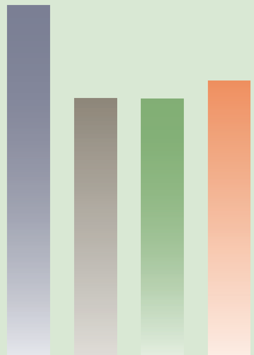
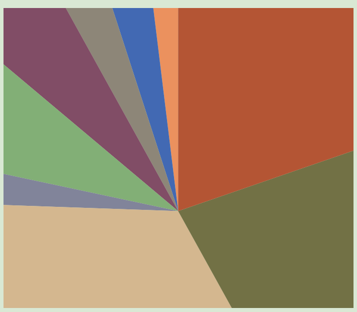
Chicago Teachers' Pension Fund

117th Comprehensive Annual Financial Report

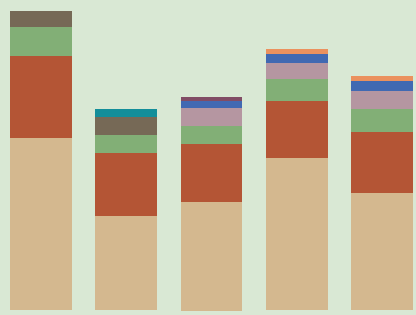
For the year ended June 30, 2012 • Chicago, Illinois







CTPF
Chicago Teachers' Pension Fund

117th Comprehensive Annual Financial Report

For the year ended June 30, 2012
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

Table of Contents

INTRODUCTORY SECTION (UNAUDITED) PAGE 3

4 Board of Trustees
5 Certificate of Achievement for Excellence in Financial Reporting
6 Consultants
8 Organizational Chart
9 Letter of Transmittal

FINANCIAL SECTION PAGE 16

17 Independent Auditor's Report
19 Management's Discussion and Analysis (Unaudited)

Basic Financial Statements

26 Statement of Plan Net Assets
27 Statement of Changes in Plan Net Assets
28 Notes to Financial Statements

Required Supplementary Information

43 Schedule of Funding Progress (Unaudited)
44 Schedule of Contributions (Unaudited)

Other Supplementary Information

45 Administrative and Miscellaneous Expenses
46 Schedule of Cash Receipts and Disbursements
47 Schedule of Manager Fees
49 Schedule of Consultant Payments

INVESTMENT SECTION (UNAUDITED) PAGE 50

51 Master Custodian Report
52 Investment Consultant Report
53 Real Estate Consultant Report
54 Total Annual Fund Rate of Return
55 Schedule of Investment Results
56 Investment Portfolio Summary
57 Asset Allocation Summary
58 Historical Asset Allocation
59 Domestic Equity Summary
60 International Equity Summary
62 Fixed Income Summary
63 Public REITs Summary
64 Private Equity Summary
65 Infrastructure Summary
65 Hedge Fund Summary
66 Real Estate Summary
67 Manager Analysis
69 Broker Commission Reports
73 Investment Authority

ACTUARIAL SECTION (UNAUDITED) PAGE 75

76 Actuarial Certification

Pension Fund

77 Actuarial Report, Pension Fund
91 Exhibit A: Table of Plan Coverage
92 Exhibit B: Participants in Active Service
93 Exhibit C: Reconciliation of Participant Data
94 Exhibit D: Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
95 Exhibit E: Summary Statement of Income and Expenses on a Market Value Basis
96 Exhibit F: Summary of Statement of Plan Assets
97 Exhibit G: Development of the Fund
98 Exhibit H: Development of Unfunded Actuarial Accrued Liability
99 Exhibit 1: Summary of Actuarial Valuation Results
100 Exhibit 2: Schedule of Employer Contributions
101 Exhibit 3: Schedule of Funding Progress
102 Exhibit 4: Solvency Test, Pension Fund
103 Exhibit 5: Solvency Test Six Years, Pension Fund
104 Exhibit 6: Schedule of Active Member Valuation Data
105 Exhibit 7: Supplementary Information Required by The GASB
106 Exhibit 8: Actuarial Assumptions and Actuarial Cost Method
109 Exhibit 9: Summary of Plan Provisions
111 Exhibit 10: Definitions of Pension Terms

Health Insurance Fund

114 Actuarial Report Health Insurance
114 Exhibit A: Summary of Participant Data
115 Exhibit B: Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL)
115 Required Supplementary Information
118 Exhibit 1: Actuarial Assumptions and Actuarial Cost Method
121 Exhibit 2: Summary of the Plan
122 Exhibit 3: Definitions of Terms
124 Exhibit 4: Accounting Requirements

STATISTICAL SECTION (UNAUDITED) PAGE 125

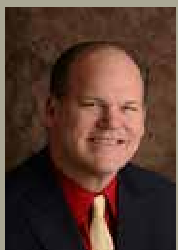
126 Statement of Changes in Plan Net Assets Pension Fund
128 Statement of Changes in Plan Net Assets Health Insurance Fund
130 Distribution of Current Annuitants by Benefit Type
131 Distribution of Pensioners with Health Insurance Reimbursements by Size of Annuity
132 Schedule of Average Benefit Payments
133 Number of Active Members

Introduction

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

Board of Trustees

As of June 30, 2012



Jay C. Rehak

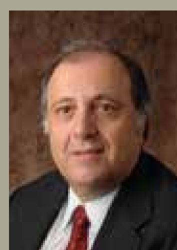
Lois W. Ashford

Tina Padilla

James F. Ward

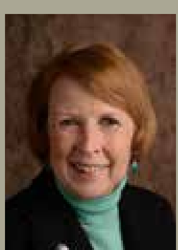
Jeffery Blackwell

Jeanne Marie Freed



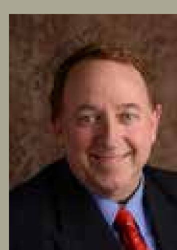
Chris N. Kotis

Walter E. Pilditch

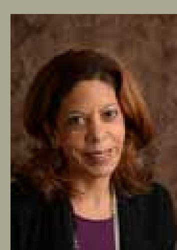


Mary Sharon Reilly

Rodrigo A. Sierra



Raymond Wohl



Andrea L. Zopp

OFFICERS

MEMBERS

Executive Staff

Executive Director,
Kevin B. Huber

Certificate of Achievement for Excellence in Financial Reporting

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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

President

Executive Director

Consultants

As of June 30, 2012

LEGAL COUNSEL

Joseph Burns
Jacobs, Burns, Orlove, and Hernandez
150 North Michigan, suite 1000
Chicago, Illinois 60601

INVESTMENT CONSULTANTS

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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

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Partner
KPMG LLP
200 East Randolph Drive, suite 5500
Chicago, Illinois 60601-6436

CUSTODIAN

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

CONSULTING ACTUARY

Kim Nicholl
The Segal Company
101 North Wacker Drive, suite 500
Chicago, Illinois 60606

Consultants

As of June 30, 2012

INVESTMENT ADVISORS

Adams Street Partners, LLC
Adelante Capital Management, LLC
Ariel Capital Management, LLC
Attucks Asset Management, LLC
Blackstone Group
BMO Global Asset Management
Capri Capital Partners, LLC
CB Richard Ellis Investors, LLC
Channing Capital Management, LLC
Credo Capital Management, LLC
Dimensional Fund Advisors, LTD
DV Realty Advisors, LLC
Earnest Partners, LLC
Europa Capital Partners LLP
Fortress Investment Group, LLC
Franklin Templeton Real Estate Advisors, LLC
Fremont Realty Capital, LP
Garcia, Hamilton & Associates, LP
Greystar Equity Partners VII, LP
HarbourVest Partners, LLC
Hispania Capital Partners, LLC
Holland Capital Management, LP
Hudson Realty Capital, LLC
ICV Capital Partners, LLC
Intercontinental Real Estate Corp.
J.P. Morgan Fleming Asset Management, Inc.
K2 Advisors, LLC
LaSalle Investment Management, Inc.
Lazard Asset Management, LLC
Leading Edge Investment Advisors, LLC
LM Capital Group, LLC
Lombardia Capital Partners, LLC
Macquarie Group
Mesirow Financial, Inc.
Morgan Stanley Investment Management, Inc.
Muller and Monroe Asset Management, LLC
The Northern Trust Company
Olympus Real Estate Partners, LLC
Palladium Equity Partners, LLC
Pantheon Ventures, LLP
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, LP
RREEF America, LLC
Syncom Partners, LLC
Taplin, Canida and Habacht, Inc.
UBS Realty Investors, LLC
Urban America Advisors, 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

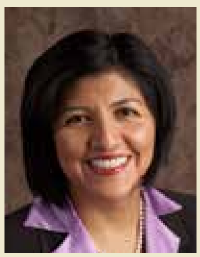
As of June 30, 2012

Board of Trustees

Robert Jurinek
Internal Auditor

Kevin B. Huber
Executive Director

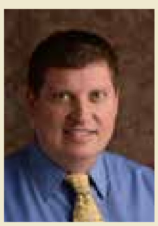
Frances Radencic
Director of Member and Office Services



Carmen Heredia-López
Director of Investments

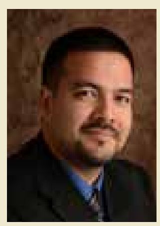
Mary Cavallaro, R.N.
Director of Health Benefits

Sheron Banks-Fallis
Member Services Manager



Eric Morel
Information Technology Manager

Sandra Shelby
Controller



Edgar Samayoa
Benefits Supervisor – Pensions

Denise Valentovich
Benefits Supervisor – Claims and Billing

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

Letter of Transmittal

March 29, 2013

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 117th Comprehensive Annual Report of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) that covers the fiscal year ended June 30, 2012. 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, investment, 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 increased to 60,537 members as of June 30, 2012, reflecting a 1.6% growth over prior year membership of 59,585. The 117th year of continuous operations ended with the Fund's operational condition reflecting a slight decline over the prior year. The Fund's financial condition was negatively impacted during the year by insufficient employer contribution resulting in a net investment well below the assumed 8% return. The June 30, 2012, value of net assets held in trust for pension and health benefits amounted to $9.5 billion, an 8.4% decrease from the $10.3 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 $9.4 billion. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $17.4 billion yields a 53.9% actuarial funding ratio, a 9.7% decrease from the prior year funding ratio of 59.7%.

The actuarial value of assets of the Health Insurance Fund amounted to $34.1 million. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $3.1 billion yields a 1.1% actuarial funding ratio, a 7.8% increase from the prior year funding ratio of 1.0%.

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, 2012, investments at fair value plus cash totaled $9.6 billion reflecting an 8.3% decrease from the $10.5 billion value of June 30, 2011. The Fund's investment performance for the one-year and ten-year periods ended June 30, 2012, was 0.6% and 6.1%, respectively. 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. Although these controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records, the Fund continues to recognize that the anticipated costs could not exceed the projected benefits. 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

As the third quarter of 2011 commenced, U.S. Congress was embroiled in a bitter debate over the debt ceiling. An 11th hour resolution in early August averted a default on government obligations, however, much damage was done to credibility and confidence 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 rather interesting as the flight-to-quality status of U.S. Treasuries overrode the credit rating decline and pushed bond prices higher. This quarter marked the end of the Fed's QE2 bond buying program. The Fed 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. Corporate balance sheets continued to amass cash as firms remain reluctant to return capital to shareholders. However, dividends and stock buybacks dropped sharply during the recession, and remain well below their 2007 peak. The strong earnings statements and balance sheets coupled with weak stock prices strongly supported bullish equity valuations. The forward P/E on the S&P 500 dropped to 10.6 times, well below the 20-year average of about 16 times.

Fourth quarter of 2011 saw the euro zone's future appear to be threatened as Europe continued to wrestle with the debt crisis that began with Greece spreading to the rest of the PIIGS countries (Greece, Ireland, Italy, Portugal and Spain). Europe's dilemma came down to one rich country – Germany – and its willingness to backstop the debts of others with seemingly insurmountable debt loads. The Fed is committed to a zero interest rate policy until at least mid-2013, and announced it will provide 12-month forecasts on its intentions. These quarterly forecasts are a first in Fed policy. The Fed also instituted a purchase program on longer-dated Treasuries in an attempt to bring down longer-term rates and further flatten the yield curve. "Operation Twist," as it has been dubbed, appears to be successful, as 10- and 30-year rates have fallen to historic lows. The quarter earnings reports posted record profits, eclipsing the peak levels hit the previous quarter. The forward P/E on the S&P 500 rose to 11.8 times during the quarter, but remains well below the 20-year average of about 16 times. Inflation data remained fairly benign. Headline CPI dropped slightly in November to an annualized rate of 3.4% while Core CPI (excluding food and energy) rose to 2.2%. With 10-year Treasury rates again below 2%, investors suffered negative real yields for the safety of holding U.S. government obligations.

March 9, 2012, marked the third anniversary of the post-financial crisis market rally. From the market low, the S&P 500 had risen 122% through the end of the first quarter 2012 (cumulative total return) and more risk-oriented equities such as small caps and emerging markets had rallied even further. The rise was very impressive; however, equities were yet to return to the 2007 peak and the rally had not been without bumps in the road including a few declines over 10%. Despite the robustness of the growth in equity prices, valuations remained below long-term averages with the forward P/E on the S&P 500 hovering at 13.0 times as compared to the 20-year average of 16.2 times. While much was written about the high correlations among individual stocks and high market volatility, this quarter witnessed a marked reduction in both correlations and volatility. During the sovereign debt crises of 2011, correlations spiked to levels never before seen and eclipsed both the Great Recession and the Great Depression. Since last fall, stock correlations have returned to more normalized levels. Similarly, after equity market volatility spiked in 2011, the CBOE VIX (a popular measure of equity volatility) declined to well below the long-term average of 20. The VIX registered 15.5 at the end of the quarter with a three-month average of 18.2. Although Europe's sovereign debt crisis appeared to have eased, two additional EU members (France and Austria) and the European Financial Stability Facility (EFSF) suffered credit ratings downgrades, from AAA to AA+, early in the quarter. Despite these downgrades, influence of this European crisis on market gyrations waned. Inflation data remained fairly benign.

Turmoil in Europe continued to be a major headline in the 2nd quarter of 2012 right up to the final day of the quarter. In June both Spain and Cyprus formally requested bailout funds from the European Central Bank. Spain's bailout represented the fourth bailout of the five PIIGS countries joining Portugal, Ireland, and Greece. While Europe captured many headlines, it was by no means quiet on the domestic front. Economic indicators appeared to slow in the 2nd quarter even after the 1Q 2012 GDP results came in at a modest 1.9% annual growth rate. Jobs reports and manufacturing numbers have been weak through the 2nd quarter possibly hinting at a further slowing of GDP growth in the U.S. Europe appeared to be a major contributor to the global slowdown as many companies simply take a wait-and-see approach to the Euro-Zone turmoil. The People's Bank of China and the European Central Bank seemed to confirm the widely held fears of a global economic slowdown as they both eased monetary policy in early July (targeted benchmark interest rates: PBOC: 3%, ECB: 0.75%).

Housing appeared to be one of the few "bright" spots on the domestic front as a number of metrics showed signs of life. Inventories continued to fall and prices appeared to be stabilizing and possibly even ticking slightly upwards in some areas. Historically low mortgage rates and falling prices drove the monthly carrying cost down dramatically to the point where, at national averages, buying a home was cheaper than renting. The Fed continued to hold short term rates at near zero levels while also remaining active in the longer portion of the yield curve as Operation Twist, set to expire at the end of the 2nd quarter, was extended through the end of 2012. The continuation of Twist, coupled with significant demand for safe haven investments, drove the yield on the 10-year U.S. Treasury bond to historic lows. Other Sovereign Treasury instruments considered safe havens experienced similarly low yields. Inflation data remained benign as falling energy prices pulled the headline CPI rate down to 1.7% for the 12-months ended May 2012. Core CPI ticked slightly higher from previous months to 2.3%, yet it remained within the Federal Reserve's targeted range and well below the long term average of just over 4%. Medical care continued to rise in price faster than broad measures; its 3.6% inflation rate was more than twice that of the broad measure.

Economic Outlook

The U.S. Congress continues to be embroiled in a bitter debate over fiscal issues. The debt and spending debates continue with the resulting risk and uncertainty continuing to impact the economy through the various economic factors.

According to the economic outlook presented by Vanguard, the U.S. economic recovery is expected to persist at a reduced 2.0%–3.0% trend real GDP growth rate over the second half of calendar 2012, given the continuing headwinds involving housing, consumer balance-sheet repair, and the transition toward fiscal austerity in Europe and, eventually, the United States. Future U.S. economic growth should prove more uneven than expected, given the downside risks of a full-blown European sovereign debt/banking crisis, a housing-related Chinese slowdown, and the (unresolved) process for addressing U.S. fiscal imbalances. These and other (unanticipated) risks are likely to lead to periodic bouts of risk aversion and economic slowdowns in 2012 and beyond, followed by economic rebounds.

High gasoline prices are certainly on the minds of consumers. By some analysts' figures, a 1% rise in gasoline prices trims about 0.2% from GDP growth. An escalation in geopolitical tensions in oil producing regions could lead to an oil and gasoline price increase, which would impact the fragile economic recovery.

Significant concerns have been voiced about the coming earnings season and just how dramatic the impact of the turmoil in Europe will be on corporate profits. Central bankers around the globe seem to be attempting to stave off recession through continued reductions in interest rates and loose monetary policy. However, government deficits threaten to strain growth and recession-fighting monetary and fiscal policy may well spur inflation. Historically low yields on fixed income instruments leave little cushion to offset any principal erosion resulting from rising interest rates.

Trend inflationary pressures are currently modest, with the risk of returning to the high inflationary regime of the 1970s and early 1980s over the next several years estimated to be less than 10%. Over the next 10 years, a median inflation rate averaging about 2.0%–2.5% per year for the U.S. Consumer Price Index (CPI) is anticipated.

The target federal funds rate is likely to remain near 0% through at least mid-2013, with a bias toward the Federal Reserve's remaining on hold into 2014. The return on cash will likely average less than 2.0% over the next ten years through 2021, with real (inflation-adjusted) short-term interest rates remaining negative for some time.

Consistent with the current steepness of the Treasury yield curve, Vanguard's ten-year projections generally exhibit a gradual rising-rate bias, although dispersion around this median path remains considerable. Based in part on our inflation outlook, the yield on the 10-year Treasury bond is expected to eventually move from its current range of 1.5%–2.5% toward the 3.5%–4.5% range over the next decade, a central tendency near its historical long-run average.

The expected long-run median return of the broad taxable U.S. fixed income market is near current benchmark yields and thus most closely resembles the historical bond returns of the 1950s and 1960s. Despite the modest secular bias toward rising U.S. interest rates, investors are cautioned against maintaining a secular short-duration bias in their fixed income portfolios. It is anticipated that shorter-maturity Treasury yields will tend to rise more than the yields on longer-maturity Treasury bonds. This so-called bear-flattening bias produces expected median returns that are similar for all Treasury bond portfolios, regardless of their maturity or duration.

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 96-0889) 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 employer is required by law to fund over $600 million in employer contributions for fiscal year 2014, up from the $196 million in fiscal year 2013. Historically, the employer has achieved significant funding reductions through legislative measures, most recently as 2010.

The employer and the Fund have entered into litigation over funding amounts for 2010 – 2012 whereas the Fund believes the employer has not contributed the amounts required by law.

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.

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, 2012, was 0.6% as performance of the portfolio mirrored the volatile market, economic and political conditions relative to the previous fiscal year end. The substantial decline in the first quarter was difficult to rebound over, given its cumulative impact on the subsequent quarters. The Fund maintained a diversified portfolio consisting of equities (domestic and international), fixed income, real assets and alternative investments. The Fund continued to attempt to maximize investment performance while maintaining acceptable levels of risk.

The Board started and is in the midst of implementing its policy target allocation. The Board's new policy targets are domestic equity at 31.25%, international equity at 31.25%, fixed income at 19.5%, real estate at 6.5%, REITS at 2.5%, private equity at 3%, hedge fund of funds at 2%, infrastructure at 2% and cash & cash equivalents at 2%.

During the year, the Board performed due diligence over its investment managers in order to monitor performance and compliance. During the year ended June 30, 2012, the Fund terminated an underperforming domestic equity manager; transferred assets from two domestic equity indexed portfolios to two international equity indexed portfolios; closed two indexed domestic equity portfolios and re-distributed a portion of the assets to a minority owned domestic equity manager and used the rest to make benefit payments. The Fund continues to liquidate between $50 - $75 million per month to make monthly benefit payments. In alternative investments, the Fund increased its commitment to one existing private equity fund of funds manager. In the real estate asset class, the Fund hired two real estate managers, one of which is minority owned.

The Fund continues to be committed to diversity and as of June 30, 2012, approximately 31% ($2.9 billion) of the Fund's assets were managed by qualified minority or women owned investment managers. Additionally, the Fund directed $1.9 million of commissions to qualified minority and women owned broker dealers.

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.

Additional 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
- Eliminating the State offset to moving forward such that any state contribution received by CTPF will be in addition to CPS contributions
- Increase employer contributions
- 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 opened up a Chief Financial Officer search process to fill the open position resulting from the transition of the sitting CFO during the fiscal year 2012. The new CFO, Dr. Kasthuri Henry, was hired in October 2012 and is one of the signatories of this Transmittal Letter along with the continuing Executive director of the fund, Kevin Huber.

The Fund conducted an Actuarial Service search through an RFP process in 2012. Segal was selected to be the new actuary for the Fund. The fiscal year 2012 actuarial work was done by Segal, adhering to the professional due diligence requirements for such a transition in collaboration with the former actuary, Sandor Goldstein.

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.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Public School Teachers' Pension and Retirement Fund of Chicago for its comprehensive annual financial report for the period ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, the Fund must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

Concluding Comments

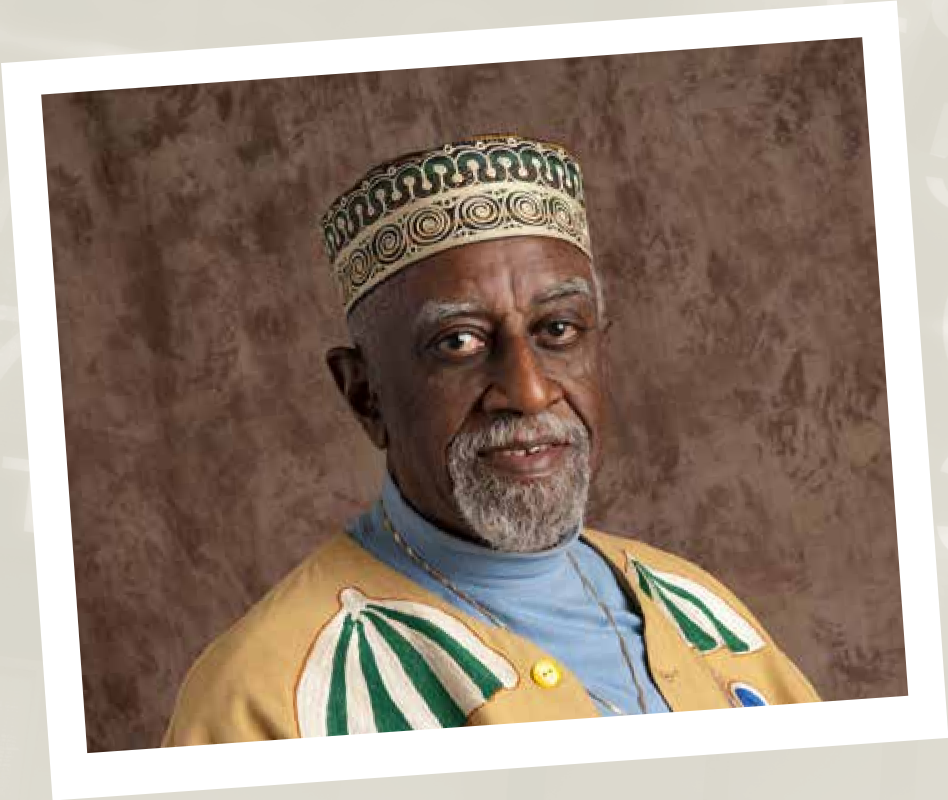
In the fiscal year 2012 teacher trustee election, Tina Padilla, and Raymond Wohl were elected to three-year terms.

In the election for officers, Jay C. Rehak was elected president, Lois Ashford, vice president, James F. Ward, recording secretary, and Tina Padilla, financial secretary. Chairs of standing committees included James F. Ward, Investments; Raymond Wohl, Pension Law and Rules; Tina Padilla, Finance and Audit; and Jeffery Blackwell, 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.

Kevin B. Huber
Executive Director

Dr. Kasthuri V. Henry
Chief Financial Officer



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
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

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, 2012, 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 2011 financial statements and, in our report dated December 28, 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, 2012, 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 $1,662,370,048 (18% 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.

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedules of funding progress and employer contributions on pages 19 through 25 and pages 43 and 44, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit for the year ended June 30, 2012 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying schedules of administrative and miscellaneous expenses, schedules of cash receipts and disbursements, schedules of manager fees, and schedules of consultant payments for the year ended June 30, 2012 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying schedules of administrative and miscellaneous expenses, schedules of cash receipts and disbursements, schedules of managers fees, and schedules of consultant payments have been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2012, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of administrative and miscellaneous expenses, schedules of cash receipts and disbursements, schedules of manager fees, and schedules of consultant payments are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2012.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Fund as of and for the year ended June 30, 2011 (not presented herein), and have issued our report thereon dated December 28, 2011, which contained an unqualified opinion on the respective financial statements of the Fund. The accompanying schedules of administrative and miscellaneous expenses, schedules of cash receipts and disbursements, schedules of manager fees, and schedules of consultant payments for the year ended June 30, 2011 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statements. The schedules of administrative and miscellaneous expenses, schedules of cash receipts and disbursements, schedules of manager fees, and schedules of consultant payments have been subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of administrative and miscellaneous expenses, schedules of cash receipts and disbursements, schedules of manager fees, and schedules of consultant payments are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2011.

