



2008 Comprehensive Annual Financial Report

Benefiting Texans Since 1947



Employees Retirement System of Texas
A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2008

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.

Published November 2008



2008 Comprehensive Annual Financial Report

Ann S. Fuelberg, Executive Director

Prepared by the Finance Division
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Employees Retirement System of Texas
A Component Unit of the State of Texas
Fiscal Year Ended August 31, 2008

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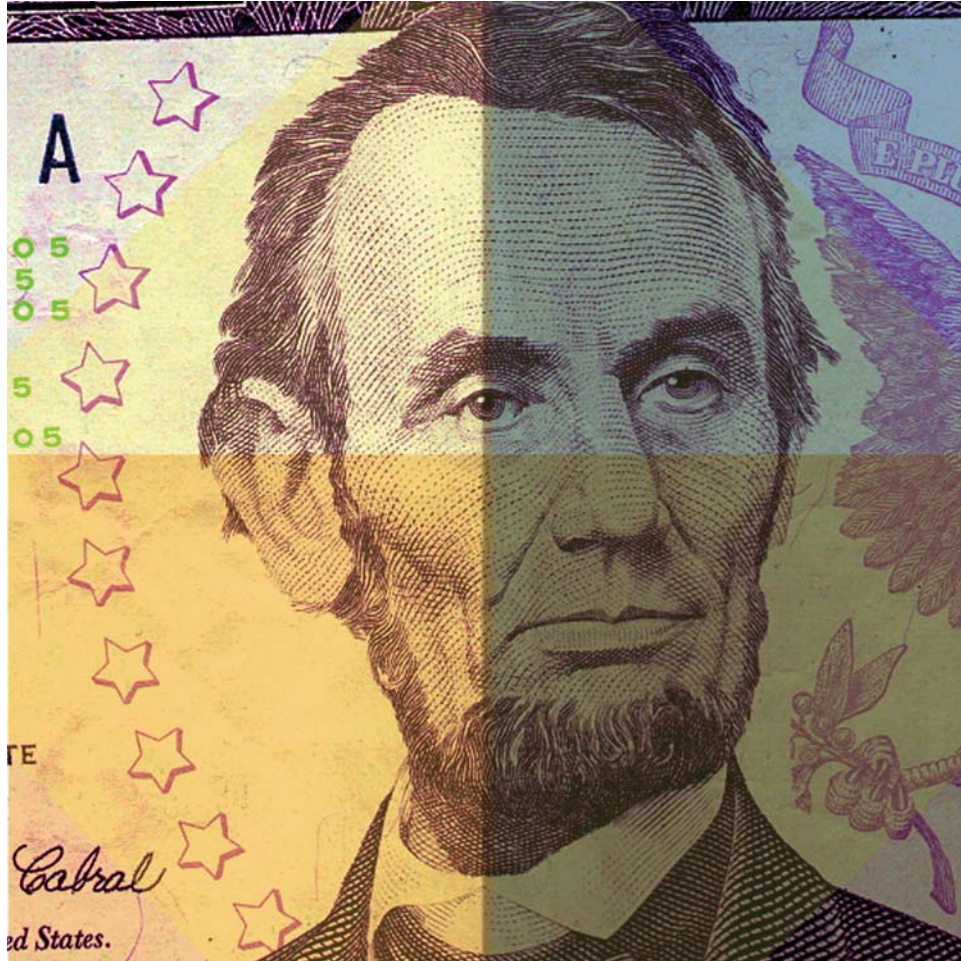
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Introductory Section

Highlights of Retirement Programs

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Letter of Transmittal

Certificate of Achievement

Organizational Chart and Data

Summary of Plan Provisions



Highlights of Retirement Programs

As of August 31, 2008

	ERS (A)	LECOS (A)	JRS I	JRS II
Active Members	134,626	33,642	27	518
Terminated Employees Entitled to Benefits	74,094	35	7	120
Total Retirement Accounts	208,720	33,677	34	638
Retirees and Beneficiaries	72,678	6,204	471	117
Service Retirements	4,445	637	6	6
Disability Retirements	115			
Total Retirements During the Fiscal Year	4,560	637	6	6
Funded Ratios	92.6%	92.0%		97.4%
Results of Investments - Pension Trust Funds				
	ERS	LECOS	JRS I (B)	JRS II
	\$	\$	\$	\$
Interest, Dividends & Securities				
Lending Income	854,278,813	28,299,383		7,136,905
Net Appreciation (Depreciation) in Fair Value of Investments	(2,120,854,782)	(70,265,508)		(17,695,040)
Time Weighted Rate of Return				
	1-Year	3-Year	5-Year	
Pension Investment Pool Trust Fund	-4.58%	5.75%	8.28%	
Other Transactions Summary				
	ERS	LECOS	JRS I (B)	JRS II
	\$	\$	\$	\$
Member Contributions	337,040,170		193,915	3,963,948
State Retirement Contributions	342,092,149	20,191,769		11,138,212
Retirement Benefits	1,353,284,748	34,908,231	28,656,865	6,643,832
Member Contributions Withdrawn	74,504,166			73,382
Administrative Expenses	16,248,925	365,800		244,422
Investment Expenses	34,094,770	1,170,223		262,115

- 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 is reported 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.



November 18, 2008

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:

ERS celebrated our 60th year of operation this past year, and it was historic. We added new investment classes and beat our investment policy benchmark. We entered into a new cost savings prescription benefit manager contract and kept the per-member insurance contribution rate the same for the third year in a row. We also improved customer service by implementing new technology.

Normally, good news like that would be cause for celebration. But these are not normal times. These are uncertain times in the financial markets, and ERS, like all investors, is closely monitoring the situation.

Fortunately, ERS is well-positioned to withstand market volatility. Steady contributions from the State of Texas and members of the retirement system and strong investment performance, have built a solid financial foundation in the ERS Trust. As of Aug 31, 2008, ERS' funded ratio remains high and ranks as one of the strongest public funds in the nation.

ERS has a long investment horizon. Retirement benefits are funded throughout each employee's working career, starting with his or her first contribution to the system. We invest with discipline and maintain a well-diversified investment portfolio. ERS continues to diversify, moving towards a target allocation that includes additional asset classes.

ERS is responding to the difficult markets with discipline, diversification, and prudent management by ERS investment staff. Investment portfolios with a similar asset mix to the ERS Trust had a return of -5.51 percent, while the ERS market rate of return was -4.58 percent as of August 31, 2008. The judgment of our investment staff was crucial to this performance, choosing to invest less in the financial sector, for instance.

The ERS Trust has weathered difficult markets before, including big swings in investment performance. To temper these swings, ERS uses actuarial smoothing, a recommended practice that recognizes only a portion of market gains and losses each year. For instance, in FY 2007, ERS had a market rate of return of 13.88 percent, but a rate of return of 8.6 percent was used to determine the actuarial value. This year, the actuarial rate of return will be 5.7 percent.

This principle, along with the very design of defined benefit plans, provides both the State of Texas, and its employees, with more consistent contribution levels and greater security. Unlike defined contribution plans, employee's retirement benefits are not directly tied to short-term market volatility.

Contributions are affected by employer policies. The trust fund has been affected by employees who are retiring at their first opportunity, rather than continuing to work. This is one of the major factors adding to the higher normal cost and the actuarially required contribution of funding retirement system benefits, according to findings of a five-year experience study completed this year.

ERS and the State also face the challenge of rising costs and utilization in the Texas Employees Group Benefits Program (GBP). ERS met this challenge head-on this year, successfully holding the State contribution rate per employee at the same level for the third year in a row.

Part of this cost management was due to a well-timed new contract for prescription benefits. ERS believed that the current marketplace would drive a lower plan cost for the GBP. This belief was confirmed with a new contract that is expected to save the GBP \$265 million over its four-year term. Other program cost management such as negotiated network reimbursement rates, medical and drug utilization reviews, and Medicare reimbursement add to the insurance reserve fund. This additional money has been used to offset increased contribution requests from the State and participants.

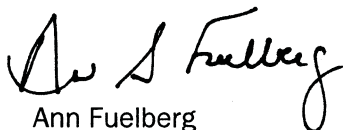
ERS' mission is to provide the highest quality benefits at the lowest possible cost. The current economic situation makes our mission even more imperative – to the State of Texas, employees, and retirees.

We also strive to provide service to state employees and retirees that honors their value to the State. This past year, new technology allowed us to provide retirement information faster and make a number of customer service improvements, including cutting the time it takes to provide a retirement application packet from five days to one day.

In addition to the economic anxiety, many of our customers were affected by Hurricane Ike. We contacted customers in the affected areas and changed retirement check delivery arrangements, when needed. We authorized special insurance provisions for customers who needed to see a different doctor, whether it meant seeing a specialist without a referral from a primary doctor, or making sure that insurance providers forward medical history records to a new doctor.

On behalf of the ERS Board of Trustees, and the ERS staff, we present this report. We look forward to working with you in the year ahead because we know that state retirees and employees are depending on all of us now, more than ever. With your continued partnership, we are dedicated to serving the people who serve Texas.

Sincerely,



Ann Fuelberg
Executive Director



Bill Ceverha
Chair, ERS Board of Trustees



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

November 18, 2008

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

Ladies and Gentlemen:

I am pleased to submit the Comprehensive Annual Financial Report of the Employees Retirement System of Texas (the System) for the year ended August 31, 2008, 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, 2008.

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 in the financial system automatically and through approvals, encumbrances, and reporting.

FINANCIAL CONTIDITON

Investment Performance

The investment portfolio closed the fiscal year with a fair value of \$22.3 billion, and had a negative return of (4.58)% for the year. The investment portfolio's total return did not meet the actuarially assumed rate of return of 8.0% due to adverse market conditions. The time weighted rate of return for three and five years were 5.75% and 8.28% respectively.

The effects of recent events, including the significant volatility in the financial markets cannot be determined at this time, but the System's management has confidence in the financial markets and maintains a long term approach to investing the System's assets. The System's investments are highly diversified and are designed to withstand market fluctuations such as those that have occurred recently.

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, 2008 actuarial valuation shows that the ratio of the actuarial value of assets to the actuarial accrued liability was 92.6%, 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

The ERS Online pension system "went live" in October 2007, making it possible for members to use the internet to view their retirement account balance, service credit, contribution history and first eligibility retirement date. This was a major achievement toward the state goal of making member services more readily available online.

In fiscal Year 2008 the Investments Division and other divisions worked to expand the investment portfolio to include private equity and private real estate asset classes. The Board approved the addition of a domestic equity mid-cap portfolio and changing the international equity benchmark. New investment directors and analysts added new skills to the Investments Division. New tools now allow portfolio managers to analyze portfolio performance in real time. Internal Audit increased compliance monitoring of the Investment Program.

The System successfully implemented House Bill 957, which required automatic enrollment of new state employees hired after January 1, 2008 in a 401(k) plan. Benefit Contracts carried out plans to increase participation in the 401(k) plan among non-participants and also completed contract renewals for advisory services. The Finance Division finished a project to convert the deferred compensation mainframe system to a client server environment.

The System successfully negotiated a number of cost-saving contracts, including the Pharmacy Benefit Manager, Health Maintenance Organizations, TexFlex Administrator and others. These new contracts resulted in hundreds of millions in savings over the next few years. The new Pharmacy Benefit Manager contract alone is expected to save \$265 million over the four-year contract period. Although the health benefit cost trend has exceeded the rate of price increases in the general economy, ERS has not increased member rates for the health insurance program since 2006.

ERS also implemented computer-based benefits training in time for summer enrollment to help state agency and higher education benefit coordinators learn more about state benefit offerings. Internally, the ERS Human Resources division developed and offered a Leadership Development Training Program. Human Resources also coordinated agency participation in the Survey of Organizational Excellence and business succession planning.

Finally, fiscal year 2008 saw the expansion of Wellness activities throughout the agency and through its third-party administrator for the Group Benefits Plan, BlueCross BlueShield of Texas.

AWARDS

Certificate of Achievement for Excellence in Financial Reporting

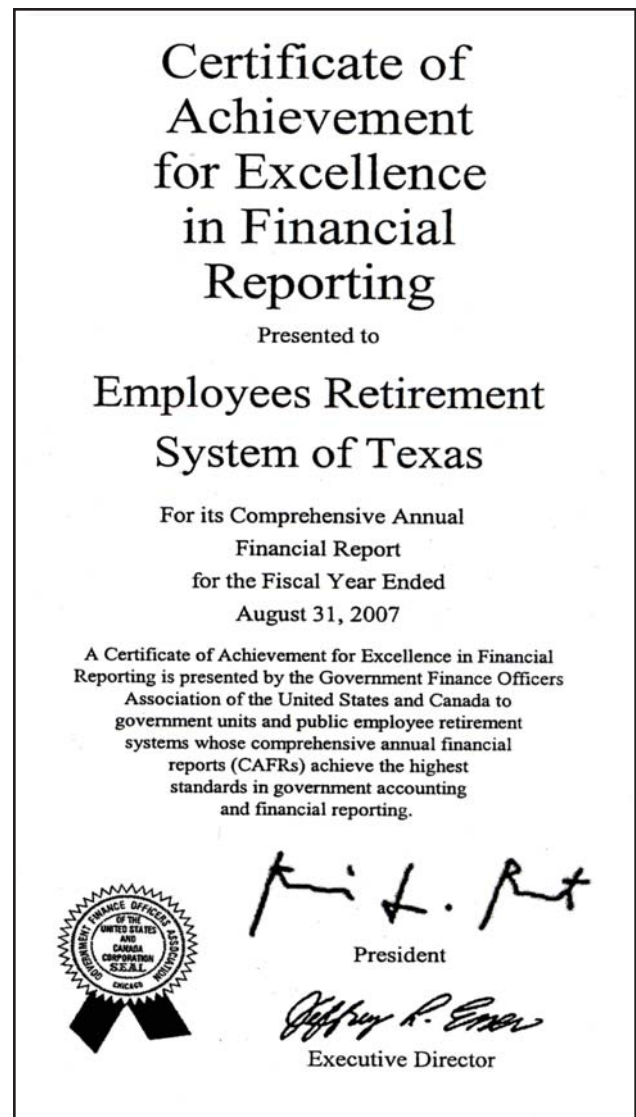
The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the System for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2007. The Certificate of Achievement is a prestigious 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 an 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 19 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

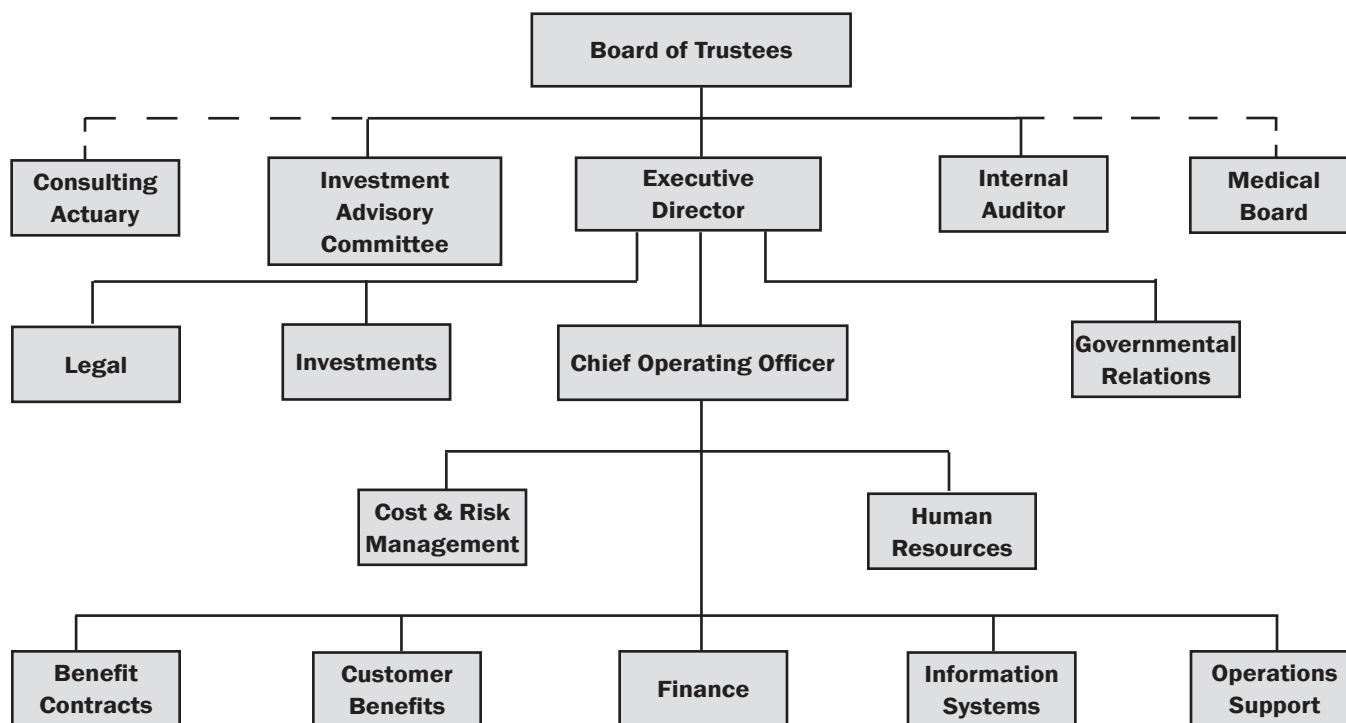


MICHAEL C. WHEELER, CPA
Chief Financial Officer



Organizational Chart and Data

As of August 31, 2008



BOARD OF TRUSTEES

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

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 Paula A. Jones, General Counsel
 Robert Kukla, Director of Benefit Contracts
 Laura Lucas, Director of Operations Support
 Mel Mireles, Director of Information Systems
 William S. Nail, Director of Governmental Relations
 Ralph Salinas, Manager of Human Resources
 Marci Sundbeck, Director of Internal Audit
 Catherine E. Terrell, Director of Customer Benefits
 Michael C. Wheeler, Chief Financial Officer
 Larry Zeplin, Chief Operating Officer

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 Richard A. Mackesey, F.S.A, *Buck Consultants, an ACS Company*

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International Equity

Fisher Investment Institutional Group
 Franklin Templeton Institutional
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Global Custodian

J. P. Morgan Chase & Co.

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 Marvin R. Cressman, M.D.
 Thomas I. Lowry, M.D.

Summary of Plan Provisions

Effective since September 1, 2007

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
Membership:		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> 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. <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> 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. Members of the Legislature. District and criminal district attorneys. 	<ul style="list-style-type: none"> Law enforcement officers commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, or the office of inspector general at the Texas Youth Commission recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education. 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. 	<p><i>JRS I Only:</i></p> <ul style="list-style-type: none"> 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 before September 1, 1985. <p><i>JRS II Only:</i></p> <ul style="list-style-type: none"> 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 after August 31, 1985.
Service Retirement Eligibility:		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> Age 60 with at least five years of service credit, or The sum of age and years of service credit equals or exceeds the number 80 with at least five years of service credit, or Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> Age 60 with eight years of service credit, or Age 50 with 12 years of service credit. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Age 65 with at least 10 years of service credit and currently holding a judicial office, or Age 65 with at least 12 years of service credit, regardless of whether the member currently holds a judicial office, or 20 years of service at any age, regardless of whether the member currently holds a judicial office, or 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.
Early Service Retirement Eligibility with Reduced Benefits:		
<p>Not applicable.</p>	<ul style="list-style-type: none"> 20 years of service credit as a certified peace officer/custodial officer, under the age of 50. 	<ul style="list-style-type: none"> Age 60 with 10 years of service credit and currently holding judicial office, or Age 60 with 12 years of service credit, regardless of whether the member currently holds a judicial office.

Summary of Plan Provisions

Effective since September 1, 2007

ERS	LECOS	JRS I and JRS II
Standard Service Retirement Benefits:		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> • Standard monthly annuity is equal to 2.3% of average monthly compensation multiplied by the number of years of service credit. • Average monthly compensation is the average of the highest 36 months of compensation. • Minimum standard annuity is \$150 per month. • Maximum standard annuity is 100% of the average monthly compensation. <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> • Standard monthly annuity is 2.3% of the current State salary of a district judge multiplied by the number of years of service credit. • Retirement benefits are automatically adjusted as State judicial salaries increase. • Maximum standard annuity is 100% of the State salary being paid a district judge. 	<ul style="list-style-type: none"> • Monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit. • Average monthly compensation is the average of the highest 36 months of compensation. • Minimum standard annuity is \$150 per month. • Maximum standard annuity is 100% of the average monthly compensation. 	<ul style="list-style-type: none"> • Monthly annuity is equal to 50% of the salary for the position from which the member retired. • 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. • 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 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%. <p><i>JRS II Only:</i></p> <ul style="list-style-type: none"> • 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%.
Optional Service Retirement:		
<p><i>Employee Class and Elected Class:</i></p> <ul style="list-style-type: none"> • Lifetime with 100% to surviving beneficiary; • Lifetime with 75% to surviving beneficiary; • Lifetime with 50% to surviving beneficiary; • Lifetime with five years certain; • Lifetime with 10 years certain; and • 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). • 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. 	<ul style="list-style-type: none"> • Same as ERS. 	<ul style="list-style-type: none"> • Same as ERS except for the one-time partial lump sum.
Vesting Requirement:		
<ul style="list-style-type: none"> • Five or more years of service credit for Employee Class and eight or more years for Elected Class. 	<ul style="list-style-type: none"> • 20 or more years of service credit as a certified peace officer/custodial officer. 	<ul style="list-style-type: none"> • 12 or more years of service credit.
Vested Benefits after Termination of Employment:		
<ul style="list-style-type: none"> • Member is entitled to a deferred retirement benefit based on service and compensation prior to termination. • Member must leave accumulated contributions in the System and must live to normal retirement age. 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Member is entitled to a deferred retirement benefit based on service and compensation as a judge prior to termination. • Member must leave accumulated contributions in the System and must live to normal retirement age.

Summary of Plan Provisions

Effective since September 1, 2007

ERS	LECOS	JRS I and JRS II
Vested Benefits after Termination of Employment (Continued):		
<ul style="list-style-type: none"> • Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits. 	<ul style="list-style-type: none"> • Member must leave accumulated deposits in the System to which the member contributed. 	<ul style="list-style-type: none"> • Upon or after leaving State judicial employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.
Disability Retirement Eligibility:		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> • For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability. • 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 at the time of permanent disability. <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> • For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability. • 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 at the time of permanent disability. 	<ul style="list-style-type: none"> • For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability. • 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. 	<ul style="list-style-type: none"> • No age requirement. • Seven years of judicial service and currently holding a judicial office.
Disability Retirement Benefits:		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> • 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. • For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service. • The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option. <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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. • 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. • For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service. • The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option. 	<ul style="list-style-type: none"> • Same as standard service retirement benefits without reduction for age.

