Chicago Teachers' Pension Fund

116th Comprehensive Annual Financial Report

For the year ended June 30, 2011 • Chicago, Illinois

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116th Comprehensive Annual Financial Report

For the year ended June 30, 2011
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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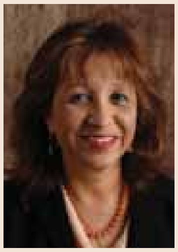
INTRODUCTION

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

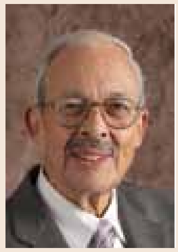
Board of Trustees

As of June 30, 2011

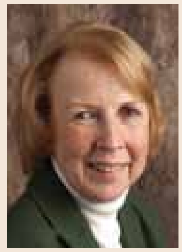
John F. O'Brill



Maria J. Rodriguez



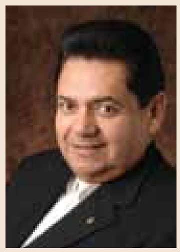
Walter E. Pilditch



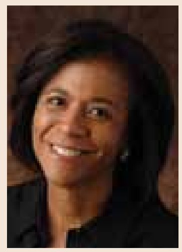
Mary Sharon Reilly

Lois W. Ashford

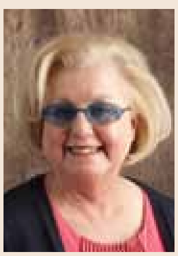
Jeffery Blackwell



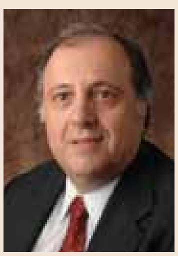
Alberto A. Carrero, Jr.



Peggy A. Davis

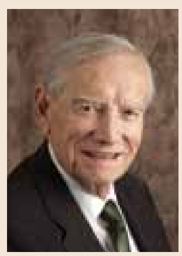


Jeanne Marie Freed



Chris N. Kotis

Jay C. Rehak



James F. Ward

OFFICERS

President, John F. O'Brill

Vice President, Maria J. Rodriguez

Financial Secretary, Walter E. Pilditch

Recording Secretary, Mary Sharon Reilly

MEMBERS

Representing the Contributors

Lois W. Ashford

Jeffery Blackwell

Jeanne Marie Freed

John F. O'Brill

Jay C. Rehak

Maria J. Rodriguez

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, 2011

LEGAL COUNSEL

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

INVESTMENT CONSULTANTS

Gwelda Swilley-Burke and Matthew Shirilla
Callan Associates Inc.
120 North LaSalle Street, suite 2100
Chicago, Illinois 60602

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

HEALTH INSURANCE CONSULTANT

Paul Hilling
Aon Hewitt
200 East Randolph, suite 900
Chicago, IL 60601

BANK CUSTODIAN

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

AUDITORS

Kurt A. Gabouer
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

Consultants

As of June 30, 2011

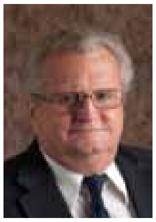
INVESTMENT ADVISORS

Adams Street Partners, LLC
Adelante Capital Management, LLC
Ariel Capital Management, LLC
Attucks Asset Management
Blackstone Group
Capri Capital Partners, LLC
CB Richard Ellis Investors, LLC
Channing Capital Management, LLC
Credo Capital Management, LLC
Dimensional Fund Advisors
DV Realty Advisors, LLC
Earnest Partners, LLC
Europa Capital Partners, LLP
Fortress Investment Group
Franklin Templeton Real Estate Advisors, LLC
Fremont Realty Capital, LP
Garcia, Hamilton & Associates, LP
HarbourVest Partners, LLC
Harris Investment Management, Inc.
Hispania Capital Partners
Holland Capital Management, LP
Hudson Realty Capital, LLC
ICV Capital Partners, LLC
Intercontinental Real Estate Corp.
J.P. Morgan Fleming Asset Management
K2 Advisors, LLC
Lazard Asset Management, LLC
LaSalle Investment Management, Inc.
Leading Edge Investment Advisors
LM Capital Group, LLC
Lombardia Capital Partners, LLC
Macquarie Infrastructure Partners, 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
Pluscios Management, LLC
Progress Investment Management, LLC
Prudential Investment Management, Inc.
Pugh Capital Management, Inc.
RhumbLine Advisers
RREEF America, LLC
Syncom Partners, LLC
Taplin, Canida and Habacht, Inc.
UBS Global Asset Management
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

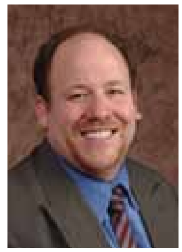
ORGANIZATIONAL CHART

AS OF JUNE 30, 2011

Board of Trustees

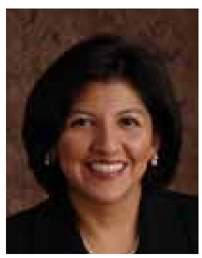


Robert Jurinek
Internal Auditor

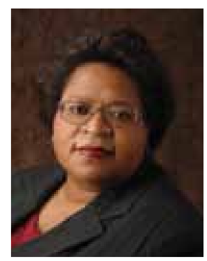


Kevin B. Huber
Executive Director

Frances Radencic
Director, Member and Office Services

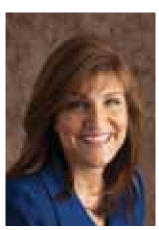


Carmen Heredia-Lopez
Director of Investments



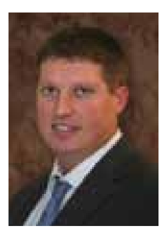
Patricia A. Hambrick
Chief Financial and Legal Officer

Sheron Banks-Fallis
Member Services Manager



Mary Cavallaro
Health Benefits Manager

Edgar Samayoa
Benefits Supervisor – Pensions



Eric Morel
Information Technology Manager

Sandra Shelby
Controller

Denise Valentovich
Benefits Supervisor – Claims and Billing

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

Letter of Transmittal

December 28, 2011

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 116th Comprehensive Annual Report of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) that covers the fiscal year ended June 30, 2011. 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 financial statements with some comparative data, 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.

Overview

The Fund's membership decreased to just under 60,000 members as of June 30, 2011.
The 116th year of continuous operations ended with the Fund's operational condition reflecting an improvement over the prior year. The Fund's financial condition was positively impacted by the rebound in the financial markets during the year. The June 30, 2011, value of net assets held in trust for pension and health benefits amounted to $10.3 billion, a 15.2% increase from the $9.0 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 $10.1 billion. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $16.9 billion, yields a 59.7% actuarial funding ratio, a 10.8% decrease from the prior year funding ratio of 66.9%.

The actuarial value of assets of the Health Insurance Fund amounted to $31.3 million. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $3.1 billion yields a 1.0% actuarial funding ratio, a 17.0% decrease from the prior year funding ratio of 1.2%.

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 Investments Section of this report.

As of June 30, 2011, investments at fair value plus cash totaled $10,456,912,118. This reflects a 16.8% increase from the $8,949,590,783 value of June 30, 2010. The Fund's investment performance rate of return for the year ended June 30, 2011, was 24.8%, exceeding the projected return of 8% and reflecting a 82.3% increase from the 13.6% performance rate of return as of June 30, 2010. The ten-year rate of return posted by the Fund for the period ended June 30, 2011, was 5.7%, and fell short of the actuarial assumption of 8%. Refer to the Investments 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 Investments 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 year began with persistent uncertainty about the general direction of the US economy, due in large part to concerns related to sovereign debt. During the first quarter, Japan's Nikkei Index fell over fears of a slowing economy in the U.S. and abroad; China reported that its fast-growing economy was slowing down; the Bank of England reduced its already diminished forecast for the British economy; Ireland announced that its economy shrank by 1.2%; and trade figures from Washington showed that American exports were faltering.

The economy continued to be weak amid low consumer confidence, and fear of the slowing recovery. During the first quarter, the employment picture worsened marginally with an increase in the rate of unemployment from 9.5% in June 2010 to 9.6% in September 2010. The Consumer Price Index increased at an annualized rate of 0.7% over the first quarter of the year to reach an annual rate of 1.1%, and the Consumer Confidence Index fell to 48.5, its lowest level since March 2010 and well below the benchmark of 100.

Oil prices increased marginally from $78 per barrel to $80 per barrel. Home prices increased by 3.2% over the trailing one year period. The yield on 3-month Treasuries decreased slightly from 0.18% at the end of the prior fiscal year to 0.16% at the end of the first quarter of fiscal 2011 and the yield on ten-year Treasuries continued to decline from 2.97% at the end of the previous fiscal year to 2.53% at the end of the first quarter of fiscal year 2011.

In stark contrast to the weak economic data that was produced during the quarter, the first quarter of fiscal 2011 yielded double-digit gains in the domestic equity markets, as measured by the S & P 500 Index.

The economic climate took a turn for the better in the second quarter, capped by reports of robust holiday spending and a decline in initial jobless claims. Despite budgetary pressures generated by the government's commitment to reviving the budget by taking steps to keep interest rates low, and the extension of tax cuts, the business community viewed the government actions as positive with the potential for increased investments and hiring. Key areas of the economy remained stressed however, as housing prices began to fall again, and an increase in mortgage rates further slowed housing activity. Improvements in jobless claims failed to translate into a meaningful decline in the nations' unemployment rate which increased to 9.8% at quarter end. There was no significant change in the annualized Consumer Price Index, while the Consumer Confidence Index increased to 54.

From an economic perspective, a recovery was well underway in the third quarter of the year. Unemployment dipped to 8.9% nationally with nearly two million jobs having been created since the downturn. The annualized Consumer Price Index increased to 2.1%, and the Consumer Confidence Index climbed to 72. Corporate profits grew for the eighth straight quarter and approached levels reached in the spring of 2007. The growth passed through to equity markets in the form of declining volatility. However, housing concerns due to another leg of decline in the housing market caused expectations of a robust housing recovery to remain elusive and many forecasts predicted another full year of falling prices, high mortgage delinquencies and continued foreclosure activity. In addition, by quarter end consumer confidence began to weaken, attributable in large part, to sharply rising energy prices. Political unrest in the Middle East and North Africa resulted in the price of oil rising to $100 per barrel and gasoline prices reaching $4 a gallon, inflicting pain on consumers.

The U.S. economy sputtered at year-end causing investors to shun equities in favor of fixed income securities. Headlines on the two major topics of unemployment and housing were largely negative during the last quarter. Job growth remained anemic and the jobs report at year end showed a reversal of the recent declines in the unemployment rate. Joblessness crept higher to 9.1%; and while jobs were being created, the very slow pace of growth was below that which was necessary to absorb new entrants to the labor force. The annualized Consumer Price Index climbed to 3.6% and the Consumer Confidence Index dropped to 62. In addition, the residential housing market, debate over the federal debt limit and future inflation continued to concern market participants.

Contrary to the seemingly ominous economic news in the headlines and in political capitals around the world, corporate America appeared reasonably stable. Corporate profits were at the all-time high levels of 2007 and margins remained elevated as the severe cost cutting of 2008-2009 had not been wholly reversed through new hiring and capital expenditures. Contrary to the debt crisis at the sovereign level, many corporations took advantage of historically low rates to access debt markets at very favorable terms.

Economic Outlook

At the end of fiscal 2011, the U.S. Congress was embroiled in a bitter debate over the debt ceiling. While an 11th hour resolution in early August averted a default on government obligations, credibility and confidence suffered on both sides of the aisle. Following the resolution, Standard & Poor’s downgraded the credit rating of U.S. Treasuries from AAA to AA+ based on concerns surrounding the effectiveness, stability, and predictability of American policymaking and political institutions. The market impact of the downgrade was unexpected, as confidence in the status of U.S. Treasuries caused a flight-to-quality which overrode the credit rating decline and pushed bond prices higher.

In the first quarter of fiscal 2012, the Federal Reserve's bond buying program came to an end, yet rumors about another round of stimulus were confirmed by the end of the quarter, when Chairman Ben Bernanke announced the next attempt to spur economic growth. The plan included selling $400 billion in short-term fixed income assets while buying longer-dated paper. Additionally, the Federal Reserve announced that it would reinvest principal and interest payments received on its $1 trillion holdings in mortgage-backed and agency securities in order to maintain the size of its position in the sector.

Despite the political and economic turmoil that currently dominate the news, corporations continued to perform well. Corporate balance sheets continued to amass cash as firms remain reluctant to return capital to shareholders. The strong earnings statements and balance sheets coupled with weak stock prices strongly supported bullish equity valuations. Bearish investors counter the low valuations with observations about the risks that macroeconomic and geopolitical uncertainty place on the sustainability of currently high profit margins. The unemployment rate inched to 9.2%, the annualized Consumer Price Index held at 3.6%, and the Consumer Confidence Index dropped to 57 in the first month of the new fiscal year.

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 end of a predetermined funding period. In years where the funding ratio exceeds 90%, no employer contribution is required.

Amendments to the Illinois Pension Code during fiscal year 2010 changed the funding requirements for future years. Illinois Compiled Statutes (Public Act 83-1440) limited the contributions required to be made to the Fund by the Chicago Board of Education to $187 million for fiscal 2011, $192 million for fiscal 2012, and $196 million for fiscal 2013. Under the amended statute, the Chicago Board of Education was provided a 14-year extension, or until the end of year 2059, to make contributions that ensure that the Fund's actuarial value of assets is 90% of the Fund's actuarial liabilities. The anticipated impact of the legislation is a decrease in the funding level to 55.2% in fiscal year 2012.

In addition, the Illinois Compiled Statutes (Public Act 90-582) provide that the Chicago Board of Education (employer) and the State of Illinois (State) are required to make additional contributions as a percentage of payroll to offset a portion of the cost of benefit increases enacted under Public Act 90-582. In years where the funding ratio exceeds 90%, no employer or State contributions are required.

Based upon the actuarial projects at June 30, 2008, the employer and State were required to make contributions in the amount of $393,266,000 in fiscal year 2010. During fiscal year 2010, the employer and State paid $355,759,400 in required contributions. The unpaid portion of $37,506,600 for fiscal year 2010 is currently under litigation with the employer.

Based upon actuarial projects at June 30, 2009, the State was required to make contributions of $10,449,000 in fiscal 2011. Due to amendments in the Pension Code, the employer was required to make contributions of $198,140,000 in fiscal 2011. During fiscal year 2011, the employer and State paid $176,066,600 in required contributions. The unpaid portion of $32,522,400 for fiscal 2011 is currently under litigation with the employer.

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, 2011, was 24.8% as performance of the portfolio mirrored the improved market and economic conditions relative to the previous fiscal year end. The Fund maintained a diversified portfolio consisting of equities (domestic and international), fixed income, real estate, and private equity. The Fund continued to attempt to maximize investment performance while maintaining acceptable levels of risk.

The Board maintained its target allocation policy during the year. The Board kept its target allocations in domestic equity at 40.5%, in international equity at 22%, in fixed income at 19.5%, in real estate at 6.5%, in private equity at 3%, in public REITs at 2.5%, in cash and cash equivalents at 2%, in infrastructure at 2%, and in hedge funds 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. During the year ended June 30, 2011, the Fund hired two minority owned fixed income managers;

terminated an international equity manager and re-distributed the assets to three existing international managers, including one minority owned manager. In alternative investments, the Fund increased its commitment to two existing private equity fund of funds managers and hired one female owned hedge fund of funds manager. In the real estate asset class, the Fund hired a minority owned real estate manager as well as a real estate fund of funds manager with a focus on funds owned by minorities, females, and persons with a disability.

The Fund continues to be committed to diversity and as of June 30, 2011, approximately 31% ($3.1 billion) of the Fund's assets were managed by qualified minority or female owned investment managers. Additionally, the Fund directed $2,016,666 of commissions to qualified minority and women brokers.

LEGISLATIVE

Public Act 096-0889 and Public Act 096-1490 were enacted during fiscal year 2010 and became effective on January 1, 2011. The legislation amended the Illinois Pension Code with dramatic effect on the Fund and public employees throughout the State of Illinois. In conjunction, both statutes established a second tier of benefits for those who, after January 1, 2011, first become a member or participant in any reciprocal retirement system or pension fund established under the Illinois Pension Code. The second tier benefits include a cap on the salary used in the calculation of pensions, establish a minimum retirement age of 62, establish age 67 as the minimum age for unreduced pension benefits, and limit automatic annual post-retirement pension increases based on the Consumer Price Index.

In addition, Public Act 096-0889 amended the Pension Code, Article 17, Section 129 to limit the Board of Education's required contribution to the Fund for fiscal 2011, 2012, and 2013, to $187 million, $192 million, and $196 million, respectively. The period over which contributions must be made and the funding level of the Fund must be brought to 90% was extended from 2045 to 2059.

The Fund successfully sought passage of legislative changes to eliminate the five day threshold for pension service credit. Public Act 97-0030 became effective on July 1, 2011, and amended the Pension Code, Article 17, to allow for pension service credit for each day paid, and to establish the number of days that constitute a month and year of pension service credit.

Major legislative proposals that the Trustees continue to pursue include:

- Increasing State funding to the Fund on a level relative and comparable to that provided to the downstate teachers' pension fund
- Increasing State funding for retiree health insurance, and
- Regaining the property tax levy reallocated to the Board of Education in 1995

During the year, the Trustees and Fund Administrators have diligently exercised their fiduciary responsibilities and vigorously opposed legislative changes that negatively impact the financial stability and future of the Fund, and benefits provided to its active and retired membership. The Trustees and Fund Administrators, in conjunction with the Fund's consultants, continue to work in Springfield to represent the interests of the members, improve benefits for members, and maintain the financial stability of the Fund.

