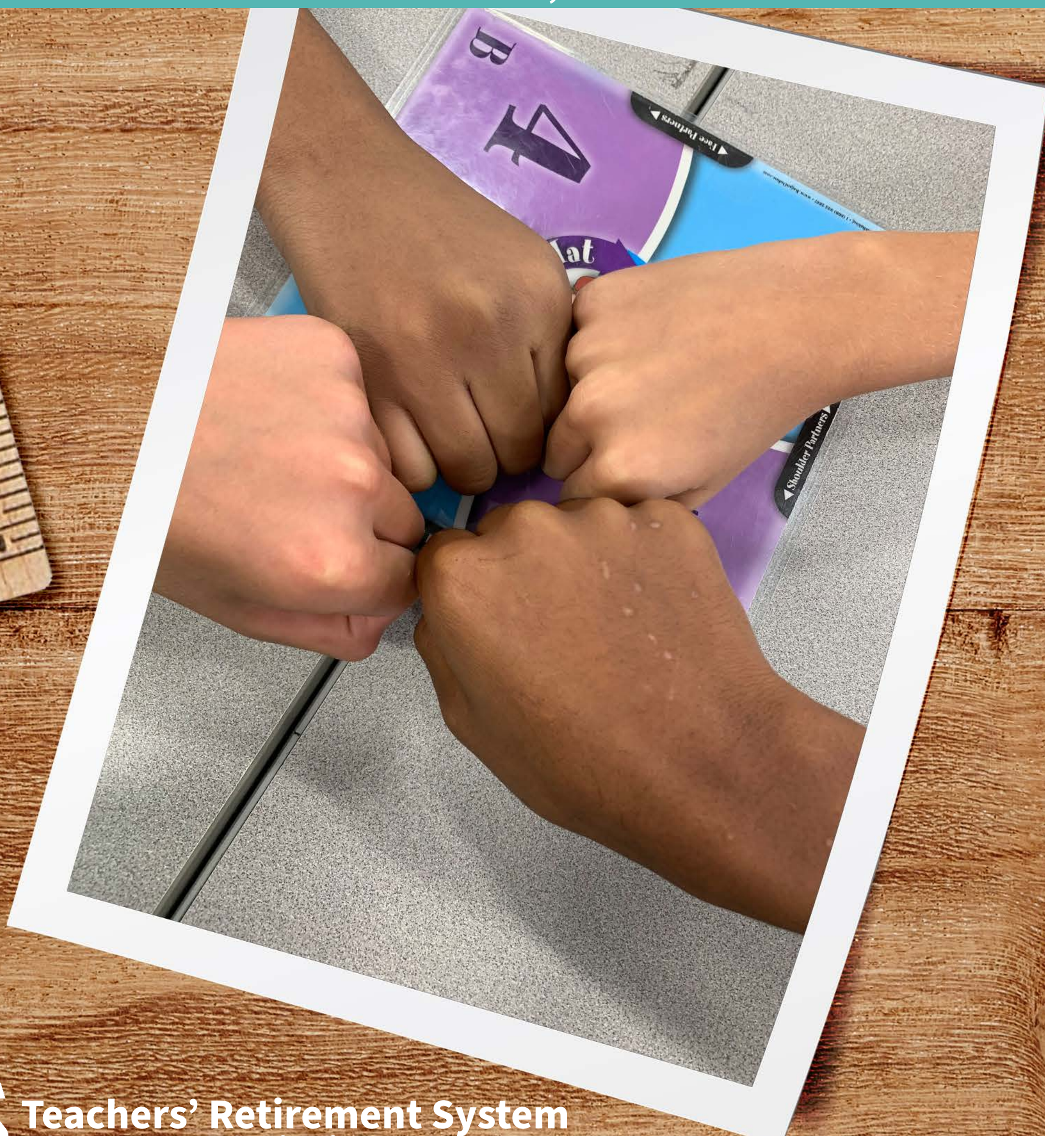
Annual Financial Report Summary

For the Fiscal Year Ended June 30, 2021



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

CELEBRATING DIVERSITY IN ILLINOIS SCHOOLS

"Diversity" in Illinois is older than the state itself. Throughout history, a nonstop march of different cultures has prospered southwest of the Great Lakes, north of the Ohio River and east of the Mississippi River.

