Chicago Teachers’ Pension Fund

122nd
Popular Annual
Financial Report

For the year ended June 30, 2017
The SUCCESS of CTPF is due to its MEMBERS, and we LOOK FORWARD to working with all of you as we BUILD on and LEARN from our past ACHIEVEMENTS to make 2018 another SUCCESSFUL YEAR.

Each year, CTPF documents its financial position in the form of a Comprehensive Annual Financial Report (CAFR), which includes audited financial statements and a complete financial picture of CTPF. This Popular Annual Financial Report (PAFR) summarizes the major activities for the fiscal year ended June 30, 2017, our 122nd continuous year of operation, as reported in the CAFR, and provides insights into the history of CTPF’s pension funding, our commitment to diversity, and our member demographics.

We saw great progress this year and look forward to continued growth in 2018.

Charles A. Burbridge
Executive Director

2017 CAFR HIGHLIGHTS


FINANCIAL

In 2017, CTPF paid members $1.4 billion in service retirement, disability, refunds, and survivor benefits, and an additional $48.5 million toward the subsidy of retiree health insurance premiums. CTPF received total contributions of $934.4 million from the newly reinstated tax levy, the employer, and other sources, and realized $1.2 billion in net investment income.

Years of underfunding have taken their toll on CTPF, and in spite of strong financial performance, the funded ratio for pension benefits, based on the actuarial value of assets, decreased to 50.10% as of June 30, 2017, from 52.51% at the end of the previous year. See the Financial section of the CAFR (page 14), for more detailed information on the:

• Independent Auditor’s Report
• Statement of Fiduciary Net Position
• Schedule of Changes in Employer’s Net Pension Liability
• Schedule of Employer’s Contribution
• Actuarial Methods and Assumptions

INVESTMENTS

CTPF enjoyed strong investment returns in 2017, with a 13.6% (benchmark of 13.1%) return compared to fiscal year 2016’s return of 0.5% and fiscal year 2015’s return of 3.5% and exceeding the Fund’s actuarial rate of return of 7.25%. See the Investments section of the CAFR (page 61) for the following detailed reports and summaries:

• Master Custodian Reports
• Investment Consultant Reports
• Total Annual Fund Rate of Return
• Investment Portfolio Summary
• Broker Commission Report

ACTUARIAL

Every year, an actuarial valuation is performed in order to determine the amount of required contributions from the Board of Education and the State of Illinois in accordance with the Illinois Compiled Statutes (Public Act 89-15). This year, CTPF employed a new actuary—Gabriel, Roeder, Smith & Company—which produced the 2017 actuarial valuation. The actuary has determined that total required contributions for 2018 will be $551.4 million from the Board of Education and $233 million from the State of Illinois. The full Actuarial Report can be read in the Actuarial section of the CAFR (page 87), as well as the following detailed information:

• Summary of the Actuarial Valuation
• Employer Contribution Requirement for Fiscal Year 2019
• Actuarial Determinations and Projections
• Fund Assets
• Participant Data

STATISTICAL

The Statistical Section includes 10-year historical financial information and statistical information about participating members, annuitants, and the benefits paid to them. See the Statistical section of the CAFR (page 147) for the following additional detailed information:

• Statements of Changes in Fiduciary Net Position
• Distribution of Current Annuitants by Benefit Type
• Schedule of Average Benefit Payments
• Number of Active Members
FINANCIAL REVIEW

CTPF’s two basic financial statements are the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The Statement of Fiduciary Net Position is a measure of CTPF’s assets and liabilities at the close of the fiscal year. Total assets less liabilities equals net position restricted for benefits. Fiduciary net position increased to $10.8 billion in 2017, from $10.1 billion at June 30, 2016.

The Statement of Changes in Fiduciary Net Position shows revenues (additions) and expenses (deductions) for the fiscal year. The net increase (or decrease) is the change in net assets available for benefits since the end of the previous fiscal year. Additions to fiduciary net position, which are needed to finance statutory benefit obligations, come from public sources such as state and federal appropriations, employer and employee contributions, net earnings on investments, and miscellaneous sources. For the year ended June 30, 2017, total additions totaled $2.2 billion, compared to $865.4 million for the year ended June 30, 2016.

