Actuarial

Photo by Michael Bracey Photography

Sara Tisdel, who has taught in Missouri and in St. Charles School District #303, will retire soon with more than 20 years of service teaching 3rd grade and elementary art. "Life is full of possibilities . . . " says Sara when contemplating her future.

She would like to move near her daughter in Oregon. There are mountains to climb, woods to hike, trails to bike, books to be read and canvases to be painted. She will miss the children, the hugs, the energy and excitement they bring, and the lives she touches. She hopes to stay involved in some aspect of education, perhaps open an art school or studio.

Mellon

Human Resources & Investor Solutions

November 23, 2004

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, 2004

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 $50,947,451,000 as of June 30, 2004. The valuation was performed in accordance with generally accepted actuarial principles and procedures, using the projected unit-credit actuarial cost method.

The actuarial valuation was based on a census of retired members as of June 30, 2004, and a census of active and inactive members as of June 30, 2003, 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.

Presented in the Financial Section of the System's Annual Financial Report, there is a schedule of Required Supplementary Information. This schedule has been reviewed by the actuary and is consistent with the valuation report. The Actuarial Section of the Annual Financial Report also contains various schedules: Actuarial Valuation with Market Value 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 amortization method established by PA 88-0593, as amended by PA 90-0582 and further amended by PA 93-0002, which is used for funding purposes, does not meet the parameters of GASB Statement No. 25. The amortization method used is a 15-year phase-in to a level percent of payroll – before reduction for the maximum state contribution limitations of the Act – until a 90% funding level is achieved by June 30, 2045, with the remaining amortization period being 41 years. The actuarial assumptions, actuarial cost method, and asset valuation method used for funding purposes do meet the parameters of GASB Statement No. 25.

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Board of Trustees
Teachers' Retirement System
of the State of Illinois
November 23, 2004
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The valuation is based on the benefit provisions of TRS in effect on June 30, 2004. The actuarial assumptions used in the valuation are those specified by the Board of Trustees of the System based on recommendations made by the actuary.

In our opinion, the amount of $50,947,451,000 is a fair representation of the pension benefit obligation of the System as of June 30, 2004.

Respectfully submitted,

Kim M. Nicholl

Kim M. Nicholl
Principal, Consulting Actuary

KMN:pl
7228/C3401RET01-PBO2004.doc

Photo courtesy of Sangamon Valley Collection at Lincoln Library

The mediocre teacher tells. The good teacher explains. The superior teacher demonstrates. The great teacher inspires.
– Arthur Ward

Divernon Humphrey School

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.*

Actuarial Assumptions and Methods

Each year the actuary reconciles the differences between major actuarial assumptions and experience in the process of explaining 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 net assets that are available to cover the liability.

Inflation: 3.5 percent per annum. Implicit in investment and earnings progression assumptions. Adopted in the FY02 valuation.

Investment return: 8.5 percent per annum, compounded annually. Adopted in the FY97 valuation. Components revised in FY02 valuation: inflation 3.5 percent, real return 5.0 percent, with overall 8.5 percent assumption retained.

Earnings progression: Merit and longevity increases, adjusted for inflation. Approximates 6.5 percent per year to the earliest date of retirement eligibility. Adopted in the FY02 valuation.

Rates shown below include the inflation assumption.

Sample annual percentage salary increases:

Age	Male and Female
20	10.1%
25	9.2
30	7.7
40	6.5
50 and above	5.9

Retirement age: Graduated rates based on age and gender of active members. Inactive members are assumed to retire at age 62 if they have fewer than 10 years of service or at age 60 if they have 10 or more years of service. Adopted in the FY02 valuation.