The supplementary information included in the introductory section, the investments section, the actuarial section, and the statistical section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Chicago, Illinois
March 29, 2013

2

Management's Discussion and Analysis (Unaudited)

June 30, 2012

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, 2012. This information is intended to supplement the financial statements, which begin on page 26 of this report. We encourage readers to consider additional information and data in the Fund's *2012 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 the volatility of the financial market, the Fund returned 0.6% for the year ended June 2012. 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 6.1%, which is 1.9% 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 $17.4 billion as of June 30, 2012. This represents an increase in the total actuarial accrued liability of $435.0 million compared to the actuarial accrued liability of $16.9 billion as of June 30, 2011. The unfunded actuarial accrued liability increased from $6.8 billion to $8.0 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, 2012. This represents an increase in the total actuarial accrued liability of $38.8 million compared to the actuarial accrued liability of $3.1 billion as of June 30, 2011. The unfunded actuarial accrued liability increased from $3.0 billion to $3.1 billion during the year.

Financial Highlights

- Investment returns were unfavorable in comparison to previous years. The investment rate of return for fiscal year 2012 was 0.6% following fiscal year 2011's return of 24.8% and fiscal year 2010's return of 13.6%. Five- and ten-year averaged returns were 1.0% and 6.1%, respectively.
- Total plan net assets decreased during the fiscal year to $9.5 billion at June 30, 2012, from $10.3 billion at June 30, 2011.
- The Fund paid members $1.1 billion in service retirement, disability and survivor benefits, and an additional $69.0 million for healthcare benefits.
- Total additions to plan net assets were $360.0 million for fiscal year 2012. The net investment loss of $38.1 million was less than .10 times member and employer contributions, which totaled $390.9 million.
- Total deductions from plan net assets were $1.2 billion for fiscal year 2012. Benefit payments, member refunds, and administrative expenses increased 5.7% over fiscal year 2011.
- The funded ratio for pension benefits decreased to 53.9% as of June 30, 2012, from 59.7% 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 Pension 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 s*chedule of employer contributions* shows the amount of required employer contributions and the percentage actually contributed.

Investment Performance

For fiscal year 2012, the Fund's total investment generated a 0.6% return. Domestic equity, public REITs, private equity, fixed income and infrastructure markets generated positive returns. The Fund's portfolio of domestic equity reported a 1.1% return, public REITS reported a 4.1% return, private equity reported a 5.6% return, real estate reported a 11.0% return, fixed income reported a 8.4% return and infrastructure reported a 6.0% return. International equity experienced a 9.7% loss and the hedge funds a 2.6% loss.

1-Year Returns (2012)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	0.6%	Fund Benchmark Index	0.9%
Domestic Equity	1.1	Domestic Equity Benchmark	2.9
International Equity	(9.7)	MSCI ACWI ex US Index	(14.2)
Fixed Income	8.4	Barclays Aggregate Index	7.5
Private Equity	5.6	N/A	–
Real Estate	11.0	NFI-ODCE Equal Weight Index	11.5
Real Estate Investment Trusts (REITS)	4.1	*Custom REIT Index	(1.5)
Infrastructure	6.0	Absolute Benchmark	8.0
Hedge Funds	(2.6)	T-Bills +5%	5.1

5-Year Returns (2012)

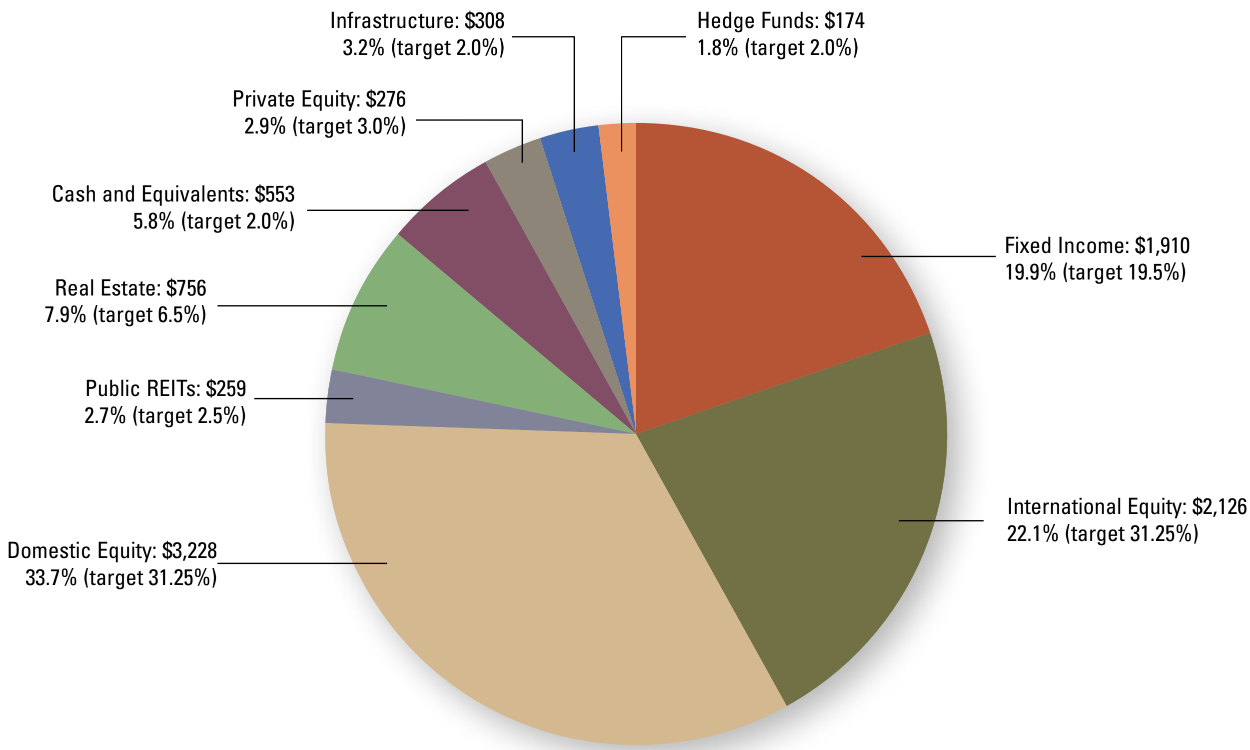
Asset Category	Fund Return	Index Name	Index Return
Total Fund	1.0%	Fund Benchmark Index	1.2%
Domestic Equity	0.2	Domestic Equity Benchmark	0.5
International Equity	(2.2)	MSCI ACWI ex US Index	(4.2)
Fixed Income	7.1	Barclays Aggregate Index	6.8
Private Equity	6.0	N/A	–
Real Estate	(3.2)	NFI-ODCE Equal Weight Index	(2.1)
Real Estate Investment Trusts (REITS)	0.1	*Custom REIT Index	(1.8)
Infrastructure	–	**N/A	–
Hedge Funds	–	**N/A	–

* *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.*

** *CTPF has not been invested in Infrastructure and Hedge Funds for 5 years*

Asset Allocation Summary as of June 30, 2012

in millions of dollars



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

Financial Statement Analysis

PLAN NET ASSETS

The plan net assets decreased $872.6 million (8.4%) during the fiscal year. The decrease was due primarily to weaker investment performance and benefit payments exceeding contributions.

As of June 30, 2012, total receivables, excluding amounts due from brokers, decreased by $29.9 million from 2011. The change in receivables is the result of a slight decrease in both accrued investment income and Intergovernmental receivable along with a large decrease of $24.1 million in employee receivable for deferred contributions. The employee receivable at June 30, 2012, decreased as the employer remitted employee contributions to the Plan prior to year-end for those teachers who have earned their salary over a nine month period, but are paid over a twelve month period. During the fiscal year ended June 30, 2011, those contributions were remitted subsequent to year-end. Due from brokers (the proceeds due from investment sales) decreased $141.8 million due to timing of investment sales at year-end.

Refunds payable increased $7.7 million in 2012. This increase was due to a larger number of retiring teachers at year-end which resulted in a larger number of refund claims pending at year end. A loss due to the Funds' custodian on securities lending transactions of $44.3 million is accrued for in both Securities lending collateral payable for $25.1 million and Due to Brokers for $19.2 million. Due to brokers (the cash due for investment purchases) decreased by $169.4 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, 2012, and 2011:

	Fiscal Year	
(in millions)	2012	2011
Cash and cash equivalents	$ 13.4	$ 19.2
Receivables	61.2	91.1
Due from brokers	46.6	188.4
Investments, at fair value	9,576.1	10,437.8
Securities lending collateral	588.1	578.0
Capital assets, net	2.3	2.8
Total assets	**10,287.7**	**11,317.3**
Benefits and refunds payable	24.3	16.4
Accounts and administrative expenses payable	13.5	14.0
Securities lending collateral payable	613.2	608.2
Due to brokers	165.3	334.6
Total liabilities	**816.3**	**973.2**
Net assets held in trust for benefits	**$ 9,471.4**	**$ 10,344.1**

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, 2012, additions totaled $360.0 million, compared to $2.5 billion for the year ended June 30, 2011. Intergovernmental contributions decreased by $20.8 million in fiscal year 2012. The change in intergovernmental contributions is the net result of a $32.5 million decrease from the state and a $11.7 million increase 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 health coverage to early retirees. The decrease of $3.6 million for Federal insurance reimbursement is due to a reduction of funds available through the federal program for fiscal year 2012. The slight increase of employee contributions is consistent between years. 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 a total contribution in fiscal year 2012 in the amount of $181.5 million. Net investment income decreased due to the unrealized appreciation of the Fund's investment portfolio. The Fund's portfolio generated a 0.6% return for the year ended June 30, 2012, compared to a 24.8% return for the year ended June 30, 2011.

The following is a summary of additions to plan net assets for the years ended June 30, 2012, and 2011:

(IN MILLIONS)	FISCAL YEAR 2012		2011	
Intergovernmental, net	$	22.2	$	43.0
Federal health insurance reimbursement and miscellaneous		7.2		10.3
Employee contributions		187.2		185.9
Minimum funding requirement (employer)		181.5		165.6
Net investment income		(38.1)		2,123.3
Total additions	$	360.0	$	2,528.1

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 continue to increase as the volume of former teachers requesting resignation refunds increased. The increase in benefits was offset by a decrease in the insurance premiums due to a reduction in the rebate amount, and total deductions during the fiscal year ended June 30, 2012, remained consistent when compared to the fiscal year ended June 30, 2011. The health insurance rebate was 60% for fiscal year 2012. 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 following is a summary of deductions from plan net assets for the years ended June 30, 2012 and 2011:

(IN MILLIONS)	FISCAL YEAR 2012		2011	
Pension benefits	$	1,113.9	$	1,047.5
Refunds		36.3		27.2
Death benefits		3.3		3.3
Refund of insurance premiums		69.0		78.9
Administration and miscellaneous expenses		10.1		9.5
Total deductions	$	1,232.6	$	1,166.4

FUNDING ANALYSIS

Under the funding plan established by 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 $187 million; minimum contributions for fiscal year 2012 were $192 million; and minimum contributions for fiscal year 2013 were $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 additional other contributions of $11.7 million and $11.6 million during the fiscal years ending June 30, 2012 and June 30, 2013, respectively. During fiscal year 2012 the employer and state paid a total of $203.7 million.

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 postretirement increases to pensions.

The funded ratio for the plan decreased from 59.7% in 2011 to 53.9% in 2012. 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 2009 and 2012 investment losses over a four-year period. Employer contributions in 2013 are expected to be consistent with contributions in fiscal year 2012 and a slight increase is expected in operational and benefits costs. The rate of return for the period ended June 30, 2013, is projected at 8%. As a result, the funded ratio is expected to decrease to 52.9% in fiscal year 2013. The funded ratio of the plan has ranged from 53.9% to 92.0% 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, 2012, with comparative totals for 2011

	Pension Fund	Health Insurance Fund	Total 2012	Total 2011
ASSETS:				
Cash	$ 13,428,219	–	13,428,219	19,159,631
Prepaid expense	12,220		12,220	–
Receivables:				
Intergovernmental	3,483,000	–	3,483,000	5,317,843
Employee	22,684,791	–	22,684,791	49,567,455
Accrued investment income	29,771,625	–	29,771,625	30,800,471
Due from brokers	46,593,389	–	46,593,389	188,426,993
Participating teachers' accounts for contributions	4,488,641	–	4,488,641	4,681,364
Other receivables	741,482	–	741,482	747,610
Total receivables	107,762,928	–	107,762,928	279,541,736
Investments, at fair value:				
U.S. government and agency fixed income	1,095,517,939	–	1,095,517,939	1,029,908,642
U.S. corporate fixed income	580,141,812	–	580,141,812	577,812,506
Foreign fixed income securities	172,954,270	–	172,954,270	145,648,486
Commingled funds	386,550,315	–	386,550,315	529,331,293
U.S. equities	3,114,108,811	–	3,114,108,811	3,808,902,355
Foreign equities	1,998,148,187	–	1,998,148,187	2,190,231,065
Public REITs	175,158,738	–	175,158,738	207,585,895
Pooled short-term investment funds	500,688,950	39,035,184	539,724,134	486,200,107
Hedge fund	173,505,261	–	173,505,261	177,744,777
Real estate	756,080,615	–	756,080,615	686,732,202
Infrastructure	307,980,960	–	307,980,960	275,818,888
Private equity	276,004,553	–	276,004,553	319,315,230
Margin cash	200,000	–	200,000	2,521,041
Total investments	9,537,040,411	39,035,184	9,576,075,595	10,437,752,487
Securities lending collateral	588,095,853	–	588,095,853	578,003,044
Capital assets, net of accumulated depreciation	2,366,332	–	2,366,332	2,794,812
Total assets	**10,248,705,963**	**39,035,184**	**10,287,741,147**	**11,317,251,710**
LIABILITIES:				
Benefits payable	2,569,689	–	2,569,689	2,332,209
Refunds payable	21,757,021	–	21,757,021	14,046,884
Accounts and administrative expenses payable	8,605,930	4,910,226	13,516,156	13,997,618
Securities lending collateral payable	613,185,665	–	613,185,665	608,158,566
Due to brokers	165,271,632	–	165,271,632	334,629,697
Total liabilities	**811,389,937**	**4,910,226**	**816,300,163**	**973,164,974**
Net assets held in trust for benefits	$ 9,437,316,026	34,124,958	9,471,440,984	10,344,086,736

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

For fiscal year ended June 30, 2012, with comparative totals for 2011

	Pension Fund	Health Insurance Fund	Total 2012	Total 2011
ADDITIONS:				
Contributions				
Intergovernmental, net	$ 22,178,011	–	22,178,011	42,972,394
Employee	187,141,384	–	187,141,384	185,882,636
Minimum funding requirement (employer)	116,551,000	65,000,000	181,551,000	165,617,600
Total contributions	325,870,395	65,000,000	390,870,395	394,472,630
Investment income:				
Net (depreciation) appreciation in fair value	(239,806,743)	–	(239,806,743)	1,928,712,617
Interest	102,106,390	41,058	102,147,448	104,080,159
Dividends	136,080,771	–	136,080,771	127,470,956
Miscellaneous	560,553	–	560,553	620,222
Securities lending gain	5,011,510	–	5,011,510	4,601,984
Less investment expense:				
Investment advisory and custodial fees	(42,076,606)	–	(42,076,606)	(42,193,297)
Total investment income (loss), net	(38,124,125)	41,058	(38,083,067)	2,123,292,641
Federal insurance reimbursement	–	6,770,651	6,770,651	10,338,661
Miscellaneous	431,790	–	431,790	55,307
Total additions	288,178,060	71,811,709	359,989,769	2,528,159,239
DEDUCTIONS:				
Pension benefits	1,113,884,747	–	1,113,884,747	1,047,538,959
Refunds	33,923,690	–	33,923,690	26,041,554
2.2 Legislative refunds	2,370,946	–	2,370,946	1,138,964
Refund of insurance premiums	–	69,011,323	69,011,323	78,892,292
Death benefits	3,324,381	–	3,324,381	3,260,860
	1,153,503,764	69,011,323	1,222,515,087	1,156,872,629
Administrative and miscellaneous expenses	10,120,434	–	10,120,434	9,527,938
Total deductions	1,163,624,198	69,011,323	1,232,635,521	1,166,400,567
Net increase (decrease)	(875,446,138)	2,800,386	(872,645,752)	1,361,758,672
Net assets held in trust for benefits:				
Beginning of year	10,312,762,164	31,324,572	10,344,086,736	8,982,328,064
End of Year	**$ 9,437,316,026**	**34,124,958**	**9,471,440,984**	**10,344,086,736**

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, 2012, the Fund had 60 participating employers consisting of the primary employer, Chicago Public Schools, 58 charter schools and the Fund itself.

As of June 30, 2012 and 2011, the Fund membership consisted of the following:

	2012	2011
Retirees and beneficiaries currently receiving benefits	25,926	25,199
Terminated members entitled to benefits but not yet receiving them	4,245	4,253
Current members:		
Vested	21,063	21,027
Nonvested	9,303	9,106
	60,537	59,585

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 upon 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 $108,883 on the amount of salary that can be used in any year in calculating pension amounts.

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 60% for fiscal year 2012. 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 2012. 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, 2012 and 2011 are $34,124,958 and $31,324,572, respectively. The Fund has total discretion over the program, and no employee or employer contributions are made for the subsidy.

As of June 30, 2012 and 2011, health insurance membership consisted of the following:

	2012	2011
Retirees and beneficiaries currently receiving health insurance benefits	17,091	17,279
Terminated employees entitled to benefits but not yet receiving them	4,245	4,253
Retirees and beneficiaries entitled to health benefits but not currently receiving them	8,835	7,920
Active Members	30,366	30,133
	60,537	59,585

(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 equity security is determined by using the closing price listed on the national securities exchanges as of June 30. Fair value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled funds, the net asset value is determined and certified by the commingled fund manager as of June 30. Alternative investments, which include private equity and real estate, are valued based on amounts established by the fund managers 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) RECLASSIFICATIONS

Certain 2011 amounts have been reclassified to conform with the 2012 presentation.

(G) 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.

(H) 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.

(I) 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, 2011, from which the summarized information was derived.

(3) Receivables

As of June 30, 2012 and 2011, intergovernmental receivables include contributions due from the Board of Education and appropriations due from the State of Illinois as follows:

	2012	2011
Board of Education		
Early retirement program	$ –	909,663
State of Illinois appropriations	3,483,000	4,408,180
	$ 3,483,000	5,317,843

The Early Retirement Program receivable due at the end of fiscal year 2011 represents the Board of Education's portion of the early retirement costs for fiscal year 2008. This receivable was paid by the Board of Education during fiscal year 2012. The Board of Education did not offer the early retirement program for fiscal year 2012 or 2011.

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 $19,536,244 and $46,592,612, on behalf of the employees, at June 30, 2012 and 2011, respectively. Employees owed the Fund $3,148,547 and $2,974,843 for the 2.2 pension formula upgrade at June 30, 2012 and 2011, 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, 2012:		
Carrying amount	$	13,428,219
Bank balance		15,970,887
Amount exposed to custodial credit risk	$	15,745,154

INVESTMENTS

The following table presents a summary of the Fund's investments at fair values at June 30, 2012:

Investments		Fair Value
U.S. government and agency fixed income	$	1,095,517,939
U.S. corporate fixed income		580,141,812
Foreign fixed income securities		172,954,270
Commingled common stock		114,259,966
Commingled emerging markets		127,489,331
Commingled public REITs		83,900,254
Commingled corporate bonds		41,649,561
Commingled government agency		2,358
Commingled other fixed income		19,248,845
U.S. equities		3,114,108,811
Foreign equities		1,998,148,187
Public REITs		113,997,946
Foreign public REITs		61,160,792
Pooled short-term investment funds		539,724,134
Hedge funds		173,505,261
Real estate		756,080,615
Infrastructure		307,980,960
Private equity		276,004,553
Margin cash		200,000
Total investments	**$**	**9,576,075,595**

(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, 2012, 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, 2012
Margin cash	$ 200,000

(B) CONCENTRATION OF CREDIT RISK

There are no investments in any issuer that represent 5% or more of net assets available for benefits as of June 30, 2012.

(C) CREDIT RISK

Credit risk is the risk that the Fund will not recover its investments due to the ability of the counterparty to fulfill its obligation. The 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, 2012:

S&P Credit Ratings	Asset - Backed	Commercial Mortgage - Backed	Corporate Bonds	Government Agencies	Government Bonds	Government Mortgage-Backed	Municipal Prov. Bonds	Commingled Fixed Income Funds
AAA	$ 12,266,656	8,251,565	4,539,296	29,539,509	276,417	–	1,825,358	–
AA	5,253,784	1,695,251	67,879,447	122,828,489	1,272,500	–	12,772,495	–
A	–	3,095,633	281,909,185	7,934,954	6,746,080		13,511,713	–
BBB	528,201	5,559,199	241,496,039	1,607,260	11,394,063	–	63,547	–
BB	1,088,084	266,364	12,987,970	–	–	–	–	–
B	642,690	1,865,658	2,654,987	–	–	–	–	–
CCC	579,181	10,339,342	–	–	–	–	–	–
CC	651,142	1,120,043	–	–	–	–	–	–
D	1,401,865	665,343	–	–	–	–	–	–
MULTI	–	–	150,274	–	–	–	–	–
Not Rated	4,346,346	2,811,404	9,538,072	5,224,908	3,847,671	426,589	346,088	60,898,406
US Gov't Agency	–	–	–	12,961,043	663,077,242	269,375,074	–	2,358
	$ 26,757,949	**35,669,802**	**621,155,270**	**180,096,163**	**686,613,973**	**269,801,663**	**28,519,201**	**60,900,764**

(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, 2012:

Investment Type	Fair Value	Effective Duration (Years)
Asset-backed securities	$ 26,757,949	0.01
Commercial mortgage-backed	35,669,802	0.15
Commingled fixed income funds	60,900,764	0.11
Corporate bonds	621,155,270	2.02
Government agencies	180,096,163	0.33
Government bonds	686,613,973	4.40
Government mortgage-backed securities	269,801,663	0.22
Municipal/provincial bonds	28,519,201	0.15
Total	**$ 1,909,514,785**	

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, 2012:

Currency	Fair Value	Percentage
Foreign equities:		
Australian dollar	$ 64,770,963	3.24%
Brazilian real	34,542,474	1.73%
Canadian dollar	44,107,725	2.21%
Swiss franc	116,721,511	5.84%
Chilean peso	4,276,379	0.21%
Colombian peso	1,515,506	0.08%
Czech koruna	2,679,006	0.13%
Danish krone	14,206,113	0.71%
Euro	414,306,126	20.73%
British pound sterling	483,977,441	24.22%
Hong Kong dollar	87,946,116	4.40%
Indonesian rupiah	7,879,975	0.39%
Israeli sheqel	1,049,004	0.05%

Currency	Fair Value	Percentage
Indian rupee	$ 23,865,117	1.19%
Japanese yen	324,907,138	16.26%
Korean won	28,382,415	1.42%
Mexican peso	777,646	0.04%
Malaysian ringgit	737,806	0.04%
Norwegian krone	33,885,891	1.70%
New Zealand dollar	3,549,898	0.18%
Philippine peso	1,541,447	0.08%
Polish zloty	2,366,671	0.12%
Swedish krona	46,258,772	2.32%
Singapore dollar	26,122,855	1.31%
Thai baht	8,638,120	0.43%
Turkish lira	14,895,080	0.75%
Taiwan dollar	11,196,379	0.56%
U.S. dollar	170,392,005	8.53%
South African rand	22,652,608	1.13%
Total	**1,998,148,187**	**100.00%**
Foreign fixed income		
Mexican peso	4,677,672	2.70%
U.S. dollar	168,276,598	97.30%
Total	**172,954,270**	**100.00%**
Foreign Public REITs		
Australian dollars	10,298,779	16.84%
Brazilian real	573,797	0.94%
Canadian dollar	2,591,898	4.24%
Swiss franc	1,143,903	1.87%
Euro	6,075,531	9.93%
British pound sterling	6,846,623	11.20%
Hong Kong dollar	15,441,771	25.25%
Japanese yen	10,424,201	17.04%
Norwegian krone	100,493	0.16%
Swedish krona	832,530	1.36%
Singapore dollar	2,047,782	3.35%
U.S. dollar	4,783,484	7.82%
Total	**$ 61,160,792**	**100.00%**

(5) Derivatives

The Fund accounts for its derivative instruments in accordance with 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, 2012:

Derivative Type	Notional Amounts	Fair Value
Foreign currency contracts purchased	$ –	71,039,066
Foreign currency contracts sold	–	(70,366,568)
Futures:		
Long fixed income	30,094,562	(228,150)
Long equity	9,968,575	315,321
Short fixed income	104,875,550	287,782
Options		
Fixed income options:		
Put purchased	25,479,330	55,575
Put written	15,229,622	(32,488)
Swaptions		
Pay coupon/buy protection	1,609,680	33,537
Receive coupon/sell protection	475,099	(8,339)
Rights	–	100,459
Warrants	–	22,652
Swaps		
Credit default		
Pay coupon/buy protection	6,234,102	743,250
Receive coupon/buy protection	5,699,702	(501,091)
Total	**$ 199,666,222**	**1,461,006**

(A) 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, 2012, is as follows:

Currency		Fair Value
Foreign currency exchange purchases:		
Australian dollar	$	104,849
Canadian dollar		4,390,118
Euro		1,890,386
British pound sterling		20,420,342
Japanese yen		1,534,924
South African rand		100,222
United States dollar		42,598,225
Total Purchases	**$**	**71,039,066**
Foreign currency exchange sales:		
British pound sterling		(18,590,538)
Canadian dollar		(4,390,117)
Euro		(13,637,813)
Japanese yen		(3,397,756)
Norwegian krone		(129,939)
Singapore dollar		(178,146)
Swedish krona		(21,302)
Swiss franc		(327,336)
South African rand		(1,055,300)
United States dollar		(28,638,321)
Total Sales	**$**	**(70,366,568)**

(B) 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.