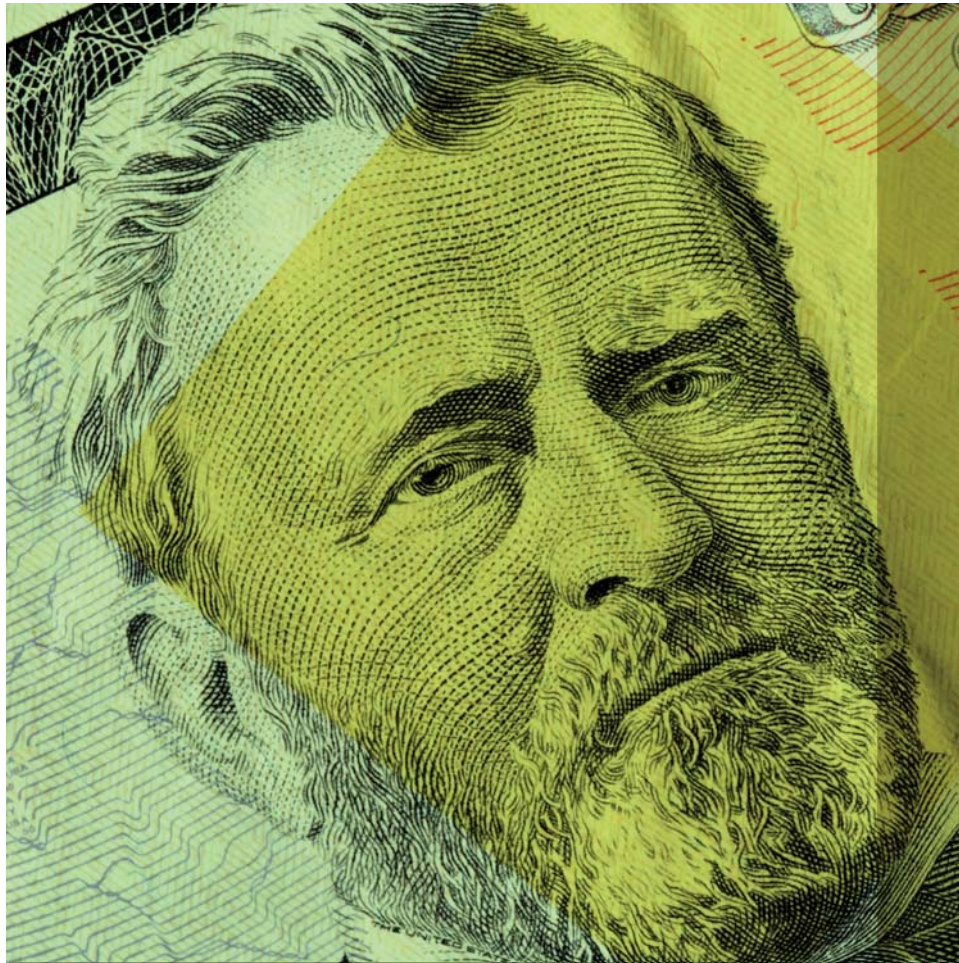
Summary of Plan Provisions

Effective since September 1, 2007

ERS	LECOS	JRS I and JRS II
Disability Retirement Benefits (Continued):		
<ul style="list-style-type: none"> Optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option. 		
Death Benefits:		
<p><i>Employee Class and Elected Class:</i></p> <ul style="list-style-type: none"> 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"> Death benefit plan filed by the member, or Lifetime annuity, or 10-year certain annuity. 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"> Refund of member's contribution with interest. 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. 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. 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. <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 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. 	<ul style="list-style-type: none"> Members have the same as those listed in the Employee Class under the ERS Plan.

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 Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

Other Supplementary Information





INDEPENDENT AUDITOR'S REPORT

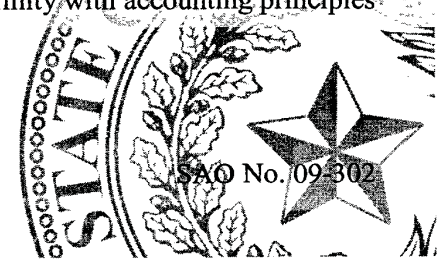
Employees Retirement System of Texas Board of Trustees:

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, 2008, which collectively comprise the System's basic financial statements, as listed in the Table of Contents. 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 prior year summarized comparative information has been derived from the System's fiscal year 2007 financial statements and, in our report dated December 18, 2007, we expressed unqualified opinions on those financial 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.

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, 2008, 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 the defined benefit plans mentioned above administered by the System, as of August 31, 2008, 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.



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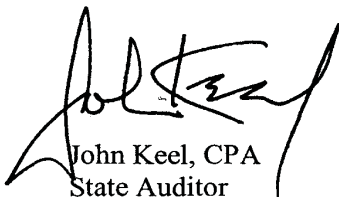
Internet:
www.sao.state.tx.us

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

November 18, 2008

Management's Discussion and Analysis

Year Ended August 31, 2008

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, 2008. 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:

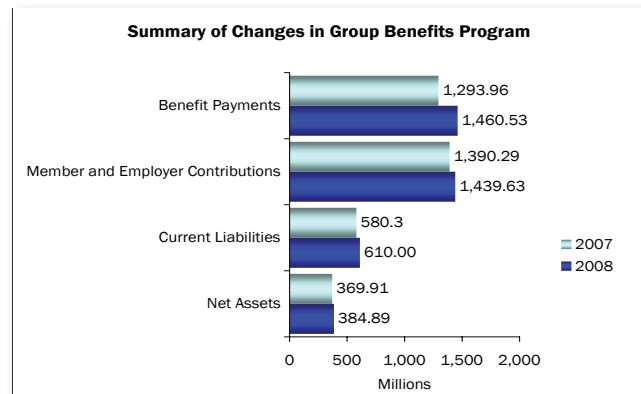
- Social Security Administration,
- Death Benefits for Public Safety Officers,

- 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			2007-08 %
	2008	2007	2006	Incr (Decr)
	\$	\$	\$	%
Net Assets	384.89	369.91	241.48	4.05
Current Liabilities	610.00	580.30	661.73	5.12
Member and Employer Contributions	1,439.63	1,390.29	1,835.37	3.55
Benefit Payments	1,460.53	1,293.96	1,760.07	12.87

The increases resulted primarily from growth in costs for health care and member growth.



Financial Highlights – Fiduciary Funds

- Net assets of the fiduciary funds administered by the System totaled \$22.39 billion as of August 31, 2008, compared with \$24.46 billion as of August 31, 2007. The investment portfolio returned (4.58%) for the year. The \$2.07 billion decrease resulted primarily from adverse market conditions affecting investment assets. The time weighted rate of return for three and five years were 5.75% and 8.28% respectively.

The effects of recent events, including the significant volatility in the financial markets cannot be determined at this time, but the System's management has confidence in the financial markets and maintains a long term approach to investing the System's assets.

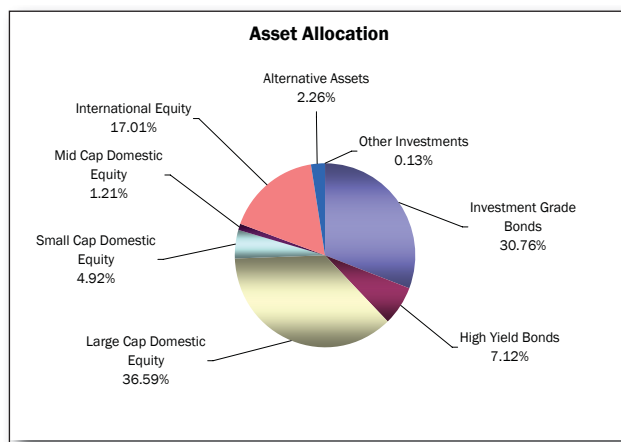
- The System's investments are highly diversified and are designed to withstand market fluctuations such as those that have occurred recently.

Management's Discussion and Analysis

Year Ended August 31, 2008

The fiscal year-end asset allocation stood at:

- 30.76% investment grade bonds
- 7.12% high yield bonds
- 36.59% large cap domestic equity
- 4.92% small cap domestic equity
- 1.21% mid cap domestic equity
- 17.01% international equity
- 2.26% alternative assets
- 0.13% other investments



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			2007-08 % Incr (Decr)
	2008	2007	2006	
	\$	\$	\$	%
Contributions:				
Retirement & Other	795.88	750.62	746.12	6.03
Insurance	559.52	575.19		(2.72)
Total (Exh. XI)	1,355.40	1,325.81	746.12	2.23
Benefit Payments:				
Retirement & Other	1507.27	1,448.75	1,391.33	4.04
Insurance	558.23	574.03		(2.75)
Total (Exh. XI)	2,065.50	2,022.78	1,391.33	2.11

- The increases in retirement contributions and benefit payments for insurance are a result of member and payroll growth. The most recent actuarial valuations of the funded defined benefit plans were completed as of August 31, 2008. The funded ratios are as follows:

Plans	Funded Ratios August 31,	
	2008	2007
Employees Retirement System	92.6%	95.6%
Law Enforcement and Custodial Officer Supplemental Retirement Fund	92.0%	98.0%
Judicial Retirement System of Texas Plan Two	97.4%	95.9%

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

Fiduciary Net Assets

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

	August 31,			2007-08 % Incr (Decr)
	2008	2007	2006 (Restated)	
	\$	\$	\$	%
Changes in Fiduciary Net Assets (Exh. IX)	(2,076.16)	2,017.78	1,150.00	(202.89)
Net Assets	22,387.67	24,463.83	22,446.09	(8.49)

The decrease in changes in Fiduciary Net Assets is due primarily to adverse conditions in the financial markets.

Additions

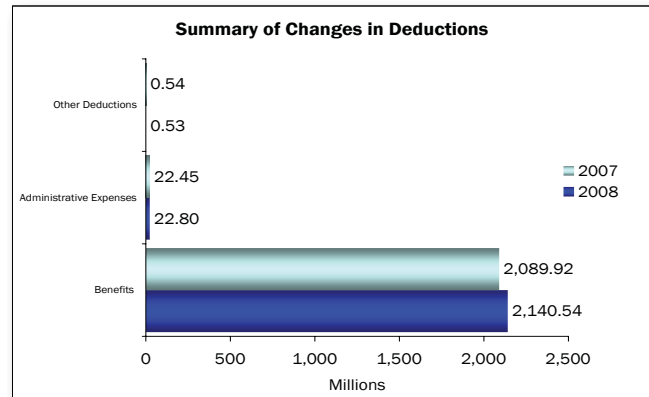
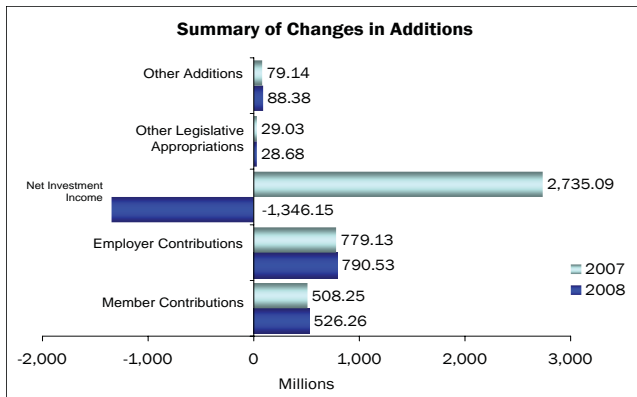
Retirement benefits are financed primarily through the collection of member and state retirement contributions, investment income, legislative appropriations, and contributions transferred from the Teacher Retirement System. Additions in Fiduciary Net Assets have been extracted from Exhibit IX, Combined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

	August 31,			2007-08 % Incr (Decr)
	2008	2007	2006 (Restated)	
	\$	\$	\$	%
Member Contributions	526.26	508.25	406.25	3.54
Employer Contributions	790.53	779.13	326.79	1.46
Net Investment Income	(1,346.15)	2,735.09	1,809.78	(149.22)
Other Legislative Appropriations	28.68	29.03	27.78	(1.21)
Other Additions	88.38	79.14	47.96	11.68
Total Additions (Exh. IX)	87.70	4,130.64	2,618.56	(97.88)

Decreases in the additions in the above tables are due primarily to the adverse conditions in the financial markets.

Management's Discussion and Analysis

Year Ended August 31, 2008



For the Employees Retirement Fund, member and state retirement contribution rates were 6% and 6.45% respectively. For the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), the State contributed 1.59% of covered payroll for LECOS. 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 or depreciation 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:

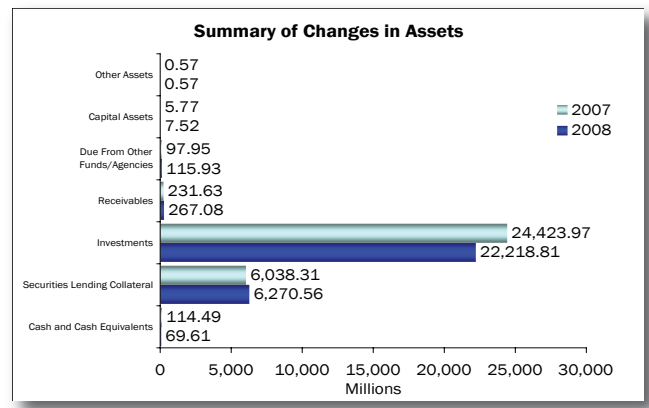
	August 31,			2007-08 % Incr (Decr) %
	2008	2007	2006 (Restated)	
	\$	\$	\$	
Benefits	2,140.54	2,089.92	1,451.28	2.42
Administrative Expenses	22.80	22.45	16.44	1.56
Other Deductions	0.53	0.54	0.84	(1.85)
Total Deductions (Exh. IX)	2,163.87	2,112.91	1,468.56	2.41

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. Asset information has been extracted from Exh.VIII.

Changes in assets are summarized in millions as follows:

	August 31,			2007-08 % Incr (Decr) %
	2008	2007	2006 (Restated)	
	\$	\$	\$	
Cash and Cash Equivalents	69.61	114.49	83.59	(39.20)
Securities Lending Collateral	6,270.56	6,038.31	5,051.34	3.85
Investments	22,218.81	24,423.97	22,477.35	(9.03)
Receivables	267.08	231.63	114.56	15.30
Due from Other Funds/Agencies	115.93	97.95	5.30	18.36
Capital Assets	7.52	5.77	6.01	30.33
Other Assets	0.57	0.57	0.42	0.00
Total Assets (Exh. VIII)	28,950.08	30,912.69	27,738.57	(6.35)



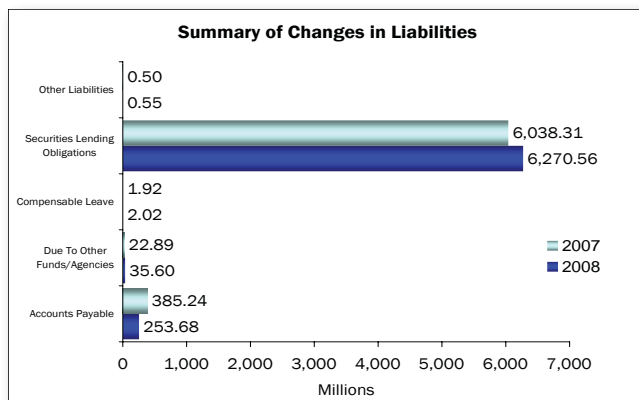
Management's Discussion and Analysis

Year Ended August 31, 2008

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:

	August 31,			2007-08 % Incr (Decr) %
	2008	2007	2006	
Accounts Payable	\$ 253.68	\$ 385.24	\$ 237.91	(34.15)
Due to Other Funds/ Agencies	35.60	22.89	1.14	55.53
Compensable Leave	2.02	1.92	1.77	5.21
Securities Lending Obligations	6,270.56	6,038.31	5,051.34	3.85
Other Liabilities	0.55	0.50	0.32	10.00
Total Liabilities (Exh.VIII)	6,562.41	6,448.86	5,292.48	1.76



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, 2008, (compared to the August 31, 2007 actuarial valuation) is summarized in millions as follows:

Plans	Actuarial Net Asset/(Liability) August 31,	
	2008	2007
Employees Retirement System	\$ 1,891.36	\$ 1,048.22
Law Enforcement and Custodial Officer Supplemental Retirement Fund	67.60	14.90
Judicial Retirement System of Texas Plan Two	6.21	8.95

For the Employees Retirement System Fund, the August 31, 2008 actuarial valuation shows that there is an unfunded accrued liability of \$1,891.4 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 92.6% as of August 31, 2008. The valuation shows that the total normal cost is 13.37% of payroll and total contributions are 12.45% of payroll. The total contribution rate fails to cover the normal cost by 0.92% of payroll, and this contribution is not sufficient to ever amortize the unfunded accrued liability. Therefore, 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 15.45% 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, 2008 actuarial valuation for Law Enforcement and Custodial Officer Supplemental Retirement Fund shows that the total normal cost rate for fiscal year 2008 is 2.18% of payroll. At August 31, 2008, the unfunded accrued liability is \$67.6 million, and the funded ratio is 92.0%. Total contributions are 1.59% of payroll. The normal cost exceeds the total contribution rate by 0.59%. As a result, the amortization period is currently infinite and the funding objective is not currently being realized. For fiscal year 2008, the total contribution rate to fund the normal cost plus amortize the net liability balance over 31 years as a level percentage of payroll is 2.51% of payroll.

For the Judicial Retirement System of Texas Plan II, the August 31, 2008 actuarial valuation shows that the total normal cost is 19.26% of payroll and unfunded accrued liability is \$6.2 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 97.4% as of August 31, 2008. Assuming state contributions of 16.83% of payroll and member contributions of 6% of pay, the amortization period is 2.8 years.

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, 2008 actuarial valuation shows that there is an unfunded accrued liability of \$20.1 billion. The funded ratio is 0.0%. The valuation shows that the total

Management's Discussion and Analysis

Year Ended August 31, 2008

normal cost is 10.0% of payroll and total contributions are 24.8% of the annual required contribution. The Annual Required Contribution (ARC) as of August 31, 2008 is 19.4% of payroll.

Contributions include health care premiums, state and member contributions, and retiree drug subsidy payments. Retiree premiums were \$109.4 million. Employer contributions were \$417.1 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 2008 totaling \$33.0 million. The above amounts plus net investment income of \$1.4 million resulted in additions of \$560.9 million. These were offset entirely by \$558.2 million in benefit payments and \$2.7 million in administrative expense. The net plan assets are zero.

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, 2008 (With Comparative Totals at August 31, 2007)

ASSETS	Governmental Activities	
	August 31,	
	2008	2007
	\$	\$
<i>Current Assets:</i>		
<i>Cash and Cash Equivalents:</i>		
Cash in State Treasury	23,219,929	26,644,006
Certificates of Deposit	-	5,051,140
Total Cash and Cash Equivalents	23,219,929	31,695,146
Securities Lending Collateral	70,014,358	77,390,842
Short-Term Investments	393,237,756	430,861,150
Legislative Appropriations	4,127	7,123
Receivables	99,935,970	98,185,843
Due From Fiduciary Funds	707,804	1,725,402
Due From Other Agencies	21,355	24,675
Total Current Assets	587,141,299	639,890,181
<i>Non-Current Assets:</i>		
Investments	407,818,149	310,383,518
Total Non-Current Assets	407,818,149	310,383,518
Total Assets	994,959,448	950,273,699
LIABILITIES		
<i>Current Liabilities:</i>		
Payables	462,351,955	429,283,050
Due To Fiduciary Funds	77,229,724	73,257,333
Deferred Revenue	415,366	384,036
Obligations Under Securities Lending	70,014,358	77,390,842
Total Current Liabilities	610,011,403	580,315,261
Total Liabilities	610,011,403	580,315,261
NET ASSETS		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program	384,891,655	369,913,195
Unrestricted	56,390	45,243
Total Net Assets (Exh. II & III)	384,948,045	369,958,438

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

Exhibit II

Statement of Activities

Year Ended August 31, 2008 (With Comparative Totals for August 31, 2007)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue & Changes in Net Assets Governmental Activities	
		Charges for Services	Operating Grants & Contributions	August 31,	
	\$	\$	\$	2008	2007
<i>Governmental Activities:</i>					
Social Security Administration	53,990	65,137		11,147	2,009
Death Benefits-Peace Officers, Firemen, etc.	3,423,316	3,423,316			
Compensation to Victims of Crime	2,250,000	2,250,000			
Death Benefits-Retiree \$5,000 Lump Sum	6,901,496	6,901,496			(6,165)
Group Benefits Program	1,468,850,193	1,439,795,060	44,033,593	14,978,460	128,435,457
Total Governmental Activities	1,481,478,995	1,452,435,009	44,033,593		
Change in Net Assets (Exh. IV)				14,989,607	128,431,301
Net Assets - Beginning				369,958,438	241,527,137
Net Assets - Ending (Exh. I)				384,948,045	369,958,438

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

Exhibit III

Balance Sheet – Governmental Funds

August 31, 2008 (With Comparative Totals at August 31, 2007)

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)	2008	2007
ASSETS	\$	\$	\$	\$	\$	\$
Current Assets:						
Cash and Cash Equivalents:						
Cash in State Treasury	45,244				45,244	29,342
Total Cash and Cash Equivalents	45,244	-	-	-	45,244	29,342
Legislative Appropriations				4,127	4,127	7,123
Accounts Receivable of \$32,615						
Less: Est. Uncollectible SS Fee of 15,000	17,615				17,615	25,515
Total Current Assets	62,859	-	-	4,127	66,986	61,980
Total Assets	62,859	-	-	4,127	66,986	61,980
LIABILITIES & FUND BALANCES						
Current Liabilities:						
Payables:						
Voucher/Accounts Payable				4,127	4,127	7,123
Due To Other Funds (Note 1.G)	4,810				4,810	5,790
Deferred Revenues	1,659				1,659	3,824
Total Current Liabilities	6,469	-	-	4,127	10,596	16,737
Total Liabilities	6,469	-	-	4,127	10,596	16,737
Fund Balances:						
Unreserved:						
Undesignated, Reported In:						
Special Revenue Funds	56,390	-	-	-	56,390	45,243
Total Fund Balances (Exh. IV)	56,390	-	-	-	56,390	45,243
Total Liabilities & Fund Balances	62,859	-	-	4,127	66,986	61,980
Total Fund Balances - Governmental Funds (above):					56,390	45,243
Amounts reported for 'Governmental Activities' in the Statement of Net Assets (Exhibit I) are different because:						
An Internal Service Fund 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 Statement of Net Assets .						
					384,891,655	369,913,195
Net Assets of Governmental Activities (Exhibit I)					384,948,045	369,958,438

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, 2008 (With Comparative Totals for August 31, 2007)

REVENUES	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 August 31,	
	(0929) (U/F 0929)	(0001) (U/F 3001)	(0469) (U/F 3003)	(0001) (U/F 3008)	2008	2007
	\$	\$	\$	\$	\$	\$
<i>Legislative Appropriations Out of the State's General Revenue Fund:</i>						
<i>Appropriation Revenue:</i>						
For Death Benefits Peace Officers, Etc.		3,423,316			3,423,316	1,124,184
For Victims of Crime			2,250,000		2,250,000	2,739,951
For Death Benefits-Retirees				6,901,496	6,901,496	7,519,511
Total Appropriation Revenue	-	3,423,316	2,250,000	6,901,496	12,574,812	11,383,646
Administration Fees of \$80,137						
Less: Est. Uncollectible SS Fee of 15,000	65,137				65,137	71,944
Total Revenues	65,137	3,423,316	2,250,000	6,901,496	12,639,949	11,455,590
EXPENDITURES						
<i>Current:</i>						
Death Benefits		3,423,316	2,250,000	6,901,496	12,574,812	11,389,811
<i>Administrative Expenditures:</i>						
Salaries & Wages	38,179				38,179	51,264
Payroll Related Costs	9,172				9,172	10,992
Professional Fees & Services	1,020				1,020	791
Travel	282				282	228
Materials & Supplies	2,402				2,402	1,220
Communications & Utilities	619				619	1,001
Repairs & Maintenance	315				315	437
Rentals & Leases	489				489	645
Printing & Reproduction	1				1	2
Other Expenditures	1,511				1,511	3,355
Total Administrative Expenditures	53,990	-	-	-	53,990	69,935
Total Expenditures	53,990	3,423,316	2,250,000	6,901,496	12,628,802	11,459,746
Excess of Revenues over Expenditures	11,147	-	-	-	11,147	(4,156)
Fund Balances - Beginning	45,243	-	-	-	45,243	49,399
Fund Balances - Ending (Exh. III)	56,390	-	-	-	56,390	45,243
Net Change in Fund Balances - Governmental Funds:					11,147	(4,156)
<i>Amounts reported for 'Governmental Activities' in the Statement of Activities (Exhibit II) are different 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.</i>						
<i>The net revenue (expense) of the Internal Service Fund (Exhibit VI) is included in Governmental Activities in the Statement of Activities.</i>						
					14,978,460	128,435,457
Change in Net Assets of Governmental Activities (Exhibit II)					14,989,607	128,431,301
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, 2008 (With Comparative Totals at August 31, 2007)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)	
	Totals	
	August 31,	
	2008	2007
	\$	\$
ASSETS		
Current Assets:		
<i>Cash and Cash Equivalents:</i>		
Cash in State Treasury	23,174,685	26,614,664
Certificates of Deposit		4,997,100
Total Cash and Cash Equivalents	23,174,685	31,611,764
Securities Lending Collateral	70,014,358	77,390,842
<i>Short-Term Investments:</i>		
Other Investments	393,237,756	428,715,566
Total Short-Term Investments	393,237,756	428,715,566
<i>Receivables:</i>		
Interest Receivable	3,598,630	4,541,384
Accounts Receivable	96,199,874	97,857,767
Unsettled Sales-Investment Receivables	119,851	67,215
Total Receivables	99,918,355	102,466,366
Due From Other Funds (Note 1.G)	707,804	1,725,402
Due From Other Agencies (Note 1.G)	21,355	24,675
Total Current Assets	587,074,313	641,934,615
Non-Current Assets:		
<i>Investments:</i>		
U.S. Government and Agency Obligations	267,677,416	221,192,313
Corporate Obligations	140,140,733	87,084,791
Total Investments	407,818,149	308,277,104
Total Non-Current Assets	407,818,149	308,277,104
Total Assets	994,892,462	950,211,719
LIABILITIES		
Current Liabilities:		
<i>Payables:</i>		
Accounts Payable		28,166
<i>Claims Payable:</i>		
Incurred, Self-Funded	33,751,480	26,793,572
Incurred, Insured	21,830,349	20,044,189
Incurred But Not Reported, Self-Funded	342,336,000	320,164,000
Incurred But Not Reported, Insured	64,430,000	62,246,000
Total Claims Payable	462,347,829	429,247,761
Total Payables	462,347,829	429,275,927
Due To Other Funds (Note 1.G)	77,224,914	73,251,543
Deferred Revenue	413,706	380,212
Obligations Under Securities Lending	70,014,358	77,390,842
Total Current Liabilities	610,000,807	580,298,524
Total Liabilities	610,000,807	580,298,524
NET ASSETS		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program	384,891,655	369,913,195
Total Net Assets (Exh. VI)	384,891,655	369,913,195

