

TRS
05

Celebrating Service



Comprehensive Annual Financial Report
for fiscal year ended June 30, 2004

Teachers' Retirement System of the State of Illinois
a component unit of the State of Illinois

1939 - 2004

Statement of Purpose

Retirement Security for Illinois Educators

Fiscal Year Highlights

	2004	2003
Active contributing members	157,990	152,117
Inactive noncontributing members	89,641	86,279
Benefit recipients	76,905	73,431
Total membership	<u>324,536</u>	<u>311,827</u>
Actuarial accrued liability (AAL)	\$50,947,451,000	\$46,933,432,000
Less net assets held in trust for pension benefits	31,544,729,000	23,124,823,000
Unfunded actuarial accrued liability (UAAL)	<u>\$19,402,722,000</u>	<u>\$23,808,609,000</u>
Funded ratio (actuarial value of assets/AAL)	61.9%	49.3%
Total fund investment return, net of fees	16.5%	4.9%
Benefits and refunds paid		
Benefits paid	\$2,262,329,479	\$1,998,622,284
Refunds paid	48,019,644	43,114,742
Total	<u>\$2,310,349,123</u>	<u>\$2,041,737,026</u>
Income		
Member contributions*	\$768,661,300	\$732,020,451
Employer contributions (includes State of Illinois contributions)	1,159,051,290	1,021,262,225
State of Illinois pension obligation bond proceeds	4,330,373,948	N/A
Total investment income	<u>4,485,729,345</u>	<u>1,060,852,111</u>
Total	<u>\$10,743,815,883</u>	<u>\$2,814,134,787</u>

* Includes member payments and accounts receivable under the Payroll Deduction Program.

Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2004

Photo courtesy of Sangamon Valley Collection at Lincoln Library



Springfield Griggs School — 1942

Teachers' Retirement System of the State of Illinois

A Component Unit of the State of Illinois
P.O. Box 19253, 2815 West Washington Street
Springfield, Illinois 62794-9253
www.trs.state.il.us

Special thanks to:
all of the school districts who sent in photos,
the teachers who allowed us to profile them and use their photos,
The Sangamon Valley Collection at Lincoln Library,
The Abraham Lincoln Presidential Library,
The Rockford Public Library, and
Mike Bracey, who is a counselor in the Lisle office, for taking photos.

Sixty-five years and still working for you!

1939 TRS 2004

Teachers' Retirement System

2815 West Washington, P.O. Box 19253

Springfield, Illinois 62794-9253

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Certificate of Achievement for Excellence in Financial Reporting

Presented to
Teachers' Retirement System
of the State of Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director



Letter of Transmittal

December 15, 2004

I am pleased to present the *Comprehensive Annual Financial Report* for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2004. TRS management and staff are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. To the best of our knowledge, the information presented is a fair and accurate portrayal of the financial position and operations of TRS as of June 30, 2004.

TRS was established by the State of Illinois on July 1, 1939, to provide retirement, disability, and death benefits to teachers at Illinois public elementary and secondary schools outside the city of Chicago.

This report consists of five sections:

- The Introductory Section contains the Certificate of Achievement for Excellence in Financial Reporting, this Letter of Transmittal, a message from our executive director that outlines the major activities of the past year and plans for the future, identification of the TRS Board of Trustees and organizational structure, and consulting and professional service providers.
- The Financial Section contains the Independent Auditors' Report, Management's Discussion and Analysis, the financial statements and related notes, required supplementary schedules, and other supplementary information.
- The Investment Section contains information detailing TRS performance, investment managers, and the TRS investment portfolio.
- The Actuarial Section contains the actuary's letter of certification, actuarial assumptions and methods, the latest actuarial valuation, certain statistical information on active members and benefit recipients, and a plan summary including any changes in the plan.
- The Statistical Section contains information and additional statistical data pertaining to benefit recipients and historical data on revenue and expenses.

Financial Information

A system of internal controls helps TRS to monitor and safeguard assets and promote efficient operations. An annual external audit is conducted by the Illinois Auditor General in addition to regular reviews by our internal auditor. The annual budget for TRS administrative expenses is approved by the Board of Trustees, and financial statements are prepared in accordance with generally accepted accounting principles (GAAP) within the guidelines established by the Governmental Accounting Standards Board (GASB).

Please refer to the Management's Discussion and Analysis for an overview of the financial highlights and a financial analysis of TRS. Major TRS initiatives and accomplishments are contained in the executive director's message.

Revenues and Expenses

The three sources for TRS funding include member contributions, investment income, and employer contributions through state appropriations and payments by school districts. In FY04, TRS received \$4.330 billion from the sale of general obligation bonds by the State of Illinois. Discussion regarding the receipt of the bond proceeds may be found in the Management's Discussion and Analysis and in the Notes to the Financial Statements. TRS expenses include payments of benefits, refunds, and administrative expenses. Negative amounts are enclosed in parentheses () throughout this report.

Revenues (\$ millions)

Source	2004	2003	Increase	
			Amount	% Change
Member contributions	\$769	\$732	\$37	5.1%
State of Illinois	5,361	930	4,431	476.5
Employer contributions	128	91	37	40.7
Total investment income	4,486	1,061	3,425	322.8
Total	\$10,744	\$2,814	\$7,930	281.8%

Expenses (\$ millions)

Source	2004	2003	Increase	
			Amount	% Change
Benefits payments	\$2,262	\$1,999	\$263	13.2%
Refunds	48	43	5	11.6
Administrative/Other	14	14	0	0
Total	\$2,324	\$2,056	\$268	13.0%

Investments

TRS investments had a 16.5 percent return net of fees for the year. Total investment income for FY04 was \$4,486 million. The TRS trust fund is invested by authority of the Illinois General Assembly under the prudent person rule that requires investments to be managed solely in the interest of TRS members and beneficiaries. The portfolio is fully diversified across different asset classes. Within each asset class there are a number of investment managers to ensure the appropriate diversity across the various investment styles, allowing the portfolio to achieve broad exposure to the market, while minimizing risk. This broad diversification serves as the best defense against the uncertainty of volatile world markets.

The Investment Section of this report contains a summary of the portfolio and investment activities.

Funding

The actuarial value of assets (net assets at market value) was \$31.545 billion at June 30, 2004. Net assets increased \$8.420 billion. TRS's actuarial accrued liability was \$50.947 billion at June 30, 2004, resulting in a funded ratio of 61.9 percent. This funded ratio is an increase from the funding ratio of 49.3 percent for FY03. TRS's actuarial unfunded liability decreased \$4.406 billion during FY04 to \$19.403 billion at June 30, 2004. The receipt of the general

obligation bond proceeds contributed to the decrease in the unfunded liability, which was the purpose of the sale.

The Actuarial Section of this report contains the actuary's letter and further information on TRS funding.

Independent Audit

Each year TRS's financial statements, records, and internal controls are examined by special assistant auditors employed by the Illinois Auditor General. In addition, an annual compliance attestation examination for the previous year is performed to review compliance with applicable statutes and codes. The Independent Auditors' Report on TRS's financial statements is included in the Financial Section of this report.

GFOA Award

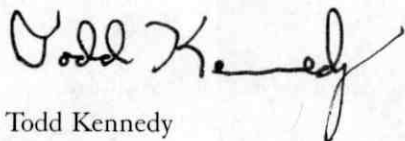
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. TRS has received a certificate for the last 15 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

Acknowledgments

Information for this report was gathered by and reflects the combined efforts of TRS staff under the leadership of the Board of Trustees and the executive director. It is intended to provide complete and reliable information as a basis for making management decisions, to determine our compliance with legal provisions, and as a means for determining responsible stewardship of the assets contributed by members and their employers.

This report is provided to members of the General Assembly, all participating employers, and to others by request. The participating employers of TRS form a link between TRS and its members. Their cooperation, for which we are grateful, contributes significantly to our success. We hope this report is both informative and helpful.



Todd Kennedy
Director of Finance

A Message from the Executive Director



*Executive Director
Jon Bauman*

December 15, 2004

Be it at home, school, or the office, birthdays are a time for celebration.

Established in 1939 as the successor to the Illinois State Teachers' Pension and Retirement Fund, TRS attained its 65th birthday in July. In keeping with our anniversary theme, "65 and still working for you," we celebrated by processing the applications of new retirees at a record-breaking pace. Staff bettered the 60-day processing standard by a wide margin.

"Celebrating service," our annual report theme, captures the essence of our commitment to you, our valued members. We celebrate not merely as an organization, but as individuals who welcome the opportunity to associate with and serve the active and retired educators of Illinois. Together, let's celebrate the past, examine the present, and anticipate the future.

Celebrate the Past

Beginning with the heart-warming photo on the cover, our report recalls with appreciation the service of teachers from across Illinois. As we reflect on major milestones in the organizational life of TRS, we also recognize dedicated service of the TRS staff that has made these accomplishments possible.

- 1939 TRS is established to provide better benefits and more secure pensions.
- 1947 Benefits are improved to attract much-needed teachers to the classroom. An uncertain defined contribution approach was replaced with the security of a defined benefit plan. The new plan protects teachers from market uncertainties and ties benefits to their final average salaries. In addition, the State Retirement Systems Reciprocal Act became law.
- 1953 Disability benefits improved; member contribution increases to 6 percent.
- 1959 Members begin contributing 1 percent of their salaries to finance survivor benefits to protect spouses and other loved ones.
- 1967 First computer system purchased. TRS staff number 32.
- 1969 Field service program established to take TRS to the membership.
- 1974 Office established in Northern Illinois.
- 1975 First online computer system allows counselors immediate access to member information.
- 1979 TRS occupies its current facilities. Four of the 53 employees on staff at that time are still working at TRS.
- 1981 Retired teacher health insurance begins with an annual subsidy contribution cap of \$3.6 million.

- 1983 TRS adopts a modern, well-diversified investment strategy. Since making the change, assets have grown from \$3.5 billion in 1984 to over \$31.5 billion at June 30, 2004. TRS investments have returned an average of 10.94 percent annually over the past 20 years.
- 1986 New hires begin contributing to Medicare.
- 1990 Compounding of cost of living increases begins.
- 1994 State enacts 50-year funding plan, which it has followed faithfully.
- 1995 Legislation establishes the Teachers' Retirement Insurance Program, rescuing an earlier bankrupt plan.
- 1998 2.2 formula becomes law, bringing TRS benefits up to the national average for funds not covered by Social Security.
- 2003 TRS STAR (Serving Teachers And Retirees), an advanced computer system that improved member service capabilities, goes online.
- 2004 TRIP program made permanent. Members not covered by Medicare have one-time option to begin contributing. A staff of 170 serves nearly 325,000 members.

Examine the Present

Achievements in fiscal year 2004 demonstrate our commitment to planning, personal interaction, and competency.

Serving the membership. We successfully conducted the largest Medicare referendum in U.S. history, offering over 28,000 eligible members the opportunity to opt into Medicare. Our summer retirement season, while one of the largest in history, was among the smoothest, with over half the new annuitants receiving their first checks in July. We credit hard work by the staff and outstanding planning and preparation.

Funding protection. Following a protracted legislative session, TRS received full, certified funding for a tenth successive year. An accord negotiated by the organizations representing active and retired teachers made the Teachers' Retirement Insurance Program (TRIP) permanent. A plan to consolidate the investment functions of the state-funded retirement systems was stopped.

Investing successfully. Assets grew to over \$31.5 billion, in part due to the issuance by the state of pension obligation bonds (POB). Careful planning enabled immediate investment of the proceeds, which earned in excess of \$600 million in the first year. Overall, the investment program earned a record \$4.5 billion, exceeding the POB principal received from the state. Our overall return was 16.5 percent, helping to boost our funded ratio to 61.9 percent, compared to 49.3 percent at June 30 the year before, and 58.5 percent following receipt of the POB proceeds on July 2, 2003.

Working well. The TRS STAR computer system completed its first full year of deployment with only seven hours of downtime, an outstanding reliability record. Over 90 percent of our incoming toll-free member calls were answered and directed to available staff. An Internet-based member remittance system was implemented, saving member and staff time. Publications were improved without increasing costs.

Anticipate the Future

We frequently ask, "How can we do better?" Our planning centers on retaining recognized leadership in caring, professional service in an era that demands ever-increasing use of technology. TRS managers and supervisors gathered recently to creatively develop an approach to meet this goal. Under a theme of "Change is the Opportunity," our employees are developing programs and strategies to better serve the membership in the coming decades.

Technology can be useful, cost-effective and often, coldly impersonal. We intend in the coming years to use substantially more technology to better serve you, but with a strong appreciation of the critical human role in this process. Our personal touch can become warmer, our service more engaged, and our capabilities expanded if we use technology well.

The receipt of over \$8 billion in investment income and pension obligation bond proceeds this year enhanced your retirement security. Our funded ratio rose from less than 50 percent to 61.9 percent, but, frankly, this is not good enough. While recent developments suggest a resolve to continue addressing this problem, the pressure to evade the full state funding of TRS and other state pension systems remains high. The 50-year funding plan is more than a statutory mandate; it is a reminder of past mistakes. TRS will pursue strategies that will help members and policy makers understand this complex issue.

TRS will explore initiatives that will contribute to the financial security of career teachers in Illinois. In order for Illinois to provide the best education for our children it is essential that school districts have the tools to recruit and retain teachers that help achieve this goal. Illinois will not be able to compete for the best and the brightest teachers if the benefits that we offer are not competitive in this challenging environment. Retirement security for Illinois educators is more than our purpose statement; it is a part of the complete picture of public education in Illinois.

Special Recognition

John Glennon completed service as a trustee following recent legislation that made him ineligible to remain a member. We appreciate his expertise in the investment and business sides of the system and his strong advocacy of pension obligation bonds.

Stuart Levine resigned from the Board in July. A thoughtful gentleman, he is a noted philanthropist who enjoyed public service. His intellect and kindness will be missed.

Dr. Robert Schiller completed service as State Superintendent of Education and ex-officio President of the Board of Trustees. We value his significant service and contributions to Illinois public education, and we extend our best wishes for much joy and success in his family and personal life.

In Closing

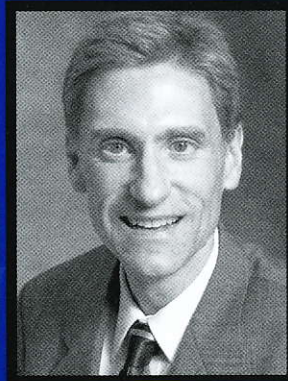
TRS and its members share a common purpose – service. As we reflect on our 65 years of service, we do so with the full knowledge that your support of the system is a true blessing. Thank you for your good work and your support.



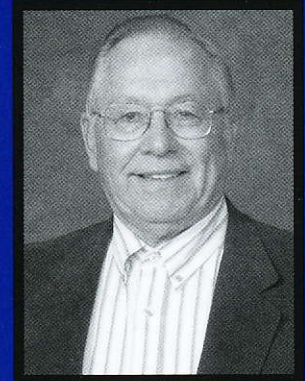
Jon Bauman
Executive Director

Board of Trustees

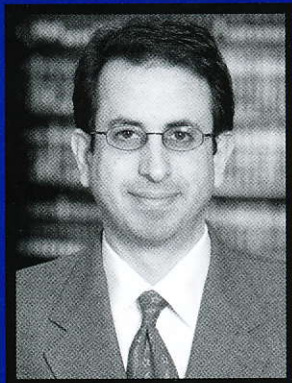
as of October 1, 2004



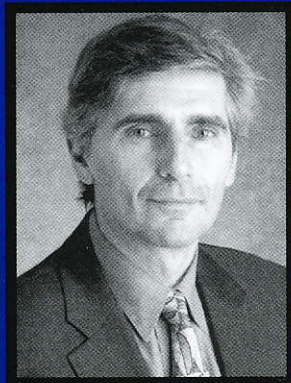
Randy Dunn
President
Springfield



Phillip Schmidt
Vice President
Springfield



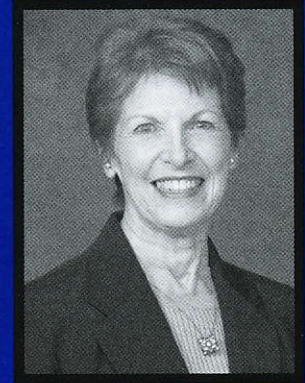
Tony Abboud
Northbrook



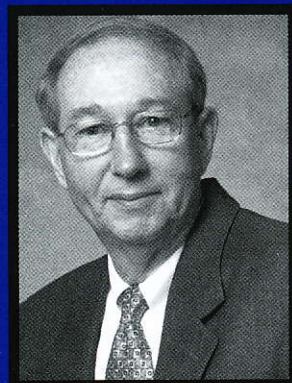
Jack Carriglio
Glenview



Cinda Klickna
Rochester



Cynthia O'Neill
Carlyle



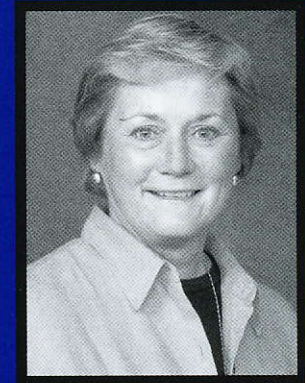
James Bruner
Jacksonville



Jan Cleveland
Carmi



Sharon Leggett
Evanston



Molly Phalen
Rockford

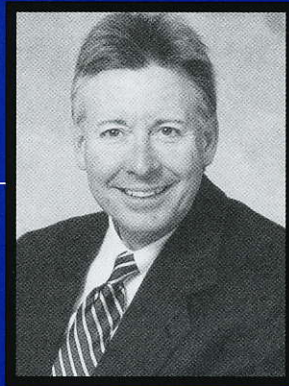
Organizational Structure

As of November 3, 2004

Board of Trustees



Kathleen Farney
Director of Research



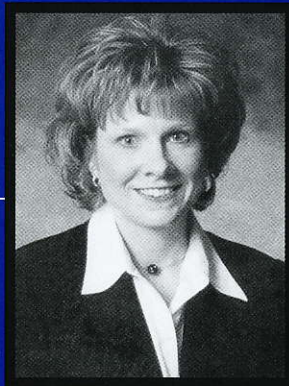
Tom Gray
General Counsel



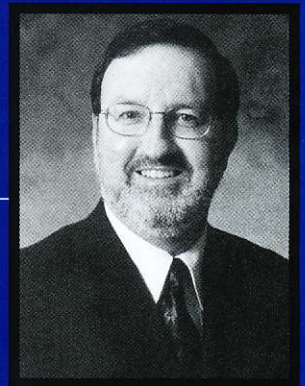
Todd Kennedy
Director of Finance



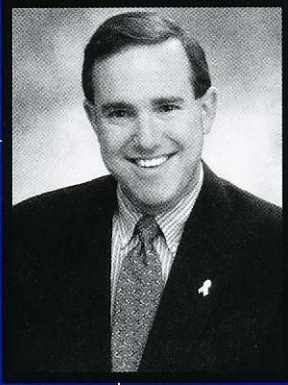
Kathy Pearce
Communications Supervisor



Stacy Smith
Internal Audits Manager



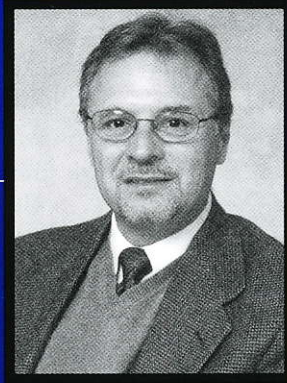
Jerry Vior
Director of Member Services



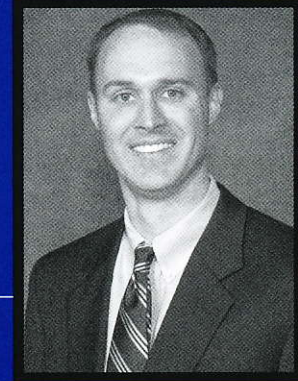
Jon Bauman
Executive Director



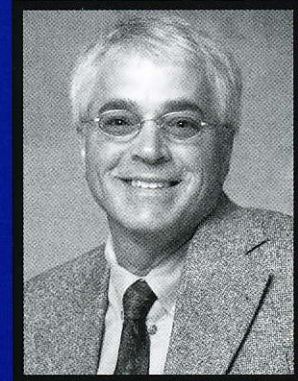
Gina Larkin
Director of Human Resources



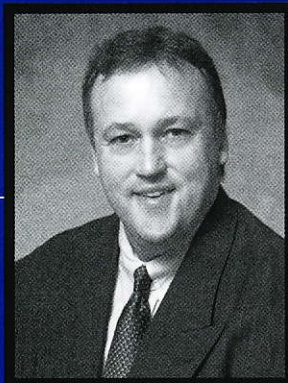
Ed Mabie
Information Systems Officer



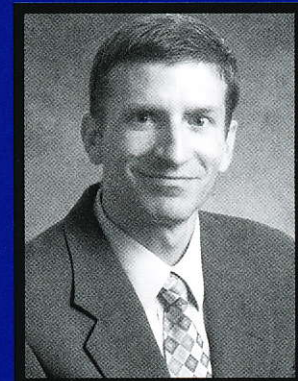
Stan Rupnik
Chief Investment Officer



Mike Bartletti
Director of Real Estate



Nick Yelverton
Director of Government Affairs



Greg Turk
Director of Investments

Consulting and Professional Services

Actuary

Mellon Human Resources & Investor Solutions
Chicago, Illinois

External Auditors

(As special assistants to the Office of the Auditor General)

McGladrey & Pullen, LLP
Schaumburg, Illinois

Information Systems

Ashbaugh and Associates, Inc.
Springfield, Illinois
Compu-Tech, LLC
Springfield, Illinois
IBM Corp.
Chicago, Illinois/Boulder, Colorado

King Technology, Inc.
Chicago, Illinois

Sentinel Technologies
Springfield, Illinois

Ciber, Inc.
Springfield, Illinois

Hupp Information Technologies
Springfield, Illinois

Interactive Intelligence, Inc.
Cincinnati, Ohio

Levi, Ray and Shoup, Inc.
Springfield, Illinois

STL Technology Partners
Bloomington, Illinois

Investment Consultants

(Investment management firms are listed throughout the Investment Section.)

Callan Associates Inc.
(general consultant)
San Francisco, California

Risk Resources
(real estate insurance)
Elmhurst, Illinois

Joseph J. Blake and Associates, Inc.
(real estate appraisals)
Chicago, Illinois

External Legal Counsel

Calhoun Law Group, P.C.
Washington, D.C.

Morris B. Chapman & Associates, Ltd.
Granite City, Illinois

Heyl, Royster, Voelker & Allen
Springfield, Illinois

Lerach Coughlin Stoia & Robbins LLP
San Diego, California (beginning May 2004)

Sorling, Northrup, Hanna, Cullen &
Cochran, Ltd.
Springfield, Illinois

Cavanagh & O'Hara
Springfield, Illinois

Gardner Carton & Douglas
Chicago, Illinois

Milberg Weiss Bershad Hynes & Lerach LLP
San Diego, California (until May 2004)

Loewenstein, Hagen & Smith, P.C.
Springfield, Illinois

Master Trustee

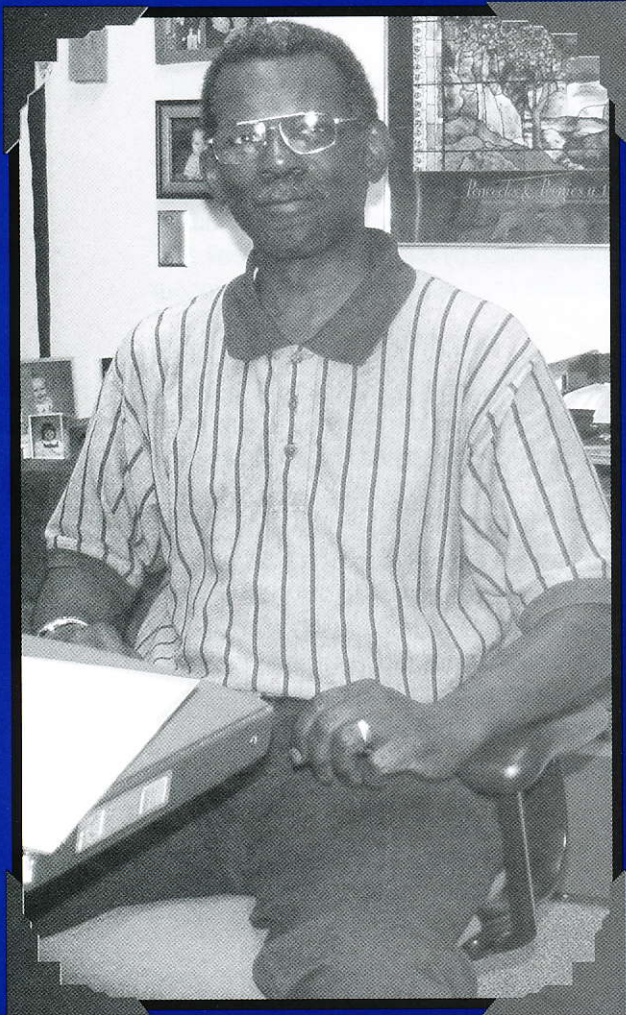
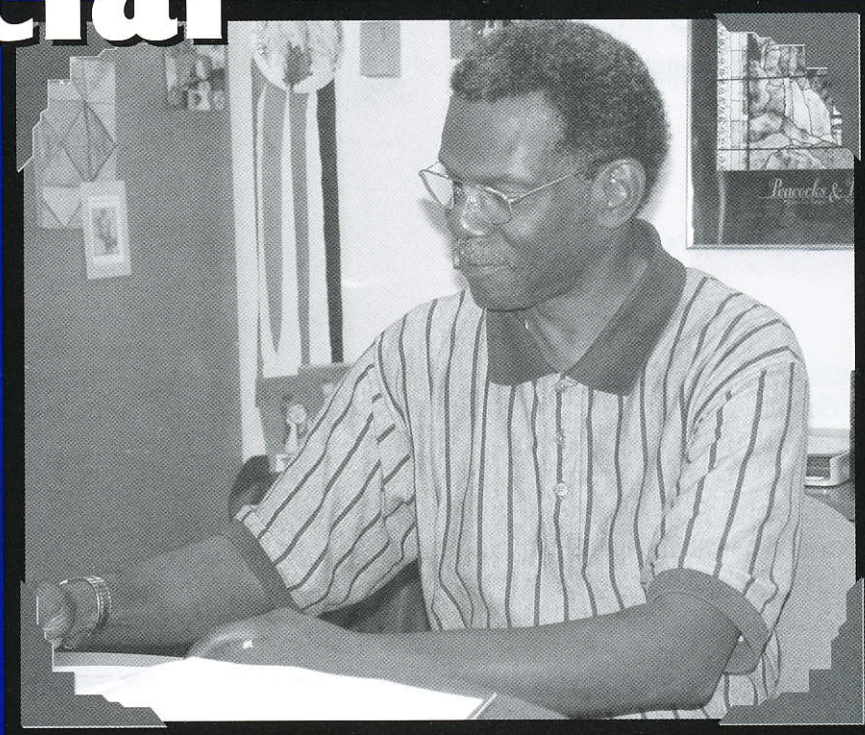
The Northern Trust Company
Chicago, Illinois

Financial

Photos by TRS Communications

Frank Payton, Jr.

24 Years of Service
Instrumental Music
District 535 in Granville and
McLean County Unit 5 in Normal



Frank, who has taught 5th through 12th grade band, has particularly enjoyed directing small ensembles and teaching marching band camp.

Many of Frank's students have gone on to be teachers and principals, and a handful are now band teachers.

Frank has served his country since 1968, with four years of active service, and is the Band Superintendent of the Air National Guard Band of the Midwest in Peoria.

Upon his retirement in 2007 or 2008, Frank plans to travel and photograph farm scenes and old barns. He will miss the students, staff, and the enjoyment of passing on knowledge.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

Board of Trustees
Teachers' Retirement System of
The State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of plan net assets of the Teachers' Retirement System of the State of Illinois (the System), a component unit of the State of Illinois, as of June 30, 2004 and 2003, and the related statement of changes in plan net assets for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Teachers' Retirement System of the State of Illinois as of June 30, 2004 and 2003, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we will also issue, under separate cover, our report dated November 5, 2004 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

McGladrey & Pullen, LLP is a member firm of RSM International –
an affiliation of separate and independent legal entities.

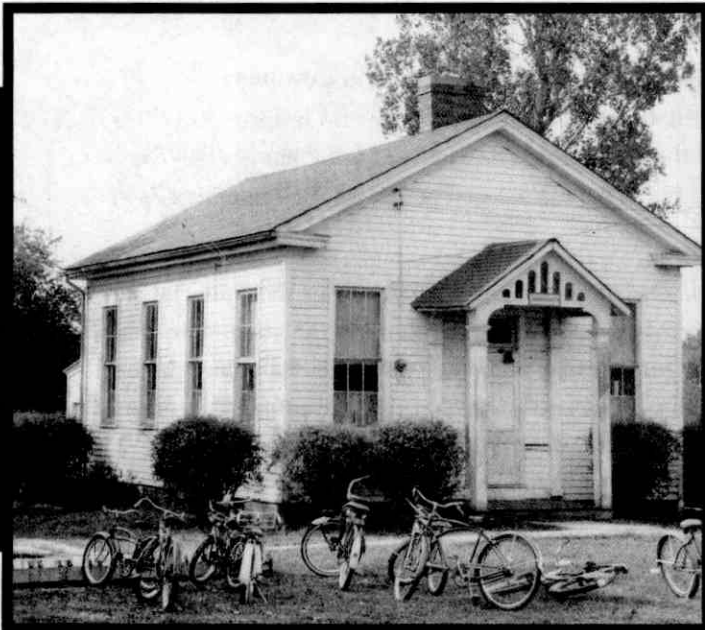
The management's discussion and analysis on pages 20 through 25 and the schedules of funding progress and contributions from employers and other contributing entities on pages 41 and 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System. The introduction section, other supplementary information on page 43, investments section, actuarial section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information on page 43 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introduction, investments, actuarial and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 5, 2004

Photo courtesy of Sangamon Valley Collection at Lincoln Library



School is a
place where
you learn how
to be a child.
— Nayeli Garcia

Arnold School, Sangamon County — 1943

Management's Discussion and Analysis

Our discussion and analysis of the Teachers' Retirement System of the State of Illinois provides an overview of financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Letter of Transmittal in the Introduction Section on page 7 and the Basic Financial Statements and related notes that follow this discussion.

