Chicago Teachers' Pension Fund

119th Comprehensive Annual Financial Report

For the year ended June 30, 2014 ■ Chicago, Illinois

CTPF

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For the year ended June 30, 2014
Chicago, Illinois

Public School Teachers' Pension and Retirement Fund of Chicago

Report prepared by the staff of the Public School Teachers' Pension and Retirement Fund of Chicago

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INTRODUCTION

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

Board of Trustees

As of June 30, 2014

Jay C. Rehak

Lois W. Ashford

Mary Sharon Reilly

Raymond Wohl

Carlos M. Azcoitia

Robert F. Bures

Jeffery Blackwell

Bernie Eshoo

Tina Padilla

Walter E. Pilditch

Jerry Travlos

Andrea L. Zopp

OFFICERS

MEMBERS

Executive Staff

Executive Director,
Kevin B. Huber

Government Finance Officers Association

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, 2013

Executive Director/CEO

Consultants

As of June 30, 2014

LEGAL COUNSEL

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

INVESTMENT CONSULTANTS

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

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

HEALTH INSURANCE CONSULTANT

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

BANK CUSTODIAN

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

AUDITORS

Irene Davis
Partner
Mitchell & Titus, LLP
333 West Wacker Drive
Chicago, Illinois 60606

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, 2014

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
CenterSquare Investment Management, Inc.
Channing Capital Management, LLC
CityView
Deutsche Asset & Wealth Management, LLC
Dimensional Fund Advisors, LTD
DuPont Capital Management
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.
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
Newport Capital Partners Holdings, LLC
Palladium Equity Partners, LLC
Pantheon Ventures, LLP
Pharos Capital Group, LLC
Pluscios Management, LLC
Progress Investment Management, LLC
Prudential Investment Management, Inc.
Pugh Capital Management, Inc.
RhumbLine Advisers, LP
Syncom Venture Partners, LLC
Taplin, Canida and Habacht, Inc.
TCB-Broadway, LLC
The Northern Trust Company
UBS Realty Investors, LLC
Urban America Advisors, LP
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, 2014

Board of Trustees

Robert Jurinek
Internal Auditor

Kevin B. Huber
Executive Director

Mary Cavallaro, R.N.
Senior Director of Benefits

Carmen Heredia-López, CFA
Chief Investment Officer

Kas Henry, Ph.D.
Chief Financial Officer

Eric Morel
Information Technology Manager

Frances Radencic
Director of Member and Office Services

Jerry Baker
Health Benefits Manager

Edgar Samayoa
Benefits Manager

Saron Tegegne
Accounting Manager

Sheron Banks-Fallis
Member Services Manager

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

Letter of Transmittal

December 11, 2014

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 119th Comprehensive Annual Financial Report of the Public School Teachers' Pension and Retirement Fund of Chicago (Fund) that covers the fiscal year ended June 30, 2014. 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 63,194 members as of June 30, 2014, reflecting 0.4% growth over prior year membership of 62,911. The 119th year of continuous operations ended with the Fund's financial condition reflecting an increase over the prior year. This was due to strong investment returns and the employer making the actuarially required contribution for the fiscal year. The June 30, 2014, value of net assets held in trust for pension and health benefits amounted to $10.9 billion, an 11.8% increase from the $9.7 billion of the previous year.

The actuarial value of assets of the Pension Fund, calculated on a 4-year smoothed market value basis and used in the determination of the funding ratio, amounted to $10.0 billion. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $19.5 billion yields a 51.5% actuarial funding ratio, an increase from the 49.5% funding ratio of June 30, 2013.

The actuarial value of assets of the Health Insurance Fund amounted to $36.0 million. A comparison of the actuarial value of assets to the actuarial accrued liabilities of $1.9 billion yields a 1.9% actuarial funding ratio, a 26.7% increase from the prior year funding ratio of 1.5%.

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, 2014, investments at fair value plus cash and receivables totaled $11.2 billion reflecting a 14% increase from the $9.8 billion value of June 30, 2013. The Fund's investment performance for the one-year and ten-year periods ended June 30, 2014, was 18.4% and 7.3% respectively. Refer to the Investments Section of this report for more detailed performance information.

The Board of Trustees, with the aid of the CTPF investment staff and investment consultants, make decisions under the prudent person rule authorized by Article 1 of the Illinois Pension Code. The Board approves an asset allocation program designed to obtain the highest expected return on investments consistent with an acceptable level of risk for a large public employee retirement system. The Board relies on CTPF investment staff and investment consultants to monitor and evaluate the investment management firms' performance, to aid in the selection of investment management firms and to assist in the development of investment policy. Opportunities to improve the financial strength of the Fund will continue to be explored in accordance with the prudent person standard. Refer to the Manager Analysis and Broker Commission Report in the Investments Section of this report for information regarding investment management firms and brokerage firms that 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.

The Fund began its accounting system upgrade in FY 2014 to proactively prepare and be ready to meet the new GASB 67 and 68 requirements along with the necessary operational integrations. These efforts will continue through FY 2015 until all requirements are met for the FY 2015 reporting.

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 should not exceed the projected benefits. Constant effort is directed by the Fund administration towards improving the level of internal accounting control to ensure the members of the Fund belong to a financially sound retirement system.

ECONOMIC REVIEW

The fiscal year ending June 30, 2014, witnessed continually improving economic conditions, record returns in the equity market and a benign inflationary environment. News headlines during the first quarter of the fiscal year were dominated by the continued impact of the May 22, 2014, release of Federal Reserve meeting minutes indicating that a "tapering" of bond purchases (quantitative easing) might begin as soon as July and concerns about how the "taper" might impact the U.S. economic recovery. Disappointing earnings news from Walmart and Cisco in August 2013, coupled with the possibility of a military strike in Syria added to levels of uncertainty in the U.S. As the first quarter of fiscal year 2014 marched on, the looming budget battle in Washington rattled markets through August. Markets stabilized in September, as Russia stepped in to craft a potential solution to the situation in Syria and the Fed announced that there would be no "taper" in the near term.

News headlines were dominated by the continued speculation on whether the Fed would begin unwinding its asset purchase program during the second quarter of fiscal year 2014. In mid-September, the Fed announced that the quantitative easing program would continue on, spurring a surge in non-U.S. securities during the quarter. The Fed's decision in mid-December to taper its quantitative easing program, coupled with a resolution to the governmental shutdown in the U.S., contributed positively to equity returns due to increased transparency and the elimination of speculation. As for emerging markets, solid returns in October contributed to positive returns for the quarter, although returns fell in November and December. Natural disasters in the Philippines and scattered political crises, most notably in Thailand and Turkey, began to be causes for concern within emerging markets as the quarter came to a close.

During the third fiscal quarter, economic data were weaker than expected due largely to a very cold and snowy winter, coupled with a significant drought affecting the West Coast of the United States. In addition, devaluations in several emerging markets' currencies, concerns over a slowdown in China and the unfolding crisis in Ukraine also weighed on investor sentiment. Furthermore, the combination of a decelerating Asia, high profile elections in late March and an anemic European recovery troubled investors and contributed to market volatility. The world's emerging economies captivated most investors in the beginning of 2014 as labor disputes consumed Russia and frontier market Ukraine. China also underperformed as economic growth skidded to an 18-month low.

GDP growth was revised sharply downward from 0.1% to -2.9% during the third fiscal quarter, the largest contraction in GDP since the Great Recession. This did not seem to affect economic activity, however, as GDP growth came in at a robust 4% for the quarter ended June 30, 2014. Consumption, inventory growth, exports, building activity and state and local government spending all contributed positively to results. However, the recovery continued to be uneven and geopolitical risks mounted. As a result, interest rates continued to drop (particularly long yields) and the yield curve flattened as the fiscal year came to a close. As reported by the Bureau of Labor Statistics, the unemployment rate dropped to 6.1%, the lowest rate since 2008. The month of June marked the best five-month stretch of job creation since early 2006.

ECONOMIC OUTLOOK

The improving U.S. economy has put upward pressure on interest rates, but geopolitical tensions in some regions of the world, coupled with a significant yield-advantage relative to other developed markets, has helped to dampen this effect. Foreign investors were lured to the relatively high yields in the U.S. market, propelling the dollar sharply higher. At the end of the first quarter of fiscal year 2015, U.S. Treasuries offered a 57 basis points (bp) premium over German bunds (a 15-year high) as investors weighed the prospects of U.S. interest rate hikes against the likelihood of a more accommodative policy in the euro zone.

While the U.S. economy gained traction, news from Europe and Japan was more dismal, with euro zone GDP barely positive during the last fiscal quarter versus a U.S. reading of over 4%. The ECB cut rates to record lows in September 2014 to spur growth and stave off deflationary pressures. Germany's economy shrank 0.2% during the quarter and euro zone inflation fell to 0.3% in September; the weakest in 5 years and well below target. Japan's economy suffered its worst contraction since 2009 with negative GDP growth for the quarter (-7%) due, in part, to the implementation of sales tax increases from 5% to 8%.

Equity valuations remain moderate on a historical basis with the S&P trading at 15.2x forward earnings; just below the 25-year average of 15.6x. Coincidentally, the S&P 500 peaked at 15.2x in the fall of 2007 just before the start of the Great Recession. Foreign equities are relatively more attractive on a valuations basis as developed markets stand at 13.9x forward earnings while emerging markets are at 10.8x.

Financial markets have entered a period of heightened uncertainty. While the U.S. economy has gained traction in recent periods, results in Europe and Japan have been far bleaker. Weak growth in Europe, Japan, and much of the developing world threatens to disrupt the global economic recovery. Equities have sold off and volatility expectations have spiked as evidenced by the Volatility Index (VIX) jumping to levels not seen since late 2012. U.S. economic conditions appear stable, yet growth expectations are being trimmed. Inflationary fears have tempered in the U.S. while Europe is struggling to fend off deflationary concerns and Japan continues to try to manufacture whatever inflation it can.

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 in accordance with the Illinois Compiled Statutes (Public Act 89-15).

The Chicago Board of Education (employer) is required by law 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 2059, to make contributions which ensure that the Fund's projected actuarial value of assets is 90% of the Fund's projected actuarial liabilities. For fiscal 2014, the required contribution was $600 million. The employer is also required by law to fund over $680 million in employer contributions for fiscal year 2015 and $675 million in fiscal year 2016. Historically, the employer has achieved significant funding reductions through legislative measures, most recently as 2010.

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.

MAJOR INITIATIVES

The Fund and its Trustees continue 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, 2014, was 18.4% as performance of the portfolio mirrored the strong equity markets. 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 global equity at 61% (comprised of domestic equity at 29%, international equity at 29% and private equity at 3%); fixed income at 23%, real assets at 14% (comprised of private real estate at 7%, REITS at 2%, infrastructure at 3%, commodities at 2%); diversifying assets at 2%.

During the year, the Board and staff performed due diligence over its investment managers in order to monitor performance and compliance. The Fund continued its formal manager performance review process in order to monitor managers in all asset classes. During the year ended June 30, 2014, the Fund increased its commitment to two existing private equity fund-of-funds managers and two existing minority-owned private equity fund managers. In the real estate asset class, the Fund initiated investments with two industrial focused private real estate managers. One of the private real estate managers is minority owned. The Fund continues to be committed to diversity and as of June 30, 2014, approximately 33% ($3.6 billion) of the Fund's assets were managed by qualified minority, women and disabled person owned investment managers. Additionally, the Fund directed 35% ($1,472,401) of commissions to qualified minority, women and disabled owned broker dealers.

The Fund issued a Custodial Services RFP and performed a robust review process in FY 2014 to select a custodial bank with treasury services and a security lending agent for a FY 2015 transition.

LEGISLATIVE

The Fund successfully sought passage of legislative changes to establish the rules for delinquent payroll contribution, for data and cash on a pay period basis, which went into effect August 16, 2013, under PA 98-0427. The passage of this bill resulted in:

- Improving timing of funding via the use of late fees and fines when employers delay transmittal of withheld employee contributions
- Requiring all Charter Schools to have a designated Pension Officer who owns the pension funding compliance

Additional legislative measures that affected the Fund include:

- Public Act 98-0680: State funding for CTPF is statutorily required when the funded ratio is below 90%; if and when that happens the State must pay .544% of the Fund's teacher payroll. The law appropriated $12.1 million in funding to CTPF for FY 2015.
- Public Act 98-0675: Appropriated $50.0 million to CTPF for FY 15. State funding for CTPF is historically provided through two line items: one containing an appropriation that the State historically contributes and a second line added in FY99 when the State statutorily is required to pay .544% of the Fund's teacher payroll if the funded ratio is below 90%. This $50.0 million for FY15 represents the first line item, which has not been appropriated since FY 11.
- Public Act 98-1022: Beginning January 1, 2015, no contract for investment or consulting services or commitment to a private market fund shall be awarded by a retirement system, pension fund or investment board unless such entity first discloses the following:
    - The number and percentage of its investment and senior staff who are minority, female, or disabled;
    - The number of contracts with a minority owned business, female owned business, or business owned by a person with a disability;
    - The number of contracts with businesses other than a minority owned business, female owned business, business owned by a person with a disability, if more than 50% of the services under that contract are performed by a minority person, a female, or a person with a disability;
    - The law mandates that a retirement system must consider such information (within the bounds of financial and fiduciary prudence) before awarding a contract for investment services, consulting services, or commitment to a private market firm;
    - In addition, if an investment firm meeting the system's criteria responds to an RFP for investment services and meets the definition of a minority owned business, then that firm shall be allowed to present to the board before a final decision is made for that RFP;
    - Finally, the law codifies that the boards of the Illinois retirement systems shall establish goals for utilization of investment managers that meet the definition of minority owned business, female owned business, and disabled person owned business. The systems will set a goal for each category.

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. The Trustees and Fund Administrators, in conjunction with the Fund's consultants, continue to work in Springfield to represent the interests of the 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 fiscal year 2014 audit work was conducted by Mitchell & Titus LLP. The fiscal year 2014 actuarial work was done by Segal.

The Fund continued to work with its primary employer, Chicago Public Schools, to resolve payroll system issues that impacted pension fund data while establishing a robust process to work with the growing Charter School employers.

The Fund's Executive Director, Kevin B. Huber, began a medical leave in May 2014. The Board of Trustees subsequently appointed CTPF's President Jay C. Rehak, interim executive director, to provide leadership at the Fund through August 2014. President Rehak returned to his teaching position in August and the Board of Trustees then named Peter A. Driscoll, interim executive director on August 21, 2014.

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, 2013. This was the 23rd year that the Fund has received this prestigious award. In order to be awarded a Certificate of Achievement, the Fund must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

CONCLUDING COMMENTS

In the fiscal year 2014 election, Jeffery Blackwell and Bernice Eshoo were unopposed and declared elected in the Teacher Trustee Election. Jerry Travlos was unopposed and declared elected in the Administrator Trustee Election. Robert F. Bures, Walter E. Pilditch, and Mary Sharon Reilly were elected in the Pensioner Trustee Election.

In the election for officers, Jay C. Rehak was elected president; Lois W. Ashford, vice president; Mary Sharon Reilly, financial secretary; and Raymond Wohl, recording secretary.

Chairs of standing committees included Tina Padilla, Investments; Jeffery Blackwell, Claims and Service Credit; Mary Sharon Reilly, Finance and Audit; Lois Ashford, Pension Law and Rules.

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.

Peter A Driscoll

Peter Driscoll
Interim Executive Director

Kasthuri V. Henry

Dr. Kasthuri 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.

Mitchell & Titus
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Chicago, IL 60606
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mitchelltitus.com

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Public School Teachers' Pension and Retirement Fund of Chicago (the Fund), which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public School Teachers' Pension and Retirement Fund of Chicago at June 30, 2014, and the changes in its financial position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Adoption of GASB Statement No. 67

As discussed in Note 2 to the financial statements, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, in 2014. Our opinion is not modified with respect to this matter.

Mitchell
&Titus

Report on Summarized Comparative Information

We have previously audited the Fund's 2013 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated May 2, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedules of changes in employer's net pension liability, employer's net pension liability, employer's contributions, money-weighted rate of return, funding progress and employer contributions on pages 18 through 24 and pages 44 through 47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, which 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, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of administrative and miscellaneous expenses, schedule of cash receipts and disbursements, schedule of manager fees, and schedule of consultant payments 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Mitchell & Titus, LLP

December 11, 2014

Management's Discussion and Analysis (Unaudited)

June 30, 2014

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, 2014. This information is intended to supplement the financial statements, which begin on page 25 of this report. We encourage readers to consider additional information and data in the Fund's *2014 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 continued rebound of the financial markets in 2014, the Fund returned 18.4% for the year ended June 30, 2014. The sharp decline in value across investment classes in previous years brought the Fund's 10-year compounded rate of return down to 7.34%, slightly lower than the actuarial assumption of 7.75%.

The Fund's consulting actuary has certified the total actuarial accrued liability of the Pension Fund to be $19.5 billion as of June 30, 2014. This represents an increase in the total actuarial accrued liability of $0.5 million when compared to the actuarial accrued liability of $19.0 billion as of June 30, 2013. The unfunded actuarial accrued liability decreased from $9.6 billion to $9.4 billion during the year. The Fund's consulting actuary has also certified the total actuarial accrued liability of the Health Insurance Fund to be $1.9 billion as of June 30, 2014. This represents a decrease in the total actuarial accrued liability of $447.3 million compared to the actuarial accrued liability of $2.4 billion as of June 30, 2013. The unfunded actuarial accrued liability decreased from $2.4 billion to $1.9 billion during the year.

Financial Highlights

- Investment returns continued to be favorable in fiscal 2014. The investment rate of return for fiscal year 2014 was 18.4% (benchmark of 17.7%) following fiscal year 2013's return of 13.3% and fiscal year 2012's return of 0.6%. Five - and ten-year annualized returns were 13.8% (vs. benchmark of 13.2%) and 7.3% (vs. bench mark of 7.08%), respectively.
- Total plan fiduciary net position increased during the fiscal year to $10.9 billion at June 30, 2014, from $9.7 billion at June 30, 2013.
- The Fund paid members $1.3 billion in service retirement, disability and survivor benefits, and an additional $72.9 million for healthcare benefits.
- Total additions to plan fiduciary net position were $2.5 billion for fiscal year 2014. The net investment gain of $1.7 billion was more than 2.0 times member and employer contributions, which totaled $838.3 million.
- Total deductions from plan fiduciary net position were $1.4 billion for fiscal year 2014. Benefit payments, health care benefits, and member refunds increased by 4% over fiscal year 2013.
- The funded ratio for pension benefits increased to 51.5% as of June 30, 2014, from 49.5% 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 fiduciary net position* and the *statement of changes in fiduciary net position.* 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 s*tatement of fiduciary net position* is a measure of the Fund's assets and liabilities at the close of the fiscal year. Total assets less liabilities equal net position restricted for benefits.

The *statement of changes in fiduciary net position* shows revenues (additions) and expenses (deductions) for the fiscal year. The net increase (or decrease) is the change in net position restricted for benefits since the end of the previous fiscal year.

For financial reporting purposes, the Fund's assets are divided into two primary funds: the Pension Fund (a defined benefit plan) and the Health Insurance Fund (a postemployment healthcare plan). The Pension Fund includes member contributions and investment earnings used to pay service retirement benefits for participants. The Fund pays service retirement benefits using a fixed formula based on years of service and salary, subject to certain age requirements. In addition to service retirement, participants are eligible for disability and survivor benefits. The Health Insurance Fund consists of assets set aside to subsidize healthcare premiums for members receiving pension benefits.

The *notes to financial statements* are a fundamental part of the financial statements and provide important information to augment the understanding of the figures in the financial statements. The notes describe accounting policies along with plan membership and benefits. Supplementary disclosures of selected financial data are included in the notes.

In addition to the basic financial statements, a *schedule of changes in the employer's net pension liability, a schedule of the employer's net pension liability, a schedule of employer's contributions and a schedule of money-weighted rate of return* are included as required supplementary information for the pension plan; and a *schedule of funding progress and a schedule of employer contributions* are included as required supplementary information for the health insurance plan. The *schedule of the employer's net pension liability* and the *schedule of changes in the employer's net pension liability* show the liability of employer and nonemployer contributing entities to plan members for benefits provided through the pension plan and the changes thereof during the year. The *schedule of money-weighted rate of return* shows the period-by-period returns on pension plan investments that adjust for the changing amounts actually invested. It represents an internal rate of return on pension plan investments, net of pension plan investment expenses.

The *schedule of funding progress-Health Insurance Fund* shows actuarial trend information for the Health Insurance Fund for the past six years. The schedule includes the ratio of valuation assets to the actuarial accrued liability (funded ratio). The funded ratio increases or decreases over time based upon the relationships between contributions, investment performance, benefit changes, and actuarial assumption changes based upon participant information and characteristics. This schedule shows the unfunded actuarial accrued liability as a percentage of member payroll. This schedule also shows the relationship between the funding status of the plan and the growth of payroll.

The *schedule of employer contributions-Health Insurance Fund* shows the amount of required employer contributions and the percentage actually contributed to the Health Insurance Fund.

Investment Performance

For fiscal year 2014, the Fund's total investment performance resulted in a 18.4% gain. Domestic, international, and private equity as well as fixed income, real estate, public REITs, infrastructure and hedge funds generated positive returns. The Fund's portfolio of domestic equity reported a 26.1% return, international equity reported 22.6%, fixed income reported 5.5%, private equity reported a 20.2% return, real estate reported 15.8%, public REITs reported 14.2%, infrastructure reported a 9.4% return, and hedge funds reported a 5.1% gain. The Fund's money weighted rate of return for the year ended June 30, 2014 is 18.0%.

