



The mission of the Employees Retirement System of Texas  
is to enhance the lives of our customers through the  
efficient delivery of high quality benefits at the lowest  
practical cost.



## Comprehensive Annual Financial Report

Ann S. Fuelberg  
Executive Director

Prepared by Finance

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Employees Retirement System of Texas  
A Component Unit of the State of Texas

Fiscal Year Ended August 31, 2007

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# Introductory Section

Highlights of Retirement Programs

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# Highlights of Retirement Programs

As of August 31, 2007

	ERS (A)	LECOS (A)	JRS I	JRS II
Active Members	132,497	36,413	24	515
Terminated Employees Entitled to Benefits	67,803	27	15	115
<b>Total Retirement Accounts</b>	<b>200,300</b>	<b>36,440</b>	<b>39</b>	<b>630</b>
<b>Retirees and Beneficiaries</b>	<b>70,456</b>	<b>5,805</b>	<b>488</b>	<b>116</b>
Service Retirements	4,110	553	16	24
Disability Retirements	98			
<b>Total Retirements During the Fiscal Year</b>	<b>4,208</b>	<b>553</b>	<b>16</b>	<b>24</b>
<b>Funded Ratios</b>	<b>95.6%</b>	<b>98.0%</b>		<b>95.9%</b>
<b>Results of Investments - Pension Trust Funds</b>				
	ERS	LECOS	JRS I (B)	JRS II
Interest Dividends & Securities				
Lending Income	771,906,029	25,101,429	-	7,827,486
Net Appreciation				
in Fair Value of Investments	1,862,073,284	61,102,940	-	16,498,454
<b>Time Weighted Rate of Return</b>				
	1-Year	3-Year	5-Year	
Pension Investment Pool Trust Fund	13.88%	11.78%	11.24%	
<b>Other Transactions Summary</b>				
	ERS	LECOS	JRS I (B)	JRS II
Member Contributions	328,038,932		238,592	4,125,209
State Retirement Contributions	329,981,050			10,908,845
Retirement Benefits	1,294,149,334	32,149,736	29,028,984	5,746,698
Member Contributions Withdrawn	79,563,857			58,299
Administrative Expenses	15,991,079	503,793		395,349
Investment Expenses	25,895,182	895,548		204,252

ERS - Employees Retirement Fund

LECOS - Law Enforcement and Custodial Officer Supplemental Retirement Fund

JRS I - Judicial Retirement System Plan One

JRS II - Judicial Retirement System Plan Two

Note A: The members of the LECOS are also members of the ERS.

Note B: Member contributions for the Judicial Retirement System Plan One are deposited as unappropriated receipts in the State's General Revenue Fund, which the System reports in an Agency Fund. Annuity payments and refunds for the Judicial Retirement System Plan One, which are funded on a pay-as-you-go basis are appropriated by the Legislature each biennium. This fund has no invested assets.



December 18, 2007

EMPLOYEES  
RETIREMENT  
SYSTEM OF TEXAS

[Ann S. Fuelberg](#)  
Executive Director

Bill Ceverha  
Chair  
Yolanda Griego  
Vice-Chair

Board of Trustees  
Cydney C. Donnell  
Don Green  
I. Craig Hester  
Owen Whitworth

Dear Governor Perry and Members of the Texas Legislature:

We are pleased to present the audited Comprehensive Annual Financial Report of the Employees Retirement System of Texas (ERS) for a very successful fiscal year 2007.

This year our investment portfolio grew by \$1.7 billion and is now valued at \$24.4 billion. Total rate of return earned for the year was 13.88%, significantly exceeding the 8.0 percent rate of return that the fund needs to earn to meet its actuarial investment assumptions. It is also well above the policy plan benchmark rate of 12.06%. The difference between actual return earned by ERS staff and the benchmark return equates to approximately \$400 million for the trust fund.

Those earnings are more important than ever since 51% of last year's annuity payments were funded from the trust fund's earnings. In Fiscal Year 2007, ERS paid \$1.38 billion in annuity payments to 76,376 annuitants. Contributions to the fund from current employees at 6% and the State of Texas at 6.45% totaled \$673 million.

The 12.45% contribution meets the normal cost of providing benefits, but it is not enough to pay off the unfunded liability the fund incurred when the stock market returns plummeted after 9/11. Those low returns combined with increased retirements and benefit enhancements to create an unfunded liability. The current unfunded liability is \$1,048,218,480. In order to pay off this amount in the legislatively mandated period, contributions from employees and the State would need to be 13.10%. Contributions at this level would make the fund actuarially sound. This contribution rate is known as the ARC (Actuarially Required Contribution). The difference in the normal cost contribution and the ARC for last year was \$34 million. This dollar amount increases each year as the unfunded liability increases.

The funded ratio improved this past year, boosted by high investment returns. It currently stands at 95.6%. This is a 0.4% increase over last year's rate. This means that ERS has almost 96 cents for every dollar that is needed to meet all future obligations. However, those promised benefits can never increase if the funded ratio is below 100% and the funding contribution levels are not enough to pay the normal cost of benefits and pay off the unfunded liability.



ERS is doing its part to leverage the state and employee contributions with a strong investment program and earnings. We have concentrated on our investment program this year, upgrading operational technology and monitoring the fund's performance on a daily basis. We are moving into two additional asset classes – private equity and real estate.

With a fund of our size, adding an asset class is a massive undertaking. To manage a new asset class prudently and efficiently, expert internal staff and outside consultants are required. This past year we made significant progress in private equity and have committed to our first investments with the help of our selected advisor. We expect to select a real estate advisor and add to both our real estate and private equity staffing in 2008.

Our investment success is crucial to the 132,497 active ERS members. A total of 2,859 employees retired during fiscal year 2007, which brings the total number of state retirees and beneficiaries to 70,456.

Another 500,000 plus participants rely on the Group Benefits Program provided by the State and administered by ERS. Proper management of this program is vital to its success and the State's fiscal stability. Cost savings in this program allowed the State to lower the amount of the state's contribution to the GBP for the biennium.

Fiscal management of our programs is only part of our responsibility. We are also a caring and responsive service agency. We celebrate our 60<sup>th</sup> anniversary this year and while our operations have evolved through the years, our mission is the same – we serve the people who serve Texas.

On behalf of the ERS Board of Trustees and the ERS staff, we are grateful to the original Texas citizens who approved a constitutional amendment creating the Employees Retirement System of Texas. We also appreciate your partnership in providing a secure retirement program, competitive insurance, deferred compensation and flexible benefits programs for the state and higher education employees, retirees and their families who depend on us. We are proud that we have been Benefiting Texans for 60 years.

Bill Ceverha, Board Chair

Ann S. Fuelberg, Executive Director



EMPLOYEES  
RETIREMENT  
SYSTEM OF TEXAS

**Ann S. Fuelberg**  
Executive Director

Bill Ceverha  
Chair  
Yolanda Griego  
Vice-Chair

Board of Trustees  
Cydney C. Donnell  
Don Green  
I. Craig Hester  
Owen Whitworth

December 18, 2007

To: The Board of Trustees and Members of the Employees Retirement System of Texas

Ladies and Gentlemen:

I am pleased to submit the Annual Financial Report of the Employees Retirement System of Texas (the System) for the year ended August 31, 2007, in compliance with TEX. GOV'T CODE ANN Sec. 2101.011 and in accordance with the requirements established by the Texas Comptroller of Public Accounts. This report is in compliance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB), including the financial reporting model based on GASB Statement 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Its purpose is to provide information as a basis for making management decisions, to determine compliance with legal provisions, and to determine responsible stewardship over the assets contributed by the members and the state.

The System's Finance Staff prepared this report. It has been audited by the State Auditors Office of Texas. For information regarding the scope of the audit, please see the Independent Auditors' Report in the Financial Section.

The responsibility for the accuracy, completeness, and fair presentation of the information, including all disclosures, rests with the management of the System. We believe that the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets and the reliability of financial records.

Please refer to the Management's Discussion and Analysis in the Financial Section for an overview of the financial activities of the current and prior fiscal years.

#### **SYSTEM'S STRUCTURE AND SERVICES**

For financial reporting purposes, the System is considered a Retirement System of the State of Texas. The System's financial activities will be included in the annual financial report for the State of Texas for the fiscal year ended August 31, 2007.

The Employees Retirement Plan was established in 1947 by the Texas Constitution to provide benefits for officers and employees of the State. The System administers retirement and disability annuities and death and survivor benefits for employees of the State of Texas and their beneficiaries and proportional retirement benefits for members of the Proportionate Retirement Program.

The Law Enforcement and Custodial Officer Supplemental Retirement Plan was established in 1979 to provide service retirement, death and disability benefits. This plan covers law enforcement officers commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, or the Parks and Wildlife Department recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education. It covers certified custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles.

The Judicial Retirement Plan I and Plan II were established to provide benefits for judges. Plan I was established in 1949 as a pay-as-you-go pension plan rather than a funded pension plan. Plan II was established as a new plan of actuarially funded retirement benefits for judges becoming members of the Judicial Retirement System after August 31, 1985. Although the Texas Judicial Retirement Systems are separate legal entities, the Employees Retirement System of Texas and the Texas Judicial Retirement Systems are a single accounting entity because they are governed by the same Board of Trustees (the Board) and directed by the same management.

Accountability for all fiscal and budgetary matters is the responsibility of the Board. Operating administrative expenses, including capital items, are budgeted annually. The Board must approve any subsequent increases in the budget. Budgetary control is maintained by the encumbrance of purchase amounts at the time of release of purchase orders to vendors.

## **FINANCIAL CONDITION**

### *Investment Performance*

The investment portfolio closed the fiscal year with a fair value of \$24.4 billion, and returned 13.88% for the year. The investment portfolio's total return outperformed the actuarially assumed rate of return of 8.0% for the fifth year in a row reflecting the continued rebound in the domestic and international equity markets. Over the longer term, the fund returned 7.33% for the 10 years ended August 31, 2007 slightly better than the policy benchmark of 7.12%.

### *Funding*

A pension system instills confidence and trust when it has assets sufficient to meet the retirement benefit schedules of its members. For the Employees Retirement System Fund, the August 31, 2007 actuarial valuation shows that the ratio of the actuarial value of assets to the actuarial accrued liability was 95.6%, which is in the upper echelon of public pension systems. The System is taking the initiative to enhance investment systems and to work with the Legislature to increase state contributions in an on-going effort to improve the funding status of the various benefit systems under management.

## **MAJOR INITIATIVES**

Fiscal Year 2007 brought the successful completion of the 80th Legislative Session and sufficient funding to prevent benefit changes. With a comprehensive strategic planning effort to guide its efforts, the System moved forward on many cross-divisional projects.

In Fiscal Year 2007, the Investments Division started the first phase of a three-year enhancement plan to enter into new asset classes. An incentive compensation plan was put in place to facilitate hiring and retention. The Investments Division also added more sophisticated tools and diversified the scope of its investments to maximize returns for members. The Investments Division also worked with Finance and Information Systems to implement a new investment accounting system. Analyst positions were added to the fixed income and equity teams, and various portfolios were reorganized and strengthened.

The Customer Benefits Division worked with a professional communications/research firm to conduct a member survey to determine levels of understanding about employee benefits. This information is being used to redesign the System's communications as part of a statewide educational campaign to help state employees and retirees realize the value of their benefits package, understand healthcare costs and how their lifestyles and choices affect those costs, and to prepare state employees for their future.

The Customer Benefits Division also worked with the Information Systems Division to redesign the System's website to streamline the navigation for accessing information on retirement and insurance benefits. Since the redesigned website launched in May, the System has received positive feedback across the board from its members.

The Information Systems Division continues to support these and other automation efficiency projects throughout the agency. A few technology projects of note include rolling out a wireless network to the entire agency, improved data interfaces with our deferred compensation administrator, a new tracking system for return-to-work retirees and their benefit coverages, enhanced monthly HealthSelect claims summary reports to improve audit capabilities, and a Call Center Report Web to improve Call Center management and performance.

Finally, Fiscal Year 2007 saw the expansion of Wellness activities throughout the agency and through its third-party administrator for the Group Benefits Plan, BlueCross BlueShield of Texas (BCBSTX). An online Health Risk Assessment became available for all State employees; the System incorporated wellness information into all of our member communication and worked with BCBSTX to communicate the availability of the BlueCare Connection disease management and wellness tools. The System's employees organized two different health fairs for members: one at ERS, and one at the State capitol.

**AWARDS**

**Certificate of Achievement for Excellence in Financial Reporting**

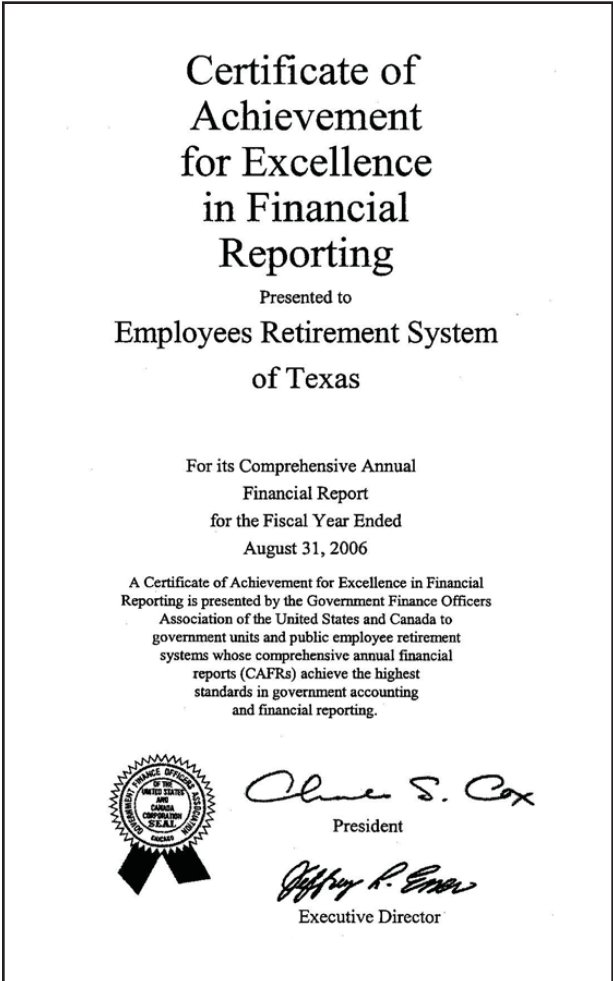
The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the System for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2006. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish as 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 only one year. The System has received a Certificate of Achievement for each of the last 18 years. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to the GFOA for consideration again this year.

**ACKNOWLEDGMENTS**

The preparation of this report on a timely basis was accomplished with the efficient and dedicated service of the Finance staff and other employees of the System. I would like to express my appreciation for management's support in preparing this report and to all the employees of the System who contributed to its preparation.

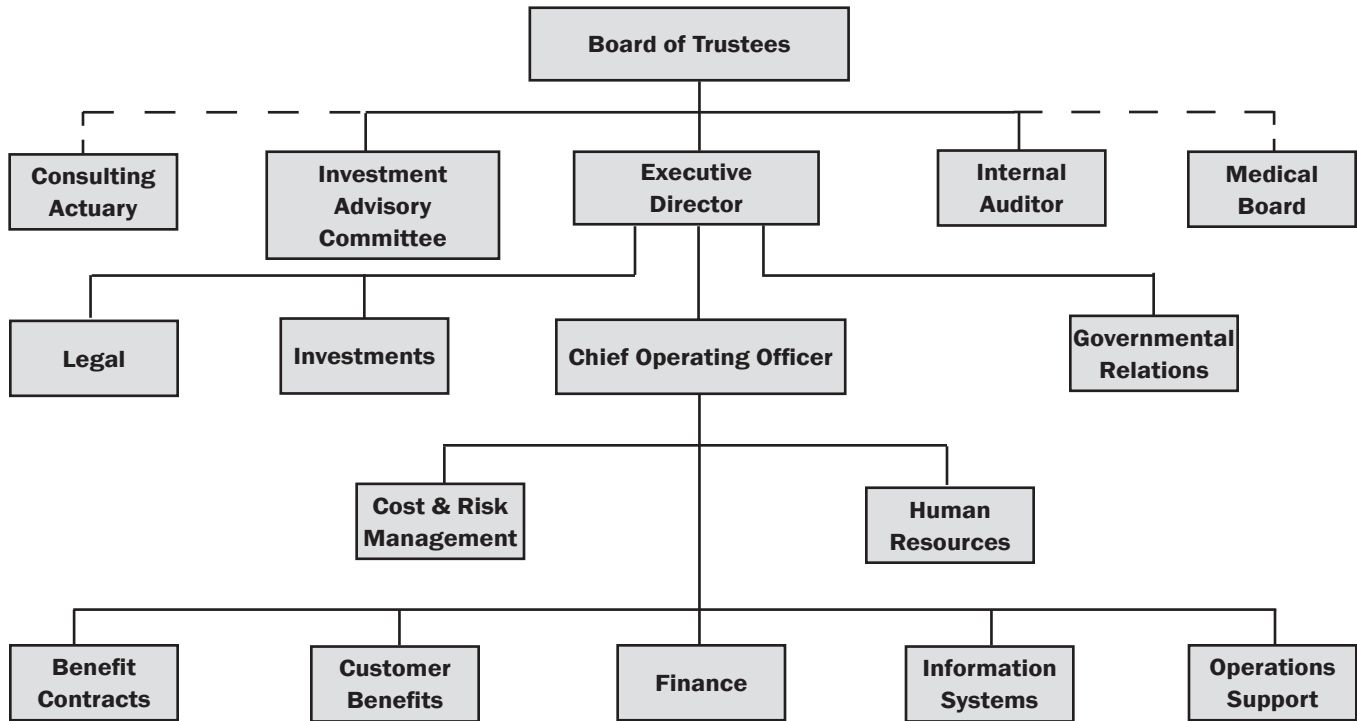


MICHAEL C. WHEELER, CPA  
Chief Financial Officer



# Organizational Chart and Data

As of August 31, 2007



## BOARD OF TRUSTEES

Don Green, Chair  
 Owen Whitworth, Vice Chair  
 Bill Ceverha I. Craig Hester  
 Carolyn Lewis Gallagher Yolanda Griego

## STAFF

### Ann S. Fuelberg, Executive Director

Joe H. Golson, Director of Cost & Risk Management  
 Jacqueline Johnson, Deputy Executive Director of Investments  
 Paula A. Jones, General Counsel  
 Robert Kukla, Director of Benefit Contracts  
 Laura Lucas, Director of Operations Support  
 William S. Nail, Director of Governmental Relations  
 Marci Sundbeck, Director of Internal Audit  
 Catherine E. Terrell, Director of Customer Benefits  
 Michael C. Wheeler, Chief Financial Officer  
 Larry Zeplin, Chief Operating Officer

## CONSULTANTS AND ADVISORS

### Consulting Actuaries

Philip S. Dial, FSA, Rudd and Wisdom, Inc.  
 Richard A. Mackesey, F.S.A, Buck Consultants, an ACS Company

### Investment Advisory Committee

#### Bob Alley, CFA, Chair

Laura T. Starks, Ph.D., Vice-Chair, The University of Texas at Austin  
 Milton Hixson, CFP, Financial Management Professionals  
 C. Courtland Huber, Ph.D., The University of Texas at Austin  
 J. Luther King, Jr., CFA, Luther King Capital Management  
 Steven R. LeBlanc, Private Investor  
 Ken D. Mindell, Senior Vice-President, Rosewood Management Corp.  
 Vernon D. Torgerson, Jr., CFA, Frost National Bank of San Antonio  
 C. Thomas Tull, CFA, Chair, Private Investor

### Investment Consultant

Callan Associates, Inc.

### Investment Advisory Managers

*Domestic Equity*  
 Alliance Capital Management, LLP  
 Batterymarch Financial Management, Inc.  
 Cortina Asset Management  
 EARNEST Partners  
 UBS Global Asset Management  
 Voyageur Asset Management

#### Fixed Income

AIG Global Investment Group, Inc.  
 Fountain Capital Management, L.L.C.

#### International Equity

Fisher Investment Institutional Group  
 Franklin Templeton Institutional  
 JP Morgan Asset Management

### Global Custodian

J. P. Morgan Chase & Co.

### Medical Board

Grover L. Bynum, M.D.  
 Marvin R. Cressman, M.D.  
 Thomas I. Lowry, M.D.

# Summary of Plan Provisions

Effective since September 1, 2006

The Employees Retirement System of Texas was created by the Texas Legislature in 1947 and is administered in accordance with the Texas Constitution. The System provides a retirement and disability pension system for State employees, law enforcement and custodial officers, elected state officials and two classes of judges. The System administers the trust funds, with a fiduciary obligation to the members and retirees of the System who are its beneficiaries.

The retirement programs complement the Social Security and Medicare programs by providing a retirement annuity with service, disability and survivorship benefits. The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS I) and Judicial Retirement System of Texas Plan Two (JRS II) are single employer defined benefit pension plans. Following is the summary of plan provisions:

ERS	LECOS	JRS I and JRS II
<b>Membership:</b>		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>• Employees and appointed officers of every department, commission, board, agency, or institution of the State except those who are included in the coverage of Teacher Retirement System of Texas, JRS I, and JRS II.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>• Persons who hold State offices that are normally filled by statewide election and that are not included in the coverage of JRS I and JRS II.</li> <li>• Members of the Legislature.</li> <li>• District and criminal district attorneys.</li> </ul>	<ul style="list-style-type: none"> <li>• Law enforcement officers commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, or the Parks and Wildlife Department recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education.</li> <li>• Custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, and certified by that department according to statutory requirements as having a normal job assignment that requires frequent or infrequent planned contact with inmates of that institution.</li> </ul>	<p><i>JRS I Only:</i></p> <ul style="list-style-type: none"> <li>• Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service <b>before</b> September 1, 1985.</li> </ul> <p><i>JRS II Only:</i></p> <ul style="list-style-type: none"> <li>• Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service <b>after</b> August 31, 1985.</li> </ul>
<b>Service Retirement Eligibility:</b>		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>• Age 60 with at least five years of service credit, or</li> <li>• The sum of age and years of service credit equals or exceeds the number 80 with at least five years of service credit, or</li> <li>• Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>• Age 60 with eight years of service credit, or</li> <li>• Age 50 with 12 years of service credit.</li> </ul>	<ul style="list-style-type: none"> <li>• 20 years of service credit as a certified peace officer/custodial officer and the member's age is the earlier of either the age of 50 or the age at which the sum of age and years of service credit equals or exceeds the number 80.</li> </ul>	<ul style="list-style-type: none"> <li>• Age 65 with at least 10 years of service credit <b>and</b> currently holding a judicial office, or</li> <li>• Age 65 with at least 12 years of service credit, regardless of whether the member currently holds a judicial office, or</li> <li>• 20 years of service at any age, regardless of whether the member currently holds a judicial office, or</li> <li>• The sum of age and years of service credit equals or exceeds the number 70 and served at least 12 years on an appellate court, regardless of whether the member currently holds a judicial office.</li> </ul>
<b>Early Service Retirement Eligibility with Reduced Benefits:</b>		
<p>Not applicable.</p>	<ul style="list-style-type: none"> <li>• 20 years of service credit as a certified peace officer/custodial officer, under the age of 50.</li> </ul>	<ul style="list-style-type: none"> <li>• Age 60 with 10 years of service credit and currently holding judicial office, or</li> <li>• Age 60 with 12 years of service credit, regardless of whether the member currently holds a judicial office.</li> </ul>

# Summary of Plan Provisions

Effective since September 1, 2006

ERS	LECOS	JRS I and JRS II
<b>Standard Service Retirement Benefits:</b>		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>• Monthly annuity is equal to 2.3% of average monthly compensation multiplied by the number of years of service credit.</li> <li>• Average monthly compensation is the average of the highest 36 months of compensation.</li> <li>• Minimum standard annuity is \$150 per month.</li> <li>• Maximum standard annuity is 100% of the average monthly compensation.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>• Monthly annuity is 2.3% of the current State salary of a district judge multiplied by the number of years of service credit.</li> <li>• Retirement benefits are automatically adjusted as State judicial salaries increase.</li> <li>• Maximum standard annuity is 100% of the State salary being paid a district judge.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit.</li> <li>• Average monthly compensation is the average of the highest 36 months of compensation.</li> <li>• Minimum standard annuity is \$150 per month.</li> <li>• Maximum standard annuity is 100% of the average monthly compensation.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly annuity is equal to 50% of the salary for the position from which the member retired.</li> <li>• An additional 10% is paid when a member retires within one year of leaving office or within one year of last assignment as a visiting judge.</li> <li>• The monthly annuity of a member who elects to make contributions after 20 years of service would be based on 50% of the State salary plus 2% for each subsequent year with the total, including the additional 10%, not to exceed 80%.</li> </ul> <p><i>JRS II Only:</i></p> <ul style="list-style-type: none"> <li>• The monthly annuity of a member who elects to make contributions after reaching the Rule of 70 with at least 12 years on an appellate court would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.</li> </ul>
<b>Optional Service Retirement Benefits:</b>		
<p><i>Employee Class and Elected Class:</i></p> <ul style="list-style-type: none"> <li>• Lifetime with 100% to surviving beneficiary;</li> <li>• Lifetime with 75% to surviving beneficiary;</li> <li>• Lifetime with 50% to surviving beneficiary;</li> <li>• Lifetime with five years certain;</li> <li>• Lifetime with 10 years certain; and</li> <li>• One-time partial lump sum of up to three years of standard annuity at retirement (annuity is reduced for life and the reduced annuity is used to calculate the six beneficiary options listed above).</li> <li>• If beneficiary predeceases member, the annuity paid to the retired member who selected one of the lifetime survivor benefits is increased to the standard annuity.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as ERS.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as ERS except for the one-time partial lump sum.</li> </ul>
<b>Vesting Requirement:</b>		
<ul style="list-style-type: none"> <li>• Five or more years of service credit for Employee Class and eight or more years for Elected Class.</li> </ul>	<ul style="list-style-type: none"> <li>• 20 or more years of service credit as a certified peace officer/custodial officer.</li> </ul>	<ul style="list-style-type: none"> <li>• 12 or more years of service credit.</li> </ul>
<b>Vested Benefits after Termination of Employment:</b>		
<ul style="list-style-type: none"> <li>• Member is entitled to a deferred retirement benefit based on service and compensation prior to termination.</li> <li>• Member must leave accumulated contributions in the System and must live to normal retirement age.</li> <li>• Upon or after leaving State employment, member may apply for a refund of</li> </ul>	<ul style="list-style-type: none"> <li>• Member is entitled to a deferred retirement benefit based on certified peace officer/custodial officer service and the highest average monthly compensation prior to termination.</li> <li>• Member must leave accumulated deposits in the System to which the member contributed.</li> </ul>	<ul style="list-style-type: none"> <li>• Member is entitled to a deferred retirement benefit based on service and compensation as a judge prior to termination.</li> <li>• Member must leave accumulated contributions in the System and must live to normal retirement age.</li> <li>• Upon or after leaving State judicial</li> </ul>

# Summary of Plan Provisions

Effective since September 1, 2006

ERS	LECOS	JRS I and JRS II
<b>Vested Benefits after Termination of Employment (Continued):</b>		
<p>contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.</p>		<p>employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.</p>
<b>Disability Retirement Eligibility:</b>		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>• For occupational disability, no age or length of service requirement.</li> <li>• For non-occupational disability, at least 10 years of Employee Class service credit, which may include up to five years of purchased military service credit, and be a contributing member.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>• For occupational disability, no age or length of service requirement.</li> <li>• For non-occupational disability, eight years of Elected Class service (exclusive of military service) or six years of Elected Class service plus two years of military service if purchased before January 1, 1978, and be a contributing member.</li> </ul>	<ul style="list-style-type: none"> <li>• For occupational disability, no age or length of service requirement.</li> <li>• For non-occupational disability, at least 10 years of service credit, which may include up to five years of purchased military service credit, and be a contributing member.</li> </ul>	<ul style="list-style-type: none"> <li>• No age requirement.</li> <li>• Seven years of judicial service and currently holding a judicial office.</li> </ul>
<b>Disability Retirement Benefits:</b>		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>• For occupational disability, the benefits are the same as those under the standard service retirement, except the standard annuity is equal to not less than 35% of the average of the highest 36 months of compensation regardless of the years of service credit or age.</li> <li>• For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service.</li> <li>• The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>• For both occupational and non-occupational disability, the standard annuity is 18.4% of the State salary of a district judge, or 2.3% of the State salary of a district judge times years of Elected Class service, whichever is greater.</li> <li>• Optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.</li> </ul>	<ul style="list-style-type: none"> <li>• For occupational disability, the standard annuity is a minimum of 50% of the average of the highest 36 months of compensation regardless of the years of service credit or age.</li> <li>• The standard annuity is increased to 100% of the average of the highest 36 months of compensation if a member receives Social Security disability benefits as a result of occupational disability.</li> <li>• For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service.</li> <li>• The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as standard service retirement benefits without reduction for age.</li> </ul>



# Summary of Plan Provisions

Effective since September 1, 2006

ERS	LECOS	JRS I and JRS II
<b>Death Benefits:</b>		
<p><i>Employee Class and Elected Class:</i></p> <ul style="list-style-type: none"> <li>• A contributing member with a minimum of 10 years of service credit, or less than 10 years of service credit but eligible to retire and survived by a spouse or minor children; the benefit options are:               <ul style="list-style-type: none"> <li>- Death benefit plan filed by the member, or</li> <li>- Lifetime annuity, or</li> <li>- 10-year certain annuity.</li> </ul> </li> <li>• Member with less than 10 years of service credit, or eligible to retire but not survived by a spouse or minor children, or selected in lieu of a death benefit plan; the benefit options are:               <ul style="list-style-type: none"> <li>- Refund of member's contribution with interest.</li> <li>- If member is contributing at the date of death, an additional 5% of the member's accumulated contributions for each full year of service with a maximum of 100% of the member's accumulated contributions.</li> </ul> </li> <li>• In case of occupational death, an additional benefit is paid to the surviving spouse or minor children. This additional benefit is equal to one year's salary based on rate at the time of death. This additional benefit is not paid if there is no surviving spouse or minor children.</li> <li>• If a member dies after retirement and selected the standard annuity, the member's beneficiaries receive a benefit equal to the excess of accumulated contributions at retirement age over the monthly benefit paid before death. In addition, the beneficiaries are entitled to a lump sum death benefit of \$5,000.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>• Member with at least eight, but less than 10 years of service and under age of 60, the surviving spouse receives a lifetime annuity equal to 50% of the monthly standard annuity the member would have been entitled to at the time of death or at age 60, whichever is later.</li> </ul>	<ul style="list-style-type: none"> <li>• A contributing member with a minimum of 10 years of certified peace officer/ custodial officer service may file a death benefit plan, which will provide the member's beneficiary either a lifetime annuity or a 10-year certain annuity.</li> <li>• Member with 20 or more years of certified peace officer/custodial officer service, the death benefits are the same as those under the service retirement.</li> </ul>	<ul style="list-style-type: none"> <li>• Members have the same as those listed in the Employee Class under the ERS Plan.</li> </ul>

*For a complete description of the provision of the law that describes the Retirement Plans, see V.T.C.A., Texas Government Code, Title 9. Alternatively, the staff of the Employees Retirement System of Texas can provide more details of the provisions.*





# Financial Section

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

Other Supplementary Information





## INDEPENDENT AUDITOR'S REPORT

### Employees Retirement System of Texas Board of Trustees:

Mr. Bill Ceverha, Chair  
Ms. Yolanda Griego, Vice Chair  
Ms. Cydney Donnell  
Mr. Don Green  
Mr. I. Craig Hester  
Mr. Owen Whitworth

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Employees Retirement System of Texas (System) as of and for the year ended August 31, 2007, which collectively comprise the System's basic financial statements, as listed in the Table of Contents. We have also audited the combining statements of the net assets and changes in fiduciary net assets of the pension and other employee benefit trusts funds for each of the following defined benefit plans administered by the system, the Employees Retirement System Fund, the Law Enforcement and Custodial Officer Supplemental Retirement Fund, the Judicial Retirement System Plan One Fund, the Judicial Retirement System Plan Two Fund and the Excess Benefit Arrangement, as identified in Note 1 to the financial statements as of August 31, 2007. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the System as of August 31, 2006, were audited by other auditors whose report dated December 20, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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SAO Report No. 08-306

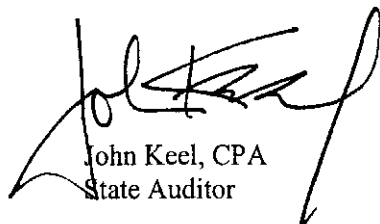
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the System as of August 31, 2007, the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the combining financial statements referred to above present fairly, in all material respects, the respective net assets of each defined benefit plan mentioned above administered by the System, as of August 31, 2007, and the respective changes in net assets thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, Budgetary Comparison Schedule – Appropriated Special Revenue Funds, Schedule of Funding Progress – Defined Benefit Plans, Schedule of Employer Contributions – Defined Benefit Plans and Notes to the Required Supplementary Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). This required supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The combining financial schedules and supporting schedules included in the other supplementary information, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This additional supplementary information is the responsibility of the System's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory, Investment, Actuarial, and Statistical Sections are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such additional information is the responsibility of the System's management and has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we will report on the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and on other matters in a separate report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



John Keel, CPA  
State Auditor

December 18, 2007

# Management's Discussion and Analysis

Year Ended August 31, 2007

We are pleased to provide this overview of the financial activities of the Employees Retirement System of Texas (the System) for the year ended August 31, 2007. Please read it in conjunction with the Basic Financial Statements, which begin after this discussion.

## Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The Financial Section includes the following exhibits in the Basic Financial Statements Section.

- Exhibits I and II are the government-wide statements of governmental net assets and activities. These exhibits exclude the Fiduciary Fund activities and balances.
- Exhibits III and IV are Special Revenue Funds statements for four of the programs presented in the government-wide statements.
- Exhibits V and VI are the Statement of Net Assets and the Statement of Changes in Net Assets for the Employees Life, Accident and Health Insurance and Benefits Fund (Group Benefits Fund). Highlights are presented under the heading Financial Analysis on Government-wide Statements below.
- Exhibit VII is a required Statement of Cash Flows for the Group Benefits Fund, which is an Internal Service Fund. This statement reports the transactions for the year on a cash basis. It is similar to Exhibit VI, the Statement of Changes in Net Assets, except that the focus of this statement is on the change to cash balances with accrued income and expense items eliminated.
- Exhibits VIII and IX are the Combined Statement of Fiduciary Net Assets and the Combined Statement of Changes in Fiduciary Net Assets. They report pension and other employee benefit trust fund activities and agency fund balances in total. Please see the Financial Highlights - Fiduciary Funds below for a financial analysis of the defined benefit plans, defined contribution plans, the cafeteria plan and the agency funds.
- Exhibits X and XI, the Combining Statement of Fiduciary Net Assets and the Combining Statement of Changes in Fiduciary Net Assets, report activities of the defined benefit plans, including the retiree insurance plan. These exhibits also report the cafeteria plan and other defined contribution plans.

## Financial Analysis on Government-wide Statements

The government-wide activities of the System are comprised of five programs:

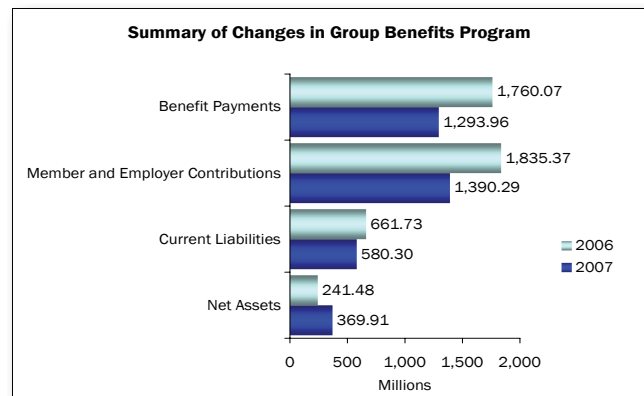
- Social Security Administration,
- Death Benefits for Public Safety Officers,

- Compensation to Victims of Crime,
- Death Benefits for Retirees, and
- Group Benefits Program.

The Group Benefits Program in Exhibits I and II had significant changes from the prior year. Exhibits V and VI provide additional information on the Group Benefits Program. The changes in the program are summarized in millions as follows:

	August 31			2006-07 % Incr (Decr)
	2007	2006	2005	
	\$	\$	\$	%
Net assets	369.91	241.48	133.25	53.18
Current liabilities	580.30	661.73	500.75	(12.31)
Member and employer contributions	1,390.29	1,835.37	1,676.31	(24.25)
Benefit payments	1,293.96	1,760.07	1,646.82	(26.48)

The decreases resulted primarily from the implementation of GASB Statement 43 (See Note 1.B).