Sample annual retirements per 1,000 participants:

Age	Male	Female
54	80.0	70.0
55	160.0	135.0
60	260.0	185.0
65	350.0	315.0
70	1,000.0	1,000.0

Mortality: For active members: 74.6 percent of the 1995 George B. Buck Mortality Table rates for males and 83 percent of the George B. Buck Mortality Table rates for females. For annuitants: 95.6 percent of the 1995 George B. Buck Mortality Table rates for males and 100 percent of the George B. Buck Mortality Table rates for females. For beneficiaries, the 1995 George B. Buck Mortality Tables rated forward three years for males and rated forward one year for females. For the period after disability retirement, the Pension Benefit Guaranty Corporation rates for male disabled lives not necessarily receiving Social Security benefits, rated back two years for females and rated forward five years for males, but not less than the rate at age 65 (after the setback). Adopted in the FY02 valuation.

Disability: Adopted in the FY02 valuation.

Sample annual disabilities per 1,000 participants:

Age	Male	Female
25	0.34	0.72
30	0.38	0.81
40	0.53	1.11
50	1.10	2.31
60	3.66	7.70

Termination from active service: Adopted in the FY02 valuation.

Sample annual terminations per 1,000 participants:

	Nonvested Members		Vested Members	
Age	Male	Female	Male	Female
25	88.0	105.0	61.1	90.0
30	88.0	105.0	41.2	80.0
40	88.0	75.0	15.8	25.0
50	88.0	65.0	10.4	16.5
60	88.0	65.0	18.6	22.8

Severance pay: Increases with years of service at retirement. Adopted in the FY02 valuation.

Years of Service at Retirement	Percent of Retirees Who Receive Severance Pay	Severance Pay as a Percent of Final Salary
fewer than 20	0.0%	0.0%
20–24	51.0	12.9
25–29	65.0	14.9
30 or more	79.0	16.9

Optional service at retirement: The accrued liability for retirement benefits for active members who have not previously purchased optional service is increased by 1.9 percent to cover the employer cost of optional service purchased in the last two years of service. The overall assumption for optional service (out-of-system plus leaves of absence and layoff) is an average of 0.969 of a year per full-time/part-time service retiree. Adopted in the FY02 valuation.

Unused and uncompensated sick leave: Equals 2.83 percent of regular service at retirement. Adopted in the FY02 valuation.

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

Asset valuation method: Market value. Adopted in the FY97 valuation.

Under the projected unit credit cost method used by TRS, the resulting liability for benefits earned is called the "pension benefit obligation," or PBO. A broader term for this liability is "actuarial accrued liability," or AAL. In other words, the PBO is a type of AAL.

Also, measures of TRS's financial condition for both June 30, 2004, and June 30, 2003, are shown using market value of assets. These tests are consistent with TRS's financial statements, which are prepared in accordance with GASB Statement No. 25. The change to market value was first effective June 30, 1997, for determining state funding requirements for FY99.

The actuarial value of assets for FY04 and FY03 is equal to the "net assets held in trust for pension benefits" as shown in the financial statements.

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. The unfunded liability is the present value of future benefits payable that are not covered by assets as of the valuation date.

The **funded ratio** shows the percentage of the accrued liability covered by net assets at market value.

Actuarial Valuation with Market Value Assets ($ in thousands)

	Years Ended June 30	
	2004	**2003**
Total actuarial accrued liability	**$50,947,451**	**$46,933,432**
Less actuarial value of assets (net assets at market value)	$31,544,729	$23,124,823
Unfunded liability	**$19,402,722**	**$23,808,609**
Funded ratio	61.9%	49.3%

Reconciliation of Unfunded Liability

The net decrease in the June 30, 2004, unfunded liability of $4.406 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 2004, this shortfall was $1.519 billion.

Public Act 93-0002 provided TRS with $4.330 billion in pension obligation bond proceeds. The immediate effect was to reduce the unfunded liability by the same amount. Beginning with FY05, the computation of the State of Illinois required contribution for a fiscal year will not exceed the State of Illinois contributions that would have been required had the general obligation bond program not been in effect, reduced by the total debt service for each year for the TRS portion of the general obligation bond proceeds.