Diversity encompasses much more than the origin of your forebearers. Across the 55,000 square miles of modern Illinois, a multitude of languages, dress, beliefs, customs and abilities have continually clashed, merged, grown, sacrificed and evolved. But mostly, through it all our rich diversity has contributed greatly to who each of us are today. In Illinois, we celebrate diversity.

And nowhere is the diversity of Illinois better reflected than in our schools – the living nexus of past, present and future.

TRS ORGANIZATION
EXECUTIVE CABINET AS OF DECEMBER 1, 2021

Stan Rupnik, CFA
Executive Director & Chief Investment Officer

Jeff Bennett
Director of Operations

Deron Bertolo
Chief Financial Officer

Lori Dour
Acting Chief Benefits Officer

Emily Peterson
General Counsel

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

Jamie Stults, MA, SPHR, SHRM-SCP
Director of Human Resources

Dave Urbanek
Director of Communications

Christopher Wiedel
Director of Information Technology

Cover photo: *Submitted by Analiese Gremillion, art teacher at Thomas Jefferson Jr. High School, Woodridge School District.*

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
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R. Stanley Rupnik, Executive Director & Chief Investment Officer

December 13, 2021

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, 2021. 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.

Concluding its 82nd year of operation in fiscal year 2021, TRS successfully distributed $7.3 billion in retirement and disability benefits to 127,518 members, despite ongoing challenges created by the world-wide COVID-19 pandemic.

Yet, despite the pervasive influence of the coronavirus on Illinois families and the economy, for the first time since 2018 the System's funded ratio ticked up during the year to 42.5 percent from the 40.5 percent recorded at the end of fiscal year 2020. This is good news for TRS members and the taxpayers of Illinois.

For the last four years, the TRS funded ratio remained steady, averaging 40.5 percent. This stability was the direct result of consistent annual contributions by **Gov. JB Pritzker** and the General Assembly, and decent investment returns from a lengthy bull market. These positive actions are now beginning to create modest improvements in the long-term fiscal condition of TRS and will continue if state officials continue to follow a prudent pension funding policy.

Nonetheless, TRS continues to carry one of the lowest funded ratios in the nation for a retirement system its size. The System had an actuarial value of $59.0 billion in assets and a long-term benefit obligation of $138.9 billion, which creates an unfunded liability of $79.9 billion.

Despite the economic upheaval caused by the COVID-19 pandemic, TRS investments closed out fiscal year 2021 with a strong rate of return and record assets under management. The TRS investment return in fiscal year 2021 was a positive 25.5 percent, net of fees.

Through fiscal year 2021, the TRS Investment Department successfully navigated the perils of the pandemic's attack on the economy and was able to rebuild the value of the System's portfolio to prepandemic levels – and beyond. As of June 30, TRS managed investments totaling $63.9 billion – a record for the System and a 24.1 percent increase in assets from the prior year. TRS closed fiscal year 2020 with $51.5 billion.

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

Sunset at River Valley School in Lemont, where Principal Debra Lynch says "Where all means all, 24/7. Every child, every family, every staff member... We are all in this together, taking care of each other."

This monarch mural was recently added to the garden shed at Lockport Township High School, inviting students to learn about monarch butterflies and native prairie plants. Submitted by horticulture teacher Colleen Martin.