Financial Highlights

- TRS net assets at June 30, 2004, were \$31.5 billion.
- During FY04, TRS net assets increased \$8.4 billion.
- Contributions from members, employers, and the State of Illinois were \$6,258 million, an increase of \$4,505 million or 256.9 percent during the fiscal year. Please see discussion on treatment of pension obligation bond proceeds under "Contributions" on page 22 and under "Funding" on page 30.
- Total investment income was \$4,486 million, an increase of \$3,425 million or 322.8 percent compared to FY03.
- Benefits and refunds paid to members and annuitants were \$2,310 million, an increase of \$269 million or 13.2 percent compared to FY03.
- The pension benefit obligation or total actuarial accrued liability was \$50.95 billion at June 30, 2004.
- The unfunded actuarial accrued liability decreased from \$23.81 billion at June 30, 2003 to \$19.40 billion at June 30, 2004. The funded ratio increased from 49.3 percent at June 30, 2003 to 61.9 percent at June 30, 2004.

The Basic Financial Statements contained in this section of the *Comprehensive Annual Financial Report* consist of:

Statement of Plan Net Assets. This statement reports the pension trust funds assets, liabilities, and resultant net assets available to pay benefits at the end of the fiscal year. It is the balance sheet of TRS and reflects the financial position of the Teachers' Retirement System as of June 30, 2004.

Statement of Changes in Plan Net Assets. This statement details transactions that occurred during the fiscal year. It is the income statement of TRS and reflects the revenues and expenses recorded throughout the fiscal year. The Statement of Changes in Plan Net Assets supports the change in the value of the net assets reported on the Statement of Plan Net Assets.

Notes to the financial statements. The notes are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The required supplementary information and other schedules following the notes to the financial statements provide historical and additional detailed information considered useful in evaluating the financial condition of the Teachers' Retirement System. The following are condensed comparative financial statements of the TRS pension trust fund.

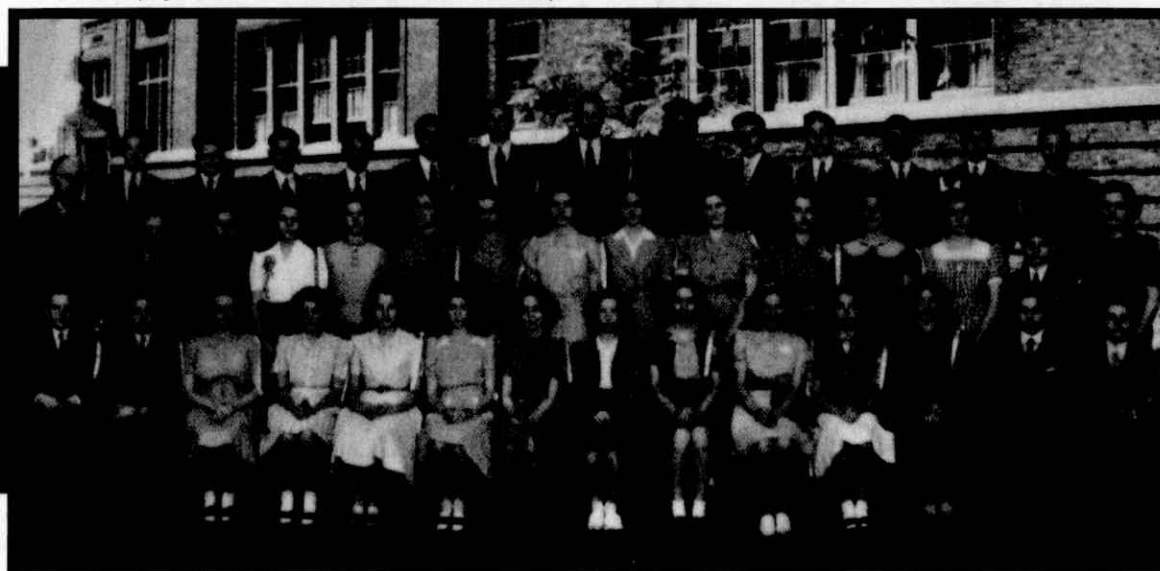
Condensed Comparative Statement of Plan Net Assets as of June 30

	2004	Percentage Change	2003	Percentage Change	2002
Cash	\$4,269,329	16.9%	\$3,651,963	(39.5%)	\$6,039,088
Receivables and prepaid expenses	353,725,714	23.3	286,769,806	(27.1)	393,200,477
Investments	32,046,373,325	33.9	23,935,615,863	4.3	22,944,918,073
Invested securities lending collateral	3,466,114,601	60.9	2,154,422,658	13.5	1,897,635,461
Capital assets	2,273,510	(13.6)	2,630,930	(15.5)	3,113,533
Total assets	35,872,756,479	36.0	26,383,091,220	4.5	25,244,906,632
Total liabilities	4,328,027,194	32.8	3,258,268,149	13.2	2,878,621,920
Net assets	\$31,544,729,285	36.4%	\$23,124,823,071	3.4%	\$22,366,284,712

Condensed Comparative Statement of Changes in Plan Net Assets For the Year Ended June 30

	2004	Percentage Change	2003	Percentage Change	2002
Contributions	\$6,258,086,538	256.9%	\$1,753,282,676	10.4%	\$1,588,509,682
Total investment income (loss)	4,485,729,345	322.8	1,060,852,111	246.5	(723,987,045)
Total additions	10,743,815,883	281.8	2,814,134,787	225.5	864,522,637
Benefits and refunds	2,310,349,123	13.2	2,041,737,026	13.5	1,798,504,272
Administrative expenses	13,560,546	(2.2)	13,859,402	(9.9)	15,379,736
Total deductions	2,323,909,669	13.1	2,055,596,428	13.3	1,813,884,008
Net increase (decrease) in net assets	8,419,906,214	1010.0	758,538,359	179.9	(949,361,371)
Net assets beginning of year	23,124,823,071	3.4	22,366,284,712	(4.1)	23,315,646,083
Net assets end of year	\$31,544,729,285	36.4%	\$23,124,823,071	3.4%	\$22,366,284,712

Photo courtesy of Abraham Lincoln Presidential Library



To undertake is
to achieve.
— Emily Dickinson

Butler School,
Springfield — 1941

Financial Analysis

TRS was created to provide retirement, survivor, and disability benefits to qualified members. Increases or decreases in plan net assets serve as useful indicators of TRS's financial position. Net assets available to pay benefits were \$31.5 and \$23.1 billion at June 30, 2004 and 2003, respectively. Net assets increased \$8,420 and \$759 million during FY04 and FY03, respectively.

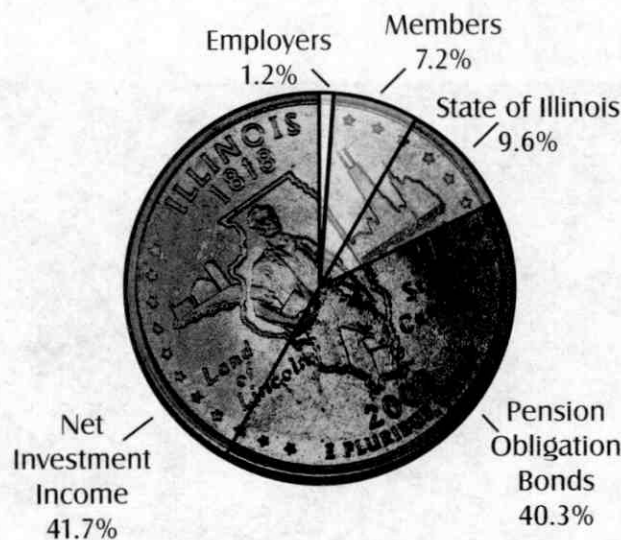
Contributions

Contributions increased \$4,505 and \$165 million during FY04 and FY03, respectively. During FY04, member contributions increased \$37 million and employer contributions from school districts increased \$37 million. During FY03, member contributions increased \$51 million while employer contributions from school districts decreased \$2 million. The decrease in the employer contributions from school districts in FY03 is attributable to a decrease in the employer contribution rate that was effective mid-year FY02 and throughout FY03.

The State of Illinois provides contributions through state appropriations. Receipts from the State of Illinois increased \$4,431 and \$115 million in FY04 and FY03, respectively. The large increase in receipts from the state in FY04 is due to pension obligation bond proceeds TRS received from the State of Illinois. On July 2, 2003, TRS received \$4.330 billion in bond proceeds from the State of Illinois. These funds represented a portion of the \$10 billion of general obligation bonds issued by the State of Illinois for the purpose of reducing the unfunded liabilities for Teachers' Retirement System, State Employees' Retirement System, State Universities Retirement System, General Assembly Retirement System, and Judges' Retirement System.

Please note that the \$4.330 billion in pension obligation bond proceeds presented as contributions in this report are not counted as contributions towards TRS's annual actuarial funding requirements. Beginning with FY05, the computation of the State of Illinois required contribution for a fiscal year will not exceed the State of Illinois contributions that would have been required had the general obligation bond program not been in effect, reduced by the total debt service for each year for the TRS portion of the general obligation bond proceeds.

Revenues by Type for the Year Ended June 30, 2004



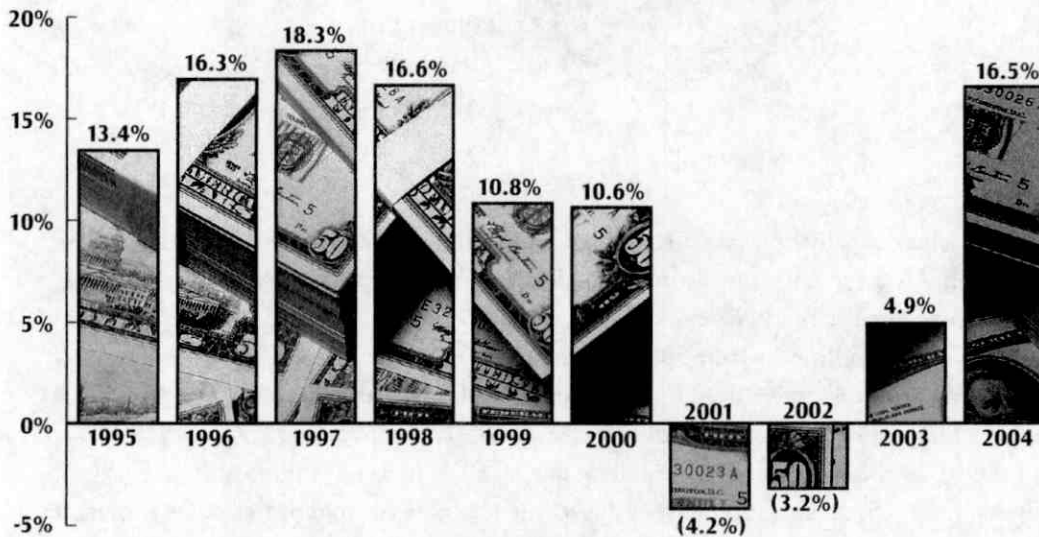
Investments

The TRS trust fund is invested by authority of the Illinois General Assembly under the “prudent person rule” requiring investments to be managed solely in the interest of fund participants and beneficiaries. Principles guiding the investment of funds include preserving the long-term principal of the trust fund and maximizing total return with prudent risk parameters.

The TRS investment portfolio earned its highest one-year return in six years as an improving economy fueled continued strength in the major stock indices. TRS investments earned a 16.5 and 4.9 percent rate of return, net of fees, for FY04 and FY03, respectively. Total investments increased \$8.1 billion from \$23.9 billion at June 30, 2003 to \$32.0 billion at June 30, 2004. The five- and 10-year returns are 4.6 percent and 9.6 percent, respectively. The long-term return continues to outperform the actuarial assumption rate of 8.5 percent.

Through TRS’s disciplined approach to asset allocation and investment manager selection, the fund proved successful in preserving capital during difficult economic times, while showing strong participation during the current market advance. Over the three-year period, TRS ranks in the top decile of large public funds in Callan Associates’ universe, and in the top 12 percent in the Wilshire Trust Universe Comparison Service (TUCS).

Annual Rate of Return (net of investment expenses)



The annual rate of return is an indication of TRS investment performance and is provided by the TRS Master Trustee.

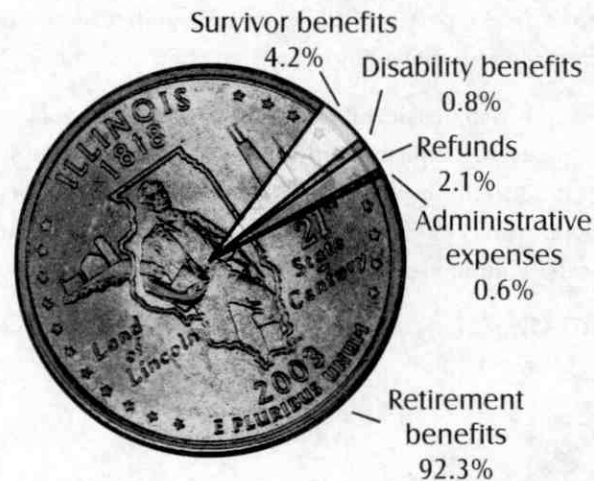
Benefits and Refunds

Survivor, disability, and retirement benefit payments increased \$263 and \$239 million during FY04 and FY03, respectively. During FY04, benefit payments increased from \$1,999 million with 73,431 recipients during FY03 to \$2,262 million with 76,905 recipients. The overall increase in benefit payments is due mainly to an increase in retirement benefit payments. Retirement benefits increased as a result of an automatic 3 percent annual increase in retirement

benefits, an increase in the number of retirees from 64,702 as of June 30, 2003 to 67,950 as of June 30, 2004, and an increase in the final average salaries of teachers that retired during the fiscal year.

Refunds of contributions increased \$5 and \$4 million during FY04 and FY03, respectively. The increase in refunds is a result of increases in 2.2 upgrade contribution refunds, withdrawal of contributions by members leaving teaching, and an increase in survivor benefit refunds.

Expenses by Type for the Year Ended June 30, 2004

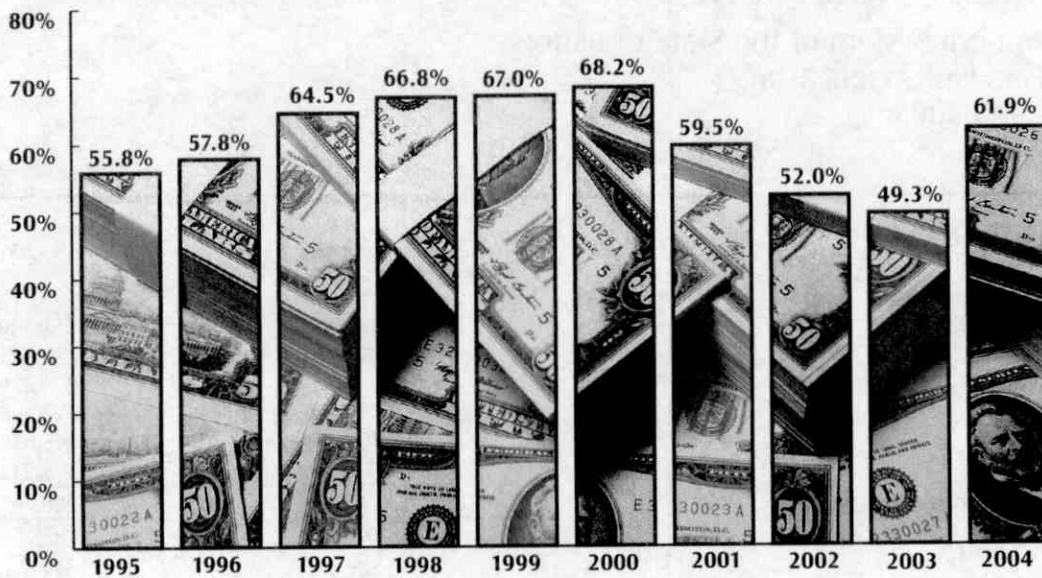


Actuarial

The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned to date. The actuarial accrued liability increased \$4.02 and \$3.89 billion during FY04 and FY03, respectively to \$50.95 billion at June 30, 2004 and \$46.93 billion at June 30, 2003. The unfunded liability is the present value of future benefits payable that are not covered by assets as of the valuation date. The unfunded liability decreased \$4.41 billion during FY04 to \$19.40 billion at June 30, 2004 and increased \$3.13 billion during FY03 to \$23.81 billion at June 30, 2003. The funded ratio reflects the percentage of the accrued liability covered by net assets at market value. The funded ratio increased to 61.9 percent at June 30, 2004 from 49.3 percent at June 30, 2003. Decreases in the unfunded liability and increases in the funded ratio indicate an improvement in a system's financial position.

To comply with the Illinois Pension Code, an actuarial experience analysis is performed once every five years to review the actuarial assumptions. In FY02, TRS actuaries conducted an experience analysis of the previous five-year period ended June 30, 2001. The analysis resulted in a decrease in the salary increase assumption, a decrease in the inflation rate assumption, higher rates of retirement, and minor changes in several other assumptions. The net effect of all the actuarial changes decreased the June 30, 2002, actuarial accrued liability by approximately \$346 million compared to the accrued liability that would have been calculated under the old assumptions.

Funded Ratio at Market Value



The ratio of funding is the ratio of assets to liabilities. An increase in this ratio indicates an improvement in TRS's ability to meet future benefit obligations.

Photo by TRS Communications



Larry Sample
30 years of service
Grades 7-12
District 117, Jacksonville

Jane Sample
31 years of service
Grades 7-12
District 117, Jacksonville

The Samples, who will retire within the next two years, plan to spend their retirement relaxing, traveling, and visiting Florida. Jane also plans to read all the books she has "stacked around the house" and possibly volunteering in a library. Larry, an athletic director and assistant principal, will miss the students. "I will miss it all," says Jane, "the students, the enthusiasm, the joy, the heartache and most of all the reward of learning." She has enjoyed teaching English and research skills the most.

Basic Financial Statements

Teachers' Retirement System of the State of Illinois Statement of Plan Net Assets as of June 30, 2004, and 2003

	2004	2003
Assets		
Cash	\$4,269,329	\$3,651,963
Receivables and prepaid expenses		
Member payroll deduction	69,326,056	69,189,321
Member contributions	37,553,098	39,383,845
Employer contributions	13,115,002	7,379,497
State of Illinois	251,416	2,965,709
Investment income	230,705,401	165,638,540
Prepaid expenses	2,774,741	2,212,894
Total receivables and prepaid expenses	<u>353,725,714</u>	<u>286,769,806</u>
Investments, at fair value		
Fixed income	9,089,445,291	7,314,849,657
Equities	18,604,591,222	12,649,352,623
Real estate	2,680,788,703	2,412,293,598
Short-term investments	806,158,043	866,824,921
Private equity investments	840,390,782	668,389,537
Foreign currency	24,999,284	23,905,527
Total investments	<u>32,046,373,325</u>	<u>23,935,615,863</u>
Collateral from securities lending	3,466,114,601	2,154,422,658
Property and equipment, at cost, net of accumulated depreciation of \$5,308,993 and \$6,456,750 in 2004 and 2003, respectively	2,273,510	2,630,930
Total assets	<u>35,872,756,479</u>	<u>26,383,091,220</u>
Liabilities		
Benefits and refunds payable	4,940,452	8,633,145
Administrative and investment expenses payable	97,111,469	75,872,933
Payable to brokers for unsettled trades, net	759,860,672	1,019,339,413
Securities lending transactions	3,466,114,601	2,154,422,658
Total liabilities	<u>4,328,027,194</u>	<u>3,258,268,149</u>
Net assets held in trust for pension benefits	<u>\$31,544,729,285</u>	<u>\$23,124,823,071</u>

(A schedule of funding progress is presented on page 41.)

The accompanying notes are an integral part of these statements.

Photo courtesy of the Abraham Lincoln Presidential Library

Just as time passes, so do
memories pass as well, but those
who stirred our spirits sing in our
hearts forever.

— Unknown

50 year reunion
East St. Louis Senior High School — 1973



Teachers' Retirement System of the State of Illinois
Statement of Changes in Plan Net Assets
Years Ended June 30, 2004, and 2003

	2004	2003
Additions		
Contributions		
Members	\$768,661,300	\$732,020,451
State of Illinois	1,031,477,825	929,709,762
State of Illinois pension obligation bond proceeds	4,330,373,948	0
Employers		
Early retirement	52,495,571	46,773,190
Federal funds	33,651,748	33,354,836
2.2 benefit formula	41,426,146	11,424,437
Total contributions	6,258,086,538	1,753,282,676
Investment income		
From investment activities		
Net appreciation in fair value	3,873,564,792	467,463,329
Interest	278,058,533	343,075,998
Real estate operating income, net	194,324,851	184,785,558
Dividends	206,236,790	139,831,006
Private equity income	27,033,133	8,887,682
Other investment income	3,531,886	3,560,189
Investment activity income	4,582,749,985	1,147,603,762
Less investment expense	(106,418,281)	(92,431,726)
Net investment activity income	4,476,331,704	1,055,172,036
From securities lending activities		
Securities lending income	31,637,926	28,660,317
Securities lending management fees	(2,348,565)	(1,420,317)
Securities lending borrower rebates	(19,891,720)	(21,559,925)
Net securities lending activity income	9,397,641	5,680,075
Total investment income	4,485,729,345	1,060,852,111
Total additions	10,743,815,883	2,814,134,787
Deductions		
Retirement benefits	2,145,187,366	1,890,511,562
Survivor benefits	97,155,092	88,996,829
Disability benefits	19,987,021	19,113,893
Refunds	48,019,644	43,114,742
Administrative expenses	13,560,546	13,859,402
Total deductions	2,323,909,669	2,055,596,428
Net increase	8,419,906,214	758,538,359
Net assets held in trust for pension benefits		
Beginning of year	23,124,823,071	22,366,284,712
End of year	\$31,544,729,285	\$23,124,823,071

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

A. Plan Description

1. Reporting Entity

The Teachers' Retirement System of the State of Illinois (TRS) is the administrator of a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). Membership is mandatory for all full-time, part-time, and substitute public school personnel employed outside of Chicago in positions requiring certification. Persons employed at certain state agencies are also members. Established by the State of Illinois, TRS is governed by the Illinois Pension Code (40 ILCS 5/16). TRS is a component unit of the State of Illinois and is included in the state's financial statements as a pension trust fund.

TRS uses criteria established by the Governmental Accounting Standards Board (GASB) to determine whether other entities should be included within its financial reporting entity. Based on the criteria, TRS includes no other entities in these financial statements.

2. Employers

Members of TRS are employed by school districts, special districts, and certain state agencies. Each employer remits member contributions to TRS. Employers are responsible for employer contributions for teachers paid from federal funds and for the employer's portion of the Early Retirement Option contributions. Effective July 1, 1998, Public Act 90-0582 required employers to pay an employer contribution equal to 0.3 percent of covered payroll during FY99. The contribution was increased to 0.58 percent of covered payroll from July 1, 2000 through December 31, 2001. For the period January 1, 2002 through June 30, 2003, the employer contribution was reduced to 0.18 percent of covered payroll. Effective July 1, 2003, the contribution rate returned to 0.58 percent of covered payroll. In addition, the State of Illinois provides employer contributions. For information about employer contributions made by the State of Illinois, see "Funding" on page 30.

Number of Employers (as of June 30)

	2004	2003
Local school districts	885	890
Special districts	139	141
State agencies	25	27
Total	<u>1,049</u>	<u>1,058</u>

3. Members

TRS Membership (as of June 30)

	2004	2003
Retirees and beneficiaries receiving benefits	76,905	73,431
Inactive members entitled to but not yet receiving benefits	89,641	86,279
Active members	157,990	152,117
Total	<u>324,536</u>	<u>311,827</u>

4. Benefit Provisions

Governed by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor, TRS provides retirement, death, and disability benefits. A member qualifies for an age retirement annuity after meeting one of the following requirements: age 62 with five years of service credit; age 60 with 10 years; or age 55 with 20 years. If a member retires between the ages of 55 and 60 with fewer than 35 years of service, the annuity will be reduced at the rate of 0.50 percent for each month the member is under age 60. A member who is age 55 and has fewer than 35 years of service credit may use the Early Retirement Option (ERO) to avoid a discount for early retirement if retirement occurs before July 1, 2005, and within six months of the last day of service requiring contributions, and if the member and employer both make a one-time contribution to TRS. However, both member and employer contributions are waived with 34 years of service. A member with fewer than five years of creditable service and service on or after July 1, 1947, is entitled to a single-sum benefit payable once he or she reaches age 65.

A retirement benefit is determined by the average salary of the four highest consecutive salary rates within the last 10 years of creditable service and the percentage of average salary to which the member is entitled. This percentage is determined by the following formula for service earned before July 1, 1998: 1.67 percent for each of the first 10 years, plus 1.9 percent for each of the next 10 years, plus 2.1 percent for each of the next 10 years, plus 2.3 percent for each year over 30 years. The maximum retirement benefit, 75 percent of average salary, is achieved with 38 years of service under the graduated formula.

Public Act 90-0582 improved retirement benefits for TRS members by changing the rate at which members accrue benefits beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. Members may attain the maximum 75 percent benefit with 34 years of service under the 2.2 benefit formula. Members retiring on or after the effective date have the option of upgrading their service earned prior to July 1, 1998, to the flat 2.2 percent formula by making a payment to TRS. Additionally, for members who continue to teach, every three full years worked after July 1, 1998, count toward a full one-year reduction of the years to be upgraded.

A money purchase (actuarial) benefit is payable if it results in a higher annuity than either the graduated or 2.2 formula. The 75 percent cap does not apply to the money purchase benefit.

Essentially all retirees receive an annual 3 percent increase in the current retirement benefit beginning January 1 following the attainment of age 61 or January 1 following the first anniversary in retirement, whichever is later.

If a member leaves covered employment, TRS will refund a member's retirement contributions upon request. The refund consists of actual contributions, excluding the 1 percent death benefit contribution.

On June 25, 2002, Governor Ryan signed the State Employee 5&5 Early Retirement Incentive (Public Act 92-0566) into law. Under the terms of this legislation, a TRS member employed by a state agency could elect to purchase five years of service credit and enhanced age. The member had to pay TRS an employee contribution based on the member's highest annual salary

rate used in the determination of final average salary. The required 5&5 contribution had to be deducted from any lump-sum payment at termination. If there was no lump sum or if the lump sum was less than the contribution required, the remaining amount due was treated as a reduction from the retirement annuity in 24 equal monthly installments. A member had to retire between August 1, 2002 and December 31, 2002 unless extended by the agency director to a date no later than April 30, 2003.

5. Funding

Member, employer, and state contributions are statutorily defined by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor.

Effective July 1, 1998, member contributions increased from 8 percent to 9 percent of salary. These contributions are allocated as follows: 7.5 percent for retirement, 0.50 percent for post-retirement increases, and 1 percent for death benefits.

Employer contributions are made by or on behalf of the employers from several sources. The State of Illinois provides a large source of contributions through state appropriations from the Common School Fund and Education Assistance Fund. Additional sources of state contributions are the State Pensions Fund and the General Revenue Fund. Effective July 1, 1998, the state began making contributions for the 2.2 benefit formula that are included in statutorily specified minimum state contribution rates. Employers also make contributions for the 2.2 benefit formula and for teachers who are paid from federal funds. Additionally, employers contribute their portion of the cost of the Early Retirement Option.

On April 7, 2003, Public Act 93-0002 authorized the State of Illinois to issue \$10 billion in general obligation bonds for the purpose of making contributions to designated retirement systems. TRS was one of the designated retirement systems for the purpose of this new law. In addition, the Pension Contribution Fund was created as a special fund in the State Treasury.

On June 12, 2003, the State of Illinois issued \$10 billion in general obligation bonds, pension funding series of June 2003, and deposited the net bond proceeds of \$7,317,292,916 into the Pension Contribution Fund. Bond proceeds of \$2,682,707,084 were utilized

- to reimburse the General Revenue Fund \$2,160,000,000 for the last quarter of the state's FY03 required contributions and the total FY04 required contributions to the designated retirement systems, and
- to fund \$481,038,334 in interest payments due December 1, 2003 and June 1, 2004 on the general obligation bonds, pension funding series of June 2003, and
- to fund bond issuance and other costs totaling \$41,668,750.

The net bond proceeds of \$7,317,292,916 were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in Public Act 93-0002. Pursuant to the amendments to the General Obligation Bond Act (30 ILCS 330/7.2), the Governor's Office of Management and Budget determined the percentage distribution of the proceeds. The allocation of the proceeds was based on the percentage distribution of the state's total actuarial reserve deficiency as of June 30, 2002.

