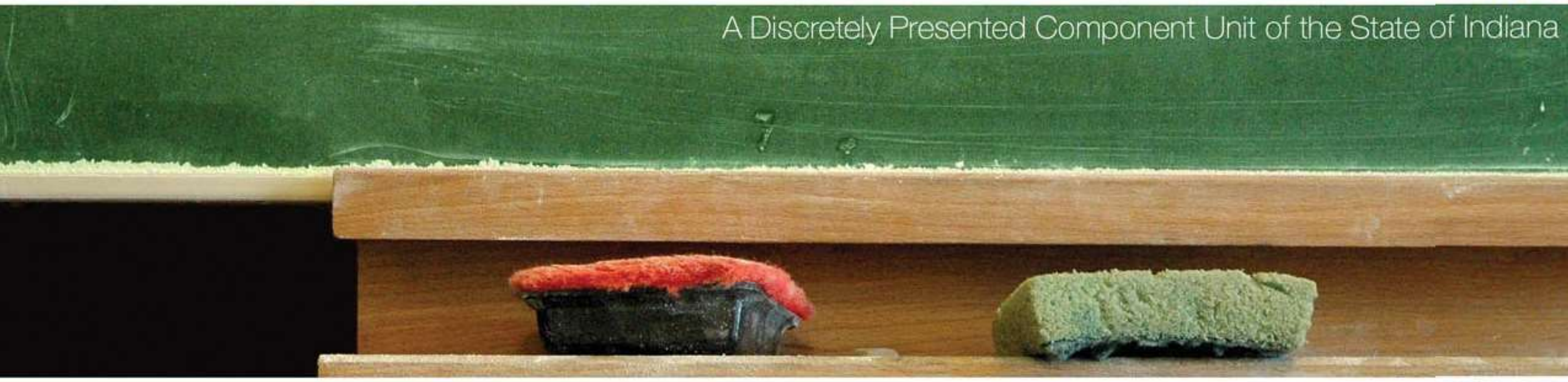
Indiana State Teachers' Retirement Fund

A Discretely Presented Component Unit of the State of Indiana



2008 Comprehensive Annual Financial Report

Building Your Retirement Future

For the Fiscal Year Ended June 30, 2008

Indiana State Teachers' Retirement Fund

2008 Comprehensive Annual Financial Report

PREPARED BY
Indiana State Teachers' Retirement Fund
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Additional copies of this report are available for download at www.in.gov/trf.

Building Your Retirement Future

TRF

TABLE OF CONTENTS


Introduction

Letter of Transmittal

Steve Russo
Executive Director

December 2008
Dear Board Members:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Indiana State Teachers' Retirement Fund (TRF) for the fiscal year ended June 30, 2008.

About the Indiana State Teachers' Retirement Fund (TRF)

The Indiana General Assembly created the Indiana State Teachers' Retirement Fund (TRF) in 1921 as a "pay-as-you-go" defined benefit (DB) retirement system to provide pension and disability benefits to its members and/or their beneficiaries. Pay-as-you-go means that the State decided not to pre-fund the teachers' retirements through employee and employer contributions while the members were actively teaching. Instead, the State decided to appropriate money for the retirement benefits as they became due for payment. Upon reaching age and service eligibility requirements, members are entitled to a monthly DB pension payment based in part upon a formula that takes into account the member's age, years of service, and the average of the member's highest five years of salary.

Since its establishment in 1921, the laws governing the administration of TRF have changed and expanded in response to the needs of our members, employers, and citizens. In 1955, legislation added a defined contribution (DC) element to the benefit, known as the Annuity Savings Account (ASA). This benefit is funded by a 3% member contribution; however, by statute, employers are allowed to make the 3% contribution on behalf of the member. Members are immediately vested in their Annuity Savings Accounts. Upon retirement, members can withdraw their ASA balances in lump sums or they can convert their balances into annuitized amounts that are added to the monthly defined benefit.

The 1995 legislative session brought several significant changes to TRF. Legislation was passed that closed the pay-as-you-go plan (named the Pre-1996 Account) to newly hired members and created a new account named the 1996 Account. All teachers hired after June 30, 1995 would be members of the 1996 Account. This account was established to be actuarially pre-funded by requiring school corporations to set aside a fixed percentage of payroll for teacher retirements. Also in 1995, the general assembly passed legislation creating the Pension Stabilization Fund (PSF), designed to partially fund TRF's unfunded liability of the Pre-1996 Account. The PSF was initially funded from $425 million of employer reserves from the Pre-1996 Account and, since that time, has received contributions from the Indiana State General Fund and the Indiana State Lottery, as well as interest earned from the investment of PSF assets. As of June 30, 2008, TRF's combined net assets had a market value of $8.6 billion, of which $2.0 billion resides in the PSF.

In 2001, legislation established that TRF was no longer to be a state agency but an "independent body corporate and politic", often called a "quasi-state agency". Though TRF is under the authority of the governor and the Office of Management and

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Budget (OMB), it is not under the jurisdiction or authority of the State Personnel Department or the Department of Administration. By Executive Order of the Governor, the Fund is under the jurisdiction of the State Ethics Commission.

Indiana Code establishes a six-member Board of Trustees to oversee TRF. Five trustees, two of whom must be Indiana educators and members of the Fund, are appointed by the governor. The sixth member of the Board must be a director of the budget agency or the director's designee. An executive director appointed by the governor carries out the policies set by the Board and administers the Fund on a daily basis. In support of the Board and the executive director, TRF employed 46 full-time staff members as of June 30, 2008.

The Fund serves approximately 160,000 members and 390 employers. TRF provides a monthly benefit to over 41,000 retirees and maintains accounts for approximately 76,000 active members and 43,000 inactive members. Details about the demographics of TRF members can be found in the Statistical Section of this report.

Benefit Plan and Other Legislative Changes during Fiscal Year 2008

There were several changes that took effect during fiscal year 2008.

- **Sudan Divestment –** Legislation established a process and timeline for TRF to divest from companies with certain business activities in Sudan.

- **Cost of Living Adjustment (COLA) –** This legislation provided a 2% increase to members who retired before July 2, 1999 and provided a 1% increase to members who retired after July 1, 1999 and before July 2, 2005. The effective date of the COLA was January 1, 2008.

- **Reemployment After Retirement –** Effective July 1, 2007, legislation was passed that removed the earnings limitation for a member who reemploys more than 90 days after the member's retirement in a covered position. During the period of reemployment, it provides that the member does not earn creditable service in TRF and is not entitled to an additional benefit.

- **Changing Beneficiaries After Divorce –** Effective July 1, 2007, this legislation allows a member who is receiving a TRF benefit to elect, under certain conditions of divorce, to change the member's designated beneficiary or form of benefit.

Management's Responsibility for Financial Reporting

TRF's management is responsible for the contents of this report and is responsible for establishing and maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization. TRF's management is also charged with recording these transactions as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with generally accepted accounting principles. This system includes the written policies and procedures of the Board of Trustees.

For financial reporting purposes, TRF follows Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. Assets of TRF are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the Required Supplemental Schedules following the Notes to the Financial Statements.

GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments. This statement establishes financial reporting standards for state and local governments. The Management's Discussion and Analysis is contained within the Financial Section of this report and serves to supplement the Introductory Section of this CAFR, as well as Financial Statements, Notes to the Financial Statements, and Required Supplemental Schedules within the Financial Section.

Economic Condition

TRF's economic condition is based primarily upon appropriations from the Indiana State General Assembly, contributions from members and employers, and investment results. In fiscal year 2008, the State of Indiana maintained a balanced budget and was able to provide an added level of confidence that the State could meet its funding obligations to the TRF Pre-1996 Account. The State also repaid all outstanding debts to Indiana school corporations, thus providing an added level of assurance that school corporations could meet their obligations to pay required employer contributions to the TRF 1996 Account. In fiscal year 2008, TRF received all required appropriations from the State of Indiana and received all required contributions from members and employers. The impact of economic conditions on TRF's investments was evaluated by Callan Associates Inc., TRF's primary investment management consultant. Callan's report can be found in the Investments Section of this report.

Investments

TRF continues to invest in a mix of asset classes that allow the Fund to benefit in periods of rising equities markets while moderating the risks on the downside. Fiscal year 2008 was a period in which the Fund mitigated the double digit declines in the global equities markets. Investment gains in the fixed income and the alternative investments portion of the portfolio helped to offset a portion of the equities losses. The Fund's investment portfolio is comprised of both DB and DC assets. Combined, the investment return for the fiscal year was -4.2%, as compared to US Equity S&P 500 index of -13.1% and the International MSCI EAFE Index of -6.2%.

Another common measure of investment performance is to compare a portfolio's actual return to its benchmark return. TRF's investment performance was not only better than the target benchmark for fiscal year 2008, but it remains better than the benchmark return over the past five-year period.

Detailed investment policies and performance results can be found in the Investments Section of this report.

Asset Allocation

Prudent diversification through strategic asset allocation is fundamental to the Board of Trustees' overall investment policy. The policy is designed to provide an optimal mix of asset classes in order to meet TRF's return objectives while maintaining appropriate diversification and risk control. TRF continues to incorporate traditional assets (cash, domestic and international stocks, and domestic fixed income) while also incorporating nontraditional assets (real estate, absolute return, and private equity) into the target asset mix.

The investment portfolio mix at fair value for the fiscal year ending June 30, 2008 was approximately 23.4% fixed income, 60.3% equities, and 16.3% alternative investments. This fiscal year also saw the actual allocation of assets within the targeted range for each asset class as approved by the TRF Board of Trustees.

Funding

An actuarial analysis of TRF is performed on an annual basis. An assumption experience study is performed every three to five years and the most recent experience study was completed in fiscal year 2008. The actuarial firm, Alliance Benefit Group, completed the most recent annual actuarial analysis. One of the purposes of the actuarial analysis is to measure the funding status, typically referred to as the funded percentage. The percentage is computed by dividing the actuarial value of net assets by the actuarial accrued liability. This ratio provides an indication of the funding status of the plan and, generally, the greater this percentage, the stronger the plan.

As discussed earlier, TRF is one fund comprised of two separate accounts, the Pre-1996 Account and the 1996 Account. Each of these accounts is funded differently. Given that the Pre-1996 Account is funded on a pay-as-you-go basis from the State of Indiana, the funded percentage measurement is not as meaningful in measuring the strength of this account.

However, the application of the funded percentage to the 1996 Account is more meaningful, as this account is actuarially pre-funded by contributions from members and employers. The funded percentage of the 1996 Account is a very healthy 95.9%. Another purpose of the actuarial analysis is to guide the Board of Trustees in the determination of the required contribution rate as a percent of payroll from employers. In fiscal year 2008, the required DB contribution rate from employers for members in the 1996 Account was 7.25% of payroll.

Details of the actuarial analysis can be found in the Actuarial Section of the report. Supporting statistics can be found in the Statistical Section. In the Statement of Changes in Fiduciary Net Assets, contained in the Financial Section of this report, the accumulated balance of funds derived from the excess of additions over deductions is referred to as the net assets held in trust for pension benefits. The actuarial accrued liability is not disclosed in the Financial Statements but is disclosed in the Required Supplemental Schedules following the Notes to the Financial Statements.

Accomplishments in 2008

TRF has continued its pursuit of excellence throughout fiscal year 2008. TRF's commitment to outstanding customer service was demonstrated by the implementation of operational programs that now have 95%+ of new retirees receiving their first pension payment on time. Disbursement of requested ASA refunds is now taking place on a weekly basis. A communications and outreach department was established to significantly improve retirement education for members.

Significant strides were achieved in the implementation of new information technologies. For the first time in TRF's history, 100% of data reporting from employers was conducted electronically. Several enhancements to the TRF Web site were implemented. TRF also established a long range information technology plan to guide significant operational and customer service improvements in the coming years.

Acknowledgements

The compilation of this report reflects the combined efforts of TRF staff and advisors. It is intended to demonstrate the spirit of full disclosure and to provide information for use as the basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the assets contributed by our members and employers.

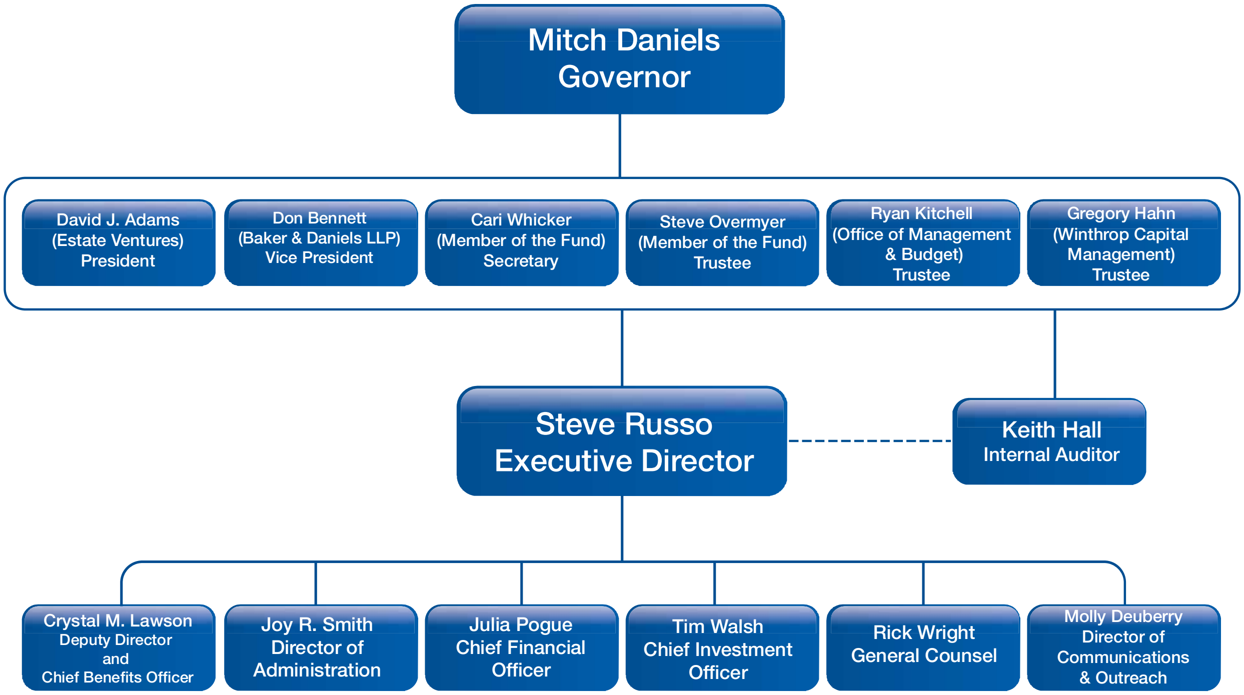
We express our gratitude to the staff, advisors, and all who have contributed to the preparation of this report. We also thank Cristy Wheeler, who served as TRF's Executive Director through the first eight months of the fiscal year.

The TRF staff also wishes to express our gratitude to Indiana Governor Mitch Daniels, the Indiana General Assembly, members of the Indiana Pension Management Oversight Commission, and the TRF Board of Trustees who provided TRF staff the privilege of serving the needs of our members and employers.

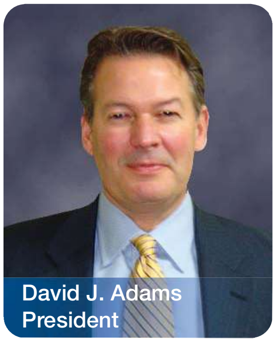
Sincerely,

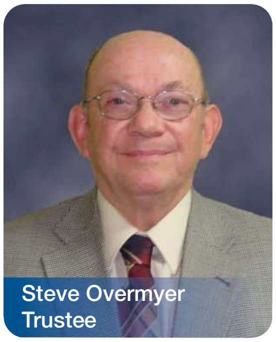
Steve Russo
Executive Director

Organization Chart

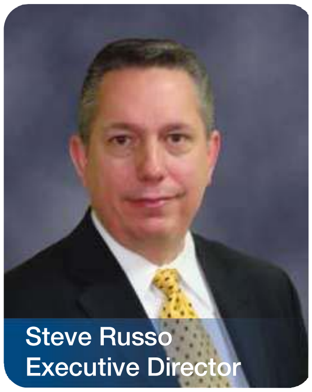


Board of Trustees

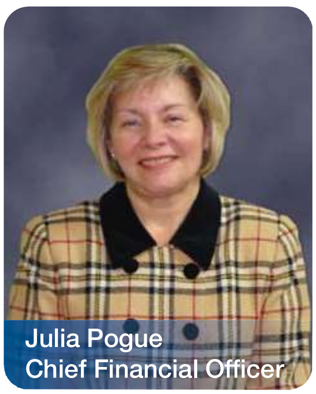




Executive Team


Steve Russo
Executive Director

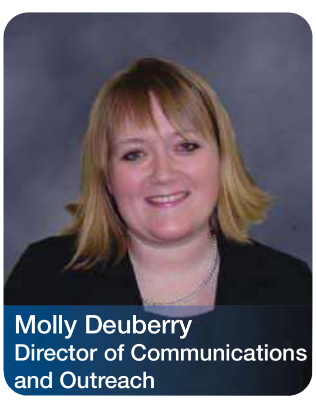

Crystal M. Lawson
Deputy Director
Chief Benefits Officer


Julia Pogue
Chief Financial Officer


Tim Walsh
Chief Investment Officer


Joy R. Smith
Director of Administration


Rick Wright
General Counsel


Molly Deuberry
Director of Communications
and Outreach


Keith Hall
Internal Auditor

Mitch Daniels
Governor
Becky Skillman
Lt. Governor

Administrative Staff

Steve Russo
Executive Director
Crystal M. Lawson
Deputy Director and
Chief Benefits Officer
Julia Pogue
Chief Financial Officer
Tim Walsh
Chief Investment Officer
Joy R. Smith
Director of Administration
Rick Wright
General Counsel
Molly Deuberry
Director of Communications
and Outreach
Keith Hall
Internal Auditor

Professional Consultants

Ice Miller
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Indianapolis, IN 46282
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One Indiana Square
Suite 2800
Indianapolis, IN 46204
KPMG
303 East Wacker Drive
Chicago, IL 60601
Alliance Benefit Group
9320 Priority Way West Dr
Indianapolis, IN 46240

A list of investment professionals can be found on page 55.

