



# Celebrating Service

Annual Financial Report Summary for the Fiscal Year Ended June 30, 2004

## A Message from the Executive Director

December 15, 2004

Be it at home, school, or the office, birthdays are a time for celebration.

Established in 1939 as the successor to the Illinois State Teachers' Pension and Retirement Fund, TRS attained its 65th birthday in July. In keeping with our anniversary theme, "65 and still working for you," we celebrated by processing the applications of new retirees at a record-breaking pace. Staff bettered the 60-day processing standard by a wide margin.

"Celebrating service," our annual report theme, captures the essence of our commitment to you, our valued members. We celebrate not merely as an organization, but as individuals who welcome the opportunity to associate with and serve the active and retired educators of Illinois. Together, let's celebrate the past, examine the present, and anticipate the future.

### Celebrate the Past

Our report recalls with appreciation the service of teachers from across Illinois. As we reflect on major milestones in the organizational life of TRS, we also recognize dedicated service of the TRS staff that has made these accomplishments possible.

- 1939** TRS is established to provide better benefits and more secure pensions.
- 1947** Benefits are improved to attract much-needed teachers to the classroom. An uncertain defined contribution approach was replaced with the security of a defined benefit plan. The new plan protects teachers from market uncertainties and ties benefits to their final average salaries. In addition, the State Retirement Systems Reciprocal Act became law.
- 1953** Disability benefits improved; member contribution increases to 6 percent.

- 1959** Members begin contributing 1 percent of their salaries to finance survivor benefits to protect spouses and other loved ones.
- 1967** First computer system purchased. TRS staff number 32.
- 1969** Field service program established to take TRS to the membership.
- 1974** Office established in Northern Illinois.
- 1975** First online computer system allows counselors immediate access to member information.
- 1979** TRS occupies its current facilities. Four of the 53 employees on staff at that time are still working at TRS.
- 1981** Retired teacher health insurance begins with an annual subsidy contribution cap of \$3.6 million.
- 1983** TRS adopts a modern, well-diversified investment strategy. Since making the change, assets have grown from \$3.5 billion in 1984 to over \$31.5 billion at June 30, 2004. TRS investments have returned an average of 10.94 percent annually over the past 20 years.
- 1986** New hires begin contributing to Medicare.
- 1990** Compounding of cost of living increases begins.
- 1994** State enacts 50-year funding plan, which it has followed faithfully.
- 1995** Legislation establishes the Teachers' Retirement Insurance Program, rescuing an earlier bankrupt plan.
- 1998** 2.2 formula becomes law, bringing TRS benefits up to the national average for funds not covered by Social Security.

- 2003** TRS STAR (Serving Teachers And Retirees), an advanced computer system that improved member service capabilities, goes online.
- 2004** TRIP program made permanent. Members not covered by Medicare have one-time option to begin contributing. A staff of 170 serves nearly 325,000 members.

## Examine the Present

Achievements in fiscal year 2004 demonstrate our commitment to planning, personal interaction, and competency.

**Serving the membership.** We successfully conducted the largest Medicare referendum in U.S. history, offering over 28,000 eligible members the opportunity to opt into Medicare. Our summer retirement season, while one of the largest in history, was among the smoothest, with over half the new annuitants receiving their first checks in July. We credit hard work by the staff and outstanding planning and preparation.

**Funding protection.** Following a protracted legislative session, TRS received full, certified funding for a tenth successive year. An accord negotiated by the organizations representing active and retired teachers made the Teachers' Retirement Insurance Program (TRIP) permanent. A plan to consolidate the investment functions of the state-funded retirement systems was stopped.

**Investing successfully.** Assets grew to over \$31.5 billion, in part due to the issuance by the state of pension obligation bonds (POB). Careful planning enabled immediate investment of the proceeds, which earned in excess of \$600 million in the first year. Overall, the investment program earned a record \$4.5 billion, exceeding the POB principal received from the state. Our overall return was 16.5 percent, helping to boost our funded ratio to 61.9 percent, compared to 49.3 percent at June 30 the year before, and 58.5 percent following receipt of the POB proceeds on July 2, 2003.

**Working well.** The TRS STAR computer system completed its first full year of deployment with only seven hours of downtime, an outstanding reliability record. Over 90 percent of our incoming toll-free member calls were answered and directed to available staff. An Internet-based member remittance system was implemented, saving member and staff time. Publications were improved without increasing costs.

