Retirement Security For Illinois Educators

Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007

Statement of Purpose

Retirement Security for Illinois Educators

Mission Statement

Safeguard benefit security through committed staff, engaged members, and responsible funding.

Fiscal Year Highlights

	2007	**2006**
Active contributing members	160,317	159,272
Inactive noncontributing members	94,879	81,218
Benefit recipients	89,236	85,103
Total membership	344,432	325,593
Actuarial accrued liability (AAL)	$65,648,395,000	$58,996,913,000
Less net assets held in trust for pension benefits	41,909,318,000	36,584,889,000
Unfunded actuarial accrued liability (UAAL)	$23,739,077,000	$22,412,024,000
Funded ratio (actuarial value of assets/AAL)	63.8%	62.0%
Total fund investment return, net of fees	19.2%	11.8%
Expenses		
Benefits paid	$3,111,752,675	$2,877,230,697
Refunds paid	59,731,909	57,967,063
Administrative expenses	15,246,203	15,303,370
Total	$3,186,730,787	$2,950,501,130
Income		
Member contributions	$826,249,007	$799,034,336
Employer contributions	115,915,040	123,542,608
State of Illinois contributions	737,670,628	534,305,256
Total investment income	6,831,324,436	3,993,289,880
Total	$8,511,159,111	$5,450,172,080

Cover note: TRS provides survivor benefits to the children (under age 18) of deceased members and annuitants.

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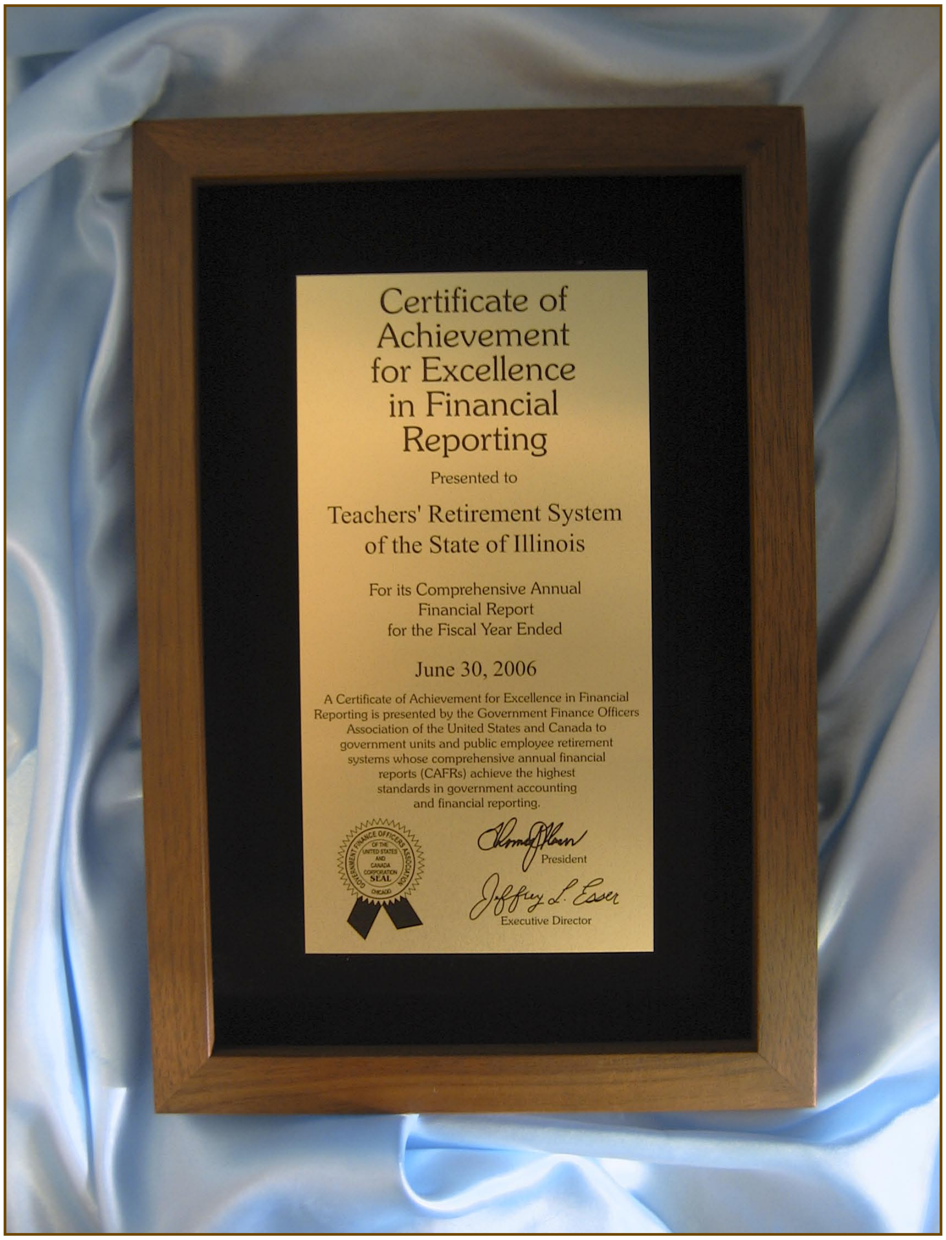
Introduction

The Government Finance Officers Association (GFOA) has awarded TRS a Certificate of Achievement for Excellence in Financial Reporting for the past 18 years.


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, 2006
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 10, 2007

To the Board of Trustees and TRS Members:

We are pleased to present the *Comprehensive Annual Financial Report (CAFR)* for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2007. In this edition, we have used nest eggs to depict the financial security that TRS provides for members and their loved ones.

Unlike defined contribution plans, such as 401(k) plans, members can depend on TRS to pay benefits even when the financial markets are not performing well. TRS members are part of a **defined benefit plan** which means their retirement benefits will be provided for their lifetimes. Others dependent solely upon personal investments do not have this guarantee; their financial futures are determined by the uncertain ebb and flow of the markets.

The promise of financial security is the same regardless of who is holding the nest egg in this book. To the active member, it is the promise of a pension. To the child, it is a disability benefit that is depended upon for essentials when a parent is disabled. To the surviving spouse, it is the continued financial support received after a primary income is gone. To the retiree, it is the reliable income source earned after serving as an Illinois educator. Now and in the future, members can count on TRS benefits being there for themselves and their loved ones.

With our purpose in mind, we have completed this year's report. State law requires that this report be published annually. It is intended to provide financial, investment, actuarial, and statistical information in a single publication.

TRS management and staff are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. A framework of internal controls is maintained to establish reasonable assurance that assets are safeguarded, transactions are accurately executed, and financial statements are fairly presented.

Profile of TRS

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

An 11-member Board of Trustees governs TRS. The board includes the state superintendent of education, four members of TRS who are elected by active members, four representatives of the public who are appointed by the governor, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the detailed administration of TRS.

The annual budget for TRS administrative expenses is approved by the Board of Trustees. The TRS annual operating budget request is prepared in conjunction with a review of the long-range strategic plan.

Financial Information

Our staff issues a *CAFR* within six months of the close of each fiscal year. The report contains basic financial statements presented in conformity with generally accepted accounting principles (GAAP) within guidelines established by the Governmental Accounting Standards Board (GASB).

A system of internal controls helps us to monitor and safeguard assets and promote efficient operations. 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.

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

Revenues and Expenses

The three sources of TRS funding include member contributions, investment income, and employer contributions through state appropriations and payments by school districts. TRS expenses include payments of benefits, refunds, and administrative expenses. Negative amounts are shown in parentheses () throughout this report.

Revenues ($ millions)

			Increase/(Decrease)	
Source	**2007**	**2006**	**Amount**	**% Change**
Member contributions	$826	$799	$27	3.4%
State of Illinois	738	534	204	38.2
Employer contributions	116	124	(8)	(6.5)
Total investment income	6,831	3,993	2,838	71.1
Total	**$8,511**	**$5,450**	**$3,061**	**56.2%**

Expenses ($ millions)

			Increase/(Decrease)	
Source	**2007**	**2006**	**Amount**	**% Change**
Benefits payments	$3,112	$2,877	$235	8.2%
Refunds	60	58	2	3.4
Administrative/Other	15	15	-	-
Total	**$3,187**	**$2,950**	**$237**	**8.0%**

In the future, member service will remain our priority. Technological advances to the Web site and to our internal STAR computer system will continue. We will prudently invest for the benefit of our membership. Staff members and the TRS Board will also persist in attempting to improve our funded ratio.

Investments

TRS earned 19.6 percent gross of fees on its investments during the fiscal year ended June 30, 2007, a level not seen since the 1980s and among the highest in TRS history. Assets rose to a record high of $41.9 billion, up from $36.6 billion a year ago. For the seventh consecutive year, TRS's investment performance ranked in the desirable upper quartile of national public and private pension performance databases. The fund also substantially outperformed its performance benchmark of 17.9 percent for the one-year period ending June 30, 2007.

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

Funding

During the year ended June 30, 2007, the funded ratio of the Teachers' Retirement System increased from 62.0 percent to 63.8 percent. The actuarial value of assets (net assets at market value) was $41.9 billion and the actuarial accrued liability was $65.6 billion. The favorable increase in the funded ratio was primarily a result of investment gains which also offset an increase in liability due to revised actuarial assumptions.

The Actuarial Section of this report contains the actuary's letter and further information on TRS funding. It also presents the results of the five-year review of actuarial assumptions.

Major Initiatives

In fiscal year 2007, member surveys rated our service levels in the 97th percentile. These fiscal year changes continued to improve our member service programs:

- Added a personalized benefit estimate section in the secure Member Account Access area of our Web site.
- Revamped the Web site for faster page downloads and increased security.
- Informed members and the media by developing an online Press Room which contains press releases and information about benefits and funding.
- Ensured that members who changed addresses continued to receive important mail from us; over 30,000 member addresses were automatically updated using software approved by the U.S. Postal Service.

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, 2006. 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. A Certificate of Achievement is valid for a period of one year only. TRS has received a certificate for the last 18 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

Acknowledgements

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 of determining responsible stewardship of the assets contributed by members and their employers.

This report is made available to members of the General Assembly, participating employers, and to other interested persons by request. The participating employers of TRS form a link between TRS and its members. Their cooperation contributes significantly to our success. We hope all recipients of this report find it informative and useful. This report is also available to the general public on our Web site, **trs.illinois.gov**.

We would like to take this opportunity to express our gratitude to staff, professional consultants, and others who have worked so diligently to ensure TRS's successful operation.

Jon Bauman
Executive Director

Jana Bergschneider, CPA
Director of Administration

Board of Trustees

As of December 1, 2007

Organizational Structure

Executive Staff Members as of December 1, 2007

Board of Trustees

Jon Bauman
Executive Director

Jana Bergschneider, CPA
Director of Administration

Andrew Bodewes
Director of Government Affairs

Kathleen Farney, CEBS
Director of Research

Eva Goltermann
Public Information Officer

Tom Gray
General Counsel

Gina Larkin
Director of Human Resources

Kathy Pearce
Communications Supervisor

Stan Rupnik, CFA
Chief Investment Officer

Stacy Smith, CPA
Internal Audits Manager

Terry Viar
Director of Member Services

Consulting and Professional Services

Actuary

Buck Consultants, an ACS Company
Chicago, Illinois

External Auditors

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

BKD, LLP
Decatur, Illinois

Information Systems

Hupp Information Technologies
Springfield, Illinois

Sentinel Technologies
Chicago, Illinois

VeriSign, Inc.
Toronto, Ontario

Pro-Tech Search, Inc.
Petersburg, Illinois

STL Technology Partners
Bloomington, Illinois

Investment Consultants

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

Callan Associates Inc.
(real estate consultant)
San Francisco, California

Risk Resources
(real estate insurance)
Elmhurst, Illinois

PCG Asset Management LLC
(private equity consultant)
La Jolla, California

R.V. Kuhns & Associates, Inc.
(general consultant)
Portland, Oregon

External Legal Counsel

Barnes & Thornburg
Chicago, Illinois

Foley & Lardner
Chicago, Illinois

Holland & Knight LLP
Chicago, Illinois

Loewenstein Hagen & Smith
Springfield, Illinois

Sorling Northrup Hanna Cullen
Springfield, Illinois

Cavanagh & O'Hara
Springfield, Illinois

Heyl Royster Voelker & Allen
Springfield, Illinois

Howard & Howard
Peoria, Illinois

Mayer Brown Rowe & Maw
Chicago, Illinois

Master Trustee

The Northern Trust Company
Chicago, Illinois

TRS grew its assets to a record $41.9 billion at June 30, 2007.

BKD LLP

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 statements 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, 2007 and 2006, and the related statements of changes in plan net assets for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2007 and 2006, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2007 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 audits.

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.

Our audits were conducted for the purpose of forming an opinion on the System's 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 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 years ended June 30, 2007 and 2006, 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 27, 2007

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, 2007. 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, 2007 were $41.9 billion.
- During FY07, TRS net assets increased $5.3 billion.
- Contributions from members, employers, and the State of Illinois were $1,680 million, an increase of $223 million or 15.3 percent for the fiscal year.
- Total investment income was $6,831 million, an increase of $2.8 billion compared to FY06.
- Benefits and refunds paid to members and annuitants were $3,171 million, an increase of $236 million or 8.1 percent compared to FY06.
- The pension benefit obligation or total actuarial accrued liability was $65.6 billion at June 30, 2007.
- The unfunded actuarial accrued liability increased from $22.4 billion at June 30, 2006 to $23.7 billion at June 30, 2007. The funded ratio increased from 62.0 percent at June 30, 2006 to 63.8 percent at June 30, 2007.

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 for the pension system and reflects the financial position of the Teachers' Retirement System as of June 30, 2007.

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 pension system's financial condition. The following are condensed comparative financial statements of the TRS pension trust fund.

Condensed Comparative Statement of Plan Net Assets as of June 30

	2007	Percentage Change	2006	Percentage Change	2005
Cash	$3,548,548	(8.2%)	$3,867,280	2.4%	$3,777,107
Receivables and prepaid expenses	385,352,096	9.5	352,050,422	(8.0)	382,518,911
Investments	41,953,080,943	12.4	37,336,880,818	7.0	34,898,361,784
Invested securities lending collateral	5,020,184,465	14.1	4,401,016,409	0.3	4,386,594,663
Capital assets	2,391,619	2.5	2,333,759	0.6	2,320,275
Total assets	**47,364,557,671**	**12.5**	**42,096,148,688**	**6.1**	**39,673,572,740**
Total liabilities	**5,455,239,920**	**(1.0)**	**5,511,259,261**	**(1.4)**	**5,588,354,263**
Net assets	**$41,909,317,751**	**14.6%**	**$36,584,889,427**	**7.3%**	**$34,085,218,477**

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

	2007	Percentage Change	2006	Percentage Change	2005
Contributions	$1,679,834,675	15.3%	$1,456,882,200	(19.8%)	$1,817,352,355
Total investment income	6,831,324,436	71.1	3,993,289,880	19.9	3,330,039,158
Total additions	8,511,159,111	56.2	5,450,172,080	5.9	5,147,391,513
Benefits and refunds	3,171,484,584	8.1	2,935,197,760	13.2	2,592,498,606
Administrative expenses	15,246,203	(0.4)	15,303,370	6.2	14,403,715
Total deductions	3,186,730,787	8.0	2,950,501,130	13.2	2,606,902,321
Net increase in net assets	**5,324,428,324**		**2,499,670,950**		**2,540,489,192**
Net assets beginning of year	**36,584,889,427**	**7.3**	**34,085,218,477**	**8.1**	**31,544,729,285**
Net assets end of year	**$41,909,317,751**	**14.6%**	**$36,584,889,427**	**7.3%**	**$34,085,218,477**

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 $41.9 and $36.6 billion at June 30, 2007 and 2006, respectively. Net assets increased $5.3 and $2.5 billion during FY07 and FY06, respectively.

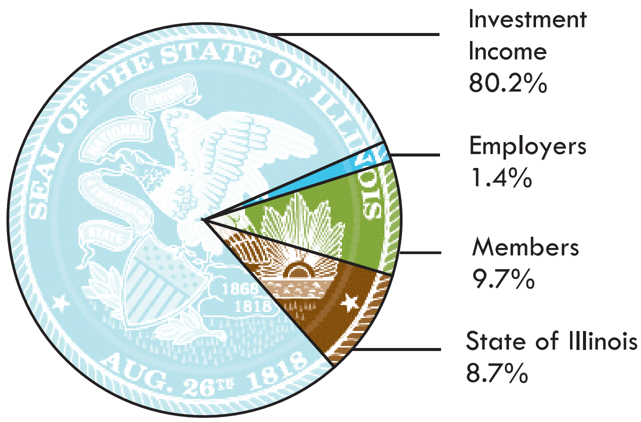
Contributions

Contributions increased $223 million during FY07 following a decrease of $360 million during FY06. During FY07, member contributions increased $27 million and employer contributions from school districts decreased $8 million. During FY06, member contributions increased $37 million and employer contributions from school districts decreased $24 million. The majority of the decrease in the employer contributions from school districts in FY07 is attributable to a decrease in employer Early Retirement Option contributions.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois increased $204 million in FY07 compared to a decrease of $373 million in FY06. The increase in FY07 occurred because the dollar amount specified by PA 94-0004 was higher than the amount specified for FY06.

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 enacted when pension obligation bonds were issued in 2003. In FY06 and FY07, state contributions were 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. Beginning in FY08, state contributions will increase according to the phase-in schedule to reach a level percent of payroll by FY10. The overall goal of 90 percent funding in the year 2045 is unchanged.

Revenues by Type for the Year Ended June 30, 2007



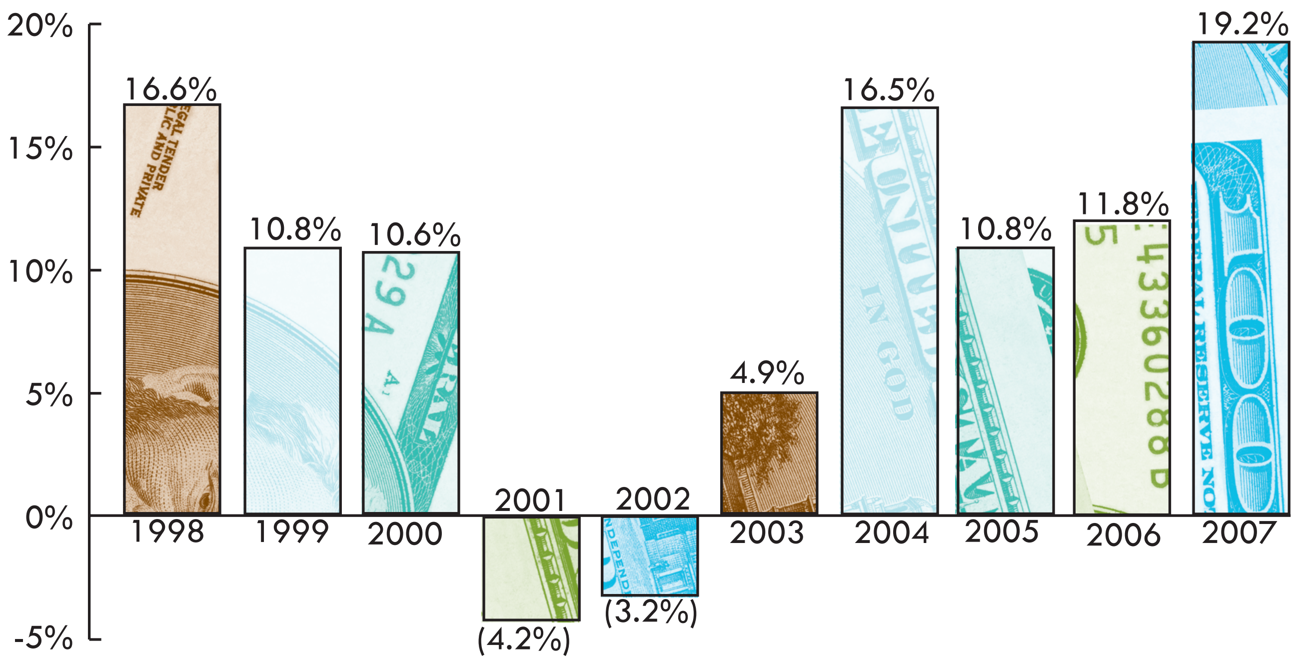
Investments

The TRS trust fund is invested according to law 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 $4.7 billion from $37.3 billion at June 30, 2006 to $42.0 billion at June 30, 2007.

The TRS investment portfolio had another strong year. TRS investments earned a 19.2 and 11.8 percent rate of return, net of fees, for FY07 and FY06, respectively, as all asset classes again produced positive returns. Overall, the global economy remained vibrant and inflation restrained, providing a healthy investment environment. U.S. and international stock markets again produced strong gains, returning 20 percent and 30 percent, respectively. TRS’s private market investments also continued to post substantial gains for FY07 with the TRS private equity portfolio returning 29.3 percent, net of fees, and the TRS real estate portfolio generating a 25.3 percent return, net of fees.