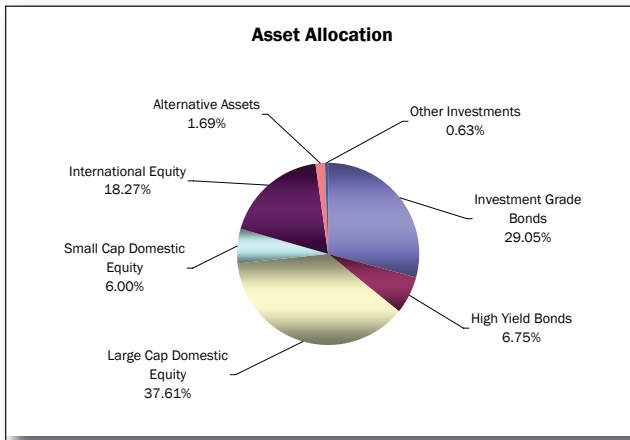


## Financial Highlights - Fiduciary Funds

- Net assets of the fiduciary funds administered by the System totaled \$24.46 billion as of August 31, 2007, compared with \$22.76 billion as of August 31, 2006. The \$1.70 billion, or 7.5%, increase resulted primarily from appreciation in investment assets.
- The investment portfolio returned 13.88% for the year. The investment portfolio's total return outperformed the actuarially assumed rate of return of 8.0% for the fifth year in a row. The fiscal year-end asset allocation stood at:
  - 29.05% investment grade bonds,
  - 6.75% high yield bonds,
  - 37.61% large cap domestic equity,
  - 6.0% small cap domestic equity,
  - 18.27% international equity,
  - 1.69% alternative assets, and
  - 0.63% other investments.

# Management's Discussion and Analysis

Year Ended August 31, 2007



For additional details, please see the *Report on Investment Activity* in the Investment Section.

- Changes in contributions and benefit payments in the Defined Benefit Plans are summarized in millions as follows:

	August 31			2006-07 % Incr (Decr)
	2007	2006	2005	
	\$	\$	\$	%
<i>Contributions:</i>				
Retirement & Other	750.62	746.12	665.70	.60
Insurance	575.19			
<b>Total (Exh. XI)</b>	<b>1,325.81</b>	<b>746.12</b>	<b>665.70</b>	<b>77.69</b>
<i>Benefit payments:</i>				
Retirement & Other	1,448.75	1,391.33	1,353.28	4.13
Insurance	574.03			
<b>Total (Exh. XI)</b>	<b>2,022.78</b>	<b>1,391.33</b>	<b>1,353.28</b>	<b>45.38</b>

- The increases in contributions and benefit payments for insurance are a result of implementations of GASB Statement 43. (See Note 1.B) The most recent actuarial valuations of the funded defined benefit plans were completed as of August 31, 2007. The funded ratios are as follows:

Plans	Funded Ratios August 31,	
	2007	2006
Employees Retirement System	95.6%	95.2%
Law Enforcement and Custodial Officer Supplemental Retirement Fund	98.0%	101.7%
Judicial Retirement System of Texas Plan Two	95.9%	93.7%

See Exhibits X and XI for more information regarding each of the defined benefit plans and Exhibits VIII and IX for the defined contribution and cafeteria plans.

## Fiduciary Net Assets

The amount of changes in fiduciary net assets (in millions) were as follows:

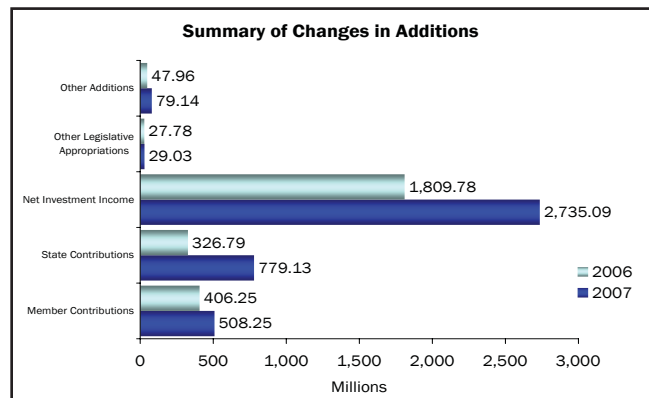
	August 31,			2006-07 % Incr (Decr)
	2007	2006 (Restated)	2005 (Restated)	
	\$	\$	\$	%
Changes in Fiduciary Net Assets (Exhibit IX)	2,017.78	1,150.00	1,764.89	75.46

## Additions

Retirement benefits are financed primarily through the collection of member and state retirement contributions, investment income, legislative appropriations, and contributions transferred from the Teacher Retirement System. Additions in Fiduciary Net Assets have been extracted from Exhibit IX, Combined Statement of Changes in Fiduciary Net Assets. The additions in millions were as follows:

	August 31,			2006-07 % Incr (Decr)
	2007	2006 (Restated)	2005 (Restated)	
	\$	\$	\$	%
Member contributions	508.25	406.25	444.68	25.11
Employer contributions	779.13	326.79	284.40	138.42
Net investment income	2,735.09	1,809.78	2,452.04	51.13
Other legislative appropriations	29.03	27.78	22.42	4.50
Other additions	79.14	47.96	51.82	65.01
<b>Total Additions</b>	<b>4,130.64</b>	<b>2,618.56</b>	<b>3,255.36</b>	<b>57.74</b>

Increases in the contributions in the above tables are due primarily to the GASB Statement 43 implementation. (See Note 1.B)



For the Employees Retirement Fund, member and state retirement contribution rates were 6.45%. For the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), there are no member contributions; and it has not received funding from the



# Management's Discussion and Analysis

Year Ended August 31, 2007

state since August 31, 1993. For the Judicial Retirement Plan II Fund, member and state retirement contribution rates were 6% and 16.83%, respectively.

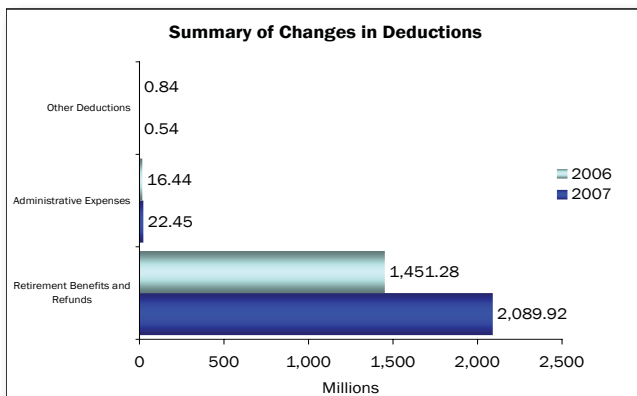
Net investment income is comprised of interest income, dividend income, securities lending income and related fees, and net appreciation in fair value of investments, and is net of investment expenses.

## Deductions

Benefit payments are the primary expense of a retirement system. Total deductions are comprised of benefit payments, refunds of contributions to members or beneficiaries for reasons of separation from service or death, other death benefit payments, contributions transferred to the Teacher Retirement System, and the cost of administering the System. Deductions in Net Assets have been extracted from Exhibit IX, Combined Statement of Changes in Fiduciary Net Assets.

Changes in deductions are summarized in millions as follows:

	August 31,			2006-07 % Incr (Decr) %
	2007	2006 (Restated)	2005 (Restated)	
	\$	\$	\$	
Benefits	2,089.92	1,451.28	1,473.25	44.01
Administrative expenses	22.45	16.44	16.50	36.56
Other deductions	0.54	0.84	0.72	(35.71)
<b>Total Deductions (Exh. IX)</b>	<b>2,112.91</b>	<b>1,468.56</b>	<b>1,490.47</b>	<b>43.88</b>

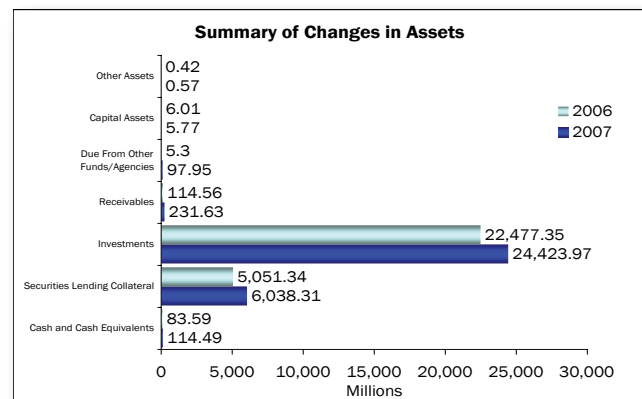


## Assets

Investments, both short-term and long-term, are the primary asset of the System's pension and other employee benefit trust funds as shown in the following table.

Changes in assets are summarized in millions as follows:

	August 31,			2006-07 % Incr (Decr) %
	2007	2006 (Restated)	2005 (Restated)	
	\$	\$	\$	
Cash and cash equivalents	114.49	83.59	37.85	36.97
Securities lending collateral	6,038.31	5,051.34	4,423.39	19.54
Investments	24,423.97	22,477.35	21,629.74	8.66
Receivables	231.63	114.56	97.58	102.19
Due from other funds/agencies	97.95	5.30	5.31	1,748.11
Capital assets	5.77	6.01	6.36	(3.99)
Other assets	0.57	0.42	0.71	35.71
<b>Total Assets (Exh. VIII)</b>	<b>30,912.69</b>	<b>27,738.57</b>	<b>26,200.94</b>	<b>11.44</b>



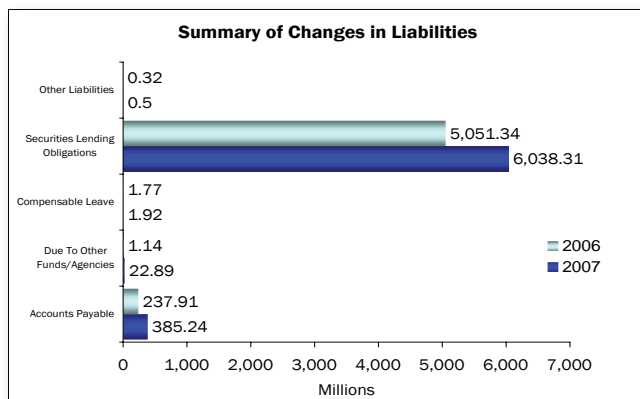
## Liabilities

The condensed liabilities have been extracted from Exhibit VIII, Combined Statement of Fiduciary Net Assets. Changes in liabilities are summarized in millions as follows:

# Management's Discussion and Analysis

Year Ended August 31, 2007

	August 31,			2006-07 % Incr (Decr) %
	2007	2006	2005	
Accounts payable	\$ 385.24	\$ 237.91	\$ 204.43	61.93
Due to other funds/ agencies	22.89	1.14	0.93	1,907.89
Compensable leave	1.92	1.77	1.46	8.47
Securities lending obligations	6,038.31	5,051.34	4,423.39	19.54
Other liabilities	0.50	0.32	0.30	56.25
<b>Total Liabilities (Exh. VIII)</b>	<b>6,448.86</b>	<b>5,292.48</b>	<b>4,630.51</b>	<b>21.85</b>



## Funding Status and Progress

Net assets derived from investment asset appreciation and pension contributions in excess of pension benefit payments are accumulated by the System in order to meet future pension benefit obligations. Soundness in the funding of the System is sought through maintaining suitable reserves in the retirement annuity reserve account and the employee savings and state accumulation reserve accounts.

The latest annual actuarial valuation of the System, as of August 31, 2007, (compared to the August 31, 2006 actuarial valuation) is summarized in millions as follows:

Plans	Actuarial Net Asset/(Liability) August 31,	
	2007	2006
Employees Retirement System	\$1,048.22	\$1,104.48
Law Enforcement and Custodial Officer Supplemental Retirement Fund	\$14.90	(\$11.87)
Judicial Retirement System of Texas Plan Two	\$8.95	\$12.44

For the Employees Retirement System Fund, the August 31, 2007 actuarial valuation shows that there is an unfunded accrued liability of \$1,048.2 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 95.6% as of August 31, 2007. The valuation shows that the total normal cost

is 11.98% of payroll and total contributions are 12.45% of payroll. While the total contribution rate exceeds the normal cost by 0.47% of payroll, this contribution is not sufficient to ever amortize the unfunded accrued liability. As a result, the amortization period is currently infinite and the funding objective is not currently being realized. The total contribution to fund the normal cost plus amortize the net liability balance over 31 years is 13.20% of payroll. The actuarial net liability will need to be met over the coming years through improved investment performance, increased contributions, or plan design changes.

The August 31, 2007 actuarial valuation for Law Enforcement and Custodial Officer Supplemental Retirement Fund shows that the total normal cost rate for fiscal year 2008 is 1.54% of payroll. At August 31, 2007, the unfunded accrued liability is 14.9 million, and the funded ratio is 98.0%. Total contributions are 1.59% of payroll. The total contribution rate exceeds the normal cost by 0.05% of payroll, and this contribution is sufficient to amortize the unfunded accrued liability over a period of 49.0 years. Therefore, currently, the funding objective is not being realized. For fiscal year 2008, the total contribution rate that would both fund the normal cost and amortize the unfunded accrued liability over 31 years as a level percentage of payroll is 1.61%.

For the Judicial Retirement System of Texas Plan II, the August 31, 2007 actuarial valuation shows that the total normal cost is 20.83% of payroll and unfunded accrued liability is \$8.95 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 95.9% as of August 31, 2007. Assuming state contributions of 16.83% of payroll and member contributions of 6% of pay, the amortization period is 8.3 years. The financing of the Judicial Retirement System Plan II is adequate and the plan is actuarially sound.

The Judicial Retirement Plan I is funded on a pay-as-you-go basis; therefore, there is no calculation of the actuarial accrued liability.

The State Retiree Health Plan is currently funded on a pay-as-you-go basis. For the State Retiree Health Plan, the August 31, 2007 actuarial valuation shows that there is an unfunded accrued liability of \$ 17.7 billion. The funded ratio is 0.0%. The valuation shows that the total normal cost is 8.11% of payroll and total contributions are 29.6% of the annual required contribution. The Annual Required Contribution (ARC) as of August 31, 2007 is 16.8% of payroll.

# Management's Discussion and Analysis

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Year Ended August 31, 2007

Contributions include health care premiums, state and member contributions, and retiree drug subsidy payments. Retiree premiums were \$108 million. Employer contributions were \$438 million. The Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled ERS to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by ERS on behalf of certain plan participants. The plan received payments in 2007 totaling \$28.6 million. The above amounts plus net investment income of \$1.5 million resulted in additions of \$576.7 million. These were offset entirely by \$574 million

in benefit payments and \$2.7 million in administrative expense. The net plan assets are zero.

## **Restatement of Net Assets of Texa\$aver 457 Trust Fund**

In accordance with GASB Statement 32, the System's management determined that the individuals assets in the Texa\$aver 457 Plan will no longer be reported as assets of the System.

## **Contacting the System's Financial Management**

This financial report is designed to provide a general overview of the System's finances. If you have questions about this report or need additional financial information, please contact Michael C. Wheeler, Chief Financial Officer at 512-867-7224.

# Exhibit I

## Statement of Net Assets

August 31, 2007 (With Comparative Totals at August 31, 2006)

<b>ASSETS</b>	<b>Governmental Activities</b>	
	<b>August 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<i>Current Assets:</i>		
<i>Cash and Cash Equivalents:</i>		
Cash on Hand	-	37,833
Cash in State Treasury	26,644,006	22,171,267
Certificates of Deposit	5,051,140	5,005,124
Total Cash and Cash Equivalents	31,695,146	27,214,224
Securities Lending Collateral	77,390,842	183,741,694
Short-Term Investments	430,861,150	151,794,110
Legislative Appropriations	7,123	16,877
Receivables	98,185,843	106,646,117
Due From Fiduciary Funds	1,725,402	
Due From Other Agencies	24,675	18,937
Total Current Assets	639,890,181	469,431,959
<i>Non-Current Assets:</i>		
Investments	310,383,518	433,854,016
Total Non-Current Assets	310,383,518	433,854,016
<b>Total Assets</b>	<b>950,273,699</b>	<b>903,285,975</b>
<b>LIABILITIES</b>		
<i>Current Liabilities:</i>		
Payables	429,283,050	476,276,143
Due to Fiduciary Funds	73,257,333	887,083
Deferred Revenue	384,036	853,918
Obligations Under Securities Lending	77,390,842	183,741,694
Total Current Liabilities	580,315,261	661,758,838
<b>Total Liabilities</b>	<b>580,315,261</b>	<b>661,758,838</b>
<b>NET ASSETS</b>		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program	369,913,195	241,477,738
Unrestricted	45,243	49,399
<b>Total Net Assets (Exh. II &amp; III)</b>	<b>369,958,438</b>	<b>241,527,137</b>

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

# Exhibit II

## Statement of Activities

Year Ended August 31, 2007 (With Comparative Totals for August 31, 2006)

Functions/Programs	Program Revenues			Net (Expense) Revenue & Changes In Net Assets Governmental Activities	
	Expenses	Charges for Services	Operating Grants & Contributions	August 31,	
				2007	2006
	\$	\$	\$	\$	\$
<i>Governmental Activities:</i>					
Social Security Administration	69,935	71,944		2,009	20,014
Death Benefits-Peace Officers, Firemen, etc.	2,396,938	2,396,938			
Compensation to Victims of Crime	1,500,000	1,500,000			
Death Benefits-Retiree \$5,000 Lump Sum	7,492,873	7,486,708		(6,165)	2,765
Group Benefits Program	1,302,650,711	1,390,438,788	40,647,380	128,435,457	108,224,698
<b>Total Governmental Activities</b>	<b>1,314,110,457</b>	<b>1,401,894,378</b>	<b>40,647,380</b>		
<b>Change in Net Assets (Exh. IV)</b>				<b>128,431,301</b>	<b>108,247,477</b>
<b>Net Assets - Beginning</b>				<b>241,527,137</b>	<b>133,279,660</b>
<b>Net Assets - Ending (Exh. I)</b>				<b>369,958,438</b>	<b>241,527,137</b>

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

# Exhibit III

## Balance Sheet – Governmental Funds

August 31, 2007 (With Comparative Totals at August 31, 2006)

ASSETS	Social Security Administration Fund	Death Benefits Program For Commissioned Peace Officers, Firemen, etc.	Compensation to Victims of Crime	Lump Sum Retiree Death Benefit Fund	Special Revenue Funds Totals	
	(0929) (U/F 0929)	(0001) (U/F 3001)	(0469) (U/F 3003)	(0001) (U/F 3008)	2007	2006
	\$	\$	\$	\$	\$	\$
<b>Current Assets:</b>						
Cash and Cash Equivalents:						
Cash in State Treasury	29,342				29,342	35,312
Total Cash and Cash Equivalents	29,342	-	-	-	29,342	35,312
Legislative Appropriations				7,123	7,123	16,877
Accounts Receivable	25,515				25,515	21,050
Total Current Assets	54,857	-	-	7,123	61,980	73,239
<b>Total Assets</b>	<b>54,857</b>	<b>-</b>	<b>-</b>	<b>7,123</b>	<b>61,980</b>	<b>73,239</b>
<b>LIABILITIES &amp; FUND BALANCES</b>						
<b>Current Liabilities:</b>						
<i>Payables:</i>						
Accounts Payable				7,123	7,123	10,712
Due To Other Funds (Note 1.G)	5,790				5,790	5,017
Deferred Revenues	3,824				3,824	8,111
Total Current Liabilities	9,614	-	-	7,123	16,737	23,840
<b>Total Liabilities</b>	<b>9,614</b>	<b>-</b>	<b>-</b>	<b>7,123</b>	<b>16,737</b>	<b>23,840</b>
<b>Fund Balances:</b>						
<i>Unreserved:</i>						
Undesignated, Reported In:						
Special Revenue Funds	45,243	-	-	-	45,243	49,399
<b>Total Fund Balances (Exh. IV)</b>	<b>45,243</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,243</b>	<b>49,399</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>54,857</b>	<b>-</b>	<b>-</b>	<b>7,123</b>	<b>61,980</b>	<b>73,239</b>
Total Fund Balances - Governmental Funds (above):					45,243	49,399
<i>Amounts reported for 'Governmental Activities' in the Statement of Net Assets (Exhibit I) are different because:</i>						
An <i>Internal Service Fund</i> is used by the System to account for the assets and liabilities associated with the Group Benefits Program for State employees and employees of certain institutions of higher education. The net assets of the Internal Service Fund (Exhibit V) are included with 'Governmental Activities' in the <i>Statement of Net Assets</i> .						
<b>Net Assets of Governmental Activities (Exhibit I)</b>					369,913,195	241,477,738
					<b>369,958,438</b>	<b>241,527,137</b>

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

# Exhibit IV

## Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Year Ended August 31, 2007 (With Comparative Totals for August 31, 2006)

	Social Security Administration Fund	Death Benefits Program For Commissioned Peace Officers, Firemen, etc.	Compensation to Victims of Crime	Lump Sum Retiree Death Benefit Fund	Special Revenue Funds Totals	
	(0929) (U/F 0929)	(0001) (U/F 3001)	(0469) (U/F 3003)	(0001) (U/F 3008)	2007	2006
<b>REVENUES</b>	\$	\$	\$	\$	\$	\$
<i>Legislative Appropriations Out of the State's General Revenue Fund:</i>						
<i>Appropriation Revenue:</i>						
For Death Benefits Peace Officers, Etc.		2,739,751			2,739,751	4,361,358
For Victims of Crime			2,739,951		2,739,951	2,541,976
For Death Benefits-Retirees				7,519,511	7,519,511	6,910,476
Total Appropriation Revenue		2,739,751	2,739,951	7,519,511	12,999,213	13,813,810
Administration Fees	71,944				71,944	78,184
<b>Total Revenues</b>	<b>71,944</b>	<b>2,739,751</b>	<b>2,739,951</b>	<b>7,519,511</b>	<b>13,071,157</b>	<b>13,891,994</b>
<b>EXPENDITURES</b>						
<i>Current:</i>						
Death Benefits		2,396,938	1,500,000	7,492,873	11,389,811	11,991,069
<i>Administrative Expenditures:</i>						
Salaries & Wages	51,264				51,264	45,170
Payroll Related Costs	10,992				10,992	10,918
Professional Fees & Services	791				791	218
Travel	228				228	385
Materials & Supplies	1,220				1,220	28,119
Communications & Utilities	1,001				1,001	49
Repairs & Maintenance	437				437	
Rentals & Leases	645				645	2
Printing & Reproduction	2				2	9
Other Expenditures	3,355				3,355	1,300
Total Administrative Expenditures	69,935				69,935	86,170
<b>Total Expenditures</b>	<b>69,935</b>	<b>2,396,938</b>	<b>1,500,000</b>	<b>7,492,873</b>	<b>11,459,746</b>	<b>12,077,239</b>
<b>Excess of Revenues Over Expenditures</b>						
<b>Before Other Financing Sources (Uses)</b>	<b>2,009</b>	<b>342,813</b>	<b>1,239,951</b>	<b>26,638</b>	<b>1,611,411</b>	<b>1,814,755</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Appropriations Lapsed		(342,813)	(1,239,951)	(32,803)	(1,615,567)	(1,791,976)
<b>Excess of Revenues Over Expenditures and Other Financing Sources (Uses)</b>	<b>2,009</b>	<b>-</b>	<b>-</b>	<b>(6,165)</b>	<b>(4,156)</b>	<b>22,779</b>
<b>Fund Balances - Beginning</b>	<b>43,234</b>	<b>-</b>	<b>-</b>	<b>6,185</b>	<b>49,399</b>	<b>26,620</b>
<b>Fund Balances - Ending (Exh. III)</b>	<b>45,243</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,243</b>	<b>49,399</b>
Net Change in Fund Balances - Governmental Funds:					(4,156)	22,779
<i>Amounts reported for 'Governmental Activities' in the Statement of Activities (Exhibit II) are difference because:</i>						
<i>An Internal Service Fund is used by the System to account for the revenues and expenses associated with the Group Benefits Program for State employees and employees of certain institutions of higher education. The net revenue (expense) of the Internal Service Fund (Exhibit VI) is included in Governmental Activities in the Statement of Activities.</i>						
<b>Change in Net Assets of Governmental Activities (Exhibit II)</b>					<b>128,435,457</b>	<b>108,224,698</b>
					<b>128,431,301</b>	<b>108,247,477</b>
The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.						

# Exhibit V

## Statement of Net Assets – Proprietary Fund

August 31, 2007 (With Comparative Totals at August 31, 2006)

	<b>Internal Service Fund</b>	
	<b>Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)</b>	
	<b>Totals</b>	
	<b>August 31,</b>	
	<b>2007</b>	<b>2006</b>
	\$	\$
<b>ASSETS</b>		
<b>Current Assets:</b>		
<i>Cash and Cash Equivalents:</i>		
Cash on Hand		37,833
Cash in State Treasury	26,614,664	22,135,955
Certificates of Deposit	5,051,140	5,005,124
<b>Total Cash and Cash Equivalents</b>	<b>31,665,804</b>	<b>27,178,912</b>
Securities Lending Collateral	77,390,842	183,741,694
<i>Short-Term Investments:</i>		
Corporate Obligations		139,199,472
Other Investments	430,861,150	12,594,638
<b>Total Short-Term Investments</b>	<b>430,861,150</b>	<b>151,794,110</b>
<i>Receivables:</i>		
Interest Receivable	235,346	156,000
Accounts Receivable	97,857,767	106,469,067
Unsettled Sales-Investment Receivables	67,215	
<b>Total Receivables</b>	<b>98,160,328</b>	<b>106,625,067</b>
Due From Other Funds	1,725,402	
Due From Other Agencies (Note 1.G)	24,675	18,937
<b>Total Current Assets</b>	<b>639,828,201</b>	<b>469,358,720</b>
<b>Non-Current Assets:</b>		
<i>Investments:</i>		
U.S. Government and Agency Obligations	222,403,586	296,780,904
Corporate Obligations	87,979,932	137,073,112
<b>Total Investments</b>	<b>310,383,518</b>	<b>433,854,016</b>
<b>Total Non-Current Assets</b>	<b>310,383,518</b>	<b>433,854,016</b>
<b>Total Assets</b>	<b>950,211,719</b>	<b>903,212,736</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
<i>Payables:</i>		
Accounts Payable	28,166	
<i>Claims Payable:</i>		
Incurred, Self-Funded	26,793,572	33,048,332
Incurred, Insured	20,044,189	22,047,099
Incurred But Not Reported, Self-Funded	320,164,000	363,044,000
Incurred But Not Reported, Insured	62,246,000	58,126,000
<b>Total Claims Payable</b>	<b>429,247,761</b>	<b>476,265,431</b>
<b>Total Payables</b>	<b>429,275,927</b>	<b>476,265,431</b>
Due To Other Funds (Note 1.G)	73,251,543	882,066
Deferred Revenue	380,212	845,807
Obligations Under Securities Lending	77,390,842	183,741,694
<b>Total Current Liabilities</b>	<b>580,298,524</b>	<b>661,734,998</b>
<b>Total Liabilities</b>	<b>580,298,524</b>	<b>661,734,998</b>
<b>NET ASSETS</b>		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program	369,913,195	241,477,738
<b>Total Net Assets (Exh. VI)</b>	<b>369,913,195</b>	<b>241,477,738</b>

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.



## Exhibit VI

### Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund Year Ended August 31, 2007 (With Comparative Totals for August 31, 2006)

	<b>Internal Service Fund</b>	
	<b>Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)</b>	
	<b>Totals August 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>OPERATING REVENUES</b>	<b>\$</b>	<b>\$</b>
<i>Contributions to Insurance Program:</i>		
<i>From the State of Texas:</i>		
For Employees	1,024,635,915	1,040,866,625
For Retirees		343,821,335
Total Contributions from the State of Texas	1,024,635,915	1,384,687,960
<i>From Members:</i>		
For Employees	358,116,389	341,163,753
For Retirees		102,165,373
For COBRA	7,536,409	7,348,475
Total Contributions from Members	365,652,798	450,677,601
Total Contributions to Insurance Program	1,390,288,713	1,835,365,561
Federal Revenues-Medicare Part D		19,359,506
<i>Other Operating Revenues:</i>		
COBRA 2% Administration Fee	150,075	146,597
Warrants Voided by Statute of Limitations	11,586	13,162
Penalty Assessed to Insurance Carrier		140,000
Miscellaneous Operating Revenue	260,352	228,597
Total Other Operating Revenues	422,013	528,356
<b>Total Operating Revenues</b>	<b>1,390,710,726</b>	<b>1,855,253,423</b>
<b>OPERATING EXPENSES</b>		
<i>Employee Benefit Payments:</i>		
For Employees	1,275,725,465	1,265,966,252
For Retirees		478,228,775
For COBRA	18,231,642	15,877,630
Total Employee Benefit Payments	1,293,957,107	1,760,072,657
<i>Administrative Expenses:</i>		
Salaries & Wages	4,598,794	5,767,762
Payroll Related Costs	1,121,128	1,444,459
Professional Fees & Services	1,024,043	960,341
Travel	28,475	43,730
Materials & Supplies	519,502	628,055
Communications & Utilities	238,258	298,372
Repairs & Maintenance	294,545	343,443
Rentals & Leases	385,354	367,231
Printing & Reproduction	15,916	25,126
Other Operating Expenses	467,589	428,152
Total Administrative Expenses	8,693,604	10,306,671
<b>Total Operating Expenses</b>	<b>1,302,650,711</b>	<b>1,770,379,328</b>
<b>Operating Income</b>	<b>88,060,015</b>	<b>84,874,095</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Net Decrease in Fair Value of Investments	(729,842)	(4,833,910)
Interest Revenue	40,394,162	27,399,067
Class Action Settlements	288,717	
<i>Securities Lending Activities:</i>		
Loan Premium on Securities Lending	7,291,993	7,943,326
Less: Broker Rebates	(6,827,621)	(7,383,104)
Agent Fees	(67,127)	(102,244)
Net Securities Lending Activity	397,245	457,978
Settlement Revenue	25,160	327,468
<b>Total Non-Operating Revenues</b>	<b>40,375,442</b>	<b>23,350,603</b>
<b>Change in Net Assets</b>	<b>128,435,457</b>	<b>108,224,698</b>
<b>NET ASSETS</b>		
<b>Net Assets - Beginning</b>	<b>241,477,738</b>	<b>133,253,040</b>
<b>Net Assets - Ending (Exh. V)</b>	<b>369,913,195</b>	<b>241,477,738</b>

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

# Exhibit VII

## Statement of Cash Flows – Proprietary Fund

Year Ended August 31, 2007 (With Comparative Totals for August 31, 2006)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)	
	August 31, 2007	August 31, 2006
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Members	\$ 363,981,718	\$ 449,853,387
Cash Received from The State of Texas	1,091,814,881	1,380,729,902
Cash Payments to Insurance Carriers and Third Party Administrators	(1,340,946,410)	(1,727,092,834)
Cash Received from Federal Government - Medicare Part D	12,245,001	7,738,904
Cash Payments to Employees for Services	(5,792,409)	(5,528,584)
Cash Payments for Goods and Services	(2,996,666)	(4,742,380)
Other Cash Received	32,463	380,872
<b>Net Cash Provided by Operating Activities</b>	<b>118,338,578</b>	<b>101,339,267</b>
<b>Cash Flows from Investing Activities:</b>		
Net Purchases of Short-Term Investment Fund	(117,053,985)	(113,394,876)
Interest on Deposit in State Treasury	3,202,299	2,253,654
<b>Net Cash Used by Investing Activities</b>	<b>(113,851,686)</b>	<b>(111,141,222)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>4,486,892</b>	<b>(9,801,955)</b>
<b>Cash and Cash Equivalents:</b>		
Beginning of Year	<u>27,178,912</u>	<u>36,980,867</u>
End of Year	<u>31,665,804</u>	<u>27,178,912</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
<b>Operating Income</b>	<b>88,060,015</b>	<b>84,874,095</b>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>		
Depository Interest Transferred to Retiree Insurance Plan	(1,541,136)	
Settlement Revenue	25,160	327,468
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	8,611,301	(16,951,623)
(Increase) Decrease in Due From Other Agencies	(5,738)	173,039
(Increase) Decrease in Due From Other Funds	(1,725,402)	
Increase (Decrease) in Accounts Payable	(46,989,504)	32,892,473
Increase (Decrease) in Due To Other Funds	72,369,477	35,990
Increase (Decrease) in Deferred Revenue	(465,595)	(12,175)
<b>Total Adjustments</b>	<b>30,278,563</b>	<b>16,465,172</b>
<b>Net Cash Provided by Operating Activities</b>	<b>118,338,578</b>	<b>101,339,267</b>
<b>Non-Cash Investing Activities:</b>		
Net Appreciation (Depreciation) in Fair Value of Non-Cash Equivalent Investments	(261,199)	(4,833,910)

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

# Exhibit VIII

## Combined Statement of Fiduciary Net Assets

August 31, 2007 (With Comparative Totals at August 31, 2006, as Restated)

	Pension and Other Employee Benefit Trust Funds		Total Pension and Other Employee Benefit Trust Funds	Agency Funds	Totals August 31,	
	Defined Benefit Plans	Defined Contribution Plans and Cafeteria Plan			2007	(Note 8) 2006 (Restated)
<b>ASSETS</b>						
Cash and Cash Equivalents	108,847,440	5,642,209	114,489,649	150	114,489,799	83,595,311
Securities Lending Collateral	6,038,310,782		6,038,310,782	-	6,038,310,782	5,051,335,054
Short-Term Investments	664,846,395		664,846,395	-	664,846,395	352,492,800
Legislative Appropriations	324,419		324,419	-	324,419	321,566
Investments	23,759,126,298		23,759,126,298	-	23,759,126,298	22,124,858,001
Receivables	226,288,457	5,320,002	231,608,459	18,477	231,626,936	114,561,891
Due From Other Funds (Note 1.G)	93,729,414	366	93,729,780	-	93,729,780	1,363,374
Due From Other Agencies (Note 1.G)	4,207,017	5,071	4,212,088	-	4,212,088	3,931,738
Prepaid Expenses		250,000	250,000	-	250,000	101,490
Capital Assets, Net of Accumulated Depreciation	5,772,348		5,772,348	-	5,772,348	6,011,484
<b>Total Assets</b>	<b>30,901,452,570</b>	<b>11,217,648</b>	<b>30,912,670,218</b>	<b>18,627</b>	<b>30,912,688,845</b>	<b>27,738,572,709</b>
<b>LIABILITIES</b>						
Payables	377,693,870	7,529,258	385,223,128	18,627	385,241,755	237,905,664
Due To Other Funds (Note 1.G)	22,075,145	122,704	22,197,849	-	22,197,849	476,290
Due To Other Agencies (Note 1.G)	686,833		686,833	-	686,833	663,277
Deferred Revenue	489,556	14,410	503,966	-	503,966	46,959
Employees Compensable Leave	1,920,103		1,920,103	-	1,920,103	1,773,580
Obligations Under Securities Lending	6,038,310,782		6,038,310,782	-	6,038,310,782	5,051,335,054
Funds Held for Others				-		278,522
<b>Total Liabilities</b>	<b>6,441,176,289</b>	<b>7,666,372</b>	<b>6,448,842,661</b>	<b>18,627</b>	<b>6,448,861,288</b>	<b>5,292,479,346</b>
<b>NET ASSETS</b>						
<b>Net Assets Held in Trust for Pension Benefits and Other Purposes (Exh. IX)</b>	<b>24,460,276,281</b>	<b>3,551,276</b>	<b>24,463,827,557</b>	<b>-</b>	<b>24,463,827,557</b>	<b>22,446,093,363</b>

(Exh. X)

A Schedule of Funding Progress for each defined benefit plan is presented in the Required Supplementary Information, immediately following the Notes to the Basic Financial Statements.

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.



