Chicago Teachers' Pension Fund

113th Comprehensive Annual Financial Report

For the year ended June 30, 2008 • Chicago, Illinois

CTPF

Chicago Teachers' Pension Fund

Photo credits

Chicago Teachers' Pension Fund
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Chicago, Illinois 60601-1231
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CTPF Board of Trustees' Mission Statement

To provide, protect, and enhance the present and future economic well being of members, pensioners and beneficiaries through efficient and effective management of benefit programs, investment practices and customer service, and to commit to earning and keeping the respect and trust of the participants through quality service and by protecting retirement benefits, in compliance with applicable laws and standards.

Chicago Teachers' Pension Fund

113th Comprehensive Annual Financial Report

For the year ended June 30, 2008
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, 2008


John F. O'Brill


Lois Nelson


Nancy Williams


Reina Otero

OFFICERS

President, John F. O'Brill

Vice President, Lois Nelson

Recording Secretary, Nancy Williams

Financial Secretary, Reina Otero


Alberto A. Carrero, Jr.


Peggy A. Davis


Linda S. Goff


Chris N. Kotis


Walter E. Pilditch


Maria J. Rodriguez


Mary Sharon Reilly


James F. Ward

MEMBERS

Representing the contributors

Linda S. Goff

Lois Nelson

John F. O'Brill

Reina Otero

Maria J. Rodriguez

Nancy Williams

Representing the annuitants

Walter E. Pilditch

Mary Sharon Reilly

James F. Ward

Representing the administrators/principals

Chris N. Kotis

Representing the Board of Education

Alberto A. Carrero, Jr.

Peggy A. Davis

Executive Staff

Executive Director

Kevin B. Huber

Chief Financial and Legal Officer

Patricia A. Hambrick

CONSULTANTS
As of June 30, 2008

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

Jeffrey N. Markert
Partner
KPMG LLP
303 East Wacker Drive
Chicago, Illinois 60601

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
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.
Merrill Lynch Asian Real Estate Fund, LP
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, LLC
Prudential Investment Management, Inc.
RhumbLine Advisers
RREEF America, LLC
Smith Graham & Co.
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
Zevenbergen Capital Investments, LLC

Organizational Chart

As of June 30, 2008

Board of Trustees

Executive Director
Kevin B. Huber

Chief Financial and Legal Officer
Patricia A. Hambrick

Benefits

Billing, Refunds, Death, Disability Supervisor
Denise Valentovich

Pensions and Estimates Supervisor
Edgar Samayoa

Communications and Office Services Manager
Frances Radencic

Member Services Manager
Sheron Banks-Fallis

Accounting Manager
Sandra Shelby

Information Technology Manager
Eric Morel

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, 2007

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

President

Executive Director

Chicago Teachers' Pension Fund
203 North LaSalle Street, suite 2600
Chicago, IL 60601-1231

Letter of Transmittal

September 3, 2009

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 113th Comprehensive Annual Report of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) that covers the fiscal year ending June 30, 2008. 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, 2008. The 113th year of continuous operations ended with the Fund's financial and operational condition remaining relatively unchanged from the previous year. The June 30, 2008, value of net assets held in trust for pension and health benefits amounted to $11.48 billion, a 10.43% decrease from the $12.82 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 $12.1 billion. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $15.2 billion, yields a 79.4% actuarial funding ratio, a 1% decrease from the prior year funding ratio of 80.1%.

The actuarial value of assets of the Health Insurance Fund amounted to $44.9 million. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $2.41 billion yields a 1.9% actuarial funding ratio, 17.4% decrease from the prior year ratio of 2.3%.

The Financial Statements in this report were prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board. The specific accounting treatment of transactions is described in the Summary of Accounting Policies in the Notes to the Financial Statements. 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, 2008, investments at fair market value totaled $11.64 billion. This reflects a 10.1% decrease from the $12.95 billion market value of June 30, 2007. The Fund's investment performance rate of return for the year ending June 30, 2008, was -5.3%, falling significantly short of the projected return of 8% and reflecting a 130% decrease from the 17.7% performance rate of return as of June 30, 2007. The ten-year rate of return posted by the Fund for the period ending June 30, 2008, was 6.6%, which also fell short of the actuarial assumption of 8% and reflects a 27% decrease from the previous year's ten-year average of 9.0%. Refer to the Investment Section of this report for more detailed performance information.

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

The economy and its stability took on heightened relevance to the Fund, during the year. At fiscal year end, economic growth remained sluggish amid the deepening housing recession, credit contraction, weak business spending, and rising inflation. The labor market remained weak, with job losses reported for the sixth consecutive month in June 2008. The unemployment rate rose to 5.5%.

Consumer confidence reached a 16-year low at year end, amid concerns over the weak job market and rising food and fuel prices. Retail sales rose in May as households received tax rebates, but stagnated without any change in June, as consumers remained cautious. At year end, the housing market remained bleak as June home foreclosures rose 53% and reached record levels, while home prices continued to fall and continuing financial write-downs left investors shaken.

The bleak economic outlook at June 30, 2008, was a precursor to both a national and global economic free fall that began in the third quarter of calendar year 2008.

Economic Outlook

The third quarter of 2008 saw considerable weakness in the U.S. economy. Rising unemployment, record-level home price declines, further financial write-downs, and the failure or rescue of many well-known financial institutions sparked the beginning of a capital markets collapse. Early in the quarter energy costs reached record levels.

There was significant activity in the financial markets as many financial institutions were on the brink of collapse. The nationalization of Fannie Mac and Freddie Mac, the effective nationalization of insurance giant AIG by an emergency $85 billion loan, the failure of Washington Mutual and Wachovia banking institutions were clear indications of a financial collapse unlike any seen in modern history. To provide liquidity in the market the U.S. government announced a $700 billion bailout in October.

Despite efforts to maintain the markets and economy, the downward spiral in the national and global economy has continued.

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 78% at June 30, 2006, the employer and state were required to make additional contributions in the amount $20,812,000 during fiscal year 2008.

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, 2008, was negative 5.3%, as performance of the portfolio mirrored the declining market conditions. The Fund maintained a diversified portfolio consisting of equities (domestic and international), fixed income, real estate and private equity, and performance was comparable to that of its peers. The Fund continued to attempt to maximize investment performance while maintaining acceptable levels of risk. The Board retained its target allocation policy and kept target allocations in domestic equity at 41.5%, in international equity at 22%, in fixed income at 20.5%, in real estate at 6.5%, in private equity at 3%, in public REITs at 2.5%, in cash and cash equivalents at 2%, and in infrastructure at 2%.

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, 2008, the Fund hired one real estate manager and one international equity manager, while terminating two domestic equity managers and one fixed income manager.

The Fund continued to concentrate on increasing allocations to minority and women owned money managers. Approximately 22.8% ($2,595,202,678), of the Fund's assets are managed by qualified minority or female owned managers. Additionally, the Fund directed $2,486,721 of commissions to qualified minority and women brokers.

Legislative

There were no significant legislative developments in 2008 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
- providing that all teacher income be 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 2008.

- The Fund implemented a paperless workflow system and continues to enhance the functionality of its imaging system.
- The Fund continued to enhance the functionality of its benefit payment database.
- The Fund continued to work with its primary employer, Chicago Public Schools, to resolve payroll system issues that impacted pension fund data
- The Fund improved the annual health insurance rebate payment process by providing an option for a monthly reimbursement of health insurance premiums

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, 2007. This was the 18th 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.

Concluding Comments

The 2007 teacher trustee election was uncontested as two certified candidates ran for two available positions, and were designated elected to three-year terms. Lois Nelson was re-elected and Linda Goff replaced Mary Hanson. In the 2007 pensioner trustee election, Mary Sharon Reilly was elected to a two-year term, replacing Vaughn J. Barber.

In the election for officers, John F. O'Brill was elected president, Lois Nelson, vice president, Nancy Williams, recording secretary, and Reina Otero, financial secretary. Chairs of standing committees included John F. O'Brill, Investments; Mary Sharon Reilly, Pension Law and Rules; Reina Otero, Finance and Audit; and James F. Ward, Claims and Service Credits.

We would like to thank Trustees Hanson and Barber 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
-0.54
0.01
1.34
NY
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.

KPMG

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

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

We have audited the accompanying statement of plan net assets of the Public School Teachers' Pension and Retirement Fund of Chicago (the Fund) as of June 30, 2008, 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 2007 financial statements which were audited by other auditors, and in their report dated February 8, 2008, they 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2008, and the changes in its plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2(c), the financial statements include investments valued at $2,210,187,988 (20% of net assets) whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

As discussed in note 2 to the financial statements, the Fund adopted the provisions of the Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

The management's discussion and analysis, schedules of funding progress, and schedules of contributions on pages 17 through 21, 37 and 38, respectively, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit for the year ended June 30, 2008 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, supplementary information included in schedules 5 through 8 for the year ended June 30, 2008, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information included in schedules 5 through 8 for the year ended June 30, 2008 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 for the year ended June 30, 2008. The introductory section, investment section, actuarial section, and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The report of the other auditors referred to above, dated February 8, 2008, stated that the supplementary information for the year ended June 30, 2007 included in schedules 5 through 8 was subjected to auditing procedures applied in their audit of the 2007 basic financial statements and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements taken as a whole for the year ended June 30, 2007.

KPMG LLP

Chicago, Illinois
September 3, 2009

Management is pleased to provide this overview and analysis of the financial activities of the Public School Teachers' Pension and Retirement Fund of Chicago (the Fund) for the year ended June 30, 2008. 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 *2008 Comprehensive Annual Financial Report*.

Annual Financial Review

Due to the mounting turmoil in the financial market, the Fund reported a negative return of 5.3% for the year ended June 30, 2008, following favorable returns most recently in 2007 and 2006. 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. However, the protracted decline in value across investment classes caused unfavorable returns in 2008 and brought the Fund's compound rate of return over the past 10 years down to 6.6%; 1.4% less than the actuarial assumption of 8%.

The Fund's consulting actuary has certified the total actuarial accrued liability of the Pension Fund to be $15.2 billion as of June 30, 2008. This represents an increase in the total actuarial accrued liability of $526.6 million compared to the actuarial accrued liability of $14.7 billion as of June 30, 2007. The unfunded actuarial accrued liability increased from $2.9 billion to $3.1 billion during the year. The Fund's consulting actuary has also certified the total actuarial accrued liability of the Health Insurance Fund to be $2.4 billion as of June 30, 2008. This represents an increase in the total actuarial accrued liability of $385.1 million compared to the actuarial accrued liability of $2.0 billion as of June 30, 2007. The unfunded actuarial accrued liability increased from $1.9 billion to $2.4 billion during the year. Refer to the Actuarial Section of the report for more valuation and funding information.

Financial Highlights

- Investment returns were disappointing in comparison to previous years. The investment rate of return for fiscal year 2008 was negative 5.3% following fiscal year 2007's return of 17.7% and fiscal year 2006's return of 10.7%. Five and 10-year returns were 9.5% and 6.6%, respectively.
- Total plan net assets decreased during the fiscal year to $11.5 billion at June 30, 2008, from $12.8 billion at June 30, 2007.
- Total benefit payments were $992.9 million. The Fund paid members $924.2 million in service retirement, disability and survivor benefits, and an additional $68.7 million for health care benefits.
- Total additions to plan net assets were negative $335.7 million. The net investment loss of $737.5 million was more than 1.8 times member and employer contributions which totaled $402.0 million.
- Benefit payments, member refunds, and administrative expenses totaled $1.0 billion for the 2008 fiscal year, a 10.4% increase over fiscal 2007.
- The funded ratio for pension benefits decreased to 79.4% as of June 30, 2008, from 80.1% 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 U.S. generally accepted accounting principles.

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 healthcare 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 notes, a *schedule of funding progress* and a *schedule of employer contributions* are included as required supplementary information for both the pension plan and the health insurance plan. These schedules emphasize the long-term nature of the 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 three 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 and the percentage actually contributed.

Investment Performance

For fiscal year 2008, total investment performance resulted in a 5.3% loss. The U.S. and international stock portfolios generated negative returns as the equity markets continued to decline in value. The Fund's portfolio of U.S. stocks experienced a 10.8% loss and international stocks experienced a 7.2% loss. Real estate generated a positive return of 0.8%, while fixed income realized a positive return of 5.8% and Private Equity realized a positive return of 19.7%.

1-Year Returns (2008)

Asset Category	Fund Return	Index Name	Index Return
Total fund	(5.3)%	Fund Benchmark Index	(5.8)%
Domestic equity	(10.8)	Russell 3000 Index	(12.7)
International equity	(7.2)	MSCI AC World Free Ex US	(6.2)
Fixed income	5.8	LB Aggregate Index	7.1
Real estate (public and private)	0.8	Stylized Real Estate Index*	3.1
Private equity	19.7	Private equity	N/A

5-Year Returns (2008)

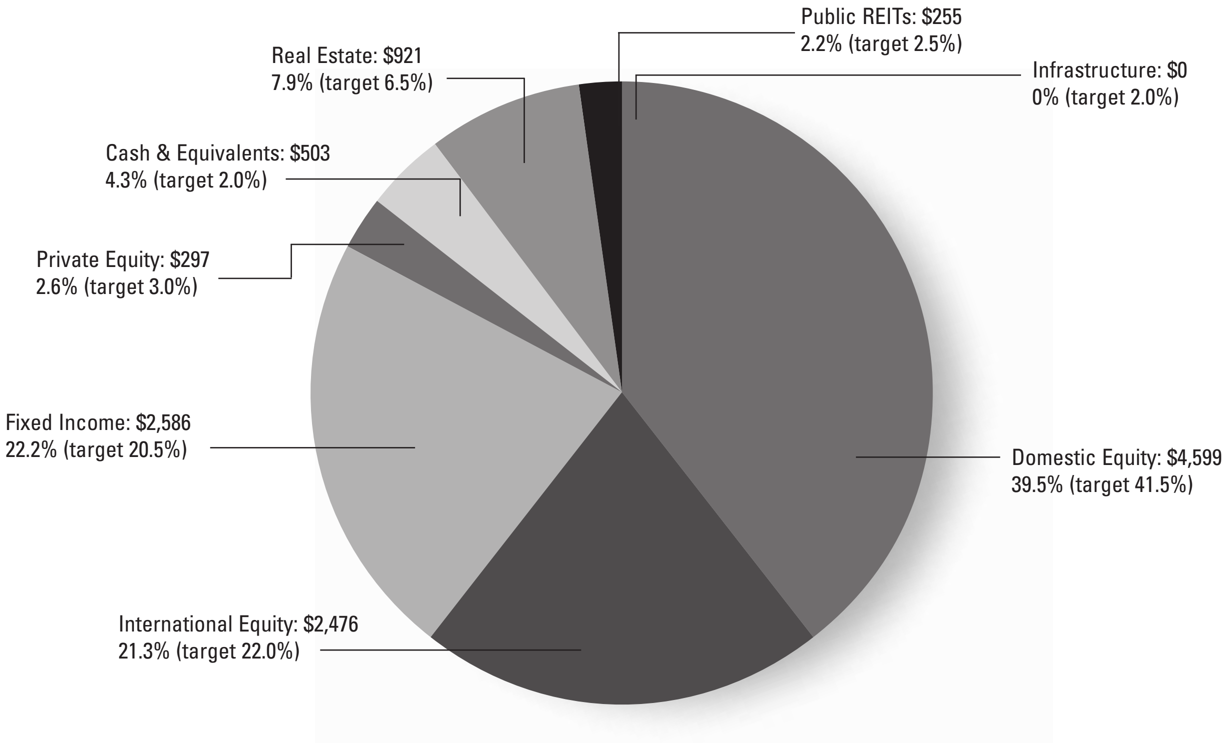
Asset Category	Fund Return	Index Name	Index Return
Total fund	9.5%	Fund Benchmark Index	9.1%
Domestic equity	9.8	Russell 3000 Index	8.4
International equity	16.5	MSCI AC World Free Ex US	19.4
Fixed income	0.7	LB Aggregate Index	3.9
Real estate (public and private)	16.1	Stylized Real Estate Index*	15.3
Private equity	18.5	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, 2008

IN MILLIONS OF DOLLARS



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

Financial Statement Analysis

Plan Net Assets

The plan net assets decreased $1.3 billion (10.43%) during the fiscal year. This decrease was due largely to the 11.6% decline in value of investment holdings.

