

# Working for You

**Teachers' Retirement System of the State of Illinois**  
A Component Unit of the State of Illinois



**Comprehensive Annual Financial Report**  
for the Fiscal Year Ended June 30, 2005

# Statement of Purpose

## Retirement Security for Illinois Educators

### Mission Statement

**Deliver superior service through skilled staff, innovative technology, and careful investment.**

### Fiscal Year Highlights

	<b>2005</b>	<b>2004</b>
Active contributing members	155,850	157,990
Inactive noncontributing members	87,328	89,641
Benefit recipients	<u>82,575</u>	<u>76,905</u>
Total membership	325,753	324,536
Actuarial accrued liability (AAL)	\$56,075,029,000	\$50,947,451,000
Less net assets held in trust for pension benefits	<u>34,085,218,000</u>	<u>31,544,729,000</u>
Unfunded actuarial accrued liability (UAAL)	\$21,989,811,000	\$19,402,722,000
Funded ratio (actuarial value of assets/AAL)	60.8%	61.9%
Total fund investment return, net of fees	10.8%	16.5%
Expenses		
Benefits paid	\$2,533,102,848	\$2,262,329,479
Refunds paid	59,395,758	48,019,644
Administrative Expenses	<u>14,403,715</u>	<u>13,560,546</u>
Total	\$2,606,902,321	\$2,323,909,669
<b>Income</b>		
Member contributions*	\$761,790,009	\$768,661,300
Employer contributions (includes State of Illinois contributions)	1,055,562,346	1,159,051,290
State of Illinois pension obligation bond proceeds	0	4,330,373,948
Total investment income	<u>3,330,039,158</u>	<u>4,485,729,345</u>
Total	\$5,147,391,513	\$10,743,815,883

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

### Front cover photos left to right:

Catherine and Mark of the Member Services Department discuss a member issue.

Marcy, Sue, Leah, and Debbie (two split photos) of the Accounting Department meet to discuss employer remittances.

Jamie and Kayla of the Records Center retrieve member records to fill staff requests.

Kim of Counseling Services answers a member question about the retirement process.

Kim and Mindy of the Member Services Department discuss a survivor claim.

### Back cover photos left to right:

Kathy of the Communications Department, Nick of the Government Affairs Department, and Tammy of the Executive Department make a conference call to a trustee.

Alice and Mable of Administrative Services review the progress of a special project.

Jeremy of Information Systems troubleshoots a computer issue with Barb of Member Services.

Ron and Terry of Member Services plan fall member meetings.

Betsy and Scott of Member Services discuss a member's optional service record.

Jim and Karen of Counseling Services exchange member records.

Terry and Donnie of Support Services sort incoming mail.







# Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2005



**Teachers' Retirement System of the State of Illinois**

A Component Unit of the State of Illinois

2815 West Washington Street, P.O. Box 19253

Springfield, Illinois 62794-9253

[trs.illinois.gov](http://trs.illinois.gov)

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*Erica of Administrative Services sends a counselor an e-mail notification that a teacher has arrived for a scheduled appointment.*

# Introduction





# 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, 2004

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



President

Executive Director





Retirement Security for Illinois Educators

## Teachers' Retirement System of the State of Illinois

Jon Bauman, Executive Director  
2815 West Washington, P.O. Box 19253  
Springfield, Illinois 62794-9253

# Letter of Transmittal

December 15, 2005

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, 2005. 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, 2005.

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 Introduction 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	2005	2004	Increase	
			Amount	% Change
Member contributions	\$762	\$769	(\$7)	(0.9%)
State of Illinois	907	5,361	(4,454)	(83.1)
Employer contributions	148	128	20	15.6
Total investment income	<u>3,330</u>	<u>4,486</u>	<u>(1,156)</u>	<u>(25.8)</u>
<b>Total</b>	<b><u>\$5,147</u></b>	<b><u>\$10,744</u></b>	<b><u>(\$5,597)</u></b>	<b><u>(52.1%)</u></b>

### Expenses (\$ millions)

Source	2005	2004	Increase	
			Amount	% Change
Benefits payments	\$2,533	\$2,262	\$271	12.0%
Refunds	60	48	12	25.0
Administrative/Other	<u>14</u>	<u>14</u>	<u>0</u>	<u>0</u>
Total	<u>\$2,607</u>	<u>\$2,324</u>	<u>\$283</u>	<u>12.2%</u>

## Investments

TRS investments had a 10.8 percent return net of fees for the year. Total investment income for FY05 was \$3,330 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 mixture 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 \$34.085 billion at June 30, 2005. Net assets increased \$2.540 billion. TRS's actuarial accrued liability was \$56.075 billion at June 30, 2005, resulting in a funded ratio of 60.8 percent. This funded ratio is a decrease from the funding ratio of 61.9 percent for FY04. TRS's actuarial unfunded liability

increased \$2.587 billion during FY05 to \$21.990 billion at June 30, 2005. The increase in the unfunded liability is partially due to the recognition of the cost of future retirements under the Modified ERO and a higher number of retirements than anticipated.

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 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

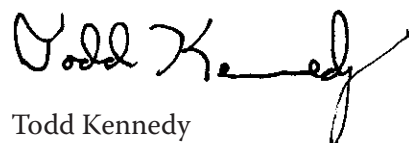
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious 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 16 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 Administration





*Executive Director Jon Bauman and Director of Administration Todd Kennedy discuss the upcoming year's budget.*

# A Message from the Executive Director

December 15, 2005

Dear Friends:

Great things are often accomplished by relatively small numbers of people working together toward a great cause. At TRS, a staff of 165 employees shares the common goal of providing retirement security for over 325,000 Illinois educators. It is fitting that this report, which documents our stewardship of your retirement fund, also recognizes the exceptional contributions of the individuals who achieve a high level of stewardship on your behalf.

In various ways, the staff that serves you well year-in and year-out truly accomplished great things in 2005. During the “ERO surge” that increased retirements by 50 percent, our staff maintained a caring, personal and professional commitment to member service. TRS investments returned over 10.8 percent, substantially exceeding the median public fund return. Long-sought legislative goals were achieved and many operational improvements were implemented.

This year’s annual report theme, “Working for you,” salutes our valued workforce. As you view the photos and read the captions, I hope you will appreciate how our staff contributes to the success of the retirement system.

## Influx of Retirement Applications Processed Quickly

The possibility that the Early Retirement Option (ERO) might not be extended prompted many members to retire under the existing law. Well over 6,900 members chose to retire, including 3,638 who opted for ERO. Quite remarkably, despite near-record retirements, initial benefit payments commenced in record time. Nearly half of all summer-season retirees received their first check prior to July 1, a substantial improvement over prior years. The advance resulted from noteworthy improvements and changes in the retirement process. For example, members were encouraged to initiate their Personalized Retirement Interview (PRI) much earlier in the year. The PRI itself was made available online in addition to the traditional on-site and telephone interviews. We encouraged school districts to file supplementary reports for retiring members in advance of the actual retirement date so that review and processing would be complete by the member’s expected retirement date. The changes enhanced our efficiency and reduced our reliance on overtime.

## Legislative Changes

**ERO Extended.** A difficult and lengthy effort to extend the Early Retirement Option concluded with reauthorization on a revenue-neutral basis. The modifications will allow the program to continue at least through 2012. The extension includes a “Pipeline” provision for members who notified their employers on or before June 1, 2005 of their intention to retire under the terms of contracts or collective bargaining agreements. These members will be allowed to use the provisions of the law that expired on June 30, 2005.

**Disability Return to Work Enacted.** A new law allows individuals who have received TRS disability benefits for one year or more to return to part-time, TRS-covered employment if their medical conditions improve. On a limited basis, members may tutor, substitute, or part-time teach for a TRS-covered employer without loss of disability benefits as long as

the combined earnings from teaching and disability benefits do not exceed 100 percent of the salary upon which the benefit was based.

## Double-digit Investment Returns

Propelled by strong fourth quarter performance in all asset classes and the strength of the private equity market, the TRS investment portfolio enjoyed another outstanding year in fiscal year 2005. Among the year's major accomplishments:

- TRS's net assets reached \$34 billion at June 30, an all-time high.
- The TRS pension obligation bond (POB) portfolio reached \$1 billion in additional value since its inception two years ago.
- As in four of the last five years, TRS was the top performing Illinois state pension fund.
- TRS investment performance has consistently ranked at or near the top quartile and ranks in the top 10 percent of its peer universe over the last five years.

## Working Harder for You

Our commitment to outstanding service is exemplified by the following:

- In response to member requests, Social Security numbers were removed from correspondence and reports.
- The secure area of the TRS Web site was redesigned with more features. Members may update their personalized information, pay TRS balances online, view information from their TRS Benefits Report, and more.
- Retirement, survivor, and disability benefit videos were also added to the Web site.
- A survey of TRS-covered employers gave TRS high marks in all areas. The staff also conducted 93 employer meetings to provide training and discuss issues affecting employers.

## In Closing

Each year brings new challenges. For example, the reductions in TRS state funding for fiscal years 2006 and 2007 contained in Public Act 94-0004 will worsen our negative cash flow and increase the dependency upon successful investment performance to maintain financial stability. During the past year, my associates and I were sickened by revelations of misconduct by two former appointed trustees of the fund that extended to a former external counsel. While the revelations in no way implicated TRS or alleged any financial losses or misconduct, our good name was unfairly dishonored. Thankfully, our investment performance and our fundamental integrity remain strong.

Rest assured that the staff of TRS is more than equal to the tests of these and other challenges facing us in the year ahead. We will never stop working for you — the members, annuitants, and employers of TRS.

Sincerely,



Jon Bauman  
Executive Director



# Board of Trustees

As of July 15, 2005



**Randy Dunn, President**  
Springfield



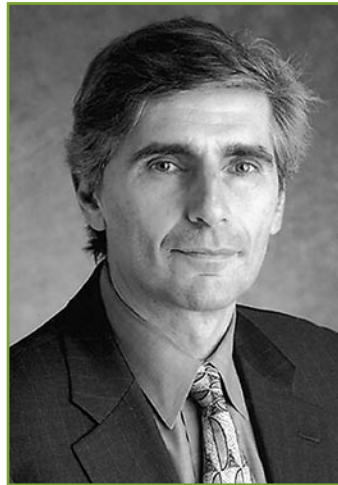
**Molly Phalen, Vice President**  
Rockford



**Tony Abboud**  
Northbrook



**James Bruner**  
Jacksonville



**Jack Carriglio**  
Glenview



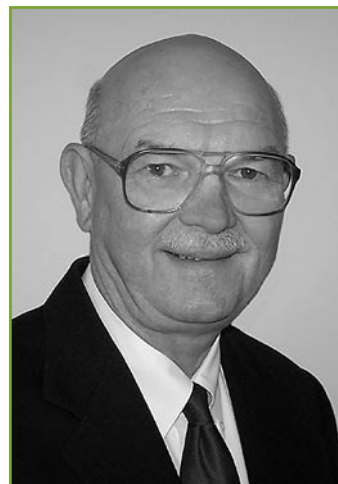
**Jan Cleveland**  
Carmi



**Cinda Klickna**  
Rochester



**Sharon Leggett**  
Evanston



**Bob Lyons**  
Hoffman Estates



**Cynthia O'Neill**  
Carlyle



# Organizational Structure

Executive Staff Members as of June 30, 2005

## Board of Trustees



**Jon Bauman**  
Executive Director



**Kathleen Farney**  
Director of Research



**Tom Gray**  
General Counsel



**Todd Kennedy**  
Director of  
Administration



**Gina Larkin**  
Director of  
Human Resources



**Kathy Pearce**  
Communications  
Supervisor



**Stan Rupnik**  
Chief Investment  
Officer



**Stacy Smith**  
Internal Audits  
Manager



**Terry Viar**  
Director of  
Member Services



**Nick Yelverton**  
Director of  
Government Affairs

## Consulting and Professional Services

### Actuary

Buck Consultants, an ACS Company  
*Chicago, Illinois*

### Benchmarking

Cost Effectiveness Measurement, Inc.  
*Toronto, Ontario*

### External Auditors

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

BKD, LLP  
*Decatur, Illinois*

### Information Systems

Ashbaugh and Associates, Inc.  
*Springfield, Illinois*

Hupp Information Technologies  
*Springfield, Illinois*

Richard Hale Shaw Group Inc.  
*Carson City, Nevada*

Sikich Gardner & Co. LLP  
*Springfield, Illinois*

CTG Inc. of Illinois  
*Springfield, Illinois*

IBM Corp.  
*Chicago, Illinois/Boulder, Colorado*

Sentinel Technologies  
*Chicago, Illinois*

Weisner Associates Inc.  
*Minneapolis, Minnesota*

### 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*

### External Legal Counsel

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

Gardner Carton & Douglas  
*Chicago, Illinois (until Aug. 2004)*

Holland + Knight LLP  
*Chicago, Illinois (beginning Nov. 2004)*

Lerach Coughlin Stoia Geller  
Rudman & Robbins LLP  
*San Diego, California*

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

Cavanagh & O'Hara  
*Springfield, Illinois*

Heyl, Royster, Voelker & Allen  
*Springfield, Illinois*

Jenner & Block LLP  
*Chicago, Illinois (beginning Nov. 2004)*

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

### Master Trustee

The Northern Trust Company  
*Chicago, Illinois*





*Tracy, Julie, Diane, Brett, Martha, Heidi, and Lisa of the Member Services Call Center Department meet with Sharon, Call Center Supervisor.*



# Financial







## Independent Auditors' Report

The 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 (System), a component unit of the State of Illinois, as of June 30, 2005, and the related statement of changes in plan net assets for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the System as of and for the year ended June 30, 2004 were audited by other accountants whose report dated November 5, 2004, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2005, and the changes in its plan net assets for the year 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 a report dated November 3, 2005 on our consideration of the System's internal control over financial reporting and on 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 on 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 audit.

The accompanying management's discussion and analysis and schedules of funding progress and contributions from employer and other contributing entities as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

225 North Water Street, Suite 400 P.O. Box 1580 Decatur, IL 62525-1580 217 429-2411 Fax 217 429-6109

Our audit was conducted for the purpose of forming an opinion on the System's 2005 basic financial statements. The other supplementary information in the financial section and the accompanying introduction, investment, actuarial and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 2005 other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as of and for the year ended June 30, 2005, taken as a whole. The 2004 other supplementary information in the financial section was audited by other accountants whose report dated November 5, 2004, expressed an unqualified opinion on such information in relation to the basic financial statements as of and for the year ended June 30, 2004, taken as a whole. The introduction, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BKD, LLP

November 3, 2005

*Michael Bracey Photography*



*Linda of Counseling Services in Lisle schedules a meeting for a member with a counselor.*

## 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, 2005. 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, 2005, were \$34.1 billion.
- During FY05, TRS net assets increased \$2.5 billion.
- Contributions from members, employers, and the State of Illinois were \$1,817 million, a decrease of \$4,441 million or 71.0 percent during the fiscal year. Please see discussion on treatment of pension obligation bond proceeds for FY04 under "Contributions" on page 21 and under "Funding" on page 32.
- Total investment income was \$3,330 million, a decrease of \$1,156 million compared to FY04.
- Benefits and refunds paid to members and annuitants were \$2,593 million, an increase of \$283 million or 12.2 percent compared to FY04.
- The pension benefit obligation or total actuarial accrued liability was \$56.08 billion at June 30, 2005.
- The unfunded actuarial accrued liability increased from \$19.40 billion at June 30, 2004 to \$21.99 billion at June 30, 2005. The funded ratio decreased from 61.9 percent at June 30, 2004 to 60.8 percent at June 30, 2005.

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

**Statements of Plan Net Assets.** This statement reports the pension trust fund's 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, 2005.

**Statements 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 Statements of Changes in Plan Net Assets supports the change in the value of the net assets reported on the Statements 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

	2005	Percentage Change	2004	Percentage Change	2003
Cash	\$3,777,107	(11.5%)	\$4,269,329	16.9%	\$3,651,963
Receivables and prepaid expenses	382,518,911	8.1	353,725,714	23.3	286,769,806
Investments	34,898,361,784	8.9	32,046,373,325	33.9	23,935,615,863
Invested securities lending collateral	4,386,594,663	26.6	3,466,114,601	60.9	2,154,422,658
Capital assets	2,320,275	2.1	2,273,510	(13.6)	2,630,930
<b>Total assets</b>	<b>39,673,572,740</b>	<b>10.6</b>	<b>35,872,756,479</b>	<b>36.0</b>	<b>26,383,091,220</b>
<b>Total liabilities</b>	<b>5,588,354,263</b>	<b>29.1</b>	<b>4,328,027,194</b>	<b>32.8</b>	<b>3,258,268,149</b>
<b>Net assets</b>	<b><u>\$34,085,218,477</u></b>	<b>8.1%</b>	<b><u>\$31,544,729,285</u></b>	<b>36.4%</b>	<b><u>\$23,124,823,071</u></b>

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

	2005	Percentage Change	2004	Percentage Change	2003
Contributions	\$1,817,352,355	(71.0%)	\$6,258,086,538	256.9%	\$1,753,282,676
Total investment income	3,330,039,158	(25.8)	4,485,729,345	322.8	1,060,852,111
Total additions	5,147,391,513	(52.1)	10,743,815,883	281.8	2,814,134,787
Benefits and refunds	2,592,498,606	12.2	2,310,349,123	13.2	2,041,737,026
Administrative expenses	14,403,715	6.2	13,560,546	(2.2)	13,859,402
Total deductions	2,606,902,321	12.2	2,323,909,669	13.1	2,055,596,428
<b>Net increase in net assets</b>	<b>2,540,489,192</b>	<b>(69.8)</b>	<b>8,419,906,214</b>	<b>1,010.0</b>	<b>758,538,359</b>
<b>Net assets beginning of year</b>	<b><u>31,544,729,285</u></b>	<b>36.4</b>	<b><u>23,124,823,071</u></b>	<b>3.4</b>	<b><u>22,366,284,712</u></b>
<b>Net assets end of year</b>	<b><u>\$34,085,218,477</u></b>	<b>8.1%</b>	<b><u>\$31,544,729,285</u></b>	<b>36.4%</b>	<b><u>\$23,124,823,071</u></b>

### 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 \$34.1 and \$31.5 billion at June 30, 2005 and 2004, respectively. Net assets increased \$2.5 and \$8.4 billion during FY05 and FY04, respectively.

### Contributions

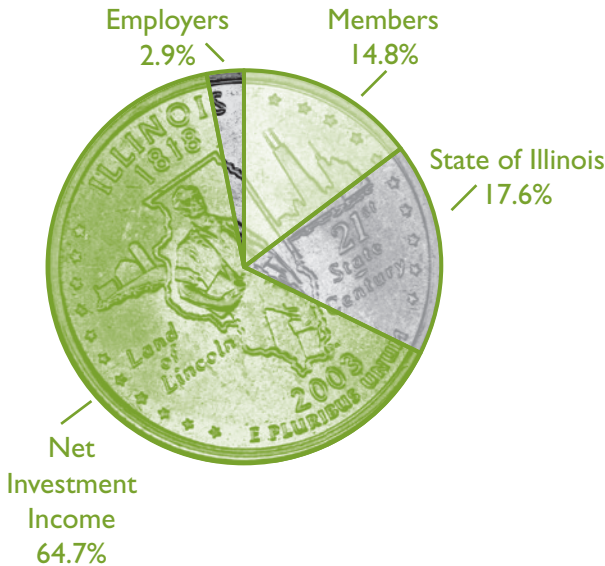
Contributions decreased \$4,441 million during FY05 and increased \$4,505 million during FY04. During FY05, member contributions decreased \$7 million and employer contributions from school districts increased \$20 million. During FY04, member contributions increased \$37 million and employer contributions from school districts increased \$37 mil-

lion. The majority of the increase in the employer contributions from school districts in FY05 is attributable to an increase in employer early retirement option contributions due to a higher number of retirees electing to retire under the early retirement option.

The State of Illinois provides contributions through state appropriations. Receipts from the State of Illinois decreased \$4,455 million in FY05 compared to an increase of \$4,431 million in FY04. The large decrease in receipts from the state in FY05 and increase in FY04 is due to the one-time receipt of pension obligation bond proceeds from the State of Illinois in FY04. 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 received in FY04 and presented as contributions in this report were not counted as contributions towards TRS's annual actuarial funding requirements for FY04. State funding law provides for a 50-year funding plan that includes a 15-year phase-in period. Minimum state contribution rates were specified in the statute for FY99 through FY04. In FY05, state contributions were reduced in accordance with funding revisions contained in the pension obligation bond law. In FY06 and FY07, state contributions will be based on dollar amounts specified by Public Act 94-0004. The legislation contained a two-year funding reduction of approximately 50 percent or over \$1 billion for TRS. State contributions will be higher in future years to make up for the two-year funding reduction, as the overall goal of 90 percent funding in the year 2045 is unchanged.