1-Year Returns (2014)

Asset Category	Fund Return	Index Name	Index Return
Total Fund	18.4%	Fund Benchmark Index	17.7%
Domestic Equity	26.1	Domestic Equity Benchmark	25.2
International Equity	22.6	MSCI ACWI ex US Index	22.3
Fixed Income	5.5	Barclays Aggregated Index	4.4
Private Equity	20.2	N/A	–
Real Estate	15.8	NFI-ODCE Equal Weight Index	12.7
Real Estate Investment Trusts (REITs)	14.2	Custom REITs Index*	14.2
Infrastructure	9.4	Absolute Benchmark	8.0
Hedge Funds	5.1	T-Bills +5%	5.1

5-Year Returns (2014)

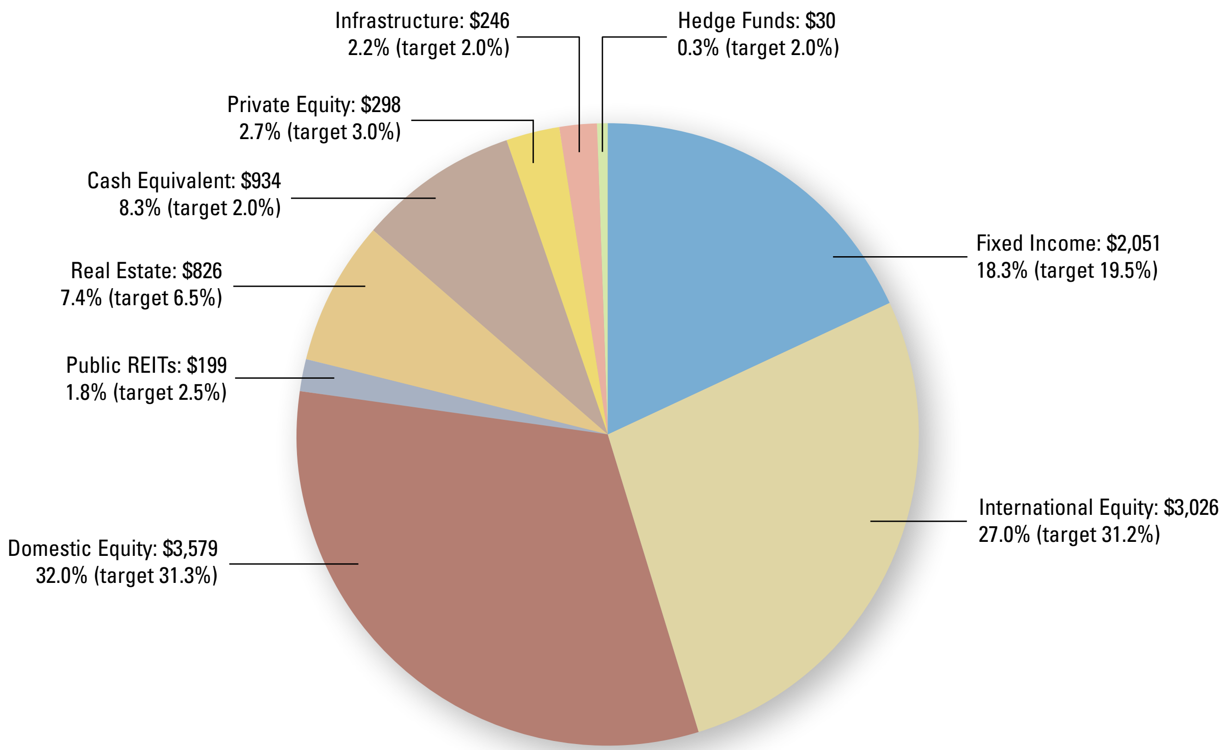
Asset Category	Fund Return	Index Name	Index Return
Total Fund	13.8%	Fund Benchmark Index	13.2%
Domestic Equity	19.5	Domestic Equity Benchmark	19.4
International Equity	14.5	MSCI ACWI ex US Index	11.6
Fixed Income	6.3	Barclays Aggregate Index	4.9
Private Equity	13.4	N/A	–
Real Estate	9.9	NFI-ODCE Equal Weight Index	10.0
Real Estate Investment Trusts (REITs)	20.1	Custom REITs Index*	20.1
Infrastructure	8.3	Absolute Benchmark	8.0
Hedge Funds	–	**N/A	–

* *CTPF has not been invested in Infrastructure for 5 years.*

** *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.*

Asset Allocation Summary as of June 30, 2014

IN MILLIONS OF DOLLARS



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

Financial Statement Analysis

PLAN FIDUCIARY NET POSITION

The plan fiduciary net position increased $1,141.7 million (11.8%) during the fiscal year. This increase was due primarily to the increase in the value of investment holdings.

As of June 30, 2014, total receivables, excluding amounts due from brokers, decreased by $5.4 million from 2013. The change in receivables is the result of a decrease in accrued investment income along with employee contributions receivable at year end. Due from Brokers (proceeds from investment sales) decreased by $28.3 million due to timing of investment sales at year end.

The decrease in accounts and administrative expenses payable of $5.4 million is mainly due to reduced health insurance rebate payment and manager fee expense.

A loss due to the Funds' custodian on securities lending transactions of $34 million is included in both Securities Lending Collateral payable for $14.8 million and Due to Brokers for $19.2 million. Due to Brokers (the cash due for investment purchases) increased by $254.0 million due to the timing of investment purchases at year-end.

The following is a summary of the fiduciary net position at June 30, 2014 and 2013:

	Fiscal Year			
(in millions)	2014		2013	
Cash and cash equivalents	$	11.8	$	15.7
Receivables		61.3		66.7
Due from brokers		108.1		136.4
Investments, at fair value		11,185.6		9,760.9
Securities lending collateral		505.3		648.9
Capital assets, net		1.5		1.9
Total assets		**11,873.6**		**10,630.5**
Benefits and refunds payable		16.1		15.6
Accounts and administrative expenses payable		16.0		21.4
Securities lending collateral payable		520.1		667.9
Due to brokers		469.7		215.7
Total liabilities		**1,021.9**		**920.6**
Net position restricted for benefits	**$**	**10,851.7**	**$**	**9,710.1**

ADDITIONS TO PLAN FIDUCIARY NET POSITION

Additions to plan fiduciary net position 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, 2014, additions totaled $2,531.4 million, compared to $1,579.1 million for the year ended June 30, 2013. Federal health insurance reimbursement represents funds from federal and health insurance companies which provide reimbursement to health plan sponsors for a portion of the costs of providing health coverage to early retirees. There were no health insurance reimbursements from federal and health insurance programs in fiscal 2014. However, the Fund received reimbursement from Blue Cross Blue Shield for excess premium stabilization reserve in the amount of $8.0 million.

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 additional funding from employer for fiscal years 2011, 2012, and 2013, which resulted in reduced funding. In fiscal 2014, minimum funding increased by $440.8 million as the amendment to the statute was applicable up until fiscal 2013. As a result, the employer made an additional contribution of $625.8 million in 2014, as determined by the actuary.

Net investment income increased mainly due to the unrealized appreciation of the Fund's investment portfolio. The Fund's portfolio experienced an 18.4% gain for the year ended June 30, 2014, compared to a 13.3% gain for the year ended June 30, 2013.

The following is a summary of additions to plan fiduciary net position for the years ended June 30, 2014 and 2013:

	Fiscal Year			
	2014		2013	
	(in millions)			
Intergovernmental, net	$	24.6	$	22.6
Federal health insurance reimbursement and miscellaneous		8.0		8.4
Employee contributions		187.9		188.4
Minimum funding requirement (employer)		625.8		185.1
Net investment income		1,685.1		1,174.6
Total additions	$	2,531.4	$	1,579.1

DEDUCTIONS FROM PLAN ASSETS

Deductions from plan fiduciary net position are representative of an actuarially mature employee group, with modest increases in most benefit categories. Pension benefits increased as new pensioners, with higher salaries, were added to the pension benefit. Refunds increased by $8.0 million as inactive and non-vested members applied for refunds. The health insurance premium is fairly consistent when compared to the prior fiscal year, as the rebate was disbursed at 60% of covered premiums for both fiscal years 2014 and 2013. Total deductions from plan fiduciary net position amounted to $1.4 billion for the year ended June 30, 2014, compared to $1.3 billion for the previous year.

The following is a summary of deductions from plan fiduciary net position for the years ended June 30, 2014 and 2013:

	Fiscal Year			
	2014		2013	
	(in millions)			
Pension benefits	$	1,269.8	$	1,228.3
Refunds		32.8		24.8
Death benefits		3.7		4.0
Refund of insurance premiums		72.9		71.8
Administration and miscellaneous expenses		10.5		11.5
Total deductions	$	1,389.7	$	1,340.4

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 limited to $187 million; minimum contributions for fiscal year 2012 were limited to $192 million, and minimum contributions for fiscal year 2013 were limited to $196 million. These amounts are substantially lower than the $600 million contribution in each fiscal year prior to the amendment. Additionally, under the amended statute, the funding period was extended from 2045 to 2059. Minimum contribution increased to $626 million in fiscal year 2014. 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 $11.9 million and $12.2 million for the periods ending June 30, 2014 and June 2015, respectively. The primary employer of the Fund is required to remit additional other contributions of $12.7 million and $13.0 million during the fiscal years ending June 30, 2014 and June 30, 2015, respectively. During fiscal year 2014, the employer and state paid a total of $650.4 million.

Based upon actuarial valuation, the total pension liability and plan fiduciary net position are $20.3 billion and $10.8 billion, respectively. This resulted in net pension liability of $9.5 billion as of June 30, 2014.

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

The funded ratio for the pension and health insurance plans increased from 49.7% in 2013 to 51.7 % in 2014. The increase in the funded ratio was due to the substantial employer contribution in 2014 and higher investment returns than expected. The funded ratio is expected to slightly increase to 52.5% in fiscal year 2015 due to the higher than expected investment returns in 2014. The funded ratios of the pension and health insurance plans have ranged from 49.5% to 80.1% and 1.0% to 2.3%, respectively, 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. 67, *Financial Reporting for Pension Plans* – an amendment of *GASB Statement No. 25* 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 Fiduciary Net Position

As of June 30, 2014, with comparative totals for 2013

	Pension Fund	Health Insurance Fund	Total 2014	Total 2013
ASSETS:		—		
Cash	$ 11,782,210	—	11,782,210	15,666,922
Prepaid expense	13,150	—	13,150	13,174
Receivables:				
Intergovernmental	1,989,382	—	1,989,382	1,821,860
Employee	25,342,007	—	25,342,007	27,869,767
Accrued investment income	28,285,880	—	28,285,880	31,743,951
Due from brokers	108,094,193	—	108,094,193	136,392,013
Participating teachers' accounts for contributions	4,444,343	—	4,444,343	4,559,206
Other receivables	1,248,241	—	1,248,241	753,602
Total receivables	169,404,046	—	169,404,046	203,140,399
Investments, at fair value:				
U.S. government and agency fixed income	1,107,489,659	—	1,107,489,659	938,552,193
U.S. corporate fixed income	633,125,800	—	633,125,800	534,360,775
Foreign fixed income securities	258,105,275	—	258,105,275	171,608,454
Commingled funds	1,230,947,404	—	1,230,947,404	1,099,569,739
U.S. equities	3,361,490,945	—	3,361,490,945	3,093,982,485
Foreign equities	2,872,532,046	—	2,872,532,046	2,471,506,129
Public REITs	52,778,941	—	52,778,941	175,023,120
Pooled short-term investment funds	891,009,314	38,877,444	929,886,758	521,564,746
Real estate	299,147,976	—	299,147,976	297,996,967
Infrastructure	141,571,217	—	141,571,217	182,573,109
Private equity	297,705,749	—	297,705,749	274,077,937
Margin cash	790,472	—	790,472	100,000
Total investments	11,146,694,798	38,877,444	11,185,572,242	9,760,915,654
Securities lending collateral	505,301,189	—	505,301,189	648,873,113
Capital assets, net of accumulated depreciation	1,506,069	—	1,506,069	1,934,121
Total assets	**11,834,701,462**	**38,877,444**	**11,873,578,906**	**10,630,543,383**
LIABILITIES:				
Benefits payable	3,551,111	—	3,551,111	3,576,692
Refunds payable	12,537,535	—	12,537,535	12,004,775
Accounts and administrative expenses payable	13,109,074	2,900,000	16,009,074	21,418,874
Securities lending collateral payable	520,146,384	—	520,146,384	667,849,650
Due to brokers	469,662,744	—	469,662,744	215,707,926
Total liabilities	**1,019,006,848**	**2,900,000**	**1,021,906,848**	**920,557,917**
Net Position Restricted for Benefits	$ 10,815,694,614	35,977,444	10,851,672,058	9,709,985,466

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Position

For fiscal year ended June 30, 2014,
with comparative totals for 2013

	Pension Fund	Health Insurance Fund	Total 2014	Total 2013
ADDITIONS:				
Contributions:				
Intergovernmental, net	$ 24,594,000	—	24,594,000	22,585,000
Employee	187,846,065	—	187,846,065	188,356,294
Minimum funding requirement (employer)	560,822,141	65,000,000	625,822,141	185,069,000
Total contributions	773,262,206	65,000,000	838,262,206	396,010,294
Investment income:				
Net appreciation in fair value	1,486,073,269	—	1,486,073,269	961,784,065
Interest	96,471,212	55,134	96,526,346	108,103,844
Dividends	140,397,418	—	140,397,418	141,538,821
Miscellaneous	216,064	—	216,064	1,468,191
Securities lending income	2,999,976	—	2,999,976	4,006,659
Less investment expense:				
Investment advisory and custodial fees	(41,078,099)	—	(41,078,099)	(42,318,757)
Net Investment Income	1,685,079,840	55,134	1,685,134,974	1,174,582,823
Federal insurance reimbursement	—	—	—	432,997
Insurance company reimbursement	—	8,000,000	8,000,000	7,919,650
Total additions	2,458,342,046	73,055,134	2,531,397,180	1,578,945,764
DEDUCTIONS:				
Pension benefits	1,269,835,064	—	1,269,835,064	1,228,318,994
Refunds	31,242,999	—	31,242,999	22,263,409
2.2 Legislative refunds	1,589,172	—	1,589,172	2,523,654
Refund of insurance premiums	—	72,874,594	72,874,594	71,763,523
Death benefits	3,674,621	—	3,674,621	3,994,309
	1,306,341,856	72,874,594	1,379,216,450	1,328,863,889
Administrative and miscellaneous expenses	10,494,139	—	10,494,139	11,537,394
Total deductions	1,316,835,995	72,874,594	1,389,710,589	1,340,401,283
Net increase	1,141,506,051	180,540	1,141,686,591	238,544,482
Net Position Restricted for Benefits Beginning of Year	9,674,188,563	35,796,904	9,709,985,467	9,471,440,984
End of Year	**$ 10,815,694,614**	**35,977,444**	**10,851,672,058**	**9,709,985,466**

The accompanying notes are an integral part of these financial statements.

(1) Description of Pension and Health Insurance Plans

(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, 2014, the Fund had 70 participating employers consisting of the primary employer, Chicago Public Schools, 68 charter schools and the Fund itself. As of June 30, 2014 and 2013, the Fund membership consisted of the following:

	2014	2013
Retirees and beneficiaries currently receiving benefits	27,722	27,440
Terminated members entitled to benefits but not yet receiving them	4,818	4,502
Current members:		
Vested	19,997	20,185
Nonvested	10,657	10,784
	63,194	62,911

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:

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.

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. In accordance with Public Acts 96-0889, 96-1490, 96-1495, 98-0622, and 98-641, the Department of Insurance (Department) is to annually determine certain annuity limitations for use in benefit determination by pension funds operating under the Illinois Pension Code. For calendar years 2013 and 2014, the Department determined that the maximum earnings, salary or wages that can be used in calculating pension is $109,971 and $110,631, respectively.

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, for the preceding year. The automatic annual increase is paid beginning January 1 following the member's 67th birthday or the first anniversary of retirement, whichever occurs 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 67th 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 years 2014 and 2013. 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 plan net position in the health insurance fund, previous years' amounts authorized but not expended at June 30, 2014 and 2013 are $35,977,444 and $35,796,904, respectively. The Fund has total discretion over the program, and no employee or employer contributions are made for the subsidy.

As of June 30, 2014 and 2013, health insurance membership consisted of the following:

	2014	2013
Retirees and beneficiaries currently receiving health insurance benefits	18,171	18,140
Terminated employees entitled to benefits but not yet receiving them	4,818	4,502
Retirees and beneficiaries entitled to health benefits but not currently receiving them	9,501	9,300
Active Members	30,653	30,969
	63,143	62,911

(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 securities is determined by using the closing price listed on the national securities exchanges as of June 30. Fair value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled funds, the net asset value is determined and certified by the commingled fund manager as of June 30. Alternative investments, which include private equity, real estate, infrastructure and hedge funds, are valued based on amounts established by the fund managers or general partners which are subject to annual audit. The fair value of the derivative instruments that are not exchange 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 2013 amounts have been reclassified to conform with the 2014 presentation.

(G) RISKS AND UNCERTAINTIES

The Fund invests in various investment securities. Investment securities are exposed to various risks including 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 fiduciary net position.

(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, 2013, from which the summarized information was derived.

(J) NEW ACCOUNTING PRONOUNCEMENT ADOPTED

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and GASB Statement No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of GASB Statement No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of GASB Statement No. 67. For defined benefit pension plans, GASB Statement No. 67 specifies the required approach to measure the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. GASB Statement No. 67 also improves financial reporting through accountability, enhanced note disclosures, and required supplementary information. The Fund had adopted GASB Statement No. 67 for its June 30, 2014, financial statements. The adoption of GASB Statement No. 67 resulted in the elimination of certain actuarial disclosures related to the pension plan's funding progress, and the addition of disclosures related to pension plan's net pension liability and changes thereof, and the annual money-weighted rate of return on pension plan investments.

(3) Receivables

As of June 30, 2014 and 2013, intergovernmental receivables include appropriations due from the State of Illinois in the amount of $1,989,382 and $1,821,860, respectively. Employee receivables include retirement contributions deducted from employees' compensations by 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 $22,298,545 and $24,966,356, on behalf of the employees, at June 30, 2014 and 2013, respectively. Employees owed the fund $3,043,462 and $2,903,411 for the 2.2 pension formula upgrade at June 30, 2014 and 2013, respectively.

(4) Investment Policies, Asset Allocation and Money-Weighted Rate of Return

INVESTMENT POLICY

The Board is responsible overall for the prudent investment and expenditure of the Fund's assets, specifically with regard to investments. The Board of Trustees has the authority to establish and amend investment policy decisions.

ASSET ALLOCATION

The pension plan's policy with respect to the allocation of invested assets is established and may be amended by the Fund's Board of Trustees. The following table represents the Board's adopted asset allocation policy as of June 30, 2014.

Asset Class	Target Allocation
Fixed Income	19.5%
Equity	62.5
Public REITs	2.5
Real Estate	6.5
Cash Equivalents	2.0
Private Equity	3.0
Infrastructure	2.0
Hedge Funds	2.0
Grand Total	**100.0**

MONEY-WEIGHTED RATE OF RETURN

For the year ended June 30, 2014, the annual money-weighted rate of return on the plan investments, net of investment expense, was 18.01%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(5) deposits and Investments

CUSTODIAL CREDIT RISK - 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, 2014	
Carrying amount	$ 11,782,210
Bank balance	8,022,149
Amount exposed to custodial credit risk	$ 3,760,061

INVESTMENTS

The following table presents a summary of the Fund's investments at fair values at June 30, 2014:

Investments		Fair Value
U.S. government and agency fixed income	$	1,107,489,659
U.S. corporate fixed income		633,125,800
Foreign fixed income securities		258,105,275
Commingled common stock		217,174,646
Commingled emerging markets		153,553,092
Commingled public reits		146,589,701
Commingled corporate bonds		52,231,653
Commingled Hedge Fund		30,027,025
Commingled Infrastructure		104,304,169
Commingled Real Estate		527,067,118
U.S. equities		3,361,490,945
Foreign equities		2,872,532,046
Public REITs		32,701,532
Foreign public REITs		20,077,409
Pooled short-term investment funds		929,886,758
Real estate		299,147,976
Infrastructure		141,571,217
Private equity		297,705,749
Margin cash		790,472
Total investments	**$**	**11,185,572,242**

(A) CUSTODIAL CREDIT RISK - INVESTMENTS

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, 2014, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department not agent but not in the Fund's name:

Custodial Credit Risk	June 30, 2014
Margin cash	$ 790,472

(B) CONCENTRATION OF CREDIT RISK

There are no investments in any issuer that represent 5% or more of fiduciary net position as of June 30, 2014.