## Anticipate the Future

We frequently ask, "How can we do better?" Our planning centers on retaining recognized leadership in caring, professional service in an era that demands ever-increasing use of technology. TRS managers and supervisors gathered recently to creatively develop an approach to meet this goal. Under a theme of "Change is the Opportunity," our employees are developing programs and strategies to better serve the membership in the coming decades.

Technology can be useful, cost-effective and often, coldly impersonal. We intend in the coming years to use substantially more technology to better serve you, but with a strong appreciation of the critical human role in this process. Our personal touch can become warmer, our service more engaged, and our capabilities expanded if we use technology well.

The receipt of over \$8 billion in investment income and pension obligation bond proceeds this year enhanced your retirement security. Our funded ratio rose from less than 50 percent to 61.9 percent, but, frankly, this is not good enough. While recent developments suggest a resolve to continue addressing this problem, the pressure to evade the full state funding of TRS and other state pension systems remains high. The 50-year funding plan is more than a statutory mandate; it is a reminder of past mistakes. TRS will pursue strategies that will help members and policy makers understand this complex issue.

TRS will explore initiatives that will contribute to the financial security of career teachers in Illinois. In order for Illinois to provide the best education for our children it is essential that school districts have the tools to recruit and retain teachers that help achieve this goal. Illinois will not be able to compete for the best and the brightest teachers if the benefits that we offer are not competitive in this challenging environment. Retirement security for Illinois educators is more than our purpose statement; it is a part of the complete picture of public education in Illinois.

## In Closing

TRS and its members share a common purpose – service. As we reflect on our 65 years of service, we do so with the full knowledge that your support of the system is a true blessing. Thank you for your good work and your support.



Jon Bauman  
Executive Director

# Executive Staff

as of December 2, 2004



*Back row from left: Kathleen Farney, Director of Research; Nick Yelverton, Director of Government Affairs; Gina Larkin, Director of Human Resources; Stan Rupnik, Chief Investment Officer; Tom Gray, General Counsel; Terry Viar, Director of Member Services; and Ed Mabie, Information Systems Officer. Front row from left: Todd Kennedy, Director of Administration; Stacy Smith, Internal Audits Manager, Jon Bauman, Executive Director; Mike Bartletti, Director of Real Estate; and Kathy Pearce, Communications Supervisor. Not pictured: Greg Turk, Director of Investments.*

# Board of Trustees

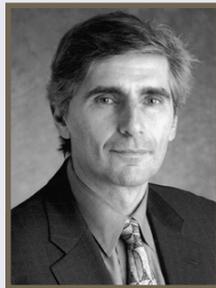
as of October 1, 2004



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## Condensed Comparative Statement of Plan Net Assets as of June 30

	2004	2003	Percentage Change
Cash	\$4,269,329	\$3,651,963	16.9%
Receivables and prepaid expenses	353,725,714	286,769,806	23.3
Investments	32,046,373,325	23,935,615,863	33.9
Invested securities lending collateral	3,466,114,601	2,154,422,658	60.9
Capital assets	2,273,510	2,630,930	(13.6)
<b>Total assets</b>	<b>35,872,756,479</b>	<b>26,383,091,220</b>	<b>36.0</b>
<b>Total liabilities</b>	<b>4,328,027,194</b>	<b>3,258,268,149</b>	<b>32.8</b>
<b>Net assets</b>	<b><u>\$31,544,729,285</u></b>	<b><u>\$23,124,823,071</u></b>	<b>36.4%</b>

## Condensed Comparative Statement of Changes in Plan Net Assets For the Year Ended June 30

	2004	2003	Percentage Change
Contributions	\$6,258,086,538	\$1,753,282,676	256.9%
Total investment income	4,485,729,345	1,060,852,111	322.8
Total additions	10,743,815,883	2,814,134,787	281.8
Benefits and refunds	2,310,349,123	2,041,737,026	13.2
Administrative expenses	13,560,546	13,859,402	(2.2)
Total deductions	2,323,909,669	2,055,596,428	13.1
<b>Net increase in net assets</b>	<b>8,419,906,214</b>	<b>758,538,359</b>	<b>1010.0</b>
<b>Net assets beginning of year</b>	<b>23,124,823,071</b>	<b>22,366,284,712</b>	<b>3.4</b>
<b>Net assets end of year</b>	<b><u>\$31,544,729,285</u></b>	<b><u>\$23,124,823,071</u></b>	<b>36.4%</b>