**Revenues by Type for the Year Ended June 30, 2005**



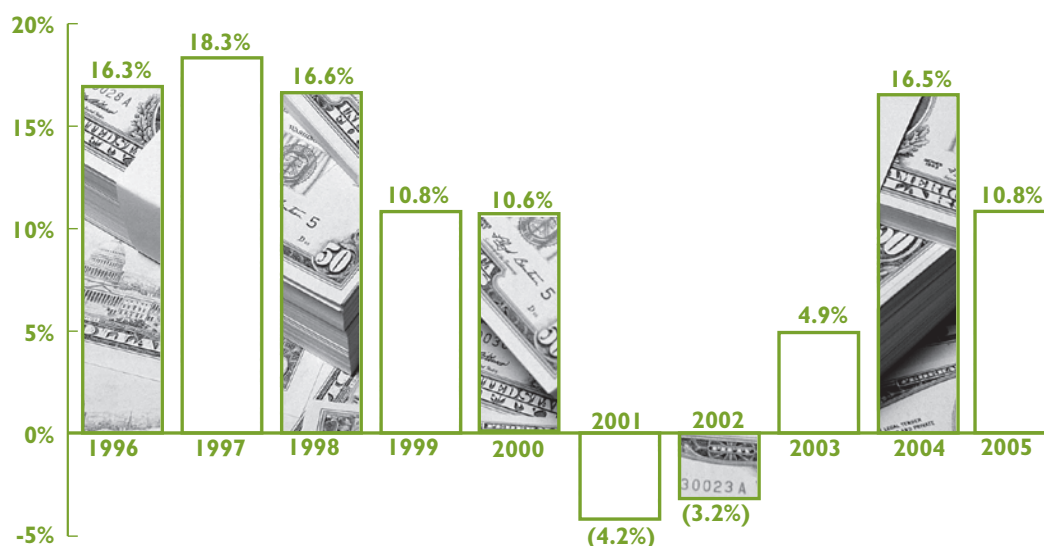
## Investments

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 within prudent risk parameters.

Total investments increased \$2.9 billion from \$32.0 billion at June 30, 2004 to \$34.9 billion at June 30, 2005.

The TRS investment portfolio had another strong year. TRS investments earned a 10.8 and 16.5 percent rate of return, net of fees, for FY05 and FY04, respectively, as all asset classes again produced positive returns. Overall, the United States economy remained vibrant and inflation restrained, providing a healthy investment environment. Substantial gains were accumulated in the private markets in FY05 with the TRS real estate portfolio generating a 19.9 percent return, net of fees, and the TRS private equity portfolio returning 20.0 percent, net of fees. The five- and 10-year returns are 4.7 percent and 9.5 percent, respectively. The long-term return continues to outperform the actuarial assumption rate of 8.5 percent.

### 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 \$271 and \$263 million during FY05 and FY04, respectively. During FY05, benefit payments increased from \$2,262 million with 76,905 recipients during FY04 to \$2,533 million with 82,575 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





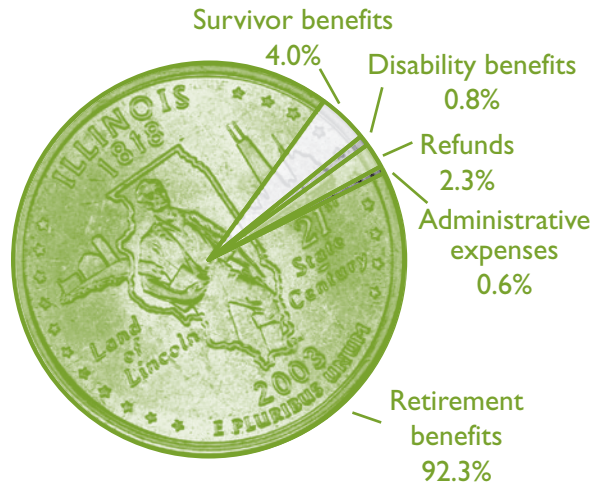
*Tom and John of the Maintenance Department maintain the TRS building and grounds.*



annual increase in retirement benefits, an increase in the number of retirees from 67,950 as of June 30, 2004 to 73,464 as of June 30, 2005, and an increase in the final average salaries of teachers that retired during the fiscal year.

Refunds of contributions increased \$12 and \$5 million during FY05 and FY04, 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, 2005



### 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 \$5.13 and \$4.02 billion during FY05 and FY04, respectively, to \$56.08 billion at June 30, 2005 and \$50.95 billion at June 30, 2004. 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 increased \$2.59 billion during FY05 to \$21.99 billion at June 30, 2005 and decreased \$4.41 billion during FY04 to \$19.40 billion at June 30, 2004. The funded ratio reflects the percentage of the accrued liability covered by net assets at market value. The funded ratio decreased to 60.8 percent at June 30, 2005 from 61.9 percent at June 30, 2004. An increase in the unfunded liability and a decrease in the funded ratio indicate a decline 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. The last experience analysis was conducted in 2002. TRS actuaries are scheduled to conduct an experience analysis for the five-year period ended June 30, 2006 in 2007.

## Funded Ratio at Market Value



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

## New Legislation

GASB Statement Number 34 requires the Management Discussion and Analysis to include a description of currently known facts expected to have a significant effect on TRS's financial position. On June 1, 2005, Public Act 94-0004 became law. The legislation addresses the Early Retirement Option (ERO), benefit changes, and funding reductions.

The ERO, which had been scheduled to sunset June 30, 2005, was renewed with modifications that will allow the program to continue at least through 2012. The extension includes a "Pipeline" provision for members who notified their employers on or before June 1, 2005 of their intention to retire under the terms of contracts or collective bargaining agreements. These members have until July 1, 2007 to retire using the Pipeline provision. For these individuals, the contribution rates remain the same as they were for the ERO program that ended June 30, 2005.

Public Act 94-0004 includes a new Modified ERO program. These provisions apply to members who will retire after June 30, 2005, and who do not qualify for Pipeline ERO. The member contribution changed from 7.0 percent to 11.5 percent for each year that the member is under age 60 or that the member's service is under 35 years, whichever is less. The employer (school district) contribution changed from 20.0 percent to 23.5 percent. There is no longer a contribution waiver for employers and members when the member has 34 years of service.

In addition, the actuarial benefit also known as the money purchase benefit is not available for retirees who become members on or after July 1, 2005. The actuarial calculation usually benefits members with exceptionally long careers or large periods of inactive status.



Public Act 94-0004 changes the member contribution rate effective July 1, 2005, from 9.0 percent to 9.4 percent to help cover the cost of ERO. The additional 0.4 percent contribution is refundable if the member does not retire using ERO or the program is terminated.

Public Act 94-0004 also contains new employer contributions. When a member retires, the employer is required to pay TRS a contribution equal to the actuarial value of a pension benefit that results from any salary increase over 6 percent that is used in the final average salary calculation. Also, employers are required to pay a contribution for any sick leave granted to a member in excess of the normal allotment that is used to secure TRS service credit. Contracts and collective bargaining agreements in effect prior to June 1, 2005 are exempt from the provisions contained in the act.

The legislation contained a two-year funding reduction of approximately 50 percent in state contributions that will result in a total reduction of over \$1 billion for TRS, \$523.9 million in FY06 and approximately \$497.6 million in FY07. State contributions will be higher in future years to make up for the funding reduction in FY06 and FY07, as the overall goal of 90 percent funding in the year 2045 is unchanged. The contribution rate for salaries paid from federal funds is equal to the state's TRS funding rate that is 7.06 percent in FY06. As a result of reduced state contributions, effective July 1, 2005, employer contributions on salaries paid from federal funds will decrease from 10.50 percent to 7.06 percent for FY06.



*Chai, Sharon, Greg, and Mona of Information Systems discuss a new addition to the TRS Participant System.*

## Basic Financial Statements

Teachers' Retirement System of the State of Illinois  
 Statements of Plan Net Assets  
 as of June 30, 2005, and 2004

	2005	2004
<b>Assets</b>		
Cash	\$3,777,107	\$4,269,329
<b>Receivables and prepaid expenses</b>		
Member payroll deduction	57,506,146	69,326,056
Member contributions	41,216,097	37,553,098
Employer contributions	30,947,290	13,115,002
State of Illinois	441,044	251,416
Investment income	249,963,566	230,705,401
Prepaid expenses	2,444,768	2,774,741
Total receivables and prepaid expenses	<u>382,518,911</u>	<u>353,725,714</u>
<b>Investments, at fair value</b>		
Fixed income	10,325,741,083	9,089,445,291
Equities	18,787,194,875	18,604,591,222
Real estate	3,525,456,881	2,680,788,703
Short-term investments	1,163,168,990	806,158,043
Private equity investments	1,068,633,225	840,390,782
Foreign currency	28,166,730	24,999,284
Total investments	<u>34,898,361,784</u>	<u>32,046,373,325</u>
Collateral from securities lending	4,386,594,663	3,466,114,601
Property and equipment, at cost, net of accumulated depreciation of \$5,235,129 and \$5,308,993 in 2005 and 2004, respectively	<u>2,320,275</u>	<u>2,273,510</u>
<b>Total assets</b>	<b><u>39,673,572,740</u></b>	<b><u>35,872,756,479</u></b>
<b>Liabilities</b>		
Benefits and refunds payable	4,124,841	4,940,452
Administrative and investment expenses payable	118,607,225	97,111,469
Payable to brokers for unsettled trades, net	1,079,027,534	759,860,672
Securities lending transactions	4,386,594,663	3,466,114,601
<b>Total liabilities</b>	<b><u>5,588,354,263</u></b>	<b><u>4,328,027,194</u></b>
<b>Net assets held in trust for pension benefits</b>	<b><u>\$34,085,218,477</u></b>	<b><u>\$31,544,729,285</u></b>

(A schedule of funding progress is presented on page 47.)

The accompanying notes are an integral part of these statements.

Teachers' Retirement System of the State of Illinois  
 Statements of Changes in Plan Net Assets  
 Years Ended June 30, 2005, and 2004

	2005	2004
<b>Additions</b>		
<b>Contributions</b>		
Members	\$761,790,009	\$768,661,300
State of Illinois	906,749,310	1,031,477,825
State of Illinois pension obligation bond proceeds	0	4,330,373,948
Employers		
Early retirement	65,378,955	52,495,571
Federal funds	39,840,799	33,651,748
2.2 benefit formula	43,593,282	41,426,146
<b>Total contributions</b>	<b><u>1,817,352,355</u></b>	<b><u>6,258,086,538</u></b>
<b>Investment income</b>		
From investment activities		
Net appreciation in fair value	2,569,878,360	3,873,564,792
Interest	352,219,842	278,058,533
Real estate operating income, net	222,603,171	194,324,851
Dividends	268,364,399	206,236,790
Private equity income	20,389,300	27,033,133
Other investment income	1,931,616	3,531,886
Investment activity income	3,435,386,688	4,582,749,985
Less investment expense	(114,896,886)	(106,418,281)
Net investment activity income	<u>3,320,489,802</u>	<u>4,476,331,704</u>
From securities lending activities		
Securities lending income	88,385,077	31,637,926
Securities lending management fees	(1,931,333)	(2,348,565)
Securities lending borrower rebates	(76,904,388)	(19,891,720)
Net securities lending activity income	<u>9,549,356</u>	<u>9,397,641</u>
Total investment income	<u>3,330,039,158</u>	<u>4,485,729,345</u>
<b>Total additions</b>	<b><u>5,147,391,513</u></b>	<b><u>10,743,815,883</u></b>
<b>Deductions</b>		
Retirement benefits	2,407,652,120	2,145,187,366
Survivor benefits	103,990,670	97,155,092
Disability benefits	21,460,058	19,987,021
Refunds	59,395,758	48,019,644
Administrative expenses	14,403,715	13,560,546
<b>Total deductions</b>	<b><u>2,606,902,321</u></b>	<b><u>2,323,909,669</u></b>
<b>Net increase</b>	<b><u>2,540,489,192</u></b>	<b><u>8,419,906,214</u></b>
<b>Net assets held in trust for pension benefits</b>		
Beginning of year	<u>31,544,729,285</u>	<u>23,124,823,071</u>
<b>End of year</b>	<b><u>\$34,085,218,477</u></b>	<b><u>\$31,544,729,285</u></b>

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



# Notes to Financial Statements

## A. Plan Description

### I. 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, employer contributions for member benefit increases, and for the employer's portion of the Early Retirement Option contributions. As a result of Public Act 94-0004, which became law on June 1, 2005, employers are also required to pay the cost of pension benefits resulting from end-of-career salary increases over 6 percent. Employers also pay a contribution for sick leave days granted in excess of the member's normal annual allotment and used for service credit at retirement. The contributions do not apply to salary increases awarded or sick leave granted under contracts or collective bargaining agreements entered into, amended, or renewed prior to June 1, 2005. In addition, the State of Illinois provides employer contributions. For information about employer contributions made by the State of Illinois, see "Funding" on page 32.

#### Number of Employers (as of June 30)

	<b>2005</b>	<b>2004</b>
Local school districts	878	885
Special districts	139	139
State agencies	<u>25</u>	<u>25</u>
<b>Total</b>	<b><u>1,042</u></b>	<b><u>1,049</u></b>

### 3. Members

#### TRS Membership (as of June 30)

	<b>2005</b>	<b>2004</b>
Retirees and beneficiaries receiving benefits	82,575	76,905
Inactive members entitled to but not yet receiving benefits	87,328	89,641
Active members	<u>155,850</u>	<u>157,990</u>
<b>Total</b>	<b><u>325,753</u></b>	<b><u>324,536</u></b>

#### 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 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.

Public Act 94-0004, effective July 1, 2005, made several important changes to the ERO that was scheduled to expire on June 30, 2005. The ERO program will continue at least through 2012. Members are considered to be in the “pipeline” to retire under ERO without modifications if they have met all of the following requirements:

- On or before June 1, 2005, members notified their employer in writing of their intention to retire under the terms of their contract or collective bargaining agreement.
- Members have an effective date of retirement on or before July 1, 2007.

For this Pipeline ERO group only, member and employer contributions are waived for members with 34 years of service.



*Claire of Counseling Services and Paula of Human Resources work out a benefit estimate for a member.*

A Modified ERO is provided for all other members. ERO contribution rates are higher for the modified Early Retirement Option and the contribution waiver for members with 34 years of service is eliminated. Members and employers make a contribution for any member under the age of 60 who retires with less than 35 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. Public Act 94-0004 eliminates the money purchase benefit for persons who become TRS members after June 30, 2005.

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.

## 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. The contribution rate changed from 9.0 percent to 9.4 percent effective July 1, 2005 as a result of Public Act 94-0004. The additional 0.4 percent is to help cover the cost of ERO and is refundable if the member does not retire using ERO or if the ERO program terminates.



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,
- 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 \$4.330 billion in pension obligation bond proceeds received in FY04 and presented as contributions in this report were not counted as contributions towards TRS's annual actuarial funding requirements for FY04. State funding law provides for a 50-year funding plan that includes a 15-year phase-in period. Minimum state contribution rates were specified in the statute for FY99 through FY04. In FY05, state contributions were reduced in accordance with funding revisions contained in the pension obligation bond law.

In FY06 and FY07, state contributions will be based on dollar amounts specified by Public Act 94-0004. The legislation contains a two-year funding reduction of approximately 50 percent or over \$1 billion for TRS. State contributions will be higher in future years to make up for the two-year funding reduction, as the overall goal of 90 percent funding in the year 2045 is unchanged.

Beginning July 1, 1995, state contributions have been made through a continuing appropriation. However, in FY06 and FY07 the total state appropriations are specified by the statute rather than actuarial calculations.

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**

### **I. Basis of Accounting**

TRS's financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues when due, 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.

### **2. Use of Estimates**

The preparation of financial statements in conformity with accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. TRS's adoption of GASB 40 in FY05 had no effect on net assets or the changes in net assets in the prior or current year.

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/expendi-

tures 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 15, 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 in the individual 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, 2005, and 2004 totaled \$1,371,271 and \$1,311,493, 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 \$57,506,146 and \$69,326,056 as of June 30, 2005, and 2004 respectively.

## 8. Prior Period Reclassification

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

## C. Cash

Custodial credit risk for deposits is the risk that in the event of a bank failure, TRS's deposits may not be returned. TRS does not have a formal policy for custodial credit risk. The bank balance and carrying amount of TRS's deposits were \$3,474,640 and \$3,777,107 at June 30, 2005, and \$4,076,472 and \$4,269,329 at June 30, 2004. Of the bank balance, \$3,121,085 and \$3,654,191 were on deposit with the state treasurer at June 30, 2005, and 2004, respectively. State treasurer deposits are in an internal investment pool collateralized at a third party custodial bank and are not subject to custodial credit risk. The remaining bank balance of \$353,555 and \$422,281 at June 30, 2005 and 2004, respectively, are amounts TRS deposited and received credit for at The Northern Trust Company, but Northern had not yet received the money from the payor's financial institution. The amounts, called uncollected funds, are not subject to custodial credit risk. Cash equivalents are classified as short-term investments in the Statements 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 Risk

#### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a financial institution failure, TRS would not be able to recover the value of the investments in the possession of an outside party. TRS does not have a formal policy for custodial credit risk. At June 30, 2005, the following investments were uninsured and unregistered, with the securities held by a counterparty, but not in TRS's name:

Foreign Currency Held by Investment Managers	\$20,862,357
Government Treasury Notes	902,555
Index Linked Government Bond	31,220,983
Negotiable Bank Certificate of Deposit	7,751,882
Short Term Bills and Notes	55,285,738
Cash Deposits Held with Brokers for Variation Margin	49,238,508
<b>Total</b>	<b><u>\$165,262,023</u></b>

At June 30, 2004, under the effective reporting standard at that time, TRS did not identify any investments subject to custodial credit risk. However, TRS had investments of \$15,691,796,501 that were not categorized.

### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to TRS. Credit risk exposure is dictated by each investment manager's agreement. Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual security quality rating tiers, and/or the average credit quality of the overall portfolio. With the exception of certain commingled funds, bonds below B- are not permissible in any of the fixed income investment manager guidelines. However, in circumstances where position downgrades occur, investment managers have been given permission to hold securities due to circumstances such as a higher peer group rating from another nationally recognized statistical rating organization, firm internal ratings, or other mitigating factors.

As of June 30, 2005, TRS held the following fixed income investments with respective quality ratings, excluding those obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government, which are not considered to have credit risk.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	US Agency Obligations	Pooled Debt Investments	Total
Aaa	\$1,063,700,016	\$327,676,193	\$2,377,363,562	-	\$3,768,739,771
Aa1	84,205,161	8,856,817	955,170	-	94,017,148
Aa2	66,155,649	10,211,496	-	620,158,258	696,525,403
Aa3	540,277,352	21,399,522	-	-	561,676,874
AA	5,769,581	-	-	-	5,769,581
A1	117,260,305	8,712,788	560,530	-	126,533,623
A2	111,571,412	41,244,582	5,015,506	-	157,831,500
A3	129,264,431	28,028,454	-	-	157,292,885
Baa1	94,550,534	58,632,955	-	-	153,183,489
Baa2	381,901,008	31,160,219	-	-	413,061,227
Baa3	112,181,190	42,328,600	-	-	154,509,790
Ba1	63,826,208	18,671,420	-	-	82,497,628
Ba2	47,672,026	8,044,378	-	-	55,716,404
Ba3	27,299,705	9,317,791	-	48,406,505	85,024,001
B1	22,156,273	32,315,563	-	-	54,471,836
B2	15,877,496	1,217,650	-	-	17,095,146
B3	8,500,013	658,350	-	-	9,158,363
Caa1	6,609,388	-	-	-	6,609,388
Caa	3,611,418	-	-	-	3,611,418
NR	16,521,938	-	-	-	16,521,938
WR	35,368,161	-	-	-	35,368,161
NA	4,104,203	11,224,776	-	-	15,328,979
<b>Total Credit Risk:</b>					
Debt Securities	\$2,958,383,468	\$659,701,554	\$2,383,894,768	\$668,564,763	\$6,670,544,553
US Governments and Agencies*	-	-	1,697,385,355	-	1,697,385,355
U.S. Treasuries*	-	-	1,957,811,175	-	1,957,811,175
<b>Total Fixed Income</b>	<b>\$2,958,383,468</b>	<b>\$659,701,554</b>	<b>\$6,039,091,298</b>	<b>\$668,564,763</b>	<b>\$10,325,741,083</b>

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





*Sandy and Cynthia of the General Counsel's Office consult research materials in the legal library.*



### Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of TRS's investment in a single issue. TRS's Investment Policy states securities representing debt and equity of any one company shall not exceed 5 percent of the fair value of any manager's portfolio without prior approval. At June 30, 2005, TRS did not have investments in any one organization representing 5 percent or more of the System's assets other than those issued or explicitly guaranteed by the U.S. government and investments in investment pools.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. TRS manages interest rate risk within the portfolio using the effective duration or option-adjusted duration methodology. Yield curve and interest rate duration management is widely used in the management of fixed income portfolios in that it quantifies the risk of interest rate changes to the portfolio or an individual security. The methodology takes into account optionality on securities and scales the risk of price changes on bonds depending upon the degree of change in interest rates and the slope of the yield curve. All of the TRS's fixed income portfolios are managed in accordance with operational guidelines and are specific as to the degree of interest rate risk taken. Active portfolios are managed with a duration band of +/- 30 percent of the index effective duration, but are not security specific. TRS does employ the use of interest-only and principal-only securities, as well as floating grade securities, as dictated by the portfolio manager's discretion or views on interest rates.

