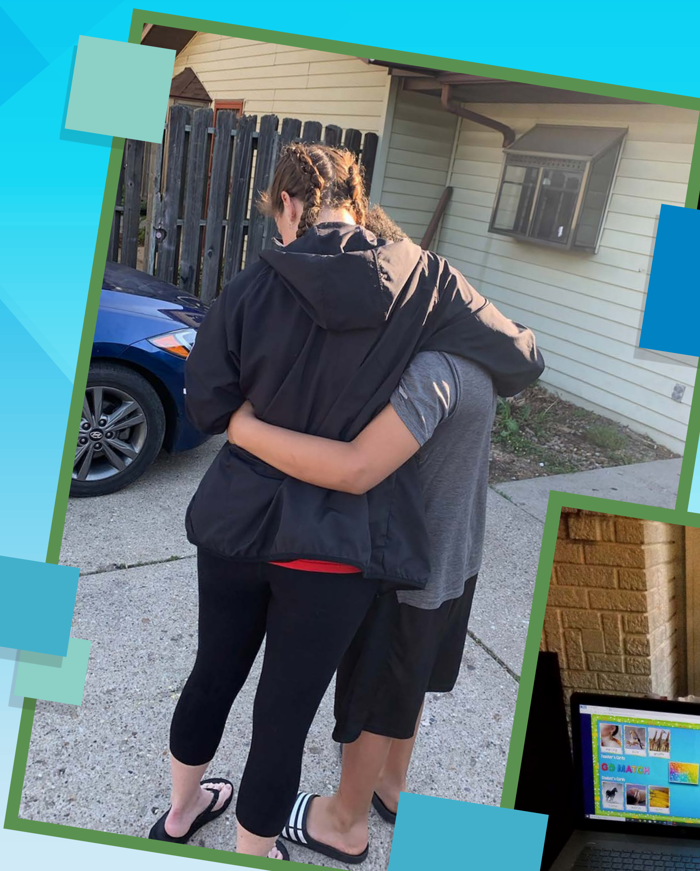
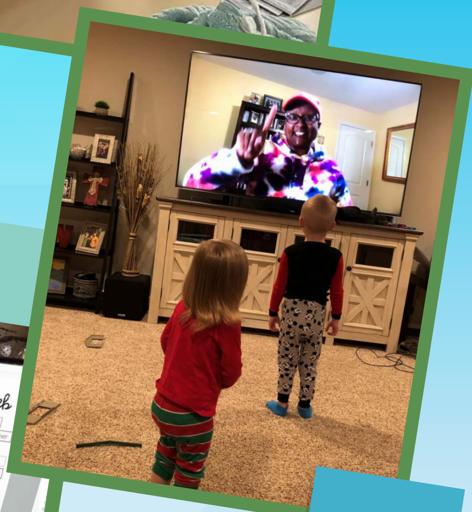
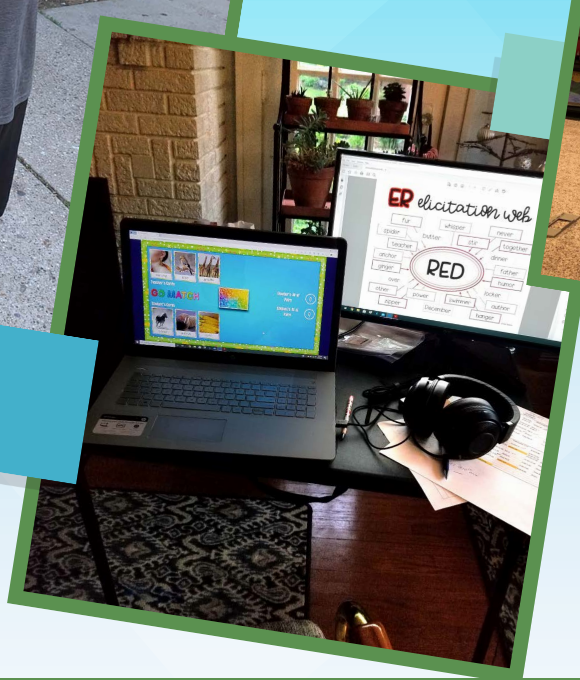
# ANNUAL FINANCIAL REPORT SUMMARY

*For the Fiscal Year Ended June 30, 2020*








Teachers' Retirement System of the State of Illinois

a component unit of the State of Illinois

TRS members used creativity, psychology, patience and years of experience to make the 2019-2020 school year a success in spite of challenges that were unprecedented.

