



Comprehensive Annual Financial Report

for the fiscal years ended June 30, 2013 and June 30, 2012



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

STATEMENT OF PURPOSE

Retirement Security for Illinois Educators

MISSION STATEMENT

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

FISCAL YEAR HIGHLIGHTS

	2013	2012
Active contributing members	160,692	162,217
Inactive noncontributing members	120,325	99,052
Benefit recipients*	<u>108,783</u>	<u>105,447</u>
Total membership	389,800	366,716
Actuarial accrued liability (AAL)	\$93,886,988,000	\$90,024,945,000
Less actuarial value of assets (smoothed assets)	<u>38,155,191,000</u>	<u>37,945,397,000</u>
Unfunded actuarial accrued liability (UAAL)	\$55,731,797,000	\$52,079,548,000
Funded ratio (% of AAL covered by assets, based on smoothed assets)	40.6%	42.1%
Total fund investment return, net of fees	12.8%	0.8%
Expenses		
Benefits paid	\$4,893,084,234	\$4,553,822,073
Refunds paid	88,397,549	84,635,032
Administrative expenses	<u>20,257,553</u>	<u>19,011,899</u>
Total expenses	\$5,001,739,336	\$4,657,469,004
Income		
Member contributions	\$921,422,657	\$917,661,328
Employer contributions	157,179,243	154,894,946
State of Illinois contributions	2,703,312,213	2,406,364,156
Total investment income	<u>4,561,768,383</u>	<u>224,106,719</u>
Total income	\$8,343,682,496	\$3,703,027,149

* Benefit recipients includes retiree, disability, and survivor beneficiaries.



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for the fiscal years ended June 30, 2013 and June 30, 2012



Preface

This report was prepared by the TRS Accounting, Investments, Research, and Communications Departments.

Redesigned site

The design of the fiscal year 2013 *Comprehensive Annual Financial Report* mirrors the format and look of the System's website, which was redesigned in 2012-2013 to make it more inviting and easier for members and the public to use.

Since the site was launched in 1996, it has steadily grown in importance. In the last year, roughly 1.1 million people visited the TRS website, a volume that easily surpasses any other communication method. The TRS website contains the analyses of legislative issues, procedures to be followed by members and school districts, and interactive tools that help members make important retirement decisions.

In less than 20 years, the website has grown to become a vital tool in the lasting relationships TRS has with its members and their families.

<http://trs.illinois.gov>
Teachers' Retirement System of the State of Illinois

Member Account Access | TRS Business | News Room | Publications | Contact Us

ABOUT TRS
EMPLOYERS
MEMBERS

Welcome to the New TRS Website!
TRS has redesigned and improved its website to make it easier to find the online resources you need. Just select from "Members," "Employers," "About TRS" or a navigation button to find information about benefits, forms, publications, employer responsibilities, investments, legislation and news about TRS. Click here for press release.

Fall Member Meetings
Regional meetings for Tier I members explain the TRS retirement process and member benefits. Click here for meeting dates and locations.
Overhauling the Illinois Pension Code
A General Assembly committee continues to work on legislation to secure the long-term financial security of TRS. This legislation may include changes to benefits and stronger guarantees of future state funding for TRS. This committee was formed after lawmakers failed to reach agreement on a bill during the 2013 spring session.

Home
© Teachers' Retirement System of the State of Illinois
2815 West Washington Street | Springfield Illinois 62702
(800) 877-7896 | (866) 326-0087 for the hearing impaired
Webmaster | Privacy Notice | State Links | Educator Resources

TRS PDF documents require Acrobat Reader 6.0

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

2815 West Washington | P.O. Box 19253 | Springfield, Illinois 62794-9253
<http://trs.illinois.gov>

CONTENTS

INTRODUCTION

6	Certificate of Achievement
7	Letter of Transmittal
12	Board of Trustees
12	Executive Cabinet Members
13	Organizational Structure
14	Consulting and Professional Services

FINANCIAL

16	Independent Auditor's Report
19	Management's Discussion and Analysis
24	Financial Statements
24	Statements of Net Position as of June 30, 2013 and 2012
25	Statements of Changes in Net Position Years Ended June 30, 2013 and 2012
26	Notes to Financial Statements
55	Required Supplementary Information
55	Schedule of Funding Progress
55	Schedule of Contributions from Employers and Other Contributing Entities
56	Other Supplementary Information
56	Schedule of Administrative Expenses For Years Ended June 30
56	Schedule of Investment Expense For Years Ended June 30
56	Schedule of Payments to Consultants For Years Ended June 30

INVESTMENTS

58	Introduction
59	Fund Performance vs. Benchmarks and Fair Values
59	Performance Summary
59	Asset Allocation vs. Targets
61	Portfolio Securities Summary
62	Securities Holdings (Historical)
62	Securities Holdings For Years Ended June 30
62	Growth of \$10,000
63	U.S. Equity
66	International Equity
68	Global Fixed Income
71	Real Return
72	Private Equity
77	Absolute Return
78	Real Estate
80	Securities Lending
81	Securities Lending Summary
81	Brokerage Activity
81	Top 50 Brokers Used by TRS Managers
82	External Manager Fee Payments
82	Schedule of Investment Manager Fees

ACTUARIAL

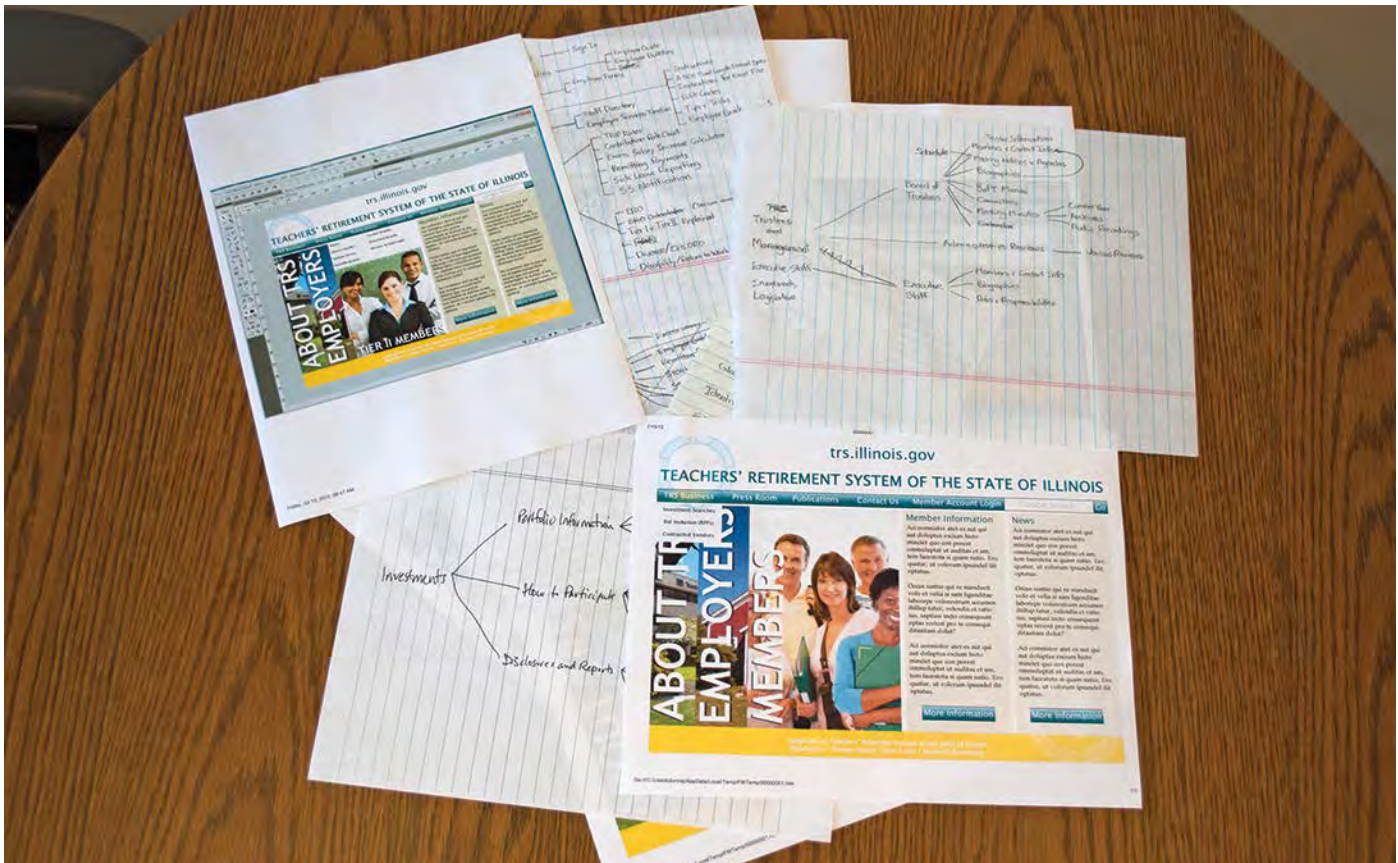
90	Actuary's Certification
92	Actuarial Assumptions and Methods
95	Annual Actuarial Valuation
95	Actuarial Valuation
95	Analysis of Financial Experience: Reconciliation of Unfunded Liability
96	Reconciliation of Unfunded Liability
97	State Funding
98	Tests of Financial Condition
98	Funded Ratio Test
98	Unfunded Liability as a Percentage of Payroll Test
99	Solvency Test
99	Other Information
99	Retirees and Beneficiaries Added to and Removed from Rolls
100	Average Annual Salary for Active Members by Years of Service
102	Active Members by Age and Years of Service as of June 30, 2013
104	Plan Summary

STATISTICAL

110	Retired Members by Years of Service and Years in Retirement as of June 30, 2013
112	Changes in Net Position, Last 10 Fiscal Years
112	Benefit and Refund Deductions from Net Position by Type, Last 10 Fiscal Years
115	Employee and Employer Contribution Rates, Last 10 Fiscal Years
116	Demographics of Benefit Recipients and Active Members as of June 30, 2013
116	Benefit Recipients by Type as of June 30, 2013
118	Average Benefit Payments for New Retirees, Last 10 Fiscal Years
120	Principal Participating Employers

TRS Website Development

The TRS website went online in 1996. It was redesigned in 1998, 2002, 2006, and 2013. The 2013 design was planned by the Communications Department with input from department managers on content and navigation. The foundation of the design was simple. Visitors should be able to find information online in only a few clicks and duplication of information was avoided.



Member Feedback

In June 2013, various members in the Springfield office agreed to test our new website before it was launched and provide feedback. Here are some of their comments:

- “I like that there is easy access and drop downs to more specific information.”
- “I like the easy navigation. It’s easy to navigate and understand.”
- “I like the quick movement.”
- “I like that the site is user-friendly, organized and non-cluttered.”

We also learned that members go to our site most commonly for the *Member Guides*, retirement planning, legislation topics, contact information and forms. The members were asked to locate specific subjects, forms and publications, which most completed quite easily. This exercise helped us gauge whether the design was logical and organized for members to find information on the first try



Introduction



2012



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Certificate of Achievement
for Excellence
in Financial Reporting

Presented to

Teachers' Retirement System
of the State of Illinois

Executive Director / CEO



LETTER OF TRANSMITTAL

December 18, 2013

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 years ended June 30, 2013 and June 30, 2012. The presentation of this year's report mirrors the stylistic and functional upgrades made during 2013 to the TRS website – <http://trs.illinois.gov>. A newly redesigned interactive platform provides the latest information on TRS's finances and pension issues facing Illinois, as well as tools to help members and employers do business with TRS.

The 2013 CAFR reveals that despite its standing as one of the 50 largest retirement systems in the United States and one of the top 100 funds worldwide, TRS continues to face significant financial challenges in the future unless the State of Illinois takes action to counteract decades of consistent underfunding by state government. Going forward, these financial challenges undermine the state's legal and moral responsibility to make retirement promises that can be kept and to fully fund these promises.

According to a media analysis based on assets, TRS currently ranks 41st among both public and private United States pension systems, holding \$39.9 billion in assets at the end of fiscal year 2013. However, if TRS had been properly funded over the last 74 years, TRS would be among the 10 largest U.S. systems. These facts underscore the extent of the problem.

By all accounts, the long-term funded status of TRS is worst in the nation. TRS's funded ratio at the end of the fiscal year stood at 40.6 percent, on an actuarial basis, with a total long-term unfunded liability of \$55.7 billion. The obligations owed members over the next several decades have increased by 162 percent since 2000. However during the same period, TRS assets grew by only 63 percent.

TRS remains a major entity in institutional investing and the world economy, but over time its growing unfunded liability will increasingly threaten its sustainability for all members – those that are retired and those who are active educators. A large unfunded liability threatens investment returns that are vital to the retirement system's security.

For the last two years TRS has played a leading role in pinpointing and explaining the steep challenges faced by the state's five public pension systems. Led by the Board of Trustees, TRS has consistently warned that a growing pension debt and state government's consistent inability to provide actuarially adequate funding will lead to calamity in less than 25 years. As this CAFR is being readied, members of the Illinois General Assembly continue to debate controversial legislation that could result in changes to funding for pensions and to retirement benefits. Without any changes to correct the imbalance between spending and revenue, TRS predicts that obligations could exceed resources as early as 2034.

In 2012 the TRS Board of Trustees approved a resolution that not only recognized the threat to our members, but set forth a five-point foundation for any change to the pension code designed to secure the future. The five cornerstones of future security for TRS pensions would:

1. Require the use of standard actuarial practices and formulas instead of alternate calculations and practices required by state law that artificially lower state funding levels.

2. Require a legal guarantee that ensures state government fully funds TRS and the other public pension funds in the future.
3. Amend state law to fix a serious financial inequity in the benefits and funding for Tier II pensions that significantly penalizes those members over time and masks the true underfunded status of Tier I benefits.
4. Ensure that any changes in the pension code made by the General Assembly are uncomplicated and easy to administer fairly to all our members.
5. Require that any changes to the pension code adhere to Article 13, Section 5 of the Illinois Constitution – the pension protection clause.

Ensuring the long-term stability and strength of TRS will enable it to keep the promises made by the State of Illinois for a secure retirement. In good times and bad, TRS has maintained trusted relationships with generations of educators and has never defaulted on any promises.

TRS has more than fulfilled its duty to properly manage the money entrusted to it by our members. At the end of fiscal year 2013, TRS investments returned 12.8 percent, net of fees, outperforming the System's custom benchmark of 12.5 percent. More importantly, TRS's 30-year investment return exceeded 9 percent, which outperformed the long-term assumed rate of return of 8 percent.

The state's promise of a secure retirement is vital to school teachers and communities in every corner of Illinois. TRS pensions provide our members with a stable income during their golden years that allow them to continue to be involved members of society. Moreover, TRS members continue to contribute to the Illinois economy. TRS benefits support economic activity that creates more than 32,000 jobs throughout the state and provide an annual economic stimulus in excess of \$4.4 billion.

TRS is required by law to publish a *CAFR* annually with information about the System's financial condition, investment methods and performance, actuarial conclusions that determine financial needs and statistical information about members, school districts, revenues and benefits. TRS management and staff are responsible for the accuracy of this report and for ensuring that all material disclosures have been made. TRS recognizes that the limitations of internal controls must be considered. These controls are designed to provide reasonable assurance regarding the safekeeping of assets, the reliability of financial records, the appropriate segregation of duties and responsibilities and the use of sound accounting and financial practices. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. The objective of internal controls at TRS is a reasonable, not absolute, assurance that the System's financial statements are free of material misstatements. Three internal auditors are employed to continually review and determine that all laws, rules, policies and procedures are followed.

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. A 13-member Board of Trustees governs TRS. The Board includes the state superintendent of education, six representatives of the public who are appointed by the governor, four members of TRS who are elected by active teachers, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the effective administration of TRS.

The annual budget for TRS administrative expenses is prepared by staff and 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 financial statements presented in conformity with generally accepted accounting principles (GAAP) applied within guidelines established by the Governmental Accounting Standards Board (GASB).

A system of internal controls helps us monitor and safeguard assets and promote efficient operations. Each year TRS's financial statements, records, and internal controls are examined by a professional accounting firm who serves as 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 Auditor's 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 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)

Source	2013	2012	Increase	
			Amount	% Change
Member contributions	\$922	\$918	\$4	0.4%
State of Illinois	2,703	2,406	297	12.3
Employer contributions	157	155	2	1.3
Total investment income	<u>4,562</u>	<u>224</u>	<u>4,338</u>	1,936.6
Total	<u>\$8,344</u>	<u>\$3,703</u>	<u>\$4,641</u>	125.3%

Expenses (\$ millions)

Source	2013	2012	Increase	
			Amount	% Change
Benefits payments	\$4,893	\$4,554	\$339	7.4%
Refunds	89	84	5	6.0
Administrative/Other	20	19	1	5.3
Total	<u>\$5,002</u>	<u>\$4,657</u>	<u>\$345</u>	7.4%

TRS staff and the Board of Trustees remain vigilant in our efforts to improve the retirement system's funded status for our current and future members. We continue to invest prudently and in a disciplined manner for the benefit of our membership and for the long-term success of the retirement system. The TRS Board and staff believe the overall investment strategy remains sound and appropriate for our circumstances.

Investments

The TRS investment portfolio returned 13.5 percent, gross of fees, for the fiscal year ended June 30, 2013. Total TRS investment assets increased approximately \$2.9 billion during the year.

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.

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

Funding

During the year ended June 30, 2013, the funded ratio of the Teachers' Retirement System decreased from 42.1 percent to 40.6 percent. The actuarial value of assets at year end was \$38.2 billion and the actuarial accrued liability was \$93.9 billion. The decline in the funded ratio was due to an increase in the liability mainly due to the continued phase-in of prior investment losses. Under the smoothing methodology required by Public Act 96-0043, differences between actual and expected investment earnings are recognized prospectively over a five-year period. The actuarial value of assets now recognizes 100 percent of the 2009 losses, 80 percent of the 2010 gains, 60 percent of the 2011 gains, 40 percent of the 2012 losses, and 20 percent of the 2013 gains, compared to the actuarially assumed rate of return.

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

Major Initiatives

In fiscal year 2013, TRS initiated and continued several initiatives that benefited our members and enhanced the retirement system:

- An extensive document imaging project designed to digitize approximately 398,000 hard-copy member records containing an estimated 11 million images. The new record system will help prevent identity theft and the unintended loss of records. Once member records are converted, the project will begin digitizing files from the Employer Services and Investment Departments.
- Improvements to the System's interaction with members, stakeholders and the public. The re-designed TRS website greatly improved the functionality and usefulness of the site for members. An extensive reconfiguration of the retirement system's call center in Springfield will enhance direct service to members. A new larger office in Lisle will improve member outreach in northern Illinois. New software improves the Freedom of Information Act process for members and the public.
- A commitment to environmental stewardship. The document imaging project greatly reduces the amount of paper used in the day-to-day operations. All materials for TRS Board meetings for the first time are being delivered electronically, eliminating thousands of pieces of paper for each meeting and the staff time needed for production and duplication.
- Extensive analysis and actuarial calculations on proposed pension legislation for state officials, legislators, policymakers and stakeholders regarding the impact of various ideas and concepts on benefits and system funding.
- The integration of new financial reporting guidelines established by the Governmental Accounting Standards Board for use in fiscal year 2014, along with an education program to help members, stakeholders and the media understand the rationale, use and limitations of the new procedures.

All of these initiatives are pursued with one goal in mind: to better serve our members, whether they are 25 or 100 years of age. We are committed to earn their trust. We know they look to us to keep the retirement promises made to them. That requires us to be honest about the threats to these promises. We are committed to being a source of clarity in a world filled with uncertainty and are grateful for the trust placed in our care.

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, 2012. This was the 24th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

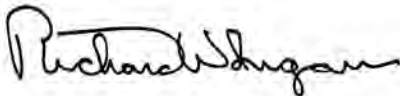
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 website, <http://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.



Richard Ingram
Executive Director



Jana Bergschneider, CPA
Director of Administration

BOARD OF TRUSTEES As of December 1, 2013



Front row, left to right:

Vice President Sharon Leggett; Rainy Kaplan; Cinda Klickna; Marcia Campbell and Cynthia O'Neill

Back row, left to right:

Michael Busby; Mark Bailey; Executive Director Dick Ingram; Enrique M. Vasquez; Bob Lyons; President Christopher A. Koch, Ed. D.

Shown at right: Sonia Walwyn



Sonia Walwyn

EXECUTIVE CABINET MEMBERS As of December 1, 2013



Front row, left to right:

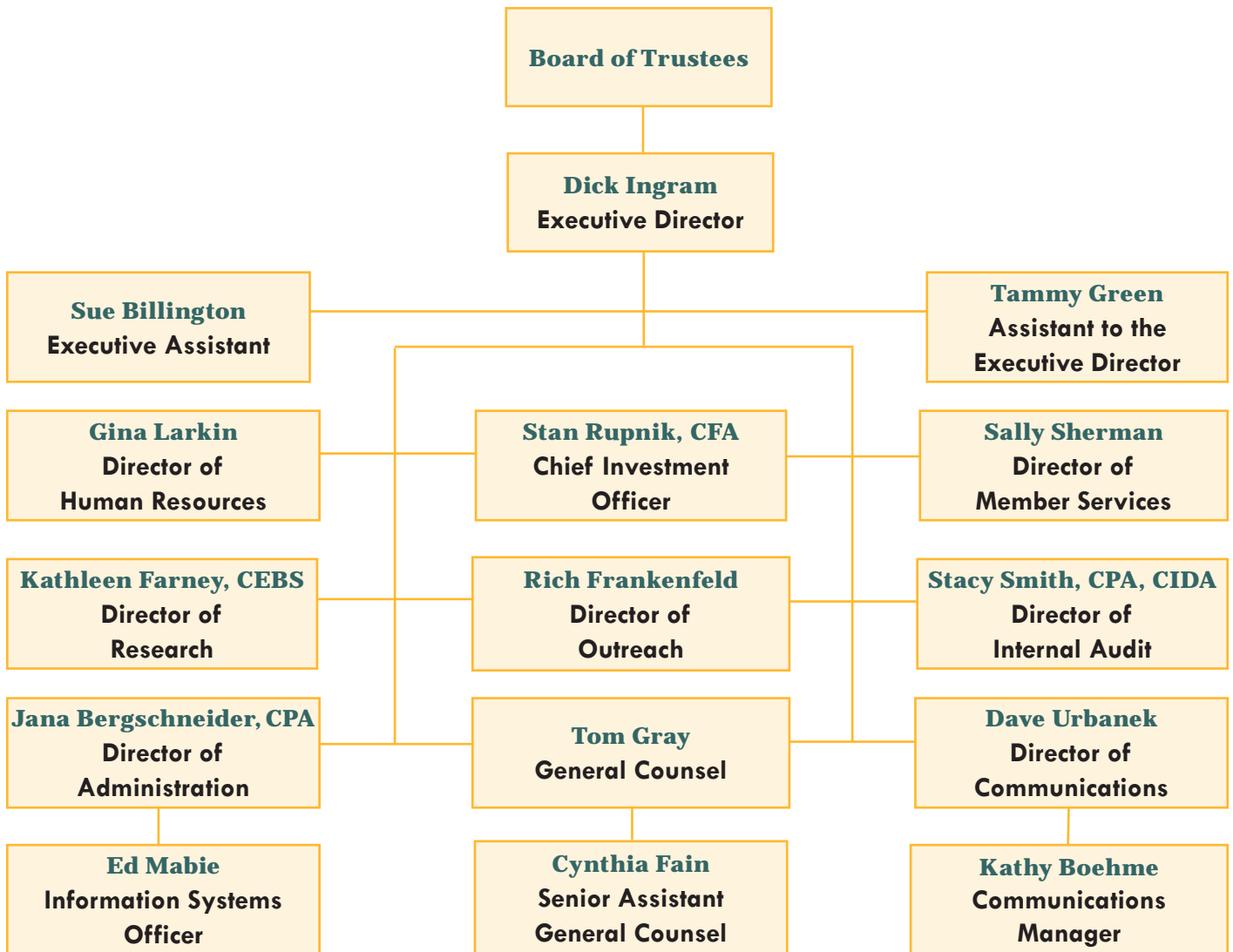
Director of Research Kathleen Farney, CEBS; Senior Assistant General Counsel Cynthia Fain; Director of Administration Jana Bergschneider, CPA; Director of Human Resources Gina Larkin; Executive Assistant Sue Billington and Assistant to the Executive Director Tammy Green

Back row, left to right:

Director of Member Services Sally Sherman; Communications Manager Kathy Boehme; General Counsel Tom Gray; Director of Outreach Rich Frankenfeld; Executive Director Dick Ingram; Chief Investment Officer Stan Rupnik, CFA; Director of Communications Dave Urbanek; Information Systems Officer Ed Mabie and Director of Internal Audit Stacy Smith, CPA, CIDA

ORGANIZATIONAL STRUCTURE

Executive Cabinet Members as of December 1, 2013



CONSULTING AND PROFESSIONAL SERVICES

Actuary

Buck Consultants, LLC
Chicago, Illinois

Master Trustee

State Street Bank and Trust Company
Boston, Massachusetts

External Auditors

(Special assistants to the Office of the Auditor General)

McGladrey LLP
Schaumburg, Illinois

Securities Lending Agent

Citibank, N.A.
New York, New York

Information Systems

Brent Ozar Unlimited **Sentinel Technologies**
Beaverton, Oregon Chicago, Illinois

Laserfiche Corporate **SunGard Availability**
Headquarters **Services**
Long Beach, California Chicago, Illinois

McAfee
Chicago, Illinois

Investment Consultants

Callan Associates Inc. **Risk Resources**
(Real estate) (Real estate
San Francisco, California insurance consulting)
Elmhurst, Illinois

R.V. Kuhns & **TorreyCove Capital**
Associates, Inc. **Partners LLC**
(General investment) (Private equity)
Portland, Oregon La Jolla, California

Legislative

Leinenweber Baroni & Daffada Consulting LLC
Springfield, Illinois

Co-Investment Advisors

LP Capital Advisors, LLC **Real Asset Portfolio**
(Private equity) **Management LLC**
Sacramento, California (Real estate)
Portland, Oregon

ORG Portfolio **Stout Risius Ross, Inc.**
Management LLC (Private equity)
(Real estate) Los Angeles, California
Cleveland, Ohio

Legal Services

Bingham McCutchen LLP **Loewenstein Hagen &**
Hartford, Connecticut **Smith PC**
Springfield, Illinois

Cavanagh & O'Hara **Mayer Brown LLP**
Springfield, Illinois Chicago, Illinois

Holland & Knight LLP **Morgan Lewis &**
Chicago, Illinois **Bockius LLP**
New York, New York

Howard & Howard **Robbins Geller Rudman**
Attorneys PLLC **& Dowd LLP**
Peoria, Illinois San Diego, California

Jackson Walker LLP
Austin, Texas

Kopec White & Spooner **Sorling Northrup**
Springfield, Illinois Springfield, Illinois



Financial





Independent Auditor's Report

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

Board of Trustees, Teachers' Retirement System of the State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statements of Net Position of the Teachers' Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of and for the years ended June 30, 2013 and 2012, and the related Statement of Changes in Net Position for the years then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Teachers' Retirement System of Illinois as of June 30, 2013 and 2012, and the changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 23 and the schedules of funding progress and contributions from employers and other contributing entities on page 55 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:

Our audits were conducted for the purpose of forming an opinion on the System's financial statements. The other supplementary information in the financial section, and the accompanying introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information in the financial section is fairly stated in all material respects, in relation to the financial statements as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

McGladrey LLP

Schaumburg, Illinois
December 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Teachers' Retirement System of the State of Illinois provides an overview of financial activities for the fiscal years ended June 30, 2013 and June 30, 2012. Please read it in conjunction with the Letter of Transmittal in the Introduction Section on page 7 and the Financial Statements and related notes that follow this discussion.

Financial Highlights

- The net position of TRS at June 30, 2013 was \$39.9 billion.
- During FY13, the net position of TRS increased \$3.3 billion.
- Contributions from members, employers, and the state were \$3.8 billion, an increase of \$303 million or 8.7 percent for the fiscal year.
- Total investment gain was \$4.6 billion, compared to investment gain of \$224 million in FY12, an increase of \$4.3 billion.
- Benefits and refunds paid to members and annuitants were \$5.0 billion, an increase of \$344 million or 7.4 percent compared to FY12.
- Total actuarial accrued liability was \$93.9 billion at June 30, 2013.
- The unfunded actuarial accrued liability increased from \$52.1 billion at June 30, 2012 to \$55.7 billion at June 30, 2013. The funded ratio decreased from 42.1 percent at June 30, 2012 to 40.6 percent at June 30, 2013. The unfunded liability and funded ratio for both years are calculated using a smoothed value of assets, as required under Public Act 96-0043.

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

Statements of Net Position. This statement reports the pension trust fund's net position which represents the difference between the other statement elements comprised of assets and liabilities. It is the balance sheet for the pension system and reflects the financial position of the Teachers' Retirement System as of June 30, 2013 and June 30, 2012.

Statements of Changes in Net Position. 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 Net Position supports the change in the value of net position reported on the Statements of Net Position.

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 Statements of Net Position as of June 30

	2013	Percentage Change	2012	Percentage Change	2011
Cash	\$14,659,145	(14.2%)	\$17,092,564	(53.6%)	\$36,799,319
Receivables and prepaid expenses	506,901,765	55.7	325,464,952	84.2	176,673,155
Investments	39,681,752,953	7.9	36,782,104,053	(2.6)	37,748,341,891
Invested securities lending collateral	1,932,554,323	(26.2)	2,617,763,246	(15.7)	3,104,528,064
Capital assets	4,358,587	0.6	4,331,011	8.5	3,992,703
Total assets	42,140,226,773	6.0	39,746,755,826	(3.2)	41,070,335,132
Total liabilities	2,281,458,274	(29.4)	3,229,930,487	(10.3)	3,599,067,938
Net position	\$39,858,768,499	9.2%	\$36,516,825,339	(2.5%)	\$37,471,267,194

Condensed Comparative Statements of Changes in Net Position For the Years Ended June 30

	2013	Percentage Change	2012	Percentage Change	2011
Contributions	\$3,781,914,113	8.7%	\$3,478,920,430	7.5%	\$3,235,605,731
Total investment income	4,561,768,383	1,935.5	224,106,719	(96.9)	7,234,539,490
Total additions	8,343,682,496	125.3	3,703,027,149	(64.6)	10,470,145,221
Benefits and refunds	4,981,481,783	7.4	4,638,457,105	7.7	4,304,870,170
Administrative expenses	20,257,553	6.6	19,011,899	6.9	17,792,071
Total deductions	5,001,739,336	7.4	4,657,469,004	7.7	4,322,662,241
Net increase/(decrease) in net position	3,341,943,160		(954,441,855)		6,147,482,980
Net position beginning of year	36,516,825,339	(2.5)	37,471,267,194	19.6	31,323,784,214
Net position end of year	\$39,858,768,499	9.2%	\$36,516,825,339	(2.5%)	\$37,471,267,194

Financial Analysis

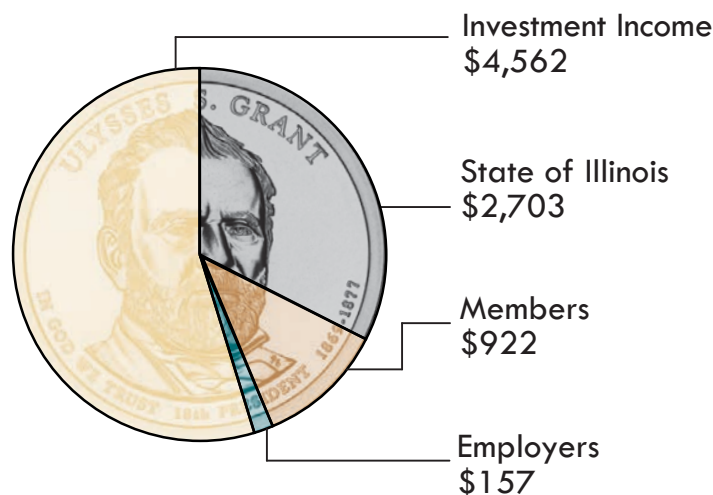
TRS was created to provide retirement, survivor, and disability benefits to qualified members. Increases or decreases in plan net position serve as useful indicators of TRS's financial position. Net position available to pay benefits was \$39.9 billion and \$36.5 billion at June 30, 2013 and 2012, respectively. Net position increased \$3.3 billion during FY13 and decreased \$954 million during FY12.