As of June 30, 2008, total receivables, excluding amounts due from brokers, increased by $9.2 million from 2007. The change in receivables is a result of the increased receivable from the Early Retirement Option made available to retiring teachers during the year along with an increase in accrued investment income. Due from brokers (the proceeds due from investment sales) increased $57.2 million due to timing of investment sales at year end.

Refunds payable decreased $13.3 million in 2008. This decrease was due to a smaller year end accrual of refund expense. The decrease in accounts and administrative expense payable of $3.1 million is a result of a smaller year end accrual of insurance expense. Due to brokers (the cash due for investment purchases) increased $106.3 million due to the timing of investment purchases at year end.

Below is a summary of the plan net assets at June 30, 2008 and 2007.

(IN MILLIONS)	FISCAL YEAR 2008	FISCAL YEAR 2007
Cash and cash equivalents	$ 503.3	$ 439.5
Receivables	109.9	100.7
Due from brokers	278.4	221.2
Investments, at fair value	11,133.3	12,509.8
Security lending collateral and other assets	2,160.2	2,485.2
Capital assets, net	3.6	4.0
Total assets	**14,188.7**	**15,760.4**
Benefits and refunds payable	10.0	23.4
Accounts and administrative expenses payable	13.5	16.6
Securities lending collateral payable	2,160.2	2,485.2
Due to brokers	521.5	415.2
Total liabilities	**2,705.2**	**2,940.4**
Net assets held in trust for benefits	**$ 11,483.5**	**$ 12,820.0**

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, 2008, these additions totaled negative $335.7 million, representing a 114.6% decrease from 2007 additions of $2.3 billion. Intergovernmental and employer contributions increased by $9.4 million in fiscal year 2008 due to an increase in federal funds received from the employer. The change in employee contributions is due to the decrease in contributions received from the employer for active teachers. 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, 2006, the employer and state were required to make additional contributions in fiscal year 2008 in the amount of $141.7 million. Net investment income decreased due to the decline in the unrealized appreciation of the Fund's investment portfolio. The Fund's portfolio experienced a 5.3% loss for the year ended June 30, 2008 versus a 17.7% gain for the year ended June 30, 2007.

Below is a summary of additions to plan net assets for the years ended June 30, 2008 and 2007.

(IN MILLIONS)	FISCAL YEAR 2008	FISCAL YEAR 2007
Intergovernmental, net	$ 87.6	$ 78.2
Employee contributions	172.5	179.0
Minimal funding requirement (employer)	141.7	90.6
Net investment income	(737.5)	1,950.2
Total additions	$ (335.7)	$ 2,298.0

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 decreased due to a smaller number of retirees and fewer retirees entitled to receive refunds at the end of the fiscal year. The health insurance rebate was disbursed at 70% of covered premiums for fiscal years 2008 and 2007. Total deductions from plan assets amounted to $1.0 billion for the year ended June 30, 2008, compared to $906.5 million for the previous year.

Below is a summary of deductions to plan net assets for the years ended June 30, 2008 and 2007.

(in millions)	Fiscal Year 2008	Fiscal Year 2007
Pension benefits	$ 904.7	$ 797.8
Refunds	16.7	36.4
Death benefits	2.9	2.9
Refund of insurance premiums	68.7	61.0
Administration and miscellaneous expenses	7.8	8.4
Total deductions	$ 1,000.8	$ 906.5

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 time frame of that fiscal period through 2045.

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. Based upon the actuarial projection at June 30, 2008, it is estimated that the employer must make contributions in fiscal year 2010 of approximately $307.5 million. The Fund is required to communicate to the employer the actual contribution required for fiscal year 2010 by February 28, 2009. 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 $10.1 million and the primary employer of the Fund is required to remit $10.7 million during the fiscal year ending June 30, 2010.

The funded ratio for pension benefits decreased from 80.1% in 2007 to 79.4% in 2008. The decrease in the funded ratio is due to the investment losses for 2008. Employer contributions are expected to increase, due to required minimum employer contributions and a slight increase is expected in operational and benefits costs. The rate of return for the period ending June 30, 2009, is projected at 8%. As a result, the funded ratio is expected to decrease to 78.7% in fiscal year 2009. The funded ratio of the plan has ranged from 79.4% to 100.8% since 1999.

As previously mentioned, the *schedule of employer contributions* shows the amount of required contributions in accordance with Governmental Accounting Standards Board (GASB) No.25 and GASB Statement No.43. As exhibited in the schedules, the employer is not making 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, 2008, with comparative totals for 2007

	Pension Fund	Health Insurance Fund	Total 2008	Total 2007
Assets				
Cash and cash equivalents	$ 455,136,975	$ 48,189,385	$ 503,326,360	$ 439,470,864
Receivables:				
Intergovernmental	17,286,497	–	17,286,497	14,109,992
Employee	39,024,213	–	39,024,213	38,898,810
Accrued investment income	47,965,601	–	47,965,601	42,543,007
Due from brokers	278,428,934	–	278,428,934	221,204,572
Participating teachers' accounts for contributions	4,456,943	–	4,456,943	3,781,314
Other receivables	1,163,874	–	1,163,874	1,358,530
Total receivables	388,326,062	–	388,326,062	321,896,225
Investments, at fair value:				
Fixed income	2,585,752,780	–	2,585,752,780	2,696,170,921
Equity	7,626,342,333	–	7,626,342,333	8,976,632,819
Real estate	921,205,016	–	921,205,016	836,970,146
Total investments	11,133,300,129	–	11,133,300,129	12,509,773,886
Securities lending collateral	2,160,174,876	–	2,160,174,876	2,485,185,205
Capital assets, net of accumulated depreciation	3,579,949	–	3,579,949	4,042,962
Total assets	**14,140,517,991**	**48,189,385**	**14,188,707,376**	**15,760,369,142**
Liabilities				
Benefits payable	1,096,875	–	1,096,875	1,112,734
Refunds payable	8,929,357	–	8,929,357	22,259,768
Accounts and administrative expenses payable	10,312,694	3,200,000	13,512,694	16,595,858
Securities lending collateral	2,160,174,876	–	2,160,174,876	2,485,185,205
Due to brokers	521,516,428	–	521,516,428	415,204,568
Total liabilities	**2,702,030,230**	**3,200,000**	**2,705,230,230**	**2,940,358,133**
Net assets held in trust for benefits (Unaudited schedules of funding progress are presented on page 37)	**$ 11,438,487,761**	**$ 44,989,385**	**$ 11,483,477,146**	**$ 12,820,011,009**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

Year ended June 30, 2008, with comparative totals for 2007

	Pension Fund	Health Insurance Fund	Total 2008	Total 2007
Additions:				
Contributions:				
Intergovernmental, net	$ 22,597,412	$ 65,000,000	$ 87,597,412	$ 78,181,673
Employee	172,504,804	–	172,504,804	179,017,663
Minimum funding requirement (employer)	141,673,000	–	141,673,000	90,582,000
Total contributions	336,775,216	65,000,000	401,775,216	347,781,336
Investment income:				
Net appreciation (depreciation) in fair value	(1,026,367,696)	–	(1,026,367,696)	1,636,254,566
Interest	180,366,012	1,278,818	181,644,830	187,244,699
Dividends	165,108,767	–	165,108,767	156,989,222
Miscellaneous	7,272	–	7,272	73,354
Securities lending income	(5,520,590)	–	(5,520,590)	7,991,999
Securities lending expense	(10,885,460)	–	(10,885,460)	(1,244,540)
Less investment expense:				
Investment advisory and custodial fees	(41,525,892)	–	(41,525,892)	(37,125,935)
Total investment income, net	(738,817,587)	1,278,818	(737,538,769)	1,950,183,365
Total additions	**(402,042,371)**	**66,278,818**	**(335,763,553)**	**2,297,964,701**
Deductions:				
Pension benefits	904,675,062	–	904,675,062	797,776,955
Refunds	15,273,946	–	15,273,946	30,646,952
2.2 Legislative Refunds	1,456,322	–	1,456,322	5,707,557
Refund of insurance premiums	–	68,691,191	68,691,191	61,028,841
Death benefits	2,846,213	–	2,846,213	2,877,183
	924,251,543	68,691,191	992,942,734	898,037,488
Administrative and miscellaneous expenses	7,827,576	–	7,827,576	8,434,688
Total deductions	**932,079,119**	**68,691,191**	**1,000,770,310**	**906,472,176**
Net increase (decrease)	(1,334,121,490)	(2,412,373)	(1,336,533,863)	1,391,492,525
Net assets held in trust for benefits:				
Beginning of period	12,772,609,251	47,401,758	12,820,011,009	11,428,518,484
End of period	**$ 11,438,487,761**	**$ 44,989,385**	**$ 11,483,477,146**	**$ 12,820,011,009**

See accompanying notes to financial statements.

(1) Description of Pension and Health Insurance Plan

(A) Pension Plan

The Public School Teachers' Pension and Retirement Fund of Chicago (the 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, 2008 and 2007, the Fund membership consisted of the following:

	2008	2007
Retirees and beneficiaries currently receiving benefits	23,920	23,623
Terminated members entitled to benefits but not yet receiving them	3,479	2,752
Current members:		
Vested	20,568	20,594
Nonvested	11,518	12,374
	59,485	59,343

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 5 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 four highest years of salary earned or (2) applying a flat 2.2% to the average of the four 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 four highest years of salary in the last 10 years of service or on the average salary for the total service, if less than four years, with certain qualifications. A 3% automatic annual increase is paid on survivor pension benefits. A single-sum death benefit is also payable on the death of a contributor or retired member of the Fund, with certain qualifications.

A disability pension is payable in the event of total or permanent disability with certain qualifications and service requirements. A duty disability benefit, equal to 75% of final salary, is provided upon the total incapacity for further teaching as a result of an injury sustained while in teaching service. A nonduty disability is payable after 10 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.

(b) 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 2008 and 2007. 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. Of the net assets available for benefits in the health insurance fund, previous year amounts authorized but not yet expended at June 30, 2008 and 2007 are $44,989,385 and $47,401,758, respectively. 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

(a) 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.

(B) Basis of Accounting

The Fund's financial statements are prepared using the accrual basis of accounting, following standards promulgated by the 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.

(C) 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.

Investments are governed by Chapter 40, Act 5, Article 17 of the Illinois Compiled Statutes. These statutes authorize the Fund to invest in accordance with the prudent person rule, which states that fiduciaries will exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity with such matters would use in the conduct of an enterprise of a like character with like aims.

Investments are reported at fair value. Where appropriate, the fair value includes estimated disposition costs. Fair value for stock is determined by using the closing price listed on the national securities exchanges as of June 30. Fair value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled funds, the net asset value is determined and certified by the commingled fund manager as of June 30. Alternative investments which include private equity and real estate are valued based on amounts established by the fund managers which are subject to annual audit.

(D) 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, 10 years for the benefit payment system, and 3 to 5 years for furniture and equipment.

(E) 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.

(F) Risks and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets.

(g) Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, the Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates and assumptions.

(h) New Accounting Pronouncements

During the year ended June 30, 2008, the Fund implemented the provisions of GASB Statement No. 50, *Pension Disclosures*. GASB Statement No. 50 amends GASB Statement No. 25 and more closely aligns the financial reporting requirements (disclosures) for pensions with those for other postemployment benefits.

(3) Receivables

As of June 30, 2008 and 2007, intergovernmental receivables include contributions due from the Board of Education and appropriations due from the State of Illinois as follows:

	2008	2007
Board of Education:		
Early retirement program	$ 9,859,374	$ 6,670,869
Deficiencies	1,165,231	1,165,231
State of Illinois appropriations	6,261,892	6,273,892
	$ 17,286,497	$ 14,109,992

The Board of Education passed a resolution to offer an early retirement program for fiscal years 2007 and 2008. 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 $36,574,472 and $36,637,474, on behalf of the employees, at June 30, 2008 and 2007, respectively. Employees owed the Fund $2,449,741 and $2,261,336 for the 2.2 formula upgrade at June 30, 2008 and 2007, respectively.

(4) Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the Fund's deposits may not be returned. All noninvestment related bank balances at year-end 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). Cash held in the investment related bank account is neither insured nor collateralized for amounts in excess of $100,000. There is no deposit related deposit policy for custodial credit risk.