This report's photos depict the extraordinary experience that its members and staff successfully overcame during the COVID-19 pandemic. In the future, fiscal year 2020 will become a shining example of the best aspects of teaching.

# TRS BOARD OF TRUSTEES

## AS OF DECEMBER 16, 2020

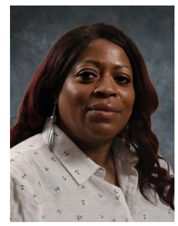
**Devon Bruce**
President
Appointed
Lake Forest

**Mark Bailey**
Vice President
Elected
Palos Park

**Beth Anderson**
Elected
Ashkum

**Dr. Carmen I. Ayala**
Ex Officio
Downers Grove

**Norma Bellcoff**
Appointed
Edwardsville



**Marsha Byas**
Elected
Marion

**Andrew Hirshman**
Elected
Oak Park

**Matthew Hunt**
Appointed
Frankfort

**Maureen Mena**
Appointed
Bolingbrook

**David Miller**
Appointed
Lynwood

**Fred Peronto**
Elected
Elmhurst

**Larry Pfeiffer**
Elected
Carlinville

**Matthew Shattock**
Appointed
Lake Forest

**Doug Strand**
Elected
East Moline

# EXECUTIVE CABINET

## AS OF DECEMBER 16, 2020

**Stan Rupnik, CFA**
Acting Executive Director & Chief Investment Officer

**Jeff Bennett**
Director of Operations

**Deron Bertolo**
Chief Financial Officer

**Carlton Lenoir, JD**
Chief Benefits Officer

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

**Dave Urbanek**
Director of Communications

**Christopher Wiedel**
Director of Information Technology

*Cover photos:* **Alison Anderson** *works on language arts and math with a student in his driveway during the school shutdown this spring.* **Katherinne Sardena** *teaches 3rd grade while her children participate in e-learning.* **Angelic Berry** *having fun with her "Berry Bunch."* **Barbara Harte** *offered zoom speech sessions for students when her school shutdown.*

**TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS**
2815 W. Washington St. | P.O. Box 19253 | Springfield, IL 62794-9253
877-927-5877 (877-9-ASK-TRS) | TTD: 800-526-0844 (or 711) | FAX: 217-753-0964
members@trsil.org | https://www.trsil.org
R. Stanley Rupnik, Interim Executive Director

December 10, 2020

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, 2020.

Concluding its 81st year of operation in fiscal year 2020, TRS successfully distributed $7.0 billion in retirement and disability benefits to 125,927 members, despite ongoing fiscal challenges faced by the System. Fiscal year 2020 was dominated by the appearance of the COVID-19 virus in January and an ensuing pandemic that engulfed the world and devastated the global economy. The coronavirus spread rapidly throughout Illinois between March and June. This challenge required an aggressive response from TRS from an operational standpoint.

The top TRS priority during this unprecedented situation was to continue paying all benefits as usual to retired members and beneficiaries. TRS was designated an "essential" state service by **Gov. JB Pritzker** because of the monthly economic impact of TRS benefits to its members and communities across Illinois.

TRS ended fiscal year 2020 with a funded ratio of 40.5 percent. The System had an actuarial value of $54.9 billion in assets and a long-term benefit obligation of $135.6 billion, which creates an unfunded liability of $80.7 billion.

At the end of fiscal year 2020, TRS held $51.5 billion in investment assets, a 6.0 percent rebound in asset value compared to the low point during the early months of the pandemic – $48.5 billion at the end of the March quarter of fiscal year 2020. Prior to the spread of the pandemic, TRS began the calendar year with $54.6 billion in assets.

All public pension systems and institutional investors around the world experienced sharp declines during the January-March quarter because of the COVID-19 virus. But compared to public pension systems similar to TRS, the System ranked among the nation's leaders in its ability to preserve assets. At the end of December, the TRS investment return for the calendar year was 13.4 percent.

Although no one saw the pandemic coming, the resulting economic downturn did not catch TRS off guard. For years, economists have predicted that a downturn eventually would occur. Bearing in mind that risk, TRS employs a highly diversified portfolio designed specifically to help lessen the effects of any economic downturn.

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.