Contributions

Contributions increased \$303 million and \$243 million during FY13 and FY12, respectively. During FY13, member contributions increased \$4 million and employer contributions from school districts increased \$2 million. During FY12, member contributions increased \$8 million and employer contributions from school districts decreased \$215 thousand. The net increase in employer contributions from school districts in FY13 is attributable to an increase in federal funds contributions and a decrease in employer early retirement contributions. The net decrease in employer contributions from school districts in FY12 is attributable to a decrease in federal funds contributions and an increase in employer early retirement contributions.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois increased \$297 million in FY13 compared to an increase of \$235 million in FY12. The increase in both FY13 and FY12 was mainly due to the continued recognition of FY09 losses in the FY11 and FY10 actuarial value of assets that were used to determine the FY13 and FY12 funding requirements, respectively. State funding law provides for a 50-year funding plan that included a 15-year phase-in period and a goal of 90 percent funding in the year 2045.

Revenues by Type for the Year Ended June 30, 2013 (\$ millions)

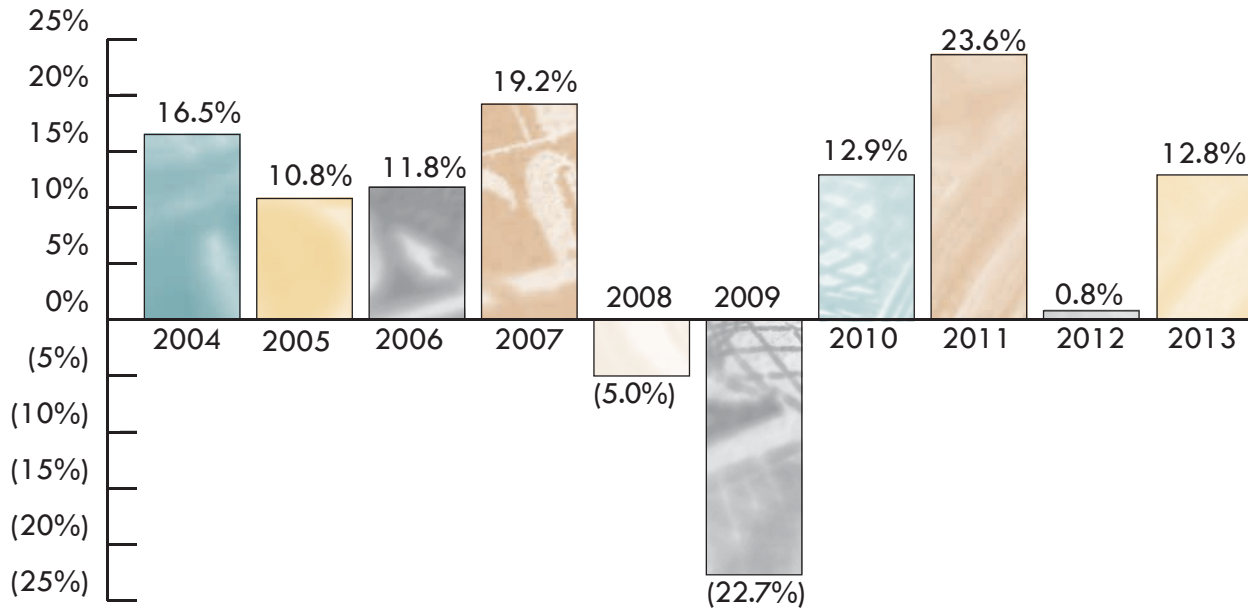


Investments

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.

The TRS investment portfolio returned 12.8 percent, net of fees, for the fiscal year ended June 30, 2013. Total TRS investment assets increased approximately \$2.9 billion during the year.

Annual Rate of Return (net of investment expenses)



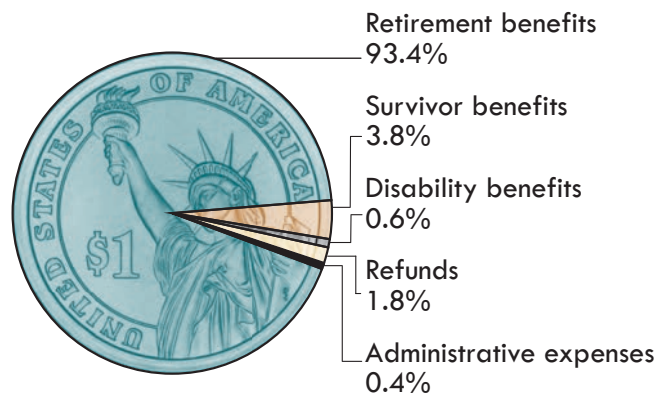
The annual rate of return is an indication of TRS investment performance and is provided by the TRS master trustee.

Benefits and Refunds

Retirement, survivor, and disability benefit payments increased \$339 million and \$326 million during FY13 and FY12, respectively. Benefit payments increased from \$4.6 billion and 105,447 recipients in FY12 to \$4.9 billion and 108,783 recipients in FY13. The overall increase in benefit payments for both FY13 and FY12 is due to an increase in retirement benefits and number of retirees. Retirement benefits were higher as a result of annual increases in retirement benefits and an increase in the number of retirees from 90,967 at June 30, 2011 to 94,865 as of June 30, 2012, increasing to 97,899 as of June 30, 2013.

Refunds of contributions increased \$5 million and \$7 million in FY13 and FY12, respectively. The increase during FY13 is the result of a greater number of member and retirement refunds. The increase during FY12 is the result of a greater number of member, survivor benefit, and retirement refunds.

Expenses by Type for the Year Ended June 30, 2013



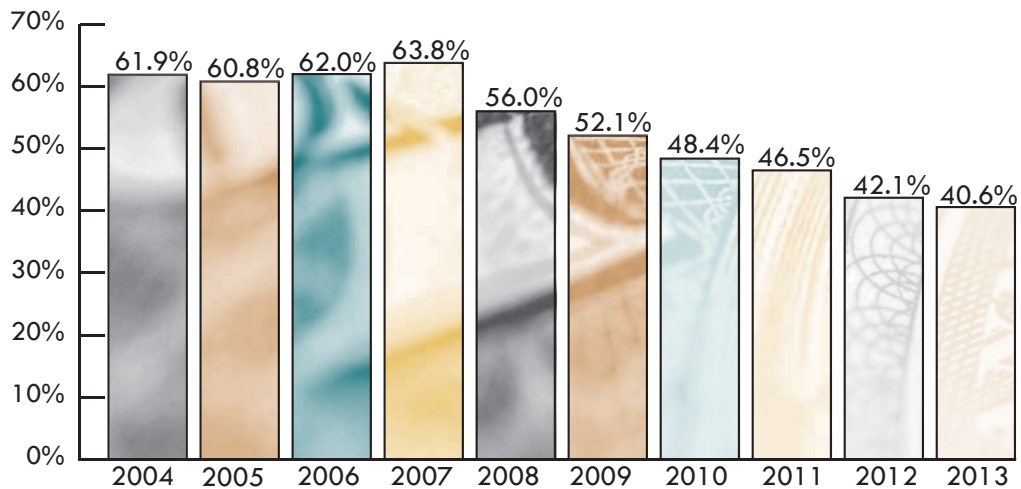
Actuarial

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 \$3.9 billion and \$8.7 billion during FY13 and FY12, respectively, to \$93.9 billion at June 30, 2013 and \$90.0 billion at June 30, 2012. The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The unfunded liability increased \$3.6 billion during FY13 to \$55.7 billion at June 30, 2013 compared to an increase of \$8.6 billion during FY12 to \$52.1 billion at June 30, 2012. The funded ratio reflects the percentage of the accrued liability covered by the actuarial value of assets. The funded ratio decreased to 40.6 percent at June 30, 2013 from 42.1 percent at June 30, 2012. The June 30, 2012 accrued liability reflects revised actuarial assumptions following a five-year experience review.

In 2013 and 2012, the unfunded liability and funded ratio are based on a smoothed value of assets. Public Act 96-0043 required the five state retirement systems to begin smoothing actuarial gains and losses on investments over a five-year period, beginning with the valuation for the year ended June 30, 2009.

When the funded ratio was based on the fair value of assets, the reported funded ratio was impacted immediately by changes in market conditions. State funding requirements based on fair value assets were also immediately impacted and therefore more volatile. Using the smoothed value of assets will result in more stable reported funded ratios and state funding requirements over time.

Funded Ratio based on Actuarial Value of Assets



The funded ratio in this chart is the ratio of actuarial assets to the actuarial liability. An increase in this ratio indicates an improvement in TRS's ability to meet future benefit obligations. The actuarial value of assets was based on fair value through 2008 with five-year smoothing beginning in 2009.

Legislative

On December 5, 2013, Governor Pat Quinn signed Public Act 98-0599 into law, with an effective date of no earlier than June 1, 2014. The law's intent is to eliminate the TRS unfunded liability by 2045 and the long-term stabilization of the System's finances. This is accomplished by, among other things, reducing the annual cost of living adjustment, capping pensionable earnings of Tier I members, delaying the retirement date of members under age 45, reducing Tier I member contributions, guaranteeing adequate annual state contributions, earmarking extra funds to help pay off the unfunded liability and calculating the System's liabilities under standard actuarial practices. A court challenge to the law's constitutionality is expected. TRS continues to analyze this legislation and its effect on TRS members.

FINANCIAL STATEMENTS

Teachers' Retirement System of the State of Illinois Statements of Net Position as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash	\$14,659,145	\$17,092,564
Receivables and prepaid expenses		
Member contributions	61,631,048	49,230,548
Employer contributions	13,595,958	15,856,508
State of Illinois	331,413,880	160,551,000
Investment income	98,149,767	96,449,824
Prepaid expenses	2,111,112	3,377,072
Total receivables and prepaid expenses	<u>506,901,765</u>	<u>325,464,952</u>
Investments, at fair value		
Fixed income	6,872,432,511	6,826,294,726
Equities	17,116,072,384	15,764,857,982
Real estate	4,680,490,237	4,480,390,766
Short-term investments	1,448,944,819	885,036,978
Private equity investments	4,687,146,815	4,175,728,282
Real return	2,661,472,243	2,582,307,633
Absolute return	2,110,246,003	1,978,268,562
Foreign currency	114,363,611	81,921,602
Derivatives	(9,415,670)	7,297,522
Total investments	<u>39,681,752,953</u>	<u>36,782,104,053</u>
Invested securities lending collateral		
Short-term investments	1,836,179,323	1,897,321,779
Fixed income	0	661,852,467
Securities lending collateral w/State Treasurer	96,375,000	58,589,000
Total invested securities lending collateral	<u>1,932,554,323</u>	<u>2,617,763,246</u>
Property and equipment, at cost, net of accumulated depreciation of \$7,685,796 and \$6,810,702 in 2013 and 2012, respectively	4,358,587	4,331,011
Total assets	<u>42,140,226,773</u>	<u>39,746,755,826</u>
Liabilities		
Benefits and refunds payable	6,052,691	8,204,638
Administrative and investment expenses payable	44,511,510	37,368,405
Payable to brokers for unsettled trades, net	298,339,750	566,594,198
Securities lending collateral	1,932,554,323	2,617,763,246
Total liabilities	<u>2,281,458,274</u>	<u>3,229,930,487</u>
Net position – restricted for pension benefits	<u>\$39,858,768,499</u>	<u>\$36,516,825,339</u>

The accompanying notes are an integral part of these statements.

Teachers' Retirement System of the State of Illinois

Statements of Changes in Net Position

Years Ended June 30, 2013 and 2012

	2013	2012
Additions		
Contributions		
Members	\$921,422,657	\$917,661,328
State of Illinois	2,703,312,213	2,406,364,156
Employers		
Early retirement	26,233,220	31,134,256
Federal funds	68,867,939	62,287,692
2.2 benefit formula	55,182,660	53,943,189
Excess salary/sick leave	6,895,424	7,529,809
Total contributions	<u>3,781,914,113</u>	<u>3,478,920,430</u>
Investment income		
From investment activities		
Net appreciation (depreciation) in fair value	3,801,020,789	(569,789,574)
Interest	237,105,503	252,487,148
Real estate operating income, net	224,838,678	217,106,145
Dividends	466,665,278	471,331,674
Private equity income	85,549,726	59,494,311
Other investment income	13,064,572	8,667,039
Investment activity income	4,828,244,546	439,296,743
Less investment expense	(280,372,727)	(234,807,327)
Net investment activity income	<u>4,547,871,819</u>	<u>204,489,416</u>
From securities lending activities		
Securities lending income	7,506,839	13,285,650
Securities lending management fees	(1,254,991)	(2,181,351)
Securities lending borrower rebates	7,644,716	8,513,004
Net securities lending activity income	<u>13,896,564</u>	<u>19,617,303</u>
Total investment income	<u>4,561,768,383</u>	<u>224,106,719</u>
Total additions	<u>8,343,682,496</u>	<u>3,703,027,149</u>
Deductions		
Retirement benefits	4,670,384,710	4,347,172,659
Survivor benefits	192,390,237	177,421,689
Disability benefits	30,309,287	29,227,725
Refunds	88,397,549	84,635,032
Administrative expenses	20,257,553	19,011,899
Total deductions	<u>5,001,739,336</u>	<u>4,657,469,004</u>
Net increase (decrease)	3,341,943,160	(954,441,855)
Net position – restricted for pension benefits		
Beginning of year	<u>36,516,825,339</u>	<u>37,471,267,194</u>
End of year	<u>\$39,858,768,499</u>	<u>\$36,516,825,339</u>

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 Status and Funding Progress" on page 28.

Number of Employers (as of June 30)

	2013	2012
Local school districts	861	864
Special districts	138	138
State agencies	20	22
Total	<u>1,019</u>	<u>1,024</u>

3. Members

TRS Membership (as of June 30)

	2013	2012
Retirees and beneficiaries receiving benefits	108,783	105,447
Inactive members entitled to but not yet receiving benefits	120,325	99,052
Active members	160,692	162,217
Total	<u>389,800</u>	<u>366,716</u>

4. Benefit Provisions

Governed by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor, TRS provides retirement, death, and disability benefits.

Public Act 96-0889, which was signed into law in the spring of 2010, added a new section to the Pension Code that applies different benefits to anyone who first contributes to TRS on or after January 1, 2011 and does not have any previous service credit with a pension system that has reciprocal rights with TRS. These members are referred to as “Tier II” members.

Tier II Benefits

Changes from the “Tier I” pension law include raising the minimum eligibility to draw a retirement benefit to age 67 with 10 years of service, initiating a cap on the salaries used to calculate retirement benefits, and limiting cost-of-living annuity adjustments to the lesser of 3 percent or ½ of the annual increase in the Consumer Price Index, not compounded. The retirement formula is unchanged.

The new pension law does not apply to anyone who has made contributions to TRS prior to January 1, 2011. These members remain participants of Tier I.

Tier I 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 at least 20 and 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 Status and Funding Progress

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, follows and is compared to the 2012 funded status. The actuarial value of assets is rounded to the nearest thousand to be consistent with actuarial disclosures.

Actuarial Valuation Date	Actuarial Value of Assets*	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Annual Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
6/30/12	\$37,945,397,000	\$90,024,945,000	42.1%	\$52,079,548,000	\$9,321,098,000	558.7%
6/30/13	38,155,191,000	93,886,988,000	40.6	55,731,797,000	9,394,741,000	593.2

* Five-year prospective smoothing began in FY09.

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

Additional information regarding assumptions used in the actuarial valuations is as follows:

	June 30, 2013	June 30, 2012
Actuarial Cost Method:	Projected unit credit	Projected unit credit
Amortization Method:		
Level percent of payroll		
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 reached in FY10; then level percent of pay until a 90% funding level is achieved in FY45	15-year phase-in to a level percent of payroll reached in FY10; then level percent of pay until a 90% funding level is achieved in FY45
Remaining Amortization Period:		
a) For GASB Statement #25 reporting purposes	30 years, open	30 years, open
b) Per state statute	32 years, closed	33 years, closed
Asset Valuation Method:	Beginning with June 30, 2009 valuation, five-year smoothing, prospective	Beginning with June 30, 2009 valuation, five-year smoothing, prospective
Actuarial Assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases	5.0% (at age 69) to 10.15% (at age 20), composite 6.0%. Includes inflation and real wage growth (productivity) assumptions.	5.0% (at age 69) to 10.15% (at age 20), composite 6.0%. Includes inflation and real wage growth (productivity) assumptions.
Group size growth rate	0%	0%
Assumed inflation rate	3.25%	3.25%
Real wage growth (productivity)	0.75%	0.75%
Post-retirement increase	Tier I: 3% compounded; Tier II: Lesser of 3% or 1/2 of the CPI increase, not compounded	Tier I: 3% compounded; Tier II: Lesser of 3% or 1/2 of the CPI increase, not compounded
Mortality table	RP - 2000 Mortality Tables with future mortality improvements on a generational basis.	RP - 2000 Mortality Tables with future mortality improvements on a generational basis.

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. Since July 1, 1995, state appropriations have been made through a continuing appropriation.

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. 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.

State funding law provides for a 50-year funding plan that includes a 15-year phase-in period.

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 received an allocation of bond proceeds equal to \$4,330,373,948 on July 1, 2003. The act also set limits on state contributions to the retirement systems that are tied to the debt service the state owes on the bonds.

Public Act 96-0043, effective July 15, 2009, requires TRS to use a five-year smoothing method for asset valuation beginning on June 30, 2009. It first affected state contribution requirements in FY11.

In FY10 and FY11, pension bonds were issued by the State of Illinois to cover the state's share of TRS funding requirements not covered by state appropriations. These pension bonds did not reduce future state contributions as did the 2003 pension obligation bonds.

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 expenses 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 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 position during the reporting period. Actual results could differ from these estimates. TRS uses an actuary to determine the actuarial accrued liability for the defined benefit plan and to determine the actuarially required contribution.

3. Risks and Uncertainties

TRS investments are diversified and include various investment securities. Investment securities are exposed to a variety of risk including credit, market and interest rate risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that value changes will occur in the near-term and such changes could materially affect the amounts reported in the Statements of Net Position.

4. New Accounting Pronouncements

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," was established to provide a framework that specifies where deferred outflows of resources and deferred inflows of resources, assets, liabilities and net position should be displayed on the financial statements. TRS implemented this Statement for the year ended June 30, 2013. The categories of Deferred Outflow and Deferred Inflow were not applicable for the financial statements for the year ended June 30, 2013 or June 30, 2012.

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

GASB Statement No. 67, "Financial Reporting for Pension Plans," established standards for defined benefit pension plans financial reports and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. TRS is required to implement this statement for the year ended June 30, 2014.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," was established to set standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. TRS will assist employers in their implementation of this statement for the year ended June 30, 2015.

Management has not fully determined what impact, if any, these Statements may have on its financial statements; however, GASB Statements 67 and 68 are expected to have a material impact.

5. Method Used to Value Investments

TRS reports investments at fair value. Fair value for publicly traded real return funds, equities, foreign currency, and exchange traded derivatives is determined by using the closing price listed on national securities exchanges as of June 30. Fair value for fixed income securities and over-the-counter derivatives is determined primarily by using quoted market prices provided by independent pricing services. Short-term investments are generally reported at average cost, which approximates fair value. Appraisals are used to determine fair value on directly-owned real estate investments. Fair value for private equity investments, absolute return funds, non-publicly traded real 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.

6. 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. Intangible assets are reported as part of property and equipment, with software having an estimated useful life from three to five years.

7. 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, 2013, and 2012 totaled \$1,689,265 and \$1,627,467, respectively, and are included as administrative and investment expenses payable.

8. Receivables

Receivables consist primarily of 1) member and employer contributions owed and yet to be remitted by the employing districts, 2) interest, dividends, real estate and private equity income owed to TRS, and 3) appropriations not yet received from the State of Illinois 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.

9. Prior Period Reclassification

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

10. 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 \$14,659,165 and \$14,659,145 at June 30, 2013 and \$17,092,514 and \$17,092,564 at June 30, 2012. Of the bank balance, \$14,659,020 and \$17,092,439 were on deposit with the state treasurer at June 30, 2013 and 2012, 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. 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, commercial paper, and repurchase agreements. For financial statement presentation and investment purposes, TRS reports its cash equivalents as short-term investments in the Statements of Net Position. Included in the reported balances is the State Street Global Advisors Short-Term Investment Fund (STIF) with values of \$1,412,687,584 at June 30, 2013 and \$800,629,144 at June 30, 2012. The STIF fund had an average credit quality rating of A1P1, same as prior year, and a weighted average maturity of 40.0 and 31.0 days at June 30, 2013 and June 30, 2012, respectively.

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 \$114,363,611 and \$81,921,602 at June 30, 2013 and June 30, 2012, 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. The TRS investment policy adopted by the Board of Trustees includes a formal process to address custodial credit risk.

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. Most guidelines allow managers to hold bonds rated Caa2 or better. However, in circumstances where position downgrades occur, investment managers have been given permission to hold securities below this rating 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, 2013, TRS held the following fixed income investments with respective Moody's quality ratings or equivalent rating. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Municipals	Commingled Funds	Securities Lending Collateral	Total
Aaa	\$266,404,834	\$299,294,579	\$1,753,121,422	\$3,805,792	\$ -	\$ -	\$2,322,626,627
Aa1	16,612,516	215,700,043	54,757,040	5,874,672	-	-	292,944,271
Aa2	23,695,781	48,679,740	-	13,167,442	-	-	85,542,963
Aa3	10,703,149	93,441,684	-	3,699,150	-	-	107,843,983
A1	73,464,660	1,882,803	-	5,498,959	95,078,405	-	175,924,827
A2	61,717,624	52,105,311	-	9,252,632	-	-	123,075,567
A3	116,382,317	60,791,130	-	17,477,572	-	-	194,651,019
Baa1	157,435,079	114,596,793	-	-	322,335,858	-	594,367,730
Baa2	234,112,147	122,136,837	-	-	-	-	356,248,984
Baa3	310,102,196	138,731,740	-	-	-	-	448,833,936
Ba1	139,170,748	196,840,332	-	-	69,423,384	-	405,434,464
Ba2	88,690,967	17,377,341	-	-	-	-	106,068,308
Ba3	110,526,721	23,273,617	-	-	421,026,471	-	554,826,809
B1	140,432,099	23,565,963	-	-	170,671,419	-	334,669,481
B2	60,265,344	12,230,880	-	-	-	-	72,496,224
B3	83,867,005	36,539,148	-	-	-	-	120,406,153
Caa1	28,079,723	601,560	-	-	-	-	28,681,283
Caa2	19,553,613	2,396,850	-	-	-	-	21,950,463
Caa3	27,304,983	-	-	-	-	-	27,304,983
Ca	9,812,462	3,726,600	-	-	-	-	13,539,062
C	2,460,370	-	-	-	-	-	2,460,370
Not available	719,854	28,316,869	2,122,118	-	279,277,571	-	310,436,412
Not rated	20,328,987	131,642,351	277,210	-	-	-	152,248,548
Withdrawn	8,992,329	7,153,552	3,704,163	-	-	-	19,850,044
Total bonds, corporate notes & government obligations	\$2,010,835,508	\$1,631,025,723	\$1,813,981,953	\$58,776,219	\$1,357,813,108	\$ -	\$6,872,432,511

Note: Invested securities lending collateral was in short-term investments as of June 30, 2013.

As of June 30, 2012, TRS held the following fixed income investments with respective Moody's quality ratings or equivalent rating.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Municipals	Commingled Funds	Securities Lending Collateral	Total
Aaa	\$302,869,773	\$634,190,461	\$1,704,602,030	\$2,921,239	\$ -	\$62,129,456	\$2,706,712,959
Aa1	9,843,382	8,229,704	1,045,470	5,208,856	-	-	24,327,412
Aa2	27,363,206	50,039,423	-	11,060,146	208,148,792	265,445,415	562,056,982
Aa3	21,583,626	82,572,944	-	18,250,364	-	219,507,096	341,914,030
A1	57,732,555	81,974,360	434,420	6,847,271	-	93,264,035	240,252,641
A2	64,905,184	54,997,779	-	8,250,498	-	8,507,284	136,660,745
A3	96,671,564	26,932,718	-	3,509,481	-	12,999,181	140,112,944
Baa1	183,477,850	109,243,528	-	-	-	-	292,721,378
Baa2	253,465,208	160,771,071	-	-	-	-	414,236,279
Baa3	352,530,595	133,549,972	-	-	40,189,078	-	526,269,645
Ba1	149,865,005	184,496,074	-	-	-	-	334,361,079
Ba2	109,686,946	27,211,968	-	-	-	-	136,898,914
Ba3	60,055,225	31,489,361	-	-	-	-	91,544,586
B1	115,209,525	18,647,089	-	-	30,319,687	-	164,176,301
B2	83,824,253	53,214,823	-	-	-	-	137,039,076
B3	91,204,677	7,805,485	-	-	-	-	99,010,162
Caa1	50,882,711	2,106,550	-	-	-	-	52,989,261
Caa2	21,857,004	4,058,950	-	-	-	-	25,915,954
Caa3	21,451,193	1,890,050	-	-	-	-	23,341,243
Ca	13,057,394	-	-	-	-	-	13,057,394
C	1,025,136	-	-	-	-	-	1,025,136
Not available	10,948,995	93,715,104	47,810,757	-	824,320,700	-	976,795,556
Not rated	4,896,775	26,559,060	-	-	-	-	31,455,835
Withdrawn	10,938,522	276,891	4,056,268	-	-	-	15,271,681
Total bonds, corporate notes & government obligations	\$2,115,346,304	\$1,793,973,365	\$1,757,948,945	\$56,047,855	\$1,102,978,257	\$661,852,467	\$7,488,147,193

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, 2013 is as follows:

Type	2013 Fair Value	Maturity in Years					Other*
		Less Than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More Than 20 years	
U.S. treasuries	\$533,169,651	\$30,801,967	\$146,971,816	\$285,259,534	\$22,050,763	\$48,085,571	\$ -
U.S. federal agencies	149,094,206	1,069,887	27,225,155	70,671,812	50,031,716	95,636	-
U.S. government index-linked bonds	583,984,327	9,679,259	131,199,892	210,983,020	173,047,402	59,074,754	-
U.S. government-backed mortgages	545,611,651	172,741,029	3,278,544	19,538,366	38,609,286	311,444,426	-
U.S. government special situations	2,122,118	2,122,118	-	-	-	-	-
Municipals	58,776,219	129,376	898,197	1,484,391	23,424,484	32,839,771	-
Asset-backed securities	163,658,569	-	31,777,706	32,164,035	22,382,213	77,334,615	-
Commercial mortgage-backed securities	118,145,848	-	-	10,806,121	14,898,374	92,441,353	-
Collateralized mortgage obligations	231,647,528	-	2,521,665	12,525,781	26,599,393	190,000,689	-
Commingled funds (U.S. & International)**	1,357,813,108	-	16,332,420	1,184,792,769	-	-	156,687,919
Corporate convertible bonds	45,022,136	288,057	19,670,784	5,813,172	10,394,141	8,855,982	-
Domestic credit obligations	1,452,361,427	122,811,289	429,036,592	644,361,668	48,221,495	207,930,383	-
Foreign debt/corporate obligations	1,631,025,723	251,564,349	529,525,944	457,600,410	210,891,705	181,443,315	-
Total bonds, corporate notes and government obligations	6,872,432,511	591,207,331	1,338,438,715	2,936,001,079	640,550,972	1,209,546,495	156,687,919
Securities lending collateral***	-	-	-	-	-	-	-
Derivatives	(9,415,670)	(4,174,103)	(6,463,639)	(4,535,605)	(182,621)	5,940,298	-
Total bonds, corporate notes, government obligations, securities lending collateral and derivatives	\$6,863,016,841	\$587,033,228	\$1,331,975,076	\$2,931,465,474	\$640,368,351	\$1,215,486,793	\$156,687,919

* Maturity date is not available or applicable.

** Weighted average maturity figures were used if available to plot the commingled funds within the schedule.

*** Invested securities lending collateral was in short-term investments as of June 30, 2013

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2012 is as follows:

Type	2012 Fair Value	Maturity in Years					Other*
		Less Than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More Than 20 years	
U.S. treasuries	\$229,515,472	\$10,921,042	\$80,609,585	\$71,789,401	\$35,906,053	\$30,289,391	\$ -
U.S. federal agencies	139,056,624	414,845	44,554,380	28,462,646	64,871,122	753,631	-
U.S. government index-linked bonds	540,160,277	1,875,204	96,181,408	209,494,865	200,924,675	31,684,125	-
U.S. government-backed mortgages	801,736,346	366,921,530	2,153,081	26,434,822	112,966,926	293,259,987	-
U.S. government special situations**	47,480,226	-	47,480,226	-	-	-	-
Municipals	56,047,855	400,384	966,141	1,495,092	21,386,908	31,799,330	-
Asset-backed securities	171,507,017	-	29,333,020	52,478,024	22,046,147	67,649,826	-
Commercial mortgage-backed securities	155,105,622	-	-	11,712,300	14,416,512	128,976,810	-
Collateralized mortgage obligations	235,242,621	-	218,756	19,282,304	28,641,378	187,100,183	-
Commingled funds (U.S. & International)**	1,102,978,257	-	128,104,331	922,208,083	-	-	52,665,843
Corporate convertible bonds	53,756,981	-	25,216,512	6,349,525	3,942,994	18,247,950	-
Domestic credit obligations	1,499,734,063	33,122,572	383,748,452	778,685,308	59,458,357	244,719,374	-
Foreign debt/corporate obligations	1,793,973,365	193,332,021	571,238,510	525,050,743	299,361,112	204,990,979	-
Total bonds, corporate notes and government obligations	6,826,294,726	606,987,598	1,409,804,402	2,653,443,113	863,922,184	1,239,471,586	52,665,843
Securities lending collateral	661,852,467	524,503,686	137,348,781	-	-	-	-
Derivatives	7,297,522	(648,407)	4,556,599	3,058,180	32,031	299,119	-
Total bonds, corporate notes, government obligations, securities lending collateral and derivatives	\$7,495,444,715	\$1,130,842,877	\$1,551,709,782	\$2,656,501,293	\$863,954,215	\$1,239,770,705	\$52,665,843

* Maturity date is not available or applicable.

