



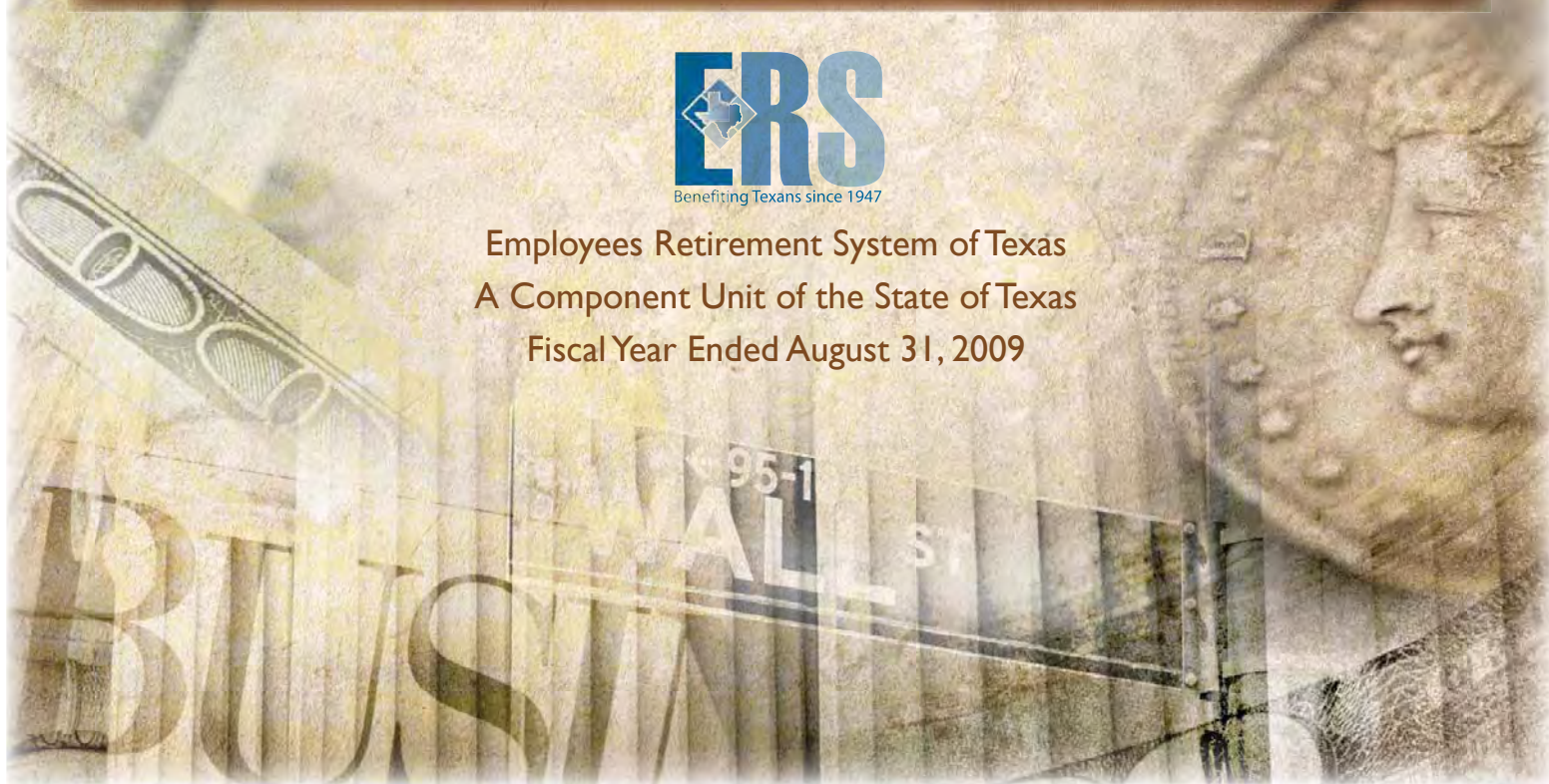
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# 2009

## Comprehensive Annual Financial Report



Employees Retirement System of Texas  
A Component Unit of the State of Texas  
Fiscal Year Ended August 31, 2009



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 2009

2009  
Comprehensive Annual  
Financial Report

Ann S. Fuelberg, Executive Director

Prepared by the Finance Division  
Michael C. Wheeler, CPA, Chief Financial Officer  
Debbie Alspaugh Leatham, CPA, Special Projects Manager



**Employees Retirement System of Texas**  
A Component Unit of the State of Texas  
Fiscal Year Ended August 31, 2009

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# Introductory Section

*Highlights of Retirement Programs*  
*Executive Director and Chair's Message*  
*Letter of Transmittal*  
*Certificate of Achievement*  
*Organizational Chart and Data*  
*Summary of Plan Provisions*





# Highlights of Retirement Programs

As of August 31, 2009

	ERS (A)	LECOS (A)	JRS I	JRS II
Active Members	141,223	37,819	23	533
Terminated Employees Entitled to Benefits	72,585	39	7	134
<b>Total Retirement Accounts</b>	<b>213,808</b>	<b>37,858</b>	<b>30</b>	<b>667</b>
<b>Retirees and Beneficiaries</b>	<b>75,722</b>	<b>6,647</b>	<b>461</b>	<b>152</b>
Service Retirements	4,338	559	4	36
Disability Retirements	95	2		
<b>Total Retirements During the Fiscal Year</b>	<b>4,433</b>	<b>561</b>	<b>4</b>	<b>36</b>
<b>Funded Ratios (Note C)</b>	<b>87.4%</b>	<b>86.1%</b>		<b>97.1%</b>
<b>Results of Investments - Pension Trust Funds</b>				
	<u>ERS</u>	<u>LECOS</u>	<u>JRS I (B)</u>	<u>JRS II</u>
	\$	\$	\$	\$
Interest, Dividends & Securities				
Lending Income	708,559,287	23,453,591		7,197,946
Net Appreciation (Depreciation) in Fair Value of Investments	(2,299,404,736)	(74,388,713)		(23,427,247)
<b>Time Weighted Rate of Return</b>				
	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	
Investment Pool Trust Fund	-6.60%	0.49%	4.48%	
<b>Other Transactions Summary</b>				
	<u>ERS</u>	<u>LECOS</u>	<u>JRS I (B)</u>	<u>JRS II</u>
	\$	\$	\$	\$
Member Contributions	353,298,711		270,553	4,222,867
State Retirement Contributions	363,022,727	20,657,421		11,356,171
Retirement Benefits	1,425,676,486	38,641,504	28,194,267	8,023,048
Member Contributions Withdrawn	70,958,144			206,245
Administrative Expenses	17,321,280	433,753		239,546
Investment Expenses	34,311,120	1,103,277		282,879

- 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.

Note C: The actuarial accrued liability used in the Funded Ratio calculation for ERS and LECOS is based on a total liability, which is based on the benefit provisions in effect for each active member and a normal cost rate based on the benefits in effect for members hired after August 31, 2009.



**November 18, 2009**

**EMPLOYEES  
RETIREMENT  
SYSTEM OF TEXAS**

**Ann S. Fuelberg**  
Executive Director

**I. Craig Hester**  
Chair

**Cydney C. Donnell**  
Vice-Chair

**Board of Trustees**  
Yolanda Griego  
Cheryl MacBride  
Owen Whitworth  
Donald E. Wood

**Dear Governor Perry and Members of the Texas legislature:**

Fiscal Year 2009 was a test of our organization's resolve, intelligence and commitment. Through fortitude and discipline the Employees Retirement System of Texas (ERS) has emerged as an even stronger agency. ERS can assure members and retirees of ongoing stability in spite of market volatility.

Soon after fiscal year 2009 started, the financial markets were in disarray. A declining market that started at the end of fiscal year 2008 just kept going down. Some questioned whether ERS and other retirement systems could survive such an onslaught, but not our members. ERS received few calls from anxious members. Our members know that they can count on us to be there for their lifetime. They understand that a defined benefit plan begins funding, and investing, for their retirement starting with their first retirement contribution. Defined benefit plans are built to withstand short-term swings in the market and deliver long-term financial stability.

It would have been easy to get distracted from our long-term investment focus. It's not easy to stick to investment principles in a declining market. Fortunately, ERS is an experienced and disciplined investor, and both of those qualities were crucial this year. ERS uses a structured, thorough, and inclusive process to determine investment goals and vehicles, and then sets it in motion. This process has allowed the system to meet its goals throughout its history. It also provides for adjustments on a regular, but not reactive, timeframe.

This experience and discipline served the members well. From September to March, the retirement trust fund lost money. The investment portfolio ended the year in August with a negative return of -6.6 percent. Any negative year is disappointing, but this return rate exceeded the returns of our investment benchmarks, and many of our peers. However, in April the fund began to recover, returning to a 87.4 percent funded ratio on August 31, 2009. This means for every dollar ERS is committed to pay to all of our current – and future – retirees, ERS has almost 88 cents. This funded ratio puts ERS among the strongest plans in the country.

It's clear, however, that while investment earnings can recover, they cannot close the retirement program's current funding gap. ERS needed to take other action to address the funding gap that resulted from poor earnings, rising costs and inadequate contributions. This year, ERS drew on the expertise and commitment of several partners to improve the soundness of the program for its members.

One such partnership yielded House Bill 2559, which made realistic adjustments to the benefit plan design starting on September 1, 2009. The legislation begins to take the needed steps to restore the fund to actuarial soundness. Taking action this year was a significant step in the right direction to protect benefits for current members.

The Legislature also increased contributions to the fund, increasing the employee contribution for the first time in more than 30 years. The combined employee and employer contribution of 12.9 percent now exceeds the normal cost by 0.52 percent of payroll.

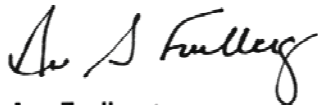
The new law encourages employees to work longer before retiring. It alters existing return to work retiree laws that were believed to have accelerated the number of employees retiring at their first eligibility. Employers will now have to pay a surcharge to the fund for hiring certain return to work retirees. The employees must wait 90 days before returning to employment.

Newly hired employees will get greater benefits if they work until they are 60 or older. They will no longer be able to apply sick and annual leave towards retirement eligibility.

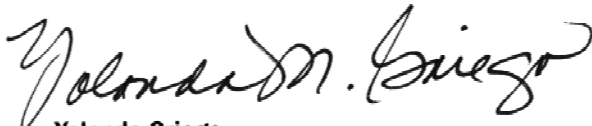
The cumulative effect of these and other changes makes the fund stronger. A strong fund helps to protect members.

Fiscal year 2009 was a difficult year for all of us. Yet, we are proud of the ERS that emerged. We are prepared to take on the challenges ahead of us, and committed to meeting the continuing needs of our members.

Sincerely,



**Ann Fuelberg**  
**Executive Director**



**Yolanda Griego**  
**Chair, ERS Board of Trustees**



EMPLOYEES  
RETIREMENT  
SYSTEM OF TEXAS

ANN S. FUELBERG  
EXECUTIVE DIRECTOR

I. CRAIG HESTER  
CHAIR

CYDNEY C. DONNELL  
VICE-CHAIR

BOARD OF TRUSTEES  
CHERYL MACBRIDE  
YOLANDA GRIEGO  
OWEN WHITWORTH  
DONALD E. WOOD

**November 18, 2009**

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

**Ladies and Gentlemen:**

I am pleased to submit the Annual Financial Report of the Employees Retirement System of Texas (the System) for the year ended August 31, 2009, 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 Auditor's Office of Texas. For information regarding the scope of the audit, please see the Independent Auditor's 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, 2009.

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

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

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

Accountability for all fiscal and budgetary matters is the responsibility of the Board. Operating administrative expenses, including capital items, are budgeted annually. The Board must approve any subsequent increases in the budget. Budgetary control is maintained by the financial system automatically and through approvals, encumbrances, and reporting.

## **FINANCIAL CONDITION**

### *Investment Performance*

The investment portfolio closed the fiscal year with a fair value of \$19.9 billion, and had a negative return of -6.60% 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 0.49% and 4.48% respectively.

Although the fiscal year was challenging, the System's management remains confident 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 during the economic downturn.

### *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, 2009 actuarial valuation shows that the ratio of the actuarial value of assets to the actuarial accrued liability was 87.4%, which is in the upper echelon of public pension systems. The System worked with the 81<sup>st</sup> Legislature to improve the funding status of the various benefit systems under management. New legislation effective September 1, 2009, increases contributions and modifies the benefit design for new members resulting in improvements to the actuarial soundness of the ERS and LECOS retirement plans.

## **MAJOR INITIATIVES**

The System conducted extensive education and communication efforts with Texas leadership, legislators and employee/retiree groups during the 81<sup>st</sup> Legislative Session, culminating in the successful passage of legislation positively impacting the financial status of the ERS and LECOS retirement plans. The System monitored 447 bills, analyzed 299 bills, prepared cost estimates on 137 bills, and coordinated 52 actuarial impact statements.

The System implemented the third and final phase of the investments enhancement plan to add the tools and expertise necessary to initiate new strategies and asset classes. In fiscal Year 2009 the System worked to expand the investment portfolio to include additional asset classes. An emerging markets portfolio was developed and funded. The System also began internal management of the large capital growth portfolio, resulting in significant cost savings. Investment losses were mitigated through internal management strategies. Investment portfolios were positioned to support the long term goal of meeting promised benefits for the System's members.

The System promoted retirement savings through a three-legged stool approach and continued expanding and improving the optional Texa\$aver deferred compensation program. For the Group Benefits Program, the System actively managed health insurance claim costs, resulting in cost savings of \$5.4 billion compared to full billing costs in FY 2008. Dental plan benefits were improved and the provider network was expanded by acquiring a new vendor through a competitive bidding process.

System performance and accountability was enhanced in fiscal year 2009. Financial and accounting operations were improved with additional automation of financial reconciliations. The System's Business Resumption Plan and Disaster

Recovery Plan were updated. Service to System customers was improved by establishing a pool of staff to assist with unexpected high call volumes, recognizing outstanding staff performers, and simplification of the self-service features of the interactive voice response phone system. The System implemented changes to COBRA based on the American Recovery and Reinvestment Act, providing a subsidy to eligible involuntarily terminated employees.

Communication improvements were achieved through the formation of a Communications and Research Division to consolidate and enhance multiple System communication efforts. The annual Statement of Retirement Benefits was improved by expanding annuity estimates beyond first eligibility to allow members to see the impact of working longer and to better plan their future retirements.

**AWARDS**

*Certificate of Achievement for Excellence in Financial Reporting*

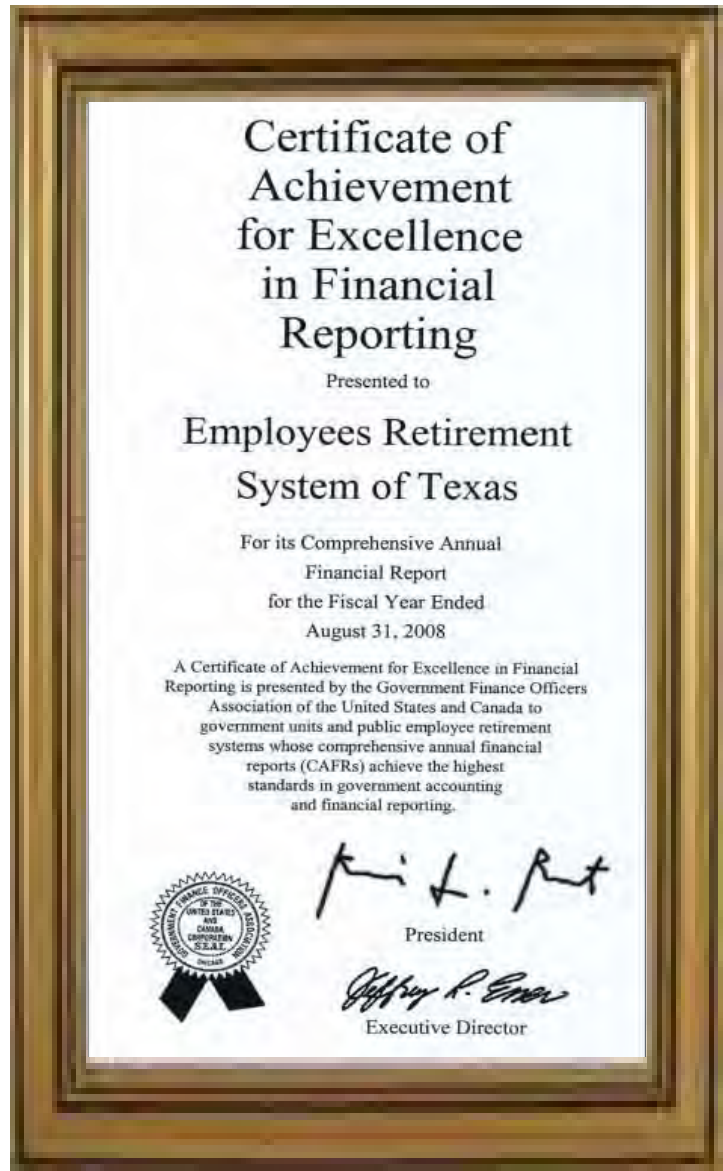
The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the System for its Comprehensive Annual Financial Report for the fiscal Year Ended August 31, 2008. The Certificate of Achievement is a prestigious 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 20 years. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to the GFOA for consideration again this year.

**ACKNOWLEDGMENTS**

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

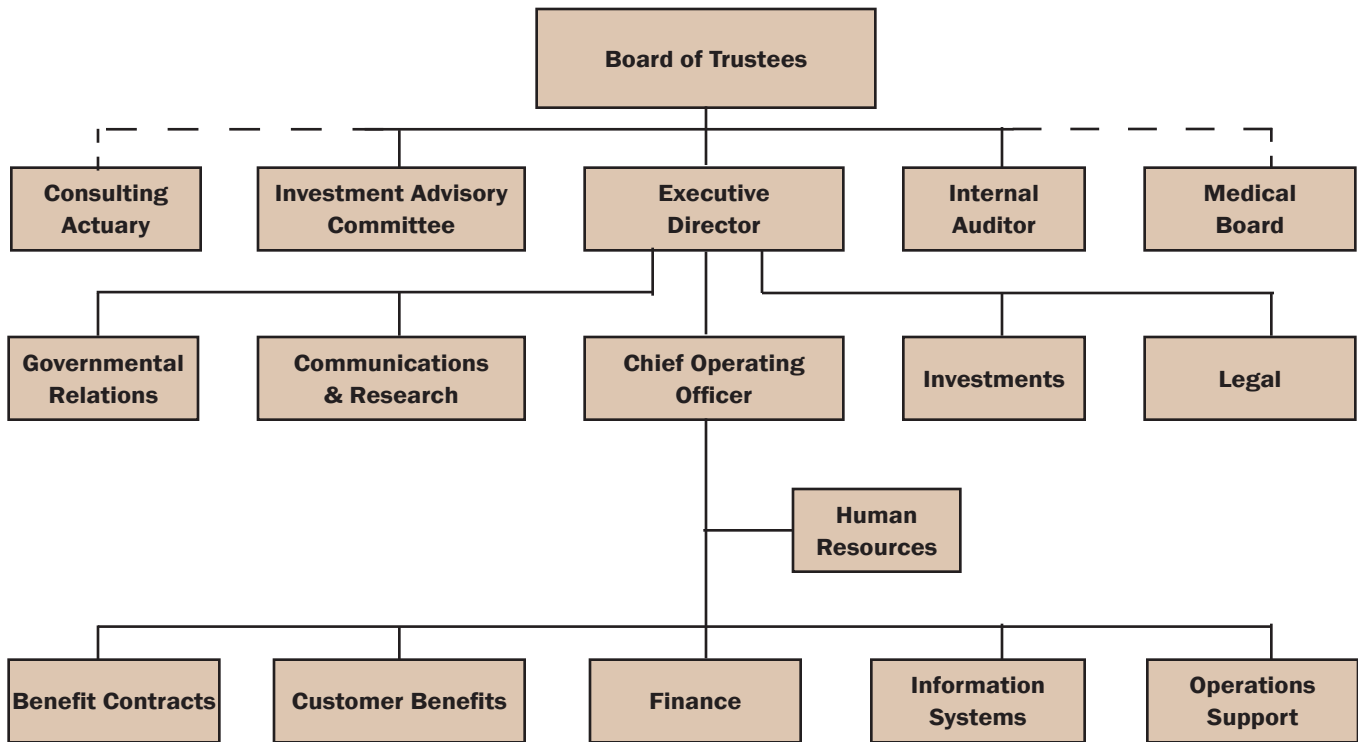


**MICHAEL C. WHEELER, CPA**  
Chief Financial Officer



# Organizational Chart and Data

As of August 31, 2009



## BOARD OF TRUSTEES

Yolanda Griego, Chair  
 I. Craig Hester, Vice Chair  
 Cydney Donnell      Owen Whitworth  
 Don Green             Donald Wood

## STAFF

### Ann S. Fuelberg, Executive Director

Jacqueline Johnson, *Deputy Executive Director of Investments*  
 Paula A. Jones, *General Counsel*  
 Robert Kukla, *Director of Benefit Contracts*  
 Mel Mireles, *Director of Information Systems*  
 William S. Nail, *Director of Governmental Relations*  
 Jordan Roe, *Manager of Operations Support*  
 Ralph Salinas, *Manager of Human Resources*  
 Marci Sundbeck, *Director of Internal Audit*  
 Catherine E. Terrell, *Director of Communications & Research*  
 Debbie Warren, *Director of Customer Benefits*  
 Michael C. Wheeler, *Chief Financial Officer*  
 Larry Zeplin, *Chief Operating Officer*

## CONSULTANTS AND ADVISORS

### Consulting Actuaries

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

### Investment Advisory Committee

**Laura T. Starks, Ph.D., Chair, The University of Texas at Austin**  
 Bob Alley, CFA  
 Milton Hixson, CFP, *Financial Management Professionals*  
 J. Luther King, Jr., CFA, *Luther King Capital Management*  
 Ken D. Mindell, *Senior Vice-President, Rosewood Management Corp.*  
 Vernon D. Torgerson, Jr., CFA, *Vice-Chair, Frost National Bank of San Antonio*

### Investment Consultants

Altius Associates  
 Callan Associates, Inc.  
 Ennis Knupp & Associates  
 RV Kuhns & Associates

### Investment Advisory Managers

*Domestic Equity*  
 Alliance Bernstein Management, LLP  
 Cortina Asset Management  
 UBS Global Asset Management

### Fixed Income

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

### International Equity

Fisher Investment Institutional Group  
 Franklin Templeton Institutional  
 JP Morgan Asset Management

### Global Custodian

J. P. Morgan Chase & Co.

### Medical Board

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

# Summary of Plan Provisions

Effective since September 1, 2008

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 for employees hired before September 1, 2009. Effective September 1, 2009, the 81<sup>st</sup> Legislature, created new plan provisions for employees hired on or after September 1, 2009. This will require that members

of the employee class hired on or after September 1, 2009 be at least 65 years old and have at least 10 years of service or have at least five years of service and the sum of age and service exceed 80 to be eligible to retire and receive a service retirement annuity. Also, the service retirement annuity will be using an average compensation based on the 48 highest months of compensation for members hired on or after September 1, 2009. It will also reduce the standard service retirement annuity by five percent for each year the member retires before age 60, with a maximum possible reduction of 25 percent, for this group. The standard service retirement annuity payable for at least 20 years of service credit as a law enforcement or custodial officer will be calculated using an average compensation based on the 48 highest months of compensation for members hired on or after September 1, 2009. Also, the standard service retirement annuity for law enforcement or custodial officers will be reduced by five percent each year the member retires before age 55, with a maximum possible reduction of 25%. For a complete description of the provision of the law that describes the Retirement Plans, see *V.T.C.A., Texas Government Code, Title 8*.

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



# Summary of Plan Provisions

Effective since September 1, 2008

ERS	LECOS	JRS I and JRS II
<b>Early Service Retirement Eligibility with Reduced Benefits:</b>		
<p>Not applicable.</p>	<ul style="list-style-type: none"> <li>• 20 years of service credit as a certified peace officer/custodial officer, under the age of 50.</li> </ul>	<ul style="list-style-type: none"> <li>• Age 60 with 10 years of service credit and currently holding judicial office, or</li> <li>• Age 60 with 12 years of service credit, regardless of whether the member currently holds a judicial office.</li> </ul>
<b>Standard Service Retirement Benefits:</b>		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>• Standard monthly annuity is equal to 2.3% of average monthly compensation multiplied by the number of years of service credit.</li> <li>• Average monthly compensation is the average of the highest 36 months of compensation.</li> <li>• Minimum standard annuity is \$150 per month.</li> <li>• Maximum standard annuity is 100% of the average monthly compensation.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>• Standard monthly annuity is 2.3% of the current State salary of a district judge multiplied by the number of years of service credit.</li> <li>• Retirement benefits are automatically adjusted as State judicial salaries increase.</li> <li>• Maximum standard annuity is 100% of the State salary being paid a district judge.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit.</li> <li>• Average monthly compensation is the average of the highest 36 months of compensation.</li> <li>• Minimum standard annuity is \$150 per month.</li> <li>• Maximum standard annuity is 100% of the average monthly compensation.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly annuity is equal to 50% of the salary for the position from which the member retired.</li> <li>• An additional 10% is paid when a member retires within one year of leaving office or within one year of last assignment as a visiting judge.</li> <li>• The monthly annuity of a member who elects to make contributions after 20 years of service would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.</li> </ul> <p><i>JRS II Only:</i></p> <ul style="list-style-type: none"> <li>• The monthly annuity of a member who elects to make contributions after reaching the Rule of 70 with at least 12 years on an appellate court would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.</li> </ul>
<b>Optional Service Retirement:</b>		
<p><i>Employee Class and Elected Class:</i></p> <ul style="list-style-type: none"> <li>• Lifetime with 100% to surviving beneficiary;</li> <li>• Lifetime with 75% to surviving beneficiary;</li> <li>• Lifetime with 50% to surviving beneficiary;</li> <li>• Lifetime with five years certain;</li> <li>• Lifetime with 10 years certain; and</li> <li>• One-time partial lump sum of up to three years of standard annuity at retirement (annuity is reduced for life and the reduced annuity is used to calculate the six beneficiary options listed above).</li> <li>• If beneficiary predeceases member, the annuity paid to the retired member who selected one of the lifetime survivor benefits is increased to the standard annuity.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as ERS.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as ERS except for the one-time partial lump sum.</li> </ul>
<b>Vesting Requirement:</b>		
<ul style="list-style-type: none"> <li>• Five or more years of service credit for Employee Class and eight or more years for Elected Class.</li> </ul>	<ul style="list-style-type: none"> <li>• 20 or more years of service credit as a certified peace officer/custodial officer.</li> </ul>	<ul style="list-style-type: none"> <li>• 12 or more years of service credit.</li> </ul>

# Summary of Plan Provisions

Effective since September 1, 2008

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

# Summary of Plan Provisions

Effective since September 1, 2008

ERS	LECOS	JRS I and JRS II
<b>Disability Retirement Benefits (Continued):</b>		
<p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"><li>• For both occupational and non-occupational disability, the standard annuity is 18.4% of the State salary of a district judge, or 2.3% of the State salary of a district judge times years of Elected Class service, whichever is greater.</li><li>• Optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.</li></ul>	<ul style="list-style-type: none"><li>• The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.</li></ul>	
<b>Death Benefits:</b>		
<p><i>Employee Class and Elected Class:</i></p> <ul style="list-style-type: none"><li>• A contributing member with a minimum of 10 years of service credit, or less than 10 years of service credit but eligible to retire and survived by a spouse or minor children; the benefit options are:<ul style="list-style-type: none"><li>- Death benefit plan filed by the member, or</li><li>- Lifetime annuity, or</li><li>- 10-year certain annuity.</li></ul></li><li>• Member with less than 10 years of service credit, or eligible to retire but not survived by a spouse or minor children, or selected in lieu of a death benefit plan; the benefit options are:<ul style="list-style-type: none"><li>- Refund of member's contribution with interest.</li><li>- If member is contributing at the date of death, an additional 5% of the member's accumulated contributions for each full year of service with a maximum of 100% of the member's accumulated contributions.</li></ul></li><li>• In case of occupational death, an additional benefit is paid to the surviving spouse or minor children. This additional benefit is equal to one year's salary based on rate at the time of death. This additional benefit is not paid if there is no surviving spouse or minor children.</li><li>• If a member dies after retirement and selected the standard annuity, the member's beneficiaries receive a benefit equal to the excess of accumulated contributions at retirement age over the monthly benefit paid before death. In addition, the beneficiaries are entitled to a lump sum death benefit of \$5,000.</li></ul>	<ul style="list-style-type: none"><li>• A contributing member with a minimum of 10 years of certified peace officer/custodial officer service may file a death benefit plan, which will provide the member's beneficiary either a lifetime annuity or a 10-year certain annuity.</li><li>• Member with 20 or more years of certified peace officer/custodial officer service, the death benefits are the same as those under the service retirement.</li></ul>	<ul style="list-style-type: none"><li>• Members have the same as those listed in the Employee Class under the ERS Plan.</li></ul>
<p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"><li>• Member with at least eight, but less than 10 years of service and under age of 60, the surviving spouse receives a lifetime annuity equal to 50% of the monthly standard annuity the member would have been entitled to at the time of death or at age 60, whichever is later.</li></ul>		





# 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. I. Craig Hester, Chair  
Ms. Cydney Donnell, Vice Chair  
Ms. Yolanda Griego  
Ms. Cheryl MacBride  
Mr. Owen Whitworth  
Mr. Donald Wood

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, 2009, 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 2008 financial statements and, in our report dated November 18, 2008, 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, the aggregate remaining fund information of the System as of August 31, 2009, and 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, 2009, 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.