Membership and Eligibility

The Indiana State Teachers' Retirement Fund includes eligible educators and administrators.

Members Receiving Retirement Benefits

Age	Years of Service	Allowance Reduction
50 up to 59	15 or more	11% at age 59, additional 5% for each year under age 59
55	Age at retirement plus total years of service equals 85 or more	None
60	15 or more	None
65	10 or more	None

Benefit Formula

Annual Benefit =

(Average of Highest 5 Years of Annual Compensation x Total Years of Service x 1.1% (0.011))

\+

Annuity Savings Account[1]

[1] At retirement, a member can elect to receive the Annuity Savings Account as a monthly supplement to the defined pension benefit or in a total distribution.

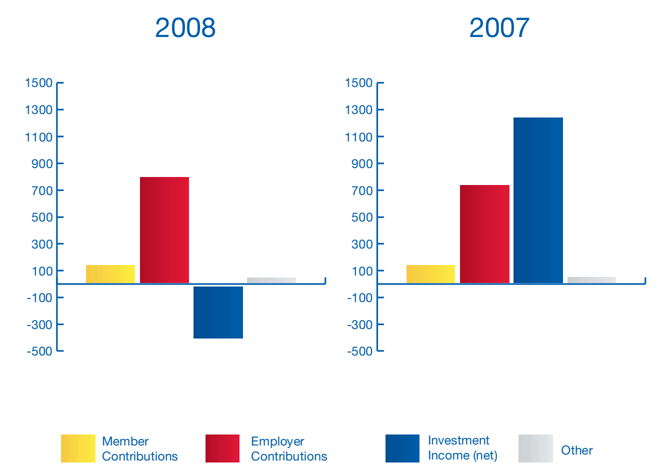
Cost of Living Adjustments (COLA)

Cost of living adjustments are passed by the Indiana General Assembly on an ad-hoc basis.

Contribution Rates

- Members are required to contribute 3% of gross wages to their Annuity Savings Accounts. Employers have the option of making all or part of this 3% contribution on behalf of the member.
- Members may also voluntarily contribute up to an additional 10% of their wages into their Annuity Savings Accounts.
- The amount (rate) of employer contributions in the 1996 Account is adopted by the Board of Trustees based on recommendations by the Indiana State Teachers' Retirement Fund's actuary.

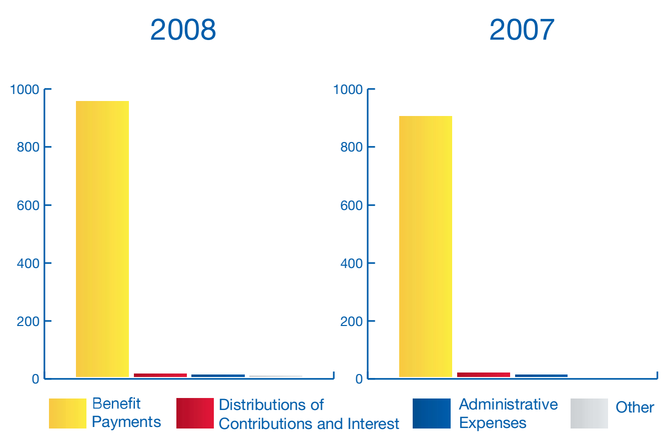
Additions by Source
For fiscal year ended June 30 (in millions)



Additions by Source

For fiscal year ended June 30 (in millions)	2008	2007
Member Contributions	$ 123.9	$ 126.2
Employer Contributions	778.1	723.0
Investment Income (net)	(381.1)	1,223.4
Other	33.2	33.9
Total	$554.1	$2,106.5

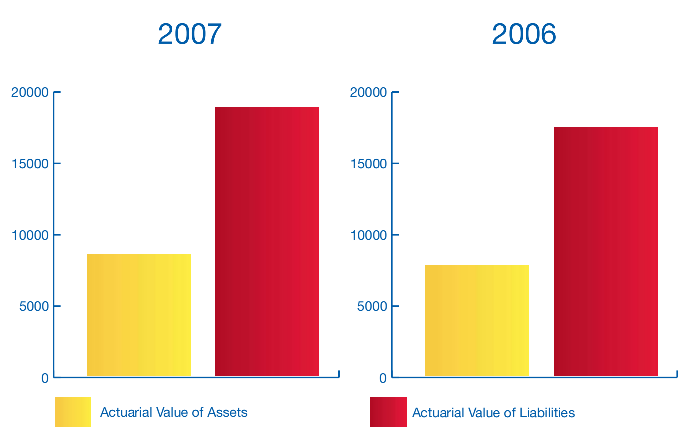
Deductions by Type
For fiscal year ended June 30 (in millions)



Deductions by Type

For fiscal year ended June 30 (in millions)	2008	2007
Benefit Payments	$ 950.9	$ 897.6
Distributions of Contributions and Interest	10.5	12.9
Administrative Expenses	6.9	6.5
Other	2.7	0.1
Total	$ 971.0	$ 917.1

Funding Progress
Actuarial study as of July 1 (in millions)



Funding Progress

Actuarial study as of July 1 (in millions, with ratios)	2007	2006
Actuarial Value of Assets	$8,476.6	$7,686.7
Actuarial Value of Liabilities	18,815.8	17,365.5
Funding Ratios	45%	44%


Financial

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF TEACHERS' RETIREMENT FUND BOARD OF TRUSTEES

We have audited the accompanying basic financial statements of the Teachers' Retirement Fund Board of Trustees, as of and for the year ended June 30, 2008. These basic financial statements are the responsibility of the Teachers' Retirement Fund Board of Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the fiduciary funds of the Teachers' Retirement Fund Board of Trustees as of June 30, 2008, and the changes in the plan net assets of the fiduciary funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory Section, Administrative Expenses, Investment Expenses, Contractual and Professional Service Expenses, Investment Section, Actuarial Section, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Administrative Expenses, Investment Expenses, and Contractual and Professional Service Expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, Investment Section, Actuarial Section, and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

State Board of Accounts
STATE BOARD OF ACCOUNTS

December 18, 2008

Financial

Management's Discussion and Analysis

Management's Discussion & Analysis

This section presents Management's Discussion and Analysis (MD&A) of the Indiana State Teachers' Retirement Fund (TRF) financial statements for the fiscal year ended June 30, 2008. The MD&A is presented as a narrative overview and analysis. The MD&A should also be read in conjunction with the Financial Statements, the Notes to the Financial Statements, and the Required Supplemental Schedules.

Financial Highlights

- The net assets of TRF were $8.6 billion as of June 30, 2008.
- The net assets of TRF decreased by $417 million, or 4.6%, from the prior year. The decrease was primarily due to negative total returns on Fund investments, resulting in lower investment values.
- The TRF rate of return on investments for the year was negative 4.2% on a market value basis, compared to last year's positive 16.0%, as stocks provided negative returns and bonds provided an average return.
- As of June 30, 2007, the date of the most recent actuarial valuation, the Pre-1996 Account is actuarially funded at 36.1%, which is less than the 36.5% funded level as of June 30, 2006. The 1996 Account is actuarially funded at 95.9%, which is more than the 93.5% funded level as of June 30, 2006. The Pre-1996 Account includes all members who were hired before July 1, 1995 and have been continuously employed by the same Board of Education as they were on that date. The 1996 Account includes all other members.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to TRF's Financial Statements. The financial section of this Comprehensive Annual Financial Report is comprised of three components: (1) Financial Statements, (2) Notes to the Financial Statements, and (3) Required Supplemental Schedules. The information available in each of these sections is briefly summarized as follows:

1) Financial Statements

The Statement of Fiduciary Net Assets presents information on TRF's assets and liabilities and the resulting net assets held in trust for pension benefits. This statement reflects TRF's investments, at fair value, along with cash and short-term investments, receivables, and other assets and liabilities. This statement indicates the net assets available to pay future pension benefits and gives a snapshot at a particular point in time.

The Statement of Changes in Fiduciary Net Assets presents information showing how TRF's net assets held in trust for pension benefits changed during the fiscal year ended June 30, 2008. It reflects contributions by members and employers, along with deductions for retirement and annuity benefits, administrative expenses, and other deductions. Investment income and losses during the period are also presented from investing and securities lending activities.

2) Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in TRF's Financial Statements.

3) Required Supplemental Schedules

The Required Supplemental Schedules consist of a Schedule of Funding Progress and a Schedule of Employer Contributions.

Financial Analysis

Total assets of TRF were $11.5 billion as of June 30, 2008, compared with $11.7 billion as of June 30, 2007. The decrease in total assets was primarily due to a decrease in the market value of investments and securities lending collateral, which was partially offset by an increase in receivables from securities sold during the fiscal year ended June 30, 2008.

Total liabilities were $3.0 billion as of June 30, 2008, compared with $2.7 billion as of June 30, 2007. The increase in total liabilities was due to an increase in payables for securities purchased and partially offset with a decrease in securities lending collateral.

As the table below shows, total net assets were $8.6 billion as of June 30, 2008, which represents a decrease of $417 million, or 4.6%, compared to the prior year, driven primarily by the decrease in market value of investments during the year.

Net Assets
(Dollars in thousands)

	June 30, 2008	June 30, 2007	% Change
Assets			
Cash and Cash Equivalents	$ 811,941	$ 817,158	(0.6)%
Securities Lending Collateral	1,217,423	1,448,921	(16.0)
Receivables	1,977,881	721,392	174.2
Investments	7,537,474	8,715,377	(13.5)
Other Assets	1	9	(89.0)
Total Assets	$ 11,544,720	$ 11,702,857	(1.4)%
Liabilities			
Securities Lending Collateral	1,217,423	1,448,921	(16.0)
Other Current Liabilities	1,763,278	1,273,082	38.5
Long-term Liabilities	60	60	-
Total Liabilities	$ 2,980,761	$ 2,722,063	9.5%
Total Net Assets	$ 8,563,959	$ 8,980,794	(4.6)%

Financial

The following table presents TRF's investment allocation for June 30, 2008 compared to TRF's target investment allocation and the prior year's allocation. The allowable range for investments is also shown.

Investment Allocation

	June 30, 2008 Actual	June 30, 2008 Target	June 30, 2007 Actual	Allowable Range for Investments
Domestic Equities	37.8%	35.0%	45.7%	30% to 40%
International Equity	22.5	20.0	21.2	16 to 24
Private Equity	5.7	10.0	3.7	8 to 12
Real Estate	5.9	8.0	4.4	6 to 10
Absolute Return	4.7	7.0	4.2	5 to 9
Fixed Income	23.4	20.0	20.8	15 to 25
Total	100.0%	100.0%	100.0%	

The remaining Private Equity target allocation of 4.3% will be drawn from the other investment classes and will happen over an extended time period, as suitable investments become available. The remaining 2.3% and 2.1% from Absolute Return and Real Estate, respectively, will be drawn from the other investment classes over approximately the next six months.

A summary of the changes in net assets during the fiscal years ended June 30, 2008 and June 30, 2007 are presented below:

Changes in Net Assets

(Dollars in thousands)

	Fiscal Year Ended June 30, 2008	Fiscal Year Ended June 30, 2007	% Change
Additions			
Member Contributions	$ 123,928	$ 126,195	(1.8)%
Employer Contributions	778,128	723,039	7.6
Employer Contributions to Pension Stabilization Fund:	30,000	30,000	-
Net Investment Income	(381,080)	1,223,431	(131.1)
Transfer from Public Employees' Retirement Fund	3,188	3,841	(17.0)
Total Additions	$ 554,164	$ 2,106,506	(73.7)%
Deductions			
Pension and Disability Benefits	950,855	897,676	5.9
Distribution of Contributions and Interest	10,463	12,901	(18.9)
Administrative & Other Expenses	6,920	6,522	6.1
Transfer to Public Employees' Retirement Fund	2,761	37	7362.2
Total Deductions	$ 970,999	$ 917,136	5.9%
Net Increase in Net Assets Held in Trust for Pension Benefits	$ (416,835)	$ 1,189,370	(135.0)%
Net Assets - Beginning of Year	$ 8,980,794	$ 7,791,424	15.3%
Net Assets - End of Year	$ 8,563,959	$ 8,980,794	(4.6)%

Management's Discussion and Analysis

Additions

Additions needed to fund benefit payments are accumulated through contributions from members and employers and returns on invested funds. Member contributions for the year ended June 30, 2008 totaled $123.9 million. This represents a decrease of $2.3 million, or 1.8%, compared to the prior year. Employer contributions were $778.1 million, an increase of $55.1 million or 7.6%. The increase was due to larger appropriations made by the State of Indiana and new members for whom the employers were making contributions.

TRF recognized a net investment loss of $381.1 million for the year ended June 30, 2008, compared to net investment income of $1,223.4 million in the prior year. The lower investment income was primarily due to the fact that TRF's domestic equity investments posted a loss of 13.2% for the fiscal year. This compares to a loss of 13.1% for the S&P 500 index during the year. Domestic Mid Cap equities had a loss of 11.4%, as compared to a loss of 7.3% for the S&P 400 Mid Cap index during the fiscal year. Domestic Small Cap equities had a loss of 15.8%, as compared to a loss of 16.2% for the Russell 2000 index during the fiscal year. International equities had a loss of 9.2%, as compared to a loss of 6.2% for the EAFE (Europe Australasia and Far East) index during the fiscal year. Investment losses on equities were partially offset by TRF's fixed income portfolio, which achieved a positive total return of 5.4% for the fiscal year ended June 30, 2008. This compares to a gain of 7.1% for the Lehman Brothers Aggregate Index. The total rate of return on TRF's investments was a negative 4.2% compared to a positive 16.0% in the prior year.

Deductions

The deductions from TRF's net assets held in trust for pension benefits include primarily retirement, disability, and survivor benefits, distribution of contributions and interest, and administrative expenses. For the fiscal year ended June 30, 2008, retirement benefit payments amounted to $950.9 million, an increase of $53.2 million, or 5.9%, from the prior year. The increase in benefits was due to an increase both in the number of retirees and the average benefit paid. Distributions of contributions and interest were $10.5 million, which represents a decrease of 18.9% over the prior year. This was primarily the result of TRF's efforts to locate inactive members and encourage them to withdraw their funds in fiscal year 2007, which made that year higher than normal.

Administrative expenses were $6.9 million, which was an increase of $0.4 million, or 6.1%, from the prior year.

Historical Trends

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the defined benefit pension plans administered by TRF as of the latest actual valuations were as follows:

TRF Funded Ratios

	July 1, 2007	July 1, 2006
Pre –1996 Account	36.1%	36.5%
1996 Account	95.9%	93.5%

An analysis of the funding progress and employer contributions is set forth in the Required Supplemental Schedules section of the Financial Statements.

