Keeping our promises

Addressing our challenges

SURS

State Universities Retirement System of Illinois

The Comprehensive Annual Financial Report
for Fiscal Year Ended June 30, 2012

A Component Unit of the State of Illinois

SURS MISSION
To secure and deliver the retirement benefits promised to our members.

INTRODUCTORY SECTION

FINANCIAL SECTION

INVESTMENT SECTION

ACTUARIAL SECTION

STATISTICAL SECTION

Keeping our promises

Securing and delivering the benefits promised to our members

Addressing our challenges

Achieving long-term sustainability of the System

INTRODUCTORY

The Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2012

A Message from Our Executive Director

This report reflects our continued efforts to secure and deliver the retirement promises made to our members while addressing the ongoing funding challenges facing SURS.

During the past year we received the full fiscal year 2012 annual statutory contribution of $980,485,000 as well as $51,253,495 in other employer contributions. Additionally, we earned $25,726,765 in investment income (net of fees). In a challenging environment, assets decreased from $15.2 billion to $14.7 billion, and the actuarial funding ratio decreased from 44.3% to 42.1%.

It is encouraging to note that the legislature has agreed to fully fund the fiscal year 2013 annual contribution of $1.4 billion, which represents 95% of the Annual Required Contribution (ARC), suggesting a renewed effort to address the severe underfunding status of SURS.

Our investment professionals continue to execute a board-approved investment plan focusing on a highly diversified and cost-efficient investment program consisting of both public securities and private investment strategies. SURS staff developed an investment plan, available on the SURS website, to formalize the strategic direction of the investment portfolio for the coming year and to provide transparency of the planning process. Additional details on the investment program can be found in the Investment section of this report.

We are constantly analyzing and updating our financial assumptions and investment plans to maintain the financial health and ensure the long-term sustainability of SURS. Our management team, working with the assistance of outside actuarial, investment and legal experts, stands ready to assist the legislature in developing effective funding solutions for the state pension systems.

Our Member Services and Outreach divisions continue to achieve high levels of customer satisfaction for member counseling and education, in spite of a significant increase in member retirements resulting in part from the uncertainty surrounding pension reform legislation. We continue to meet or exceed our service standards because of employee dedication and our ongoing efforts to find more efficient ways to deliver service excellence.

Like other organizations, SURS expects an increase in staff attrition as many of our employees have reached or will soon reach retirement age. To that end, our team leaders have been proactive in developing succession plans for each of their areas.

Finally, we are expanding our risk management capabilities to deal with ever-increasing, complex and challenging legal, regulatory, investment and technology strategies. We continue to learn and grow in order to become a more effective organization.

In conclusion, SURS continues to be proactive and strives to achieve its mission statement as described.

Sincerely,

William E. Mabe
Executive Director
State Universities Retirement System

Letter of Transmittal

SURS
State Universities Retirement System of Illinois
Serving Illinois Community Colleges and Universities
1901 Fox Drive • Champaign, IL 61820
1-800-ASK SURS • (217) 378-8800 (C-U)
(217) 378-9800 (FAX)

December 18, 2012

Board of Trustees and Executive Director
State Universities Retirement System
1901 Fox Drive
Champaign, IL 61820

I am pleased to present the 71st Comprehensive Annual Financial Report for the State Universities Retirement System of Illinois (SURS or the System, a component unit of the State of Illinois) for the fiscal year ended June 30, 2012.

The management of SURS is responsible for the compilation and accuracy of the financial, investment, actuarial, and statistical information contained in this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of SURS.

The Illinois Pension Code requires an annual audit of the financial statements of the System by Certified Public Accountants selected by the State Auditor General. This requirement has been complied with, and the independent auditors' unqualified report on the System's 2012 financial statements has been included in this report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the report of the independent auditors.

Summary of Financial Information

The following table summarizes the change in the System's plan net assets available for benefits between fiscal years 2012 and 2011.

($ millions)

	2012	2011	Increase/(Decrease)	
			Amount	%
Additions	$ 1,369.9	$ 4,102.0	$ (2,732.1)	(66.6)
Deductions	1,856.4	1,709.0	147.4	8.6
Change	$ (486.5)	$ 2,393.0	$ (2,879.5)	(120.3)

The overall decrease of $2.9 billion in net assets available for benefits is primarily due to a decrease in additions of $2.7 billion, composed of a decrease in net investment income of $2.9 billion offset by an increase in employer contributions of $0.2 billion. Deductions in the form of benefit payments showed a relatively small increase of $0.13 billion over the prior year. More detailed analysis can be found in the Financial Section of this report.

Profile

SURS is the administrator of a cost-sharing, multiple-employer public employee retirement system established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities, community colleges, and other agencies, and the survivors, dependents, and other beneficiaries of those employees. SURS services 65 employers and 199,622 members and annuitants. The plans administered by SURS include a defined benefit plan established in 1941 and a defined contribution plan established in 1998.

Funding

The State of Illinois, the largest employer covered by SURS, provides funding from three sources: the General Revenue Fund, the Educational Assistance Fund, and the State Pensions Fund, which is funded with proceeds from unclaimed property. The determination of the total employer contributions for fiscal year 2012 was based on Public Act 97-0065 which appropriated $980.5 million. Further information is presented in the required supplementary schedules related to employer contributions and the funding of the plan.

Letter of Transmittal

The actuarial accrued liability for the defined benefit plan at June 30, 2012, was $33.17 billion. The actuarial value of assets available for benefits at June 30, 2012, equaled $13.95 billion. The amount by which the liability exceeds the assets is called the unfunded accrued actuarial liability, and it equaled $19.22 billion at the end of fiscal year 2012. The System's actuary assumes that the System's investments will return 7.75% over the long term. It is expected that the growth in state required contributions versus benefit payments will continue to result in a deficit of contributions over expenses, requiring the Board of Trustees to utilize investment assets to cover benefit payments as needed.

Investments

Investments are made under the authority of the prudent expert rule, which states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. This standard has enabled the System to invest in different types of asset classes seeking to increase return while lowering risk through diversification.

The investment policy adopted September 16, 2011, provides for a goal of 67% of the fund to be invested in equities, 31% of which may be invested in U.S. equities, 30% in non-U.S. common stock and global equities, and 6% in private equities; 21% in fixed income; 7% in real estate investment trusts and direct real estate; 4% in treasury inflation-protected securities, and 1% in the Opportunity Fund. The System retains professional investment firms who serve as fiduciaries and are afforded full discretion to manage the assets entrusted to them in accordance with written policies and guidelines established by the Board of Trustees.

The majority of SURS investments are collateralized with securities held by its agent except for mutual funds, variable annuities, and commingled pools, which are not evidenced by securities that exist in physical or book entry form.

Yield information is detailed in the Investment Section of this report. Taken as a whole, the SURS portfolio of investments produced a return of 0.5%, net of fees, for the year ended June 30, 2012, 12.7% over the last three years, and 6.8% over the last 10 years.

The System has shown a positive return of 4.4% through October 31, 2012, bringing total investments to approximately $14.0 billion.

Major Initiatives

The mission statement of SURS provides the foundation for the System's initiatives and ongoing programs. The mission of SURS is "to secure and deliver the retirement benefits promised to our members."

We established a satellite office in Naperville to better respond to SURS membership providing counseling and employer and member seminars.

Public Act 97-0609, signed by the Governor on August 26, 2011, suspends the pension of a retired member who returns to work as an independent contractor with the same entity from which he or she retired.

Public Act 97-0651, signed into law on January 7, 2012, provides that any reasonable suspicion of a false statement by appointed or elected commissioners, trustees, directors, board members, or employees of a retirement system or pension fund governed by the Pension Code or the State Board of Investment shall be immediately referred to the board of trustees of the pension or the State Board of Investment. The Act also prohibits members of SURS from earning any statewide or national teacher organization service credit.

Public Act 97-0694, signed by the Governor on June 18, 2012, provides that a State Actuary is created under the Office of the Auditor General. The State Actuary will review actuarial assumptions utilized by the State Retirement Systems and may make recommendations concerning System assumptions used to determine the proposed certified contributions.

Public Act 97-0695, signed into law on June 21, 2012, reforms state retiree health insurance. The bill provides that the Department of Central Management Services will determine the state's contribution to the health insurance program and influence the level of annuitant premium reimbursement. Subsequent to the bill becoming law, individual lawsuits were filed challenging the constitutionality of the bill.

In keeping with best practice, SURS engaged a second independent actuarial firm to perform an actuarial review of the June 30, 2011, Actuarial Valuation performed by Gabriel, Roeder, Smith & Company. An actuarial review is generally done to confirm that the valuation and process are performed accurately and the methods and assumptions utilized are reasonable and prudent. The report, which can be found in the Actuarial Section, concluded that SURS is following appropriate actuarial principles.

Letter of Transmittal

Accounting System and Internal Control

SURS uses the accrual basis of accounting to record assets, liabilities, revenues, and expenses. Revenues for SURS are taken into account when earned, without regard to date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Market value has been used to present the assets of the System in accordance with Governmental Accounting Standards Board Statements #25 and #27, implemented effective July 1, 1996.

In developing and evaluating the accounting system, consideration has been given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding safekeeping of assets and reliability of financial records. These controls include appropriate segregation of duties and responsibilities and sound practices in the performance of these duties. SURS' objective is to provide reasonable, instead of absolute, assurance that the financial statements are free of material misstatements. The cost of internal controls should not exceed the benefits obtained. SURS maintains an internal audit program that employs the services of two internal auditors to determine that all controls implemented are as designed. The internal audit personnel provide a continuing review of the internal controls of SURS and reports to the SURS Board of Trustees. Audit findings and recommendations for improvements are presented to the Board.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SURS for its component unit financial report for the fiscal year ended June 30, 2011. This is the twenty-eighth consecutive year the System has earned this award.

To be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Appointment of Trustees

As of June 30, 2012, the composition of the SURS eleven-member Board of Trustees is as follows. Serving as active member-elected trustees are Ms. Dorinda Miller, who concluded the third year of her three-year term and Mr. Antonio Vasquez, who concluded the third year of his six-year term. Serving as annuitant-elected trustees are Dr. John Engstrom, who concluded the third year of his three-year term, and Mr. Mitchell Vogel, who concluded the third year of his six-year term. Serving upon appointment by the Governor is Mr. Matthew Berns, who concluded the third year of his six-year term. The seats formerly held by Ms. Patricia Cassidy, Dr. Marva Williams and Mr. Steven Rogers were vacant as of June 30, 2012. Ms. Cassidy, Dr. Williams and Mr. Rogers served as trustees appointed by the Governor. The seats formerly held by Mr. Jeffrey Beaulieu and Dr. J. Fred Giertz were vacant as of June 30, 2012. Mr. Beaulieu and Dr. Giertz were active member-elected trustees. As called for by Public Act 96-0006, the chairperson of the SURS Board of Trustees will be the appointed Chair of the Illinois Board of Higher Education, Ms. Carrie Hightman.

Acknowledgements

The continuing dedication of our staff members is the foundation for our improvements and our ability to provide a secure financial future for all we serve. The preparation of the annual report by the finance division reflects the combined efforts of the SURS staff under the leadership of the SURS Board of Trustees. The report is made available to all employers covered by the State Universities Retirement System and is also available to members and other interested persons upon request.

On behalf of the Board of Trustees, I would like to express my gratitude to the staff, the consultants, and the many other people who work so effectively to assure the successful operation of this System.

Respectfully submitted,

Phyllis L. Walker

Phyllis L. Walker
Chief Financial Officer

Board of Trustees

Administrative Staff

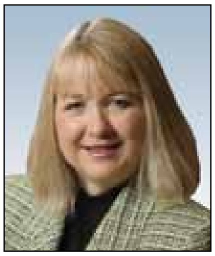
William E. Mabe
Executive Director

Brenda Dunn
Interim Director of
Human Resources

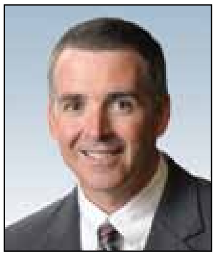
Daniel L. Allen
Chief Investment Officer

Angela Lieb
Director of
Member Services

Michael B. Weinstein
General Counsel



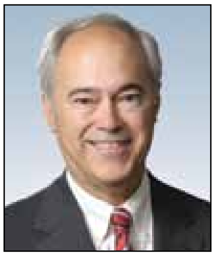
Pam Butler
Director of
Outreach



Douglas Wesley
Deputy Chief
Investment Officer

M. Christopher Hansen
Director of Operations

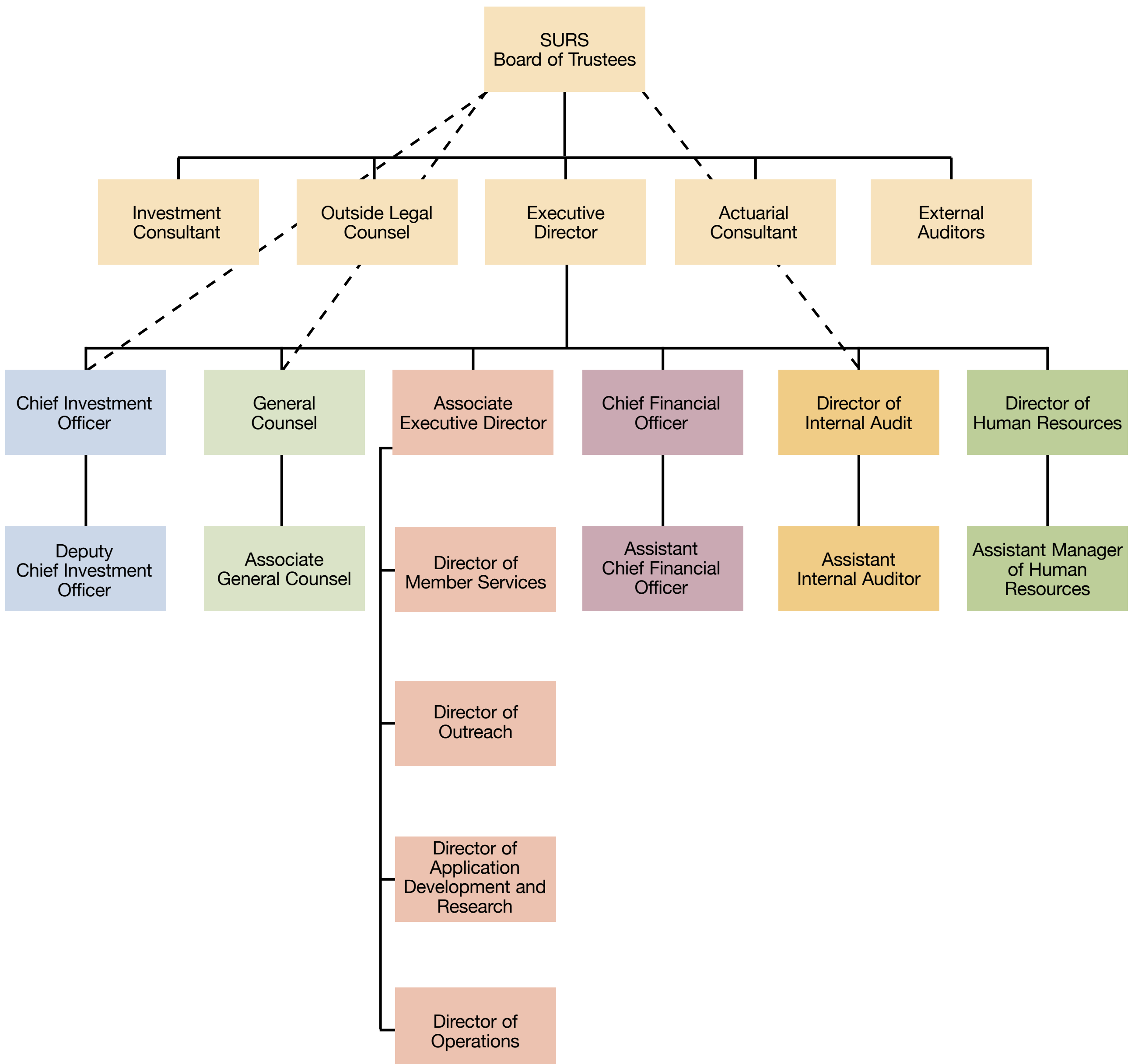
Phyllis Walker
Chief Financial Officer



Douglas J. Steele
Director of Application
Development & Research

Steven L. Hayward
CPA
Internal Auditor

Organizational Chart



Consulting and Professional Services

Actuary
Gabriel, Roeder, Smith & Co. – Chicago, Illinois

Auditors
McGladrey LLP – Schaumburg, Illinois
(Acting as Special Assistant Auditor for the Illinois Office of the Auditor General)
The Segal Company, Ltd. – Chicago, Illinois

Legal Counsel
Burke, Burns & Pinelli, Ltd. – Chicago, Illinois
Katten Muchin Rosenman, LLP – Chicago, Illinois
Mayer Brown, LLP – Chicago, Illinois
Thomas, Mamer & Haughey, LLP – Champaign, Illinois

Informational Systems
Adjacent Technologies, Inc. – Champaign, Illinois
Champaign Systems, Inc. – Champaign, Illinois
CTG Inc. of Illinois – Springfield, Illinois
Document Access Systems – Richmond, Virginia
Gartner Inc. – Dallas, Texas
MRC Information Technology, Inc. – Omaha, Nebraska
Sirius Computer Solutions, Inc. – Dallas, Texas
Vision Solutions, Inc. – Palatine, Illinois

Master Custodian & Performance Measurement
The Northern Trust Company - Chicago, Illinois

Investment Consultant
Callan Associates Inc. - San Francisco, California

Investment Advisors
Aberdeen Asset Management - Edinburgh, Scotland
Adams Street Partners - Chicago, Illinois
Alinda Capital Partners - New York, New York
Angelo Gordon GECC - New York, New York
BlackRock Institutional Trust Company - San Francisco, California
Calamos Advisors - Naperville, Illinois
CBRE Clarion Real Estate Securities - Radnor, Pennsylvania
Chicago Equity Partners - Chicago, Illinois
Dune Capital Management - New York, New York
Franklin Templeton Real Estate Advisors - New York, New York
GlobeFlex Capital, L.P. - San Diego, California
Jacobs Levy Equity Management - Florham Park, New Jersey
Macquarie Capital - New York, New York
Martin Currie, Inc. - Edinburgh, Scotland
Mesirow Financial Investment Management - Chicago, Illinois
Metropolitan West Asset Management - Los Angeles, California
Mondrian Investment Partners - London, England
Muller and Monroe - Chicago, Illinois
Neuberger Berman - Chicago, Illinois
Northern Trust Investments - Chicago, Illinois
Oaktree Capital Management - Los Angeles, California
Pacific Investment Management Company - Newport Beach, California
Pantheon Ventures - San Francisco, California
Piedmont Investment Advisors - Durham, North Carolina
Progress Investment Management Company - San Francisco, California
Pyramis Global Advisors Trust Company - Smithfield, Rhode Island
RhumbLine Advisers - Boston, Massachusetts
RLJ Western Asset Management - Bethesda, Maryland
RREEF - Chicago, Illinois
State Street Global Advisors - Boston, Massachusetts
T. Rowe Price - Baltimore, Maryland
Taplin, Canida & Habacht - Miami, Florida
UBS Realty Investors - Hartford, Connecticut
Wellington Management Company - Boston, Massachusetts

Manager Diversity Program Investment Advisors
Ativo Capital Management - Chicago, Illinois
Channing Capital Management - Chicago, Illinois
EARNEST Partners - Atlanta, Georgia
Fiduciary Management Associates - Chicago, Illinois
Garcia Hamilton & Associates - Houston, Texas
Herndon Capital Management - Atlanta, Georgia
Holland Capital Management - Chicago, Illinois
LM Capital Group - San Diego, California
Lombardia Capital Partners - Pasadena, California
Longfellow Investment Management - Boston, Massachusetts
NCM Capital Management - Durham, North Carolina
New Century Advisors - Bethesda, Maryland
Profit Investment Management - Silver Spring, Maryland
Pugh Capital Management - Seattle, Washington
Smith Graham & Company - Houston, Texas
Strategic Global Advisors - Newport Beach, California

Progress Investment Management Company
Emerging Manager Investment Advisors
AH Lisanti Capital Growth - New York, New York
Ambassador Capital Management - Detroit, Michigan
Bowling Investments - Cincinnati, Ohio
Brown Capital Management - Baltimore, Maryland
Cheswold Lane Asset Management - West Conshohocken, Pennsylvania
Fortaleza Asset Management - Chicago, Illinois
Garcia Hamilton & Associates - Houston, Texas
Graham and Dodd Fund - New York, New York
GW Capital - Bellevue, Washington
Hahn Capital Management - San Francisco, California
Herndon Capital Management - Atlanta, Georgia
Holland Capital Management - Chicago, Illinois
John Hsu Capital Group - New York, New York
LM Capital Group - San Diego, California
New Century Advisors - Bethesda, Maryland
Piedmont Investment Advisors - Durham, North Carolina
Sky Investment - Toronto, Ontario
Strategic Global Advisors, Newport Beach, California

Self-Managed Plan Service Providers
Fidelity Investments – Boston, Massachusetts
Teachers Investments Annuity Association-
College Retirement Equities Fund – New York, New York

Keeping our promises

Attaining the full annual required contribution

Addressing our challenges

Growing unfunded liabilities

FINANCIAL

The Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2012

Independent Auditors' Report

McGladrey LLP

McGladrey

Honorable William G. Holland, Auditor General – State of Illinois

Board of Trustees, State Universities Retirement System of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Plan Net Assets of the State Universities Retirement System of Illinois (System), a component unit of the State of Illinois, as of June 30, 2012, and the related Statement of Changes in Plan Net Assets for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2011 financial statements on which we expressed an unqualified opinion in our report dated December 12, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State Universities Retirement System of Illinois as of June 30, 2012, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 17 and the schedules of funding progress and employer contributions on 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The accompanying Supporting Schedules, as listed in the table of contents in the financial section, and the accompanying introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. All such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 2012 Supporting Schedules in the financial section have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling the 2012 Supporting Schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 Supporting Schedules are fairly stated in all material respects in relation to the basic financial statements as of and for the year ended June 30, 2012, taken as a whole. The introductory, investment, actuarial, and statistical sections have 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 them.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements as of and for the year ended June 30, 2011 (not presented herein), and have issued our report thereon dated December 12, 2011, which contained an unqualified opinion on those financial statements. The accompanying Supporting Schedules, as listed in the table of contents in the financial section, for the year ended June 30, 2011 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statements. These Supporting Schedules have been subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 Supporting Schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole for the year ended June 30, 2011.

McGladrey LLP

Schaumburg, Illinois
December 18, 2012

Management's Discussion and Analysis

This section presents management's discussion and analysis of the State Universities Retirement System's (SURS or the System) financial statements and the major factors affecting the operations and investment performance of the System during the year ended June 30, 2012, with comparative reporting entity totals for the year ended June 30, 2011.

Financial Highlights

- The System's benefit payments increased by $135.2 million or 8.3% for fiscal year 2012.
- The System's net assets decreased by $487 million, or 3.2% from the previous fiscal year 2011.
- The System's return on investment, net of investment management fees, was 0.5% for fiscal year 2012.
- The System was actuarially funded at 42.1% as of June 30, 2012, compared to 44.3% as of June 30, 2011.

Overview of Financial Statements and Accompanying Information

- The financial statements presented in this report are the Statement of Plan Net Assets as of June 30, 2012 and the Statement of Changes in Plan Net Assets for the year ended June 30, 2012. These statements present separate totals for the defined benefit plan and the self-managed plan, with reporting entity totals for the years ended June 30, 2012 and 2011. The Statement of Plan Net Assets presents the assets on hand as of June 30, 2012 and 2011. The Statement of Plan Net Assets is a useful indicator of the health of SURS' financial position and the funds available to pay benefits. The Statement of Changes in Plan Net Assets presents the additions to and deductions from the plan net assets during the years ended June 30, 2012 and 2011.
- The notes to the financial statements are an integral part of the financial statements and provide facts and detailed information to assist the reader in understanding the statements. Disclosures include the description of the plan, summary of significant accounting policies, and detailed presentations of major assets and liabilities.
- Required supplementary information presents schedules related to employer contributions and the funding of the plan.
- Other supplementary schedules consist of detailed information supporting administrative and investment expenses, fees paid to consultants, and a summary of cash receipts and disbursements.

General Market Risk

SURS is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on SURS investment portfolios depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact SURS' financial condition.

Financial Analysis of the System

The State Universities Retirement System serves 199,622 members in its defined benefit plan and 17,660 members in its self-managed plan. The funds needed to finance the benefits provided by SURS are accumulated through the collection of member and employer contributions and through income on investments. The total net assets of the System decreased from $15.2 billion as of June 30, 2011 to $14.7 billion as of June 30, 2012, chiefly due to a decrease in investment income.

Plan Net Assets

The summary of plan net assets for the System is presented below:

Condensed Statement of Plan Net Assets

Reporting Entity Total ($ in millions)	2012	2011	Change Amount	Change %
Cash and short-term investments	$ 499.2	$ 505.5	$ (6.3)	(1.2)
Receivables and prepaid expenses	259.1	57.3	201.8	352.2
Pending investment sales	369.4	597.2	(227.8)	(38.1)
Investments and securities lending collateral	14,347.1	16,124.1	(1,777.0)	(11.0)
Capital assets, net	5.8	6.0	(0.2)	(3.3)
Total assets	15,480.6	17,290.1	(1,809.5)	(10.5)
Payable to brokers-unsettled trades	696.6	511.1	185.5	36.3
Securities lending collateral	11.7	1,516.0	(1,504.3)	(99.2)
Other liabilities	24.3	28.5	(4.2)	(14.7)
Total liabilities	732.6	2,055.6	(1,323.0)	(64.4)
Total plan net assets	$ 14,748.0	$ 15,234.5	$ (486.5)	(3.2)

Management's Discussion and Analysis

Overall, plan net assets decreased by $0.5 billion, or 3.2%, chiefly due the excess of benefit payments over the total investment income and contributions received. The investment allocation strategy for the plans making up the reporting entity as of June 30, 2012, and 2011 is as follows:

	2012	2011
Defined Benefit Plan		
Equities	60.0%	60.0%
Opportunity Fund	1.0	2.0
Fixed income	19.0	18.0
Private Equity	6.0	6.0
TIPS*	4.0	4.0
Real Estate Investment Trusts	4.0	4.0
Real Estate	6.0	6.0
Total	100.0%	100.0%
Self-Managed Plan		
Equities	67.0%	70.0%
Fixed income	32.0	29.0
Real Estate	1.0	1.0
Total	100.0%	100.0%

*TIPS denotes Treasury Inflation Protected Securities

Proper implementation of the investment policy requires that a periodic adjustment, or rebalancing, of assets be made to ensure conformance with policy target levels. Such rebalancing is necessary to reflect sizable cash flows and performance imbalances among investment managers who are hired to manage assets with a specified strategy. SURS' rebalancing policy calls for rebalancing, as soon as practical, if a strategy exceeds or falls below its target allocation by 3%. Ongoing rebalancing of the investment portfolio occurred as needed during the year with the assistance of System cash flows. The allocation of assets within the self-managed plan is totally determined by the individual participants, and also reflects gains or losses over the past year.