CONDENSED STATEMENT OF FIDUCIARY NET POSITION*
As of June 30, 2017, with comparative totals for 2016

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 464,086,431</td>
<td>$ 15,802,244</td>
</tr>
<tr>
<td>Receivables</td>
<td>500,227,426</td>
<td>170,132,698</td>
</tr>
<tr>
<td>Investments, at fair value</td>
<td>10,070,456,174</td>
<td>10,096,156,378</td>
</tr>
<tr>
<td>Securities lending collateral</td>
<td>941,037,933</td>
<td>779,223,423</td>
</tr>
<tr>
<td>Capital assets, net of accumulated depreciation</td>
<td>1,176,457</td>
<td>1,057,706</td>
</tr>
<tr>
<td>Prepaid expense</td>
<td>118,703</td>
<td>96,590</td>
</tr>
<tr>
<td>Total assets</td>
<td>11,977,103,124</td>
<td>11,062,469,039</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,183,929,197</td>
<td>949,171,729</td>
</tr>
<tr>
<td>Net position restricted for benefits</td>
<td>$ 10,793,173,927</td>
<td>$ 10,113,297,310</td>
</tr>
</tbody>
</table>

CONDENSED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION*
For the year ended June 30, 2017, with comparative totals for 2016

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$ 934,378,787</td>
<td>$ 891,952,430</td>
</tr>
<tr>
<td>Investment income</td>
<td>1,233,003,939</td>
<td>(27,987,163)</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>214,119</td>
<td>1,463,050</td>
</tr>
<tr>
<td>Total additions</td>
<td>2,167,596,845</td>
<td>865,428,317</td>
</tr>
<tr>
<td>Pension benefits</td>
<td>1,389,448,172</td>
<td>1,346,533,282</td>
</tr>
<tr>
<td>Refunds</td>
<td>31,428,981</td>
<td>32,134,384</td>
</tr>
<tr>
<td>2.2 Legislative refunds</td>
<td>780,389</td>
<td>1,441,215</td>
</tr>
<tr>
<td>Refund of insurance premiums</td>
<td>48,451,055</td>
<td>66,104,598</td>
</tr>
<tr>
<td>Death benefits</td>
<td>3,280,642</td>
<td>4,717,517</td>
</tr>
<tr>
<td>Administrative and miscellaneous expenses</td>
<td>14,330,989</td>
<td>12,867,490</td>
</tr>
<tr>
<td>Total deductions</td>
<td>1,487,720,228</td>
<td>1,463,798,486</td>
</tr>
<tr>
<td>Net increase (decrease)</td>
<td>679,876,617</td>
<td>(598,370,169)</td>
</tr>
<tr>
<td>Net assets held in trust for benefits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>10,113,297,310</td>
<td>10,711,667,479</td>
</tr>
<tr>
<td>End of year</td>
<td>$ 10,793,173,927</td>
<td>$ 10,113,297,310</td>
</tr>
</tbody>
</table>

INVESTMENT REVIEW

CTPF’s rate of return for the year ended June 30, 2017, was 13.6%, up from 0.5% for the year ended June 30, 2016, as performance of the portfolio was reflective of the equity market’s rally. CTPF maintained a diversified portfolio consisting of equities (domestic and international), fixed income, real assets, and alternative investments. CTPF continued to attempt to maximize investment performance while maintaining acceptable levels of risk.

ASSET ALLOCATION SUMMARY AS OF JUNE 30, 2017 | IN MILLIONS OF DOLLARS

*Note: Percentage indicates actual category weight as a percentage of the entire portfolio.

CTPF ANNUALIZED RATE OF RETURN 1983-2017 | 35-YEAR COMPOUND ANNUAL GROWTH RATE 8.70%
COMMITMENT TO DIVERSITY

Since the early 1990s, CTPF has been at the forefront of pension and retirement systems throughout the United States, ensuring that minorities, women, and persons with disabilities (MWDBE) have access to the many opportunities to conduct business with CTPF. The CTPF Board of Trustees supports policies which encourage diversity and equality among our employees, vendors, and investment professionals.

As of June 30, 2017, CTPF invested $4.0B or 38% of total Fund assets with MWDBE firms.

TOTAL MWDBE INVESTMENT % GROWTH SINCE 1993

* Percentages may not add up due to rounding.