TRS received an allocation of bond proceeds equal to \$4,330,373,948 on July 1, 2003. The monies were deposited into TRS's Master Trust account with The Northern Trust Company on July 2, 2003.

The \$4.33 billion in pension obligation bond proceeds presented as contributions in this report are not counted as contributions towards TRS's annual actuarial funding requirements. Beginning with FY05, the computation of the State of Illinois required contribution for a fiscal year will not exceed the State of Illinois contributions that would have been required had the general obligation bond program not been in effect, reduced by the total debt service for each year for the TRS portion of the general obligation bond proceeds.

The actuarial funding requirements for FY04 and FY03 were determined under Public Act 90-0582. State funding law provides for a 50-year funding plan that includes a 15-year phase-in period. Minimum state contribution rates are specified in the statute for FY99 through FY04. Public Act 93-0002, first effective in FY05, establishes a procedure for calculating state contributions after the receipt of pension obligation bond proceeds in early FY04. This procedure will continue through FY33. TRS's funded ratio will be 90 percent at the end of the 50-year period. Beginning July 1, 1995, state contributions have been made through a continuing appropriation instead of through the appropriations process.

Administrative expenses are budgeted and approved by the TRS Board of Trustees. Funding for these expenses is included in the employer contribution, as determined by the annual actuarial valuation.

B. Summary of Significant Accounting Policies

1. Basis of Accounting

TRS's financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues in the period in which member services are performed pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized as expenditures when they are due and payable in accordance with the terms of the plan.

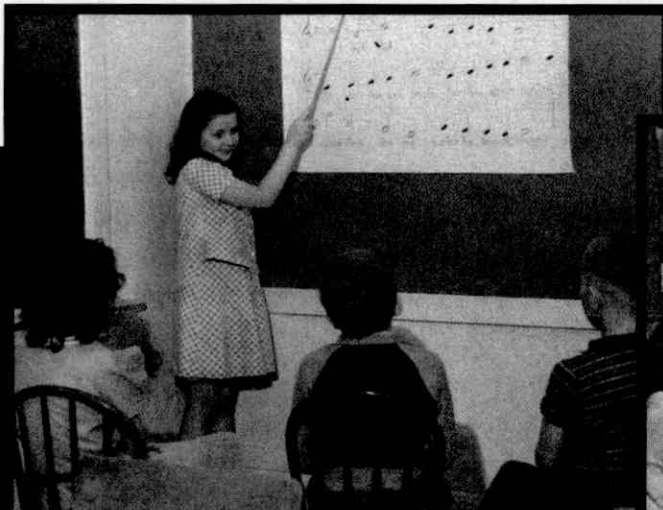
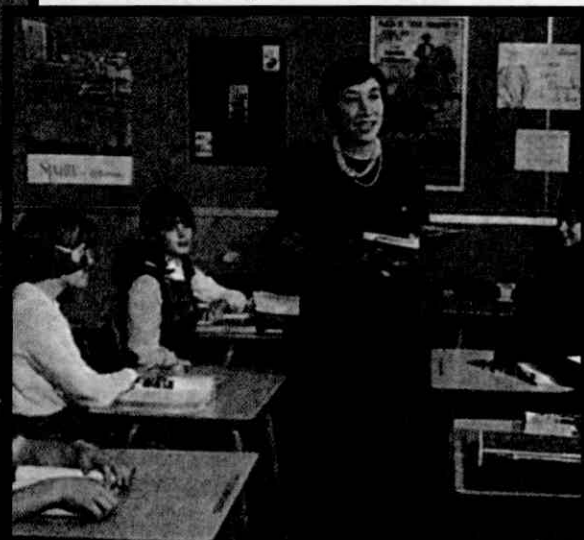


Photo courtesy of Rockford Public Library



It takes a long time to bring excellence to maturity.

— Publius Syrus

Rockford Auburn High School —1966

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from net assets during the reporting period. Actual results could differ from those estimates.

3. New Accounting Pronouncements

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, "Deposit and Investment Risk Disclosures" an amendment of GASB Statement No. 3. The statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk, and foreign currency risk. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2004.

In May 2004, GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section," an amendment of NCGA Statement 1. The statement establishes and modifies requirements related to the supplementary information presented in the statistical section. The requirements of this statement are effective for statistical sections prepared for periods beginning after June 15, 2005.

In June 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" (OPEB). The statement establishes standards of accounting and financial reporting for OPEB expense/expenditures and related OPEB liabilities or assets, note disclosures, and required supplementary information (RSI) in the financial reports of state and local government employers. The requirements of this statement are effective for TRS's financial statements for periods beginning after December 16, 2006.

4. Method Used to Value Investments

TRS reports investments at fair value. Fair value for equities is determined by using the closing price listed on national and over-the-counter securities exchanges as of June 30. Fair value for fixed income securities is determined principally by using quoted market prices provided by independent pricing services. Fair value for real estate investments is determined by appraisals. Fair value for private equity assets is determined by the general partner in accordance with the provisions of the individual equity agreements.

5. Property and Equipment

Equipment is stated on the basis of historical cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. Office furniture and equipment are assigned a useful life of three to 10 years while vehicles are assigned a five-year life. TRS's office building is depreciated over 40 years.

6. Accrued Compensated Absences

When they terminate employment, TRS employees are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned through December 31, 1997. (Lump-sum payments for sick leave earned prior to January 1, 1984, are

subject to a maximum of 60 days or 420 hours.) Accrued compensated absences as of June 30, 2004, and 2003 totaled \$1,311,493 and \$1,390,654 respectively, and are included as administrative and investment expenses payable.

7. Receivables

Receivables consist primarily of 1) member and employer contributions owed and yet to be remitted by the employing districts as of June 30 and 2) interest, dividends and real estate income owed to TRS as of June 30.

TRS assesses penalties for late payment of contributions and may collect any unpaid amounts from the employing districts by filing a claim with the regional superintendent of education or the Office of the Comptroller against future state aid payments to the employer. TRS considers these amounts to be fully collectible.

Members may enter into Payroll Deduction Program agreements with their employers to pay for their optional service balances, to repay refunds previously taken from TRS, to pay for their 2.2 benefit formula upgrade balances, or to pay estimated ERO contributions. Terms and conditions of the agreements are:

- A member must be employed full time.
- The agreement is irrevocable and can be terminated only upon full payment of the member's balance or upon the member's death, disability, retirement, or termination of employment.
- The amount deducted must be a minimum of \$50 per month and cannot be changed during the term of the agreement.
- Agreements may begin at the beginning of each calendar year quarter.
- The member may not make direct payments to TRS to reduce the balance under which an agreement has been entered.

If the agreement is to pay for a 2.2 formula upgrade balance, the maximum length of the agreement is 60 months. TRS had outstanding balances in payroll deduction agreements totalling \$69,326,056 and \$69,189,321 as of June 30, 2004, and 2003 respectively.

8. Prior Period Reclassification

Certain prior year amounts have been reclassified on a basis consistent with the current year presentation.

C. Cash

The bank balance and carrying amount of TRS's deposits were \$4,076,472 and \$4,269,329 at June 30, 2004, and \$3,353,886 and \$3,651,963 at June 30, 2003. Of the bank balance, \$3,654,191 and \$1,764,260 were on deposit with the state treasurer at June 30, 2004, and 2003, respectively. Bank balances are either insured or collateralized with securities held by the state treasurer or agents in the name of the state treasurer or are collateralized with securities held by TRS or its agents in the name of TRS. Cash equivalents are classified as short-term investments in the Statement of Plan Net Assets.

D. Investments

1. Investment Policies

Through the Board of Trustees, as authorized in the Illinois Pension Code, TRS serves as fiduciary for the members' trust funds and is responsible for investment of those funds by authority of the "prudent person rule." This rule establishes a standard for all fiduciaries by specifying fiduciary responsibility with regard to the members' trust funds.

2. Investment Summary

The Investment Summary table presents a summary of TRS investments and related category of custodial credit risk at June 30, 2004, and 2003. TRS investments are categorized to give an indication of the level of risk at year end.

Investment Summary

	2004	<u>Fair Value</u>	2003
Category 1			
Government obligations	\$2,992,342,969		\$2,621,779,743
Corporate obligations	2,781,005,549		2,581,192,122
Preferred stock	170,070,365		122,216,598
Short-term investments			
Commercial paper			
(including short-term collateral and other)	281,155,980		131,576,415
U.S. Treasury bills	184,345,628		110,756,857
Common stock	9,945,656,333		6,389,798,694
	<u>16,354,576,824</u>		<u>11,957,320,429</u>
Not Categorized			
Investments held by broker-dealers under securities loans			
Government obligations	1,846,377,712		881,558,768
Corporate obligations	267,699,827		227,264,276
Common stock	1,807,112,830		1,296,002,734
Real estate equity	2,472,890,408		2,272,624,364
Mutual funds	7,908,442,896		5,874,851,004
Private equity investments			
Limited partnerships	840,390,782		668,389,537
Foreign currency	24,999,284		23,905,527
Collective investment funds (U.S. dollars)	525,002,063		735,248,505
Security lending short-term collateral investment pool	3,464,995,300		2,152,873,377
Investments and collateral			
from securities lending	35,512,487,926		26,090,038,521
Less collateral from securities lending	(3,466,114,601)		(2,154,422,658)
Total investments*	<u>\$32,046,373,325</u>		<u>\$23,935,615,863</u>

* This total does not include accrued income.

Category 1 includes investments that are insured or registered, or for which the securities are held by TRS or its agent in the name of TRS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department in TRS's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty but not in TRS's name. As of June 30, 2004, and 2003, TRS holds no securities classified in either Category 2 or Category 3.

TRS has nonrecourse mortgages totalling \$982,913,430 and \$614,593,685 on real estate equities at June 30, 2004, and 2003, respectively. The amount reported for real estate equity is net of these mortgages, which mature on various dates through the year 2025.

The real estate equity category includes no mortgages receivable at June 30, 2004, and \$5,575,540 of mortgages receivable which were fully secured by the properties at June 30, 2003.

At June 30, 2004, and 2003, TRS did not have any investments in one organization that exceeded 5 percent of net assets held in trust for pension benefits.

3. Securities Lending Program

The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions — loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. TRS's master trustee is the agent in lending the plan's domestic securities for cash collateral of 102 percent of the market value of the securities and international securities for cash collateral of 105 percent of the market value of the securities. Securities on loan at year-end are presented as not categorized in the preceding schedule of custodial credit risk.

At year-end, TRS has no credit risk exposure to borrowers because the amount TRS owes the borrowers exceeds the amount the borrowers owe TRS. The contract with TRS's lending agent requires the agent to indemnify TRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay TRS for income distributions by the securities issuers while the securities are on loan. All securities loans can be terminated on demand either by TRS or the borrower, although the average term of the loans is 65 days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted average maturity of 51 days. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses known to the securities lending agent.

As of June 30, 2004, and 2003, TRS had outstanding loaned investment securities having a market value of \$3,921,190,369 and \$2,404,825,778, respectively, against which it had received collateral of \$4,024,263,673 and \$2,487,998,438, respectively. Collateral from securities lending reflected on the Statement of Plan Net Assets consists primarily of collateral received in the form of cash.

4. Derivatives

TRS invests in derivative securities. A derivative security is an investment whose return depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. To varying degrees, derivative transactions involve credit risk and market risk.



Patience is the companion
of wisdom.
— Saint Augustine

Rockford Auburn High School — 1966

Photo courtesy of Rockford Public Library

Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the established terms. To eliminate credit risk, derivative securities are generally acquired through a clearinghouse that guarantees delivery and accepts the risk of default by either party.

Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. Imposing limits on the types, amounts, and degree of risk that investment managers may undertake regulates the market risk associated with the constantly fluctuating prices of derivatives. These limits are approved by the Board of Trustees and senior management, and the derivative positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

During the year, TRS's derivative investments included foreign currency forward contracts, index futures, cash equivalent futures and options. Derivative contracts are used by experienced investment personnel to implement tactical strategies upon the portfolio in a cost-effective manner.

Foreign Currency Forward Contracts

Objective: Foreign currency forward contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. TRS uses these contracts primarily to hedge the currency exposure of its investments.

Terms: Foreign currency forward contracts are in the form of either forward purchases or forward sales of foreign currency. Forward purchases obligate the System to purchase specific foreign currency at an agreed upon price. Forward sales obligate the System to sell specific foreign currency at an agreed upon price. At June 30, 2004, foreign currency forward purchase or sell contracts included primarily the following currencies: Swedish krona, euro, Japanese yen, Canadian dollar, Swiss franc, British pound sterling, Danish krone, Australian dollar and U.S. dollar. These contracts have various settlement dates within twelve months of June 30, 2004.

Fair Value: As of June 30, 2004, and June 30, 2003, TRS's open foreign currency forward contracts had a net negative fair value of (\$3,011,319) and (\$464,426), respectively.

Market Value	June 30, 2004	June 30, 2003
Forward currency purchases	\$361,979,928	\$578,413,212
Forward currency sales	(364,991,247)	(578,877,638)
Unrealized gain/(loss)	<u>(\$3,011,319)</u>	<u>(\$464,426)</u>

Financial Futures

Objective: Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, circumvent changes in interest rates, or to replicate an index.

Terms: Futures contracts are standardized and traded on organized exchanges, thereby minimizing TRS's credit risk. As the market value of the futures contract varies from the original contract price, a gain or a loss is recognized and paid to or received from the clearinghouse. At June 30, 2004 and June 30, 2003, TRS had outstanding futures contracts with an underlying notional value of \$2,343,330,544 and \$1,149,927,012, respectively. Contractual principal values do not represent the actual values in the Statement of Plan Net Assets. The contracts have various expiration dates through June 2006.

Fair Value: Gains and losses on futures contracts are settled daily based on the change of the index or commodity price for the underlying notional value. Because of daily settlement, the futures contracts have no fair value.

Type	FY04 Number of Contracts	FY04 Contractual Principal	FY03 Number of Contracts	FY03 Contractual Principal
Fixed Income Index Futures (net)	3,535	\$386,724,250	269	\$31,576,813
International Fixed Income Index Futures (net)	406	132,428,606	69	8,980,674
Stock Index Futures (net)	10,267	1,416,098,300	3,998	972,813,350
Cash Equivalent (Eurodollar) Futures (net)	1,692	408,079,388	554	136,556,175
Total	15,900	\$2,343,330,544	4,890	\$1,149,927,012

Financial Options

Objective: Financial options are agreements that give 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, TRS 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. Accordingly, it is against TRS policy to invest in any uncovered options. Premiums received are recorded as a liability when the financial option is written.

Terms: At June 30, 2004, TRS had outstanding options contracts with an underlying notional value of \$15,793,550. Contractual principal values do not represent the actual values in the Statement of Plan Net Assets. The contracts have various expiration dates through December 2004.

Fair Value: Fluctuations in the fair value of financial options are recognized in TRS's financial statements as incurred rather than at the time the options are exercised or when they expire. As of June 30, 2004, and June 30, 2003, the fair value of option contracts written was (\$288,983) and (\$464,047), respectively. The fair value represents the amount needed to close all positions as of that date. The table below presents the aggregate contractual principal (notional value) of TRS's outstanding contracts at June 30, 2004, and June 30, 2003.

Type	FY04 Number of Contracts	FY04 Contractual Principal	FY04 Fair Value	FY03 Number of Contracts	FY03 Contractual Principal	FY03 Fair Value
Fixed Income Written Call Options	532	\$10,536,700	(\$201,938)	367	\$9,093,000	(\$68,797)
Fixed Income Written Put Options	308	4,826,850	(86,026)	4,178	7,939,000	(327,125)
International Fixed Income Written Put Options	67	430,000	(1,019)	0	0	0
Cash Equivalent Written Put Options (Eurodollar)	0	0	0	650	8,152,500	(68,125)
Total	907	\$15,793,550	(\$288,983)	5,195	\$25,184,500	(\$464,047)

Contractual principal amounts are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk.

E. Reserves

TRS maintains statutory reserve accounts in accordance with the provisions of 40 ILCS 5/16-101 *et seq.* In 1997, the Illinois General Assembly passed legislation that allowed the crediting of income at fair value, as opposed to book value, to the Employer's Contribution Reserve.

At June 30, 2003, the Members' Contribution Reserve and Employer's Contribution Reserve balances were \$9,780,678,167 and \$13,340,425,158 respectively. In 2003, the Illinois General Assembly passed legislation to allow the Members' and Employer's Contribution Reserves to be combined into a new Benefit Trust Reserve effective July 1, 2003.

1. Benefit Trust

	2004	2003
Balances at June 30	\$31,540,767,937	\$23,121,103,325

This reserve serves as a clearing account for TRS income and expenses. The reserve is credited with contributions from the State of Illinois that are not specifically allocated to the Minimum Retirement Annuity Reserve, member and employer contributions, income from TRS invested assets, and contributions from annuitants who qualify for automatic annual increases in annuity.

The reserve accumulates, with 6 percent interest, the contributions by members prior to retirement. Contributions have been 7.5 percent of salary since July 1, 1998. Contributions are fully refundable upon withdrawal from TRS, excluding interest credited thereon. The interest accrued is refundable only in the event of death. Interest is credited as of the date of retirement or death of those retiring or dying during the year and as of the end of the fiscal year for all other members. Interest is computed annually based upon the individual member's balance in the reserve at the beginning of the fiscal year.

This reserve is charged for transfers to the Minimum Retirement Annuity Reserve and all

- refunds to withdrawing members,
- retirement annuity payments (except as provided by the Minimum Retirement Annuity Reserve),
- benefits that are paid to temporarily or accidentally disabled members,
- death benefits paid, and
- refunds to annuitants for survivor benefit contributions.

The expected benefit payments do not equal the present value of the reserve. The additional amount needed (the unfunded actuarial accrued liability) as calculated by the actuary was \$19,402,722,000 in 2004 and \$23,808,609,000 in 2003.

2. Minimum Retirement Annuity

	2004	2003
Balances at June 30	\$3,961,348	\$3,719,746

The minimum annuity is set by law at \$25 per month for each year of creditable service to a maximum of \$750 per month after 30 or more years of creditable service. To qualify, annuitants are required to make a one-time contribution that is credited to the reserve. Interest at 6 percent is credited to the reserve annually based upon the average reserve balance. The State of Illinois also appropriated funds necessary to pay the minimum benefits provided in the legislation. All benefits paid under this program are charged to the reserve. This reserve is fully funded.

F. TRS Employee Pension Benefits

1. Plan Description

All full-time TRS employees who are not eligible to participate in TRS participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system (PERS) in which state employees participate, except those who are covered by the State Universities Retirement System, Teachers' Retirement System, General Assembly Retirement System, and Judges' Retirement System. SERS's financial position and results of operations for FY04 and FY03 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2004, and 2003, respectively. SERS also issues a separate CAFR that may be obtained at www.state.il.us/srs, by writing to SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255, or by calling (217) 785-7444. The State of Illinois CAFR may be obtained at www.ioc.state.il.us, by writing to Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1858, or by calling (217) 782-2053.

A summary of SERS's 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 SERS CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

Photo courtesy of the Abraham Lincoln Presidential Library



The love of learning, the sequestered nooks, and all the sweet serenity of books.

— Longfellow

Park School, East St. Louis — 1965

2. Funding Policy

TRS pays employer retirement contributions to SERS based on an actuarially determined percentage of the TRS employee payroll representing TRS employees who are members of SERS. For FY04, FY03, and FY02, the SERS employer contribution rates were 13.439 percent, 10.321 percent, and 10.040 percent, respectively. TRS made the required contributions to SERS for the current year and each of the two preceding years. TRS contributions for the years ending FY04, FY03, and FY02 were \$662,711, \$541,552, and \$529,400, respectively. Effective for pay periods beginning after July 1, 1993, the TRS Board of Trustees opted to pay the employee contribution for all employees. The contribution pickup (4 percent for SERS members, 9 percent for TRS members beginning in FY02 and 8 percent for TRS members in prior years) was included in the FY04 and FY03 administrative budgets approved by the board.

TRS pays an employer contribution for its employees who are members of TRS. Additional employer contributions for these employees are paid by the State of Illinois and are included in the annual state contribution to TRS.

3. Post-Employment Benefits – TRS Employees

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971 requires certain health, dental, and life insurance benefits be provided by the state. Substantially, all TRS employees may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for TRS retirees under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant who is age 60 or older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits that were provided to active employees and their dependents for the years ended June 30, 2004, and 2003. However, post-employment costs for the state as a whole for all state agencies or departments for dependent health, dental, and life insurance for annuitants and their dependents are disclosed in the state's Comprehensive Annual Financial Report. Cost information for retirees by individual state agency is not available. Payments are made on a "pay-as-you-go" basis.

Photo courtesy of the Abraham Lincoln Presidential Library



A teacher affects eternity;
he can never tell where his
influence stops.
— Henry Adams

Floraville School,
St. Clair County — 1964

Required Supplementary Information

Schedule of Funding Progress¹

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL-Projected Unit Credit) (b)	Funded Ratio (a)/(b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (b-a)/(c)
6/30/96	\$15,103,927,000	\$26,141,794,000	57.8%	\$11,037,867,000	\$4,734,250,000	233.1%
6/30/97	17,393,108,000	26,951,585,000	64.5	9,558,477,000	5,013,583,000	190.7
6/30/98	19,965,887,000	29,908,241,000	66.8	9,942,354,000	5,323,403,000	186.8
6/30/99	22,237,709,000	33,205,513,000	67.0	10,967,804,000	5,698,117,000	192.5
6/30/00	24,481,413,000	35,886,404,000	68.2	11,404,991,000	6,062,884,000	188.1
6/30/01	23,315,646,000	39,166,697,000	59.5	15,851,051,000	6,430,612,000	246.5
6/30/02	22,366,285,000	43,047,674,000	52.0	20,681,389,000	6,785,236,000	304.8
6/30/03	23,124,823,000	46,933,432,000	49.3	23,808,609,000	7,059,032,000	337.3
6/30/04	31,544,729,000	50,947,451,000	61.9	19,402,722,000	7,280,795,000	266.5

Schedule of Contributions from Employers and Other Contributing Entities¹

Year Ended June 30	State Contributions ²	Federal and Employer Contributions ²	Total	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
1996	\$324,276,000	\$16,997,000	\$341,273,000	\$1,350,997,000	25.3%	\$341,276,000	100.0%
1997	377,969,000	17,379,000	395,348,000	927,842,000	42.6	395,269,000	100.0
1998	460,439,000	17,246,000	477,685,000	983,312,000	48.6	478,439,000	99.8
1999	567,068,000	36,535,000	603,603,000	932,909,000	64.7	592,547,000	101.9
2000	634,039,000	54,547,000	688,586,000	1,003,612,000	68.6	686,384,000	100.3
2001	719,357,000	58,985,000	778,342,000	1,102,441,000	70.6	775,732,000	100.3
2002	810,619,000	51,270,000	861,889,000	1,163,262,000	74.1	872,283,000	98.8
2003	926,066,000	44,779,000	970,845,000	1,427,519,000	68.0	963,858,000	100.7
2004	1,028,259,000	75,078,000	1,103,337,000	1,716,977,000	64.3	1,100,264,000	100.3

¹ For consistency with figures reported by TRS's actuaries, the amounts have been rounded to the nearest thousand. Actual contributions varied slightly from contributions that are required by statute mainly because of differences between estimated and actual federal contributions.

Pension obligation bonds are not treated as a state contribution in FY04 because they do not count towards the annual funding requirement calculated by the actuary. In FY03, the annual contributions required per state statute is the state funding requirement certified after Public Act 92-0505 was enacted. The diversion to THIS Fund was effective for the entire fiscal year. In FY02, the annual contribution required per state statute is the state funding requirement certified before Public Act 92-0505 was enacted. This act allowed districts to reduce their contributions to TRS by the amount they contributed to the Teachers' Health Insurance Security Fund. The diversion was effective January 1, 2002 through June 30, 2003.

² Excludes employer ERO and ERI payments, minimum retirement, and supplemental annuity contributions. Beginning in FY01, the supplemental annuity appropriation was not requested. These amounts are not counted for actuarial purposes.

See accompanying Independent Auditors' Report.

Education is not a preparation for life;
education is life itself.
— John Dewey

Monroe Grade School, East St. Louis — 1963

Photo courtesy of the Abraham Lincoln Presidential Library



Notes to Required Supplementary Information

Valuation Dates	June 30, 2004	June 30, 2003
Actuarial cost method:	Projected unit credit	Projected unit credit
Amortization method:		
a) For GASB Statement #25 reporting purposes	Level percent of payroll	Level percent of payroll
b) Per state statute	15-year phase-in to a level percent of payroll until a 90% funding level is achieved	15-year phase-in to a level percent of payroll until a 90% funding level is achieved
	Minimum state contribution rates in statute include cost 2.2 benefit formula change as a level percent of payroll	Minimum state contribution rates in statute include cost 2.2 benefit formula change as a level percent of payroll
Remaining amortization period:		
a) For GASB Statement #25 reporting purposes	40 years, open	40 years, open
b) Per state statute	41 years, closed	42 years, closed
Asset valuation method:	Fair value	Fair value
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases	5.9-10.1% composite 6.5%	5.9-10.1% composite 6.5%
Group size growth rate	0%	0%
Assumed inflation rate	3.5%	3.5%
Post-retirement increase	3% compounded	3% compounded
Mortality table	1995 Buck Mortality Tables (rated forward three years for male benefit recipients only)	1995 Buck Mortality Tables (rated forward three years for male benefit recipients only)

See accompanying Independent Auditors' Report.

Photo by Michael Bracey Photography

Grace Barnes has 40 years of service, teaching 1st, 2nd, 4th, 5th and 6th grades in La Grange Park School District 102 and in schools in Chicago and Indiana. Retired for only seven days when this photo was taken, Grace will miss the children. She enjoyed teaching language arts and social studies the most. Grace looks forward to traveling, a new home, and grandchildren someday... if her children ever get married.



Other Supplementary Information

Schedule of Administrative Expenses For Years Ended June 30

	2004	2003
Personal services	\$9,855,223	\$9,499,683
Professional services	981,402	1,385,493
Postage	436,283	488,524
Machine repair and rental	503,353	553,562
Other contractual services	792,565	716,257
Commodities	435,978	488,669
Occupancy expense	182,991	194,205
Depreciation	372,751	532,511
Loss on disposal of equipment	0	498
Total administrative expenses	\$13,560,546	\$13,859,402

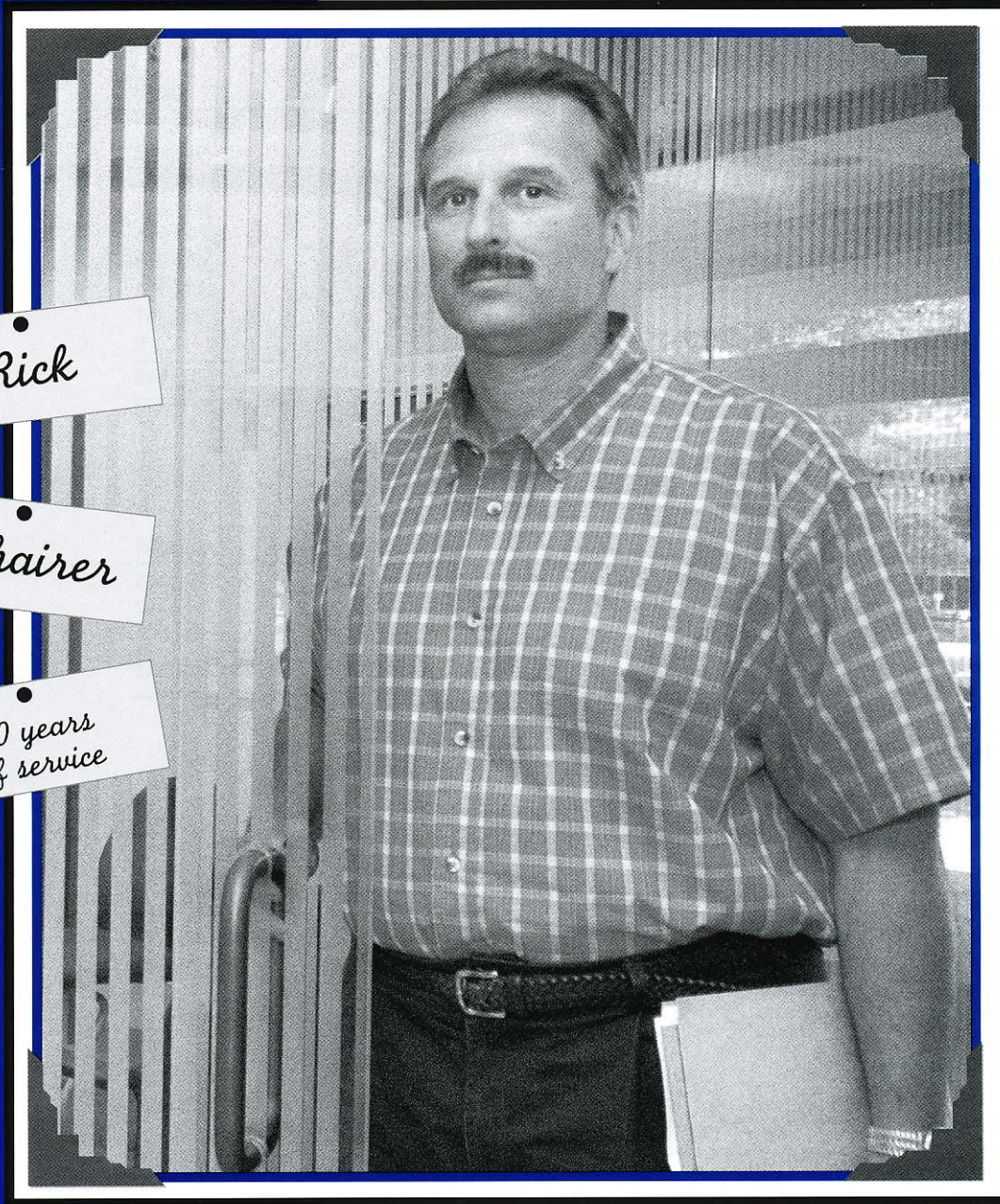
Schedule of Investment Expense For Years Ended June 30

	2004	2003
Investment manager fees	\$93,944,558	\$71,646,159
Private equity investment expense	10,645,742	18,614,717
Miscellaneous	1,827,981	2,170,850
Total investment expense	\$106,418,281	\$92,431,726

Schedule of Payments to Consultants For Years Ended June 30

	2004	2003
Actuarial services	\$204,154	\$149,870
External auditors	112,142	110,226
Legal services	129,844	273,951
Management consultants		
Information systems	481,315	692,086
TRS STAR audit	0	6,234
Benchmarking	0	25,000
Salary review	0	250
Executive search	0	76,226
403(b) survey	0	25,000
Member satisfaction survey	0	20,000
Board and staff training	27,548	0
Operations	23,289	0
Other	3,110	6,650
Total payments to consultants	\$981,402	\$1,385,493

See accompanying Independent Auditors' Report.