# Exhibit IX

## Combined Statement of Changes in Fiduciary Net Assets

Year Ended August 31, 2007 (With Comparative Totals for August 31, 2006, as Restated)

ADDITIONS	Defined Benefit Plans	Defined Contribution Plans and Cafeteria Plan	Pension and Other Employee Benefit Trust Funds	
			Totals August 31, (Note 8)	
	\$	\$	2007	2006 (Restated)
<b>Contributions:</b>				
Member Contributions	440,551,108	67,694,303	508,245,411	406,248,203
Employer Contributions	779,132,701		779,132,701	326,790,082
Legislative Appropriations	29,028,984		29,028,984	27,784,199
Service Contributions Transferred from Teacher Retirement System	48,538,424		48,538,424	45,716,307
Federal Revenues-Medicare Part D	28,557,634		28,557,634	
Settlement Revenue			-	145,179
Other Contributions - Forfeitures		730,871	730,871	662,130
<b>Total Contributions</b>	<b>1,325,808,851</b>	<b>68,425,174</b>	<b>1,394,234,025</b>	<b>807,346,100</b>
<b>Investment Income:</b>				
From Investing Activities	2,720,250,411	609,969	2,720,860,380	1,797,722,046
From Securities Lending Activities	14,229,269		14,229,269	12,058,181
<b>Total Investment Income</b>	<b>2,734,479,680</b>	<b>609,969</b>	<b>2,735,089,649</b>	<b>1,809,780,227</b>
<b>Other Additions:</b>				
Other Revenue	207,622	567,632	775,254	601,609
Transfers In	199,578	341,545	541,123	833,705
<b>Total Other Additions</b>	<b>407,200</b>	<b>909,177</b>	<b>1,316,377</b>	<b>1,435,314</b>
<b>Total Additions</b>	<b>4,060,695,731</b>	<b>69,944,320</b>	<b>4,130,640,051</b>	<b>2,618,561,641</b>
<b>DEDUCTIONS</b>				
<b>Benefits:</b>				
Benefits	2,014,867,900	67,134,333	2,082,002,233	1,368,696,276
Refunds of Contributions				75,678,834
Service Contributions Transferred to Teacher Retirement System	7,913,660	-	7,913,660	6,908,439
<b>Total Benefits</b>	<b>2,022,781,560</b>	<b>67,134,333</b>	<b>2,089,915,893</b>	<b>1,451,283,549</b>
Administrative Expenses	19,588,435	2,859,498	22,447,933	16,437,925
<b>Other Deductions:</b>				
Other Expenses	5,527	-	5,527	7,899
Transfers Out	536,504	-	536,504	833,049
<b>Total Other Deductions</b>	<b>542,031</b>	<b>-</b>	<b>542,031</b>	<b>840,948</b>
<b>Total Deductions</b>	<b>2,042,912,026</b>	<b>69,993,831</b>	<b>2,112,905,857</b>	<b>1,468,562,422</b>
<b>Net Increase</b>	<b>2,017,783,705</b>	<b>(49,511)</b>	<b>2,017,734,194</b>	<b>1,149,999,219</b>
<b>NET ASSETS</b>				
<b>Net Assets Held In Trust For Pension Benefits and Other Purposes:</b>				
<b>Beginning of Year, as Reported</b>	<b>22,442,492,576</b>	<b>315,475,888</b>	<b>22,757,968,464</b>	<b>21,570,429,501</b>
<b>Restatement (Note 8)</b>		<b>(311,875,101)</b>	<b>(311,875,101)</b>	<b>(274,335,357)</b>
<b>Beginning of Year, as Restated</b>	<b>22,442,492,576</b>	<b>3,600,787</b>	<b>22,446,093,363</b>	<b>21,296,094,144</b>
<b>End of Year (Exh. VIII)</b>	<b>24,460,276,281</b>	<b>3,551,276</b>	<b>24,463,827,557</b>	<b>22,446,093,363</b>

(Exh. XI)

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

# Exhibit X

## Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

August 31, 2007 (With Comparative Totals at August 31, 2006, as Restated)

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrange- ment (5039)	State Retiree Health Plan (3973)
<b>ASSETS</b>						
<i>Cash and Short-Term Investments:</i>						
<i>Cash and Cash Equivalents:</i>						
Cash on Hand	1,283,224			6,250		9,651
Cash in Bank	13,000					
Cash in State Treasury	20,104,278	839,705		542,906		9,309,939
Certificate of Deposit	24,428,126	809,322		203,813		
Margin Deposit (Note 5.A)	47,461,394	283,258		3,552,574		
Total Cash and Cash Equivalents	93,290,022	1,932,285	-	4,305,543	-	9,319,590
Securities Lending Collateral	5,778,463,221	177,506,394		82,341,167		
<i>Short-Term Investments:</i>						
Corporate Obligations	62,148,700	2,059,033		518,529		
Repurchase Agreements						
Other Short-Term Investments	576,548,425	19,338,270	-	4,233,438	-	-
Total Short-Term Investments	638,697,125	21,397,303	-	4,751,967	-	-
Total Cash and Short-Term Investments	6,510,450,368	200,835,982	-	91,398,677	-	9,319,590
<i>Legislative Appropriations</i>						
			324,419			
<i>Investments:</i>						
U.S. Government and Agency Obligations	5,224,585,650	157,637,185		81,438,181		
Corporate Equity	10,302,279,563	341,322,241		85,955,557		
Corporate Obligations	2,645,689,158	87,653,664		22,073,919		
Foreign Securities	4,618,925,395	153,028,459	-	38,537,326	-	-
Total Investments	22,791,479,766	739,641,549	-	228,004,983	-	-
<i>Receivables:</i>						
Interest and Dividends Receivable	5,330,607	174,957		46,141		
Contributions/Accounts Receivable	50,264,227			1,234,104		5,752,023
Unsettled Sales-Investment Receivables	156,979,589	5,198,829		1,307,980		
Total Receivables	212,574,423	5,373,786	-	2,588,225	-	5,752,023
Due From Other Funds (Note 1.G)	17,653,742	3,722,688		115,786		72,237,198
Due From Other Agencies (Note 1.G)	4,207,017					
Prepaid Claims Expense						
<i>Capital Assets:</i>						
<i>Non-Depreciable:</i>						
Land and Land Improvements	874,889					
<i>Depreciable, Net of Accumulated Depreciation</i>						
<i>of \$13,072,684 and \$12,668,117 respectively:</i>						
Building	4,530,920					
Furniture and Equipment	366,539					
Total Capital Assets	5,772,348					
<b>Total Assets</b>	<b>29,542,137,664</b>	<b>949,574,005</b>	<b>324,419</b>	<b>322,107,671</b>	<b>-</b>	<b>87,308,811</b>
<b>LIABILITIES</b>						
<i>Payables:</i>						
Benefits/Accounts Payable	23,082,059	250,126	324,419	70,817		85,093,853
Unsettled Purchases-Investment Payables	258,171,492	8,550,168		2,150,936		
Total Payables	281,253,551	8,800,294	324,419	2,221,753	-	85,093,853
Due To Other Funds (Note 1.G)	142,505	327,644		19,879,594		1,725,402
Due To Other Agencies (Note 1.G)	686,833					
Deferred Revenue						489,556
Employees Compensable Leave	1,920,103					
Obligations Under Securities Lending	5,778,463,221	177,506,394		82,341,167		
<b>Total Liabilities</b>	<b>6,062,466,213</b>	<b>186,634,332</b>	<b>324,419</b>	<b>104,442,514</b>	<b>-</b>	<b>87,308,811</b>
<b>NET ASSETS</b>						
<b>Net Assets Held in Trust for Pension Benefits and Other Purposes (Exh. XI)</b>	<b>23,479,671,451</b>	<b>762,939,673</b>	<b>-</b>	<b>217,665,157</b>	<b>-</b>	<b>-</b>

A Schedule of Funding Progress for each defined benefit plan is presented in the Required Supplementary Information, immediately following the Notes to the Basic Financial Statements.

USAS Funds (U/F) are:

Fund 0955: 0955, 1955, 8955; Fund 0977: 0977, 1977, 8977; Fund 0001: 2001; Fund 0993: 0993, 1993, 8993; Fund 5039: 5039; Fund 0973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 0943: 0943, 8943.

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.

Total Defined Benefit Plans	TexaSaver 401(k) Trust Fund (0946)	TexaSaver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Defined Contribution Plans and Cafeteria Plan	Totals August 31,	
					2007	(Note 8) 2006 (Restated)
\$	\$	\$	\$	\$	\$	\$
1,299,125			2,891	2,891	1,302,016	3,927,998
13,000		179,916	416,970	596,886	609,886	346,195
30,796,828	1,370,548	1,028,092	2,643,792	5,042,432	35,839,260	31,045,092
25,441,261					25,441,261	
51,297,226				-	51,297,226	47,997,353
108,847,440	1,370,548	1,208,008	3,063,653	5,642,209	114,489,649	83,316,638
6,038,310,782				-	6,038,310,782	5,051,335,054
64,726,262				-	64,726,262	195,272,425
-				-	-	150,022,125
600,120,133	-	-	-	-	600,120,133	7,198,250
664,846,395	-	-	-	-	664,846,395	352,492,800
6,812,004,617	1,370,548	1,208,008	3,063,653	5,642,209	6,817,646,826	5,487,144,492
324,419				-	324,419	321,566
5,463,661,016				-	5,463,661,016	5,288,091,392
10,729,557,361				-	10,729,557,361	9,727,259,929
2,755,416,741				-	2,755,416,741	2,861,123,347
4,810,491,180				-	4,810,491,180	4,248,383,334
23,759,126,298				-	23,759,126,298	22,124,858,002
5,551,705	6,000	3,100	16,800	25,900	5,577,605	4,486,270
57,250,354		8,890	5,285,212	5,294,102	62,544,456	54,217,695
163,486,398					163,486,398	55,839,121
226,288,457	6,000	11,990	5,302,012	5,320,002	231,608,459	114,543,086
93,729,414			366	366	93,729,780	1,363,374
4,207,017			5,071	5,071	4,212,088	3,931,738
-			250,000	250,000	250,000	101,490
874,889				-	874,889	874,889
4,530,920				-	4,530,920	4,455,004
366,539				-	366,539	681,591
5,772,348				-	5,772,348	6,011,484
<b>30,901,452,570</b>	<b>1,376,548</b>	<b>1,219,998</b>	<b>8,621,102</b>	<b>11,217,648</b>	<b>30,912,670,218</b>	<b>27,738,275,232</b>
108,821,274		133,234	7,396,024	7,529,258	116,350,532	28,441,348
268,872,596				-	268,872,596	209,445,361
377,693,870		133,234	7,396,024	7,529,258	385,223,128	237,886,709
22,075,145	36,944	51,399	34,361	122,704	22,197,849	476,290
686,833					686,833	663,277
489,556		14,410		14,410	503,966	46,959
1,920,103					1,920,103	1,773,580
6,038,310,782				-	6,038,310,782	5,051,335,054
<b>6,441,176,289</b>	<b>36,944</b>	<b>199,043</b>	<b>7,430,385</b>	<b>7,666,372</b>	<b>6,448,842,661</b>	<b>5,292,181,869</b>
<b>24,460,276,281</b>	<b>1,339,604</b>	<b>1,020,955</b>	<b>1,190,717</b>	<b>3,551,276</b>	<b>24,463,827,557</b>	<b>22,446,093,363</b>

(Exh. VIII)

# Exhibit XI

## Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

Year Ended August 31, 2007 (With Comparative Totals for August 31, 2006, as Restated)

<b>ADDITIONS</b>	<b>Employees Retirement Fund (0955)</b>	<b>and Custodial Officer Supplemental Fund (0977)</b>	<b>Judicial Retirement System Plan I (0001)</b>	<b>Judicial Retirement System Plan II (0993)</b>	<b>Excess Benefit Arrangement (5039)</b>	<b>State Retiree Health Plan (3973)</b>
	\$	\$	\$	\$	\$	\$
<b>Contributions:</b>						
Member Contributions	328,038,932	-	-	4,125,209	-	108,386,967
Employer Contributions	329,981,050			10,908,845		438,242,806
<i>Legislative Appropriations for:</i>						
Judges Retirement Annuities			29,028,984			
Administrative Expenses						
Service Contributions Transferred from Teacher Retirement System (Note 1.G)	48,538,424					
Federal Revenues-Medicare Part D Settlement Revenue						28,557,634
Other Contributions - Forfeitures						
<b>Total Contributions</b>	<b>706,558,406</b>	<b>-</b>	<b>29,028,984</b>	<b>15,034,054</b>	<b>-</b>	<b>575,187,407</b>
<b>Investment Income:</b>						
<i>From Investing Activities:</i>						
Net Appreciation (Depreciation) in Fair Value of Investments	1,862,073,284	61,102,940		16,498,454		
Interest and Dividends	758,553,921	24,837,354		7,214,400		1,541,136
Class Action Settlements	14,810,512	490,496		123,395		
Total Investing Activity Income	2,635,437,717	86,430,790	-	23,836,249	-	1,541,136
Less: Investment Expense	(25,895,182)	(895,548)		(204,252)		(499)
Net Income, Investing Activities	2,609,542,535	85,535,242	-	23,631,997	-	1,540,637
<i>From Securities Lending Activities:</i>						
Loan Premium on Securities Lending	292,098,077	6,165,467		12,562,523		
Less: Broker Rebates	(276,472,342)	(5,857,135)		(11,843,582)		
Agent Fees	(2,273,627)	(44,257)		(105,855)		
Total Securities Lending Expenses	(278,745,969)	(5,901,392)		(11,949,437)		
Net Income, Securities Lending Activities	13,352,108	264,075		613,086		
<b>Net Investment Income</b>	<b>2,622,894,643</b>	<b>85,799,317</b>	<b>-</b>	<b>24,245,083</b>	<b>-</b>	<b>1,540,637</b>
<b>Other Additions:</b>						
<i>Other Revenue:</i>						
Warrants Voided by Statute of Limitations	89,100	27				
Sale of Surplus Equipment						
Rental Income	102,568					
Miscellaneous Revenue	15,927					
Administration Fees						
Total Other Revenue	207,595	27	-	-	-	-
<i>Interfund Transfers In (Note 1.G):</i>						
Membership Fees						
Excess Benefit Arrangement					136,543	
<i>Interagency Transfers In (Note 5.F):</i>						
Excess Benefit Arrangement					63,035	
Total Transfers In	-	-	-	-	199,578	-
<b>Total Other Additions</b>	<b>207,595</b>	<b>27</b>	<b>-</b>	<b>-</b>	<b>199,578</b>	<b>-</b>
<b>Total Additions</b>	<b>3,329,660,644</b>	<b>85,799,344</b>	<b>29,028,984</b>	<b>39,279,137</b>	<b>199,578</b>	<b>576,728,044</b>

USAS Funds (U/F) are :

Fund 0955: 0955, 1955, 8955; Fund 0977: 0977, 1977, 8977; Fund 0001: 2001; Fund 0993: 0933, 1993, 8993; Fund 5039: 5039.

The accompanying Notes to the Basic Financial Statements are an integral part of this exhibit.



Total Defined Benefit Plans	TexaSaver 401(k) Trust Fund (0946)	TexaSaver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Defined Contribution Plans and Cafeteria Plan	Totals August 31,	
					2007	(Note 8) 2006 (Restated)
\$	\$	\$	\$	\$	\$	\$
440,551,108	-	-	67,694,303	67,694,303	508,245,411	406,248,203
779,132,701	-	-	-	-	779,132,701	326,790,082
-	-	-	-	-	-	-
29,028,984	-	-	-	-	29,028,984	27,664,199
-	-	-	-	-	-	120,000
48,538,424	-	-	-	-	48,538,424	45,716,307
28,557,634	-	-	-	-	28,557,634	-
-	-	-	-	-	-	145,179
-	-	-	730,871	730,871	730,871	662,130
<b>1,325,808,851</b>	<b>-</b>	<b>-</b>	<b>68,425,174</b>	<b>68,425,174</b>	<b>1,394,234,025</b>	<b>807,346,100</b>
1,939,674,678	-	-	-	-	1,939,674,678	1,114,028,280
792,146,811	461,804	70,763	89,449	622,016	792,768,827	704,894,649
15,424,403	-	-	-	-	15,424,403	-
2,747,245,892	461,804	70,763	89,449	622,016	2,747,867,908	1,818,922,929
(26,995,481)	(2,926)	(9,121)	-	(12,047)	(27,007,528)	(21,200,883)
2,720,250,411	458,878	61,642	89,449	609,969	2,720,860,380	1,797,722,046
310,826,067	-	-	-	-	310,826,067	220,641,572
(294,173,059)	-	-	-	-	(294,173,059)	(205,973,232)
(2,423,739)	-	-	-	-	(2,423,739)	(2,610,159)
(296,596,798)	-	-	-	-	(296,596,798)	(208,583,391)
14,229,269	-	-	-	-	14,229,269	12,058,181
<b>2,734,479,680</b>	<b>458,878</b>	<b>61,642</b>	<b>89,449</b>	<b>609,969</b>	<b>2,735,089,649</b>	<b>1,809,780,227</b>
89,127	-	-	-	-	89,127	112,506
-	-	-	-	-	-	2,790
102,568	-	-	-	-	102,568	83,687
15,927	3,000	-	105,210	108,210	124,137	59,242
-	297,755	161,667	-	459,422	459,422	343,384
207,622	300,755	161,667	105,210	567,632	775,254	601,609
-	-	341,545	-	341,545	341,545	536,536
136,543	-	-	-	-	136,543	235,154
63,035	-	-	-	-	63,035	62,015
199,578	-	341,545	-	341,545.00	541,123	833,705
<b>407,200</b>	<b>300,755</b>	<b>503,212</b>	<b>105,210</b>	<b>909,177</b>	<b>1,316,377</b>	<b>1,435,314</b>
<b>4,060,695,731</b>	<b>759,633</b>	<b>564,854</b>	<b>68,619,833</b>	<b>69,944,320</b>	<b>4,130,640,051</b>	<b>2,618,561,641</b>

- to next page

# Exhibit XI

## Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

Year Ended August 31, 2007 (With Comparative Totals for August 31, 2006, as Restated)

<b>DEDUCTIONS</b>	<b>Employees Retirement Fund (0955)</b>	<b>Law Enforcement and Custodial Officer Supplemental Fund (0977)</b>	<b>Judicial Retirement System Plan I (0001)</b>	<b>Judicial Retirement System Plan II (0993)</b>	<b>Excess Benefit Arrangement (5039)</b>	<b>State Retiree Health Plan (3973)</b>
	\$	\$	\$	\$	\$	\$
<b>Benefits:</b>						
Benefits	1,294,149,334	32,149,736	29,028,984	5,746,698	141,162	574,029,830
Refunds of Contributions	79,563,857			58,299		
<i>Transfers Out of Contributions:</i>						
Service Contributions Transferred to Teacher Retirement System (Note 1.G)	7,913,660					
<b>Total Benefits</b>	<b>1,381,626,851</b>	<b>32,149,736</b>	<b>29,028,984</b>	<b>5,804,997</b>	<b>141,162</b>	<b>574,029,830</b>
<b>Administrative Expenses:</b>						
Salaries & Wages	6,743,978	213,319		137,577		1,465,731
Payroll Related Costs	1,827,141	59,146		37,788		357,299
Professional Fees & Services	3,394,617	157,665		169,170		291,971
Travel	38,088	660		490		9,376
Materials & Supplies	930,775	15,120		8,822		149,345
Communications & Utilities	358,773	9,936		6,933		74,200
Repairs & Maintenance	623,201	12,792		10,834		91,625
Rentals & Leases	567,287	14,130		11,507		120,001
Printing & Reproduction	20,507	58		83		4,961
Depreciation	670,623					
Settlement of Claims	5,000					
Interest Expense						
Other Operating Expenses	811,089	20,967	-	12,145	-	133,705
<b>Total Administrative Expenses</b>	<b>15,991,079</b>	<b>503,793</b>	<b>-</b>	<b>395,349</b>	<b>-</b>	<b>2,698,214</b>
<b>Other Deductions:</b>						
<i>Other Expenses:</i>						
Loss on Sale of Capital Assets	5,527					
Total Other Expenses	5,527					
<i>Interfund Transfers Out (Note 5.E):</i>						
Membership Fees	341,545					
Excess Benefit Arrangement	136,543					
<i>Interagency Transfers Out (Note 5.F):</i>						
Excess Benefit Arrangement					58,416	
Total Transfers Out	478,088				58,416	
<b>Total Other Deductions</b>	<b>483,615</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,416</b>	<b>-</b>
<b>Total Deductions</b>	<b>1,398,101,545</b>	<b>32,653,529</b>	<b>29,028,984</b>	<b>6,200,346</b>	<b>199,578</b>	<b>576,728,044</b>
<b>Net Increase/(Decrease)</b>	<b>1,931,559,099</b>	<b>53,145,815</b>	<b>-</b>	<b>33,078,791</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS</b>						
<b>Not Assets Held in Trust For Pension Benefits and Other Purposes:</b>						
<b>Beginning of Year, as Reported</b>	<b>21,548,112,352</b>	<b>709,793,858</b>		<b>184,586,366</b>		
<b>Restatement (Note 8)</b>						
<b>Beginning of Year, as Restated</b>	<b>21,548,112,352</b>	<b>709,793,858</b>	<b>-</b>	<b>184,586,366</b>	<b>-</b>	<b>-</b>
<b>End of Year (Exh. X)</b>	<b>23,479,671,451</b>	<b>762,939,673</b>	<b>-</b>	<b>217,665,157</b>	<b>-</b>	<b>-</b>

Total Defined Benefit Plans	TexaSaver 401(k) Trust Fund (0946)	TexaSaver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Defined Contribution Plans and Cafeteria Plan	Totals August 31,	
					2007	2006 (Restated) (Note 8)
	\$	\$	\$		\$	\$
1,935,245,744			67,134,333	67,134,333	2,002,380,077	1,368,696,276
79,622,156				-	79,622,156	75,678,834
-						
7,913,660				-	7,913,660	6,908,439
<b>2,022,781,560</b>	<b>-</b>	<b>-</b>	<b>67,134,333</b>	<b>67,134,333</b>	<b>2,089,915,893</b>	<b>1,451,283,549</b>
8,560,605	247,241	312,935	205,259	765,435	9,326,040	7,508,153
2,281,374	54,668	75,768	54,140	184,576	2,465,950	1,975,088
4,013,423	80,973	69,968	8,026	158,967	4,172,390	2,210,708
48,614	1,160	1,270	992	3,422	52,036	43,111
1,104,062	10,698	10,101	11,949	32,748	1,136,810	581,183
449,842	9,743	8,339	8,973	27,055	476,897	342,036
738,452	12,119	11,445	12,256	35,820	774,272	534,069
712,925	13,388	12,454	13,428	39,270	752,195	530,908
25,609	21	58	836	915	26,524	28,242
670,623					670,623	727,275
5,000					5,000	
			129,433	129,433	129,433	78,626
977,906	18,039	23,355	1,440,463	1,481,857	2,459,763	1,878,526
<b>19,588,435</b>	<b>448,050</b>	<b>525,693</b>	<b>1,885,755</b>	<b>2,859,498</b>	<b>22,447,933</b>	<b>16,437,925</b>
5,527				-	5,527	7,899
5,527	-	-	-	-	5,527	7,899
341,545				-	341,545	536,536
136,543				-	136,543	235,154
58,416				-	58,416	61,359
536,504	-	-	-	-	536,504	833,049
<b>542,031</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>542,031</b>	<b>840,948</b>
<b>2,042,912,026</b>	<b>448,050</b>	<b>525,693</b>	<b>69,020,088</b>	<b>69,993,831</b>	<b>2,112,905,857</b>	<b>1,468,562,422</b>
<b>2,017,783,705</b>	<b>311,583</b>	<b>39,161</b>	<b>(400,255)</b>	<b>(49,511)</b>	<b>2,017,734,194</b>	<b>1,149,999,219</b>
<b>22,442,492,576</b>	<b>1,028,021</b>	<b>312,856,895</b>	<b>1,590,972</b>	<b>315,475,888</b>	<b>22,757,968,464</b>	<b>21,570,429,501</b>
		<b>(311,875,101)</b>		<b>(311,875,101)</b>	<b>(311,875,101)</b>	<b>(274,335,357)</b>
<b>22,442,492,576</b>	<b>1,028,021</b>	<b>981,794</b>	<b>1,590,972</b>	<b>3,600,787</b>	<b>22,446,093,363</b>	<b>21,296,094,144</b>
<b>24,460,276,281</b>	<b>1,339,604</b>	<b>1,020,955</b>	<b>1,190,717</b>	<b>3,551,276</b>	<b>24,463,827,557</b>	<b>22,446,093,363</b>

(Exh. IX)

# Notes to the Basic Financial Statements

August 31, 2007

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# Notes to the Basic Financial Statements

August 31, 2007

## 1. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB).

The System applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

### A. The Reporting Entity

#### (In accordance with GASB Statement 14)

The Texas Constitution under Article XVI, Section 67 authorized the Texas Legislature to establish by law an Employees Retirement System of Texas (the System) to provide benefits for officers and employees of the State. The System was established in 1947 and operates primarily under V.T.C.A., Texas Government Code, Title 8, Subtitle B.

The System has the powers, privileges and immunities of a corporation. The System is governed by a Board of Trustees, which is made up of six members responsible for the general administration and operations of the System. The six-member board is composed of three elected members and three members who are appointed respectively by the Governor, the Speaker of the Texas House of Representatives, and the Chief Justice of the Supreme Court of Texas. The Board appoints a person other than a member of the Board to serve at the Board's will as Executive Director to manage a staff of approximately 300 people to provide benefits to State and higher education employees and retirees, and beneficiaries.

Although the Employees Retirement System is a separate legal entity and by statute must prepare a separate annual financial report, it is also a retirement system of the State of Texas financial reporting entity and is included in the State's annual financial report as a blended component unit.

### B. New Accounting Pronouncements

September 1, 2006, the System implemented GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The implementation requires some additional information and schedules including plan descriptions, contributions, and funding status in the financial section. To record this information separately, a new fund was created known as the State Retiree Health Plan, (SRHP). Under GASB 10, active and retired employee benefits were both reported in a proprietary fund. Under GASB 43, retiree

postemployment benefits are reported in a fiduciary fund type. The SRHP is a cost-sharing multiple-employer defined benefit plan.

### C. Basic Financial Statements

#### (In accordance with GASB Statement 34)

The Basic Financial Statements consist of:

- Government-wide Financial Statements;
- Fund Financial Statements and Combining Financial Statements of the Defined Benefit Plans; and
- Notes to the Basic Financial Statements.

Government-wide financial statements report all assets, liabilities and net assets of the System's Governmental Funds and Internal Service Fund. Governmental activities are generally financed through intergovernmental revenues and other non-exchange revenues.

Fiduciary activities are *excluded* from the government-wide financial statements.

Fund financial statements are presented immediately after the government-wide financial statements. These statements present information for Governmental Funds, the Internal Service Fund, and the Fiduciary Funds. Fund financial statements have been prepared using the measurement focus appropriate for each type of fund.

### D. Measurement Focus – Basis of Accounting

#### (In accordance with GASB Statement 34)

*Measurement focus* refers to the definition of the resource flows measured. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

The government-wide Statement of Net Assets and Statement of Activities use the economic resources measurement focus and the accrual basis of accounting.

The government-wide Statement of Activities presents the System's governmental activities by function and distinguishes between program revenues and general revenues. Program revenues are further broken down into charges for services, and operating grants and contributions.

Program revenues of the governmental activities are: appropriations from the State's General Revenue Fund for law enforcement and peace officer death benefits, lump sum retiree death benefits, and benefits for victims of crime, insurance premiums received by the Internal Service Fund from employees, retirees and the State of Texas and all investment income deposited or credited to the Internal Service Fund.

# Notes to the Basic Financial Statements

August 31, 2007

Program expenses of the governmental activities are: death benefit expenses of the appropriated Special Revenue Funds, claims expenses and premium payments of the Internal Service Fund, and all administrative expenses.

All other revenues and expenses of the governmental activities are considered to be general revenues/expenses.

Special Revenue Funds are accounted for under the modified accrual basis of accounting and current financial resources measurement focus. Under this combination, the financial statements focus on current assets and current liabilities and the changes in net current assets. All revenues reported are recognized based on the criteria of measurability and availability. The System considers all revenues reported in the Special Revenue Funds to be available if the revenues are due at yearend and collected within 60 days thereafter. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related liability is incurred. Benefit payments to participants are recorded upon distribution.

Pension and Other Employee Benefit Trust Funds and Internal Service Funds are maintained on the full accrual basis of accounting and the economic resources measurement focus. All economic resources, including financial and capital assets and related liabilities, both current and long-term, and the changes therein are reported in the fund's financial statements. Additions are recognized when earned, and deductions are recognized when the liability is incurred, regardless of the timing of related cash flows. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Capital assets are depreciated.

Agency Funds are used to report resources held by the System in a purely custodial capacity. Assets and offsetting liabilities are accounted for using the full accrual basis. Agency Funds have no revenues, expenditures, expenses, or fund balance and typically involve only the receipt and remittance of resources to individuals, the state or other governments.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

## **E. Basis of Presentation**

*(In accordance with GASB Statement 34)*

### **Fund Structure**

The fund financial statements are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. These accounts are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with applicable statutory guidelines or restrictions.

The System's funds fall under three fund categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. Following is a brief description of each fund category and fund type used by the System.

### **Governmental Fund Category**

Governmental Fund reporting focuses primarily on the sources, uses, and balances of current financial resources and whether current-year revenues were sufficient to pay for current-year services.

### **Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes. The System displays General Revenue Funds/Accounts of the State of Texas as Special Revenue Funds, except for the Judicial Retirement System Plan One Fund, which is a pay-as-you-go pension plan reported as a Pension and Other Employee Benefit Trust Fund.

- Social Security Administration Fund – This fund accounts for the expenditures of administration of the Social Security Program.
- Death Benefits Program for Commissioned Peace Officers, Firemen, etc. Fund (General Revenue Fund) – This fund accounts for payments of death benefits and administrative fees, which are funded by an appropriation from the State's General Revenue Fund. Established by V.T.C.A., Texas Government Code, Title 6, Chapter 615.
- Compensation to Victims of Crime – This fund accounts for payments of death benefits to the beneficiaries of victims of crime. It is funded by an appropriation from the Victims of Crime Fund 0469, which was established by Texas Criminal Procedure Code, Article 56.54.
- Lump Sum Retiree Death Benefit Fund (General Revenue Fund) – This fund accounts for the payments of the \$5,000 lump sum benefit, which is an additional benefit provided by the System to the beneficiaries of retirees who die while still receiving a retirement annuity.

# Notes to the Basic Financial Statements

August 31, 2007

## **Proprietary Fund Category**

Proprietary Fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

## **Internal Service Fund**

Internal Service Funds are used to report any activity that provides goods or services, on a cost-reimbursement basis, to other funds, departments, agencies of the reporting entity, or other governments.

- Employees Life, Accident and Health Insurance and Benefits Fund – This fund accounts for the services provided to State of Texas agencies and higher education institutions that participate in the Texas Employees Group Benefits Program. Established by Chapter 1551, Texas Insurance Code.

## **Fiduciary Fund Category**

**The fiduciary funds are not part of the government-wide financial statements.**

### **Pension and Other Employee Benefit Trust Funds**

Pension and Other Employee Benefit Trust Funds (Pension Trust Funds) report the resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, and other employee benefit plans.

- Employees Retirement System Fund (ERS) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the accumulation of resources for pension benefit payments to qualified State employees or beneficiaries.
- Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the payments of benefits as provided by the Commissioned Law Enforcement and Custodial Officer Supplemental Retirement Benefit Act.
- Judicial Retirement System Plan One Fund (JRS I) (General Revenue Fund) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle D and is used to account for appropriations received from the State's General Revenue Fund for annuity and refund payments to eligible judicial employees who commenced service prior to September 1, 1985.
- Judicial Retirement System Plan Two Fund (JRS II) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle E and is used to account for the accumulation of resources for pension benefit payments to eligible judicial employees who commenced service after August 31, 1985.

- Excess Benefit Arrangement (EBA) – This fund is established by V.T.C.A., Texas Government Code, Title 8, Subtitle B and is used to account for the payments of annuities otherwise payable from the Employees Retirement Fund that exceed the limitations on benefits imposed by Internal Revenue Code (IRC) Section 415(b).
- State Retiree Health Plan (SRHP) – The System provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551. The State Retiree Health Plan (SHRP) is a cost-sharing multiple-employer defined benefit postemployment health care plan that covers retired employees of the State, and other entities as specified by the state legislature.
- TexaSaver 401(k) Trust Fund – This fund is established by V.T.C.A., Article 6252-3g and is used to account for the costs of administering the IRC Section 401(k) defined contribution plan.
- TexaSaver 457 Trust Fund – This fund is established by V.T.C.A., Article 6252-3g and is used to account for tax-deferred portions of salaries of State employees in accordance with the provisions of IRC Section 457 and the costs of administering the program.
- State Employees Cafeteria Plan Trust Fund (TexFlex) – This fund is established by Chapter 1551, Texas Insurance Code and is used to account for before-tax salary reduction contributions from State employees and higher education institutions, reimbursements for health care and dependent care, and the costs of administering the program.

## **Agency Funds**

Agency Funds are used to account for assets held by a governmental unit in a purely custodial capacity for individuals, other governmental entities, or private organizations. Agency Funds report only the balances of assets and liabilities and do not measure results of operations.

- Unappropriated Receipts (General Revenue Fund) – This fund accounts for member contributions received from the Judicial Retirement System Plan One Fund.
- Employee Savings Bond Fund – This fund accounts for payroll deductions and the purchases of U.S. Savings Bonds.
- TexaSaver 401(k) Trust Fund – This fund accounts for tax-deferred portions of salaries of State employees in accordance with the provisions of IRC Section 401(k).
- TexaSaver 401(k) Hold Transmittal Fund – This fund accounts for tax-deferred portions of salaries of State employees in accordance with the provisions of IRC Section 401(k).

# Notes to the Basic Financial Statements

August 31, 2007

- Direct Deposit Correction Account – This fund accounts for monies which had been transmitted for direct deposit but were returned because problems prevented credit from being given to individual depositors. The System transfers the funds back to the original issuing fund.
- Departmental Suspense Fund - This fund provides a temporary depository for monies held awaiting final disposition.

## F. Budgets

### Appropriated Budgets

The Texas Legislature appropriates monies out of the State's General Revenue Fund for benefit payments of the Judicial Retirement System Plan One Fund and all Special Revenue Funds other than the Social Security Administration Fund on an 'estimated to be' basis. This type of appropriation means that the System has the authority to increase the appropriations as needed during the time period that the appropriation is allowed to remain open. For benefit payments, expenditures in excess of appropriations received are not a violation of budgetary authority.

The System is required to lapse all unencumbered appropriations by November 1 of each year.

### Non-appropriated Budget

The Texas Legislature does not appropriate monies to the System for administrative expenses. A non-appropriated budget for administrative expenses, including capital outlay, is prepared annually and approved by the System's Board of Trustees at the line-item level. The System's management must approve any transfers between line items, and the Board must approve any amendments to the approved budget.

Administrative expenses are budgeted in and paid entirely from the Employees Retirement Fund. Expenses are allocated periodically to the other funds based on percentages determined by the studies of time and resources used to administer each fund within each division. Expenses are limited by a statutory provision that no expense can be made for more than the State of Texas pays for similar services.

Non-appropriated budgets are not lapsed at year-end.

### Basis of Budgeting

Appropriated budgets are prepared on the budgetary basis, which differs from the GAAP basis. Schedules of Budgeted to Actual Expenditures for the Death Benefits Program for Commissioned Peace Officers, Firemen, etc. Fund, the Lump Sum Retiree Death Benefit Fund, and the Compensation to Victims of Crime Fund are presented as Required Supplementary Information immediately

after the Notes to the Basic Financial Statements. A reconciliation from the basis of budgeting to the GAAP basis is provided on the face of the schedule.

### Variations

Negative variations, if any, for administrative expenditures of the appropriated Special Revenue Funds are the result of expenditures applicable to the prior year, but expensed and paid in the current year.

## G. Assets, Liabilities, Fund Balances and Net Assets (In accordance with GASB Statement 34)

### Cash and Temporary Investments

Cash and Cash Equivalents (in accordance with GASB Statement 9), as reported in the *Statement of Cash Flows* for the Internal Service Fund, are composed of cash on hand, cash in local banks, cash in the State Treasury, and cash equivalents. Cash in local banks is held by Fiduciary Funds. Cash balances of most state funds are pooled and invested by the Treasury Operations Division at the Comptroller's office. Interest earned is deposited in the specified funds designated by law.

The Statement of Cash Flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for Securities Lending are not included as cash equivalents on the Statement of Cash Flows.

The petty cash and travel advance accounts, and the Texa\$aver 401(k) and State Employees Cafeteria Plan accounts (Cash in Bank) are maintained at a local commercial bank.

### Valuation

Cash on Hand, Cash in Bank, Cash in State Treasury, Investment in Pool Cash, and Short-Term Investment Fund are reported at book value. Other temporary investments are reported at fair value.

### Investments

#### Valuation

Investments of the Pension Trust Funds and Internal Service Fund are reported at fair value in accordance with GASB Statement 25 and 31, respectively. Fair value is defined as the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. The fair value of these investments include accrued dividends and accrued



# Notes to the Basic Financial Statements

August 31, 2007

interest receivable (refer to Figure J, Investments). The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available, plus accrued interest and dividends. Many factors are considered in arriving at that value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Short-term investments are reported at cost, which approximates fair value.

For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors and the Master Trust Custodian, has determined fair values for the individual investments.

The investments of the Employees Retirement System Fund, the Law Enforcement and Custodial Officer Supplemental Retirement Fund, and the Judicial Retirement System Plan Two Fund are pooled in the Pension Investment Pool Trust Fund.

### Permissible Investments

Eligible securities are as follows:

- Domestic equities, screened to eliminate against any known bankruptcy proceedings, lawsuits, or breach of corporate ethics that might jeopardize the company's economic future or existence;
- Equities of companies domiciled in countries outside of the United States; and
- U.S. dollar denominated fixed income and short-term securities including both publicly-traded and those issued pursuant to the Securities and Exchange Commission's Rule 144A.

### Investment Unit Trust Accounting

In order to provide flexibility of asset allocation for the pension funds and effectively invest in a diversified manner, the Board of Trustees directed that investment unit trust accounting be implemented, effective September 1, 2006. Unit trust accounting involved assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The custodian bank prepares consolidated bank statements and fund statements that show the unit trust accounting activity. Investment earnings and appreciation increase the per unit value of all participating funds. Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the pension funds on a monthly basis using the pro rata fair value share at month end.

### Capital Assets

Pension Trust Funds are accounted for on a cost of service measurement focus. This means that all capital assets associated with the funds' activities are included in their statements of net assets. Purchases of capital assets by these funds are reported at cost or, if donated, at fair market value on the acquisition date. Depreciation of all exhaustible capital assets is charged as an expense against the funds' operations. Accumulated depreciation is reported on the statements of net assets.

Depreciation has been provided over the estimated useful lives, using the straight-line method. The capitalization thresholds and estimated useful lives are shown in Figure A.