(C) CREDIT RISK

Credit risk is the risk that the Fund will not recover its investments due to the inability of the counterparty to fulfill its obligation. The Fund does not have a formal investment policy which limits its exposure to credit risk. The following table presents the quality ratings of debt securities held by the Fund as of June 30, 2014:

S&P Credit Ratings	Asset Backed	Commercial Mortgage -Backed	Commingled Fixed Income Funds	Corporate Bonds	Government Agencies	Government Bonds	Government Mortgage Backed	Municipal Prov Bonds	Sukuk
A	$ 1,016,060	3,013,188	–	287,940,253	1,794,988	729,524,853	–	9,347,361	–
AA	5,880,226	5,773,363	–	74,846,088	97,556,885	8,048,245	–	13,070,664	1,217,187
AAA	5,569,505	4,378,487	–	5,390,207	35,407,624	1,755,030	–	3,033,158	–
B	731,709	–	–	10,428,332	–	892,643	–	–	–
BB	899,206	548,356	–	39,554,692	–	–	–	–	–
BBB	2,316,842	2,062,219	–	297,793,563	1,650,460	772,625	–	–	–
CC	267,978	945,625	–	–	–	22,182,738	–	–	–
CCC	235,414	6,856,226	–	4,619,259	–	–	–	–	–
D	594,062	–	–	–	–	–	–	–	–
Not Rated	3,532,390	12,018,738	52,231,653	12,570,060	1,189,206	18,811,280	4,094,706	705,515	–
US Gov't Agency	–	3,508,021	–	–	4,667,447	–	249,708,050	–	–
	$ 21,043,392	**39,104,223**	**52,231,653**	**733,142,454**	**142,266,610**	**781,987,414**	**253,802,756**	**26,156,698**	**1,217,187**

(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, 2014:

Investment Type	Fair Value	Effective Duration (years)
Asset-backed securities	$ 21,043,392	0.02
Commercial mortgage-backed	39,104,223	0.08
Commingled fixed income funds	52,231,653	0.13
Corporate bonds	733,142,454	2.07

Investment Type	Fair Value	Effective Duration (years)
Government agencies	$ 142,266,610	0.29
Government bonds	781,987,414	6.26
Government mortgage-backed securities	253,802,756	0.81
Municipal/provincial bonds	26,156,698	0.12
Sukuk	1,217,187	0.01
Total	**$ 2,050,952,387**	

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, 2014:

Currency	Fair Value	Percentage
Foreign equities:		
Australian dollar	$ 66,325,158	2.19%
Brazilian real	42,298,829	1.40
British pound sterling	606,030,084	20.03
Canadian dollar	82,469,251	2.73
Chilean peso	1,366,096	0.05
Czech koruna	12,101,104	0.40
Danish krone	35,003,072	1.16
Euro	620,072,470	20.49
Hong Kong dollar	98,636,031	3.26
Hungarian forint	1,618,041	0.05
Indian rupee	50,721,680	1.68
Indonesian rupiah	20,147,587	0.67
Japanese yen	444,973,693	14.70
Malaysian ringgit	7,665,265	0.25
Mexican peso	8,826,179	0.29
New Israeli shekel	3,638,462	0.12
New Taiwan dollar	37,617,872	1.24
New Zealand dollar	5,873,392	0.19
Norwegian krone	41,573,658	1.37
Philippine peso	1,987,319	0.07%

Currency	Fair Value		Percentage
Polish zloty	$	8,020,372	0.27
Qatari rial		45,957	0.00
Singapore dollar		7,434,075	0.25
South African rand		11,661,340	0.39
South Korean won		65,797,044	2.17
Swedish krona		72,538,631	2.40
Swiss franc		214,625,346	7.09
Thai baht		7,356,144	0.24
Turkish lira		19,657,492	0.65
U.S. dollar		430,003,494	14.20
Total		**3,026,085,138**	**100.00%**
Foreign fixed income			
Australian dollar	$	349,131	0.14%
Brazilian real		2,260,447	0.88
Canadian dollar		112,250	0.04
Danish krone		369,312	0.14
Euro		8,727,291	3.38
British pound sterling		5,157,602	2.00
Japanese yen		399,549	0.15
Mexican peso		5,458,843	2.11
New Zealand dollar		521,390	0.20
Polish zloty		277,902	0.11
Swedish krona		123,138	0.05
U.S. Dollar		234,348,420	90.80
Total		**258,105,275**	**100.00%**
Foreign Public REITs			
Australian dollar	$	3,119,009	15.53%
British pound sterling		3,206,623	15.97
Canadian dollar		1,498,855	7.47
Euro		2,967,789	14.78
Hong Kong dollar		3,543,988	17.65
Japanese yen		5,187,858	25.84
Norwegian krone		210,149	1.05
Singapore dollar		223,078	1.11
U.S. dollar		120,060	0.60
Total	**$**	**20,077,409**	**100.00%**

(6) 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, 2014:

Derivative Type	Notional Amounts	Fair Value
Foreign currency contracts purchased	$ –	70,456,622
Foreign currency contracts sold	–	(70,601,673)
Futures:		
Long fixed income	88,558,591	155,678
Short fixed income	13,158,742	(110,086)
Long equity	(112,776,846)	41,635
Options		
Margined options/put purchased:	–	(63,375)
Rights	–	201,074
Warrants	–	30,122
Swaps		
Credit default:		
Receive coupon/buy protection	3,025,548	134,648
Total	**$ (8,033,965)**	**244,646**

(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, 2014 is as follows:

Currency	Fair Value
Foreign currency exchange purchases:	
Australian dollars	$ 44,892
British pound sterling	282,063
Czech koruna	133,703
Danish krone	56,940
Euro	4,352,471
Japanese yen	651,086
Malaysian ringgit	158,680
Norwegian krone	339,497
New Zealand dollar	106,264
Swedish krona	1,527,645
South African rand	141,762

Currency		Fair Value
U.S. dollar	$	62,661,619
Total Purchases	**$**	**70,456,622**
Foreign currency exchange sales:		
Australian dollars	$	(267,520)
British pound sterling		(6,385,900)
Canadian dollar		(107,888)
Danish krone		(367,353)
Euro		(17,919,190)
Japanese yen		(36,858,079)
New Zealand dollar		(515,216)
Polish zloty		(133,118)
Swedish krona		(294,380)
U.S. dollar		(7,753,029)
Total Sales	**$**	**(70,601,673)**

(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 in the Fund's statement of changes in fiduciary net position for the year ended June 30, 2014:

Derivative Type		Changes in Fair Value
Foreign currency contracts	$	754,717
Options		34,771
Rights and warrants		198,562
Swaps		142,918
Total	$	1,130,968

(F) 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, 2014, was approximately $157,419. Also, the credit risks are rated A by the rating agencies.

(G) 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, 2014:

Derivative Type	Fair Value	Effective Duration (years)
Futures fixed income (long and short, net)	$ 45,592	0.20
Options	(63,375)	(0.03)
Total	**$ (17,783)**	

(7) Unfunded Commitments

Alternative investment portfolio includes private equity, real estate, infrastructure and hedge funds. At June 30, 2014, the Fund had future commitments for additional contributions to private equity, real estate, and infrastructure managers in the amount of $216 million, $68 million, and $9 million respectively.

(8) 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 and non-cash collateral worth at least 102% of the lent securities' fair value, and international securities for collateral worth at least 105%. At year-end, the Fund has no credit risk exposure to borrowers because the amount the Fund owes to the borrowers exceeds the amounts the borrowers owe to the Fund. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities, if the collateral is inadequate to replace the securities lent, or the borrowers fail to pay the Fund for income distributions by the securities issuers while the securities are out on loan. All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is 57 days. Cash collateral is invested in the lending agent's short-term investment pool, which at June 30, 2014, has a weighted average maturity of 42 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	2014	2013
Fair value of securities loaned for cash collateral	$ 493,273,887	630,946,626
Fair value of securities loaned for noncash collateral	77,498,573	104,278,740
Total fair value of securities loaned	570,772,460	735,225,366
Fair value of cash collateral from borrowers	505,301,189	648,873,113
Fair value of noncash collateral from borrowers	82,161,233	110,403,448
Total fair value of collateral from borrowers	$ 587,462,422	759,276,561

(9) 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. The Employer and state were required to make contributions of $662.3 million in fiscal 2014. Also, based upon amendments to the statute during fiscal year 2010 applicable up until fiscal year 2013, the employer and state were required to make contributions in the amount of $218.6 million in fiscal 2013. During fiscal years 2014 and 2013, the employer and state paid $650.4 million and $207.7 million, respectively. The unpaid portion for fiscal years 2014 is currently under litigation with the employer through an action filed for fiscal year 2011. The final ruling in the fiscal year 2011 litigation will determine if the employer will be liable for the unpaid portion for fiscal years 2012, 2013 and 2014. During the year ended June 30, 2014, 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 $337,880 and $298,379 for the years ended June 30, 2014 and 2013, 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.

(10) Net Pension Liability of Participating Employer

The components of the net pension liability at June 30, 2014 were as follows:

Total pension liability	$	20,316,899,952
Plan fiduciary net position		10,815,694,614
Employer's net pension liability	$	9,501,205,338
Plan fiduciary net position as a percentage of the total pension liability		53.23%

ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

	Pension Plan
Inflation	2.75%
Salary Increases	4.25% to 15.75%, varying by age
Investment rate of return	7.75%, net of investment expense
Cost of living adjustments	3% compound for Tier 1 members; the lesser of 3% or one-half of CPI, simple, for Tier 2 members

For healthy participants, mortality rates were based on the RP-2000 Healthy Mortality Table for Males or Females, as appropriate, set back 2 years and adjusted for mortality improvements generationally from 2004 based on Scale AA. For disabled participants, mortality rates were based on RP-2000 Disabled Mortality Table, set back 3 years.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an experience study for the period of July 1, 2007, through June 30, 2012.

The long-term expected rate of return on pension plan investments was determined under a building-block method by using the current risk free rate and historical risk premium for each major asset class to develop the best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) for each major asset class. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

	Long-Term Expected Real Rate of Return
Equities	32.7%
Fixed Income	9.8
Real Estate	3.9
Private Equity	6.3
Hedge Funds	2.9
Commodities	0.8
Cash Equivalents	-0.3

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made as specified by Public Act 96-0889. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the net pension liability as of June 30, 2014, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

NET PENSION LIABILITY	1% DECREASE (6.75%)	CURRENT DISCOUNT RATE (7.75%)	1% INCREASE (8.75%)
June 30, 2014	12,136,287,040	9,501,205,338	7,312,538,277

(11) FUNDED STATUS AND FUNDING PROGRESS-HEALTH INSURANCE PLAN

As of June 30, 2014, the funded status, annual covered payroll, and unfunded actuarial accrued liability for the Health Insurance Plan were as follows:

	HEALTH INSURANCE PLAN	
Actuarial accrued liability	$	1,938,855,895
Less actuarial value of assets		35,977,444
Unfunded actuarial accrued liability	$	1,902,878,451
Funded ratio		1.86%
Annual covered payroll	$	2,233,280,995
Unfunded actuarial accrued liability as a percentage of annual covered payroll		85.21%

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 mortality, investment returns, and healthcare cost trends. The schedules of funding progress-Health Insurance Plan, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial value of the Health Insurance Plan's net position 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 Health Insurance Plan as of June 30, 2014:

	HEALTH INSURANCE PLAN
Valuation date	June 30, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Amortization approach	Closed
Amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.5% per year
Inflation rate*	2.8% per year
Medical trend rate:	
2015	8.0% per year
2016	7.5% per year
2017	7.0% per year
2018	6.5% per year
2019	6.0% per year
2020	5.5% per year
2021 and later	5.0% per year

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

(12) 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.

(13) 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.

(14) 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:

The minimum future rental lease payments through April 30, 2021, are as follows:

Year Ended June 30:	Amount
2015	$ 537,965
2016	550,623
2017	563,281
2018	575,939
2019	588,597
2020	601,255
2021	510,539
Total minimum future rental payments	**$ 3,928,199**

Rent expense was $525,307 and $512,649 in fiscal years 2014 and 2013, respectively.

(15) Subsequent Event

In an effort to simplify and automate pension processing, an administrative change was made that eliminated resignation date from the factors used in the determination of the pension benefit effective date. In July 2014, it was determined that the new methodology was inconsistent with current statute. This resulted in benefit overpayment of approximately $2.5 million. The Fund is working with consultants to resolve the matter.

Required Supplementary Information
Schedule of Changes in Employer's Net Pension Liability (Unaudited)
Pension Plan

SCHEDULE 1

		2014
Total pension liability		
Service cost	$	332,188,481
Interest		1,509,307,860
Differences between expected and actual experience		(14,177,102)
Benefit payments, including refunds of employee contributions		(1,306,341,856)
Net change in total pension liability		**520,977,383**
Total pension liability – beginning		**19,795,922,569**
Total pension liability – ending (a)	**$**	**20,316,899,952**
Plan fiduciary net position		
Contributions – employer	$	585,416,141
Contributions – employee		187,846,065
Net investment income		1,685,079,840
Benefit payments, including refunds of employee contributions		(1,306,341,856)
Administrative expense		(10,494,139)
Net change in plan fiduciary net position		**1,141,506,051**
Plan fiduciary net position – beginning		**9,674,188,563**
Plan fiduciary net position – ending (b)	**$**	**10,815,694,614**
Employer's net pension liability – ending (a) – (b)	**$**	**9,501,205,338**

The above information is required beginning fiscal year 2014. Information for the next 10 years will be presented in future fiscal years.

Required Supplementary Information

Schedule of the Employer's Net Pension Liability (Unaudited)

Pension Plan

SCHEDULE 2

	2014
Total pension liability	$ 20,316,899,952
Plan fiduciary net position	10,815,694,614
Employer's net pension liability	$ 9,501,205,338
Plan fiduciary net position as a percentage of the total pension liability	53.23%
Covered-employee payroll	$ 2,233,280,995
Employer's net pension liability as a percentage of covered-employee payroll	425.44%

The above information is required beginning fiscal year 2014. Information for the next 10 years will be presented in future fiscal years.

Required Supplementary Information

Schedule of employer's Contribution (unaudited)

Pension Plan

SCHEDULE 3

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency	Covered Actual Employee Payroll	Contributions as a percentage of Covered Employee Payroll
2005	$ 258,883,211	$ 8,872,764	$ 250,010,447	$ 1,968,612,235	0.45%
2006	328,365,821	52,789,706	275,576,115	1,944,358,215	2.72%
2007	311,139,800	103,761,750	207,378,050	1,863,182,086	5.57%
2008	290,072,885	164,270,412	125,802,473	1,914,558,916	8.58%
2009	292,145,359	198,069,327	94,076,032	1,996,194,224	9.92%
2010	355,846,125	290,759,950	65,086,175	2,107,934,080	13.79%
2011	430,091,545	143,589,994	286,501,551	2,090,131,858	6.87%
2012	510,101,466	138,729,011	371,372,455	2,224,903,121	6.24%
2013	585,444,539	142,654,000	442,790,539	2,239,347,051	6.37%
2014	719,781,746	585,416,141	134,365,605	2,233,280,995	26.21%

Schedule of Money-Weighted Rate of Return (unaudited)

Pension Plan

SCHEDULE 4

Year Ended June 30	Annual Money-Weighted Rate of Return, net of investment expense
2012	0.11%
2013	13.13%
2014	18.01%

Required Supplementary Information
Schedule of Funding Progress (Unaudited)
Health Insurance Plan

Last six fiscal years (in thousands except for percentages)

SCHEDULE 5

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, 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
June 30, 2013	35,797	2,386,106	2,350,309	1.50	2,239,347	104.96
June 30, 2014	35,977	1,938,856	1,902,879	1.86	2,233,281	85.21

Schedule of Employer Contributions (Unaudited)
Health Insurance Plan

Last six fiscal years

SCHEDULE 6

Period Ended June 30	Annual Required Contribution	Actual	Percentage Contributed
2009	$ 171,880,428	$ 65,000,000	37.82%
2010	186,231,574	65,000,000	34.90
2011	215,797,617	65,000,000	30.12
2012	218,842,221	65,000,000	29.70
2013	216,163,148	65,000,000	30.07
2014	165,115,403	65,000,000	39.37

Notes to Required Supplementary Information

Actuarial Methods and Assumptions

Pension and Health Insurance Plans

The following represents the actuarial methods and assumptions for the Pension and Health Insurance Plans as of June 30, 2014:

	Pension Plan	**Health Insurance Plan**
Valuation date	June 30, 2014	June 30, 2014
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level percent of payroll	Level percent of payroll
Amortization approach	Closed	Closed
Amortization period	30 years	30 years
Asset valuation method	4-year smoothed market value	Market value
Actuarial assumptions:		
Investment rate of return	7.75% per year	4.5% per year
Projected salary increases*	Rate of increase is age based ranging from 15.75% to 4.25%	N/A
Inflation rate*	2.75% per year	2.8% per year
	Post-retirement benefit increase:	Medical trend rate:
2015	3% per year	8.0% per year
2016	3% per year	7.5% per year
2017	3% per year	7.0% per year
2018	3% per year	6.5% per year
2019	3% per year	6.0% per year
2020	3% per year	5.5% per year
2021 and later	3% per year	5.0% per year

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

Schedules of Administrative and Miscellaneous Expenses

Years ended June 30, 2014 and 2013

SCHEDULE 7

	2014	2013
Salaries	$ 5,001,454	5,277,646
Accrued leave	247,861	364,746
Actuary fees	114,000	174,388
Auditing	179,200	210,750
Banking fees	54,734	52,663
Data processing	47,675	40,626
Depreciation	571,202	580,623
Election expense	74,132	197,117
Employees' health insurance	915,845	867,640
Field services/pension rep	53,281	43,739
Health insurance consulting	15,171	50,000
Insurance premium	47,384	40,093
Legal fees	346,502	514,024
Legislative expense	144,546	164,800
Maintenance of equipment, systems, software, and support	161,035	181,135
Medical fees	46,480	54,065
Miscellaneous	98,745	95,990
Office forms and supplies	64,378	60,760
Office rent and utilities	986,576	914,977
Postage	197,799	194,384
Professional services - Non IT	31,112	10,921
Publications/communication	387,858	316,979
System consulting	573,953	947,196
Trustee conferences, seminars, and meetings	95,999	136,052
Tuition and training/educational conference	37,217	46,080
Total	**$ 10,494,139**	**11,537,394**

Schedules of Cash Receipts and Disbursements

Years ended June 30, 2014 and 2013

SCHEDULE 8

	2014	2013
Cash and cash equivalents at beginning of period	$ 537,231,668	553,152,353
Add receipts:		
Member contributions	189,994,049	183,100,753
Public revenues	658,248,619	217,667,787
Interest and dividends	243,597,875	253,133,069
Net investment sales	748,465,323	718,803,044
Total cash receipts	**1,840,305,866**	**1,372,704,653**
Less disbursements:		
Pension benefits	1,273,535,266	1,231,306,299
Refunds	30,710,239	32,015,655
2.2 legislative refunds	1,589,172	2,523,654
Refund of insurance premiums	73,828,453	72,819,890
Investment and administrative expenses	56,205,436	49,959,839
Total cash disbursements	**1,435,868,566**	**1,388,625,337**
Net increase (decrease) in cash and cash equivalents	404,437,300	(15,920,684)
Cash and cash equivalents at end of period	**$ 941,668,968**	**537,231,669**

See accompanying independent auditors' report.

Schedules of Manager Fees

Years ended June 30, 2014 and 2013

SCHEDULE 9

	2014	2013
Manager Fees	$ 37,670,848	39,317,322
Consultant Fees	1,169,080	1,042,662
Banking and Foreign Exchange Fees	2,238,171	1,689,915
Litigation Fees - DV Reality Advisors, LLC*	—	222,256
Foreign Audit and Legal Fees (Tax Filings)	—	46,602
Total	$ 41,078,099	$ 42,318,757

** DV Urban litigation fee $33,577 is included within administrative and miscellaneous expense line item.*

Schedule of Consultant Payments

Years ended June 30, 2014 and 2013

SCHEDULE 10

	2014	2013
Anselmo and Associates	$ 44,204	103,000
Aon Consulting	—	50,000
Aspen Marketing	350	24,605
Baker & McKenzie, LLP	31,644	3,210
Bogfire Inc.	28,461	45,922
Bradley Consulting Group, Inc.	558,016	547,200
Chicago Press Corporation	17,738	59,936
Comgraphic Inc.	179,790	153,939
Data Consultants	75,837	47,613
Election Service Corporation	54,820	152,678
Goldstein & Associates	—	9,635
Governmental Consulting	45,000	—
Kay Scholer LLP	38,196	—
Michelle Holleman	120,120	99,696
Imaging Office Systems	49,844	34,623
Integrated Pension Solution	—	399,996
Jacobs, Burns, Orlove & Stanton & Hernandez	252,679	436,639
Kirkland & Ellis, LLP	—	76,385
KPMG LLP	—	210,750
Mitchell & Titus LLP	135,000	—
North Shore Printers	54,755	68,429
Rider Dickerson	104,253	33,111
Sikich, LLP	153,697	7,159
The Segal Company	114,000	164,753
Vision Mai, LLC	63,654	61,800
Total	**$ 2,122,058**	**2,791,079**

See accompanying report of independent auditors.

Investments

This section includes a synopsis of the Fund's investment authority, summary tables of investment data, and a digest of the current year's investment activity and performance.

The Northern Trust Company
50 South La Salle Street
Chicago, Illinois 60675

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, 2013 through June 30, 2014.

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 performance returns and compliance monitoring pursuant to documents separate from the Custody Agreement.
13. Provide security fail float income to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.

THE NORTHERN TRUST COMPANY

By: Kathryn M Stevenson
Kathryn M. Stevenson, Senior Vice President

Callan

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September 8th, 2014

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, 2014. The fiscal year ending June 30th was the second consecutive year of meaningful advances in the global equity markets driven by improving economic conditions in the US, Asia and Europe. Emerging market equities were weak due to concerns regarding slowing economic dynamics in China and some social unrest, and the US Bond market continued to generate positive returns despite forecasts of rising interest rates.

As of June 30, 2014, the Fund's market value totaled $10.8 billion, an increase of approximately $1.147b since June 30, 2013. During the past twelve month period:

- Domestic equity markets advanced significantly over the trailing 12 months. The S&P 500 Index, an index of domestic large capitalization stocks, increased 24.61%, and smaller stocks, as measured by the Russell 2000 Index advanced by 23.64%.
- Developed international equity markets generated similar returns to their domestic equity counterparts, returning 23.57% as measured by the MSCI EAFE (Europe, Australasia, Far East) Index. Emerging markets returned 14.68%, as measured by the MSCI Emerging Markets Index.
- The fixed income market produced modest returns during the year, declining 4.37% as measured by the Barclays Aggregate Bond Index.

Within this environment the Fund returned 18.04% net-of-fees (18.35% gross-of-fees) during the 12 month period ended June 30, 2014, outperforming its benchmark by 0.31%.Over the trailing three-year period the Fund outperformed its benchmark by 19 basis points and by 34 basis points over the trailing five-year period. Since inception, the Fund has returned 8.71% net-of-fees outperforming its benchmark by 26 basis points annually.

The Fund's domestic equity managers gained 25.92% on a net-of fee basis during the fiscal year, exceeding the benchmark return of 25.22%. The Fund's international equity managers trailed the passive benchmark during the fiscal year, advancing 22.2% net-of-fees versus the benchmark return of 22.27%. The Fund's emerging market managers were the primary detractor from performance. The fixed income composite returned 5.4% compared to the benchmark return of 4.37% over the trailing 12 months. Credit exposure benefited the fixed income composite, and investment grade and non-investment grade credit significantly outperformed like duration treasuries.

Manager changes over the past year are summarized below:

New Manager	Asset Class	Inception Date
Adams Street Co-Investment III	Private Equity	June -14
Adams Street 2014 Global Fund	Private Equity	May-14
HarborVest HIPEP VII	Private Equity	April-14
Palladium IV	Private Equity	December-14
ICV III	Private Equity	September-13

Terminated Manager	Asset Class	Termination Date
Mesirow	Hedge Fund of Funds	May-14
K2	Hedge Fund of Funds	June-14

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

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

Sincerely,

Gwelda Swilley-Burke | Matt Shirilla | Angel Haddad

The Townsend Group

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

September 10, 2014

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

Re: CTPF Real Assets Investment Program

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 2014. Real assets are primarily private market investments, each of which is backed by a hard asset, such as a commercial property or a public or private infrastructure facility. CTPF invests in such assets in order to diversify its stock and bond portfolio and to serve as a potential hedge against inflation. In total, CTPF had $1,274,194,505 invested in real assets ($123 million less than last year), which made up 11.4% of CTPF's total plan assets as of June 30, 2014.

CTPF's real assets are diversified across a wide variety of investments, including private real estate ($841 million), public real estate securities or REITs ($175 million) and infrastructure ($257 million). Through partnerships, trusts and other corporate structures, CTPF has exposure to more than 1,000 individual investments including office buildings, apartment complexes, retail centers, public utilities, sustainable and traditional power facilities, industrial and other niche property types. Its portfolio is diversified across 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 with 25% of real asset investments located overseas.