Carrying amount at June 30	
Cash	$ 34,812,134
Bank balances at June 30	37,062,867
Amount exposed to custodial credit risk	36,915,098

Investments

The following table presents a summary of the Fund's investments at fair values at June 30, 2008:

Investments	Fair value
U.S. government and agency fixed income	$ 1,485,108,310
U.S. corporate fixed income	987,854,974
Foreign fixed income securities	131,426,685
U.S. equities	4,893,349,236
Foreign equities	2,436,361,447
Pooled short-term investment funds	468,514,226
Real estate	921,205,016
Private equity	296,631,650
Swaps	(26,881,336)
Options	(455,853)
Margin cash	8,700,000
Total investments	$ 11,601,814,355

Included in the balance of the investments above are amounts categorized on the statement of plan net assets as cash equivalents totaling $468,514,226, which consists of pooled short-term investment funds managed by Northern Trust. Under the terms of the investment agreement for the pooled short-term investment funds, Northern Trust may invest in a variety of short-term investment securities.

(A) Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of June 30, 2008, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Fund's name:

Custodial Credit Risk	June 30, 2008
Margin cash	$ 8,700,000

(B) Concentration of Credit Risk

There are no significant investments in any organization that represent 5% or more of net assets available for benefits as of June 30, 2008.

(C) Credit Risk

Credit risk is the risk that the Fund will not recover its investments due to the ability of the counterparty to fulfill its obligation. The following table presents the quality ratings of debt securities held by the Fund as of June 30, 2008:

	Asset-Backed	Commercial Mortgage-Backed	Corporate Bonds	Government Agencies	Government Bonds	Government Mortgage-Backed	Municipal Provincial Bonds
AAA	$ 45,860,179	$ 154,147,066	$ 52,201,594	$ 358,059,186	$ 591,836,363	$ 234,955	$ —
AA	1,284,723	247,047	150,454,149	743,471	—	—	7,293,926
A	1,622,256	21,313	274,788,420	5,986,628	12,177,241	—	4,503,727
BBB	3,419,377	—	248,434,998	1,345,964	13,991,375	—	—
BB	422,621	327,828	16,917,508	—	—	—	—
B	754,670	—	12,362,762	—	—	—	—
CCC	206,343	—	3,618,155	—	—	—	—
NR	2,378,747	21,444,256	102,199,027	14,395,848	—	1,351,682	495,855
U.S. government agency	—	—	—	34,314,833	36,317,089	428,228,787	—
Total debt securities	**$ 55,948,916**	**$ 176,187,510**	**$ 860,976,613**	**$ 414,845,930**	**$ 654,322,068**	**$ 429,815,424**	**$ 12,293,508**

(D) Interest Rate Risk

Interest rate risk is the risk that the fair value of the Fund's investments will decrease as a result of an increase in interest rates. The following table presents the weighted average maturity of debt securities held by the Fund as of June 30, 2008:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Asset-backed securities	$ 55,948,916	0.37
Commercial mortgage-backed	176,187,510	2.42
Corporate bonds	842,339,424	3.82
Government agencies	414,845,930	1.07
Government bonds	654,322,068	2.07
Government mortgage-backed securities	429,815,424	2.14
Municipal/provincial bonds	12,293,508	0.06
Total	**$ 2,585,752,780**	

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.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table presents the foreign currency risk by type of investment as of June 30, 2008:

Foreign Equities:	Fair Value	Percentage
Argentine peso	$ 42,828	— %
Australian dollar	77,414,539	3.18
Brazilian real	13,871,115	0.57
British pound sterling	460,399,997	18.90
Canadian dollar	56,072,660	2.30
Czech koruna	5,352,606	0.22
Danish krone	5,074,115	0.21
Egyptian pound	200,440	0.01
Euro	784,469,263	32.20
Hong Kong dollar	52,454,622	2.15
Indian rupee	1,571,472	0.06
Indonesian rupiah	1,750,334	0.07
Japanese yen	448,710,880	18.42
Malaysian ringgit	2,547,249	0.10
Mexican peso	14,171,990	0.58
New Israeli shekel	880,777	0.04
New Zealand dollar	297,708	0.01
Norwegian krone	25,290,857	1.04
Pakistan rupee	266,186	0.01
Polish zloty	393,688	0.02
Singapore dollar	49,419,266	2.02
South African rand	603,287	0.02
South Korean won	19,747,107	0.81
Swedish krona	16,783,050	0.69
Swiss franc	240,885,879	9.89
Taiwan dollar	8,222,252	0.34
Thai baht	1,049,461	0.04
Turkish lira	4,368,268	0.18
U.S. dollar	144,049,551	5.92
Total	**$ 2,436,361,447**	**100.00%**
Foreign fixed income — U.S. dollar	$ 131,426,685	100.00%

(F) Derivatives

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

As of June 30, 2008 and 2007, the Fund held forward currency contracts representing agreements to buy or sell U.S. dollars, Australian dollars, British pound sterling, Canadian dollars, Danish krone, euros, Hong Kong dollars, Japanese yen, Mexican pesos, New Zealand dollars, Polish zloty, Singapore dollars, South Korean won, and Swedish krona 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, 2008 and 2007, the fair values of the obligations under the purchase side of these forward contracts amounted to $40,165,978 and $30,897,631, respectively, and the fair values of the obligations under the sale side of these forward contracts amounted to $40,214,135 and $30,925,061, respectively. As of June 30, 2008, the Fund held 24,274,800 units (1.2%) of three commingled equity trust funds. 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 for June 30, 2008 and 2007. 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 managers have chosen to use futures contracts as a low-cost substitute for direct ownership of the underlying securities.

(G) 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%. 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, if the collateral is inadequate to replace the securities lent, or the borrowers 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, 2008	June 30, 2007
Fair value of securities loaned for cash collateral	$ 2,099,388,899	$ 2,425,173,699
Fair value of securities loaned for noncash collateral	425,228,746	259,713,313
Total fair value of securities loaned	2,524,617,645	2,684,887,012
Fair value of cash collateral from borrowers	2,160,174,876	2,485,185,205
Fair value of noncash collateral from borrowers	425,173,838	268,834,822
Total fair value of collateral from borrowers	$ 2,585,348,714	$ 2,754,020,027

(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 projections at June 30, 2006 and 2005, the employer and state were required to make contributions in the amount of $141.7 million and $90.6 million in fiscal years 2008 and 2007, respectively.

(A) 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 $216,973 and $233,450 for the years ended June 30, 2008 and 2007, respectively, which is 100% of the employee contributions required to be made by the Fund.

(B) 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.

(c) 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
- 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, 2008 and 2007, the Board of Education passed an Early Retirement Option resolution and was required to contribute $3,149,744 and $6,709,630 respectively, for the optional retirement program. The required contributions for fiscal year 2008 and 2007 are reflected as a receivable in the financial statements.

(6) Funded Status and Funding Progress

As of June 30, 2008, the funded status, annual covered payroll, and unfunded actuarial accrued liability for the Pension and Health Insurance Plans were as follows:

June 30, 2008	Pension Plan	Health Insurance Plan
Actuarial accrued liability	$ 15,203,741,000	$ 2,407,122,492
Less actuarial value of assets	12,069,417,000	44,989,385s
Unfunded actuarial accrued liability	$ 3,134,324,000	$ 2,362,133,107
Funded ratio	79.38%	1.87%
Annual covered payroll	$ 1,914,559,000	$ 1,914,559,000
Unfunded actuarial accrued liability as a percentage of annual covered payroll	163.71%	123.38%

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. Examples include assumptions about future employment, mortality, investment return, and healthcare cost trend. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of each plan's net assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The following represents the actuarial methods and assumptions for the Pension and Health Insurance Plans as of June 30, 2008:

	Pension Plan	Health Insurance Plan
Valuation date	June 30, 2008	June 30, 2008
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level percent of payroll	Level percent of payroll
Amortization approach	Open	Open
Amortization period	30 years	30 years
Asset valuation method	4 year smoothed market value	Market value
Actuarial assumptions:		
Investment rate of return	8.0% per year	4.5% 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.	N/A
Inflation rate*	3% per year	3% per year
Postretirement benefit increase:		
2009	3% per year	5.0% per year
2010	3% per year	8.0% per year
2011	3% per year	7.5% per year
2012	3% per year	7.0% per year
2013	3% per year	6.5% per year
2014	3% per year	6.0% per year
2015	3% per year	5.5% per year
2016 and later	3% per year	5.0% per year

* Includes inflation at cost-of-living adjustments

(7) 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 three fiscal years.

(8) 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.

(9) Operating Leases

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 as follows:

Year Ended June 30:	Amount
2009	$ 462,017
2010	474,675
2011	487,333
2012	499,991
2013	512,649
2014 – 2018	2,753,115
2019 – 2021	1,700,391
Total minimum future rental payments	**$ 6,890,171**

Rent expense was $399,010 and $405,318 in 2008 and 2007, respectively.

(10) Subsequent Events

Recent market conditions have resulted in an unusually high degree of volatility and increased the risk and short-term liquidity associated with certain investments held by the Plan, which have adversely impacted the value of investments after the date of these financial statements.

Schedule of Funding Progress (Unaudited)
Pension Plan

Last six fiscal years

(In thousands, except for percentages)

Schedule 1

Valuation Date	Actuarial Value of Assets (A)	Actuarial accrued liability — Projected unit credit (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded ratio (A/B)	Annual covered payroll (C)	UAAL as a percentage of annual covered payroll (B-A)/C
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	11,759,699	14,677,184	2,917,485	80.12	1,863,182	156.59
June 30, 2008	12,069,417	15,203,741	3,134,324	79.38	1,914,559	163.71

(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.

See accompanying independent auditors' report.

Schedule of Funding Progress (Unaudited)
Health Insurance

Last three fiscal years

(In thousands, except for percentages)

Schedule 2

Valuation Date	Actuarial Value of Assets (A)	Actuarial accrued liability — Projected unit credit (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded ratio (A/B)	Annual covered payroll (C)	UAAL as a percentage of annual covered payroll (B-A)/C
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
June 30, 2008	44,989	2,407,122	2,362,133	1.87	1,914,559	123.38

See accompanying independent auditors' report.

Schedule of Contributions (Unaudited)
Pension Plan

LAST SIX FISCAL YEARS

Schedule 3

Period ended	Employer Contributions: Annual required contributions	Employer Contributions: Actual	Employer Contributions: Percentage contributed	Employee Contributions: Annual required contributions	Employee Contributions: Actual	Employee Contributions: Percentage contributed	Total contributions as a percentage of annual required contributions
June 30, 2003	$ 160,195,509	78,747,983	49.16%	$ 158,314,127	159,931,110	101.02%	74.94%
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	311,139,800	103,761,750	33.35	156,716,250	179,017,663	114.23	60.44
June 30, 2008	290,072,885	164,466,511	56.70	161,037,666	172,504,804	107.12	74.70

See accompanying independent auditors' report.

Schedule of Contributions (Unaudited)
Health Insurance

LAST THREE FISCAL YEARS

Schedule 4

	Employer Contributions		
Period Ended	Annual Required Contributions	Actual	Percentage Contributed
June 30, 2006	$ 213,315,753	65,000,000	30.47%
June 30, 2007	209,446,107	65,000,000	31.03
June 30, 2008	150,033,070	65,000,000	43.32

See accompanying independent auditors' report.

Schedule of Administrative and Miscellaneous Expenses

Years ended June 30, 2008 and 2007

Schedule 5

	2008	2007
Salaries	$ 3,841,943	$ 3,815,159
Accrued leave	84,635	178,954
Actuary fees	67,200	48,956
Auditing	45,000	46,565
Banking fees	46,195	17,861
Conferences, seminars, and membership dues	24,744	13,876
Consulting	1,268	28,630
Data processing	76,493	87,797
Depreciation	590,503	728,583
Document imaging	20,653	22,483
Election expense	53,506	178,385
Employees' health insurance	485,094	461,990
Field services/pension rep	66,399	80,620
Health insurance consulting	42,687	33,174
Insurance premium	35,628	36,595
Legal fees	168,192	222,008
Legislative expense	111,048	105,760
Maintenance of equipment, systems, software, and support	316,086	303,581
Medical fees	45,804	59,445
Office forms and supplies	51,685	36,451
Office rent and utilities	524,897	704,629
Postage	191,727	212,044
Printing and binding	217,163	245,947
Studies and evaluation	13,080	3,638
System consulting	556,620	571,465
Trustee conferences, seminars, and meetings	96,356	128,448
Tuition and training	26,475	29,820
Miscellaneous	26,495	31,824
Total	$ 7,827,576	$ 8,434,688

See accompanying independent auditors' report.

Schedule of Cash Receipts and Disbursements

Years ended June 30, 2008 and 2007

Schedule 6

	2008	2007
Cash and cash equivalents at beginning of period	$ 439,470,864	$ 418,269,986
Add receipts:		
Member contributions	171,703,772	171,830,735
Public revenues	226,290,006	169,506,365
Interest and dividends	335,817,685	348,847,736
Net investment sales	399,193,559	271,096,972
Total cash receipts	**1,133,005,022**	**961,281,808**
Less disbursements:		
Benefit payments	907,537,134	800,636,915
Refunds	28,604,357	22,755,827
2.2 legislative refunds	1,456,322	5,707,557
Refund of insurance premiums	65,491,191	55,228,841
Investment and administrative expenses	66,059,079	55,712,393
Miscellaneous	1,443	39,397
Total cash disbursements	**1,069,149,526**	**940,080,930**
Net increase in cash and cash equivalents	63,855,496	21,200,878
Cash and cash equivalents at end of period	**$ 503,326,360**	**$ 439,470,864**

See accompanying independent auditors' report.

