



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS  
A COMPONENT UNIT OF THE STATE OF ILLINOIS

# STATEMENT OF PURPOSE

Retirement Security for Illinois Educators

## MISSION STATEMENT

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

## FISCAL YEAR HIGHLIGHTS

	<b>2012</b>	<b>2011</b>
Active contributing members	162,217	166,013
Inactive noncontributing members	99,052	94,820
Benefit recipients*	105,447	101,288
Total membership	<u>366,716</u>	<u>362,121</u>
Actuarial accrued liability (AAL)	\$90,024,945,000	\$81,299,745,000
Less actuarial value of assets (smoothed assets)	<u>37,945,397,000</u>	<u>37,769,753,000</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$52,079,548,000</u>	<u>\$43,529,992,000</u>
Funded ratio (% of AAL covered by assets, based on smoothed assets)	42.1%	46.5%
Total fund investment return, net of fees	0.8%	23.6%
<b>Expenses</b>		
Benefits paid	\$4,553,822,073	\$4,228,282,978
Refunds paid	84,635,032	76,587,192
Administrative expenses	19,011,899	17,792,071
Total expenses	<u>\$4,657,469,004</u>	<u>\$4,322,662,241</u>
<b>Income</b>		
Member contributions	\$917,661,328	\$909,577,109
Employer contributions	154,894,946	155,110,133
State of Illinois contributions	2,406,364,156	2,170,918,489
Total investment income	224,106,719	7,234,539,490
Total income	<u>\$3,703,027,149</u>	<u>\$10,470,145,221</u>

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



## **Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012**

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

**TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS  
A COMPONENT UNIT OF THE STATE OF ILLINOIS  
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INTRODUCTION



INTRODUCTION

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

Teachers' Retirement System  
of the State of Illinois

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

June 30, 2011

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



*Linda C. Dandson*  
President  
*Jeffrey L. Esser*  
Executive Director



## LETTER OF TRANSMITTAL

December 19, 2012

To the Board of Trustees and TRS Members:

We are pleased to present the *Comprehensive Annual Financial Report* (CAFR) for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2012. This year's report is a celebration of the many academic disciplines our members master and instill in future generations – mathematics; science; grammar, literature and composition; history and social studies; music, theater and fine arts; computer science; physical education; and vocational skills.

We can celebrate the contributions our members make to communities throughout Illinois and the report shows that TRS is a strong retirement fund for the near term. The long-term sustainability of the System, however, remains uncertain due to the bleak fiscal condition of the State of Illinois. We are further tested by an underperforming economy that creates significant political and fiscal challenges. Going forward, unless changes are made, these factors will further undermine the state's responsibility to fully fund teacher pensions annually and to keep retirement promises to TRS members first established in 1939.

Recognizing the difficulties of this environment, in 2012 TRS helped shape public debate in Illinois with warnings about the serious consequences of two fiscal trends on a collision course: pension debt growing faster than state revenues and the consistent failure of state government to provide actuarially adequate funding to pay down that debt. The results of the recent TRS actuarial valuation underscore this serious situation. With only 40.6 percent of the market-value assets required to pay benefits on hand as of June 30, 2012, TRS, together with the other Illinois pension systems, is the worst funded major pension system in the country. TRS's unfunded liability stands at \$52 billion. This means that we have only half of the assets needed to pay the benefits due to our members **who are already retired**. Paying off this debt will require over \$200 billion in state funds over the next 30 years. If there was a clear path forward to solve this vexing problem we could be less strident in our call for action, but that clear path has yet to emerge.

The need to act is more urgent than ever. The TRS Trustees have resolved that without any changes, the System faces the real possibility of future insolvency. There has been broad discussion of solutions, but action has been lacking.

Our members and the taxpayers of Illinois deserve a resolution to the uncertainty that has dominated this public discussion in recent years. A solution that puts TRS on permanently sound financial footing is needed. There are no magic answers awaiting discovery, only tough choices. Many other states have responded to their own pension funding challenges and taken the difficult steps necessary to ensure the future viability of their retirement systems. Illinois has not. As this CAFR is being readied, we await action by lawmakers on legislation that would result in controversial changes to the funding mechanism for pensions and to promised retirement benefits. Any change in the Pension Code will require tough choices from everyone with a stake in the future of TRS. Continued inaction will just make these choices more difficult in the future.

In response to this situation, the TRS Board of Trustees approved a resolution in early 2012 that acknowledged the threat of insolvency and established a five-point foundation to guide any pension change designed to secure the future. The five cornerstones of pension reform are:

- Require the use of standard actuarial practices to determine funding instead of alternate calculations required by state law that artificially lower state contributions. For example, the contribution for FY14 set by state statute is nearly \$1 billion less than the actuarially-determined amount.

- Require a guarantee in state law that ensures state government fully funds TRS and the state's other public pension funds in the future. We can't allow the current underfunding to repeat in the future.
- Amend state law and fix a serious financial inequity in the benefits and funding for Tier II pensions that significantly penalizes those members and creates future funding imbalances.
- Require that any changes enacted in the pension code may be administered professionally, efficiently, and fairly to all our members.
- Require that any changes to the pension code adhere to Article 13, Section 5 of the Illinois Constitution – the pension protection clause.

TRS is a promise keeper. Our fiduciary duty to ensure the long-term stability and strength of the system means that we must be certain that the retirement promises made by the State of Illinois to educators *are promises that can be kept for every one of our members*. We call for action now so that we can keep the pension promises made to teachers in the midst of their careers or at the start of their careers just as we have kept them for those already retired. Absent any corrective action, it is likely that we won't be able to keep those promises at some point in the future.

The state's pension promise is vital to teachers and communities in every corner of Illinois. TRS benefits provide our members with a stable income in retirement that supports them as productive members of society. Moreover, most TRS annuitants stay in Illinois and contribute to the state economy as they spend their pensions. TRS benefits support more than 32,000 jobs throughout the state and provide an annual economic stimulus in excess of \$4.4 billion.

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

## Profile of TRS

TRS was established by the State of Illinois on July 1, 1939, to provide retirement, disability, and death benefits to teachers employed by Illinois public elementary and secondary schools outside the city of Chicago. A 13-member Board of Trustees governs TRS. The Board includes the state superintendent of education, six representatives of the public who are appointed by the governor, four members of TRS who are elected by active teachers, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the effective administration of TRS.

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

## Financial Information

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

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

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

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

## Revenues and Expenses

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

### Revenues (\$ millions)

Source	2012	2011	Increase (Decrease)	
			Amount	% Change
Member contributions	\$918	\$910	\$8	0.9%
State of Illinois	2,406	2,171	235	10.8
Employer contributions	155	154	1	0.6
Total investment income	224	7,235	(7,011)	(96.9)
<b>Total</b>	<b>\$3,703</b>	<b>\$10,470</b>	<b>(\$6,767)</b>	<b>(64.6%)</b>

### Expenses (\$ millions)

Source	2012	2011	Increase (Decrease)	
			Amount	% Change
Benefits payments	\$4,554	\$4,228	\$326	7.7%
Refunds	84	77	7	9.1
Administrative/Other	19	18	1	5.6
<b>Total</b>	<b>\$4,657</b>	<b>\$4,323</b>	<b>\$334</b>	<b>7.7%</b>

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

## Investments

The TRS investment portfolio returned 1.3 percent, gross of fees, for the fiscal year ended June 30, 2012. Total TRS investment assets decreased approximately \$966 million during the year.

The TRS trust fund is invested by authority of the Illinois Pension Code under the "prudent person rule," requiring investments to be managed solely in the interest of fund participants and beneficiaries. The TRS Investment Policy guides TRS's investments. Investment principles include preserving the long-term principal of the trust fund, maximizing total return within prudent risk parameters, and acting in the exclusive interest of TRS members.

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

## Funding

During the year ended June 30, 2012, the funded ratio of the Teachers' Retirement System decreased from 46.5 percent to 42.1 percent. The actuarial value of assets at year end was \$37.9 billion and the actuarial accrued liability was \$90.0 billion. The decline in the funded ratio was due to an increase in the liability mainly due to new actuarial assumptions and the continued phase-in of prior investment losses. Under the smoothing methodology required by Public Act 96-0043, differences between actual and expected investment earnings are recognized prospectively over a five-year period. The actuarial value of assets now recognizes 80 percent

of the 2009 losses, 60 percent of the 2010 gains, 40 percent of the 2011 gains, and 20 percent of the 2012 shortfall to the actuarial rate of return.

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

## Major Initiatives

In FY12, TRS implemented and continued several initiatives that benefited its members and enhanced the retirement system:

- Launched a comprehensive project to digitize more than 400,000 TRS records in order to increase productivity, sharpen efficiency and better safeguard vital information;
- Provided extensive analysis and data to members, policymakers and stakeholders regarding the impact of various legislative proposals that would affect benefits and system funding;
- Undertook an extensive review of the System's actuarial assumptions, including the long-term assumed rate of investment return, in order to ensure that the methodology used to determine costs and benefits is as up-to-date as possible;
- Initiated the implementation of new financial reporting guidelines established by the Governmental Accounting Standards Board for use in fiscal year 2014, along with an education program to help members, stakeholders and the media understand the rationale, use and limitations of the new procedures.

## GFOA Award

The Governmental Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

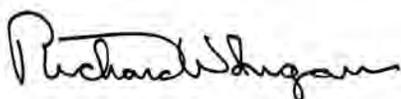
To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. TRS has received a certificate for the last 23 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

## Acknowledgements

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

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

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



Richard Ingram  
Executive Director



Jana Bergschneider, CPA  
Director of Administration

## BOARD OF TRUSTEES

### As of December 1, 2012



Enrique Vasquez

**Front row, left to right:** Janice Reedus; Cinda Klickna; President Christopher A. Koch, Ed. D.; Jan Cleveland; and Cynthia O'Neill  
**Back row, left to right:** Vice President Molly Phalen; Michael Busby; Sharon Leggett; Marcia Campbell; Sonia Walwyn; Bob Lyons; and Executive Director Dick Ingram  
**Shown at right:** Enrique Vasquez

## EXECUTIVE CABINET MEMBERS

### As of December 1, 2012

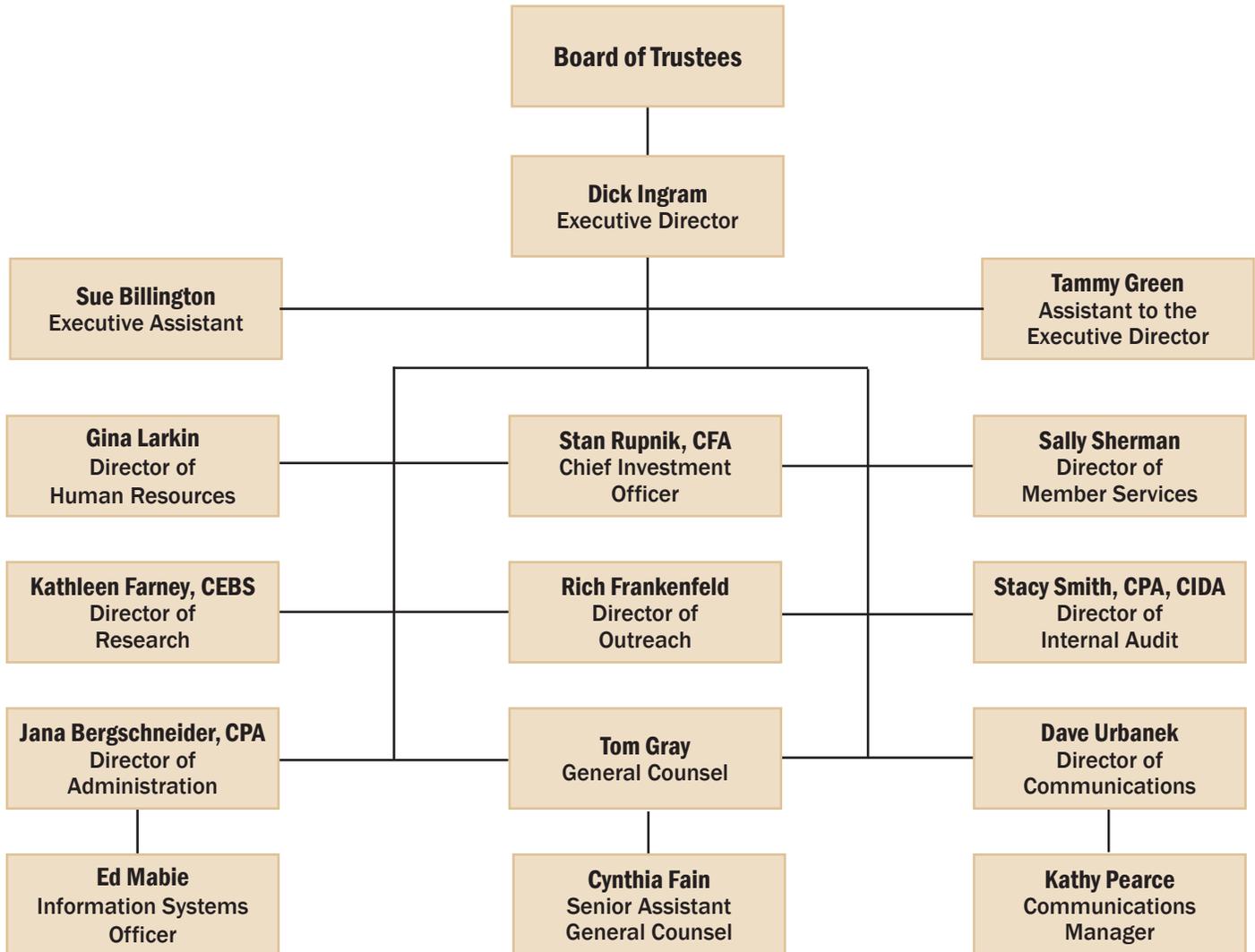


Director of Outreach  
Rich Frankenfeld

**Front row, left to right:** Executive Assistant Sue Billington; Senior Assistant General Counsel Cynthia Fain; Director of Research Kathleen Farney, CEBS; Director of Communications Dave Urbanek; and Director of Administration Jana Bergschneider, CPA  
**Back row, left to right:** Director of Member Services Sally Sherman; Director of Internal Audit Stacy Smith, CPA, CIDA; Director of Human Resources Gina Larkin; General Counsel Tom Gray; Chief Investment Officer Stan Rupnik, CFA; Executive Director Dick Ingram; Communications Manager Kathy Pearce; Information Systems Officer Ed Mabie; and Assistant to the Executive Director Tammy Green  
**Shown at right:** Director of Outreach Rich Frankenfeld

# ORGANIZATIONAL STRUCTURE

## Executive Cabinet Members as of December 1, 2012



# CONSULTING AND PROFESSIONAL SERVICES

## Actuary

**Buck Consultants, LLC**  
Chicago, Illinois

## External Auditors

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

**McGladrey LLP**  
Schaumburg, Illinois

## Information Systems

**CTG Inc. of Illinois**  
Springfield, Illinois

**Sentinel Technologies**  
Chicago, Illinois

**Share Point Business Solutions, Inc.**  
Springfield, Illinois

**SunGard Availability Services**  
Chicago, Illinois

## Consultants

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

**Houlihan Lokey Howard & Zukin Financial Advisors, Inc.**  
(private equity)  
Los Angeles, California

**Leinenweber Baroni & Daffada Consulting LLC**  
(legislative)  
Springfield, Illinois

**LP Capital Advisors, LLC**  
(private equity)  
Sacramento, California

**TorreyCove Capital Partners LLC**  
(private equity)  
La Jolla, California

**Risk Resources**  
(real estate insurance consulting)  
Elmhurst, Illinois

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

## Legal Services

**Cavanagh & O'Hara**  
Springfield, Illinois

**Groom Law Group, Chartered**  
Washington, DC

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

**Holland & Knight LLP**  
Chicago, Illinois

**Howard & Howard Attorneys PLLC**  
Peoria, Illinois

**Jackson Walker LLP**  
Austin, Texas

**Kopec White & Spooner**  
Springfield, Illinois

**Loewenstein Hagen & Smith PC**  
Springfield, Illinois

**Mayer Brown LLP**  
Chicago, Illinois

**Morgan Lewis & Bockius LLP**  
New York, New York

**Sorling Northrup**  
Springfield, Illinois

## Master Trustee

**State Street Bank and Trust Company**  
Boston, Massachusetts





# SCIENCE MATH



## Independent Auditors' Report

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

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statements of Plan Net Assets of the Teachers' Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of June 30, 2012 and 2011, and the related Statement of Changes in Plan Net Assets for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Teachers' Retirement System of Illinois as of June 30, 2012 and 2011, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 23 and the schedules of funding progress and contributions from Employers and Other Contributing Entities on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements. The other supplemental information in the financial section, and the accompanying introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. All such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplemental information in the financial section has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the basic financial statements and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information in the financial section is fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*McGladrey LLP*

Schaumburg, Illinois  
December 18, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### Financial Highlights

- TRS net assets at June 30, 2012 were \$36.5 billion.
- During FY12, TRS net assets decreased \$954 million.
- Contributions from members, employers, and the state were \$3,479 million, an increase of \$243 million or 7.5 percent for the fiscal year.
- Total investment gain was \$224 million, compared to investment gain of \$7,235 million in FY11, a decrease of \$7,011 million.
- Benefits and refunds paid to members and annuitants were \$4,638 million, an increase of \$333 million or 7.7 percent compared to FY11.
- Total actuarial accrued liability was \$90.0 billion at June 30, 2012.
- The unfunded actuarial accrued liability increased from \$43.5 billion at June 30, 2011 to \$52.1 billion at June 30, 2012. The funded ratio decreased from 46.5 percent at June 30, 2011 to 42.1 percent at June 30, 2012. The unfunded liability and funded ratio for both years are calculated using a smoothed value of assets, as required under Public Act 96-0043.

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

**Statements of Plan Net Assets.** This statement reports the pension trust fund's assets, liabilities, and resultant net assets available to pay benefits at the end of the fiscal year. It is the balance sheet for the pension system and reflects the financial position of the Teachers' Retirement System as of June 30, 2012.

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

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

## Condensed Comparative Statement of Plan Net Assets as of June 30

	2012	Percentage Change	2011	Percentage Change	2010
Cash	\$17,092,564	(53.6%)	\$36,799,319	209.8%	\$11,878,310
Receivables and prepaid expenses	325,464,952	84.2	176,673,155	3.6	170,460,327
Investments	36,782,104,053	(2.6)	37,748,341,891	19.9	31,482,144,166
Invested securities lending collateral	2,617,763,246	(15.7)	3,104,528,064	(12.2)	3,535,698,706
Capital assets	4,331,011	8.5	3,992,703	(1.0)	4,032,313
<b>Total assets</b>	<b>39,746,755,826</b>	<b>(3.2)</b>	<b>41,070,335,132</b>	<b>16.7</b>	<b>35,204,213,822</b>
<b>Total liabilities</b>	<b>3,229,930,487</b>	<b>(10.3)</b>	<b>3,599,067,938</b>	<b>(7.3)</b>	<b>3,880,429,608</b>
<b>Net assets</b>	<b><u>\$36,516,825,339</u></b>	<b>(2.5%)</b>	<b><u>\$37,471,267,194</u></b>	<b>19.6%</b>	<b><u>\$31,323,784,214</u></b>

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

	2012	Percentage Change	2011	Percentage Change	2010
Contributions	\$3,478,920,430	7.5%	\$3,235,605,731	2.7%	\$3,151,550,632
Total investment income	224,106,719	(96.9)	7,234,539,490	96.6	3,679,642,960
Total additions	3,703,027,149	(64.6)	10,470,145,221	53.3	6,831,193,592
Benefits and refunds	4,638,457,105	7.7	4,304,870,170	7.9	3,988,188,142
Administrative expenses	19,011,899	6.9	17,792,071	5.0	16,950,679
Total deductions	4,657,469,004	7.7	4,322,662,241	7.9	4,005,138,821
<b>Net increase/(decrease) in net assets</b>	<b>(954,441,855)</b>		<b>6,147,482,980</b>		<b>2,826,054,771</b>
<b>Net assets beginning of year</b>	<b>37,471,267,194</b>	<b>19.6</b>	<b>31,323,784,214</b>	<b>9.9</b>	<b>28,497,729,443</b>
<b>Net assets end of year</b>	<b><u>\$36,516,825,339</u></b>	<b>(2.5%)</b>	<b><u>\$37,471,267,194</u></b>	<b>19.6%</b>	<b><u>\$31,323,784,214</u></b>

## Financial Analysis

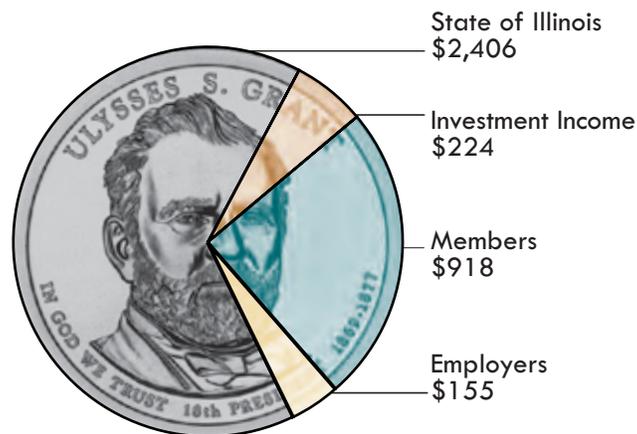
TRS was created to provide retirement, survivor, and disability benefits to qualified members. Increases or decreases in plan net assets serve as useful indicators of TRS's financial position. Net assets available to pay benefits were \$36.5 billion and \$37.5 billion at June 30, 2012 and 2011, respectively. Net assets decreased \$954 million during FY12 and increased \$6.1 billion during FY11.

## Contributions

Contributions increased \$243 million and \$84 million during FY12 and FY11, respectively. During FY12, member contributions increased \$8 million and employer contributions from school districts decreased \$215 thousand. During FY11, member contributions increased \$11 million and employer contributions from school districts decreased \$17 million. The net decrease in employer contributions from school districts in FY12 is attributable to a decrease in federal funds contributions and an increase in employer early retirement contributions.

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

## Revenues by Type for the Year Ended June 30, 2012 (\$ millions)

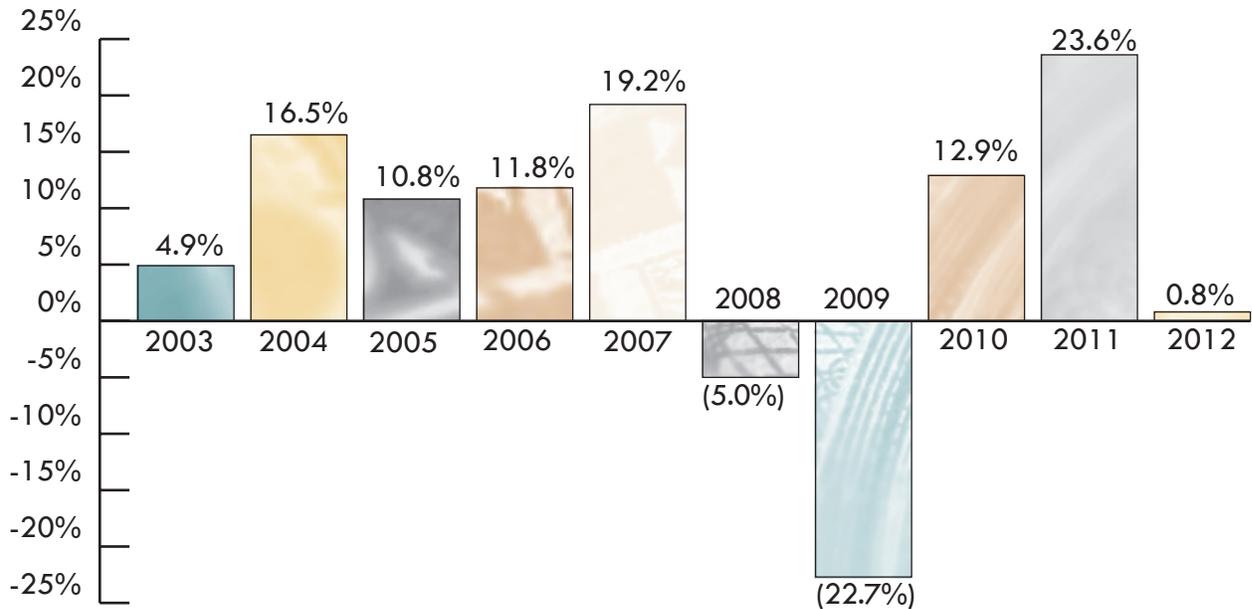


## Investments

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

The TRS investment portfolio returned 0.8 percent, net of fees, for the fiscal year ended June 30, 2012. Total TRS investment assets decreased approximately \$966 million during the year.

## Annual Rate of Return (net of investment expenses)



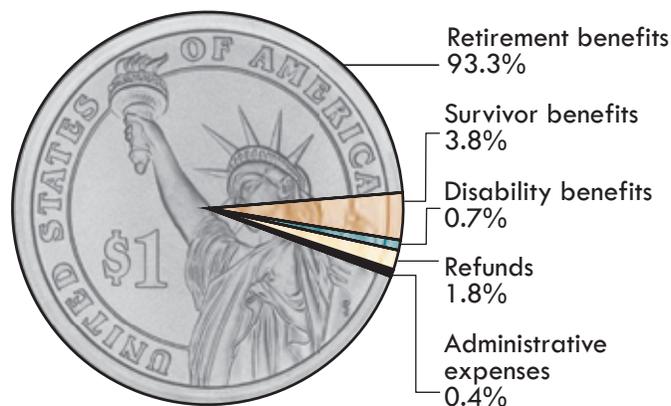
The annual rate of return is an indication of TRS investment performance and is provided by the TRS master trustee.

## Benefits and Refunds

Retirement, survivor, and disability benefit payments increased \$326 million and \$300 million during FY12 and FY11, respectively. Benefit payments increased from \$4,228 million with 101,288 recipients in FY11 to \$4,554 million and 105,447 recipients in FY12. The overall increase in benefit payments is due to an increase in retirement benefits and number of retirees. Retirement benefits were higher as a result of annual increases in retirement benefits and an increase in the number of retirees from 90,967 as of June 30, 2011 to 94,865 as of June 30, 2012.

Refunds of contributions increased \$7 million and \$17 million in FY12 and FY11, respectively. The increase during FY12 is the result of a greater number of member, survivor benefit, and retirement refunds.

## Expenses by Type for the Year Ended June 30, 2012





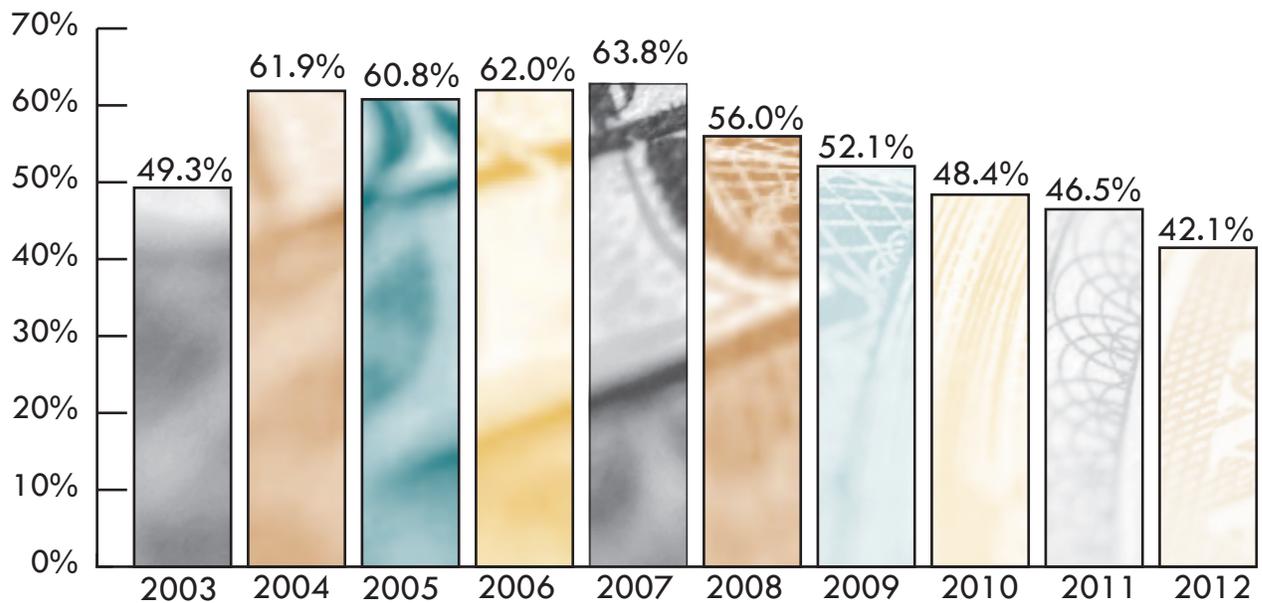
## Actuarial

The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned to date but not yet paid. The actuarial accrued liability increased \$8.7 billion and \$4.0 billion during FY12 and FY11, respectively, to \$90.0 billion at June 30, 2012 and \$81.3 billion at June 30, 2011. The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The unfunded liability increased \$8.6 billion during FY12 to \$52.1 billion at June 30, 2012 compared to an increase of \$3.6 billion during FY11 to \$43.5 billion at June 30, 2011. The funded ratio reflects the percentage of the accrued liability covered by the actuarial value of assets. The funded ratio decreased to 42.1 percent at June 30, 2012 from 46.5 percent at June 30, 2011. The June 30, 2012 accrued liability also reflects revised actuarial assumptions following a five-year experience review.

In 2012 and 2011, the unfunded liability and funded ratio are based on a smoothed value of assets. Public Act 96-0043 required the five state retirement systems to begin smoothing actuarial gains and losses on investments over a five-year period, beginning with the valuation for the year ended June 30, 2009.