Rick

Schairer

30 years
of service

Photo by Michael Bracey Photography

Rick Schairer teaches 5th and 6th grade in Kaneland School District 302 in Maple Park. He's enjoyed teaching social studies and math. Although he'll miss his peers and especially the kids, he looks forward to retirement. He plans to travel with his family and take a freighter cruise with a couple of his retired colleagues. He also plans to substitute teach.



Frederick

and Jeff

Millard

Photo by TRS Communications

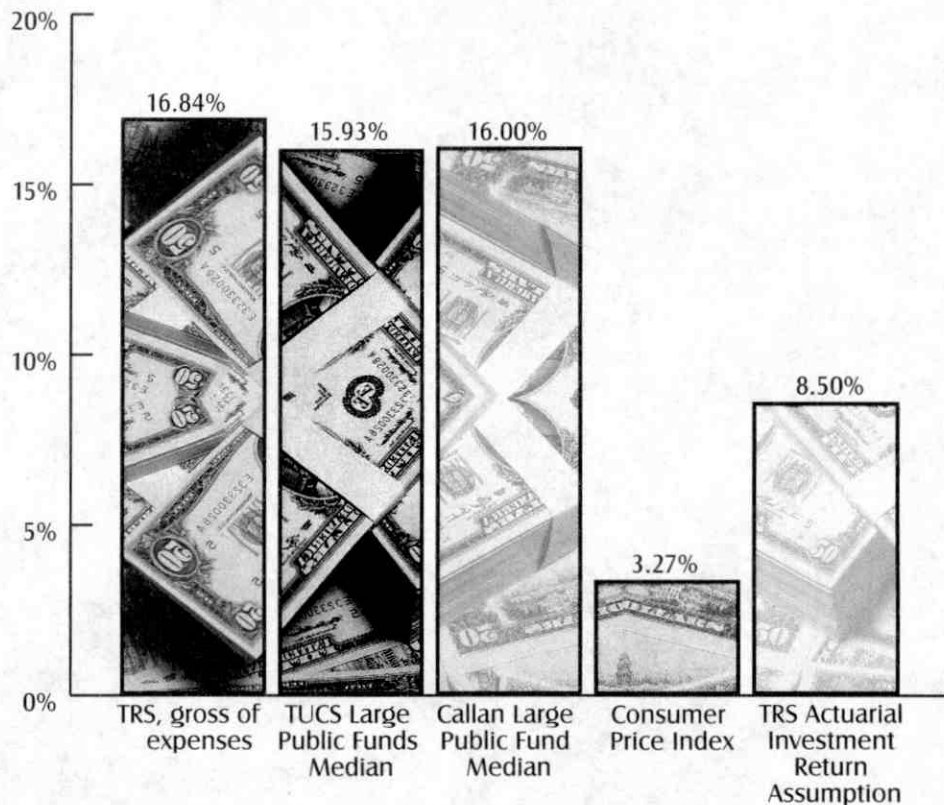
Frederick Millard and his son, Jeff, share more than the family name. Both have taught junior and senior high school, both have taught history, and both have worked as coaches. Frederick, who retired in 1983 with 36 years of service, taught in Bartonville and East Peoria. Jeff, who has 32 years of service, taught at Pleasant Plains and currently teaches physical education at Morton High School. Carrying the family career a little further, Jeff's wife and son are also teachers.

Investments

Introduction

The TRS investment portfolio earned its highest one-year return in six years as an improving economy fueled continued strength in the major stock indices. Overall, TRS reported an impressive 16.5 percent return for FY04, net of all investment fees and expenses. Through TRS's disciplined approach to asset allocation and investment manager selection, the fund proved successful in preserving capital during difficult economic times, while showing strong participation in the current market advance. Over the three-year period, TRS ranks in the top decile of large public funds in Callan Associates' universe and in the top 12 percent in the Wilshire Trust Universe Comparison Service (TUCS).

Return Comparison for the Year Ended June 30, 2004



Source: Callan Associates, Wilshire Associates, The Northern Trust Company

Total TRS investments, including accrued investment income, increased \$8.2 billion during the year ended June 30, 2004. In a sharp turnaround from recent difficult years, all asset classes posted strong positive gains. International equity had the highest one-year net return at 32.8 percent, followed by the domestic equity return of 21.6 percent. Real estate and private equity also produced double-digit gains, returning 13.2 percent and 10.3 percent, respectively. Finally, despite a challenging rising interest rate environment, fixed income managed a positive 0.7 percent return for the year.

In addition to market gains, TRS received \$4.3 billion from the sale of State of Illinois pension obligation bonds (POBs). TRS received the proceeds from the bond issue on July 2, 2003, which were immediately invested in four index funds designed to match the TRS public markets asset allocation. As the year progressed, TRS prudently transferred approximately 63 percent of the index fund assets to active management in order to match the overall allocation targets. The prompt and deliberate investment of these assets produced favorable results. In the first year,

the POB proceeds returned 15.4 percent, net of fees, representing an investment gain of over \$667 million.

The portfolio is fully diversified across different asset classes. Within each asset class there are a number of investment managers to ensure the appropriate diversity across the various investment styles, allowing the portfolio to achieve broad exposure to the market while minimizing risk. This broad diversification serves as the best defense against the uncertainty of volatile world markets.

The TRS trust fund is invested by authority of the Illinois General Assembly under the "prudent person rule," requiring investments to be managed solely in the interest of fund participants and beneficiaries. The TRS Investment Policy guides TRS's investments. Investment principles include preserving the long-term principal of the trust fund, maximizing total return with prudent risk parameters, and acting in the exclusive interest of TRS members. As of June 30, 2004, TRS's total investments, including accrued investment income, at market value totaled \$32,277,078,726.

As master trustee, The Northern Trust Company has provided to TRS, unless otherwise noted, detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities, and other transactions pertinent to the fund for the period July 1, 2003 through June 30, 2004. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2004. Additionally, The Northern Trust Company calculated, in accordance with the Association for Investment Management and Research Performance Presentation Standards, performance rates of return by portfolio, composite, and for all respective indices utilized throughout this section. TRS staff, in collaboration with the staff of The Northern Trust Company, prepared the Investment Section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2004

Total Fund Market Value	\$32.277 billion
One-Year Return (net of fees)	16.5%
Five-Year Return (net of fees)	4.6%
Ten-Year Return (net of fees)	9.6%
Percent Externally Managed	100.0%
Number of External Managers	84
Custodian	The Northern Trust Company
General Consultant	Callan Associates Inc.

TRS is ranked 33rd out of the top 200 U.S. pension funds/plan sponsors in the January 26, 2004, issue of *Pensions & Investments*. Rankings are based on the market value of total assets at September 30, 2003.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2004, TRS's total investments, including accrued investment income, at market value totaled \$32.277 billion, an increase of \$8.176 billion from last year.

A summary of holdings and various assets is discussed throughout the Investment Section. The totals represent the actual assets (gross of any liabilities), amounts due to brokers, and expenses.

The liability portions of the fund are included in the financial statements located on pages 26 and 27.

TRS had a total fund annualized return of 16.8 percent, gross of fees, and 16.5 percent, net of fees, for the one-year period ending June 30, 2004. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS's total return for FY04 surpassed the policy index return of 16.0 percent for the year ended June 30, 2004. The policy index represents a weighted average of each asset class benchmark, based on the total fund's target asset allocation. By exceeding the policy index, TRS showed consistent outperformance across its asset classes. The total return also surpassed the 8.5 percent actuarial return assumption or the real rate of return expectations, which are to exceed the rate of inflation, as measured by the Consumer Price Index, by 5.0 percent.

Performance Summary (Net of fees)

Asset Class/Index	Years ended June 30					Annualized at 6/30/04		
	2004	2003	2002	2001	2000	3 Years	5 Years	10 Years
TRS Total Fund	16.5%	4.9%	(3.2%)	(4.2%)	10.6%	5.8%	4.6%	9.6%
TRS Weighted Policy Index	16.0	3.9	(4.2)	(6.8)	9.7	4.9	3.4	9.2
CPI (Inflation)	3.3	2.1	1.1	3.2	3.7	2.2	2.7	2.5
TRS Equity - U.S.	21.6	0.5	(15.2)	(12.0)	6.5	1.2	(0.6)	10.6
Russell 3000 Index	20.5	0.8	(17.2)	(13.9)	9.6	0.2	(1.1)	11.7
TRS Fixed Income*	0.7	10.7	9.7	7.2	3.7	6.9	6.3	7.1
TRS Weighted Fixed Income Index	0.3	11.1	10.0	7.2	4.3	7.0	6.5	6.8
Lehman Brothers Aggregate Index	0.3	10.4	8.6	11.2	4.6	6.4	7.0	7.4
TRS Equity - International	32.8	(5.2)	(6.8)	(19.5)	19.9	5.5	2.5	6.1
Non-U.S. Equity Index	32.5	(4.2)	(8.2)	(23.8)	18.1	5.3	1.0	4.4
TRS Real Estate	13.2	8.8	2.4	9.8	8.8	8.0	8.5	10.7
Real Estate Property Index	10.8	7.7	5.6	11.2	11.6	8.0	9.4	10.4
TRS Private Equity	10.3	(11.4)	(12.7)	(5.4)	137.7	(5.2)	13.9	26.8
Russell 3000 Index + 3.0%**	24.1	3.8	(14.7)	(11.3)	12.6	3.2	1.9	15.0
TRS Short-Term Investments	1.1	1.5	2.7	6.2	5.9	1.7	3.4	—
ML 91-Day Mark to Markets Index	1.0	1.5	2.7	5.9	5.5	1.7	3.3	4.3
90-Day T-Bill Index	1.0	1.3	2.2	5.4	5.6	1.5	3.1	4.2

The following chart shows the yearly returns for the previous benchmarks.

Asset Class/Index	Years ended June 30				
	2004	2003	2002	2001	2000
TRS Fixed Income - US*	-	-	8.1%	11.3%	4.4%
Salomon BIG Index	-	-	8.5	11.3	4.5
TRS Fixed Income - International*	-	-	15.9	(7.7)	(0.7)
Non-U.S. Bond Index	-	-	15.8	(7.5)	2.4

* During FY03, U.S. fixed income was combined with international fixed income to create a total fixed income asset class. The benchmark assigned to total fixed income is the Lehman Brothers Aggregate Index. The TRS fixed income returns provided are the combined U.S. fixed income and international fixed income returns for prior periods and the current fixed income return.

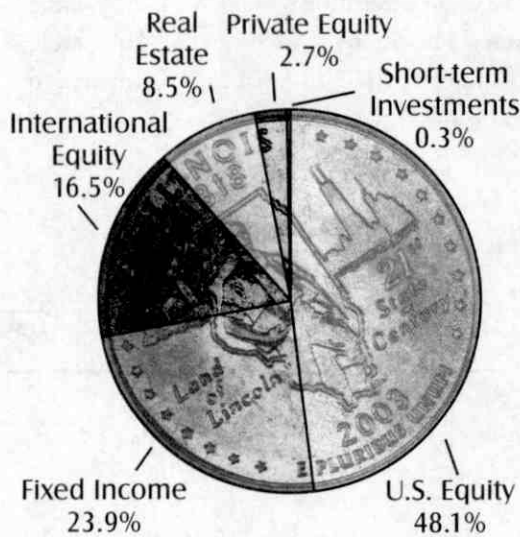
** Index compounded monthly.

Note: Rates of return provided by the Northern Trust Company in accordance with AIMR Performance Presentation Standards.

Asset Allocation vs. Targets

A pension fund's most important investment policy decision is the selection of its asset allocation. Similar to other large institutional funds, TRS maintains a well-diversified portfolio to manage risk effectively.

FY04 Asset Allocation



Long-term Target Allocation

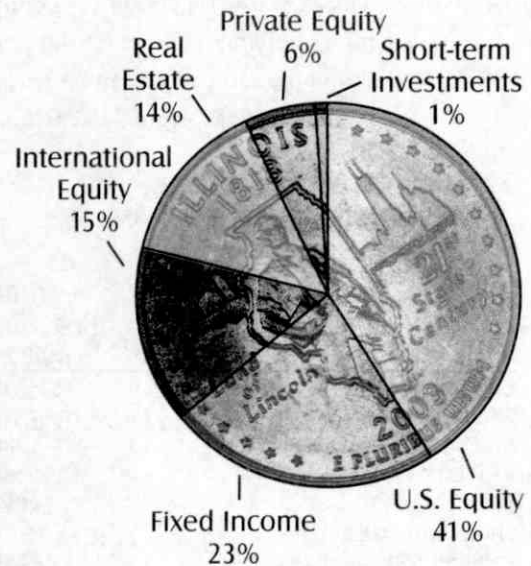


Photo courtesy of Abraham Lincoln Presidential Library



The task of the modern educator is not to cut down jungles, but to irrigate deserts.

— C. S. Lewis

Webster Annex — 1953

TRS's current asset allocation, adopted in 2002, resulted in a shift in assets from fixed income and international equity to real estate and private equity. Due to the nature of the real estate and private equity asset classes, prudence required that the increases in the allocations to these asset classes be implemented in a very measured fashion. Interim targets, as reflected in the following table, were established for FY04. As of June 30, 2004, all asset classes were at or very near these interim targets. TRS anticipates reaching the asset allocation targets in FY06.

The asset mix is periodically compared to the policy targets to determine when rebalancing of the fund or changes to the interim policy targets is necessary. The Strategic Investment Listing table shows the asset allocation targets, as adopted by the Board of Trustees in April 2002, compared to the total assets assigned to each particular asset class at June 30, 2004.

Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/04	FY04			FY03	
	Total Fund \$ Million	Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. Equities	\$15,118	48.1%	43%	41%	46.2%	41%
Fixed Income	7,513	23.9	25	23	25.9	23
International Equities	5,188	16.5	15	15	13.8	15
Real Estate	2,688	8.5	12	14	10.5	14
Private Equity	852	2.7	4	6	2.9	6
Short-Term Investments	79	0.3	1	1	0.7	1
Pending Settlements/Expenses*	839	NA	NA	NA	NA	NA
Total Fund	\$32,277	100.0%	100%	100%	100.0%	100%

*The liability portion is placed within the Statement of Plan Net Assets.

Portfolio Securities Summary

The Portfolio Securities Summary table contains a detailed list of security types. The amounts in this table differ from the allocation percentages shown in the Strategic Investment Listing. The strategic listing represents assets assigned to managers within each asset class, whereas the security summary represents types of financial instruments. The differences are explained by the types of investments each manager is allowed to hold within their portfolio. For example, U.S. equity managers hold not only common stock within their portfolio, but may hold small amounts of short-term investments as well.

The principal differences between the strategic investment approach and the Portfolio Securities summary area:

- The PIMCO StocksPlus assignment is treated as equity on the Strategic Investment Listing but is categorized as bonds and corporate obligations in the securities summary. StocksPlus is an enhanced index product that uses both fixed income and futures to achieve an enhanced equity return.
- Short-term investments included within a manager's portfolio are categorized in the same way as the manager's primary assignment on the Strategic Investment Listing. In the securities summary, these investments are categorized as short-term investments.

Portfolio Securities Summary

	2004		2003	
	Market Value	% of Total	Market Value	% of Total
Bonds, Corporate Notes, and Government Obligations				
U.S. Treasuries	\$1,762,923,105	5.5%	\$965,037,934	4.0%
U.S. Federal Agencies	1,858,404,839	5.7	1,319,700,175	5.5
U.S. Government Backed Mortgages	2,057,781,654	6.4	1,886,965,994	7.8
U.S. Municipals (Taxable)	20,810,508	0.1	49,668,028	0.2
Total Government Obligations	5,699,920,106	17.7	4,221,372,131	17.5
U.S. Corporate Obligations				
Asset Backed Securities	361,674,987	1.1	263,556,176	1.1
Commercial Mortgage Backed Securities	171,824,155	0.5	148,916,199	0.6
Collateralized Mortgage Obligations	308,550,040	1.0	123,275,913	0.5
Commingled/Closed End Funds	1,018,792,907	3.2	893,847,172	3.7
Credit Obligations				
Financial	431,107,376	1.3	679,128,160	2.8
Industrial	695,536,093	2.1	592,210,200	2.5
Utilities	60,100,518	0.2	105,973,297	0.4
Total U.S. Corporate Obligations	3,047,586,076	9.4	2,806,907,117	11.6
Foreign Debt Obligations	341,939,109	1.1	286,570,409	1.2
Total Bonds, Corporate Notes, and Government Obligations	9,089,445,291	28.2	7,314,849,657	30.3
Equities				
Common Stock - U.S.	13,185,157,414	40.8	9,247,447,414	38.4
Preferred Stock - U.S.	46,056,145	0.1	43,419,939	0.2
Common Stock - International	5,249,363,442	16.3	3,279,688,612	13.6
Preferred Stock - International	124,014,221	0.4	78,796,658	0.3
Total Equities	18,604,591,222	57.6	12,649,352,623	52.5
Short Term Investments	1,036,863,444	3.2	1,032,463,461	4.3
Foreign Currency	24,999,284	0.1	23,905,527	0.1
Private Equity	840,390,782	2.6	668,389,537	2.8
Real Estate Equity	2,680,788,703	8.3	2,412,293,598	10.0
TRS Total Portfolio	\$32,277,078,726	100.0%	\$24,101,254,403	100.0%

Reconciliation of TRS Portfolio to Total Investments

	2004	2003
TRS Total Portfolio	\$32,277,078,726	\$24,101,254,403
Less accrued income	(230,705,401)	(165,638,540)
Investments at fair value	\$32,046,373,325	\$23,935,615,863

Securities Holdings (Historical)

Historically, TRS has adopted various asset allocation strategies. The Asset Allocation table shows the actual asset allocation based on asset types for the last five-year period.

Securities Holdings for Years Ending June 30

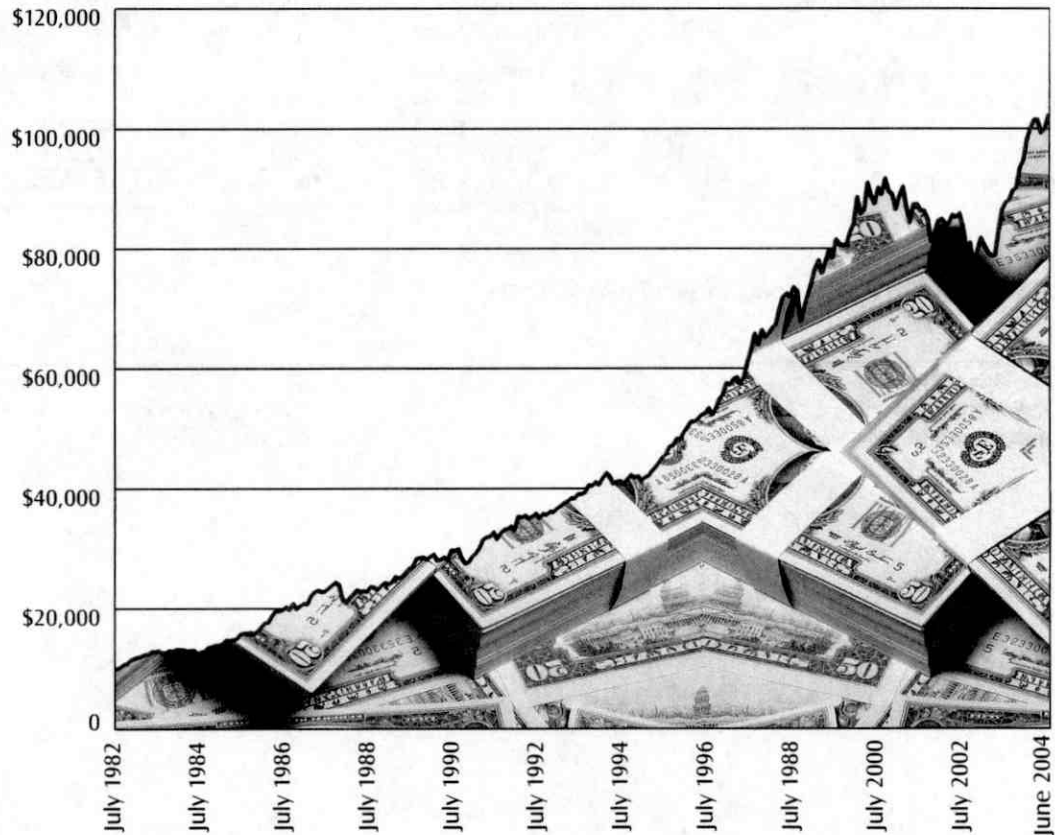
Asset Type	2004	2003	2002	2001	2000
Bonds, Corporate Notes, and Government Obligations	28.2%	30.3%	37.9%	36.4%	35.4%
Equities - International	16.7	13.9	14.4	19.2	19.9
Equities - U.S.	40.9	38.6	29.3	26.3	26.1
Private Equity	2.6	2.8	2.6	2.8	3.5
Real Estate Equity	8.3	10.0	9.5	10.0	9.7
Short-Term Investments	3.3	4.4	6.3	5.3	5.4
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRS

Note: During FY03, the U.S. fixed income asset class was combined with the international fixed income asset to create a total fixed income asset class. TRS's allocation percentage of bonds for prior years is the combined total of U.S. bonds and international bonds.

Over the years, TRS's asset allocation has provided consistent overall returns, as represented by the following chart showing the growth of \$10,000 for the last 22 years.

Growth of \$10,000



Source: TRS

The following sections provide a brief, informative overview of the various asset classes utilized by TRS for the period ending June 30, 2004.

U.S. Equity

U.S. equity, or common stock, represents shares or units of ownership in a public corporation. TRS invests in equities because the asset class offers the opportunity to participate in the overall success of the economy and specific corporations within it. Stockholders share in the growth of a company through an increase in stock price, as well as through the distribution of corporate profits in the form of dividends.

For the fiscal year, TRS's U.S. equity portfolio returned 21.6 percent on a net of fee basis compared to the Russell 3000 Index return of 20.5 percent. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	21.6%	1.2%	(0.6%)	10.6%
Russell 3000 Index	20.5	0.2	(1.1)	11.7

At June 30, 2004, 48.1 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed U.S. equity managers to use active, index, or enhanced index management strategies during FY04.

The top 10 domestic equity holdings, excluding index funds, at June 30, 2004, are listed below and represent 5.4 percent of total U.S. equity holdings. A complete listing of investment holdings is available as a separate report. Additional securities of the firms listed below are included in the index funds managed by State Street Global Advisors and Northern Trust Global Investments.

Top 10 U.S. Equity Holdings

Firm	Market Value
Pfizer, Inc.	\$102,221,383
General Electric Co.	97,843,270
Microsoft Corp.	86,591,778
Citigroup, Inc.	79,791,582
American International Group, Inc.	66,646,800
Hewlett Packard, Co.	65,825,902
Time Warner, Inc.	55,873,530
ConocoPhillips	55,555,904
Xerox Corp.	54,045,850
Dell, Inc.	52,709,739
Total	\$717,105,738

Source: The Northern Trust Company

As of June 30, 2004, TRS employed 20 domestic equity managers. The following chart lists the managers and assets under management.

U.S. Equity Managers and Assets Under Management (inception date of account)

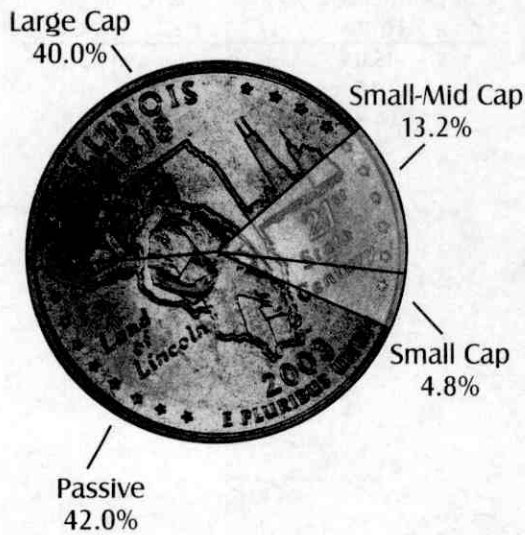
Index	
Northern Trust Global Investments-Large Cap Index (7/03)	\$1,013,602,463
Northern Trust Global Investments-Small/Mid Cap Index (7/03)	221,617,031
State Street Global Advisors-Large Cap Index (11/98)	4,765,297,962
State Street Global Advisors-Small/Mid Cap Index (6/02)	360,613,459
Enhanced Core	
Pacific Investment Management Company, LLC (8/91)	1,425,174,445
Large Cap Value	
Advisory Research, Inc. (9/02)	77,204,504
Bear Stearns Asset Management, Inc. (1/03)	690,618,197
Boston Partners Asset Management, L.P. (1/03)	671,698,731
Dodge & Cox (4/00)	1,456,141,030
EARNEST Partners (2/02)	153,194,477
Great Lakes Advisors, Inc. (9/02)	77,235,588
Large Cap Growth	
Geewax, Terker & Company (3/00)	457,750,927
Holland Capital Management (2/02)	300,900,310
Sands Capital Management (6/04)	354,803,976
Turner Investment Partners (6/04)	360,990,577
Small/Mid Cap Value	
LSV Asset Management (12/02)	550,181,537
NorthPointe Capital (8/01)	415,268,547
Small/Mid Cap Growth	
Delaware Investment Advisers (12/02)	526,967,610
J. & W. Seligman & Company, Inc. (1/03)	261,116,018
Mazama Capital Management, Inc. (1/03)	304,990,500
Small Cap Value	
Ariel Capital (8/01)	397,845,915
Small Cap Growth – Transition Account	
Frank Russell Company (11/03)*	274,413,261

**No fees were paid to the transition account manager.*

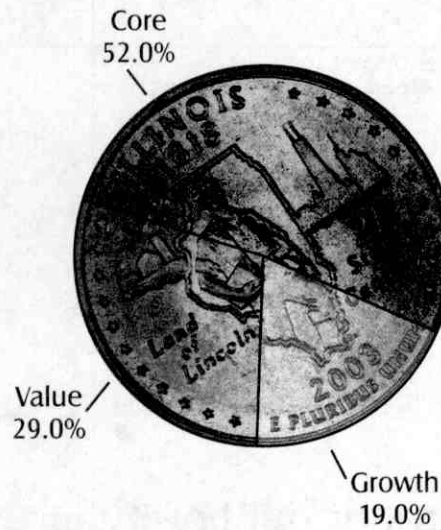
Discussion of U.S. Equity

The long-term target for TRS investments in U.S. equities is 41 percent. Investment managers are chosen to diversify the portfolio on both a capitalization and style basis. This diversification is important to controlling the risk of the portfolio, as well as balancing the portfolio against the broad benchmark and economy.

Capitalization



Market Style



The TRS U.S. equity portfolio continues to outperform the Russell 3000 Index over the one-, three- and five-year periods. TRS's investment managers took a defensive stance during the economic recession and did an excellent job of preserving capital in a difficult market environment. This conservative approach placed TRS above the median in its peer universe.

As the markets began to strengthen, TRS's performance was tempered by its managers' studied avoidance of weaker, highly leveraged companies. These companies often display deceptive short-term gains during the early stages of an economic recovery, yet the unpredictable nature of these gains makes it difficult to execute successfully an investment strategy focused on these securities. By continuing to concentrate on higher quality companies with sustainable business models, TRS believes its investment managers are very well positioned as the economic recovery matures.

Statistical Data

The following two tables convey various statistics, including attribution and sector analysis, of the U.S. equity portfolio as compared to TRS's domestic equity benchmark, the Russell 3000 Index. The Russell 3000 Index is a broad market benchmark representing 98 percent of the investible U.S. equity market.