Schedule of Manager Fees

Years ended June 30, 2008 and 2007

Schedule 7

	2008	2007
Acadian Asset Management	$ 1,799,462	$ 574,682
Adams Street Partners	983,600	915,674
Adelante Capital Management	355,838	316,010
Ariel Capital Management	613,840	662,535
Attucks Asset Management	883,489	851,753
Brandywine Global Investment Management	942,424	298,521
Capri Capital Partners	237,383	335,140
CB Richard Ellis Investors	216,175	292,209
Chicago Equity Partners	399,605	482,114
Dimensional Fund Advisors	487,730	559,866
DV Urban Realty Partners	312,503	312,500
Earnest Partners, LLC	535,870	159,081
Fidelity Capital Management Trust Co.	172,313	673,057
Fremont Realty Capital	311,819	450,000
HarbourVest Partners	1,000,000	1,000,000
Harris Investment Management	608,396	690,500
Hispania Capital Partners	153,151	307,840
Holland Capital Management	490,014	499,661
ICV Capital Partners	138,762	148,520
Intercontinental Real Estate Corp.	438,102	437,500
J. & W. Seligman & Co.	896,495	999,749
J.P. Morgan Fleming Asset Management	3,473,980	1,953,441
Lazard Asset Management	1,231,667	888,128
Lehman Brothers Asset Management	354,484	230,022
LM Capital Group	133,151	131,344
Lombardia Capital Partners	530,078	466,466
Lynmar Capital Group	418,381	357,548
Merrill Lynch	401,667	—
Mesirow Financial	1,189,075	986,000
MFS Institutional Advisors	1,608,285	1,848,924
Morgan Stanley Investment Management	3,371,014	3,620,112
Muller and Monroe Asset Management	303,836	250,000
New Amsterdam Partners	650,858	713,911

Continued on page 42

Schedule of Manager Fees (continued)

Years ended June 30, 2008 and 2007

Schedule 7 (continued)

	2008	2007
Northern Trust Global Investments	1,303,006	1,533,195
Olympus Real Estate Partners	—	56,708
Palladium Equity Partners	150,000	150,000
Pantheon Ventures, Inc.	599,718	655,338
Pharos Capital Group	181,318	187,500
Piedmont Investment Advisors	503,482	322,831
Progress Investment Management	839,243	863,192
Prudential Investment Management	1,725,479	1,848,389
RhumbLine Advisers	85,593	10,277
RREEF America	317,121	540,899
Smith Graham & Co.	87,344	157,543
Syncom Partners	166,181	196,875
Taplin, Canida and Habacht	197,024	200,049
UBS Global Asset Management	2,764,321	2,716,065
United Investment Managers, Inc.	873,983	277,372
Urban America	312,484	334,477
Urdang Investment Management	370,650	485,562
Waddell & Reed Asset Management	382,386	524,796
Walton Street Capital	922,913	885,034
Western Asset Management	890,562	905,940
William Blair & Company	903,900	288,301
Zenna Financial Services	—	14,852
Zevenbergen Capital Investments	290,400	255,480
Total manager fees	39,510,555	35,823,483
Mercer – General investment consultant	360,000	360,000
Northern Trust – Master custodian	500,000	500,000
The Townsend Group – Real estate consultant	120,000	120,000
Total consultant fees	980,000	980,000
Fees for foreign exchange and real estate	1,035,337	322,452
Total	**$ 41,525,892**	**$ 37,125,935**

See accompanying independent auditors' report.

Schedule of Consultant Payments

Years ended June 30, 2008 and 2007

Schedule 8

	2008	2007
Anselmo & Associates	$ 68,995	$ 60,434
Bansley & Kiener, L.L.P.	45,000	46,565
Bogfire, Inc.	25,685	36,375
Bradley Consulting Group, Inc.	525,500	570,930
Cahill Printing Co.	33,652	31,907
Chicago Press Corporation	58,771	70,651
Data Consultants	38,464	32,762
Diamond Graphics	—	98
E. M. Barnes & Associates	51,748	45,326
Election Services Corporation	44,628	85,550
Goldstein & Associates	67,200	48,956
Holleman, Michelle	61,835	49,837
Imaging Office Systems	84,165	31,974
Jacobs, Burns, Orlove, Stanton & Hernandez	57,785	105,338
Kirkland & Ellis, LLP	80,593	60,518
Levi, Ray & Shoup, Inc.	236,974	277,783
Lynch, Robin	70,620	—
Microsystems	4,748	22,797
National Data Service of Chicago	231,504	250,728
North Shore Printers	43,714	94,451
The Segal Company	42,687	33,174
Total	**$ 1,874,268**	**$ 1,956,154**

See accompanying independent auditors' report.

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, 2007 through June 30, 2008.

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

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Kristin.FinneyCooke@mercer.com
www.mercer.com

January 21, 2009

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, 2008.

As of June 30, 2008, the Fund's market value totaled $11.4 billion, an approximate $1.35 billion decrease since June 30, 2007, due to net withdrawals and investment performance. During the past twelve month period:

- Domestic equity markets struggled. The S&P 500 Index, an index of domestic large capitalization stocks, declined 13.1% during the one year period while smaller stocks, as measured by the Russell 2000 Index, returned -16.2%. The largest negative contributor to performance was in the financials sector while the energy sector posted strong results. Growth stocks outperformed value stocks by a wide margin.
- Developed international equity markets outperformed their domestic equity counterparts during the one year period, declining 10.1% as measured by the MSCI EAFE (Europe, Australasia, Far East) Index. Emerging markets performed relatively well, advancing 4.9%, as measured by the MSCI Emerging Markets Index.
- The Fixed income market produced strong results during the year, gaining 7.1% as measured by the Barclays Aggregate Bond Index (Formally known as the Lehman Brothers Aggregate Bond Index). The fixed income credit crisis began during the fiscal year 2008 and was marked by a flight to quality as inflation-linked bonds (or TIPS issues) and Treasuries lead corporate and asset-backed securities by wide margins.

Within this environment, the Fund declined 5.3% during the 12 month period ending June 30, 2008. The Fund outperformed its benchmark but trailed the peer group during the fiscal year. Over longer periods the Fund is ahead of the benchmark for both the three and five year time frames and slightly trailed its peer group over the same time periods. Since inception, the Fund outperformed its benchmark by 80 basis points, annually.

The Fund's domestic equity managers declined 10.8% during the fiscal year, leading the Russell 3000 Index return of -12.7%. The domestic equity segment of the Fund outperformed despite holding a value tilt during this growth market. In general, the Fund's large cap managers performed well while the smaller cap managers struggled.

The Fund's international equity allocation outperformed domestic equity, declining 7.2%, but trailed its benchmark index. Active management struggled during the year as most of the Fund's managers outperformed their peers, but trailed the index. This segment of the fund has struggled to keep pace with the market over the past few years but long-term international equity results have been positive.

The fixed income portfolio produced positive results during the fiscal year, gaining 5.8%, but trailed the index. The flight to quality in the market place negatively impacted the opportunistic managers in the portfolio. In contrast, the Fund's allocation to the Government/Credit Index fund bolstered results. The flight to quality's impact on performance was great enough to drive relative results over the longer time periods below the index.

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. There are many challenges to the Fund over the next year and Mercer will continue to review the Fund's strategy in light of current events.

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.

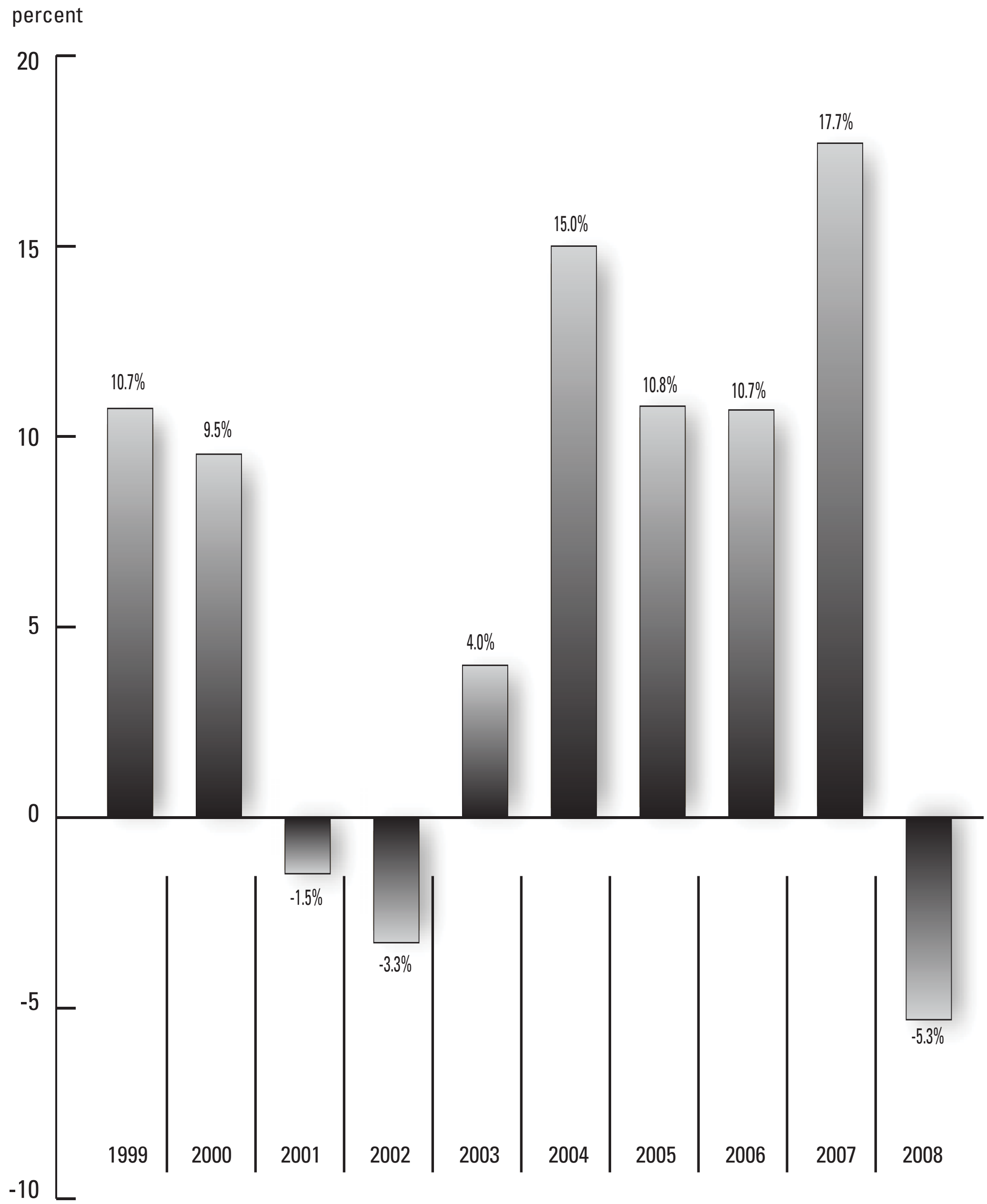
Sincerely,

Kristin R. Finney-Cooke

Douglas J. Kryscio, CFA

Total Annual Fund Rate of Return*

as of June 30, 1999-2008



**Time-weighted rate of return.*

Schedule of Investment Results

	For the Year Ended June 30,					Annualized Returns		
	2004	2005	2006	2007	2008	3 Years	5 Years	10 Years
Total Fund	15.0%	10.8%	10.7%	17.7%	(5.3)%	7.3%	9.5%	6.6%
Large Cap Equity	18.5	8.9	9.8	19.9	(10.1)	5.8	8.8	4.1
Russell 1000 Index	19.5	7.9	9.1	20.4	(12.4)	4.8	8.2	3.4
S&P 500	19.1	6.3	8.6	20.6	(13.1)	4.4	7.6	2.9
Mid Cap Equity	28.6	14.3	12.6	18.3	(10.5)	6.0	11.9	n/a
S&P Mid Cap	28.0	14.0	13.0	18.5	(7.3)	7.5	12.6	9.4
Small Cap Equity	35.7	10.0	12.9	19.7	(18.2)	3.4	10.5	6.8
Russell 2000	33.4	9.4	14.6	16.4	(16.2)	3.8	10.3	5.5
International Equity	30.3	14.5	23.9	25.2	(7.2)	12.9	16.5	8.2
MSCI ACWI ex US	32.5	16.9	28.4	30.1	(6.2)	16.2	19.4	7.7
Fixed Income	0.2	7.3	(0.9)	6.2	5.8	3.6	3.7	5.6
Lehman Brothers Aggregate	0.3	6.8	(0.8)	6.1	7.1	4.1	3.9	5.7
Public REITs	25.8	37.7	23.3	20.7	(17.1)	7.3	16.4	12.5
NAREIT	27.1	32.7	19.1	12.6	(20.3)	3.1	13.0	10.0
Real Estate	12.0	17.5	20.6	18.5	6.8	15.1	15.0	12.5
NCREIF (NPI)	10.8	18.0	18.7	17.3	9.2	15.0	14.7	12.2
Private Equity*	6.3%	17.6%	27.2%	22.0%	19.7%	22.8%	18.5%	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

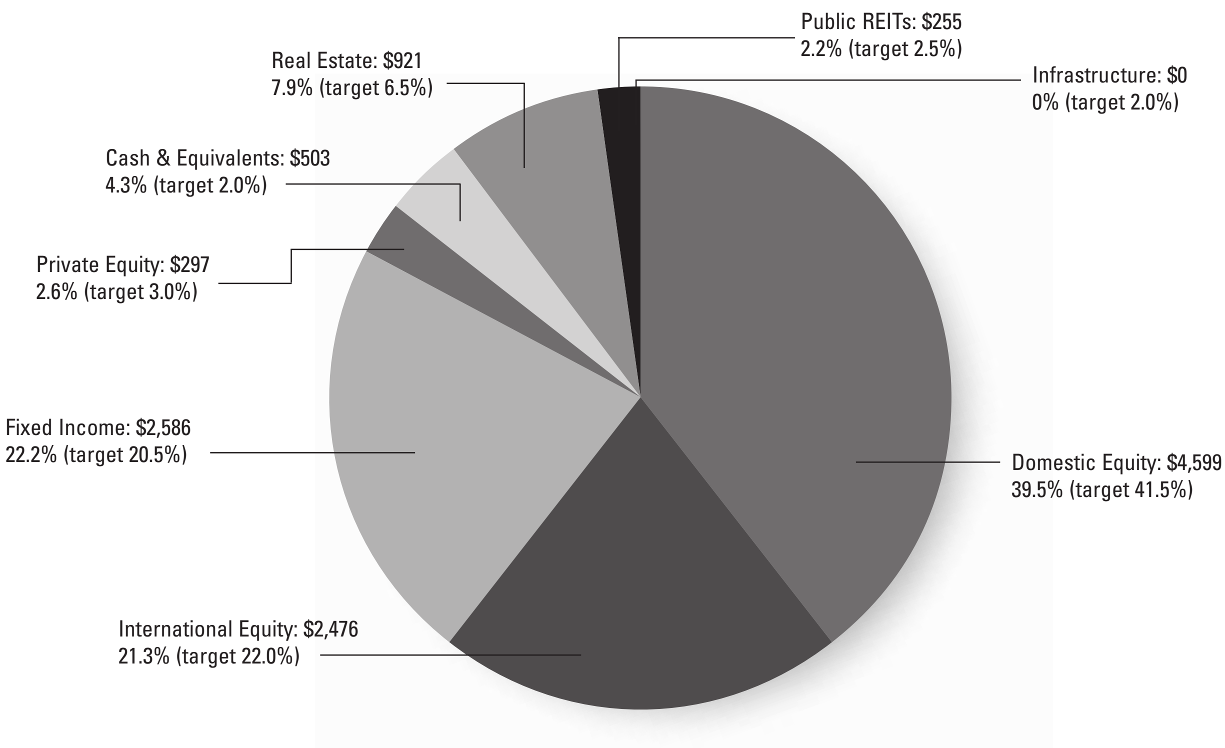
IN MILLIONS OF DOLLARS

	JUNE 30, 2007 Fair Value	Purchases	Sales	Adjustments	JUNE 30, 2008 Fair Value	Percent of Total
Fixed Income						
Government	1,615.5	4,883.7	5,069.1	81.2	1,511.3	13.0%
Corporate	808.5	358.9	288.9	(36.1)	842.4	7.2%
Miscellaneous	272.2	115.7	129.7	(26.1)	232.1	2.0%
Total Fixed Income	2,696.2	5,358.3	5,487.7	19.0	2,585.8	22.2%
Equity						
Stocks	8,446.1	4,005.7	4,540.9	(836.2)	7,074.7	60.8%
Private Equity	309.3	36.2	27.2	(21.6)	296.7	2.6%
Public REITs	221.2	267.9	0.0	(234.2)	254.9	2.2%
Total Equity	8,976.6	4,309.8	4,568.1	(1,092.0)	7,626.3	65.6%
Real Estate	837.0	110.1	37.2	11.3	921.2	7.9%
Cash & Equivalents	439.4	63.9 *	0.0	0.0	503.3	4.3%
Total Portfolio	**$ 12,949.2**	**$ 9,842.1**	**$ 10,093.0**	**$ (1,061.7)**	**$ 11,636.6**	**100.0%**

