



Annual Financial Report Summary

For the Fiscal Year Ended June 30, 2022



Celebrating Agriculture in Education

For fiscal year 2022, the *Annual Financial Report Summary* focuses on agricultural education in the Prairie State.

Throughout Illinois, teachers guide K–12 students through a full array of career pathways — agribusiness, food science, animal systems, plant systems, natural resources, environmental services, biotechnology and technical support systems.

Illinois schools have 355 agricultural programs. Total enrollment in these programs exceeds 38,000 students and they are led by more than 450 agriculture teachers.

Thirty-five colleges and universities offer 74 agricultural-related degrees and certificate programs. In 2021, more than 5,700 students in Illinois were enrolled in collegiate agricultural programs.

For all of these teachers and students, agriculture is more than a profession. It is a passion and a way of life. They become true ambassadors to the past, present and future of Illinois' largest and most enduring industry.

TRS BOARD OF TRUSTEES AS OF DECEMBER 1, 2022



Matthew Hunt
President
Appointed
Glen Ellyn



Andrew Hirshman
Vice President
Elected
Oak Park



Beth Anderson
Elected
Kankakee



Dr. Carmen I. Ayala
Ex Officio
Downers Grove



Kevin (Duffy) Blackburn
Appointed
Joliet



Joseph Blomquist
Elected
St. Charles



Marsha Byas
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Marion



Michael Goetz
Appointed
Springfield



Maria "Mia" Jazo-Harris
Appointed
Bloomington



Maureen Mena
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Bolingbrook



David Miller
Appointed
Lynwood



Fred Peronto
Elected
Elmhurst



Larry Pfeiffer
Elected
Carlinville



Doug Strand
Elected
East Moline

TRS ORGANIZATION EXECUTIVE CABINET AS OF DECEMBER 1, 2022



Stan Rupnik, CFA
Executive Director
& Chief Investment
Officer



Deron Bertolo
Chief Financial
Officer



Lori Dour
Chief Benefits
Officer



Michelle Kissel
Director of Human
Resources



Gloria Lasley
MBA, CISSP,
PMP
Chief Operating
Officer



Emily Peterson
General Counsel



Stacy Smith,
CPA, CIDA
Director of Internal
Audit and Risk



Dave Urbanek
Director of
Communications

Cover photo: Kenson Welsh and other 4-H members lining up their cattle in the show ring at the McDonough County Fair.



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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R. Stanley Rupnik, Executive Director & Chief Investment Officer

December 13, 2022

Dear TRS Members:

We are pleased to present the *Annual Financial Report Summary* for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2022. This report details the on-going work of the System's trustees and staff to fulfill the TRS mission and keep the retirement promises made by the State of Illinois to educators in its public schools.

Significant events in fiscal year 2022

- TRS paid \$7.6 billion in member benefits on time and in full. More than 3,400 retirement claims were processed. The System's Call Center handled more than 117,000 telephone requests for assistance and close to 60,000 emails from members and their families.
- In March 2022, Teachers' Retirement System launched its first-ever "deferred compensation" (DC) optional savings plan to assist members with their retirement planning — the TRS Supplemental Savings Plan (SSP). In less than a year, interest in the SSP has been growing. As of June 30, more than 600 TRS employers have signed participant agreements, 376 members have enrolled and \$722.8 thousand has been deferred thus far to participant accounts.
- **Gov. JB Pritzker** and the General Assembly continued to make pension system funding by state government a priority. Despite state revenue and budget problems caused by the ongoing COVID-19 pandemic, TRS received its full \$5.7 billion, statutorily required appropriation on a timely basis.
- And for the first time in more than a decade, Gov. Pritzker added an additional \$500 million to the minimum contribution required for TRS and the state's other pension systems. The TRS portion was \$288 million of the \$500 million. The goal of this additional contribution is to reduce future long-term liability of the state's pension systems by \$1.4 billion.
- Within an environment of economic instability during fiscal year 2022, the TRS conservative investment strategy performed as intended. As significant market volatility, rising inflation and interest rate increases hit in early calendar year 2022, the TRS portfolio performed favorably to other measurements used in the financial industry. While an investment return of (1.17) percent in a volatile year broke a string of 12 consecutive years of positive investment returns, the fiscal year 2022 rate of return did no lasting harm to the System's financial position.
- For the second straight fiscal year, the TRS long-term funded ratio improved, reaching 43.8 percent at the end of fiscal year 2022.