Indiana State Teachers' Retirement Fund

As of June 30, 2008 and June 30, 2007*
(Dollars in thousands)

	2008	2007
Assets		
Cash and Cash Equivalents	$ 811,941	$ 817,158
Securities Lending Collateral	1,217,423	1,448,921
Receivables:		
Employer Contributions	38,103	29,246
Member Contributions	32,837	38,054
Interest and Dividends	30,138	32,567
Due from Public Employees' Retirement Fund	2,910	2,099
Securities Sold	1,873,893	619,426
Total Receivables	1,977,881	721,392
Investments:		
Debt Securities	2,859,697	3,893,862
Equity Securities	3,995,986	4,340,552
Other	681,791	480,963
Total Investments	7,537,474	8,715,377
Furniture and Equipment (Original Cost of $187,041 Net of $186,250 Accumulated Depreciation)	1	9
Total Assets	11,544,720	11,702,857
Liabilities		
Accrued Salaries Payable	163	128
Accrued Liability for Compensated Absences - Current	70	71
Accounts Payable	6,517	5,567
Due to Public Employees' Retirement Fund	588	-
Securities Lending Collateral	1,217,423	1,448,921
Payables for Securities Purchased	1,755,940	1,267,316
Total Current Liabilities	2,980,701	2,722,003
Accrued Liability for Compensated Absences - Long-Term	60	60
Total Liabilities	2,980,761	2,722,063
Net Assets Held in Trust for Pension Benefits (See Schedule of Funding Progress, page 37)	$ 8,563,959	$ 8,980,794

** The accompanying notes are an integral part of the Financial Statements.*

Financial

Financial

Indiana State Teachers' Retirement Fund

For the fiscal years ended June 30, 2008 and June 30, 2007*
(Dollars in thousands)

	2008	2007
Additions:		
Contributions:		
Member Contributions	$ 123,928	$ 126,195
Employer Contributions	778,128	723,039
Employer Contributions - Pension Stabilization Fund	30,000	30,000
Total Contributions	932,056	879,234
Investment Income:		
Net Appreciation / (Depreciation) in Fair Value of Investments	(661,517)	945,150
Interest Income	204,181	200,435
Dividend Income	102,698	93,944
Securities Lending Income	53,553	77,860
Total Investment Income	(301,085)	1,317,389
Less Investment Expenses:		
Investment Fees	(33,778)	(19,594)
Securities Lending Fees	(46,217)	(74,364)
Net Investment Income	(381,080)	1,223,431
Other Additions:		
Transfer from Public Employees' Retirement Fund	3,188	3,841
Total Additions	554,164	2,106,506
Deductions:		
Pension and Disability Benefits	950,855	897,676
Distributions of Contributions and Interest	10,463	12,901
Administrative Expenses	6,911	6,501
Depreciation Expenses	9	21
Transfer to Public Employees' Retirement Fund	2,761	37
Total Deductions	970,999	917,136
Net Increase in Net Assets Held in Trust for Pension Benefits	(416,835)	1,189,370
Net Assets - Beginning of Year	8,980,794	7,791,424
Net Assets - End of Year	$ 8,563,959	$ 8,980,794

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

Note 1
Summary of Significant Accounting Policies

A. Reporting Entity - The Financial Statements presented in this report represent only those funds that the Indiana State Teachers' Retirement Fund (TRF) has responsibility for and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State. Effective July 1, 2001, TRF became an independent body corporate and politic (Public Law 119-2000). TRF is not a department or agency of the State but is an independent body corporate and politic exercising essential government functions. The members of the Board of Trustees of the Indiana State Teachers' Retirement Fund are appointed by the Governor of the State of Indiana, and a financial benefit/burden relationship exists between TRF and the State of Indiana. For these reasons, TRF is considered a component unit of the State of Indiana for financial statement reporting purposes.

B. Basis of Presentation - The financial statements of the Indiana State Teachers' Retirement Fund have been prepared using Fund accounting in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. GASB Statement No. 25 has been implemented for the defined benefit pension plans.

C. Fund Accounting - Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. The Indiana State Teachers' Retirement Fund is a pension trust fund. For a description of this fund, see Note 2.

D. Basis of Accounting - The records of this Fund are maintained on a cash basis. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

E. Budgets - A budget for the administrative, project, and investment expenses is prepared and approved by the Board of Trustees.

F. Deposits and Investments - The Treasurer of State acts as the official custodian of the cash and securities, except for securities held by banks or trust companies under custodial agreements with the Board of Trustees. The Board of Trustees may contract with investment counsel, trust companies, or banks to assist the Board in its investment program. The Board is required to diversify investments in accordance with prudent investment standards. The Board has issued investment guidelines for its investment program which authorizes investments of: U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, and banker's acceptances. See Note 4 for more details.

During the fiscal year ended June 30, 2005, the Fund adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3) ("GASB 40"). The adoption of GASB 40 required the Fund to include a presentation of Deposit and Investment Risk Disclosures. The adoption of GASB 40 did not have an impact on the Fund's financial statements.

G. Method Used to Value Investments - GASB Satement No. 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

H. Other Investments - Other investments include investment in shares of limited liability partnerships, real estate securities, options, and swaps. Also included is property owned for investment purposes.

I. Equipment - Equipment with a cost of $20,000 or more is capitalized at the original cost. Depreciation is computed on the straight-line method over the estimated five-year life of all assets.

J. Contributions Receivable - The contributions receivable were determined by using actual contributions received in July 2008, as well as estimated amounts yet to be received for days paid in the quarter ended June 30, 2008.

K. Inventories - Inventories of consumable supplies are not recognized on the balance sheet as they are considered immaterial. Purchases of consumable supplies are recognized as expenditures at the time of purchase.

L. Reserves and Designations

The following are the legally required reserves and other designations of Fund equity:

1. **Member Reserve:** The member reserve represents contributions made by or on behalf of the members plus any interest or earnings distributions, less amounts refunded or transferred to the Benefits in Force reserve for retirement, disability, or other benefit. For the Indiana State Teachers' Retirement Fund, this reserve includes the members' Annuity Savings Accounts.

2. **Benefits in Force:** This reserve represents the actuarial present value of future benefits for all members who are presently retired or disabled. The accumulated contributions of the members are transferred to the reserve upon retirement or disability for those members electing to annuitize their Annuity Savings Accounts. The remainder of the actuarial pension cost is transferred from the employer reserve to fund the benefits. This reserve also includes $2,084,453,822 for the Pension Stabilization Fund. The Pension Stabilization Fund was established by Indiana Code 5-10.4-2-5. See Note 3 for further detail on the Pension Stabilization Fund. This reserve has an unfunded actuarial accrued liability.

3. **Employer Reserves:** This reserve consists of the accumulated employer contributions plus earnings distributions, less transfers made to the Benefits in Force reserve of the actuarial pension cost. This reserve has an unfunded actuarial accrued liability.

4. **Undistributed Investment Income Reserve:** This reserve was credited with all investment earnings. From this reserve, members' accounts are credited interest and earnings. The remaining balance is distributed to the reserve accounts listed above.

The following are the balances of the reserves and designations of Fund equity (dollars in thousands):

Member Reserve	Employer Reserve	Benefits in Force	Undistributed Income
Pre-1996 Account			
$ 2,613,138	$ -	$ 3,031,036	$ -
1996 Account			
649,840	1,845,250	424,696	-
Total			
$ 3,262,978	$ 1,845,250	$ 3,455,732	$ -

M. Payables and Liabilities - Payables and liabilities are not maintained throughout the year on the accounting records. They are calculated or estimated for financial statement reporting purposes and are posted to the general ledger at year's end.

N. Compensated Absences – TRF's full-time employees are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten, and twenty years of employment with the State of Indiana. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation from service, employees in good standing will be paid for a maximum of thirty unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and the salary-related payments that are expected to be liquidated are reported as Compensated Absences Liability.

Note 2

Fund Description

The Indiana State Teachers' Retirement Fund is the administrator of a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the public schools of the state or persons who are employed by the Fund. As of June 30, 2008, the number of participating school unit employers was:

Public School Units	356
Higher Education Units	3
State of Indiana Agencies	30
Associations	1
Total	390

Membership in the Fund is required for all legally qualified and regularly employed teachers who serve in the public schools of Indiana, including the faculty at Vincennes University and employees of the Fund. Additionally, faculty members at Ball State University and the University of Southern Indiana have the option of selecting membership in the Fund or the alternate University Plan. As of July 1, 2007, Indiana State Teachers' Retirement Fund membership consisted of:

Retirees and Beneficiaries	
Currently Receiving Benefits	41,253
Active Plan Members	75,833
Nonvested Inactive Members	38,404
Vested Inactive Members	5,021
Total	160,511

The Indiana State Teachers' Retirement Fund provides retirement benefits, as well as death and disability benefits. Eligibility to retire occurs if the member is at least age fifty with fifteen or more years of service or at age sixty-five with at least ten years of service. Annual retirement benefits, disability benefits, and death benefits are computed as follows:

Financial

Regular Retirement (No Reduction Factor for Age)
Eligibility - Members are eligible at age sixty-five with ten years of service or age sixty with at least fifteen years of service or age fifty-five with age plus years of service totaling at least eighty-five.

There is no mandatory retirement age.

Annual Amount - The state pension is calculated by multiplying a member's total years of service by 1.1% of an average of the member's five highest years of compensation. An annuity purchased by the member's accumulated contributions is added to this amount unless the member elects to withdraw the accumulated contributions in a lump sum.

Early Retirement (Age Reduction Factor Used)
Eligibility - Members are eligible at age fifty with fifteen or more years of service.

Annual Amount - The state pension is computed as a regular retirement benefit but reduced one-tenth of 1% for each month that age at retirement is between sixty and sixty-five, and reduced five-twelfths of 1% for each month under age sixty.

Deferred Retirement (Vested Benefit)
Eligibility - Members are eligible once they have earned ten years of service. Benefit commences at age sixty-five or at age fifty if member has fifteen or more years of service.

Annual Amount - The benefit is computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Regular Disability
Eligibility - Members are eligible once they have earned five years of service.

Annual Amount - Members may receive $125 per month plus $5 for each year of service credit over five years.

Disability Retirement (No Reduction Factor for Age)
Eligibility - Members are eligible if they have earned five years of service and also qualify for Social Security Disability at time of termination.

Annual Amount - The benefit is computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Duty Death Before Retirement
Eligibility - Eligibility is available once fifteen years of service are earned and the spouse to whom the member had been married for two or more years is automatically eligible, or a dependent may be designated as beneficiary.

Annual Amount - Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election.

Benefit Increases After Retirement:
No automatic increases after retirement are provided. Unscheduled increases have been made from time to time.

Each member shall, as a condition of employment, contribute to the Fund 3% of his/her compensation. Effective July 1, 1986, each employing unit may elect to "pick up" the member contribution. No part of the member contributions to the Fund picked up by the employer is includable in the gross income of the member. The pick up amount does count in the salaries used to determine the final average at retirement. Any member who leaves covered employment has the option to withdraw accumulated contributions and interest. In the event of a death of a member who has served less than fifteen years or does not meet the surviving spouse requirements, the designated beneficiary or estate is entitled to a lump sum settlement of contributions plus interest.

Indiana pension statutes stipulate that members of the Fund shall have the opportunity to direct their Annuity Savings Accounts into one of five current investment programs:

1. **Guaranteed Fund -** Interest is credited at a rate annually determined by the Board of Trustees. Principal and interest are "guaranteed". Market risk is assumed by the Fund.

2. **Bond Fund -** This fund contains high quality fixed-income instruments which provide interest/ capital gain income. Market risk is assumed by the member.

3. **S&P 500 Index Fund -** This fund closely tracks the return on the S&P 500 Index by employing an indexing strategy that invests in the stocks of the S&P 500 Index companies. Market risk is assumed by the member.

4. **Small Cap Equity Fund -** This fund consists of stocks with a market capitalization of less than $1.5 billion. Market risk is assumed by the member.

5. **International Equity Fund -** This fund consists of securities of developed non-U.S. countries. Market risk is assumed by the member.

The Guaranteed Fund, Bond Fund, S&P 500 Index Fund, Small Cap Fund, and International Fund are valued at market value. When a member retires, dies, or suspends membership and withdraws from the Fund, the amount credited to the member shall be valued at the market value of the member's investment plus accrued interest on investment, less accrued investment expenses.

Members may only make a selection or re-allocation once per quarter. The changes will be in effect the first month of the quarter following the request for change. Members may request allocations to one or all of the approved funds, as long as those allocations are made in 10% increments of the total balance in the member's account at the time of allocation. The total must equal 100%.

Note 3

Employer Contributions Required and Employer Contributions Made

The Indiana State Teachers' Retirement Fund is funded on a pay-as-you-go basis for employees hired prior to July 1, 1995. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund. For employees hired on or after July 1, 1995, the individual employer will make annual contributions. These contributions are actuarially determined.

Based on the actuarial valuation as of June 30, 2007, employer actuarially required contributions were $742,882,002 of normal cost, with no amortization of the unfunded actuarial accrued liability and zero provision for expenses. Contributions made by employers for the fiscal year ended June 30, 2007 were $753,039,657, which was 17.6% of covered payroll.

Note 4

Deposit and Investment Risk Disclosures

The Fund's investment policy states the following: "The Fund was established to provide retirement, disability, death, and termination benefits to present and former members of the Fund and their beneficiaries who meet the statutory requirements for such benefits. The Fund must be operated for the exclusive benefit of members and their beneficiaries, pursuant to Indiana law and the Internal Revenue Code. The Fund is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, the Fund is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. The Fund is also governed by Indiana statutes and administrative rules. See IC 5-10.2 and IC 21-6.1.

"Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and

"Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investment made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and

"Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses.

"Thus, the primary governing statutory provision is that the Board must 'invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.' The Board is also required to diversify such investments in accordance with prudent investment standards. IC 21-6.1-3-9."

It is the responsibility of the Board of Trustees to determine the allocation of assets among distinct capital markets in accordance with allowable legal limits.

The current strategic asset allocation is in the box below:

Domestic Equities	35%
International Equities	20
Private Equity	10
Real Estate	8
Absolute Return	7
Fixed Income	20
	100%

Interest Rate Risk

The Fund uses the Lehman Brothers Aggregate Index (LBA) as the benchmark for performance measurement of their fixed income managers. TRF's investment policy states that each fixed income manager must manage their portfolio so that the duration is no less than 80% and no more than 120% of the duration of the index.

As of June 30, 2008, the Fund had the following debt investments and maturities:

Investment Maturities

(Dollars in thousands)

		(in Years)			
Investment Type:	Fair Value	Less than 1	1-5	5-10	More than 10
Short Term Investment Funds	$ 519,487	$ 519,487	$ -	$ -	$ -
Short Term Bills and Notes	170,801	170,801			
Commercial Paper	33,657	33,657	-	-	-
Asset-Backed Securities	85,138	56,268	19,702	9,168	-
Commercial Mortgage-Backed Securities	514,465	12,882	259,095	242,488	-
Corporate Bonds	1,396,568	404,590	556,125	355,219	80,634
U.S. Agencies	192,658	9,325	47,418	88,505	47,410
U.S. Treasuries	91,308	-	51313	16,034	23,961
Government Mortgage-Backed Securities	1,341,376	16,724	548,687	770,068	5,897
Municipal/Provincial Bonds	2,332	1,306	-	308	718
Collateralized Mortgage Obligations	76,999	14,308	52,790	9,295	606
Total	$ 4,424,789	$ 1,239,348	$ 1,535,130	$ 1,491,085	$ 159,226

Financial

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the Fund.

There was no custodial credit risk for investments, including investments related to securities lending collateral. Per Indiana Code 5-10.3-5-4(a) and Inidana Code 5-10.3-5-5, all Fund investments are to be held by banks under custodial agreements and all custodians are to be domiciled in the United States.

Deposit Risks
Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the demand deposit account are carried at cost and are insured up to $100,000 each. Deposits in the demand accounts held in excess of $100,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Cash deposits held with the custodian are carried at cost and are not insured or collateralized.

Cash Deposits
(Dollars in thousands):

Demand Deposit Account – Bank Balance	$	86,113
Demand Deposit Account – Book Balance		4,099
Held with Treasurer of State		4,155
Cash Held with Custodian	$	142,427

Credit Risk
The credit risk of investments is the risk that the issuer will default and not meet their obligation. This credit risk is measured by the credit quality ratings issued by national rating agencies such as Moody's and Standard & Poor's.

The following table (in thousands of dollars) provides information on the credit ratings associated with the Fund's investments in debt securities. Ratings were obtained from Moody's and when not rated by Moody's, Standard & Poor's was used.

Rating		Fair Value	Percentage of Portfolio
Aaa	$	1,563,977	43.7%
Aa		179,745	5.0
A		352,036	9.8
Baa		557,636	15.6
Ba		63,754	1.8
B		48,681	1.4
Caa		17,982	0.5
Ca		5,453	0.2
Unrated		786,125	22.0
Total	$	3,575,389	100.0%

Concentration of Credit Risk
As of June 30, 2008, TRF did not have investments in any one issuer, other than securities issued or guaranteed by the U.S. government that represented more than 5% of net investments.