Photo courtesy of Sangamon Valley Collection at Lincoln Library



Springfield Griggs School — 1942

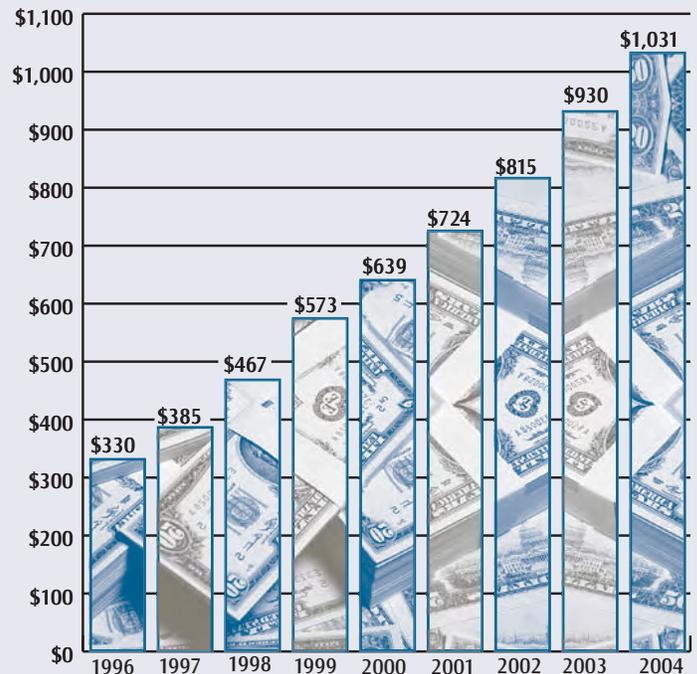
## Financial Highlights

- TRS net assets at June 30, 2004, were \$31.5 billion, an all-time record.
- During FY04, TRS net assets increased \$8.4 billion.
- The pension benefit obligation or total actuarial accrued liability was \$50.95 billion at June 30, 2004.
- The unfunded actuarial accrued liability decreased from \$23.81 billion at June 30, 2003 to \$19.40 billion at June 30, 2004. The funded ratio increased from 49.3 percent at June 30, 2003 to 61.9 percent at June 30, 2004.
- Contributions from members, employers, and the State of Illinois were \$6,258 million, an increase of \$4,505 million or 256.9 percent during the fiscal year. TRS received a one-time payment of \$4.330 billion on July 2, 2003, representing its share of the issuance of \$10 billion of pension obligation bonds (POB) by the State of Illinois.
- Total investment income was \$4,486 million, an increase of \$3,425 million or 322.8 percent compared to FY03.
- Benefits and refunds paid to members and annuitants were \$2,310 million, an increase of \$269 million or 13.2 percent compared to FY03.

## State Funding

State funding is provided through a continuing appropriation that ensures amounts required under the funding program are made available each year. Fiscal year 2004 marked the ninth consecutive year that the state fully met its funding obligations as required by law. It is essential that the integrity of this program be protected and the balance of the funding schedule be upheld. This remains a top priority for TRS.

### State Appropriations to TRS (\$ in millions)



Funding has consistently increased since the 50-year funding plan took effect in fiscal year 1996.

*Photo courtesy of the Abraham Lincoln Presidential Library*



Florville School, St. Clair County — 1964

# Investments

Fueled by an improving economy, TRS investments earned the highest return in six years. Overall, TRS reported an impressive 16.5 percent net return, or \$4.5 billion. The strong gains followed three years of careful capital preservation, earning TRS a ranking in the top decile of large public funds in the Callan Associates measurement universe, and in the top 12 percent in Wilshire Trust Universe Comparison Service, the well-known TUCS ranking.

Total investments increased \$8.2 billion, reflecting strong returns and appreciation as well as \$4.3 billion of pension obligation bond (POB) proceeds received from the State of Illinois. The POB monies were promptly and skillfully invested, earning over \$600 million for the year.