The TRS Board of Trustees and staff remain vigilant in their efforts to improve the retirement system's funded status for current and future members. TRS continues to invest prudently and in a disciplined manner for the benefit of TRS 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 their circumstances.

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

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.

R. Stanley Rupnik
Executive Director and Chief Investment Officer

Deron Bertolo
Chief Financial Officer

FINANCIAL HIGHLIGHTS

- The fiduciary net position of TRS at June 30, 2022 was \$62.8 billion.
- During fiscal year 2022, the fiduciary net position of TRS decreased \$1.4 billion.
- Defined benefit contributions from members, employers and the State of Illinois were \$7.1 billion, an increase of \$798.5 million or 12.8 percent for fiscal year 2022.
- Deferred compensation contributions of \$722.8 thousand from employers and members started in March 2022.
- Total net investment loss was (\$743.0) million, compared to \$13.0 billion gain in fiscal year 2021, a decrease of \$13.8 billion.
- Defined benefits and refunds paid to members and annuitants were \$7.7 billion, an increase of \$281.4 million or 3.8 percent.
- The actuarial accrued liability was \$143.5 billion at June 30, 2022.
- The unfunded actuarial accrued liability was \$80.6 billion at June 30, 2022. The funded ratio was 43.8 percent at June 30, 2022. The unfunded liability and funded ratio are calculated using a smoothed value of assets, as required under Public Act 96-0043.
- The total pension liability (TPL) was \$146.7 billion at June 30, 2022.
- The net pension liability (NPL) was \$83.8 billion at June 30, 2022. The plan fiduciary net position, as a percentage of total pension liability, was 42.8 percent.

Condensed Comparative Statements of Fiduciary Net Position as of June 30

| | 2022 | Percentage Change | 2021 |
|--|--------------------------------|-------------------|--------------------------------|
| Cash | \$19,555,871 | 20.2% | \$16,263,026 |
| Receivables and prepaid expenses | 5,290,933,248 | 18.4 | 4,468,795,311 |
| Investments | 62,528,309,625 | (2.1) | 63,851,832,280 |
| Invested securities lending collateral | 2,183,903,100 | (10.0) | 2,425,695,348 |
| Capital assets | 8,238,075 | (2.6) | 8,453,925 |
| Total assets | 70,030,939,919 | (1.0) | 70,771,039,890 |
| Total liabilities | 7,199,105,736 | 9.8 | 6,558,534,870 |
| Total fiduciary net position | <u>\$62,831,834,183</u> | (2.2%) | <u>\$64,212,505,020</u> |

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

| | 2022 | Percentage Change | 2021 |
|---|--------------------------------|-------------------|--------------------------------|
| Contributions | \$7,061,038,548 | 12.8% | \$6,261,774,388 |
| Net investment income (loss) | (743,042,373) | (105.7) | 13,046,153,685 |
| Participant fee income | 3,029 | 100.0 | - |
| Total additions | 6,317,999,204 | (67.3) | 19,307,928,073 |
| Benefits and refunds | 7,669,576,246 | 3.8 | 7,388,142,712 |
| Administrative expenses | 28,372,371 | 19.4 | 23,758,112 |
| Contributions sent to third-party administrator | 721,424 | 100.0 | - |
| Total deductions | 7,698,670,041 | 3.9 | 7,411,900,824 |
| Net increase/decrease in fiduciary net position | (1,380,670,837) | (111.6) | 11,896,027,249 |
| Total fiduciary net position - beginning of year | 64,212,505,020 | 22.7 | 52,316,477,771 |
| Total fiduciary net position - end of year | <u>\$62,831,834,183</u> | (2.2%) | <u>\$64,212,505,020</u> |

INVESTMENTS

As of June 30, 2022, the fair value of TRS's investments was \$62.5 billion, a decrease of \$1.3 billion from the prior year. TRS had a total fund annualized return of (0.6) percent, gross of fees, and (1.2) percent, net of fees, for the one-year period ended June 30, 2022.