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

## Funded Ratio based on Actuarial Value of Assets



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

## BASIC FINANCIAL STATEMENTS

### Teachers' Retirement System of the State of Illinois Statements of Plan Net Assets as of June 30, 2012 and 2011

	2012	2011
<b>Assets</b>		
Cash	\$17,092,564	\$36,799,319
<b>Receivables and prepaid expenses</b>		
Member contributions	49,230,548	51,418,513
Employer contributions	15,856,508	16,801,065
State of Illinois	160,551,000	0
Investment income	96,449,824	105,309,937
Prepaid expenses	3,377,072	3,143,640
Total receivables and prepaid expenses	<u>325,464,952</u>	<u>176,673,155</u>
<b>Investments, at fair value</b>		
Fixed income	6,826,294,726	7,087,432,551
Equities	15,764,857,982	17,395,697,752
Real estate	4,480,390,766	3,991,533,162
Short-term investments	885,036,978	1,299,196,172
Private equity investments	4,175,728,282	3,615,944,356
Real return	2,582,307,633	2,773,932,843
Absolute return	1,978,268,562	1,485,565,992
Foreign currency	81,921,602	89,428,959
Derivatives	7,297,522	9,610,104
Total investments	<u>36,782,104,053</u>	<u>37,748,341,891</u>
Invested securities lending collateral		
Short-term investments	1,897,321,779	1,936,368,305
Fixed income	661,852,467	1,128,000,759
Securities lending collateral w/State Treasurer	58,589,000	40,159,000
Total invested securities lending collateral	<u>2,617,763,246</u>	<u>3,104,528,064</u>
Property and equipment, at cost, net of accumulated depreciation of \$6,810,702 and \$6,313,286 in 2012 and 2011, respectively	4,331,011	3,992,703
<b>Total assets</b>	<b><u>39,746,755,826</u></b>	<b><u>41,070,335,132</u></b>
<b>Liabilities</b>		
Benefits and refunds payable	8,204,638	7,052,472
Administrative and investment expenses payable	37,368,405	38,689,480
Payable to brokers for unsettled trades, net	566,594,198	448,797,922
Securities lending collateral	2,617,763,246	3,104,528,064
<b>Total liabilities</b>	<b><u>3,229,930,487</u></b>	<b><u>3,599,067,938</u></b>
<b>Net assets held in trust for pension benefits</b>	<b><u>\$36,516,825,339</u></b>	<b><u>\$37,471,267,194</u></b>

The accompanying notes are an integral part of these statements.

# Teachers' Retirement System of the State of Illinois

## Statements of Changes in Plan Net Assets

### Years Ended June 30, 2012 and 2011

	2012	2011
<b>Additions</b>		
<b>Contributions</b>		
Members	\$917,661,328	\$909,577,109
State of Illinois	2,406,364,156	2,170,918,489
Employers		
Early retirement	31,134,256	28,419,125
Federal funds	62,287,692	66,065,322
2.2 benefit formula	53,943,189	53,253,976
Excess salary/sick leave	7,529,809	7,371,710
Total contributions	<u>3,478,920,430</u>	<u>3,235,605,731</u>
<b>Investment income</b>		
From investment activities		
Net appreciation (depreciation) in fair value	(569,789,574)	6,493,315,290
Interest	252,487,148	263,477,734
Real estate operating income, net	217,106,145	167,163,511
Dividends	471,331,674	418,407,718
Private equity income	59,494,311	77,727,706
Other investment income	8,667,039	14,903,813
Investment activity income	439,296,743	7,434,995,772
Less investment expense	(234,807,327)	(218,249,613)
Net investment activity income	<u>204,489,416</u>	<u>7,216,746,159</u>
From securities lending activities		
Securities lending income	13,285,650	15,664,263
Securities lending management fees	(2,181,351)	(1,982,926)
Securities lending borrower rebates	8,513,004	4,111,994
Net securities lending activity income	<u>19,617,303</u>	<u>17,793,331</u>
Total investment income	<u>224,106,719</u>	<u>7,234,539,490</u>
<b>Total additions</b>	<b><u>3,703,027,149</u></b>	<b><u>10,470,145,221</u></b>
<b>Deductions</b>		
Retirement benefits	4,347,172,659	4,036,147,172
Survivor benefits	177,421,689	163,909,654
Disability benefits	29,227,725	28,226,152
Refunds	84,635,032	76,587,192
Administrative expenses	19,011,899	17,792,071
<b>Total deductions</b>	<b><u>4,657,469,004</u></b>	<b><u>4,322,662,241</u></b>
<b>Net increase (decrease)</b>	<b>(954,441,855)</b>	<b>6,147,482,980</b>
<b>Net assets held in trust for pension benefits</b>		
Beginning of year	37,471,267,194	31,323,784,214
<b>End of year</b>	<b><u>\$36,516,825,339</u></b>	<b><u>\$37,471,267,194</u></b>

The accompanying notes are an integral part of these statements.

# Notes to Financial Statements

## A. Plan Description

### 1. Reporting Entity

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

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

### 2. Employers

Members of TRS are employed by school districts, special districts, and certain state agencies. Each employer remits member contributions to TRS. Employers are responsible for employer contributions for teachers paid from federal funds, employer contributions for the 2.2 formula increase, and for the employer's portion of the Early Retirement Option contributions. As a result of Public Act 94-0004, which became law on June 1, 2005, employers are also required to pay the cost of pension benefits resulting from end-of-career salary increases over 6 percent. Public Act 94-1057, which became law on July 31, 2006, provides additional exemptions from employer contributions for excess salary increases. Some of these exemptions are permanent while others are available for a limited time period. Employers also pay a contribution for sick leave days granted in excess of the member's normal annual allotment and used for service credit at retirement. The contributions do not apply to salary increases awarded or sick leave granted under contracts or collective bargaining agreements entered into, amended, or renewed prior to June 1, 2005. In addition, the State of Illinois provides employer contributions. For information about employer contributions made by the State of Illinois, see "Funding Status and Funding Progress" on page 28.

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

	2012	2011
Local school districts	864	866
Special districts	138	141
State agencies	22	22
<b>Total</b>	<b><u>1,024</u></b>	<b><u>1,029</u></b>

### 3. Members

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

	2012	2011
Retirees and beneficiaries receiving benefits	105,447	101,288
Inactive members entitled to but not yet receiving benefits	99,052	94,820
Active members	162,217	166,013
<b>Total</b>	<b><u>366,716</u></b>	<b><u>362,121</u></b>

### 4. Benefit Provisions

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

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

### **Tier II Benefits**

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

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

### **Tier I Benefits**

A member qualifies for an age retirement annuity after meeting one of the following requirements: age 62 with five years of service credit; age 60 with 10 years; or age 55 with 20 years. If a member retires between the ages of 55 and 60 with fewer than 35 years of service, the annuity will be reduced at the rate of 0.50 percent for each month the member is under age 60. A member who is age 55 and has at least 20 and fewer than 35 years of service credit may use the Early Retirement Option (ERO) to avoid a discount for early retirement if retirement occurs within six months of the last day of service requiring contributions and if the member and employer both make a one-time contribution to TRS.

A member with fewer than five years of creditable service and service on or after July 1, 1947, is entitled to a single-sum benefit payable once he or she reaches age 65.

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

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

A money purchase (actuarial) benefit is payable if it results in a higher annuity than either the graduated or 2.2 formula. The 75 percent cap does not apply to the money purchase benefit. Public Act 94-0004 eliminates the money purchase benefit for persons who become TRS members after June 30, 2005.

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

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

## 5. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2012, the most recent actuarial valuation date, follows and is compared to the 2011 funded status. The actuarial value of assets is rounded to the nearest thousand to be consistent with actuarial disclosures.

Actuarial Valuation Date	Actuarial Value of Assets*	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Annual Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
6/30/11	\$37,769,753,000	\$81,299,745,000	46.5%	\$43,529,992,000	\$9,205,603,000	472.9%
6/30/12	37,945,397,000	90,024,945,000	42.1	52,079,548,000	9,321,098,000	558.7

\* Five-year prospective smoothing began in FY09.

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

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

	June 30, 2012	June 30, 2011
<b>Actuarial Cost Method:</b>	Projected unit credit	Projected unit credit
<b>Amortization Method:</b>		
Level percent of payroll		
a) For GASB Statement #25 reporting purposes	Level percent of payroll	Level percent of payroll
b) Per state statute	15-year phase-in to a level percent of payroll reached in FY10; then level percent of pay until a 90% funding level is achieved in FY45	15-year phase-in to a level percent of payroll reached in FY10; then level percent of pay until a 90% funding level is achieved in FY45
<b>Remaining Amortization Period:</b>		
a) For GASB Statement #25 reporting purposes	30 years, open	30 years, open
b) Per state statute	33 years, closed	34 years, closed
<b>Asset Valuation Method:</b>	Beginning with June 30, 2009 valuation, five-year smoothing, prospective	Beginning with June 30, 2009 valuation, five-year smoothing, prospective
<b>Actuarial Assumptions:</b>		
Investment rate of return	8.0%	8.5%
Projected salary increases	5.0% (at age 69) to 10.15% (at age 20), composite 6.0%. Includes inflation and real wage growth (productivity) assumptions.	6.0% (at age 69) to 11.1% (at age 20); composite 7.0%. Includes inflation and real wage growth (productivity) assumptions.
Group size growth rate	0%	0%
Assumed inflation rate	3.25%	3.5%
Real wage growth (productivity)	0.75%	1.2%
Post-retirement increase	Tier I: 3% compounded; Tier II: Lesser of 3% or 1/2 of the CPI increase, not compounded	Tier I: 3% compounded; Tier II: Lesser of 3% or 1/2 of the CPI increase, not compounded
Mortality table	RP - 2000 Mortality Tables with future mortality improvements on a generational basis.	1995 Buck tables, adjusted by gender and benefit recipient type. Projected mortality improvements were phased in over four years beginning in FY 08.

Member, employer, and state contributions are statutorily defined by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor. Since July 1, 1995, state appropriations have been made through a continuing appropriation.

Effective July 1, 1998, member contributions increased from 8 percent to 9 percent of salary. These contributions are allocated as follows: 7.5 percent for retirement, 0.50 percent for post-retirement increases, and 1 percent for death benefits. The contribution rate changed from 9.0 percent to 9.4 percent effective July 1, 2005 as a result of Public Act 94-0004. The additional 0.4 percent is to help cover the cost of ERO and is refundable if the member does not retire using ERO or if the ERO program terminates.

Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through state appropriations from the Common School Fund. An additional source of state contributions has been the Educational Assistance Fund. Employers also make contributions for the 2.2 benefit formula and for teachers who are paid from federal funds. Additionally, employers contribute their portion of the cost of the Early Retirement Option and any excess salary increase or sick leave costs due.

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

On April 7, 2003, Public Act 93-0002 authorized the State of Illinois to issue \$10 billion in general obligation bonds for the purpose of making contributions to designated retirement systems. TRS received an allocation of bond proceeds equal to \$4,330,373,948 on July 1, 2003. The \$4.330 billion in pension obligation bond proceeds received in FY04 were not counted as contributions towards TRS's annual actuarial funding requirements for FY04 because future state contributions are reduced by the state's debt service due on the TRS share of the proceeds. In FY05, state contributions were reduced in accordance with funding revisions contained in the pension obligation bond law.

In FY06 and FY07, state contributions were based on dollar amounts specified by Public Act 94-0004. The legislation contains a two-year funding reduction of approximately 50 percent or over \$1 billion for TRS. Since FY08, state contributions have increased according to the ramp schedule to reach a level percent of payroll by FY10 and a 90 percent funded ratio at the end of FY45.

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

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

- Public Act 96-0043, which also requires asset smoothing, authorized the sale of bonds for the remainder of the FY10 state funding requirement. In FY10, \$834,861,667 was received in Common School Fund appropriations and \$1,245,867,388 in pension bonds was received in January 2010.
- Public Act 96-1497 authorized the sale of bonds for the remainder of the FY11 state funding requirement. In FY11, \$110,000,000 was received in Common School Fund appropriations and \$2,060,918,489 in pension bonds was received in March 2011.

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

## **B. Summary of Significant Accounting Policies**

### **1. Basis of Accounting**

TRS's financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual

requirements. Benefits and refunds are recognized as expenses when they are due and payable in accordance with the terms of the plan.

## **2. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from net assets during the reporting period. Actual results could differ from these estimates. TRS uses an actuary to determine the actuarial accrued liability for the defined benefit plan and to determine the actuarially required contribution.

## **3. Risks and Uncertainties**

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

## **4. New Accounting Pronouncements**

Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," was established to provide a framework that specifies where deferred outflows of resources and deferred inflows of resources, assets, liabilities and net position should be displayed on the financial statements. TRS is required to implement this Statement for the year ending June 30, 2013.

Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment to GASB Statement No. 53," was established to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. All TRS derivatives are considered investments and the fair value is reported in the Statements of Plan Net Assets. Assets and liabilities that are measured at fair value, such as investments, do not qualify as hedgeable items and do not meet the requirements of this statement.

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

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

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

Management has not yet completed its assessment of these pending Statements.

## 5. Method Used to Value Investments

TRS reports investments at fair value. Fair value for publicly traded real return funds, equities, foreign currency, and exchange traded derivatives is determined by using the closing price listed on national securities exchanges as of June 30. Fair value for fixed income securities and over-the-counter derivatives is determined primarily by using quoted market prices provided by independent pricing services. Short-term investments are generally reported at average cost, which approximates fair value. Appraisals are used to determine fair value on directly-owned real estate investments. Fair value for private equity investments, absolute return funds, non-publicly traded real return funds and partnership interests in real estate funds is determined by TRS staff and the general partners or investment managers in accordance with the provisions in the individual agreements. These agreements also require an independent audit be performed on an annual basis.

## 6. Property and Equipment

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

## 7. Accrued Compensated Absences

When employment is terminated, TRS employees are entitled to receive compensation for all accrued unused vacation time and one-half of all unused sick leave earned through December 31, 1997. (Lump-sum payments for sick leave earned prior to January 1, 1984, are subject to a maximum of 60 days or 420 hours.) Accrued compensated absences as of June 30, 2012, and 2011 totaled \$1,627,467 and \$1,577,399, respectively, and are included as administrative and investment expenses payable.

## 8. Receivables

Receivables consist primarily of 1) member and employer contributions owed and yet to be remitted by the employing districts, 2) interest, dividends, real estate and private equity income owed to TRS, and 3) appropriations not yet received from the State of Illinois as of June 30.

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

## 9. Prior Period Reclassification

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

## 10. Risk Management

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

## C. Cash

Custodial credit risk for deposits is the risk that in the event of a bank failure, TRS's deposits may not be returned. TRS has a formal policy to address custodial credit risk. The policy's purpose is to minimize custodial credit risk through proper due diligence of custody financial institutions and investment advisors; segregate safekeeping of TRS assets; establish investment guidelines; and endeavor to have all investments held in custodial accounts through an agent, in the name of custodian's nominee, or in a corporate depository or federal book entry account system. For those investment assets held outside of the custodian, TRS will follow the applicable regulatory rules.



The non-investment bank balance and carrying amount of TRS's deposits were \$17,092,514 and \$17,092,564 at June 30, 2012 and \$36,799,082 and \$36,799,319 at June 30, 2011. Of the bank balance, \$17,092,439 and \$36,798,819 were on deposit with the state treasurer at June 30, 2012, and 2011, respectively. State treasurer deposits are in an internal investment pool collateralized at a third party custodial bank and are not subject to custodial credit risk. Certain investments of TRS with maturities of 90 days or less would be considered cash equivalents; these consist of bank-sponsored, short-term investment funds, commercial paper, and repurchase agreements. For financial statement presentation and investment purposes, TRS reports its cash equivalents as short-term investments in the Statements of Plan Net Assets.

For purposes of this disclosure, foreign currency held by investment managers is considered a deposit. However, for financial statement presentation and investment purposes, TRS considers foreign currency an investment asset. Uncollateralized foreign currency subject to custodial credit risk was \$81,921,602 and \$89,428,959 at June 30, 2012 and June 30, 2011, respectively.

## **D. Investments**

### **1. Investment Policies**

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

### **2. Investment Risk**

#### **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of a financial institution failure, TRS would not be able to recover the value of the investments in the possession of an outside party. The TRS investment policy adopted by the Board of Trustees includes a formal process to address custodial credit risk.

#### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to TRS. Credit risk exposure is dictated by each investment manager's agreement. Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual security quality rating tiers, and/or the average credit quality of the overall portfolio. Most guidelines allow managers to hold bonds rated Caa2 or better. However, in circumstances where position downgrades occur, investment managers have been given permission to hold securities due to circumstances such as a higher peer group rating from another nationally recognized statistical rating organization, the investment manager's internal ratings, or other mitigating factors.

As of June 30, 2012, TRS held the following fixed income investments with respective Moody's quality ratings or equivalent rating. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Municipals	Commingled Funds	Securities Lending Collateral	Total
Aaa	\$302,869,773	\$634,190,461	\$1,704,602,030	\$2,921,239	\$	\$62,129,456	\$2,706,712,959
Aa1	9,843,382	8,229,704	1,045,470	5,208,856	-	-	24,327,412
Aa2	27,363,206	50,039,423	-	11,060,146	208,148,792	265,445,415	562,056,982
Aa3	21,583,626	82,572,944	-	18,250,364	-	219,507,096	341,914,030
A1	57,732,555	81,974,360	434,420	6,847,271	-	93,264,035	240,252,641
A2	64,905,184	54,997,779	-	8,250,498	-	8,507,284	136,660,745
A3	96,671,564	26,932,718	-	3,509,481	-	12,999,181	140,112,944
Baa1	183,477,850	109,243,528	-	-	-	-	292,721,378
Baa2	253,465,208	160,771,071	-	-	-	-	414,236,279
Baa3	352,530,595	133,549,972	-	-	40,189,078	-	526,269,645
Ba1	149,865,005	184,496,074	-	-	-	-	334,361,079
Ba2	109,686,946	27,211,968	-	-	-	-	136,898,914
Ba3	60,055,225	31,489,361	-	-	-	-	91,544,586
B1	115,209,525	18,647,089	-	-	30,319,687	-	164,176,301
B2	83,824,253	53,214,823	-	-	-	-	137,039,076
B3	91,204,677	7,805,485	-	-	-	-	99,010,162
Caa1	50,882,711	2,106,550	-	-	-	-	52,989,261
Caa2	21,857,004	4,058,950	-	-	-	-	25,915,954
Caa3	21,451,193	1,890,050	-	-	-	-	23,341,243
Ca	13,057,394	-	-	-	-	-	13,057,394
C	1,025,136	-	-	-	-	-	1,025,136
Not available	10,948,995	93,715,104	47,810,757	-	824,320,700	-	976,795,556
Not rated	4,896,775	26,559,060	-	-	-	-	31,455,835
Withdrawn	10,938,522	27,6891	4,056,268	-	-	-	15,271,681
<b>Total bonds, corporate notes &amp; government obligations</b>	<b>\$2,115,346,304</b>	<b>\$1,793,973,365</b>	<b>\$1,757,948,945</b>	<b>\$56,047,855</b>	<b>\$1,102,978,257</b>	<b>\$661,852,467</b>	<b>\$7,488,147,193</b>

As of June 30, 2011, TRS held the following fixed income investments with respective Moody's quality ratings or equivalent rating.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Municipals	Commingled Funds	Securities Lending Collateral	Total
Aaa	\$396,039,937	\$646,447,393	\$1,837,947,189	\$4,857,638	\$	\$341,027,329	\$3,226,319,486
Aa1	16,745,645	31,364,918	-	4,094,353	-	317,488,185	369,693,101
Aa2	71,754,273	130,771,498	-	11,877,400	-	317,699,361	532,102,532
Aa3	42,049,634	38,432,155	-	17,864,936	-	151,785,884	250,132,609
A1	56,715,352	130,802,616	-	26,378,270	-	-	213,896,238
A2	163,887,018	57,114,009	-	6,822,685	-	-	227,823,712
A3	102,939,556	38,546,443	481,886	3,603,282	-	-	145,571,167
Baa1	194,772,146	142,776,021	-	-	-	-	337,548,167
Baa2	202,152,604	69,130,548	-	-	-	-	271,283,152
Baa3	223,764,152	197,890,854	-	-	-	-	421,655,006
Ba1	165,647,514	92,520,001	-	-	53,767,507	-	258,167,515
Ba2	122,809,370	18,678,334	-	-	-	-	195,255,211
Ba3	107,193,105	14,968,528	-	-	-	-	122,161,633
B1	88,692,232	15,563,353	-	-	-	-	104,255,585
B2	70,898,522	35,314,065	-	-	-	-	106,212,587
B3	68,939,251	33,003,761	-	-	-	-	101,943,012
Caa1	24,811,634	1,720,400	-	-	-	-	26,532,034
Caa2	32,235,663	3,994,750	-	-	-	-	36,230,413
Caa3	25,617,957	-	-	-	-	-	25,617,957
Ca	10,677,503	6,600,590	-	-	-	-	17,278,093
C	1,214,310	-	-	-	-	-	1,214,310
Not available	72,210,814	202,349,806	19,028,505	-	842,536,539	-	1,136,125,664
Not rated	4,958,409	14,801,639	-	-	42,629,906	-	62,389,954
Withdrawn	21,002,391	925,835	4,095,946	-	-	-	26,024,172
<b>Total bonds, corporate notes &amp; government obligations</b>	<b>\$2,287,728,992</b>	<b>\$1,923,717,517</b>	<b>\$1,861,553,526</b>	<b>\$75,498,564</b>	<b>\$938,933,952</b>	<b>\$1,128,000,759</b>	<b>\$8,215,433,310</b>

### Interest Rate Risk

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

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

**Maturity in Years**

Type	2012 Fair Value	Maturity in Years					Other*
		Less Than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More Than 20 years	
U.S. treasuries	\$229,515,472	\$10,921,042	\$80,609,585	\$71,789,401	\$35,906,053	\$30,289,391	\$
U.S. federal agencies	139,056,624	414,845	44,554,380	28,462,646	64,871,122	753,631	-
U.S. government index-linked bonds	540,160,277	1,875,204	96,181,408	209,494,865	200,924,675	31,684,125	-
U.S. government-backed mortgages	801,736,346	366,921,530	2,153,081	26,434,822	112,966,926	293,259,987	-
U.S. government special situations**	47,480,226	-	47,480,226	-	-	-	-
Municipals	56,047,855	400,384	966,141	1,495,092	21,386,908	31,799,330	-
Credits							
Bank loans	6,769,462	-	2,290,550	4,478,912	-	-	-
Financial	554,510,365	24,469,081	175,299,565	247,442,657	4,412,660	102,886,402	-
Industrial	862,324,358	7,801,527	200,327,575	472,769,746	47,773,971	133,651,539	-
Utilities	76,129,878	851,964	5,830,762	53,993,993	7,271,726	8,181,433	-
Asset-backed securities	171,507,017	-	29,333,020	52,478,024	22,046,147	67,649,826	-
Commercial mortgage-backed securities	155,105,622	-	-	11,712,300	14,416,512	128,976,810	-
Collateralized mortgage obligations	235,242,621	-	218,756	19,282,304	28,641,378	187,100,183	-
Commingled funds (U.S. & International)**	1,102,978,257	-	128,104,331	922,208,083	-	-	52,665,843
Corporate convertible bonds	53,756,981	-	25,216,512	6,349,525	3,942,994	18,247,950	-
Foreign debt/corporate obligations	1,793,973,365	193,332,021	571,238,510	525,050,743	299,361,112	204,990,979	-
<b>Total bonds, corporate notes and government obligations</b>	<b>6,826,294,726</b>	<b>606,987,598</b>	<b>1,409,804,402</b>	<b>2,653,443,113</b>	<b>863,922,184</b>	<b>1,239,471,586</b>	<b>52,665,843</b>
Securities lending collateral	661,852,467	524,503,686	137,348,781	-	-	-	-
Derivatives	7,297,522	(648,407)	4,556,599	3,058,180	32,031	299,119	-
<b>Total bonds, corporate notes, government obligations, securities lending collateral and derivatives</b>	<b>\$7,495,444,715</b>	<b>\$1,130,842,877</b>	<b>\$1,551,709,782</b>	<b>\$2,656,501,293</b>	<b>\$863,954,215</b>	<b>\$1,239,770,705</b>	<b>\$52,665,843</b>

\* Maturity date is not available or applicable.

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

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2011 is as follows:

Type	2011 Fair Value	Maturity in Years						Other**
		Less Than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More Than 20 years		
U.S. treasuries	\$308,087,946	\$24,160,625	\$152,264,689	\$87,800,633	\$33,286,643	\$10,575,356	\$	
U.S. federal agencies	160,285,470	1,456,249	38,670,490	26,574,708	85,864,336	7,719,687	-	
U.S. government index-linked bonds	583,141,471	16,282,167	229,067,829	96,791,739	194,284,144	46,715,592	-	
U.S. government-backed mortgages	789,535,623	211,721,754	1,887,207	87,132,790	87,341,438	401,452,434	-	
U.S. government-backed bonds	2,381,562	-	2,381,562	-	-	-	-	
U.S. government special situations**	18,121,454	-	-	-	-	-	18,121,454	
Municipals	75,498,564	-	728,745	3,229,689	18,270,266	53,269,864	-	
Credits								
Bank loans	25,751,829	19,766,660	5,985,169	-	-	-	-	
Financial	629,597,186	90,786,051	222,344,603	221,342,829	1,083,084	94,040,619	-	
Industrial	821,577,307	3,315,113	170,981,117	415,250,861	55,258,858	176,771,358	-	
Utilities	92,406,632	95,301	22,876,749	42,860,530	4,193,860	22,380,192	-	
Asset-backed securities	270,560,959	1,270	68,927,465	28,632,136	76,889,580	96,110,508	-	
Commercial mortgage-backed securities	151,249,137	-	-	3,332,547	16,338,264	131,578,326	-	
Collateralized mortgage obligations	220,255,229	-	-	27,120,771	14,419,404	178,715,054	-	
Commingled funds (U.S. & International)**	938,933,952	-	-	693,188,375	53,767,507	-	191,978,070	
Corporate convertible bonds	76,330,713	-	15,749,156	12,332,819	1,707,200	46,541,538	-	
Foreign debt/corporate obligations	1,923,717,517	200,890,974	602,176,812	626,539,533	280,446,302	213,663,896	-	
<b>Total bonds, corporate notes and government obligations</b>	<b>7,087,432,551</b>	<b>568,476,164</b>	<b>1,534,041,593</b>	<b>2,372,129,960</b>	<b>923,150,886</b>	<b>1,479,534,424</b>	<b>210,099,524</b>	
Securities lending collateral	1,128,000,759	826,622,245	301,378,514	-	-	-	-	
Derivatives	9,610,104	2,059,056	9,278,459	(22,188)	(34,557)	(1,670,666)	-	
<b>Total bonds, corporate notes, government obligations, securities lending collateral and derivatives</b>	<b>\$8,225,043,414</b>	<b>\$1,397,157,465</b>	<b>\$1,844,698,566</b>	<b>\$2,372,107,772</b>	<b>\$923,116,329</b>	<b>\$1,477,863,758</b>	<b>\$210,099,524</b>	

\* Maturity date is not available or applicable.