(C) 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.

(D) 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. 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.

(E) CHANGES IN FAIR VALUE

The following table summarizes the changes in fair value, which were recognized as investment income (loss) in the Fund's statement of changes in plan net assets for the year ended June 30, 2012:

Derivative Type	Changes in Fair Value
Foreign currency contracts	$ 6,839,038
Futures	3,773,600
Options	386,908
Swaptions	203,893
Rights and warrants	328,679
Swaps	(1,268,331)
Total	$ 10,263,787

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, 2012, was approximately $71,844,826, which is offset by liabilities included in the netting arrangements with counterparties, resulting in approximately $1,057,417 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, 2012:

Derivative Type	Fair Value	Effective Duration (Years)
Futures fixed income (long and short, net)	$ 59,632	0.49
Options	23,088	0.02
Total	$ 82,720	

(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. A loss due to the Funds' custodian on securities lending transaction of $ 44.3 million is included in both Securities lending collateral payable for $25.1 million and Due to Brokers for $19.2 million. 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, 2012, has a weighted average maturity of 54 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	2012	2011
Fair value of securities loaned for cash collateral	$ 583,299,932	565,855,927
Fair value of securities loaned for noncash collateral	77,675,438	49,291,052
Total fair value of securities loaned	660,975,370	615,146,979
Fair value of cash collateral from borrowers	588,095,853	578,003,044
Fair value of noncash collateral from borrowers	80,328,944	52,391,490
Total fair value of collateral from borrowers	$ 668,424,797	630,394,534

(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 $214.2 and $208.6 million in fiscal years 2012 and 2011, respectively. This is substantially less than the actuarial required contribution of $510.1 and $430.0 million in fiscal year 2012 and 2011. During fiscal years 2012 and 2011 the employer and state paid $203.7 million and $176.1 million, respectively. The unpaid portion for fiscal years

2011 is currently under litigation with the employer. The Fund and the employer entered into an agreement to hold off litigation for the fiscal year 2012 unpaid contribution. The final ruling in the fiscal year 2011 litigation will determine if the employer will be liable for the unpaid portion for fiscal year 2012.

During the year ended June 30, 2012, the Fund did not receive state funding for the health insurance plan. As a result, the Fund allocated $65 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 $262,443 and $257,873 for the years ended June 30, 2012 and June 30, 2011, 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 health coverage to early retirees.

(8) Funded Status and Funding Progress

As of June 30, 2012, 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	$	17,375,660,369	3,110,316,263
Less actuarial value of assets		9,364,076,672	34,124,958
Unfunded actuarial accrued liability	$	8,011,583,697	3,076,191,305
Funded ratio		53.89%	1.10%
Annual covered payroll	$	2,224,903,121	2,224,903,121
Unfunded actuarial accrued liability as a percentage of annual covered payroll		360.09%	138.26%

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, 2012:

	Pension Plan	Health Insurance Plan
Valuation date	June 30, 2012	June 30, 2012
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level percent of payroll	Level percent of payroll
Amortization approach	Open	Open
Amortization period	30 years	30 years
Asset valuation method	4-year smoothed market value	Market value
Actuarial assumptions:		
Investment rate of return	8% per year	4.5% per year
Projected salary increases*	Rate of increase is age based ranging from 4% to 13.7%	N/A
Inflation rate*	3% per year	3% per year
	Postretirement benefit increase:	Medical trend rate:
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
2013	$	512,649
2014		525,307
2015		537,965
2016		550,623
2017		563,281
2018-2020		1,765,791
2021		510,539
Total minimum future rental payments	**$**	**4,966,155**

Rent expense was $499,991 and $487,333 in 2012 and 2011, respectively.

(12) Subsequent Event

On November 13, 2012, the Fund and the Chicago Board of Education (employer) settled a lawsuit arising from a disagreement over the method used to calculate pensions from June 2000 through August 2004. The estimated overpayment through 2012 was $32 million, impacting approximately 3,500 members. The settlement focuses on preventing future overpayments estimated to be about $68 million and does not seek to recover past overpayments from retirees. Pensions that currently exceed the corrected amount will stay frozen until the current payment equals or exceeds the corrected payment.

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 percentage of annual covered payroll (b-a)/c
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
June 30, 2012	9,364,077	17,375,660	8,011,584	53.89	2,224,903	360.09

(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 percentage of annual covered payroll (b-a)/c
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
June 30, 2012	34,125	3,110,316	3,076,191	1.10	2,224,903	138.26

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, 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
June 30, 2012	510,101,466	138,729,011	27.20	190,846,835	187,141,384	98.06	46.49

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, 2007	$ 209,446,107	65,000,000	31.03%
June 30, 2008	150,033,070	65,000,000	43.32
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
June 30, 2012	218,842,221	65,000,000	29.70

See accompanying independent auditors' report.

Schedules of Administrative and Miscellaneous Expenses

Years ended June 30, 2012 and 2011

SCHEDULE 5

		2012	2011
Salaries	$	4,817,572	4,608,637
Accrued leave		130,799	140,244
Actuary fees		94,680	70,750
Auditing		201,130	175,000
Banking fees		60,478	58,518
Consulting		5,819	3,631
Data processing		45,227	47,145
Depreciation		568,102	516,054
Election expense		242,885	214,331
Employees' health insurance		759,732	664,504
Field services/pension rep		49,134	59,634
Health insurance consulting		30,000	44,333
Insurance premium		32,164	35,359
Legal fees		384,373	431,892
Legislative expense		153,144	136,037
Maintenance of equipment, systems, software, and support		167,733	189,493
Medical fees		43,513	57,097
Membership, dues, and subscriptions		13,006	11,414
Office forms and supplies		61,254	75,360
Office rent and utilities		882,661	888,722
Postage		202,901	182,321
Publications/communication		197,958	165,915
Records management		8,254	8,043
Studies and evaluation		5,343	6,896
System consulting		747,198	540,988
Trustee conferences, seminars, and meetings		125,778	100,295
Tuition and training/educational conference		36,629	70,193
Miscellaneous		52,967	25,132
Total	**$**	**10,120,434**	**9,527,938**

See accompanying independent auditors' report.

Schedules of Cash Receipts and Disbursements

Years ended June 30, 2012 and 2011

SCHEDULE 6

	2012	2011
Cash and cash equivalents at beginning of period	$ 505,359,738	578,937,877
Add receipts:		
Member contributions	214,216,771	186,327,962
Public revenues	212,334,505	220,066,197
Interest and dividends	244,829,128	238,991,584
Miscellaneous	437,919	55,307
Net investment sales	609,390,611	507,599,155
Total cash receipts	**1,281,208,934**	**1,153,040,205**
Less disbursements:		
Pension benefits	1,097,784,316	1,050,095,298
Refunds	18,331,417	51,685,515
2.2 legislative refunds	2,370,946	1,138,964
Refund of insurance premiums	64,101,097	75,992,292
Investment and administrative expenses	50,828,543	46,960,174
Miscellaneous	–	746,101
Total cash disbursements	**1,233,416,319**	**1,226,618,344**
Net increase (decrease) in cash and cash equivalents	47,792,615	(73,578,139)
Cash and cash equivalents at end of period	**$ 553,152,353**	**505,359,738**

See accompanying independent auditors' report.

Schedules of Manager Fees

Years ended June 30, 2012 and 2011

SCHEDULE 7

	2012	2011
Adams Street Partners, LLC	$ 1,260,038	1,235,539
Adelante Capital Management, LLC	334,080	330,060
Ariel Capital Management, LLC	386,908	398,483
Attucks Asset Management, LLC	1,160,545	1,115,289
Blackstone Group	174,773	1,116,827
BMO Global Asset Management	603,505	616,811
Capri Capital Partners, LLC	14,353	121,797
CB Richard Ellis Investors, LLC	67,969	103,813
Channing Capital Management, LLC	378,731	425,091
Credo Capital Management, LLC	477,670	417,051
Dimensional Fund Advisors, LTD	427,889	609,287
DV Realty Advisors, LLC	257,552	265,159
Earnest Partners, LLC	1,705,239	895,815
Europa Capital Partners LLP	515,255	649,879
Fortress Investment Group, LLC	73,852	101,115
Franklin Templeton Real Estate Advisors, LLC	200,000	136,957
Fremont Realty Capital, LP	332,259	345,091
Garcia, Hamilton & Associates, LP	160,153	115,436
Greystar Equity Partners VII, LP	612,159	–
HarbourVest Partners, LLC	656,100	729,000
Hispania Capital Partners, LLC	290,211	239,782
Holland Capital Management, LP	691,416	634,206
Hudson Realty Capital, LLC	375,517	208,191
ICV Capital Partners, LLC	126,469	117,786
Intercontinental Real Estate Corp.	399,810	402,496
J.P. Morgan Fleming Asset Management, Inc.	3,669,021	3,843,178
K2 Advisors, LLC	802,658	820,630
LaSalle Investment Management, Inc.	199,092	85,656
Lazard Asset Management, LLC	785,304	808,390
Leading Edge Investment Advisors, LLC	750,806	832,081
LM Capital Group, LLC	222,033	218,646
Lombardia Capital Partners, LLC	598,140	660,965
Macquarie Group	1,703,157	1,383,840
Mesirow Financial, Inc.	2,327,564	2,614,737
MFS Institutional Advisors, Inc	–	1,461,536

	2012	2011
Morgan Stanley Investment Management, Inc.	3,004,722	2,834,695
Muller and Monroe Asset Management, LLC	193,495	203,159
New Amsterdam Partners, LLC	327,035	489,755
Palladium Equity Partners, LLC	66,873	128,503
Pantheon Ventures, LLP	665,003	698,175
Pharos Capital Group, LLC	69,645	54,768
Piedmont Investment Advisors, LLC	463,635	464,261
Pluscios Management, LLC	377,937	–
Progress Investment Management, LLC	1,063,836	1,084,277
Prudential Investment Management, Inc.	1,449,601	1,385,586
Pugh Capital Management, Inc.	168,921	121,173
RhumbLine Advisers, LP	99,560	125,177
RREEF America, LLC	213,769	286,346
Syncom Partners, LLC	163,426	161,280
Taplin, Canida and Habacht, Inc.	206,945	202,003
The Northern Trust Company	328,824	356,000
UBS Realty Investors, LLC	1,504,072	1,295,115
Urban America Advisors, LP	290,284	290,284
Urdang Investment Management, Inc.	520,913	519,783
Waddell & Reed Asset Management Group	330,144	316,235
Walton Street Capital, LLC	1,056,780	1,090,253
Western Asset Management Co.	479,055	808,629
William Blair & Company, LLC	3,342,242	3,323,490
Zevenbergen Capital Investments, LLC	322,169	330,675
Total manager fees	**39,449,113**	**40,630,242**
Callan Associates Inc.– General Consultant	369,106	182,500
Mercer Investment Consulting – General Consultant	–	130,000
The Northern Trust Company – Master Custodian	499,092	400,000
The Townsend Group – Real Estate Consultant	162,720	161,838
Total consultant fees	**1,030,918**	**874,338**
Banking and Foreign Exchange Fees	991,808	688,717
Litigation Fees – DV Realty Advisors, LLC	604,767	–
Total	$ 42,076,606	42,193,297

See accompanying independent auditors' report.

Schedule of Consultant Payments

Years ended June 30, 2012 and 2011

SCHEDULE 8

	2012	2011
Anselmo and Associates	$ 98,144	77,733
Aon Consulting	30,000	41,000
Aspen Marketing	58,836	52,001
Bogfire, Inc.	28,985	25,190
Bradley Consulting Group, Inc.	547,200	452,000
Cahill Printing Co.	–	11,729
Chicago Press Corporation	45,168	82,089
Comgraphic Inc.	152,630	155,180
Data Consultants	32,206	41,508
E. M. Barnes & Associates	–	58,304
Election Service Corporation	198,405	174,138
Goldstein & Associates	94,680	70,750
Michelle Holleman	64,732	73,933
Imaging Office Systems	30,569	26,537
Integrated Pension Solution	199,998	–
Jacobs, Burns, Orlove & Stanton & Hernandez	312,828	355,987
Kirkland & Ellis, LLP	66,438	79,052
KPMG LLP	201,130	175,000
Robin Lynch	–	88,988
National Data Service of Chicago	–	6,966
North Shore Printers	73,681	86,623
The Segal Company	–	3,333
Vision Mai, LLC	55,000	–
Total	**$ 2,290,630**	**2,138,041**

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 LaSalle Street
Chicago, Illinois 60603
(312) 630-6000

Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as custodian ("Master Custodian") of assets of the Public School Teachers' Pension and Retirement Fund of Chicago ("Fund") held by it in a custodial account (the "Account") has provided annual Statements of Account for the Account to the Fund which, to the best of its knowledge, provide a complete and accurate reflection of The Northern Trust Company's record of the investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Account for the period July 1, 2011 through June 30, 2012.

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: __________________

Amy Sproull, Second Vice President

Callan

Callan Associates Inc.
120 North LaSalle Street
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Chicago, IL 60602

Main 312.346.3536
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December 18, 2012

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, 2012. The fiscal year ending June 30th was dominated by headlines from the European sovereign debt crisis, slow US economic recovery, persistent unemployment, and ongoing political change in the Middle East and North Africa. The development and event impacted the returns of all investors including the Chicago Teachers' Pension Fund.

As of June 30, 2012, the Fund's market value totaled $9.5 billion, an approximate $800 million decrease since June 30, 2011. During the past twelve month period:

- Domestic equity markets advanced modestly over the trailing 12 months. The S&P 500 Index, an index of domestic large capitalization stocks, increased 5.45% during the one-year period, and smaller stocks, as measured by the Russell 2000 declined by 2.08%. 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 -13.83% as measured by the MSCI EAFE (Europe, Australasia, Far East) Index. Emerging markets returned -15.67%, as measured by the MSCI Emerging Markets Index.
- The fixed income market produced modest returns during the year, gaining 7.47% as measured by the Barclays Aggregate Bond Index.

Within this environment the Fund returned 0.30% net-of-fees (0.56% gross-of-fees) during the 12 month period ending June 30, 2012. The Fund trailed its benchmark during the fiscal year by 0.56% on a net-of-fee basis. Over the trailing three- year periods the Fund outperformed its benchmark by 20 basis points, while over the trailing five-year period the Fund trailed its benchmark by 51 basis points. Since inception, the Fund has returned 8.10% net of fees (8.41% gross of fees), outperforming its benchmark by 25 basis points annually.

The Fund's domestic equity managers gained 0.91% on a net-of fee basis during the fiscal year, trailing the benchmark return of 2.90%. Manager performance was the largest detractor from performance as several of the Fund's domestic equity managers significantly trailed their respective benchmarks.

The Fund's international equity allocation outperformed the passive benchmark during the fiscal year, declining 10.08% net-of-fees versus the benchmark return of -14.15%. As a whole, the Fund's managers exhibited exceptional downside protection.

The fixed income composite returned 8.32% compared to the benchmark return of 7.47%. 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
Northern Trust Intl (Passive)	International Equity	Oct-11
Northern Trust Intl (Passive)	International Equity	Oct-11
Adams St. 2012 Global Fund LP	Private Equity	May-12
Adams St. Global Secondary Fund 5 LP	Private Equity	May-12

Terminated Manager	Asset Class	Termination Date
New Amsterdam	Domestic Equity	April-12
Rhumbline SC (Passive)	Domestic Equity	Oct-11
Rhumbline SCG (Passive)	Domestic Equity	Jan-12
Northern Trust MC (Passive)	Domestic Equity	Oct-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

Gwelda Swilley-Burke

Matt Shirilla

Matt Shirilla

The Townsend Group

Skylight Office Tower, 1660 West Second Street, Suite 450
Cleveland, Ohio 44113 • Telephone 216-781-9090 • Facsimile 216-781-1407

February 20, 2013

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

Dear Trustees,

We are pleased to present the performance results for the real assets investment program of the Chicago Teachers' Pension Fund ("CTPF") for fiscal year 2012. As of June 30, CTPF had $1,329,419,758 invested in real assets, an increase of 3.55% over the prior year. Real assets represented 14.0% of CTPF's total plan assets.

CTPF's real assets are diversified across a wide variety of investments, including private real estate ($756 million), public REITs ($265 million) and infrastructure ($308 million). These investments provide meaningful diversification from the stocks and bonds that make up a majority of CTPF's investments. They also generate a healthy current income yield and provide a hedge against potential inflation. CTPF has diversified exposure to all major property types and geographic locations in the U.S., including major gateway cities such as New York, Washington DC, Chicago and San Francisco. It also has exposure to international markets (12.3% of real asset investments are located overseas).

Generally, real estate and other real assets markets continued to show signs of a sustainable recovery from the Global Financial Crisis in 2008/2009. Properties generally benefitted from income and appreciation gains over the last two years. CTPF participated in the recovery, as its real assets program generated total annualized returns of 7.8% and 10.4% over the last one- and three-year periods. These results were above the benchmark for CTPF's real assets program. By nature, investing in real estate and other real assets requires long-term dedication and perspective. Since the program's inception in 1995, CTPF's real assets have generated annualized returns after all fees of 9.5% per year (compared to a benchmark return of 7.8%).

CTPF has a diverse group of investment professionals in real assets, with 35 distinct investment portfolios managed by 24 investment firms. In particular, we are proud to work diligently with CTPF to extend opportunities to emerging managers in real estate. We believe the added diversity of viewpoint and investment styles will enhance overall performance results over the long run. Through June 30, 2012, CTPF had committed over $200 million to emerging managers in real assets, including $15 million to one new emerging manager in 2012 (one of only two new firms added to the program over the last 12 months). From our perspective, CTPF oversees one of the most successful emerging manager programs among U.S. pension plans.

Manager changes over the past year are summarized below:

New Manager	Asset Class	Inception Date
Cityview	Real Estate – Multi-Family	May-12
Greystar	Real Estate – Multi-Family	Nov-11

We thank you for the opportunity to serve CTPF and look forward to working collectively with the Board and your investment team to meet the challenges ahead. As markets continue to improve, we are confident about the outlook for your real assets program and anticipate another successful year in 2013.

With kindest regards,

The Townsend Group

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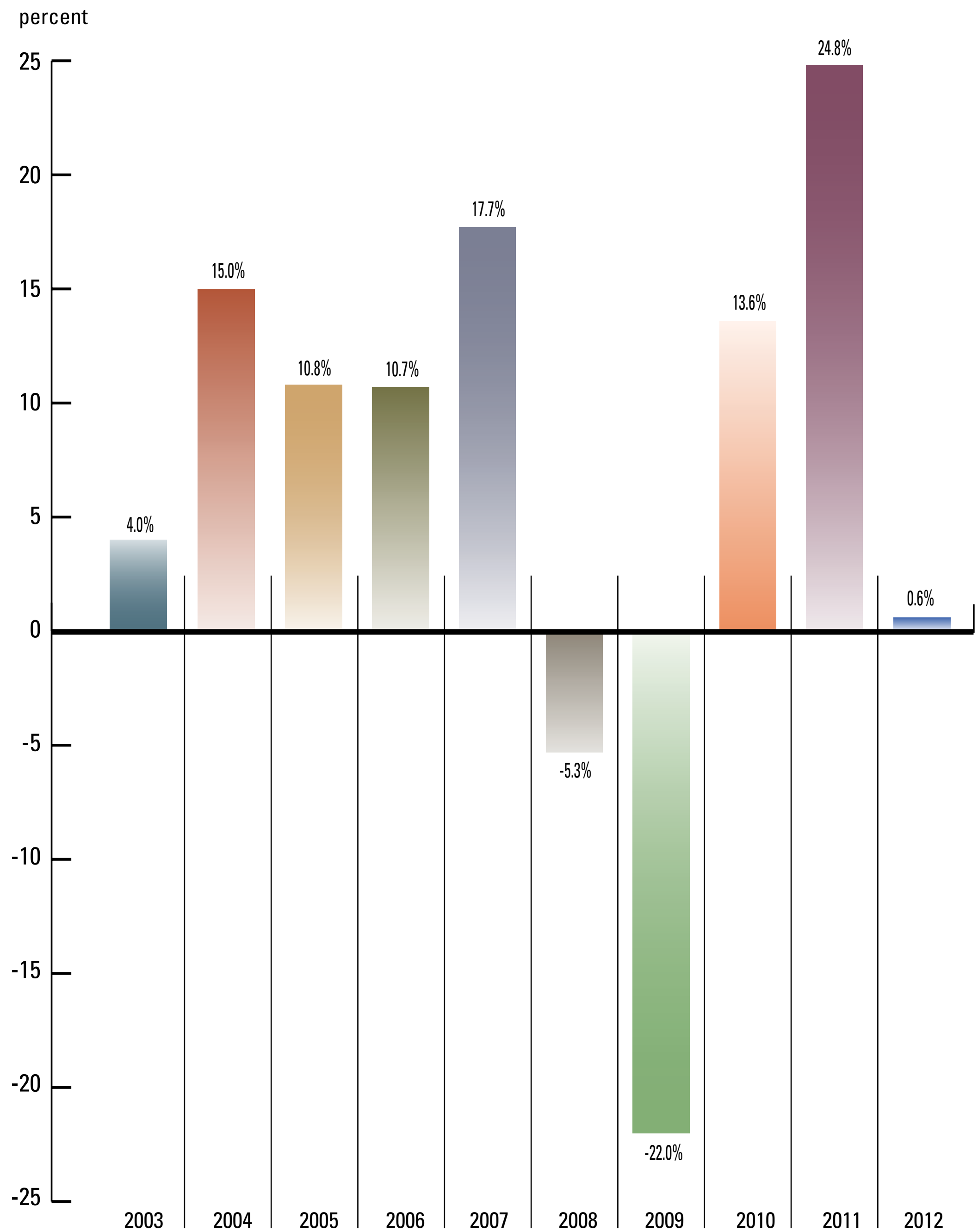
Total Annual Fund Rate of Return*

as of June 30, 2003-2012



*Time-weighted rate of return.