TRS experienced an actuarial loss under the **salary increase** assumption in FY04, with salary increases $217 million higher than expected. However, actuarial gains occurred under the **investment return** assumption. Assets were assumed to earn $2.317 billion, but earnings were actually $4.486 billion. Therefore, the total actuarial gain due to investments was $2.169 billion.

Actuarial gains also occurred under the **mortality** assumptions because more people died than expected. Actuarial losses were incurred under the turnover assumption because fewer people left service than assumed. Additionally, many members repaid refunds in FY04, and the repurchased service increased the unfunded liability. There were also losses associated with the ERO contribution rates and the ERO contribution waivers for members who have 34 years of service. **Delayed reporting** of retirements also increased the unfunded liability because more people were receiving benefits than expected. **Other**, which is a balancing item, includes the effect of retirements effective in June 2003 or earlier that were not reported to TRS and the actuary until after June 30, 2003 and several other factors.

Reconciliation of Unfunded Liability ($ in thousands)

	Years Ended June 30	
	2004	**2003**
Unfunded liability at beginning of year	$23,808,609	$20,681,389
Additions (Deductions)		
Employer cost in excess of contributions	1,518,858	1,415,610
Pension obligation bond proceeds under PA93-0002	(4,330,374)	
Maximum sick leave credit increased to two years	—	37,000
State ERI	—	10,850
Extend 24 months benefit reductions for 2.2 upgrades	—	6,000
Actuarial losses (gains) compared to assumptions		—
Salary increases for continuing active members	217,255	171,802
Investment return	(2,168,876)	827,434
New entrant loss	19,078	27,026
Mortality other than expected	(42,065)	(31,913)
Fewer terminations than expected	18,999	17,211
Repayments of refunded member contributions[1]	7,739	28,742
ERO costs waived for those with 34 years of service	349,622	334,583
Delayed reporting of retirements (effect on assets)[2]	4,621	28,377
Other	(744)	254,498
Net actuarial losses (gain)	(1,594,371)	1,657,760
Net additions (reductions)	(4,405,887)	3,127,220
Unfunded liability at end of year	**$19,402,722**	**$23,808,609**

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

2 798 retirements which occurred prior to 7/1/02 were not reported to the actuary until 6/30/03. 316 retirements which occurred prior to 7/1/03 were not reported to the actuary until 6/30/04.

State Funding

Three significant changes to TRS funding have been made in the past several years. All of them are evidence of the state's commitment to strengthen TRS's financial condition over the long-term.

Public Act 88-0593 was enacted in 1994 and first affected state contributions in FY96. The law established the current 50-year funding plan that includes a 15-year phase in period. During the phase-in period, contributions are gradually increased to a percentage level of active member payroll. 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 contribution to be made automatically to TRS. Pension contributions are no longer subject to budget negotiations.

Public Act 90-0582, the 2.2 legislation, was enacted in 1998 and first affected state contributions in FY99. The act established minimum state contribution rates so that the state's cost of the formula change would be paid as a level percent of pay instead of being phased in. Those minimum state contribution rates were in effect from FY99 through FY04.

Public Act 93-0002, the pension obligation bond (POB) legislation, was enacted in 2003 and first affects state contributions in FY05. Of the total $10 billion in POB proceeds, $523 million was used to cover initial interest payments and to fund bond issuance and other costs. The next $2.160 billion was used to reimburse the state for contributions it made to the five state retirement systems for some of FY03 and all of FY04. The remaining $7.317 billion was allocated among the systems to invest and to reduce their unfunded liabilities. The allocation was based on the relative sizes of the systems' June 30, 2002, unfunded liabilities. The TRS share of the proceeds, $4.330 billion, was received on July 2, 2003.

Beginning with FY05 state contributions, appropriations to the state retirement systems are reduced by the amount of each system's share of the POB debt service. The actuaries go through a multi-step process to calculate state funding requirements that do not exceed certain maximums specified in the act. This will continue through FY33, the last year that debt service is due.

The integrity of the funding plan, particularly its continuing appropriation provision, remains a top priority for TRS.