** Weighted average maturity figures were used if available to plot 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, 2013 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	\$12,801,706	\$308,054,720	\$48,655,295	(\$5,245,086)	\$364,266,635
Brazilian Real	1,619,514	180,064,865	92,716,030	(5,494,664)	268,905,745
British Pound	12,028,528	1,339,556,556	197,762,391	(241,531)	1,549,105,944
Canadian Dollar	8,883,995	408,607,089	116,961,916	-	534,453,000
Chilean Peso	4,302	13,699,734	4,462,894	-	18,166,930
Chinese Yuan	(1,017)	-	-	-	(1,017)
Columbia Peso	32,480	4,829,627	439,197	-	5,301,304
Czech Koruna	53,752	3,550,120	-	-	3,603,872
Danish Krone	231,126	77,583,012	25,254,741	-	103,068,879
Egyptian Pound	55,482	5,434,183	-	-	5,489,665
Euro	25,030,282	1,388,211,057	231,777,627	448,691	1,645,467,657
Ghana Cedi	369,661	-	23,748,240	-	24,117,901
Hong Kong Dollar	7,131,439	512,676,277	-	-	519,807,716
Hungarian Forint	90,802	10,854,445	48,000,531	-	58,945,778
Indian Rupee	420,726	97,643,321	-	-	98,064,047
Indonesian Rupiah	2,303,246	79,435,386	28,322,603	-	110,061,235
Israeli Shekel	970,220	26,575,922	-	-	27,546,142
Japanese Yen	13,685,971	1,100,098,518	4,021,735	100,585	1,117,906,809
Malaysian Ringgit	814,207	60,861,695	9,249,122	-	70,925,024
Mexican Peso	8,917,025	59,862,800	89,100,131	(44,415)	157,835,541
Moroccan Dirham	25,505	351,736	-	-	377,241
New Taiwan Dollar	1,382,102	202,450,949	-	-	203,833,051
New Zealand Dollar	370,513	11,414,969	43,392,803	-	55,178,285
Norwegian Krone	1,469,295	58,942,205	8,197,436	-	68,608,936
Philippine Peso	83,666	46,175,395	13,672,019	-	59,931,080
Polish Zloty	2,082,516	24,826,392	39,987,338	-	66,896,246
Qatari Rial	-	7,597,377	-	-	7,597,377
Russian Ruble	-	5,738,166	-	-	5,738,166
Serbian Dinar	575,289	-	11,240,073	-	11,815,362
Singapore Dollar	817,004	162,802,638	22,683,969	-	186,303,611
South African Rand	2,449,136	100,576,397	-	-	103,025,533
South Korean Won	1,940,768	240,436,960	70,550,356	-	312,928,084
Sri Lanka Rupee	318,443	-	9,956,229	-	10,274,672
Swedish Krona	2,177,987	135,481,534	33,085,353	-	170,744,874
Swiss Franc	1,513,646	504,814,468	-	-	506,328,114
Thailand Baht	13,216	99,540,039	10,310,163	-	109,863,418
Turkish Lira	871,604	67,677,177	-	-	68,548,781
Ukraine Hryvnia	967	-	1,379,839	-	1,380,806
Uruguayo Peso	2,828,507	-	58,955,141	-	61,783,648
Total subject to foreign currency risk	114,363,611	7,346,425,729	1,243,883,172	(10,476,420)	8,694,196,092
Investments in international securities payable in U.S. dollars	-	1,014,957,544	433,873,697	(1,671,401)	1,447,159,840
Total international investment securities (including domestic securities payable in foreign currency)	114,363,611	8,361,383,273	1,677,756,869	(12,147,821)	10,141,355,932
Domestic investments (excluding securities payable in foreign currency)	-	8,754,689,111	5,194,675,642	2,732,151	13,952,096,904
Total fair value	\$114,363,611	\$17,116,072,384	\$6,872,432,511	(\$9,415,670)	\$24,093,452,836

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2012 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	\$949,941	\$238,982,486	\$68,687,119	\$32,031	\$308,651,577
Brazilian Real	358,664	173,462,580	53,693,956	1,043,569	228,558,769
British Pound	9,178,966	1,246,780,786	243,932,095	305,769	1,500,197,616
Canadian Dollar	3,289,601	331,407,010	135,290,724	-	469,987,335
Chilean Peso	7,306	1,604,340	2,283,177	-	3,894,823
Chinese Yuan	-	-	-	-	-
Czech Koruna	-	9,604,707	-	-	9,604,707
Danish Krone	471,356	50,264,260	-	-	50,735,616
Egyptian Pound	223,011	10,190,732	-	-	10,413,743
Euro	38,025,295	1,337,645,083	281,550,209	1,569,234	1,658,789,821
Ghana Cedi	-	-	14,243,319	-	14,243,319
Hong Kong Dollar	1,964,655	359,671,925	-	-	361,636,580
Hungarian Forint	884	11,974,855	42,992,043	-	54,967,782
Indian Rupee	756,567	116,472,559	-	-	117,229,126
Indonesian Rupiah	599,978	71,509,766	56,741,279	-	128,851,023
Israeli Shekel	1,694,923	16,427,337	16,671,538	-	34,793,798
Japanese Yen	10,657,681	1,005,440,927	61,442,044	(281,406)	1,077,259,246
Malaysian Ringgit	147,805	43,848,592	4,574,640	-	48,571,037
Mexican Peso	2,234,099	37,106,319	94,234,838	40,870	133,616,126
Moroccan Dirham	51,830	689,699	-	-	741,529
New Taiwan Dollar	2,997,272	120,779,827	-	-	123,777,099
New Zealand Dollar	165,576	3,855,640	41,801,307	-	45,822,523
Norwegian Krone	334,490	48,513,665	7,443,386	-	56,291,541
Philippine Peso	188,711	41,193,090	24,328,826	-	65,710,627
Polish Zloty	103,584	20,945,755	40,182,299	-	61,231,638
Singapore Dollar	281,342	108,274,491	15,734,471	-	124,290,304
South African Rand	516,955	68,916,048	270,512	-	69,703,515
South Korean Won	1,201,994	145,990,116	70,388,920	-	217,581,030
Swedish Krona	940,403	109,365,820	50,817,263	-	161,123,486
Swiss Franc	3,732,679	424,003,948	-	-	427,736,627
Thai Baht	682,145	126,529,544	-	-	127,211,689
Turkish Lira	162,913	72,109,638	-	-	72,272,551
Ukraine Hryvnia	976	-	5,331,133	-	5,332,109
Uruguayo Peso	-	-	30,657,203	-	30,657,203
Total subject to foreign currency risk	81,921,602	6,353,561,545	1,363,292,301	2,710,067	7,801,485,515
Investments in international securities payable in U.S. dollars	-	1,006,764,843	497,615,018	(300,166)	1,504,079,695
Total international investment securities (including domestic securities payable in foreign currency)	81,921,602	7,360,326,388	1,860,907,319	2,409,901	9,305,565,210
Domestic investments (excluding securities payable in foreign currency)	-	8,404,531,594	4,965,387,407	4,887,621	13,374,806,622
Total fair value	\$81,921,602	\$15,764,857,982	\$6,826,294,726	\$7,297,522	\$22,680,371,832

In addition to the above, TRS's foreign currency investments in real estate and private equity were \$355,127,377 and \$275,665,018 at June 30, 2013 and 2012, respectively. Currencies included Euro, British pound and Canadian dollar.

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 or other approved entities. The borrower of a security must post collateral in excess of the fair value of the security. Eligible forms of collateral include cash consisting of U.S. dollar, Euro, Sterling and Yen, U.S. treasuries, government agency securities, certificates of deposit, letters of credit issued by approved banks and specific types of corporate debt obligations. Initial collateral received from the borrower must be at least 102 percent of the fair value of all loaned securities except non-U.S. securities which require 105 percent. Securities on loan are marked to market daily and collateral for the loan is required not to fall below minimum levels established by TRS and its lending agent. Agreements are in place for TRS to return the collateral in exchange for the original securities upon demand or when the security is no longer borrowed. TRS does not have the authority to pledge or sell collateral securities, without borrower default.

As of June 30, 2013, Citibank, N.A. was the lending agent for the TRS securities lending program including fixed income, domestic equities and international equities. TRS transitioned the lending program to Citibank, N.A. from the master trustee, State Street Bank and Trust Company, during the fiscal year. At fiscal-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 27 and 15 days at June 30, 2013 and June 30, 2012, respectively.

The cash collateral received is invested in a separate account managed by the lending agent, with a weighted average maturity of 77 and 30 days at June 30, 2013 and June 30, 2012, respectively. 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, 2013 and June 30, 2012, TRS had outstanding loaned investment securities with a fair value of \$1,781,796,752 and \$2,682,477,139, respectively, against which it had received cash and non-cash collateral with a fair value of \$1,836,179,323 and \$2,760,697,851, respectively. Securities lending collateral reflected on the Statements of Net Position reflects the fair value of securities purchased with cash collateral. As of June 30, 2013 and June 30, 2012, these amounts were \$1,836,179,323 and \$2,559,174,246 respectively. TRS also reports securities lending collateral with the Office of the Illinois State Treasurer on the Statements of Net Position. Income earned and costs related to securities lending activities are reported on the Statements of Changes in Net Position. Additional detail regarding securities lending activity is included within the investments section.

4. Derivatives

TRS, through its investment managers, invests in derivative securities as a fundamental part of the overall investment process. All TRS derivatives are considered investments and the fair value is reported in the Statements of Net Position. TRS does not directly invest in derivatives but allows certain external managers to utilize these instruments within the investment portfolio for a variety of purposes. TRS managers may hold derivatives to hedge investment transactions accounted for at fair value. The term "hedge" in this context denotes the broad economic activity of entering into contracts intended to offset risks associated with certain transactions, such as the changes in interest rates on investments in debt securities, commodities or instruments denominated in a foreign currency. Assets and liabilities that are measured at fair value, such as investments, do not qualify as hedgeable items and do not meet the requirements for hedge accounting.

A derivative security is an investment whose return depends upon the value of another financial instrument or security such as stocks, bonds, commodities, or a market index. The derivative investments in TRS's portfolio are used primarily to enhance performance and reduce volatility. TRS's investments in derivatives are not leveraged

through borrowing. In the case of an obligation to purchase (long a financial future or call option), the full value of the obligation is primarily held in cash or cash equivalents. For obligations to sell (short a financial future or put option), the reference security is held in the portfolio.

To varying degrees, derivative transactions involve credit risk, sometimes known as default or counterparty 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 contract 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 restricts 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.

As of June 30, 2013, derivative investments in the TRS investment portfolio included currency forward contracts, rights, warrants, futures, options, swaps, and swaptions. Within the financial statements, currency forward contracts are reflected as investment payables/receivables, rights and warrants are reflected as equities, and all futures, options, swaps and swaptions are classified as derivatives. The change in fair value of derivative investments is included in investment income on the Statements of Changes in Net Position.

The following tables summarize the derivatives held within the TRS investment portfolio and the change in fair value of derivative investments, realized and unrealized, during the fiscal year. The notional amounts shown represent TRS's financial exposure to these instruments in U.S. dollars. Investments in limited partnerships and commingled funds may include derivatives that are not reported in the following disclosure.

As of June 30, 2013, the TRS investment portfolio held the following derivatives.

Investment Derivatives	Fair Value at June 30, 2013	Change in Fair Value	Shares/Par	Notional
Rights	\$93,912	\$300,275	1,109,466	\$1,109,466
Warrants	140,324	138,463	2,240,351	2,240,351
Currency forwards	20,981,922	32,131,351	-	-
Equity futures long	-	6,389,076	593,387	92,081,079
Equity futures short	-	(6,503,676)	(38,900)	(37,915,830)
Fixed income futures long	-	(6,309,613)	1,264,775,779	1,276,550,677
Fixed income futures short	-	10,611,510	(947,626,611)	(1,111,084,897)
Commodity futures long	-	1,357,216	2,310,000	4,021,890
Commodity futures short	-	1,500,180	(1,533,870)	(5,315,943)
Currency futures long	-	(637,383)	2,761,250	4,625,888
Currency futures short	-	6,762	-	-
U.S. equity put options purchased	497,995	(3,301,704)	580,100	1,276,604
U.S. equity put options written	-	1,040,834	-	-
Currency forward put options purchased	507,002	(1,211,937)	71,771,036	7,420,637
Currency forward put options written	(2,251)	1,891,917	(4,800,000)	194,242
Currency forward call options purchased	799,044	1,202,525	58,321,857	21,073,647
Currency forward call options written	-	147,755	-	-
Options on futures bought	1,060,781	1,091,685	438,000	32,547,780
Options on futures written	(1,277,062)	860,125	(2,084,879)	48,030,649
Swaptions bought	2,878,267	1,091,455	134,390,000	1,968,575
Swaptions written	(5,801,841)	629,011	(734,162,616)	122,848,546

(continued)

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Investment Derivatives	Fair Value at June 30, 2013	Change in Fair Value	Shares/Par	Notional
Inflation options written	(\$38,871)	\$22,313	(23,000,000)	\$23,000,000
Credit default swaps buying protection	(728,043)	(4,650,781)	64,181,962	64,458,687
Credit default swaps selling protection	36,240	7,634,873	57,674,119	57,728,863
Pay fixed interest rate swaps	8,491,517	4,826,498	138,533,942	138,569,230
Receive fixed interest rate swaps	(14,672,588)	(18,138,498)	683,993,495	669,836,033
Pay fixed inflation swaps	(1,329,413)	(1,865,373)	60,900,000	59,570,961
Receive fixed inflation swaps	163,553	135,026	13,908,384	14,071,938
Grand Totals	<u>\$11,800,488</u>	<u>\$30,389,885</u>		<u>\$1,488,909,073</u>

As of June 30, 2012, the TRS investment portfolio held the following derivatives.

Investment Derivatives	Fair Value at June 30, 2012	Change in Fair Value	Shares/Par	Notional
Rights	\$384,212	\$530,500	1,123,377	\$1,123,377
Warrants	4,394,509	(917,714)	699,928	699,928
Currency forwards	15,350,583	35,695,414	-	-
Equity futures long	-	(767,138)	813,100	52,395,479
Equity futures short	-	(990,685)	-	-
Fixed income futures long	-	24,463,684	462,051,772	483,318,656
Fixed income futures short	-	(12,113,657)	(120,126,905)	(159,964,653)
Commodity futures long	-	(6,214,249)	233,000	21,477,720
Commodity futures short	-	2,695,672	-	-
U.S. equity put options purchased	881,503	(10,942,693)	321,500	5,445,378
U.S. equity put options written	(53,536)	2,811,873	(230,900)	1,623,722
Currency forward put options purchased	935,560	(2,264,839)	49,759,452	7,810,368
Currency forward put options written	-	109,144	-	-
Currency forward call options purchased	128,658	208,865	16,900,000	2,453,930
Currency forward call options written	(1,111)	41,993	(71,900)	51,588
Options on futures bought	120,938	(3,132,538)	835,000	13,235,600
Options on futures written	(90,743)	1,926,928	(1,073,000)	19,612,190
Swaptions bought	3,699,098	(3,684,410)	185,408,000	21,572,559
Swaptions written	(2,731,131)	5,207,610	(1,479,618,000)	40,080,802
Inflation options written	(36,894)	27,694	(22,600,000)	22,600,000
Credit default swaps buying protection	2,502,411	(1,778,120)	267,988,320	266,705,167
Credit default swaps selling protection	642,925	(12,442,630)	339,077,566	339,862,121
Pay fixed interest rate swaps	(164,255)	(18,874,390)	6,734,816	6,750,832
Receive fixed interest rate swaps	1,462,285	7,083,419	50,341,522	51,863,859
Receive fixed inflation swaps	1,814	2,386	1,100,000	1,101,814
Grand Totals	<u>\$27,426,826</u>	<u>\$6,682,119</u>		<u>\$1,199,820,437</u>

Currency Forward Contracts

Objective: Currency forward contracts are agreements to exchange one currency for another at an agreed upon price and settlement date. TRS's investment managers use these contracts primarily to hedge the currency exposure of its investments.

Terms: Currency forward contracts are two-sided contracts in the form of either forward purchases or forward sales. Forward purchases obligate TRS to purchase specific currency at an agreed upon price. Forward sales obligate TRS to sell specific currency at an agreed upon price. As of June 30, 2013, TRS had currency forward purchase or sale contracts for 33 different currencies with various settlement dates.

Fair Value: As of June 30, 2013 and June 30, 2012, TRS's open currency forward contracts had a net fair value of \$20,981,922 and \$15,350,583, respectively. The following table represents the unrealized gain on the contracts at June 30.

	As of June 30, 2013	As of June 30, 2012
Forward currency purchases	\$3,124,064,999	\$1,979,648,142
Forward currency sales	<u>(3,103,083,077)</u>	<u>(1,964,297,559)</u>
Unrealized gain	<u>\$20,981,922</u>	<u>\$15,350,583</u>

Financial Futures

Objective: Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, protect against changes in interest rates, or 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 loss is recognized and paid to, or received from, the clearinghouse. As of June 30, 2013 and June 30, 2012, TRS had outstanding futures contracts with a notional value, or exposure, of \$222,962,864 and \$397,227,202, respectively. Notional values do not represent the actual values in the Statements of Net Position. The contracts have various expiration dates through March 2017.

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. The realized gain on futures contracts was \$3,500,084 and \$8,631,152 during the fiscal years 2013 and 2012, respectively.

Type	FY13		FY12	
	Number of Contracts	Notional Principal	Number of Contracts	Notional Principal
Commodity Futures				
Commodity futures - long	91	\$4,021,890	233	\$21,477,720
Commodity futures - short	(125)	(5,315,943)	-	-
Currency Futures				
Currency futures - long	41	4,625,888	-	-
Equity Futures				
U.S. stock index futures - long	2,672	39,298,264	158	10,715,560
U.S. stock index futures - short	(389)	(37,915,830)	-	-
Volatility index futures - long	-	-	42	821,100
International equity index futures - long	1,159	52,782,815	723	40,858,819
Fixed Income/Cash Equivalent Futures				
Fixed income index futures – long	1,026	129,295,078	657	102,875,438
Fixed income index futures – short	(5,673)	(958,179,266)	(1,200)	(159,785,844)
International fixed income index futures – long	61	10,352,847	66	12,329,993
International fixed income index futures – short	(888)	(152,905,631)	(1)	(178,809)
Cash equivalent (Eurodollar) futures – long	4,574	1,127,544,375	1,486	368,113,225
Cash equivalent foreign yield curve – long	29	9,358,377	-	-
Total Futures (Net)	<u>2,578</u>	<u>\$222,962,864</u>	<u>2,164</u>	<u>\$397,227,202</u>

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. The owner (buyer) of an option has all the rights, while the seller (writer) of an option has the obligations of the agreement. 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. The Options Clearing Corporation (OCC) performs much the same sort of function for options markets as the clearinghouse does for futures markets.

Terms: As of June 30, 2013, the TRS investment portfolio held U.S. equity options with notional value of \$1,276,604, currency forward options with notional value of \$28,688,526, inflation options with notional value of \$23,000,000, and options on futures with underlying notional value of \$80,578,429. As of June 30, 2012, the TRS investment portfolio held U.S. equity options with notional value of \$7,069,100, currency forward options with notional value of \$10,315,886, inflation options with notional value of \$22,600,000, and options on futures with underlying notional value of \$32,847,790. Contractual principal/notional values do not represent the actual values in the Statements of Net Position. The contracts have various expiration dates through August 2021.

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 at expiration. As of June 30, 2013 and June 30, 2012, the fair value of all option contracts, gross of premiums received, was \$1,546,638 and \$1,884,375, 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 outstanding contracts as of June 30, 2013 and June 30, 2012. Notional 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.

Financial Options

Type	FY13		FY12	
	Number of Contracts	Notional Principal	Number of Contracts	Notional Principal
Equity Options				
Equity index put options - purchased	1,131	\$299,220	776	\$476,059
Equity index put options - written	-	-	(7)	11,606
ETF/Stock put options - purchased	4,670	977,384	2,439	4,969,319
ETF/Stock put options - written	-	-	(2,302)	1,612,116
Currency Forward Options				
Currency forward call options - purchased	6	21,073,647	2	2,453,930
Currency forward call options - written	-	-	1	51,588
Currency forward put options - written	6	194,242	-	-
Currency forward put options - purchased	3	7,420,637	4	7,810,368
Inflation Options				
Inflation put options - written	12	23,000,000	12	22,600,000
Options on Futures				
Fixed income call options on futures USD - purchased	-	-	735	12,024,600
Fixed income call options on futures USD - written	(440)	10,051,427	(954)	18,865,500
Fixed income put options on futures USD - purchased	438	32,547,780	100	1,211,000
Fixed income put options on futures USD - written	(605)	37,673,524	(119)	746,690
Fixed income call options on futures (non-dollar) - written	(4)	15,801	-	-
Fixed income put options on futures (non-dollar) - written	(4)	289,897	-	-

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 interest rate in a swap in exchange for a floating rate for a stated time period. TRS has both written and purchased interest rate swaptions in its portfolio. In a written call swaption, the seller (writer) is obligated 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 is obligated 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.

The TRS investment portfolio also holds credit default swaptions. A credit default swaption gives the holder the right, but not the obligation to buy (call) or sell (put) protection on a specified entity or index for a specified future time period.

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. As the purchaser of a swaption, TRS pays an upfront premium.

Terms: As of June 30, 2013, TRS had outstanding written call swaption exposure of \$2,246,825, written put swaption exposure of \$120,601,721, purchased put swaption exposure of \$1,603,948, and purchased call swaption exposure of \$364,627. The contracts have various maturity dates through August 2021. As of June 30, 2012, TRS had outstanding written call swaption exposure of \$23,214,270, written put swaption exposure of \$16,866,532, purchased put swaption exposure of \$972,559, and purchased call swaption exposure of \$20,600,000. Exposure amounts for swaptions do not represent the actual values in the Statements of Net Position.

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, 2013, and June 30, 2012, the fair value of swaption contracts was (\$2,923,574) and \$967,967, respectively.

Credit Default Swaps/Index Swaps

Objective: Credit default swaps are financial instruments used to replicate the effect of investing in debt obligations of corporate bond issuers as a means to manage bond exposure, effectively buying or selling insurance protection in case of default. Credit default swaps may be specific to an individual security or to a specific market sector (index swaps). The risk of the credit default/index swap is comparable to the credit risk of the underlying debt obligations of issuers that comprise the credit default/index swap, with the primary risk being counterparty risk. The owner/buyer of protection (long the swap) pays an agreed upon premium to the seller of protection (short the swap) for the right to sell the debt 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 is called, 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 debt to the counterparty in the event of a default. 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. If no default occurs, the buyer loses only the premium paid.

Written credit default swaps increase credit exposure (selling protection), obligating the portfolio to buy debt from counterparties in the event of a default. 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 obligation in exchange for the obligation. If no default occurs, the seller will have earned the premium paid.

Terms: As of June 30, 2013, TRS had credit default/index swaps in its portfolio with various maturity dates through February 2051. The total notional value of written credit default swaps (selling protection) was \$57,728,863 and \$339,862,121 as of June 30, 2013 and 2012, respectively. The total notional value of purchased credit default swaps (buying protection) was \$64,458,687 and \$266,705,167 as of June 30, 2013 and 2012, respectively.

Fair Value: The fair value of credit default swaps, including index swaps, held by TRS was (\$691,803) as of June 30, 2013 and \$3,145,336 as of June 30, 2012. This represents the amount due to or (from) TRS under the terms of the counterparty agreements.

Interest Rate Swaps

Objective: Interest rate swaps are agreements between parties to exchange a set of cash flow streams 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 interest rate/risk exposure.

Terms: As of June 30, 2013 and June 30, 2012, TRS held interest rate swaps in various currencies with various expiration/maturity dates ranging from 2013 to 2043. Swap agreements typically are settled on a net basis, with a party receiving or paying only the net amount of the fixed/floating 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 as of June 30, 2013 and June 30, 2012.

	June 30, 2013 Payable/Receivable	June 30, 2012 Payable/Receivable
Receive floating/pay fixed	\$8,491,517	(\$164,255)
Receive fixed/pay floating	(14,672,588)	1,462,285

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 and are used to transfer inflation risk from one counterparty to another.

Terms: As of June 30, 2013, TRS was a party to inflation-linked swaps denominated in various currencies with expiration dates through May 2023 and total par of 71.6 million. TRS was a party to inflation-linked swaps with a maturity date of November 2, 2012 and total par of 1.1 million as of June 30, 2012. TRS receives a fixed rate for all current positions, reducing inflation risks in certain countries. Inflation-linked swaps initially have no net value; the value of the swap's outstanding payments will change as interest and inflation rates change. The value may be either positive or negative.

Fair value: The fair value of the inflation-linked swaps held by TRS was (\$1,165,860) as of June 30, 2013 and \$1,814 as of June 30, 2012.

Derivative Interest Rate Risk

Interest rate risk for derivative securities is disclosed in the Financial Note D. 2. Both interest rate and inflation rate swaps have fair values that are sensitive to interest rate changes. TRS had the following interest rate and inflation swaps at June 30, 2013.

Interest Rate and Inflation Swaps

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/13
Pay Fixed Interest Rate Swaps:						
Interest Rate Swap USD	1,800,000	\$1,800,163	3 month LIBOR	0.75%	6/19/2016	\$2,708
Interest rate swap USD	28,800,000	28,802,609	3 month LIBOR	2.75	6/19/2033	2,585,332
Interest rate swap USD	39,300,000	39,303,579	3 month LIBOR	2.75	6/19/2043	5,415,904
Interest rate swap JPY	4,190,000,000	42,180,502	6 month LIBOR	1.00	9/18/2023	130,245
Interest rate swap USD	21,600,000	21,617,112	3 month LIBOR	1.40	3/20/2018	55,635
Interest rate swap GBP	3,200,000	4,865,265	6 month LIBOR	3.00	3/21/2042	301,693
Total Pay Fixed Interest Rate Swaps:		<u>\$138,569,230</u>				<u>\$8,491,517</u>
Receive Fixed Interest Rate Swaps:						
Interest rate swap MXN	7,000,000	\$538,757	5.50%	28 day Mexican TIE	9/13/2017	\$957
Interest rate swap MXN	7,000,000	538,757	5.50	28 day Mexican TIE	9/13/2017	957
Interest rate swap MXN	39,000,000	3,001,646	5.50	28 day Mexican TIE	9/13/2017	5,329
Interest rate swap AUD	5,100,000	4,710,890	4.25	6 month Australian Bank Bill	3/15/2023	(15,307)
Interest rate swap MXN	1,000,000	76,965	5.50	28 day Mexican TIE	9/13/2017	137
Interest rate swap AUD	4,760,000	4,304,436	4.00	6 month Australian Bank Bill	3/15/2023	(103,502)
Interest rate swap AUD	400,000	361,776	4.00	6 month Australian Bank Bill	3/15/2023	(8,698)
Interest rate swap MXN	5,000,000	363,931	5.75	28 day Mexican TIE	9/2/2022	(20,533)
Interest rate swap MXN	3,000,000	218,358	5.75	28 day Mexican TIE	9/2/2022	(12,320)
Interest rate swap MXN	1,100,000	78,540	5.50	28 day Mexican TIE	9/2/2022	(6,026)
Interest rate swap AUD	17,900,000	15,839,580	3.75	6 month Australian Bank Bill	3/15/2023	(724,715)
Interest rate swap USD	16,700,000	16,727,824	0.40	3 month LIBOR	8/15/2013	2,589
Interest rate swap MXN	400,000	28,564	5.50	28 day Mexican TIE	9/2/2022	(2,191)
Interest rate swap AUD	17,500,000	15,145,757	3.50	6 month Australian Bank Bill	3/15/2023	(1,036,517)
Interest rate swap AUD	2,700,000	2,436,350	3.98	6 month Australian Bank Bill	3/15/2023	(63,771)
Interest rate swap GBP	19,900,000	29,366,622	3.00	6 month LIBOR	3/21/2023	(815,708)
Interest rate swap USD	78,900,000	75,720,882	3.00	3 month LIBOR	3/21/2023	(3,179,118)
Interest rate swap AUD	93,500,000	84,249,325	4.25	6 month Australian Bank Bill	12/11/2023	(1,335,900)
Interest rate swap AUD	59,900,000	54,800,789	3.75	6 month Australian Bank Bill	12/11/2018	(28,676)

(continued)

(continued)

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/13
Interest rate swap USD	24,900,000	\$24,507,800	1.00%	Fed Fund Effective Rate	10/15/2017	(\$392,200)
Interest rate swap AUD	4,800,000	4,325,099	4.25	6 month Australian Bank Bill	12/11/2023	(68,581)
Interest rate swap BRL	400,000	174,258	9.10	3 month Brazilian CDI	1/2/2017	(6,815)
Interest rate swap AUD	45,100,000	39,788,568	4.00	6 month Australian Bank Bill	12/11/2023	(1,493,717)
Interest rate swap AUD	33,500,000	30,298,523	3.50	6 month Australian Bank Bill	12/11/2018	(365,702)
Interest rate swap MXN	100,000	7,202	5.75	28 day Mexican TIE	6/5/2023	(492)
Interest rate swap MXN	600,000	43,212	5.75	28 day Mexican TIE	6/5/2023	(2,953)
Interest rate swap MXN	400,000	28,808	5.75	28 day Mexican TIE	6/5/2023	(1,969)
Interest rate swap MXN	400,000	28,808	5.75	28 day Mexican TIE	6/5/2023	(1,969)
Interest rate swap MXN	100,000	7,202	5.75	28 day Mexican TIE	6/5/2023	(492)
Interest rate swap MXN	400,000	29,390	6.00	28 day Mexican TIE	6/5/2023	(1,390)
Interest rate swap MXN	800,000	58,780	6.00	28 day Mexican TIE	6/5/2023	(2,779)
Interest rate swap BRL	4,500,000	1,926,173	8.30	3 month Brazilian CDI	1/2/2017	(110,900)
Interest rate swap BRL	11,800,000	5,165,395	9.01	3 month Brazilian CDI	1/2/2017	(176,264)
Interest rate swap BRL	55,600,000	24,025,260	8.72	3 month Brazilian CDI	1/2/2017	(1,143,915)
Interest rate swap BRL	48,500,000	20,890,916	8.60	3 month Brazilian CDI	1/2/2017	(1,064,210)
Interest rate swap BRL	9,500,000	4,144,338	8.90	3 month Brazilian CDI	1/2/2017	(156,151)
Interest rate swap BRL	4,600,000	1,998,244	8.95	3 month Brazilian CD	1/2/2017	(84,097)
Interest rate swap BRL	38,700,000	16,626,124	8.50	3 month Brazilian CD	1/2/2017	(892,708)
Interest rate swap BRL	5,000,000	2,156,847	8.65	3 month Brazilian CD	1/2/2017	(106,568)
Interest rate swap BRL	7,700,000	3,321,077	8.65	3 month Brazilian CDI	1/2/2017	(164,582)
Interest rate swap BRL	5,800,000	2,518,352	8.90	3 month Brazilian CD	1/2/2017	(107,210)
Interest rate swap BRL	9,000,000	3,837,410	8.20	3 month Brazilian CD	1/2/2017	(236,737)
Interest rate swap BRL	1,800,000	767,942	8.22	3 month Brazilian CD	1/2/2017	(46,887)
Interest rate swap MXN	1,100,000	85,894	5.60	3 month Brazilian CD	9/6/2016	1,276
Interest rate swap MXN	500,000	38,556	6.35	3 month Brazilian CD	6/2/2021	43
Interest rate swap BRL	2,000,000	861,481	8.60	3 month Brazilian CDI	1/2/2017	(43,885)

(continued)

(continued)

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/13
Interest rate swap USD	144,400,000	\$144,896,014	1.50%	3 month LIBOR	3/18/2016	\$496,014
Interest rate swap BRL	19,500,000	8,451,486	8.64	3 month Brazilian CDI	1/2/2017	(375,832)
Interest rate swap BRL	13,800,000	6,020,771	8.86	3 month Brazilian CD	1/2/2017	(226,255)
Interest rate swap BRL	30,500,000	13,255,041	8.94	3 month Brazilian CD	1/2/2017	(551,790)
Interest rate swap BRL	2,300,000	1,041,313	8.83	3 month Brazilian CDI	1/20/2015	142
Total Receive Fixed Interest Rate Swaps:		<u>\$669,836,033</u>				<u>(\$14,672,588)</u>
Pay Fixed Inflation-Linked Swaps:						
Inflation swap USD	19,900,000	\$19,461,762	U.S. CPI URNSA	2.25%	7/15/2017	(\$438,238)
Inflation swap USD	5,500,000	5,379,253	U.S. CPI URNSA	2.25	7/15/2017	(121,121)
Inflation swap USD	500,000	488,446	U.S. CPI URNSA	2.42	2/12/2017	(11,554)
Inflation swap USD	2,100,000	2,060,759	U.S. CPI URNSA	2.56	5/8/2023	(39,241)
Inflation swap USD	8,200,000	8,020,732	U.S. CPI URNSA	2.50	7/15/2022	(179,268)
Inflation swap USD	17,800,000	17,410,857	U.S. CPI URNSA	2.50	7/15/2022	(389,143)
Inflation swap USD	2,000,000	1,956,276	U.S. CPI URNSA	2.50	7/15/2022	(43,724)
Inflation swap USD	4,900,000	4,792,876	U.S. CPI URNSA	2.50	7/15/2022	(107,124)
Total Pay Fixed Inflation-Linked Swaps:		<u>\$59,570,961</u>				<u>(\$1,329,413)</u>
Receive Fixed Inflation-Linked Swaps:						
Inflation swap EUR	1,100,000	\$1,466,894	2.15%	France CPI Ex-Tobacco	4/1/2021	\$37,060
Inflation swap EUR	700,000	933,478	2.15	France CPI Ex-Tobacco	4/1/2021	23,583
Interest rate swap EUR	2,000,000	2,667,080	2.15	France CPI Ex-Tobacco	4/1/2021	67,382
Interest rate swap EUR	400,000	533,416	2.15	France CPI Ex-Tobacco	4/1/2021	13,476
Interest rate swap EUR	1,400,000	1,824,538	1.95	France CPI Ex-Tobacco	7/25/2021	4,750
Interest rate swap EUR	400,000	521,297	1.95	France CPI Ex-Tobacco	7/25/2021	1,357
Interest rate swap EUR	2,100,000	2,736,807	1.95	France CPI Ex-Tobacco	7/25/2021	7,124
Interest rate swap EUR	2,600,000	3,388,428	1.95	France CPI Ex-Tobacco	7/25/2021	8,821
Total Receive Fixed Inflation-Linked Swaps:		<u>\$14,071,938</u>				<u>\$163,553</u>

CDI - Cetip Interbank Deposit (interbank lending rate)

CPI - Consumer Price Index

LIBOR - London Interbank Offered Rate

TIE - Mexico Interbank Equilibrium Interest Rate

URNSA - Urban Consumers NSA Index Rate

TRS had the following interest rate and inflation swaps at June 30, 2012.