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, 2008 (With Comparative Totals for August 31, 2007)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)	
	Totals August 31,	
	2008	2007
OPERATING REVENUES	\$	\$
<i>Contributions to Insurance Program:</i>		
<i>From the State of Texas:</i>		
For Employees	1,075,353,488	1,024,635,915
Total Contributions from the State of Texas	1,075,353,488	1,024,635,915
<i>From Members:</i>		
For Employees	356,103,139	358,116,389
For COBRA	8,175,159	7,536,409
Total Contributions from Members	364,278,298	365,652,798
Total Contributions to Insurance Program	1,439,631,786	1,390,288,713
<i>Other Operating Revenues:</i>		
COBRA 2% Administration Fee	163,274	150,075
Warrants Voided by Statute of Limitations	7,487	11,586
Penalty Assessed to Insurance Carrier	1,116,288	
Miscellaneous Operating Revenue	256,261	260,352
Total Other Operating Revenues	1,543,310	422,013
Total Operating Revenues	1,441,175,096	1,390,710,726
OPERATING EXPENSES		
<i>Employee Benefit Payments:</i>		
For Employees	1,437,632,320	1,275,725,465
For COBRA	22,895,369	18,231,642
Total Employee Benefit Payments	1,460,527,689	1,293,957,107
<i>Administrative Expenses:</i>		
Salaries & Wages	4,520,177	4,598,794
Payroll Related Costs	1,124,332	1,121,128
Professional Fees & Services	831,376	1,024,043
Travel	34,159	28,475
Materials & Supplies	604,864	519,502
Communications & Utilities	244,175	238,258
Repairs & Maintenance	199,906	294,545
Rentals & Leases	364,798	385,354
Printing & Reproduction	29,031	15,916
Other Operating Expenses	369,686	467,589
Total Administrative Expenses	8,322,504	8,693,604
Total Operating Expenses	1,468,850,193	1,302,650,711
Operating Income/(Loss)	(27,675,097)	88,060,015
NON-OPERATING REVENUES (EXPENSES)		
Net Increase (Decrease) in Fair Value of Investments	4,942,679	(729,842)
Interest Revenue	36,901,927	40,394,162
Class Action Settlements	80,522	288,717
<i>Securities Lending Activities:</i>		
Loan Premium on Securities Lending	3,000,912	7,291,993
Less: Broker Rebates	(2,309,779)	(6,827,621)
Agent Fees	(103,300)	(67,127)
Net Securities Lending Activity	587,833	397,245
Settlement Revenue	140,596	25,160
Total Non-Operating Revenues	42,653,557	40,375,442
Change in Net Assets	14,978,460	128,435,457
NET ASSETS		
Net Assets - Beginning	369,913,195	241,477,738
Net Assets - Ending (Exh. V)	384,891,655	369,913,195

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, 2008 (With Comparative Totals for August 31, 2007)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)	
	August 31, 2008	August 31, 2007
	\$	\$
Cash Flows from Operating Activities:		
Cash Received from Members	365,828,187	363,981,718
Cash Received from The State of Texas	1,112,468,492	1,091,814,881
Cash Payments to Insurance Carriers and Third Party Administrators	(1,427,455,888)	(1,340,946,410)
Cash Received from Federal Government - Medicare Part D	-	12,245,001
Cash Payments to Employees for Services	(5,914,365)	(5,792,409)
Cash Payments for Goods and Services	(34,033,706)	(2,996,666)
Other Cash Received	1,214,160	32,463
Net Cash Provided by Operating Activities	12,106,880	118,338,578
Cash Flows from Investing Activities:		
Net Purchases of Short-Term Investment Fund	(22,097,101)	(117,108,025)
Interest on Deposit in State Treasury	1,553,142	3,202,299
Net Cash Used by Investing Activities	(20,543,959)	(113,905,726)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,437,079)	4,432,852
Cash and Cash Equivalents:		
Beginning of Year	31,611,764	27,178,912
End of Year	23,174,685	31,611,764
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	(27,675,097)	88,060,015
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depository Interest Transferred to Retiree Insurance Plan	(116,197)	(1,541,136)
Settlement Revenue	140,596	25,160
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,657,893	8,611,301
(Increase) Decrease in Due From Other Agencies	3,320	(5,738)
(Increase) Decrease in Due From Other Funds	1,017,598	(1,725,402)
Increase (Decrease) in Accounts Payable	33,071,901	(46,989,504)
Increase (Decrease) in Due To Other Funds	3,973,371	72,369,477
Increase (Decrease) in Deferred Revenue	33,495	(465,595)
Total Adjustments	39,781,977	30,278,563
Net Cash Provided by Operating Activities	12,106,880	118,338,578
Non-Cash Investing Activities:		
Net Appreciation (Depreciation) in Fair Value of Non-Cash Equivalent Investments	(4,939,779)	(261,199)

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, 2008 (With Comparative Totals at August 31, 2007)

	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			2008	2007
	\$	\$	\$	\$	\$	\$
ASSETS						
Cash and Cash Equivalents	63,371,885	6,201,921	69,573,806	33,978	69,607,784	114,048,549
Securities Lending Collateral	6,270,564,649		6,270,564,649		6,270,564,649	6,038,310,782
Short-Term Investments	146,041,779		146,041,779		146,041,779	662,495,635
Legislative Appropriations	323,914		323,914		323,914	324,419
Investments	22,072,764,771		22,072,764,771		22,072,764,771	23,641,994,066
Receivables	261,043,158	6,027,243	267,070,401	14,226	267,084,627	351,551,178
Due From Other Funds (Note 1.G)	111,385,406		111,385,406		111,385,406	93,729,780
Due From Other Agencies (Note 1.G)	4,531,950	4,945	4,536,895		4,536,895	4,212,088
Prepaid Expenses		250,000	250,000		250,000	250,000
Capital Assets, Net of Accumulated Depreciation	7,520,955	-	7,520,955		7,520,955	5,772,348
Total Assets	28,937,548,467	12,484,109	28,950,032,576	48,204	28,950,080,780	30,912,688,845
LIABILITIES						
Payables	244,706,341	8,963,368	253,669,709	14,376	253,684,086	385,241,755
Due To Other Funds (Note 1.G)	34,737,865	125,621	34,863,486		34,863,485	22,197,849
Due To Other Agencies (Note 1.G)	733,183		733,183		733,183	686,833
Deferred Revenue	511,511	2,364	513,875		513,875	503,966
Employees Compensable Leave	2,021,884		2,021,884		2,021,884	1,920,103
Obligations Under Securities Lending	6,270,564,649		6,270,564,649		6,270,564,649	6,038,310,782
Funds Held for Others				33,828	33,828	
Total Liabilities	6,553,275,433	9,091,353	6,562,366,786	48,204	6,562,414,990	6,448,861,288
NET ASSETS						
Net Assets Held in Trust for Pension						
Benefits and Other Purposes (Exh. IX)	22,384,273,034	3,392,756	22,387,665,790	-	22,387,665,790	24,463,827,557

(Exh. X)

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, 2008 (With Comparative Totals for August 31, 2007)

ADDITIONS	Defined Benefit Plans	Defined Contribution Plans and Cafeteria Plan	Pension and Other Employee Benefit Trust Funds	
			Totals August 31,	
	\$	\$	2008	2007
Contributions:				
Member Contributions	450,451,195	75,806,769	526,257,964	508,245,411
Employer Contributions	790,528,600		790,528,600	779,132,701
Legislative Appropriations	28,684,240		28,684,240	29,028,984
Service Contributions Transferred from				
Teacher Retirement System	52,773,854		52,773,854	48,538,424
Federal Revenues-Medicare Part D	32,963,502		32,963,502	28,557,634
Settlement Revenue	153		153	-
Other Contributions - Forfeitures		973,267	973,267	730,871
Total Contributions	1,355,401,544	76,780,036	1,432,181,580	1,394,234,025
Investment Income:				
From Investing Activities	(1,380,719,800)	238,189	(1,380,481,611)	2,720,860,380
From Securities Lending Activities	34,336,179		34,336,179	14,229,269
Total Investment Income	(1,346,383,621)	238,189	(1,346,145,432)	2,735,089,649
Other Additions:				
Other Revenue	166,857	792,732	959,589	775,254
Transfers In	350,254	358,262	708,516	541,123
Total Other Additions	517,111	1,150,994	1,668,105	1,316,377
Total Additions	9,535,034	78,169,219	87,704,253	4,130,640,051
DEDUCTIONS				
Benefits:				
Benefits	1,982,020,343	75,042,783	2,057,063,126	2,002,380,077
Refunds of Contributions	74,577,548		74,577,548	79,622,156
Service Contributions Transferred to Teacher Retirement System	8,897,722		8,897,722	7,913,660
Total Benefits	2,065,495,613	75,042,783	2,140,538,396	2,089,915,893
Administrative Expenses	19,510,084	3,284,956	22,795,040	22,447,933
Other Deductions:				
Other Expenses	9,637		9,637	5,527
Transfers Out	522,947		522,947	536,504
Total Other Deductions	532,584	-	532,584	542,031
Total Deductions	2,085,538,281	78,327,739	2,163,866,020	2,112,905,857
Net Increase	(2,076,003,247)	(158,520)	(2,076,161,767)	2,017,734,194
NET ASSETS				
Net Assets Held in Trust For Pension Benefits and Other Purposes:				
Beginning of Year	24,460,276,281	3,551,276	24,463,827,557	22,446,093,363
End of Year (Exh. VIII)	22,384,273,034	3,392,756	22,387,665,790	24,463,827,557

(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, 2008 (With Comparative Totals at August 31, 2007)

	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)
ASSETS						
<i>Cash and Short-Term Investments:</i>						
<i>Cash and Cash Equivalents:</i>						
Cash on Hand	779,946					
Cash in Bank	13,000					
Cash in State Treasury	25,427,664	922,399		584,757		12,431,121
Certificate of Deposit						
Net Margin Deposit (Note 5.A)	22,288,598	738,438		185,962		
Total Cash and Cash Equivalents	48,509,208	1,660,837	-	770,719	-	12,431,121
Securities Lending Collateral	6,020,854,470	199,475,440		50,234,739		
<i>Short-Term Investments:</i>						
<i>Corporate Obligations</i>						
Other Short-Term Investments	140,303,221	4,680,138	-	1,019,081	-	39,339
Total Short-Term Investments	140,303,221	4,680,138	-	1,019,081	-	39,339
Total Cash and Short-Term Investments	6,209,666,899	205,816,415	-	52,024,539	-	12,470,460
Legislative Appropriations			323,914			
<i>Investments:</i>						
U.S. Government and Agency Obligations	5,597,755,128	185,457,822		46,704,048		
Corporate Equity	9,241,435,726	306,175,689		77,104,563		
Corporate Obligations	2,514,371,551	83,303,013		20,978,290		
Foreign Securities	3,840,209,691	127,229,025		32,040,225		
Total Investments	21,193,772,096	702,165,549	-	176,827,126	-	-
<i>Receivables:</i>						
Interest and Dividends Receivable	123,891,619	3,837,608		2,192,016		15,921
Contributions/Accounts Receivable	53,449,584	4,612	27,375	1,248,758		9,033,996
Unsettled Sales-Investment Receivables	64,661,471	2,141,465		538,733		
Total Receivables	242,002,674	5,983,685	27,375	3,979,507	-	9,049,917
Due From Other Funds (Note 1.G)	1,445,557			33,614,234		76,325,615
Due From Other Agencies (Note 1.G)	4,531,950					
Prepaid Claims Expense						
<i>Capital Assets:</i>						
<i>Non-Depreciable:</i>						
Land and Land Improvements	874,889					
<i>Depreciable, Net of Accumulated Depreciation of \$13,440,720 and \$13,072,684 respectively:</i>						
Building	6,256,165					
Furniture and Equipment	389,901					
Total Capital Assets	7,520,955	-	-	-	-	-
Total Assets	27,658,940,131	913,965,649	351,289	266,445,406	-	97,845,992
LIABILITIES						
<i>Payables:</i>						
Voucher/Accounts Payable	21,343,866	251,606	323,914	77,148		96,626,677
Annuities Payable	81,762	611				
Unsettled Purchases-Investment Payables	120,985,927	4,006,824		1,008,006		
Total Payables	142,411,555	4,259,041	323,914	1,085,154	-	96,626,677
Due To Other Funds (Note 1.G)	28,653,916	5,291,192		84,953		707,804
Due To Other Agencies (Note 1.G)	733,183					
Deferred Revenue						511,511
Employees Compensable Leave	2,021,884					
Obligations Under Securities Lending	6,020,854,470	199,475,440		50,234,739		
Total Liabilities	6,194,675,008	209,025,673	323,914	51,404,846	-	97,845,992
NET ASSETS						
Net Assets Held in Trust for Pension						
Benefits and Other Purposes (Exh. XI)	21,464,265,123	704,939,976	27,375	215,040,560	-	-

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 3973: 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,	
					2008	2007
\$	\$	\$	\$	\$	\$	\$
779,946					779,946	1,302,016
13,000		101,783	418,128	519,911	532,911	609,886
39,365,941	1,382,810	1,109,952	3,189,248	5,682,010	45,047,951	35,839,260
23,212,998				-	23,212,998	51,297,226
63,371,885	1,382,810	1,211,735	3,607,376	6,201,921	69,573,806	114,048,399
6,270,564,649					6,270,564,649	6,038,310,782
146,041,779	-	-	-	-	146,041,779	64,726,262
146,041,779	-	-	-	-	146,041,779	597,769,373
6,479,978,313	1,382,810	1,211,735	3,607,376	6,201,921	6,486,180,234	662,495,635
323,914				-	323,914	6,814,854,816
5,829,916,998				-	5,829,916,998	324,419
9,624,715,978				-	9,624,715,978	5,424,155,562
2,618,652,854				-	2,618,652,854	10,711,826,244
3,999,478,941				-	3,999,478,941	2,706,193,922
22,072,764,771	-	-	-	-	22,072,764,771	4,799,818,338
129,937,164	3,500	2,200	10,600	16,300	129,953,464	23,641,994,066
63,764,325		2,931	6,008,012	6,010,943	69,775,268	125,501,847
67,341,669				-	67,341,669	62,544,456
261,043,158	3,500	5,131	6,018,612	6,027,243	267,070,401	163,486,398
111,385,406				-	111,385,406	351,532,701
4,531,950			4,945	4,945	4,536,895	93,729,780
			250,000	250,000	250,000	4,212,088
874,889				-	874,889	250,000
6,256,165				-	6,256,165	874,889
389,901				-	389,901	4,530,920
7,520,955				-	7,520,955	366,539
28,937,548,467	1,386,310	1,216,866	9,880,933	12,484,109	28,950,032,576	30,912,670,218
118,623,211		55,100	8,908,268	8,963,368	127,586,579	116,350,532
82,373				-	82,373	
126,000,757				-	126,000,757	268,872,596
244,706,341	-	55,100	8,908,268	8,963,368	253,669,709	385,223,128
34,737,865	47,674	43,234	34,713	125,621	34,863,486	22,197,849
733,183				-	733,183	686,833
511,511		2,202	162	2,364	513,875	503,966
2,021,884				-	2,021,884	1,920,103
6,270,564,649				-	6,270,564,649	6,038,310,782
6,553,275,433	47,674	100,536	8,943,143	9,091,353	6,562,366,786	6,448,842,661
22,384,273,034	1,338,636	1,116,330	937,790	3,392,756	22,387,665,790	24,463,827,557

(Exh. VIII)

Exhibit XI

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

Year Ended August 31, 2008 (With Comparative Totals for August 31, 2007)

	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)
ADDITIONS	\$	\$	\$	\$	\$	\$
Contributions:						
Member Contributions	337,040,170			3,963,948		109,447,077
Employer Contributions	342,092,149	20,191,769		11,138,212		417,106,470
<i>Legislative Appropriations for:</i>						
Judges Retirement Annuities			28,684,240			
Service Contributions Transferred from						
Teacher Retirement System (Note 1.G)	52,773,854					
Federal Revenues-Medicare Part D						32,963,502
Settlement Revenue	153					
Other Contributions - Forfeitures						
Total Contributions	731,906,326	20,191,769	28,684,240	15,102,160	-	559,517,049
Investment Income:						
<i>From Investing Activities:</i>						
Net Appreciation (Depreciation)						
in Fair Value of Investments	(2,120,854,782)	(70,265,508)		(17,695,040)		
Interest and Dividends	821,309,987	27,207,101		6,861,834		1,363,116
Class Action Settlements	6,607,539	218,913		55,129		
Total Investing Activity Income	(1,292,937,256)	(42,839,494)		(10,778,077)		1,363,116
Less: Investment Expense	(34,094,770)	(1,170,223)		(262,115)		(981)
Net Income, Investing Activities	(1,327,032,026)	(44,009,717)		(11,040,192)		1,362,135
<i>From Securities Lending Activities:</i>						
Loan Premium on Securities Lending	249,048,799	8,251,173		2,077,902		
Less: Broker Rebates	(210,286,576)	(6,966,952)		(1,754,495)		
Agent Fees	(5,793,397)	(191,939)		(48,336)		
Total Securities Lending Expenses	(216,079,973)	(7,158,891)		(1,802,831)		
Net Income, Securities Lending Activities	32,968,826	1,092,282		275,071		
Net Investment Income	(1,294,063,200)	(42,917,435)	-	(10,765,121)	-	1,362,135
Other Additions:						
<i>Other Revenue:</i>						
Warrants Voided by Statute of Limitations	124,474					
Reimbursements - Third Party						
Rental Income	34,000					
Miscellaneous Revenue	8,383					
Administration Fees						
Total Other Revenue	166,857					
<i>Interfund Transfers In (Note 1.G):</i>						
Membership Fees						
Excess Benefit Arrangement					112,851	
<i>Interagency Transfers In (Note 5.F):</i>						
Excess Benefit Arrangement					237,403	
Total Transfers In					350,254	
Total Other Additions	166,857	-	-	-	350,254	-
Total Additions	(561,990,017)	(22,725,666)	28,684,240	4,337,039	350,254	560,879,184

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 3973: 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,	
					2008	2007
\$	\$	\$	\$	\$	\$	\$
450,451,195			75,806,769	75,806,769	526,257,964	508,245,411
790,528,600				-	790,528,600	779,132,701
28,684,240				-	28,684,240	29,028,984
52,773,854				-	52,773,854	48,538,424
32,963,502				-	32,963,502	28,557,634
153				-	153	
-			973,267	973,267	973,267	730,871
1,355,401,544	-	-	76,780,036	76,780,036	1,432,181,580	1,394,234,025
(2,208,815,330)				-	(2,208,815,330)	1,939,674,678
856,742,038	118,884	51,840	72,959	243,683	856,985,721	792,768,827
6,881,581				-	6,881,581	15,424,403
(1,345,191,711)	118,884	51,840	72,959	243,683	(1,344,948,028)	2,747,867,908
(35,528,089)	(2,774)	(1,474)	(1,246)	(5,494)	(35,533,583)	(27,007,528)
(1,380,719,800)	116,110	50,366	71,713	238,189	(1,380,481,611)	2,720,860,380
259,377,874				-	259,377,874	310,826,067
(219,008,023)				-	(219,008,023)	(294,173,059)
(6,033,672)				-	(6,033,672)	(2,423,739)
(225,041,695)	-	-	-	-	(225,041,695)	(296,596,798)
34,336,179	-	-	-	-	34,336,179	14,229,269
(1,346,383,621)	116,110	50,366	71,713	238,189	(1,346,145,432)	2,735,089,649
124,474				-	124,474	89,127
-	1,500	1,500	5,000	8,000	8,000	
34,000				-	34,000	102,568
8,383	45,849	41,601	90,416	177,866	186,249	124,137
-	416,227	190,639		606,866	606,866	459,422
166,857	463,576	233,740	95,416	792,732	959,589	775,254
		358,262		358,262	358,262	341,545
112,851				-	112,851	136,543
237,403				-	237,403	63,035
350,254		358,262		358,262	708,516	541,123
517,111	463,576	592,002	95,416	1,150,994	1,668,105	1,316,377
9,535,034	579,686	642,368	76,947,165	78,169,219	87,704,253	4,130,640,051

- to next page

Exhibit XI

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

Year Ended August 31, 2008 (With Comparative Totals for August 31, 2007)

<u>DEDUCTIONS</u>	\$	\$	\$	\$	\$	\$
	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)
Benefits:						
Benefits	1,353,284,748	34,908,231	28,656,865	6,643,832	298,420	558,228,247
Refunds of Contributions	74,504,166			73,382		
<i>Transfers Out of Contributions:</i>						
Service Contributions Transferred						
to Teacher Retirement System (Note 1.G)	8,897,722					
Total Benefits	1,436,686,636	34,908,231	28,656,865	6,717,214	298,420	558,228,247
Administrative Expenses:						
Salaries & Wages	7,492,860	215,854		146,287		1,468,990
Payroll Related Costs	1,902,402	60,105		36,623		353,536
Professional Fees & Services	2,742,450	12,044		8,750		238,879
Travel	45,629	736		551		11,110
Materials & Supplies	1,209,868	25,230		14,023		195,817
Communications & Utilities	379,315	9,808		7,011		78,810
Repairs & Maintenance	453,756	9,404		7,685		64,941
Rentals & Leases	563,733	14,083		11,168		116,719
Printing & Reproduction	40,763	430		183		6,469
Depreciation	659,800					
Settlement of Claims						
Interest Expense						
Other Operating Expenses	758,349	18,106	-	12,141	-	115,666
Total Administrative Expenses	16,248,925	365,800	-	244,422	-	2,650,937
Other Deductions:						
<i>Other Expenses:</i>						
Loss on Sale of Capital Assets	9,637					
Total Other Expenses	9,637					
<i>Interfund Transfers Out (Note 5.E):</i>						
Membership Fees	358,262					
Excess Benefit Arrangement	112,851					
<i>Interagency Transfers Out (Note 5.F):</i>						
Excess Benefit Arrangement					51,834	
Total Transfers Out	471,113	-	-	-	51,834	
Total Other Deductions	480,750	-	-	-	51,834	
Total Deductions	1,453,416,311	35,274,031	28,656,865	6,961,636	350,254	560,879,184
Net Increase/(Decrease)	(2,015,406,328)	(57,999,697)	27,375	(2,624,597)		
NET ASSETS						
Net Assets Held in Trust For Pension						
Benefits and Other Purposes:						
Beginning of Year	23,479,671,451	762,939,673		217,665,157		
End of Year (Exh. X)	21,464,265,123	704,939,976	27,375	215,040,560	-	

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,	
					2008	2007
\$	\$	\$	\$	\$	\$	\$
1,982,020,343			75,042,783	75,042,783	2,057,063,126	2,002,380,077
74,577,548				-	74,577,548	79,622,156
8,897,722				-	8,897,722	7,913,660
2,065,495,613	-	-	75,042,783	75,042,783	2,140,538,396	2,089,915,893
9,323,991	384,502	355,831	274,113	1,014,446	10,338,437	9,326,040
2,352,666	77,527	78,924	62,636	219,087	2,571,753	2,465,950
3,002,123	39,905	34,209	8,666	82,780	3,084,903	4,172,390
58,026	2,211	2,059	1,603	5,873	63,899	52,036
1,444,938	27,793	25,935	19,620	73,348	1,518,286	1,136,810
474,944	9,643	9,542	9,049	28,234	503,178	476,897
535,786	9,242	9,066	8,704	27,012	562,798	774,272
705,703	13,746	13,482	12,854	40,082	745,785	752,195
47,845	145	141	1,387	1,673	49,518	26,524
659,800				-	659,800	670,623
-				-	-	5,000
-			139,700	139,700	139,700	129,433
904,262	15,940	17,804	1,618,977	1,652,721	2,556,983	2,459,763
19,510,084	580,654	546,993	2,157,309	3,284,956	22,795,040	22,447,933
9,637				-	9,637	5,527
9,637					9,637	5,527
358,262				-	358,262	341,545
112,851				-	112,851	136,543
51,834				-	51,834	58,416
522,947	-	-	-	-	522,947	536,504
532,584	-	-	-	-	532,584	542,031
2,085,538,281	580,654	546,993	77,200,092	78,327,739	2,163,866,020	2,112,905,857
(2,076,003,247)	(968)	95,375	(252,927)	(158,520)	(2,076,161,767)	2,017,734,194
24,460,276,281	1,339,604	1,020,955	1,190,717	3,551,276	24,463,827,557	22,446,093,363
22,384,273,034	1,338,636	1,116,330	937,790	3,392,756	22,387,665,790	24,463,827,557

(Exh. IX)

Notes to the Basic Financial Statements

August 31, 2008

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Notes to the Basic Financial Statements

August 31, 2008

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).