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

## Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. TRS's currency risk exposure, or exchange rate risk, is primarily derived from its holdings in foreign currency-denominated equity, fixed income investments, and foreign currency. According to TRS's Investment Policy and investment manager agreements, international equity and global fixed income managers, at their discretion, may or may not hedge the portfolio's foreign currency exposures with currency forward contracts or options depending upon their views on a specific country or foreign currency relative to the U.S. dollar. TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2012 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	\$949,941	\$238,982,486	\$68,687,119	\$32,031	\$308,651,577
Brazilian Real	358,664	173,462,580	53,693,956	1,043,569	228,558,769
British Pound	9,178,966	1,246,780,786	243,932,095	305,769	1,500,197,616
Canadian Dollar	3,289,601	331,407,010	135,290,724	-	469,987,335
Chilean Peso	7,306	1,604,340	2,283,177	-	3,894,823
Czech Koruna	-	9,604,707	-	-	9,604,707
Danish Krone	471,356	50,264,260	-	-	50,735,616
Egyptian Pound	223,011	10,190,732	-	-	10,413,743
Euro	38,025,295	1,337,645,083	281,550,209	1,569,234	1,658,789,821
Ghana Cedi	-	-	14,243,319	-	14,243,319
Hong Kong Dollar	1,964,655	359,671,925	-	-	361,636,580
Hungarian Forint	884	11,974,855	42,992,043	-	54,967,782
Indian Rupee	756,567	116,472,559	-	-	117,229,126
Indonesian Rupiah	599,978	71,509,766	56,741,279	-	128,851,023
Israeli Shekel	1,694,923	16,427,337	16,671,538	-	34,793,798
Japanese Yen	10,657,681	1,005,440,927	61,442,044	(281,406)	1,077,259,246
Malaysian Ringgit	147,805	43,848,592	4,574,640	-	48,571,037
Mexican Peso	2,234,099	37,106,319	94,234,838	40,870	133,616,126
Moroccan Dirham	51,830	689,699	-	-	741,529
New Taiwan Dollar	2,997,272	120,779,827	-	-	123,777,099
New Zealand Dollar	165,576	3,855,640	41,801,307	-	45,822,523
Norwegian Krone	334,490	48,513,665	7,443,386	-	56,291,541
Philippine Peso	188,711	41,193,090	24,328,826	-	65,710,627
Polish Zloty	103,584	20,945,755	40,182,299	-	61,231,638
Singapore Dollar	281,342	108,274,491	15,734,471	-	124,290,304
South African Rand	516,955	68,916,048	270,512	-	69,703,515
South Korean Won	1,201,994	145,990,116	70,388,920	-	217,581,030
Swedish Krona	940,403	109,365,820	50,817,263	-	161,123,486
Swiss Franc	3,732,679	424,003,948	-	-	427,736,627
Thai Baht	682,145	126,529,544	-	-	127,211,689
Turkish Lira	162,913	72,109,638	-	-	72,272,551
Ukraine Hryvnia	976	-	5,331,133	-	5,332,109
Uruguayo Peso	-	-	30,657,203	-	30,657,203
<b>Total subject to foreign currency risk</b>	<b>81,921,602</b>	<b>6,353,561,545</b>	<b>1,363,292,301</b>	<b>2,710,067</b>	<b>7,801,485,515</b>
<b>Investments in international securities payable in U.S. dollars</b>	<b>-</b>	<b>1,006,764,843</b>	<b>497,615,018</b>	<b>-</b>	<b>1,504,379,861</b>
<b>Total international investment securities (including domestic securities payable in foreign currency)</b>	<b>81,921,602</b>	<b>7,360,326,388</b>	<b>1,860,907,319</b>	<b>2,710,067</b>	<b>9,305,865,376</b>
<b>Domestic investments (excluding securities payable in foreign currency)</b>	<b>-</b>	<b>8,404,531,594</b>	<b>4,965,387,407</b>	<b>4,587,455</b>	<b>13,374,506,456</b>
<b>Total fair value</b>	<b><u>\$81,921,602</u></b>	<b><u>\$15,764,857,982</u></b>	<b><u>\$6,826,294,726</u></b>	<b><u>\$7,297,522</u></b>	<b><u>\$22,680,371,832</u></b>

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2011 is as follows:

<b>Currency</b>	<b>Foreign Currency</b>	<b>Equities</b>	<b>Fixed Income</b>	<b>Derivatives</b>	<b>Total</b>
Australian Dollar	\$2,207,124	\$265,883,255	\$91,902,274	(\$110)	\$359,992,543
Brazilian Real	3,274,286	131,559,478	47,791,959	1,450,586	184,076,309
British Pound	8,513,950	1,123,212,750	216,407,908	-	1,348,134,608
Canadian Dollar	10,018,701	293,181,855	111,787,729	-	414,988,285
Chilean Peso	30,622	984,227	2,621,704	-	3,636,553
Chinese Yuan	(72,935)	-	-	-	(72,935)
Czech Koruna	-	11,865,812	-	-	11,865,812
Danish Krone	1,080,858	37,451,229	-	-	38,532,087
Egyptian Pound	276,852	11,650,936	19,984,677	-	31,912,465
Euro	31,723,764	1,482,988,943	402,001,894	866,562	1,917,581,163
Ghana Cedi	-	-	15,568,615	-	15,568,615
Hong Kong Dollar	2,400,349	375,346,540	-	-	377,746,889
Hungarian Forint	211,432	21,428,306	44,728,892	-	66,368,630
Indian Rupee	1,641,914	79,515,688	13,403,550	-	94,561,152
Indonesian Rupiah	1,952,876	67,372,072	51,181,797	-	120,506,745
Israeli Shekel	152,902	12,439,119	21,939,596	-	34,531,617
Japanese Yen	15,606,662	1,046,231,673	33,780,611	-	1,095,618,946
Malaysian Ringgit	659,913	41,576,390	6,417,566	-	48,653,869
Mexican Peso	2,208,665	18,805,169	73,296,502	764	94,311,100
Moroccan Dirham	86,839	968,003	-	-	1,054,842
New Taiwan Dollar	491,855	170,583,748	-	-	171,075,603
New Zealand Dollar	173,763	10,005,710	18,989,921	-	29,169,394
Norwegian Krone	277,460	63,655,559	-	-	63,933,019
Philippine Peso	83,434	13,546,371	8,256,865	-	21,886,670
Polish Zloty	1,789	34,948,424	39,117,915	-	74,068,128
Singapore Dollar	596,186	117,407,798	829,464	-	118,833,448
South African Rand	40,025	45,724,666	-	-	45,764,691
South Korean Won	1,771,513	240,136,720	101,314,269	-	343,222,502
Swedish Krona	46,893	79,066,312	34,974,456	-	114,087,661
Swiss Franc	1,998,879	395,285,670	-	-	397,284,549
Thai Baht	1,342,331	98,104,330	-	-	99,446,661
Turkish Lira	630,057	46,945,784	-	-	47,575,841
Ukraine Hryvnia	-	-	5,511,510	-	5,511,510
<b>Total subject to foreign currency risk</b>	<b>89,428,959</b>	<b>6,337,872,537</b>	<b>1,361,809,674</b>	<b>2,317,802</b>	<b>7,791,428,972</b>
<b>Investments in international securities payable in United States dollars</b>	<b>-</b>	<b>1,078,456,348</b>	<b>646,644,985</b>	<b>-</b>	<b>1,725,101,333</b>
<b>Total international investment securities (including domestic securities payable in foreign currency)</b>	<b>89,428,959</b>	<b>7,416,328,885</b>	<b>2,008,454,659</b>	<b>2,317,802</b>	<b>9,516,530,305</b>
<b>Domestic investments (excluding securities payable in foreign currency)</b>	<b>-</b>	<b>9,979,368,867</b>	<b>5,078,977,892</b>	<b>7,292,302</b>	<b>15,065,639,061</b>
<b>Total fair value</b>	<b><u>\$89,428,959</u></b>	<b><u>\$17,395,697,752</u></b>	<b><u>\$7,087,432,551</u></b>	<b><u>\$9,610,104</u></b>	<b><u>\$24,582,169,366</u></b>

In addition to the above, TRS's foreign currency investments in real estate and private equity were \$275,665,018 and \$260,358,904 at June 30, 2012 and 2011, respectively. Currencies included Euro and British Pound.

### 3. Securities Lending Program

The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions, which are loans of securities to broker-dealers or other entities. The borrower of the security must post collateral in excess of the fair value of the security. Eligible forms of collateral include cash, U.S. treasury or government

agency securities, letters of credit issued by approved banks and specific types of corporate debt obligations. Agreements are in place for TRS to return the collateral in exchange for the original securities upon demand or when the security is no longer borrowed. TRS's master trustee is the primary lending agent for the plan's domestic securities for collateral of 102 percent of the fair value of U.S. securities and non-U.S. fixed income securities and 105 percent of the fair value of non-U.S. equity securities, which may be reduced to 102 percent for matched currencies. TRS does not have the authority to pledge or sell collateral securities without borrower default.

At year end, TRS has no credit risk exposure to borrowers because the amount TRS owes the borrowers exceeds the amount the borrowers owe TRS. The contract with TRS's lending agent requires the agent to indemnify TRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay TRS for income distributions by the securities issuers while the securities are on loan. All securities loans can be terminated on demand either by TRS or the borrower, although the average term of the loans is 15 days.

The cash collateral received is invested in a separate account managed by the lending agent, which at year end has a weighted average maturity of 30 days. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses known to the securities lending agent.

As of June 30, 2012 and June 30, 2011, TRS had outstanding loaned investment securities with a fair value of \$2,682,477,139 and \$3,132,542,532, respectively, against which it had received cash and non-cash collateral with a fair value of \$2,760,697,851 and \$3,217,193,460, respectively. Securities lending collateral reflected on the Statements of Plan Net Assets reflects the fair value of securities purchased with cash collateral. As of June 30, 2012 and 2011, these amounts were \$2,559,174,246 and \$3,064,369,064, respectively. TRS also reports securities lending collateral with the Office of the State Treasurer on the Statements of Plan Net Assets. Income earned and costs related to securities lending activities are reported on the Statements of Changes in Plan Net Assets.

#### **4. Derivatives**

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

A derivative security is an investment whose return depends upon the value of another financial instrument or security such as stocks, bonds, commodities, or a market index. The derivative investments in TRS's portfolio are used primarily to enhance performance and reduce volatility. TRS's investments in derivatives are not leveraged through borrowing. In the case of an obligation to purchase (long a financial future or call option), the full value of the obligation is primarily held in cash or cash equivalents. For obligations to sell (short a financial future or put options), the reference security is held in the portfolio.

To varying degrees, derivative transactions involve credit risk, sometimes known as default or counterparty risk, and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the established contract terms. To eliminate credit risk, derivative securities can be acquired through a clearinghouse that guarantees delivery and accepts the risk of default by either party.

Market risk is the possibility that a change in interest, currency, or other pertinent market rates will cause the value of a financial instrument to decrease or become more costly to settle. Imposing limits on the types, amounts, and

degree of risk that investment managers may undertake restricts the market risk associated with the constantly fluctuating prices of derivatives. These limits are approved by the Board of Trustees and senior management, and the derivative positions of the investment managers are reviewed on a regular basis to monitor compliance.

At June 30, 2012, derivative investments in the TRS investment portfolio included currency forward contracts, rights, warrants, futures, options, swaps, and swaptions. Within the financial statements, currency forward contracts are reflected as investment payables/receivables, rights and warrants are reflected as equities, and all futures, options, swaps and swaptions are classified as derivatives. The change in fair value of derivative investments is included in investment income on the Statements of Changes in Plan Net Assets.

The following tables summarize the derivatives held within the TRS investment portfolio and the change in fair value of derivative investments, realized and unrealized, during the fiscal year. The notional amounts shown represent TRS's financial exposure to these instruments in U.S. dollars.

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

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

As of June 30, 2011, the TRS investment portfolio held the following derivatives.

<b>Investment Derivatives</b>	<b>Fair Value at June 30, 2011</b>	<b>Change in Fair Value</b>	<b>Shares/Par</b>	<b>Notional</b>
Rights	\$256,860	\$2,255,476	2,031,943	\$2,031,943
Warrants	7,459,444	3,054,262	676,140	676,140
Currency forwards	(3,486,543)	(366,715)	-	-

(continued)

(continued) Investment Derivatives	Fair Value at June 30, 2011	Change in Fair Value	Shares/Par	Notional
Equity futures long	\$ -	\$84,094,926	449,085	\$43,985,473
Fixed income futures long	-	8,984,889	2,675,250,000	2,811,528,570
Fixed income futures short	-	(7,579,118)	(21,000,000)	(23,781,628)
Commodity futures long	-	2,382,182	77,000	7,580,820
Commodity futures short	-	18,460	-	-
U.S. equity put options purchased	1,721,558	(3,807,017)	194,800	1,573,087
U.S. equity put options written	-	1,455,731	-	-
Currency forward put options purchased	954,734	(595,023)	47,220,000	6,062,074
Currency forward put options written	(110)	664,999	(3,800,000)	399,912
Currency forward call options purchased	44,925	1,612	138,200,000	2,061,970
Options on futures bought	-	(1,201,628)	-	-
Options on futures written	(119,338)	1,911,079	(1,299,000)	38,586,130
Swaptions bought	4,038,309	96,255	142,790,000	18,757,608
Swaptions written	(3,057,157)	4,935,312	(434,300,000)	81,386,375
Inflation options written	(64,588)	214,220	(22,600,000)	22,600,000
Credit default swaps buying protection	11,228	842,824	58,721,545	58,749,181
Credit default swaps selling protection	7,619,238	1,669,796	535,029,273	561,506,120
Pay fixed interest rate swaps	(2,739,647)	(12,158,273)	433,400,000	430,675,477
Receive fixed interest rate swaps	1,200,952	2,084,700	204,000,000	155,197,356
<b>Grand Totals</b>	<b>\$13,839,865</b>	<b>\$88,958,949</b>		<b>\$4,219,576,608</b>

### Currency Forward Contracts

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

**Terms:** Currency forward contracts are two-sided contracts in the form of either forward purchases or forward sales. Forward purchases obligate TRS to purchase specific currency at an agreed upon price. Forward sales obligate TRS to sell specific currency at an agreed upon price. At June 30, 2012, TRS had currency forward purchase or sale contracts for 27 different currencies with various settlement dates.

**Fair Value:** As of June 30, 2012 and June 30, 2011, TRS's open currency forward contracts had a net fair value of \$15,350,583 and (\$3,486,543), respectively. The following table represents the unrealized gain/(loss) on the contracts at June 30.

	As of June 30, 2012	As of June 30, 2011
Forward currency purchases	\$1,979,648,142	\$2,080,108,512
Forward currency sales	(1,964,297,559)	(2,083,595,055)
<b>Unrealized gain/(loss)</b>	<b>\$15,350,583</b>	<b>(\$3,486,543)</b>

### Financial Futures

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

**Terms:** Futures contracts are standardized and traded on organized exchanges, thereby minimizing TRS's credit risk. As the daily market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. As of June 30, 2012 and June 30, 2011, TRS had outstanding futures contracts with a notional value, or exposure, of \$397,227,202 and \$2,839,313,235,

respectively. Notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through September 2015.

**Fair Value:** Gains and losses on futures contracts are settled daily based on the change of the index or commodity price for the underlying notional value. Because of daily settlement, the futures contracts have no fair value. The realized gain on futures contracts was \$8,631,152 and \$66,874,716 during the fiscal years 2012 and 2011, respectively.

Type	FY12		FY11	
	Number of Contracts	Notional Principal	Number of Contracts	Notional Principal
<b>Commodity Futures</b>				
Commodity futures - long	233	\$21,477,720	77	\$7,580,820
<b>Equity Futures</b>				
U.S. stock index futures - long	158	10,715,560	297	19,535,175
Volatility index futures - long	42	821,100	-	-
International equity index futures - long	723	40,858,819	347	24,450,298
<b>Fixed Income/Cash Equivalent Futures</b>				
Fixed income index futures – long	657	102,875,438	2,676	490,987,109
Fixed income index futures – short	(1,200)	(159,785,844)	(125)	(15,372,578)
International fixed income index futures – long	66	12,329,993	405	71,796,522
International fixed income index futures – short	(1)	(178,809)	-	-
Cash equivalent (Eurodollar) futures – long	1,486	368,113,225	8,193	2,034,460,338
Cash equivalent (Eurodollar) futures – short	-	-	(34)	(8,409,050)
Cash equivalent foreign yield curve – long	-	-	604	214,284,601
<b>Total Futures (Net)</b>	<b>2,164</b>	<b>\$397,227,202</b>	<b>12,440</b>	<b>\$2,839,313,235</b>

## Financial Options

**Objective:** Financial options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. The owner (buyer) of an option has all the rights, while the seller (writer) of an option has the obligations of the agreement. As a writer of financial options, TRS receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Premiums received are recorded as a liability when the financial option is written. The Options Clearing Corporation (OCC) performs much the same sort of function for options markets as the clearinghouse does for futures markets.

**Terms:** As of June 30, 2012, the TRS investment portfolio held U.S. equity options with notional value of \$7,069,100, currency forward options with notional value of \$10,315,886, inflation options with notional value of \$22,600,000, and options on futures with underlying notional value of \$32,847,790. As of June 30, 2011, the TRS investment portfolio held U.S. equity options with notional value of \$1,573,087, currency forward options with notional value of \$8,523,956, inflation options with notional value of \$22,600,000, and options on futures with underlying notional value of \$38,586,130. Contractual principal/notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through October 2020.

**Fair Value:** Fluctuations in the fair value of financial options are recognized in TRS's financial statements as incurred rather than at the time the options are exercised or at expiration. As of June 30, 2012 and June 30, 2011, the fair value of all option contracts, gross of premiums received, was \$1,884,375 and \$2,537,181, respectively. The fair value represents the amount needed to close all positions as of that date. The following table presents the aggregate contractual principal (notional value) of outstanding contracts at June 30, 2012 and June 30, 2011. Notional principal amounts are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. Options on futures represent the corresponding futures exposure.

## Financial Options

Type	FY12		FY11	
	Number of Contracts	Notional Principal	Number of Contracts	Notional Principal
<b>Equity Options</b>				
Equity index put options - purchased	776	\$476,059	1,948	\$1,573,087
Equity index put options - written	(7)	11,606	-	-
ETF/Stock put options - purchased	2,439	4,969,319	-	-
ETF/Stock put options - written	(2,302)	1,612,116	-	-
<b>Currency Forward Options</b>				
Currency forward call options - purchased	2	2,453,930	6	2,061,970
Currency forward call options - written	1	51,588	-	-
Currency forward put options - written	-	-	4	399,912
Currency forward put options - purchased	4	7,810,368	4	6,062,074
<b>Inflation Options</b>				
Inflation put options - written	12	22,600,000	12	22,600,000
<b>Options on Futures</b>				
Fixed income call options on futures USD - purchased	735	12,024,600	-	-
Fixed income call options on futures USD - written	(954)	18,865,500	(183)	7,510,485
Fixed income put options on futures USD - purchased	100	1,211,000	-	-
Fixed income put options on futures USD - written	(119)	746,690	(531)	31,075,645

## Swaptions

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

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

As the writer of a swaption, TRS receives a premium at the outset of the agreement. Premiums are recorded as a liability when the swaption is written. As the purchaser of a swaption, TRS pays an upfront premium.

**Terms:** As of June 30, 2012, TRS had outstanding written call swaption exposure of \$23,214,270, written put swaption exposure of \$16,866,532, purchased put swaption exposure of \$972,559, and purchased call swaption exposure of \$20,600,000. The contracts have various maturity dates through August 2021. As of June 30, 2011, TRS had outstanding written call swaption exposure of \$51,768,599, written put swaption exposure of \$29,617,776, purchased put swaption exposure of \$1,838,773, and purchased call swaption exposure of \$16,918,835. Exposure amounts for swaptions do not represent the actual values in the Statements of Plan Assets.

**Fair Value:** Fluctuations in the fair value of swaptions are recognized in TRS's financial statements as incurred rather than at the time the swaptions are exercised or when they expire. As of June 30, 2012, and June 30, 2011, the fair value of swaption contracts was \$967,967 and \$981,152, respectively.

## Credit Default Swaps/Index Swaps

**Objective:** Credit default swaps are financial instruments used to replicate the effect of investing in debt obligations of corporate bond issuers as a means to manage bond exposure, effectively buying or selling insurance protection in case of default. Credit default swaps may be specific to an individual security or to a specific market sector (index swaps). The risk of the credit default/index swap is comparable to the credit risk of the underlying debt obligations of issuers that comprise the credit default/index swap, with the primary risk being counterparty risk. The owner/buyer of protection (long the swap) pays an agreed upon premium to the seller of protection (short the swap) for the right to sell the debt at a previously agreed upon value in the event of a default by the bond issuer. The premium is paid periodically over the term of the swap or until a credit event of the bond issuer occurs. In the event of a default, the swap is called, and the seller of protection makes a payment to the buyer, which is usually based on a fixed percentage of total par.

Purchased credit default swaps decrease credit exposure (buying protection), providing the right to sell debt to the counterparty in the event of a default. A buyer of credit protection against a basket of securities pays an upfront or periodic payment until either maturity or default. In the event of a default, the buyer receives a lump-sum payment. If no default occurs, the buyer loses only the premium paid.

Written credit default swaps increase credit exposure (selling protection), obligating the portfolio to buy debt from counterparties in the event of a default. A seller of credit protection against a basket of securities receives an upfront or periodic payment to compensate against potential default events. If a default event occurs, the seller must pay the buyer the full notional value of the obligation in exchange for the obligation. If no default occurs, the seller will have earned the premium paid.

**Terms:** As of June 30, 2012, TRS had credit default/index swaps in its portfolio with various maturity dates through 2051. The total notional value of written credit default swaps (selling protection) was \$339,862,121 and \$561,506,120 at June 30, 2012 and 2011, respectively. The total notional value of purchased credit default swaps (buying protection) was \$266,705,167 and \$58,749,181 at June 30, 2012 and 2011, respectively.

**Fair Value:** The fair value of credit default swaps, including index swaps, held by TRS was \$3,145,336 as of June 30, 2012 and \$7,630,466 as of June 30, 2011. This represents the amount due to or (from) TRS under the terms of the counterparty agreements.

## Interest Rate Swaps

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

**Terms:** As of June 30, 2012 and June 30, 2011, TRS held interest rate swaps in various currencies with various expiration/maturity dates ranging from 2012 to 2042. Swap agreements typically are settled on a net basis, with a party receiving or paying only the net amount of the fixed/floating payments. Payments may be made at the conclusion of a swap agreement or periodically during its term.

**Fair Value:** The table below presents the fair value of TRS's interest rate swap exposure as of June 30, 2012 and June 30, 2011.

	June 30, 2012 Payable/Receivable	June 30, 2011 Payable/Receivable
Receive floating/pay fixed	(\$164,255)	(\$2,739,647)
Receive fixed/pay floating	1,462,285	1,200,952

## Inflation-linked Swaps

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

**Terms:** TRS was a party to inflation-linked swaps with a maturity date of November 2, 2012 and total par of 1.1 million as of June 30, 2012. TRS was not a party to any inflation-linked swaps as of June 30, 2011. TRS receives a fixed rate for all current positions, reducing inflation risks in certain countries. Inflation-linked swaps initially have no net value; the value of the swap's outstanding payments will change as interest and inflation rates change. The value may be either positive or negative.

**Fair value:** The June 30, 2012 fair value of inflation-linked swaps held was \$1,814. TRS did not hold any inflation-linked swaps as of June 30, 2011.

## Derivative Interest Rate Risk

Interest rate risk for derivative securities is disclosed in the Financial Notes D. 2. Both interest rate and inflation rate swaps have fair values that are sensitive to interest rate changes.

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

## Interest Rate and Inflation Swaps

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/12
<b>Pay Fixed Interest Rate Swaps:</b>						
Interest rate swap GBP	2,700,000	\$4,250,832	6 month LIBOR	3.00%	3/21/2042	(\$32,020)
Interest rate swap USD	2,500,000	<u>2,500,000</u>	3 month LIBOR	2.75	6/20/2042	<u>(132,235)</u>
<b>Total Pay Fixed Interest Rate Swaps:</b>		<b><u>\$6,750,832</u></b>				<b><u>(\$164,255)</u></b>
<b>Receive Fixed Interest Rate Swaps:</b>						
Interest rate swap MXN	7,000,000	\$526,280	5.50%	4 week Mexican TIE	9/13/2017	\$4,899
Interest rate swap MXN	7,000,000	526,280	5.50	4 week Mexican TIE	9/13/2017	4,899
Interest rate swap MXN	39,000,000	2,932,129	5.50	4 week Mexican TIE	9/13/2017	27,292
Interest rate swap AUD	5,100,000	5,296,297	4.25	6 month Australian Bank Bill	3/15/2023	68,541
Interest rate swap MXN	1,000,000	75,183	5.50	4 week Mexican TIE	9/13/2017	700
Interest rate swap AUD	4,700,000	4,784,089	4.00	6 month Australian Bank Bill	3/15/2023	(33,646)
Interest rate swap AUD	400,000	407,157	4.00	6 month Australian Bank Bill	3/15/2023	(2,864)
Interest rate swap BRL	7,700,000	3,936,309	10.22	3 month Brazilian CDI	1/2/2014	121,500
Interest rate swap BRL	1,800,000	923,095	10.58	3 month Brazilian CDI	1/2/2014	31,321
Interest rate swap MXN	1,100,000	83,601	5.60	4 week Mexican TIE	9/6/2016	1,517
Interest rate swap BRL	15,700,000	7,990,254	9.98	3 month Brazilian CDI	1/2/2014	212,009
Interest rate swap MXN	500,000	38,923	6.35	4 week Mexican TIE	6/2/2021	1,563

(continued)

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/12
Interest rate swap GBP	5,500,000	\$9,024,042	2.50%	6 month LIBOR	3/21/2022	\$337,790
Interest rate swap BRL	400,000	203,458	9.97	3 month Brazilian CDI	1/2/2014	5,286
Interest rate swap USD	2,000,000	2,008,025	1.50	3 month LIBOR	3/18/2016	8,025
Interest rate swap BRL	16,600,000	8,755,813	11.94	3 month Brazilian CDI	1/2/2014	531,681
Interest rate swap BRL	2,300,000	1,174,534	10.18	3 month Brazilian CDI	1/2/2014	35,046
Interest rate swap BRL	6,200,000	3,178,390	10.14	3 month Brazilian CDI	1/2/2015	106,726
<b>Total Receive Fixed Interest Rate Swaps:</b>		<b><u>\$51,863,859</u></b>				<b><u>\$1,462,285</u></b>
<b>Receive Fixed Inflation-Linked Swaps:</b>						
Inflation swap USD	1,100,000	\$1,101,814	1.50%	U.S. CPI URNSA	11/2/2012	\$1,814
<b>Total Receive Fixed Inflation-Linked Swaps:</b>		<b><u>\$1,101,814</u></b>				<b><u>\$1,814</u></b>

CDI - Cetip Interbank Deposit (interbank lending rate)

CPI - Consumer Price Index

LIBOR - London Interbank Offered Rate

TIIE - Mexico Interbank Equilibrium Interest Rate

URNSA - Urban Consumers NSA Index Rate

TRS had the following interest rate and inflation swaps at June 30, 2011.

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/11
<b>Pay Fixed Interest Rate Swaps:</b>						
Interest rate swap USD	700,000	\$695,813	3 month LIBOR	2.50%	12/21/2016	(\$4,187)
Interest rate swap USD	2,200,000	2,197,997	3 month LIBOR	3.50	12/21/2021	(2,002)
Interest rate swap USD	11,900,000	11,776,231	3 month LIBOR	4.00	12/21/2026	(123,769)
Interest rate swap USD	8,100,000	8,051,552	3 month LIBOR	2.50	12/21/2016	(48,448)
Interest rate swap USD	13,400,000	13,153,215	3 month LIBOR	3.25	12/21/2018	(246,785)
Interest rate swap USD	238,600,000	238,563,983	3 month LIBOR	0.75	6/30/2013	(36,017)
Interest rate swap USD	3,500,000	3,731,544	3 month LIBOR	3.16	2/15/2026	230,378
Interest rate swap USD	5,200,000	5,325,216	3 month LIBOR	2.00	8/15/2017	123,484
Interest rate swap USD	3,900,000	3,983,590	3 month LIBOR	3.96	5/15/2037	83,590
Interest rate swap USD	15,100,000	15,211,505	3 month LIBOR	4.60	7/1/2044	111,505
Interest rate swap USD	4,000,000	3,872,111	3 month LIBOR	4.25	6/15/2041	(128,328)
Interest rate swap USD	500,000	484,014	3 month LIBOR	4.25	6/15/2041	(16,041)
Interest rate swap USD	200,000	195,667	3 month LIBOR	3.50	6/15/2021	(4,355)
Interest rate swap USD	47,400,000	45,884,521	3 month LIBOR	4.25	6/15/2041	(1,520,682)

(continued)

(continued)

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/11
Interest rate swap USD	17,600,000	\$17,037,291	3 month LIBOR	4.25%	6/15/2041	(\$564,641)
Interest rate swap USD	5,600,000	5,420,955	3 month LIBOR	4.25	6/15/2041	(179,659)
Interest rate swap USD	7,400,000	7,163,406	3 month LIBOR	4.25	6/15/2041	(237,406)
Interest rate swap USD	2,000,000	1,936,056	3 month LIBOR	4.25	6/15/2041	(64,164)
Interest rate swap USD	100,000	96,803	3 month LIBOR	4.25	6/15/2041	(3,208)
Interest rate swap USD	300,000	290,408	3 month LIBOR	4.25	6/15/2041	(9,625)
Interest rate swap USD	100,000	97,833	3 month LIBOR	3.50	6/15/2021	(2,178)
Interest rate swap USD	1,100,000	1,076,166	3 month LIBOR	3.50	6/15/2021	(23,955)
Interest rate swap USD	2,800,000	2,739,331	3 month LIBOR	3.50	6/15/2021	(60,976)
Interest rate swap USD	5,700,000	5,517,759	3 month LIBOR	4.25	6/15/2041	(182,867)
Interest rate swap USD	2,700,000	2,641,498	3 month LIBOR	3.50	6/15/2021	(58,798)
Interest rate swap USD	300,000	290,408	3 month LIBOR	4.25	6/15/2041	(9,625)
Interest rate swap USD	3,100,000	3,032,831	3 month LIBOR	3.50	6/15/2021	(67,509)
Interest rate swap USD	3,800,000	3,714,581	3 month LIBOR	3.00	6/15/2018	(85,836)
Interest rate swap USD	5,100,000	4,936,942	3 month LIBOR	4.25	6/15/2041	(163,618)
Interest rate swap USD	15,200,000	15,662,987	3 month LIBOR	4.00	12/21/2041	462,987
Interest rate swap USD	3,900,000	4,018,793	3 month LIBOR	4.00	12/21/2041	118,793
Interest rate swap USD	200,000	206,092	3 month LIBOR	4.00	12/21/2041	6,092
Interest rate swap USD	100,000	103,046	3 month LIBOR	4.00	12/21/2041	3,046
Interest rate swap USD	1,600,000	1,565,332	3 month LIBOR	3.50	6/15/2021	(34,843)
<b>Total Pay Fixed Interest Rate Swaps:</b>		<b><u>\$430,675,477</u></b>				<b><u>(\$2,739,647)</u></b>
<b>Receive Fixed Interest Rate Swaps:</b>						
Interest rate swap USD	6,100,000	\$6,212,343	3.25%	3 month LIBOR	12/21/2018	\$112,342
Interest rate swap USD	7,000,000	7,181,058	4.25	3 month LIBOR	12/21/2031	181,058
Interest rate swap USD	8,200,000	7,843,638	2.56	3 month LIBOR	10/20/2020	(397,764)
Interest rate swap USD	27,100,000	26,952,104	4.48	3 month LIBOR	7/1/2024	(147,896)
Interest rate swap USD	900,000	893,131	1.25	3 month LIBOR	12/21/2014	(6,869)
Interest rate swap MXN	1,100,000	94,565	6.50	4 week Mexican TIE	3/5/2013	764
Interest rate swap BRL	800,000	554,327	12.54	3 month Brazilian CDI	1/2/2012	42,245

(continued)

<b>Asset Description</b>	<b>Par</b>	<b>Gross Notional</b>	<b>TRS Receives</b>	<b>TRS Pays</b>	<b>Maturity Date</b>	<b>Fair Value 6/30/11</b>
Interest rate swap BRL	900,000	\$623,617	12.54%	3 month Brazilian CDI	1/2/2012	\$47,526
Interest rate swap BRL	1,800,000	1,247,235	12.54	3 month Brazilian CDI	1/2/2012	95,051
Interest rate swap EUR	100,000	144,985	3.50	6 month EURIBOR	9/21/2021	(282)
Interest rate swap BRL	100,000	74,731	14.77	3 month Brazilian CDI	1/2/2012	10,720
Interest rate swap BRL	2,900,000	1,847,363	11.29	3 month Brazilian CDI	1/2/2012	(8,933)
Interest rate swap EUR	300,000	434,955	3.50	6 month EURIBOR	9/21/2021	(845)
Interest rate swap EUR	5,400,000	7,844,396	3.50	6 month EURIBOR	9/21/2021	15,211
Interest rate swap BRL	600,000	389,037	10.84	3 month Brazilian CDI	1/2/2012	4,976
Interest rate swap EUR	100,000	144,985	3.50	6 month EURIBOR	9/21/2021	(282)
Interest rate swap EUR	200,000	289,970	3.50	6 month EURIBOR	9/21/2021	(563)
Interest rate swap BRL	500,000	373,653	14.77	3 month Brazilian CDI	1/2/2012	53,602
Interest rate swap EUR	1,600,000	2,319,758	3.50	6 month EURIBOR	9/21/2021	(4,507)
Interest rate swap BRL	1,000,000	636,590	11.25	3 month Brazilian CDI	1/2/2012	(3,512)
Interest rate swap BRL	900,000	585,970	12.17	3 month Brazilian CDI	1/2/2013	9,879
Interest rate swap BRL	1,400,000	929,208	11.60	3 month Brazilian CDI	1/2/2012	33,065
Interest rate swap BRL	300,000	199,557	11.67	3 month Brazilian CDI	1/2/2012	7,526
Interest rate swap BRL	700,000	457,917	11.14	3 month Brazilian CDI	1/2/2012	9,846
Interest rate swap BRL	1,100,000	712,586	10.99	3 month Brazilian CDI	1/2/2012	8,474
Interest rate swap BRL	700,000	453,464	10.99	3 month Brazilian CDI	1/2/2012	5,392
Interest rate swap BRL	73,000,000	47,584,633	11.36	3 month Brazilian CDI	1/2/2012	857,187
Interest rate swap BRL	6,900,000	4,589,804	11.67	3 month Brazilian CDI	1/2/2012	173,100
Interest rate swap BRL	200,000	132,280	12.65	3 month Brazilian CDI	1/2/2014	4,259
Interest rate swap BRL	100,000	65,838	12.54	3 month Brazilian CDI	1/2/2014	1,828
Interest rate swap BRL	3,200,000	2,091,246	12.29	3 month Brazilian CDI	1/2/2013	42,919
Interest rate swap BRL	1,500,000	969,864	11.98	3 month Brazilian CDI	1/2/2013	9,711
Interest rate swap BRL	500,000	322,400	11.42	3 month Brazilian CDI	1/2/2012	2,349
Interest rate swap BRL	1,500,000	966,620	11.88	3 month Brazilian CDI	1/2/2013	6,467
Interest rate swap BRL	200,000	129,101	12.11	3 month Brazilian CDI	1/2/2014	1,081

(continued)

(continued)

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/11
Interest rate swap BRL	16,600,000	\$10,529,805	11.94%	3 month Brazilian CDI	1/2/2014	(\$95,888)
Interest rate swap BRL	18,100,000	11,658,090	11.91	3 month Brazilian CDI	1/2/2013	72,244
Interest rate swap BRL	6,200,000	3,999,825	11.89	3 month Brazilian CDI	1/2/2013	31,193
Interest rate swap BRL	2,300,000	1,483,806	11.89	3 month Brazilian CDI	1/2/2013	11,572
Interest rate swap BRL	200,000	130,034	12.25	3 month Brazilian CDI	1/2/2014	2,013
Interest rate swap BRL	1,300,000	843,514	12.07	3 month Brazilian CDI	1/2/2013	11,381
Interest rate swap BRL	400,000	<u>259,353</u>	12.20	3 month Brazilian CDI	1/2/2014	<u>3,312</u>
<b>Total Receive Fixed Interest Rate Swaps:</b>		<b><u>\$155,197,356</u></b>				<b><u>\$1,200,952</u></b>

CDI - Cetip Interbank Deposit (interbank lending rate)

EURIBOR - Euro Interbank Offer Rate

LIBOR - London Interbank Offered Rate

TIE - Mexico Interbank Equilibrium Interest Rate

## Derivative Credit Risk

Exchange traded derivatives are evaluated within the investment risk disclosure. Non-exchange traded derivative instruments may expose TRS to credit/counterparty risk. Credit risk is reduced by evaluating the credit quality and operational capabilities of the counterparties.