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/12
Pay Fixed Interest Rate Swaps:						
Interest rate swap GBP	2,700,000	\$4,250,832	6 month LIBOR	3.00%	3/21/2042	(\$32,020)
Interest rate swap USD	2,500,000	<u>2,500,000</u>	3 month LIBOR	2.75	6/20/2042	<u>(132,235)</u>
Total Pay Fixed Interest Rate Swaps:		<u>\$6,750,832</u>				<u>(\$164,255)</u>
Receive Fixed Interest Rate Swaps:						
Interest rate swap MXN	7,000,000	\$526,280	5.50%	4 week Mexican TIE	9/13/2017	\$4,899
Interest rate swap MXN	7,000,000	526,280	5.50	4 week Mexican TIE	9/13/2017	4,899
Interest rate swap MXN	39,000,000	2,932,129	5.50	4 week Mexican TIE	9/13/2017	27,292
Interest rate swap AUD	5,100,000	5,296,297	4.25	6 month Australian Bank Bill	3/15/2023	68,541
Interest rate swap MXN	1,000,000	75,183	5.50	4 week Mexican TIE	9/13/2017	700
Interest rate swap AUD	4,700,000	4,784,089	4.00	6 month Australian Bank Bill	3/15/2023	(33,646)
Interest rate swap AUD	400,000	407,157	4.00	6 month Australian Bank Bill	3/15/2023	(2,864)
Interest rate swap BRL	7,700,000	3,936,309	10.22	3 month Brazilian CDI	1/2/2014	121,500
Interest rate swap BRL	1,800,000	923,095	10.58	3 month Brazilian CDI	1/2/2014	31,321
Interest rate swap MXN	1,100,000	83,601	5.60	4 week Mexican TIE	9/6/2016	1,517
Interest rate swap BRL	15,700,000	7,990,254	9.98	3 month Brazilian CDI	1/2/2014	212,009
Interest rate swap MXN	500,000	38,923	6.35	4 week Mexican TIE	6/2/2021	1,563
Interest rate swap GBP	5,500,000	9,024,042	2.50	6 month LIBOR	3/21/2022	337,790
Interest rate swap BRL	400,000	203,458	9.97	3 month Brazilian CDI	1/2/2014	5,286
Interest rate swap USD	2,000,000	2,008,025	1.50	3 month LIBOR	3/18/2016	8,025
Interest rate swap BRL	16,600,000	8,755,813	11.94	3 month Brazilian CDI	1/2/2014	531,681
Interest rate swap BRL	2,300,000	1,174,534	10.18	3 month Brazilian CDI	1/2/2014	35,046
Interest rate swap BRL	6,200,000	3,178,390	10.14	3 month Brazilian CDI	1/2/2015	106,726
Total Receive Fixed Interest Rate Swaps:		<u>\$51,863,859</u>				<u>\$1,462,285</u>
Receive Fixed Inflation-Linked Swaps:						
Inflation swap USD	1,100,000	<u>\$1,101,814</u>	1.50%	U.S. CPI URNSA	11/2/2012	<u>\$1,814</u>
Total Receive Fixed Inflation-Linked Swaps:		<u>\$1,101,814</u>				<u>\$1,814</u>

CDI - Cetip Interbank Deposit (interbank lending rate)

CPI - Consumer Price Index

LIBOR - London Interbank Offered Rate

TIE - Mexico Interbank Equilibrium Interest Rate

URNSA - Urban Consumers NSA Index Rate

Derivative Credit 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. In order to eliminate credit risk, derivative securities are traded through a clearing house which guarantees delivery and accepts the risk of default by either party. Derivatives which are exchange traded are not subject to credit risk and are evaluated within the investment risk disclosure.

Non-exchange traded derivative instruments may expose TRS to credit/counterparty risk. TRS investment managers reduce credit risk by evaluating the credit quality and operational capabilities of the counterparties. Because the counterparty risk of a security will fluctuate with market movements, all TRS managers using non-exchange traded derivatives operate a collateral call process ensuring full collateralization of these derivatives. TRS does not have a policy regarding master netting arrangements.

As of June 30, 2013 and June 30, 2012, the aggregate fair value of non-exchange traded derivative instruments in asset positions was \$53,073,286 and \$40,471,834, respectively. All applicable futures, options and swaps are in compliance with Dodd-Frank requirements and cleared through the appropriate futures and swaps exchanges. The counterparty risk exposure below is primarily currency forward unsettled contracts. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

Counterparty Ratings for Non-Exchange Traded Derivatives

Moody's Quality Rating	Fair Value at 6/30/13	Fair Value at 6/30/12
Aaa	\$ -	\$24,081
Aa1	27,313	278,084
Aa2	7,814,221	305,895
Aa3	10,029,991	3,313,425
A1	11,363,846	7,100,421
A2	15,953,193	21,652,246
A3	6,459,732	5,255,795
Baa1	1,424,990	2,473,346
Baa2	-	68,541
Total subject to credit risk	<u>\$53,073,286</u>	<u>\$40,471,834</u>

Although the derivative instruments held within the TRS investment portfolio are executed with various counterparties, approximately 88 percent of the net market value exposure to credit risk is for non-exchange traded derivative contracts held with nine counterparties.

5. Investment Commitments

As of June 30, 2013, TRS had commitments for the future purchase of investments in real estate of \$551.3 million and private equity partnerships of \$3,034.1 million.

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

	2013	2012
Balances at June 30	\$39,851,929,930	\$36,510,374,060

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 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 \$55,731,797,000 in 2013 and \$52,079,548,000 in 2012.

2. Minimum Retirement Annuity

	2013	2012
Balances at June 30	\$6,838,569	\$6,451,279

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. Pension and Other Post-employment Benefits for TRS Employees

TRS employees are covered by either the State Employees' Retirement System of Illinois or the Teachers' Retirement System of the State of Illinois. Also, most employees are eligible for other types of post-employment benefits.

State Employees' Retirement System (SERS)

1. Plan Description for SERS

TRS employees who do not participate in TRS are covered by the State Employees' Retirement System (SERS), a pension trust fund in the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system. SERS provides retirement, disability, and death benefits to plan members and beneficiaries. Automatic annual post-retirement increases are provided. SERS is governed by Article 14 of the Illinois pension code, 5 ILCS 40/14-101 and following as well as the Illinois Administrative Code, Title 80, Subtitle D, Chapter I. SERS issues a publicly available financial report that includes financial statements and required supplemental information. It may be obtained at www.state.il.us/srs or by writing to SERS at 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255. SERS's financial position and results of operations are also included in the *State of Illinois Comprehensive Annual Financial Report*. This report may be obtained at www.ioc.state.il.us, or by writing to the Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858.

2. Funding Policy for SERS

The contribution requirements of SERS members and the state are established by state statute and may be amended by action of the General Assembly and the Governor. TRS employees covered by SERS contribute

4.0 percent of their annual covered salaries. The state contribution rate for the years ended June 30, 2013, 2012, and 2011 were actuarially determined according to a statutory schedule.

TRS contribution rates to SERS for its SERS-covered employees for the years ended June 30, 2013, 2012, and 2011 were 37.987 percent, 34.190 percent, and 27.988 percent, respectively. TRS paid the required contributions for the years ended June 30, 2013, 2012, and 2011 totaling \$2,065,699, \$1,991,650, and \$1,615,531, respectively.

Teachers' Retirement System (TRS)

1. Plan Description for TRS

A summary description of the TRS plan can be found within these notes to the financial statements at "A. Plan Description."

2. Funding Policy for TRS

TRS employees who participate in TRS are required to contribute 9.4 percent of their annual covered salaries. For employees who were members of TRS on August 17, 2001 and for employees hired on or after that date, TRS contributes 0.58 percent of the employees' annual covered salaries. Additional employer contributions for these employees are paid by the State of Illinois and are included in the annual state contribution to TRS. TRS's contributions for participating employees for the years ended June 30 in 2013, 2012, and 2011 were \$23,331, \$22,130, and \$20,439, respectively. These amounts represent 100 percent of the required contributions.

Other Post-employment Benefits for TRS Employees

The state provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services (CMS). Substantially all state employees become eligible for post-employment benefits if they eventually become annuitants of one of the state-sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the state's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the state, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Employees of the system who retired before January 1, 1998 and are vested in either SERS or TRS do not contribute towards health and vision benefits. A premium is required for dental. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5 percent for each year of credited service with the state allowing those annuitants with 20 or more years of credited service to not have to contribute towards health and vision benefits. A premium is required for dental. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

Public Act 97-0695 was signed into law on June 21, 2012. Effective July 1, 2013, all retirees will begin incurring a cost for health and vision benefits at a rate determined by CMS. The rate is a percentage of the retiree's annuity and differs depending on whether the retiree is a Medicare recipient.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements for CMS. A copy of the financial statements may be

obtained by writing to their office, Department of Central Management Services, 704 Stratton Office Building, Springfield, Illinois, 62706.

G. Subsequent Events

On December 5, 2013, Governor Pat Quinn signed Public Act 98-0599 into law. This new law takes effect no earlier than June 1, 2014 and would significantly alter the overall funding structure of TRS and reduce retirement benefits for Tier I members.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress¹

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Accrued Liability (AAL-Projected Unit Credit) (b)	Funded Ratio (a)/(b)	Unfunded Actuarial Liability (UAAL) (b) - (a)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (b-a)/(c)
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
6/30/08	38,430,723,000	68,632,367,000	56.0	30,201,644,000	8,521,717,000	354.4
6/30/09	38,026,044,000	73,027,198,000	52.1	35,001,154,000	8,945,021,000	391.3
6/30/10	37,439,092,000	77,293,198,000	48.4	39,854,106,000	9,251,139,000	430.8
6/30/11	37,769,753,000	81,299,745,000	46.5	43,529,992,000	9,205,603,000	472.9
6/30/12	37,945,397,000	90,024,945,000	42.1	52,079,548,000	9,321,098,000	558.7
6/30/13	38,155,191,000	93,886,988,000	40.6	55,731,797,000	9,394,741,000	593.2

* Fair value through FY08. Five-year prospective smoothing began in FY09.

Schedule of Contributions from Employers and Other Contributing Entities¹

Year Ended June 30	State Contributions ²	Federal and Employer Contributions ²	Total	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
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
2008	1,039,195,000	130,578,000	1,169,773,000	1,949,463,000	60.0	1,135,127,000	103.1
2009	1,449,889,000	151,716,000	1,601,605,000	2,109,480,000	75.9	1,556,737,000	102.9
2010	2,079,129,000	170,653,000	2,249,782,000	2,481,914,000	90.6	2,217,053,000	101.5
2011	2,169,518,000	154,150,000	2,323,668,000	2,743,221,000	84.7	2,293,321,000	101.3
2012	2,405,172,000	153,409,000	2,558,581,000	3,429,945,000	74.6	2,547,803,000	100.4
2013	2,702,278,000	155,787,000	2,858,065,000	3,582,033,000	79.8	2,843,463,000	100.5

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. Beginning in FY08, lump-sum payments for ERO are included as employer contributions, further increasing the difference.

2 Excludes minimum retirement contributions. Excludes employer ERO contributions through FY07. Beginning in FY08, employer ERO contributions are included because the costs of the ERO program are now included in the actuarial accrued liability. Beginning in FY06, employer contributions for excess salary increases are included. However, employer contributions for excess sick leave, which also began in FY06, are not included because there is no assumption for excess sick leave and it is not included in the funding requirements.

OTHER SUPPLEMENTARY INFORMATION

Schedule of Administrative Expenses For Years Ended June 30

	2013	2012
Personal services	\$15,482,674	\$14,856,497
Professional services	1,460,844	1,216,461
Postage	253,734	292,006
Machine repair and rental	571,212	583,638
Other contractual services	914,800	878,682
Commodities	429,789	291,941
Occupancy expense	242,689	248,570
Depreciation	901,811	644,104
Total administrative expenses	<u>\$20,257,553</u>	<u>\$19,011,899</u>

Schedule of Investment Expense For Years Ended June 30

	2013	2012
Investment manager fees	\$237,066,159	\$199,628,532
Private equity investment expense	12,738,535	8,140,998
Miscellaneous	30,568,033	27,037,797
Total investment expense	<u>\$280,372,727</u>	<u>\$234,807,327</u>

Schedule of Payments to Consultants For Years Ended June 30

	2013	2012
Actuarial services	\$315,309	\$375,329
External auditors	166,629	162,407
Legal services	532,242	458,196
Management consultants		
Information systems	17,250	2,000
Legislative consultant	84,000	84,000
Salary review	35,721	23,000
Internal audit	68,028	79,800
Operations	231,450	27,975
Other	10,215	3,754
Total payments to consultants	<u>\$1,460,844</u>	<u>\$1,216,461</u>



Investments



INTRODUCTION

Global financial markets contributed to strong investment returns through the fiscal year ended June 30, 2013. Following the uncertainty and concerns of the prior fiscal year, diminished market volatility and improved fundamentals drove investment performance, led by double-digit gains in global equity markets. All TRS asset classes produced positive returns within this environment. Net of fees, the retirement system's U.S. and international equity portfolios returned 23.3 percent and 13.2 percent, respectively. TRS also enjoyed double-digit investment returns within its private equity, real estate and absolute return portfolios. The TRS investment portfolio posted a positive result, returning 12.8 percent, net of fees, for the fiscal year ended June 30, 2013.

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, State Street Bank and Trust 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, 2012 through June 30, 2013. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2013.

Investment performance is calculated using a time-weighted rate of return. Returns are calculated by State Street Bank and Trust using industry best practices. Additionally, State Street Bank and Trust calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section. TRS staff, in collaboration with the staff of its custodian, prepared the Investments section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2013

Total fund fair value	\$39.7 billion
1-year return (net of fees)	12.8%
3-year return (net of fees)	12.0%
5-year return (net of fees)	4.2%
10-year return (net of fees)	7.2%
Percent externally managed	100.0%
Number of external managers	148
Custodian	State Street Bank and Trust
General consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 41 out of the top 1,000 U.S. pension funds/plan sponsors according to *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2012.

FUND PERFORMANCE VS. BENCHMARKS AND FAIR VALUES

As of June 30, 2013, the fair value of TRS's investments as reported on the Statements of Net Position was \$39.7 billion, an increase of \$2.9 billion from the prior 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 Net Position located within the Financial Statements.

TRS had a total fund annualized return of 13.5 percent, gross of fees, and 12.8 percent, net of fees, for the one-year period ended June 30, 2013. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS total fund performance outperformed the policy index by 30 basis points for the year ended June 30, 2013. The policy index represents a weighted average of each asset class benchmark, based on the total fund's interim target asset allocation. The total return also exceeded the 8.0 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 4.75 percentage points.

Performance Summary (net of fees)

Asset Class / Index	Years ended June 30					Annualized at 6/30/13		
	2013	2012	2011	2010	2009	3 Years	5 Years	10 Years
TRS Total Fund	12.8%	0.8%	23.6%	12.9%	(22.7%)	12.0%	4.2%	7.2%
TRS Weighted Policy Index	12.5	2.4	21.5	10.9	(18.6)	11.9	4.8	7.4
CPI (Inflation)	1.8	1.7	3.6	1.1	(1.4)	2.3	1.3	2.4
TRS Equity - U.S.	23.3	1.0	32.9	17.0	(27.3)	18.3	7.1	7.5
Russell 3000 Index	21.5	3.8	32.4	15.7	(26.6)	18.6	7.3	7.8
TRS Equity - International	13.2	(11.7)	30.3	11.3	(31.9)	9.2	(0.3)	8.9
Non-U.S. Equity Index	13.9	(14.8)	30.3	11.5	(30.5)	8.1	(0.4)	9.1
TRS Fixed Income	6.5	5.7	8.9	16.8	4.9	7.0	8.5	6.1
Barclays Capital U.S. Aggregate Index	(0.7)	7.5	3.9	9.5	6.1	3.5	5.2	4.5
TRS Real Return	0.1	2.5	23.4	13.5	(26.2)	8.2	1.2	-
CPI (Inflation) + 5.0%*	6.8	6.7	8.7	6.1	3.5	7.4	6.4	-
TRS Real Estate	12.6	9.9	17.8	(5.6)	(30.0)	13.4	(0.7)	7.4
NCREIF Property Index	10.7	12.0	16.7	(1.5)	(19.6)	13.1	2.8	8.6
TRS Private Equity	15.2	3.8	22.3	16.5	(17.9)	13.5	6.9	11.8
Russell 3000 Index + 3.0%*	25.1	6.9	36.2	19.2	(24.3)	22.1	10.5	11.1
TRS Absolute Return	10.5	2.6	12.4	9.6	(13.9)	8.4	3.8	-
90-day Treasury Bill +4.0%*	4.1	4.1	4.2	4.2	5.0	4.1	4.3	-

* Index compounded monthly.

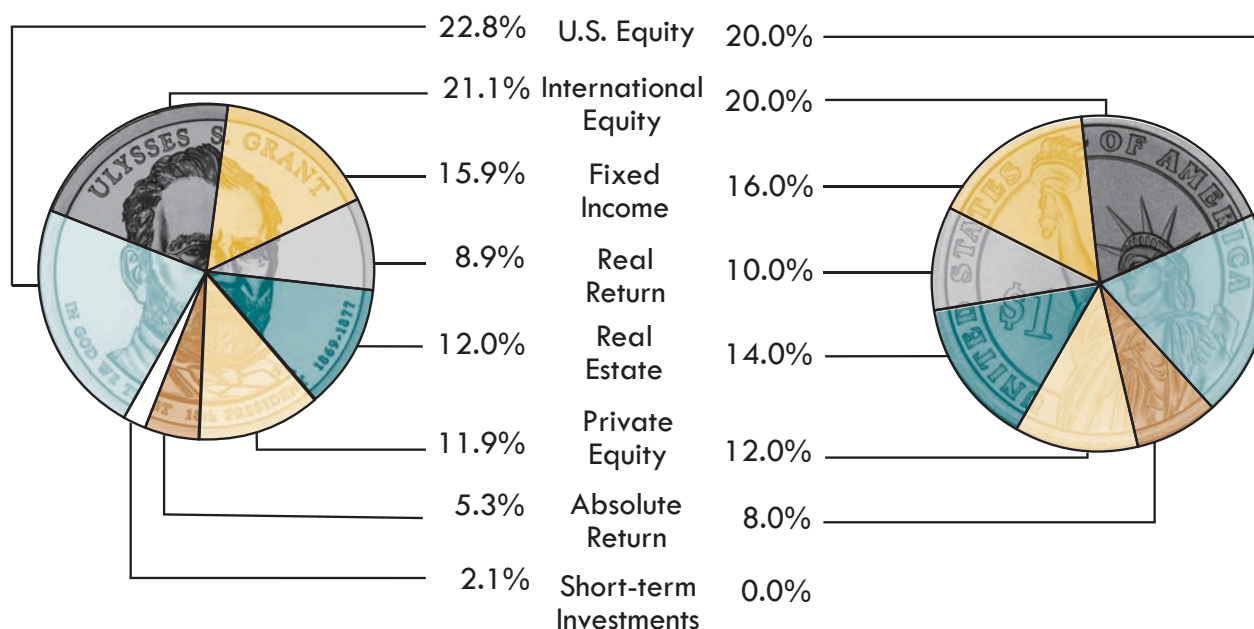
Note: Performance calculations provided by State Street Bank and Trust use net-of-fee time-weighted rates of return.

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.

FY13 Asset Allocation

Long-term Target Allocation



Through the fiscal year, TRS continued implementation of the asset allocation structure adopted in April 2011. That study focused primarily on controlling the overall volatility of the investment portfolio given an uncertain global economic landscape. To accomplish that goal, the new targets called for continued evolution of the fund's diversification into the absolute return and private equity asset classes, with a gradual reduction in exposure to publicly traded equity securities. In fiscal year 2013, TRS continued reallocating assets according to this plan by recognizing gains within a very strong public equity market environment.

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 following 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, 2013.

Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/2013 Total Fund \$ Million	As of June 30, 2013			As of June 30, 2012	
		Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. equities	\$9,008	22.8%	23.0%	20.0%	23.7%	20.0%
International equities	8,323	21.1	20.0	20.0	20.2	20.0
Fixed income	6,279	15.9	16.0	16.0	16.4	16.0
Real return	3,510	8.9	10.0	10.0	9.4	10.0
Real estate	4,738	12.0	13.0	14.0	12.5	14.0
Private equity	4,690	11.9	11.0	12.0	11.5	12.0
Absolute return	2,110	5.3	6.0	8.0	5.5	8.0
Short-term investments	821	2.1	1.0	0.0	0.8	0.0
Pending settlements/expenses*	203	NA	NA	NA	NA	NA
Total fund	\$39,682	100.0%	100.0%	100.0%	100.0%	100.0%

* This amount is included within the liability section in the Statements of Net Position.

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 previous Strategic Investment Listing table. The strategic investment listing represents assets assigned to managers within each asset class, whereas the portfolio securities summary represents specific types of financial instruments. The principal differences can be explained by the types of investments a manager is allowed to hold within its portfolio. For example, cash and currency held within a manager's portfolio is categorized in the same way as the manager's primary assignment on the Strategic Investment Listing. However, in the portfolio securities summary, these investments are categorized as short-term investments and foreign currency.

Portfolio Securities Summary

	2013		2012	
	Fair Value	% of Total	Fair Value	% of Total
U.S. treasuries & agencies	\$1,266,248,184	3.2%	\$908,732,373	2.5%
U.S. government-backed mortgages	545,611,651	1.4	801,736,346	2.2
U.S. government special situations	2,122,118	-	47,480,226	0.1
Municipals	58,776,219	0.1	56,047,855	0.2
Asset-backed securities	163,658,569	0.4	171,507,017	0.5
Commercial & collateralized mortgages	349,793,376	0.9	390,348,243	1.0
Commingled funds (U.S. & international)	1,357,813,108	3.4	1,102,978,257	3.0
Domestic corporate obligations	1,497,383,563	3.8	1,553,491,044	4.2
Foreign debt/corporate obligations	1,631,025,723	4.1	1,793,973,365	4.9
Total Bonds, Corporate Notes, and Government Obligations	6,872,432,511	17.3	6,826,294,726	18.6
U.S. equities	8,754,689,111	22.0	8,404,570,096	22.8
International equities	8,361,383,273	21.1	7,360,287,886	20.0
Total Equities	17,116,072,384	43.1	15,764,857,982	42.8
Absolute return	2,110,246,003	5.3	1,978,268,562	5.4
Private equity	4,687,146,815	11.8	4,175,728,282	11.4
Real estate	4,680,490,237	11.8	4,480,390,766	12.2
Real return strategies	2,661,472,243	6.7	2,582,307,633	7.0
Derivatives - Options, Futures and Swaps	(9,415,670)	-	7,297,522	-
Cash and cash equivalents	1,448,944,819	3.7	885,036,978	2.4
Foreign currency	114,363,611	0.3	81,921,602	0.2
TRS Total Portfolio	\$39,681,752,953	100.0%	\$36,782,104,053	100.0%

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.

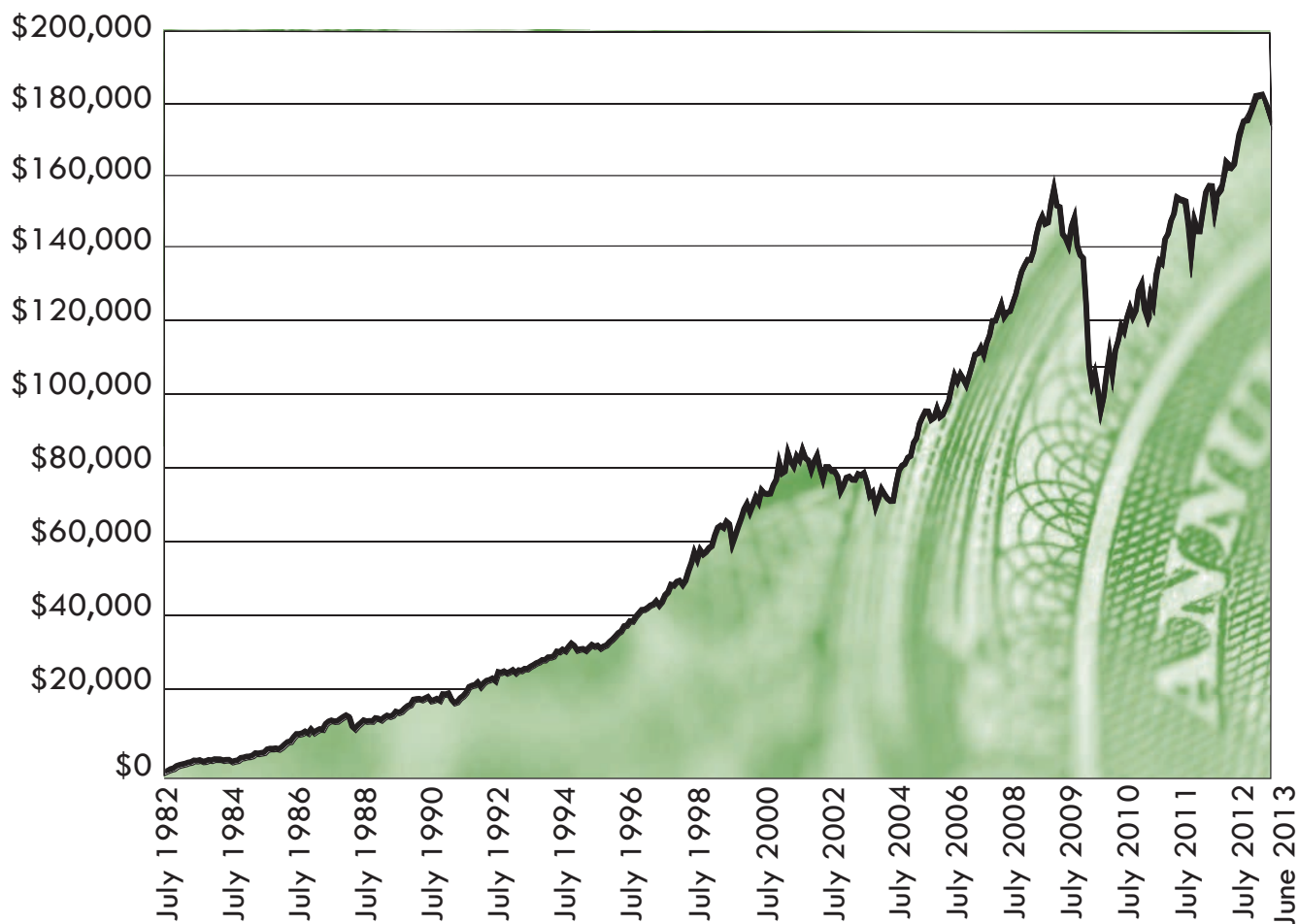
Securities Holdings For Years Ended June 30

Asset Type	2013	2012	2011	2010	2009
Bonds, corporate notes, and government obligations	17.3%	18.6%	18.8%	20.8%	22.0%
Equities - U.S.	22.0	22.8	26.4	25.8	27.8
Equities - international	21.1	20.0	19.7	20.0	18.9
Real return	6.7	7.0	7.3	7.3	5.3
Short-term investments/currency	4.0	2.6	3.7	2.4	3.8
Absolute return	5.3	5.4	3.9	3.9	2.5
Private equity	11.8	11.4	9.6	9.5	8.1
Real estate	11.8	12.2	10.6	10.3	11.6
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRS

TRS's asset allocation has provided consistent overall returns over the years, as represented by the following chart showing the growth of \$10,000 since 1982.

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 ended June 30, 2013.

U.S. EQUITY

U.S. equity, or common stock, represents shares or units of ownership in public corporations domiciled within the United States. TRS invests in equities because the asset class offers the opportunity to participate in the success of the U.S. 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 year ended June 30, 2013, the U.S. equity asset class earned 23.3 percent return on a net of fee basis, compared to the Russell 3000 Index gain of 21.5 percent. One-, three-, five-, and 10-year comparisons to this benchmark follow.

	FY13	3-Year	5-Year	10-Year
TRS, net of fees	23.3%	18.3%	7.1%	7.5%
Russell 3000 Index	21.5	18.6	7.3	7.8

The top 10 U.S. equity holdings as of June 30, 2013 follow and represent 12.7 percent of the total U.S. equity holdings. These investments represent sector diversification and include companies that are dominant within their industry.

Top 10 U.S. Equity Holdings at June 30, 2013

Firm	Industry	Fair Value (USD)
Exxon Mobil Corp.	Energy	\$151,189,883
Apple, Inc.	Information Technology	143,678,812
Google, Inc.	Information Technology	127,630,760
Pfizer, Inc.	Health Care	123,041,572
Wells Fargo & Co.	Financials	107,975,815
Citigroup, Inc.	Financials	102,445,691
JP Morgan Chase & Co.	Financials	99,634,262
Microsoft Corp.	Information Technology	94,554,466
Chevron Corp.	Energy	82,598,953
Johnson & Johnson	Health Care	82,183,046
Total		<u>\$1,114,933,260</u>

At June 30, 2013, 22.8 percent of the TRS investment portfolio was assigned to U.S. equity managers. TRS employed the following U.S. equity managers during fiscal year 2013.

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

Large Cap Core

Herndon Capital Management, L.L.C. (3/11)	\$190,554,199
J.P. Morgan Investment Management, Inc. (12/07)	583,863,271
Levin Capital Strategies, L.P. (10/10)	463,918,371
MFS Institutional Advisors, Inc. (10/10)	516,208,779
Oakbrook Investments, L.L.C. (11/09)	343,509,523
Rhumblin Advisors, L.P. (8/06)	1,931,462,932
T. Rowe Price Associates, Inc. (6/05)	729,366,788

Large Cap Value

Loomis, Sayles & Company, L.P. (3/10)	346,711,269
Robeco Boston Partners Asset Management, L.P. (3/10)	671,368,424

Large Cap Growth

J.P. Morgan Investment Management, Inc. (10/12)	439,019,405
T. Rowe Price Associates, Inc. (11/06)	632,819,091

Small/Mid Cap Core

Rhumblin Advisors, L.P. (5/07)	25,854,994
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Small/Mid Cap Value

Cramer Rosenthal McGlynn, L.L.C. (3/09)	330,666,299
Fiduciary Management Associates, L.L.C. (7/08)	161,114,340
Lombardia Capital Partners, L.L.C. (11/08)	264,089,619
LSV Asset Management (12/02)	311,165,277

Small/Mid Cap Growth

Boston Company Asset Management, L.L.C. (3/09)	190,074,922
Cortina Asset Management, L.L.C. (6/12)	129,286,471
Emerald Advisors, Inc. (11/04)	280,431,989
State Street Global Markets (5/13)	97,293,322

Emerging Manager

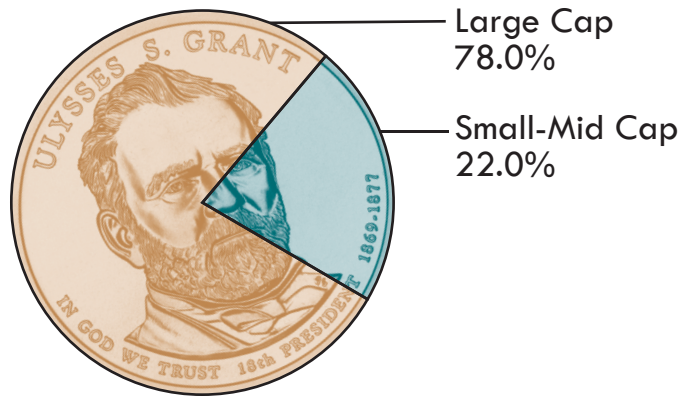
Channing Capital Management, L.L.C. (12/11)	36,720,478
Rhumblin Advisors, L.P. (5/06)	331,859,768

Note: The list does not include managers terminated prior to June 30, 2013 with residual assets in the account.