## Top 10 U.S. Equity Holdings

Firm	Market Value
Pfizer, Inc.	\$102,221,383
General Electric Co.	97,843,270
Microsoft Corp.	86,591,778
Citigroup, Inc.	79,791,582
American International Group, Inc.	66,646,800
Hewlett Packard, Co.	65,825,902
Time Warner, Inc.	55,873,530
ConocoPhillips	55,555,904
Xerox Corp.	54,045,850
Dell, Inc.	52,709,739

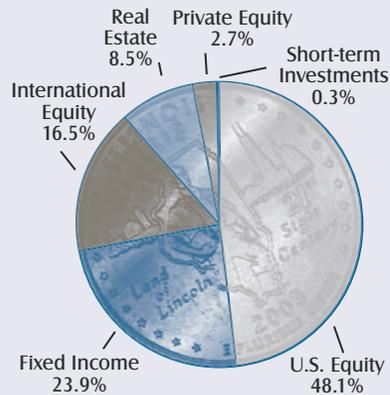
Source: The Northern Trust Company

## TRS Investment Performance (net of fees)

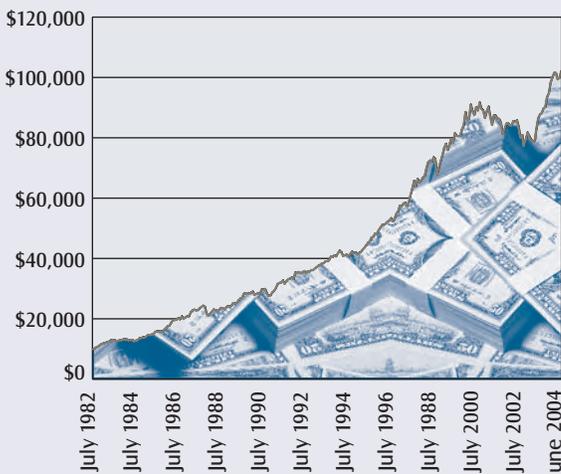
	1 Year	2 Years	3 Years	5 Years	10 Years	20 Years
Rate of return	16.48%	10.53%	5.77%	4.62%	9.59%	10.94%

## Investment Portfolio

The TRS investment portfolio is well-diversified and is shown in actual figures as of June 30, 2004, on the chart to the right. By investing in a broad range of asset classes, TRS minimizes risk and achieves more consistent investment returns.

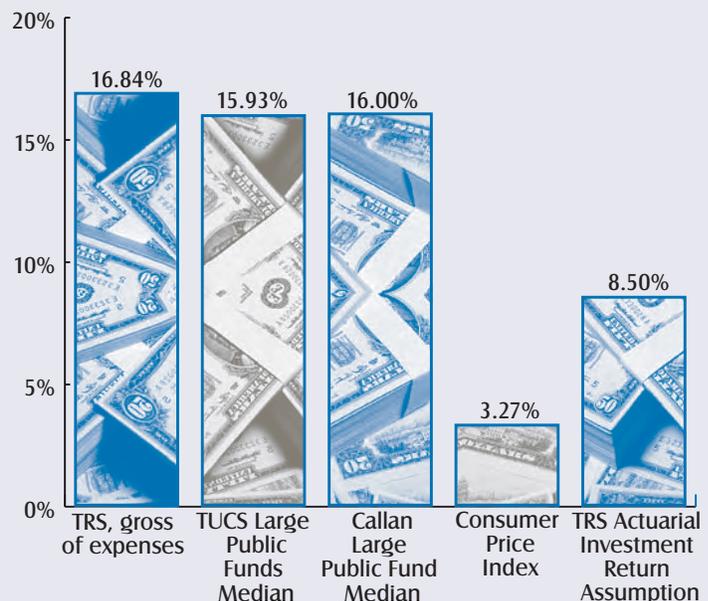


## Growth of \$10,000



Source: TRS

## TRS Returns Compared to Other Large Public Funds



# Actuarial

In simple terms, a retirement system accumulates dollars today to pay future pensions and benefits when members retire or die. Each year, our actuary measures the value in today's dollars of the benefits earned by our members and the value of TRS investments available to pay current and future benefits. Here are the key results of the current actuarial valuation:

## Actuarial Valuation (\$ in thousands)

	Years Ended June 30	
	2004	2003
Actuarial liability	\$50,947,451	\$46,933,432
Net assets at market	31,544,729	23,124,823
Unfunded Liability	\$19,402,722	\$23,808,609

