Executive Director’s Message

“In Unity, There Is Strength.”

This was the motto of Illinois State Police Academy Cadet Class 113, who graduated from the State Police Academy earlier this year and began service as Illinois State Troopers. Class 113 chose Brian McMillen, 24, a Pana native and member of the Illinois Air National Guard who had served three overseas tours of duty, as their president.

His promising career was tragically cut short on October 28 when, while responding to a call for assistance from fellow officers at a tavern fight, he was killed in an automobile accident involving drivers under the influence of drugs and alcohol. His survivors include his wife, parents, and 10 brothers and sisters.

When I attended the wake and later read a news account of the funeral mass held for Trooper McMillen, I was at first amazed, but ultimately heartened, by the support shown by police officers from all across America for this young trooper and his family. Over 200 police officers attended the wake service as a group, each wearing a black mourning band over his or her police shield or star. State police officers from California brought a flag which had flown over the California State Capitol along with the personal condolences of Gov. Schwarzenegger, while two Texas State Troopers drove 18 hours non-stop to Springfield in order to attend the services.

Director’s message continued on page 2

TRS Investments Earn an “A”

The TRS investment portfolio entered record territory during fiscal year 2007 by earning an annualized gross return of 19.6 percent, placing among the highest returns in the pension system’s 68-year history. The strong performance produced a $3.8 billion investment gain while the market value of TRS assets rose to $41.9 billion as of June 30, 2007 and reached a record high of $42.3 billion at the end of September.

The superior returns also applied to the System’s long-term investment performance. In fact, TRS earned annualized returns of 14.3 percent for the three years ended June 30, 2007, 12.9 percent for the five-year period, and 9.5 percent over the 10-year period.

TRS minimizes its overall risk and is able to successfully weather market volatility by investing in a diverse array of asset classes and strategies. The TRS Trust Fund includes investments in private equity, U.S. and international stocks, bonds, real estate, treasury inflation protected securities, and other investment vehicles designed to reduce volatility and enhance returns.

In 2007, TRS was ranked as the 33rd largest pension fund in the U.S. by Pensions & Investments Magazine.
In early December, Pana High School, where Trooper McMillen graduated and played basketball, retired his Number 21 jersey at a special ceremony attended by many of his family, friends, teachers, and fellow Illinois State Police officers. My compliments and thanks go out to the faculty and staff at Pana for creating this thoughtful and moving event.

I've often thought, having worked alongside quite a few of both, that schoolteachers and police officers have a lot in common. They tend to be underappreciated by many segments of their community, they are not generally well-paid for the work they perform, they often have problems getting the attention of people with whom they are directly interacting, and most importantly, they have a special and serious responsibility which can have life-altering consequences for both the officer/teacher and the victim or offender/student.

All of us can remember a teacher that had a profound impact upon our life. (For me, it was the late Rick Romero, Edison Jr. High, Champaign, who taught me how to teach serious lessons with a sense of humor and never take myself too seriously.) However, I would suspect that a majority of us who do not have friends or relatives in law enforcement have an enduring memory of “the police” which consists of “sign here and press hard; there are 7 copies.” I think that's unfortunate.

In the weeks and months ahead, I expect a number of significant challenges facing TRS and our peer pension funds in Illinois. The Illinois state budget picture for fiscal year 2009 looks even more bleak than this December weather, and securing full funding for state pensions could be difficult, given the many competing priorities. The defined contribution option is sure to raise its ugly head again in these troubled times; more education will be required to ensure decision makers understand these plans are no solution to past underfunding. TRS and its members will also have to endure the glare of media attention caused by the upcoming trial of political insider “Tony” Rezko in February.

In these turbulent times, a united and consistent message from the members of TRS and our stakeholder groups will be crucial to our success in 2009. Simply stated, “In unity, there is strength,” be it among police officers or teachers. My best to you for a peaceful 2008,
Constitutional Convention
(Continued from page 2)

Pension Protections
Currently, two provisions in the Illinois Constitution protect pension benefits: the Contracts Clause, Article I; and the Pension Rights Clause, Article XIII. Additionally, the U.S. Constitution protects pension benefits. If the pension protections in the state constitution were removed as the result of a constitutional revision, TRS believes the U.S. Constitution would likely still protect pension benefits for retired and active TRS members.

TRS is concerned about a Constitutional Convention because of potential changes to the pension clauses that help protect TRS member benefits and ensure retirement security for Illinois teachers. Many important topics to TRS members that might be considered, such as school funding and revenue issues, can already be altered without any changes to the current constitution, making a convention unnecessary. TRS will continue to support the current constitution’s language regarding pension protections.

Early 2008 Important Annuitant Reminders

Expect arrival of 1099-R
If you received a TRS benefit in 2007, the Office of the Comptroller will mail an IRS Form 1099-R to you by January 31, 2008. This form will report your income received from TRS during 2007.

The amount shown in Box 5 on the 1099-R form represents the non-taxable portion of TRS retirement benefits paid to you for the year and is the difference between Boxes 1 and 2a. Annuitants should always report the amount in Box 2a as the taxable amount of their pension income on the federal tax return.