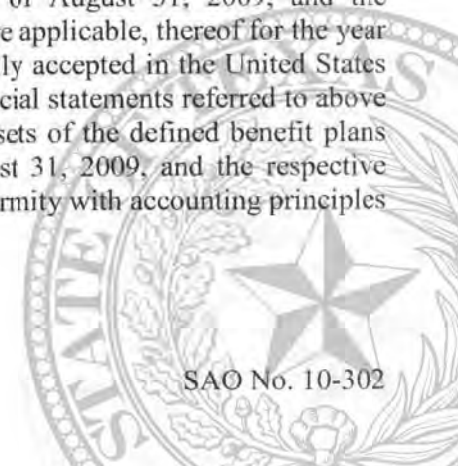
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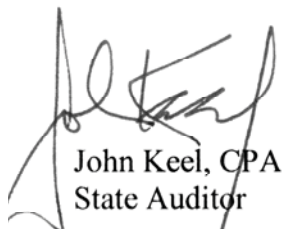
SAO No. 10-302

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, as listed in the Table of Contents, 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 but are supplementary information required by GASB. This required 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, as listed in the Table of Contents, 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 issue a report on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. 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, 2009



# Management's Discussion and Analysis

Year Ended August 31, 2009

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, 2009. 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:

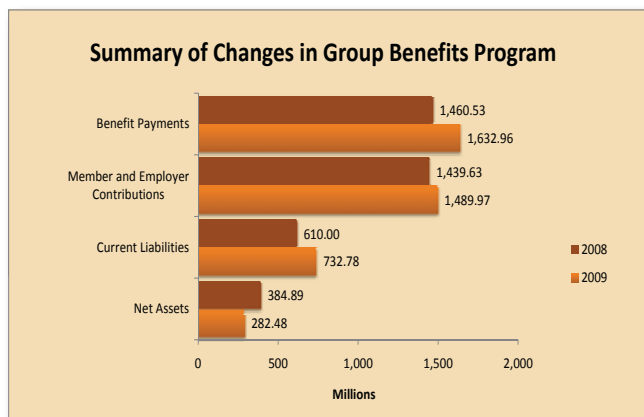
- Social Security Administration,
- Death Benefits for Public Safety Officers,
- Compensation to Victims of Crime,

- 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			2008-2009 Incr (Decr) %
	2009	2008	2007	
Net Assets	\$ 282.48	\$ 384.89	\$ 369.91	(26.61)
Current Liabilities	732.78	610.00	580.30	20.13
Member and Employer Contributions	1,489.97	1,439.63	1,390.29	3.50
Benefit Payments	1,632.96	1,460.53	1,293.96	11.81

The increases in Benefit Payments and Current Liabilities resulted primarily from higher costs for health care and member growth. The decrease in Net Assets is a result of medical cost increases outpacing contributions.



## Financial Highlights – Fiduciary Funds

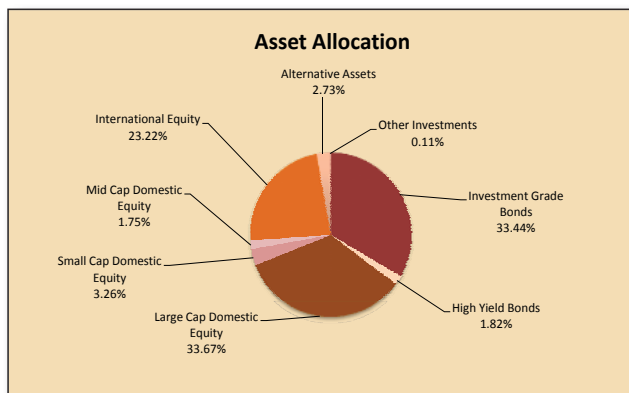
- Net assets of the fiduciary funds administered by the System totaled \$19.94 billion as of August 31, 2009, compared with \$22.39 billion as of August 31, 2008. The investment portfolio returned (6.60%) for the year. The \$2.45 billion decrease resulted primarily from adverse market conditions affecting investment assets. The time weighted rate of return for three and five years were 0.49% and 4.48% respectively.
- 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.

# Management's Discussion and Analysis

Year Ended August 31, 2009

The fiscal year-end asset allocation stood at:

- 33.44% investment grade bonds
- 1.82% high yield bonds
- 33.67% large cap domestic equity
- 3.26% small cap domestic equity
- 1.75% mid cap domestic equity
- 23.22% international equity
- 2.73% alternative assets
- 0.11% 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			2008-2009 Incr (Decr) %
	2009	2008	2007	
	\$	\$	\$	
<b>Contributions:</b>				
Retirement & Other	837.86	795.88	750.62	5.27
Insurance	597.91	559.52	575.19	6.86
<b>Total (Exh. XI)</b>	<b>1,435.77</b>	<b>1,355.40</b>	<b>1,325.81</b>	<b>5.93</b>
<b>Benefit Payments:</b>				
Retirement & Other	1,581.54	1,507.27	1,448.75	4.93
Insurance	596.86	558.23	574.03	6.92
<b>Total (Exh. XI)</b>	<b>2,178.40</b>	<b>2,065.50</b>	<b>2,022.78</b>	<b>5.47</b>

- 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, 2009. The funded ratios are as follows:

Plans	Funded Ratios August 31,	
	2009	2008
Employees Retirement System	87.4%	92.6%
Law Enforcement and Custodial Officer Supplemental Retirement Fund	86.1%	92.0%
Judicial Retirement System of Texas Plan Two	97.1%	97.4%

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,			2008-2009 Incr (Decr) %
	2009	2008	2007	
	\$	\$	\$	
Changes in Fiduciary Net Assets (Exh. IX)	(2,444.88)	(2,076.16)	2,017.78	(17.76)
Net Assets	19,942.78	22,387.67	24,463.83	(10.92)

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

## Additions

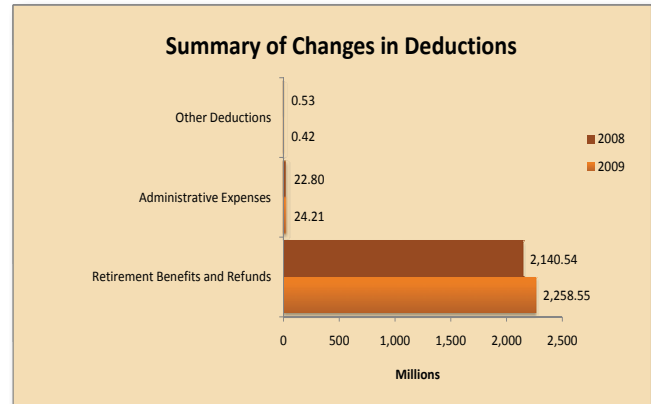
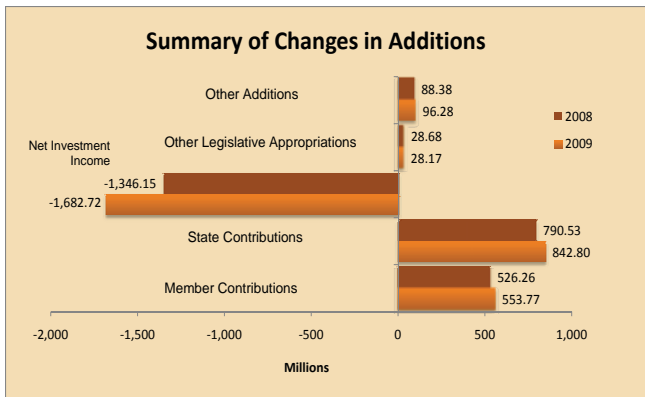
Retirement benefits are financed primarily through the collection of member and state retirement contributions, investment income, legislative appropriations, and contributions transferred from the Teacher Retirement System. Additions in Fiduciary Net Assets have been extracted from Exhibit IX, Combined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

	August 31,			2008-2009 Incr (Decr) %
	2009	2008	2007	
	\$	\$	\$	
Member Contributions	553.77	526.26	508.25	5.23
State Contributions	842.80	790.53	779.13	6.61
Net Investment Income	(1,682.72)	(1,346.15)	2,735.09	(25.00)
Other Legislative Appropriations	28.17	28.68	29.03	(1.78)
Other Additions	96.28	88.38	79.14	8.94
<b>Total Additions (Exh. IX)</b>	<b>(161.70)</b>	<b>87.70</b>	<b>4,130.64</b>	<b>(284.38)</b>

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, 2009



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 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:

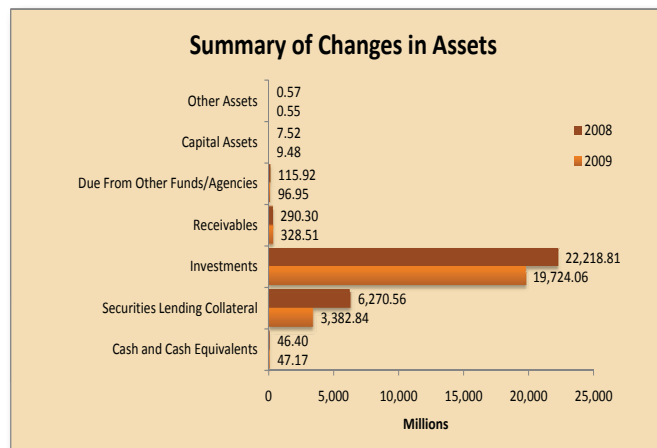
	August 31,			2008-09 % Incr (Decr)
	2009	2008	2007	
Benefits	2,258.55	2,140.54	2,089.92	5.51
Administrative Expenses	24.21	22.80	22.45	6.18
Other Deductions	0.42	0.53	0.54	(20.75)
<b>Total Deductions (Exh. IX)</b>	<b>2,283.18</b>	<b>2,163.87</b>	<b>2,112.91</b>	<b>5.51</b>

## Assets

Investments, both short-term and long-term, are the primary asset of the System's pension and other employee benefit trust funds as shown in the following table. Asset information has been extracted from Exhibit VIII.

Changes in assets are summarized in millions as follows:

	August 31,			2008-09 % Incr (Decr)
	2009	2008	2007	
Cash and Cash Equivalents	47.17	46.40	114.49	1.66
Securities Lending Collateral	3,382.84	6,270.56	6,038.31	(46.05)
Investments	19,724.06	22,218.81	24,423.97	(11.23)
Receivables	328.51	290.30	231.63	13.16
Due from Other Funds/Agencies	96.95	115.92	97.95	(16.37)
Capital Assets	9.48	7.52	5.77	26.06
Other Assets	0.55	0.57	0.57	(3.51)
<b>Total Assets (Exh. VIII)</b>	<b>23,589.56</b>	<b>28,950.08</b>	<b>30,912.69</b>	<b>(18.52)</b>



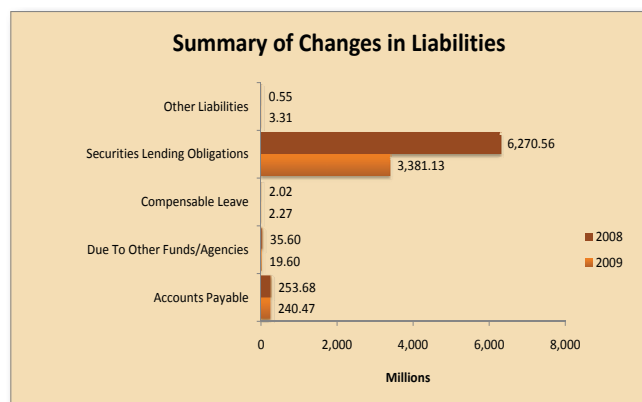
# Management's Discussion and Analysis

Year Ended August 31, 2009

## 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,			2008-2009 Incr (Decr) %
	2009	2008	2007	
	\$	\$	\$	%
Accounts Payable	240.47	253.68	385.24	(5.21)
Due to Other Funds/ Agencies	19.60	35.60	22.89	(44.94)
Compensable Leave	2.27	2.02	1.92	12.38
Securities Lending Obligations	3,381.13	6,270.56	6,038.31	(46.08)
Other Liabilities	3.31	0.55	0.50	502.68
<b>Total Liabilities (Exh.VIII)</b>	<b>3,646.78</b>	<b>6,562.41</b>	<b>6,448.86</b>	<b>(44.43)</b>



## Funding Status and Progress

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

The latest annual actuarial valuation of the System, as of August 31, 2009, (compared to the August 31, 2008 actuarial valuation) is summarized in millions as follows:

Plans	Actuarial Net Asset/(Liability) August 31,	
	2009	2008
Employees Retirement System	\$(3,398.16)	\$(1,891.36)
Law Enforcement and Custodial Officer Supplemental Retirement Fund	(126.29)	(67.60)
Judicial Retirement System of Texas Plan Two	(7.29)	(6.21)

For the Employees Retirement System Fund, the August 31, 2009 actuarial valuation shows an unfunded accrued liability of \$3,398.2 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 87.4% as of August 31, 2009. The valuation shows that the total normal cost is 12.38% of payroll and total contributions are 12.90% of payroll. The total contribution rate fails to cover the normal cost by 0.52% 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 15.84% 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, 2009 actuarial valuation for the Law Enforcement and Custodial Officer Supplemental Retirement Fund shows that the total normal cost rate for fiscal year 2009 is 2.07% of payroll. At August 31, 2009, the unfunded accrued liability is \$126.3 million, and the funded ratio is 86.1%. Total contributions are 2.09% of payroll. The contribution rate exceeds the normal cost by 0.02% of payroll. As a result, the amortization period is currently infinite and the funding objective is not currently being realized. For fiscal year 2009, 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 2.58% of payroll.

For the Judicial Retirement System of Texas Plan II, the August 31, 2009 actuarial valuation shows that the total normal cost is 20.30% of payroll and unfunded accrued liability is \$7.3 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 97.1% as of August 31, 2009. Assuming state contributions of 16.83% of payroll and member contributions of 6% of pay, the amortization period is 4.8 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, 2009 actuarial valuation shows an unfunded accrued liability of \$22.0 billion. The funded ratio is 0.0%. The valuation shows that the total normal cost is 10.0% of payroll and total contributions are 24.2% of the annual required contribution. The Annual Required Contribution (ARC) as of August 31, 2009 is 19.9% of payroll.

# Management's Discussion and Analysis

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Year Ended August 31, 2009

Contributions include health care premiums, state and member contributions, and retiree drug subsidy payments. Retiree premiums were \$114.4 million. Employer contributions were \$447.8 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 2009 totaling \$35.8

million. The above amounts plus net investment income of \$1.1 million resulted in additions of \$599.7 million. These were offset entirely by \$596.8 million in benefit payments and \$2.9 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, 2009 (With Comparative Totals at August 31, 2008)

<b>ASSETS</b>	<b>Governmental Activities</b>	
	<b>August 31,</b>	
	<b>2009</b>	<b>2008</b>
<i>Current Assets:</i>	\$	\$
<i>Cash and Cash Equivalents:</i>		
Cash in State Treasury	14,410,385	23,219,929
Total Cash and Cash Equivalents	14,410,385	23,219,929
Securities Lending Collateral	143,530,008	70,014,358
Short-Term Investments	211,673,425	393,237,756
Legislative Appropriations	9,316	4,127
Receivables	119,648,400	99,935,970
Due From Fiduciary Funds	16,656,375	707,804
Due From Other Agencies	22,295	21,355
Total Current Assets	505,950,204	587,141,299
<i>Non-Current Assets:</i>		
Investments	509,391,746	407,818,149
Total Non-Current Assets	509,391,746	407,818,149
<b>Total Assets</b>	<b>1,015,341,950</b>	<b>994,959,448</b>
<b>LIABILITIES</b>		
<i>Current Liabilities:</i>		
Payables	499,111,144	462,351,955
Due To Fiduciary Funds	89,768,758	77,229,724
Deferred Revenue	404,169	415,366
Obligations Under Securities Lending	143,514,894	70,014,358
Total Current Liabilities	732,798,965	610,011,403
<b>Total Liabilities</b>	<b>732,798,965</b>	<b>610,011,403</b>
<b>NET ASSETS</b>		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program	282,483,838	384,891,655
Unrestricted	59,147	56,390
<b>Total Net Assets (Exh. II &amp; III)</b>	<b>282,542,985</b>	<b>384,948,045</b>

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

# Exhibit II

## Statement of Activities

Year Ended August 31, 2009 (With Comparative Totals for August 31, 2008)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue & Changes in Net Assets Governmental Activities	
		Charges for Services	Operating Grants & Contributions	August 31,	
	\$	\$	\$	2009	2008
<i>Governmental Activities:</i>					
Social Security Administration	60,935	64,322		3,387	11,147
Death Benefits-Peace Officers, Firemen, etc.	1,865,875	1,865,875			
Compensation to Victims of Crime	2,000,000	2,000,000			
Death Benefits-Retiree \$5,000 Lump Sum	7,366,524	7,365,894		(630)	
Group Benefits Program	1,642,024,198	1,490,131,688	49,484,693	(102,407,817)	14,978,460
<b>Total Governmental Activities</b>	<b>1,653,317,532</b>	<b>1,501,427,779</b>	<b>49,484,693</b>		
			<b>Change in Net Assets (Exh. IV)</b>	<b>(102,405,060)</b>	<b>14,989,607</b>
			<b>Net Assets - Beginning</b>	<b>384,948,045</b>	<b>369,958,438</b>
			<b>Net Assets - Ending (Exh. I)</b>	<b>282,542,985</b>	<b>384,948,045</b>

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

# Exhibit III

## Balance Sheet – Governmental Funds

August 31, 2009 (With Comparative Totals at August 31, 2008)

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)	2009	2008
	\$	\$	\$	\$	\$	\$
<b>Current Assets:</b>						
Cash and Cash Equivalents:						
Cash in State Treasury	60,991				60,991	45,244
Total Cash and Cash Equivalents	60,991	-	-	-	60,991	45,244
Legislative Appropriations				9,316	9,316	4,127
Accounts Receivable of	\$ 31,410					
Less: Est. Uncollectible Social Security Fees of	(25,647)	5,763			5,763	17,615
Total Current Assets	66,754	-	-	9,316	76,070	66,986
<b>Total Assets</b>	<b>66,754</b>	<b>-</b>	<b>-</b>	<b>9,316</b>	<b>76,070</b>	<b>66,986</b>
<b>LIABILITIES &amp; FUND BALANCES</b>						
<b>Current Liabilities:</b>						
<i>Payables:</i>						
Voucher/Accounts Payable				9,316	9,316	4,127
Due To Other Funds (Note 1.G)	5,695			630	6,325	4,810
Deferred Revenues	1,282				1,282	1,659
Total Current Liabilities	6,977	-	-	9,946	16,923	10,596
<b>Total Liabilities</b>	<b>6,977</b>	<b>-</b>	<b>-</b>	<b>9,946</b>	<b>16,923</b>	<b>10,596</b>
<b>Fund Balances:</b>						
<i>Unreserved:</i>						
Undesignated, Reported In:						
Special Revenue Funds	59,777	-	-	(630)	59,147	56,390
<b>Total Fund Balances (Exh. IV)</b>	<b>59,777</b>	<b>-</b>	<b>-</b>	<b>(630)</b>	<b>59,147</b>	<b>56,390</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>66,754</b>	<b>-</b>	<b>-</b>	<b>9,316</b>	<b>76,070</b>	<b>66,986</b>
Total Fund Balances - Governmental Funds (above):					59,147	56,390
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.						
					282,483,838	384,891,655
<b>Net Assets of Governmental Activities (Exhibit I)</b>					<b>282,542,985</b>	<b>384,948,045</b>

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



# Exhibit IV

## Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Year Ended August 31, 2009 (With Comparative Totals for August 31, 2008)

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	
	(0929) (U/F 0929)	(0001) (U/F 3001)	(0469) (U/F 3003)	(0001) (U/F 3008)	2009	2008
	\$	\$	\$	\$	\$	\$
<i>Legislative Appropriations Out of the State's General Revenue Fund:</i>						
<i>Appropriation Revenue:</i>						
For Death Benefits Peace Officers, Etc.		1,865,875			1,865,875	3,423,316
For Victims of Crime			2,000,000		2,000,000	2,250,000
For Death Benefits-Retirees				7,365,894	7,365,894	6,901,496
<b>Total Appropriation Revenue</b>		<b>1,865,875</b>	<b>2,000,000</b>	<b>7,365,894</b>	<b>11,231,769</b>	<b>12,574,812</b>
Administration Fees of	\$ 74,969					
Less: Est. Uncollectible Social Security Fees of	(10,647)	64,322			64,322	65,137
<b>Total Revenues</b>		<b>64,322</b>	<b>1,865,875</b>	<b>2,000,000</b>	<b>7,365,894</b>	<b>11,296,091</b>
<b>EXPENDITURES</b>						
<i>Current:</i>						
Death Benefits		1,865,875	2,000,000	7,366,524	11,232,399	12,574,812
<i>Administrative Expenditures:</i>						
Salaries & Wages	42,321				42,321	38,179
Payroll Related Costs	9,808				9,808	9,172
Professional Fees & Services	2,743				2,743	1,020
Travel	275				275	282
Materials & Supplies	1,807				1,807	2,402
Communications & Utilities	797				797	619
Repairs & Maintenance	251				251	315
Rentals & Leases	692				692	489
Printing & Reproduction	78				78	1
Other Expenditures	2,163				2,163	1,511
<b>Total Administrative Expenditures</b>	<b>60,935</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,935</b>	<b>53,990</b>
<b>Total Expenditures</b>	<b>60,935</b>	<b>1,865,875</b>	<b>2,000,000</b>	<b>7,366,524</b>	<b>11,293,334</b>	<b>12,628,802</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>3,387</b>	<b>-</b>	<b>-</b>	<b>(630)</b>	<b>2,757</b>	<b>11,147</b>
<b>Fund Balances - Beginning</b>	<b>56,390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56,390</b>	<b>45,243</b>
<b>Fund Balances - Ending (Exh. III)</b>	<b>59,777</b>	<b>-</b>	<b>-</b>	<b>(630)</b>	<b>59,147</b>	<b>56,390</b>
Net Change in Fund Balances - Governmental Funds:					2,757	11,147

Amounts reported for 'Governmental Activities' in the Statement of Activities (Exhibit II) are different because:

An Internal Service Fund is used by the System to account for the revenues and expenses associated with the Group Benefits Program for State employees and employees of certain institutions of higher education. The net revenue (expense) of the Internal Service Fund (Exhibit VI) is included in Governmental Activities in the Statement of Activities.

**Change in Net Assets of Governmental Activities (Exhibit II)**

(102,407,817)	14,978,460
<b>(102,405,060)</b>	<b>14,989,807</b>

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

## Exhibit V

### Statement of Net Assets – Proprietary Fund

August 31, 2009 (With Comparative Totals at August 31, 2008)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)	
	Totals	
	August 31,	
	2009	2008
	\$	\$
<b>ASSETS</b>		
<b>Current Assets:</b>		
<i>Cash and Cash Equivalents:</i>		
Cash in State Treasury	14,349,394	23,174,685
<b>Total Cash and Cash Equivalents</b>	<b>14,349,394</b>	<b>23,174,685</b>
Securities Lending Collateral	143,530,008	70,014,358
<i>Short-Term Investments:</i>		
Other Investments	211,673,425	393,237,756
<b>Total Short-Term Investments</b>	<b>211,673,425</b>	<b>393,237,756</b>
<i>Receivables:</i>		
Interest Receivable	3,308,510	3,598,630
Accounts Receivable	114,214,720	96,199,874
Unsettled Sales-Investment Receivables	1,917,739	119,851
COBRA Stimulus Receivable (Note 7)	201,668	-
<b>Total Receivables</b>	<b>119,642,637</b>	<b>99,918,355</b>
Due From Other Funds (Note 1.G)	16,656,375	707,804
Due From Other Agencies (Note 1.G)	22,295	21,355
<b>Total Current Assets</b>	<b>505,874,134</b>	<b>587,074,313</b>
<b>Non-Current Assets:</b>		
<i>Investments:</i>		
U.S. Government and Agency Obligations	383,888,043	267,677,416
Corporate Obligations	125,503,703	140,140,733
<b>Total Investments</b>	<b>509,391,746</b>	<b>407,818,149</b>
<b>Total Non-Current Assets</b>	<b>509,391,746</b>	<b>407,818,149</b>
<b>Total Assets</b>	<b>1,015,265,880</b>	<b>994,892,462</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
<i>Claims Payable:</i>		
Incurred, Self-Funded	55,521,167	33,751,480
Incurred, Insured	10,036,947	21,830,349
Incurred But Not Reported, Self-Funded	362,866,000	342,336,000
Incurred But Not Reported, Insured	66,327,000	64,430,000
<b>Total Claims Payable</b>	<b>494,751,114</b>	<b>462,347,829</b>
Unsettled Purchases-Investment Payables	4,350,714	-
<b>Total Payables</b>	<b>499,101,828</b>	<b>462,347,829</b>
Due To Other Funds (Note 1.G)	89,762,432	77,224,914
Deferred Revenue	402,888	413,706
Obligations Under Securities Lending	143,514,894	70,014,358
<b>Total Current Liabilities</b>	<b>732,782,042</b>	<b>610,000,807</b>
<b>Total Liabilities</b>	<b>732,782,042</b>	<b>610,000,807</b>
<b>NET ASSETS</b>		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program	282,483,838	384,891,655
<b>Total Net Assets (Exh. VI)</b>	<b>282,483,838</b>	<b>384,891,655</b>

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

# Exhibit VI

## Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund Year Ended August 31, 2009 (With Comparative Totals for August 31, 2008)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)	
	Totals August 31,	
<b>OPERATING REVENUES</b>	2009	2008
	\$	\$
<i>Contributions to Insurance Program:</i>		
<i>From the State of Texas:</i>		
For Employees	1,108,150,334	1,075,353,488
Total Contributions from the State of Texas	1,108,150,334	1,075,353,488
<i>From Members:</i>		
For Employees	373,952,402	356,103,139
For COBRA	7,867,704	8,175,159
Total Contributions from Members	381,820,106	364,278,298
Total Contributions to Insurance Program	1,489,970,440	1,439,631,786
<i>Other Operating Revenues:</i>		
COBRA 2% Administration Fee	161,248	163,274
Warrants Voided by Statute of Limitations	8,548	7,487
Penalty Assessed to Insurance Carrier	805,000	1,116,288
Miscellaneous Operating Revenue	279,148	256,261
Total Other Operating Revenues	1,253,944	1,543,310
<b>Total Operating Revenues</b>	<b>1,491,224,384</b>	<b>1,441,175,096</b>
<b>OPERATING EXPENSES</b>		
<i>Employee Benefit Payments:</i>		
For Employees	1,609,991,570	1,437,632,320
For COBRA	22,970,831	22,895,369
Total Employee Benefit Payments	1,632,962,401	1,460,527,689
<i>Administrative Expenses:</i>		
Salaries & Wages	4,787,161	4,520,177
Payroll Related Costs	1,141,435	1,124,332
Professional Fees & Services	1,200,303	831,376
Travel	28,922	34,159
Materials & Supplies	580,511	604,864
Communications & Utilities	244,100	244,175
Repairs & Maintenance	250,905	199,906
Rentals & Leases	347,125	364,798
Printing & Reproduction	29,046	29,031
Other Operating Expenses	452,289	369,686
Total Administrative Expenses	9,061,797	8,322,504
<b>Total Operating Expenses</b>	<b>1,642,024,198</b>	<b>1,468,850,193</b>
<b>Operating Loss</b>	<b>(150,799,814)</b>	<b>(27,675,097)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Net Increase in Fair Value of Investments	20,359,007	4,942,679
Interest Revenue	27,006,519	36,901,927
Class Action Settlements	6,783	80,522
<i>Securities Lending Activities:</i>		
Loan Premium on Securities Lending	1,179,498	3,000,912
Less: Broker Rebates	(323,340)	(2,309,779)
Agent Fees	(128,694)	(103,300)
Net Securities Lending Activity	727,464	587,833
Federal Revenue - COBRA Stimulus (Note 7)	201,668	-
Settlement Revenue	90,556	140,596
<b>Total Non-Operating Revenues</b>	<b>48,391,997</b>	<b>42,653,557</b>
<b>Change in Net Assets</b>	<b>(102,407,817)</b>	<b>14,978,460</b>
<b>NET ASSETS</b>		
<b>Net Assets - Beginning</b>	<b>384,891,655</b>	<b>369,913,195</b>
<b>Net Assets - Ending (Exh. V)</b>	<b>282,483,838</b>	<b>384,891,655</b>