Real assets have contributed meaningfully to CTPF's investment objectives. Since the Global Financial Crisis in 2008/2009, CTPF's real assets portfolio has generated total annualized net returns of 10.1% per year (for five straight years). Investments have benefitted from price appreciation, while at the same time generating strong income and cash distributions. CTPF invests in real assets for the long term. Since the program's inception in 1995, CTPF's real assets have generated annualized returns after all fees of 8.6% per year, compared to a benchmark return of 8.1%.

In real assets, CTPF has invested in 33 distinct investment portfolios managed by 22 investment firms. Because the program is relatively mature and fully funded, only two new investments were initiated during the last year, totaling $50 million. The board approved commitments in May 2014 to IC Berkeley Capital Partners III and Clarion Lion Industrial Trust, two complementary industrial-focused strategies.

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. From our perspective, CTPF oversees one of the most successful emerging manager programs among U.S. pension plans investing in real assets. Through June 30, 2014, CTPF had committed over $210 million to 6 separate emerging managers in real assets (more than 25% of CTPF's investment managers). We are currently working with the board to finalize a search to commit $25 million to one or more emerging managers.

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 real assets markets continue to strengthen domestically and abroad, we are confident that CTPF is well positioned for another successful year in 2015.

With kindest regards,

The Townsend Group

Rob M Kochis

Rob Kochis
Principal

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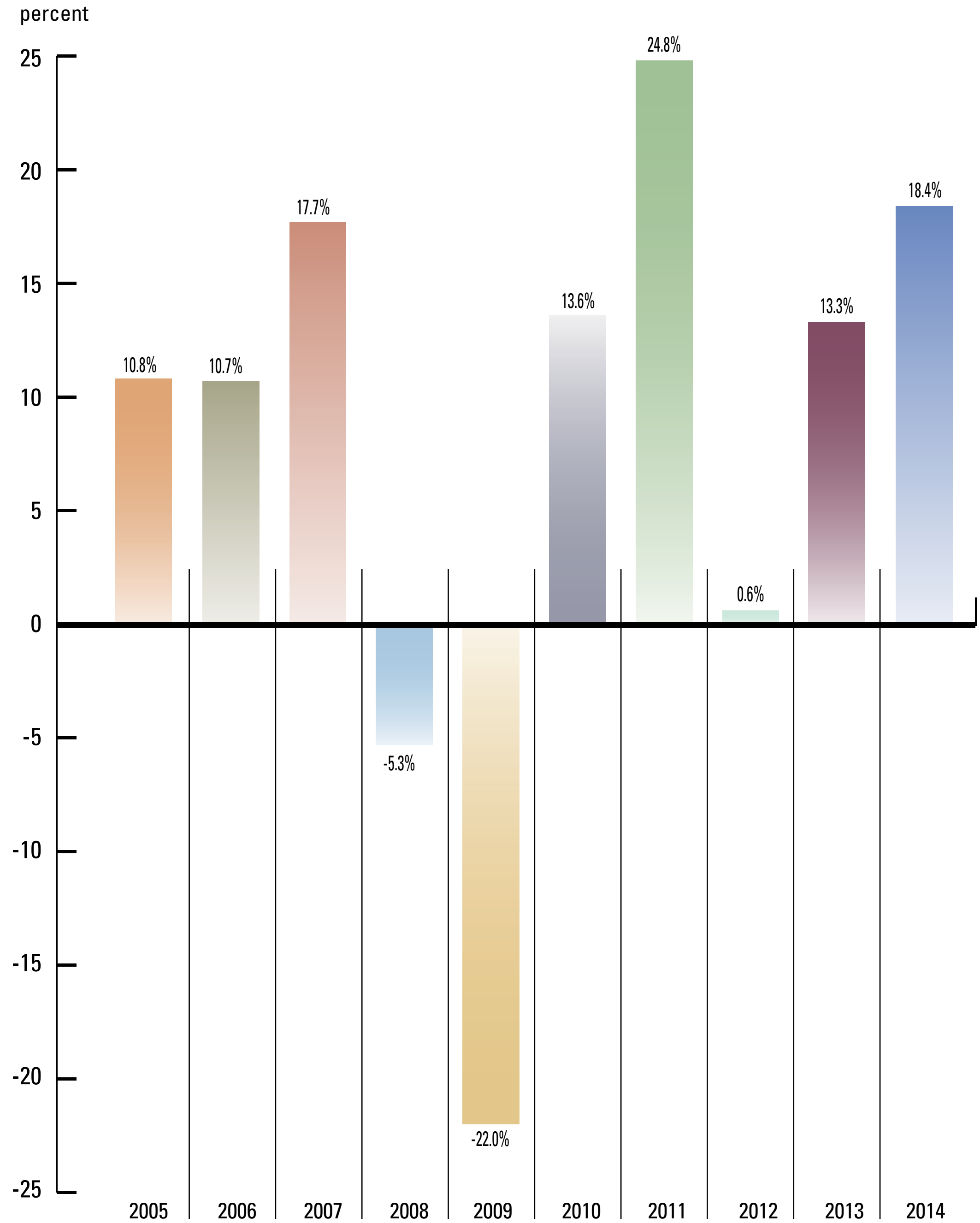
Total Annual Fund Rate of Return*
as of June 30, 2005-2014



*Time-weighted rate of return.

Schedule of Investment Results

	2010	2011	2012	2013	2014	Annualized Returns 3 Year	5 Year	10 Year
Total Fund	13.6%	24.8%	0.6%	13.3%	18.4%	10.5%	13.8%	7.3%
Large Cap	13.6%	32.6%	3.4%	21.7%	26.4%	16.7%	19.1%	8.5%
Russell 1000 Index	15.2%	31.9%	4.4%	21.2%	25.4%	16.6%	19.3%	8.2%
S&P 500	14.4%	30.7%	5.5%	20.6%	24.6%	16.6%	18.8%	7.8%
Mid Cap Equity	21.7%	39.8%	–	–	–	–	–	–
S&P Mid Cap	24.9%	39.4%	–	–	–	–	–	–
Small Cap Equity	24.4%	39.9%	(3.3%)	20.9%	26.6%	14.0%	20.9%	9.1%
Russell 2000 Index	21.5%	37.4%	(2.1%)	24.2%	23.6%	14.6%	20.2%	8.7%
International Equity	14.4%	31.2%	(9.7%)	17.4%	22.6%	9.1%	14.3%	8.6%
MSCI ACWI ex US	10.9%	30.3%	(14.2%)	14.1%	22.3%	6.2%	11.6%	8.2%
Fixed Income	12.3%	5.1%	8.4%	0.4%	5.5%	4.7%	6.3%	5.4%
Barclays Aggregated Index	9.5%	3.9%	7.5%	(0.7%)	4.4%	3.7%	4.9%	4.9%
REITs	38.7%	33.0%	4.1%	12.8%	14.2%	10.3%	19.8%	9.8%
Custom REITs Index**	38.7%	33.2%	4.6%	13.1%	14.2%	10.6%	20.1%	8.5%
Real Estate (Private)	(4.7%)	20.1%	9.7%	11.0%	15.8%	12.0%	9.9%	6.5%
Custom Private RE Index***	(1.5%)	16.7%	12.2%	12.2%	11.0%	11.0%	10.9%	6.5%
NFI-ODCE Equal Weight Index	(6.0%)	20.5%	12.4%	12.2%	12.7%	12.4%	10.0%	7.1%
Private Equity*	15.4%	21.5%	5.6%	5.3%	20.2%	10.1%	13.4%	11.9%
N/A	–	–	–	–	–	–	–	–
Infrastructure	(3.2%)	16.9%	7.4%	12.3%	9.4%	9.6%	8.3%	–
Absolute Benchmark	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	–
Hedge Funds	–	6.9%	(2.6%)	11.3%	5.1%	4.5%	–	–
T-Bills +5%	–	5.2%	5.1%	5.1%	5.1%	5.1%	–	–

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

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

*** *Custom Private Real Estate Index is the NCREIF Property Index up to 3Q11 and the NFI-ODCE Index thereafter.*

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

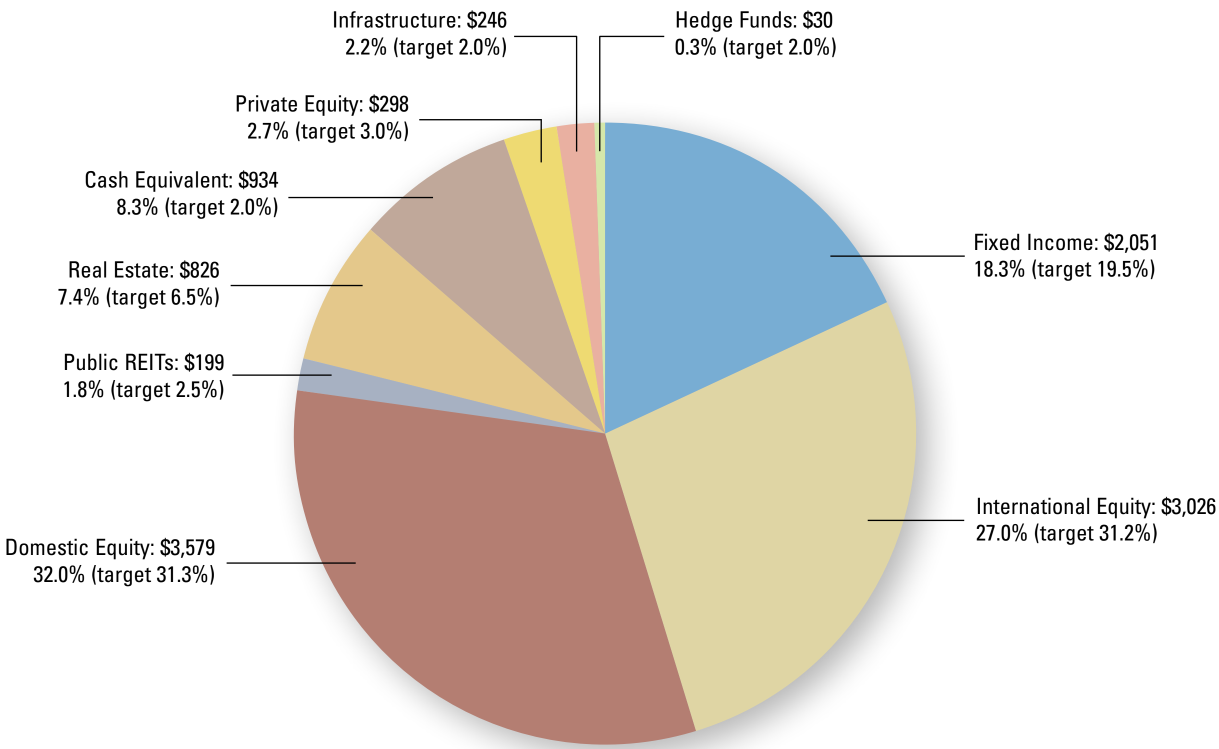
Investment Portfolio Summary

IN MILLIONS OF DOLLARS

	June 30, 2013 Fair Value	Purchases	Sales (Fair Value)	Fair Value Adjustments	June 30, 2014 Fair Value	Percent
Fixed Income	$ 1,691.7	1,920.5	2,305.5	743.9	2,050.9	18.33%
Equity	5,869.9	2,717.7	2,221.6	238.8	6,604.8	59.03%
Public REITs	270.4	208.0	94.4	(184.8)	199.3	1.78%
Real Estate	773.4	55.2	52.9	50.5	826.2	7.38%
Hedge Fund	27.8	–	2.0	4.2	30.0	0.27%
Infrastructure	331.9	102.3	0.8	(187.5)	245.9	2.20%
Private Equity	274.1	32.7	46.8	37.6	297.7	2.66%
Cash & Equivalents	539.6	97.4	151.2	448.7	934.5	8.35%
Total Portfolio	**$ 9,778.8**	**5,133.9**	**4,875.1**	**1,151.5**	**11,189.3**	**100.00%**

Asset Allocation Summary as of June 30, 2014

IN MILLIONS OF DOLLARS

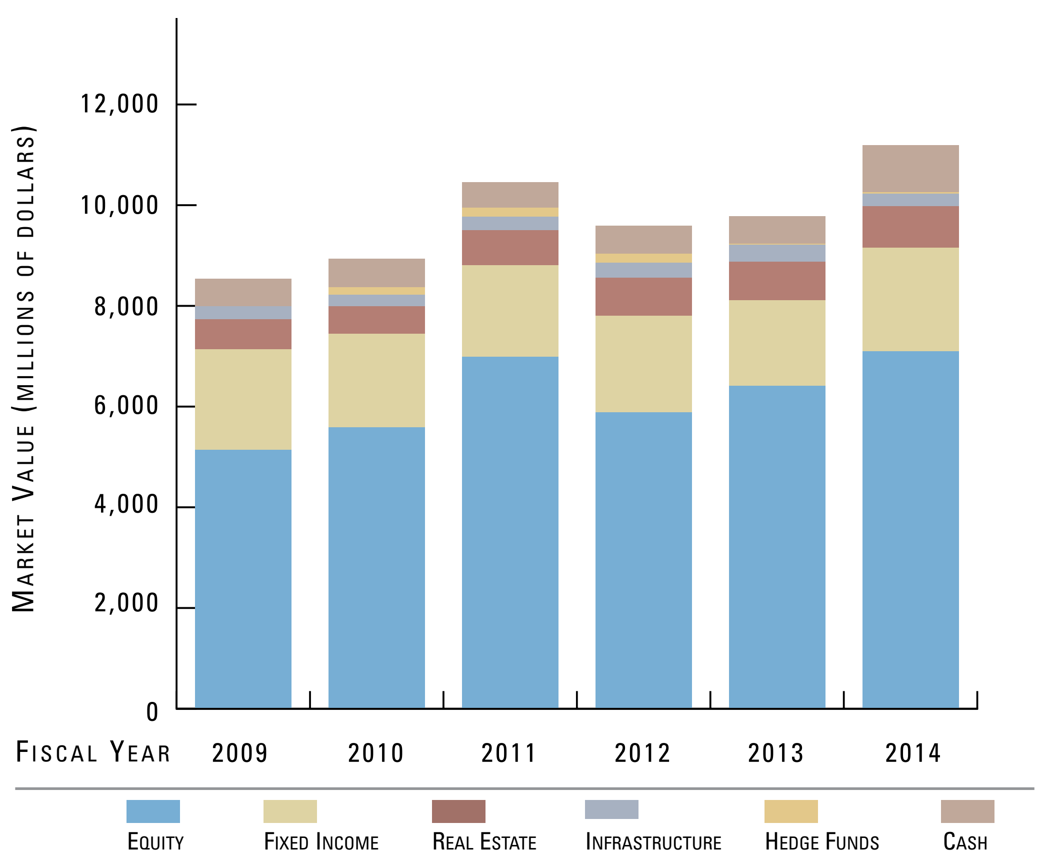


** Note: Percentage indicates actual category weight as a percentage of the entire portfolio.*

Historical Asset Allocation

	2009		2010		2011		2012		2013		2014	
	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy	Actual	Policy
Equity:												
Domestic	36.1	40.5	37.0	40.5	40.1	40.5	33.6	31.3	33.0	31.3	32.0	31.3
International	19.6	22.0	20.1	22.0	22.9	22.0	22.2	31.2	27.0	31.2	27.0	31.2
Public REITs	1.7	2.5	2.5	2.5	3.0	2.5	2.7	2.5	2.8	2.5	1.8	2.5
Private Equity	2.8	3.0	3.0	3.0	2.9	3.0	2.9	3.0	2.8	3.0	2.7	3.0
Total Equity	60.2	68.0	62.5	68.0	68.9	68.0	61.4	68.0	65.6	68.0	63.5	68.0
Fixed Income	23.4	19.5	20.8	19.5	17.7	19.5	19.9	19.5	17.3	19.5	18.3	19.5
Real Estate	7.0	6.5	20.8	19.5	6.7	8.5	7.9	6.5	7.9	6.5	7.4	6.5
Infrastructure	3.0	2.0	6.1	6.5	2.7	0.0	3.2	2.0	3.4	2.0	2.2	2.0
Hedge Funds	0.0	2.0	2.6	2.0	1.7	2.0	1.8	2.0	0.3	2.0	0.3	2.0
Cash & Equiv.	6.4	2.0	6.4	2.0	2.3	2.0	5.8	2.0	5.5	2.0	8.3	2.0
Total Portfolio	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Historical Asset Allocation by Dollar Amount



Domestic Equity Summary

as of June 30, 2014

Economic Sector Holdings

S&P Economic Sector	Number of Shares	Market Value	Percent of Total	S&P 500 Index Allocation
Information Technology	12,612,220	$ 642,665,705	18.0%	18.8%
Financials	14,108,222	556,683,879	15.6%	16.1%
Health Care	6,998,665	416,670,226	11.6%	13.3%
Consumer Discretionary	9,454,585	502,424,145	14.0%	11.9%
Energy	5,123,946	360,901,884	10.0%	10.9%
Industrials	6,974,947	383,916,953	10.7%	10.5%
Consumer Staples	4,089,722	246,416,425	6.9%	9.5%
Materials	2,025,396	123,849,516	3.5%	3.5%
Utilities	1,842,657	79,006,013	2.2%	3.2%
Telecommunication Services	1,487,255	48,780,108	1.4%	2.4%
Miscellaneous	10,412,262	217,350,737	6.1%	0.0%
Grand Total	**75,129,877**	**$ 3,578,665,591**	**100.0%**	**100.0%**

Top 10 Domestic Equity Holdings

Description	Number of Shares	Market Value	Percent of Total
Dimensional Fund Advisors, LTD	8,208,331	$ 180,008,697	5.0%
Apple Inc	994,218	92,392,679	2.6%
Google Inc	92,240	53,498,011	1.5%
Johnson & Johnson	458,630	47,981,871	1.3%
Exxon Mobil Corp	468,187	47,137,067	1.3%
Microsoft Corp	913,330	38,085,861	1.1%
Chevron Corp	285,518	37,274,375	1.0%
Wells Fargo & Co.	614,025	32,273,154	0.9%
Qualcomm Inc.	390,148	30,899,722	0.9%
JP Morgan Chase	505,520	29,128,062	0.8%
Total Top 10 Domestic Equity	**12,930,147**	**$ 588,679,499**	**16.4%**
Grand Total	**75,129,877**	**$ 3,578,665,591**	**100%**

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

International Equity Summary

as of June 30, 2014

Country Holdings

Country	Number of Shares	Market Value	Percent of Total	ACWI ex US
South Africa	1,167,433	$ 13,467,843	0.4%	1.6%
Other	–	–	0.0%	0.0%
Total Africa	**1,167,433**	**13,467,843**	**0.4%**	**1.6%**
Bermuda	12,024,788	31,904,960	1.1%	0.0%
Brazil	5,879,164	57,772,255	1.9%	2.3%
Canada	3,557,008	113,347,793	3.7%	7.6%
Cayman Islands	8,354,840	36,441,306	1.2%	0.0%
Chile	1,736,045	1,366,096	0.0%	0.3%
Colombia	189,156	10,933,217	0.4%	0.2%
Mexico	6,165,601	10,191,188	0.3%	1.1%
Other	7,864,006	161,905,856	5.4%	0.2%
Total Americas	**45,770,608**	**423,862,671**	**14.0%**	**11.7%**
Australia	7,181,123	70,162,266	2.3%	5.5%
China	41,835,150	34,980,843	1.2%	3.9%
Hong Kong	12,115,312	32,670,071	1.1%	2.0%
India	5,004,741	64,244,182	2.1%	1.5%
Japan	21,567,735	446,151,685	14.7%	14.4%
Republic of Korea	773,325	66,711,361	2.2%	3.3%
Singapore	2,692,896	6,301,289	0.2%	1.0%
Taiwan	19,350,784	44,899,640	1.5%	2.6%
Other	53,406,550	83,061,427	2.7%	2.9%
Total Asia/Pacific Basin	**163,927,616**	**849,182,764**	**28.1%**	**37.1%**
Belgium	250,825	25,124,105	0.8%	0.9%
France	3,083,670	194,936,482	6.4%	7.2%
Germany	1,970,202	138,209,410	4.6%	6.6%
Ireland	2,557,076	44,756,215	1.5%	0.2%
Netherlands	1,410,902	58,696,667	1.9%	1.9%
Norway	3,323,026	43,904,000	1.5%	0.6%
Spain	4,584,806	74,443,478	2.5%	2.6%
Sweden	2,755,790	71,997,914	2.4%	2.2%
Switzerland	3,033,187	245,163,139	8.1%	6.4%
United Kingdom	142,924,668	567,902,060	18.8%	15.3%
Other	14,671,039	274,438,390	9.1%	5.7%
Total Europe	**180,565,191**	**$ 1,739,571,860**	**57.5%**	**49.6%**
Grand Total	**391,430,848**	**$ 3,026,085,138**	**100.0%**	**100.0%**

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

Top 10 International Equity Holdings

as of June 30, 2014

Holding	Number of Shares	Market Value	Percent of Total
MFRO Lazard FDS Inc. Emerging Markets (commingled)	7,534,499	$ 153,553,092	5.1%
Novartis	772,241	69,923,679	2.3%
Sanofi	409,859	43,534,670	1.4%
British American Tobacco	717,201	42,650,929	1.4%
Roche Holdings	140,650	41,950,750	1.4%
Shire	506,961	39,614,008	1.3%
Nestle	477,478	36,990,007	1.2%
Prudential	1,608,181	36,874,126	1.2%
Reckitt Benckiser Group	388,932	33,915,786	1.1%
Diageo	1,008,018	32,161,623	1.1%
Total Top 10 International Equity	**13,564,020**	**$ 531,168,670**	**17.5%**
Grand Total	**391,430,848**	**$ 3,026,085,138**	**100.0%**

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

Fixed Income Summary

as of June 30, 2014

Fixed Income Holdings

Asset Category	Par Value	Market Value	Percent of Total	Barclays' Aggregate Bond Index Allocation
Treasury	$ 710,885,000	$ 732,540,556	35.7%	35.3%
Mortgage Backed Securities	84,060,000	86,435,303	4.2%	31.0%
Corporates	673,131,449	779,243,207	38.0%	23.3%
Government/Govt' Agency	369,585,428	369,723,454	18.0%	9.9%
Asset Backed Securities	21,978,450	21,043,391	1.0%	0.5%
Commercial Mortgage-Backed	36,376,803	35,596,201	1.8%	0.0%
Municipal/Provincial Bonds	15,837,037	19,022,183	0.9%	0.0%
Other	9,354,209	7,348,092	0.4%	0.0%
Grand Total	**$ 1,921,208,376**	**$ 2,050,952,387**	**100.0%**	**100.0%**