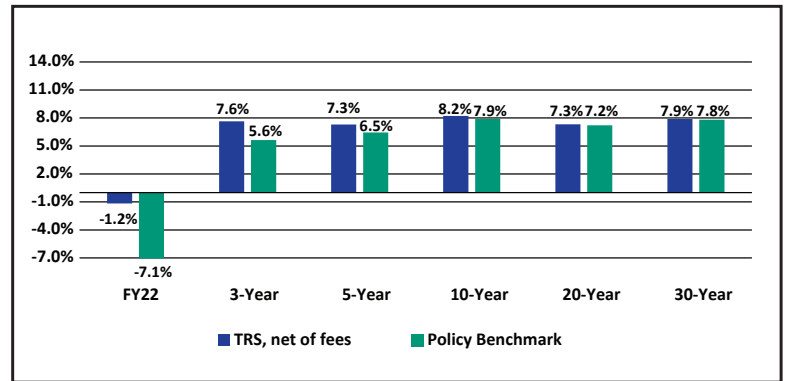
In a volatile year for global financial markets, the investment strategy employed by TRS protected member assets and limited the System's portfolio loss in fiscal year 2022 to (1.2) percent, net of fees, a favorable rate of return compared to other public pension systems across the country. TRS's conservative strategy performed as intended during a period of economic instability as market volatility, rising inflation and interest rate increases materialized in early calendar year 2022.

Due to the underfunded status of TRS, the System's primary objective is to protect member assets against large market downturns caused by economic unpredictability, as experienced within the year. A prudent investment strategy consists of a diversified portfolio that seeks to participate in the upside of the market but also is positioned to better protect assets in times of high market volatility.

TRS Investment Performance (net of fees)

| Summary Data as of June 30, 2022 | |
|----------------------------------|-------------------------------------|
| Total fund fair value | \$62.5 billion |
| 1-year return (net of fees) | (1.2%) |
| 3-year return (net of fees) | 7.6% |
| 5-year return (net of fees) | 7.3% |
| 10-year return (net of fees) | 8.2% |
| 20-year return (net of fees) | 7.3% |
| 30-year return (net of fees) | 7.9% |
| Percent externally managed | 100.0% |
| Number of external managers | 177 |
| Master Trustee and Custodian | State Street Bank and Trust Company |
| General consultant | RVK, Inc. |

TRS Total Funds vs. Policy Benchmark



A six-horse hitch at the Whiteside County Fair.



FFA students tossing hay during the FFA Farmyard Follies at the Du Quoin State Fair.

ACTUARIAL

This section discusses the System's funded status and measures changes over time. The actuarial accrued liability, actuarial value of assets and unfunded liability presented are used to determine state funding requirements.

Actuarial Assumptions and Methods

All actuarial assumptions used to prepare the actuarial valuation are reviewed every three years. The last review, called an actuarial experience analysis, was conducted in 2021. The major economic assumptions are reviewed every year as recommended by the state actuary. Using these assumptions, the actuary reconciles the differences between actuarial assumptions and experience to explain the change in TRS's valuation.

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 by TRS members to date but not yet paid. 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. The funded ratio shows the percentage of the accrued liability covered by assets.

Actuarial Valuation (\$ thousands)

| | Year ended June 30, 2022 |
|---|-----------------------------|
| Based on actuarial value of assets | |
| Total actuarial accrued liability | \$143,523,731 |
| Less actuarial value of assets* | 62,910,402 |
| Unfunded liability | <u>\$80,613,329</u> |
| Funded ratio* | 43.8% |
| Based on fair value of assets | |
| Total actuarial accrued liability | \$143,523,731 |
| Less assets at fair value | 62,833,626 |
| Unfunded liability | <u>\$80,690,105</u> |
| Funded ratio | 43.8% |

* Five-year prospective smoothing began in fiscal year 2009.

The table above shows the funded ratio based on the actuarial value of assets and the fair value of assets.

Explaining the Unfunded Liability

Based on the actuarial valuation, the net increase in the unfunded liability for 2022 is \$0.7 billion. This decrease in the liability was caused by a variety of factors.



Children visiting the Illinois State Fair have the opportunity to milk a cow.