At June 30, 2005, the following table shows TRS's investments by investment type, fair value, and the option adjusted duration rate.

## Option Adjusted Duration

	Fair Value Total	Fair Value % Total	OAD Total	Fair Value US	Fair Value % U S	OAD US	Fair Value Foreign	Fair Value % Foreign	OAD Foreign
<b>U.S. Treasuries</b>	<b>\$2,604,882,093</b>	<b>27.12%</b>	<b>4.87</b>	<b>\$2,323,966,110</b>	<b>24.19%</b>	<b>4.00</b>	<b>\$280,915,983</b>	<b>2.93%</b>	<b>12.22</b>
Agency	391,836,779	4.08	3.88	375,448,053	3.91	3.95	16,388,726	0.17	2.38
Local Authority	831,912	0.01	3.21	831,912	0.01	3.21	0	0	-
Sovereign	91,201,199	0.95	6.23	91,201,199	0.95	6.23	0	0	-
<b>U.S. Agency Obligations-Government-Related</b>	<b>483,869,890</b>	<b>5.04</b>	<b>4.32</b>	<b>467,481,164</b>	<b>4.87</b>	<b>4.39</b>	<b>16,388,726</b>	<b>0.17</b>	<b>2.38</b>
Industrial	893,130,118	9.30	5.46	891,587,363	9.28	5.47	1,542,755	0.02	3.61
Utility	108,525,017	1.13	5.20	108,525,017	1.13	5.20	0	0	-
Financial Institutions	604,095,734	6.29	4.08	596,154,864	6.21	4.09	7,940,870	0.08	3.48
Other Corporate	4,244,824	0.04	10.63	4,244,824	0.04	10.63	0	0	-
<b>Corporate Debt Securities</b>	<b>1,609,995,693</b>	<b>16.76</b>	<b>4.94</b>	<b>1,600,512,068</b>	<b>16.66</b>	<b>4.95</b>	<b>9,483,625</b>	<b>0.10</b>	<b>3.50</b>
Industrial	2,242,938	0.02	2.58	2,242,938	0.02	2.58	-	-	-
Financial Institutions	1,280,835	0.01	0.06	1,280,835	0.01	0.06	-	-	-
Mortgage Backed Security Passthrough	2,041,548,277	21.25	1.89	2,041,548,277	21.25	1.89	-	-	-
Asset Backed Securities	614,223,250	6.39	1.24	614,223,250	6.39	1.24	-	-	-
Commercial Mortgage Backed Securities	333,634,857	3.47	3.54	333,634,857	3.47	3.54	-	-	-
Covered Bonds	14,160,463	0.15	2.02	14,160,463	0.15	2.02	-	-	-
Collateralized Mortgage Obligations	944,789,414	9.84	5.35	944,789,414	9.84	5.35	-	-	-
Other Securitized	141,126,449	1.48	0.97	141,126,449	1.48	0.97	-	-	-
<b>U.S. Agency Obligations-Securitized</b>	<b>4,093,006,483</b>	<b>42.61</b>	<b>2.22</b>	<b>4,093,006,483</b>	<b>42.61</b>	<b>2.22</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash</b>	<b>585,443,165</b>	<b>6.09</b>	<b>0</b>	<b>585,442,894</b>	<b>6.09</b>	<b>0</b>	<b>271</b>	<b>0</b>	<b>0</b>
<b>Others</b>	<b>228,323,183</b>	<b>2.38</b>	<b>13.27</b>	<b>204,772,051</b>	<b>2.13</b>	<b>12.07</b>	<b>23,551,132</b>	<b>0.25</b>	<b>15.23</b>
<b>Total</b>	<b>\$9,605,520,507</b>	<b>100%</b>	<b>3.62</b>	<b>\$9,275,180,770</b>	<b>96.55%</b>	<b>3.30</b>	<b>\$330,339,737</b>	<b>3.45%</b>	<b>11.67</b>
Securities Not Modeled*	721,726,566								
Pricing Adjustment**	(1,505,990)								
<b>Total Fixed Income</b>	<b>\$10,325,741,083</b>								

Source: Lehman Brothers, Inc. POINT©

\* The amount includes pooled investments with a market value of \$668,564,763 and a weighted average option adjusted duration of 3.66. The remaining \$53,161,803 represent bonds that cannot be modeled on the Lehman Brothers, Inc. POINT© system due to the limited market for these securities.

\*\* The Lehman Brothers, Inc. POINT© system uses pricing sources that may vary from the pricing sources used by the custodian to value the portfolio.

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. TRS's currency risk exposure, or exchange rate risk, is primarily derived from its holdings in foreign currency-denominated equity, fixed income investments and foreign currency. TRS's international equity and global fixed income managers, at their discretion, may or may not hedge the portfolio's foreign currency exposures with currency forward contracts depending upon their views on a specific country or foreign currency relative to the U.S. dollar.

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2005 is as follows:

<b>Currency</b>	<b>Foreign Currency</b>	<b>Equities</b>	<b>Fixed Income</b>	<b>Total</b>
Australian Dollar	\$1,172,965	\$186,055,772	\$12,202,400	\$199,431,137
Brazilian Real	40,406	97,423,708	-	97,464,114
British Pound Sterling	1,087,289	1,039,816,250	80,583,088	1,121,486,627
Canadian Dollar	410,967	41,389,874	17,124,339	58,925,180
Czech Koruna	4,108	24,093	-	28,201
Danish Krone	39,051	29,897,532	-	29,936,583
Egyptian Pound	319,899	5,432,914	-	5,752,813
Euro	3,852,761	1,760,075,362	172,011,459	1,935,939,582
Hong Kong Dollar	353,275	113,211,528	-	113,564,803
Hungarian Forint	348	31,515	-	31,863
Indonesian Rupiah	2,482,612	19,248,998	-	21,731,610
Japanese Yen	9,524,287	939,294,878	16,234,999	965,054,164
Malaysian Ringgit	299,367	22,337,230	-	22,636,597
Mexican Peso	892,188	27,908,148	8,550,901	37,351,237
New Israeli Shekel	543	498,067	-	498,610
New Taiwan Dollar	86,956	129,028,454	-	129,115,410
New Zealand Dollar	3,934,384	31,106,509	8,526,210	43,567,103
Norwegian Krone	195,589	24,559,777	-	24,755,366
Philippine Peso	-	6,001,588	-	6,001,588
Polish Zloty	148,640	11,227,832	-	11,376,472
Singapore Dollar	82,221	58,606,996	-	58,689,217
South African Rand	123,051	62,191,736	12,270	62,327,057
South Korean Won	2,724,788	212,608,084	-	215,332,872
Swedish Krona	184,820	79,148,408	16,091,882	95,425,110
Swiss Franc	187,156	374,041,213	-	374,228,369
Thai Baht	19,059	5,810,338	-	5,829,397
Turkish Lira	-	18,795,994	-	18,795,994
<b>Total subject to foreign currency risk</b>	<b>\$28,166,730</b>	<b>\$5,295,772,798</b>	<b>\$331,337,548</b>	<b>\$5,655,277,076</b>
<b>Investments in international securities payable in United States dollars</b>	<b>-</b>	<b>931,685,057</b>	<b>328,364,006</b>	<b>1,260,049,063</b>
<b>Total international investment securities</b>	<b>\$28,166,730</b>	<b>\$6,227,457,855</b>	<b>\$659,701,554</b>	<b>\$6,915,326,139</b>
<b>Domestic Investments</b>	<b>-</b>	<b>12,559,737,020</b>	<b>9,666,039,529</b>	<b>22,225,776,549</b>
<b>Total Fair Value</b>	<b>\$28,166,730</b>	<b>\$18,787,194,875</b>	<b>\$10,325,741,083</b>	<b>\$29,141,102,688</b>

In addition to the above, TRS has foreign currency investments in real estate and limited partnerships with fair values totaling \$35,884,547 and \$9,964,474, respectively at June 30, 2005.

### 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 primary lending agent for the plan's domestic securities for collateral of 102 percent of the market value of the securities and international securities for collateral of 105 percent of the market value of the securities.

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 78 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 39 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, 2005, and 2004, TRS had outstanding loaned investment securities having a market value of \$4,715,848,757 and \$3,921,190,369, respectively, against which it had received collateral of \$4,839,824,722 and \$4,024,263,673, respectively. Collateral from securities lending reflected on the Statements 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. 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.

##### 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 TRS to purchase specific foreign currency at an agreed upon price. Forward sales obligate TRS to sell specific foreign currency at an agreed upon price. At June 30, 2005, foreign currency forward purchase or sell contracts included the following currencies: euro, Mexican peso, New Zealand dollar, Japanese yen, Australian dollar, Singapore dollar, Canadian dollar, Swedish krona, British pound sterling, Hong Kong dollar, Swiss franc, and U.S. dollar. These contracts have various settlement dates within 12 months of June 30, 2005.

**Fair Value:** As of June 30, 2005, and June 30, 2004, TRS's open foreign currency forward contracts had a net fair value of \$10,840,085 and (\$3,011,319), respectively.

	<b>Market Value as of June 30, 2005</b>	<b>Market Value as of June 30, 2004</b>
Forward currency purchases	\$456,926,270	\$361,979,928
Forward currency sales	<u>(446,086,185)</u>	<u>(364,991,247)</u>
<b>Unrealized gain/(loss)</b>	<b><u>\$10,840,085</u></b>	<b><u>(\$3,011,319)</u></b>

#### 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, 2005 and June 30, 2004, TRS had outstanding futures contracts with an underlying notional value of \$2,704,099,768 and \$2,343,330,544, respectively. Contractual principal values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through December 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.

<b>Type</b>	<b>FY05 Number of Contracts*</b>	<b>FY05 Contractual Principal*</b>	<b>FY04 Number of Contracts</b>	<b>FY04 Contractual Principal</b>
Fixed Income Index Futures – Long	1,361	\$168,664,063	4,600	\$502,427,875
Fixed Income Index Futures – Short	(2,204)	(246,377,719)	(1,065)	(115,703,625)
International Fixed Income Index Futures – Long	1,422	18,811,006	486	143,164,325
International Fixed Income Index Futures – Short	(1,361)	(51,155,057)	(80)	(10,735,719)
Stock Index Futures – Long	11,657	1,899,948,375	10,267	1,416,098,300
Cash Equivalent (Eurodollar) Futures – Long	<u>3,808</u>	<u>914,209,100</u>	<u>1,692</u>	<u>408,079,388</u>
<b>Total</b>	<b><u>14,683</u></b>	<b><u>\$2,704,099,768</u></b>	<b><u>15,900</u></b>	<b><u>\$2,343,330,544</u></b>

\* Includes options on futures.

#### 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, 2005, TRS had outstanding options contracts with an underlying notional value of \$72,711,812. Contractual principal values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through September 2006.

**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, 2005, and June 30, 2004, the fair value of option contracts written was \$380,116 and (\$288,983), respectively. The fair value represents the amount needed to close all positions as of that date. The following table presents the aggregate contractual principal (notional value) of TRS's outstanding contracts at June 30, 2005, and June 30, 2004. 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.

Type	FY05 Number of Contracts	FY05 Contractual Principal	FY05 Fair Value	FY04 Number of Contracts	FY04 Contractual Principal	FY04 Fair Value
Fixed Income Written Call Options	568	\$15,697,907	(\$294,034)	532	\$10,536,700	(\$201,938)
Fixed Income Written Put Options	554	(4,405,895)	(299,501)	308	4,826,850	(86,026)
International Fixed Income Written Put Options	0	0	0	67	430,000	(1,019)
Cash Equivalent Written Call Options (Eurodollar)	<u>1,468</u>	<u>61,419,800</u>	<u>973,651</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>2,590</u></b>	<b><u>\$72,711,812</u></b>	<b><u>\$380,116</u></b>	<b><u>907</u></b>	<b><u>\$15,793,550</u></b>	<b><u>(\$288,983)</u></b>

## 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.

### I. Benefit Trust

	2005	2004
Balances at June 30	\$34,081,019,184	\$31,540,767,937

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 \$21,989,811,000 in 2005 and \$19,402,722,000 in 2004.

## 2. Minimum Retirement Annuity

	<b>2005</b>	<b>2004</b>
Balances at June 30	\$4,199,293	\$3,961,348

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

### I. 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 FY05 and FY04 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2005, and 2004, respectively. SERS also issues a separate CAFR that may be obtained at [www.state.il.us/srs](http://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](http://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.

## 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 FY05, FY04, and FY03, the SERS employer contribution rates were 16.107 percent, 13.439 percent, and 10.321 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 FY05, FY04, and FY03 were \$824,671, \$662,711, and \$541,552, 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 FY05 and FY04 administrative budgets approved by the board. Effective for pay periods beginning after July 1, 2005, the TRS Board of Trustees opted to begin phasing out paying the employee contribution for all employees. The contribution pickup for SERS members will be reduced to 2 percent in FY06 and expires July 1, 2006. The contribution pickup for TRS members will be reduced to 6 percent in FY06, 3 percent in FY07, and expires July 1, 2007.

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, 2005, and 2004. 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.

# Required Supplementary Information

## Schedule of Funding Progress<sup>1</sup>

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
<b>6/30/05</b>	<b>34,085,218,000</b>	<b>56,075,029,000</b>	<b>60.8</b>	<b>21,989,811,000</b>	<b>7,550,510,000</b>	<b>291.2</b>

## Schedule of Contributions from Employers and Other Contributing Entities<sup>1</sup>

Year Ended June 30	State Contributions <sup>2</sup>	Federal and Employer Contributions <sup>2</sup>	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
<b>2005</b>	<b>903,928,000</b>	<b>83,434,000</b>	<b>987,362,000</b>	<b>1,683,212,000</b>	<b>58.7</b>	<b>986,269,000</b>	<b>100.1</b>

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.



# Notes to Required Supplementary Information

<b>Valuation Dates</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>
<b>Actuarial cost method:</b>	Projected unit credit	Projected unit credit
<b>Amortization method:</b>		
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  FY05 is the first year that state contributions were calculated under the funding mechanism contained in Public Act 93-0002. Minimum state contribution rates were eliminated.	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
<b>Remaining amortization period:</b>		
a) For GASB Statement #25 reporting purposes	40 years, open	40 years, open
b) Per state statute	40 years, closed	41 years, closed
<b>Asset valuation method:</b>	Fair value	Fair value
<b>Actuarial assumptions:</b>		
Investment rate of return	8.5%	8.5%
Projected salary increases	5.9% (at age 69) to 10.2% (at age 19); composite 6.5%	5.9% (at age 69) to 10.2% (at age 19); 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; rated forward one year for female benefit recipients; and 95.6% times the table rates for male retirees.)	1995 Buck Mortality Tables (rated forward three years for male benefit recipients only; rated forward one year for female benefit recipients; and 95.6% times the table rates for male retirees.)

*See accompanying Independent Auditors' Report.*

## Other Supplementary Information

### Schedule of Administrative Expenses For Years Ended June 30

	<b>2005</b>	<b>2004</b>
Personal services	\$10,787,362	\$9,855,223
Professional services	981,768	981,402
Postage	452,629	436,283
Machine repair and rental	462,559	503,353
Other contractual services	765,214	792,565
Commodities	506,844	435,978
Occupancy expense	172,652	182,991
Depreciation	277,617	372,751
Loss on disposal of equipment	<u>(2,930)</u>	<u>0</u>
<b>Total administrative expenses</b>	<b><u>\$14,403,715</u></b>	<b><u>\$13,560,546</u></b>

### Schedule of Investment Expense For Years Ended June 30

	<b>2005</b>	<b>2004</b>
Investment manager fees	\$104,343,041	\$93,944,558
Private equity investment expense	7,480,091	10,645,742
Miscellaneous	<u>3,073,754</u>	<u>1,827,981</u>
<b>Total investment expense</b>	<b><u>\$114,896,886</u></b>	<b><u>\$106,418,281</u></b>

### Schedule of Payments to Consultants For Years Ended June 30

	<b>2005</b>	<b>2004</b>
Actuarial services	\$390,392	\$204,154
External auditors	119,254	112,142
Legal services	140,011	129,844
Management consultants		
Information systems	227,000	481,315
TRS STAR audit	41,990	0
Benchmarking	30,000	0
Board and staff training	26,922	27,548
Operations	3,360	23,289
Other	<u>2,839</u>	<u>3,110</u>
<b>Total payments to consultants</b>	<b><u>\$981,768</u></b>	<b><u>\$981,402</u></b>

*See accompanying Independent Auditors' Report.*



*Stan, Tim, Sue, Chuck, Karen, Mike, Greg, Dawn, Shane, Tassi, Scott, and Ann of the Investment Department participate in an investment staff meeting.*



# Investments

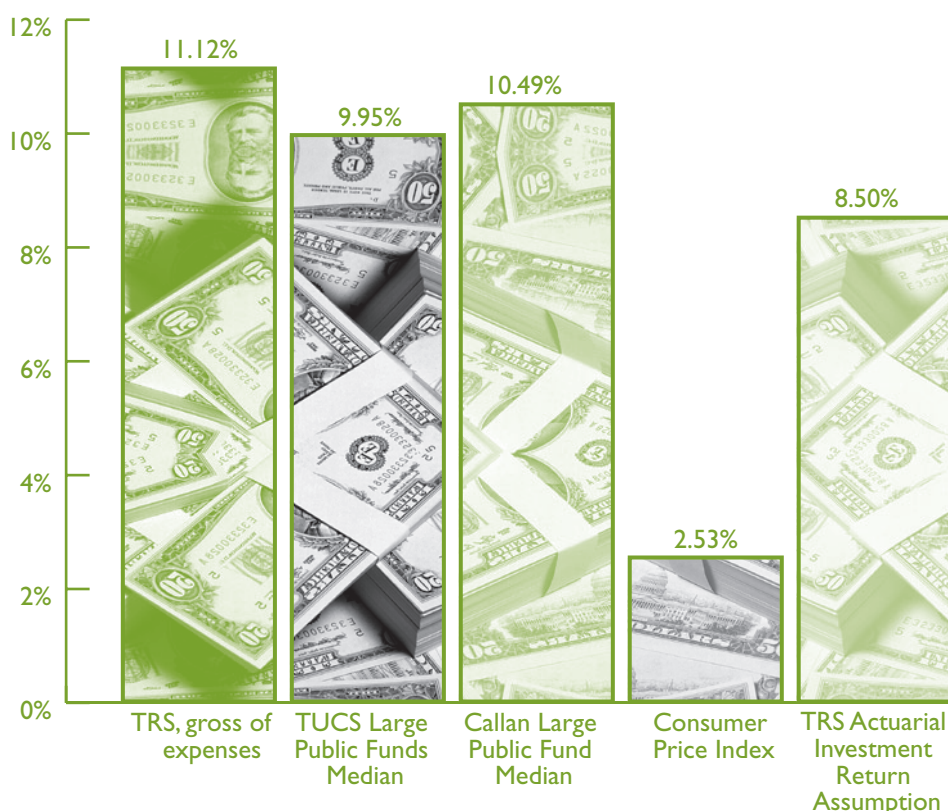


## Introduction

The TRS investment portfolio had another strong year, returning 11.1 percent gross of fees. This number follows strong FY04 performance of 16.8 percent, gross of fees, as all asset classes again produced positive returns. Overall, the United States economy remained vibrant and inflation restrained, providing a healthy investment environment. Substantial gains were accumulated in the private markets in FY05 with the TRS real estate portfolio generating a 19.9 percent return, net of fees, and the TRS private equity portfolio returning 20.0 percent, net of fees.

The TRS investment portfolio continued to rank highly against its peers. Over the past five years, TRS ranks in the top decile of the large public funds in the Callan Associates' universe and in the top 14 percent in the Wilshire Trust Universe Comparison Service (TUCS).

### Return Comparison for the Year Ended June 30, 2005



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

Total TRS investments, including accrued income, increased by nearly \$2.9 billion during the year ended June 30, 2005. All asset classes had another positive year with private equity and real estate leading the way. International equity had another stellar year with a net of fees return of 17.3 percent, driven by the emerging markets. Rounding out the asset classes, domestic equity returned 8.1 percent, net of fees, and fixed income returned 6.6 percent, net of fees.