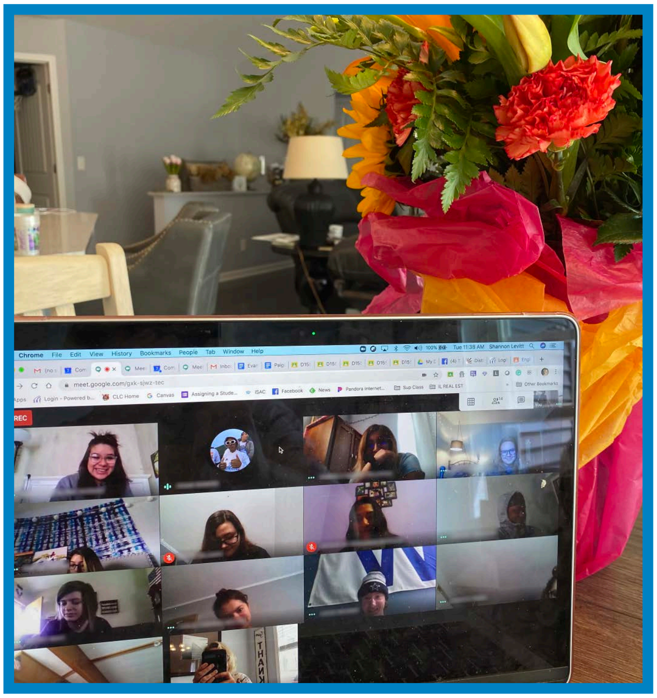
We would like to take this opportunity to express our gratitude to staff, professional consultants and others who have worked so diligently to ensure TRS's successful operation.

R. Stanley Rupnik
Acting Executive Director

Deron Bertolo
Chief Financial Officer

# FINANCIAL HIGHLIGHTS

- The net position of TRS at June 30, 2020 was $52.3 billion.
- During fiscal year 2020, the net position of TRS decreased $946.3 million.
- Contributions from members, employers and the State of Illinois were $5.9 billion, an increase of $382.0 million or 6.9 percent for fiscal year 2020.
- Total net investment income was $275.7 million, compared to $2.6 billion in fiscal year 2019, a decrease of $2.3 billion.
- Benefits and refunds paid to members and annuitants were $7.1 billion, an increase of $280.8 million or 4.1 percent.
- The actuarial accrued liability was $135.6 billion at June 30, 2020.
- The unfunded actuarial accrued liability was $80.7 billion at June 30, 2020. The funded ratio was 40.5 percent at June 30, 2020. 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 was $138.5 billion at June 30, 2020.
- The net pension liability was $86.2 billion at June 30, 2020. The plan fiduciary net position, as a percentage of total pension liability, was 37.8 percent.



**Shannon Levitt, English/AVID Teacher:** *"In my 20 years in education, the COVID-19 experience stands out to be one of the most challenging, yet rewarding, experiences of my career. I will never ever take for granted again a single fist bump, high five, tear of joy or sadness, or the myriad of emotions that teachers and students share within the physical space of the school."*

## Condensed Comparative Statements of Fiduciary Net Position as of June 30

| | 2020 | Percentage Change | 2019 |
|---|---|---|---|
| Cash | $24,329,683 | (11.1%) | $27,358,430 |
| Receivables and prepaid expenses | 4,496,792,625 | (37.2) | 7,164,874,414 |
| Investments | 51,454,158,912 | (2.6) | 52,825,807,531 |
| Invested securities lending collateral | 2,023,876,139 | (20.3) | 2,540,713,046 |
| Capital assets | 6,130,809 | 114.6 | 2,856,794 |
| **Total assets** | **58,005,288,168** | **(7.3)** | **62,561,610,215** |
| **Total liabilities** | **5,688,810,397** | **(38.8)** | **9,298,820,848** |
| **Net position restricted for pensions** | **$52,316,477,771** | **(1.8%)** | **$53,262,789,367** |

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

| | 2020 | Percentage Change | 2019 |
|---|---|---|---|
| Contributions | $5,900,510,333 | 6.9% | $5,518,507,593 |
| Net investment income | 275,669,398 | (89.5) | 2,617,831,332 |
| Total additions | 6,176,179,731 | (24.1) | 8,136,338,925 |
| Benefits and refunds | 7,099,524,955 | 4.1 | 6,818,760,572 |
| Administrative expenses | 22,966,372 | (5.6) | 24,335,680 |
| Total deductions | 7,122,491,327 | 4.1 | 6,843,096,252 |
| **Net increase in net position** | **(946,311,596)** | **(173.2)** | **1,293,242,673** |
| **Net position restricted for pensions - beginning of year** | **53,262,789,367** | **2.5** | **51,969,546,694** |
| **Net position restricted for pensions - end of year** | **$52,316,477,771** | **(1.8%)** | **$53,262,789,367** |

## INVESTMENTS

The TRS investment portfolio decreased $1.4 billion over the past 12 months, ending with a value of $51.5 billion on June 30, 2020. 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.