TRS Domestic Equity as of June 30, 2004

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted Average Market Cap (billions)	\$64.0	\$74.3
Price/Earnings Ratio	19.8x	21.3x
Dividend Yield	1.5%	1.6%
5-Year EPS Growth	9.2%	8.6%
Price/Book Ratio	2.7x	2.9x

Source: The Northern Trust Company

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2004

Sector	Weighting TRS Domestic Equity	Weighting Russell 3000 Index
Consumer Discretionary	15.0%	12.3%
Consumer Durables	7.5	9.1
Energy	6.4	6.0
Financial Services	20.1	21.2
Health Care	13.5	13.9
Industrials	11.5	10.9
Materials	3.6	3.2
Technology	17.2	17.1
Telecommunication Services	2.7	3.1
Utilities	2.5	3.2
Total	100.0%	100.0%

Source: The Northern Trust Company

International Equity

International equity, or common stock, represents shares or units of ownership in public corporations domiciled outside the United States. International investing provides important diversification benefits to the TRS portfolio. While the international economy has increasingly become more global in nature, not all economies move in tandem. TRS's international equity managers are able to participate in the strength of individual markets, thus enhancing the TRS total portfolio. Additionally, corporations worldwide have expanded their global reach. The international equity portfolio is able to seek out superior companies operating multinationally, or companies that are particularly strong in their own markets or industries.

For the year ended June 30, 2004, the international equity asset class returned 32.8 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country World Excluding U.S. Free Index (identified as Non-U.S. Equity Index below and in future references) return of 32.5 percent. One-, three-, five- and 10-year comparisons to this benchmark are in the following table:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	32.8%	5.5%	2.5%	6.1%
Non-U.S. Equity Index	32.5	5.3	1.0	4.4

Photo courtesy of Sangamon Valley Collection at Lincoln Library



Children are the world's most valuable resource and its best hope for the future.

— John F. Kennedy

Loami classroom photo — 1959

At June 30, 2004, 16.5 percent of the TRS investment portfolio was assigned to international equity managers. Listed below are the top 10 international equity holdings of active managers as of June 30, 2004. As is evident in the holdings list, these investments are diversified geographically and include companies that are dominant within their industry and familiar to the U.S. economy. Examples of this type of global companies include Nestle, GlaxoSmithKline, BP (Amoco) and Toyota. These securities represent 10.9 percent of the total international equity holdings. A complete listing of investment holdings is available as a separate report. Additional securities of firms listed below are included in the index funds managed by State Street Global Advisors and Northern Trust Global Investments.

Top 10 International Equity Holdings

Firm	Country	Market Value (USD)
Nestle	Switzerland	\$84,365,402
GlaxoSmithKline	United Kingdom	77,998,542
Telefonica	Spain	60,397,982
ING Groep	Netherlands	55,321,276
Novartis AG	Switzerland	54,816,964
Total SA	France	54,168,733
Takeda Pharmaceutical	Japan	53,977,767
BP	United Kingdom	52,688,752
Banca Intesa	Italy	45,796,717
Toyota Motor Corp.	Japan	44,692,169
Total		\$584,224,304

Source: *The Northern Trust Company*

Photo courtesy of Abraham Lincoln Presidential Library

The main part of intellectual education is not the acquisition of facts but learning how to make facts live.
 — Oliver Wendell Holmes Jr.

Cumberland Elementary School — 1970s



As of June 30, 2004, TRS employed 10 international equity managers. The chart below lists these managers and the assets under management.

International Equity Managers and Assets Under Management (inception date of account)

Index	
Northern Trust Global Investments (7/03)	\$131,801,429
State Street Global Advisors (5/99)	78,710,286
Active Core	
Artisan Partners (3/03)	388,594,398
Brandes Investment Partners, L.P. (2/98)	842,364,416
Capital Guardian Trust Company (2/98)	603,236,694
Delaware International Advisers Ltd. (4/93)	785,987,660
Fidelity Management Trust Company (6/03)	752,961,871
Harris Associates L.P. (3/03)	405,481,982
INVESCO Global Asset Management (N.A.), Inc. (6/00)	749,103,179
Emerging Markets	
Grantham, Mayo, Van Otterloo & Co., LLC (3/03)	449,819,371

Discussion of International Equity

The target for international equities is 15 percent. The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio.

International Equity Manager Structure

Target	
International Equity Total	15.0%
Sub-classes:	
Passive Non-U.S.	2.0
Active Core	90.0
Emerging Markets	8.0
Total	100.0%

International equity markets posted strong returns for the year ended June 30, 2004. The one-year return for the index was 32.5 percent. The Pacific region was the strongest region as it advanced by 41.1 percent led by Japan's 46.2 percent return. The emerging markets, which represent the developing economies in the international markets, were up 33.1 percent followed by Europe's return of 28.9 percent.

Photo courtesy of Rockford Public Library

The secret in education lies in respecting the student.
— Ralph Waldo Emerson

Rockford West High School cafeteria — 1955



The TRS international equity portfolio outperformed its international index by 0.3 percent, returning 32.8 percent, net of fees, compared to the international benchmark return of 32.5 percent. The TRS international equity portfolio benefited by its overweight position in emerging market equities and a propensity for TRS international equity managers to hold smaller capitalization stocks than that of the international index. Both of these segments of the international markets posted very strong returns for the year.

Portfolio Characteristics

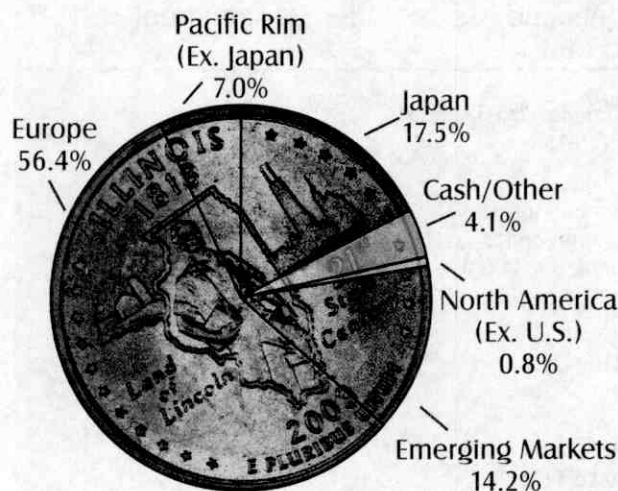
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Market Cap (billions)	\$34.5	\$39.6
Price/Earnings Ratio	15.3x	18.5x
Dividend Yield	2.7%	2.4%
Price/Book Ratio	2.0x	2.0x

Source: The Northern Trust Company and Wilshire Associates

Regional Allocation Comparison June 30, 2004 TRS International Equity Exposure



Fixed Income

Fixed income is a financial obligation of an entity including, but not limited to, corporations, governments, agencies, or municipalities. These entities promise to pay a specified sum of money at a future date and represent a contractual obligation of a debt or a loan. The asset class is important to a well-diversified portfolio because it reduces volatility and creates income streams essential to the growth of the overall portfolio.

For the year ended June 30, 2004, TRS fixed income managers earned a 0.7 percent return compared to the 0.3 percent return of the benchmark, the Lehman Brothers Aggregate Index. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	0.7%	6.9%	6.3%	7.1%
Lehman Brothers Aggregate Index	0.3	6.4	7.0	7.4

FY04 was the first full year of the TRS revised allocation for fixed income. The principal change involved elimination of separate managers for international fixed income. Historically, TRS domestic fixed income managers provided greater returns without the risk of foreign currency exposure. Over the five- and 10-year periods, the domestic managers have performed much more in line with the TRS domestic benchmark.

	FY04	3-Year	5-Year	10-Year
TRS Domestic Fixed Income, net of fees	0.7%	6.4%	7.0%	7.5%
Lehman Brothers Aggregate Index	0.3	6.4	7.0	7.4

As of June 30, 2004, TRS employed 11 fixed income managers overseeing assets of nearly \$7.5 billion, as identified in the Fixed Income Managers and Assets Under Management table. This table categorizes manager assignments as Index, Core Plus, and Core. Core Plus managers are managers with particular skills in high yield investment and non-dollar denominated investments. Following strictly defined parameters, these managers are able to offer enhanced yields while maintaining a conservative risk profile.

Fixed Income Managers and Assets Under Management (inception date of account)

Index	
Northern Trust Global Investments (7/03)	\$184,044,102
State Street Global Advisors (4/03)	820,045,038
Core Plus	
BlackRock Financial Management, Inc. (6/97)	1,495,060,262
Pacific Investment Management Company, LLC (7/82)	1,506,531,181
UBS Global Asset Management, Inc. (4/03)	734,009,566
Core Accounts	
Dodge & Cox Fixed (11/03)	728,416,191
EARNEST Partners Limited, LLC (2/02)	179,651,514
LM Capital Group (3/04)	178,620,125
Payden & Rygel (6/97)	743,668,401
Taplin, Canida & Habacht (3/04)	180,455,982
Weiss, Peck & Greer/Robeco USA (12/91)	744,226,912

William Freeman

32 years of service
Junior and Senior High School
Reed Custer District 255 in Braidwood

Carol Freeman

30 years of service
Kindergarten through High School
Southern Will Co. Special Ed. Cooperative in Joliet

Michael Bruce Photography



The following table lists the top 10 fixed income securities held by TRS's core and core plus managers as of June 30, 2004. These securities represent 11.3 percent of the total fixed income assets. A complete listing of investment holdings is available as a separate report. Additionally, 12.5 percent of the fixed income portfolio is held in index funds managed by State Street Global Advisors and Northern Trust Global Investments.

Top 10 Fixed Income Holdings

Security/Position	Rate	Maturity Date	Market Value
U.S. Treasury Notes	2.50%	05/31/2006	\$206,414,318
Federal National Mortgage Association TBA	5.50	07/15/2034	149,140,550
Federal National Mortgage Association TBA	5.50	07/15/2019	139,187,812
U.S. Treasury Notes	2.00	05/15/2006	112,156,614
Federal National Mortgage Association TBA	5.00	07/15/2034	82,942,359
U.S. Treasury Bonds	6.75	08/15/2006	76,621,197
U.S. Treasury Notes	1.88	12/31/2005	69,417,600
Federal Home Loan Mortgage Corp.	1.50	08/15/2005	69,345,990
Federal National Mortgage Association TBA	5.00	07/15/2019	65,501,383
U.S. Treasury Notes	4.25	11/15/2013	58,399,200
Total			\$1,029,127,023

Source: *The Northern Trust Company*

Discussion of Fixed Income

At June 30, 2004, 23.9 percent of TRS's investment portfolio was assigned to fixed income managers, just slightly under the interim fixed income target of 25.0 percent. FY04 was a difficult year for fixed income managers. Two months, July 2003 and April 2004, represented two of the worst performing months in the history of the domestic bond market, returning a negative 3.4 percent and a negative 2.6 percent, respectively. Overall, TRS fared well, bettering the benchmark by 40 basis points.

During the majority of FY04, TRS fixed income managers initiated a defensive posture relative to the bond market with a below index weight in relative effective duration and extended maturities. Attribution for FY04 shows that value added for the year came from high yield, exposure to non-dollar positions, and Treasury Inflation Protection Securities (TIPS). TRS maintains a relatively conservative approach to fixed income with 96.7 percent of the portfolio's holdings in investment grade securities. Following a tough year in the fixed income markets, it is expected that interest rates will continue to increase following tightening by the Federal Reserve. Short-term rates have already increased with opportunities continuing in the mortgage and credit sectors. Inflation, the enemy of the bond market, will continue to be monitored and TRS managers will continue to be defensive.

Upon retirement, the Freemans plan to take a 21-day cruise to the South Pacific, and then spend time with their children and, they hope, grandchildren. William, who has been a high school principal for 21 years, has enjoyed teaching philosophy, and also teaching at the college level. He'll miss working with his students, staff, and community when he retires. He hopes to continue teaching at the college level upon retirement. Carol, who is a speech and language pathologist, will also miss working with the students. She says, "The kids are the reason I go to work — they are a real hoot!"

Statistical Data

Fixed Income Profile as of June 30, 2004

Characteristic	TRS Fixed	Lehman	TRS Fixed	Lehman
	Income	Brothers	Income	Brothers
	Portfolio	Aggregate	Portfolio	Aggregate
	6/30/04	Bond Index	6/30/03	Bond Index
	6/30/04	6/30/04	6/30/03	6/30/03
Average Maturity	6.7 years	7.4 years	6.3 years	6.7 years
Effective Duration	4.1 years	4.6 years	3.9 years	4.0 years
Average Coupon	5.2%	5.3%	5.4%	5.8%
Average Quality Rating (Moody's)	AA1	AA1	AA1	AA1
Current Yield	4.7%	5.1%	5.1%	5.3%

Source: Lehman Brothers and TRS

Fixed Income Managers

Sector Weighting as of June 30, 2004 – futures exposures included

Sector Weighting	TRS Fixed	Lehman	TRS Fixed	Lehman
	Income	Brothers	Income	Brothers
	Portfolio	Aggregate	Portfolio	Aggregate
	6/30/04	Bond Index	6/30/03*	Bond Index
	6/30/04	6/30/04	6/30/03*	6/30/03*
U.S. Treasury	25.1%	23.8%	24.1%	21.9%
U.S. Federal Agency	8.0	11.3	6.5	12.2
U.S. Credit	17.5	24.6	22.9	27.4
Mortgage-Backed Securities	36.5	35.8	34.8	34.2
Asset Backed Securities	3.6	1.6	3.5	1.8
Commercial Mortgage-Backed	2.3	2.9	1.8	2.5
Other**	7.0	0.0	6.4	0.0

*FY03 percentages were reclassified due to reporting of commercial mortgage-backed sector.

**Other includes non-dollar, cash and cash equivalents, municipals, and miscellaneous.

Source: Lehman Brothers, TRS, and The Northern Trust Company

Photo courtesy of Abraham Lincoln Presidential Library



An investment in knowledge
pays the best interest.
— Benjamin Franklin

East St. Louis school
ground breaking — 1967

Diversification by Quality Rating for Fixed Income Manager Portfolios

Moody's Quality Rating	06/30/04	06/30/03*
Agency*	20.4%	17.7%
Treasury	19.4	14.2
Aaa*	32.9	37.0
Aa1 through Aa3	13.5	14.4
A1 through A3	5.3	6.3
Baa1 through B3	7.9	7.9
Other**	0.6	2.5
Total	100.0%	100.0%

* Certain government-backed mortgages have been moved from agency into Aaa classification for FY03.

** Other includes under B3 and NR ratings.

Source: The Northern Trust Company and TRS

Private Equity

Private equity includes investments that are placed and traded outside of the stock exchanges and other public markets. Over the long term, they are an attractive investment of pension funds, endowments, insurance companies and other sophisticated investors. The investment class benefits the economy by providing needed capital to start up companies and for continued growth in companies, privately held firms, and firms that are restructuring to better compete.

The asset class is commonly referred to as private equity, even though it includes privately placed debt instruments. Often, the debt includes a control position that is similar to equity because it allows the debt holder to influence the operations and management of the company. TRS is widely diversified, investing in all stages of equity and debt-related private equity.

TRS measures private equity performance using the Russell 3000 stock index plus 300 basis points (3 percentage points). As such, the benchmark does not specifically compare performance to the private equity industry, but rather to the TRS long-term expectation that private equity produce returns superior to the public markets. For the one- and three-year periods ending June 30, 2004, private equity was outperformed by this benchmark by 13.8 percent and 8.4 percent, respectively. This is not entirely unexpected as improved performance in the private markets generally lag upturns in the public equity market and, specifically, the stock markets. Long-term results are more indicative of a full market cycle and a better measurement of the success of the asset class and its value to an investment portfolio. The asset class maintains strong long-term results, outperforming the benchmark by 12.0 percent and 11.8 percent for the five- and 10-year periods, respectively. One-, three-, five- and 10-year comparisons to this benchmark are noted in the following table:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	10.3%	(5.2%)	13.9%	26.8%
Russell 3000 Index + 3.0%	24.1	3.2	1.9	15.0

At June 30, 2004, 2.7 percent of the TRS investment portfolio was assigned to the private equity asset class. TRS is currently invested in 49 private equity funds. The following chart lists the partnerships and the current assets under management.

Private Equity Partnerships and Assets Under Management
(inception date of account)

Buyout

Castle Harlan Partners IV, L.P. (5/03)	\$4,049,123
DLJ Merchant Banking Partners, L.P. (9/92)	9,895,831
DLJ Merchant Banking Partners II, L.P. (3/97)	44,055,750
DLJ Merchant Banking Partners III, L.P. (9/00)	80,772,579
Evercore Capital Partners II, L.P. (4/03)	12,063,086
Glencoe Capital Partners III, L.P. (1/04)	5,332,629
Glencoe Capital Institutional Partners III, L.P. (6/04)	5,215,460
GTCR Fund VII/VIIA, L.P. (3/00)	49,872,334
GTCR Fund VIII, L.P. (7/03)	6,303,130
Hispania Private Equity, L.P. (5/04)	270,069
KKR 1996 Fund, L.P. (5/97)	41,383,885
Mesirow Capital Partners VII, L.P. (6/97)	5,204,730
Reliant Equity Partners, L.P. (6/04)	1,415,055
Thayer Equity Investors V, L.P. (5/03)	9,316,290
TPG Partners IV, L.P. (12/03)	5,156,300
Trivest Fund II, Ltd. (6/96)	23,250,347
VS&A Communications Partners II, L.P. (9/95)	9,231,314
WPG Corporate Development Associates V, L.P. (11/97)	14,369,972

Distressed Debt

Carlyle Strategic Partners, L.P. (2/04)*	0
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	14,852,000
OCM Opportunities Fund V, L.P. (6/04)	7,411,582

Special Situations

Apollo Investment Fund V, L.P. (5/01)	60,453,886
Banc Fund VI, L.P. (12/02)	38,514,544
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	50,362,828
HealthPoint Partners, L.P. (6/04)	10,500,000
TCW/Latin America Private Equity Partners, L.P. (5/97)	3,593,789
Warburg Pincus International Partners, L.P. (9/00)	45,200,820

Subordinated Debt

Merit Mezzanine Fund IV, L.P. (2/04)*	0
Prism Mezzanine Fund, L.P. (5/04)*	0
SW Pelham Fund II, L.P. (9/03)	8,712,650
William Blair Mezzanine Capital Fund II, L.P. (5/97)	25,438,875
William Blair Mezzanine Capital Fund III, L.P. (1/00)	32,495,532

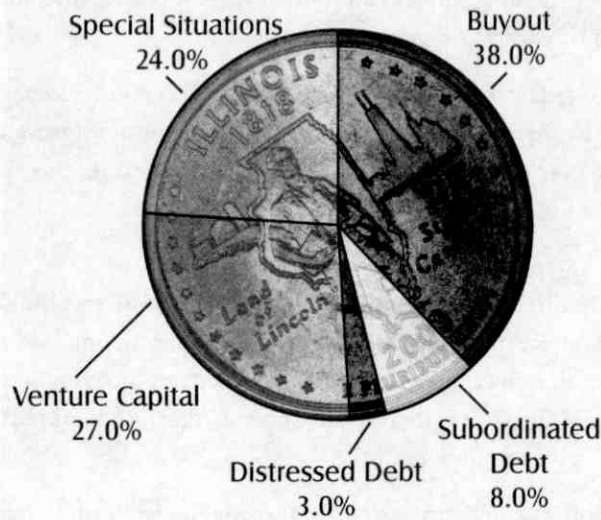
Venture Capital

Apex Investment Fund III, L.P. (6/96)	3,012,020
Apex Investment Fund V, L.P. (8/03)	9,187,618
Carlyle Venture Partners II, L.P. (10/02)	65,461,283
Edgewater Private Equity Fund IV, L.P. (11/03)	3,792,918
Evergreen Partners IV, L.P. (12/02)	4,945,107
Frontenac VI, L.P. (6/93)	1,033,779
Hopewell Ventures, L.P. (6/04)	424,040
Illinois Emerging Technologies Fund, L.P. (6/04)	366,147
Penman Private Equity and Mezzanine Fund, L.P. (10/94)	3,333,682
Periscope Fund I, L.P. (6/97)	595,216
21st Century Communication T-E Partners, L.P. (2/95)	5,701,461
SCP Private Equity Partners, L.P. (5/97)	12,290,000
SCP Private Equity Partners II, L.P. (6/00)	39,880,000
VantagePoint Venture Partners IV, L.P. (6/00)	25,578,783
WPG Enterprise Fund, L.P. (11/89)	348,818
WPG Enterprise Fund II, L.P. (8/94)	14,649,196
WPG Enterprise Fund III, L.P. (3/97)	36,710,264

* Partnership was not funded at June 30, 2004; date reflects the TRS Board of Trustees approval.

As of June 30, 2004, the breakdown of the private equity subclasses was as follows:

Private Equity as of June 30, 2004



Source: TRS

Discussion of Private Equity

In April 2003, the TRS Board of Trustees adopted a target for private equities of 6.0 percent. The chart below provides a further breakdown of the targeted style allocation adopted by the TRS Board.

Private Equity Styles

Target	
Private Equity Total	6.0%
Subclasses	
Buyout	35.0
Subordinated Debt	10.0
Distressed Debt	5.0
Venture Capital	35.0
Special Situations	15.0
Total	100.0%

Photo courtesy of Abraham Lincoln Presidential Library



What sculpture is to a block of marble, education is to the soul.

— Joseph Addison

Bunsen School, Belleville — 1976

As of June 30, 2004, the TRS private equity asset class was underweight relative to its 6 percent target. Given the characteristics of private equity and the availability of appropriate partnerships, increases in allocation to the asset class must be accomplished over longer periods of time. TRS will continue to prudently implement the private equity structure and strive to reach the 6 percent target over a three- to four-year period.

The 10.3 percent return was led by the buyouts and subordinated debt subclasses. Venture capital, which has been depressed by the economic downturn, showed signs of improvement during the second half of the fiscal year and should continue to strengthen as the economy grows.

Real Estate

Real estate investments are direct investments or ownership in land and buildings including apartments, offices, warehouses, shopping centers, hotels, and farmland. TRS also holds partnership interests in entities that purchase and manage property and pass rent and sale income back to TRS. Investment in real estate is intended to increase the TRS total portfolio long-term rate of return and reduce year-to-year volatility.

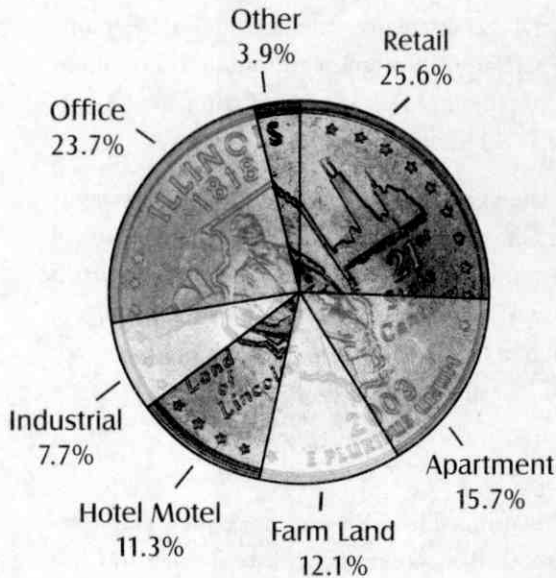
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay program benefits to plan participants and survivors.

As of June 30, 2004, TRS had \$2.7 billion in real estate assets, or 8.5 percent of the total fund portfolio. For the year, TRS's real estate investments returned 13.2 percent, and TRS real estate outperformed the Real Estate Property Index for the second consecutive year. Real Estate performance and benchmark comparison are noted in the following table:

	FY04	3-Year	5-Year	10-Year
TRS, net of fees	13.2%	8.0%	8.5%	10.7%
Real Estate Property Index	10.8	8.0	9.4	10.4

To enhance returns and reduce risk, TRS acquires high quality properties diversified by type and in locations throughout the United States. TRS's real estate holdings by type and geography are shown in the following pie charts.

**Real Estate Holdings by Type
June 30, 2004**



**Geographic Diversification
of Real Estate Holdings
as of June 30, 2004**



Note: The geographic diversification chart does not include farm land.

Professional real estate advisors manage real estate owned by TRS. As of June 30, 2004, TRS had the following managers and assets under management.

**Real Estate Managers and Assets Under Management
(inception date of account)**

Separate Accounts

Capital Associates/Bear Stearns Realty Partners (3/90)*	\$386,681
Capri/Capital Advisors, LLC (12/91)	820,315,190
Cozad/Westchester Asset Management, Inc. (5/91)	318,595,260
Commonwealth Realty Advisors, Inc. I (9/91)	511,873,462
Commonwealth Realty Advisors, Inc. II (11/92)	131,208,673
Commonwealth Realty Advisors, Inc. III (5/03)	29,240,182
Koll Bren Schreiber Realty Advisors I (6/93)	169,597,901
Koll Bren Schreiber Realty Advisors II (5/96)	18,930,381
LPC Realty Advisors I, Ltd. (7/92)	183,657,396
Stone-Levy, LLC (4/95)	296,640,735

Closed End Accounts

Capri/Capital Apartment Fund III (3/90)	\$72,320,881
Carlyle Europe Real Estate Partnership, L.P. (6/03)	28,011,676
DLJ Real Estate Capital Partners, Inc. (3/96)	20,597,055
JBC Opportunity Fund II, L.P.	50,931,733
Heitman Capital Management (7/85)*	45,868
Thayer Hotel IV**	0
RREEF Capital II, L.L.C. (11/96)	29,376,033
Walton Street Capital (7/03)	6,228,804

* In liquidation mode.

** Manager not funded at 6/30/04.

Discussion of Real Estate

TRS leads many of its peers in the size of the real estate portfolio at \$2.7 billion, representing 8.5 percent of total investments.

In FY04, the Board of Trustees authorized additional real estate investments totaling \$650 million through its existing separate account manager relationships and committed \$125 million to new commingled fund managers. Real estate investments are targeted to comprise 14 percent of TRS's total investments, or approximately \$4.4 billion.

As other institutional investors flock to the real estate asset class, competition for quality assets has increased prices of new acquisitions and at the same time has served to enhance the value of TRS's existing real estate assets. This value appreciation contributed to the 13.2 percent return for the most recent fiscal year. Progress over the last 12 months toward the new long-term goal of 14 percent of total investments was restrained in part by the current sellers' market. However, TRS real estate managers remain active and confident on this course.

Brokerage Activity

The following table shows the top 50 listed brokers utilized by TRS external equity managers for the years ended June 30, 2004 and 2003. TRS utilizes a commission recapture and soft dollar program. For the year-ended June 30, 2004, TRS recaptured over \$2.1 million in commissions that were reinvested back into the fund. In addition, TRS earned \$956,410 in soft dollars that were used to pay for fund research and consulting expenses. These amounts reduced the overall listed commissions to \$17.415 million, or by 15.2 percent. During FY04, TRS spent \$709,387 of soft dollar commission balances. At June 30, 2004, TRS had a remaining soft dollar balance of \$90,046. The Board approved the elimination of the TRS soft dollar program effective July 1, 2004, leaving the commission recapture, on-balance sheet program which TRS will continue to use to pay certain plan expenses.

Top 50 Brokers Used by TRS Managers

Broker	FY04 Commission	FY03 Commission
Merrill Lynch & Co. Inc. and all Subsidiaries (Worldwide)	\$2,196,082	\$2,125,870
Goldman Sachs & Co. (Worldwide)	1,338,512	1,527,749
UBS Investment Bank AG and all Subsidiaries (Worldwide)	1,154,271	710,691
Citigroup and all Subsidiaries (Worldwide)	1,025,287	868,382
Morgan Stanley & Co., Inc. (Worldwide)	944,773	942,766
Investment Technology Group, Inc. (Worldwide)	881,918	202,115
Lehman Brothers, Inc. (Worldwide)	731,998	750,500
Deutsche Bank and all Subsidiaries (Worldwide)	638,644	982,543
J.P. Morgan Securities, Inc. (Worldwide)	563,678	444,574
Credit Suisse First Boston and all Subsidiaries (Worldwide)	550,781	579,191

continued

Photo courtesy of Abraham Lincoln Presidential Library

Better than a thousand days of diligent study is one day with a great teacher.
— Japanese Proverb

Lincoln High School faculty, East St. Louis — 1956



Broker	FY04	FY03
Instinet / Lynch, Jones & Ryan (Worldwide)	476,365	477,482
Bear Stearns (Worldwide)	375,982	246,694
Gardner Rich & Co.	334,968	74,155
Loop Capital Markets	322,117	167,313
BNY Brokerage, Inc. (Worldwide)	305,377	780,847
Autranet, Inc.	297,987	153,878
ABN Amro and all Worldwide Subsidiaries	280,125	126,552
Banc of America Securities	243,649	279,461
Frank Russell, Inc.	217,556	379,612
Legg Mason Wood Walker, Inc.	212,342	241,259
Dresdner Kleinwort Wasserstein	210,173	137,786
Liquidnet, Inc.	204,598	110,882
CIBC World Markets	200,352	193,352
Wachovia Capital Markets	180,137	100,654
State Street Brokerage Services	175,719	57,182
Bernstein, Sanford C. & Co. (Worldwide)	163,453	185,965
Jefferies & Company	154,692	301,803
Thomas Weisel Partners	153,971	95,606
Charles Schwab	146,804	184,597
Bridge Trading Company	139,267	115,121
SG Cowen & Company (Worldwide)	134,455	180,397
Cabrera Capital Markets, Inc.	124,497	1,040
RBC Capital Markets, Inc.	123,945	99,290
Robert W. Baird & Company, Inc.	123,639	174,180
First Southwest Co.	118,245	—
McDonald and Company	117,384	102,768
Prudential Equity Group	117,066	185,195
Factset Data Systems	113,901	33,559
HSBC	113,504	209,330
Westminster Research Associates	112,753	8,945
Miller Tabak Hirsch	104,276	100,463
PXP Securities Corp.	103,582	252,694
Weeden & Co.	100,885	74,893
Abel Noser Corporation	99,611	99,332
B Trade Services	94,303	143,004
Buckingham Research Group	87,490	60,067
Needham & Company	84,730	68,679
Cantor Fitzgerald (Worldwide)	79,894	90,686
U.S. Bancorp Piper Jaffray, Inc.	78,713	91,394
Friedman Billings and Ramsey	75,687	35,642
All Others (FY04, 254 Brokers)	3,614,622	4,784,831
Totals	\$20,544,760	\$20,340,971

Source: The Northern Trust Company and TRS

Springfield science teachers — 1930s

Photo courtesy of Sangamon Valley Collection at Lincoln Library



External Manager Fee Payments

For the year ended June 30, 2004, fee payments to external managers totaled \$94.549 million, an increase of 31.1 percent from the year ended June 30, 2003. A summary is provided in the Schedule of Investment Manager Fees table.