FINANCIAL HIGHLIGHTS

- The net position of TRS at June 30, 2021 was $64.2 billion.
- During fiscal year 2021, the net position of TRS increased $11.9 billion.
- Contributions from members, employers and the State of Illinois were $6.3 billion, an increase of $361.3 million or 6.1 percent for fiscal year 2021.
- Total net investment income was $13.0 billion, compared to $275.7 million in fiscal year 2020, an increase of $12.8 billion.
- Benefits and refunds paid to members and annuitants were $7.4 billion, an increase of $288.6 million or 4.1 percent.
- The actuarial accrued liability was $138.9 billion at June 30, 2021.
- The unfunded actuarial accrued liability was $79.9 billion at June 30, 2021. The funded ratio was 42.5 percent at June 30, 2021. 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 $142.2 billion at June 30, 2021.
- The net pension liability (NPL) was $78.0 billion at June 30, 2021. The plan fiduciary net position, as a percentage of total pension liability, was 45.1 percent.

Condensed Comparative Statements of Fiduciary Net Position as of June 30

	2021	Percentage Change	2020
Cash	$16,263,026	(33.2%)	$24,329,683
Receivables and prepaid expenses	4,468,795,311	(0.6)	4,496,792,625
Investments	63,851,832,280	24.1	51,454,158,912
Invested securities lending collateral	2,425,695,348	19.9	2,023,876,139
Capital assets	8,453,925	37.9	6,130,809
Total assets	**70,771,039,890**	**22.0**	**58,005,288,168**
Total liabilities	**6,558,534,870**	**15.3**	**5,688,810,397**
Net position restricted for pensions	**$64,212,505,020**	**22.7%**	**$52,316,477,771**

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

	2021	Percentage Change	2020
Contributions	$6,261,774,388	6.1%	$5,900,510,333
Net investment income	13,046,153,685	4,632.5	275,669,398
Total additions	19,307,928,073	212.6	6,176,179,731
Benefits and refunds	7,388,142,712	4.1	7,099,524,955
Administrative expenses	23,758,112	3.4	22,966,372
Total deductions	7,411,900,824	4.1	7,122,491,327
Net increase/decrease in net position	**11,896,027,249**	**1,357.1**	**(946,311,596)**
Net position restricted for pensions - beginning of year	**52,316,477,771**	**(1.8)**	**53,262,789,367**
Net position restricted for pensions - end of year	**$64,212,505,020**	**22.7%**	**$52,316,477,771**

Left to right: *Students at Glenview Middle School in East Moline created a colorful display during Hispanic Heritage Month that honored the contributions of Hispanic women. Submitted by Belinda Rusch of the Parapro/Sped/Success Program.*

At Nichols Middle School in Evanston, teachers Brian Sommer and Demetra Stratakos show off their creative reminder that students need to wear masks during the pandemic.

Martha, a certified member of Alliance of Therapy Dogs, works with students in the Literacy Program at Morris Grade School in Morris. Submitted by reading teacher Trudy DesLauriers.

INVESTMENTS

The TRS investment portfolio added $12.4 billion over the past 12 months, ending with a value of $63.9 billion on June 30, 2021. The TRS portfolio remains fully diversified across different asset classes. Within each asset class, TRS utilizes a number of investment managers with various investment styles to ensure appropriate diversification, 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.

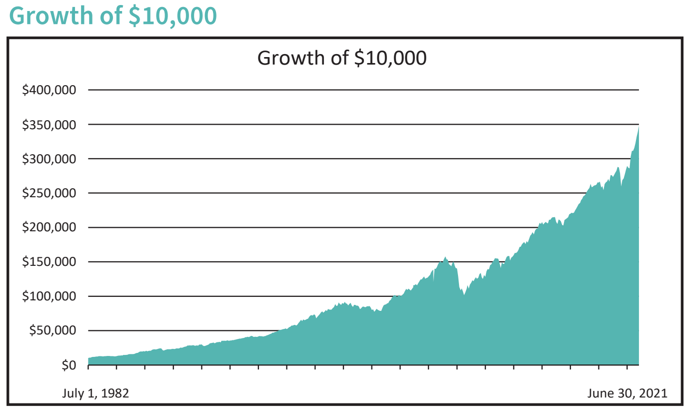
Investment performance rebounded significantly during the fiscal year in all asset classes as the economy recovered from the global pandemic. Markets were able to stabilize and subsequently rallied for impressive results, however volatility persists due to COVID-19 variants and resurges. Within the equity asset class, private equity outperformed public assets during the year, generating 57.2 percent, net of fee return, versus 41.0 percent in public equity. All asset classes had outperformance comparative to assigned benchmarks and the System's diversification allowed a positive return of 25.5 percent, net of fees, for the fiscal year ended June 30, 2021.

