

# Introduction



**The Government Finance Officers Association (GFOA) has awarded TRS a Certificate of Achievement for Excellence in Financial Reporting for the past 18 years.**



Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

Teachers' Retirement System  
of the State of Illinois

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Samuel P. Sloan*  
President

*Jeffrey L. Esser*  
Executive Director



Retirement Security for Illinois Educators

[Teachers' Retirement System of the State of Illinois](#)

Jon Bauman, Executive Director  
2815 West Washington, P.O. Box 19253  
Springfield, Illinois 62794-9253

## Letter of Transmittal

December 10, 2007

To the Board of Trustees and TRS Members:

We are pleased to present the *Comprehensive Annual Financial Report (CAFR)* for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2007. In this edition, we have used nest eggs to depict the financial security that TRS provides for members and their loved ones.

Unlike defined contribution plans, such as 401(k) plans, members can depend on TRS to pay benefits even when the financial markets are not performing well. TRS members are part of a **defined benefit plan** which means their retirement benefits will be provided for their lifetimes. Others dependent solely upon personal investments do not have this guarantee; their financial futures are determined by the uncertain ebb and flow of the markets.

The promise of financial security is the same regardless of who is holding the nest egg in this book. To the active member, it is the promise of a pension. To the child, it is a disability benefit that is depended upon for essentials when a parent is disabled. To the surviving spouse, it is the continued financial support received after a primary income is gone. To the retiree, it is the reliable income source earned after serving as an Illinois educator. Now and in the future, members can count on TRS benefits being there for themselves and their loved ones.

With our purpose in mind, we have completed this year's report. State law requires that this report be published annually. It is intended to provide financial, investment, actuarial, and statistical information in a single publication.

TRS management and staff are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. A framework of internal controls is maintained to establish reasonable assurance that assets are safeguarded, transactions are accurately executed, and financial statements are fairly presented.

### Profile of TRS

TRS was established by the State of Illinois on July 1, 1939, to provide retirement, disability, and death benefits to teachers employed by Illinois public elementary and secondary schools outside the city of Chicago.

An 11-member Board of Trustees governs TRS. The board includes the state superintendent of education, four members of TRS who are elected by active members, four representatives of the public who are appointed by the governor, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the detailed administration of TRS.

The annual budget for TRS administrative expenses is approved by the Board of Trustees. The TRS annual operating budget request is prepared in conjunction with a review of the long-range strategic plan.

## Financial Information

Our staff issues a CAFR within six months of the close of each fiscal year. The report contains basic financial statements presented in conformity with generally accepted accounting principles (GAAP) within guidelines established by the Governmental Accounting Standards Board (GASB).

A system of internal controls helps us to monitor and safeguard assets and promote efficient operations. Each year TRS's financial statements, records, and internal controls are examined by special assistant auditors employed by the Illinois Auditor General. In addition, an annual compliance attestation examination is performed to review compliance with applicable statutes and codes. The Independent Auditors' Report on TRS's financial statements is included in the Financial Section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

## Revenues and Expenses

The three sources of TRS funding include member contributions, investment income, and employer contributions through state appropriations and payments by school districts. TRS expenses include payments of benefits, refunds, and administrative expenses. Negative amounts are shown in parentheses ( ) throughout this report.

### Revenues (\$ millions)

Source	2007	2006	Increase/(Decrease)	
			Amount	% Change
Member contributions	\$826	\$799	\$27	3.4%
State of Illinois	738	534	204	38.2
Employer contributions	116	124	(8)	(6.5)
Total investment income	<u>6,831</u>	<u>3,993</u>	<u>2,838</u>	71.1
<b>Total</b>	<b><u>\$8,511</u></b>	<b><u>\$5,450</u></b>	<b><u>\$3,061</u></b>	<b>56.2%</b>

### Expenses (\$ millions)

Source	2007	2006	Increase/(Decrease)	
			Amount	% Change
Benefits payments	\$3,112	\$2,877	\$235	8.2%
Refunds	60	58	2	3.4
Administrative/Other	15	15	-	-
<b>Total</b>	<b><u>\$3,187</u></b>	<b><u>\$2,950</u></b>	<b><u>\$237</u></b>	<b>8.0%</b>

In the future, member service will remain our priority. Technological advances to the Web site and to our internal STAR computer system will continue. We will prudently invest for the benefit of our membership. Staff members and the TRS Board will also persist in attempting to improve our funded ratio.

## Investments

TRS earned 19.6 percent gross of fees on its investments during the fiscal year ended June 30, 2007, a level not seen since the 1980s and among the highest in TRS history. Assets rose to a record high of \$41.9 billion, up from \$36.6 billion a year ago. For the seventh consecutive year, TRS's investment performance ranked in the desirable upper quartile of national public and private pension performance databases. The fund also substantially outperformed its performance benchmark of 17.9 percent for the one-year period ending June 30, 2007.

