

Annual Financial Report Summary

For the Fiscal Year Ended June 30, 2023



One TRS



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

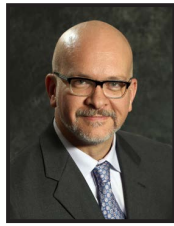
During the fiscal year, TRS embarked on an important journey to shape our long-term future. We reached out to our valued members – active members, retirees, beneficiaries – seeking insights for what they expect from TRS. Internally, we sought input from TRS's dedicated staff and Board of Trustees on how to best align the organization to meet our members' expectations. Based on those discussions, TRS adopted revised mission and vision statements, along with new core values designed to define the qualities staff seeks to embody within their workplace.

TRS staff set a goal of creating a "One TRS" culture that engages, inspires and motivates. It recognizes the strength of the TRS organization is our dedicated staff working together, across departments, to serve our members. And it represents a staff that supports one another and lives its core values. **This year's report theme shows our staff and the work we do everyday as One TRS.**

TRS BOARD OF TRUSTEES AS OF DECEMBER 1, 2023



Matthew Hunt
President
Appointed
Glen Ellyn



Andrew Hirshman
Vice President
Elected
Oak Park



Dr. Tony Sanders
Ex officio
Elected
Elgin



Beth Anderson
Elected
Kankakee



Kevin (Duffy) Blackburn
Appointed
Joliet



Joseph Blomquist
Elected
St. Charles



Marsha Byas
Elected
Marion



Michael Goetz
Appointed
Springfield



Maria "Mia" Jazo-Harris
Appointed
Bloomington



Maureen Mena
Appointed
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, 2023



Stan Rupnik, CFA
Executive Director
& Chief Investment
Officer



Sally Antonacci
Executive Officer



Deron Bertolo
Chief Financial
Officer



Lori Dour
Chief Benefits
Officer



Cynthia Fain
Senior Legal
Counsel



John Gerding
Director of
Information
Technology



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

Cover photo: Springfield office, July 2023



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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members@trsil.org | <https://www.trsil.org>

R. Stanley Rupnik, Executive Director & Chief Investment Officer

December 18, 2023

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, 2023. 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 2023

- Despite recent challenges to the economy and the investment markets, TRS finances remain stable with the long-term strategic goal of protecting member assets. In keeping with that strategy, the value of the TRS investment portfolio remains at record levels, with a total value of \$66.3 billion reported at the end of June 2023.
- The TRS investment portfolio returned 7.2%, net of fees, for the fiscal year ended June 30, 2023. Total investment assets increased approximately \$3.7 billion during the year.
- TRS continues to strengthen its existing commitment to diversity within the management of its \$66.3 billion investment portfolio. The TRS Board of Trustees is committed to continually improving access to the investment program for qualified firms owned by minorities, women and those with disabilities.
- During the year ended June 30, 2023, the funded ratio based on the actuarial value of assets of TRS increased to 44.8% from its June 30, 2022 level of 43.8%. The actuarial value of assets at year end was \$66.5 billion and the actuarial accrued liability was \$148.4 billion.
- In August, the TRS Board of Trustees formally adopted a new five-year strategic plan focused on a shared long-term vision for TRS's future. The plan was developed through a collaborative and inclusive planning process involving our members, employer school districts, stakeholders, staff and trustees.
- TRS launched its "deferred compensation" (DC) optional savings plan — the TRS Supplemental Savings Plan (SSP) in March 2022. Beginning January 1, 2023, TRS began automatically enrolling new TRS members into the SSP, in accordance with state law.
- In fiscal year 2023, the governor and lawmakers provided an additional \$230 million extra contribution through budget and supplemental bills to the minimum \$9.6 billion appropriated to TRS and the other four state-funded retirement systems. The additional funding is further evidence of a strong commitment by Illinois **Governor JB Pritzker** and the General Assembly to keep the pension promises made by the State of Illinois to retired teachers and other public employees.