If you do not receive a 1099-R form or you need a duplicate copy sent to you, please call us at (800) 877-7896 or e-mail us at members@trs.illinois.gov.

Increase will be reflected on February 1 check
The checks you receive in January and February will be for different amounts because the January 2008 benefit payment that you will receive in February reflects your annual 3 percent annuity increase. The increase is effective on January 1 following either your first retirement anniversary or your 61st birthday, whichever is later. With some exceptions, recipients of monthly survivor benefits will also see a 3 percent increase.

Federal withholding tables changed January 1
Revised federal withholding tables went into effect on January 1, 2008. As a result, the federal taxes withheld from your January 1 annuity payment may increase or decrease based on your filing status.

If you would like to change the number of exemptions you are claiming, you must complete a new Form W4-P. You can obtain a new form by calling us at (800) 877-7896 and pressing “2” for our 24-hour Forms Order Line, by visiting our forms page at trs.illinois.gov, or by calling the nearest Internal Revenue Service office.
TRS Receives GFOA Award

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Teachers’ Retirement System of the State of Illinois (TRS) for its Popular Annual Financial Report for the fiscal year ended June 30, 2006. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular financial reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. TRS has received a Popular Award for the last seven consecutive years. We believe the June 30, 2007 report, which is enclosed with this newsletter, also conforms to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

TRS Benefits Report Mailed to Members

Your TRS Benefits Report was mailed in early December with nest egg graphics to depict the financial security that TRS provides for members and their loved ones.

The report summarizes the following benefits: refundable contributions, beneficiary refund, beneficiaries, estimated benefits, sick leave service, 2.2 upgrade information, reciprocal service, refunded service that may be reinstated, optional service, and active service.

Our Web site also has your report available in the secure Member Account Access area. Recent payments and changes in outstanding balances that have occurred since the report was mailed will be shown online.

If you have any questions or need another copy of your report, please call us at (800) 877-7896. Annuitants do not receive TRS Benefits Reports.

Upcoming Board Meetings

Springfield meetings are held at the TRS office, 2815 West Washington Street, Springfield, Illinois.

January 25, 2008
Stakeholder Forum
Springfield

February 21-22, 2008
Springfield

April 9-11, 2008
Hyatt Lodge, Oakbrook

May 21-23, 2008
Springfield

June 19-20, 2008 (tentative)
Springfield

Board actions can be found on our Web site, trs.illinois.gov.
Illinois Teacher Learns Lessons in Afghanistan

Sharon Minarik boarded a United Nations humanitarian airplane late last March and flew into Kabul, the capital city of Afghanistan. Her assignment: teach music to Afghan students, a mission once forbidden under the recently-toppled Taliban regime, which banned female teachers and girls from attending school. The Libertyville teacher returned a week later with a whole new outlook on education, health care, and what the U.S. is doing to facilitate progress in that country.

Minarik, who teaches music at Copeland and Rockland Elementary Schools, was invited to Afghanistan by Dr. William Newbrander, a longtime family friend who is helping the Afghan government set up a new public health care system. Though there is civil unrest outside of Kabul, the city itself is under the control of the new, democratic government. Minarik stayed with Newbrander and his family and she says she never felt afraid.

She taught one 6th grade music class at the International School of Kabul, which Minarik says was built and staffed by Americans who teach in English to children of mostly affluent professionals. “I played games, piano... and we listened to some of their most famous selections. They were the most regular 6th graders, fun, polite and enjoying their friends,” Minarik said. Minarik also taught music at the Kabul Learning Center, a school that doesn’t usually offer a music program but which serves mostly English-speaking students.

She then visited a school in the poorest section of Kabul and learned about some children as young as four years old who are not allowed to go to school but instead are forced to make carpets to help support their families. The school is run by a couple from France, who are also teaching some of the older boys how to bake and sell the finished products to bakeries and to the French Embassy. “This was the best part of our trip: seeing the three or four dedicated Afghan women teachers, the eager students, and the dedication of the French couple,” Minarik said.

Minarik also toured a health clinic about 20 miles outside of Kabul, where modern medicine is now being provided, largely through the efforts of the U.S. government and American health care professionals. She saw women still wearing traditional blue burkas, beaming as they held their new babies and joyful because they and their infants were alive.

Dr. Newbrander reports that infant and child mortality rates have dropped substantially, over 20 percent in each category, since the vaccinations and T.B. testing have been provided.

“Oh my goodness, did that change my perspective! We are not hearing about half of the good things that are going on through (the) American services (being provided) in that part of the world,” Minarik said. She says while the schools are still struggling to accommodate all the students at one time, female teachers are being trained and girls are now able to attend classes. But she believes more needs to be done to improve the quality of and access to education in Afghanistan.
Retired teachers, mid-career teachers, retired teachers, and administrators from across the state met with TRS staff this summer to evaluate TRS publications for clarity and effectiveness.