The TRS portfolio is fully diversified across different asset classes. Within each asset class there are a number of investment managers to ensure the appropriate mixture 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 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, 2004 through June 30, 2005. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2005. 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, 2005

<b>Total Fund Market Value</b>	<b>\$35.148 billion</b>
One-Year Return (net of fees)	10.8%
Five-Year Return (net of fees)	4.7%
Ten-Year Return (net of fees)	9.5%
Percent Externally Managed	100.0%
Number of External Managers	98
Custodian	The Northern Trust Company
General Consultant	Callan Associates Inc.

TRS is ranked 32nd out of the top 200 U.S. pension funds/plan sponsors in the January 24, 2005, issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2004.

## Fund Performance vs. Benchmarks and Market Values

As of June 30, 2005, TRS’s total investments, including accrued investment income, at market value totaled \$35.148 billion, an increase of \$2.871 billion from last year.

A summary of holdings and assets is discussed throughout the Investment Section. The totals represent the actual assets (gross of any liabilities, amounts due to brokers, and expenses). The liabilities of the fund are included in the financial statements located on pages 28 and 29.



TRS had a total fund annualized return of 11.1 percent, gross of fees, and 10.8 percent, net of fees, for the one-year period ending June 30, 2005. 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 FY05 surpassed the policy index return of 10.7 percent for the year ended June 30, 2005. 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 and the real rate of return expectation, which is 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 6/30/05		
	2005	2004	2003	2002	2001	3 Years	5 Years	10 Years
<b>TRS Total Fund</b>	<b>10.8%</b>	<b>16.5%</b>	<b>4.9%</b>	<b>(3.2%)</b>	<b>(4.2%)</b>	<b>10.6%</b>	<b>4.7%</b>	<b>9.5%</b>
TRS Weighted Policy Index	10.7	16.0	3.9	(4.2)	(6.8)	10.1	3.6	8.6
CPI (Inflation)	2.5	3.3	2.1	1.1	3.2	2.6	2.4	2.5
<b>TRS Equity - U.S.</b>	<b>8.1</b>	<b>21.6</b>	<b>0.5</b>	<b>(15.2)</b>	<b>(12.0)</b>	<b>9.8</b>	<b>(0.3)</b>	<b>9.4</b>
Russell 3000 Index	8.1	20.5	0.8	(17.2)	(13.9)	9.5	(1.4)	10.1
<b>TRS Fixed Income*</b>	<b>6.6</b>	<b>0.7</b>	<b>10.7</b>	<b>9.7</b>	<b>7.2</b>	<b>5.9</b>	<b>6.9</b>	<b>6.6</b>
TRS Weighted Fixed Income Index	6.8	0.3	11.1	10.0	7.2	6.0	7.0	6.0
Lehman Brothers Aggregate Index	6.8	0.3	10.4	8.6	11.2	5.8	7.4	6.8
<b>TRS Equity - International</b>	<b>17.3</b>	<b>32.8</b>	<b>(5.2)</b>	<b>(6.8)</b>	<b>(19.5)</b>	<b>13.9</b>	<b>2.1</b>	<b>8.5</b>
Non-U.S. Equity Index	17.0	32.5	(4.2)	(8.2)	(23.8)	14.1	0.8	5.8
<b>TRS Real Estate</b>	<b>19.9</b>	<b>13.2</b>	<b>8.8</b>	<b>2.4</b>	<b>9.8</b>	<b>13.9</b>	<b>10.7</b>	<b>11.4</b>
Real Estate Property Index	18.0	10.8	7.7	5.6	11.2	12.1	10.6	10.2
<b>TRS Private Equity</b>	<b>20.0</b>	<b>10.3</b>	<b>(11.4)</b>	<b>(12.7)</b>	<b>(5.4)</b>	<b>5.4</b>	<b>(0.7)</b>	<b>23.2</b>
Russell 3000 Index + 3.0%**	11.3	24.1	3.8	(14.7)	(11.3)	12.8	1.7	13.4
<b>TRS Short-Term Investments</b>	<b>2.2</b>	<b>1.1</b>	<b>1.5</b>	<b>2.7</b>	<b>6.2</b>	<b>1.6</b>	<b>2.7</b>	<b>—</b>
ML 91-Day Mark to Markets Index	2.2	1.0	1.5	2.7	5.9	1.6	2.6	4.0

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

Asset Class/Index	Years ended June 30				
	2005	2004	2003	2002	2001
<b>TRS Fixed Income - US*</b>	-	-	-	<b>8.1%</b>	<b>11.3%</b>
Citigroup Broad	-	-	-	8.5	11.3
<b>TRS Fixed Income - International*</b>	-	-	-	<b>15.9</b>	<b>(7.7)</b>
Non-U.S. Bond Index	-	-	-	15.8	(7.5)

\* 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.

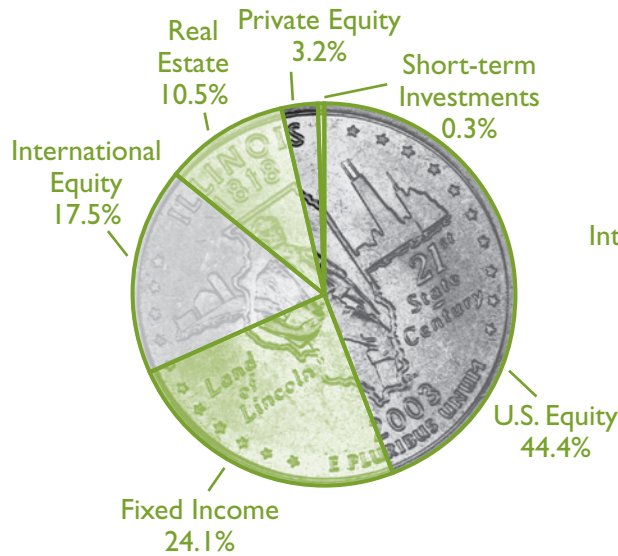
\*\* Index compounded monthly.

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

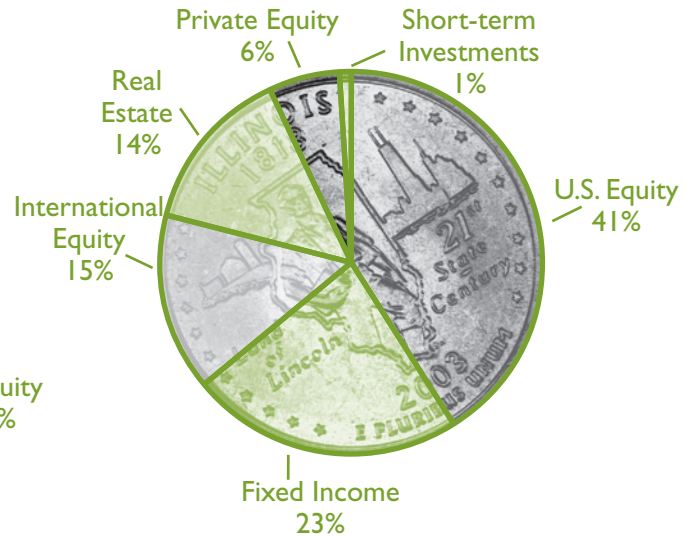
## Asset Allocation vs. Targets

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.

FY05 Asset Allocation



Long-term Target Allocation



From an asset allocation standpoint during FY05, TRS made no major changes to the target weightings and structure adopted in 2002. However, within domestic equity, efforts were made to increase the portfolio's allocation to enhanced index and active small cap mandates. TRS continues to make investments in private equity and real estate as it attempts to increase the weightings of these asset classes up to target levels, but FY05 turned into an outstanding year for private equity companies to sell portfolio companies and return capital to TRS. This is beneficial from a return on investment standpoint, but makes it more difficult to increase exposure within the asset class.

The asset mix is periodically compared to the policy targets to determine when rebalancing of the fund or changes to the interim policy targets are 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, 2005.

## Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/05	FY05			FY04	
	Total Fund \$ Million	Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. Equities	\$15,079	44.4%	43%	41%	48.1%	41%
Fixed Income	8,178	24.1	25	23	23.9	23
International Equities	5,938	17.5	15	15	16.5	15
Real Estate	3,580	10.5	12	14	8.5	14
Private Equity	1,090	3.2	4	6	2.7	6
Short-Term Investments	112	0.3	1	1	0.3	1
Pending Settlements/Expenses*	1,171	NA	NA	NA	NA	NA
<b>Total Fund</b>	<b>\$35,148</b>	<b>100.0%</b>	<b>100%</b>	<b>100%</b>	<b>100.0%</b>	<b>100%</b>

\* The liability portion is placed within the Statements 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 are:

- The PIMCO StocksPlus and WAMCO enhanced assignments are treated as equity on the Strategic Investment Listing, but are categorized as bonds and corporate obligations in the securities summary. These managers provide enhanced index products that use 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

	2005		2004	
	Market Value	% of Total	Market Value	% of Total
<b>U.S. Government Obligations</b>				
U.S. Treasuries	\$1,957,811,175	5.6%	\$1,584,449,978	4.9%
U.S. Federal Agencies	1,331,356,248	3.8	1,858,404,839	5.7
U.S. Government Index Linked Bonds	346,564,816	1.0	178,473,127	0.6
U.S. Government Backed Mortgages	2,371,367,541	6.7	2,057,781,654	6.4
U.S. Municipals (Taxable)	12,527,227	0.0	20,810,508	0.1
<b>Total U.S. Government Obligations</b>	<b>6,019,627,007</b>	<b>17.1</b>	<b>5,699,920,106</b>	<b>17.7</b>
<b>U.S. Corporate Obligations</b>				
Asset Backed Securities	614,698,386	1.8	361,674,987	1.1
Commercial Mortgage Backed Securities	287,002,709	0.8	171,824,155	0.5
Collateralized Mortgage Obligations	587,153,543	1.7	308,550,040	1.0
Commingled/Closed End Funds	668,564,763	1.9	1,018,792,907	3.2
<b>Credit Obligations</b>				
Financial	565,452,732	1.6	431,107,376	1.3
Industrial	821,791,248	2.3	695,536,093	2.1
Utilities	101,749,141	0.3	60,100,518	0.2
<b>Total U.S. Corporate Obligations</b>	<b>3,646,412,522</b>	<b>10.4</b>	<b>3,047,586,076</b>	<b>9.4</b>
<b>Foreign Debt Obligations</b>	<b>659,701,554</b>	<b>1.9</b>	<b>341,939,109</b>	<b>1.1</b>
<b>Total Bonds, Corporate Notes, and Government Obligations</b>	<b>10,325,741,083</b>	<b>29.4</b>	<b>9,089,445,291</b>	<b>28.2</b>
<b>Equities</b>				
Common Stock - U.S.	12,499,580,367	35.6	13,185,157,414	40.8
Preferred Stock - U.S.	60,156,653	0.2	46,056,145	0.1
Common Stock - International	6,118,615,710	17.4	5,249,363,442	16.3
Preferred Stock - International	108,842,145	0.3	124,014,221	0.4
<b>Total Equities</b>	<b>18,787,194,875</b>	<b>53.5</b>	<b>18,604,591,222</b>	<b>57.6</b>
Short Term Investments	1,413,132,556	4.0	1,036,863,444	3.2
Foreign Currency	28,166,730	0.1	24,999,284	0.1
Private Equity	1,068,633,225	3.0	840,390,782	2.6
Real Estate Equity	3,525,456,881	10.0	2,680,788,703	8.3
<b>TRS Total Portfolio</b>	<b>\$35,148,325,350</b>	<b>100.0%</b>	<b>\$32,277,078,726</b>	<b>100.0%</b>

### Reconciliation of TRS Portfolio Securities Summary to Total Investments

	2005	2004
TRS Total Portfolio	\$35,148,325,350	\$32,277,078,726
Less accrued income	(249,963,566)	(230,705,401)
<b>Investments at fair value</b>	<b>\$34,898,361,784</b>	<b>\$32,046,373,325</b>

## 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

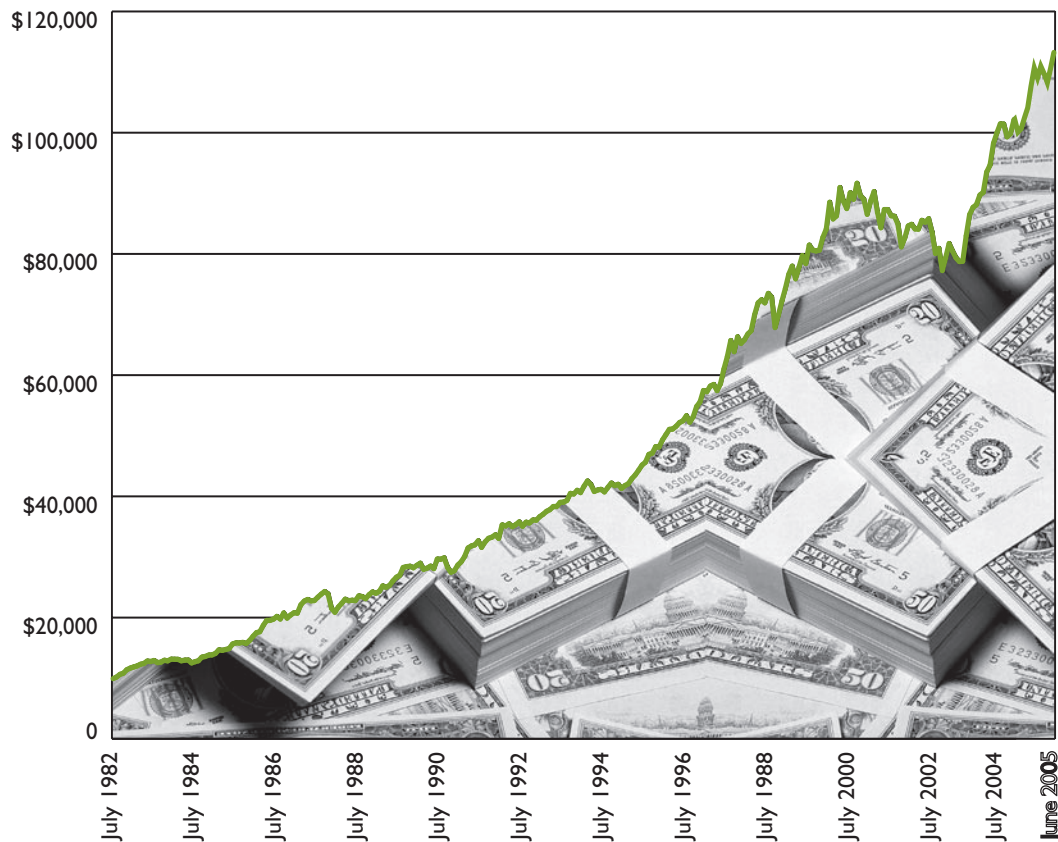
Asset Type	2005	2004	2003	2002	2001
Bonds, Corporate Notes, and Government Obligations	29.4%	28.2%	30.3%	37.9%	36.4%
Equities - International	17.7	16.7	13.9	14.4	19.2
Equities - U.S.	35.8	40.9	38.6	29.3	26.3
Private Equity	3.0	2.6	2.8	2.6	2.8
Real Estate Equity	10.0	8.3	10.0	9.5	10.0
Short-Term Investments/Currency	4.1	3.3	4.4	6.3	5.3
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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 over the last 23 years. Despite the economic downturn in 2000 through 2003, the overall trend is solidly favorable.

### Growth of \$10,000



Source: TRS

The following sections provide a brief and informative overview of the various asset classes utilized by TRS for the period ending June 30, 2005.

## 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 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 8.1 percent on a net of fee basis, in line with the Russell 3000 Index return of 8.1 percent. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	<b>FY05</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
<b>TRS, net of fees</b>	<b>8.1%</b>	<b>9.8%</b>	<b>(0.3%)</b>	<b>9.4%</b>
Russell 3000 Index	8.1	9.5	(1.4)	10.1

At June 30, 2005, 44.4 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 FY05.

The top 10 domestic equity holdings, excluding index funds, at June 30, 2005, are listed below and represent 8.3 percent of total U.S. equity holdings. A complete listing of investment holdings is available as a separate report. Additional securities of the following firms listed are included in the index funds managed by State Street Global Advisors and Northern Trust Global Investments.

### Top 10 U.S. Equity Holdings at June 30, 2005

<b>Firm</b>	<b>Market Value</b>
Citigroup, Inc.	\$158,866,667
General Electric Co.	138,231,428
Pfizer, Inc.	110,492,154
Microsoft Corp.	109,546,064
Exxon Mobil Corp.	107,182,642
Chevron Corp.	92,150,680
Johnson & Johnson	86,904,155
Hewlett Packard, Co.	82,391,359
Time Warner, Inc.	78,761,683
American International Group, Inc.	75,790,869
<b>Total</b>	<b><u>\$1,040,317,701</u></b>

Source: *The Northern Trust Company*



As of June 30, 2005, TRS employed 25 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)

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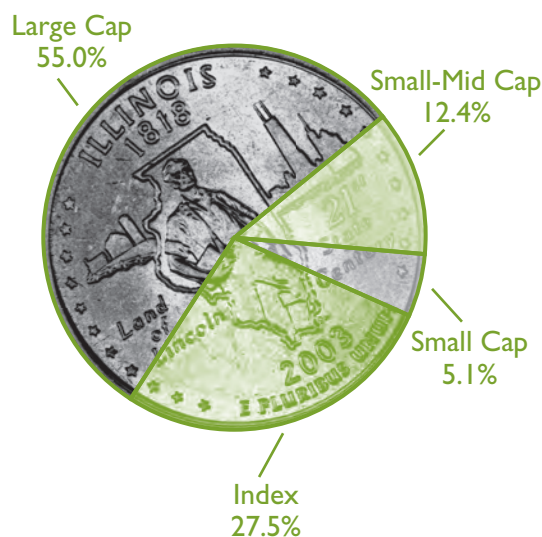
<b>Index</b>	
Northern Trust Global Investments-Large Cap Index (7/03)	\$424,196,222
Northern Trust Global Investments-Small/Mid Cap Index (7/03)	98,970,936
State Street Global Advisors-Large Cap Index (11/98)	2,442,719,977
State Street Global Advisors-Small/Mid Cap Index (6/02)	215,682,577
<b>Enhanced Index</b>	
Barclays Global Investors (6/05)	902,170,308
Pacific Investment Management Company, L.L.C. (8/91)	947,182,780
T. Rowe Price Associates, Inc. (6/05)	902,048,939
Western Asset Management Company, L.L.C. (4/05)	953,944,072
<b>Large Cap Value</b>	
Advisory Research, Inc. (9/02)	82,477,277
Bear Stearns Asset Management, Inc. (1/03)	747,496,730
Boston Partners Asset Management, L.P. (1/03)	757,617,020
Dodge & Cox (4/00)	1,644,223,538
EARNEST Partners, L.L.C. (2/02)	171,823,077
Great Lakes Advisors, Inc. (9/02)	89,602,986
<b>Large Cap Growth</b>	
Holland Capital Management (2/02)	306,302,961
Sands Capital Management, Inc. (6/04)	372,672,306
Turner Investment Partners, Inc. (6/04)	397,351,868
Voyageur Asset Management, Inc. (11/04)	457,496,550
<b>Small/Mid Cap Value</b>	
Ariel Capital Management, L.L.C. (8/01)	442,550,205
LSV Asset Management (12/02)	651,630,988
<b>Small/Mid Cap Growth</b>	
Delaware Investment Advisers (12/02)	537,946,269
J. & W. Seligman & Company, Inc. (1/03)	274,253,774
Mazama Capital Management, Inc. (1/03)	319,653,388
<b>Small Cap Growth</b>	
Batterymarch Financial Management, Inc. (11/04)	196,576,024
Emerald Advisors, Inc. (11/04)	189,012,177
Mazama Capital Management, Inc. (11/04)	54,107,603
<b>Small Cap Value</b>	
Byram Capital Management, L.L.C. (11/04)	193,812,311
Thompson, Siegel & Walmsley, Inc. (11/04)	202,803,423
SSgA Small Cap Transition (8/04)*	94,838,177

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

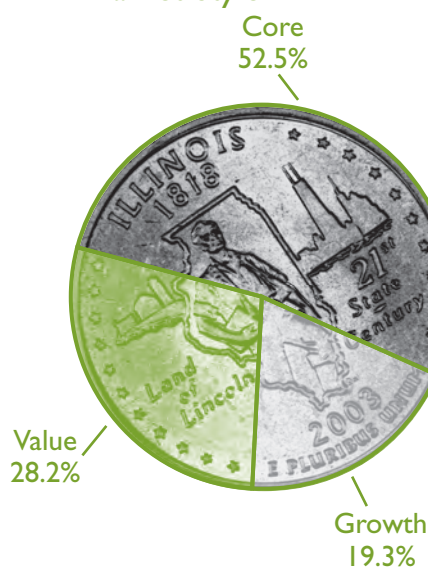
## Discussion of U.S. Equity

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 for controlling the risk of the portfolio, as well as balancing the portfolio against the broad benchmark and economy.