State Funding Amounts

The FY04 actuarial valuation was used to determine the required state contributions for FY06 and the FY06 employer's normal cost. The FY03 actuarial valuation was used to determine FY05 state funding requirements and the FY05 employer's normal cost.

State Funding Amounts

	FY06	**FY05**
Benefit Trust Reserve* (excludes federal contributions; excludes school district contributions for 2.2)	$1,055,737,000	$903,928,000
Minimum benefit reserve	2,800,000	3,100,000
Total state funding amount	**$1,058,537,000**	**$907,028,000**
Employer's normal cost as a percentage of active member payroll	8.27%	8.32%

* *Includes $1,447,000 in FY06 pursuant to Public Act 92-0839 and $1,684,000 in FY05 pursuant to Public Act 92-0566 in state contributions for a state employee early retirement incentive that included state employee TRS members.*

Photo courtesy of Abraham Lincoln Presidential Library

The most important part of teaching is to teach what it is to know.
— Simone Weil

Longfellow Grade School — 1965

Tests of Financial Condition

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

Funded Ratio Test ($ in thousands)

As of June 30	Net Assets at Market	Actuarial Accrued Liability	Funded Ratio at Market
1995	$13,374,278	$23,980,566	55.8%
1996	15,103,927	26,141,794	57.8
1997	17,393,108	26,951,585	64.5
1998	19,965,887	29,908,241	66.8
1999	22,237,709	33,205,513	67.0
2000	24,481,413	35,886,404	68.2
2001	23,315,646	39,166,697	59.5
2002	22,366,285	43,047,674	52.0
2003	23,124,823	46,933,432	49.3
2004	31,544,729	50,947,451	61.9

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 ($ in thousands)

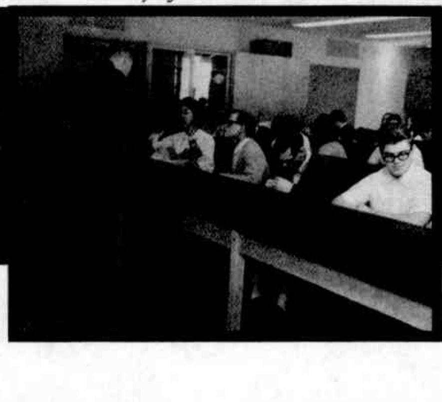
Year Ended June 30	Approximate Member Payroll	Unfunded Liability	Percentage of Payroll
1995	$4,417,000	$11,338,701	256.7%
1996	4,734,000	11,037,867	233.1
1997	5,013,000	9,558,477	190.7
1998	5,323,000	9,942,354	186.8
1999	5,698,000	10,967,804	192.5
2000	6,063,000	11,404,991	188.1
2001	6,431,000	15,851,051	246.5
2002	6,785,000	20,681,389	304.8
2003	7,059,000	23,808,609	337.3
2004	7,281,000	19,402,722	266.5

Beginning in FY96, unfunded liabilities are calculated using assets at market value.

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. TRS passed the minimum standards of the solvency test from 1997 through 2001.

Photo courtesy of Abraham Lincoln Presidential Library

The real object of education is to have a man in the condition of continually asking questions.
— Mandell Creighton



Belleville biology lab — 1966

Solvency Test ($ in thousands)

Year Ended June 30	Aggregate Accrued Liabilities for: Members' Accumulated Contributions (1)	Participants Currently Receiving Benefits (2)	Active Members Employer Portion (3)	Actuarial Value of Assets*	Percentage of Benefits Covered by Net Assets (1)	(2)	(3)
1995	$2,846,405	$12,702,258	$8,431,903	$12,641,865	100%	77%	0%
1996	3,002,052	13,351,367	9,788,375	15,103,927	100	91	0
1997	3,329,075	13,091,057	10,531,453	17,393,108	100	100	9
1998	3,651,119	13,830,583	12,426,539	19,965,887	100	100	20
1999	3,956,022	14,935,811	14,313,680	22,237,709	100	100	23
2000	4,179,403	16,481,570	15,225,431	24,481,413	100	100	25
2001	4,386,648	18,718,472	16,061,577	23,315,646	100	100	1
2002	4,688,042	22,105,192	16,254,440	22,366,285	100	80	0
2003	5,622,026	25,188,870	16,122,536	23,124,823	100	69	0
2004	5,853,274	28,286,916	16,807,261	31,544,729	100	91	0

* *Beginning in FY96, assets are at market value.*

Other Information

The following three schedules are presented in this section, rather than the statistical section, to comply with GFOA guidelines.