Public REITs Summary

as of June 30, 2014

Public REITs Holdings

Property Type	Number of Shares	Market Value	Percent of Total	Property Index
Retail REITs	792,346	$ 13,346,911	6.7%	27.4%
Industrial & Office REITs	879,199	13,802,978	6.9%	17.5%
Residential (apartment) REITs	258,530	6,564,934	3.3%	14.6%
Health Care Facilities	109,440	3,424,740	1.7%	13.5%
Hotel & Lodging REITs	63,740	3,187,061	1.6%	7.8%
Residential (development) REITs	911,900	9,803,532	4.9%	0.9%
Other	43,337,870	149,238,486	74.9%	18.3%
Grand Total	**46,353,025**	**$ 199,368,642**	**100.0%**	**100.0%**

Top 10 Public REITs Holdings

Holdings	Number of Shares	Market Value	Percent of Total
Urdang Global Equity REITs (Commingled)	6,191,901	$ 109,596,642	55.0%
Adelante Capital REITs (Commingled)	36,993,059	36,993,059	18.6%
Simon Property Group Inc.	18,010	2,994,703	1.5%
Mitsui Fudosan	76,000	2,562,717	1.3%
Equity Residential	36,680	2,310,840	1.2%
Mitsubishi Estate Co.	82,000	2,024,402	1.0%
Boston Properties, Inc.	15,145	1,789,836	0.9%
General Growth Properties, Inc.	71,780	1,691,137	0.8%
Sun Hung Kai Properties,	113,000	1,549,853	0.8%
HCP, Inc.	33,880	1,401,954	0.7%
Total Top 10 Public REITs	**43,631,455**	**$ 162,915,143**	**81.8%**
Grand Total	**46,353,025**	**$ 199,368,642**	**100.0%**

Private Equity Summary

as of June 30, 2014

Private Equity Holdings

Description	Total Capital Called	Market Value	Percent of Total
Adams Street Partners Multiple Funds	$ 91,974,910	$ 91,363,498	30.7%
Harbourvest Partners Multiple Funds	36,528,570	27,588,614	9.3%
Hispania Partners	5,516,316	7,647,979	2.6%
ICV Partners Multiple Funds	7,883,501	8,715,572	2.9%
Mesirow Capital Partners Multiple Funds	61,474,766	95,321,406	32.0%
Muller and Monroe Private Equity Fund- of- Funds	22,924,682	18,307,184	6.1%
Palladium Equity Partners Multiple Funds	6,152,212	8,920,697	3.0%
Pantheon Multiple Funds	39,587,577	26,179,785	8.8%
Pharos Capital Partners Multiple Funds	8,183,376	10,292,883	3.5%
Syncom Partners V	7,234,537	3,368,131	1.1%
Grand Total	**$ 287,460,447**	**$ 297,705,749**	**100.0%**

Infrastructure Summary

as of June 30, 2014

Infrastructure Holdings

Description	Number of Units	Market Value	Percent of Total
JP Morgan Infrastructure Investments Fund	111,408,532	$ 104,304,169	42.4%
Total Commingled Funds	111,408,532	$ 104,304,169	42.4%

Description	Total Capital Called	Market Value	Percent of Total
Macquarie Infrastructure Partners II US	27,086,131	$ 68,250,249	27.8%
Macquarie European Infrastructure Fund III (MEIF 3)	34,160,753	73,320,968	29.8%
Total Closed - End Funds	**61,246,884**	**$ 141,571,217**	**57.6%**
Grand Total		**$ 245,875,385**	**100.0%**

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

Hedge Fund Summary

as of June 30, 2014

Hedge Fund Holdings

Description	Number of Shares	Market Value	Percent of Total
Pluscios Offshore Fund	25,000	$ 30,027,025	100.0%
Grand Total	**25,000**	**$ 30,027,025**	**100.0%**

Real Estate Summary

as of June 30, 2014

Real Estate Holdings

Description	Number of Shares	Market Value	Percent of Total
JP Morgan Strategic Property Fund	68,633	$ 156,154,842	18.9%
LaSalle Property Fund	59,144	77,170,338	9.3%
PRISA	2,813	118,562,346	14.4%
PRISA II	743	17,719,938	2.1%
UBS Trumbull Property Fund	16,930	157,459,655	19.1%
Total Commingled Funds	**148,263**	**$ 527,067,119**	**63.8%**

Description	Total Capital Called	Market Value	Percent of Total
Capri Select Income II	$ 20,160,000	$ 4,772,105	0.6%
CB Richard Ellis Strategic Partners III	2,966,324	1,297,114	0.1%
DV Urban Realty Partners I	24,463,224	3,916,369	0.5%
Emerging Manager Real Estate Fund of Funds	23,311,482	25,070,117	3.0%
Europa Fund III	19,089,865	25,277,937	3.1%
Fortress Japan Opportunity Domestic Fund (C-I) L.P.	263,349,645	20,088,269	2.4%
Fortress Japan Opportunity Fund II (Dollar) L.P.	5,369,655	6,974,475	0.8%
Fremont Strategic Property Partners II	19,744,681	12,195,213	1.5%
Greystar Equity Partners VII	31,760,404	39,690,064	4.8%
Hudson Realty Capital Fund V (Partnership A)	23,750,000	25,280,265	3.1%
Intercontinental Real Estate Investment Fund III	35,280,008	33,106,022	4.0%
ML Asian R.E. Fund (T.E.)	24,214,932	8,315,338	1.0%
RREEF Global Opportunities Fund II	14,629,597	1,739,235	0.2%
Southwest MultiFamily Partners	10,612,275	10,606,110	1.3%
TCB - Broadway	5,000,000	5,844,521	0.7%
Urban America, LP II	23,222,737	7,056,517	0.9%
Walton Street Capital Multiple Funds	74201904.76	67,918,305	8.2%
Total Closed-End Funds	**$ 621,126,733**	**$ 299,147,976**	**36.2%**
Grand Total		**$ 826,215,095**	**100.0%**

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

Manager Analysis

as of June 30, 2014

Asset Category	Market Value as of 6/30/2014	Percent of Portfolio	FY 2014 Manager Fees	Percent of Market Value
Domestic Equity	$ 3,578,665,591	32.0%	$ 6,184,852	0.2%
International Equity	3,026,085,138	27.0%	12,481,741	0.4%
REITs	199,368,642	1.8%	1,364,227	0.7%
Fixed Income	2,050,952,387	18.3%	1,619,419	0.1%
Real Estate	826,215,094	7.4%	7,848,984	0.9%
Infrastructure	245,875,385	2.2%	2,799,163	1.1%
Hedge Funds	30,027,025	0.3%	430,416	1.4%
Private Equity	297,705,749	2.7%	4,942,046	1.7%
Cash and Equivalent	934,476,145	8.4%	–	0.0%
Grand Total	**$ 11,189,371,155**	**100.0%**	**$ 37,670,848**	

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

Broker Commission Report

Domestic Agency Trades

for the Year Ended June 30, 2014

Broker Name	Number of Shares Traded	Commission Amount	Commission per Share
Loop Capital Markets LLC	7,602,064	$ 170,403	$ 0.02
Cheevers & Company Inc.	2,892,556	78,134	0.03
Cabrera Capital Markets, LLC	1,793,876	45,631	0.03
The Williams Capital Group, L.P.	1,885,764	44,865	0.02
M. Ramsey King Securities, Inc.	1,512,958	42,605	0.03
Castleoak Securities, LP	994,811	40,706	0.04
North South Capital, LLC	983,352	39,710	0.04
Blaylock Robert Van, LLC	671,795	26,570	0.04
Sterne, Agee and Leach, Inc./ The Interstate Group	486,885	23,780	0.05
Morgan Keegan & Company, Inc.	455,226	22,761	0.05
Instinet, LLC	549,619	18,735	0.03
Goldman Sachs Execution & Clearing, L.P.	520,988	16,691	0.03
M.R. Beal & Company	523,843	14,593	0.03
Capital Institutional Services, Inc.	658,841	13,850	0.02
ITG Inc.	3,135,133	10,374	0.00
Stifel, Nicolaus & Company, Incorporated	410,424	10,302	0.03
Greentree Brokerage Services, Inc.	148,159	10,242	0.07
J.P. Morgan Securities LLC	268,180	9,764	0.04
Robert W. Baird & Co. Incorporated	241,934	9,657	0.04
William Blair & Company LLC	287,985	9,177	0.03
Jefferies LLC	219,276	8,563	0.04
RBC Capital Markets, LLC	408,936	7,169	0.02
Bank of America/Merrill Lynch	183,748	6,918	0.04
Citigroup Global Markets Inc.	172,290	6,769	0.04
Bank of New York Mellon	195,684	6,466	0.03
Guzman & Company	609,349	6,423	0.01
Johnson Rice & Company LLC	169,607	6,306	0.04
Deutsche Bank Securities Inc.	165,843	6,282	0.04
Jones Trading Institutional Services LLC	267,472	6,134	0.02
Pacific Crest Securities LLC	173,392	5,972	0.03
Topeka Capital Markets Inc.	279,369	5,613	0.02
Piper Jaffray & Co.	155,997	4,975	0.03
Oppenheimer & Co. Inc.	160,090	4,822	0.03
Liquidnet, Inc.	232,991	4,805	0.02
Credit Suisse Capital, LLC.	166,460	4,289	0.03
UBS Securities LLC/ UBS Warburg LLC	117,528	4,226	0.04
Cantor Fitzgerald & Co.	194,331	4,103	0.02
Cowen and Company, LLC	96,156	3,852	0.04
O'Neil Securities, Incorporated	105,750	3,688	0.03
Mischler Financial Group, Inc.	128,450	3,545	0.03
CIS Brokerage Inc.	87,400	3,496	0.04
Keefe, Bruyette & Woods, Inc.	204,448	3,466	0.02
Telsey Advisory Group LLC	101,111	3,392	0.03
Morgan Stanley & Co. LLC	82,451	3,315	0.04
Penserra Securities, LLC	151,764	3,293	0.02
Other (74 Brokers)	1,945,310	57,073	0.03
Grand Total	**32,799,596**	**$ 843,505**	**$ 0.03**

Broker Commission Report

MWDBE Domestic Agency Trades

for the Year Ending June 30, 2014

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets LLC	7,602,064	$ 170,403	$ 0.02
Cheevers & Company Inc.	2,892,556	78,134	0.03
Cabrera Capital Markets, LLC	1,793,876	45,631	0.03
The Williams Capital Group, L.P.	1,885,764	44,865	0.02
M. Ramsey King Securities, Inc.	1,512,958	42,605	0.03
Castleoak Securities, LP	994,811	40,706	0.04
North South Capital, LLC	983,352	39,710	0.04
Blaylock Robert Van, LLC	671,795	26,570	0.04
M.R. Beal & Company	523,843	14,593	0.03
Greentree Brokerage Services, Inc.	148,159	10,242	0.07
Guzman & Company	609,349	6,423	0.01
Topeka Capital Markets Inc.	279,369	5,613	0.02
Mischler Financial Group, Inc.	128,450	3,545	0.03
Telsey Advisory Group LLC	101,111	3,392	0.03
Penserra Securities, LLC	151,764	3,293	0.02
Total Directed Domestic Commission	**20,279,221**	**$ 535,725**	**$ 0.03**
Grand Total	**32,799,596**	**$ 843,505**	**$ 0.03**

Broker Commission Report

International Agency Trades

for the Year Ended June 30, 2014

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets LLC	60,264,931	$ 489,327	$ 0.01
Cabrera Capital Markets, LLC	25,476,174	200,078	0.01
UBS Securities LLC/UBC Warburg LLC	30,628,502	182,841	0.01
Deutsche Bank Securities Inc.	23,974,611	172,970	0.01
Cheevers & Company Inc.	21,594,434	138,401	0.01
Credit Suisse Capital, LLC.	20,337,108	137,401	0.01
Bank of America/Merrill Lynch	16,922,706	132,263	0.01
Citigroup Global Markets Inc.	19,657,393	122,490	0.01
J.P. Morgan Securities LLC	20,257,182	114,645	0.01
Liquidnet, Inc.	24,730,738	108,872	0.00
Goldman Sachs Execution & Clearing, L.P.	17,368,759	90,246	0.01
Morgan Stanley & Co. LLC	12,865,276	84,660	0.01
Macquarie Capital (USA) Inc.	25,500,377	79,996	0.00
Barclays Capital Inc.	10,870,016	79,196	0.01
CLSA	19,798,025	76,449	0.00
Daiwa Securities Group Inc.	10,826,148	63,258	0.01
Nomura Securities International, Inc.	6,362,428	59,114	0.01
The Williams Capital Group, L.P.	3,393,872	58,521	0.02
HSBC Brokerage (USA) Inc./HSBC Midland (LDN)	5,332,874	49,802	0.01
Bank of New York Mellon	2,057,625	49,101	0.02
RBC Capital Markets, LLC	1,301,446	38,860	0.03
Credit Lyonnais Securities Ltd	1,743,370	36,618	0.02
Redburn Partners (USA) LP	959,385	32,866	0.03
Numis Securities Ltd	1,546,644	28,576	0.02
ITG Inc.	12,528,093	28,186	0.00
Jefferies LLC	4,312,604	27,598	0.01
Instinet, LLC	14,232,441	24,224	0.00
Mischler Financial Group, Inc.	3,682,943	24,205	0.01
Exane Inc.	248,191	23,914	0.10
BNP Paribus Brokerage Services, Inc.	4,157,919	23,035	0.01
Sanford C. Bernstein & CO., LLC	2,156,425	22,125	0.01
BNY Convergex Execution Solutions LLC	3,265,104	20,810	0.01
Investec Henderson Crosthwaite Securities	882,103	20,171	0.02
Capital Instituional Services, Inc.	304,672	19,185	0.06
Societe Generale Securities Corporation	9,346,994	18,702	0.00
Liberum Capital Inc	1,385,564	17,955	0.01
Mizuho Financial Group	702,406	16,497	0.02
Guzman & Company	3,447,218	16,141	0.00
Berenberg Bank	420,735	14,525	0.03
National Bank of Canada	344,179	12,896	0.04
DBS Vickers Securities (USA) Inc.	5,778,798	12,876	0.00
China International Capital Corporation	2,407,500	12,627	0.01
SEB Enskilda	347,129	11,838	0.03
Santander Investment Sec. Inc	990,398	10,907	0.01
ABG Securities	335,820	10,901	0.03
OTHER (101 Brokers)	33,417,167	313,051	0.01
Grand Total	**488,464,427**	**$ 3,328,920**	**$ 0.01**

Broker Commission Report

MWDBE International Equity Trades for the Year Ending June 30, 2014

Broker Name	Number of Shares Traded	Commission Amount	Commission Per Share
Loop Capital Markets LLC	60,264,931	$ 489,327	$ 0.01
Cabrera Capital Markets, LLC	25,476,174	200,078	0.01
Cheevers & Company Inc.	21,594,434	138,401	0.01
The Williams Capital Group, L.P.	3,393,872	58,521	0.02
Mischler Financial Group, Inc.	3,682,943	24,205	0.01
Guzman & Company	3,447,218	16,141	0.00
North South Capital, LLC	117,490	3,814	0.03
Divine Capital Markets LLC	61,920	1,858	0.03
Kota Global Securities Inc.	296,446	1,842	0.01
Penserra Securities, LLC	167,400	1,635	0.01
Greentree Brokerage Services, Inc.	39,000	489	0.01
Topeka Capital Markets Inc.	15,732	315	0.02
Blaylock Robert Van, LLC	1,258	50	0.04
Total Directed International Commission	**118,558,818**	**$ 936,676**	**0.01**
Grand Total	**488,464,427**	**$ 3,328,920**	**$ 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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December 13, 2013

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

ACTUARIAL CERTIFICATION

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of June 30, 2013. 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, 2014, 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, there have not been any changes in benefit provisions that have had an impact on the actuarial liabilities of the Fund.

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, 2013 actuarial valuation were based on an experience analysis covering the five-year period ending June 30, 2012 and were adopted by the Board, effective for the June 30, 2013 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, 2013.

Sincerely,

SEGAL CONSULTING

By:

Kim Nicholl, FSA, MAAA, EA, FCA	*Matthew A. Strom, FSA, MAAA, EA*	*Barbara Zaveduk, MAAA, EA*
Senior Vice President and Actuary	*Consulting Actuary*	*Vice President and Actuary*

ACTUARIAL REPORT
PENSION FUND

PURPOSE

This report has been prepared by Segal Consulting to present a valuation of the Public School Teachers' Pension and Retirement Fund of Chicago (CTPF) as of June 30, 2014. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contents of 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, 2014, provided by CTPF staff;
- The assets of the Plan as of June 30, 2014, 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 assumption and method changes were approved by the Board of Trustees and are reflected in this valuation:

1. The Government Accounting Standards Board (GASB) approved two new Statements affecting the reporting of pension liabilities for accounting purposes. Statement 67 replaces Statement 25 and is for plan reporting. Statement 68 replaces Statement 27 and is for employer reporting. Statement 67 is effective with the fiscal year ending June 30, 2014, for Plan reporting. Statement 68 is effective with the fiscal year ending June 30, 2015, for employer reporting. The information contained in this valuation is intended to be used (along with other information) in order to comply with both Statements 67 and 68.
2. When measuring pension liability, GASB uses a different actuarial cost method (Entry Age method) than the cost method used for funding purposes (Projected Unit Credit method). However, as of June 30, 2014, the GASB blended discount rate calculation results in the same discount rate (expected return on assets) as used for funding purposes (7.75%). The total pension liability (TPL) measure for financial reporting is $20,316,899,952 as of June 30, 2014.
3. The net pension liability (NPL) is equal to the difference between the TPL and the Plan's fiduciary net position. The Plan's fiduciary net position is equal to the market value of assets. The NPL decreased from $10,121,734,006 as of June 30, 2013, to $9,501,205,338 as of June 30, 2014.
4. As shown in Chart 13, for the fiscal year beginning July 1, 2014, the actuarially determined contribution (ADC) amount is $728,488,520. Public Act 96-0889 specifies that the required Board of Education contribution for Fiscal Years 2014 through 2059 must be a level percentage of payroll sufficient to bring the funded percentage of the Fund up to 90% by the end of Fiscal Year 2059. The Fiscal Year 2015 required Board of Education contribution amount was determined to be $683,574,000, as a part of the June 30, 2013, valuation. 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 $618,574,000. 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, 2013, valuation to be $12,145,000 and $12,948,000, respectively. Therefore, the total employer contributions for Fiscal 2015 are expected to be $643,667,000. Compared to the

actuarially determined contribution of $728,488,520, the contribution deficiency is $84,821,520 as of July 1, 2014. Each year there is a contribution deficiency leads to an increased deficiency in all future years.

5. Employer contributions for Fiscal Year 2014 were determined to be $624,603,000, $65,000,000 for the health insurance and $559,603,000 for the pension plan. Actual employer contributions for Fiscal Year 2014 totaled $650,416,141, $65,000,000 for health insurance and $585,416,141 for the pension plan.

6. For the year ended June 30, 2014, Segal has determined that the asset return on a market basis was 17.9%. After gradual recognition of investment gains and losses under the actuarial smoothing method, the actuarial rate of return was 12.8%. This represents an experience gain when compared to the assumed rate of 7.75%. As of June 30, 2014, the actuarial value of assets ($10.05 billion) represents 92.9% of the market value ($10.82 billion).

7. The total unrecognized investment gain as of June 30, 2014, is $770,152,039. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, to the extent it is not offset by recognition of investment losses derived from future experience. This implies that earning the assumed rate of investment return of 7.75% per year (net of expenses) on a market value basis will result in investment gains on the actuarial value of assets in the next few years.

8. The funded ratio based on the actuarial value of assets over the actuarial accrued liability as of June 30, 2014, is 51.5%, compared to 49.5% as of June 30, 2013.

9. The current method used to determine the actuarial value of assets yields an amount that is 92.9% of the market value of assets as of June 30, 2014. Guidelines in Actuarial Standards 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.

10. This actuarial valuation report as of June 30, 2014, is based on financial data as of that date. Changes in the value of assets subsequent to that date are not reflected.

Summary of Key Valuation Results

	2014	2013
Contributions for fiscal year beginning July 1:		
Actuarially determined contribution requirement	$ 728,488,520	$ 719,781,746
Expected employer contributions	643,667,000	559,306,000
Actual employer contribution	–	585,416,141
Funding elements for fiscal year beginning July 1:		
Employer normal cost, including administrative expenses	$ 139,510,202	$ 129,928,449
Market value of assets	10,815,694,614	9,674,188,563
Actuarial value of assets	10,045,542,575	9,422,519,190
Actuarial accrued liability	19,503,893,632	19,044,533,016
Unfunded/(overfunded) actuarial accrued liability	9,458,351,057	9,622,013,826
Funded ratio	51.51%	49.48%
Demographic data for plan year beginning July 1:		
Number of retired participants and beneficiaries	27,722	27,440
Number of vested former participants	4,818	4,502
Number of active participants	30,654	30,969
Total salary supplied by the Fund	$ 2,149,841,688	$ 2,146,811,972
Average salary	$ 70,133	$ 69,321
GASB Information:		
Discount rate	7.75%	7.75%
Total pension liability	$ 20,316,899,952	$ 19,795,922,569
Plan fiduciary net position	10,815,694,614	9,674,188,563
Net pension liability	9,501,205,338	10,121,734,006
Plan fiduciary net position as a percentage of total pension liability	53.23%	48.87%

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered participants, including active participants, vested terminated 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 in Exhibits A, B, and C on pages 93, 94, and 95.

A historical perspective of how the participant population has changed over the past 10 valuations can be seen in this chart.

Chart 1: Participant Population 2005 – 2014

Year Ended June 30	Active Participants	Vested Terminated Members	Retirees and Beneficiaries	Ratio Actives to Retirees and Beneficiaries
2005	37,521	2,059	20,954	0.61
2006	34,682	2,408	22,105	0.71
2007	32,968	2,752	23,623	0.80
2008	32,086	3,479	23,920	0.85
2009	31,905	3,056	24,218	0.85
2010	31,012	3,554	24,600	0.91
2011	30,133	4,253	25,199	0.98
2012	30,366	4,245	25,926	0.99
2013	30,969	4,502	27,440	1.03
2014	30,654	4,818	27,722	1.06

ACTIVE PARTICIPANTS

Plan costs are affected by the age, years of service and salary of active participants. In this year's valuation, there were 30,654 active participants with an average age of 41.3, average years of service of 10.3 and average salary of $70,133. The 30,969 active participants in the prior valuation had an average age of 41.2, average years of service of 10.0 and average salary of $69,321.