**Figure A**  
**Capitalization Thresholds and Useful Lives**

Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Land	0	N/A
Building and Improvements	\$100,000	40
Furniture and Equipment	\$5,000	3 - 10
Motor Vehicles	\$5,000	7

### Accounts Payable

Accounts Payable under the Internal Service Fund include claims incurred but not reported by the participants prior to fiscal year end and payable in future years as estimated by the System's actuary.

### Employees Compensable Leave

Under the provisions of Article 6252-8b, (V.A.C.S.), a State employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months.

In Fiduciary Fund types, salary costs related to employees' rights to be compensated for vacation time are accrued as expenses of the period in which the services were rendered. Accumulated compensable leave liabilities are reported in the Statement of Fiduciary Net Assets for the Employees Retirement Fund.

No liability is recorded for non-vesting accumulating rights to receive sick leave benefits.

### Net Assets – Held in Trust for Pension Benefits

The net assets of the retirement trust funds consist of up to five reserve accounts, depending on the particular fund.

# Notes to the Basic Financial Statements

August 31, 2007

- The Employee Savings Account represents the accumulation of active and inactive member deposits plus interest.
- The State Accumulation Account represents reserves available to fund the future active member retirement, death, and survivor benefits.
- The Retirement Annuity Reserve Account represents reserves to pay retirement, death, and survivor benefits and post-retirement benefit increases for current retirees.
- The Interest Account represents the interest, dividends, securities lending income, and net appreciation or depreciation received and accrued on the invested assets of the fund. All investment income is transferred to the Employee Savings, State Accumulation, and Retirement Annuity Reserve accounts based on applicable Texas statutes.
- The Administration Account represents reserves to pay all administration and maintenance expenses of the retirement trust funds.

See Note 2.C for the balances of each funded plans' legally required reserves.

## Restricted Net Assets - Proprietary Fund

*(In accordance with GASB Statement 34)*

Chapter 1551 of the Texas Insurance Code requires that the System estimate funds needed for an average 60-day period, considering projected claims and administrative expenses for a contingency reserve fund for self-funded coverage. The System is further required to include this amount in its legislative appropriations request. Subject to adequate appropriation from the legislature, the estimated amount must be placed in the contingency reserve fund along with interest on, earnings of, and proceeds from the sale of investments of assets in the contingency reserve fund. This reserve amount is reported as 'Restricted Net Assets' in both the government-wide and the proprietary fund Statement of Net Assets.

## Interfund Activity and Balances

*(In accordance with GASB Statement 34)*

Activities between the System and agencies of the State of Texas, and activities between the System's funds have been analyzed and classified in accordance with the following criteria.

### **Interfund Services Provided and Used**

This activity represents transactions that would be treated as revenues, expenditures or expenses if they involved organizations external to State government. They are accounted for as revenues by the recipient fund and as expenditures or expenses by the disbursing fund. Contributions for retirement and insurance from

other funds within the State of Texas reporting entity are reported as Interfund Services Provided and Used. The accrual of Interfund Services Provided and Used is classified as Accounts Receivable and Accounts Payable on the government-wide and the fund financial statements.

### **Interfund Reimbursements**

This activity represents expenditures or expenses applicable to a particular fund but paid from another fund. The transactions are reported as expenditures or expenses in the reimbursing fund and a reduction of corresponding amounts in the reimbursed fund. Administrative expenses paid by the Employees Retirement System Fund and subsequently reimbursed by the System's other funds are reported as Interfund Reimbursements in the financial statements. The accrual of Interfund Reimbursements is reported on the government-wide Statement of Net Assets as Due From External Parties or Due To External Parties and on the fund financial statements as Due From Other Funds or Due To Other Funds.

See Note 5.D Interfund Receivables and Payables.

### **Interfund Transfers**

This activity represents routine transfers of resources. Interfund transfers are reported in the Other Financing Sources (Uses) section for Governmental Funds and as Other Additions or Other Deductions in the Pension Trust Fund financial statements.

The accrual of Interfund Transfers is reported on the government-wide *Statement of Net Assets* as Due From External Parties or Due To External Parties and on the fund financial statements as Due From Other Funds or Due To Other Funds.

Retirement Membership Fees received by the Employees Retirement System Fund and transferred to other funds of the System are reported as Interfund Transfers.

See Note 5.E Interfund Transfers.

### **Interagency Activity and Balances**

*(In accordance with GASB Statement 34)*

This activity represents routine transfers of funds between the System and other agencies and institutions within the State of Texas financial reporting entity.

At year end, the accrual of transfers from or to the funds of the System are reported as Due To Other Agencies or Due From Other Agencies on the statements of net assets.

See Note 5.F Interagency Transfers

# Notes to the Basic Financial Statements

August 31, 2007

## Reclassifications

Certain items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported net assets.

## 2. Defined Benefit Plans

### *(In accordance with GASB Statement 25)*

The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS I), and Judicial Retirement System of Texas Plan Two (JRS II) are single employer defined benefit pension plans. Each plan provides service retirement, death and disability benefits. Benefit and contribution provisions of each plan are authorized by State law and may be amended by the Texas Legislature.

Member contribution rates of the ERS, JRS I and JRS II and State contribution rates of the ERS and LECOS are set by State law. The law prohibits any amendment to the plans that would cause the period required to amortize any unfunded actuarial accrued liability to equal or exceed 31 years. The LECOS does not receive member contributions. State contribution rates of the JRS II are actuarially determined each even-numbered year for the next biennium.

Administrative expenses of the ERS, LECOS and JRS II are financed through investment earnings, and the administrative expenses of the JRS I are financed by State appropriations.

The most recent actuarial valuation was performed as of August 31, 2007. The actuarial funding method used to perform the valuations is the entry age actuarial cost method. Using this method, the plan's normal cost is determined as a percentage of payroll. The excess of the total contributions over the normal cost is used to amortize the plan's unfunded actuarial accrued liability, if any exists. The number of years needed to amortize the plan's unfunded actuarial accrued liability is determined using a level percentage of payroll method. An actuarial valuation for the JRS I is performed solely to satisfy the requirements of GASB Statement No. 25 Required Supplementary Information calculations, which is presented immediately after the Notes to the Basic Financial Statements.

See Note 1.D, Summary of Significant Accounting Policies, Basis of Accounting, for the System's policies regarding recognition of contributions, benefits paid and refunds paid.

See Note 1.G, Summary of Significant Accounting Policies, Assets, Liabilities, Fund Balances and Net Assets, for the System's policies regarding investment valuation.

## A. Plan Descriptions and Contributions

### Employees Retirement Plan

#### *Plan Description*

There are two classes of membership within this retirement plan: (1) the elected class and (2) the employee class.

Membership in the elected class is limited to persons who hold State offices that are normally filled by statewide election (including legislators) and excludes officials covered by the Judicial Retirement System of Texas Plans One and Two.

Membership in the employee class includes all employees and appointed officers of the State and excludes independent contractors and their employees and employees covered by the Teacher Retirement System of Texas.

#### *System Employees*

System employees are members of the Employees Retirement Plan.

#### *Contributions*

Employees are required to contribute 6% of their monthly gross compensation, including base salary, longevity pay, hazardous duty pay, and benefit replacement pay and excluding overtime pay and emoluments other than housing and utilities.

Legislators are required to contribute 8% and other elected class members are required to contribute 6% of their compensation to the System.

For the fiscal year ended August 31, 2007, the State contributed 6.45% of the payroll of members for both the elected class and the employee class.

### Law Enforcement and Custodial Officer

#### Supplemental Retirement Plan

#### *Plan Description*

The plan covers custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, and certified by that department according to statutory requirements as having a normal job assignment that requires frequent or infrequent regularly planned contact with inmates of that institution. The plan also covers law enforcement officers who have been commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, or the State Board of Pharmacy

# Notes to the Basic Financial Statements

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who are recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education.

The monthly benefit amount payable from this fund is equal to the excess of the total benefit over the regular benefit payable to the member from the Employees Retirement System Fund.

### Contributions

Members do not contribute to this fund.

For the bienniums ending August 31, 1995 through August 31, 2007, the State has not and will not be required to contribute to this fund.

### Judicial Retirement System of Texas Plan One Plan Description

The plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who first became members before September 1, 1985. Members of the Judicial Retirement System of Texas Plan Two are excluded from this plan.

As a result of new judicial officers participating in the Judicial Retirement Plan Two, the Plan One membership continues to decrease while the annuity payroll increases as members retire.

### Contributions

Members are required to contribute 6% of their compensation to the State's General Revenue Fund.

The State is required to make appropriations from the General Revenue Fund sufficient to pay benefits on a pay-as-you-go basis.

### Judicial Retirement System of Texas Plan Two Plan Description

The plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts and certain commissions to a court who first become members after August 31, 1985. Members of the Judicial Retirement System of Texas Plan One are excluded from this plan.

### Contributions

Members are required to contribute 6% of their compensation to the System. Members who accrue 20 years of service credit in the retirement system cease making contributions, but are considered contributing members for all other purposes; however, the State contribution continues.

For the fiscal years ended August 31, 2006 and 2007, the State contributed 16.83% of the payroll of members.

### State Retiree Health Plan

#### Plan Description

(in accordance with GASB Statement 43)

In addition to the pension benefits described in Notes 2 and 3, the System provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. The State Retiree Health Plan (SHRP) is a cost-sharing multiple-employer defined benefit postemployment health care plan that covers retired employees of the State, and other entities as specified by the state legislature. Benefit and contribution provisions of the State Retiree Health Plan are authorized by State law and may be amended by the Texas Legislature. The participating entities are listed below:

State Agencies	123
Universities	28
Junior and Community Colleges	50
Other Entities	7
<b>Total Participating Entities</b>	<b>208</b>

The principle participating employer is the state of Texas. State agencies and universities comprise 83% of the employees covered by the State Retiree Health Plan. Refer to the List of Participating Reporting Entities for more details.

Eligible participants include retirees who retired with at least 10 years of service to eligible entities. These retirees must meet certain age requirements. Surviving spouses and dependents of these retirees are also covered. As of August 31, 2007, there were 75,958 eligible retirees, 23,109 covered spouses, and 7,544 covered dependents.

### Contributions

Figure B summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution.

**Figure B  
Employer Contribution Rates –  
Retiree Health and Basic Life Premium –  
Fiscal Year 2007**

	September 1, 2006
	\$
Retiree Only	360.54
Retiree & Spouse	566.57
Retiree & Children	498.49
Retiree & Family	704.52

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Figure C summarizes premium contributions by source and claims expenses on a pay-as-you-go basis for the current and prior fiscal years. The System's actuaries have estimated certain health, life, accidental death and dismemberment, and indemnity administrative fees; therefore, the prior year claims expenses have been re-stated to reflect the current estimates. See also Note 4, Risk Management.

**Figure C**  
**Contributions by Source and Claims Expenses – Retirees**

	August 31,	
	2007	2006
	\$	\$
Employer Contributions	438,242,806	343,821,335
Retiree Contributions	108,386,967	102,165,373
<b>Total Contributions</b>	<b>546,629,773</b>	<b>445,986,708</b>
<b>Claims Expenses</b>	<b>574,029,830</b>	<b>478,228,775</b>

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is measured as the difference between the claims costs for the retirees in the group and the amounts contributed by the retirees. For FY 2007, the implicit rate subsidy amount was \$70,044,155.

## **B. Funded Status and Funding Progress - State Retiree Health Plan**

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The assumptions are presented in Figure D.

**Figure D**  
**Actuarial Assumptions - State Retiree Health Plan**

State Retiree Health Plan	
Valuation Date	August 31, 2007
Actuarial Cost Method	Entry Age Normal (Level Percent of Pay)
Amortization Method	Level Percent
Remaining Amortization Period	30 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Annual Investment Return Assumption (discount rate):	6.00%
Projected Annual Salary Increase	4.00% to 27.40%
Weighted-average at Valuation Date	6.82%
Annual Healthcare Trend Rate	9.10% in FY 2008 to 6.00% in FY 2014
Inflation Assumption Rate	4.00%

The initial healthcare trend rate is 9.10% and the ultimate rate is 6.00%

Figure E is the System's Schedule of Funding Progress for the State Retiree Health Plan as of August 31, 2007. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of cost between the employer and plan members to that point. The projection of benefits for financial reporting purpose does not explicitly incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations reflect a long term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets.

**Figure E**  
**Schedule of Funding Progress - State Retiree Health Plan**

\$ Millions						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) [(3)-(2)]	Funded Ratio [(1)/(2)]	Annual Covered Payroll	Ratio of UAAL to Covered Payroll [(4)/(6)]
August 31, 2007	\$0	\$17,675	\$17,675	0.00%	\$8,836	200.00%

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## C. Retirement Systems Membership

The membership of the retirement plans as of August 31, 2007 is summarized in Figure F. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.

**Figure F**  
**Retirement Systems Membership**

	ERS	LECOS	JRS I	JRS II
Retirees and beneficiaries currently receiving benefits	70,455	5,805	488	116
Terminated employees entitled to benefits	67,803	27	15	115
Current employees	132,497	36,413	24	515
<b>Total</b>	<b>270,755</b>	<b>42,245</b>	<b>527</b>	<b>746</b>

Note: Estimated based on actuarial valuation as of August 31, 2007.

## D. Reserves

The balances of legally required reserves in each funded retirement plan as of August 31, 2007 and 2006 are presented in Figure G. The State Retiree Health Plan is a pay-as-you-go plan and has no reserves.

See Note 1.G, Net Assets Held In Trust for Pension Benefits, for a description of each reserve account.

## E. Historical Trend Information

Historical trend information is designed to provide information about the ERS, LECOS, JRS I and JRS II's progress made in accumulating sufficient assets to pay benefits when due. This information is presented in the Required Supplementary Information immediately after the Notes to the Basic Financial Statements. This is the first year for OPEB; trend data is not yet available.

## 3. Defined Contribution Plans

### Plan Descriptions and Contributions

#### Texa\$aver 457 Plan

(In accordance with GASB Statements 25 and 32)

#### Plan Description

The State of Texas offers to all State employees a deferred compensation plan, which is created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available to employees until distribution due to termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust by the Board of Trustees for the exclusive benefit of participants and their beneficiaries and may not be used for or diverted to any other expense, except to defray the reasonable expenses of administering the plan.

The Board of Trustees is not liable to participating employees for the diminution in value or loss of all or part of the participating employees' deferred amounts or investment income because of market conditions or the failure, insolvency, or bankruptcy of a qualified vendor.

#### Contributions

As of August 31, 2007, there were 49 System employees participating in the Texa\$aver 457 Plan. During the fiscal year ended August 31, 2007, System employees deferred \$179,837. The State does not contribute to the plan.

**Figure G**  
**Reserves**

	ERS	LECOS	JRS II	Totals - August 31,	
				2007	2006
<b>Net Plan Assets Reserved For:</b>	\$	\$	\$	\$	\$
Employee Savings	4,059,741,841	5,275	44,615,177	4,104,362,293	3,865,353,443
State Accumulation	7,899,999,703	484,875,274	111,041,622	8,495,916,599	7,230,195,874
Annuity Reserves	11,519,929,907	278,059,124	62,008,358	11,859,997,389	11,346,942,730
Administration					531
<b>Total Net Plan Assets Reserved</b>	<b>23,479,671,451</b>	<b>762,939,673</b>	<b>217,665,157</b>	<b>24,460,276,281</b>	<b>22,442,492,578</b>
				(Exhibit VIII)	
Funded ratios of each plan, from the actuarial valuation:					
As of August 31, 2007	95.6%	98.0%	95.9%		
As of August 31, 2006	95.2%	101.7%	93.7%		

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## TexaSaver 401(k) Plan

(In accordance with GASB Statement 25)

### Plan Description

The System also offers to all State employees the TexaSaver 401(k) plan, which is created in accordance with Internal Revenue Code Section 401(k). The assets of this plan do not belong to the State and the State has no liability related to this plan.

### Contributions

As of August 31, 2007, there were 91 System employees participating in the TexaSaver 401(k) Plan. During the fiscal year ended August 31, 2007, System employees deferred \$477,769. The State does not contribute to the plan.

## 4. Risk Management

(In accordance with GASB Statement 10)

### A. Risk Exposure

The System is exposed to the following types of claims for risk of loss:

- Health insurance
- Life insurance
- Accidental death and dismemberment (AD & D) insurance
- Disability insurance
- Dental insurance
- Property and casualty
- Unemployment
- Workers' compensation

### B. Risk Financing

Claims for health, life, accidental death and dismemberment (AD & D), disability, and dental insurance coverages are recorded in the Employees Life, Accident and Health Insurance and Benefits Fund under the Texas Employees Group Benefits Program (GBP). These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts, and dental health maintenance organization (DHMO) contracts.

The System purchases commercial insurance to cover the risk of loss related to general liability; theft of, damage to, and destruction of assets; and natural disasters. Claims for unemployment and workers compensation are funded by the System on a pay-as-you-go basis, and they are paid out of the Employees Retirement System Fund. These claim expenses are allocated periodically to other funds based on percentages determined by a study of each fund's usage.

The risk financing for different coverages is summarized in Figure H.

**Figure H**  
**Summary of Risk Financing**

Type of Coverage	Plan Name	Self-Funded	Risk Retained with
Health	• HealthSelect	Yes	System
	• HMOs	No	Insurance Carrier
	• Prescription Drug	Yes	System
Life	N/A	No	Insurance Carrier
Accidental Death and Dismemberment	N/A	No	Insurance Carrier
	N/A	Yes	System
Dental	• DHMOs	No	Insurance Carrier
	• Dental Indemnity Plan	Yes	System
Property and Casualty	N/A	No	Insurance Carrier
Unemployment	N/A	Yes	System
Workers' Compensation	N/A	Yes	System

### C. Liabilities

For self-funded coverages of the Internal Service Fund, the System's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Based on the estimates provided by the System's actuary (Rudd and Wisdom, Inc.), liabilities are reevaluated to consider current settlements, frequency of claims, past experience and economic factors. Changes in the balances of the self-funded claims liabilities for the current and prior fiscal years are presented in Figure I.

**Figure I**  
**Changes in Self-Funded Claims Liabilities**

	Totals - August 31,	
	2007	2006
	\$	\$
Beginning of Fiscal Year Liability	396,092,332	360,419,514
Current-Year Claims and Changes in Estimates	1,083,659,637	1,508,926,071
Claims Payments	(1,132,794,397)	(1,473,253,253)
<b>Balance at Fiscal Year-End</b>	<b>346,957,572</b>	<b>396,092,332</b>

For coverages that are insured (not self-funded), no significant reductions in insurance coverage occurred in the past year, and settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

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For both self-funded and insured coverages of the Internal Service Fund, the balance of claims that have been incurred but not reported as of August 31, 2007 is \$382,410,000.

## 5. Detail Disclosures on Funds

### A. Assets

#### Deposits, Investments, Securities Lending, Repurchase Agreements, Derivatives and Forward Contracts

(In accordance with GASB Statements 3, 25, 28, 31 and 40)

See Note 1.G, Investments-Valuations.

#### Deposits

As of August 31, 2007, the total carrying amount of Cash in Bank and Margin Deposits was \$51,907,112 as presented in Figure J.

**Figure J  
Deposits**

Deposits	Carrying Value	Bank Balance
	\$	\$
Cash in Bank:		
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds (Exh. X)	609,886	607,387
Margin Deposit:		
Fiduciary Funds (Exh. X)	51,297,226	50,804,146
<b>Total</b>	<b>51,907,112</b>	<b>51,411,533</b>

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System does not have a deposit policy for custodial credit risk.

As of August 31, 2007, the balances of Cash in Bank and Margin Deposit that were exposed to custodial credit risk are summarized in Figure K.

**Figure K  
Custodial Credit Risk - Deposits**

Deposits	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Bank
	\$	\$
Margin Deposit:		
Fiduciary Funds	-	50,804,146

### Investments

As of August 31, 2007, the fair value of investments are presented in Figure L.

**Figure L  
Investments**

Investment Type (See Note A)	Fair Value	
	Fiduciary Funds (Exh. VIII)	Proprietary Fund (Exh. V)
<i>Investments:</i>	\$	\$
U.S. Treasury Securities	718,647,647	86,706,333
U.S. Treasury TIPS	608,606,627	-
U.S. Government Agency Obligations	1,004,984,575	22,860,194
Corporate Obligations	2,755,416,741	87,979,932
Corporate Asset and Mortgage Backed Securities	3,131,422,166	112,837,059
Domestic Equity	10,729,557,361	-
International Equity	4,810,491,180	-
<b>Total</b>	<b>23,759,126,297</b>	<b>310,383,518</b>
<i>Short-Term Investments:</i>		
Investment Pool Cash	781,853	-
Short-Term Investment Funds	599,338,278	430,861,150
Commercial Paper	64,726,262	-
<b>Total</b>	<b>664,846,393</b>	<b>430,861,150</b>
<i>Cash Equivalents:</i>		
Certificates of Deposit	25,441,260	5,051,140
Securities Lending Collateral	6,038,310,782	77,390,842
<b>Note A:</b> Amounts included in investments above that represent accrued income are as follows:		
<i>Fiduciary Funds:</i>		
Employees Retirement Fund (0955)		114,952,211
Law Enforcement and Custodial Officer Supplemental Fund (0977)		3,667,281
Judicial Retirement System Plan Two Fund (0933)		1,304,750
<b>Total</b>		<b>119,924,242</b>
<i>Proprietary Fund:</i>		
Employees Life, Accident and Health Insurance Benefits Fund (0973)		4,306,038
<b>Total</b>		<b>124,230,280</b>



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## Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy limits holding of securities by counterparties to those involved with securities lending and those used as collateral for futures contracts.

Securities the System received as collateral for the securities lending program were uninsured and unregistered, with the securities held by the counterparty or by its trust department or agent, but not in the System's name. As of August 31, 2007, the fair value of these securities are summarized in Figure M.

**Figure M**  
**Custodial Credit Risk - Investments**

Investments	Fair Value
	\$
<i>Fiduciary Funds:</i>	
Corporate Obligations	3,108,262
U.S. Treasury Securities	122,665,336
U.S. Treasury TIPS	25,025,396
U.S. Government Agency Obligations	6,547,973
<b>Total</b>	<b>157,346,967</b>
<i>Proprietary Fund:</i>	
U.S. Treasury Securities	31,845,493
U.S. Government Agency Obligations	7,937,085
<b>Total</b>	<b>39,782,578</b>

## Foreign Currency Risk

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. The System does not have a policy for managing foreign currency risk.

The System's investment exposure to foreign currency risk as of August 31, 2007 is summarized in Figure N.

**Figure N**  
**Investments Exposed to Foreign Currency Risk**

Foreign Currency	International Equity (US\$)
<b>Fiduciary Funds:</b>	<b>\$</b>
Australian Dollar	179,670,843
British Pound	941,746,527
Canadian Dollar	68,247,444
Danish Krone	72,637,335
Euro	1,693,121,760
Hong Kong Dollar	173,588,391
Indonesian Rupiah	3,639,379
Japanese Yen	820,572,322
Malaysian Ringgit	1,419,271
Mexican Peso	1,173,255
New Zealand Dollar	3,167,448
Norwegian Krone	76,911,315
Singapore Dollar	47,621,699
South African Rand	1,377,350
Swedish Krona	97,021,852
Swiss Franc	344,370,066
<b>Total International Equity Exposed to Foreign Currency Risk</b>	<b>4,526,286,257</b>
ADRs and GDRs Denominated in U.S. Dollars and Classified as International Equity	284,204,923
<b>Total International Equity (Exh. X)</b>	<b>4,810,491,180</b>

## Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policies of the System require that non-cash interest paying securities in the high yield bond portfolios may not exceed 15% of the market value of the portfolio and that investments in money market funds may represent no more than 5% of each individual fund. Credit risk is managed through diversification and by operating within defined parameters versus a benchmark index.

Excluding those securities *issued by or explicitly guaranteed* by the U.S. Government, which are not considered to have credit risk, the System's credit quality distribution for securities with credit risk exposure as of August 31, 2007 is summarized in Figure O. The securities were rated and categorized according to Standard & Poor's rating standards.

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**Figure O**  
**Investment Credit Risk**

Investment Type	Rating	Fair Value
<b>Fiduciary Funds:</b>		
<b>\$</b>		
U.S. Government Agency Obligations	AAA	2,951,692,547
	A-1+	124,962,793
Corporate Obligations	NR	25,589,225
	AAA	290,353,385
	AA	492,676,716
	A	402,227,939
	BBB	307,424,425
	BB	517,779,659
	B	623,518,976
Corporate Asset and Mortgage Back Securities	CCC	214,419,478
	D	3,674,250
	NR	128,584,436
	AAA	512,700,335
	A	11,989,190
	BBB	31,469,695
	BB	15,653,598
	B	8,356,758
	NR	69,518,835
Commercial Paper	A-1+	9,991,217
	A-1	54,735,044
Miscellaneous - Certificates of Deposit	A-1	25,000,010
<b>Total</b>		<b>6,812,327,295</b>
<b>Proprietary Fund:</b>		
U.S. Government Agency Obligations	AAA	108,207,168
Corporate Obligations	AAA	1,901,055
	AA	43,752,456
	A	24,310,509
	BBB	8,288,832
Corporate Asset and Mortgage Back Securities	NR	10,772,193
	AAA	23,214,433
	A	744,013
	BBB	833,919
	AA	4,997,100
Miscellaneous - Certificates of Deposit	AA	4,997,100
<b>Total</b>		<b>227,021,678</b>

The System earns failed interest on monies held at the custodial agent bank overnight when a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date. When this occurs, the System's money is invested overnight in a Common Trust Fund at the custodial agent bank. The System had no failed securities either during the fiscal year or at August 31, 2007.

### Concentration Risk

Concentration risk is identified by amount and issuer of investment in any one issuer that represent 5% or more

of plan net assets. The System's investment policies stipulate that investments in the securities of any one corporation may not exceed 3% of the market value of the total fund. As of August 31, 2007, the System was not exposed to any concentration risk.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have a policy for interest rate risk management. However, interest rate risk is managed through duration, by operating within defined risk parameters versus a benchmark index.

As of August 31, 2007, the System's exposure to interest rate risk is summarized in Figure P.

**Figure P**  
**Investment Interest Rate Risk**

Investment Type	Modified Duration	
	Fiduciary Fund	Proprietary Fund
U.S. Treasury Securities	8.23	6.79
U.S. Treasury TIPS	11.60	-
U.S. Government Agency Obligations	4.55	2.37
Corporate Obligations	5.37	2.49
Corporate Asset and Mortgage Backed Securities	4.58	4.75
Derivatives	5.71	-
<b>Overall</b>	<b>4.86</b>	<b>1.78</b>

### Securities Lending

The System participates in a securities lending program, administered by the custodial agent bank, whereby certain securities are transferred to an approved independent broker/dealer (borrower) with a simultaneous agreement to return the collateral for the same securities in the future. Securities lending transactions are governed by the Texas Trust Code and the Texas State Constitution. Securities lent include fixed income securities and domestic and international equities. The System's custodian lends the securities for collateral in the form of cash or U.S. Government or Agency securities of 100% plus any accrued interest on the loaned securities. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial agent bank requires it to indemnify the System fully if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income

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distributions by the securities' issuers while the securities are on loan. The System has not experienced any losses due to credit or market risk on securities lending activities since the implementation of this program in July 1991. The System is permitted to loan securities under 1) open loans which are generally overnight loans, and 2) term loans with specified expected termination dates that require prior written approval of the System. Cash collateral is invested in traditional money market instruments. The policy is to match the maturities of investments made with the cash collateral to the maturities of the loan agreements. In accordance with GASB Statement 28, they did substantially match as of August 31, 2007. The System cannot pledge or sell collateral securities received unless the borrower defaults and, therefore, the System does not establish an asset and a corresponding liability in the balance sheet for the collateral value of securities received. There were no significant violations of legal or contractual provisions, and no borrower or lending agent default losses. Regarding restrictions on loans, the securities lending agreement with Chase limits the total amount of securities that can be lent to 25% of holdings.

The System received net securities lending income totaling \$14,626,514 for the fiscal year ended August 31, 2007. The collateral information as of August 31, 2007 is summarized in Figure Q.

**Figure Q**  
**Securities Lending Collateral Summary**

Investment Type	Underlying Securities Value	Securities Collateral Value	Cash Collateral Value
<i>Fiduciary Funds:</i>	\$	\$	\$
U.S. Treasury Securities	689,170,096	125,118,643	574,891,477
U.S. Treasury TIPS	565,942,160	25,525,904	548,815,972
U.S. Government Agency Obligations	1,772,088,028	6,678,932	1,795,869,349
Corporate Obligations	428,230,501	3,170,427	431,935,365
Corporate Asset and Mortgage Backed Securities	21,481,369		21,989,075
Equity	2,573,316,147	-	2,613,279,980
International Equity	51,846,936	-	51,529,564
<b>Total</b>	<b>6,102,076,237</b>	<b>160,493,906</b>	<b>6,038,310,782</b>
			<b>Exh. X</b>
<i>Proprietary Fund:</i>			
U.S. Treasury Securities	86,742,199	32,482,402	55,779,782
U.S. Government Agency Obligations	24,319,042	8,095,827	16,613,060
Corporate Obligations	4,899,756	-	4,998,000
<b>Total</b>	<b>115,960,997</b>	<b>40,578,229</b>	<b>77,390,842</b>
			<b>Exh. V</b>

## Repurchase Agreements

During the fiscal year 2007, the System invested in repurchase agreements. As of August 31, 2007, the System had no balances in these assets.

## Derivative Investing

Derivatives are generally defined as contracts or securities whose value depends on, or derives from, the value of an underlying asset, reference rate, or index.

The System invests in Collateralized Mortgage Obligations (CMOs), which are based on cash flows from interest payments on underlying mortgages; therefore, they are sensitive to pre-payments by mortgagees that may result from a decline in interest rates. To be eligible for purchase, CMOs will be limited to such securities that exhibit no more than 200% cash flow variability as compared to the underlying securities' collateral, and must be rated no lower than A-, A3 or their equivalent by any of the following: Moody's, Standard & Poor's, Duff & Phelps, and Fitch/IBCA Investor Services.

The System purchases and sells futures contracts as a means of adjusting the portfolio mix and as a lower transaction cost substitute for transactions which would otherwise occur in the underlying portfolios.

A futures contract is a contract to buy or sell units of an index or financial instrument at a specified future date at a price agreed upon when the contract is originated. Upon entering into a futures contract, the System pledges to the broker cash or U.S. government securities equal to the minimum "initial margin" requirement of the futures exchange. The System receives or pays a daily "variation margin," which is an amount of cash equal to the daily fluctuation in value of the contract. The accumulated value of the variation margin is the fair value of the futures contract. As of August 31, 2007, the outstanding futures contracts are summarized in Figure R.

**Figure R**  
**Summary of Outstanding Futures Contracts**

	No. of Contracts	Notional Amount
Futures Contracts - Long	1,739	\$203,712,125
Futures Contracts - Short	2,823	257,308,544
		<b>Fair Value</b>
Margin Deposit - Cash		\$39,171,966
Futures Contracts		12,125,260
<b>Net Margin Deposit - Cash (Exh. X)</b>		<b>51,297,226</b>
Margin Deposit - Securities (Note A)		40,011,885
<i>Note A: US Treasury TIPS were pledged as margin deposit and reported as U.S. Government and Agency Obligations in the Statement of Net Assets.</i>		

# Notes to the Basic Financial Statements

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The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The System's investment managers seek to control this risk through counterparty credit requirements and the use of Commodity Futures Trading Commission approved futures and exchange traded options. The System anticipates that the counterparties will be able to satisfy their obligations under the contracts.

## Forward Contracts

The System enters into forward contracts to minimize the short-term impact of foreign exchange rate fluctuations on the asset and liability positions of international equities. The System had no outstanding forward contract on August 31, 2007.

## B. Liabilities

### Operating Leases

(In accordance with GASB Statement 38)

Included in rental expenses/expenditures are assets leased on a long-term basis that have been classified as operating leases. Current year expenses for these leased assets totaled \$488,543. A schedule of future minimum lease rental payments on non-cancelable operating leases as of August 31, 2007 is presented in Figure S.

**Figure S**  
**Non-Cancelable Operating Leases**

Fiscal Year	Future Minimum Lease Rental Payments
	\$
2008	869,091
2009	828,883
2010	410,815
2011	40,815
<b>Total Future Minimum Lease Rental Payments</b>	<b>2,149,604</b>

## C. Fund Equity

### Fiduciary Net Assets Held in Trust for Pension Benefits and Other Purposes

A summary of pension plan and other employee benefit fiduciary net assets at August 31, 2007 and 2006 is presented in Figure T.

**Figure T**  
**Net Assets - Fiduciary Funds**

Fund Type	Totals - August 31	
	2007	2006
Defined Benefit Plans (Note A)	\$24,460,276,281	\$22,442,492,576
<i>Defined Contribution Plans</i>		
Plan 457 Participants, as Restated in FY 06		311,879,329
Plan 457 Participants, as Restated in FY 07		311,875,101
Adjustment to FY06 Restatements		4,228
Administration - Defined Contribution Plans	2,360,559	2,005,589
Administration - State Employees Cafeteria Plan	1,190,717	1,590,970
<b>Total Defined Contribution Plans and Cafeteria Plan</b>	<b>3,551,276</b>	<b>3,600,787</b>
<b>Total Fiduciary Net Assets Held In Trust for Pension Benefits and Other Purposes</b>	<b>24,463,827,557</b>	<b>22,446,093,363</b>
	(Exh. VIII)	
Note A: See Note 2.D Reserves, for details of the statutorily required reserve balances of the Defined Benefit Plans.		

## D. Interfund Receivables and Payables

(In accordance with GASB Statement 38)

At year-end, accruals related to interfund transfers and interfund reimbursements between the System's funds, are reported as Due From External Parties or Due To External Parties in the government-wide *Statement of Net Assets* and as Due From Other Funds or Due To Other Funds in the fund financial statements. (See Note 1.G) Figure U presents individual interfund receivable and interfund payable balances at August 31, 2007.

**Figure U**  
**Interfund Receivables and Payables**

	Due From Other Funds	Due To Other Funds
<b>Governmental Activities:</b>	\$	\$
Governmental Funds		5,790
<i>Proprietary Fund:</i>		
Employees Life, Accident and Health Insurance and Benefits Fund	1,725,402	73,251,543
<b>Total Governmental Activities</b>	<b>1,725,402</b>	<b>73,257,333</b>
<b>Fiduciary Funds:</b>		
Pension and Other Employee Benefit Trust Funds	93,729,780	22,197,849
<b>Total - Interfund Receivables and Payables</b>	<b>95,455,182</b>	<b>95,455,182</b>

# Notes to the Basic Financial Statements

August 31, 2007

## E. Interfund Transfers

(In accordance with GASB Statement 38)

Interfund Transfers include transfers of membership fees from the Employees Retirement Fund to other funds of the System and transfers between the Employees Retirement Fund and the Excess Benefit Arrangement Fund for retirement benefit payments. (See Note 1.G).

Interfund Transfers between Governmental Activities and fiduciary funds are reclassified to revenues and expenses in the government-wide *Statement of Activities*.

Figure V presents interfund transfers for the year ended August 31, 2007.

**Figure V**  
**Interfund Transfers**

	Transfers In	Transfers Out
<i>Fiduciary Funds:</i>	\$	\$
Pension and Other Employee Benefit Trust Funds	478,088	478,088
<b>Total - Interfund Transfers</b>	<b>478,088</b>	<b>478,088</b>

## F. Interagency Transfers

Interagency Transfers include transfers between the System's funds and other funds of the State of Texas reporting entity that are for payment of benefits from the Compensation to Victims of Crime fund that are funded by the Office of the Attorney General. (See Note 1.G). Also included in this category is the amount transferred to the Teacher Retirement System for service established in the Employees Retirement Fund and payable from the Excess Benefit Arrangement Fund.

Interagency Transfers between Governmental Activities and other funds of the State are reclassified to revenues and expenses in the government-wide *Statement of Activities*.

## 6. Contingent Liability

### A. Litigation

The System is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the System's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the System.

### B. Sick Leave

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is taken only in the event of illness. In the event of an employee's death, a payment is made to the employee's estate for one-half of the accumulated leave or 336 hours, whichever is less. Such payments are recognized as expenses/expenditures when paid.

Service credit is given upon retirement at the rate of one month of service for each 160 hours of an employee's accumulated sick leave balance. Effective August 28, 1995, accumulated sick leave may also be used to meet service requirements to qualify for retirement at a rate of one month of service for each 160 hours of accrued unused sick leave.

The additional contingent liability for future compensation of sick leave, based on accumulated sick leave balances as of August 31 was not considered material.

## 7. Termination Benefits

(in accordance with GASB Statement 47)

Termination benefits in the form of healthcare continuation under Consolidated Omnibus Budget Reconciliation Act (COBRA) are provided for both voluntary and involuntary terminations under the Group Benefits Program.

The System maintains the COBRA membership in the Group Benefits Program as part of a group without designating the entity where the members worked prior to being eligible for COBRA benefits. The Group Benefits Program has 2,009 COBRA participants.

The COBRA members are eligible to remain in the Group Benefits Program for 18 months, 29 months if disabled, and their dependents are eligible to remain in the program for 36 months. The premium rates are set annually, and are based on the experience of the group.