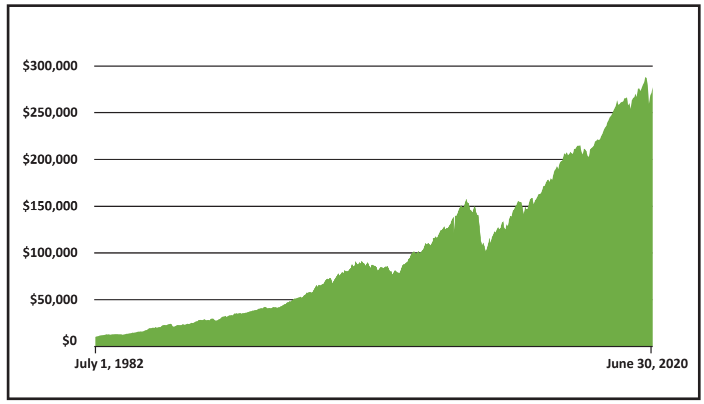
Equity markets faced significant volatility during the fiscal year given the global pandemic as well as other factors that disrupted investment fundamentals. The March 2020 quarter experienced a sharp public market downturn as COVID-19 concerns heightened. However, equity markets stabilized and subsequently rallied during the last quarter of the fiscal year. Within the equity asset class, private equity outperformed public assets during the year; generating 2.4 percent, net of fee return, versus 1.2 percent loss in public equity. All asset classes experienced instability, but the System's diversification allowed a positive return of 0.6 percent, net of fees, for the fiscal year ended June 30, 2020.

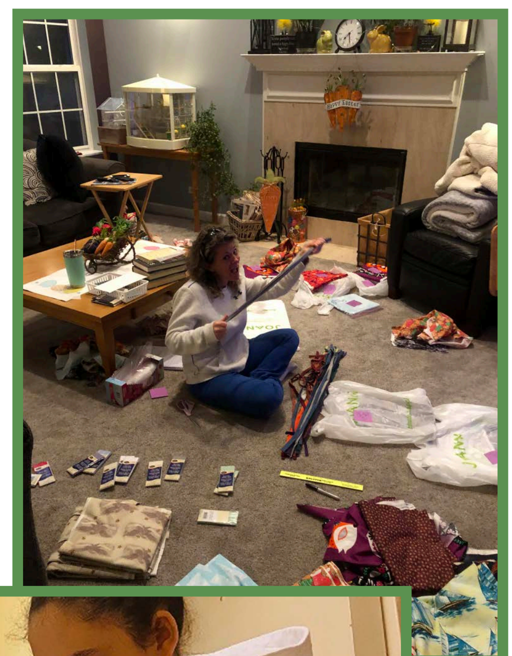
### TRS Investment Performance (net of fees)

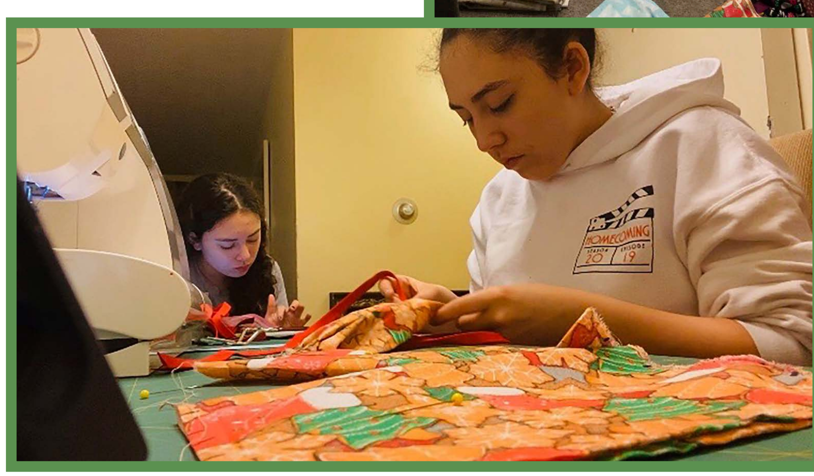
| Summary Data as of June 30, 2020 | |
|---|---|
| Total fund fair value | $51.5 billion |
| 1-year return (net of fees) | 0.6% |
| 3-year return (net of fees) | 4.7% |
| 5-year return (net of fees) | 5.2% |
| 10-year return (net of fees) | 8.3% |
| 20-year return (net of fees) | 5.8% |
| 30-year return (net of fees) | 7.7% |