The Investment Section of this report contains a summary of the portfolio and investment activities.

## Funding

During the year ended June 30, 2007, the funded ratio of the Teachers' Retirement System increased from 62.0 percent to 63.8 percent. The actuarial value of assets (net assets at market value) was \$41.9 billion and the actuarial accrued liability was \$65.6 billion. The favorable increase in the funded ratio was primarily a result of investment gains which also offset an increase in liability due to revised actuarial assumptions.

The Actuarial Section of this report contains the actuary's letter and further information on TRS funding. It also presents the results of the five-year review of actuarial assumptions.

## Major Initiatives

In fiscal year 2007, member surveys rated our service levels in the 97th percentile. These fiscal year changes continued to improve our member service programs:

- Added a personalized benefit estimate section in the secure Member Account Access area of our Web site.
- Revamped the Web site for faster page downloads and increased security.
- Informed members and the media by developing an online Press Room which contains press releases and information about benefits and funding.
- Ensured that members who changed addresses continued to receive important mail from us; over 30,000 member addresses were automatically updated using software approved by the U.S. Postal Service.

## GFOA Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. TRS has received a certificate for the last 18 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

## Acknowledgements

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

This report is made available to members of the General Assembly, participating employers, and to other interested persons by request. The participating employers of TRS form a link between TRS and its members. Their cooperation contributes significantly to our success. We hope all recipients of this report find it informative and useful. This report is also available to the general public on our Web site, [trs.illinois.gov](https://trs.illinois.gov).

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.



Jon Bauman  
Executive Director



Jana Bergschneider, CPA  
Director of Administration

# Board of Trustees

As of December 1, 2007



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President  
Bloomington



**Molly Phalen**  
Vice President  
Rockford



**Marcia Boone  
O'Fallon**



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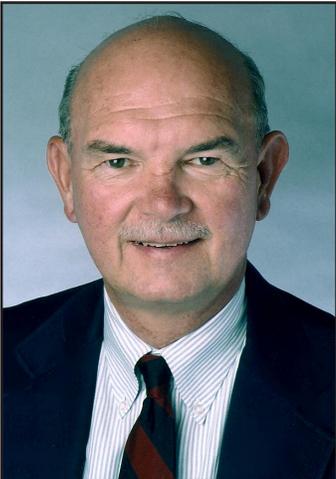
**Jan Cleveland  
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Evanston**



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**Cynthia O'Neill  
Carlyle**



**William Orrill  
Carbondale**

# Organizational Structure

Executive Staff Members as of December 1, 2007

## Board of Trustees



**Jon Bauman**  
Executive Director



**Jana Bergschneider, CPA**  
Director of  
Administration



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Human Resources



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Communications  
Supervisor



**Stan Rupnik, CFA**  
Chief Investment  
Officer



**Stacy Smith, CPA**  
Internal Audits  
Manager



**Terry Viar**  
Director of  
Member Services

# Consulting and Professional Services

## Actuary

Buck Consultants, an ACS Company  
Chicago, Illinois

## External Auditors

*(As special assistants to the Office of the Auditor General)*

BKD, LLP  
Decatur, Illinois

## Information Systems

Hupp Information Technologies  
Springfield, Illinois

Sentinel Technologies  
Chicago, Illinois

VeriSign, Inc.  
Toronto, Ontario

Pro-Tech Search, Inc.  
Petersburg, Illinois

STL Technology Partners  
Bloomington, Illinois

## Investment Consultants

*(Investment management firms are listed in the Investment Section.)*

Callan Associates Inc.  
(real estate consultant)  
San Francisco, California

Risk Resources  
(real estate insurance)  
Elmhurst, Illinois

PCG Asset Management LLC  
(private equity consultant)  
La Jolla, California

R.V. Kuhns & Associates, Inc.  
(general consultant)  
Portland, Oregon

## External Legal Counsel

Barnes & Thornburg  
Chicago, Illinois

Foley & Lardner  
Chicago, Illinois

Holland & Knight LLP  
Chicago, Illinois

Loewenstein Hagen & Smith  
Springfield, Illinois

Sorling Northrup Hanna Cullen  
Springfield, Illinois

Cavanagh & O'Hara  
Springfield, Illinois

Heyl Royster Voelker & Allen  
Springfield, Illinois

Howard & Howard  
Peoria, Illinois

Mayer Brown Rowe & Maw  
Chicago, Illinois

## Master Trustee

The Northern Trust Company  
Chicago, Illinois