Annual Rate of Return (net of investment expenses)



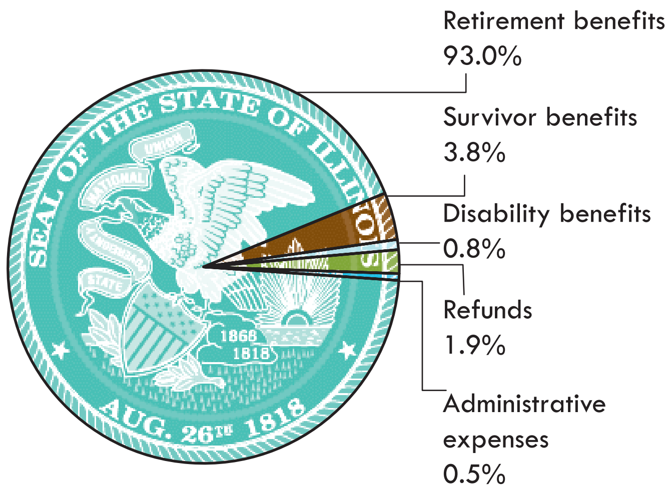
The annual rate of return is an indication of TRS investment performance and is provided by the TRS Master Trustee.

Benefits and Refunds

Survivor, disability, and retirement benefit payments increased $235 and $344 million during FY07 and FY06, respectively. During FY07, benefit payments increased from $2,877 million with 85,103 recipients during FY06 to $3,112 million with 89,236 recipients. The overall increase in benefit payments is due to an increase in retirement benefits and number of retirees. Retirement benefits increased as a result of an automatic 3 percent annual increase in retirement benefits and an increase in the number of retirees from 75,747 as of June 30, 2006 to 79,728 as of June 30, 2007.

Refunds of contributions increased $2 million during FY07 and decreased $2 million during FY06. The increase in refunds is a result of the increase in 2.2 upgrade contribution refunds and member ERO retirement contribution refunds.

Expenses by Type for the Year Ended June 30, 2007

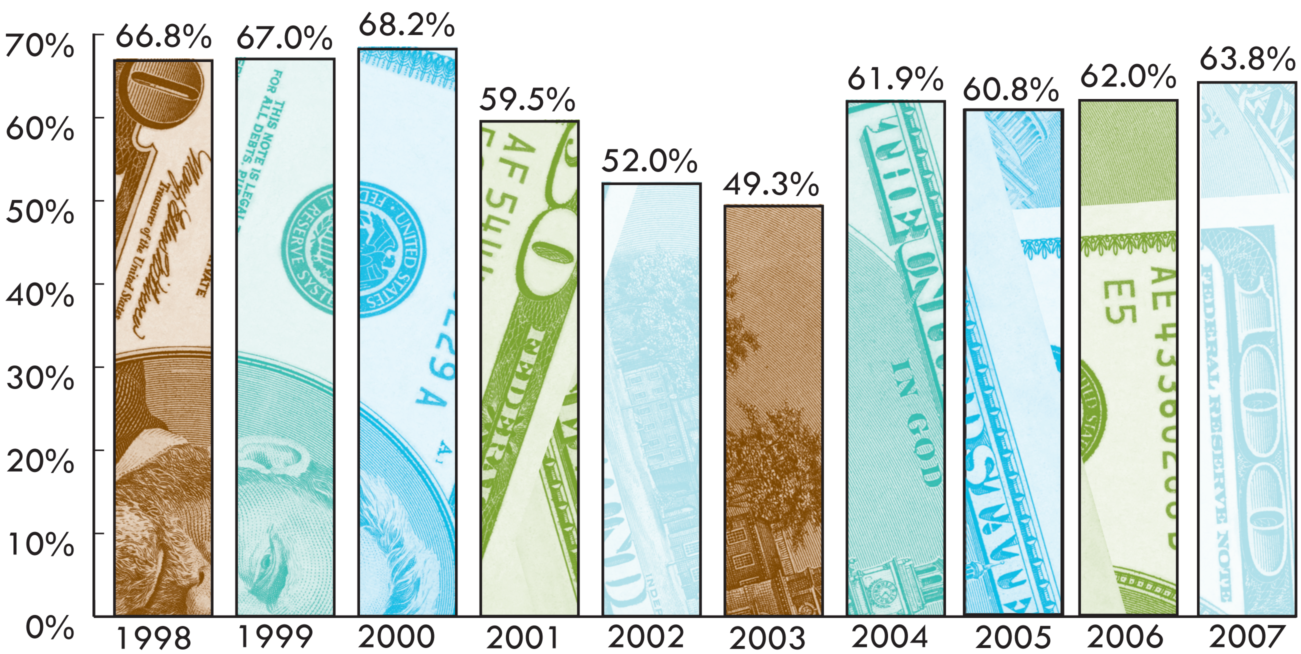


Actuarial

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 but not yet paid. The actuarial accrued liability increased $6.6 and $2.9 billion during FY07 and FY06, respectively, to $65.6 billion at June 30, 2007 and $59.0 billion at June 30, 2006. The unfunded liability is the present value of future benefits payable that are not covered by assets as of the valuation date but not yet paid out. The unfunded liability increased $1.3 billion during FY07 to $23.7 billion at June 30, 2007 compared to an increase of $0.4 billion during FY06 to $22.4 billion at June 30, 2006. The funded ratio reflects the percentage of the accrued liability covered by net assets at market value. The funded ratio increased to 63.8 percent at June 30, 2007 from 62.0 percent at June 30, 2006.

To comply with the Illinois Pension Code, an actuarial experience analysis is performed once every five years to review the actuarial assumptions. An experience analysis was conducted in 2007 and the results are reflected in the June 30, 2007 actuarial valuation. The net effect of the experience analysis was a $2.4 billion increase in accrued liability.

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.

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.

The enactment of Public Act 94-0004 in June 2005 continues to have significant impact on TRS because it dramatically reduced the FY06 and FY07 state contributions. The $523.9 million reduction in FY06 was followed by a $497.6 million reduction 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 year 2045 is unchanged.

The three sources of TRS funding include member contributions, investment income, and employer contributions through state appropriations and payments by school districts.

Basic Financial Statements

Teachers' Retirement System of the State of Illinois
Statements of Plan Net Assets
as of June 30, 2007, and 2006

	2007	2006
Assets		
Cash	$3,548,548	$3,867,280
Receivables and prepaid expenses		
Member payroll deduction	44,453,137	51,724,086
Member contributions	39,064,004	45,424,593
Employer contributions	22,560,035	10,285,346
State of Illinois	168,740	194,093
Investment income	278,001,913	243,067,231
Prepaid expenses	1,104,267	1,355,073
Total receivables and prepaid expenses	385,352,096	352,050,422
Investments, at fair value		
Fixed income	10,140,998,668	10,541,143,369
Equities	23,487,980,117	20,031,392,346
Real estate	4,693,519,131	3,946,280,351
Short-term investments	1,196,341,853	1,283,161,257
Private equity investments	1,894,311,762	1,513,997,646
Absolute return	490,000,000	-
Foreign currency	49,081,933	34,040,496
Derivatives	847,479	(13,134,647)
Total investments	41,953,080,943	37,336,880,818
Collateral from securities lending	5,020,184,465	4,401,016,409
Property and equipment, at cost, net of accumulated depreciation of $5,245,254 and $5,149,154 in 2007 and 2006, respectively	2,391,619	2,333,759
Total assets	**47,364,557,671**	**42,096,148,688**
Liabilities		
Benefits and refunds payable	7,664,796	4,815,189
Administrative and investment expenses payable	134,210,939	125,120,198
Payable to brokers for unsettled trades, net	293,179,720	980,307,465
Securities lending transactions	5,020,184,465	4,401,016,409
Total liabilities	**5,455,239,920**	**5,511,259,261**
Net assets held in trust for pension benefits	**$41,909,317,751**	**$36,584,889,427**

(A schedule of funding progress is presented on page 44.)
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, 2007, and 2006

	2007	2006
Additions		
Contributions		
Members	$826,249,007	$799,034,336
State of Illinois	737,670,628	534,305,256
Employers		
Early retirement	34,759,550	53,897,973
Federal funds	32,469,278	24,331,277
2.2 benefit formula	47,448,169	45,162,802
Excess salary/sick leave	1,238,043	150,556
Total contributions	1,679,834,675	1,456,882,200
Investment income		
From investment activities		
Net appreciation in fair value	5,597,334,135	2,971,529,661
Interest	582,700,572	489,976,262
Real estate operating income, net	270,234,053	270,388,389
Dividends	424,294,335	353,259,841
Private equity income	92,106,866	26,197,197
Other investment income	1,755,249	1,870,744
Investment activity income	6,968,425,210	4,113,222,094
Less investment expense	(150,925,919)	(132,196,285)
Net investment activity income	6,817,499,291	3,981,025,809
From securities lending activities		
Securities lending income	192,912,271	199,749,533
Securities lending management fees	(2,437,458)	(2,162,259)
Securities lending borrower rebates	(176,649,668)	(185,323,203)
Net securities lending activity income	13,825,145	12,264,071
Total investment income	6,831,324,436	3,993,289,880
Total additions	**8,511,159,111**	**5,450,172,080**
Deductions		
Retirement benefits	2,965,355,617	2,741,163,998
Survivor benefits	121,822,272	112,901,636
Disability benefits	24,574,786	23,165,063
Refunds	59,731,909	57,967,063
Administrative expenses	15,246,203	15,303,370
Total deductions	**3,186,730,787**	**2,950,501,130**
Net increase	**5,324,428,324**	**2,499,670,950**
Net assets held in trust for pension benefits		
Beginning of year	36,584,889,427	34,085,218,477
End of year	**$41,909,317,751**	**$36,584,889,427**

The accompanying notes are an integral part of these statements.

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

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

2. Employers
Members of TRS are employed by school districts, special districts, and certain state agencies. Each employer remits member contributions to TRS. Employers are responsible for employer contributions for teachers paid from federal funds, employer contributions for the 2.2 formula increase, 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. Public Act 94-1057, which became law on July 31, 2006, provides additional exemptions from employer contributions for excess salary increases. Some of these exemptions are permanent while others are available for a limited time period. 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 27.

Number of Employers (as of June 30)

	2007	2006
Local school districts	870	871
Special districts	137	137
State agencies	24	24
Total	**1,031**	**1,032**

3. Members
TRS Membership (as of June 30)

	2007	2006
Retirees and beneficiaries receiving benefits	89,236	85,103
Inactive members entitled to but not yet receiving benefits	94,879	81,218
Active members	160,317	159,272
Total	**344,432**	**325,593**

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.

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 employers from several sources. The State of Illinois provides the largest source of contributions through state appropriations from the Common School Fund. Additional signficant sources of state contributions in prior years have been the Educational Assistance Fund, the General Revenue Fund, and the State Pensions Fund. 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 and any excess salary increase or sick leave costs due.

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 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 were 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. Beginning in FY08, state contributions will increase according to the ramp schedule to reach a level percent of payroll by FY10. 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 were specified by 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

1. 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 these estimates.

3. New Accounting Pronouncements

In June 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" (OPEB). The statement establishes standards of accounting and financial reporting for OPEB expense/expenditures and related OPEB liabilities or assets, note disclosures, and required supplementary information (RSI) in the financial reports of state and local government employers. The requirements of this statement are effective for TRS's financial statements for periods beginning after December 15, 2006. The first disclosure, if any is required, will be for the year ending June 30, 2008.

In May 2007, GASB issued Statement No. 50, "Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27." This statement modifies and enhances note disclosure and required supplementary information (RSI) by pension plans and employers that provide pension benefits. The requirements of this statement are effective for periods beginning after June 15, 2007. The first disclosure will be for the year ending June 30, 2008.

In June 2007, GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement establishes accounting and financial reporting requirements for intangible assets to improve comparability of such assets among state and local governments. The requirements of this statement are effective for periods beginning after June 15, 2009.

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 directly-owned real estate investments is determined by appraisals. Fair value for private equity investments, absolute return funds, and partnership interests in real estate funds is determined by TRS staff and the general partners or investment managers in accordance with the provisions in the individual agreements. These agreements also require an independent audit be performed on an annual basis.

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 employment is terminated, TRS employees are entitled to receive compensation for all accrued 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, 2007, and 2006 totaled $1,397,845 and $1,376,394, 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, real estate and private equity 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 $44,453,137 and $51,724,086 as of June 30, 2007, and 2006 respectively.

8. Prior Period Reclassification

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

9. Risk Management

TRS, as a component unit of the State of Illinois, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. TRS obtains commercial insurance for fidelity, surety, and property. No material commercial insurance claims have been filed in the last three fiscal years.

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 has a formal policy to address custodial credit risk. The policy's purpose is to minimize custodial credit risk through proper due diligence of custody financial institutions and investment advisors; segregate safekeeping of TRS assets; establish investment guidelines and endeavor to have all investments held in custodial accounts through an agent, in the name of custodian's nominee, or in a corporate depository or federal book entry account system. For those investment assets held outside of the custodian, TRS will follow the applicable regulatory rules.

The non-investment bank balance and carrying amount of TRS's deposits were $3,147,575 and $3,548,548 at June 30, 2007, and $3,691,765 and $3,867,280 at June 30, 2006. Of the bank balance, $2,956,389 and $3,567,765 were on deposit with the state treasurer at June 30, 2007, and 2006, 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 $191,186 and $124,000 at June 30, 2007 and 2006, 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. Certain investments of TRS with maturities of 90 days or less would be considered cash equivalents; these consist of bank sponsored short-term investment funds, negotiable certificates of deposits, and commercial paper. For financial statement presentation and investment purposes, TRS reports its cash equivalents as short-term investments in the Statements of Plan Net Assets.

For purposes of this disclosure, foreign currency held by investment managers is considered a deposit. However, for financial statement presentation and investment purposes, TRS considers foreign currency an investment asset. Uncollateralized foreign currency subject to custodial credit risk was $40,519,072 and $26,484,325 at June 30, 2007 and June 30, 2006, respectively.

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 has a formal policy to address custodial credit risk. At June 30, 2007, TRS had no investments that were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the TRS's name. At June 30, 2006, TRS had investments subject to custodial credit risk of $1,454,297 in short-term bills and notes and cash variation margin held with brokers that were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in TRS's name.

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 commingled funds, bonds below B3 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, the investment manager's internal ratings, or other mitigating factors.

As of June 30, 2007, 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	U.S. Agency Obligations	Commingled Funds	Total
Aaa	$1,870,015,009	$436,490,654	$3,642,120,574	-	$5,948,626,237
Aa1	172,096,911	29,329,507	301,251	-	201,727,669
Aa2	99,168,129	73,262,369	-	-	172,430,498
Aa3	301,927,557	52,146,114	-	-	354,073,671
A1	115,770,877	17,697,373	-	-	133,468,250
A2	169,624,811	87,889,578	-	-	257,514,389
A3	77,909,691	29,797,117	-	-	107,706,808
Baa1	139,575,896	45,033,480	-	-	184,609,376
Baa2	202,701,843	47,419,194	-	-	250,121,037
Baa3	158,601,893	11,600,439	-	-	170,202,332
Ba1	150,044,003	7,867,404	-	-	157,911,407
Ba2	54,382,116	19,667,790	-	-	74,049,906
Ba3	41,615,772	450,187	-	21,010,178	63,076,137
B1	109,440,280	4,229,231	-	-	113,669,511
B2	4,856,295	4,460,122	-	18,000,000	27,316,417
B3	4,302,668	3,544,764	-	-	7,847,432
Caa1	22,464,263	-	-	-	22,464,263
Not Available	41,460,490	20,476,217	-	-	61,936,707
Not Rated	32,366,471	4,837,210	-	-	37,203,681
P-1	4,510,317	-	-	-	4,510,317
Withdrawn	37,063,968	4,295,098	-	-	41,359,066
Total Credit Risk: Debt Securities	**3,809,899,260**	**900,493,848**	**3,642,421,825**	**39,010,178**	**8,391,825,111**
U.S. Governments and Agencies	**18,400,455**	**-**	**1,217,042,065**	**-**	**1,235,442,520**
U.S. Treasuries	**-**	**-**	**513,731,037**	**-**	**513,731,037**
Total Bonds, Corporate Notes and Government Obligations	**$3,828,299,715**	**$900,493,848**	**$5,373,194,927**	**$39,010,178**	**$10,140,998,668**

As of June 30, 2006, TRS held the following fixed income investments with respective quality ratings.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Total
Aaa	$1,979,700,747	$235,375,908	$2,814,237,689	-	$5,029,314,344
Aa1	126,634,211	15,950,748	1,758,474	-	144,343,433
Aa2	76,775,612	37,053,499	28,000,300	-	141,829,411
Aa3	259,815,386	36,128,610	106,372	-	296,050,368
A1	111,207,193	7,268,977	201,766	-	118,677,936
A2	128,549,253	44,153,283	-	-	172,702,536
A3	137,714,809	42,971,816	-	-	180,686,625
Baa1	89,734,559	63,315,484	-	-	153,050,043
Baa2	212,134,786	43,346,880	-	-	255,481,666
Baa3	118,480,875	6,384,943	4,262,571	-	129,128,389
Ba1	115,729,024	12,453,489	-	-	128,182,513
Ba2	178,831,524	3,163,760	-	-	181,995,284
Ba3	18,517,672	17,143,177	-	-	35,660,849
B1	6,911,118	5,160,893	-	77,089,595	89,161,606
B2	26,089,728	2,173,375	-	-	28,263,103
B3	4,675,600	1,438,992	-	-	6,114,592
Caa1	874,881	295,572	-	-	1,170,453
Not Rated	52,335,632	83,104,367	18,290,504	-	153,730,503
Withdrawn	70	-	-	-	70
Total Credit Risk: Debt Securities	**3,644,712,680**	**656,883,773**	**2,866,857,676**	**77,089,595**	**7,245,543,724**
U.S. Governments and Agencies	**-**	**-**	**1,861,894,930**	**-**	**1,861,894,930**
U.S. Treasuries	**-**	**-**	**1,433,704,715**	**-**	**1,433,704,715**
Total Bonds, Corporate Notes and Government Obligations	**$3,644,712,680**	**$656,883,773**	**$6,162,457,321**	**$77,089,595**	**$10,541,143,369**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. TRS's fixed income investments are managed in accordance with operational guidelines that are specific as to the degree of interest rate risk that can be taken. TRS manages the interest rate risk within the portfolio using various methods, including effective duration, option adjusted duration, average maturity, and segmented time distribution, which reflects total fair value of investments maturing during a given time period.