## Capitalization



## Market Style



The 8.1 percent return for the Russell 3000 was slightly below the historical annual return for the broad stock market, but the overall investment environment over the past 12 months remained positive. Uncertainty heading into the November elections produced a relatively flat equity market, but a post-election spike pushed the broad market up over 8 percent to finish the calendar year. The remaining six months of the fiscal year traded flat due to concerns about how high the Federal Reserve would raise interest rates.

Through the year, TRS focused on strengthening the large cap growth and small cap investment manager structures. TRS funded several new managers in November 2004 in the small cap growth and small cap value sectors. These managers are off to a great start. For the first six months of 2005, these managers, as a group, have outperformed their benchmark by 1.9 percent.

## 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, 2005

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted Average Market Cap (billions)	\$57.3	\$71.9
Price/Earnings Ratio	18.1x	19.0x
Dividend Yield	1.5%	1.7%
5-Year EPS Growth	12.6%	11.2%
Price/Book Ratio	2.6x	2.8x

Source: The Northern Trust Company



*Bob of Support Services and Jael of the Communications Department review a press proof of the Forms Order Line brochure.*



## U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2005

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer Discretionary	18.4%	12.9%
Consumer Durables	7.3	8.5
Energy	8.7	8.0
Financial Services	19.0	21.2
Health Care	13.3	13.6
Industrials	9.9	10.5
Materials	4.9	3.2
Technology	14.2	15.3
Telecommunication Services	1.8	3.0
Utilities	2.5	3.8
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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, 2005, the international equity asset class returned 17.3 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 in the following and future references) return of 17.0 percent. One-, three-, five- and 10-year comparisons to this benchmark are in the following table:

	FY05	3-Year	5-Year	10-Year
<b>TRS, net of fees</b>	<b>17.3%</b>	<b>13.9%</b>	<b>2.1%</b>	<b>8.5%</b>
Non-U.S. Equity Index	17.0	14.1	0.8	5.8

At June 30, 2005, 17.5 percent of the TRS investment portfolio was assigned to international equity managers. The following table lists the top 10 international equity holdings of active managers as of June 30, 2005. 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 these of global companies include Nestle, GlaxoSmithKline, BP (Amoco) and Toyota. These securities represent 11.1 percent of the total international equity holdings. A complete listing of investment holdings is available as a separate report. Additional securities of firms listed in the following table are included in the index funds managed by State Street Global Advisors and Northern Trust Global Investments.



## Top 10 International Equity Holdings at June 30, 2005

<b>Firm</b>	<b>Country</b>	<b>Market Value (USD)</b>
GlaxoSmithKline	United Kingdom	\$116,033,169
Nestle	Switzerland	94,828,638
Telefonica	Spain	70,704,378
BP	United Kingdom	67,566,886
Total SA	France	64,443,415
Novartis AG	Switzerland	63,976,979
ING Groep	Netherlands	58,927,383
Takeda Pharmaceutical	Japan	58,370,183
Toyota Motor Corp.	Japan	47,885,021
Royal Dutch Petroleum	Netherlands	45,924,502
<b>Total</b>		<b><u>\$688,660,554</u></b>

Source: The Northern Trust Company

As of June 30, 2005, TRS employed nine international equity managers. The following chart lists these managers and the assets under management.

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

<b>Index</b>	
Northern Trust Global Investments (7/03)	\$5,905,521
State Street Global Advisors (5/99)	89,678,695
State Street Global Advisors-Transition (8/05)	667,240,588
<b>Active Core</b>	
Artisan Partners, L.P. (3/03)	433,560,496
Brandes Investment Partners, L.P. (2/98)	946,866,728
Fidelity Management Trust Company (6/03)	864,315,809
Harris Associates L.P. (3/03)	472,497,938
INVESCO Global Asset Management (N.A.), Inc. (6/00)	844,560,145
Mondrian Investment Partner Limited (4/93)	956,863,398
<b>Emerging Markets</b>	
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	655,925,174

## 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

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

International equity markets continued to post attractive returns for the year ended June 30, 2005. The one-year return as measured by the MSCI All Country Ex-U.S. Free Index was 17.0 percent. The emerging markets, which are the developing economies in the international markets and represent a 12.0 percent weighting in the international index, was again the strongest segment, returning 34.9 percent. Within the emerging markets, Latin America was the biggest gainer, led by Brazil's rise of 58.1 percent and Mexico's impressive return of 42.4 percent. In the developed segment of the non-U.S. markets, the Pacific Rim Ex-Japan region, which includes the countries of Australia, New Zealand, Hong Kong, and Singapore, was the strongest region, returning 34.8 percent. Australia was the best performing country, returning 39.4 percent. On the European continent the small Nordic countries of Norway and Austria were the best performing countries, returning 49.7 percent and 48.8 percent, respectively. The United Kingdom, which is the largest international and European market, slightly lagged the broader markets advance, appreciating by 16.8 percent. Japan, which was the strongest performing international developed market last year, reversed course and was the worst performing market for the year ended June 2005, falling by 1.4 percent.

The TRS international equity portfolio outperformed its international index by 0.3 percent, returning 17.3 percent, net of fees, compared to the international benchmark return of 17.0 percent. The TRS international equity portfolio benefited by its overweight position in emerging market equities and a tendency for its international equity managers to hold smaller capitalization stocks than that of the international index.

## Portfolio Characteristics

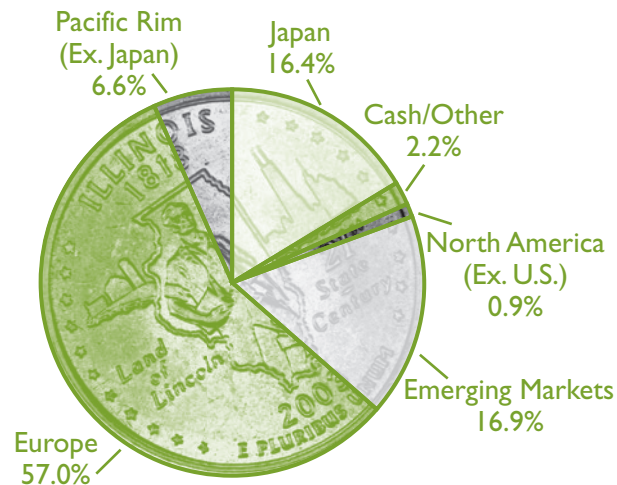
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

### International Equity Fundamental Characteristics

<b>Characteristic</b>	<b>TRS International Equity</b>	<b>Non-U.S. Equity Index</b>
Market Cap (billions)	\$39.2	\$42.2
Price/Earnings Ratio	14.3x	15.8x
Dividend Yield%	2.7%	2.6%
Price/Book Ratio	2.1x	2.1x

*Source: The Northern Trust Company and Wilshire Associates*

## Regional Allocation Comparison June 30, 2005 TRIS 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. Fixed income falls into two general categories: debt obligations and preferred stock. The issuer of debt is the borrower of capital and the purchaser, or holder of bonds, is the creditor or lender.

Fixed income is an important asset class as, in a well-diversified portfolio, these investments can reduce volatility, offer negative correlation to equity portfolios and provide income streams essential to the growth of the overall portfolio.

For the year ended June 30, 2005, TRS fixed income managers earned a 6.6 percent return, net of fees, compared to the 6.8 percent return of the benchmark, the Fixed Income Blended Index. The fixed income blended index is a weighted index, based on U.S. and former international targets. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	<b>FY05</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
<b>TRS, net of fees</b>	<b>6.6%</b>	<b>5.9%</b>	<b>6.9%</b>	<b>6.6%</b>
TRS Fixed Income Blended Index	6.8	6.0	7.0	6.0

As of June 30, 2005, TRS employed 12 fixed income managers overseeing assets of nearly \$8.2 billion, as identified in the Fixed Income Managers and Assets Under Management table. This table categorizes manager assignments by index, core, core plus and global inflation-linked.

Core plus managers are firms with particular skills in the extended bonds markets, such as high yield and non-dollar denominated investments. Following defined parameters, these managers are able to offer enhanced returns while maintaining a similar risk profile to that of a core manager. TRS added a global inflation-linked portfolio to the fixed income manager roster in FY05. This portfolio invests primarily in U.S. and foreign government inflation-linked securities whose coupon or principal is directly tied to the country's rate of inflation.

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

<b>Index</b>	
Northern Trust Global Investments (7/03)	\$81,897,267
State Street Global Advisors (4/03)	538,280,329
<b>Core Plus</b>	
BlackRock, Inc. (6/97)	1,599,883,354
Pacific Investment Management Company, L.L.C. (7/82)	1,619,921,635
UBS Global Asset Management, Inc. (4/03)	781,168,610
<b>Core Accounts</b>	
Dodge & Cox (11/03)	773,991,951
EARNEST Partners Limited, L.L.C. (2/02)	190,871,429
LM Capital Group, L.L.C. (3/04)	189,444,383
Payden & Rygel (6/97)	993,460,586
Taplin, Canida & Habacht (3/04)	190,329,964
Weiss, Peck & Greer/Robeco USA (12/91)	796,526,886
<b>Global Inflation-Linked</b>	
Western Asset Management Company (2/05)	400,965,379

The following table lists the top 10 fixed income securities held by TRS's active managers as of June 30, 2005. These securities represent 10.8 percent of the total fixed income assets. A complete listing of investment holdings is available as a separate report. Additionally, 7.6 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 at June 30, 2005

<b>Security/Position</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Market Value</b>
Federal National Mortgage Association TBA	5.50%	7/15/2034	\$236,845,528
Federal National Mortgage Association TBA	6.00	7/15/2034	161,417,000
U.S. Treasury Notes	3.75	3/31/2007	134,699,836
Federal National Mortgage Association TBA	5.00	8/15/2019	121,061,591
Federal National Mortgage Association TBA	6.00	8/11/2035	92,267,986
U.S. Treasury Notes	3.13	1/31/2007	78,634,559
U.S. Treasury Notes	3.38	2/15/2008	74,832,289
U.S. Treasury Notes	4.00	2/15/2015	73,640,866
U.S. Treasury Notes	3.38	2/28/2007	69,290,522
U.S. Treasury Notes	3.63	4/30/2007	67,912,831
<b>Total</b>			<b>\$1,110,603,008</b>

Source: The Northern Trust Company



## Discussion of Fixed Income

At June 30, 2005, 24.1 percent of TRS's investment portfolio was assigned to fixed income managers, just slightly under the interim target of 25.0 percent. Overall, TRS returned 6.6 percent, net of fees, compared to the Lehman Brothers Aggregate Index return of 6.8 percent. As seen in the performance chart, longer-term returns remain excellent as evidenced by the 10-year fixed income return of 6.6 percent relative to the blended benchmark return of 6.0 percent.

The Federal Reserve began its "measured pace" tightening in the middle of last year, raising the federal funds target rate nine times over the past year from 1.0 percent to a level of 3.25 percent at June 30, 2005. However, atypical during federal tightening cycles, long-term rates actually declined, amidst rising inflation.

As a result of rising interest rates, TRS external managers maintained a defensive, shorter duration posture for most of the year. In addition, the credit rating downgrade of Ford and General Motors, and subsequent price depreciation, slightly reduced the portfolio's return. Positive relative performance was generated from inflation-indexed securities, mortgage positions and various extended markets positions, primarily in emerging market debt.

## Statistical Data

### Fixed Income Profile

<b>Characteristic</b>	<b>TRS Fixed Income Portfolio 6/30/05*</b>	<b>Lehman Brothers Aggregate Bond Index 6/30/05</b>	<b>TRS Fixed Income Portfolio 6/30/04*</b>	<b>Lehman Brothers Aggregate Bond Index 6/30/04</b>
Average Maturity	6.6 years	6.8 years	6.7 years	7.4 years
Effective Duration	4.1 years	4.2 years	4.1 years	4.6 years
Average Coupon	4.7%	5.2%	5.2%	5.3%
Average Quality Rating (Moody's)	Aa1	Aa1	Aa1	Aa1
Current Yield	4.8%	5.0%	4.7%	5.1%

\* *weighted*

Source: Lehman Brothers and TRS

## Fixed Income Managers Sector Weighting

<b>Sector Weighting</b>	<b>TRS Fixed Income Portfolio 6/30/05</b>	<b>Lehman Brothers Aggregate Bond Index 6/30/05</b>	<b>TRS Fixed Income Portfolio 6/30/04*</b>	<b>Lehman Brothers Aggregate Bond Index 6/30/04*</b>
U.S. Treasury	19.1%	25.5%	25.1%	23.8%
U.S. Federal Agency	8.3	11.1	8.0	11.3
U.S. Credit	18.0	24.3	17.5	24.6
Mortgage-Backed Securities	32.5	34.4	36.5	35.8
Asset Backed Securities	3.9	1.3	3.6	1.6
Commercial Mortgage-Backed	4.0	3.4	2.3	2.9
Other**	14.2	0.0	7.0	0.0

\* FY04 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

## Diversification by Quality Rating for Fixed Income Manager Portfolios

<b>Moody's Quality Rating</b>	<b>06/30/05</b>	<b>06/30/04</b>
Agency	13.1%	20.4%
Treasury	19.0	19.4
Aaa*	43.9	32.9
Aa1 through Aa3	9.1	13.5
A1 through A3	4.3	5.3
Baa1 through B3	9.9	7.9
Other**	0.7	0.6
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

\* Includes Enhanced Equity Indexed bond holdings

\*\* Other includes under B3 and NR ratings.

Source: The Northern Trust Company and TRS



Sharon, Marlys, and Glenda of the Investment Department schedule investment meetings.

## 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. There is additional risk investing in private equity, but with skillful selection of managers, returns can be significantly higher than public equity investments.

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 across all sub-sectors within private equity, including buyout, venture capital, subordinated debt, and distressed debt.

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 produces returns superior to the public markets. For the one-year period ending June 30, 2005, private equity outperformed the benchmark by 8.7 percent.

The past 12 months have been incredibly attractive for private equity sale activity. Many of TRS's managers have sold significant parts of their portfolio generating favorable returns. With historically low interest rates and significant cash on the balance sheets of the larger "Fortune 500" companies, buyers have been quick to acquire well-run private equity portfolio companies.

In general, an investor must look at a much longer-term investment horizon to measure the success of a private equity program. TRS's investments in private equity maintain a very strong long-term result as well, outperforming the benchmark by 9.8 percent over the 10-year period. One-, three-, five- and 10-year comparisons to this benchmark are noted in the following table:

	<b>FY05</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
<b>TRS, net of fees</b>	<b>20.0%</b>	<b>5.4%</b>	<b>(0.7%)</b>	<b>23.2%</b>
Russell 3000 Index + 3.0%	<b>11.3</b>	<b>12.8</b>	<b>1.7</b>	<b>13.4</b>

At June 30, 2005, 3.2 percent of the TRS investment portfolio was assigned to the private equity asset class. TRS has commitments to 60 private equity partnerships/funds and is currently invested in 54. The following chart lists the partnerships and the current assets under management.

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

### Buyout

Carlyle Partners IV, L.P. (12/04)*	\$0
Castle Harlan Partners IV, L.P. (5/03)	14,310,980
Code Hennessy & Simmons V, L.P. (2/05)*	0
DLJ Merchant Banking Partners, L.P. (9/92)	3,992,355
DLJ Merchant Banking Partners II, L.P. (3/97)	26,563,692
DLJ Merchant Banking Partners III, L.P. (9/00)	102,457,412
Elevation Partners, L.P. (2/05)*	0
Evercore Capital Partners II, L.P. (4/03)	22,932,201
Glencoe Capital Partners III, L.P. (1/04)	7,644,072
Glencoe Capital Institutional Partners III, L.P. (6/04)	8,999,441
GTCR Fund VII/VIIA, L.P. (3/00)	52,420,766
GTCR Fund VIII, L.P. (7/03)	19,121,050
Hispania Private Equity, L.P. (5/04)	813,753
KKR 1996 Fund, L.P. (5/97)	30,562,550
Lehman Brothers Merchant Banking III, L.P. (2/05)	8,937,513
Mesriow Capital Partners VII, L.P. (6/97)	3,816,352
Reliant Equity Partners, L.P. (6/04)	2,397,733
Thayer Equity Investors V, L.P. (5/03)	33,523,460
TPG Partners IV, L.P. (12/03)	14,537,994
Trivest Fund II, Ltd. (6/96)	15,873,381
VS&A Communications Partners II, L.P. (9/95)	3,205,104
VSS Communication Partners IV, L.P. (2/05)	3,199,018
Windpoint Partners VI, L.P. (5/05)*	0
WPG Corporate Development Associates V, L.P. (11/97)	7,818,046

### Distressed Debt

Carlyle Strategic Partners, L.P. (2/04)	5,052,330
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	13,060,586
OCM Opportunities Fund V, L.P. (6/04)	26,739,666

### Special Situations

Apollo Investment Fund V, L.P. (5/01)	117,081,018
Banc Fund VI, L.P. (12/02)	53,895,677
Banc Fund VII, L.P. (5/05)	1,622,128
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	61,745,806
HealthPoint Partners, L.P. (6/04)	17,586,328
TCW/Latin America Private Equity Partners, L.P. (5/97)	2,731,515
Warburg Pincus International Partners, L.P. (9/00)	54,054,582

### Subordinated Debt

Merit Mezzanine Fund IV, L.P. (2/04)	2,256,312
Prism Mezzanine Fund, L.P. (5/04)	1,928,841
SW Pelham Fund II, L.P. (9/03)	23,332,863
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)*	6,178,429
William Blair Mezzanine Capital Fund II, L.P. (5/97)	20,287,932
William Blair Mezzanine Capital Fund III, L.P. (1/00)	34,252,755

### Venture Capital

Apex Investment Fund III, L.P. (6/96)	2,891,509
Apex Investment Fund V, L.P. (8/03)	13,270,521
Carlyle Venture Partners II, L.P. (10/02)	68,887,590
Edgewater Growth Capital Fund, L.P. (11/03)	11,953,240
Edgewater Growth Capital II, L.P. (2/05)*	0
Evergreen Partners IV, L.P. (12/02)	6,942,772
Frontenac VI, L.P. (6/93)	1,047,477
Granite Ventures II, L.P. (5/05)*	0
Hopewell Ventures, L.P. (6/04)	1,538,899
Illinois Emerging Technologies Fund, L.P. (6/04)	525,399
Penman Private Equity and Mezzanine Fund, L.P. (10/94)	3,397,693
Periscope Fund I, L.P. (6/97)	290,187
21st Century Communication T-E Partners, L.P. (2/95)	5,904,707
SCP Private Equity Partners, L.P. (5/97)	12,409,365
SCP Private Equity Partners II, L.P. (6/00)	45,194,158
Shasta Ventures, L.P. (12/04)	2,632,221
VantagePoint Venture Partners IV, L.P. (6/00)	35,660,651
WPG Enterprise Fund, L.P. (11/89)	375,457
WPG Enterprise Fund II, L.P. (8/94)	19,008,285
WPG Enterprise Fund III, L.P. (3/97)	32,939,112

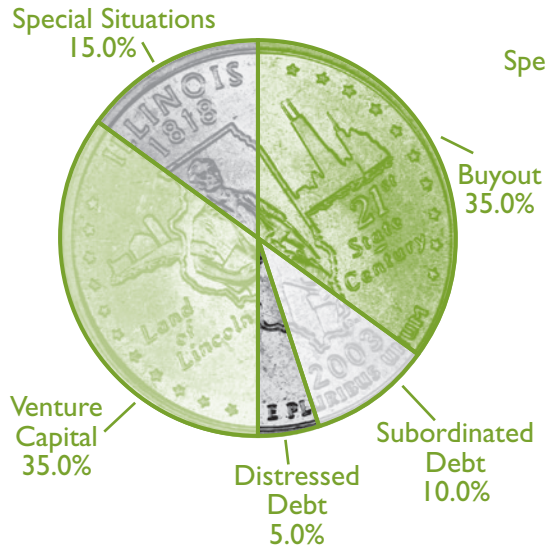
\* Partnership was not funded at June 30, 2005; date reflects the TRS Board of Trustees approval.