**Net of cash receipts and disbursements for year ending 6/30/08.*

Asset Allocation as of June 30, 2008

IN MILLIONS OF DOLLARS

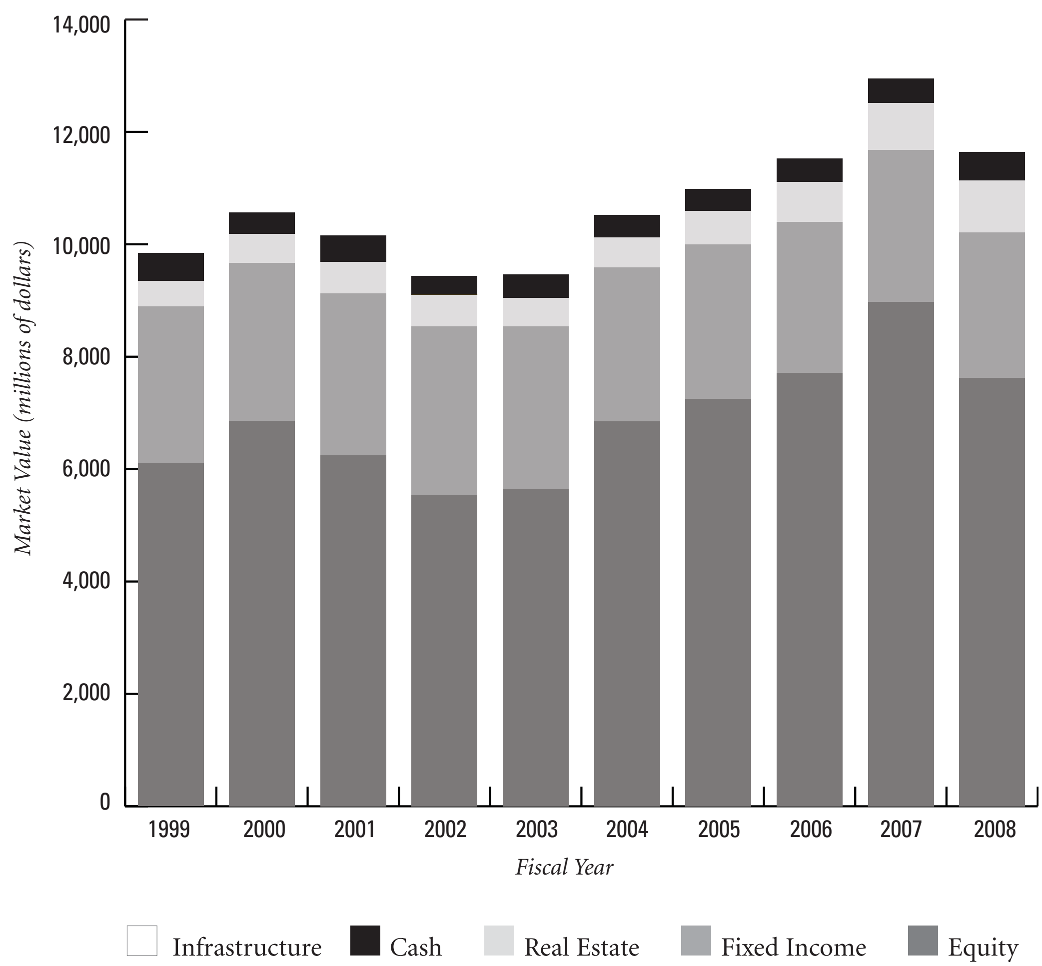


**Note: percentage indicates actual category weight as a percentage of the entire portfolio.*

Historical Asset Allocation

	2004		2005		2006		2007		2008	
	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy
Equity:										
Domestic	50.1	48.5	49.3	48.5	47.7	48.5	43.9	41.5	39.5	41.5
International	11.8	12.5	12.8	12.5	14.6	12.5	21.3	22.0	21.3	22.0
Public REITs	1.8	2.0	2.1	2.0	2.3	2.0	1.7	2.5	2.2	2.5
Private Equity	1.4	2.0	1.8	2.0	2.3	2.0	2.4	3.0	2.6	3.0
Total Equity	65.1	65.0	66.0	65.0	66.9	65.0	69.3	69.0	65.6	69.0
Fixed Income	26.0	28.0	24.9	28.0	23.4	28.0	20.8	20.5	22.2	20.5
Real Estate	5.1	5.0	5.5	5.0	6.1	5.0	6.5	6.5	7.9	6.5
Infrastructure	—	—	—	—	—	—	0.0	2.0	0.0	2.0
Cash & Equiv.	3.8	2.0	3.6	2.0	3.6	2.0	3.4	2.0	4.3	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, 2008

Economic Sector Holdings

S&P Economic Sector	Number of Shares	Market Value	Percent of Total	S&P 500 Index Allocation
Information Technology	37,024,833	$ 763,626,445	16.6%	16.4%
Financials	25,406,308	654,615,581	14.3%	14.2%
Industrials	18,757,875	651,585,366	14.2%	11.1%
Energy	10,166,596	650,202,182	14.1%	16.2%
Health Care	19,225,644	554,938,690	12.1%	11.9%
Consumer Discretionary	24,437,570	473,708,439	10.3%	8.2%
Consumer Staples	8,425,464	331,985,571	7.2%	10.8%
Materials	5,588,453	225,189,264	4.9%	3.9%
Utilities	4,615,147	171,597,142	3.7%	4.0%
Telecommunication Services	4,912,410	116,536,819	2.5%	3.3%
Miscellaneous	4,581,486	4,755,464	0.1%	0.0%
Total Domestic Equity	**163,141,786**	**$ 4,598,740,963**	**100.0%**	**100.0%**

Top 10 Domestic Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
Exxon Mobil Corp.	1,068,840	$ 94,196,869	2.05%
Chevron Corp.	531,913	52,728,536	1.15%
Apple, Inc.	273,283	45,758,506	1.00%
Johnson & Johnson	698,957	44,970,893	0.98%
AT&T, Inc.	1,323,743	44,596,902	0.97%
General Electric Co.	1,655,939	44,197,012	0.96%
Microsoft Corp.	1,563,071	43,000,083	0.93%
Hewlett Packard Co.	927,351	40,998,188	0.89%
Cisco Systems, Inc.	1,628,969	37,889,819	0.82%
ConocoPhillips	385,169	36,356,102	0.79%
Total Top 10 Domestic Equity	**10,057,235**	**484,692,910**	**10.54%**
Total Domestic Equity		**$ 4,598,740,963**	**100.00%**

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

International Equity Summary

as of June 30, 2008

Country Holdings

Country	Number of Shares	Market Value	Percent of Total	MSCI ACWI ex US Index Allocation
Europe				
United Kingdom	48,076,063	$ 454,713,338	18.4%	15.9%
Switzerland	3,586,388	233,194,893	9.4%	7.8%
France	3,998,084	221,871,590	9.0%	6.6%
Germany	2,842,872	210,944,374	8.5%	5.2%
Netherlands	2,899,963	89,488,377	3.6%	3.0%
Italy	5,745,144	70,625,136	2.9%	2.8%
Spain	3,011,303	59,603,068	2.4%	2.2%
Other	12,264,081	310,682,963	12.5%	11.4%
Total Europe	**82,423,898**	**1,651,123,739**	**66.7%**	**54.9%**
Asia/Pacific Basin				
Japan	22,975,055	432,540,462	17.5%	15.6%
Australia	5,012,257	72,422,761	2.9%	5.0%
Singapore	15,586,281	42,729,098	1.7%	2.8%
South Korea	472,311	34,598,430	1.4%	2.5%
Other	22,988,881	68,622,063	2.8%	6.8%
Total Asia/Pacific Basin	**67,034,785**	**650,912,814**	**26.3%**	**32.7%**
Americas				
Canada	2,264,032	74,854,537	3.0%	7.4%
Brazil	1,515,016	33,478,274	1.3%	3.5%
Mexico	5,982,003	21,047,445	0.9%	1.0%
Other	5,330,674	44,638,733	1.8%	0.5%
Total Americas	**15,091,725**	**174,018,989**	**7.0%**	**12.4%**
Total International Equity	**164,550,408**	**$ 2,476,055,542**	**100.0%**	**100.0%**

Top 10 International Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
Nestle SA (Switzerland)	1,443,720	$ 65,425,206	2.64%
Roche Holdings AG (Switzerland)	274,120	49,517,063	2.00%
E.On AG NPV (Germany)	244,383	49,342,573	1.99%
Novartis AG (Switzerland)	830,863	45,882,627	1.85%
ENI SPA (Italy)	1,126,650	42,069,713	1.70%
Imperial Tobacco Group (United Kingdom)	828,335	30,843,638	1.25%
BP ORD (United Kingdom)	2,535,928	29,435,910	1.19%
Reckitt Benckiser Group (United Kingdom)	541,886	27,446,155	1.11%
Sumitomo Mitsui Financial Group (Japan)	3,542	26,697,401	1.08%
Canon, Inc. (Japan)	498,800	25,691,694	1.04%
Total Top 10 International Equity	**8,328,227**	**392,351,980**	**15.85%**
Total International Equity		**$ 2,476,055,542**	**100.00%**

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

Fixed Income Summary

as of June 30, 2008

Fixed Income Holdings

Asset Category	Par Value	Market Value	Percent of Total	Lehman Aggregate Index Allocation
Corporate Bonds	1,565,340,939	843,582,782	32.6%	19.8%
Government Bonds	611,833,000	666,615,575	25.8%	21.9%
Mortgage Backed	437,817,651	429,815,425	16.6%	38.7%
Government Agencies	399,789,000	413,602,572	16.0%	9.9%
Commercial Mortgage Backed	197,595,332	176,187,510	6.8%	5.0%
Asset Backed Securities	61,702,644	55,948,916	2.2%	0.8%
Other	0	0	0.0%	3.9%
Total Fixed Income	**3,274,078,566**	**2,585,752,780**	**100.0%**	**100.0%**

Real Estate Summary

as of June 30, 2008

Real Estate Holdings

Description	Number of Shares	Market Value	Percent of Total
J.P. Morgan Strategic Property Fund	114,564	$ 218,643,065	23.7%
UBS Trumbull Property Fund	20,171	197,657,519	21.5%
Prudential Real Estate Separate Account	4,098	160,990,772	17.5%
Prudential Real Estate Separate Account II	2,876	69,313,159	7.5%
Intercontinental Real Estate Investment Fund III	35,879,397	41,461,483	4.5%
Walton Street Real Estate Fund IV	22,952,811	34,620,637	3.8%
Walton Street Real Estate Fund V	32,445,874	33,846,963	3.7%
Merrill Lynch Asian R.E. Fund (T.E.)	32,340,130	31,788,752	3.4%
CB Richard Ellis Strategic Partners III	15,001,591	25,355,926	2.8%
Capri Select Income II	24,440,000	24,955,423	2.7%
RREEF Global Opportunities Fund II	24,393,260	23,931,672	2.6%
Fremont Strategic Property Partners II	19,850,286	19,652,126	2.1%
Urban America II	12,477,329	9,289,602	1.0%
Walton Street Real Estate Fund III	5,989,965	9,022,877	1.0%
Walton Street Real Estate Fund II	7,685,080	8,380,288	0.9%
DV Urban Realty Partners I	7,470,553	4,880,180	0.5%
Morgan Stanley Real Estate Mezzanine Partners	4,328,024	4,334,452	0.5%
Olympus Real Estate Fund II	10,793,740	2,027,242	0.2%
Walton Street Real Estate Fund I	2,372,241	966,733	0.1%
Capital Associates Apartment Fund	1	82,249	0.0%
Morgan Stanley Office Opportunity Fund C	233,571	3,896	0.0%
Total Real Estate	**258,795,562**	**$ 921,205,016**	**100.0%**

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

Public REITs Summary

as of June 30, 2008

Public REITs Holdings

Property Type	Number of Shares	Market Value	Percent of Total	NAREIT Property Index Allocation
Diversified	4,525,005	$ 53,152,567	20.8%	6.7%
Office	3,072,601	43,113,756	16.9%	12.8%
Apartments	4,053,778	37,894,853	14.9%	13.5%
Regional Malls	709,856	33,770,468	13.2%	14.4%
Shopping Centers	2,053,870	27,781,599	10.9%	11.0%
Industrial	764,239	17,385,730	6.8%	8.5%
Lodging/Resorts	880,824	15,204,649	6.0%	5.4%
Health Care	453,701	11,701,701	4.6%	9.7%
Self Storage	212,101	5,036,244	2.0%	6.1%
Mixed Use - Office/Industrial	152,686	3,920,196	1.5%	2.8%
Free Standing Retail	107,850	2,302,909	0.9%	2.2%
Manufactured Homes	50,857	2,237,708	0.9%	0.6%
Specialty	85,301	1,411,798	0.6%	6.3%
Total Public REITs	**17,122,669**	**$ 254,914,178**	**100.0%**	**100.0%**