Schedule of Investment Results

	2008	2009	2010	2011	2012	Annualized Returns 3 Year	5 Year	10 Year
Total Fund	(5.3%)	(22.0%)	13.6%	24.8%	0.6%	12.6%	1.0%	6.1%
Large Cap	(10.1%)	(26.6%)	13.6%	32.6%	3.4%	15.9%	0.5%	5.7%
Russell 1000 Index	(12.4%)	(26.7%)	15.2%	31.9%	4.4%	16.6%	0.4%	5.7%
S&P 500	(13.1%)	(26.2%)	14.4%	30.7%	5.5%	16.4%	0.2%	5.3%
Mid Cap Equity	(10.5%)	(29.7%)	21.7%	39.8%	–	–	–	–
S&P Mid Cap	(7.3%)	(28.0%)	24.9%	39.4%	–	–	–	–
Small Cap Equity	(18.2%)	(24.1%)	24.4%	39.9%	(3.3%)	19.0%	0.9%	7.9%
Russell 2000 Index	(16.2%)	(25.0%)	21.5%	37.4%	(2.1%)	17.8%	0.5%	7.0%
International Equity	(7.2%)	(28.9%)	14.4%	31.2%	(9.7%)	10.7%	(2.2%)	7.3%
MSCI ACWI ex US	(6.2%)	(30.5%)	10.9%	30.3%	(14.2%)	7.4%	(4.2%)	7.2%
Fixed Income	5.8%	4.1%	12.3%	5.1%	8.4%	8.6%	7.1%	5.9%
Barclays Aggregated Index	7.1%	6.1%	9.5%	3.9%	7.5%	6.9%	6.8%	5.6%
REITs	(16.7%)	(37.8%)	38.7%	33.0%	4.1%	24.1%	(0.1%)	10.2%
Custom REITs Index*	(16.8%)	(39.6%)	38.7%	33.2%	(1.5%)	22.0%	(1.8%)	8.0%
Real Estate (Private)	6.5%	(34.7%)	(4.7%)	20.1%	11.0%	6.2%	(3.2%)	5.9%
NFI-ODCE Equal Weight Index	(10.7%)	(30.4%)	15.3%	15.0%	11.5%	6.8%	(2.1%)	5.2%
Private Equity**	19.7%	(24.7%)	15.4%	21.5%	5.6%	14.0%	6.0%	9.2%
N/A	–	–	–	–	–	–	–	–
Infrastructure	–	12.1%	(3.2%)	16.9%	6.0%	7.0%	–	–
Absolute Benchmark	–	8.0%	8.0%	8.0%	8.0%	8.0%	–	–
Hedge Funds	–	–	–	6.9%	(2.6%)	–	–	–
T-Bills +5%	–	–	–	5.2%	5.1%	–	–	–

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

** *Returns for Private Equity are based upon the custodial statements*

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

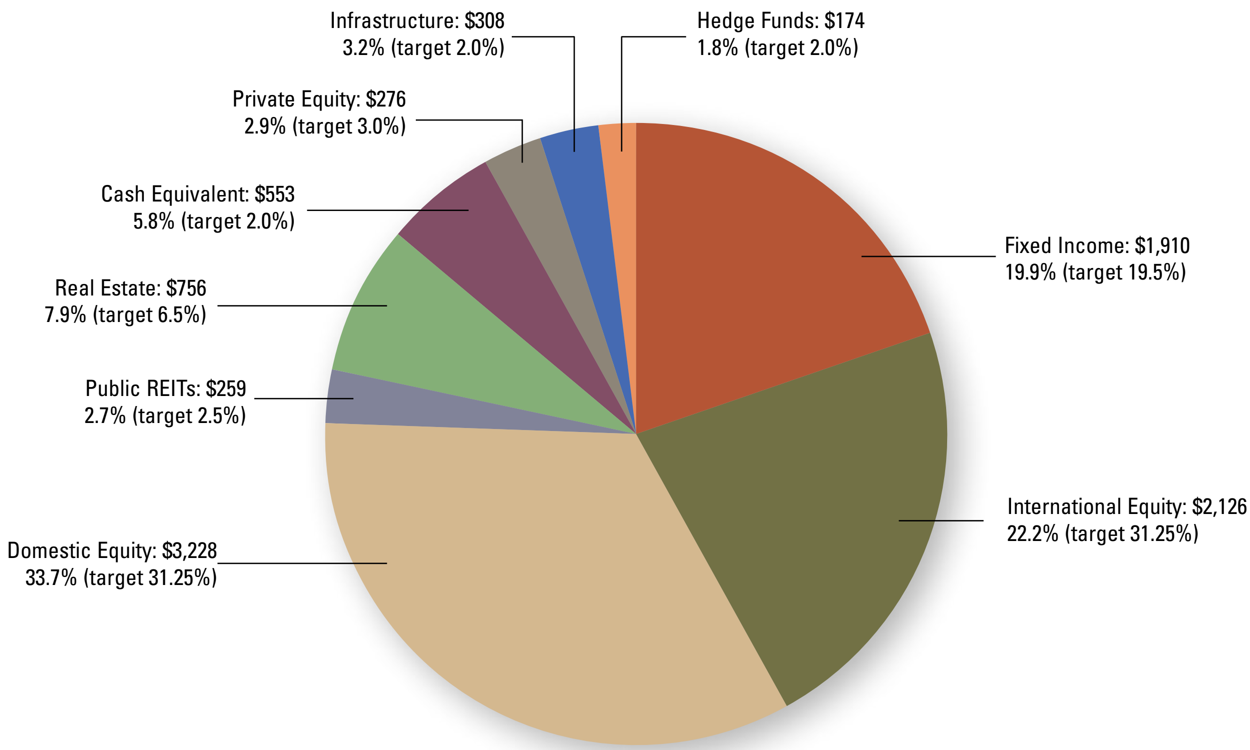
Investment Portfolio Summary

IN MILLIONS OF DOLLARS

	June 30, 2011 Fair Value	Purchases	Sales (Fair Value)	Fair Value Adjustments	June 30, 2012 Fair Value	Percent of Total
Fixed Income	$ 1,817.4	2,792.6	2,643.0	(57.5)	1,909.5	19.91%
Equity	6,375.6	2,853.4	3,355.9	(519.1)	5,354.0	55.83%
Public REITs	298.9	54.2	91.7	(2.3)	259.1	2.70%
Real Estate	686.7	60.9	75.8	84.3	756.1	7.88%
Hedge Funds	177.7	0.0	0.0	(4.2)	173.5	1.81%
Infrastructure	275.8	25.3	0.5	7.4	308.0	3.21%
Private Equity	319.3	50.0	39.8	(53.5)	276.0	2.88%
Cash & Equivalents	505.5	765.3	792.1	74.6	553.3	5.77%
Total Portfolio	**$ 10,456.9**	**6,601.7**	**6,998.8**	**(470.3)**	**9,589.5**	**100.00%**

Asset Allocation Summary as of June 30, 2012

IN MILLIONS OF DOLLARS

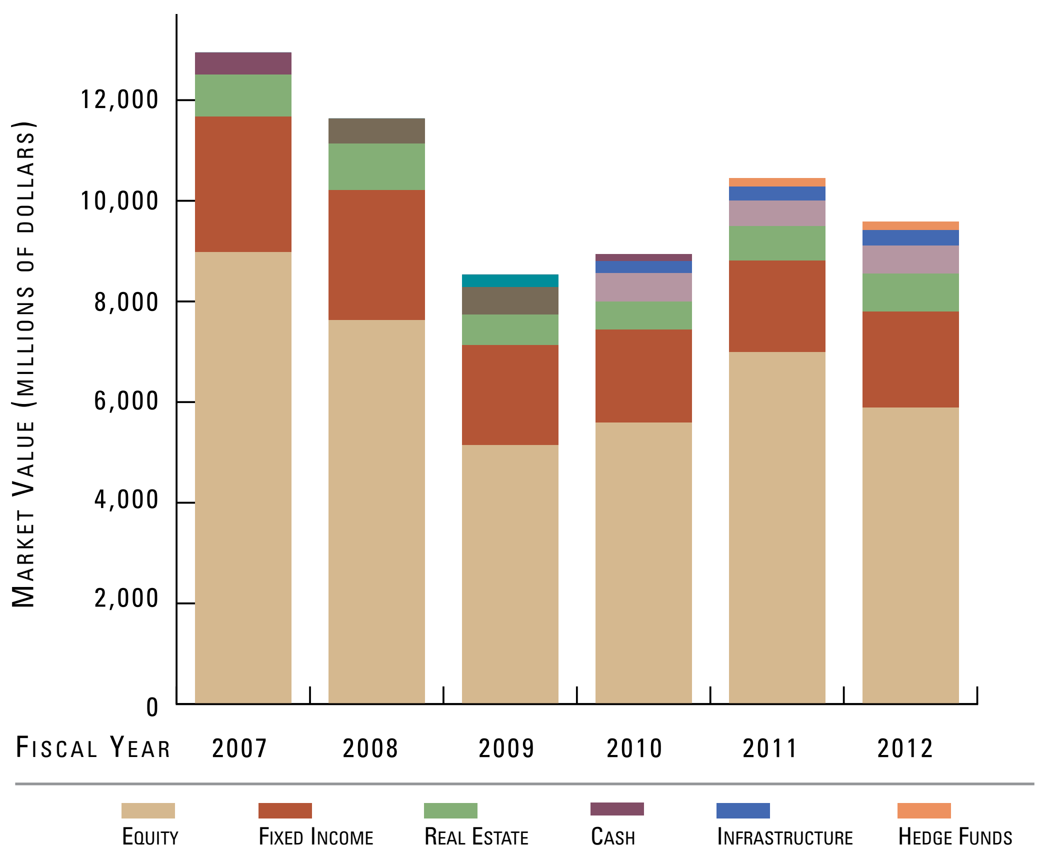


** Note: Percentage indicates actual category weight as a percentage of the entire portfolio.*

Historical Asset Allocation

	2007		2008		2009		2010		2011		2012	
	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy
Equity:												
Domestic	43.9	41.5	39.5	41.5	36.1	40.5	37.0	40.5	40.1	40.5	33.6	31.3
International	21.3	22.0	21.3	22.0	19.6	22.0	20.1	22.0	22.9	22.0	22.2	31.2
Public REITs	1.7	2.5	2.2	2.5	1.7	2.5	2.5	2.5	3.0	2.5	2.7	2.5
Private Equity	2.4	3.0	2.6	3.0	2.8	3.0	3.0	3.0	2.9	3.0	2.9	3.0
Total Equity	69.3	69.0	65.6	69.0	60.2	68.0	62.5	68.0	68.9	68.0	61.4	68.0
Fixed Income	20.8	20.5	22.2	20.5	23.4	19.5	20.8	19.5	17.7	19.5	19.9	19.5
Real Estate	6.5	6.5	7.9	6.5	7.0	6.5	20.8	19.5	6.7	8.5	7.9	6.5
Infrastructure	0.0	2.0	0.0	2.0	3.0	2.0	6.1	6.5	2.7	0.0	3.2	2.0
Hedge Funds	0.0	0.0	0.0	0.0	0.0	2.0	2.6	2.0	1.7	2.0	1.8	2.0
Cash & Equiv.	3.4	2.0	4.3	2.0	6.4	2.0	6.4	2.0	2.3	2.0	5.8	2.0
Total Portfolio	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Historical Asset Allocation by Dollar Amount



Domestic Equity Summary

as of June 30, 2012

Economic Sector Holdings

S&P Economic Sector	Number of Shares	Market Value	Percent of Total	S&P 500 Index Allocation
Information Technology	15,525,202	$ 621,584,804	19.2%	19.7%
Financials	17,436,132	444,042,172	13.8%	14.4%
Health Care	9,992,070	385,529,014	11.9%	12.0%
Consumer Staples	5,823,742	292,868,741	9.1%	11.3%
Consumer Discretionary	11,625,357	425,524,577	13.2%	11.0%
Energy	6,772,124	314,447,337	9.7%	10.8%
Industrials	9,899,101	364,264,140	11.3%	10.5%
Utilities	2,934,704	85,804,585	2.7%	3.7%
Materials	2,389,537	110,648,223	3.4%	3.4%
Telecommunication Services	2,257,603	67,764,440	2.1%	3.2%
Miscellaneous	8,759,674	115,890,744	3.6%	0.0%
Grand Total	**93,415,246**	**$ 3,228,368,777**	**100.0%**	**100.0%**

Top 10 Domestic Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
Apple Computer Corp.	188,108	$ 109,855,072	3.4%
Exxon Mobil	688,069	58,878,064	1.8%
Microsoft Corp.	1,613,661	49,361,890	1.5%
Pfizer	1,888,909	43,444,907	1.3%
General Electric Co.	2,027,370	42,594,775	1.3%
Chevron	387,765	40,909,208	1.3%
IBM Corporation	197,877	38,700,784	1.2%
Verizon Communications	782,086	34,755,901	1.1%
Wells Fargo & Co.	966,943	32,334,573	1.0%
Google Inc.	54,403	31,557,549	1.0%
Total Top 10 Domestic Equity	**8,795,191**	**$ 482,392,723**	**14.9%**
Grand Total	**93,415,246**	**$ 3,228,368,777**	**100.0%**

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

International Equity Summary

as of June 30, 2012

Country Holdings

Country	Number of Shares	Market Value	Percent of Total	MSCI ACWI ex US Index Allocation
Egypt	78,772	$ 146,565.00	0.0%	0.1%
South Africa	2,930,720	22,959,757	1.1%	1.9%
Other	175,748	141,410	0.0%	0.0%
Total Africa	**3,185,240**	**23,247,732**	**1.1%**	**2.0%**
Bermuda	9,351,594	27,576,142	1.3%	0.0%
Brazil	4,077,559	43,665,385	2.0%	3.1%
Canada	2,621,365	53,752,808	2.5%	8.1%
Cayman Islands	16,342,820	27,830,240	1.3%	0.0%
Chile	8,719,357	6,959,697	0.3%	0.5%
Colombia	675,803	9,782,764	0.5%	0.3%
Mexico	106,330	1,105,229	0.1%	1.2%
Panama	221,033	8,972,120	0.4%	0.0%
Other	7,757,919	148,068,419	7.0%	0.2%
Total Americas	**49,873,780**	**327,712,804**	**15.4%**	**13.4%**
Australia	7,539,327	67,910,457	3.19%	5.9%
China	40,619,854	33,986,897	1.60%	4.3%
Hong Kong	9,132,747	27,710,909	1.30%	2.0%
India	3,465,605	28,417,340	1.40%	1.5%
Japan	19,844,273	325,944,070	15.33%	14.8%
South Korea	421,978	29,079,778	1.37%	3.6%
Singapore	9,853,915	24,973,188	1.17%	1.3%
Taiwan	10,488,528	11,213,131	0.53%	2.6%
Other	41,330,988	42,900,581	2.02%	3.0%
Total Asia/Pacific Basin	**142,697,215**	**592,136,351**	**27.9%**	**39.0%**
Belgium	304,916	18,620,464	0.9%	0.8%
France	3,559,114	130,249,675	6.1%	6.2%
Germany	2,348,712	115,982,935	5.4%	5.4%
Ireland	1,964,030	29,722,784	1.4%	0.2%
Netherlands	2,593,389	46,972,194	2.2%	1.6%
Norway	3,469,358	40,997,973	1.9%	0.6%
Spain	2,249,200	28,860,715	1.4%	1.8%
Sweden	2,361,377	43,852,513	2.1%	2.1%
Switzerland	2,605,814	133,792,139	6.3%	5.8%
United Kingdom	93,691,165	493,018,625	23.2%	15.8%
Other	6,212,327	100,470,614	4.7%	5.3%
Total Europe	121,359,402	**1,182,540,631**	**55.6%**	**45.6%**
Grand Total	**317,115,637**	**$ 2,125,637,518**	**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
MFO Lazard FDS Inc. Emerging Markets Port.	7,008,759	$ 127,489,331	6.0%
DFA International Small Cap Value Port.	8,208,331	115,786,716	5.4%
British American Tobacco (United Kingdom)	722,545	36,735,133	1.7%
Sanofi	455,723	34,549,750	1.6%
Nestle (Switzerland)	549,264	32,816,565	1.5%
Novartis (Switzerland)	571,948	31,966,243	1.5%
Prudential (United Kingdom)	1,994,466	23,086,266	1.1%
Diageo	888,105	22,872,212	1.1%
HSBC Holdings (United Kingdom)	2,559,412	22,756,426	1.1%
Sumitomo Mitsu Financial Group	690,502	22,604,226	1.1%
Total Top 10 International Equity	**23,649,055**	**$ 470,662,868**	**22.1%**
Grand Total	**317,115,637**	**$ 2,125,637,518**	**100.0%**

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

Fixed Income Summary

as of June 30, 2012

Fixed Income Holdings

Asset Category	Par Value	Market Value	Percent of Total	Barclays' Aggregate Bond Index Allocation
Treasury	$ 601,766,000	$ 675,677,689	35.4%	36.0%
Mortgage Backed Securities	275,454,603	291,148,165	15.3%	30.6%
Corporates	559,831,715	688,249,517	36.0%	20.5%
Government/Government Agency	185,207,900	207,001,791	10.8%	10.7%
Commercial Mortgage-Backed	15,002,664	15,869,320	0.8%	1.9%
Asset Backed Securities	23,878,335	22,792,067	1.2%	0.3%
Other	20,218,497	10,849,360	0.6%	0.0%
Municipal/Provincial Bonds	17,970,000	21,073,924	1.1%	0.0%
Cash & Short Term Investments	19,915,825	(23,147,048)	(1.2)%	0.0%
Grand Total	**$ 1,719,245,539**	**$ 1,909,514,785**	**100.0%**	**100.0%**

Public REITs Summary

as of June 30, 2012

Public REITs Holdings

Property Type	Number of Shares	Market Value	Percent of Total	NAREIT Property Index Allocation
Retail REITs	5,179,334	$ 71,986,760	27.8%	33.1%
Industrial & Office REITs	3,996,809	71,032,400	27.4%	32.6%
Residential (development) REITs	8,551,332	42,220,410	16.3%	6.4%
Residential (apartment) REITs	1,994,604	37,006,463	14.3%	10.5%
Hotel & Lodging REITs	771,138	13,108,336	5.1%	4.7%
Health Care Facilities	795,578	16,755,063	6.5%	7.5%
Other	3,101,722	6,949,558	2.7%	5.2%
Grand Total	**24,390,517**	**$ 259,058,991**	**100%**	**100.0%**

Top 10 Public REITs Holdings

Holdings	Number of Shares	Market Value	Percent of Total
Urdang Global Equity REITs (Commingled)	6,191,901	$ 83,900,254	32.4%
Simon Property Group, Inc.	97,299	15,145,562	5.8%
Equity Residential	136,490	8,557,582	3.3%
Sun Hung Kai Properties Limited	555,051	6,522,351	2.5%
Vornado Realty Trust	69,035	5,797,559	2.2%
Public Storage	39,733	5,737,843	2.2%
Boston Properties, Inc.	49,194	5,358,210	2.1%
HCP, Inc.	117,855	5,203,298	2.0%
AvalonBay Communities, Inc.	33,759	4,808,970	1.9%
Mitsubishi Estate Co., Ltd	216,000	3,838,677	1.5%
Total Top 10 Public REITs	**7,506,317**	**$ 144,870,306**	**55.9%**
Grand Total	**24,390,517**	**$ 259,058,991**	**100%**

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

Private Equity Summary

as of June 30, 2012

Private Equity Holdings

Description	Total Capital Called	Market Value	Percent of Total
Adams Street Partners Multiple Funds	$ 74,750,122	$ 70,800,294	25.7%
Harbourvest Partners VI	39,659,489	38,582,293	14.0%
Hispania Partners	7,205,022	3,886,635	1.4%
ICV Partners II	5,010,002	4,717,600	1.7%
Mesirow Capital Partners Multiple Funds	56,713,189	82,735,304	30.0%
Muller and Monroe Private Equity Fund-of-Funds	22,851,348	20,388,068	7.4%
Palladium Equity Partners III	4,352,486	7,392,128	2.7%
Pantheon Multiple Funds	43,892,588	35,345,027	12.8%
Pharos Capital Partners II-A	5,916,511	9,038,220	3.3%
Syncom Partners V	6,485,005	3,118,984	1.1%
Grand Total	**$ 266,835,762**	**$ 276,004,553**	**100%**

Infrastructure Summary

as of June 30, 2012

Infrastructure Holdings

Description	Number of Units		Market Value	Percent of Total
JP Morgan Infrastructure Investments Fund	164,531,984	$	148,008,052	48.1%
Total Commingled Funds	**164,531,984**	**$**	**148,008,052**	**48.1%**

Description		Total Capital Called		Market Value	Percent of Total
Macquarie Infrastructure Partners II US		74,949,309	$	96,388,622	31.3%
Macquarie European Infrastructure Fund III (MEIF 3)		37,833,911		63,584,286	20.6%
Total Closed-End Funds	**$**	**112,783,220**	**$**	**159,972,908**	**51.9%**
Grand Total			**$**	**307,980,960**	**100.0%**

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

Hedge Fund Summary

as of June 30, 2012

Hedge Fund Holdings

Description	Number of Shares		Market Value	Percent of Total
Mesirow Absolute Return Fund	70,000	$	74,533,088	43.0%
K2 Overseas Investors I	70,000		73,612,390	42.4%
Pluscios Offshore Fund	25,000		25,359,783	14.6%
Grand Total	**165,000**	**$**	**173,505,261**	**100.0%**

Real Estate Summary

as of June 30, 2012

Real Estate Holdings

Description	Number of Shares	Market Value	Percent of Total
JP Morgan Strategic Property Fund	90,501	$ 159,512,014	21.1%
LaSalle Property Fund	37,632	44,114,661	5.8%
PRISA	3,099	102,517,162	13.6%
PRISA II	819	14,691,382	1.9%
UBS Trumbull Property Fund	19,363	160,770,718	21.3%
Total Commingled Funds	**151,414**	**$ 481,605,937**	**63.7%**

Description	Total Capital Called	Market Value	Percent of Total
Capri Select Income II	$ 22,800,000	$ 5,717,949	0.8%
CB Richard Ellis Strategic Partners III	6,009,726	4,837,465	0.6%
DV Urban Realty Partners I	24,400,847	9,091,498	1.2%
Europa Fund III	20,902,985	19,461,794	2.6%
Fortress Japan Opportunity Fund II (Dollar)	16,924,561	22,280,294	2.9%
Emerging Manager Real Estate Fund of Funds	9,023,802	8,104,967	1.1%
Fremont Strategic Property Partners II	25,744,681	19,122,014	2.5%
Greystar Equity Partners VII	18,211,484	18,482,828	2.4%
Hudson Realty Capital Fund V (Partnership A)	20,000,000	20,657,992	2.7%
Intercontinental Real Estate Investment Fund III	35,879,397	28,938,204	3.8%
ML Asian R.E. Fund (T.E.)	28,592,111	13,674,192	1.8%
Morgan Stanley Real Estate Mezzanine Partners A	6,103,609	149,255	0.0%
Olympus Real Estate Fund II	10,793,740	763,214	0.1%
RREEF Global Opportunities Fund II	28,959,372	18,712,875	2.5%
Urban America, LP II	23,222,737	14,310,253	1.9%
Walton Street Capital Multiple Funds	86,111,696	70,169,884	9.3%
Total Closed - End Funds	**$ 383,680,748**	**$ 274,474,678**	**36.3%**
Grand Total		**$ 756,080,615**	**100.0%**

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

Manager Analysis

Asset Category		Market Value 6/30/2012	Percentage of Portfolio		FY 2012 Manager Fees
EQUITY					
Domestic Equity					
Ariel Capital Management, LLC	$	113,348,277	1.2%	$	386,908
Attucks Asset Management, LLC		182,753,011	1.9%		1,160,545
BMO Global Asset Management		236,756,942	2.5%		603,505
Channing Capital Management, LLC		74,503,390	0.8%		378,731
Credo Capital Management, LLC		99,621,500	1.0%		477,670
Holland Capital Management, LP		209,230,048	2.2%		691,416
Lombardia Capital Partners, LLC		235,098,531	2.5%		598,140
New Amsterdam Partners, LLC		–	0.0%		327,035
Piedmont Investment Advisors, LLC		132,921,509	1.4%		463,635
Progress Investment Management, LLC		181,200,711	1.8%		1,063,836
RhumbLine Advisers, LP		718,204,057	7.5%		99,560
The Northern Trust Company		823,973,246	8.6%		158,211
Waddell & Reed Asset Management Group		142,809,326	1.5%		330,144
Zevenbergen Capital Investments, LLC		77,948,229	0.8%		322,169
Total	**$**	**3,228,368,777**	**33.7%**	**$**	**7,061,505**
International Equity					
Dimensional Fund Advisors, LTD		115,786,716	1.2%		427,889
Earnest Partners, LLC		370,559,870	3.9%		1,705,239
Lazard Asset Management, LLC		467,478,718	4.9%		785,304
Leading Edge Investment Advisors, LLC		89,187,487	0.9%		750,806
Morgan Stanley Investment Management, Inc.		495,073,636	5.2%		2,194,479
The Northern Trust Company		42,722,673	0.4%		71,046
William Blair & Company, LLC		544,828,418	5.7%		3,342,242
Total	**$**	**2,125,637,518**	**22.2%**	**$**	**9,277,005**
Public REITs					
Adelante Capital Management, LLC		64,773,056	0.7%		334,080
Morgan Stanley Investment Management, Inc.		110,385,677	1.2%		804,644
Urdang Investment Management, Inc.		83,900,259	0.8%		520,913
Total	**$**	**259,058,992**	**2.7%**	**$**	**1,659,638**
Fixed Income					
Garcia, Hamilton & Associates, LP		80,300,761	0.8%		160,153
LM Capital Group, LLC		130,593,219	1.4%		222,033
Pugh Capital Management, Inc.		81,126,580	0.8%		168,921
Taplin, Canida and Habacht, Inc.		136,130,508	1.4%		206,945
The Northern Trust Company		1,016,186,933	10.6%		99,567
Western Asset Management Co.		465,176,784	4.9%		479,055
Total	**$**	**1,909,514,785**	**19.9%**	**$**	**1,336,674**
Hedge Funds					
K2 Advisors, LLC		73,612,390	0.8%		802,658
Mesirow Financial, Inc.		74,533,088	0.7%		777,653
Pluscios Management, LLC		25,359,783	0.3%		377,937
Total	**$**	**173,505,261**	**1.8%**	**$**	**1,958,248**