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 Fund continued to work with its primary employer, Chicago Public Schools, to resolve payroll system issues that impacted pension fund data.

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.

Concluding Comments

In the 2010 teacher trustee election, Jeffrey Blackwell and Jeanne Marie Freed were elected to three-year terms.

In the election for officers, John F. O'Brill was elected president, Maria J. Rodriguez, vice president, Mary Sharon Reilly, recording secretary, and Dr. Walter E. Pilditch, financial secretary. Chairs of standing committees included John F. O'Brill, Investments; Mary Sharon Reilly, Pension Law and Rules; Dr. Walter E. Pilditch, Finance and Audit; and Dr. Walter E. Pilditch, Claims and Service Credits.

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.

Patricia A. Hambrick

Patricia A. Hambrick
Chief Financial Officer


NY
Tokyo
FTSE
4.83
-0.54
0.01
1.34
5.63
-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 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:

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, 2011, 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 2010 financial statements and, in our report dated July 21, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2011, 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 $1,521,811,167 (15% 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.

The management's discussion and analysis, schedules of funding progress, and schedules of contributions on pages 21 through 27, 45 and 46, 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 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, 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 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. 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.

KPMG LLP

Chicago, Illinois
December 28, 2011

Management's Discussion and Analysis (Unaudited)

June 30, 2011

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, 2011. This information is intended to supplement the financial statements, which begin on page 28 of this report. We encourage readers to consider additional information and data in the Fund's *2011 Comprehensive Annual Financial Report*.

Annual Financial Review

The Fund maintains a highly diversified portfolio of investments for the purpose of accumulating sufficient assets to provide benefits to members and survivors. Diversification of investments among U.S. stocks, real estate, fixed income, private equity, and international investments provides risk-adjusted returns while allowing the Fund to "ride out" short-term fluctuations in individual asset classes. Due to a strong rebound of the financial market in 2011, the Fund returned 24.8% for the year ended June 2011. Although The Fund is a long-term investor and results are more significant over longer periods, the sharp decline in value across investment classes in previous years brought the Fund's compound rate of return over the past 10 years down to 5.7%, which is 2.3% less than the actuarial assumption of 8.0%.

The Fund's consulting actuary has certified the total actuarial accrued liability of the Pension Fund to be $16.9 billion as of June 30, 2011. This represents an increase in the total actuarial accrued liability of $620.9 million compared to the actuarial accrued liability of $16.3 billion as of June 30, 2010. The unfunded actuarial accrued liability increased from $5.4 billion to $6.8 billion during the year. The Fund's consulting actuary has also certified the total actuarial accrued liability of the Health Insurance Fund to be $3.1 billion as of June 30, 2011. This represents an increase in the total actuarial accrued liability of $206.6 million compared to the actuarial accrued liability of $2.9 billion as of June 30, 2010. The unfunded actuarial accrued liability increased from $2.8 billion to $3.0 billion during the year.

Financial Highlights

- Investment returns were favorable in comparison to previous years. The investment rate of return for fiscal year 2011 was 24.8% following fiscal year 2010's return of 13.6% and fiscal year 2009's return of negative 22.0%. Five and ten-year averaged returns were 4.2% and 5.7%, respectively.

- Total plan net assets increased during the fiscal year to $10.3 billion at June 30, 2011, from $9.0 billion at June 30, 2010.

- The Fund paid members $1.0 billion in service retirement, disability and survivor benefits, and an additional $78.9 million for healthcare benefits.

- Total additions to plan net assets were $2.5 billion for fiscal year 2011. The net investment gain of $2.1 billion was more than 5.4 times member and employer contributions, which totaled $394.5 million.

- Total deductions from plan net assets were $1.2 billion for fiscal year 2011. Benefit payments, member refunds, and administrative expenses increased 5.9% over fiscal year 2010.

- The funded ratio for pension benefits decreased to 59.7% as of June 30, 2011, from 66.9% 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 postemployment healthcare plan). The Pension Fund includes member contributions and investment earnings used to pay service retirement benefits 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 understanding of 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 and the Health Insurance Fund for the past six years. The schedule 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 shows the unfunded actuarial accrued liability as a percentage of member payroll. This schedule also 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 2011, the Fund's total investment performance resulted in a 24.8% gain. The U.S., International, Real Estate Investment Trusts (REITs), and Private Equity markets generated positive returns. The Fund's portfolio of U.S. stocks reported a 34.9% return; International stocks reported a 31.2% return, public REITs reported a 32.7% return, and Private Equity reported a 21.5% return. Private real estate generated a positive return of 17.4%, while fixed income realized a positive return of 5.1%.

1-Year Returns (2011)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	24.8%	Fund Benchmark Index	23.6%
Domestic equity	34.9	Russell 3000 Index	32.8
International equity	31.2	MSCI ACWI Ex US	30.3
Public REITS	32.7	NAREIT	33.1
Private equity	21.5	N/A	—
Real estate (private)	17.4	NEREIF Total Index	16.1
Fixed income	5.1	Barclays Aggregated Index	3.9

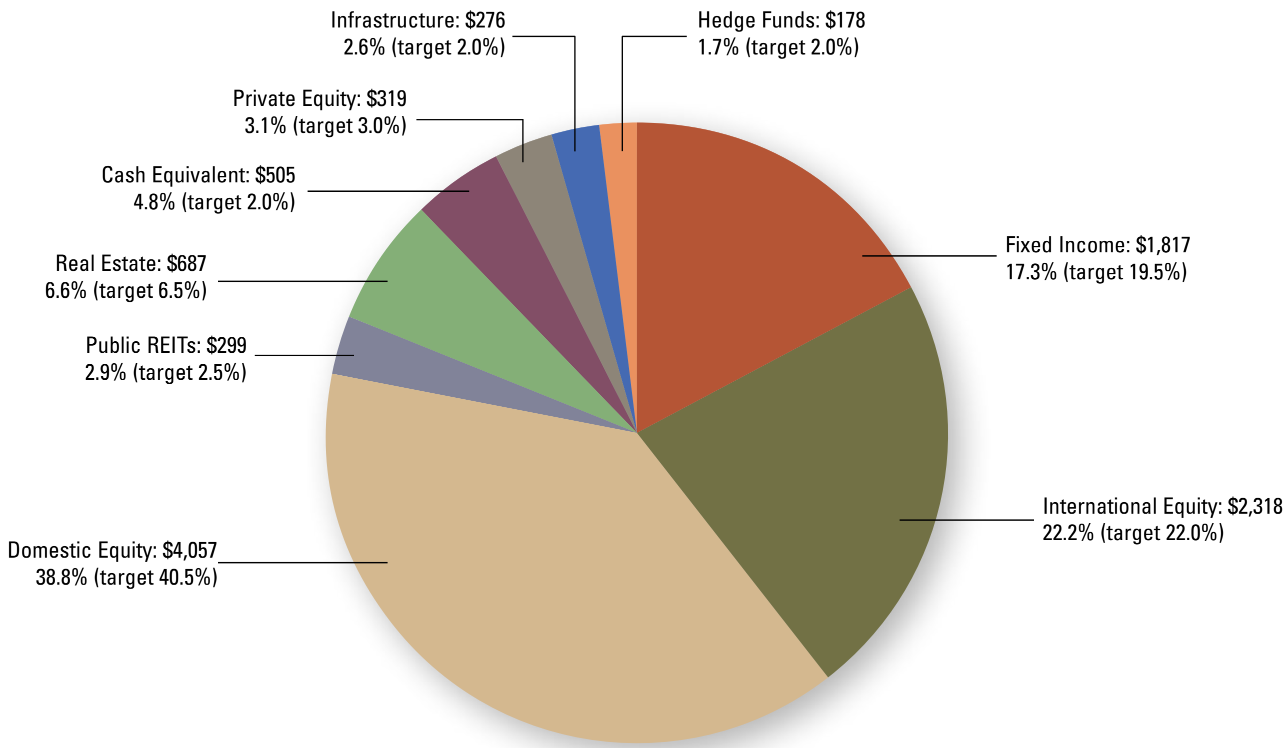
5-Year Returns (2011)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	4.2%	Fund Benchmark Index	4.7%
Domestic equity	3.7	Russell 3000 Index	3.6
International equity	4.4	MSCI ACWI Ex US	4.1
Public REITS	2.2	NAREIT	1.7
Private equity	9.1	N/A	—
Real estate (private)	(1.6)	NEREIF Total Index	3.3
Fixed income	6.7	Barclays Aggregated Index	6.5

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

Asset Allocation Summary as of June 30, 2011

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 increased $1.4 billion (15.2%) during the fiscal year. This increase was due primarily to the strong investment returns during the year.

As of June 30, 2011, total receivables, excluding amounts due from brokers, decreased by $4.6 million from 2010. The decrease in receivables is due to collection and adjustment of the Early Retirement Option receivable, along with a decrease in both contribution receivable from the employer at year-end and accrued investment income at year-end. Due from brokers (the proceeds due from investment sales) decreased $150.1 million due to timing of investment sales at year-end.

Refunds payable increased $2.4 million in 2011. This increase was due to a larger number of refund claims pending at year end. The increase in accounts and administrative expense payable of $2.0 million is the result of an increase in the year-end accrual of investment manager fee expense. Securities lending collateral payable includes $49.4 million, which represents the amount due to the Fund's custodian for losses on securities lending transactions. Due to brokers (the cash due to brokers for investment purchases) decreased by $5.1 million due to the timing of investment purchases at year-end.

The following is a summary of the plan net assets for the years ended June 30, 2011 and 2010:

	Fiscal Year	
(in millions)	2011	2010
Cash and cash equivalents	$ 19.2	$ 10.8
Receivables	91.1	95.7
Due from brokers	188.4	338.6
Investments, at fair value	10,437.8	8,938.7
Securities lending collateral	578.0	590.7
Capital assets, net	2.8	3.2
Total assets	**11,317.3**	**9,977.7**
Benefits and refunds payable	16.4	13.2
Accounts and administrative expenses payable	14.0	12.0
Securities lending collateral payable	608.2	630.5
Due to brokers	334.6	339.7
Total liabilities	**973.2**	**995.4**
Net assets held in trust for benefits	**$ 10,344.1**	**$ 8,982.3**

Additions to Plan Assets

Additions to plan assets which 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 ended June 30, 2011, additions totaled $2.5 billion, compared to $1.7 billion for the year ended June 30, 2010. Intergovernmental contributions decreased by $5.3 million in fiscal year 2011. The change in intergovernmental contributions is the net result of a $5.0 million increase from the state and a $10.0 million decrease from the employer, in additional funds required under Section 17-127 of the pension code. Federal insurance reimbursement represents funds from Federal programs which provide reimbursement to health plan sponsors for a portion of the costs of providing a qualified retiree prescription drug plan, and costs of providing health coverage to early retirees. The reduction in employee contributions is largely the result of additional contributions from the primary employer recorded during fiscal year 2010 totaling approximately $7.9 million, which has not yet been collected and is shown as an employer receivable. Minimum funding requirement represents additional employer contributions required by state law when the funding level drops below 90%. Amendments to the statute during fiscal year 2010 changed the funding requirements for additional employer contributions for fiscal years 2011, 2012, and 2013. Based upon the amendments to the statute, the employer made additional contributions in fiscal year 2011 in the amount of $165.6 million. Net investment income increased due to the unrealized appreciation of the Fund's investment portfolio. The Fund's portfolio experienced a 24.8% gain for the year ended June 30, 2011 compared to a 13.6% gain for the year ended June 30, 2010.

The following is a summary of additions to plan net assets for the years ended June 30, 2011 and 2010:

(in millions)	Fiscal Year 2011	Fiscal Year 2010
Intergovernmental, net	$ 43.0	$ 48.3
Federal health insurance reimbursement	10.3	–
Employee contributions	185.9	194.6
Minimum funding requirement (employer)	165.6	307.5
Net investment income	2,123.3	1,107.6
Total additions	$ 2,528.1	$ 1,658.0

Deductions from Plan Assets

Deductions from plan assets are representative 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. Refunds increased slightly due to a larger number of former teachers requesting resignation refunds. The health insurance rebate was disbursed at 70% of covered premiums for the first six months of fiscal year 2011 and 60% of covered premiums for the last six months of fiscal year 2011. The health insurance rebate was 70% for fiscal year 2010. Total deductions from plan assets amounted to $1.2 billion for the year ended June 30, 2011, compared to $1.1 billion for the previous year.

The following is a summary of deductions from plan net assets for the years ended June 30, 2011 and 2010:

(in millions)	Fiscal Year 2011	Fiscal Year 2010
Pension benefits	$ 1,047.5	$ 988.5
Refunds	27.2	21.1
Death benefits	3.3	2.9
Refund of insurance premiums	78.9	80.0
Administration and miscellaneous expenses	9.5	8.8
Total deductions	$ 1,166.4	$ 1,101.3

Funding Analysis

Under the funding plan established by the statutes of the State of Illinois, the employer is not required to make a minimum contribution to the Fund unless the Fund's funding level falls below 90% for a fiscal year. The employer is then 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 a predetermined funding period.

Amendments to the statute during fiscal year 2010 changed the funding requirements for future years. Minimum contributions for fiscal year 2011 were limited to $187 million; minimum contributions for fiscal year 2012 were limited to $192 million; and minimum contributions for fiscal year 2013 were limited to $196 million. Under the amended statute, the funding period was extended from 2045 to 2059.

Based upon the amended statute, the employer must make contributions of $192 million and $196 million in fiscal years 2012 and 2013, respectively. State law also requires state contributions and other employer contributions to provide for benefit increases when the funding level drops below 90%. Accordingly, the State of Illinois is required to remit $11.0 million and $10.9 million for the periods ending June 30, 2012 and June 2013, respectively. The primary employer of the Fund is required to remit $11.7 million and $11.6 million during the fiscal years ending June 30, 2012 and June 30, 2013, respectively.

Amendments to the statute which were effective during fiscal year 2011 will have a longer term impact on funding. Public Act 96-0889, effective January 1, 2011, created a second tier of benefits for those who first participate in the system after that date. The amendment caps the salary amount that can be used in the calculation of pensions in the future, increases the minimum retirement age, and limits post retirement increases to pensions.

The funded ratio for the plan decreased from 67.1% in 2010 to 59.9% in 2011. The decrease in the funded ratio is due to the employer contribution being less than the employer contribution requirement of normal cost plus interest on the unfunded liability along with the smoothing of 2008 and 2009 investment losses over a four-year period. Employer contributions in 2012 are expected to be substantially less than contributions in fiscal year 2011 and a slight increase is expected in operational and benefits costs. The rate of return for the period ended June 30, 2012, is projected at 8%. As a result, the funded ratio is expected to decrease to 55.2% in fiscal year 2012. The funded ratio of the plan has ranged from 59.9% to 99.9% over the last 10 years.

As previously mentioned, the *schedule of employer contributions* shows the amount of required contributions in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 43, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As exhibited in the schedules, the employer is not making required contributions sufficient to meet the increasing liability of the Pension Fund or Health Insurance Fund.