## Member Statistics

### Full and Part-time Active Members

Average age	42
Average years of service	14
Average annual salary	\$52,181

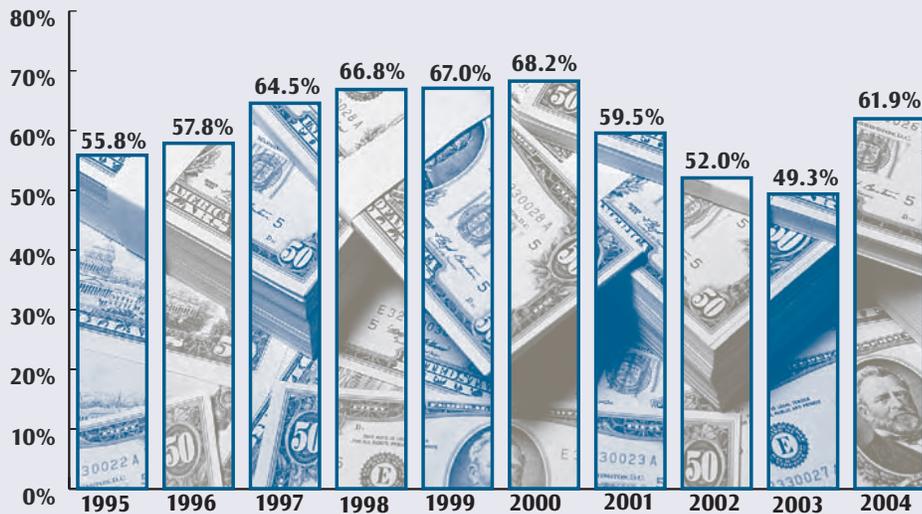
### Average Age of Substitutes

40

### Retired Members

Average age	69
Average service	29
Average annual benefit	\$34,104
Oldest annuitant	105

## Funded Ratio



The ratio of funding compares assets to liabilities. An increase in this ratio indicates an improvement in the ability of TRS to meet future benefit obligations.

Photo courtesy of Rockford Public Library



Rockford Auburn High School — 1966

Photo courtesy of Carbondale Elementary School District



Carbondale Lincoln Junior High School — 1984

# Fiscal Year Highlights

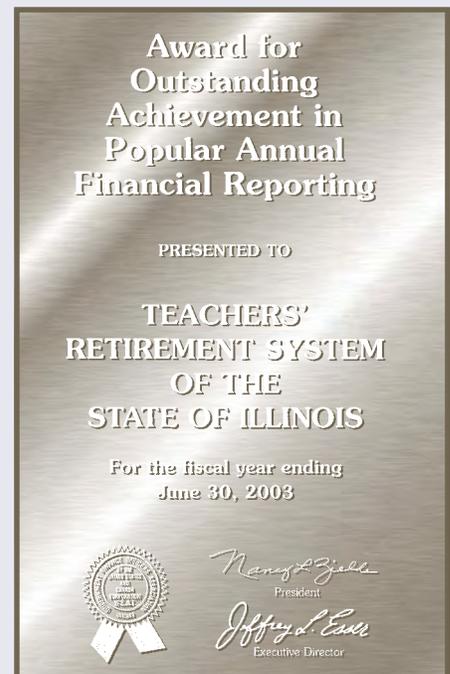
	<b>2004</b>	<b>2003</b>
Active contributing members	157,990	152,117
Inactive noncontributing members	89,641	86,279
Benefit recipients	76,905	73,431
Total membership	<u>324,536</u>	<u>311,827</u>
Actuarial accrued liability (AAL)	\$50,947,451,000	\$46,933,432,000
Less net assets held in trust for pension benefits	31,544,729,000	23,124,823,000
Unfunded actuarial accrued liability (UAAL)	<u>\$19,402,722,000</u>	<u>\$23,808,609,000</u>
Funded ratio (actuarial value of assets/AAL)	61.9%	49.3%
Total fund investment return, net of fees	16.5%	4.9%
<b>Benefits and refunds paid</b>		
Benefits paid	\$2,262,329,479	\$1,998,622,284
Refunds paid	48,019,644	43,114,742
Total	<u>\$2,310,349,123</u>	<u>\$2,041,737,026</u>
<b>Income</b>		
Member contributions*	\$768,661,300	\$732,020,451
Employer contributions (includes State of Illinois contributions)	1,159,051,290	1,021,262,225
State of Illinois pension obligation bond proceeds	4,330,373,948	0
Total investment income	4,485,729,345	1,060,852,111
Total	<u>\$10,743,815,883</u>	<u>\$2,814,134,787</u>

\* Includes member payments and accounts receivable under the Payroll Deduction Program.

Photo courtesy of the Abraham Lincoln Presidential Library



Park School, East St. Louis — 1965



This publication is a summary of the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The comprehensive report, which has more detailed information, is available at our Web site, [trs.illinois.gov](http://trs.illinois.gov), or by calling (800) 877-7896.

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

1939 **TRS** 2004  
Sixty-five and still working for you!