The terms of non-exchange traded derivatives transactions are specified in standardized counterparty agreements such as International Swaps and Derivatives Association (ISDA) agreements for swaps, master agreements for non-exchange traded options, and forward agreements for forward settlement transactions. TRS utilizes its investment managers' composite ISDA agreements, which cover multiple clients, to participate in specific market transactions. Because the counterparty risk of a security will fluctuate with market movements, all TRS managers using non-exchange traded derivatives operate a collateral call process ensuring full collateralization of these derivatives. TRS does not have a policy regarding master netting arrangements.

As of June 30, 2012 and June 30, 2011, the aggregate fair value of non-exchange traded derivative instruments in asset positions was \$40,471,834 and \$44,360,684, respectively. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

## Counterparty Ratings for Non-Exchange Traded Derivatives

Moody's Quality Rating	Fair Value at 6/30/12	Fair Value at 6/30/11
Aaa	\$24,081	\$ -
Aa1	278,084	3,812,411
Aa2	305,895	1,083,333
Aa3	3,313,425	24,440,890
A1	7,100,421	11,957,448
A2	21,652,246	3,066,602
A3	5,255,795	-
Baa1	2,473,346	-
Baa2	68,541	-
<b>Total subject to credit risk</b>	<b><u>\$40,471,834</u></b>	<b><u>\$44,360,684</u></b>

Although the derivative instruments held within the TRS investment portfolio are executed with various counterparties, approximately 85 percent of the net market value exposure to credit risk is for non-exchange traded derivative contracts held with seven counterparties.

## E. Reserves

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

### 1. Benefit Trust

	2012	2011
Balances at June 30	\$36,510,374,060	\$37,465,181,383

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

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

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

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

The expected benefit payments do not equal the present value of the reserve. The additional amount needed (the unfunded actuarial accrued liability) as calculated by the actuary was \$52,079,548,000 in 2012 and \$43,529,992,000 in 2011.

### 2. Minimum Retirement Annuity

	2012	2011
Balances at June 30	\$6,451,279	\$6,085,811

The minimum annuity is set by law at \$25 per month for each year of creditable service to a maximum of \$750 per month after 30 or more years of creditable service. To qualify, annuitants are required to make a one-time contribution that is credited to the reserve. Interest at 6 percent is credited to the reserve annually based upon the average reserve balance. In FY12, benefit payments were reimbursed by appropriations from the Education Assistance Fund. In FY11, proceeds from general obligation bonds issued by the state were used to pay benefits. All benefits paid under this program are charged to the reserve. This reserve is fully funded.

## **F. Pension and Other Post-employment Benefits for TRS Employees**

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

### **State Employees' Retirement System (SERS)**

#### **1. Plan Description for SERS**

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

#### **2. Funding Policy for SERS**

The contribution requirements of SERS members and the state are established by state statute and may be amended by action of the General Assembly and the Governor. TRS employees covered by SERS contribute 4.0 percent of their annual covered salaries. The state contribution rate for the years ended June 30, 2012, 2011, and 2010 were actuarially determined according to a statutory schedule.

TRS contribution rates to SERS for its SERS-covered employees for the years ended June 30, 2012, 2011, and 2010 were 34.190 percent, 27.988 percent, and 28.377 percent, respectively. TRS contributions for the years ended June 30, 2012, 2011, and 2010 were \$1,991,650, \$1,615,531, and \$1,648,041, respectively.

### **Teachers' Retirement System (TRS)**

#### **1. Plan Description for TRS**

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

#### **2. Funding Policy for TRS**

TRS employees who participate in TRS are required to contribute 9.4 percent of their annual covered salaries. For employees who were members of TRS on August 17, 2001 and for employees hired on or after that date, TRS contributes 0.58 percent of the employees' annual covered salaries. Additional employer contributions for these employees are paid by the State of Illinois and are included in the annual state contribution to TRS. TRS's contributions for participating employees for the years ended June 30 in 2012, 2011, and 2010 were \$22,130, \$20,439 and \$19,296, respectively. These amounts represent 100 percent of the required contributions.

### **Other Post-employment Benefits for TRS Employees**

The state provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all state employees become eligible for post-employment benefits if they eventually become annuitants of one of the state-sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the state's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the state, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care

plan. Employees of the system who retired before January 1, 1998 and are vested in either SERS or TRS do not contribute towards health and vision benefits. A premium is required for dental. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5 percent for each year of credited service with the state allowing those annuitants with 20 or more years of credited service to not have to contribute towards health and vision benefits. A premium is required for dental. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

Public Act 97-0695 was signed into law on June 21, 2012, with an effective date of July 1, 2012. During FY13, all retirees will begin incurring a cost for health and vision benefits, the details of which will be determined by the Illinois Department of Central Management Services (CMS).

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

# REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Accrued Liability (AAL-Projected Unit Credit) (b)	Funded Ratio (a)/(b)	Unfunded Actuarial Liability (UAAL) (b) - (a)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (b-a)/(c)
6/30/02	\$22,366,285,000	\$43,047,674,000	52.0%	\$20,681,389,000	\$6,785,236,000	304.8%
6/30/03	23,124,823,000	46,933,432,000	49.3	23,808,609,000	7,059,032,000	337.3
6/30/04	31,544,729,000	50,947,451,000	61.9	19,402,722,000	7,280,795,000	266.5
6/30/05	34,085,218,000	56,075,029,000	60.8	21,989,811,000	7,550,510,000	291.2
6/30/06	36,584,889,000	58,996,913,000	62.0	22,412,024,000	7,765,752,000	288.6
6/30/07	41,909,318,000	65,648,395,000	63.8	23,739,077,000	8,149,849,000	291.3
6/30/08	38,430,723,000	68,632,367,000	56.0	30,201,644,000	8,521,717,000	354.4
6/30/09	38,026,044,000	73,027,198,000	52.1	35,001,154,000	8,945,021,000	391.3
6/30/10	37,439,092,000	77,293,198,000	48.4	39,854,106,000	9,251,139,000	430.8
6/30/11	37,769,753,000	81,299,745,000	46.5	43,529,992,000	9,205,603,000	472.9
<b>6/30/12</b>	<b>37,945,397,000</b>	<b>90,024,945,000</b>	<b>42.1</b>	<b>52,079,548,000</b>	<b>9,321,098,000</b>	<b>558.7</b>

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

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

Year Ended June 30	State Contributions <sup>2</sup>	Federal and Employer Contributions <sup>2</sup>	Total	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2002	\$810,619,000	\$51,270,000	\$861,889,000	\$1,163,262,000	74.1%	\$872,283,000	98.8%
2003	926,066,000	44,779,000	970,845,000	1,427,519,000	68.0	963,858,000	100.7
2004	1,028,259,000	75,078,000	1,103,337,000	1,716,977,000	64.3	1,100,264,000	100.3
2005	903,928,000	83,434,000	987,362,000	1,683,212,000	58.7	986,269,000	100.1
2006	531,828,000	69,645,000	601,473,000	1,679,524,000	35.8	601,555,000	100.0
2007	735,515,000	81,155,000	816,670,000	2,052,396,000	39.8	822,890,000	99.2
2008	1,039,195,000	130,578,000	1,169,773,000	1,949,463,000	60.0	1,135,127,000	103.1
2009	1,449,889,000	151,716,000	1,601,605,000	2,109,480,000	75.9	1,556,737,000	102.9
2010	2,079,129,000	170,653,000	2,249,782,000	2,481,914,000	90.6	2,217,053,000	101.5
2011	2,169,518,000	154,150,000	2,323,668,000	2,743,221,000	84.7	2,293,321,000	101.3
<b>2012</b>	<b>2,405,172,000</b>	<b>153,409,000</b>	<b>2,558,581,000</b>	<b>3,429,945,000</b>	<b>74.6</b>	<b>2,547,803,000</b>	<b>100.4</b>

<sup>1</sup> For consistency with figures reported by TRS's actuaries, the amounts have been rounded to the nearest thousand. Actual contributions varied slightly from contributions that are required by statute mainly because of differences between estimated and actual federal contributions. Beginning in FY08, lump-sum payments for ERO are included as employer contributions, further increasing the difference.

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

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

## OTHER SUPPLEMENTARY INFORMATION

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

	2012	2011
Personal services	\$14,856,497	\$13,829,954
Professional services	1,216,461	794,316
Postage	292,006	364,863
Machine repair and rental	583,638	648,765
Other contractual services	878,682	955,206
Commodities	291,941	375,310
Occupancy expense	248,570	254,435
Depreciation	644,104	569,222
<b>Total administrative expenses</b>	<b><u>\$19,011,899</u></b>	<b><u>\$17,792,071</u></b>

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

	2012	2011
Investment manager fees	\$199,628,532	\$186,707,816
Private equity investment expense	8,140,998	4,855,792
Miscellaneous	27,037,797	26,686,005
<b>Total investment expense</b>	<b><u>\$234,807,327</u></b>	<b><u>\$218,249,613</u></b>

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

	2012	2011
Actuarial services	\$375,329	\$201,154
External auditors	162,407	138,347
Legal services	458,196	164,438
Management consultants		
Information systems	2,000	13,606
Legislative consultant	84,000	84,000
Salary Review	23,000	0
Executive director search	0	114,700
Board and staff training	79,800	47,250
Operations	27,975	26,332
Other	3,754	4,489
<b>Total payments to consultants</b>	<b><u>\$1,216,461</u></b>	<b><u>\$794,316</u></b>





INVESTMENTS

## INTRODUCTION

Global financial markets experienced significant volatility through the fiscal year ended June 30, 2012. Investor concerns were largely focused on global economic conditions and the recurring Euro-based sovereign debt crisis. Following a very weak first fiscal quarter, the fund produced steady gains through the middle of the fiscal year before experiencing a modest decline in the final quarter as macroeconomic issues again impacted investor behavior. Within this climate, all TRS asset classes were able to manage positive returns with the exception of the sharp 11.7 percent decline in international stocks. On the positive side, real estate and fixed income led the portfolio with 9.9 percent and 5.7 percent gains, respectively. Overall, the TRS investment portfolio posted a modest positive result, returning 1.3 percent, gross of fees, for the fiscal year ended June 30, 2012.

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

The TRS trust fund is invested by authority of the Illinois Pension Code under the “prudent person rule,” requiring investments to be managed solely in the interest of fund participants and beneficiaries. The TRS Investment Policy guides TRS’s investments. Investment principles include preserving the long-term principal of the trust fund, maximizing total return within prudent risk parameters, and acting in the exclusive interest of TRS members.

As master trustee, State Street Bank and Trust has provided to TRS, unless otherwise noted, detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities, and other transactions pertinent to the fund for the period July 1, 2011 through June 30, 2012. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2012.

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

A complete listing of investment holdings is available on request.

## Summary Data June 30, 2012

<b>Total Fund Market Value</b>	<b>\$36.8 billion</b>
1-Year Return (net of fees)	0.8%
3-Year Return (net of fees)	12.0%
5-Year Return (net of fees)	0.7%
10-Year Return (net of fees)	6.4%
Percent externally managed	100.0%
Number of external managers	159
Custodian	State Street Bank and Trust
General consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 39th out of the top 1,000 U.S. pension funds/plan sponsors according to *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2011.

## FUND PERFORMANCE VS. BENCHMARKS AND MARKET VALUES

As of June 30, 2012, TRS's total investments at market value totaled \$36.8 billion, a decrease of \$966 million from last year.

A summary of holdings and assets is discussed throughout the Investment Section. The totals represent the actual assets (gross of any liabilities, amounts due to brokers, and expenses). The liabilities of the fund are included in the Statements of Plan Net Assets located within the Financial Statements.

TRS had a total fund annualized return of 1.3 percent, gross of fees, and 0.8 percent, net of fees, for the one-year period ended June 30, 2012. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS total fund performance lagged the policy index by 1.6 percentage points for the year ended June 30, 2012. The policy index represents a weighted average of each asset class benchmark, based on the total fund's interim target asset allocation. The total return also lagged the 8.5 percent actuarial return assumption and the real rate of return expectation, which is to exceed the rate of inflation, as measured by the Consumer Price Index, by 5.0 percentage points.

### Performance Summary (net of fees)

Asset Class / Index	Years ended June 30					Annualized at 6/30/12		
	2012	2011	2010	2009	2008	3 Years	5 Years	10 Years
<b>TRS Total Fund</b>	<b>0.8%</b>	<b>23.6%</b>	<b>12.9%</b>	<b>(22.7%)</b>	<b>(5.0%)</b>	<b>12.0%</b>	<b>0.7%</b>	<b>6.4%</b>
TRS Weighted Policy Index	2.4	21.5	10.9	(18.6)	(4.1)	11.3	1.5	6.5
CPI (Inflation)	1.7	3.6	1.1	(1.4)	5.0	2.1	2.0	2.5
<b>TRS Equity - U.S.</b>	<b>1.0</b>	<b>32.9</b>	<b>17.0</b>	<b>(27.3)</b>	<b>(15.1)</b>	<b>16.2</b>	<b>(0.6)</b>	<b>5.3</b>
Russell 3000 Index	3.8	32.4	15.7	(26.6)	(12.7)	16.7	0.4	5.8
<b>TRS Equity - International</b>	<b>(11.7)</b>	<b>30.3</b>	<b>11.3</b>	<b>(31.9)</b>	<b>(7.7)</b>	<b>8.6</b>	<b>(4.3)</b>	<b>7.0</b>
Non-U.S. Equity Index	(14.8)	30.3	11.5	(30.5)	(6.2)	7.4	(4.2)	7.2
<b>TRS Fixed Income</b>	<b>5.7</b>	<b>8.9</b>	<b>16.8</b>	<b>4.9</b>	<b>5.1</b>	<b>10.4</b>	<b>8.2</b>	<b>6.5</b>
Barclays Capital U.S. Aggregate Index	7.5	3.9	9.5	6.1	7.1	6.9	6.8	5.7
<b>TRS Real Estate</b>	<b>9.9</b>	<b>17.8</b>	<b>(5.6)</b>	<b>(30.0)</b>	<b>4.5</b>	<b>6.9</b>	<b>(2.2)</b>	<b>7.0</b>
NCREIF Property Index	12.0	16.7	(1.5)	(19.6)	9.2	8.8	2.5	8.3
<b>TRS Private Equity</b>	<b>3.8</b>	<b>22.3</b>	<b>16.5</b>	<b>(17.9)</b>	<b>3.3</b>	<b>13.9</b>	<b>4.6</b>	<b>8.9</b>
Russell 3000 Index +3.0%*	6.9	36.2	19.2	(24.3)	(10.0)	20.2	3.4	9.0
<b>TRS Real Return</b>	<b>2.5</b>	<b>23.4</b>	<b>13.5</b>	<b>(26.2)</b>	<b>20.5</b>	<b>12.8</b>	<b>5.0</b>	<b>-</b>
CPI (Inflation) +5.0%*	6.7	8.7	6.1	3.5	10.3	7.2	7.0	-
<b>TRS Absolute Return</b>	<b>2.6</b>	<b>12.4</b>	<b>9.6</b>	<b>(13.9)</b>	<b>0.9</b>	<b>8.1</b>	<b>1.9</b>	<b>-</b>
90-day Treasury Bill +4.0%*	4.1	4.2	4.2	5.0	7.8	4.1	5.0	-

\* Index compounded monthly.

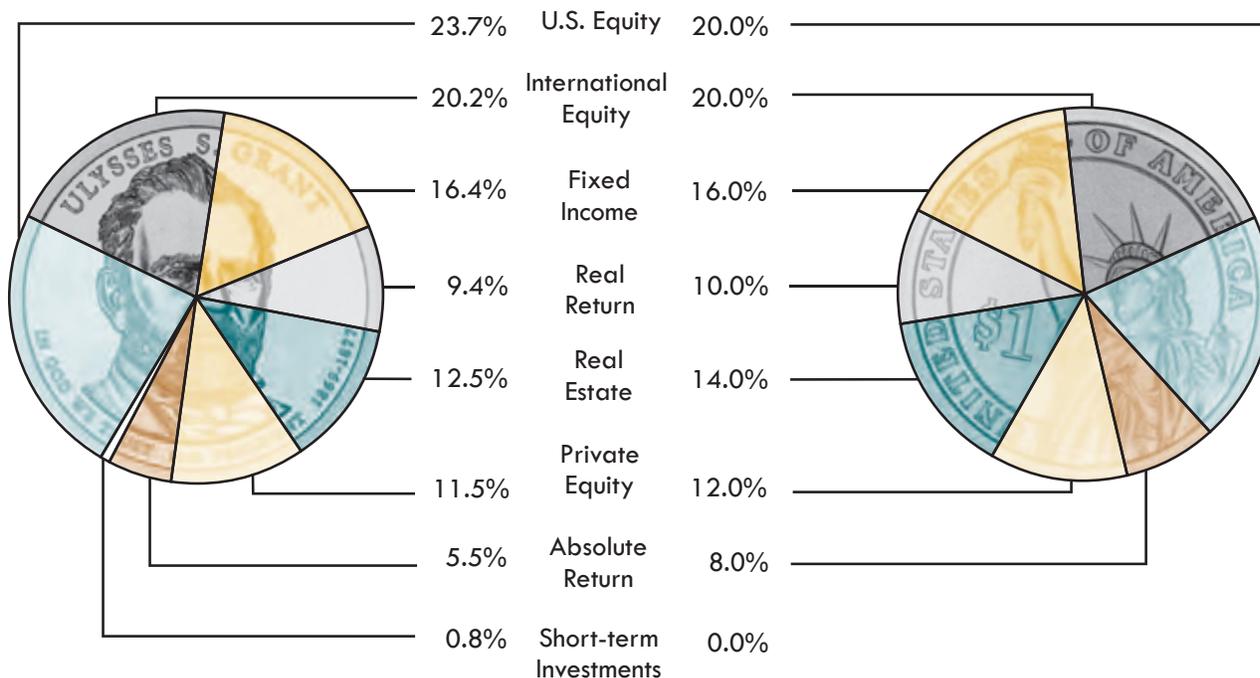
Note: Performance calculations provided by State Street Bank and Trust use net-of-fee time-weighted rates of return.

## ASSET ALLOCATION VS. TARGETS

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

### FY12 Asset Allocation

### Long-term Target Allocation



Through the fiscal year, TRS continued implementation of the asset allocation study adopted in April 2011. That study focused primarily on controlling the overall volatility of the investment portfolio given an uncertain global economic landscape. To accomplish that goal, the new targets called for continued evolution of the fund's diversification into the absolute return and private equity asset classes, with a gradual reduction in exposure to publicly-traded equity securities. In FY12, TRS was successful in prudently reallocating assets according to this plan.

The asset mix is periodically compared to the policy targets to determine when rebalancing of the fund or changes to the interim policy targets are necessary. The following Strategic Investment Listing table shows the asset allocation targets, as adopted by the Board of Trustees, compared to the total assets assigned to each particular asset class at June 30, 2012.

## Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/2012 Total Fund \$ Million	FY12			FY11	
		Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. equities	\$8,610	23.7%	26.0%	20.0%	27.5%	26.0%
International equities	7,330	20.2	20.0	20.0	19.7	20.0
Fixed income	5,956	16.4	16.0	16.0	16.7	15.0
Real return	3,423	9.4	10.0	10.0	9.8	10.0
Real estate	4,547	12.5	12.0	14.0	10.8	14.0
Private equity	4,178	11.5	9.5	12.0	9.7	10.0
Absolute return	1,978	5.5	5.0	8.0	4.0	5.0
Short-term investments	289	0.8	1.5	0.0	1.8	0.0
Pending settlements/expenses*	471	NA	NA	NA	NA	NA
<b>Total fund</b>	<b>\$36,782</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\* This amount is included within the liability section in the Statements of Plan Net Assets.

## PORTFOLIO SECURITIES SUMMARY

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

## Portfolio Securities Summary

	2012		2011	
	Market Value	% of Total	Market Value	% of Total
<b>Government Obligations</b>				
U.S. treasuries	\$229,515,472	0.6%	\$308,087,946	0.8%
U.S. federal agencies	139,056,624	0.4	160,285,470	0.4
U.S. government index-linked bonds	540,160,277	1.5	583,141,471	1.5
U.S. government-backed mortgages	801,736,346	2.2	789,535,623	2.1
U.S. government-backed bonds	-	-	2,381,562	0.0
U.S. government special situations	47,480,226	0.1	18,121,454	0.0
Municipals	56,047,855	0.2	75,498,564	0.2
<b>Credits</b>				
Bank loans	6,769,462	0.0	25,751,829	0.1
Financial	554,510,365	1.5	629,597,186	1.7
Industrial	862,324,358	2.3	821,577,307	2.2
Utilities	76,129,878	0.2	92,406,632	0.3
Asset-backed securities	171,507,017	0.5	270,560,959	0.7
Commercial mortgage-backed securities	155,105,622	0.4	151,249,137	0.4
Collateralized mortgage obligations	235,242,621	0.6	220,255,229	0.6
Commingled funds (U.S. and international)	1,102,978,257	3.0	938,933,952	2.5

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	2012		2011	
	Market Value	% of Total	Market Value	% of Total
Corporate convertible bonds	\$53,756,981	0.2%	\$76,330,713	0.2%
Foreign debt/corporate obligations	1,793,973,365	4.9	1,923,717,517	5.1
<b>Total Bonds, Corporate Notes, and Government Obligations</b>	<b>6,826,294,726</b>	<b>18.6</b>	<b>7,087,432,551</b>	<b>18.8</b>
<b>Equities</b>				
Common stock - U.S.	8,356,379,729	22.7	9,954,432,992	26.3
Preferred stock - U.S.	48,190,367	0.1	25,036,843	0.1
Common stock - international	7,221,828,129	19.6	7,283,625,451	19.3
Preferred stock - international	138,459,757	0.4	132,602,466	0.4
<b>Total Equities</b>	<b>15,764,857,982</b>	<b>42.8</b>	<b>17,395,697,752</b>	<b>46.1</b>
<b>Real Return Strategies</b>				
Commodity funds	203,954,165	0.6	324,692,417	0.8
Global macro strategies	2,223,289,523	6.0	2,449,240,426	6.5
Targeted real return	155,063,945	0.4	-	-
<b>Total Real Return Strategies</b>	<b>2,582,307,633</b>	<b>7.0</b>	<b>2,773,932,843</b>	<b>7.3</b>
<b>Short-Term Investments/ Cash Equivalents</b>	<b>885,036,978</b>	<b>2.4</b>	<b>1,299,196,172</b>	<b>3.5</b>
<b>Derivatives - Options, Futures, and Swaps</b>	<b>7,297,522</b>	<b>0.0</b>	<b>9,610,104</b>	<b>0.0</b>
<b>Foreign Currency</b>	<b>81,921,602</b>	<b>0.2</b>	<b>89,428,959</b>	<b>0.2</b>
<b>Absolute Return</b>	<b>1,978,268,562</b>	<b>5.4</b>	<b>1,485,565,992</b>	<b>3.9</b>
<b>Private Equity</b>	<b>4,175,728,282</b>	<b>11.4</b>	<b>3,615,944,356</b>	<b>9.6</b>
<b>Real Estate</b>	<b>4,480,390,766</b>	<b>12.2</b>	<b>3,991,533,162</b>	<b>10.6</b>
<b>TRS Total Portfolio</b>	<b>\$36,782,104,053</b>	<b>100.0%</b>	<b>\$37,748,341,891</b>	<b>100.0%</b>

## SECURITIES HOLDINGS (HISTORICAL)

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

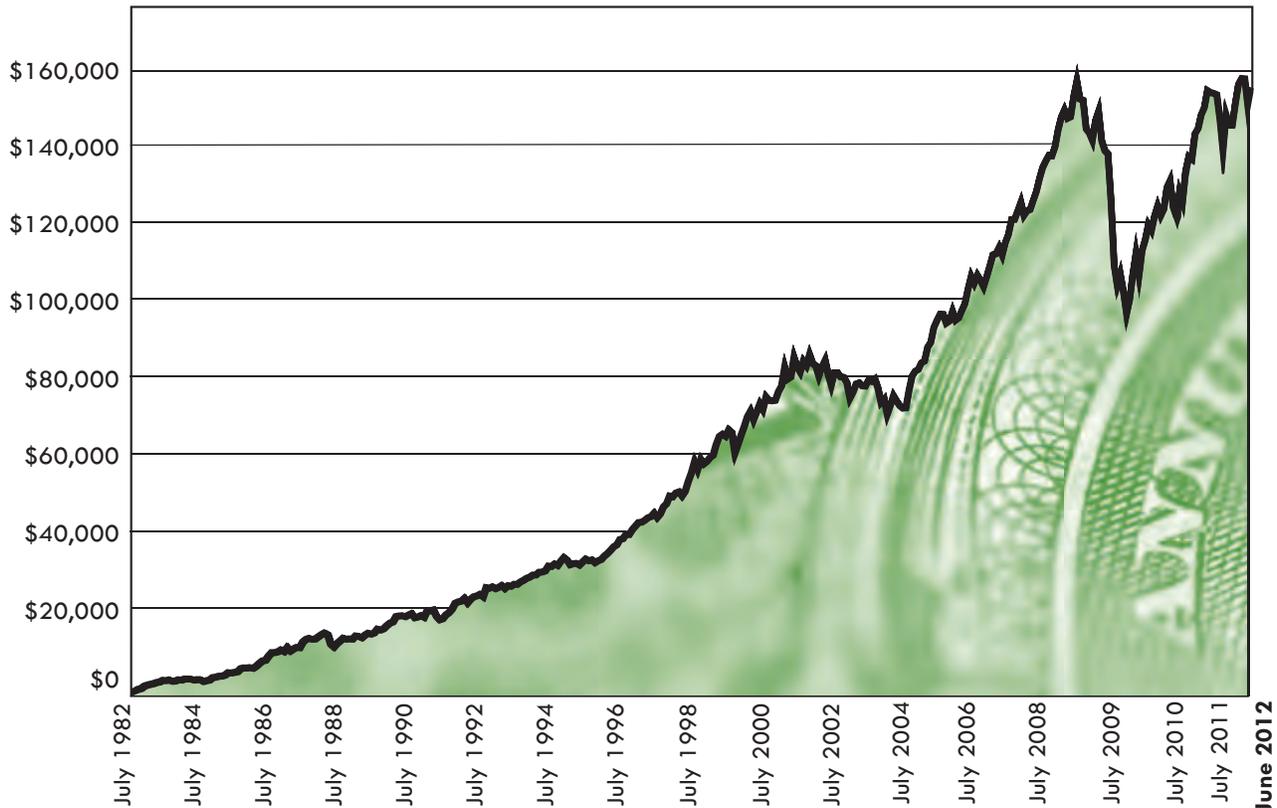
### Securities Holdings For Years Ended June 30

Asset Type	2012	2011	2010	2009	2008
Bonds, corporate notes, and government obligations	18.6%	18.8%	20.8%	22.0%	22.7%
Equities - U.S.	22.8	26.4	25.8	27.8	27.5
Equities - international	20.0	19.7	20.0	18.9	21.5
Real estate	12.2	10.6	10.3	11.6	12.1
Private equity	11.4	9.6	9.5	8.1	6.1
Real return	7.0	7.3	7.3	5.3	5.4
Short-term investments/currency	2.6	3.7	2.4	3.8	3.4
Absolute return	5.4	3.9	3.9	2.5	1.3
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: TRS

Over the years, TRS's asset allocation has provided consistent overall returns, as represented by the following chart showing the \$10,000 over the last 30 years.

## Growth of \$10,000



Source: TRS

The following sections provide a brief and informative overview of the various asset classes utilized by TRS for the period ended June 30, 2012.