INACTIVE PARTICIPANTS

In this year's valuation, there were 4,818 participants with a vested right to a deferred or immediate vested benefit.

Chart 2: Distribution of Active Participants by Age

as of June 30, 2014

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

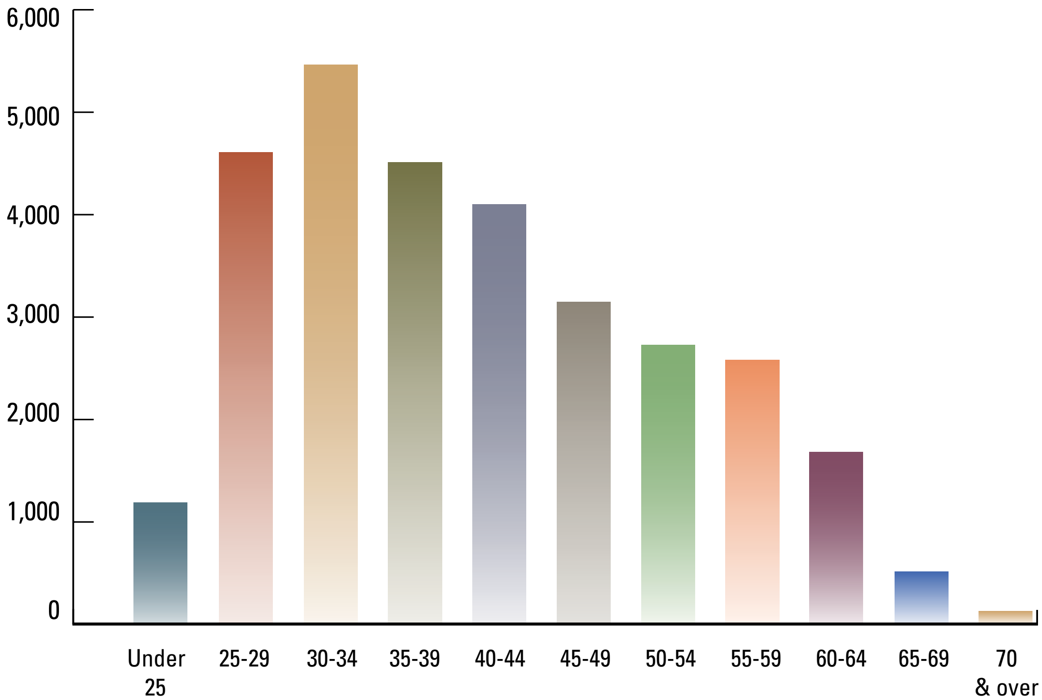
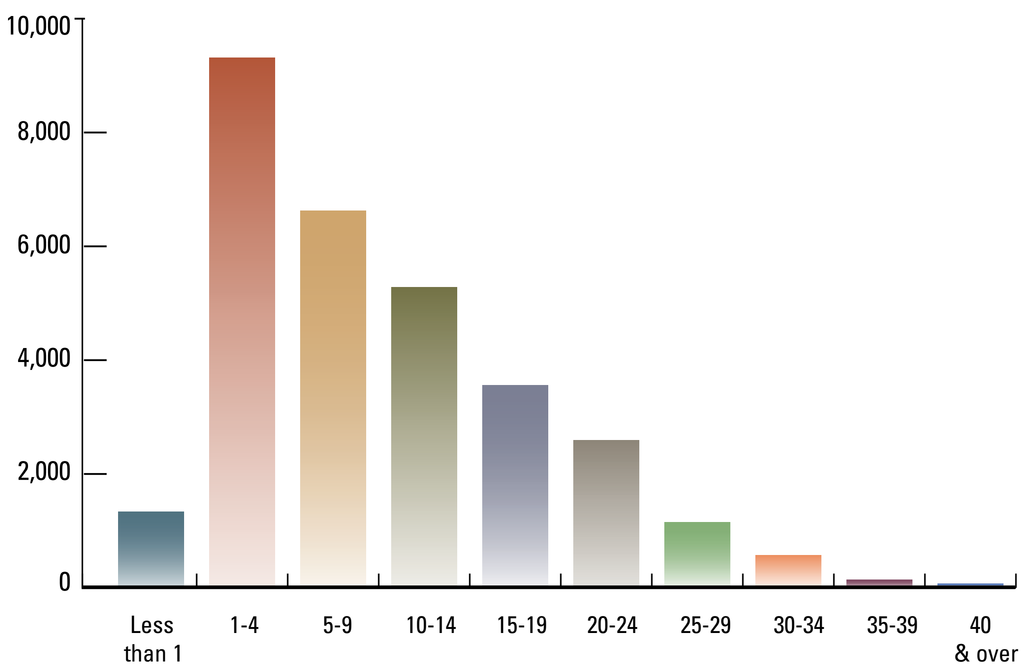


Chart 3: Distribution of Active Participants by Years of Service

as of June 30, 2014



RETIRED PARTICIPANTS AND BENEFICIARIES

As of June 30, 2014, 24,251 retirees, 2,997 beneficiaries, and 474 disabled retirees were receiving total monthly benefits of $105,788,010. For comparison, in the previous valuation, there were 24,042 retirees, 2,920 beneficiaries, and 478 disabled retirees receiving monthly benefits of $102,072,460.

These graphs show a distribution of 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, 2014

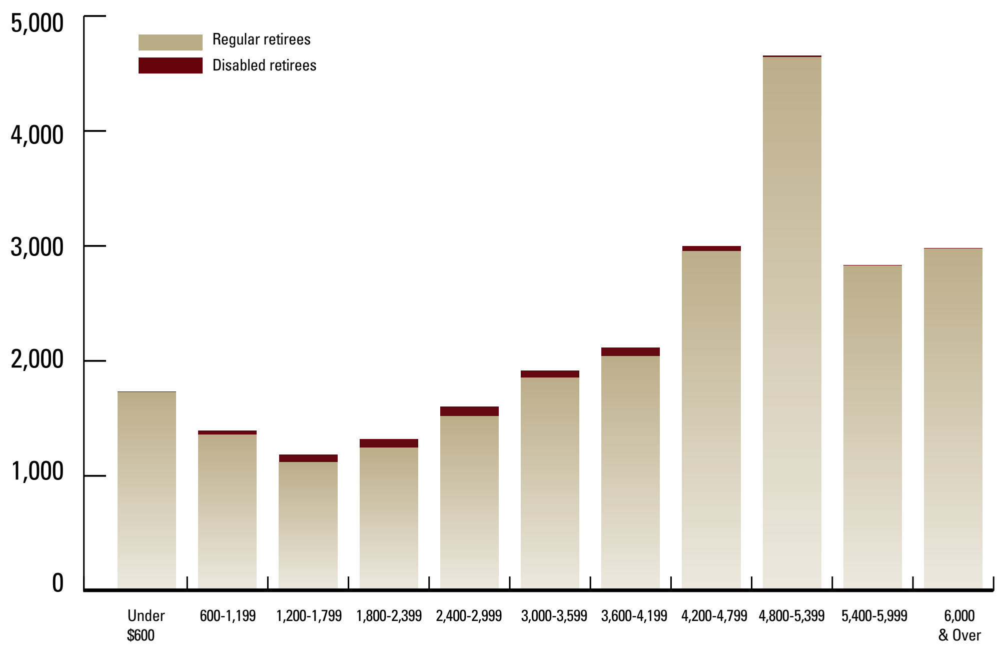
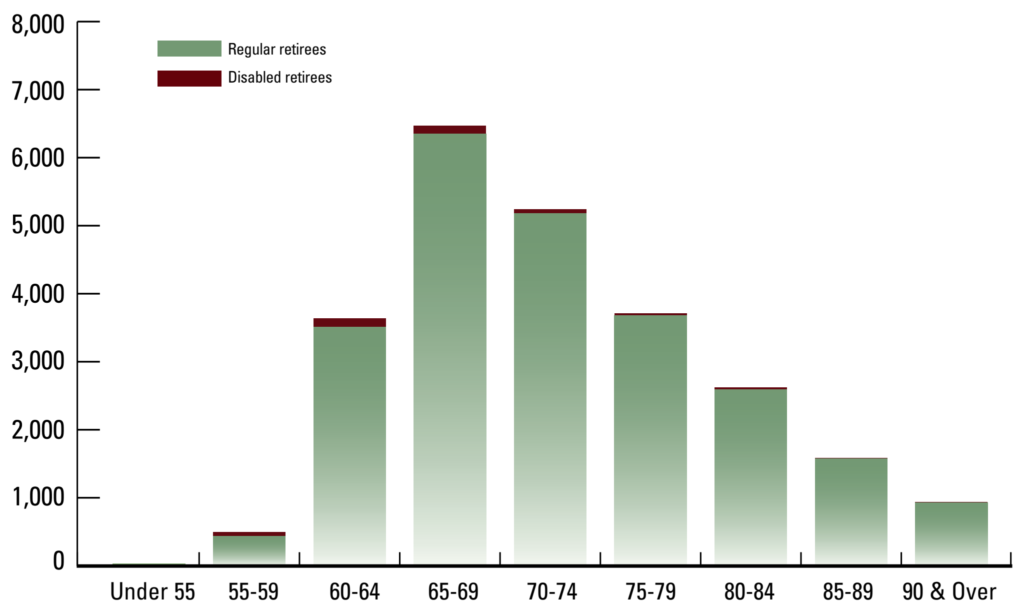


CHART 5: Distribution of Retirees by Age

as of June 30, 2014



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, 2014 and June 30, 2013

			2014		2013
1. Actuarial value of assets as of prior June 30			$ 9,458,316,094		$ 9,398,201,630
2. Employer and employee contributions			846,262,206		404,362,941
3. Benefits and expenses			1,389,710,589		1,340,401,281
4. Expected investment income			686,757,247		714,414,597
5. Total investment income, including income for securities lending			1,685,134,974		1,174,582,823
6. Investment gain/(loss) for the year ended June 30: (5) – (4)			998,377,727		460,168,226
7. Expected actuarial value of assets: (1) + (2) - (3) + (4)			9,601,624,958		9,176,577,887
8. Calculation of unrecognized return	**Original Amount***	**% Recognized**		**% Recognized**	
(a) Year ended June 30, 2014	$ 998,377,727	25%	$ 249,594,432		
(b) Year ended June 30, 2013	460,168,226	25%	115,042,057	25%	$ 115,042,057
(c) Year ended June 30, 2012	(815,951,719)	25%	(203,987,930)	25%	(203,987,930)
(d) Year ended June 30, 2011	1,276,986,010	25%	319,246,503	25%	319,246,503
(e) Year ended June 30, 2010	205,750,306			25%	51,437,577
(f) Total recognized return			479,895,061		281,738,207
9. Total actuarial value of assets as of June 30: (7) + (8)			10,081,520,019		9,458,316,094
10. Assets for retiree health insurance benefits			35,977,444		35,796,904
11. Actuarial value of assets for pension benefits (9) - (10)			$ 10,045,542,575		$ 9,422,519,190

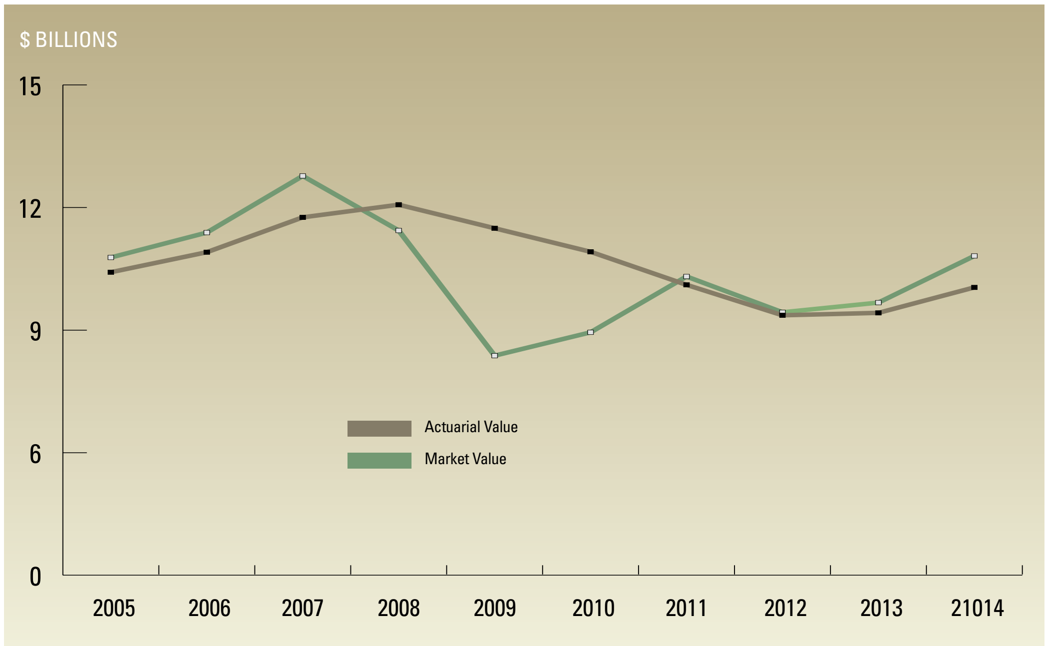
**Total return minus expected return on actuarial value*

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, 2005 – 2014

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 determined 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 gain is $480,507,260, $457,415,422 from investment gains and $23,091,838 in gains from all other sources. The net experience variation from individual sources other than investments was approximately 0.1% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

CHART 8: Actuarial Experience

for Year Ended June 30, 2014

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

1. Net gain/(loss) from investments*	$	457,415,422
2. Net gain/(loss) from administrative expenses		2,157,407
3. Net gain/(loss) from other experience**		20,934,431
4. Net experience gain/(loss): (1) + (2) + (3)	$	480,507,260

* Details in Chart 9 see below
** Details in Chart 12, see page 88

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 for the year ending June 30, 2014, is 7.75%. The actual rate of return on an actuarial basis for the year ending June 30, 2014, was 12.75%.

Since the actual return for the year was greater than the assumed return, the CTPF experienced an actuarial gain during the year ended June 30, 2014, with regard to its investments.

CHART 9: Actuarial Value Investment Experience

for Year Ended June 30, 2014

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

1. Actual return	$	1,166,597,174
2. Average value of assets		9,150,732,295
3. Actual rate of return: (1) ~ (2)		12.75%
4. Assumed rate of return		7.75%
5. Expected return: (2) x (4)	$	709,181,753
6. Actuarial gain/(loss): (1) – (5)	$	457,415,422

**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 twenty-five years, including ten-year and twenty-five-year averages.

CHART 10: INVESTMENT RETURN

Year Ended June 30	Market Value	Actuarial Value*
1990	9.3%	n/a
1991	10.4%	n/a
1992	12.8%	n/a
1993	14.3%	n/a
1994	0.4%	n/a
1995	18.7%	n/a
1996	16.3%	n/a
1997	19.8%	n/a
1998	18.2%	n/a
1999	10.7%	n/a
2000	9.5%	n/a
2001	-1.5%	n/a
2002	-3.3%	n/a
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%
2013	13.1%*	11.2%
2014	17.9%*	12.8%
Average Returns		
Last 10 years:	7.2%	6.0%
Last 25 years:	8.9%	n/a

** As determined by Segal*

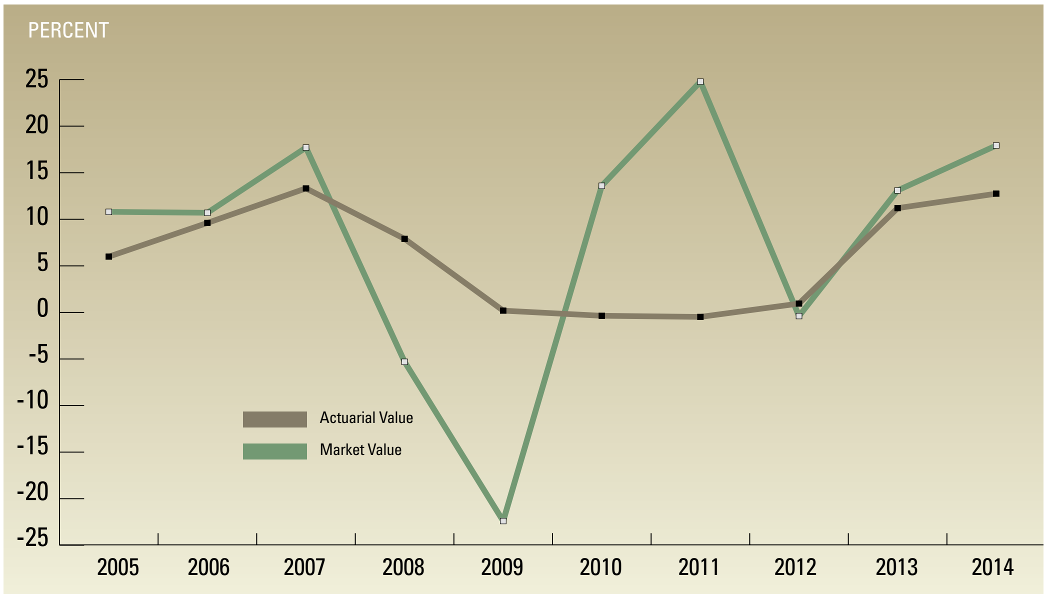
Section B, beginning on page 83, described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling pension plan costs.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended June 30, 2014, totaled $10,494,139 compared to the assumption of $12,114,263. This resulted in a gain of $2,157,407 for the year, when adjusted for timing.

CHART 11: MARKET AND ACTUARIAL RATES OF RETURN

FOR YEARS ENDED JUNE 30, 2005 - 2014



This chart illustrates how this leveling effect has actually worked over the years 2005 - 2014.

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 gain from this other experience for the year ended June 30, 2014, amounted to $20,934,431, which is approximately 0.1% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the CTPF for the year ended June 30, 2014, is shown in the chart below.

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

CHART 12: EXPERIENCE DUE TO CHANGES IN DEMOGRAPHICS

for Year Ended June 30, 2014

1. Termination	$	(81,255)
2. Retirement		(54,224,028)
3. Deaths among retired members and beneficiaries		(66,239,359)
4. Salary/service increase for continuing actives		150,327,609
5. Miscellaneous*		(8,848,536)
6. Total	$	20,934,431

* *Primarily due to retirements for inactive vested participants.*

D. DEVELOPMENT OF EMPLOYER COSTS

The amount of actuarially determined contribution 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 actuarially determined contribution of 31.45% of payroll.

Effective July 1, 2013, the amortization period was set to 30 years, but will decline by one year in each subsequent valuation. As of July 1, 2014, there are 29 years remaining on this schedule.

CHART 13: Actuarially Determined Contribution

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

	Year Beginning June 30					
	2014			2013		
	Amount		% of Payroll	Amount		% of Payroll
1. Total normal cost	$ 323,323,392	*	13.96%	$ 313,624,165		13.47%
2. Administrative expenses	11,018,846		0.47%	12,114,263		0.52%
3. Expected employee contributions	(194,832,036)		(8.41)%	(195,809,979)		(8.41)%
4. Employer normal cost: (1) + (2) + (3)	$ 139,510,202		6.02%	$ 129,928,449		5.58%
5. Employer normal cost, adjusted for timing	144,815,353	**	6.25%	134,838,147	***	5.79%
6. Actuarial accrued liability	19,503,893,632			19,044,533,016		
7. Actuarial value of assets	10,045,542,575			9,422,519,190		
8. Unfunded actuarial accrued liability: (6) – (7)	$ 9,458,351,057			$ 9,622,013,826		
9. Payment on unfunded actuarial accrued liability, adjusted for timing	583,673,167	**	25.20%	584,943,599	***	25.13%
10. Actuarially Determined Contribution, adjusted for timing: (5) + (9)	$ 728,488,520		31.45%	$ 719,781,746		30.92%
11. Projected payroll	$ 2,316,336,417			$ 2,327,963,064		

** Reflects timing adjustment to the middle of the year*
*** Employer contributions are assumed to be paid at the end of the year.*
**** Employer contributions are assumed to be paid at the middle of every month.*

The contribution requirements as of June 30, 2014, are based on all of the data described in the previous sections, the actuarial assumptions, 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 ACTUARIALLY DETERMINED CONTRIBUTION

The chart below details the changes in the actuarially determined contribution from the prior valuation to the current year's valuation.

CHART 14: Reconciliation of Actuarially Determined Contribution

from July 1, 2013 to July 1, 2014

Annual Required Contribution as of July 1, 2013	**$**	**719,781,746**
Effect of plan changes		0
Effect of expected change in amortization payment due to payroll growth		20,473,025
Effect of change in administrative expense assumption		(1,180,311)
Effect of contributions (more)/less than actuarially determined contribution		10,607,186
Effect of investment (gain)/loss		(27,186,691)
Effect of other gains and losses on accrued liability		(1,372,474)
Effect of change in timing of employer contribution		7,255,663
Effect of net other changes		110,376
Total change	$	**8,706,774**
Actuarially Determined Contribution as of July 1, 2014	$	**728,488,520**

ADDITIONAL STATE CONTRIBUTIONS

According to Section 17-127 of the Pension Code, the State shall make additional contributions of .544% of payroll to the Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-582, except that no additional contributions are required if for the previous fiscal year the ratio of the fund's assets to total actuarial liabilities was at least 90%.

Based on the June 30, 2014, actuarial valuation, the ratio of the actuarial value of assets to total actuarial liabilities, or funded ratio, amounts to 51.7%. Therefore, additional State contributions will be required for Fiscal Year 2016. The total payroll for FY 2016 is projected to be $2,381,019,770. This total payroll includes employee contributions of 7% of salary paid by the Board of Education. Excluding these employee contributions from payroll results in an adjusted projected payroll of $2,225,252,121. Based on this adjusted projected payroll for Fiscal Year 2016, we have determined the additional State contributions under Section 17-127 of the Pension Code to be $12,105,000.