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

On September 1, 2007, the System implemented GASB Statement No. 50, Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27. The implementation requires some additional information including Actuarial Valuation Date, Actuarial Value of Assets, Actuarial Accrued Liability, Unfunded Actuarial Accrued Liability, Funded Ratio, Annual Covered Payroll, and Ratio of Unfunded Actuarial Accrued Liability to Covered Payroll to be included in the notes for all defined benefit plans. This year the above listed information was added to the note disclosure for the Employees Retirement Fund, Law Enforcement and Custodial Officer Supplemental Retirement Fund, and Judicial Retirement Plan Two Funds. This Statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in

doing so, enhances information disclosed in the notes to the financial statements or presented as required supplementary information by pension plans.

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 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, 2008

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, 2008

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).

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- 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.

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The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. 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.

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- 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.D 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

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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. During fiscal year 2008, the System reclassified that portion of the fiscal year 2007 ending investments balance attributable to accrued income to interest and dividends receivable. The amount of accrued income totaled \$119,924,242 and \$4,306,038 in the Pension Trust and Internal Service Funds, respectively.

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, 2008. 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 refund 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, 2008, the State contributed 6.45% of the payroll of members for both the elected class and the employee class. Funding Status and Funding Progress are presented in Figure E.

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 who are recognized as commissioned law enforcement

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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 fiscal year 2008, the State contributed 1.59% of the covered payroll for LECOS members. Funding Status and Funding Progress are presented in Figure E.

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. Funding Status and Funding Progress are presented in Figure E.

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, 2007 and 2008, the State contributed 16.83% of the payroll of members. Funding Status and Funding Progress are presented in Figure E.

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. Participating entities are listed below:

State Agencies	128
Universities	28
Junior and Community Colleges	51
Other Entities	4
Total Participating Entities	211

The principle participating employer is the state of Texas. State agencies and universities comprise 74% of the employees covered by the State Retiree Health Plan. Refer to the List of Participating Reporting Entities in the Statistical Section 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, 2008, there were 80,543 eligible retirees, 23,666 covered spouses, and 7,627 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 2008**

	September 1, 2007 \$
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,	
	2008	2007
	\$	\$
Employer Contributions	417,106,470	438,242,806
Retiree Contributions	109,447,077	108,386,967
Total Contributions	526,553,547	546,629,773
Claims Expenses	558,228,247	574,029,830

The employer's share of the cost of retiree healthcare coverage above the cost charged using a blended rate 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 for the retirees. For FY 2008, the implicit rate subsidy amount was \$35,506,968.

B. Funded Status and Funding Progress

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, 2008
Actuarial Cost Method	Entry Age Normal (Level Percent of Pay)
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Annual Investment Return Assumption (discount rate):	5.50%
Projected Annual Salary Increase	3.50% to 13.5%
Weighted-average at Valuation Date	6.63%
Annual Healthcare Trend Rate	7.9% in FY 2010 to 5.50% in FY 2015
Inflation Assumption Rate	3.50%

The initial healthcare trend rate is 9.10% and the ultimate rate is 5.50%

Figure E shows the System's Schedule of Funding Progress for the funded defined benefit plans as of August 31, 2008. 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. The

Figure E
Schedule of Funding Progress (\$ In Millions)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL) [(3)-(2)]	Funded Ratio [(2)/(3)]	Annual Covered Payroll	Ratio of UAAL to Covered Payroll [(4)/(6)]
Employees Retirement Fund						
Aug. 31, 2008	\$ 23,511.92	\$ 25,403.28	\$ 1,891.36	92.6%	\$ 5,379.53	35.16%
Law Enforcement and Custodial Officer Supplemental Retirement Fund						
Aug 31, 2008	774.51	842.13	67.62	92.0	1,242.12	5.44
Judicial Retirement Plan Two Fund						
Aug. 31, 2008	232.89	239.10	6.21	97.4	66.11	9.39
State Retiree Health Plan						
Aug. 31, 2008	0	20,131	20,131	0.0	9,373	214.8

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required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

C. Retirement Systems Membership

The membership of the retirement plans as of August 31, 2008 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	72,678	6,204	471	117
Terminated Employees Entitled to Benefits	74,094	35	7	120
Current Employees	134,626	33,642	27	518
Total	281,398	39,881	505	755

Note: Estimated based on actuarial valuation as of August 31, 2008.

D. Reserves

The balances of legally required reserves in each funded retirement plan as of August 31, 2008 and 2007 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 trend data for the State Retiree Health Plan is also included.

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, 2008, there were 59 System employees participating in the Texa\$aver 457 Plan. During the fiscal year ended August 31, 2008, System employees deferred \$353,734. The State does not contribute to the plan.

Figure G
Reserves

	ERS	LECOS	JRS II	Totals – August 31,	
				2008	2007
Net Plan Assets Reserved For:	\$	\$	\$	\$	\$
Employee Savings	4,256,243,420	5,275	50,408,047	4,306,656,742	4,104,362,293
State Accumulation	5,012,188,451	390,316,689	100,840,639	5,503,345,779	8,495,916,599
Annuity Reserves	12,195,833,252	314,618,012	63,791,874	12,574,243,138	11,859,997,389
Total Net Plan Assets Reserved	21,464,265,123	704,939,976	215,040,560	22,384,245,659	24,460,276,281
				(Exhibit X)	(Exhibit X)
Funded ratios of each plan, from the actuarial valuation:					
As of August 31, 2008	92.6%	92.0%	97.4%		
As of August 31, 2007	95.6%	98.0%	95.9%		

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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, 2008, there were 121 System employees participating in the TexaSaver 401(k) Plan. During the fiscal year ended August 31, 2008, System employees deferred \$553,426. 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
Disability	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,	
	2008	2007
	\$	\$
Beginning of Fiscal Year Liability	346,957,572	396,092,332
Current-Year Claims and Changes in Estimates	1,220,068,806	1,083,659,637
Claims Payments	(1,190,938,898)	(1,132,794,397)
Balance at Fiscal Year-End	376,087,480	346,957,572

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 four fiscal years.

Notes to the Basic Financial Statements

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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, 2008 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, 2008, the total carrying amount of Cash in Bank and Margin Deposit was \$23,081,779 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)	532,911		528,907
Agency Funds	33,828		33,828
Total Fiduciary Funds (Exh. VIII)	566,739		562,735
Margin Deposit:			
Fiduciary Funds	22,515,040		22,515,040
Total	23,081,779		23,077,775

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, 2008, the balance of Margin Deposit that was exposed to custodial credit risk is 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	-	22,515,040

Investments

As of August 31, 2008, 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	1,239,638,551	106,449,407
U.S. Treasury TIPS	650,433,418	-
U.S. Government Agency Obligations	1,027,234,423	42,187,455
Corporate Obligations	2,618,652,854	140,140,733
Corporate Asset and Mortgage Backed Securities	2,912,610,606	119,040,554
Domestic Equity	9,624,715,978	-
International Equity	3,999,478,941	-
Total	22,072,764,771	407,818,149
<i>Short-Term Investments:</i>		
Investment in Pool Cash	1,214,149	-
Short-Term Investment Funds	105,827,629	74,237,756
Money Market Mutual Funds	39,000,000	319,000,000
Total	146,041,778	393,237,756
Securities Lending Collateral	6,270,564,649	70,014,358

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, 2008, the fair value of these securities are summarized in Figure M.

Notes to the Basic Financial Statements

August 31, 2008

Figure M
Custodial Credit Risk - Investments

Investments	Fair Value
	\$
<i>Fiduciary Funds:</i>	
U.S. Treasury Securities	470,411,502
U.S. Treasury TIPS	40,548,534
U.S. Government Agency Obligations	27,893,340
Corporate Obligations	206,788
Domestic Equity	3,286,753
International Equity	2,658,843
Total	545,005,760
<i>Proprietary Fund:</i>	
U.S. Treasury Securities	29,581,050
U.S. Government Agency Obligations	3,150,057
Total	32,731,107

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, 2008 is summarized in Figure N.

Figure N
Investments Exposed to Foreign Currency Risk

Foreign Currency	International Equity (US\$)
	\$
Fiduciary Funds:	
Australian Dollar	177,111,471
British Pound	700,588,465
Canadian Dollar	39,748,418
Danish Krone	34,877,539
Euro	1,482,799,972
Hong Kong Dollar	167,852,770
Indonesian Rupiah	6,970,112
Japanese Yen	616,239,036
Malaysian Ringgit	1,782,723
Mexican Peso	2,878,488
New Zealand Dollar	2,557,367
Norwegian Krone	54,896,848
Polish Zloty	828,528
Singapore Dollar	52,650,639
Swedish Krona	56,515,245
Swiss Franc	301,817,370
Thai Baht	1,044,159
Total International Equity Exposed to Foreign Currency Risk	3,701,159,150
ADRs and GDRs Denominated in U.S. Dollars and Classified as International Equity	298,319,791
Total International Equity (Exh. X)	3,999,478,941

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, 2008 is summarized in Figure O. The securities were rated and categorized according to Standard & Poor's rating standards.

Figure O
Investment Credit Risk

Investment Type	Rating	Fair Value
		\$
Fiduciary Funds:		
U.S. Government Agency Obligations	AAA	2,885,674,757
	A-1+	20,000,000
	NR	26,323,025
Corporate Obligations	AAA	223,600,350
	AA	371,330,034
	A	443,776,381
	A-1+	5,102,895
	BBB	371,206,699
	BB	458,483,494
	B	721,084,204
	CCC	159,881,724
	CC	2,441,250
	C	5,220,125
	D	2,604,750
	NR	97,239,929
Corporate Asset and Mortgage Backed Securities	AAA	461,321,261
	A	14,314,822
	BBB	24,237,136
	BB	15,106,668
	B	1,938,760
	NR	56,805,475
Miscellaneous - Preferred Stock		
	B	2,093,302
	NR	12,916,213
Total		6,382,703,254

Notes to the Basic Financial Statements

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Figure O
Investment Credit Risk - (concluded)

Investment Type	Rating	Fair Value
Proprietary Fund:		
U.S. Government Agency Obligations	AAA	132,036,354
Corporate Obligations	AAA	9,937,710
	AA	36,772,557
	A	63,399,940
	BBB	16,006,605
	NR	15,965,807
Corporate Asset and Mortgage Backed Securities	AAA	19,998,981
	A	619,082
	BBB+	755,203
Total		295,492,239

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, 2008.

Concentration Risk

Concentration risk is the risk of loss attributable to the magnitude of investment in a single issuer. 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, 2008, 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, 2008, the System's exposure to interest rate risk is summarized in Figure P.

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 102% for domestic securities and 105% for international 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 distributions by the securities' issuers while the securities are on loan. 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, 2008. 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

Figure P
Investment Interest Rate Risk

Investment Type	Fiduciary Fund		Proprietary Fund	
	Fair Value	Modified Duration	Fair Value	Modified Duration
U.S. Treasury Securities	\$ 1,248,613,070	6.04	\$ 106,895,221	6.99
U.S. Treasury TIPS	656,249,770	11.73	-	-
U.S. Government Agency Obligations	3,127,436,987	4.69	129,961,989	2.68
Corporate Obligations	2,966,557,551	5.18	119,845,837	2.21
Corporate Asset and Mortgage Backed Securities	497,839,042	3.98	28,841,007	3.46
Cash and Cash Equivalents	337,962,167	0.01	419,078,101	0.05
Overall	8,834,658,587	5.36	804,622,155	1.70

Notes to the Basic Financial Statements

August 31, 2008

agreement with the custodian limits the total amount of securities that can be lent to 25% of holdings.

The System received net securities lending income totaling \$34,924,011 for the fiscal year ended August 31, 2008. The collateral information as of August 31, 2008 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	1,185,484,839	479,819,733	732,836,955
U.S. Treasury TIPS	638,742,232	41,359,505	615,483,848
U.S. Government Agency Obligations	1,634,911,961	28,451,207	1,641,655,115
Corporate Obligations	377,140,391	210,924	385,935,180
Corporate Asset and Mortgage Backed Securities	15,432,360	-	15,798,140
Domestic Equity	2,744,905,000	3,364,617	2,842,541,403
International Equity	38,052,181	2,709,358	36,314,008
Total	6,634,668,964	555,915,344	6,270,564,649
			Exh. X
<i>Proprietary Fund:</i>			
U.S. Treasury Securities	83,927,925	30,172,671	55,561,544
U.S. Government Agency Obligations	13,170,605	3,213,058	10,246,361
Corporate Obligations	4,107,134	-	4,206,453
Total	101,205,664	33,385,729	70,014,358
			Exh. V

Repurchase Agreements

During the fiscal year 2008, the System did not invest in repurchase agreements. As of August 31, 2008, 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.

As of August 31, 2008 the System had 0.54% of its fixed income portfolio 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, 2008, the outstanding futures contracts are summarized in Figure R.

Figure R
Summary of Outstanding Futures Contracts

	No. of Contracts	Notional Amount
Futures Contracts - Long	662	\$140,501,473
Futures Contracts - Short	1,484	173,470,494
		Fair Value
Margin Deposit - Cash		\$22,515,040
Futures Contracts		697,958
Net Margin Deposit - Cash (Exh. X)		23,212,998

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, 2008.

Notes to the Basic Financial Statements

August 31, 2008

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 operating leases. Current year expenses for these leased assets totaled \$1,077,006. A schedule of future minimum lease rental payments on non-cancelable operating leases as of August 31, 2008 is presented in Figure S.

Figure S
Non-Cancelable Operating Leases

Fiscal Year	Future Minimum Lease Rental Payments
	\$
2009	973,703
2010	551,623
2011	191,415
2012	0
Total Future Minimum Lease Rental Payments	1,716,741

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, 2008 and 2007 is presented in Figure T.

Figure T
Net Assets - Fiduciary Funds

Fund Type	Totals - August 31	
	2008	2007
Defined Benefit Plans (Note A)	\$22,384,273,034	\$24,460,276,281
<i>Defined Contribution Plans</i>		
Administration - Defined Contribution Plans	2,454,966	2,360,559
Administration - State Employees Cafeteria Plan	937,790	1,190,717
Total Defined Contribution Plans and Cafeteria Plan	3,392,756	3,551,276
Total Fiduciary Net Assets Held In Trust for Pension Benefits and Other Purposes	22,387,665,790	24,463,827,557
	(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, 2008.

Figure U
Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
Governmental Activities:	\$	\$
Governmental Funds		4,810
<i>Proprietary Fund:</i>		
Employees Life, Accident and Health Insurance and Benefits Fund	707,804	77,224,914
Total Governmental Activities	707,804	77,229,724
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	111,385,406	34,863,486
Total - Interfund Receivables and Payables	112,093,210	112,093,210

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, 2008.

Figure V
Interfund Transfers

	Transfers In	Transfers Out
<i>Fiduciary Funds:</i>	\$	\$
Pension and Other Employee Benefit Trust Funds	471,113	471,113
Total - Interfund Transfers	471,113	471,113

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).

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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 2,138 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. Subsequent Events

Subsequent to the August 31 fiscal year end, the financial markets have in general experienced a significant decline in value due to the financial and credit crisis initiated by the subprime mortgage meltdown. As of November 13, 2008 the System's investment portfolio, as reported by the System's custodian, had declined 22.49% or \$4.99 billion since August 31. Since the global financial markets are highly dynamic and change in value daily, the value of the System's investment portfolio changes every day. The System's overriding investment philosophy continues to center on proven principles of diversification and the search for long-term value. The broad diversification helps protect the investment portfolio and dampens the day to day fluctuations of the global financial markets. The System's investment philosophy has been successful over the long term and the ERS, LECOS and JRS II trust funds remain in a strong position with funded ratios of 92.6%, 92.0% and 97.4%, respectively as of August 31, 2008.

Required Supplementary Information

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

Year Ended August 31, 2008

	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			Variance with Final Budget Positive (Negative)	Budget			Variance with Final Budget Positive (Negative)	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual		Original	Final	Actual		Original	Final	Actual	
Budgetary Fund Balances - Beginning	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-
Revenues												
Legislative Appropriations Out of the State's General Revenue Fund:												
For Death Benefits	4,339,827	4,339,827	4,339,827	-	2,000,000	2,250,000	2,250,000	-	6,832,022	6,901,496	6,901,496	-
Total Appropriations Revenue	4,339,827	4,339,827	4,339,827	-	2,000,000	2,250,000	2,250,000	-	6,832,022	6,901,496	6,901,496	-
Expenditures												
Current:												
Death Benefits	4,339,827	3,423,317	3,423,317	-	2,000,000	2,250,000	2,250,000	-	6,832,022	6,901,496	6,901,496	-
Total Expenditures	4,339,827	3,423,317	3,423,317	-	2,000,000	2,250,000	2,250,000	-	6,832,022	6,901,496	6,901,496	-
Other Financing Sources (Uses)												
Appropriation Lapse	-	(916,510)	(916,510)	-	-	-	-	-	-	-	-	-
Budgetary Fund Balances - Ending	-	-	-	-	-	-	-	-	-	-	-	-

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)	56,390
Total Fund Balances-Special Revenue Funds-GAAP Basis (Exh. IV)	\$ 56,390

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)
Employees Retirement System (ERS)						
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
2008	23,511,918	25,403,280	1,891,362	92.6	5,379,527	35.2
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)						
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
2008	774,509	842,135	67,626	92.0	1,242,122	5.4
Judicial Retirement System Plan One (JRS I)						
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
2008	0	289,671	289,671	0.0	3,478	8,328.7
Judicial Retirement System Plan Two (JRS II)						
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
2008	232,891	239,098	6,207	97.4	66,110	9.4
State Retiree Health Plan						
2007	0	17,675,000	17,675,000	-	8,836,000	200.0
2008	0	20,131,000	20,131,000	-	9,373,000	214.8

Note A: The Schedule of Funding Progress presents contribution information as of the current valuation date and the five preceding valuation dates. Since this is the second year of application of GASB Statement 43, only one preceding year of information is shown.

Required Supplementary Information

Schedule of Employer Contributions - Defined Benefit Plans

Fiscal Year	Contributions from Employers (\$ millions)	Annual Required Contribution (ARC)	Percentage Contributed	Contributions from Federal Government (\$ millions)	Annual Required Contribution (ARC)	Percentage Contributed
Employees Retirement System (ERS)				Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)		
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		378,236,402	90.3		19,516,223	103.5
2009		510,050,354 (Note A)	N/A		31,139,292 (Note A)	N/A
Judicial Retirement System Plan One (JRS I)				Judicial Retirement System Plan Two (JRS II)		
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	105.1		11,021,954	101.1
2009		25,325,192	N/A		11,126,313 (Note A)	N/A
State Retiree Health Plan (Note B)						
2007	438	1,482	29.6	28.5		
2008	450	1,814	24.8	33.0		
2009		(Note A)	N/A	N/A		

Note A: Calculations based on estimated fiscal year 2009 covered payroll. At the end of fiscal year 2009 the ARC will be recalculated based on actual 2009 covered payroll.

Note B: The Schedule of Employer Contributions presents contribution information as of the current valuation date and the five preceding valuation dates. Since this is the second year of application of GASB Statement 43, only one preceding year of 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, 2008	August 31, 2008	August 31, 2008	August 31, 2008
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	2.8 (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%-13.5%	5.5%-13.5%	3.5%	3.5%
Including Inflation at	3.5%	3.5%	3.5%	3.5%
Cost-of-living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None

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.