Continued on page 68

Manager Analysis continued from page 67

Asset Category	Market Value 6/30/2012	Percentage of Portfolio	FY 2012 Manager Fees
Private Equity			
Adams Street Partners, LLC	$ 70,800,296	0.7%	$ 1,260,038
HarbourVest Partners, LLC	38,582,293	0.4%	656,100
Hispania Capital Partners, LLC	3,886,635	0.0%	290,211
ICV Capital Partners, LLC	4,717,600	0.0%	126,469
Mesirow Financial, Inc.	82,735,302	0.9%	1,549,911
Muller and Monroe Asset Management, LLC	20,388,068	0.2%	193,495
Palladium Equity Partners, LLC	7,392,128	0.1%	66,873
Pantheon Ventures, LLP	35,345,027	0.4%	665,003
Pharos Capital Group, LLC	9,038,220	0.1%	69,645
Syncom Partners, LLC	3,118,984	0.0%	163,426
Total	**$ 276,004,553**	**2.8%**	**$ 5,041,172**
Infrastructure			
J.P. Morgan Fleming Asset Management, Inc.	148,008,052	1.5%	2,278,447
Macquarie Group	159,972,908	1.7%	1,703,157
Total	**$ 307,980,960**	**3.2%**	**$ 3,981,604**
Real Estate			
Blackstone Group	13,674,192	0.1%	174,773
Capri Capital Partners, LLC	5,717,949	0.1%	14,353
CB Richard Ellis Investors, LLC	4,837,465	0.1%	67,969
DV Realty Advisors, LLC	9,091,498	0.1%	257,552
Europa Capital Partners LLP	19,461,794	0.2%	515,255
Fortress Investment Group, LLC	22,280,294	0.2%	73,852
Franklin Templeton Real Estate Advisors, GP, LLC	8,104,967	0.1%	200,000
Fremont Realty Capital, LP	19,122,014	0.2%	332,259
Greystar Equity Partners VII, LP	18,482,828	0.2%	612,159
Hudson Realty Capital, LLC	20,657,992	0.2%	375,517
Intercontinental Real Estate Corp.	28,938,204	0.3%	399,810
J.P. Morgan Fleming Asset Management, Inc.	159,512,014	1.6%	1,390,574
LaSalle Investment Management, Inc.	44,114,661	0.5%	199,092
Morgan Stanley Investment Management, Inc.	149,255	0.0%	5,598
Olympus Real Estate Partners, LLC	763,214	0.0%	–
Prudential Investment Management, Inc.	117,208,544	1.2%	1,449,601
RREEF America, LLC	18,712,875	0.2%	213,769
UBS Realty Investors, LLC	160,770,718	1.7%	1,504,072
Urban America Advisors, LP	14,310,253	0.1%	290,284
Walton Street Capital, LLC	70,169,884	0.7%	1,056,780
Total	**$ 756,080,615**	**7.8%**	**$ 9,133,270**
Cash and Equivalent			
The Northern Trust Company	553,352,353	5.9%	–
Grand Total	**$ 9,589,503,814**	**100.00%**	**$ 39,449,113**

Broker Commission Report

Domestic Agency Trades

for the Year Ended June 30, 2012

Broker Name	Number of Shares Traded	Commission Amount	Commission per Share
Loop Capital Inc.	11,804,035	$ 297,333	$ 0.03
Cabrera Capital Markets, LLC	6,038,833	193,971	0.03
BNY Brokerage	4,323,468	183,757	0.04
Cheevers and Company, Inc	10,372,157	143,612	0.01
Interstate Group	2,839,729	140,793	0.05
M. R. Beal & Company	4,030,681	128,980	0.03
M. Ramsey King Securities, Inc.	3,955,157	117,458	0.03
CastleOak Securities, L.P.	3,166,353	94,997	0.03
Williams Capital Group	3,036,855	88,780	0.03
Goldman, Sachs & Co.	1,688,693	62,442	0.04
Blaylock Robert Van, LLC	1,552,756	52,469	0.03
Gardner Rich & Company	1,731,634	48,076	0.03
J. P. Morgan Securities, Inc.	1,964,266	47,718	0.02
Instinet Corp	5,501,177	46,710	0.01
Jefferies & Company, Inc.	1,023,236	39,827	0.04
Stifel, Nicolaus & Company	903,872	36,096	0.04
Sanford Bernstein & Co.	1,065,531	34,074	0.03
William Blair & Company	718,436	32,137	0.04
Credit Suisse Securities	2,158,237	29,992	0.01
Capital Institutional Services, Inc.	789,489	28,965	0.04
ITG Inc	1,297,466	24,083	0.02
North South Capital LLC	646,023	20,995	0.03
Barclays Corp.	573,014	19,568	0.03
Guzman & Co.	610,636	19,534	0.03
Direct Access Partners LLC	480,812	18,595	0.04
Merrill Lynch	522,270	17,128	0.03
BTIG	664,855	16,601	0.02
Howard Weil Labouisse Friedrichs Inc.	344,390	14,673	0.04
Morgan Stanley & Co Inc.	435,185	14,148	0.03
Liquidnet, Inc.	647,057	13,623	0.02
BAC Merrill Lynch	543,377	13,500	0.02
Telsey Advisory Group	331,993	13,439	0.04
RBC Capital Markets Corp.	646,631	12,723	0.02
Deutsche Bank Securities, Inc.	586,149	12,498	0.02
Piper Jaffray, Inc.	440,494	12,087	0.03
Citigroup Global Markets Inc.	417,723	11,668	0.03
JonesTrading Institutional Services LLC	526,218	11,307	0.02
Cantor Fitzgerald & Co.	271,960	7,970	0.03
Abel Noser Corp	340,709	6,814	0.02
Weeden & Company L.P.	277,049	5,705	0.02
Knight Securites L.P.	563,756	4,827	0.01
Pipeline Brokers	275,399	4,108	0.01
UNX Trading	69,869	1,397	0.02
Carr Securities	39,902	924	0.02
Rosenblatt Securities	23,875	478	0.02
Other (107 Brokers)	6,725,223	221,124	0.03
Grand Total	**86,966,630**	**$ 2,367,704**	**$ 0.03**

Broker Commission Report

MWDBE Domestic Equity Trades

for the Year Ending June 30, 2012

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Inc.	11,804,035	$ 297,333	$ 0.03
Cabrera Capital Markets, LLC	6,038,833	193,971	0.03
Cheevers and Company, Inc.	10,372,157	143,612	0.01
M. R. Beal & Company	4,030,681	128,980	0.03
M. Ramsey King Securities, Inc.	3,955,157	117,458	0.03
Castleoak Securities, L.P.	3,166,353	94,997	0.03
Williams Capital Group	3,036,855	88,780	0.03
Blaylock Robert Van Securities	1,552,756	52,469	0.03
Gardner Rich & Company	1,731,634	48,076	0.03
North South Capital	646,023	20,995	0.03
Guzman & Company	610,636	19,534	0.03
Melvin Securities	273,240	9,972	0.04
Mischler Financial	213,749	8,619	0.04
Greentree Brokerage	56,795	1,136	0.02
Podesta & Co.	13,775	413	0.03
Total Directed Domestic Commission	**47,502,679**	**$ 1,226,345**	**$ 0.03**
Grand Total	**86,966,630**	**$ 2,367,704**	**$ 0.03**

Broker Commission Report

International Agency Trades

for the Year Ended June 30, 2012

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Morgan Stanley & Co Inc.	11,266,345	$ 71,546	$ 0.01
UBS Securities LLC	24,272,649	138,523	0.01
Loop Capital Markets, LLC	41,341,062	353,488	0.01
Credit Suisse	25,638,071	132,982	0.01
Cabrera Capital	23,371,922	244,629	0.01
J.P. Morgan Securities	23,344,885	109,444	0.00
CLSA Securities	18,835,133	47,864	0.00
Liquidnet Ltd.	16,911,056	75,637	0.00
Deutsche Securities Inc	13,703,946	121,520	0.01
BAC Merrill Lynch	13,537,858	86,955	0.01
Citigroup Global Markets	10,174,011	56,360	0.01
Gardner Rich & Company	7,795,710	90,043	0.01
Nomura Securities	6,845,226	96,489	0.01
Goldman, Sachs and Co.	6,594,944	53,454	0.01
BNY Convergex	6,419,035	26,774	0.00
BNP Paribas	5,435,745	25,092	0.00
Barclays Corp.	4,885,722	41,889	0.01
Macquarie Equities Limited	4,843,313	51,284	0.01
HSBC Securities	3,404,145	16,981	0.00
China Intl Capital Corp.	3,043,000	2,428	0.00
Daiwa Securities	3,030,522	41,202	0.01
Investec	3,006,539	14,979	0.00
Redburn Partners LLC	2,901,780	23,923	0.01
Instinet Corp.	2,571,540	3,905	0.00
M. Ramsey King Securities	2,466,613	5,144	0.00
Cheevers & Co	2,458,886	12,393	0.01
DBS Vickers	2,061,050	3,638	0.00
RBS Securities	2,037,447	19,289	0.01
Winterflood Securities Ltd.	1,767,209	5,709	0.00
Standard Chartered	1,596,041	5,472	0.00
M.R. Beal & Company	1,397,732	1,627	0.00
Knight Equity Markets	1,239,064	17,674	0.01
Lehman Brothers	1,160,793	12,385	0.01
Calyon Securities	1,149,465	13,172	0.01
Santander Investment Securities	1,005,732	8,781	0.01
Cantor Fitzgerald & Co.	1,001,481	4,622	0.00
Societe Generale	934,674	9,226	0.01
Numis Securities	928,759	12,928	0.01
Kim Eng Securities	885,924	1,229	0.00
Bass Trading Int'l Corp	869,200	7,705	0.01
Jefferies & Co.	860,703	7,404	0.01
Auerbach	810,422	4,372	0.01
Larrain Vial S.A.	807,276	3,156	0.00
Credit Lyonnais Securities	719,287	18,378	0.03
Brockhouse Cooper	542,400	1,084	0.00
OTHER (72 Brokers)	10,048,301	274,184	0.03
Grand Total	**319,922,618**	**$ 2,376,961**	**$ 0.01**

Broker Commission Report

MWDBE International Equity Trades
for the Year Ending June 30, 2012

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets, LLC	41,341,062	$ 353,488	$ 0.01
Cabrera Capital	23,371,922	244,629	0.01
Gardner Rich & Company	7,795,710	90,043	0.01
M. Ramsey King Securities	2,466,613	5,144	0.00
Cheevers & Co	2,458,886	12,393	0.01
M.R. Beal & Company	1,397,732	1,627	0.00
Williams Capital Group	163,421	8,240	0.05
Melvin & Company	42,200	844	0.02
Greentree Brokerage	1,000	40	0.04
Total Directed International Commission	**79,038,546**	**$ 716,448**	**$ 0.01**
Grand Total	**319,922,618**	**$ 2,376,961**	**$ 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.

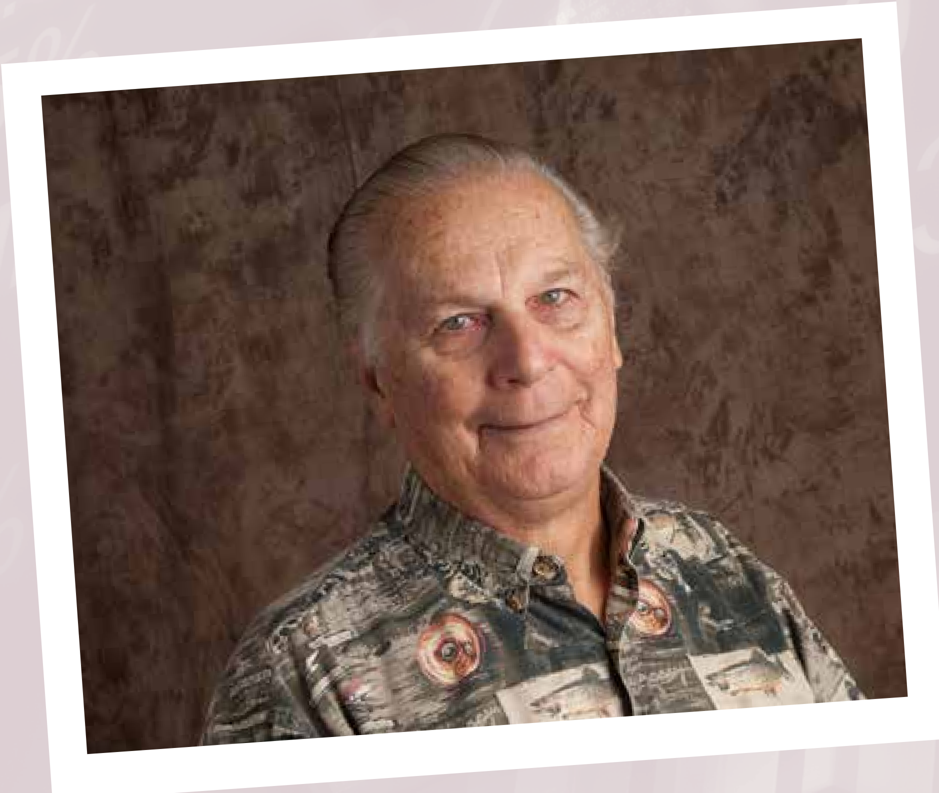
SECTION 5/17-147. CUSTODY OF FUND-BONDS-LEGAL PROCEEDINGS

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.



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.

SEGAL

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January 31, 2013

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

ACTUARIAL CERTIFICATION

We are pleased to submit this Actuarial Valuation and Review as of June 30, 2012. It summarizes the actuarial data used in the valuation, establishes the actuarially determined contribution under Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 43 for the fiscal year ending June 30, 2013, and analyzes the preceding years' experience.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Public School Teachers' Pension and Retirement Fund of Chicago. The census and financial information on which our calculations were based was prepared by the Fund staff. That assistance is gratefully acknowledged. We have not subjected the census data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data.

Since the effective date of the last actuarial valuation, the only modification to benefit provisions that impacted the actuarial liabilities of the Fund was the implementation of the pension overpayment settlement.

Based on the provisions of Public Act 96-0889, 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 the fiscal year ending June 30, 2059.

The actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the Fund's actuary. The assumptions and methods used for the June 30, 2012 actuarial valuation were based on an experience analysis covering the four-year period ending June 30, 2006 and were adopted by the Board, effective for the June 30, 2008 valuation.

The funding plan currently in effect does not meet the requirements for amortizing the unfunded actuarial liability provided under GASB 25. In all other respects, the assumptions and methods used for funding purposes meet the paremeters set forth for financial statement disclosure in GASB 25 and 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 actuarial calculations were directed under our supervision. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, the information supplied in the actuarial valuation is complete and accurate. 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, 2012.

Sincerely,

THE SEGAL COMPANY

By: Kim Nicholl

Kim Nicholl, FSA, MAAA, EA, FCA
Senior Vice President and Actuary

Matthew A. Strom

Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

Barbara Zaveduk

Barbara Zaveduk, MAAA, EA
Vice President and Actuary

ACTUARIAL REPORT
PENSION FUND

This report has been prepared by The Segal Company to present a valuation of the Public School Teachers' Pension and Retirement Fund of Chicago (CTPF) as of June 30, 2012. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The actuarially determined contribution requirements presented in this report are based on:

- The benefit provisions of the Fund, as administered by the Board;
- The characteristics of covered active participants, inactive vested participants, and retired participants and beneficiaries as of June 30, 2012, provided by CTPF staff;
- The assets of the Plan as of June 30, 2012, provided by CTPF staff;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions regarding employee terminations, retirement, death, etc.

SIGNIFICANT ISSUES IN VALUATION YEAR

The following key findings were the result of this actuarial valuation:

1. As shown in Chart 13, for the fiscal year beginning July 1, 2012, the actuarially determined contribution amount (the Annual Required Contribution, or ARC) is $585,444,539. Public Act 96-0889 specifies that the required Board of Education Fiscal Year 2013 contribution will be $196,000,000. Given that $65,000,000 is expected to be used to pay health insurance subsidies, the required Board of Education contribution for the pension plan is $131,000,000. Also, Sections 17-127 and 17-127.2 of the Pension Code specify additional State contributions of 0.544% of payroll and additional Board of Education Contributions of 0.58% of payroll, which were determined as part of the June 30, 2011, valuation to be $10,931,000 and $11,654,000, respectively. Therefore, the total employer contributions for Fiscal 2013 are expected to be $153,585,000. Compared to the Annual Required Contribution of $585,444,539, the contribution deficiency is $431,859,539 as of July 1, 2012. Each year there is a contribution deficiency leads to an increased deficiency in all future years.
2. 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 that, 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. Based on our projection, we have determined that the Board of Education's required contribution for Fiscal Year 2014 is $600,009,000. In conjunction with the additional State contributions and additional Board of Education contributions of $11,903,000 and $12,691,000, respectively, Fiscal Year 2014 contributions will total $624,603,000.
3. The pension overpayment settlement resolved an issue that some pensioners' original benefit calculations were being overstated. The resolution was to reduce or eliminate the automatic annual increase for the effected pensioners for the next few years until their benefits are corrected. This lower annual increase for some pensioners lowered the actuarially accrued liability by about $69.3 million.
4. The funded ratio based on the actuarial value of assets over the actuarial accrued liability as of June 30, 2012, is 53.9%, compared to 59.7% as of June 30, 2011. This ratio is a measure of funding status, its history is a measure of funding progress, and is the ratio required to be reported under GASB 25.

5. The statutorily required funding funded ratio based on the actuarial value of assets over the actuarial accrued liability as of June 30, 2012, is 54.1%, compared to 59.9% as of June 30, 2011. This ratio is a measure of funding status; its history is a measure of funding progress.

6. For the year ended June 30, 2012, Segal has determined that the asset return on a market value basis was -0.4%. After gradual recognition of investment gains and losses under the actuarial smoothing method, the actuarial rate of return was 1.0%. This represents an experience loss when compared to the assumed rate of 8%. As of June 30, 2012, the actuarial value of assets ($9.364 billion) represented 99.2% of the market value ($9.437 billion).

7. The portion of deferred investment gains and losses recognized in the calculation of the June 30, 2012, actuarial value of assets resulted in a loss of $683,168,550. Additionally, the demographic and liability experience resulted in a $34,067,791 loss.

8. As mentioned above, the current method used to determine the actuarial value of assets yields an amount that is 99.2% of the market value of assets as of June 30, 2012. Guidelines in Actuarial Standard of Practice No. 44 (Selection and Use of Asset Valuation Methods for Pension Valuations) recommend that asset values fall within a reasonable range around the corresponding market value. We believe the actuarial asset method currently complies with these guidelines.

9. Given the Fund's current (and projected) financial situation, the current 8% investment return assumption appears to be at the high end of the reasonable range. We were unable to definitively judge the reasonableness of this assumption without performing a substantial amount of additional work that is beyond the scope of this report. Therefore, for purposes of this actuarial valuation, the 8% assumed rate was used to discount actuarial liabilities. We plan to work with the Board to study the investment return assumption further at a later date and modify the assumption, if necessary.

10. This actuarial valuation report as of June 30, 2012, is based on financial data as of that date. Changes in the value of assets subsequent to that date are not reflected. Declines in asset values will increase the cost of the plan, while increases in asset values (in excess of expected) will decrease the cost of the plan.

Summary of Key Valuation Results

	2012	2011*
Contributions for fiscal year beginning July 1:		
Actuarially determined contribution requirement	$ 585,444,539	$ 510,101,466
Expected employer contributions provided by the Fund	153,585,000	149,730,000
Actual employer contribution	–	138,729,011
Funding elements for fiscal year beginning July 1:		
Normal cost, including administrative expenses	$ 108,787,026	$ 123,442,067
Market value of assets	9,437,316,026	10,312,762,164
Actuarial value of assets	9,364,076,672	10,109,314,922
Actuarial accrued liability	17,375,660,369	16,940,626,445
Unfunded/(overfunded) actuarial accrued liability	8,011,583,697	6,831,311,523
GASB 25 information for fiscal year beginning July 1:		
Annual Required Contributions (ARC)	$ 585,444,539	$ 510,101,466
Actual employer contributions	–	138,729,011
Percentage of ARC contributed	–	27.20%
Funded ratio	53.89%	59.67%
Covered payroll	–	$ 2,224,903,121
Demographic data for plan year beginning July 1:		
Number of retirees and beneficiaries	25,926	25,199
Number of vested former participants	4,245	4,253
Number of active members	30,366	30,133
Total salary supplied by the Fund	$ 2,118,235,482	$ 2,090,131,858
Average salary	69,757	69,364

** 2011 results shown here and throughout this report are based on the valuation performed by Goldstein & Associates.*

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, inactive members, retirees, and beneficiaries.

This section presents a summary of significant statistical data on these participant groups.

More detailed information for this valuation year and the preceding valuation can be found on pages 91-93, Exhibits A, B, and C.

Chart 1: Member Population 2003 – 2012

A historical perspective of how the participant population has changed over the past ten valuations can be seen in this chart.

Year Ended June 30	Active Members	Vested Terminated Members	Retirees and Beneficiaries	Ratio Actives to Retirees and Beneficiaries
2003	36,548	1,444	18,565	1.97
2004	37,362	1,930	19,266	1.94
2005	37,521	2,059	20,954	1.79
2006	34,682	2,408	22,105	1.57
2007	32,968	2,752	23,623	1.40
2008	32,086	3,479	23,920	1.34
2009	31,905	3,056	24,218	1.32
2010	31,012	3,554	24,600	1.26
2011	30,133	4,253	25,199	1.20
2012	30,366	4,245	25,926	1.17

ACTIVE MEMBERS

Plan costs are affected by the age, years of service and payroll of active members. In this year's valuation, there were 30,366 active participants with an average age of 42.6, average years of service of 11.2 years and average salary of $69,757. The 30,133 active participants in the prior valuation had an average age of 43.0, average years of service of 11.5 years and average salary of $69,364.

INACTIVE PARTICIPANTS

In this year's valuation, there were 4,245 members with a vested right to a deferred or immediate vested benefit.

These graphs show a distribution of active members by age and by years of service.

CHART 2: Distribution of Active Members by Age

as of June 30, 2012

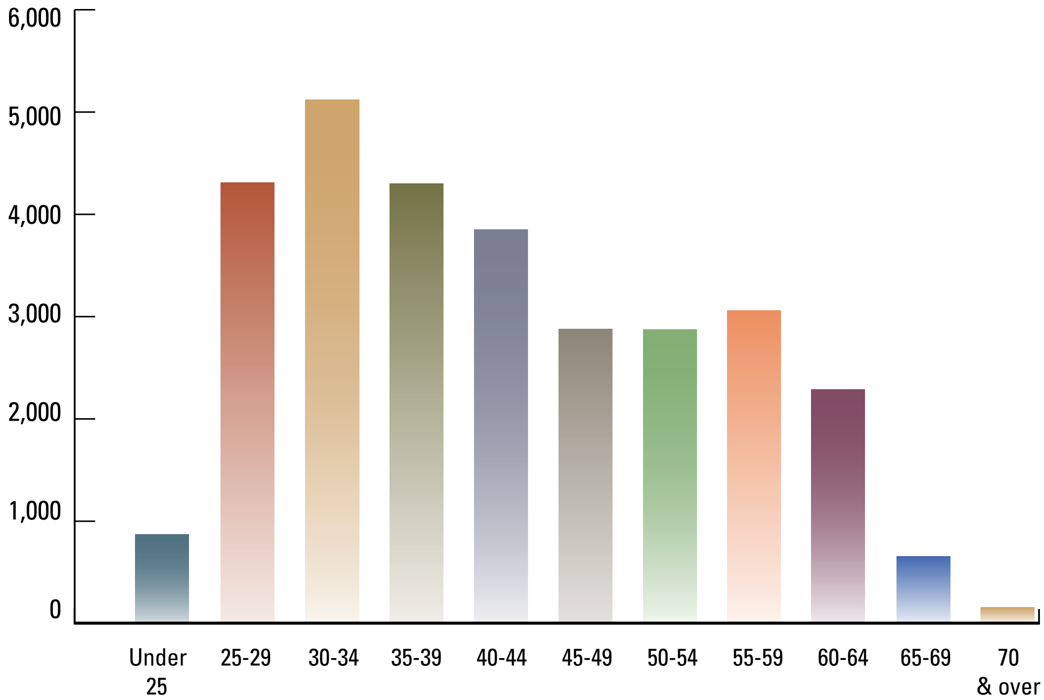
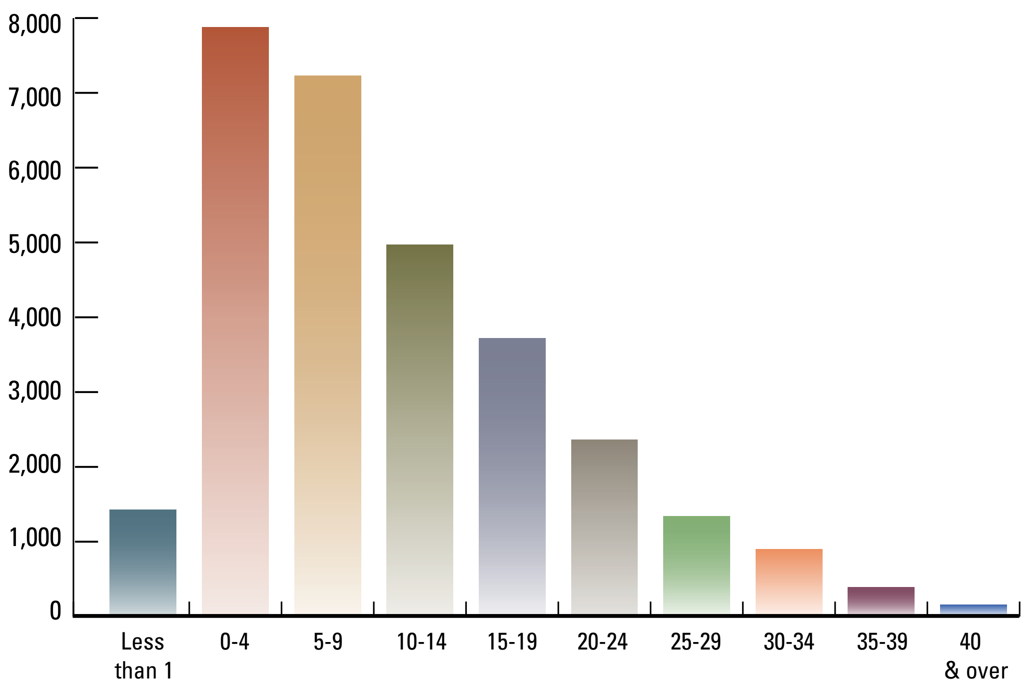


CHART 3: Distribution of Active Members by Years of Service

as of June 30, 2012



RETIREES AND BENEFICIARIES

As of June 30, 2012, 22,636 retirees, 2,822 beneficiaries, and 468 disabled retirees were receiving total monthly benefits of $93,006,741. For comparison, in the previous valuation there were 21,977 retirees, 2,757 beneficiaries, and 465 disabled retirees receiving total monthly benefits of $87,322,755.