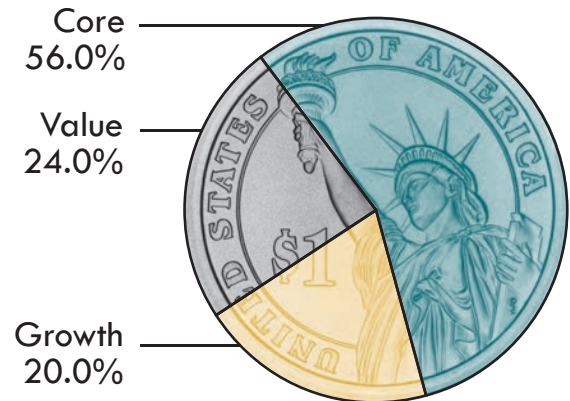
Discussion of U.S. Equity

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 broad U.S. equity market (Russell 3000 index) rose 21.5 percent in fiscal year 2013. This followed a modest 3.8 percent gain in fiscal year 2012. Accommodative monetary policy and solid corporate fundamentals were among factors that drove investor assets back into equities. Market volatility dropped sharply as the prior year's negative macroeconomic events (e.g. European debt crisis) diminished. The plan's domestic equity portfolio outperformed the Russell 3000 benchmark by 1.8 percent in fiscal year 2013 as the retirement system's active investment managers benefited from lower market volatility. A modest overweight to outperforming small cap stocks was also a contributor.

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, 2013

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted average market cap (\$ billions)	\$74.3	\$85.8
Price/earnings ratio	19.1x	19.2x
Dividend yield	1.8%	2.1%
Beta	1.1	1.0
5-year EPS growth	13.2%	11.7%
Price/book ratio	3.8x	3.7x

Source: State Street Bank and Trust

U.S. Equity – Diversification by Industry Sector for Year Ended June 30, 2013

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer discretionary	14.6%	13.5%
Consumer staples	7.0	8.6
Energy	8.9	9.4
Financial services	16.6	17.5
Health care	14.7	12.6
Industrials	11.6	11.4
Materials	4.3	3.8
Technology	18.6	17.8
Telecommunication services	1.6	2.2
Utilities	2.1	3.2
Total	<u>100.0%</u>	<u>100.0%</u>

Source: State Street Bank and Trust and TRS

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 multi-nationally, or companies that are particularly strong in their own markets or industries.

For the year ended June 30, 2013, the international equity asset class earned 13.2 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country Excluding U.S. Investable Market Index (identified as Non-U.S. Equity Index in the following references) gain of 13.9 percent. One-, three-, five-, and 10-year comparisons to this benchmark are in the following table.

	FY13	3-Year	5-Year	10-Year
TRS, net of fees	13.2%	9.2%	(0.3%)	8.9%
Non-U.S. Equity Index	13.9	8.1	(0.4)	9.1

The top 10 international equity holdings as of June 30, 2013 follow and represent 8.9 percent of the total international equity holdings. These investments are diversified geographically and include companies that are dominant within their industry and familiar to the U.S. economy.

Top 10 International Holdings at June 30, 2013

Firm	Country	Fair Value (USD)
Novartis AG	Switzerland	\$88,950,140
Roche Holding AG	Switzerland	88,149,030
Vodafone Group PLC	United Kingdom	86,746,729
Sanofi	France	84,823,471
Nestle SA	Switzerland	80,134,288
Taiwan Semiconductor LTD	Taiwan	73,584,534
HSBC Holdings PLC	United Kingdom	67,181,881
British American Tobacco PLC	United Kingdom	59,413,167
BP PLC	United Kingdom	59,280,921
Samsung Electronics LTD	Korea	55,880,751
Total		<u>\$744,144,912</u>

At June 30, 2013, 21.1 percent of the TRS investment portfolio was assigned to international equity managers. TRS employed the following international equity managers during fiscal year 2013

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

Large Cap Core

Aberdeen Asset Management, Inc. (7/10)	\$580,297,792
Northern Trust Investments, Inc. (8/10)	1,969,536,641

Large Cap Growth

Jarislowsky, Fraser Limited (8/05)	427,821,313
McKinley Capital Management, Inc. (8/05)	786,989,683
State Street Global Markets (5/13)	388,136,972

Large Cap Value

LSV Asset Management (10/12)	762,649,490
Mondrian Investment Partners Limited (4/93)	864,800,418

Small/Mid Cap

American Century Global Investment Management, Inc. (6/08)	262,460,903
DFA Investment Dimensions Group Inc. (6/11)	203,001,272
Dimensional Fund Advisors, L.P. (6/08)	262,765,965
Mondrian Investment Partners Limited (11/12)	248,556,448

Emerging Markets

Aberdeen Asset Management, Inc. (3/08)	559,907,348
Northern Trust Investments, Inc. (4/13)	409,619,522

Emerging Manager

Ativo Capital Management (3/13)	24,969,183
Sky Investment Council (12/12)	24,888,767
Strategic Global Advisors (3/11)	53,631,103

Note: The list does not include managers terminated prior to June 30, 2013 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.

International Equity Manager Structure

International Equity Classification	Target	Actual
Large cap core	32.5%	31.0%
Large cap growth	20.0	19.5
Large cap value	20.0	19.9
Small/mid cap	11.0	11.9
Emerging markets	16.5	17.7
Total	<u>100.0%</u>	<u>100.0%</u>

International equity markets produced solid returns for the year ended June 30, 2013. Markets appreciated strongly during the first half of the fiscal year, advancing over 13.0 percent as investor fears over weakening global economic conditions and concerns regarding the Euro-based sovereign debt crisis abated. Further supporting the rally was the continued accommodative monetary policies employed by central bankers throughout the developed world (U.S., Europe and Japan). Economically sensitive sectors such as materials, energy, industrials and financials led equity markets higher during the second half of 2012. During the last quarter of the fiscal year, markets weakened as investors speculated the U.S. Federal Reserve would begin “tapering” its bond purchases, thus causing a spike in U.S. interest rates and dampening equity market expectations.

The biggest story to emerge during the past year was the significant underperformance of emerging market equities relative to U.S. and Non-US developed equity markets. Emerging equity markets returned 3.6 percent during the fiscal year, lagging the U.S. equity market by 17.8 percent and non-US equity markets by 13.5 percent. Emerging equity markets were hampered by fears of a hard landing in China as it transitions its economy from a direct investment economy to a more service-oriented, domestic-based economy. A slow-down in China has a rippling effect throughout the developed and emerging world economy, but especially impacts natural resource sensitive emerging economies in Brazil and Russia.

The TRS international equity portfolio modestly underperformed the benchmark return during the fiscal year. Negative excess returns were driven by the portfolio's defensive sector positioning relative to the index and the portfolio's modest overweight to emerging market equities. TRS managers have continued to position the portfolio by over-weighting specific sectors including telecom, consumer staples and healthcare at the expense of more economically sensitive sectors such as materials, energy and industrials.

Portfolio Characteristics

The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio as of June 30, 2013.

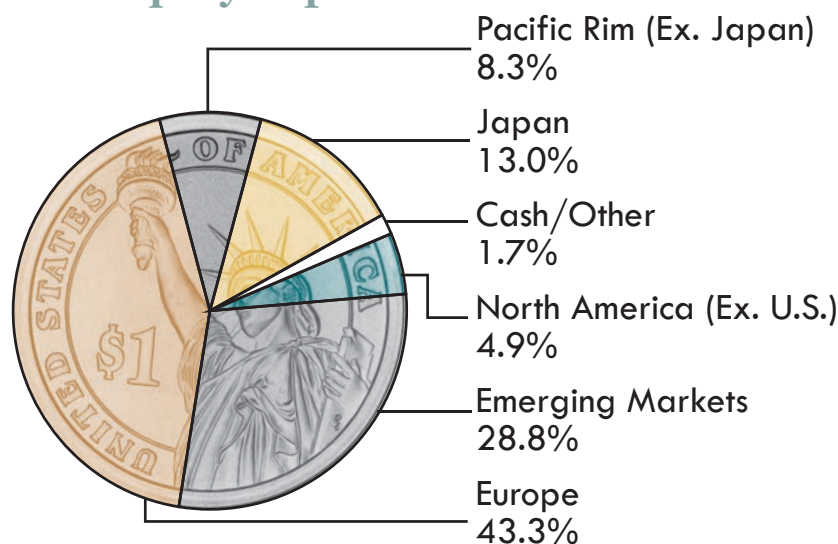
International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted average market cap (\$ billions)	\$41.1	\$48.2
Price/earnings ratio	15.1x	15.7x
Dividend yield	3.2%	3.2%
Price/book ratio	2.7x	2.6x

Source: State Street Bank and Trust

Regional Allocation Comparison at June 30, 2013

TRS International Equity Exposure



Source: TRS

GLOBAL FIXED INCOME

Global fixed income is a financial obligation of an entity including, but not limited to, U.S. and foreign corporations, governments, agencies, indices, or municipalities. These entities promise to pay a specified sum of money at a future date, while paying specified interest during the term of the issue. A fixed or floating income security

represents a contractual obligation of a debt or a loan, with the issuer of debt as the borrower of capital, and the purchaser, or holder of bonds, as the creditor or lender.

Global fixed income is an important asset class in a well-diversified portfolio. Fixed income investments can reduce volatility, offer low or 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, 2013, the TRS fixed income portfolio returned 6.5 percent, net of fees, compared to the loss of 0.7 percent of the benchmark, the Barclays Capital U.S. Aggregate Index. One-, three-, five-, and 10-year comparisons to the relative benchmark follow.

	FY13	3-Year	5-Year	10-Year
TRS, net of fees	6.5%	7.0%	8.5%	6.1%
Barclays Capital U.S. Aggregate Index	(0.7)	3.5	5.2	4.5

The following table lists the top 10 global fixed income investments or funds held by TRS as of June 30, 2013. A complete listing of investment holdings is available as a separate report.

Top 10 Global Fixed Income Holdings at June 30, 2013

Security/Position	Fair Value
Franklin Templeton Emerging Market Debt Fund	\$421,026,471
Loomis Sayles Strategic Alpha Fund	322,335,858
U.S. Treasury Note	147,635,228
Oaktree Enhanced Income Fund, L.P.	129,425,191
PIMCO Distressed Senior Credit Opportunities Fund II	122,589,652
PIMCO Bank Recapitalization and Value Opportunities Fund	103,814,900
PIMCO Global Advantage Strategy Bond Fund	95,078,405
Federal Home Loan Mortgage Note	57,318,910
MacKay Shields Defensive Bond Arbitrage Fund	53,090,964
U.S. Treasury Inflation Linked Note	48,077,712
Total	<u>\$1,500,393,291</u>

Source: State Street Bank and Trust and TRS

At June 30, 2013, 15.9 percent of the TRS investment portfolio was assigned to global fixed income. TRS employed the following fixed income managers during fiscal year 2013. This excludes fixed income-type assets overseen by managers in other asset classes containing fixed income securities as a small part of their overall strategies.

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

AQR Risk Balanced Reinsurance Fund Ltd. (12/12)	\$40,442,612
Dolan McEniry Capital Management, L.L.C. (5/06)	327,857,688
Franklin Advisers, Inc. (2/08)	760,079,349
Franklin Templeton Investment Management Limited (12/10)	421,026,471
Garcia Hamilton & Associates, L.P. (6/10)	26,541,207
Hartford Investment Management Company (3/11)	291,010,833
LM Capital Group, L.L.C. (12/09)	33,765,382
Loomis Sayles & Company, L.P. (6/08)	443,503,279
Loomis Sayles Trust Company L.L.C. (3/11)	322,335,860
MacKay Shields L.L.C. (8/11)	797,262,690

(continued)

(continued)

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

Manulife Asset Management, L.L.C. (8/11)	\$416,541,441
Maranon Senior Credit Fund II-B, L.P. (6/13)	16,332,420
Oaktree Enhanced Income Fund, L.P. (9/12)	129,425,191
Pacific Investment Management Company, L.L.C. (7/82)	985,998,619
Pacific Investment Management Company - Bank Recapitalization and Value Opportunities Bravo Fund, L.P. (1/11)	103,814,900
Pacific Investment Management Company - Bank Recapitalization and Value Opportunities Bravo Fund II, L.P. (3/13)	12,430,407
Pacific Investment Management Company - Distressed Senior Credit Opportunities Fund II, L.P. (11/11)	122,589,654
Pacific Investment Management Company - Global Advantage Strategy Bond Fund (3/11)	95,078,405
Prudential Investment Management, Inc. (12/08)	509,588,301
Taplin, Canida & Habacht (3/04)	251,315,194
Westwood Management Corp. (6/12)	73,985,955

Note: This list does not include certain managers terminated prior to June 30, 2013 with residual assets in the account.

Discussion of Global Fixed Income

TRS's global fixed income portfolio significantly outperformed the Barclays Capital U.S. Aggregate Index by 7.2 percent, net of fees, during the fiscal year. The global fixed income portfolio maintained low exposure to global developed market nominal positions with low yields and high debt levels. TRS continues the bias away from U.S. and global fixed income indices as benchmark investments tend to reward governments and corporations with the highest debt levels. TRS has increased floating rate exposures and maintained below market weight duration in anticipation of higher interest rates. Further, the System has worked to create structural flexibility within the portfolio to opportunistically address potential market dislocations.

Statistical Data

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

Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/13	Barclays Capital Aggregate Index 6/30/13	TRS Fixed Income Portfolio 6/30/12	Barclays Capital Aggregate Index 6/30/12
Average maturity	5.8 years	7.5 years	6.0 years	6.7 years
Effective duration	3.8 years	5.5 years	4.2 years	5.1 years
Average coupon	3.6%	3.4%	4.5%	3.9%
Average quality rating	Baa1	Aa2	A3	Aa2

Source: State Street Bank and Trust and TRS

Diversification by Quality Rating for Individual Bonds

Moody's Quality Rating	2013	2012
Aaa*	42.1%	46.2%
Aa1 through Aa3	8.8	4.1
A1 through A3	7.2	7.0
Baa1 through Baa3	19.5	20.9
Ba1 through Ba3	10.5	9.8
B1 through B3	6.5	6.5
Under B3	1.7	2.0
Other**	3.7	3.5
Total	100.0%	100.0%

* U.S. treasury securities are included

** Other includes unrated securities

Source: State Street Bank and Trust and TRS

REAL RETURN

The real return asset class was established during 2007 in recognition of the significant impact inflation has on an investment portfolio and its return objectives. Traditional asset classes, such as equities and fixed income, tend to perform well in periods of stable or falling inflation yet face meaningful challenges in periods of rising inflation.

The objective of the real return asset class is to exceed the Consumer Price Index (CPI) by 5.0 percentage points over a five- to 10-year period of time. Real return strategies are generally less correlated with traditional stock and bond portfolios and provide inflation protection and excess returns during periods of rising inflation while reducing overall risk to the total fund. It should be noted that the CPI is not an investible benchmark, but is utilized as a benchmark given the inflation focus of the asset class. For the year ended June 30, 2013, TRS's real return asset class earned 0.1 percent, net of fees, compared to the 6.8 percent return of the benchmark.

	FY13	3-Year	5-Year
TRS, net of fees	0.1%	8.2%	1.2%
Consumer Price Index + 5%	6.8	7.4	6.4

At June 30, 2013, 8.9 percent of TRS's investment portfolio was assigned to real return managers. As of June 30, 2013, TRS employed the following managers and/or funds including their respective assets under management.

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

Global Inflation-linked Bonds

New Century Advisors, L.L.C. (2/08)	\$218,639,764
Pacific Investment Management Company, L.L.C. (5/07)	487,602,592

Global Macro/ Risk Parity Strategies

AQR Global Risk Premium Tactical Fund II, Ltd. (7/07)	678,512,264
Bridgewater All Weather Portfolio Limited (7/07)	665,632,619
PIMCO Global Multi-Asset Strategy Fund (12/09)	496,816,983
PIMCO Multi-Asset Volatility Fund LLC (5/13)	58,914,960
Standard Life Investments Global Absolute Return Strategies Fund Ltd. (6/12)	542,394,327

Targeted Real Return

AQR Real Return Fund, L.P. (6/12)	357,984,885
Black River Agriculture Fund 2 LP (6/13)	3,961,408

Discussion of Real Return

The real return asset class serves as a portfolio diversifier and protects against unanticipated and actual inflation within the total fund. The real return portfolio is expected to maintain a risk/return profile between global equities and fixed income. The real return portfolio generated a 0.1 percent return, net of fees, for the fiscal year ended June 30, 2013. The global macro/risk parity strategies returned 2.3 percent, however inflation linked bonds and targeted real return posted returns of (3.0) percent and (8.4) percent, respectively. The majority of the underperformance occurred in the fourth quarter of the fiscal year when commodities, inflation-linked and nominal bonds were negatively impacted by the inaction of the Federal Reserve. As a result, most inflationary assets experienced increased correlation. However, TRS modestly underweighted most real return sectors during the second half of the fiscal year while primarily overweighting equities. The policy target for real return remains 10.0 percent of total fund.

Real Return Targets and Actual Allocation as of June 30, 2013

Real Return Subclasses	Target	Actual
Global inflation-linked bonds	21.0%	20.1%
Global macro/risk parity strategies	66.0	69.6
Targeted real return	13.0	10.3
Total	<u>100.0%</u>	<u>100.0%</u>

Source: TRS

PRIVATE EQUITY

Private equity includes investments that are placed and traded outside of the stock exchanges and other public markets. Over the long term, they are an attractive investment 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. Investing in private equity carries additional risk, 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 as well. 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 subsectors within private equity, including buyout, growth equity, venture capital, subordinated debt, and distressed debt.

TRS measures private equity performance against the Russell 3000 stock index plus 300 basis points (3 percentage points). This 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 ended June 30, 2013, private equity earned 15.2 percent on a net of fee basis, compared to the benchmark gain of 25.1 percent.

In general, an investor must look at a 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 return. One-, three-, five-, and 10-year comparisons to the benchmark are noted in the following table.

	FY13	3-Year	5-Year	10-Year
TRS, net of fees	15.2%	13.5%	6.9%	11.8%
Russell 3000 Index + 3.0%	25.1	22.1	10.5	11.1

At June 30, 2013, 11.9 percent of the TRS investment portfolio was assigned to the private equity asset class. The FY13 policy target for private equity is 12 percent of the total fund. The following chart lists the private equity partnerships/funds (and the respective assets under management) that TRS has investments with as of June 30, 2013.

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

Buyout

Advent International GPE VI, L.P. (7/08)	\$71,340,394
Advent International GPE VII, L.P. (12/12)	20,400,438
Apollo Investment Fund V, L.P. (5/01)	23,284,007
Apollo Investment Fund VI, L.P. (5/06)	129,554,292
Apollo Investment Fund VII, L.P. (1/08)	235,202,376
Apollo Investment Fund VII Annex A (5/12)	34,431,646
Banc Fund VI, L.P. (6/02)	30,214,468
Banc Fund VII, L.P. (5/05)	33,042,110
Baring Asia Private Equity Fund V, L.P. (3/11)	30,809,763
Black River Capital Partners Fund (Food), L.P. (8/11)	34,515,223
Blackstone Capital Partners VI, L.P. (8/11)	42,093,133
Blackstone Capital Partners VI Annex A (10/11)	19,577,724
Carlyle Partners IV, L.P. (4/05)	62,853,027
Carlyle Partners V, L.P. (7/07)	171,236,878
Carlyle Partners VI, L.P. (6/13)	1,466,726
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	43,151,059
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (4/06)	57,317,303
Castle Harlan Partners IV, L.P. (5/03)	10,787,596
Code Hennessy & Simmons V, L.P. (2/05)	16,550,638
DLJ Merchant Banking Partners II, L.P. (3/97)	2,061,231
DLJ Merchant Banking Partners III, L.P. (9/00)	29,659,919
Edgewater Growth Capital Partners, L.P. (11/03)	2,824,942
Edgewater Growth Capital Partners II, L.P. (2/06)	13,018,845
Edgewater Growth Capital Partners III, L.P. (9/11)	25,839,923
EIF United States Power Fund IV, L.P. (11/11)	12,389,192
Elevation Partners, L.P. (4/05)	6,880,008
Energy Capital Partners I, L.P. (4/06)	29,570,541
Energy Capital Partners II-A, L.P. (9/09)	47,763,704
Energy Capital Partners II Annex A (10/11)	46,198,431
EnerVest Energy Institutional Fund XII-A, L.P. (12/10)	46,301,141
EQT VI, L.P. (9/11)	29,016,847
Evercore Capital Partners II, L.P. (4/03)	16,568,557
GI Partners Fund III, L.P. (1/09)	51,844,360
Glencoe Capital Partners III, L.P. (1/04)	12,408,236
Glencoe Capital Institutional Partners III, L.P. (6/04)	4,280,487
Green Equity Investors V, L.P. (8/07)	82,809,943

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

Green Equity Investors VI, L.P. (11/12)	\$17,667,626
GTCR Fund VII/VIIIA, L.P. (3/00)	212,664
GTCR Fund VIII, L.P. (7/03)	12,045,179
ICV Partners II, L.P. (1/06)	11,701,954
J.C. Flowers II, L.P. (2/07)	14,221,823
Littlejohn Fund IV, L.P. (7/10)	62,861,521
Madison Dearborn V, L.P. (7/06)	87,571,179
Madison Dearborn Partners V Annex A (4/13)	25,780,269
MBK Partners Fund II, L.P. (5/09)	28,387,682
MBK Partners Fund III, L.P. (4/13)	11,816,552
Mesirow Capital Partners VII, L.P. (6/97)	37,069
Morgan Creek Partners Asia, L.P. (1/11)	59,534,934
NGP Natural Resources X, L.P. (5/12)	40,889,128
NGP Natural Resources Annex A (11/12)	21,738,788
New Mountain Partners III, L.P. (8/07)	89,189,318
Onex Partners III, L.P. (04/09)	42,082,358
PAI Europe V, L.P. (4/08)	33,668,564
Parthenon Investors IV, L.P. (4/12)	5,350,859
Pine Brook Capital Partners, L.P. (1/08)	37,704,458
Providence Equity Partners VI, L.P. (3/07)	106,276,517
Providence Equity Partners VI Annex A (8/12)	46,983,135
Providence Equity Partners VII, L.P. (6/12)	10,814,434
Rhone Partners IV, L.P. (1/12)	17,824,112
Riverstone/Carlyle Global Energy and Power Fund IV, L.P. (3/08)	77,145,166
Riverstone Global Energy and Power Fund V, L.P. (6/12)	90,073,197
Silver Lake Partners III, L.P. (8/07)	61,275,498
Silver Lake Partners III Annex A (12/11)	59,663,631
Siris Partners II, L.P. (1/12)	7,629,461
Stone Point Capital Annex A (10/11)	33,693,735
Stone Point Capital Trident V, L.P. (12/10)	39,431,307
TCW/Latin America Private Equity Partners, L.P. (5/97)	15,667
Thayer Equity Investors V, L.P. (5/03)	79,180,361
TPG Partners IV, L.P. (12/03)	23,032,884
TPG Partners VI, L.P. (4/08)	103,790,485
Trilantic Capital Partners III, L.P. (4/05)	3,017,391
Trilantic Capital Partners IV, L.P. (10/07)	28,698,151
Trustbridge Partners IV, L.P. (12/11)	14,669,702
Veritas Capital Fund IV, L.P. (11/10)	56,030,098
Veritas Capital Fund IV Annex A (2/11)	10,862,910
Vicente Capital Partners Growth Equity Fund, L.P. (4/08)	12,592,876
Vista Equity Partners Fund III, L.P. (11/07)	48,307,448
Vista Equity Partners Fund IV, L.P. (10/11)	47,312,564

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

VS&A Communications Partners II, L.P. (8/95)	\$106,972
VSS Communications Partners IV, L.P. (3/05)	28,149,962
Warburg Pincus International Partners, L.P. (9/00)	38,278,922
Warburg Pincus Private Equity IX, L.P. (9/05)	63,560,237
Warburg Pincus Private Equity X, L.P. (10/07)	238,378,300
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	56,731,502
Windpoint Partners VI, L.P. (2/06)	18,504,990
WPG Corporate Development Associates V, L.P. (11/97)	771,373
Venture Capital	
21st Century Communications T-E Partners, L.P. (2/95)	318,991
Apex Investment Fund V, L.P. (8/03)	3,742,311
Carlyle U.S. Growth Fund III, L.P. (6/07)	27,558,689
Carlyle Venture Partners II, L.P. (10/02)	31,114,152
Evergreen Partners IV, L.P. (12/02)	16,476,222
Evergreen Partners V, L.P. (6/07)	13,090,281
Granite Ventures II, L.P. (5/05)	16,112,544
HealthpointCapital Partners, L.P. (6/04)	19,796,713
Hopewell Ventures, L.P. (6/04)	2,534,107
Illinois Emerging Technologies Fund, L.P. (6/04)	1,211,476
JMI Equity Fund VII, L.P. (2/11)	13,040,220
Lightspeed Venture Partners IX, L.P. (3/12)	12,936,345
LiveOak Venture Partners I, L.P. (2/13)	388,924
Longitude Venture Partners, L.P. (3/08)	27,009,713
Longitude Venture Partners II, L.P. (4/13)	1,072,625
Morgan Creek Partners Venture Access Fund, L.P. (1/12)	32,404,411
SCP Private Equity Partners, L.P. (5/97)	66,219
SCP Private Equity Partners II, L.P. (6/00)	39,742,847
Shasta Ventures, L.P. (1/05)	24,192,109
Sofinnova Venture Partners VIII, L.P. (8/11)	8,166,565
Starvest Partners, L.P. (1/09)	8,612,730
Technology Crossover Ventures VII, L.P. (10/08)	33,986,996
VantagePoint Venture Partners IV, L.P. (6/00)	32,966,129
VantagePoint Venture Partners 2006 (Q), L.P. (12/06)	38,575,578
WPG Enterprise Fund II, L.P. (8/94)	1,794,370
WPG Enterprise Fund III, L.P. (3/97)	2,913,311
Special Situations	
Avenue Europe Special Situations Fund, L.P. (5/08)	884,095
Avenue Special Situations Fund V, L.P. (10/07)	2,814,218
Blackstone/GSO Capital Solutions Fund, L.P. (9/09)	139,731,080
Carlyle Strategic Partners, L.P. (10/04)	1,360,167
Clearlake Capital Partners II, L.P. (7/09)	22,595,420
Clearlake Capital Partners III, L.P. (10/12)	10,863,081

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

Maranon Mezzanine Fund, L.P. (8/09)	\$24,745,122
MatlinPatterson Global Opportunities Partners II, L.P. (1/04)	2,404,051
MatlinPatterson Global Opportunities Partners III, L.P. (6/07)	67,577,498
MP II Preferred Partners (3/09)	6,209,096
Merit Mezzanine Fund IV, L.P. (1/05)	29,033,232
Oaktree Annex A (11/10)	39,385,426
Oaktree Opportunities Fund VIII, L.P. (3/10)	100,161,595
Oaktree Opportunities Fund VIIIb, L.P. (8/11)	49,489,958
OCM Opportunities Fund V, L.P. (6/04)	2,906,319
OCM Opportunities Fund VIIb, L.P. (6/08)	28,988,670
Oaktree Opportunities Fund IX, L.P. (3/13)	9,863,009
Oaktree Opportunities Fund IX Annex A (3/13)	6,995,981
OCM European Principal Opportunities Fund II, L.P. (8/08)	56,357,929
Oaktree European Principal Fund III, L.P. (11/11)	27,875,564
Oaktree Real Estate Opportunities Fund VI, L.P. (6/13)	51,763,223
Prism Mezzanine Fund, L.P. (12/04)	6,584,188
SW Pelham Fund II, L.P. (9/03)	73,300
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	33,149,517
William Blair Mezzanine Capital Fund II, L.P. (5/97)	92,244
William Blair Mezzanine Capital Fund III, L.P. (1/00)	2,888,231

Discussion of Private Equity

TRS's private equity portfolio earned 15.2 percent, net of fees, during the fiscal year. While under its one-year benchmark, private equity has outperformed on a long-term basis. The long-term performance strength of the private equity program and the asset class's diversification both benefit the overall portfolio. TRS continues to prudently increase its exposure to private equity. In April 2011, the Board of Trustees adopted a new asset allocation study that increased the private equity allocation target to 12 percent. Successful implementation of this target is subject to many factors, including public market performance and sufficient availability of high quality private equity opportunities in the market.

The following chart provides exposure percentage by investment type including breakdown of TRS's targeted style allocation as compared to the actual allocation at June 30, 2013.

Private Equity Target and Actual Allocation as of June 30, 2013

Investment Type	Target	Actual
Buyout	60-80%	76.0%
Venture capital	5-20	9.0
Special situations/distressed debt/subordinated debt	10-25	15.0
Total		100.0%
North America	NA	67.0%
International	NA	33.0
Total		100.0%

Source: TorreyCove Capital Partners LLC

TRS made new commitments to eight separate private equity funds totaling nearly \$850 million and four co-investments totaling \$110 million during the fiscal year. Included in this total were funds designed to broaden the program's geographic diversification in Europe and Asia and specifically target growth opportunities within the technology sector. TRS remains opportunistic with its private equity investment approach and received Board approval to establish a private equity secondary market program which will allow acquisition and divestment of private equity funds in the secondary market.

ABSOLUTE RETURN

The absolute return asset class includes mandates designed to provide attractive return and risk attributes while exhibiting low correlation to traditional public equity and fixed income investments. The absolute return class was established as a result of an asset allocation study adopted in FY07.

The fiscal year policy target for absolute return is 8.0 percent of the overall TRS investment portfolio. The asset class is measured against a relative risk-free index of 90-Day Treasury Bills + 4.0 percent. While this is not an investible index, the benchmark represents the intended risk reduction characteristic of the asset class.

For the year ended June 30, 2013, TRS's absolute return investment asset class earned 10.5 percent, net of fees, compared to the 4.1 percent return of the benchmark.

	FY13	3-Year	5-Year
TRS, net of fees	10.5%	8.4%	3.8%
Treasury Bill + 4%	4.1	4.1	4.3

Investments in absolute return are administered via both direct investment manager relationships and diversified fund of funds. At June 30, 2013, 5.3 percent of TRS's investment portfolio was assigned to absolute return managers and TRS employed the following managers including their respective assets under management.

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

Diversified Funds	
Bridgewater Pure Alpha Fund I (1/09)	\$302,312,412
Diversified Fund of Funds	
Grosvenor Monarch Fund, L.L.C. (6/07)	446,097,128
K2 Bluegill Fund, L.L.C. (6/07)	525,144,129
Direct Investment Funds	
Grosvenor Monarch Fund, L.L.C. (Monarch Series B) (3/11)	425,649,720
K2 Bluegill Fund, L.L.C. (Bluegill Series B) (3/11)	409,850,454
Emerging Manager	
Lasair Capital L.L.C. (8/09)	1,192,160

The following chart provides a further breakdown of TRS's targeted style allocation as compared to the actual allocation at June 30, 2013. The absolute return portfolio has continued to reduce exposure to fund of funds and implement direct fund investments through fiscal year end.

Absolute Return Target and Actual Allocation as of June 30, 2013

Subclasses	Target	Range	Actual
Fund of Funds	50.0%	+/- 15%	46.1%
Equity Focus	10.0	+/- 10%	2.4
Credit Focus	20.0	+/- 10%	21.5
Event/Macro/Other	20.0	+/- 10%	30.0
Total	<u>100.0%</u>		<u>100.0%</u>

Source: TRS

Discussion of Absolute Return

The absolute return investment portfolio performed well for the fiscal year, outperforming the non-investable benchmark by more than 6 percent. The three-year outperformance versus the benchmark continues to be strong, and the program narrowed the gap on the five-year performance metric. A core component of returns over the fiscal year was investment in credit strategies that rewarded expertise in complexity and structuring. These investments overcame the drag on performance from hedging downside risks. Consistent with the long term plan, staff continues to reduce the allocation to fund of funds in order to lower total fees paid, while maintaining relatively low risk – compared with equities – and a stable return profile.