TRS Investment Performance (net of fees)

Summary Data as of June 30, 2021	
Total fund fair value	$63.9 billion
1-year return (net of fees)	25.5%
3-year return (net of fees)	9.9%
5-year return (net of fees)	10.1%
10-year return (net of fees)	8.4%
20-year return (net of fees)	7.2%
30-year return (net of fees)	8.3%

TRS's asset allocation has provided consistent overall returns throughout the years, as represented by the following chart showing the growth of $10,000 since July 1, 1982.

Growth of $10,000



Bryan McMahan, a business and technology teacher at Somonauk High School in Somonauk.

Early childhood teacher Khawla Mashni wore a Palestinian thobe on Cultural Day at Ridge Lawn School in Chicago Ridge.

U.S. Army veteran and physical education teacher Carol Golemo uses yoga figurines to demonstrate poses during yoga fitness classes over Zoom from Thomas Middle School in Arlington Heights.

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, 2021
Based on actuarial value of assets	
Total actuarial accrued liability	$138,914,275
Less actuarial value of assets*	58,979,923
Unfunded liability	**$79,934,352**
Funded ratio*	42.5%
Based on fair value of assets	
Total actuarial accrued liability	$138,914,275
Less assets at fair value	64,212,505
Unfunded liability	**$74,701,770**
Funded ratio	46.2%

** 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 decrease in the unfunded liability for 2021 is $0.8 billion. This decrease in the liability was caused by a variety of factors.

Reconciliation of Unfunded Liability

Reconciliation of Unfunded Actuarial Accrued Liability	Year ended June 30, 2021
Unfunded liability at beginning of year	**$80,707,571,185**
Additions	
Employer cost in excess of contributions	1,414,463,477
Net experience (gain)	(1,670,972,826)
Changes in actuarial assumptions	(516,709,885)
Net decrease in unfunded liability	**(773,219,234)**
Unfunded liability at end of year	**$79,934,351,951**

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 $1.4 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, salary increases, disabilities, mortality and new members. Gains under these assumptions mean that experience was more favorable (less costly) than originally assumed.

In summary, the $0.8 billion decrease in the unfunded liability is due to the $1.4 billion employer cost in excess of contributions and the $1.7 billion reduction due to experience and the $0.5 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 2022 & 2023 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 2022 certifications are based on the June 30, 2020 actuarial valuation. The state actuary will review the proposed certifications for fiscal year 2023 as well as the preliminary June 30, 2021 valuation. Final certifications for fiscal year 2023 are due Jan. 15, 2022 pursuant to Public Act 97-0674.

Fiscal Years 2022 & 2023 State Contribution Requirements

	Fiscal Year 2022 Requirements	Fiscal Year 2023 Requirements
Based on Statutory Funding Plan		
Benefit Trust Reserve	$5,693,706,973	$5,893,732,209
Minimum Annuity Reserve	400,000	300,000
Total State Contribution	$5,694,106,973	$5,894,032,209
Based on TRS Board Funding Policy		
Benefit Trust Reserve	$8,850,055,308	$9,101,333,224
Minimum Annuity Reserve	400,000	300,000
Total State Contribution	$8,850,455,308	$9,101,633,224
Employer Normal Cost Rate		
Tier 1	13.99%	14.58%
Tier 2	(1.29%)	(1.34%)
Combined	10.31%	10.49%