Requests for Information

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

Public School Teachers' Pension and Retirement Fund of Chicago
ATTN: Executive Director
203 North LaSalle Street, suite 2600
Chicago, IL 60601-1231

Statement of Plan Net Assets

June 30, 2011, with comparative totals for 2010

	Pension Fund	Health Insurance Fund	Total 2011	Total 2010
ASSETS:				
Cash	$ 19,159,631	—	19,159,631	10,838,653
Receivables:				
Intergovernmental	5,317,843	—	5,317,843	6,455,385
Employee	49,567,455	—	49,567,455	49,986,365
Accrued investment income	30,800,471	—	30,800,471	33,018,734
Due from brokers	188,426,993	—	188,426,993	338,599,541
Participating teachers' accounts for contributions	4,681,364	—	4,681,364	4,707,780
Other receivables	747,610	—	747,610	1,493,711
Total receivables	279,541,736	—	279,541,736	434,261,516
Investments, at fair value:				
U.S. government and agency fixed income	1,029,908,642	—	1,029,908,642	1,069,179,658
U.S. corporate fixed income	577,812,506	—	577,812,506	603,347,049
Foreign fixed income securities	145,648,486	—	145,648,486	141,258,567
Commingled fixed income funds	61,543,285	—	61,543,285	39,484,665
U.S. equities	4,057,376,902	—	4,057,376,902	3,307,748,840
Foreign equities	2,318,222,672	—	2,318,222,672	1,796,843,210
Public REITs	298,907,749	—	298,907,749	220,141,501
Pooled short-term investment funds	451,975,535	34,224,572	486,200,107	568,099,224
Hedge fund	177,744,777	—	177,744,777	141,957,992
Real estate	686,732,202	—	686,732,202	549,194,297
Infrastructure	275,818,888	—	275,818,888	231,022,323
Private equity	319,315,230	—	319,315,230	265,604,804
Margin cash	2,521,041	—	2,521,041	4,870,000
Total investments	10,403,527,915	34,224,572	10,437,752,487	8,938,752,130
Securities lending collateral	578,003,044	—	578,003,044	590,740,626
Capital assets, net of accumulated depreciation	2,794,812	—	2,794,812	3,167,576
Total assets	**11,283,027,138**	**34,224,572**	**11,317,251,710**	**9,977,760,501**
LIABILITIES:				
Benefits payable	2,332,209	—	2,332,209	1,627,688
Refunds payable	14,046,884	—	14,046,884	11,597,077
Accounts and administrative expenses payable	11,097,618	2,900,000	13,997,618	11,992,638
Securities lending collateral payable	608,158,566	—	608,158,566	630,483,033
Due to brokers	334,629,697	—	334,629,697	339,732,001
Total liabilities	**970,264,974**	**2,900,000**	**973,164,974**	**995,432,437**
Net assets held in trust for benefits	$ 10,312,762,164	31,324,572	10,344,086,736	8,982,328,064

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For fiscal year ended June 30, 2011,
with comparative totals for 2010

		Pension Fund	Health Insurance Fund	Total 2011	Total 2010
ADDITIONS:					
Contributions					
Intergovernmental, net	$	10,449,994	32,522,400	42,972,394	48,274,950
Employee		185,882,636	—	185,882,636	194,621,551
Minimum funding requirement (employer)		133,140,000	32,477,600	165,617,600	307,485,000
Total contributions		329,472,630	65,000,000	394,472,630	550,381,501
Investment income:					
Net appreciation in fair value		1,928,712,617	—	1,928,712,617	875,027,563
Interest		104,059,688	20,471	104,080,159	114,675,717
Dividends		127,470,956	—	127,470,956	110,049,532
Miscellaneous		620,222	—	620,222	5,548
Securities lending gain		4,601,984	—	4,601,984	47,554,173
Less investment expense:					
Investment advisory and custodial fees		(42,193,297)	—	(42,193,297)	(39,738,780)
Total investment income, net		2,123,272,170	20,471	2,123,292,641	1,107,573,753
Federal insurance reimbursement		—	10,338,661	10,338,661	—
Miscellaneous		55,307	—	55,307	—
Total additions		2,452,800,107	75,359,132	2,528,159,239	1,657,955,254
DEDUCTIONS:					
Pension benefits		1,047,538,959	—	1,047,538,959	988,503,470
Refunds		26,041,554	—	26,041,554	19,871,308
2.2 Legislative refunds		1,138,964	—	1,138,964	1,212,986
Refund of insurance premiums		—	78,892,292	78,892,292	79,953,873
Death benefits		3,260,860	—	3,260,860	2,946,147
		1,077,980,337	78,892,292	1,156,872,629	1,092,487,784
Administrative and miscellaneous expenses		9,527,938	—	9,527,938	8,800,848
Total deductions		1,087,508,275	78,892,292	1,166,400,567	1,101,288,632
Net increase (decrease)		1,365,291,832	(3,533,160)	1,361,758,672	556,666,622
Net assets held in trust for benefits:					
Beginning of year		8,947,470,332	34,857,732	8,982,328,064	8,425,661,442
End of Year	**$**	**10,312,762,164**	**31,324,572**	**10,344,086,736**	**8,982,328,064**

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, 2011, the Fund had 57 participating employers consisting of the primary employer, Chicago Public Schools, 55 charter schools, and the Fund itself.

As of June 30, 2011 and 2010, the Fund membership consisted of the following:

	2011	2010
Retirees and beneficiaries currently receiving benefits	25,199	24,600
Terminated members entitled to benefits but not yet receiving them	4,253	2,752
Current members:		
Vested	21,027	21,983
Nonvested	9,106	12,000
	59,585	61,335

The State of Illinois Public Act (P.A.) 96-0889, created a second tier of benefits for teachers who first become participants in the Fund, or other public pension funds in the State of Illinois, after January 1, 2011. Plan provisions for the two tiers are described below:

(I) TIER I

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 34 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. P.A. 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 4 years, with certain qualifications. A 3% automatic annual increase is paid on survivor pension benefits. A single-sum death benefit is also payable on the death of a contributor or retired member of the Fund, with certain qualifications.

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

(II) Tier II

A member with at least 10 years of service and who has attained 67 years of age is entitled to an unreduced pension. A member with at least 10 years of service and who has attained 62 years of age is entitled to a reduced pension. In the case of retirement prior to age 67, the retirement pension is reduced one half of 1% for each month that the member is under age 67.

A retirement pension is determined by applying a flat 2.2% to the average of the eight highest years of salary earned for each year of service. P.A. 96-0889 established an annual cap totaling $106,800 on the amount of salary that can be used in any year in calculating pension amounts, with annual increases to the cap limited to the lesser of 3% or the Urban Consumer Price Index.

Tier II members who retire receive an automatic annual increase, equal to the lesser of 3% of the annual pension or one-half the increase in the Consumer Price Index for all Urban Consumers. The automatic annual increase is paid 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 66-2/3% of earned pension or an amount based on the average of the eight highest years of salary in the last 10 years of service or on the average salary for the total service, if less than eight years, with certain qualifications. An automatic annual increase, equal to the lesser of 3% of the annual pension or one-half the increase in the Consumer Price Index for all Urban Consumers, is paid on survivor pensions after the first anniversary of the pension. 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 applying a flat 2.2% to the average of the eight highest years of salary earned. An automatic annual increase, equal to the lesser of 3% of the annual pension or one-half the increase in the Consumer Price Index for all Urban Consumers, 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 three external health insurance providers. A recipient of a retirement pension, survivor pension, or disability pension may be eligible to participate in a health insurance program and premium rebate sponsored by the Fund, provided the Fund is the 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 the first six months of fiscal year 2011 and 60% of the individual member's cost for the last six months of fiscal year 2011. The rebate percentage was 70% for fiscal year 2010. In accordance with Chapter 40, Act 5, Article 17, Section 17 142.1 of the ILCS, the total health insurance benefits provided in any one year may not exceed $65,000,000 plus any previous years' amounts authorized but not expended. Of the net assets available for benefits in the health insurance fund, previous years' amounts authorized but not expended at June 30, 2011 and 2010 are $31,324,572 and $34,857,732, respectively. The Fund has total discretion over the program, and no employee or employer contributions are made for the subsidy.

As of June 30, 2011 and 2010, health insurance membership consisted of the following:

	2011	2010
Retirees and beneficiaries currently receiving health insurance benefits	17,279	16,796
Terminated employees entitled to benefits but not yet receiving them	4,253	2,752
Active Members	30,133	33,983
	51,665	53,531

(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 and Investments

Cash includes amounts in demand deposits and uninvested funds held by the Fund's investment managers.

Investments are governed by Chapter 40, Act 5, Article 17 of the ILCS. 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, real estate, and hedge funds are valued based on amounts established by the fund managers or general partners which are subject to annual audit. The fair value of the derivative instruments that are not exchanged traded is determined by external pricing services using various pricing methods which are based upon the type of the derivative instrument.

(d) Capital Assets

Capital assets are reported 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 plan 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) Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Fund's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

(3) Receivables

As of June 30, 2011 and 2010, intergovernmental receivables include contributions due from the Board of Education and appropriations due from the State of Illinois as follows:

	2011	2010
Board of Education		
Early retirement program	$ 909,663	3,326,102
State of Illinois appropriations	4,408,180	3,129,283
	$ 5,317,843	6,455,385

The Early Retirement Program receivable represents the Board of Education's portion of the early retirement costs for fiscal year 2008. The Board of Education did not offer the early retirement program for fiscal year 2011 or 2010.

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 $46,592,612 and $47,226,712, on behalf of the employees, at June 30, 2011 and 2010, respectively. Employees owed the Fund $2,974,843 and $2,759,653 for the 2.2 pension formula upgrade at June 30, 2011 and 2010, 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 $250,000. There is no deposit policy for custodial credit risk.

Cash balances at June 30, 2011:		
Carrying amount	$	19,159,631
Bank balance		19,710,682
Amount exposed to custodial credit risk		19,437,233

Investments

The following table presents a summary of the Fund's investments at fair values at June 30, 2011:

Investments		Fair Value
U.S. government and agency fixed income	$	1,029,908,642
U.S. corporate fixed income		577,812,506
Foreign fixed income securities		145,648,486
Commingled fixed income funds		61,543,285
U.S. equities		4,057,376,902
Foreign equities		2,318,222,672
Public REITs		207,117,272
Foreign public REITs		91,790,477
Pooled short-term investment funds		486,200,107
Hedge fund		177,744,777
Real estate		686,732,202
Infrastructure		275,818,888
Private equity		319,315,230
Margin cash		2,521,041
Total investments	$	10,437,752,487

(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. The Fund does not have a formal investment policy which limits its exposure to custodial credit risk. As of June 30, 2011, 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, 2011
Margin cash	$ 2,521,041

(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, 2011.

(C) Credit Risk

Credit risk is the risk that the Fund will not recover its investments due to the inability of the counterparty to fulfill its obligation. The Fund does not have a formal investment policy which limits its exposure to credit risk. The following table presents the quality ratings of debt securities held by the Fund as of June 30, 2011:

S&P Credit Ratings	Asset - Backed	Commercial Mortgage - Backed	Corporate Bonds	Government Agencies	Government Bonds	Government Mortgage-Backed	Municipal Prov. Bonds
AAA	$ 14,205,395	26,569,315	4,299,749	138,294,356	15,568,145	470,274	2,408,123
AA	1,870,000	1,305,519	70,939,524	8,478,940	1,105,000	—	11,103,643
A	365,272	7,001,104	297,241,487	8,890,105	2,326,706	—	12,512,973
BBB	526,487	1,010,387	182,719,697	1,448,946	12,385,086	—	—
BB	1,297,426	—	8,120,104	—	—	—	—
B	2,023,552	4,696,268	1,015,521	—	—	—	—
CCC	1,040,215	7,877,611	—	—	—	—	—
C	—	—	155,500	—	—	—	—
D	1,594,130	97,454	—	—	—	—	—
Not Rated	2,953,453	3,401,007	4,469,560	308,731	18,002,983	—	—
US Gov't. Agency	—	—	—	9,675,187	591,211,587	271,642,428	740,684
	$ 25,875,930	**51,958,665**	**568,961,142**	**167,096,265**	**640,599,507**	**272,112,702**	**26,765,423**

(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, 2011:

Investment Type	Fair Value	Effective Duration (years)
Asset-backed securities	$ 25,875,930	0.01
Commercial mortgage-backed	51,958,665	0.30
Corporate bonds	568,961,142	1.92
Government agencies	167,096,265	0.35
Government bonds	640,599,505	3.72
Government mortgage-backed securities	272,112,703	0.36
Municipal/provincial bonds	26,765,424	0.14
Total	**$ 1,753,369,634**	

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 Fund does not have a formal investment policy which limits its exposure to foreign currency risk. The following table presents the foreign currency risk by type of investment as of June 30, 2011:

Currency	Fair Value	Percentage
Foreign equities:		
Australian dollar	$ 50,295,296	2.17%
Brazilian real	25,987,925	1.12%
British pound sterling	517,109,934	22.31%
Canadian dollar	47,637,380	2.05%
Chilean peso	2,387,665	0.10%
Czech koruna	4,694,931	0.20%
Danish krone	4,495,159	0.19%
Egyptian pound	967,402	0.04%
Euro	529,102,027	22.82%
Hong Kong dollar	99,852,541	4.31%
Indian rupee	21,021,280	0.91%
Indonesian rupiah	14,806,040	0.64%
Japanese yen	384,244,576	16.57%

Currency		Fair Value	Percentage
Malaysian ringgit		1,190,040	0.05%
Mexican peso		6,483,005	0.28%
New Israeli shekel		1,819,003	0.08%
New Zealand dollar		6,111,140	0.26%
Norwegian krone		18,494,759	0.80%
Philippine peso		929,073	0.04%
Polish zloty		1,574,137	0.07%
Singapore dollar		21,473,726	0.93%
South African rand		14,923,863	0.64%
South Korean won		13,011,310	0.56%
Swedish krona		37,782,894	1.63%
Swiss franc		164,509,577	7.10%
Taiwan dollar		14,316,126	0.62%
Thai baht		3,088,451	0.13%
Turkish lira		8,029,434	0.35%
U.S. dollar		301,883,978	13.03%
Total	**$**	**2,318,222,672**	**100.00%**
Foreign fixed income – U.S. dollar	$	145,648,486	100.00%
Foreign Public REITs			
Australian dollars		12,013,664	13.09%
Brazilian real		593,852	0.65%
British pound sterling		11,389,139	12.41%
Canadian dollar		2,947,945	3.21%
Chinese yuan renminbi		237,614	0.26%
Euro		11,405,022	12.42%
Hong Kong dollar		25,670,407	27.97%
Japanese yen		14,016,979	15.27%
Singapore dollar		3,681,878	4.01%
Swedish krona		1,026,589	1.12%
Swiss franc		1,428,531	1.55%
U.S. dollar		7,378,857	8.04%
Total	**$**	**91,790,477**	**100.00%**

(5) Derivatives

During the year ended June 30, 2010, the Fund implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. A derivative instrument is an instrument or contract whose value is derived from that of other financial instruments such as stocks, bonds, and commodities, interest rates or a market index. The Fund's derivatives are considered investment derivative instruments. The following table summarizes the derivatives held within the Fund's investment portfolio as of June 30, 2011:

Derivative Type	Notional Amounts	Fair Value
Foreign currency contracts purchased	$ —	112,036,436
Foreign currency contracts sold	—	(111,470,041)
Futures:		
Long fixed income	23,608,750	(40,906)
Long equity	16,520,970	133,176
Short fixed income	44,636,313	97,400
Rights	—	27,135
Warrants	—	39,958
Swaps:		
Interest rate		
Pay fixed, receive variable	14,178,000	(1,032,481)
Total return		
Pay variable, receive variable	8,812,196	30,891
Credit default		
Pay coupon/buy protection	9,282,551	1,005,913
Receive coupon/sale protection	12,115,811	(615,631)
Total	$ 129,154,591	211,850

Forward Currency Forward Contracts

Forward currency contracts are two-sided contracts in the form of either forward purchases or forward sales. The Fund's use of these securities is limited to small positions in the Fund's portfolio to hedge fluctuations in foreign currency. The fair value of forward currency contracts outstanding at June 30, 2011, is as follows:

Currency	Fair Value
Foreign currency exchange purchases:	
British pound sterling	$ 9,132,632
Euro	167,085
Swiss franc	434,689
United States dollar	102,302,030
Total Purchases	$ 112,036,436

Currency		Fair Value
Foreign currency exchange sales:		
British pound sterling	$	(30,088,839)
Canadian dollar		(4,369,019)
Euro		(25,987,008)
Japanese yen		(34,426,040)
Mexican peso		(79,852)
Norwegian krone		(84,340)
Singapore dollar		(6,345)
Swedish krona		(254,900)
Swiss franc		(6,473,872)
United States dollar		(9,699,826)
Total Sales	$	(111,470,041)

Futures Contracts

Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed-upon price. The Fund uses financial futures to improve yield, to adjust the duration of the fixed income portfolio, and to replicate an index.

Stock Rights and Warrants

A stock right is the right to the holder as a current shareholder in a company to buy additional shares at a discount over the current market price. Warrants are instruments which when purchased are priced above the current market, and allow the holder to purchase shares in a company at a specified future point in time. As a holder of warrants, the Fund bears the risk that the share price will drop below the cost of the warrant.

Swaps

Swaps are agreements to exchange currency or assets. The Fund invests in swaps to manage exposure to credit, currency, inflation, and interest rate risks. Interest rate swap agreements involve the exchange of a set of variable and fixed rate interest payments linked to a referenced interest rate without an exchange of the underlying principal amount. The agreements are used to limit or manage exposure to fluctuations in the interest rates or to obtain a marginally lower interest rate than would be available with the swaps. Credit default swap and synthetic default swap agreements involve one party making a stream of payments (the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation, or index.

Changes in Fair Value

The following table summarizes the changes in fair value, which were recognized as investment income in the Fund's statement of changes in plan net assets for the year ended June 30, 2011:

Derivative Type	Changes in Fair Value
Foreign currency contracts	$ (2,905,209)
Futures	2,217,838
Options	182,933
Swaptions	15,378
Rights and warrants	346,816
Swaps	1,672,603
Total	$ 1,530,359

Credit Risk

Credit risk is the risk that the Fund will not recover its investments due to the inability of the counterparty to fulfill its obligation. It is the Fund's policy to enter into netting arrangements whenever it has more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the nondefaulting party. The aggregate fair value of derivatives in asset positions at June 30, 2011, was approximately $113,161,817, which is offset by liabilities included in the netting arrangements with counterparties, resulting in approximately $1,426,277 net exposure to credit risk. The counterparties with the remaining credit risk are banks which are rated A or above by the rating agencies.

Interest Rate Risk

The Fund manages its exposure to fair value losses from interest rate risk for the derivatives portfolio using the effective duration contribution method on the portfolio as a whole. Duration is a weighted average of the maturity of all the income streams from the portfolio of the fixed income instruments. Following is the effective duration of the Fund's fixed income derivatives at June 30, 2011:

Derivative Type	Fair Value	Effective Duration (years)
Futures fixed income (long and short, net)	$ 189,670	0.39
Interest rate swaps	(1,032,481)	(0.28)
Total return swaps	30,891	(0.06)
Total	$ (811,920)	

(6) Securities Lending

The Fund's 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 June 30, 2011, has a weighted average maturity of 45 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	2011	2010
Fair value of securities loaned for cash collateral	$ 565,855,927	570,843,419
Fair value of securities loaned for noncash collateral	49,291,052	64,898,353
Total fair value of securities loaned	$ 615,146,979	635,741,772
Fair value of cash collateral from borrowers	$ 578,003,044	590,740,626
Fair value of noncash collateral from borrowers	52,391,490	69,563,857
Total fair value of collateral from borrowers	$ 630,394,534	660,304,483

(7) 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 ILCS (Public Act 89-15) provides 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 2059. In years where the funding rate exceeds 90%, no employer contribution is required. Based upon amendments to the statute during fiscal year 2010, the employer and the state were required to make contributions in the amount of $208.6 million in fiscal year 2011. Based upon the actuarial projections at June 30, 2008, the employer and state were required to make contributions in the amount of $393.3 million in fiscal year 2010. During fiscal year 2011 and 2010 the employer and state paid $176.1 million and $355.7 million respectively. The unpaid portion for fiscal year 2011 and 2010 is currently under litigation with the employer.