- Retirees and Beneficiaries Added to and Removed from Rolls
- Average Annual Salary for Active Members by Years of Service (June 30, 1995, through June 30, 2004)
- Active Members by Age and Years of Service (as of June 30, 2004)

These schedules were prepared by TRS staff, not our actuarial consulting firm.

In preparing the annual actuarial valuation each June 30, the TRS actuaries use active and inactive member data as of the previous June 30, with active member salaries increased by 4.0 percent. The current year's valuation is the basis of the state funding certification for the next fiscal year and must be submitted annually by November 15.

Photo courtesy of Sangamon Valley Collection at Lincoln Library

Springfield High School
Cafeteria – 1940

Retirees and Beneficiaries Added to and Removed from Rolls

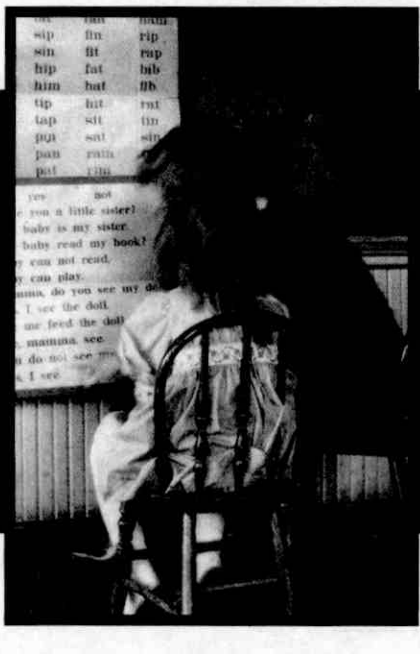
Year Ended June 30	Number at Beginning of Year	Added to Rolls	Removed from Rolls	Number at End of Year	End-of-Year Annual Allowances Amount	End-of-Year Annual Allowances % Increase	Average Annual Allowance Amount	Average Annual Allowance % Increase
1995	54,888	6,822	2,076	59,634	$1,074,305,808	22.2%	$18,015	12.6%
1996	59,634	2,063	2,033	59,664	1,132,033,161	5.4	18,973	5.3
1997	59,664	1,847	2,159	59,352	1,173,889,332	3.7	19,778	4.2
1998	59,352	1,954	2,156	59,150	1,218,829,800	3.8	20,606	4.2
1999	59,150	3,445	2,287	60,308	1,322,451,864	8.5	21,928	6.4
2000	60,308	4,168	2,354	62,122	1,457,736,912	10.2	23,466	7.0
2001	62,122	5,197	2,442	64,877	1,643,900,223	12.8	25,339	8.0
2002	64,877	5,391	2,319	67,949	1,852,194,540	12.7	27,259	7.6
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

**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.*

Please refer to the Statistical Section for the following information:

- Retired Members by Years of Service and Years in Retirement, June 30, 2004
- Schedules of Average Monthly Benefits, June 30, 2004
    - Retirement Benefits
    - Disability Benefits
    - Survivor Benefits

The schedules appearing in the Statistical Section were also prepared by TRS staff. The Statistical Section also contains schedules for Revenue by Source, Expenses by Type, Benefit Expenses by Type, and Participating Employers.