Top 10 Public REITs Holdings

Description	Number of Shares	Market Value	Percent of Total
Simon Property Group, Inc.	177,439	$ 15,949,992	6.26%
Vornado Realty Trust	126,365	11,120,120	4.36%
General Growth Properties, Inc.	266,589	9,338,613	3.66%
AvalonBay Communities, Inc.	104,300	9,299,388	3.65%
Equity Residential	239,775	9,176,189	3.60%
ProLogis	162,178	8,814,374	3.46%
Boston Properties, Inc.	85,049	7,673,121	3.01%
Starwood Hotels and Resorts Worldwide, Inc.	165,346	6,625,414	2.60%
Federal Realty Investment Trust	86,607	5,975,883	2.34%
AMB Property Corp.	116,200	5,854,156	2.30%
Total Top 10 Public REITs	**1,529,848**	**89,827,250**	**35.24%**
Total Public REITs		**$ 254,914,178**	**100.00%**

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

Private Equity Summary

as of June 30, 2008

Private Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
HarbourVest Partners VI - Buyout Partnership Fund	26,764,166	$ 43,914,088	14.8%
Mesirow Partnership Fund II	27,042,457	35,820,725	12.1%
HarbourVest Partners VI - Partnership Fund	22,536,546	28,300,726	9.5%
Mesirow Partnership Fund I	15,871,811	27,587,505	9.3%
Pantheon USA Fund IV	21,609,377	26,388,965	8.9%
Pantheon USA Fund III	26,335,664	13,452,169	4.5%
Pantheon Europe Fund II	1	13,055,158	4.4%
Brinson Partnership - 2002 Primary Fund	7,921,430	11,898,828	4.0%
Brinson Partnership - 2003 Primary Fund	9,244,327	11,854,607	4.0%
Brinson Partnership - 2001 Primary Fund	9,105,136	10,895,169	3.7%
Brinson Partnership - 2004 Primary Fund	5,746,189	7,757,378	2.6%
Mesirow Capital Partners IX	8,000,000	6,976,616	2.4%
Illinois Private Equity Fund of Funds	8,501,268	6,684,208	2.3%
Brinson Partnership - 2004 Non-US Primary Fund	3,456,093	5,400,645	1.8%
Brinson Partnership - 2002 Non-US Primary Fund	2,315,130	4,767,978	1.6%
Brinson Partnership - 2000 Primary Fund	4,452,094	4,677,938	1.6%
Pharos Capital Partners II-A	4,216,914	3,892,357	1.3%
Adams Street Partnership - 2005 US Fund	3,367,648	3,482,997	1.2%
Palladium Equity Partners III	3,533,570	3,085,509	1.0%
Brinson Partnership - 2003 Non-US Primary Fund	1,316,189	2,885,674	1.0%
Mesirow Capital Partners VIII	2,814,411	2,866,692	1.0%
Mesirow Partnership Fund IV	3,200,000	2,738,062	0.9%
Brinson Partnership - 2002 Secondary Fund	1,374,538	1,925,676	0.6%
Adams Street Partnership - 2005 Non-US Fund	1,643,639	1,892,411	0.6%
M2 Private Equity Fund of Funds	2,155,221	1,863,386	0.6%
Brinson Partnership - 1999 Primary Fund	2,543,627	1,573,231	0.5%
Adams Street Partnership - 2007 Non-US Fund	823,597	1,540,872	0.5%
Brinson Partnership - 1998 Primary Fund	3,036,264	1,444,869	0.5%
Syndicated Communications Venture Partners V	1,784,806	1,443,348	0.5%
ICV Partners II	1,732,514	1,291,374	0.4%
Brinson Partnership - 2003 Secondary Fund	392,537	995,247	0.3%
Brinson Partnership - 2001 Non-US Primary Fund	539,866	867,316	0.3%
Brinson Partnership - 2004 Non-US Secondary Fund	308,159	550,474	0.2%
Pantheon Asia Fund V	550,000	550,000	0.2%
Adams Street Partnership - 2008 Non-US Fund	504,000	468,266	0.2%
Brinson Partnership - 2002 Non-US Secondary Fund	306,676	456,297	0.2%
Adams Street Partnership - 2008 US Fund	405,000	404,204	0.1%
Brinson Partnership - 2003 Non-US Secondary Fund	153,561	323,002	0.1%
Hispania Private Equity	2,159,207	238,877	0.1%
Brinson Partnership - 1996 Fund	541,301	193,496	0.1%
Adams Street Partnership - 2008 Direct Fund	150,000	147,655	0.1%
Brinson Partnership - 1997 Primary Fund	206,136	69,733	0.0%
Brinson Partnership - 1998 Secondary Fund	11,016	7,922	0.0%
Total Private Equity	**238,672,086**	**$ 296,631,650**	**100.0%**

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

ASSET CATEGORY	MARKET VALUE 6/30/2008	PERCENTAGE OF PORTFOLIO	FY 2008 MANAGER FEES
EQUITY			
Domestic Equity			
Ariel Capital Management	$ 161,221,685	1.4%	$ 613,840
Attucks Asset Management	120,372,341	1.0%	883,489
Chicago Equity Partners	150,180,346	1.3%	399,605
Dimensional Fund Advisors	83,520,598	0.7%	487,730
Fidelity Capital Management Trust Co.	0	0.0%	172,313
Harris Investment Management	246,704,791	2.1%	608,396
Holland Capital Management	133,197,758	1.1%	490,014
J. & W. Seligman & Co.	232,403,658	2.0%	896,495
Lombardia Capital Partners	123,092,498	1.1%	530,078
Lynmar Capital Group	103,876,773	0.9%	418,381
New Amsterdam Partners	243,778,861	2.1%	650,858
Northern Trust Global Investments	1,567,401,975	13.5%	1,156,156
Piedmont Investment Advisors	149,448,366	1.3%	503,482
Progress Investment Management	122,564,037	1.1%	839,243
RhumbLine Advisers	700,325,651	6.0%	85,593
UBS Global Asset Management	225,506,782	1.9%	715,377
Waddell & Reed Asset Management	163,704,535	1.4%	382,386
Zevenbergen Capital Investments	66,427,759	0.6%	290,400
Other Holdings	5,012,549	0.0%	0
Total	**4,598,740,963**	**39.5%**	**10,123,836**
International Equity			
Acadian Asset Management	377,865,919	3.2%	1,799,462
Brandywine Global Investment Management	171,944,301	1.5%	942,424
Earnest Partners	94,580,752	0.8%	535,870
Lazard Asset Management	555,559,015	4.8%	1,231,667
MFS Institutional Advisors	400,289,821	3.4%	1,608,285
Morgan Stanley Investment Management	506,662,940	4.4%	2,596,528
Northern Trust Global Investments	182,142,207	1.6%	0
United Investment Management	94,295,570	0.8%	873,983
William Blair & Company	92,715,017	0.8%	903,900
Total	**2,476,055,542**	**21.3%**	**10,492,119**
Public REITs			
Adelante Capital Management	70,613,448	0.6%	355,838
Morgan Stanley Investment Management	114,485,207	1.0%	774,486
Urdang Investment Management	69,815,523	0.6%	370,650
Total	**$ 254,914,178**	**2.2%**	**$ 1,500,974**

Continued on page 59

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Asset Category	Market Value 6/30/2008	Percentage of Portfolio	FY 2008 Manager Fees
Private Equity			
Adams Street Partners	$ 76,481,885	0.7%	$ 983,600
HarbourVest Partners	72,214,814	0.6%	1,000,000
Hispania Capital Partners	238,877	0.0%	153,151
ICV Capital Partners	1,291,374	0.0%	138,762
Mesirow Financial	75,989,600	0.7%	1,189,075
Muller and Monroe Asset Management	8,547,594	0.1%	303,836
Palladium Equity Partners	3,085,509	0.0%	150,000
Pantheon Ventures	53,446,292	0.5%	599,718
Pharos Capital Group	3,892,357	0.0%	181,318
Syncom Partners	1,443,348	0.0%	166,181
Total	**296,631,650**	**2.6%**	**4,865,641**
Total Equity	**7,626,342,333**	**65.6%**	**$26,982,570**
Fixed Income			
Lehman Brothers Asset Management	$430,003,170	3.7%	$354,484
LM Capital Group	61,707,894	0.5%	133,151
Northern Trust Global Investments	1,389,754,071	12.0%	146,850
Smith Graham & Co.	0	0.0%	87,344
Taplin, Canida and Habacht	107,456,106	0.9%	197,024
Western Asset Management	596,831,539	5.1%	890,562
Total	**2,585,752,780**	**22.2%**	**1,809,415**
Real Estate			
Capri Capital Partners	25,037,673	0.2%	237,383
CB Richard Ellis Investors	25,355,926	0.2%	216,175
DV Realty Advisors	4,880,180	0.0%	312,503
Fremont Realty Capital	19,652,126	0.2%	311,819
Intercontinental Real Estate Corp.	41,461,483	0.4%	438,102
J.P. Morgan Fleming Asset Management	218,643,065	1.9%	3,473,979
Merrill Lynch	31,788,752	0.3%	401,667
Morgan Stanley Investment Management	4,338,348	0.0%	0
Olympus Real Estate Partners	2,027,242	0.0%	0
Prudential Investment Management	230,303,930	2.0%	1,725,479
RREEF America	23,931,672	0.2%	317,121
UBS Global Asset Management	197,657,519	1.7%	2,048,945
Urban America	9,289,602	0.1%	312,484
Walton Street Capital	86,837,498	0.7%	922,913
Total	**921,205,016**	**7.9%**	**10,718,570**
Cash & Equivalents			
Northern Trust	503,326,360	4.3%	0
Grand Total	**$ 11,636,626,489**	**100.0%**	**$ 39,510,555**

Broker Commission Report

Domestic Agency Trades for the Year Ended June 30, 2008

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets, LLC	10,198,115	$ 302,097	$ 0.030
Cabrera Capital Markets, Inc.	8,089,714	258,355	0.032
M.R. Beal & Company	5,715,852	188,737	0.033
Williams Capital Group, L.P.	4,891,041	167,862	0.034
Investment Technology Group	7,469,449	141,818	0.019
Magna Securities Corp.	4,269,178	137,864	0.032
Gardner Rich & Company	3,202,510	124,812	0.039
Merrill Lynch	7,248,473	117,724	0.016
Lehman Brothers, Inc.	4,260,667	109,327	0.026
Melvin Securities, LLC	3,230,395	102,661	0.032
Jackson Securities	2,558,409	102,175	0.040
Liquidnet, Inc.	3,905,907	92,495	0.024
Goldman Sachs & Co.	2,746,303	90,688	0.033
Cheevers & Company, Inc.	2,067,054	76,400	0.037
Jefferies & Company	4,007,687	74,527	0.019
Morgan Keegan & Company	1,535,338	71,225	0.046
Pacific American Securities, LLC	2,028,539	65,934	0.033
Craig Hallum	1,788,156	64,936	0.036
Credit Suisse First Boston	2,973,364	63,310	0.021
M. Ramsey King Securities, Inc.	1,427,673	62,980	0.044
Bear, Sterns & Co.	1,732,082	61,370	0.035
Divine Capital Markets, LLC	2,803,900	60,780	0.022
Instinet Corp.	6,174,197	59,988	0.010
Morgan Stanley & Co.	1,909,367	54,511	0.029
Doley Securities	3,122,957	54,508	0.017
Guzman & Company	3,265,925	47,653	0.015
UBS Financial	2,077,878	47,423	0.023
Deutshe Bank Securities	1,714,784	45,405	0.026
Bank of New York Mellon	1,195,707	41,202	0.034
National Financial Services	1,688,953	38,274	0.023
Wachovia Capital Markets	1,318,840	35,417	0.027
Bernstein, Sanford and Company	1,331,067	34,276	0.026
Weeden & Co.	1,088,460	29,589	0.027
Citigroup	1,671,639	29,252	0.017
Harris Nesbitt & Company	798,144	27,727	0.035
BOE Securities, Inc.	712,806	26,352	0.037
Jonestrading Inc.	1,485,954	25,532	0.017
Oppenheimer & Company	639,898	25,400	0.040
McDonald & Company	563,184	22,527	0.040
OTHERS (104 Brokers)	24,138,678	520,454	0.022
Total	**143,048,244**	**$ 3,703,567**	**$ 0.026**

Broker Commission Report

International Agency Trades for the Year Ended June 30, 2008

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Goldman Sachs & Co.	11,324,246	$ 279,675	$ 0.025
Credit Suisse First Boston	14,302,019	250,771	0.018
Cabrera Capital Markets, Inc.	10,504,709	198,556	0.019
J.P. Morgan Chase	6,775,485	143,696	0.021
Credit Lyonnaise	3,939,725	142,732	0.036
Morgan Stanley & Co.	6,280,278	121,131	0.019
Lambright Financial Solutions, LLC	3,124,596	105,573	0.034
M.R. Beal & Company	4,672,689	104,727	0.022
Lehman Brothers, Inc.	10,029,995	103,431	0.010
Deutsche Bank (Alex Brown)	8,431,892	85,870	0.010
Melvin Securities, LLC	1,881,559	80,972	0.043
Nomura Securities International Inc.	2,195,680	64,076	0.029
ABN Amro	3,487,325	53,248	0.015
Merrill Lynch (Citation Group)	9,840,643	49,106	0.005
M. Ramsey King Securities, Inc.	2,629,007	39,780	0.015
Bear, Stearns & Co.	1,518,836	37,558	0.025
Bernstein, Sanford and Company	463,069	36,337	0.078
Gardner Rich & Company	1,224,624	35,672	0.029
Citigroup Global Markets	3,377,688	35,384	0.010
Citigroup	2,601,077	35,061	0.013
Capital Institution Services (CAPIS)	594,266	33,533	0.056
Divine Capital Markets, LLC	1,244,994	33,289	0.027
Brockhouse & Copper	2,069,276	31,787	0.015
Loop Capital Markets, LLC	1,044,432	31,437	0.030
UBS Warburg (UBS Sec.)	3,845,166	29,128	0.008
Jackson Securities	334,156	24,793	0.074
Instinet Corp.	1,648,856	23,958	0.015
Liquidnet Europe Ltd.	1,094,195	23,539	0.022
Dresdner Kleinwort Benson	763,363	23,120	0.030
Bloomberg Tradebook	3,652,189	23,021	0.006
Knight Securities	1,740,979	19,976	0.011
G-Trade Svc. Ltd.	2,341,505	19,005	0.008
Capital Management Group	299,340	18,466	0.062
Macquire Securities	1,837,963	17,851	0.010
HSBC Securities Program	420,929	17,405	0.041
Redburn Partner	375,076	17,212	0.046
Daiwa Securities	841,987	16,890	0.020
Exane, Inc.	81,006	15,752	0.194
Others (41 Brokers)	12,882,901	271,530	0.021
Total	**145,717,721**	**$ 2,695,048**	**$ 0.018**