TOTAL FUND BREAKDOWN BY MWDBE STATUS*

$1.92B was managed by Women-owned firms
$1.33B was managed by African American-owned firms
$438.6M was managed by Latino-owned firms
$182.7M was managed by Asian American-owned firms
$17.2M was managed by Persons with a Disability-owned firms
$20.3M was managed by Multiple Minority-owned firms

MEMBER DEMOGRAPHICS

CTPF serves 63,356 members. During fiscal year 2017, CTPF paid more than $100 million per month in pension and health insurance benefits, totaling $1.4 billion annually to 28,439 beneficiaries. CTPF has 28,855 active contributing members, and 6,062 vested terminated members who are eligible for but not yet receiving benefits. CTPF has an additional 22,570 inactive, unvested members only eligible for a return of contributions.

NUMBER OF RETIREES & BENEFICIARIES & AVERAGE PENSION

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Retirees and Beneficiaries</th>
<th>Average Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>27,440</td>
<td>$44,638</td>
</tr>
<tr>
<td>2014</td>
<td>27,722</td>
<td>$45,792</td>
</tr>
<tr>
<td>2015</td>
<td>28,114</td>
<td>$46,947</td>
</tr>
<tr>
<td>2016</td>
<td>28,298</td>
<td>$48,126</td>
</tr>
<tr>
<td>2017</td>
<td>28,439</td>
<td>$49,368</td>
</tr>
</tbody>
</table>

CTPF paid $1.4 billion in pension benefits to retirees and beneficiaries in 2017. Pension benefit payments have increased 65.3% in the past 10 years, up from $924 million in 2008.

* Benefit payments include pension benefits, refunds, and death benefits.

SUMMARY OF ACTIVE MEMBERSHIP

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2017</th>
<th>June 30, 2016</th>
<th>Change From Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Active Members</td>
<td>28,855</td>
<td>29,543</td>
<td>(2.3%)</td>
</tr>
<tr>
<td>Average Age</td>
<td>41.8</td>
<td>41.5</td>
<td>0.0%</td>
</tr>
<tr>
<td>Average Service</td>
<td>10.6</td>
<td>10.4</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Salary Supplied by Fund</td>
<td>$2,030,175,116</td>
<td>$2,071,040,979</td>
<td>(2.0%)</td>
</tr>
<tr>
<td>Total Active Vested Participants</td>
<td>17,800</td>
<td>18,557</td>
<td>(4.1%)</td>
</tr>
<tr>
<td>Male Members</td>
<td>6,961</td>
<td>7,077</td>
<td>(1.6%)</td>
</tr>
<tr>
<td>Female Members</td>
<td>21,894</td>
<td>22,466</td>
<td>(2.5%)</td>
</tr>
<tr>
<td>Tier 1 Members</td>
<td>20,271</td>
<td>21,620</td>
<td>(6.2%)</td>
</tr>
<tr>
<td>Tier 2 Members</td>
<td>8,584</td>
<td>7,923</td>
<td>8.3%</td>
</tr>
</tbody>
</table>
Retired CTPF members make an immeasurable impact on their communities. About 84% of retirees live in the State of Illinois, and about 50% of those retirees live in the City of Chicago, using their pension payments and dedication to the community to continue shaping Illinois and Chicago long after ending their service with the Chicago Public Schools.

### RETIREES BY AGE*

<table>
<thead>
<tr>
<th>AGE</th>
<th>RETIREES</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 55</td>
<td>33</td>
<td>0.1%</td>
</tr>
<tr>
<td>55-59</td>
<td>525</td>
<td>2.1%</td>
</tr>
<tr>
<td>60-64</td>
<td>2,741</td>
<td>10.8%</td>
</tr>
<tr>
<td>65-69</td>
<td>6,468</td>
<td>25.6%</td>
</tr>
<tr>
<td>70-74</td>
<td>6,020</td>
<td>23.8%</td>
</tr>
<tr>
<td>75-79</td>
<td>4,042</td>
<td>16.0%</td>
</tr>
<tr>
<td>80-84</td>
<td>2,829</td>
<td>11.2%</td>
</tr>
<tr>
<td>85-89</td>
<td>1,681</td>
<td>6.6%</td>
</tr>
<tr>
<td>90 &amp; over</td>
<td>965</td>
<td>3.8%</td>
</tr>
<tr>
<td>Total</td>
<td>25,304</td>
<td>100%</td>
</tr>
</tbody>
</table>

*DISABILITY

Approximately 76% of CTPF retirees are between the ages of 60 and 79. CTPF serves 37 retirees who have reached age 100. CTPF’s most senior member retired with more than 40 years of service in 1973 and reached age 109 in 2017.

* This chart does not include survivors’ pensions.