REAL ESTATE

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

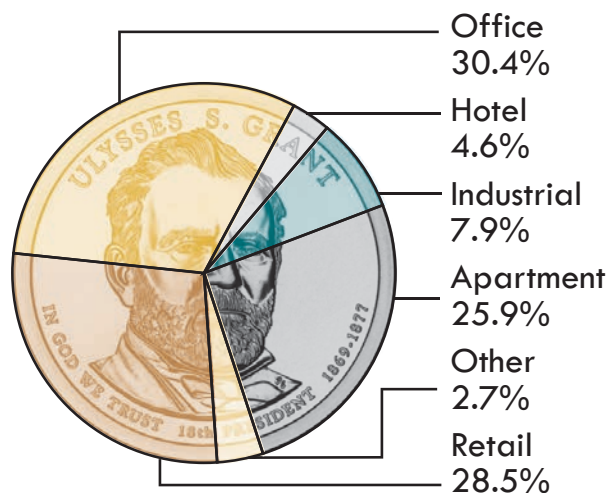
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2013, TRS held \$4.7 billion in real estate assets, or 12.0 percent of the total fund portfolio. For the fiscal year, TRS's real estate investments earned 12.6 percent, net of fees. Real estate performance and benchmark comparisons are noted in the following table.

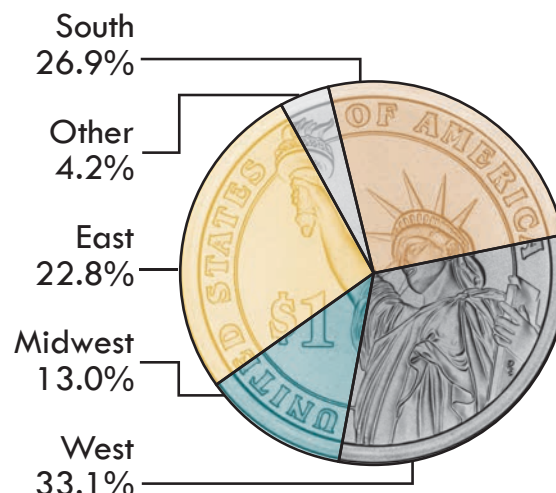
	FY13	3-Year	5-Year	10-Year
TRS, net of fees	12.6%	13.4%	(0.7%)	7.4%
NCREIF Property Index	10.7	13.1	2.8	8.6

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, 2013



Geographic Diversification of Real Estate Holdings as of June 30, 2013



Source: Callan Associates Inc.

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, 2013, 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)	\$724,698,010
Cornerstone Real Estate Advisors, L.L.C. (7/08)	306,638,734
Cornerstone II S/A (7/09)	12,217,500
Cornerstone III S/A (8/09)	55,551,405
Heitman Capital Management, L.L.C. (7/09)	1,082,262,054
Invesco Institutional (N.A.), Inc. (7/08)	483,753,134
LPC Realty Advisors I, Ltd. (7/92)	670,030,836
LPC Realty Advisors Core, Ltd. (4/07)	103,769,648

Closed-End Accounts

Beacon Capital Strategic Partners V, L.P. (8/07)	35,433,488
Blackstone Real Estate Partners VI, L.P. (9/07)	62,221,733
Blackstone Real Estate Partners VII, L.P. (1/12)	119,166,089
Capri Capital Advisors Apartment Fund III, L.P. (11/02)	126,831,888
Capri Select Income Fund II, L.L.C. (12/05)	3,730,290
Carlyle Realty Partners IV, L.P. (6/05)	54,702,551
Cornerstone Hotel Income & Equity Fund II, L.P. (7/08)	41,890,244
JBC Opportunity Fund II, L.P. (5/03)	1,552,310
JER Real Estate Qualified Partners III, L.P. (1/05)	22,958,008
Southwest Multifamily Partners, L.P. (8/12)	3,316,180
Starwood Distressed Opportunity Fund IX, L.P. (3/13)	36,930,427
Thayer Hotel Investors IV, L.P. (5/04)	7,452,112
Walton Street Real Estate Fund IV, L.P. (7/03)	45,837,687

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

Walton Street Real Estate Fund VI, L.P. (4/09)	\$86,235,537
Walton Street Real Estate Fund VII, L.P. (6/13)	9,843,152
Open-End Accounts	
Hines U.S. Core Office Fund, L.P. (12/05)	182,760,503
Lion Industrial Trust (4/05)	199,604,134
International Real Estate Accounts	
Carlyle Europe Real Estate Partners III, L.P. (9/07)	52,510,049
CB Richard Ellis Strategic Partners Europe Fund III, L.P. (4/07)	25,039,650
CB Richard Ellis Strategic Partners UK Fund III, L.P. (5/07)	9,483,928
LaSalle Asia Opportunity Fund III, L.P. (11/07)	32,762,322
MGPA Asia Fund III, L.P. (12/07)	71,919,178
Niam Nordic V, L.P. (4/12)	9,387,456
Real Estate Investment Trust	
Cornerstone Real Estate Advisors, L.L.C. (9/11)	57,203,655

Discussion of Real Estate

TRS's real estate portfolio earned 12.6 percent during the fiscal year, outpacing the National Council of Real Estate Investment Fiduciaries ("NCREIF") Index by 190 basis points. TRS's portfolio outperformed the NCREIF Index by 30 basis points for three years, while lagging 350 basis points and 120 basis points for the respective five- and 10-year periods. The commercial real estate market has continued to experience a recovery in asset prices, transactions, and capital availability. Asset prices are nearing 2007 peak levels in the major metropolitan markets and transaction activity has increased in secondary markets. TRS's managers maintain their focus on upgrading the portfolio through selective acquisitions of desirable assets while selling assets that are not considered long-term strategic holds. The TRS investment portfolio maintains a long-term target allocation of 14.0 percent to real estate.

SECURITIES LENDING

As of June 30, 2013, Citibank, N.A. was the lending agent for the TRS securities lending program including fixed income, domestic equities and international equities. TRS transitioned the lending program to Citibank, N.A. from the master trustee, State Street Bank and Trust Company, during the fiscal year. The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions, which are loans of securities to broker-dealers or other entities. Additional information regarding securities lending activity is included in the Notes to Financial Statements under "D. Investments."

For the year ended June 30, 2013, TRS earned net income of \$13.9 million through its securities lending program. The decrease from prior year was driven primarily by a weaker securities lending market. The global equity rally, combined with the uncertainty of regulatory changes, resulted in the market producing fewer short positions required to be covered by broker/dealers. The securities lending market experienced significant spread compression, or decrease in lending fees, creating a reduction in hard to borrow "specials" resulting in lower return to lendable. The TRS lending agent transition during the fiscal year also contributed to lower income levels as State Street Bank and Trust Company recalled all securities on loan in January 2013 while Citibank, N.A. started gradually putting out loans during the months of February 2013 and March 2013.

The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, the amount of collateral for these securities, and the average utilization rate information.

Securities Lending Summary

	FY13	FY12
Net securities lending income	\$13,896,564	\$19,617,303
Values as of fiscal year-end (June 30):		
Total fair value of collateral	1,836,179,323	2,760,697,851
Total fair value of securities on loan	1,781,796,752	2,682,477,139
Total collateralized percentage	103%	103%
Fiscal year 12 month averages:		
Average lendable	\$18,353,448,742	\$17,370,240,196
Average on loan	1,937,213,348	2,852,601,356
Average utilization	10.6%	16.4%

Source: State Street Bank and Trust and Citibank, N.A.

Note: Securities lending collateral reflected on the Statements of Net Position reflects the securities purchased with cash collateral.

BROKERAGE ACTIVITY

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2013 and June 30, 2012. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2013, TRS recaptured \$0.4 million in cash that was reinvested in the fund. In addition, TRS uses a portion of these commission recapture refunds to pay for Investment Department expenses. During fiscal year 2013, TRS used \$0.2 million of recaptured funds to offset expenses.

Top 50 Brokers Used by TRS Managers

Broker	FY13 Commission	FY12 Commission
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	\$1,667,540	\$1,461,814
Citigroup, Inc. and all Subsidiaries (Worldwide)	1,503,975	622,384
J.P. Morgan Securities, Inc. (Worldwide)	1,132,338	1,245,559
State Street Brokerage Services (Worldwide)	1,003,250	754,647
Credit Suisse (Worldwide)	901,362	710,279
Goldman Sachs & Co. (Worldwide)	651,135	827,365
Morgan Stanley & Co., Inc. and Subsidiaries (Worldwide)	609,961	526,303
UBS Warburg Securities and all Subsidiaries (Worldwide)	558,236	858,265
Deutsche Bank & Securities (Worldwide)	524,919	510,806
Macquarie Bank & Securities, Ltd. (Worldwide)	437,567	317,683
Barclays (Worldwide)	327,618	472,478
Cabrera Capital Markets, Inc.	323,754	264,639
G-Trade Services, L.L.C.	303,345	212,269
Loop Capital Markets, L.L.C.	242,361	342,758
Sanford Bernstein (Worldwide)	205,938	139,774
Instinet, L.L.C. (Worldwide)	184,332	174,106
Liquidnet, Inc.	169,479	216,491
Bank of New York Mellon (Worldwide)	162,915	451,521
Investment Technology Group, Inc. (Worldwide)	160,406	197,845
HSBC (Worldwide)	152,985	54,624
Jefferies & Company	152,709	158,038
Island Trader Securities, Inc.	151,620	58,429
Stifel Nicolaus & Company (Worldwide)	151,313	193,218
Williams Capital Group, L.P.	151,302	289,671
Credit Lyonnais Securities (Worldwide)	148,168	121,162

(continued)

(continued)

Broker	FY13 Commission	FY12 Commission
Cantor Fitzgerald	\$140,757	\$191,300
CL King & Associates, Inc.	125,766	69,953
Raymond James (Worldwide)	123,006	135,532
Mischler Financial Group	122,008	78,283
RBC Dain Rauscher (Worldwide)	121,418	175,018
Guzman & Company	113,953	62,632
Baird, Robert W., & Company, Incorporated	107,594	153,853
Bloomberg Tradebook, L.L.C.	106,299	150,523
M. Ramsey King Securities	96,293	203,661
CLSA Securities	94,095	112,332
Kim Eng Securities	91,769	34,252
Nomura International (Worldwide)	89,141	210,213
Abel Noser Corporation (Worldwide)	83,050	50,624
SG Cowen & Company (Worldwide)	80,980	108,772
Piper Jaffray, Inc.	78,331	73,844
ISI Group Inc.	74,165	81,405
Credit Agricole	72,699	150,187
Citation Group	72,696	62,472
Weeden & Co.	66,418	83,885
S.J. Levinson & Sons, L.L.C.	65,984	7,637
Exane, Inc.	62,045	63,116
Jones Trading Institutional Services, L.L.C.	61,554	5,269
Suntrust Capital Markets, Inc.	61,427	41,121
Cheevers & Co., Inc.	60,532	151,246
Keybank Capital Markets	57,380	79,566
All Others - (251 Brokers in FY13, 249 Brokers in FY12)	2,300,005	2,766,002
Total	<u>\$16,507,893</u>	<u>\$16,484,826</u>

Source: State Street Bank and Trust and TRS

EXTERNAL MANAGER FEE PAYMENTS

For the year ended June 30, 2013, fee payments to external investment managers totaled \$236.8 million, compared to \$199.5 million from the year ended June 30, 2012. The rise is attributable to the asset class mix within the portfolio that continues to shift toward long-term asset allocation targets.

Schedule of Investment Manager Fees

Investment Manager/Account	FY13	FY12
Aberdeen Asset Management, Inc.	\$7,664,054	\$8,230,664
Advent International GPE VI, L.P.	664,588	946,167
Advent International GPE VII-C, L.P.	1,352,232	-
American Century Global Investment Management, Inc.	1,803,774	1,538,686
Apex Investment Fund V, L.P.	-	4,683
Apollo Investment Fund VII, L.P.	2,249,774	2,757,225
AQR Capital Management, L.L.C.	3,572,014	3,623,173
AQR Real Return Offshore Fund, L.P.	2,254,465	94,126

(continued)

(continued)

Investment Manager/Account	FY13	FY12
AQR Risk Balanced Reinsurance Fund LTD.	\$181,383	\$ -
Ativo Capital Management	40,390	-
Avenue Europe Special Situations Fund, L.P.	-	161,194
Avenue Special Situations Fund V, L.P.	-	-
Banc Fund VI, L.P.	375,000	750,937
Banc Fund VII, L.P.	901,200	901,200
Baring Asia Private Equity Fund V	1,600,000	1,600,000
Beacon Capital Strategic Partners V, L.P.	357,863	239,798
Black River Agriculture Fund 2, L.P.	159,349	-
Black River Asset Management L.L.C.	1,123,450	2,140,591
Blackstone Capital Partners VI, L.P.	1,444,149	1,411,180
Blackstone Real Estate Partners VI, L.P.	611,324	657,245
Blackstone Real Estate Partners VII, L.P.	2,977,772	2,521,699
Blackstone/GSO Capital Solutions Fund, L.P.	1,858,849	525,869
Boston Company Asset Management, L.L.C.	2,238,982	2,981,459
Brandes Investment Partners, L.P.	683,913	2,613,890
Bridgewater All Weather Portfolio Offshore Limited	2,275,516	2,325,150
Bridgewater Pure Alpha Fund I	8,842,252	10,487,996
Capri Capital Advisors Apartment Fund III, L.P.	1,486,453	1,496,984
Capri Select Income II, L.L.C.	14,360	11,483
Capri/Capital Advisors, L.L.C.	2,616,952	2,822,115
Carlyle Europe Real Estate Partners III, L.P.	818,394	716,692
Carlyle Europe Real Estate Partners, L.P.	-	85,387
Carlyle Partners IV, L.P.	300,376	284,421
Carlyle Partners V, L.P.	2,129,213	1,531,938
Carlyle Partners VI, L.P.	254,795	-
Carlyle Realty Partners IV, L.P.	890,346	890,346
Carlyle Strategic Partners, L.P.	-	-
Carlyle U.S. Growth Fund III, L.P.	533,698	694,399
Carlyle Ventures Capital II, L.P.	158,958	738,593
Carlyle/Riverstone Global Energy Fund II, L.P.	543,011	438,345
Carlyle/Riverstone Global Energy Fund III, L.P.	491,480	581,214
CB Richard Ellis Strategic Partners Europe Fund III, L.P.	384,709	402,461
CB Richard Ellis Strategic Partners UK Fund III, L.P.	233,939	330,680
Channing Capital Management, L.L.C.	252,044	124,200
Clearlake Capital Partners II, L.P.	276,065	425,457
Clearlake Capital Partners III, L.P.	448,294	-
Code Hennessy & Simmons V, L.P.	-	15,827
Cornerstone Hotel Income & Equity Fund II, L.P.	435,035	299,725
Cornerstone Real Estate Advisors, L.L.C.	1,828,404	1,443,717
Cortina Asset Management, L.L.C.	522,504	26,104
Cramer Rosenthal McGlynn, L.L.C.	1,287,375	1,038,359
Credo Capital Management, L.L.C.	30,263	210,428
Denali Advisors, L.L.C.	54,354	583,912
Dimensional Fund Advisors, L.P.	2,751,256	1,930,026

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Investment Manager/Account	FY13	FY12
DLJ Merchant Banking Partners III, L.P.	\$87,975	\$170,843
Dolan McEniry Capital Management, L.L.C.	737,944	735,140
EARNEST Partners, L.L.C.	-	190,915
Edgewater Growth Capital Partners II, L.P.	148,612	262,442
Edgewater Growth Capital Partners III, L.P.	232,990	988,656
Edgewater Growth Capital Partners, L.P.	-	133,682
EIF United States Power Fund IV, L.P.	3,670,995	-
Elevation Partners, L.P.	87,400	112,596
Emerald Advisers, Inc.	1,514,434	1,262,112
Energy Capital Partners Fund II-A, L.P.	491,969	360,439
Energy Capital Partners I, L.P.	430,822	321,407
Energy Capital Partners II, L.P.	32,298	23,485
Envest Energy Institutional Fund XII-A, L.P.	848,935	1,000,000
EQT VI	1,284,021	1,349,692
Evercore Capital Partners II, L.P.	26,563	136,659
Evergreen Partners IV, L.P.	124,254	199,790
Evergreen Partners V, L.P.	560,754	591,742
Fiduciary Management Associates, L.L.C.	1,055,856	1,047,809
Flintlock Commodity Opportunities Master Fund, L.P.	79,084	170,025
Franklin Advisers, Inc.	2,284,426	2,086,454
Franklin Templeton Investment Management Limited	1,797,702	1,695,398
Fred Alger Management, Inc.	-	548,311
Frontier Capital Management, L.L.C.	1,363,351	1,068,216
Garcia Hamilton & Associates, L.P.	67,879	69,353
GI Partners	556,204	718,370
Glencoe Capital Partners III, L.P.	68,436	14,077
Goldman Sachs Asset Management, L.P.	-	108,998
Granite Ventures II, L.P.	258,926	276,839
Grantham, Mayo, Van Otterloo & Co., L.L.C.	5,063,946	5,777,304
Green Equity Investors V, L.P.	603,271	-
Green Equity Investors VI, L.P.	759,854	-
Gresham Investment Management Company, L.L.C.	-	426,490
Grosvenor Monarch Fund, L.L.C.	3,121,806	2,913,621
Grosvenor Monarch Fund, L.L.C. (Monarch Series B)	14,245,203	2,353,059
GTCR Fund VII/VIIA, L.P.	-	29,467
GTCR Fund VIII, L.P.	174,642	337,426
Hartford Investment Management Company	281,524	324,245
HealthPoint Partners, L.P.	350,000	908,982
Heitman Capital Management, L.L.C.	4,643,818	4,440,952
Herndon Capital Management, L.L.C.	335,181	158,319
Hines U.S. Core Office Fund, L.P.	850,000	850,000
Hispania Private Equity, L.P.	-	114,302
Hopewell Ventures, L.P.	306,723	313,200
ICV Partners II, L.P.	-	119,016
Illinois Emerging Technologies Fund, L.P.	12,910	12,623

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Investment Manager/Account	FY13	FY12
Invesco Institutional (N.A.), Inc.	\$1,810,286	\$1,550,884
J.C. Flowers II, L.P.	283,487	311,745
Jarislowsky, Fraser Limited	866,835	809,278
JBC Opportunity Fund II, L.P.	-	70,289
JER Real Estate Qualified Partners III, L.P.	134,341	187,843
JMI Equity Fund VII, L.P.	393,765	387,718
JP Morgan Investment Management, Inc.	138,855	35,213
JP Morgan Management Associates, L.L.C.	3,338,325	3,862,176
K2 Bluegill Fund, L.L.C.	4,317,724	4,487,033
K2 Bluegill Fund, L.L.C. (Bluegill Series B)	9,979,215	3,351,698
KKR 1996 Fund, L.P.	-	2,015
Koll Bren Schreiber Realty Advisors	366,842	1,147,736
Lasair Capital L.L.C.	90,708	274,520
LaSalle Asia Opportunity Fund III, L.P.	512,088	536,202
Levin Capital Strategies, L.P.	922,468	926,360
Lightspeed Venture Partners IX, L.P.	654,044	311,174
Lion Industrial Trust	1,876,089	1,729,904
Littlejohn Fund IV, L.P.	922,053	718,668
LiveOak Venture Partners I, L.P.	168,750	-
LM Capital Group, L.L.C.	120,656	74,398
Lombardia Capital Partners, L.L.C.	1,468,703	1,370,040
Longitude Ventures Partners, L.P.	714,088	562,500
Loomis, Sayles & Company, L.P.	3,657,116	3,793,642
LPC Realty Advisors I, Ltd.	3,288,982	2,189,086
LSV Asset Management	2,120,802	1,335,057
MacKay Shields, L.L.C.	2,283,554	1,197,756
Madison Dearborn V, L.P.	462,773	520,136
Manulife Asset Management, L.L.C.	935,050	742,134
Maranon Credit Fund II-B, L.P.	671	-
Maranon Mezzanine Fund, L.P.	260,233	326,112
MatlinPatterson Global Opportunities Fund III, L.P.	764,472	1,244,890
MBK Partners Fund II, L.P.	253,473	439,646
MBK Partners Fund III, L.P.	590,355	-
McKinley Capital Management, Inc.	2,002,555	3,058,545
Merit Mezzanine Fund IV, L.P.	368,984	365,555
MFS Institutional Advisors, Inc.	948,742	808,955
MGPA Asia Fund III, L.P.	704,499	640,360
Mondrian Investment Partners Limited	3,763,992	978,428
Morgan Creek Partners Asia, L.P.	863,555	686,917
Morgan Creek Partners Venture Access Fund, L.P.	1,000,000	534,247
New Century Advisors, L.L.C.	451,026	470,835
New Mountain Investments III, L.P.	1,051,686	1,139,078
NGP Natural Resources X, L.P.	1,427,118	684,426
Niam Nordic V, L.P.	389,385	548,997
Northern Trust Investments, N.A.	548,089	453,702

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Investment Manager/Account	FY13	FY12
OakBrook Investments, L.L.C.	\$401,513	\$177,090
Oaktree Enhanced Income Fund, L.P.	752,572	-
Oaktree Opportunities Fund VIIIb, L.P.	728,584	625,537
Oaktree PPIP Private Fund, L.P.	203,878	186,309
Oaktree Real Estate Opportunities Fund VI, L.P.	877,378	-
OCM European Principal Fund III, L.P.	679,431	732,857
OCM European Principal Opportunities Fund II, L.P.	801,528	1,063,202
OCM Opportunities Fund V, L.P.	73,711	103,624
OCM Opportunities Fund VIIIb, L.P.	725,769	1,125,035
OCM Opportunities Fund VIII, L.P.	1,314,106	1,314,105
OCM Opportunities Fund IX	31,835	-
Onex Partners III, L.P.	827,995	856,986
Pacific Investment Management Company, L.L.C.	8,045,956	5,572,649
PAI Europe V, L.P.	470,533	408,913
Parthenon Investors IV, L.P.	674,026	350,000
PIMCO BRAVO Fund, L.P.	960,140	431,981
PIMCO BRAVO Fund II, L.P.	36,490	-
PIMCO Distressed Senior Credit Opportunities Fund II, L.P.	9,290,231	561,686
Pine Brook Capital Partners, L.P.	924,631	851,546
Prism Mezzanine Fund, L.P.	350,256	449,953
Providence Equity Partners VI, L.P.	698,071	770,297
Providence Equity Partners VII, L.P.	1,030,231	-
Prudential Investment Management, Inc.	796,962	885,600
Putnam Advisory Company, L.L.C.	381,959	1,240,873
Rhone Partners IV, L.P.	998,743	666,498
RhumbLine Advisers, L.P.	175,886	180,200
Riverstone/Carlyle Global Energy and Power Fund IV, L.P.	(55,948)	1,372,759
Riverstone/Carlyle Global Energy and Power Fund V, L.P.	2,589,667	1,375,000
Robeco Boston Partners Asset Management, L.P.	1,191,546	1,003,509
Schroder Commodity Offshore Portfolio, L.L.P.	-	1,798,007
SCP Private Equity Partners II, L.P.	418,920	527,282
Shasta Ventures, L.P.	468,750	531,250
Silver Lake Partners III, L.P.	964,639	927,799
Siris Partners II, L.P.	(139,770)	411,397
Sky Investment Council	63,707	-
Sofinnova Ventures Partners VIII, L.P.	902,041	926,706
Southwest Multifamily Partners, L.P.	312,500	19,746
Standard Life Investment Global Absolute Return Strategies Master Fund Ltd.	3,747,270	163,015
StarVest Partners, L.P.	275,000	300,000
Starwood Distressed Opportunity Fund IX Global, L.P.	1,972,541	-
State Street Bank and Trust Company (Custody)	908,333	200,000
Stone Point Capital Trident V, L.P.	1,125,000	1,042,116
Strategic Global Advisors	254,254	149,556
SW Pelham Fund II, L.P.	3,939	27,434
T. Rowe Price Associates, Inc.	3,910,190	3,639,067

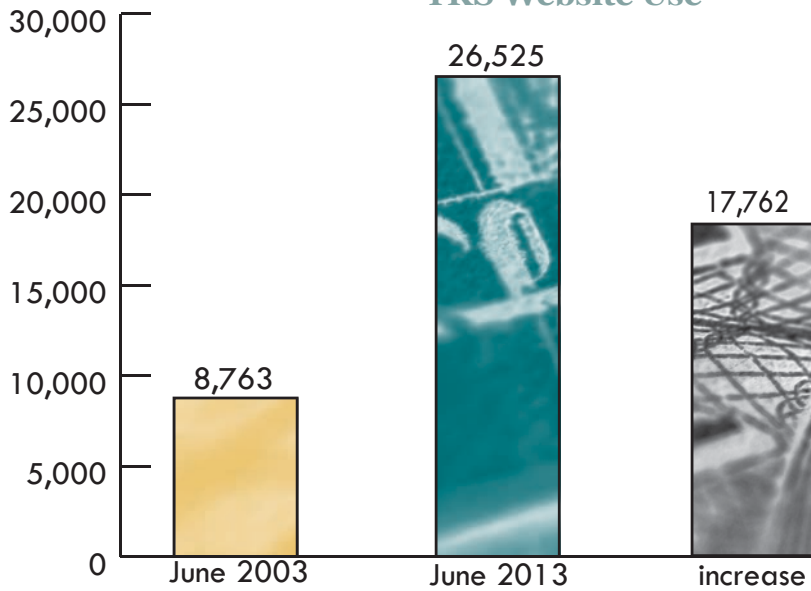
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Investment Manager/Account	FY13	FY12
Taplin, Canida & Habacht	\$192,380	\$260,809
Technology Crossover Ventures VII, L.P.	779,671	702,195
Thayer Equity Investors V, L.P.	122,478	268,156
Thayer Hotel Investors IV, L.P.	167,108	121,073
TPG Partners VI, L.P.	1,197,912	1,128,853
Trilantic Capital Partners III, L.P.	89,924	107,650
Trilantic Capital Partners IV, L.P.	242,002	571,080
Trilogy Global Advisors, L.L.C.	1,141,056	1,236,606
Trustbridge Partners IV, L.P.	600,000	695,342
Turner Investment, L.P.	340,223	1,535,764
VantagePoint Venture Partners 2006, L.P.	1,036,561	1,166,194
Veritas Capital Fund IV, L.P.	429,574	1,146,154
Vicente Capital Partners Growth Equity Fund, L.P.	229,393	276,573
Vista Equity Partners Fund IV, L.P.	1,173,081	1,357,451
Vista Equity Partners III, L.P.	339,658	462,644
VSS Communications Partners IV, L.P.	327,059	363,997
Walton Street Real Estate Fund IV, L.P.	626,937	626,007
Walton Street Real Estate Fund VI, L.P.	1,222,345	1,092,935
Walton Street Real Estate Fund VII, L.P.	13,027	-
Warburg Pincus International Partners, L.P.	250,592	289,682
Warburg Pincus Private Equity IX, L.P.	540,502	690,163
Warburg Pincus Private Equity X, L.P.	3,706,612	3,722,750
Wellington Management Company - Diversified Inflation Hedges Portfolio, L.L.C.	-	3,897,718
Wellington Management Company, L.P.	-	647,357
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	379,975	398,634
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	170,286	221,212
Westwood Management Corp	500,141	40,546
William Blair Mezzanine Capital Fund III, L.P.	-	71,470
WPG Corporate Development Associates V, L.P.	6,119	7,628
WPG Enterprise Fund II, L.P.	9,542	21,372
WPG Enterprise Fund III, L.P.	37,505	133,647
Total Fees Paid by TRS	\$236,788,370	\$199,455,345

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

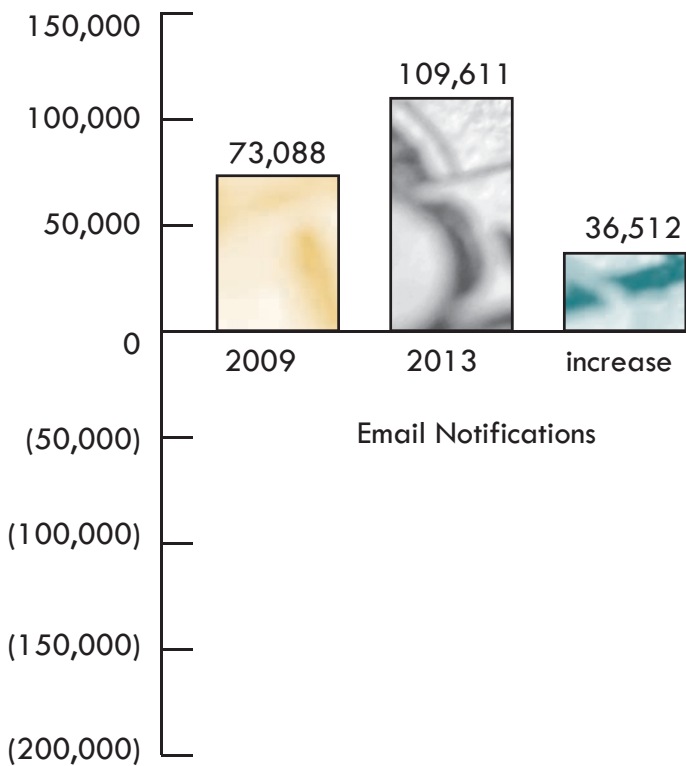
TRS Website Use



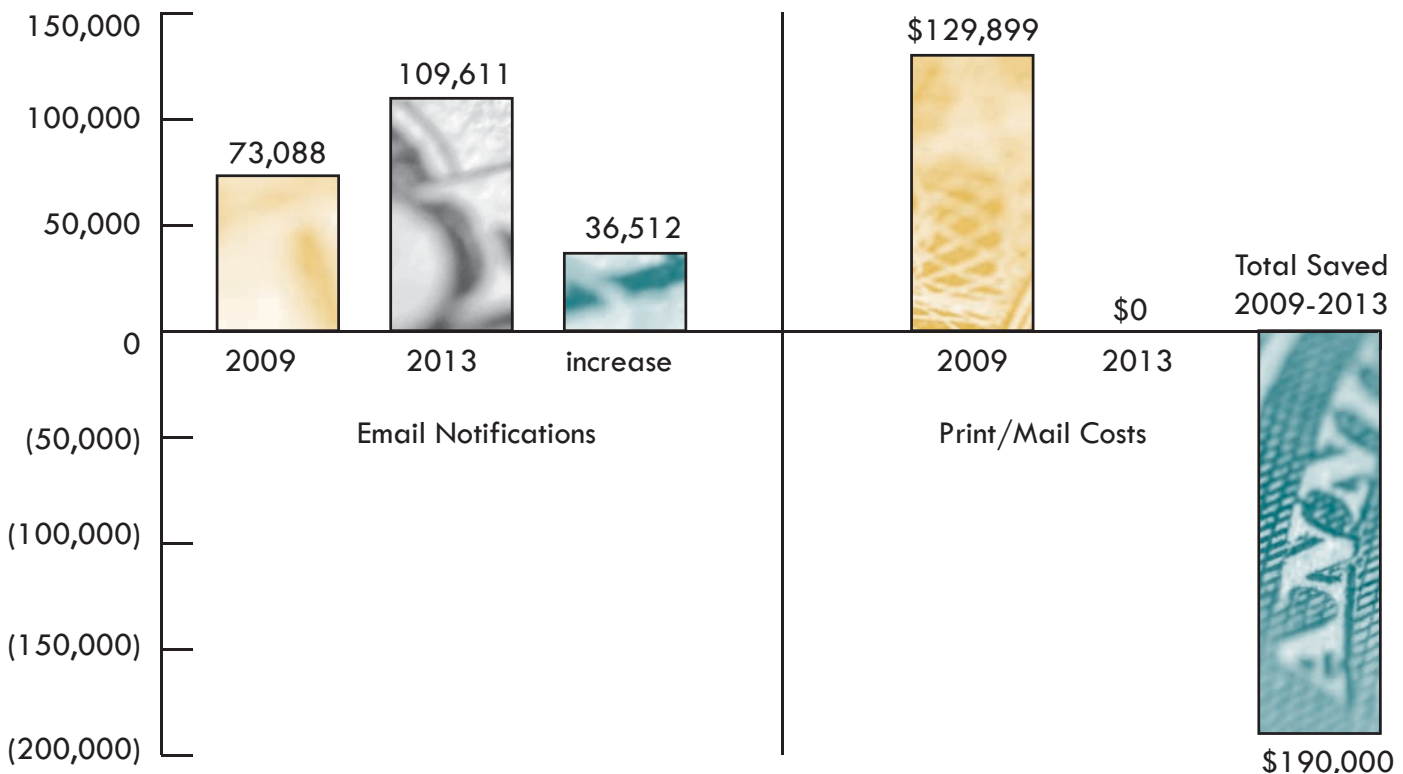
Visitors Increase

In the month of June 2003, our website had 8,763 visits. All visitors used desktops. In June 2013, TRS's website had 26,525 visitors. Of those visitors, 21,498 were on desktops, 2,779 were on tablets, and 2,248 were on mobile devices. This was before our website was mobile accessible.