During the year ending June 30, 2011, the state funding for the health insurance plan remained at $32.5 million. As a result, the Fund allocated $32.5 million of the employer contribution to the Health Insurance Fund to pay health benefits to Fund retirees.

(A) Member Contributions

Member contributions, established by the ILCS, 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 totaled $257,873 and $237,330 for the years ended June 30, 2011 and June 30, 2010, 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 which are included in the employer minimum funding requirement, 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. Federal insurance reimbursement represents funds from Federal programs providing reimbursement to health plan sponsors for a portion of the costs of providing a qualified retiree prescription drug plan, and costs of providing health coverage to early retirees.

(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 ILCS. A contributor is eligible if he/she:

- has at least 20 but less than 34 years of service
- retires 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.

The Board of Education did not pass an Early Retirement Option for the years ended June 30, 2011 and 2010. During fiscal year 2010, the Board of Education paid the amount due for fiscal year 2007. The unpaid portion of the required contributions for fiscal year 2008 is reflected as a receivable of $909,663 in the accompanying financial statements.

(8) Funded Status and Funding Progress

As of June 30, 2011, the funded status, annual covered payroll, and unfunded actuarial accrued liability for the Pension and Health Insurance Plans were as follows:

	Pension Plan	Health Insurance Plan
Actuarial accrued liability	$ 16,940,626,445	3,071,516,739
Less actuarial value of assets	10,109,314,922	31,324,572
Unfunded actuarial accrued liability	$ 6,831,311,523	3,040,192,167
Funded ratio	59.67%	1.02%
Annual covered payroll	$ 2,090,131,858	2,090,131,858
Unfunded actuarial accrued liability as a percentage of annual covered payroll	326.84%	145.45%

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 returns, and healthcare cost trends. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear 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, 2011:

	Pension Plan	Health Insurance Plan
Valuation date	June 30, 2011	June 30, 2011
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	4-year smoothed market value
Actuarial assumptions:		
Investment rate of return	8% 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% per year	N/A
Inflation rate*	3% per year	3% per year
	Postretirement benefit increase:	Medical trend rate:
2012	3% per year	9.0% per year
2013	3% per year	8.5% per year
2014	3% per year	8.0% per year
2015	3% per year	7.5% per year
2016	3% per year	7.0% per year
2017	3% per year	6.5% per year
2018	3% per year	6.0% per year
2019	3% per year	5.5% per year
2020 and later	3% per year	5.0% per year

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

(9) 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.

(10) 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 position of the Fund.

(11) Operating Leases

The Fund's office 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
2012		499,991
2013		512,649
2014		525,307
2015		537,965
2016		550,623
2017-2020		2,329,072
2021		510,539
Total minimum future rental payments	$	5,466,146

Rent expense was $487,333 and $474,675 in 2011 and 2010, respectively.

Required Supplementary Information

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 percent of annual covered payroll (B-A)/C
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
June 30, 2009	11,493,256	15,683,241	4,189,985	73.28	1,996,194	209.90
June 30, 2010	10,917,417	16,319,744	5,402,327	66.90	2,107,934	256.29
June 30, 2011	10,109,314	16,940,626	6,831,312	59.67	2,090,132	326.84

(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 Plan

Last six 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 percent 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
June 30, 2009	49,692	2,670,283	2,620,591	1.86	1,996,194	131.28
June 30, 2010	34,858	2,864,877	2,830,019	1.22	2,107,934	134.26
June 30, 2011	31,325	3,071,517	3,040,192	1.02	2,090,132	145.45

See accompanying independent auditors' report

Required Supplementary Information
Schedule of Employer 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 % of Annual Required Contributions
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
June 30, 2009	292,145,359	198,069,327	67.80	167,904,187	176,176,975	104.93	81.35
June 30, 2010	355,846,125	290,759,950	81.71	177,302,867	194,621,551	109.77	91.04
June 30, 2011	430,091,545	143,589,994	33.39	175,805,483	185,882,636	105.73	54.38

See accompanying independent auditors' report.

Schedule of Employer Contributions (Unaudited) Health Insurance Plan
Last six fiscal years

Schedule 4

Period Ended	Employer Contributions: Annual Required Contributions	Employer 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	37.82
June 30, 2009	171,880,428	65,000,000	37.82
June 30, 2010	186,231,574	65,000,000	34.90
June 30, 2011	215,797,617	65,000,000	30.12

See accompanying independent auditors' report.

Schedules of Administrative and Miscellaneous Expenses

Years ended June 30, 2011 and 2010

Schedule 5

	2011	2010
Salaries	$ 4,608,637	3,802,012
Accrued leave	140,244	365,869
Actuary fees	70,750	68,000
Auditing	175,000	165,275
Banking fees	58,518	55,425
Consulting	3,631	10,376
Data processing	47,145	77,809
Depreciation	516,054	536,610
Election expense	214,331	250,358
Employees' health insurance	664,504	610,313
Field services/pension rep	59,634	56,558
Health insurance consulting	44,333	35,093
Insurance premium	35,359	31,965
Legal fees	431,892	210,496
Legislative expense	136,037	127,138
Maintenance of equipment, systems, software, and support	189,493	187,095
Medical fees	57,097	55,443
Membership, dues, and subscriptions	11,414	13,335
Office forms and supplies	75,360	59,908
Office rent and utilities	888,722	912,895
Postage	182,321	142,305
Publications/communication	165,915	235,322
Records management	8,043	8,901
Studies and evaluation	6,896	43,715
System consulting	540,988	542,950
Trustee conferences, seminars, and meetings	100,295	128,149
Tuition and training/educational conference	70,193	46,896
Miscellaneous	25,132	20,637
Total	**$ 9,527,938**	**8,800,848**

See accompanying independent auditors' report.

Schedules of Cash Receipts and Disbursements

Years ended June 30, 2011 and 2010

Schedule 6

	2011	2010
Cash and cash equivalents at beginning of period	$ 578,937,877	491,711,557
Add receipts:		
Member contributions	186,327,962	181,608,813
Public revenues	220,066,197	364,916,322
Interest and dividends	238,991,584	275,786,079
Miscellaneous	55,307	—
Net investment sales	507,599,155	404,733,180
Total cash receipts	**1,153,040,205**	**1,227,044,394**
Less disbursements:		
Pension benefits	1,050,095,298	991,377,579
Refunds	51,685,515	18,631,998
2.2 legislative refunds	1,138,964	1,212,986
Refund of insurance premiums	75,992,292	76,339,873
Investment and administrative expenses	46,960,174	51,643,400
Miscellaneous	746,101	612,238
Total cash disbursements	**1,226,618,344**	**1,139,818,074**
Net increase (decrease) in cash and cash equivalents	(73,578,139)	87,226,320
Cash and cash equivalents at end of period	**$ 505,359,738**	**578,937,877**

See accompanying independent auditors' report.

Schedules of Manager Fees

Years ended June 30, 2011 and 2010

Schedule 7

	2011	2010
Acadian Asset Management	$ —	213,293
Adams Street Partners	1,235,539	1,116,753
Adelante Capital Management	330,060	259,049
Ariel Capital Management	398,483	446,462
Attucks Asset Management	1,115,289	967,225
Brandywine Global Investment Management	—	336,883
Capri Capital Partners	121,797	244,017
CB Richard Ellis Investors	103,813	108,156
Channing Capital Management	425,091	363,874
Credo Capital Management	417,051	338,776
Dimensional Fund Advisors	609,287	522,849
DV Realty Advisors	265,159	256,365
Earnest Partners, LLC	895,815	708,872
Europa	649,879	647,268
Fortress Japan Opportunity Domestic Fund	101,115	—
Franklin Templeton Institutional Advisors	136,957	—
Fremont Realty Capital	345,091	341,468
Garcia Hamilton	115,436	—
HarbourVest Partners, LLC	729,000	810,000
Harris Investment Management, Inc.	616,811	512,096
Hispania Capital Partners	239,782	339,475
Holland Capital Management	634,206	472,404
Hudson Partners	208,191	—
ICV Capital Partners	117,786	225,000
Intercontinental Real Estate Corp.	402,496	436,319
J. & W. Seligman & Co.	—	533,344
J.P. Morgan Fleming Asset Management	3,843,178	3,930,647
K2 Advisors	820,630	550,237
LaSalle Property Fund	85,656	—
Lazard Asset Management	808,390	764,178
Leading Edge — Manager of Managers	832,081	181,697
Lehman Brothers Asset Management	—	43,191
LM Capital	218,646	181,170
Lombardia Capital Partners	660,965	582,909
Lynmar Capital Group, Inc.	—	215,330

Continued on page 50

Schedule 7 (continued from page 49)

	2011	2010
Macquarie Infrastructure Partners	$ 1,383,840	2,142,193
Merrill Lynch	1,116,827	1,173,802
Mesirow Financial, Inc.	2,614,737	2,085,577
MFS Institutional Advisors	1,461,536	1,335,115
Morgan Stanley Investment Management	2,834,695	2,624,127
Muller and Monroe Asset Management	203,159	257,258
New Amsterdam Partners	489,755	543,168
Northern Trust Global Investments	356,000	479,242
Palladium Equity Partners	128,503	150,000
Pantheon Ventures, Inc.	698,175	718,837
Pharos Capital Group	54,768	16,449
Piedmont Investment Advisors	464,261	417,338
Progress Investment Management	1,084,277	961,577
Prudential Investment Management	1,385,586	1,293,187
Pugh Capital Management	121,173	—
RhumbLine Advisers	125,177	91,736
RREEF Global	286,346	309,178
Syncom Partners	161,280	159,284
Taplin, Canida and Habacht	202,003	193,210
UBS Global Asset Management	1,295,115	756,269
United Investment Management	—	375,224
Urban America, LP	290,284	290,284
Urdang Investment Management	519,783	274,642
Waddell & Reed Asset Management Group	316,235	289,228
Walton Street Capital	1,090,253	1,166,844
Western Asset Management	808,629	876,693
William Blair & Company	3,323,490	1,989,123
Zevenbergen Capital Investments	330,675	260,876
Total manager fees	40,630,242	37,879,768
Callan – General Consultant	182,500	—
Mercer – General Consultant	130,000	405,000
Northern Trust – Master Custodian	400,000	400,000
The Townsend Group – Real Estate Consultant	161,838	160,000
Total consultant fees	874,338	965,000
Fees for foreign exchange and real estate	688,717	894,012
Total	$ 42,193,297	39,738,780

See accompanying independent auditors' report.

Schedule of Consultant Payments

Years ended June 30, 2011 and 2010

Schedule 8

	2011	2010
Anselmo and Associates	$ 77,733	72,468
Aon Consulting	41,000	—
Aspen Marketing	52,001	49,059
Bogfire, Inc.	25,190	23,685
Bradley Consulting Group, Inc.	452,000	432,000
Cahill Printing Co.	11,729	12,454
Chicago Press Corporation	82,089	51,663
Comgraphic	155,180	42,394
Data Consultants	41,508	54,790
E. M. Barnes & Associates	58,304	54,490
Election Service Corporation	174,138	218,036
Goldstein & Associates	70,750	68,000
Michelle Holleman	73,933	72,285
Imaging Office Systems	26,537	27,984
Jacobs, Burns, Orlove, and Hernandez	355,987	196,752
Kirkland & Ellis, LLP	79,052	13,541
KPMG LLP	175,000	165,275
Levi, Ray & Shoup, Inc.	—	48,673
Robin Lynch	88,988	110,950
National Data Service of Chicago	6,966	6,966
North Shore Printers	86,624	44,907
The Segal Company	3,333	35,903
Total	**$ 2,138,041**	**1,802,275**

See accompanying independent auditors' report.

INVESTMENTS

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 60603

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, 2010 through June 30, 2011.

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

CALLAN ASSOCIATES INC.

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

July 27, 2011

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

Dear Trustees:

Callan Associates, Inc. is pleased to present the Public School Teachers' Pension and Retirement Fund of Chicago's ("Fund") results for fiscal year ended June 30, 2011. Despite the low growth, high unemployment, weak housing market, and additional economic woes of the past year, the Fund performed favorably outperforming its benchmark and actuarial rate of return expectation.

As of June 30, 2011, the Fund's market value totaled $10.3 billion, an approximate $1.4 billion increase since June 30, 2010. During the past twelve month period:

- Domestic equity markets continued to advance over the trailing 12 months. The S&P 500 Index, an index of domestic large capitalization stocks, increased 30.69% during the one-year period, and smaller stocks, as measured by the Russell 2000 increased 37.41%. Over the past year growth stocks outperformed value stocks across all capitalizations.
- Developed international equity markets trailed their domestic equity counterparts during their one-year period, returning 30.36% as measured by the MSCI EAFE (Europe, Australasia, Far East) Index. Emerging markets gained 28.17%, as measured by the MSCI Emerging Markets Index.
- The fixed income market produced modest returns during the year, gaining 3.90% as measured by the Barclays Aggregate Bond Index.

Within this environment the Fund returned 24.49% net-of-fees (24.78% gross-of-fees) during the 12 month period ending June 30, 2011. The Fund outperformed its benchmark during the fiscal year by 0.94% on a net-of-fee basis. Over the trailing three- and five- year periods the Fund remained behind its benchmark. Since inception, the Fund has returned 8.49% net of fees (8.80% gross of fees), outperforming its benchmark by 18 basis points annually.

The Fund's domestic equity managers gained 34.69% on a net-of fee basis during the fiscal year, outperforming the Russell 3000 Index return of 32.80%. The Fund's overweight allocation to small cap equity relative to the Total Fund benchmark was the primary contributor to performance as small cap outperformed large cap over the trailing 12 months. In general, the Fund's domestic equity managers produced favorable returns across the market capitalization spectrum.

The Fund's international equity allocation outperformed the passive benchmark during the fiscal year, gaining 30.62% not-of-fees versus the benchmark return of 30.27%. There were mixed results from the international managers with three out of the seven managers outperforming their respective indices.

The fixed income composite returned 5.05% compared to the benchmark return of 3.90%. Credit exposure benefited the fixed income composite and investment grade and non-investment grade credit significantly outperformed like duration treasuries for over the trailing 12 months.

Manager changes over the past year are summarized below:

New Manager	Asset Class	Inception Date
Plucious	Hedge Funds	Dec-10

Terminated Manager	Asset Class	Termination Date
MFS Investment Mgmt	International Equity	Jun-11

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

All performance returns for the Public School Teachers' Pension & Retirement Fund of Chicago presented in this report have been calculated by Callan Associates, Inc using a time weighted rate of return calculation for accounts with daily pricing and using a modified BAI calculation for accounts without daily pricing.