## 8. Restatement of Net Assets of Texa\$aver 457 Trust Fund

Subsequent to the issuance of the Comprehensive Annual Financial Report for the fiscal year ended August 31, 2006, the System's management determined that a change in Texa\$aver 457 trust fund reporting was appropriate. Previously, investment assets of participants and related activity had been reported as assets of the System in the System's financial statements. Since the System does not perform the investment function and does not have significant administrative involvement, it is no longer reporting assets and activities of the individuals pursuant to GASB Statement 32.

The System is a government sponsor of the Internal Revenue Code Section 457 deferred compensation plan for state employees. Such plans are not reported in the sponsoring employer's financial statements because sponsors typically remit employee contributions directly to the third-party administrator who holds the assets in trust. Therefore, the beginning balance of Net Assets

# Notes to the Basic Financial Statements

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Held in Trust for Pension Benefits as of September 1, 2006 was reduced by \$311,875,101 and the activity related to this Texa\$aver 457 trust fund during the fiscal year ended August 31, 2006 has been restated as shown in Figure W.

**Figure W  
Restatements**

Financial Statement Line Item	2006 (As Previously Reported)	2006 (As Restated)
	\$	\$
<b>Combined Statement of Fiduciary Net Assets (Exhibit VIII)</b>		
Cash and Cash Equivalents	84,731,447	83,595,311
Short-Term Investments	522,471,084	352,492,800
Investments	22,265,618,683	22,124,858,001
Total Assets	28,050,447,810	27,738,572,709
Net Assets Held in Trust for Pension Benefits and Other Purposes (Exhibit IX)	<u>22,757,968,464</u>	<u>22,446,093,363</u>
<b>Combined Statement of Changes in Fiduciary Net Assets (Exhibit IX)</b>		
<b>ADDITIONS</b>		
Contributions:		
Member Contributions	468,499,861	406,248,203
Total Contributions	881,947,829	807,346,100
Investment Income:		
From Investing Activities	1,821,448,651	1,797,722,046
Total Investment Income	1,833,506,832	1,809,780,227
Total Additions	2,716,889,972	2,618,561,641
<b>DEDUCTIONS</b>		
Benefits:		
Plan 457 Benefits	60,788,587	
Total Benefits	1,512,072,136	1,451,283,549
Total Deductions	1,529,351,009	1,468,562,422
Net Increase	1,187,538,963	1,149,999,219
<b>NET ASSETS</b>		
Net Assets Held in Trust for Pension Benefits and Other Purposes:		
Beginning of Year	21,570,429,501	21,570,429,501
Restatement		(274,335,357)
Beginning of Year, as Restated		<u>21,296,094,144</u>
End of Year	<u>22,757,968,464</u>	<u>22,446,093,363</u>

# Required Supplementary Information

## Schedule of Budgetary Comparison - Appropriated Special Revenue Funds (Basis of Budgeting) (Note A)

Year Ended August 31, 2007

	Death Benefits Program for Commissioned Peace Officers, Firemen, etc. (0001) (U/F 3001)				Compensation to Victims of Crime (0469) (U/F 3003)				Lump Sum Retiree Death Benefit Fund (0001) (U/F 3008)			
	Budget		Actual	Variance with Final Budget Positive (Negative)	Budget		Actual	Variance with Final Budget Positive (Negative)	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final			Original	Final		
<b>Budgetary Fund Balances - Beginning</b>	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-	\$ -	\$ 6,165	\$ 6,165	-
<b>Revenues</b>												
Legislative Appropriations Out of the State's General Revenue Fund:												
For Death Benefits	2,739,951	2,739,751	2,739,751	-	2,739,951	2,739,951	2,739,951	-	6,984,668	7,519,511	7,519,511	-
<b>Total Appropriations Revenue</b>	<b>2,739,951</b>	<b>2,739,751</b>	<b>2,739,751</b>	<b>-</b>	<b>2,739,951</b>	<b>2,739,951</b>	<b>2,739,951</b>	<b>-</b>	<b>6,984,668</b>	<b>7,519,511</b>	<b>7,519,511</b>	<b>-</b>
<b>Expenditures</b>												
Current:												
Death Benefits	2,739,951	2,396,938	2,396,938	-	2,739,951	1,500,000	1,500,000	-	6,984,668	7,492,873	7,492,873	-
<b>Total Expenditures</b>	<b>2,739,951</b>	<b>2,396,938</b>	<b>2,396,938</b>	<b>-</b>	<b>2,739,951</b>	<b>1,500,000</b>	<b>1,500,000</b>	<b>-</b>	<b>6,984,668</b>	<b>7,492,873</b>	<b>7,492,873</b>	<b>-</b>
Other Financing Sources (Uses)												
Appropriation Lapse		(342,813)	(342,813)		(1,239,951)	(1,239,951)			(32,803)	(32,803)		
<b>Budgetary Fund Balances - Ending</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Note A: The Budget and Actual columns are presented on the budgetary basis which differs from the GAAP basis as follows:

Reconciliation of Basis of Budgeting to GAAP:

Entity Differences:

Total Actual Budgetary Fund Balances-Ending, as above	\$ -
Plus: Fund Balance of the Unappropriated Special Revenue	
Fund-Social Security Administration Fund (Exh. IV)	45,243
<b>Total Fund Balances-Special Revenue Funds-GAAP Basis (Exh. IV)</b>	<b>\$ 45,243</b>

# Required Supplementary Information

## Schedule of Funding Progress - Defined Benefit Plans

Fiscal Year	(a) Actuarial Value of Assets (000's)	(b) Actuarial Accrued Liability (AAL) (000's)	(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a) (000's)	(d) Funded Ratio (a) / (b)	(e) Covered Payroll (000's)	(f) UAAL As A Percentage Of Covered Payroll ((b-a) / e)
<b>Employees Retirement System (ERS)</b>						
2002	18,909,072	18,449,521	(459,551)	102.5	4,979,532	(9.2)
2003	19,478,555	19,959,112	480,557	97.6	4,800,612	10.0
2004	20,036,647	20,591,848	555,201	97.3	4,616,761	12.0
2005	20,835,469	21,969,670	1,134,201	94.8	4,842,525	23.4
2006	21,780,437	22,884,917	1,104,480	95.2	5,051,330	21.9
2007	22,938,947	23,987,165	1,048,218	95.6	5,253,723	20.0
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>						
2002	655,979	526,205	(129,774)	124.7	1,298,593	(10.0)
2003	666,588	597,914	(68,674)	111.5	1,277,894	(5.4)
2004	679,243	621,457	(57,786)	109.3	1,230,581	(4.7)
2005	698,814	677,953	(20,861)	103.1	1,283,815	(1.6)
2006	720,307	708,437	(11,870)	101.7	1,279,463	(0.9)
2007	747,765	762,666	14,901	98.0	1,360,819	1.1
<b>Judicial Retirement System Plan One (JRS I)</b>						
2002	0	336,960	336,960	0.0	8,240	4,089.3
2003	0	262,766	262,766	0.0	3,710	7,082.6
2004	0	263,068	263,068	0.0	4,921	5,345.8
2005	0	327,145	327,145	0.0	5,284	6,191.2
2006	0	325,977	325,977	0.0	5,138	6,344.8
2007	0	312,852	312,852	0.0	2,777	11,267.0
<b>Judicial Retirement System Plan Two (JRS II)</b>						
2002	114,433	103,229	(11,204)	110.9	45,965	(24.4)
2003	129,426	111,116	(18,310)	116.5	47,479	(38.6)
2004	145,538	123,913	(21,625)	117.5	48,504	(44.6)
2005	164,231	182,311	18,080	90.1	60,775	29.7
2006	186,400	198,840	12,440	93.7	62,306	20.0
2007	211,933	220,884	8,951	95.9	64,654	13.8
<b>State Retiree Health Plan (Note A)</b>						
2007	0	17,675,000	17,675,000		8,836,000	200.0

Note A: The Schedule of Funding Progress presents contribution information as of the current valuation date and the two preceding valuation dates. Since this is the initial year of application of GASB Statement 43, no preceding year information is shown.



# Required Supplementary Information

## Schedule of Employer Contributions - Defined Benefit Plans

<u>Fiscal Year</u>	<u>Contributions from Employers (\$ millions)</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>	<u>Contributions from Federal Government (\$ millions)</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>
<b>Employees Retirement System (ERS)</b>				<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>		
2003		311,800,224	96.7		0	100.0
2004		312,285,035	89.3		0	100.0
2005		321,859,685	85.8		0	100.0
2006		362,753,541	87.2		0	100.0
2007		370,495,683	88.9		6,956,403	0.0
2008		373,780,057 (Note A)	N/A		21,802,906 (Note A)	N/A
<b>Judicial Retirement System Plan One (JRS I)</b>				<b>Judicial Retirement System Plan Two (JRS II)</b>		
2003		29,631,522	76.5		7,777,293	106.6
2004		21,862,625	103.5		5,789,655	141.7
2005		22,121,567	100.8		5,722,632	146.2
2006		27,298,940	101.3		10,075,506	99.8
2007		28,966,194	100.2		10,925,127	99.9
2008		27,258,289 (Note A)	N/A		10,881,314 (Note A)	N/A
<b>State Retiree Health Plan (Note B)</b>						
2007	438	1,482	29.6	28.5		
2008		(Note A)	N/A	N/A		

Note A: Calculations based on estimated fiscal year 2008 covered payroll. At the end of fiscal year 2008 the ARC will be recalculated based on actual 2008 covered payroll.

Note B: The Schedule of Employer Contributions presents contribution information as of the current valuation date and the two preceding valuation dates. Since this is the initial year of application of GASB Statement 43, no preceding year information is shown.

# Required Supplementary Information

## Notes to the Required Supplementary Information

The information presented in these schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

### Defined Benefit Pension Plans

	ERS	LECOS	JRS I	JRS II
Valuation Date	August 31, 2007	August 31, 2007	August 31, 2007	August 31, 2007
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open
Remaining Amortization Period	30.0	30.0	30.0	4.3 (Note A)
Asset Valuation Method	5-Year Smoothed Fair Value	5-Year Smoothed Fair Value	N/A	5-Year Smoothed Fair Value
Actuarial Assumptions:				
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	0.0%-14.0%	6.0%-14.0%	4.0%	4.0%
Including Inflation at	4.0%	4.0%	4.0%	4.0%
Cost-of-living Adjustments	None-Employee 4.0%-Elected	None	4.0%	None

Note A: Calculations based on estimated fiscal year 2007 covered payroll. At the end of fiscal year 2007 the ARC will be recalculated based on actual 2007 covered payroll.

### State Retiree Health Plan

State Retiree Health Plan	
Valuation Date	August 31, 2007
Actuarial Cost Method	Entry Age Normal (Level Percent of Pay)
Amortization Method	Level Percent
Remaining Amortization Period	30 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Annual Investment Return Assumption (discount rate):	6.00%
Projected Annual Salary Increase	4.00% to 27.40%
Weighted-average at Valuation Date	6.82%
Annual Healthcare Trend Rate	9.10% in FY 2008 to 6.00% in FY 2014
Inflation Assumption Rate	4.00%

# Other Supplementary Information - Schedule A-1

## Combining Schedule of Net Assets - Agency Funds

August 31, 2007

	<b>Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)</b>	<b>Employee Savings Bond Fund (0901) (U/F 0901)</b>	<b>TexaSaver 401(k) Fund (0946) (U/F 1946)</b>	<b>TexaSaver 401(k) Hold Transmittal (0942) (U/F 0942/8942)</b>	<b>Totals August 31, 2007</b>
<b>ASSETS</b>	\$	\$	\$	\$	\$
<b>Current Assets:</b>					
<i>Cash and Cash Equivalents:</i>					
Cash in State Treasury		150			150
Total Cash and Cash Equivalents		150			150
Accounts Receivable	18,477				18,477
<b>Total Current Assets</b>	<b>18,477</b>	<b>150</b>	-	-	<b>18,627</b>
<b>Total Assets</b>	<b>18,477</b>	<b>150</b>	-	-	<b>18,627</b>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts Payable	18,477	150			18,627
<b>Total Current Liabilities</b>	<b>18,477</b>	<b>150</b>	-	-	<b>18,627</b>
<b>Total Liabilities</b>	<b>18,477</b>	<b>150</b>	-	-	<b>18,627</b>

# Other Supplementary Information - Schedule A-2

## Combining Schedule of Changes in Assets and Liabilities - Agency Funds

August 31, 2007

	Beginning Balances	Additions	Deductions	Ending Balances
	\$	\$	\$	\$
<b>Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)</b>				
<b>ASSETS</b>				
Cash in State Treasury	-	238,592	238,592	-
Accounts Receivable	18,804	193,050	193,377	18,477
<b>Total Assets</b>	<b>18,804</b>	<b>431,642</b>	<b>431,969</b>	<b>18,477</b>
<b>LIABILITIES</b>				
Accounts Payable	18,804	253,923	254,250	18,477
<b>Total Liabilities</b>	<b>18,804</b>	<b>253,923</b>	<b>254,250</b>	<b>18,477</b>
<b>Employee Savings Bond Fund (0901) (U/F 0901)</b>				
<b>ASSETS</b>				
Cash in State Treasury	150	600	600	150
<b>Total Assets</b>	<b>150</b>	<b>600</b>	<b>600</b>	<b>150</b>
<b>LIABILITIES</b>				
Accounts Payable	150	600	600	150
Vouchers Payable	-	600	600	-
<b>Total Liabilities</b>	<b>150</b>	<b>1,200</b>	<b>1,200</b>	<b>150</b>
<b>Texasaver 401(k) Trust Fund (0946) (U/F 1946)</b>				
<b>ASSETS</b>				
Cash in Bank	3,971	129,403,821	129,407,792	-
<b>Total Assets</b>	<b>3,971</b>	<b>129,403,821</b>	<b>129,407,792</b>	<b>-</b>
<b>LIABILITIES</b>				
Funds Held For Others	3,971	129,403,821	129,407,792	-
<b>Total Liabilities</b>	<b>3,971</b>	<b>129,403,821</b>	<b>129,407,792</b>	<b>-</b>
<b>Texasaver 401(k) Hold Transmittal (0942) (U/F 0942 &amp; 8942)</b>				
<b>ASSETS</b>				
Cash in State Treasury	274,551	64,939	339,490	-
<b>Total Assets</b>	<b>274,551</b>	<b>64,939</b>	<b>339,490</b>	<b>-</b>
<b>LIABILITIES</b>				
Funds Held For Others	274,551	64,939	339,490	-
<b>Total Liabilities</b>	<b>274,551</b>	<b>64,939</b>	<b>339,490</b>	<b>-</b>
<b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Cash in Bank	3,971	129,403,821	129,407,792	-
Cash in State Treasury	274,701	304,131	578,682	150
Accounts Receivable	18,804	193,050	193,377	18,477
<b>Total Assets</b>	<b>297,476</b>	<b>129,901,002</b>	<b>130,179,851</b>	<b>18,627</b>
<b>LIABILITIES</b>				
Accounts Payable	18,954	254,523	254,850	18,627
Vouchers Payable	-	600	600	-
Funds Held For Others	278,522	129,468,760	129,747,282	-
<b>Total Liabilities</b>	<b>297,476</b>	<b>129,723,883</b>	<b>130,002,732</b>	<b>18,627</b>

# Other Supplementary Information - Schedule 1

## Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Employees Retirement Fund

Year Ended August 31, 2007

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2007
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Contributions to Retirement System:						
Member Contributions	322,539,926					322,539,926
Employer Contributions		329,523,696				329,523,696
Service Contributions from Teacher Retirement System		48,538,424				48,538,424
Membership Fees					457,355	457,355
Penalty Interest		5,499,007				5,499,007
Investment Income:						
Net Appreciation in Fair Value of						
Investments				1,862,073,284		1,862,073,284
Interest and Dividends				771,906,029		771,906,029
Class Action Settlements				14,810,512		14,810,512
Rental Income					102,568	102,568
Warrants Voided By Statute of Limitations		89,100				89,100
Miscellaneous					15,927	15,927
<b>Total Operating Revenues</b>	<b>322,539,926</b>	<b>383,650,227</b>	<b>-</b>	<b>2,648,789,825</b>	<b>575,850</b>	<b>3,355,555,828</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			1,292,050,128			1,292,050,128
Death Benefits:						
Active Members		1,464,284				1,464,284
Retirees		99,006	535,915			634,921
Member Contributions Withdrawn	79,563,857					79,563,857
Service Contributions to Teacher Retirement System		7,913,660				7,913,660
Administrative Expenses					41,215,641	41,215,641
Depreciation Expense					670,623	670,623
<b>Total Operating Expenses</b>	<b>79,563,857</b>	<b>9,476,950</b>	<b>1,292,586,043</b>	<b>-</b>	<b>41,886,264</b>	<b>1,423,513,114</b>
<b>Income (Loss) Before Non-Operating Expenses and Operating Transfers</b>	<b>242,976,069</b>	<b>374,173,277</b>	<b>(1,292,586,043)</b>	<b>2,648,789,825</b>	<b>(41,310,414)</b>	<b>1,932,042,714</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Loss on Disposal of Fixed Assets					(5,527)	(5,527)
<b>Income (Loss) Before Operating Transfers</b>	<b>242,976,069</b>	<b>374,173,277</b>	<b>(1,292,586,043)</b>	<b>2,648,789,825</b>	<b>(41,315,941)</b>	<b>1,932,037,187</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	181,989,996	1,559,037,152	858,269,349	(2,599,296,497)		-
Interest Paid on Withdrawals	7,699,299			(7,699,299)		-
Establishment of Benefit Reserves	(196,633,810)	(716,168,293)	912,802,103			-
Member Savings Reinstated	1,655,122	(1,655,122)				-
Distribution of Interest for						
Administrative Expenses				(41,794,029)	41,794,029	-
Benefits Waived		21,393	(21,393)			-
Member Accounts-Escheated	(1,363,193)	1,363,193				-
Membership Fees Transferred Out					(341,545)	(341,545)
Excess Benefit Arrangement Transfers					(136,543)	(136,543)
<b>Net Operating Transfers</b>	<b>(6,652,586)</b>	<b>842,598,323</b>	<b>1,771,050,059</b>	<b>(2,648,789,825)</b>	<b>41,315,941</b>	<b>(478,088)</b>
<b>Net Income (Loss)</b>	<b>236,323,483</b>	<b>1,216,771,600</b>	<b>478,464,016</b>	<b>-</b>	<b>-</b>	<b>1,931,559,099</b>
<b>Account Balances - Beginning</b>	<b>3,823,418,358</b>	<b>6,683,228,103</b>	<b>11,041,465,891</b>	<b>-</b>	<b>-</b>	<b>21,548,112,352</b>
<b>Account Balances - Ending</b>	<b>4,059,741,841</b>	<b>7,899,999,703</b>	<b>11,519,929,907</b>	<b>-</b>	<b>-</b>	<b>23,479,671,451</b>

# Other Supplementary Information - Schedule 2

## Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Law Enforcement and Custodial Officer Supplemental Retirement Fund

Year Ended August 31, 2007

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2007
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Investment Income:						
Net Appreciation in Fair Value of						
Investments				61,102,940		61,102,940
Interest and Dividends				25,101,428		25,101,428
Class Action Settlements				490,496		490,496
Warrants Voided By Statute of Limitations		27				27
<b>Total Operating Revenues</b>	-	27	-	86,694,864	-	86,694,891
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			32,149,736			32,149,736
Administrative Expenses					1,399,340	1,399,340
<b>Total Operating Expenses</b>	-	-	32,149,736	-	1,399,340	33,549,076
<b>Income (Loss) Before Operating Transfers</b>	-	27	(32,149,736)	86,694,864	(1,399,340)	53,145,815
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest		64,995,940	20,299,584	(85,295,524)		-
Establishment of Benefit Reserves		(30,761,433)	30,761,433			-
Distribution of Interest for						
Administrative Expenses				(1,399,340)	1,399,340	-
<b>Net Operating Transfers</b>	-	34,234,507	51,061,017	(86,694,864)	1,399,340	-
<b>Net Income (Loss)</b>	-	34,234,534	18,911,281	-	-	53,145,815
<b>Account Balances - Beginning</b>	5,275	450,640,740	259,147,843	-	-	709,793,858
<b>Account Balances - Ending</b>	5,275	484,875,274	278,059,124	-	-	762,939,673

# Other Supplementary Information - Schedule 3

## Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Judicial Retirement System Plan Two Fund

Year Ended August 31, 2007

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2007
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Contributions to Retirement System:						
Member Contributions	4,106,167					4,106,167
Employer Contributions		10,908,845				10,908,845
Penalty Interest		19,041				19,041
Investment Income:						
Net Appreciation in Fair Value of						
Investments				16,498,454		16,498,454
Interest and Dividends				7,827,487		7,827,487
Class Action Settlements				123,395		123,395
<b>Total Operating Revenues</b>	<b>4,106,167</b>	<b>10,927,886</b>	-	<b>24,449,336</b>	-	<b>39,483,389</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			5,746,698			5,746,698
Death Benefits:						
Active Members						-
Member Contributions Withdrawn	58,299					58,299
Administrative Expenses					599,601	599,601
<b>Total Operating Expenses</b>	<b>58,299</b>	-	<b>5,746,698</b>	-	<b>599,601</b>	<b>6,404,598</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>4,047,868</b>	<b>10,927,886</b>	<b>(5,746,698)</b>	<b>24,449,336</b>	<b>(599,601)</b>	<b>33,078,791</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	1,968,212	17,881,161	3,937,983	(23,787,356)		-
Interest Paid on Withdrawals	62,910			(62,910)		-
Establishment of Benefit Reserves	(3,393,623)	(14,094,454)	17,488,077			-
Distribution of Interest for						
Administrative Expenses				(599,070)	599,070	-
<b>Net Operating Transfers</b>	<b>(1,362,501)</b>	<b>3,786,707</b>	<b>21,426,060</b>	<b>(24,449,336)</b>	<b>599,070</b>	-
<b>Net Income (Loss)</b>	<b>2,685,367</b>	<b>14,714,593</b>	<b>15,679,362</b>	-	<b>(531)</b>	<b>33,078,791</b>
<b>Account Balances - Beginning</b>	<b>41,929,810</b>	<b>96,327,029</b>	<b>46,328,996</b>		<b>531</b>	<b>184,586,366</b>
<b>Account Balances - Ending</b>	<b>44,615,177</b>	<b>111,041,622</b>	<b>62,008,358</b>	-	-	<b>217,665,157</b>

# Other Supplementary Information - Schedule 4

## Administrative and Investment Expenses/Expenditures

### Statutory Administrative Funds and Accounts

Year Ended August 31, 2007

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
	\$	\$
<b><u>PERSONNEL SERVICES</u></b>		
Salaries and Wages	13,922,341	3,473,740
<i>Payroll Related Costs:</i>		
Retirement Contributions	824,825	180,275
Retirement Membership Fees	775	121
Employees Insurance Contributions	1,256,228	170,813
Retirees Insurance Contributions	485,378	-
Social Security Contributions	1,000,769	222,196
Unemployment Compensation	21,321	-
Total Payroll Related Costs	3,589,296	573,405
<b>Total Personnel Services</b>	<b>17,511,637</b>	<b>4,047,145</b>
<b><u>PROFESSIONAL FEES AND SERVICES</u></b>		
Actuarial Services	1,671,636	-
Audit Services	279,275	-
Investment Consulting Fees	-	311,682
Investment Advisor Fees	-	18,085,109
Medical Board Member Fees	49,250	-
Architectural Services	267,120	-
Legal Services	105,875	-
Computer Programming Services	2,249,287	433,811
Other Professional Services	574,662	-
<b>Total Professional Fees and Services</b>	<b>5,197,105</b>	<b>18,830,602</b>
<b><u>OTHER SERVICES AND CHARGES</u></b>		
Travel	78,089	172,298
<i>Materials and Supplies:</i>		
Postage	623,182	-
General Office and Other Supplies	190,700	165
Subscriptions	19,077	9,046
Furniture and Equipment	624,642	4,003
Computer Software	199,718	166
Total Materials and Supplies	1,657,319	13,380
<i>Communications and Utilities:</i>		
Electricity, Gas and Water	309,047	-
Telephone and Telegraph	281,043	-
Electronic Communication Services	86,681	2,546,908
Total Communication and Utilities	676,771	2,546,908
<i>Repairs and Maintenance:</i>		
Land and Building	201,996	-
Furniture and Equipment	16,920	-
Computer Software and Equipment	850,338	-
Total Repairs and Maintenance	1,069,254	-
<i>Rentals and Leases:</i>		
Computer Software and Equipment	870,394	-
Office Equipment	249,187	-
Space	18,613	-
Total Rentals and Leases	1,138,194	-
Printing and Reproduction Services	42,442	-
Depreciation	670,623	-
Settlement of Claims	5,000	-
Interest Expense	129,433	-

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# Other Supplementary Information - Schedule 4

## Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts (Concluded)

Year Ended August 31, 2007

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
	\$	\$
<b>OTHER SERVICES AND CHARGES (continued)</b>		
Other Operating Expenses/Expenditures:		
Membership Fees	30,837	45,438
Employee Training	152,477	35,475
Insurance - Building and Vehicle	33,892	-
Fees and Other Charges	27,424	1,628
Investment Banking	-	1,367,156
Tenure Awards	2,541	90
Witness Fees	1,098	-
Hazardous Waste Disposal	215	-
Temporary Employment Agencies	545,552	634
Cleaning Services	99,319	-
Advertising Services	25,234	12,463
Freight/Delivery Services	6,167	-
Purchased Contracted Services	593,233	42,909
Prompt Payment Interest	134	-
SORM Assessment	1,922	-
Third Party Administrator Fee - Cafeteria Plan	987,026	-
Debit Card Fees - Cafeteria Plan	419,936	-
<b>Total Other Operating Expenses/Expenditures</b>	<b>2,927,007</b>	<b>1,505,793</b>
<b>Total Other Services and Charges</b>	<b>8,394,132</b>	<b>4,238,379</b>
<b>Total Expenses/Expenditures</b>	<b>31,102,874</b>	<b>27,116,126</b>
<b>Method of Finance:</b>		
State Employees Retirement System (S.E.R.S.) Trust Account ( 0955)	15,991,079	25,895,182
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	503,793	895,548
Judicial Retirement System Plan Two Trust Fund (0993)	395,349	204,252
Texasaver 401(k) Trust Fund (0946)	448,050	2,926
Texasaver 457 Trust Fund (0945)	525,693	9,121
State Employees Cafeteria Plan Trust Fund (0943)	1,885,755	-
State Retiree Health Plan (3973)	2,698,214	499
<b>Total Fiduciary Funds</b>	<b>22,447,933</b>	<b>27,007,528</b>
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	8,585,006	108,598
<b>Total Proprietary Fund</b>	<b>8,585,006</b>	<b>108,598</b>
Social Security Administration Trust Account (0929)	69,935	-
<b>Total Governmental Funds</b>	<b>69,935</b>	<b>-</b>
<b>Total Method of Finance</b>	<b>31,102,874</b>	<b>27,116,126</b>

# Other Supplementary Information - Schedule 5

## Professional and Consulting Fees

Year Ended August 31, 2007

<b><u>NATURE OF SERVICE</u></b>	<b><u>Totals</u></b>
	<b>\$</b>
Medical Board	49,250
Investment Consulting	311,682
Investment Advisors	18,085,109
Actuarial Services - Insurance	719,781
Actuarial Services - Retirement	951,855
Computer Programming Services	2,683,098
Audit Fees - Financial	87,120
Audit Fees - Insurance Carrier	157,000
Audit Fees - Other	35,155
Educational Services	122,972
Architectural Services	267,120
Legal Services	105,875
Actuarial Study-HSA/HRA/HDHP Health Plans	200,000
Executive Search Services	113,710
Fiduciary Counsel	11,480
Strategic Planning Services	4,600
Defined Contribution Compliance Review	75,750
Employee Assistance Program	3,862
Other Professional Services	42,288
<b>Total Professional and Consulting Fees</b>	<b><u>24,027,707</u></b>
<b>Method of Finance:</b>	
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	21,485,534
Law Enforcement and Custodial Officer Supplemental Ret. Trust Fund (0977)	767,381
Judicial Retirement System Plan Two Trust Fund (0993)	299,021
State Retiree Health Plan (3973)	291,971
Texa\$aver 401(k) Trust Fund (0946)	80,973
Texa\$aver 457 Trust Fund (0945)	69,968
State Employees Cafeteria Plan Trust Fund (0943)	8,026
<b>Total Fiduciary Funds</b>	<b><u>23,002,874</u></b>
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	1,024,043
<b>Total Proprietary Fund</b>	<b><u>1,024,043</u></b>
Social Security Administration Fund (0929)	790
<b>Total Governmental Funds</b>	<b><u>790</u></b>
<b>Total Method of Finance</b>	<b><u>24,027,707</u></b>



# Investment Section

Report on Investment Activity

Outline of Investment Policies

Time-weighted Rates of Return  
and Asset Allocations

Fees and Commissions

List of Largest Assets Held

Investment Summary at Fair Value



# Report on Investment Activity

Fiscal Year 2007

## OVERVIEW

The Employees Retirement System of Texas (System) investment portfolio closed the fiscal year with a fair value of \$24.4 billion, and returned 13.9% for the year. The fiscal year-end asset allocation stood at 29.1% investment grade bonds, 6.8% high yield bonds, 37.6% large cap domestic equity, 6.0% small cap domestic equity and 18.3% international equity. Not reflected in the asset allocation mix is the \$40 million investment in private equity and \$371 million in Global REITs.

Major accomplishments for the investment program this fiscal year included the selection of a private equity consultant as ERS continues to lay the groundwork for investing in this asset class. Additionally, the System successfully transitioned to a global research platform for its internal equity management and effectively hired additional analysts in both equity and fixed income as part of the board's commitment to providing new resources to internal management. And, as always, the System continued to invest in the infrastructure and software tools needed to improve and maintain the overall efficiency of the investment program including a new investment accounting software package providing daily net asset values.

The investment portfolio's total return outperformed the actuarially assumed rate of return of 8.0% for the fifth year in a row reflecting the continued rebound in the domestic and international equity markets. Over the longer term, the fund returned 7.3% for the 10 years ending August 31, 2007 slightly besting the policy benchmark of 7.1%.

## DOMESTIC EQUITY MARKET

For the fiscal year ending August 31, 2007, the S&P 500 Index rose 13.05% and with dividends reinvested into the index, the total return was 15.13%. The S&P 600 Small Cap Index rose 13.23% with a total return of 14.28%. These gains were a continuation of the positive returns experienced as a result of the US economic expansion that began in 2001. The Energy sector was the top performing group, up 27% for the fiscal year. Energy was followed closely by Materials, Telecommunication Services, Information Technology and Industrials, all of which were up over 21%. The Financial Sector was the poorest relative performer with only a 1% gain.

Volatility was high during the period, especially during February and late summer. Negative returns for February ended the longest series of monthly gains in more than a decade. Investors were concerned about the risk of a slowing economy, oil prices and accelerating inflation, and whether the problems of sub-prime lending would

contaminate the broader mortgage and equity markets. The broad markets advanced during spring in reaction to an environment of steady interest rates and solid profit growth. A surge in deal activity and share buy-backs also boosted stock prices. Stock prices declined late in the summer when it was apparent that turmoil in the domestic housing market had led to a more wide-spread credit constriction.

The key question at fiscal year-end is whether the US economy is experiencing a "mid-cycle pause" or the beginning of a contraction. The US has experienced only five recessions since the early 1970s. Federal Reserve Chairman Bernanke indicated that the Fed is "prepared to act as needed to mitigate the adverse effects on the economy arising from the disruptions in financial markets." Many investors believe that a combination of actions by the Fed and strong international growth will be sufficient to avoid a contraction in US economic activity.

## INTERNATIONAL EQUITY MARKET

International equity markets continued to march higher in FY 2007 capping five consecutive years of strong returns. The Morgan Stanley Capital International EAFE Free index returned 18.7% in US dollar terms for the period. In addition, international markets finally surpassed the previous highs set in early 2000 on a local currency basis. The Pacific ex-Japan region returned 34.9%, Japan gained 2.9%, Europe gained 25.0% and the United Kingdom returned 17.6% in fiscal 2007, all adjusted to US dollars. Emerging markets were an exceptionally strong performer with a gain of 43.6% for the year.

Major currencies were stronger versus the dollar as last year's only depreciating currency, the Japanese Yen, managed a small gain. The Euro began the fiscal year near the 1.28 USD/EUR level, touched a low of 1.25 USD/EUR and ended near 1.36 EUR/USD, for a gain of 6.4% for the year. The British Pound followed a similar trend and ended the year with a 5.9% gain. The Japanese Yen began the year at 117 JPY/USD, went to 124 JPY/USD and ended the year near 116, or up 1.4%.

## FIXED INCOME MARKET

For the past 12 months fixed income markets have been focused on Ben Barnanke's new chairmanship of the Fed, slowing GDP, a precipitous decline in the housing market, and ultimately a liquidity crisis. While the bond market appeared to have little concern for heightened inflation figures, the Fed continued to convey concern in its statements, all the while leaving its target rate unchanged for the entire previous 12 months at 5.25%. GDP for the past twelve months demonstrated a weakening consumer

# Report on Investment Activity

Fiscal Year 2007

and faltering residential investment; as strong overseas markets boosted exports and solid non-residential investment provided positive contributions. GDP rebounded from 0.6% in the first quarter 2007 to 3.8% in the second quarter. Housing saw declines in home prices for the first time in six years while inventories rose to historical highs. This extreme disruption in housing ultimately set off a liquidity crisis that resulted in a flight to safety in US Government backed bonds, and away from debt backed by corporations. The labor market remained strong for the first 9 months of the fiscal year, however deterioration set in for the last 3 months due to less job creation and a rise in overall unemployment to 4.6%, from a low of 4.4%. Manufacturing managed to sustain itself with strong overseas demand, especially in aircraft.

## Index Performance

The Lehman Brothers Aggregate Index returned 5.26% for the fiscal year. U.S. Treasuries were the best performing sector, returning 6.02%. The Merrill Lynch High Yield Master II Index returned 6.57% for the year.

### Total Return 12 Months Ending August 31, 2007

Lehman Aggregate	5.26%
Treasuries	6.02%
Government Related	5.71%
Corporates	4.32%
Securitized	5.14%
Merrill Lynch High Yield Master II	6.57%

## Interest Rates

The yield curve steepened significantly over the last 12 months as the market began pricing in a Fed ease. The majority of the steepening occurred over the summer when sub-prime mortgage concerns caused a flight to quality in the short end of the treasury curve. Two year treasury rates were as high as a 5.10% in May and as low as 4.03% in August. Ten year treasury rates reached a high of 5.29% in June and a low of 4.42% in December. The spread between ten and two year interest rates have remained in positive territory since April. The Federal Open Market Committee remained on hold and kept the Fed Funds overnight rate steady at 5.25%. However, they lowered the discount rate to 5.75% in August to provide some liquidity relief to the market. Investors saw this as a sign that a Fed ease may be imminent.

## Key Portfolio Statistics

	2007	2006
Contributions to Pool	\$505,000,000	\$505,300,000
Withdrawals from Pool	(\$1,237,200,000)	(\$1,195,626,000)
Interest & Dividends	\$790,605,675	\$704,741,892
Securities Lending Income	\$14,229,269	\$12,058,181
Net Appreciation in Fair Value	\$1,939,674,678	\$1,114,028,280

Prepared by:  
Chief Investment Officer and Finance staff of the System.

Basis of Presentation:  
Master Custodian and System's Financial Records.

# Outline of Investment Policies

Fiscal Year 2007

## Background

The Board of Trustees' investment policies are governed by the Texas Trust Code and the Texas State Constitution. As fiduciaries of the System's funds, the Board of Trustees practices the following duties of care:

- Manage the assets for the exclusive benefit of the members of the retirement plans;
- Establish prudent investment policies defining investment objectives and strategies;
- Seek to maximize return while maintaining the safety of principal;
- Diversify the assets to reduce risk of loss;
- Monitor and document investment performance; and
- Efficiently manage the costs associated with implementation of its investment program.

Investments shall be made exercising the judgment and care, under the circumstances prevailing at the time of investment, that persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in speculation, but when making a permanent disposition of their funds, considering the probable income from the disposition and the probable safety of their capital.

A staff of trained professional personnel in accordance with Trustee policies and Constitutional and Statutory regulations invests State contributions, member contributions, and investment income. To assist the staff with investment recommendations and decisions, the Trustees have employed nationally recognized investment managers and have appointed an Investment Advisory Committee composed of prominent members of the financial and business community of Texas. Also, the System retains an independent consultant to evaluate and analyze the investment results of the System.

## Diversification

- Investments in the securities of any one corporation may not exceed 3% of the market value of the total fund.
- Investments in the stock of any one corporation may not exceed 1.5% of the market value of the total fund.
- Investments in the stock of any one corporation may not exceed 5% of the voting stock of that corporation.
- Investments in the Texas Growth Fund may not exceed 1% of the market value of the total fund.
- Investments in Deferred Interest, Contingent Interest and Pay-In-Kind bonds may not exceed 15% of each advisor's high yield bond portfolio.
- Investments in publicly-traded real estate stocks held in the Real Estate asset class may represent no more than 3% of the market value of the total fund.