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, 2023 was \$66.5 billion.
- During fiscal year 2023, the fiduciary net position of TRS increased \$3.7 billion.
- Defined benefit contributions from members, employers and the State of Illinois were \$7.2 billion, an increase of \$183.1 million or 2.6% for fiscal year 2023.
- Deferred compensation contributions from employers and members were \$6.7 million, an increase of \$6.0 million for fiscal year 2023.
- Total net investment gain was \$4.4 billion, compared to a (\$743) million decline in FY22, an increase of \$5.2 billion.
- Defined benefits and refunds paid to members and annuitants were \$8.0 billion, an increase of \$297.8 million or 3.9%.
- The actuarial accrued liability was \$148.4 billion at June 30, 2023.
- The unfunded actuarial accrued liability was \$81.9 billion at June 30, 2023. The funded ratio was 44.8% at June 30, 2023. 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 \$151.5 billion at June 30, 2023.
- The net pension liability (NPL) was \$85.0 billion at June 30, 2023. The plan fiduciary net position, as a percentage of total pension liability, was 43.9%.

Condensed Comparative Statements of Fiduciary Net Position as of June 30

	2023	Percentage Change	2022
Cash	\$16,768,742	(14.3%)	\$19,555,871
Receivables and prepaid expenses	2,381,586,920	(55.0)	5,290,933,248
Investments	66,266,731,645	6.0	62,528,309,625
Invested securities lending collateral	1,874,005,888	(14.2)	2,183,903,100
Capital assets	9,947,467	20.7	8,238,075
Total assets	70,549,040,662	0.7	70,030,939,919
Total liabilities	4,047,392,761	(43.8)	7,199,105,736
Total fiduciary net position	<u>\$66,501,647,901</u>	5.8%	<u>\$62,831,834,183</u>

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

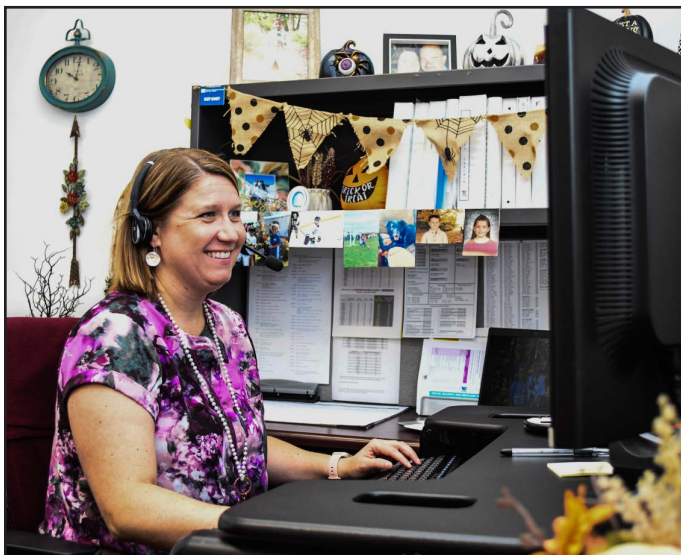
	2023	Percentage Change	2022
Contributions	\$7,250,076,955	2.7%	\$7,061,038,548
Net investment income (loss)	4,427,042,975	695.8	(743,042,373)
Participant fee income	31,494	939.8	3,029
Total additions	11,677,151,424	84.8	6,317,999,204
Benefits and refunds	7,967,329,515	3.9	7,669,576,246
Administrative expenses	33,371,327	17.6	28,372,371
Contributions sent to third-party administrator	6,636,864	820.0	721,424
Total deductions	8,007,337,706	4.0	7,698,670,041
Net increase/decrease in fiduciary net position	3,669,813,718	365.8	(1,380,670,837)
Total fiduciary net position - beginning of year	<u>\$62,831,834,183</u>	(2.2)	<u>64,212,505,020</u>
Total fiduciary net position - end of year	<u>\$66,501,647,901</u>	5.8%	<u>\$62,831,834,183</u>

INVESTMENTS

As of June 30, 2023, the fair value of TRS's investments was \$66.3 billion, an increase of \$3.7 billion from prior year. TRS had a total fund annualized return of 8.0%, gross of fees, and 7.2%, net of fees, for the one-year period ended June 30, 2023.