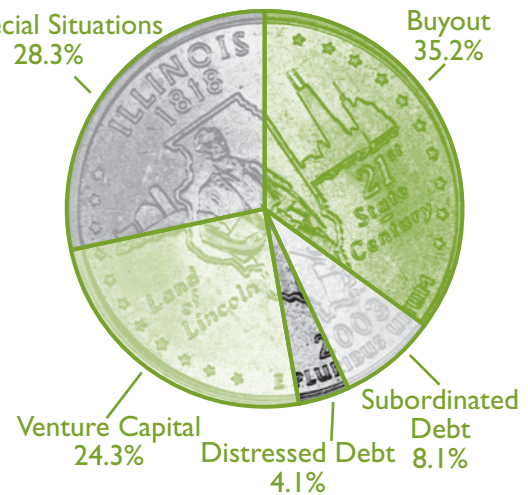
## Discussion of Private Equity

In April 2003, the TRS Board of Trustees adopted a target for private equities of 6.0 percent. The following charts provide a further breakdown of the targeted style allocation adopted by the TRS Board as compared to the actual breakdown at June 30, 2005.

Private Equity Target  
as of June 30, 2005



Private Equity Breakdown  
as of June 30, 2005



Source: TRS

As of June 30, 2005, 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.

During FY05, TRS made new commitments to 11 private equity funds totaling \$440 million. The TRS Tactical Plan calls for investing approximately \$600 to \$700 million per year for the next four years.

## Real Estate

Real estate investments are direct investments or ownership in land and buildings including apartments, offices, warehouses, shopping centers, hotels, and farm land. 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.

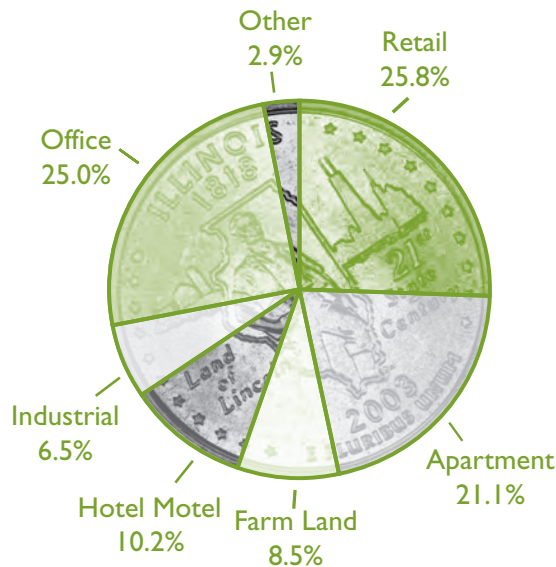
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay program benefits to plan participants and survivors.

As of June 30, 2005, TRS had nearly \$3.6 billion in real estate assets, or 10.5 percent of the total fund portfolio. For the year, TRS's real estate investments returned 19.9 percent and outperformed the Real Estate Property Index for the third consecutive year. Real Estate performance and benchmark comparison are noted in the following table:

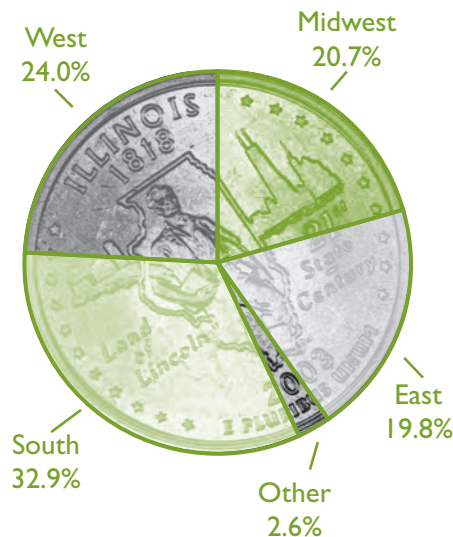
	<b>FY05</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
<b>TRS, net of fees</b>	19.9%	13.9%	10.7%	11.4%
Real Estate Property Index	18.0	12.1	10.6	10.2

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 exhibited in the following charts.

**Real Estate Holdings by Type**  
as of June 30, 2005



**Geographic Diversification**  
of Real Estate Holdings  
as of June 30, 2005



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

Professional real estate advisors manage real estate owned by TRS. Separate account managers administer TRS's direct investments in real estate assets. Closed end accounts represent partnership interests in real estate funds. As of June 30, 2005, TRS had the following managers and assets under management.

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

### Separate Accounts

Capri/Capital Advisors, L.L.C. (12/91)	\$1,104,426,734
Cozad/Westchester Asset Management, Inc. (5/91)	341,375,886
Commonwealth Realty Advisors, Inc. I (9/91)	641,908,892
Commonwealth Realty Advisors, Inc. II (11/92)	140,993,186
Commonwealth Realty Advisors, Inc. III (5/03)	52,583,971
Koll Bren Schreiber Realty Advisors I (6/93)	303,814,551
Koll Bren Schreiber Realty Advisors II (5/96)	21,044,455
Lion Industrial Trust (4/05)	25,638,248
LPC Realty Advisors I, Ltd. (7/92)	329,612,145
Stone-Levy, L.L.C. (4/95)	320,094,973

### Closed End Accounts

Capri/Capital Apartment Fund III (3/90)	\$91,926,207
Carlyle Europe Real Estate Partnership, L.P. (6/03)	38,048,051
Carlyle Realty Partners IV (6/05)*	0
DLJ Real Estate Capital Partners, Inc. (3/96)	8,301,473
Heitman Capital Management (7/85)**	50,642
JBC Opportunity Fund II, L.P.	63,902,730
JER Real Estate Partners (1/05)	24,942,536
Thayer Hotel IV	1,993,506
RREEF Capital II, L.L.C. (11/96)	1,615,584
Walton Street Capital (7/03)	67,884,407

\* *Manager not funded at 6/30/05.*

\*\* *In liquidation mode.*

## Discussion of Real Estate

In FY05, the TRS real estate portfolio grew from 8.5 percent of the total investment portfolio to 10.5 percent. Over the year, new commitments were made to Lion Industrial Trust, Carlyle Realty Partners IV, and the Capri Select Income Fund, increasing the portfolio's exposure to the specialty and core industrial sectors.

Competition among institutional investors for quality real estate assets has made it challenging to make new investments, but TRS was able to afford some growth toward the interim target of 12 percent. TRS will continue towards this target by prudently seeking new investments that meet TRS return expectations. Also, in FY05, TRS began in earnest to upgrade the quality of the real estate portfolio by recognizing profits and selling older assets. This activity will continue in FY06.

## Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2005 and 2004. TRS manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2005, TRS recaptured over \$1.4 million in cash that was reinvested back into the fund. In addition, TRS utilizes a portion of commission recapture refunds to pay for investment administrative expenses. During FY05, TRS used \$796,724 of commission recaptured to offset expenditures.

## Top 50 Brokers Used by TRS Managers

<b>Broker</b>	<b>FY05 Commission</b>	<b>FY04 Commission</b>
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	\$1,243,057	\$2,196,082
State Street Brokerage Services and all Subsidiaries (Worldwide)	951,834	175,719
UBS Investment Bank AG and all Subsidiaries (Worldwide)	912,476	1,154,271
Goldman Sachs & Co. (Worldwide)	841,114	1,338,512
Citigroup and all Subsidiaries (Worldwide)	712,569	1,025,287
Lehman Brothers, Inc. (Worldwide)	654,493	731,998
Morgan Stanley & Co., Inc. (Worldwide)	615,194	944,773
Lynch Jones & Ryan/Instinet (Worldwide)	914,439	476,365
J.P. Morgan Securities, Inc. (Worldwide)	545,787	563,678
Credit Suisse (Worldwide)	475,421	550,781
Deutsche Bank and all Subsidiaries (Worldwide)	463,998	638,644
Investment Technology Group, Inc. (Worldwide)	400,765	881,918
Bear Stearns (Worldwide)	297,196	375,982
Gardner Rich & Co.	244,234	334,968
ABN Amro and all Subsidiaries (Worldwide)	240,568	280,125
Loop Capital Markets	233,441	322,117
Liquidnet, Inc.	225,547	204,598
B Trade Services	224,752	94,303
Cabrera Capital Markets, Inc.	182,567	124,497
Abel Noser Corporation	180,615	99,611
Weeden & Co.	173,536	100,885
Pershing Securities Ltd. (Worldwide)	166,761	37,132
Jefferies & Company (Worldwide)	157,792	154,692
National Financial Services	141,823	57,238
Dresdner Kleinwort Wasserstein	229,276	210,173
CIBC World Markets Corp.	131,059	200,352
M. Ramsey King Securities	110,478	15,292
Robert W. Baird & Company, Inc.	110,327	123,639
Banc of America Securities	109,650	243,649
Capital Institutional Services, Inc.	108,893	64,278
Thomas Weisel Partners L.L.C.	106,903	153,971
Prudential Equity Group	98,852	117,066
SG Cowen & Company (Worldwide)	88,255	134,455
Credit Lyonnais Securities (Worldwide)	87,576	59,052
Wachovia Capital Markets	86,913	180,137
Pulse Trading, L.L.C.	84,272	2,791
Williams Capital Group	83,560	10,334
Bernstein, Sanford C. & Co.	82,406	163,453
Legg Mason, Inc.	82,390	212,342
Jones & Associates	76,898	59,462
Nomura International / Securities Ltd.	71,162	68,956
F.P. Maglio & Co., Inc.	70,500	32,013
Cantor Fitzgerald & Co.	65,675	79,894
Montrose Securities	65,581	12,690
Raymond James	64,847	52,930
Schwab, Charles	64,367	146,804
Greentree Brokerage	61,164	46,537
Keefe Bruyette & Woods, Inc.	60,498	41,638
Samsung Securities Co., Ltd.	59,872	50,716
Cheevers & Co.	58,231	0
All Others (FY05, 259 Brokers)	<u>2,841,254</u>	<u>4,684,998</u>
<b>Totals</b>	<b><u>\$16,360,838</u></b>	<b><u>\$20,031,798</u></b>

Source: The Northern Trust Company and TRS





*Tim of Counseling Services greets a TRS member.*

## External Manager Fee Payments

For the year ended June 30, 2005, fee payments to external managers totaled \$104.221 million, an increase of 10.7 percent from the year ended June 30, 2004. A summary is provided in the Schedule of Investment Manager Fees table.

### Schedule of Investment Manager Fees

<b>Investment Manager/Account</b>	<b>FY05</b>	<b>FY04</b>
21st Century Communication T-E Partners, L.P.	\$41,434	\$46,720
Advisory Research, Inc.	304,811	275,752
Apex Investment Partners	994,965	2,191,158
Apollo Investment Fund V, L.P.	1,069,197	2,138,394
Ariel Capital Management, Inc.	1,385,454	1,296,293
Artisan Partners Limited Partnership	207,604	172,260
Barclays Global Investors	73,841	0
Batterymarch Financial Management, Inc.	782,316	0
Bear Stearns Asset Management, Inc.	1,590,779	1,376,357
BlackRock, Inc.	2,338,609	3,052,635
Boston Partners Asset Management, L.P.	1,264,108	1,133,545
Brandes Investment Partners, L.L.C.	3,463,353	2,801,579
Byram Capital Management, L.L.C.	665,683	0
Capri/Capital Advisors, L.L.C.	3,824,618	3,659,356
Capri Capital Apartment Fund III	1,177,859	924,314
Capital Guardian Trust Company	1,429,465	2,025,589
Castle Harlan, Inc.	557,406	685,862
Commonwealth Realty Advisors, Inc.	4,842,927	2,752,141
Cozad/Westchester Asset Management, Inc.	1,916,448	1,983,903
Delaware Investment Advisers	2,946,669	2,732,487
DLJ Merchant Banking Partners, L.P.	0	0
DLJ Merchant Banking Partners II, L.P.	191,138	432,641
DLJ Merchant Banking Partners III, L.P.	1,425,427	1,990,356
DLJ Real Estate Capital Partners, Inc.	205,541	253,989
Dodge & Cox	4,243,556	3,323,862
EARNEST Partners, L.L.C.	559,372	865,477
Elevation Partners, L.P.	203,707	0
Emerald Advisers, Inc.	690,250	0
Evercore Partners, Inc.	1,000,000	428,146
Evergreen IV, L.P.	619,180	538,964
Fidelity Management Trust Company	2,403,258	2,014,290
Frontenac VI, L.P.	0	0
Geewax, Terker & Company	181,902	2,050,143
Glencoe Capital Partners III, L.P.	374,287	688,985
Grantham, Mayo, Van Otterloo & Co., L.L.C.	4,766,309	3,107,961
Great Lakes Advisors, Inc.	262,726	115,520
GTCR Fund VII/VIIA, L.P.	156,728	0
GTCR Fund VIII, L.P.	154,679	0
Harris Associates, L.P.	2,208,246	1,856,576
HealthPoint, L.L.C.	890,180	462,634
Heitman Capital Management	0	0
Hispania Capital Partners	305,099	356,363
Holland Capital Management, L.P.	1,055,381	437,718
Hopewell Ventures, L.P.	280,946	0
Illinois VENTURES GP, L.L.C.	53,130	0
ING Clarion Partners	83,703	0
INVESCO Global Asset Management (N.A.), Inc.	2,230,882	1,828,392
J & W Seligman & Co., Inc.	1,117,268	1,011,844
JBC Opportunity Fund II, L.P.	1,250,000	1,250,000
JER Real Estate Partners III	1,626,935	0
KKR 1996 Fund, L.P.	27,714	0

*Continued*

<b>Investment Manager/Account</b>	<b>FY05</b>	<b>FY04</b>
Koll Bren Schreiber Realty Advisors	3,754,886	2,917,687
Lehman Brothers Merchant Banking Partners III, L.P.	536,301	0
LM Capital Group, L.L.C.	282,705	88,479
LPC Realty Advisors I, Ltd.	1,534,943	4,275,262
LSV Asset Management	2,999,110	2,411,359
MatlinPatterson Global Advisors L.L.C.	1,709,173	478,189
Mazama Capital Management, Inc.	1,992,959	1,693,755
MDL Capital Management, Inc.	0	46,071
Merit Capital Partners	436,077	0
Mesirow Capital Partners VII, L.P.	98,590	315,500
MFS Institutional Advisors, Inc.	0	996,792
Mondrian Investment Partners Limited	1,652,689	1,412,010
Morgan Stanley Investment Management, Inc.	0	1,033,848
Neuberger Berman, L.L.C.	0	572,963
Northern Trust Global Investments	97,916	198,691
NorthPointe Capital	213,216	1,899,758
Oaktree Capital Management, L.L.C.	312,499	24,897
Pacific Investment Management Company, L.L.C.	3,555,816	4,098,648
Payden & Rygel	901,134	800,116
Penman Private Equity & Mezzanine Fund, L.P.	0	0
Periscope I Fund, L.P.	25,904	10,158
Prism Mezzanine Fund	1,080,126	0
Reliant Equity Investors L.L.C.	219,390	568,130
RREEF Capital II, L.L.C.	113,411	399,926
Sands Capital Management, Inc.	1,008,171	25,909
SCP Private Equity Partners, L.P.	2,192,796	2,384,352
Shasta Ventures	0	0
Smith Whiley & Company	333,021	349,084
State Street Global Advisors	555,995	553,745
Stone-Levy, L.L.C.	1,929,380	1,359,690
T. Rowe Price Associates, Inc.	122,535	0
Taplin, Canida & Habacht	284,040	88,646
TCW/Latin American Private Equity Partners, L.P.	70,232	0
Texas Pacific Group	538,310	382,364
Thayer Capital Partners	670,374	872,340
Thayer Lodging Group, Inc.	39,119	0
The Banc Funds Company	901,721	541,855
The Carlyle Europe Real Estate Partners, L.P.	524,501	764,408
The Carlyle Group	4,483,358	3,750,000
The Carlyle Group/Realty Partners IV	525,000	0
The Carlyle Group/Riverstone	1,346,301	1,509,488
The Edgewater Funds	0	0
The Northern Trust Company (Custody)	508,080	502,606
Thompson, Siegel & Walmsley	835,610	0
Trivest Fund II, Ltd.	42,389	165,103
Turner Investment Partners, Inc.	1,239,147	31,153
UBS Global Asset Management (Americas), Inc.	1,082,183	986,199
VantagePoint Venture Partners IV, L.P.	0	0
Voyageur Asset Management	659,200	0
VS&A Communications Partners II, L.P.	0	61,365
VSS Communications Partners IV, L.P.	387,500	0
Walton Street Capital, L.L.C.	377,866	124,930
Warburg Pincus International Partners, L.P.	0	0
Weiss, Peck & Greer Investments/Robeco USA	656,706	1,241,403
Western Asset Management Company	436,313	0
WPG Corporate Development Associates V, L.P.	237,836	294,030
WPG Enterprise Fund, L.P.	1,837	4,719
WPG Enterprise Fund II, L.P.	158,104	163,211

Continued

<b>Investment Manager/Account</b>	<b>FY05</b>	<b>FY04</b>
WPG Enterprise Fund III, L.P.	400,360	617,751
William Blair Mezzanine Capital Fund II, L.L.C.	147,928	180,817
William Blair Mezzanine Capital Fund III, L.L.C.	563,512	715,680
<b>Total fees paid by TRS</b>	<b><u>\$104,221,360</u></b>	<b><u>\$94,175,293</u></b>

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

<b>Income Source</b>	<b>Amount</b>
Northern Trust FY05 Net Securites Lending Income	\$9,549,356
Total Northern Trust (6/30/05) Collateral Market Value	\$4,839,824,722
Total Market Value of Securities on Loan Northern Trust (6/30/05)	\$4,715,848,757
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.





*Jennifer and Kathleen of the Research Department compile actuarial and statistical data for the Comprehensive Annual Financial Report.*



# Actuarial



December 1, 2005

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, 2005**

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 \$56,075,029,000 as of June 30, 2005. 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, 2005, and a census of active and inactive members as of June 30, 2004, 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. Based on our normal procedures, we adjusted for the one-year lag in reporting of the active membership by assuming that the population was stationary with regard to age and service and by increasing reported payroll and member account balances by 4%.

However, even with the above adjustments, the reported June 30, 2004 active membership data was not a good proxy for the data at June 30, 2005 because the number of members retiring from active service in fiscal year 2005 exceeded those retiring from active service in fiscal year 2004 by a count of 1,823. This large difference in retirement experience between the two fiscal years meant that, without further adjustments, the active data that would normally be used for the June 30, 2005 valuation would include too many older, higher service teachers who are already included in the retiree liability. Including too many older, higher service teachers in the active liability would overstate the total June 30, 2005 actuarial liability. As a result, in order to properly determine the active liability, we removed 1,823 retirement-eligible records from the active data and replaced these records with an equivalent number of new hire records. No further adjustments were made to the active membership data at June 30, 2005.

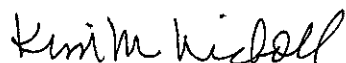
Presented in the Financial Section of the System's Annual Financial Report, there is a schedule of Required Supplementary Information. This schedule has been reviewed by the actuary and is consistent with the valuation report. The Actuarial Section of the Annual Financial Report also contains various 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, PA 93-0002, and PA 94-0004 – is used for funding purposes and 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. PA 94-0004 interrupted the phase-in methodology by specifying the amount of the state's fiscal year 2006 and 2007 contributions, and that the phase-in to a level percent of payroll contribution would resume with the fiscal year 2008 contribution. At June 30, 2005 the remaining amortization period is 40 years. The actuarial assumptions, actuarial cost method, and asset valuation method used for funding purposes do meet the parameters of GASB Statement No. 25.

The valuation is based on the benefit provisions of TRS in effect on June 30, 2005. 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.

The pension benefit obligation of \$56,075,029,000 at June 30, 2005 includes liability for expected retirements under the Modified Early Retirement Option (ERO) program, but does not include liability for expected fiscal year 2006 and 2007 retirements under the Pipeline ERO program. The liability for fiscal year 2006 and 2007 Pipeline ERO retirements will be determined and recognized at June 30, 2006, and June 30, 2007, respectively.

Respectfully submitted,



Kim M. Nicholl  
Principal, Consulting Actuary

KMN:pl  
7228/C4424RET01-PBO as of 2005.doc



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 over a typical career. 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. Modified rates of retirement for members retiring under the Pipeline ERO in FY06 and FY07 were adopted in the FY05 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, 2005, and June 30, 2004, 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 FY05 and FY04 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	
	2005	2004
<b>Total actuarial accrued liability</b>	<b>\$56,075,029</b>	<b>\$50,947,451</b>
Less actuarial value of assets (net assets at market value)	<u>\$34,085,218</u>	<u>\$31,544,729</u>
<b>Unfunded liability</b>	<b>\$21,989,811</b>	<b>\$19,402,722</b>
Funded ratio	60.8%	61.9%

## Reconciliation of Unfunded Liability

The net increase in the June 30, 2005, unfunded liability of \$2.587 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 2005, this shortfall was \$1.300 billion.

Public Act 94-0004 extended the Early Retirement Option under modified terms. The additional \$771 million in liability is expected to be covered by member and school district contributions. The extended program is designed to be revenue neutral to the state.