Directed Brokerage Program

for the Year Ended June 30, 2008

Domestic Local Minority and Women Owned Brokers

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets, LLC	10,198,115	$ 302,097	$ 0.030
Cabrera Capital Markets, Inc.	8,089,714	258,355	0.032
M.R. Beal & Company	5,715,852	188,737	0.033
Williams Capital Group, L.P.	4,891,041	167,862	0.034
Magna Securities Corp.	4,269,178	137,864	0.032
Gardner Rich & Company	3,202,510	124,812	0.039
Melvin Securities, LLC	3,230,395	102,661	0.032
Jackson Securities	2,558,409	102,175	0.040
Cheevers & Company, Inc.	2,067,054	76,400	0.037
Pacific American Securities, LLC	2,028,539	65,934	0.033
M. Ramsey King Securities, Inc.	1,427,673	62,980	0.044
Divine Capital Markets, LLC	2,803,900	60,780	0.022
Guzman & Company	3,265,925	47,653	0.015
BOE Securities	712,806	26,352	0.037
CastleOak Securities	928,131	22,223	0.024
Nutmeg Securities, Ltd.	425,105	19,520	0.046
FINACORP Securities	500,212	17,491	0.035
Multitrade Securities	177,779	5,759	0.032
Podesta & Company	51,570	845	0.016
SBK Brooks Investment Corp.	12,330	492	0.040
Total Directed Domestic Brokerage	**56,556,238**	**1,790,992**	**0.032**
Total Domestic Brokerage	**143,048,244**	**$ 3,703,567**	**$ 0.026**

Directed Brokerage Program

FOR THE YEAR ENDED JUNE 30, 2008

International Local Minority and Women Owned Brokers

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Cabrera Capital Markets, Inc.	10,504,709	$ 198,556	$ 0.019
Lambright Financial Solutions, LLC	3,124,596	105,573	0.034
M.R. Beal and Company	4,672,689	104,727	0.022
Melvin Securities, LLC	1,881,559	80,972	0.043
M. Ramsey King Securities, Inc.	2,629,007	39,780	0.015
Divine Capital Markets, LLC	1,244,994	33,289	0.027
Loop Capital Markets, LLC	1,044,432	31,437	0.030
Jackson Securities	334,156	24,793	0.074
Capital Management Group	299,340	18,466	0.062
Williams Capital Group, L.P.	210,925	12,985	0.062
BOE Securities, Inc.	355,406	11,246	0.032
CastleOak Securities	148,260	2,907	0.020
Magna Securities Corp.	114,190	2,566	0.022
Guzman & Company	190	5	0.027
Total Directed International Brokerage	**26,564,453**	**667,302**	**0.025**
Total International Brokerage	**145,717,721**	**$ 2,695,048**	**$ 0.018**

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.


6.89
-0.73
0.05%
0.23%

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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February 19, 2009

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

ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the Public School Teachers' Pension and Retirement Fund of Chicago (the Fund) as of June 30, 2008. The purpose of the valuation was to determine the financial condition and funding requirements of the Fund.

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

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

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

Based on the results of the June 30, 2008 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 2010 to be $307,485,000.

Based on an experience analysis of the fund over Fiscal Years 2003 through 2006, we have made the following changes in the actuarial assumptions used for the June 30, 2008 actuarial valuation: (1) the assumed rates of termination were reduced by approximately 20% for employees with less than 5 years of service, and (2) the assumed rate of retirement were reduced by approximately 25%. The other actuarial assumptions used for the June 30, 2008 valuation are the same as the assumptions that were used for the June 30, 2007 valuation.

The projected unit credit actuarial cost method was used for the June 30, 2008 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2007 valuation. This cost method was adopted as of August 31, 1991.

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

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

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

In our opinion, the following valuation results fairly represent the financial condition of the Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2008.

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 included in a separate report.

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	$ 15,203,740,567
2. Actuarial Value of Assets	12,069,417,038
3. Unfunded Actuarial Liability	3,134,323,529
4. Funded Ratio	79.4 %
5. Employer's Normal Cost for FY 09 as a percent of payroll	5.99 %
6. Annual Required Contribution for FY 09 Based on GASB Statement No. 25	292,146,359
7. Board of Education Contribution Requirement For FY 10 Based on Public Act 89-15 and Public Act 90-548	$ 307,485,000

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, 2008, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 32,086 active contributors, 23,920 pensioners, and 3,479 vested terminated members included in the valuation. The total active payroll as of June 30, 2008, was $1,914,558,916.

Exhibit 1 Summary of Membership Data

1. Number of Members	
(a) Active Members	
(i) Vested Employees	20,568
(ii) Non-vested Employees	11,518
Total Active Members	**32,086**
(b) Members Receiving	
(i) Retirement Pensions	20,913
(ii) Disability Pensions	453
(iii) Survivor Pensions	2,554
Total Pensioners	**23,920**
(c) Vested Terminated Members	3,479
Total	**59,485**
2. Total Annual Salaries	$ 1,914,558,916
Average Salary	59,670

Continued on following page

(Exhibit 1 continued from page 69)

3. Total Accumulated Contributions of Active Members $ 1,271,835,518

4. Annual Benefit Payments Currently Being Made

(a) Retirement Pensions	$ 854,892,900
(b) Disability Pensions	12,531,346
(c) Survivor Pensions	37,412,587
Total Pensions	**$ 904,836,833**

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

Exhibit 2 Age and Service Distribution of Active Members

2008 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	334	781	0	0	0	0	0	0	0	1,115
Average Salary	$16,549	42,625	0	0	0	0	0	0	0	$34,813
25-29	574	3,298	801	0	0	0	0	0	0	4,673
Average Salary	$16,753	45,159	56,389	0	0	0	0	0	0	$43,595
30-34	316	2,047	2,122	294	0	0	0	0	0	4,779
Average Salary	$16,592	46,280	59,515	73,135	0	0	0	0	0	$51,846
35-39	223	1,029	1,424	1,307	207	0	0	0	0	4,190
Average Salary	$12,430	47,121	60,646	74,198	83,856	0	0	0	0	$60,132
40-44	198	586	727	857	708	92	0	0	0	3,168
Average Salary	$10,929	45,974	59,686	72,416	78,971	83,285	0	0	0	$62,541
45-49	154	531	577	705	592	433	101	1	0	3,094
Average Salary	$8,709	44,653	59,401	70,959	79,022	82,325	90,712	56,710	0	$64,964
50-54	137	432	546	673	625	538	441	368	5	3,765
Average Salary	$9,274	39,922	57,842	71,200	77,540	78,305	82,117	89,001	90,899	$68,533
55-59	132	362	462	568	725	589	374	794	470	4,476
Average Salary	$7,106	38,158	57,023	70,546	77,188	77,521	82,233	84,854	90,033	$72,215
60-64	69	174	218	243	380	270	186	211	319	2,070
Average Salary	$7,283	30,812	51,168	68,913	76,014	77,955	77,151	86,011	89,702	$69,957
65-69	42	59	61	70	99	69	42	62	75	579
Average Salary	$6,398	24,133	53,649	59,537	77,977	78,881	77,470	83,785	85,998	$64,237
70+	20	22	10	19	22	15	11	17	41	177
Average Salary	$4,631	16,904	22,428	58,404	67,297	77,140	67,266	72,563	85,295	$55,970
Members	2,199	9,321	6,948	4,736	3,358	2,006	1,155	1,453	910	32,086
Average Salary	$13,523	$44,450	$58,731	$71,912	$78,190	$79,135	$81,796	$85,864	$89,376	$59,670

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, 2008, prepared by the Fund. The actuarial value of assets was determined by smoothing unexpected gains or losses over a period of 4 years. The resulting actuarial value of assets is $12,069,417,038. The development of this actuarial value of assets is outlined in Exhibit 3. As of June 30, 2008, the market value of the assets of the fund for pension benefits amounted to $11,438,487,761.

Exhibit 3 Actuarial Value of Assets

A. Development of Investment Gain/(Loss) for Year Ending June 30, 2008

1.	Actuarial Value of Assets as of 6/30/07	$ 11,807,100,821
2.	Employer Contributions	229,270,412
3.	Employee Contributions	172,504,804
4.	Expenses	1,000,770,310
5.	Expected Investment Income	921,069,198
6.	Actual Investment Income	(737,538,769)
7.	Investment Gain/(Loss) (6 – 5)	$ (1,658,607,967)

B. Development of Actuarial Value of Assets

8.	Expected Value of Assets as of June 30, 2008 (1 + 2 + 3 – 4 + 5)	$ 12,129,174,925
9.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2005	56,194,654
10.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2006	69,623,535
11.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2007	274,065,301
12.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2008	(414,651,992)
13.	**Total Actuarial Value of Assets as of 6-30-08 (8 + 9 + 10 + 11 + 12)**	**$ 12,114,406,423**
14.	Assets For Retiree Health Insurance Benefits	44,989,385
15.	**Actuarial Value of Assets for Pension Benefits (13 – 14)**	**$ 12,069,417,038**

C. Fund Provisions

Our valuation was based on the provisions of the Fund in effect as of June 30, 2008, as provided in Article 17 of the Illinois Pension Code. A summary of the principal provisions of the Fund on which the valuation was based is provided in Appendix 2.

D. Actuarial Assumptions and Cost Method

Based on an experience analysis of the fund over Fiscal Years 2003 through 2006, we have made the following changes in the actuarial assumptions used for the June 30, 2008, actuarial valuation: (1) the assumed rates of termination were reduced by approximately 20% for employees with less than 5 years of service, and (2) the assumed rates of retirement were reduced by approximately 25%. The other actuarial assumptions used for the June 30, 2008, valuation are the same as the assumptions that were used for the June 30, 2007 valuation.

The actuarial assumptions used for the June 30, 2008, 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, 2008, actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2007 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, 2008, the total actuarial liability for pension benefits provided under the fund is $15,203,740,567, the actuarial value of assets is $12,069,417,038, and the unfunded liability is $3,134,323,529. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 79.4%.

Exhibit 4 **Actuarial Liability as of June 30, 2008**

1. Actuarial Liability for Active Members	
(a) Basic Retirement Annuity	$ 3,076,587,948
(b) Post Retirement Increase	802,865,376
(c) Lump Sum Death Benefit	9,925,688
(d) Survivor's Pension	326,924,641
(e) Disability Pension	84,034,554
(f) Withdrawal Benefit	229,381,092
Total	**$ 4,529,719,299**
2. Actuarial Liability for Members Receiving Benefits	
(a) Retirement Pensions	$ 10,015,880,218
(b) Survivor Pensions	349,613,500
(c) Disability Pensions	125,950,855
Total	**$ 10,491,444,573**
3. Actuarial Liability for Inactive Members	182,576,695
4. Total Actuarial Liability	**$ 15,203,740,567**
5. Actuarial Value of Assets	12,069,417,038
6. Unfunded Actuarial Liability	**$ 3,134,323,529**
7. Funded Ratio	79.4 %

F. Employer's Normal Cost

The employer's share of the normal cost for pension benefits for the year beginning July 1, 2008 is developed in Exhibit 5. The total normal cost is $275,778,025, employee contributions are estimated to be $161,037,666, resulting in the employer's share of the normal cost of $114,740,359.

Based on a payroll of $1,914,558,916 as of June 30, 2008, the employer's share of the normal cost can be expressed as 5.99% of payroll.

Exhibit 5 Employer's Normal Cost for Year Beginning July 1, 2008

	Dollar Amount	Percent of Payroll
1. Basic Retirement Pension	$ 169,219,851	8.84%
2. Post Retirement Increases	44,005,648	2.30
3. Lump Sum Death Benefits	738,764	.04
4. Survivor's Pension	19,833,177	1.03
5. Disability Benefits	6,636,150	.35
6. Withdrawal Benefits	26,620,536	1.39
7. Administrative Expenses	8,723,899	.45
8. Total Normal Cost	**$ 275,778,025**	**14.40%**
9. Employee Contributions	161,037,666	8.41
10. Employer's Share of Normal Cost	**$ 114,740,359**	**5.99%**

Note. The above figures are based on a total active payroll of $1,914,558,916 as of June 30, 2008.

G. Employer Contribution Requirements for Fiscal Year 2010

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, 2008 actuarial valuation, the ratio of the actuarial value of assets to total actuarial liabilities, or funded ratio (for funding purposes), amounts to 79.7%. Therefore, additional State contributions will be required for Fiscal Year 2010. Based on a projected payroll of $1,978,286,000 for Fiscal Year 2010, we have determined the additional State contributions under Section 17-127 of the Pension Code to be $10,058,000.

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, 2008, is 79.7%, additional Board of Education contributions will be required for Fiscal Year 2010. Based on a projected payroll of $1,978,286,000 for Fiscal Year 2010, we have determined the additional Board of Education contribution under Section 17-127.2 of the Pension Code to be $10,723,000.

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, 2008, the ratio of the actuarial value of assets to the total actuarial liability, for funding purposes, is 79.7%. Using the results of the June 30, 2008, 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, 2009 to be 78.7%. Thus, on the basis of the funding plan established by Public Act 89-15 as revised by Public Act 90-548, we have calculated the total employer required contribution for Fiscal Year 2010 to be $393,266,000. State appropriations are estimated to be $65,000,000. As indicated above, additional state contributions amount to $10,058,000, and additional Board of Education contributions amount to $10,723,000. Thus, based on the total employer required contribution for Fiscal Year 2010 and other sources of employer contribution, the net Board of Education contribution requirement for Fiscal Year 2010 under the funding plan specified in Section 17-129 of the Pension Code is calculated to be $307,485,000. Additional details regarding our calculations are shown below:

Board of Education Required Contribution for FY 2010

1. Total required employer contribution for FY 2010	$ 393,266,000
2. State appropriations	65,000,000
3. Additional State contributions	10,058,000
4. Additional Board of Education contribution	10,723,000
5. Board of Education required contribution (1 – 2 – 3 – 4)	$ 307,485,000

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 2010 is to be applied to the Board of Education required contribution of $307,485,000.