Global financial markets' results were mixed for the year ending June 30, 2023, with equities largely positive but income markets constrained due to rising interest rates. The investment strategy employed by TRS continued to protect member assets and generated a favorable return in fiscal year 2023 of 7.2% net of fees. TRS's conservative strategy performed as intended during a period of economic and geopolitical instability as market volatility, rising inflation and interest rate increases continued throughout the year.

Due to the under-funded 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. The investment strategy deployed by the System during the fiscal year continued to protect member assets while contributing to long-term results. At the end of fiscal year 2023, the 30-year rate of return, net of fees, was 7.8%, which bests the System's estimated long-term investment rate of 7.0%.



A Springfield **Benefits Counselor** speaks with a retiree about post-retirement limitations before substitute teaching.



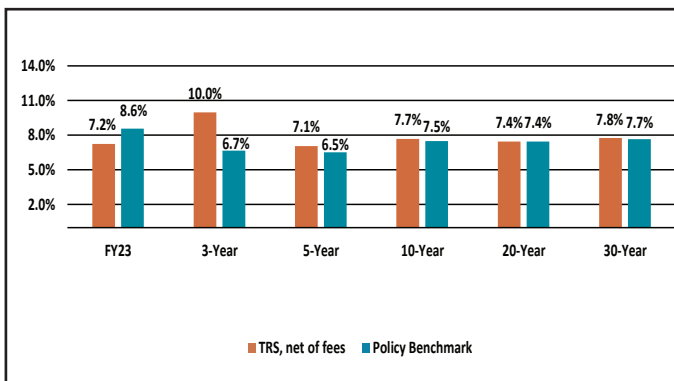
The **Diverse and Emerging Managers Senior Investment Officer** reviews an application from a minority-owned firm.

TRS Investment Performance (net of fees)

Summary Data as of June 30, 2023

Total fund fair value	\$66.3 billion
1-year return (net of fees)	7.2%
3-year return (net of fees)	10.0%
5-year return (net of fees)	7.1%
10-year return (net of fees)	7.7%
20-year return (net of fees)	7.4%
30-year return (net of fees)	7.8%
Percent externally managed	100.0%
Number of external managers	184
Master Trustee and Custodian	State Street Bank and Trust Company
General consultant	RVK, Inc.

TRS Total Funds vs. Policy Benchmark



ACTUARIAL

This section discusses the System's actuarial process, state funding requirements and funded status.

Annual Actuarial Valuation Process

The purpose of the annual actuarial valuation is to determine the funding progress of the System and to calculate the annual contribution required by the Illinois Pension Code. The valuation is prepared using a set of actuarial assumptions – demographic and economic. The demographic assumptions are the product of an experience study that is conducted every three years. The economic assumptions are reviewed annually as recommended by the state actuary. The System actuaries reconcile the differences between the assumptions and current experience to explain the difference in TRS's valuation.

The actuarial valuation produces the accrued liability (a present value estimate of all the benefits earned by TRS members to date but not yet paid), the value of assets, and the unfunded liability (the excess of the accrued liability over the assets). The funded ratio shows the percentage of the accrued liability covered by assets.

Actuarial Valuation (\$ thousands)

	Year Ended June 30, 2023
Based on actuarial value of assets	
Total actuarial accrued liability	\$148,398,296
Less actuarial value of assets*	66,502,287
Unfunded liability	<u>\$81,896,009</u>
Funded ratio*	44.8%
Based on fair value of assets	
Total actuarial accrued liability	\$148,398,296
Less assets at fair value	66,504,717
Unfunded liability	<u>\$81,893,579</u>
Funded ratio	44.8%

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

Explaining the Unfunded Liability

Based on the actuarial valuation, the net increase in the unfunded liability for 2023 is \$1.3 billion. This decrease in the liability was the net effect of \$0.6 billion in employer cost in excess of contributions and \$0.7 billion cost due to experience.