Member Account Access



Benefits Report Print/Mail Costs



Member Account Access Use Increases

As of June 30, 2009, 73,088 members were signed up for Member Account Access. As of June 30, 2013, 109,611 members were signed up. This is an increase of 36,523 accounts.

Benefits Report Cost Decreases

In 2009, it cost \$129,899 to print and mail your Benefits Report. TRS began emailing Benefits Reports in 2012, but half of the reports were still printed. In calendar year 2013, the Benefits Report became fully electronic and the cost of printing and mailing was \$0, for a total saving of \$190,000 from 2012 through 2013.



Actuarial



December 10, 2013

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, 2013

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 \$93,886,988,000 as of June 30, 2013. The valuation was performed using the projected unit-credit actuarial cost method. Throughout the actuarial valuation report we reference the term Pension Benefit Obligation (PBO) when discussing the TRS actuarial accrued liability (AAL) because the TRS AAL is equivalent to the GASB Statement 5 PBO. Users of the TRS actuarial valuation report should consider the terms PBO and AAL to be equivalent and interchangeable.

The contributions to the System are based on the provisions of Public Act 94-0004, as amended by subsequent acts. The actuary and the Board are required to follow Public Act 94-0004 for purposes of developing contributions to the System. Public Act 94-0004 has resulted in contributions to the System much less than those that would be contributed under minimum generally accepted actuarial standards. Under such minimum standards, a funded ratio of 100% would be achieved within 30 years as opposed to the 90% funded ratio achieved by 2045 under Public Act 94-0004. In addition, under minimum actuarial standards, contributions would not be based on members not currently in the System as is done under Public Act 94-0004, particularly given the lower value of Tier II benefits in the System for members hired on or after January 1, 2011. The continued use of Public Act 94-0004 in its current form will continue the history of an inadequate funded ratio of less than 100%. In addition, the Net Pension Obligation, shown separately in the actuarial valuation report, clearly exhibits the shortfall of the Public Act 94-0004 contributions when compared to the GASB 25/27 ARC, which is generally recognized as a reasonable contribution under generally accepted actuarial standards. The actuarial section of the System's Annual Financial Report shows Buck's calculations of the required contributions based on minimum standards and under a slightly more stringent standard, the employer's normal cost plus interest, consistent with a TRS Board resolution requiring certification of funding requirements based on sound actuarial principles. For ease of comparison, we have used the same actuarial cost method (projected unit credit) and asset smoothing method required under Public Act 94-0004 as amended by subsequent acts. While we prefer the use of the entry age normal cost method for public plans, the method in place is acceptable under generally accepted actuarial standards.

The actuarial valuation was based on a census of active, inactive and retired members as of June 30, 2012, which was 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. As part of the valuation procedure, liabilities were adjusted by projecting results based on the valuation assumptions.

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, the Annual Required Contribution per State Statute, and the GASB Statement No. 25 Annual Required Contribution that appears in this section. The actuary reviewed 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 Actuarial Value of 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.

At June 30, 2013 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, 2013. As required under PA 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation from market value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year in equal amounts over the ensuing five-year period. The System incurred a gain of \$1,689,215,365 in FY 2013. Per statutory requirement, 20% is recognized in the actuarial value of assets as of June 30, 2013, and recognition of the remaining 80%, or \$1,351,372,292, will be deferred and recognized in equal amounts over the next four valuations. Depending on whether the total net deferral is an investment gain or loss, the smoothing method will produce a contribution rate that is more or less than the rate based on the market value. As of the June 30, 2013 valuation the total net deferral is a \$1,703,577,002 gain, resulting in a contribution that is higher than it would be if the assets were valued at market.

The valuation was prepared under the supervision of Larry Langer in accordance with generally accepted actuarial principles and practice. To the best of our knowledge, it is complete and accurate. Mr. Langer and Mr. Wilkinson are members of the American Academy of Actuaries and meet the Academy's Qualification Standards to render the actuarial opinion contained herein.

Sincerely,



Larry Langer
Principal, Consulting Actuary



Paul R. Wilkinson
Director, Consulting Actuary

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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*, as amended by GASB Statement No. 50.

ACTUARIAL ASSUMPTIONS AND METHODS

Each year the actuary reconciles the differences between major actuarial assumptions and experience to explain 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 assets that are available to cover the liability. Many of the following assumptions were revised in the 2012 actuarial experience analysis. All assumptions were adopted in the FY12 valuation unless otherwise noted.

Investment return: 8.0 percent per annum, compounded annually. Components: inflation 3.25 percent and real return 4.75 percent.

Salary Increases: Total averages 6.0 percent per year and includes:

- inflation: 3.25 percent,
- real wage growth (productivity): 0.75 percent, and
- merit or seniority (including employment status changes of 0.25 percent): average of 2.00 percent; ranges from 6.15 percent at age 20 to 1.00 percent at age 50 and above.

Assumed increase on payroll and account balances to account for one-year data lag for reporting to actuary: 4.0 percent.

Sample annual percentage salary increases (including all components of increase):

Age	Male and Female
20	10.15%
30	7.45
40	6.25
50 and above	5.00

Inflation: 3.25 percent per annum. Implicit in investment and earnings progression assumptions.

Retirement age: Graduated rates based on age and service of active members.

Sample annual retirement rates per 100 participants:

a) For those entering service before January 1, 2011 (includes ERO retirees):

Age	Years of Service				
	5-18	19-30	31	32-33	34+
54	-	6	12	38	40
55	-	10	20	38	40
60	14	27	45	45	31
65	23	33	45	45	31
70	100	100	100	100	100

(continued)

(Retirement age continued)

b) Tier II, for those entering service on or after January 1, 2011:

Age	Years of Service				
	9-18	19-30	31	32-33	34+
62	13	15	20	25	25
65	8	10	15	20	20
67	20	40	70	70	70
70	100	100	100	100	100

Utilization of ERO among Tier I members retiring from active service:

Years of Service on June 30 prior to Retirement	Age					
	54	55	56	57	58	59
19 – 30	68%	75%	66%	63%	64%	23%
31	90	79	75	71	69	27
32	49	53	45	48	46	28
33	22	25	17	15	14	13

Mortality: For active members, the RP-2000 White Collar Table projected nine years using scale AA, with a two-year age setback for men and three-year age setback for women. Rates for women are further adjusted, multiplying all rates by 70 percent. The sample rates reflect values as of July 1, 2012:

Age	Male	Female
25	0.029	0.011
30	0.035	0.013
40	0.061	0.031
50	0.122	0.069
55	0.183	0.116
60	0.303	0.219
65	0.531	0.395

For retirees and inactive members, the RP-2000 White Collar Table projected nine years using scale AA, with a two-year age setback for men and no age setback for women. Rates for women are further adjusted for ages 63-77 by 65 percent and ages 78-87 by 85 percent.

For beneficiaries, the RP-2000 blended table, projected nine years using scale AA, with a one-year age setback for both men and women.

For the period after disability retirement, the RP-2000 Disabled Table, projected nine years using scale AA, with a one-year age setback for both men and women.

Disability: Sample annual disability rates:

Age	Male	Female
25	0.029	0.045
30	0.026	0.117
40	0.051	0.162
50	0.094	0.172
55	0.111	0.197
60	0.170	0.144
65	0.510	0.287

Termination from active service:

Sample annual termination rates per 100 participants:

Age	Nonvested Members		Vested Members	
	Male	Female	Male	Female
25	7.0	7.8	6.0	9.0
30	8.6	10.6	3.7	6.0
40	11.1	10.0	1.5	2.2
50	12.0	10.0	1.4	1.4
55	16.0	15.0	4.0	3.1
60	21.0	14.0	4.0	4.0
65	21.0	40.0	4.0	4.0

Severance pay: The percent of retirees from active service assumed to receive severance pay and the amount of such severance payments are assumed to be as follows. Not applicable to Tier II.

Percent Retiring with Severance Pay	Severance Pay as a Percent of Other Pensionable Earnings in Last Year of Service
20%	6%

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.

Years of Regular Service at Retirement	Maximum Service Purchased
10	0.473 years
20	0.835 years
25	1.360 years
30	1.040 years
34 or more	None

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

Sample amounts of sick leave at retirement:

Years of Service at Retirement	Sick Leave Service Credit
20	1.035 years
25	1.847 years
30	1.454 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: Five-year prospective asset smoothing was adopted in the FY09 valuation as required by Public Act 96-0043.

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 the actuarial value of assets on the valuation date.

The funded ratio shows the percentage of the accrued liability covered by actuarial value of assets. A table later in this section also shows funded status using the fair value of assets.

Actuarial Valuation (\$ thousands)

	Years Ended June 30	
	2013	2012
Total actuarial accrued liability	\$93,886,988	\$90,024,945
Less actuarial value of assets*	38,155,191	37,945,397
Unfunded liability	\$55,731,797	\$52,079,548
Funded ratio*	40.6%	42.1%

* Five-year prospective smoothing began in FY09.

ANALYSIS OF FINANCIAL EXPERIENCE: RECONCILIATION OF UNFUNDED LIABILITY

The net increase in the June 30, 2013, unfunded liability of \$3.6 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 2013, this shortfall was \$2.1 billion and in 2012 it was \$2.7 billion. The 2012 valuation reflected changes in actuarial assumptions resulting from the five-year experience review and caused a net increase of \$4.6 billion in the unfunded liability.

TRS experienced actuarial gains under the salary increase assumption in both FY13 and FY12. Salary increases for continuing active members were \$413 million lower than expected in 2013 and \$1.2 billion lower than expected in 2012. Under the investment return assumption, losses occurred both years. In FY13, smoothed assets were assumed to earn \$3.0 billion, but earnings were actually \$1.4 billion. The actuarial loss due to investments was \$1.6 billion in FY13, compared to a loss of \$1.8 billion in FY12.

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. Delayed reporting of retirements also increased the unfunded liability because more people were receiving benefits than expected.

Other, which is a balancing item, reflects actuarial losses in both 2013 and 2012. Other includes retirements in 2013 that were reported late to the actuary and several other factors. Other is smaller than in previous years because of an improvement in the reconciliation procedure. This improvement allowed the differences between actual and expected experience for retirement rates and disabilities to be broken out in 2013.

Reconciliation of Unfunded Liability (\$ thousands)

Item	Years Ended June 30	
	2013	2012
Unfunded liability at beginning of year	\$52,079,548	\$43,529,992
Additions		
Employer cost in excess of contributions	2,125,732	2,710,713
Change in actuarial assumptions and methods	-	4,624,966
Net additions	2,125,732	7,335,679
Actuarial losses (gains) compared to assumptions		
Salary increases for continuing active members	(412,776)	(1,211,157)
Asset gains on actuarial value of assets ¹	1,557,219	1,806,148
New entrant loss	12,678	14,505
Mortality other than expected	7,355	52,681
Retirements other than expected	65,579	-
Disabilities other than expected	(6,121)	-
Terminations other than expected	22,926	29,810
Repayments of refunded member contributions ²	25,733	30,013
Delayed reporting of retirements (effect on assets) ³	2,303	12,666
Other ⁴	251,621	479,211
Net actuarial losses	1,526,517	1,213,877
Unfunded liability at end of year	\$55,731,797	\$52,079,548

1 Assets are expected to earn 8.0 percent. This item is the difference between the expected and the actual return on an actuarial basis. For example, in fiscal year 2013, the expected actuarial returns of \$2.987 billion was greater than the \$1.430 billion actual return on assets, resulting in an actuarial loss which increased the unfunded pension benefit obligation by \$1.557 billion.

2 This includes the employer-paid portion of the benefit that was restored when members repaid previously refunded contributions.

3 547 retirements which occurred prior to 7/1/11 were not reported to the actuary until 6/30/2012.
191 retirements which occurred prior to 7/1/12 were not reported to the actuary until 6/30/2013.

4 Other includes items such as:

- (a) Retroactive benefit payments for individuals who delayed applying for retirement;
- (b) Differences between actual cost of benefits earned during the year and projected cost;
- (c) Retirements with reciprocal service credits;
- (d) Delayed reporting of retirements (effect on PBO); and
- (e) For 6/30/2013, transition to eliminate data lag between active and retired members.

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. 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, provided state funds are available.

Public Act 93-0002, the pension obligation bond (POB) legislation, was enacted in 2003 and first affected state contributions in FY05. The law requires a multi-step process that ensures that state contributions do not exceed certain maximums.

State Funding Amounts

The FY13 actuarial valuation was used to determine the required FY15 state contributions and the FY15 employer’s normal cost. The FY12 actuarial valuation was used to determine the required FY14 state contributions and the FY14 employer’s normal cost.

The FY15 amount is the proposed certification submitted to the state actuary, governor, and General Assembly pursuant to Public Act 97-0694. The act requires the state actuary to review the assumptions used to calculate the state contribution under the statutory funding plan. The final certification is due January 15, 2014.

State Funding Requirements Under Current Statutory Funding Plan

	FY15	FY14
Benefit Trust Reserve (excludes federal and school district contributions)	\$3,411,878,000	\$3,437,478,000
Minimum benefit reserve	1,000,000	1,100,000
Total state funding amount	<u>\$3,412,878,000</u>	<u>\$3,438,578,000</u>
Employer’s normal cost as a percentage of active member payroll	8.02%	7.89%

In 2012, the TRS Board of Trustees resolved to certify state funding requirements under generally accepted actuarial principles and standards. The FY15 amounts below are additional proposed certifications submitted to the state actuary, governor, and General Assembly. They were calculated under the same actuarial assumptions as the amount under the current statutory funding plan. Final certifications under all three calculation procedures will be submitted on or before the January 15, 2014 deadline.

Additional FY15 State Funding Certifications Under Actuarial Standards

	Employer’s Normal Cost Plus 30 Yr. Level Percent Amortization	Employer’s Normal Cost Plus Interest on the Unfunded Liability
Benefit Trust Reserve (excludes federal and school district contributions)	\$4,061,168,000	\$5,090,537,000
Minimum benefit reserve	1,000,000	1,000,000
Total state funding amount	<u>\$4,062,168,000</u>	<u>\$5,091,537,000</u>

TESTS OF FINANCIAL CONDITION

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

Funded Ratio Test (\$ thousands)

As of June 30	Actuarial Accrued Liability	Assets		Unfunded Liability using Assets based on		Funded Ratio using Assets based on	
		Actuarial Value (Smoothed) ¹	Fair Value ²	Actuarial Value (Smoothed) ¹	Fair Value ²	Actuarial Value (Smoothed) ¹	Fair Value ²
2004	\$50,947,451	\$31,544,729	\$31,544,729	\$19,402,722	\$19,402,722	61.9%	61.9%
2005	56,075,029	34,085,218	34,085,218	21,989,811	21,989,811	60.8	60.8
2006	58,996,913	36,584,889	36,584,889	22,412,024	22,412,024	62.0	62.0
2007	65,648,395	41,909,318	41,909,318	23,739,077	23,739,077	63.8	63.8
2008	68,632,367	38,430,723	38,430,723	30,201,644	30,201,644	56.0	56.0
2009	73,027,198	38,026,044	28,497,729 ³	35,001,154	44,529,469	52.1	39.0 ³
2010	77,293,198	37,439,092	31,323,784	39,854,106	45,969,414	48.4	40.5
2011	81,299,745	37,769,753	37,471,267	43,529,992	43,828,478	46.5	46.1
2012	90,024,945	37,945,397	36,516,825	52,079,548	53,508,120	42.1	40.6
2013	93,886,988	38,155,191	39,858,768	55,731,797	54,028,220	40.6	42.5

1 The actuarial value of assets was the same as the fair value of assets through FY08. Five-year prospective smoothing began in FY09.

2 The fair value of assets was used as the actuarial value of assets through FY08. Beginning in FY09, the fair value of assets is no longer used for determining state funding requirements but is shown here for comparative purposes.

3 The 2009 fair value of assets is the final, actual figure. The actuary's report shows a slightly higher funded ratio of 39.1 percent for 2009 because the fair value of assets was lowered after the actuarial results were certified.

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 (\$ thousands)

Year Ended June 30	Approximate Member Payroll	Unfunded Liability*	Percentage of Payroll
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
2008	8,521,717	30,201,644	354.4
2009	8,945,021	35,001,154	391.3
2010	9,251,139	39,854,106	430.8
2011	9,205,603	43,529,992	472.9
2012	9,321,098	52,079,548	558.7
2013	9,394,741	55,731,797	593.2

* Fair value through FY08. Five-year prospective smoothing began in FY09.

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 participants currently receiving benefits 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.

Solvency Test (\$ thousands)

Year Ended June 30	Aggregate Accrued Liabilities for				Actuarial Value of Assets*	Percentage of Benefits Covered by Net Assets		
	Members' Accumulated Contributions (1)	Participants Currently Receiving Benefits (2)	Active Members Employer Portion (3)			(1)	(2)	(3)
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	-	
2008	6,931,518	41,849,964	19,850,885	38,430,723	100	75	-	
2009	7,320,600	44,495,917	21,210,681	38,026,044	100	69	-	
2010	7,715,984	47,475,906	22,101,308	37,439,092	100	63	-	
2011	8,048,689	50,567,881	22,683,175	37,769,753	100	59	-	
2012	8,270,073	58,734,636	23,020,236	37,945,397	100	51	-	
2013	8,569,939	61,254,334	24,062,715	38,155,191	100	48	-	

* Fair value through FY08. Five-year prospective smoothing began in FY09.

OTHER INFORMATION

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
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
2008	89,236	4,912	2,686	91,462	3,551,117,836	6.2	38,826	3.6
2009	91,462	5,520	2,558	94,424	3,815,292,869	7.4	40,406	4.1
2010	94,424	5,711	2,381	97,754	4,109,018,971	7.7	42,034	4.0
2011	97,754	6,377	2,843	101,288	4,418,500,521	7.5	43,623	3.8
2012	101,288	6,943	2,784	105,447	4,781,692,373	8.2	45,347	4.0
2013	105,447	6,404	3,068	108,783	5,100,219,925	6.7	46,884	3.4

	Amount Added to Rolls*		Amount Removed from Rolls
	Annual Benefit Increases	New Benefit Recipients	
2007	\$81,629,966	\$295,571,869	\$51,335,633
2008	93,731,561	174,119,867	61,448,244
2009	108,144,294	219,175,023	63,144,284
2010	114,879,927	247,234,501	68,388,326
2011	125,124,423	263,213,399	78,856,272
2012	135,604,876	311,161,467	83,574,491
2013	145,282,975	268,124,075	94,879,498

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

Average Annual Salary for Active Members by Years of Service

Years of Service*		2013	2012	2011	2010
under 5	Number	24,812	25,733	27,960	33,487
	Average salary	\$46,058	\$46,222	\$47,292	\$46,324
5-9	Number	34,682	35,071	34,626	34,529
	Average salary	\$58,027	\$57,741	\$57,416	\$57,105
10-14	Number	28,503	28,105	26,865	25,051
	Average salary	\$69,686	\$68,751	\$67,691	\$66,788
15-19	Number	19,406	18,610	17,935	17,790
	Average salary	\$79,295	\$78,328	\$77,268	\$76,001
20-24	Number	12,280	11,834	11,682	11,391
	Average salary	\$86,235	\$84,904	\$83,563	\$82,184
25-29	Number	7,913	7,940	7,834	7,786
	Average salary	\$91,735	\$89,986	\$88,416	\$86,566
30-34	Number	4,247	4,826	5,839	6,554
	Average salary	\$96,966	\$94,665	\$93,299	\$91,077
35 +	Number	889	994	1,179	1,251
	Average salary	\$101,293	\$98,140	\$98,678	\$95,486
	Total number	132,732	133,113	133,920	137,839
	Average salary	\$67,558	\$66,696	\$66,044	\$64,385
	% Change average salary	1.3%	1.0%	2.6%	3.3%
	Total payroll full & part-time	\$8,967,108,456	\$8,878,104,648	\$8,844,612,480	\$8,874,727,268

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.

* From FY04-FY08, years of service increments were as follows: 0-5, 6-10, 11-15, 16-20, 21-25, 26-30, 31-35, and 35+. However, figures for those years are not restated because the differences would be minor.

	2009	2008	2007	2006	2005	2004
	37,293	42,725	41,244	40,930	39,728	36,951
	\$45,464	\$44,916	\$43,446	\$42,404	\$41,444	\$37,633
	33,494	31,959	30,520	28,847	26,557	26,027
	\$55,945	\$55,436	\$53,062	\$51,314	\$49,536	\$45,568
	23,133	21,395	20,469	20,222	20,295	18,307
	\$65,168	\$64,705	\$62,447	\$60,476	\$58,195	\$52,771
	17,417	14,753	14,422	14,086	13,429	13,358
	\$73,770	\$71,802	\$69,368	\$67,343	\$65,276	\$59,820
	11,084	10,447	9,814	9,619	9,431	10,868
	\$79,805	\$78,080	\$74,894	\$72,531	\$70,278	\$64,881
	7,790	8,654	9,484	10,349	10,667	12,488
	\$84,282	\$82,013	\$78,831	\$76,616	\$74,127	\$69,276
	6,858	5,763	5,301	6,134	5,900	9,186
	\$87,973	\$85,738	\$82,508	\$83,165	\$79,236	\$75,643
	1,265	790	694	785	744	1,162
	\$90,698	\$88,478	\$84,065	\$84,524	\$81,497	\$77,805
	138,334	136,486	131,948	130,972	126,751	128,347
	\$62,319	\$60,254	\$58,116	\$56,916	\$55,237	\$52,181
	3.4%	3.7%	2.1%	3.0%	5.9%	(0.4%)
	\$8,620,836,546	\$8,223,827,444	\$7,668,289,968	\$7,454,402,352	\$7,001,344,987	\$6,697,274,807

ACTIVE MEMBERS BY AGE AND YEARS OF SERVICE AS OF JUNE 30, 2013

Age		Subs	Years of Service			
			Under 5	5-9	10-14	15-19
20-24	Number	2,955	3,148	-	-	-
	Average Salary	\$5,006	\$39,452	-	-	-
25-29	Number	4,260	11,297	6,062	-	-
	Average Salary	\$5,069	\$44,777	\$53,378	-	-
30-34	Number	2,611	4,121	13,939	4,722	-
	Average Salary	\$4,566	\$48,313	\$57,814	\$66,396	-
35-39	Number	2,436	2,008	5,005	10,550	2,795
	Average Salary	\$4,505	\$49,681	\$60,155	\$70,250	\$77,985
40-44	Number	3,645	1,754	3,513	4,691	7,446
	Average Salary	\$4,697	\$49,091	\$60,108	\$71,114	\$80,459
45-49	Number	3,239	1,140	2,457	2,825	3,174
	Average Salary	\$4,772	\$50,233	\$58,693	\$70,381	\$80,613
50-54	Number	2,992	734	1,969	2,498	2,356
	Average Salary	\$4,773	\$50,663	\$59,452	\$68,884	\$77,007
55-59	Number	2,621	409	1,133	2,100	2,231
	Average Salary	\$4,863	\$54,086	\$61,944	\$69,726	\$77,878
60-64	Number	1,931	156	490	915	1,201
	Average Salary	\$4,660	\$55,956	\$64,475	\$71,446	\$78,457
65-69	Number	861	33	106	182	184
	Average Salary	\$4,342	\$60,724	\$69,678	\$74,391	\$82,190
70-74	Number	260	6	7	18	16
	Average Salary	\$4,318	\$37,179	\$48,806	\$89,099	\$70,771
Over 74	Number	149	6	1	2	3
	Average Salary	\$4,070	\$39,695	\$29,405	\$77,488	\$72,030
Total Number		27,960	24,812	34,682	28,503	19,406
Average Salary		\$4,769	\$46,058	\$58,027	\$69,686	\$79,295

Years of Service							Full and Part-time Member Totals
20-24	25-29	30-34	35-39	40-44	45-49	50+	
-	-	-	-	-	-	-	3,148
-	-	-	-	-	-	-	\$39,452
-	-	-	-	-	-	-	17,359
-	-	-	-	-	-	-	\$47,781
-	-	-	-	-	-	-	22,782
-	-	-	-	-	-	-	\$57,874
-	-	-	-	-	-	-	20,358
-	-	-	-	-	-	-	\$66,802
2,066	-	-	-	-	-	-	19,470
\$85,065	-	-	-	-	-	-	\$72,198
4,459	1,476	-	-	-	-	-	15,531
\$87,330	\$91,720	-	-	-	-	-	\$76,038
2,329	3,652	1,302	-	-	-	-	14,840
\$85,988	\$91,703	\$95,078	-	-	-	-	\$78,619
2,065	1,837	2,355	373	-	-	-	12,503
\$84,385	\$91,497	\$97,624	\$100,027	-	-	-	\$81,742
1,155	809	512	340	74	-	-	5,652
\$87,942	\$92,175	\$98,772	\$101,895	\$100,838	-	-	\$82,934
191	125	71	33	37	4	-	966
\$86,176	\$93,855	\$97,693	\$98,051	\$108,366	\$145,767	-	\$83,859
14	12	6	7	6	4	2	98
\$84,631	\$90,407	\$87,389	\$103,378	\$90,084	\$89,302	\$94,664	\$80,669
1	2	1	2	2	3	2	25
\$75,508	\$78,739	\$86,450	\$92,341	\$139,624	\$118,142	\$88,159	\$78,110
12,280	7,913	4,247	755	119	11	4	132,732
\$86,235	\$91,735	\$96,966	\$100,792	\$103,288	\$117,700	\$91,412	\$67,558

	Average Age	Average Years of Service	Number
Full and part-time members	42	12	132,732
Substitutes	42	3	27,960
All	42	10	<u>160,692</u>

PLAN SUMMARY

Administration

TRS was created and is governed by Article 16 of the Illinois Pension Code, contained in the Illinois Compiled Statutes (ILCS). A 13-member Board of Trustees is authorized to carry out duties granted to it under the article.

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 FY13, 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 1.0 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 FY13, the member contribution was 0.92 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.

Refunds

After a four-month waiting period from the date 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 hired before January 1, 2011.

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 accrue 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

Members who are age 55 but under age 60 who have at least 20 but fewer than 35 years of service can elect the Early Retirement Option (ERO) to avoid a discounted annuity. Both the member and employer make one-time contributions at retirement. Under the terms of the ERO program described in Public Act 98-0042, the member pays 14.4 percent for each year that his or her age is under 60 or years of service is under 35, whichever is less. The employer pays 29.3 percent for each year the member is under age 60.

Continuation of the ERO program beyond June 30, 2016 will depend on legislative action.

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

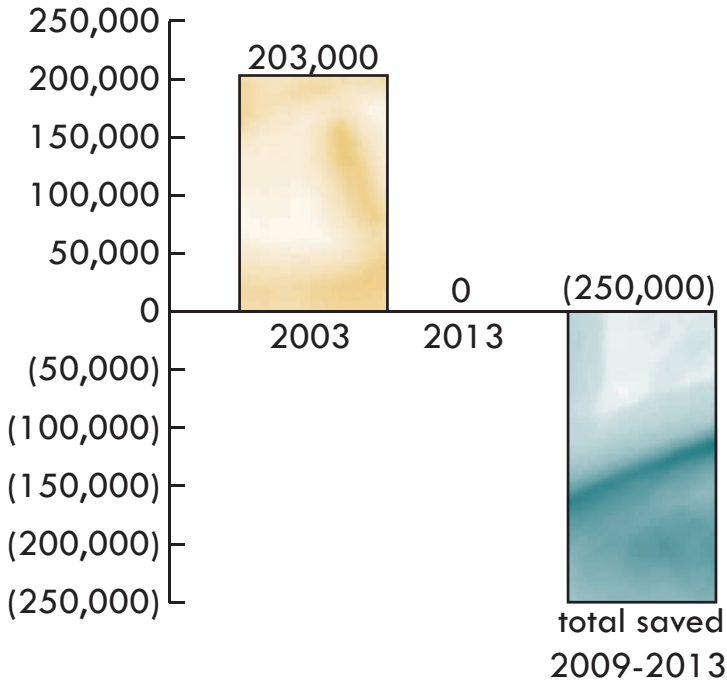
Conditions involving a claim for benefits may require further clarification. If conflicts arise between material in this summary and that of the law, the law takes precedence.



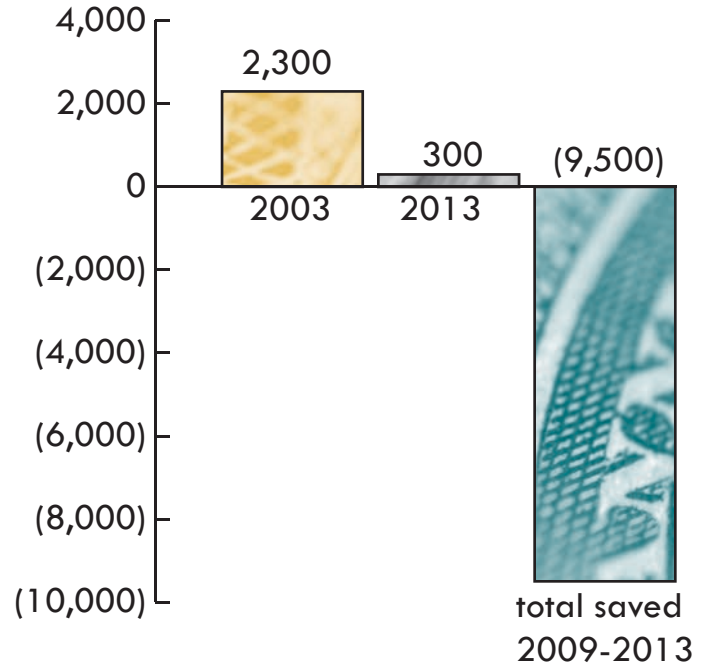
Statistical



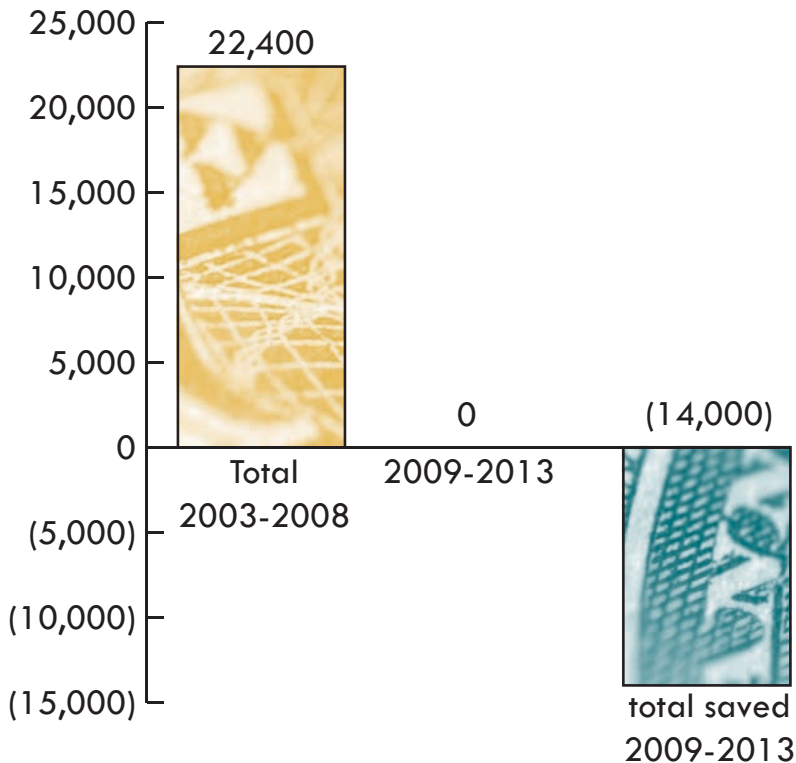
**Member Guides
Printed and Mailed**



**Comprehensive Annual Financial Reports
Printed and Mailed**



**Employer Guides
Printed and Mailed**



Electronic Distribution

In 2003, TRS printed and distributed 203,000 copies of our revised *Member Guide* to members. Because our *Member Guide* is available online and constantly updated, revised *Member Guides* are no longer printed annually.