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**REDEFINING RETIREMENT: ART HELPS HEAL**

CTPF’s retired members continue to make an impact on their communities, enriching and building upon the work they began during their careers.

After teaching art at Walt Disney Magnet School for more than 30 years, Anne Hollenbeck quickly sought out a new artistic outlet when she retired in 2010, and began volunteering at Lurie Children’s Hospital. Inspired by the art supplies donations received for the younger patients, Anne teamed up with fellow retired teacher Shirley Forpe to develop an art program for hospitalized teens who are long-term in-patients, and Art Helps Heal was born.

While waiting to receive their 501(3)c status, Anne surveyed several hospitalized teens to learn what they most needed and wanted. Many expressed interest in drawing, painting, design, and even fashion, but due to their lengthy hospital stays were cut off from taking these electives at their schools. With this information, Anne determined the mission of Art Helps Heal: to provide backpacks filled with art supplies and age-appropriate activity books to teenagers during their stay at the hospital.

In April 2016, Art Helps Heal was officially recognized by the State of Illinois and became a not-for-profit corporation. They were also awarded a grant from the Chicago Teachers Union Foundation that allowed them to not just launch their pilot program at Lurie Children’s, but also to expand their efforts to patients at Comer Children’s, La Rabida Children’s, Shriners, and Rush Hospitals.

In the short two years since its creation, Art Helps Heal has seen tremendous growth and support, and they are continuously working to expand their efforts, finding new and creative ways to artistically inspire hospitalized teens all around the Chicago area.
Established in 1895, the Chicago Teachers’ Pension Fund has provided secure and stable retirements for teachers, administrators, and public school personnel, and has served as an economic engine for the City of Chicago and State of Illinois for more than 122 years.

Legislation passed during the past two years corrects long-standing funding shortfalls. Illinois law specifies that funding for Chicago teachers’ pensions shall be a combination of employer contributions, state appropriations, employee contributions, and earnings on investments (40 ILCS 5/17-127).

Prior to 1995, CTPF was funded through the City of Chicago tax levy. A funding crisis at the Chicago Public Schools in the mid-1990s fundamentally changed the structure of pension funding.

CPS administrators in need of operating revenue supported legislation, enacted in 1995, which allowed the school district to use money earmarked for pensions (the tax levy) for operating costs.

As a component of the 1995 agreement, the State agreed to formalize a long-standing practice of making an annual contribution to CTPF: “The General Assembly finds that for many years the State has contributed to the Fund an annual amount that is between 20% and 30% of the amount of the annual State contribution to the Article 16 Teachers’ Retirement System of the State of Illinois (TRS), and the General Assembly declares that it is its goal and intention to continue this level of contribution to the Fund in the future.” (40 ILCS 5/17-127).

The State of Illinois did not appropriate funds consistent with its goal and intent. Instead, between 1995 and 2016, State funding for CTPF dropped to less than 1% of the funding provided to downstate/suburban teacher pensions (TRS).

During this same period, CTPF lost an additional $3.2 billion in revenue from its employer, which used two pension funding “holidays” to help stabilize its own budget. These full or partial “holidays” from 1996 through 2005 and 2011 to 2013 deprived CTPF of critical revenue and the opportunity to benefit from additional investment returns. Lacking stable sources of revenue, CTPF liquidated assets and relied on investment earnings to pay pension obligations.

Decades of concern from CTPF members and a funded ratio dipping below 50% demonstrated the critical need for change. Improvements began when legislation signed in 2016 (Public Act 99-521) reestablished the CTPF tax levy. The levy, initially capped at 0.383% of Chicago’s property value, sent revenue directly to CTPF. Collected for the first time in Fiscal Year 2017, the levy generated approximately $250 million toward CPS’s $733 million contribution for Fiscal Year 2017.

Additional legislation signed on August 31, 2017, (Public Act 100-465) reformed the Illinois education funding formula, established the State’s obligation to fund the normal cost of Chicago’s teacher pensions, and provided funding to offset the cost of retiree health insurance. The legislation also increased the ceiling for the tax levy to 0.567%.

Going forward, CTPF will have a solid path of diverse, stable, and equitable funding, ensuring that Chicago’s educators can retire with dignity and security.
CPS makes a $676 million payment on June 30, 2016.
P.A. 99-521 is adopted by the Illinois legislature, reestablishing a pension tax levy at a capped rate of 0.383%. The State of Illinois contribution to CTPF drops to $12.1 million. TRS receives $3.7 billion.