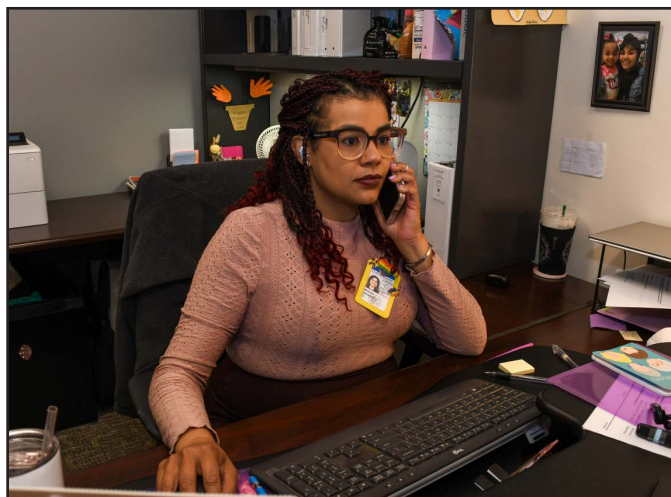
Actuarial losses occurred in the difference between actual employer/state contributions and the amount that would cover the employer/state's cost of benefits earned during the year and prevent the prior year's unfunded liability from growing. The

shortfall was \$0.6 billion. Additionally, losses occurred under assumptions for salary increases, investments, terminations and rehires.

Actuarial gains occurred under the assumptions for buyout experience, retirement assumptions, disabilities, mortality and new entrants. Gains under these assumptions mean that experience was more favorable (less costly) than originally assumed.

Reconciliation of Unfunded Liability

Reconciliation of Unfunded Actuarial Accrued Liability	Year Ended June 30, 2023
Unfunded liability at beginning of year	\$80,613,328,781
Additions	
Employer cost in excess of contributions	565,237,635
Experience (gain)/loss from:	
Investment (gain)/loss on actuarial value of assets*	29,433,147
Salaries for continuing active members	237,171,924
Retirements other than expected	(3,778,734)
Disabilities other than expected	(13,870,284)
Terminations other than expected	27,073,060
Mortality other than expected	(15,608,188)
Rehires	45,283,039
New entrants	(154,803)
Buyout experience	(35,490,137)
Other	447,383,668
Net experience (loss)	717,442,692
Changes in actuarial assumptions	-
Net increase in unfunded liability	1,282,680,327
Unfunded liability at end of year	<u>\$81,896,009,108</u>



An Auditor works with an employer to solve a reporting error.

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. The Illinois Pension Code sets the parameters for funding TRS, but this method is inadequate in funding the System as an actuarially determined contribution would. The TRS Board of Trustees certifies two amounts: the state funding amount as determined by statute and an actuarially-determined contribution in accordance with generally accepted actuarial principles and standards. By certifying two funding amounts, the board serves to illustrate the gap between sound funding policy and current practice under Illinois law.

For fiscal year 2025, the TRS Board of Trustees certified two amounts, \$6.2 billion for the state contribution, and \$10.1 billion for the actuarially-determined contribution. Fiscal year 2025 certifications are based on the June 30, 2023 actuarial valuation. The state actuary reviewed the proposed certifications for fiscal year 2025 and determined that the System actuary, Segal, used assumptions and methods that were reasonable in calculation of the contribution.

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. As a percent of total TRS active membership, Tier 2 members are expected to bypass Tier 1 members in 2026.