Schedule of Investment Manager Fees

Investment Manager/Account	FY04	FY03
Advisory Research, Inc.	\$275,752	\$162,883
Alliance Bernstein Institutional Investment Mgmt.	0	530,590
Apex Investment Partners	2,191,158	578,804
Apollo Investment Fund V, LP	2,138,394	1,927,785
Ariel Capital Management, Inc.	1,296,293	921,691
Artisan Partners Limited Partnership	172,260	32,792
Banc Fund VI, LP	541,855	217,723
Bear Stearns Asset Management, Inc.	1,376,357	414,702
BlackRock Financial Management, Inc.	3,052,635	760,971
Boston Partners Asset Management, LP	1,133,545	390,977
Brandes Investment Partners, LLC	2,801,579	2,057,696
Capital Associates/Bear Stearns Realty Partners	0	14,460
Capri/Capital Advisors, LLC	3,659,356	3,633,837
Capri Capital Apartment Fund III	924,314	244,037
Capital Guardian Trust Company	2,025,589	1,896,845
Carlyle Europe Real Estate Partners, LP	764,408	962,147
Castle Harlan, Inc.	685,862	845,304
Chicago Capital Management, Inc.	0	288,312
Commonwealth Realty Advisors, Inc.	2,752,141	2,403,090
Cozad/Westchester Asset Management, Inc.	1,983,903	1,699,511
Delaware Investment Advisers	2,732,487	1,001,626
Delaware International Advisers, Ltd.	1,412,010	1,293,352
DLJ Merchant Banking Partners, LP	0	0
DLJ Merchant Banking Partners II, LP	432,641	492,482
DLJ Merchant Banking Partners III, LP	1,990,356	1,941,479
DLJ Real Estate Capital Partners, Inc.	253,989	346,664
Dodge & Cox	3,323,862	1,738,574
EARNEST Partners, LLC	865,477	381,143
Evercore Partners, Inc.	428,146	1,530,137
Evergreen IV, L.P.	538,964	854,190
Fidelity Management Trust Company	2,014,290	56,266
Frontenac VI, LP	0	60,000
Geewax, Terker & Company	2,050,143	1,379,137
Glencoe Capital Partners III, LP	688,985	0
Grantham, Mayo, Van Otterloo & Co., LLC	3,107,961	515,131
Great Lakes Advisors, Inc.	115,520	122,677
GTCR Fund VII/VIIA, LP	0	0
Harris Associates LP	1,856,576	380,818
HealthPoint, LLC	462,634	0
Heitman Capital Management	0	0
Hispania Capital Partners	356,363	0
Holland Capital Management, LP	437,718	264,638
Hopewell Ventures, LP	0	0
Illinois VENTURES GP, LLC	0	0
INVESCO Global Asset Management (N.A.), Inc.	1,828,392	1,483,422
J & W Seligman & Co., Inc.	1,011,844	312,616
JBC Opportunity Fund II, LP	1,250,000	520,833
Julius Baer Investment Management, Inc.	0	392,099
Koll Bren Schreiber Realty Advisors	2,917,687	1,413,702

continued

Investment Manager/Account	FY04	FY03
KKR 1996 Fund, LP	0	0
LM Capital Group, LLC	88,479	0
LPC Realty Advisors I, Ltd.	4,275,262	1,866,313
LSV Asset Management	2,411,359	878,561
Martin Currie, Inc.	0	1,391,017
MatlinPatterson Global Advisors, LLC	762,564	0
Mazama Capital Management, Inc.	1,693,755	489,888
MDL Capital Management, Inc.	46,071	137,751
Mesirow Capital Partners VII, LP	315,500	559,500
MFS Institutional Advisors, Inc.	996,792	552,522
Morgan Stanley Investment Management, Inc.	1,033,848	563,003
Neuberger Berman, LLC	572,963	1,404,998
Northern Trust Global Investments	198,691	0
NorthPointe Capital	1,899,758	1,477,169
Oak Associates, Ltd.	0	172,010
Oaktree Capital Management, LLC	24,897	0
Pacific Investment Management Company, LLC	4,098,648	5,046,923
Payden & Rygel	800,116	782,780
Penman Private Equity & Mezzanine Fund, LP	0	0
Periscope I Fund, LP	10,158	23,090
Reliant Equity Investors, LLC	568,130	0
Rogge Global Partners	0	112,832
RREEF Capital II, LLC	399,926	404,859
21st Century Communication T-E Partners, LP	46,720	92,522
Sands Capital Management, Inc.	25,909	0
SCP Private Equity Partners, LP	2,381,189	2,389,770
Smith Whiley & Company	349,084	187,500
State Street Global Advisors	553,745	445,039
Stone-Levy, LLC	1,359,690	1,108,742
Taplin, Canida & Habacht	88,646	0
TCW/Latin American Private Equity Partners, LP	74,721	519,258
Texas Pacific Group	382,364	0
Thayer Capital Partners	872,340	436,170
Thayer Lodging Group, Inc.	0	0
The Carlyle Group	3,750,000	8,262,363
The Carlyle Group/Riverstone	1,511,328	1,091,096
The Edgewater Funds	0	0
The Northern Trust Company (Custody)	502,605	550,000
Trivest Fund II, Ltd.	167,155	231,249
Turner Investment Partners, Inc.	31,153	0
UBS Global Asset Management (Americas), Inc.	986,199	785,488
VantagePoint Venture Partners IV, LP	0	0
VS&A Communications Partners II, LP	61,365	64,455
Walton Street Capital, LLC	138,898	0
Warburg Pincus International Partners, LP	0	0
WPG Corporate Development Associates V, LP	294,030	527,409
Weiss, Peck & Greer/Robeco USA	1,241,403	895,234
WPG Enterprise Fund, LP	4,719	14,139
WPG Enterprise Fund II, LP	163,211	187,541
WPG Enterprise Fund III, LP	617,751	964,461
William Blair Mezzanine Capital Fund II, LLC	180,817	201,694
William Blair Mezzanine Capital Fund III, LLC	715,680	842,544
Total fees paid by TRS	\$94,549,085	\$72,125,033

Note: This schedule was prepared using the cash basis of accounting and differs from the total shown within the Financial Section of this report.

Source: TRS

Securities Lending

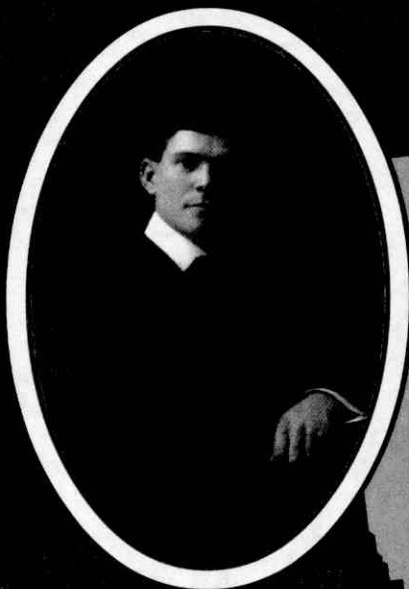
TRS participates in securities lending activity with its custodian, The Northern Trust Company, acting as the securities lending agent. The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, and the amount of collateral for these securities.

Securities Lending Summary

Income Source	Amount
Northern Trust FY04 Net Securities Income	\$9,397,641
Total Northern Trust (6/30/04) Collateral Market Value	\$4,024,263,673
Total Market Value of Securities on Loan Northern Trust (6/30/04)	\$3,921,190,369
Total Collateralized Percentage	103%

Source: The Northern Trust Company

TRS also participates in securities lending within its passive index fund investments managed by State Street Global Advisors and Northern Trust Global Investments. The income earned from securities lending activities within these index funds is reinvested back into the respective index fund.



Man's mind, once
stretched by a new idea,
never regains its original
dimensions.
— Oliver Wendall Holmes

Actuarial



Sara Tisdel, who has taught in Missouri and in St. Charles School District #303, will retire soon with more than 20 years of service teaching 3rd grade and elementary art. "Life is full of possibilities . . ." says Sara when contemplating her future.

She would like to move near her daughter in Oregon. There are mountains to climb, woods to hike, trails to bike, books to be read and canvases to be painted. She will miss the children, the hugs, the energy and excitement they bring, and the lives she touches. She hopes to stay involved in some aspect of education, perhaps open an art school or studio.

Photo by Michael Bracey Photography



November 23, 2004

Board of Trustees
Teachers' Retirement System
of the State of Illinois
2815 West Washington Street
Springfield, Illinois 62794

Subject: Pension Benefit Obligation as of June 30, 2004

Ladies & Gentlemen:

Based upon our annual actuarial valuation of the Teachers' Retirement System of the State of Illinois, we have determined the pension benefit obligation of the System to be \$50,947,451,000 as of June 30, 2004. The valuation was performed in accordance with generally accepted actuarial principles and procedures, using the projected unit-credit actuarial cost method.

The actuarial valuation was based on a census of retired members as of June 30, 2004, and a census of active and inactive members as of June 30, 2003, which were submitted to us by the System. While we did not verify the data at their source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation.

Presented in the Financial Section of the System's Annual Financial Report, there is a schedule of Required Supplementary Information. This schedule has been reviewed by the actuary and is consistent with the valuation report. The Actuarial Section of the Annual Financial Report also contains various schedules: Actuarial Valuation with Market Value Assets, Reconciliation of Unfunded Liability, State Funding Amounts, Funded Ratio Test, Unfunded Liability as a Percentage of Payroll Test and Solvency Test. While the actuary did not prepare these schedules, they are in agreement with the valuation report and their accuracy has been verified.

The amortization method established by PA 88-0593, as amended by PA 90-0582 and further amended by PA 93-0002, which is used for funding purposes, does not meet the parameters of GASB Statement No. 25. The amortization method used is a 15-year phase-in to a level percent of payroll – before reduction for the maximum state contribution limitations of the Act – until a 90% funding level is achieved by June 30, 2045, with the remaining amortization period being 41 years. The actuarial assumptions, actuarial cost method, and asset valuation method used for funding purposes do meet the parameters of GASB Statement No. 25.

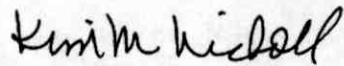
Suite 1400 One North Dearborn Street Chicago, IL 60602-4336
(312) 846-3000 Office (312) 846-3999 Fax
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Board of Trustees
Teachers' Retirement System
of the State of Illinois
November 23, 2004
Page 2

The valuation is based on the benefit provisions of TRS in effect on June 30, 2004. The actuarial assumptions used in the valuation are those specified by the Board of Trustees of the System based on recommendations made by the actuary.

In our opinion, the amount of \$50,947,451,000 is a fair representation of the pension benefit obligation of the System as of June 30, 2004.

Respectfully submitted,



Kim M. Nicholl
Principal, Consulting Actuary

KMN:pl
7228/C3401RET01-PBO2004.doc

Photo courtesy of Sangamon Valley Collection at Lincoln Library



The mediocre
teacher tells. The
good teacher
explains. The
superior teacher
demonstrates. The
great teacher
inspires.
— Arthur Ward

Divernon Humphrey School

Actuaries estimate the cost of benefits members and survivors will receive over their lifetimes and calculate the amount that should be set aside each year to fund them.

TRS complies with the requirements issued by the Governmental Accounting Standards Board (GASB) under Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Actuarial Assumptions and Methods

Each year the actuary reconciles the differences between major actuarial assumptions and experience in the process of explaining the change in TRS's unfunded liability. The unfunded liability is the difference between the accrued liability (the present value of benefits including the cost of annual increases) and the net assets that are available to cover the liability.

Inflation: 3.5 percent per annum. Implicit in investment and earnings progression assumptions. Adopted in the FY02 valuation.

Investment return: 8.5 percent per annum, compounded annually. Adopted in the FY97 valuation. Components revised in FY02 valuation: inflation 3.5 percent, real return 5.0 percent, with overall 8.5 percent assumption retained.

Earnings progression: Merit and longevity increases, adjusted for inflation. Approximates 6.5 percent per year to the earliest date of retirement eligibility. Adopted in the FY02 valuation.

Rates shown below include the inflation assumption.

Sample annual percentage salary increases:

Age	Male and Female
20	10.1%
25	9.2
30	7.7
40	6.5
50 and above	5.9

Retirement age: Graduated rates based on age and gender of active members. Inactive members are assumed to retire at age 62 if they have fewer than 10 years of service or at age 60 if they have 10 or more years of service. Adopted in the FY02 valuation.

Sample annual retirements per 1,000 participants:

Age	Male	Female
54	80.0	70.0
55	160.0	135.0
60	260.0	185.0
65	350.0	315.0
70	1,000.0	1,000.0

Mortality: For active members: 74.6 percent of the 1995 George B. Buck Mortality Table rates for males and 83 percent of the George B. Buck Mortality Table rates for females. For annuitants: 95.6 percent of the 1995 George B. Buck Mortality Table rates for males and 100 percent of the George B. Buck Mortality Table rates for females. For beneficiaries, the 1995 George B. Buck Mortality Tables rated forward three years for males and rated forward one year for females. For the period after disability retirement, the Pension Benefit Guaranty Corporation rates for male disabled lives not necessarily receiving Social Security benefits, rated back two

years for females and rated forward five years for males, but not less than the rate at age 65 (after the setback). Adopted in the FY02 valuation.

Disability: Adopted in the FY02 valuation.

Sample annual disabilities per 1,000 participants:

<u>Age</u>	<u>Male</u>	<u>Female</u>
25	0.34	0.72
30	0.38	0.81
40	0.53	1.11
50	1.10	2.31
60	3.66	7.70

Termination from active service: Adopted in the FY02 valuation.

Sample annual terminations per 1,000 participants:

<u>Age</u>	<u>Nonvested Members</u>		<u>Vested Members</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	88.0	105.0	61.1	90.0
30	88.0	105.0	41.2	80.0
40	88.0	75.0	15.8	25.0
50	88.0	65.0	10.4	16.5
60	88.0	65.0	18.6	22.8

Severance pay: Increases with years of service at retirement. Adopted in the FY02 valuation.

<u>Years of Service at Retirement</u>	<u>Percent of Retirees Who Receive Severance Pay</u>	<u>Severance Pay as a Percent of Final Salary</u>
fewer than 20	0.0%	0.0%
20-24	51.0	12.9
25-29	65.0	14.9
30 or more	79.0	16.9

Optional service at retirement: The accrued liability for retirement benefits for active members who have not previously purchased optional service is increased by 1.9 percent to cover the employer cost of optional service purchased in the last two years of service. The overall assumption for optional service (out-of-system plus leaves of absence and layoff) is an average of 0.969 of a year per full-time/part-time service retiree. Adopted in the FY02 valuation.

Unused and uncompensated sick leave: Equals 2.83 percent of regular service at retirement. Adopted in the FY02 valuation.

Actuarial cost method: Projected unit credit. Gains and losses are reflected in the unfunded liability. Adopted in the FY89 valuation.

Asset valuation method: Market value. Adopted in the FY97 valuation.

Under the projected unit credit cost method used by TRS, the resulting liability for benefits earned is called the "pension benefit obligation," or PBO. A broader term for this liability is "actuarial accrued liability," or AAL. In other words, the PBO is a type of AAL.

Also, measures of TRS's financial condition for both June 30, 2004, and June 30, 2003, are shown using market value of assets. These tests are consistent with TRS's financial statements, which are prepared in accordance with GASB Statement No. 25. The change to market value was first effective June 30, 1997, for determining state funding requirements for FY99.

The actuarial value of assets for FY04 and FY03 is equal to the "net assets held in trust for pension benefits" as shown in the financial statements.

Annual Actuarial Valuation

The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned to date. The unfunded liability is the present value of future benefits payable that are not covered by assets as of the valuation date.

The **funded ratio** shows the percentage of the accrued liability covered by net assets at market value.

Actuarial Valuation with Market Value Assets (\$ in thousands)

	Years Ended June 30	
	2004	2003
Total actuarial accrued liability	\$50,947,451	\$46,933,432
Less actuarial value of assets (net assets at market value)	\$31,544,729	\$23,124,823
Unfunded liability	\$19,402,722	\$23,808,609
Funded ratio	61.9%	49.3%

Reconciliation of Unfunded Liability

The net decrease in the June 30, 2004, unfunded liability of \$4.406 billion was caused by a combination of factors.

The **employer cost in excess of contributions** is the shortfall between actual employer contributions and the amount needed to cover the cost of benefits earned during the year and to keep the unfunded liability from growing. In 2004, this shortfall was \$1.519 billion.

Public Act 93-0002 provided TRS with \$4.330 billion in pension obligation bond proceeds. The immediate effect was to reduce the unfunded liability by the same amount. Beginning with FY05, the computation of the State of Illinois required contribution for a fiscal year will not exceed the State of Illinois contributions that would have been required had the general obligation bond program not been in effect, reduced by the total debt service for each year for the TRS portion of the general obligation bond proceeds.

TRS experienced an actuarial loss under the **salary increase** assumption in FY04, with salary increases \$217 million higher than expected. However, actuarial gains occurred under the **investment return** assumption. Assets were assumed to earn \$2.317 billion, but earnings were actually \$4.486 billion. Therefore, the total actuarial gain due to investments was \$2.169 billion.

Actuarial gains also occurred under the **mortality** assumptions because more people died than expected. Actuarial losses were incurred under the turnover assumption because fewer people left service than assumed. Additionally, many members repaid refunds in FY04, and the repurchased service increased the unfunded liability. There were also losses associated with the ERO

contribution rates and the ERO contribution waivers for members who have 34 years of service. **Delayed reporting** of retirements also increased the unfunded liability because more people were receiving benefits than expected. **Other**, which is a balancing item, includes the effect of retirements effective in June 2003 or earlier that were not reported to TRS and the actuary until after June 30, 2003 and several other factors.

Reconciliation of Unfunded Liability (\$ in thousands)

	Years Ended June 30	
	2004	2003
Unfunded liability at beginning of year	\$23,808,609	\$20,681,389
Additions (Deductions)		
Employer cost in excess of contributions	1,518,858	1,415,610
Pension obligation bond proceeds under PA93-0002	(4,330,374)	
Maximum sick leave credit increased to two years	—	37,000
State ERI	—	10,850
Extend 24 months benefit reductions for 2.2 upgrades	—	6,000
Actuarial losses (gains) compared to assumptions		—
Salary increases for continuing active members	217,255	171,802
Investment return	(2,168,876)	827,434
New entrant loss	19,078	27,026
Mortality other than expected	(42,065)	(31,913)
Fewer terminations than expected	18,999	17,211
Repayments of refunded member contributions ¹	7,739	28,742
ERO costs waived for those with 34 years of service	349,622	334,583
Delayed reporting of retirements (effect on assets) ²	4,621	28,377
Other	(744)	254,498
Net actuarial losses (gain)	(1,594,371)	1,657,760
Net additions (reductions)	(4,405,887)	3,127,220
Unfunded liability at end of year	\$19,402,722	\$23,808,609

¹ Includes the employer-paid portion of the benefit that was restored when members repaid previously refunded contributions.

² 798 retirements which occurred prior to 7/1/02 were not reported to the actuary until 6/30/03.
316 retirements which occurred prior to 7/1/03 were not reported to the actuary until 6/30/04.

State Funding

Three significant changes to TRS funding have been made in the past several years. All of them are evidence of the state's commitment to strengthen TRS's financial condition over the long-term.

Public Act 88-0593 was enacted in 1994 and first affected state contributions in FY96. The law established the current 50-year funding plan that includes a 15-year phase in period. During the phase-in period, contributions are gradually increased to a percentage level of active member payroll. By the end of the funding period in FY45, TRS will have a 90 percent funded ratio. A key feature of this act is the "continuing appropriation" language that requires state contribution to be made automatically to TRS. Pension contributions are no longer subject to budget negotiations.

Public Act 90-0582, the 2.2 legislation, was enacted in 1998 and first affected state contributions in FY99. The act established minimum state contribution rates so that the state's cost of

the formula change would be paid as a level percent of pay instead of being phased in. Those minimum state contribution rates were in effect from FY99 through FY04.

Public Act 93-0002, the pension obligation bond (POB) legislation, was enacted in 2003 and first affects state contributions in FY05. Of the total \$10 billion in POB proceeds, \$523 million was used to cover initial interest payments and to fund bond issuance and other costs. The next \$2.160 billion was used to reimburse the state for contributions it made to the five state retirement systems for some of FY03 and all of FY04. The remaining \$7.317 billion was allocated among the systems to invest and to reduce their unfunded liabilities. The allocation was based on the relative sizes of the systems' June 30, 2002, unfunded liabilities. The TRS share of the proceeds, \$4.330 billion, was received on July 2, 2003.

Beginning with FY05 state contributions, appropriations to the state retirement systems are reduced by the amount of each system's share of the POB debt service. The actuaries go through a multi-step process to calculate state funding requirements that do not exceed certain maximums specified in the act. This will continue through FY33, the last year that debt service is due.

The integrity of the funding plan, particularly its continuing appropriation provision, remains a top priority for TRS.

State Funding Amounts

The FY04 actuarial valuation was used to determine the required state contributions for FY06 and the FY06 employer's normal cost. The FY03 actuarial valuation was used to determine FY05 state funding requirements and the FY05 employer's normal cost.

State Funding Amounts

	FY06	FY05
Benefit Trust Reserve*	\$1,055,737,000	\$903,928,000
(excludes federal contributions; excludes school district contributions for 2.2)		
Minimum benefit reserve	2,800,000	3,100,000
Total state funding amount	\$1,058,537,000	\$907,028,000
Employer's normal cost as a percentage of active member payroll	8.27%	8.32%

* Includes \$1,447,000 in FY06 pursuant to Public Act 92-0839 and \$1,684,000 in FY05 pursuant to Public Act 92-0566 in state contributions for a state employee early retirement incentive that included state employee TRS members.

Photo courtesy of Abraham Lincoln Presidential Library



The most important part of teaching is to teach what it is to know.
— Simone Weil

Longfellow Grade School — 1965

Tests of Financial Condition

The **funded ratio** shows the percentage of the accrued liability covered by net assets.

Funded Ratio Test (\$ in thousands)

As of June 30	Net Assets at Market	Actuarial Accrued Liability	Funded Ratio at Market
1995	\$13,374,278	\$23,980,566	55.8%
1996	15,103,927	26,141,794	57.8
1997	17,393,108	26,951,585	64.5
1998	19,965,887	29,908,241	66.8
1999	22,237,709	33,205,513	67.0
2000	24,481,413	35,886,404	68.2
2001	23,315,646	39,166,697	59.5
2002	22,366,285	43,047,674	52.0
2003	23,124,823	46,933,432	49.3
2004	31,544,729	50,947,451	61.9

The **unfunded liability as a percentage of payroll** is a standard measure of the relative size of the unfunded liability. Decreases in this percentage indicate improvements in a system's financial position.

Unfunded Liability as a Percentage of Payroll Test (\$ in thousands)

Year Ended June 30	Approximate Member Payroll	Unfunded Liability	Percentage of Payroll
1995	\$4,417,000	\$11,338,701	256.7%
1996	4,734,000	11,037,867	233.1
1997	5,013,000	9,558,477	190.7
1998	5,323,000	9,942,354	186.8
1999	5,698,000	10,967,804	192.5
2000	6,063,000	11,404,991	188.1
2001	6,431,000	15,851,051	246.5
2002	6,785,000	20,681,389	304.8
2003	7,059,000	23,808,609	337.3
2004	7,281,000	19,402,722	266.5

Beginning in FY96, unfunded liabilities are calculated using assets at market value.

The **solvency test** measures TRS's ability to cover different types of obligations if the plan was terminated and is hypothetical. The columns are in the order that assets would be used to cover certain types of obligations. Employee contributions would be refunded first, amounts due for current beneficiaries would be covered next, and the employer's obligation for active members would be covered last. Columns 1 and 2 should be fully covered by assets. The portion of column 3 that is covered by assets should increase over time. TRS passed the minimum standards of the solvency test from 1997 through 2001.

Photo courtesy of Abraham Lincoln Presidential Library

The real object of education is to have a man in the condition of continually asking questions.

— Mandell Creighton

Belleville biology lab — 1966



Solvency Test (\$ in thousands)

Year Ended June 30	Aggregate Accrued Liabilities for			Actuarial Value of Assets*	Percentage of Benefits Covered by Net Assets		
	Members' Accumulated Contributions (1)	Participants Currently Receiving Benefits (2)	Active Members Employer Portion (3)		(1)	(2)	(3)
1995	\$2,846,405	\$12,702,258	\$8,431,903	\$12,641,865	100%	77%	0%
1996	3,002,052	13,351,367	9,788,375	15,103,927	100	91	0
1997	3,329,075	13,091,057	10,531,453	17,393,108	100	100	9
1998	3,651,119	13,830,583	12,426,539	19,965,887	100	100	20
1999	3,956,022	14,935,811	14,313,680	22,237,709	100	100	23
2000	4,179,403	16,481,570	15,225,431	24,481,413	100	100	25
2001	4,386,648	18,718,472	16,061,577	23,315,646	100	100	1
2002	4,688,042	22,105,192	16,254,440	22,366,285	100	80	0
2003	5,622,026	25,188,870	16,122,536	23,124,823	100	69	0
2004	5,853,274	28,286,916	16,807,261	31,544,729	100	91	0

* Beginning in FY96, assets are at market value.

Other Information

The following three schedules are presented in this section, rather than the statistical section, to comply with GFOA guidelines.

- Retirees and Beneficiaries Added to and Removed from Rolls
- Average Annual Salary for Active Members by Years of Service (June 30, 1995, through June 30, 2004)
- Active Members by Age and Years of Service (as of June 30, 2004)

These schedules were prepared by TRS staff, not our actuarial consulting firm.

In preparing the annual actuarial valuation each June 30, the TRS actuaries use active and inactive member data as of the previous June 30, with active member salaries increased by 4.0 percent. The current year's valuation is the basis of the state funding certification for the next fiscal year and must be submitted annually by November 15.

Photo courtesy of Sangamon Valley Collection at Lincoln Library



Springfield High School Cafeteria — 1940

Retirees and Beneficiaries Added to and Removed from Rolls

Year Ended June 30	Number at Beginning of Year	Added to Rolls	Removed from Rolls	Number at End of Year	End-of-Year Annual Allowances		Average Annual Allowance	
					Amount	% Increase	Amount	% Increase
1995	54,888	6,822	2,076	59,634	\$1,074,305,808	22.2%	\$18,015	12.6%
1996	59,634	2,063	2,033	59,664	1,132,033,161	5.4	18,973	5.3
1997	59,664	1,847	2,159	59,352	1,173,889,332	3.7	19,778	4.2
1998	59,352	1,954	2,156	59,150	1,218,829,800	3.8	20,606	4.2
1999	59,150	3,445	2,287	60,308	1,322,451,864	8.5	21,928	6.4
2000	60,308	4,168	2,354	62,122	1,457,736,912	10.2	23,466	7.0
2001	62,122	5,197	2,442	64,877	1,643,900,223	12.8	25,339	8.0
2002	64,877	5,391	2,319	67,949	1,852,194,540	12.7	27,259	7.6
2003*	67,949	9,404	3,922	73,431	2,181,186,831	17.8	29,704	9.0
2004	73,431	6,016	2,542	76,905	2,432,132,334	11.5	31,625	6.5

*In the year ended June 30, 2003, statistical programs were revised and improved. This resulted in a much larger number reported as added to the rolls.

Please refer to the Statistical Section for the following information:

- Retired Members by Years of Service and Years in Retirement, June 30, 2004
- Schedules of Average Monthly Benefits, June 30, 2004
 - Retirement Benefits
 - Disability Benefits
 - Survivor Benefits

The schedules appearing in the Statistical Section were also prepared by TRS staff. The Statistical Section also contains schedules for Revenue by Source, Expenses by Type, Benefit Expenses by Type, and Participating Employers.