Other Supplementary Information - Schedule A-1

Combining Schedule of Net Assets - Agency Funds

August 31, 2008

	Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)	Employee Savings Bond Fund (0901) (U/F 0901)	TexaSaver 401(k) Fund (0946) (U/F 1946)	TexaSaver 401(k) Hold Transmittal (0942) (U/F 0942/8942)	Totals August 31, 2008
ASSETS	\$	\$	\$	\$	\$
Current Assets:					
<i>Cash and Cash Equivalents:</i>					
Cash in Bank			33,828		33,828
Cash in State Treasury		150			150
Total Cash and Cash Equivalents		150	33,828		33,978
Accounts Receivable	14,226				14,226
Total Current Assets	14,226	150	33,828	-	48,204
Total Assets	14,226	150	33,828	-	48,204
LIABILITIES					
Current Liabilities:					
Accounts Payable	14,226	150			14,376
Funds Held For Others			33,828		33,828
Total Current Liabilities	14,226	150	33,828	-	48,204
Total Liabilities	14,226	150	33,828	-	48,204

Other Supplementary Information - Schedule A-2

Combining Schedule of Changes in Assets and Liabilities - Agency Funds

August 31, 2008

	Beginning Balances	Additions	Deductions	Ending Balances
	\$	\$	\$	\$
Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)				
ASSETS				
Cash in State Treasury	-	193,915	193,915	-
Accounts Receivable	18,477	189,664	193,915	14,226
Total Assets	18,477	383,579	387,830	14,226
LIABILITIES				
Accounts Payable	18,477	240,221	244,472	14,226
Total Liabilities	18,477	240,221	244,472	14,226
Employee Savings Bond Fund (0901) (U/F 0901)				
ASSETS				
Cash in State Treasury	150	600	600	150
Total Assets	150	600	600	150
LIABILITIES				
Accounts Payable	150	600	600	150
Vouchers Payable	-	600	600	-
Total Liabilities	150	1,200	1,200	150
TexaSaver 401(k) Trust Fund (0946) (U/F 1946)				
ASSETS				
Cash in Bank	-	139,485,287	139,451,459	33,828
Total Assets	-	139,485,287	139,451,459	33,828
LIABILITIES				
Funds Held For Others	-	139,485,287	139,451,459	33,828
Total Liabilities	-	139,485,287	139,451,459	33,828
TexaSaver 401(k) Hold Transmittal (0942) (U/F 0942 & 8942)				
ASSETS				
Cash in State Treasury	-	42,065	42,065	-
Total Assets	-	42,065	42,065	-
LIABILITIES				
Funds Held For Others	-	42,065	42,065	-
Total Liabilities	-	42,065	42,065	-
Totals - All Agency Funds				
ASSETS				
Cash in Bank	-	139,485,287	139,451,459	33,828
Cash in State Treasury	150	236,580	236,580	150
Accounts Receivable	18,477	189,664	193,915	14,226
Total Assets	18,627	139,911,531	139,881,954	48,204
LIABILITIES				
Accounts Payable	18,627	240,821	245,072	14,376
Vouchers Payable	-	600	600	-
Funds Held For Others	-	139,527,352	139,493,524	33,828
Total Liabilities	18,627	139,768,773	139,739,196	48,204

Other Supplementary Information - Schedule 1

Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Employees Retirement Fund

Year Ended August 31, 2008

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2008
	\$	\$	\$	\$	\$	\$
OPERATING REVENUES						
Contributions to Retirement System:						
Member Contributions	331,953,242					331,953,242
Employer Contributions		341,628,300				341,628,300
Service Contributions from Teacher Retirement System		52,773,854				52,773,854
Membership Fees					463,850	463,850
Penalty Interest		5,086,928				5,086,928
Investment Income:						
Net Depreciation in Fair Value of						
Investments				(2,120,854,782)		(2,120,854,782)
Interest and Dividends				854,278,814		854,278,814
Class Action Settlements				6,607,692		6,607,692
Rental Income					34,000	34,000
Warrants Voided By Statute of Limitations		124,474				124,474
Miscellaneous					8,383	8,383
Total Operating Revenues	331,953,242	399,613,556	-	(1,259,968,276)	506,233	(527,895,245)
OPERATING EXPENSES						
Retirement System Benefits Paid:						
Retirement Benefits			1,351,482,305			1,351,482,305
Death Benefits:						
Active Members		1,301,113				1,301,113
Retirees		130,880	370,451			501,331
Member Contributions Withdrawn	74,504,166					74,504,166
Service Contributions to Teacher Retirement System						
Administrative Expenses		8,897,722				8,897,722
Depreciation Expense					49,683,896	49,683,896
					659,800	659,800
Total Operating Expenses	74,504,166	10,329,715	1,351,852,756	-	50,343,696	1,487,030,333
Income (Loss) Before Non-Operating Expenses and Operating Transfers						
	257,449,076	389,283,841	(1,351,852,756)	(1,259,968,276)	(49,837,463)	(2,014,925,578)
NON-OPERATING REVENUES (EXPENSES)						
Loss on Disposal of Fixed Assets					(9,637)	(9,637)
Income (Loss) Before Operating Transfers	257,449,076	389,283,841	(1,351,852,756)	(1,259,968,276)	(49,847,100)	(2,014,935,215)
OPERATING TRANSFERS IN (OUT)						
Distribution of Interest	198,599,806	(2,420,279,435)	909,138,586	1,312,541,043		-
Interest Paid on Withdrawals	2,254,554			(2,254,554)		-
Establishment of Benefit Reserves	(260,138,419)	(858,484,955)	1,118,623,374			-
Member Savings Reinstated	237	(237)				-
Distribution of Interest for						
Administrative Expenses				(50,318,213)	50,318,213	-
Benefits Waived		5,859	(5,859)			-
Member Accounts-Escheated	(1,663,675)	1,663,675				-
Membership Fees Transferred Out					(358,262)	(358,262)
Excess Benefit Arrangement Transfers					(112,851)	(112,851)
Net Operating Transfers	(60,947,497)	(3,277,095,093)	2,027,756,101	1,259,968,276	49,847,100	(471,113)
Net Income (Loss)	196,501,579	(2,887,811,252)	675,903,345	-	-	(2,015,406,328)
Account Balances - Beginning	4,059,741,841	7,899,999,703	11,519,929,907	-	-	23,479,671,451
Account Balances - Ending	4,256,243,420	5,012,188,451	12,195,833,252	-	-	21,464,265,123

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, 2008

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2008
	\$	\$	\$	\$	\$	\$
OPERATING REVENUES						
State Retirement Contributions		20,191,769				20,191,769
Investment Income:						
Net Depreciation in Fair Value of Investments				(70,265,508)		(70,265,508)
Interest and Dividends				28,299,383		28,299,383
Class Action Settlements				218,913		218,913
Total Operating Revenues	-	20,191,769	-	(41,747,212)	-	(21,555,443)
OPERATING EXPENSES						
Retirement System Benefits Paid:						
Retirement Benefits			34,908,231			34,908,231
Administrative Expenses					1,536,023	1,536,023
Total Operating Expenses	-	-	34,908,231	-	1,536,023	36,444,254
Income (Loss) Before Operating Transfers	-	20,191,769	(34,908,231)	(41,747,212)	(1,536,023)	(57,999,697)
OPERATING TRANSFERS IN (OUT)						
Distribution of Interest		(65,658,695)	22,375,460	43,283,235		-
Establishment of Benefit Reserves		(49,091,659)	49,091,659			-
Distribution of Interest for Administrative Expenses				(1,536,023)	1,536,023	-
Net Operating Transfers	-	(114,750,354)	71,467,119	41,747,212	1,536,023	-
Net Income (Loss)	-	(94,558,585)	36,558,888	-	-	(57,999,697)
Account Balances - Beginning	5,275	484,875,274	278,059,124	-	-	762,939,673
Account Balances - Ending	5,275	390,316,689	314,618,012	-	-	704,939,976

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, 2008

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2008
	\$	\$	\$	\$	\$	\$
OPERATING REVENUES						
Contributions to Retirement System:						
Member Contributions	3,956,699					3,956,699
Employer Contributions		11,138,211				11,138,211
Penalty Interest		7,250				7,250
Investment Income:						
Net Depreciation in Fair Value of						
Investments				(17,695,040)		(17,695,040)
Interest and Dividends				7,136,905		7,136,905
Class Action Settlements				55,129		55,129
Total Operating Revenues	3,956,699	11,145,461	-	(10,503,006)	-	4,599,154
OPERATING EXPENSES						
Retirement System Benefits Paid:						
Retirement Benefits			6,643,832			6,643,832
Member Contributions Withdrawn	73,382					73,382
Administrative Expenses					506,537	506,537
Total Operating Expenses	73,382	-	6,643,832	-	506,537	7,223,751
Income (Loss) Before Operating Transfers	3,883,317	11,145,461	(6,643,832)	(10,503,006)	(506,537)	(2,624,597)
OPERATING TRANSFERS IN (OUT)						
Distribution of Interest	2,285,538	(18,061,659)	4,764,281	11,011,840		-
Interest Paid on Withdrawals	2,297			(2,297)		-
Establishment of Benefit Reserves	(378,282)	(3,284,785)	3,663,067			-
Distribution of Interest for						
Administrative Expenses				(506,537)	506,537	-
Net Operating Transfers	1,909,553	(21,346,444)	8,427,348	10,503,006	506,537	-
Net Income (Loss)	5,792,870	(10,200,983)	1,783,516	-	-	(2,624,597)
Account Balances - Beginning	44,615,177	111,041,622	62,008,358	-	-	217,665,157
Account Balances - Ending	50,408,047	100,840,639	63,791,874	-	-	215,040,560

Other Supplementary Information - Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts

Year Ended August 31, 2008

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
	\$	\$
<u>PERSONNEL SERVICES</u>		
Salaries and Wages	14,831,320	4,359,021
<i>Payroll Related Costs:</i>		
Retirement Contributions	909,131	228,067
Retirement Membership Fees	960	135
Employees Insurance Contributions	1,254,871	206,507
Retirees Insurance Contributions	411,572	77,800
Social Security Contributions	1,073,066	260,604
Unemployment Compensation	19,206	3,641
Total Payroll Related Costs	3,668,805	776,754
Total Personnel Services	18,500,126	5,135,775
<u>PROFESSIONAL FEES AND SERVICES</u>		
Actuarial Services	1,081,198	-
Audit Services	561,768	-
Investment Consulting Fees	-	1,797,926
Investment Advisor Fees	-	18,737,221
Medical Board Member Fees	46,800	-
Architectural Services	265,078	-
Legal Services	396,601	-
Computer Programming Services	1,264,390	219,947
Other Professional Services	297,932	35,679
Total Professional Fees and Services	3,913,767	20,790,773
<u>OTHER SERVICES AND CHARGES</u>		
Travel	94,999	223,620
<i>Materials and Supplies:</i>		
Postage	549,308	-
General Office and Other Supplies	192,293	313
Subscriptions	20,567	6,697
Furniture and Equipment	1,115,071	4,363
Computer Software	248,140	-
Total Materials and Supplies	2,125,379	11,373
<i>Communications and Utilities:</i>		
Electricity, Gas and Water	255,791	-
Telephone and Telegraph	340,318	-
Electronic Communication Services	101,661	3,328,360
Total Communication and Utilities	697,770	3,328,360
<i>Repairs and Maintenance:</i>		
Land and Building	160,643	-
Furniture and Equipment	17,921	-
Computer Software and Equipment	584,455	-
Total Repairs and Maintenance	763,019	-
<i>Rentals and Leases:</i>		
Computer Software and Equipment	815,403	-
Office Equipment	261,603	-
Space	34,066	-
Total Rentals and Leases	1,111,072	-
Printing and Reproduction Services	78,550	-
Depreciation	659,800	-
Interest Expense	139,700	-

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Other Supplementary Information - Schedule 4

Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts (Concluded)

Year Ended August 31, 2008

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
	\$	\$
OTHER SERVICES AND CHARGES (continued)		
Other Operating Expenses/Expenditures:		
Membership Fees	32,046	48,835
Employee Training	191,787	32,163
Insurance - Building and Vehicle	37,488	-
Fees and Other Charges	11,141	4,416
Investment Banking	5,832	6,077,860
Tenure Awards	2,981	-
Witness Fees	850	100
Hazardous Waste Disposal	23,442	-
Temporary Employment Agencies	543,467	30,125
Cleaning Services	92,301	-
Advertising Services	16,024	5,457
Freight/Delivery Services	3,743	-
Purchased Contracted Services	356,076	8,473
Prompt Payment Interest	291	-
SORM Assessment	3,067	385
Third Party Administrator Fee - Cafeteria Plan	1,109,710	-
Debit Card Fees - Cafeteria Plan	492,974	-
Total Other Operating Expenses/Expenditures	2,923,220	6,207,814
Total Other Services and Charges	8,593,509	9,771,167
Total Expenses/Expenditures	31,007,402	35,697,715
Method of Finance:		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	16,248,925	34,094,770
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	365,800	1,170,223
Judicial Retirement System Plan Two Trust Fund (0993)	244,422	262,115
Texasaver 401(k) Trust Fund (0946)	580,654	2,774
Texasaver 457 Trust Fund (0945)	546,993	1,474
State Employees Cafeteria Plan Trust Fund (0943)	2,157,309	1,246
State Retiree Health Plan (3973)	2,650,937	981
Total Fiduciary Funds	22,795,040	35,533,583
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	8,158,372	164,132
Total Proprietary Fund	8,158,372	164,132
Social Security Administration Trust Account (0929)	53,990	-
Total Governmental Funds	53,990	-
Total Method of Finance	31,007,402	35,697,715

Other Supplementary Information - Schedule 5

Professional and Consulting Fees

Year Ended August 31, 2008

NATURE OF SERVICE	TOTALS
	\$
Medical Board	46,800
Investment Consulting	1,797,926
Investment Advisors	18,737,220
Actuarial Services - Insurance	667,053
Actuarial Services - Retirement	414,145
Computer Programming Services	1,484,338
Audit Fees - Financial	87,120
Audit Fees - Insurance Carrier	247,305
Audit Fees - Other	227,343
Educational Services	123,427
Architectural Services	265,078
Legal Services	396,600
Membership Based IS Resource Organization	73,064
Technical Writing Services	41,473
Recruitment Services	29,650
Cafeteria Plan Request for Proposal Review	8,544
Contact Center Assessment	8,240
Employee Assistance Program	4,051
Ergonomic Workstation Evaluation Consulting	4,850
Survey of Organizational Excellence	1,249
Other Professional Services	39,064
Total Professional and Consulting Fees	<u>24,704,540</u>

Method of Finance

State Employees Retirement System (S.E.R.S.) Trust Accounts (0955)	22,721,154
Law Enforcement and Custodial Officer Suppl. Retirement Trust Fund (0977)	678,607
Judicial Retirement Plan Two Trust Fund (0993)	150,724
State Retiree Health Plan (3973)	238,879
Texasaver 401(k) Trust Fund (0946)	39,905
Texasaver 457 Trust Fund (0945)	34,209
State Employees Cafeteria Plan Trust Fund (0943)	8,666
Total Fiduciary Funds	<u>23,872,144</u>
Employees Life, Accident, Health Insurance and Benefits Trust Accounts (0973)	831,376
Total Proprietary Fund	<u>831,376</u>
Social Security Administration Fund (0929)	1,020
Total Governmental Fund	<u>1,020</u>
Total Method of Finance	<u>24,704,540</u>





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 2008

OVERVIEW

The Employees Retirement System of Texas (System) investment portfolio closed the fiscal year with a fair value of \$22.3 billion, and returned -4.58% for the year. The fiscal year-end asset allocation stood at 31% investment grade bonds, 7% high yield bonds, 43% domestic equity, and 17% international equity, 2% global REITs and less than 1% in private equity.

Major accomplishments for the investment program this fiscal year included the expansion of the asset classes. We received Board approval to establish Domestic Equity Mid-Cap portfolio and change the benchmark to S&P1500 beginning September 1, 2008. We also received approval to change the International Equity benchmark to MSCI ACWIexUS also effective September 1, 2008. We signed commitments for three buyout funds in the Private Equity portfolio. Additionally, we conducted a search for our investment plan consultant and issued an RFQ to begin selection of a private real estate consultant. The System continued to invest in the infrastructure and software tools needed to improve and maintain the overall efficiency of the investment program including phase two and three of our new investment accounting software package which will improve the breadth, depth, accuracy and timeliness of reports and data feeds. Lastly, policies and procedures for Socially Constrained Investments were approved by the Board for companies doing business in Sudan and for those doing business with Iran and engagement is ongoing with these companies.

The investment portfolio's total return outperformed the policy benchmark by 93 basis points. Over the longer term, the fund returned 8.28% for the 5 years ending August 31, 2008 slightly besting the policy benchmark of 7.72%.

DOMESTIC EQUITY MARKET

For the fiscal year ending August 31, 2008, the Dow Jones Industrial Average was down 13.58% and with dividends reinvested into the index, the total return was down 11.36%. The broad Standard & Poor's 500 Index of large stocks closed down 12.97%, including dividends, down 11.14%. The NASDAQ Composite Index, dominated by technology stocks, closed down 8.81%. The S&P 400 Midcap Index closed down 5.49% for the fiscal year, and the S&P 600 Smallcap Index closed down 7.25%. The S&P 500/Citigroup Value Index was down 18.23%, underperforming the S&P 500/Citigroup Growth Index, which closed down 7.65%.

The fiscal year began with the best September advance since 1998. During September the Federal Reserve cut its benchmark Federal Funds Rate – one of series of interest rate cuts in response to the “credit crunch” in the U.S. that began during late Fiscal Year 2007. Troubles in the credit and housing markets increased and led to fears that global financial markets were on the verge of collapse. This fear was perhaps greatest during the first quarter of 2008 when the stock market experienced the highest volatility since the late 1920's. Aggressive efforts by the Federal Reserve and the Treasury to inject money into the financial system eased that sense of panic. The Fed's interest rate cuts eventually totaled 3.25%, and the Federal Reserve backed J.P. Morgan Chase & Co.'s deal to acquire Bear Stearns Cos., the fifth largest U.S. investment bank that collapsed in response to the never-before-seen turmoil in the bond markets.

The chairman of the Federal Reserve, Ben Bernanke, said at conference during August that he expected the economy would remain weak for the rest of the year, and probably not recover to its full growth potential until 2009. Many investors now believe that a sustained rebound for stocks may not occur until perhaps the middle of 2009. Home prices may not have hit bottom and banks are still tightening lending standards. And the job market may be in the early stages of a downturn. The unemployment rate for July was the highest in four years, and job losses continued for the seventh straight month.

Consumer Staples was the best performing economic sector for the fiscal year and, along with Energy, one of only two economic sectors with positive returns. Energy and Materials were the top performing sectors for fiscal year 2007 and remain relatively good performers for fiscal year 2008. Financial stocks were the poorest performers during fiscal year 2007 and remain the poorest performing sector for fiscal year 2008 by a wide margin.

INTERNATIONAL EQUITY MARKET

International equity markets fell for the first time in five years due to financial credit concerns and a slowing global economy originating in the U.S. All major markets finished in negative territory in a year that was characterized as volatile and unstable. The Morgan Stanley Capital International EAFE Free index (-14.4%) declined in US dollar terms for the period. All major regions declined including Pacific ex-Japan (-10.3%), Japan (-15.8%), Europe ex-UK (-13.5%) and the United Kingdom (-16.8%) in fiscal 2008, all adjusted to US dollars. Emerging Markets (-10.1%) also declined after a solid five-year run.

Report on Investment Activity

Fiscal Year 2008

Most major currencies strengthened against the dollar with the exception of the Pound that declined -9.7%. The Euro strengthened from the 1.36 USD/EUR level and finished near 1.47 USD/EUR, for a gain of 7.6% for the year. The Pound finished in negative territory declining from 2.02 USD/GBP to finish near 1.82 USD/GBP. The Yen began the year at 115.77 JPY/USD, and ended the year near 108.80, or up 6.4%. The Aussie Dollar also finished at .86 USD/AUD, increasing 4.8%.

FIXED INCOME MARKET

Economy

Over the past 12 months, the fixed income markets have been volatile as a result of the extreme stress in the US financial system in the wake of real estate related problems. The credit markets, essential to spending and growth, became less available and more expensive to both consumer and businesses. Compounding the problem was the surge in energy costs, with oil prices reaching above \$145 per barrel in early July. Higher energy and commodity prices raised serious inflation concerns, further prolonging the economic and market uncertainty. For its part, the Federal Reserve lowered the Fed Funds Rate from 5.25% in September 2007 to 2% by April 2008 to help support the financial system and to address specific financial crises such as the collapse of Bear Stearns in March. In addition to reducing the Fed Funds and Discount rates, the Federal Reserve implemented several creative and unprecedented programs to ensure financial liquidity to the market as it deals with the credit contraction.

The US economy has escaped a recession so far with the help of a tax stimulus package and the trade balance adding nearly 1% to GDP in each quarter. While GDP slowed from 4.8% in Q3 2007 to -0.2% in Q4 2007, it has since rebounded to 3.3% in Q2. Despite the gain in GDP, the labor market has continued to weaken with non-farm payrolls declining from +140k in October 2007 to an average monthly decline of 66k, declining every month in 2008 (a pattern rarely seen outside of recessions). Additionally, the unemployment rate moved higher from a low of 4.4% in March 2007 to 5.8% in August.

Index Performance

The Lehman Brothers Aggregate Index returned 5.86% for the fiscal year. U.S. Treasuries were the best performing sector, returning 8.65%. The Lehman Brothers High Yield 2% Issuer Cap Index returned -0.66% for the year.

Total Return 12 Months Ending August 31, 2008

Lehman Aggregate	5.86%
U. S. Treasuries	8.65%
Government Related	7.04%
Corporates	1.85%
Securitized	5.92%
Lehman High Yield 2% Issuer Cap	-0.66%

Interest Rates

Both interest rates and the yield curve had two different market environments over the past 12 months – pre and post Bear Stearns collapse. From October 2007 to March 2008, interest rates moved lower and the yield curve steeper. Two year Treasury rates moved lower from a high of 4.29% in October 2007 to a low of 1.24% in March 2008 (or 305 basis points lower), while 10 year Treasury rates reached a high of 4.72% and a low of 3.28% (or 144 basis points lower). During that period, the yield curve steepened 161 basis points from 50 basis points to 211 by March. Post Bear Stearns, interest rates started to move higher and the yield curve flatter. Two year yields moved higher from the 1.24% low to a high of 3.11% in June and 10 year rates move from the 3.28% low to 4.27%. The change in rates resulted in the yield curve flattening by 88 basis points.

KEY PORTFOLIO STATISTICS

	2008	2007
Contributions to Pool	\$529,600,000	\$505,000,000
Withdrawals from Pool	(\$1,297,500,000)	(\$1,237,200,000)
Interest & Dividends	\$855,378,922	\$790,605,675
Securities Lending Income	\$34,336,179	\$14,229,269
Net Appreciation (Depreciation) in Fair Value	(\$2,208,815,330)	\$1,939,674,678

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 2008

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 or may not exceed 1.20 times the benchmark weight for the applicable asset class composite, whichever is greater.
- 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)

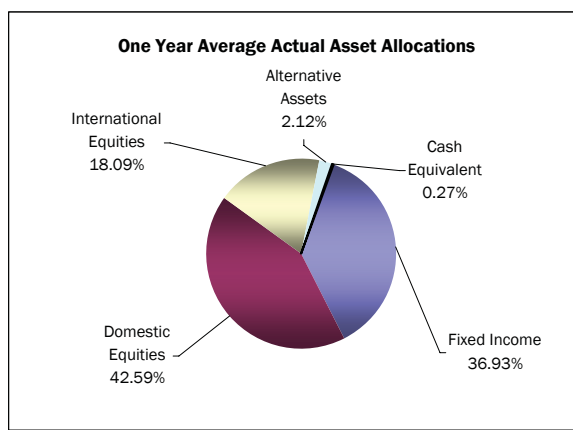
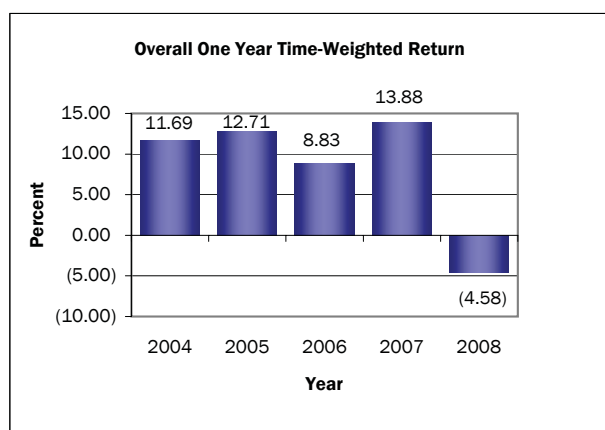
August 31, 2008

Time-Weighted Rates of Return

	Fixed Income Securities		Domestic Equities		International Equities		Cash Equivalent		ERS		CPI
	ERS	Index	ERS	Index	ERS	Index	ERS	Index	Overall		
1 Year											
2004	7.78	6.13	11.25	11.45	21.41	22.64	1.13	1.08	11.69	2.44	
2005	5.21	4.15	14.68	12.56	24.39	23.58	2.54	2.44	12.71	3.59	
2006	2.52	1.71	8.29	8.88	22.39	24.28	4.66	4.34	8.83	3.92	
2007	5.73	5.26	14.98	15.13	20.00	18.71	5.37	5.29	13.88	2.40	
2008	5.25	5.86	(11.59)	(11.14)	(12.99)	(14.41)	4.01	2.99	(4.58)	5.42	
3 Year											
(2006-2008)	4.49	4.26	3.25	3.66	8.52	8.08	4.68	4.20	5.75	4.03	
5 Year											
(2004-2008)	5.28	4.61	7.03	6.92	14.05	13.86	3.52	3.22	8.28	3.68	

Average Asset Allocations

	1-Year		3-Year		5-Year	
	Target	Actual	Target	Actual	Target	Actual
	%	%	%	%	%	%
Fixed Income	38.00	36.93	38.00	36.14	38.60	37.54
Domestic Equities	44.00	42.59	44.00	43.16	43.40	43.63
International Equities	18.00	18.09	18.00	18.06	18.00	18.43
Alternative Assets	-	2.12	-	2.14	-	-
Cash Equivalent	-	0.27	-	0.50	-	0.40
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 Returns for fiscal years 2004, 2005, and 2006 are calculated as follows:

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

Since the beginning of fiscal year 2007, the System implements daily performance calculation. Therefore, the Time-Weighted Rate of Returns for fiscal years 2007, and 2008 are calculated as follows:

$$\frac{\text{Ending Market Value}}{\text{Beginning Market Value} + \text{Net Cash Flows}}$$

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, 2008

Investment Advisory Fees				Domestic Equity Commissions			
Assets Under Advisory				Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
	Management	Fees	Basis Points				
Fixed Income Advisors	\$ 1,588,116,577	\$ 4,085,854	25.73	BancAmerica Securities, Inc.	2,807,969	\$ 56,159	0.020
Domestic Equity Advisors	2,390,778,627	5,023,828	21.01	Bear Sterns	7,296,780	77,738	0.011
International Equity Advisors	2,648,554,024	9,627,538	36.35	Bloomberg Tradebook, LLC (B-TRADE)	3,140,025	102,484	0.033
Total	6,627,449,228	18,737,220	28.27	BMO Capital Markets	1,655,380	49,661	0.030
				Citigroup Global Markets, Inc.	8,978,082	177,038	0.020
				Credit Suisse First Boston	26,224,181	401,075	0.015
				Fox-Pitt Kelton Cochran Caronia Waller	1,505,800	45,174	0.030
				Goldman Sachs & Company	10,802,808	142,320	0.013
				Green Street Advisors, Inc.	1,071,075	53,554	0.050
				Int'l Strategy & Investments Group, Inc.	5,398,132	107,963	0.020
				J.P. Morgan Securities, Inc.	12,601,837	251,717	0.020
				Jefferies & Company, Inc.	6,888,768	152,120	0.022
				Keefe, Bruyette, & Woods, Inc.	437,000	13,110	0.030
				Leerink Swann & Company, Inc.	1,394,991	27,900	0.020
				Lehman Brothers	15,719,297	314,166	0.020
				Liquidnet, Inc.	268,200	5,063	0.019
				Merrill Lynch & Co., Inc.	23,710,907	236,897	0.010
				Morgan Stanley Dean Witter & Co.	10,933,055	109,513	0.010
				Raymond James and Associates	1,439,206	43,176	0.030
				Robert Baird Securities, Inc.	6,333,557	126,871	0.020
				Sandler O'Neil & Partner, L.P.	2,055,962	48,922	0.024
				Sanford C. Bernstein & Co.	9,021,372	180,427	0.020
				SG Cowen Securities Corp.	2,071,003	41,420	0.020
				Stifel, Nicolas, & Company, Inc.	6,659,434	109,122	0.016
				Thomas Weisel Partners	1,713,321	33,543	0.020
				UBS	10,340,751	206,615	0.020
				Weeden & Company	1,861,396	37,228	0.020
				Total	182,330,289	3,150,976	0.017

Other Investment Service Fees	
Custodian Fees	\$ 82,897
Security Lending Agent Fees	6,033,672
Investment Consultant Fees	1,797,926
Total	7,914,495

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's investment staff is directed toward the payment of budgeted items. Directed commissions totaled \$209,687 during fiscal year 2008.	