Liabilities decreased by $1.3 billion or 64.4%. This was primarily due to a $1.5 billion decrease in the obligation for securities lending collateral, offset by a $0.2 billion increase in payables to brokers-unsettled trades.

Changes in Plan Net Assets

The summary of changes in plan net assets for the System is presented below:

Condensed Statement of Changes in Plan Net Assets

Reporting Entity ($ in millions)	2012	2011	Change Amount	Change %
Employer contributions	$ 1,031.8	$ 818.5	$ 213.3	26.0
Participant contributions	312.4	309.9	2.5	0.8
Net investment income/(loss)	25.7	2,973.6	(2,947.9)	(99.1)
Total additions	1,369.9	4,102.0	(2,732.1)	(66.6)
Benefits	1,757.7	1,622.5	135.2	8.3
Refunds	85.2	73.9	11.3	15.3
Administrative expense	13.5	12.6	0.9	7.1
Total deductions	$ 1,856.4	$ 1,709.0	147.4	8.6
Net increase/(decrease) in plan net assets	$ (486.5)	$ 2,393.0	$ (2,879.5)	(120.3)

Management's Discussion and Analysis

Additions

Additions to plan net assets are in the form of employer and participant contributions and investment income or losses. For fiscal year 2012, employer contributions increased by $213.2 million due to higher employer contributions from the State of Illinois as required by Public Act 88-0593. Participant contributions increased by $2.5 million or 0.8%.

The investment net income for fiscal year 2012 was $25.7 million for the System, representing a $2.95 billion decrease from the prior year. For the defined benefit plan, the overall rate of return was 0.5% (net of all investment management fees).

Given the long-term orientation of the SURS defined benefit investment program, it is important to track investment returns over several time periods to correctly assess performance, especially given recent market volatility. The defined benefit plan returns are as follows:

Time Period	1-year	3-year	5-year	10-year	20-year
Annualized Return	0.5%	12.7%	1.9%	6.8%	8.0%

The 20-year return corresponds to the average active service term of the System member. At 8.0%, it can be compared to the actuarial rate of return assumption of 7.75%. While this assumed rate is normally determined every five years as part of the experience study performed by the System actuaries, the rate can be changed outside of this timetable by the System Board of Trustees, should changes in market conditions or plan demographics call for such an adjustment.

Deductions

The expenses of the Retirement System relate to the provision of retirement annuities and other benefits, refunds to terminated employees, and the cost of administering the System. These expenses for fiscal year 2012 were $1.86 billion, an increase of $147.4 million or 8.6% over expenses for 2011. This increase is primarily due to the $137.1 million increase in defined benefit plan retirement and survivor annuity payments, and a $7.0 million increase in portable lump sum distributions and refunds. Administration expenses increased by $0.9 million or 7.1% from fiscal year 2011 to 2012.

Future Outlook

The experience review for the years June 30, 2006, to June 30, 2010, was performed in March 2011 and the assumptions adopted as of June 30, 2011. The anticipated payrolls upon which contributions are based are expected to be lower In the future. In addition to the change in payroll growth, Public Act 96-0889 caps Tier 2 to participants' earnings at $106,800 in 2011, and future cost of living adjustments at the lesser of 3% or 0.5% of the increase in the Consumer Price Index. This modification of Tier 2 participants' earnings decreases the anticipated amount of future payroll and contributions.

The employer contribution for fiscal year 2013, mainly provided by the State of Illinois, increased by approximately $422 million or 43%. The employer contributions for fiscal years 2014 and beyond should remain at a level percent of pay of approximately 36% as required by the funding plan set out by Public Act 88-0593. Under this plan, contributions will be at levels sufficient to fund the employer normal cost while amortizing the unfunded accrued actuarial liability for the period of 2012 to 2045, allowing the System to reach a funding ratio of 90%.

Benefit payments are projected to continue to grow at a rate of approximately 7 - 8 % annually as a result of increasing numbers of retirees, the 3% annual increase, and the impact of salary increases at the participating agencies. This results in expenditure levels greater than combined participant and employer contributions such that the System will continue to liquidate investments by approximately $500 to $700 million annually in order to pay current benefits. SURS will continue to structure its portfolio with the objective of maximizing returns over the long term to help offset the shortage in employer contributions.

Requests for Information

This financial report is designed to provide a general overview of the System's finances. For questions concerning the information in this report or for additional information, contact State Universities Retirement System, 1901 Fox Drive, Champaign, Illinois 61820.

Financial Statements

Statement of Plan Net Assets as of June 30, 2012
With Comparative Reporting Entity Totals as of June 30, 2011

	2012			2011
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Assets				
Cash and short-term investments	$ 499,250,768	$ -	$ 499,250,768	$ 505,492,014
Receivables				
Participants	12,680,102	2,497,706	15,177,808	12,198,383
Federal, trust funds, and other	208,318,893	1,399,039	209,717,932	4,627,020
Pending investment sales	369,412,417	-	369,412,417	597,196,141
Interest and dividends	33,913,766	-	33,913,766	40,462,379
Total receivables	624,325,178	3,896,745	628,221,923	654,483,923
Prepaid expenses	243,561	-	243,561	22,777
Investments, at fair value				
Equity investments	9,237,816,964	45,915,566	9,283,732,530	10,131,613,173
Fixed income investments	3,641,674,426	21,207,523	3,662,881,949	3,210,020,243
Real estate investments	416,548,808	710,748	417,259,556	375,589,750
Mutual fund and variable annuities	-	971,088,663	971,088,663	890,678,243
Total investments	13,296,040,198	1,038,922,500	14,334,962,698	14,607,901,409
Securities lending collateral	12,121,093	-	12,121,093	1,516,154,400
Capital assets, at cost, net of accumulated depreciation $18,428,111 and $17,977,466 respectively	5,777,719	-	5,777,719	6,003,179
Total assets	**14,437,758,517**	**1,042,819,245**	**15,480,577,762**	**17,290,057,702**
Liabilities				
Benefits payable	5,093,488	-	5,093,488	7,159,269
Refunds payable	4,758,501	-	4,758,501	3,416,995
Securities lending collateral	11,758,885	-	11,758,885	1,515,998,213
Payable to brokers for unsettled trades	696,571,091	-	696,571,091	511,135,516
Administrative expenses payable	14,433,274	-	14,433,274	17,806,560
Total liabilities	**732,615,239**	**-**	**732,615,239**	**2,055,516,553**
Net assets held in trust for pension benefits	**$ 13,705,143,278**	**$ 1,042,819,245**	**$ 14,747,962,523**	**$ 15,234,541,149**

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

Financial Statements

Statement of Changes in Plan Net Assets For the Year Ended June 30, 2012
With Comparative Reporting Entity Totals For the Year Ended June 30, 2011

	2012			2011
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Additions				
Contributions				
Employer	$ 985,814,621	$ 45,923,874	$ 1,031,738,495	$ 818,435,806
Participant	258,236,014	54,121,798	312,357,812	309,934,408
Total Contributions	1,244,050,635	100,045,672	1,344,096,307	1,128,370,214
Investment Income				
Net appreciation/(depreciation) in fair value of investments	(235,505,443)	16,659,356	(218,846,087)	2,646,764,487
Interest	81,396,519	-	81,396,519	192,587,174
Dividends	200,831,741	-	200,831,741	181,007,663
Securities lending	5,641,433	-	5,641,433	5,347,769
	52,364,250	16,659,356	69,023,606	3,025,707,093
Less investment expense				
Asset management expense	42,734,709	-	42,734,709	51,574,569
Securities lending expense	562,132	-	562,132	518,100
Net investment income	9,067,409	16,659,356	25,726,765	2,973,614,424
Total additions	**1,253,118,044**	**116,705,028**	**1,369,823,072**	**4,101,984,638**
Deductions				
Benefits	1,743,745,957	13,929,534	1,757,675,491	1,622,452,595
Refunds of contributions	65,065,250	20,105,200	85,170,450	73,895,151
Administrative expense	13,166,856	388,901	13,555,757	12,618,044
Total deductions	**1,821,978,063**	**34,423,635**	**1,856,401,698**	**1,708,965,790**
Net increase/(decrease)	**(568,860,019)**	**82,281,393**	**(486,578,626)**	**2,393,018,848**
Net assets held in trust for pension benefits Beginning of year	14,274,003,297	960,537,852	15,234,541,149	12,841,522,301
End of Year	**$ 13,705,143,278**	**$ 1,042,819,245**	**$ 14,747,962,523**	**$ 15,234,541,149**

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

Notes to the Financial Statements

I. Summary of Significant Accounting Policies

A. Reporting Entity

The System is a component unit of the State of Illinois. As defined by accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB), the 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, or for which the nature and significance to the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or otherwise incomplete. 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 System has no component units.

B. Measurement Focus and Basis of Accounting

For both the defined benefit plan and the self-managed plan (SMP), the financial transactions are recorded using the economic resources measurement focus and accrual basis of accounting. Member and employer contributions are recognized as revenue when due pursuant to statutory or contractual requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plans.

C. Use of Estimates

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates and those differences could be material. The System uses an actuary to determine the actuarial accrued liability for the defined benefit plan and to determine the actuarially required contribution.

D. Risks and Uncertainties

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risk. 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 those such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

E. Description of Plans

The system is the administrator of a cost-sharing, multiple-employer defined benefit plan and a multiple-employer defined contribution plan. Legislation effective January 1, 1998, required State Universities Retirement System (SURS or the System) to introduce a portable benefit package to the existing defined benefit plan and to offer a defined contribution plan. The portable benefit package and the defined contribution plan are available to all participants whose employers elect to make the options available. As of June 30, 2012, the defined benefit plan has two options available. These options are known as the traditional benefit package and the portable benefit package. The defined contribution plan is known as the self-managed plan. The membership, contributions, and benefit provisions related to these plans are presented in the following summary of the provisions of SURS in effect as of June 30, 2012, as defined in the *Illinois Compiled Statutes*. Interested parties should refer to the SURS Member Guide or the Statutes for more complete information.

1. Defined Benefit Plan

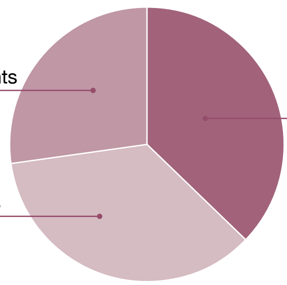
SURS was established on July 12, 1941, to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees.

SURS is included in the State of Illinois' financial reports as a component unit. SURS is governed by Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes.* These statutes assign the authority to establish and amend the benefit provisions of the plan to the State Legislature. Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System. It is also these statutes that define the scope of SURS'

Notes to the Financial Statements

reporting entity. There are no statutory provisions for termination of the System. The Illinois Constitution provides that the pension obligation of the state *shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.*

Defined Benefit Plan



At June 30, 2012 and 2011, the number of participating employers was:

	2012	2011
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**15**	15
State Agencies	**2**	2
	65	65

At June 30, 2012 and 2011, defined benefit plan membership consisted of:

	2012	2011
Benefit Recipients	**54,532**	51,370
Active Members	**71,056**	71,888
Inactive Members	**74,034**	72,903
	199,622	196,161

a. Membership

Participation is required as a condition of employment. Employees are ineligible to participate if (a) employed less than full-time and attending classes with an employer; (b) receiving a retirement annuity from SURS; or (c) excluded by subdivision (a)(7)(f) or (a)(19) of Section 210 of the Federal Social Security Act from the definition of employment given in that Section.

b. Benefit Provisions

A traditional benefit plan was established in 1941. Public Act 90-448 was enacted effective January 1, 1998, which established an alternative defined benefit program known as the portable benefit package. This option is offered in addition to the traditional benefit option. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. The following is a summary of the benefit provisions as of June 30, 2012.

	Traditional Plan - Tier 1	Traditional Plan - Tier 2	Portable Plan
Retirement Vesting	5 years of service	10 years of service	5 years of service (Tier 1) and 10 years of service (Tier 2)
Retirement Age Requirement	Age 62, with at least 5 years Age 60, with at least 8 years At any age with at least 30 years	Age 67, with at least 10 years of service	• Tier 1-Same as Traditional Plan Tier 1 Age Requirement • Tier 2-Same as Traditional Plan Tier 2 Age Requirement
Final Rate of Earnings (FRE)	• Average earnings during 4 high consecutive academic years; or • Average of the last 48 months prior to termination.	• Average earnings during 8 high consecutive academic years of the last 10; or • Average of the high 96 consecutive months of last 120 months (if applicable).	• Tier 1-Same as Traditional Plan Tier 1 FRE • Tier 2-Same as Traditional Plan Tier 2 FRE
Retirement Benefit AAI (Automatic Annual Increase)	The AAI is 3% compounded annually.	The AAI is calculated using the lesser of 3% or one-half of the consumer price index. The increase will not be compounded.	• Tier 1-Same as Traditional Plan Tier 1 AAI • Tier 2-Same as Traditional Plan Tier 2 AAI
Survivor Benefits	An eligible survivor receives a minimum of 50% of the member's earned retirement annuity.	An eligible survivor receives 66 2/3% of the member's earned retirement annuity.	Based upon selection at retirement of 50%, 75% or 100% of the member's earned retirement annuity.
Survivor AAI (Automatic Annual Increase)	The AAI is 3%, compounded annually.	The AAI is calculated using the lesser of 3% or one-half of the consumer price index. The increase will not be compounded.	• Tier 1-Same as Traditional Plan Tier 1 Survivor AAI • Tier 2-Same as Traditional Plan Tier 2 Survivor AAI

Notes to the Financial Statements

SURS also provides retirement, disability, death and survivor benefits as authorized in Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes.*

Disability benefits are payable to all participants with at least 2 years of service credit if they are unable to reasonably perform the duties of their assigned position due to a physical or mental impairment as certified by a physician. The benefit becomes payable when sick leave payments are exhausted or after 60 days of the disability, whichever is later. The benefit is payable at a rate of 50% of the monthly rate of compensation on the date the disability began. Disability benefits are reduced by any payments received under the Workers' Compensation or the Occupational Diseases Act. If a participant remains disabled after receiving the maximum benefits due, they may be eligible for a disability retirement annuity equal to 35% of the monthly rate of compensation on the date the disability began.

Death benefits are payable to named beneficiaries upon the death of any participant of this System. Under the traditional benefit package, monthly survivor benefits may be paid to eligible survivors if the participant established a minimum of 1.5 years of service credit prior to the date of death. If no qualified survivor exists at the date of retirement, the member is paid a refund of all survivor contributions plus interest. Under the portable benefit package, survivor benefits are available through a reduction of the retirement annuity calculated as described above. No refund of survivor contributions is available if there is no qualified survivor at the time of retirement. These provisions are designed to allow the impact of the portable benefit package's enhanced refund opportunity to be cost neutral.

Upon the death of an annuitant, SURS will pay either a death benefit to a non-survivor beneficiary or a monthly survivor benefit to an eligible survivor. The amount of the monthly survivor benefit will differ depending upon whether the annuitant had selected the traditional benefit package or the portable benefit package.

Upon termination of service, a lump sum refund is available to all members. Under the traditional benefit package, this refund consists of all member contributions and interest at 4-1/2%. Under the portable benefit package, this refund consists of all member contributions and total interest credited, plus for those members with greater than or equal to 5 years of service credit, an equal amount of employer contributions. Under both defined benefit plan options, a member with 5 or more years of service credit who does not apply for a refund may apply for a normal retirement benefit payable at age 62.

c. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, the most recent actuarial valuation date, is as follows (in millions):

Actuarial Value of Assets	Accrued Actuarial Liabilities	Unfunded Accrued Actuarial Liabilities	Funding Ratio*	Covered Payroll	UAAL as % of Covered Payroll
$13,949.9	$33,170.2	$19,220.3	42.1%	$3,477.2	552.8%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*If calculated using the market value of assets of $13,705.1, the funding ratio would be 41.3%.

d. Actuarial Value of Assets

The actuarial value of assets is used in determining the funding progress of the System and in establishing the employer contribution rates necessary to adhere to the statutory funding plan. The actuarial value of assets is based on a smoothed investment income rate. Investment income in excess or shortfall of the expected 7.75% rate on fair value is smoothed over a five-year period with 20% of a year's excess or shortfall being recognized each year beginning with the current year. The use of this actuarial method began with the valuation for the period ending June 30, 2009, as required by Public Act 96-0043, which was signed into law on July 15, 2009.

Notes to the Financial Statements

Calculation of Actuarial Value of Assets (in thousands)		
Actuarial Value of Assets at July 1, 2011		$ 13,945,680.5
Total investment income/(loss)	9,067.4	
Less: Projected investment income @ 7.75%	1,084,258.4	
Investment income/(loss) in excess of projected	(1,075,191.0)	
Less: Deferral to smooth asset values over 5 years	(860,152.8)	
Recognized investment income - current year		(215,038.2)
Projected investment income		1,084,258.4
Recognized investment loss - prior years		(287,068.1)
Excess of contributions over disbursements		(577,927.4)
Actuarial value of assets at June 30, 2012		$ 13,949,905.1

e. Additional actuarial valuation information

Valuation date	June 30, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent, open
Remaining amortization period	30 years, open
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases**	3.75 - 12.00%
Cost-of-living adjustment	3.0% before January 2011 hires and 1.375% after
Assumed wage inflation rate	2.75%
Postretirement benefits	3.0%
Mortality table	RP 2000 Combined Mortality Table projected to 2017, with the rates multiplied by 80 percent for males and 85 percent for females.

*Assumed investment rate of return change from 8.5 percent in Fiscal Year 2009 to 7.75 percent in Fiscal Year 2010 by action of the System Board of Trustees.
**Includes assumed wage inflation of 2.75 percent.

2. Self-Managed Plan

SURS is the plan sponsor and administrator of a defined contribution plan established as of January 1, 1998, by the Illinois General Assembly as an amendment to the Illinois Pension Code through Illinois Public Act 90-448. This plan is referred to as the self-managed plan (SMP) and is offered to employees of all SURS employers who elect to participate. This plan is a qualified money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the SMP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code, and are made up of the account balances of individual participants.

At June 30, 2012 and 2011, the number of SMP participating employers was:

	2012	2011
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**13**	13
State Agencies	**1**	1
	62	62

At June 30, 2012 and 2011, the SMP membership consisted of:

	2012	2011
Annuity Benefit Recipients	253	182
Active Members	10,100	9,723
Inactive Members	7,307	7,019
	17,660	16,924

a. Membership

A member may elect participation in the SMP if (a) all participation criteria for the defined benefit plan are met; (b) the employer has elected through Board action to offer the self-managed plan; (c) the employee is on active status at the plan offering date; and (d) the employee is not eligible to retire as of the employer plan offering date. The member election is irrevocable. New employees are allowed 6 months from the date of hire in which to make their election. If no election is received, members are considered to be part of the defined benefit plan, under the traditional benefit option.

Notes to the Financial Statements

b. Benefit Provisions

The SMP provides retirement, disability, death, and survivor benefits as authorized in Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, and amended by Public Act 90-448.

Retirement benefits are payable to participants meeting minimum vesting requirements of 5 years of service credit at age 62, 8 years of service credit at age 55, or 30 years of service credit regardless of age. The distribution options available upon reaching retirement eligibility are the following: a lump sum distribution consisting of all employee and employer contributions and related investment earnings; a single life annuity; a 50% or 100% joint and survivor annuity; a single life annuity with a guaranteed period of 10, 15, or 20 years as elected by the participant; and a 50% or 100% joint and survivor annuity with a guaranteed period of 10, 15, or 20 years as elected by the participant.

Disability benefits are payable to all participants with at least 2 years of service credit if they are unable to reasonably perform the duties of their assigned position due to physical impairment as certified by a physician. The benefit becomes payable when sick leave payments are exhausted or after 60 days of the disability, whichever is later. The benefit is payable at a rate of 50% of the monthly rate of compensation on the date the disability began. Disability benefits are reduced by any payments under the Workers' Compensation or the Occupational Diseases Act.

Upon termination of service with less than 5 years of service credit, a lump sum distribution is available which consists of employee contributions and related investment earnings. The employer contributions and related investment earnings are forfeited. Upon termination of service with greater than 5 years of service credit but where the participant is not yet eligible for retirement, a lump sum distribution is available which consists of employee and employer contributions and related investment earnings.

Death benefits are payable to named beneficiaries upon the death of any participant of this plan. If the participant has less than 1.5 years of service credit, the death benefit payable is the employee contributions and related investment earnings. If the participant has 1.5 or more years of service credit, the death benefit payable is the employee and employer contributions and related investment earnings.

3. SURS as an Employer

Chapter 40, Act 5, Article 15-106 of the *Illinois Compiled Statutes* defines the participating employers in the System. SURS, as a participating employer, provides a defined benefit plan of either a traditional benefit or portable benefit, or the defined contribution plan (self-managed plan) for all of its employees through the System. The employer contributions to SURS for the years ended June 30, 2012, 2011, and 2010 were $996,330, $855,621, and $690,306, respectively, equal to the required contributions for each year.

F. Cash and Short-Term Investments

Included in the $499,250,768 of cash and short-term investments presented in the Statement of Plan Net Assets is $76,929,543 of short-term investments with original maturities less than 90 days. For purposes of the various data tables presented in Note III, this group of short-term investments is included as part of fixed income investments. Short-term investments are generally reported at cost, which approximates fair value.

G. Investments

Investments are governed by Chapter 40, Act 5, Articles 1 and 15, of the *Illinois Compiled Statutes*. The most important aspect of the statutes is the prudent expert rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.) The prudent expert rule states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. Purchases and sales of securities are recorded on a trade-date basis. Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date.

For the defined benefit plan, investments are reported at fair value. Marketable securities (stocks, bonds, warrants, and options) are traded on public exchanges. The Northern Trust Company, SURS' custodial bank, establishes these prices using third-party pricing services. Generally, these values are reported at the last reported sales price. Certain investments that do not have an established market value are reported at estimated fair value obtained from a custodial bank or investment management firm. These investments include commingled investment pools, where the underlying assets are individually marked to market (i.e., estimated fair value) on a daily basis and individually traded on publicly recognized exchanges. The investment manager, using methods approved by the CFA Institute (formerly known as the Association for Investment Management Research) or other industry standards, values non-marketable securities (real estate and venture capital). These methods generally include detailed property level appraisals and discounted cash flow analysis.

Notes to the Financial Statements

For the SMP, investments are reported at fair value by the Service Providers. These investments include both mutual and variable annuity funds where the underlying assets are marked to market (i.e., estimated fair value) on a daily basis and individually traded on publicly recognized exchanges. Generally, the values on the underlying investments are reported at the last reported sales price.

H. Capital Assets

Capital assets are recorded at historical cost and depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method.

I. Administrative Expenses

System administrative expenses (which include amounts for both the defined benefit and self-managed plans) are budgeted and approved by the System's Board of Trustees. Funding for these expenses is included in the employer contribution as determined by the annual actuarial valuation and appropriated by the State of Illinois.

J. Prior Year Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements as of and for the year ended June 30, 2011, from which the summarized comparative information was derived.

K. New Accounting Pronouncements

The Governmental Accounting Standards Board Statement (GASB) No. 61, Financial Reporting Entity Omnibus, an amendment to GASB Statements No. 14 and 34, will be effective for the System beginning with its year ending June 30, 2013. This statement modifies certain requirements for inclusion of component units in the financial statements of the reporting entity. The Notes to the Financial Statements will continue to disclose the System as a component unit of the State of Illinois.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, is a codification of all sources of generally accepted accounting principles for state and local governments. This statement was implemented for the System beginning with its year ending June 30, 2012.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, was established to provide guidance on the reporting of deferred inflows of resources and deferred outflows of resources, assets, liabilities, and the new position. SURS is required to implement this Statement for its year ending June 30, 2013.

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, was established to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency. SURS is required to implement this Statement for its year ending June 30, 2014.

GASB Statement No. 67, Financial Reporting for Pension Plans was established to improve financial reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplementary information. SURS is required to implement this Statement for its year ending June 30, 2014. GASB Statement No. 68, Accounting and Financial Reporting for Pensions, was established to improve the standards for measurement, recognition and display of pension expense, liabilities and assets of employers of the plan. SURS will facilitate the implementation of this Statement for our employers for the System beginning with its year ending June 30, 2015.

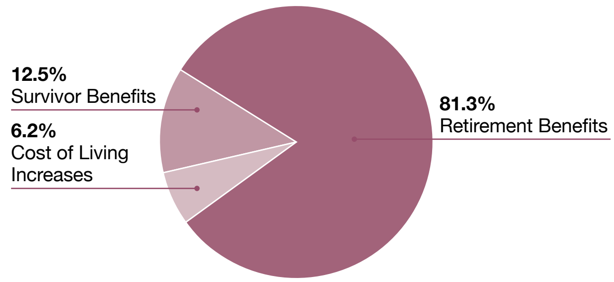
Notes to the Financial Statements

II. Contributions and Net Assets Designations

A. Defined Benefit Plan

1. Membership Contributions

Member Contributions



In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, members of the traditional benefit package contribute 8% of their gross earnings; 6-1/2% of those are designated for retirement annuities, 1/2% for post-retirement increases, and 1% for survivor benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. Members of the portable benefit package contribute 8% of their gross earnings; 6-1/2% of those are designated for retirement annuities, 1/2% for post-retirement increases, and 1% for enhanced refund benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. These statutes assign the authority to establish and amend the contribution provisions of the plan to the State Legislature. The member contributions are picked up by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings.

All contributions on pre-1981 earnings and service credit payments, plus future other public employment, prior service, refund repayments, leave payments, military service payments, and the employee portion of Early Retirement Option payments are considered as previously taxed, unless qualifying funds are rolled over to SURS to make these purchases, or unless the payments are made in installments through employer deductions from payroll. Previously taxed contributions will be recovered tax-free when distributed to the employee in the form of benefits or payments or to his or her beneficiary as a death and/or survivor benefit.

2. Interest Credited on Member Contributions

For the traditional and portable benefit packages, the interest rate credited is fixed by the Board of Trustees and is 7.5% for the year ended June 30, 2012. As of July 1, 2012, the rate will remain at 7.5%. For purposes of lump sum refunds to former members, the traditional benefit package offers an interest rate of 4-1/2%, compounded annually, and the portable benefit package offers an interest rate equal to the credited rate, compounded annually. A change brought forth by the enactment of Public Act 94-0004 and effective July 1, 2005, calls for the Comptroller of the State of Illinois to set the interest rate credited to member contribution balances for purposes of the calculation of retirement annuities under the money purchase formula. That rate is 6.75% for the year ended June 30, 2012 and is 6.5% as of July 1, 2012.