I have so much I can teach
 her and pull out of her. I
 would say you might
 encounter defeats but you
 must never be defeated. I
 would teach her to love a
 lot. Laugh at the
 silliest things and be very
 serious. I would teach her
 to love life. I could do that.
 — Maya Angelou

Average Annual Salary for Active Members by Years of Service

Years of Service		1995	1996	1997	1998
0-5	Number	34,193	33,700	33,134	33,325
	Average Salary	\$28,851	\$29,867	\$30,717	\$31,495
6-10	Number	18,757	19,716	20,340	20,329
	Average Salary	\$36,465	\$37,315	\$38,170	\$39,047
11-15	Number	12,686	13,013	13,830	14,571
	Average Salary	\$41,715	\$42,905	\$44,258	\$45,659
16-20	Number	14,775	14,579	14,295	13,004
	Average Salary	\$46,662	\$47,929	\$49,309	\$50,650
21-25	Number	16,030	15,754	15,235	14,494
	Average Salary	\$51,295	\$52,679	\$54,096	\$55,498
26-30	Number	9,608	11,474	12,977	13,904
	Average Salary	\$55,543	\$56,865	\$58,168	\$59,694
31-35	Number	1,930	2,456	3,525	4,845
	Average Salary	\$58,460	\$59,383	\$61,434	\$63,985
35 +	Number	541	549	611	644
	Average Salary	\$59,672	\$61,618	\$62,841	\$65,222
	Total Number	108,520	111,241	113,947	115,116
	Average Salary	\$40,455	\$41,903	\$43,398	\$44,769
	% Change Average Salary	(0.4%)	3.6%	3.6%	3.2%
	Total Payroll Full & Part-time	\$4,390,176,600	\$4,661,331,623	\$4,945,071,906	\$5,153,628,204

Annual salaries are computed using full- and part-time salary rates only; substitute and hourly employee salaries are omitted.

Total payroll shown will be lower than payroll figures used elsewhere in this report.

Coworkers and friends, Linda and Marian both plan to retire within five years, but will miss the students. Linda, who enjoys teaching English and math the most, plans to enjoy retirement, travel, and possibly substitute teach. Marian hopes to travel and spend time with her grandchild.

1999	2000	2001	2002	2003	2004
34,831 \$32,430	35,192 \$33,070	38,585 \$34,614	41,120 \$36,242	38,074 \$37,960	36,951 \$37,633
21,540 \$40,320	24,053 \$41,616	24,351 \$43,457	24,258 \$45,300	25,020 \$46,740	26,027 \$45,568
15,461 \$47,430	15,661 \$49,109	16,367 \$50,875	16,812 \$52,761	17,334 \$53,931	18,307 \$52,771
11,969 \$52,477	11,304 \$54,335	11,692 \$56,521	12,215 \$59,011	12,860 \$60,788	13,358 \$59,820
14,006 \$57,256	13,363 \$58,918	13,091 \$61,188	12,575 \$63,599	11,152 \$65,427	10,868 \$64,881
14,541 \$61,866	14,278 \$64,254	13,885 \$65,913	13,256 \$68,501	12,429 \$70,066	12,488 \$69,276
6,018 \$67,373	6,895 \$70,455	7,555 \$73,433	7,484 \$76,413	7,107 \$76,676	9,186 \$75,643
692 \$67,453	713 \$71,036	809 \$75,469	843 \$78,831	804 \$78,091	1,162 \$77,805
119,058 \$46,306	121,459 \$47,665	126,335 \$49,230	128,563 \$50,895	124,780 \$52,408	128,347 \$52,181
3.4%	2.9%	3.3%	3.4%	3.0%	(0.4%)
\$5,513,099,748	\$5,789,343,235	\$6,219,472,050	\$6,543,213,885	\$6,539,470,240	\$6,697,274,807

Photo by Michael Bracey Photography



Marian Schouten

28 years of service
K, 2nd through 5th
Learning Disabilities —
K through 6th
Homer District 33
in Homer Glen and
Flossmoor District 161
in Chicago Heights

Linda McCune

25 years of service
4th Grade
Homer District 33
in Homer Glen

Active Members by Age and Years of Service as of June 30, 2004

Age		Subs	Years of Service			
			0-5	6-10	11-15	16-20
20-24	Number	4,143	5,186	2		
	Average Salary	\$3,644	\$32,893	\$48,056		
25-29	Number	3,863	14,430	3,797		
	Average Salary	\$4,053	\$36,762	\$41,156		
30-34	Number	2,617	5,495	8,879	2,405	
	Average Salary	\$3,885	\$39,298	\$45,055	\$48,871	
35-39	Number	2,969	3,039	3,404	4,872	1,499
	Average Salary	\$3,800	\$39,087	\$46,798	\$52,344	\$57,217
40-44	Number	4,306	3,019	2,704	2,588	3,796
	Average Salary	\$3,987	\$38,173	\$45,555	\$52,966	\$59,386
45-49	Number	4,000	2,634	2,978	2,836	2,495
	Average Salary	\$4,372	\$39,609	\$46,352	\$51,831	\$59,826
50-54	Number	3,604	2,006	2,868	3,541	3,273
	Average Salary	\$4,541	\$42,160	\$48,507	\$54,643	\$59,786
55-59	Number	2,323	853	1,119	1,650	1,852
	Average Salary	\$4,382	\$44,280	\$49,998	\$55,823	\$62,292
60-64	Number	1,102	246	235	366	388
	Average Salary	\$4,427	\$45,065	\$50,415	\$57,808	\$62,772
65-69	Number	454	32	35	42	47
	Average Salary	\$3,813	\$39,394	\$55,792	\$54,778	\$60,044
70-74	Number	168	8	6	7	7
	Average Salary	\$3,594	\$51,355	\$33,393	\$56,669	\$42,443
74 +	Number	94	3			1
	Average Salary	\$3,127	\$44,299			\$94,343
	Total Number	29,643	36,951	26,027	18,307	13,358
	Average Salary	\$4,079	\$37,634	\$45,568	\$52,771	\$59,820

Photos courtesy of Carbondale Elementary School District



Carbondale Lincoln Junior High School – 1984



<u>Years of Service</u>							Full and Part-time Member Totals
21-25	26-30	31-35	36-40	41-45	46-50	51-55	
							5,188 \$32,899
							18,227 \$37,678
							16,779 \$43,717
							12,814 \$48,297
1,300 \$62,311							13,407 \$50,864
4,251 \$65,119	2,771 \$66,277						17,965 \$55,614
3,118 \$65,166	7,149 \$69,969	4,873 \$72,545					26,828 \$62,240
1,685 \$65,707	2,058 \$70,668	3,765 \$79,851	608 \$76,705				13,590 \$66,565
448 \$65,907	433 \$70,445	472 \$74,501	376 \$80,621	51 \$75,183			3,015 \$65,601
60 \$59,381	70 \$69,112	63 \$72,685	44 \$72,044	46 \$84,832	12 \$72,816		451 \$64,882
6 \$51,768	6 \$70,013	8 \$67,563	9 \$60,621	1 \$28,150	8 \$62,696	1 \$57,755	67 \$55,362
	1 \$58,852	5 \$83,973	1 \$96,336	2 \$81,114	1 \$51,016	2 \$118,193	16 \$78,120
10,868 \$64,881	12,488 \$69,275	9,186 \$75,643	1,038 \$77,805	100 \$79,270	21 \$67,923	3 \$98,047	128,347 \$52,181

	<u>Average Age</u>	<u>Average Years of Service</u>	<u>Number</u>
Full and Part-time Members	42	14	128,347
Substitutes	40	NA	29,643
All	42		157,990

Plan Summary

Administration

TRS was created and is governed by the Illinois Pension Code, Article 16. An 11-member Board of Trustees is authorized to carry out duties granted to it under the article. The board is comprised of the state superintendent of education, four persons appointed by the Governor, four elected members of TRS, and two elected annuitants. One trustee position for an appointed member is currently vacant. The Board of Trustees appoints an executive director who is responsible for the detailed administration of TRS.

Membership

Membership is mandatory for all full-time, part-time, and substitute public school personnel employed outside the city of Chicago in positions requiring certification. Persons employed at certain state agencies are also members.

Contributions

During FY04, members contributed 9 percent of gross creditable earnings designated as 7.5 percent for retirement annuity, 0.5 percent for post-retirement increases, and 1 percent for death benefits. Active members do not contribute to Social Security for TRS-covered employment; however, members hired after March 31, 1986, are required to contribute to Medicare. In addition, virtually all members pay a contribution to the Teachers' Health Insurance Security Fund, a separate fund in the State Treasury that is not a part of this retirement plan. For FY04, the member contribution was 0.75 percent of pay.

Service Credit

A member is granted a maximum of one year of service credit for 170 paid days per school year, defined by statute as July 1 through June 30. Optional service credit is available for periods of public school teaching in other states or under the authority of the United States government, substitute or part-time teaching prior to July 1, 1990, leaves of absence, involuntary layoffs, military service, and gaps in teaching due to pregnancy or adoption prior to July 1, 1983, and teaching in Illinois private schools. Up to two years of unused, uncompensated sick leave that has been certified by former employers may also be added at retirement.

A payroll deduction program became effective July 1, 1998. Active and certain inactive members can make tax-sheltered contributions to TRS to purchase various types of optional service, to upgrade their service under the graduated retirement formula to the 2.2 formula, or to make the required contributions under the Early Retirement Option.

Refunds

After a four-month waiting period from the date that he or she last taught, a member ceasing covered employment may withdraw all contributions, except the 1 percent death benefit. When accepting a refund, the member forfeits all service credit and benefit rights. Credit can be re-established if the member returns to a covered position for one year or to a reciprocal system for

two years and repays the refund with interest. A member receiving disability benefits is not eligible for a refund.

Retirement Benefits

Years of Service	Age
5	62
10	60
20	55 (discounted)
35	55 (nondiscounted)

To be eligible to receive a monthly retirement annuity, a member must terminate active service and meet specific age and service requirements. If a member retires at an age less than 60 with fewer than 35 years of service and does not elect the Early Retirement Option (discussed under "Early Retirement"), the benefit will be reduced by 6 percent for each year the member is under age 60.

A member with fewer than five years of creditable service who taught after July 1, 1947, is eligible to receive a single-sum retirement benefit at age 65.

Most members retire under a retirement benefit formula. This retirement annuity is determined by two factors: average salary and years of creditable service. Average salary is the average of the creditable earnings in the highest four consecutive years within the last 10 years of creditable service. Years of service determine the percentage of the final average salary to which members are entitled. Some members retire under a money purchase style "actuarial" benefit. By law, the higher of the formula benefit or the actuarial benefit is paid.

Years of service earned before July 1, 1998, were earned under a four-step graduated formula:

- 1.67 percent for each of years one through 10,
- 1.9 percent for each of years 11 through 20,
- 2.1 percent for each of years 21 through 30, and
- 2.3 percent for each year over 30.

Years of service earned after June 30, 1998, are earned at 2.2 percent of final average salary.

Public Act 90-0582 improved retirement benefits for TRS members by changing the rate at which TRS members accrue benefits beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. The maximum 75 percent benefit is attained with 34 years of service under the 2.2 formula. Members who retire on or after the effective date have the option of upgrading their service earned prior to July 1, 1998, to the flat-rate 2.2 percent formula by making a payment to TRS. Additionally, for members who continue to teach, every three full years worked after July 1, 1998, count toward a full one-year reduction of the years to be upgraded.

Public Act 91-0017 reduced the 2.2 formula upgrade cost on a sliding scale for members who have more than 34 years of service credit. The legislation also made a technical correction in the benefit accrual rate for members who do not upgrade their pre-July 1998 service.

The maximum annuity, 75 percent of final average salary, is achieved with 34 years under the 2.2 formula and with 38 years of service under the graduated formula. The minimum retirement benefit is \$25 per month for each year of creditable service up to 30 years of service.

A money purchase (actuarial) benefit is payable if it results in a higher annuity than either the graduated or 2.2 formula. The 75 percent cap does not apply to the money purchase benefit.

Disability Benefits

TRS offers occupational and nonoccupational disability benefits to active members. Nonoccupational disability benefits are payable as disability benefits or as a disability retirement annuity to members who have three years of creditable service. There is no minimum service requirement for occupational disability benefits for duty-related accidents or illnesses. Members continue to accrue service credit while they are receiving disability benefits but not while they are receiving disability retirement annuities. On January 1 following the fourth anniversary of the granting of the disability benefit, the monthly benefit is increased 7 percent. Thereafter, the benefit increases by 3 percent each January 1.

Death Benefits

There are two types of death benefits: a return of the member's accumulated contributions and survivor benefits.

The return of member contributions includes the retirement contributions, 6.5 percent of salary through June 30, 1998, and 7.5 percent after that date, with interest and the 0.5 percent paid toward annual increases in annuity. Beneficiaries of annuitants receive the accumulated contributions minus the amount that the member had already received as a retirement annuity.

Survivor benefits can be paid in either a lump-sum or a monthly payment. A lump-sum benefit is the only method payable to nondependent beneficiaries. A dependent beneficiary may choose either a lump-sum benefit or a monthly payment. Survivor benefit recipients who are beneficiaries of a retired member are eligible for an annual 3 percent increase effective January 1 following the granting of the survivor benefit. Survivor benefit recipients who are beneficiaries of an active or eligible inactive member are eligible for an annual 3 percent increase on January 1 following the first anniversary of their receiving the survivor benefit.

Early Retirement

Members who are age 55 or older and have more than 20 but fewer than 35 years of service may choose the Early Retirement Option (ERO) to avoid a discounted annuity. Under the ERO, both the member and the employer must make a one-time contribution. However, both the member and employer contributions are waived if the member has 34 years of service. Public Act 91-0017 extended the expiration of the ERO through June 30, 2005. Members who have 35 or more years of service can retire and receive a nondiscounted annuity.

Some TRS-covered members employed by state agencies were eligible for an early retirement incentive (ERI) during FY03. Public Act 92-0566, enacted in June 2002, allowed certain state employees to purchase five years of service credit and an equal amount of age enhancement. Retirement must have occurred between August 1, 2002 and December 31, 2002, with deferrals until April 30, 2003, for key employees. Some employees who were not yet eligible to retire could also purchase the age and service enhancements if they terminated state employment.

Post-Retirement Increase

Annuitants who meet certain service credit criteria receive an annual 3 percent increase in their gross annuity on the January 1 after they turn age 61 or the January 1 following their first anniversary in retirement, whichever is later.

Employment-Related Felony Conviction

Any member convicted of a felony related to or in connection with teaching is not eligible for TRS benefits; however, the member may receive a refund of contributions.

Continuity of Credit within Illinois

TRS is one of 13 public retirement systems that are included in the provisions of the Illinois Retirement Systems' Reciprocal Act. This act ensures continuous pension credit for public employment in Illinois.

Conflicts

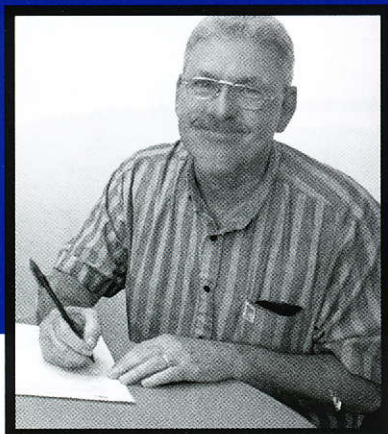
Conditions involving a claim for benefits may require further clarification. If conflicts arise between material in this summary and that of the law, the law takes precedence.

Planning to retire within five years, this husband and wife team from Lansing, Illinois, will miss the contact with their students and fellow teachers. Donald enjoys teaching social studies the most; Trinette loves teaching history. They anticipate traveling, golfing, attending college football games, and substitute teaching.



Trinette Bullard

23 years of service
5th through 12th
District 157 and 215 in Calumet City



Donald Bullard

6 years of service
4th and 5th Grade
Harvey School District 152

Photos by Michael Bracey Photography



Photo by Michael Bracey Photography

Fred Yuen

35 Years of Service

High School

District 87 in Glen Ellyn

Fred enjoys teaching mathematics the most. He plans to retire within the next five years. But, Fred believes he'll miss the people and students. He plans to travel and teach at the College of DuPage.

Statistical



Photo by Michael Bracey Photography

Andrea Edington

20 Years of Service

4, 5, 6, 7 and 8th Grades

District 156 in Calumet City

Andrea most enjoys teaching math and literature. When she retires, she will miss her colleagues and the daily challenges. She hopes to teach adults and believes she will substitute teach.

Retired Members by Years of Service and Years in Retirement

Years Retired		Years of Service				
		1-5	6-10	11-15	16-20	21-25
Under 1	Number	138	150	189	216	439
	Average Benefit	\$245	\$667	\$1,131	\$1,820	\$2,533
	Average Original Benefit	\$245	\$667	\$1,131	\$1,820	\$2,529
1-5	Number	995	777	746	916	1,823
	Average Benefit	\$247	\$590	\$1,056	\$1,689	\$2,366
	Average Original Benefit	\$233	\$553	\$992	\$1,605	\$2,272
6-10	Number	615	552	417	436	812
	Average Benefit	\$254	\$604	\$845	\$1,302	\$1,802
	Average Original Benefit	\$206	\$486	\$678	\$1,060	\$1,479
11-15	Number	459	516	562	680	1,460
	Average Benefit	\$215	\$533	\$829	\$1,238	\$1,773
	Average Original Benefit	\$149	\$364	\$569	\$847	\$1,214
16-20	Number	294	416	511	810	1,416
	Average Benefit	\$183	\$422	\$728	\$1,191	\$1,555
	Average Original Benefit	\$104	\$231	\$422	\$709	\$934
21-25	Number	142	204	425	652	1,032
	Average Benefit	\$159	\$362	\$614	\$934	\$1,234
	Average Original Benefit	\$74	\$164	\$300	\$479	\$646
26-30	Number	80	109	246	413	641
	Average Benefit	\$120	\$311	\$503	\$766	\$969
	Average Original Benefit	\$49	\$118	\$202	\$333	\$427
31-35	Number	17	27	66	149	264
	Average Benefit	\$56	\$233	\$446	\$641	\$833
	Average Original Benefit	\$5	\$76	\$135	\$204	\$293
36-40	Number	2	5	5	27	50
	Average Benefit	\$62	\$289	\$499	\$630	\$748
	Average Original Benefit	\$1	\$34	\$96	\$118	\$163
41-45	Number				8	24
	Average Benefit				\$599	\$740
	Average Original Benefit				\$72	\$125
46-50	Number					2
	Average Benefit					\$748
	Average Original Benefit					\$92
50 +	Number					
	Average Benefit					
	Average Original Benefit					
Total Number		2,742	2,756	3,167	4,307	7,963
Average Current Benefit		\$227	\$529	\$824	\$1,244	\$1,739
Average Original Benefit		\$184	\$410	\$618	\$919	\$1,328

<u>Years of Service</u>						<u>Total/ Average</u>	<u>Average Age</u>
<u>26-30</u>	<u>31-35</u>	<u>36-40</u>	<u>41-45</u>	<u>46-50</u>	<u>50 +</u>		
539	2,468	607	53	11	2	4,812	58
\$3,455	\$4,715	\$5,015	\$5,126	\$5,180	\$8,872	\$3,895	
\$3,454	\$4,715	\$5,015	\$5,126	\$5,180	\$8,872	\$3,894	
2,405	9,729	2,513	213	30	8	20,155	61
\$3,290	\$4,394	\$4,662	\$4,642	\$4,988	\$5,575	\$3,518	
\$3,163	\$4,313	\$4,416	\$4,323	\$4,657	\$5,269	\$3,413	
1,210	2,009	3,807	3,008	14	3	12,883	66
\$2,420	\$3,175	\$3,830	\$4,179	\$4,795	\$3,963	\$3,059	
\$1,961	\$2,560	\$2,966	\$3,174	\$3,875	\$3,118	\$2,388	
1,624	2,531	2,650	1,735	20	4	12,241	71
\$2,339	\$3,168	\$3,828	\$3,985	\$3,719	\$2,781	\$2,715	
\$1,619	\$2,208	\$2,716	\$2,907	\$2,533	\$1,884	\$1,915	
1,482	1,756	1,211	80	19	1	7,996	78
\$2,137	\$3,010	\$3,687	\$3,224	\$3,472	\$1,738	\$2,127	
\$1,285	\$1,820	\$2,216	\$1,918	\$2,081	\$1,072	\$1,278	
940	1,055	549	87	14	2	5,102	83
\$1,673	\$2,379	\$2,718	\$2,634	\$2,869	\$1,895	\$1,585	
\$881	\$1,266	\$1,447	\$1,382	\$1,542	\$1,030	\$833	
566	507	458	96	15		3,131	88
\$1,296	\$1,707	\$2,161	\$2,165	\$2,047		\$1,256	
\$590	\$787	\$993	\$983	\$921		\$566	
226	219	244	89	16		1,317	93
\$1,044	\$1,339	\$1,752	\$1,706	\$1,617		\$1,129	
\$394	\$531	\$719	\$688	\$640		\$434	
48	45	39	13	1		235	96
\$902	\$1,001	\$1,153	\$1,272	\$1,298		\$892	
\$235	\$273	\$367	\$435	\$447		\$238	
17	16	6	2			73	99
\$894	\$993	\$1,034	\$1,133			\$851	
\$158	\$221	\$282	\$359			\$167	
1	1					4	101
\$848	\$979					\$831	
\$119	\$199					\$126	
	1					1	105
	\$979					\$979	
	\$158					\$158	
9,058	20,337	12,084	5,376	140	20	67,950	
\$2,459	\$3,826	\$3,882	\$4,020	\$3,658	\$4,544	\$2,842	
\$1,947	\$3,412	\$3,042	\$3,017	\$2,766	\$3,996	\$2,334	

Average Monthly Benefits

Retirement Benefits

Average age	
All retirees	69
FY04 retirees	58
Average service	
All retirees	29 years
FY04 retirees	30 years
Average monthly benefit	
All retirees	\$2,842
FY04 retirees	\$3,892
Count	
All retirees	67,950
FY04 retirees	4,817
Oldest annuitant	105

Age	Count	Average Benefit
Under 55	248	\$4,304
55-59	11,428	3,984
60-64	15,056	3,307
65-69	12,027	3,001
70-74	9,614	2,662
75-79	7,787	2,225
80-84	5,546	1,725
85-89	3,558	1,392
90 +	2,686	1,182
Total	67,950	Weighted Average \$2,842

Photo courtesy of Abraham Lincoln Presidential Library



McClelland School
graduates — 1944

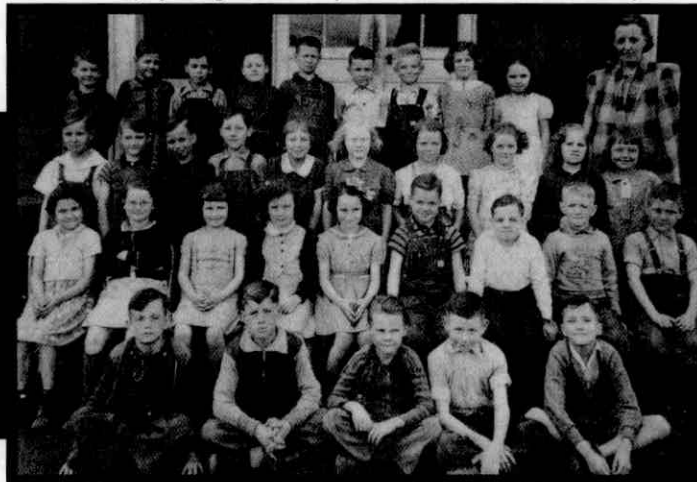
Disability Benefits*

Average age	
All recipients	57
FY04 recipients	45
Average service	
All recipients	17 years
FY04 recipients	14 years
Average monthly benefit	
All recipients	\$1,632
FY04 recipients	\$1,705
Count	
All recipients	1,017
FY04 recipients	353

Age	Count	Average Benefit
Under 30	5	\$1,152
30-34	21	1,317
35-39	26	1,274
40-44	36	1,540
45-49	94	1,409
50-54	223	1,687
55-59	272	2,053
60-64	127	1,713
65-69	75	1,428
70-74	49	1,314
75-79	46	932
80-84	29	972
85-89	13	756
90 +	1	815
Total	1,017	Weighted Average \$1,632

* Includes 300 individuals receiving temporary and seven individuals receiving occupational disability benefits who are counted as active members. The remaining 710 individuals receive permanent disability benefits.

Photo courtesy of Sangamon Valley Collection at Lincoln Library



The best preparation for tomorrow is to do today's work extremely well.
— Sir William Osler

Springfield Pleasant Hill School — 1942

Survivor Benefits*

Average age	
All survivors	75
FY04 survivors	73
Average monthly benefit	
All survivors	\$998
FY04 survivors	\$1,154
Count	
All survivors	7,938
FY04 survivors	647

Age	Count	Average Benefit
Under 10	8	\$566
10-14	18	473
15-19	62	610
20-24	21	636
25-29	1	600
30-34	6	692
35-39	10	937
40-44	23	982
45-49	51	1,028
50-54	176	1,226
55-59	381	1,323
60-64	621	1,410
65-69	835	1,335
70-74	1,131	1,187
75-79	1,319	1,024
80-84	1,313	829
85-89	1,138	697
90 +	824	591
Total	7,938	Weighted Average \$998

*An additional \$16.1 million was paid in death benefits to survivors of active, inactive, and retired members as refunds of various types of contributions.

Total Benefit Recipients as of June 30, 2004

Retirees	67,950
Disabled recipients	1,017
Survivors	7,938
Total	76,905

Revenue by Source (\$ in millions)

Year Ended June 30	Member Contributions	Employer Contributions	Employer Contributions as a Percentage of Annual Covered Payroll	Net Investment Income (Loss) ¹	Employer and Other Contributions ²	Total
1995	\$431	\$279	6.3%	\$771	\$319	\$1,800
1996	399	341	7.2	2,096	48	2,884
1997	417	395	7.9	2,644	26	3,482
1998	441	478	9.0	2,873	25	3,817
1999	866	604	10.6	2,090	33	3,593
2000	620	688	11.4	2,336	42	3,686
2001	643	778	12.1	(1,015)	44	450
2002	681	862	12.7	(724)	46	865
2003	732	971	13.8	1,061	50	2,814
2004	769	1,103	15.1	4,486	4,386	10,744

- 1 Figures for 1996 through 2004 include realized gains and losses and unrealized appreciation or depreciation of investments. Preceding years include only realized gains and losses. In FY04, pension obligation bond proceeds are included.
- 2 Includes ERO, ERI, minimum retirement, and supplemental contributions. These amounts are not counted for actuarial purposes. Beginning in FY01, the supplemental appropriation is no longer requested. In FY04, \$4,330 million in pension obligation bond proceeds are included.

Expenses by Type (\$ in millions)

Year Ended June 30	Benefits	Health Insurance	Refunds	Administrative and Other Expenses	Total
1995	\$1,074	\$38	\$29	\$10	\$1,151
1996	1,122	0	22	11	1,155
1997	1,161	0	22	10	1,193
1998	1,210	0	24	10	1,244
1999	1,284	0	26	11	1,321
2000	1,402	0	29	12	1,443
2001	1,567	0	36	13	1,616
2002	1,760	0	39	15	1,814
2003	1,999	0	43	14	2,056
2004	2,262	0	48	14	2,324

Schedule of Benefit Expenses by Type (\$ in millions)

Year Ended June 30	Retirement Benefits	Survivor Benefits	Disability Benefits	Total
1995	\$1,019	\$45	\$10	\$1,074
1996	1,061	50	11	1,122
1997	1,097	52	12	1,161
1998	1,139	58	13	1,210
1999	1,206	63	15	1,284
2000	1,318	68	16	1,402
2001	1,475	75	17	1,567
2002	1,661	81	18	1,760
2003	1,891	89	19	1,999
2004	2,145	97	20	2,262

Certain amounts from prior years have been reclassified to conform to the current year's presentation.



