	1,675
$ 4,000 – 4,499	883	2,061
$ 4,500 – 4,999	353	696
$ 5,000 – 5,499	232	233
$ 5,500 – 5,999	133	197
$ 6,000 – 6,499	101	112
$ 6,500 – 6,999	95	80
$ 7,000 – 7,499	61	57
$ 7,500 – 7,999	39	35
$ 8,000 – 8,499	17	16
$ 8,500 – 8,999	9	7
$ 9,000 +	6	4
Total	**3,986**	**10,183**

Represents members who have purchased insurance from the Fund's providers and reimbursed members who have purchased insurance from other outside providers.

Schedule of Average Benefit Payments

	Years Credited Service						
	0–5	5–10	10–15	15–20	20–25	25–30	30+
Fiscal Year 1998							
Average Pension	218	511	854	1,381	1,852	2,394	3,289
Average Final Average Salary	4,843	3,896	3,950	4,365	4,514	4,663	4,774
Number of Retired Members	70	51	41	24	76	86	333
Fiscal Year 1999							
Average Monthly Pension	252	626	1,016	1,350	1,959	2,519	3,441
Average Final Average Salary	6,044	5,431	4,711	4,287	4,746	4,917	5,040
Number of Retired Members	65	64	31	31	58	81	261
Fiscal Year 2000							
Average Monthly Pension	325	758	1,119	1,676	2,158	2,823	3,581
Average Final Average Salary	6,708	5,631	5,134	5,596	5,186	5,460	5,328
Number of Retired Members	76	67	48	43	92	192	802
Fiscal Year 2001							
Average Monthly Pension	302	677	1,160	1,759	2,343	2,944	3,898
Average Final Average Salary	5,763	4,524	4,585	4,546	4,726	4,919	5,352
Number of Retired Members	76	67	55	40	108	141	597
Fiscal Year 2002							
Average Monthly Pension	323	664	1,208	1,862	2,423	3,008	4,089
Average Final Average Salary	6,230	4,459	4,618	4,753	5,037	5,255	5,983
Number of Retired Members	49	70	53	46	69	89	758
Fiscal Year 2003							
Average Monthly Pension	303	622	1,171	1,729	2,296	3,080	4,185
Average Final Average Salary	5,620	4,029	4,625	4,779	4,873	5,438	6,174
Number of Retired Members	67	67	60	52	91	108	678
Fiscal Year 2004							
Average Monthly Pension	322	654	1,331	2,059	2,314	3,238	4,475
Average Final Average Salary	5,792	5,053	4,989	5,385	4,840	5,603	6,601
Number of Retired Members	72	68	78	75	86	109	1,041
Fiscal Year 2005							
Average Monthly Pension	332	750	1,310	2,074	2,550	3,170	4,392
Average Final Average Salary	6,081	4,777	4,805	5,497	5,314	5,446	6,133
Number of Retired Members	64	63	90	90	130	97	842
Fiscal Year 2006							
Average Monthly Pension	383	807	1,395	2,067	2,659	3,425	4,609
Average Final Average Salary	6,204	5,135	5,164	5,527	5,563	5,676	6,257
Number of Retired Members	42	54	78	92	153	149	1,012
Fiscal Year 2007							
Average Monthly Pension	374	769	1,466	2,133	2,610	3,303	4,468
Average Final Average Salary	6,862	5,188	5,602	5,688	5,739	5,948	6,222
Number of Retired Members	76	59	75	100	232	134	1,199

The higher final average salaries in the 0-5 years of credited service are the result of a higher concentration of members with larger salaries who have service with other reciprocal pension plans.

Participating Members

Number of Members

Fiscal Year	Male Participants	Female Participants	Total
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
2006	8,209	26,473	34,682
2007	7,799	25,169	32,968