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2007 and June 30, 2006 is as follows:

Type	2007 Market Value	Maturity in Years: Less Than 1 Year	1 to 5 Years	6 to 10 Years	10 to 20 Years	More than 20 Years
U.S. Treasuries	$513,731,037	$127,407,511	$160,027,806	$81,795,781	$56,688,706	$87,811,233
U.S. Federal Agencies	1,217,042,065	457,795,132	281,483,375	230,568,834	220,462,889	26,731,835
U.S. Government Index Linked Bonds	449,648,751	42,866,575	122,857,287	119,403,658	109,418,790	55,102,441
U.S. Government Backed Mortgages	3,192,471,823	246,741	23,280,482	72,669,284	960,480,006	2,135,795,310
U.S. Municipals (Taxable)	301,251	-	-	-	-	301,251
Asset Backed Securities	536,240,991	10,711,850	131,038,663	31,305,957	19,437,835	343,746,686
Commercial Mortgage Backed Securities	493,727,355	-	8,101,951	3,783,149	16,771,381	465,070,874
Collateralized Mortgage Obligations	848,151,787	-	13,722,966	1,099,539	20,817,026	812,512,256
Commingled/Closed End Funds*	39,010,178	-	-	39,010,178	-	-
Corporate Convertible Bonds	4,492,094	-	-	-	-	4,492,094
Credit Obligations						
Bank Loans	31,879,635	-	11,556,342	20,323,293	-	-
Financial	1,167,521,985	114,072,260	724,778,159	150,907,940	25,553,538	152,210,088
Industrial	576,206,932	41,543,108	201,307,125	152,971,423	72,831,840	107,553,436
Utilities	167,080,757	30,300,766	65,314,260	35,818,387	6,651,331	28,996,013
Structured Notes	2,998,179	-	2,998,179	-	-	-
Foreign Debt Obligations	900,493,848	43,416,635	210,610,273	291,106,758	69,698,815	285,661,367
Total Bonds, Corporate Notes and Government Obligations	**$10,140,998,668**	**$868,360,578**	**$1,957,076,868**	**$1,230,764,181**	**$1,578,812,157**	**$4,505,984,884**

Type	2006 Market Value	Maturity in Years: Less Than 1 Year	1 to 5 Years	6 to 10 Years	10 to 20 Years	More than 20 Years
U.S. Treasuries	$1,433,704,715	$270,592,002	$610,149,352	$325,812,394	$77,136,780	$150,014,187
U.S. Federal Agencies	1,612,335,642	833,744,349	367,432,569	175,687,738	214,431,570	21,039,416
U.S. Government Index Linked Bonds	263,914,841	3,824,332	84,168,037	84,694,942	39,202,072	52,025,458
U.S. Government Backed Mortgages	2,818,412,775	6,429	15,634,829	65,864,490	1,016,588,172	1,720,318,855
U.S. Municipals (Taxable)	11,619,751	-	-	-	-	11,619,751
Asset Backed Securities	721,905,881	2,203,740	265,683,818	46,975,450	25,847,123	381,195,750
Commercial Mortgage Backed Securities	527,255,346	-	-	35,652,693	17,402,809	474,199,844
Collateralized Mortgage Obligations	781,486,169	11,706	25,487,690	89,919	45,943,946	709,952,908
Commingled/Closed End Funds*	77,089,595	-	-	77,089,595	-	-
Corporate Convertible Bonds	2,945,437	-	-	-	-	2,945,437
Credit Obligations						
Bank Loans	3,990,000	-	-	3,990,000	-	-
Financial	955,446,107	78,372,019	539,336,808	227,665,301	3,941,720	106,130,259
Industrial	540,804,865	27,036,179	174,739,721	164,085,086	61,905,703	113,038,176
Utilities	133,348,472	11,790,419	70,424,837	26,060,526	3,405,578	21,667,112
Structured Notes	-	-	-	-	-	-
Foreign Debt Obligations	656,883,773	72,483,030	174,006,436	148,702,522	61,741,509	199,950,276
Total Bonds, Corporate Notes, and Government Obligations	**$10,541,143,369**	**$1,300,064,205**	**$2,327,064,097**	**$1,382,370,656**	**$1,567,546,982**	**$3,964,097,429**

* *Weighted average maturity figures were used to place the commingled funds within the schedule.*

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. According to TRS's Investment Policy and investment manager agreements, 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 or options 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, 2007 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Argentine Peso	$30,807	-	$5,272,923	-	$5,303,730
Australian Dollar	41,863	307,945,874	13,313,323	35,168	321,336,228
Brazilian Real	122,228	171,362,443	669,464	244,168	172,398,303
British Pound Sterling	5,952,597	1,648,371,194	223,295,612	94,070	1,877,713,473
Canadian Dollar	1,048,696	109,163,035	24,905,582	(66,623)	135,050,690
Czech Koruna	-	25,521	-	-	25,521
Danish Krone	41,629	20,947,461	-	-	20,989,090
Egyptian Pound	187,097	-	-	-	187,097
Euro	7,389,747	2,811,418,315	145,296,229	254,078	2,964,358,369
Hong Kong Dollar	435,166	274,324,916	-	-	274,760,082
Hungarian Forint	10,657	6,899,667	-	-	6,910,324
Indonesian Rupiah	977,232	12,611,356	-	-	13,588,588
Japanese Yen	22,014,829	1,437,278,899	64,516,852	(17,116)	1,523,793,464
Malaysian Ringgit	749,202	79,723,796	-	-	80,472,998
Mexican Peso	1,116,860	44,277,179	3,730,231	45,473	49,169,743
New Israeli Shekel	63,110	9,534,447	-	-	9,597,557
New Taiwan Dollar	1,874,096	297,232,853	-	-	299,106,949
New Zealand Dollar	279,674	26,392,273	5,166,067	-	31,838,014
Norwegian Krone	325,824	67,724,568	-	-	68,050,392
Philippine Peso	45,627	32,984,695	-	-	33,030,322
Polish Zloty	-	33,434,114	-	-	33,434,114
Singapore Dollar	217,046	61,596,594	-	-	61,813,640
South African Rand	-	38,789,144	-	-	38,789,144
South Korean Won	1,555,883	378,119,533	-	-	379,675,416
Swedish Krona	3,955,104	96,833,676	21,357,496	-	122,146,276
Swiss Franc	646,956	402,852,099	-	-	403,499,055
Thai Baht	-	54,138,313	-	-	54,138,313
Turkish Lira	3	17,214,029	6,932,409	-	24,146,441
Total subject to foreign currency risk	**49,081,933**	**8,441,195,994**	**514,456,188**	**589,218**	**9,005,323,333**
Investments in international securities payable in United States dollars	**-**	**1,105,366,480**	**388,044,010**	**-**	**1,493,410,490**
Total international investment securities	**49,081,933**	**9,546,562,474**	**902,500,198**	**$589,218**	**10,498,733,823**
Domestic Investments	**-**	**13,941,417,643**	**9,238,498,470**	**258,261**	**23,180,174,374**
Total Fair Value	**$49,081,933**	**$23,487,980,117**	**$10,140,998,668**	**$847,479**	**$33,678,908,197**

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2006 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Argentine Peso	$37,365	-	-	-	$37,365
Australian Dollar	789,971	230,810,274	26,169,835	-	257,770,080
Brazilian Real	23,937	136,629,481	-	-	136,653,418
British Pound Sterling	1,765,664	1,349,240,757	86,681,625	(1,586,214)	1,436,101,832
Canadian Dollar	228,811	68,573,862	15,064,599	-	83,867,272
Czech Koruna	-	16,929	-	-	16,929
Danish Krone	10,663	30,964,077	-	-	30,974,740
Egyptian Pound	185,065	-	-	-	185,065
Euro	9,947,634	2,131,436,919	111,722,986	210,392	2,253,317,931
Hong Kong Dollar	227,425	191,574,469	-	-	191,801,894
Hungarian Forint	1,368	6,620,329	-	-	6,621,697
Iceland Krona	(719,953)	-	-	-	(719,953)
Indian Rupee	-	9,451	-	-	9,451
Indonesian Rupiah	231,881	4,983,090	-	-	5,214,971
Japanese Yen	18,050,855	1,116,078,296	44,374,037	-	1,178,503,188
Malaysian Ringgit	41,911	16,279,287	-	-	16,321,198
Mexican Peso	524,871	33,640,995	487,104		34,652,970
New Israeli Shekel	88,749	6,314,693	-	-	6,403,442
New Taiwan Dollar	543,290	190,826,183	-	-	191,369,473
New Zealand Dollar	758,417	18,346,596	6,758,259	-	25,863,272
Norwegian Krone	50,242	49,450,370	-	-	49,500,612
Philippine Peso	-	5,146,128	-	-	5,146,128
Polish Zloty	-	10,397,421	-	-	10,397,421
Singapore Dollar	286,826	46,123,066	-	-	46,409,892
South African Rand	41,103	78,664,878	-	-	78,705,981
South Korean Won	117,168	291,388,627	-	-	291,505,795
Swedish Krona	13,939	90,977,321	19,051,307	-	110,042,567
Swiss Franc	793,287	439,090,536	-	-	439,883,823
Thai Baht	-	18,270,368	-	-	18,270,368
Turkish Lira	7	8,058,889	-	-	8,058,896
Total subject to foreign currency risk	**34,040,496**	**6,569,913,292**	**310,309,752**	**(1,375,822)**	**6,912,887,718**
Investments in international securities payable in United States dollars	**-**	**848,448,548**	**347,495,188**	**-**	**1,195,943,736**
Total international investment securities	**34,040,496**	**7,418,361,840**	**657,804,940**	**(1,375,822)**	**8,108,831,454**
Domestic Investments	**-**	**12,613,030,506**	**9,883,338,429**	**(11,758,825)**	**22,484,610,110**
Total Fair Value	**$34,040,496**	**$20,031,392,346**	**$10,541,143,369**	**($13,134,647)**	**$30,593,441,564**

In addition to the above, TRS's foreign currency investments in real estate were $75,585,360 at June 30, 2007 and $50,484,037 at June 30, 2006.

3. Securities Lending Program

The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions, which are 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 97 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 47 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, 2007 and June 30, 2006, TRS had outstanding loaned investment securities having a market value of $5,641,466,575 and $4,788,220,451, respectively, against which it had received collateral of $5,797,727,890 and $4,873,673,805, 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 as a fundamental part of the overall investment portfolio. 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, sometimes known as default 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 can be 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, currency, or other pertinent market 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, options, swaps, and swaptions.

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. 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, 2007, TRS had foreign currency forward purchase or sell contracts for more than 20 different currencies. These contracts have various settlement dates within 12 months of June 30, 2007.

Fair Value: As of June 30, 2007 and June 30, 2006, TRS's open foreign currency forward contracts had a net fair value of $450,801 and ($663,933), respectively. This represents the unrealized gain/(loss) on the contracts at June 30.

	Market Value as of June 30, 2007	Market Value as of June 30, 2006
Forward Currency Purchases	$1,146,506,676	$512,644,262
Forward Currency Sales	(1,146,055,875)	(513,308,195)
Unrealized Gain/(Loss)	$450,801	($663,933)

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 daily 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, 2007 and June 30, 2006, TRS had outstanding futures contracts with an underlying notional value of $4,258,096,923 and $3,682,521,295, respectively. Contractual principal values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through March 2010.

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

Type	FY07 Number of Contracts	FY07 Contractual Principal	FY06 Number of Contracts	FY06 Contractual Principal
Fixed Income Index Futures – Long	4,662	$521,228,625	5,447	$752,085,250
Fixed Income Index Futures – Short	(5,686)	(662,466,859)	(3,508)	(365,874,031)
International Fixed Income Index Futures – Long	164	24,530,039	24	3,348,324
International Fixed Income Index Futures – Short	(50)	(17,591,815)	-	-
U.S. Stock Index Futures – Long	11,379	2,166,946,230	11,744	1,930,275,240
Cash Equivalent (Eurodollar) Futures – Long	8,797	2,084,522,288	5,831	1,377,105,387
Cash Equivalent (Eurodollar) Futures – Short	(83)	(19,653,363)	(61)	(14,418,875)
Cash Equivalent Foreign Yield Curve – Long	647	160,581,778	-	-

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. Premiums received are recorded as a liability when the financial option is written.

Terms: At June 30, 2007 and June 30, 2006, TRS had outstanding options contracts, including options on futures, with underlying notional value of $298,594,444 and $1,913,991,322, respectively. Contractual principal/notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through March 2010.

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, 2007 and June 30, 2006, the fair value of option contracts written, gross of premiums received, was $703,261 and ($9,977,064), 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, 2007 and June 30, 2006. 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. Options on futures represent the corresponding futures exposure.

Type	FY07 Number of Contracts	FY07 Contractual Principal	FY06 Number of Contracts	FY06 Contractual Principal
Written Currency Forward Call Options	6	$3,450,000	-	-
Written Currency Forward Put Options	6	(3,450,000)	-	-
Fixed Income Call Options on Futures	(10)	(130,000)	(154)	2,789,600
Fixed Income Put Options on Futures	(116)	1,972,000	(242)	3,630,000
Cash Equivalent Call Options on Futures	2,825	78,853,750	3,055	145,533,250
Cash Equivalent Put Options on Futures	-	-	5,203	1,122,213,000
Cash Equivalent Call Options on Futures (Non-dollar)	3,961	21,653,993	1,310	590,997,356
Cash Equivalent Put Options on Futures (Non-dollar)	594	196,244,701	55	48,828,116

Swaptions

Objective: Swaptions are options on swaps that give the purchaser the right, but not the obligation, to enter into a swap at a specific date in the future. An interest-rate swaption gives the buyer the right to pay or receive a specified fixed rate in a swap in exchange for a floating rate for a stated time period. In a written call swaption, the seller (writer) has the obligation to pay a fixed rate in exchange for a floating rate for a stated period of time and in a written put swaption, the seller has the obligation to receive a fixed rate in exchange for a floating rate if the swaption is exercised. A purchased (long) call swaption gives the buyer the right to receive a fixed rate in exchange for a floating rate for a stated period of time while a purchased (long) put swaption gives the buyer the right to pay a fixed rate in exchange for a floating rate if the swaption is exercised. TRS has both written and purchased swaptions in its portfolio. As the writer of a swaption, TRS receives a premium at the outset of the agreement. Premiums are recorded as a liability when the swaption is written.

Terms: At June 30, 2007, TRS had outstanding purchased call swaption exposure of $252,384,575, written call swaption exposure of ($259,532,165), and no written put swaption exposure. The contracts have various expiration dates through June 2012. At June 30, 2006, TRS had outstanding purchased call swaption exposure of $138,072,686, written call swaption exposure of ($22,798,766), and written put swaption exposure of ($13,549,576). The exposure amounts do not represent the actual values in the Statement of Plan Assets.

Fair Value: Fluctuations in the fair value of swaptions are recognized in TRS's financial statements as incurred rather than at the time the swaptions are exercised or when they expire. As of June 30, 2007, and June 30, 2006, the fair value of swaption contracts was ($68,882) and ($485,657), respectively.

Interest Rate Swaps

Objective: Interest rate swaps are agreements between two or more parties to exchange sets of cash flows over a period of time. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure.

Terms: At June 30, 2007, TRS was a party to interest rate swaps in various currencies. The swap agreements, in conjunction with the underlying bonds, have various maturity dates ranging from 2007 to 2037. Swap agreements typically are settled on a net basis, which means that the two payment streams are netted out, with a party receiving or paying only the net amount of the two payments. Payments may be made at the conclusion of a swap agreement or periodically during its term.

Fair Value: The table below presents the fair value of TRS's interest rate swap exposure at June 30, 2007 and June 30, 2006.

	June 30, 2007 Receivable/ (Payable)	June 30, 2006 Receivable/ (Payable)
Receive Floating/Pay Fixed	$6,711,796	$1,018,351
Receive Fixed/Pay Floating	(7,007,342)	(3,256,206)

Credit Default Swaps

Objective: Credit default swaps are derivative instruments constructed to replicate the effect of investing in debt obligations of corporate bond issuers as a means to manage corporate bond exposure, effectively buying or selling insurance protection in case of default. The risk of the credit default swaps is comparable to the credit risk of the underlying debt obligations of corporate issuers that comprise the credit default swaps. The owner of protection (long the swap) pays an annual premium to the seller of protection (short the swap) for the right to sell a bond at a previously agreed upon value in the event of a default by the bond issuer. The premium is paid periodically over the term of the swap or until a credit event of the bond issuer occurs. In the event of a default, the swap expires, and the seller of protection makes a payment to the buyer, which is usually based on a fixed percentage of total par. Purchased credit default swaps decrease credit exposure (buying protection), providing the right to sell bonds to the counterparty in the event of a default. Written credit default swaps increase exposure (selling protection), obligating the portfolio to buy bonds from counterparties in the event of a default.

Terms: At June 30, 2007, TRS had credit default swaps in its portfolio with various maturity dates through 2017. The total notional value of written credit default swaps (selling protection) was 167.9 million and 8.9 million par at June 30, 2007 and 2006, respectively. The total notional value of purchased credit default swaps (buying protection) was 28.2 million par at June 30, 2006.

Fair Value: The fair value of credit default swaps held by TRS at June 30, 2007 was $105,711 and $36,098 at June 30, 2006. This amount represents the net amount of payments due to TRS under these agreements.

Basket Default Swaps

Objective: Basket default swaps are exchange-traded products through which an investor gains either long or short exposure to a relatively small basket of credits or a specific market sector. The investor is either selling or buying protection against default on one of the credits in the basket, similar to a credit default swap. A seller of credit protection against a basket of securities receives an upfront or periodic payment to compensate against potential default events. If a default event occurs, the seller must pay the buyer the full notional value of the reference obligation in exchange for the reference obligation. If no default occurs, the buyer loses the premium paid. A buyer of credit protection against a basket of securities pays an upfront or periodic payment until either maturity or default. In the event of a default, the buyer receives a lump-sum payment.

Terms: At June 30, 2007, TRS had basket default swaps buying protection with a notional value of 295.3 million par and selling protection of 222.5 million par. At June 30, 2006, TRS had basket default swaps buying protection with a notional value of 79.7 million par. The swap agreements have various expiration dates ranging from 2011 to 2017.

Fair Value: The fair value of the basket default swaps held by TRS was $431,761 and ($470,171) at June 30, 2007 and 2006, respectively. This represents the payments due to (from) TRS to counterparties under the terms of the agreements, with all positions still open.

Inflation Linked Swaps

Objective: Inflation linked swaps are agreements where a fixed payment is exchanged for a variable payment linked to an inflation index. These swaps can protect against unfavorable changes in inflation expectations. These swaps are utilized to transfer inflation risk from one counterparty to another.

Terms: At June 30, 2007, TRS was a party to inflation linked swaps denominated in Euros with various maturity dates ranging from 2010 to 2012. These swaps have a total par of 14.8 million and TRS receives a fixed rate for all. Inflation linked swaps initially have no net value but as interest and inflation rates change, the value of the swap's outstanding payments will change. The value may be either positive or negative.

Fair value: The fair value of the inflation linked swaps held by TRS was ($28,826) at June 30, 2007.

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 Benefit Trust Reserve.

1. Benefit Trust

	2007	2006
Balances at June 30	$41,904,599,048	$36,580,437,823

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 $23,739,077,000 in 2007 and $22,412,024,000 in 2006.

2. Minimum Retirement Annuity

	2007	2006
Balances at June 30	$4,718,703	$4,451,604

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

F. TRS Employee Pension Benefits

1. Plan Description

All 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 FY07 and FY06 are included in the State of Illinois' *Comprehensive Annual Financial Report* (CAFR) for the years ended June 30, 2007, and 2006, respectively. SERS also issues a separate CAFR that may be obtained at www.state.il.us/srs, by writing to SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255, or by calling (217) 785-7444. The State of Illinois CAFR may be obtained at www.ioc.state.il.us, by writing to Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1858, or by calling (217) 782-2053.

A summary of SERS's benefit provisions; changes in benefit provisions; employee eligibility requirements, including eligibility for vesting; and the authority under which benefit provisions are established are included as an integral part of the SERS CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

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 FY07, FY06, and FY05, the SERS employer contribution rates were 11.525 percent, 7.792 percent and 16.107 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 FY07, FY06, and FY05 were $614,434, $416,093, and $824,671, respectively. In 1993, the TRS Board opted to pay the employee contribution for all employees. Effective for pay periods beginning after July 1, 2005, the Board opted to begin phasing out paying the employee contribution. The contribution pickup was included in the Board approved FY06 and FY07 administrative budgets. The contribution pickup for SERS members was 4 percent in FY05, 2 percent in FY06, and expired July 1, 2006. The contribution pickup for TRS members was 9 percent in FY05, 6 percent in FY06, 3 percent in FY07, and expired 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. Basic 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, 2007, and 2006. 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[1]

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)
6/30/98	$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
6/30/05	34,085,218,000	56,075,029,000	60.8	21,989,811,000	7,550,510,000	291.2
6/30/06	36,584,889,000	58,996,913,000	62.0	22,412,024,000	7,765,752,000	288.6
6/30/07	**41,909,318,000**	**65,648,395,000**	**63.8**	**23,739,077,000**	**8,149,849,000**	**291.3**

Schedule of Contributions from Employers and Other Contributing Entities[1]

Year Ended June 30	State Contributions[2]	Federal and Employer Contributions[2]	Total	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
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
2005	903,928,000	83,434,000	987,362,000	1,683,212,000	58.7	986,269,000	100.1
2006	531,828,000	69,645,000	601,473,000	1,679,524,000	35.8	601,555,000	100.0
2007	**735,515,000**	**81,155,000**	**816,670,000**	**2,052,396,000**	**39.8**	**822,890,000**	**99.2**

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 contribution 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. Beginning in FY06, employer contributions for excess salary increases/sick leave are included.*

See accompanying Independent Auditors' Report.

Notes to Required Supplementary Information

Valuation Dates	June 30, 2007	June 30, 2006
Actuarial cost method:	Projected unit credit	Projected unit credit
Amortization method:		
a) For GASB Statement #25 reporting purposes	Level percent of payroll	Level percent of payroll
b) Per state statute	15-year phase-in to a level percent of payroll until a 90% funding level is achieved	15-year phase-in to a level percent of payroll until a 90% funding level is achieved
	However, FY06 and FY07 state contributions are specified by Public Act 94-0004, not based on the 15-year phase-in. FY08 state contribution will increase from actual FY07 contribution, returning to the phase-in schedule.	However, FY06 and FY07 state contributions are specified by Public Act 94-0004, not based on the 15-year phase-in. FY08 state contribution will increase from actual FY07 contribution, returning to the phase-in schedule.
Remaining amortization period:		
a) For GASB Statement #25 reporting purposes	30 years, open	40 years, open
b) Per state statute	38 years, closed	39 years, closed
Asset valuation method:	Fair value	Fair value
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases	6.0% (at age 69) to 11.2% (at age 19); composite 7.0%	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 projected 16 years for males and one year for females. For beneficiaries, projected one year for both males and females, then rated forward two years for males and forward one year for females. Additional mortality improvements are phased in over the next four years.	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

	2007	2006
Personal services	$11,350,376	$10,945,763
Professional services	911,832	1,015,544
Postage	407,568	505,394
Machine repair and rental	593,364	876,807
Other contractual services	1,024,358	1,028,647
Commodities	447,519	457,939
Occupancy expense	173,508	169,096
Depreciation	336,969	303,203
Loss on disposal of equipment	709	977
Total administrative expenses	**$15,246,203**	**$15,303,370**

Schedule of Investment Expense
For Years Ended June 30

	2007	2006
Investment manager fees	$138,275,663	$120,493,923
Private equity investment expense	8,548,359	8,604,312
Miscellaneous	4,101,897	3,098,050
Total investment expense	**$150,925,919**	**$132,196,285**

Schedule of Payments to Consultants
For Years Ended June 30

	2007	2006
Actuarial services	$179,450	$253,162
External auditors	150,107	102,529
Legal services	286,647	454,861
Management consultants		
Information systems	243,601	155,496
TRS STAR audit	23,978	20,000
Board and staff training	-	10,500
Operations	23,375	15,000
Other	4,674	3,996
Total payments to consultants	**$911,832**	**$1,015,544**

See accompanying Independent Auditors' Report.