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



# Exhibit VII

## Statement of Cash Flows – Proprietary Fund

Year Ended August 31, 2009 (With Comparative Totals for August 31, 2008)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)	
	August 31, 2009	August 31, 2008
<b>Cash Flows from Operating Activities:</b>	\$	\$
Cash Received from Members	380,200,245	365,828,187
Cash Received from The State of Texas	1,103,431,091	1,112,468,492
Cash Payments to Insurance Carriers and Third Party Administrators	(1,600,571,466)	(1,427,455,888)
Cash Payments to Employees for Services	(6,003,351)	(5,914,365)
Cash Payments for Goods and Services	(3,031,867)	(34,033,706)
Other Cash Received	866,053	1,214,160
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(125,109,295)</b>	<b>12,106,880</b>
<b>Cash Flows from Investing Activities:</b>		
Net Purchases (Sales) of Short-Term Investment Fund	114,900,000	(22,097,101)
Interest on Deposit in State Treasury	1,384,004	1,553,142
<b>Net Cash Used by Investing Activities</b>	<b>116,284,004</b>	<b>(20,543,959)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(8,825,291)</b>	<b>(8,437,079)</b>
<b>Cash and Cash Equivalents:</b>		
<b>Beginning of Year</b>	<b>23,174,685</b>	<b>31,611,764</b>
<b>End of Year</b>	<b>14,349,394</b>	<b>23,174,685</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>		
<b>Operating Loss</b>	<b>(150,799,814)</b>	<b>(27,675,097)</b>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:</b>		
<b>Operating Activities:</b>		
Depository Interest Transferred to Retiree Insurance Plan	(965,513)	(116,197)
Settlement Revenue	90,556	140,596
Federal Revenue - COBRA Stimulus	201,668	
Non Cash Expenses Allocated from Investment Pool	190	
<b>Change in Assets and Liabilities:</b>		
(Increase) Decrease in Accounts Receivable	(18,216,513)	1,657,893
(Increase) Decrease in Due From Other Agencies	(940)	3,320
(Increase) Decrease in Due From Other Funds	(465,110)	1,017,598
Increase (Decrease) in Accounts Payable	32,403,286	33,071,901
Increase (Decrease) in Due To Other Funds	12,653,714	3,973,371
Increase (Decrease) in Deferred Revenue	(10,819)	33,495
<b>Total Adjustments</b>	<b>25,690,519</b>	<b>39,781,977</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(125,109,295)</b>	<b>12,106,880</b>
<b>Non-Cash Investing Activities:</b>		
Net Appreciation (Depreciation) in Fair Value of Non-Cash Equivalent Investments	(20,134,354)	(4,939,779)

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, 2009 (With Comparative Totals at August 31, 2008)

	Pension and Other Employee Benefit Trust Funds			Agency Funds	Totals August 31,	
	Defined Benefit Plans	Defined Contribution Plans and Cafeteria Plan	Total Pension and Other Employee Benefit Trust Funds		2009	2008
	\$	\$	\$		\$	\$
<b>ASSETS</b>						
Cash and Cash Equivalents	39,535,264	7,593,550	47,128,814	45,882	47,174,696	46,394,786
Securities Lending Collateral	3,382,836,028		3,382,836,028		3,382,836,028	6,270,564,649
Short-Term Investments	958,317,761		958,317,761		958,317,761	146,041,779
Legislative Appropriations	297,930		297,930		297,930	323,914
Investments	18,765,743,738		18,765,743,738		18,765,743,738	22,072,764,771
Receivables	322,071,661	6,427,353	328,499,014	13,905	328,512,919	290,297,625
Due From Other Funds (Note 1.G)	91,920,956	997	91,921,953		91,921,953	111,385,406
Due From Other Agencies (Note 1.G)	5,025,029	5,409	5,030,438		5,030,438	4,536,895
Prepaid Expenses		250,000	250,000		250,000	250,000
Capital Assets, Net of Accumulated Depreciation	9,480,105	-	9,480,105		9,480,105	7,520,955
<b>Total Assets</b>	<b>23,575,228,472</b>	<b>14,277,309</b>	<b>23,589,505,781</b>	<b>59,787</b>	<b>23,589,565,568</b>	<b>28,950,080,780</b>
<b>LIABILITIES</b>						
Payables	230,796,835	9,659,000	240,455,835	13,058	240,468,893	253,684,086
Due To Other Funds (Note 1.G)	18,687,877	120,697	18,808,574	997	18,809,571	34,863,485
Due To Other Agencies (Note 1.G)	791,929		791,929		791,929	733,183
Deferred Revenue	3,267,414	1,753	3,269,167		3,269,167	513,875
Employees Compensable Leave	2,266,754		2,266,754		2,266,754	2,021,884
Obligations Under Securities Lending	3,381,129,801		3,381,129,801		3,381,129,801	6,270,564,649
Funds Held for Others				45,732	45,732	33,828
<b>Total Liabilities</b>	<b>3,636,940,610</b>	<b>9,781,450</b>	<b>3,646,722,060</b>	<b>59,787</b>	<b>3,646,781,847</b>	<b>6,562,414,990</b>
<b>NET ASSETS</b>						
<b>Net Assets Held in Trust for Pension Benefits and Other Purposes (Exh. IX) *</b>	<b>19,938,287,862</b>	<b>4,495,859</b>	<b>19,942,783,721</b>	<b>-</b>	<b>19,942,783,721</b>	<b>22,387,665,790</b>

(Exh. X)

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

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

# Exhibit IX

## Combined Statement of Changes in Fiduciary Net Assets

Year Ended August 31, 2009 (With Comparative Totals for August 31, 2008)

	Defined Benefit Plans	Defined Contribution Plans and Cafeteria Plan	Pension and Other Employee Benefit Trust Funds	
			Totals August 31,	
ADDITIONS	\$	\$	2009	2008
	\$	\$	\$	\$
<b>Contributions:</b>				
Member Contributions	471,881,372	81,889,495	553,770,867	526,257,964
Employer Contributions	842,801,601		842,801,601	790,528,600
Legislative Appropriations	28,170,864		28,170,864	28,684,240
Service Contributions Transferred from				
Teacher Retirement System	57,135,135		57,135,135	52,773,854
Federal Revenues-Medicare Part D	35,783,527		35,783,527	32,963,502
Settlement Revenue		6,633	6,633	153
Other Contributions - Forfeitures		1,354,353	1,354,353	973,267
<b>Total Contributions</b>	<b>1,435,772,499</b>	<b>83,250,481</b>	<b>1,519,022,980</b>	<b>1,432,181,580</b>
<b>Investment Income:</b>				
From Investing Activities	(1,719,278,809)	643,014	(1,718,635,795)	(1,380,481,611)
From Securities Lending Activities	35,913,270		35,913,270	34,336,179
<b>Total Investment Income</b>	<b>(1,683,365,539)</b>	<b>643,014</b>	<b>(1,682,722,525)</b>	<b>(1,346,145,432)</b>
<b>Other Additions:</b>				
Other Revenue	969,350	444,081	1,413,431	959,589
Transfers In	328,301	260,000	588,301	708,516
<b>Total Other Additions</b>	<b>1,297,651</b>	<b>704,081</b>	<b>2,001,732</b>	<b>1,668,105</b>
<b>Total Additions</b>	<b>(246,295,389)</b>	<b>84,597,576</b>	<b>(161,697,813)</b>	<b>87,704,253</b>
<b>DEDUCTIONS</b>				
<b>Benefits:</b>				
Benefits	2,097,671,919	80,161,585	2,177,833,504	2,057,063,126
Refunds of Contributions	71,164,389		71,164,389	74,577,548
Service Contributions Transferred				
to Teacher Retirement System	9,558,927		9,558,927	8,897,722
<b>Total Benefits</b>	<b>2,178,395,235</b>	<b>80,161,585</b>	<b>2,258,556,820</b>	<b>2,140,538,396</b>
Administrative Expenses	20,876,840	3,332,888	24,209,728	22,795,040
<b>Other Deductions:</b>				
Other Expenses	7,842		7,842	9,637
Transfers Out	409,866		409,866	522,947
<b>Total Other Deductions</b>	<b>417,708</b>	<b>-</b>	<b>417,708</b>	<b>532,584</b>
<b>Total Deductions</b>	<b>2,199,689,783</b>	<b>83,494,473</b>	<b>2,283,184,256</b>	<b>2,163,866,020</b>
<b>Net Increase</b>	<b>(2,445,985,172)</b>	<b>1,103,103</b>	<b>(2,444,882,069)</b>	<b>(2,076,161,767)</b>
<b>NET ASSETS</b>				
<b>Net Assets Held in Trust For Pension</b>				
<b>Benefits and Other Purposes:</b>				
<b>Beginning of Year</b>	<b>22,384,273,034</b>	<b>3,392,756</b>	<b>22,387,665,790</b>	<b>24,463,827,557</b>
<b>End of Year (Exh. VIII)</b>	<b>19,938,287,862</b>	<b>4,495,859</b>	<b>19,942,783,721</b>	<b>22,387,665,790</b>

(Exh. XI)

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

# Exhibit X

## Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds August 31, 2009 (With Comparative Totals at August 31, 2008)

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrange- ment (5039)	State Retiree Health Plan (3973)
<b>ASSETS</b>	\$	\$	\$	\$	\$	\$
<i>Cash and Short-Term Investments:</i>						
<i>Cash and Cash Equivalents:</i>						
Cash on Hand	276,019					460
Cash in Bank	23,000					
Cash in State Treasury	26,282,233	746,718		738,965		11,467,869
Total Cash and Cash Equivalents	26,581,252	746,718		738,965		11,468,329
Securities Lending Collateral	3,241,245,338	107,618,808		33,971,882		
<i>Short-Term Investments:</i>						
Other Short-Term Investments	917,671,843	30,673,604	-	9,927,610	-	44,704
Total Short-Term Investments	917,671,843	30,673,604	-	9,927,610	-	44,704
Total Cash and Short-Term Investments	4,185,498,433	139,039,130	-	44,638,457	-	11,513,033
Legislative Appropriations			297,930			
<i>Investments:</i>						
U.S. Government and Agency Obligations	4,603,553,313	151,967,084		46,682,399		
Corporate Equity	7,461,848,672	249,351,668		81,039,291		
Corporate Obligations	1,373,767,002	45,471,276		14,147,193		
Foreign Securities	4,537,028,208	151,613,307		49,274,325		
Total Investments	17,976,197,195	598,403,335	-	191,143,208	-	-
<i>Receivables:</i>						
Interest and Dividends Receivable	79,710,476	2,644,598		807,061		2,369
Contributions/Accounts Receivable	57,502,206	7,505	3,972	1,281,071		10,284,443
Unsettled Sales-Investment Receivables	162,652,052	5,425,985		1,749,923		
Margin Receivable from Broker						
Total Receivables	299,864,734	8,078,088	3,972	3,838,055	-	10,286,812
Due From Other Funds (Note 1.G)	1,278,682	527,307		1,286,956		88,828,011
Due From Other Agencies (Note 1.G)	5,025,029					
Prepaid Claims Expense						
<i>Capital Assets:</i>						
<i>Non-Depreciable:</i>						
Land and Land Improvements	874,889					
<i>Depreciable, Net of Accumulated Depreciation</i>						
<i>of \$14,161,172 and \$13,440,720 respectively:</i>						
Building	8,121,357					
Furniture and Equipment	462,735					
Vehicles	21,124					
Total Capital Assets	9,480,105					
<b>Total Assets</b>	<b>22,477,344,178</b>	<b>746,047,860</b>	<b>301,902</b>	<b>240,906,676</b>	<b>-</b>	<b>110,627,856</b>
<b>LIABILITIES</b>						
<i>Payables:</i>						
Voucher/Accounts Payable	17,320,952	230,960	297,930	84,423		108,937,977
Annuities Payable	66,714	2,519				
Unsettled Purchases-Investment Payables	99,508,151	3,304,066		1,043,143		
Total Payables	116,895,817	3,537,545	297,930	1,127,566	-	108,937,977
Due To Other Funds (Note 1.G)	17,297,725	167,293		49,946		1,172,913
Due To Other Agencies (Note 1.G)	791,929					
Deferred Revenue	2,705,633			44,815		516,966
Employees Compensable Leave	2,266,754					
Obligations Under Securities Lending	3,239,611,267	107,564,273		33,954,261		
<b>Total Liabilities</b>	<b>3,379,569,125</b>	<b>111,269,111</b>	<b>297,930</b>	<b>35,176,588</b>	<b>-</b>	<b>110,627,856</b>
<b>NET ASSETS</b>						
<b>Net Assets Held in Trust for Pension Benefits and Other Purposes (Exh. XI) *</b>	<b>19,097,775,053</b>	<b>634,778,749</b>	<b>3,972</b>	<b>205,730,088</b>	<b>-</b>	<b>-</b>

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

USAS Funds (U/F) are:

Fund 0955: 0955, 1955, 8955; Fund 0977: 0977, 1977, 8977; Fund 0001: 2001; Fund 0993: 0993, 1993, 8993; Fund 5039: 5039  
Fund 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,	
					2009	2008
\$	\$	\$	\$	\$	\$	\$
276,479					276,479	779,946
23,000		209,600	416,366	625,966	648,966	532,911
39,235,785	1,603,766	999,794	4,364,024	6,967,584	46,203,369	45,047,951
39,535,264	1,603,766	1,209,394	4,780,390	7,593,550	47,128,814	46,360,808
3,382,836,028					3,382,836,028	6,270,564,649
958,317,761	-	-	-	-	958,317,761	146,041,779
958,317,761	-	-	-	-	958,317,761	146,041,779
4,380,689,053	1,603,766	1,209,394	4,780,390	7,593,550	4,388,282,603	6,462,967,236
297,930					297,930	323,914
4,802,202,796					4,802,202,796	5,829,916,998
7,792,239,631					7,792,239,631	9,624,715,978
1,433,385,471					1,433,385,471	2,618,652,854
4,737,915,840					4,737,915,840	3,999,478,941
18,765,743,738	-	-	-	-	18,765,743,738	22,072,764,771
83,164,504	2,025	994	7,158	10,177	83,174,681	129,953,464
69,079,197			6,417,176	6,417,176	75,496,373	69,775,268
169,827,960					169,827,960	67,341,669
-					-	23,212,998
322,071,661	2,025	994	6,424,334	6,427,353	328,499,014	290,283,399
91,920,956	997			997	91,921,953	111,385,406
5,025,029			5,409	5,409	5,030,438	4,536,895
			250,000	250,000	250,000	250,000
874,889					874,889	874,889
8,121,357					8,121,357	6,256,165
462,735					462,735	389,901
21,124					21,124	
9,480,105					9,480,105	7,520,955
<b>23,575,228,472</b>	<b>1,606,788</b>	<b>1,210,388</b>	<b>11,460,133</b>	<b>14,277,309</b>	<b>23,589,505,781</b>	<b>28,950,032,576</b>
126,872,242		162,917	9,496,083	9,659,000	136,531,242	127,586,579
69,233					69,233	82,373
103,855,360					103,855,360	126,000,757
230,796,835	-	162,917	9,496,083	9,659,000	240,455,835	253,669,709
18,687,877	34,503	51,023	35,171	120,697	18,808,574	34,863,486
791,929					791,929	733,183
3,267,414		1,753		1,753	3,269,167	513,875
2,266,754					2,266,754	2,021,884
3,381,129,801					3,381,129,801	6,270,564,649
<b>3,636,940,610</b>	<b>34,503</b>	<b>215,693</b>	<b>9,531,254</b>	<b>9,781,450</b>	<b>3,646,722,060</b>	<b>6,562,366,786</b>
<b>19,938,287,862</b>	<b>1,572,285</b>	<b>994,695</b>	<b>1,928,879</b>	<b>4,495,859</b>	<b>19,942,783,721</b>	<b>22,387,665,790</b>

(Exh. VIII)

# Exhibit XI

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

Year Ended August 31, 2009 (With Comparative Totals for August 31, 2008)

<b>ADDITIONS</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	<b>Employees Retirement Fund (0955)</b>	<b>Law Enforcement and Custodial Officer Supplemental Fund (0977)</b>	<b>Judicial Retirement System Plan I (0001)</b>	<b>Judicial Retirement System Plan II (0993)</b>	<b>Excess Benefit Arrangement (5039)</b>	<b>State Retiree Health Plan (3973)</b>
<b>Contributions:</b>						
Member Contributions	353,298,711			4,222,867		114,359,794
Employer Contributions	363,022,727	20,657,421		11,356,171		447,765,282
<i>Legislative Appropriations for:</i>						
Judges Retirement Annuities			28,170,864			
Service Contributions Transferred from						
Teacher Retirement System (Note 1.G)	57,135,135					
Federal Revenues-Medicare Part D Settlement Revenue						35,783,527
Other Contributions - Forfeitures						
<b>Total Contributions</b>	<b>773,456,573</b>	<b>20,657,421</b>	<b>28,170,864</b>	<b>15,579,038</b>	<b>-</b>	<b>597,908,603</b>
<b>Investment Income:</b>						
<i>From Investing Activities:</i>						
Net Appreciation (Depreciation)						
in Fair Value of Investments	(2,299,404,736)	(74,388,713)		(23,427,247)		
Interest and Dividends	674,134,760	22,315,031		6,847,763		1,057,326
Class Action Settlements	8,898,916	295,008		91,509		
Total Investing Activity Income	(1,616,371,060)	(51,778,674)		(16,487,975)		1,057,326
Less: Investment Expense	(34,311,120)	(1,103,277)		(282,879)		(1,150)
Net Income, Investing Activities	(1,650,682,180)	(52,881,951)		(16,770,854)		1,056,176
<i>From Securities Lending Activities:</i>						
Loan Premium on Securities Lending	62,406,493	2,059,907		626,684		
Less: Broker Rebates	(21,999,948)	(723,477)		(215,599)		
Agent Fees	(5,982,018)	(197,870)		(60,902)		
Total Securities Lending Expenses	(27,981,966)	(921,347)		(276,501)		
Net Income, Securities Lending Activities	34,424,527	1,138,560		350,183		
<b>Net Investment Income</b>	<b>(1,616,257,653)</b>	<b>(51,743,391)</b>		<b>(16,420,671)</b>		<b>1,056,176</b>
<b>Other Additions:</b>						
<i>Other Revenue:</i>						
Warrants Voided by Statute of Limitations	141,639					
Reimbursements - Third Party						775,000
Sale of Surplus Equipment	11,718					
Rental Income	34,000					
Miscellaneous Revenue	6,993					
Administration Fees						
Total Other Revenue	194,350					775,000
<i>Interfund Transfers In (Note 1.G):</i>						
Membership Fees						
Excess Benefit Arrangement					100,661	
<i>Interagency Transfers In (Note 5.F):</i>						
Excess Benefit Arrangement					227,640	
Total Transfers In					328,301	
<b>Total Other Additions</b>	<b>194,350</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>328,301</b>	<b>775,000</b>
<b>Total Additions</b>	<b>(842,606,730)</b>	<b>(31,085,970)</b>	<b>28,170,864</b>	<b>(841,633)</b>	<b>328,301</b>	<b>599,739,779</b>

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,	
					2009	2008
\$	\$	\$	\$	\$	\$	\$
471,881,372			81,889,495	81,889,495	553,770,867	526,257,964
842,801,601					842,801,601	790,528,600
28,170,864					28,170,864	28,684,240
57,135,135					57,135,135	52,773,854
35,783,527					35,783,527	32,963,502
		6,633		6,633	6,633	153
-			1,354,353	1,354,353	1,354,353	973,267
<b>1,435,772,499</b>	<b>-</b>	<b>6,633</b>	<b>83,243,848</b>	<b>83,250,481</b>	<b>1,519,022,980</b>	<b>1,432,181,580</b>
(2,397,220,696)					(2,397,220,696)	(2,208,815,330)
704,354,880	477,999	124,035	46,473	648,507	705,003,387	856,985,721
9,285,433				-	9,285,433	6,881,581
(1,683,580,383)	477,999	124,035	46,473	648,507	(1,682,931,876)	(1,344,948,028)
(35,698,426)	(2,489)	(1,847)	(1,157)	(5,493)	(35,703,919)	(35,533,583)
(1,719,278,809)	475,510	122,188	45,316	643,014	(1,718,635,795)	(1,380,481,611)
65,093,084					65,093,084	259,377,874
(22,939,024)					(22,939,024)	(219,008,023)
(6,240,790)					(6,240,790)	(6,033,672)
(29,179,814)	-	-	-	-	(29,179,814)	(225,041,695)
35,913,270	-	-	-	-	35,913,270	34,336,179
<b>(1,683,365,539)</b>	<b>475,510</b>	<b>122,188</b>	<b>45,316</b>	<b>643,014</b>	<b>(1,682,722,525)</b>	<b>(1,346,145,432)</b>
141,639					141,639	124,474
775,000					775,000	8,000
11,718					11,718	
34,000					34,000	34,000
6,993			83,157	83,157	90,150	186,249
-	215,452	145,472		360,924	360,924	606,866
969,350	215,452	145,472	83,157	444,081	1,413,431	959,589
		260,000		260,000	260,000	358,262
100,661					100,661	112,851
227,640					227,640	237,403
328,301		260,000		260,000	588,301	708,516
<b>1,297,651</b>	<b>215,452</b>	<b>405,472</b>	<b>83,157</b>	<b>704,081</b>	<b>2,001,732</b>	<b>1,668,105</b>
<b>(246,295,389)</b>	<b>690,962</b>	<b>534,293</b>	<b>83,372,321</b>	<b>84,597,576</b>	<b>(161,697,813)</b>	<b>87,704,253</b>

- to next page

# Exhibit XI (Continued)

## Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds Year Ended August 31, 2009 (With Comparative Totals for August 31, 2008)

<b>DEDUCTIONS</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	<b>Employees Retirement Fund (0955)</b>	<b>Law Enforcement and Custodial Officer Supplemental Fund (0977)</b>	<b>Judicial Retirement System Plan I (0001)</b>	<b>Judicial Retirement System Plan II (0993)</b>	<b>Excess Benefit Arrangement (5039)</b>	<b>State Retiree Health Plan (3973)</b>
<b>Benefits:</b>						
Benefits	1,425,676,486	38,641,504	28,194,267	8,023,048	279,096	596,857,518
Refunds of Contributions	70,958,144			206,245		
<b>Transfers Out of Contributions:</b>						
Service Contributions Transferred to Teacher Retirement System (Note 1.G)	9,558,927					
<b>Total Benefits</b>	<b>1,506,193,557</b>	<b>38,641,504</b>	<b>28,194,267</b>	<b>8,229,293</b>	<b>279,096</b>	<b>596,857,518</b>
<b>Administrative Expenses:</b>						
Salaries & Wages	8,340,638	269,235		143,545		1,554,032
Payroll Related Costs	2,049,466	69,455		35,832		372,138
Professional Fees & Services	2,276,623	8,933		6,885		347,956
Travel	54,935	1,105		715		9,093
Materials & Supplies	1,443,554	27,446		12,185		175,691
Communications & Utilities	390,728	10,380		6,681		75,221
Repairs & Maintenance	553,207	10,638		9,215		81,911
Rentals & Leases	564,116	14,390		10,351		113,044
Printing & Reproduction	51,129	1,734		1,054		6,937
Depreciation	798,258					
Interest Expense						
Other Operating Expenses	798,626	20,437	-	13,083	-	146,238
<b>Total Administrative Expenses</b>	<b>17,321,280</b>	<b>433,753</b>	<b>-</b>	<b>239,546</b>	<b>-</b>	<b>2,882,261</b>
<b>Other Deductions:</b>						
<b>Other Expenses:</b>						
Loss on Sale of Capital Assets	7,842					
Total Other Expenses	7,842					
<b>Interfund Transfers Out (Note 5.E):</b>						
Membership Fees	260,000					
Excess Benefit Arrangement	100,661					
<b>Interagency Transfers Out (Note 5.F):</b>						
Excess Benefit Arrangement					49,205	
Total Transfers Out	360,661	-	-	-	49,205	-
<b>Total Other Deductions</b>	<b>368,503</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,205</b>	<b>-</b>
<b>Total Deductions</b>	<b>1,523,883,340</b>	<b>39,075,257</b>	<b>28,194,267</b>	<b>8,468,839</b>	<b>328,301</b>	<b>599,739,779</b>
<b>Net Increase (Decrease)</b>	<b>(2,366,490,070)</b>	<b>(70,161,227)</b>	<b>(23,403)</b>	<b>(9,310,472)</b>		
<b>NET ASSETS</b>						
<b>Net Assets Held in Trust For Pension Benefits and Other Purposes:</b>						
<b>Beginning of Year</b>	<b>21,464,265,123</b>	<b>704,939,976</b>	<b>27,375</b>	<b>215,040,560</b>		
<b>End of Year (Exh. X)</b>	<b>19,097,775,053</b>	<b>634,778,749</b>	<b>3,972</b>	<b>205,730,088</b>	<b>-</b>	<b>-</b>

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,	
					2009	2008
\$	\$	\$	\$	\$	\$	\$
2,097,671,919			80,161,585	80,161,585	2,177,833,504	2,057,063,126
71,164,389					71,164,389	74,577,548
-						
9,558,927					9,558,927	8,897,722
<b>2,178,395,235</b>	-	-	<b>80,161,585</b>	<b>80,161,585</b>	<b>2,258,556,820</b>	<b>2,140,538,396</b>
10,307,450	288,574	434,455	242,588	965,617	11,273,067	10,338,437
2,526,891	68,329	94,466	58,599	221,394	2,748,285	2,571,753
2,640,397	30,793	42,885	13,505	87,183	2,727,580	3,084,903
65,848	2,197	2,834	1,492	6,523	72,371	63,899
1,658,876	20,777	22,594	14,455	57,826	1,716,702	1,518,286
483,010	8,125	10,448	8,268	26,841	509,851	503,178
654,971	9,975	10,652	9,748	30,375	685,346	562,798
701,901	12,011	14,293	11,842	38,146	740,047	745,785
60,854	591	1,082	1,225	2,898	63,752	49,518
798,258					798,258	659,800
			67,588	67,588	67,588	139,700
978,384	15,941	22,219	1,790,337	1,828,497	2,806,881	2,556,983
<b>20,876,840</b>	<b>457,313</b>	<b>655,928</b>	<b>2,219,647</b>	<b>3,332,888</b>	<b>24,209,728</b>	<b>22,795,040</b>
7,842					7,842	9,637
7,842					7,842	9,637
260,000					260,000	358,262
100,661					100,661	112,851
49,205				-	49,205	51,834
409,866	-	-	-	-	409,866	522,947
<b>417,708</b>	-	-	-	-	<b>417,708</b>	<b>532,584</b>
<b>2,199,689,783</b>	<b>457,313</b>	<b>655,928</b>	<b>82,381,232</b>	<b>83,494,473</b>	<b>2,283,184,256</b>	<b>2,163,866,020</b>
<b>(2,445,985,172)</b>	<b>233,649</b>	<b>(121,635)</b>	<b>991,089</b>	<b>1,103,103</b>	<b>(2,444,882,069)</b>	<b>(2,076,161,767)</b>
<b>22,384,273,034</b>	<b>1,338,636</b>	<b>1,116,330</b>	<b>937,790</b>	<b>3,392,756</b>	<b>22,387,665,790</b>	<b>24,463,827,557</b>
<b>19,938,287,862</b>	<b>1,572,285</b>	<b>994,695</b>	<b>1,928,879</b>	<b>4,495,859</b>	<b>19,942,783,721</b>	<b>22,387,665,790</b>

(Exh. IX)

# Notes to the Basic Financial Statements

August 31, 2009

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# Notes to the Basic Financial Statements

August 31, 2009

## 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, 2008, the System implemented the Statement of Financial Accounting Standards No. 157, Fair Value Measurements, effective for financial statements issued for fiscal years beginning after November 15, 2007. The objective is to improve consistency, comparability and transparency of fair value measurements of assets and liabilities. The implementation requires some additional information on alternative investments in private equity including Category of Investment, Commitment, Remaining Commitment, Adjusted Funded Amount, and Fair Value at year end to be included in the notes. This year the above listed information was added to the note disclosure for the Detail Disclosures on Fund Assets in response to the management responsibility to establish an accounting and financial reporting process for determining the fair value

measurements and disclosures in accordance with Generally Accepted Accounting Principles.