Reconciliation of Unfunded Liability

| Reconciliation of Unfunded Actuarial Accrued Liability | Year ended June 30, 2022 |
|--|--------------------------------|
| Unfunded liability at beginning of year | \$79,934,351,951 |
| Additions | |
| Employer cost in excess of contributions | 610,043,719 |
| Net experience (gain) | (334,891,566) |
| Changes in actuarial assumptions | 403,824,677 |
| Net increase in unfunded liability | <u>678,976,830</u> |
| Unfunded liability at end of year | <u>\$80,613,328,781</u> |

The first factor shown in the table is the difference between actual employer/state contributions and the amount that would cover the employer/state's cost of benefits earned during the year and prevent the prior year's unfunded liability from growing. The shortfall was \$0.6 billion.

Secondly, actuarial gains and losses occurred under the assumptions used to prepare the valuation. The most significant gain was on investments. Other gains occurred under the assumptions for buyouts, disabilities and mortality. Gains under these assumptions mean that experience was more favorable (less costly) than originally assumed.

In summary, the \$0.7 billion increase in the unfunded liability is due to the \$0.6 billion employer cost in excess of contributions

and the \$0.3 billion reduction due to experience and the \$0.4 billion reduction due to assumption changes.

Pension Funding Policies and Contributions

A funding policy outlines the framework for calculating the contribution rate to the System for the purpose of steadily funding future benefit payments. There are three elements that are important in this framework: actuarial cost for the total present value of future benefits, recognition of investment gains/losses and the amortization of the unfunded liability.

In 2012, the TRS Board of Trustees resolved to begin certifying state funding amounts that were in accordance with generally accepted actuarial principles and standards. These amounts, one based on the board’s funding policy and the other on the statutory funding plan, are submitted to the legislative and executive branches. By certifying two funding amounts, the board serves to illustrate the gap between sound funding policy and current practice under Illinois law.

State Funding Amounts

The Fiscal Years 2023 & 2024 State Contributions Requirements table below shows funding requirements under the statutory funding plan and the TRS Board of Trustee’s funding plan that was adopted in 2015.

The fiscal year 2023 certifications are based on the June 30, 2021 actuarial valuation. The state actuary will review the proposed certifications for fiscal year 2024 as well as the preliminary June 30, 2022 valuation. Final certifications for fiscal year 2024 are due Jan. 15, 2023 pursuant to Public Act 97-0674.

Fiscal Years 2023 & 2024 State Contribution Requirements

| | Fiscal Year 2023 Requirements | Fiscal Year 2024 Requirements |
|--|-------------------------------|-------------------------------|
| Based on Statutory Funding Plan | | |
| Benefit Trust Reserve | \$5,893,732,209 | \$6,043,154,650 |
| Minimum Annuity Reserve | 300,000 | 300,000 |
| Total State Contribution | \$5,894,032,209 | \$6,043,454,650 |
| Based on TRS Board Funding Policy | | |
| Benefit Trust Reserve | \$9,101,333,224 | \$9,589,816,087 |
| Minimum Annuity Reserve | 300,000 | 300,000 |
| Total State Contribution | \$9,101,633,224 | \$9,590,116,087 |
| Employer Normal Cost Rate | | |
| Tier 1 | 14.58% | 15.13% |
| Tier 2 | (1.34%) | (1.03%) |
| Combined | 10.49% | 10.60% |

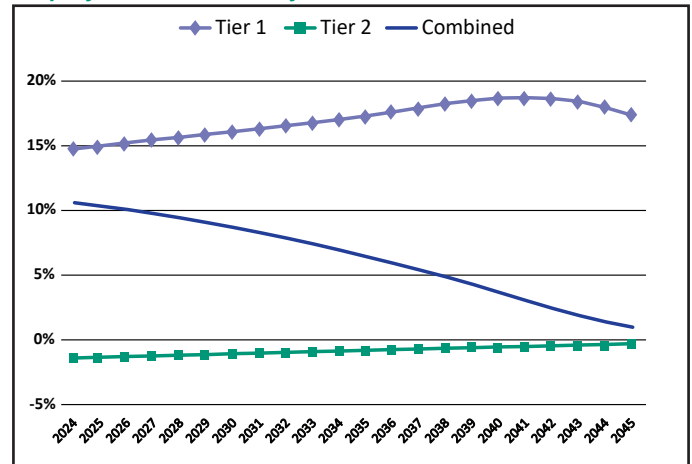
Funding Analysis by Tier

Public Act 96-0889 established a new tier of benefits for teachers who first contributed to TRS or another reciprocal pension system on or after Jan. 1, 2011. Tier 2 teachers have later retirement dates, longer vesting requirements, salary caps for pensions lower than the Social Security wage base and lower cost of living increases after retirement that are not compounded. On July 1, 2016, the member contribution rate for both tiers decreased from 9.4 percent to 9.0 percent.