TRS experienced an actuarial loss under the **salary increase** assumption in FY05, with salary increases for continuing active members \$237 million higher than expected. However, actuarial gains occurred under the **investment return** assumption. Assets were assumed to earn \$2.648 billion, but earnings were actually \$3.330 billion. Therefore, the total actuarial gain due to investments was \$682 million.

Actuarial losses occurred under the **mortality** assumptions because fewer people died than expected. Actuarial losses were also incurred under the turnover assumption because fewer people left service than assumed. Additionally, many members repaid refunds in FY05, 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 2004 or earlier that were not reported to TRS and the actuary until after June 30, 2004 and several other factors. Other also includes the effect of salary increases higher than assumed for retiring teachers.

### Reconciliation of Unfunded Liability (\$ in thousands)

	Years Ended June 30	
	2005	2004
<b>Unfunded liability at beginning of year</b>	<b>\$19,402,722</b>	<b>\$23,808,609</b>
<b>Net additions (deductions)</b>		
Employer cost in excess of contributions	1,299,840	1,518,858
Modified ERO under PA94-0004	771,248	—
Pension obligation bond proceeds under PA93-0002	—	(4,330,374)
Change in actuarial assumptions for retirement rates in FY06 and FY07	26,425	—
<b>Net additions (deductions)</b>	<b>2,097,513</b>	<b>(2,811,516)</b>
<b>Net actuarial losses (gains)</b>		
Salary increases for continuing active members	236,687	217,255
Investment return	(682,294)	(2,168,876)
New entrant loss	23,509	19,078
Mortality other than expected	19,022	(42,065)
Fewer terminations than expected	18,830	18,999
Repayments of refunded member contributions <sup>1</sup>	23,459	7,739
ERO costs waived for those with 34 years of service	487,173	349,622
Delayed reporting of retirements (effect on assets) <sup>2</sup>	8,779	4,621
Other	354,411	(744)
<b>Net actuarial losses (gains)</b>	<b>489,576</b>	<b>(1,594,371)</b>
<b>Unfunded liability at end of year</b>	<b>\$21,989,811</b>	<b>\$19,402,722</b>

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

2 316 retirements which occurred prior to 7/1/03 were not reported to the actuary until 6/30/04.  
401 retirements which occurred prior to 7/1/04 were not reported to the actuary until 6/30/05.



## State Funding

Public Act 88-0593 was enacted in 1994 and first affected state contributions in FY96. The law established a 50-year funding plan that includes a 15-year phase-in period. Contributions are gradually increased to a percentage level of active member payroll during the phase-in period, with the exceptions noted below. 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 contributions to be made automatically to TRS.

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 affected 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.

The FY05 state contribution to TRS was reduced by the system’s share of the POB debt service. The calculation was performed through a multi-step process that ensured that state contributions did not exceed certain maximums provided in the act.

Public Act 94-0004 specified certain dollar contributions to TRS for FY06 and FY07, as described below. The FY08 state contribution will increase from the FY07 state contribution, and state contributions will continue increasing as a percentage of active member payroll until FY10. In FY10, the end of the 15-year ramp period, state contributions reach a level percentage of pay. That rate is to be maintained for the following 35 years until the 90 percent funded ratio is achieved in FY45.

## State Funding Amounts

The amounts that will be contributed to TRS in FY06 and FY07 are specified by Public Act 94-0004. They are not based on actuarial funding requirements. The act also changes the funding method for the 2002 state employee early retirement incentive. Instead of being amortized by the end of FY15, the remaining unfunded liability is folded into the 50-year funding plan. The employer’s normal cost for FY07 was determined by the FY05 actuarial valuation. The employer’s normal cost for FY06 reflects the changes contained in Public Act 94-0004.

## State Funding Amounts

	FY07	FY06
Benefit Trust Reserve (excludes federal contributions; excludes school district contributions for 2.2)	\$735,514,500	\$531,827,700
Minimum benefit reserve	<u>2,500,000</u>	<u>2,800,000</u>
<b>Total state funding amount</b>	<b><u>\$738,014,500</u></b>	<b><u>\$534,627,700</u></b>
Employer's normal cost as a percentage of active member payroll	8.20%	8.20%

## 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
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
2005	34,085,218	56,075,029	60.8

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
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
2005	7,550,510	21,989,811	291.2

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.

## Solvency Test (\$ in thousands)

### Aggregate Accrued Liabilities for

Year Ended June 30	Members' Accumulated Contributions (1)	Participants Currently Receiving Benefits (2)	Active Members Employer Portion (3)	Actuarial Value of Assets	Percentage of Benefits Covered by Net Assets		
					(1)	(2)	(3)
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
2005	5,925,696	32,861,473	17,287,860	34,085,218	100	86	0

## 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, 1996, through June 30, 2005)
- Active Members by Age and Years of Service (as of June 30, 2005)

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 state funding certification for the next fiscal year must be submitted annually by November 15.

## Retirees and Beneficiaries Added to and Removed from Rolls

Year Ended June 30	Number		Removed from Rolls	Number at End of Year	End-of-Year Annual Allowances		Average Annual Allowance	
	at Beginning of Year	Added to Rolls			Amount	% Increase	Amount	% Increase
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
2005	76,905	7,897	2,227	82,575	2,806,341,054	15.4	33,985	7.5

\* 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, 2005
- Schedules of Average Monthly Benefits, June 30, 2005
  - 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.



Nick of Counseling Services meets with a TRS member.



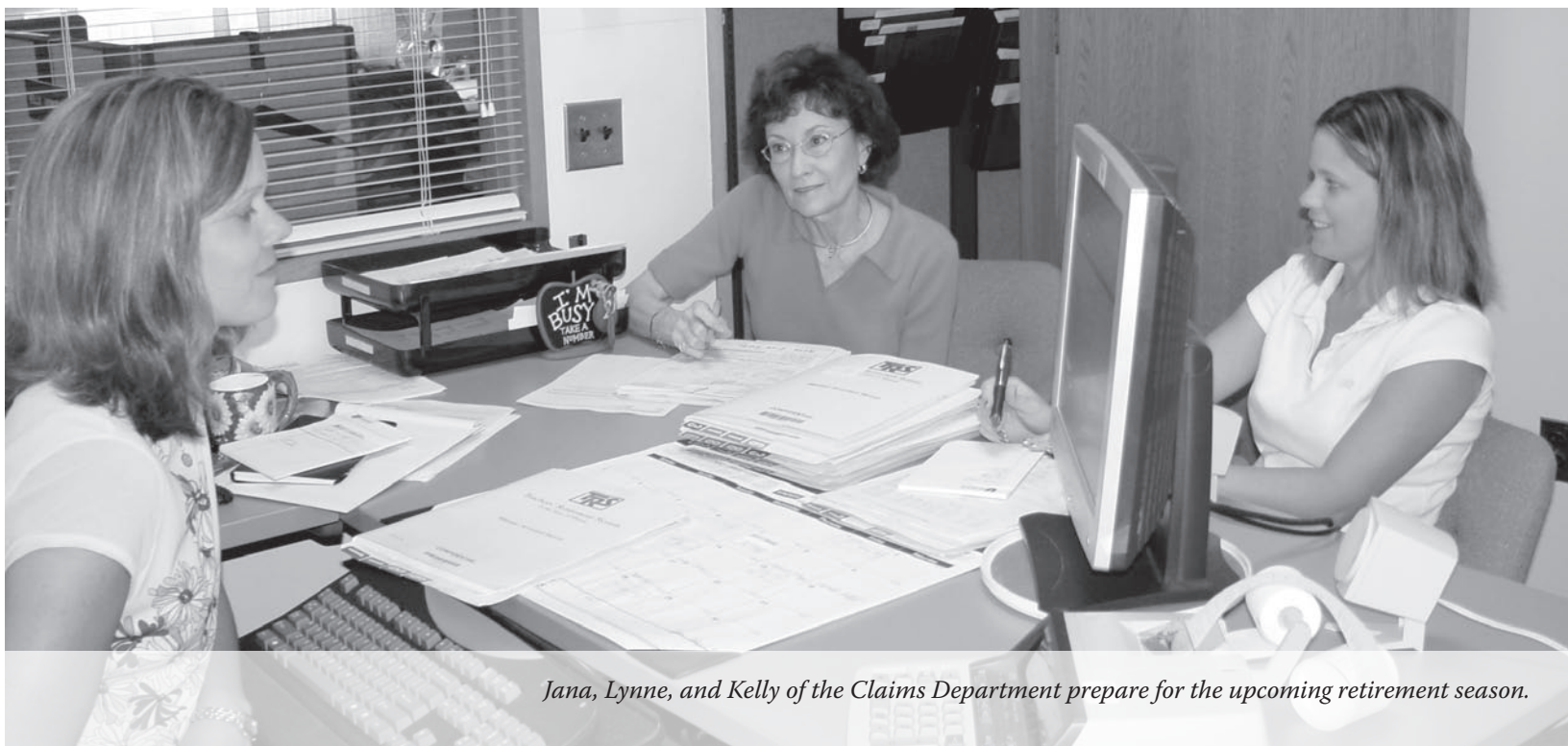
## Average Annual Salary for Active Members by Years of Service

<b>Years of Service</b>		<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>0-5</b>	<b>Number</b>	<b>33,700</b>	<b>33,134</b>	<b>33,325</b>	<b>34,831</b>
	Average Salary	\$29,867	\$30,717	\$31,495	\$32,430
<b>6-10</b>	<b>Number</b>	<b>19,716</b>	<b>20,340</b>	<b>20,329</b>	<b>21,540</b>
	Average Salary	\$37,315	\$38,170	\$39,047	\$40,320
<b>11-15</b>	<b>Number</b>	<b>13,013</b>	<b>13,830</b>	<b>14,571</b>	<b>15,461</b>
	Average Salary	\$42,905	\$44,258	\$45,659	\$47,430
<b>16-20</b>	<b>Number</b>	<b>14,579</b>	<b>14,295</b>	<b>13,004</b>	<b>11,969</b>
	Average Salary	\$47,929	\$49,309	\$50,650	\$52,477
<b>21-25</b>	<b>Number</b>	<b>15,754</b>	<b>15,235</b>	<b>14,494</b>	<b>14,006</b>
	Average Salary	\$52,679	\$54,096	\$55,498	\$57,256
<b>26-30</b>	<b>Number</b>	<b>11,474</b>	<b>12,977</b>	<b>13,904</b>	<b>14,541</b>
	Average Salary	\$56,865	\$58,168	\$59,694	\$61,866
<b>31-35</b>	<b>Number</b>	<b>2,456</b>	<b>3,525</b>	<b>4,845</b>	<b>6,018</b>
	Average Salary	\$59,383	\$61,434	\$63,985	\$67,373
<b>35 +</b>	<b>Number</b>	<b>549</b>	<b>611</b>	<b>644</b>	<b>692</b>
	Average Salary	\$61,618	\$62,841	\$65,222	\$67,453
	<b>Total Number</b>	<b>111,241</b>	<b>113,947</b>	<b>115,116</b>	<b>119,058</b>
	Average Salary	\$41,903	\$43,398	\$44,769	\$46,306
	<b>% Change Average Salary</b>	<b>3.6%</b>	<b>3.6%</b>	<b>3.2%</b>	<b>3.4%</b>
	<b>Total Payroll Full &amp; Part-time</b>	<b>\$4,661,331,623</b>	<b>\$4,945,071,906</b>	<b>\$5,153,628,204</b>	<b>\$5,513,099,748</b>

*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.*

2000	2001	2002	2003	2004	2005
35,192 \$33,070	38,585 \$34,614	41,120 \$36,242	38,074 \$37,960	36,951 \$37,633	39,728 \$41,444
24,053 \$41,616	24,351 \$43,457	24,258 \$45,300	25,020 \$46,740	26,027 \$45,568	26,557 \$49,536
15,661 \$49,109	16,367 \$50,875	16,812 \$52,761	17,334 \$53,931	18,307 \$52,771	20,295 \$58,195
11,304 \$54,335	11,692 \$56,521	12,215 \$59,011	12,860 \$60,788	13,358 \$59,820	13,429 \$65,276
13,363 \$58,918	13,091 \$61,188	12,575 \$63,599	11,152 \$65,427	10,868 \$64,881	9,431 \$70,278
14,278 \$64,254	13,885 \$65,913	13,256 \$68,501	12,429 \$70,066	12,488 \$69,276	10,667 \$74,127
6,895 \$70,455	7,555 \$73,433	7,484 \$76,413	7,107 \$76,676	9,186 \$75,643	5,900 \$79,236
713 \$71,036	809 \$75,469	843 \$78,831	804 \$78,091	1,162 \$77,805	744 \$81,497
121,459 \$47,665	126,335 \$49,230	128,563 \$50,895	124,780 \$52,408	128,347 \$52,181	126,751 \$55,237
2.9%	3.3%	3.4%	3.0%	(0.4%)	5.9%
\$5,789,343,235	\$6,219,472,050	\$6,543,213,885	\$6,539,470,240	\$6,697,274,807	\$7,001,283,113



*Jana, Lynne, and Kelly of the Claims Department prepare for the upcoming retirement season.*

## Active Members by Age and Years of Service as of June 30, 2005

<b>Age</b>		<b>Subs</b>	<b>Years of Service</b>			
			<b>0-5</b>	<b>6-10</b>	<b>11-15</b>	<b>16-20</b>
<b>20-24</b>	<b>Number</b>	3,727	4,821			
	Average Salary	\$3,893	\$34,728			
<b>25-29</b>	<b>Number</b>	4,135	15,813	3,105		
	Average Salary	\$4,006	\$39,839	\$46,076		
<b>30-34</b>	<b>Number</b>	2,453	6,189	9,688	1,931	
	Average Salary	\$3,923	\$42,641	\$48,946	\$54,898	
<b>35-39</b>	<b>Number</b>	2,821	3,461	4,102	6,319	979
	Average Salary	\$3,853	\$43,329	\$50,623	\$57,728	\$61,894
<b>40-44</b>	<b>Number</b>	4,198	3,199	2,570	2,964	4,022
	Average Salary	\$3,979	\$42,010	\$49,677	\$58,713	\$65,075
<b>45-49</b>	<b>Number</b>	3,664	2,636	2,695	2,714	2,505
	Average Salary	\$4,583	\$42,359	\$49,585	\$57,390	\$65,102
<b>50-54</b>	<b>Number</b>	3,379	2,049	2,658	3,514	3,049
	Average Salary	\$4,520	\$47,164	\$51,182	\$59,293	\$64,884
<b>55-59</b>	<b>Number</b>	2,658	1,134	1,395	2,305	2,323
	Average Salary	\$4,502	\$56,965	\$53,689	\$60,164	\$67,312
<b>60-64</b>	<b>Number</b>	1,245	366	298	481	491
	Average Salary	\$4,106	\$67,431	\$53,746	\$61,152	\$67,245
<b>65-69</b>	<b>Number</b>	545	50	41	61	48
	Average Salary	\$3,914	\$56,846	\$51,088	\$61,113	\$68,051
<b>70-74</b>	<b>Number</b>	179	5	5	6	11
	Average Salary	\$3,642	\$39,461	\$50,221	\$53,990	\$60,733
<b>74 +</b>	<b>Number</b>	95	5			1
	Average Salary	\$2,912	\$42,725			\$37,729
	<b>Total Number</b>	29,099	39,728	26,557	20,295	13,429
	<b>Average Salary</b>	\$4,140	\$41,444	\$49,536	\$58,195	\$65,276

Years of Service							Full and Part-time Member Totals
21-25	26-30	31-35	36-40	41-45	46-50	51-55	
							4,821 \$34,728
							18,918 \$40,863
							17,808 \$47,400
							14,861 \$52,688
860 \$68,751							13,615 \$55,596
3,596 \$69,687	1,714 \$71,764						15,860 \$59,125
2,729 \$71,273	6,483 \$74,531	2,994 \$79,000					23,476 \$66,156
1,740 \$70,375	1,978 \$74,508	2,556 \$79,804	344 \$84,711				13,775 \$68,057
433 \$71,881	426 \$75,395	308 \$77,255	260 \$79,001	51 \$71,641			3,114 \$68,837
65 \$69,226	61 \$75,021	35 \$75,610	34 \$81,882	30 \$81,198	7 \$109,835		432 \$68,617
8 \$60,561	5 \$90,025	6 \$78,403	6 \$72,197	3 \$72,554	3 \$76,442	1 \$64,787	59 \$64,244
		1 \$78,172	1 \$57,029		3 \$77,803	1 \$75,000	12 \$57,914
9,431 \$70,278	10,667 \$74,127	5,900 \$79,236	645 \$82,101	84 \$75,087	13 \$94,737	2 \$69,894	126,751 \$55,237

	Average Age	Average Years of Service	Number
Full and Part-time Members	42	12	126,751
Substitutes	41	NA	29,099
<b>All</b>	<b>42</b>		<b>155,850</b>



## 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 FY05, 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 FY05, the member contribution was 0.75 percent of pay.

Beginning July 1, 2005, members contribute 9.4 percent of gross creditable earnings. The additional 0.4 percent is to help fund the extension of the Early Retirement Option (ERO) and is refunded, without interest, if the member does not retire under ERO.

### 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. 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

The following vesting schedule applies to members with service before July 1, 2005.

<b>Years of Service</b>	<b>Age</b>
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 with service credit before July 1, 2005 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. Members with contributing service before July 1, 2005 can retire under a money purchase style “actuarial” benefit instead of a retirement benefit formula. By law, the higher of the formula benefit or the actuarial benefit is paid. The maximum formula benefit is 75 percent of FAS; there is no maximum for the actuarial benefit.

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 member accrue benefits beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. 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.

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.

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.

## Early Retirement

**Original ERO.** Under a provision that was originally scheduled to sunset June 30, 2005, members who were age 55 or older and had more than 20 but fewer than 35 years of service could choose the Early Retirement Option (ERO) to avoid a discounted annuity. Under the ERO, both the member and the employer had to make a one-time contribution. However, both the member and the employer contributions were waived if the member had 34 years of service.

**Pipeline ERO.** Public Act 94-0004 extends, for certain members, the terms of the program that was scheduled to sunset. The “Pipeline” ERO applies to members who notified their employers on or before June 1, 2005 of their intention to retire under the terms of contracts or collective bargaining agreements. These members have until July 1, 2007 to retire using the Pipeline ERO provision. The contribution rates remain the same as they were for the ERO program that ended June 30, 2005.

**Modified ERO.** Public Act 94-0004 also includes a new Modified ERO program. These provisions apply to members who will retire after June 30, 2005, and who do not qualify for Pipeline ERO. The member contribution changed from 7 percent to 11.5 percent for each year under the age of 60 or number of years under 35 years of service, whichever is less. The employer (school district) contribution changed from 20 percent to 23.5 percent for each year the member is under age of 60. There is no longer a contribution waiver for employers and members with 34 years of service.

## Post-Retirement Increase

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

## 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 acci-

dents 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.

### **New Law Allows Part-time, Limited Teaching**

On August 10, 2005, Governor Blagojevich signed Public Act 94-0539 into law. This legislation allows individuals who have received TRS disability benefits for one year or more to return to teaching if their medical conditions improve, allowing part-time work.

This legislation allows members on a limited basis to tutor, substitute, or part-time teach for a TRS-covered employer without loss of disability benefits as long as the combined earnings from teaching and disability benefits do not exceed 100 percent of the salary rate upon which the benefit was based.

## **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 an annuitant 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.