ADDITIONAL BOARD OF EDUCATION CONTRIBUTIONS

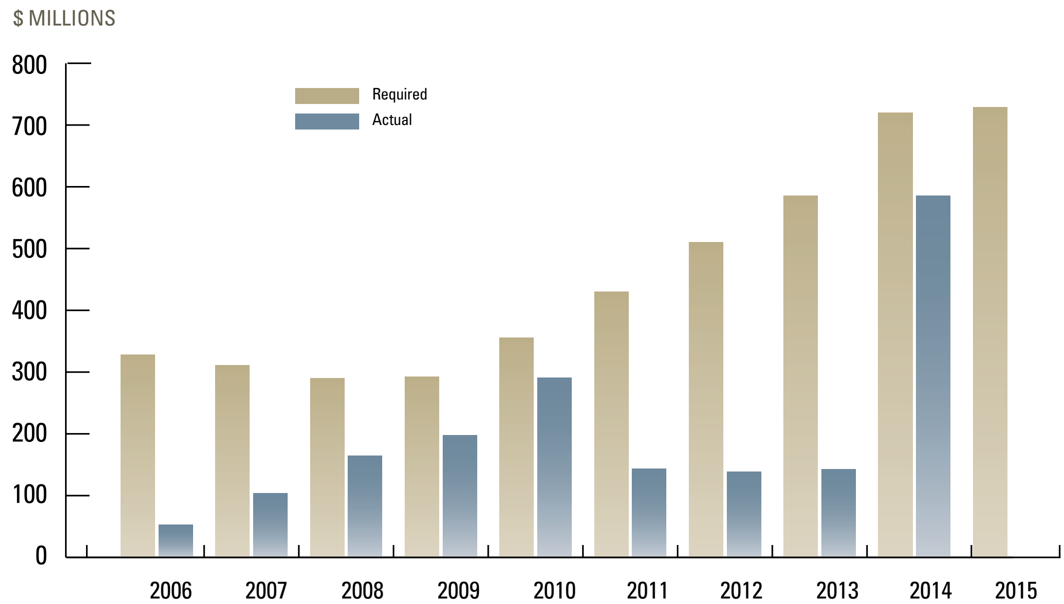
According to Section 17-127.2 of the Pension Code, the Board of Education shall make additional contributions of .58% of each teacher's salary to the Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-582, except that no additional contributions are required if for the previous fiscal year the ratio of the fund's assets to total actuarial liabilities was at least 90%. As the funded ratio as of June 30, 2014, is 51.7%, additional Board of Education contributions will be required for Fiscal Year 2016. Based on adjusted projected payroll of $2,225,252,121 for Fiscal Year 2016, we have determined the additional Board of Education contribution under Section 17-127.2 of the Pension Code to be $12,906,000.

BOARD OF EDUCATION REQUIRED CONTRIBUTIONS

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 2016 is $675,059,000.

CHART 15: REQUIRED VERSUS ACTUAL EMPLOYER CONTRIBUTIONS

YEARS ENDED JUNE 30, 2014



FUNDED RATIO

A critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the actuarial value of assets to the actuarial accrued liabilities of the Plan as calculated. 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. The chart below depicts a history of the funded ratios for this plan:

CHART 16: FUNDED RATIO

YEARS ENDED JUNE 30

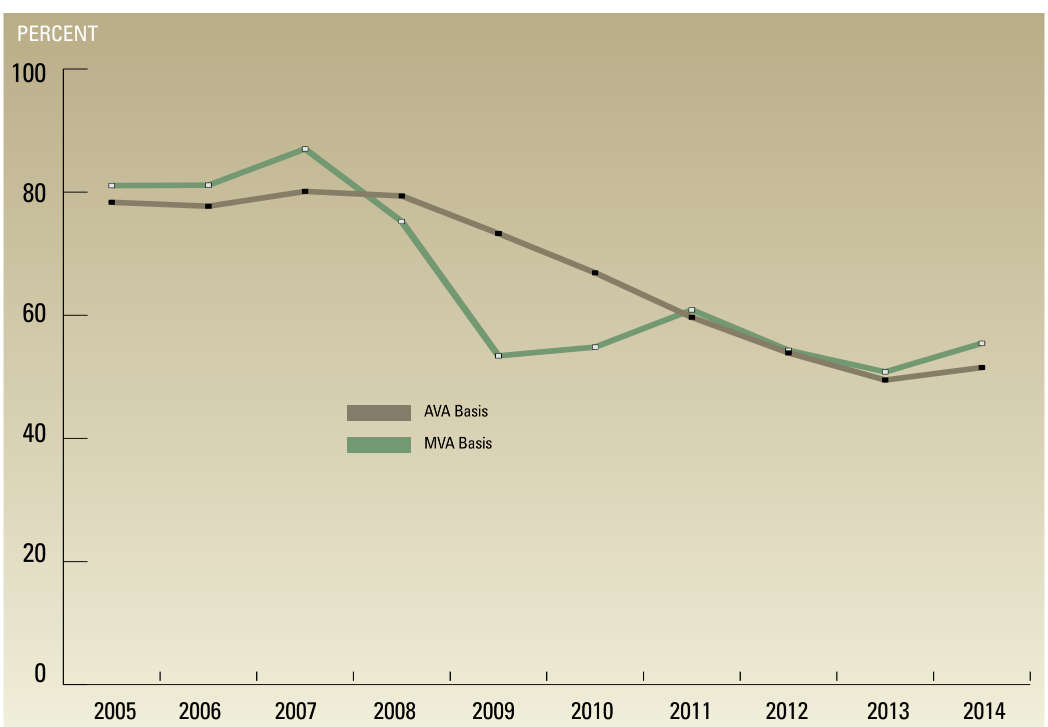


EXHIBIT A: Table of Plan Coverage

Category	Year Ended June 30		Change From Prior Year
	2014	2013	
ACTIVE PARTICIPANTS IN VALUATION			
Number	30,654	30,969	(1.0)%
Average age	41.3	41.2	0.2%
Average years of service	10.3	10.0	3.0%
Total salary supplied by the Fund	$ 2,149,841,688	$ 2,146,811,972	0.1%
Average salary	$ 70,133	$ 69,321	1.2%
Total active vested participants	19,997	20,185	(0.9)%
Male members	7,215	7,253	(0.5)%
Female members	23,439	23,716	(1.2)%
Vested terminated participants	**4,818**	**4,502**	**7.0%**
SERVICE RETIREES			
Number in pay status	24,251	24,042	0.9%
Average age	72.6	72.1	0.7%
Average monthly benefit	$ 4,106	$ 4,003	2.6%
Total annual benefit	**$ 1,194,862,326**	**$ 1,154,757,533**	**3.5%**
DISABLED RETIREES			
Number in pay status	474	478	(0.8)%
Average age	66.2	65.8	0.6%
Average monthly benefit	$ 2,812	$ 2,714	3.6%
Total annual benefit	**$ 15,995,375**	**$ 15,565,791**	**2.8%**
BENEFICIARIES (INCLUDING CHILDREN) IN PAY STATUS			
Number in pay status	2,997	2,920	2.6%
Average age	75.1	74.7	0.5%
Average monthly benefit	$ 1,629	$ 1,557	4.6%
Total annual benefit	**$ 58,598,429**	**$ 54,546,193**	**7.4%**
Total number of members	**63,194**	**62,911**	**0.4%**

EXHIBIT B: Participants in Active Service

as of June 30, 2014

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	1,190	233	956	1	–	–	–	–	–	–	–
	$ 41,245	$ 14,848	$ 47,662	$ 57,335	–	–	–	–	–	–	–
25-29	4,608	371	3,569	668	–	–	–	–	–	–	–
	50,332	15,405	51,192	65,132	–	–	–	–	–	–	–
30-34	5,463	225	2,197	2,430	611	–	–	–	–	–	–
	62,463	15,176	53,131	69,995	$ 83,472	–	–	–	–	–	–
35-39	4,510	120	960	1,467	1,664	299	–	–	–	–	–
	73,484	13,778	53,667	72,010	86,548	$ 95,605	–	–	–	–	–
40-44	4,101	129	632	760	1,162	1,165	252	1	–	–	–
	79,776	12,444	54,554	72,393	86,966	94,150	$ 100,098	$ 94,257	–	–	–
45-49	3,146	72	369	453	633	738	765	114	2	–	–
	81,629	10,665	53,242	69,682	83,667	90,401	96,356	98,580	$ 98,682	–	–
50-54	2,726	59	235	337	469	537	589	377	122	1	–
	82,120	11,224	49,369	65,600	83,894	88,131	92,177	95,815	100,893	$ 92,765	–
55-59	2,582	57	175	252	398	446	529	381	280	64	–
	82,742	12,007	45,660	60,662	82,212	87,216	91,887	92,699	98,563	102,122	–
60-64	1,684	43	137	177	250	293	346	206	131	64	37
	78,118	8,385	31,380	54,280	74,166	84,107	92,261	95,000	95,845	98,857	$ 100,638
65-69	513	23	63	54	79	71	92	60	28	11	32
	70,522	3,772	18,252	47,324	67,879	80,018	92,858	93,153	93,705	104,373	107,433
70 & over	131	8	24	25	14	14	18	12	8	3	5
	53,363	3,890	14,296	23,782	60,835	70,033	79,869	101,538	102,944	74,364	97,389
Total	30,654	1,340	9,317	6,624	5,280	3,563	2,591	1,151	571	143	74
	$ 70,133	$ 13,762	$ 51,092	$ 68,845	$ 84,442	$ 90,518	$ 94,072	$ 94,831	$ 98,261	$ 100,187	$ 103,357

Exhibit C: Reconciliation of Participant Data

	Active Participants	Vested Former Participants	Retirees	Disabled Retirees	Beneficiaries	Total
Number as of June 30, 2013	30,969	4,502	24,042	478	2,920	62,911
New participants	2,637	N/A	N/A	N/A	N/A	2,637
Terminations – with vested rights	(708)	708	0	0	0	0
Terminations – without vested rights	(1,928)	N/A	N/A	N/A	N/A	(1,928)
Retirements	(563)	(161)	724	N/A	N/A	0
New disabilities	(13)	(5)	N/A	18	N/A	0
New beneficiary	0	0	0	0	228	228
Deaths	(30)	(10)	(551)	(21)	(151)	(763)
Refunds	(120)	(88)	0	0	0	(208)
Rehire	410	(102)	0	N/A	N/A	308
Certain period expired	N/A	N/A	0	0	0	0
Data adjustments	0	(26)	36	(1)	0	9
Number as of June 30, 2014	30,654	4,818	24,251	474	2,997	63,194

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		Average Annual Allowances	% Increase in Avg. Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2004	1,336	63,484,844	635	13,595,626	19,266	594,371,147	30,851	5.2
2005	2,631	117,025,483	943	23,137,112	20,954	688,259,518	32,846	6.5
2006	1,788	91,991,917	637	15,910,849	22,105	764,340,586	34,578	5.3
2007	2,055	104,043,221	537	14,063,967	23,623	854,319,840	36,165	4.6
2008	881	67,060,461	584	16,543,468	23,920	904,836,833	37,828	4.6
2009	957	57,109,256	659	19,557,718	24,218	942,388,371	38,913	2.9
2010	1,080	67,630,266	698	21,855,794	24,600	988,162,843	40,169	3.2
2011	1,394	86,404,558	795	26,694,342	25,199	1,047,873,059	41,584	3.5
2012	1,579	96,719,811	852	28,511,983	25,926	1,116,080,887	43,049	3.5
2013	2,129	130,553,477	615	21,764,846	27,440	1,224,869,518	44,638	3.7
2014	1,006	70,963,133	724	26,376,522	27,722	1,269,456,130	45,792	2.6

EXHIBIT F: Schedule of Average Benefit Payments

	Years of Credited Service							
	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
Fiscal Year 2012								
Average Monthly Pension	$ 348	$ 842	$1,452	$2,522	$3,308	$4,142	$5,788	$3,846
Average Final Salary	$6,690	$5,457	$5,509	$6,696	$7,049	$7,173	$7,887	$7,114
Number of Retired Members	72	114	84	134	221	157	538	1,320
Average Age								63.2
Fiscal Year 2013								
Average Monthly Pension	$ 275	$ 856	$1,645	$2,761	$3,567	$4,422	$5,976	$4,294
Average Final Salary	$5,623	$5,491	$6,180	$7,136	$7,495	$7,688	$8,157	$7,535
Number of Retired Members	56	114	91	186	380	256	824	1,907
Average Age								63.2
Fiscal Year 2014								
Average Monthly Pension	$ 262	$ 758	$1,648	$2,581	$3,477	$4,307	$5,683	$3,217
Average Final Salary	$6,555	$5,023	$6,309	$6,657	$7,376	$7,516	$7,823	$6,958
Number of Retired Members	46	89	74	102	184	120	145	760
Average Age								63.4

Table does not include disabled members or surviving spouses.

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

	Year Ended June 30, 2014		Year Ended June 30, 2013	
Net assets at market value at the beginning of the year		$ 9,674,188,563		$ 9,437,316,026
Contribution income:				
Employer contributions	$ 585,416,141		$ 142,654,000	
Employee contributions	187,846,065		188,356,294	
Administrative expenses	(10,494,139)		(11,537,394)	
Net contribution income		$ 762,768,067		$ 319,472,900
Investment income:				
Interest, dividends and other income	$ 237,084,694		$ 251,028,034	
Asset appreciation	1,486,073,269		961,784,065	
Securities lending income	2,999,976		4,006,659	
Less investment and administrative fees	(41,078,099)		(42,318,757)	
Net investment income		1,685,079,840		1,174,500,001
Total income available for benefits		$ 2,447,847,907		$ 1,493,972,901
Less benefit payments:				
Annuity payments	$ (1,269,835,064)		$ (1,228,318,994)	
Refund of contributions	(32,832,171)		(24,787,06)	
Death benefits	(3,674,621)		(3,994,308)	
Net benefit payments		$ (1,306,341,856)		$ (1,257,100,364)
Change in reserve for future benefits		$ 1,141,506,051		$ 236,872,537
Net assets at market value at the end of the year		$ 10,815,694,614		$ 9,674,188,563

EXHIBIT H: Summary Statement of Plan Position

	Year Ended June 30, 2014		Year Ended June 30, 2013	
Cash equivalents		$ 11,782,210		$ 15,666,922
Accounts receivable		169,404,046		203,140,399
Investments, at fair value:				
Equities	$ 6,234,288,424		$ 5,565,488,614	
Fixed income	1,998,455,301		1,644,521,422	
Commingled funds	1,230,947,404		1,099,569,739	
Short-term investments	891,009,314		481,913,983	
Real estate	299,147,976		297,996,967	
Private equity	297,705,749		274,077,937	
Infrastructure	141,571,217		182,573,109	
Public REITs	52,778,941		175,023,120	
Margin cash	790,472		100,000	
Total investments at market value		11,146,694,798		9,721,264,891
Invested securities lending collateral		505,301,189		648,873,113
Capital assets		1,506,069		1,934,121
Prepaid expenses		13,150		13,174
Total assets		$ 11,834,701,462		$ 10,590,892,620
Less accounts payable:				
Benefits payable	$ (3,551,111)		$ (3,576,692)	
Refunds payable	(12,537,535)		(12,004,775)	
Accounts and administrative expenses payable	(13,109,074)		(17,565,015)	
Securities lending collateral	(520,146,384)		(667,849,650)	
Due to broker for securities purchased	(469,662,744)		(215,707,926)	
Total accounts payable		$ (1,019,006,848)		$ (916,704,057)
Net position at market value		$ 10,815,694,614		$ 9,674,188,563
Net position at actuarial value		$ 10,045,542,575		$ 9,422,519,190

EXHIBIT I: Development of the Fund

Through June 30, 2014

Year Ended June 30,	Employer Contributions	Employee Contributions	Net Investment Return*	Miscellaneous	Administrative Expenses	Benefit Payments	Actuarial Value of Assets at End of Year
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
2013	142,654,000	188,356,294	996,069,982	–	11,537,394	1,257,100,364	9,422,519,190
2014	585,416,141	187,846,065	1,166,597,174	–	10,494,139	1,306,341,856	10,045,542,575

** Net of investment fees*

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

EXHIBIT J: Development of Unfunded Actuarial Accrued Liability

	Year Ending June 30			
	2014		2013	
1. Unfunded actuarial accrued liability at beginning of year		$ 9,622,013,826		$ 8,011,583,697
2. Normal cost at beginning of year		325,738,428		299,633,862
3. Total contributions		773,262,206		331,010,294
4. Interest				
(a) Unfunded actuarial accrued liability and normal cost	$ 770,950,800		$ 664,897,405	
(b) Total contributions	6,582,531		11,968,408	
(c) Total interest: (4a) – (4b)		764,368,269		652,928,997
5. Expected unfunded actuarial accrued liability: (1) + (2) – (3) + (4c)		$ 9,938,858,317		$ 8,633,136,262
6. Changes due to (gain)/ loss from:				
(a) Investments	$ (457,415,422)		$ (284,448,947)	
(b) Demographics and other	23,091,838		251,389,004	
(c) Total changes due to (gain)/loss: (6a) + (6b)		$ (480,507,260)		$ (33,059,943)
7. Change to due plan changes		–		–
8. Change in actuarial assumptions		–		1,021,937,507
9. Unfunded accrued liability at end of year: (5) + (6c) + (7) + (8)		$ 9,458,351,057		$ 9,622,013,826

**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 2,997 beneficiaries and 474 disabled retirees)		27,722
2. Participants inactive during year ended June 30, 2014 with vested rights		4,818
3. Participants inactive during the year ended June 30, 2014		30,654
Fully vested	19,997	
Not vested	10,657	
The actuarial factors as of the valuation date are as follows:		
1. Actuarial accrued liability		$ 19,503,893,632
Service retirees	$ 13,609,596,553	
Disabled retirees	174,947,368	
Beneficiaries	514,294,186	
Inactive participants with vested rights	327,527,624	
Active participants:		
Retirement	4,231,572,134	
Turnover	451,476,004	
Mortality	102,730,050	
Disability	91,749,713	
Total	4,877,527,901	
2. Actuarial value of assets ($9,674,188,563 at market value)		10,045,542,575
3. Unfunded actuarial accrued liability		$ 9,458,351,057
4. Funded ratio: (2) ÷ (1)		51.5%
Components of the normal cost:	**% of Payroll**	**Amount**
1. Retirement	10.77%	$ 249,518,331
2. Turnover	2.04%	47,314,536
3. Mortality	0.33%	7,655,654
4. Disability	0.30%	6,990,275
5. Total normal cost: (1) + (2) + (3) + (4)	13.44%	$ 311,478,796
6. Total normal cost, adjusted to the middle of the year	13.96%	323,323,392
7. Administrative expenses	0.47%	$ 11,018,846
8. Total normal cost, including administrative expenses: (6) + (7)	14.43%	(334,342,238)
9. Expected employee contributions	(8.41)%	$ (194,832,036)
10. Employer normal cost: (8) + (9)	6.02%	$ 139,510,202
The determination of the Annual Required Contribution (GASB 25) is as follows:		
1. Total normal cost, adjusted to the middle of the year		$ 323,323,392
2. Administrative expenses		11,018,846
3. Expected employee contributions		(194,832,036)
4. Employer normal cost: (1) + (2) + (3)		$ 139,510,202
5. Employer normal cost projected, adjusted for timing*		144,815,353
6. Payment on projected unfunded/(overfunded) actuarial accrued liability, adjusted for timing*		583,673,167
7. Total Actuarially Determined Contributions: (5) + (6)		$ 728,488,520
8. Expected employer contributions		$ 643,667,000
9. Projected payroll		$ 2,316,336,417
10. Actuarially determined contribution as a percentage of projected payroll: (7) ÷ (9)		31.45%

**Employer contributions are assumed to be paid at the end of the year.*

Exhibit 2: Comparison of Employer Contribution to Actuarially Determined Contribution

Plan Year Ended June 30	Actuarially Determined Contributions (ADC)*	Actual Contributions	Percentage Contributed
2006	$ 328,365,821	$ 52,789,706	16.1%
2007	311,139,800	103,761,750	33.3%
2008	290,072,885	164,270,412	56.6%
2009	292,145,359	198,069,327	67.8%
2010	355,846,125	290,759,950	81.7%
2011	430,091,545	143,589,994	33.4%
2012	510,101,466	138,729,011	27.2%
2013	585,444,539	142,654,000	24.4%
2014	719,781,746	585,416,141	81.3%
2015	728,488,520	–	–

** Prior to 2015, this amount was the Annual Required Contribution (ARC)*

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)
06/30/2005	$ 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%	2,107,934,080	256.3%
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%
06/30/2013	9,422,519,190	19,044,533,016	9,622,013,826	49.48%	2,239,347,051	429.7%
06/30/2014	10,045,542,575	19,503,893,632	9,458,351,057	51.51%	2,233,280,995	423.5%

* *Not less than zero*

** *Includes Health Insurance Fund assets*

Net Pension Liability

The components of the net pension liability at June 30, 2014, were as follows:

Total pension liability	$ 20,316,899,952
Plan fiduciary net position	10,815,694,614
Employer's net pension liability	9,501,205,338
Plan fiduciary net position as a percentage of the total pension liability	53.23%

ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.25% to 15.75%, varying by age
Investment rate of return	7.75%, net of investment expense
Cost of living adjustments	3% compound for Tier 1 members; the lesser of 3% or one-half of CPI, simple, for Tier 2 members

For healthy participants, mortality rates were based on the RP-2000 Healthy Mortality Table for Males or Females, as appropriate, set back 2 years and adjusted for mortality improvements generationally from 2004 based on Scale AA. For disabled participants, mortality rates were based on the RP-2000 Disabled Mortality Table, set back 3 years.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an experience study for the period July 1, 2007, through June 30, 2012. They are the same as the assumptions used in the June 30, 2013, funding actuarial valuation.

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made as specified by Public Act 96-0889. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the net pension liability as of June 30, 2014, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability as of June 30, 2014	$ 12,136,287,040	$ 9,501,205,338	$ 7,312,538,277

Schedules of Changes in Net Pension Liability

	2014
Total Pension Liability	
Service cost	$ 332,188,481
Interest	1,509,307,860
Change of benefit term	–
Differences between expected and actual experience	(14,177,102)
Changes of assumptions	–
Benefit payments, including refunds of employee contributions	(1,306,341,856)
Net change in total pension liability	**$ 520,977,383**
Total pension liability – beginning	**19,795,922,569**
Total pension liability – ending (a)	**$ 20,316,899,952**
Plan fiduciary net position	
Contributions – employer	$ 585,416,141
Contributions – employee	187,846,065
Net investment income	1,685,079,840
Benefit payments, including refunds of employee contributions	(1,306,341,856)
Administrative expense	(10,494,139)
Other	–
Net change in plan fiduciary net position	$ 1,141,506,051
Plan fiduciary net position – beginning	9,674,188,563
Plan fiduciary net position – ending (b)	$ 10,815,694,614
Fund's net pension liability – ending (a) – (b)	$ 9,501,205,338
Plan fiduciary net position as a percentage of the total pension liability	53.23%
Covered employee payroll	$ 2,233,280,995
Fund's net pension liability as percentage of covered employee payroll	425.44%

MORTALITY RATES

Healthy: The RP-2000 Combined Healthy Mortality Table, set back 2 years with generational improvement from 2004 using Scale AA. (adopted June 30, 2013).