Members certified after July 1, 2005 will not be eligible for the money purchase formula calculation. Rather, their retirement annuity will be calculated using the general formula.

3. Employer Contributions

On an annual basis, an actuarial valuation is performed in order to determine the amount of statutorily required contributions from the State of Illinois. An actuarial experience study is performed every 5 years to determine the assumptions to be used in the annual valuation. The actuarial assumptions are also reviewed at least annually by the System. The last actuarial experience study was performed in March 2011. To determine the funding method, Public Act 88-0593 was passed by the Illinois General Assembly in 1994. This act, which took effect on July 1, 1995, provides a 50-year schedule of State contributions to the System designed to achieve a 90% funded ratio by fiscal year 2045. The Statutory Funding Plan consisted of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of fiscal year 2045. The Plan requires the State to make continuing appropriations to meet the normal actuarially-determined cost of the System, plus amortize the unfunded accrued liability.

4. Net Asset Accounts

The System maintains two designated accounts that reflect the assignment of net assets to employee and benefit accounts:

a. The Employee Contribution Account records the pension assets contributed by each employee and the interest income earned by those contributions.

Notes to the Financial Statements

b. The Benefits from Employee and Employer Contributions Account records the net assets available for annuities in force and available for future retirement, death and disability benefits, the undistributed investment income, the unexpended administrative expense allocation, and the variations in actuarial assumptions.

Balances in these designated accounts as of June 30, 2012 are as follows:

Employee contributions	$ 5,962,383,896
Benefits from employee and employer contributions	7,742,759,382
Total Net Assets	**$ 13,705,143,278**

5. Ownership of Greater than 5 Percent of Net Assets Available for Benefits

There are no significant investments in any one organization that represents 5% or more of net assets available for benefits.

B. Self-Managed Plan

1. Membership Contributions

In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, members contribute 8% of their gross earnings. These statutes assign the authority to establish and amend the contribution provisions of the plan to the State Legislature.

The member contributions are picked up by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings.

Service credit purchase payments are considered as previously taxed, unless qualifying funds are rolled over to SURS to make these purchases. Previously taxed contributions will be recovered tax-free when distributed to the employee in the form of benefits or refunds or to his or her beneficiary as a death and/or survivor benefit.

2. Employer Contributions

In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, employer contributions credited to the SMP participant are at a rate of 7.6% of the participant's gross earnings, less the amount retained by SURS (0.5% as of June 30, 2012; 0.4% as of July 1, 2012) to provide disability benefits to the participant. The amounts credited are paid into the participant's account. The State of Illinois shall make the employer contribution to SURS on behalf of the SMP participants.

3. Net Asset Accounts

The SMP maintains three designated accounts that reflect the assignment of net assets to employee contributions, disability benefits, and employer forfeiture accounts:

a. The Employee Contribution Account records the pension assets contributed by each employee and the corresponding employer contribution, and the investment income earned by those contributions.

b. The Disability Benefits Account reflects the pension assets contributed by the employer and held to fund member disability benefits.

c. The Employer Forfeiture Account reflects the pension assets contributed by the employer but forfeited from member accounts due to termination prior to reaching 5 years of service. Future employer contributions are reduced by the total forfeitures held by the defined contribution plan.

The assets related to disability benefits and employer forfeitures are commingled with the investment assets of the defined benefit plan. Investment income or loss is credited to these balances based upon the annual investment return or loss of the commingled assets. For fiscal year 2012, the investment income credited to these balances was $317,763.

Balances in these designated accounts as of June 30, 2012 are as follows:

Employee contributions	$ 974,978,930
Disability benefits	59,685,326
Employer forfeitures	8,154,989
Total Net Assets	**$ 1,042,819,245**

Notes to the Financial Statements

4. Ownership of Greater than 5 Percent of Net Assets Available for Benefits

There are no significant investments in any one organization that represent 5% or more of net assets available for benefits.

III. Deposits and Investments

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, State Universities Retirement System deposits may not be returned. Cash held in the investment related bank account in excess of $250,000 is uninsured and uncollateralized. SURS has a formal policy to address custodial credit risk. Deposits are under the custody of The Northern Trust Company which has an AA- Long Term Deposit/Debt rating by Standard & Poor's, an Aa3 rating by Moody's and an AA/AA- rating by Fitch. At June 30, 2012, the carrying amount of cash was $422,321,225 and the bank balance was $433,912,770 of which $11,494,008 was foreign currency deposits and was exposed to custodial credit risk. The remaining $76,929,543 was made up of short-term invested funds which are considered to be investments for the purpose of assessing custodial credit risk.

Investment Policies

Investments are governed by Chapter 40, Act 5, Articles 1 and 15, of the *Illinois Compiled Statutes*. The most important aspect of the statutes is the prudent expert rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.) The prudent expert rule states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. The SURS Board of Trustees has adopted an Investment Policy that contains general policies for investments. The Investment Section of this report contains a summary of these policies. Within the prudent expert framework, the SURS Board of Trustees establishes specific investment guidelines in the investment management agreement of each individual investment management firm, and monitors the firms accordingly.

Investment Commitments

Alternative investment portfolios consist of passive interests in limited partnerships. The System had outstanding commitments to private equity limited partnerships of approximately $300.2 million as of June 30, 2012. The System had outstanding commitments to real estate partnerships of approximately $70.0 million, to infrastructure partnerships of approximately $23.1 million, and to Public-Private Investment Program (PPIP) partnerships of approximately $33.4 million at June 30, 2012.

Investments

The carrying values of investments by type at June 30, 2012 are summarized below:

Equity investments	
U.S. equities	$ 6,215,437,936
Non-U.S. equities	1,934,680,002
U.S. private equity	1,270,932,386
Non-U.S. private equity	72,912,196
Equity derivatives	(210,229,990)
Fixed income investments	
U.S. government obligations	1,209,215,490
U.S. agency obligations	1,021,361,106
U.S. corporate fixed income	1,142,947,178
U.S. fixed income, other	22,961,646
Non-U.S. fixed income securities	310,774,195
U.S. short-term investments	95,496,775
Non-U.S. short-term investments	(73,299,379)
U.S. fixed income derivatives	2,262,641
Non-U.S. fixed income derivatives	8,091,841
Real estate investments	
Real estate	417,259,556
Mutual fund and variable annuities	
Self-managed plan mutual funds and variable annuity funds	971,088,663
Total investments	**$ 14,411,892,241**

(a) Fixed income investments presented in this table include $76,929,543 of short-term investments with maturities of less than 90 days, which are included in the cash and short-term investments total on the financial statements.

(b) U.S. short-term investments principally consist of money market funds and options.

(c) Fixed income investments presented in this table include $208,125,500 of short-term bills and notes with maturities greater than 90 days.

Notes to the Financial Statements

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. SURS has not adopted a formal policy specific to custodial credit risk. At June 30, 2012, no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the System's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the System's investment in a single issue. SURS has not adopted a formal policy specific to concentration of credit risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. The System's investment portfolios are managed by professional investment management firms. These firms must maintain diversified portfolios and must comply with risk management guidelines specific to each of their investment management agreements. Excluding U.S. government and agency issues, the portfolios are limited to a 5% allocation in any single investment grade U.S. issuer. Allocation limits also apply to international issuers. At June 30, 2012, SURS had no investments in any one issuer that represented 5% or more of the System's total investments.

Credit Risk of Debt Securities

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill obligations. SURS has not adopted a formal policy specific to credit risk of debt securities. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. The quality ratings of investments in fixed income securities of the System as described by Standard & Poor's rating agency at June 30, 2012 are as follows:

Quality Rating: Standard & Poor's	Domestic**	International	Total
AAA	$ 122,225,976	$ 31,852,614	$ 154,078,590
AA+	1,026,202,635	2,804,056	1,029,006,691
AA	30,765,444	9,300,812	40,066,256
AA-	13,891,339	35,220,744	49,112,083
A+	45,859,964	20,630,278	66,490,242
A	73,967,790	38,969,828	112,937,618
A-	154,018,121	29,796,102	183,814,223
BBB+	56,522,128	33,294,356	89,816,484
BBB	77,783,016	20,638,121	98,421,137
BBB-	53,100,579	32,643,043	85,743,622
BB+	15,233,064	4,623,098	19,856,162
BB	34,498,327	10,824,740	45,323,067
BB-	14,271,160	-	14,271,160
B+	16,872,918	808,000	17,680,918
B	5,838,794	-	5,838,794
B-	9,814,175	-	9,814,175
CCC+	4,478,330	-	4,478,330
CCC	18,439,730	243,125	18,682,855
CCC-	1,415,751	-	1,415,751
CC	9,827,335	-	9,827,335
D	13,388,558	1,150,135	14,538,693
Not Rated **	469,552,265	37,975,143	507,527,408
Total Credit Risk: Debt Securities	$ 2,267,967,399	$ 310,774,195	$ 2,578,741,594
U.S. Government & Agencies *	1,209,315,474	-	1,209,315,474
Total Debt Securities Investments	**$ 3,477,282,873**	**$ 310,774,195**	**$ 3,788,057,068**

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

** Domestic includes $125,587,636 from self-managed plan variable annuities and mutual funds.

Notes to the Financial Statements

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State Universities Retirement System manages its exposure to fair value loss arising from increasing interest rates by diversifying the debt securities portfolio. The System has not adopted a formal policy specific to interest rate risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties.

At June 30, 2012, the segmented time distribution of the various investment types of debt securities of the System are as follows:

		Maturities in Years				
Type	**2012 Fair Value**	**Less than 1 year**	**1 to 5 years**	**6 to 10 years**	**10 to 20 years**	**More than 20 years**
U.S. Gov't & Agency Fixed Income*	$ 2,208,597,983	$ 239,393,082	$ 509,581,030	$ 424,585,341	$ 323,062,808	$ 711,975,722
U.S. Corporate Fixed Income **	1,268,684,890	46,355,140	385,589,505	388,494,097	58,444,872	389,801,276
Non-U.S. Fixed Income	310,774,195	34,627,753	145,125,921	84,534,844	14,322,599	32,163,078
Total	**$ 3,788,057,068**	**$ 320,375,975**	**$1,040,296,456**	**$ 897,614,282**	**$ 395,830,279**	**$ 1,133,940,076**

* Includes $22,811,568 from self-managed plan mutual fund.
** Includes $102,776,068 from self-managed plan variable annuities and mutual funds.

Notes to the Financial Statements

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SURS has not adopted a formal policy specific to foreign currency risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. International investment management firms maintain portfolios with diversified foreign currency risk for SURS. The System's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated equity and fixed income investments. At June 30, 2012 the System's exposure to foreign currency risk is as follows:

Currency	Equity	Fixed Income*	Total
Australian dollar	$ 87,192,634	$ (6,360,880)	$ 80,831,754
Brazilian real	16,195,083	1,453,610	17,648,693
British pound sterling	319,625,261	4,688,212	324,313,473
Canadian dollar	93,170,030	14,514,335	107,684,365
Chinese yuan renminbi	-	7,791,549	7,791,549
Czech koruna	948,463	-	948,463
Danish krone	29,662,355	42,778	29,705,133
Euro	376,206,343	8,017,130	384,223,473
Hong Kong dollar	92,923,783	373,904	93,297,687
Indonesian rupiah	2,453,633	-	2,453,633
Japanese yen	232,799,087	9,148,208	241,947,295
Malaysian ringgit	2,192,828	-	2,192,828
Mexican peso	7,583,626	675,611	8,259,237
New Israeli shekel	2,753,200	-	2,753,200
New Taiwan dollar	24,718,802	(152,298)	24,566,504
New Zealand dollar	714,022	2,234,372	2,948,394
Norwegian krone	17,204,592	5,470,675	22,675,267
Philippine peso	3,097,926	348,828	3,446,754
Polish zloty	1,716,445	-	1,716,445
Singapore dollar	41,147,648	5,953,125	47,100,773
South African rand	11,718,672	67,542	11,786,214
South Korean won	18,520,793	405,149	18,925,942
Swedish krona	24,168,597	6,888,473	31,057,070
Swiss franc	130,460,284	532,395	130,992,679
Thai baht	10,661,498	14,303	10,675,801
Turkish lira	550,694	6,326	557,020
Total Securities subject to foreign currency risk	**$ 1,548,386,299**	**$ 62,113,347**	**$ 1,610,499,646**
Foreign investments denominated in U.S. Dollars	**466,488,475**	**183,453,310**	**649,941,785**
Total foreign investment securities	**$ 2,014,874,774**	**$245,566,657**	**$2,260,441,431**

* Includes Swaps, Options and Short Term Investments

Notes to the Financial Statements

Derivative Securities

The System invests in derivative securities through its investment managers. A derivative security is an investment whose value is derived from other financial instruments such as commodity prices, bond and stock prices, or a market index. The System's derivatives are considered investments. The fair value of all derivative financial instruments is reported in the Statement of Plan Net Assets, and the change in the fair value is recorded in the Statement of Changes in Plan Net Assets as net appreciation in fair value of investments.

In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest rate risk or foreign currency risk will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. The System has not adopted a formal policy specific to master netting arrangements. As of June 30, 2012, SURS' derivative investments included foreign currency forward contracts, rights and warrants, futures, options, swaps and swaptions. At June 30, 2012, SURS' investments in derivatives had the following balances:

	Notional Value 2012	Fair Value 2012	Change in Fair Value
Forwards	$ -	$ (575,246)	$ 35,274
Rights and Warrants	457,970	148,917	(4,947,667)
Futures			
Equity			
Long	210,229,990	5,540,160	2,620,444
Fixed Income			
Long	151,475,538	(90,635)	(227,505)
Short	(5,080,478)	44,230	24,230
Total Futures	$ 356,625,050	$ 5,493,755	$ 2,417,169
Options			
Fixed Income			
Call	(53,800,058)	(171,731)	69,430
Put	(7,900,000)	(16,588)	2,001,712
Cash and Cash Equivalent			
Call	-	-	23,494
Put	3,934,055	53,167	59,012
Swaptions			
Call	(84,100,000)	(1,217,139)	(875,395)
Put	(519,892,340)	73,687	231,372
Total Options	$ (661,758,343)	$ (1,278,604)	$ 1,509,625
Swaps			
Credit Default			
Buying Protection	629,776,745	9,768,175	5,225,919
Selling Protection	355,894,488	781,158	(2,278,298)
Interest Rate			
Pay Fixed	91,500,000	(3,694,137)	7,885,386
Receive Fixed	315,658,074	3,825,734	1,437,582
Total Return	17,480	771,648	(942,734)
Total Swaps	$ 1,392,846,787	$ 11,452,578	$ 11,327,855

Notes to the Financial Statements

Foreign currency forward contracts are used to protect against the currency risk in SURS' foreign stock and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the investment income in the Statement of Changes in Plan Net Assets. At June 30, 2012, SURS' investments in foreign currency forward contracts are as follows:

Currency	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value 2012	Change In Fair Value
Australian dollar	$ 7,602	$ (424,115)	$ (416,513)	$ (348,120)
Brazilian real	40,247	(6,130)	34,117	162,419
British pound sterling	20,141	(22,329)	(2,188)	(107,894)
Canadian dollar	-	(94,640)	(94,640)	383,534
Chinese yuan renminbi	234,438	-	234,438	242,120
Euro	239,089	(868,286)	(629,197)	1,141,918
Hong Kong dollar	-	-	-	2
Indian rupee	168,414	-	168,414	168,414
Indonesian rupiah	8,254	(6,511)	1,743	8,554
Japanese yen	231,960	(12,246)	219,714	878,268
Mexican peso	158,347	(25,812)	132,535	77,832
New Zealand dollar	-	-	-	2,180
Norwegian krone	-	-	-	280,005
Philippine peso	-	-	-	(3)
Russian ruble (new)	-	-	-	(3,530)
Singapore dollar	-	(134)	(134)	13,337
South African rand	-	(19,615)	(19,615)	(3,908)
South Korean won	-	(3,447)	(3,447)	11,235
Swedish krona	-	-	-	7,106
Swiss franc	-	(1,067)	(1,067)	189,946
Turkish lira	-	-	-	17,915
Total securities subject to foreign currency risk	**$ 1,108,492**	**$ (1,484,332)**	**$ (375,840)**	**$ 3,121,330**
Foreign investments denominated in U.S. dollars	**848,350**	**(1,047,756)**	**(199,406)**	**(3,086,056)**
Total foreign investment securities	**$ 1,956,842**	**$ (2,532,088)**	**$ (575,246)**	**$ 35,274**

Rights and warrants provide SURS investment managers the right, but not the obligation, to purchase or sell a company's stock at a fixed price until a specified expiration date. Rights normally are issued with common stock and expire after two to four weeks. Warrants typically are issued together with a bond or preferred stock and may not expire for several years. The fair value of rights and warrants is reported in the investments in the Statement of Plan Net Assets. The gain or loss from rights and warrants is included in the investment income in the Statement of Changes in Plan Net Assets.

SURS investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, SURS investment managers use futures contracts to improve the yield or adjust the duration of the fixed income portfolio. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Futures contracts are traded on organized exchanges, thereby minimizing the System's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. The cash or securities to fulfill these obligations are held in the investment portfolio. As the market value of the futures contract varies from the original contract price, a gain or loss is paid to or received from the clearinghouse and recognized in the Statement of Changes in Plan Net Assets.

SURS investment managers use options in an attempt to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, the System receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. All written financial options are recognized as a liability on the System's financial statements. As a purchaser of financial options, the System pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Notes to the Financial Statements

SURS fixed income managers invest in swaps and swaptions to manage exposure to credit, currency, inflation and interest rate risks. Swaptions are options on swaps that give the purchaser the right, but not the obligation, to enter into a swap at a specific date in the future. Swap agreements are privately negotiated agreements with a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. In connection with swap agreements, securities or cash may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default, bankruptcy or insolvency. Swaps are marked to market daily based upon values from third party vendors or quotations from market makers to the extent available and any change in value is recorded as an unrealized gain or loss. SURS investment managers have entered into credit default, inflation-linked, total return and interest rate swap agreements.

			Maturities in Years					
	Notional Value 2012	**Fair Value 2012**	**Less than 1 year**	**1 to 5 years**	**6 to 10 years**	**10 to 20 years**	**More than 20 years**	**Change In Fair Value**
Swaps								
Credit Default	$ 97,392,554	$ 6,475,360	$ 25,488	$ 5,145,427	$ 543,728	$ -	$ 760,717	
Credit Default	7,700,000	75,559	-	75,559	-	-	-	
Credit Default	880,578,679	3,998,414	-	3,998,414	-	-	-	
Total, Credit Default	985,671,233	10,549,333	25,488	9,219,400	543,728	-	760,717	2,947,621
Interest Rate	21,150,499	549,539	-	465,774	83,765	-	-	
Interest Rate	20,074,814	590,947	-	527,094	63,853	-	-	
Interest Rate	365,932,761	(1,008,889)	-	162,809	(2,895,809)	1,895,113	(171,002)	
Total, Interest Rate	407,158,074	131,597	-	1,155,677	(2,748,191)	1,895,113	(171,002)	9,322,968
Total Return	17,480	771,648	771,648	-	-	-	-	(942,734)
Total Swaps	**$1,392,846,787**	**$11,452,578**	**$ 797,136**	**$10,375,077**	**$(2,204,463)**	**$ 1,895,113**	**$ 589,715**	**$11,327,855**
Swaptions	**$ (603,992,340)**	**$(1,143,452)**	**$(1,482,947)**	**$ 339,495**	**$ -**	**$ -**	**$ -**	**(644,023)**
Forwards	**$ -**	**$ (575,246)**	**$ (575,246)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 35,274**

	Fair Value 2012	**Counterparty Credit Rating**
Swaps		
Credit Default	$ 6,475,360	A
Credit Default	75,559	AA
Credit Default	3,998,414	No Rating
Total, Credit Default	10,549,333	
Interest Rate	549,539	A
Interest Rate	590,947	AA
Interest Rate	(1,008,889)	No Rating
Total, Interest Rate	131,597	
Total Return	771,648	A
Total Swaps	**$11,452,578**	
Swaptions	**$(1,143,452)**	A
Forwards	**$ (575,246)**	No Rating

Credit 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. The seller of protection generally receives from the buyer of protection a fixed rate of income throughout the term of the swap provided there is no credit event. The seller effectively adds leverage to its portfolio as it is subject to investment exposure on the notional amount of the swap.

Total return swap agreements involve a stream of payments based on a set rate, either fixed or variable, by one party while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. In total return swaps, the underlying asset (reference asset), usually an equity index, loans, or bonds, is owned by the party receiving the set rate payments. These swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without owning it.

Interest rate swap agreements involve the exchange of a set of variable and fixed-rate interest payments linked to a referenced interest rate without an exchange of the underlying principal amount. These agreements are used to limit or manage exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would be available without the swap. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Plan Net Assets.

Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. The maximum loss that would be recognized at June 30, 2012, if all counterparties fail to perform as contracted is $48.5 million. This maximum exposure is reduced by approximately $3.5 million in collateral held and $38.5 million in liabilities, resulting in approximately $6.5 million net exposure to credit risk.

SURS Rate	Counterparty Rate	Notional Value 2012	Fair Value 2012	Pay Fixed / Receive Fixed
2.0% to 2.75%	3 month LIBOR	$ 91,500,000	$ (3,694,137)	pay fixed
3 month LIBOR *	2.0% to 5.0%	108,820,257	(25,617,263)	receive fixed
Daily CDI **	9.97% to 10.58%	57,900,000	17,630,963	receive fixed
3 month CDOR ***	2.0% to 6.2%	3,299,530	(276,325)	receive fixed
6 month EURIB ****	2.5% to 3.5%	118,373,207	11,757,828	receive fixed
28 day TIIE *****	5.5% to 5.6%	12,544,100	(1,257,546)	receive fixed
6 month BBSW ******	3.75%	14,720,980	1,588,076	receive fixed
		$ 315,658,074	$ 3,825,733	

* London Interbank Offered Rate (LIBOR)
** Cetip Interbank Deposit (CDI)
*** Canadian Dealer Offered Rate (CDOR)
**** Euro Interbank Offered Rate (EURIB)
***** Tasa de Interest Interbancaria de Equilibrio (TIIE)
****** Australian Bank Bill Short Term

Securities Lending

The SURS Board of Trustees policies permit the System 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. Credit Suisse AG, New York Branch, the System's third party agent lender in fiscal year 2012, loaned securities in exchange for cash collateral at 102% for U.S. securities and 105% for international securities. Cash collateral is shown on the System's financial statements. Securities lent are included in the Statement of Plan Net Assets. At year end, the System had no credit risk as a result of its securities lending program as the collateral received exceeded the fair value of the securities loaned. The contract with the System's third party agent lender requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are out on loan. The System entered into a contract with Deutsche Bank on July 18, 2012. As a result, the securities on loan and fair value of collateral represent the amount remaining in the program with Credit Suisse at June 30, 2012.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans was 1.92 days. Cash collateral is invested in the System's short-term investment pool, which at year end had a weighted average final maturity of 2.00 days and a weighted average reset of 2.00 days, and with a fair value of $12.1 million.

Collateral as of June 30, 2012 ($ in millions)

Securities on loan as of June 30, 2012	$	10.7
Fair value of cash collateral invested	$	12.1
Fair value of collateral received	$	11.8
Change in fair value*	$	0.3

*Included in net appreciation in fair value of investments in Statement of Changes in Plan Net Assets.

Self-Managed Plan

The SMP participants have the ability to invest their account balances in 31 mutual and variable annuity funds. These funds are offered by two providers: Fidelity Investments and Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). As of June 30, 2012, the SMP had investments of $1,038,922,500. A detailed schedule (unaudited) of the funds and balances at June 30, 2012 is located in the Investment Section of The Comprehensive Annual Financial Report.

Notes to the Financial Statements

IV. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 531,834	$ –	$ –	$ 531,834
Office building	6,896,790	-	–	6,896,790
Information system equipment & software	14,427,913	237,991	37,421	14,628,483
Furniture and fixtures	2,124,108	24,615	–	2,148,723
	23,980,645	262,606	37,421	24,205,830
Less accumulated depreciation:				
Office building	2,321,690	179,400	–	2,501,090
Information system equipment and software	13,571,342	268,539	37,421	13,802,460
Furniture and fixtures	2,084,434	40,127	–	2,124,561
	17,977,466	488,066	37,421	18,428,111
	$ 6,003,179	$ (225,460)	$ –	$ 5,777,719

The average estimated useful lives for depreciable capital assets are as follows:

Office building	40 years	Information systems equipment	3 years
Information systems software	10 years	Furniture and fixtures	3 years

V. Compensated Absences

The System is obligated to pay employees at termination for unused vacation and sick time. The maximum time for which any individual may be paid is 448 hours of vacation and one-half of unused sick time earned between January 1, 1984 and December 31, 1997. No sick time earned after December 31, 1997 will be compensable at termination.

At June 30, 2012, the System had a liability of $1,040,744 for compensated absences, based upon the vesting method used for calculation of sick leave payable. The liability is included in the administrative expenses payable on the Statement of Plan Net Assets, and the annual increase or decrease in liability is reflected in the financial statements as an increase or decrease in salary expense.

Compensated absences payable for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Estimate Amount Due Within One Year
Compensated absences payable	$ 1,025,840	$ 744,871	$ 729,967	$ 1,040,744	$ 50,000

Notes to the Financial Statements

VI. Insurance Coverage

The System 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 System has minimized the risk of loss through private insurance carriers for commercial, business owners, and automobile policies. The deductible for this insurance coverage ranges from $250 to $500 per occurrence. There has been no significant reduction of insurance coverage from the prior year. The System has not had any insurance claims filed or paid in the past five fiscal years.

VII. Post-Employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute toward health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Universities Retirement System do not contribute toward health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State; therefore, those annuitants with twenty or more years of credited service do not have to contribute toward health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the State Universities Retirement System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763.

VIII. Lease Agreements

The System leases office space in Naperville for its Northern Counseling Center. The commitment for this lease is $2,170 for fiscal year 2012 and $13,020 for fiscal year 2013.