### 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 (Continued)

August 31, 2009

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 year end 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. Actural 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 (Continued)

August 31, 2009

## **Proprietary Fund Category**

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

## **Internal Service Fund**

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

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

## **Fiduciary Fund Category**

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

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

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

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

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

## **Agency Funds**

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

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

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

- 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.
- Child Support – This fund accounts for monies withheld in compliance with state and federal law for child support orders. The orders received by employers require that child support payments be deducted from the paychecks of employees. Texas enacted a statute mandating electronic submittal of child support payments deducted from non-custodial parent payrolls, effective September 1, 2009. This process allows all child support payments from an agency to be paid to the State Disbursement Unit (SDU). Once received by the SDU, the payment is sent to the custodial parent in compliance with the order.

## 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 of 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 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.

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

## Investments

Investments of the Employees Retirement System Fund, the Law Enforcement and Custodial Officer Supplemental Retirement Fund, the Judicial Retirement System Plan Two Fund and the long-term portion of the Employees Life, Accident and Health Insurance and Benefits Fund are consolidated in the Investment Pool fund. See also *Investment Unit Trust Accounting*.

## Valuation

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

The fair value of 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.

The fair value of the net assets in the private equity investments is estimated using recent observable transaction information for similar investments, such as discounted cash flows, earning multiples and company comparables. This fair value information is provided on a one quarter lag and subsequently adjusted by any purchase and sale cash flows between the partnership's last reporting date and the System's reporting date.

The general nature of the System's investments in private equity funds is that distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over 3 to 5 years. As of August 31, 2009, a buyer for these investments has not yet been identified. Once a buyer has been identified, the System's management must approve of the buyer before the sale of the investments can be completed.

It is probable that all investments in private equity will be sold at an amount different from the net asset value of the System's ownership interest in the private equity investments because actual transaction prices often differ from intrinsic values, especially during distressed markets.

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.

## 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 and effectively invest in a diversified manner, the Board of Trustees directed that investment unit trust accounting be implemented. The pension funds began the unit trust accounting on September 1, 2006 and the long term portion of the Employees Life, Accident and Health Insurance and Benefits Fund on January 1, 2009. 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.

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

**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.

- 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.

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

## **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

## **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 2009, the System reclassified that portion of the fiscal year 2008 ending balance of margin deposits to margin receivable from broker. The amount of margin deposits reclassified totaled \$23,212,998 in the Pension Trust Funds.

## **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 plan 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, 2009. 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. Project salary increases include an inflation rate of 3.5%. The assumed investment rate of return is 8%. 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, open method. The amortization period is 30 years. The asset valuation method used is expected value plus 20% of the difference between market-related value and expected value. An actuarial valuation for the JRS I is performed solely to satisfy the requirements of GASB Statement No. 25 Required Supplementary Information calculations, which is presented immediately after the Notes to the Basic Financial Statements.

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

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

## **A. Plan Descriptions and Contributions**

### **Employees Retirement Plan**

#### **Plan Description**

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

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

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

#### **System Employees**

System employees are members of the Employees Retirement Plan.

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

## 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, 2009, 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 F.

## 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 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 2009, the State contributed 1.59% of the covered payroll for LECOS members. Funding Status and Funding Progress are presented in Figure F.

## 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 F.

## 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, 2008 and 2009, the State contributed 16.83% of the payroll of members. Funding Status and Funding Progress are presented in Figure F.

## 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 (SRHP) 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 in Figure B.

**Figure B**  
**Participating Reporting Entities**  
**for the State Retiree Health Plan**

State Agencies	127
Universities	25
Junior and Community Colleges	51
Other Entities	4
Total Participating Entities	207

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

The principle participating employer is the state of Texas. State agencies and universities comprise 61% 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, 2009, there were 83,494 eligible retirees, 24,212 covered spouses, and 7,855 covered dependents.

## Contributions

Figure C 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 C  
Employer Contribution Rates –  
Retiree Health and Basic Life Premium –  
Fiscal Year 2009**

	September 1, 2008
	\$
Retiree Only	360.54
Retiree & Spouse	566.57
Retiree & Children	498.49
Retiree & Family	704.52

Figure D 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 D  
Contributions by Source and Claims Expenses - Retirees**

	August 31,	
	2009	2008
	\$	\$
Employer Contributions	447,765,282	417,106,470
Retiree Contributions	114,359,794	109,447,077
<b>Total Contributions</b>	<b>562,125,076</b>	<b>526,553,547</b>
<b>Claims Expenses</b>	<b>596,857,518</b>	<b>558,228,247</b>

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 2009, the implicit rate subsidy amount was \$50,811,818.

## 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 E.

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

State Retiree Health Plan	
Valuation Date	August 31, 2009
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	6.74%
Annual Healthcare Trend Rate	7.9% in FY 2011 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 F shows the System's Schedule of Funding Progress for the funded defined benefit plans as of August 31, 2009. 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 purposes does not explicitly incorporate the potential effect of legal or contractual

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

**Figure F**  
**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 Accrued Liability (UAAL) [(3)-(2)]	Funded Ratio [(2)/(3)]	Annual Covered Payroll	Ratio of UAAL to Covered Payroll [(4)/(6)]
<b>Employees Retirement Fund</b>						
Aug. 31, 2009	\$23,509.62	\$26,907.78	\$3,398.16	87.4%	\$5,814.42	58.4%
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund</b>						
Aug 31, 2009	780.81	907.10	126.29	86.1	1,464.48	8.6
<b>Judicial Retirement Plan Two Fund</b>						
Aug. 31, 2009	248.28	255.57	7.29	97.1	67.97	10.7
<b>State Retiree Health Plan</b>						
Aug. 31, 2009	0	21,992.36	21,992.36	0.0	10,045.85	218.9

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 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, 2009 is summarized in Figure G. 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 G**  
**Retirement Systems Membership**

	ERS	LECOS	JRS I	JRS II
Retirees and Beneficiaries				
Currently Receiving Benefits	75,722	6,647	461	152
Terminated Employees				
Entitled to Benefits	72,585	39	7	134
Current Employees	141,223	37,819	23	533
<b>Total</b>	<b>289,530</b>	<b>44,505</b>	<b>491</b>	<b>819</b>

Note: Estimated based on actuarial valuation as of August 31, 2009.

### D. Reserves

The balances of legally required reserves in each funded retirement plan as of August 31, 2009 and 2008 are presented in Figure H. 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.

**Figure H**  
**Reserves**

				Totals – August 31,	
	ERS	LECOS	JRS II	2009	2008
	\$	\$	\$	\$	\$
<b>Net Plan Assets Reserved For:</b>					
Employee Savings	4,460,644,477	5,275	51,733,114	4,512,382,866	4,306,656,742
State Accumulation	1,988,975,395	300,134,858	68,152,100	2,357,262,353	5,503,345,779
Annuity Reserves	12,648,155,181	334,638,616	85,844,874	13,068,638,671	12,574,243,138
<b>Total Net Plan Assets Reserved</b>	<b>19,097,775,053</b>	<b>634,778,749</b>	<b>205,730,088</b>	<b>19,938,283,890</b>	<b>22,384,245,659</b>
	(Exhibit X)	(Exhibit X)	(Exhibit X)		
<b>Funded ratios of each plan, from the actuarial valuation:</b>					
As of August 31, 2009	87.4%	86.1%	97.1%		
As of August 31, 2008	92.6%	92.0%	97.4%		



# Notes to the Basic Financial Statements (Continued)

August 31, 2009

## 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. 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, 2009, there were 59 System employees participating in the Texa\$aver 457 Plan. During the fiscal year ended August 31, 2009, System employees deferred \$320,940. The State does not contribute to the plan.

#### Texa\$aver 401(k) Plan

(In accordance with GASB Statement 25)

#### Plan Description

The System also offers to all State employees the Texa\$aver 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, 2009, there were 164 System employees participating in the Texa\$aver 401(k) Plan. During the fiscal year ended August 31, 2009, System employees deferred \$691,457. 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 I.

**Figure I**  
**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

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

## C. Liabilities

For self-funded coverages of the Internal Service Fund, the 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 insurance 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 J.

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

	Totals - August 31,	
	2009	2008
	\$	\$
Beginning of Fiscal Year Liability	376,087,480	346,957,572
Current-Year Claims and Changes in Estimates	1,403,144,699	1,220,068,806
Claims Payments	(1,360,845,012)	(1,190,938,898)
<b>Balance at Fiscal Year-End</b>	<b>418,387,167</b>	<b>376,087,480</b>

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

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, 2009 is \$429,193,000.

## 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, 2009, the total carrying amount of Cash in Bank was \$691,069 as presented in Figure K.

**Figure K**  
**Deposits**

Deposits	Carrying Value	Bank Balance
	\$	\$
Cash in Bank:		
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds (Exh. X)	648,966	645,308
Agency Funds	42,103	42,103
<b>Total</b>	<b>691,069</b>	<b>687,411</b>

## Custodial Credit Risk

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

As of August 31, 2009, the System was not exposed to custodial credit risk with respect to deposits.

## Investments

As of August 31, 2009, the fair value of investments are presented in Figure L.

**Figure L**  
**Investments**

Investment Type	Fair Value	
	Fiduciary Funds (Exh. VIII)	Proprietary Fund (Exh. V)
	\$	\$
<i>Investments:</i>		
U.S. Treasury Securities	2,116,812,263	174,588,859
U.S. Treasury TIPS	64,723,830	
U.S. Government Agency Obligations	462,820,703	37,039,652
Corporate Obligations	1,433,385,471	125,503,703
Corporate Asset and Mortgage Backed Securities	2,157,846,001	172,259,532
Domestic Equity	7,700,921,512	
International Equity	4,712,473,867	
Alternative Investment - Private Equity	116,760,091	
<b>Total</b>	<b>18,765,743,738</b>	<b>509,391,746</b>
<i>Short-Term Investments:</i>		
Investment in Pool Cash	1,464,747	
Short-Term Investment Funds	356,853,014	51,673,425
Money Market Mutual Funds	600,000,000	160,000,000
<b>Total</b>	<b>958,317,761</b>	<b>211,673,425</b>
Securities Lending Collateral	3,382,836,028	143,530,008

## 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.

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

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, 2009, the fair value of these securities are summarized in Figure M.

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

Investments	Fair Value
	\$
<i>Fiduciary Funds:</i>	
U.S. Treasury Securities	59,331
U.S. Government Agency Obligations	24,988,345
<b>Total</b>	<b>25,047,676</b>
<i>Proprietary Fund:</i>	
U.S. Treasury Securities	4,748
U.S. Government Agency Obligations	1,999,824
<b>Total</b>	<b>2,004,572</b>

## Foreign Currency Risk

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

The System's investment exposure to foreign currency risk as of August 31, 2009 is summarized in Figure N.

## 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, 2009 is summarized in Figure O. The securities were rated and categorized according to Standard & Poor's rating standards.

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

Foreign Currency	International Equity (US\$)
	\$
<b>Fiduciary Funds:</b>	
Australian Dollar	220,934,689
Brazilian Real	10,863,902
British Pound	845,505,234
Canadian Dollar	54,062,190
Chilean Peso	1,243,387
Czech Koruna	917,926
Danish Krone	16,777,544
Egyptian Pound	1,242,948
Euro	1,630,679,354
Hong Kong Dollar	257,555,061
Hungarian Forint	7,082,789
Indonesian Rupiah	19,099,492
Japanese Yen	698,054,458
Korean Won	41,306,535
Malaysian Ringgit	14,239,128
Mexican Peso	11,533,025
Moroccan Dirham	603,933
New Israeli Sheqel	6,881,608
New Taiwan Dollar	23,546,028
New Zealand Dollar	481,753
Norwegian Krone	41,185,139
Philippine Peso	1,346,976
Polish Zloty	889,635
Singapore Dollar	67,530,968
South African Rand	16,136,258
Swedish Krona	61,629,047
Swiss Franc	327,469,031
Thai Baht	2,050,462
Turkish Lira	5,887,084
<b>Total International Equity Exposed to Foreign Currency Risk</b>	<b>4,386,735,584</b>
ADRs and GDRs Denominated in U.S. Dollars and Classified as International Equity	351,180,256
<b>Total International Equity (Exh. X)</b>	<b>4,737,915,840</b>

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

**Figure 0**  
**Investment Credit Risk**

Investment Type	Rating	Fair Value
		\$
<b>Fiduciary Funds:</b>		
U.S. Government Agency Obligations		
	AAA	2,028,945,751
Corporate Obligations		
	AAA	138,899,957
	AA	237,512,667
	A	469,349,835
	BBB	402,112,503
	BB	109,674,409
	B	145,233,915
	CCC	24,117,743
	CC	1,084,697
	C	7,834,250
	D	7,779,052
	NR	17,160,053
Corporate Asset and Mortgage Backed Securities		
	AAA	195,476,724
	A	13,725,642
	BBB	9,329,566
	BB	4,146,496
	NR	25,975,053
Miscellaneous - Municipal Bond		
	AAA	7,014,387
	AA	2,255,641
Miscellaneous - Preferred Stock		
	NR	72,366,887
<b>Total</b>		<b>3,919,995,228</b>
<b>Proprietary Fund:</b>		
U.S. Government Agency Obligations		
	AAA	162,347,684
Corporate Obligations		
	AAA	11,116,197
	AA	33,970,101
	A	53,620,275
	BBB	35,926,213
	BB	211,185
	NR	853,473
Corporate Asset and Mortgage Backed Securities		
	AAA	15,644,049
	A	1,098,466
	BBB	694,518
	NR	2,058,695
Miscellaneous - Municipal Bond		
	AAA	561,363
	AA	180,519
<b>Total</b>		<b>318,282,738</b>

The System earns failed interest on monies held at the custodial agent bank overnight when a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date. When this occurs, the System's money is invested overnight in a Common Trust Fund at the custodial agent bank. The System had no failed securities either during the fiscal year or at August 31, 2009.

### 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, 2009, 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, 2009, 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

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

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

Investment Type	Fiduciary Fund		Proprietary Fund	
	Fair Value	Modified Duration	Fair Value	Modified Duration
	\$		\$	
U.S. Treasury Securities	2,134,137,971	6.44	167,613,949	6.44
U.S. Treasury TIPS	60,342,711	0.37	4,739,281	0.37
U.S. Government Agency Obligations	2,235,809,179	3.31	175,599,146	3.31
Corporate Obligations	1,635,090,923	5.63	139,228,900	5.75
Corporate Asset and Mortgage Backed Securities	213,538,621	3.53	16,406,698	3.54
Cash and Cash Equivalents	1,675,430,096	0.01	264,168,020	0.01
Miscellaneous	9,347,619	12.83	734,157	12.83
<b>Overall</b>	<b>7,963,697,120</b>	<b>3.93</b>	<b>768,490,151</b>	<b>3.40</b>

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, 2009. The System cannot pledge or sell collateral securities received unless the borrower defaults and, therefore, the System does not establish an asset and a corresponding liability in the balance sheet for the collateral value of securities received. There were no significant violations of legal or contractual provisions, and no borrower or lending agent default losses. Regarding restrictions on loans, the securities lending agreement with the custodian limits the total amount of securities that can be lent to 25% of holdings.

In August 2009, the System recognized a realized loss of \$25,228,500 on the sale of securities from the securities lending cash collateral pool. This amount is included in Net Depreciation in Fair Value of Investments on the Statement of Changes in Fiduciary Net Assets.

The System received net securities lending income totaling \$36,640,735 for the fiscal year ended August 31, 2009. The collateral information as of August 31, 2009 is summarized in Figure Q.

### Repurchase Agreements

During the fiscal year 2009, the System did not invest in repurchase agreements. As of August 31, 2009, the System had no balances in these assets.

**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	1,534,204,027	25,047,676	1,540,526,963
U.S. Treasury TIPS	1,206,485		1,227,373
U.S. Government Agency Obligations	91,643,534		93,535,193
Corporate Obligations	195,506,008		199,586,930
Corporate Asset and Mortgage Backed Securities	4,240,743		4,434,987
Domestic Equity	1,143,081,588		1,172,089,769
International Equity	353,467,049		371,434,813
<b>Total</b>	<b>3,323,349,434</b>	<b>25,047,676</b>	<b>3,382,836,028</b>
<b>Exh. X</b>			
<i>Proprietary Fund:</i>			
U.S. Treasury Securities	122,782,718	2,004,572	123,288,744
U.S. Treasury TIPS	96,555		98,227
U.S. Government Agency Obligations	7,334,254		7,485,644
Corporate Obligations	12,076,745		12,302,460
Corporate Asset and Mortgage Backed Securities	339,388		354,933
<b>Total</b>	<b>142,629,660</b>	<b>2,004,572</b>	<b>143,530,008</b>
<b>Exh. V</b>			

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

## Derivative Investing

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

As of August 31, 2009 the System had 0.06% 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 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, 2009, the System had no outstanding futures contracts. 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 contracts on August 31, 2009.

## Private Equity

The System makes contingent commitments to and investments in entities that manage private equity portfolios. The categories of these investments as of August 31, 2009 are summarized in Figure R.

## 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 \$916,087. A schedule of future minimum lease rental payments on non-cancelable operating leases as of August 31, 2009 is presented in Figure S.

**Figure R**  
**Private Equity**

Category of Investment	Commitment	Remaining Commitment	Adjusted Funded Amount (Note A)	Fair Value
	\$	\$	\$	\$
Private Equity Domestic (13 Entities)	1,010,585,106	830,832,937	179,752,169	91,318,119
Private Equity International (4 Entities) (Note B)	322,412,605	290,969,105	31,443,500	25,441,973
<b>Total Private Equity</b>	<b>1,332,997,711</b>	<b>1,121,802,042</b>	<b>211,195,669</b>	<b>116,760,092</b>
Note A:	The net funded amount for private equity investments equals \$121,881,926, which is the adjusted funded amount of \$211,195,669 less distributions of \$119,645,389 plus expenses paid of \$30,331,646			
Note B:	All international private equity investments are denominated in EURO. The fair value at August 31, 2009 is € 17,631,293.			

# Notes to the Basic Financial Statements (Continued)

August 31, 2009

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

Fiscal Year	Future Minimum Lease Rental Payments
	\$
2010	643,395
2011	244,066
2012	150,600
2013	0
<b>Total Future Minimum Lease Rental Payments</b>	<b>1,038,061</b>

## C. Fund Equity

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

A summary of pension plan and other employee benefit fiduciary net assets at August 31, 2009 and 2008 is presented in Figure T.

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

Fund Type	Totals - August 31	
	2009	2008
	\$	\$
Defined Benefit Plans (Note A)	19,938,287,862	22,384,273,034
Defined Contribution Plans and Cafeteria Plan:		
Administration - Defined Contribution Plans	2,566,980	2,454,966
Administration - State Employees Cafeteria Plan	1,928,879	937,790
<b>Total Defined Contribution Plans and Cafeteria Plan</b>	<b>4,495,859</b>	<b>3,392,756</b>
<b>Total Fiduciary Net Assets Held In Trust for Pension Benefits and Other Purposes</b>	<b>19,942,783,721</b>	<b>22,387,665,790</b>
	(Exh. XI)	
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, 2009.

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

	Due From Other Funds	Due To Other Funds
	\$	\$
<b>Governmental Activities:</b>		
Governmental Funds		6,325
Agency Fund		997
<i>Proprietary Fund:</i>		
Employees Life, Accident and Health Insurance and Benefits Fund	16,656,375	89,762,432
<b>Total Governmental Activities</b>	<b>16,656,375</b>	<b>89,769,754</b>
<b>Fiduciary Funds:</b>		
Pension and Other Employee Benefit Trust Funds	91,921,953	18,808,574
<b>Total - Interfund Receivables and Payables</b>	<b>108,578,328</b>	<b>108,578,328</b>

## 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, 2009.

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

	Transfers In	Transfers Out
	\$	\$
<i>Fiduciary Funds:</i>		
Pension and Other Employee Benefit Trust Funds	360,661	360,661
<b>Total - Interfund Transfers</b>	<b>360,661</b>	<b>360,661</b>

## F. Interagency Transfers

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

# Notes to the Basic Financial Statements

---

August 31, 2009

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 for employees hired before September 1, 2009. Employees hired after September 1, 2009 will not be able to use accumulated sick leave to meet retirement eligibility.

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 2,178 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.

During fiscal year 2009, the System participated in the COBRA premium assistance program under the American Recovery and Reinvestment Act of 2009. Certain individuals who are eligible for COBRA continuation health coverage receive a subsidy for 65 percent of the premium. The individuals are required to pay only 35 percent of the premium. The system recovers the subsidy provided to assistance-eligible individuals by reducing monthly employment tax deposits and reporting the subsidy as a credit on its quarterly employment tax return. As of August 31, 2009, there were 218 participants in the program, 148 with single coverage and 70 with multiple individuals covered. The COBRA subsidy for fiscal year 2009 amounted to \$201,668 and is included as an accrued receivable as of August 31, 2009.



# Required Supplementary Information

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

Year Ended August 31, 2009

	Budget		Actual	Variance with Final Budget Pos(Neg)
	Original	Final		
	\$	\$	\$	
<b>Death Benefits Program for Commissioned Peace Officers, Firemen, etc. (0001) (U/F 3001)</b>				
<b>Budgetary Fund Balances - Beginning</b>	-	-	-	-
<b>Revenues</b>				
Legislative General Fund Appropriations:				
For Death Benefits	4,383,225	4,383,225	4,383,225	-
<b>Total Appropriations Revenue</b>	<b>4,383,225</b>	<b>4,383,225</b>	<b>4,383,225</b>	-
<b>Expenditures</b>				
Current:				
Death Benefits	4,383,225	1,865,875	1,865,875	-
<b>Total Expenditures</b>	<b>4,383,225</b>	<b>1,865,875</b>	<b>1,865,875</b>	-
Other Financing Sources (Uses)				
Appropriation Lapsed	-	(2,517,350)	(2,517,350)	-
<b>Budgetary Fund Balances - Ending</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Compensation to Victims of Crime (0469) (U/F3003)</b>				
<b>Budgetary Fund Balances - Beginning</b>	-	-	-	-
<b>Revenues</b>				
Legislative General Fund Appropriations:				
For Death Benefits	1,287,876	2,000,000	2,000,000	-
<b>Total Appropriations Revenue</b>	<b>1,287,876</b>	<b>2,000,000</b>	<b>2,000,000</b>	-
<b>Expenditures</b>				
Current:				
Death Benefits	1,287,876	2,000,000	2,000,000	-
<b>Total Expenditures</b>	<b>1,287,876</b>	<b>2,000,000</b>	<b>2,000,000</b>	-
Other Financing Sources (Uses)				
Appropriation Lapsed	-	-	-	-
<b>Budgetary Fund Balances - Ending</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Lump Sum Retiree Death Benefit Fund (0001) (U/F3008)</b>				
<b>Budgetary Fund Balances - Beginning</b>	-	-	-	-
<b>Revenues</b>				
Legislative General Fund Appropriations:				
For Death Benefits	6,900,343	7,365,894	7,365,894	-
<b>Total Appropriations Revenue</b>	<b>6,900,343</b>	<b>7,365,894</b>	<b>7,365,894</b>	-
<b>Expenditures</b>				
Current:				
Death Benefits	6,900,343	7,366,524	7,366,524	-
<b>Total Expenditures</b>	<b>6,900,343</b>	<b>7,366,524</b>	<b>7,366,524</b>	-
Other Financing Sources (Uses)				
Appropriation Lapsed	-	(630)	(630)	-
<b>Budgetary Fund Balances - Ending</b>	<b>-</b>	<b>(630)</b>	<b>(630)</b>	<b>-</b>

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

Reconciliation of Basis of Budgeting to GAAP:

Entity Differences:

Total Actual Budgetary Fund Balances-Ending, as above

\$ -

Plus: Fund Balance of the Unappropriated Special Revenue

Fund-Social Security Administration Fund (Exh. IV)

59,777

**Total Fund Balances-Special Revenue Funds-GAAP Basis (Exh. IV)**

**\$ 59,777**

# Required Supplementary Information

## Schedule of Funding Progress - Defined Benefit Plans

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a)</b>	<b>(d) Funded Ratio (a) / (b)</b>	<b>(e) Covered Payroll</b>	<b>(f) UAAL As A Percentage Of Covered Payroll ((b-a) / e)</b>
<b>August 31</b>	(000's)	(000's)	(000's)		(000's)	
<b>Employees Retirement System (ERS)</b>						
2004	\$20,036,647	\$20,591,848	\$555,201	97.30%	\$4,616,761	12.00%
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
2008	23,511,918	25,403,280	1,891,362	92.6	5,379,527	35.2
2009	23,509,622	26,907,779	3,398,157	87.4	5,814,417	58.4
		(Note A)				
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>						
2004	\$679,243	\$621,457	(\$57,786)	109.30%	\$1,230,581	-4.70%
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	1,360,819	1.1
2008	774,509	842,135	67,626	92	1,242,122	5.4
2009	780,808	907,102	126,294	86.1	1,464,483	8.6
		(Note A)				
<b>Judicial Retirement System Plan One (JRS I)</b>						
2004	\$0	\$263,068	\$263,068	0.00%	\$4,921	5345.80%
2005	0	327,145	327,145	0	5,284	6,191.20
2006	0	325,977	325,977	0	5,138	6,344.80
2007	0	312,852	312,852	0	2,777	11,267.00
2008	0	289,671	289,671	0	3,478	8,328.70
2009	0	268,275	268,275	0	2,965	9,048.10
<b>Judicial Retirement System Plan Two (JRS II)</b>						
2004	\$145,538	\$123,913	(\$21,625)	117.50%	\$48,504	-44.60%
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
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
2009	248,279	255,569	7,289	97.1	67,968	10.7
<b>State Retiree Health Plan (Note B)</b>						
2007	\$0	\$17,675	\$17,675		\$8,836	200.00%
2008	0	20,131	20,131		9,373	214.8
2009	0	21,992	21,992		10,046	218.9

Note A: The actuarial accrued liability and the corresponding normal cost rate for ERS and LECOS are based on the benefit provisions in effect for each active member.