International Equity Commissions

Brokerage Firm	No. of Shares Traded	Commission per		
		Principal	Commissions	Principal %
Credit Agricole Cheuvreus N.A., Inc.	9,209,000	118,458,054	\$ 181,328	0.153
Citigroup Global Markets, Inc.	59,626,942	309,146,711	301,264	0.097
Credit Lyonnais Securities (USA), Inc.	11,419,866	112,529,641	228,155	0.203
Credit Suisse First Boston	18,723,098	393,704,874	371,003	0.094
Dresdner Kleinwort Wasserstein Sec., LLC	7,533,043	204,497,549	118,308	0.058
Fox-Pitt Kelton Cochran Caronia Waller	7,605,200	35,222,017	62,372	0.177
Green Street Advisors, Inc.	135,000	2,699,262	6,369	0.236
Helvea, Inc.	1,134,500	27,335,892	54,672	0.200
J.P. Morgan Securities, Inc.	22,255,173	165,003,294	180,938	0.110
Keefe, Bruyette, & Woods, Inc.	3,434,800	60,085,786	104,789	0.174
Lehman Brothers	15,061,445	240,153,561	229,985	0.096
Macquarie Securities (USA), Inc.	17,654,463	92,440,242	180,974	0.196
Merrill Lynch & Co., Inc.	15,208,321	322,952,777	360,111	0.112
Mitsubishi UFJ Securities (USA), Inc.	2,696,264	40,918,842	40,919	0.100
Mizuho Securities USA, Inc.	1,766,200	38,998,619	77,997	0.200
Morgan Stanley Dean Witter & Co.	869,000	9,291,979	13,938	0.150
Nomura Securities Co. Ltd.	12,488,774	101,571,860	209,404	0.206
UBS	19,400,793	175,187,062	212,032	0.121
Total	226,221,882	2,450,198,022	2,934,558	0.120

Basis of Presentation: Bloomberg's Trading System and System's Subsidiary Records.

List of Largest Assets Held

August 31, 2008

Ten Largest Stock Holdings

# of Shares	Description	Fair Value
		\$
3,985,943	Exxon Mobil Corporation	318,915,299
6,556,900	General Electric Company	184,248,890
6,547,000	Microsoft Corporation	178,667,630
2,400,000	Proctor & Gamble Company	167,448,000
2,329,900	Johnson & Johnson Company	164,094,857
1,641,800	Chevron Corporation	141,720,176
4,096,700	AT&T, Inc.	131,053,433
981,600	International Business Machines Corporation	119,490,168
4,721,400	Cisco Systems, Inc.	113,549,670
1,828,000	Wal-Mart Stores, Inc.	107,979,960

Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
		\$
\$ 200,000,000	U.S. Treasury Note Floating TIPS due on 4/15/2029, Rating AAA	341,062,696
184,500,000	U.S. Treasury Bond 7.5% due on 11/15/2016, Rating AAA	233,262,797
121,000,000	U.S. Treasury Bond 7.125% due on 2/15/2023, Rating AAA	156,931,313
100,000,000	U.S. Treasury Note Variable due on 1/15/2010, Rating AAA	136,611,284
84,000,000	U.S. Treasury Bond 8.125% due on 8/15/2021, Rating AAA	116,116,896
100,000,000	U.S. Treasury Note 2.125% due on 04/30/2010, Rating AAA	99,906,200
72,500,000	U.S. Treasury Bond 8.875% due on 8/15/2017, Rating AAA	99,874,405
85,000,000	U.S. Treasury Note 3.375% due on 07/31/2013, Rating AAA	86,162,120
50,000,000	U.S. Treasury Bond 3.625% TIPS due on 4/15/2028, Rating AAA	83,275,304
77,000,000	U.S. Treasury Note 4.875% due on 06/30/2012, Rating AAA	82,588,506

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: System's Subsidiary Records in accordance with the CFA Institute Standards.

Investment Summary at Fair Value

August 31, 2008

Type of Investment	Pooled Funds (Note A)			Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fair Value	% Total
	\$	\$	\$	\$	
Long-Term Fixed Securities:					
U.S. Treasury Bonds	1,814,804,578	60,125,835	15,141,556	1,890,071,969	8.49777%
Other Government Securities	986,327,380	32,677,765	8,229,278	1,027,234,423	4.61845%
Mortgage Pass-Thru Securities	2,250,009,317	74,544,495	18,772,622	2,343,326,434	10.53560%
Collateralized Mortgage Obligations	44,190,854	1,464,076	368,700	46,023,630	0.20692%
Asset Backed Securities	120,289,694	3,985,288	1,003,619	125,278,601	0.56325%
Commercial Mortgage Backed Securities	382,133,305	12,660,363	3,188,273	397,981,941	1.78933%
Corporate Bonds	2,514,371,551	83,303,013	20,978,290	2,618,652,854	11.77347%
Total Long-Term Fixed Securities	8,112,126,679	268,760,835	67,682,338	8,448,569,852	37.98479%
Equities:					
Domestic:					
Public Equity	8,922,015,398	295,593,055	74,439,526	9,292,047,979	41.77708%
Private Equity	75,375,668	2,497,252	628,886	78,501,806	0.35294%
REIT	244,044,660	8,085,382	2,036,151	254,166,193	1.14273%
Total Domestic Equity	9,241,435,726	306,175,689	77,104,563	9,624,715,978	43.27275%
International:					
Public Equity	3,782,613,943	125,320,834	31,559,684	3,939,494,461	17.71198%
Private Equity	4,510,692	149,443	37,634	4,697,769	0.02112%
REIT	53,085,056	1,758,748	442,907	55,286,711	0.24857%
Total International Equity	3,840,209,691	127,229,025	32,040,225	3,999,478,941	17.98167%
Total Equities	13,081,645,417	433,404,714	109,144,788	13,624,194,919	61.25442%
Cash Equivalents:					
Margin Deposit	21,618,435	716,235	180,370	22,515,040	0.10123%
Changes in Futures Contracts	670,163	22,203	5,592	697,958	0.00314%
Net Margin Deposit	22,288,598	738,438	185,962	23,212,998	0.10437%
Cash in State Treasury-Investment Pool	1,165,798	38,624	9,727	1,214,149	0.00546%
Short Term Investment Fund	101,690,500	3,400,870	696,921	105,788,291	0.47562%
Money Market Mutual Funds	37,446,922	1,240,644	312,433	38,999,999	0.17534%
Total Cash Equivalents	162,591,818	5,418,576	1,205,043	169,215,437	0.76079%
Total Before Securities Lending Collateral (Notes B & C)	21,356,363,914	707,584,125	178,032,169	22,241,980,208	100.00000%
Securities Lending Collateral	6,020,854,470	199,475,440	50,234,739	6,270,564,649	
Total Pension Investment Pool Trust Fund (0888)	27,377,218,384	907,059,565	228,266,908	28,512,544,857	
Cash Equivalents:					
Cash in State Treasury-Pension Funds	25,427,664	922,399	584,757		
Total Investments	27,402,646,048	907,981,964	228,851,665		

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	21,356,363,914	707,584,125	178,032,169	22,241,980,208
Unsettled Sales-Investment Receivables	64,661,471	2,141,465	538,733	67,341,669
Unsettled Purchases-Investment Payables	(120,985,927)	(4,006,824)	(1,008,006)	(126,000,757)
Investment Income Receivable	124,091,621	4,111,433	1,034,460	129,237,514
Cash in State Treasury-Investment Pool	(1,165,798)	(38,624)	(9,727)	(1,214,149)
Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards	21,422,965,281	709,791,575	178,587,629	22,311,344,485

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 in accordance with the CFA Institute Standards.





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 6, 2008

Board of Trustees
Employees Retirement System of Texas

ACTUARIAL CERTIFICATION FOR FUNDED PROGRAMS

Buck Consultants (Buck) performed actuarial valuations of the Employees Retirement Fund (ERF) of the Employees Retirement System of Texas (ERS) including a separate valuation of the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) of the ERS, and the Judicial Retirement System of Texas Plan Two (JRSII). No actuarial valuation was performed for the Judicial Retirement System of Texas Plan One because it is not advance funded.

This letter with attachments represents Buck's certification of the funding status as required for the financial report for the fiscal year ended August 31, 2008 for the Employees Retirement System and the Judicial Retirement System of Texas Plan Two. Buck prepared the Actuarial Balance Sheets and the supporting schedules in the Actuarial Section. Buck prepared the Schedules of Funding Progress and the Schedules of Employer Contributions of the Required Supplementary Information and the Notes to the Required Supplementary Information presented in the Financial Section of this report. Buck also prepared the Retired Members by Type of Benefit schedule 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 2002 to 2007. The ERS Board of Trustees adopted the assumptions on May 13, 2008. 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 current contribution rates may not amortize the unfunded accrued liabilities.

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, will remain level as a percent of payroll.

The contribution levels of the ERF are set by legislation. 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. To the extent that an unfunded accrued liability exists, it is amortized as a level percent of projected payroll.

The actuarial valuation is completed annually with the most recent valuation conducted as of August 31, 2008. There have not been any changes in the actuarial cost method, actuarial procedures, or plan provisions from the prior valuation. The assumptions have changed since the prior valuation to reflect recent plan experience. The current actuarial assumptions are outlined in the "Summary of Actuarial Methods and Assumptions".

The August 31, 2008 actuarial valuation shows that there is an unfunded accrued liability of \$1,891.4 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 92.6% as of August 31, 2008. The valuation shows that the total normal cost is 13.37% of payroll. Total contributions are 12.45% of payroll. The total contribution rate fails to cover the normal cost by 0.92% of payroll and is not sufficient to ever amortize the unfunded accrued liability. Therefore, 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 as a level percentage of covered payroll is 15.45% of payroll. In addition, as of August 31, 2008, the market value of assets was \$2,048 million less than the actuarial value. Unless the market value earns more than 8% over the next few years (on the average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio will likely fall.

Because the amortization period exceeds 31 years, Texas Government Code Section 811.006 would preclude 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 would preclude the Board of Trustees from authorizing any supplemental payments under Texas Government Code Section 814.603, and it would preclude any increases in annuity benefits unless the total contribution is increased 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, will remain level as a percent of payroll.

The contribution levels of the LECOSRF are set by legislation and the current State contribution rate is 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. To the extent that an unfunded accrued liability exists, it is amortized as a level percent of projected payroll.

The actuarial valuation is completed annually with the most recent valuation conducted as of August 31, 2008. There have not been any changes in the actuarial cost method, actuarial procedures, or plan provisions from the prior valuation. The assumptions have changed since the prior valuation to reflect recent plan experience. The current actuarial assumptions are outlined in the “Summary of Actuarial Methods and Assumptions”.

The August 31, 2008 actuarial valuation shows that the total normal cost is 2.18% of payroll and the unfunded accrued liability is \$67.6 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 92.0% as of August 31, 2008. Total contributions are 1.59% of payroll. The total contribution rate fails to cover the normal cost by 0.59% of payroll and is not sufficient to ever amortize the unfunded accrued liability. Therefore, 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 as a level percentage of covered payroll is 2.51% of payroll. In addition, as of August 31, 2008, the market value of assets was \$70 million less than the actuarial value. Unless the market value earns more than 8% over the next few years, (on the average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio will likely fall.

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, will remain level as a percent of payroll.


The contribution levels of the JRSII are set by legislation. Members who are accruing benefits contribute 6% of pay and the State contribution rate was 16.83% of payroll as of the August 31, 2008 valuation. 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. To the extent that an unfunded accrued liability exists, it is amortized as a level percent of projected payroll.

The actuarial valuation is completed annually with the most recent valuation conducted as of August 31, 2008. There have not been any changes in the actuarial cost method, actuarial procedures, or plan provisions from the prior valuation. The assumptions have changed since the prior valuation to reflect recent plan experience. The current actuarial assumptions are outlined in the “Summary of Actuarial Methods and Assumptions”.

The valuation shows that the total normal cost is 19.26% of payroll and the unfunded accrued liability is \$6.2 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 97.4% as of August 31, 2008. State contributions of 16.83% of payroll and member contributions of 6% of pay were assumed to be available to finance the liabilities of the JRSII. The amortization period is 2.8 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. However, as of August 31, 2008, the market value of assets was \$18 million less than the actuarial value. Unless the market value earns more than 8% over the next few years (on the average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio may decrease.

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, and we are available to answer questions about it.

Respectfully Submitted,



Richard A. Mackesey, FSA, EA, MAAA
Principal, Consulting Actuary



R. Ryan Falls, FSA, EA, MAAA
Director, Retirement Consulting

Actuarial Balance Sheet – Employees Retirement Fund

August 31, 2008 (With Comparative Totals at August 31, 2007)

ACTUARIAL BALANCE SHEET	August 31, 2008	August 31, 2007
Assets:		
Actuarial Value Assets	\$ 23,511,918,382	\$ 22,938,947,005
Present Value of Future Normal Cost		
Member	2,125,696,221	2,505,149,964
Employer	2,611,063,524	2,392,418,216
Total	<u>4,736,759,745</u>	<u>4,897,568,180</u>
Total	\$ 28,248,678,127	\$ 27,836,515,185
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	\$ 15,672,738,915	\$ 14,898,320,660
- disability	289,151,759	296,665,250
- death before retirement	246,304,171	300,330,812
- termination	749,322,181	989,007,717
- total	<u>16,957,517,026</u>	<u>16,484,324,439</u>
Inactive Members	986,689,409	880,479,319
Annuitants	<u>12,195,833,252</u>	<u>11,519,929,907</u>
Total	\$ 30,140,039,687	\$ 28,884,733,665
Unfunded Accrued Liability (UAL)	\$ 1,891,361,560	\$ 1,048,218,480
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	12.45%	12.45%
Normal Cost		
- dollars	\$ 719,242,802	\$ 629,396,032
- percent of payroll	13.37%	11.98%
Contribution Available to Amortize UAL	(0.92%)	0.47%
Accrued Liability	\$ 25,403,279,942	\$ 23,987,165,485
Amortization Period in Years	Infinite	Infinite
Funded Ratio	92.6%	95.6%
Valuation Payroll	\$ 5,379,527,321	\$ 5,253,723,135
Active Members	134,626	132,497

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

August 31, 2008 (With Comparative Totals at August 31, 2007)

ACTUARIAL BALANCE SHEET	August 31, 2008	August 31, 2007
Assets:		
Actuarial Value Assets	\$ 774,508,817	\$ 747,765,351
Present Value of Future Normal Cost	179,608,207	169,247,898
Total	<u>\$ 954,117,024</u>	<u>\$ 917,013,249</u>
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	\$ 687,782,857	\$ 631,050,257
- occupational disability	13,123,893	13,118,860
- death benefit plan	4,766,266	8,593,442
- total	<u>705,673,016</u>	<u>652,762,559</u>
Vested Inactive Members	1,451,911	1,091,884
Annuitants	<u>314,618,012</u>	<u>278,059,124</u>
Total	<u>\$ 1,021,742,939</u>	<u>\$ 931,913,567</u>
Unfunded Accrued Liability (UAL)	\$ 67,625,915	\$ 14,900,318
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate (current biennium)	1.59%	1.59%
Normal Cost		
- dollars	\$ 27,078,251	\$ 20,956,616
- percent of payroll	2.18%	1.54%
Contribution Available to Amortize UAL	(0.59%)	0.05%
Accrued Liability	\$ 842,134,732	\$ 762,665,669
Amortization Period in Years	Infinite	49.0
Funded Ratio	92.0%	98.0%
Valuation Payroll	\$ 1,242,121,605	\$ 1,360,819,229
Active Members	33,642	36,413

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

August 31, 2008 (With Comparative Totals at August 31, 2007)

ACTUARIAL BALANCE SHEET	August 31, 2008	August 31, 2007
Assets:		
Actuarial Value Assets	\$ 232,890,749	\$ 211,932,547
Present Value of Future Normal Cost		
Member	22,923,899	25,511,556
Employer	48,905,376	61,350,501
Total	<u>71,829,275</u>	<u>86,862,057</u>
Total	<u>\$ 304,720,024</u>	<u>\$ 298,794,604</u>
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	\$ 209,322,022	\$ 213,004,039
- disability	5,875,732	6,028,663
- death before retirement	9,856,794	7,146,757
- termination	12,488,558	10,467,166
- total	<u>237,543,106</u>	<u>236,646,625</u>
Inactive Members	9,592,403	9,091,415
Annuitants	<u>63,791,874</u>	<u>62,008,358</u>
Total	<u>\$ 310,927,383</u>	<u>\$ 307,746,398</u>
Unfunded Accrued Liability (UAL)	\$ 6,207,359	\$ 8,951,794
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	22.82%	22.81%
Normal Cost		
- dollars	\$ 12,732,786	\$ 13,467,484
- percent of payroll	19.26%	20.83%
Contribution Available to Amortize UAL	3.56%	1.98%
Accrued Liability	\$ 239,098,108	\$ 220,884,341
Amortization Period in Years	2.8	8.3
Funded Ratio	97.4%	95.9%
Valuation Payroll	\$ 66,110,000	\$ 64,654,270
Active Members	518	515

Summary of Actuarial Methods and Assumptions - Pension Plans

In May 2008, 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 2002 to 2007.

The System relies on the services of qualified actuaries to perform periodic valuations of the assets and liabilities of the pension funds. Buck Consultants has been the pension actuary for the System since May 2006.

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
Investment Rate of Return: (Same for all classes)	8% per year, compounded annually.		
Administrative Expenses: (As a percentage of payroll per year, compounded annually)	ERS Fund: 0.25% LECOS Fund: 0.10%	0.25%	0.50%
Salary Increase:	<ul style="list-style-type: none"> Include 3.5% annual increase for inflation plus increases for merit, promotion and longevity. See Table 1 below for rates of salary increase for sample ages. 	<ul style="list-style-type: none"> 3.5% annually with no increase for merit, promotion, and longevity. No salary increase for legislators. 	<ul style="list-style-type: none"> 3.5% annually with no increase for merit, promotion, and longevity.
Payroll Growth: (Same for all classes)	3.5% per year, compounded annually.		
Cost-of-Living Increase:	N/A	3.5% 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%	4.30%				10.0%	6.0%	4.0%	3.2%	2.0%
30	5.90	5.25	4.75	3.00	2.50%	2.00%		10.0	6.0	4.0	3.2	2.0
40	4.90	4.75	4.00	3.00	2.50	1.90	1.80%	10.0	6.0	4.0	3.2	2.0
50	3.90	3.70	3.20	2.70	2.20	1.70	1.60	10.0	6.0	4.0	3.2	2.0
60	2.90	2.70	2.30	2.00	1.60	1.40	1.30	10.0	6.0	4.0	3.2	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	15	20+	0	5	10	15+		
	20	50.0%	0.0%	0.0%	0.0%	0.0%	29.0%	0.0%	0.0%		
30	25.0	10.0	7.0	0.0	0.0	21.0	11.0	9.0	0.0		
40	22.0	8.0	5.0	2.0	2.0	18.0	7.0	4.0	3.0		
50	18.0	7.0	3.0	2.0	1.0	15.0	5.0	3.0	2.0		
60	16.0	0.0	0.0	0.0	0.0	16.0	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	75	65	60	0	90	75	75	0
35-44	75	60	50	35	90	75	70	0
45-54	70	50	40	30	80	50	50	0
55+	55	40	30	15	75	0	0	0

Summary of Actuarial Methods and Assumptions

Table 4
Demographic Assumption –
Mortality Rates for Active Members (Notes C & D)

Age	Females	Males
20	0.0289%	0.0530%
30	0.0397	0.0821
40	0.0825	0.1156
50	0.1734	0.2872
60	0.5832	0.8986
65	1.0764	1.6239

Note C: It is assumed that 2.6% of male Employee Class (Non-CPO/CO) deaths and 0.4% of female Employee Class (Non-CPO/CO) deaths are occupational. Similarly, it is assumed that 1.7% of male Employee Class (CPO/CO) deaths and 0.3% of female Employee Class (CPO/CO) deaths are occupational. It is also assumed that there are no occupational deaths of members in the Elected and Judicial Classes.

Note D: The base rates indicated above are based on the 1994 Group Annuity Mortality Table with male ages set forward one year and female ages set forward two years. Additionally, generational mortality improvements are projected from the year 2000 based on Scale AA.

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

Age	Females	Males
20	0.0289%	0.0530%
30	0.0397	0.0821
40	0.0825	0.1156
50	0.1734	0.2872
60	0.5832	0.8986
65	1.0764	1.6239

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

Age	Females	Males
20	2.63%	4.83%
30	2.63	4.83
40	2.22	3.02
50	2.16	3.05
60	2.81	4.39
65	3.15	5.55

Note E: The base rates indicated above are based on the 1994 Group Annuity Mortality Table with male ages set forward one year and female ages set forward two years. Additionally, generational mortality improvements are projected from the year 2000 based on Scale AA.