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





**Ronna Pflanz,** Family & Consumer Science Educator, Fashion & Textiles Educator: *"Twenty-eight students are sewing and assembling face masks from their homes! I deliver materials to them and later pick up and distribute the completed masks. Students who have sewing machines at home are making the masks, while others are cutting fabric and doing prep work. My students are excited to be helping and putting their learned skills to good use when the country needs it... To date, the mask makers have donated just over 1,000 masks... and they are NOT stopping!"*

# 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, both demographic and economic, used to prepare the actuarial valuation are reviewed every three years. The last review, called an actuarial experience analysis, was conducted in 2018. At the recommendation of the state actuary, the major economic assumptions are reviewed every year for reasonableness prior to the preparation of the valuation. 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, 2020 |
|---|---|
| **Based on actuarial value of assets** | |
| Total actuarial accrued liability | $135,598,547 |
| Less actuarial value of assets* | 54,890,976 |
| **Unfunded liability** | **$80,707,571** |
| Funded ratio* | 40.5% |
| **Based on fair value of assets** | |
| Total actuarial accrued liability | $135,598,547 |
| Less assets at fair value | 52,316,478 |
| **Unfunded liability** | **$83,282,069** |
| Funded ratio | 38.6% |

** 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 increase in the unfunded liability for 2020 is $2.6 billion. This increase in the liability was caused by a variety of factors.

### Reconciliation of Unfunded Liability

| Reconciliation of Unfunded Actuarial Accrued Liability | Year ended June 30, 2020 |
|---|---|
| **Unfunded liability at beginning of year** | **$78,065,776,020** |
| Additions | |
| Employer cost in excess of contributions | 1,622,083,905 |
| Net experience (gain)/loss | 1,019,711,060 |
| Changes in actuarial assumptions on buyout utilization | - |
| **Net increase in unfunded liability** | **2,641,794,965** |
| **Unfunded liability at end of year** | **$80,707,571,185** |

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 $1.6 billion.

Secondly, actuarial gains and losses occurred under the assumptions used to prepare the valuation. Losses occurred under the investments, retirement, terminations, mortality and rehire assumptions. Gains occurred under the assumptions for salary increases, disabilities and new members, meaning that experience was more favorable (less costly) than originally assumed.

In summary, the $2.6 billion increase in the unfunded liability is due to the $1.6 billion employer cost in excess of contributions and the $1.0 billion increase due to experience.

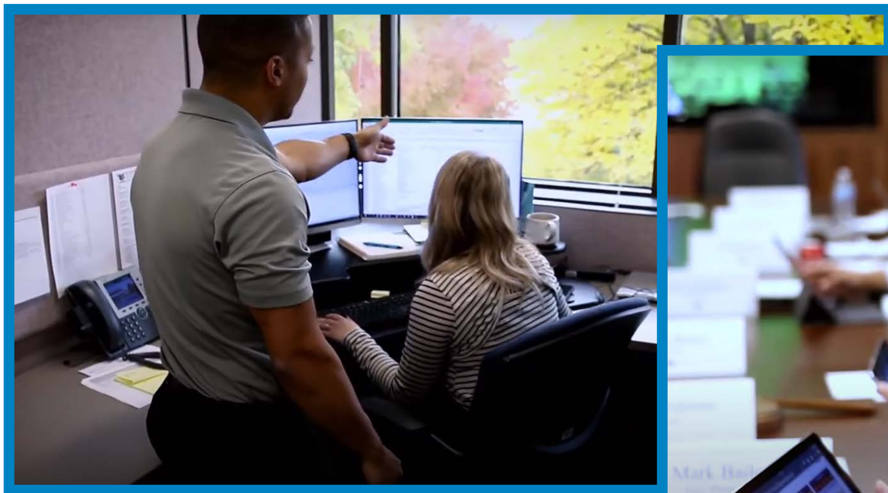
## Pension Funding Policies and Contributions