The employer normal cost rate measures the employer’s cost of the benefits being earned by active teachers during the year. It does not include any contributions towards the unfunded liability. The following chart shows that while the combined employer normal cost of both tiers in 2022 is over 10 percent of pay, the cost of Tier 2 is negative and stays negative through 2045.

As more Tier 2 members enter TRS, the combined employer normal cost continues to fall. In the meantime, the cost of Tier 1, which is a closed group, continues to increase, until 2042, as Tier 1 members age and accrue more service. The increases in employer normal cost for both tiers is a function of the projected unit credit actuarial cost method required by the Illinois Pension Code.

Employer Normal Cost by Tier



Note: Combined rate includes administrative expenses.
Source: 2019 valuation for 2021 data, 2020 valuation for 2022 data, 2022 valuation for subsequent years.

“By certifying two funding amounts, the board serves to illustrate the gap between sound funding policy and current practice under Illinois law.”

STATISTICAL

Member Statistics for the Fiscal Year Ended 2022

Full and Part-time Active Members

| | | | |
|--------------------------|----------|----------------------|---------|
| Average age | 43 | Total Tier 1 members | 103,163 |
| Average service | 14 | Total Tier 2 members | 62,403 |
| Average annual salary | \$79,002 | Total active members | 165,566 |
| Oldest full-time teacher | 83 | | |

Retired Members

| | | | |
|----------------------------------|----------|-----------------------|---------|
| Average age | 73 | Total retired members | 115,778 |
| Average service | 27 years | | |
| Average annual benefit | \$63,276 | | |
| Average years receiving benefits | 14 | | |
| Oldest retired teacher | 108 | | |

FULL REPORT ONLINE

This publication is a summary of the *Annual Comprehensive Financial Report* for the fiscal year ended June 30, 2022. The comprehensive report is available online at:

<https://www.trsil.org/financial/acfrs/fy2022>.



Exhibitors at the 4-H Livestock Auction during the Kankakee County Fair.



It's almost showtime for a brother and sister trimming one of their goats at the Monroe County Fair.

FISCAL YEAR HIGHLIGHTS

| | |
|----------------------------------|---------|
| Active contributing members | 165,566 |
| Inactive noncontributing members | 144,801 |
| Benefit recipients* | 129,466 |
| Total membership | 439,833 |

Investment return

| | |
|---|---------|
| Total fund investment return, net of fees | (1.17%) |
|---|---------|

Actuarial information

| | |
|--|-------------------|
| Actuarial accrued liability (AAL) | \$143,523,730,959 |
| Less actuarial value of assets (AVA) | 62,910,402,178 |
| Unfunded actuarial accrued liability, AVA basis (UAAL) | \$80,613,328,781 |
| Funded ratio (AVA/AAL) | 43.8% |
| Less fair value of assets (FVA) | \$62,833,626,339 |
| Unfunded actuarial accrued liability, FVA basis (UAAL) | \$80,690,104,620 |
| Funded ratio (FVA/AAL) | 43.8% |

GASB Statement No. 67 disclosures

| | |
|-----------------------------------|-------------------|
| Total pension liability (TPL) | \$146,673,960,220 |
| Less fiduciary net position (FNP) | 62,833,626,339 |
| Net pension liability (NPL) | \$83,840,333,881 |
| FNP as a percentage of TPL | 42.8% |

Additions

| | |
|---------------------------------|-----------------|
| Member contributions | \$1,073,361,807 |
| Employer contributions | 120,876,905 |
| State of Illinois contributions | 5,866,799,836 |
| Total investment loss | (743,042,373) |
| Participant fee income | 3,029 |
| Total additions | \$6,317,999,204 |

Deductions

| | |
|---|-----------------|
| Benefits paid | \$7,607,019,502 |
| Refunds paid | 62,556,744 |
| Administrative expenses | 28,372,371 |
| Contributions sent to third-party administrator | 721,424 |
| Total deductions | \$7,698,670,041 |

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