## **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.





*Melissa of the Insurance Department looks up primary care physician information for a member.*



# Statistical



*Pam, also of the Insurance Department, reviews incoming Medicare forms to determine member eligibility.*

## 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
<b>Under 1</b>	<b>Number</b>	<b>213</b>	<b>192</b>	<b>246</b>	<b>299</b>	<b>565</b>
	Average Benefit	\$262	\$636	\$1,193	\$1,938	\$2,619
	Average Original Benefit	\$262	\$636	\$1,192	\$1,936	\$2,617
<b>1-5</b>	<b>Number</b>	<b>970</b>	<b>838</b>	<b>838</b>	<b>1,009</b>	<b>2,026</b>
	Average Benefit	\$244	\$609	\$1,094	\$1,764	\$2,467
	Average Original Benefit	\$230	\$571	\$1,030	\$1,670	\$2,363
<b>6-10</b>	<b>Number</b>	<b>705</b>	<b>599</b>	<b>462</b>	<b>469</b>	<b>861</b>
	Average Benefit	\$275	\$611	\$917	\$1,531	\$2,104
	Average Original Benefit	\$224	\$491	\$744	\$1,257	\$1,743
<b>11-15</b>	<b>Number</b>	<b>498</b>	<b>502</b>	<b>533</b>	<b>626</b>	<b>1,325</b>
	Average Benefit	\$229	\$567	\$885	\$1,227	\$1,788
	Average Original Benefit	\$159	\$390	\$605	\$836	\$1,218
<b>16-20</b>	<b>Number</b>	<b>295</b>	<b>439</b>	<b>516</b>	<b>769</b>	<b>1,430</b>
	Average Benefit	\$199	\$460	\$752	\$1,265	\$1,668
	Average Original Benefit	\$115	\$255	\$437	\$753	\$1,002
<b>21-25</b>	<b>Number</b>	<b>150</b>	<b>218</b>	<b>451</b>	<b>658</b>	<b>1,085</b>
	Average Benefit	\$170	\$399	\$652	\$1,016	\$1,338
	Average Original Benefit	\$83	\$190	\$319	\$522	\$697
<b>26-30</b>	<b>Number</b>	<b>78</b>	<b>104</b>	<b>231</b>	<b>436</b>	<b>636</b>
	Average Benefit	\$153	\$331	\$542	\$806	\$1,026
	Average Original Benefit	\$62	\$125	\$219	\$353	\$457
<b>31-35</b>	<b>Number</b>	<b>27</b>	<b>41</b>	<b>71</b>	<b>148</b>	<b>295</b>
	Average Benefit	\$39	\$252	\$468	\$704	\$867
	Average Original Benefit	\$3	\$83	\$152	\$243	\$312
<b>36-40</b>	<b>Number</b>	<b>2</b>	<b>2</b>	<b>9</b>	<b>29</b>	<b>55</b>
	Average Benefit	\$64	\$242	\$473	\$662	\$767
	Average Original Benefit	\$0	\$31	\$98	\$143	\$180
<b>41-45</b>	<b>Number</b>		<b>1</b>		<b>2</b>	<b>24</b>
	Average Benefit		\$360		\$672	\$775
	Average Original Benefit		\$36		\$66	\$139
<b>46-50</b>	<b>Number</b>				<b>1</b>	<b>3</b>
	Average Benefit				\$542	\$764
	Average Original Benefit				\$22	\$85
<b>50 +</b>	<b>Number</b>					
	Average Benefit					
	Average Original Benefit					
<b>Total Number</b>		<b>2,938</b>	<b>2,936</b>	<b>3,357</b>	<b>4,446</b>	<b>8,305</b>
<b>Weighted Avg. Current Benefit</b>		<b>\$238</b>	<b>\$551</b>	<b>\$879</b>	<b>\$1,341</b>	<b>\$1,862</b>
<b>Weighted Avg. Original Benefit</b>		<b>\$193</b>	<b>\$429</b>	<b>\$672</b>	<b>\$1,011</b>	<b>\$1,441</b>

Years of Service						Total/ Average	Average Age
26-30	31-35	36-40	41-45	46-50	50 +		
<b>843</b>	<b>3,638</b>	<b>830</b>	<b>57</b>	<b>13</b>	<b>1</b>	<b>6,897</b>	<b>58</b>
\$3,663	\$4,887	\$5,207	\$5,005	\$5,872	\$5,666	\$4,072	
\$3,662	\$4,887	\$5,207	\$5,005	\$5,872	\$5,666	\$4,072	
<b>2,576</b>	<b>11,105</b>	<b>2,701</b>	<b>222</b>	<b>36</b>	<b>10</b>	<b>22,331</b>	<b>61</b>
\$3,388	\$4,533	\$4,866	\$4,953	\$5,116	\$6,418	\$3,672	
\$3,252	\$4,439	\$4,601	\$4,618	\$4,790	\$5,990	\$3,555	
<b>1,036</b>	<b>2,010</b>	<b>1,507</b>	<b>384</b>	<b>15</b>	<b>2</b>	<b>8,050</b>	<b>67</b>
\$3,191	\$4,313	\$4,670	\$4,579	\$4,963	\$4,218	\$3,027	
\$2,653	\$3,677	\$3,760	\$3,558	\$4,035	\$3,282	\$2,500	
<b>1,852</b>	<b>3,152</b>	<b>5,066</b>	<b>4,343</b>	<b>16</b>	<b>3</b>	<b>17,916</b>	<b>70</b>
\$2,257	\$3,045	\$3,798	\$4,206	\$4,057	\$3,452	\$3,090	
\$1,566	\$2,128	\$2,716	\$3,045	\$2,797	\$2,409	\$2,198	
<b>1,474</b>	<b>1,807</b>	<b>1,185</b>	<b>78</b>	<b>17</b>	<b>3</b>	<b>8,013</b>	<b>78</b>
\$2,262	\$3,184	\$3,902	\$3,498	\$3,883	\$2,235	\$2,254	
\$1,359	\$1,924	\$2,337	\$2,098	\$2,336	\$1,391	\$1,353	
<b>1,018</b>	<b>1,172</b>	<b>628</b>	<b>77</b>	<b>18</b>	<b>2</b>	<b>5,477</b>	<b>82</b>
\$1,842	\$2,598	\$3,071	\$2,967	\$2,961	\$1,952	\$1,764	
\$969	\$1,375	\$1,637	\$1,560	\$1,562	\$1,030	\$926	
<b>569</b>	<b>515</b>	<b>416</b>	<b>76</b>	<b>8</b>		<b>3,069</b>	<b>88</b>
\$1,383	\$1,829	\$2,298	\$2,328	\$2,367		\$1,322	
\$632	\$843	\$1,052	\$1,062	\$1,049		\$597	
<b>239</b>	<b>227</b>	<b>260</b>	<b>78</b>	<b>15</b>		<b>1,401</b>	<b>93</b>
\$1,126	\$1,456	\$1,887	\$1,819	\$1,598		\$1,185	
\$434	\$578	\$767	\$726	\$614		\$459	
<b>57</b>	<b>34</b>	<b>27</b>	<b>14</b>	<b>1</b>		<b>230</b>	<b>96</b>
\$934	\$1,040	\$1,224	\$1,412	\$1,337		\$909	
\$255	\$298	\$394	\$488	\$447		\$250	
<b>15</b>	<b>18</b>	<b>10</b>	<b>3</b>			<b>73</b>	<b>98</b>
\$910	\$1,029	\$1,068	\$1,129			\$912	
\$163	\$232	\$288	\$346			\$192	
<b>1</b>	<b>1</b>					<b>6</b>	<b>102</b>
\$874	\$1,008					\$786	
\$90	\$199					\$94	
	<b>1</b>					<b>1</b>	<b>106</b>
	\$1,008					\$1,008	
	\$158					\$158	
<b>9,680</b>	<b>23,680</b>	<b>12,630</b>	<b>5,332</b>	<b>139</b>	<b>21</b>	<b>73,464</b>	<b>69</b>
\$2,648	\$4,076	\$4,100	\$4,173	\$4,053	\$4,726	\$3,043	
\$2,126	\$3,667	\$3,216	\$3,063	\$3,165	\$4,075	\$2,524	





*Sue and Beth of Executive Administrative Services make arrangements for a Board meeting.*

# Average Monthly Benefits

## Retirement Benefits

<b>Average age</b>	
All retirees	69
FY05 retirees	58
<b>Average service</b>	
All retirees	29 years
FY05 retirees	30 years
<b>Average monthly benefit</b>	
All retirees	\$3,043
FY05 retirees	\$4,070
<b>Count</b>	
All retirees	73,464
FY05 retirees	6,908
<b>Oldest annuitant</b>	
	106

Age	Count	Average Benefit
Under 55	393	\$4,756
55-59	13,722	4,172
60-64	16,750	3,468
65-69	12,627	3,139
70-74	9,904	2,821
75-79	8,129	2,385
80-84	5,693	1,890
85-89	3,605	1,475
90 +	2,641	1,248
<b>Total</b>	<b>73,464</b>	<b>Weighted Average \$3,043</b>

## Disability Benefits\*

<b>Average age</b>	
All recipients	58
FY05 recipients	46
<b>Average service</b>	
All recipients	18 years
FY05 recipients	14 years
<b>Average monthly benefit</b>	
All recipients	\$1,724
FY05 recipients	\$1,805
<b>Count</b>	
All recipients	1,009
FY05 recipients	375

Age	Count	Average Benefit
Under 30	4	\$1,350
30-34	10	1,115
35-39	33	1,245
40-44	29	1,480
45-49	74	1,500
50-54	204	1,746
55-59	299	2,125
60-64	137	1,896
65-69	71	1,362
70-74	62	1,551
75-79	40	971
80-84	29	1,070
85-89	16	805
90 +	1	840
<b>Total</b>	<b>1,009</b>	<b>Weighted Average \$1,724</b>

\* Includes 250 individuals receiving temporary and seven individuals receiving occupational disability benefits who are counted as active members. The remaining 752 individuals receive permanent disability benefits.

### Survivor Benefits\*

<b>Average age</b>		
All survivors		75
FY05 survivors		72
<b>Average monthly benefit</b>		
All survivors		\$1,059
FY05 survivors		\$1,219
<b>Count</b>		
All survivors		8,102
FY05 survivors		614

<b>Age</b>	<b>Count</b>	<b>Average Benefit</b>
Under 10	7	\$571
10-14	11	539
15-19	56	699
20-24	29	590
25-29	2	520
30-34	7	708
35-39	11	954
40-44	21	970
45-49	53	930
50-54	182	1,339
55-59	399	1,379
60-64	621	1,439
65-69	842	1,434
70-74	1,119	1,253
75-79	1,362	1,107
80-84	1,366	910
85-89	1,158	722
90 +	856	637
<b>Total</b>	<b>8,102</b>	<b>Weighted Average \$1,059</b>

\* An additional \$16.5 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, 2005

Retirees	73,464
Disabled recipients	1,009
Survivors	8,102
<b>Total</b>	<b>82,575</b>

## 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) <sup>1</sup>	Employer and Other Contributions <sup>2</sup>	Total
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
2005	762	987	13.1	3,330	68	5,147

1 Includes realized gains and losses and unrealized appreciation or depreciation of investments.

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	Refunds	Administrative and Other Expenses	Total
1996	\$1,122	\$22	\$11	\$1,155
1997	1,161	22	10	1,193
1998	1,210	24	10	1,244
1999	1,284	26	11	1,321
2000	1,402	29	12	1,443
2001	1,567	36	13	1,616
2002	1,760	39	15	1,814
2003	1,999	43	14	2,056
2004	2,262	48	14	2,324
2005	2,533	60	14	2,607

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

Year Ended June 30	Retirement Benefits	Survivor Benefits	Disability Benefits	Total
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
2005	2,408	104	21	2,533

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





*Sonya of the Member Services Counseling Department signs in a member for her next meeting.*

## 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.  
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  
Aptakisis-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  
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

*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  
Cartersville 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  
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.



*Continued*

Diamond Lake S.D. #76  
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 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-Gridley C.U.S.D. #11  
Eldorado C.U.S.D. #4  
Elementary S.D. #159  
Elmhurst S.D. #205



*Connie and MaryEtta, mailroom aides through Supported Employment Program of Springfield Area Retarded Citizens (SPARC), prepare a retirement mailing.*



*Continued*

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  
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  
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

*Continued*

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  
Hoopeston 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  
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  
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

*Continued*

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 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



*Russ, Shirley, and Kathie of the Member Services Call Center resolve a member issue.*

*Continued*

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  
Meridian C.U.S.D. #223  
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  
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



*Continued*

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  
Palatine C.C.S.D. #15  
Palatine Twp. H.S.D. #211  
Palestine C.U.S.D. #3  
Palos C.C.S.D. #118  
Palos Hts. S.D. #128  
Pana C.U.S.D. #8  
Panhandle C.U.S.D. #2  
Paris C.U.S.D. #4  
Paris-Union S.D. #95  
Park Forest S.D. #163  
Park Ridge C.C.S.D. #64  
Pass-Adult Ed. Prog.  
Patoka C.U.S.D. #100  
Pawnee C.U.S.D. #11  
Paxton-Buckley-Loda S.D. #10  
Payson C.U.S.D. #1  
Pearl City C.U.S.D. #200  
Pecatonica C.U.S.D. #321  
Pekin C.H.S.D. #303  
Pekin Public S.D. #108  
Pembroke C.C.S.D. #259  
Pennoyer S.D. #79  
Peoria Co. R.O.E.  
Peoria Hts. C.U.S.D. #325  
Peoria S.D. #150  
Peotone C.U.S.D. #207  
Perandoe Spec. Ed. Dist.  
Peru E.S.D. #124  
Philip J. Rock Service Ctr.  
Pikeland C.U.S.D. #10  
Pinckneyville C.H.S.D. #101  
Pinckneyville S.D. #50  
Plainfield S.D. #202  
Plano C.U.S.D. #88  
Pleasant Hill C.U.S.D. #3  
Pleasant Hill S.D. #69  
Pleasant Plains C.U.S.D. #8  
Pleasant Valley S.D. #62  
Pleasantdale S.D. #107  
Polo C.U.S.D. #222  
Pontiac C.C.S.D. #429  
Pontiac Twp. H.S.D. #90  
Pontiac-West Holliday S.D. #105  
Pope Co. C.U.S.D. #1  
Porta C.U.S.D. #202  
Posen-Robbins E.S.D. #1435  
Potomac C.U.S.D. #10  
Prairie Central C.U.S.D. #8  
Prairie Crossing Charter School  
Prairie Du Rocher C.C.S.D.  
Prairie Grove C.S.D. #46  
Prairie Hill C.C.S.D. #133  
Prairie Hills E.S.D. #144  
Prairieview C.C.S.D. #192  
Princeton E.S.D. #115  
Princeton Twp. H.S.D. #500  
Princeville C.U.S.D. #326  
Professional Dev. Alliance  
Prophetstown-Lyndon-Tampico S.D. #3  
Prospect Hts. S.D. #23  
Proviso Twp. H.S.D. #209  
Putnam Co. C.U.S.D. #535  
Queen Bee S.D. #16  
Quincy S.D. #172  
R.O.W.V.A. C.U.S.D. #208  
Raccoon C.S.D. #1  
Ramsey C.U.S.D. #204  
Rankin C.S.D. #98  
Rantoul City S.D. #137  
Rantoul Twp. H.S.D. #193  
Reavis Twp. H.S.D. #220  
Red Bud C.U.S.D. #132  
Red Hill C.U.S.D. #10  
Reed Custer C.U.S.D. #255  
Reg. Delivery Sys. Voc. Ed & Gifted Prog.  
Reg Office of Career/Tech Education  
Rhodes S.D. #84.5  
Rich Twp. H.S.D. #227  
Richland S.D. #88A  
Richmond Burton H.S.C.D. #157  
Ridgeland S.D. #122  
Ridgeview C.U.S.D. #19  
Ridgewood C.H.S.D. #234  
Riley C.C.S.D. #18  
River Bend C.U.S.D. #2  
River Forest S.D. #90  
River Grove S.D. #855  
River Ridge C.U.S.D. #210  
River Trails S.D. #26  
Riverdale C.U.S.D. #100  
Riverdale S.D. #14  
Riverside S.D. #96  
Riverside-Brookfield C.U.S.D. #208  
Riverton C.U.S.D. #14

*Continued*

Riverview C.C.S.D. #2  
Roanoke Benson C.U.S.D. #60  
Robein S.D. #85  
Robertson Charter School  
Robinson C.U.S.D. #2  
Rochelle C.C.S.D. #231  
Rochelle Twp. H.S.D. #212  
Rochester C.U.S.D. #3A  
Rock Falls E.S.D. #13  
Rock Falls Twp. H.S.D. #301  
Rock Island Co. R.O.E.  
Rock Island S.D. #41  
Rockdale S.D. #84  
Rockford S.D. #205  
Rockridge C.U.S.D. #300  
Rockton S.D. #140  
R.O.E. Professional Services #19  
Rome C.C.S.D. #2  
Rondout S.D. #72  
Rooks Creek C.C.S.D. #425  
Roselle S.D. #12  
Rosemont E.S.D. #78  
Roseville C.U.S.D. #200  
Rossville-Alvin C.U.S.D. #7  
Round Lake Area S.D. #116  
Roxana C.U.S.D. #1  
Rutland C.C.S.D. #230

Safe School-Optional Ed. R.O.E. #12  
Salem C.H.S.D. #600  
Salem S.D. #111  
Salt Creek Academy  
Salt Creek S.D. #48  
Sandoval C.U.S.D. #501  
Sandridge S.D. #172  
Sandwich C.U.S.D. #430  
Sangamon Area Spec. Ed.  
Sangamon Valley C.U.S.D. #9  
Saratoga C.C.S.D. #60C  
Sauk Village C.C.S.D. #168  
Saunemin C.C.S.D. #438  
Savanna C.U.S.D. #300  
Scales Mound C.U.S.D. #211  
Schaumburg C.C.S.D. #54  
Schiller Park S.D. #81  
School Assoc. for Spec. Ed. in DuPage Co.  
School District #U46  
Schuyler Co. C.U.S.D. #1  
Scott-Morgan C.U.S.D. #2  
Selmaville C.C.S.D. #10  
Seneca C.C.S.D. #170  
Seneca Twp. H.S.D. #160  
Serena C.U.S.D. #2  
Sesser-Valier C.U.S.D. #196  
Shawnee C.U.S.D. #84

*Michael Bracey Photography*



*Barbara of Counseling Services in Lisle looks up member information on the STAR computer system.*

*Continued*

Shelbyville C.U.S.D. #4  
Sherrard C.U.S.D. #200  
Shiloh C.U.S.D. #1  
Shiloh Village S.D. #85  
Shirland C.C.S.D. #134  
Signal Hill S.D. #181  
Silvis S.D. #34  
Skokie S.D. #68  
Skokie S.D. #69  
Skokie S.D. #735  
Skokie-Fairview S.D. #72  
Smithton C.C.S.D. #130  
Somonauk C.U.S.D. #432  
South Beloit C.U.S.D. #320  
South Central C.U.S.D. #401  
South Eastern Spec. Ed.  
South Fork S.D. #14  
South Holland S.D. #150  
South Holland S.D. #151  
South Pekin S.D. #137  
South Will Co. Coop. for Spec. Ed.  
South Wilmington C.S.D. #74  
Southeastern C.U.S.D. #337  
Southern C.U.S.D. #120  
Southwest Cook Spec. Ed. Coop.  
Southwestern C.U.S.D. #9  
Sparta C.U.S.D. #140  
Spec. Ed. Joint Agmt. #802 Cook Co.  
Spec. Ed. Joint Agmt. #803 Proviso Area  
Spec. Ed. Joint Agmt. #804 North Suburban  
Spec. Ed. Coop.  
Spec. Ed. Dist. - Region 3  
Spec. Ed. Dist. of McHenry Co.  
Spec. Ed. Dist. of Peoria Co.  
Spec. Ed. Dist. of Macoupin Co.  
Spoon River Valley C.U.S.D. #4  
Spring Lake C.C.S.D. #606  
Spring Valley C.C.S.D. #99  
Springfield Ball Charter School  
Springfield S.D. #186  
St. Anne C.C.S.D. #256  
St. Anne C.H.S.D. #302  
St. Charles C.U.S.D. #303  
St. Clair Co. Reg. Ed. Programs  
St. Clair Co. R.O.E.  
St. Clair Co./S.W.I.C. Reg. Voc. Sys.  
St. Elmo C.U.S.D. #202  
St. George C.C.S.D. #258  
St. Joseph C.C.S.D. #169  
St. Joseph Ogden C.H.S. #305  
St. Libory C.S.D. #30  
St. Rose S.D. #14  
Stark Co. C.U.S.D. #100  
Staunton C.U.S.D. #6  
Steeleville C.U.S.D. #138  
Steger S.D. #194  
Sterling CUD #5  
Steward E.S.D. #220  
Stewardson-Strasburg C.U.S.D. #5  
Stockton C.U.S.D. #206  
Streator E.S.D. #44  
Streator Twp. H.S.D. #40  
Streator Woodland C.U.S.D. #5  
Sullivan C.U.S.D. #300  
Summersville S.D. #79  
Summit Hill S.D. #161  
Sunnybrook S.D. #171  
Sunset Ridge S.D. #29  
Sycamore C.U.S.D. #427  
Taft S.D. #90  
Tamaroa S.D. #5  
Taylorville C.U.S.D. #3  
Tazewell Co. R.O.E.  
Tazewell-Mason Co. Spec. Ed. Assoc.  
Teachers' Retirement System  
Technology Ctr. of DuPage Co.  
Teutopolis C.U.S.D. #50  
Thomasboro C.C.S.D. #130  
Thompsonville C.H.S.D. #112  
Thompsonville S.D. #62  
Thomson C.U.S.D. #301  
Thornton Fractional H.S.D. #215  
Thornton S.D. #154  
Thornton Twp. H.S.D. #205  
Three Rivers Ed. for Employment Sys.  
Tinley Park S.D. #146  
Tolono C.U.S.D. #7  
Tomorrows Builders Youthbuild  
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 S.D. #304  
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



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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  
Viriden 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 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

*Michael Bracey Photography*



*Mary of Counseling Services in Lisle prepares teachers for retirement.*



*Continued*

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