## U.S. EQUITY

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

For the fiscal year, TRS's U.S. equity portfolio earned a 1.0 percent return on a net of fee basis, compared to the Russell 3000 Index gain of 3.8 percent. One-, three-, five-, and 10-year comparisons to this benchmark follow.

	<b>FY12</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
<b>TRS, net of fees</b>	<b>1.0%</b>	<b>16.2%</b>	<b>(0.6%)</b>	<b>5.3%</b>
Russell 3000 Index	3.8	16.7	0.4	5.8

The following top 10 U.S. equity holdings at June 30, 2012 represent 13.7 percent of total U.S. equity holdings. A complete listing of investment holdings is available as a separate report.

## Top 10 U.S. Equity Holdings at June 30, 2012

<b>Firm</b>	<b>Market Value</b>
Apple, Inc.	\$264,275,768
Exxon Mobil Corp.	169,396,682
Microsoft Corp.	113,315,638
Pfizer, Inc.	107,209,578
JP Morgan Chase & Co.	96,033,629
General Electric Co.	88,220,847
Google, Inc.	87,361,442
Chevron Corp.	80,391,528
Wells Fargo & Co.	78,935,254
Merck & Co., Inc.	69,169,897
<b>Total</b>	<b><u>\$1,154,310,263</u></b>

Source: State Street Bank and Trust and TRS.

At June 30, 2012, 23.7 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed the following U.S. equity managers during FY12.

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

<b>Index (Large Cap)</b>	
Rhumblin Advisors, L.P. (7/06)	\$1,699,003,714
<b>Enhanced Index (Large Cap)</b>	
MFS Institutional Advisors, Inc. (10/10)	553,483,752
Oakbrook Investments, L.L.C. (11/09)	185,687,706
T. Rowe Price Associates, Inc. (6/05)	654,813,276
<b>Large Cap Core</b>	
J.P. Morgan Investment Management, Inc. (12/07)	572,947,964
Levin Capital Strategies, L.P. (10/10)	547,383,573
<b>Large Cap Value</b>	
Denali Advisors, L.L.C. (4/08)	139,951,537
Loomis, Sayles & Company, L.P. (3/10)	443,814,650
Robeco Boston Partners Asset Management, L.P. (3/10)	554,028,434
<b>Large Cap Growth</b>	
T. Rowe Price Associates, Inc. (11/06)	631,979,267
Turner Investment, L.P. (6/04)	420,976,087
<b>Index (Small/Mid Cap Core)</b>	
Rhumblin Advisors, L.P. (5/07)	77,311,664
<b>Small/Mid Cap Value</b>	
Boston Company Asset Management, L.L.C. (7/08)	278,175,034
Cramer Rosenthal McGlynn, L.L.C. (3/09)	185,979,628
LSV Asset Management (12/02)	273,879,873
<b>Small/Mid Cap Growth</b>	
Boston Company Asset Management, L.L.C. (3/09)	240,761,921
Cortina Asset Management, L.L.C. (6/12)	108,356,824
State Street Global Markets (4/11)	102,505,540

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### Small Cap Growth

Emerald Advisors, Inc. (11/04)	\$198,539,550
Frontier Capital Management, L.L.C. (7/09)	212,970,633

### Small Cap Value

Fiduciary Management Associates, L.L.C. (7/08)	182,756,196
Lombardia Capital Partners, L.L.C. (11/08)	187,927,204

### Emerging Manager

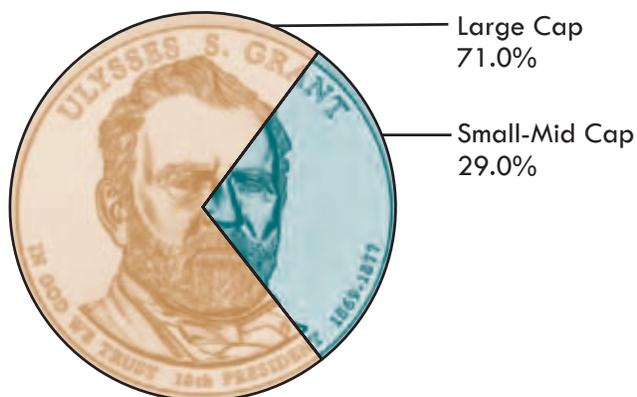
Channing Capital Management, L.L.C. (12/11)	33,167,298
Credo Capital Management, L.L.C. (6/09)	37,557,875
Herndon Capital Management, L.L.C. (3/11)	27,499,934
Lombardia Capital Partners, L.L.C. (3/10)	58,069,321

Note: The list does not include managers terminated prior to June 30, 2012 with residual assets in the account.

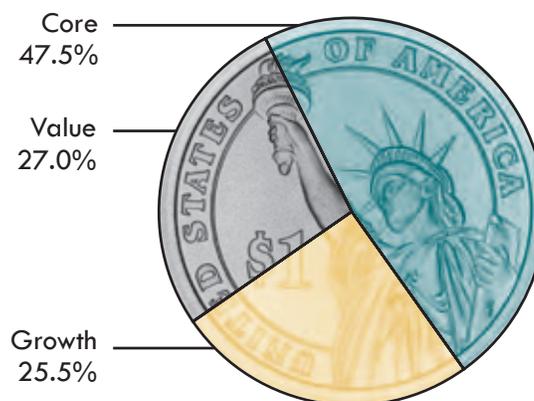
## Discussion of U.S. Equity

Investment managers are chosen to diversify the portfolio on both a capitalization and style basis. This diversification is important for controlling the risk of the portfolio, as well as balancing the portfolio against the broad benchmark and economy.

### Capitalization



### Market Style



Source: TRS Investment Policy

The broad U.S. equity market (Russell 3000 index) rose 3.8 percent in FY12. This followed an exceptional 32.4 percent rally in FY11. Equity market strength in the middle quarters of the fiscal year outweighed weakness at the beginning and ending quarters of the year when several macroeconomic factors (e.g. European debt crisis, U.S. fiscal policy, and weaker global economic conditions) drove investors into safer investments (e.g. U.S. Treasuries) despite the presence of strong U.S. corporate fundamentals. Accommodative monetary policy and temporary relief from macroeconomic headwinds brought some strength back into equities during the middle of FY12. Following solid relative outperformance in FY11, the plan's domestic equity portfolio underperformed the Russell 3000 benchmark by 2.8 percent in FY12. Similar to the experience with other institutional investors, the plan's active managers generally struggled with the atypically high market volatility. The portfolio's structural overweight to small cap securities also impacted performance during the fiscal year.

## Statistical Data

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

### TRS Domestic Equity as of June 30, 2012

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted average market cap (\$ billions)	\$72.9	\$89.2
Price/earnings ratio	17.8x	18.3x
Dividend yield	1.8%	2.1%
Beta	1.1	1.0
5-year EPS growth	10.6%	9.4%
Price/book ratio	3.5x	3.7x

Source: State Street Bank and Trust

### U.S. Equity – Diversification by Industry Sector for Year Ended June 30, 2012

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer discretionary	14.2%	12.0%
Consumer durables	7.4	9.7
Energy	8.5	9.7
Financial services	15.9	16.2
Health care	14.0	11.9
Industrials	12.4	11.2
Materials	3.2	3.9
Technology	19.3	18.8
Telecommunication services	2.1	2.8
Utilities	3.0	3.8
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: State Street Bank and Trust and TRS

## INTERNATIONAL EQUITY

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

For the year ended June 30, 2012, the international equity asset class declined 11.7 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country Excluding U.S. Investable Market Index (identified as Non-U.S. Equity Index in the following references) loss of 14.8 percent. One-, three-, five-, and 10-year comparisons to this benchmark are in the following table.

	FY12	3-Year	5-Year	10-Year
<b>TRS, net of fees</b>	<b>(11.7%)</b>	<b>8.6%</b>	<b>(4.3%)</b>	<b>7.0%</b>
Non-U.S. Equity Index	(14.8)	7.4	(4.2)	7.2

The top 10 international equity holdings as of June 30, 2012 follow and represent 9.7 percent of the total international equity holdings. These investments are diversified geographically and include companies that are dominant within their industry and familiar to the U.S. economy.

## Top 10 International Holdings at June 30, 2012

<b>Firm</b>	<b>Country</b>	<b>Market Value (USD)</b>
Vodafone Group PLC	United Kingdom	\$94,845,481
Nestle SA	Switzerland	82,462,925
Novartis AG	Switzerland	71,647,726
Sanofi	France	69,957,325
British American Tobacco PLC	United Kingdom	69,401,092
China Mobile LTD	Hong Kong	68,026,831
Roche Holding AG	Switzerland	65,512,423
Eni SpA	Italy	65,218,749
HSBC Holdings PLC	United Kingdom	61,993,906
BP plc	United Kingdom	61,321,604
<b>Total</b>		<b><u>\$710,388,062</u></b>

Source: State Street Bank and Trust and TRS

At June 30, 2012, 20.2 percent of the TRS investment portfolio was assigned to international equity managers. TRS employed the following international equity managers during FY12.

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

### Large Cap Core

Aberdeen Asset Management, Inc. (7/10)	\$564,103,668
Northern Trust Investments, N.A. (8/10)	1,838,044,267

### Large Cap Growth

Jarislowsky, Fraser Limited (8/05)	365,756,536
McKinley Capital Management, Inc. (8/05)	727,039,002
Trilogy Global Advisors, L.L.C. (8/07)	344,024,487

### Large Cap Value

Brandes Investment Partners, L.P. (2/98)	655,260,436
Mondrian Investment Partners Limited (4/93)	805,744,417

### Small/Mid Cap

American Century Global Investment Management, Inc. (6/08)	229,440,166
Dimensional Fund Advisors, L.P. (6/08)	335,059,492
Putnam Advisory Company, L.L.C. (3/09)	211,904,882
State Street Global Markets (8/07)	22,314,569

### Emerging Manager

Strategic Global Advisors (3/11)	22,931,505
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### Emerging Markets

Aberdeen Asset Management, Inc. (3/08)	574,829,625
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	633,223,467

Note: The list does not include managers terminated prior to June 30, 2012 with residual assets in the account.

## Discussion of International Equity

The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio.

## International Equity Manager Structure

International Equity Classification	Target	Actual
Large Cap Core	32.5%	32.9%
Large Cap Growth	20.0	19.7
Large Cap Value	20.0	20.0
Small/Mid Cap	11.0	10.9
Emerging Markets	16.5	16.5
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

International equity markets registered meaningful losses for the year ended June 30, 2012. Markets suffered a steep decline during the first quarter of the fiscal year, falling nearly 20.0 percent as investors sold international equities over fears of weakening global economic conditions and heightened concerns regarding the Euro-based sovereign debt crisis. Economically sensitive sectors such as materials, energy, industrials and financials, particularly within the Euro region, led equity markets lower during the quarter.

Over the middle six months of the fiscal year investor fears alleviated driving international markets up 15.0 percent and erasing a majority of the first quarter losses. However, investor caution returned in the final fiscal quarter as Euro-sovereign debt issues resurfaced, leading to a 7.8 percent retreat.

The TRS international equity portfolio outperformed the benchmark return by 3.1 percent during the year. Positive excess returns were driven by the portfolio's defensive sector positioning relative to the index. TRS managers' positioned the portfolio by over-weighting specific sectors including telecom, consumer staples and healthcare at the expense of more economically sensitive sectors such as materials, energy and industrials.

## Portfolio Characteristics

The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio as of June 30, 2012.

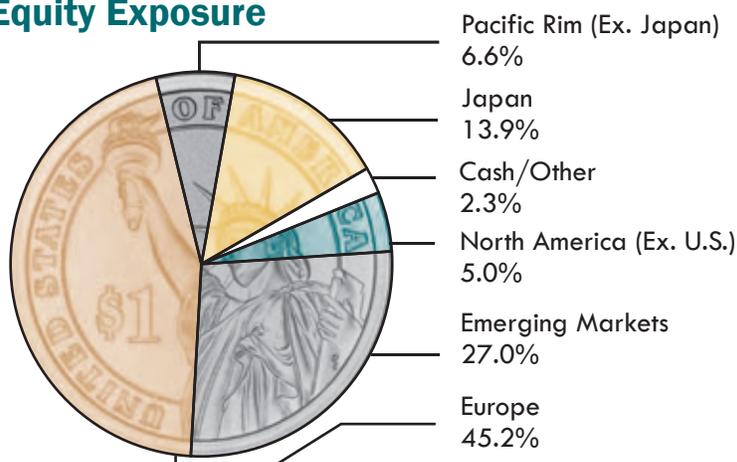
### International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted average market cap (\$ billions)	\$39.5	\$42.3
Price/earnings ratio	12.4x	12.8x
Dividend yield	3.7%	3.6%
Price/book ratio	2.5x	2.4x

Source: State Street Bank and Trust

### Regional Allocation Comparison at June 30, 2012

#### TRS International Equity Exposure



## GLOBAL FIXED INCOME

Global fixed income is a financial obligation of an entity including, but not limited to, U.S. and foreign corporations, governments, agencies, indices, or municipalities. These entities promise to pay a specified sum of money at a future date, while paying specified interest during the term of the issue. A fixed or floating income security represents a contractual obligation of a debt or a loan, with the issuer of debt as the borrower of capital, and the purchaser, or holder of bonds, as the creditor or lender.

Global fixed income is an important asset class in a well-diversified portfolio. Fixed income investments can reduce volatility, offer low or negative correlation to other asset classes and provide income streams, or coupons, essential to the growth of the overall portfolio.

For the year ended June 30, 2012, the TRS fixed income portfolio returned 5.7 percent, net of fees, compared to the 7.5 percent return of the benchmark, the Barclays Capital U.S. Aggregate Index. For periods longer than five years, TRS utilized a blended index of U.S. and non-dollar indices.

One-, three-, five-, and 10-year comparisons to the relative benchmark follow.

	FY12	3-Year	5-Year	10-Year
<b>TRS, net of fees</b>	<b>5.7%</b>	<b>10.4%</b>	<b>8.2%</b>	<b>6.5%</b>
Barclays Capital U.S. Aggregate Index	7.5	6.9	6.8	5.7

The following table lists the top 10 global fixed income investments or funds held by TRS as of June 30, 2012. A complete listing of investment holdings is available as a separate report.

### Top 10 Global Fixed Income Holdings at June 30, 2012

Security/Position	Market Value
Franklin Templeton Emerging Market Debt Fund	\$427,957,514
Loomis Sayles Absolute Strategies Trust	215,593,012
PIMCO Global Advantage Strategy Bond Fund	208,148,792
Federal National Mortgage Association TBA	176,111,040
PIMCO Distressed Senior Credit Opportunities Fund II	128,104,331
United Kingdom of Great Britain Treasury	68,893,380
Federal National Mortgage Association TBA	65,170,304
U.S. Treasury Inflation Linked Bond	57,883,109
PIMCO Bank Recapitalization and Value Opportunities Fund	52,665,843
U.S. Treasury Inflation Linked Bond	52,245,954
<b>Total</b>	<b><u>\$1,452,773,279</u></b>

Source: State Street Bank and Trust and TRS

At June 30, 2012, 16.4 percent of the TRS investment portfolio was assigned to global fixed income. TRS employed the following fixed income managers during FY12. This excludes fixed income-type assets overseen by managers in other asset classes containing fixed income securities as a small part of their overall strategies.

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

Dolan McEniry Capital Management, L.L.C. (5/06)	\$428,468,763
Franklin Advisers, Inc. (2/08)	761,255,361
Franklin Templeton Investment Management Limited (12/10)	427,957,514
Garcia Hamilton & Associates, L.P. (6/10)	28,752,200

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(continued)

Hartford Investment Management Company (3/11)	\$274,213,210
LM Capital Group, L.L.C. (12/09)	40,348,782
Loomis Sayles & Company, L.P. (6/08)	708,550,669
Loomis Sayles Trust Company L.L.C. (3/11)	215,593,888
MacKay Shields L.L.C. (8/11)	599,108,146
Manulife Asset Management, L.L.C. (8/11)	357,676,992
Oaktree PPIP Private Fund, L.P. (3/10)	47,480,226
Pacific Investment Management Company, L.L.C. (7/82)	531,642,739
Pacific Investment Management Company, L.L.C. Unconstrained Bond (3/11)	359,725,862
Pacific Investment Management Company Bank Recapitalization and Value Opportunities Bravo Fund, L.P. (1/11)	52,665,843
Pacific Investment Management Company Distressed Senior Credit Opportunities Fund II, L.P. (11/11)	128,105,080
Pacific Investment Management Company Global Advantage Strategy Bond Fund (3/11)	208,148,792
Prudential Investment Management, Inc. (12/08)	573,942,289
Taplin, Canida & Habacht (3/04)	119,902,739
Westwood Management Corp. (6/12)	78,031,748

Note: This list does not include certain managers terminated prior to June 30, 2012 with residual assets in the account.

## Discussion of Global Fixed Income

TRS's global fixed income portfolio modestly underperformed the Barclays Capital U.S. Aggregate index by 1.8 percent, net of fees, during the fiscal year. The global fixed income portfolio has very low exposure to U.S. treasury securities due to their low yields and the high debt levels of the U.S. government. The flight to quality in late 2011, due to European concerns and deteriorating views on global growth prospects, negatively impacted the overall composite. However, this created numerous relative value opportunities that should position the portfolio well into late 2012 and 2013. The TRS fixed income portfolio has a yield premium of nearly 2 percent over the index, yet with a lower duration that stabilized with the U.S. Federal Reserve's decision for additional quantitative easing.

TRS continues to add investments that take advantage of special situations within the marketplace. TRS is focused on an appropriate allocation of risk, lower volatility than duration matched treasuries, higher income, and overall global flexibility within the portfolios as global debt markets concerns are expected to continue.

## Statistical Data

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

## Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/12	Barclays Capital Aggregate Index 6/30/12	TRS Fixed Income Portfolio 6/30/11	Barclays Capital Aggregate Index 6/30/11
Average maturity	6.0 years	6.7 years	7.2 years	7.0 years
Effective duration	4.2 years	5.1 years	5.0 years	5.0 years
Average coupon	3.9%	3.9%	4.9%	4.3%
Average quality rating	A3	Aa1	A2	Aa1
Current yield	5.2%	3.5%	4.3%	2.8%

Source: State Street Bank and Trust and TRS

## Diversification by Quality Rating for Individual Bonds

Moody's Quality Rating	2012	2011
Aaa*	46.2%	46.9%
Aa1 through Aa3	4.1	5.9
A1 through A3	7.0	9.6
Baa1 through Baa3	20.9	16.8
Ba1 through Ba3	9.8	8.5
B1 through B3	6.5	5.1
Under B3	2.0	1.7
Other**	3.5	5.5
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

\* U.S. Treasury securities are included

\*\* Other includes unrated securities

Source: State Street Bank and Trust and TRS

## REAL RETURN

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

The objective of the real return asset class is to exceed the Consumer Price Index (CPI) by 5.0 percentage points over a five- to 10-year period of time. Real return strategies are generally less correlated with traditional stock and bond portfolios and provide inflation protection and excess returns during periods of rising inflation while reducing overall risk to the total fund. It should be noted that the CPI is not an investible benchmark, but is utilized as a benchmark given the inflation focus of the asset class. For the year ended June 30, 2012, TRS's real return asset class earned 2.5 percent, net of fees, compared to the 6.7 percent return of the benchmark.

	FY12	3-Year	5-Year
<b>TRS, net of fees</b>	<b>2.5%</b>	<b>12.8%</b>	<b>5.0%</b>
Consumer Price Index + 5%	6.7	7.2	7.0

At June 30, 2012, 9.4 percent of TRS's investment portfolio was assigned to real return managers. As of June 30, 2012, TRS employed the following managers and/or funds including their respective assets under management.

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

### Global Inflation-linked Bonds

New Century Advisors, L.L.C. (2/08)	\$215,830,257
Pacific Investment Management Company, L.L.C. (5/07)	573,956,570

### Global Macro/ Risk Parity Strategies

AQR Global Risk Premium Tactical Fund II, Ltd. (7/07)	681,301,192
Bridgewater All Weather Portfolio Limited (7/07)	771,122,051
PIMCO Global Multi-Asset Strategy (12/09)	420,258,608
Standard Life Investments Limited (6/12)	269,586,688

### Targeted Real Return

AQR Real Return Fund, L.P. (6/12)	155,063,945
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### Commodities

Flintlock Commodity Opportunities Master Fund, L.P. (11/11)	13,503,913
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Note: The list does not include managers terminated prior to June 30, 2012 with residual assets in the account.

## Discussion of Real Return

The real return asset class serves as a portfolio diversifier and protects against unanticipated and actual inflation within the total fund. The real return portfolio is expected to maintain a risk/return profile between global equities and fixed income. The three and five-year risk and return statistics have met this expectation. The real return portfolio generated a 2.5 percent return, net of fees, for the fiscal year ending June 30, 2012. This was led by global inflation-linked portfolios returning 7.3 percent, followed by global macro/risk parity mandates, returning 3.3 percent. The portfolio was negatively impacted by equity and commodity markets as continued European concerns and diminished growth expectations continued to pressure these markets.

During the year TRS reduced exposures to certain commodity portfolios in lieu of more diversified real return approaches. This modest change is not only expected to reduce costs and fees, but is expected to take advantage of inflation expectations and reduce overall volatility within the portfolio. The policy target for real return remains 10.0 percent of total fund.

## Real Return Targets and Actual Allocation as of June 30, 2012

Real Return Subclasses	Target	Actual
Global inflation-linked bonds	24.0%	23.1%
Global macro/risk parity strategies	66.0	66.4
Targeted real return*	10.0	10.5
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

\* Includes commodity mandates terminated prior to June 30, 2012

Source: TRS

## PRIVATE EQUITY

Private equity includes investments that are placed and traded outside of the stock exchanges and other public markets. Over the long term, they are an attractive investment for pension funds, endowments, insurance companies, and other sophisticated investors. The investment class benefits the economy by providing needed capital to start-up companies and for continued growth in privately held companies and firms that are restructuring to better compete. There is additional risk investing in private equity, but with skillful selection of managers, returns can be significantly higher than public equity investments.

The asset class is commonly referred to as private equity, even though it includes privately placed debt instruments as well. Often, the debt includes a control position that is similar to equity because it allows the debt holder to influence the operations and management of the company. TRS is widely diversified across all subsectors within private equity, including buyout, growth equity, venture capital, subordinated debt, and distressed debt.

TRS measures private equity performance against the Russell 3000 stock index plus 300 basis points (3 percentage points). This benchmark does not specifically compare performance to the private equity industry, but rather to the TRS long-term expectation that private equity produce returns superior to the public markets. For the one-year period ended June 30, 2012, private equity earned 3.8 percent on a net of fee basis, compared to the benchmark gain of 6.9 percent.

In general, an investor must look at a longer-term investment horizon to measure the success of a private equity program. TRS's investments in private equity maintain a very strong long-term return. One-, three-, five-, and 10-year comparisons to the benchmark are noted in the following table.

	FY12	3-Year	5-Year	10-Year
<b>TRS, net of fees</b>	<b>3.8%</b>	<b>13.9%</b>	<b>4.6%</b>	<b>8.9%</b>
Russell 3000 Index + 3.0%	6.9	20.2	3.4	9.0

At June 30, 2012, 11.5 percent of the TRS investment portfolio was assigned to the private equity asset class. The FY12 policy target for private equity is 12 percent of the total fund. The following chart lists the private equity partnerships/funds (and the respective assets under management) that TRS has investments with as of June 30, 2012.

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

### Buyout

Advent International GPE VI, L.P. (7/08)	\$64,213,009
Apollo Investment Fund V, L.P. (5/01)	62,406,516
Apollo Investment Fund VI, L.P. (5/06)	156,549,838
Apollo Investment Fund VII, L.P. (1/08)	245,535,628
Apollo Investment Fund VII Annex A (5/12)	29,376,515
Banc Fund VI, L.P. (6/02)	33,113,688
Banc Fund VII, L.P. (5/05)	26,648,577
Baring Asia Private Equity Fund V, L.P. (3/11)	15,207,905
Black River Capital Partners Fund (Food), L.P. (8/11)	19,377,253
Blackstone Capital Partners VI, L.P. (8/11)	16,622,373
Blackstone Capital Partners VI Annex A (10/11)	19,579,754
Carlyle Partners IV, L.P. (4/05)	86,089,400
Carlyle Partners V, L.P. (7/07)	131,730,672
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	62,577,362
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (4/06)	79,838,780
Castle Harlan Partners IV, L.P. (5/03)	9,794,436
Code Hennessy & Simmons V, L.P. (2/05)	27,751,695
DLJ Merchant Banking Partners II, L.P. (3/97)	2,431,928
DLJ Merchant Banking Partners III, L.P. (9/00)	33,973,898
EIF United States Power Fund IV, L.P. (11/11)	13,308,445
Elevation Partners, L.P. (4/05)	16,214,343
Energy Capital Partners I, L.P. (4/06)	25,943,382
Energy Capital Partners II-A, L.P. (9/09)	26,793,768
Energy Capital Partners II Annex A (10/11)	30,767,007
EnerVest Energy Institutional Fund XII-A, L.P. (12/10)	28,155,505
EQT VI, L.P. (9/11)	5,593,570
Evercore Capital Partners II, L.P. (4/03)	23,764,055
GI Partners (1/09)	49,915,403
Glencoe Capital Partners III, L.P. (1/04)	11,959,780
Glencoe Capital Institutional Partners III, L.P. (6/04)	4,957,198
Green Equity Investors V, L.P. (8/07)	86,073,320
GTCR Fund VII/VIIA, L.P. (3/00)	284,525
GTCR Fund VIII, L.P. (7/03)	16,251,826
ICV Partners II, L.P. (1/06)	9,435,196
J.C. Flowers II, L.P. (2/07)	11,159,397
KKR 1996 Fund, L.P. (5/97)	865,709
Littlejohn Fund IV, L.P. (7/10)	41,587,174
Madison Dearborn V, L.P. (7/06)	81,622,285
MBK Partners Fund II, L.P. (5/09)	23,055,639
Mesirow Capital Partners VII, L.P. (6/97)	623,079
Morgan Creek Partners Asia, L.P. (1/11)	38,885,537
NGP Natural Resources X, L.P. (5/12)	5,763,126

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New Mountain Partners III, L.P. (8/07)	\$71,466,166
Onex Partners III, L.P. (04/09)	22,633,098
PAI Europe V, L.P. (4/08)	22,185,220
Pine Brook Capital Partners, L.P. (1/08)	32,470,327
Providence Equity Partners VI, L.P. (3/07)	114,269,523
Providence Equity Partners VII, L.P. (6/12)	12,509,591
Reliant Equity Partners, L.P. (6/04)	139,726
Rhone Partners IV, L.P. (1/12)	4,189,509
Riverstone/Carlyle Global Energy and Power Fund IV, L.P. (3/08)	79,175,791
Riverstone Global Energy and Power Fund V, L.P. (6/12)	75,215,650
Silver Lake Partners III, L.P. (8/07)	56,600,486
Silver Lake Partners III Annex A (12/11)	38,891,340
Siris Partners II, L.P. (1/12)	9,298,903
Stone Point Capital Annex A (10/11)	20,438,842
Stone Point Capital Trident V, L.P. (12/10)	25,516,984
TCW/Latin America Private Equity Partners, L.P. (5/97)	24,558
Thayer Equity Investors V, L.P. (5/03)	58,679,187
TPG Partners IV, L.P. (12/03)	25,255,748
TPG Partners VI, L.P. (4/08)	77,657,683
Trilantic Capital Partners III, L.P. (4/05)	16,002,391
Trilantic Capital Partners IV, L.P. (10/07)	36,060,316
Trustbridge Partners IV, L.P. (12/11)	12,111,383
Veritas Capital Fund IV, L.P. (11/10)	41,141,647
Veritas Capital Fund IV, L.P. Annex A (2/11)	8,022,264
Vicente Capital Partners Growth Equity Fund, L.P. (4/08)	6,213,854
Vista Equity Partners Fund III, L.P. (11/07)	76,026,865
Vista Equity Partners Fund IV, L.P. (10/11)	30,849,347
VS&A Communications Partners II, L.P. (8/95)	1,425,415
VSS Communications Partners IV, L.P. (3/05)	33,199,339
Warburg Pincus International Partners, L.P. (9/00)	50,190,909
Warburg Pincus Private Equity IX, L.P. (9/05)	106,308,317
Warburg Pincus Private Equity X, L.P. (10/07)	239,842,172
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	51,172,737
Windpoint Partners VI, L.P. (2/06)	12,324,492
WPG Corporate Development Associates V, L.P. (11/97)	355,836

#### **Distressed Debt**

Avenue Europe Special Situations Fund, L.P. (5/08)	4,890,506
Avenue Special Situations Fund V, L.P. (10/07)	7,009,342
Blackstone/GSO Capital Partners (9/09)	95,983,686
Carlyle Strategic Partners, L.P. (10/04)	3,729,904
Clearlake Capital Partners II, L.P. (7/09)	19,837,443
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	2,737,059
MatlinPatterson Global Opportunities Fund III, L.P. (6/07)	58,409,488
MatlinPatterson Preferred II (3/09)	7,856,741
Oaktree Annex A (11/10)	28,398,984
Oaktree Opportunities Fund VIII, L.P. (3/10)	112,236,050
Oaktree Opportunities Fund VIIIb, L.P. (8/11)	20,652,868
OCM Opportunities Fund V, L.P. (6/04)	3,840,737
OCM Opportunities Fund VIIb, L.P. (6/08)	61,334,961
OCM European Principal Opportunities Fund II, L.P. (8/08)	64,157,176
Oaktree European Principal Fund III, L.P. (11/11)	19,223,533

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### **Subordinated Debt**

Maranon Mezzanine Fund, L.P. (8/09)	\$16,783,193
Merit Mezzanine Fund IV, L.P. (1/05)	29,357,895
Prism Mezzanine Fund, L.P. (12/04)	7,121,910
SW Pelham Fund II, L.P. (9/03)	859,738
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	32,328,393
William Blair Mezzanine Capital Fund II, L.P. (5/97)	105,734
William Blair Mezzanine Capital Fund III, L.P. (1/00)	4,775,040

### **Venture Capital**

21st Century Communications T-E Partners, L.P. (2/95)	258,517
Apex Investment Fund V, L.P. (8/03)	8,518,472
Carlyle Venture Partners II, L.P. (10/02)	32,625,819
Carlyle U.S. Growth Fund III, L.P. (6/07)	39,002,845
Edgewater Growth Capital Partners, L.P. (11/03)	6,428,973
Edgewater Growth Capital Partners II, L.P. (2/06)	17,374,771
Edgewater Growth Capital Partners III, L.P. (9/11)	11,623,812
Evergreen Partners IV, L.P. (12/02)	11,309,244
Evergreen Partners V, L.P. (6/07)	13,872,443
Granite Ventures II, L.P. (5/05)	14,984,051
HealthpointCapital Partners, L.P. (6/04)	19,805,731
Hopewell Ventures, L.P. (6/04)	4,441,659
Illinois Emerging Technologies Fund, L.P. (6/04)	1,625,424
JMI Equity Fund VII, L.P. (2/11)	10,512,150
Lightspeed Venture Partners IX, L.P. (3/12)	2,049,969
Morgan Creek Partners Venture Access Fund, L.P. (1/12)	13,973,321
Longitude Venture Partners, L.P. (3/08)	28,892,307
SCP Private Equity Partners, L.P. (5/97)	244,210
SCP Private Equity Partners II, L.P. (6/00)	45,022,663
Shasta Ventures, L.P. (1/05)	25,029,320
Sofinnova Venture Partners VIII, L.P. (8/11)	207,390
Starvest Partners, L.P. (1/09)	7,903,649
Technology Crossover Ventures VII, L.P. (10/08)	28,493,693
VantagePoint Venture Partners IV, L.P. (6/00)	36,222,028
VantagePoint Venture Partners 2006 (Q), L.P. (12/06)	39,358,124
WPG Enterprise Fund II, L.P. (8/94)	1,929,046
WPG Enterprise Fund III, L.P. (3/97)	8,795,032

## **Discussion of Private Equity**

TRS's private equity portfolio earned 3.8 percent, net of fees, during the fiscal year. While under its one-year benchmark, private equity has outperformed on a long-term basis. The long-term performance strength of the private equity program and the asset class's diversification both benefit the overall portfolio. TRS continues to prudently increase its exposure to private equity. In April 2011, the Board of Trustees adopted a new asset allocation study that increased the private equity allocation target to 12 percent. Successful implementation of this target is subject to many factors, including public market performance and sufficient availability of high quality private equity opportunities in the market.