Foreign Currency Risk

As of June 30, 2008, 14.6% of the Fund's investments were in foreign currencies. The table below breaks down the Fund's exposure to each foreign currency (in thousands of dollars):

Currency	Equities	Contracts, Cash, and Bonds	Total Fair Value	Percent of Total Fund Fair Value
Euro Currency Unit	$ 472,231	$ 28,979	$ 501,210	5.9%
British Pound Sterling	132,901	7,806	140,707	1.7
Japanese Yen	191,428	2,198	193,626	2.3
Swiss Franc	59,301	432	59,733	0.7
Canadian Dollar	107,000	484	107,484	1.3
Hong Kong Dollar	36,193	506	36,699	0.4
Australian Dollar	8,068	(186)	7,882	0.1
Norwegian Krone	61,858	183	62,041	0.7
South Korean Won	17,250	-	17,250	0.2
Swedish Krona	61,365	248	61,613	0.7
Other	45,307	1,466	46,773	0.6
Totals	$ 1,192,902	$ 42,116	$ 1,235,018	14.6%

Securities Lending

State statutes and the Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The Fund's custodial bank maintains a list of broker-dealers that have passed their credit analysis and are eligible to borrow securities. In addition, the Fund can have any borrower removed from this list by requesting the custodian not lend to this borrower. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102% of the market value of domestic securities lent and 105% on international securities lent. Collateral is adjusted to the market on a daily basis. No more than 40% of TRF's total assets may be lent at any one time. At year's end, TRF has no credit risk exposure to borrowers because the amount TRF owes the borrowers exceeds the amounts the borrowers owe TRF.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Total cash collateral of $1,217 million is invested in a pooled fund.

As of June 30, 2008, the Fund had the following securities on loan (dollars in thousands):

Security Type	Market Value of Loaned Securities Collateralized by Cash	Market Value of Loaned Securities Collateralized by Noncash	Total Securities Loaned
Global Equities	$ 192,405	$ 15,155	$ 207,560
Global Fixed	8,125	-	8,125
U.S. Agencies	157,940	-	157,940
U.S. Corporate Fixed	187,170	-	187,170
U.S. Equities	499,544	8,198	507,742
U.S. Gov't Fixed	135,769	7,708	143,477
Total	$ 1,180,953	$ 31,061	$ 1,212,014

Outstanding Short Sales

Short sales occur when investments have been sold which are not yet owned by the Fund. Prior to settlement of the sale, the investments will be procured. For the investments directly held by the Fund within the custody accounts, the outstanding short sales are included as accounts receivable from sales of investments and as negative investments. A schedule of the negative investments as of June 30, 2008 is listed below. The repurchase agreements reduced the cash equivalent investments and the remaining listed investments reduced the debt securities investments shown on the balance sheet. These transactions involve market risk, as the asset to be delivered may become more costly to procure and then losses would be realized.

Schedule of Outstanding Short Sales

June 30, 2008
(Dollars in thousands):

Type of Investment:	
Repurchase Agreements	$ 8,474
US Treasuries	860,305
Index Linked Gov't Bonds	5,927
Government Mortgage-Backed	404
Total	$ 875,110

Derivative Financial Instruments

TRF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, TRF's derivative investments included cash and cash equivalent futures, equity derivatives-options, fixed income derivatives–options, rights/warrants, swaps, foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

TRF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, TRF's investment managers use futures contracts to adjust the portfolios' risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. At June 30, 2008, the total offset was $704.2 million. As the 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. The cash or securities to fulfill these obligations are held in the investment portfolio.

Cash and cash equivalent futures are used to manage exposure at the front end of the yield curve. These include swaps with duration of 1 year or less, and Eurodollar, Euribor, and other futures based on short-term interest rates. As of June 30, 2008, TRF's notional value in these instruments totaled $81.4 million and an offset of equal value of $81.4 million.

Equity derivatives–futures are used to gain exposure to an index or market sector. These may offer an opportunity to outperform due to active management of the liquid portfolio backing the exposure. Exposure is backed by an underlying fixed-income portfolio. As of June 30, 2008, TRF's equity derivatives position had a notional value of $334.5 million and an offset of an equal value of $334.5 million.

Fixed income derivatives–futures are used to manage interest rate fluctuations. As of June 30, 2008, TRF's fixed income futures had a notional value of $288.4 million and an offset of an equal value of $288.4 million.

Stock rights/warrants give the holder the right to buy a stock at a certain price until a certain date. As of June 30, 2008, the carrying value of TRF's stock rights and warrants totaled $4.6 million.

Swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions ("received fixed") increase exposure to long-term interest rates; short positions ("pay fixed") decrease exposure. As of June 30, 2008, the market value of TRF's swaps was $14.1 million and swap liabilities totaled $23.5 million.

Foreign currency contracts are used to hedge against currency risk and to purchase investments in non-dollar currencies. A foreign currency contract is an agreement to buy and sell a specific amount of foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency contracts are marked to market on a daily basis. As of June 30, 2008, TRF had Pending Foreign Exchange purchases of $500.0 million and Pending Foreign Exchange sales of $499.8 million.

TRF's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2008, the carrying value of TRF's CMO holdings totaled $77.0 million.

Treasury inflation protected securities (TIPS) are used by TRF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). As of June 30, 2008, TRF had $1.4 million in TIPS holdings.

TRF has two investment accounts that use absolute return strategies. One account uses a Pure Alpha strategy, where value is added through a broadly diversified active portfolio of global fixed income, currency, equity, inflation-indexed bond, EMD, EMFX, and Option markets. As of June 30, 2008, TRF had $127.1 million invested in this strategy. The other account is based on the concept of mean reversion. This strategy uses both top-down and bottom-up valuation methodologies to value asset classes, countries, and individual securities in order to allocate assets to undervalued countries, currencies, and securities. As of June 30, 2008, TRF had $121.3 million invested in this strategy.

Note 5

Partnership Investments

The Board of Trustees had approved commitments and TRF had entered into agreements to fund limited liability partnerships of $798.7 million as of June 30, 2008. The Fund had a net asset value of $297.3 million, as of June 30, 2008, invested in these partnerships. The funding period for the amounts that TRF has already committed is from April 2002 to approximately June 2018. The outstanding commitments as of June 30, 2008, totaled $318.5 million.

Note 6

Deferred Compensation Plan

The State offers its employees a deferred compensation plan, which was created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides $15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

Note 7

Contingent Liabilities

The Indiana State Teachers' Retirement Fund is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the resolution of these matters will not have a material or adverse effect on the financial condition of the Fund. Tort claims are paid from the General Fund of the State of Indiana through the Attorney General's Office and are not paid by the Fund.

Note 8

Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The policy of the Fund is not to purchase commercial insurance for the risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

Note 9

Employee Fund Membership

Employees of the Indiana State Teachers' Retirement Fund are eligible for membership in the Fund. Effective July 1, 2001, Indiana Code 21-6.1-4-1(a)-10 states that members of the Fund include persons who are employed by the Fund.

Note 10

Reserve Transfers with the Public Employees' Retirement Fund (PERF)

Transfers of a member's reserves are made between TRF and PERF when a member has service at the time of retirement that is covered by both funds. Service covered by PERF and the related Annuity Savings Account balance will be used by TRF at the time of retirement in calculating the member's retirement benefit from TRF, if the member was last employed in a TRF-covered position. If the member was last employed in a PERF-covered position, PERF will use the member's TRF service and Annuity Savings Account balance. At the time the retirement benefit is calculated, TRF sets up a receivable from PERF for both the Annuity Savings Account balance and the calculated reserve for the service credit brought in from PERF. This receivable is included as a line item in the "Receivables" section of TRF's Statement of Fiduciary Net Assets. On the reverse side, TRF recognizes a payable in the Liabilities section of the Statement of Fiduciary Net Assets for TRF amounts used in calculating a PERF retiree's benefit.

Note 11

Actuarial Funding Status of the Fund

As of June 30, 2007, TRF was 45.1% funded. As stated in Note 3, members hired before July 1, 1995 are funded with a pay-as-you-go method for the employer portion of the pension and members hired after July 1, 1995 are funded with employer contributions as they work. TRF accounts for these two classes of members as Pre-1996 Account and 1996 Account, respectively. The Pre-1996 Account is 36.1% funded and the 1996 Account is 95.9% funded.

The actuarial methods and significant assumptions used by TRF are summarized in the first table below:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Pay Closed
Amortization Period	30 Years
Asset Valuation Method	4-year Smoothed Market Value with Corridor
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increase	4.50% - 15.50%
Included Wage Inflation	4.50%
Cost of Living Adjustments	1.5% Compounded Annually on Pension Portion

The funded ratio of the Fund has increased from 42% as of June 30, 2002 to the ratio of 45% as of June 30, 2007. A historical look at the funded status of the Fund can be found in the Required Supplemental Schedules provided.

The actuarial value of the Fund's assets as of the June 30, 2007 valuation was $8,476,559,086 and the actuarial accrued liability was $18,815,812,935. The difference is the Fund's unfunded actuarial accrued liability of $10,339,253,849. The annual covered payroll as of the June 30, 2007 actuarial valuation was $4,267,995,166 and the ratio of the unfunded actuarial liability to the annual covered payroll was 242%.

Note 12
Subsequent Events

The financial markets experienced significant volatility subsequent to the June 30, 2008 fiscal year end due to the credit market crisis and concerns about global recession and other market factors. Despite government support designed to keep the global financial system from collapsing, steep declines and periodic boosts in value were experienced, indicating a continued uncertainty of global market conditions.

As a point of reference, based on unaudited reports from Northern Trust, the value of the TRF portfolio has declined approximately 22% as of November 30, 2008 as compared to the June 30, 2008, fiscal year end value. In light of this significant market decline, any judgment of the system's financial position should be based on current information rather than fiscal year end.

The TRF investment philosophy continues to focus on broadening the diversification of the portfolio. Over a long-term horizon, the portfolio is expected to have more protection from fluctuating market conditions as a result of the multi-year diversification plan adopted by the Board in fiscal year 2007.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry-Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b)-(a) / (c)
Pre-1996 Account						
06/30/02	$ 5,555,352	$ 13,497,778	$ 7,942,426	41%	$ 2,604,995	305%
06/30/03	5,728,553	13,354,866	7,626,313	43	2,448,271	311
06/30/04	5,765,668	13,548,525	7,782,857	43	2,384,480	326
06/30/05	5,796,724	14,254,147	8,457,423	41	2,305,726	367
06/30/06	5,477,221	15,002,471	9,525,250	37	2,237,380	426
06/30/07	5,763,508	15,988,259	10,224,751	36	2,376,390	430
1996 Account						
06/30/02	$ 621,223	$ 1,166,883	$ 545,660	53%	$ 1,004,515	54%
06/30/03	825,812	1,392,473	566,661	59	1,136,864	50
06/30/04	1,038,727	1,649,401	610,674	63	1,267,173	48
06/30/05	1,268,575	2,010,746	742,171	63	1,428,604	52
06/30/06	2,209,468	2,363,101	153,633	93	1,565,341	10
06/30/07	2,713,051	2,827,554	114,503	96	1,891,605	6
Total Fund						
06/30/02	$ 6,176,575	$ 14,664,661	$ 8,488,086	42%	$ 3,609,470	235%
06/30/03	6,554,365	14,747,339	8,192,974	44	3,585,135	229
06/30/04	6,804,395	15,197,926	8,393,531	45	3,651,653	230
06/30/05	7,065,299	16,264,893	9,199,594	43	3,734,329	246
06/30/06	7,686,689	17,365,572	9,678,883	44	3,802,721	255
06/30/07	8,476,559	18,815,813	10,339,254	45	4,267,995	242

Schedule of Employer Contributions

Fiscal Year Ending	Valuation Date	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
06/30/03	06/30/01	$ 572,226	$ 602,232	106%
06/30/04	06/30/02	638,541	438,180	69
06/30/05	06/30/03	619,186	484,779	78
06/30/06	06/30/04	672,556	701,340	104
06/30/07	06/30/05	742,882	753,040	101
06/30/08	06/30/06	800,059	808,128	101

Indiana State Teachers' Retirement Fund
Other Supplementary Information

Fiscal Year Ended June 30, 2008
(Dollars in thousands)

Personnel Services:		
Salaries and Wages	$	2,230
Employee Benefits		741
Temporary Services		16
Board of Trustees Per Diems		5
Total Personnel Services		2,992
Contractual and Professional Services:		
Information Technology		2,287
Actuarial Services		119
Legal Services		77
Audit Services		40
Benchmarking Services		35
Other		14
Total Contractual and Professional Services		2,572
Communications:		
Printing		425
Postage		397
Telephone		56
Travel		51
Total Communications		929
Miscellaneous:		
Office Rent		295
Office Supplies		53
Memberships & Training		26
Equipment Rental		25
Other Administrative Expenses		19
Total Miscellaneous		418
Total Administrative Expenses	$	6,911

Indiana State Teachers' Retirement Fund
Other Supplementary Information
Fiscal Year Ended June 30, 2008
(Dollars in thousands)

Custodial and Consulting:	
Investment Consultant	$ 471
Investment Custodian	326
Investment Benchmarking	20
Total Custodial and Consulting Expenses	817
Securities Lending Program:	
Securities Lending Income	(53,553)
Securities Lending Fees	46,217
Total Securities Lending Program	(7,336)
Investment Management Fees	32,408
Investment Staff Expenses	380
Administrative Investment Expenses	173
Total Investment Expenses	$ 26,442

Indiana State Teachers' Retirement Fund
Other Supplementary Information

Fiscal Year Ended June 30, 2008
(Dollars in thousands)

Individual or Firm	Fee	Nature of Services
Indiana Office of Technology	$ 1,643	IT System Development and Network Support
Public Employees' Retirement Fund	161	Computer and Legal Shared Services
KPMG	140	Business Systems Consulting
A. Wilson	87	Computer Systems Consulting
Alliance Benefit Group	99	Actuarial and Legislative Services
RCR Technology	85	Technical Writer for Procedure Documentation
Office Liquidators	68	Renovation Services
Ernst & Young	68	Consulting Services
Indiana Commission on Public Records	54	Imaging Services
State Board of Accounts	40	Audit Services
CEM Benchmarking, Inc.	35	Benchmarking Services
Krieg Devault, LLP	32	Legal Services
Ice Miller, LLC	26	Legal Services
Gabriel Roeder Smith & Company	20	Actuarial Services
Pension Benefit Information	12	Death Services
Metacommunications	1	Computer Services
St. Francis Occupational Health Center	1	Medical Consulting
Total Contractual and Professional Services Expenses	$ 2,572	

Fees paid to investment professionals can be found in the Investments Section.


Investments

CALLAN ASSOCIATES INC

October 20, 2008

Board of Trustees
Indiana State Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, IN 46204

Dear Trustees:

Callan Associates is pleased to present the Indiana State Teachers' Retirement Fund (TRF) results for the fiscal year ended June 30, 2008.

As of June 30, 2008, TRF had combined assets of $8.5billion, a decrease of $416.8 million since June 30, 2007. Of the total combined assets, 62% are employer defined benefit plan assets (DB) and 38% are employee-directed defined contribution annuity savings plan assets (DC). The decrease in assets over the latest fiscal year was primarily due to negative returns experienced in world equity markets. During the previous twelve months:

U.S. economic growth slowed and world financial markets exhibited renewed volatility. Rising energy and food prices sparked global inflation fears and continued concerns about the health of the US economy sent equity markets reeling in June and weighed heavily on the US dollar as it extended its decline over the trailing 12 months.

Spurred by fears of recession, sub-prime loan contagion and large write-downs by banks, fixed income markets experienced volatility and limited liquidity which led to periodic flights to quality U.S. Treasury securities. The yield curve steepened over the trailing 12 months as the Fed continued to lower interest rates, with the 10 year Treasury note yield falling just over 1% to 3.98%.

The US equity markets had negative returns over the trailing one-year period. The S&P 500 Index , an index of domestic large capitalization stocks, lost – 13.1% while smaller capitalization stocks as measured by the Russell 2000 Index, declined -16.2%. Reversing prior trends, value underperformed growth in the large cap space, but growth continued to outperform value in the small cap arena. In all indices, energy was the strongest performing sector with financials being the weakest.

Although experiencing negative returns, developed international equity markets continued to beat their domestic counterparts during the period, returning -10.6%, as measured by the MSCI EAFE (Europe, Australia, and Far East) Index; this was primarily due to strong foreign currencies relative to the weak U.S. dollar. As in the U.S., growth beat value and large beat small. Emerging markets rose and led the developed markets, returning +4.9% over the same time period, as measured by the MSCI Emerging Markets Index.

Although weakening in the second quarter of 2008, the investment grade fixed income market led by the government sector performed well over the trailing one-year period, returning + 7.1% as measured by the Lehman Brothers Aggregate Index, providing an anchor of stability in uncertain times. Intermediate bonds (+7.2%) marginally outperformed long issues (+6.8%). Reflecting credit concerns, high yield bonds underperformed investment grade issues over the same period, returning -2.3%, as measured by the Lehman Brothers High Yield Bond Index. Even with sub-prime concerns, the mortgage sector, as measured by the

Lehman Brothers Mortgage-Backed Securities Index, returned 7.8%, slightly outperforming the broader fixed income market.