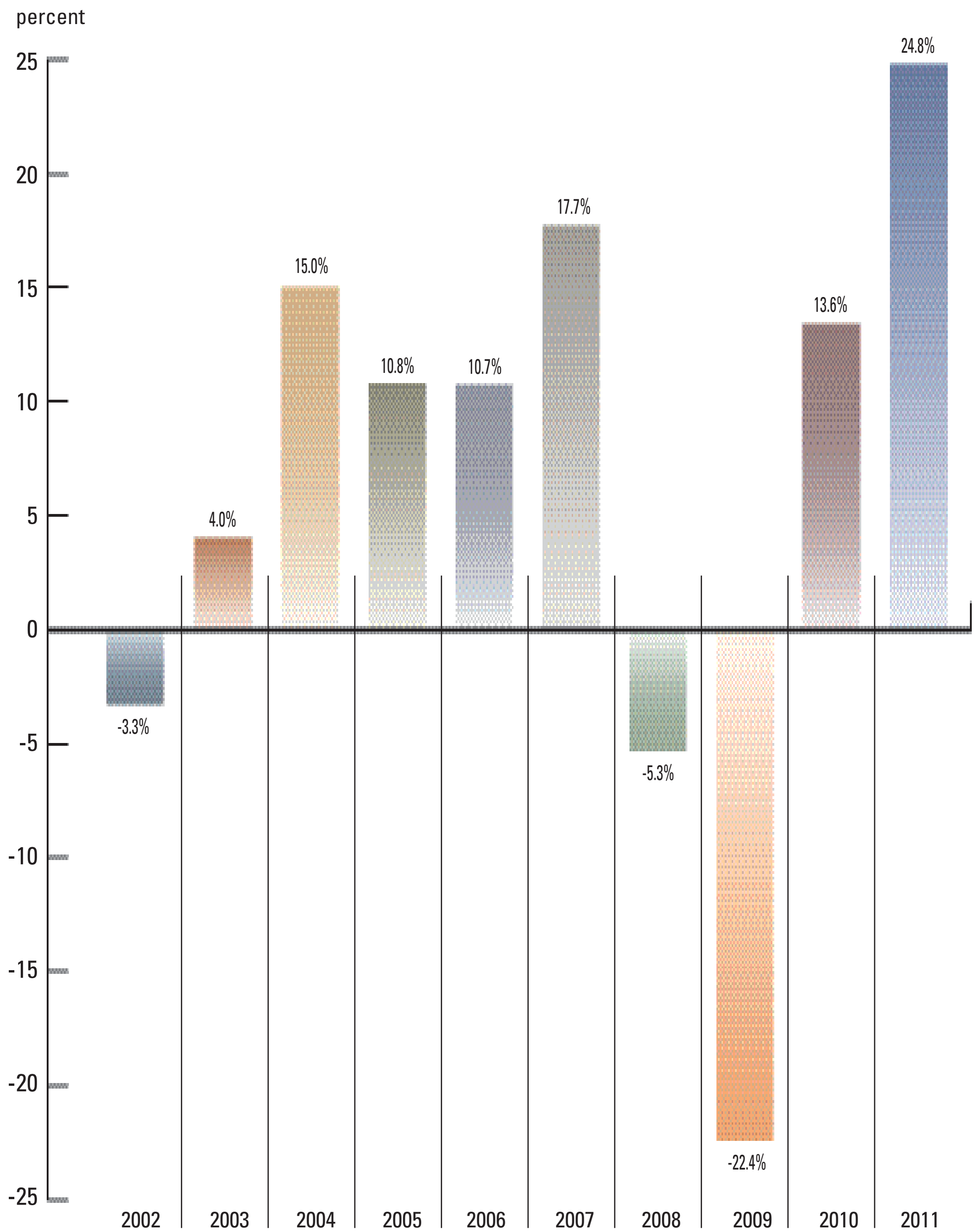
Sincerely,

Gwelda Swilley-Burke

Matt Shirilla

Total Annual Fund Rate of Return*

as of June 30, 2002-2011



**Time-weighted rate of return.*

Schedule of Investment Results

	2007	2008	2009	2010	2011	Annualized Returns Gross of Fees 3 Year	5 Year	10 Year
Total Fund	17.7%	(5.3%)	(22.0%)	13.6%	24.8%	3.3%	4.2%	5.7%
Large Cap	19.9%	(10.1%)	(26.6%)	13.6%	32.6%	3.4%	3.6%	3.4%
Russell 1000 Index	20.4%	(12.4%)	(26.7%)	15.2%	31.9%	3.7%	3.3%	3.2%
S&P 500	20.6%	(13.1%)	(26.2%)	14.4%	30.7%	3.3%	2.9%	2.7%
Mid Cap Equity	18.3%	(10.5%)	(29.7%)	21.7%	39.8%	6.2%	4.8%	7.0%
S&P Mid Cap	18.5%	(7.3%)	(28.0%)	24.9%	39.4%	7.8%	6.6%	7.9%
Small Cap Equity	19.7%	(18.2%)	(24.1%)	24.4%	39.9%	9.7%	5.3%	8.0%
Russell 2000 Index	16.4%	(16.2%)	(25.0%)	21.5%	37.4%	7.8%	4.1%	6.3%
International Equity	25.2%	(7.2%)	(28.9%)	14.4%	31.2%	2.2%	4.4%	8.2%
MSCI ACWI ex US	30.1%	(6.2%)	(30.5%)	10.9%	30.3%	0.1%	4.1%	7.9%
Fixed Income	6.2%	5.8%	4.1%	12.3%	5.1%	7.1%	6.7%	5.9%
Barclays Aggregated Index	6.1%	7.1%	6.1%	9.5%	3.9%	6.5%	6.5%	5.7%
REITs	18.0%	(16.7%)	(37.8%)	38.7%	33.0%	4.7%	2.4%	11.4%
Custom REITs Index**	13.8%	(16.8%)	(39.6%)	38.7%	33.2%	3.7%	1.1%	9.9%
Real Estate (Private)	18.4%	6.5%	(34.7%)	(4.7%)	20.0%	(9.3%)	(1.2%)	5.3%
NCREIF Property Index	17.3%	9.2%	(19.6%)	(1.5%)	16.7%	(2.6%)	3.4%	7.6%
Private Equity*	22.0%	19.7%	(24.7%)	15.4%	21.5%	1.8%	9.1%	–
N/A	–	–	–	–	–			
Infrastructure	–	–	12.1%	(3.2%)	16.9%	8.3%	–	–
Hedge Funds	–	–	–	–	6.9%	–	–	–

**Returns for Private Equity are based on the custodial statements.*

***Custom REIT Index is calculated based on a weighted average of the NAREIT domestic and NAREIT global indices to accurately reflect the changes in CTPF strategy.*

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

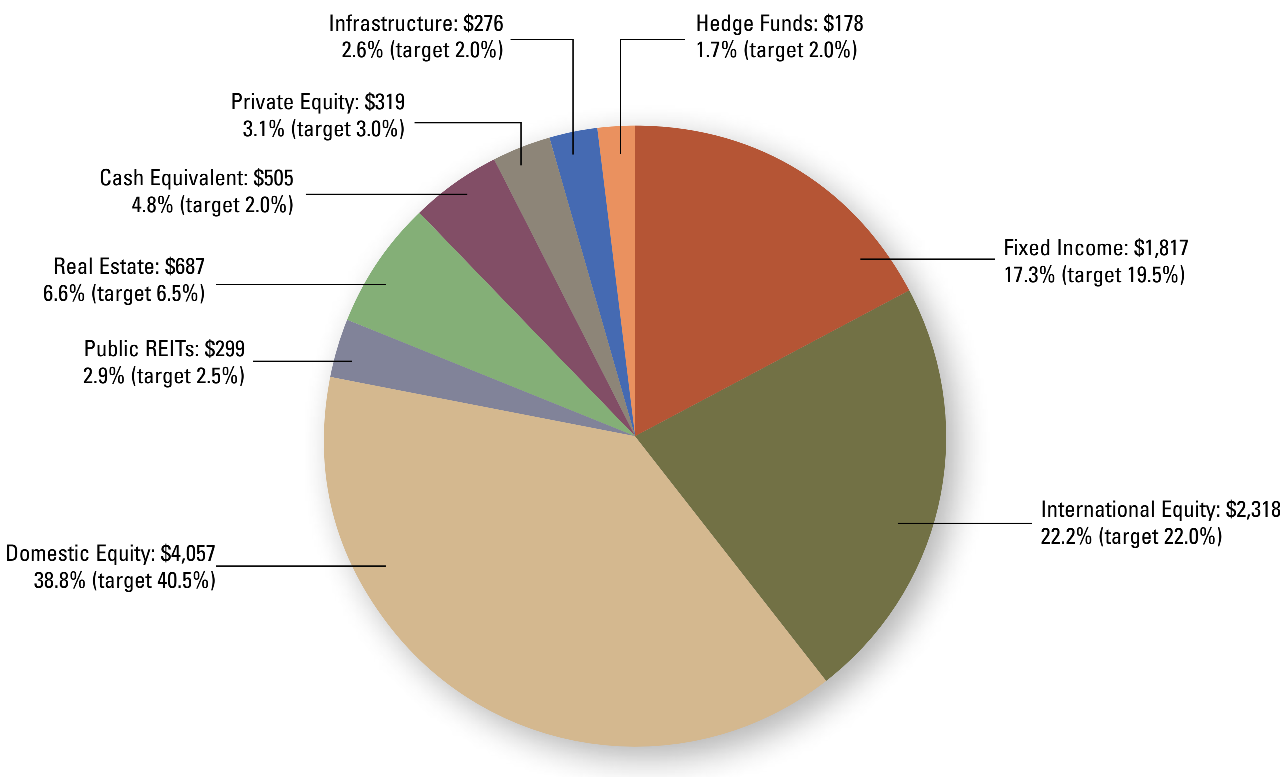
Investment Portfolio Summary

IN MILLIONS OF DOLLARS

	June 30, 2010 Fair Value	Purchases	Sales (Fair Value)	Fair Value Adjustments	June 30, 2011 Fair Value	Percent of Total
Fixed Income	$ 1,858.2	3,783.3	3,736.5	(87.6)	1,817.4	17.38%
Equity	5,324.7	2,574.1	2,880.4	1,656.1	6,674.5	63.83%
Real Estate	549.3	62.8	18.2	92.8	686.7	6.57%
Hedge Funds	141.9	25.0	0.0	10.8	177.7	1.70%
Infrastructure	231.0	15.5	3.6	32.9	275.8	2.64%
Private Equity	265.6	56.4	33.5	30.8	319.3	3.05%
Cash & Equivalents	578.9	(73.5)	0.0	0.1	505.5	4.83%
Total Portfolio	**$ 8,949.6**	**6,443.6**	**6,672.2**	**1,735.9**	**10,456.9**	**100.00%**

Asset Allocation Summary as of June 30, 2011

IN MILLIONS OF DOLLARS

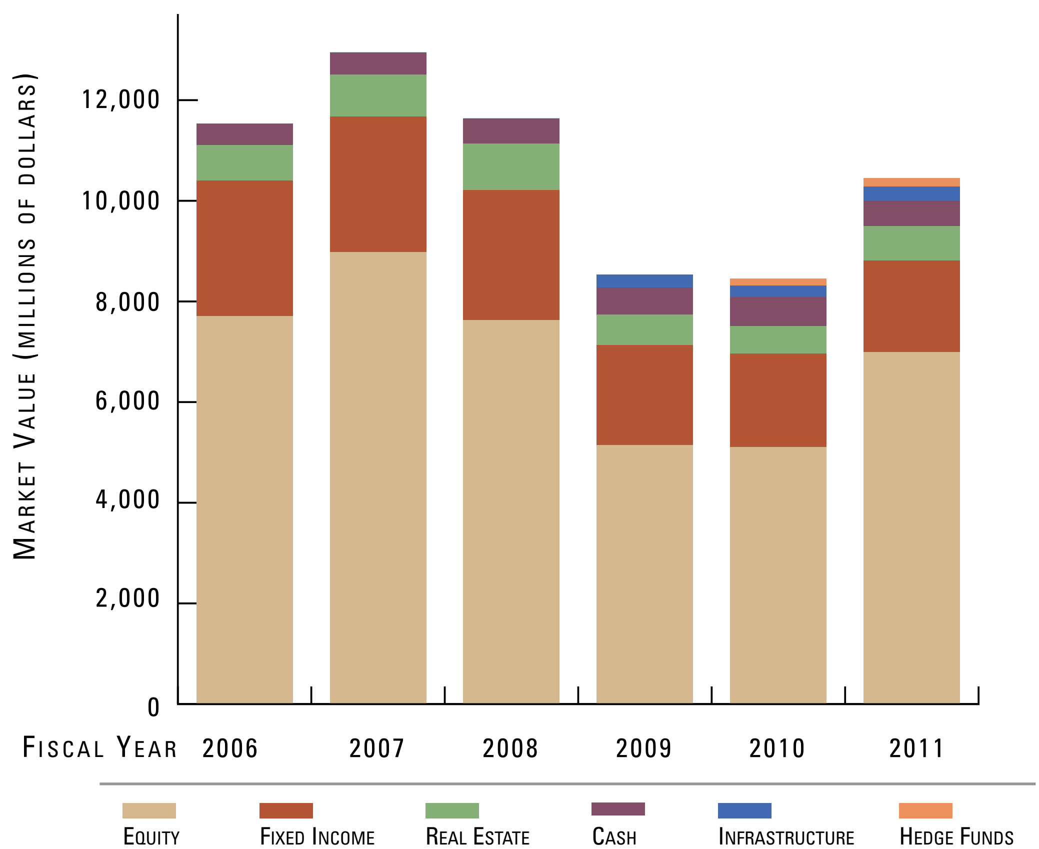


* *Note: Percentage indicates actual category weight as a percentage of the entire portfolio.*

Historical Asset Allocation

	2006		2007		2008		2009		2010		2011	
	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy
Equity:												
Domestic	47.7	48.5	43.9	41.5	39.5	41.5	36.1	40.5	37.0	40.5	40.1	40.5
International	14.6	12.5	21.3	22.0	21.3	22.0	19.6	22.0	20.1	22.0	22.9	22.0
Public REITs	2.3	2.0	1.7	2.5	2.2	2.5	1.7	2.5	2.5	2.5	3.0	2.5
Private Equity	2.3	2.0	2.4	3.0	2.6	3.0	2.8	3.0	3.0	3.0	2.9	3.0
Total Equity	66.9	65.0	69.3	69.0	65.6	69.0	60.2	68.0	62.5	68.0	68.9	68.0
Fixed Income	23.4	28.0	20.8	20.5	22.2	20.5	23.4	19.5	20.8	19.5	17.7	19.5
Real Estate	6.1	5.0	6.5	6.5	7.9	6.5	7.0	6.5	20.8	19.5	6.7	8.5
Infrastructure	0.0	0.0	0.0	2.0	0.0	2.0	3.0	2.0	6.1	6.5	2.7	0.0
Hedge Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.6	2.0	1.7	2.0
Cash & Equiv.	3.6	2.0	3.4	2.0	4.3	2.0	6.4	2.0	6.4	2.0	2.3	2.0
Total Portfolio	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Historical Asset Allocation by Dollar Amount



Domestic Equity Summary

as of June 30, 2011

Economic Sector Holdings

S&P Economic Sector	Number of Shares	Market Value	Percent of Total	S&P 500 Index Allocation
Information Technology	22,204,783	$ 688,750,978	17.0%	17.7%
Financials	21,725,490	538,551,739	13.3%	15.1%
Health Care	15,457,480	476,166,955	11.7%	11.7%
Consumer Staples	6,687,266	290,183,240	7.2%	10.6%
Industrials	14,882,283	517,575,503	12.8%	11.3%
Energy	9,206,785	415,205,684	10.2%	12.7%
Consumer Discretionary	15,539,515	502,287,679	12.4%	10.7%
Utilities	2,492,712	81,523,283	2.0%	3.4%
Materials	4,290,479	160,324,715	4.0%	3.7%
Telecommunication Services	3,654,813	91,888,684	2.3%	3.1%
Miscellaneous	64,634,438	294,918,442	7.1%	0.0%
Grand Total	**180,776,044**	**$ 4,057,376,902**	**100.0%**	**100.0%**

Top 10 Domestic Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
Apple Computer Corp.	221,025	$ 74,191,462	1.8%
Exxon Mobil	847,132	68,939,602	1.7%
Microsoft Corp.	1,862,213	48,417,538	1.2%
JP Morgan Chase	990,670	40,558,030	1.0%
IBM Corp.	225,627	38,706,312	1.0%
General Electric Co.	1,792,406	33,804,777	0.8%
Chevron	314,443	32,337,318	0.8%
ConocoPhillips	429,319	32,280,496	0.8%
Halliburton	619,381	31,588,431	0.8%
Verizon Communications	817,634	30,440,513	0.7%
Total Top 10 Domestic Equity	**8,119,850**	**$ 431,264,479**	**10.6%**
Grand Total	**180,776,044**	**$ 4,057,376,902**	**100.0%**

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

International Equity Summary

as of June 30, 2011

Country Holdings

Country	Number of Shares	Market Value	Percent of Total	MSCI ACWI ex US Index Allocation
Egypt	287,419	$ 1,131,200	0.0%	0.1%
South Africa	2,029,469	15,829,095	0.7%	1.7%
Other	2,668,963	16,536,580	0.7%	0.3%
Total Africa	**4,985,851**	**33,496,875**	**1.4%**	**2.1%**
Bermuda	8,145,899	27,636,580	1.2%	4.9%
Brazil	2,608,232	35,425,232	1.5%	3.7%
Canada	1,923,962	63,766,344	2.8%	8.0%
Cayman Islands	30,290,924	33,178,227	1.4%	0.0%
Chile	7,334,399	3,457,611	0.1%	0.4%
Colombia	57,800	3,856,994	0.2%	0.2%
Mexico	1,930,453	6,680,053	0.3%	1.0%
Panama	53,800	2,024,494	0.1%	0.0%
Other	6,567,904	278,774,404	12.0%	0.0%
Total Americas	**58,913,373**	**454,799,939**	**19.6%**	**18.2%**
Australia	6,202,580	52,072,016	2.2%	5.9%
China	22,351,450	31,415,032	1.4%	4.1%
India	1,692,132	29,703,913	1.3%	1.7%
Japan	16,695,573	352,180,767	15.2%	13.7%
Singapore	7,608,625	20,004,373	0.9%	1.2%
Taiwan	6,806,264	23,986,136	1.0%	2.6%
Other	41,097,095	73,917,153	3.2%	5.0%
Total Asia/Pacific Basin	**102,453,719**	**583,279,390**	**25.2%**	**34.2%**
France	2,600,406	176,567,923	7.6%	7.1%
Germany	1,922,793	143,891,067	6.2%	6.2%
Netherlands	3,180,028	88,588,674	3.8%	1.7%
Spain	3,578,359	34,729,810	1.5%	2.5%
Switzerland	3,339,441	166,554,535	7.2%	5.7%
United Kingdom	76,918,642	501,226,739	21.6%	14.5%
Other	8,759,021	135,087,720	5.8%	7.8%
Total Europe	**100,298,690**	**1,246,646,468**	**53.8%**	**45.5%**
Grand Total	**266,651,633**	**$ 2,318,222,672**	**100.0%**	**100.0%**

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

Top 10 International Equity Holdings

Holding	Number of Shares	Market Value	Percent of Total
Nestle (Switzerland)	524,710	$ 32,560,686	1.4%
Reckitt Benckiser Group (United Kingdom)	525,925	29,045,513	1.3%
British American Tobacco (United Kingdom)	2,650,707	26,389,508	1.1%
HSBC Holdings (United Kingdom)	601,884	26,316,492	1.1%
Novartis (Switzerland)	415,188	25,394,515	1.1%
Prudential (United Kingdom)	2,120,851	24,515,427	1.1%
BHP Billiton LTD (United Kingdom)	585,357	23,042,950	1.0%
Sanofi S.A. (France)	281,732	22,645,530	1.0%
Diageo PLC (United Kingdom)	1,107,195	22,628,164	1.0%
U.S. Bancorp (Switzerland)	1,166,894	21,245,233	11.0%
Total Top 10 International Equity	**9,980,443**	**$ 253,784,018**	**10.9%**
Grand Total	**266,651,633**	**$ $2,318,222,672**	**100.0%**