The following chart provides a further breakdown of TRS's targeted style allocation as compared to the actual allocation at June 30, 2012.

## Private Equity Target and Actual Allocation as of June 30, 2012

Subclasses	Target	Actual
Buyout	60-80%	75.3%
Venture capital	5-20	10.3
Special situations/distressed debt/subordinated debt	10-25	14.4
<b>Total</b>		<b>100.0%</b>

Source: TRS

TRS made new commitments to 16 separate private equity funds totaling nearly \$1.5 billion during the fiscal year. Included in this total were funds designed to participate in sector growth opportunities (i.e. energy, technology) and specific geographies exhibiting strong risk adjusted return potential. TRS remains opportunistic with its private equity investment approach and continues to diversify its private equity portfolio for the global opportunity set. For FY13, the TRS private equity tactical plan calls for new commitments of approximately \$900 to \$1,400 million within the asset class.

## ABSOLUTE RETURN

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

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

For the year ended June 30, 2012, TRS's absolute return investment asset class earned 2.6 percent, net of fees, compared to the 4.1 percent return of the benchmark.

	FY12	3-Year	5-Year
<b>TRS, net of fees</b>	<b>2.6%</b>	<b>8.1%</b>	<b>1.9%</b>
Treasury Bill + 4%	4.1	4.1	5.0

Investments in absolute return are administered via both direct investment manager relationships and diversified fund of funds. At June 30, 2012, 5.5 percent of TRS's investment portfolio was assigned to absolute return managers. TRS employed the following managers including their respective assets under management.

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

Diversified Funds	
Bridgewater Pure Alpha Fund I (1/09)	\$291,676,407
Diversified Fund of Funds	
Grosvenor Monarch Fund, L.L.C. (6/07)	397,124,733
K2 Bluegill Fund, L.L.C. (6/07)	563,057,622
Direct Investment Funds	
Grosvenor Monarch Fund, L.L.C. (Monarch Series B) (3/11)	371,936,450
K2 Bluegill Fund, L.L.C. (Bluegill Series B) (3/11)	327,672,260
Emerging Manager	
Lasair Capital L.L.C. (8/09)	26,801,090

The following chart provides a further breakdown of TRS's targeted style allocation as compared to the actual allocation at June 30, 2012. The absolute return portfolio has continued to reduce exposure to fund of funds and implement direct fund investments through fiscal year end. Not reflected in the chart below, but effective July 1, 2012, TRS allocation targets were updated to reflect an increase to credit funds, offset by a decrease to fund of funds.

## Absolute Return Target and Actual Allocation as of June 30, 2012

Subclasses	Target	Range	Actual
Fund of Funds	60.0%	+/- 15%	48.5%
Equity Focus	10.0	+/- 10%	1.4
Credit Focus	10.0	+/- 10%	29.0
Event/Macro/Other	20.0	+/- 10%	21.1
<b>Total</b>	<b>100.0%</b>		<b>100.0%</b>

Source: TRS

## Discussion of Absolute Return

The absolute return asset class weathered the chaos of the markets fairly well returning 2.6 percent during the fiscal year. Over the past year, TRS has increased exposure to credit focused funds which have performed well over the past 12 to 24 months. Over the longer term, TRS has underperformed the Treasury bill plus 4 percent benchmark due to its modest exposure to equity markets which remained flat over the five-year period reported above. However, consistent with the intent of the asset class, the absolute return portfolio continued to exhibit a low-risk profile with volatility less than one-third of U.S. public equities.

## REAL ESTATE

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

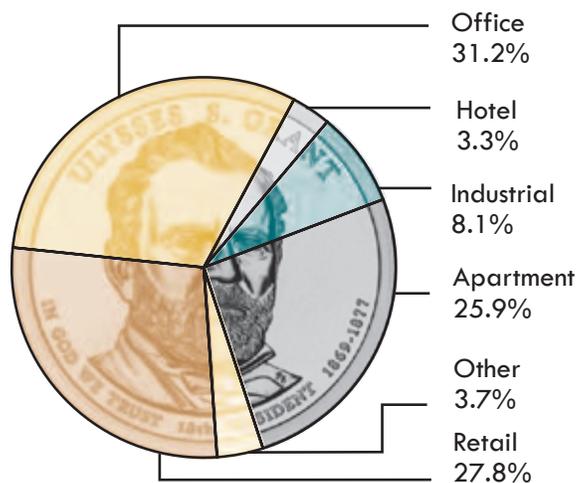
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2012, TRS held \$4.5 billion in real estate assets, or 12.5 percent of the total fund portfolio. For the fiscal year, TRS's real estate investments earned 9.9 percent, net of fees. Real estate performance and benchmark comparisons are noted in the following table.

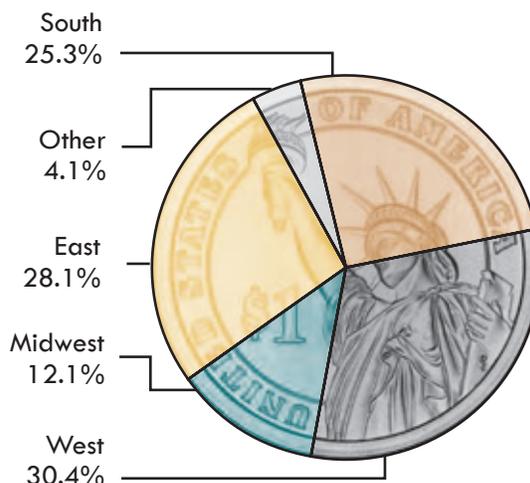
	FY12	3-Year	5-Year	10-Year
<b>TRS, net of fees</b>	<b>9.9%</b>	<b>6.9%</b>	<b>(2.2%)</b>	<b>7.0%</b>
NCREIF Property Index	12.0	8.8	2.5	8.3

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

### Real Estate Holdings by Type as of June 30, 2012



### Geographic Diversification of Real Estate Holdings as of June 30, 2012



Professional real estate advisors manage real estate owned by TRS. Separate account managers administer TRS's direct investments in real estate assets. Closed-end and open-end accounts represent partnership interests in real estate funds including TRS's international real estate accounts. As of June 30, 2012, TRS employed the following managers including their respective assets under management.

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

Separate Accounts	
Capri/Capital Advisors, L.L.C. (12/91)	\$850,549,188
Cornerstone Real Estate Advisors, L.L.C. (7/08)	272,890,191
Cornerstone II S/A (7/09)	12,627,656
Cornerstone III S/A (8/09)	48,883,383
Heitman Capital Management, L.L.C. (7/09)	956,753,163
Invesco Institutional (N.A.), Inc. (7/08)	349,137,851
Koll Bren Schreiber Realty Advisors I (6/93)	367,661,834
LPC Realty Advisors I, Ltd. (7/92)	433,115,949
LPC Realty Advisors Core, Ltd. (4/07)	101,772,891
Closed-End Accounts	
Beacon Capital Strategic Partners V, L.P. (8/07)	42,049,746
Blackstone Real Estate Partners VI, L.P. (9/07)	58,488,494
Blackstone Real Estate Partners VII, L.P. (1/12)	44,962,053
Capri Capital Advisors Apartment Fund III, L.P. (11/02)	151,810,967
Capri Select Income Fund II, L.L.C. (12/05)	4,574,360
Carlyle Realty Partners IV, L.P. (6/05)	45,809,191
Cornerstone Hotel Income & Equity Fund II, L.P. (7/08)	30,450,462
JBC Opportunity Fund II, L.P. (5/03)	2,146,544
JER Real Estate Qualified Partners III, L.P. (1/05)	28,440,062
Thayer Hotel Investors IV, L.P. (5/04)	7,072,367
Walton Street Real Estate Fund IV, L.P. (7/03)	61,027,644
Walton Street Real Estate Fund VI, L.P. (4/09)	69,443,111

(continued)

(continued)

### Open-End Accounts

Hines U.S. Core Office Fund, L.P. (12/05)	\$177,547,636
Lion Industrial Trust (4/05)	176,121,104

### International Real Estate Accounts

Carlyle Europe Real Estate Partners III, L.P. (9/07)	49,443,925
CB Richard Ellis Strategic Partners Europe Fund III, L.P. (4/07)	27,585,079
CB Richard Ellis Strategic Partners UK Fund III, L.P. (5/07)	10,684,393
LaSalle Asia Opportunity Fund III, L.P. (11/07)	32,244,875
MGPA Asia Fund III, L.P. (12/07)	63,597,548
Niam Nordic V, L.P. (4/12)	3,499,098

### Real Estate Investment Trust

Cornerstone Real Estate Advisors, L.L.C. (9/11)	66,420,900
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## Discussion of Real Estate

TRS's real estate portfolio earned 9.9 percent during the fiscal year and represented the highest returning asset class in the TRS fund. As the recovery in the commercial property markets continued, core properties, which are highly-leased and well-located assets, remained the focal point of investor demand. Investors targeted the core commercial property sector to gain exposure to improving fundamentals while seeking consistent income returns with lower risk. This demand has led to improved property pricing resulting in consecutive years of strong positive performance within the asset class. Moving forward, investment managers remain focused on upgrading the portfolio by selectively selling less strategic assets while purchasing properties better aligned to meet long-term performance goals. The near-term outlook remains positive in the real estate portfolio as the recovery has started to extend beyond core properties in core locations. A continued recovery will improve property values throughout the market and continue to drive strong performance results. Real estate assets represent 12.5 percent of the total fund portfolio as of June 30, 2012 (up from 10.8 percent as of June 30, 2011). The TRS investment portfolio maintains a long-term target allocation of 14.0 percent to real estate.

## SECURITIES LENDING

TRS participates in securities lending with its custodian, State Street Bank and Trust Company, acting as the securities lending agent. The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions, which are loans of securities to broker-dealers or other entities. Additional information regarding securities lending activity is included in the Notes to Financial Statements under "D. Investments."

For the year ended June 30, 2012, TRS earned net income of \$19.6 million through its securities lending program. The increase from the prior year was primarily driven by increases in funding spreads for U.S. bonds and equities. The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, the amount of collateral for these securities, and the average utilization rate information.

## Securities Lending Summary

	FY12	FY11
Net securities lending income	\$19,617,303	\$17,793,331
Values as of fiscal year-end (June 30):		
Total State Street collateral market value	2,760,697,851	3,217,193,460
Total market value of securities on loan at State Street	2,682,477,139	3,132,542,532
Total collateralized percentage	103%	103%

(continued)

(continued)

	FY12	FY11
Fiscal year 12 month averages:		
Average lendable	\$17,370,240,196	\$17,791,565,341
Average on loan	2,852,601,356	3,329,090,638
Average utilization	16.4%	18.7%

Source: State Street Bank and Trust

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

## BROKERAGE ACTIVITY

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2012 and 2011. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2012, TRS recaptured \$0.5 million in cash that was reinvested in the fund. In addition, TRS uses a portion of these commission recapture refunds to pay for Investment Department expenses. During FY12, TRS used \$0.6 million of recaptured funds to offset expenses.

### Top 50 Brokers Used by TRS Managers

Broker	FY12 Commission	FY11 Commission
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	\$1,461,814	\$2,475,734
J.P. Morgan Securities, Inc. (Worldwide)	1,245,559	1,614,848
UBS Warburg Securities and all Subsidiaries (Worldwide)	858,265	904,869
Goldman Sachs & Co. (Worldwide)	827,365	1,117,886
State Street Brokerage Services (Worldwide)	754,647	942,354
Credit Suisse (Worldwide)	710,279	1,236,294
Citigroup, Inc. and all Subsidiaries (Worldwide)	622,384	905,820
Morgan Stanley & Co., Inc. and Subsidiaries (Worldwide)	526,303	723,188
Deutsche Bank & Securities (Worldwide)	510,806	863,557
Barclays (Worldwide)	472,478	540,107
Bank of New York Mellon (Worldwide)	451,521	611,265
Loop Capital Markets, L.L.C.	342,758	238,541
Macquarie Bank & Securities, Ltd. (Worldwide)	317,683	417,620
Williams Capital Group, L.P.	289,671	200,074
Cabrera Capital Markets, Inc.	264,639	439,970
Liquidnet, Inc.	216,491	358,781
G-Trade Services, L.L.C.	212,269	161,085
Nomura International (Worldwide)	210,213	221,746
M. Ramsey King Securities	203,661	206,378
Investment Technology Group, Inc. (Worldwide)	197,845	323,675
Stifel Nicolaus & Company (Worldwide)	193,218	244,292
Cantor Fitzgerald	191,300	174,613
RBC Dain Rauscher (Worldwide)	175,018	323,895
Instinet, L.L.C. (Worldwide)	174,106	478,808
Jefferies & Company	158,038	303,459
Baird, Robert W., & Company, Incorporated	153,853	182,206
Cheevers & Co., Inc.	151,246	64,507
Bloomberg Tradebook, L.L.C.	150,523	218,492
Credit Agricole	150,187	244,698
Sanford Bernstein (Worldwide)	139,774	151,402
Raymond James (Worldwide)	135,532	125,143
Knight Securities, L.P.	133,780	133,563
Credit Lyonnais Securities (Worldwide)	121,162	100,592

<i>(continued)</i> <b>Broker</b>	<b>FY12 Commission</b>	<b>FY11 Commission</b>
CLSA Securities	\$112,332	\$101,543
SG Cowen & Company (Worldwide)	108,772	61,728
BNP Paribas (Worldwide)	98,253	157,146
Societe Generale	84,318	91,439
Weeden & Co.	83,885	108,314
ISI Group Inc.	81,405	76,942
Pulse Trading, L.L.C.	81,054	88,154
Keybanc Capital Markets	79,566	55,196
Mischler Financial Group	78,283	40,245
Piper Jaffray, Inc.	73,844	120,479
Banco Itau S.A.	71,556	50,309
CL King & Associates, Inc.	69,953	55,525
Canaccord Genuity, Inc.	69,107	33,527
Apex Clearing Corporation	64,140	19,252
M.R. Beal & Company	63,745	95,485
Exane, Inc.	63,116	59,453
Guzman & Company	62,632	88,622
(All Others - 249 Brokers in FY12, 272 Brokers in FY11)	<u>2,414,477</u>	<u>3,908,326</u>
<b>Total</b>	<b><u>\$16,484,826</u></b>	<b><u>\$22,461,147</u></b>

Source: State Street Bank and Trust and TRS

## EXTERNAL MANAGER FEE PAYMENTS

For the year ended June 30, 2012, fee payments to external investment managers totaled \$199.2 million, an increase of 5.5 percent from the year ended June 30, 2011. The rise is attributable to the asset class mix within the portfolio which continues to shift toward long-term asset allocation targets.

## Schedule of Investment Manager Fees

<b>Investment Manager/Account</b>	<b>FY12</b>	<b>FY11</b>
Aberdeen Asset Management, Inc.	\$8,230,666	\$3,181,347
Advent International GPE VI, L.P.	946,167	976,430
American Century Global Investment Management, Inc.	1,538,686	1,541,838
Analytic Investors, L.L.C.	-	769,938
Apex Investment Fund V, L.P.	4,683	300,573
Apollo Investment Fund VII, L.P.	2,757,225	4,224,498
AQR Capital Management, L.L.C.	3,623,173	4,382,862
AQR Real Return Offshore Fund, L.P.	94,126	-
Avenue Europe Special Situations Fund, L.P.	161,194	634,705
Avenue Special Situations Fund V, L.P.	-	1,228,273
Banc Fund VI, L.P.	750,937	1,001,875
Banc Fund VII, L.P.	901,200	901,200
Baring Asia Private Equity Fund V	1,600,000	933,333
Black River Asset Management L.L.C.	2,140,591	-
Blackstone Capital Partners VI, L.P.	1,411,180	925,442
Blackstone Real Estate Partners VI, L.P.	657,245	746,421
Blackstone Real Estate Partners VII, L.P.	2,521,699	-
Blackstone/GSO Capital Solutions Fund, L.P.	525,869	20,416
Boston Company Asset Management, L.L.C.	2,981,459	3,078,727
Brandes Investment Partners, L.P.	2,613,890	3,591,290

*(continued)*

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<b>Investment Manager/Account</b>	<b>FY12</b>	<b>FY11</b>
Bridgewater All Weather Portfolio Offshore Limited	\$2,325,150	\$2,140,032
Bridgewater Pure Alpha Fund I	10,487,996	10,372,005
Capri Capital Advisors Apartment Fund III, L.P.	1,496,984	1,496,984
Capri Select Income II, L.L.C.	11,483	56,695
Capri/Capital Advisors, L.L.C.	2,822,115	2,395,282
Carlyle Europe Real Estate Partners III, L.P.	716,692	905,572
Carlyle Europe Real Estate Partners, L.P.	85,387	76,174
Carlyle Partners IV, L.P.	284,421	391,385
Carlyle Partners V, L.P.	1,531,938	2,128,644
Carlyle Realty Partners IV, L.P.	890,346	890,346
Carlyle Strategic Partners, L.P.	-	2,791
Carlyle U.S. Growth Fund III, L.P.	694,399	1,000,000
Carlyle Ventures Capital II, L.P.	738,593	1,014,317
Carlyle/Riverstone Global Energy Fund II, L.P.	438,345	549,708
Carlyle/Riverstone Global Energy Fund III, L.P.	581,214	717,941
CB Richard Ellis Strategic Partners Europe Fund III, L.P.	402,461	572,240
CB Richard Ellis Strategic Partners UK Fund III, L.P.	330,680	377,549
Channing Capital Management, L.L.C.	124,200	-
Clearlake Capital Partners II, L.P.	425,457	448,773
Code Hennessy & Simmons V, L.P.	15,827	132,563
Copper Rock Capital Partners, L.L.C.	-	402,703
Cornerstone Hotel Income & Equity Fund II, L.P.	299,725	186,373
Cornerstone Real Estate Advisors, L.L.C.	1,441,415	1,307,577
Cortina Asset Management, L.L.C.	26,104	-
Cramer Rosenthal McGlynn, L.L.C.	1,038,359	1,074,831
Credo Capital Management, L.L.C.	210,428	206,338
Denali Advisors, L.L.C.	583,912	577,089
Dimensional Fund Advisors, L.P.	1,930,026	1,422,092
DLJ Merchant Banking Partners III, L.P.	170,154	189,553
Dodge & Cox	-	312,156
Dolan McEniry Capital Management, L.L.C.	735,140	576,630
EARNEST Partners, L.L.C.	190,915	506,509
Edgewater Growth Capital Partners II, L.P.	262,442	289,098
Edgewater Growth Capital Partners III, L.P.	988,656	-
Edgewater Growth Capital Partners, L.P.	133,682	220,438
Elevation Partners, L.P.	112,596	161,294
Emerald Advisers, Inc.	1,262,112	1,409,225
Energy Capital Partners Fund II-A, L.P.	360,439	667,913
Energy Capital Partners I, L.P.	321,407	454,598
Energy Capital Partners II, L.P.	23,485	-
Envest Energy Institutional Fund XII-A, L.P.	1,000,000	1,148,352
EQT VI	1,349,692	134,092
Evercore Capital Partners II, L.P.	136,659	116,563
Evergreen Partners IV, L.P.	199,790	219,582
Evergreen Partners V, L.P.	591,742	625,000
Fiduciary Management Associates, L.L.C.	1,047,809	1,078,197
Flintlock Commodity Opportunities Master Fund, L.P.	170,025	-
Franklin Advisers, Inc.	2,086,454	2,207,935
Franklin Templeton Investment Management Limited	1,695,398	939,284

(continued)

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<b>Investment Manager/Account</b>	<b>FY12</b>	<b>FY11</b>
Fred Alger Management, Inc.	\$548,311	\$1,258,686
Frontier Capital Management, L.L.C.	1,068,216	1,163,594
Garcia Hamilton & Associates, L.P.	69,353	65,764
GI Partners	718,370	613,565
Glencoe Capital Partners III, L.P.	14,077	85,535
Goldman Sachs Asset Management, L.P.	108,998	1,307,267
Granite Ventures II, L.P.	276,839	378,538
Grantham, Mayo, Van Otterloo & Co., L.L.C.	5,777,304	6,459,866
Green Equity Investors V, L.P.	-	533,714
Gresham Investment Management Company, L.L.C.	426,490	478,261
Grosvenor Monarch Fund, L.L.C.	5,268,592	2,845,281
GTCR Fund VII/VIIA, L.P.	29,467	38,561
GTCR Fund VIII, L.P.	337,426	413,717
Hartford Investment Management Company	324,245	73,084
HealthPoint Partners, L.P.	908,982	435,512
Heitman Capital Management, L.L.C.	4,440,952	3,763,605
Herndon Capital Management, L.L.C.	158,319	52,227
Hines U.S. Core Office Fund, L.P.	850,000	850,000
Hispania Private Equity, L.P.	114,302	132,331
Hopewell Ventures, L.P.	313,200	325,379
ICV Partners II, L.P.	119,016	235,571
Illinois Emerging Technologies Fund, L.P.	12,623	15,922
Invesco Institutional (N.A.), Inc.	1,550,884	1,156,164
J.C. Flowers II, L.P.	293,123	294,997
Jarislowsky, Fraser Limited	809,278	825,264
JBC Opportunity Fund II, L.P.	70,289	248,972
JER Real Estate Qualified Partners III, L.P.	187,843	306,499
JMI Equity Fund VII, L.P.	387,718	131,246
JP Morgan Investment Management, Inc.	35,213	93,645
JP Morgan Management Associates, L.L.C.	3,862,176	3,725,854
K2 Bluegill Fund, L.L.C.	7,838,731	4,446,118
KKR 1996 Fund, L.P.	2,015	27,883
Koll Bren Schreiber Realty Advisors	1,138,799	970,193
Lasair Capital L.L.C.	274,520	288,125
LaSalle Asia Opportunity Fund III, L.P.	536,202	845,392
Levin Capital Strategies, L.P.	926,360	436,368
Lightspeed Venture Partners IX, L.P.	311,174	-
Lion Industrial Trust	1,729,327	1,534,004
Littlejohn Fund IV, L.P.	718,668	765,276
LM Capital Group, L.L.C.	74,398	81,855
Lombardia Capital Partners, L.L.C.	1,370,040	1,348,933
Longitude Ventures Partners, L.P.	562,500	750,000
Loomis, Sayles & Company, L.P.	3,793,642	3,766,996
LPC Realty Advisors I, Ltd.	2,186,345	1,496,229
LSV Asset Management	1,335,057	1,628,460
MacKay Shields, L.L.C.	1,197,756	-
Madison Dearborn V, L.P.	520,136	382,992
Manulife Asset Management, L.L.C.	742,134	-

(continued)

(continued)

<b>Investment Manager/Account</b>	<b>FY12</b>	<b>FY11</b>
Maranon Mezzanine Fund, L.P.	\$326,112	\$267,912
MatlinPatterson Global Opportunities Fund III, L.P.	1,244,890	1,572,146
Mazama Capital Management, Inc.	-	622,536
MBK Partners Fund II, L.P.	439,646	412,655
McKinley Capital Management, Inc.	3,058,545	2,498,467
Merit Mezzanine Fund IV, L.P.	365,555	689,075
MFS Institutional Advisors, Inc.	808,955	378,174
MGPA Asia Fund III, L.P.	640,360	986,257
Mondrian Investment Partners Limited	978,428	1,829,899
Morgan Creek Partners Asia, L.P.	686,917	1,031,662
Morgan Creek Partners Venture Access Fund, L.P.	534,247	-
New Century Advisors, L.L.C.	470,835	291,284
New Mountain Investments III, L.P.	1,139,078	1,353,490
NGP Natural Resources X, L.P.	684,426	-
Niam Nordic V, L.P.	548,997	-
Northern Trust Investments, N.A.	453,702	171,391
OakBrook Investments, L.L.C.	177,090	82,133
Oaktree Opportunities Fund VIIIb, L.P.	625,537	-
Oaktree PPIP Private Fund, L.P.	186,309	56,365
OCM European Principal Fund III, L.P.	732,857	-
OCM European Principal Opportunities Fund II, L.P.	1,063,202	1,232,492
OCM Opportunities Fund V, L.P.	103,624	120,106
OCM Opportunities Fund VIIb, L.P.	1,125,035	1,434,389
OCM Opportunities Fund VIII, L.P.	1,314,105	1,359,192
Onex Partners III, L.P.	856,986	486,183
Pacific Investment Management Company, L.L.C.	6,564,814	8,756,282
PAI Europe V, L.P.	408,913	463,989
Parthenon Investors IV, L.P.	350,000	-
Piedmont Investment Advisors, L.L.C.	-	61,856
PIMCO Private Funds II, L.P.	-	39,317
Pine Brook Capital Partners, L.P.	851,546	851,546
Prism Mezzanine Fund, L.P.	449,953	503,023
Providence Equity Partners VI, L.P.	770,297	639,169
Prudential Investment Management, Inc.	885,600	439,956
Putnam Advisory Company, L.L.C.	1,240,873	1,249,784
Rhone Partners IV, L.P.	666,498	-
Rhumblin Advisors, L.P.	180,200	180,932
Riverstone/Carlyle Global Energy and Power Fund IV, L.P.	1,372,759	1,329,465
Riverstone/Carlyle Global Energy and Power Fund V, L.P.	1,375,000	-
RLJ Lodging Fund II, L.P.	-	533,007
RLJ Lodging Fund III, L.P.	-	485,392
Robeco Boston Partners Asset Management, L.P.	1,003,509	1,019,949
Schroder Commodity Offshore Portfolio, L.L.P.	1,798,007	1,853,483
SCP Private Equity Partners II, L.P.	527,282	796,730
Shasta Ventures, L.P.	531,250	4,154,514
Silver Lake Partners III, L.P.	927,799	622,196
Siris Partners II, L.P.	411,397	-
Sofinnova Ventures Partners VIII, L.P.	926,706	-
Southwest Multifamily Partners, L.P.	19,746	-

(continued)

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<b>Investment Manager/Account</b>	<b>FY12</b>	<b>FY11</b>
Standard Life Investment Global Absolute Return Strategies Master Fund Ltd.	\$163,015	\$ -
StarVest Partners, L.P.	300,000	250,000
State Street Bank and Trust Company (Custody)	200,000	197,500
State Street Global Advisors	-	84,680
Stone Point Capital Trident V, L.P.	1,042,116	1,077,271
Strategic Global Advisors	149,556	49,074
SW Pelham Fund II, L.P.	27,434	91,442
T. Rowe Price Associates, Inc.	3,639,067	3,594,133
Taplin, Canida & Habacht	260,809	510,161
Technology Crossover Ventures VII, L.P.	702,195	786,617
Thayer Equity Investors V, L.P.	268,156	159,872
Thayer Hotel Investors IV, L.P.	120,143	183,142
Thompson, Siegel & Walmsley, Inc.	-	427,136
TPG Partners VI, L.P.	1,128,853	1,217,790
Trilantic Capital Partners III, L.P.	107,650	214,917
Trilantic Capital Partners IV, L.P.	571,080	571,987
Trilogy Global Advisors, L.L.C.	1,236,606	1,311,811
Trustbridge Partners IV, L.P.	695,342	-
Turner Investment, L.P.	1,535,764	1,823,081
Tygh Capital Management, Inc.	-	479,247
VantagePoint Venture Partners 2006, L.P.	1,166,194	1,295,496
Veritas Capital Fund IV, L.P.	1,146,154	216,339
Vicente Capital Partners Growth Equity Fund, L.P.	276,573	300,000
Vista Equity Partners Fund IV, L.P.	1,357,451	-
Vista Equity Partners III, L.P.	462,644	570,546
VSS Communications Partners IV, L.P.	363,997	658,522
Walton Street Real Estate Fund IV, L.P.	626,007	687,631
Walton Street Real Estate Fund VI, L.P.	1,089,331	812,211
Warburg Pincus International Partners, L.P.	289,682	442,046
Warburg Pincus Private Equity IX, L.P.	690,163	1,430,963
Warburg Pincus Private Equity X, L.P.	3,722,750	3,303,398
Wellington Management Company - Diversified Inflation Hedges Portfolio, L.L.C.	3,897,718	5,026,566
Wellington Management Company, L.P.	647,357	1,159,914
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	398,634	520,144
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	221,212	303,267
Western Asset Management Company	-	181,033
Westwood Management Corp	40,546	-
William Blair Mezzanine Capital Fund III, L.P.	71,470	142,940
WPG Corporate Development Associates V, L.P.	7,628	9,025
WPG Enterprise Fund II, L.P.	21,372	25,539
WPG Enterprise Fund III, L.P.	133,647	134,998
<b>Total Fees Paid by TRS</b>	<b><u>\$199,177,557</u></b>	<b><u>\$188,725,873</u></b>

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





ACTUAL

December 3, 2012

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

**Subject: Pension Benefit Obligation as of June 30, 2012**

Ladies & Gentlemen:

Based upon our annual actuarial valuation of the Teachers' Retirement System of the State of Illinois, we have determined the pension benefit obligation of the System to be \$90,024,945,000 as of June 30, 2012. The valuation was performed using the projected unit-credit actuarial cost method. Throughout the actuarial valuation report we reference the term Pension Benefit Obligation (PBO) when discussing the TRS actuarial accrued liability (AAL) because the TRS AAL is equivalent to the GASB Statement 5 PBO. Users of the TRS actuarial valuation report should consider the terms PBO and AAL to be equivalent and interchangeable.