These graphs show a distribution of the current retirees based on their monthly amount and age, by type of pension.

Chart 4: Distribution of Retirees by Monthly Amount

as of June 30, 2012

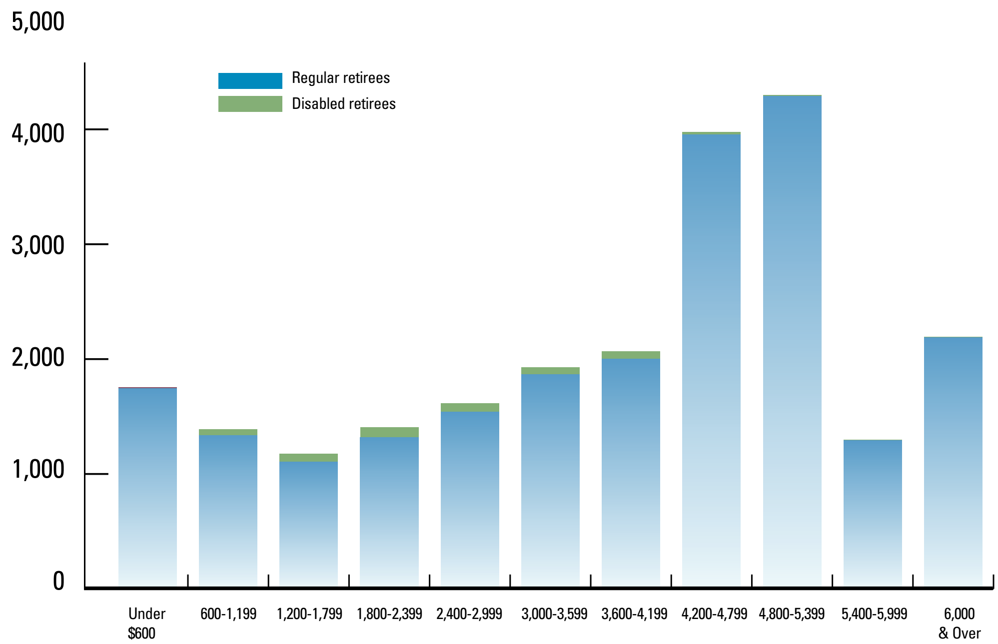
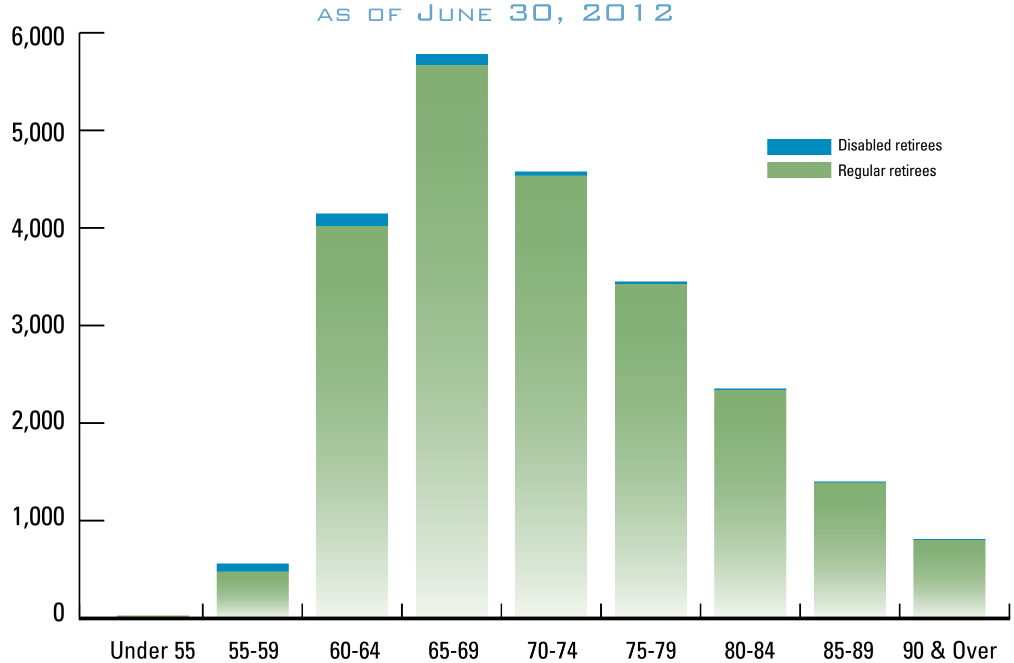


Chart 5: Distribution of Retirees by Age

as of June 30, 2012



B. FINANCIAL INFORMATION

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

CHART 6: Determination of Actuarial Value of Assets

for Years Ended June 30, 2012 and June 30, 2011

		2012		2011	
1. Actuarial value of assets as of prior June 30			$ 10,140,639,494		$ 10,952,274,725
2. Employer and employee contributions and miscellaneous income			398,072,836		404,866,598
3. Benefits and expenses			1,232,635,521		1,166,400,567
4. Expected investment income			777,868,652		846,306,631
5. Total investment income, including income for securities lending			(38,083,067)		2,123,292,641
6. Investment gain/(loss) for the year ended June 30: (5) – (4)			(815,951,719)		1,276,986,010
7. Expected actuarial value of assets: (1) + (2) - (3) + (4)			10,083,945,461		11,037,047,387
8. Calculation of unrecognized return	**Original Amount***	**% Recognized**		**% Recognized**	
(a) Year ended June 30, 2012	$ (815,951,719)	25%	$ (203,987,930)		–
(b) Year ended June 30, 2011	1,276,986,010	25%	319,246,503	25%	$ 319,246,503
(c) Year ended June 30, 2010	205,750,306	25%	51,437,577	25%	51,437,577
(d) Year ended June 30, 2009	(3,409,759,924)	25%	(852,439,981)	25%	(852,439,981)
(e) Year ended June 30, 2008	(1,658,607,968)	–		25%	(414,651,992)
(f) Total recognized return			(685,743,831)		(896,407,893)
9. Total actuarial value of assets as of June 30: (7) + (8f)			9,398,201,630		10,140,639,494
10. Assets for retiree health insurance benefits			34,124,958		31,324,572
11. Actuarial value of assets for pension benefits (9) - (10)			$ 9,364,076,672		$ 10,109,314,922

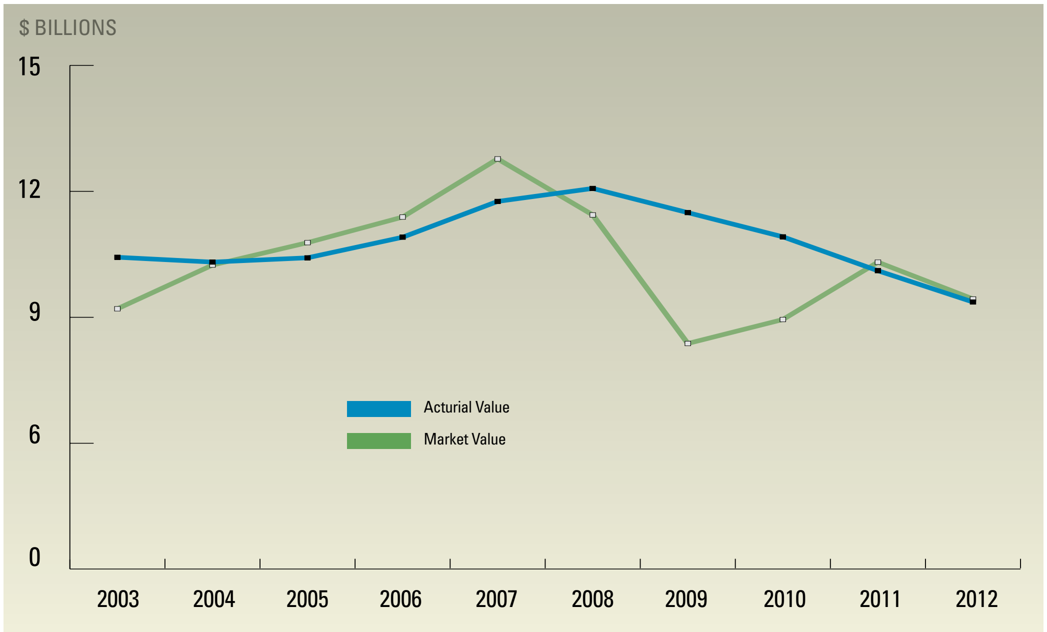
**Total return minus expected return on actuarial value*

Both the actuarial value and market value of assets are representations of the Fund's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The actuarial asset value is significant because the Fund's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

Chart 7: Actuarial Value of Assets vs. Market Value of Assets

as of June 30, 2003 – 2012

This chart shows the change in the actuarial value of assets versus the market value over the past ten years.



C. Actuarial Experience

To calculate the actuarially required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total loss is $717,568,304, $683,168,550 from investment losses and $34,399,754 in losses from all other sources. The net experience variation from individual sources other than investments was less than 0.2% of the actuarial accrued liability. A discussion of the major components of the actuarial experience follows.

CHART 8: Actuarial Experience

for Year Ended June 30, 2012

1. Net gain/(loss) from investments*	$	(683,168,550)
2. Net gain/(loss) from administrative expenses		(331,963)
3. Net gain/(loss) from other experience**		(34,067,791)
4. Net experience gain/(loss): (1) + (2) + (3)	$	(717,568,304)

This chart provides a summary of the actuarial experience during the past year.

* *Details in Chart 9, see below*

** *Details in Chart 12, see page 87*

INVESTMENT RATE OF RETURN

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the CTPF's investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets is 8.00%. The actual rate of return on an actuarial basis for the 2012 plan year was 0.95%.

Since the actual return for the year was less than the assumed return, the CTPF experienced an actuarial loss during the year ended June 30, 2012, with regard to its investments.

CHART 9: Actuarial Value Investment Experience

for Year Ended June 30, 2012

1. Actual return	$	92,083,763
2. Average value of actuarial assets		9,690,653,916
3. Actual rate of return: (1) ÷ (2)		0.95%
4. Assumed rate of return		8.00%
5. Expected return: (2) x (4)	$	775,252,313
6. Actuarial gain/(loss): (1) – (5)	$	(683,168,550)*

This chart shows the gain/(loss) due to investment experience.

**Actuarial gain/(loss) on pension assets only.*

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. Chart 10 shows the rate of return on an actuarial basis compared to the market value investment return for the last ten years, including five-year and ten-year averages.

Chart 10: Investment Return

Year Ended June 30	Market Value	Actuarial Value*
2003	4.0%	2.3%
2004	15.0%	3.2%
2005	10.8%	6.0%
2006	10.7%	9.6%
2007	17.7%	13.3%
2008	(5.3)%	7.9%
2009	(22.4)%	0.2%
2010	13.6%	(0.4)%
2011	24.8%	(0.5)%
2012	(0.4)%*	1.0%
Average Returns		
Last 5 years:	0.0%	1.7%
Last 10 years:	5.9%	4.3%

** As determined by Segal*

Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling the actuarially required contribution.

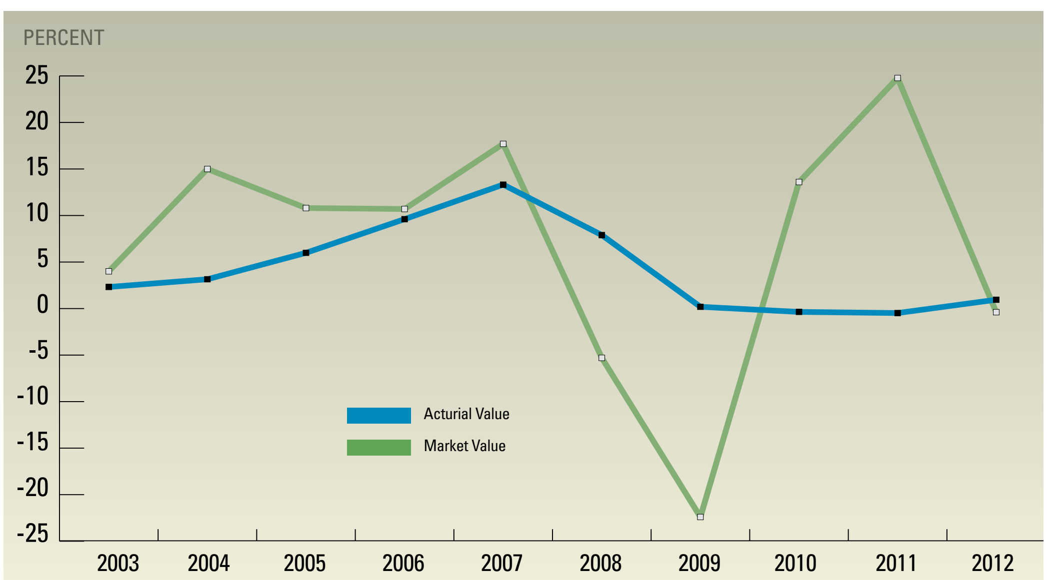
ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended June 30, 2012, totaled $10,120,434 compared to the assumption of $9,433,406. This resulted in a loss of $331,963 for the year, when adjusted for timing.

Chart 11: Market and Actuarial Rates of Return

for Years Ended June 30, 2003 - 2012

This chart illustrates how this leveling effect has actually worked over the years 2003 - 2012.



OTHER EXPERIENCE

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),
- the number of disability retirements, and
- salary increases different than assumed.

The net loss from this other experience for the year ended June 30, 2012, amounted to $34,067,791, which is approximately 0.2% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the CTPF for the year ended June 30, 2012, is shown in chart 12.

CHART 12: EXPERIENCE DUE TO CHANGES IN DEMOGRAPHICS

FOR YEAR ENDED JUNE 30, 2012

1. Turnover	$ (1,419,978)
2. Retirement	(89,792,642)
3. Deaths among retired members and beneficiaries	3,837,850
4. Salary/service increase for continuing actives	1,401,162
5. Miscellaneous	51,905,817
6. Total	$ (34,067,791)

The chart shows elements of the experience gain/(loss) for the most recent year.

D. Development of Employer Costs

The amount of Annual Required Contribution as defined by the Governmental Accounting Standards Board (GASB) is comprised of an employer normal cost payment and a payment on the unfunded actuarial accrued liability. This total amount is then divided by the projected payroll for active members to determine the Annual Required Contribution of 25.80% of payroll.

The annual required contribution is based on an open 30-year level percentage-of-pay amortization of the unfunded actuarial accrued liability. While permitted by GASB, the Board should be aware that this method will never amortize the Plan's unfunded actuarial accrued liability because the amortization period is reset every year and the 30-year amortization payment does not cover the interest on the unfunded liability.

Chart 13: Annual Required Contribution

The chart compares this valuation's actuarially determined contribution with the prior valuation.

	Year Beginning June 30			
	2012		2011*	
	Amount	% of Payroll	Amount	% of Payroll
1. Total normal cost	$ 289,007,405	12.74%	$ 289,814,144	13.87%
2. Administrative expenses	10,626,456	0.47%	9,433,406	0.45%
3. Expected employee contributions	(190,846,835)	(8.41)%	(175,805,483)	(8.41)%
4. Employer normal cost: (1) + (2) + (3)	$ 108,787,026	4.80%	$ 123,442,067	5.91%
5. Employer normal cost, adjusted for timing**	113,027,092	4.98%	123,442,067	5.91%
6. Actuarial accrued liability	17,375,660,369		16,940,626,445	
7. Actuarial value of assets	9,364,076,672		10,109,314,922	
8. Unfunded actuarial accrued liability: (6) – (7)	$ 8,011,583,697		$ 6,831,311,523	
9. Payment on unfunded actuarial accrued liability, adjusted for timing**	472,417,447	20.82%	386,659,399	18.50%
10. Annual Required Contribution, adjusted for timing**: (5) + (9)	$ 585,444,539	25.80%	$ 510,101,466	24.41%
11. Projected payroll	$ 2,268,956,806		$ 2,090,131,858	

* *Calculated by Goldstein & Associates in the June 30, 2011, actuarial valuation.*

** *Recommended contributions are assumed to be paid at the middle of every month.*

The Annual Required Contribution as of July 1, 2012, is based on all of the data described in the previous sections, the actuarial assumptions described on page 106 and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

RECONCILIATION OF ANNUAL REQUIRED CONTRIBUTION

Chart 14 details the changes in the Annual Required Contribution from the prior valuation to the current year's valuation.

CHART 14: RECONCILIATION OF GASB ANNUAL REQUIRED CONTRIBUTION

FROM JULY 1, 2011 TO JULY 1, 2012

The chart reconciles the Annual Required Contribution from the prior valuation to the amount determined in this valuation.

Annual Required Contribution as of July 1, 2011	**$**	**510,101,466**
Effect of plan changes		–
Effect of expected change in amortization payment due to payroll growth		16,069,191
Effect of rolling amortization period		(8,550,386)
Effect of change in administrative expense assumption		1,239,550
Effect of change in other actuarial assumptions		–
Effect of contributions (more)/less than recommended contribution		23,317,218
Effect of investment (gain)/loss		39,515,111
Effect of other gains and losses on accrued liability		1,989,714
Effect of net other changes*		1,762,675
Total change	**$**	**75,343,073**
Annual Required Contribution as of July 1, 2012	**$**	**585,444,539**

* *Includes reduction in actuarial accrued liability due to corrections of pension amounts for current retirees.*

E. INFORMATION REQUIRED BY THE GASB

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes of governmental pension plans. This information allows a reader of the financial statements to compare the funding status of one governmental plan to another on relatively equal terms.

Critical information to the GASB is the historical comparison of the GASB required contribution to the actual contributions. This comparison demonstrates whether a plan is being funded within the range of the GASB reporting requirements. Chart 15 presents a graphical representation of this information for the Fund.

The other critical piece of information regarding the CTPF's financial status is the funded ratio. This ratio compares the actuarial value of assets to the actuarial accrued liabilities of the Fund as calculated under the GASB standards. High ratios indicate a well-funded plan with assets sufficient to cover the plan's actuarial accrued liabilities. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other factors.

Although the GASB requires that the actuarial value of assets be used to determine the funded ratio, Chart 16 shows the funded ratio calculated using both the actuarial value of assets and the market value of assets.

The details regarding the calculations of these values and other GASB numbers may be found on pages 100, 101, and 102, Exhibits 2, 3, and 4.

These graphs show key GASB factors.

CHART 15: Required Versus Actual Employer Contributions

Years Ended June 30

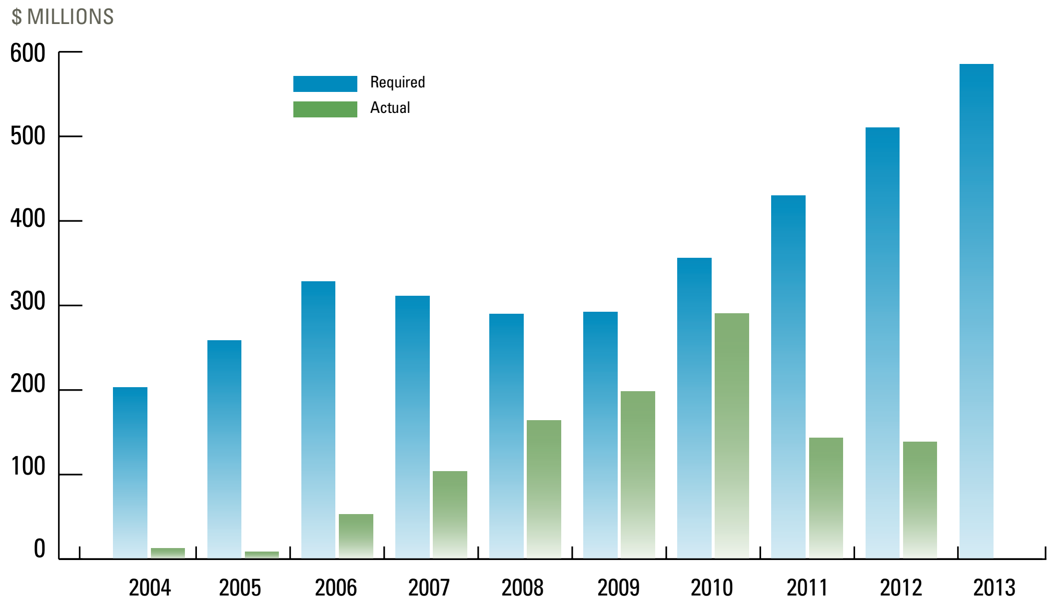


CHART 16: Funded Ratio

Years Ended June 30

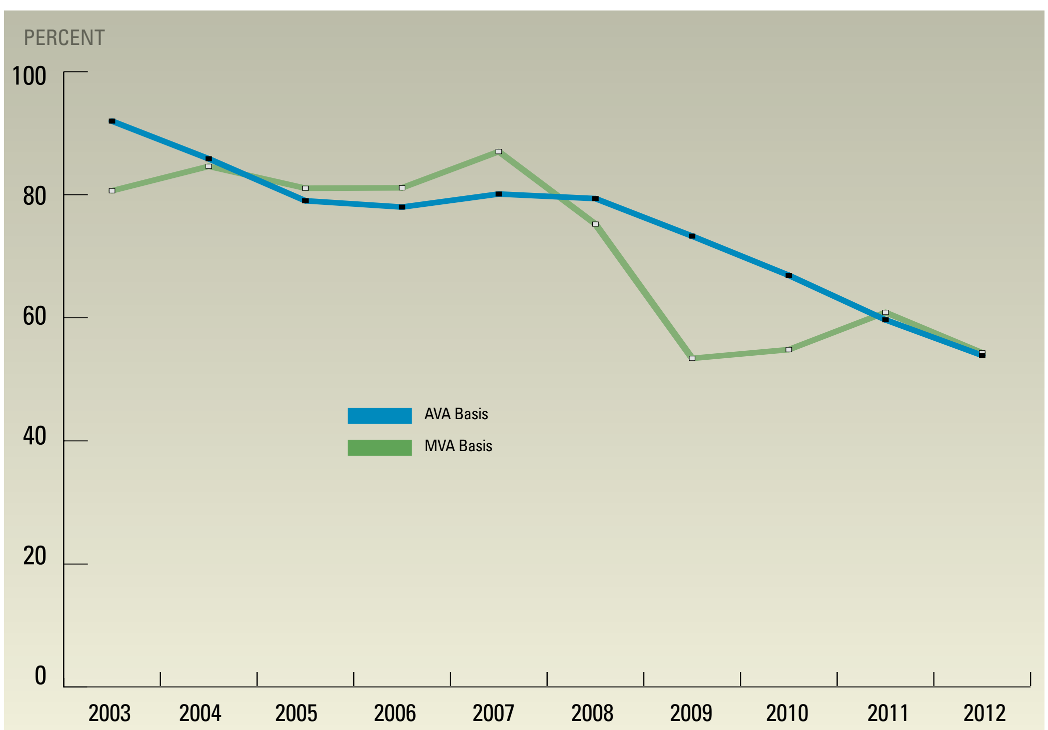


EXHIBIT A: Table of Plan Coverage

Category	Year Ended June 30		Change From Prior Year
	2012	2011	
ACTIVE MEMBERS IN VALUATION			
Number	30,366	30,133	0.8%
Average age	42.6	43	(0.9)%
Average years of service	11.2	11.5	(2.6)%
Total salary supplied by the Fund	$ 2,118,235,482	$ 2,090,131,858	1.3%
Average salary	69,757	69,364	0.6%
Total active vested participants	21,063	21,027	0.2%
Male members	7,048	6,949	1.4%
Female members	23,318	23,184	0.6%
Vested terminated members	**4,245**	**4,253**	**(0.2)%**
SERVICE RETIREES			
Number in pay status	22,636	21,977	3.0%
Average age	72.1	72.0	0.1%
Average monthly benefit	$ 3,870	$ 3,742	3.4%
Total annual benefit	**1,051,090,534**	**986,884,026**	**6.5%**
DISABLED RETIREES			
Number in pay status	468	465	0.6%
Average age	65.6	65.3	0.5%
Average monthly benefit	$ 2,621	$ 2,527	3.7%
Total annual benefit	**14,717,767**	**14,101,691**	**4.4%**
BENEFICIARIES (INCLUDING CHILDREN) IN PAY STATUS			
Number in pay status	2,822	2,757	2.4%
Average age	74.1	74.0	0.1%
Average monthly benefit	$ 1,485	$ 1,417	4.8%
Total annual benefit	**$ 50,272,587**	**$ 46,887,342**	**7.2%**
Total number of members	**60,537**	**59,585**	**1.6%**

