



If in the last days, you did not think about your advantage in having a defined benefit pension, you should do so now. Many people with a 401K that had considered that they were near retirement are now faced with the new reality that they will have to continue working for many years to come and can only hope that their job will last that long. Others already retired and living on their investments have seen the gains of many years diminish in a matter of days and in some cases totally disappear. It is one thing to decide that you want to get a job while you are retired, it is something else when you have to get job in order to live and you suddenly find yourself filling out an application at Wal-Mart.

Whatever is going on in the economy and however bad the market is, you should know that your pension will be deposited in your bank at the first of the next month and every month there after, and if you are eligible, your check will grow by 3% after the first of the year. Your career as a teacher will reward you and yours for the rest of your life and theirs. You can count on that. Those who argue for defined benefit pensions, such as ours, to be

replaced by defined contribution plan, such as a 401K or 403b, have been silenced by the realities of the market crash. We started this fiscal year in July with over \$38 billion in the pension fund and even though diminished by the ravages of the market there more than is needed to pay your pension for many years to come.

Who pays for your pension? The sources of income for the last 20 years ending June 30, 2008:

State of Illinois	19%	(POBs not included as state contribution)
School Districts	3%	
Teachers	19%	
Investment Income	59%	

You should already know that majority of your pension comes from our investments and that the contributions of the State, school districts and active teachers fall short every year of the total in benefits paid to annuitants, survivors, and the disabled.

Even before the market took a wild rollercoaster ride in September which has continued to this day, we had already experienced a decline in the last fiscal year, and while the steps we had taken by moving into real return and absolute return hedge funds helped, it was not enough to keep us from having a negative fiscal year.

FY 2008 Total Fund:	- 4.54%	(gross of fees)	% of portfolio
Domestic Equity:	-14.89%		34.0
Int'l Equity:	-7.43%		21.6
Fixed Income:	+5.30%		17.5
Private Equity:	+5.26%		5.8
Real Estate:	+5.34%		12.1
Real Return:	+20.72%		7.5
Absolute Return:	+1.66%		1.3

Long term we expect our investments to make 8.5% per year, but because we fell by just over 4.5%, which is a swing of 13% that means that we fell more than \$5 billion short of our goal in Fiscal Year 08.

Statement of Changes in TRS Net Assets last two fiscal years

	2007	2008
Additions		
Contributions		
Members	\$ 826,249,007	\$ 865,400,168
State of Illinois	737,670,628	1,041,114,825
School Districts	<u>115,917,040</u>	<u>130,673,629</u>
Total contributions	1,679,834,675	2,037,188,622
Investment Income		
Net appreciation (depreciation)	5,597,334,135	(3,235,738,717)
Interest	582,700,572	488,432,322
Real Estate income	270,234,053	387,493,400
Dividends	424,249,335	451,129,219
Private Equity income	92,106,866	40,935,894
Commodities income	0	5,080,645
Other income	1,755,249	2,242,175
Net securities lending	<u>13,825,145</u>	<u>34,437,708</u>
Total Investment Income	6,831,324,436	(2,014,902,366)
Total Additions	\$ <u>8,551,159,111</u>	\$ <u>22,286,256</u>
Deductions		
Retirement benefits	2,965,355,617	3,268,108,083
Survivor benefits	121,822,272	130,368,599
Disability benefits	24,574,786	25,505,050
Refunds	59,731,909	60,285,624
Administrative expenses	15,246,203	16,613,364
Total Deductions	<u>3,186,730,787</u>	<u>3,500,880,720</u>
Net Increase (decrease)	5,324,428,324	(3,478,594,464)
Net assets held in trust for benefits		
Beginning of the year	36,584,889,427	41,909,317,751
End of the year	<u>\$ 41,909,317,751</u>	<u>\$ 38,430,723,287</u>

Balance Sheet

	June 30, 2007 Billions	June 30, 2008 Billions
Net Assets	\$41.909	\$38.428
Accrued Liability	\$65.648	\$69.205
Unfunded Liability	\$23.739	\$30.744
Funded Ratio	63.8%	55.5%

Below you see the effect of combining our need to sell assets in order to make contributions and the decline in investments caused by the markets made the total loss of fund to be just over 8%.

Growth of Assets Year Over Year

FY	State Contributions (\$ billions)	Asset Sales (\$ billions)	Investment Returns % (net of fees)	Growth in Total Assets
2005	\$0.907	\$1.021	10.8%	8.1%
2006	\$0.534	\$1.137	11.8%	7.3%
2007	\$0.738	\$1.179	19.2%	14.6%
2008	\$ 1.041	\$1.475	(4.9%)	(8.3%)

This fiscal year (FY 09) the State contribution grew to \$1.450 billion dollars and on a monthly basis we are receiving those necessary payments.

Assuming that we had made our expected return in FY 08 of 8.5%, the State's contribution would still have needed to grow by \$390 million to \$1.840 billion in FY 10, but to now to make up for the lower return that State will need to increase the payment by an additional \$282.6 million to a

total of just over \$2.122 billion. While that is still a preliminary number, more significantly it is a greater number than the legislature was expecting and even if the largest fund we are still only one of five that they pay into and the others have also experienced greater than anticipated losses.

It is much easier and certainly more pleasurable to be the bearer of glad tidings, but these are the facts that we have to deal with and I think that you need to know what is happening with the funding of your pension. It is important that we have an unlimited time horizon and that in a market beaten down this badly that this can become the opportunity to follow the first half of the well-known investment advice to “Buy Low.” And again, no matter what else, your pension check will be deposited the first of the month.

Bob Lyons, Elected Annuitant, TRS Board