Required Supplementary Information

Defined Benefit Plan
Schedule of Funding Progress ($ millions)

Fiscal Year**	Actuarial Value of Assets (A)	Accrued Actuarial Liabilities	Unfunded Accrued Actuarial Liabilities	Funding Ratio	Covered Payroll	UAAL as % of Covered Payroll
2003	$ 9,714.5	$ 18,025.0	$ 8,310.5	53.9%	$ 2,763.4	300.7%
2004	12,586.3	19,078.6	6,492.3	66.0	2,814.1	230.7
2005	13,350.3	20,349.9	6,999.6	65.6	2,939.1	238.1
2006	14,175.1	21,688.9	7,513.8	65.4	3,054.1	246.0
2007	15,985.7	23,362.1	7,376.4	68.4	3,181.0	231.9
2008	14,586.3	24,917.7	10,331.4	58.5	3,303.2	312.8
2009	14,282.0	26,316.2	12,034.2	54.3	3,463.9	347.4
2010	13,966.6	30,120.4	16,153.8	46.4	3,491.1	462.7
2011	13,945.7	31,514.3	17,568.6	44.3	3,460.8	507.6
2012	13,949.9	33,170.2	19,220.3	42.1	3,477.2	552.8

(A) Per public Act 96-0043, beginning fiscal year 2009, measures of financial soundness will be calculated using an actuarial value of assets based on a smoothed investment income rate. Investment income in excess or shortfall of the expected 7.75% rate on fair value is smoothed over a five-year period with 20% of a year's excess or shortfall being recognized each year beginning with the current year.

Schedule of Employer Contributions ($ millions)

Fiscal** Year	Total ARC*	Member Contributions	Net ER/State ARC	Actual ER/State Contribution	State Contributions as % of Net ARC	Total Contributions as % of Total ARC
2003	$ 843.8	$ 246.3	$ 597.5	$ 285.3	47.7%	63.0%
2004	934.8	243.8	691.0	1,757.5	254.4	214.1
2005	859.7	251.9	607.8	285.4	47.0	62.5
2006	914.9	252.9	662.0	180.0	27.2	47.3
2007	968.3	262.4	705.9	261.1	37.0	54.1
2008	971.6	264.1	707.5	344.9	48.8	62.7
2009	1,147.3	273.3	874.0	451.6	51.7	63.2
2010	1,278.3	275.0	1,003.3	696.6	69.4	76.0
2011	1,519.2	260.2	1,259.0	773.6	61.4	68.0
2012	1,701.6	258.2	1,443.3	985.8	68.3	73.1

*Annual Required Contribution as defined in GASB Statement No. 25,Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.
** The source of these schedules is the annual actuarial valuation which is performed as of June 30 for each fiscal year listed.

Supporting Schedules

Summary Schedule of Administrative Expenses
For the Years Ended June 30, 2012 and 2011

	2012	2011
Defined benefit plan		
Personnel services		
Salary and wages	$ 6,879,946	$ 6,467,302
Retirement contributions	838,694	747,959
Insurance and payroll taxes	2,073,367	1,717,639
	9,792,007	8,932,900
Professional services		
Computer services	656,311	545,026
Medical consultation	22,708	5,675
Technical and actuarial	617,922	590,438
Legal services	146,830	249,763
	1,443,771	1,390,902
Communications		
Postage	308,523	311,354
Printing and copying	79,819	95,122
Telephone	99,343	91,556
	487,685	498,032
Other services		
Equipment repairs, rental and maintenance	74,093	94,541
Building operations and maintenance	313,171	265,199
Surety bonds and insurance	218,332	203,210
Memberships and subscriptions	50,199	40,394
Transportation, travel and conferences	128,510	98,185
Education	19,952	21,077
EDP supplies and equipment	97,795	60,853
Office supplies	53,275	53,546
	955,327	837,005
Depreciation and amortization	**488,066**	**614,947**
Total administrative expenses - DB Plan	**$ 13,166,856**	**$ 12,273,786**
Self-Managed Plan		
Salary and wages	242,613	225,655
Retirement contributions	29,483	22,337
Insurance and payroll taxes	75,301	60,166
Technical and actuarial	10,000	6,000
Postage	21,374	19,788
Transportation, travel and conferences	1,090	1,283
Printing and copying	9,040	9,029
Total administrative expenses - SMP	**$ 388,901**	**$ 344,258**
Total administrative expenses	**$ 13,555,757**	**$ 12,618,044**

Supporting Schedules

Summary Schedule of Consultant Payments
For the Years Ended June 30, 2012 and 2011

	2012	2011
Defined benefit plan		
Technical and actuarial services		
Aurico	$ 2,253	$ 562
Berwyn Group	3,027	4,150
Carle Clinic	570	-
Economic Research	4,989	4,989
EFL Associates	-	15,000
Alice Faron	2,890	3,560
Firstcoast	250	-
Gabriel, Roeder, Smith & Co.	324,602	269,755
GII of Illinois	-	9,000
Governmental Consulting Solutions	60,000	48,000
ICS/Merrill	-	4,395
INFRE	570	308
Janet Jones & Associates	42,000	30,000
McLagan	-	2,500
Meador Investigations	-	830
Miscellaneous	3,487	1,598
Morrill and Associates	-	24,000
National Student Clearinghouse	425	425
Navigant Consulting	-	14,129
Northern Illinois University	500	-
Open position advertising/ Recruitment	3,496	21,305
Pen-Cin Partners	-	300
Resolutions EAP	-	125
Segal	44,000	-
Smith Investigations	-	305
Spectrum	-	1,202
The Northern Trust	84,146	91,043
Thompson McClellan Photography	253	-
University of Illinois Business Consulting	-	16,000
VIA	-	32
VR Election Services	22,449	-
Woolard Marketing Consultants	18,015	26,925
	617,922	590,438
Legal Services		
Areawide Reporting Services	2,281	850
Burke, Burns & Pinelli	69,168	149,512
Investors Responsibility Support Services	25,000	25,000
Katten Muchin Rosenman	6,474	-
Mayer Brown LLP	1,785	52,043
Thomas, Mamer & Haughey	17,347	8,542
Winters, Featherstun, et al	24,775	13,816
	146,830	249,763
Self-Managed Plan		
Technical and Actuarial Services		
Callan Associates	10,000	2,000
Ennis, Knupp Investment Consulting	-	4,000
	10,000	6,000
Total consultant payments	**$ 774,752**	**$ 846,201**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Investment Fees, Commissions, and Administrative Expenses
For the Years Ended June 30, 2012 and 2011

	2012	2011
Investment manager		
Aberdeen Asset Management	$ 1,317,176	$ 1,553,530
Adams Street Partners	4,168,126	4,351,150
Alinda Capital Partners	1,003,785	1,160,940
Angelo Gordon GECC	600,000	600,000
Ativo Capital Management	226,105	61,630
BlackRock Institutional Trust	2,207,980	3,060,061
BlackRock Financial Management	-	323,883
Buford, Dickson, Harper & Sparrow	30,486	47,537
Calamos Advisors	1,264,907	943,676
CBRE Clarion Real Estate Securities (formerly ING Clarion Real Estate)	1,122,009	1,084,232
Channing Capital Management	146,677	119,374
Chicago Equity Partners	463,562	307,550
Dune Capital Management	519,932	542,587
EARNEST Partners	126,480	1,957
Fiduciary Management Associates	369,507	27,101
Franklin Templeton Real Estate Advisors	301,272	-
Garcia Hamilton & Associates	65,811	63,104
GlobeFlex Capital, L.P.	587,325	652,620
Herndon Capital Management	415,700	298,386
Holland Capital Management	166,725	113,920
Jacobs Levy Equity Management	1,284,842	1,135,456
LM Capital Group	117,937	66,506
Lombardia Capital Partners	432,277	274,009
Longfellow Investment Management	66,892	63,398
Macquarie Capital	600,000	450,000
Martin Currie, Inc.	778,791	1,265,864
Metropolitan West Asset Management	455,504	1,379,193
Mondrian Investment Partners	517,301	424,187
Muller and Monroe Asset Management	345,554	350,347
NCM Capital Management	135,797	161,602
Neuberger Berman	547,313	298,748
New Century Advisors	146,729	136,765
Northern Trust Investments	149,370	156,429
Oaktree Capital Management	68,225	32,683
Pacific Investment Management Company	5,285,258	12,875,085
Pantheon Ventures	2,638,461	2,655,664
Paradigm Asset Management	-	(6,337)
Payden & Rygel	221,401	782,742
Piedmont Investment Advisors	302,477	133,636
Profit Investment Management	128,086	191,520
Progress Investment Management Company	1,967,006	1,664,419
Pugh Capital Management	162,189	115,974
Pyramis Global Advisors Trust Company	647,951	449,815
RhumbLine Advisers	184,946	180,752
RLJ Western Asset Management	250,450	250,620
RREEF	2,652,956	2,685,642
Smith Graham & Company	96,587	91,912
State Street Global Advisors	70,982	55,149
Strategic Global Advisors	247,649	139,702
T. Rowe Price	1,964,201	2,238,212
Taplin, Canida & Habacht	115,404	93,556
UBS Realty Investors	548,964	1,438,125
Wellington Management Company	1,490,520	750,951
Western Asset Management	-	529,752
Total investment management fees	39,725,585	48,825,316
Master trustee & custodian		
The Northern Trust Company	1,053,903	1,032,120
Investment consultant, measurement & counsel		
Callan Associates Inc.	456,500	151,000
EnnisKnupp & Associates, Inc.	-	158,856
Burke Burns & Pinelli, Ltd.	679	23,697
Katten Muchin Rosenman	99,634	-
Mayer, Brown, Rowe & Maw	71,948	64,473
Total investment fees	628,761	398,026
Investment Administrative Expenses		
Personnel	1,121,359	1,079,210
Resources, Board and Travel	142,981	160,277
Performance Measurement and Database	62,120	79,620
Total administrative expenses	1,326,460	1,319,107
Total investment expenses	**$ 42,734,709**	**$ 51,574,569**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Cash Receipts and Disbursements
For the Year Ended June 30, 2012 ($ in millions)

Beginning cash and short-term investments balance	$ 505.5
Receipts	
Member contributions	256.6
Employer contributions	781.6
Investment income (loss)	58.9
Investments redeemed	29,338.3
Total receipts	30,435.4
Disbursements	
Benefit payments	1,744.5
Administrative expenses	14.0
Investment expenses	45.5
Fixed asset purchases	0.3
Refunds	65.0
SMP balance transfers	1.9
Investments purchased	28,570.5
Total disbursements	30,441.7
Ending cash and short-term investments balance	$ 499.2

Keeping our promises

Maintaining a sound, concise investment plan focusing on diversification and risk control

Addressing our challenges

Managing assets in a volatile and unpredictable marketplace

INVESTMENT

The Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2012

Letter of Certification

The Northern Trust Company
50 South La Salle Street
Chicago, Illinois 60675
(312) 630-6000

Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as Master Trustee has provided annual Statements of Account for the State Universities Retirement System Master Trust (Trust) 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 Trust for the period July 1, 2011 through June 30, 2012.

In addition to the custody of assets, pursuant to and in accordance with the terms of the agreement establishing the Trust, The Northern Trust Company provided and continues to provide the following services as Master Trustee:

1. Receive and hold all amounts paid to the Trust Find by the Board of Trustees.
2. Accept and deliver securities in connection with investment transactions in accordance with the instructions of appointed Investment Managers or third party lending agents.
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. Begin, maintain or defend any litigation necessary in connection with the investment, reinvestment of the Trust Fund and the administration of the Trust.
6. Invest cash balances held from time to time in the individual investment management accounts in short term-cash equivalent securities.
7. Exercise rights of ownership with respect to securities held in the trust fund, including but not limited to, proxy voting in accordance with the instructions of appointed Investment Managers; respond to stock subscriptions, conversion rights, and other capital changes pursuant to procedures set forth in the operating guidelines of The Northern Trust Company in effect from time to time.
8. Hold securities in the name of the Trust or nominee form or other means as provided in the agreement establishing the Trust.
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 other securities.
10. Employ agents with the consent of the Board of Trustees to the extent provided in the agreement establishing the Trust.
11. Provide disbursement services.
12. Provide security fail float income to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.

THE NORTHERN TRUST COMPANY
By: Patricia Somerville-Koulouris
Patricia Somerville-Koulouris, Vice President

Letter of Transmittal

State Universities Retirement System of Illinois
Serving Illinois Community Colleges and Universities
1901 Fox Drive • Champaign, IL 61820
1-800-ASK SURS • (217) 378-8800 (C-U)
(217) 378-9800 (FAX)

Investment Department

October 19, 2012

Board of Trustees and Executive Director
State Universities Retirement System
1901 Fox Drive
Champaign, Illinois 61820

Following is discussion of the Investment section of the State Universities Retirement System (SURS) Comprehensive Annual Financial Report (CAFR) for fiscal year 2012. SURS remains a large and mature public defined benefit investment program with a portfolio value of over $13.7 billion for the fiscal year ending June 30, 2012. In addition, the Self-Managed Plan (SMP), a defined contribution structure offered to members, continues to increase in size with assets in excess of $1 billion.

In a difficult and challenging market environment, SURS investment performance for the fiscal year ended June 30, 2012, remained favorable, returning 0.5%, net of investment management fees. Investment performance of 12.7% for the three-year period was strong relative to peers. After sustaining punishing quarterly returns at the inception of fiscal year 2012, due primarily to global and domestic market uncertainties, the fund rebounded with strong performance for the remainder of the period, ending with a slightly positive return.

A tumultuous investing environment during the year brought performance uncertainties in many of the equity and fixed income asset classes. Diversification proved to be beneficial in the investment portfolio with positive absolute returns being achieved in the private real estate, Real Estate Investment Trust Securities (REITS), Treasury Inflation-Protected Securities (TIPS), and private equity strategies. The non-U.S. and global equity asset classes, while suffering on an absolute basis, significantly exceeded their respective benchmarks.

In fiscal year 2012, the System's funding ratio level based on market value decreased from 45.3% to 41.3%. Utilizing the asset smoothing valuation concept adopted per legislation in 2009, the actuarial funding ratio of the plan declined from 44.3% to 42.1%. In October 2010, at the recommendation of the actuary and the investment consultant, the Board of Trustees reduced the assumed rate of investment return from 8.5% to 7.75%. Aside from the actuarial modifications, the current funding ratio levels continue to be the result of inadequate funding received from the State over many years, and not due to investment performance. However, it is encouraging to note that SURS received the full fiscal year 2012 annual statutory contribution of $980.5 million from the State of Illinois. Also, the legislature has agreed to fully fund the fiscal year 2013 annual statutory contribution of $1.4 billion. This will be 95% of the Annual Required Contribution (ARC) and suggests a renewed effort in addressing the severe underfunded status of SURS.

Longer-term investment performance remains positive. Over the past 20 years, the SURS portfolio has earned an 8.0% annualized rate of return, net of investment management fees. The 25-year portfolio return is also strong, with a return of 8.1%. It is important to note that both the 20- and 25-year returns are in excess of both the policy portfolio return and the 7.75% assumed rate of investment return. As of June 30, 2012, five- and ten-year investment performance is approximating benchmark levels, returning 1.9%% and 6.8%, respectively.

A critical duty of the SURS Board of Trustees is to review, approve and implement the asset allocation strategy. These actions assist in achieving stable long-term investment returns and cash flow liquidity for benefit payments while maintaining a desired level of risk in the investment portfolio. The investment strategy is anchored by a comprehensive asset/liability study, which was last conducted during fiscal year 2011. Callan Associates, with the assistance of SURS Investment staff, presented the results, which were approved by the Board of Trustees in June 2011.

Outputs – Fiscal Year Ending June 30, 2012

Modifications to the Program during the recent fiscal year included asset structure analyses in the U.S., non-U.S., and global equity asset classes to assist in creating a more efficient total portfolio that is free of unintended biases relative to the respective benchmarks. In addition, the enhancements to the portfolio increased the allocation to minority-, female-, and persons with a disability-owned investment managers to 23.3% of the SURS Investment Program, approximating $3.2 billion in assets.

During the year, additional commitments were made in real estate that assisted in increasing the actual allocation to 7.2% from the prior year's level of 6.5%. A plan is in place to increase the target allocation to a level of 10% over the upcoming years. Implementation of real estate and other alternative strategies is a multi-year process to ensure the portfolio maintains proper diversification over vintage years.

A three-year private equity-funding plan was approved by the Board to resume investing in the private equity asset class after a several year hiatus. Continuous investing is necessary to maintain the portfolio allocation at a desired level. Without regular funding, the portfolio size may decline due to distributions being received as the portfolio seasons. Also, during the year, the Board made a $100 million commitment to the asset class through an existing manager with further plans to continue investment over the next several years.

Another key accomplishment during the past year was the operational review of the global custodian and securities lending relationships. After an extensive review process, the SURS Board retained the services of Northern Trust to serve as custodian for the fund. In addition, the fund chose to lower the risk level of the third party securities lending program, reducing the size and complexity of the strategy.

In conclusion, a number of significant accomplishments were achieved during fiscal year 2012, several of which are summarized below. The Investment section of this Report provides a more detailed review of these items.

- The portfolio produced positive absolute investment performance for fiscal year 2012, providing a return of 0.5%, net of investment management fees.

- Total combined fund assets in the defined benefit and defined contribution plans are in excess of $14.7 billion with the SURS investment program continuing its ranking as one of the largest 100 pension plans in the U.S.

- Real Estate Asset Class - An opportunistic real estate search was conducted during the year, which resulted in an additional $125 million in commitments. Over the next several years, the target allocation for real estate will be increased to a 10% level.

- Private Equity Asset Class – A multi-year private equity-funding plan was approved. Consequently, a $100 million commitment was approved by the Board to identify global and secondary fund investment opportunities, utilizing an existing provider.

- Custodian and Securities Lending – An extensive search was conducted to identify operational best practices. The existing custodian, Northern Trust was retained to serve as the global custodian for SURS. In addition, the third party securities lending program was modified to lower the overall risk profile of the program.

- Enhancement of Risk Management Oversight Practices – Additional services negotiated in the new custodian agreement will allow increased monitoring and oversight of financial risk within the SURS Investment Program.

- Continued expansion of the Manager Diversity Program (MDP) occurred during the year. As of June 30, 2012, $3.2 billion, amounting to 23.3% of assets in the SURS Investment Portfolio, are managed by investment firms owned by minorities, females and persons with a disability.

- A U.S. small cap growth equity search was completed during the year as a component of the Board approved asset structure analysis. Funding of this mandate better aligned the characteristics of the domestic equity portfolio with those of the benchmark.

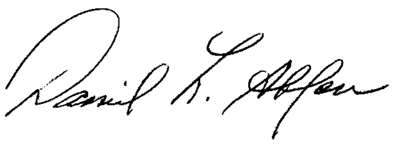
- The Self-Managed Plan (SMP) completed its 14th year of existence, currently approximating $1 billion in member assets.

Of paramount importance to SURS is the ongoing challenge and concern regarding the unfortunate funding status of the Plan. SURS is currently approximately 41.3% funded as of June 30, 2012 and will pay approximately $1.9 billion in benefit payments during fiscal year 2013. Investment performance alone will not be able to ease the existing funding gap. SURS interacts frequently with various audiences in an attempt to identify potential funding solutions for the state pension systems.

For additional information regarding the Investment Program, staff has prepared the SURS fiscal year 2013 Investment Plan, which is included on the SURS website.

The SURS investment program continues to operate effectively and efficiently during these volatile and challenging market conditions. The organization is pleased with the steady long-term investment performance over time, but realizes the challenge of adequate funding is ongoing. The Board of Trustees is committed to SURS membership to deliver an optimal, risk-controlled investment program with the objective of providing favorable long-term results.

Sincerely,



Daniel L. Allen
Chief Investment Officer

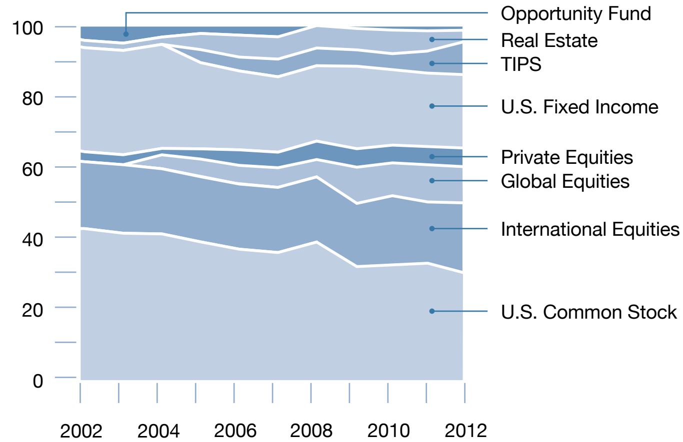
Investment Summary

The SURS Board of Trustees is charged with the responsibility of investing the assets entrusted to them solely for the benefit of the System's participants and beneficiaries. The Trustees, in carrying out their responsibilities, adhere to applicable Illinois statutes and the prudent expert rule, which states that the Trustees must act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character with like aims. In carrying out their fiduciary duties, the Trustees have set forth a clearly defined investment policy, objectives, and strategies.

Investment Policy

The investment policy of SURS provides an efficient allocation of assets to achieve overall risk and return objectives. Periodically, asset allocation studies are conducted and the results of these studies guide the setting of investment policy. An asset/liability study completed in June 2011 resulted in slight modifications to SURS' asset allocation targets. The modified long-term strategic asset allocation targets are: 30.0% of the total fund invested in U.S. equities, 20.0% in non-U.S. equities, 10.0% in global equities, 6.0% in private equities, 19.0% in fixed income, 4.0% in treasury inflation-protected securities (TIPS), 10.0% in real estate investment trust securities (REITs) and direct real estate (through funds), and 1.0% in the Opportunity Fund. These strategic asset allocation targets will be implemented over time to allow for proper diversification into direct real estate through funds. The graph titled Asset Allocation History details the various investment policy changes during the past 10 years.

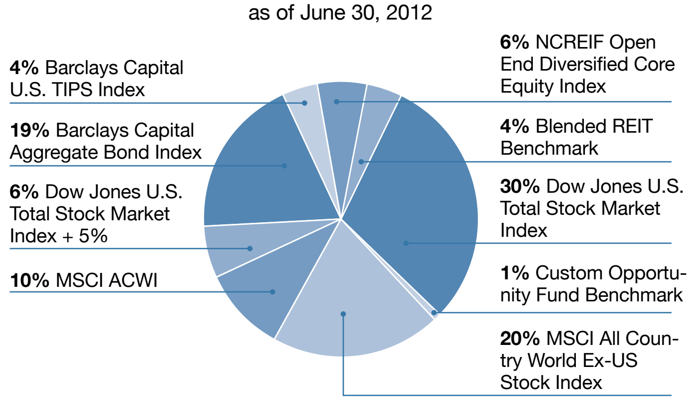
Asset Allocation History
% of Total Fund



Investment Objectives

The investment objective of the total portfolio is to produce annualized investment returns, net of all management fees, which exceed the return of a composite market benchmark or policy portfolio. The policy portfolio is comprised of market indices, which are consistent with the overall investment policy. The policy portfolio reflects a passive implementation of the investment policy. The current policy portfolio is comprised of the following benchmarks.

Policy Portfolio
as of June 30, 2012



Asset Class	Benchmark	Current Policy Portfolio
U.S. Equity	Dow Jones U.S. Total Stock Market Index	30.0%
Non-U.S. Equity	Morgan Stanley All Country World Ex-U.S. Index	20.0
Global Equity	Morgan Stanley All Country World Index	10.0
Private Equity	Dow Jones U.S. Total Stock Market Index + 5.0%	6.0
Fixed Income	Barclays Capital Aggregate Bond Index	19.0
TIPS	Barclays Capital U.S. TIPS Index	4.0
Direct Real Estate	NCREIF Open End Diversified Core Equity Index	6.0
REITS	Blend of Dow Jones U.S. Select Real Estate Securities Index, FTSE EPRA/NAREIT Developed Ex-U.S. Index and FTSE EPRA/NAREIT Developed Index	4.0
Opportunity Fund	Custom benchmark of the combined investments	1.0
		100.0%

Investment Summary

Comparisons of total fund performance are also made with a universe of public pension funds implementing generally comparable investment policies. The public pension fund index used for comparative purposes is the Callan Associates' Public Funds - Large (over $1 billion) Index.

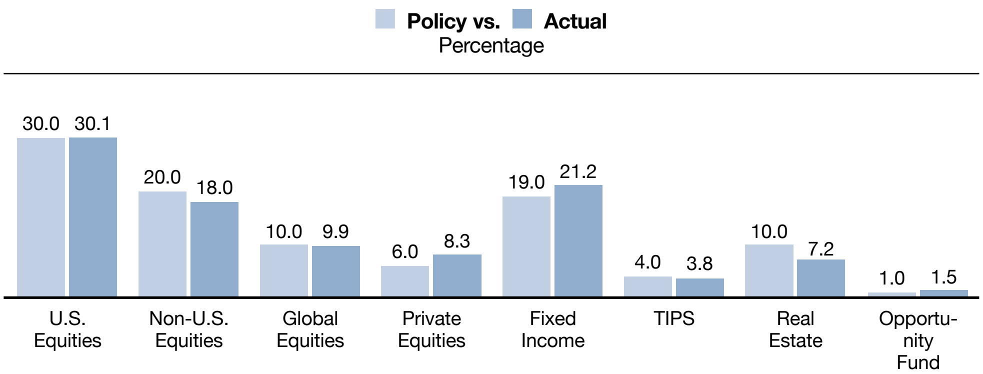
Investment Strategies

■ Diversification

SURS invests in multiple asset classes utilizing various investment managers and strategies as a method to ensure overall fund diversification. As of June 30, 2012, the System had retained the services of 50 investment management firms, several of which manage multiple mandates, and an additional 18 managers through the Progress Emerging Manager of Managers program, of which seven also have a direct relationship with SURS. Each investment management firm is afforded full discretion to diversify its portfolio(s) in a manner deemed appropriate. The Trustees have developed guidelines to direct the investment managers in their execution of the overall investment policy. The guidelines are specific to the asset class and strategy managed.

■ Rebalancing

Proper implementation of the investment policy requires that a periodic adjustment, or rebalancing, of assets be conducted as needed to ensure conformance with policy target levels. Such rebalancing is necessary to reflect cash flows and performance imbalances among investment managers who are hired to manage assets with a specified strategy. Although a strategy may be within a specified asset class, the manager may be authorized to utilize other instruments in another asset class. SURS' rebalancing policy calls for rebalancing, as soon as practical, if a strategy exceeds or falls below its target allocation by 3%. Ongoing rebalancing of the investment portfolio occurred as needed during the year with the assistance of System cash flows. At year end, the fund was invested 72% in equities, 25% in fixed income, and 3% in direct real estate through funds, as compared with the target allocations of 71%, 23%, and 6%, respectively. Staff is gradually implementing the policy target allocations that were approved by the Board as of June 10, 2011, through the strategic transition of assets among investment managers.