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

Fixed Income Summary

as of June 30, 2011

Fixed Income Holdings

Asset Category	Par Value	Market Value	Percent of Total	Barclays' Aggregate Bond Index Allocation
Government/Government Agency	$ 776,491,990	$ 825,408,033	45.5%	47.0%
Corporates	533,253,240	495,598,259	27.3%	27.3%
Mortgage Backed Securities	300,515,246	306,075,630	16.9%	16.9%
Non-Corporate	36,728,764	10,711,851	0.6%	0.6%
Cash & Short Term Investments	106,216,758	106,211,993	5.9%	5.8%
Asset Backed Securities	30,700,494	25,534,607	1.4%	1.4%
Commercial Mortgage-Backed	17,700,797	18,613,204	1.0%	1.0%
Other	61,380,027	29,280,383	1.5%	0.0%
Grand Total	**$ 1,862,987,316**	**$ 1,817,433,960**	**100.0%**	**100.0%**

Public REITs Summary

as of June 30, 2011

Public REITs Holdings

Property Type	Number of Shares	Market Value	Percent of Total	NAREIT Property Index Allocation
Diversified	6,969,423	$ 51,096,881	17.1%	6.2%
Retail REITs	2,995,121	45,924,240	15.4%	11.4%
Specialized REITs	1,093,787	26,842,238	9.0%	13.1%
Residential REITs	470,314	25,699,644	8.6%	16.6%
Office REITs	1,131,687	19,445,880	6.5%	14.2%
Real Estate Operating Companies	3,219,263	17,564,179	5.9%	5.0%
Real Estate Development	4,769,763	8,747,643	2.9%	2.6%
Industrial REITs	641,392	5,235,896	1.8%	5.4%
Hotels, Resorts, and Cruise Lines	129,836	6,411,635	2.1%	6.8%
Mortgage REITs	33,470	632,053	0.2%	0.9%
Health Care Facilities	33,189	462,200	0.2%	13.3%
Commingled REITs/Other	8,619,051	90,845,260	30.3%	4.5%
Grand Total	**30,106,296**	**$ 298,907,749**	**100.0%**	**100.0%**

Top 10 Public REITs Holdings

Holdings	Number of Shares	Market Value	Percent of Total
Sun Hung KAI Properties	554,708	$ 8,076,905	2.7%
Mitsubishi Estate Co.	291,000	5,066,196	1.7%
Starwood Hotels & Resorts Worldwide Inc.	85,546	4,793,998	1.6%
Hong Kong Land HLD	651,000	4,635,120	1.6%
Mitsui Fudosan Co. Ltd.	243,000	4,146,285	1.4%
Wharf (HLDGS)	454,426	3,156,527	1.1%
China Overseas Land & Investment	1,442,880	3,092,978	1.0%
Sumitomo Realty & Development	129,000	2,857,615	1.0%
Brookfield Office Properties Inc.	143,298	2,762,809	0.9%
China Resources Land Ltd.	1,274,000	2,339,316	0.8%
Total Top 10 Public REITs	**5,268,858**	**$ 40,927,749**	**13.8%**
Grand Total	**30,106,296**	**$ 298,907,749**	**100.0%**

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

Private Equity Summary

as of June 30, 2011

Private Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
Adams Street	71,655,484	$ 75,273,728	23.6%
Harbourvest	42,391,001	49,329,917	15.4%
Hispania Partners	5,784,578	3,661,323	1.1%
Hudson Realty	17,000,000	16,742,994	5.2%
ICV Capital Partners	5,730,958	6,232,784	2.0%
M2 Private Equity	5,649,581	5,978,195	1.9%
Mesirow Capital	62,438,189	89,281,993	28.0%
Muller and Monroe	15,664,023	13,928,945	4.4%
Palladium Partners	4,365,133	5,672,642	1.8%
Pantheon	44,362,703	40,984,115	12.8%
Pharos Capital	5,316,511	8,075,181	2.5%
Syncom	5,747,756	4,153,413	1.3%
Grand Total	**286,105,917**	**$ 319,315,230**	**100.0%**

Infrastructure Summary

as of June 30, 2011

Infrastructure Holdings

Description	Number of Shares	Market Value	Percent of Total
JP Morgan	170,342,297	$ 150,956,188	54.7%
Macquarie	88,490,325	124,862,700	45.3%
Grand Total	**258,832,622**	**$ 275,818,888**	**100.0%**

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

Hedge Fund Summary

as of June 30, 2011

Hedge Fund Holdings

Description	Number of Shares	Market Value	Percent of Total
K2 Advisors	70,000	$ 75,428,284	42.4%
Mesirow-Absolute Return	70,000	76,067,745	42.8%
Pluscios	25,000	26,248,748	14.8%
Grand Total	**165,000**	**$ 177,744,777**	**100.0%**

Real Estate Summary

as of June 30, 2011

Real Estate Holdings

Description	Number of Shares	Market Value	Percent of Total
Capri Capital	23,600,000	$ 5,567,969	0.8%
CB Richard Ellis	8,139,444	7,608,813	1.1%
DV Urban	23,747,672	11,457,639	1.7%
Europa	10,413,360	13,748,009	2.0%
Fortress Japan	1,278,995,845	18,323,170	2.7%
Fremont Realty	25,744,681	18,493,816	2.7%
Intercontinental	35,879,397	26,128,125	3.8%
JP Morgan	91,290	143,702,766	20.9%
LaSalle Investment	23,519	24,655,230	3.6%
Merrill Lynch	31,762,675	18,050,248	2.6%
Morgan Stanley	7,580,841	1,586,410	0.2%
Olympus	10,793,740	728,381	0.2%
Prudential Investment Management	6,162	144,152,889	21.0%
RREEF Global	30,000,000	22,971,642	3.3%
UBS Realty Investors	18,777	146,059,467	21.3%
Urban America	23,222,737	14,064,562	2.0%
Walton Street	89,921,644	69,433,066	10.1%
Grand Total	**1,599,941,784**	**$ 686,732,202**	**100.0%**

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

Manager Analysis

Asset Category	Market Value 6/30/2011	Percentage of Portfolio	FY 2011 Manager Fees
EQUITY			
Domestic Equity			
Ariel Capital Management	$ 123,934,256	1.2%	$ 398,483
Attucks Asset Management	184,810,061	1.8%	1,115,289
Channing Capital Management	77,724,947	0.7%	425,091
Credo Capital Management	80,078,350	0.8%	417,051
Dimensional Fund Advisors	122,618,498	1.2%	609,287
Harris Investment	279,791,621	2.7%	616,811
Holland Capital Management	201,342,863	1.9%	634,206
Lombardia Capital Partners	241,057,046	2.3%	660,965
New Amsterdam Partners	192,723,296	1.8%	489,755
Northern Trust Global Investments	861,466,732	8.2%	253,202
Piedmont Investment	144,116,127	1.4%	464,260
Progress Investment Managers	187,145,579	1.8%	1,084,276
Rhumbline Advisors	1,094,029,185	10.5%	125,177
Waddell and Reed	177,704,715	1.7%	316,235
Zevenbergen Capital Management	88,833,626	0.8%	330,674
Total	**4,057,376,902**	**38.8%**	**7,940,762**
International Equity			
EARNEST Partners	210,224,764	2.0%	895,815
Lazard Asset Management	538,671,451	5.2%	808,390
Leading Edge Investment Advisors	101,895,565	1.0%	832,081
MFS Institutional Advisors	418,628,056	4.0%	1,461,536
Morgan Stanley Investment Management	468,445,205	4.5%	1,957,287
Northern Trust Global Investments	6,605,480	0.1%	679
William Blair	573,752,151	5.5%	3,323,490
Total	**2,318,222,672**	**22.3%**	**9,279,278**
Public REITs			
Adelante Capital Management	62,807,143	0.6%	330,060
Morgan Stanley Investment Management	145,281,362	1.4%	841,392
Urdang Investment Management	90,819,244	0.9%	519,784
Total	**298,907,749**	**2.9%**	**1,691,236**
Fixed Income			
Garcia, Hamilton	74,970,214	0.7%	115,436
LM Capital Management	124,417,785	1.2%	218,646
Northern Trust Global Investments	982,079,284	9.4%	102,119
Pugh Capital Management	75,754,818	0.7%	121,173
Taplin, Canida & Habatch	121,536,310	1.2%	202,003
Western Asset Management Company	438,675,549	4.2%	808,630
Total	**1,817,433,960**	**17.4%**	**1,568,007**
Hedge Funds			
K2 Advisors	75,428,284	0.7%	798,638
Mesirow-Absolute Return	76,067,745	0.7%	820,630
Pluscious Management	26,248,748	0.3%	0
Total	**177,744,777**	**1.7%**	**1,619,268**

Continued on page 70

Manager Analysis continued from page 69

Asset Category	Market Value 6/30/2011	Percentage of Portfolio	FY 2011 Manager Fees
Private Equity			
Adams Street	75,289,912	0.7%	1,235,539
Harbourvest	49,329,917	0.5%	729,000
Hispania Partners	3,661,323	0.0%	239,782
Hudson	16,531,698	0.2%	208,191
ICV Capital Partners	6,394,595	0.1%	117,786
M2 Private Equity	5,978,195	0.1%	100,000
Mesirow Capital	89,281,993	0.9%	1,816,099
Muller and Monroe	13,928,945	0.1%	103,159
Palladium Partners	5,705,937	0.1%	128,503
Pantheon	40,984,120	0.4%	698,175
Pharos Capital	8,075,181	0.1%	54,768
Syncom	4,153,414	0.0%	161,281
Total	**319,315,230**	**3.2%**	**5,592,283**
Infrastructure			
JP Morgan	150,956,188	1.4%	2,643,061
Macquarie	124,862,700	1.2%	1,383,840
Total	**275,818,888**	**2.6%**	**4,026,901**
Real Estate			
Capri Capital	5,567,972	0.1%	121,797
CB Richard Ellis	7,608,813	0.1%	103,813
DV Urban	11,457,639	0.1%	265,159
Europa	13,750,471	0.1%	649,879
Fortress Japan	18,279,424	0.2%	101,115
Franklin Templeton	–	0.0%	136,957
Fremont Realty	18,493,816	0.2%	345,091
Intercontinental	26,128,125	0.2%	402,496
JP Morgan Strategic	143,702,746	1.4%	1,200,117
LaSalle Investment Management	24,655,270	0.2%	85,656
Merrill Lynch	18,050,248	0.2%	1,116,827
Morgan Stanley	1,586,410	0.0%	36,016
Olympus	728,381	0.0%	–
Prudential Investment Management	144,152,889	1.4%	1,385,586
RREEF Global	23,125,724	0.2%	286,346
UBS Realty Investors	145,946,646	1.4%	1,295,115
Urban America	14,064,562	0.1%	290,284
Walton Street	69,433,066	0.7%	1,090,253
Total	**686,732,202**	**6.6%**	**8,912,507**
Cash and Equivalents			
Northern Trust	505,359,738	4.8%	–
Grand Total	**$ 10,456,912,118**	**100.0%**	**$ 40,630,242**

Broker Commission Report

Domestic Agency Trades

for the Year Ended June 30, 2011

Broker Name	Number of Shares Traded	Commission Amount	Commission per Share
Loop Capital Markets, LLC	10,551,708	$ 295,387	$ 0.03
Cabrera Capital Markets	6,668,232	232,429	0.03
M. R. Beal & Company	5,236,428	180,789	0.03
BNY Brokerage	3,228,117	129,243	0.04
M. Ramsey King Securities	2,567,777	89,063	0.03
Cheevers & Co	2,771,100	84,371	0.03
Guzman & Company	685,738	82,704	0.12
International Strategy & Investment Group	1,386,899	67,308	0.05
Williams Capital Group	1,751,963	59,244	0.03
Gardner Rich & Company	1,715,100	56,025	0.03
J.P. Morgan Securities	3,075,416	55,752	0.02
Blaylock, Robert Van Securities	1,611,221	55,303	0.03
Pacific American Securities	1,507,359	49,090	0.03
Jefferies & Co	840,111	37,238	0.04
Goldman, Sachs and Co.	1,408,693	35,670	0.03
Citigroup Global Markets	78,691	35,177	0.45
HSBC Securities Ltd.	1,567,616	31,352	0.02
BAC Merrill Lynch	860,277	28,044	0.03
Barclays Corp.	2,744,698	27,874	0.01
Liquidnet Ltd.	1,083,358	27,221	0.03
UBS Securities LLC.	1,129,313	27,078	0.02
Credit Lyonnais Securities	1,617,227	26,712	0.02
Castleoak Securities	880,018	26,365	0.03
Capital Institutional Services, Inc.	540,088	25,601	0.05
Instinet	996,832	25,531	0.03
Island Trading	1,228,582	23,605	0.02
Deutsche Securities Inc	686,386	22,730	0.03
Pulse Trading	639,647	22,333	0.03
William Blair & Company	470,988	18,671	0.04
Pershing LLC.	925,380	18,669	0.02
Robert W Baird & Co	433,462	17,340	0.04
Stifel, Nicolaus & Co. Inc.	428,787	17,079	0.04
Sanford Bernstein & Co	538,407	15,958	0.03
Piper Jaffray	460,841	14,297	0.03
Bank of America	426,486	12,848	0.03
Morgan Stanley & Co Inc.	684,504	12,617	0.02
Divine Capital Markets	296,210	11,049	0.04
Citation Group	258,395	10,161	0.04
Jones & Associates	230,258	9,542	0.04
Melvin Securities	316,217	9,446	0.03
Mischler Financial	327,312	9,282	0.03
Investment Technology Group, Inc.	1,502,732	9,160	0.01
Cantor Fitzgerald	316,156	9,018	0.03
BOE Securities	240,479	8,640	0.04
North South Capital	194,062	7,441	0.04
OTHER (87 Brokers)	6,561,002	158,083	0.02
Grand Total	**73,670,273**	**$ 2,228,540**	**$ 0.03**

Broker Commission Report

MWDBE Domestic Equity Trades for the Year Ending June 30, 2011

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets, LLC	10,551,708	$ $295,387	$ 0.03
Cabrera Capital	6,668,232	232,429	0.03
M. R. Beal & Company	5,236,428	180,789	0.03
M. Ramsey King Securities	2,567,777	89,063	0.03
Cheevers & Co	2,771,100	84,371	0.03
Guzman & Company	685,738	82,704	0.12
Williams Capital Group	1,751,963	59,244	0.03
Gardner Rich & Company	1,715,100	56,025	0.03
Blaylock, Robert Van Securities	1,611,221	55,303	0.03
Castleoak Securities	880,018	26,365	0.03
Melvin Securities	316,217	9,446	0.03
Mischler Financial	327,312	9,282	0.03
North South Capital	194,062	7,441	0.04
Podesta & Co.	74,280	2,280	0.03
Greentree Brokerage	68,812	1,088	0.02
Total Directed Domestic Commission	**35,419,968**	**$ 1,191,217**	**$ 0.03**
Grand Total	**73,670,273**	**$ 2,228,540**	**$ 0.03**

Broker Commission Report

International Agency Trades
for the Year Ended June 30, 2011

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets, LLC	30,582,556	$ 332,469	$ 0.01
Cabrera Capital	29,149,159	261,111	0.01
Credit Suisse	15,812,639	175,219	0.01
Gardner Rich & Company	2,783,596	96,085	0.03
J.P. Morgan Securities	28,989,690	87,361	0.00
Morgan Stanley & Co Inc.	13,263,207	84,464	0.01
Nomura Securities	4,516,377	75,768	0.02
Liquidnet Ltd.	14,118,967	72,343	0.01
UBS Securities LLC	8,100,263	71,131	0.01
Deutsche Securities Inc	5,190,899	65,844	0.01
MaCquarie Equities Limited	6,092,625	64,097	0.01
Barclays Corp.	2,444,884	61,702	0.03
ABG Securities	2,608,435	54,945	0.02
Merrill Lynch	2,702,738	52,408	0.02
BAC Merrill Lynch	6,899,269	44,892	0.01
Citigroup Global Markets	2,664,776	40,841	0.02
Goldman, Sachs and Co.	6,344,790	40,628	0.01
CLSA Securities	4,799,146	34,370	0.01
Melvin & Company	1,603,409	32,725	0.02
M. Ramsey King Securities	3,285,246	29,139	0.01
M.R. Beal & Company	2,240,644	26,605	0.01
Collins Stewart	451,466	25,018	0.06
Daiwa Securities	1,900,247	19,068	0.01
RBS Securities	1,004,185	18,677	0.02
BNP Paribas	3,480,743	15,783	0.00
Redburn Partners LLC	1,344,689	15,309	0.01
Carnegie Inc.	412,567	14,785	0.04
Numis Securities	2,034,737	14,499	0.01
Deutsche Bank	1,123,955	14,492	0.01
Exane Inc.	281,780	14,354	0.05
Credit Lyonnais Securities	591,346	12,877	0.02
HSBC Securties Ltd.	4,071,895	12,356	0.00
Helvea	235,677	11,828	0.05
Sanford Bernstein	584,101	10,833	0.02
China International Capital Corp.	3,088,111	10,596	0.00
Royal Bank of Canada	1,310,445	10,049	0.01
Royal Bank of Scotland	176,411	7,710	0.04
Divine Capital	418,830	7,697	0.02
Investec	201,984	7,525	0.04
Cheuvreux	187,757	7,291	0.04
Oriel Securities Ltd.	569,700	7,048	0.01
Jefferies & Co.	319,166	6,687	0.02
BMO Capital Markets	135,999	5,576	0.04
Berenberg Bank	54,690	5,510	0.10
Canaccord Capital Corp.	952,536	5,366	0.01
OTHER (57 Brokers)	12,272,444	85,610	0.01
Grand Total	**231,398,776**	**$ 2,170,691**	**$ 0.01**

Broker Commission Report

MWDBE International Equity Trades
for the Year Ending June 30, 2011

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets, LLC	31,430,337	$ 326,738	$ 0.01
Cabrera Capital	29,952,785	275,915	0.01
Gardner Rich & Company	3,264,410	113,312	0.03
M.R. Beal & Company	3,476,381	46,906	0.01
Melvin Securities	1,603,409	32,725	0.02
M. Ramsey King Securities	3,285,246	29,139	0.01
Greentree Brokerage	29,450	454	0.02
Cheevers & Co	1,500	260	0.17
Total Directed International Commission	**73,043,518**	**$ 825,449**	**$ 0.01**
Grand Total	**231,398,776**	**$ 2,170,691**	**$ 0.01**

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
3.03
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.