I have so much I can teach her and pull out of her. I would say you might encounter defeats but you must never be defeated. I would teach her to love a lot. Laugh at the silliest things and be very serious. I would teach her to love life. I could do that.
— Maya Angelou

Average Annual Salary for Active Members by Years of Service

Years of Service		1995	1996	1997	1998
0-5	**Number**	**34,193**	**33,700**	**33,134**	**33,325**
	Average Salary	$28,851	$29,867	$30,717	$31,495
6-10	**Number**	**18,757**	**19,716**	**20,340**	**20,329**
	Average Salary	$36,465	$37,315	$38,170	$39,047
11-15	**Number**	**12,686**	**13,013**	**13,830**	**14,571**
	Average Salary	$41,715	$42,905	$44,258	$45,659
16-20	**Number**	**14,775**	**14,579**	**14,295**	**13,004**
	Average Salary	$46,662	$47,929	$49,309	$50,650
21-25	**Number**	**16,030**	**15,754**	**15,235**	**14,494**
	Average Salary	$51,295	$52,679	$54,096	$55,498
26-30	**Number**	**9,608**	**11,474**	**12,977**	**13,904**
	Average Salary	$55,543	$56,865	$58,168	$59,694
31-35	**Number**	**1,930**	**2,456**	**3,525**	**4,845**
	Average Salary	$58,460	$59,383	$61,434	$63,985
35 +	**Number**	**541**	**549**	**611**	**644**
	Average Salary	$59,672	$61,618	$62,841	$65,222
	Total Number	**108,520**	**111,241**	**113,947**	**115,116**
	Average Salary	$40,455	$41,903	$43,398	$44,769
	% Change Average Salary	**(0.4%)**	**3.6%**	**3.6%**	**3.2%**
	Total Payroll Full & Part-time	**$4,390,176,600**	**$4,661,331,623**	**$4,945,071,906**	**$5,153,628,204**

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.

Coworkers and friends, Linda and Marian both plan to retire within five years, but will miss the students. Linda, who enjoys teaching English and math the most, plans to enjoy retirement, travel, and possibly substitute teach. Marian hopes to travel and spend time with her grandchild.

1999	2000	2001	2002	2003	2004
34,831	**35,192**	**38,585**	**41,120**	**38,074**	**36,951**
$32,430	$33,070	$34,614	$36,242	$37,960	$37,633
21,540	**24,053**	**24,351**	**24,258**	**25,020**	**26,027**
$40,320	$41,616	$43,457	$45,300	$46,740	$45,568
15,461	**15,661**	**16,367**	**16,812**	**17,334**	**18,307**
$47,430	$49,109	$50,875	$52,761	$53,931	$52,771
11,969	**11,304**	**11,692**	**12,215**	**12,860**	**13,358**
$52,477	$54,335	$56,521	$59,011	$60,788	$59,820
14,006	**13,363**	**13,091**	**12,575**	**11,152**	**10,868**
$57,256	$58,918	$61,188	$63,599	$65,427	$64,881
14,541	**14,278**	**13,885**	**13,256**	**12,429**	**12,488**
$61,866	$64,254	$65,913	$68,501	$70,066	$69,276
6,018	**6,895**	**7,555**	**7,484**	**7,107**	**9,186**
$67,373	$70,455	$73,433	$76,413	$76,676	$75,643
692	**713**	**809**	**843**	**804**	**1,162**
$67,453	$71,036	$75,469	$78,831	$78,091	$77,805
119,058	**121,459**	**126,335**	**128,563**	**124,780**	**128,347**
$46,306	$47,665	$49,230	$50,895	$52,408	$52,181
3.4%	**2.9%**	**3.3%**	**3.4%**	**3.0%**	**(0.4%)**
$5,513,099,748	**$5,789,343,235**	**$6,219,472,050**	**$6,543,213,885**	**$6,539,470,240**	**$6,697,274,807**

Photo by Michael Bracey Photography

Marian Schouten
28 years of service
K, 2nd through 5th
Learning Disabilities —
K through 6th
Homer District 33
in Homer Glen and
Flossmoor District 161
in Chicago Heights