Given this market turmoil, TRF combined DB and DC assets returned -4.2%. Performance of individual employee directed DC investment choices were generally in line with market averages.

In the face of a difficult market environment, TRF DB returned -5.7%, outperforming the target benchmark return of -6.4%. Domestic large cap equity managers and the alternative investment pool had the largest positive impact on performance over the trailing one year period. Total fund performance remains favorable over longer time periods outperforming the passive benchmark index over three and five year periods.

TRF's domestic equity managers outperformed their passive target over the trailing one year period returning -11.49% versus the S&P Super 1500 Composite return of -12.7%. As a whole, the Fund's large and small cap managers outperformed their passive benchmark, but the Fund's lone mid cap manager trailed its benchmark by 4.03%.

TRF's international equity managers (-9.4%) outperformed the MSCI EAFE Index (-10.6%) by 1.2% over the trailing one year period. Over the trailing three (+14.9%) and five year (+17.1%) time periods, the International Equity Composite has outperformed its benchmark.

TRF's Fixed Income Composite (+5.2%) trailed the LB Aggregate Bond Index (+7.1%) by 1.88% over the trailing twelve months; the index underperformance was primarily due to the lower exposure of TRF fixed managers in better performing US Treasury securities. Over the trailing three and five year time periods, the Fixed Income Composite outperformed the LB Aggregate by 0.41% and 0.06%, respectively.

The Funds alternatives exposure produced varying results over the trailing one year period. While the Alternatives Composite significantly outperformed its benchmark, the Real Estate and Absolute Return Composites both trailed their respective benchmarks. The Real Estate, Absolute Return and Alternatives allocations are all relatively new and have not yet reached their three year track records; performance in these asset classes typically lags in start up as managers fund their investments.

In summary, Callan Associates is pleased with the Indiana State Teachers' Retirement Fund performance over the near and long term periods. TRF's focus on risk reduction and the allocation enhancements exhibited by additional diversification into new asset classes has positively impacted TRF's performance through the recent periods of market duress.

Regards,

Ken Brunke

Ken Brunke
Senior Vice President

Summary of Investment Policies

The Board members of the Indiana State Teachers' Retirement Fund are the fiduciaries of the Fund. Indiana Code 5-10.4-3-1 states a six-member Board of Trustees will oversee TRF. Five trustees, two of whom must be Indiana educators and members of the Fund, shall be appointed by the governor. The sixth member of the Board must be a director of the budget agency or the director's designee. An executive director appointed by the governor carries out the policies set by the Board and administers the Fund on a daily basis. Pursuant to Indiana law, the executive director is also required to be a TRF member.

The Board establishes investment policies; however, Indiana law establishes guidelines on the investment of the Fund's assets. At all times, TRF must invest its assets in accordance with the "Prudent Investor" standard. Under this standard, investment decisions are based upon the same degree of care that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a similar character with similar aims.

The investment policy statement (IPS) is designed to meet the objectives of the Fund. These objectives are:

- To have the ability to pay all benefit and expense obligations when due, at a reasonable cost to members and Indiana taxpayers;
- To maintain the purchasing power of the current assets and all future contributions by producing a positive real rate of return on Fund assets;
- To enhance the funded status of the plan with regard to the accumulated benefit obligation;
- To control the costs of administering the Fund and managing the investments; and
- To meet all statutory requirements of the State of Indiana.

The Board does intend the policy to be a dynamic document, and, as such, expects to review it periodically. The Board anticipates that changes will be made from time to time to reflect experience, investment product changes, benefit and structural changes, performance, and economic conditions. The purpose of the investment policy statement is summarized below:

- Set forth the investment policies which the Board judges to be appropriate and prudent, in consideration of the needs of the Fund and applicable legal requirements, and to direct the assets of the Fund;
- Make clear distinctions between the responsibilities of the Board and those of the investment manager(s) selected by the Board;
- Establish criteria against which the investment manager(s) are to be measured;
- Communicate the investment policies, objectives, guidelines, and performance criteria of the Board to the staff, investment managers, consultants, employers, members, and all other interested parties;
- Serve as a review document to guide the ongoing oversight of the investment of the Fund; and
- Demonstrate that the Board is fulfilling its fiduciary responsibilities in the management of the investments of the Fund solely in the interests of members and beneficiaries of the Fund.

The Board recognizes that the allocation of assets, particularly the broadly-defined mix between stocks and bonds, is the most important determinant of investment rates of returns over long periods of time. The procedure for determining the allocation will consider the relevant characteristics of the liabilities and the potential assets of the Fund. An asset liability study will be conducted no less than every three years and will analyze the expected returns of various asset classes, projected liabilities, risks associated with alternative asset mix strategies and their effect on the projected market value of assets, funded status, and contributions to the Fund.

The investment portfolio includes long-term commitments to the following asset classes: domestic equity, domestic fixed income, international equity, and alternative investments.

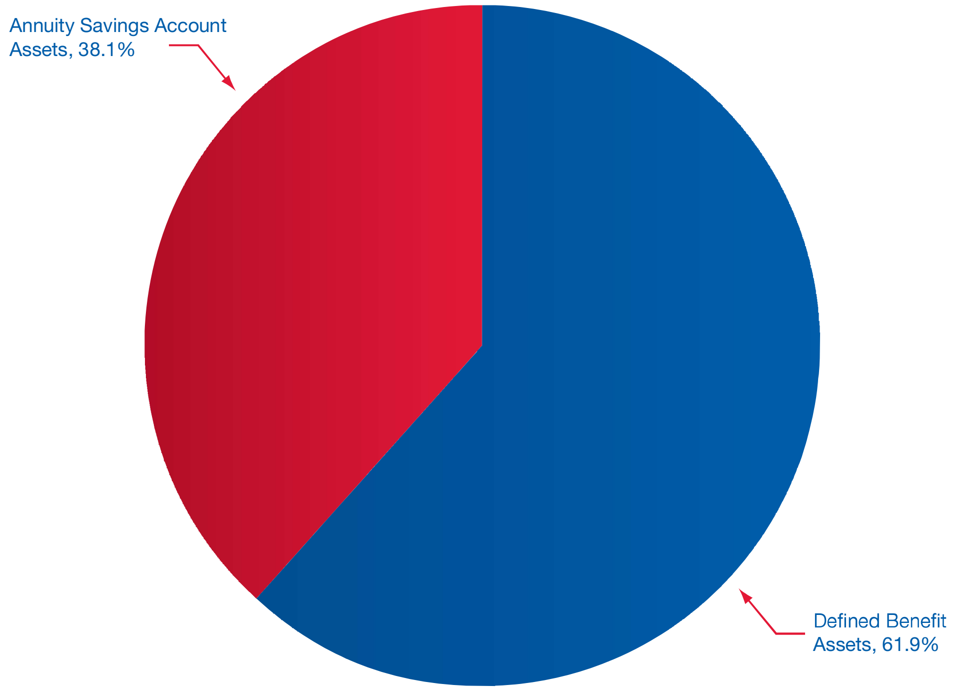
The Board employs investment managers to implement the asset allocation through a selective and thorough search process that embodies the principles of procedural due diligence. It is the intent of the Board to encourage the participation of all qualified organizations in this process. The Board encourages investment managers to develop long-term investment strategies consistent with the guidelines outlined in the Fund's IPS, as well as governing Indiana statutes. Additionally, investment managers will adhere to and comply with the CFA Institute Performance Presentation Global Investment Performance Standards in calculating and reporting investment performance. Performance of each manager is measured against the rate of return associated with appropriate market index benchmarks and an appropriate universe or style peer group of investment managers.

Investment Summary

Fiscal Year Ended June 30, 2008

(Dollars in millions)

	Assets	Percent
Defined Benefit Assets	$ 5,252	61.9%
Annuity Savings Account Assets	3,235	38.1
Total Fund	$ 8,487	100.0%

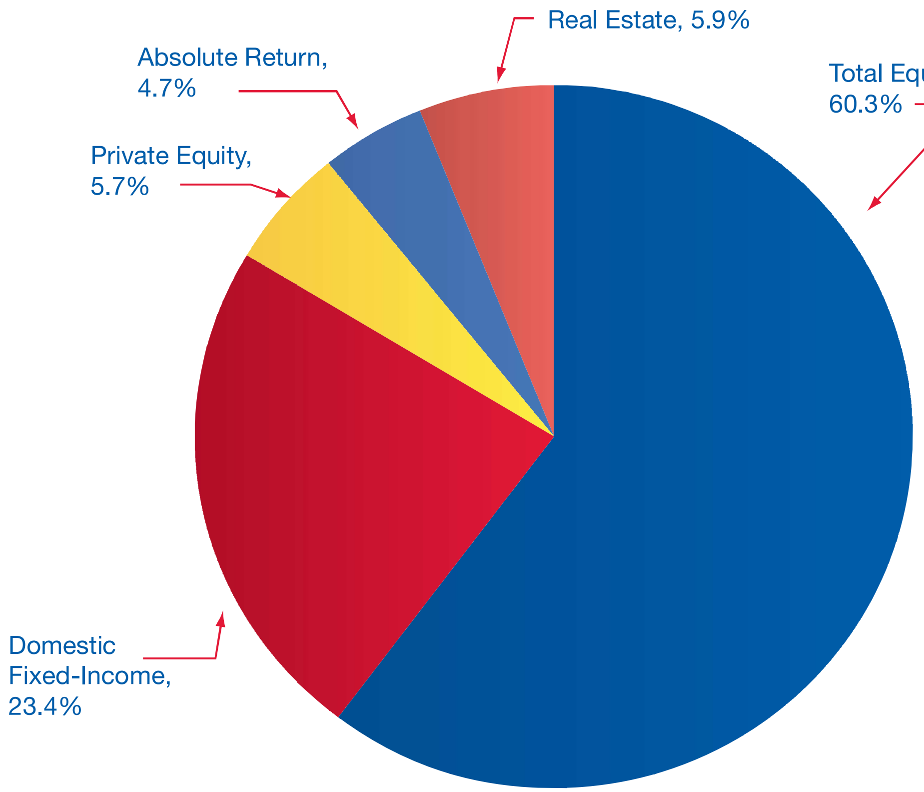


Investments

Defined Benefit Assets
Investment Allocation Summary

	June 30, 2008	June 30, 2007
Total Equities	60.3%	66.9%
Domestic Fixed-Income	23.4	20.8
Private Equity	5.7	3.7
Absolute Return	4.7	4.2
Real Estate	5.9	4.4
Total Fund	100.0%	100.0%

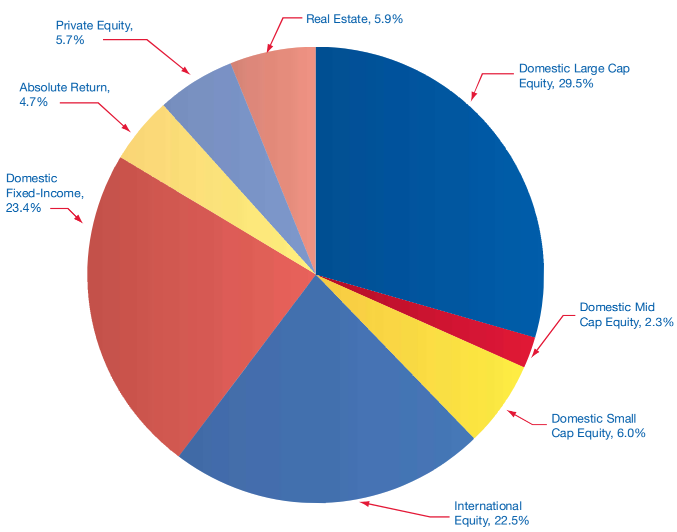
Defined Benefit Assets Investment Allocation Summary



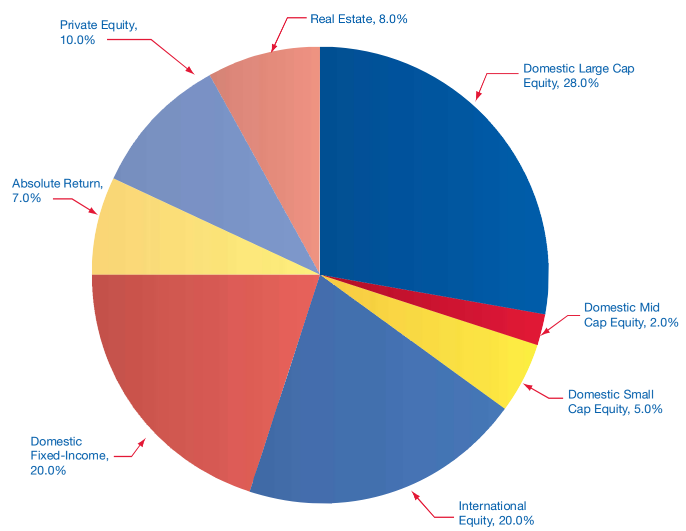
Defined Benefit Assets
Actual vs. Target
June 30, 2008
(Dollars in millions)

Asset Class		Actual Assets	Actual Percent	Target Percent	Percent Difference
Domestic Large Cap Equity	$	1,550	29.5%	28.0%	1.5%
Domestic Mid Cap Equity		121	2.3	2.0	0.3
Domestic Small Cap Equity		315	6.0	5.0	1.0
International Equity		1,182	22.5	20.0	2.5
Domestic Fixed-Income		1,227	23.4	20.0	3.4
Absolute Return		248	4.7	7.0	(2.3)
Private Equity		297	5.7	10.0	(4.3)
Real Estate		312	5.9	8.0	(2.1)
Total Defined Benefit Assets	$	5,252	100.0%	100.0%	

Asset Allocation Actual



Asset Allocation Target



Defined Benefit Assets
Comparative Investment Results
for Periods Ended June 30, 2008
(Percent return)[4]

	1 yr[1]	3 yr[1]	5 yr[1]
Total TRF Defined Benefit Fund	(5.7%)	7.5%	9.3%
vs. CAI Public Fund Universe Median[2]	(4.8)	6.9	9.1
Target Reference Index[3]	(5.5)	7.1	9.1
Total TRF Domestic Equity	(11.4)	5.0	9.0
vs. CAI Public Fund Universe Median	(13.1)	4.8	8.6
S&P Super Composite 500	(12.7)	4.7	8.2
Total TRF International Equity	(9.4)	14.9	17.1
vs. CAI Public Fund Universe Median	(8.8)	14.1	17.5
MSCI EAFE Index	(10.6)	12.8	16.7
Total TRF Domestic Fixed-Income	5.2	4.5	3.9
vs. CAI Public Fund Universe Median	5.7	4.0	3.9
LB Aggregate Index	7.1	4.1	3.9

1 Gross of Fees
2 Universe of Public Funds
3 Composed of passive indices for each asset class held at the target asset allocation
4 Investment performance for the fund is based on performance calculations made by the Fund's custodian, Northern Trust. These are the 1-year, 3-year, and 5-year time-weighted rates of return for the fiscal year ended June 30, 2008.