Disabled: The RP-2000 Disabled Mortality Table, set back 3 years (adopted June 30, 2013).

The mortality tables specified above without future generational improvement reasonably reflect the projected mortality experience of the Fund as of the measurement date. The healthy mortality table was then adjusted to future years using additional generational improvement using Scale AA to anticipate future mortality improvement.

TERMINATION RATES

Select and ultimate termination rates are based on recent experience of the Fund were used (adopted June 30, 2013). Ultimate rates after the tenth year are shown for sample ages in the table on the next page. Select rates are as follows:

Years of Service	Rate (%)
Less than 1	25.0
1 - 1.99	15.0
2 - 2.99	10.0
3 - 3.99	9.0
4 - 4.99	8.0
5 - 5.99	7.0
6 - 6.99	6.0
7 - 7.99	5.0
8 - 8.99	4.5
9 - 9.99	4.0

Rate (%)	
Age	10+ Years of Service
30	2.5
35	2.5
40	2.3
45	2.0
50	2.0
55	2.0

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, 2013). Sample rates are shown in the following chart:

	Rate (%)	
Age	<33 Years of Service	33+ Years of Service
55	5.0	20.0
60	9.0	22.5
65	15.0	25.0
70	20.0	30.0
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, 2013). Sample rates are shown below.

Age	Rate (%)
30	0.06
40	0.08
50	0.16
60	0.20

SALARY INCREASES

Assumed salary increases are based on the recent experience of the Fund were used (adopted June 30, 2013). Sample rates are shown below.

Age	Rate (%)
25	10.8
30	7.3
35	7.3
40	5.8
45	5.3
50	4.8
55	4.3

VALUATION OF INACTIVE VESTED PARTICIPANTS

The account balance is projected to retirement (age 62) with interest, converted to an annuity, and 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 female.

SPOUSES

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

NET INVESTMENT RETURN

7.75% per year

INFLATION

2.75% per year

PAYROLL GROWTH

3.50% 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) 25% 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.

Exhibit 6: Summary of Plan Provisions

This exhibit summarizes the major provisions of the 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. Charter school contributions may be contributed at various rates by the employers and 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 1/2 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 2014, the salary is limited to $110,631, as determined by the Illinois Department of Insurance. The limit 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 1/2 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 1/2 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 7: 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, such as the Actuarially Determined Contribution (ADC) and the Net Pension Liability (NPL).
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.
Actuarially Determined Contribution (ADC):	The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under the Plan's funding policy. The ADC consists of the Employer Normal Cost and the Amortization Payment.
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 ADC, that is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.
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.
GASB 67 and GASB 68:	Governmental Accounting Standards Board Statements No. 67 and No. 68 are the successor statements to GASB Statements No. 25 and No. 27.
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.
Net Pension Liability(NPL):	The Net Pension Liability is equal to the Total Pension Liability minus the Plan Fiduciary Net Position.
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.
Plan Fiduciary Net Position:	Market Value of assets.
Total Pension Liability:	The actuarially accrued liability under the entry age normal cost method and based on the blended discount rate as described in GASB 67 and 68.
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, 2014 to be used for the fiscal year ending June 30, 2015. 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

- Effective January 1, 2015, pensioners' health insurance coverage will be reduced from a 60% reimbursement to a 50% reimbursement.
- The valuation-year per capita health costs and trend rates were updated.
- The Unfunded Actuarial Accrued Liability (UAAL) is $1.90 billion as of June 30, 2014, compared to $2.35 billion the prior year.
- The Annual Required Contribution (ARC) is $135.7 million as of July 1, 2014; the ARC was $165.1 million as of July 1, 2013.
- $65 million was contributed towards post-retirement medical benefits in the year ending June 30, 2014.

The plan complies with the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA) as of the valuation date. This valuation includes the estimated effect of the excise tax beginning in 2018. The effect on the obligation of any other future aspects of the Acts is assumed to be *de minimis*.

EXHIBIT A: Summary of Participant Data

Retirees and Beneficiaries	June 30, 2014	June 30, 2013
Number currently receiving health benefits	18,171	18,140
Average age	73.3	73.1
Number entitled to health benefits but not currently receiving them	9,501	9,300
Terminated employees who may be entitled to future benefits		
Number	4,818	4,502
Average age	47.8	48.0
Active Participants		
Number	30,653	30,969
Average age	41.3	41.2
Average years of service	10.3	10.0

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

Participant Category	June 30, 2014	June 30, 2013
Current retirees and beneficiaries	$ 1,067,009,286	$ 1,350,519,247
Terminated employees who may be entitled to future benefits	25,936,642	29,155,744
Current active members	845,909,967	1,006,430,936
Total actuarial accrued liability (AAL)	**$ 1,938,855,895**	**$ 2,386,105,927**
Effect of Assets		
Employer actuarial accrued liability (AAL)	$ 1,938,855,895	$ 2,386,105,927
Actuarial value of assets	35,977,444	35,796,904
Unfunded actuarial accrued liability (UAAL)	$ 1,902,878,451	$ 2,350,309,023

Required Supplementary Information

CHART 1: Summary of Required Supplementary Information

Valuation date	June 30, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Amortization period	29 years (closed period)
Asset valuation method	Market
Actuarial assumptions:	
Discount rate	4.50%
Inflation	2.75%
Heath care cost trend rate	8.0% graded to 5% over 6 years
Plan membership:	
Current retirees and beneficiaries currently receiving health benefits	18,171
Retirees and beneficiaries entitled to health benefits but not currently receiving them	9,501
Terminated employees who may be entitled to future benefits	4,818
Current active members	30,653
Total	**63,143**

Chart 2: Determination of Annual Required Contribution (ARC)

Cost Element	July 1, 2014		July 1, 2013	
	Amount	Percent of Payroll	Amount	Percent of Payroll
1. Normal cost	$ 60,899,465	2.63%	$ 75,361,817	3.24%
2. Amortization of the unfunded actuarial accrued liability (29 years)	74,829,312	3.23%	89,753,586	3.85%
3. Total Annual Required Contribution (ARC)	$ 135,728,777	5.86%	$ 165,115,403	7.09%
4. Projected Payroll	$ 2,316,336,417		$ 2,327,963,064	

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%
June 30, 2013	216,163,148	65,000,000	30.07%
June 30, 2014	165,115,403	65,000,000	39.37%

CHART 4: Schedule of Funding Progress

Actuarial Valuation Date	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%
June 30, 2013	35,796,904	2,386,105,927	1.50%	2,350,309,023	2,239,347,051	104.96%
June 30, 2014	35,977,444	1,938,855,895	1.86%	1,902,878,451	2,233,280,995	85.21%

CHART 5: Solvency Test

	June 30, 2014	June 30, 2013
1. Actuarial Accrued liability (AAL)		
a. Active member contributions	$ 0	$ 0
b. Retirees and beneficiaries	1,067,009,286	1,350,519,247
c. Active and inactive members (employer financed)	871,846,609	1,035,586,680
d. Total	$ 1,938,855,895	$ 2,386,105,927
2. Actuarial value of assets	35,977,444	35,796,904
3. Cumulative portion of AAL covered		
a. Active member contribution	100.0%	100.0%
b. Retirees and beneficiaries	3.37%	2.65%
c. Active and inactive members (employer financed)	0.00	0.00%

Exhibit 1: Actuarial Assumptions and Actuarial Cost Method

Measurement Date: June 30, 2014

Discount Rate: 4.50%

Payroll Growth: 3.50% per year (adopted June 30, 2013)

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 RP-2000 Combined Healthy Mortality Table, set back 2 years with generational improvement from 2004 using Scale AA (adopted June 30, 2013).

Disabled: The RP-2000 Disabled Mortality Table, set back 3 years (adopted June 30, 2013).

The mortality tables specified above without future generational improvement reasonably reflect the projected mortality experience of the Fund as of the measurement date. The healthy mortality table was then adjusted to future years using additional generational improvement using Scale AA to anticipate future mortality improvement.

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 (%)
Less than 1	25.00
1 - 1.99	15.00
2 - 2.99	10.00
3 - 3.99	9.00
4 - 4.99	8.00
5 - 5.99	7.00
6 - 6.99	6.00
7 - 7.99	5.00
8 - 8.99	4.50
9 - 9.99	4.00

Ultimate rates after the 10th year for sample ages are as follows:

10+Years of Service	
Age	**Rate (%)**
30	2.50
35	2.50
40	2.25
45	2.00
50	2.00
55	2.00

DISABILITY RATES

Disability rates based on the recent experience of the Fund were used (adopted June 30, 2013). Sample rates are shown below.

Age	Rate (%)
30	0.06
40	0.08
50	0.16
60	0.20

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, 2013). Sample rates are shown below.

	Rate (%)	
Age	**<34 Years of Service**	**34+ Years of Service**
55	5.0	20.0
60	9.0	22.5
65	15.0	25.0
70	20.0	30.0
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

TERMINATED EMPLOYEES

Of current and future terminated participants with 10 or more years of service, 15% were assumed to meet eligibility requirements and elect coverage (adopted June 30, 2013). 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 (adopted June 30, 2012).

PARTICIPATION AND COVERAGE ELECTION

75% of future female retirees under age 65 and 60% of future male retirees under age 65 were assumed to participate. 80% of future female retirees age 65 and greater and 65% of future male 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, 20% of females and 12.5% of males were assumed to participate at age 65 (adopted June 30, 2013).

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.

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. Upon the death of the retiree, 20% of surviving spouses are assumed to elect coverage (adopted June 30, 2013).

PER CAPITA COST DEVELOPMENT

Per capita claims costs were based on the average retiree premiums and Part A and B reimbursements as of January 1, 2014, and average rebates paid in year ended June 30, 2014 (assumed to have been incurred relatively evenly between calendar year 2012 and calendar year 2013). 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, 2014, are shown in the table below for retirees at selected ages. Costs shown are total costs; plan pays 60% in 2014 and 50% (with limitations) in 2015 and later.

	Retiree		Spouse	
Age	Male	Female	Male	Female
55	$ 11,350	$ 11,719	$ 8,933	$ 10,118
60	13,480	12,631	11,959	11,735
64	15,465	13,400	15,096	13,207
65	5,247	4,460	5,247	4,460
70	6,081	4,806	6,081	4,806
75	6,554	5,174	6,554	5,174

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 (%)
2015	8.0
2016	7.5
2017	7.0
2018	6.5
2019	6.0
2020	5.5
2021 & Later	5.0

PLAN DESIGN

Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit II 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 valuation includes recognition of the excise tax. The applicable annual limitation used to determine the estimated amount of excise tax is assumed to increase 3.5% per year beginning in 2019.

The effect on the obligation of other 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*.

ASSUMPTION CHANGES SINCE PRIOR VALUATION

Valuation-year per capita health costs were updated.

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%, decreasing to 50% effective January 1, 2015, of the cost of pensioners' health insurance coverage. Beginning in 2015, the maximum reimbursement for non-Chicago Teachers' Pension Fund plans will be limited to an amount based on the most economical Chicago Teachers' Pension Fund plan option.

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 in Section 4, 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 I of Section 4. 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 III of Section 4 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 summaries of statistical information about participating members, annuitants, and the benefits paid to them.

Statement of Changes in Fiduciary Net Position
Pension Fund

For year ended June 30, 2014, with comparative totals for 9 years

	2014	2013	2012	2011	2010
Additions:					
Contributions:					
Intergovernmental, net (employer)	$ 585,416,141	$ 142,654,000	$ 138,729,011	$ 143,589,994	$ 290,759,950
Employee contributions	187,846,065	188,356,294	187,141,384	185,882,636	194,621,551
	773,262,206	**331,010,294**	**325,870,395**	**329,472,630**	**485,381,501**
Investment income:					
Net investment income	1,685,079,840	1,174,500,001	(38,124,125)	2,123,272,170	1,107,453,898
Miscellaneous	–	–	431,790	55,307	–
Total additions	2,458,342,046	**1,505,510,295**	**288,178,060**	**2,452,800,107**	**1,592,835,399**
Deductions:					
Pension Benefits					
Retirement	1,211,523,930	1,173,343,019	1,062,373,677	999,323,111	943,252,537
Survivors	44,428,213	41,503,227	38,812,556	36,196,804	33,738,810
Disability	13,882,921	13,472,748	12,698,514	12,019,044	11,512,123
Refunds					
Separation	22,332,203	12,948,597	17,521,737	13,135,132	9,334,950
Death	3,598,338	3,284,366	4,139,266	3,373,836	4,253,510
Other	6,901,631	8,554,098	14,633,633	10,671,550	7,495,834
Death Benefits					
Heirs of Active Teachers	194,115	441,036	387,047	419,861	496,832
Heirs of Annuitants	3,480,506	3,553,273	2,937,334	2,840,999	2,449,315
	1,306,341,856	**1,257,100,364**	**1,153,503,764**	**1,077,980,337**	**1,012,533,911**
Administrative and miscellaneous expenses	10,494,139	11,537,394	10,120,434	9,527,938	8,800,848
Total deductions	**1,316,835,995**	**1,268,637,758**	**1,163,624,198**	**1,087,508,275**	**1,021,334,759**
Net increase (decrease)	1,141,506,051	236,872,537	(875,446,138)	1,365,291,832	571,500,640
Transfers Health Insurance	–	–	–	–	–
Net assets held in trust for benefits:					
Beginning of period, as restated	9,674,188,563	9,437,316,026	10,312,762,164	8,947,470,332	8,375,969,692
End of period	**$ 10,815,694,614**	**$ 9,674,188,563**	**$ 9,437,316,026**	**$ 10,312,762,164**	**$ 8,947,470,332**

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	2009	2008	2007	2006	2005
Additions:					
Contributions:					
Intergovernmental, net (employer)	$ 198,069,327	$ 164,270,412	$ 103,761,750	$ 52,789,706	$ 8,872,764
Employee contributions	176,176,975	172,504,804	179,017,663	163,419,386	175,706,081
	374,246,302	**336,775,216**	**282,779,413**	**216,209,092**	**184,578,845**
Investment income:					
Net investment income	(2,464,420,944)	(738,817,587)	1,947,810,351	1,093,872,285	1,034,998,497
Miscellaneous	–	–	1,923	139,509	561,154
Total additions	**(2,090,174,642)**	**(402,042,371)**	**2,230,591,687**	**1,310,220,886**	**1,220,138,496**
Deductions:					
Pension Benefits					
Retirement	897,873,287	863,963,625	759,346,660	682,245,353	617,684,571
Survivors	31,028,747	29,037,664	27,532,256	25,854,248	24,520,785
Disability	11,673,453	11,673,773	10,898,039	10,388,393	9,561,956
Refunds					
Separation	10,615,031	5,626,786	12,829,988	10,633,789	16,877,637
Death	3,765,163	3,218,956	3,942,853	4,028,201	3,572,619
Other	5,658,269	7,884,526	19,581,668	16,023,309	4,408,439
Death Benefits					
Heirs of Active Teachers	514,743	486,740	554,765	535,142	470,537
Heirs of Annuitants	2,462,789	2,359,473	2,322,418	2,082,915	2,035,334
	963,591,482	**924,251,543**	**837,008,647**	**751,791,350**	**679,131,878**
Administrative and miscellaneous expenses	8,751,945	7,827,576	8,434,688	8,320,340	7,477,671
Total deductions	**972,343,427**	**932,079,119**	**845,443,335**	**760,111,690**	**686,609,549**
Net increase (decrease)	(3,062,518,069)	(1,334,121,490)	1,385,148,352	550,109,196	533,528,947
Transfers Health Insurance	–	–	–	59,496,735	–
Net assets held in trust for benefits:					
Beginning of period	11,438,487,761	12,772,609,251	11,387,460,899	10,777,854,968	10,244,326,021
End of period	**$ 8,375,969,692**	**$ 11,438,487,761**	**$ 12,772,609,251**	**$ 11,387,460,899**	**$ 10,777,854,968**

Statement of Changes in Fiduciary Net Position
Health Insurance Fund

For Year Ended June 30, 2014,
with comparative totals for 9 years

	2014	2013	2012	2011	2010
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	55,134	82,822	41,058	20,471	119,855
Miscellaneous	8,000,000	8,352,647	6,770,651	10,338,661	–
Total additions	**73,055,134**	**73,435,469**	**71,811,709**	**75,359,132**	**65,119,855**
Deductions:					
Health Insurance Premium Rebate	72,874,594	71,763,523	69,011,323	78,892,292	79,953,873
Total deductions	**72,874,594**	**71,763,523**	**69,011,323**	**78,892,292**	**79,953,873**
Net increase (decrease)	180,540	1,671,946	2,800,386	(3,533,160)	(14,834,018)
Transfers Health Insurance	–		–		–
Net assets held in trust for benefits:					
Beginning of period, as restated	35,796,904	34,124,958	31,324,572	34,857,732	49,691,750
End of period	**$ 35,977,444**	**$ 35,796,904**	**$ 34,124,958**	**$ 31,324,572**	**$ 34,857,732**

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	2009	2008	2007	2006	2005
Additions:					
Contributions:					
Intergovernmental, net (employer)	$ 65,000,000	$ 65,000,000	$ 65,000,000	$ 65,000,000	$ 65,044,700
Investment income:					
Net investment income	514,200	1,278,818	2,373,014	4,071,093	1,899,844
Miscellaneous	15,000,000	–	–	–	–
Total additions	**80,514,200**	**66,278,818**	**67,373,014**	**69,071,093**	**66,944,544**
Deductions:					
Health Insurance Premium Rebate	75,811,835	68,691,191	61,028,841	58,279,900	54,410,887
Total deductions	**75,811,835**	**68,691,191**	**61,028,841**	**58,279,900**	**54,410,887**
Net increase (decrease)	4,702,365	(2,412,373)	6,344,173	10,791,193	12,533,657
Transfers Health Insurance	–	–	–	(59,496,735)	–
Net assets held in trust for benefits:					
Beginning of period, as restated	44,989,385	47,401,758	41,057,585	89,763,127	77,229,470
End of period	**$ 49,691,750**	**$ 44,989,385**	**$ 47,401,758**	**$ 41,057,585**	**$ 89,763,127**

Annuitants

Distribution of Current Annuitants by Benefit Type

As of June 30, 2014

Monthly Pension Amount	Retirees		Disabled Retirees		Beneficiaries		Total	
	Males	Females	Males	Females	Males	Females	Males	Females
$ 0 – 499	422	988	2	2	174	249	598	1,239
$ 500 – 999	394	859	9	19	225	408	628	1,286
$ 1,000 – 1,499	323	661	14	40	178	231	515	932
$ 1,500 – 1,999	242	689	12	43	185	266	439	998
$ 2,000 – 2,499	256	840	15	50	196	286	467	1,176
$ 2,500 – 2,999	286	1,000	11	54	113	227	410	1,281
$ 3,000 – 3,499	303	1,216	16	34	19	91	338	1,341
$ 3,500 – 3,999	350	1,326	15	46	11	55	376	1,427
$ 4,000 – 4,499	474	1,483	9	47	7	43	490	1,573
$ 4,500 – 4,999	835	2,497	6	14	2	16	843	2,527
$ 5,000 – 5,499	1,001	2,847	2	6	1	9	1,004	2,862
$ 5,500 – 5,999	508	1,477	1	1	1	0	510	1,478
$ 6,000 – 6,499	271	581	1	1	0	2	272	584
$ 6,500 – 6,999	220	305	1	1	0	0	221	306
$ 7,000 – 7,499	119	234	0	1	0	0	119	235
$ 7,500 – 7,999	110	208	1	0	1	0	112	208
$ 8,000 – 8,499	95	165	0	0	0	0	95	165
$ 8,500 – 8,999	64	123	0	0	0	0	64	123
$ 9,000 +	177	302	0	0	0	1	177	303
Total	**6,450**	**17,801**	**115**	**359**	**1,113**	**1,884**	**7,678**	**20,044**

Annuitants

Distribution of Pensioners with Health Insurance Reimbursements by Size of Annuity

June 30, 2014

	Health Insurance	
Monthly Pension Amount	**Males**	**Females**
$ 0 – 499	50	137
$ 500 – 999	116	344
$ 1,000 – 1,499	157	342
$ 1,500 – 1,999	147	505
$ 2,000 – 2,499	199	702
$ 2,500 – 2,999	198	834
$ 3,000 – 3,499	206	942
$ 3,500 – 3,999	264	1,067
$ 4,000 – 4,499	387	1,227
$ 4,500 – 4,999	713	2,136
$ 5,000 – 5,499	836	2,455
$ 5,500 – 5,999	436	1,220
$ 6,000 – 6,499	228	487
$ 6,500 – 6,999	193	267
$ 7,000 – 7,499	97	207
$ 7,500 – 7,999	99	178
$ 8,000 – 8,499	85	145
$ 8,500 – 8,999	55	110
$ 9,000 +	152	248
Total	**4,618**	**13,553**

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						
	0-4	5-9	10-14	15-19	20-24	25-29	30+
Fiscal Year 2005							
Average Monthly Pension	332	750	1,310	2,074	2,550	3,170	4,392
Average Final 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 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 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 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 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 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
Fiscal Year 2013							
Average Monthly Pension	275	856	1,645	2,761	3,567	4,422	5,976
Average Final Salary*	5,623	5,491	6,180	7,136	7,495	7,688	8,157
Number of Retired Members	56	114	91	186	380	256	824
Fiscal Year 2014							
Average Monthly Benefit	262	758	1,648	2,581	3,477	4,307	5,683
Average Final Salary*	6,555	5,023	6,309	6,657	7,376	7,516	7,823
Number of Retired Persons	46	89	74	102	184	120	145

* *The higher final average salaries in the 0-4 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
2005	9,061	28,460	37,521
2006	8,209	26,473	34,682
2007	7,799	25,169	32,968
2008	7,473	24,613	32,086
2009	7,617	24,288	31,905
2010	8,003	25,980	33,983
2011	6,949	23,184	30,133
2012	7,048	23,318	30,366
2013	7,253	23,716	30,969
2014	7,215	23,439	30,654

**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.