EXHIBIT B: Participants in Active Service

as of June 30, 2012

By Age, Years of Service, and Average Salary

		Years of Service									
Age	Total	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	871	220	651	---	---	---	---	---	---	---	---
	$ 37,068	14,535	44,682	---	---	---	---	---	---	---	---
25-29	4,308	407	3,050	850	1	---	---	---	---	---	---
	$ 48,989	14,552	49,594	63,270	83,907	---	---	---	---	---	---
30-34	5,122	265	1,822	2,515	520	---	---	---	---	---	---
	$ 60,845	16,055	52,751	67,411	80,274	---	---	---	---	---	---
35-39	4,301	149	848	1,493	1,532	279	---	---	---	---	---
	$ 71,008	15,195	53,815	69,141	83,674	93,519	---	---	---	---	---
40-44	3,853	95	549	843	1,105	1,050	211	---	---	---	---
	$ 76,572	16,950	50,980	68,019	82,531	91,509	98,631	---	---	---	---
45-49	2,877	91	336	501	570	713	561	105	---	---	---
	$ 77,455	12,184	50,933	68,318	80,674	87,772	91,734	98,669	---	---	---
50-54	2,872	65	248	416	486	609	516	429	102	1	---
	$ 79,096	11,170	43,588	65,323	79,587	85,887	91,234	94,128	97,526	64,888	---
55-59	3,062	51	181	327	392	560	528	440	459	124	---
	$ 83,571	7,179	39,999	64,487	78,857	83,163	89,647	96,338	102,319	105,085	---
60-64	2,288	55	126	206	271	388	423	280	254	216	69
	$ 83,910	8,020	25,760	56,452	75,582	84,563	92,958	97,230	102,975	107,248	108,842
65-69	656	20	40	59	70	103	111	77	70	40	66
	$ 82,837	5,423	14,107	58,387	72,090	86,607	96,632	96,165	100,035	103,223	105,977
70 & over	156	10	24	16	21	18	13	10	17	7	20
	$ 67,918	1,203	15,717	22,136	65,331	80,400	99,540	97,409	96,493	109,682	117,817
Total	30,366	1,428	7,875	7,226	4,968	3,720	2,363	1,341	902	388	155
	$ 69,757	$ 14,014	$ 49,452	$ 66,676	$ 81,258	$ 87,853	$ 92,266	$ 95,998	$101,674	$106,077	$108,780

EXHIBIT C: Reconciliation of Participant Data

	Active members	Vested Terminated Members	Retirees	Disabled Retirees	Beneficiaries	Total
Numbers as of June 30, 2011	30,133	4,253	21,977	465	2,757	59,585
New participants	2,699	N/A	N/A	N/A	N/A	2,699
Terminations	(1,812)	570	–	–	–	(1,242)
Retirements	(1,053)	(206)	1,259	N/A	N/A	–
New disabilities	(13)	(10)	N/A	23	N/A	–
Died with beneficiary	–	–	–	–	236	236
Died without beneficiary	(31)	(20)	(656)	(22)	(171)	(900)
Refunds	(156)	(120)	0	–	–	(276)
Rehire	599	(187)	(1)	–	N/A	411
Certain period expired	N/A	N/A	–	–	–	–
Data adjustments	–	(35)	57	2	–	24
Number as of June 30, 2012	30,366	4,245	22,636	468	2,822	60,537

EXHIBIT D: Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

Fiscal Year	Added to Rolls		Removed from Rolls		Rolls – End of Year		% Increase in Avg. Annual Allowances	Average Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2002	1,279	$ 79,552,055	710	$ 13,059,415	17,867	$ 501,519,500	11.6	$ 28,070
2003	1,363	63,184,471	665	20,222,042	18,565	544,481,929	4.5	29,328
2004	1,336	63,484,844	635	13,595,626	19,266	594,371,147	5.2	30,851
2005	2,631	117,025,483	943	23,137,112	20,954	688,259,518	6.5	32,846
2006	1,788	91,991,917	637	15,910,849	22,105	764,340,586	5.3	34,578
2007	2,055	104,043,221	537	14,063,967	23,623	854,319,840	4.6	36,165
2008	881	67,060,461	584	16,543,468	23,920	904,836,833	4.6	37,828
2009	957	57,109,256	659	19,557,718	24,218	942,388,371	2.9	38,913
2010	1,080	67,630,266	698	21,855,794	24,600	988,162,843	3.2	40,169
2011	1,394	86,404,558	795	26,694,342	25,199	1,047,873,059	3.5	41,584
2012	1,579	96,719,811	852	28,511,983	25,926	1,116,080,887	3.5	43,049

EXHIBIT E: Summary Statement of Income and Expenses on a Market Value Basis

	Year Ended June 30, 2012		Year Ended June 30, 2011	
Net assets at market value at the beginning of the year		$ 10,312,762,164		$ 8,947,470,332
Contribution income:				
Employer contributions	$ 138,729,011		$ 143,589,994	
Employee contributions	187,141,384		185,882,636	
Administrative expenses	(10,120,434)		(9,527,938)	
Net contribution income		$ 315,749,961		$ 319,944,692
Miscellaneous income		431,790		55,307
Investment income (loss):				
Interest, dividends and other income	$ 238,747,714		$ 232,150,866	
Asset (depreciation) appreciation	(239,806,743)		1,928,712,617	
Securities lending income	5,011,510		4,601,984	
Less investment and administrative fees	(42,076,606)		(42,193,297)	
Net investment income (loss)		(38,124,125)		2,123,272,170
Total income available for benefits		$ 278,057,626		$ 2,443,272,169
Less benefit payments:				
Annuity payments	$ (1,113,884,747)		$ (1,047,538,959)	
Death	(3,324,381)		(3,260,860)	
Refund of contributions	(36,294,636)		(27,180,518)	
Net benefit payments		$ (1,153,503,764)		$ (1,077,980,337)
Change in reserve for future benefits		$ (875,446,138)		$ 1,365,291,832
Net assets at market value at the end of the year		$ 9,437,316,026		$ 10,312,762,164

EXHIBIT F: Summary Statement of Plan Assets

	Year Ended June 30, 2012		Year Ended June 30, 2011	
Cash		$ 13,428,219		$ 19,159,631
Accounts receivable		107,762,928		279,541,736
Investments, at fair value:				
Equities	$ 5,112,256,998		$ 5,999,133,420	
Fixed income	1,848,614,021		1,753,369,634	
Public REITs	175,158,738		207,585,895	
Real estate	756,080,615		686,732,202	
Short-term investments	500,688,950		451,975,535	
Private equity	276,004,553		319,315,230	
Infrastructure	307,980,960		275,818,888	
Hedge Funds	173,505,261		177,744,777	
Commingled Funds	386,550,315		529,331,293	
Margin Cash	200,000		2,521,041	
Total investments at market value		9,537,040,411		10,403,527,915
Invested securities lending collateral		588,095,853		578,003,044
Capital assets		2,366,332		2,794,812
Prepaid expenses		12,220		–
Total assets		$ 10,248,705,963		$ 11,283,027,138
Less accounts payable:				
Benefits payable	$ (2,569,689)		$ (2,332,209)	
Refunds payable	(21,757,021)		(14,046,884)	
Accounts and administrative expenses payable	(8,605,930)		(11,097,618)	
Securities lending collateral	(613,185,665)		(608,158,566)	
Due to broker for securities purchased	(165,271,632)		(334,629,697)	
Total accounts payable		$ (811,389,937)		$ (970,264,974)
Net assets at market value		$ 9,437,316,026		$ 10,312,762,164
Net assets at actuarial value		$ 9,364,076,672		$ 10,109,314,922

EXHIBIT G: Development of the Fund

Through June 30, 2012

	Employer Contributions	Employee Contributions	Net* Investment Return	Miscellaneous	Administrtive Expenses	Benefit Payments	Actuarial Value of Assets at End of Year
2003	$ 13,703,283	$ 159,931,110	$ 240,823,418	$ 35,775	$ 6,576,953	$ 563,974,806	$ 10,430,442,346
2004	13,032,273	169,598,212	321,457,265	86,285	7,214,467	612,438,269	10,314,963,645
2005	8,872,764	175,706,081	603,213,991	561,154	7,477,671	679,131,878	10,416,708,086
2006	52,789,706	163,419,386	1,033,995,851**	139,509	8,320,340	751,791,350	10,906,940,848
2007	103,761,750	179,017,663	1,415,420,214	1,923	8,434,688	837,008,647	11,759,699,063
2008	164,270,412	172,504,804	905,021,878	–	7,827,576	924,251,543	12,069,417,038
2009	198,069,327	176,176,975	21,935,841	–	8,751,945	963,591,482	11,493,255,754
2010	290,759,950	194,621,551	(39,885,503)	–	8,800,848	1,012,533,911	10,917,416,993
2011	143,589,994	185,882,636	(50,121,733)	55,307	9,527,938	1,077,980,337	10,109,314,922
2012	138,729,011	187,141,384	92,083,763	431,790	10,120,434	1,153,503,764	9,364,076,672

** Net of investment fees*

*** Includes $59,496,735 transferred from health insurance assets*

EXHIBIT H: Development of Unfunded Actuarial Accrued Liability

	Year Ending June 30			
	2012		2011	
1. Unfunded actuarial accrued liability at beginning of year		$ 6,831,311,523		$ 5,402,326,672
2. Normal cost at beginning of year		299,247,550		301,617,054
3. Total contributions		325,870,395		329,472,630
4. Interest				
(a) Unfunded actuarial accrued liability and normal cost	$ 570,444,726		$ 456,315,498	
(b) Total contributions	11,782,564		11,912,810	
(c) Total interest: (4a) – (4b)		558,662,162		444,402,688
5. Expected unfunded actuarial accrued liability: (1) + (2) – (3) + (4c)		$ 7,363,350,840		$ 5,818,873,784
6. Changes due to (gain)/ loss from:				
(a) Investments	$ 683,168,550		$ 896,407,893	
(b) Demographics and other	34,399,754		116,029,846	
(c) Total changes due to (gain)/loss: (6a) + (6b)		$ 717,568,304		$ 1,012,437,739
7. Change to due plan changes*		(69,335,447)		–
8. Change in actuarial assumptions		–		–
9. Unfunded accrued liability at end of year: (5) + (6c) + (7) + (8)		$ 8,011,583,697		$ 6,831,311,523

**Due to pension overpayment settlement*

Exhibit 1: Summary of Actuarial Valuation Results

The valuation was made with respect to the following data supplied to us:		
1. Pensioners as of the valuation date (including 2,822 beneficiaries and 468 disabled retirees)		25,926
2. Members inactive during year ended June 30, 2012, with vested rights		4,245
3. Members active during the year ended June 30, 2012		30,366
Fully vested	21,063	
Not vested	9,303	
The actuarial factors as of the valuation date are as follows:		
1. Actuarial accrued liability		$ 17,375,660,369
Service retirees	$11,736,351,672	
Disabled retirees	140,454,050	
Beneficiaries	443,457,911	
Inactive participants with vested rights	255,812,695	
Active participants:		
Retirement	4,322,561,289	
Turnover	238,027,546	
Mortality	139,793,672	
Disability	99,201,534	
Total	4,799,584,041	
2. Actuarial value of assets ($9,437,316,026 at market value)		9,364,076,672
3. Unfunded actuarial accrued liability		$ 8,011,583,697
4. Funded ratio: (2) ÷ (3)		53.9%
Components of the normal cost:	**% of Payroll**	**Amount**
1. Retirement	10.69%	$ 242,465,165
2. Turnover	1.24%	28,179,632
3. Mortality	0.46%	10,516,079
4. Disability	0.35%	7,846,529
5. Total normal cost: (1) + (2) + (3) + (4)	12.74%	$ 289,007,405
6. Administrative expenses	0.47%	10,626,456
7. Total normal cost, including administrative expenses: (5) + (6)	13.21%	$ 299,633,861
8. Expected employee contributions	(8.41)%	(190,846,835)
9. Employer normal cost: (7) + (8)	4.80%	$ 108,787,026
The determination of the Annual Required Contribution (GASB 25) is as follows:		
1. Total normal cost		$ 289,007,405
2. Administrative expenses		10,626,456
3. Expected employee contributions		(190,846,835)
4. Employer normal cost: (1) + (2) + (3)		$ 108,787,026
5. Employer normal cost projected, adjusted for timing*		113,027,092
6. Payment on projected unfunded/(overfunded) actuarial accrued liability, adjusted for timing*		472,417,447
7. Total Annual Required Contribution: (5) + (6)		$ 585,444,539
8. Expected employer contributions		$ 153,585,000
9. Projected payroll		$ 2,268,956,806
10. Total Annual Required Contribution as a percentage of projected payroll: (7) ÷ (9)		25.80%

**Recommended contributions are assumed to be paid at the middle of every month.*

Exhibit 2: Schedule of Employer Contributions

Plan Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2003	$ 160,195,509	$ 13,703,283	8.55%
2004	202,971,485	13,032,273	6.42%
2005	258,883,211	8,872,764	3.43%
2006	328,365,821	52,789,706	16.08%
2007	311,139,800	103,761,750	33.35%
2008	290,072,885	164,270,412	56.63%
2009	292,145,359	198,069,327	67.80%
2010	355,846,125	290,759,950	81.71%
2011	430,091,545	143,589,994	33.39%
2012	510,101,466	138,729,011	27.20%

Exhibit 3: Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll* [(b) - (a)] / (c)
06/30/2003	$ 10,494,754,698	$11,411,528,364	$ 916,773,666	91.97%	$ 1,706,205,814	53.7%
06/30/2004	10,392,193,115	12,105,680,577	1,713,487,462	85.85%	1,767,631,306	96.9%
06/30/2005	10,506,471,213	13,295,876,206	2,789,404,993	79.02%	1,968,612,235	141.7%
06/30/2006	10,947,998,433	14,035,627,452	3,087,629,019	78.00%	1,944,358,215	158.8%
06/30/2007	11,759,699,063	14,677,184,345	2,917,485,282	80.12%	1,863,182,086	156.6%
06/30/2008	12,069,417,038	15,203,740,567	3,134,323,529	79.38%	1,914,558,916	163.7%
06/30/2009	11,493,255,754	15,683,241,527	4,189,985,773	73.28%	1,996,194,224	209.9%
06/30/2010	10,917,416,993	16,319,743,665	5,402,326,672	66.90%	2,100,345,415	257.2%
06/30/2011	10,109,314,922	16,940,626,445	6,831,311,523	59.67%	2,090,131,858	326.8%
06/30/2012	9,364,076,672	17,375,660,369	8,011,583,697	53.89%	2,224,903,121	360.1%

* *Not less than zero*

Exhibit 4: Solvency Test
Pension Fund

	June 30, 2012	June 30, 2011
1. Actuarial accrued liability (AAL)		
a. Active member contributions	$ 1,538,160,937	$ 1,503,911,310
b. Retirees and beneficiaries	12,320,263,633	11,791,538,477
c. Active and inactive members (employer financed)	3,517,235,799	3,645,176,758
d. Total	$ 17,375,660,369	$ 16,940,626,545
2. Actuarial value of assets	9,364,076,672	10,109,314,922
3. Cumulative portion of AAL covered		
a. Active member contribution	100.0%	100.0%
b. Retirees and beneficiaries	63.5%	73.0%
c. Active and inactive members (employer financed)	0.0%	0.0%

Exhibit 5: Solvency Test Six years
Pension Fund

Fiscal Year	(1) Active Members Accumulated Contributions	(2) Members Currently Receiving Benefits	(3) Active Member Employer Portion	Actuarial Value of Assets	(1)	(2)	(3)
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%	93%	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	10,109,314,922	100%	73%	0%
2012	1,538,160,937	12,320,263,633	3,517,235,799	9,364,076,672	100%	64%	0%

Exhibit 6: Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Average Annual Pay	% Increase (decrease) in Average Pay
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	31,012	2,100,345,415	67,727	8.2%
6-30-11	30,133	2,090,131,858	69,364	2.4%
6-30-12	30,366	2,118,235,482	69,757	.6%

Exhibit 7: Supplementary Information Required by the GASB

Valuation date	June 30, 2012
Actuarial cost method	Projected unit credit cost method
Amortization method	Level percent of payroll*
Amortization period	30 years (open period)*
Asset valuation method	4-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.00%
Inflation rate	3.00%
Payroll growth	4.00%
Projected salary increases	Age based ranging from 13.7% to 4.0%
Cost of living adjustments	3% compound for Tier 1 retirees; the lesser of 3% or one-half CPI, simple, for Tier 2 retirees
Plan membership:	
Retirees and beneficiaries receiving benefits	25,926
Terminated members entitled to, but not yet receiving benefits	4,245
Active members	30,366
Total	60,537

**Although permitted by GASB, a 30-year open, level percent of payroll amortization approach will never amortize the Plan's unfunded actuarial accrued liability because the amortization period is reset every year and the 30-year amortization payment does not cover the interest on the unfunded.*

Exhibit 8: Actuarial Assumptions and Actuarial Cost Method

MORTALITY RATES

Healthy: The UP-1994 Mortality Table for Males, set back 3 years for male participants, and the UP-1994 Mortality Table for Females, set back 2 years for female participants (adopted June 30, 2003).

Disabled: The RP-2000 Disabled Mortality Table for Males, set back 2 years for male participants, and the RP-2000 Disabled Mortality Table for Females, set forward 5 years for female participants (adopted June 30, 2008).

The mortality table specified above was determined to contain provision appropriate to reasonably reflect future mortality improvement (actual-to-expected ratios of 134.8% for male retirees and 133.7% for female retirees, per the experience study report dated October 20, 2008), based on a review of mortality experience as of the measurement date.

TERMINATION RATES

Select and ultimate termination rates are based on recent experience of the Fund were used (adopted June 30, 2008). Ultimate rates after the fifth year are shown for sample ages in the table on the next page. Select rates are as follows:

Years of Service	Rate (%)
First year:	29.5
Second year:	7.1
Third year:	7.0
Fourth year:	5.6
Fifth year:	5.2

	Rate (%)	
Age	5-10 Years of Service	10+ Years of Service
25	4.6	
30	4.8	2.4
35	4.4	2.5
40	3.7	1.9
45	3.2	1.2
50	3.0	1.0
55	3.0	1.0

RETIREMENT RATES: For employees first hired prior to January 1, 2011, rates of retirement for each age from 55 to 75 based on the recent experience of the Fund were used (adopted June 30, 2008). Sample rates are shown below.

Age	Rate (%) <33 Years of Service	Rate (%) 33+ Years of Service
55	5.5	12.0
60	7.7	20.0
65	10.0	19.0
70	13.7	20.0
75	100.0	100.0

For employees first hired on or after January 1, 2011, rates of retirement for each age from 62 to 75 were used (adopted June 30, 2011). Sample rates are shown below.

Age	Rate (%)
62	40.0
64	25.0
67	30.0
70	20.0
75	100.0

DISABILITY RATES: Disability rates are based on the recent experience of the Fund were used (adopted June 30, 2003). Sample rates are shown below.

Age	Rate (%)
30	0.07
40	0.10
50	0.20
60	0.25

SALARY INCREASES: Assumed salary increases are based on the recent experience of the Fund were used (adopted June 30, 2003). Sample rates are shown below.

Age	Rate (%)
25	11.2
30	8.9
35	7.3
40	6.2
45	5.4
50	4.7
55	4.0

VALUATION OF INACTIVE VESTED PARTICIPANTS

The liability for an inactive member is equal to his or her existing account balance, loaded by 35%.

UNKNOWN DATA FOR PARTICIPANTS

Same as those exhibited by Participants with similar known characteristics. If not specified, Participants are assumed to be male.

SPOUSES

80% of participants were assumed to be married and females are assumed to be 2 years younger than males.

NET INVESTMENT RETURN

8.00% per year

PAYROLL GROWTH

4.00% per year

ADMINISTRATIVE EXPENSES

Equal to actual expenses for the prior year, increased by 5%.

ACTUARIAL VALUE OF ASSETS

The actuarial value of assets was determined by smoothing unexpected gains and losses over a period of 4 years. The gain or loss for a year is calculated as the total investment income on the market value of assets, minus expected investment return on the prior actuarial value of assets. The final actuarial value is equal to the expected actuarial value plus (or minus) 20% of the calculated gain (or loss) in the prior 4 years.

ACTUARIAL COST METHOD

Projected Unit Credit (adopted August 31, 1991). Under this method, the projected benefits of each individual included in the 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 accrued liability.

CHANGES IN ASSUMPTIONS

There have been no changes in actuarial assumptions since the last valuation.

Exhibit 9: Summary of Plan Provisions

This exhibit summarizes the major provisions of CTPF included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

MEMBERSHIP

Any teacher and certain other employees of the Chicago Public Schools, approved charter schools, and the Chicago Teachers' Pension Fund are members of this pension plan.

EMPLOYEE CONTRIBUTIONS

All members of the Fund are required to contribute 9% of salary to the Fund as follows: 7.5% for the retirement pension, 1% for the spouse's pension, and 0.5% for the automatic increases in the retirement pension. As of September 1981, the Board of Education has been paying 7% of the required teacher contributions for Chicago public school teachers.

SERVICE RETIREMENT PENSION

a. Eligibility – An employee may retire at age 55 with at least 20 years of service or at age 62 with 5 years of service. If retirement occurs before age 60, the service retirement pension is reduced ½ of 1% of each month that the age of the member is below 60. However, there is no reduction if the employee has at least 34 years of service.

b. Amount – For service earned before July 1, 1998, the amount of the service retirement pension is 1.67% of highest average salary for the first 10 years, 1.90% for each of the next 10 years, 2.10% for each of the following 10 years, and 2.30% for each year above 30. For service earned after June 30, 1998, the amount of the service retirement pension is 2.2% of highest 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, up to a maximum of 20%, which upgrades all service years. 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 highest average salary is the average of the 4 highest consecutive years of salary within the last 10 years.

The maximum pension payable is 75% of the highest annual salary or $1,500 per month, whichever is greater.

An employee who first becomes a participant on or after January 1, 2011 is subject to the following provisions:

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 2012, the final average salary is limited to the Social Security wage base of $108,883. Limitations for future years shall automatically be increased by the lesser of 3% or one-half the percentage change in the Consumer Price Index-U during the preceding 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 ½ of 1% for each month that the age of the member is below 67.

POST-RETIREMENT INCREASE

An annuitant is entitled to automatic annual increases of 3% of the current pension starting the later of attainment of age 61 and receipt of one year's pension payments.

Automatic annual increases in the retirement annuity for employees who first become a participant on or after January 1, 2011 is equal to the lesser of 3% or one-half the annual change in the Consumer Price Index-U, whichever is less, based on the originally granted retirement annuity. This automatic annual increase starts the later of attainment of age 67 and receipt of one year's pension payments.

SURVIVOR'S PENSION

A surviving spouse or unmarried minor child is entitled to a pension upon the death of an employee while in service or on retirement. The minimum survivor's pension is 50% of the deceased employee's or retired employee's pension at the date of death. If the 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 increases of 3% per year based on the current amount of pension starting the later of when the member would have attained age 61 and receipt of one year's pension payments.

For employees who first become a participant on or after January 1, 2011, the initial survivor's pension 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. This automatic annual increase starts the later of when the member would have attained age 67 and receipt of one year's pension payments.

SINGLE SUM DEATH BENEFIT

Upon the death of an employee in service, a refund equal to the total contributions less contributions for survivor's pensions is payable.

A death benefit is payable upon the death of an employee in service in addition to any other benefits payable to the surviving spouse or minor children. The death benefit payable is the lesser of $10,000 and salary earned for the most recent six months.

Upon the death of a retired member, the death benefit is the lesser of $10,000 and the most recent salary earned for a 6 month period less 20% of the death benefit for each year that the member has been on pension, to a minimum of $5,000.

NON-DUTY DISABILITY BENEFIT

A non-duty disability pension is payable in the event of total or permanent disability with 10 or more years of service. The benefit is the unreduced service retirement pension. However, if the participant has 20 or more and less than 25 years of service and is under age 55, the benefit is reduced by ½ of 1% for each month that the age of the member is below 55 down to a minimum age of 50, but not less than the unreduced service retirement pension with 20 years of service.

DUTY DISABILITY BENEFIT

Upon disability resulting from an injury incurred while working, an employee is entitled to a disability benefit of 75% of final average salary until age 65. At age 65, the disabled employee shall receive a service retirement pension, which includes service earned while disabled.

REFUNDS

An employee who terminates employment before qualifying for a pension is entitled to a refund of employee contributions, without interest.

An employee who is unmarried at date of retirement is entitled to a refund of the full amount contributed for the survivor's pension, without interest.

PLAN YEAR

July 1 through June 30

CHANGES IN PLAN PROVISIONS

There have been no changes in plan provisions since the last valuation

Exhibit 10: DEFINITIONS OF PENSION TERMS

The following list defines certain technical terms for the convenience of the reader:

Actuarial Accrued Liability For Actives: The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability For Pensioners: The single-sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

Actuarial Cost Method: A procedure allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability that are used to determine the Annual Required Contribution.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., CTPF's assets earn more than projected, salary increases are less than assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results yield in actuarial liabilities that are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. Each such amount or series of amounts is:

- **a.** Adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)
- **b.** Multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- **c.** Discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of benefit amounts expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age, anticipated future compensation, and future service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive members entitled to either a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation:	The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial Valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB Statement No. 25, such as the funded ratio and the ARC.
Actuarial Value of Assets:	The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly plans use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.
Actuarially Determined:	Values that have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.
Amortization Method:	A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization Payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.
Amortization Payment:	The portion of the pension plan contribution, or ARC, that is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.
Annual Required Contribution (ARC):	The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB Statement No. 25. The ARC consists of the Employer Normal Cost and the Amortization Payment.
Assumptions or Actuarial Assumptions:	The estimates on which the cost of the Fund is calculated including: (a) Investment return – the rate of investment yield that the Fund will earn over the long-term future; (b) Mortality rates - the death rates of employees and pensioners; life expectancy is based on these rates; (c) Retirement rates - the rate or probability of retirement at a given age; (d) Turnover rates - the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement; (e) Salary increase rates - the rates of salary increase due to inflation and productivity growth.
Closed Amortization Period:	A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example, if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.
Decrements:	Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.
Defined Benefit Plan:	A retirement plan in which benefits are defined by a formula applied to the member's compensation and/or years of service.