Note B: The Schedule of Funding Progress presents contribution information as of the current valuation date and the five preceding valuation dates. Since this is the third year of application of GASB Statement 43, only two preceding years of information are 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
		<b>Employees Retirement System (ERS)</b>		<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>		
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		529,887,917	68.4		33,189,075	62.2
2010		620,980,377 (Note A)	N/A		34,070,722 (Note A)	N/A
		<b>Judicial Retirement System Plan One (JRS I)</b>		<b>Judicial Retirement System Plan Two (JRS II)</b>		
2005		\$22,121,567	100.80%		\$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	111.3		11,080,453	102.5
2010		23,451,818	N/A		11,438,930 (Note A)	N/A
		<b>State Retiree Health Plan (Note B)</b>				
2007	\$438	\$1,482	29.6%	\$28.5		
2008	450	1,814	24.8	33.0		
2009	484	1,998	24.2	35.8		
2010		(Note A)	N/A	N/A		

Note A: Calculations based on estimated fiscal year 2010 covered payroll. At the end of fiscal year 2010 the ARC will be recalculated based on actual 2010 covered payroll

Note B: The Schedule of Employer Contributions presents contribution information as of the current valuation date and the five preceding valuation date. Since this is the third year of GASB Statement 43, only two preceding years of information are 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

	<b>ERS</b>	<b>LECOS</b>	<b>JRS I</b>	<b>JRS II</b>
Valuation Date	August 31, 2009	August 31, 2009	August 31, 2009	August 31, 2009
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	30	30	4.8 (Note A)
Asset Valuation Method (Note B)	Expected value plus 20% of the difference between market-related value and expected value	Expected value plus 20% of the difference between market-related value and expected value	N/A	Expected value plus 20% of the difference between market-related value and expected value
<b>Actuarial Assumptions:</b>				
Investment Rate of Return	8.00%	8.00%	8.00%	8.00%
Projected Salary Increases	0.0%-13.5%	5.5 %-13.5%	3.50%	3.50%
Including Inflation at	3.50%	3.50%	3.50%	3.50%
Cost-of-living Adjustments	None-Employee 3.5%-Elected	None	3.50%	None

*Note A: The amortization period was calculated based on estimated 2010 covered payroll. At the end of fiscal year fiscal year 2010 the ARC and the amortization period will be recalculated based on actual 2010 covered payroll.*

*Note B: The description of the Asset Valuation Method was updated to be more appropriate. The application of the method did not change in the most recent valuation.*

# Other Supplementary Information - Schedule A-1

## Combining Schedule of Net Assets - Agency Funds

August 31, 2009

<b>ASSETS</b>	<b>Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)</b>	<b>Employee Savings Bond Fund (0901) (U/F 0901)</b>	<b>TexaSaver 401(k) Fund (0946) (U/F 1946)</b>	<b>TexaSaver 401(k) Hold Transmittal (0942) (U/F 0942/8942)</b>	<b>Deducts Suspense (8070) (U/F 8070)</b>	<b>Totals August 31, 2009</b>
	\$	\$	\$	\$	\$	\$
<b>Current Assets:</b>						
<i>Cash and Cash Equivalents:</i>						
Cash in Bank			42,103			42,103
Cash in State Treasury		150			3,629	3,779
Total Cash and Cash Equivalents	-	150	42,103	-	3,629	45,882
<i>Receivables:</i>						
Interest and Dividends Receivable				997		997
Accounts Receivable	12,908					12,908
<b>Total Current Assets</b>	<b>12,908</b>	<b>150</b>	<b>42,103</b>	<b>997</b>	<b>3,629</b>	<b>59,787</b>
<b>Total Assets</b>	<b>12,908</b>	<b>150</b>	<b>42,103</b>	<b>997</b>	<b>3,629</b>	<b>59,787</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts Payable	12,908	150				13,058
Due To Other Funds				997		997
Funds Held For Others			42,103		3,629	45,732
<b>Total Current Liabilities</b>	<b>12,908</b>	<b>150</b>	<b>42,103</b>	<b>997</b>	<b>3,629</b>	<b>59,787</b>
<b>Total Liabilities</b>	<b>12,908</b>	<b>150</b>	<b>42,103</b>	<b>997</b>	<b>3,629</b>	<b>59,787</b>

# Other Supplementary Information - Schedule A-2

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

August 31, 2009

	Beginning Balances	Additions	Deductions	Ending Balances
	\$	\$	\$	\$
<b>Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)</b>				
<b>ASSETS</b>				
Cash in State Treasury	-	270,553	270,553	-
Accounts Receivable	14,226	164,235	165,553	12,908
<b>Total Assets</b>	<b>14,226</b>	<b>434,788</b>	<b>436,106</b>	<b>12,908</b>
<b>LIABILITIES</b>				
Accounts Payable	14,226	374,235	375,553	12,908
<b>Total Liabilities</b>	<b>14,226</b>	<b>374,235</b>	<b>375,553</b>	<b>12,908</b>
<b>Employee Savings Bond Fund (0901) (U/F 0901)</b>				
<b>ASSETS</b>				
Cash in State Treasury	150	600	600	150
<b>Total Assets</b>	<b>150</b>	<b>600</b>	<b>600</b>	<b>150</b>
<b>LIABILITIES</b>				
Accounts Payable	150	600	600	150
Vouchers Payable	-	600	600	-
<b>Total Liabilities</b>	<b>150</b>	<b>1,200</b>	<b>1,200</b>	<b>150</b>
<b>TexaSaver 401(k) Trust Fund (0946) (U/F 1946)</b>				
<b>ASSETS</b>				
Cash in Bank	33,828	141,927,734	141,919,459	42,103
<b>Total Assets</b>	<b>33,828</b>	<b>141,927,734</b>	<b>141,919,459</b>	<b>42,103</b>
<b>LIABILITIES</b>				
Funds Held For Others	33,828	141,940,235	141,931,960	42,103
<b>Total Liabilities</b>	<b>33,828</b>	<b>141,940,235</b>	<b>141,931,960</b>	<b>42,103</b>
<b>TexaSaver 401(k) Hold Transmittal (0942) (U/F 0942 &amp; 8942)</b>				
<b>ASSETS</b>				
Cash in State Treasury	-	24,869	24,869	-
Interest and Dividends Receivable	-	997	-	997
<b>Total Assets</b>	<b>-</b>	<b>25,866</b>	<b>24,869</b>	<b>997</b>
<b>LIABILITIES</b>				
Due To Other Funds	-	997	-	997
Funds Held For Others	-	24,869	24,869	-
<b>Total Liabilities</b>	<b>-</b>	<b>25,866</b>	<b>24,869</b>	<b>997</b>
<b>Child Support Deducts Suspense (8070) (U/F 8070)</b>				
<b>ASSETS</b>				
Cash in State Treasury	-	3,629	-	3,629
<b>Total Assets</b>	<b>-</b>	<b>3,629</b>	<b>-</b>	<b>3,629</b>
<b>LIABILITIES</b>				
Funds Held For Others	-	3,629	-	3,629
<b>Total Liabilities</b>	<b>-</b>	<b>3,629</b>	<b>-</b>	<b>3,629</b>
<b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Cash in Bank	33,828	141,927,734	141,919,459	42,103
Cash in State Treasury	150	299,651	296,022	3,779
Interest and Dividends Receivable	-	997	-	997
Accounts Receivable	14,226	164,235	165,553	12,908
<b>Total Assets</b>	<b>48,204</b>	<b>142,392,617</b>	<b>142,381,034</b>	<b>59,787</b>
<b>LIABILITIES</b>				
Accounts Payable	14,376	374,835	376,153	13,058
Due To Other Funds	-	997	-	997
Vouchers Payable	-	600	600	-
Funds Held For Others	33,828	141,968,733	141,956,829	45,732
<b>Total Liabilities</b>	<b>48,204</b>	<b>142,345,165</b>	<b>142,333,582</b>	<b>59,787</b>

# Other Supplementary Information - Schedule 1

## Revenues, Expenses and Changes in Statutory Account Balances

(Non-GAAP Presentation) - Employees Retirement Fund

Year Ended August 31, 2009

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2009
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Contributions to Retirement System:						
Member Contributions	349,018,834					349,018,834
Employer Contributions		362,545,257				362,545,257
Service Contributions from Teacher Retirement System		57,135,135				57,135,135
Membership Fees					477,470	477,470
Penalty Interest		4,279,878				4,279,878
Investment Income:						
Net Depreciation in Fair Value of						
Investments				(2,299,404,736)		(2,299,404,736)
Interest and Dividends				708,559,288		708,559,288
Class Action Settlements				8,898,916		8,898,916
Rental Income					34,000	34,000
Warrants Voided By Statute of Limitations		141,639				141,639
Sale of Surplus Equipment					11,718	11,718
Miscellaneous					6,993	6,993
<b>Total Operating Revenues</b>	<b>349,018,834</b>	<b>424,101,909</b>	<b>-</b>	<b>(1,581,946,532)</b>	<b>530,181</b>	<b>(808,295,608)</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			1,423,454,411			1,423,454,411
Death Benefits:						
Active Members		1,374,951				1,374,951
Retirees		156,833	692,768			849,601
Member Contributions Withdrawn	70,958,144					70,958,144
Service Contributions to Teacher						
Retirement System		9,558,927				9,558,927
Re-Issue Warrants Voided		(2,477)				(2,477)
Administrative Expenses					50,834,144	50,834,144
Depreciation Expense					798,258	798,258
<b>Total Operating Expenses</b>	<b>70,958,144</b>	<b>11,088,234</b>	<b>1,424,147,179</b>	<b>-</b>	<b>51,632,402</b>	<b>1,557,825,959</b>
<b>Income (Loss) Before Non-Operating Expenses and Operating Transfers</b>	<b>278,060,690</b>	<b>413,013,675</b>	<b>(1,424,147,179)</b>	<b>(1,581,946,532)</b>	<b>(51,102,221)</b>	<b>(2,366,121,567)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Loss on Disposal of Fixed Assets					(7,842)	(7,842)
<b>Income (Loss) Before Operating Transfers</b>	<b>278,060,690</b>	<b>413,013,675</b>	<b>(1,424,147,179)</b>	<b>(1,581,946,532)</b>	<b>(51,110,063)</b>	<b>(2,366,129,409)</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	207,395,830	(2,809,186,854)	968,373,768	1,633,417,256		-
Establishment of Benefit Reserves	(279,232,501)	(628,864,947)	908,097,448			-
Member Savings Reinstated						-
Distribution of Interest for						
Administrative Expenses				(51,470,724)	51,470,724	-
Benefits Waived		2,108	(2,108)			-
Member Accounts-Escheated	(1,822,962)	1,822,962				-
Membership Fees Transferred Out					(260,000)	(260,000)
Excess Benefit Arrangement Transfers					(100,661)	(100,661)
<b>Net Operating Transfers</b>	<b>(73,659,633)</b>	<b>(3,436,226,731)</b>	<b>1,876,469,108</b>	<b>1,581,946,532</b>	<b>51,110,063</b>	<b>(360,661)</b>
<b>Net Income (Loss)</b>	<b>204,401,057</b>	<b>(3,023,213,056)</b>	<b>452,321,929</b>	<b>-</b>	<b>-</b>	<b>(2,366,490,070)</b>
<b>Account Balances - Beginning</b>	<b>4,256,243,420</b>	<b>5,012,188,451</b>	<b>12,195,833,252</b>	<b>-</b>	<b>-</b>	<b>21,464,265,123</b>
<b>Account Balances - Ending</b>	<b>4,460,644,477</b>	<b>1,988,975,395</b>	<b>12,648,155,181</b>	<b>-</b>	<b>-</b>	<b>19,097,775,053</b>

# Other Supplementary Information - Schedule 2

## Revenues, Expenses and Changes in Statutory Account Balances

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

Year Ended August 31, 2009

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2009
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
State Retirement Contributions		20,657,421				20,657,421
Investment Income:						
Net Depreciation in Fair Value of						
Investments				(74,388,713)		(74,388,713)
Interest and Dividends				23,453,591		23,453,591
Class Action Settlements				295,008		295,008
<b>Total Operating Revenues</b>	-	<b>20,657,421</b>	-	<b>(50,640,114)</b>	-	<b>(29,982,693)</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			38,641,504			38,641,504
Administrative Expenses					1,537,030	1,537,030
<b>Total Operating Expenses</b>	-	-	<b>38,641,504</b>	-	<b>1,537,030</b>	<b>40,178,534</b>
<b>Income (Loss) Before Operating Transfers</b>	-	<b>20,657,421</b>	<b>(38,641,504)</b>	<b>(50,640,114)</b>	<b>(1,537,030)</b>	<b>(70,161,227)</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest		(78,032,949)	25,855,805	52,177,144		-
Establishment of Benefit Reserves		(32,806,303)	32,806,303			-
Distribution of Interest for						
Administrative Expenses				(1,537,030)	1,537,030	-
<b>Net Operating Transfers</b>	-	<b>(110,839,252)</b>	<b>58,662,108</b>	<b>50,640,114</b>	<b>1,537,030</b>	-
<b>Net Income (Loss)</b>	-	<b>(90,181,831)</b>	<b>20,020,604</b>	-	-	<b>(70,161,227)</b>
<b>Account Balances - Beginning</b>	<b>5,275</b>	<b>390,316,689</b>	<b>314,618,012</b>	-	-	<b>704,939,976</b>
<b>Account Balances - Ending</b>	<b>5,275</b>	<b>300,134,858</b>	<b>334,638,616</b>	-	-	<b>634,778,749</b>



# 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, 2009

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2009
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Contributions to Retirement System:						
Member Contributions	4,175,804					4,175,804
Employer Contributions		11,356,171				11,356,171
Penalty Interest		47,063				47,063
Investment Income:						
Net Depreciation in Fair Value of Investments				(23,427,247)		(23,427,247)
Interest and Dividends				7,197,946		7,197,946
Class Action Settlements				91,509		91,509
<b>Total Operating Revenues</b>	<b>4,175,804</b>	<b>11,403,234</b>	-	<b>(16,137,792)</b>	-	<b>(558,754)</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			8,023,048			8,023,048
Member Contributions Withdrawn	206,246					206,246
Administrative Expenses					522,424	522,424
<b>Total Operating Expenses</b>	<b>206,246</b>	-	<b>8,023,048</b>	-	<b>522,424</b>	<b>8,751,718</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>3,969,558</b>	<b>11,403,234</b>	<b>(8,023,048)</b>	<b>(16,137,792)</b>	<b>(522,424)</b>	<b>(9,310,472)</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	2,399,676	(24,955,657)	5,895,765	16,660,216		-
Establishment of Benefit Reserves	(5,044,167)	(19,136,116)	24,180,283			-
Distribution of Interest for						
Administrative Expenses				(522,424)	522,424	-
<b>Net Operating Transfers</b>	<b>(2,644,491)</b>	<b>(44,091,773)</b>	<b>30,076,048</b>	<b>16,137,792</b>	<b>522,424</b>	-
<b>Net Income (Loss)</b>	<b>1,325,067</b>	<b>(32,688,539)</b>	<b>22,053,000</b>	-	-	<b>(9,310,472)</b>
<b>Account Balances - Beginning</b>	<b>50,408,047</b>	<b>100,840,639</b>	<b>63,791,874</b>			<b>215,040,560</b>
<b>Account Balances - Ending</b>	<b>51,733,114</b>	<b>68,152,100</b>	<b>85,844,874</b>			<b>205,730,088</b>

# Other Supplementary Information - Schedule 4

## Administrative and Investment Expenses/Expenditures

### Statutory Administrative Funds and Accounts

Year Ended August 31, 2009

	<b>Administrative Expenses- Non-Investment</b>	<b>Administrative Expenses- Investment</b>
	<b>\$</b>	<b>\$</b>
<b><u>PERSONNEL SERVICES</u></b>		
Salaries and Wages	16,024,425	5,333,107
<i>Payroll Related Costs:</i>		
Retirement Contributions	946,403	285,612
Retirement Membership Fees	804	156
Employees Insurance Contributions	1,290,678	246,780
Retirees Insurance Contributions	455,005	89,486
Social Security Contributions	1,145,759	330,921
Unemployment Compensation	19,526	3,850
Total Payroll Related Costs	3,858,175	956,805
<b>Total Personnel Services</b>	<b>19,882,600</b>	<b>6,289,912</b>
<b><u>PROFESSIONAL FEES AND SERVICES</u></b>		
Actuarial Services	1,288,892	-
Audit Services	432,946	-
Investment Consulting Fees	-	1,623,743
Investment Advisor Fees	-	10,856,970
Medical Board Member Fees	56,750	-
Architectural Services	196,877	-
Legal Services	223,977	-
Computer Programming Services	1,414,311	466,990
Other Professional Services	310,407	7,009
<b>Total Professional Fees and Services</b>	<b>3,924,160</b>	<b>12,954,712</b>
<b><u>OTHER SERVICES AND CHARGES</u></b>		
Travel	97,401	310,457
<i>Materials and Supplies:</i>		
Postage	731,491	-
General Office and Other Supplies	274,720	2,261
Subscriptions	19,137	8,875
Furniture and Equipment	942,935	62,281
Computer Software	329,775	-
Total Materials and Supplies	2,298,058	73,417
<i>Communications and Utilities:</i>		
Electricity, Gas and Water	265,734	-
Telephone and Telegraph	324,537	-
Electronic Communication Services	119,676	3,326,774
Total Communication and Utilities	709,947	3,326,774
<i>Repairs and Maintenance:</i>		
Land and Building	110,634	-
Furniture and Equipment	24,808	-
Computer Software and Equipment	801,060	-
Total Repairs and Maintenance	936,502	-
<i>Rentals and Leases:</i>		
Computer Software and Equipment	740,641	66,000
Office Equipment	292,526	-
Space	53,679	6,930
Total Rentals and Leases	1,086,846	72,930
Printing and Reproduction Services	92,876	-
Depreciation	798,258	-
Interest Expense	67,588	-

- to next page

## Other Supplementary Information - Schedule 4

### Administrative and Investment Expenses/Expenditures

Statutory Administrative Funds and Accounts (Concluded)

Year Ended August 31, 2009

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
	\$	\$
<b><u>OTHER SERVICES AND CHARGES (continued)</u></b>		
Other Operating Expenses/Expenditures:		
Membership Fees	31,457	20,900
Employee Training	138,788	22,827
Insurance - Building and Vehicle	38,813	-
Fees and Other Charges	8,133	13,879
Investment Banking	5,250	12,788,968
Tenure Awards	5,198	-
Witness Fees	1,700	-
Hazardous Waste Disposal	21,500	-
Temporary Employment Agencies	586,722	4,080
Cleaning Services	109,197	-
Advertising Services	8,302	2,231
Freight/Delivery Services	6,064	-
Purchased Contracted Services	523,057	2,476
Prompt Payment Interest	111	-
Third Party Administrator Fee - Cafeteria Plan	1,246,513	-
Debit Card Fees - Cafeteria Plan	527,774	-
<b>Total Other Operating Expenses/Expenditures</b>	<b>3,258,580</b>	<b>12,855,361</b>
<b>Total Other Services and Charges</b>	<b>9,346,056</b>	<b>16,638,939</b>
<b>Total Expenses/Expenditures</b>	<b>33,152,816</b>	<b>35,883,563</b>
<b>Method of Finance:</b>		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	17,321,280	34,311,120
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	433,753	1,103,277
Judicial Retirement System Plan Two Trust Fund (0993)	239,546	282,879
Texasaver 401(k) Trust Fund (0946)	457,313	2,489
Texasaver 457 Trust Fund (0945)	655,928	1,847
State Employees Cafeteria Plan Trust Fund (0943)	2,219,647	1,157
State Retiree Health Plan (3973)	2,882,261	1,150
<b>Total Fiduciary Funds</b>	<b>24,209,728</b>	<b>35,703,919</b>
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	8,882,153	179,644
<b>Total Proprietary Fund</b>	<b>8,882,153</b>	<b>179,644</b>
Social Security Administration Trust Account (0929)	60,935	-
<b>Total Governmental Funds</b>	<b>60,935</b>	<b>-</b>
<b>Total Method of Finance</b>	<b>33,152,816</b>	<b>35,883,563</b>

## Other Supplementary Information - Schedule 5

### Professional and Consulting Fees

Year Ended August 31, 2009

NATURE OF SERVICE	\$	TOTALS
Medical Board		56,750
Investment Consulting		1,623,743
Investment Advisors		10,856,970
Actuarial Services - Insurance		705,173
Actuarial Services - Retirement		583,719
Computer Programming Services		1,881,301
Audit Fees - Financial		95,000
Audit Fees - Insurance Carrier		132,769
Audit Fees - Other		205,177
Educational Services		115,036
Architectural Services		196,877
Legal Services		223,977
Membership Based IS Resource Organization		65,514
Technical Writing Services		48,843
Public Affairs Project		23,890
Organizational Development		17,000
Dental Request for Purchase Review		18,000
Other Professional Services		29,132
<b>Total Professional and Consulting Fees</b>		<b>16,878,871</b>
<b>Method of Finance</b>		
State Employees Retirement System (S.E.R.S.) Trust Account (0955		14,810,854
Law Enforcement and Custodial Officer Supplemental Ret. Trust Fur		350,044
Judicial Retirement System Plan Two Trust Fund (0993)		79,788
State Retiree Health Plan (3973)		347,956
Texa\$aver 401(k) Trust Fund (0946)		30,793
Texa\$aver 457 Trust Fund (0945)		42,885
State Employees Cafeteria Plan Trust Fund (0943)		13,505
<b>Total Fiduciary Funds</b>		<b>15,675,825</b>
Employees Life, Accident, Health Insurance		
and Benefits Trust Account (0973)		1,200,303
<b>Total Proprietary Fund</b>		<b>1,200,303</b>
Social Security Administration Fund (0929)		2,743
Total Governmental Funds		2,743
<b>Total Method of Finance</b>		<b>16,878,871</b>



# Investment Section

*Report on Investment Activity*

*Outline of Investment Policies*

*Time-weighted Rates of Return  
and Asset Allocations*

*Fees and Commissions*

*List of Largest Assets Held*

*Investment Summary at Fair Value*



# Report on Investment Activity

Fiscal Year 2009

## OVERVIEW

The Employees Retirement System of Texas (System) investment portfolio closed the fiscal year with a fair value of \$19.8 billion, and returned -6.60% for the year. The fiscal year-end asset allocation stood at 35.3% bonds, 38.7% domestic equity, 23.2% international equity, 2.1% global REITs, and 0.6% in private equity.

Throughout the year, Investments maintained liquidity and rebalancing discipline amid tumultuous markets. Major accomplishments for the investment program this fiscal year included the completion of the trust fund liquidity analysis. The Board approved the hiring of both an investment plan consultant and private real estate consultant. With the hiring of the investment plan consultant, staff was able to develop new comprehensive performance reporting and program evaluation formatting. Staff developed infrastructure to begin private real estate investing, including policies and procedures and annual tactical plan.

The Investments staff expanded this fiscal year with eight new positions, bringing the division total up to 53 employees. The Investments division is budgeted a total of 56 positions. The System continued to invest in the infrastructure and software tools needed to improve and maintain the overall efficiency of the investment program. Major milestones accomplished include the completion of phase three of the investment accounting software package, the hiring of securities litigation class action auditing and monitoring firm, and the hiring of a proxy voting and research firm.

The Board approved moving the Large Cap Growth portfolio to internal management, and the System staff developed and began funding an internal Emerging Markets portfolio. The System signed almost \$1 billion in commitments for 12 funds in the Private Equity portfolio. Additionally, the System staff realigned the securities lending program to better meet the needs of the fund in a changing credit environment.

The 81st Legislative Session passed House Bill 2559, which Governor Perry signed into law, added subsections (g), (h), and (i) to Section 815.301 of the Texas Government Code. The bill states a good faith effort must be made to award contracts to or acquire services from qualified emerging fund managers when acquiring private financial services. Going forward, this bill states the System must report to its Board of Trustees the methods and results of its efforts to hire emerging fund managers, including data disaggregated by race, ethnicity, gender, and fund size. Lastly, the System staff continued implementation of the Sudan and Iran policies and procedures.

The investment portfolio's total return outperformed the policy benchmark by 95 basis points. Over the longer term, the fund returned 4.48% for the 5 years ending August 31, 2009 besting the policy benchmark of 3.71%.

## DOMESTIC EQUITY

Troubles in the credit and housing markets began during late fiscal year 2007. Economic conditions grew worse during fiscal year 2008 and the leading U.S. equity benchmarks posted negative returns. Fiscal year 2009 witnessed the worst bear market for stocks since the Great Depression during 1929-32, and the credit markets nearly came to a standstill.

The 2009 fiscal year began with the U.S. government's takeover of Fannie Mae and Freddie Mac, the two government sponsored entities that owned or guaranteed about half of outstanding U.S. mortgage debt outstanding. The Federal Reserve agreed to purchase up to \$600 billion of the debt issued or backed by the government-chartered housing-finance companies and it set up a \$200 billion facility to support consumer and small business loans. Additionally, the Federal Reserve reduced its federal funds rate, an overnight bank-lending rate, to 1% during October, and to historic lows of between zero and 0.25% during December. Congress passed a \$700 billion stimulus package.

The equity markets bottomed during early March and turned up as investors perceived that the economy was responding to the government stimulus. The sharp decline in industrial output and business activity leveled out and manufactures' outlooks improved slightly. Credit market conditions improved. Home sales and reports on consumer confidence beat economists' forecasts. Federal Reserve Chairman Ben Bernanke said in a speech during late August that "Prospects for a return to growth in the near term appear good," while "critical challenges remain," including possible further losses for financial firms. The fiscal year ended on a positive note when second quarter (calendar year) earnings surprised on the upside.

For the fiscal year ending August 31, 2009, the Dow Jones Industrial Average was down 17.73%, and with dividends reinvested into the index, the total return was down 14.85%. The broad Standard & Poor's 500 Index of large stocks closed down 20.44%, including dividends, down 18.25%. The NASDAQ Composite Index, dominated by technology stocks, closed down 15.14%. The S&P 400 Midcap Index closed down 19.75% for the fiscal year, and the S&P 600 Smallcap Index closed down 21.98%. The S&P 500/Citigroup Value Index was down 23.42%.

# Report on Investment Activity

Fiscal Year 2009

underperforming the S&P 500/Citigroup Growth Index, which closed down 17.64%.

No economic sector had a positive return for fiscal year 2009. Information Technology was the best performing sector with the least negative return. Consumer Staples was the top performing sector for fiscal year 2008 and was the second best performer for fiscal year 2009. Energy and Materials were relative laggards after being among the top performing sectors for fiscal year 2007 and 2008. Financial stocks were the poorest performers during fiscal year 2009 and were the poorest performers for fiscal year 2007 and 2008.

## INTERNATIONAL EQUITY

For a second year in a row, International Equity markets fell despite staging a strong rally in the second half of the year. Global coordination of interest rate reductions and regional stimulus packages contributed to the stabilization and eventual rise of the market. In U.S. dollar terms, the ACWI World Index ex USA (-14.4%) dropped along with the Morgan Stanley Capital International EAFE index (-15.0%). Europe (-17.6%) led the decline followed by the Emerging markets (-10.0%). Both the Pacific (-9.2%) and Japan (-10.2%) regions outperformed when adjusted to U.S. dollars. Consumer related sectors dominated the top performing groups with Consumers Staples (-8.0%) and Consumer Discretionary (-12.7%) occupying two of the top three slots with Telecom Services (-11.8%). Underperforming sectors included the commodity related groups, Materials (-24.4%) and Energy (-23.8%), followed by Technology (-23.2%).

Currencies were mixed during the course of the year with some currencies experiencing wide swings relative to the dollar. The most notable change was in the Yen (+16.8%) jumping from .0092 USD/JPY to .0107 USD/JPY as markets saw an end to the carry-trade. The biggest declines came at the expense of the Pound (-10.6%) and Swedish Kroner (-9.4%). The Pound finished the year at 1.63 USD/GBP while the Kroner finished near 7.12 USD/SEK. The Euro (-2.3%) finished slightly down dropping from 1.47 USD/EUR to 1.43 USD/EUR.

## REAL ESTATE

Global real estate securities lost 23% for the year ended August 31, 2009 as measured by the FTSE EPRA/NAREIT index. However, it was a very volatile year. At the market lows in early March, the global index was down over 60% from August 31, 2008. From the lows, the global index bounced back 95% to end the fiscal year with a loss of 23%. The only country with a positive return for the fiscal year was Hong Kong at 10%. This was primarily driven by

companies with China exposure which returned 30%. Other Asian countries did not do as well. Australia lost 37% and Japan and Singapore lost over 9%. Continental Europe lost 14% and the UK was down 36%. Leverage was a main determinate of performance. The more heavily leveraged companies significantly underperformed the market. Capital raising was prevalent in the UK and Australia to shore up balance sheets. This coupled with a better credit environment led to the rally in the second half of this fiscal year.

In the U.S. the story was the same. The U.S. real estate securities declined over 36% for the fiscal year. However, they were down as much as 65% at the March lows and increased close to 90% to end the fiscal year down 36%. Industrial and Retail were the laggards losing 58% and 42% respectively while Hotels were not far behind, down 37%. This was a function of highly leveraged companies and exposure to hard hit areas of the economy. The outperformer for the fiscal year was Health Care, only down 9%. These companies are considered more defensive and they had the lowest debt levels in the industry. The U.S. also experienced significant capital raising, which helped to change investor attitudes towards the sector.

## PRIVATE EQUITY

For the fiscal year ending August 31, 2009, ERS Private Equity closed on 12 funds with commitments totaling \$947 million (adjusted for currency exchange rates). In addition, ERS received LP Advisory Committee seats on six funds (excluding two pending LP Advisory Committee seat opportunities) and one LP Advisory Observer seat.

Since ERS' first private equity investment in 1998 (with the Texas Growth Fund II - 1998 Trust), ERS has invested in 17 private equity funds with commitments totaling \$1.326 billion. As of August 31, 2009 nine of the 17 funds have called capital for portfolio investments. Currently, the ERS Private Equity portfolio has 39 portfolio company investments.

Since inception through August 31, 2009, capital calls have totaled approximately \$209 million, cash distributions have totaled approximately \$115 million and the portfolio Net Asset Value ("NAV") at August 31, 2009 is approximately \$117 million.

In summary, the ERS private equity program is moving ahead as planned. The current private equity market environment is still being negatively impacted by the global economic slowdown and denominator effect, impacting most other private equity investors, which should continue to benefit ERS over the next one to two years.