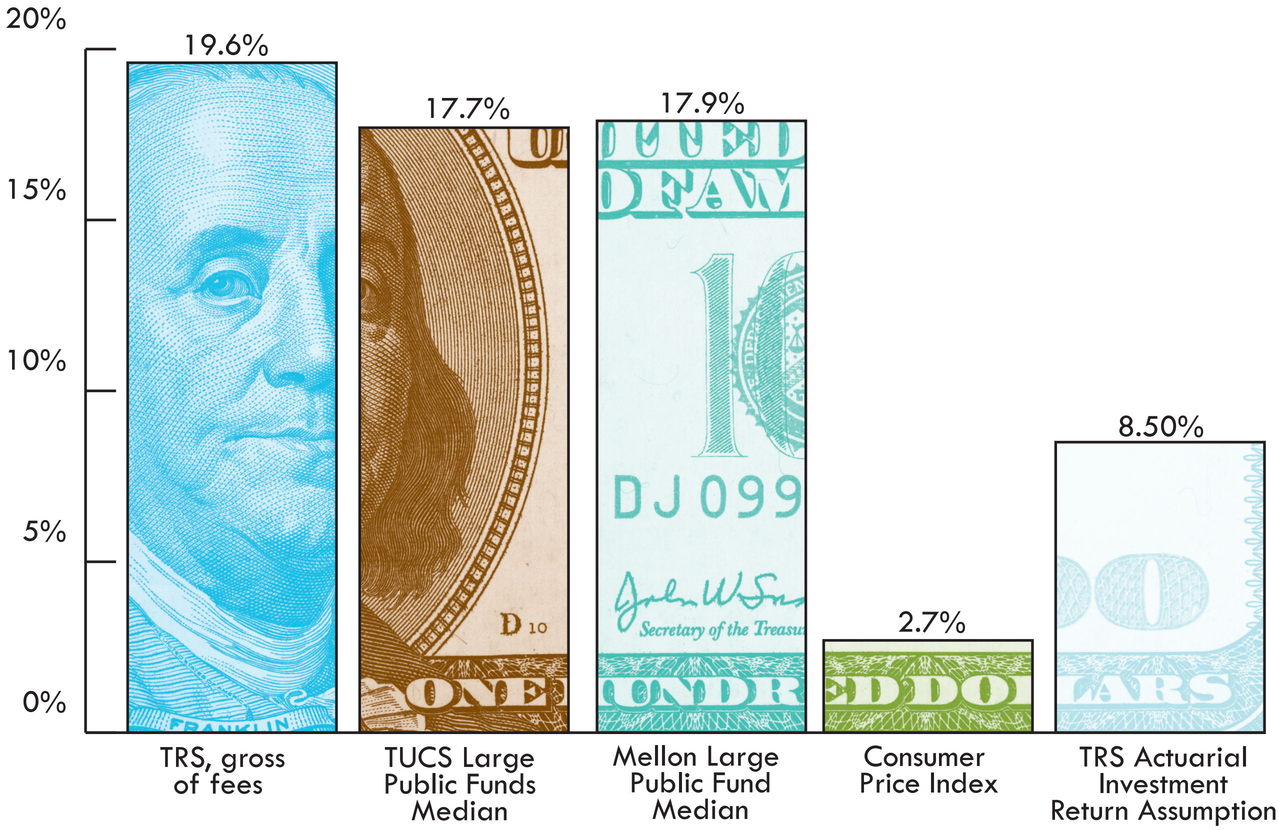
Sound, diversified investments help to provide retirement security for Illinois educators.

Introduction

The TRS investment portfolio had another strong year, returning 19.6 percent, gross of fees. This number follows a successful FY06 performance of 12.2 percent, gross of fees, as all asset classes again produced positive returns. The overall global economies remained strong throughout the year, providing yet another year of significant investment returns. International stock markets, again led by the emerging market economies, rallied to a 30 percent return for the year. Within the U.S., large cap stocks led the overall market to a 20 percent increase. TRS's private markets investments continued to post substantial gains for FY07, with the TRS private equity portfolio returning 29.3 percent, net of fees, and the TRS real estate portfolio generating a 25.3 percent return, net of fees.

The TRS investment portfolio continued to rank highly against its peers. Over the past 10 years, TRS ranks in the top decile of the large public funds in the Wilshire Trust Universe Comparison Service (TUCS).

Return Comparison for the Year Ended June 30, 2007



Source: R.V. Kuhns & Associates, Inc., Wilshire Associates, The Northern Trust Company

Total TRS investments, including accrued income, increased by approximately $4.7 billion during the year ended June 30, 2007. As previously mentioned, all TRS asset classes again produced positive returns during the fiscal year. This represents the fourth consecutive year for this accomplishment.

The TRS portfolio remains fully diversified across different asset classes. A number of investment managers are utilized within each asset class to ensure the appropriate mixture across the various investment styles, allowing the portfolio to achieve broad exposure to the market while minimizing overall risk. This broad diversification serves as the best defense against the uncertainty of volatile global markets.

The TRS trust fund is invested by authority of the Illinois Pension Code 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 within 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, 2006 through June 30, 2007. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2007. Additionally, The Northern Trust Company calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2007

Total Fund Market Value	**$42.2 billion**
One-Year Return (net of fees)	19.2%
Five-Year Return (net of fees)	12.5%
Ten-Year Return (net of fees)	9.1%
Percent Externally Managed	100.0%
Number of External Managers	104
Custodian	The Northern Trust Company
General Consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 33rd out of the top 1,000 U.S. pension funds/plan sponsors in the January 22, 2007, issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2006.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2007, TRS's total investments, including accrued investment income, at market value totaled $42.2 billion, an increase of $4.7 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 Statements of Plan Assets located on page 24.

TRS had a total fund annualized return of 19.6 percent, gross of fees, and 19.2 percent, net of fees, for the one-year period ending June 30, 2007. 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 FY07 surpassed the policy index return of 17.9 percent for the year ended June 30, 2007. The policy index represents a weighted average of each asset class benchmark, based on the total fund's target asset allocation. 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 6/30/07		
	2007	2006	2005	2004	2003	3 Years	5 Years	10 Years
TRS Total Fund	**19.2%**	**11.8%**	**10.8%**	**16.5%**	**4.9%**	**13.9%**	**12.5%**	**9.1%**
TRS Weighted Policy Index	17.9	11.3	10.7	16.0	3.9	13.3	11.9	8.2
CPI (Inflation)	2.7	4.3	2.5	3.3	2.1	3.2	3.0	2.7
TRS Equity - U.S.	**19.4**	**9.6**	**8.1**	**21.6**	**0.5**	**12.3**	**11.6**	**7.4**
Russell 3000 Index	20.1	9.6	8.1	20.5	0.8	12.4	11.5	7.3
TRS Fixed Income	**5.9**	**0.1**	**6.6**	**0.7**	**10.7**	**4.2**	**4.7**	**5.8**
TRS Weighted Fixed Income Index	6.1	(0.7)	6.8	0.3	11.1	4.0	4.6	5.6
Lehman Brothers Aggregate Index	6.1	(0.8)	6.8	0.3	10.4	4.0	4.5	6.0
TRS Equity - International	**29.6**	**27.3**	**17.3**	**32.8**	**(5.2)**	**24.6**	**19.5**	**9.3**
Non-U.S. Equity Index	30.2	28.4	17.0	32.5	(4.2)	25.0	19.9	8.7
TRS Real Estate	**25.3**	**18.8**	**19.9**	**13.2**	**8.8**	**21.3**	**17.1**	**13.4**
Real Estate Property Index	17.2	18.7	18.0	10.8	7.7	18.0	14.4	11.8
TRS Private Equity	**29.3**	**23.8**	**20.0**	**10.3**	**(11.4)**	**24.3**	**13.4**	**19.8**
Russell 3000 Index + 3.0%*	23.7	12.9	11.3	24.1	3.8	15.8	14.9	8.4
TRS Short-Term Investments	**5.4**	**4.2**	**2.2**	**1.1**	**1.5**	**3.9**	**2.9**	**4.0**
ML 3 Month T-bill Index	5.2	4.0	2.2	1.0	1.5	3.8	2.8	3.8

** Index compounded monthly.*

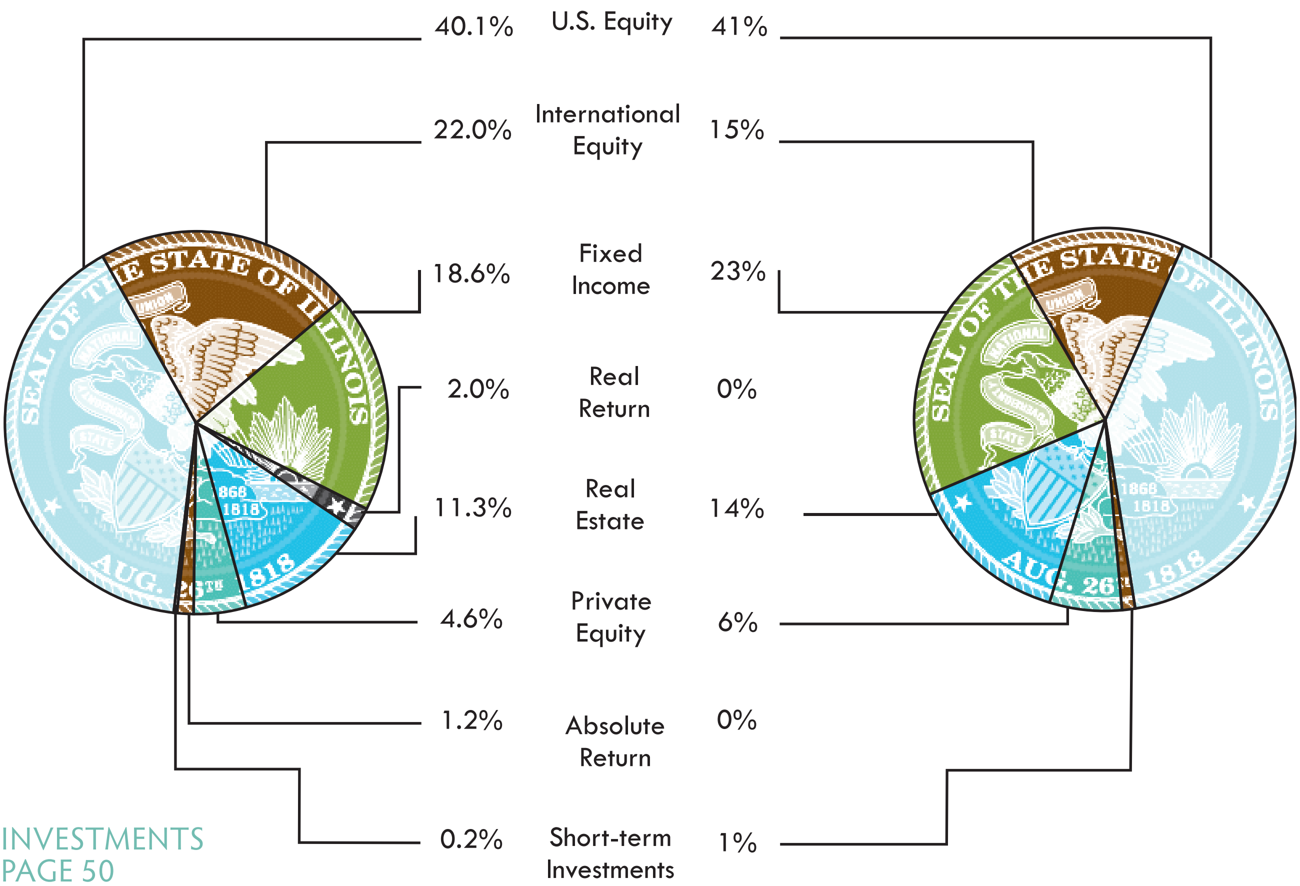
Note: Rates of return provided by The Northern Trust Company.

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.

FY07 Asset Allocation

Long-term Target Allocation



In FY07, TRS completed its first comprehensive asset allocation study since 2002. While TRS's performance has been very strong, such studies are a critical means of ensuring that an investment portfolio is properly positioned to changing global economic environments. The results of this study suggested that additional asset classes could meaningfully reduce and diversify the portfolio's risk while, at the same time, enhancing the long-term expected return. As such, the TRS Board of Trustees approved initial investments within the real return and absolute return asset classes. Complete funding of the new classes is scheduled for FY08 and will be obtained from reduced allocations to the U.S. equity and fixed income portfolios.

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, compared to the total assets assigned to each particular asset class at June 30, 2007.

Strategic Investment Listing
Allocation Targets vs. Total Assets

	6/30/07	FY07			FY06	
	Total Fund $ Millions	**Actual Percent**	**Interim Target**	**Policy Target**	**Actual Percent**	**Policy Target**
U.S. Equities	$16,778	40.1%	43%	41%	41.8%	41%
International Equities	9,178	22.0	15	15	19.4	15
Fixed Income	7,783	18.6	25	23	23.3	23
Real Estate	4,732	11.3	12	14	10.8	14
Private Equity	1,935	4.6	4	6	4.2	6
Real Return*	850	2.0	-	-	-	-
Absolute Return*	490	1.2	-	-	-	-
Short-Term Investments	97	0.2	1	1	0.5	1
Pending Settlements/Expenses**	388	NA	NA	NA	NA	NA
Total Fund	**$42,231**	**100.0%**	**100%**	**100%**	**100.0%**	**100%**

** Initial funding of the asset class occurred at the end of FY07.*
*** 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 its portfolio. For example, a U.S. equity manager holds not only common stock within its portfolio, but it 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 Pacific Investment Management Company StocksPlus and Western Asset Management enhanced assignments are treated as equity on the Strategic Investment Listing, but they 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

	2007 Market Value	2007 % of Total	2006 Market Value	2006 % of Total
U.S. Government Obligations				
U.S. Treasuries	$513,731,037	1.2%	$1,433,704,715	3.8%
U.S. Federal Agencies	1,217,042,065	2.9	1,612,335,642	4.3
U.S. Government Index Linked Bonds	449,648,751	1.0	263,914,841	0.7
U.S. Government Backed Mortgages	3,192,471,823	7.6	2,818,412,775	7.5
U.S. Municipals (Taxable)	301,251	-	11,619,751	-
Credits				
Bank Loans	31,879,635	0.1	3,990,000	-
Financial	1,167,521,985	2.8	955,446,107	2.5
Industrial	576,206,932	1.3	540,804,865	1.4
Utilities	167,080,757	0.4	133,348,472	0.4
Structured Notes	2,998,179	-	-	-
Asset Backed Securities	536,240,991	1.3	721,905,881	1.9
Commercial Mortgage Backed Securities	493,727,355	1.2	527,255,346	1.4
Collateralized Mortgage Obligations	848,151,787	2.0	781,486,169	2.1
Commingled/Closed End Funds	39,010,178	0.1	77,089,595	0.2
Corporate Convertible Bonds	4,492,094	-	2,945,437	-
Foreign Debt Obligations	900,493,848	2.1	656,883,773	1.7
Total Bonds, Corporate Notes, and Government Obligations	**10,140,998,668**	**24.0**	**10,541,143,369**	**27.9**
Equities				
Common Stock - U.S.	13,908,176,627	32.9	12,575,262,796	33.5
Preferred Stock - U.S.	33,817,240	0.1	37,767,710	0.1
Common Stock - International	9,360,153,385	22.2	7,244,296,966	19.3
Preferred Stock - International	185,832,865	0.4	174,064,874	0.5
Total Equities	**23,487,980,117**	**55.6**	**20,031,392,346**	**53.4**
Short-term Investments/Cash Equivalents	**1,474,343,766**	**3.5**	**1,526,228,488**	**4.1**
Derivatives–Options, Futures, and Swaps	**847,479**	**-**	**(13,134,647)**	**-**
Foreign Currency	**49,081,933**	**0.1**	**34,040,496**	**0.1**
Absolute Return	**490,000,000**	**1.2**	**-**	**-**
Private Equity	**1,894,311,762**	**4.5**	**1,513,997,646**	**4.0**
Real Estate Equity	**4,693,519,131**	**11.1**	**3,946,280,351**	**10.5**
TRS Total Portfolio	**$42,231,082,856**	**100.0%**	**$37,579,948,049**	**100.0%**

Reconciliation of TRS Portfolio Securities Summary to Total Investments

	2007	2006
TRS Total Portfolio	$42,231,082,856	$37,579,948,049
Less accrued income	(278,001,913)	(243,067,231)
Investments at fair value	**$41,953,080,943**	**$37,336,880,818**

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.

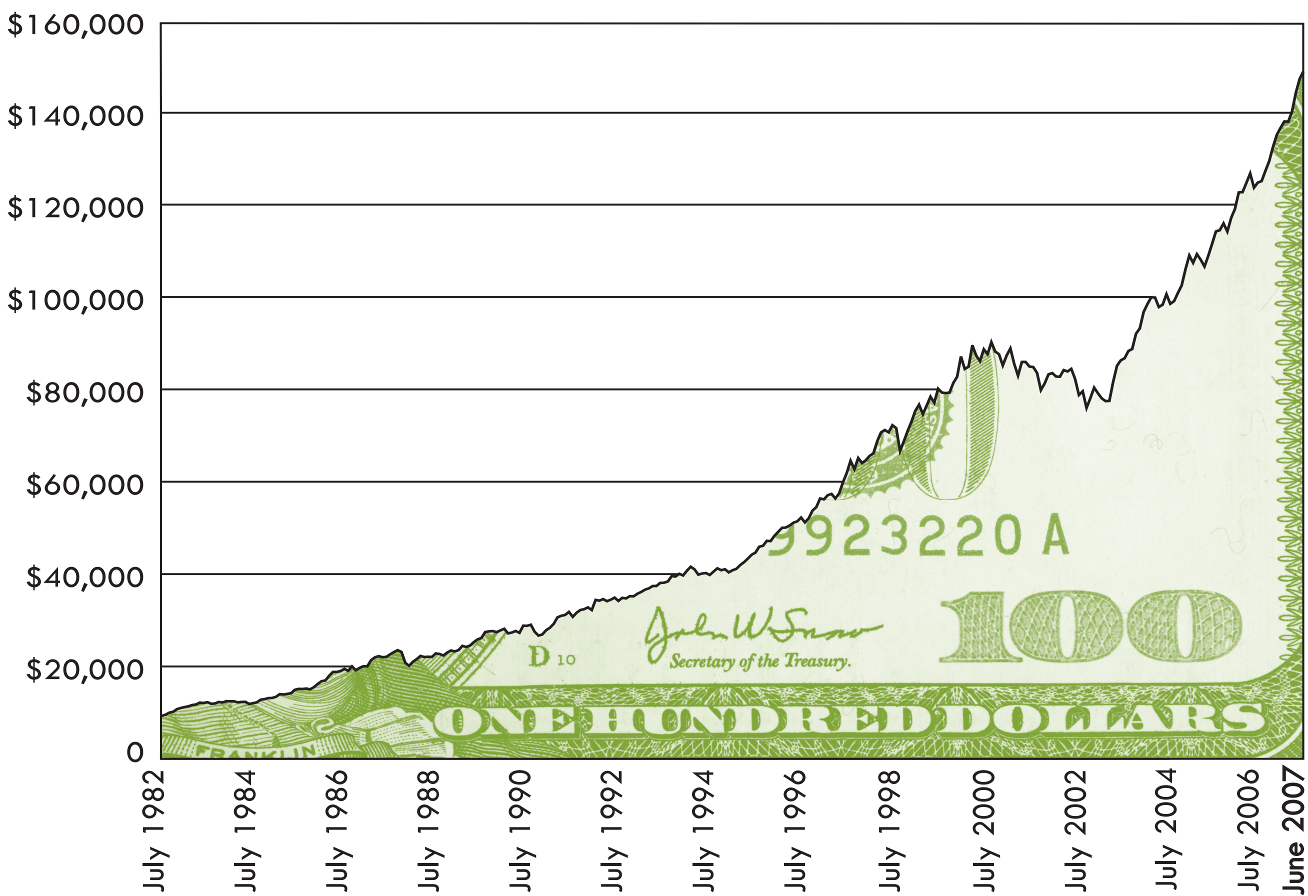
Securities Holdings for Years Ending June 30

Asset Type	2007	2006	2005	2004	2003
Bonds, Corporate Notes, and Government Obligations	24.0%	27.9%	29.4%	28.2%	30.3%
Equities - International	22.6	19.8	17.7	16.7	13.9
Equities - U.S.	33.0	33.6	35.8	40.9	38.6
Private Equity	4.5	4.0	3.0	2.6	2.8
Real Estate Equity	11.1	10.5	10.0	8.3	10.0
Absolute Return	1.2	-	-	-	-
Short-Term Investments/Currency	3.6	4.2	4.1	3.3	4.4
Totals	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: TRS

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 25 years.