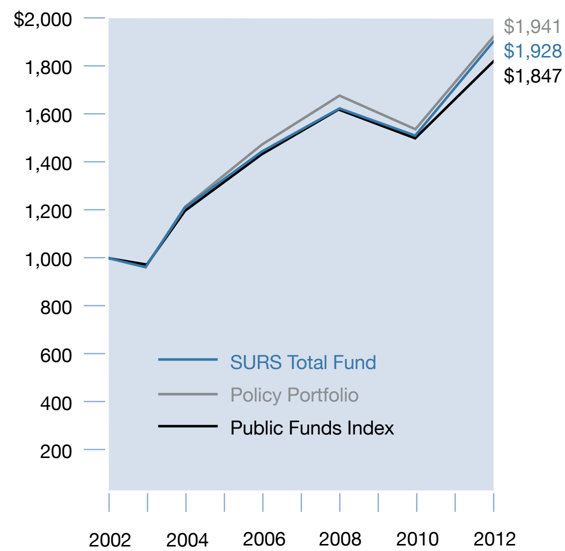
Investment Results

Long-Term Investment Results

The 10-year period ended June 30, 2012, provided returns that have matched the overall benchmark. SURS total portfolio earned an annualized total return, net of all investment management expenses, of 6.8%. As shown in the investment results table, over the long term, SURS total fund returns are consistent with its market goal (policy portfolio) and the median public pension funds benchmark.

This consistent performance is best illustrated by the growth of $1,000 invested in SURS total fund, the policy portfolio and median public funds index during the past 10 years. The ending points indicate that $1,000 invested in SURS total fund would have grown to $1,928, while the same $1,000 invested in the policy portfolio and median public funds index would have grown to $1,941 and $1,847, respectively.

Total Fund Growth of $1,000



Fiscal Year 2012 Results

For the fiscal year ended June 30, 2012, SURS total fund returned 0.5%, trailing the market goal, or policy portfolio by 1.2%. SURS' one-year return lagged that of the median public pension fund return, as measured by the Callan Associates Public Pension Funds - Large Index, by 0.2%. For the period, three of the nine asset class portfolios, including non-U.S. equities, global equities, and TIPS, met or exceeded the returns of their respective benchmarks. Strong absolute returns were experienced in direct real estate, TIPS, and private equity.

Investment Results

	Fiscal Year Ended June 30					Annualized		
	2008	2009	2010	2011	2012	3 yrs	5 yrs	10yrs
Total Fund								
SURS	(4.5)%	(19.7)%	15.0%	23.8%	0.5%	12.7%	1.9%	6.8%
Policy Portfolio	(5.0)	(20.1)	16.0	23.4	1.7	13.3	2.0	6.8
Public Funds Index	(4.1)	(17.8)	11.8	20.9	0.7	10.9	1.4	6.3
CPI	5.0	(1.4)	1.0	3.6	1.7	2.1	1.9	2.5
U.S. Stock Returns								
SURS	(13.4)	(27.3)	17.8	33.8	2.9	17.5	0.4	5.8
Dow Jones U.S. Total Stock Market	(12.5)	(26.4)	16.1	32.4	4.0	16.9	0.6	6.1
Non-U.S. Stock Returns								
SURS	(7.9)	(32.2)	7.8	31.2	(13.5)	6.9	(5.2)	6.2
MSCI All Country World Index Ex-U.S.	(6.6)	(30.9)	10.4	29.7	(14.6)	7.0	(4.6)	6.7
Global Stock Returns								
SURS	(8.7)	(29.0)	12.6	29.9	(5.8)	11.2	(2.2)	4.8
Performance Benchmark	(10.7)	(27.9)	11.8	30.1	(6.5)	10.8	(2.6)	4.7
Private Equity Returns (1)								
SURS	16.4	(21.3)	18.5	19.8	8.4	15.8	6.9	9.6
Dow Jones U.S. Total Stock Market + 5%	(0.8)	(33.0)	57.6	22.7	12.3	29.5	7.4	10.0
Fixed Income Returns								
SURS	7.4	5.5	14.5	5.2	6.7	8.7	7.8	6.6
Performance Benchmark	7.1	6.0	9.5	3.9	7.5	6.9	6.8	5.9
TIPS Returns								
SURS	16.3	0.0	11.6	7.9	12.0	10.5	9.4	7.5
Performance Benchmark	15.1	(1.1)	9.5	7.7	11.7	9.6	8.4	6.9
Direct Real Estate Returns (2)								
SURS	10.6	(28.4)	(6.4)	19.2	12.5	6.2	(0.3)	-
Performance Benchmark	12.0	(23.8)	(18.8)	19.0	13.6	3.2	(1.3)	-
Real Estate Returns (REITs)								
SURS	(15.7)	(40.1)	41.5	34.7	7.2	26.9	0.6	9.9
Performance Benchmark	(17.2)	(41.3)	42.7	34.1	7.7	27.3	(0.4)	9.1
Opportunity Fund Returns								
SURS	10.7	(27.1)	44.7	22.2	2.6	22.0	7.9	9.9
Performance Benchmark	(6.8)	(34.4)	33.5	11.0	10.3	17.8	0.0	5.8

Return calculations (except for private equities and direct real estate) were prepared using a time-weighted rate of return methodology in accordance with the Performance Presentation Standards of the CFA Institute.
(1) Private equity returns were prepared using an Internal Rate of Return (IRR) methodology which is consistent with industry standards. Additionally, the returns for both the portfolio and the benchmark are reported one quarter in arrears due to the length of the performance reporting cycle.
(2) Direct real estate returns for both the portfolio and the benchmark are reported one quarter in arrears due to the length of the performance reporting cycle.

Investment Results

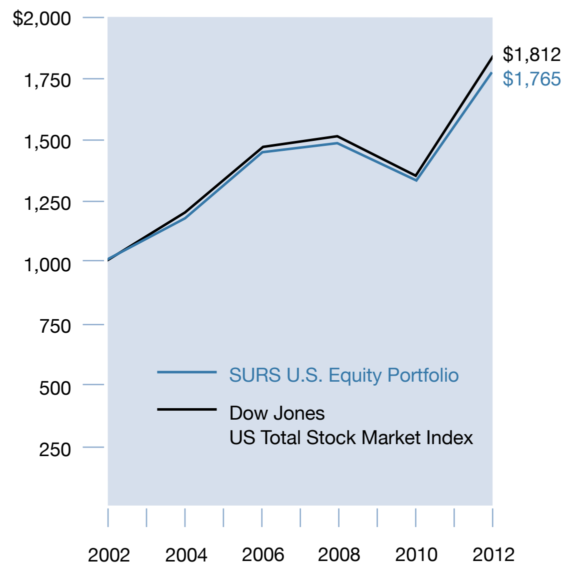
U.S. Equities

For the fiscal year 2012, SURS U.S. equity portfolio returned 2.9%. SURS portfolio underperformed its market benchmark, the Dow Jones U.S. Total Stock Market (DJ U.S. TSM) Index, by 1.1%. As the table indicates, the Dow Jones U.S. Total Stock Market Index returned 4.0%. Most segments of the U.S. equity market posted positive returns. Value outperformed growth stocks, while large cap outpaced small cap stocks. The SURS U.S. equity portfolio is by design both size and style neutral relative to the Dow Jones U.S. Total Stock Market Index. Consequently, the returns from this portfolio are expected to track consistently with the broad market.

The accompanying chart indicates the growth of $1,000 invested in the U.S. equity market during the past 10 years. The ending points indicate that $1,000 invested in SURS U.S. equity portfolio would have increased to $1,765 (net of investment management expenses), while the same $1,000 invested in the Dow Jones U.S. Total Stock Market Index would have increased to $1,812.

	FY 2012	3 YR	5 YR	10 YR
SURS	**2.9%**	**17.5%**	**0.4%**	**5.8%**
DJ U.S. TSM	4.0	16.9	0.6	6.1
DJ U.S. Large Cap TSM	4.8	16.5	0.5	5.8
DJ U.S. Large Cap Growth TSM	4.4	16.3	2.2	6.1
DJ U.S. Large Cap Value TSM	5.8	16.0	(1.7)	5.1
DJ U.S. Small Cap TSM	(1.4)	20.5	2.3	9.2
DJ U.S. Small Cap Growth TSM	(3.3)	20.2	2.9	9.7
DJ U.S. Small Cap Value TSM	0.3	20.6	1.6	8.5
S&P 500	5.4	16.4	0.2	5.3
Russell 3000	3.8	16.7	0.4	5.8
Russell 2000	(2.1)	17.8	0.5	7.0

U.S. Equity Portfolio Growth of $1,000



TEN LARGEST U.S. EQUITY HOLDINGS (excludes commingled funds)	**Shares**	**Carrying Value**
Apple Inc	256,556	$149,828,704
Exxon Mobil Corp	1,090,972	93,354,474
Microsoft Corp	2,197,990	67,236,514
Johnson & Johnson	905,850	61,199,226
General Electric Co	2,662,184	55,479,915
Chevron Corp	489,146	51,604,903
AT&T Inc	1,401,390	49,973,567
International Business Machines Corp	239,757	46,891,674
JP Morgan Chase & Co	1,254,496	44,823,142
Philip Morris International	512,621	44,731,308

Note: A complete list of the portfolio holdings is available upon request.

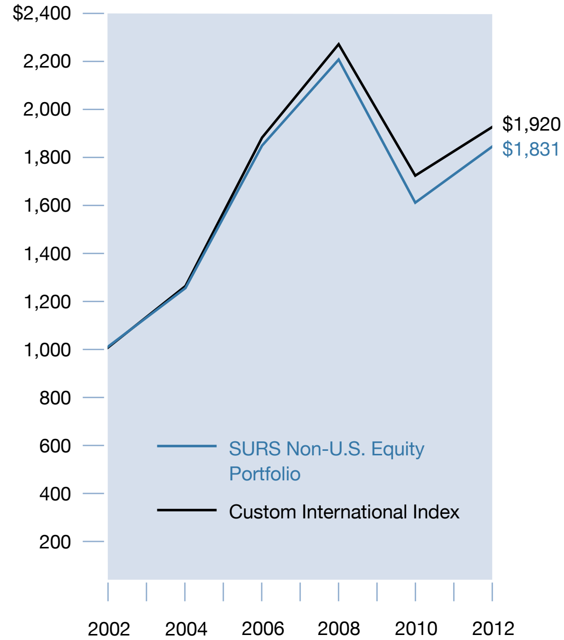
Investment Results

Non-U.S. Equities

For fiscal year 2012, SURS non-U.S. equity portfolio returned (13.5)%, surpassing its benchmark return by 1.1%. The non-U.S. equity portfolio performance benchmark, the Morgan Stanley All Country World Ex-US Index, fell 14.6% during the fiscal year. The benchmark represents a mixture of both developed and emerging markets, which varies over time depending on market performance. This mix accurately portrays the manner in which SURS non-U.S. equity investments are allocated.

The accompanying chart indicates the growth of $1,000 invested in the non-U.S. equity markets during the past 10 years. The ending points indicate that $1,000 invested in SURS non-U.S. equity portfolio would have grown to $1,831 (net of investment management expenses), while the same $1,000 invested in the performance benchmark would have grown to $1,920.

Non-U.S. Equity Portfolio Growth of $1,000



	FY 2012	3 YR	5 YR	10 YR
SURS	**(13.5)%**	**6.9%**	**(5.2)%**	**6.2%**
MSCI ACWI Ex-US	(14.6)	7.0	(4.6)	6.7
MSCI EAFE	(13.8)	6.0	(6.1)	5.1
MSCI Emerging Markets	(16.0)	9.8	(0.1)	14.1

TEN LARGEST NON-U.S. EQUITY HOLDINGS (excludes commingled funds)	**Shares**	**Carrying Value**
Novo Nordisk (Denmark)	86,905	$ 12,587,295
Vodafone Group (United Kingdom)	4,412,000	12,404,103
Roche Holdings AG (Switzerland)	66,300	11,459,778
Taiwan Semiconductor Manufacturing Co (Taiwan)	3,945,379	10,757,605
British American Tobacco (United Kingdom)	203,600	10,351,290
Novartis AG (Switzerland)	176,100	9,842,250
SAP AG (Germany)	161,685	9,550,399
Zurich Insurance Group AG (Switzerland)	39,400	8,887,375
ADR Tenaris S.A. (Luxembourg)	242,112	8,466,657
Standard Chartered (United Kingdom)	377,000	8,186,627

Note: A complete list of the portfolio holdings is available upon request.

Investment Results

Global Equities

SURS initially invested in global equities through its Opportunity Fund in 2002 and transferred the program to a separate asset class during fiscal year 2004. The two managers and strategies that were employed in the Opportunity Fund were transferred to this new asset class for SURS. As the table indicates, SURS global equity portfolio exceeded its benchmark by 0.7% for the fiscal year, returning (5.8)%. The benchmark for this portfolio was modified in November of 2008 from the MSCI World Index to the MSCI All Country World Index (ACWI), to include emerging markets as well as developed markets in the benchmark.

	FY 2012	3 YR	5YR
SURS	**(5.8)%**	**11.2%**	**(2.2)%**
MSCI ACWI	(6.5)	10.8	(2.7)
MSCI World	(5.0)	11.0	(3.0)
Dow Jones U.S. Total Stock Market	4.0	16.9	0.6
MSCI EAFE	(13.8)	6.0	(6.1)
MSCI ACWI Ex US	(14.6)	7.0	(4.6)

Private Equities

SURS private equity portfolio posted a positive return of 8.4% during fiscal year 2012. The portfolio's benchmark, the Dow Jones U.S. Total Stock Market Index +5% returned 12.3%. As of June 30, 2012, the valuation of SURS private equity portfolio was $1.128 billion, representing 8.3% of total plan assets. Since inception, the asset class has added significant value to the SURS investment program. Private equity is a challenging, and sometimes difficult asset class to benchmark.

SURS private equity portfolio is well diversified. Since its inception in 1990, the SURS private equity portfolio has made commitments to numerous partnership funds. The private equity portfolio has been diversified by a number of different measures which include vintage year, general partner groups and sub-asset class types. This diversification effort has benefited the portfolio as different sub-classes perform better under different economic and market conditions. Since its inception, a total of $2.275 billion has been committed to these funds, and of this amount approximately $1.926 billion has been invested. In addition, during this same period, SURS has received more than $1.920 billion in distributions, which, when combined with the current value of the portfolio, indicates that the portfolio has generated a significant return over the approximately 20-year period. The adjacent table indicates that since inception SURS private equity portfolio has significantly exceeded its benchmark return.

	FY 2012	3 YR	5 YR	10 YR	Since Inception
SURS	**8.4%**	**15.8%**	**6.9%**	**9.6%**	**22.5%**
Performance Benchmark	12.3	29.5	7.4	10.0	14.9%
(Dow Jones U.S. Total Stock Market + 500 Basis Points)					

Fixed Income

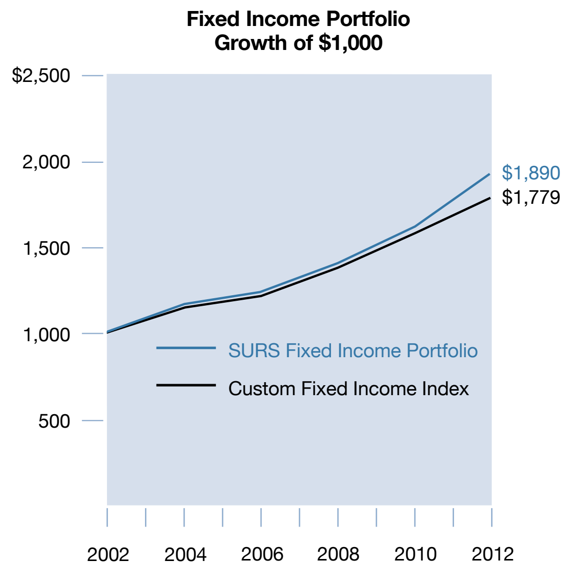
The SURS fixed income portfolio returned 6.7% for fiscal year 2012, trailing the 7.5% return of the portfolio's benchmark. The fixed income portfolio's benchmark is the Barclays Capital Aggregate Bond Index, which reflects the manner in which the assets are invested. SURS investment managers typically employ a Core/Core Plus approach that utilizes securities which include government, corporate, mortgage, high yield, and non-U.S. bonds. This asset class has proven to be the most consistent asset of all the portfolios, generating above benchmark returns in 21 of the past 24 fiscal years.

	FY 2012	3 YR	5 YR	10 YR
SURS	**6.7%**	**8.7%**	**7.8%**	**6.6%**
Barclays Capital Aggregate	7.5	6.9	6.8	5.6
Barclays Capital Universal	7.4	7.6	6.8	6.0
Long Term Govt.	31.4	13.5	11.9	8.9
Intermediate Govt.	5.0	4.4	5.8	4.6
Long Term Corp.	18.7	15.1	9.8	8.5
Intermediate Corp.	6.7	9.0	6.9	6.0
Mortgage-Backed	5.0	5.4	6.7	5.4

SURS fixed income portfolio is structured to capture the return of the broad market over the long term. Consequently, the returns from this portfolio will tend to track that of the broad fixed income market (Barclays Capital Aggregate Bond Index) over longer periods of time. As the table above indicates, SURS portfolio has consistently added value over each of the longer-term periods presented.

Investment Results

The accompanying chart indicates the growth of $1,000 invested in the U.S. fixed income market during the past 10 years. The ending points show that $1,000 invested in SURS U.S. fixed income portfolio would have grown to $1,890 (net of investment management expenses), while the same $1,000 invested in the portfolio's benchmark would have grown to $1,779.



TEN LARGEST FIXED INCOME HOLDINGS (excludes commingled funds)

Asset Description	S & P Rating	Interest Rate	Maturity Date	Par Value	Carrying Value
U.S. Treasury Notes	AA+	1.000	March 31, 2017	$ 108,490,000	$ 109,981,738
Federal National Mortgage Association Single Family Mortgage	AA+	3.500	July 15, 2042	102,945,000	107,915,288
Federal National Mortgage Association Single Family Mortgage	AA+	4.000	July 15, 2042	79,080,000	84,158,439
U.S. Treasury Inflation Index Bonds	AA+	2.375	January 15, 2025	37,050,000	59,546,622
Federal National Mortgage Association Single Family Mortgage	AA+	4.000	August 15, 2042	31,000,000	32,932,664
U.S. Treasury Inflation Index Bonds	AA+	1.750	January 15, 2028	23,225,000	31,951,782
U.S. Treasury Inflation Index Bonds	AA+	3.875	April 15, 2029	13,600,000	30,749,528
U.S. Treasury Inflation Index Bonds	AA+	2.000	January 15, 2026	20,695,000	30,610,158
U.S. Treasury Inflation Index Notes	AA+	0.125	April 15, 2016	26,135,000	28,349,994
U.S. Treasury Inflation Index Notes	AA+	0.625	July 15, 2021	23,000,000	26,145,226

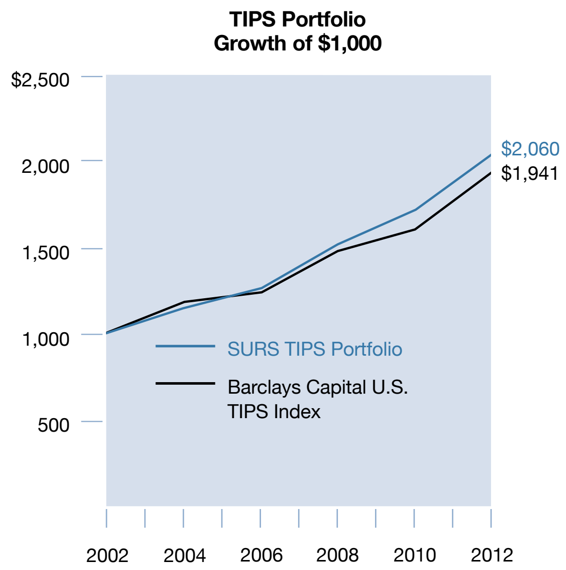
Note: A complete list of the portfolio holdings is available upon request.

Treasury Inflation-Protected Securities (TIPS)

During 2004, the TIPS portfolios were transferred from the Opportunity Fund to a separate asset class. At June 30, 2012, TIPS accounted for a 3.8% allocation of the total fund. The TIPS portfolio returned 12.0% for fiscal year 2012, exceeding its Barclays Capital U.S. TIPS benchmark by 0.3%. The portfolio's three- and five-year returns outpaced the annualized benchmark returns by 0.9% and 1.0%, respectively.

	FY 2012	3YR	5 YR
SURS	**12.0%**	**10.5%**	**9.4%**
Performance Benchmark	11.7	9.6	8.4

The accompanying chart indicates the growth of $1,000 invested in the U.S. TIPS market during the past 10 years. The ending points indicate that $1,000 invested in SURS U.S. TIPS portfolio would have grown to $2,060 (net of investment management expenses), while the same $1,000 invested in the portfolio's benchmark would have grown to $1,941.



Investment Results

Real Estate

The SURS Board of Trustees adopted an asset allocation during fiscal year 2001 that created a 2% allocation to publicly traded real estate securities (REITs). During fiscal year 2005, the target allocation to the real estate asset class was increased to 6%, comprised of 4% REITs and 2% direct real estate through funds. Funding of the direct real estate allocation began at the conclusion of fiscal year 2006. During fiscal year 2007, an allocation to global REITs was approved as a component of the 4% REITs target allocation with initial funding commencing April 2007. The real estate asset class target allocation was subsequently increased to 10% during fiscal year 2009, to be comprised of 4% REITs and 6% direct real estate when fully vested.

Since its inception, a total of $527 million has been committed to direct real estate funds, and of this amount approximately $451 million has been invested. The direct real estate portfolio returned 12.5% for the fiscal year, underperforming its benchmark by 1.1%. The National Council of Real Estate Investment Fiduciaries (NCREIF) Open End Diversified Core Equity (ODCE) Index benchmark returned 13.6% for the same period. The returns from this asset class lag one quarter due to the time frame associated with data collection for both accounting and performance reporting purposes.

	FY 2012	3YR	5 YR	Since Inception
SURS	**12.5**	**6.2%**	**(0.3)%**	**2.4%**
NCREIF ODCE Index	13.6	3.2	(1.3)	3.8

SURS total REITs portfolio increased 7.2% during the fiscal year, underperforming its benchmark, a blend of the Dow Jones U.S. Select Real Estate Securites Index, the FTSE EPRA/NAREIT Developed Ex-US Index and the FTSE EPRA/NAREIT Developed Index, by 0.5%. The portfolio's three-year return trailed the benchmark return by 0.4% and the five-year return exceeded the benchmark return by 1.0% on an annualized basis.

	FY 2012	3YR	5 YR	10YR
SURS	**7.2%**	**26.9%**	**0.6%**	**9.9%**
Dow Jones U.S. Select Real Estate Securities	12.8	33.5	1.8	10.3
FTSE EPRA/NAREIT Developed	1.6	18.7	(4.2)	NMF
FTSE EPRA/NAREIT Developed Ex-U.S.	(5.8)	11.1	(6.6)	NMF

Opportunity Fund

The SURS Board of Trustees created the Opportunity Fund during fiscal year 2000 to provide an arena for investments in new opportunities, which might otherwise not be included in the total investment portfolio. Each of the investment portfolios is evaluated on an annual basis to determine whether or not they continue to merit inclusion in the fund. This unique portfolio has been designed in such a manner that no more than approximately 5% of the total fund assets can be invested in the fund. As of June 30, 2012, there were three types of investments in the portfolio: a public-private investment program (PPIP), an infrastructure portfolio and a minimal investment remaining in a specialty private equity fund. SURS has committed $160 million to the PPIP program and $80 million to the infrastructure portfolio.

The Opportunity Fund returned 2.6% during the fiscal year, trailing its custom benchmark return by 7.7%. In order to accurately monitor these investments, a custom benchmark has been established. The benchmark reflects a passive implementation of the various portfolios included in the Fund.

	FY 2012	3YR	5 YR	10YR
SURS	**2.6%**	**22.0%**	**7.9%**	**9.9%**
Performance Benchmark	10.3	17.8	0.0	5.8

Self-Managed Plan

Fiscal year 2012 marks the fourteenth complete year of the Self-Managed Plan (SMP). As of June 30, 2012, the SMP had accumulated plan assets of approximately $1.04 billion. This represents an increase of approximately $80 million since the end of fiscal year 2011. Contributing to the growth in plan assets was a market-related increase, net of asset withdrawals, of approximately $20 million. During the past several years, SMP participants have continued to maintain a balanced exposure to equities. In aggregate, the total funds invested by SMP participants have an allocation of 67% equity, 32% fixed income, and 1% real estate. This was a 1% decrease in the equity allocation as compared to last year's position.

A detailed schedule of the funds available in this plan, along with the investment totals for each fund, can be found in the accompanying table.