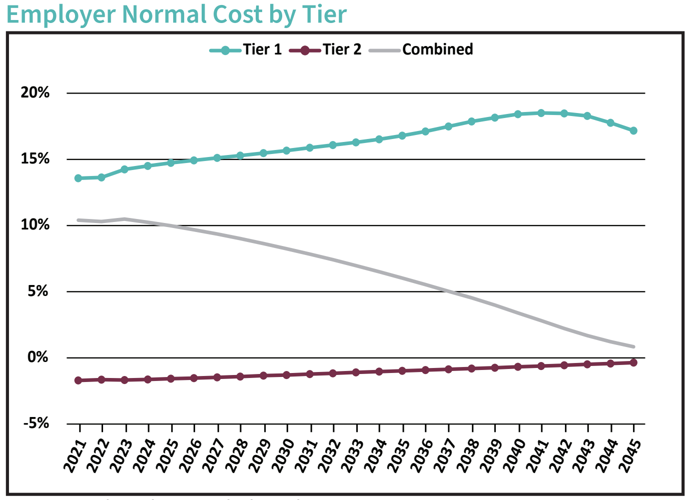
Funding Analysis by Tier

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 2021 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, 2021 valuation for subsequent years.*

"Captain Bullet," is the mascot for the Williamsville High School Bullets. Submitted by teacher Lynsey Bonner.

FULL REPORT ONLINE

This publication is a summary of the *Annual Comprehensive Financial Report* for the fiscal year ended June 30, 2021.

The comprehensive report is available online at: **https://www.trsil.org/financial/acfrs/fy2021**.

FISCAL YEAR HIGHLIGHTS

	As of June 30, 2021
Active contributing members	159,027
Inactive noncontributing members	145,769
Benefit recipients*	127,518
Total membership	432,314
Investment return	
Total fund investment return, net of fees	25.5%
Actuarial information	
Actuarial accrued liability (AAL)	$138,914,274,917
Less actuarial value of assets (AVA)	58,979,922,966
Unfunded actuarial accrued liability, AVA basis (UAAL)	$79,934,351,951
Funded ratio (AVA/AAL)	42.5%
Less far value of assets (FVA)	$64,212,505,020
Unfunded actuarial accrued liability, FVA basis (UAAL)	$74,701,769,897
Funded ratio (FVA/AAL)	46.2%
GASB Statement No. 67 disclosure	
Total pension liability (TPL)	$142,223,798,748
Less fiduciary net position (FNP)	64,212,505,020
Net pension liability (NPL)	$78,011,293,728
FNP as a percentage of TPL	45.1%
Additions	
Member contributions	$1,023,531,951
Employer contributions	97,594,081
State of Illinois contributions	5,140,648,356
Total investment income	13,046,153,685
Total additions	$19,307,928,073
Deductions	
Benefits paid	$7,323,948,701
Refunds paid	64,194,011
Administrative expenses	23,758,112
Total deductions	$7,411,900,824

** Includes retiree, disability, & survivor benefit recipients.*

STATISTICAL

Member Statistics for the Fiscal Year Ended 2021			
Full and Part-time Active Members			
Average age	43	Total Tier 1 members	105,062
Average service	13	Total Tier 2 members	53,965
Average annual salary	$76,865	Total active members	159,027
Oldest full-time teacher	84		
Retired Members			
Average age	72	Total retired members	114,252
Average service	27 years		
Average annual benefit	$61,860		
Average years receiving benefits	13		
Oldest retired teacher	107		

21ST CONSECUTIVE NATIONAL POPULAR AWARD RECEIVED

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Teachers' Retirement System of the State of Illinois (TRS) for its Popular Annual Financial Report for the fiscal year ended June 30, 2020. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular financial reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. TRS has received a Popular Award for the last 21 consecutive years. We believe this June 30, 2021 report also conforms to the Popular Annual Financial Reporting requirements and we are submitting it to GFOA.

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