## Permissible Investments

The Board of Trustees will consider investment instruments appropriate for the System and deemed to be prudent based on:

- Their consistency with investment policy and portfolio objectives;
- Their application to the portfolio's diversification;
- Staff and/or advisor competency in evaluating and trading the securities;
- Consideration of their liquidity within the portfolio;
- The cost of including them in the program; and
- Futures and options to facilitate risk management and to provide efficiency in investment implementation through lower transaction costs and lower turnover or to provide higher correlation to the benchmark index returns.

Eligible securities are as follows:

- Domestic equities, screened to eliminate against any known bankruptcy proceedings, lawsuits or breach of corporate ethics that might jeopardize the company's economic future or existence;
- Equities of companies domiciled in countries outside of the United States;
- U.S. dollar denominated fixed income and short term securities including both publicly-traded and those issued pursuant to the Securities and Exchange Commission's Rule 144A;
- Interests in certain limited liability securities and vehicles, such as limited partner interests in limited partnerships, trusts and limited liability corporations deemed appropriate by investment staff with review by legal staff;
- Publicly-traded real estate securities screened by the System's staff against any known bankruptcy proceedings, lawsuits, or breach of corporate ethics that might jeopardize the company's economic future or existence; and
- Futures which are Commodities and Futures Trading Commission (CFTC)-approved and exchange-traded options.

## Proxies and Bond Indenture Changes

All proxies and proposals for bond indenture changes involving companies whose securities are owned by the Fund shall be voted in such a way as to give the most benefit to the participants of the Fund and be consistent with the stated goals and objectives of the Fund.

*Basis of Presentation:*

Texas Statute and ERS Investment Policy

# Time-Weighted Rates of Return and Asset Allocations

## Pension Investment Pool Trust Fund (Note A)

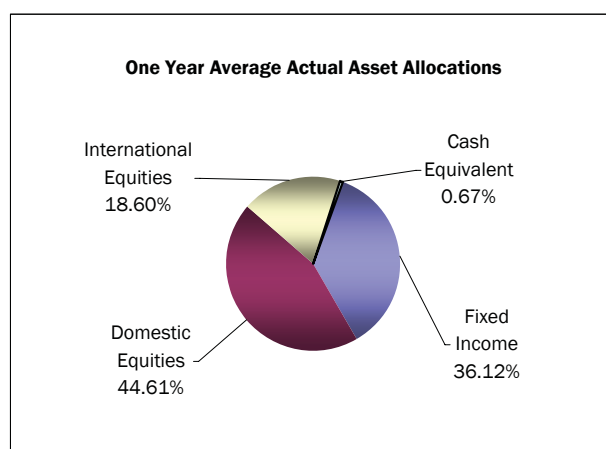
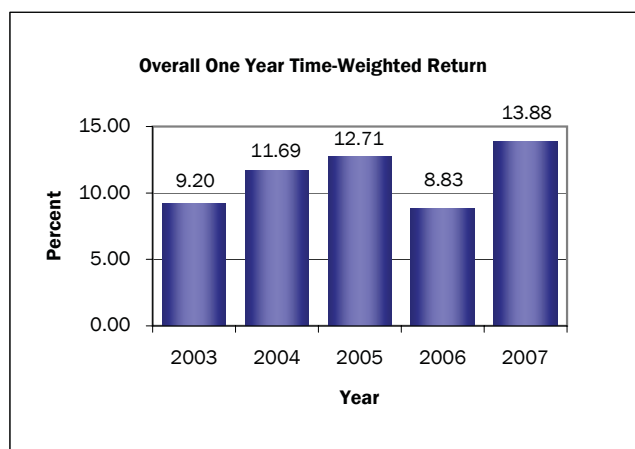
August 31, 2007

### Time-Weighted Rates of Return

	Fixed Income Securities		Domestic Equities		International Equities		Cash Equivalent		ERS	
	ERS	Index	ERS	Index	ERS	Index	ERS	Index	Overall	CPI
1 Year	%	%	%	%	%	%	%	%	%	%
2003	6.50	4.36	11.90	12.07	5.96	9.11	1.42	1.38	<b>9.20</b>	1.88
2004	7.78	6.13	11.25	11.45	21.41	22.64	1.13	1.08	<b>11.69</b>	2.44
2005	5.21	4.15	14.68	12.56	24.39	23.58	2.54	2.44	<b>12.71</b>	3.59
2006	2.52	1.71	8.29	8.88	22.39	24.28	4.66	4.34	<b>8.83</b>	3.92
2007	5.73	5.26	14.98	15.13	20.00	18.71	5.37	5.29	<b>13.88</b>	2.40
3 Year										
(2005-2007)	4.48	3.69	12.61	12.16	22.25	22.16	4.18	4.02	<b>11.78</b>	3.29
5 Year										
(2003-2007)	5.53	4.31	12.19	12.00	18.64	19.53	3.00	2.89	<b>11.24</b>	2.93

### Average Asset Allocations

	1-Year		3-Year		5-Year	
	Target	Actual	Target	Actual	Target	Actual
	%	%	%	%	%	%
Fixed Income	38.00	36.12	38.00	36.73	39.20	38.17
Domestic Equities	44.00	44.61	44.00	44.30	42.80	43.20
International Equities	18.00	18.60	18.00	18.43	18.00	18.27
Cash Equivalent	0.00	0.67	0.00	0.54	0.00	0.36
Total	100.00	100.00	100.00	100.00	100.00	100.00



Note A: The Time-Weighted Rate of Return measures the performance of the total investment portfolio, considering income and market impact, including realized and unrealized gains, and eliminates the effect of timing of cash flows due to contributions and withdrawals which are not controllable by investment managers. The 5-year return is used to smooth market swings and to maintain consistency with the long-term nature of the fund. The Time-Weighted Rate of Return is calculated as follows:

$$\frac{\text{Ending Market Value} - \text{Beginning Market Value} - \text{Purchases} + \text{Income Received} + \text{Sales} - \text{Contributions} + \text{Withdrawals}}{\text{Beginning Market Value} + 1/2(\text{Purchases} - \text{Sales} + \text{Contributions} - \text{Withdrawals})}$$

The indices used for comparison are as follows:

Fixed Income Securities Portfolio:	Lehman Aggregate Index
Domestic Equities Portfolio:	S & P 500 Index
International Equities Portfolio:	EAFE Free Index (i.e., Europe, Australia and Far East Index excluding securities unavailable to foreign investors)
Cash Equivalents Portfolio:	91-Day U.S. Treasury Bill

Basis of Presentation: Master Custodian Records in accordance with the CFA Institute Standards.



# Schedule of Fees and Commissions

Year Ended August 31, 2007

Investment Advisory Fees				Domestic Equity Commissions			
	Assets Under Advisory		Basis Points	Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
	Management	Fees					
Fixed Income Advisors	\$ 1,646,707,152	\$ 2,785,000	0.1691%	A. G. Edwards	374,076	\$ 15,047	0.040
Domestic Equity Advisors	3,026,480,347	6,724,545	0.2222%	BancAmerica Securities, Inc.	9,527,822	190,565	0.020
International Equity Advisors	3,337,481,672	8,575,564	0.2569%	Bear Stearns	10,134,738	212,406	0.021
<b>Total</b>	<b>8,010,669,171</b>	<b>18,085,109</b>	<b>0.2258%</b>	Bloomberg Tradebook, LLC (B-TRADE)	16,509,575	409,772	0.025
				BMO Capital Markets	714,777	21,443	0.030
				Citigroup Global Markets, Inc.	5,690,168	116,238	0.020
				Credit Suisse First Boston	13,643,249	204,192	0.015
				Deutsche Bank Securities, Inc.	3,155,277	62,278	0.020
				Fox-Pitt Kelton, Corporation	1,052,100	36,195	0.034
				Goldman Sachs & Company	6,884,248	141,572	0.021
				Green Street Advisors	757,980	36,099	0.048
				Int'l Strategy & Investments Group, Inc.	28,143	844	0.030
				ITG	6,148,610	62,610	0.010
				J.P. Morgan Securities, Inc.	11,625,835	234,019	0.020
				Jefferies & Company, Inc.	6,873,542	143,526	0.021
				Keefe, Bruyette, & Woods, Inc.	1,381,967	44,919	0.033
				Leerink Swann & Company, Inc.	102,400	4,572	0.045
				Lehman Brothers	9,696,831	193,827	0.020
				Merrill Lynch	10,874,405	183,955	0.017
				Morgan Stanley	1,779,703	35,594	0.020
				Prudential Equity Group	1,242,050	26,299	0.021
				Raymond James & Associates	2,879,897	86,397	0.030
				Robert Baird Securities Inc.	1,629,858	39,641	0.024
				Sandler O'Neil & Partner, L.P.	172,400	5,172	0.030
				Sanford C. Bernstein & Co.	8,397,703	181,713	0.022
				Stifel, Nicolas, & Company Inc.	2,410,361	69,112	0.029
				Thomas Weisel Partners	1,394,594	30,200	0.022
				UBS	7,709,836	157,284	0.020
				Weeden & Company	1,263,792	25,276	0.020
				<b>Total</b>	<b>144,055,937</b>	<b>2,970,767</b>	<b>0.021</b>

Other Investment Service Fees	
Custodian Fees	\$ 131,308
Security Lending Agent Fees	2,423,740
Investment Consultant Fees	311,681
<b>Total</b>	<b>2,866,729</b>

Directed Commissions	
Consistent with the System's Investment Policy as adopted by the Board of Trustees, and in order to maximize the System's resources including commission dollars generated through trade activity, directed commissions are sometimes used to fund a portion of budgeted investment program expenses. Trade activity in excess of the level required to support research products used by the System investment staff is directed toward the payment of budgeted items. Directed commissions were not used during fiscal year 2007.	

## International Equity Commissions

Brokerage Firm	No. of Shares Traded	Commission per	
		Principal	Principal %
Banca IMI Securities Corporation	2,233,400	18,463,875 \$	0.200
Bloomberg Tradebook, LLC (G-TRADE)	125,800	3,911,900	0.250
Calyon Securites (USA) Inc.	10,953,220	125,014,384	0.204
Citigroup Global Markets, Inc.	50,914,912	359,701,294	0.106
Collins Stewart, Inc.	846,000	14,020,315	0.150
Credit Agricole Cheuvreux N.A., Inc.	2,559,050	27,302,486	0.159
Credit Suisse First Boston	12,578,370	291,433,354	0.105
Dresdner Kleinwort Wasserstein Sec., LLC	11,771,249	224,380,430	0.061
Exane, Inc.	370,549	10,464,444	0.250
Fox-Pitt Kelton, Corporation	355,500	22,504,288	0.100
Green Street Advisors	93,450	2,009,705	0.218
Helvea	1,113,100	40,737,715	0.200
HSBC Securities, Inc.	46,400	1,181,779	0.200
J.P. Morgan Securities, Inc.	12,223,604	154,316,918	0.181
JPP Euro-Securities, Inc. (Intermonte)	304,300	3,616,205	0.200
Keefe, Bruyette, & Woods, Inc.	3,041,596	66,448,590	0.200
Lehman Brothers	10,475,798	231,817,676	0.102
Macquarie Securities (USA) Inc.	11,125,613	93,827,429	0.176
Merrill Lynch	23,840,022	434,721,824	0.140
Mitsubishi UFJ Securities (USA), Inc.	5,551,399	80,726,275	0.104
Mizuho Securities USA Incorporated	5,928,568	94,738,600	0.199
Nomura Securities	20,557,626	106,762,374	0.222
RBC Dain Rauscher	40,050	866,196	0.215
UBS	13,436,030	206,908,839	0.138
<b>Total</b>	<b>200,485,606</b>	<b>2,615,876,895</b>	<b>0.136</b>

Basis of Presentation: Master Custodian and System's Subsidiary Records.

# List of Largest Assets Held

August 31, 2007

## Ten Largest Stock Holdings

# of Shares	Description	Fair Value
		\$
3,568,144	Exxon Mobil Corporation	307,145,836
7,715,188	General Electric Company	299,889,358
5,777,000	Cisco Systems, Inc.	184,401,840
6,177,400	Microsoft Corporation	178,094,442
3,034,000	Bank of America Corporation	153,763,120
2,342,000	Proctor & Gamble Company	152,956,020
3,245,101	Citigroup, Inc.	152,130,335
3,624,800	AT&T, Inc.	144,520,776
1,503,800	Chevron Corporation	132,845,692
1,800,205	American International Group, Inc.	118,813,530

## Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
\$		\$
593,416,414	JPMorgan Prime Money Market Fund-Capital Shares, Rating NR	595,762,112
200,000,000	U.S. Treasury Note Floating TIPS due on 4/15/2029, Rating AAA	320,095,084
124,500,000	U.S. Treasury Bond 7.5% due on 11/15/2016, Rating AAA	154,140,172
121,000,000	U.S. Treasury Bond 7.125% due on 2/15/2023, Rating AAA	151,071,578
100,000,000	U.S. Treasury Note Variable due on 1/15/2010, Rating AAA	129,311,889
84,000,000	U.S. Treasury Bond 8.125% due on 8/15/2021, Rating AAA	112,166,493
72,500,000	U.S. Treasury Bond 8.875% due on 8/15/2017, Rating AAA	97,084,740
88,306,402	FNMA Mortgage Pass-Thru 5.5% due on 4/1/2036, Rating NR	86,732,046
50,000,000	U.S. Treasury Bond 3.625% TIPS due on 4/15/2028, Rating NR	78,049,921
79,016,886	Federal Home Loan Mortgage Corp. 5.5% due on 4/1/2037, Rating NR	77,548,747

Note A: The investment portfolio listing is available for review at the System's office or the listing will be mailed upon request.

Basis of Presentation: Master Custodian Records

# Investment Summary at Fair Value

August 31, 2007

Type of Investment	Pooled Funds (NoteA)			Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fair Value	% Total
	\$	\$	\$	\$	
<b>Long-Term Fixed Securities:</b>					
U.S. Treasury Bonds	1,252,900,967	26,052,295	48,301,012	1,327,254,274	5.41721%
Other Government Securities	964,963,577	31,969,966	8,051,032	1,004,984,575	4.10186%
Mortgage Pass-Thru Securities	2,383,832,287	78,978,150	19,889,155	2,482,699,592	10.13317%
Collateralized Mortgage Obligations	40,679,531	1,347,743	339,404	42,366,678	0.17292%
Asset Backed Securities	100,556,190	3,331,502	838,976	104,726,668	0.42744%
Commercial Mortgage Backed Securities	481,653,098	15,957,529	4,018,602	501,629,229	2.04741%
Corporate Bonds	2,645,689,158	87,653,664	22,073,919	2,755,416,741	11.24627%
<b>Total Long-Term Fixed Securities</b>	<b>7,870,274,808</b>	<b>245,290,849</b>	<b>103,512,100</b>	<b>8,219,077,757</b>	<b>33.54628%</b>
<b>Equities:</b>					
<b>Domestic:</b>					
Public Equity	10,001,532,827	331,358,277	83,446,320	10,416,337,424	42.51443%
Private Equity	38,583,274	1,278,293	321,914	40,183,481	0.16401%
REIT	262,163,462	8,685,671	2,187,323	273,036,456	1.11440%
<b>Total Domestic Equity</b>	<b>10,302,279,563</b>	<b>341,322,241</b>	<b>85,955,557</b>	<b>10,729,557,361</b>	<b>43.79284%</b>
<b>International:</b>					
Public Equity	4,566,822,985	151,302,267	38,102,617	4,756,227,869	19.41261%
REIT	52,102,410	1,726,192	434,709	54,263,311	0.22148%
<b>Total International Equity</b>	<b>4,618,925,395</b>	<b>153,028,459</b>	<b>38,537,326</b>	<b>4,810,491,180</b>	<b>19.63409%</b>
<b>Total Equities</b>	<b>14,921,204,958</b>	<b>494,350,700</b>	<b>124,492,883</b>	<b>15,540,048,541</b>	<b>63.42693%</b>
<b>Cash Equivalents:</b>					
Margin Deposit	36,228,310	205,391	2,738,265	39,171,966	0.15988%
Changes in Futures Contracts	11,233,084	77,867	814,309	12,125,260	0.04949%
Net Margin Deposit	47,461,394	283,258	3,552,574	51,297,226	0.20937%
Cash in State Treasury-Investment Pool	723,100	4,099	54,654	781,853	0.00319%
Investment in State Treasury					
Commercial Paper	62,148,700	2,059,033	518,529	64,726,262	0.26418%
Short Term Investment Fund	575,825,325	19,334,171	4,178,784	599,338,280	2.44621%
Certificates of Deposit	24,428,126	809,322	203,813	25,441,261	0.10384%
<b>Total Cash Equivalents</b>	<b>710,586,645</b>	<b>22,489,883</b>	<b>8,508,354</b>	<b>741,584,882</b>	<b>3.02679%</b>
<b>Total Before Securities Lending Collateral (Notes B &amp; C)</b>	<b>23,502,066,411</b>	<b>762,131,432</b>	<b>236,513,337</b>	<b>24,500,711,180</b>	<b>100.00000%</b>
Securities Lending Collateral	5,778,463,221	177,506,394	82,341,167	6,038,310,782	
<b>Total Pension Investment Pool Trust Fund (0888)</b>	<b>29,280,529,632</b>	<b>939,637,826</b>	<b>318,854,504</b>	<b>30,539,021,962</b>	
<b>Cash Equivalents:</b>					
Cash in State Treasury-Pension Funds	20,104,278	839,705	542,906		
<b>Total Investments</b>	<b>29,300,633,910</b>	<b>940,477,531</b>	<b>319,397,410</b>		
<b>Percent Ownership in Investment Pool</b>	<b>95.88%</b>	<b>3.08%</b>	<b>1.04%</b>	<b>100.00%</b>	

Note A: The Pension Investment Pool Trust Fund (Fund 0888) includes the Employees Retirement Fund (Fund 0955), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (Fund 0977), and the Judicial Retirement System Plan Two Fund (Fund 0993).

Note B: Fair value of investments adjusted to comply with the CFA Institute Standards:

	Fair Value			
	Fund 0955	Fund 0977	Fund 0993	Total
Total Fair Value of Investments Before				
Securities Lending Collateral, as above	23,502,066,411	762,131,432	236,513,337	24,500,711,180
Unsettled Sales-Investment Receivables	156,979,589	5,198,829	1,307,980	163,486,398
Unsettled Purchases-Investment Payables	(258,171,492)	(8,550,168)	(2,150,936)	(268,872,596)
Adjustment to Investment Income Receivable	(2,672,110)	(331,908)	573,628	(2,430,390)
<b>Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards</b>	<b>23,398,202,398</b>	<b>758,448,185</b>	<b>236,244,009</b>	<b>24,392,894,592</b>

Note C: The investment portfolio listing is available for review at the System's office or the listing will be mailed upon request.

Basis of Presentation: System's Financial Records.





## Actuarial Section

### Pension Plans:

Actuary's Certification Letter

Actuarial Balance Sheets

Summary of Actuarial Methods  
and Assumptions

Active Member Valuation Data

Retirees and Beneficiaries Added to and Removed  
from the Annuity Payrolls

Solvency Test

Analysis of Financial Experience

### State Retiree Health Plan:

Actuary's Certification Letter

Actuarial Valuation Results

Summary of Actuarial Methods  
and Assumptions



November 27, 2007

Board of Trustees Employees Retirement System of Texas  
**ACTUARIAL CERTIFICATION FOR FUNDED PROGRAMS**

This letter with attachments represents the Buck Consultants (Buck) certification for the financial report for the fiscal year ended August 31, 2007, of the funding status of the Employees Retirement Fund (ERF), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF), and the Judicial Retirement System of Texas Plan Two (JRSII). An actuarial certification is not provided for the Judicial Retirement System of Texas Plan One because it is not advance funded.

Buck performed separate actuarial valuations of the ERF and the LECOSRF (two separate funds within the Employees Retirement System (ERS)), and of the JRSII. Based on the results of those valuations, Buck then prepared the following exhibits and schedules for the financial report: the Actuarial Balance Sheets and the supporting schedules presented in the Actuarial Section; the Schedule of Funding Progress, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information presented in the Financial Section; and the schedule of Retired Members by Type of Benefit presented in the Statistical Section.

Buck relied upon the member data and assets provided by the staff of the ERS. The active member valuation data and retiree and beneficiary data exhibits following this certification provide a summary of the data. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness.

The actuarial assumptions used for these valuations are outlined in the “Summary of Actuarial Methods and Assumptions.” These assumptions are based on an experience study that reviewed data from 1997 to 2002. The ERS Board of Trustees adopted the assumptions on December 10, 2003. The Board adopted modifications to these assumptions on December 14, 2005 to reflect 2005 legislation. In addition, effective August 31, 2007, minor changes were made to reflect the impact of 2007 legislation on pay and benefit provisions. In our opinion, these assumptions generate reasonable valuation results, and the assumptions individually and in the aggregate relate reasonably to the past and anticipated experience of the ERF, the LECOSRF and the JRSII. The actuarial assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the Financial Section by Government Accounting Standards Board (GASB) Statement No. 25, except that actual current contribution rates, which are set by legislation, may not amortize the unfunded accrued liabilities within the 30-year maximum period prescribed by the Statement.

**EMPLOYEES RETIREMENT FUND**

The funding objective of the plan is to fund the sum of the normal cost and the amount necessary to amortize any unfunded accrued liability over a period that does not exceed 30 years by one or more years. Contribution rates are established which, over time, are intended to remain level as a percent of payroll.

The actual contribution levels of the ERF are set by legislation. Currently, most members contribute 6% of pay and the State contributes 6.45% of payroll. The actuarial valuation was completed using the entry age actuarial cost method, which generates a normal cost expected to remain level as a percent of payroll. The funding period produced by the total 12.45% actual contribution rate – the time required to fund the normal cost and amortize any unfunded accrued liability – was then determined.

The actuarial valuation is completed annually with the most recent valuation conducted as of August 31, 2007. Since the prior valuation there were changes in the salary structure as a result of HB1, HB 2498 and SB 737, and projected future salaries were adjusted to reflect the impact of this legislation. There were no other changes to the actuarial cost method, actuarial procedures, or assumptions, and no changes in plan provisions since the prior valuation.

The August 31, 2007 actuarial valuation shows that the total normal cost rate for fiscal year 2008 is 11.98% of payroll. At August 31, 2007, the unfunded accrued liability (the difference between the accrued liability and the actuarial value of assets) is \$1,048.2 million, and the funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 95.6%. Total contributions are 12.45% of payroll. While the total contribution rate exceeds the normal cost by 0.47% of payroll, this contribution is not sufficient to ever amortize the unfunded accrued liability. Therefore, currently, the amortization period is infinite and the funding objective is not being realized. For fiscal year 2008, the total contribution rate that would both fund the normal cost and amortize the unfunded accrued liability over 31 years as a level percentage of payroll is 13.10%.

Because the amortization period exceeds 31 years, Texas Government Code Section 811.006 precludes any benefit improvements that would decrease the funded position of the plan until the valuation indicates that the contribution would fund the normal cost and amortize any unfunded accrued liability over less than 31 years. This means that the Board of Trustees may not authorize any supplemental payments under Texas Government Code Section 814.603, and annuity benefits may not be increased, unless the total contribution is increased to a rate sufficient to fund the normal cost and amortize any unfunded accrued liability over less than 31 years.

#### **LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND**

The funding objective of the plan is to fund the sum of the normal cost and the amount necessary to amortize any unfunded accrued liability over a period that does not exceed 30 years by one or more years. Contribution rates are established which, over time, are intended to remain level as a percent of payroll.

The actual contribution levels of the LECOSRF are set by legislation. Currently, members do not contribute to the LECOSRF and the State contributes 1.59% of payroll. The actuarial valuation was completed using the entry age actuarial cost method, which generates a normal cost expected to remain level as a percent of payroll. The funding period produced by the total 1.59% actual contribution rate was then determined.

The actuarial valuation is completed annually with the most recent valuation conducted as of August 31, 2007. Since the prior valuation there were changes in the salary structure as a result of HB1, HB 2498 and SB 737, and projected future salaries were adjusted to reflect the impact of this legislation. There were no other changes to the actuarial cost method, actuarial procedures, or assumptions, and no changes in plan provisions since the prior valuation. The August 31, 2007 actuarial valuation shows that the total normal cost rate for fiscal year 2008 is 1.54% of payroll. At August 31, 2007, the unfunded accrued liability is \$14.9 million, and the funded ratio is 98.0%. Total contributions are 1.59% of payroll. The total contribution rate exceeds the normal cost by 0.05% of payroll, and this contribution is sufficient to amortize the unfunded accrued liability over a period of 49.0 years. Therefore, currently, the funding objective is not being realized. For fiscal year 2008, the total contribution rate that would both fund the normal cost and amortize the unfunded accrued liability over 31 years as a level percentage of payroll is 1.61%.

Because the amortization period exceeds 31 years, Texas Government Code Section 811.006 precludes any benefit improvements that would decrease the funded position of the plan until the valuation indicates that the contribution would fund the normal cost and amortize any unfunded accrued liability over less than 31 years. This means that the Board of Trustees may not authorize any supplemental payments under Texas Government Code Section 814.603, and annuity benefits may not be increased, unless the total contribution is increased to a rate sufficient to fund the normal cost and amortize any unfunded accrued liability over less than 31 years.



## JUDICIAL RETIREMENT SYSTEM OF TEXAS PLAN TWO

The funding objective of the plan is to fund the sum of the normal cost and the amount necessary to amortize any unfunded accrued liability over a period that does not exceed 30 years by one or more years. Contribution rates are established which, over time, are intended to remain level as a percent of payroll.

The actual contribution levels of the JRSII are set by legislation. Currently, the State contributes 16.83% of payroll. Members contribute 6% of pay, although, as of the August 31, 2007 valuation, not all active members are contributing, and the average member contribution rate is 5.98% of pay. As a result, the effective total (State plus member) contribution rate for JRSII is 22.81% of payroll. The actuarial valuation was completed using the entry age actuarial cost method, which generates a normal cost expected to remain level as a percent of payroll. The funding period produced by the effective total 22.81% contribution rate was then determined.

The actuarial valuation is completed annually with the most recent valuation conducted as of August 31, 2007. Since the prior valuation there were changes in plan provisions as a result of HB 2882, and a minor change in actuarial procedures was made to reflect the impact of this legislation. There were no other changes to the actuarial cost method, actuarial procedures, or assumptions.

The August 31, 2007 actuarial valuation shows that the total normal cost rate for fiscal year 2008 is 20.83% of payroll. At August 31, 2007, the unfunded accrued liability is \$9.0 million, and the funded ratio is 95.9%. The effective total contribution rate is 22.81% of payroll, which produces a funding period of 8.3 years. We are of the opinion that the financing of the Judicial Retirement System of Texas Plan Two is adequate and the System is actuarially sound.

Qualified actuaries completed the valuations in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Sincerely,



Richard A. Mackesey, F.S.A.  
Principal, Consulting Actuary



S. Lynn Hill  
Director, Retirement Consulting



R. Ryan Falls, F.S.A.  
Director, Retirement Consulting

# Actuarial Balance Sheet – Employees Retirement Fund

August 31, 2007 (With Comparative Totals at August 31, 2006)

ACTUARIAL BALANCE SHEET	August 31, 2007	August 31, 2006
<b>Assets:</b>		
Actuarial Value Assets	\$ 22,938,947,005	\$ 21,780,437,358
Present Value of Future Normal Cost		
Member	2,505,149,964	2,444,069,139
Employer	2,392,418,216	2,334,086,028
Total	<u>4,897,568,180</u>	<u>4,778,155,167</u>
Total	\$ 27,836,515,185	\$ 26,558,592,525
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 14,898,320,660	\$ 14,286,044,025
- disability	296,665,250	290,019,625
- death before retirement	300,330,812	290,000,366
- termination	989,007,717	981,798,689
- total	<u>16,484,324,439</u>	<u>15,847,862,705</u>
Inactive Members	880,479,319	799,418,473
Annuitants	<u>11,519,929,907</u>	<u>11,015,791,411</u>
Total	\$ 28,884,733,665	\$ 27,663,072,589
<b>Unfunded Accrued Liability (UAL)</b>	\$ 1,048,218,480	\$ 1,104,480,064
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	12.45%	12.45%
Normal Cost		
- dollars	\$ 629,396,032	\$ 605,149,374
- percent of payroll	11.98%	11.98%
Contribution Available to Amortize UAL	0.47%	0.47%
Accrued Liability	\$ 23,987,165,485	\$ 22,884,917,422
Amortization Period in Years	Infinite	Infinite
Funded Ratio	95.6%	95.2%
Valuation Payroll	\$ 5,253,723,135	\$ 5,051,330,334
Active Members	132,497	132,411

# Actuarial Balance Sheet – Law Enforcement and Custodial Officers Supplemental Retirement Fund

August 31, 2007 (With Comparative Totals at August 31, 2006)

<b>ACTUARIAL BALANCE SHEET</b>	<u>August 31, 2007</u>	<u>August 31, 2006</u>
<b>Assets:</b>		
Actuarial Value Assets	\$ 747,765,351	\$ 720,306,864
Present Value of Future Normal Cost	169,247,898	161,579,702
<b>Total</b>	<b>\$ 917,013,249</b>	<b>\$ 881,886,566</b>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 631,050,257	\$ 591,382,599
- occupational disability	13,118,860	12,417,965
- death benefit plan	8,593,442	8,031,567
- total	652,762,559	611,832,131
Vested Inactive Members	1,091,884	1,264,370
Annuitants	278,059,124	256,919,744
<b>Total</b>	<b>\$ 931,913,567</b>	<b>\$ 870,016,245</b>
<b>Unfunded Accrued Liability (UAL)</b>	<b>\$ 14,900,318</b>	<b>\$ (11,870,321)</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate (current biennium)	1.59%	0.00%
Normal Cost		
- dollars	\$ 20,956,616	\$ 19,831,672
- percent of payroll	1.54%	1.55%
Contribution Available to Amortize UAL	0.05%	-1.55%
Accrued Liability	\$ 762,665,669	\$ 708,436,543
Amortization Period in Years	49.0	0.6
Funded Ratio	98.0%	101.7%
Valuation Payroll	\$ 1,360,819,229	\$ 1,279,462,692
Active Members	36,413	37,103

# Actuarial Balance Sheet – Judicial Retirement System of Texas Plan Two Fund

August 31, 2007 (With Comparative Totals at August 31, 2006)

<b>ACTUARIAL BALANCE SHEET</b>	<b>August 31, 2007</b>	<b>August 31, 2006</b>
<b>Assets:</b>		
Actuarial Value Assets	\$ 211,932,547	\$ 186,400,313
Present Value of Future Normal Cost		
Member	25,511,556	24,029,031
Employer	61,350,501	61,319,439
Total	<u>86,862,057</u>	<u>85,348,470</u>
Total	<u>\$ 298,794,604</u>	<u>\$ 271,748,783</u>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 213,004,039	\$ 205,071,518
- disability	6,028,663	6,329,524
- death before retirement	7,146,757	6,865,772
- termination	10,467,166	10,972,214
- total	<u>236,646,625</u>	<u>229,239,028</u>
Inactive Members	9,091,415	9,010,740
Annuitants	<u>62,008,358</u>	<u>45,939,202</u>
Total	<u>\$ 307,746,398</u>	<u>\$ 284,188,970</u>
<b>Unfunded Accrued Liability (UAL)</b>	<b>\$ 8,951,794</b>	<b>\$ 12,440,187</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	22.81%	22.78%
Normal Cost		
- dollars	\$ 13,467,484	\$ 12,828,725
- percent of payroll	20.83%	20.59%
Contribution Available to Amortize UAL	1.98%	2.19%
Accrued Liability	\$ 220,884,341	\$ 198,840,500
Amortization Period in Years	8.3	11.4
Funded Ratio	95.9%	93.7%
Valuation Payroll	\$ 64,654,270	\$ 62,305,610
Active Members	515	498

## Summary of Actuarial Methods and Assumptions - Pension Plans

In December 2003, the Board of Trustees of the System adopted the actuarial methods and assumptions for the Employees Retirement System (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), and the Judicial Retirement Plan II Fund (JRS II) with assistance from the System's actuary and based on the actuarial experience study that covered the fiscal years from 1997 to 2002. The Board adopted modifications to these assumptions on December 14, 2005 to reflect 2005 legislation.

The System relies on the services of qualified actuaries to perform periodic valuations of the assets and liabilities of the pension funds. In May 2006, the System selected Buck Consultants as its new pension actuaries after a due diligence process of issuing a Request for Proposal (RFP) and the evaluation of the RFP responses.

The actuarial methods used for the three funds are summarized as follows:

### Actuarial Cost Method

The Entry Age Actuarial Cost Method was used for actuarial valuation. Actuarial gains and losses resulting from differences between actual and assumed experience are recognized as they occur each year. These gains or losses increase or decrease the unfunded actuarial accrued liability. The calculation of the years required to amortize the unfunded actuarial accrued liability assumes that the unfunded actuarial accrued liability is

amortized as a level percent of payroll, which is the total contribution rate minus the normal cost contribution rate. The total contribution rate is set by statute; the variable from year to year is the amortization period.

### Actuarial Valuation of Assets

The method used to value plan assets for actuarial purposes is based on the market-related value of plan assets, with five-year smoothing of unexpected returns. The market-related value is equal to the fair value of investments plus the carrying value (net of depreciation) of other assets and liabilities as of the valuation date. The actuarial value of assets is determined as the expected value of plan assets as of the valuation date plus 20% of the difference between the market-related value and the expected value. The expected value equals the actuarial value of plan assets as of the prior valuation date, plus contributions, less benefit payments and administrative expenses, all accumulated at the assumed rate of interest to the current valuation date.

For actuarial assumptions, the members of the System are segregated into four classes – Employee Class, Elected Class, Supplemental Benefits for Commissioned Peace Officers and Custodial Officers (CPO/CO's), and Judicial Class. The Employee Class is further classified into Non-CPO/CO's and CPO/CO's with regular benefits. The *economic* assumptions for these classes are summarized as follows:

	Employee Class & Supplemental Benefits for CPO/CO's	Elected Class	Judicial Class
<b>Investment Rate of Return:</b> (Same for all classes)	8% per year, compounded annually.		
<b>Administrative Expenses:</b> (As a percentage of payroll per year, compounded annually)	ERS Fund: 0.25% LECOS Fund: 0.10%	0.25%	0.50%
<b>Salary Increase:</b>	<ul style="list-style-type: none"> <li>• Include 4% annual increase for inflation plus increases for merit, promotion and longevity.</li> <li>• See Table 1 below for rates of salary increase for sample ages.</li> </ul>	<ul style="list-style-type: none"> <li>• 4% annually with no increase for merit, promotion, and longevity.</li> <li>• No salary increase for legislators.</li> </ul>	<ul style="list-style-type: none"> <li>• 4% annually with no increase for merit, promotion, and longevity.</li> </ul>
<b>Payroll Growth:</b> (Same for all classes)	4% per year, compounded annually.		
<b>Cost-of-Living Increase:</b>	N/A	4% per year, compounded annually	N/A

## Summary of Actuarial Methods and Assumptions

**Table 1**  
**Economic Assumption –**  
**Rates of Merit, Promotion and Longevity Salary Increases**  
**For Male and Female Members in the Employee Class (Note A)**

Age	Years of Service – Non-CPO/CO							Years of Service – CPO/CO				
	0	1	2-4	5-9	10-14	15-19	20+	0	1	2-4	5-9	10+
20	6.80%	5.25%	4.75%	4.65%				10.0%	5.0%	2.2%	2.1%	2.0%
30	6.00	5.25	4.45	3.85	3.65%	3.20%		10.0	5.0	2.2	2.1	2.0
40	5.50	4.55	4.05	3.45	3.45	2.70	2.60%	10.0	5.0	2.2	2.1	2.0
50	4.90	4.55	3.85	3.25	3.25	2.30	2.20	10.0	5.0	2.2	2.1	2.0
60	2.90	2.95	2.65	2.45	2.45	1.90	1.80	10.0	5.0	2.2	2.1	2.0

Note A: No salary increases where no rates are shown.

The demographic assumptions are summarized in Tables 2 to 10.

**Table 2**  
**Demographic Assumption –**  
**Annual Rates of Termination from Active Employment before Age and Service Retirement**

Age	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)					Years of Service – Male and Female Members in the Employee Class (CPO/CO) (Note B)					Elected Class	Judicial Class
	0	5	10	20	25+	0	5	10	15	20+		
20	49.0%	19.0%	6.0%	2.0%	0.0%	29.0%	17.0%	0.0%	0.0%	0.0%		
30	25.0	14.0	6.0	2.0	0.0	24.0	10.0	9.0	0.0	0.0	5.0% for all ages and gender.	3.0% for all ages and gender.
40	22.0	10.0	5.0	2.0	0.0	23.0	10.0	6.0	2.0	0.0		
50	22.0	7.0	4.0	2.0	0.0	19.0	5.0	5.0	2.0	0.0		
60	23.0	10.0	0.0	0.0	0.0	25.0	5.0	0.0	0.0	0.0		

Note B: It is assumed that no CPO/CO's will terminate after completing 20 years of service. CPO/CO's are eligible to retire with 20 years of service, regardless of age.