Asset Allocation

Self-Managed Plan Asset Allocation
June 30, 2012

	U.S. Stocks	Non-U.S. Stocks	Fixed Income	Balanced	Real Estate	Total
Fidelity Funds						
Fidelity Managed Income Portfolio	$ –	$ –	$ 18,468,199	$ –	$ –	$ 18,468,199
Spartan U.S. Bond Index Institutional	–	–	19,812,150	–	–	19,812,150
PIMCO Total Return Institutional	–	–	28,890,507	–	–	28,890,507
Fidelity Four In One Index	–	–	–	7,681,001	–	7,681,001
Fidelity Puritan Class K	–	–	–	127,939,872	–	127,939,872
Ariel Fund	14,520,976	–	–	–	–	14,520,976
American Beacon Large Cap Value Inst.	2,997,695	–	–	–	–	2,997,695
Buffalo Small Cap	7,092,241	–	–	–	–	7,092,241
Hartford Capital Appreciation Y	20,441,727	–	–	–	–	20,441,727
Fidelity Growth Company Class K	43,185,043	–	–	–	–	43,185,043
Spartan Extended Market Index Advantage	14,669,768	–	–	–	–	14,669,768
Fidelity Contrafund Class K	52,414,666	–	–	–	–	52,414,666
Fidelity Low Priced Stock Class K	26,600,567	–	–	–	–	26,600,567
Spartan Total Market Index Institutional	9,833,335	–	–	–	–	9,833,335
Spartan 500 Index Institutional	47,471,877	–	–	–	–	47,471,877
Fidelity Diversified International Class K	–	25,596,946	–	–	–	25,596,946
Spartan International Index Institutional	–	8,308,854	–	–	–	8,308,854
Fidelity Worldwide	–	13,695,454	–	–	–	13,695,454
Fidelity Real Estate Investment	–	–	–	–	7,136,550	7,136,550
Fidelity Freedom K 2000 (1)	–	–	–	437,593	–	437,593
Fidelity Freedom K 2005 (1)	–	–	–	265,751	–	265,751
Fidelity Freedom K 2010 (1)	–	–	–	1,389,806	–	1,389,806
Fidelity Freedom K 2015 (1)	–	–	–	4,014,535	–	4,014,535
Fidelity Freedom K 2020 (1)	–	–	–	7,086,272	–	7,086,272
Fidelity Freedom K 2025 (1)	–	–	–	9,224,295	–	9,224,295
Fidelity Freedom K 2030 (1)	–	–	–	10,988,550	–	10,988,550
Fidelity Freedom K 2035 (1)	–	–	–	8,779,447	–	8,779,447
Fidelity Freedom K 2040 (1)	–	–	–	8,260,671	–	8,260,671
Fidelity Freedom K 2045 (1)	–	–	–	3,811,326	–	3,811,326
Fidelity Freedom K 2050 (1)	–	–	–	2,691,562	–	2,691,562
Fidelity Freedom K 2055 (1)	–	–	–	317	–	317
Fidelity Freedom K Income	–	–	–	1,097,287	–	1,097,287
Fidelity Total	**239,227,895**	**47,601,254**	**67,170,856**	**193,668,285**	**7,136,550**	**554,804,840**
						57.1%
TIAA-CREF Funds						
CREF Money Market Account	–	–	18,394,000	–	–	18,394,000
TIAA Traditional Annuity	–	–	69,600,917	–	–	69,600,917
CREF Bond Market Account	–	–	35,605,212	–	–	35,605,212
CREF Inflation-Linked Bond Account	–	–	22,811,568	–	–	22,811,568
CREF Social Choice Account	–	–	–	33,653,087	–	33,653,087
CREF Equity Index Account	42,309,497	–	–	–	–	42,309,497
CREF Growth Account (2)	254,768	–	–	–	–	254,768
CREF Stock Account	91,853,455	–	–	–	–	91,853,455
CREF Global Equities Account	–	30,553,002	–	–	–	30,553,002
TIAA Real Estate Account	–	–	–	–	4,309,213	4,309,213
T-C Large-Cap Growth Index	46,634,505	–	–	–	–	46,634,505
T-C Lifecycle Fund 2010 - Premier	–	–	–	465,338	–	465,338
T-C Lifecycle Fund 2015 - Premier	–	–	–	1,645,698	–	1,645,698
T-C Lifecycle Fund 2020 - Premier	–	–	–	2,154,173	–	2,154,173
T-C Lifecycle Fund 2025 - Premier	–	–	–	2,595,644	–	2,595,644
T-C Lifecycle Fund 2030 - Premier	–	–	–	3,505,549	–	3,505,549
T-C Lifecycle Fund 2035 - Premier	–	–	–	3,112,736	–	3,112,736
T-C Lifecycle Fund 2040 - Premier	–	–	–	5,184,487	–	5,184,487
T-C Lifecycle Fund 2045 - Premier	–	–	–	1,062,356	–	1,062,356
T-C Lifecycle Fund 2050 - Premier	–	–	–	415,010	–	415,010
T-C Lifecycle Fund 2055 - Premier	–	–	–	7,987	–	7,987
T-C Lifecycle Retirement Inc - Premier	–	–	–	155,621	–	155,621
TIAA-CREF Total	**181,052,225**	**30,553,002**	**146,411,697**	**53,957,686**	**4,309,213**	**416,283,823**
GRAND TOTALS	**$ 420,280,120**	**$ 78,154,256**	**$ 213,582,553**	**$ 247,625,971**	**$11,445,763**	**$ 971,088,663**
	43.3%	**8.0%**	**22.0%**	**25.5%**	**1.2%**	**100.0%**
SMP Forfeiture Reserve (3)						**8,154,989**
SMP Disability Reserve (3)						**59,678,848**
Total SMP Investments						**$1,038,922,500**

1. As of June 30, 2012, the Fidelity Freedom Fund (lifecycle) series is the default fund for members who have selected the Self-Managed Plan, but have not yet selected individual mutual/variable annuity funds.
2. CREF Growth Account is no longer an approved option for the Self-Managed Plan. Assets remaining in the Account were invested prior to termination of this option.
3. These assets are commingled with the SURS defined benefit plan investments and accrue interest equal to the overall annual rate of return of the fund, net of fees.

Asset Allocation

Defined Benefit Plan Asset Allocation
June 30, 2012 ($ thousands)

	Equity	Fixed Income	Real Estate	Market Value	% of Fund
U.S. Stock Managers - Passive					
Northern Trust Investments	$ 1,356,805	$ –	$ –	$ 1,356,805	10%
RhumbLine Advisers	1,030,735	–	–	1,030,735	8%
Subtotal	2,387,540	–	–	2,387,540	18%
Non-U.S. Stock Managers - Passive					
BTC Custom International Fund	965,346	–	–	965,346	7%
BTC Emerging Markets Fund	127,587	–	–	127,587	1%
Subtotal	1,092,933	–	–	1,092,933	8%
U.S. Stock Managers - Active					
Channing Capital Management	67,870	–	–	67,870	1%
EARNEST Partners	65,896	–	–	65,896	–
Fiduciary Management Associates	67,041	–	–	67,041	1%
Holland Capital Management	65,116	–	–	65,116	–
Jacobs Levy Equity Management	243,061	–	–	243,061	2%
Lombardia Capital Partners	68,330	–	–	68,330	1%
NCM Capital Management	64,531	–	–	64,531	–
Pacific Investment - StocksPlus	260,592	–	–	260,592	2%
Piedmont Investment Advisors	245,683	–	–	245,683	2%
Profit Investment Management	63,453	–	–	63,453	–
Progress Emerging Managers	245,521	–	–	245,521	2%
T. Rowe Price	245,796	–	–	245,796	2%
Subtotal	1,702,890	–	–	1,702,890	13%
Non-U.S. Stock Managers - Active					
Ativo Capital Management	74,276	–	–	74,276	1%
BTC International Alpha Tilts	299,207	–	–	299,207	2%
GlobeFlex Capital	148,626	–	–	148,626	1%
Herndon Capital Management	121,970	–	–	121,970	1%
Martin Currie	151,066	–	–	151,066	1%
Progress Emerging Managers	123,129	–	–	123,129	1%
Pyramis Global Advisors	369,476	–	–	369,476	3%
Strategic Global Advisors	62,614	–	–	62,614	–
Subtotal	1,350,364	–	–	1,350,364	10%
Global Stock Managers - Active					
Aberdeen Asset Management	284,879	–	–	284,879	2%
Calamos Investments	261,892	–	–	261,892	2%
Mondrian Investment Partners	273,142	–	–	273,142	2%
T. Rowe Price	256,386	–	–	256,386	2%
Wellington Management	264,939	–	–	264,939	2%
Subtotal	1,341,238	–	–	1,341,238	10%
Private Equity Managers					
Adams Street Acquisition Fund II	16	–	–	16	–
Adams Street Partnerships	287,561	–	–	287,561	2%
Adams Street 2012 Offering	1,328	–	–	1,328	–
Adams Street 2009 Offering	35,800	–	–	35,800	–
Adams Street 2008 Offering	50,426	–	–	50,426	–
Adams Street 2007 Global Oppor Ptf	82,808	–	–	82,808	1%
Adams Street Global Secondary Fund	12,185	–	–	12,185	–
Adams Street Non-U.S. Partnerships	42,796	–	–	42,796	–
Muller and Monroe ILPEFF	12,564	–	–	12,564	–
Muller and Monroe MPEFF	19,560	–	–	19,560	–
Pantheon Europe Fund III	51,210	–	–	51,210	–
Pantheon Europe Fund VI	21,973	–	–	21,973	–
Pantheon Global	1,473	–	–	1,473	–
Pantheon Global Secondary Fund II	9,799	–	–	9,799	3%
Pantheon USA 8	60,977	–	–	60,977	–
Pantheon Ventures, Inc.	432,282	–	–	432,282	–
Progress Investment	1,206	–	–	1,206	–
Subtotal	1,123,964	–	–	1,123,964	8%

Asset Allocation

Defined Benefit Plan Asset Allocation
June 30, 2012 ($ thousands)

	Equity	Fixed Income	Real Estate	Market Value	% of Fund (C)
Bond Managers - Passive					
Cash	–	221,137	–	221,137	–
State Street Global Advisors	–	496,608	–	496,608	4%
Subtotal	–	717,745	–	717,745	4%
Bond Managers - Active					
Chicago Equity Partners	–	273,721	–	273,721	2%
Garcia Hamilton & Associates	–	33,417	–	33,417	–
LM Capital Group	–	55,242	–	55,242	–
Metropolitan West Asset Mgmt.	–	381,656	–	381,656	3%
Neuberger Berman	–	278,337	–	278,337	2%
Pacific Investment	–	820,576	–	820,576	6%
Progress Emerging Managers	–	95,721	–	95,721	1%
Pugh Capital Management	–	83,981	–	83,981	1%
Smith Graham & Company	–	54,237	–	54,237	–
Taplin Canida & Habacht	–	67,592	–	67,592	1%
Subtotal	–	2,144,480	–	2,144,480	16%
Treasury Inflation-Protected Securities - Active					
Longfellow Investment Management	–	122,601	–	122,601	1%
New Century Advisors	–	93,692	–	93,692	1%
Pacific Investment - U.S. TIPS	–	303,730	–	303,730	2%
Subtotal	–	520,023	–	520,023	4%
Direct Real Estate					
Dune Real Estate Parallel Fund II	–	–	28,424	28,424	–
Franklin Templeton EMREFF	–	–	15,197	15,197	–
Franklin Templeton FTPREF	–	–	1,968	1,968	–
Mesirow MFIRE II	–	–	3,893	3,893	–
RREEF America II Fund	–	–	119,765	119,965	1%
RREEF America III Fund	–	–	14,566	14,566	–
RREEF West Funds	–	–	153	153	–
UBS Trumbull Property Fund	–	–	250,185	250,185	2%
Subtotal	–	–	434,151	434,151	3%
Real Estate Investment Securities: U.S. - Passive					
BTC	95,797	–	–	95,797	1%
Subtotal	95,797	–	–	95,797	1%
Real Estate Investment Securities: U.S. - Active					
CBRE Clarion Real Estate Securities	111,876	–	–	111,876	1%
RREEF America	121,605	–	–	121,605	1%
Subtotal	233,481	–	–	233,481	2%
Real Estate Investment Securities: Non-U.S. and Global					
BTC	66,278	–	–	66,278	–
CBRE Clarion Real Estate Securities	79,387	–	–	79,387	1%
RREEF	74,477	–	–	74,477	1%
Subtotal	220,142	–	–	220,142	2%
Opportunity Fund					
Alinda Capital Partners	24,557	–	–	24,557	–
Angelo Gordon GECC	53,496	–	–	53,496	–
Macquarie Capital	42,839	–	–	42,839	–
Oaktree Capital Management	23,740	–	–	23,740	–
RLJ Western Asset	59,360	–	–	59,360	–
Private Opportunities Fund	1,140	–	–	1,140	–
Subtotal	205,132	–	–	205,132	–
SMP Forfeiture/Disability Reserves (B)	(45,916)	(21,207)	(711)	(67,834)	–
TOTAL FUND	**$ 9,707,565**	**$ 3,361,041**	**$ 433,440**	**$ 13,502,046(A)**	**100%**
% OF TOTAL FUND (C)	**71.9%**	**24.9%**	**3.2%**	**100%**	

(A) Amount includes net pending transactions of ($327,159) and accrued investment income receivable of $33,914.
(B) These assets are commingled with the SURS defined benefit plan investments.
(C) The % of Total Fund may not add to 100% due to rounding.

Supporting Schedules

Summary Schedule of Domestic Investment Commissions
For the Year Ended June 30, 2012

	2012		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share
Loop Capital Markets	$ 117,667	3,996,629	$ 0.03
Cabrera Capital Markets	79,085	3,450,638	0.02
ITG (Investment Technology Group) (ECN)	75,862	20,429,054	-
Loop Capital Markets (ECN)	70,295	6,429,004	0.01
JP Morgan Chase & Company (ECN)	67,289	2,449,163	0.03
Morgan Stanley	59,292	1,442,791	0.04
CAPIS (Capital Institutional Services)	48,968	1,246,953	0.04
CL King & Associates	47,562	1,029,113	0.05
Williams Capital Group (ECN)	47,348	2,933,395	0.02
Bank of New York ConvergEx Execution	46,182	1,052,921	0.04
MR Beal & Company	33,422	1,132,202	0.03
Cheevers & Company	31,699	955,218	0.03
M Ramsey King Securities	29,674	963,001	0.03
Cabrera Capital Markets (ECN)	29,480	1,144,334	0.03
Credit Suisse	26,481	697,636	0.04
Merrill Lynch	26,454	1,646,366	0.02
Island Trader Securities	24,861	533,570	0.05
Cantor Fitzgerald	22,837	797,634	0.03
Williams Capital Group	22,374	723,831	0.03
Stifel, Nicolaus & Company	22,223	623,131	0.04
Bank of New York ConvergEx Execution (ECN)	21,146	681,080	0.03
JP Morgan Chase & Company	20,932	688,251	0.03
Cheevers & Company (ECN)	19,311	907,321	0.02
Barclays (ECN)	18,930	809,648	0.02
Gardner Rich & Company (ECN)	18,854	733,457	0.03
Barclays	18,345	659,123	0.03
Instinet	18,011	376,778	0.05
Jefferies & Company	17,447	707,319	0.02
Robert W. Baird & Company	16,884	461,091	0.04
Merrill Lynch (ECN)	16,775	2,231,005	0.01
Goldman Sachs	16,530	422,779	0.04
CastleOak Securities (ECN)	16,362	763,842	0.02
CAPIS (Capital Institutional Services) (ECN)	15,814	403,659	0.04
Saxony Securities	14,235	284,700	0.05
Liquidnet (ECN)	13,151	1,217,361	0.01
CastleOak Securities	12,172	394,206	0.03
Morgan Stanley (ECN)	11,831	495,818	0.02
Piper Jaffray & Company	11,808	355,262	0.03
Direct Access Partners	10,712	339,513	0.03
Instinet (ECN)	10,590	542,360	0.02
ISI Group	9,946	252,405	0.04
Guzman & Company (ECN)	9,835	983,483	0.01
Jackson Partners & Associates	9,176	229,400	0.04
Telsey Advisory Group	9,145	238,705	0.04
North South Capital	9,063	185,750	0.05
JonesTrading Institutional Services	8,993	387,439	0.02
Citigroup Global Markets	8,911	246,277	0.04
Deutsche Bank (ECN)	8,583	715,934	0.01
Lazard Capital Markets (ECN)	8,401	241,180	0.03
Deutsche Bank	8,126	257,997	0.03
All Other Brokers	238,722	8,497,502	0.03
Total	**$ 1,577,796**	**79,387,229**	**$ 0.02**

Supporting Schedules

Summary Schedule of International Investment Commissions
For the Year Ended June 30, 2012

	2012		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share
Loop Capital Markets (ECN)	$ 155,216	32,458,990	$ -
Nomura	103,539	8,559,874	0.01
UBS	99,610	7,410,067	0.01
Loop Capital Markets	85,957	6,437,517	0.01
Nomura (ECN)	75,648	8,680,754	0.01
Goldman Sachs	63,328	5,973,205	0.01
Credit Suisse	58,042	5,810,540	0.01
Cabrera Capital Markets (ECN)	55,291	8,481,429	0.01
Calyon (ECN)	54,192	9,779,422	0.01
Deutsche Bank	45,735	3,012,066	0.02
Morgan Stanley	43,910	2,852,589	0.02
Merrill Lynch	35,462	4,084,981	0.01
Direct Access Partners	35,381	1,825,400	0.02
Bank of New York ConvergEx Execution	34,327	1,549,093	0.02
Jefferies & Company	32,900	2,223,653	0.01
Cheevers & Company (ECN)	30,853	7,035,034	-
Barclays (ECN)	30,744	2,102,020	0.01
Chicago Analytic Trading	30,582	2,870,400	0.01
JP Morgan Chase & Company	29,820	2,059,537	0.01
MR Beal & Company	25,394	2,401,717	0.01
Bank of New York ConvergEx Execution (ECN)	22,094	3,439,243	0.01
Barclays	18,829	1,093,714	0.02
Macquarie Securities	18,258	1,791,929	0.01
Instinet	17,673	3,300,881	0.01
Credit Suisse (ECN)	17,113	2,272,167	0.01
Citigroup Global Markets	16,563	1,978,977	0.01
UBS (ECN)	13,600	2,365,452	0.01
Melvin Securities	13,262	646,663	0.02
Merrill Lynch (ECN)	11,378	1,274,058	0.01
Credit Agricole	10,163	1,475,383	0.01
Brockhouse Cooper	8,799	3,383,292	-
Calyon	8,200	54,617	0.15
Royal Bank of Canada	7,808	970,833	0.01
Daiwa Securities Group	7,728	181,076	0.04
Cabrera Capital Markets	7,645	692,914	0.01
BNP Paribas	7,006	1,236,800	0.01
Redburn Partners	6,631	917,542	0.01
Mitsubishi UFJ Securities	6,248	290,300	0.02
BTIG (Bass Trading International Group)	6,121	762,489	0.01
Royal Bank of Scotland	5,489	148,672	0.04
Exane	5,453	287,125	0.02
Cantor Fitzgerald	5,233	271,637	0.02
Sanford C. Bernstein	5,124	127,926	0.04
Mizuho Securities	5,065	509,676	0.01
Credit Lyonnais	4,835	795,093	0.01
ITG (Investment Technology Group) (ECN)	4,122	1,380,792	-
Kempen & Company	4,065	22,761	0.18
Keefe, Bruyette & Woods	3,994	301,046	0.01
ITG (Investment Technology Group)	3,862	128,556	0.03
Raymond James & Associates	3,843	53,400	0.07
All Other Brokers	74,105	9,638,408	0.01
Total	**$ 1,476,240**	**167,401,710**	**$ 0.01**

Supporting Schedules

Summary Schedule of Global Investment Commissions
For the Year Ended June 30, 2012

	2012		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share
Cabrera Capital Markets	$ 97,568	4,750,534	$ 0.02
JP Morgan Chase & Company	58,991	3,935,406	0.01
Loop Capital Markets	54,942	3,911,684	0.01
Deutsche Bank	43,905	2,894,100	0.02
Morgan Stanley	42,732	2,111,898	0.02
UBS	37,352	3,293,078	0.01
Mogavero Lee & Company (ECN)	36,786	1,226,200	0.03
Credit Suisse	29,747	4,125,049	0.01
Bank of America	28,243	1,658,571	0.02
Goldman Sachs	28,133	2,671,411	0.01
Citigroup Global Markets	25,924	2,058,275	0.01
Credit Agricole	22,009	2,829,946	0.01
Barclays	19,824	556,035	0.04
Credit Suisse (ECN)	19,555	4,205,768	-
Merrill Lynch	18,427	1,924,365	0.01
Williams Capital Group	17,281	726,373	0.02
Goldman Sachs (ECN)	16,557	2,915,610	0.01
Nomura	13,909	877,371	0.02
Sanford C. Bernstein (ECN)	13,728	2,045,671	0.01
M Ramsey King Securities	12,570	628,699	0.02
Mischler Financial Group	11,595	470,052	0.02
Macquarie Securities	11,400	1,081,762	0.01
Morgan Stanley (ECN)	10,861	3,818,938	-
Merrill Lynch (ECN)	10,473	2,002,411	0.01
Bloomberg Tradebook (ECN)	9,903	807,569	0.01
Daiwa Securities Group	9,751	581,700	0.02
Loop Capital Markets (ECN)	9,530	1,078,242	0.01
UBS (ECN)	9,383	1,927,672	-
MR Beal & Company	9,280	343,139	0.03
BNP Paribas	9,121	636,600	0.01
HSBC	8,807	392,875	0.02
Citigroup Global Markets (ECN)	8,201	1,610,264	0.01
Nomura (ECN)	8,172	2,064,758	-
ITG (Investment Technology Group) (ECN)	7,892	1,377,094	0.01
Barclays (ECN)	7,875	813,985	0.01
Liquidnet (ECN)	7,623	822,320	0.01
Stifel, Nicolaus & Company	7,326	193,400	0.04
RBC Capital Markets	7,309	187,310	0.04
Cabrera Capital Markets (ECN)	7,065	376,787	0.02
CL King & Associates	6,986	212,688	0.03
CastleOak Securities	6,465	218,600	0.03
Deutsche Bank (ECN)	6,350	2,156,591	-
CF Global Trading	6,237	182,516	0.03
Bank of America (ECN)	5,967	2,842,409	-
Scotia Capital	5,680	162,400	0.03
Montrose Securities International	5,399	437,952	0.01
BTG Pactual	5,309	209,700	0.03
Sanford C. Bernstein	5,282	128,223	0.04
Jefferies & Company	5,118	243,982	0.02
Santander Investment Securities	5,042	146,916	0.03
All Other Brokers	152,290	13,225,377	0.01
Total	**$ 1,025,875**	**90,100,276**	**$ 0.01**

Supporting Schedules

Summary Schedule of REITS Income Investment Brokerage
For the Year Ended June 30, 2012

	2012		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share
Cheevers & Company	$ 137,398	3,301,057	$ 0.04
UBS	63,540	7,329,693	0.01
Merrill Lynch	39,151	5,593,226	0.01
Citigroup Global Markets	37,752	4,802,482	0.01
JP Morgan Chase & Company	37,289	7,411,257	0.01
Barclays	33,497	954,141	0.04
Green Street Advisors	25,387	618,369	0.04
Citigroup Global Markets (ECN)	24,788	2,437,436	0.01
Morgan Stanley	24,014	4,867,876	-
Stifel, Nicolaus & Company	17,480	436,590	0.04
Jefferies & Company	16,853	460,887	0.04
Macquarie Securities	16,059	4,354,270	-
Goldman Sachs	14,203	2,048,196	0.01
RBC Capital Markets	13,873	340,703	0.04
Wells Fargo Securities	13,549	397,631	0.03
KeyBanc Capital Markets	12,078	399,900	0.03
Credit Suisse	11,401	1,985,207	0.01
Barclays (ECN)	11,070	1,107,044	0.01
Weeden & Company	8,795	297,977	0.03
Keefe, Bruyette & Woods	8,578	205,250	0.04
MKM Partners	7,568	252,257	0.03
Kempen & Company	7,091	291,786	0.02
UBS (ECN)	7,006	790,962	0.01
ISI Group	5,939	168,000	0.04
Nomura	5,639	669,552	0.01
Montrose Securities International	5,468	121,500	0.05
BMO Capital Markets	5,320	130,500	0.04
Sanford C. Bernstein	3,967	96,776	0.04
Raymond James & Associates	3,886	88,600	0.04
Deutsche Bank	2,897	555,792	0.01
RBC Dain Rauscher	2,881	72,300	0.04
Robert W. Baird & Company	2,621	68,600	0.04
Knight Execution & Clearing Services	2,121	70,700	0.03
CLSA	2,030	715,645	-
Rabo Securities	1,986	36,189	0.05
RBS Securities	1,750	167,658	0.01
Cowen & Company	1,695	43,550	0.04
Royal Bank of Scotland	1,666	293,944	0.01
Robert W. Baird & Company (ECN)	1,595	159,500	0.01
Credit Lyonnais	1,490	468,011	-
Goldman Sachs (ECN)	1,373	104,247	0.01
Merrill Lynch (ECN)	1,357	230,905	0.01
DBS Vickers Securities	1,324	315,035	-
Oriel Securities	1,261	561,240	-
Oppenheimer & Company	1,248	31,200	0.04
Sumitomo Mitsui Banking Corporation	1,243	120,434	0.01
Daiwa Securities Group	1,211	37,222	0.03
ABG Securities	1,206	136,982	0.01
Morgan Keegan & Company	1,169	38,950	0.03
Wells Fargo Securities (ECN)	1,166	58,300	0.02
All Other Brokers	12,578	1,312,016	0.02
Total	**$ 666,497**	**57,557,545**	**$ 0.01**

Supporting Schedules

Summary Schedule of Fixed Income Investment Brokerage
For the Year Ended June 30, 2012

Investment Brokerage Firm	2012 Market Value Traded
Barclays	$ 1,212,716,313
Morgan Stanley	1,113,981,209
Citigroup Global Markets	806,980,746
Credit Suisse	798,011,747
Deutsche Bank	638,496,138
Goldman Sachs	631,117,002
JP Morgan Chase & Company	623,051,779
CastleOak Securities	588,843,439
Loop Capital Markets (ECN)	430,335,985
Toussaint Capital Partners	400,611,697
MR Beal & Company	392,632,846
Merrill Lynch	383,653,663
Mizuho Securities	372,635,506
Citigroup Global Markets (ECN)	288,780,541
Loop Capital Markets	255,402,228
Williams Capital Group	238,018,557
BNP Paribas	200,188,259
Wells Fargo Securities	166,806,082
Barclays (ECN)	159,937,299
RBS Securities	156,664,483
Bank of America	152,770,519
UBS	128,434,163
Nomura	126,273,498
CastleOak Securities (ECN)	122,188,675
Royal Bank of Scotland	115,451,478
Royal Bank of Canada (ECN)	99,004,785
HSBC	91,783,877
Nomura (ECN)	77,447,732
JP Morgan Chase & Company (ECN)	70,431,284
Citibank (ECN)	67,185,136
Rice Financial Products Company	66,485,462
Goldman Sachs (ECN)	65,236,014
Citibank	55,180,961
Mizuho Securities (ECN)	53,247,769
Bank of America (ECN)	45,508,878
Bank of America Securities	36,571,071
Morgan Stanley (ECN)	36,551,526
Royal Bank of Canada	36,283,487
First Tennessee	33,255,651
Cabrera Capital Markets	33,108,010
TD Securities	31,086,088
Arbor Trading Group	28,770,635
Daiwa Securities Group	20,947,809
Credit Suisse (ECN)	20,717,612
Deutsche Bank (ECN)	18,584,249
RBS Securities (ECN)	16,171,325
Morgan Keegan & Company	15,776,055
Jefferies & Company	14,741,596
Bank of New York ConvergEx Execution	13,583,843
HSBC (ECN)	13,455,064
All Other Brokers	218,863,099
Total	**$ 11,783,962,870**

Supporting Schedules

Summary Schedule of TIPS Investment Commissions
For the six months ended June 30, 2012

Investment Brokerage Firm	2012 Market Value Traded
Barclays	$ 70,177,185
Goldman Sachs	43,891,067
Williams Capital Group	43,788,918
Credit Suisse	39,106,639
Citigroup Global Markets	37,950,883
Toussaint Capital Partners	37,092,408
RBS Securities	23,158,995
MR Beal & Company	22,794,064
BNP Paribas	20,761,886
CastleOak Securities	20,014,691
Merrill Lynch	18,459,612
Deutsche Bank	15,273,278
BNP Paribas (ECN)	14,428,148
Royal Bank of Scotland	12,178,604
Royal Bank of Canada	12,063,083
Greenwich Capital Markets	11,628,097
UBS	10,300,119
Loop Capital Markets	8,996,970
Barclays (ECN)	8,623,751
JP Morgan Chase & Company	7,523,281
Bank of America	6,778,334
Deutsche Bank (ECN)	6,394,038
HSBC	5,559,169
Nomura (ECN)	5,064,559
RBS Securities (ECN)	4,995,007
Mizuho Securities	4,898,632
Credit Suisse (ECN)	4,157,931
TD Securities (ECN)	3,761,549
Citibank (ECN)	3,025,446
Societe Generale Securities (ECN)	2,895,400
Rice Financial Products Company	2,799,644
Westpac Group	2,260,620
Nomura	2,257,766
Morgan Stanley	2,032,217
First Tennessee	1,898,224
JP Morgan Chase & Company (ECN)	438,485
First Ballantyne	282,132
Rainier Securities	29,954
Ridgeway & Conger, Inc.	20,490
Total	**$537,761,276**

Keeping our promises

Making timely and accurate estimates regarding plan assets, liabilities and assumptions

Addressing our challenges

Looming pension reform and uncertain economic times

ACTUARIAL

The Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2012

Letter of Certification

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries
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Chicago, IL 60602-5111
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December 3, 2012

Board of Trustees
State Universities Retirement System of Illinois
1901 Fox Drive
Champaign, IL 61820

Re: Certification of Actuarial Results

Dear Members of the Board:

At your request, we have performed an actuarial valuation of the State Universities Retirement System of Illinois ("SURS") as of June 30, 2012. An actuarial valuation of the defined benefit plans of SURS is performed annually. GRS has prepared this actuarial valuation exclusively for the Trustees of the State Universities Retirement System; GRS is not responsible for reliance upon this valuation by any other party.