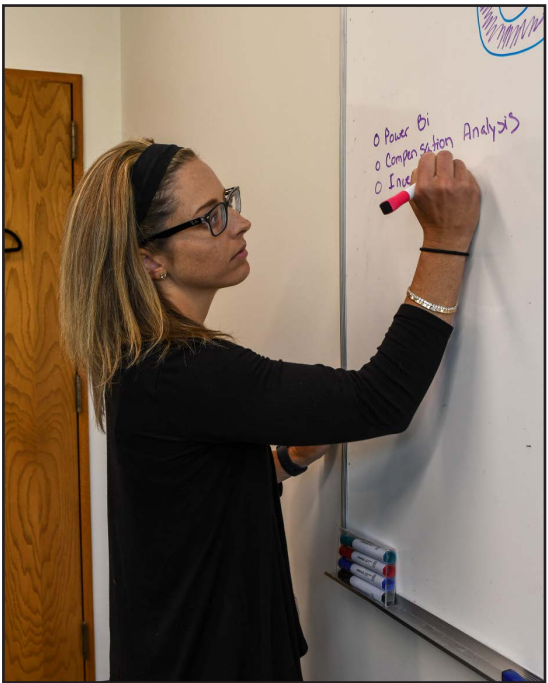
Lisle office staff, July 2023



The **Internal Audit & Risk Department** holds their weekly staff meeting.

STATISTICAL

Member Statistics for the Fiscal Year Ended 2023			
Full and Part-time Active Members			
Average age	43	Total Tier 1 members	101,097
Average service	14	Total Tier 2 members	68,792
Average annual salary	\$81,274	Total active members	169,889
Oldest full-time teacher	84		
Retired Members			
Average age	73	Total retired members	116,991
Average service	26 years		
Average annual benefit	\$64,884		
Average years receiving benefits	14		
Oldest retired teacher	106		



The **HR Business Partner** develops HR strategies that support the agency's goals and objectives.



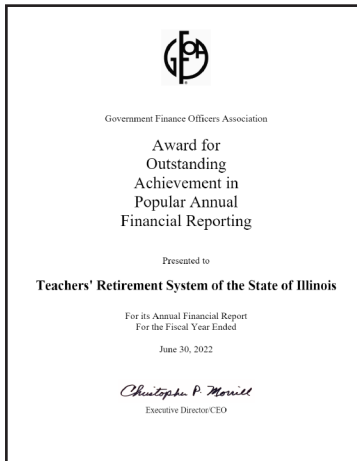
The **Finance Department** holds a staff meeting to discuss the upcoming fiscal year's budget.

FULL REPORT ONLINE

This publication is a summary of the Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023.

The comprehensive report is available online at:
trsil.org/financial/acfrs/fy2023.

TRS RECEIVES NATIONAL POPULAR AWARD



The Government Finance Officers Association is pleased to announce that **Teachers' Retirement System of the State of Illinois** has received GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR Award) for its Popular Annual Financial Report for the fiscal year ended June 30, 2022.

The Award represents a significant achievement by the entity. In order to be eligible for the PAFR Award, a government must also submit its annual comprehensive financial report to GFOA's Certificate of Achievement for Excellence in Financial Reporting Program and receive the Certificate for the current fiscal year. Each eligible report is reviewed by judges who evaluate the report based on the following categories: reader appeal, understandability, distribution methods, creativity and other elements.

FISCAL YEAR HIGHLIGHTS

Active contributing members	169,889
Inactive noncontributing members	147,329
Benefit recipients*	131,017
Total membership	448,235

Investment return

Total fund investment return, net of fees	7.2%
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Actuarial information

Actuarial accrued liability (AAL)	\$148,398,296,080
Less actuarial value of assets (AVA)	66,502,286,972
Unfunded actuarial accrued liability, AVA basis (UAAL)	\$81,896,009,108
Funded ratio (AVA/AAL)	44.8%
Less fair value of assets (FVA)	66,504,717,419
Unfunded actuarial accrued liability, FVA basis (UAAL)	\$81,893,578,661
Funded ratio (FVA/AAL)	44.8%

GASB Statement No. 67 disclosures

Total pension liability (TPL)	\$151,485,294,234
Less fiduciary net position (FNP)	66,504,717,419
Net pension liability (NPL)	\$84,980,576,815
FNP as a percentage of TPL	43.9%

Additions

Member contributions	\$1,116,145,305
Employer contributions	124,773,577
State of Illinois contributions	6,009,158,073
Total investment income	4,427,042,975
Participant fee income	31,494
Total additions	\$11,677,151,424

Deductions

Benefits paid	\$7,899,142,685
Refunds paid	68,186,830
Administrative expenses	33,371,327
Contributions sent to third-party administrator	6,636,864
Total deductions	\$8,007,337,706

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