Investments

Ten-Year Defined Benefit Assets Investment Actuarial Rates of Return

(Dollars in millions)

Year	Market Value	Rate of Return	Actuarial Assumed Rate
1999	$ 2,431	13.1%	7.5%
2000	2,906	9.9	7.5
2001	3,116	(0.1)	7.5
2002	3,032	(3.9)	7.5
2003	3,377	4.6	7.5
2004	3,738	14.8	7.5
2005	4,041	9.1	7.5
2006	4,521	11.2	7.5
2007	5,501	17.9	7.5
2008	5,252	(6.0)	7.5

Defined Benefit Assets Investment Summary

June 30, 2008

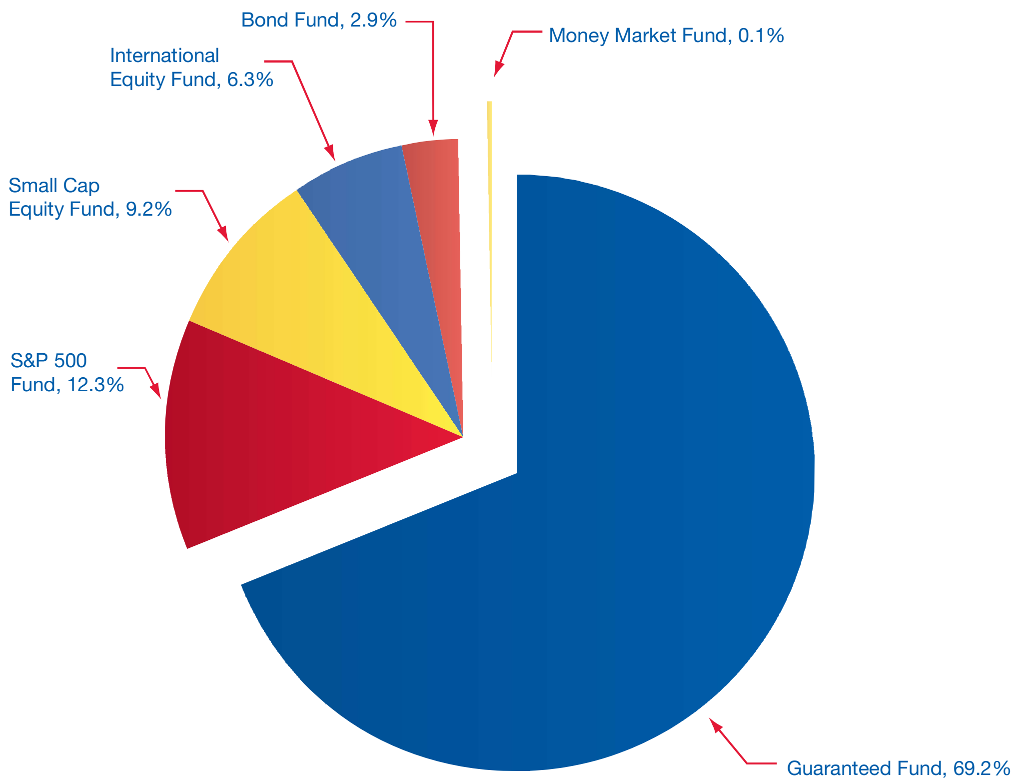
(Dollars in millions)

	Beginning Account Balance	Ending Account Balance	Percentage of Total Fair Value
Domestic Equity	$ 2,513	$ 1,986	37.8%
International Equity	1,165	1,182	22.5
Total Equity	3,678	3,168	60.3
Domestic Fixed Income	1,145	1,227	23.4
Private Equity	205	297	5.7
Absolute Return	231	248	4.7
Real Estate	242	312	5.9
Total TRF DB Assets	$ 5,501	$ 5,252	100.0%

Annuity Savings Account Assets

June 30, 2008
(Dollars in millions)

	Actual Dollars	% Actual
Guaranteed Fund	$ 2,240	69.2%
S&P 500 Fund	397	12.3
Small Cap Equity Fund	297	9.2
International Equity Fund	204	6.3
Bond Fund	95	2.9
Money Market Fund	2	0.1
Total	$ 3,235	100.0%

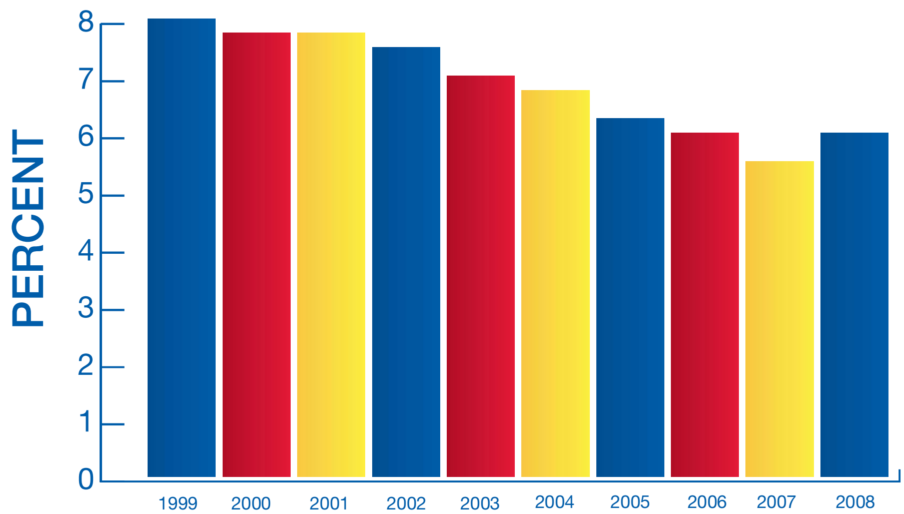


ASA Guaranteed Fund Interest Crediting Rates

as of June 30

Year	Interest Crediting Rate
1999	8.00%
2000	7.75
2001	7.75
2002	7.50
2003	7.00
2004	6.75
2005	6.25
2006	6.00
2007	5.50
2008	6.00

ASA Guaranteed Fund Interest Crediting Rates



Top 10 Equity Holdings for Combined DB and ASA
(by Market Value)*
6/30/2008

Company	Shares	Market Value
Exxon Mobil	920,507	$ 81,124,399
Microsoft	1,309,252	36,017,532
GE	1,315,525	35,111,356
Chevron	321,819	31,901,896
Total SA	345,826	29,531,745
Proctor & Gamble	437,498	26,604,249
IBM	212,565	25,195,356
ConocoPhillips	261,224	24,656,938
AT&T	545,205	18,367,940
Novartis	279,366	15,427,388

**A complete list of portfolio holdings is available upon request.*

Top 10 Fixed Income Holdings for Combined DB and ASA
(by Market Value)*
6/30/2008

Name	Coupon	CUSIP/ SEDOL	PAR	Market Value
FNMA Single Family Mortgage	5.000%	B01DWZ6	$ 233,505,000	$ 223,800,065
FNMA Single Family Mortgage	4.500	01F042673	204,865,000	189,820,124
FNMA 30 Year Pass-Through	5.500	B01NT00	105,220,000	103,707,463
GNMA I Single Family Mortgage	5.000	01N050685	99,940,000	96,567,025
GNMA I Single Family Mortgage	5.500	01N052681	75,965,000	75,347,784
GNMA I Single Family Mortgage	6.000	01N060684	58,985,000	59,685,447
FHLMC Preassign	5.125	B28K7D7	54,260,000	55,744,716
FNMA Pool #381800	6.500	31407JDD1	44,438,319	45,812,263
FNMA Pool #889139	5.500	31410GZC0	44,866,863	44,361,214
FNMA Bond	6.250	2479471	38,025,000	43,018,063

**A complete list of portfolio holdings is available upon request.*

Fees by Asset Class

Asset Class	Amount Paid in Fees
Domestic Large Cap Equity	$ 4,809,076
Domestic Mid Cap Equity	394,190
Domestic Small Cap Equity	4,526,430
International Equity	6,772,363
Domestic Fixed Income	3,077,392
Real Estate	1,166,024
Private Equity	1,886,976
Absolute Return	3,534,353
Partnership Management Fees	6,240,783
Total Fees Paid	$ 32,407,587

Custodian

Northern Trust
50 South LaSalle Street
Chicago, IL 60675

Consultant

Callan Associates, Inc.
120 North LaSalle Street
Suite 2100
Chicago, IL 60602

Domestic Equity

Barclays
45 Fremont Street
San Francisco, CA 94014

Barrow Hanley
2200 Ross Avenue
31st Floor
Dallas, TX 75201

Clarivest
11452 El Camino Real
Suite 250
San Diego, CA 92130

Columbus Circle
Metro Center
One Station Place
Stamford, CT 06902

Cortina
330 East Kilbourn
Suite 850
Milwaukee, WI 53202

Earnest
1180 Peachtree Street
Suite 2300
Atlanta, GA 30309

Franklin
One Boston Place
29th Floor
Boston, MA 02108

INTECH
2401 P.G.A. Boulevard
Suite 100
Palm Beach Gardens, FL 33410

Jacobs Levy
100 Campus Drive
Florham Park, NJ 07932

JP Morgan Asset Management
245 Park Avenue
7th Floor
New York, NY 10167

NorthPointe
101 West Big Beaver
Suite 745
Troy, MI 48084

PanAgora
470 Atlantic Avenue
8th Floor
Boston, MA 02110

PIMCO
840 Newport Center Drive
Newport Beach, CA 92658

QMA
Two Gateway Center
4th Floor
Newark, NJ 07102

Rhumbline
30 Rowes Wharf
Boston, MA 02110

Turner
1205 Westlakes Drive
Suite 100
Berwyn, PA 19312

Wells
3 Parkwood Crossing
Suite 310
Indianapolis, IN 46240

Investment Professionals

International Equity

Alliance Bernstein
1345 Avenue of the Americas
35th Floor
New York, NY 10105

Fisher
13100 Skyline Boulevard
Woodside, CA 94062

Gryphon
20 Bay Street
Suite 1905
Toronto, ON M5J2N8
Canada

Manning & Napier
360 Central Avenue
Suite 1500
St. Petersburg, FL 33701

State Street Global
1 Lincoln Street
33rd Floor
Boston, MA 02111

Fixed Income

Alliance Capital
1345 Avenue of the Americas
35th Floor
New York, NY 10105

Reams
227 Washington Street
Suite 666
Columbus, IN 47201

Taplin, Canida & Habacht
1001 Brickell Bay Drive
Suite 2100
Miami, FL 33131

Alternatives

Private Equity

Credit Suisse
315 Park Avenue South
12th Floor
New York, NY 10010

Hamilton Lane
7777 Fay Avenue
Suite 206
La Jolla, CA 92037

Portfolio Advisors
9 Old Kings Highway South
Darien, CT 06820

Real Estate

LaSalle Investment Management
200 East Randolph Drive
Chicago, IL 60601

Prudential Real Estate
8 Campus Drive
Parsippany, NJ 07054

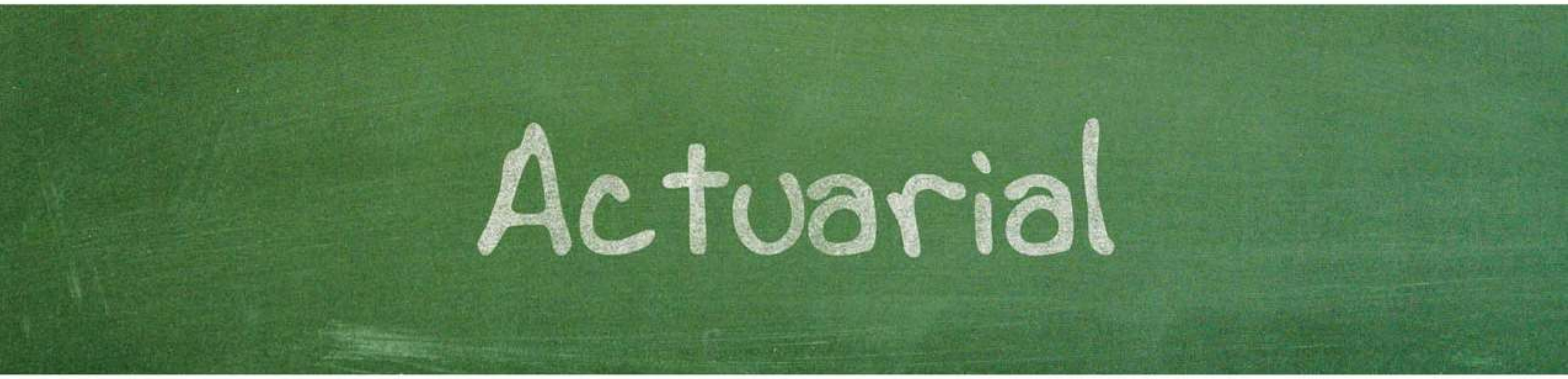
RREEF
975 North Michigan Avenue
41st Floor
Chicago, IL 60611

TA Associates
200 Clarendon Street
56th Floor
Boston, MA 02116

Absolute Return

Bridgewater
1 Glendinning Place
Westport, CT 06880

GMO
40 Rowes Wharf
Boston, MA 02110


Actuarial

ALLIANCE BENEFIT GROUP

June 10, 2008

The Board of Trustees
Indiana State Teachers' Retirement Fund
Indianapolis, IN

Dear Board Members:

Submitted in this report are the results of the June 30, 2007 actuarial valuation of the Indiana State Teachers' Retirement Fund.

The member census data and the asset information for this valuation were furnished by your Chief Financial Officer and Staff. Their efforts and cooperation in furnishing these materials are acknowledged with appreciation. We did not audit the information provided, but we did review it thoroughly for reasonableness and compared it with the prior year's submission for consistency.

The actuarial assumptions were adopted by the Board pursuant to the Experience Study dated August 14, 2003 and covering the period July 1, 1996 to June 30, 2002. That study was conducted by the prior actuary at Gabriel Roeder Smith & Company. Assumptions are summarized in the Assumptions and Methods section of this report.

Your attention is directed to the Comments on page 1 and the Summary of Key Valuation Results on page 2.

The valuation was completed under the supervision of a Member of the American Academy of Actuaries with significant experience in valuing employee retirement systems, and was prepared using generally accepted actuarial principles and in accordance with standards of practice prescribed by the Actuarial Standards Board. To the best of our knowledge, this report is complete and accurate and the actuarial methods and assumptions produce results that are reasonable.

Respectfully submitted,

John L. Dowell

John L. Dowell, FSA, EA, MAAA

Michael Zurek

Michael Zurek, EA, MAAA

JD/lmw

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Actuarial Summary

Funding Objective

The Pre-1996 Account is funded on a pay-as-you-go basis from the State of Indiana. The funding objective of the Indiana State Teachers' Retirement Fund's 1996 Account is to establish and receive contributions that, when invested at the assumed rate of return, will ultimately accumulate assets over each member's working lifetime that will be sufficient to pay expected retirement benefits.

Fund Structure and Funding Arrangements

The Indiana State Teachers' Retirement Fund (TRF) is one fund comprised of a two-account structure in compliance with Indiana Code 21-6.1-2-2:

- The Pre-1996 Account consists of members who were hired prior to July 1, 1995 and who have maintained continuous employment with the same school corporation or covered institution since that date.
- The 1996 Account consists of members who were:

  a. hired on or after July 1, 1995 or

  b. hired before July 1, 1995 and prior to June 30, 2005, and subsequently served in a position covered by TRF and were either hired by another school corporation or institution covered by TRF, or were re-hired by a covered prior employer.

Characteristics of the Pre-1996 Account

1. Active membership in the Pre-1996 Account continues to decline as members quit, become disabled, die, retire, or incur a change in status as described in (b) above, thereby automatically transferring to membership in the 1996 Account.

2. The pension benefits from the Pre-1996 Account are funded by State appropriations (including short-term contributions of some revenue from the State Lottery). Annuity benefits payable from the Pre-1996 Account are funded by the annuitization of Pre-1996 Account member contributions at the time of retirement.

Characteristics of the 1996 Account

1. As members depart from active service in the Pre-1996 Account, their replacements will become members of the 1996 Account. If the 1996 Account were a stand-alone plan, this pattern of departures and hirings would produce a fairly constant population size. However, overall active membership in the 1996 Account is expected to increase over time due to the following factors:

   a. As Pre-1996 Account members depart from active service, their replacements will become members of the 1996 Account; and

   b. The special provisions of Indiana Code 21-6.1-2-2 require that any member who changed jobs within the Fund or who was re-hired within the Fund during the period July 1, 1995-June 30, 2005 after a period of absence is moved to the 1996 Account.

2. Pension benefits payable from the 1996 Account are funded by contributions from local school corporations or other institutions that employ covered members. Annuity benefits payable at retirement from the 1996 Account are funded by 1996 Account members.

Funding Arrangements

Prior to the legislation that established the two-account structure in TRF, the pension benefits of the Indiana State Teachers' Retirement Fund were funded with a pay-as-you-go method. Under this arrangement, amounts were appropriated to meet the current year's pension payment requirements. Pension benefits payable from the Pre-1996 Account continue to be funded on this basis. In 1995, the Pension Stabilization Fund was set up for the Pre-1996 Account.

Since then, some pre-funding progress has been made via State appropriations to this Account. Pension benefits payable from the 1996 Account are funded through percent-of-pay contributions. The Board of the Teachers' Retirement Fund sets this contribution rate after reviewing the most recent actuarial valuation report. The contribution rate of 7.25% for fiscal year 2008 was set by the Board in fiscal year 2007.

Actuarial Schedules

The schedules shown in the actuarial section, including a Summary of Actuarial Assumptions & Methods, Reconciliation of Changes in Unfunded Actuarial Accrued Liabilities, Solvency Test, Schedule of Active Members' Valuation Data, and Schedule of Retirants and Beneficiaries were prepared by the actuary.

The assumptions used in this valuation reflect the study of experience covering the period July 1, 1996 through June 30, 2002.

Investment Return Rate

The investment return rate is 7.5% per year, compounded annually (net after administrative expenses). The 7.5% investment return rate translates to an assumed real rate of return of 3.0% over across-the-board salary increases and 3.5% over price inflation.

Pay Increase Assumption

The assumption for each consists of a merit and/or seniority increase, 4.0% for price inflation, and 0.5% for real wage growth.