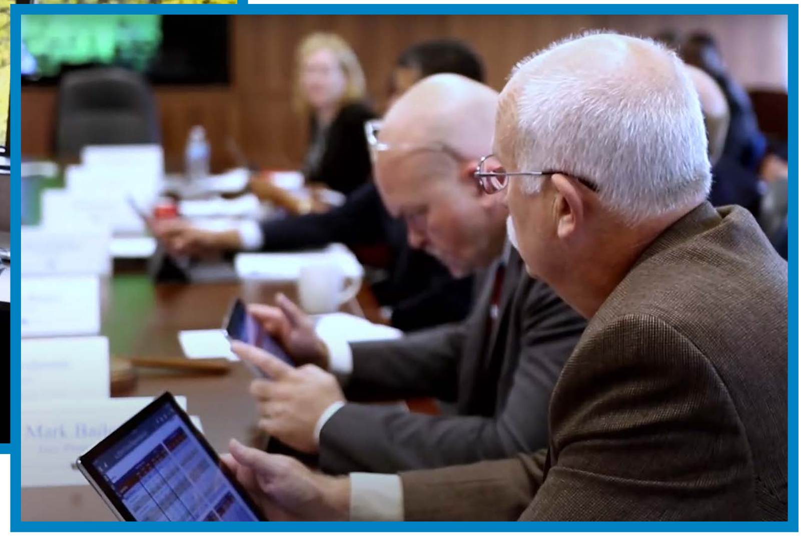
A funding policy outlines the framework for calculating the contribution rate to the System for the purpose of steadily funding future benefit payments. There are three elements that are important in this framework: actuarial cost for the total present value of future benefits, recognition of investment 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 year 2020 certified state contributions are based on the June 30, 2018 actuarial valuation and the fiscal year 2021 certifications are based on the June 30, 2019





**TRS Springfield office:** *The top TRS priority during this unprecedented situation was to continue paying all benefits as usual to retired members and beneficiaries. TRS was designated an essential state service by* ***Gov. JB Pritzker*** *because of the monthly economic impact of TRS benefits in communities across Illinois.*

actuarial valuation. The state actuary will review the proposed certifications for fiscal year 2022 as well as the preliminary June 30, 2020 valuation. Final certifications for fiscal year 2022 are due Jan. 15, 2021 pursuant to Public Act 97-0674.

The Fiscal Years 2021 & 2022 State Contributions Requirements table shows funding requirements under the statutory funding plan and the TRS Board of Trustee's funding plan that was adopted in 2015.

## 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.

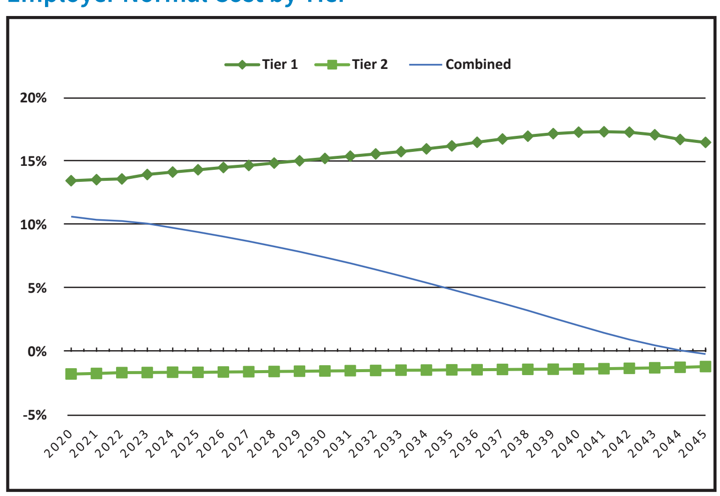
The employer normal cost rate measures the employer's cost of the benefits being earned by active teachers during the year. It does not include any contributions towards the unfunded liability. The chart at right shows that while the combined employer normal cost of both tiers in 2020 is over 10 percent 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. By 2044, the combined employer normal cost is negative. In the meantime, the cost of Tier 1, which is a closed group, continues to increase 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.