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, 2007.

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 19.4 percent on a net of fee basis, slightly behind the Russell 3000 Index return of 20.1 percent. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	FY07	3-Year	5-Year	10-Year
TRS, net of fees	**19.4%**	**12.3%**	**11.6%**	**7.4%**
Russell 3000 Index	20.1	12.4	11.5	7.3

At June 30, 2007, 40.1 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed U.S. equity managers to use active, index, or enhanced index management strategies during FY07.

The top 10 domestic equity holdings, excluding index funds, at June 30, 2007, are listed below and represent 11.1 percent of total U.S. equity holdings. A complete listing of investment holdings is available as a separate report.

Top 10 U.S. Equity Holdings at June 30, 2007

Firm	Market Value
General Electric Co.	$268,315,927
Exxon Mobil Corp.	216,142,068
Citigroup, Inc.	158,576,576
Microsoft Corp.	153,115,187
Hewlett-Packard Co.	138,933,606
Chevron Corp.	132,146,446
Google, Inc.	126,662,147
Pfizer, Inc.	126,105,794
Cisco Systems, Inc.	120,102,011
ConocoPhillips	101,185,951
Total	**$1,541,285,713**

Source: The Northern Trust Company

As of June 30, 2007, TRS employed the following domestic equity managers including their respective assets under management.

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

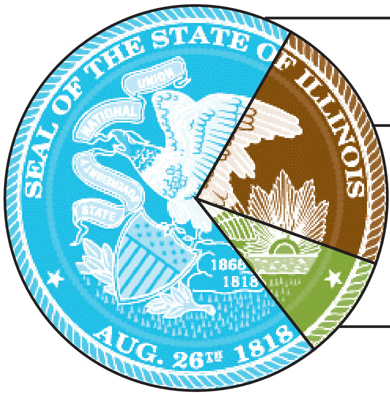
Index	
RhumbLine Advisors, L.P. (5/06)	$1,080,338,081
State Street Global Advisors (1/06)	1,268,125,412
Enhanced Index	
Barclays Global Investors (6/05)	1,182,933,657
Pacific Investment Management Company, L.L.C. (8/91)	1,042,551,858
T. Rowe Price Associates, Inc. (6/05)	1,199,152,701
Western Asset Management Company, L.L.C. (4/05)	1,071,580,047
Large Cap Value	
Dodge & Cox (4/00)	1,565,174,569
EARNEST Partners, L.L.C. (2/02)	221,436,514
Robeco Boston Partners Asset Management, L.P. (1/03)	938,274,223
Large Cap Growth	
State Street Global Advisors (12/05)	522,620,883
T. Rowe Price Associates, Inc. (11/06)	840,456,168
Turner Investment Partners, Inc. (6/04)	1,373,513,078
Small/Mid Cap Core	
Rhumbline Advisors, L.P. (5/07)	532,398,457
Small/Mid Cap Value	
LSV Asset Management (12/02)	859,152,175
State Street Global Advisors (6/06)	189,060,835
Small/Mid Cap Growth	
Copper Rock Capital Partners, L.L.C. (12/06)	178,757,611
Mazama Capital Management, Inc. (1/03)	440,480,893
Tygh Capital Management, Inc. (6/06)	482,929,118
State Street Global Advisors (6/07)	226,821,841
Small Cap Growth	
Batterymarch Financial Management, Inc. (11/04)	276,231,652
Emerald Advisors, Inc. (11/04)	290,238,768
Mazama Capital Management, Inc. (11/04)	254,205,135
Small Cap Value	
AQR Capital Management, L.L.C. (11/06)	332,414,722
Thompson, Siegel & Walmsley, Inc. (11/04)	349,554,692
Emerging Manager	
Evercore Asset Management, L.L.C. (2/07)*	29,853,557
Piedmont Investment Advisors, L.L.C. (2/07)**	24,877,238

* *Style is small cap value*
** *Style is enhanced index*

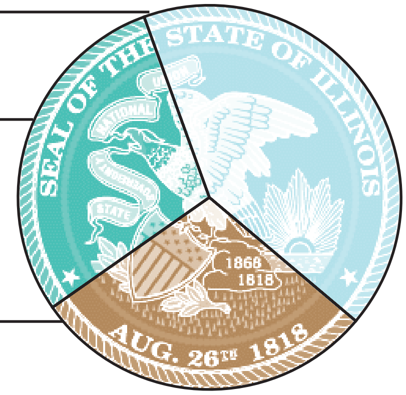
Discussion of U.S. Equity

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



Source: TRS Investment Policy

The Russell 3000, which is the domestic equity benchmark for TRS, returned a much stronger than average 20.1 percent for the year. For the seventh year, value stocks continued to outperform growth stocks. However, toward the end of the year, this trend showed signs of change. In terms of size, larger capitalization stocks outperformed smaller stocks as investors focused on higher quality, less risky investments.

New additions to TRS's portfolio of investment managers during the year include T. Rowe Price (new mandate in large cap growth), Rhumbline Advisors (new mandate as a small cap index manager), Copper Rock Capital (small-to-mid-cap growth mandate), and AQR Capital Management (small cap value mandate). In addition, TRS made two new investments within the Emerging Manager Program through Evercore Asset Management and Piedmont Investment Advisors.

Statistical Data

The following 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, 2007

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted Average Market Cap (billions)	$60.0	$79.7
Price/Earnings Ratio	18.1x	16.8x
Dividend Yield	1.3%	1.7%
Beta	1.1	1.0
5-Year EPS Growth	26.0%	22.1%
Price/Book Ratio	2.8x	2.7x

Source: The Northern Trust Company

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2007

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer Discretionary	13.3%	11.7%
Consumer Durables	5.9	8.1
Energy	8.6	10.1
Financial Services	19.2	20.4
Health Care	12.3	11.5
Industrials	11.8	11.9
Materials	3.6	3.6
Technology	19.5	15.4
Telecommunication Services	3.5	3.5
Utilities	2.3	3.8
Total	**100.0%**	**100.0%**

Source: The Northern Trust Company

International Equity

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

For the year ended June 30, 2007, the international equity asset class returned 29.6 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 references) return of 30.2 percent. One-, three-, five- and 10-year comparisons to this benchmark are in the following table:

	FY07	3-Year	5-Year	10-Year
TRS, net of fees	**29.6%**	**24.6%**	**19.5%**	**9.3%**
Non-U.S. Equity Index	30.2	25.0	19.9	8.7

At June 30, 2007, 22.0 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, 2007. 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. These securities represent 10.1 percent of the total international equity holdings. A complete listing of investment holdings is available as a separate report.

Top 10 International Equity Holdings at June 30, 2007

Firm	Country	Market Value (USD)
Nestle	Switzerland	$140,370,333
GlaxoSmithKline	United Kingdom	131,732,663
Vodafone Group	United Kingdom	101,635,427
BP	United Kingdom	97,420,134
Telefonica	Spain	92,911,001
Royal Bank of Scotland Group	United Kingdom	88,501,418
Canon, Inc.	Japan	84,325,118
China Mobile Ltd.	China	80,185,635
Diageo	United Kingdom	76,023,496
ING Groep	Netherlands	72,398,835
Total		**$965,504,060**

Source: The Northern Trust Company

As of June 30, 2007, TRS employed the following international equity managers including their respective assets under management.

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

Active Core	
Brandes Investment Partners, L.P. (2/98)	$1,376,407,931
Jarislowsky, Fraser Limited (8/05)	660,978,816
McKinley Capital Management, Inc. (8/05)	1,367,494,396
Mondrian Investment Partners Limited (4/93)	1,385,593,329
State Street Global Advisors (8/05)	598,080,413
Passive Non-U.S.	
Barclays Global Advisors (5/07)	2,447,473,284
Emerging Markets	
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	1,318,983,458

Note: The list does not include managers terminated prior to June 30, 2007 with residual assets in the account.

Discussion of International Equity

The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio. The actual allocation will become more aligned with the targets as TRS prudently rebalances investments from transitional passive assets to active core accounts while implementing the asset allocation study approved in FY07.

International Equity Manager Structure

	Target	Actual
International Equity Classification		
Passive Non-U.S.	11.5%	33.4%
Active Core	72.0	52.2
Emerging Markets	16.5	14.4
Total	**100.0%**	**100.0%**

International equity markets yielded very strong results again for the year ended June 30, 2007, returning 30.2 percent as measured by the MSCI All Country Ex-U.S. Free Index. The emerging markets, which are the developing economies in the international markets and represent a 17.3 percent weighting in the international index, were the strongest segment, returning 45.5 percent. Within the emerging markets, the Latin American region produced the highest returns, guided by Peru's rise of 111.4 percent. Mexico and Brazil, the two largest countries in Latin America, also posted robust results, returning 64.4 percent and 61.8 percent, respectively. In the developed portion of the non-U.S. markets, Singapore, which represents only 0.85 percent in the international index, was the best-performing market, rallying by 60.7 percent. Europe, the largest international equity region representing 54.1 percent of the MSCI All Country Ex-U.S. Free Index, outpaced the broader markets advance, appreciating by 33.1 percent. Germany was the best-performing European country, returning 49.6 percent. Japan, which led all of the developed markets last year, posted the lowest absolute returns, appreciating by 7.3 percent.

Within this global investment environment, TRS's managers underweighted some of the more risky markets in Asia and the Far East which, as stated, were the best performers for the year. Despite this headwind, TRS's overweight to the emerging markets was able to move the portfolio's performance in line with the index. Inside the developed markets, TRS was aligned with the benchmark and performed overall as expected.

On the sector level, TRS was underexposed to basic materials and industrials. These sectors have continued to advance beyond TRS managers' expectations. Companies within these industries are often considered much more cyclical in nature and not possessing quality long-term characteristics sought by TRS international equity managers. Instead, the TRS international equity portfolio proved to be too defensive as TRS managers moved assets into lower risk sectors such as telecom, health care, and consumer staples, which underperformed during the fiscal year.

Portfolio Characteristics

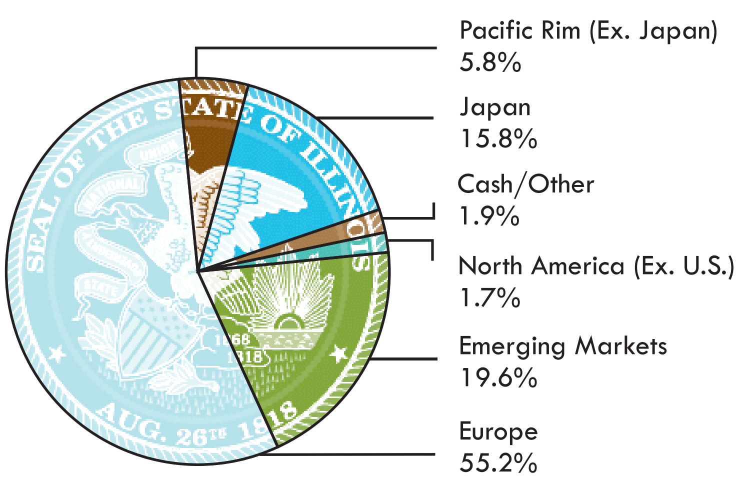
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted Average Market Cap (billions)	$52.9	$54.4
Price/Earnings Ratio	16.4x	16.2x
Dividend Yield	2.4%	2.4%
Price/Book Ratio	2.5x	2.5x

Source: The Northern Trust Company

Regional Allocation Comparison June 30, 2007
TRS International Equity Exposure



Global Fixed Income

Fixed income is a financial obligation of an entity including, but not limited to, corporations, governments, agencies, indices, or municipalities. These entities promise to pay a specified sum of money at a future date and represent a contractual obligation of a debt or a loan. The 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 other asset classes and provide income streams, or coupons, essential to the growth of the overall portfolio.

For the year ended June 30, 2007, TRS's fixed income managers earned a 5.9 percent return, net of fees, compared to the 6.1 percent return of the benchmark, the Fixed Income Blended Index. The blended index is a weighted index, based on U.S., non-dollar and global inflation-linked targets. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	FY07	3-Year	5-Year	10-Year
TRS, net of fees	**5.9%**	**4.2%**	**4.7%**	**5.8%**
TRS Fixed Income Blended Index	6.1	4.0	4.6	5.6

As of June 30, 2007, TRS employed fixed income managers overseeing assets of $7.8 billion, as identified in the Global Fixed Income Managers and Assets Under Management table. This table categorizes manager assignments by core plus, core, emerging manager, and enhanced indexed. It excludes fixed income assets managed by other asset classes as part of other underlying strategies.

Core plus managers are firms with particular skills in the extended bonds markets, such as high yield, non-dollar denominated, and out-of-benchmark investments. Following defined parameters, these managers are able to offer enhanced returns while maintaining a similar risk profile to that of a core manager.

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

Core Plus	
BlackRock, Inc. (6/97)	$1,316,242,971
Goldman Sachs Asset Management, L.P. (5/06)	898,947,255
ING Investment Management Company (5/06)	686,746,720
Pacific Investment Management Company, L.L.C. (7/82)	1,747,328,073
Core	
Dodge & Cox (11/03)	892,701,693
EARNEST Partners Limited, L.L.C. (2/02)	224,212,379
Taplin, Canida & Habacht (3/04)	449,023,698
Emerging Manager	
Dolan McEniry Capital Management, L.L.C. (5/06)	26,494,249
Enhanced Indexed	
Lehman Brothers Asset Management, L.L.C. (2/06)	1,432,343,061

Note: This list does not include mangers terminated prior to June 30, 2007 with residual assets in the account.

The following table lists the top 10 fixed income securities held by TRS's managers as of June 30, 2007. These securities represent 10.0 percent of the total fixed income assets. To-be-announced (TBA) mortgages are underlying contracts on mortgage-backed securities (MBS) to buy or sell a MBS which will be delivered at an agreed-upon date in the future. A complete listing of investment holdings is available as a separate report.

Top 10 Global Fixed Income Holdings at June 30, 2007

Security/Position	Rate	Maturity Date	Market Value
Federal National Mortgage Association TBA	5.50%	7/01/2037	$230,056,478
Federal National Mortgage Association TBA	6.00	7/01/2037	162,771,911
Federal National Mortgage Association	5.00	3/01/2036	137,415,146
U.S. Treasury Inflation Index Linked Bonds	2.61	1/15/2025	92,568,532
United Kingdom (Government) Index Linked Bonds	5.78	8/16/2013	75,235,111
Federal National Mortgage Association TBA	5.50	8/15/2037	73,409,801
U.S. Treasury Inflation Index Linked Notes	2.42	4/15/2011	68,043,155
Federal National Mortgage Association	5.50	2/01/2035	60,308,998
U.S. Treasury Inflation Index Linked Notes	2.38	1/15/2017	59,588,450
Federal National Mortgage Association TBA	5.00	7/01/2037	59,144,919
Total			**$1,018,542,501**

Source: The Northern Trust Company

Discussion of Global Fixed Income

At June 30, 2007, 18.6 percent of TRS's investment portfolio was assigned to fixed income managers. At the end of FY07, TRS began reducing fixed income toward the newly established long-term target of 15.0 percent, effective at the beginning of FY08.

Overall, while TRS slightly lagged the assigned benchmark for the year, long-term returns continue to exceed the benchmark over the three-, five-, and 10-year periods. The 10-year annualized fixed income return, net of fees, is 5.8 percent relative to the blended benchmark return of 5.6 percent.

Through the year, the Federal Reserve left interest rates intact at 5.25 percent and corporate spreads remained extremely tight. Given this environment, most of TRS's investment managers were primarily underweight corporate bonds and other structured products, and positioned more heavily in short-term maturities and higher quality paper.

In aggregate, TRS's portfolio was positioned at the front end of the yield curve in expectation of the Federal Reserve eventually cutting key interest rates. As interest rates and bond prices move inversely, TRS's external managers maintained a somewhat defensive posture for most of the year.

The following data provides statistical information on TRS's global fixed income portfolio.

Statistical Data

Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/07	Lehman Brothers Aggregate Bond Index 6/30/07	TRS Fixed Income Portfolio 6/30/06	Lehman Brothers Aggregate Bond Index 6/30/06
Average Maturity	7.2 years	7.3 years	7.3 years	7.4 years
Effective Duration	4.2 years	4.9 years	4.7 years	5.0 years
Average Coupon	4.7%	5.4%	5.1%	5.2%
Average Quality Rating	Aa2	Aaa	Aaa	Aa1
Current Yield	5.0%	5.5%	5.3%	5.2%

Source: Lehman Brothers and TRS

Global Fixed Income Managers Sector Weighting

TRS Fixed Income Portfolio	2007	2006
U.S. Treasury	5.4%	16.0%
Government Bonds — Foreign	0.7	1.0
U.S. Federal Agency	10.1	10.1
Agency Bonds — Foreign	0.2	0.2
Asset Backed Securities — U.S. and Foreign	3.2	6.1
U.S. Mortgage-Backed Securities	36.5	30.9
Commercial Mortgage Backed and Collateralized Mortgages	12.4	11.5
U.S. Corporate or Credit Securities	18.5	16.2
Corporate or Credit Securities — Foreign	2.2	1.8
Inflation-Linked Securities — U.S. and Foreign	0.9	5.0
Municipal and Province	0.1	0.2
Preferred Stock	0.3	0.3
Net Short-term Investments	9.5	0.7
Total	**100.0%**	**100.0%**
Total U.S. and Non-U.S. Futures Exposure	17.2%	19.3%
Total Foreign Currency Exposure	2.7	4.8
Total Swap Exposure — Ex-Swaptions	7.6	3.7
Total High Yield Exposure	2.6	5.0
Total Emerging Markets Debt Exposure	1.0	1.2

Source: The Northern Trust Company and TRS

Diversification by Quality Rating for Global Fixed Income Portfolios

Moody's Quality Rating	2007	2006
Agency	12.2%	13.1%
Treasury	5.1	19.0
Aaa	58.7	43.9
Aa1 through Aa3	7.2	9.1
A1 through A3	4.9	4.3
Baa1 through Baa3	6.0	7.0
Ba1 through Ba3	2.9	2.2
B1 through B3	1.4	0.7
Other*	1.6	0.7
Total	**100.0%**	**100.0%**

** Other includes under B3 and unrated securities.*

Note: Chart includes Enhanced Equity Indexed underlying bond holdings

Source: The Northern Trust Company and TRS

Real Return

The real return asset class was established as a result of the asset allocation study completed in FY07. The asset class is an important recognition of the significant impact inflation can have on an investment portfolio and its return objectives. Traditional asset classes, such as stocks and bonds, tend to perform well in periods of stable or falling inflation. However, inflationary periods have historically been very challenging for these classes.

Given the objective for an inflation focused component of the portfolio, a long-term target of 10.0 percent was approved for real return assets. The asset class will invest in securities and styles that are benchmarked to the Consumer Price Index + 5.0 percent.

Initial funding of the real return asset class was approved late in the fiscal year, with full implementation expected during FY08. Due to the funding within the last days of the fiscal year, performance information for these assets is not available or relevant. As of June 30, 2007, TRS employed the following managers including their respective assets under management.

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

Global Inflation-Linked	
Pacific Investment Management Company, L.L.C. (5/07)	$399,981,353
Western Asset Management Company (2/05)*	450,045,564

** Manager was formerly included in the fixed income asset class.*

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 for 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 privately held companies 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). The benchmark does not specifically compare performance to the private equity industry, but rather to the TRS long-term expectation that private equity produce returns superior to the public markets. For the one-year period ending June 30, 2007, private equity outperformed the benchmark by 5.6 percentage points.

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 11.4 percent over the 10-year period. This performance, as well as the performance of the private equity portfolio since TRS first began investing in private equity, is well above expectations. One-, three-, five- and 10-year comparisons to this benchmark are noted in the following table:

	FY07	3-Year	5-Year	10-Year
TRS, net of fees	**29.3%**	**24.3%**	**13.4%**	**19.8%**
Russell 3000 Index + 3.0%	23.7	15.8	14.9	8.4

At June 30, 2007, 4.6 percent of the TRS investment portfolio was assigned to the private equity asset class. The following chart lists the private equity partnerships/funds and the respective assets under management that TRS has hired or made commitments as of June 30, 2007.