Pay Increase Assumption

Years of Service	Merit & Seniority	Base (Economic)	Total
1	11.00%	4.50%	15.50%
5	5.00	4.50	9.50
10	3.50	4.50	8.00
15	2.50	4.50	7.00
20	1.50	4.50	6.00
25	0.25	4.50	4.75
30	0.25	4.50	4.75
35	0.25	4.50	4.75
40	0.25	4.50	4.75

Total Active Member Payroll

The total active member payroll is assumed to increase 4.5% annually for purposes of calculating the projected contribution for the 2009 fiscal year.

Price Inflation

Price inflation is assumed at 4.0% per year. Price inflation is not directly tied to benefits, however, it is a component of the economic model used to determine total wage inflation.

Mortality

Healthy

1983 Group Annuity Male Mortality Table set back five years for males and seven years for females is used.

Disabled

1983 Group Annuity Male Mortality Table set forward five years for males and three years for females is used.

Retirement

Sample probabilities are shown in the chart below.

Probabilities of Age and Service Retirement

Age	Male	Female
Regular Retirement		
60	0.1500	0.1500
65	0.3500	0.3500
70	1.0000	1.0000
Rule of 85 Retirement		
55	0.1100	0.1100
60	0.1500	0.1500
65	0.3500	0.3500
70	1.0000	1.0000
Early Retirement		
50	0.0100	0.0100
55	0.0300	0.0300

Actuarial

Summary of Actuarial Assumptions & Methods

Withdrawal

Sample probabilities are shown in the chart below.

Probabilities of Withdrawal

	Service Based	
Years of Service	Male	Female
0	0.3000	0.3500
1	0.1700	0.1800
2	0.1100	0.1400
3	0.0900	0.1100
4	0.0700	0.1000
5	0.0600	0.0800
6	0.0500	0.0650
7	0.0450	0.0600
8	0.0400	0.0550
9	0.0400	0.0500
	Age Based	
Attained Age	Male	Female
25	0.0664	0.0950
30	0.0432	0.0720
35	0.0232	0.0430
40	0.0144	0.0260
45	0.0120	0.0200
50	0.0120	0.0200
55	0.0104	0.0180
60	0.0096	0.0140

Disability

Sample probabilities are shown in the chart below.

Probabilities of Disability

	Age Based	
Attained Age	Male	Female
25	0.0001	0.0001
30	0.0001	0.0001
35	0.0001	0.0001
40	0.0001	0.0001
45	0.0002	0.0002
50	0.0005	0.0005
55	0.0009	0.0009
60	0.0010	0.0010

Actuarial Cost Method

Entry Age Normal (level percent of pay) method is used.

Asset Valuation Method

The Funding Value of Assets recognizes investment gains and losses in equal installments over four years.

Marriage Assumption

100% of members are assumed to be married for purposes of valuing death-in-service benefits. Male spouses are assumed to be three years older than female spouses.

Pay Increase Timing

Beginning of (fiscal) year is used. Payroll amounts stated in the valuation data are amounts projected to be paid during the current year.

Decrement Timing

Decrements are assumed to occur at the beginning of the fiscal year.

Other

Disability and withdrawal decrements do not operate after member reaches retirement eligibility. Only the withdrawal and death decrements operate during the first ten years of service.

Miscellaneous Adjustments

The calculated liabilities and normal costs were increased by 1% to account for the inclusion of unused sick leave in the calculation of average compensation.

Actuarial Equivalence Basis for Optional Forms of Payment

The following is used: 7.5% interest with a 40%/60% unisex blend of the 1983 Group Annuity Male Mortality table set back three years and the 1983 Group Annuity Male Mortality Table set back seven years.

Explicit Expense Load

None

Cost of Living Adjustment Assumption

1.5% compounded annually on pension portion is used.

Employee Census and Asset Data

Census and asset information was furnished as of the valuation date by the Fund's administrative staff. Although examined thoroughly for reasonableness and consistency with prior years, the data was not otherwise audited by the actuary.

The actuarial valuation computations were made under the supervision of a Member of the American Academy of Actuaries (MAAA).

Indiana State Teachers' Retirement Fund

(Dollars in millions)

	Pre-1996 Account	1996 Account	Total
July 1, 2006 UAAL*	$ 9,525	$ 154	$ 9,679
Asset Investment Gains/(Losses)	(189)	(57)	(246)
Change in COLA Assumption from 1.0% to 1.5%	521	96	617
Prior Year Adjustment for Unaccounted Members	552	44	596
Other Adjustments**	(185)	(122)	(307)
July 1, 2007 UAAL	$ 10,224	$ 115	$ 10,339

** UAAL: Unfunded Actuarial Accrued Liabilities*

*** Other Adjustments includes changes due to increases for benefit accruals and expected net interest on assets and liabilities; offset by decreases for contributions and decreases due to actuary match from change in actuaries.*

Indiana State Teachers' Retirement Fund

(Dollars in thousands)

	Actuarial Accrued Liabilities			
Fiscal Year Ended June 30	Active Member Contributions	Retirees and Beneficiaries	Active Member (Employer Financed Portion)	Total Actuarial Accrued Liabilities
Pre-1996 Account				
2002	$ 2,551,239	$ 4,411,728	$ 6,534,811	$ 13,497,778
2003	2,720,265	4,832,821	5,801,780	13,354,866
2004	2,849,091	5,116,191	5,583,243	13,548,525
2005	2,925,367	5,653,502	5,675,277	14,254,146
2006	2,898,891	6,238,115	5,865,465	15,002,471
2007	3,016,052	7,063,889	5,908,318	15,988,259
1996 Account				
2002	$ 270,057	$ 17,338	$ 879,488	$ 1,166,883
2003	358,338	107,684	926,451	1,392,473
2004	445,896	148,889	1,054,616	1,649,401
2005	535,179	219,722	1,255,846	2,010,747
2006	602,051	282,638	1,478,412	2,363,101
2007	656,918	449,452	1,721,184	2,827,554

Indiana State Teachers' Retirement Fund

(Dollars in thousands)

Fiscal Year Ended June 30	Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets: Active Member Contributions	Retirees and Beneficiaries	Active Member (Employer Financed Portion)	Total Actuarial Accrued Liabilities
Pre-1996 Account					
2002	$ 5,555,352	100.0%	68.1%	0.0%	41.2%
2003	5,728,553	100.0	62.2	0.0	42.9
2004	5,765,668	100.0	57.0	0.0	42.6
2005	5,796,723	100.0	50.8	0.0	40.7
2006	5,477,221	100.0	41.3	0.0	36.5
2007	5,763,507	100.0	38.9	0.0	36.1
1996 Account					
2002	$ 621,223	100.0%	100.0%	38.0%	53.2%
2003	825,812	100.0	100.0	38.8	59.3
2004	1,038,727	100.0	100.0	42.1	63.0
2005	1,268,576	100.0	100.0	40.9	63.1
2006	2,209,468	100.0	100.0	89.6	93.5
2007	2,713,052	100.0	100.0	93.3	95.9

Indiana State Teachers' Retirement Fund

(Dollars in thousands - except average pay)

As of July 1	Active Members	Annual Payroll	Average Pay	Percent Increase
Pre-1996 Account				
2002	47,510	$ 2,604,956	$ 54,830	8.6%
2003	43,705	2,448,271	56,018	2.2
2004	41,510	2,384,480	57,444	2.5
2005	39,097	2,305,726	58,974	2.7
2006	36,994	2,237,380	60,480	2.6
2007	36,526	2,376,390	65,060	7.6
1996 Account				
2002	27,873	$ 1,004,515	$ 36,039	18.7%
2003	29,936	1,136,864	37,976	5.4
2004	32,000	1,267,173	39,599	4.3
2005	34,826	1,428,604	41,021	3.6
2006	36,356	1,565,341	43,056	5.0
2007	39,307	1,891,605	48,124	11.8

Indiana State Teachers' Retirement Fund

(Dollars in thousands -- except average annual allowances)

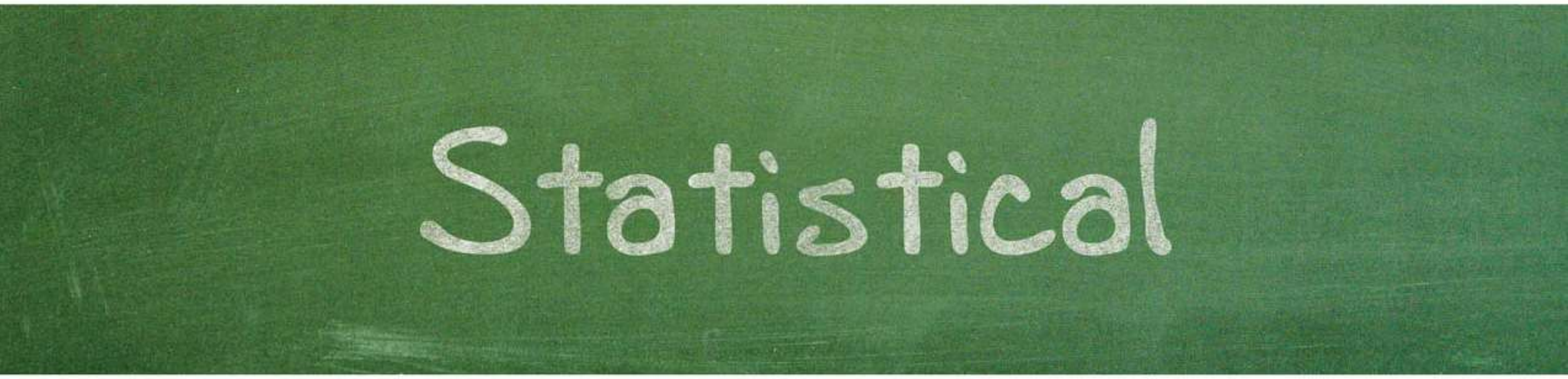
Fiscal Year Ended June 30	Added to Rolls*		Removed from Rolls*		Net Transfers and Benefit Changes*	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
Pre-1996 Account						
2002						
2003						
2004						
2005						
2006						
2007	2,292	$ 52,947	(1,063)	$ (12,167)	(423)	$ (7,056)
1996 Account						
2002						
2003						
2004						
2005						
2006						
2007	197	$ 3,658	(22)	$ (416)	423	$ 8,312

** TRF changed actuarial services beginning with the fiscal year ending June 30, 2007. The previous actuary did not provide data with this detail.*

Indiana State Teachers' Retirement Fund

(Dollars in thousands -- except average annual allowances)

Fiscal Year Ended June 30	Rolls -- End of Year: No.	Rolls -- End of Year: Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
Pre-1996 Account				
2002	34,646	$ 480,690	6.0%	$ 13,874
2003	35,627	516,617	7.5	14,501
2004	36,271	546,960	5.9	15,080
2005	37,421	586,597	7.2	15,676
2006	38,522	624,573	6.5	16,213
2007	39,328	658,297	5.4	16,739
1996 Account				
2002	108	$ 1,662	40.1%	$ 15,389
2003	608	10,447	528.6	17,183
2004	797	14,480	38.6	18,168
2005	1,091	20,584	42.2	18,867
2006	1,327	25,459	23.7	19,185
2007	1,925	37,013	45.4	19,228


Statistical

This part of the Comprehensive Annual Financial Report contains more detailed information of TRF's financial viability and pension benefit offerings for understanding the Financial Statements, Notes to the Financial Statements, and Required Supplemental Schedules.

Financial Trends

The following schedules contain historical trends to assist in understanding changes over time in financial performance:

- Schedule of Changes in Net Assets
- Schedule of Benefit Deductions by Type

Demographic and Economic Information

The following schedules contain benefit and member data to provide a better understanding of TRF's benefit offerings:

- Schedule of Benefit Recipients by Type
- Schedule of Average Benefit Payments
- Schedule of Participating Employers

Indiana State Teachers' Retirement Fund

Fiscal Year Ended June 30
(Dollars in thousands)

	2008	2007	2006	2005	2004
Additions					
Member Contributions	$ 123,928	$ 126,195	$ 130,496	$ 117,897	$ 115,833
Employer Contributions	778,128	723,039	671,340	454,779	408,180
Employer - Pension Stabilization Fund	30,000	30,000	30,000	30,000	30,000
Investment Income (net of expenses)	(381,080)	1,223,431	572,290	560,890	723,094
Transfer from Public Employees' Retirement Fund	3,188	3,841	5,092	3,973	2,781
Other	0	0	0	864	1,424
Total Additions to Plan Net Assets	$ 554,164	$2,106,506	$1,409,218	$1,168,403	$1,281,312
Deductions					
Pension and Disability Payments	950,855	897,676	779,714	723,734	655,352
Distributions of Contributions and Interest	10,463	12,901	9,562	9,237	9,704
Administrative and Depreciation Expenses	6,920	6,522	6,750	7,025	7,628
Transfer to Public Employees' Retirement Fund	2,761	37	1,484	2,982	2,364
Total Deductions from Plan Net Assets	$ 970,999	$ 917,136	$ 797,510	$ 742,978	$ 675,048
Changes in Net Assets					
Beginning of Year	8,980,794	7,791,424	7,179,716	6,754,291	6,148,027
End of Year	8,563,959	8,980,794	7,791,424	7,179,716	6,754,291
Net Increase / (Decrease)	$ (416,835)	$1,189,370	$ 611,708	$ 425,425	$ 606,264

Indiana State Teachers' Retirement Fund

Fiscal Year Ended June 30
(Dollars in thousands)

	2003	2002	2001	2000	1999
Additions					
Member Contributions	$ 109,500	$ 107,052	$ 104,523	$ 101,456	$ 94,752
Employer Contributions	575,066	541,083	537,892	483,635	510,155
Employer - Pension Stabilization Fund	30,000	30,000	155,000	162,500	112,500
Investment Income (net of expenses)	344,777	(158,320)	25,733	397,858	498,893
Transfer from Public Employees' Retirement Fund	3,847	1,254	2,379	1,755	1,344
Other	1,354	2,153	5,433	1,209	1,089
Total Additions to Plan Net Assets	$1,064,544	$ 523,222	$ 830,960	$1,148,413	$1,218,733
Deductions					
Pension and Disability Payments	615,922	595,496	580,170	529,746	495,289
Distributions of Contributions and Interest	7,397	6,450	8,754	9,439	7,178
Administrative and Depreciation Expenses	6,677	8,032	6,804	5,545	3,306
Transfer to Public Employees' Retirement Fund	1,774	1,251	2,057	1,036	3,915
Total Deductions from Plan Net Assets	$ 631,770	$ 611,229	$ 597,785	$ 545,766	$ 509,688
Changes in Net Assets					
Beginning of Year	5,722,753	5,810,760	5,577,585	4,974,938	4,265,893
End of Year	6,148,027	5,722,753	5,810,760	5,577,585	4,974,938
Net Increase / (Decrease)	$ 432,774	$ (88,007)	$ 233,175	$ 602,647	$ 709,045

Indiana State Teachers' Retirement Fund

Fiscal Year Ended June 30

(Dollars in thousands)

Year	Pension Benefits	Disability Benefits	Total Benefits
1999	$ 495,097	$ 192	$ 495,289
2000	529,568	178	529,746
2001	580,061	109	580,170
2002	595,369	127	595,496
2003	615,782	140	615,922
2004	655,234	118	655,352
2005	723,626	108	723,734
2006	779,616	98	779,714
2007	897,580	96	897,676
2008	950,755	100	950,855

Indiana State Teachers' Retirement Fund

June 30, 2007

Amount of Monthly Benefit*	A-1	A-2	A-3	B-1	B-2	B-3	Survivors	Classroom Disability	Total
	Number of Benefit Recipients by Benefit Option								
Pre-1996 Account									
$ 1 - 500	2,335	1,662	228	923	158	214	581	31	6,132
501 - 1,000	2,789	2,669	376	1,592	417	650	375	2	8,870
1,001 - 1,500	2,950	2,564	419	3,020	977	1,097	139	-	11,166
1,501 - 2,000	2,117	1,924	241	2,444	884	1,060	85	-	8,755
2,001 - 3,000	1,109	863	141	1,065	454	468	19	-	4,119
over 3,000	77	57	8	67	38	39	-	-	286
Total	11,377	9,739	1,413	9,111	2,928	3,528	1,199	33	39,328
1996 Account									
$ 1 - 500	91	59	5	56	7	9	13	-	240
501 - 1,000	106	71	18	88	19	21	9	-	332
1,001 - 1,500	141	78	19	115	34	45	4	-	436
1,501 - 2,000	135	93	18	147	36	51	6	-	486
2,001 - 3,000	105	73	10	115	32	52	3	-	390
over 3,000	10	9	-	13	3	6	-	-	41
Total	588	383	70	534	131	184	35	-	1,925

**Pension only*

A-1:	Provides a monthly benefit for retiree's life. In the event the retiree dies before receiving five years of payments, the beneficiary receives the remainder of the five years (60 months) of guaranteed defined benefit pension payments in a lump sum.
A-2:	Provides a monthly benefit for retiree's life. The benefit ceases upon the death of the retiree.
A-3:	Provides a monthly benefit for retiree's life, including monthly annuitization of member's Annuity Savings Account (ASA). In the event the retiree dies before receiving five years of payments, the beneficiary will receive the remainder of the five years of guaranteed pension payments. The ASA is reduced with each monthly benefit paid; if the retiree dies before reducing the balance to $0.00, the beneficiary will receive a single payment of the amount remaining.
B-1:	Provides a monthly benefit for retiree's life. Upon the death of the retiree, the qualified designated survivor receives 100% of the member's monthly pension benefit for the remainder of the survivor's life.
B-2:	Provides a monthly benefit for retiree's life. Upon the death of the retiree, the qualified designated survivor receives 66 2/3% of the member's monthly pension benefit for the remainder of the survivor's life.
B-3:	Provides a monthly benefit for retiree's life. Upon the death of the retiree, the qualified designated survivor receives 50% of the member's monthly pension benefit for the remainder of the survivor's life.
Survivors*:	Provides a monthly benefit for the surviving spouse's or dependent's life. The benefit ceases upon the death of the survivor.
Classroom Disability:	Provides a benefit of $125 per month plus $5 for each additional year of TRF-covered service over five years.