Defined Contribution Plan:	A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.
Employer Normal Cost:	The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.
Experience Study:	A periodic review and analysis of the actual experience of the Fund that may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.
Funded Ratio:	The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.
GASB:	Governmental Accounting Standards Board.
GASB 25 and GASB 27:	Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.
Investment Return:	The rate of earnings of the Fund from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.
Margin:	The difference, whether positive or negative, between the statutory employer contribution rate and the Annual Required Contribution (ARC) as defined by GASB 25.
Normal Cost:	That portion of the Actuarial Present Value of pension plan benefits and expenses allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits that are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated.
Open Amortization Period:	An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. If the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount, or in relation to covered payroll, if the actuarial assumptions are realized.
Unfunded Actuarial Accrued Liability:	The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.
Valuation Date or Actuarial Valuation Date:	The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

ACTUARIAL REPORT
HEALTH INSURANCE

PURPOSE

This report presents the results of our actuarial valuation of the Public School Teachers' Pension and Retirement Fund of Chicago as of June 30, 2012, to be used for the fiscal year ending June 30, 2013. The results are in accordance with Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

HIGHLIGHTS OF THE VALUATION

- The Unfunded Actuarial Accrued Liability (UAAL) is $3.08 billion as of June 30, 2012, compared to $3.04 billion the prior year.
- The Annual Required Contribution (ARC) is $216.2 million as of July 1, 2012; the ARC was $215.8 million as of July 1, 2011.
- $65 million was contributed towards postretirement medical benefits in the year ending June 30, 2012.

EXHIBIT A: Summary of Participant Data

June 30, 2012

Retirees and Beneficiaries	
Number currently receiving health benefits	17,091
Average age	72.7
Number entitled to health benefits but not currently receiving them	8,835
Terminated employees who may be entitled to future benefits	
Number	4,245
Average age	48.5
Active Participants	
Number	30,366
Average age	42.6
Average years of service	11.2

EXHIBIT B: Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL)

June 30, 2012

Participant Category		
Current retirees and beneficiaries	$	1,516,900,072
Terminated employees who may be entitled to future benefits		85,062,764
Current active members		1,508,353,427
Total actuarial accrued liability (AAL)	$	3,110,316,263
Effect of Assets		
Employer actuarial accrued liability (AAL)	$	3,110,316,263
Actuarial value of assets		34,124,958
Unfunded actuarial accrued liability (UAAL)	$	3,076,191,305

Required Supplementary Information

CHART 1: Summary of Required Supplementary Information

Valuation date	June 30, 2012
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years as of June 30, 2012
Asset valuation method	Market
Actuarial assumptions:	
Discount rate	4.50%
Payroll growth	4.00%
Heath care cost trend rate	8.5% graded to 5% over 7 years
Plan membership:	
Current retirees and beneficiaries currently receiving health benefits	17,091
Retirees and beneficiaries entitled to health benefits but not currently receiving them	8,835
Terminated employees who may be entitled to future benefits	4,245
Current active members	30,366
Total	**60,537**

CHART 2: DETERMINATION OF ANNUAL REQUIRED CONTRIBUTION (ARC)

COST ELEMENT	JULY 1, 2012	
	AMOUNT	PERCENT OF PAYROLL
1. Normal cost	$ 106,333,213	4.78%
2. Amortization of the unfunded actuarial accrued liability (30 years, level percent of payroll)	109,829,935	4.94%
3. Total Annual Required Contribution (ARC)	$ 216,163,148	9.72%

CHART 3: SCHEDULE OF EMPLOYER CONTRIBUTIONS

FISCAL YEAR ENDING	ANNUAL REQUIRED CONTRIBUTIONS (ARC)	ACTUAL CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
June 30, 2007	$ 209,446,107	$ 65,000,000	31.03%
June 30, 2008	150,033,070	65,000,000	43.32%
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%
June 30, 2012	218,842,221	65,000,000	29.70%

CHART 4: SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	[Assets as a % of Actuarial Liability] Funded Ratio (c) = (a) / (b)	Unfunded AAL (UAAL) (d) = (b) - (a)	Active Member Payroll (e)	UUAL as a % of Active Member Payroll (f) = (d)/(e)
June 30, 2006	$ 41,057,585	$ 2,373,773,770	1.73%	$ 2,332,716,185	$ 1,944,358,215	119.97%
June 30, 2007	47,401,758	2,022,007,643	2.34%	1,974,605,885	1,863,182,086	105.98%
June 30, 2008	44,989,385	2,407,122,492	1.87%	2,362,133,107	1,914,558,916	123.38%
June 30, 2009	49,691,750	2,670,282,662	1.86%	2,620,590,912	1,996,194,224	131.28%
June 30, 2010	34,857,732	2,864,877,305	1.22%	2,830,019,573	2,107,934,080	134.26%
June 30, 2011	31,324,572	3,071,516,739	1.02%	3,040,192,167	2,090,131,858	145.45%
June 30, 2012	34,124,958	3,110,316,263	1.10%	3,076,191,305	2,224,903,121	138.26%

SOLVENCY TEST – HEALTH INSURANCE FUND

Fiscal Year	(1) Active Members Accumulated Contributions	(2) Members Currently Receiving Benefits	(3) Active Member Employer Portion	Actuarial Value of Assets	(1)	(2)	(3)
2007	–	$ 1,088,565,607	$ 933,442,036	$ 47,401,758	100%	4%	0%
2008	–	1,296,346,497	1,110,775,995	44,989,385	100%	3%	0%
2009	–	1,489,050,443	1,181,232,219	49,691,750	100%	3%	0%
2010	–	1,430,181,101	1,434,696,204	34,857,732	100%	2%	0%
2011	–	1,554,319,187	1,517,197,552	31,324,572	100%	2%	0%
2012	–	1,516,900,072	1,593,416,191	34,124,958	100%	2%	0%

Exhibit 1: Actuarial Assumptions and Actuarial Cost Method

Measurement Date: June 30, 2012

Discount Rate: 4.50%

Payroll Growth: 4.00% per year

Actuarial Cost Method: Projected Unit Credit

Asset Valuation Method: Market value

Data: Detailed census data and financial data for postemployment benefits were provided by the Fund staff.

MORTALITY RATES

Healthy: The UP-1994 Mortality Table for Males, set back 3 years for male participants, and the UP-1994 Mortality Table for Females, set back 2 years for female participants.

Disabled: The RP-2000 Disabled Mortality Table for Males, set back 2 years for male participants, and the RP-2000 Disabled Mortality Table for Females, set forward 5 years for female participants.

The mortality table specified above was determined to contain provision appropriate to reasonably reflect future mortality improvement, based on a review of mortality experience as of the measurement date.

TERMINATION RATES:

Select and ultimate termination rates are based on recent experience of the Fund were used. Select rates are as follows:

Years of Service	Rate(%)
First year:	29.5
Second year:	7.1
Third year:	7.0
Fourth year:	5.6
Fifth year:	5.2

Ultimate rates after the fifth year for sample ages are as follows:

	Rate (%)	
Age	5-10 Years of Service	10+ Years of Service
25	4.6	–
30	4.8	2.4
35	4.4	2.5
40	3.7	1.9
45	3.2	1.2
50	3.0	1.0
55	3.0	1.0

DISABILITY RATES

Disability rates are based on the recent experience of the Fund were used. Sample rates are shown below.

Age	Rate (%)
30	0.07
40	0.10
50	0.20
60	0.25

RETIREMENT RATES

For employees first hired prior to January 1, 2011, rates of retirement for each age from 55 to 75 based on the recent experience of the Fund were used. Sample rates are shown below.

	Rate (%)	
Age	<33 Years of Service	33+ Years of Service
55	5.5	12.0
60	7.7	20.0
65	10.0	19.0
70	13.7	20.0
75	100.0	100.0

For employees first hired on or after January 1, 2011, rates of retirement for each age from 62 to 75 were used. Sample rates are shown below.

Age	Rate (%)
62	40.0
64	25.0
67	30.0
70	20.0
75	100.0

TERMINATED EMPLOYEES

Of current and future terminated participants with 10 or more years of service, 50% were assumed to meet eligibility requirements to participate. Terminated participants with less than 10 years of service were assumed not to participate. Terminated employees first hired prior to January 1, 2011 were assumed to retire at age 60 with 20 or more years of service, or at age 62. Terminated employees first hired on or after January 1, 2011 were assumed to retire at age 65.

PARTICIPATION AND COVERAGE ELECTION

79% of future retirees under age 65 and 87% of future retirees age 65 and greater were assumed to participate. This participation assumption was also applied to retirees currently receiving COBRA reimbursement. Of current retirees under age 65 who are not currently participating, 38% were assumed to participate at age 65.

MISSING PARTICIPANT DATA

A missing census item for a given participant was assumed to equal the average value of that item over all other participants of the same status for whom the item is known. Due to the short processing year for rebates, 5% of retirees under age 65 and 10% of retirees age 65 and over who have neither rebates nor premium reimbursements were assumed to have received rebates in the valuation year.

DEPENDENTS

Demographic data was available for spouses of current retirees. For future retirees, 80% of participants are assumed to be married, with husbands two years older than their wives.

PER CAPITA COST DEVELOPMENT

Per capita claims costs were based on the average retiree premiums and Part A and B reimbursements for the period July 1, 2011 through June 30, 2012, and average rebates for the period July 1, 2010 through June 30, 2011. Averages were calculated separately for retirees under and over age 65. The averages were trended to the midpoint of the valuation year at assumed trend rates. Actuarial factors were then applied to the average cost to estimate individual retiree and spouse costs by age and by gender.

PER CAPITA HEALTH COSTS

Average claims for the plan year beginning July 1, 2012 are shown in the table below for retirees at selected ages. Costs shown are total costs; plan pays 60%.

	Retiree		Spouse	
Age	Male	Female	Male	Female
55	$ 10,970	$ 11,326	$ 8,634	$ 9,779
60	13,028	12,208	11,558	11,342
64	14,947	12,951	14,591	12,765
65	5,391	4,582	5,391	4,582
70	6,248	4,938	6,248	4,938
75	6,733	5,316	6,733	5,316

HEALTH CARE COST TREND RATES

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years.

Year Ending June 30,	Rate (%)
2013	8.5
2014	8.0
2015	7.5
2016	7.0
2017	6.5
2018	6.0
2019	5.5
2020 & Later	5.0

PLAN DESIGN

Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit 2 and on the established pattern or practice with regard to sharing of benefit costs between the employer and plan members. In particular, this valuation under GASB 43 does not take into account the current $65 million maximum of annual payments that may be paid from the Fund, as there has been a history of increases in the annual dollar maximum.

The effect on the obligation of future aspects of the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA) of 2010 are assumed to be *de minimis*.

Exhibit 2: Summary of Plan

This exhibit summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plans as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

Retiree Eligibility: Recipient of a service retirement, disability, or survivor's pension from the Public School Teachers' Pension and Retirement Fund of Chicago. Pension eligibility is generally as follows:

SERVICE RETIREMENT PENSION

An employee first hired before January 1, 2011 is eligible to retire at age 55 with at least 20 years of service or at age 62 with 5 years of service. An employee first hired on or after January 1, 2011, is eligible to retire at age 62 with at least 10 years of service credit.

SURVIVOR'S PENSION

A surviving spouse or unmarried minor child is entitled to a pension upon the death of an employee while in service or on retirement. If the 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.

NON-DUTY DISABILITY BENEFIT

A non-duty disability pension is payable in the event of total or permanent disability with 10 or more years of service.

DUTY DISABILITY BENEFIT

Upon disability resulting from an injury incurred while working, an employee is entitled to a disability benefit.

Additional requirements apply to those who terminate prior to retirement.

BENEFITS

Partial reimbursement of the cost of health insurance coverage, which may be in the form of an annual direct payment or a reduction in the amount deducted from the monthly annuity.

Effective January 1, 2011, the Board provides reimbursement of 60% of the cost of pensioners' health insurance coverage. The total amount of payments in any year may not exceed 75% of the total cost of health insurance coverage in that year for all recipients who receive payments in that year.

Total payments may not exceed $65,000,000 plus any amount that was authorized to be paid in the preceding year but was not actually paid (including any interest earned).

Exhibit 3: Definitions of Terms

The following list defines certain technical terms used in GASB Statements:

ASSUMPTIONS OR ACTUARIAL ASSUMPTIONS

The estimates on which the cost of the Plan is calculated including:

(a) Investment return – the rate of investment yield which the Plan will earn over the long-term future;

(b) Mortality rates – the death rates of employees and pensioners; life expectancy is based on these rates;

(c) Retirement rates – the rate or probability of retirement at a given age;

(d) Turnover rates – the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

ACTUARIAL PRESENT VALUE OF TOTAL PROJECTED BENEFITS (APB)

Present value of all future benefit payments for current retirees and active employees taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

NORMAL COST

The amount of contributions required to fund the benefit allocated to the current year of service.

ACTUARIAL ACCRUED LIABILITY FOR ACTIVES

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

ACTUARIAL ACCRUED LIABILITY FOR PENSIONERS

The single sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and of the interest which the sum is expected to earn before it is entirely paid out in benefits.

ACTUARIAL VALUE OF ASSETS (AVA)

The value of assets used by the actuary in the valuation. These may be at market value or some other method used to smooth variations in market value from one valuation to the next.

FUNDED RATIO

The ratio AVA/AAL.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

AMORTIZATION OF THE UNFUNDED ACTUARIAL ACCRUED LIABILITY

Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

INVESTMENT RETURN (DISCOUNT RATE)

The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next. If the plan is funded on a pay-as-you-go basis, the discount rate is tied to the expected rate of return on day-to-day employer funds.

COVERED PAYROLL

Annual reported salaries for all active participants on the valuation date.

ARC AS A PERCENTAGE OF COVERED PAYROLL

The ratio of the annual required contribution to covered payroll.

HEALTH CARE COST TREND RATES

The annual rate of increase in net claims costs per individual benefiting from the Plan.

ANNUAL REQUIRED CONTRIBUTION (ARC)

The ARC is equal to the sum of the normal cost and the amortization of the unfunded actuarial accrued liability.

Exhibit 4: Accounting Requirements

The Governmental Accounting Standards Board (GASB) issued Statement Number 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Under this statement, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The accounting standards supplement cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (i.e., a pay-as-you-go basis).

The statement covers postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan; and long-term disability insurance for employees. The benefits valued in this report are limited to those described on page 121, which are based on those provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits is not limited by legal or contractual limits on funding the plan unless those limits clearly translate into benefit limits on the substantive plan being valued.

The standard introduced an accrual-basis accounting requirement, thereby recognizing the employer cost of postemployment benefits over an employee's career. The standard also introduced a consistent accounting requirement for both pension and non-pension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. These assumptions are summarized in Exhibit 1 on page 118. This amount is then discounted to determine the actuarial present value of the projected cost of these benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and the actuarial value of assets in the Plan.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made. In addition, Required Supplementary Information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan. Exhibit 3 on page 122 contain a definition of terms.

The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that the Employer is required to implement a funding policy to satisfy the projected expense.

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets, if any.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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, 2012, with comparative totals for 9 years

	2012	2011	2010	2009	2008
Additions:					
Contributions:					
Intergovernmental, net (employer)	$ 138,729,011	$ 143,589,994	$ 290,759,950	$ 198,069,327	$ 164,270,412
Employee contributions	187,141,384	185,882,636	194,621,551	176,176,975	172,504,804
	325,870,395	**329,472,630**	**485,381,501**	**374,246,302**	**336,775,216**
Investment income:					
Net investment income	(38,124,125)	2,123,272,170	1,107,453,898	(2,464,420,944)	(738,817,587)
Miscellaneous	431,790	55,307	–	–	–
Total additions	**288,178,060**	**2,452,800,107**	**1,592,835,399**	**(2,090,174,642)**	**(402,042,371)**
Deductions:					
Pension Benefits					
Retirement	1,062,373,677	999,323,111	943,252,537	897,873,287	863,963,625
Survivors	38,812,556	36,196,804	33,738,810	31,028,747	29,037,664
Disability	12,698,514	12,019,044	11,512,123	11,673,453	11,673,773
Refunds					
Separation	17,521,737	13,135,132	9,334,950	10,615,031	5,626,786
Death	4,139,266	3,373,836	4,253,510	3,765,163	3,218,956
Other	14,633,633	10,671,550	7,495,834	5,658,269	7,884,526
Death Benefits					
Heirs of Active Teachers	387,047	419,861	496,832	514,743	486,740
Heirs of Annuitants	2,937,334	2,840,999	2,449,315	2,462,789	2,359,473
Uncollectible Receivables	–	–	–	–	–
	1,153,503,764	**1,077,980,337**	**1,012,533,911**	**963,591,482**	**924,251,543**
Administrative and miscellaneous expenses	10,120,434	9,527,938	8,800,848	8,751,945	7,827,576
Total deductions	**1,163,624,198**	**1,087,508,275**	**1,021,334,759**	**972,343,427**	**932,079,119**
Net increase (decrease)	(875,446,138)	1,365,291,832	571,500,640	(3,062,518,069)	(1,334,121,490)
Transfers Health Insurance	–	–	–	–	–
Net assets held in trust for benefits:					
Beginning of period,	10,312,762,164	8,947,470,332	8,375,969,692	11,438,487,761	12,772,609,251
End of period	**$ 9,437,316,026**	**$ 10,312,762,164**	**$ 8,947,470,332**	**$ 8,375,969,692**	**$ 11,438,487,761**

Continued from page 126

	2007	2006	2005	2004	2003
ADDITIONS:					
Contributions:					
Intergovernmental, net (employer)	$ 103,761,750	$ 52,789,706	$ 8,872,764	$ 13,032,273	$ 13,703,283
Employee contributions	179,017,663	163,419,386	175,706,081	169,598,212	159,931,110
	282,779,413	**216,209,092**	**184,578,845**	**182,630,485**	**173,634,393**
Investment income:					
Net investment income	1,947,810,351	1,093,872,285	1,034,998,497	1,477,931,294	312,557,682
Miscellaneous	1,923	139,509	561,154	86,285	35,775
Total additions	**2,230,591,687**	**1,310,220,886**	**1,220,138,496**	**1,660,648,064**	**486,227,850**
DEDUCTIONS:					
Pension Benefits					
Retirement	759,346,660	682,245,353	617,684,571	554,975,291	509,945,240
Survivors	27,532,256	25,854,248	24,520,785	22,885,524	25,730,482
Disability	10,898,039	10,388,393	9,561,956	8,649,568	8,126,443
Refunds					
Separation	12,829,988	10,633,789	16,877,637	9,565,261	7,648,527
Death	3,942,853	4,028,201	3,572,619	3,588,032	2,747,859
Other	19,581,668	16,023,309	4,408,439	10,173,428	6,954,762
Death Benefits					
Heirs of Active Teachers	554,765	535,142	470,537	505,842	482,493
Heirs of Annuitants	2,322,418	2,082,915	2,035,334	2,095,323	2,339,000
Uncollectible Receivables	–	–	–	–	–
	837,008,647	**751,791,350**	**679,131,878**	**612,438,269**	**563,974,806**
Administrative and miscellaneous expenses	8,434,688	8,320,340	7,477,671	7,214,467	6,576,953
Total deductions	**845,443,335**	**760,111,690**	**686,609,549**	**619,652,736**	**570,551,759**
Net increase (decrease)	1,385,148,352	550,109,196	533,528,947	1,040,995,328	(84,323,909)
Transfers Health Insurance	–	59,496,735	–	–	–
Net assets held in trust for benefits:					
Beginning of period	11,387,460,899	10,777,854,968	10,244,326,021	9,203,330,693	9,287,654,602
End of period	**$ 12,772,609,251**	**$ 11,387,460,899**	**$ 10,777,854,968**	**$ 10,244,326,021**	**$ 9,203,330,693**

Statement of Changes in Plan Net Assets
Health Insurance Fund

For Year Ended June 30, 2012, with comparative totals for 9 years

	2012	2011	2010	2009	2008
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	41,058	20,471	119,855	514,200	1,278,818
Health Insurance Premium Refund	6,770,651	10,338,661	–	15,000,000	–
Total additions	**71,811,709**	**75,359,132**	**65,119,855**	**80,514,200**	**66,278,818**
Deductions:					
Health Insurance Premium Rebate	69,011,323	78,892,292	79,953,873	75,811,835	68,691,191
Total deductions	**69,011,323**	**78,892,292**	**79,953,873**	**75,811,835**	**68,691,191**
Net increase (decrease)	2,800,386	(3,533,160)	(14,834,018)	4,702,365	(2,412,373)
Transfers Health Insurance	—	–	–	–	–
Net assets held in trust for benefits:					
Beginning of period, as restated	31,324,572	34,857,732	49,691,750	44,989,385	47,401,758
End of period	**$ 34,124,958**	**$ 31,324,572**	**$ 34,857,732**	**$ 49,691,750**	**$ 44,989,385**

Continued from page 128

	2007	2006	2005	2004	2003*
ADDITIONS:					
Contributions:					
Intergovernmental, net (employer)	$ 65,000,000	$ 65,000,000	$ 65,044,700	$ 65,095,000	$ 65,044,700
Investment income:					
Net investment income	2,373,014	4,071,093	1,899,844	928,497	944,488
Health Insurance Premium Refund	–	–	–	–	–
Total additions	**67,373,014**	**69,071,093**	**66,944,544**	**66,023,497**	**65,989,188**
DEDUCTIONS:					
Health Insurance Premium Rebate	61,028,841	58,279,900	54,410,887	53,106,379	51,395,920
Total deductions	**61,028,841**	**58,279,900**	**54,410,887**	**53,106,379**	**51,395,920**
Net increase (decrease)	6,344,173	10,791,193	12,533,657	12,917,118	14,593,268
Transfers Health Insurance	–	(59,496,735)	–	–	–
Net assets held in trust for benefits:					
Beginning of period, as restated	41,057,585	89,763,127	77,229,470	64,312,352	49,719,084
End of period	**$ 47,401,758**	**$ 41,057,585**	**$ 89,763,127**	**$ 77,229,470**	**$ 64,312,352**

** Beginning period restated.*

Annuitants

Distribution of Current Annuitants by Benefit Type

As of June 30, 2012

Monthly Pension Amount	Retirement		Disability		Survivor		Total	
	Males	Females	Males	Females	Males	Females	Males	Females
$ 0 – 499	445	999	2	3	163	265	610	1,267
$ 500 – 999	377	837	11	26	251	416	639	1,279
$ 1,000 – 1,499	314	641	19	45	184	250	517	936
$ 1,500 – 1,999	250	733	13	41	185	268	448	1,042
$ 2,000 – 2,499	257	901	15	53	180	269	452	1,223
$ 2,500 – 2,999	287	1,004	15	52	57	150	359	1,206
$ 3,000 – 3,499	325	1,221	16	38	13	68	354	1,327
$ 3,500 – 3,999	368	1,211	12	44	11	46	391	1,301
$ 4,000 – 4,499	611	1,684	8	29	3	19	622	1,732
$ 4,500 – 4,999	1,043	2,966	5	7	2	15	1,050	2,988
$ 5,000 – 5,499	852	2,215	2	5	1	2	855	2,222
$ 5,500 – 5,999	290	615	2	1	0	1	292	617
$ 6,000 – 6,499	262	320	1	1	0	1	263	322
$ 6,500 – 6,999	149	259	0	0	0	0	149	259
$ 7,000 – 7,499	121	220	1	1	1	0	123	221
$ 7,500 – 7,999	101	154	0	0	0	0	101	154
$ 8,000 – 8,499	72	120	0	0	0	1	72	121
$ 8,500 – 8,999	59	99	0	0	0	0	59	99
$ 9,000 +	99	155	0	0	0	0	99	155
Total	**6,282**	**16,354**	**122**	**346**	**1,051**	**1,771**	**7,455**	**18,471**

Annuitants

Distribution of Pensioners with Health Insurance Reimbursements by Size of Annuity

June 30, 2012

Monthly Pension Amount	Health Insurance	
	Males	Females
$ 0 – 499	64	151
$ 500 – 999	122	347
$ 1,000 – 1,499	140	378
$ 1,500 – 1,999	154	559
$ 2,000 – 2,499	199	772
$ 2,500 – 2,999	195	864
$ 3,000 – 3,499	243	991
$ 3,500 – 3,999	292	1,015
$ 4,000 – 4,499	493	1,437
$ 4,500 – 4,999	869	2,555
$ 5,000 – 5,499	719	1,924
$ 5,500 – 5,999	238	502
$ 6,000 – 6,499	215	280
$ 6,500 – 6,999	114	225
$ 7,000 – 7,499	107	189
$ 7,500 – 7,999	89	130
$ 8,000 – 8,499	65	107
$ 8,500 – 8,999	52	83
$ 9,000 +	80	132
Total	**4,450**	**12,641**

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

for persons retired within the last 10 years

	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
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
Fiscal Year 2012							
Average Monthly Pension	348	842	1,452	2,522	3,308	4,142	5,788
Average Final Salary	6,690	5,457	5,509	6,696	7,049	7,173	7,887
Number of Retired Members	72	114	84	134	221	157	538

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
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	7,145	23,867	31,012
2011	6,949	23,184	30,133
2012	7,048	23,318	30,366

**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.