### Fiscal Years 2021 & 2022 State Contribution Requirements

| | Fiscal Year 2021 Requirements | Fiscal Year 2022 Requirements |
|---|---|---|
| **Based on Statutory Funding Plan** | | |
| Benefit Trust Reserve | $5,140,336,721 | $5,693,706,973 |
| Minimum Annuity Reserve | 400,000 | 400,000 |
| Total State Contribution | $5,140,736,721 | $5,694,106,973 |
| **Based on TRS Board Funding Policy** | | |
| Benefit Trust Reserve | $8,343,796,301 | $8,850,055,308 |
| Minimum Annuity Reserve | 400,000 | 400,000 |
| Total State Contribution | $8,344,196,301 | $8,850,455,308 |
| **Employer Normal Cost Rate** | | |
| Tier 1 | 13.85% | 13.99% |
| Tier 2 | (1.43%) | (1.29%) |
| Combined | 10.41% | 10.31% |

### Employer Normal Cost by Tier




*Note: Combined rate includes administrative expenses.*
*Source: 2018 valuation for 2020 data, 2019 valuation for 2021 data, 2020 valuation for subsequent years.*

# FISCAL YEAR HIGHLIGHTS

| | As of June 30, 2020 |
|---|---|
| Active contributing members | 163,115 |
| Inactive noncontributing members | 138,279 |
| Benefit recipients* | 125,927 |
| Total membership | 427,321 |
| **Investment return** | |
| Total fund investment return, net of fees | 0.6% |
| **Actuarial information** | |
| Actuarial accrued liability (AAL) | $135,598,547,013 |
| Less actuarial value of assets (AVA) | 54,890,975,828 |
| Unfunded actuarial accrued liability, AVA basis (UAAL) | $80,707,571,185 |
| Funded ratio (AVA/AAL) | 40.5% |
| Less far value of assets (FVA) | $52,316,477,771 |
| Unfunded actuarial accrued liability, FVA basis (UAAL) | $83,282,069,242 |
| Funded ratio (FVA/AAL) | 38.6% |
| **GASB Statement No. 67 disclosure** | |
| Total pension liability (TPL) | $138,531,733,887 |
| Less fiduciary net position (FNP) | 52,316,477,771 |
| Net pension liability (NPL) | $86,215,256,116 |
| FNP as a percentage of TPL | 37.8% |
| **Additions** | |
| Member contributions | $994,400,416 |
| Employer contributions | 92,658,238 |
| State of Illinois contributions | 4,813,451,679 |
| Total investment income | 275,669,398 |
| Total additions | $6,176,179,731 |
| **Deductions** | |
| Benefits paid | $7,035,307,499 |
| Refunds paid | 64,217,456 |
| Administrative expenses | 22,966,372 |
| Total deductions | $7,122,491,327 |

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

## FULL REPORT ONLINE

This publication is a summary of the *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2020.

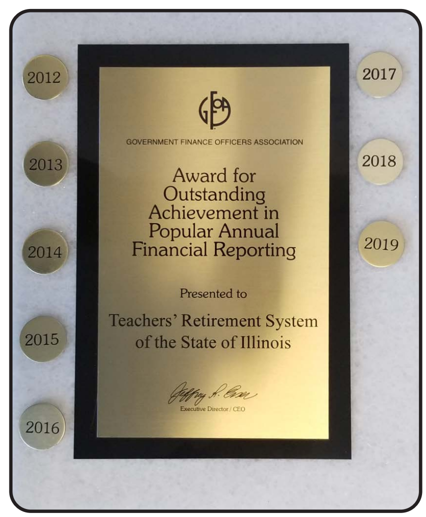
The comprehensive report is available online at: **https://www.trsil.org/financial/cafrs/fy2020**.

# STATISTICAL

| Member Statistics for the Fiscal Year Ended 2020 | | | |
|---|---|---|---|
| **Full and Part-time Active Members** | | | |
| Average age | 42 | Total Tier 1 members | 112,004 |
| Average service | 13 | Total Tier 2 members | 51,111 |
| Average annual salary | $76,027 | Total active members | 163,115 |
| Oldest full-time teacher | 81 | | |
| **Retired Members** | | | |
| Average age | 72 | Total retired members | 112,977 |
| Average service | 27 years | | |
| Average annual benefit | $60,324 | | |
| Average years receiving benefits | 13 | | |
| Oldest retired teacher | 109 | | |

# 20TH 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, 2019. 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 20 consecutive years. We believe this June 30, 2020 report also conforms to the Popular Annual Financial Reporting requirements and we are submitting it to GFOA.

*Printed by the authority of the State of Illinois*
*53,000 | Pub21 | 12/20*