**(of members who die while in service)*

Indiana State Teachers' Retirement Fund

Fiscal Year Ended June 30, 2007
(Amounts in dollars)

Description	Years of Credited Service 5-9*	10-14	15-19	20-24	25-29	30+	Total
Pre-1996 Account							
Average Monthly Defined Benefit	$ 519	$ 247	$ 437	$ 681	$ 1,024	$ 1,564	$ 1,222
Average Monthly Annuity**	$ 55	$ 82	$ 82	$ 7	$ 151	$ 209	$ 173
Average Final Average Salary	$ 30,186	$ 19,969	$ 29,582	$ 35,177	$ 41,073	$ 47,301	$ 42,356
Number of Benefit Recipients	64	1,063	3,603	4,802	6,790	23,006	39,328
1996 Account							
Average Monthly Defined Benefit	$ 283	$ 367	$ 603	$ 854	$ 1,306	$ 1,901	$ 1,443
Average Monthly Annuity**	$ 29	$ 61	$ 67	$ 124	$ 156	$ 198	$ 159
Average Final Average Salary	$ 33,921	$ 35,196	$ 42,217	$ 47,502	$ 53,982	$ 60,040	$ 54,071
Number of Benefit Recipients	16	92	243	209	303	1,062	1,925

** Members with less than 10 years of service who are receiving a disability benefit from TRF.*

*** Members may choose to take the distribution of the Annuity Savings Account (ASA) in two ways. This represents those retirees who elected to receive their ASA as a supplemental monthly payment in addition to the monthly pension benefit.*

Top 10 Employers

Participating Employer	City	Rank	Active Members	Percentage of Total TRF Members
Indianapolis Public Schools	Indianapolis	1	3,283	4.3%
Fort Wayne C.S.C.	Fort Wayne	2	2,383	3.1
Evansville-Vanderburgh Schools	Evansville	3	1,686	2.2
South Bend C.S.C.	South Bend	4	1,571	2.1
Vigo County School Corp.	Terre Haute	5	1,258	1.6
Gary C.S.C.	Gary	6	1,183	1.6
Wayne Township, MSD	Indianapolis	7	1,169	1.5
Elkhart C.S.C.	Elkhart	8	1,100	1.4
Carmel Clay School Corp.	Carmel	9	1,093	1.4
Hamilton Southeastern School Corp.	Fishers	10	1,073	1.4
Lawrence Township, MSD of	Indianapolis	10	1,073	1.4
Total -- 11 Employers*			16,872	22.1
All Other -- 350 Employers			59,384	77.9
Grand Total -- 361 Employers**			76,256	100.0%

Due to a equal amount of active members (1,073), there are eleven schools listed in the top 10 employers listing.

Total Employers and Active Members
as of June 30**

Year	Employers	Active Members
2008	361	76,256
2007	360	75,833
2006	358	73,350
2005	357	73,923
2004	343	73,510
2003	334	73,641
2002	325	75,383
2001	325	75,648
2000	325	77,870
1999	325	77,745

***Total number of employers includes the State of Indiana Agencies as one employer versus 30 different State Agency employers.*

Statistical

Schedule of Participating Employers

1. 21st Century Charter School at Fountain Square
2. 21st Century Charter School at Gary
3. 21st Century Charter School at Indianapolis
4. Adams Central C.S.C.
5. Adams-Wells C.S.C.
6. Alexandria C.S.C.
7. Anderson C.S.C.
8. Area 30 Career Center
9. Argos C.S.C.
10. Attica C.S.C.
11. Auditor of State
12. Avon C.S.C.
13. Ball State University
14. Barr Reeve C.S.C.
15. Bartholomew C.S.C.
16. Batesville C.S.C.
17. Baugo C.S.C.
18. Beech Grove City School Corporation
19. Benton C.S.C.
20. Blackford C.S.C.
21. Bloomfield School District
22. Blue River Career Programs
23. Blue River Spec Ed Co-op
24. Blue River Valley School Corporation
25. Bluffton-Harrison - MSD of
26. Boone School Corporation
27. Bremen Public School Corporation
28. Brown County School Corporation
    Brownsburg C.S.C.
29. Brownstown Central C.S.C.
30. Campagna Academy Charter School
31. Cannelton City School Corporation
32. Carmel Clay School Corporation
33. Carroll C.S.C.
34. Cass Township - LaPorte County
35. Caston School Corporation
36. Center Grove C.S.C.
37. Centerville-Abington C.S.C.
38. Central Indiana Education Service Center
39. Central Nine Voc Tech School
40. Central Noble C.S.C.
41. Challenge Foundation Academy
42. Charles A. Beard Memorial School Corporation
43. Charles A. Tindley Accelerated School
44. Christel House Academy
45. Clark Pleasant C.S.C.
46. Clarksville C.S.C.
47. Clay C.S.C.
48. Clinton Central School Corporation
49. Clinton Prairie School Corporation
50. Cloverdale C.S.C.
51. Community Montessori School
52. Concord C.S.C.
53. Covered Bridge Special Education
54. Covington C.S.C.
55. Cowan C.S.C.
56. Crawford County C.S.C.
57. Crawfordsville C.S.C.
58. Crothersville C.S.C.
59. Crown Point C.S.C.
60. Culver C.S.C.
61. Daleville C.S.C.
62. Danville C.S.C.
63. Daviess-Martin Special Education Co-op
64. Decatur County C.S.C.
65. Decatur Discovery Academy
66. Decatur Township - MSD of
67. DeKalb County Central United School Corporation
68. DeKalb County Eastern C.S.C.
69. Delaware C.S.C.
70. Delphi C.S.C.
71. Dewey Township - LaPorte County
72. Duneland School Corporation
73. East Allen C.S.C.
74. East Central Indiana Educational Service Center, Inc.
75. East Chicago City School Corporation
76. East Chicago Lighthouse Charter School
77. East Chicago Urban Enterprise Academy
78. East Gibson School Corporation
79. East Noble School Corporation
80. East Porter County School Corporation
81. East Washington School Corporation
82. Eastbrook C.S.C.
83. Eastern Greene Schools
84. Eastern Hancock County C.S.C.
85. Eastern Howard School Corporation
86. Eastern Pulaski School Corporation
87. Edinburgh C.S.C.
88. Elkhart C.S.C.
89. Elwood C.S.C.
90. Eminence C.S.C.

91. Evansville-Vanderburgh School
92. Fairfield C.S.C.
93. Fayette County School Corporation
94. Flanner House Elementary School
95. Flat Rock-Hawcreek School Corporation
96. Fort Wayne C.S.C.
97. Frankfort, Community Schools of
98. Franklin C.S.C.
99. Franklin County C.S.C.
100. Franklin Township C.S.C.
101. Fremont - MSD of
102. Frontier School Corporation
103. Galileo Charter School
104. Garrett Keyser Butler C.S.C.
105. Gary C.S.C.
106. Gary Lighthouse Charter School
107. Gibson-Pike-Warrick Special Education Co-op
108. Goshen C.S.C.
109. Greater Clark C.S.C.
110. Greater Jasper C.S.C.
111. Greater Randolph Interlocal Corporation
112. Greencastle C.S.C.
113. Greene-Sullivan Special Education Co-op
114. Greenfield Central C.S.C.
115. Greensburg C.S.C.
116. Greenwood C.S.C.
117. Griffith Public School Corporation
118. Hamilton C.S.C.
119. Hamilton Heights School Corporation
120. Hamilton Southeastern School Corporation
121. Hammond City School Corporation
122. Hanover C.S.C.
123. Heartland Career Center
124. Herron High School
125. Highland Town School Corporation
126. Hobart City School Corporation
127. Hope Academy
128. Huntington County C.S.C.
129. Indiana Math and Science Academy
130. Indianapolis Lighthouse Charter School
131. Indianapolis Metropolitan Career Academy #1
132. Indianapolis Public Schools
133. Irvington Community School
134. Jac Cen Del C.S.C.
135. Jay School Corporation
136. Jennings County C.S.C.
137. Jesse-Special Education School Corporation
138. John Glenn School Corporation
139. Joshua Academy, Inc.
140. Kankakee Valley School Corporation
141. Kipp Indianapolis Charter School
142. Kipp Lead College Prep Charter School
143. Knox C.S.C.
144. Kokomo Center Township C.S.C.
145. Lafayette School Corporation
146. Lake Central School Corporation
147. Lake Ridge School Corporation
148. Lake Station C.S.C.
149. Lakeland School Corporation
150. Lanesville C.S.C.
151. LaPorte C.S.C.
152. LaPorte County Auditor
153. Lawrence Early College High School Inc.
154. Lawrence Township - MSD of
155. Lawrenceburg Community Schools
156. Lebanon C.S.C.
157. Liberty Perry C.S.C.
158. Linton Stockton School Corporation
159. Logansport C.S.C.
160. Loogootee C.S.C.
161. Lost River Career Co-op
162. Maconaquah School Corporation
163. Madison C.S.C.
164. Madison Grant United School Corporation
165. Madison Special Services Unit
166. Manchester C.S.C.
167. Marion Adams School Corporation (Sheridan CSC)
168. Marion C.S.C.
169. Martinsville - MSD of
170. Medora C.S.C.
171. Merrillville C.S.C.
172. Michigan City Area School Corporation
173. Middlebury C.S.C.
174. Milan C.S.C.
175. Mill Creek C.S.C.
176. Mishawaka City School Corporation
177. Mississinewa C.S.C.
178. Mitchell - MSD of
179. Monroe Central School Corporation
180. Monroe County C.S.C.
181. Monroe-Gregg C.S.C.
182. Montessori Academy at Geist
183. Monument Lighthouse Charter School

Schedule of Participating Employers

184. Mooresville C.S.C.
185. Mt. Pleasant Township C.S.C.
186. Mt. Vernon - MSD of
187. Mt. Vernon C.S.C.
188. Muncie C.S.C.
189. Munster City School Corporation
190. Nettle Creek School Corporation
191. New Albany-Floyd County C.S.C.
192. New Castle C.S.C.
193. New Community School
194. New Durham Township - LaPorte Co. (Westville)
195. New Harmony Town/Township C.S.C.
196. New Prairie United School Corporation
197. Nineveh Hensley Jackson Union Schools
198. Noblesville School Corporation
199. North Adams School Corporation
200. North Daviess County C.S.C.
201. North East Dubois County School Corporation
202. North East School Corporation
203. North Eastern Wayne School Corporation
204. North Gibson School Corporation
205. North Harrison C.S.C.
206. North Judson San Pierre School Corporation
207. North Knox School Corporation
208. North Lawrence C.S.C.
209. North Miami C.S.C.
210. North Montgomery C.S.C.
211. North Newton C.S.C.
212. North Posey County - MSD of
213. North Putnam C.S.C.
214. North Spencer School Corporation
215. North Vermillion C.S.C.
216. North White School Corporation
217. Northern C.S.C.
218. Northwen Wells C.S.C.
219. Northwest Allen County School Corporation
220. North-West Consolidated School District
221. Northwest Hendricks School Corporation
222. Northwest Indiana Special Education Co-op
223. Northwestern School Corporation
224. Oak Hill United School Corporation
225. Old National Trail
226. Options Charter School - Carmel
227. Options Charter School - Noblesville
228. Oregon-Davis School Corporation
229. Orleans C.S.C.
230. Paoli C.S.C.
231. Penn-Harris Madison School Corporation
232. Perry Central C.S.C.
233. Perry Township - MSD of
234. Peru C.S.C.
235. Pike County School Corporation
236. Pike Township - MSD of
237. Pioneer Regional School Corporation
238. Plainfield C.S.C.
239. Plymouth C.S.C.
240. Portage Township School Corporation
241. Porter Co. Educational Services
242. Porter Township School Corporation
243. Prairie Heights C.S.C.
244. Randolph Central School Corporation
245. Randolph Eastern School Corporation
246. Randolph Southern School Corporation
247. Region 8 Education Service Center
248. Renaissance Academy
249. Rensselaer Central School Corporation
250. Richland Bean Blossom C.S.C.
251. Richmond C.S.C.
252. Rising Sun-Ohio County C.S.C.
253. River Forest Community
254. Rochester C.S.C.
255. Rockville C.S.C.
256. Rossville Cons. School District
257. Rural Community Academy
258. Rush County School Corporation
259. Salem C.S.C.
260. Scott County School District No. 1
261. Scott County School District No. 2
262. Seymour C.S.C.
263. Shakamak, MSD of
264. Shelby Eastern School Corporation
265. Shelbyville Central School Corporation
266. Shenandoah School Corporation
267. Shoals C.S.C.
268. Signature Charter School
269. Smith-Green C.S.C.
270. South Adams School Corporation
271. South Bend C.S.C.
272. South Central C.S.C.
273. South Central Special Education Co-op
274. South Dearborn C.S.C.
275. South East Dubois County School Corporation
276. South Gibson School Corporation

277. South Harrison C.S.C.
278. South Henry School Corporation
279. South Knox School Corporation
280. South Madison C.S.C.
281. South Montgomery C.S.C.
282. South Newton C.S.C.
283. South Putnam C.S.C.
284. South Ripley C.S.C.
285. South Spencer County School Corporation
286. South Vermillion C.S.C.
287. South West Dubois County School Corporation
288. South West School Corporation
289. Southeastern Career Center
290. Southeastern Fountain School Corporation
291. Southeastern School Corporation
292. Southern Hancock County C.S.C.
293. Southern Neighborhood School of Excellence, Inc.
294. Southern Wells C.S.C.
295. Southwest Allen County - MSD of
296. Southwest Parke C.S.C.
297. South-West Shelby Consolidated School District
298. Southwestern Jefferson C.S.C.
299. Special Services - Johnson County Schools
300. Speedway School, Town of
301. Spencer Owen C.S.C.
302. Spring Valley C.S.C.
303. State of Indiana Agencies
304. Stueben County - MSD of
305. Sunman Dearborn C.S.C.
306. Switzerland County School Corporation
307. Taylor C.S.C.
308. Tell City Troy Township School Corporation
309. The Project School
310. Thea Bowman Leadership Academy
311. Tippecanoe School Corporation
312. Tippecanoe Valley School Corporation
313. Tipton C.S.C.
314. Tri-County School Corporation
315. Tri-Creek School Corporation
316. Triton School Corporation
317. Turkey Run C.S.C.
318. Twin Lakes School Corporation
319. Twin Rivers Vocational School
320. Union County School Corporation
321. Union North United School Corporation
322. Union School Corporation
323. Union Township School Corporation
324. University of Southern Indiana
325. Valparaiso C.S.C.
326. Veritas Academy
327. Vigo County School Corporation
328. Vincennes C.S.C.
329. Vincennes University
330. Wabash City School Corporation
331. Wabash Schools -- MSD of
332. WaNee C.S.C.
333. Warren County - MSD of
334. Warren Township - MSD of
335. Warrick County School Corporation
336. Warsaw C.S.C.
337. Washington C.S.C.
338. Washington Township - MSD of
339. Wawasee C.S.C.
340. Wayne Township - MSD of
341. Wes-Del Community Schools
342. West Central C.S.C./Frankton Lapel
343. West Central Indiana Education Center
344. West Central School Corporation
345. West Clark C.S.C.
346. West Gary Lighthouse Charter School
347. West Lafayette C.S.C.
348. West Noble School Corporation
349. West Washington School Corporation
350. Western Boone County C.S.C.
351. Western Howard School Corporation
352. Western Wayne School Corporation
353. Westfield Washington C.S.C.
354. Westview School Corporation
355. White River Valley School Corporation
356. Whiting School, City of
357. Whitko C.S.C.
358. Whitley County C.S.C.
359. Wilson Education Center
360. Zionsville Community Schools