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

Buyout	
Apollo Investment Fund V, L.P. (5/01)	$108,322,821
Apollo Investment Fund VI, L.P. (8/05)	62,942,423
Carlyle Partners IV, L.P. (12/04)	78,877,385
Carlyle Partners V, L.P. (5/07)*	-
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	147,401,169
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (2/06)	38,378,497
Castle Harlan Partners IV, L.P. (5/03)	27,648,674
Code Hennessy & Simmons V, L.P. (2/05)	9,754,630
DLJ Merchant Banking Partners, L.P. (9/92)	6,222,465
DLJ Merchant Banking Partners II, L.P. (3/97)	14,055,029
DLJ Merchant Banking Partners III, L.P. (9/00)	85,654,854
Elevation Partners, L.P. (2/05)	7,449,396
Energy Capital Partners I, L.P. (2/06)	6,393,348
Evercore Capital Partners II, L.P. (4/03)	40,914,087
Glencoe Capital Partners III, L.P. (1/04)	5,732,258
Glencoe Capital Institutional Partners III, L.P. (6/04)	6,983,694
Green Equity Investors V, L.P. (2/07)*	-
GTCR Fund VII/VIIA, L.P. (3/00)	44,287,638
GTCR Fund VIII, L.P. (7/03)	42,642,068
Hispania Private Equity, L.P. (5/04)	1,167,994
ICV Partners II, L.P. (12/05)	1,631,549
J.C. Flowers II, L.P. (2/07)	11,093,290
KKR 1996 Fund, L.P. (5/97)	23,238,914
Lehman Brothers Merchant Banking III, L.P. (2/05)	33,839,784
Lehman Brothers Merchant Banking, IV, L.P. (2/07)*	-
Madison Dearborn V, L.P. (7/06)	52,815,863
Mesirow Capital Partners VII, L.P. (6/97)	1,804,914
New Mountain Capital Partners III, L.P. (5/07)*	-
Providence Equity Partners (3/07)	16,090,050
Reliant Equity Partners, L.P. (6/04)	3,911,985
Silver Lake Partners III, L.P. (2/07)*	-
TCW/Latin America Private Equity Partners, L.P. (5/97)	583,395
Thayer Equity Investors V, L.P. (5/03)	36,156,735
TPG Partners IV, L.P. (12/03)	44,519,222
Trivest Fund II, Ltd. (6/96)	8,831,251
VS&A Communications Partners II, L.P. (9/95)	2,402,292
VSS Communication Partners IV, L.P. (2/05)	19,506,217
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	30,653,555
Windpoint Partners VI, L.P. (5/05)	7,279,593
WPG Corporate Development Associates V, L.P. (11/97)	5,393,863
Distressed Debt	
Carlyle Strategic Partners, L.P. (2/04)	24,895,052
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	51,581,475
MatlinPatterson Global Opportunities Fund III, L.P. (6/07)	1,587,044
OCM Opportunities Fund V, L.P. (6/04)	42,808,279
Special Situations	
Banc Fund VI, L.P. (12/02)	51,393,043
Banc Fund VII, L.P. (5/05)	28,512,867
Subordinated Debt	
Merit Mezzanine Fund IV, L.P. (2/04)	27,212,284
Prism Mezzanine Fund, L.P. (5/04)	6,889,615
SW Pelham Fund II, L.P. (9/03)	17,783,341
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	28,367,020
William Blair Mezzanine Capital Fund II, L.P. (5/97)	13,766,966
William Blair Mezzanine Capital Fund III, L.P. (1/00)	13,993,792

**Partnership was not funded at June 30, 2007; date reflects the TRS Board of Trustees approval.*

Continued

Venture Capital	
21st Century Communications T-E Partners, L.P. (2/95)	$335,270
Apex Investment Fund III, L.P. (6/96)	2,407,910
Apex Investment Fund V, L.P. (8/03)	25,981,770
Carlyle Venture Partners II, L.P. (10/02)	106,325,277
Carlyle Venture Partners III, L.P. (6/07)	9,759,082
Edgewater Growth Capital Partners, L.P. (11/03)	21,420,455
Edgewater Growth Capital Partners II, L.P. (2/05)	6,278,208
Evergreen Partners IV, L.P. (12/02)	14,233,441
Evergreen Partners V, L.P. (6/07)	2,961,845
Frontenac VI, L.P. (6/93)	535,007
Granite Ventures II, L.P. (5/05)	3,151,776
HealthPoint Partners, L.P. (6/04)	29,787,351
Hopewell Ventures, L.P. (6/04)	2,276,267
Illinois Emerging Technologies Fund, L.P. (6/04)	1,273,998
Penman Private Equity and Mezzanine Fund, L.P. (10/94)	314,196
SCP Private Equity Partners, L.P. (5/97)	7,272,974
SCP Private Equity Partners II, L.P. (6/00)	63,921,580
Shasta Ventures, L.P. (12/04)	11,639,054
VantagePoint Venture Partners IV, L.P. (6/00)	60,715,678
VantagePoint Venture Partners 2006, L.P. (12/06)	1,275,821
Warburg Pincus International Partners, L.P. (9/00)	102,218,231
Warburg Pincus International Partners IX, L.P. (8/05)	71,548,088
WPG Enterprise Fund II, L.P. (8/94)	10,622,596
WPG Enterprise Fund III, L.P. (3/97)	32,313,959

Discussion of Private Equity

In FY07, TRS's private equity portfolio continued to generate strong performance results. With the strength of the program and the increasing quality of the portfolio, the TRS Board of Trustees affirmed its commitment to private equity, raising the asset class's long-term target to 8.0 percent, effective FY08. As such, TRS continues to steadily and prudently increase its exposure to private equity, with the full target allocation to the asset class expected in FY11. Successful implementation of this target is subject to many factors, including public market performance and sufficient availability of quality opportunities in the market. The following chart provides a further breakdown of TRS's targeted style allocation as compared to the actual allocation at June 30, 2007:

Private Equity Target and Actual Allocation as of June 30, 2007

Subclasses	Target	Actual
Buyout	60-70%	53.3%
Venture Capital	10-20	30.6
Special Situations/Distressed Debt/Subordinated Debt	5-15	16.1
Total		**100.0%**

Source: TRS and The Northern Trust Company

TRS made commitments to 10 private equity funds totaling $900 million during the year. While investments were made within all subclasses, the commitments over the past year have had a slightly higher concentration within the buyout sector as TRS attempts to increase its exposure in that sector. Going forward, the TRS Tactical Plan calls for committing approximately $800 to $1,200 million per year as TRS invests toward its long-term allocation goal.

Absolute Return

Along with the real return asset class, the absolute return class was established as a result of the FY07 asset allocation study. Like the addition of real return assets, investments in the absolute return class are designed to reduce the risk and volatility of the overall TRS portfolio. The asset class is designed such that absolute return investments adequately protect assets, even in the most difficult investment environments for traditional stocks and bonds.

Investments in this asset class will be administered via diversified fund of funds investment managers, with a long-term target of 2.5 percent of the overall TRS investment portfolio. Managers in this new strategy are benchmarked a relative risk-free index of 90-Day Treasury Bills + 4.0 percent.

Initial funding of TRS's absolute return investment managers was made at the end of the fiscal year. As such, performance information is not available or relevant. As of June 30, 2007, TRS employed the following managers including their respective assets under management.

Absolute Return Managers and Assets Under Management (inception date of account)

Diversified Fund of Funds	
K2 Advisors, L.L.C. (6/07)	$250,000,000
Grosvenor Capital Management, L.L.C. (6/07)	240,000,000

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.

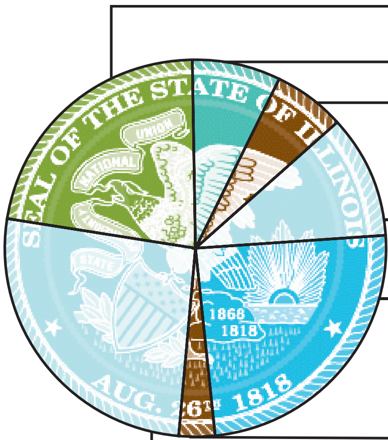
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2007, TRS had over $4.7 billion in real estate assets, or 11.3 percent of the total fund portfolio. For the year, TRS's real estate investments returned 25.3 percent on a net of fee basis and outperformed the Real Estate Property Index for the fourth consecutive year. Real estate performance and benchmark comparison are noted in the following table:

	FY07	3-Year	5-Year	10-Year
TRS, net of fees	**25.3%**	**21.3%**	**17.1%**	**13.4%**
Real Estate Property Index	17.2	18.0	14.4	11.8

To enhance returns and reduce risk, TRS acquires high quality properties diversified geographically and by property type. TRS's real estate holdings by type and geography are exhibited in the following charts.

Real Estate Holdings by Type as of June 30, 2007



Geographic Diversification of Real Estate Holdings as of June 30, 2007

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 and open end accounts represent partnership interests in real estate funds including TRS's international real estate accounts. As of June 30, 2007, TRS employed the following managers including their respective assets under management.

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

Separate Accounts	
Capri/Capital Advisors, L.L.C. (12/91)	$1,397,519,807
Cozad/Westchester Asset Management, Inc. (5/91)	348,831,296
Commonwealth Realty Advisors, Inc. I (9/91)	896,265,025
Commonwealth Realty Advisors, Inc. II (11/92)	159,463,556
Koll Bren Schreiber Realty Advisors I (6/93)	460,757,101
Koll Bren Schreiber Realty Advisors II (5/96)	348,847
LPC Realty Advisors I, Ltd. (7/92)	351,506,203
LPC Realty Advisors Core, Ltd. (4/07)	45,238,323
Stone-Levy, L.L.C. (4/95)	223,937,322
Closed End Accounts	
Capri/Capital Apartment Fund III (3/90)	143,921,920
Capri Select Income Fund II, L.L.C. (12/05)	17,159,581
Carlyle Realty Partners IV (6/05)	61,913,853
DLJ Real Estate Capital Partners, Inc. (3/96)*	1,971,390
JBC Opportunity Fund II, L.P. (7/03)	36,510,916
JER Real Estate Partners III, L.P. (1/05)	50,493,174
RLJ Lodging Fund II (9/06)	35,074,913
RREEF Capital II, L.L.C. (11/96)*	303,110
Thayer Hotel IV (5/04)	8,662,733
Walton Street Capital, L.L.C. (7/03)	98,618,928
Open End Accounts	
Hines-Sumisei U.S. Core Office (12/05)	182,443,987
Lion Industrial Trust (4/05)	132,134,071
International Real Estate Accounts	
Carlyle Europe Real Estate Partners, L.P. (6/03)	78,212,324
CB Richard Ellis Strategic Partners Europe III (4/07)	202,447
CB Richard Ellis Strategic Partners U.K. III (5/07)	751,290

* *In liquidation mode.*

Discussion of Real Estate

Competition among institutional investors for quality real estate assets has made the search for new investments more challenging, but TRS was able to achieve some growth toward the interim target of 12 percent. In FY07, the TRS real estate portfolio grew from 10.8 percent of the total investment portfolio to 11.3 percent. TRS will continue toward the long-term target by prudently seeking new investments that meet TRS return expectations. Separately, TRS continued to upgrade the quality of the real estate portfolio by selling older assets and recognizing profits. This activity will continue in FY08. Finally, TRS began planning for international investments to the real estate portfolio. Through the selection of highly qualified international fund sponsors, TRS expects to identify investments that will further enhance the return expectations of the portfolio as well as further diversify the portfolio geographically.

Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2007 and 2006. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2007, TRS recaptured over $1.1 million in cash that was reinvested back into the fund. In addition, TRS uses a portion of these commission recapture refunds to pay for Investment Department expenses. During FY07, TRS used $1.4 million of recaptured funds to offset expenditures.

Top 50 Brokers Used by TRS Managers

Broker	FY07 Commission	FY06 Commission
Goldman Sachs & Co. (Worldwide)	$1,716,043	$1,444,988
Merrill Lynch & Co., Inc. and all subsidiaries (Worldwide)	1,400,230	1,490,020
UBS Warburg Securities and all subsidiaries (Worldwide)	1,051,721	1,001,870
Lehman Brothers, Inc. (Worldwide)	941,406	551,360
BNY Convergex Securities	907,517	1,122,078
Citigroup Inc., and all subsidiaries (Worldwide)	853,951	701,306
Credit Suisse (Worldwide)	828,315	679,830
J.P. Morgan Securities, Inc. (Worldwide)	716,283	729,448
Morgan Stanley & Co., Inc. and all subsidiaries (Worldwide)	690,317	680,192
Bear Stearns Securities Corp. (Worldwide)	596,282	337,475
Investment Technology Group, Inc. (Worldwide)	564,341	270,857
Pershing Securities, L.L.C.	564,042	637,463
State Street Brokerage Services	543,543	430,258
Liquidnet, Inc.	483,064	395,219
Deutsche Bank & Securities (Worldwide)	402,560	396,709
Societe Generale (Worldwide)	368,858	115,701
B-Trade Services, L.L.C.	315,430	325,621
Jefferies & Company	302,342	282,813
Banc of America Securities	267,801	158,775
Ivy Securities, Inc.	261,772	170,178
Macquarie Bank & Securities, Ltd. (Worldwide)	259,331	105,183
Pulse Trading, L.L.C.	170,655	80,397
Melvin Securities, Inc.	169,929	136,538
SG Cowen & Company (Worldwide)	168,377	62,330
Knight Securities, L.P.	145,352	58,874
Guzman & Company	136,852	97,230

Continued

Broker	FY07 Commission	FY06 Commission
Credit Lyonnais Securities (Worldwide)	$134,710	$99,918
Thomas Weisel Partners, L.L.C.	134,272	166,091
Piper Jaffray, Inc.	131,757	94,608
Instinet, L.L.C. (Worldwide)	130,727	80,206
CL King & Associates, Inc.	128,165	61,372
Magna Securities Corp.	124,293	57,402
Nomura International (Worldwide)	121,151	46,846
Daiwa Securities (Worldwide)	118,495	71,988
ABN AMRO Securities (Worldwide)	117,399	123,653
Loop Capital Markets, L.L.C.	109,844	54,821
PCS Securities, Inc.	108,412	71,262
Cantor Fitzgerald	104,298	111,002
Williams Capital Group, L.P.	103,205	47,373
D.A. Davidson & Co.	99,935	46,567
CIBC World Markets Corp.	99,911	100,861
M. Ramsey King Securities	96,911	95,602
Pipeline Trading Systems, L.L.C.	96,542	28,650
Robert W. Baird & Company, Inc.	96,331	78,380
Friedman, Billing, and Ramsey	95,341	59,493
Weeden & Co.	92,150	127,551
Greentree Brokerage, Inc.	85,224	16,246
SunTrust Robinson Humphrey, Inc.	83,531	41,508
Capital Institutional Services, Inc.	77,260	98,501
Cabrera Capital Markets, Inc.	75,172	156,206
All Others (FY07, 233 Brokers)	3,824,637	4,275,027
Totals	**$21,215,987**	**$18,673,847**

Source: The Northern Trust Company and TRS

External Manager Fee Payments

For the year ended June 30, 2007, fee payments to external investment managers totaled $138.5 million, an increase of 15.2 percent from the year ended June 30, 2006. The increase is attributable to TRS's increased allocation to the private markets asset classes, the decreasing allocation to index funds, and the growth of TRS total fund.

Schedule of Investment Manager Fees

Investment Manager/Account	FY07	FY06
21st Century Communications T-E Partners, L.P.	$8,622	$4,527
Advisory Research, Inc.	-	145,094
Apex Investment Fund III, L.P.	111,319	324,969
Apex Investment Fund V, L.P.	450,000	478,985
Apollo Investment Fund V, L.P.	-	-
Apollo Investment Fund VI, L.P.	728,254	711,929
AQR Capital Management, L.L.C.	1,162,623	-
Ariel Capital Management, Inc.	-	945,982
Artisan Partners Limited Partnership	-	26,950
Banc Fund VI, L.P.	1,001,875	1,001,875
Banc Fund VII, L.P.	512,595	235,207

Continued

Investment Manager/Account	FY07	FY06
Barclays Global Investors	$1,896,168	$1,677,979
Batterymarch Financial Management, Inc.	1,594,576	1,484,440
Bear Stearns Asset Management, Inc.	-	574,511
BlackRock, Inc.	857,315	1,665,194
Brandes Investment Partners, L.P.	4,608,014	3,872,812
Byram Capital Management, L.L.C.	1,040,534	1,109,261
Capri/Capital Advisors, L.L.C.	4,272,463	4,299,881
Capri Capital Apartment Fund III	1,426,565	1,277,372
Capri Select Income II, L.L.C.	250,000	250,426
Carlyle Europe Real Estate Partners, L.P.	278,683	199,526
Carlyle Group Partners IV, L.P.	573,479	1,276,903
Carlyle Group/Realty Partners IV, L.P.	688,354	922,625
Carlyle Group/Riverstone Global Energy Fund II, L.P.	724,023	862,502
Carlyle Group/Riverstone Global Energy Fund III, L.P.	1,267,627	909,864
Carlyle Group/Strategic Partners, L.P.	350,000	749,830
Carlyle Ventures Capital II, L.P.	1,906,673	3,750,000
Carlyle Ventures Capital III, L.P.	1,082,191	-
Castle Harlan Partners IV, L.P.	211,227	330,316
CB Richard Ellis Strategic Partners Europe Fund III	216,003	-
CB Richard Ellis Strategic Partners UK Fund III	153,814	-
Code Hennessy & Simmons V, L.P.	-	82,945
Commonwealth Realty Advisors, Inc.	3,944,398	3,983,186
Copper Rock Capital Partners, L.L.C.	254,563	-
Cozad/Westchester Asset Management, Inc.	2,129,118	1,842,085
Delaware Investment Advisers	1,886,789	3,284,008
DLJ Merchant Banking Partners, L.P.	-	-
DLJ Merchant Banking Partners II, L.P.	218,046	195,597
DLJ Merchant Banking Partners III, L.P.	305,266	33,120
DLJ Real Estate Capital Partners, Inc.	55,750	128,151
Dodge & Cox	4,891,882	4,790,009
Dolan McEniry Capital Management, L.L.C.	78,292	6,234
EARNEST Partners, L.L.C.	907,699	1,141,435
Edgewater Growth Capital Partners, L.P.	-	-
Elevation Partners, L.P.	291,531	149,359
Emerald Advisers, Inc.	1,612,484	1,418,263
Energy Capital Partners I, L.P.	482,849	360,189
Evercore Asset Management, L.L.C.	79,683	-
Evercore Capital Partners II, L.P.	682,670	815,485
Evergreen Partners IV, L.P.	615,864	619,180
Evergreen Partners V, L.P.	655,907	-
Frontenac VI, L.P.	-	-
Glencoe Capital Partners III, L.P.	373,422	307,606
Goldman Sachs Asset Management, L.P.	1,304,252	104,604
Granite Ventures II, L.P.	378,474	194,740
Grantham, Mayo, Van Otterloo & Co., L.L.C.	8,801,051	6,903,426
Great Lakes Advisors, Inc.	38,840	374,621
GTCR Fund VII/VIIA, L.P.	359,034	-
GTCR Fund VIII, L.P.	-	-
Harris Associates, L.P.	2,425,272	2,419,282
HealthPoint Partners, L.P.	261,633	344,935
Hines-Sumisei U.S. Core Office Fund, L.P.	336,757	60,008
Hispania Private Equity, L.P.	310,925	316,119
Holland Capital Management, L.P.	536,453	958,086
Hopewell Ventures, L.P.	534,750	383,273
ICV Partners II, L.P.	260,776	280,685

Continued

Investment Manager/Account	FY07	FY06
Illinois Emerging Technologies Fund, L.P.	$36,000	$44,563
ING Investment Management Company	1,030,781	79,694
INVESCO Global Asset Management (N.A.), Inc.	2,702,958	2,564,225
J & W Seligman & Co., Inc.	-	525,451
Jarislowsky, Fraser Limited	986,720	745,668
JBC Opportunity Fund II, L.P.	953,496	1,250,000
J.C. Flowers & Co., L.L.C.	527,537	-
JER Real Estate Partners III, L.P.	956,249	956,249
KKR 1996 Fund, L.P.	90,474	18,936
Koll Bren Schreiber Realty Advisors	6,455,556	4,384,896
Lehman Brothers Asset Management, L.L.C.	386,375	98,091
Lehman Brothers Merchant Banking Partners III, L.P.	674,590	750,000
Lion Industrial Trust	1,318,769	903,095
LM Capital Group, L.L.C.	-	98,619
LPC Realty Advisors, Ltd.	6,535,131	2,355,153
LSV Asset Management	3,942,090	3,489,731
Madison Dearborn Partners, L.L.C.	1,112,044	-
MatlinPatterson Global Opportunities Fund II, L.P.	1,009,340	986,173
MatlinPatterson Global Opportunities Fund III, L.P.	312,409	-
Mazama Capital Management, Inc.	3,110,594	2,691,432
McKinley Capital Management, Inc.	2,994,981	1,927,935
Merit Mezzanine Fund IV, L.P.	865,956	885,887
Mesirow Capital Partners VII, L.P.	-	31,250
Mondrian Investment Partners Limited	2,910,449	2,165,400
NCM Capital Advisers, Inc.	246,763	20,721
Northern Trust Global Investments	-	34,682
OCM Opportunities Fund V, L.P.	311,997	312,500
Pacific Investment Management Company, L.L.C.	2,063,579	2,927,368
Payden & Rygel	475,559	929,479
Penman Private Equity & Mezzanine Fund, L.P.	-	-
Periscope I Fund, L.P.	-	3,553
Piedmont Investment Advisors, L.L.C.	3,289	-
Prism Mezzanine Fund, L.P.	639,962	626,973
Providence Equity Partners VI, L.P.	320,146	-
Pyramis Global Advisors	2,618,206	2,580,473
Reliant Equity Partners, L.P.	160,639	186,213
RhumbLine Advisers, L.P.	122,457	5,766
RLJ Capital Partners II, L.L.C.	722,603	-
Robeco Boston Partners Asset Management, L.P.	1,494,198	1,384,779
Robeco Weiss, Peck & Greer Investments	490,014	633,533
RREEF Capital II, L.L.C.	-	-
Sands Capital Management, Inc.	-	1,013,061
SCP Private Equity Partners, L.P.	136,594	148,415
SCP Private Equity Partners II, L.P.	1,137,320	2,000,000
Shasta Ventures, L.P.	-	-
State Street Global Advisors	475,536	530,047
Stone-Levy, L.L.C.	1,597,208	1,725,390
SW Pelham Fund II, L.P.	355,051	265,416
T. Rowe Price Associates, Inc.	4,336,107	2,729,431
Taplin, Canida & Habacht	604,745	471,057
TCW/Latin American Private Equity Partners, L.P.	-	-
Thayer Equity Investors V, L.P.	500,202	354,473
Thayer Hotel IV	328,806	-
The Northern Trust Company (Custody)	550,000	533,891
Thompson, Siegel & Walmsley, Inc.	1,844,131	1,569,773

Continued

Investment Manager/Account	**FY07**	**FY06**
TPG Partners IV, L.P.	$50,481	-
Trivest Fund II, Ltd.	(12,994)	12,994
Turner Investment Partners, Inc.	3,267,811	1,988,040
Tygh Capital Management, Inc.	2,437,786	157,915
UBS Global Asset Management (Americas), Inc.	-	1,432,903
VantagePoint Venture Partners IV, L.P.	-	-
VantagePoint Venture Partners 2006, L.P.	-	-
Voyageur Asset Management, Inc.	1,364,685	1,299,376
VS&A Communications Partners II, L.P.	-	-
VSS Communications Partners IV, L.P.	746,046	738,232
Walton Street Capital, L.L.C.	1,314,459	993,097
Warburg Pincus International Partners, L.P.	-	-
Warburg Pincus Private Equity IX, L.P.	2,182,692	746,534
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	327,622	250,864
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	755,275	825,859
Western Asset Management Company	2,102,306	2,041,662
William Blair Mezzanine Capital Fund II, L.P.	122,623	113,246
William Blair Mezzanine Capital Fund III, L.P.	252,432	383,744
Wind Point Partners VI, L.P.	305,887	135,704
WPG Corporate Development Associates V, L.P.	107,973	129,872
WPG Enterprise Fund II, L.P.	120,218	150,955
WPG Enterprise Fund III, L.P.	229,914	262,332
Total fees paid by TRS	**$138,510,254**	**$120,188,362**

Note: This schedule captures investment manager fees applicable to the fiscal year(s) reported and differs from investment fees reported within the Financial Section.