Anna M. Fraser

Schedule of Participating Employers

- A-C Central C.U.S.D. #262
- Abingdon C.U.S.D. #217
- Adams-Pike Co. R.O.E.
- Addison S.D. #4
- Adlai E. Stevenson H.S.D. #125
- Aerospec. Ed. Coop.
- Akin C.C.S.D. #91
- Albers S.D. #63
- Alden Hebron S.D. #19
- Aledo C.U.S.D. #201
- Alexander-Johnson-Massac-Pulaski-
Union Co. R.O.E.
- Alexis C.U.S.D. #400
- Allen-Otter Creek C.C.S.D. #65
- Allendale C.C.S.D. #17
- Alsip-Hazelgreen-Oak Lawn S.D. #126
- Altamont C.U.S.D. #10
- Alton C.U.S.D. #11
- Alwood C.U.S.D. #225
- Amboy C.U.S.D. #272
- Anna C.C.S.D. #37
- Anna Jonesboro C.H.S.D. #81
- Annawan C.U.S.D. #226
- Antioch C.C.S.D. #34
- Antioch C.H.S.D. #117
- Aptakisic-Tripp C.C.S.D. #102
- Arbor Park S.D. #145
- Arcola C.U.S.D. #306
- Area 3 Learning Technology Hub
- Argenta-Oreana C.U.S.D. #1
- Argo C.H.S.D. #217
- Argo-Summit S.D. #104
- Arlington Hts. S.D. #25
- Armstrong Twp. H.S.D. #225
- Armstrong-Ellis C.S.D. #61
- Arthur C.U.S.D. #305
- Ashley C.C.S.D. #15
- Ashton C.U.S.D. #275
- Astoria C.U.S.D. #1.5
- Athens C.U.S.D. #213
- Atwood Hammond C.U.S.D. #39
- Atwood Hts. S.D. #125
- Auburn C.U.S.D. #10
- Aurora East U.S.D. #131
- Aurora West U.S.D. #129
- Aviston S.D. #21
- Avoca S.D. #37
- Avon C.U.S.D. #176
- BAC Reg. Voc. Sys.
- Ball Chatham C.U.S.D. #5
- Bannockburn S.D. #106
- Barrington C.U.S.D. #220
- Barry C.U.S.D. #1
- Bartelso S.D. #57
- Bartonville S.D. #66
- Batavia U.S.D. #101
- Beach Park C.C.S.D. #3
- Beardstown C.U.S.D. #15
- Beck Area Career Ctr.
- Beecher C.U.S.D. #200U
- Beecher City C.U.S.D. #20
- Belle Valley S.D. #119
- Belleville Area Spec. Serv. Coop.
- Belleville S.D. #118
- Belleville Twp. H.S.D. #201
- Bellwood S.D. #88
- Belvidere C.U.S.D. #100
- Bement C.U.S.D. #5
- Benjamin S.D. #25
- Bensenville S.D. #2
- Benton C.C.S.D. #47
- Benton C.H.S.D. #103
- Berkeley S.D. #87
- Berwyn North S.D. #98
- Berwyn South S.D. #100
- Bethalto C.U.S.D. #8
- Bethel S.D. #82
- Bi-County Spec. Ed. Coop.
- Big Hollow S.D. #38
- Bismarck C.U.S.D. #1
- Blackhawk Area Spec. Ed.
- Bloom Twp. H.S.D. #206
- Bloom Twp. Trustees of Schools
- Bloomington S.D. #13
- Bloomington S.D. #87
- Blue Ridge C.U.S.D. #18
- Bluford C.C.S.D. #114
- BMP Tri-County Spec. Ed. Coop.
- Bond Co. C.U.S.D. #2
- Bond-Effingham-Fayette Co. R.O.E.
- Boone-Winnebago Co. R.O.E.
- Bourbonnais S.D. #53
- Braceville S.D. #75
- Bradford C.U.S.D. #1
- Bradley Bourbonnais C.H.S.D. #307
- Bradley S.D. #61
- Breese S.D. #12
- Bremen C.H.S.D. #228
- Brimfield C.U.S.D. #309
- Brookfield S.D. #95
- Brooklyn U.D. #188
- Brookwood S.D. #167
- Brown Co. C.U.S.D. #1
- Brown-Cass-Morgan-Scott Co. R.O.E.
- Brownstown C.U.S.D. #201
- Brussels C.U.S.D. #42
- Buncombe C.S.D. #43
- Bunker Hill C.U.S.D. #8
- Burbank S.D. #111
- Bureau Valley C.U.S.D. #340
- Burnham S.D. #1545
- Bushnell Prairie City C.U.S.D. #170
- Butler S.D. #53
- Byron C.U.S.D. #226
- Cahokia C.U.S.D. #187
- Cairo C.U.S.D. #1



Alfred R. Miller



Ethel C. Lake

Continued

Calhoun C.U.S.D. #40
Calhoun-Greene-Jersey-
Macoupin Co. R.O.E.
Calumet City S.D. #155
Calumet Public S.D. #132
Cambridge C.U.S.D. #227
Camp Point C.U.S.D. #3
Canton Union S.D. #66
Capital Area Career Ctr.
Carbon Cliff-Barstow S.D. #36
Carbondale C.H.S.D. #165
Carbondale E.S.D. #95
Career Development Sys.
Career Preparation Network
Career Tec
Carlinville C.U.S.D. #1
Carlyle C.U.S.D. #1
Carmi-White Co. C.U.S.D. #5
Carrier Mills-Stonefort C.U.S.D. #2
Carroll-Jo Daviess-Stephenson Co.
Reg. Prog.
Carroll-Jo Daviess-Stephenson Co. R.O.E.
Carrollton C.U.S.D. #1
Carterville C.U.S.D. #5
Carthage C.U.S.D. #338
Cary C.C.S.D. #26
Casey-Westfield C.U.S.D. #4C
Cass S.D. #63
Catlin C.U.S.D. #5
Center Cass S.D. #66
Central A&M C.U.S.D. #21
Central C.H.S.#71
Central C.U.S.D. #301
Central C.U.S.D. #4
Central City S.D. #133
Central S.D. #104
Central S.D. #51
Central Stickney S.D. #110
Centralia H.S.D. #200
Centralia S.D. #135
Century C.U.S.D. #100
Cerro Gordo C.U.S.D. #100
Chadwick-Milledgeville C.U.D. #399
Champaign C.U.S.D. #4
Champaign-Ford Co. R.O.E.
Chaney-Monge S.D. #88
Channahon S.D. #17
Charleston C.U.S.D. #1
Chenoa C.U.S.D. #9
Cherry S.D. #92
Chester C.U.S.D. #139
Chester-East Lincoln C.C.S.D. #61
Chicago Hts. S.D. #170
Chicago Ridge S.D. #1275
Christian-Montgomery Co. R.O.E.
Christopher C.U.S.D. #99
Cicero S.D. #99
Cissna Park C.U.S.D. #6

Clark-Coles-Cumberland-Douglas-
Edgar-Moultrie-Shelby Co. R.O.E.
Clay City C.U.S.D. #10
Clay-Crawford-Jasper-Lawrence-
Richland Co. R.O.E.
Clinton C.U.S.D. #15
Clinton-Marion-Washington Co. R.O.E.
Coal City C.U.S.D. #1
Cobden School U.D. #17
Collinsville C.U.S.D. #10
Colona S.D. #190
Columbia C.U.S.D. #4
Community C.S.D. #59
Community C.S.D. #93
Community C.S.D. #180
Community C.S.D. #204
Community H.S.D. #155
Community H.S.D. #218
Community U.S.D. #4
Community U.S.D. #200
Community U.S.D. #300
Consolidated H.S.D #230
Cook Co. S.D. #130
Cooperative Assoc. for Spec. Ed.
Cornell C.C.S.D. #426
Coulterville U.S.D. #1
Country Club Hills S.D. #160
Cowden-Herrick C.U.D. #3A
Crab Orchard C.U.S.D. #3
Crescent City C.C.S.D. #275
Crescent Iroquois C.U.S.D. #252
Creston C.C.S.D. #161
Crete Monee C.U.S.D. #201U
Creve Coeur S.D. #76
Crystal Lake C.C.S.D. #47
Cumberland C.U.S.D. #77
Cypress S.D. #64
Dakota C.U.S.D. #201
Dallas City C.U.S.D. #336
Dalzell S.D. #98
Damiansville S.D. #62
Danville C.C.S.D. #118
Darien S.D. #61
Decatur S.D. #61
Deer Creek-Mackinaw C.U.S.D. #701
Deer Park C.C.S.D. #82
Deerfield S.D. #109
DeKalb C.U.S.D. #428
DeKalb Co. R.O.E.
DeKalb Co. Spec. Ed.
Delabar Voc. Ed. Region
Deland-Weldon C.U.S.D. #57
Delavan C.U.S.D. #703
Depue U.S.D. #103
Des Plaines C.C.S.D. #62
Desoto C.C.S.D. #86
DeWitt-Livingston-McLean Co. R.O.E.
Diamond Lake S.D. #76



Gertrude P. Womack



Margaret A. Irion



Emma Middleworth



Bart L. Herron



Bertha Batson



Cleda V. Moses

Continued

- Dieterich C.U.S.D. #30
- Dimmick C.C.S.D. #175
- District 50 Schools
- Divernon C.U.S.D. #13
- Dixon U.S.D. #170
- Dodds C.C.S.D. #7
- Dolton S.D. #149
- Dolton S.D. #148
- Dongola S.U.D. #66
- Donovan C.U.S.D. #3
- Downers Grove C.H.S.#99
- Downers Grove GS.D. #58
- Dunlap C.U.S.D. #323
- DuPage Co. R.O.E.
- DuPage H.S.D. #88
- Dupo C.U.S.D. #196
- Du Quoin C.U.S.D. #300
- Durand C.U.S.D. #322
- Dwight Common S.D. #232
- Dwight Twp. H.S.D. #230
- Earlville C.U.S.D. #9
- East Alton S.D. #13
- East Alton-Wood River C.H.S. #14
- East Coloma S.D. #12
- East Dubuque U.S.D. #119
- East Maine S.D. #63
- East Moline S.D. #37
- East Peoria C.H.S.D. #309
- East Peoria S.D. #86
- East Prairie S.D. #73
- East Richland C.U.S.D. #1
- East St. Louis S.D. #189
- Eastern Ill. Area Spec. Ed. Coop.
- Eastern Ill. Ed. for Employment Sys.
- Eastland C.U.S.D. #308
- ECHO Joint Agreement
- Edgar Co. C.U.S.D. #6
- Edinburg C.U.S.D. #4
- Education for Employment of
Tazewell Co.
- Education for Employment Sys.
- Educational Development Ctr.
- Educational Therapy Ctr.
- Edward-Gallatin-Hardin-Pope-Saline-
Wabash Co. R.O.E.
- Edwards Co. C.U.S.D. #1
- Edwardsville C.U.S.D. #7
- Effingham C.U.S.D. #40
- Egyptian C.U.S.D. #5
- Eisenhower Coop.
- El Paso C.U.S.D. #375
- Eldorado C.U.S.D. #4
- Elementary S.D. #159
- Elmhurst S.D. #205
- Elmwood C.U.S.D. #322
- Elmwood Park C.U.S.D. #401
- Elverado C.U.S.D. #196
- Elwood C.C.S.D. #203
- Emmons S.D. #33
- Erie C.U.S.D. #1
- Eswood C.C.S.D. #269
- Eureka C.U.S.D. #140
- Evanston C.C.S.D. #65
- Evanston Twp. H.S.D. #202
- Evergreen Park C.H.S.D. #231
- Evergreen Park E.S.D. #124
- Ewing Northern C.C.D. #115
- Fairfield C.H.S.D. #225
- Fairfield P.S.D. #112
- Fairmont S.D. #89
- Farmington Central C.U.S.D. #265
- Farrington C.C.S.D. #99
- Fenton C.H.S.D. #100
- Field C.C.S.D. #3
- Fieldcrest C.U.S.D. #6
- Fisher C.U.S.D. #1
- Five Co. Voc. Sys.
- Flanagan C.U.S.D. #4
- Flora C.U.S.D. #35
- Flossmoor S.D. #161
- Ford Co. Spec. Ed. Coop.
- Ford Hts. S.D. #169
- Forest Park S.D. #91
- Forest Ridge S.D. #142
- Forrestville Valley C.U.S.D. #221
- Fort Bowman Academy Charter School
- Four Rivers Spec. Ed.
- Fox Lake Grade S.D. #114
- Fox River Grove C.S.D. #3
- Frankfort C.C.S.D. #157C
- Frankfort C.U.S.D. #168
- Franklin C.U.S.D. #1
- Franklin Park S.D. #84
- Franklin-Jefferson Co. Spec. Ed.
- Franklin-Williamson Co. R.O.E.
- Freeburg C.C.S.D. #70
- Freeburg C.H.S.D. #77
- Freeport S.D. #145
- Fremont S.D. #79
- Fulton Co. C.U.S.D. #3
- Fulton-Schuyler Co. R.O.E.
- Galatia C.U.S.D. #1
- Galena U.S.D. #120
- Galesburg C.U.S.D. #205
- Gallatin C.U.S.D. #7
- Galva C.U.S.D. #224
- Gardner C.C.S.D. #72C
- Gardner S. Wilmington H.S.D. #73
- Gavin S.D. #37
- Geff C.C.S.D. #14
- Gen Geo Patton S.D. #133
- Geneseo C.U.S.D. #228
- Geneva C.U.S.D. #304
- Genoa-Kingston C.U.S.D.
- Georgetown-Ridge Farm CUD #4
- Germantown Hills S.D. #69

Continued

Germantown S.D. #60
Giant City C.C.S.D. #130
Gibson City-Melvin-Sibley #5
Gifford C.C.S.D. #188
Gillespie C.U.S.D. #7
Girard C.U.S.D. #3
Glen Ellyn C.C.S.D. #89
Glen Ellyn S.D. #41
Glenbard Twp. H.S.D. #87
Glencoe S.D. #35
Glenview C.C.S.D. #34
Golf E.S.D. #67
Goreville C.U.S.D. #1
Gower S.D. #62
Grand Prairie C.C.S.D. #6
Grand Ridge C.C.S.D. #95
Granite City C.U.S.D. #9
Grant C.C.S.D. #110
Grant C.H.S.D. #124
Grant Park C.U.S.D. #6
Grass Lake S.D. #36
Grayslake C.C.S.D. #46
Grayslake C.H.S.D. #127
Grayville C.U.S.D. #1
Greenfield C.U.S.D. #10
Greenview C.U.S.D. #200
Gridley C.U.S.D. #10
Griggsville-Perry C.U.S.D. #4
Grundy Area Voc. Ctr.
Grundy-Kendall Co. R.O.E.
Gurnee S.D. #56
Hall Twp. H.S.D. #502
Hamilton C.C.S.D. #328
Hamilton Co. C.U.S.D. #10
Hamilton-Jefferson Co. R.O.E.
Hampton S.D. #29
Hancock-McDonough Co. R.O.E.
Hardin Co. C.U.S.D. #1
Harlem U.S.D. #122
Harmony Emge S.D. #175
Harrisburg C.U.S.D. #3
Harrison S.D. #36
Hartsburg Emden C.U.S.D. #21
Harvard C.U.S.D. #50
Harvey S.D. #152
Havana C.U.S.D. #126
Hawthorn C.C.S.D. #73
Hazel Crest S.D. #1525
Henry-Senachwine C.U.S.D. #5
Heritage C.U.S.D. #8
Herrin C.U.S.D. #4
Herscher C.U.S.D. #2
Heyworth C.U.S.D. #4
Hiawatha C.U.S.D. #426
High Mount S.D. #116
Highland C.U.S.D. #5
Highland Park Twp. H.S.D. #113
Hillsboro C.U.S.D. #3

Hillside S.D. #93
Hinckley Big Rock C.U.S.D. #429
Hinsdale C.C.S.D. #181
Hinsdale Twp. H.S.D. #86
Hollis C.S.D. #328
Homer C.C.S.D. #33
Homewood S.D. #153
Homewood-Flossmoor C.H.S.D. #233
Hononegah C.H.S.D. #207
Hoopston Area C.U.S.D. #11
Hoover Schrum Memorial S.D. #157
Hoyleton C.S.D. #29
Huntley C.S.D. #158
Hutsonville C.U.S.D. #1
Ill. Association of School Boards
Ill. Dept. of Corrections
Ill. Dept. of Human Services
Ill. Education Assoc.
Ill. Federation of Teachers
Ill. State Board of Education
Ill. Valley Central U.S.D. #321
Illini Bluffs C.U.S.D. #327
Illini Central C.U.S.D. #189
Illioopolis C.U.S.D. #12
Ina C.C.S.D. #8
Indian Creek C.U.S.D. #425
Indian Prairie C.U.S.D.
Indian Springs S.D. #109
Indian Valley Area Voc.Ctr.
Industry C.U.S.D. #165
Iroquois Area Reg. Delivery Sys.
Iroquois Co. C.U.S.D. #9
Iroquois West C.U.S.D. #10
Iroquois-Kankakee Co. R.O.E.
Iroquois Spec. Ed. Assoc.
Irvington C.C.S.D. #11
Itasca S.D. #10
Iuka C.C.S.D. #7
J.S. Morton H.S.D. #201
Jackson-Perry Co. R.O.E.
Jacksonville S.D. #117
Jamaica C.U.S.D. #12
JAMP Spec. Ed. Serv.
Jasper C.C.S.D. #17
Jasper Co. C.U.S.D. #1
Jersey C.U.S.D. #100
JoDaviess-Carroll Area Voc. Ctr.
Johnsburg C.U.S.D. #12
Johnston City C.U.S.D. #1
Joliet S.D. #86
Joliet Twp. H.S.D. #204
Jonesboro C.C.S.D. #43
Joppa-Maple Grove U.S.D. #38
Kane Co. R.O.E.
Kaneland C.U.S.D. #302
Kankakee Area Career Ctr.
Kankakee Area Spec. Ed. Coop. #850
Kankakee S.D. #111



Anna Fitzpatrick



C. M. Young



Ruth H. Prag



Mabel L. N. Meyers



J. J. Mayall



Ida L. Ashton

Continued

- Kansas C.U.S.D. #3
- Kaskaskia Spec. Ed. #801
- Keeneyville S.D. #20
- Kell C.S.D. #2
- Kendall Co. Spec. Ed. Coop.
- Kenilworth S.D. #38
- Kewanee C.U.S.D. #229
- Kildeer Countryside C.C.S.D. #96
- Kings C.S.D. #144
- Kinnikinnick C.C.S.D. #131
- Kirby S.D. #140
- Knox Co. R.O.E.
- Knoxville C.U.S.D. #202
- Komarek S.D. #94
- La Grange Area Dept. Spec. Ed.
- La Grange S.D. #102
- La Grange South S.D. #105
- La Grange-Highlands S.D. #106
- La Harpe C.U.S.D. #335
- Ladd C.C.S.D. #94
- Lake Bluff E.S.D. #65
- Lake Co. Area Voc Sys.
- Lake Co. R.O.E.
- Lake Co. Spec. Ed.
- Lake Forest C.H.S.D. #115
- Lake Forest S.D. #67
- Lake Park C.H.S.D. #108
- Lake Villa C.C.S.D. #41
- Lake Zurich C.U.S.D. #95
- LaMoille C.U.S.D. #303
- Lansing S.D. #158
- Laraway C.C.S.D. #70
- LaSalle Co. R.O.E.
- LaSalle E.S.D. #122
- LaSalle-Peru Twp. H.S.D. #120
- LaSalle-Putnam Ed. Alliance Spec. Ed.
- Lawrence Co. C.U.S.D. #20
- Lebanon C.U.S.D. #9
- Lee Ctr. C.U.S.D. #271
- Lee-Ogle Co. R.O.E.
- Leepertown C.C.S.D. #175
- Leland C.U.S.D. #1
- Lemont Twp. H.S.D. #210
- Lemont-Bromberek C.S.D. #113
- Lena Winslow C.U.S.D. #202
- LeRoy C.U.S.D. #2
- Lewistown C.U.S.D. #97
- Lexington C.U.S.D. #7
- Leyden C.H.S.D. #212
- Liberty C.U.S.D. #2
- Libertyville C.H.S.D. #128
- Libertyville S.D. #70
- Lick Creek C.C.S.D. #16
- Limestone C.H.S.D. #310
- Limestone Walters C.C.S.D. #316
- Lincoln C.H.S.D. #404
- Lincoln E.S.D. #27
- Lincoln E.S.D. #156
- Lincoln Way C.H.S.D. #210
- Lincolnshire-Prairie View S.D. #103
- Lincoln-Way Area Spec. Ed.
- Lincolnwood S.D. #74
- Lindop S.D. #92
- Lisbon C.C.S.D. #90
- Lisle C.U.S.D. #202
- Litchfield C.U.S.D. #12
- Livingston C.C.S.D. #4
- Livingston Co. Alternative School
- Lockport Area Spec. Ed. Coop.
- Lockport S.D. #91
- Lockport Twp. H.S.D. #205
- Logan C.C.S.D. #110
- Lombard S.D. #44
- Lostant C.U.S.D. #425
- Lovington C.U.S.D. #303
- Lowpoint-Washburn C.U.S.D. #21
- Ludlow C.C.S.D. #142
- Lyons S.D. #103
- Lyons Twp. H.S.D. #204
- Macomb C.U.S.D. #185
- Macon-Piatt Co. R.O.E.
- Madison C.U.S.D. #12
- Madison Co. Region II Spec. Ed.
- Maercker S.D. #60
- Mahomet-Seymour C.U.S.D. #3
- Maine Twp. H.S.D. #207
- Malden C.C.S.D. #84
- Manhattan S.D. #114
- Mannheim S.D. #83
- Manteno C.U.S.D. #5
- Marengo C.H.S.D. #154
- Marengo-Union E.C.S.D. #165
- Marion C.U.S.D. #2
- Marissa C.U.S.D. #40
- Maroa Forsyth C.U.S.D. #2
- Marquardt S.D. #15
- Marseilles E.S.D. #150
- Marshall C.U.S.D. #2C
- Martinsville C.U.S.D. #3C
- Mascoutah C.U.S.D. #19
- Massac U.S.D. #1
- Matteson E.S.D. #162
- Mattoon C.U.S.D. #2
- Maywood S.D. #89
- Mazon-Verona-Kinsman E.S.D. #2C
- McClellan C.C.S.D. #12
- McHenry C.C.S.D. #15
- McHenry C.H.S.D. #156
- McHenry Co. R.O.E.
- McLean Co. U.S.D. #5
- Medinah E.S.D. #11
- Mendota C.C.S.D. #289
- Mendota Twp. H.S.D. #280
- Meredosia-Chambersburg C.U.S.D. #11
- Meridian C.U.S.D. #15
- Meridian C.U.S.D. #101

Continued

Meridian C.U.S.D. #223
Merriam C.C.S.D. #19
Metamora C.C.S.D. #1
Metamora Twp. H.S.D. #122
Midland C.U.S.D. #7
Midlothian S.D. #143
Mid-State Spec. Ed.
Mid-Valley Spec. Ed. Joint Agmt.
Midwest Central C.U.S.D. #191
Milford C.S.D. #280
Milford Twp. H.S.D. #233
Millburn C.C.S.D. #24
Miller Twp. C.C.S.D. #210
Millstadt C.C.S.D. #160
Minooka C.C.S.D. #201
Minooka C.H.S. #111
Mokena S.D. #159
Moline U.S.D. #40
Momence C.U.S.D. #1
Monmouth U.S.D. #38
Monroe S.D. #70
Monroe Randolph Co. R.O.E.
Monticello C.U.S.D. #25
Montmorency C.C.S.D. #145
Morris C.H.S.D. #101
Morris S.D. #54
Morrison C.U.S.D. #6
Morrisonville C.U.S.D. #1
Morton C.U.S.D. #709
Morton Grove S.D. #70
Mt. Carroll C.U.S.D. #304
Mt. Olive C.U.S.D. #5
Mt. Prospect S.D. #57
Mt. Pulaski CUD #23
Mt. Vernon S.D. #80
Mt. Vernon Twp. H.S.D. #201
Mt. Zion C.U.S.D. #3
Mulberry Grove C.U.S.D. #1
Mundelein C.H.S.D. #120
Mundelein E.S.D. #75
Murphysboro C.U.S.D. #186
Naperville C.U.S.D. #203
Nashville C.C.S.D. #49
Nashville C.H.S.D. #99
National Education Association
Nauvoo-Colusa C.U.S.D. #325
Nelson Public S.D. #8
Neoga C.U.S.D. #3
Neponset C.C.S.D. #307
Nettle Creek C.C.S.D. #24C
New Athens C.U.S.D. #60
New Berlin C.U.S.D. #16
New Holland-Middletown E.S.D. #88
New Hope C.C.S.D. #6
New Lenox S.D. #122
New Simpson Hill C.S.D. #32
New Trier Twp. H.S.D. #203
Newark C.C.S.D. #66

Newark C.H.S.D. #18
Niantic-Harristown C.U.S.D. #6
Niles E.S.D. #71
Niles Twp. C.H.S.D. #219
Niles Twp. Spec. Ed.
Nippersink S.D. #2
Nokomis C.U.S.D. #22
Norridge S.D. #80
Norris City-Omaha-Enfield C.U.S.D. #325
North Boone C.U.S.D. #200
North Chicago S.D. #187
North Clay C.U.S.D. #25
North DuPage Spec. Ed. Coop.
North Greene U.S.D. #3
North Palos S.D. #117
North Pekin-Marquette Hts. S.D. #102
North Shore S.D. #112
North Wamac S.D. #186
North Wayne C.U.S.D. #200
Northbrook Elem S.D. #27
Northbrook S.D. #28
Northbrook-Glenview S.D. #30
Northfield Twp. H.S.D. #225
Northwest Spec. Ed. Dist.
Northwest Suburban Spec. Ed. Org.
Northwestern C.U.S.D. #2
Norwood E.S.D. #63
Oak Grove East S.D. #68
Oak Grove S.D. #68
Oak Lawn C.H.S.D. #229
Oak Lawn-Hometown S.D. #123
Oak Park E.S.D. #97
Oak Park-River Forest S.D. #200
Oakdale C.C.S.D. #1
Oakland C.U.S.D. #5
Oakwood C.U.S.D. #76
Oblong C.U.S.D. #4
Odell C.C.S.D. #435
Odin C.H.S.D. #700
Odin S.D. #122
O'Fallon C.C.S.D. #90
O'Fallon T.H.S.D. #203
Ogden C.C.S.D. #212
Ogle Co. Spec. Ed.
Oglesby E.S.D. #125
Ohio & Wabash Valley Voc. Sys.
Ohio C.C.S.D. #17
Ohio C.H.S.D. #505
Okaw Valley C.U.S.D. #302
Olympia C.U.S.D. #16
Opdyke-Belle-River C.C.S.D. #5
Orangeville C.U.S.D. #203
Oregon C.U.S.D. #220
Orion C.U.S.D. #223
Orland Park S.D. #135
Oswego C.U.S.D. #308
Ottawa E.S.D. #141
Ottawa Twp. H.S.D. #140



Elva B. Mercer



Joseph C. Talbert



Maude K. Ball



Mayme E. Berg

Continued

Tinley Park S.D. #146
 Tolono C.U.S.D. #7
 Tonica C.C.S.D. #79
 Township H.S.D. #214
 Tremont C.U.S.D. #702
 Tri City C.U.S.D. #1
 Tri Co. Spec. Ed.
 Tri Point C.U.S.D. #6-J
 Tri-Valley C.U.S.D. #3
 Triad C.U.S.D. #2
 Trico C.U.S.D. #176
 Tri-Co. Spec. Ed. Coop.
 Triopia C.U.S.D. #27
 Troy C.C.S.D. #30C
 Truants Alternative Optional Ed. Plan
 Tuscola C.U.S.D. #301
 Twin Rivers Reg. Voc. Delivery Sys.
 Two Rivers Professional Development
 Union C.U.S.D. #115
 Union C.U.S.D. #115
 Union Ridge S.D. #86
 Union S.D. #81
 United Twp. H.S.D. #30
 Unity Point C.C.S.D. #140
 Urbana S.D. #116
 V.I.T. C.U.S.D. #2
 V.V.E.D.S.-V.O.T.E.C.
 Valley View C.U.S.D. #365
 Valmeyer C.U.S.D. #3
 Vandalia C.U.S.D. #203
 Venice C.U.S.D. #3
 Vermilion Co. Spec. Ed. Assoc.
 Vienna S.D. #55
 Vienna Twp. H.S.D. #133
 Villa Grove C.U.S.D. #302
 Villa Park S.D. #45
 Virden C.U.S.D. #4
 Virginia C.U.S.D. #64
 Wabash & Ohio Valley Spec. Ed. Dist.
 Wabash C.U.S.D. #348
 Wallace C.C.S.D. #195
 Waltham C.C.S.D. #185
 Waltonville C.U.S.D. #1
 Warren C.U.S.D. #205
 Warren C.U.S.D. #222
 Warren Twp. H.S.D. #121
 Warrensburg-Latham C.U.S.D. #11
 Warsaw C.U.S.D. #316
 Washington C.H.S.D. #308
 Washington S.D. #52
 Waterloo C.U.S.D. #5
 Wauconda C.U.S.D. #118
 Waukegan C.U.S.D. #60
 Waverly C.U.S.D. #6
 Wayne City C.U.S.D. #100

Webber Twp. H.S.D. #204
 Wesclin C.U.S.D. #3
 West Central Ill. Spec. Ed. Coop.
 West Chicago C.H.S.D. #94
 West Chicago E.S.D. #33
 West Harvey-Dixmoor S.D. #147
 West Lincoln-Broadwell S.D. #92
 West Northfield S.D. #31
 West Pike C.U.S.D. #2
 West Prairie C.U.S.D. #103
 West Richland C.U.S.D. #2
 West Washington C.U.S.D. #10
 Westchester S.D. #92.5
 Western Springs S.D. #101
 Westmer C.U.S.D. #203
 Westmont C.U.S.D. #201
 Westville C.U.S.D. #2
 Wethersfield C.U.S.D. #230
 Wheeling C.C.S.D. #21
 Whiteside Co. R.O.E.
 Whiteside Reg. Voc. Sys.
 Whiteside S.D. #115
 Will Co. Area Career Ctr.
 Will Co. S.D. #92
 Williamsfield C.U.S.D. #210
 Williamson Co. Spec. Ed. Dist.
 Williamsville C.U.S.D. #15
 Willow Grove S.D. #46
 Willow Springs S.D. #108
 Wilmette S.D. #39
 Wilmington C.U.S.D. #209
 Winchester C.U.S.D. #1
 Windsor C.U.S.D. #1
 Winfield S.D. #34
 Winnebago C.U.S.D. #323
 Winnebago Co. Spec. Ed. Coop.
 Winnetka S.D. #36
 Winthrop Harbor S.D. #1
 Wolf Branch S.D. #113
 Wood Dale S.D. #7
 Wood River-Hartford E.S.D. #15
 Woodford Co. Spec. Ed.
 Woodland C.C.S.D. #50
 Woodlawn C.C.S.D. #4
 Woodlawn C.H.S.D. #205
 Woodridge S.D. #68
 Woodstock C.U.S.D. #200
 Worth S.D. #127
 Yorkville C.U.S.D. #115
 Yorkwood C.U.S.D. #225
 Zeigler Royalton C.U.S.D. #188
 Zion E.S.D. #6
 Zion-Benton Twp. H.S.D. #126



Loretta Smith



August Esser