The actuarial valuation is based upon:

a. *Data relative to the Members of SURS* – Data for all members, including those participating in the Self Managed Plan, was provided by SURS staff. Such data is tested for reasonableness, but was accepted and used without verification or audit.

b. *Assets of the Fund* – The values of SURS assets are provided by SURS staff and was reviewed for reasonableness, but was accepted and used without verification or audit. First effective with the valuation as of June 30, 2009, the actuarial value of assets, as defined in statute, smoothes investment gains and losses compared to the actuarial assumption of 7.75% (8.5% prior to fiscal year 2011) over a five-year period, and is calculated by the actuary and used to develop actuarial results.

c. *Actuarial Method* – The actuarial method prescribed in the statute and utilized by SURS is the Projected Unit Credit Cost Method. The objective of this method is to finance the benefits of SURS as such benefits accrue to each member. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

d. *Actuarial Assumptions* – The actuarial assumptions used in this valuation are summarized in the next few pages. The investment return assumption was decreased from 8.50% to 7.75% first effective with the valuation as of June 30, 2010. The remaining assumptions were reviewed and updated as part of the experience study conducted for the period June 30, 2006, through June 30, 2010, and adopted by the Board first effective for the valuation as of June 30, 2011.

The actuarial assumptions and methods used, including the economic and demographic assumptions, the actuarial cost method and asset method, are in accordance with paragraph 36 of GASB Statement Number 25.

The trend data in the Financial Section and the schedules and other data in this Section are prepared by SURS staff with our input.

The funding objective as defined in the statute is to provide employer and employee contributions sufficient to provide the benefits of SURS when due and to achieve an asset value equal to 90% of the Actuarial Accrued Liability by the end of fiscal year 2045. The financing objective of SURS and the funding process to reach that objective are set out in Section 15-155 of the SURS Article of the Illinois Pension Code.

The statutory funding policy set out in Section 15-155 of the Illinois Pension Code results in lower near-term contribution requirements than the Annual Required Contribution (ARC) as calculated under GASB 25. We recommend funding normal cost plus 30-year closed period level percentage of payroll amortization of the current unfunded accrued liability, which is equal to the ARC in the first year of funding. This letter does not certify that the funding method in the statute complies with generally accepted actuarial standards for the funding of retirement systems.

To the best of our knowledge, this actuarial statement is complete and accurate, fairly presents the actuarial position of SURS as of June 30, 2012, based on the data and actuarial techniques described above and applicable statutes, and has been prepared in accordance with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

Future actuarial measurements may differ significantly from the current measurements presented in this valuation due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions, contribution amounts or applicable law. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements in this report.

The signing actuaries are independent of the plan sponsor.

The undersigned are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

Leslie L. Thompson	Amy Williams	Lance J. Weiss
Leslie L. Thompson, FSA, EA, MAAA	Amy Williams, ASA, MAAA	Lance Weiss, EA, MAAA
Senior Consultant	Consultant	Senior Consultant

Letter of Review

SEGAL

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June 26, 2012

Board of Trustees
State Universities Retirement System of Illinois

Re: **Limited Scope Audit of the June 30, 2011 Actuarial Valuation**

Ladies and Gentlemen:

We are pleased to present the results of Segal's audit of the June 30, 2011 actuarial valuation. The purpose of this audit is to conduct a review of the actuarial methods, assumptions, and procedures employed by the State Universities Retirement System (SURS) and the System's actuary Gabriel Roeder Smith & Company (GRS).

In summary, we found the following:

1. GRS is processing the data files provided to them by SURS in a reasonable and accurate manner;

2. The economic assumptions are generally within norms for the peer group, with the investment return right in the middle of the peer group range;

3. Certain of the demographic actuarial assumptions should be reviewed in detail as part of the next experience review, particularly the Effective Rate of Interest (ERI) assumption;

4. The asset valuation method is being applied correctly and in our opinion, the five-year smoothing method used to develop the actuarial value of assets is reasonable and meets actuarial standards; and

5. In general, benefits valued for selected test lives are consistent with those stated in the actuarial valuation report, and we believe the results of the June 30, 2011 actuarial valuation – including the actuarial accrued liability, normal cost, and determination of expected employer contributions – are substantially accurate. However, there are a number of calculations that we recommend be reviewed and modified to more accurately value the liabilities of the System.

These items and recommendations are described in more detail throughout our report.

This audit validates the findings of the 2011 actuarial valuations. We believe the stated methods and assumptions were properly employed in determining the cost of the System. The assistance of the SURS staff and GRS is gratefully acknowledged. We appreciate the opportunity to have served as an independent actuarial advisor for SURS.

Sincerely,

Kim Nicholl

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

Matthew A. Strom

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

Actuarial Report

Pension Financing

The State Universities Retirement System of Illinois (SURS) is financed by employee contributions, employer contributions (state appropriations and contributions from trust and federal funds), and investment earnings. Employee contributions are established by the Illinois Compiled Statutes at 8% of pay. Investment earnings and state funding are primary determinants of the System's financial status.

Employer (state) contributions are determined through annual actuarial valuations. Actuaries use demographic data (such as employee age, salary, and service credits), economic assumptions (such as estimated salary increases and interest rates), and decrement assumptions (such as employee turnover, mortality, and disability rates) in performing these valuations. The actuarial valuation process flows generally as follows:

1) Based on the demographic data and actuarial assumptions described above, the amount and timing of benefits payable in the future is estimated by the actuary for all participants at the valuation date. Important assumptions in this computation are the turnover, retirement age, and earnings progression for active members, and mortality for all participants.

2) The actuary then calculates the Actuarial Present Value of these benefits. This is the amount necessary to be invested at the valuation interest rate, at the valuation date, to provide benefit payments as they come due. Each year's estimated benefit payments are discounted by an assumed interest rate to determine the present dollar value of benefits.

3) The final step is to apply a cost method assigning portions of the total value of benefits to past, present, and future periods of employee service. This allocation is accomplished by development of normal cost and accrued benefit cost.

There are several accepted actuarial cost methods. The one used by SURS is the projected unit credit cost method. Under this method, the Actuarial Present Value of the projected pension at retirement age is determined at the individual member's current or attained age. The normal cost for the member for the current year is equal to the portion of the value so determined assigned to this year. The normal cost for the plan for the year is the sum of the normal costs of all active members.

Accrued benefit cost is the portion of the present value of benefits assigned by the cost method to years of service up to the valuation dates at the time the estimate is prepared. Although accrued during each member's employment, benefits are not paid until the member retires; thus the value changes as the member's salary and years of service change. Furthermore, membership continually changes as some members leave and are replaced by new members. The normal cost during FY 2012 was 20.71% of payroll, 8.0% of which is paid by the members' contributions. The remaining 12.71% is the employer's portion of the normal cost.

Actuarial funding of System benefits would require annual State appropriations which at least cover the employer's normal cost (12.71% of payroll) plus an amortization of the System's unfunded accrued benefit cost. The employer's normal cost plus amortization is called employer cost (see Schedule of Payroll Percentages). The State has not funded the System on this basis. Historically, the State funded the System by reimbursement (in full or in part) of benefit payments.

On August 22, 1994, Governor Jim Edgar signed legislation which requires a 15-year phase-in to a 35-year funding plan which provides adequate annual funding of the employer's normal cost while amortizing the unfunded accrued actuarial liability. This law, Public Act 88-0593, went into effect on July 1, 1995. A significant difference between the 1989 and 1994 funding legislation is that the latter takes the form of a continuing appropriation. This removes the pension funding from the General Assembly's annual budget negotiations and requires that the actuarially determined annual funding become an automatic contribution (see Financing Objective). Ultimately, this funding plan will increase the State's pension funding from its current level of 42.1% to approximately 90%.

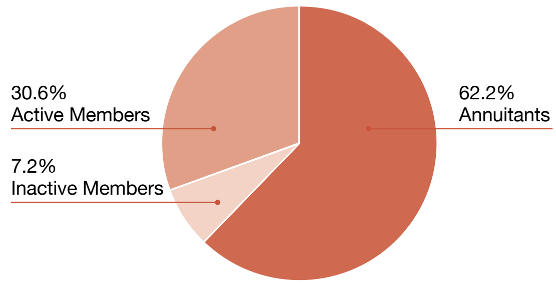
As required by Public Act 96-1497 the State of Illinois issued $3.7 billion in General Obligation Bonds March 10, 2011, at an interest rate of 5.56%. The proceeds of these bonds, were used to fund the State's contribution to the five retirement systems, including $713.5 million paid to SURS.

Actuarial Report

Valuation Results ($ millions)

Actuarial liability (reserves)	
For members receiving annuities	$ 20,651.4
For inactive members	2,380.0
For active members	10,138.8
Total	33,170.2
Actuarial value of assets available for benefits	13,949.9
Unfunded accrued actuarial liability	$ 19,220.3

Actuarial Liability



Changes in the Unfunded Accrued Actuarial Liability ($ millions)

Unfunded accrued actuarial liability at June 30, 2011	$ 17,568.6
Expected increase in unfunded accrued actuarial liabilty	797.8
Actuarial differences	
Investments other than 7.75%	476.7
Salary increases	(4.0)
Age and service retirement differences	126.3
Termination differences	59.9
Mortality and disability incidence differences	8.1
Benefit recipient differences	55.5
New entrants	75.2
Other actuarial differences	56.2
Net actuarial loss	853.9
Unfunded accrued actuarial liability at June 30, 2012	**$ 19,220.3**

Actuarial Asset Valuation

The actuarial value of assets is used in determining the funding progress of the System and in establishing the employer contribution rates necessary to adhere to the statutory funding plan. The actuarial value of assets is based on a smoothed expected income investment rate. Investment income in excess or shortfall of the expected 7.75% rate on fair value is smoothed over a five-year period with 20% of a year's excess or shortfall being recognized each year beginning with the current year.

The use of this actuarial method began with the valuation for the period ending June 30, 2009, as required by Public Act 96-0043, which was signed into law on July 15, 2009.

Actuarial Report

Actuarial Cost Method

The projected unit credit cost method is used for retirement benefits. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

The actuarial liability at any point in time is the value of the projected pensions at that time less the value of future normal costs. For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits, and the postretirement increases, the same procedure as outlined above is followed. Estimated annual administrative expenses are added to the normal cost.

Employee Data

Employee data are provided by the administrative staff of the State Universities Retirement System. Various tests are applied to check internal consistency as well as consistency from year to year. No calculations are made for employees not yet hired as of the valuation date.

Financing Objective

Beginning in fiscal year 1996 the required contribution rates were based upon Public Act 88-0593, which calls for a 15-year-phase-in to a 35-year funding plan which provides for adequate annual funding of the employer's normal cost while amortizing the unfunded accrued actuarial liability. Annual funding under this plan will occur as a continuing appropriation.

Defined Benefit Plan
Employer Contributions Received in Fiscal Year 2012

State appropriations (a)	$ 710,218,809
State pension fund (a)	230,000,000
Federal/trust/employer funds/other	45,595,812
Total	**$ 985,814,621**

Reconciliation to Total State Appropriations

Defined Benefit Plan–State	
Appropriations received (a)	$ 940,218,809
Defined Contribution Plan–State	
Appropriations received	40,266,191
Total State Appropriations Received	**$ 980,485,000**

Actuarial Report

The projected required contribution rates and amounts are as follows:

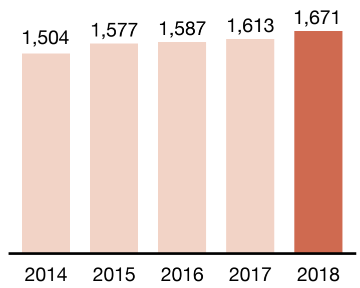
Fiscal Year	Percentage of Payroll	Assumed Payroll ($ billions)	Required Contribution ($ millions)
2014	35.2%	$ 4.27	$ 1,503.7
2015	36.1%	4.37	1,577.1
2016	35.5%	4.47	1,586.8
2017	35.2%	4.58	1,613.2
2018	35.6%	4.69	1,671.1

The net State appropriation requirements can be determined by adjusting for such items as State Pension Fund appropriations and contributions from federal and trust funds. The results are based on the projected unit credit actuarial cost method, and on the data provided, and assumptions used, for the June 30, 2012 actuarial valuation. In order to determine projected contribution rates and amounts, the following additional assumptions and estimates were used:

1) Covered payroll of $4.18 billion for fiscal year 2013.
2) 3.75% per annum rate of increase in covered payroll.
3) Total employer contributions of $1,442,800,000 for fiscal year 2013.

As of June 30, 2012, the Unfunded Accrued Actuarial Liability (UAAL) to be amortized was $19,220,311,000.

Required Contribution Dollars (millions)



Summary of Major Actuarial Assumptions

■ Mortality

Mortality rates are based upon the RP2000 Combined Mortality Table, with rates multiplied by 0.80 for males and 0.85 for females. The assumed mortality rates for active members are 85% of the postretirement assumption for males and 60% for females.

■ Interest

7.75% per annum, compounded annually.

■ Termination

Rates of withdrawal are based upon ages and years of service as developed from plan experience. Shown at right is a table of termination rates based upon experience in the 2006-2010 period. The assumption consists of a table of ultimate turnover rates by years of service credit.

Termination Rates

Years of Service	All Members
0	.220
1	.220
2	.160
3	.140
4	.120
5	.105
6	.090
7	.075
8	.065
9	.060
10	.055
15	.030
20	.017
21-29	.015

Actuarial Report

■ Salary Increases

Each member's compensation is assumed to increase by 3.75% each year; 2.75% reflecting salary inflation and 1.00% reflecting standard of living increases. That rate is increased for members with less than 9 years of service as shown at right.

The payroll of the entire system is assumed to increase at 3.75% per year for purposes of calculating employer required contributions.

■ Retirement Age

Upon eligibility, active members are assumed to retire as shown at right.

■ Assets

Assets available for benefits are used at market value.

■ Expenses

As estimated and advised by the SURS staff, based on current expenses with an allowance for expected increases.

■ Spouse's Age

The female spouse is assumed to be three years younger than the male spouse.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, marriage, remarriage rates with ages, and number of children.

These assumptions were adopted effective with the June 30, 2011 actuarial valuation. They were developed based upon an experience study completed in March, 2011.

Annual Compensation Increases

Service Year	Additional Increase	Service Year	Additional Increase
0	.1200	7	.0575
1	.1000	8	.0550
2	.0850	9-13	.0500
3	.0725	14-18	.0475
4	.0650	19-33	.0425
5	.0625	34 & over	.0375
6	.0600		

Retirement Rates

	Members Eligible for Normal Retirement		Members Eligible for Early Retirement	
Age	Hired Before 1/1/11	Hired on or After 1/1/11	Hired Before 1/1/11	Hired on or After 1/1/11
Under 50	.40	-	-	-
51	.38	-	-	-
52	.38	-	-	-
53	.38	-	-	-
54	.34	-	-	-
55	.32	.070	-	-
56	.26	.050	-	-
57	.26	.045	-	-
58	.26	.055	-	-
59	.26	.060	-	-
60	.11	-	-	-
61	.11	-	-	-
62	.13	-	-	.35
63	.13	-	-	.15
64	.13	-	-	.15
65	.17	-	-	.15
66	.15	-	-	.15
67	.15	-	.50	-
68	.15	-	.35	-
69	.15	-	.30	-
70-79	.30	-	.30	-
80+	1.00	-	1.00	-

Analysis of Financial Experience
Gains & Losses in Accrued Actuarial Liability
For Fiscal Year Ended June 30, 2012 ($ millions)

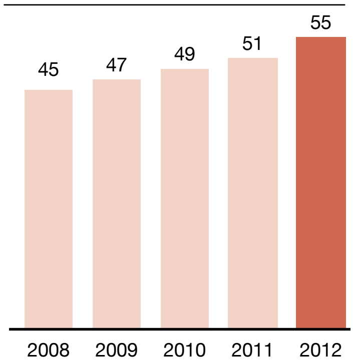
Actuarial (gains) and losses	
Investments other than 7.75%	$ 476.7
Salary increases other than 3.75%	(4.0)
Age and service retirement differences	126.3
Termination differences	59.9
Mortality and disability incidence differences	8.1
Benefit recipient differences	55.5
New entrants	75.2
Other actuarial differences	56.2
Total actuarial loss	$ 853.9
Expected increase in UAAL	797.8
Total financial loss	**$ 1,651.7**

Analysis of Funding

Schedule of Increases and Decreases of Benefit Recipients
10-Year Summary

Fiscal Year	Beginning Balance	Additions	Subtractions	Ending Balance
2003	34,259	3,278	1,147	36,390
2004	36,390	3,498	1,401	38,487
2005	38,487	2,559	1,246	39,800
2006	39,800	3,140	1,302	41,638
2007	41,638	3,325	1,568	43,395
2008	43,395	3,498	1,547	45,346
2009	45,346	3,017	1,553	46,810
2010	46,810	3,599	1,506	48,903
2011	48,903	4,207	1,740	51,370
2012	51,370	4,782	1,620	54,532

Benefit Recipients
Persons (thousands)



Active Participant Statistics
10-Year Summary

Fiscal Year	Males	Females	Total Actives	Percent Change	Average Salary	Percent Change	Average Age	Average Service Credit
2003	31,356	40,100	71,456	(1.8)	37,012	3.4	46.9	10.1
2004	31,803	41,189	72,992	2.1	36,880	(0.4)	46.3	9.3
2005	31,207	40,455	71,662	(1.8)	39,221	6.3	46.8	9.7
2006	31,024	40,735	71,759	0.1	40,696	3.8	47.0	9.8
2007	31,019	41,073	72,092	0.5	42,373	4.1	47.0	9.8
2008	31,158	41,928	73,086	1.4	43,460	2.6	47.0	9.8
2009	31,185	42,514	73,699	0.8	45,204	4.0	47.3	9.9
2010	30,935	42,061	72,996	(1.0)	45,988	1.7	47.4	10.1
2011	30,448	41,440	71,888	(1.5)	46,402	0.9	47.4	10.1
2012	30,198	40,858	71,056	(1.2)	47,167	1.6	47.1	9.8

Analysis of Change in Membership
10-Year Summary

Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
2003	72,778	8,830	1,946	174	8,032	71,456
2004	71,456	13,073	2,001	172	9,364	72,992
2005	72,992	10,310	1,566	180	9,894	71,662
2006	71,662	10,199	1,864	160	8,078	71,759
2007	71,759	10,021	1,749	173	7,766	72,092
2008	72,092	10,548	1,903	88	7,563	73,086
2009	73,086	9,610	1,484	120	7,393	73,699
2010	73,699	8,341	1,761	115	7,168	72,996
2011	72,996	8,434	2,200	106	7,236	71,888
2012	71,888	9,739	2,553	110	7,908	71,056

Analysis of Funding

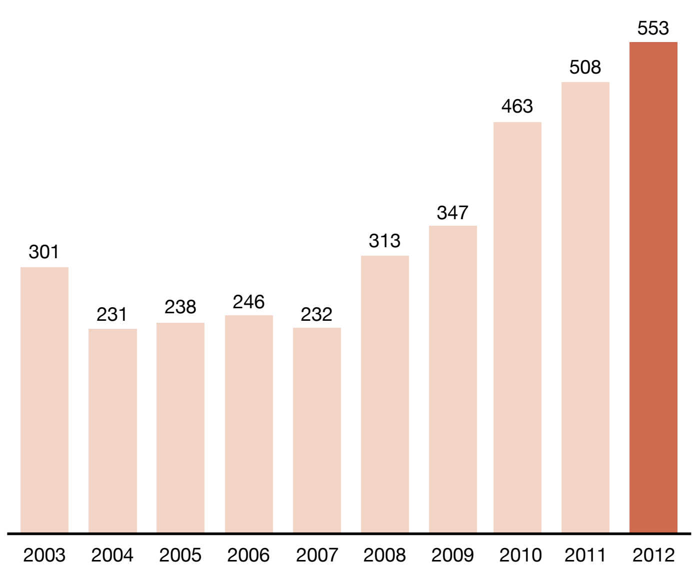
In an inflationary economy, the value of dollars is decreasing. This environment results in employee pay increasing in dollar amounts, retirement benefits increasing in dollar amounts, and then, unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities dollars divided by active employee payroll dollars provides a helpful index which shows that the smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the System is becoming financially stronger or weaker.

Summary of Accrued and Unfunded Accrued Liabilities ($ millions)

Fiscal Year	Accrued Liabilities	Net Assets at Market/Actuarial Value of Assets (A)	Assets as a % of Accrued Liabilities	Unfunded Accrued Liabilities (UAL)	Active Member Payroll	UAL as a % of Active Member Payroll
2003	$ 18,025.0	$ 9,714.5	53.9	$ 8,310.5	$ 2,763.4	300.7
2004	19,078.6	12,586.3	66.0	6,492.3	2,814.1	230.7
2005	20,349.9	13,350.3	65.6	6,999.6	2,939.1	238.1
2006	21,688.0	14,175.1	65.4	7,513.8	3,054.1	246.0
2007	23,362.1	15,985.7	68.4	7,376.4	3,181.0	231.9
2008	24,917.7	14,586.3	58.5	10,331.4	3,303.2	312.8
2009	26,316.2	14,282.0	54.3	12,034.2	3,463.9	347.4
2010	30,120.4	13,966.6	46.4	16,153.8	3,491.1	462.7
2011	31,514.3	13,945.7	44.3	17,568.6	3,460.8	507.6
2012	33,170.2	13,949.9	42.1	19,220.3	3,477.2	552.8

(A) Per Public Act 96-0043, the actuarial value of assets is used in determining the funding progress of the System and in establishing the employer contribution rates necessary to adhere to the statutory funding plan. The actuarial value of assets is based on a smoothed investment income rate. Investment income in excess or shortfall of the expected 7.75% rate on fair value is smoothed over a five-year period with 20% of a year's excess or shortfall being recognized each year beginning with the current year.

Unfunded Accrued Liabilities as a % of Payroll
Payroll (%)



An increasing trend indicates a system is becoming financially weaker.

Tests of Financial Soundness

The following four exhibits illustrate different measures of the financial soundness of the System. The Schedule of Funding compares State appropriations to the actuarial funding requirements, statutory funding requirement, and System expense. The Funding Ratios exhibit shows the percentage of the System's accrued benefit cost covered by net assets. This funding ratio is used to assess the System's ability to make future benefit payments. The exhibit illustrates the ratio of net assets to the System's accrued benefit cost over 10 years, with net assets valued both at cost and at market. The Percentage of Benefits Covered by Net Assets exhibit compares the plan's net assets with the members' accumulated contributions, the amount necessary to cover the present value of benefits currently being paid, and the employer's portion of future benefits for active members. The final test, Payroll Percentages, compares member payroll to unfunded accrued benefit cost, normal cost, and total required contributions. These percentages should decrease over the years if SURS is growing stronger.

Schedule of Funding: Fiscal Year 2003-2012 ($ millions)

	Funding Requirements				Covered Percentages		
Fiscal Year	Gross ARC {1} (A)	Net ARC {2}(B)	System Expense {3}(C)	Employer Contribution {4}(D)	Gross ARC {5}(E)	Net ARC {6}(F)	System Expense {7}(G)
2003	$ 843.8	$ 597.5	$ 848.6	$ 285.3	33.8%	47.7%	33.6%
2004	934.8	691.0	926.7	1,757.5	188.0	254.4	189.6
2005	859.7	607.8	1,016.5	285.4	33.2	47.0	28.1
2006	914.9	662.0	1,097.4	180.0	19.7	27.2	16.4
2007	968.3	705.9	1,189.1	261.1	27.0	37.0	22.0
2008	971.6	707.5	1,287.8	344.9	35.5	48.8	26.8
2009	1,147.3	874.0	1,384.9	451.6	39.4	51.7	32.6
2010	1,278.3	1,003.3	1,489.6	696.6	54.5	69.4	46.8
2011	1,519.2	1,259.0	1,623.5	773.6	50.9	61.4	47.6
2012	1,701.6	1,443.3	1,756.9	985.8	57.9	68.3	56.1

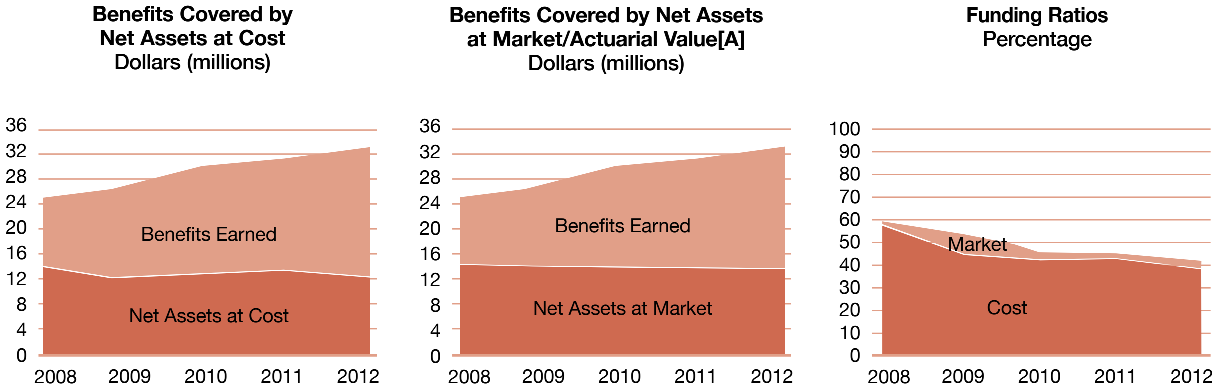
(A) The annual required contribution as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."
(B) The annual required contribution per Note A, less member contributions.
(C) Benefit and administrative expense.
(D) Contributions from The State of Illinois employer units and Pension Fund, and employer contributions from trust and federal funds.
(E) Employer contributions divided by the total required contribution (Column 4 divided by Column 1).
(F) Employer contributions divided by the employer required contribution (Column 4 divided by Column 2).
(G) Employer contributions divided by System expense (Column 4 divided by Column 3).