**Table 3**  
**Demographic Assumption –**  
**Annual Rates of Withdrawal of Employee Contributions by Vested Terminated Members**

Age	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)				Years of Service – Male and Female Members in the Employee Class (CPO/CO)			
	5-10	10-15	15-20	20+	5-10	10-15	15-20	20+
20-24	100%	100%	0%	0%	100%	0%	0%	0%
25-34	85	80	60	0	90	85	80	0
35-44	75	65	60	50	85	75	65	0
45-54	65	55	50	35	75	65	55	0
55+	55	45	40	25	65	0	0	0

## Summary of Actuarial Methods and Assumptions

**Table 4**  
**Demographic Assumption –**  
**Mortality Rates for Active Members (Note C)**

Age	Employee Class (Non-CPO/CO) (Note D)				Employee Class (CPO/CO)			
	Occupational		Non-occupational		Occupational		Non-occupational	
	Females	Males	Females	Males	Females	Males	Females	Males
20	0.001%	0.002%	0.026%	0.036%	0.001%	0.003%	0.034%	0.044%
30	0.001	0.002	0.032	0.059	0.001	0.003	0.042	0.071
40	0.001	0.002	0.064	0.079	0.001	0.003	0.085	0.097
50	0.001	0.002	0.129	0.195	0.001	0.003	0.171	0.237
60	0.001	0.002	0.400	0.608	0.001	0.003	0.533	0.739
65	0.001	0.002	0.777	1.109	0.001	0.003	1.036	1.349

Note C: It is assumed that there are no occupational deaths of members in the Elected and Judicial Classes.

Note D: Non-occupational rates are also applied to the Elected and Judicial Classes.

**Table 5**  
**Demographic Assumption –**  
**Mortality Rates for Service Retirees**  
**and Beneficiaries (Note E)**

Age	Females	Males
20	0.0284%	0.0507%
30	0.0351	0.0801
40	0.0709	0.1072
50	0.1428	0.2579
60	0.4439	0.7976
70	1.3730	2.3730
80	3.9396	6.2027
90	11.6265	15.2931

**Table 6**  
**Demographic Assumption –**  
**Mortality Rates for Disability Retirees**  
**(Note F)**

Age	Females	Males
20	2.50%	3.38%
30	2.25	2.53
40	1.99	1.97
50	2.44	2.68
60	3.14	4.42
70	3.90	5.91
80	7.09	10.15
90	16.82	25.25

Note E: Based on 1994 Group Annuity Mortality Table.

Note F: For female disability retirees, the assumption is 95% of Pension Benefit Guaranty Corporation (PBGC) Disabled Mortality grading to 100% from age 85 to 90. For male disability retirees, the assumption is 70% of PBGC Disabled Mortality grading to 100% from age 60 to 90.

**Table 7**  
**Demographic Assumption –**  
**Disability Retirement Rates (Notes G & H)**

Age	Employee Class (Non-CPO/CO) (Note I)			Employee Class (CPO/CO)		
	Occupational	Non-occupational		Occupational – Females & Males		Non-occupational
	Females & Males	Females	Males	Total Disability	Non-Total	Females & Males
20	0.003%	0.000%	0.000%	0.0002%	0.0008%	0.000%
30	0.003	0.028	0.057	0.0006	0.0024	0.016
40	0.004	0.186	0.144	0.0018	0.0072	0.101
50	0.008	0.430	0.308	0.0040	0.0160	0.284
60	0.015	0.000	0.000	0.0054	0.0216	0.000
65	0.018	0.000	0.000	0.0052	0.0208	0.000

Note G: There are no rates of non-occupational disability at age 20 because of the eligibility requirements for a non-occupational disability benefit. In addition, the requirement of 10 years of service excludes the youngest members. Members over age 60 are assumed to select a service retirement in lieu of a non-occupational disability retirement.

Note H: It is assumed that there are no occupational disabilities in the Elected and Judicial Classes.

Note I: Non-occupational rates are also applied to the Elected and Judicial Classes.

## Summary of Actuarial Methods and Assumptions

**Table 8**  
**Demographic Assumption –**  
**Option Selection Percentage and Beneficiary Characteristics**  
**under Disability Retirement**

	<b>Option Selection Percentage (Note J)</b>			<b>Beneficiary Characteristics</b>
	<b>Standard</b>	<b>Option 1</b>	<b>Option 4</b>	
<b>Male</b>	50%	40%	10%	Member is three years older than female beneficiary.
<b>Female</b>	75	15	10	Member is same age as male beneficiary.

Note J: Descriptions of Options 1 and 4 are presented in the Summary of Plan Provisions in the Introductory Section.

**Table 9**  
**Demographic Assumption –**  
**Service Retirement Rate (Note K)**

Age	<b>Years of Service – Members in the Employee Class (Non-CPO/CO)</b>								<b>Years of Service – Members in the Employee Class (CPO/CO)</b>						<b>Elected Class (Note L)</b>		<b>Judicial Class (Note L)</b>	
	<b>Female</b>				<b>Male</b>				<b>Female</b>		<b>Male</b>				Age	Rate	Age	Rate
	15-19	20-24	25-29	30+	15-19	20-24	25-29	30+	10-19	20+	15-19	25-26	29-34	35+				
<b>50</b>	0%	0%	0%	25%	0%	0%	0%	10%	0%	30%	26%	45%	50%	60%	<b>50-59</b>	10%	<b>50-69</b>	20%
<b>55</b>	0	0	30	30	0	0	15	10	12	24	13	22	30	30	<b>60-64</b>	15	<b>70-74</b>	25
<b>60</b>	30	30	30	30	20	25	30	20	24	24	26	45	50	60	<b>65-74</b>	20	<b>75+</b>	100
<b>65</b>	30	30	50	50	25	30	40	40	35	35	45	40	50	50	<b>75+</b>	100		
<b>70+</b>	100	100	100	100	100	100	100	100	100	100	100	100	100	100				

Note K: Rates in this table apply to members **after** their first year of service retirement eligibility. Rates that apply to members **in** their first year of eligibility for service retirement are available upon request. No service retirements where no rates are shown.

Note L: The rates are the same for all years of service. Judicial members are assumed to retire when they have accrued a standard retirement annuity of 90% of salary.

**Table 10**  
**Demographic Assumption –**  
**Option Selection Percentage and Beneficiary Characteristics**  
**under Service Retirement**

	<b>Option Selection Percentage (Note M)</b>		<b>Beneficiary Characteristics</b>
	<b>Option 1</b>	<b>Option 4</b>	
<b>Male</b>	75%	25%	Member is three years older than female beneficiary.
<b>Female</b>	60	40	Member is same age as male beneficiary.

Note M: Descriptions of Options 1 and 4 are presented in the Summary of Plan Provisions in the Introductory Section.



## Active Member Valuation Data

Valuation Year August 31,	Number (Note A)	Actual Annual	Average Pay	% Change
		Payroll	(Note B)	in Average Pay
		\$	\$	%
<b>Employees Retirement Fund:</b>				
2002	148,957	4,978,703,758	33,053	5.2
2003	142,163	4,986,410,107	33,335	0.9
2004	133,349	4,624,389,682	34,174	2.5
2005	131,331	4,569,274,344	34,345	0.5
2006	132,411	4,866,494,021	36,886	7.4
2007	132,497	5,092,036,902	38,097	3.3
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>				
2002	40,926	1,298,593,196	31,494	3.1
2003	40,335	1,277,894,221	31,382	(0.4)
2004	38,305	1,230,580,964	31,818	1.4
2005	37,150	1,283,815,360	31,848	0.1
2006	37,103	1,282,310,905	34,136	7.2
2007	36,413	1,295,766,196	35,058	2.7
<b>Judicial Retirement Plan Two Fund:</b>				
2002	464	45,600,138	99,062	(1.8)
2003	477	47,364,759	99,536	0.5
2004	484	48,327,669	100,215	0.7
2005	491	49,121,306	99,734	(0.5)
2006	498	59,180,787	125,112	25.4
2007	515	64,817,855	125,542	0.3

Note A: Number of active contributing members as of August 31, excluding those who retired August 31 because they were included as retirees in the actuarial valuation.

Note B: The average rate of salary is based on the salary for the month of August.

## Retirees and Beneficiaries Added to and Removed from the Annuity Payrolls

	Added to Rolls		Removed from Rolls		Other Beneficiaries		Rolls end of Year		% Increase	Avg Annual Benefit
	No	Annual Benefits	No	Annual Benefits	No	Annual Benefits	No	Annual Benefits		
<b>Employees Retirement Fund</b>										
2002	4,372	77,907,778	1,233	15,046,639	243	120,431,064	51,738	914,352,905	25.1%	17,673
2003	8,172	146,646,113	1,252	18,818,474	317	2,127,302	58,975	1,044,307,846	14.2%	17,708
2004	4,048	65,652,607	1,515	26,105,172	337	6,186,781	61,845	1,090,042,062	4.4%	17,625
2005	5,006	89,911,159	1,922	27,794,348	791	9,863,136	65,720	1,162,022,009	6.6%	17,681
2006	3,009	46,362,777	1,464	22,247,287	331	7,937,499	67,596	1,194,074,998	2.8%	17,665
2007	4,208	77,278,235	1,976	31,714,338	627	8,430,553	70,455	1,248,069,448	4.5%	17,714
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>										
2002	492	3,199,996	91	507,637	29	(2,318,473)	3,502	19,892,797	1.9%	5,680
2003	701	4,527,310	56	458,863	26	(142,646)	4,173	23,818,598	19.7%	5,708
2004	454	2,663,312	51	643,791	-	-	4,576	25,838,119	8.5%	5,646
2005	548	3,572,920	122	803,561	68	68,769	5,070	28,676,247	11.0%	5,656
2006	306	1,972,500	94	774,771	36	(269,668)	5,318	29,604,308	3.2%	5,567
2007	553	3,487,148	132	1,072,938	66	(85,644)	5,805	31,932,874	7.9%	5,501
<b>Judicial Retirement Plan Two Fund:</b>										
2002	3	141,951	-	-	-	-	34	1,423,900	11.1%	41,879
2003	25	1,052,404	-	-	-	-	59	2,476,304	73.9%	41,971
2004	12	553,529	1	22,724	2	7,200	72	3,014,309	21.7%	41,865
2005	10	1,340,441	1	56,932	-	(1,047)	81	4,296,771	42.5%	53,048
2006	10	539,286	2	139,500	-	16,616	89	4,713,173	9.7%	52,957
2007	24	1,602,661	1	57,000	4	159,056	116	6,417,890	36.2%	55,327

## Solvency Test

### Funding Objective

The System's funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due – the ultimate test of financial soundness.

### Evaluation of Funding Objective

A short-term solvency test is one way of evaluating a system's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with:

1. Active member contributions on deposit;
2. The liabilities for future benefits to present retirees; and

3. The liabilities for service already rendered by active members.

In a system that has been following the level contribution rate of payroll financing principle, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retirees (liability 2) will be fully covered by present assets except in rare circumstances. In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time. Following is a summary of the solvency test:

Valuation Year	Aggregate Accrued Liabilities For			Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer Financed Portion)		%	%	%
	\$	\$	\$	\$	%	%	%
<b>Employees Retirement Fund:</b>							
2002	3,213,061,085	8,427,092,145	6,809,367,468	18,909,071,718	100	100	106.7
2003	3,207,842,243	9,780,141,140	6,971,128,163	19,478,554,993	100	100	93.1
2004	3,368,149,356	10,161,943,670	7,061,754,972	20,036,646,562	100	100	92.1
2005	3,482,090,916	10,886,033,918	7,601,545,346	20,835,468,872	100	100	85.1
2006	3,823,418,359	11,015,791,411	8,045,707,652	21,780,437,358	100	100	86.3
2007	4,059,741,841	11,519,929,907	8,407,493,737	22,938,947,005	100	100	87.5
<b>Law Enforcement And Custodial Officer Supplemental Retirement Fund:</b>							
2002	-	182,770,572	343,434,181	655,978,723	-	100	137.8
2003	-	218,306,453	379,607,735	666,588,289	-	100	118.1
2004	-	233,720,473	387,736,863	679,242,950	-	100	114.9
2005	-	251,474,897	426,477,990	698,814,428	-	100	104.9
2006	-	256,919,744	51,516,799	720,306,864	-	100	102.6
2007	-	278,509,124	484,606,545	747,765,351	-	100	96.9
<b>Judicial Retirement Plan Two Fund:</b>							
2002	26,660,363	14,034,265	62,534,056	114,433,092	100	100	117.9
2003	28,461,427	24,413,787	58,240,386	129,425,907	100	100	131.4
2004	31,761,192	29,587,837	62,563,579	145,538,335	100	100	134.6
2005	35,303,352	41,672,041	105,335,768	164,230,979	100	100	82.8
2006	41,929,809	45,939,202	110,971,489	186,400,313	100	100	88.8
2007	44,615,177	62,008,358	114,260,806	211,932,547	100	100	92.2

## Analysis of Financial Experience

Actual financial experience will not coincide exactly with assumed financial experience because the future cannot be predicted with 100 percent precision. The assumed experience should be changed to reflect observed reality when an actuarial investigation reveals that the difference between actual and assumed experience in the various risk areas to be material and persistent.

If the differences between actual and assumed experience is financially favorable or unfavorable, such differences are called actuarial gains and losses. In the actuarial valuation of the System, actuarial gains and losses are recognized immediately, with actuarial gains decreasing the unfunded actuarial accrued liability and actuarial losses increasing the unfunded actuarial accrued liability. A general description of actuarial gains and losses for age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment is summarized as follows:

### **Age and Service Retirement:**

If members retire at younger (older) ages or with final average pay that is higher (lower) than assumed, there is a loss (gain).

### **Disability Retirement:**

If disability claims are more (less) than assumed, there is a loss (gain).

### **Death-in-Service Benefit:**

If survivor claims are more (less) than assumed, there is a loss (gain).

### **Withdrawal from Employment:**

If withdrawals are less (more) than assumed, there is a loss (gain).

The gains and losses in actuarial accrued liabilities resulting from differences between assumed experience and actual experience are summarized as follows:

<u>Type of Activity</u>	<b>Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)</b>					
	<b>ERS</b>		<b>LECOS</b>		<b>JRS II</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b><u>Contribution Income and Interest on Unfunded Actuarial Accrued Liability</u></b>						
If contributions are received in excess of normal cost, there is a decrease. If less, an increase.	65.6	80.9	19.1	19.2	(0.4)	0.3
<b><u>Components of (Gain)/Loss</u></b>						
<b><u>Investment Income</u></b>						
If there is greater investment income than assumed, there is a gain. If less income, a loss.	(135.2)	58.1	(3.8)	2.6	(1.4)	0.5
<b><u>Active Member Demographics</u></b>						
Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment	125.5	(90.2)	3.1	(10.1)	0.3	(0.9)
<b><u>Pay Increases</u></b>						
If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	35.3	(12.7)	5.6	(2.5)	(3.5)	(5.7)
<b><u>Death After Retirement</u></b>						
If retirees live longer than assumed, there is a loss. If not as long, a gain.	(16.1)	(68.3)	(1.0)	(0.5)	0.4	-
<b><u>Other</u></b>						
Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	13.5	2.5	1.0	0.3	0.6	0.2
<b>Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience</b>	<b>88.6</b>	<b>(29.7)</b>	<b>24.0</b>	<b>9.0</b>	<b>(4.0)</b>	<b>(5.6)</b>
<b><u>Non-Recurring Items</u></b>						
Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, etc.	(144.9)	-	2.8	-	0.5	-
<b>Composite Increase/(Decrease) During Year</b>	<b>(56.3)</b>	<b>(29.7)</b>	<b>26.8</b>	<b>9.0</b>	<b>(3.5)</b>	<b>(5.6)</b>



## ***Section I - Certification of GASB No. 43 Actuarial Valuation***

At the request of ERS, we have performed an actuarial valuation of the Other Post-Employment Benefits provided under the Employees Retirement System of Texas (ERS) Group Benefits Program (GBP) for the twelve-month period ending August 31, 2007. The purpose of this report is to present the results of our valuation and provide the information necessary to determine financial statement entries consistent with the Governmental Accounting Standards Board Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans (GASB No. 43).

Actuarial computations under GASB No. 43 are for purposes of fulfilling governmental plan financial accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of GASB No. 43 and the GBP.

We have based our valuation on employee data as of August 31, 2007 provided by ERS and the Teachers Retirement System (TRS) and plan provisions provided by ERS. We have used the actuarial cost methods and assumptions described in Section VI of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section VII.

To the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. To the extent any imperfections exist in data records, we have relied on best estimates provided by ERS and TRS. We have not audited the data provided.

All current active and retired employees eligible to participate in the plan as of the valuation date and all other individuals who have a vested benefit under the plan have been included in the valuation. Furthermore, to the best of our knowledge and belief, all plan benefits have been considered in the development of costs.

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. In our opinion, each of the assumptions used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption.

The undersigned individuals are members of the American Academy of Actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Michael J. Muth, F.S.A.  
Member of American Academy of Actuaries

Philip S. Dial, F.S.A.  
Member of American Academy of Actuaries

Mitchell L. Bilbe, F.S.A.  
Member of American Academy of Actuaries

Christopher S. Johnson, F.S.A.  
Member of American Academy of Actuaries

## Actuarial Valuation Results - State Retiree Health Plan

Actuarial Valuation Results as of August 31, 2007		
	(\$ millions)	As a % of Payroll
Number of Members (actual count, not in millions)		
Actives	216,958	
Deferred Vesteds	9,996	
Retirees and Nominees	75,958	
Total Number of Members	302,912	
Payroll of Active Members for FY 2007	\$8,836	
Actuarial Present Value of Total Projected Benefits		
Actives	\$18,291	
Deferred Vesteds	891	
Retirees and Nominees	6,165	
Total	\$25,347	286.9%
Actuarial Accrued Liability		
Actives	\$10,619	
Deferred Vesteds	891	
Retirees and Nominees	6,165	
Total	\$17,675	200.0%
Actuarial Value of Assets	\$0	0.0%
Unfunded Actuarial Accrued Liability	\$17,675	200.0%
Annual Required Contribution for Fiscal Year ended August 31, 2007		
Normal Cost	\$716	8.1%
Amortization of UAAL	766	8.7%
Total ARC for Fiscal Year ended August 31, 2007	\$1,482	16.8%

# Summary of Actuarial Methods and Assumptions - State Retiree Health Plan

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## Consistency with Assumptions Used for Retirement Plan Valuations

Most of the employees and retirees covered by the Group Benefits Program are also covered by the ERS and Teacher Retirement System (TRS) retirement plans that are subject to periodic actuarial valuations. Where appropriate, assumptions were utilized that were previously adopted by the ERS and TRS Boards for use in performing the retirement plan valuations. However, certain aspects of the OPEB valuation process require the use of assumptions that are unique to OPEB, specifically, the investment return assumption and the health benefit cost trend as discussed below.

## Investment Return Assumptions (Discount Rate)

In accordance with GASB Statement 43, the investment return assumptions (discount rate) is the estimated long-term investment yield on investments expected to be used to finance the payment of benefits with consideration given to the nature and mix of current and expected investments. For this purpose, the investments expected to be used to finance the benefits are:

- (i) the plan assets, if the employer's funding policy is to contribute an amount at least equal to the ARC
- (ii) assets of the employers, for plans that have no plan assets, or
- (iii) a combination of (i) and (ii), for plans being partially funded.

Presently, the amount that the System contributes to the plan each year is equal to the expected cost of providing the benefits incurred during that year. This amount is determined on a pay-as-you-go basis and does not accumulate funds in advance of retirement as ARC-level contributions would. Therefore, the pay-as-you-go amount is significantly less than the ARC. As a result of this funding policy and because the plan has no material level of assets held under a different investment policy that would materially effect the determination of the discount rate, under GASB statement 43, the investment return assumption must be based upon the expected yield of the "assets of the employer", as indicated in Item (ii) above. For the State of Texas, the "assets of the employer" are the assets held in the State Treasury Pool and managed by the Comptroller of Public Accounts.

Based upon the investment policy of the Treasury Pool, the historical returns of the Treasury Pool, and the long-term inflation assumption used in this report, an investment return assumption (discount rate) of 6.00% was utilized.

If a policy was implemented to consistently fund the ARC or a significant portion thereof, the discount rate discussed above could be higher than the current 6.00% assumption if the underlying investments of the plan assets were expected to yield a return in excess of 6.00%. This higher discount rate would produce a smaller ARC.

## Health Benefit Cost Trend

For purposes of this valuation, the health benefit cost trend represents the annual rate of increase in health benefit costs, excluding the effects of changes in demographics and changes in plan provisions.

The health benefit cost trend has exceeded the rate of price increases in the general economy, as measured by changes in the Consumer Price Index (CPI), for many decades. Although this pattern is expected to continue for the foreseeable future, many economists anticipate that the degree to which the health benefit cost trend exceeds general inflation will eventually abate. These economists believe that the health benefit cost trend will reach an ultimate level that still exceeds general inflation, but not by as wide a margin as in past decades.

## Medicare Part D

The Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the basic coverage provided under Medicare Part D. The System has applied for and received this subsidy in connection with prescription drug benefits provided to Medicare-eligible retirees covered under the Group Benefits Program since January 1, 2006.

For purposes of GASB Statement 43, the valuation of future OBEP may not reflect the anticipated receipt of future federal government subsidy payments under the Medicare Part D Prescriptions Drug Program as required under GASB Technical Bulletin No. 2006-1. However, subsidies are recognized as revenue for the plan at the time they are received.

## Economic Assumptions

### Expenses

The expenses to administer the Group Benefit Program health benefits are (i) \$194.64 per year per covered member for external Health Select administrative expenses for FY 2008 and (ii) approximately \$39.94 per year per covered member for internal administrative expenses for FY 2008 (i.e., the external and administrative expenses per covered member are the same regardless of whether the member covers dependent children).

## Summary of Actuarial Methods and Assumptions

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### Stop-loss Reinsurance

Stop-loss reinsurance is not purchased for the Group Benefits Program.

### Discount Rate

The Discount Rate is equal to the assumed return on assets of the System of 6.00%.

### Health Benefit Cost Trend

The Annual Rate of Increase in Per Capita Benefit Cost by age.

Fiscal Year	Annual Rate of Increase
	%
2009	9.10
2010	9.10
2011	8.50
2012	8.00
2013	7.00
2014 and beyond	6.00

\*Retiree contribution rates are assumed to increase with the trend.

### Expense Trend Rate

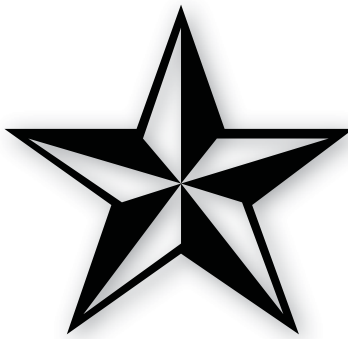
Internal and external administrative expenses are assumed to increase 4% per annum.

### Trend Rate for the Opt-Out Credit

The monthly benefit of \$60 in fiscal year 2007-2008 is assumed to increase at 4% per annum.

### Health Coverage by Governmental Plans

There has been no consideration of anticipated changes in laws concerning health costs covered by governmental programs. However, presently enacted changes in the law that take affect in future periods that will affect future benefit coverages are considered. The proportion of health benefits which are currently covered by governmental programs has been assumed to remain constant in the future.







# Statistical Section

## Governmental Activities:

Net Assets

Changes in Net Assets

## Governmental Funds:

Fund Balances

Changes in Fund Balances

## Changes in Net Assets:

Proprietary Fund

Defined Benefit Plans

Defined Contribution Plans and Cafeteria Plan

Benefit and Refund Payments—Defined Benefit Plans

Average Benefit Payments—Employee Class

Retired Members by Type of Benefit

Contribution Rates

## Statistical Information:

Defined Benefit Plans

Other Programs

List of Participating Entities for State Retiree  
Health Plan



## Net Assets – Governmental Activities

Last Six Fiscal Years (in 000's)  
(Accrual Basis of Accounting)

	Fiscal Year (Note A)					
	2002	2003	2004	2005	2006	2007
<b>Governmental Activities:</b>	\$	\$	\$	\$	\$	\$
Restricted	19,333	25,939	96,160	133,253	241,478	369,913
Unrestricted	420	16	3	27	49	45
<b>Total Governmental Activities</b>	<b>19,753</b>	<b>25,955</b>	<b>96,163</b>	<b>133,280</b>	<b>241,527</b>	<b>369,958</b>

## Changes in Net Assets – Governmental Activities (Unaudited)

Last Six Fiscal Years (in 000's)  
(Accrual Basis of Accounting)

	Fiscal Year (Note A)					
	2002	2003	2004	2005	2006	2007
<b>Expenses</b>	\$	\$	\$	\$	\$	\$
<i>Governmental Activities:</i>						
Social Security Administration	55	39	31	52	58	70
<i>Death Benefits:</i>						
Peace Officers, Firemen, etc.	7,322	4,677	4,985	2,660	4,361	2,397
Compensation to Victims of Crime				1,250	750	1,500
Retiree \$5,000 Lump Sum	6,432	6,453	6,681	7,026	6,908	7,493
<i>Group Benefits Program:</i>						
Claims Expenses	1,493,565	1,627,057	1,519,295	1,646,815	1,760,073	1,293,957
Administration	9,433	9,926	9,316	10,312	10,307	8,694
<b>Total Governmental Activities Expenses</b>	<b>1,516,807</b>	<b>1,648,152</b>	<b>1,540,308</b>	<b>1,668,115</b>	<b>1,782,457</b>	<b>1,314,111</b>

### Program Revenues

<i>Governmental Activities:</i>						
<i>Charges for Services:</i>						
Administration Fees				73	78	72
<i>Appropriations:</i>						
Administration	28	28	28	28	28	28
<i>Death Benefits:</i>						
Peace Officers, Firemen, etc.	7,248	4,649	4,957	2,632	4,333	2,369
Compensation to Victims of Crime				1,250	750	1,500
Retiree \$5,000 Lump Sum	6,487	6,087	6,681	7,030	6,910	7,487
<i>Insurance Contributions:</i>						
State	1,122,408	1,235,235	1,177,512	1,256,123	1,384,688	1,024,636
Member	366,998	393,976	404,107	420,192	450,678	365,653
Other	152	129	154	145	147	150
Federal Revenue-Medicare Part D					19,360	
<i>Operating Grants and Contributions:</i>						
Membership Fee Revenue	55		18			
Investment Income	13,977	12,879	12,999	14,809	23,023	40,375
Other	496	1,371	4,060	2,951	709	272
<b>Total Governmental Activities Program Revenues</b>	<b>1,517,849</b>	<b>1,654,354</b>	<b>1,610,516</b>	<b>1,705,233</b>	<b>1,890,704</b>	<b>1,442,542</b>
<b>Net Revenue Governmental Activities</b>	<b>1,042</b>	<b>6,202</b>	<b>70,208</b>	<b>37,118</b>	<b>108,247</b>	<b>128,431</b>

Note A: Information is available since the implementation of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments in 2002.

Source: Comprehensive Annual Financial Reports.

## Fund Balances – Governmental Funds

Last Ten Fiscal Years (in 000's)  
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Governmental Funds:</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Unreserved, reported in:										
Special Revenue Funds	97	49	80	411	420	16	3	27	49	45
<b>Total Governmental Funds</b>	<b>97</b>	<b>49</b>	<b>80</b>	<b>411</b>	<b>420</b>	<b>16</b>	<b>3</b>	<b>27</b>	<b>49</b>	<b>45</b>

## Changes in Fund Balances – Governmental Funds (Unaudited)

Last Ten Fiscal Years (in 000's)  
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Administration	28	28	28	28	28	28	28	28	28	28
Death Benefits:										
Public Employee Survivors	667	734	930	1,410	7,248	4,649	4,957	2,632	4,333	2,369
Victims of Crime									750	1,500
Retiree \$5,000 Lump Sum	5,376	5,946	6,102	6,418	6,487	6,087	6,681	7,030	6,910	7,487
Administration Fees								73	78	72
<b>Total Revenues</b>	<b>6,071</b>	<b>6,708</b>	<b>7,060</b>	<b>7,856</b>	<b>13,763</b>	<b>10,764</b>	<b>11,666</b>	<b>9,763</b>	<b>12,099</b>	<b>11,456</b>
<b>Expenditures</b>										
Death Benefits:										
Public Employee Survivors	667	739	936	1,359	7,294	4,649	4,957	2,632	4,333	2,397
Victims of Crime								1,250	750	1,500
Retiree \$5,000 Lump Sum	5,376	5,946	6,077	6,132	6,432	6,453	6,681	7,026	6,908	7,493
Administrative Expenditures	68	72	71	84	83	67	59	80	86	70
<b>Total Expenditures</b>	<b>6,111</b>	<b>6,757</b>	<b>7,084</b>	<b>7,575</b>	<b>13,809</b>	<b>11,169</b>	<b>11,697</b>	<b>10,988</b>	<b>12,077</b>	<b>11,460</b>
<b>Excess of Revenues Over (Under)</b>										
<b>Expenditures</b>	<b>(40)</b>	<b>(49)</b>	<b>(24)</b>	<b>281</b>	<b>(46)</b>	<b>(405)</b>	<b>(31)</b>	<b>(1,225)</b>	<b>22</b>	<b>(4)</b>
<b>Other Financing Sources (Uses)</b>										
Membership Fees	100		54	50	55		18			
Victims of Crime Fund								1,250		
<b>Net Change in Fund Balances</b>	<b>60</b>	<b>(49)</b>	<b>30</b>	<b>331</b>	<b>9</b>	<b>(405)</b>	<b>(13)</b>	<b>25</b>	<b>22</b>	<b>(4)</b>

Note A: Includes lapsed appropriations.

Source: Comprehensive Annual Financial Reports

## Changes in Net Assets – Proprietary Fund

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Operating Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Insurance Contributions:</i>										
State	704,182	720,598	803,196	870,735	1,122,408	1,235,235	1,177,512	1,256,123	1,384,688	1,024,636
Member	254,203	269,847	293,970	327,981	366,998	393,976	404,107	420,192	450,678	365,653
Federal Revenues-Medicare Part D									19,360	
Other	145	142	151	151	648	1,280	3,840	453	528	422
<b>Total Operating Revenues</b>	<b>958,530</b>	<b>990,587</b>	<b>1,097,317</b>	<b>1,198,867</b>	<b>1,490,054</b>	<b>1,630,491</b>	<b>1,585,459</b>	<b>1,676,768</b>	<b>1,855,254</b>	<b>1,390,711</b>
<b>Operating Expenses</b>										
<i>Benefit Payments:</i>										
Employee	993,026	1,070,713	1,168,466	1,308,239	1,493,565	1,627,057	1,107,187	1,189,048	1,265,966	1,275,725
Retiree (Note A)							402,224	439,171	478,229	-
COBRA (Note A)							9,883	18,596	15,878	18,232
Administrative and Other Expenses	6,888	7,880	8,733	9,782	9,433	9,926	9,316	10,312	10,307	8,694
<b>Total Operating Expenses</b>	<b>999,914</b>	<b>1,078,593</b>	<b>1,177,199</b>	<b>1,318,021</b>	<b>1,502,998</b>	<b>1,636,983</b>	<b>1,528,610</b>	<b>1,657,127</b>	<b>1,770,380</b>	<b>1,302,651</b>
<b>Operating Income (Loss)</b>	<b>(41,384)</b>	<b>(88,006)</b>	<b>(79,882)</b>	<b>(119,154)</b>	<b>(12,944)</b>	<b>(6,492)</b>	<b>56,849</b>	<b>19,641</b>	<b>84,874</b>	<b>88,060</b>
<b>Non-Operating Revenues (Expenses)</b>										
Net Appreciation (Depreciation)										
in Fair Value of Investments (Note B)	(916)	(1,186)	(293)	(1,284)	2,555	949	2,043	(1,750)	(4,834)	(730)
Interest Income	28,352	24,356	25,190	22,657	11,422	11,930	10,956	16,559	27,857	41,080
Other	(8)	(23)	(14)	(4)		220	374	2,644	327	25
<b>Change in Net Assets</b>	<b>(13,956)</b>	<b>(64,859)</b>	<b>(54,999)</b>	<b>(97,785)</b>	<b>1,033</b>	<b>6,607</b>	<b>70,222</b>	<b>37,094</b>	<b>108,224</b>	<b>128,435</b>

Note A: Prior to fiscal year 2004 the System recorded benefit payments at a summarized level. Therefore, this level of detail is not available for all years presented.

Note B: Due to the implementation of GASBS 31 in fiscal year 1998, the System began recording the net appreciation(depreciation) in fair value of investments.