The *Comprehensive Annual Financial Report* has decreased in quantity due to online distribution. In 2003, TRS printed 2,300 copies of the 100+ page report. In 2013, 300 copies were printed, a total decrease of 11,100 printed copies from 2003 to 2013.

The *Employer Guide* was formerly printed and two copies were mailed with a binder to each of 1,000+ school districts. In 2006 - 2008, three copies were mailed to each employer. Electronic distribution of the *Employer Guide* began in 2009, after which no copies of the *Employer Guide* have been printed or mailed to employers.

STATISTICAL SECTION

The tables in this section present detailed information on benefit payments and recipients, member and employer contributions, employer contribution rates, and the largest TRS employers.

Section Contents

Retired Members by Years of Service and Years in Retirement – Pages 110-111

This schedule shows the number of retirees by their years of service and years in retirement in five-year increments. It also shows their average current monthly benefits and average benefits when they first retired. A column on the right shows the average age of retirees in each “years retired” increment.

10-Year Financial Trends – Pages 112-113

These schedules contain information that allows the reader to view the change in net position and benefit and refund deductions from net position over a 10-year period. Both schedules help the reader understand the financial changes that have occurred over time.

Employee and Employer Contribution Rates – Page 115

This schedule offers information on the contribution rates for employees, the state, and employers to the system over a 10-year period.

Demographics of Benefit Recipients – Pages 116-117

These schedules help the reader understand characteristics of the specific groups of benefit recipients and active members of the Teachers' Retirement System.

Average Benefit Payments – Pages 118-119

This schedule contains information regarding the average benefits paid to new retirees over a 10-year period. The schedule also allows the reader to view those payments by increments of years of service.

Participating Employers – Page 120

This schedule allows the reader to view the 10 largest participating employers of the Teachers' Retirement System. The reader can also view the percentages of total membership covered by the largest employers in the current year and nine years ago.

RETIRED MEMBERS BY YEARS OF SERVICE AND YEARS IN RETIREMENT AS OF JUNE 30, 2013

Years Retired		Years of Service				
		Under 5	5-9	10-14	15-19	20-24
Under 1	Number	148	298	352	391	672
	Average current benefit	\$279	\$771	\$1,426	\$2,239	\$3,182
	Average original benefit	\$279	\$771	\$1,424	\$2,237	\$3,179
1-4	Number	862	1,650	1,513	1,525	2,347
	Average current benefit	\$291	\$730	\$1,370	\$2,278	\$3,141
	Average original benefit	\$276	\$686	\$1,291	\$2,155	\$3,000
5-9	Number	911	1,345	1,382	1,314	2,515
	Average current benefit	\$285	\$697	\$1,344	\$2,234	\$3,108
	Average original benefit	\$235	\$574	\$1,105	\$1,845	\$2,576
10-14	Number	850	877	816	760	1,805
	Average current benefit	\$292	\$699	\$1,246	\$2,098	\$2,973
	Average original benefit	\$206	\$494	\$887	\$1,498	\$2,128
15-19	Number	412	491	380	329	676
	Average current benefit	\$291	\$677	\$1,047	\$1,543	\$2,251
	Average original benefit	\$179	\$411	\$635	\$941	\$1,397
20-24	Number	265	379	482	428	1,125
	Average current benefit	\$234	\$608	\$1,019	\$1,474	\$2,212
	Average original benefit	\$125	\$313	\$531	\$773	\$1,157
25-29	Number	104	198	331	385	971
	Average current benefit	\$222	\$508	\$888	\$1,463	\$1,923
	Average original benefit	\$100	\$216	\$391	\$664	\$882
30-34	Number	30	47	152	214	504
	Average current benefit	\$215	\$425	\$747	\$1,099	\$1,548
	Average original benefit	86	\$138	\$277	\$428	\$618
35-39	Number	6	7	38	51	158
	Average current benefit	\$190	\$241	\$635	\$945	\$1,166
	Average original benefit	\$64	\$39	\$199	\$308	\$387
40-44	Number	-	1	3	5	31
	Average current benefit	-	\$39	\$635	\$819	\$983
	Average original benefit	-	-	\$135	\$198	\$237
45-49	Number	-	-	-	-	3
	Average current benefit	-	-	-	-	\$978
	Average original benefit	-	-	-	-	\$192
Over 50	Number	-	-	-	-	-
	Average current benefit	-	-	-	-	-
	Average original benefit	-	-	-	-	-
Total Number		3,588	5,293	5,449	5,402	10,807
Average current benefit		\$282	\$693	\$1,243	\$2,012	\$2,736
Average original benefit		\$220	\$555	\$988	\$1,616	\$2,127

Years of Service						Weighted Average	Avg Age
25-29	30-34	35-39	40-44	45-49	50+		
663	750	1,115	115	23	4	4,531	61
\$4,239	\$5,406	\$6,066	\$7,029	\$7,920	\$13,978	\$4,075	
\$4,233	\$5,396	\$6,066	\$7,029	\$7,920	\$13,978	\$4,071	
2,359	3,641	5,618	422	64	9	20,010	62
\$4,256	\$5,418	\$5,898	\$6,776	\$7,593	\$11,523	\$4,034	
\$4,075	\$5,212	\$5,755	\$6,464	\$7,227	\$10,916	\$3,891	
2,775	9,703	4,968	365	56	4	25,338	66
\$4,307	\$5,866	\$6,372	\$6,651	\$7,021	\$10,729	\$4,625	
\$3,556	\$4,839	\$5,312	\$5,449	\$5,773	\$8,877	\$3,827	
2,169	8,267	3,632	244	36	6	19,462	70
\$4,249	\$5,855	\$6,320	\$6,021	\$6,609	\$7,248	\$4,684	
\$3,042	\$4,244	\$4,521	\$4,291	\$4,712	\$5,262	\$3,374	
1,034	1,535	2,935	3,741	11	1	11,545	75
\$2,952	\$3,854	\$4,951	\$5,471	\$6,060	\$4,828	\$4,064	
\$1,808	\$2,343	\$2,955	\$3,180	\$3,762	\$2,792	\$2,412	
1,271	1,708	2,201	1,617	11	2	9,489	80
\$2,942	\$3,954	\$4,929	\$4,956	\$4,769	\$3,923	\$3,511	
\$1,558	\$2,104	\$2,659	\$2,772	\$2,535	\$2,074	\$1,895	
882	1,068	830	35	5	-	4,809	86
\$2,672	\$3,787	\$4,702	\$4,467	\$4,197	-	\$2,772	
\$1,229	\$1,753	\$2,159	\$2,062	\$1,966	-	\$1,274	
402	418	222	27	2	-	2,018	91
\$2,061	\$2,987	\$3,456	\$3,262	\$2,725	-	\$2,028	
\$832	\$1,215	\$1,412	\$1,321	\$1,056	-	\$817	
132	83	115	12	2	-	604	95
\$1,535	\$1,964	\$2,634	\$3,226	\$2,788	-	\$1,610	
\$530	\$691	\$937	\$1,131	\$923	-	\$556	
15	13	11	5	-	-	84	99
\$1,161	\$1,442	\$2,146	\$1,949	-	-	\$1,262	
\$292	\$418	\$686	\$592	-	-	\$346	
1	3	-	-	-	-	7	102
\$1,113	\$1,333	-	-	-	-	\$1,149	
\$115	\$320	-	-	-	-	\$236	
2	-	-	-	-	-	2	106
\$1,172	-	-	-	-	-	\$1,172	
\$163	-	-	-	-	-	\$163	
11,705	27,189	21,647	6,583	210	26	97,899	70
\$3,778	\$5,416	\$5,769	\$5,520	\$6,906	\$9,950	\$4,150	
\$2,924	\$4,219	\$4,557	\$3,505	\$5,813	\$8,776	\$3,196	

CHANGES IN NET POSITION, LAST 10 FISCAL YEARS (\$ thousands)

	2013	2012	2011	2010
Additions				
Member contributions*	\$921,423	\$917,661	\$909,577	\$899,401
State of Illinois	2,703,312	2,406,364	2,170,918	2,080,729
Pension Obligation Bond proceeds	-	-	-	-
Employer contributions**	157,179	154,895	155,111	171,421
Investment income (loss) net of expenses	4,561,768	224,107	7,234,539	3,679,643
Total additions to/reductions from plan net position	8,343,682	3,703,027	10,470,145	6,831,194
Deductions				
Benefit payments	4,893,084	4,553,822	4,228,283	3,927,838
Refunds	88,398	84,635	76,587	60,350
Administrative expenses	20,257	19,012	17,792	16,951
Total deductions from plan net position	5,001,739	4,657,469	4,322,662	4,005,139
Changes in net position				
Beginning of year	36,516,825	37,471,267	31,323,784	28,497,729
Net increase (decrease)	3,341,943	(954,442)	6,147,483	2,826,055
End of year	\$39,858,768	\$36,516,825	\$37,471,267	\$31,323,784

* Member contributions increased from 9.0 percent to 9.4 percent beginning in FY06. 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.

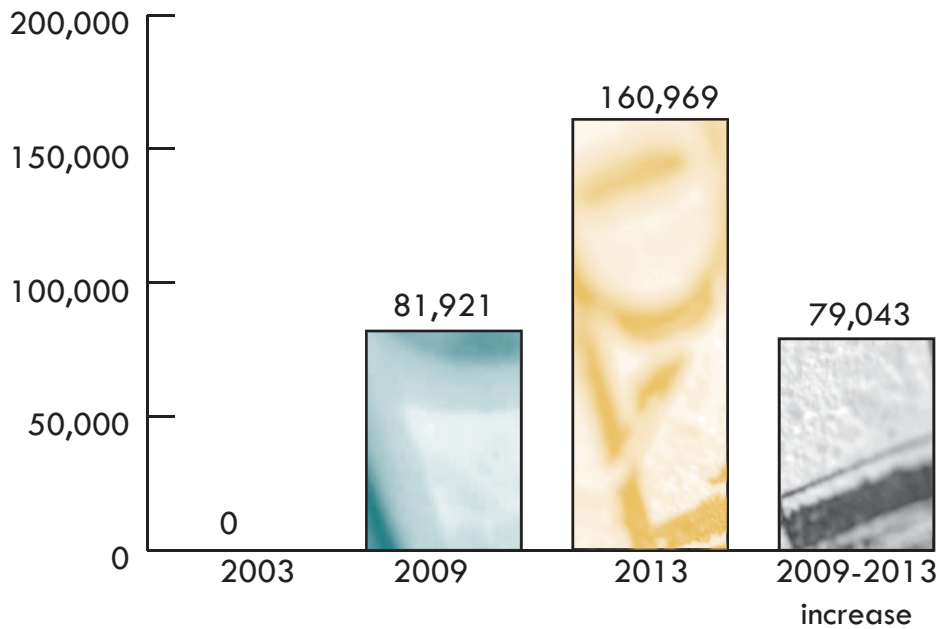
BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE, LAST 10 FISCAL YEARS (\$ thousands)

	2013	2012	2011	2010
Type of benefit				
Retirement	\$4,670,385	\$4,347,173	\$4,036,147	\$3,749,666
Survivor	192,390	177,422	163,910	151,074
Disability	30,309	29,227	28,226	27,098
Total benefits	4,893,084	4,553,822	4,228,283	3,927,838
Type of refund				
Withdrawals	30,194	25,563	22,528	17,149
Death benefits and excess contribution refunds paid to survivors	16,764	18,415	16,404	15,161
2.2 and optional service	20,053	20,988	19,861	15,050
Survivor contributions refunded to retirees	10,780	10,358	10,252	7,967
ERO and other	10,607	9,311	7,542	5,023
Total refunds	\$88,398	\$84,635	\$76,587	\$60,350

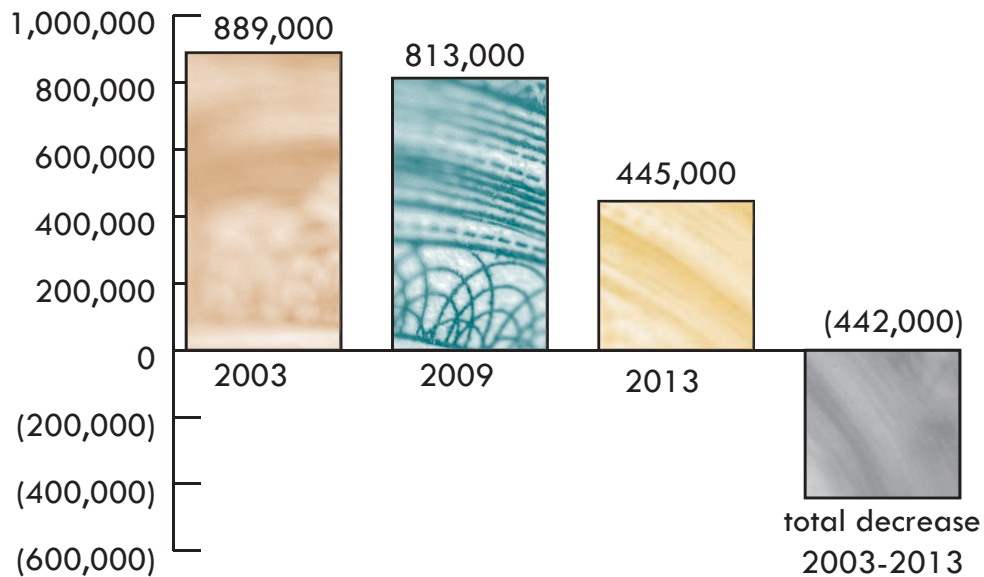
2009	2008	2007	2006	2005	2004
\$876,182	\$865,400	\$826,249	\$799,034	\$761,790	\$768,661
1,451,592	1,041,115	737,671	534,305	906,749	1,031,478
-	-	-	-	-	4,330,374
152,329	130,673	115,915	123,543	148,813	127,573
<u>(8,688,286)</u>	<u>(2,014,902)</u>	<u>6,831,324</u>	<u>3,993,290</u>	<u>3,330,040</u>	<u>4,485,730</u>
(6,208,183)	22,286	8,511,159	5,450,172	5,147,392	10,743,816
3,653,714	3,423,982	3,111,753	2,877,231	2,533,103	2,262,329
53,709	60,286	59,732	57,967	59,396	48,020
17,388	16,613	15,245	15,303	14,404	13,561
3,724,811	3,500,881	3,186,730	2,950,501	2,606,903	2,323,910
38,430,723	41,909,318	36,584,889	34,085,218	31,544,729	23,124,823
<u>(9,932,994)</u>	<u>(3,478,595)</u>	<u>5,324,429</u>	<u>2,499,671</u>	<u>2,540,489</u>	<u>8,419,906</u>
\$28,497,729	\$38,430,723	\$41,909,318	\$36,584,889	\$34,085,218	\$31,544,729

2009	2008	2007	2006	2005	2004
\$3,486,697	\$3,268,108	\$2,965,356	\$2,741,164	\$2,407,652	\$2,145,187
140,695	130,369	121,822	112,902	103,991	97,155
26,322	25,505	24,575	23,165	21,460	19,987
3,653,714	3,423,982	3,111,753	2,877,231	2,533,103	2,262,329
17,357	17,280	17,147	17,155	15,526	14,858
15,076	17,182	17,081	16,747	16,541	16,145
11,013	14,082	14,145	12,666	15,181	7,977
6,916	8,522	8,808	10,198	10,354	7,835
3,347	3,220	2,551	1,201	1,794	1,205
\$53,709	\$60,286	\$59,732	\$57,967	\$59,396	\$48,020

Email Delivery



Annual 3-Issue Mailing Quantity



Topics & Report Electronic Distribution

The *Topics & Report* newsletter was first distributed via email to members in July 2009 – 81,926 emails were sent to subscribers. In April 2013, the distribution number had increased to 160,969. The newsletter can be found under “Publications” on the website.

EMPLOYEE AND EMPLOYER CONTRIBUTION RATES, LAST 10 FISCAL YEARS

Fiscal Year	Employee Rate (%) ¹	Employer Rate (%) ²			Total ⁵
		State ³	School Districts for 2.2 Formula	School Districts from Federal Sources ⁴	
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
2008	9.40	12.53	0.58	0.58	13.69
2009	9.40	16.44	0.58	0.63	17.66
2010	9.40	22.56	0.58	0.82	23.96
2011	9.40	22.38	0.58	0.72	23.68
2012	9.40	24.06	0.58	0.85	25.49
2013	9.40	27.21	0.58	0.84	28.63

- 1 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. FY08 through FY10 rates are based on statutory ramp schedule. FY11 rate is based on recertification requirements of Public Act 96-1511. FY12 and FY13 were based on the statutory formula.
- 4 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, 9.78 percent in FY07, 13.11 percent in FY08, 17.08 percent in FY09, 23.38 percent in FY10, 23.10 percent in FY11, 24.91 percent in FY12, and 28.05 in FY13. A change to the federal contribution rate will be effective in FY15.
- 5 Totals shown are rates certified by the TRS Board of Trustees based on estimated payrolls and may not total due to rounding. Actual amounts collected do not equal amounts estimated by actuaries due to differences between estimated and actual payroll.

DEMOGRAPHICS OF BENEFIT RECIPIENTS AND ACTIVE MEMBERS AS OF JUNE 30, 2013 (excludes inactive members)

Age	Retirees			Disability Benefit Recipients			Survivors		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Under 20	-	-	-	-	-	-	26	26	52
20-24	-	-	-	-	-	-	5	9	14
25-29	-	-	-	-	6	6	3	2	5
30-34	-	-	-	1	16	17	4	5	9
35-39	-	-	-	1	32	33	6	13	19
40-44	-	-	-	7	61	68	12	16	28
45-49	-	-	-	18	79	97	11	27	38
50-54	20	22	42	30	115	145	36	82	118
55-59	1,609	4,314	5,923	40	200	240	102	157	259
60-64	6,133	17,813	23,946	40	187	227	239	455	694
65-69	8,550	17,383	25,933	26	102	128	368	747	1,115
70-74	5,880	10,829	16,709	13	49	62	406	988	1,394
75-79	4,022	6,383	10,405	10	44	54	404	1,125	1,529
80-84	2,830	4,611	7,441	4	24	28	468	1,366	1,834
85-89	1,524	3,054	4,578	4	11	15	406	1,100	1,506
90+	515	2,407	2,922	-	8	8	282	860	1,142
Total	31,083	66,816	97,899	194	934	1,128	2,778	6,978	9,756

BENEFIT RECIPIENTS BY TYPE AS OF JUNE 30, 2013

Monthly Benefit Range	Number of Recipients (all)	Type of Monthly Benefit					Survivor Monthly Benefits
		Retirement	Disability Retirement	Non-occupational Disability	Occupational Disability	Survivor Monthly Benefits	
Under \$500	6,537	5,408	5	2	-	1,122	
\$500 - \$999	7,545	5,419	64	2	-	2,060	
\$1,000 - \$1,499	6,965	5,014	199	15	-	1,737	
\$1,500 - \$1,999	7,263	5,340	204	106	-	1,613	
\$2,000 - \$2,499	7,270	5,788	101	114	1	1,266	
\$2,500 - \$2,999	6,989	6,020	71	55	2	841	
\$3,000 - \$3,499	7,338	6,767	33	24	-	514	
\$3,500 - \$3,999	8,202	7,842	34	14	-	312	
\$4,000 - \$4,499	8,307	8,140	19	8	-	140	
\$4,500 - \$4,999	8,258	8,180	15	1	-	62	
\$5,000 - \$5,499	7,492	7,445	12	-	-	35	
\$5,500 - \$5,999	5,823	5,789	12	-	-	22	
\$6,000 - \$6,499	4,785	4,759	10	-	-	16	
\$6,500 - \$6,999	4,060	4,050	2	-	-	8	
\$7,000 - \$7,499	3,254	3,249	1	-	1	3	
\$7,500 - \$7,999	2,543	2,542	-	-	-	1	
\$8,000 or more	6,152	6,147	1	-	-	4	
Total benefit recipients:	108,783	97,899	783	341	4	9,756	

Summary Statistics, All Benefit Recipients, as of June 30, 2013

	Age Retirement	Disability Benefits (3 types)	Survivor Benefits
Average monthly benefit	\$4,150	\$2,214	\$1,665
Average age	70	59	77
Average years of service	28	16	10*

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
-	-	-	26	26	52	50%	50%	100%
1,324	4,779	6,103	1,329	4,788	6,117	22	78	100
5,080	16,539	21,619	5,083	16,547	21,630	23	77	100
6,107	19,286	25,393	6,112	19,307	25,419	24	76	100
5,898	16,896	22,794	5,905	16,941	22,846	26	74	100
5,780	17,335	23,115	5,799	17,412	23,211	25	75	100
4,327	14,443	18,770	4,356	14,549	18,905	23	77	100
3,707	14,125	17,832	3,793	14,344	18,137	21	79	100
2,853	12,271	15,124	4,604	16,942	21,546	21	79	100
1,578	6,005	7,583	7,990	24,460	32,450	25	75	100
576	1,251	1,827	9,520	19,483	29,003	33	67	100
158	236	394	6,457	12,102	18,559	35	65	100
54	51	105	4,490	7,603	12,093	37	63	100
11	10	21	3,313	6,011	9,324	36	64	100
-	-	-	1,934	4,165	6,099	32	68	100
3	9	12	800	3,284	4,084	20	80	100
37,456	123,236	160,692	71,511	197,964	269,475	27%	73%	100%

Subtypes of Age Retirement Benefit

Regular 2.2 Flat Formula	Graduated Formula	Actuarial Benefit	ERO (2.2 & Grad. Form.)	ERI (State or TRS)	Other	Retirement Total
1,083	1,619	2,697	4	1	4	5,408
882	1,586	2,844	37	57	13	5,419
949	1,555	2,052	227	199	32	5,014
1,249	1,299	1,587	789	384	32	5,340
1,476	1,185	1,100	1,358	641	28	5,788
1,643	967	776	1,681	913	40	6,020
2,165	872	503	2,064	1,133	30	6,767
2,773	893	431	2,454	1,222	69	7,842
3,026	891	342	2,668	1,127	86	8,140
3,029	894	337	2,675	1,125	120	8,180
2,844	819	224	2,660	784	114	7,445
2,235	732	183	1,972	581	86	5,789
1,847	653	115	1,555	495	94	4,759
1,629	510	100	1,294	436	81	4,050
1,247	435	59	1,145	301	62	3,249
936	375	38	946	205	42	2,542
2,368	986	124	2,111	386	172	6,147
31,381	16,271	13,512	25,640	9,990	1,105	97,899

Percentage of Age Retirement Benefits by Subtype

32%	17%	14%	26%	10%	1%	100%
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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, 2012 through June 30, 2013					
Average monthly benefit	\$279	\$771	\$1,424	\$2,237	\$3,179
Average final average salary	\$59,313	\$42,291	\$49,881	\$66,108	\$76,095
Number of retired members	149	298	353	391	673
Period July 1, 2011 through June 30, 2012					
Average monthly benefit	\$271	\$787	\$1,426	\$2,354	\$3,159
Average final average salary	\$63,513	\$49,970	\$53,199	\$68,176	\$76,104
Number of retired members	215	358	375	380	620
Period July 1, 2010 through June 30, 2011					
Average monthly benefit	\$281	\$712	\$1,317	\$2,171	\$2,989
Average final average salary	\$59,267	\$40,317	\$48,191	\$62,212	\$71,841
Number of retired members	160	328	349	357	599
Period July 1, 2009 through June 30, 2010					
Average monthly benefit	\$280	\$670	\$1,228	\$2,121	\$2,947
Average final average salary	\$61,557	\$38,116	\$44,679	\$62,156	\$71,152
Number of retired members	144	312	304	335	495
Period July 1, 2008 through June 30, 2009					
Average monthly benefit	\$247	\$642	\$1,181	\$2,012	\$2,920
Average final average salary	\$55,946	\$39,118	\$42,853	\$57,824	\$70,216
Number of retired members	155	295	240	297	472
Period July 1, 2007 through June 30, 2008					
Average monthly benefit	\$228	\$623	\$1,077	\$1,836	\$2,713
Average final average salary	\$54,905	\$41,044	\$40,557	\$52,692	\$66,593
Number of retired members	112	197	256	251	400
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

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

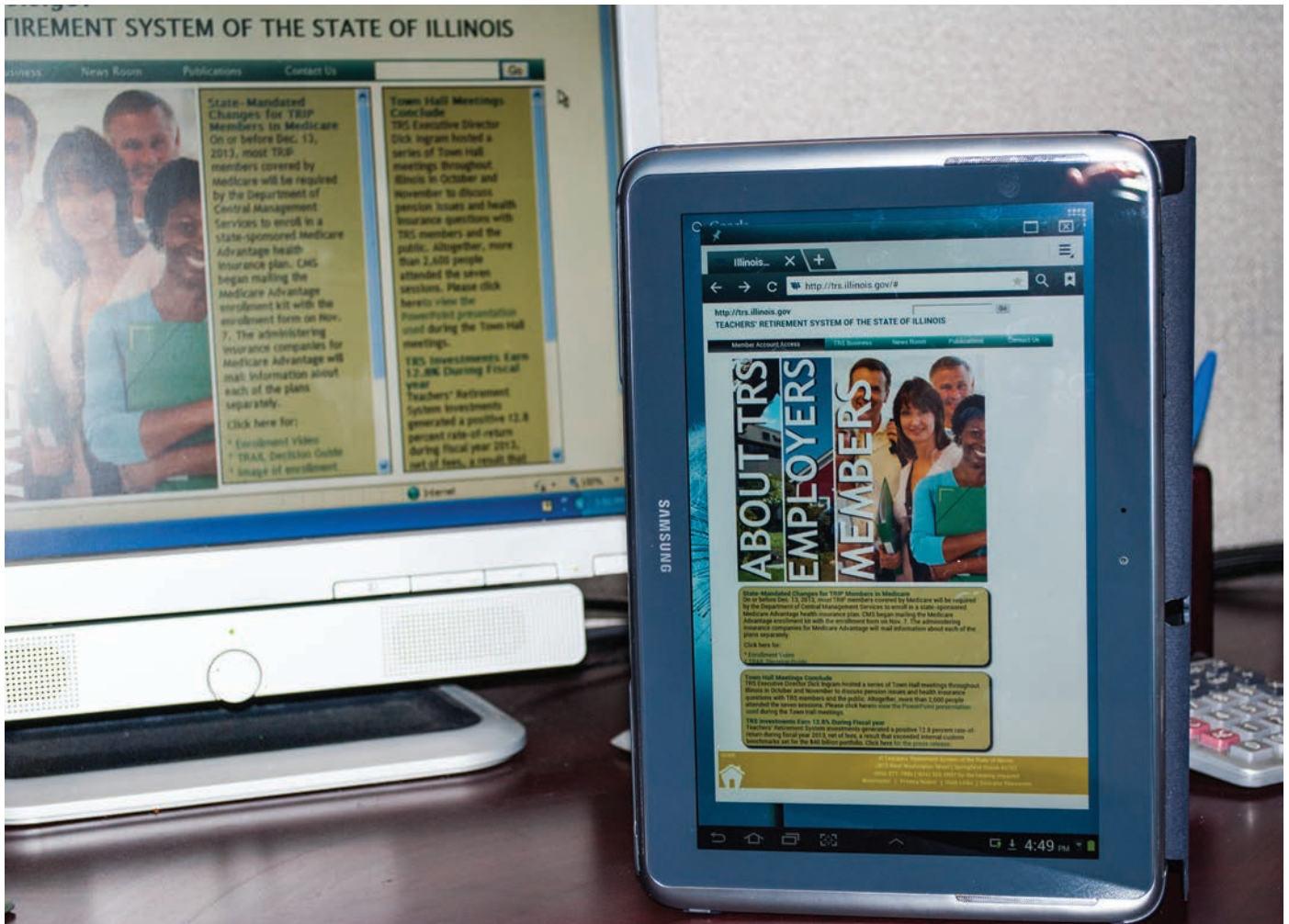
Years of Service				All Fiscal Year Retirees	Average Age For All Fiscal Year Retirees	Average Service For All Fiscal Year Retirees
25-29	30-34	35-39	40+			
\$4,232 \$83,918 664	\$5,396 \$90,517 750	\$6,066 \$96,245 1,115	\$7,369 \$101,109 142	\$4,070 \$79,689 4,535	age 61	26 years
\$4,310 \$85,929 702	\$5,568 \$92,839 923	\$6,214 \$98,975 1,516	\$7,273 \$103,131 177	\$4,292 \$83,346 5,266	age 60	27 years
\$4,097 \$81,416 562	\$5,190 \$86,636 905	\$5,708 \$91,033 1,359	\$6,527 \$92,605 134	\$3,984 \$76,805 4,753	age 60	27 years
\$3,891 \$77,352 536	\$5,063 \$84,466 887	\$5,621 \$89,648 1,410	\$5,819 \$82,289 118	\$3,960 \$75,507 4,541	age 60	27 years
\$3,941 \$78,684 425	\$4,940 \$82,544 779	\$5,411 \$86,467 1,301	\$6,457 \$92,170 65	\$3,840 \$73,725 4,029	age 59	27 years
\$3,505 \$71,223 398	\$4,737 \$80,631 695	\$5,098 \$81,570 884	\$5,413 \$79,227 67	\$3,536 \$69,412 3,260	age 59	26 years
\$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

PRINCIPAL PARTICIPATING EMPLOYERS

Participating Employer	City	Year ended June 30, 2013			Year ended June 30, 2004		
		Rank	Covered Employees	Percentage of Total TRS Membership	Rank	Covered Employees	Percentage of Total TRS Membership
School District U46	Elgin	1	2,766	1.7%	1	2,654	1.8%
Indian Prairie CUSD 204	Naperville	2	2,514	1.6	2	2,428	1.5
Plainfield SD 202	Plainfield	3	2,330	1.4	5	1,653	1.0
Rockford School District 205	Rockford	4	2,261	1.4	3	2,371	1.5
Naperville CUSD 203	Naperville	5	1,753	1.1	4	1,718	1.1
Valley View CUSD 365	Romeoville	6	1,619	1.0	-	-	-
Community USD 300	Carpentersville	7	1,606	1.0	10	1,324	0.8
Springfield SD 186	Springfield	8	1,558	1.0	7	1,494	0.9
Waukegan CUSD 60	Waukegan	9	1,477	0.9	-	-	-
Schaumburg CCSD 54	Schaumburg	10	1,468	0.9	9	1,377	0.9
Peoria SD 150	Peoria	-	-	-	6	1,602	1.0
Community Unit SD 200	Wheaton	-	-	-	8	1,378	0.9
Total, largest 10 employers			19,352	12.0%		17,999	11.4%
All other (1,009 employers in 2013* 1,039 employers in 2004)			141,340	88.0%		139,991	88.6%
Grand Total			160,692	100.0%		157,990	100.0%

*Other Employers by Type as of June 30, 2013	Number of Other Employers	Other Covered Employees
Local school districts	851	133,899
Special districts	138	6,803
State agencies	20	638
Total, employers other than largest 10	1,009	141,340

Total Employers by Type as of June 30, 2013	Total Number of Employers	Total Covered Employees
Local school districts	861	153,251
Special districts	138	6,803
State agencies	20	638
Total, all employers	1,019	160,692



Tablet Accessibility

In FY13, the number of visits from tablets and smart phones was 27,395 and 21,930, respectively. The new web design is friendly to tablets and smart phones, so that visitors can simply find their information without scrolling across the larger design of a desktop website. The design automatically identifies and adapts to the technology the visitors use.



Teachers' Retirement System of the State of Illinois

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