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December 5, 2011

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, 2011. 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.

Based on the provisions of Public Act 96-0889, the Board of Education's required contribution for Fiscal Year 2013 is $196,000,000. For Fiscal Years 2014 through 2059, the Board of Education is to make annual contributions calculated as a level percent of payroll sufficient 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 2059.

The actuarial assumptions used for the June 30, 2011 actuarial valuation are the same as the assumptions that were used for the June 30, 2010 valuation. These assumptions were based on an experience analysis of the fund over the Fiscal Years 2003 through 2006.

The projected unit credit actuarial cost method was used for the June 30, 2011 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2010 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 and GASB Statement No. 43.

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

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

In our opinion, the following valuation results fairly represent the financial condition of the Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2011.

Respectfully submitted,

Sandor Goldstein

Sandor Goldstein, F.S.A.
Consulting Actuary

Carl J. Smedinghoff

Carl J. Smedinghoff, A.S.A.
Associate Actuary

A. Purpose and Summary — Pension Fund

We have carried out an actuarial valuation of the Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2011. 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	$ 16,940,626,445
2.	Actuarial Value of Assets	10,109,314,922
3.	Unfunded Actuarial Liability	6,831,311,523
4.	Funded Ratio	59.7%
5.	Employer's Normal Cost for FY 12 as a percent of payroll	5.91%
6.	Annual Required Contribution for FY 12 Based on GASB Statement No. 25	510,101,466

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, 2011, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 30,133 active contributors, 24,034 pensioners, and 4,253 vested terminated members included in the valuation. The total active payroll as of June 30, 2011, was $2,090,131,858.

Exhibit 1 Summary of Membership Data

1.	Number of Members	
	(a) Active Members	
	(i) Vested Employees	21,027
	(ii) Non-vested Employees	9,106
	Total Active Members	**30,133**
	(b) Members Receiving	
	(i) Retirement Pensions	21,977
	(ii) Disability Pensions	465
	(iii) Survivor Pensions	2,757
	Total Pensioners	**25,199**
	(c) Vested Terminated Members	4,253
	Total	**59,585**
2.	Total Annual Salaries	$ 2,090,131,858
	Average Salary	69,364
3.	Total Accumulated Contributions of Active Members	$ 1,503,911,310
4.	Annual Benefit Payments Currently Being Made	
	(a) Retirement Pensions	$ 986,884,026
	(b) Disability Pensions	14,101,691
	(c) Survivor Pensions	46,887,342
	Total Pensions	**$1,047,873,059**

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

Exhibit 2 2011 Age and Service Distribution of Active Members

Number of Members and Average Salaries by Age and Service Grouping (male and female combined)

	Years of Service									
Age	**<1**	**1-4**	**5- 9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35+**	**Total**
Under 25	260	546	0	0	0	0	0	0	0	806
Avg. Salary	$18,464	45,249	0	0	0	0	0	0	0	$36,608
25-29	480	3,011	794	1	0	0	0	0	0	4,286
Avg. Salary	$20,634	50,395	62,397	77,287	0	0	0	0	0	$49,291
30-34	234	1,747	2,463	451	0	0	0	0	0	4,895
Avg. Salary	$22,910	52,724	66,818	79,118	0	0	0	0	0	$60,822
35-39	133	833	1,433	1,416	289	0	0	0	0	4,104
Avg. Salary	$23,133	52,834	67,950	82,018	90,635	0	0	0	0	$69,881
40-44	99	533	795	1,015	1,003	163	0	0	0	3,608
Avg. Salary	$20,256	53,017	67,673	81,604	89,491	95,607	0	0	0	$75,453
45-49	70	312	532	568	707	485	92	0	0	2,766
Avg. Salary	$16,924	48,577	69,457	79,300	86,286	90,269	95,520	0	0	$76,611
50-54	46	279	445	529	642	470	467	127	1	3,006
Avg. Salary	$14,738	46,007	65,065	78,324	85,058	89,235	91,529	95,422	85,750	$78,309
55-59	54	221	355	416	580	550	462	531	203	3,372
Avg. Salary	$14,384	41,943	60,636	78,096	84,169	87,881	92,645	98,424	102,772	$82,189
60-64	37	140	215	284	433	434	302	276	398	2,519
Avg. Salary	$10,043	34,248	53,259	72,993	84,739	89,334	91,173	96,049	100,082	$82,051
65-69	9	36	57	60	116	95	80	60	99	612
Avg. Salary	$5,236	25,172	62,421	74,592	85,145	93,806	91,427	91,219	101,605	$82,715
70+	6	22	17	15	19	26	10	11	33	159
Avg. Salary	$7,440	11,023	29,109	54,525	75,387	94,033	88,520	95,391	104,550	$68,313
Members	1,428	7,680	7,106	4,755	3,789	2,223	1,413	1,005	734	30,133
Avg. Salary	$19,783	$50,003	$65,891	$79,855	$86,668	$89,864	$92,051	$96,929	$101,213	$69,364

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, 2011, prepared by the Fund. The actuarial value of assets was determined by smoothing unexpected gains or losses over a period of 4 years. The resulting actuarial value of assets is $10,109,314,922. The development of this actuarial value of assets is outlined in Exhibit 3. As of June 30, 2011, the market value of the assets of the fund for pension benefits amounted to $10,312,762,164.

Exhibit 3 Actuarial Value of Assets

A. Development of Investment Gain/(Loss) for Year Ending June 30, 2011	
1. Actuarial Value of Assets as of 6/30/10	$ 10,952,274,725
2. Employer Contributions and Miscellaneous Income	218,983,962
3. Employee Contributions	185,882,636
4. Expenses	1,166,400,567
5. Expected Investment Income	846,306,631
6. Actual Investment Income	2,123,292,641
7. Investment Gain/(Loss) (6 – 5)	$ 1,276,986,010
B. Development of Actuarial Value of Assets	
8. Expected Value of Assets as of June 30, 2011 (1 + 2 + 3 – 4 + 5)	$ 11,037,047,387
9. One-fourth of Investment Gain/(Loss) for Year Ending June 30, 2008	(414,651,992)
10. One-fourth of Investment Gain/(Loss) for Year Ending June 30, 2009	(852,439,981)
11. One-fourth of Investment Gain/(Loss) for Year Ending June 30, 2010	51,437,577
12. One-fourth of Investment Gain/(Loss) for Year Ending June 30, 2011	319,246,503
13. Total Actuarial Value of Assets as of 6-30-11 (8 + 9 + 10 + 11 + 12)	**$ 10,140,639,494**
14. Assets For Retiree Health Insurance Benefits	31,324,572
15. Actuarial Value of Assets for Pension Benefits (13 – 14)	**$ 10,109,314,922**

C. Fund Provisions

Our valuation was based on the provisions of the Fund in effect as of June 30, 2011, as provided in Article 17 of the Illinois Pension Code. A summary of the principal provisions of the Fund on which the valuation was based is provided in Appendix 2.

D. Actuarial Assumptions and Cost Method

The actuarial assumptions used for the June 30, 2011, valuation are the same as the assumptions that were used for the June 30, 2010, valuation. The actuarial assumptions used for the June 30, 2011, 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, 2011, actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2010, 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, 2011, the total actuarial liability for pension benefits provided under the fund is $16,940,626,445, the actuarial value of assets is $10,109,314,922, and the unfunded liability is $6,831,311,523. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 59.7%.

Exhibit 4 Actuarial Liability as of June 30, 2011

1. Actuarial Liability for Active Members	
(a) Basic Retirement Annuity	$ 3,306,698,997
(b) Post Retirement Increase	899,008,877
(c) Lump Sum Death Benefit	9,809,079
(d) Survivor's Pension	322,620,559
(e) Disability Pension	94,232,942
(f) Withdrawal Benefit	269,394,051
Total	**$ 4,901,764,505**
2. Actuarial Liability for Members Receiving Benefits	
(a) Retirement Pensions	$ 11,232,632,560
(b) Survivor Pensions	420,495,560
(c) Disability Pensions	138,410,357
Total	**$ 11,791,538,477**
3. Actuarial Liability for Inactive Members	247,323,463
4. Total Actuarial Liability	**$ 16,940,626,445**
5. Actuarial Value of Assets	10,109,314,922
6. Unfunded Actuarial Liability	**$ 6,831,311,523**
7. Funded Ratio	59.7%

F. Employer's Normal Cost

The employer's share of the normal cost for pension benefits for the year beginning July 1, 2011, is developed in Exhibit 5. The total normal cost is $299,247,550, employee contributions are estimated to be $175,805,483, resulting in the employer's share of the normal cost of $123,442,067.

Based on a payroll of $2,090,131,858 as of June 30, 2011, the employer's share of the normal cost can be expressed as 5.91% of payroll.

Exhibit 5 Employer's Normal Cost for Year Beginning July 1, 2011

	Dollar Amount	Percent of Payroll
1. Basic Retirement Pension	$ 183,648,711	8.79%
2. Post Retirement Increases	49,583,942	2.37
3. Lump Sum Death Benefits	674,199	.03
4. Survivor's Pension	19,490,522	.93
5. Disability Benefits	7,517,046	.36
6. Withdrawal Benefits	28,899,724	1.39
7. Administrative Expenses	9,433,406	.45
8. Total Normal Cost	**$ 299,247,550**	**14.32%**
9. Employee Contributions	175,805,483	8.41
10. Employer's Share of Normal Cost	**$ 123,442,067**	**5.91%**

Note. The above figures are based on a total active payroll of $2,090,131,858 as of June 30, 2011.

G. Employer Contribution Requirements for Fiscal Year 2013

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, 2011, actuarial valuation, the ratio of the actuarial value of assets to total actuarial liabilities, or funded ratio, amounts to 59.9%. Therefore, additional State contributions will be required for Fiscal Year 2013. The total payroll for FY 2013 is projected to be $2,149,987,987. This total payroll includes employee contributions of 7% of salary paid by the Board of Education. Excluding these employee contributions from payroll results in an adjusted projected payroll of $2,009,334,567. Based on this adjusted projected payroll for Fiscal Year 2013, we have determined the additional State contributions under Section 17-127 of the Pension Code to be $10,931,000.

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

As the funded ratio as of June 30, 2011, is 59.9%, additional Board of Education contributions will be required for Fiscal Year 2010. Based on adjusted projected payroll of $2,009,334,567 for Fiscal Year 2013, we have determined the additional Board of Education contribution under Section 17-127.2 of the Pension Code to be $11,654,000.

Board of Education Required Contribution. Senate Bill 1946, which was signed into law on April 14, 2010, as Public Act 96-0889, revised the funding provisions that had previously been in effect. Public Act 96-0889 specifies the Board of Education's required contribution for Fiscal Years 2011, 2012, and 2013 as a fixed dollar amount. The amount specified for Fiscal Year 2013 is $196,000,000. Therefore, pursuant to Public Act 96-0889, the Board of Education's required contribution for Fiscal Year 2013 is $196,000,000.

For Fiscal Years 2014 through 2059, the Board of Education is to make annual contributions calculated as a level percent of payroll sufficient 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 2059.

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, 2011, actuarial valuation, we have therefore calculated the annual required contribution for Fiscal Year 2012. 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 2012 has been determined to be as follows:

	Fiscal Year 2012
1. Employer's normal cost	$ 123,442,067
2. Annual amount to amortize the unfunded liability over 30 years as a level percent of payroll	386,659,399
3. Annual required contribution (1 + 2)	$ 510,101,466

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.

A. Purpose and Summary — Health Insurance

We have performed an actuarial valuation as of June 30, 2011, 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	$ 3,071,516,739
2. Actuarial Value of Assets	31,324,572
3. Unfunded Actuarial Liability	3,040,192,1673
4. Annual Required Contribution for Year Beginning July 1, 2012	218,842,221

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, 2011, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 30,133 active employees, 17,279 retirees and beneficiaries currently receiving benefits, and 4,253 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	17,279
2. Terminated Employees Entitled to Benefits But Not Yet Receiving Them	4,253
3. Active Employees	30,133
4. **Total Number of Members**	**51,665**

Assets. According to the financial statements of the fund for the year ending June 30, 2011, the assets segregated for the payment of retiree health insurance benefits as of June 30, 2011, amount to $31,324,572. Therefore, as of June 30, 2011, the actuarial value of assets of the retiree health insurance plan can be considered to be $31,324,572.

C. Plan Provisions

Our valuation was based on the provisions of the Fund in effect as of June 30, 2010, 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. Effective January 1, 2011, the percentage reimbursement was reduced from 70% to 60%. 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 should 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, 2011, 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 1.0% 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 9.0% in 2011, gradually declines to 5.0% by the year 2020 as follows:

Year	Medical Trend
2012	9.0%
2013	8.5%
2014	8.0%
2015	7.5%
2016	7.0%
2017	6.5%
2018	6.0%
2019	5.5%
2020	5.0%

Per Member Costs

Current Pensioners. We have been provided with information regarding premium rates as of June 30, 2011, for each pensioner currently participating in the retiree health insurance program. We applied the pension fund's 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, 2011, 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	$ 858.48
Members over age 65	$ 524.00

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	$617.59
55-59	$731.73
60-64	$885.97
65-69	$437.38
70-74	$500.92
75-79	$559.85
80-84	$603.09
85 and above	$626.03

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

Member Category	Participation rate
Under age 65	79%
Over age 65	87%

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

The projected unit credit actuarial cost method was used for the June 30, 2011, 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, 2011, the total actuarial liability for retiree health insurance benefits provided under the fund is $3,071,516,739 the actuarial value of assets is $31,324,572 and the unfunded actuarial liability is $3,040,192,167.

Exhibit 2 Actuarial Liability as of June 30, 2011

1. Actuarial Liability for Active Members	$ 1,517,197,552
2. Actuarial Liability for Members Receiving Benefits	1,554,319,187
3. Total Actuarial Liability	**$ 3,071,516,739**
4. Actuarial Value of Assets	31,324,572
5. Unfunded Actuarial Liability	**$ 3,040,192,167**
6. Funded Ratio	1.0%

F. Normal Cost

The normal cost for the year beginning July 1, 2011, is shown below. The total normal cost is $108,094,388. Based on a payroll of $2,090,131,858 as of July 1, 2011, the total normal cost can be expressed as 5.17% of payroll.

Employer's Normal Cost for Year Beginning July 1, 2011

	Dollar Amount	Percent of Payroll
Total Normal Cost	$ 108,094,388	5.17%

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, 2011, 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, 2011, for purposes of GASB Statement No. 43 is as follows:

1. Total normal cost	$ 108,094,388
2. Annual amount to amortize the unfunded liability over 30 years as a level percent of payroll	110,747,833
3. Annual required contribution (1 + 2)	$ 218,842,221

Additional Actuarial Tables

Summary of Actuarial Liability and Unfunded Actuarial Liability Pension Fund

Fiscal Year	Total Actuarial Liability	Actuarial Value of Assets	Assets as a % of Actuarial Liability	Unfunded Actuarial Liability (UAL)	Active Member Payroll	UAL as a % of Active Member Payroll
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%
2009*	15,683,241,527	11,493,255,754	73.3%	4,189,985,773	1,996,194,224	209.9%
2010*	16,319,743,665	10,917,416,993	66.9%	5,402,326,672	2,107,934,080	256.3%
2011*	16,940,626,445	10,109,314,922	59.7%	6,831,311,523	2,090,131,858	326.8%

* *Pension benefits only*

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%
2009	2,670,282,662	49,691,750	1.9%	2,620,590,912	1,996,194,224	131.3%
2010	2,864,877,305	34,857,732	1.2%	2,830,019,573	2,107,934,080	134.3%
2011	3,071,516,739	31,324,572	1.0%	3,040,192,167	2,090,131,858	145.5%

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)
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%
2009	1,405,263,483	10,795,476,796	3,482,501,248	11,493,255,754	100%	94%	0%
2010	1,514,213,112	11,200,095,789	3,605,434,764	10,917,416,993	100%	84%	0%
2011	1,503,911,310	11,791,538,477	3,645,176,758	10,140,639,494	100%	73%	0%

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
2002	1,759,045,853	77,679,068	4.42%	10.17%
2003	1,706,205,814	78,747,983	4.62%	9.39%
2004	1,767,631,306	78,127,273	4.42%	11.48%
2005	1,968,612,235	73,917,464	3.75%	13.15%
2006	1,944,358,215	117,789,706	6.06%	16.89%
2007*	1,863,182,086	103,761,750	5.57%	16.70%
2008*	1,914,558,916	164,466,511	8.59%	15.15%
2009*	1,996,194,224	198,069,327	9.92%	14.64%
2010*	2,107,934,080	290,759,950	13.79%	16.88%
2011*	2,090,131,858	143,589,994	6.87%	20.40%

* *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%
2009	1,996,194,224	65,000,000	3.26%	8.61%
2010	2,107,934,080	65,000,000	3.08%	8.83%
2011	2,090,131,858	65,000,000	3.08%	10.32%

Additional Actuarial Tables

Schedule of Active Member Valuation Data Pension Fund

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase (Decrease) in Average Pay
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%
6-30-09	31,905	1,996,194,224	62,567	4.9%
6-30-10	33,983	2,107,934,080	62,029	(0.9%)
6-30-11	30,133	2,090,131,858	69,364	11.8%

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

Year Ended	Added-To-Rolls		Removed-From Rolls		Rolls-End-of-Year		Average Annual Benefit	% Increase in Average Annual Benefit
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits		
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%
2009	957	$57,109,256	659	$19,557,718	24,218	$942,388,371	$38,913	2.9%
2010	1,080	$67,630,266	698	$21,855,794	24,600	$988,162,843	$40,169	3.2%
2011	1,394	$86,404,558	795	$26,694,342	25,199	$1,047,873,059	$41,584	3.5%

Appendix 1

Summary of Actuarial Assumptions and Actuarial Cost Method

Actuarial Assumptions. The actuarial assumptions used for the June 30, 2011, 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 are based on the recent experience of the Fund. The following is a sample of the disability rates that were used:

Age	Disabilities per 1,000 Members
30	.7
40	1.0
50	2.0
60	2.5
62 and over	.0

Retirement Rates. Rates of retirement for each age from 55 to 75 based on the recent experience of the Fund were used. The following are samples of the rates of retirement that were used:

1. Employees With Less Than 33 Years of Service

Age	Rate of Retirement per 1,000 Members
55	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

For persons who became or will become participants on or after January 1, 2011, rates of retirement for each age from 62 to 75 were used. The following are samples of the rates of retirement that were used:

Age	Rate of Retirement per 1,000 Members
62	400
64	250
67	300
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—Pension Plan. 8.0% per year, compounded annually. Of this 8% per year assumption, 3.0% can be attributed to inflation.