Source: Comprehensive Annual Financial Reports

# Changes in Net Assets – Defined Benefit Plans

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Employees Retirement Fund (ERS)</b>										
<b>Additions</b>										
Member Contributions	267,977	270,260	283,841	286,982	319,565	324,000	300,156	305,870	292,023	328,039
Employer Contributions	264,776	265,031	279,192	281,906	300,969	301,555	278,845	276,035	316,198	329,981
Investment Income (Net of Expenses)	1,339,836	2,479,568	1,729,163	(1,410,270)	(1,272,412)	1,455,591	1,994,703	2,331,089	1,737,588	2,622,895
Other Additions	15,381	18,735	22,944	26,913	32,601	37,719	45,719	50,208	58,804	48,746
<b>Total Additions</b>	<b>1,887,970</b>	<b>3,033,594</b>	<b>2,315,140</b>	<b>(814,469)</b>	<b>(619,277)</b>	<b>2,118,865</b>	<b>2,619,423</b>	<b>2,963,202</b>	<b>2,404,613</b>	<b>3,329,661</b>
<b>Deductions</b>										
Retirement Benefits	552,415	599,827	681,524	827,940	908,511	1,010,238	1,190,313	1,206,562	1,251,090	1,299,964
Death Benefits	1,856	1,716	2,487	1,836	2,086	2,327	1,949	2,039	2,232	2,099
Refunds	99,562	104,939	96,261	91,800	70,031	73,438	83,779	89,760	75,614	79,564
Administrative and Other Expenses	13,315	12,499	12,273	12,621	13,295	13,078	12,996	13,878	14,044	16,475
<b>Total Deductions</b>	<b>667,148</b>	<b>718,981</b>	<b>792,545</b>	<b>934,197</b>	<b>993,923</b>	<b>1,099,081</b>	<b>1,289,037</b>	<b>1,312,239</b>	<b>1,342,980</b>	<b>1,398,102</b>
<b>Change in Net Assets</b>	<b>1,220,822</b>	<b>2,314,613</b>	<b>1,522,595</b>	<b>(1,748,666)</b>	<b>(1,613,200)</b>	<b>1,019,784</b>	<b>1,330,386</b>	<b>1,650,963</b>	<b>1,061,633</b>	<b>1,931,559</b>

## Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)

<b>Additions</b>										
Member Contributions					5					
Investment Income (Net of Expenses)	50,024	90,550	61,763	(49,664)	(44,338)	49,692	67,906	78,444	57,656	85,799
Other Additions		1	1	2		2	2		-	
<b>Total Additions</b>	<b>50,024</b>	<b>90,551</b>	<b>61,764</b>	<b>(49,662)</b>	<b>(44,333)</b>	<b>49,694</b>	<b>67,908</b>	<b>78,444</b>	<b>57,656</b>	<b>85,799</b>
<b>Deductions</b>										
Retirement Benefits	15,507	16,593	18,789	16,815	20,762	22,834	27,559	29,036	30,184	32,149
Administrative and Other Expenses	558	576	624	625	685	700	630	521	378	504
<b>Total Deductions</b>	<b>16,065</b>	<b>17,169</b>	<b>19,413</b>	<b>17,440</b>	<b>21,447</b>	<b>23,534</b>	<b>28,189</b>	<b>29,557</b>	<b>30,562</b>	<b>32,653</b>
<b>Change in Net Assets</b>	<b>33,959</b>	<b>73,382</b>	<b>42,351</b>	<b>(67,102)</b>	<b>(65,780)</b>	<b>26,160</b>	<b>39,719</b>	<b>48,887</b>	<b>27,094</b>	<b>53,146</b>

## Judicial Retirement System of Texas Plan One (JRS I)

<b>Additions</b>										
Member Contributions	955	890	702	679	439	268	142	62	214	
Appropriations	19,177	20,545	21,024	21,918	21,564	22,675	22,622	22,297	27,784	29,029
Other Additions	120	135	101	148	120	120	120	120	-	
<b>Total Additions</b>	<b>20,252</b>	<b>21,570</b>	<b>21,827</b>	<b>22,745</b>	<b>22,123</b>	<b>23,063</b>	<b>22,884</b>	<b>22,479</b>	<b>27,998</b>	<b>29,029</b>
<b>Deductions</b>										
Retirement Benefits	19,177	20,545	21,036	21,701	21,778	22,673	22,620	22,283	27,664	29,029
Refunds						3	1	14	-	
Administrative and Other Expenses	120	135	88	152	120	120	120	120	120	
<b>Total Deductions</b>	<b>19,297</b>	<b>20,680</b>	<b>21,124</b>	<b>21,853</b>	<b>21,898</b>	<b>22,796</b>	<b>22,741</b>	<b>22,417</b>	<b>27,784</b>	<b>29,029</b>
<b>Change in Net Assets</b>	<b>955</b>	<b>890</b>	<b>703</b>	<b>892</b>	<b>225</b>	<b>267</b>	<b>143</b>	<b>62</b>	<b>214</b>	<b>-</b>

## Judicial Retirement System of Texas Plan Two (JRS II)

<b>Additions</b>										
Member Contributions	2,144	2,369	2,496	2,638	2,780	3,020	2,922	2,985	3,551	4,125
Employer Contributions	6,008	6,815	7,130	7,258	7,804	8,294	8,205	8,365	10,052	10,909
Investment Income (Net of Expenses)	4,489	9,537	7,637	(6,916)	(7,168)	9,404	13,332	17,348	14,384	24,245
Other Additions	6	13	4	5		18	2	11	5	-
<b>Total Additions</b>	<b>12,647</b>	<b>18,734</b>	<b>17,267</b>	<b>2,985</b>	<b>3,416</b>	<b>20,736</b>	<b>24,461</b>	<b>28,709</b>	<b>27,992</b>	<b>39,279</b>
<b>Deductions</b>										
Retirement Benefits	488	722	898	1,211	1,365	2,119	2,770	3,308	4,223	5,747
Death Benefits		13		3				10	24	
Refunds	22	267	94	116	187	152	303	106	65	58
Administrative and Other Expenses	144	283	249	268	299	245	273	402	303	395
<b>Total Deductions</b>	<b>654</b>	<b>1,285</b>	<b>1,241</b>	<b>1,598</b>	<b>1,851</b>	<b>2,516</b>	<b>3,346</b>	<b>3,826</b>	<b>4,615</b>	<b>6,200</b>
<b>Change in Net Assets</b>	<b>11,993</b>	<b>17,449</b>	<b>16,026</b>	<b>1,387</b>	<b>1,565</b>	<b>18,220</b>	<b>21,115</b>	<b>24,883</b>	<b>23,377</b>	<b>33,079</b>

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## Changes in Net Assets – Defined Benefit Plans (Concluded)

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Excess Benefit Arrangement</b>										
<i>Additions</i>										
Other Additions					63	67	67	223	297	200
<b>Total Additions</b>	-	-	-	-	<b>63</b>	<b>67</b>	<b>67</b>	<b>223</b>	<b>297</b>	<b>200</b>
<i>Deductions</i>										
Retirement Benefits					63	67	67	223	236	141
Administrative and Other Expenses									61	59
<b>Total Deductions</b>	-	-	-	-	<b>63</b>	<b>67</b>	<b>67</b>	<b>223</b>	<b>297</b>	<b>200</b>
<b>Change in Net Assets</b>	-	-	-	-	-	-	-	-	-	-
<b>State Retiree Health Plan</b>										
<i>Additions</i>										
Member Contributions										108,387
Employer Contributions										438,242
Federal Revenues Medicare Part D										28,558
Investment Income (Net of Expenses)										1,541
<b>Total Additions</b>										<b>576,728</b>
<i>Deductions</i>										
Retirement Benefits										574,030
Administrative and Other Expenses										2,698
<b>Total Deductions</b>										<b>576,728</b>
<b>Change in Net Assets</b>										<b>-</b>

Source: Comprehensive Annual Financial Reports

# Changes in Net Assets – Defined Contribution Plans and Cafeteria Plan

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>TexaSaver 401(k) Plan</b>										
<i>Additions</i>										
Investment Income (Net of Expenses)	3	3	4	9	2	1	4	29	52	459
Other Additions	100	200	150	203	234	345	1,328	166	342	301
<b>Total Additions</b>	<b>103</b>	<b>203</b>	<b>154</b>	<b>212</b>	<b>236</b>	<b>346</b>	<b>1,332</b>	<b>195</b>	<b>394</b>	<b>760</b>
<i>Deductions</i>										
Administrative and Other Expenses	76	225	184	220	236	357	366	253	275	448
<b>Total Deductions</b>	<b>76</b>	<b>225</b>	<b>184</b>	<b>220</b>	<b>236</b>	<b>357</b>	<b>366</b>	<b>253</b>	<b>275</b>	<b>448</b>
<b>Change in Net Assets</b>	<b>27</b>	<b>(22)</b>	<b>(30)</b>	<b>(8)</b>	<b>-</b>	<b>(11)</b>	<b>966</b>	<b>(58)</b>	<b>119</b>	<b>312</b>
<b>TexaSaver 457 Plan</b>										
								(Restated)	(Restated)	
<i>Additions</i>										
Deferrals (Note A)	12,039	9,280	11,806	8,505	10,649	27,132	37,047	43,817	N/A	N/A
Rollovers and Transfers (Note A)	17,430	48,832	19,637		30,472	27,241	56,426	39,268	N/A	N/A
Investment Income (Net of Expenses)	25,893	43,448	16,579	(4,842)	(48,761)	18,341	33,976	25,093	23,752	62
Other Additions	332	300	329	200	430	234	186	119	684	503
<b>Total Additions</b>	<b>55,694</b>	<b>101,860</b>	<b>48,351</b>	<b>3,863</b>	<b>(7,210)</b>	<b>72,948</b>	<b>127,635</b>	<b>108,297</b>	<b>24,436</b>	<b>565</b>
<i>Deductions</i>										
Distributions and Fees (Note A)	21,884	28,376	25,795	35,692	26,902	27,604	41,851	26,152	N/A	N/A
Rollovers and Transfers (Note A)	17,430	45,976	21,541		26,460	42,224	67,071	41,481	N/A	N/A
Administrative and Other Expenses	401	546	667	1,022	832	849	995	418	403	526
<b>Total Deductions</b>	<b>39,715</b>	<b>74,898</b>	<b>48,003</b>	<b>36,714</b>	<b>54,194</b>	<b>70,677</b>	<b>109,917</b>	<b>68,051</b>	<b>403</b>	<b>526</b>
<b>Change in Net Assets</b>	<b>15,979</b>	<b>26,962</b>	<b>348</b>	<b>(32,851)</b>	<b>(61,404)</b>	<b>2,271</b>	<b>17,718</b>	<b>40,246</b>	<b>24,033</b>	<b>39</b>
<b>State Employees Cafeteria Plan (TexFlex)</b>										
<i>Additions</i>										
Contributions	18,923	19,388	22,786	27,502	30,502	33,964	43,840	53,425	61,080	68,425
Investment Income (Net of Expenses)	282	290	340	238	120	65	25	40	75	89
Other Additions	29	2	2	45	11	18	439	409	56	105
<b>Total Additions</b>	<b>19,234</b>	<b>19,680</b>	<b>23,128</b>	<b>27,785</b>	<b>30,633</b>	<b>34,047</b>	<b>44,304</b>	<b>53,874</b>	<b>61,211</b>	<b>68,619</b>
<i>Deductions</i>										
Reimbursement Account Claims	18,207	18,553	22,648	27,104	30,027	33,539	42,886	52,337	59,951	67,133
Administrative and Other Expenses	596	869	739	1,358	970	1,234	1,336	1,571	1,694	1,886
<b>Total Deductions</b>	<b>18,803</b>	<b>19,422</b>	<b>23,387</b>	<b>28,462</b>	<b>30,997</b>	<b>34,773</b>	<b>44,222</b>	<b>53,908</b>	<b>61,645</b>	<b>69,019</b>
<b>Change in Net Assets</b>	<b>431</b>	<b>258</b>	<b>(259)</b>	<b>(677)</b>	<b>(364)</b>	<b>(726)</b>	<b>82</b>	<b>(34)</b>	<b>(434)</b>	<b>(400)</b>

Note A: The System is no longer reporting assets and activities of individual participants pursuant to GASB Statement 32.

Source: Comprehensive Annual Financial Reports



# Benefit and Refund Payments - Defined Benefit Plans

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Employees Retirement Fund:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Retirees	530,214	576,262	656,150	797,887	876,335	978,090	1,058,681	1,095,209	1,153,347	1,195,432
Survivors	not avail.	not avail.	not avail.	not avail.	not avail.	not avail.	3,532	20,286	20,379	19,805
Disability	20,001	21,198	22,599	26,786	28,375	28,005	30,815	31,419	31,690	31,163
Partial Lump Sum Option							91,731	53,030	37,679	44,450
Proportional	2,200	2,367	2,775	3,267	3,801	4,143	5,554	6,618	7,994	9,114
Total Retirement Benefits	<u>552,415</u>	<u>599,827</u>	<u>681,524</u>	<u>827,940</u>	<u>908,511</u>	<u>1,010,238</u>	<u>1,190,313</u>	<u>1,206,562</u>	<u>1,251,089</u>	<u>1,299,964</u>
Death Benefits:										
Active Members:										
Occupational	18	117	63	84	72		128	41	297	91
Non-Occupational	1,202	708	1,364	899	909	1,249	884	842	1,019	1,373
Retiree	636	891	1,060	853	1,105	1,078	937	1,156	916	635
Total Death Benefits	<u>1,856</u>	<u>1,716</u>	<u>2,487</u>	<u>1,836</u>	<u>2,086</u>	<u>2,327</u>	<u>1,949</u>	<u>2,039</u>	<u>2,232</u>	<u>2,099</u>
Refunds:										
Resignation	97,139	103,204	93,915	89,621	67,838	70,542	82,075	87,513	73,176	75,864
Death	2,423	1,735	2,346	2,179	2,193	2,896	1,704	2,247	2,438	3,700
Total Refunds	<u>99,562</u>	<u>104,939</u>	<u>96,261</u>	<u>91,800</u>	<u>70,031</u>	<u>73,438</u>	<u>83,779</u>	<u>89,760</u>	<u>75,614</u>	<u>79,564</u>

<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service	14,500	15,537	17,681	15,635	19,583	21,477	23,492	25,836	27,694	29,053
Disability	1,007	1,056	1,108	1,180	1,179	1,357	1,275	1,318	1,250	1,208
Partial Lump Sum Option							2,792	1,882	1,240	1,889
Total Retirement Benefits	<u>15,507</u>	<u>16,593</u>	<u>18,789</u>	<u>16,815</u>	<u>20,762</u>	<u>22,834</u>	<u>27,559</u>	<u>29,036</u>	<u>30,184</u>	<u>32,150</u>

<b>Judicial Retirement System of Texas Plan One:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service	19,177	20,545	21,036	21,701	21,778	22,673	22,620	22,283	27,664	29,029
Total Retirement Benefits	<u>19,177</u>	<u>20,545</u>	<u>21,036</u>	<u>21,701</u>	<u>21,778</u>	<u>22,673</u>	<u>22,620</u>	<u>22,283</u>	<u>27,664</u>	<u>29,029</u>
Refunds:										
Resignation							1	13		
Death							3	1		
Total Refunds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>14</u>	<u>-</u>	<u>-</u>

<b>Judicial Retirement System of Texas Plan Two:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service	397	501	603	744	868	1,453	1,983	2,609	3,107	4,254
Disability	56	104	92	208	208	208	184	192	291	348
Proportional	35	117	203	259	289	458	603	507	825	1,145
Total Retirement Benefits	<u>488</u>	<u>722</u>	<u>898</u>	<u>1,211</u>	<u>1,365</u>	<u>2,119</u>	<u>2,770</u>	<u>3,308</u>	<u>4,223</u>	<u>5,747</u>
Death Benefits:										
Active Members:										
Non-Occupational		13		3				10	24	
Total Death Benefits	<u>-</u>	<u>13</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>24</u>	<u>-</u>
Refunds:										
Resignation	22	224	5	55	195	152	235	67	4	58
Death		43	89	61	(8)		68	39	61	
Total Refunds	<u>22</u>	<u>267</u>	<u>94</u>	<u>116</u>	<u>187</u>	<u>152</u>	<u>303</u>	<u>106</u>	<u>65</u>	<u>58</u>

<b>Excess Benefit Arrangement:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service					63	67	67	223	236	141
Total Retirement Benefits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63</u>	<u>67</u>	<u>67</u>	<u>223</u>	<u>236</u>	<u>141</u>

<b>State Retiree Health Plan:</b>										
<b>Type of Benefit</b>										
Insurance Benefits:										
Accrued Claims										67,920
Life Claims										22,140
Prescriptions Drugs										151,020
Administrative Fees										13,519
HMO Payments										26,422
Blue Cross Health										283,244
Dental										9,765
Total Insurance Benefits	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>574,030</u>

Source: Comprehensive Annual Financial Reports

# Average Benefit Payments - Employee Class

Last Ten Fiscal Years

Retirement Effective Dates (Note A) September 30, 1997 to August 31, 2007	Years of Credited Service					
	5-10	10-15	15-20	20-25	25-30	30+
<b>- Period 9/30/97 to 8/31/98:</b>						
Average Monthly Benefit	\$ 383.14	\$ 627.06	\$ 926.71	\$1,353.28	\$2,030.26	\$2,544.86
Average Final Average Salary	\$2,320.60	\$2,268.09	\$2,294.81	\$2,461.33	\$3,039.68	\$3,354.84
Number of Retired Members	156	485	305	581	933	678
<b>- Period 9/30/98 to 8/31/99:</b>						
Average Monthly Benefit	\$ 399.44	\$ 662.78	\$ 984.12	\$1,370.61	\$1,991.30	\$2,514.07
Average Final Average Salary	\$2,380.88	\$2,411.93	\$2,437.24	\$2,591.19	\$3,066.29	\$3,319.91
Number of Retired Members	149	489	310	423	700	564
<b>- Period 9/30/99 to 8/31/00:</b>						
Average Monthly Benefit	\$ 345.45	\$ 641.73	\$ 936.51	\$1,320.00	\$1,940.06	\$2,398.93
Average Final Average Salary	\$2,260.36	\$2,558.13	\$2,483.18	\$2,782.53	\$3,243.48	\$3,439.43
Number of Retired Members	180	587	385	493	898	738
<b>- Period 9/30/00 to 8/31/01:</b>						
Average Monthly Benefit	\$ 386.64	\$ 622.15	\$ 933.66	\$1,339.17	\$1,934.52	\$2,471.98
Average Final Average Salary	\$2,749.82	\$2,566.62	\$2,714.92	\$2,878.56	\$3,358.11	\$3,636.17
Number of Retired Members	140	566	380	458	820	656
<b>- Period 9/30/01 to 8/31/02:</b>						
Average Monthly Benefit	\$ 368.83	\$ 642.34	\$ 981.77	\$1,392.36	\$2,049.50	\$2,695.76
Average Final Average Salary	\$2,583.73	\$2,654.88	\$2,843.53	\$3,036.00	\$3,547.36	\$3,952.26
Number of Retired Members	171	652	411	597	1,021	999
<b>- Period 9/30/02 to 8/31/03:</b>						
Average Monthly Benefit	\$ 375.11	\$ 686.97	\$1,026.14	\$1,443.63	\$2,059.50	\$2,749.27
Average Final Average Salary	\$2,549.20	\$2,777.63	\$2,887.98	\$3,200.94	\$3,569.81	\$4,004.93
Number of Retired Members	350	1,446	888	1,087	1,740	1,796
<b>- Period 9/30/03 to 8/31/04:</b>						
Average Monthly Benefit	\$ 407.12	\$ 643.18	\$1,119.72	\$1,554.93	\$2,220.44	\$2,695.41
Average Final Average Salary	\$2,813.34	\$2,802.53	\$3,085.55	\$3,323.95	\$3,790.66	\$3,988.98
Number of Retired Members	193	514	312	721	917	459
<b>- Period 9/30/04 to 8/31/05:</b>						
Average Monthly Benefit	\$ 384.41	\$ 717.64	\$1,217.81	\$1,628.42	\$2,327.57	\$2,903.65
Average Final Average Salary	\$2,585.90	\$2,847.14	\$3,265.50	\$3,380.07	\$3,906.87	\$4,123.94
Number of Retired Members	157	570	381	680	866	446
<b>- Period 9/30/05 to 8/31/06:</b>						
Average Monthly Benefit	\$ 401.37	\$ 722.09	\$1,250.11	\$1,630.55	\$2,145.81	\$3,013.88
Average Final Average Salary	\$2,642.87	\$2,836.06	\$3,317.27	\$3,460.71	\$3,638.06	\$4,257.45
Number of Retired Members	159	440	307	381	384	253
<b>- Period 9/30/06 to 8/31/07:</b>						
Average Monthly Benefit	\$ 437.54	\$ 787.86	\$1,272.29	\$1,749.43	\$2,488.01	\$3,047.92
Average Final Average Salary	\$2,839.83	\$3,010.80	\$3,334.23	\$3,674.78	\$4,185.16	\$4,298.88
Number of Retired Members	211	482	394	630	611	423
<b>Five Year Average -</b>						
<b>Period 9/30/02 to 8/31/07:</b>						
Average Monthly Benefit	\$ 398.46	\$ 704.08	\$1,143.57	\$1,577.89	\$2,208.83	\$2,819.57
Average Final Average Salary	\$2,673.46	\$2,832.82	\$3,112.82	\$3,374.70	\$3,768.26	\$4,074.22
Average Number of Retired Members	214	690	456	700	904	675
<b>Ten Year Average -</b>						
<b>Period 9/30/97 to 8/31/07:</b>						
Average Monthly Benefit	\$ 388.54	\$ 675.07	\$1,059.71	\$1,484.45	\$2,102.21	\$2,674.01
Average Final Average Salary	\$2,578.25	\$2,687.16	\$2,876.33	\$3,113.01	\$3,520.31	\$3,818.82
Average Number of Retired Members	187	623	407	605	889	701

Note A: This schedule includes service retirements of the employee class as of November 30, 2007. It does not include disability retirements or the elected state official class.

Source: The System's Member Records.

# Retired Members by Type of Benefit

August 31, 2007

## Employees Retirement Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
\$ 0-300	4,782	4,619	163	2,859	959	314	69	435	146
301-600	10,280	9,438	842	7,427	1,552	512	94	351	344
601-900	10,468	9,556	912	7,617	1,417	664	133	278	359
901-1,200	8,814	8,352	462	6,241	1,195	739	109	199	331
1,201-1,500	7,599	7,362	237	5,091	1,053	783	120	151	401
1,501-2,000	9,571	9,418	153	5,982	1,290	1,256	151	201	691
2,001-2,500	7,501	7,465	36	4,415	941	1,262	78	181	624
2,501-3,000	5,248	5,238	10	2,756	718	1,020	59	127	568
3,001-4,000	4,463	4,458	5	2,377	593	804	51	87	551
4,001-10,999	1,729	1,726	3	901	267	268	24	37	232
<b>Total</b>	<b>70,455</b>	<b>67,632</b>	<b>2,823</b>	<b>45,666</b>	<b>9,985</b>	<b>7,622</b>	<b>888</b>	<b>2,047</b>	<b>4,247</b>

## Law Enforcement And Custodial Officer Supplemental Retirement Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
\$ 0-200	441	440	1	283	94	35	3	3	23
201-400	2,420	2,370	50	1,415	472	282	49	48	154
401-600	1,794	1,768	26	799	276	404	15	35	265
601-800	715	714	1	309	121	146	9	6	124
801-1,000	218	217	1	115	34	44	7	2	16
1,001-1,200	90	89	1	56	21	5	1	1	6
1,201-1,400	43	33	10	30	5	6	1	0	1
1,401-1,600	32	21	11	26	3	1	0	0	2
1,601-1,800	22	14	8	17	0	0	0	1	4
1,801-9,999	30	19	11	20	5	3	0	1	1
<b>Total</b>	<b>5,805</b>	<b>5,685</b>	<b>120</b>	<b>3,070</b>	<b>1,031</b>	<b>926</b>	<b>85</b>	<b>97</b>	<b>596</b>

## Judicial Retirement Plan Two Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
\$ 0-2,000	11	11	0	6	3	1	1	0	0
2,001-2,500	4	4	0	2	1	0	0	1	0
2,501-3,000	1	1	0	0	0	0	1	0	0
3,001-3,500	0	0	0	0	0	0	0	0	0
3,501-4,000	8	8	0	5	2	0	0	1	0
4,001-4,500	20	20	0	4	14	1	0	0	1
4,501-5,000	24	24	0	10	10	3	0	1	0
5,001-5,500	20	20	0	5	7	2	1	0	5
5,501-6,000	9	9	0	7	1	0	0	1	0
6,001-6,500	13	12	1	10	0	2	1	0	0
6,501-7,000	3	3	0	3	0	0	0	0	0
7,001-7,500	3	3	0	3	0	0	0	0	0
<b>Total</b>	<b>116</b>	<b>115</b>	<b>1</b>	<b>55</b>	<b>38</b>	<b>9</b>	<b>4</b>	<b>4</b>	<b>6</b>

Note A: These calculations are based on actuarial estimates.

Note B: Life - standard annuity.

Option 1 - a reduced annuity for the lifetime of the member, then pays the same amount throughout the life of the nominee.

Option 2 - a reduced annuity for the lifetime of the member, then pays one-half of that amount throughout the life of the nominee.

Option 3 - a reduced annuity to the member or the nominee for a guaranteed period of 5 years, and for the lifetime of the member.

Option 4 - a reduced annuity to the member or the nominee for a guaranteed period of 10 years, and for the lifetime of the member.

Option 5 - a reduced annuity for the lifetime of the member, then pays three-fourths of that amount throughout the life of the nominee.

Source: System's actuarial firm.

# Contribution Rates

## Last Ten Fiscal Years

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Defined Benefit Plans (Note A)</b>	%	%	%	%	%	%	%	%	%	%
<b>Employees Retirement Fund</b>										
<i>Employee Class:</i>										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
State	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.45	6.45
<i>Elected Class:</i>										
Legislators	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Other Elected Class	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
State	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.45	6.45
<b>Judicial Retirement System Plan One Fund</b>										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
<b>Judicial Retirement System Plan Two Fund</b>										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
State	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Group Benefits Program</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Employee Only:</i>										
State Contribution Monthly Rate	190.73	190.73	215.58	249.71	276.02	308.84	300.27	315.56	343.48	360.54
HealthSelect Monthly Premium	190.73	199.78	215.58	249.71	276.02	308.84	300.27	315.56	343.48	360.54
ERS Supplement (Note B)		9.05								
<i>Employee &amp; Children:</i>										
State Contribution Monthly Rate	263.29	263.29	297.70	344.97	381.43	426.89	415.02	436.19	474.86	498.49
HealthSelect Monthly Premium	335.84	351.86	379.82	440.23	486.84	544.93	529.76	556.82	606.24	636.44
ERS Supplement (Note B)		12.53								
<i>Employee &amp; Spouse:</i>										
State Contribution Monthly Rate	299.09	299.09	338.23	391.98	433.45	485.14	471.65	495.73	539.70	566.57
HealthSelect Monthly Premium	407.45	426.91	460.88	534.25	590.88	661.44	643.02	675.89	735.92	772.60
ERS Supplement (Note B)		14.26								
<i>Employee &amp; Family:</i>										
State Contribution Monthly Rate	371.65	371.65	420.35	487.24	538.86	603.19	586.39	616.36	671.08	704.52
HealthSelect Monthly Premium	552.56	578.99	625.12	724.77	801.70	897.53	872.51	917.15	998.68	1,048.50
ERS Supplement (Note B)		17.74								
<b>Total State Contribution (in millions)</b> (Note C)	704.2	720.6	803.2	870.7	1,122.4	1,235.2	1,177.5	1,256.1	1,384.7	1,024.6

Note A: There are no state or employee contributions for the Law Enforcement and Custodial Officer Supplemental Retirement Fund.

Note B: In fiscal year 1999, the System provided a supplement to make up the difference between the State contribution rate and the HealthSelect premium.

Note C: The decrease in State Contributions resulted primarily from the implementation of GASB Statement 43, which separated retiree contributions.

Source: System's records.

## Statistical Information – Defined Benefit Plans

(All items expressed as numbers unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
(Note C)										
<b>Employees Retirement Fund</b>										
Active Contributing Members	155,317	154,183	152,167	149,956	150,313	142,315	133,349	132,417	132,411	132,497
Non-Contributing Members	31,346	36,502	41,276	46,089	48,903	51,868	54,658	57,089	61,567	67,803
Retirees and Beneficiaries	39,247	43,860	47,310	47,392	50,514	57,024	60,089	63,453	67,596	70,456
Service Retirements	2,654	3,244	3,688	3,229	4,050	7,581	3,906	4,609	2,929	4,110
Disability Retirements	142	209	196	213	156	174	181	179	80	98
Resignation Refunds	19,916	19,503	21,109	21,869	16,817	16,680	13,947	14,239	11,199	11,365
Death Refunds	240	247	261	301	335	316	237	294	317	551

<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Notes A &amp; B)</b>										
Active Contributing Members	39,716	39,979	42,040	40,431	41,221	40,332	38,391	37,251	37,103	36,413
Non-Contributing Members	2,425	3,132	4,372	5,619	6,519	7,264	7,856	8,428	33	27
Retirees and Beneficiaries	2,356	2,526	2,774	3,093	3,523	4,166	4,576	5,072	5,318	5,805
Service Retirements	143	153	249	296	508	686	431	537	306	553
Disability Retirements		1	3	4	3	1	3			4

<b>Judicial Retirement System of Texas Plan One</b>										
Active Contributing Members	162	133	123	95	91	58	53	28	43	24
Non-Contributing Members	25	29	27	24	24	22	15	36	12	15
Retirees and Beneficiaries	436	461	465	485	493	505	494	491	486	488
Service Retirements	5	27	9	26	13	27	10	12	7	16
Disability Retirements	1									
Resignation Refunds			1				1	1		3
Death Refunds						1		1		

<b>Judicial Retirement System of Texas Plan Two</b>										
Active Contributing Members	362	395	412	442	464	476	484	491	498	515
Non-Contributing Members	40	50	51	77	63	80	79	90	95	115
Retirees and Beneficiaries	14	22	27	29	34	78	72	81	89	116
Service Retirements	6	1	3	3	3	24	8	9	10	24
Disability Retirements	2		2							
Resignation Refunds	2	3	1	3	7	5	8	8	2	3
Death Refunds								1	1	

Note A: Refunds are not applicable to the LECOS because there is no member contribution.

Note B: The members of the LECOS are also members of the ERS.

Note C: The source of the retirement systems membership is the Systems's actuary. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation.

Source: The System's Member Records supplemented with actuarial estimates.

## Statistical Information – Other Programs

(All items expressed as numbers unless otherwise indicated)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>457 Defined Contribution Plan (Note A)</b>										
<b>TexaSaver 457 Plan (Note B):</b>										
Total Participants	n/a	n/a	n/a	4,531	5,793	7,525	9,937	12,425	14,960	16,646
Participants Currently Deferring	n/a	n/a	n/a	3,419	3,971	4,862	5,908	7,632	8,350	9,475
Current Market Value of Plan Assets (in millions)	n/a	n/a	n/a	\$ 56.4	\$ 69.7	\$ 103.7	\$ 159.6	\$ 219.8	\$ 265.3	\$ 325.7
<b>Original 457 Plan (Notes B, C &amp; D):</b>										
Total Participants	10,500	11,000	10,838	8,374	7,422	6,015	5,104	3,693	3,169	2,780
Participants Currently Deferring	5,200	5,200	4,423	267	207	138	127	121	121	101
Current Market Value of Plan Assets (in millions)	\$ 301.0	\$ 328.7	\$ 329.1	\$ 244.8	\$ 183.0	\$ 133.8	\$ 95.8	\$ 55.0	\$ 49.6	\$ 44.8
<b>TexaSaver 401(k) Defined Contribution Plan (Note A)</b>										
Total Participants	47,600	51,100	57,306	54,177	57,155	56,848	56,504	54,349	54,710	55,212
Participants Currently Deferring	34,700	36,400	39,533	38,407	35,856	32,714	30,075	28,574	28,314	28,587
Current Market Value of Plan Assets (in millions)	\$ 402.7	\$ 545.4	\$ 675.8	\$ 602.6	\$ 604.7	\$ 703.4	\$ 779.3	\$ 886.0	\$ 990.4	\$ 1,154.0
Deferrals (in millions)	not avail.	\$ 80.6	\$ 90.3	\$ 94.9	\$ 95.0	\$ 89.1	\$ 86.9	\$ 83.6	\$ 89.2	\$ 94.7
<b>Cafeteria Plan (Note A)</b>										
Reimbursement Accounts:										
Health Care	9,500	9,800	12,314	15,924	17,419	19,128	23,868	29,728	33,047	35,342
Dependent Care	2,500	2,400	2,425	2,480	2,336	2,297	2,416	2,522	2,665	2,836
Total Redirected (in millions)	\$ 18.2	\$ 18.7	\$ 22.5	\$ 27.1	\$ 30.1	\$ 33.6	\$ 43.1	\$ 52.4	\$ 60.0	\$ 67.5
Premium Conversion:										
Participants	142,493	146,407	209,031	208,511	208,651	209,929	199,215	206,173	209,214	210,744
Premiums Redirected (in millions)	\$ 192.5	\$ 203.4	\$ 237.8	\$ 263.8	\$ 291.0	\$ 312.1	\$ 321.4	\$ 337.8	\$ 363.3	\$ 386.4
Tax Savings (in millions):										
Employees	\$ 43.6	\$ 46.1	\$ 53.9	\$ 59.7	\$ 65.9	\$ 70.7	\$ 72.8	\$ 76.5	\$ 82.3	\$ 87.5
State of Texas	\$ 14.7	\$ 15.6	\$ 18.2	\$ 20.2	\$ 22.3	\$ 23.9	\$ 24.6	\$ 25.8	\$ 27.8	\$ 29.6
<b>Group Benefits Program (Note A &amp; F)</b>										
Membership:										
Active	209,657	209,558	210,675	210,924	209,859	211,695	192,859	198,627	200,775	216,958
Retired	49,390	52,015	54,974	57,953	56,714	59,603	66,348	68,109	69,748	75,958
Dependents	250,000	253,000	255,000	252,000	253,000	248,749	235,834	236,691	232,846	230,486
COBRA (Note E)	2,640	2,707	2,545	2,124	2,060	1,744	1,736	1,558	2,485	2,009
	<u>511,687</u>	<u>517,280</u>	<u>523,194</u>	<u>523,001</u>	<u>521,633</u>	<u>521,791</u>	<u>496,777</u>	<u>504,985</u>	<u>505,854</u>	<u>525,411</u>
<b>Death Benefit Programs</b>										
Lump Sum Payments	7	9	13	29	36	20	19	11	16	12
Monthly Payments to Guardians	106	97	101	104	107	113	109	127	133	114
Victims of Violent Crime	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5	3	2

Note A: Rounded participant or enrollment figures indicate approximate numbers.

Note B: In fiscal year 2001, a new TexaSaver 457 Plan was established with different investment options. The original 457 Plan only offers life insurance products.

Note C: Data for the original 457 Plan is as of June 30, 2007.

Note D: In fiscal year 2005, the Original 457 Plan assets were restated by the amount of the allocated insurance contracts of \$18,542,973.

Note E: Starting in fiscal year 2006, the COBRA membership includes the beneficiaries of the COBRA group plan.

Note F: In fiscal year 2007, the Group Benefits Program was separated into two funds (Active and Retiree) due to the implementation of GASB 43.

Source: The System's member records supplemented with actuarial estimates.

## Listing of Participating Reporting Entities for State Retiree Health Plan

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### State Agencies

Adjutant General  
Advisory Commission  
Advisory Committee on State Emergency Communication  
Advisory Council Technical Vocation Education  
Alcoholic Beverage Commission  
Attorney General  
Board Fitting & Dispensing Hearing  
Board of Architectural Examiners  
Board of Chiropractic Examiners  
Board of Dental Examiners  
Board of Examiners of Psychologists  
Board of Insurance  
Board of Land Surveying  
Board of Medical Examiners  
Board of Nurse Examiners  
Board of Pharmacy  
Board of Plumbing Examiners  
Board of Professional Engineers  
Board of Public Accountancy  
Board of Tax Professional Examiners  
Board of Veterinary Medical Examiners  
Commission on Jail Standards  
Commission on Judicial Conduct  
Commission on Law Enforcement Officer Standards and Education  
Comptroller Judiciary Section  
Comptroller of Public Accounts  
Consumer Credit Commission  
Cosmetology Commission  
Court of Appeals – First Court of Appeals District  
Court of Appeals – Second Court of Appeals District  
Court of Appeals – Third Court of Appeals District  
Court of Appeals – Fourth Court of Appeals District  
Court of Appeals – Fifth Court of Appeals District  
Court of Appeals – Sixth Court of Appeals District  
Court of Appeals – Seventh Court of Appeals District  
Court of Appeals – Eighth Court of Appeals District  
Court of Appeals – Ninth Court of Appeals District  
Court of Appeals – Tenth Court of Appeals District  
Court of Appeals – Eleventh Court of Appeals District  
Court of Appeals – Twelfth Court of Appeals District  
Court of Appeals – Thirteenth Court of Appeals District  
Court of Appeals – Fourteenth Court of Appeals District  
Court of Criminal Appeals  
Credit Union Department  
Dallas State Mental Health Center  
Department of Aging & Disability Services  
Department of Agriculture  
Department of Assistive and Rehabilitative Services  
Department of Banking  
Department of Family and Protective Services  
Department of Housing & Community Affairs  
Department of Information Resources  
Department of Licensing & Regulation  
Department of Public Safety  
Department of State Health Services  
East Texas Chest Hospital  
Employees' Retirement System  
Firemen's Pension Commission  
General Land Office  
General Services Commission  
Governor's Office – Executive  
Governor's Office – Fiscal  
Health & Human Services Commission  
House of Representatives  
Legislative Budget Board  
Legislative Reference Library  
National Guard Armory Board  
Office of Administrative Hearings  
Office of Court Administration  
Office of Public Utility Council  
Office of Rural & Community Affairs  
Office of State Federal Relations  
Optometry Board  
Parks & Wildlife Department  
Pension Review Board  
Physical & Occupational Therapy  
Public Insurance Counsel  
Public Utilities Commission  
Railroad Commission  
Real Estate Commission  
Savings & Loan Department  
Secretary of State  
Senate  
Soil & Water Conservation  
State Auditor  
State Energy Conservation Commission  
State Ethics Commission  
State Office of Risk Management  
State Preservation Board  
State Prosecuting Attorney  
State Securities Board  
Structural Pest Control Board  
Sunset Advisor Commission  
Supreme Court  
Teacher Retirement System  
Telecommunication Infrastructure  
Texas Animal Health Commission  
Texas Bond Review Board  
Texas Cancer Council  
Texas Commission on Fire Protection  
Texas Commission on the Arts  
Texas Department of Criminal Justice  
Texas Department of Health  
Texas Department of Mental Health & Mental Retardation  
Texas Department of Transportation  
Texas Education Agency  
Texas Funeral Service Commission  
Texas Historical Commission  
Texas Indian Commission

## Listing of Participating Reporting Entities for State Retiree Health Plan (Concluded)

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### State Agencies (continued)

Texas Juvenile Probation Commission  
Texas Legislative Council  
Texas Lottery Commission  
Texas National Research Lab Commission  
Texas Natural Resources Conservation  
Texas Public Finance Authority  
Texas Racing Commission  
Texas State Library & Archives  
Texas Veterans Commission  
Texas Workers' Compensation Commission  
Texas Workforce Commission  
Texas Youth Commission  
University of Texas Mental Sciences Institute  
Water Development Board

### Universities

Angelo State University  
Board of Regents – Texas State  
Lamar University – Beaumont  
Lamar University at Orange  
Lamar University at Port Arthur  
Lamar University Institute of Technology  
Midwestern University  
Sam Houston State University  
School for the Blind  
School for the Deaf  
Texas State University at San Marcos  
Stephen F. Austin University  
Sul Ross State University  
Texas Higher Education Coordinating Council  
Texas Southern University  
Texas State Technical College System  
Texas Tech Health Science  
Texas Tech University  
Texas Women's University  
University of Houston  
University of Houston at Clearlake  
University of Houston at Victoria  
University of Houston Downtown  
University of Houston System  
University of North Texas  
University of North Texas Health Science  
University of North Texas Systems  
University of Texas at Galveston

### Junior and Community Colleges

Alamo Community College  
Alvin Community College  
Amarillo College  
Angelina College  
Austin Community College District  
Blinn College  
Brazosport College  
Central Texas College

Cisco Junior College  
Clarendon College  
Coastal Bend College  
College of the Mainland  
Collin county Community College  
Dallas County Community College District  
Del Mar College  
El Paso Community College  
Frank Phillips College  
Galveston College  
Grayson Count Junior College  
Hill College  
Houston Community College  
Howard County College  
Kilgore College  
Laredo Junior College  
Lee College  
McLennan Community College  
Midland College  
Navarro College  
North Central Texas College  
North East Texas Community College  
North Harris Montgomery County College  
Odessa College  
Panola College  
Paris Junior College  
Ranger Junior College  
San Jacinto College  
South Plains College  
South Texas Community College  
South West Institute for the Deaf  
Southwest Texas Junior College  
Tarrant County Junior College  
Temple College  
Texarkana College  
Trinity Valley Community College  
Tyler Junior College  
Vernon Regional Junior College  
Victoria College  
Weatherford College  
Western Texas College  
Wharton County Junior College

### Other Entities

State Bar of Texas  
Board of Law Examiners  
Turnpike Authority  
Texas Coop Inspection Program  
Texas County District Retirement System  
Texas Municipal Retirement System  
Community Supervision and Corrections Departments

The principle participating employer is the state of Texas. State agencies and universities comprise 83% of the employees covered by the State Retiree Health Plan.





## Employees Retirement System of Texas

18th and Brazos Street, Austin, TX 78701  
(512) 867-7711 in Austin (877) 275-4377 toll-free

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