As a result of Focus Group input, we have made changes to improve our communications. At the meetings, we discussed the following three questions shown in green.

**What did you want to know about TRS as a new member?**

We developed an electronic newsletter that contained information the Focus Group said new members needed and wanted to know about TRS. A two-page newsletter called Futures was created in full color with vivid graphics to catch the reader’s attention. The brief articles included: caring about benefits now, member contributions, and benefit explanations. The group reviewed it before it was released to the new teachers.

For the first time ever, TRS e-mailed all new teachers a link to the newsletter on October 29, instead of mailing a printed publication. A comment area on the Web page allowed the new members to provide feedback about the publication. At press time, 94 percent said the information was beneficial to them and 97 percent said that electronic format was convenient and appealing.

**What kind of information do you want from TRS?**

The group wants reminders about benefits and options (note: see early retirement story on opposite page). They believe that contacting members when they reach benchmarks would be beneficial.

A few new teacher responses about the Futures newsletter

“It really helped to answer my questions about TRS. I appreciate the easy-to-use format and the straight to the point answers. THANKS!”

“I like how it was short and sweet. It was easy to read and did not take time from our busy lives as new educators!”

“This newsletter contained lots of information that I didn’t know was included in teacher’s retirement. Thank you!”

**Do you have an interest in a plastic TRS member card?**

This idea was not well received, but other suggestions were given. Some would prefer a refrigerator magnet with TRS contact information. Others said that they would prefer posters/flyers posted in teachers’ lounges with TRS contact information.

**New Member Packet**

We also distributed a New Member Packet to the group. The feedback resulted in simplifying the packet to only a welcome letter and brochure. Formerly, it contained a number of other publications, including the Member Guide. Overall, the group felt the original packet was overwhelming for a new teacher.

At press time, TRS was still receiving comments from the group about three TRS brochures. The group’s insights have impacted all TRS members. We appreciate the time and effort they have contributed and will continue to make for this project.
Member Information on the Early Retirement Option

Eligibility Requirements, Cost, and Expiration specifics

The Early Retirement Option (ERO) is a helpful way of avoiding the substantial discount in your pension benefits if you retire prior to age 60 with less than 35 years of creditable service.

If you are a TRS member between the ages of 55 and 60 and have at least 20 but less than 35 years of service, you may use the ERO to avoid a discounted annuity. If you do not use the ERO and you retire with less than 35 years of service, your annuity is reduced 6 percent for each year that you are under age 60.

ERO eligibility

All of the following conditions must be met:

• You must apply with TRS and retire within six months of your last day of contributing service.

• If you are under age 55 when you cease teaching, you may use the Early Retirement Option if you turn age 55 and if your retirement begins within six months of your last day of service.

• You and your last employer must each make a one-time, nonrefundable ERO contribution to TRS. The contribution is a percentage of the highest salary rate used to calculate your average salary.

• The ERO contribution is in addition to contributions required to upgrade pre-July 1998 service credit or to pay for any optional service.

• Substitute teachers must teach 85 or more days in the last school term with one employer to be eligible for ERO. The final day of teaching with that employer must be within six months of the date of the application for retirement.

ERO costs

You and your last employer must each make a one-time, nonrefundable ERO contribution to TRS. The contribution is a percentage of the highest salary rate used to calculate your average salary. Your employer’s percentage is calculated by multiplying 23.5 percent for each year or partial year that your age is less than 60. Your percentage is calculated by multiplying 11.5 percent times the lesser of:

• The number of years or partial years of service under 35 years; or

• The number of years or partial years your age is under 60.

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Member contribution rate

The law requires a 0.4 percent salary contribution towards the cost of ERO. All member earnings are subject to the contribution requirement. If a member does not receive a retirement annuity calculated using ERO, the contributions will be refunded without interest:

• within 120 days of when a member’s non-ERO annuity commences;

• if the member takes a refund that terminates membership in TRS;

• if the member dies without having begun to receive a retirement annuity; or

• if the ERO program is terminated in the future as a result of contribution rate reviews set to begin in 2012.

ERO expiration

The current ERO does not have an expiration date. However, the law requires the TRS actuaries to consider the sufficiency of the employer and member contributions for ERO. There is a specific process that will begin in 2012 for these reviews. If the proposed rates are not acceptable to the General Assembly, the ERO provision will be terminated.

This information is taken from the September 2007 version of the Member Guide. The guide is available on our Web site or you may request a copy by calling the Forms Order Line at (800) 877-7897, and pressing “2” when prompted, then selecting #201 for the guide.
More Color for Less

The Focus Group, composed of TRS members, often first commented on the appearance of publications, instead of the words (see story page 6). They noticed colors and loved how the full-color Futures newsletter for new teachers caught their attention through color, but kept it with the message (see below).

Knowing that full color appeals to our members and gains attention for our newsletter stories, we asked vendors to bid on this newsletter as a full-color print job.

The result is that this full-color edition costs less than last year’s edition and we are receiving 6,000 more copies.