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

	Amount
Northern Trust FY07 Net Securities Lending Income	$13,825,145
Total Northern Trust (6/30/07) Collateral Market Value	5,797,727,890
Total Market Value of Securities on Loan at Northern Trust (6/30/07)	5,641,466,575
Total Collateralized Percentage	103%

Source: The Northern Trust Company

During the year, TRS also participated in securities lending within its passive or indexed fund investments managed by State Street Global Advisors. The income earned from securities lending activities within these indexed funds was reinvested back into the respective fund.

Retirement security includes careful, long-term estimation of future liabilities.

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November 26, 2007

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, 2007

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 $65,648,395,000 as of June 30, 2007. 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, 2007, and a census of active and inactive members as of June 30, 2006, 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. In accordance with 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, 2006 active membership data was not a good proxy for the data at June 30, 2007 because the number of members retiring from active service in fiscal year 2007 exceeded those retiring from active service in fiscal year 2006 by a count of 1,625. 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, 2007 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, 2007 actuarial liability. As a result, in order to properly determine the active liability, we removed 1,625 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, 2007.

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Presented in the Financial Section of the System's Annual Financial Report, there is a schedule of Required Supplementary Information. The actuary has provided the Unfunded Actuarial Accrued Liability and the Annual Required Contribution Per State Statute that appear in this section. The actuary did not calculate the GASB Statement No. 5 Annual Required Contribution, but provided the Normal Cost Percentage used in the calculation, and reviewed the calculation as well as the remainder of the figures that appear in the Required Supplementary Information to ensure their consistency 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 actuary neither reviewed nor prepared any items beyond those specifically listed in this paragraph and the preceding paragraph.

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, 2007 the remaining GASB amortization period is 30 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, 2007. 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. On August 10, 2007, the Board approved recommendations resulting from a comprehensive review of the system's experience during the five-year period July 1, 2001 through June 30, 2006; as a result, the actuarial assumptions were changed from last year.

Respectfully submitted,

Janet Cranna, FSA
Principal, Consulting Actuary

S. Lynn Hill
Director, Retirement Consulting

JC/SLH:pl
7228/C5871RET01-PBO-2007.doc

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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. Many of the assumptions below were revised in the 2007 actuarial experience analysis.

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 7.0 percent per year over a typical career. Adopted in the FY07 valuation.

Rates shown below include the inflation assumption.

Sample annual percentage salary increases:

Age	Male and Female
25	10.2%
30	8.4
40	7.2
50 and above	6.0

Retirement age: Graduated rates based on age and service 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 FY07 valuation. Modified rates of retirement by age and gender for members retiring under the Pipeline ERO in FY07 were adopted in the FY05 valuation.

Sample annual retirement rates per 100 participants (includes ERO retirees):

	Years of Service				
Age	**5-18**	**19-30**	**31**	**32-33**	**34**
54	-	7	12	38	40
55	-	12	20	38	40
60	14	27	45	45	37
65	23	33	45	45	30
70	100	100	100	100	100

Utilization of ERO among all active service retirees:

Years of Service on June 30 prior to Retirement	Age					
	54	55	56	57	58	59
19 – 30	63%	70%	69%	65%	63%	25%
31	72	72	71	71	71	38
32	66	68	68	67	66	45
33	66	68	68	67	66	45

Mortality: The 1995 Buck Mortality tables projected 16 years for males and one year for females. For beneficiaries, projected one year for both males and females, then rated forward two years for males and forward one year for females. Additional mortality improvements are phased in over the next four years. Adopted in the FY07 valuation.

Disability: Adopted in the FY07 valuation.

Sample annual disability rates per 100 participants:

Age	Male	Female
25	.034	.045
30	.030	.100
40	.060	.110
50	.110	.190
60	.200	.350

Termination from active service: Adopted in the FY07 valuation.

Sample annual termination rates per 100 participants:

	Nonvested Members		Vested Members	
Age	Male	Female	Male	Female
25	7.0	8.1	6.0	9.0
30	6.5	9.0	3.7	8.0
40	8.0	6.6	1.6	2.4
50	9.4	6.2	1.1	1.3
60	12.6	11.1	2.6	2.9

Severance pay: Increases with years of service at retirement, adjusted as described below table. Adopted in the FY07 valuation.

Years of Service at Retirement	Percent Retiring with Severance Pay	Severance Pay as a Percent of Final Salary
10–20	41%	13.81%
20–24	52	13.24
25–29	58	41.29
30 or more	75	15.35

The percentages in the “percent retiring with severance pay” column above are multiplied by 66.7 percent in FY08, 50 percent in FY09, 33 percent in FY10, and by 10 percent for retirements assumed to occur in FY11 and later because the percent of members retiring with severance is expected to decrease.

Optional service at retirement: The accrued liability for retirement benefits for active members who have not previously purchased optional service is increased to cover the employer cost of optional service purchased in the last two years of service. Sample purchases at retirement follow. Adopted in the FY07 valuation.

Years of Regular Service at Retirement	Maximum Service Purchased
10	0.388 years
20	1.131 years
25	1.245 years
30	0.886 years
34 or more	None

Unused and uncompensated sick leave: Varies by the amount of regular service at retirement. Adopted in the FY07 valuation.

Sample amount of sick leave at retirement:

Years of Service at Retirement	Sick Leave Service Credit
20	1.080 years
25	1.224 years
30	1.277 years
34	1.000 years
35 or more	none

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.

Measures of TRS's financial condition for both June 30, 2007, and June 30, 2006, 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 FY07 and FY06 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 but not yet paid. 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	
	2007	**2006**
Total actuarial accrued liability	**$65,648,395**	**$58,996,913**
Less actuarial value of assets (net assets at market value)	41,909,318	36,584,889
Unfunded liability	**$23,739,077**	**$22,412,024**
Funded ratio	63.8%	62.0%

Analysis of Financial Experience: Reconciliation of Unfunded Liability

The net increase in the June 30, 2007, unfunded liability of $1.3 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 2007, this shortfall was $1.7 billion. In 2006, the shortfall under this measurement was $1.9 billion.

The results of the July 1, 2002 to June 30, 2006 **actuarial experience analysis** are included in the June 30, 2007 valuation. The net effect of the changes was a **$2.4 billion increase** in the 2007 unfunded liability.

- The major factors increasing the liability were higher rates of service retirement; mortality improvements for retirees and beneficiaries; higher salary increases for continuing active members; and an increase in sick leave used for service credit at retirement.
- Other factors, such as lower assumed utilization of the Early Retirement Option; lower severance pay; and lower optional service purchases, offset some of the liability increase.

TRS experienced an actuarial loss under the **salary increase** assumption in FY07, with salary increases for continuing active members $150 million higher than expected, compared to $68 million higher than expected in 2006. However, actuarial gains occurred in both years under the **investment return** assumption. In FY07, assets were assumed to earn $3.0 billion, but earnings were actually $6.8 billion. The actuarial gain due to investments was $3.8 billion in FY07and $1.2 billion in FY06.

In both years, 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, 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, reflects an actuarial loss in 2007 and an actuarial gain in 2006. Among non-ERO retirements, benefits were lower than expected, adding to the actuarial gain. “Other” includes the effect of either more or fewer retirements than expected, retirements that were reported late to the actuary, the effect of salary increases higher than assumed for retiring teachers, and several other factors.

Reconciliation of Unfunded Liability
($ in thousands)

	Years Ended June 30	
	2007	**2006**
Unfunded liability at beginning of year	**$22,412,024**	**$21,989,811**
Additions (deductions)		
Employer cost in excess of contributions	1,739,187	1,913,368
Change in actuarial assumptions effective 6/30/07, based on 2002-2006 experience review	2,410,756	—
Net additions (deductions)	**4,149,943**	**1,913,368**
Actuarial losses (gains)		
Salary increases for continuing active members	149,682	68,398
Investment return	(3,785,653)	(1,159,525)
New entrant loss	34,305	21,735
Mortality other than expected	34,848	16,811
Fewer terminations than expected	26,924	20,116
Repayments of refunded member contributions[1]	35,889	28,543
ERO costs waived for those with 34 years of service	288,832	198,867
Delayed reporting of retirements (effect on assets)[2]	7,276	12,190
Other	385,007	(698,290)
Net actuarial losses (gains)	**(2,822,890)**	**(1,491,155)**
Unfunded liability at end of year	**$23,739,077**	**$22,412,024**

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

2 *390 retirements which occurred prior to 7/1/05 were not reported to the actuary until 6/30/06.*
379 retirements which occurred prior to 7/1/06 were not reported to the actuary until 6/30/07.

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 deposited 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 and were not based on actuarial calculations. Beginning in FY08, state contributions increase 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 FY07 actuarial valuation was used to determine the required FY09 state contributions and the FY09 employer's normal cost. The FY06 valuation was used to determine the required FY08 state contributions and the FY08 employer's normal cost.

State Funding Amounts

	FY09	FY08
Benefit Trust Reserve (excludes federal contributions; excludes school district contributions)	$1,449,889,000	$1,039,195,000
Minimum benefit reserve	1,900,000	2,100,000
Total state funding amount	**$1,451,789,000**	**$1,041,295,000**
Employer's normal cost as a percentage of active member payroll	9.27%	8.22%

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
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
2006	36,584,889	58,996,913	62.0
2007	**41,909,318**	**65,648,395**	**63.8**

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
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
2006	7,765,752	22,412,024	288.6
2007	**8,149,849**	**23,739,077**	**291.3**

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 1998 through 2001.

Solvency Test
($ in thousands)

	Aggregate Accrued Liabilities for				Percentage of Benefits Covered by Net Assets		
Year Ended June 30	Members' Accumulated Contributions (1)	Participants Currently Receiving Benefits (2)	Active Members Employer Portion (3)	Actuarial Value of Assets	(1)	(2)	(3)
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	-
2003	5,622,026	25,188,870	16,122,536	23,124,823	100	69	-
2004	5,853,274	28,286,916	16,807,261	31,544,729	100	91	-
2005	5,925,696	32,861,473	17,287,860	34,085,218	100	86	-
2006	6,303,750	35,315,529	17,377,634	36,584,889	100	86	-
2007	**6,500,318**	**39,785,368**	**19,362,709**	**41,909,318**	**100**	**89**	**-**

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, 1998, through June 30, 2007)
- Active Members by Age and Years of Service (as of June 30, 2007)

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 at Beginning of Year	Number Added to Rolls	Number Removed from Rolls	Number at End of Year	End-of-Year Annual Allowances		Average Annual Allowance	
					Amount	% Increase	Amount	% Increase
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
2006	82,575	5,147	2,619	85,103	3,018,848,450	7.6	35,473	4.4
2007**	**85,103**	**6,473**	**2,340**	**89,236**	**3,344,714,652**	**10.8**	**37,482**	**5.7**

* *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.*

** *Amounts added to and removed from rolls are available beginning with the year ended June 30, 2007.*

	Amount Added to Rolls		
	Annual Benefit Increases	New Benefit Recipients	Amount Removed from Rolls
2007	$81,629,966	$295,571,869	$51,335,633

Average Annual Salary for Active Members by Years of Service

Years of Service		2007	2006	2005	2004
0-5	**Number**	**41,244**	**40,930**	**39,728**	**36,951**
	Average Salary	$43,446	$42,404	$41,444	$37,633
6-10	**Number**	**30,520**	**28,847**	**26,557**	**26,027**
	Average Salary	$53,062	$51,314	$49,536	$45,568
11-15	**Number**	**20,469**	**20,222**	**20,295**	**18,307**
	Average Salary	$62,447	$60,476	$58,195	$52,771
16-20	**Number**	**14,422**	**14,086**	**13,429**	**13,358**
	Average Salary	$69,368	$67,343	$65,276	$59,820
21-25	**Number**	**9,814**	**9,619**	**9,431**	**10,868**
	Average Salary	$74,894	$72,531	$70,278	$64,881
26-30	**Number**	**9,484**	**10,349**	**10,667**	**12,488**
	Average Salary	$78,831	$76,616	$74,127	$69,276
31-35	**Number**	**5,301**	**6,134**	**5,900**	**9,186**
	Average Salary	$82,508	$83,165	$79,236	$75,643
35 +	**Number**	**694**	**785**	**744**	**1,162**
	Average Salary	$84,065	$84,524	$81,497	$77,805
	Total Number	**131,948**	**130,972**	**126,751**	**128,347**
	Average Salary	$58,116	$56,916	$55,237	$52,181
% Change Average Salary		**2.1%**	**3.0%**	**5.9%**	**(0.4%)**
Total Payroll Full & Part-time		**$7,668,289,968**	**$7,454,402,352**	**$7,001,344,987**	**$6,697,274,807**

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.

2003	2002	2001	2000	1999	1998
38,074	**41,120**	**38,585**	**35,192**	**34,831**	**33,325**
$37,960	$36,242	$34,614	$33,070	$32,430	$31,495
25,020	**24,258**	**24,351**	**24,053**	**21,540**	**20,329**
$46,740	$45,300	$43,457	$41,616	$40,320	$39,047
17,334	**16,812**	**16,367**	**15,661**	**15,461**	**14,571**
$53,931	$52,761	$50,875	$49,109	$47,430	$45,659
12,860	**12,215**	**11,692**	**11,304**	**11,969**	**13,004**
$60,788	$59,011	$56,521	$54,335	$52,477	$50,650
11,152	**12,575**	**13,091**	**13,363**	**14,006**	**14,494**
$65,427	$63,599	$61,188	$58,918	$57,256	$55,498
12,429	**13,256**	**13,885**	**14,278**	**14,541**	**13,904**
$70,066	$68,501	$65,913	$64,254	$61,866	$59,694
7,107	**7,484**	**7,555**	**6,895**	**6,018**	**4,845**
$76,676	$76,413	$73,433	$70,455	$67,373	$63,985
804	**843**	**809**	**713**	**692**	**644**
$78,091	$78,831	$75,469	$71,036	$67,453	$65,222
124,780	**128,563**	**126,335**	**121,459**	**119,058**	**115,116**
$52,408	$50,895	$49,230	$47,665	$46,306	$44,769
3.0%	**3.4%**	**3.3%**	**2.9%**	**3.4%**	**3.2%**
$6,539,470,240	**$6,543,213,885**	**$6,219,472,050**	**$5,789,343,235**	**$5,513,099,748**	**$5,153,628,204**

Active Members by Age and Years of Service as of June 30, 2007

Age		Subs	Years of Service 0-5	6-10	11-15	16-20
20-24	**Number**	**3,364**	**5,043**	**-**	**-**	**-**
	Average Salary	$4,015	$36,875	-	-	-
25-29	**Number**	**3,967**	**17,037**	**3,641**	**1**	**-**
	Average Salary	$4,176	$42,204	$49,407	$56,383	-
30-34	**Number**	**2,363**	**6,262**	**11,216**	**1,694**	**-**
	Average Salary	$4,086	$45,218	$52,612	$59,832	-
35-39	**Number**	**2,784**	**3,698**	**5,102**	**7,237**	**1,278**
	Average Salary	$4,070	$45,536	$54,067	$62,185	$66,924
40-44	**Number**	**4,100**	**3,385**	**2,874**	**3,142**	**4,300**
	Average Salary	$4,138	$44,474	$53,646	$63,652	$70,253
45-49	**Number**	**3,497**	**2,552**	**2,854**	**2,535**	**2,551**
	Average Salary	$4,601	$45,423	$52,740	$61,620	$69,253
50-54	**Number**	**3,148**	**1,846**	**2,617**	**2,804**	**2,683**
	Average Salary	$4,958	$48,888	$54,527	$62,674	$68,711
55-59	**Number**	**2,736**	**1,026**	**1,699**	**2,343**	**2,805**
	Average Salary	$5,026	$54,827	$56,681	$63,386	$69,570
60-64	**Number**	**1,485**	**327**	**449**	**636**	**711**
	Average Salary	$4,611	$57,438	$57,286	$64,410	$70,989
65-69	**Number**	**614**	**57**	**54**	**71**	**83**
	Average Salary	$4,091	$52,183	$63,887	$69,946	$66,945
70-74	**Number**	**216**	**10**	**12**	**6**	**9**
	Average Salary	$4,405	$57,035	$52,380	$65,203	$59,889
74 +	**Number**	**95**	**1**	**2**	**-**	**2**
	Average Salary	$3,589	$48,960	$58,444	-	$40,278
	Total Number	**28,369**	**41,244**	**30,520**	**20,469**	**14,422**
	Average Salary	$4,375	$43,446	$53,062	$62,447	$69,368

Years of Service							Full and Part-time Member Totals
21-25	26-30	31-35	36-40	41-45	46-50	51-55	
-	**-**	**-**	**-**	**-**	**-**	**-**	**5,043**
-	-	-	-	-	-	-	$36,875
-	**-**	**-**	**-**	**-**	**-**	**-**	**20,679**
-	-	-	-	-	-	-	$43,473
-	**-**	**-**	**-**	**-**	**-**	**-**	**19,172**
-	-	-	-	-	-	-	$50,835
-	**-**	**-**	**-**	**-**	**-**	**-**	**17,315**
-	-	-	-	-	-	-	$56,587
981	**-**	**-**	**-**	**-**	**-**	**-**	**14,682**
$73,912	-	-	-	-	-	-	$59,891
3,491	**1,184**	**-**	**-**	**-**	**-**	**-**	**15,167**
$74,896	$76,326	-	-	-	-	-	$62,711
2,457	**5,317**	**2,061**	**-**	**-**	**-**	**-**	**19,785**
$74,764	$79,214	$82,938	-	-	-	-	$69,186
2,225	**2,380**	**2,867**	**275**	**-**	**-**	**-**	**15,620**
$75,089	$79,139	$82,235	$84,807	-	-	-	$71,109
591	**526**	**328**	**282**	**38**	**-**	**-**	**3,888**
$76,583	$79,783	$82,645	$83,721	$77,092	-	-	$71,197
57	**70**	**37**	**30**	**43**	**6**	**-**	**508**
$71,999	$75,445	$79,182	$85,661	$84,358	$118,802	-	$71,204
12	**5**	**8**	**4**	**7**	**4**	**1**	**78**
$75,716	$74,252	$79,454	$79,141	$82,947	$80,737	$69,953	$68,394
-	**2**	**-**	**-**	**1**	**1**	**2**	**11**
-	$54,552	-	-	$61,373	$75,787	$71,484	$57,785
9,814	**9,484**	**5,301**	**591**	**89**	**11**	**3**	**131,948**
$74,894	$78,831	$82,508	$84,294	$80,887	$101,050	$70,974	$58,116

	Average Age	Average Years of Service	Number
Full and Part-time Members	41	12	131,948
Substitutes	41	NA	28,369
All	**41**		**160,317**

Plan Summary

Administration

TRS was created and is governed by Article 16 of the Illinois Pension Code, contained in the Illinois Compiled Statutes (ILCS). An 11-member Board of Trustees is authorized to carry out duties granted to it under the article. One trustee position for an appointed member is currently vacant.