The contributions to the System are based on the provisions of Public Act 94-0004, as amended by subsequent acts. The actuary and the Board are required to follow Public Act 94-0004 for purposes of developing contributions to the System. Public Act 94-0004 has resulted in contributions to the System much less than those that would be contributed under generally accepted actuarial standards. Under such standards, a funded ratio of 100% would be achieved within 30 years as opposed to the 90% funded ratio achieved by 2045 under Public Act 94-0004. In addition, under actuarial standards contributions would not be based on members not currently in the System as is done under Public Act 94-0004, particularly given the lower value of Tier II benefits in the System for members hired on or after January 1, 2011. The continued use of Public Act 94-0004 in its current form will continue the history of an inadequate funded ratio of less than 100%. In addition, the Net Pension Obligation clearly exhibits the shortfall of the Public Act 94-0004 contributions when compared to the GASB 25/27 ARC, which is generally recognized as a reasonable contribution under generally accepted actuarial standards. We have also shown a proposed contribution to the System in the Summary of Principal Results based on such standards. This contribution is based on achieving a funded ratio of 100% within 30 years. The funding method underlying this proposed contribution is the projected unit credit cost method. For ease of comparison, we have used the same actuarial cost method (projected unit credit) and asset smoothing method required under Public Act 94-0004 as amended by subsequent acts. While we prefer the use of the entry age normal cost method for public plans, the method in place is acceptable under generally accepted actuarial standards.

The actuarial valuation was based on a census of retired members as of June 30, 2012, and a census of active and inactive members as of June 30, 2011, which were submitted to us by the System. While we did not verify the data at their source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation. In accordance with our normal procedures, we adjusted for the one-year lag in reporting of the active and terminated membership by assuming that the population was stationary with regard to age and service and by increasing reported payroll and member account balances by 4%. This increase is based on the increase in payroll from the prior year to the current year.

Presented in the Financial Section of the System's Annual Financial Report, there is a schedule of Required Supplementary Information. The actuary has provided the Unfunded Actuarial Accrued Liability, the Annual Required Contribution per State Statute, and the GASB Statement No. 25 Annual Required Contribution that appear in this section. The actuary reviewed the remainder of the figures that appear in the Required Supplementary Information to ensure their consistency with the valuation report.

The Actuarial Section of the Annual Financial Report also contains various schedules: Actuarial Valuation with Actuarial Value of Assets, Reconciliation of Unfunded Liability, State Funding Amounts, Funded Ratio Test, Unfunded Liability as a Percentage of Payroll Test and Solvency Test. While the actuary did not prepare these schedules, they are in agreement with the valuation report and their accuracy has been verified. The actuary neither reviewed nor prepared any items beyond those specifically listed in this paragraph and the preceding paragraph.

At June 30, 2012 the remaining GASB amortization period is 30 years. The actuarial assumptions, actuarial cost method, and asset valuation method used for funding purposes do meet the parameters of GASB Statement No. 25.

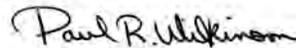
The valuation is based on the benefit provisions of TRS in effect on June 30, 2012. On September 21, 2012, the Board approved recommendations resulting from a comprehensive review of the System's experience during the five-year period of July 1, 2006 through June 30, 2011; as a result, the actuarial assumptions used to determine the contribution were changed from last year. The investment return, inflation, salary increases, mortality and other actuarial assumptions have been revised to more closely reflect recent actual emerging experience and future expectations. As required under PA 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation from market value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year in equal amounts over the ensuing five-year period. The System incurred a loss of \$2,910,862,678 in FY 2012. Per statutory requirement, 20% is recognized in the actuarial value of assets as of June 30, 2012, and recognition of the remaining 80%, or \$2,328,690,142, will be deferred and recognized in equal amounts over the next four valuations. Depending on the whether the total net deferral is an investment gain or loss, the smoothing method will produce a contribution rate that is more or less than the rate based on the market value. As of the June 30, 2012 valuation the total net deferral is a \$1,428,571,872 loss, resulting in a contribution that is lower than it would be if the assets were valued at market.

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

Sincerely,



Larry Langer  
Principal, Consulting Actuary



Paul R. Wilkinson  
Director, Consulting Actuary

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7228/2012-PBO.doc

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

TRS complies with the requirements issued by the Governmental Accounting Standards Board (GASB) under Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended by GASB Statement No. 50.

## ACTUARIAL ASSUMPTIONS AND METHODS

Each year the actuary reconciles the differences between major actuarial assumptions and experience to explain the change in TRS's unfunded liability. The unfunded liability is the difference between the accrued liability (the present value of benefits including the cost of annual increases) and the assets that are available to cover the liability. Many of the following assumptions were revised in the 2012 actuarial experience analysis. All assumptions were adopted in the FY12 valuation unless otherwise noted.

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

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

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

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

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

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

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

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

Sample annual retirement rates per 100 participants:

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

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

(continued)

(Retirement age continued)

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

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

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

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

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

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

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

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

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

**Disability:** Sample annual disability rates:

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

**Termination from active service:**

Sample annual termination rates per 100 participants:

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

**Severance pay:** Increases with years of service at retirement, adjusted in the following table. Not applicable to Tier II.

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

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

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

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

Sample amounts of sick leave at retirement:

Years of Service at Retirement	Sick Leave Service Credit
20	1.035 years
25	1.847 years
30	1.454 years
34	1.000 years
35 or more	none

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

**Asset valuation method:** Five-year prospective asset smoothing was adopted in the FY09 valuation as required by Public Act 96-0043.

## ANNUAL ACTUARIAL VALUATION

The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned to date but not yet paid. The unfunded

liability is the present value of future benefits payable that are not covered by the actuarial value of assets on the valuation date.

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

## Actuarial Valuation (\$ thousands)

	Years Ended June 30	
	2012	2011
<b>Total actuarial accrued liability</b>	<b>\$90,024,945</b>	<b>\$81,299,745</b>
Less actuarial value of assets*	37,945,397	37,769,753
<b>Unfunded liability</b>	<b>\$52,079,548</b>	<b>\$43,529,992</b>
Funded ratio*	42.1%	46.5%

\* Five-year prospective smoothing began in FY09.

## ANALYSIS OF FINANCIAL EXPERIENCE: RECONCILIATION OF UNFUNDED LIABILITY

The net increase in the June 30, 2012, unfunded liability of \$8.6 billion was caused by a combination of factors.

The employer cost in excess of contributions is the shortfall between actual employer contributions and the amount needed to cover the cost of benefits earned during the year and to keep the unfunded liability from growing. In 2012, this shortfall was \$2.7 billion and in 2011 it was \$1.9 billion.

The 2012 valuation reflects changes in actuarial assumptions resulting from the five-year experience review. The \$4.6 billion net increase in the unfunded liability was due to three major factors: a reduction in the assumed rate of return (from 8.5 percent to 8.0 percent), a reduction in the salary increase assumption (from an average of 7.0 percent to 6.0 percent), and mortality improvements that are expected to continue over future generations. Other less significant changes were also adopted. Gains and losses during FY 12 were based on the old actuarial assumptions because they were in effect during the year.

TRS experienced actuarial gains under the salary increase assumption in both FY12 and FY11. Salary increases for continuing active members were \$1.2 billion lower than expected in 2012 and \$546 million lower than expected in 2011. Under the investment return assumption, losses occurred both years. In FY12, smoothed assets were assumed to earn \$3.2 billion, but earnings were actually \$1.4 billion. The actuarial loss due to investments was \$1.8 billion in FY12, compared to a loss of \$1.7 billion in FY11.

In both years, actuarial losses occurred under the mortality assumptions because fewer people died than expected. Actuarial losses were also incurred under the turnover assumption because fewer people left service than assumed. Additionally, many members repaid refunds, and the repurchased service increased the unfunded liability. Delayed reporting of retirements also increased the unfunded liability because more people were receiving benefits than expected.

Other, which is a balancing item, reflects actuarial losses in both 2012 and 2011. "Other" includes the effect of either more or fewer retirements than expected, retirements that were reported late to the actuary, and several other factors.

## Reconciliation of Unfunded Liability (\$ thousands)

Item	Years Ended June 30	
	2012	2011
<b>Unfunded liability at beginning of year</b>	<b>\$43,529,992</b>	<b>\$39,854,106</b>
<b>Additions</b>		
Employer cost in excess of contributions	2,710,713	1,913,647
Change in actuarial assumptions and methods	4,624,966	-
<b>Net additions</b>	<b>7,335,679</b>	<b>1,913,647</b>
<b>Actuarial losses (gains) compared to assumptions</b>		
Salary increases for continuing active members	(1,211,157)	(545,612)
Investment return	1,806,148	1,718,405
New entrant loss	14,505	21,230
Mortality other than expected	52,681	52,319
Fewer terminations than expected	29,810	50,761
Repayments of refunded member contributions <sup>1</sup>	30,013	30,392
Delayed reporting of retirements (effect on assets) <sup>2</sup>	12,666	11,222
Other	479,211	423,522
<b>Net actuarial losses</b>	<b>1,213,877</b>	<b>1,762,239</b>
<b>Unfunded liability at end of year</b>	<b>\$52,079,548</b>	<b>\$43,529,992</b>

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

<sup>2</sup> 509 retirements which occurred prior to 7/1/10 were not reported to the actuary until 6/30/11.

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

## STATE FUNDING

Public Act 88-0593 was enacted in 1994 and first affected state contributions in FY96. The law established a 50-year funding plan that includes a 15-year phase-in period. By the end of the funding period in FY45, TRS will have a 90 percent funded ratio. A key feature of this act is the “continuing appropriation” language that requires state contributions to be made automatically to TRS, provided state funds are available.

Public Act 90-0582, the 2.2 legislation, was enacted in 1998 and first affected state contributions in FY99. Minimum state contribution rates were in effect through FY04.

Public Act 93-0002, the pension obligation bond (POB) legislation, was enacted in 2003 and first affected state contributions in FY05. The TRS share of the proceeds, \$4.330 billion, was deposited on July 2, 2003.

The law requires a multi-step process that ensures that state contributions do not exceed certain maximums.

Public Act 94-0004 specified the actual contributions to TRS for FY06 and FY07 that were not based on actuarial calculations. State contributions from FY08 through FY12 were based on the statutory schedule, subject to the maximums contained in the POB legislation. Bonds were sold in FY10 and FY11 to cover some of the state contributions due TRS, but the debt service on those bonds does not affect future state contributions. Actuarial smoothing of assets, required by Public Act 96-0043, first affected the FY11 state contribution.

## State Funding Amounts

The FY12 actuarial valuation was used to determine the required FY14 state contributions and the FY14 employer’s normal cost. The FY11 actuarial valuation was used to determine the required FY13 state contributions and the FY13 employer’s normal cost.

## State Funding Requirements Under Current Statutory Funding Plan

	FY14*	FY13
Benefit Trust Reserve (excludes federal and school district contributions)	\$3,437,478,000	\$2,702,278,000
Minimum benefit reserve	1,100,000	1,200,000
<b>Total state funding amount</b>	<b>\$3,438,578,000</b>	<b>\$2,703,478,000</b>
Employer's normal cost as a percentage of active member payroll	7.89%	8.23%
State share of employer's normal cost	6.38%	6.81%

\* FY14 amount is the proposed certification submitted to the state actuary, governor, and General Assembly pursuant to Public Act 97-0694. The act requires the state actuary to review the assumptions used to calculate the state contribution under the statutory funding plan. The final certification is due January 15, 2013.

In 2012, the TRS Board of Trustees resolved to certify state funding requirements under generally accepted actuarial principles and standards. The FY14 amount was submitted in addition to the amount calculated under the current statutory funding plan; the FY13 amount is presented for comparative purposes.

## State Funding Requirement Under Employer's Normal Cost Plus 30 Year Level Percent Amortization

	FY14*	FY13
Benefit Trust Reserve (excludes federal and school district contributions)	\$4,379,437,000	\$3,755,948,000
Minimum benefit reserve	1,100,000	1,200,000
<b>Total state funding amount</b>	<b>\$4,380,537,000</b>	<b>\$3,757,148,000</b>

\* FY14 amount is an additional proposed certification submitted to the state actuary, governor, and General Assembly. It was calculated under the same actuarial assumptions as the amount under the current statutory funding plan. It was submitted to be consistent with the board's resolution to certify state funding amounts based on actuarial standards. It will be submitted with the current statutory funding plan certification that is due January 15, 2013.

## TESTS OF FINANCIAL CONDITION

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

### Funded Ratio Test (\$ thousands)

As of June 30	Actuarial Value of Assets**	Actuarial Accrued Liability	Funded Ratio**
2003	\$23,124,823	\$46,933,432	49.3%
2004	31,544,729	50,947,451	61.9
2005	34,085,218	56,075,029	60.8
2006	36,584,889	58,996,913	62.0
2007	41,909,318	65,648,395	63.8
2008	38,430,723	68,632,367	56.0
2009	38,026,044	73,027,198	52.1
2010	37,439,092	77,293,198	48.4
2011	37,769,753	81,299,745	46.5
<b>2012</b>	<b>37,945,397</b>	<b>90,024,945</b>	<b>42.1</b>

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

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

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

Year Ended June 30	Approximate Member Payroll	Unfunded Liability*	Percentage of Payroll
2003	\$7,059,000	\$23,808,609	337.3%
2004	7,281,000	19,402,722	266.5
2005	7,550,510	21,989,811	291.2
2006	7,765,752	22,412,024	288.6
2007	8,149,849	23,739,077	291.3
2008	8,521,717	30,201,644	354.4
2009	8,945,021	35,001,154	391.3
2010	9,251,139	39,854,106	430.8
2011	9,205,603	43,529,992	472.9
<b>2012</b>	<b>9,321,098</b>	<b>52,079,548</b>	<b>558.7</b>

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

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

## Solvency Test (\$ thousands)

Year Ended June 30	Aggregate Accrued Liabilities for			Actuarial Value of Assets*	Percentage of Benefits Covered by Net Assets		
	Members' Accumulated Contributions (1)	Participants Currently Receiving Benefits (2)	Members Employer Active Portion (3)		(1)	(2)	(3)
2003	\$5,622,026	\$25,188,870	\$16,122,536	\$23,124,823	100%	69%	-
2004	5,853,274	28,286,916	16,807,261	31,544,729	100	91	-
2005	5,925,696	32,861,473	17,287,860	34,085,218	100	86	-
2006	6,303,750	35,315,529	17,377,634	36,584,889	100	86	-
2007	6,500,318	39,785,368	19,362,709	41,909,318	100	89	-
2008	6,931,518	41,849,964	19,850,885	38,430,723	100	75	-
2009	7,320,600	44,495,917	21,210,681	38,026,044	100	69	-
2010	7,715,984	47,475,906	22,101,308	37,439,092	100	63	-
2011	8,048,689	50,567,881	22,683,175	37,769,753	100	59	-
<b>2012</b>	<b>8,270,073</b>	<b>58,734,636</b>	<b>23,020,236</b>	<b>37,945,397</b>	<b>100</b>	<b>51</b>	<b>-</b>

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

## OTHER INFORMATION

### Retirees and Beneficiaries Added to and Removed from Rolls

Year Ended June 30	Number at Beginning of Year	Number Added to Rolls	Number Removed from Rolls	Number at End of Year	End-of-Year Annual Allowances		Average Annual Allowance	
					Amount	% Increase	Amount	% Increase
2003*	67,949	9,404	3,922	73,431	\$2,181,186,831	17.8%	\$29,704	9.0%
2004	73,431	6,016	2,542	76,905	2,432,132,334	11.5	31,625	6.5
2005	76,905	7,897	2,227	82,575	2,806,341,054	15.4	33,985	7.5
2006	82,575	5,147	2,619	85,103	3,018,848,450	7.6	35,473	4.4
2007	85,103	6,473	2,340	89,236	3,344,714,652	10.8	37,482	5.7
2008	89,236	4,912	2,686	91,462	3,551,117,836	6.2	38,826	3.6
2009	91,462	5,520	2,558	94,424	3,815,292,869	7.4	40,406	4.1
2010	94,424	5,711	2,381	97,754	4,109,018,971	7.7	42,034	4.0
2011	97,754	6,377	2,843	101,288	4,418,500,521	7.5	43,623	3.8
<b>2012</b>	<b>101,288</b>	<b>6,943</b>	<b>2,784</b>	<b>105,447</b>	<b>4,781,692,373</b>	<b>8.2%</b>	<b>45,347</b>	<b>4.0</b>

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

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

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

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

Years of Service*		2012	2011	2010	2009
<b>under 5</b>	<b>Number</b>	<b>25,733</b>	<b>27,960</b>	<b>33,487</b>	<b>37,293</b>
	Average salary	\$46,222	\$47,292	\$46,324	\$45,464
<b>5-9</b>	<b>Number</b>	<b>35,071</b>	<b>34,626</b>	<b>34,529</b>	<b>33,494</b>
	Average salary	\$57,741	\$57,416	\$57,105	\$55,945
<b>10-14</b>	<b>Number</b>	<b>28,105</b>	<b>26,865</b>	<b>25,051</b>	<b>23,133</b>
	Average salary	\$68,751	\$67,691	\$66,788	\$65,168
<b>15-19</b>	<b>Number</b>	<b>18,610</b>	<b>17,935</b>	<b>17,790</b>	<b>17,417</b>
	Average salary	\$78,328	\$77,268	\$76,001	\$73,770
<b>20-24</b>	<b>Number</b>	<b>11,834</b>	<b>11,682</b>	<b>11,391</b>	<b>11,084</b>
	Average salary	\$84,904	\$83,563	\$82,184	\$79,805
<b>25-29</b>	<b>Number</b>	<b>7,940</b>	<b>7,834</b>	<b>7,786</b>	<b>7,790</b>
	Average salary	\$89,986	\$88,416	\$86,566	\$84,282
<b>30-34</b>	<b>Number</b>	<b>4,826</b>	<b>5,839</b>	<b>6,554</b>	<b>6,858</b>
	Average salary	\$94,665	\$93,299	\$91,077	\$87,973
<b>35 +</b>	<b>Number</b>	<b>994</b>	<b>1,179</b>	<b>1,251</b>	<b>1,265</b>
	Average salary	\$98,140	\$98,678	\$95,486	\$90,698
	<b>Total number</b>	<b>133,113</b>	<b>133,920</b>	<b>137,839</b>	<b>138,334</b>
	Average salary	\$66,696	\$66,044	\$64,385	\$62,319
	<b>% Change average salary</b>	<b>1.0%</b>	<b>2.6%</b>	<b>3.3%</b>	<b>3.4%</b>
	<b>Total payroll full &amp; part-time</b>	<b>\$8,878,104,648</b>	<b>\$8,844,612,480</b>	<b>\$8,874,727,268</b>	<b>\$8,620,836,546</b>

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

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

\* From FY03-FY08, years of service increments were as follows: 0-5, 6-10, 11-15, 16-20, 21-25, 26-30, 31-35, and 35+. However, figures for those years are not restated because the differences would be minor.

<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>42,725</b> \$44,916	<b>41,244</b> \$43,446	<b>40,930</b> \$42,404	<b>39,728</b> \$41,444	<b>36,951</b> \$37,633	<b>38,074</b> \$37,960
<b>31,959</b> \$55,436	<b>30,520</b> \$53,062	<b>28,847</b> \$51,314	<b>26,557</b> \$49,536	<b>26,027</b> \$45,568	<b>25,020</b> \$46,740
<b>21,395</b> \$64,705	<b>20,469</b> \$62,447	<b>20,222</b> \$60,476	<b>20,295</b> \$58,195	<b>18,307</b> \$52,771	<b>17,334</b> \$53,931
<b>14,753</b> \$71,802	<b>14,422</b> \$69,368	<b>14,086</b> \$67,343	<b>13,429</b> \$65,276	<b>13,358</b> \$59,820	<b>12,860</b> \$60,788
<b>10,447</b> \$78,080	<b>9,814</b> \$74,894	<b>9,619</b> \$72,531	<b>9,431</b> \$70,278	<b>10,868</b> \$64,881	<b>11,152</b> \$65,427
<b>8,654</b> \$82,013	<b>9,484</b> \$78,831	<b>10,349</b> \$76,616	<b>10,667</b> \$74,127	<b>12,488</b> \$69,276	<b>12,429</b> \$70,066
<b>5,763</b> \$85,738	<b>5,301</b> \$82,508	<b>6,134</b> \$83,165	<b>5,900</b> \$79,236	<b>9,186</b> \$75,643	<b>7,107</b> \$76,676
<b>790</b> \$88,478	<b>694</b> \$84,065	<b>785</b> \$84,524	<b>744</b> \$81,497	<b>1,162</b> \$77,805	<b>804</b> \$78,091
<b>136,486</b> \$60,254	<b>131,948</b> \$58,116	<b>130,972</b> \$56,916	<b>126,751</b> \$55,237	<b>128,347</b> \$52,181	<b>124,780</b> \$52,408
<b>3.7%</b>	<b>2.1%</b>	<b>3.0%</b>	<b>5.9%</b>	<b>(0.4%)</b>	<b>3.0%</b>
<b>\$8,223,827,444</b>	<b>\$7,668,289,968</b>	<b>\$7,454,402,352</b>	<b>\$7,001,344,987</b>	<b>\$6,697,274,807</b>	<b>\$6,539,470,240</b>

## Active Members by Age and Years of Service as of June 30, 2012

### Years of Service

Age		Subs	Under 5	5-9	10-14	15-19
20-24	Number	3,234	3,150	2	-	-
	Average Salary	\$4,742	\$39,228	\$39,880	-	-
25-29	Number	4,730	11,754	6,585	-	-
	Average Salary	\$5,079	\$44,938	\$52,982	-	-
30-34	Number	2,652	4,262	13,555	4,728	-
	Average Salary	\$4,527	\$48,452	\$57,592	\$65,808	-
35-39	Number	2,513	2,084	4,979	10,115	2,477
	Average Salary	\$4,432	\$49,522	\$59,907	\$69,205	\$77,442
40-44	Number	3,845	1,823	3,480	4,683	7,016
	Average Salary	\$4,479	\$49,141	\$59,301	\$70,372	\$79,289
45-49	Number	3,356	1,229	2,553	2,718	2,942
	Average Salary	\$4,583	\$49,692	\$58,864	\$69,236	\$79,448
50-54	Number	3,048	750	2,067	2,639	2,383
	Average Salary	\$4,674	\$50,870	\$59,298	\$67,871	\$76,554
55-59	Number	2,660	442	1,217	2,094	2,409
	Average Salary	\$4,806	\$57,119	\$61,941	\$68,680	\$76,791
60-64	Number	1,872	205	538	951	1,160
	Average Salary	\$4,549	\$58,685	\$67,054	\$71,402	\$78,297
65-69	Number	850	23	88	162	203
	Average Salary	\$4,227	\$63,056	\$69,770	\$70,969	\$79,372
70-74	Number	204	6	6	12	16
	Average Salary	\$3,787	\$41,841	\$50,327	\$67,671	\$71,297
Over 74	Number	140	5	1	3	4
	Average Salary	\$3,913	\$35,310	\$28,862	\$72,248	\$86,263
	<b>Total Number</b>	<b>29,104</b>	<b>25,733</b>	<b>35,071</b>	<b>28,105</b>	<b>18,610</b>
	<b>Average Salary</b>	<b>\$4,658</b>	<b>\$46,222</b>	<b>\$57,741</b>	<b>\$68,751</b>	<b>\$78,328</b>

**Years of Service**

	<b>20-24</b>	<b>25-29</b>	<b>30-34</b>	<b>35-39</b>	<b>40-44</b>	<b>45-49</b>	<b>50+</b>	<b>Full and Part-time Member Totals</b>
-	-	-	-	-	-	-	-	<b>3,152</b>
-	-	-	-	-	-	-	-	\$39,228
-	-	-	-	-	-	-	-	<b>18,339</b>
-	-	-	-	-	-	-	-	\$47,826
-	-	-	-	-	-	-	-	<b>22,545</b>
-	-	-	-	-	-	-	-	\$57,587
-	-	-	-	-	-	-	-	<b>19,655</b>
-	-	-	-	-	-	-	-	\$65,801
<b>1,863</b>	-	-	-	-	-	-	-	<b>18,865</b>
\$84,178	-	-	-	-	-	-	-	\$70,958
<b>4,130</b>	<b>1,503</b>	-	-	-	-	-	-	<b>15,075</b>
\$86,426	\$90,195	-	-	-	-	-	-	\$74,678
<b>2,343</b>	<b>3,455</b>	<b>1,579</b>	-	-	-	-	-	<b>15,216</b>
\$83,790	\$89,846	\$93,367	-	-	-	-	-	\$77,315
<b>2,127</b>	<b>1,930</b>	<b>2,674</b>	<b>414</b>	-	-	-	-	<b>13,307</b>
\$83,742	\$89,635	\$95,341	\$97,197	-	-	-	-	\$80,839
<b>1,185</b>	<b>900</b>	<b>506</b>	<b>381</b>	<b>83</b>	-	-	-	<b>5,909</b>
\$84,738	\$90,470	\$95,831	\$98,742	\$95,397	-	-	-	\$81,689
<b>174</b>	<b>138</b>	<b>56</b>	<b>29</b>	<b>50</b>	<b>13</b>	-	-	<b>936</b>
\$86,961	\$93,098	\$90,309	\$99,275	\$100,556	\$96,924	-	-	\$82,695
<b>12</b>	<b>11</b>	<b>9</b>	<b>5</b>	<b>5</b>	<b>6</b>	-	-	<b>88</b>
\$84,037	\$92,213	\$85,095	\$87,820	\$113,237	\$110,336	-	-	\$79,111
-	<b>3</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>3</b>	-	<b>26</b>
-	\$75,129	\$86,571	\$96,362	\$97,139	\$102,374	\$145,869	-	\$80,922
<b>11,834</b>	<b>7,940</b>	<b>4,826</b>	<b>830</b>	<b>139</b>	<b>22</b>	<b>3</b>	-	<b>133,113</b>
<b>\$84,904</b>	<b>\$89,986</b>	<b>\$94,665</b>	<b>\$97,922</b>	<b>\$97,907</b>	<b>\$101,325</b>	<b>\$145,869</b>	-	<b>\$66,696</b>

	<b>Average Age</b>	<b>Average Years of Service</b>	<b>Number</b>
Full and part-time members	42	12	133,113
Substitutes	42	3	29,104
<b>All</b>	<b>42</b>	<b>10</b>	<b><u>162,217</u></b>

# PLAN SUMMARY

## Administration

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

## Membership

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

## Contributions

During FY12, members contributed 9.4 percent of gross creditable earnings designated as 7.5 percent for retirement annuity, 0.5 percent for post-retirement increases, 0.4 percent for the Early Retirement Option, and 1.0 percent for death benefits. Active members do not contribute to Social Security for TRS-covered employment; however, members hired after March 31, 1986, are required to contribute to Medicare. In addition, virtually all members pay a contribution to the Teachers' Health Insurance Security Fund, a separate fund in the State Treasury that is not a part of this retirement plan. For FY12, the member contribution was 0.88 percent of pay.

## Service Credit

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

## Refunds

After a four-month waiting period from the date last taught, a member ceasing TRS-covered employment may withdraw all contributions, except the 1 percent death benefit. When accepting a refund, the member forfeits all service credit and benefit rights. Credit can be re-established if the member returns to a TRS-covered position for one year or to a reciprocal system for two years and repays the refund with interest. A member receiving disability benefits is not eligible for a refund.

## Retirement Benefits

The following vesting schedule applies to all members hired before January 1, 2011.

<b>Years of Service</b>	<b>Age</b>
5	62
10	60
20	55 (discounted)
35	55 (nondiscounted)

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

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

Most members retire under a retirement benefit formula. This retirement annuity is determined by two factors: average salary and years of creditable service. Average salary is the average of the creditable earnings in the highest four consecutive years within the last 10 years of creditable service. Years of service determine the percentage of the final average salary to which members are entitled. Members with contributing service before July 1, 2005, can retire under a money purchase style “actuarial” benefit instead of a retirement benefit formula. By law, the higher of the formula benefit or the actuarial benefit is paid. The maximum formula benefit is 75 percent of the final average salary; there is no maximum for the actuarial benefit.

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

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

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

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

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

## Early Retirement

Members who are age 55 but under age 60 who have at least 20 but fewer than 35 years of service can elect the Early Retirement Option (ERO) to avoid a discounted annuity. Both the member and employer make one-time contributions at retirement. Under the terms of the ERO program described in Public Act 94-0004, the member pays 11.5 percent for each year that his or her age is under 60 or years of service is under 35, whichever is less. The employer pays 23.5 percent for each year the member is under age 60.

An actuarial study was conducted in 2012 to review the adequacy of ERO contributions. The cost of the nonreduced benefits is not fully covered by the ERO contributions. Continuation of the ERO program beyond June 30, 2013 will depend on legislative action.

## Post-Retirement Increase

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



## Disability Benefits

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

Public Act 94-0539 allows individuals who have received TRS disability benefits for one year or more to return to teaching if their medical conditions improve, allowing part-time work. It allows members on a limited basis to tutor, substitute, or teach part-time for a TRS-covered employer without loss of disability benefits as long as the combined earnings from teaching and disability benefits do not exceed 100 percent of the salary rate upon which the disability benefit was based.

## Death Benefits

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

The return of member contributions includes the retirement contributions (6.5 percent of salary through June 30, 1998 and 7.5 percent after that date), with interest, as well as 0.5 percent paid toward annual increases in annuity, and 0.4 percent paid for the Early Retirement Option. Beneficiaries of an annuitant receive the accumulated contributions minus the amount that the member had already received as a retirement annuity.