# Report on Investment Activity

Fiscal Year 2009

## FIXED INCOME

### Economy

Volatility may be an understatement in describing the past 12 months in the economy. During this time, the Federal Reserve continued a trend of lower interest rates by dropping the target rate to 25 basis points (bps). Quarterly GDP has not been positive since the second quarter of 2008 and unemployment is at a 26-year high and climbing. A multitude of government programs have been created to aid both businesses and consumers, inflating the Fed's balance sheet and the country's deficit. The economy has been in a prolonged recession that officially started in December, 2007. The worst of it came in the first quarter when GDP was -6.4%, a level last seen in 1982. Many economists have called this recession the worst since the Great Depression.

The fiscal year started with the collapse of Lehman Brothers on September 14th when the company filed for Chapter 11 bankruptcy protection. This event triggered an unprecedented shutdown of the global financial system, further burdening a financial sector that was already under increasing stress. Falling home prices and rising mortgage defaults exacerbated credit losses in the banking sector. This condition tightened lending standards and put the brakes on both consumer and business spending. As a result, the economy saw job losses peak in the first quarter, averaging -691,000 per month. Economic data has improved over the fiscal year but much of the gain is the result of government stimulus.

### Index Performance

The Lehman Brothers Aggregate Index returned 7.94% for the fiscal year. Corporate debt was the best performing sector, returning 10.35%. The Barclays Capital High Yield 2% Issuer Cap Index returned 7% for the year. By comparison, the S&P 500 index lost 22.20% during this time.

Total Return	12 Months Ending August 31, 2009
Barclays Aggregate	7.94%
U. S. Treasuries	6.09%
Government Related	7.42%
Corporates	10.35%
Securitized	8.58%
Barclays High Yield 2% Issuer Cap	7.00%

### Interest Rates

The yield curve steepened over the past 12 months as the front-end was held down by the Fed Funds rate at 25 basis points (bps). Two-year Treasury rates dropped from 2.25% to 0.97% while ten-year rates fell 34 bps to 3.40%. However, these levels do not reflect the volatility that the Treasury market endured. In December, the ten-year Treasury rate dropped to a historical low of 2.12% and the yield curve flattened to 128 bps. The curve slowly steepened as supply increased and longer-term rates followed. The yield curve remains at elevated levels as the Federal Reserve has pledged to keep rates at exceptionally low levels for an extended period.

## KEY PORTFOLIO STATISTICS

	2009	2008
	\$	\$
Contributions to Pool	561,600,000	529,600,000
Withdrawals from Pool	(1,353,200,000)	(1,297,500,000)
Interest & Dividends	703,297,555	855,378,922
Securities Lending Net Income	35,913,271	34,336,179
Net Depreciation in Fair Value	(2,397,220,696)	(2,208,815,330)

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 2009

## 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

## Investment Pool (Note A)

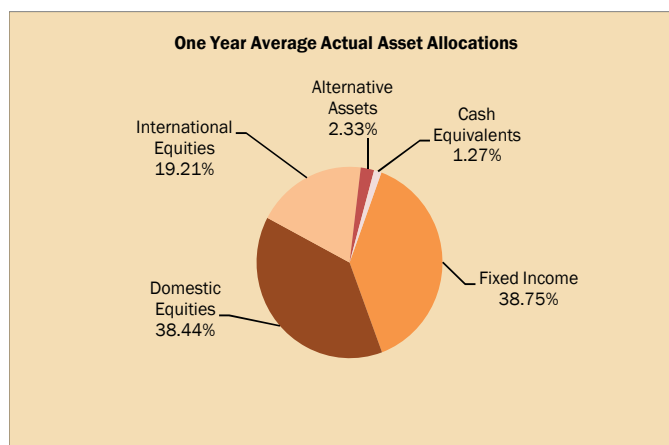
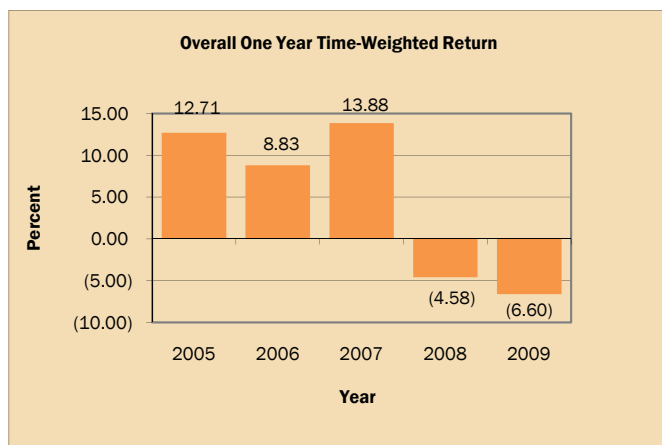
August 31, 2009

### Time-Weighted Rates of Return

	Fixed Income Securities		Domestic Equities		International Equities		Cash Equivalents		ERS	CPI
	ERS	Index	ERS	Index	ERS	Index	ERS	Index	Overall	
1 Year	%	%	%	%	%	%	%	%	%	%
2005	5.21	4.15	14.68	12.56	24.39	23.58	2.54	2.44	<b>12.71</b>	3.59
2006	2.52	1.71	8.29	8.88	22.39	24.28	4.66	4.34	<b>8.83</b>	3.92
2007	5.73	5.26	14.98	15.13	20.00	18.71	5.37	5.29	<b>13.88</b>	2.40
2008	5.25	5.86	(11.59)	(11.14)	(12.99)	(14.41)	4.01	2.99	<b>(4.58)</b>	5.42
2009 (Note B)	6.40	7.38	(18.35)	(18.35)	(14.04)	(14.41)	(53.82)	0.66	<b>(6.60)</b>	(2.05)
3 Year										
(2007-2009)	5.79	5.96	(6.02)	(5.91)	(3.53)	(4.55)	(20.31)	2.96	<b>0.49</b>	1.70
5 Year										
(2005-2009)	5.01	4.95	0.61	0.64	6.45	5.96	(11.49)	3.13	<b>4.48</b>	2.51

### Average Asset Allocations

	1-Year		3-Year		5-Year	
	Target	Actual	Target	Actual	Target	Actual
	%	%	%	%	%	%
Fixed Income	37.00	38.75	37.67	36.97	37.80	36.92
Domestic Equities	37.90	38.44	41.97	41.99	42.78	42.73
International Equities	21.30	19.21	19.10	18.49	18.66	18.39
Alternative Assets	2.80	2.33	0.93	1.86	0.56	1.36
Cash Equivalents	1.00	1.27	0.33	0.69	0.20	0.60
Total	100.00	100.00	100.00	100.00	100.00	100.00



Note A: The Time-Weighted Rate of Return measures the performance of the total investment portfolio, considering income and market impact, including realized and unrealized gains, and eliminates the effect of timing of cash flows due to contributions and withdrawals which are not controllable by investment managers. The 5-year return is used to smooth market swings and to maintain consistency with the long-term nature of the fund. The Time-Weighted Rate of Return for fiscal years 2004, 2005, and 2006 is calculated as follows:

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

Daily performance evaluation has been implemented since the beginning of fiscal year 2007; the Time-Weighted Rate of Return for fiscal year 2007, 2008, and 2009 is calculated as follows:

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

Note B: The 2009 Cash Equivalents return reflects an unrealized loss (\$25,228,500) pertaining to a securities lending collateral adjustment.

The indices used for comparison are as follows:

Fixed Income Securities Portfolio:	Barclays Capital Universal
Domestic Equities Portfolio:	S&P 1500
International Equities Portfolio:	MSCI EAFE/MSCI ACWI ex US Blended 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.

# Schedule of Fees and Commissions

Year Ended August 31, 2009

Investment Advisory Fees				Domestic Equity Commissions			
	Assets Under Advisory		Basis Points	Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
	Management	Fees					
Fixed Income Advisors	\$ 360,434,099	\$ 983,458	27.29	Barclays Capital	14,142,238	\$ 282,845	0.020
Domestic Equity Advisors	1,266,357,055	2,288,814	18.07	Bloomberg Tradebook, LLC	3,003,500	30,042	0.010
International Equity Advisors	2,791,115,356	7,584,698	27.17	BMO Capital Markets	3,471,380	95,111	0.027
<b>Total</b>	<b>4,417,906,510</b>	<b>10,856,970</b>	<b>24.57</b>	Citigroup Global Markets, Inc.	13,816,322	276,349	0.020
				Cowen and Company	10,000	202	0.020
				Credit Suisse First Boston	30,883,718	561,833	0.018
				Fox-Pitt Kelton Cochran Caronia Walle	1,356,109	40,683	0.030
				Goldman Sachs & Company	23,022,025	236,074	0.010
				Green Street Advisors, Inc.	813,900	40,695	0.050
				International Strategy & Investment G	6,147,680	122,954	0.020
				ITG Corporate	3,518,588	35,186	0.010
				J.P. Morgan Securities, Inc.	15,210,108	304,204	0.020
				Jefferies & Company, Inc.	7,838,104	138,749	0.018
				Keefe, Bruyette & Woods, Inc.	1,405,750	33,773	0.024
				KeyBanc Capital Markets	3,174,265	63,485	0.020
				Leerink Swann & Company, Inc.	1,848,846	36,977	0.020
				Lehman Brothers	1,175,344	23,507	0.020
				Liquidnet, Inc.	4,624,159	70,843	0.015
				Merrill Lynch & Co., Inc.	35,377,976	431,230	0.012
				Morgan Stanley Dean Witter & Co.	33,567,370	344,770	0.010
				Raymond James & Associates	1,365,934	40,978	0.030
				RBC Dain Rauscher	2,305,713	46,114	0.020
				Robert Baird Securities, Inc.	5,797,025	116,196	0.020
				Sandler O'Neil & Partner, L.P.	1,583,466	32,370	0.020
				Sanford C. Bernstein & Co.	6,460,014	129,197	0.020
				SG Cowen Securities Corp.	447,790	8,956	0.020
				Sterne Agee	917,700	27,531	0.030
				Stifel, Nicolas, & Company, Inc.	5,054,399	104,845	0.021
				Thomas Weisel Partners	1,442,660	28,853	0.020
				UBS	15,232,042	304,674	0.020
				Weeden & Company	656,400	13,128	0.020
				<b>Total</b>	<b>245,670,525</b>	<b>4,022,354</b>	<b>0.016</b>
Other Investment Service Fees							
Custodian Fees			\$ 217,305				
Security Lending Agent Fees			6,240,789				
Investment Consultant Fees			1,623,743				
<b>Total</b>			<b>8,081,837</b>				
Directed Commissions							
<p>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 \$258,054 during fiscal year 2009.</p>							

International Equity Commissions			
Brokerage Firm	No. of Shares		Commission Per Share
	Traded	Commissions	
Bernard Jacobs Mellet	516,190	\$ 8,610	0.017
Bloomberg Tradebook, LLC	7,900	79	0.010
BMO Capital Markets	154,500	2,893	0.019
Citigroup Global Markets, Inc.	124,046,575	471,071	0.004
Collins Stewart	5,450,334	55,640	0.010
Credit Agricole Cheuvreus N.A., Inc.	17,993,507	218,828	0.012
Credit Lyonnais Securities	75,611,620	320,105	0.004
Credit Suisse First Boston	67,215,388	316,278	0.005
Fox-Pitt Kelton Cochran Caronia Waller	12,249,980	112,373	0.009
Green Street Advisors, Inc.	175,000	7,484	0.043
Helvea, Inc.	3,138,004	89,796	0.029
J.P. Morgan Securities, Inc.	25,203,047	173,157	0.007
Jefferies & Company, Inc.	500	10	0.020
Keefe, Bruyette & Woods, Inc.	7,439,675	144,301	0.019
Lehman Brothers	973,167	4,773	0.005
Macquarie Securities (USA), Inc.	28,604,079	204,339	0.007
Merrill Lynch & Co., Inc.	78,994,062	433,608	0.005
Mitsubishi Securities	7,954,219	140,562	0.018
Mizuho Securities USA, Inc.	1,000,600	26,369	0.026
Morgan Stanley Dean Witter & Co.	20,876,636	191,004	0.009
Nomura Securities Co. Ltd.	35,984,598	271,741	0.008
Robert Baird Securities, Inc.	100	2	0.020
UBS	52,040,745	381,206	0.007
<b>Total</b>	<b>565,630,426</b>	<b>3,574,229</b>	<b>0.006</b>

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

# List of Largest Assets Held

August 31, 2009

## Ten Largest Stock Holdings

# of Shares	Description	Fair Value
		\$
3,546,500	Exxon Mobil Corporation	245,240,475
5,704,300	Microsoft Corporation	140,610,995
2,875,400	JPMorgan Chase & Co	124,964,884
2,061,000	Johnson & Johnson Company	124,566,840
2,288,366	Proctor & Gamble Company	123,823,484
4,736,700	AT&T, Inc.	123,391,035
948,000	International Business Machines Corporation	111,911,400
6,319,900	Pfizer, Inc.	105,542,330
7,521,000	General Electric Company	104,541,900
1,425,000	Chevron Corporation	99,664,500

## Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
\$		\$
355,851,003	JPMorgan Prime Money Market Fund, Rating NR	355,851,003
191,350,000	U.S. Treasury Note 1.125% due on 06/30/2011, Rating AAA	192,202,082
180,000,000	U.S. Treasury Note 2.625% due on 6/30/2014, Rating AAA	182,348,460
189,319,000	U.S. Treasury Note 2.750% due on 2/15/2019, Rating AAA	179,217,127
179,700,000	U.S. Treasury Note 2.625% due on 4/30/2016, Rating AAA	176,063,950
169,556,000	U.S. Treasury Note 3.125% due on 5/15/2019, Rating AAA	165,529,045
177,054,000	U.S. Treasury Bond 3.50% due on 2/15/2039, Rating AAA	156,416,232
142,860,000	U.S. Treasury Note 2.250% due on 5/31/2014, Rating AAA	142,513,993
122,880,000	U.S. Treasury Bond 4.250% due on 5/15/2039, Rating AAA	124,243,231
105,500,000	U.S. Treasury Note 0.875% due on 5/31/2011, Rating AAA	105,603,074

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.

# Investment Summary at Fair Value

August 31, 2009

Type of Investment	Pooled Pension Trust Funds (Note A)			Total	
	Fund 0955	Fund 0977	Fund 0993	Fair Value	% Total
	\$	\$	\$	\$	
<b>Long-Term Fixed Securities:</b>					
U.S. Treasury Bonds	2,091,296,507	69,034,461	21,205,125	2,181,536,093	11.06030%
Other Government Securities	443,676,051	14,645,908	4,498,743	462,820,702	2.34648%
Mortgage Pass-Thru Securities	1,829,867,100	60,404,581	18,554,308	1,908,825,989	9.67767%
Collateralized Mortgage Obligations	3,592,345	120,045	39,015	3,751,405	0.01902%
Asset Backed Securities	55,052,195	1,817,941	559,362	57,429,498	0.29117%
Commercial Mortgage Backed Securities	180,069,115	5,944,147	1,825,847	187,839,109	0.95234%
Corporate Bonds	1,373,767,002	45,471,276	14,147,193	1,433,385,471	7.26721%
<b>Total Long-Term Fixed Securities</b>	<b>5,977,320,315</b>	<b>197,438,359</b>	<b>60,829,593</b>	<b>6,235,588,267</b>	<b>31.61419%</b>
<b>Equities:</b>					
<b>Domestic:</b>					
Public Equity	7,152,669,012	239,019,850	77,681,451	7,469,370,313	37.86941%
Private Equity	87,446,231	2,922,180	949,708	91,318,119	0.46298%
REIT	221,733,429	7,409,638	2,408,132	231,551,199	1.17396%
<b>Total Domestic Equity</b>	<b>7,461,848,672</b>	<b>249,351,668</b>	<b>81,039,291</b>	<b>7,792,239,631</b>	<b>39.50635%</b>
<b>International:</b>					
Public Equity	4,435,042,348	148,205,258	48,166,709	4,631,414,315	23.48109%
Private Equity	24,363,232	814,143	264,597	25,441,972	0.12899%
REIT	77,622,627	2,593,906	843,019	81,059,552	0.41097%
<b>Total International Equity</b>	<b>4,537,028,207</b>	<b>151,613,307</b>	<b>49,274,325</b>	<b>4,737,915,839</b>	<b>24.02105%</b>
<b>Total Equities</b>	<b>11,998,876,879</b>	<b>400,964,975</b>	<b>130,313,616</b>	<b>12,530,155,470</b>	<b>63.52740%</b>
<b>Cash Equivalents:</b>					
Cash in State Treasury-Investment Pool	1,402,641	46,872	15,233	1,464,746	0.00743%
Short Term Investment Fund	341,709,201	11,426,732	3,672,377	356,808,310	1.80900%
Money Market Mutual Funds	574,560,000	19,200,000	6,240,000	600,000,000	3.04198%
<b>Total Cash Equivalents</b>	<b>917,671,842</b>	<b>30,673,604</b>	<b>9,927,610</b>	<b>958,273,056</b>	<b>4.85841%</b>
<b>Total Before Securities Lending Collateral (Notes B &amp; C)</b>	<b>18,893,869,036</b>	<b>629,076,938</b>	<b>201,070,819</b>	<b>19,724,016,793</b>	<b>100.00000%</b>
Securities Lending Collateral	3,241,245,338	107,618,808	33,971,882	3,382,836,028	
<b>Total Pooled Pension Trust Funds</b>	<b>22,135,114,374</b>	<b>736,695,746</b>	<b>235,042,701</b>	<b>23,106,852,821</b>	
<b>Cash Equivalents:</b>					
Cash in State Treasury-Pension Funds	26,282,233	746,718	738,965		
<b>Total Investments</b>	<b>22,161,396,607</b>	<b>737,442,464</b>	<b>235,781,666</b>		

Note A: The Pooled Pension Trust Funds category 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	18,893,869,036	629,076,938	201,070,819	19,724,016,793
Unsettled Sales-Investment Receivables	162,652,052	5,425,985	1,749,923	169,827,960
Unsettled Purchases-Investment Payables	(99,508,151)	(3,304,066)	(1,043,143)	(103,855,360)
Accrued Interest and Dividends/Tax Reclaims Receivable	79,636,602	2,642,644	805,890	83,085,136
<b>Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards</b>	<b>19,036,649,539</b>	<b>633,841,501</b>	<b>202,583,489</b>	<b>19,873,074,529</b>

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

Basis of Presentation: System's Financial Records.

# Actuarial Section

## *PENSION PLANS:*

*Actuary's Certification Letter*

*Actuarial Balance Sheets*

*Summary of Actuarial Methods  
And Assumptions*

*Active Member Valuation Data*

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

*Solvency Test*

*Analysis of Financial Experience*

## *STATE RETIREE HEALTH PLAN:*

*Actuary's Certification Letter*

*Actuarial Valuation Results*

*Summary of Actuarial Methods  
And Assumptions*









November 5, 2009

Board of Trustees  
Employees Retirement System of Texas  
18th & Brazos  
P.O. Box 13207  
Austin, TX 78711-3207

## **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, 2009 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.

House Bill 2559 passed by the 81<sup>st</sup> Legislature of the State of Texas (HB2559) made the following changes to the plan provisions of ERF and LECOSRF.

1. Establish a 90-day waiting period for members in the employee class who retire on or after May 31, 2009 and seek re-employment in the employee class, as well as, a surcharge payable by the state agency that rehires a retiree equal to the amount the agency would remit for a normal active member;

2. Allow sick leave and annual leave to be used only in determining the member's or beneficiary's annuity in ERF and LECOSRF for those members that are hired after August 31, 2009;
3. Require that members of the employee class hired after August 31, 2009 to be at least 65 years old and have at least 10 years of service or have at least five years of service and the sum of age and service exceed 80 to be eligible to retire and receive a service retirement annuity;
4. Calculate the service retirement annuity for ERF using an average compensation based on the 48 highest months of compensation for members hired after August 31, 2009;
5. Reduce the standard service retirement annuity for ERF by five percent for each year a regular class member retires before age 60, with a maximum possible reduction of 25 percent, for members hired after August 31, 2009;
6. Calculate the standard service retirement annuity payable for at least 20 years of service credit as a law enforcement or custodial officer using an average compensation based on the 48 highest months of compensation for members hired after August 31, 2009;
7. Reduce the standard service retirement annuity for law enforcement or custodial officers by five percent for each year the member retires before age 55, with a maximum possible reduction of 25 percent; and
8. Increase the required employee contribution to ERF from 6.00% to 6.45% of payroll, with an additional 0.50% of payroll for law enforcement or custodial officers.

The actuarial assumptions used for these valuations are outlined in the "Summary of Actuarial Methods and Assumptions." The assumptions used to develop plan liabilities are based on an experience study that reviewed data from 2002 to 2007. The ERS Board of Trustees adopted these assumptions on May 13, 2008. The assumptions used to develop the normal cost rate were established based on an analysis of the changes implemented by HB2559. 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 to develop the Schedules of Funding Progress and the Schedules of Employer Contributions, noted above, 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. HB2559 increased most members' contributions to 6.45% of pay, from 6.00%, and the State contributes 6.45% of payroll. The actuarial valuation for funding purposes was completed using the entry age actuarial cost method, where the normal cost is based on the benefits in effect for members hired after August 31, 2009 and is 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, 2009. As previously noted, the actuarial cost method for funding purposes was changed such that the total liability is based on the benefit provisions for each member and the normal cost rate is based on the benefit in effect for members hired after August 31, 2009. Additionally, alternate Annual Rates of Termination from Active Employment and Service Retirement Rates were established based on an analysis of the changes implemented by HB2559 and the potential impact on the duration of employment for members hired after August 31, 2009. There were no changes in the actuarial cost method or assumptions for GASB disclosure purposes. The plan provisions have changed since the prior valuation based on the changes implemented by HB2559 and the updated actuarial factor tables adopted by the Board in February 2009.

The August 31, 2009 actuarial valuation shows that there is an unfunded accrued liability for funding purposes of \$3,398.2 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 87.4% for funding purposes as of August 31, 2009. The valuation shows that the total normal cost for funding purposes is 12.38% of payroll. Total contributions are 12.90% of payroll. The total contribution rate exceeds the normal cost by 0.52% of payroll, but it 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 15.84% of payroll. In addition, as of August 31, 2009, the market value of assets was \$4,411.8 million less than the actuarial value. Unless the market value earns more than 8% over the next few years (on average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio will likely decrease.

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. As a result of HB2559, most members contribute 0.50% of pay and the State contributes 1.59% of payroll. The actuarial valuation for funding purposes was completed using the entry age actuarial cost method, where the normal cost is based on the benefits in effect for members hired after August 31, 2009 and is 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, 2009. As previously noted, the actuarial cost method for funding purposes was changed such that the total liability is based on the benefit provisions for each member and the normal cost rate is based on the benefit in effect for members hired after August 31, 2009. Additionally, alternate Annual Rates of Termination from Active Employment and Service Retirement Rates were established based on an analysis of the changes implemented by HB2559 and the potential impact on the duration of employment for members hired after August 31, 2009. There were no changes in the actuarial cost method or assumptions for GASB disclosure purposes. The plan provisions have changed since the prior valuation based on the changes implemented by HB2559 and the updated actuarial factor tables adopted by the Board in February 2009.

The August 31, 2009 actuarial valuation shows that there is an unfunded accrued liability for funding purposes of \$126.3 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 86.1% for funding purposes as of August 31, 2009. The valuation shows that the total normal cost for funding purposes is 2.07% of payroll. Total contributions are 2.09% of payroll. The total contribution rate exceeds the normal cost by 0.02% of payroll, but it 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 2.58% of payroll. In addition, as of August 31, 2009, the market value of assets was \$146.0 million less than the actuarial value. Unless the market value earns more than 8% over the next few years, (on average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio will likely decrease.

## **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.

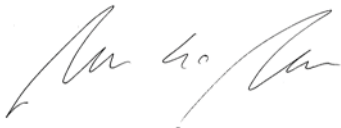
The contribution levels of the JRSII are set by legislation. Members who are accruing benefits contribute 6% of pay and the State contribution rate was 16.83% of payroll as of the August 31, 2009 valuation. The actuarial valuation was completed using the entry age actuarial cost method, which generates a normal cost, based on the benefit provisions for each member, 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, 2009. The current valuation reflects the updated actuarial factor tables adopted by the Board in February 2009. Otherwise, there have not been any changes in the actuarial cost method, actuarial procedures, actuarial assumptions, or plan provisions from the prior valuation. The current actuarial assumptions are outlined in the "Summary of Actuarial Methods and Assumptions".

The August 31, 2009 actuarial valuation shows that there is an unfunded accrued liability of \$7.3 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 97.1% as of August 31, 2009. The valuation shows that the total normal cost is 20.30% of payroll. 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 4.8 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, 2009, the market value of assets was \$42.5 million less than the actuarial value. Unless the market value earns more than 8% over the next few years (on 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, 2009 (With Comparative Totals at August 31, 2008)

<b>ACTUARIAL BALANCE SHEET</b>	<b>August 31, 2009</b>	<b>August 31, 2008</b>
<b>Assets:</b>		
Actuarial Value Assets	\$ 23,509,621,791	\$ 23,511,918,382
Present Value of Future Normal Cost (Note A)		
Member	2,332,844,075	2,125,696,221
Employer	2,054,349,511	2,611,063,524
Total	<u>4,387,193,586</u>	<u>4,736,759,745</u>
Total	<u>\$ 27,896,815,377</u>	<u>\$ 28,248,678,127</u>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 16,216,881,552	\$ 15,672,738,915
- disability	369,157,636	289,151,759
- death before retirement	221,915,834	246,304,171
- termination	802,086,844	749,322,181
- total	<u>17,610,041,866</u>	<u>16,957,517,026</u>
Inactive Members	1,036,775,796	986,689,409
Annuitants	<u>12,648,155,181</u>	<u>12,195,833,252</u>
Total	<u>\$ 31,294,972,843</u>	<u>\$ 30,140,039,687</u>
<b>Unfunded Accrued Liability (UAL) (Note B)</b>	<b>\$ 3,398,157,466</b>	<b>\$ 1,891,361,560</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	12.90%	12.45%
Normal Cost (Note A)		
- dollars	\$ 719,824,862	\$ 719,242,802
- percent of payroll	12.38%	13.37%
Contribution Available to Amortize UAL	0.52%	(0.92%)
Accrued Liability (Note B)	\$ 26,907,779,257	\$ 25,403,279,942
Amortization Period in Years	Infinite	Infinite
Funded Ratio	87.4%	92.6%
Valuation Payroll	\$ 5,814,417,299	\$ 5,379,527,321
Active Members	141,223	134,626

Note A: The normal cost is based on the benefits in effect for members hired after August 31, 2009

Note B: The actuarial accrued liability along with the resulting amortization period and funded ratio are based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2009

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

August 31, 2009 (With Comparative Totals at August 31, 2008)

<b>ACTUARIAL BALANCE SHEET</b>	<b>August 31, 2009</b>	<b>August 31, 2008</b>
<b>Assets:</b>		
Actuarial Value Assets	\$ 780,807,727	\$ 774,508,817
Present Value of Future Normal Cost (Note A)		
Member	47,337,112	-
Employer	139,171,110	179,608,207
Total	<u>186,508,222</u>	<u>179,608,207</u>
Total	<u>\$ 967,315,949</u>	<u>\$ 954,117,024</u>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 730,690,991	\$ 687,782,857
- occupational disability	13,123,086	13,123,893
- death benefit plan	7,186,690	4,766,266
- termination	5,028,056	-
- total	<u>756,028,823</u>	<u>705,673,016</u>
Vested Inactive Members	2,942,417	1,451,911
Annuitants	<u>334,638,616</u>	<u>314,618,012</u>
Total	<u>\$ 1,093,609,856</u>	<u>\$ 1,021,742,939</u>
<b>Unfunded Accrued Liability (UAL) (Note B)</b>	<b>\$ 126,293,907</b>	<b>\$ 67,625,915</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	2.09%	1.59%
Normal Cost (Note A)		
- dollars	\$ 30,314,788	\$ 27,078,251
- percent of payroll	2.07%	2.18%
Contribution Available to Amortize UAL	0.02%	(0.59%)
Accrued Liability (Note B)	\$ 907,101,634	\$ 842,134,732
Amortization Period in Years	Infinite	Infinite
Funded Ratio	86.1%	92.0%
Valuation Payroll	\$ 1,464,482,523	\$ 1,242,121,605
Active Members	37,819	33,642

Note A: The normal cost is based on the benefits in effect for members hired after August 31, 2009

Note B: The actuarial accrued liability along with the resulting amortization period and funded ratio are based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2009



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

August 31, 2009 (With Comparative Totals at August 31, 2008)

<b>ACTUARIAL BALANCE SHEET</b>	<b>August 31, 2009</b>	<b>August 31, 2008</b>
<b>Assets:</b>		
Actuarial Value Assets	\$ 248,279,312	\$ 232,890,749
Present Value of Future Normal Cost		
Member	22,158,755	22,923,899
Employer	51,087,213	48,905,376
Total	<u>73,245,968</u>	<u>71,829,275</u>
Total	<u>\$ 321,525,280</u>	<u>\$ 304,720,024</u>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 204,349,872	\$ 209,322,022
- disability	5,830,978	5,875,732
- death before retirement	10,236,045	9,856,794
- termination	11,731,296	12,488,558
- total	<u>232,148,191</u>	<u>237,543,106</u>
Inactive Members	10,821,677	9,592,403
Annuitants	<u>85,844,874</u>	<u>63,791,874</u>
Total	<u>\$ 328,814,742</u>	<u>\$ 310,927,383</u>
<b>Unfunded Accrued Liability (UAL)</b>	<b>\$ 7,289,462</b>	<b>\$ 6,207,359</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	22.82%	22.82%
Normal Cost		
- dollars	\$ 13,797,403	\$ 12,732,786
- percent of payroll	20.30%	19.26%
Contribution Available to Amortize UAL	2.52%	3.56%
Accrued Liability	\$ 255,568,774	\$ 239,098,108
Amortization Period in Years	4.8	2.8
Funded Ratio	97.1%	97.4%
Valuation Payroll	\$ 67,967,500	\$ 66,110,000
Active Members	533	518

## 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 normal cost rate is

based on the benefits payable to a new member and the entry age characteristics of the current population. 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 smoothing of unexpected returns. The market-related value is equal to the fair value of investments plus the carrying value (net of depreciation) of other assets and liabilities as of the valuation date. The actuarial value of assets is determined as the expected value of plan assets as of the valuation date plus 20% of the difference between the market-related value and the expected value. The expected value equals the actuarial value of plan assets as of the prior valuation date, plus contributions, less benefit payments and administrative expenses, all accumulated at the assumed rate of interest to the current valuation date.