1996-2005
Pension “holiday” takes $2 billion in funds earmarked for pensions and redirects them to the Chicago Public Schools (CPS) operating budget.

CPS promises to resume payment to the Chicago Teachers’ Pension Fund (CTPF) when the funded ratio falls below 90%. The State of Illinois agrees to contribute 20-30% of the contribution made to downstate/suburban teachers pensions (TRS).

2011-2013
CPS makes required payments to CTPF at the reduced amount (about $200 million per year instead of the necessary $600 million).

2013
Facing a 2014 payment of more than $600 million, CPS requests additional “relief” with SB 1920 House Amendment #2. The measure was defeated.

2014
CPS makes a $601 million pension payment to CTPF.

2015
CPS makes a $634 million payment for 2015, and requests a payment deferral for 2016 and 2017. Discussions end without an agreement.

2016
CPS makes a $676 million payment on June 30, 2016.
P.A. 99-521 is adopted by the Illinois legislature, reestablishing a pension tax levy at a capped rate of 0.383%. The State of Illinois contribution to CTPF drops to $12.1 million. TRS receives $3.7 billion.

2017
P.A. 99-521 becomes effective June 1, 2017. CPS makes direct payments totaling $483 million toward a total payment of $733 million for the 2017 fiscal year and the tax levy provides $250 million in July and August 2017.
P.A. 100-465 is enacted August 31, 2017. The law reformed the Illinois education funding formula, established the State’s obligation to fund the normal cost of Chicago’s teacher pensions, and provided funding to offset the cost of retiree health insurance. The legislation also raised the tax levy ceiling to 0.567%.
As of 2017 Fiscal Year, July 1, 2016 - June 30, 2017

CTPF PAID OUT $1.4 BILLION IN PENSION BENEFITS IN 2017

28,855 ACTIVE MEMBERS

24,837 RETIRED MEMBERS

9% IS CONTRIBUTED BY CTPF MEMBERS FOR THEIR RETIREMENT PENSIONS

6.2% IS CONTRIBUTED BY MOST AMERICANS FOR SOCIAL SECURITY RETIREMENT

MISSION
To provide, protect, and enhance the present and future economic well-being of members, pensioners and beneficiaries through efficient and effective management of benefit programs, investment practices and customer service, and to commit to earning and keeping the respect and trust of the participants through quality service and by protecting retirement benefits, in compliance with applicable laws and standards.
TRUST • INTEGRITY • STABILITY

CTPF is a member-focused organization, and every year we strive to provide exceptional customer service. Here is a snapshot of highlights from Fiscal Year 2017*

71,637
MEMBER CALLS AND EMAIL INQUIRIES RECEIVED & ANSWERED

4,289
1:1 OFFICE CONSULTATIONS WITH MEMBERS

10,269
MEMBERS ASSISTED DURING THE HEALTH INSURANCE OPEN ENROLLMENT PERIOD

728
MEMBERS SERVED AT RETIREMENT SEMINARS

28,855 ACTIVE MEMBERS CONTRIBUTE TO THE FUND
Active members include teachers, administrators, other certified individuals, and CTPF staff.

- 76% of CTPF members are women.
- The averages for active members: age 41.8, 10.6 years of service, and annual salary of $70,358 for 2017.
- Active members contribute 9% of their salary to the pension fund every pay period during employment.

ADDITIONAL MEMBERS
- 6,062 vested terminated members
- 22,570 unvested terminated members

28,439 BENEFICIARIES RECEIVE CTPF PENSIONS
24,837 Retirees
3,135 Survivors
467 Disability

- CTPF members do not make contributions to Social Security during employment.
- CTPF paid out $1.4 billion in pension benefits in 2017.
- The average annual benefit in 2017 was $49,368.
- During the past 10 years, the number of retirees has increased about 20%.
- The average age for retirees was 73.7 in 2017. The most senior member reached age 109 in 2017.

HEALTH INSURANCE
CTPF offers group health insurance coverage for members who must pay for health insurance when they retire.

- CTPF offers a subsidy to help pay for the cost of retiree health insurance. The subsidy was 50% in 2017.

FUNDED RATIO
CTPF’s actuarial funded ratio as of June 30, 2017, was 50.1%. The ratio was nearly 100% in 2002.

*A 2017 FISCAL YEAR, JULY 1, 2016-JUNE 30, 2017