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

## Employment-Related Felony Conviction

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

## Continuity of Credit within Illinois

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

## Conflicts

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





STATISTICAL STATISTICS



## **STATISTICAL SECTION**

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

### **Section Contents**

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

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

#### **10-Year Financial Trends – Pages 112-113**

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

#### **Employee and Employer Contribution Rates – Page 115**

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

#### **Demographics of Benefit Recipients – Pages 116-117**

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

#### **Average Benefit Payments – Pages 118-119**

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

#### **Participating Employers – Page 120**

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

## RETIRED MEMBERS BY YEARS OF SERVICE AND YEARS IN RETIREMENT AS OF JUNE 30, 2012

Years Retired		Years of Service				
		Under 5	5-9	10-14	15-19	20-24
<b>Under 1</b>	<b>Number</b>	<b>213</b>	<b>356</b>	<b>374</b>	<b>379</b>	<b>619</b>
	Average current benefit	\$270	\$786	\$1,427	\$2,355	\$3,171
	Average original benefit	\$270	\$786	\$1,425	\$2,352	\$3,161
<b>1-4</b>	<b>Number</b>	<b>719</b>	<b>1,479</b>	<b>1,370</b>	<b>1,371</b>	<b>2,115</b>
	Average current benefit	\$281	\$688	\$1,282	\$2,168	\$3,022
	Average original benefit	\$266	\$646	\$1,206	\$2,053	\$2,895
<b>5-9</b>	<b>Number</b>	<b>984</b>	<b>1,281</b>	<b>1,286</b>	<b>1,241</b>	<b>2,504</b>
	Average current benefit	\$277	\$669	\$1,312	\$2,172	\$3,003
	Average original benefit	\$228	\$551	\$1,081	\$1,800	\$2,510
<b>10-14</b>	<b>Number</b>	<b>767</b>	<b>754</b>	<b>706</b>	<b>642</b>	<b>1,609</b>
	Average current benefit	\$288	\$684	\$1,170	\$1,990	\$2,814
	Average original benefit	\$203	\$483	\$834	\$1,424	\$2,021
<b>15-19</b>	<b>Number</b>	<b>398</b>	<b>493</b>	<b>393</b>	<b>363</b>	<b>593</b>
	Average current benefit	\$261	\$659	\$1,038	\$1,349	\$1,971
	Average original benefit	\$158	\$399	\$619	\$811	\$1,209
<b>20-24</b>	<b>Number</b>	<b>181</b>	<b>365</b>	<b>483</b>	<b>442</b>	<b>1,304</b>
	Average current benefit	\$232	\$579	\$954	\$1,478	\$2,169
	Average original benefit	\$122	\$295	\$496	\$776	\$1,148
<b>25-29</b>	<b>Number</b>	<b>113</b>	<b>186</b>	<b>325</b>	<b>409</b>	<b>969</b>
	Average current benefit	\$211	\$453	\$838	\$1,358	\$1,791
	Average original benefit	\$96	\$188	\$366	\$615	\$821
<b>30-34</b>	<b>Number</b>	<b>27</b>	<b>46</b>	<b>142</b>	<b>191</b>	<b>472</b>
	Average current benefit	\$213	\$355	\$675	\$1,037	\$1,404
	Average original benefit	\$85	\$111	\$244	\$404	\$559
<b>35-39</b>	<b>Number</b>	<b>7</b>	<b>9</b>	<b>38</b>	<b>50</b>	<b>165</b>
	Average current benefit	\$123	\$215	\$599	\$892	\$1,107
	Average original benefit	\$39	\$62	\$178	\$286	\$361
<b>40-44</b>	<b>Number</b>	<b>1</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>28</b>
	Average current benefit	\$83	-	\$515	\$806	\$939
	Average original benefit	-	-	\$55	\$217	\$211
<b>45-49</b>	<b>Number</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>
	Average current benefit	-	-	-	-	\$909
	Average original benefit	-	-	-	-	\$149
<b>Over 50</b>	<b>Number</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	Average current benefit	-	-	-	-	-
	Average original benefit	-	-	-	-	-
<b>Total Number</b>		<b>3,410</b>	<b>4,969</b>	<b>5,119</b>	<b>5,090</b>	<b>10,381</b>
<b>Average current benefit</b>		<b>\$273</b>	<b>\$666</b>	<b>\$1,185</b>	<b>\$1,922</b>	<b>\$2,602</b>
<b>Average original benefit</b>		<b>\$213</b>	<b>\$533</b>	<b>\$939</b>	<b>\$1,539</b>	<b>\$2,019</b>

**Years of Service**

<b>25-29</b>	<b>30-34</b>	<b>35-39</b>	<b>40-44</b>	<b>45-49</b>	<b>50+</b>	<b>Weighted Average</b>	<b>Avg Age</b>
<b>701</b>	<b>922</b>	<b>1,515</b>	<b>159</b>	<b>15</b>	<b>2</b>	<b>5,255</b>	<b>60</b>
\$4,324	\$5,576	\$6,211	\$7,038	\$8,447	\$13,223	\$4,297	
\$4,308	\$5,570	\$6,210	\$7,038	\$8,447	\$13,223	\$4,292	
<b>2,077</b>	<b>3,442</b>	<b>4,923</b>	<b>314</b>	<b>58</b>	<b>8</b>	<b>17,876</b>	<b>62</b>
\$4,060	\$5,214	\$5,592	\$6,246	\$6,912	\$9,708	\$3,842	
\$3,887	\$5,033	\$5,489	\$5,951	\$6,605	\$9,234	\$3,719	
<b>2,837</b>	<b>11,161</b>	<b>4,954</b>	<b>368</b>	<b>57</b>	<b>5</b>	<b>26,678</b>	<b>65</b>
\$4,198	\$5,647	\$6,221	\$6,453	\$6,974	\$8,989	\$4,558	
\$3,491	\$4,741	\$5,242	\$5,344	\$5,751	\$7,467	\$3,822	
<b>1,929</b>	<b>6,504</b>	<b>3,230</b>	<b>230</b>	<b>29</b>	<b>5</b>	<b>16,405</b>	<b>70</b>
\$4,065	\$5,689	\$6,144	\$5,875	\$6,209	\$7,478	\$4,488	
\$2,924	\$4,163	\$4,422	\$4,201	\$4,404	\$5,564	\$3,255	
<b>1,085</b>	<b>1,710</b>	<b>3,649</b>	<b>5,335</b>	<b>10</b>	<b>1</b>	<b>14,030</b>	<b>75</b>
\$2,562	\$3,344	\$4,613	\$5,152	\$5,122	\$4,687	\$3,946	
\$1,550	\$2,001	\$2,760	\$3,055	\$3,170	\$2,792	\$2,354	
<b>1,287</b>	<b>1,609</b>	<b>1,515</b>	<b>123</b>	<b>11</b>	<b>2</b>	<b>7,322</b>	<b>81</b>
\$2,930	\$4,021	\$4,972	\$5,143	\$4,502	\$3,808	\$3,095	
\$1,561	\$2,138	\$2,661	\$2,766	\$2,408	\$2,074	\$1,647	
<b>856</b>	<b>1,007</b>	<b>797</b>	<b>44</b>	<b>3</b>	<b>-</b>	<b>4,709</b>	<b>86</b>
\$2,494	\$3,508	\$4,483	\$4,053	\$4,335	-	\$2,570	
\$1,150	\$1,623	\$2,074	\$1,853	\$2,053	-	\$1,183	
<b>383</b>	<b>368</b>	<b>219</b>	<b>27</b>	<b>4</b>	<b>-</b>	<b>1,879</b>	<b>91</b>
\$1,898	\$2,733	\$2,904	\$3,149	\$3,012	-	\$1,833	
\$768	\$1,120	\$1,176	\$1,280	\$1,243	-	\$738	
<b>126</b>	<b>88</b>	<b>119</b>	<b>15</b>	<b>3</b>	<b>-</b>	<b>620</b>	<b>95</b>
\$1,440	\$1,820	\$2,580	\$3,022	\$3,011	-	\$1,542	
\$490	\$642	\$922	\$1,080	\$1,030	-	\$530	
<b>14</b>	<b>22</b>	<b>8</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>84</b>	<b>100</b>
\$1,224	\$1,424	\$1,809	\$2,094	-	-	\$1,269	
\$314	\$398	\$579	\$658	-	-	\$343	
<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>102</b>
\$1,077	-	-	-	-	-	\$976	
\$177	-	-	-	-	-	\$160	
<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>105</b>
\$1,138	-	-	-	-	-	\$1,138	
\$163	-	-	-	-	-	\$163	
<b>11,299</b>	<b>26,833</b>	<b>20,929</b>	<b>6,622</b>	<b>190</b>	<b>23</b>	<b>94,865</b>	<b>70</b>
<b>\$3,613</b>	<b>\$5,219</b>	<b>\$5,567</b>	<b>\$5,323</b>	<b>\$6,526</b>	<b>\$8,641</b>	<b>\$4,018</b>	
<b>\$2,803</b>	<b>\$4,152</b>	<b>\$4,434</b>	<b>\$3,427</b>	<b>\$5,462</b>	<b>\$7,496</b>	<b>\$3,129</b>	

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

	2012	2011	2010	2009
<b>Additions</b>				
Member contributions*	\$917,661	\$909,577	\$899,401	\$876,182
State of Illinois	2,406,364	2,170,918	2,080,729	1,451,592
Pension Obligation Bond proceeds	-	-	-	-
Employer contributions**	154,895	155,111	171,421	152,329
Investment income (loss) net of expenses	224,107	7,234,539	3,679,643	(8,688,286)
<b>Total additions to/reductions from plan net assets</b>	<b>3,703,027</b>	<b>10,470,145</b>	<b>6,831,194</b>	<b>(6,208,183)</b>
<b>Deductions</b>				
Benefit payments	4,553,822	4,228,283	3,927,838	3,653,714
Refunds	84,635	76,587	60,350	53,709
Administrative expenses	19,012	17,792	16,951	17,388
<b>Total deductions from plan net assets</b>	<b>4,657,469</b>	<b>4,322,662</b>	<b>4,005,139</b>	<b>3,724,811</b>
<b>Changes in net assets</b>				
Beginning of year	37,471,267	31,323,784	28,497,729	38,430,723
Net increase (decrease)	(954,442)	6,147,483	2,826,055	(9,932,994)
<b>End of year</b>	<b>\$36,516,825</b>	<b>\$37,471,267</b>	<b>\$31,323,784</b>	<b>\$28,497,729</b>

\* Member contributions increased from 9.0 percent to 9.4 percent beginning in FY06. Also included are member contributions for purchases of optional service, early retirement, and upgrades to the 2.2 formula.

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

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

	2012	2011	2010	2009
<b>Type of benefit</b>				
Retirement	\$4,347,173	\$4,036,147	\$3,749,666	\$3,486,697
Survivor	177,422	163,910	151,074	140,695
Disability	29,227	28,226	27,098	26,322
<b>Total benefits</b>	<b>4,553,822</b>	<b>4,228,283</b>	<b>3,927,838</b>	<b>3,653,714</b>
<b>Type of refund</b>				
Withdrawals	25,563	22,528	17,149	17,357
Death benefits and excess contribution refunds paid to survivors	18,415	16,404	15,161	15,076
2.2 and optional service	20,988	19,861	15,050	11,013
Survivor contributions refunded to retirees	10,358	10,252	7,967	6,916
ERO and other	9,311	7,542	5,023	3,347
<b>Total refunds</b>	<b>\$84,635</b>	<b>\$76,587</b>	<b>\$60,350</b>	<b>\$53,709</b>

2008	2007	2006	2005	2004	2003
\$865,400	\$826,249	\$799,034	\$761,790	\$768,661	\$732,020
1,041,115	737,671	534,305	906,749	1,031,478	929,710
-	-	-	-	4,330,374	-
130,673	115,915	123,543	148,813	127,573	91,552
<u>(2,014,902)</u>	<u>6,831,324</u>	<u>3,993,290</u>	<u>3,330,040</u>	<u>4,485,730</u>	<u>1,060,853</u>
<b>22,286</b>	<b>8,511,159</b>	<b>5,450,172</b>	<b>5,147,392</b>	<b>10,743,816</b>	<b>2,814,135</b>
3,423,982	3,111,753	2,877,231	2,533,103	2,262,329	1,998,622
60,286	59,732	57,967	59,396	48,020	43,115
16,613	15,245	15,303	14,404	13,561	13,859
<u>3,500,881</u>	<u>3,186,730</u>	<u>2,950,501</u>	<u>2,606,903</u>	<u>2,323,910</u>	<u>2,055,596</u>
41,909,318	36,584,889	34,085,218	31,544,729	23,124,823	22,366,284
<u>(3,478,595)</u>	<u>5,324,429</u>	<u>2,499,671</u>	<u>2,540,489</u>	<u>8,419,906</u>	<u>758,539</u>
<b>\$38,430,723</b>	<b>\$41,909,318</b>	<b>\$36,584,889</b>	<b>\$34,085,218</b>	<b>\$31,544,729</b>	<b>\$23,124,823</b>

2008	2007	2006	2005	2004	2003
\$3,268,108	\$2,965,356	\$2,741,164	\$2,407,652	\$2,145,187	\$1,890,512
130,369	121,822	112,902	103,991	97,155	88,997
25,505	24,575	23,165	21,460	19,987	19,113
<u>3,423,982</u>	<u>3,111,753</u>	<u>2,877,231</u>	<u>2,533,103</u>	<u>2,262,329</u>	<u>1,998,622</u>
17,280	17,147	17,155	15,526	14,858	13,204
17,182	17,081	16,747	16,541	16,145	17,734
14,082	14,145	12,666	15,181	7,977	3,699
8,522	8,808	10,198	10,354	7,835	7,024
<u>3,220</u>	<u>2,551</u>	<u>1,201</u>	<u>1,794</u>	<u>1,205</u>	<u>1,454</u>
<b>\$60,286</b>	<b>\$59,732</b>	<b>\$57,967</b>	<b>\$59,396</b>	<b>\$48,020</b>	<b>\$43,115</b>



# EMPLOYEE AND EMPLOYER CONTRIBUTION RATES, LAST 10 FISCAL YEARS

Fiscal Year	Employee Rate (%) <sup>1</sup>	Employer Rate (%) <sup>2</sup>			Total <sup>6</sup>
		State <sup>3</sup>	School Districts for 2.2 Formula <sup>4</sup>	School Districts from Federal Sources <sup>5</sup>	
2003	9.00%	13.01%	0.18%	0.35%	13.55%
2004	9.00	13.98	0.58	0.40	14.96
2005	9.00	11.76	0.58	0.49	12.84
2006	9.40	6.75	0.58	0.31	7.64
2007	9.40	9.26	0.58	0.52	10.36
2008	9.40	12.53	0.58	0.58	13.69
2009	9.40	16.44	0.58	0.63	17.66
2010	9.40	22.56	0.58	0.82	23.96
2011	9.40	22.38	0.58	0.72	23.68
<b>2012</b>	<b>9.40</b>	<b>24.06</b>	<b>0.58</b>	<b>0.85</b>	<b>25.49</b>

- 1 Rate increase in FY06 was for the Early Retirement Option.
- 2 Employer contributions exclude contributions for Early Retirement Option.
- 3 State contributions increased through FY04 pursuant to statutory ramp schedule under 40 ILCS 5/16-158 (b-3). Pension obligation bond (POB) proceeds that were received in FY04 are not state contributions and are not included in this schedule. FY05 decline was due to calculation required under POB legislation. FY06 and FY07 rates were due to specific dollar appropriation specified in Public Act 94-0004 that were not based on the statutory ramp schedule. FY08 through FY10 rates are based on statutory ramp schedule. FY11 rate is based on recertification requirements of Public Act 96-1511. FY12 was based on the statutory formula.
- 4 From January 1, 2002 through June 30, 2003, 40 ILCS 5/16-158 (e) allowed 0.4 percent of the 2.2 contribution to be diverted to cover a new employer contribution for retiree health insurance.
- 5 Federal contributions above are expressed as percentages of total active member payroll. Through FY05, employers contributed 10.5 percent of pay as the employer contribution for members paid from federal sources. Beginning in FY06, the employer contribution rate paid on behalf of members paid from federal sources is the same as the employer contribution rate paid by the State of Illinois on behalf of members not paid from federal sources [7.06 percent in FY06, 9.78 percent in FY07, 13.11 percent in FY08, 17.08 percent in FY09, 23.38 percent in FY10, 23.10 percent in FY11, and 24.91 percent in FY12, with further increases according to the statutory schedule under 40 ILCS 5/16-158 (b-3)].
- 6 Totals shown are rates certified by the TRS Board of Trustees based on estimated payrolls and may not total due to rounding. Actual amounts collected do not equal amounts estimated by actuaries due to differences between estimated and actual payroll.

## DEMOGRAPHICS OF BENEFIT RECIPIENTS AND ACTIVE MEMBERS AS OF JUNE 30, 2012

(excludes inactive members)

Age	Retirees			Disability Benefit Recipient			Survivors		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Under 20	-	-	-	-	-	-	27	26	53
20-24	-	-	-	-	-	-	4	13	17
25-29	-	-	-	-	5	5	3	-	3
30-34	-	-	-	-	15	15	2	1	3
35-39	-	-	-	2	28	30	7	13	20
40-44	-	-	-	6	56	62	14	15	29
45-49	-	-	-	14	58	72	11	24	35
50-54	12	30	42	31	110	141	44	88	132
55-59	1,870	4,831	6,701	45	203	248	107	175	282
60-64	6,771	17,864	24,635	40	189	229	248	480	728
65-69	8,360	15,885	24,245	27	86	113	357	709	1,066
70-74	5,313	9,446	14,759	7	49	56	361	935	1,296
75-79	3,884	6,043	9,927	11	40	51	399	1,089	1,488
80-84	2,726	4,572	7,298	6	22	28	443	1,337	1,780
85-89	1,407	2,945	4,352	3	12	15	395	1,047	1,442
90+	469	2,437	2,906	-	8	8	271	864	1,135
<b>Total</b>	<b>30,812</b>	<b>64,053</b>	<b>94,865</b>	<b>192</b>	<b>881</b>	<b>1,073</b>	<b>2,693</b>	<b>6,816</b>	<b>9,509</b>

## BENEFIT RECIPIENTS BY TYPE AS OF JUNE 30, 2012

Monthly Benefit Range	Number of Recipients (all)	Type of Monthly Benefit				
		Retirement	Disability Retirement	Non-occupational Disability	Occupational Disability	Survivor Monthly Benefits
Under \$500	6,566	5,356	6	1	-	1,203
\$500 - \$999	7,606	5,435	71	2	-	2,098
\$1,000 - \$1,499	7,060	5,023	225	11	-	1,801
\$1,500 - \$1,999	7,323	5,470	189	97	-	1,567
\$2,000 - \$2,499	7,186	5,820	100	86	2	1,178
\$2,500 - \$2,999	6,985	6,130	59	45	1	750
\$3,000 - \$3,499	7,519	7,004	36	24	-	455
\$3,500 - \$3,999	8,272	7,987	33	12	-	240
\$4,000 - \$4,499	8,234	8,112	18	5	-	99
\$4,500 - \$4,999	8,122	8,062	14	-	-	46
\$5,000 - \$5,499	6,956	6,911	12	-	-	33
\$5,500 - \$5,999	5,312	5,284	10	-	-	18
\$6,000 - \$6,499	4,521	4,504	8	-	-	9
\$6,500 - \$6,999	3,595	3,588	2	-	1	4
\$7,000 - \$7,499	2,992	2,989	-	-	-	3
\$7,500 - \$7,999	2,302	2,300	-	1	-	1
\$8,000 or more	4,896	4,890	2	-	-	4
<b>Total benefit recipients:</b>	<b>105,447</b>	<b>94,865</b>	<b>785</b>	<b>284</b>	<b>4</b>	<b>9,509</b>

## Summary Statistics, All Benefit Recipients, as of June 30, 2012

	Age Retirement	Disability Benefits (3 types)	Survivor Benefits
Average monthly benefit	\$4,018	\$2,161	\$1,579
Average age	70	59	77
Average years of service	28	16	NA

Active Members			Total Retirees, Disabilitants, Survivors, and Active Members			Percent Distribution of Retirees, Disabilitants, Survivors, and Active Members		
Male	Female	Total	Male	Female	Total	Male	Female	Total
-	-	-	27	26	53	51%	49%	100%
1,373	5,013	6,386	1,377	5,026	6,403	22	78	100
5,439	17,630	23,069	5,442	17,635	23,077	24	76	100
6,106	19,091	25,197	6,108	19,107	25,215	24	76	100
5,830	16,338	22,168	5,839	16,379	22,218	26	74	100
5,621	17,089	22,710	5,641	17,160	22,801	25	75	100
4,183	14,248	18,431	4,208	14,330	18,538	23	77	100
3,751	14,513	18,264	3,838	14,741	18,579	21	79	100
3,048	12,919	15,967	5,070	18,128	23,198	22	78	100
1,652	6,129	7,781	8,711	24,662	33,373	26	74	100
573	1,213	1,786	9,317	17,893	27,210	34	66	100
125	208	333	5,806	10,638	16,444	35	65	100
45	50	95	4,339	7,222	11,561	38	62	100
9	13	22	3,184	5,944	9,128	35	65	100
-	1	1	1,805	4,005	5,810	31	69	100
3	4	7	743	3,313	4,056	18	82	100
<b>37,758</b>	<b>124,459</b>	<b>162,217</b>	<b>71,455</b>	<b>196,209</b>	<b>267,664</b>	<b>27%</b>	<b>73%</b>	<b>100%</b>

#### Subtypes of Age Retirement Benefit

Regular 2.2 Flat Formula	Graduated Formula	Actuarial Benefit	ERO (2.2 & Grad. Form.)	ERI (State or TRS)	Other	Retirement Total
996	1,699	2,652	4	1	4	5,356
846	1,744	2,721	40	70	14	5,435
928	1,663	1,898	276	218	40	5,023
1,142	1,468	1,482	912	436	30	5,470
1,355	1,274	976	1,469	716	30	5,820
1,547	1,082	648	1,816	998	39	6,130
2,116	932	405	2,269	1,242	40	7,004
2,675	987	335	2,652	1,263	75	7,987
2,858	972	308	2,713	1,165	96	8,112
2,808	944	249	2,794	1,153	114	8,062
2,556	850	174	2,495	718	118	6,911
1,920	718	137	1,856	563	90	5,284
1,703	613	90	1,516	492	90	4,504
1,383	492	73	1,163	411	66	3,588
1,095	405	33	1,123	274	59	2,989
814	358	32	879	171	46	2,300
1,843	829	78	1,672	321	147	4,890
<b>28,585</b>	<b>17,030</b>	<b>12,291</b>	<b>25,649</b>	<b>10,212</b>	<b>1,098</b>	<b>94,865</b>

#### Percentage of Age Retirement Benefits by Subtype

30%	18%	13%	27%	11%	1%	100%
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# AVERAGE BENEFIT PAYMENTS FOR NEW RETIREES LAST 10 FISCAL YEARS

Retirement Effective Dates	Years of Service				
	Under 5	5-9	10-14	15-19	20-24
<b>Period July 1, 2011 through June 30, 2012</b>					
Average monthly benefit	\$271	\$787	\$1,426	\$2,354	\$3,159
Average final average salary	\$63,513	\$49,970	\$53,199	\$68,176	\$76,104
Number of retired members	215	358	375	380	620
<b>Period July 1, 2010 through June 30, 2011</b>					
Average monthly benefit	\$281	\$712	\$1,317	\$2,171	\$2,989
Average final average salary	\$59,267	\$40,317	\$48,191	\$62,212	\$71,841
Number of retired members	160	328	349	357	599
<b>Period July 1, 2009 through June 30, 2010</b>					
Average monthly benefit	\$280	\$670	\$1,228	\$2,121	\$2,947
Average final average salary	\$61,557	\$38,116	\$44,679	\$62,156	\$71,152
Number of retired members	144	312	304	335	495
<b>Period July 1, 2008 through June 30, 2009</b>					
Average monthly benefit	\$247	\$642	\$1,181	\$2,012	\$2,920
Average final average salary	\$55,946	\$39,118	\$42,853	\$57,824	\$70,216
Number of retired members	155	295	240	297	472
<b>Period July 1, 2007 through June 30, 2008</b>					
Average monthly benefit	\$228	\$623	\$1,077	\$1,836	\$2,713
Average final average salary	\$54,905	\$41,044	\$40,557	\$52,692	\$66,593
Number of retired members	112	197	256	251	400
<b>Period July 1, 2006 through June 30, 2007</b>					
Average monthly benefit	\$208	\$595	\$1,118	\$1,932	\$2,716
Average final average salary	\$55,395	\$40,331	\$46,226	\$56,872	\$66,645
Number of retired members	132	212	233	286	492
<b>Period July 1, 2005 through June 30, 2006</b>					
Average monthly benefit	\$210	\$515	\$1,139	\$1,744	\$2,509
Average final average salary	\$55,558	\$36,036	\$44,715	\$53,349	\$62,206
Number of retired members	114	202	202	199	376
<b>Period July 1, 2004 through June 30, 2005</b>					
Average monthly benefit	\$228	\$544	\$1,074	\$1,715	\$2,475
Average final average salary	\$59,538	\$39,038	\$44,000	\$52,488	\$61,882
Number of retired members	170	198	233	251	567
<b>Period July 1, 2003 through June 30, 2004</b>					
Average monthly benefit	\$208	\$575	\$1,052	\$1,635	\$2,359
Average final average salary*	-	-	-	-	-
Number of retired members	106	152	182	181	419
<b>Period July 1, 2002 through June 30, 2003</b>					
Average monthly benefit	\$206	\$522	\$960	\$1,573	\$2,350
Average final average salary*	-	-	-	-	-
Number of retired members	213	191	197	191	395

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

<b>Years of Service</b>				<b>All Fiscal Year Retirees</b>	<b>Average Age For All Fiscal Year Retirees</b>	<b>Average Service For All Fiscal Year Retirees</b>
<b>25-29</b>	<b>30-34</b>	<b>35-39</b>	<b>40+</b>			
\$4,310 \$85,929 702	\$5,568 \$92,839 923	\$6,214 \$98,975 1,516	\$7,273 \$103,131 177	\$4,292 \$83,346 5,266	<b>age 60</b>	<b>27 years</b>
\$4,097 \$81,416 562	\$5,190 \$86,636 905	\$5,708 \$91,033 1,359	\$6,527 \$92,605 134	\$3,984 \$76,805 4,753	<b>age 60</b>	<b>27 years</b>
\$3,891 \$77,352 536	\$5,063 \$84,466 887	\$5,621 \$89,648 1,410	\$5,819 \$82,289 118	\$3,960 \$75,507 4,541	<b>age 60</b>	<b>27 years</b>
\$3,941 \$78,684 425	\$4,940 \$82,544 779	\$5,411 \$86,467 1,301	\$6,457 \$92,170 65	\$3,840 \$73,725 4,029	<b>age 59</b>	<b>27 years</b>
\$3,505 \$71,223 398	\$4,737 \$80,631 695	\$5,098 \$81,570 884	\$5,413 \$79,227 67	\$3,536 \$69,412 3,260	<b>age 59</b>	<b>26 years</b>
\$3,744 \$75,511 575	\$5,080 \$83,693 1,858	\$5,598 \$89,451 1,506	\$5,887 \$89,442 139	\$4,260 \$77,499 5,433	<b>age 58</b>	<b>29 years</b>
\$3,372 \$68,902 404	\$4,728 \$77,920 1,205	\$5,161 \$82,558 1,005	\$5,600 \$85,399 84	\$3,789 \$70,764 3,791	<b>age 59</b>	<b>28 years</b>
\$3,467 \$70,637 737	\$4,700 \$76,980 2,992	\$5,264 \$84,774 1,637	\$5,270 \$81,371 123	\$4,070 \$73,078 6,908	<b>age 58</b>	<b>30 years</b>
\$3,227 - 510	\$4,546 - 1,988	\$5,056 - 1,184	\$5,206 - 95	\$3,892 \$70,359 4,817	<b>age 58</b>	<b>30 years</b>
\$3,147 - 508	\$4,281 - 1,995	\$4,628 - 1,144	\$4,598 - 81	\$3,534 \$62,728 4,915	<b>age 58</b>	<b>29 years</b>

# PRINCIPAL PARTICIPATING EMPLOYERS

Participating Employer	City	Year ended June 30, 2012			Year ended June 30, 2003		
		Rank	Covered Employees	Percentage of Total TRS Membership	Rank	Covered Employees	Percentage of Total TRS Membership
School District U46	Elgin	1	2,774	1.7%	1	3,298	2.2%
Indian Prairie CUSD 204	Naperville	2	2,612	1.6	3	2,337	1.5
Plainfield SD 202	Plainfield	3	2,389	1.5	6	1,492	1.0
Rockford School District 205	Rockford	4	2,213	1.4	2	2,427	1.6
Naperville CUSD 203	Naperville	5	1,712	1.1	4	1,709	1.1
Community USD 300	Carpentersville	6	1,607	1.0	9	1,427	0.9
Springfield SD 186	Springfield	7	1,594	1.0	7	1,445	0.9
Valley View CUSD 365	Romeoville	8	1,578	1.0	-	-	-
Schaumburg CCSD 54	Schaumburg	9	1,474	0.9	10	1,350	0.9
Waukegan CUSD 60	Waukegan	10	1,440	0.8	-	-	-
Peoria SD 150	Peoria	-	-	-	5	1,696	1.1
Community Unit SD 200	Wheaton	-	-	-	8	1,429	1.0
<b>Total, largest 10 employers</b>			<b>19,393</b>	<b>12.0%</b>		<b>18,610</b>	<b>12.2%</b>
<b>All other (1,014 employers in 2012* 1,048 employers in 2003)</b>			<b>142,824</b>	<b>88.0%</b>		<b>133,507</b>	<b>87.8%</b>
<b>Grand Total</b>			<b>162,217</b>	<b>100.0%</b>		<b>152,117</b>	<b>100.0%</b>

*Other Employers by Type as of June 30, 2012	Number of Other Employers	Other Covered Employees
Local school districts	854	135,350
Special Districts	138	6,853
State Agencies	22	621
<b>Total, employers other than largest 10</b>	<b>1,014</b>	<b>142,824</b>

Total Employers by Type as of June 30, 2012	Total Number of Employers	Total Covered Employees
Local school districts	864	154,743
Special Districts	138	6,853
State Agencies	22	621
<b>Total, all employers</b>	<b>1,024</b>	<b>162,217</b>





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

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