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

	Employee Class & Supplemental Benefits for CPO/CO's	Elected Class	Judicial Class
<b>Investment Rate of Return:</b> (Same for all classes)	8% per year, compounded annually.		
<b>Administrative Expenses:</b> (As a percentage of payroll per year, compounded annually)	ERS Fund: 0.25% LECOS Fund: 0.10%	0.25%	0.50%
<b>Salary Increase:</b>	<ul style="list-style-type: none"> <li>• Include 3.5% annual increase for inflation plus increases for merit, promotion and longevity.</li> <li>• See Table 1 below for rates of salary increase for sample ages.</li> </ul>	<ul style="list-style-type: none"> <li>• 3.5% annually with no increase for merit, promotion, and longevity.</li> <li>• No salary increase for legislators.</li> </ul>	<ul style="list-style-type: none"> <li>• 3.5% annually with no increase for merit, promotion, and longevity.</li> </ul>
<b>Payroll Growth:</b> (Same for all classes)	3.5% per year, compounded annually.		
<b>Cost-of-Living Increase:</b>	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	<u>Years of Service – Non-CPO/CO</u>							<u>Years of Service – CPO/CO</u>				
	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 are assumed 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**  
**For members hired on or before August 31, 2009**

Age	<u>Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)</u>					<u>Years of Service – Male and Female Members in the Employee Class (CPO/CO) (Note B)</u>			
	0	5	10	15	20+	0	5	10	15+
20	50%	0%	0%	0%	0%	29%	0%	0%	0%
30	25	10	7	0	0	21	11	9	0
40	22	8	5	2	2	18	7	4	3
50	18	7	3	2	1	15	5	3	2
60	16	0	0	0	0	16	0	0	0

**For members hired after August 31, 2009**

Age	<u>Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)</u>					<u>Years of Service – Male and Female Members in the Employee Class (CPO/CO) (Note B)</u>			
	0	5	10	15	20+	0	5	10	15+
20	52%	0%	0%	0%	0%	32%	0%	0%	0%
30	27	11	8	0	0	24	14	10	0
40	24	9	5	2	2	21	9	5	4
50	20	8	3	2	1	18	6	4	3
60	18	7	2	1	0	19	6	4	3

Elected and Judicial Class: 4 per 100 members not eligible for service retirement

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

## Summary of Actuarial Methods and Assumptions

**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

**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.

## Summary of Actuarial Methods and Assumptions

**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. Additionally, the rates do not apply before the member is eligible for the benefit.

**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)**

**Years of Service – Members in the**  
**Employee Class (Non-CPO/CO)**

**For members hired on or before August 31, 2009**

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

# Summary of Actuarial Methods and Assumptions

**Table 9  
Demographic Assumption -  
Service Retirement Rate (Note I) continued**

**For members hired after August 31, 2009**

Age	<u>Male</u>						<u>Female</u>					
	5	10	15	20	25	30	5	10	15	20	25	30
50						25						30
55						10						15
60				25	85	85				30	90	90
65		85	85	60	60	60		85	85	60	60	60
70		100	100	100	100	100		100	100	100	100	100
75	100	100	100	100	100	100	100	100	100	100	100	100

**Years of Service – Members in the  
Employee Class (CPO/CO)  
Male and Female**

Age	<u>For members hired on or before August 31, 2009</u>						<u>For members hired after August 31, 2009</u>					
	5	10	15	20	25	30	5	10	15	20	25	30
50	0%	0%	0%	45%	45%	45%	0%	0%	0%	5%	5%	5%
55	0	20	20	35	35	35	0	20	20	65	65	65
60	4	12	15	35	35	35	0	12	15	50	50	50
65	15	50	50	65	65	65	0	50	50	65	65	65
70	100	100	100	100	100	100	0	100	100	100	100	100
75	100	100	100	100	100	100	100	100	100	100	100	100

<u>Elected Class (Note J)</u>		<u>Judicial Class (Note J)</u>	
Age	Rate	Age	Rate
50-64	10%	50-69	20%
65-74	20	70-74	25
75+	100	75+	100

Note I: No service retirements are assumed 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**

	<u>Option Selection Percentage (Note K)</u>		<u>Beneficiary Characteristics</u>
	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 Payroll	Average Pay (Note B)	% Change in Average Pay
		\$	\$	%
<b>Employees Retirement Fund:</b>				
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
2009	141,223	5,603,756,283	40,202	1.9
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>				
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
2009	37,819	1,379,532,687	36,687	(0.9)
<b>Judicial Retirement Plan Two Fund:</b>				
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
2009	533	66,463,534	127,519	(0.1)

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		
		\$		\$		\$		\$	%	\$
<b>Employees Retirement Fund</b>										
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	9,960,320	72,678	1,314,069,192	5.3	18,081
2009	4,433	85,551,288	1,849	30,235,704	460	8,045,532	75,722	1,377,430,308	4.8	18,191
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>										
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	(130,654)	6,204	35,177,112	10.2	5,670
2009	561	3,954,780	169	1,361,916	51	44,760	6,647	37,814,736	7.5	5,689
<b>Judicial Retirement Plan Two Fund:</b>										
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	129,975	117	6,710,789	4.6	57,357
2009	36	2,220,108	1	70,656	-	16,308	152	8,876,549	32.3	58,398

## Solvency Test

### Funding Objective

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

### Evaluation of Funding Objective

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

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

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

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

Valuation Year	Aggregate Accrued Liabilities For			Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer Financed Portion)		%	%	%
	\$	\$	\$	\$	%	%	%
<b>Employees Retirement Fund: (Note A)</b>							
2004	3,368,149,356	10,161,943,670	7,061,754,972	20,036,646,562	100	100	92
2005	3,482,090,916	10,886,033,918	7,601,545,346	20,835,468,872	100	100	85
2006	3,823,418,359	11,015,791,411	8,045,707,652	21,780,437,358	100	100	86
2007	4,059,741,841	11,519,929,907	8,407,493,737	22,938,947,005	100	100	88
2008	4,256,243,420	12,195,833,252	8,951,203,270	23,511,918,382	100	100	79
2009	4,460,644,477	12,648,155,181	9,798,979,599	23,509,621,791	100	100	65
<b>Law Enforcement And Custodial Officer Supplemental Retirement Fund: (Note A)</b>							
2004	-	233,720,473	387,736,863	679,242,950	-	100	115
2005	-	251,474,897	426,477,990	698,814,428	-	100	105
2006	-	256,919,744	451,516,799	720,306,864	-	100	103
2007	-	278,059,124	484,606,545	747,765,351	-	100	97
2008	-	314,618,012	527,516,720	774,508,817	-	100	87
2009	-	334,638,616	572,463,018	780,807,727	-	100	78
<b>Judicial Retirement Plan Two Fund:</b>							
2004	31,761,192	29,587,837	62,563,579	145,538,335	100	100	135
2005	35,303,352	41,672,041	105,335,768	164,230,979	100	100	83
2006	41,929,809	45,939,202	110,971,489	186,400,313	100	100	89
2007	44,615,177	62,008,358	114,260,806	211,932,547	100	100	92
2008	50,408,044	63,791,874	124,898,190	232,890,749	100	100	95
2009	51,733,112	85,844,874	117,990,788	248,279,312	100	100	94

Note A: The actuarial accrued liability for ERS and LECOS is based on a total liability which is based on the benefit provisions in effect for each active member and a normal cost rate which is based on the benefits in effect for members hired after August 31, 2009.



## 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:

Type of Activity	Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)					
	ERS		LECOS		JRS II	
	2009	2008	2009	2008	2009	2008
<b><u>Contribution Income and Interest on Unfunded Actuarial Accrued Liability</u></b>						
If contributions are received in excess of normal cost, there is a decrease. If less, an increase.	207	59.9	14.2	-0.4	-2.2	-0.7
<b><u>Components of (Gain)/Loss</u></b>						
<b><u>Investment Income</u></b>						
If there is greater investment income than assumed, there is a gain. If less income, a loss.	1,103.0	511.9	36.5	17.4	10.6	4.5
<b><u>Active Member Demographics</u></b>						
Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment	-5	183.3	0	11	0.4	-0.3
<b><u>Pay Increases</u></b>						
If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	22.1	-413.9	0.2	-37	0.1	-6.6
<b><u>Death After Retirement</u></b>						
If retirees live longer than assumed, there is a loss. If not as long, a gain.	3.3	-7.9	-0.5	-0.6	0.6	0.5
<b><u>Other</u></b>						
adjustments, timing of financial transactions, valuation methods, etc.	26.7	34	1.6	2.9	1.9	-0.2
<b>Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience</b>	<b>1,357.1</b>	<b>367.3</b>	<b>52</b>	<b>-6.7</b>	<b>11.4</b>	<b>-2.8</b>
<b><u>Non-Recurring Items</u></b>						
Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, etc.	149.7	475.8	6.7	59.4	-10.3	0.1
<b>Composite Increase/(Decrease) During Year</b>	<b>1,506.8</b>	<b>843.1</b>	<b>58.7</b>	<b>52.7</b>	<b>1.1</b>	<b>-2.7</b>



## *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 Texas Employees Group Benefits Program (GBP) for the twelve-month period ending August 31, 2009. 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, 2009 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



EMPLOYEES RETIREMENT SYSTEM OF TEXAS  
 GROUP BENEFITS PROGRAM  
 GASB NO. 43 ACTUARIAL VALUATION

## D. Summary of Results

Actuarial Valuation Results as of August 31, 2009		
	(\$ millions)	As a % of Payroll
<b>1. Number of Members (actual count, not in millions)</b>		
a. Actives	230,285	
b. Deferred Vesteds	10,672	
c. Retirees and Nominees	<u>83,494</u>	
d. Total Number of Members	324,451	
<b>2. Payroll of Active Members for FY 2009</b>	\$ 10,046	
<b>3. Actuarial Present Value of Total Projected Benefits</b>		
a. Actives	\$ 23,942	
b. Deferred Vesteds	1,175	
c. Retirees and Nominees	<u>7,502</u>	
d. Total	\$ 32,619	324.7%
<b>4. Actuarial Accrued Liability</b>		
a. Actives	\$ 13,315	
b. Deferred Vesteds	1,175	
c. Retirees and Nominees	<u>7,502</u>	
d. Total	\$ 21,992	218.9%
<b>5. Actuarial Value of Assets</b>	\$ 0	0.0%
<b>6. Unfunded Actuarial Accrued Liability [ 4.d. – 5. ]</b>	\$ 21,992	218.9%
<b>7. Annual Required Contribution for FYE August 31, 2009</b>		
a. Normal Cost	\$ 1,044	10.4%
b. Amortization of UAAL	<u>954</u>	<u>9.5%</u>
c. Total ARC for FYE August 31, 2009	\$ 1,998	19.9%

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

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### Consistency with Assumptions Used for Retirement Plan Valuations

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

### Investment Return Assumptions (Discount Rate)

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

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

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

Based upon the investment policy of the Treasury Pool, the historical returns of the Treasury Pool, and the long-term inflation assumption used in this report, an investment return assumption (discount rate) of 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) \$218.40 per year per covered member for external Health Select administrative expenses for FY 2009 and (ii) approximately \$40.74 per year per covered member for internal administrative expenses for FY 2010 (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

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### Stop-loss Reinsurance

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

### Discount Rate

The Discount Rate is equal to the assumed return on assets of the System of 5.50%.

### Health Benefit Cost Trend

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

Fiscal Year	Annual Rate of Increase
	%
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 2009-2010 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 Eight Fiscal Years (in 000's)  
(Accrual Basis of Accounting)

	Fiscal Year (Note A)							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>Governmental Activities:</b>	\$	\$	\$	\$	\$	\$	\$	\$
Restricted	19,333	25,939	96,160	133,253	241,478	369,913	384,892	282,484
Unrestricted	420	16	3	27	49	45	56	59
<b>Total Governmental Activities</b>	<b>19,753</b>	<b>25,955</b>	<b>96,163</b>	<b>133,280</b>	<b>241,527</b>	<b>369,958</b>	<b>384,948</b>	<b>282,543</b>

## Changes in Net Assets – Governmental Activities

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

	Fiscal Year (Note A)							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>Expenses</b>	\$	\$	\$	\$	\$	\$	\$	\$
<i>Governmental Activities:</i>								
Social Security Administration	55	39	31	52	58	70	54	61
<i>Death Benefits:</i>								
Peace Officers, Firemen, etc.	7,322	4,677	4,985	2,660	4,361	2,397	3,423	1,866
Compensation to Victims of Crime				1,250	750	1,500	2,250	2,000
Retiree \$5,000 Lump Sum	6,432	6,453	6,681	7,026	6,908	7,493	6,902	7,367
<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	1,632,962
Administration	9,433	9,926	9,316	10,312	10,307	8,694	8,323	9,062
<b>Total Governmental Activities Expenses</b>	<b>1,516,807</b>	<b>1,648,152</b>	<b>1,540,308</b>	<b>1,668,115</b>	<b>1,782,457</b>	<b>1,314,111</b>	<b>1,481,479</b>	<b>1,653,318</b>
<b>Program Revenues</b>								
<i>Governmental Activities:</i>								
<i>Charges for Services:</i>								
Administration Fees				73	78	72	65	64
<i>Appropriations:</i>								
Administration	28	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	1,838
Compensation to Victims of Crime				1,250	750	1,500	2,250	2,000
Retiree \$5,000 Lump Sum	6,487	6,087	6,681	7,030	6,910	7,487	6,902	7,367
<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	1,108,150
Member	366,998	393,976	404,107	420,192	450,678	365,653	364,278	381,820
Other	152	129	154	145	147	150	163	161
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	48,100
Other	496	1,371	4,060	2,951	709	272	1,521	1,385
<b>Total Governmental Activities Program Revenues</b>	<b>1,517,849</b>	<b>1,654,354</b>	<b>1,610,516</b>	<b>1,705,233</b>	<b>1,890,704</b>	<b>1,442,542</b>	<b>1,496,469</b>	<b>1,550,913</b>
<b>Net Revenue Governmental Activities</b>	<b>1,042</b>	<b>6,202</b>	<b>70,208</b>	<b>37,118</b>	<b>108,247</b>	<b>128,431</b>	<b>14,990</b>	<b>(102,405)</b>

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

Source: Comprehensive Annual Financial Reports.

## Fund Balances – Governmental Funds

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

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Governmental Funds:</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Unreserved, reported in:										
Special Revenue Funds	80	411	420	16	3	27	49	45	56	59
<b>Total Governmental Funds</b>	<b>80</b>	<b>411</b>	<b>420</b>	<b>16</b>	<b>3</b>	<b>27</b>	<b>49</b>	<b>45</b>	<b>56</b>	<b>59</b>

## Changes in Fund Balances – Governmental Funds

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

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Administration	28	28	28	28	28	28	28	28	28	28
<b>Death Benefits:</b>										
Public Employee Survivors	930	1,410	7,248	4,649	4,957	2,632	4,333	2,369	3,395	1,838
Victims of Crime							750	1,500	2,250	2,000
Retiree \$5,000 Lump Sum	6,102	6,418	6,487	6,087	6,681	7,030	6,910	7,487	6,902	7,367
Administration Fees						73	78	72	65	64
<b>Total Revenues</b>	<b>7,060</b>	<b>7,856</b>	<b>13,763</b>	<b>10,764</b>	<b>11,666</b>	<b>9,763</b>	<b>12,099</b>	<b>11,456</b>	<b>12,640</b>	<b>11,297</b>
<b>Expenditures</b>										
Death Benefits:										
Public Employee Survivors	936	1,359	7,294	4,649	4,957	2,632	4,333	2,397	3,423	1,866
Victims of Crime						1,250	750	1,500	2,250	2,000
Retiree \$5,000 Lump Sum	6,077	6,132	6,432	6,453	6,681	7,026	6,908	7,493	6,902	7,367
Administrative Expenditures	71	84	83	67	59	80	86	70	54	61
<b>Total Expenditures</b>	<b>7,084</b>	<b>7,575</b>	<b>13,809</b>	<b>11,169</b>	<b>11,697</b>	<b>10,988</b>	<b>12,077</b>	<b>11,460</b>	<b>12,629</b>	<b>11,294</b>
<b>Excess of Revenues Over (Under)</b>										
<b>Expenditures</b>	<b>(24)</b>	<b>281</b>	<b>(46)</b>	<b>(405)</b>	<b>(31)</b>	<b>(1,225)</b>	<b>22</b>	<b>(4)</b>	<b>11</b>	<b>3</b>
<b>Other Financing Sources (Uses)</b>										
Membership Fees	54	50	55		18					
Victims of Crime Fund						1,250				
<b>Net Change in Fund Balances</b>	<b>30</b>	<b>331</b>	<b>9</b>	<b>(405)</b>	<b>(13)</b>	<b>25</b>	<b>22</b>	<b>(4)</b>	<b>11</b>	<b>3</b>

Note A: Includes lapsed appropriations.

Source: Comprehensive Annual Financial Reports

# Changes in Net Assets – Proprietary Fund

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Operating Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Insurance Contributions:</i>										
State	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	1,108,150
Member	293,970	327,981	366,998	393,976	404,107	420,192	450,678	365,653	364,278	381,820
Federal Revenues-Medicare Part D							19,360			
Other	151	151	648	1,280	3,840	453	528	422	1,543	1,254
<b>Total Operating Revenues</b>	<b>1,097,317</b>	<b>1,198,867</b>	<b>1,490,054</b>	<b>1,630,491</b>	<b>1,585,459</b>	<b>1,676,768</b>	<b>1,855,254</b>	<b>1,390,711</b>	<b>1,441,175</b>	<b>1,491,224</b>
<b>Operating Expenses</b>										
<i>Benefit Payments:</i>										
Employee	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	1,609,991
Retiree (Note A)					402,224	439,171	478,229	-		
COBRA (Note A)					9,883	18,596	15,878	18,232	22,895	22,971
Administrative and Other Expenses	8,733	9,782	9,433	9,926	9,316	10,312	10,307	8,694	8,323	9,062
<b>Total Operating Expenses</b>	<b>1,177,199</b>	<b>1,318,021</b>	<b>1,502,998</b>	<b>1,636,983</b>	<b>1,528,610</b>	<b>1,657,127</b>	<b>1,770,380</b>	<b>1,302,651</b>	<b>1,468,850</b>	<b>1,642,024</b>
<b>Operating Income (Loss)</b>	<b>(79,882)</b>	<b>(119,154)</b>	<b>(12,944)</b>	<b>(6,492)</b>	<b>56,849</b>	<b>19,641</b>	<b>84,874</b>	<b>88,060</b>	<b>(27,675)</b>	<b>(150,800)</b>
<b>Non-Operating Revenues (Expenses)</b>										
Net Appreciation (Depreciation)										
in Fair Value of Investments	(293)	(1,284)	2,555	949	2,043	(1,750)	(4,834)	(730)	4,943	20,359
Interest Income	25,190	22,657	11,422	11,930	10,956	16,559	27,857	41,080	37,569	27,741
Other	(14)	(4)		220	374	2,644	327	25	141	292
<b>Change in Net Assets</b>	<b>(54,999)</b>	<b>(97,785)</b>	<b>1,033</b>	<b>6,607</b>	<b>70,222</b>	<b>37,094</b>	<b>108,224</b>	<b>128,435</b>	<b>14,978</b>	<b>(102,408)</b>

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

Source: Comprehensive Annual Financial Reports

# Changes in Net Assets – Defined Benefit Plans

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Employees Retirement Fund (ERS)</b>										
<b>Additions</b>										
Member Contributions	283,841	286,982	319,565	324,000	300,156	305,870	292,023	328,039	337,040	353,299
Employer Contributions	279,192	281,906	300,969	301,555	278,845	276,035	316,198	329,981	342,092	363,023
Investment Income (Net of Expenses)	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)	(1,616,258)
Other Additions	22,944	26,913	32,601	37,719	45,719	50,208	58,804	48,746	52,941	57,329
<b>Total Additions</b>	<b>2,315,140</b>	<b>(814,469)</b>	<b>(619,277)</b>	<b>2,118,865</b>	<b>2,619,423</b>	<b>2,963,202</b>	<b>2,404,613</b>	<b>3,329,661</b>	<b>(561,990)</b>	<b>(842,607)</b>
<b>Deductions</b>										
Retirement Benefits	681,524	827,940	908,511	1,010,238	1,190,313	1,206,562	1,251,090	1,299,964	1,360,380	1,433,011
Death Benefits	2,487	1,836	2,086	2,327	1,949	2,039	2,232	2,099	1,802	2,224
Refunds	96,261	91,800	70,031	73,438	83,779	89,760	75,614	79,564	74,504	70,958
Administrative and Other Expenses	12,273	12,621	13,295	13,078	12,996	13,878	14,044	16,475	16,730	17,690
<b>Total Deductions</b>	<b>792,545</b>	<b>934,197</b>	<b>993,923</b>	<b>1,099,081</b>	<b>1,289,037</b>	<b>1,312,239</b>	<b>1,342,980</b>	<b>1,398,102</b>	<b>1,453,416</b>	<b>1,523,883</b>
<b>Change in Net Assets</b>	<b>1,522,595</b>	<b>(1,748,666)</b>	<b>(1,613,200)</b>	<b>1,019,784</b>	<b>1,330,386</b>	<b>1,650,963</b>	<b>1,061,633</b>	<b>1,931,559</b>	<b>(2,015,406)</b>	<b>(2,366,490)</b>

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

<b>Additions</b>										
Member Contributions			5							
Employer Contributions									20,191	20,657
Investment Income (Net of Expenses)	61,763	(49,664)	(44,338)	49,692	67,906	78,444	57,656	85,799	(42,917)	(51,743)
Other Additions	1	2		2	2		-			
<b>Total Additions</b>	<b>61,764</b>	<b>(49,662)</b>	<b>(44,333)</b>	<b>49,694</b>	<b>67,908</b>	<b>78,444</b>	<b>57,656</b>	<b>85,799</b>	<b>(22,726)</b>	<b>(31,086)</b>
<b>Deductions</b>										
Retirement Benefits	18,789	16,815	20,762	22,834	27,559	29,036	30,184	32,149	34,908	38,641
Administrative and Other Expenses	624	625	685	700	630	521	378	504	366	434
<b>Total Deductions</b>	<b>19,413</b>	<b>17,440</b>	<b>21,447</b>	<b>23,534</b>	<b>28,189</b>	<b>29,557</b>	<b>30,562</b>	<b>32,653</b>	<b>35,274</b>	<b>39,075</b>
<b>Change in Net Assets</b>	<b>42,351</b>	<b>(67,102)</b>	<b>(65,780)</b>	<b>26,160</b>	<b>39,719</b>	<b>48,887</b>	<b>27,094</b>	<b>53,146</b>	<b>(58,000)</b>	<b>(70,161)</b>

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

<b>Additions</b>										
Member Contributions	702	679	439	268	142	62	214			
Appropriations	21,024	21,918	21,564	22,675	22,622	22,297	27,784	29,029	28,684	28,171
Other Additions	101	148	120	120	120	120	-			
<b>Total Additions</b>	<b>21,827</b>	<b>22,745</b>	<b>22,123</b>	<b>23,063</b>	<b>22,884</b>	<b>22,479</b>	<b>27,998</b>	<b>29,029</b>	<b>28,684</b>	<b>28,171</b>
<b>Deductions</b>										
Retirement Benefits	21,036	21,701	21,778	22,673	22,620	22,283	27,664	29,029	28,657	28,194
Refunds				3	1	14	-			
Administrative and Other Expenses	88	152	120	120	120	120	120			
<b>Total Deductions</b>	<b>21,124</b>	<b>21,853</b>	<b>21,898</b>	<b>22,796</b>	<b>22,741</b>	<b>22,417</b>	<b>27,784</b>	<b>29,029</b>	<b>28,657</b>	<b>28,194</b>
<b>Change in Net Assets</b>	<b>703</b>	<b>892</b>	<b>225</b>	<b>267</b>	<b>143</b>	<b>62</b>	<b>214</b>	<b>-</b>	<b>27</b>	<b>(23)</b>

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

<b>Additions</b>										
Member Contributions	2,496	2,638	2,780	3,020	2,922	2,985	3,551	4,125	3,964	4,223
Employer Contributions	7,130	7,258	7,804	8,294	8,205	8,365	10,052	10,909	11,138	11,356
Investment Income (Net of Expenses)	7,637	(6,916)	(7,168)	9,404	13,332	17,348	14,384	24,245	(10,765)	(16,421)
Other Additions	4	5		18	2	11	5	-		
<b>Total Additions</b>	<b>17,267</b>	<b>2,985</b>	<b>3,416</b>	<b>20,736</b>	<b>24,461</b>	<b>28,709</b>	<b>27,992</b>	<b>39,279</b>	<b>4,337</b>	<b>(842)</b>
<b>Deductions</b>										
Retirement Benefits	898	1,211	1,365	2,119	2,770	3,308	4,223	5,747	6,645	8,023
Death Benefits		3			10	24				
Refunds	94	116	187	152	303	106	65	58	73	206
Administrative and Other Expenses	249	268	299	245	273	402	303	395	244	239
<b>Total Deductions</b>	<b>1,241</b>	<b>1,598</b>	<b>1,851</b>	<b>2,516</b>	<b>3,346</b>	<b>3,826</b>	<b>4,615</b>	<b>6,200</b>	<b>6,962</b>	<b>8,468</b>
<b>Change in Net Assets</b>	<b>16,026</b>	<b>1,387</b>	<b>1,565</b>	<b>18,220</b>	<b>21,115</b>	<b>24,883</b>	<b>23,377</b>	<b>33,079</b>	<b>(2,625)</b>	<b>(9,310)</b>

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

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Excess Benefit Arrangement</b>										
<b>Additions</b>										
Other Additions			63	67	67	223	297	200	350	328
<b>Total Additions</b>	-	-	<b>63</b>	<b>67</b>	<b>67</b>	<b>223</b>	<b>297</b>	<b>200</b>	<b>350</b>	<b>328</b>
<b>Deductions</b>										
Retirement Benefits			63	67	67	223	236	141	298	279
Administrative and Other Expenses							61	59	52	49
<b>Total Deductions</b>	-	-	<b>63</b>	<b>67</b>	<b>67</b>	<b>223</b>	<b>297</b>	<b>200</b>	<b>350</b>	<b>328</b>
<b>Change in Net Assets</b>	-	-	-	-	-	-	-	-	-	-
<b>State Retiree Health Plan</b>										
								(Note A)		
<b>Additions</b>										
Member Contributions								108,387	109,447	114,360
Employer Contributions								438,242	417,106	447,765
Federal Revenues-Medicare Part D								28,558	32,964	35,784
Investment Income (Net of Expenses)								1,541	1,362	1,056
Other Additions										775
<b>Total Additions</b>								<b>576,728</b>	<b>560,879</b>	<b>599,740</b>
<b>Deductions</b>										
Retirement Benefits								574,030	558,228	596,858
Administrative and Other Expenses								2,698	2,651	2,882
<b>Total Deductions</b>								<b>576,728</b>	<b>560,879</b>	<b>599,740</b>
<b>Change in Net Assets</b>								-	-	-

Note A: Due to GASB 43, retiree data is shown separately beginning with FY 2007.