Note F: The rates indicated above are based on the Pension Benefit Guarantee Corporation (PBGC) Disabled Mortality Tables 2-M and 2-F with male and female ages set back seven years.

Table 7
Demographic Assumption –
Disability Retirement Rates (Note G)

Age	Employee Class (Non-CPO/CO)		Employee Class (CPO/CO)
	Females	Males	Females & Males
20	0.100%	0.100%	0.0100%
30	0.030	0.061	0.0206
40	0.199	0.154	0.1302
50	0.460	0.330	0.3662
60	0.500	0.500	0.2700
65	0.600	0.600	0.2600

Note G: It is assumed that 99% of Employee Class (Non-CPO/CO) disability retirements are non-occupational and 1% of Employee Class (Non-CPO/CO) disability retirements are occupational. Similarly, it is assumed that 95% of Employee Class (CPO/CO) disability retirements are non-occupational, 4% of Employee Class (CPO/CO) disability retirements are non-total occupational, and 1% of Employee Class (CPO/CO) disability retirements are total occupational. It is also assumed that there are no occupational disability retirements in the Elected and Judicial Classes.

Summary of Actuarial Methods and Assumptions

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

	Option Selection Percentage (Note H)			Beneficiary Characteristics
	Standard	Option 1	Option 4	
Male	50%	40%	10%	Member is three years older than female beneficiary.
Female	75	20	5	Member is same age as male beneficiary.

Note H: 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 I)**

Age	Male						Female					
	5	10	15	20	25	30	5	10	15	20	25	30
50						40						45
55					40	35					60	40
60	10	35	35	50	30	35	10	35	50	60	40	40
65	20	40	40	60	60	60	20	40	45	60	60	60
70	100	100	100	100	100	100	100	100	100	100	100	100

Age	Years of Service - Members in the Employee class (CPO/CO) Male and Female							Elected Class (Note J)		Judicial Class (Note J)	
	5	10	15	20	25	30	Age	Rate	Age	Rate	
	50	0%	0%	0%	45%	45%	45%	50-64	10%	50-69	20%
55	0	20	20	35	35	35	65-74	20	70-74	25	
60	4	12	15	35	35	35	75+	100	75+	100	
65	15	50	50	65	65	65					
70	100	100	100	100	100	100					

Note I: No service retirements where no rates are shown.

Note J: 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 Death Benefit Plan**

	Option Selection Percentage (Note K)		Beneficiary Characteristics
	Option 1	Option 4	
Male	75%	25%	Member is three years older than female beneficiary.
Female	50	50	Member is same age as male beneficiary.

Note K: 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
		\$	\$	%
Employees Retirement Fund:				
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
2008	134,626	5,278,395,514	39,468	3.6
Law Enforcement and Custodial Officer Supplemental Retirement Fund:				
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
2008	33,642	1,271,120,340	37,021	5.6
Judicial Retirement Plan Two Fund:				
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
2008	518	66,180,701	127,625	1.7

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 Annual Benefits	Average Annual Benefit
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits		
		\$	\$	\$	\$	\$	\$	%	\$	
Employees Retirement Fund										
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
2008	4,560	87,588,408	2,033	31,548,984	544(A)	9,960,320	72,678	1,314,069,192	5.3	18,081
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
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
2008	637	4,446,372	141	1,071,480	40(B)	(130,654)	6,204	35,177,112	10.2	5,670
Judicial Retirement Plan Two Fund:										
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
2008	6	292,899	2	129,975	2 (C)	129,975	117	6,710,789	4.6	57,357

Note A: Total headcount reduced by an additional 848 as a result of the change in data structure to consolidate multiple beneficiaries and QDROs into one benefit.

Note B: Total headcount reduced by an additional 137 as a result of the change in data structure to consolidate multiple beneficiaries and QDROs into one benefit.

Note C: Total headcount reduced by an additional 5 as a result of the change in data structure to consolidate multiple beneficiaries into one benefit.

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)		%	%	%
	\$	\$	\$	\$	%	%	%
Employees Retirement Fund:							
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
2008	4,256,243,420	12,195,833,252	8,951,203,270	23,511,918,382	100	100	78.9
Law Enforcement And Custodial Officer Supplemental Retirement Fund:							
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	451,516,799	720,306,864	-	100	102.6
2007	-	278,059,124	484,606,545	747,765,351	-	100	96.9
2008	-	314,618,012	527,516,720	774,508,817	-	100	87.2
Judicial Retirement Plan Two Fund:							
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
2008	50,408,044	63,791,874	124,898,190	232,890,749	100	100	95.0

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>	Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)					
	ERS		LECOS		JRS II	
	2008	2007	2008	2007	2008	2007
<u>Contribution Income and Interest on Unfunded Actuarial Accrued Liability</u> If contributions are received in excess of normal cost, there is a decrease. If less, an increase.	59.9	65.6	(0.4)	19.1	(0.7)	(0.4)
<u>Components of (Gain)/Loss</u>						
<u>Investment Income</u> If there is greater investment income than assumed, there is a gain. If less income, a loss.	511.9	(135.2)	17.4	(3.8)	4.5	(1.4)
<u>Active Member Demographics</u> Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment	183.3	125.5	11.0	3.1	(0.3)	0.3
<u>Pay Increases</u> If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	(413.9)	35.3	(37.0)	5.6	(6.6)	(3.5)
<u>Death After Retirement</u> If retirees live longer than assumed, there is a loss. If not as long, a gain.	(7.9)	(16.1)	(0.6)	(1.0)	0.5	0.4
<u>Other</u> Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	34.0	13.5	2.9	1.0	(0.2)	0.6
Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience	367.3	88.6	(6.7)	24.0	(2.8)	(4.0)
<u>Non-Recurring Items</u> Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, etc.	475.8	(144.9)	59.4	2.8	0.1	0.5
Composite Increase/(Decrease) During Year	843.1	(56.3)	52.7	26.8	(2.7)	(3.5)

Effect of Changes in Plan Provisions and Actuarial Assumptions

Following is a summary of key results of the August 31, 2008 actuarial valuation under both the old and new plan provisions and actuarial assumptions.

Key Result	ERS		LECOS		JRS II	
	After Changes	Before Changes	After Changes	Before Changes	After Changes	Before Changes
Normal Cost						
Dollars	\$719.2	\$676.2	\$27.1	\$20.9	\$12.7	\$13.6
Percent of Payroll	13.37%	12.57%	2.18%	1.68%	19.26%	20.51%
Actuarial Accrued Liability	\$25,403.3	\$24,927.5	\$842.1	\$782.7	\$239.1	\$239.0
Unfunded/(Overfunded)						
Actuarial Accrued Liability	\$1,891.4	\$1,415.6	\$67.6	\$8.2	\$6.2	\$6.1
Funded Ratio	92.6%	94.3%	92.0%	98.9%	97.4%	97.4%
Amortization Period in Years	Infinite	Infinite	Infinite	Infinite	2.8	4.4



Section I - Certification of GASB No. 43 Actuarial Valuation

At the request of the Employees Retirement System of Texas (ERS), we have performed an actuarial valuation of the Other Post-Employment Benefits provided under the ERS Group Benefits Program (GBP) for the twelve-month period ending August 31, 2008. 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, 2008 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 VII of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section VIII.

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.

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

Philip S. Dial, 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, 2008		
	(\$ millions)	As a % of Payroll
Number of Members (actual count, not in millions)		
Actives	222,660	
Deferred Vesteds	10,960	
Retirees and Nominees	80,543	
Total Number of Members	314,163	
Payroll of Active Members for FY 2008	\$9,373	
Actuarial Present Value of Total Projected Benefits		
Actives	\$21,828	
Deferred Vesteds	1,072	
Retirees and Nominees	6,816	
Total	\$29,716	317.0%
Actuarial Accrued Liability		
Actives	\$12,243	
Deferred Vesteds	1,072	
Retirees and Nominees	6,816	
Total	\$20,131	214.8%
Actuarial Value of Assets	\$0	0.0%
Unfunded Actuarial Accrued Liability	\$20,131	214.8%
Annual Required Contribution for Fiscal Year ended August 31, 2008		
Normal Cost	\$940	10.0%
Amortization of UAAL	874	9.4%
Total ARC for Fiscal Year ended August 31, 2008	\$1,814	19.4%

Summary of Actuarial Methods and Assumptions - State Retiree Health Plan

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 5.50% 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 5.50% assumption if the underlying investments of the plan assets were expected to yield a return in excess of 5.5%. 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) \$202.44 per year per covered member for external Health Select administrative expenses for FY 2009 and (ii) approximately \$40.32 per year per covered member for internal administrative expenses for FY 2009 (i.e., the external and administrative expenses per covered member are the same regardless of whether the member covers dependents).

Summary of Actuarial Methods and Assumptions - State Retiree Health Plan

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 5.50%.

Health Benefit Cost Trend

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

Fiscal Year	Annual Rate of Increase
	%
2010	7.90
2011	7.90
2012	7.50
2013	7.00
2014	6.00
2015 and beyond	5.50

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

Expense Trend Rate

Internal and external administrative expenses are assumed to increase 3.5% per annum.

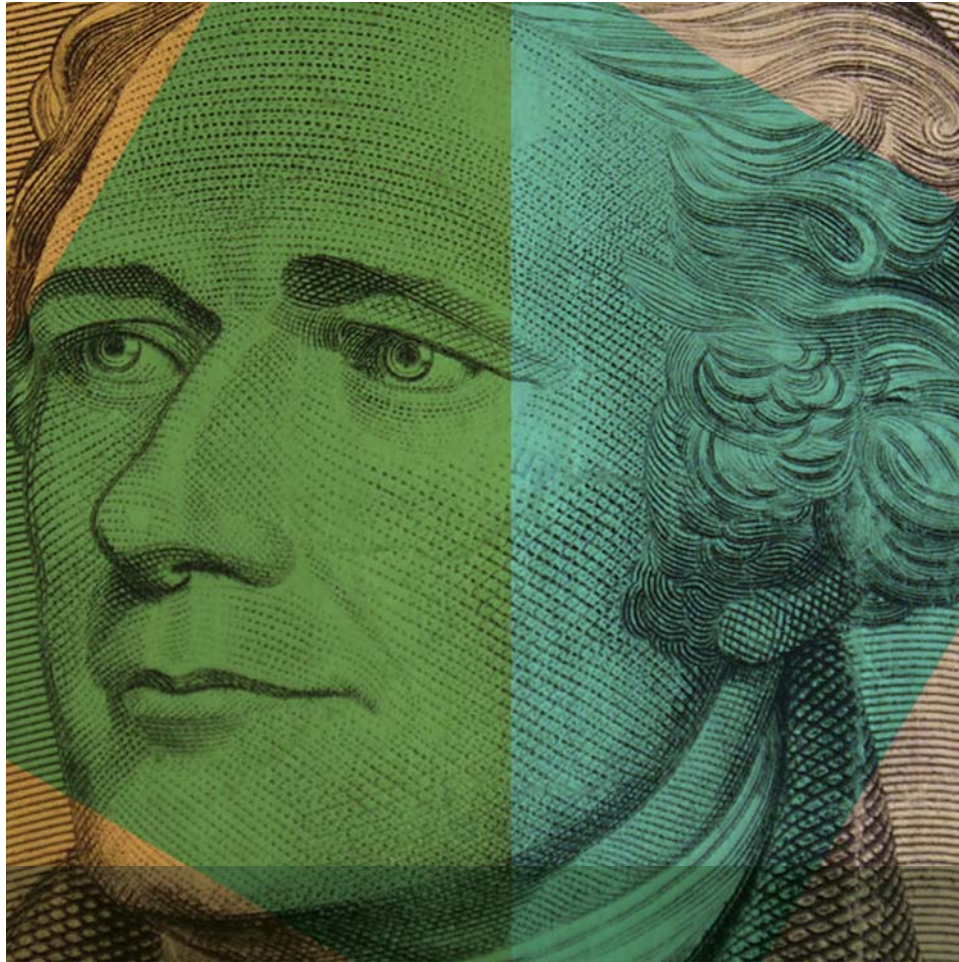
Trend Rate for the Opt-Out Credit

The monthly benefit of \$60 in fiscal year 2008-2009 is assumed to increase at 3.5% 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

Government 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 Seven Fiscal Years (in 000's)
(Accrual Basis of Accounting)

	Fiscal Year (Note A)						
	2002	2003	2004	2005	2006	2007	2008
Governmental Activities:	\$	\$	\$	\$	\$	\$	\$
Restricted	19,333	25,939	96,160	133,253	241,478	369,913	384,892
Unrestricted	420	16	3	27	49	45	56
Total Governmental Activities	19,753	25,955	96,163	133,280	241,527	369,958	384,948

Changes in Net Assets – Governmental Activities

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

	Fiscal Year (Note A)						
	2002	2003	2004	2005	2006	2007	2008
Expenses	\$	\$	\$	\$	\$	\$	\$
<i>Governmental Activities:</i>							
Social Security Administration	55	39	31	52	58	70	54
<i>Death Benefits:</i>							
Peace Officers, Firemen, etc.	7,322	4,677	4,985	2,660	4,361	2,397	3,423
Compensation to Victims of Crime				1,250	750	1,500	2,250
Retiree \$5,000 Lump Sum	6,432	6,453	6,681	7,026	6,908	7,493	6,902
<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	1,460,527
Administration	9,433	9,926	9,316	10,312	10,307	8,694	8,323
Total Governmental Activities Expenses	1,516,807	1,648,152	1,540,308	1,668,115	1,782,457	1,314,111	1,481,479

Program Revenues

<i>Governmental Activities:</i>							
<i>Charges for Services:</i>							
Administration Fees				73	78	72	65
<i>Appropriations:</i>							
Administration	28	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	3,395
Compensation to Victims of Crime				1,250	750	1,500	2,250
Retiree \$5,000 Lump Sum	6,487	6,087	6,681	7,030	6,910	7,487	6,902
<i>Insurance Contributions:</i>							
State	1,122,408	1,235,235	1,177,512	1,256,123	1,384,688	1,024,636	1,075,354
Member	366,998	393,976	404,107	420,192	450,678	365,653	364,278
Other	152	129	154	145	147	150	163
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	42,513
Other	496	1,371	4,060	2,951	709	272	1,521
Total Governmental Activities Program Revenues	1,517,849	1,654,354	1,610,516	1,705,233	1,890,704	1,442,542	1,496,469
Net Revenue							
Governmental Activities	1,042	6,202	70,208	37,118	108,247	128,431	14,990

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Governmental Funds:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Unreserved, reported in:										
Special Revenue Funds	49	80	411	420	16	3	27	49	45	56
Total Governmental Funds	49	80	411	420	16	3	27	49	45	56

Changes in Fund Balances – Governmental Funds

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

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Administration	28	28	28	28	28	28	28	28	28	28
Death Benefits:										
Public Employee Survivors	734	930	1,410	7,248	4,649	4,957	2,632	4,333	2,369	3,395
Victims of Crime								750	1,500	2,250
Retiree \$5,000 Lump Sum	5,946	6,102	6,418	6,487	6,087	6,681	7,030	6,910	7,487	6,902
Administration Fees							73	78	72	65
Total Revenues	6,708	7,060	7,856	13,763	10,764	11,666	9,763	12,099	11,456	12,640
Expenditures										
Death Benefits:										
Public Employee Survivors	739	936	1,359	7,294	4,649	4,957	2,632	4,333	2,397	3,423
Victims of Crime							1,250	750	1,500	2,250
Retiree \$5,000 Lump Sum	5,946	6,077	6,132	6,432	6,453	6,681	7,026	6,908	7,493	6,902
Administrative Expenditures	72	71	84	83	67	59	80	86	70	54
Total Expenditures	6,757	7,084	7,575	13,809	11,169	11,697	10,988	12,077	11,460	12,629
Excess of Revenues Over (Under)										
Expenditures	(49)	(24)	281	(46)	(405)	(31)	(1,225)	22	(4)	11
Other Financing Sources (Uses)										
Membership Fees		54	50	55		18				
Victims of Crime Fund							1,250			
Net Change in Fund Balances	(49)	30	331	9	(405)	(13)	25	22	(4)	11

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Operating Revenues										
<i>Insurance Contributions:</i>										
State	720,598	803,196	870,735	1,122,408	1,235,235	1,177,512	1,256,123	1,384,688	1,024,636	1,075,354
Member	269,847	293,970	327,981	366,998	393,976	404,107	420,192	450,678	365,653	364,278
Federal Revenues-Medicare Part D								19,360		
Other	142	151	151	648	1,280	3,840	453	528	422	1,543
Total Operating Revenues	990,587	1,097,317	1,198,867	1,490,054	1,630,491	1,585,459	1,676,768	1,855,254	1,390,711	1,441,175
Operating Expenses										
<i>Benefit Payments:</i>										
Employee	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	1,437,632
Retiree (Note A)						402,224	439,171	478,229	-	
COBRA (Note A)						9,883	18,596	15,878	18,232	22,895
Administrative and Other Expenses	7,880	8,733	9,782	9,433	9,926	9,316	10,312	10,307	8,694	8,323
Total Operating Expenses	1,078,593	1,177,199	1,318,021	1,502,998	1,636,983	1,528,610	1,657,127	1,770,380	1,302,651	1,468,850
Operating Income (Loss)	(88,006)	(79,882)	(119,154)	(12,944)	(6,492)	56,849	19,641	84,874	88,060	(27,675)
Non-Operating Revenues (Expenses)										
Net Appreciation (Depreciation)										
in Fair Value of Investments (Note B)	(1,186)	(293)	(1,284)	2,555	949	2,043	(1,750)	(4,834)	(730)	4,943
Interest Income	24,356	25,190	22,657	11,422	11,930	10,956	16,559	27,857	41,080	37,569
Other	(23)	(14)	(4)		220	374	2,644	327	25	141
Change in Net Assets	(64,859)	(54,999)	(97,785)	1,033	6,607	70,222	37,094	108,224	128,435	14,978

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund (ERS)										
Additions										
Member Contributions	270,260	283,841	286,982	319,565	324,000	300,156	305,870	292,023	328,039	337,040
Employer Contributions	265,031	279,192	281,906	300,969	301,555	278,845	276,035	316,198	329,981	342,092
Investment Income (Net of Expenses)	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	(1,294,063)
Other Additions	18,735	22,944	26,913	32,601	37,719	45,719	50,208	58,804	48,746	52,941
Total Additions	3,033,594	2,315,140	(814,469)	(619,277)	2,118,865	2,619,423	2,963,202	2,404,613	3,329,661	(561,990)
Deductions										
Retirement Benefits	599,827	681,524	827,940	908,511	1,010,238	1,190,313	1,206,562	1,251,090	1,299,964	1,360,380
Death Benefits	1,716	2,487	1,836	2,086	2,327	1,949	2,039	2,232	2,099	1,802
Refunds	104,939	96,261	91,800	70,031	73,438	83,779	89,760	75,614	79,564	74,504
Administrative and Other Expenses	12,499	12,273	12,621	13,295	13,078	12,996	13,878	14,044	16,475	16,730
Total Deductions	718,981	792,545	934,197	993,923	1,099,081	1,289,037	1,312,239	1,342,980	1,398,102	1,453,416
Change in Net Assets	2,314,613	1,522,595	(1,748,666)	(1,613,200)	1,019,784	1,330,386	1,650,963	1,061,633	1,931,559	(2,015,406)

Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)

Additions										
Member Contributions				5						
Employer Contributions										20,191
Investment Income (Net of Expenses)	90,550	61,763	(49,664)	(44,338)	49,692	67,906	78,444	57,656	85,799	(42,917)
Other Additions	1	1	2		2	2		-		
Total Additions	90,551	61,764	(49,662)	(44,333)	49,694	67,908	78,444	57,656	85,799	(22,726)
Deductions										
Retirement Benefits	16,593	18,789	16,815	20,762	22,834	27,559	29,036	30,184	32,149	34,908
Administrative and Other Expenses	576	624	625	685	700	630	521	378	504	366
Total Deductions	17,169	19,413	17,440	21,447	23,534	28,189	29,557	30,562	32,653	35,274
Change in Net Assets	73,382	42,351	(67,102)	(65,780)	26,160	39,719	48,887	27,094	53,146	(58,000)

Judicial Retirement System of Texas Plan One (JRS I)

Additions										
Member Contributions	890	702	679	439	268	142	62	214		
Appropriations	20,545	21,024	21,918	21,564	22,675	22,622	22,297	27,784	29,029	28,684
Other Additions	135	101	148	120	120	120	120	-		
Total Additions	21,570	21,827	22,745	22,123	23,063	22,884	22,479	27,998	29,029	28,684
Deductions										
Retirement Benefits	20,545	21,036	21,701	21,778	22,673	22,620	22,283	27,664	29,029	28,657
Refunds					3	1	14	-		
Administrative and Other Expenses	135	88	152	120	120	120	120	120		
Total Deductions	20,680	21,124	21,853	21,898	22,796	22,741	22,417	27,784	29,029	28,657
Change in Net Assets	890	703	892	225	267	143	62	214	-	27

Judicial Retirement System of Texas Plan Two (JRS II)

Additions										
Member Contributions	2,369	2,496	2,638	2,780	3,020	2,922	2,985	3,551	4,125	3,964
Employer Contributions	6,815	7,130	7,258	7,804	8,294	8,205	8,365	10,052	10,909	11,138
Investment Income (Net of Expenses)	9,537	7,637	(6,916)	(7,168)	9,404	13,332	17,348	14,384	24,245	(10,765)
Other Additions	13	4	5		18	2	11	5	-	
Total Additions	18,734	17,267	2,985	3,416	20,736	24,461	28,709	27,992	39,279	4,337
Deductions										
Retirement Benefits	722	898	1,211	1,365	2,119	2,770	3,308	4,223	5,747	6,645
Death Benefits	13		3				10	24		
Refunds	267	94	116	187	152	303	106	65	58	73
Administrative and Other Expenses	283	249	268	299	245	273	402	303	395	244
Total Deductions	1,285	1,241	1,598	1,851	2,516	3,346	3,826	4,615	6,200	6,962
Change in Net Assets	17,449	16,026	1,387	1,565	18,220	21,115	24,883	23,377	33,079	(2,625)

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Changes in Net Assets – Defined Benefit Plans (Concluded)

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Excess Benefit Arrangement										
Additions										
Other Additions				63	67	67	223	297	200	350
Total Additions	-	-	-	63	67	67	223	297	200	350
Deductions										
Retirement Benefits				63	67	67	223	236	141	298
Administrative and Other Expenses								61	59	52
Total Deductions	-	-	-	63	67	67	223	297	200	350
Change in Net Assets	-	-	-	-	-	-	-	-	-	-
State Retiree Health Plan										
Additions										
Member Contributions									108,387	109,447
Employer Contributions									438,242	417,106
Federal Revenues-Medicare Part D									28,558	32,964
Investment Income (Net of Expenses)									1,541	1,362
Total Additions									576,728	560,879
Deductions										
Retirement Benefits									574,030	558,228
Administrative and Other Expenses									2,698	2,651
Total Deductions									576,728	560,879
Change in Net Assets									-	-