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 FY07, members contributed 9.4 percent of gross creditable earnings designated as 7.5 percent for retirement annuity, 0.5 percent for post-retirement increases, 0.4 percent for the Early Retirement Option, 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 FY07, the member contribution was 0.8 percent of pay.

Service Credit

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

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

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

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

Most members retire under a retirement benefit formula. This retirement annuity is determined by two factors: average salary and years of creditable service. Average salary is the average of the creditable earnings in the highest four consecutive years within the last 10 years of creditable service. Years of service determine the percentage of the final average salary to which members are entitled. 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 the final average salary; there is no maximum for the actuarial benefit.

Public Act 90-0582 improved retirement benefits for TRS members by changing the rate at which TRS benefits are accrued 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 extended, for certain members, the terms of the program that was scheduled to sunset. The "Pipeline" ERO applied 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 had until July 1, 2007 to retire using the Pipeline ERO provision. The contribution rates were the same as they were for the ERO program that ended June 30, 2005.

Modified ERO. Public Act 94-0004 provides a new Modified ERO program. These provisions apply to members who retire after June 30, 2005, and who did 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 contribution changed from 20 percent to 23.5 percent for each year the member is under the age of 60. There is no longer a contribution waiver for the employer and member if the member has 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 the January 1 following the 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 a minimum of three years of creditable service. There is no minimum service requirement for occupational disability benefits for duty-related accidents or illnesses. Members continue to accrue service credit while they are receiving disability benefits but not while they are receiving disability retirement annuities. On January 1 following the fourth anniversary of the granting of the disability benefit, the monthly benefit is increased 7 percent. Thereafter, the benefit increases by 3 percent each January 1.

Public Act 94-0539 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. It allows members on a limited basis to tutor, substitute, or teach part-time 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 disability 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, as well as 0.5 percent paid toward annual increases in annuity, and 0.4 percent paid for the Early Retirement Option. 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.

Compared to retirees of other pension systems, TRS members have higher average years of service because most retired teachers were career educators.

Changes in Net Assets, Last 10 Fiscal Years

($ in thousands)

	2007	2006	2005	2004
Additions				
Member contributions*	$826,249	$799,034	$761,790	$768,661
State of Illinois	737,671	534,305	906,749	1,031,478
Pension Obligation Bond proceeds	-	-	-	4,330,374
Employer contributions**	115,915	123,543	148,813	127,573
Investment income (net of expenses)	6,831,324	3,993,290	3,330,040	4,485,730
Total Additions to Plan Net Assets	**$8,511,159**	**$5,450,172**	**$5,147,392**	**$10,743,816**
Deductions				
Benefit payments	$3,111,753	$2,877,231	$2,533,103	$2,262,329
Refunds	59,732	57,967	59,396	48,020
Administrative expenses	15,245	15,303	14,404	13,561
Other expenses	-	-	-	-
Total Deductions from Plan Net Assets	**$3,186,730**	**$2,950,501**	**$2,606,903**	**$2,323,910**
Changes in Net Assets				
Beginning of year	$36,584,889	$34,085,218	$31,544,729	$23,124,823
Net increase (decrease)	5,324,429	2,499,671	2,540,489	8,419,906
End of year	$41,909,318	$36,584,889	$34,085,218	$31,544,729

** Member contributions increased from 9.0 percent to 9.4 percent beginning in FY 2006 and from 8.0 percent to 9.0 percent in FY 1999. Also included are member contributions for purchases of optional service, early retirement, and upgrades to the 2.2 formula.*

*** Employer contributions include contributions from federal funds, for early retirement, and for the 2.2 formula. Beginning in FY06, it includes employer contributions for salary increases in excess of 6 percent used in final average salary calculations and for excess sick leave used for service credit.*

Benefit and Refund Deductions from Net Assets by Type, Last 10 Fiscal Years

($ in thousands)

	2007	2006	2005	2004
Type of Benefit				
Retirees	$2,965,356	$2,741,164	$2,407,652	$2,145,187
Survivors	121,822	112,902	103,991	97,155
Disability benefits	24,575	23,165	21,460	19,987
Total Benefits	**$3,111,753**	**$2,877,231**	**$2,533,103**	**$2,262,329**
Type of Refund				
Withdrawals	$17,147	$17,155	$15,526	$14,858
Death benefits and excess contribution refunds paid to survivors	17,081	16,747	16,541	16,145
2.2 and optional service	14,145	12,666	15,181	7,977
Survivor contributions refunded to retirees	8,808	10,198	10,354	7,835
Other	2,551	1,201	1,794	1,205
Total Refunds	**$59,732**	**$57,967**	**$59,396**	**$48,020**

2003	2002	2001	2000	1999	1998
$732,020	$681,152	$643,563	$619,623	$866,376	$441,016
929,710	814,740	724,008	639,299	572,951	466,948
-	-	-	-	-	-
91,552	92,618	97,618	91,298	63,645	35,985
1,060,853	(723,987)	(1,015,256)	2,336,217	2,089,661	2,873,103
$2,814,135	**$864,523**	**$449,933**	**$3,686,437**	**$3,592,633**	**$3,817,052**
$1,998,622	$1,759,749	$1,566,793	$1,402,246	$1,284,127	$1,209,957
43,115	38,756	35,849	28,797	25,859	24,372
13,859	13,487	12,641	11,681	10,680	9,761
-	1,892	417	10	145	182
$2,055,596	**$1,813,884**	**$1,615,700**	**$1,442,734**	**$1,320,811**	**$1,244,272**
$22,366,284	$23,315,645	$24,481,412	$22,237,709	$19,965,887	$17,393,107
758,539	(949,361)	(1,165,767)	2,243,703	2,271,822	2,572,780
$23,124,823	$22,366,284	$23,315,645	$24,481,412	$22,237,709	$19,965,887

2003	2002	2001	2000	1999	1998
$1,890,512	$1,660,998	$1,475,490	$1,317,841	$1,205,865	$1,138,530
88,997	80,461	74,631	68,798	63,586	57,996
19,113	18,290	16,672	15,607	14,676	13,431
$1,998,622	**$1,759,749**	**$1,566,793**	**$1,402,246**	**$1,284,127**	**$1,209,957**
$13,204	$13,976	$13,824	$14,130	$13,410	$13,398
17,734	14,927	14,343	11,768	10,757	9,415
3,699	3,483	1,740	50	-	-
7,024	5,587	5,174	2,828	1,692	1,559
1,454	783	768	21	-	-
$43,115	**$38,756**	**$35,849**	**$28,797**	**$25,859**	**$24,372**

Employee and Employer Contribution Rates, Last 10 Fiscal Years

		Employer Rate (%)[2]			
Fiscal Year	Employee Rate (%)[1]	State[3]	School Districts for 2.2 Formula[4]	School Districts from Federal Sources[5]	Total[6]
1998	8.00%	8.75%	-	0.34%	9.09%
1999	9.00	10.20	0.30%	0.33	10.83
2000	9.00	10.77	0.58	0.31	11.66
2001	9.00	11.47	0.58	0.32	12.37
2002	9.00	12.16	0.38	0.35	12.89
2003	9.00	13.01	0.18	0.35	13.55
2004	9.00	13.98	0.58	0.40	14.96
2005	9.00	11.76	0.58	0.49	12.84
2006	9.40	6.75	0.58	0.31	7.64
2007	**9.40**	**9.26**	**0.58**	**0.52**	**10.36**

1 *Member rate increase in FY99 was for the 2.2 formula change; rate increase in FY06 was for the Early Retirement Option.*

2 *Employer contributions exclude contributions for Early Retirement Option.*

3 *State contributions increased through FY04 pursuant to statutory ramp schedule under 40 ILCS 5/16-158 (b-3). Pension obligation bond (POB) proceeds that were received in FY04 are not state contributions and are not included in this schedule. FY05 decline was due to calculation required under POB legislation. FY06 and FY07 rates were due to specific dollar appropriation specified in Public Act 94-0004 that were not based on the statutory ramp schedule.*

4 *Employer contributions for the 2.2 formula change were 0.3 percent of pay in FY99 and 0.58 percent of pay thereafter, with waivers for certain employers under collective bargaining agreements. From January 1, 2002 through June 30, 2003, 40 ILCS 5/16-158 (e) allowed 0.4 percent of the 2.2 contribution to be diverted to cover a new employer contribution for retiree health insurance.*

5 *Federal contributions above are expressed as percentages of total active member payroll. Through FY05, employers contributed 10.5 percent of pay as the employer contribution for members paid from federal sources. Beginning in FY06, the employer contribution rate paid on behalf of members paid from federal sources is the same as the employer contribution rate paid by the State of Illinois on behalf of members not paid from federal sources (7.06 percent in FY06 and 9.78 percent in FY07, with increases according to the statutory schedule under 40 ILCS 5/16-158 (b-3)).*

6 *Totals shown are rates certified by the actuaries based on estimated payrolls and may not total due to rounding. Also, the total rate shown in FY02 is lower than the total contribution requirement certified by the actuaries because the diversion of the health insurance contributions that began in the middle of the year was not anticipated.*

Over time, the most consistent source of TRS income has been from member contributions.

Demographics of Benefit Recipients and Active Members as of June 30, 2007

(Excludes inactive members)

	Retirees			Disability Benefit Recipients			Survivors		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Under 20	-	-	-	-	-	-	27	36	63
20-24	-	-	-	-	-	-	12	11	23
25-29	-	-	-	1	5	6	1	-	1
30-34	-	-	-	2	11	13	3	7	10
35-39	-	-	-	7	21	28	7	6	13
40-44	-	-	-	9	39	48	5	16	21
45-49	-	-	-	10	52	62	18	33	51
50-54	86	183	269	29	147	176	51	107	158
55-59	4,413	8,193	12,606	57	271	328	125	284	409
60-64	7,707	12,744	20,451	41	139	180	217	440	657
65-69	5,446	9,252	14,698	10	57	67	231	647	878
70-74	4,291	6,432	10,723	13	49	62	297	804	1,101
75-79	3,291	5,243	8,534	11	30	41	395	1,067	1,462
80-84	2,094	3,900	5,994	5	21	26	444	1,012	1,456
85-89	799	3,038	3,837	1	18	19	340	859	1,199
90+	354	2,262	2,616	-	5	5	255	690	945
Total	**28,481**	**51,247**	**79,728**	**196**	**865**	**1,061**	**2,428**	**6,019**	**8,447**

Benefit Recipients by Type as of June 30, 2007

		Type of Monthly Benefit				
Monthly Benefit Range	Number of Recipients (all)	Age Retirement	Disability Retirement	Nonoccupational Disability	Occupational Disability	Survivor Monthly Benefits
Under $500	6,756	5,099	11	1	-	1,645
$500-$999	8,137	5,495	142	3	-	2,497
$1,000-$1,499	7,836	5,698	279	37	-	1,822
$1,500-$1,999	7,565	6,174	130	84	-	1,177
$2,000-$2,499	7,337	6,476	78	83	3	697
$2,500-$2,999	7,409	6,993	43	29	1	343
$3,000-$3,499	7,982	7,762	49	13	-	158
$3,500-$3,999	7,950	7,880	23	2	-	45
$4,000-$4,499	7,248	7,199	22	1	-	26
$4,500-$4,999	5,519	5,489	14	2	-	14
$5,000-$5,499	4,220	4,201	7	-	-	12
$5,500-$5,999	3,363	3,354	2	-	1	6
$6,000-$6,499	2,673	2,672	-	-	-	1
$6,500-$6,999	1,938	1,938	-	-	-	-
$7,000-$7,499	1,280	1,279	-	-	-	1
$7,500-$7,999	751	749	-	-	-	2
$8,000 or more	1,272	1,270	1	-	-	1
Total benefit recipients	**89,236**	**79,728**	**801**	**255**	**5**	**8,447**

Summary Statistics, All Benefit Recipients, as of June 30, 2007

	Age Retirement	Disability Benefits (3 types)	Survivor Benefits
Average monthly benefit	$3,344	$1,865	$1,196
Average age	69	58	76
Average years of service	29	18	NA

Active Members			Total Retirees, Disabilitants, Survivors, and Active Members			Percent Distribution of Retirees, Disabilitants, Survivors, and Active Members		
Male	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
-	-	-	27	36	63	43%	57%	100%
1,798	6,609	8,407	1,810	6,620	8,430	21	79	100
5,616	19,030	24,646	5,618	19,035	24,653	23	77	100
5,670	15,865	21,535	5,675	15,883	21,558	26	74	100
5,349	14,750	20,099	5,363	14,777	20,140	27	73	100
4,555	14,227	18,782	4,569	14,282	18,851	24	76	100
3,809	14,855	18,664	3,837	14,940	18,777	20	80	100
4,822	18,111	22,933	4,988	18,548	23,536	21	79	100
3,756	14,600	18,356	8,351	23,348	31,699	26	74	100
1,389	3,984	5,373	9,354	17,307	26,661	35	65	100
423	699	1,122	6,110	10,655	16,765	36	64	100
124	170	294	4,725	7,455	12,180	39	61	100
40	36	76	3,737	6,376	10,113	37	63	100
8	9	17	2,551	4,942	7,493	34	66	100
1	4	5	1,141	3,919	5,060	23	77	100
2	6	8	611	2,963	3,574	17	83	100
37,362	**122,955**	**160,317**	**68,467**	**181,086**	**249,553**	**27%**	**73%**	**100%**

Subtypes of Age Retirement Benefits

Regular 2.2 Flat Formula	Graduated Formula	Actuarial Benefit Style	ERO (2.2 & Grad. Form.)	ERI (State or TRS)	Other	Age Retirement Total
658	2,166	2,256	6	8	5	5,099
546	2,840	1,894	78	110	27	5,495
626	2,646	1,339	665	376	46	5,698
712	2,301	847	1,540	725	49	6,174
840	1,956	492	1,982	1,158	48	6,476
1,115	1,548	198	2,588	1,495	49	6,993
1,521	1,409	152	3,002	1,596	82	7,762
1,673	1,298	118	3,192	1,487	112	7,880
1,719	1,131	81	2,930	1,197	141	7,199
1,404	922	63	2,231	776	93	5,489
1,042	760	22	1,644	650	83	4,201
828	539	34	1,354	523	76	3,354
700	430	15	1,136	331	60	2,672
523	347	11	811	195	51	1,938
381	212	7	519	126	34	1,279
236	142	5	272	68	26	749
449	280	10	381	108	42	1,270
14,973	**20,927**	**7,544**	**24,331**	**10,929**	**1,024**	**79,728**

Percentage of Age Retirement Benefits by Subtype

19%	26%	9%	31%	14%	1%	100%

Average Benefit Payments for New Retirees
Last 10 Fiscal Years

Retirement Effective Dates	Years of Service: Under 5	5-9	10-14	15-19	20-24
Period July 1, 2006 through June 30, 2007					
Average monthly benefit	$208	$595	$1,118	$1,932	$2,716
Average final average salary	$55,395	$40,331	$46,226	$56,872	$66,645
Number of retired members	132	212	233	286	492
Period July 1, 2005 through June 30, 2006					
Average monthly benefit	$210	$515	$1,139	$1,744	$2,509
Average final average salary	$55,558	$36,036	$44,715	$53,349	$62,206
Number of retired members	114	202	202	199	376
Period July 1, 2004 through June 30, 2005					
Average monthly benefit	$228	$544	$1,074	$1,715	$2,475
Average final average salary	$59,538	$39,038	$44,000	$52,488	$61,882
Number of retired members	170	198	233	251	567
Period July 1, 2003 through June 30, 2004					
Average monthly benefit	$208	$575	$1,052	$1,635	$2,359
Average final average salary*	–	–	–	–	–
Number of retired members	106	152	182	181	419
Period July 1, 2002 through June 30, 2003					
Average monthly benefit	$206	$522	$960	$1,573	$2,350
Average final average salary*	–	–	–	–	–
Number of retired members	213	191	197	191	395
Period July 1, 2001 through June 30, 2002					
Average monthly benefit	$198	$509	$898	$1,486	$2,140
Average final average salary*	–	–	–	–	–
Number of retired members	156	183	169	174	397
Period July 1, 2000 through June 30, 2001					
Average monthly benefit	$191	$468	$910	$1,398	$2,057
Average final average salary*	–	–	–	–	–
Number of retired members	191	175	163	170	396
Period July 1, 1999 through June 30, 2000					
Average monthly benefit	$210	$448	$795	$1,390	$1,915
Average final average salary*	–	–	–	–	–
Number of retired members	194	159	144	138	347
Period July 1, 1998 through June 30, 1999					
Average monthly benefit	$235	$526	$766	$1,331	$1,780
Average final average salary*	–	–	–	–	–
Number of retired members	157	160	120	121	309
Period July 1, 1997 through June 30, 1998					
Average monthly benefit	$172	$418	$607	$1,037	$1,452
Average final average salary*	–	–	–	–	–
Number of retired members	130	117	99	60	149

** The average for the final average salary by years of service are not available for periods before July 1, 2004.*

	Years of Service						
25-29	30-34	35-39	40+	All Fiscal Year Retirees	Average Age For All Fiscal Year Retirees	Average Service For All Fiscal Year Retirees
$3,744 $75,511 575	$5,080 $83,693 1,858	$5,598 $89,451 1,506	$5,887 $89,442 139	$4,260 $77,499 5,433	age 58	29 years
$3,372 $68,902 404	$4,728 $77,920 1,205	$5,161 $82,558 1,005	$5,600 $85,399 84	$3,789 $70,764 3,791	age 59	28 years
$3,467 $70,637 737	$4,700 $76,980 2,992	$5,264 $84,774 1,637	$5,270 $81,371 123	$4,070 $73,078 6,908	age 58	30 years
$3,227 – 510	$4,546 – 1,988	$5,056 – 1,184	$5,206 – 95	$3,892 $70,359 4,817	age 58	30 years
$3,147 – 508	$4,281 – 1,995	$4,628 – 1,144	$4,598 – 81	$3,534 $62,728 4,915	age 58	29 years
$3,080 – 481	$4,301 – 2,117	$4,543 – 831	$4,700 – 74	$3,512 $61,714 4,582	age 59	29 years
$2,857 – 442	$4,113 – 1,677	$4,436 – 762	$4,198 – 67	$3,250 $58,144 4,043	age 59	28 years
$2,767 – 404	$3,850 – 1,348	$4,236 – 751	$3,991 – 71	$3,053 $55,634 3,556	age 59	28 years
$2,680 – 395	$3,627 – 737	$4,090 – 623	$3,842 – 60	$2,772 $52,277 2,682	age 60	27 years
$2,260 – 131	$2,965 – 141	$3,797 – 249	$4,041 – 47	$2,012 $42,595 1,123	age 60	23 years

Principal Participating Employers

Participating Employer	City	Year ended June 30, 2007 Rank	Covered Employees (including subs)	Percentage of Total TRS Membership	Year Ended June 30, 1998 Rank	Covered Employees (including subs)	Percentage of Total TRS Membership
School District U46	Elgin	1	3,049	1.9%	1	2,432	1.8%
Indian Prairie CUSD #204	Naperville	2	2,671	1.7%	6	1,355	1.0%
Plainfield SD #202	Plainfield	3	2,349	1.5%	-	-	-
Rockford School District #205	Rockford	4	2,334	1.5%	2	2,194	1.6%
Naperville CUSD #203	Naperville	5	1,740	1.1%	5	1,384	1.0%
Peoria SD #150	Peoria	6	1,581	1.0%	3	1,465	1.1%
Community USD #300	Carpentersville	7	1,560	1.0%	8	1,120	0.8%
Springfield SD #186	Springfield	8	1,517	0.9%	4	1,408	1.0%
Valley View CUSD #365	Romeoville	9	1,481	0.9%	-	-	-
Schaumburg CCSD #54	Schaumburg	10	1,413	0.9%	7	1,323	1.0%
Community Unit SD #200	Wheaton	-	-	-	9	1,111	0.8%
Township HSD #214	Arlington Heights	-	-	-	10	1,043	0.8%
Total, largest 10 employers			**19,695**	**12.3%**		**14,835**	**10.8%**
All other (1,021 employers in 2007*; 1,050 employers in 1998)			**140,622**	**87.7%**		**122,485**	**89.2%**
			160,317	**100.0%**		**137,320**	**100.0%**

*Other Employers by Type as of June 30, 2007	Number of Other Employers	Other Covered Employees
Local school districts	860	132,817
Special districts	137	7,151
State agencies	24	654
Total, employers other than largest 10	**1,021**	**140,622**

Total Employers by Type as of June 30, 2007	Total Number of Employers	Total Covered Employees
Local school districts	870	152,512
Special districts	137	7,151
State agencies	24	654
Total, all employers	**1,031**	**160,317**