Source: Comprehensive Annual Financial Reports

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

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>TexaSaver 401(k) Plan</b>										
<b>Additions</b>										
Investment Income (Net of Expenses)	4	9	2	1	4	29	52	459	116	476
Other Additions	150	203	234	345	1,328	166	342	301	464	215
<b>Total Additions</b>	<b>154</b>	<b>212</b>	<b>236</b>	<b>346</b>	<b>1,332</b>	<b>195</b>	<b>394</b>	<b>760</b>	<b>580</b>	<b>691</b>
<b>Deductions</b>										
Administrative and Other Expenses	184	220	236	357	366	253	275	448	581	457
<b>Total Deductions</b>	<b>184</b>	<b>220</b>	<b>236</b>	<b>357</b>	<b>366</b>	<b>253</b>	<b>275</b>	<b>448</b>	<b>581</b>	<b>457</b>
<b>Change in Net Assets</b>	<b>(30)</b>	<b>(8)</b>	<b>-</b>	<b>(11)</b>	<b>966</b>	<b>(58)</b>	<b>119</b>	<b>312</b>	<b>(1)</b>	<b>234</b>
<b>TexaSaver 457 Plan</b>										
(Restated) (Restated)										
<b>Additions</b>										
Deferrals (Note A)	11,806	8,505	10,649	27,132	37,047	43,817	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)	19,637		30,472	27,241	56,426	39,268	N/A	N/A	N/A	N/A
Contributions										7
Investment Income (Net of Expenses)	16,579	(4,842)	(48,761)	18,341	33,976	25,093	23,752	62	50	122
Other Additions	329	200	430	234	186	119	684	503	592	405
<b>Total Additions</b>	<b>48,351</b>	<b>3,863</b>	<b>(7,210)</b>	<b>72,948</b>	<b>127,635</b>	<b>108,297</b>	<b>24,436</b>	<b>565</b>	<b>642</b>	<b>534</b>
<b>Deductions</b>										
Distributions and Fees (Note A)	25,795	35,692	26,902	27,604	41,851	26,152	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)	21,541		26,460	42,224	67,071	41,481	N/A	N/A	N/A	N/A
Administrative and Other Expenses	667	1,022	832	849	995	418	403	526	547	656
<b>Total Deductions</b>	<b>48,003</b>	<b>36,714</b>	<b>54,194</b>	<b>70,677</b>	<b>109,917</b>	<b>68,051</b>	<b>403</b>	<b>526</b>	<b>547</b>	<b>656</b>
<b>Change in Net Assets</b>	<b>348</b>	<b>(32,851)</b>	<b>(61,404)</b>	<b>2,271</b>	<b>17,718</b>	<b>40,246</b>	<b>24,033</b>	<b>39</b>	<b>95</b>	<b>(122)</b>
<b>State Employees Cafeteria Plan (TexFlex)</b>										
<b>Additions</b>										
Contributions	22,786	27,502	30,502	33,964	43,840	53,425	61,080	68,425	76,780	83,244
Investment Income (Net of Expenses)	340	238	120	65	25	40	75	89	72	45
Other Additions	2	45	11	18	439	409	56	105	95	83
<b>Total Additions</b>	<b>23,128</b>	<b>27,785</b>	<b>30,633</b>	<b>34,047</b>	<b>44,304</b>	<b>53,874</b>	<b>61,211</b>	<b>68,619</b>	<b>76,947</b>	<b>83,372</b>
<b>Deductions</b>										
Reimbursement Account Claims	22,648	27,104	30,027	33,539	42,886	52,337	59,951	67,133	75,043	80,161
Administrative and Other Expenses	739	1,358	970	1,234	1,336	1,571	1,694	1,886	2,157	2,220
<b>Total Deductions</b>	<b>23,387</b>	<b>28,462</b>	<b>30,997</b>	<b>34,773</b>	<b>44,222</b>	<b>53,908</b>	<b>61,645</b>	<b>69,019</b>	<b>77,200</b>	<b>82,381</b>
<b>Change in Net Assets</b>	<b>(259)</b>	<b>(677)</b>	<b>(364)</b>	<b>(726)</b>	<b>82</b>	<b>(34)</b>	<b>(434)</b>	<b>(400)</b>	<b>(253)</b>	<b>991</b>

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

Source: Comprehensive Annual Financial Reports

# Benefit and Refund Payments - Defined Benefit Plans

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Employees Retirement Fund:</b>										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service:										
Retirees	656,150	797,887	876,335	978,090	1,058,681	1,095,209	1,153,347	1,195,432	1,254,754	1,324,897
Survivors	not avail.	not avail.	not avail.	not avail.	3,532	20,286	20,379	19,805	20,461	20,651
Disability	22,599	26,786	28,375	28,005	30,815	31,419	31,690	31,163	30,626	30,402
Partial Lump Sum Option										
Proportional	2,775	3,267	3,801	4,143	5,554	6,618	7,994	9,114	10,332	11,760
Total Retirement Benefits	681,524	827,940	908,511	1,010,238	1,190,313	1,206,562	1,251,089	1,299,964	1,360,380	1,433,011
Death Benefits:										
Active Members:										
Occupational	63	84	72		128	41	297	91	35	100
Non-Occupational	1,364	899	909	1,249	884	842	1,019	1,373	1,266	1,275
Retiree	1,060	853	1,105	1,078	937	1,156	916	635	501	850
Total Death Benefits	2,487	1,836	2,086	2,327	1,949	2,039	2,232	2,099	1,802	2,225
Refunds:										
Resignation	93,915	89,621	67,838	70,542	82,075	87,513	73,176	75,864	71,717	67,405
Death	2,346	2,179	2,193	2,896	1,704	2,247	2,438	3,700	2,787	3,553
Total Refunds	96,261	91,800	70,031	73,438	83,779	89,760	75,614	79,564	74,504	70,958

## Law Enforcement and Custodial Officer Supplemental Retirement Fund:

	<i>Type of Benefit</i>									
Retirement Benefits:										
Service:										
Service	17,681	15,635	19,583	21,477	23,492	25,836	27,694	29,053	31,675	35,174
Disability	1,108	1,180	1,179	1,357	1,275	1,318	1,250	1,208	1,180	1,168
Partial Lump Sum Option										
Total Retirement Benefits	18,789	16,815	20,762	22,834	27,559	29,036	30,184	32,150	34,908	38,642

## Judicial Retirement System of Texas Plan One:

	<i>Type of Benefit</i>									
Retirement Benefits:										
Service:										
Service	21,036	21,701	21,778	22,673	22,620	22,283	27,664	29,029	28,657	28,194
Total Retirement Benefits	21,036	21,701	21,778	22,673	22,620	22,283	27,664	29,029	28,657	28,194
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:										
Service	603	744	868	1,453	1,983	2,609	3,107	4,254	4,958	6,134
Disability	92	208	208	208	184	192	291	348	470	493
Proportional	203	259	289	458	603	507	825	1,145	1,216	1,396
Total Retirement Benefits	898	1,211	1,365	2,119	2,770	3,308	4,223	5,747	6,644	8,023
Death Benefits:										
Active Members:										
Non-Occupational		3				10	24			
Total Death Benefits	-	3	-	-	-	10	24	-	-	-
Refunds:										
Resignation	5	55	195	152	235	67	4	58	73	206
Death	89	61	(8)		68	39	61			
Total Refunds	94	116	187	152	303	106	65	58	73	206

## Excess Benefit Arrangement:

	<i>Type of Benefit</i>									
Retirement Benefits:										
Service:										
Service			63	67	67	223	236	141	298	279
Total Retirement Benefits	-	-	63	67	67	223	236	141	298	279

## State Retiree Health Plan:

	<i>Type of Benefit</i>									
Insurance Benefits:										
Accrued Claims										
Life Claims								67,920	50,858	50,800
Prescriptions Drugs								22,140	18,514	20,839
Administrative Fees								151,020	172,701	175,831
HMO Payments								13,519	14,373	16,794
Blue Cross Health								26,422	30,985	35,036
Dental								283,244	259,845	285,591
Total Insurance Benefits	-	-	-	-	-	-	-	9,765	10,952	11,967
	-	-	-	-	-	-	-	574,030	558,228	596,858

Source: Comprehensive Annual Financial Reports

# Average Benefit Payments - Employee Class

Last Ten Fiscal Years

Retirement Effective Dates (Note A) September 30, 1999 to August 31, 2009	Years of Credited Service					
	5-10	10-15	15-20	20-25	25-30	30+
<b>- Period 9/30/99 to 8/31/00:</b>						
Average Monthly Benefit	\$ 344.13	\$ 634.77	\$ 930.11	\$1,323.01	\$ 1,946.90	\$2,396.02
Average Final Average Salary	\$ 2,255.15	\$2,529.95	\$2,477.47	\$2,789.94	\$ 3,254.75	\$3,443.75
Number of Retired Members	169	567	370	483	880	719
<b>- Period 9/30/00 to 8/31/01:</b>						
Average Monthly Benefit	\$ 379.89	\$ 624.85	\$ 942.64	\$1,348.26	\$ 1,939.70	\$2,470.91
Average Final Average Salary	\$ 2,697.80	\$2,565.10	\$2,735.36	\$2,897.35	\$ 3,364.91	\$3,638.67
Number of Retired Members	136	539	364	447	801	645
<b>- Period 9/30/01 to 8/31/02:</b>						
Average Monthly Benefit	\$ 371.95	\$ 638.12	\$ 984.80	\$1,394.35	\$ 2,053.80	\$2,696.09
Average Final Average Salary	\$ 2,599.54	\$2,633.89	\$2,853.80	\$3,044.00	\$ 3,554.30	\$3,957.71
Number of Retired Members	165	630	402	589	1,003	988
<b>- Period 9/30/02 to 8/31/03:</b>						
Average Monthly Benefit	\$ 376.28	\$ 684.74	\$1,022.23	\$1,446.54	\$ 2,064.97	\$2,752.23
Average Final Average Salary	\$ 2,554.35	\$2,774.09	\$2,884.29	\$3,203.89	\$ 3,576.10	\$4,009.13
Number of Retired Members	340	1,407	860	1,090	1,707	1,765
<b>- Period 9/30/03 to 8/31/04:</b>						
Average Monthly Benefit	\$ 406.89	\$ 641.97	\$1,112.37	\$1,557.25	\$ 2,220.89	\$2,707.12
Average Final Average Salary	\$ 2,806.13	\$2,806.08	\$3,071.42	\$3,325.28	\$ 3,796.87	\$4,003.62
Number of Retired Members	191	495	309	727	906	455
<b>- Period 9/30/04 to 8/31/05:</b>						
Average Monthly Benefit	\$ 386.95	\$ 723.77	\$1,215.98	\$1,617.46	\$ 2,332.45	\$2,897.93
Average Final Average Salary	\$ 2,597.67	\$2,860.73	\$3,259.23	\$3,368.92	\$ 3,916.55	\$4,133.58
Number of Retired Members	155	556	375	718	861	442
<b>- Period 9/30/05 to 8/31/06:</b>						
Average Monthly Benefit	\$ 401.50	\$ 724.64	\$1,239.12	\$1,631.66	\$ 2,151.27	\$2,991.42
Average Final Average Salary	\$ 2,643.43	\$2,844.14	\$3,286.83	\$3,468.83	\$ 3,652.04	\$4,232.21
Number of Retired Members	158	435	302	386	385	252
<b>- Period 9/30/06 to 8/31/07:</b>						
Average Monthly Benefit	\$ 434.29	\$ 778.98	\$1,271.37	\$1,735.92	\$ 2,500.45	\$3,043.94
Average Final Average Salary	\$ 2,828.45	\$2,996.72	\$3,351.50	\$3,655.77	\$ 4,205.23	\$4,297.52
Number of Retired Members	210	479	389	635	597	419
<b>- Period 9/30/07 to 8/31/08:</b>						
Average Monthly Benefit	\$ 465.97	\$ 806.36	\$1,335.88	\$1,874.89	\$ 2,653.40	\$3,520.53
Average Final Average Salary	\$ 2,991.01	\$3,125.39	\$3,441.53	\$3,897.82	\$ 4,330.70	\$4,780.47
Number of Retired Members	210	515	455	623	636	444
<b>- Period 9/30/08 to 8/31/09:</b>						
Average Monthly Benefit	\$ 491.52	\$ 804.13	\$1,306.26	\$1,881.82	\$ 2,624.61	\$3,543.28
Average Final Average Salary	\$ 3,166.93	\$3,087.69	\$3,451.77	\$3,851.62	\$ 4,281.31	\$4,866.85
Number of Retired Members	210	491	519	632	553	410
<b>Five Year Average -</b>						
<b>Period 9/30/04 to 8/31/09:</b>						
Average Monthly Benefit	\$ 440.81	\$ 767.72	\$1,279.68	\$1,753.79	\$ 2,463.13	\$3,216.06
Average Final Average Salary	\$ 2,871.10	\$2,984.18	\$3,370.55	\$3,654.59	\$ 4,093.20	\$4,480.00
Average Number of Retired Members	189	495	408	599	606	393
<b>Ten Year Average -</b>						
<b>Period 9/30/99 to 8/31/09:</b>						
Average Monthly Benefit	\$ 407.68	\$ 700.16	\$1,131.54	\$1,583.36	\$ 2,201.01	\$2,813.22
Average Final Average Salary	\$ 2,720.60	\$2,806.25	\$3,075.96	\$3,362.89	\$ 3,731.47	\$4,043.91
Average Number of Retired Members	194	611	435	633	833	654

Note A: This schedule includes service retirements of the employee class as of October 23, 2009. 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, 2009

## Employees Retirement Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
\$ 0-300	4,847	4,668	179	2,642	1,072	346	126	505	156
301-600	10,516	9,718	798	6,891	1,711	546	447	558	363
601-900	10,932	10,035	897	7,313	1,569	687	507	468	388
901-1,200	9,474	9,018	456	6,161	1,370	790	418	376	359
1,201-1,500	8,485	8,257	228	5,266	1,237	858	363	315	446
1,501-2,000	10,471	10,332	139	6,058	1,471	1,358	434	433	717
2,001-2,500	8,060	8,024	36	4,398	1,050	1,299	290	386	637
2,501-3,000	5,688	5,676	12	2,767	789	1,078	188	279	587
3,001-4,000	5,088	5,084	4	2,518	704	881	150	250	585
4,001-10,999	2,161	2,159	2	1,044	356	331	65	95	270
<b>Total</b>	<b>75,722</b>	<b>72,971</b>	<b>2,751</b>	<b>45,058</b>	<b>11,329</b>	<b>8,174</b>	<b>2,988</b>	<b>3,665</b>	<b>4,508</b>

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

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
\$ 0-200	354	354	0	200	93	30	6	6	19
201-400	2,863	2,815	48	1,615	578	336	72	81	181
401-600	1,950	1,921	29	816	310	423	57	69	275
601-800	864	863	1	359	158	173	16	23	135
801-1,000	328	327	1	164	60	60	9	4	31
1,001-1,200	120	119	1	73	24	12	0	0	11
1,201-1,400	62	53	9	35	12	6	0	0	9
1,401-1,600	39	28	11	20	10	6	1	1	1
1,601-1,800	27	19	8	21	3	1	0	1	1
1,801-9,999	40	30	10	30	6	3	0	0	1
<b>Total</b>	<b>6,647</b>	<b>6,529</b>	<b>118</b>	<b>3,333</b>	<b>1,254</b>	<b>1,050</b>	<b>161</b>	<b>185</b>	<b>664</b>

## Judicial Retirement Plan Two Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
\$ 0-2,000	9	9	0	3	4	1	1	0	0
2,001-2,500	4	4	0	1	1	0	1	1	0
2,501-3,000	2	2	0	1	0	0	1	0	0
3,001-3,500	2	2	0	0	0	2	0	0	0
3,501-4,000	8	8	0	4	3	0	0	1	0
4,001-4,500	21	21	0	3	16	1	0	0	1
4,501-5,000	29	29	0	12	13	3	0	1	0
5,001-5,500	32	32	0	10	10	3	1	0	8
5,501-6,000	12	12	0	6	3	1	0	2	0
6,001-6,500	26	25	1	20	2	2	1	0	1
6,501-7,000	3	3	0	3	0	0	0	0	0
7,001-9,999	4	4	0	4	0	0	0	0	0
<b>Total</b>	<b>152</b>	<b>151</b>	<b>1</b>	<b>67</b>	<b>52</b>	<b>13</b>	<b>5</b>	<b>5</b>	<b>10</b>

Note A: These calculations are based on actuarial estimates.

- Note B:
- Life - standard annuity.
  - Option 1 - a reduced annuity for the lifetime of the member, then pays the same amount throughout the life of the nominee.
  - Option 2 - a reduced annuity for the lifetime of the member, then pays one-half of that amount throughout the life of the nominee.
  - Option 3 - a reduced annuity to the member or the nominee for a guaranteed period of 5 years, and for the lifetime of the member.
  - Option 4 - a reduced annuity to the member or the nominee for a guaranteed period of 10 years, and for the lifetime of the member.
  - Option 5 - a reduced annuity for the lifetime of the member, then pays three-fourths of that amount throughout the life of the nominee.

Source: System's pension actuary.

# Contribution Rates

## Last Ten Fiscal Years

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Defined Benefit Plans (Note A)</b>	%	%	%	%	%	%	%	%	%	%
<b>Employees Retirement Fund</b>										
<i>Employee Class:</i>										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
State	6.0	6.0	6.0	6.0	6.0	6.0	6.45	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	6.45	6.45	6.45	6.45
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund</b>										
<i>Employee</i>										
State									1.59	1.59
<b>Judicial Retirement System Plan One Fund</b>										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
<b>Judicial Retirement System Plan Two Fund</b>										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
State	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83

### State Retiree Health Plan (Note D)

	Fiscal Year (in millions)									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Group Benefits Program</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Employee Only:</i>										
State Contribution Monthly Rate	215.58	249.71	276.02	308.84	300.27	315.56	343.48	360.54	360.54	360.54
HealthSelect Monthly Premium	215.58	249.71	276.02	308.84	300.27	315.56	343.48	360.54	360.54	360.54
ERS Supplement (Note C)										
<i>Employee &amp; Children:</i>										
State Contribution Monthly Rate	297.70	344.97	381.43	426.89	415.02	436.19	474.86	498.49	498.49	498.49
HealthSelect Monthly Premium	379.82	440.23	486.84	544.93	529.76	556.82	606.24	636.44	636.44	636.44
ERS Supplement (Note C)										
<i>Employee &amp; Spouse:</i>										
State Contribution Monthly Rate	338.23	391.98	433.45	485.14	471.65	495.73	539.70	566.57	566.57	566.57
HealthSelect Monthly Premium	460.88	534.25	590.88	661.44	643.02	675.89	735.92	772.60	772.60	772.60
ERS Supplement (Note C)										
<i>Employee &amp; Family:</i>										
State Contribution Monthly Rate	420.35	487.24	538.86	603.19	586.39	616.36	671.08	704.52	704.52	704.52
HealthSelect Monthly Premium	625.12	724.77	801.70	897.53	872.51	917.15	998.68	1,048.50	1,048.50	1,048.50
ERS Supplement (Note C)										
Total State Contribution (Note B)	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	1,108.2

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

Note B: The increase in State Contributions resulted primarily from normal industry and membership growth.

Note C: 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.

Sources: System's records and Texas Government Code, Title 8.

## Statistical Information – Defined Benefit Plans

(All items expressed as numbers unless otherwise indicated)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(Note C)										
<b>Employees Retirement Fund</b>										
Active Contributing Members	152,167	149,956	150,313	142,315	133,349	132,417	132,411	132,497	134,626	141,223
Non-Contributing Members	41,276	46,089	48,903	51,868	54,658	57,089	61,567	67,803	74,094	72,585
Retirees and Beneficiaries	47,310	47,392	50,514	57,024	60,089	63,453	67,596	70,456	72,678	75,722
Service Retirements	3,688	3,229	4,050	7,581	3,906	4,609	2,929	4,110	4,445	4,338
Disability Retirements	196	213	156	174	181	179	80	98	115	95
Resignation Refunds	21,109	21,869	16,817	16,680	13,947	14,239	11,199	11,365	10,393	12,619
Death Refunds	261	301	335	316	237	294	317	551	311	343
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Notes A &amp; B)</b>										
Active Contributing Members	42,040	40,431	41,221	40,332	38,391	37,251	37,103	36,413	33,642	37,819
Non-Contributing Members	4,372	5,619	6,519	7,264	7,856	8,428	33	27	35	39
Retirees and Beneficiaries	2,774	3,093	3,523	4,166	4,576	5,072	5,318	5,805	6,204	6,647
Service Retirements	249	296	508	686	431	537	306	553	637	559
Disability Retirements	3	4	3	1	3			4		2
<b>Judicial Retirement System of Texas Plan One</b>										
Active Contributing Members	123	95	91	58	53	28	43	24	27	23
Non-Contributing Members	27	24	24	22	15	36	12	15	7	7
Retirees and Beneficiaries	465	485	493	505	494	491	486	488	471	461
Service Retirements	9	26	13	27	10	12	7	16	6	4
Disability Retirements										
Resignation Refunds	1				1	1		3		
Death Refunds				1		1				
<b>Judicial Retirement System of Texas Plan Two</b>										
Active Contributing Members	412	442	464	476	484	491	498	515	518	533
Non-Contributing Members	51	77	63	80	79	90	95	115	120	134
Retirees and Beneficiaries	27	29	34	78	72	81	89	116	117	152
Service Retirements	3	3	3	24	8	9	10	24	6	36
Disability Retirements	2									
Resignation Refunds	1	3	7	5	8	8	2	3	4	8
Death Refunds						1	1			
<b>State Retiree Health Plan (Note D)</b>										
Retirees								75,958	80,543	83,494
Dependents								30,653	31,293	32,067

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									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>457 Defined Contribution Plan (Note A)</b>										
<b>TexaSaver 457 Plan (Note B):</b>										
Total Participants	n/a	4,531	5,793	7,525	9,937	12,425	14,960	16,646	15,980	16,727
Participants Currently Deferring	n/a	3,419	3,971	4,862	5,908	7,632	8,350	9,475	10,282	10,295
Current Market Value of Plan Assets (in millions)	n/a	\$ 56.4	\$ 69.7	\$ 103.7	\$ 159.6	\$ 219.8	\$ 265.3	\$ 325.7	\$ 266.8	\$ 274.0
<b>Original 457 Plan (Notes B, C &amp; D):</b>										
Total Participants	10,838	8,374	7,422	6,015	5,104	3,693	3,169	2,780	2,527	2,278
Participants Currently Deferring	4,423	267	261	207	138	127	121	101	82	74
<b>TexaSaver 401(k) Defined Contribution Plan (Note A)</b>										
Total Participants	57,306	54,177	57,155	56,848	56,504	54,349	54,710	55,212	61,692	80,735
Participants Currently Deferring	39,533	38,407	35,856	32,714	30,075	28,574	28,314	28,587	37,399	52,347
Current Market Value of Plan Assets (in millions)	\$ 675.8	\$ 602.6	\$ 604.7	\$ 703.4	\$ 779.3	\$ 886.0	\$ 990.4	\$1,154.0	\$1,143.0	\$1,085.0
Deferrals (in millions)	\$ 90.3	\$ 94.9	\$ 95.0	\$ 89.1	\$ 86.9	\$ 83.6	\$ 89.2	\$ 94.7	\$ 103.8	\$ 168.0
<b>Cafeteria Plan (Note A)</b>										
Reimbursement Accounts:										
Health Care	12,314	15,924	17,419	19,128	23,868	29,728	33,047	35,342	40,685	43,001
Dependent Care	2,425	2,480	2,336	2,297	2,416	2,522	2,665	2,836	3,012	3,261
Total Redirected (in millions)	\$ 22.5	\$ 27.1	\$ 30.1	\$ 33.6	\$ 43.1	\$ 52.4	\$ 60.0	\$ 67.5	\$ 75.3	\$ 80.2
Premium Conversion:										
Participants	209,031	208,511	208,651	209,929	199,215	206,173	209,214	210,744	215,618	223,980
Premiums Redirected (in millions)	\$ 237.8	\$ 263.8	\$ 291.0	\$ 312.1	\$ 321.4	\$ 337.8	\$ 363.3	\$ 386.4	\$ 389.7	\$ 410.3
Tax Savings (in millions):										
Employees	\$ 53.9	\$ 59.7	\$ 65.9	\$ 70.7	\$ 72.8	\$ 76.5	\$ 82.3	\$ 87.5	\$ 88.3	\$ 92.9
State of Texas	\$ 18.2	\$ 20.2	\$ 22.3	\$ 23.9	\$ 24.6	\$ 25.8	\$ 27.8	\$ 29.6	\$ 29.8	\$ 31.4
<b>Group Benefits Program (Note A &amp; F)</b>										
Membership:										
Active	210,675	210,924	209,859	211,695	192,859	198,627	200,775	216,958	222,660	230,285
Retired	54,974	57,953	56,714	59,603	66,348	68,109	69,748	N/A	N/A	N/A
Dependents	255,000	252,000	253,000	248,749	235,834	236,691	232,846	199,833	190,573	198,420
COBRA (Note E)	2,545	2,124	2,060	1,744	1,736	1,558	2,485	2,009	2,138	2,178
	523,194	523,001	521,633	521,791	496,777	504,985	505,854	418,800	415,371	430,883
<b>Death Benefit Programs</b>										
Lump Sum Payments	13	29	36	20	19	11	16	12	13	6
Monthly Payments to Guardians	101	104	107	113	109	127	133	114	111	100
Victims of Violent Crime	n/a	n/a	n/a	n/a	n/a	5	3	2	8	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, 2009.

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

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### State Agencies

Adjutant General's Department  
Attorney General  
Board of Architectural Examiners  
Board of Chiropractic Examiners  
Board of Dental Examiners  
Board of Examiners of Psychologists  
Board of Law Examiners  
Board of Nursing  
Board of Pharmacy  
Board of Plumbing Examiners  
Board of Podiatric Medical Examiners  
Board of Professional Engineers  
Board of Professional Geoscientists  
Board of Professional Land Surveying  
Board of Public Accountancy  
Board of Tax Professional Examiners  
Board of Veterinary Medical Examiners  
Canadian River Compact Commission  
Cancer Prevention & Research Institute of Texas  
Commission on Jail Standards  
Commission on Judicial Conduct  
Commission on Law Enforcement Officer Standards and Education  
Commission on State Emergency Communications  
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  
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 Insurance  
Department of Licensing & Regulation  
Department of Public Safety  
Department of State Health Services  
Employees Retirement System  
Federal Inspection Service  
Fire Fighter's Pension Commission  
General Land Office  
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  
Pecos River Compact Commission  
Pension Review Board  
Physical & Occupational Therapy Examiners  
Public Insurance Counsel  
Public Utilities Commission  
Red River Compact Commission  
Railroad Commission  
Real Estate Commission  
Rio Grande Compact Commission  
Sabine River Compact Commission  
Savings & Lending Department  
School for the Blind and Visually Impaired  
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  
Sunset Advisory Commission  
Supreme Court  
Teachers' Retirement System  
Texas Alcoholic Beverage Commission  
Texas Animal Health Commission  
Texas Bond Review Board  
Texas Cancer Council  
Texas Commission on Environmental Quality  
Texas Commission on Fire Protection  
Texas Commission on the Arts  
Texas Department of Criminal Justice

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

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### State Agencies (continued)

Texas Department of Transportation  
Texas Education Agency  
Texas Facilities Commission  
Texas Funeral Service Commission  
Texas Higher Education Coordinating Board  
Texas Historical Commission  
Texas Indian Commission  
Texas Juvenile Probation Commission  
Texas Legislative Council  
Texas Lottery Commission  
Texas Medical Board  
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 State College - Orange  
Lamar State College - Port Arthur  
Lamar University – Beaumont  
Lamar University Institute of Technology  
Midwestern University  
Sam Houston State University  
Stephen F. Austin University  
Sul Ross State University  
Texas Southern University  
Texas State University San Marcos  
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

### 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  
Lone Star College  
McLennan Community College  
Midland College  
Navarro College  
North Central Texas College  
North East Texas Community 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 61% of the employees covered by the State Retiree Health Plan.