Funding Ratios
10-Year Summary ($ millions)

				Funding Ratio	
Fiscal Year	Net Assets at Cost	Net Assets at Market/ Actuarial Value of Assets (A)	Actuarial Funding Requirement	Cost	Market/Actuarial
2003	$ 9,715.2	$ 9,714.5	$ 18,025.0	53.9%	53.9%
2004	11,371.7	12,586.3	19,078.6	59.6	66.0
2005	11,736.0	13,350.3	20,349.9	57.7	65.6
2006	13,414.9	14,175.1	21,688.9	61.9	65.4
2007	14,089.0	15,985.7	23,362.1	60.3	68.4
2008	14,282.3	14,586.3	24,917.7	57.3	58.5
2009	12,485.0	14,282.0	26,316.2	47.4	54.3
2010	12,672.7	13,966.6	30,120.4	42.1	46.4
2011	13,302.2	13,945.7	31,514.3	42.2	44.3
2012	12,806.2	13,949.9	33,170.2	38.6	42.1

(A) Per Public Act 96-0043, the actuarial value of assets is used in determining the funding progress of the System and in establishing the employer contribution rates necessary to adhere to the statutory funding plan. The actuarial value of assets is based on a smoothed investment income rate. Investment income in excess or shortfall of the expected 7.75% rate on fair value is smoothed over a five-year period with 20% of a year's excess or shortfall being recognized each year beginning with the current year.

Tests of Financial Soundness



Percentage of Benefits Covered by Net Assets
10-Year Summary ($ millions)

Fiscal Year	Member Accumulated Contributions {1}(A)	Members Currently Receiving Benefits {2}(A)	Active/Inactive Members/ Employers' Portion {3}(A)	Net Assets/ Actuarial Value of Assets (B)	% of Benefits Covered by Net Assets/Actuarial Value of Assets for {1}	{2}	{3}
2003	$ 4,299.5	$ 9,215.5	$ 4,510.0	$ 9,714.5	100.0%	58.8%	–
2004	4,529.6	10,145.8	4,402.9	12,586.3	100.0	79.4	–
2005	4,726.1	10,842.1	4,781.7	13,350.3	100.0	79.5	–
2006	4,957.3	11,701.3	5,030.4	14,175.1	100.0	78.8	–
2007	5,239.9	12,838.1	5,284.1	15,985.7	100.0	83.7	–
2008	5,426.8	13,978.1	5,512.8	14,586.3	100.0	65.5	–
2009	5,688.9	14,802.6	5,824.7	14,282.0	100.0	58.1(C)	–
2010	5,916.3	16,834.4	7,369.7	13,966.6	100.0	47.8	–
2011	6,007.4	18,918.1	6,588.8	13,945.7	100.0	42.0	–
2012	5,962.4	20,651.4	6,556.4	13,949.9	100.0	38.7	–

(A) A test of financial soundness of a system is its ability to pay all promised benefits when due. Column 1 represents the value of members' accumulated contributions. Column 2 represents the amount necessary to pay participants currently receiving benefits. Column 3 represents the employer's portion of future benefits for active members. Section 5/15-156 of the Illinois Compiled Statutes provides an order of priority: that is, members' contributions would be covered first, then current benefit recipients and the employer portion of active and inactive employees. For a system receiving actuarially determined contribution amounts, the total of actuarial values in Columns 1 and 2 should generally be fully covered by assets, and the portion of the actuarial value of Column 3 covered by assets should increase over time.

(B) Per Public Act 96-0043, the actuarial value of assets is used in determining the funding progress of the System and in establishing the employer contribution rates necessary to adhere to the statutory funding plan. The actuarial value of assets is based on a smoothed investment income rate. Investment income in excess or shortfall of the expected 7.75% rate on fair value is smoothed over a five-year period with 20% of a year's excess or shortfall being recognized each year beginning with the current year.

(C) If the market value of net assets are used, the percent of benefits covered for category 2 is 37.5.

Payroll Percentages: Fiscal Year 2003-2012 ($ millions)

		Unfunded Accrued Benefit Cost		Employer Cost					Employer Contributions	
Fiscal Year	Member Payroll	Amount	% of Payroll	Normal Cost (A)	% of Payroll	Amortization of Unfunded Liability	Total (B)	% of Payroll	Emp Cont.	% of Payroll
2003	$ 2,763.4	$ 8,310.5	300.7%	$ 254.5	9.6%	$ 589.3	$ 843.8	30.5%	$ 285.3	10.3%
2004	2,814.1	6,492.3	230.7	267.3	9.5	667.5	934.8	33.2	1,757.5	62.5
2005	2,939.1	6,999.6	238.1	271.0	9.2	588.7	859.7	29.2	285.4	9.7
2006	3,054.1	7,513.8	246.0	292.3	9.6	622.6	914.9	30.0	180.0	5.9
2007	3,181.0	7,376.4	231.9	301.4	9.5	666.9	968.3	30.4	261.1	8.2
2008	3,303.2	10,331.4	312.8	310.4	9.1	671.9	971.6	29.4	344.9	10.4
2009	3,463.9	12,034.2	347.4	317.9	9.2	829.4	1,147.3	33.1	451.6	13.0
2010	3,491.1	16,153.8	462.7	355.4	10.2	922.9	1,278.3	36.6	696.6	20.0
2011	3,460.8	17,568.6	507.6	463.6	13.4	1,055.6	1,519.2	43.9	773.6	22.4
2012	3,477.2	19,220.3	552.8	465.6	13.4	1236.0	1,701.6	48.9	985.8	28.4

(A) Actuarially determined normal cost less member contributions.
(B) Total annual required contribution as defined by GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls - Defined Benefit Plan
10-Year Summary

Fiscal Year	Beginning of Year Balance	Number Added to Rolls	Allowances	Number Removed from Rolls	Allowances	End of Year Balance	Annual Pension Benefit Amount	Average Annual Benefit	% Increase in Average Benefit
2003	34,259	3,278	–	1,147	–	36,390	$ 820,418,360	$ 22,545	6.2%
2004	36,390	3,498	–	1,401	–	38,487	899,587,841	23,374	3.7
2005	38,487	2,559	–	1,246	–	39,800	983,321,902	24,707	5.7
2006	39,800	3,140	–	1,302	–	41,638	1,067,075,275	25,627	3.7
2007	41,638	3,325	–	1,568	–	43,395	1,155,124,989	26,619	3.9
2008	43,395	3,498	–	1,547	–	45,346	1,254,030,795	27,655	3.9
2009(A)	45,346	3,017	127,710,300	1,553	(30,203,460)	46,810	1,351,537,635	28,873	4.4
2010	46,810	3,599	139,122,054	1,506	(33,710,616)	48,903	1,454,470,195	29,742	3.0
2011	48,903	4,207	169,921,275	1,740	(40,835,477)	51,370	1,619,615,689	31,528	6.0
2012	51,370	4,782	191,103,116	1,620	(39,279,398)	54,532	1,771,439,407	32,484	3.0

(A) FY 2009 is the first year in which the allowances related to retirees added to or removed from the rolls have been calculated as part of the actuarial valuation.

Keeping our promises

Meeting or exceeding our service standards

Addressing our challenges

An unprecedented number of retirements, continual regulatory changes and major technological advances

STATISTICAL

The Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2012

Introduction to Statistical Section

The tables in this section present detailed information on benefit payments and recipients, member and employer contributions, financial trends and the largest SURS employers.

Section Contents

These schedules present historical financial information designed to provide information on the System's progress in accumulating assets to pay benefits when due.

These schedules present summaries of benefit expenses, benefit recipients and number of System employees over a 10-year period.

These schedules present information on new benefit payments by type, average benefit payments by years credited service, number of benefit recipients by type, and number of covered employees by employer.

Financial Schedules

Changes in Plan Net Assets - Defined Benefit Plan
10-Year Summary ($ millions)

The historical trend information presented below is designed to provide information on the System's progress in accumulating assets to pay benefits when due.

Additions

Fiscal Year	Contributions by Members	Investment Income (Loss)	Contributions by Employers Amount	Contributions by Employers % of Payroll	Total
2003	$ 246.3	$ 250.4	$ 285.3	10.3%	$ 782.0
2004	243.8	1,832.4	1,757.5	96.9	3,833.7
2005	251.9	1,279.6	285.4	9.7	1,817.0
2006	252.9	1,532.1	180.0	5.9	1,965.0
2007	262.4	2,517.5	261.1	8.2	3,041.0
2008	264.1	(675.7)	345.0	10.4	(66.6)
2009	273.3	(2,859.5)	451.6	13.0	(2,134.6)
2010	275.0	1,653.8	696.6	19.9	2,625.4
2011	260.2	2,801.1	773.6	22.4	3,834.9
2012	258.2	9.1	985.8	28.4	1,253.1

Deductions

Fiscal Year	Benefits	Contribution Refunds	Administrative Expenses and Bond Interest	Total	Changes in Plan Net Assets
2003	$ 836.7	$ 32.2	$13.2	$ 882.1	$ (100.1)
2004	915.2	34.5	12.3	962.0	2,871.7
2005	1,004.4	35.8	12.8	1,053.0	764.0
2006	1,085.4	42.6	12.2	1,140.2	824.8
2007	1,177.3	41.4	11.7	1,230.4	1,810.6
2008	1,275.7	45.0	12.1	1,332.8	(1,399.4)
2009	1,372.0	42.6	12.9	1,427.5	(3,562.1)
2010	1,477.5	47.3	12.1	1,536.9	1,088.6
2011	1,611.2	58.9	12.3	1,682.4	2,152.5
2012	1,743.7	65.1	13.2	1,822.0	(568.9)

Financial Schedules

Changes in Plan Net Assets - Defined Contribution Plan
10-Year Summary ($ millions)

The historical trend information presented below is designed to provide information on the System's progress in accumulating assets to pay benefits when due.

Additions

Fiscal Year	Contributions by Members	Investment Income (Loss)	Contributions by Employers Amount	Contributions by Employers % of Payroll	Total
2003	$ 29.6	5.0	$ 24.8	7.6%	$ 59.4
2004	31.3	32.9	25.8	7.6	90.0
2005	33.7	22.3	27.4	7.6	83.4
2006	39.5	34.7	29.6	7.6	103.8
2007	41.7	80.3	33.3	7.6	155.3
2008	46.0	(39.1)	38.9	7.6	45.8
2009	48.8	(116.4)	38.3	7.6	(29.3)
2010	48.6	71.5	43.1	7.6	163.2
2011	49.8	172.5	44.8	7.6	267.1
2012	54.1	16.7	45.9	7.6	116.7

Deductions

Fiscal Year	Benefits	Contribution Refunds	Administrative Expenses and Bond Interest*	Total	Changes in Plan Net Assets
2003	$ 0.7	$ 3.0	$ -	$ 3.7	$ 55.7
2004	0.7	4.7	-	5.4	84.6
2005	0.9	7.4	-	8.3	75.1
2006	1.2	8.8	-	10.0	93.8
2007	3.2	12.1	-	15.3	140.0
2008	3.4	10.0	-	13.4	32.4
2009	4.8	8.7	-	13.5	(42.8)
2010	6.3	10.2	0.3	16.8	146.4
2011	11.2	15.0	0.3	26.5	240.6
2012	13.9	20.1	0.4	34.4	82.3

*Until FY 2010, SMP administrative expenses were included with the defined benefit plan totals.

Statistical Analysis

Schedule of Benefit Expenses - Defined Benefit Plan
10-Year Summary ($ millions)

Fiscal Year	Survivor Annuities	Disability Benefits	Disability Retirement Allowance	Retirement Annuities	Lump Sum Death Benefits	Total
2003	$ 56.6	$ 15.7	$ 2.4	$ 749.9	$ 12.1	$ 836.7
2004	60.5	16.7	2.4	824.0	11.6	915.2
2005	65.2	17.5	2.8	904.9	14.0	1,004.4
2006	70.6	17.5	2.9	981.1	13.4	1,085.5
2007	76.7	17.6	3.0	1,067.3	12.6	1,177.2
2008	81.8	16.8	3.2	1,160.5	13.5	1,275.8
2009	87.7	16.8	3.4	1,248.9	15.2	1,372.0
2010	94.3	16.1	3.4	1,352.2	11.5	1,477.5
2011	101.1	16.4	3.5	1,473.5	16.7	1,611.2
2012	109.0	15.9	3.7	1,603.6	11.5	1,743.7

Number of SURS Employees (full-time equivalents)
10-Year Summary

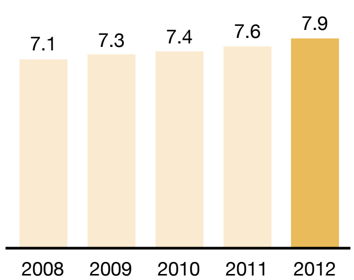
Fiscal Year	HR & Admin	Inv & Acctg	Member Svcs & Outreach	IS & Support Svcs	SMP	Total
2003	13.00	10.25	61.25	35.00	3.50	123.00
2004	11.75	10.35	62.75	33.00	4.40	122.25
2005	12.75	10.40	62.75	32.75	4.65	123.30
2006	11.75	10.55	62.75	32.75	3.50	121.30
2007	11.80	9.80	64.00	31.75	2.75	120.10
2008	10.55	10.05	61.50	33.75	3.25	119.10
2009	9.55	11.30	59.50	29.75	4.00	114.10
2010	10.55	11.80	62.50	29.75	3.70	118.30
2011	10.55	12.80	62.00	29.75	3.70	118.80
2012	9.90	9.65	65.80	28.75	3.70	117.80

Statistical Analysis

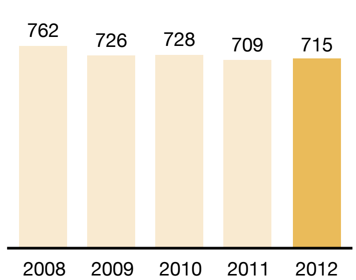
Schedule of Benefit Recipients - Defined Benefit Plan
10-Year Summary

Fiscal Year	Survivors	Disability	Contribution Refunds	Retirement	Disability Retirement Allowance
2003	6,138	864	4,095	29,020	368
2004	6,427	902	3,988	30,795	363
2005	6,550	864	4,003	32,002	384
2006	6,807	864	3,750	33,574	393
2007	6,958	849	4,441	35,200	368
2008	7,122	762	3,975	37,055	407
2009	7,269	726	4,635	38,400	415
2010	7,402	728	4,312	40,364	409
2011	7,578	709	4,489	42,682	401
2012	7,870	715	4,618	45,548	399

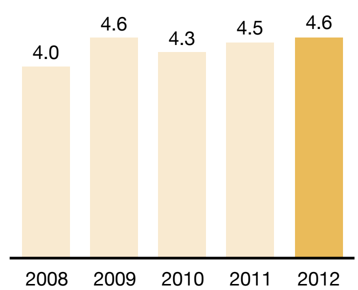
Survivor Recipients
Persons (thousands)



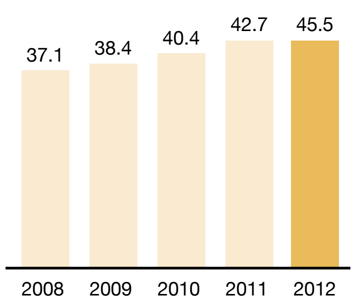
Disability Recipients
Persons



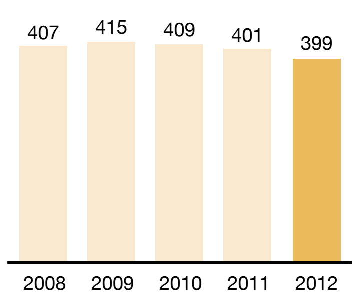
Refund Recipients
Persons (thousands)



Retirement Recipients
Persons (thousands)



Disability Retirement Allowance Recipients
Persons



Benefit Summary

Schedule of New Benefit Payments - Defined Benefit Plan
July 1, 2011 through June 30, 2012

	Retirement		Disability		Survivors	
Age	Number	Average Monthly Benefit (A)	Number	Average Monthly Benefit (A)	Number	Average Monthly Benefit (A)
Under 10	–	$ –	–	$ –	13	$ 169
10-14	–	–	–	–	9	306
15-19	–	–	–	–	15	497
20-24	–	–	–	–	5	304
25-29	–	–	3	1,796	1	281
30-34	–	–	12	1,542	5	721
35-39	–	–	14	1,918	5	511
40-44	–	–	19	1,732	2	747
45-49	17	3,022	19	1,659	8	724
50-54	173	3,479	50	1,609	31	888
55-59	1,134	2,749	42	2,033	38	1,214
60-64	1,465	2,529	32	1,821	70	1,815
65-69	798	2,549	13	1,569	80	1,397
70-74	226	2,412	4	2,851	102	1,533
Over 74	86	2,355	1	1,124	290	1,391
Totals	3,899	$ 2,631	209	$ 1,781	674	$ 1,335

Average Age - Retirement 61.9 Years

(A) Total average monthly benefit is calculated based on a weighted average.

Benefit Summary

Schedule of Average Benefit Payments - Defined Benefit Plan
For Retirees as of June 30

	Years of Credited Service						
	0–10	11–15	16–20	21–25	26–30	30+	Total
Fiscal Year 2003							
Number of Retirees	6,787	3,944	4,113	4,357	4,104	5,716	29,021
Avg Monthly Annuity	$ 709	1,001	1,573	2,495	3,447	4,349	2,243
Final Average Salary	$ 28,064	31,634	36,199	45,474	54,080	59,001	42,088
Avg Credited Service							19.95
Fiscal Year 2004							
Number of Retirees	6,795	4,109	4,075	4,708	4,840	6,268	30,795
Avg Monthly Annuity	$ 791	973	973	2,414	3,475	4,509	2,336
Final Average Salary	$ 19,773	25,747	30,614	38,294	43,962	48,774	34,541
Avg Credited Service							19.69
Fiscal Year 2005							
Number of Retirees	7,713	4,422	4,478	4,839	5,376	5,174	32,002
Avg Monthly Annuity	$ 738	1,104	1,762	2,766	3,847	4,831	2,422
Final Average Salary	$ 18,117	26,792	32,591	40,051	45,307	49,793	34,346
Avg Credited Service							19.71
Fiscal Year 2006							
Number of Retirees	8,074	4,701	4,734	5,127	5,717	5,221	33,574
Avg Monthly Annuity	$ 744	1,154	1,853	2,904	3,985	5,041	2,508
Final Average Salary	$ 18,872	26,606	33,177	40,378	45,599	50,519	34,728
Avg Credited Service							19.65
Fiscal Year 2007							
Number of Retirees	8,796	4,910	4,881	5,390	6,004	5,219	35,200
Avg Monthly Annuity	$ 797	1,198	1,959	3,040	4,147	5,252	2,589
Final Average Salary	$ 28,039	33,561	38,831	46,681	53,661	57,948	43,068
Avg Credited Service							20.04
Fiscal Year 2008							
Number of Retirees	9,253	5,212	5,153	5,754	6,399	5,284	37,055
Avg Monthly Annuity	$ 790	1,245	2,067	3,178	4,296	5,473	2,676
Final Average Salary	$ 32,978	37,044	45,569	54,420	63,061	72,333	49,941
Avg Credited Service							19.92
Fiscal Year 2009							
Number of Retirees	9,477	5,462	5,351	6,084	5,230	6,796	38,400
Avg Monthly Annuity	$ 755	1,306	2,172	3,301	4,329	5,496	2,760
Final Average Salary	$ 33,742	37,858	46,698	55,438	62,919	72,174	50,670
Avg Credited Service							19.78
Fiscal Year 2010							
Number of Retirees	10,206	5,722	5,642	6,433	5,502	6,859	40,364
Avg Monthly Annuity	$ 785	1,363	2,269	3,423	4,471	5,684	2,830
Final Average Salary	$ 34,171	38,081	47,723	55,824	63,496	72,247	50,811
Avg Credited Service							19.62

Benefit Summary

Schedule of Average Benefit Payments - Defined Benefit Plan
For Retirees as of June 30

	Years of Credited Service						
	0–10	11–15	16–20	21–25	26–30	30+	Total
Fiscal Year 2011							
Number of Retirees	11,081	5,979	6,019	6,821	5,838	6,944	42,682
Avg Monthly Annuity	$ 866	1,423	2,373	3,541	4,628	5,874	2,913
Final Average Salary	$ 34,140	37,607	46,721	55,154	63,436	70,158	50,029
Avg Credited Service							19.47
Fiscal Year 2012							
Number of Retirees	11,989	6,453	6,437	7,377	6,218	7,074	45,548
Avg Monthly Annuity	$ 897	1,493	2,472	3,680	4,785	6,076	2,990
Final Average Salary	$ 35,381	38,835	48,172	56,995	65,027	71,922	51,306
Avg Credited Service							19.31

Number of Covered Employees by Employer
As of June 30, 2012

Employer	Number of Employees in DB plan	Number of Employees in SMP	Total Number of Covered Employees
University of Illinois - Chicago	11,536	1,790	13,326
University of Illinois - Urbana	10,049	1,952	12,001
City Colleges of Chicago	4,804	317	5,121
Southern Illinois University - Carbondale	4,230	652	4,882
Northern Illinois University	2,882	579	3,461
Illinois State University	2,874	479	3,353
Southern Illinois University - Edwardsville	2,141	332	2,473
College of DuPage	2,022	264	2,286
Western Illinois University	1,667	276	1,943
Eastern Illinois University	1,587	222	1,809
All other employers	27,264	3,237	30,501
Total	71,056	10,100	81,156

Benefit Summary

Schedule of Benefit Recipients by Type of Benefit - Defined Benefit Plan
For the Year Ended June 30, 2012

Monthly Amount of Benefit	Total Recipients	General Formula	Money Purchase	Police or Fire	Other (A)	Long-Term Disability	Temporary Disability	Survivors
$0 - 200	2,989	1,102	1,100	-	91	1	3	692
201 - 400	4,611	1,400	2,092	-	139	10	9	961
401 - 600	3,867	984	1,529	-	61	43	12	1,238
601 - 800	3,412	865	1,301	-	22	111	17	1,096
801 - 1000	2,680	730	1,281	-	5	108	30	526
1,001 - 1,200	2,346	572	1,236	-	2	40	56	440
1,201 - 1,400	2,169	593	1,092	-	-	23	73	388
1,401 - 1,600	2,184	553	1,102	-	-	13	154	362
1,601 - 1,800	2,009	508	1,064	-	-	13	101	323
1,801 - 2,000	1,875	474	1,066	-	-	8	58	269
2,001 - 2,200	1,700	397	1,021	1	-	8	33	240
2,201 - 2,400	1,603	418	941	3	-	9	30	202
2,401 - 2,600	1,630	388	1,031	-	-	2	21	188
2,601 - 2,800	1,497	372	934	6	-	2	20	163
2,801 - 3,000	1,359	345	844	4	-	1	16	149
3,001 - 3,200	1,259	339	792	5	-	1	9	113
3,201 - 3,400	1,155	340	698	3	3	4	13	94
3,401 - 3,600	1,101	352	643	16	-	1	3	86
3,601 - 3,800	926	310	533	11	-	-	12	60
3,801 - 4,000	913	305	539	11	1	-	6	51
4,001 - 4,200	868	318	478	12	-	-	13	47
4,201 - 4,400	816	311	454	10	-	-	6	35
4,401 - 4,600	778	271	468	10	-	-	4	25
4,601 - 4,800	770	310	417	11	-	-	4	28
4,801 - 5,000	704	276	406	3	-	-	4	15
5,001 - 5,200	663	271	372	8	-	-	1	11
5,201 - 5,400	593	247	332	7	-	-	1	6
5,401 - 5,600	604	223	365	7	-	-	1	8
5,601 - 5,800	587	227	341	8	-	-	3	8
5,801 - 6,000	556	246	296	6	-	-	1	7
Over 6,000	6,308	2,987	3,260	20	-	1	1	39
Total	54,532	17,034	28,028	162	324	399	715	7,870

(A) Minimum annuity and retirements of participants who terminated prior to 1969.

Participating Employers

Black Hawk College
Carl Sandburg College
Chicago State University
City Colleges of Chicago
College of DuPage
College of Lake County
Danville Area Community College
Eastern Illinois University
Elgin Community College
Governors State University
Hazardous Waste Research and Information Center
Heartland Community College
Highland Community College
ILCS Section 15-107(l) Members
ILCS Section 15-107(c) Members
Illinois Board of Examiners
Illinois Board of Higher Education
Illinois Central College
Illinois Century Network
Illinois Community College Board
Illinois Community College Trustees Association
Illinois Eastern Community Colleges
Illinois Mathematics and Science Academy
Illinois State University
Illinois Valley Community College
John A. Logan College
John Wood Community College
Joliet Junior College
Kankakee Community College
Kaskaskia College
Kishwaukee College
Lake Land College
Lewis & Clark Community College
Lincoln Land Community College
McHenry College
Moraine Valley Community College
Morton College
Northeastern Illinois University
Northern Illinois University
Oakton Community College
Parkland College
Prairie State College
Rend Lake College
Richland Community College
Rock Valley College
Sauk Valley College
Shawnee College
Southern Illinois University at Carbondale
Southern Illinois University at Edwardsville
Southern Illinois University Foundation
South Suburban College
Southeastern Illinois College
Southwestern Illinois College
Spoon River College
State Geological Survey
State Natural History Survey
State Universities Civil Service System
State Universities Retirement System
State Water Survey
Triton College
University of Illinois — Alumni Association
University of Illinois — Chicago
University of Illinois — Foundation
University of Illinois — Springfield
University of Illinois — Urbana
Waubonsee Community College
Western Illinois University
William Rainey Harper College

State Universities Retirement System of Illinois
A Component Unit of the State of Illinois

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