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, 2008, actuarial valuation, we have therefore calculated the annual required contribution for Fiscal Year 2009. 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 2009 has been determined to be as follows:

	Fiscal Year 2009
1. Employer's normal cost	$ 114,740,359
2. Annual amount to amortize the unfunded liability over 30 years as a level percent of payroll	177,406,000
3. Annual required contribution (1 + 2)	$ 292,146,359

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, 2008, 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	$ 2,407,122,492
2. Actuarial Value of Assets	44,989,385
3. Unfunded Actuarial Liability	2,362,133,107
4. Annual Required Contribution For Year Beginning July 1, 2008	171,880,428

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, 2008, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 32,086 active employees, 15,166 retirees and beneficiaries currently receiving benefits, and 3,479 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	15,166
2.	Terminated Employees Entitled To Benefits But Not Yet Receiving Them	3,479
3.	Active Employees	32,086
4.	**Total Number of Members**	**50,731**

Assets. According to the financial statements of the fund for the year ending June 30, 2008, the assets segregated for the payment of retiree health insurance benefits as of June 30, 2008, amount to $44,989,385. Therefore, as of June 30, 2008, the actuarial value of assets of the retiree health insurance plan can be considered to be $44,989,385.

C. Plan Provisions

Our valuation was based on the provisions of the Fund in effect as of June 30, 2008, 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.

According to recent discussions with GASB staff, 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 million 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 million maximum on the annual benefits that may be paid from the Fund in performing the June 30, 2008, 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 1.9% 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 4.5% 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 2009, 8.0% in 2010 and gradually declines to 5.0% by the year 2016 as follows:

Year	Medical Trend
2009	5.0%
2010	8.0%
2011	7.5%
2012	7.0%
2013	6.5%
2014	6.0%
2015	5.5%
2016 and later	5.0%

Per Member Costs

Current Pensioners. We have been provided with information regarding premium rates as of June 30, 2008, 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, 2008, 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	$ 859.84
Members over age 65	$ 431.13

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 that are shown in Table 4 of the above paper 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	Age Adjusted Cost Per Employee Retiree
50-54	$625.41
55-59	$740.99
60-64	$897.18
65-69	$360.01
70-74	$412.30
75-79	$460.81
80-84	$496.39
85 and above	$515.28

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. Based on an experience analysis of the fund over Fiscal Years 2003 through 2006, we have made some changes in the termination rate and retirement rate assumptions used for the June 30, 2008, actuarial valuation. These assumptions are outlined in Appendix 1.

The projected unit credit actuarial cost method was used for the June 30, 2008, 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, 2008, the total actuarial liability for retiree health insurance benefits provided under the fund is $2,407,122,492, the actuarial value of assets is $44,989,385 and the unfunded actuarial liability is $2,362,133,107.

Exhibit 2 Actuarial Liability as of June 30, 2008

1. Actuarial Liability for Active Members	$ 1,110,775,995
2. Actuarial Liability for Members Receiving Benefits	1,296,346,497
3. Total Actuarial Liability	**$ 2,407,122,492**
4. Actuarial Value of Assets	44,989,385
5. Unfunded Actuarial Liability	**$ 2,362,133,107**
6. Funded Ratio	1.9%

Impact of Changes in Actuarial Assumptions. We have estimated that the changes made in the actuarial assumptions used for the June 30, 2008, actuarial valuation had the impact of increasing the total actuarial liability by $210,080,862.

F. Normal Cost

The normal cost for the year beginning July 1, 2008 is shown below. The total normal cost is $85,832,866. Based on a payroll of $1,914,558,916 as of July 1, 2008, the total normal cost can be expressed as 4.48% of payroll.

Employer's Normal Cost for Year Beginning July 1, 2008

	Dollar Amount	Percent of Payroll
Total Normal Cost	$ 85,832,866	4.48%

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, 2008 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, 2008 for purposes of GASB Statement No. 43 is as follows:

1. Total normal cost	$ 85,832,866
2. Annual amount to amortize the unfunded liability over 30 years as a level percent of payroll	86,047,562
3. Annual required contribution (1 + 2)	$ 171,880,428

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
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%
2008*	15,203,740,567	12,069,417,038	79.4%	3,134,323,529	1,914,558,916	163.7%

* *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%
2008	2,407,122,492	44,989,385	1.9%	2,362,133,107	1,914,558,916	123.4%

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)
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%
2008	1,271,835,518	10,491,444,573	3,440,460,416	12,069,417,038*	100%	100%	9%

* *Pension fund benefit*

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
1999	1,521,181,503	60,201,082	4.00%	8.25%
2000	1,651,810,084	79,519,385	4.83%	8.38%
2001	1,690,264,167	77,065,122	4.65%	11.18%
2002	1,759,045,853	76,850,005	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%
2008	1,914,558,916	164,466,511 (1)	8.59%	15.15%

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%
2008	1,914,558,916	65,000,000	3.39%	7.84%

Schedule of Active Member Valuation Data
Pension Fund

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase (Decrease) in Average Pay
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%
6-30-08	32,086	1,914,558,916	59,670	5.6%

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		
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%
2008	881	$67,060,461	584	$16,543,468	23,920	$904,836,833	$37,828	4.6%

Appendix 1

Summary of Actuarial Assumptions and Actuarial Cost Method

Actuarial Assumptions. The actuarial assumptions used for the June 30, 2008, valuation are summarized below. The assumptions were adopted as of June 30, 2008.

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

Years of Service	Rate of Termination per 1,000 Members
less than 1 year	295
1 – 2 years	71
2 – 3 years	70
3 – 4 years	56
4 – 5 years	52

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 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	55
60	77
65	100
70	137
75	1,000

2. Employees With 33 or More Years of Service

Age	Rate of Retirement per 1,000 Members
55	120
60	200
65	190
70	200
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 —4.5% 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.

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

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.

Statistical

This section includes information about the Chicago Teachers' Pension Fund changes in Net Assets for the last 10 years. It also includes summaries of statistical information about the participating members, annuitants, and the benefits paid to them.

Statement of Changes in Plan Net Assets

For Year ended June 30, 2008, with comparative totals for 9 years

	2008	2007	2006	2005	2004
Additions:					
Contributions:					
Intergovernmental, net (employer)	$ 229,270,412	$ 168,763,673	$ 117,789,706	$ 73,917,464	$ 78,127,273
Employee contributions	172,504,804	179,017,663	163,419,386	175,706,081	169,598,212
	401,775,216	**347,781,336**	**281,209,092**	**249,623,545**	**247,725,485**
Investment income:					
Net investment income	(737,538,769)	1,950,183,365	1,097,943,378	1,036,898,341	1,478,859,791
Miscellaneous	–	–	139,509	561,154	86,285
Total additions	**(335,763,553)**	**2,297,964,701**	**1,379,291,979**	**1,287,083,040**	**1,726,671,561**
Deductions:					
Pension benefits					
Retirement	863,963,625	759,346,660	682,245,353	617,684,571	554,975,291
Survivors	29,037,664	27,532,256	25,854,248	24,520,785	22,885,524
Disability	11,673,773	10,898,039	10,388,393	9,561,956	8,649,568
Refunds					
Separation	5,626,786	12,829,988	10,633,789	16,877,637	9,565,261
Death	3,218,956	3,942,853	4,028,201	3,572,619	3,588,032
Other	7,884,526	19,581,668	16,023,309	4,408,439	10,173,428
Health Insurance Premium Rebate	68,691,191	61,028,841	58,279,900	54,410,887	53,106,379
Death benefits					
Heirs of Active Teachers	486,740	554,765	535,142	470,537	505,842
Heirs of Annuitants	2,359,473	2,322,418	2,082,915	2,035,334	2,095,323
Uncollectible Receivables	–	–	–	–	–
	992,942,734	**898,037,488**	**810,071,250**	**733,542,765**	**665,544,648**
Administrative and miscellaneous expenses	7,827,576	8,434,688	8,320,340	7,477,671	7,214,467
Total deductions	**1,000,770,310**	**906,472,176**	**818,391,590**	**741,020,436**	**672,759,115**
Net increase (decrease)	(1,336,533,863)	1,391,492,525	560,900,389	546,062,604	1,053,912,446
Net assets held in trust for benefits:					
Beginning of period, as restated	12,820,011,009	11,428,518,484	10,867,618,095	10,321,555,491	9,267,643,045
End of period	**$ 11,483,477,146**	**$ 12,820,011,009**	**$ 11,428,518,484**	**$ 10,867,618,095**	**$ 10,321,555,491**

CONTINUED FROM PAGE 94

	2003	2002	2001	2000	1999*
ADDITIONS:					
Contributions:					
Intergovernmental, net (employer)	$ 78,747,983	$ 76,850,005	$ 77,065,122	$ 79,519,385	$ 60,201,082
Employee contributions	159,931,110	145,498,027	149,094,964	145,458,741	150,421,632
	238,679,093	**222,348,032**	**226,160,086**	**224,978,126**	**210,622,714**
Investment income:					
Net investment income	313,502,170	(370,652,706)	(191,547,390)	941,836,171	1,732,456,051
Miscellaneous	35,775	829,063	70,078	209,760	580,641
Total additions	**552,217,038**	**(147,475,611)**	**34,682,774**	**1,167,024,057**	**1,943,659,406**
DEDUCTIONS:					
Pension benefits					
Retirement	509,945,240	495,238,632	421,343,859	383,938,150	300,230,642
Survivors	25,730,482	23,517,998	17,759,804	16,424,100	12,695,424
Disability	8,126,443	7,571,076	6,162,211	5,732,425	4,107,184
Refunds					
Separation	7,648,527	9,036,757	7,645,767	7,607,244	5,952,734
Death	2,747,859	4,043,552	2,697,514	3,574,259	2,220,725
Other	6,954,762	29,219,867	4,644,884	3,538,496	1,552,617
Health Insurance Premium Rebate	51,395,920	44,068,275	44,088,569	26,144,939	22,013,995
Death benefits					
Heirs of Active Teachers	482,493	746,322	457,746	724,089	381,432
Heirs of Annuitants	2,339,000	2,070,000	2,853,167	2,669,708	1,855,000
Uncollectible Receivables	–	–	–	–	22,230,625
	615,370,726	**615,512,479**	**507,653,521**	**450,353,410**	**373,240,378**
Administrative and miscellaneous expenses	6,576,953	6,459,734	4,856,487	4,509,764	3,361,971
Total deductions	**621,947,679**	**621,972,213**	**512,510,008**	**454,863,174**	**376,602,349**
Net increase (decrease)	(69,730,641)	(769,447,824)	(477,827,234)	712,160,883	1,567,057,057
Net assets held in trust for benefits:					
Beginning of period, as restated	9,337,373,686	10,111,548,946	10,589,376,180	9,877,215,297	8,310,158,240
End of period	**$ 9,267,643,045**	**$ 9,342,101,122**	**$ 10,111,548,946**	**$ 10,589,376,180**	**$ 9,877,215,297**

** Only 10 months.*
See accompanying notes to financial statements.

Distribution of Current Annuitants by Benefit Type

Monthly Pension Amount	Retirement		Disability		Survivor		Total	
	Males	Females	Males	Females	Males	Females	Males	Females
$ 0 - 499	469	1,015	3	8	173	282	645	1,305
$ 500 - 999	347	778	15	32	294	474	656	1,284
$ 1,000 - 1,499	291	722	23	48	211	263	525	1,033
$ 1,500 - 1,999	265	883	11	51	162	253	438	1,187
$ 2,000 - 2,499	300	1,053	14	52	98	185	412	1,290
$ 2,500 - 2,999	342	1,206	17	41	12	57	371	1,304
$ 3,000 - 3,499	417	1,285	15	53	9	44	441	1,382
$ 3,500 - 3,999	646	1,630	12	36	3	17	661	1,683
$ 4,000 - 4,499	1,246	3,118	2	9	0	12	1,248	3,139
$ 4,500 - 4,999	731	1,796	2	1	0	1	733	1,798
$ 5,000 - 5,499	300	338	0	3	0	1	300	342
$ 5,500 - 5,999	259	314	3	1	0	0	262	315
$ 6,000 - 6,499	132	204	0	0	1	1	133	205
$ 6,500 - 6,999	124	152	0	0	0	0	124	152
$ 7,000 - 7,499	92	115	1	0	0	0	93	115
$ 7,500 - 7,999	61	87	0	0	0	1	61	88
$ 8,000 - 8,499	51	61	0	0	0	0	51	61
$ 8,500 - 8,999	22	34	0	0	0	0	22	34
$ 9,000+	14	13	0	0	0	0	14	13
Total	**6,109**	**14,804**	**118**	**335**	**963**	**1,591**	**7,190**	**16,730**

Distribution of Current Annuitants by Benefit Type

Monthly Pension Amount	Health Insurance	
	Males	Females
$ 0 - 499	75	218
$ 500 - 999	175	452
$ 1,000- 1,499	178	545
$ 1,500 - 1,999	185	723
$ 2,000 - 2,499	211	909
$ 2,500 - 2,999	251	981
$ 3,000 - 3,499	321	1078
$ 3,500 - 3,999	500	1365
$ 4,000 - 4,499	946	2458
$ 4,500 - 4,999	555	1288
$ 5,000 - 5,499	227	258
$ 5,500 - 5,999	193	233
$ 6,000 - 6,499	101	149
$ 6,500 - 6,999	101	107
$ 7,000 - 7,499	79	80
$ 7,500 - 7,999	50	54
$ 8,000 - 8,499	36	36
$ 8,500 - 8,999	11	19
$ 9,000+	10	8
Total	**4,205**	**10,961**

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 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	370	774	1,513	2,240	2,894	3,746	4,878
Average Final Average Salary	6,792	5,131	5,667	5,855	6,043	6,325	6,562
Number of Retired Members	80	64	81	111	222	139	1,218
Fiscal Year 2008							
Average Monthly Pension	258	781	1,397	2,071	2,699	4,025	6,297
Average Final Average Salary	5,487	5,450	5,411	5,539	5,969	7,185	8,555
Number of Retired Members	45	49	35	38	58	44	358

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 Active Members

Fiscal Year	Male Participants	Female Participants	Total
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
2008	7,473	24,613	32,086