Interest Rate—Health Insurance Plan. 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 ½ 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, and 1-2/3% of average salary for each other year of service. Upon disability retirement after 20 years or more of contributing service, but under age 55, the accrued retirement pension is payable, discounted ½ of 1% for each month the disabled teacher is under age 55, down to a minimum of 50 years.

If total service is 20 years or more and the member has attained age 55, the accrued retirement pension is payable without reduction. After 25 years of service, regardless of age, the accrued retirement pension is payable without reduction.

7. Duty Disability Benefit. A duty-connected disability benefit is provided equal to 75% of final average salary upon total incapacity for teaching service as a result of an injury sustained while in the performance of teaching service. The benefit is reduced by "Workers' Compensation" payments.

8. Post-Retirement Increases. Automatic annual increases in pension equal to 3% of the current amount of pension are provided. The increases accrued from the anniversary date of retirement or the 61st birthday, whichever is later.

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

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

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

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

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

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

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

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

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

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

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

14. Financing. Teachers are required to contribute a total of 9% of salary consisting of 7½% towards the retirement pensions, 1% towards the survivor pension, and ½% towards the post-retirement increment. As of September 1981, the Board of Education has been paying 7% of the required teacher contributions for Chicago public school teachers. Charter school contributions may be contributed at various rates by the employers and teachers.

The remainder of the cost of benefits is financed by (1) contributions by the Chicago Board of Education; (2) allocations by the State of Illinois from the State Distributive Fund; and (3) investment income.

15. Retirement Systems Reciprocal Act. The Fund complies with the Retirement Systems Reciprocal Act (Chapter 40 Act 5 Article 20 of the Illinois Compiled Statutes) to provide reciprocal benefits if a member has service credit for other public employment in Illinois.

Persons Who First Become Participants On or After January 1, 2011

The following changes to the above provisions apply to persons who first become participants on or after January 1, 2011:

1. The highest salary for annuity purposes is equal to the average monthly salary obtained by dividing the participant's total salary during the 96 consecutive months of service within the last 120 months of service in which the total compensation was the highest by the number of months in that period.

2. For 2010, the final average salary is limited to the Social Security wage base of $106,800. Limitations for future years shall automatically be increased by the lesser of 3% or one-half of percentage change in the Consumer Price Index-U during the preceding month calendar year.

3. A participant is eligible to retire with unreduced benefits after attainment of age 67 with at least 10 years of service credit. However, a participant may elect to retire at age 62 with at least 10 years of service credit and receive a retirement annuity reduced by one-half of 1% for each month that his or her age is under 67.

4. The initial survivor's annuity is equal to 66 2/3% of the participant's earned retirement annuity at the date of death, subject to automatic annual increases of the lesser of 3% or one-half of the increase in the Consumer Price Index-U during the preceding calendar year, based on the originally granted survivor's annuity.

5. Automatic annual increases in the retirement annuity then being paid are equal to the lesser of 3% or one-half the annual change in the Consumer Price Index for all Urban Consumers, whichever is less, based on the originally granted retirement annuity.

Appendix 3

Glossary of Terms Used in Report

1. Actuarial Present Value. The value of an amount or series of amounts payable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

2. Actuarial Cost Method or Funding Method. A procedure for determining the actuarial present value of pension plan benefits and for determining an actuarially equivalent allocation of such value to time periods, usually in the form of a normal cost and an actuarial accrued liability.

3. Normal Cost. That portion of the present value of pension plan benefits, which is allocated to a valuation year by the actuarial cost method.

4. Actuarial Accrued Liability or Accrued Liability. That portion, as determined by a particular actuarial cost method, of the actuarial present value of pension benefits which is not provided for by future normal costs.

5. Actuarial Value of Assets. The value assigned by the actuary to the assets of the pension plan for purposes of an actuarial valuation.

6. Unfunded Actuarial Liability. The excess of the actuarial liability over the actuarial value of assets.

7. Projected Unit Credit Actuarial Cost Method. A cost method under which the projected benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial present value of benefits allocated to a valuation year is called the normal cost. The actuarial present value of benefits allocated to all periods prior to a valuation year is called the actuarial liability. Under this method, the actuarial gains (losses), as they occur, generally reduce (increase) the unfunded actuarial liability.

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

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

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

Statistical

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

Statement of Changes in Plan Net Assets
Pension Fund

For year ended June 30, 2011, with comparative totals for 9 years

	2011	2010	2009	2008	2007
Additions:					
Contributions:					
Intergovernmental, net (employer)	$ 143,589,994	$ 290,759,950	$ 198,069,327	$ 164,270,412	$ 103,761,750
Employee contributions	185,882,636	194,621,551	176,176,975	172,504,804	179,017,663
	329,472,630	**485,381,501**	**374,246,302**	**336,775,216**	**282,779,413**
Investment income:					
Net investment income	2,123,272,170	1,107,453,898	(2,464,420,944)	(738,817,587)	1,947,810,351
Miscellaneous	55,307	–	–	–	1,923
Total additions	**2,452,800,107**	**1,592,835,399**	**(2,090,174,642)**	**(402,042,371)**	**2,230,591,687**
Deductions:					
Pension Benefits					
Retirement	999,323,111	943,252,537	897,873,287	863,963,625	759,346,660
Survivors	36,196,804	33,738,810	31,028,747	29,037,664	27,532,256
Disability	12,019,044	11,512,123	11,673,453	11,673,773	10,898,039
Refunds					
Separation	13,135,132	9,334,950	10,615,031	5,626,786	12,829,988
Death	3,373,836	4,253,510	3,765,163	3,218,956	3,942,853
Other	10,671,550	7,495,834	5,658,269	7,884,526	19,581,668
Death Benefits					
Heirs of Active Teachers	419,861	496,832	514,743	486,740	554,765
Heirs of Annuitants	2,840,999	2,449,315	2,462,789	2,359,473	2,322,418
Uncollectible Receivables	–	–	–	–	–
	1,077,980,337	**1,012,533,911**	**963,591,482**	**924,251,543**	**837,008,647**
Administrative and miscellaneous expenses	9,527,938	8,800,848	8,751,945	7,827,576	8,434,688
Total deductions	**1,087,508,275**	**1,021,334,759**	**972,343,427**	**932,079,119**	**845,443,335**
Net increase (decrease)	1,365,291,832	571,500,640	(3,062,518,069)	(1,334,121,490)	1,385,148,352
Transfers Health Insurance	–	–	–	–	–
Net assets held in trust for benefits:					
Beginning of period,	8,947,470,332	8,375,969,692	11,438,487,761	12,772,609,251	11,387,460,899
End of period	**$ 10,312,762,164**	**$ 8,947,470,332**	**$ 8,375,969,692**	**$ 11,438,487,761**	**$ 12,772,609,251**

Continued from page 104

	2006	2005	2004	2003	2002
Additions:					
Contributions:					
Intergovernmental, net (employer)	$ 52,789,706	$ 8,872,764	$ 13,032,273	$ 13,703,283	$ 11,805,305
Employee contributions	163,419,386	175,706,081	169,598,212	159,931,110	145,498,027
	216,209,092	**184,578,845**	**182,630,485**	**173,634,393**	**157,303,332**
Investment income:					
Net investment income	1,093,872,285	1,034,998,497	1,477,931,294	312,557,682	(371,820,584)
Miscellaneous	139,509	561,154	86,285	35,775	829,063
Total additions	**1,310,220,886**	**1,220,138,496**	**1,660,648,064**	**486,227,850**	**(213,688,189)**
Deductions:					
Pension Benefits					
Retirement	682,245,353	617,684,571	554,975,291	509,945,240	495,238,632
Survivors	25,854,248	24,520,785	22,885,524	25,730,482	23,517,998
Disability	10,388,393	9,561,956	8,649,568	8,126,443	7,571,076
Refunds					
Separation	10,633,789	16,877,637	9,565,261	7,648,527	9,036,757
Death	4,028,201	3,572,619	3,588,032	2,747,859	4,043,552
Other	16,023,309	4,408,439	10,173,428	6,954,762	29,219,867
Death Benefits					
Heirs of Active Teachers	535,142	470,537	505,842	482,493	746,322
Heirs of Annuitants	2,082,915	2,035,334	2,095,323	2,339,000	2,070,000
Uncollectible Receivables	–	–	–	–	–
	751,791,350	**679,131,878**	**612,438,269**	**563,974,806**	**571,444,204**
Administrative and miscellaneous expenses	8,320,340	7,477,671	7,214,467	6,576,953	6,459,734
Total deductions	**760,111,690**	**686,609,549**	**619,652,736**	**570,551,759**	**577,903,938**
Net increase (decrease)	550,109,196	533,528,947	1,040,995,328	(84,323,909)	(791,592,127)
Transfers Health Insurance	59,496,735	–	–	–	(32,302,217)
Net assets held in trust for benefits:					
Beginning of period	10,777,854,968	10,244,326,021	9,203,330,693	9,287,654,602	10,111,548,946
End of period	**$ 11,387,460,899**	**$ 10,777,854,968**	**$ 10,244,326,021**	**$ 9,203,330,693**	**$ 9,287,654,602**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets
Health Insurance Fund

For Year Ended June 30, 2011,
with comparative totals for 9 years

	2011	2010	2009	2008	2007
Additions:					
Contributions:					
Intergovernmental, net (employer)	$ 65,000,000	$ 65,000,000	$ 65,000,000	$ 65,000,000	$ 65,000,000
Investment income:					
Net investment income	20,471	119,855	514,200	1,278,818	2,373,014
Health Insurance Premium Refund	10,338,661		15,000,000	—	—
Total additions	**75,359,132**	**65,119,855**	**80,514,200**	**66,278,818**	**67,373,014**
Deductions:					
Health Insurance Premium Rebate	78,892,292	79,953,873	75,811,835	68,691,191	61,028,841
Total deductions	**78,892,292**	**79,953,873**	**75,811,835**	**68,691,191**	**61,028,841**
Net increase (decrease)	(3,533,160)	(14,834,018)	4,702,365	(2,412,373)	6,344,173
Transfers Health Insurance	—	—	—	—	—
Net assets held in trust for benefits:					
Beginning of period, as restated	34,857,732	49,691,750	44,989,385	47,401,758	41,057,585
End of period	**$ 31,324,572**	**$ 34,857,732**	**$ 49,691,750**	**$ 44,989,385**	**$ 47,401,758**

Continued from page 106

	2006	2005	2004	2003**	2002*
ADDITIONS:					
Contributions:					
Intergovernmental, net (employer)	$ 65,000,000	$ 65,044,700	$ 65,095,000	$ 65,044,700	$ 65,044,700
Investment income:					
Net investment income	4,071,093	1,899,844	928,497	944,488	1,167,878
Health Insurance Premium Refund	—	—	—	—	—
Total additions	**69,071,093**	**66,944,544**	**66,023,497**	**65,989,188**	**66,212,578**
DEDUCTIONS:					
Health Insurance Premium Rebate	58,279,900	54,410,887	53,106,379	51,395,920	44,068,275
Total deductions	**58,279,900**	**54,410,887**	**53,106,379**	**51,395,920**	**44,068,275**
Net increase (decrease)	10,791,193	12,533,657	12,917,118	14,593,268	22,144,303
Transfers Health Insurance	(59,496,735)	—	—	—	32,302,217
Net assets held in trust for benefits:					
Beginning of period, as restated	89,763,127	77,229,470	64,312,352	49,719,084	—
End of period	**$ 41,057,585**	**$ 89,763,127**	**$ 77,229,470**	**$ 64,312,352**	**$ 54,446,520**

See accompanying notes to financial statements.

* *First year of Health Insurance Fund*

** *Beginning period restated.*

Distribution of Current Annuitants by Benefit Type

As of June 30, 2011

Monthly Pension Amount	Retirement		Disability		Survivor		Total	
	Males	Females	Males	Females	Males	Females	Males	Females
$ 0 – 499	446	1,003	3	4	158	263	607	1,270
$ 500 – 999	367	803	12	25	271	436	650	1,264
$ 1,000 – 1,499	303	667	22	47	199	261	524	975
$ 1,500 – 1,999	250	786	13	46	171	247	434	1,079
$ 2,000 – 2,499	266	924	14	52	178	277	458	1,253
$ 2,500 – 2,999	314	1,025	16	47	35	116	365	1,188
$ 3,000 – 3,499	323	1,241	14	43	10	48	347	1,332
$ 3,500 – 3,999	400	1,211	13	46	8	42	421	1,299
$ 4,000 – 4,499	786	2,124	6	21	3	18	795	2,163
$ 4,500 – 4,999	1,118	2,987	6	6	0	10	1,124	3,003
$ 5,000 – 5,499	596	1,517	0	3	1	1	597	1,521
$ 5,500 – 5,999	256	337	2	1	0	1	258	339
$ 6,000 – 6,499	250	308	1	1	0	1	251	310
$ 6,500 – 6,999	135	240	0	0	0	0	135	240
$ 7,000 – 7,499	108	180	1	0	1	0	110	180
$ 7,500 – 7,999	99	137	0	0	0	0	99	137
$ 8,000 – 8,499	65	102	0	0	0	1	65	103
$ 8,500 – 8,999	50	90	0	0	0	0	50	90
$ 9,000 +	70	93	0	0	0	0	70	93
Total	**6,202**	**15,775**	**123**	**342**	**1,035**	**1,722**	**7,360**	**17,839**

Annuitants

Distribution of Pensioners with Health Insurance Reimbursements by Size of Annuity

June 30, 2011

Monthly Pension Amount	Health Insurance	
	Males	Females
$ 0 – 499	74	201
$ 500 – 999	162	420
$ 1,000 – 1,499	173	469
$ 1,500 – 1,999	175	624
$ 2,000 – 2,499	216	859
$ 2,500 – 2,999	240	898
$ 3,000 – 3,499	251	1,072
$ 3,500 – 3,999	336	1,057
$ 4,000 – 4,499	642	1,839
$ 4,500 – 4,999	944	2,606
$ 5,000 – 5,499	524	1,343
$ 5,500 – 5,999	208	299
$ 6,000 – 6,499	209	273
$ 6,500 – 6,999	112	200
$ 7,000 – 7,499	94	162
$ 7,500 – 7,999	89	115
$ 8,000 – 8,499	55	86
$ 8,500 – 8,999	42	75
$ 9,000 +	57	78
Total	**4,603**	**12,676**

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 of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
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
Fiscal Year 2009							
Average Monthly Pension	339	813	1,519	2,249	2,621	3,523	4,748
Average Final Average Salary	6,323	5,224	5,635	6,074	5,616	5,970	6,459
Number of Retired Members	38	63	52	50	82	53	314
Fiscal Year 2010							
Average Monthly Pension	307	803	1,435	2,331	2,922	3,672	5,862
Average Final Average Salary	5,954	4,909	5,408	6,139	6,275	6,413	7,978
Number of Retired Members	33	64	52	46	63	42	160
Fiscal Year 2011							
Average Monthly Pension	313	802	1,361	2,363	2,910	3,944	6,458
Average Final Salary	6,480	4,994	5,276	6,252	6,405	6,936	8,824
Number of Retired Members	39	59	56	60	91	49	232

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.

Table does not include disabled members or surviving spouses.

Participating Members

Number of Active Members*

Fiscal Year	Male Participants	Female Participants	Total
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
2009	7,617	24,288	31,905
2010	8,003	25,980	33,983
2011	6,949	23,184	30,133

**Active members consist of vested and non-vested employees.*

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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.