Linda McCune
25 years of service
4th Grade
Homer District 33
in Homer Glen

Active Members by Age and Years of Service as of June 30, 2004

			Years of Service			
Age		**Subs**	**0-5**	**6-10**	**11-15**	**16-20**
20-24	**Number**	**4,143**	**5,186**	**2**		
	Average Salary	$3,644	$32,893	$48,056		
25-29	**Number**	**3,863**	**14,430**	**3,797**		
	Average Salary	$4,053	$36,762	$41,156		
30-34	**Number**	**2,617**	**5,495**	**8,879**	**2,405**	
	Average Salary	$3,885	$39,298	$45,055	$48,871	
35-39	**Number**	**2,969**	**3,039**	**3,404**	**4,872**	**1,499**
	Average Salary	$3,800	$39,087	$46,798	$52,344	$57,217
40-44	**Number**	**4,306**	**3,019**	**2,704**	**2,588**	**3,796**
	Average Salary	$3,987	$38,173	$45,555	$52,966	$59,386
45-49	**Number**	**4,000**	**2,634**	**2,978**	**2,836**	**2,495**
	Average Salary	$4,372	$39,609	$46,352	$51,831	$59,826
50-54	**Number**	**3,604**	**2,006**	**2,868**	**3,541**	**3,273**
	Average Salary	$4,541	$42,160	$48,507	$54,643	$59,786
55-59	**Number**	**2,323**	**853**	**1,119**	**1,650**	**1,852**
	Average Salary	$4,382	$44,280	$49,998	$55,823	$62,292
60-64	**Number**	**1,102**	**246**	**235**	**366**	**388**
	Average Salary	$4,427	$45,065	$50,415	$57,808	$62,772
65-69	**Number**	**454**	**32**	**35**	**42**	**47**
	Average Salary	$3,813	$39,394	$55,792	$54,778	$60,044
70-74	**Number**	**168**	**8**	**6**	**7**	**7**
	Average Salary	$3,594	$51,355	$33,393	$56,669	$42,443
74 +	**Number**	**94**	**3**			**1**
	Average Salary	$3,127	$44,299			$94,343
	Total Number	**29,643**	**36,951**	**26,027**	**18,307**	**13,358**
	Average Salary	**$4,079**	**$37,634**	**$45,568**	**$52,771**	**$59,820**

Photos courtesy of Carbondale Elementary School District

Carbondale Lincoln Junior High School — 1984

Years of Service							Full and Part-time Member
21-25	**26-30**	**31-35**	**36-40**	**41-45**	**46-50**	**51-55**	**Totals**
							5,188 $32,899
							18,227 $37,678
							16,779 $43,717
							12,814 $48,297
1,300 $62,311							**13,407** $50,864
4,251 $65,119	**2,771** $66,277						**17,965** $55,614
3,118 $65,166	**7,149** $69,969	**4,873** $72,545					**26,828** $62,240
1,685 $65,707	**2,058** $70,668	**3,765** $79,851	**608** $76,705				**13,590** $66,565
448 $65,907	**433** $70,445	**472** $74,501	**376** $80,621	**51** $75,183			**3,015** $65,601
60 $59,381	**70** $69,112	**63** $72,685	**44** $72,044	**46** $84,832	**12** $72,816		**451** $64,882
6 $51,768	**6** $70,013	**8** $67,563	**9** $60,621	**1** $28,150	**8** $62,696	**1** $57,755	**67** $55,362
	1 $58,852	**5** $83,973	**1** $96,336	**2** $81,114	**1** $51,016	**2** $118,193	**16** $78,120
10,868 **$64,881**	**12,488** **$69,275**	**9,186** **$75,643**	**1,038** **$77,805**	**100** **$79,270**	**21** **$67,923**	**3** **$98,047**	**128,347** **$52,181**

	Average Age	Average Years of Service	Number
Full and Part-time Members	42	14	128,347
Substitutes	40	NA	29,643
All	**42**		**157,990**

Plan Summary

Administration

TRS was created and is governed by the Illinois Pension Code, Article 16. An 11-member Board of Trustees is authorized to carry out duties granted to it under the article. The board is comprised of the state superintendent of education, four persons appointed by the Governor, four elected members of TRS, and two elected annuitants. One trustee position for an appointed member is currently vacant. The Board of Trustees appoints an executive director who is responsible for the detailed administration of TRS.