Source: Comprehensive Annual Financial Reports

Changes in Net Assets – Defined Contribution Plans and Cafeteria Plan

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
TexasSaver 401(k) Plan										
Additions										
Investment Income (Net of Expenses)	3	4	9	2	1	4	29	52	459	116
Other Additions	200	150	203	234	345	1,328	166	342	301	464
Total Additions	203	154	212	236	346	1,332	195	394	760	580
Deductions										
Administrative and Other Expenses	225	184	220	236	357	366	253	275	448	581
Total Deductions	225	184	220	236	357	366	253	275	448	581
Change in Net Assets	(22)	(30)	(8)	-	(11)	966	(58)	119	312	(1)
TexasSaver 457 Plan										
						(Restated)	(Restated)			
Additions										
Deferrals (Note A)	9,280	11,806	8,505	10,649	27,132	37,047	43,817	N/A	N/A	
Rollovers and Transfers (Note A)	48,832	19,637		30,472	27,241	56,426	39,268	N/A	N/A	
Investment Income (Net of Expenses)	43,448	16,579	(4,842)	(48,761)	18,341	33,976	25,093	23,752	62	50
Other Additions	300	329	200	430	234	186	119	684	503	592
Total Additions	101,860	48,351	3,863	(7,210)	72,948	127,635	108,297	24,436	565	642
Deductions										
Distributions and Fees (Note A)	28,376	25,795	35,692	26,902	27,604	41,851	26,152	N/A	N/A	
Rollovers and Transfers (Note A)	45,976	21,541		26,460	42,224	67,071	41,481	N/A	N/A	
Administrative and Other Expenses	546	667	1,022	832	849	995	418	403	526	547
Total Deductions	74,898	48,003	36,714	54,194	70,677	109,917	68,051	403	526	547
Change in Net Assets	26,962	348	(32,851)	(61,404)	2,271	17,718	40,246	24,033	39	95
State Employees Cafeteria Plan (TexFlex)										
Additions										
Contributions	19,388	22,786	27,502	30,502	33,964	43,840	53,425	61,080	68,425	76,780
Investment Income (Net of Expenses)	290	340	238	120	65	25	40	75	89	72
Other Additions	2	2	45	11	18	439	409	56	105	95
Total Additions	19,680	23,128	27,785	30,633	34,047	44,304	53,874	61,211	68,619	76,947
Deductions										
Reimbursement Account Claims	18,553	22,648	27,104	30,027	33,539	42,886	52,337	59,951	67,133	75,043
Administrative and Other Expenses	869	739	1,358	970	1,234	1,336	1,571	1,694	1,886	2,157
Total Deductions	19,422	23,387	28,462	30,997	34,773	44,222	53,908	61,645	69,019	77,200
Change in Net Assets	258	(259)	(677)	(364)	(726)	82	(34)	(434)	(400)	(253)

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund:										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service:										
Retirees	576,262	656,150	797,887	876,335	978,090	1,058,681	1,095,209	1,153,347	1,195,432	1,254,754
Survivors	not avail.	not avail.	not avail.	not avail.	not avail.	3,532	20,286	20,379	19,805	20,461
Disability	21,198	22,599	26,786	28,375	28,005	30,815	31,419	31,690	31,163	30,626
Partial Lump Sum Option						91,731	53,030	37,679	44,450	44,207
Proportional	2,367	2,775	3,267	3,801	4,143	5,554	6,618	7,994	9,114	10,332
Total Retirement Benefits	599,827	681,524	827,940	908,511	1,010,238	1,190,313	1,206,562	1,251,089	1,299,964	1,360,380
Death Benefits:										
Active Members:										
Occupational	117	63	84	72		128	41	297	91	35
Non-Occupational	708	1,364	899	909	1,249	884	842	1,019	1,373	1,266
Retiree	891	1,060	853	1,105	1,078	937	1,156	916	635	501
Total Death Benefits	1,716	2,487	1,836	2,086	2,327	1,949	2,039	2,232	2,099	1,802
Refunds:										
Resignation	103,204	93,915	89,621	67,838	70,542	82,075	87,513	73,176	75,864	71,717
Death	1,735	2,346	2,179	2,193	2,896	1,704	2,247	2,438	3,700	2,787
Total Refunds	104,939	96,261	91,800	70,031	73,438	83,779	89,760	75,614	79,564	74,504

Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service	15,537	17,681	15,635	19,583	21,477	23,492	25,836	27,694	29,053	31,675
Disability	1,056	1,108	1,180	1,179	1,357	1,275	1,318	1,250	1,208	1,180
Partial Lump Sum Option						2,792	1,882	1,240	1,889	2,053
Total Retirement Benefits	16,593	18,789	16,815	20,762	22,834	27,559	29,036	30,184	32,150	34,908

Judicial Retirement System of Texas Plan One:										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service	20,545	21,036	21,701	21,778	22,673	22,620	22,283	27,664	29,029	28,657
Total Retirement Benefits	20,545	21,036	21,701	21,778	22,673	22,620	22,283	27,664	29,029	28,657
Refunds:										
Resignation						1	13			
Death					3		1			
Total Refunds	-	-	-	-	3	1	14	-	-	-

Judicial Retirement System of Texas Plan Two:										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service	501	603	744	868	1,453	1,983	2,609	3,107	4,254	4,958
Disability	104	92	208	208	208	184	192	291	348	470
Proportional	117	203	259	289	458	603	507	825	1,145	1,216
Total Retirement Benefits	722	898	1,211	1,365	2,119	2,770	3,308	4,223	5,747	6,644
Death Benefits:										
Active Members:										
Non-Occupational	13		3				10	24		
Total Death Benefits	13	-	3	-	-	-	10	24	-	-
Refunds:										
Resignation	224	5	55	195	152	235	67	4	58	73
Death	43	89	61	(8)		68	39	61		
Total Refunds	267	94	116	187	152	303	106	65	58	73

Excess Benefit Arrangement:										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service				63	67	67	223	236	141	298
Total Retirement Benefits	-	-	-	63	67	67	223	236	141	298

State Retiree Health Plan:										
<i>Type of Benefit</i>										
Insurance Benefits:										
Accrued Claims									67,920	50,858
Life Claims									22,140	18,514
Prescriptions Drugs									151,020	172,701
Administrative Fees									13,519	14,373
HMO Payments									26,422	30,985
Blue Cross Health									283,244	259,845
Dental									9,765	10,952
Total Insurance Benefits	-	-	-	-	-	-	-	-	574,030	558,228

Source: Comprehensive Annual Financial Reports

Average Benefit Payments - Employee Class

Last Ten Fiscal Years

Retirement Effective Dates (Note A) September 30, 1998 to August 31, 2008	Years of Credited Service					
	5-10	10-15	15-20	20-25	25-30	30+
- Period 9/30/98 to 8/31/99:						
Average Monthly Benefit	\$ 398.57	\$ 665.71	\$ 989.39	\$1,369.67	\$ 1,993.78	\$2,514.36
Average Final Average Salary	\$2,397.52	\$2,422.60	\$2,455.33	\$2,591.33	\$ 3,071.79	\$3,320.90
Number of Retired Members	145	481	297	414	689	559
- Period 9/30/99 to 8/31/00:						
Average Monthly Benefit	\$ 344.80	\$ 639.47	\$ 933.71	\$1,317.85	\$ 1,944.10	\$2,394.93
Average Final Average Salary	\$2,261.95	\$2,546.97	\$2,480.40	\$2,778.76	\$ 3,250.53	\$3,439.80
Number of Retired Members	176	578	381	489	889	726
- Period 9/30/00 to 8/31/01:						
Average Monthly Benefit	\$ 382.00	\$ 621.04	\$ 940.23	\$1,342.98	\$ 1,936.18	\$2,471.67
Average Final Average Salary	\$2,709.44	\$2,554.92	\$2,724.36	\$2,884.54	\$ 3,358.94	\$3,637.45
Number of Retired Members	138	557	374	453	811	653
- Period 9/30/01 to 8/31/02:						
Average Monthly Benefit	\$ 370.68	\$ 640.29	\$ 983.43	\$1,393.89	\$ 2,048.02	\$2,694.39
Average Final Average Salary	\$2,587.05	\$2,636.79	\$2,844.71	\$3,035.37	\$ 3,545.34	\$3,952.80
Number of Retired Members	167	641	408	593	1,017	993
- Period 9/30/02 to 8/31/03:						
Average Monthly Benefit	\$ 374.25	\$ 685.05	\$1,027.61	\$1,446.00	\$ 2,063.27	\$2,750.75
Average Final Average Salary	\$2,550.46	\$2,773.29	\$2,890.52	\$3,205.48	\$ 3,574.61	\$4,007.49
Number of Retired Members	347	1,430	872	1,088	1,722	1,780
- Period 9/30/03 to 8/31/04:						
Average Monthly Benefit	\$ 406.33	\$ 641.75	\$1,119.72	\$1,558.66	\$ 2,224.66	\$2,693.94
Average Final Average Salary	\$2,808.26	\$2,808.94	\$3,090.77	\$3,328.93	\$ 3,798.46	\$3,987.86
Number of Retired Members	193	502	312	725	913	457
- Period 9/30/04 to 8/31/05:						
Average Monthly Benefit	\$ 385.49	\$ 719.96	\$1,217.70	\$1,616.71	\$ 2,329.89	\$2,903.39
Average Final Average Salary	\$2,590.45	\$2,847.85	\$3,265.28	\$3,368.34	\$ 3,910.84	\$4,130.23
Number of Retired Members	156	560	384	708	866	443
- Period 9/30/05 to 8/31/06:						
Average Monthly Benefit	\$ 401.37	\$ 722.78	\$1,250.24	\$1,633.49	\$ 2,156.21	\$2,997.66
Average Final Average Salary	\$2,642.87	\$2,838.52	\$3,322.56	\$3,471.19	\$ 3,652.18	\$4,237.50
Number of Retired Members	159	440	306	383	386	253
- Period 9/30/06 to 8/31/07:						
Average Monthly Benefit	\$ 435.85	\$ 777.22	\$1,271.78	\$1,741.19	\$ 2,491.35	\$3,042.59
Average Final Average Salary	\$2,833.70	\$2,992.91	\$3,345.53	\$3,663.80	\$ 4,196.02	\$4,295.29
Number of Retired Members	212	485	393	632	601	420
- Period 9/30/07 to 8/31/08:						
Average Monthly Benefit	\$ 469.14	\$ 810.83	\$1,327.05	\$1,888.19	\$ 2,640.09	\$3,516.60
Average Final Average Salary	\$2,999.77	\$3,127.14	\$3,425.96	\$3,888.34	\$ 4,284.59	\$4,700.85
Number of Retired Members	209	517	457	606	629	432
Five Year Average -						
Period 9/30/03 to 8/31/08:						
Average Monthly Benefit	\$ 422.85	\$ 734.63	\$1,245.03	\$1,684.66	\$ 2,367.90	\$3,028.83
Average Final Average Salary	\$2,792.27	\$2,924.17	\$3,302.02	\$3,536.21	\$ 3,970.94	\$4,268.84
Average Number of Retired Members	186	501	370	611	679	401
Ten Year Average -						
Period 9/30/98 to 8/31/08:						
Average Monthly Benefit	\$ 397.36	\$ 688.95	\$1,100.47	\$1,537.45	\$ 2,152.65	\$2,740.16
Average Final Average Salary	\$2,644.96	\$2,752.16	\$2,985.11	\$3,254.87	\$ 3,634.02	\$3,922.93
Average Number of Retired Members	190	619	418	609	852	672

Note A: This schedule includes service retirements of the employee class as of October 29, 2008. 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, 2008

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	5,038	4,870	168	2,785	1,108	366	127	486	166
301-600	10,235	9,415	820	6,695	1,619	530	469	567	355
601-900	10,627	9,718	909	7,058	1,511	670	528	478	382
901-1,200	9,003	8,548	455	5,852	1,244	757	434	378	338
1,201-1,500	7,870	7,638	232	4,845	1,116	808	366	314	421
1,501-2,000	9,873	9,724	149	5,579	1,359	1,320	449	452	714
2,001-2,500	7,763	7,726	37	4,131	1,015	1,286	299	407	625
2,501-3,000	5,494	5,482	12	2,590	777	1,063	189	288	587
3,001-4,000	4,810	4,805	5	2,287	666	860	151	254	592
4,001-10,999	1,965	1,963	2	914	310	313	63	100	265
Total	72,678	69,889	2,789	42,736	10,725	7,973	3,075	3,724	4,445

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	338	338	0	181	95	31	6	6	19
201-400	2,621	2,572	49	1,455	538	312	73	75	168
401-600	1,879	1,852	27	751	305	422	57	72	272
601-800	812	811	1	324	147	166	16	24	135
801-1,000	295	294	1	146	52	57	10	4	26
1,001-1,200	112	111	1	66	27	9	0	1	9
1,201-1,400	57	48	9	35	8	9	0	0	5
1,401-1,600	32	21	11	20	6	3	1	1	1
1,601-1,800	26	18	8	20	1	1	0	1	3
1,801-9,999	32	21	11	22	5	4	0	0	1
Total	6,204	6,086	118	3,020	1,184	1,014	163	184	639

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	7	7	0	2	3	1	1	0	0
2,001-2,500	3	3	0	1	0	0	1	1	0
2,501-3,000	2	2	0	1	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	4	3	0	0	1	0
4,001-4,500	20	20	0	3	15	1	0	0	1
4,501-5,000	24	24	0	11	9	3	0	1	0
5,001-5,500	22	22	0	7	7	2	1	0	5
5,501-6,000	10	10	0	7	2	0	0	1	0
6,001-6,500	15	14	1	12	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
Total	117	116	1	54	39	9	5	4	6

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Defined Benefit Plans (Note A)	%	%	%	%	%	%	%	%	%	%
Employees Retirement Fund										
<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	6.45	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	6.45	6.45	6.45
Judicial Retirement System Plan One Fund										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Judicial Retirement System Plan Two Fund										
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
Law Enforcement and Custodial Officer Supplemental Retirement Fund										
Employee										
State										1.59
State Retiree Health Plan (Note D)										

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Group Benefits Program	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Employee Only:</i>										
State Contribution Monthly Rate	190.73	215.58	249.71	276.02	308.84	300.27	315.56	343.48	360.54	360.54
HealthSelect Monthly Premium	199.78	215.58	249.71	276.02	308.84	300.27	315.56	343.48	360.54	360.54
ERS Supplement (Note B & D)	9.05									
<i>Employee & Children:</i>										
State Contribution Monthly Rate	263.29	297.70	344.97	381.43	426.89	415.02	436.19	474.86	498.49	498.49
HealthSelect Monthly Premium	351.86	379.82	440.23	486.84	544.93	529.76	556.82	606.24	636.44	636.44
ERS Supplement (Note B & D)	12.53									
<i>Employee & Spouse:</i>										
State Contribution Monthly Rate	299.09	338.23	391.98	433.45	485.14	471.65	495.73	539.70	566.57	566.57
HealthSelect Monthly Premium	426.91	460.88	534.25	590.88	661.44	643.02	675.89	735.92	772.60	772.60
ERS Supplement (Note B & D)	14.26									
<i>Employee & Family:</i>										
State Contribution Monthly Rate	371.65	420.35	487.24	538.86	603.19	586.39	616.36	671.08	704.52	704.52
HealthSelect Monthly Premium	578.99	625.12	724.77	801.70	897.53	872.51	917.15	998.68	1,048.50	1,048.50
ERS Supplement (Note B & D)	17.74									
Total State Contribution (in millions) (Note C)	720.6	803.2	870.7	1,122.4	1,235.2	1,177.5	1,256.1	1,384.7	1,024.6	1,075.4

Note A: There are no 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 increase in State Contributions resulted primarily from normal industry and membership growth.

Note D: The State Retiree Health Plan is paid on a pay-as-you-go basis. The monthly rates as shown above are the same for the active and retired members of the Group Benefits Program.

Statistical Information – Defined Benefit Plans

(All items expressed as numbers unless otherwise indicated)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
(Note C)										
Employees Retirement Fund										
Active Contributing Members	154,183	152,167	149,956	150,313	142,315	133,349	132,417	132,411	132,497	134,626
Non-Contributing Members	36,502	41,276	46,089	48,903	51,868	54,658	57,089	61,567	67,803	74,094
Retirees and Beneficiaries	43,860	47,310	47,392	50,514	57,024	60,089	63,453	67,596	70,456	72,678
Service Retirements	3,244	3,688	3,229	4,050	7,581	3,906	4,609	2,929	4,110	4,445
Disability Retirements	209	196	213	156	174	181	179	80	98	115
Resignation Refunds	19,503	21,109	21,869	16,817	16,680	13,947	14,239	11,199	11,365	10,763
Death Refunds	247	261	301	335	316	237	294	317	551	175
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Notes A & B)										
Active Contributing Members	39,979	42,040	40,431	41,221	40,332	38,391	37,251	37,103	36,413	33,642
Non-Contributing Members	3,132	4,372	5,619	6,519	7,264	7,856	8,428	33	27	35
Retirees and Beneficiaries	2,526	2,774	3,093	3,523	4,166	4,576	5,072	5,318	5,805	6,204
Service Retirements	153	249	296	508	686	431	537	306	553	637
Disability Retirements	1	3	4	3	1	3			4	
Judicial Retirement System of Texas Plan One										
Active Contributing Members	133	123	95	91	58	53	28	43	24	27
Non-Contributing Members	29	27	24	24	22	15	36	12	15	7
Retirees and Beneficiaries	461	465	485	493	505	494	491	486	488	471
Service Retirements	27	9	26	13	27	10	12	7	16	6
Disability Retirements										
Resignation Refunds		1				1	1		3	
Death Refunds					1		1			
Judicial Retirement System of Texas Plan Two										
Active Contributing Members	395	412	442	464	476	484	491	498	515	518
Non-Contributing Members	50	51	77	63	80	79	90	95	115	120
Retirees and Beneficiaries	22	27	29	34	78	72	81	89	116	117
Service Retirements	1	3	3	3	24	8	9	10	24	6
Disability Retirements		2								
Resignation Refunds	3	1	3	7	5	8	8	2	3	4
Death Refunds							1	1		
State Retiree Health Plan (Note D)										
Retirees									75,958	80,543
Dependents									30,653	31,293

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.

Note D: Due to GASB 43, retiree and active member data is shown separately beginning with FY 2007 data. The data in the table is for retired members and their dependents.

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

Statistical Information – Other Programs

(All items expressed as numbers unless otherwise indicated)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
457 Defined Contribution Plan (Note A)										
TexaSaver 457 Plan (Note B):										
Total Participants	n/a	n/a	4,531	5,793	7,525	9,937	12,425	14,960	16,646	15,980
Participants Currently Deferring	n/a	n/a	3,419	3,971	4,862	5,908	7,632	8,350	9,475	10,282
Current Market Value of Plan Assets (in millions)	n/a	n/a	\$ 56.4	\$ 69.7	\$ 103.7	\$ 159.6	\$ 219.8	\$ 265.3	\$ 325.7	\$ 266.8
Original 457 Plan (Notes B, C & D):										
Total Participants	11,000	10,838	8,374	7,422	6,015	5,104	3,693	3,169	2,780	2,527
Participants Currently Deferring	5,200	4,423	267	261	207	138	127	121	101	82
TexaSaver 401(k) Defined Contribution Plan (Note A)										
Total Participants	51,100	57,306	54,177	57,155	56,848	56,504	54,349	54,710	55,212	61,692
Participants Currently Deferring	36,400	39,533	38,407	35,856	32,714	30,075	28,574	28,314	28,587	37,399
Current Market Value of Plan Assets (in millions)	\$ 545.4	\$ 675.8	\$ 602.6	\$ 604.7	\$ 703.4	\$ 779.3	\$ 886.0	\$ 990.4	\$ 1,154.0	\$ 1,143.0
Deferrals (in millions)	\$ 80.6	\$ 90.3	\$ 94.9	\$ 95.0	\$ 89.1	\$ 86.9	\$ 83.6	\$ 89.2	\$ 94.7	\$ 103.8
Cafeteria Plan (Note A)										
Reimbursement Accounts:										
Health Care	9,800	12,314	15,924	17,419	19,128	23,868	29,728	33,047	35,342	40,685
Dependent Care	2,400	2,425	2,480	2,336	2,297	2,416	2,522	2,665	2,836	3,012
Total Redirected (in millions)	\$ 18.7	\$ 22.5	\$ 27.1	\$ 30.1	\$ 33.6	\$ 43.1	\$ 52.4	\$ 60.0	\$ 67.5	\$ 75.3
Premium Conversion:										
Participants	146,407	209,031	208,511	208,651	209,929	199,215	206,173	209,214	210,744	215,618
Premiums Redirected (in millions)	\$ 203.4	\$ 237.8	\$ 263.8	\$ 291.0	\$ 312.1	\$ 321.4	\$ 337.8	\$ 363.3	\$ 386.4	\$ 389.7
Tax Savings (in millions):										
Employees	\$ 46.1	\$ 53.9	\$ 59.7	\$ 65.9	\$ 70.7	\$ 72.8	\$ 76.5	\$ 82.3	\$ 87.5	\$ 88.3
State of Texas	\$ 15.6	\$ 18.2	\$ 20.2	\$ 22.3	\$ 23.9	\$ 24.6	\$ 25.8	\$ 27.8	\$ 29.6	\$ 29.8
Group Benefits Program (Note A & F)										
Membership:										
Active	209,558	210,675	210,924	209,859	211,695	192,859	198,627	200,775	216,958	222,660
Retired	52,015	54,974	57,953	56,714	59,603	66,348	68,109	69,748	N/A	N/A
Dependents	253,000	255,000	252,000	253,000	248,749	235,834	236,691	232,846	199,833	190,573
COBRA (Note E)	2,707	2,545	2,124	2,060	1,744	1,736	1,558	2,485	2,009	2,138
	517,280	523,194	523,001	521,633	521,791	496,777	504,985	505,854	418,800	415,371
Death Benefit Programs										
Lump Sum Payments	9	13	29	36	20	19	11	16	12	13
Monthly Payments to Guardians	97	101	104	107	113	109	127	133	114	111
Victims of Violent Crime	n/a	n/a	n/a	n/a	n/a	n/a	5	3	2	8

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.

Retired members and their dependents were moved to a fiduciary fund named the State Retiree Health Plan.

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

Listing of Participating Reporting Entities for State Retiree Health Plan

State Agencies

Adjutant General
Advisory Commission
Advisory Committee on State Emergency Communication
Advisory Council Technical Vocation Education
Alcoholic Beverage Commission
Attorney General
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 Podiatric Medical Examiners
Board of Professional Engineers
Board of Professional Geoscientists
Board of Public Accountancy
Board of Tax Professional Examiners
Board of Veterinary Medical Examiners
Cancer Prevention & Research Institute of Texas
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
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 Agriculture
Department of Aging and Disability Services
Department of Assistive and Rehabilitative Services
Department of Banking
Department of Family and Protective Services
Department of Housing and 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
Federal Inspection Service
Firemen's Pension Commission
General Land Office
General Services Commission
Governor's Office – Executive
Governor's Office – Fiscal
Health & Human Services Commission
Health Professions Council
House of Representatives
Legislative Budget Board
Legislative Reference Library
Office of Administrative Hearings
Office of Court Administration
Office of Injured Employee Counsel
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
School for the Blind
School for the Deaf
Secretary of State
Senate
Soil & Water Conservation
State Auditor
State Bar of Texas
State Energy Conservation Commission
State Ethics Commission
State Law Library
State Office of Risk Management
State Preservation Board
State Prosecuting Attorney
State Securities Board
Structural Pest Control Board
Sunset Advisory Commission
Supreme Court
Teachers' 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

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

State Agencies (continued)

Texas Department of Criminal Justice
Texas Department of Transportation
Texas Education Agency
Texas Funeral Service Commission
Texas Higher Education Coordinating Council
Texas Historical Commission
Texas Indian Commission
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 Residential Construction Commission
Texas State Library & Archives
Texas Veterans Commission
Texas Workforce Commission
Texas Youth Commission
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
Lamar University Systems
Midwestern University
Sam Houston State University
Texas State University at San Marcos
Stephen F. Austin University
Sul Ross State University
Texas Southern University
Texas State Technical College System
Texas Tech Health Science
Texas Tech University
Texas Tech University Systems
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
University of Texas Mental Sciences Institute

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 County 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 County College
Odessa College
Panola College
Paris Junior College
Ranger Junior College
San Jacinto College
South Plains College
South Texas Community College
Southwest Institute for the Deaf
Southwest Texas Junior College
Tarrant County Junior College
Temple Junior College
Texarkana College
Texas Southmost College
Trinity Valley Community College
Tyler Junior College
Vernon Regional Junior College
Victoria College
Weatherford College
Western Texas Junior College
Wharton County Junior College

Other Entities

Texas Tollway Authority
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 74% of the employees covered by the State Retiree Health Plan.