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 FY04, members contributed 9 percent of gross creditable earnings designated as 7.5 percent for retirement annuity, 0.5 percent for post-retirement increases, and 1 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 FY04, the member contribution was 0.75 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, and teaching in Illinois private schools. Up to two years of unused, uncompensated sick leave that has been certified by former employers may also be added at retirement.

A payroll deduction program became effective July 1, 1998. Active and certain inactive members can make tax-sheltered contributions to TRS to purchase various types of optional service, to upgrade their service under the graduated retirement formula to the 2.2 formula, or to make the required contributions under the Early Retirement Option.

Refunds

After a four-month waiting period from the date that he or she last taught, a member ceasing 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 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

Years of Service	Age
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. Some members retire under a money purchase style "actuarial" benefit. By law, the higher of the formula benefit or the actuarial benefit is paid.

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.

Years of service earned after June 30, 1998, are earned at 2.2 percent of final average salary.

Public Act 90-0582 improved retirement benefits for TRS members by changing the rate at which TRS members accrue benefits beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. The maximum 75 percent benefit is attained with 34 years of service under the 2.2 formula. 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.

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.

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.

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 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.

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 and the 0.5 percent paid toward annual increases in annuity. Beneficiaries of annuitants 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.

Early Retirement

Members who are age 55 or older and have more than 20 but fewer than 35 years of service may choose the Early Retirement Option (ERO) to avoid a discounted annuity. Under the ERO, both the member and the employer must make a one-time contribution. However, both the member and employer contributions are waived if the member has 34 years of service. Public Act 91-0017 extended the expiration of the ERO through June 30, 2005. Members who have 35 or more years of service can retire and receive a nondiscounted annuity.

Some TRS-covered members employed by state agencies were eligible for an early retirement incentive (ERI) during FY03. Public Act 92-0566, enacted in June 2002, allowed certain state employees to purchase five years of service credit and an equal amount of age enhancement. Retirement must have occurred between August 1, 2002 and December 31, 2002, with deferrals until April 30, 2003, for key employees. Some employees who were not yet eligible to retire could also purchase the age and service enhancements if they terminated state employment.

Post-Retirement Increase

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

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

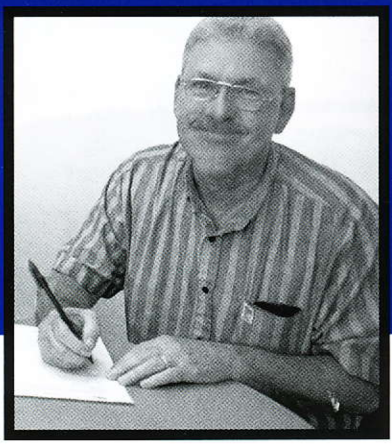
TRS is one of 13 public retirement systems that are included in the provisions of the Illinois Retirement Systems' Reciprocal Act. This act ensures continuous pension credit for public employment in Illinois.

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.

Planning to retire within five years, this husband and wife team from Lansing, Illinois, will miss the contact with their students and fellow teachers. Donald enjoys teaching social studies the most; Trinette loves teaching history. They anticipate traveling, golfing, attending college football games, and substitute teaching.

Trinette Bullard
23 years of service
5th through 12th
District 157 and 215 in Calumet City



Donald Bullard
6 years of service
4th and 5th Grade
Harvey School District 152

Photos by Michael Bracey Photography

Photo by Michael Bracey Photography

Fred Yuen

35 Years of Service

High School

District 87 in Glen Ellyn

Fred enjoys teaching mathematics the most. He plans to retire within the next five years. But, Fred believes he'll miss the people and students. He plans to travel and teach at the College of DuPage.