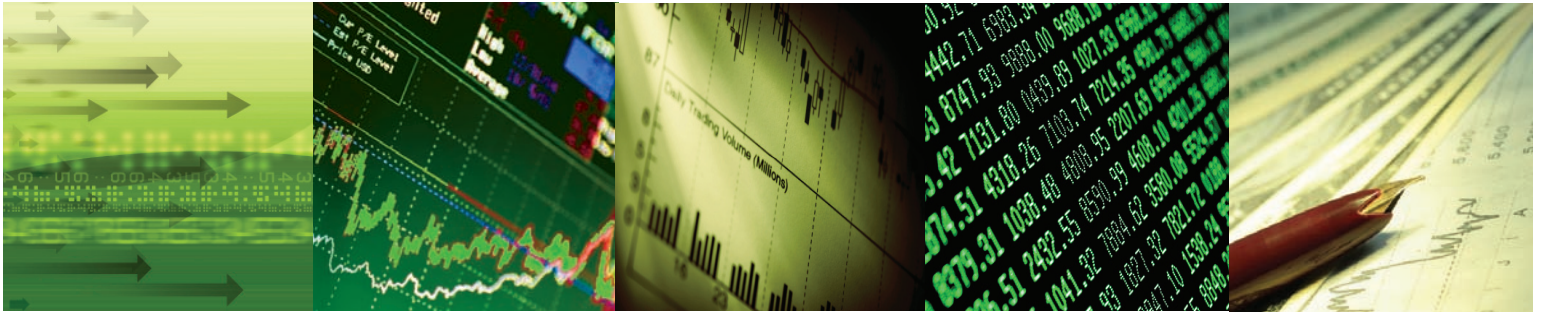


2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT

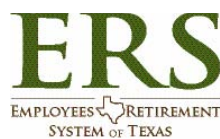


ERS ENHANCES THE LIVES OF OUR PARTICIPANTS THROUGH THE
DELIVERY OF QUALITY BENEFITS AT A REASONABLE COST.

2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Ann S. Fuelberg, Executive Director

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



A COMPONENT UNIT OF THE STATE OF TEXAS
FISCAL YEAR ENDED AUGUST 31, 2010

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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

Consultants and Advisors

Summary of Plan Provisions



HIGHLIGHTS OF RETIREMENT PROGRAMS

AS OF AUGUST 31, 2010

Retirement Census Data

	ERS (A)	LECOS (A)	JRS I	JRS II
	\$	\$	\$	\$
Active Members	142,490	39,052	22	539
Terminated Employees Entitled to Benefits	78,737	2,978	7	130
Total Retirement Accounts	221,227	42,030	29	669
Retirees and Beneficiaries	79,311	7,175	447	164
Service Retirements	4,803	635	2	12
Disability Retirements	67	0	0	0
Total Retirements During the Fiscal Year	4,870	635	2	12
Funded Ratios (Note C)	83.2%	83.1%		93.9%

Results of Investments - Pension Trust Funds

	ERS	LECOS	JRS I (B)	JRS II
	\$	\$	\$	\$
Interest, Dividends & Securities Lending Income	544,362,281	18,209,063		6,549,925
Net Appreciation (Depreciation) in Fair Value of Investments	700,993,031	23,180,124		7,505,447

Time Weighted Rate of Return

	1-Year	3-Year	5-Year
Investment Pool Trust Fund	6.65%	-1.68%	3.33%

Other Transactions Summary

	ERS	LECOS	JRS I (B)	JRS II
	\$	\$	\$	\$
Member Contributions	410,134,305	7,472,554		4,121,093
State Retirement Contributions	400,251,761	27,799,461		11,510,713
Retirement Benefits	1,497,502,981	41,001,437	27,302,491	9,288,910
Member Contributions Withdrawn	65,333,536	161,740		118,149
Administrative Expenses	18,959,481	594,624		276,518
Investment Expenses	47,007,373	1,517,003		534,250

- 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.



200 E. 18TH STREET, AUSTIN, TEXAS 78701 | P. O. BOX 13207, AUSTIN, TEXAS 78711-3207 | (512) 867-7711 | (877) 275-4377 TOLL-FREE | WWW.ERS.STATE.TX.US

November 16, 2010

Dear Governor Perry and Members of the Texas Legislature:

ANN S. FUELBERG
EXECUTIVE DIRECTOR

CYDNEY C. DONNELL
CHAIR

OWEN WHITWORTH
VICE-CHAIR

BOARD OF TRUSTEES
YOLANDA GRIEGO
I. CRAIG HESTER
CHERYL. MACBRIDE
DONALD E. WOOD

For decades, the State of Texas has provided financial resources and careful stewardship of the pension program. This commitment, combined with the Employees Retirement System of Texas' professional management of the program's operations and investments, have built a model benefits program. This program is needed to attract and retain quality employees to serve Texas citizens.

Texas has pre-funded pension liabilities over time. The Trust has almost 84 cents on hand for every dollar owed to current, and future, retirees and their families. Providing pension benefits is a shared responsibility. Every member contributes towards his or her own future financial security with every paycheck. Both the State's and the member's contributions, combined with investment earnings, have built a \$19.6 billion retirement trust fund to be used exclusively for pension benefits.

The plan doesn't allow the practices that you read about in the newspapers. Our members can't increase or "spike" their retirement benefits by manipulating their final salary through overtime. Texas law also prohibits any benefit increases for retirees or prospective retirees—including cost of living adjustments—unless there is enough money in the trust to meet all current and future obligations.

For Fiscal Year 2010, the combined State and member contributions of 13.45% of payroll are enough to pay for the normal cost of providing benefits. But, it's not enough to pay off a debt that is growing due to inadequate contributions over time, legislative policies such as retirement incentives, and investment earnings that took a hit in the recent market decline. To cover both the current benefit costs, and pay off the unfunded liability, contributions would need to be 17.07%.

Once again, Texas is ahead of the curve by addressing this growing pension obligation two years ago by passing House Bill 2559. The bill modified key components of the program, such as retirement eligibility, benefit calculations, contribution rates, and return to work employment rules. The new provisions, which went into effect for all employees hired on or after September 1, 2009, are reflected in this financial report.

Over 200 employers rely on these benefits to attract the employees they need. Texas is a large and growing state. Texans rely on state workers to do everything from protecting the state's most vulnerable citizens to guarding the state's most dangerous prisoners. Texas taxpayers need and deserve a quality workforce, but they also demand a return on their investment.

Our mission at ERS is to maximize each tax dollar, and every member's contribution, by delivering quality benefits for our participants, at a reasonable cost to the State and its taxpayers.

Proper management of the trust fund's investments is the best way to leverage the contributions. Our investment team manages the trust fund with oversight from the ERS Board of Trustees and an Investment Advisory Committee made up of outside investment professionals. Our conservative investment approach recognizes our long-term commitment to our members. We take advantage of investment opportunities, but do not disregard risk in order to chase returns. We have met our long-term goals, earning 8.54% over the past 30 years.

Most of the \$1.6 billion annuity benefits paid last year came from the trust's investment earnings. This significantly lowers how much the State and members need to contribute each year. Investment earnings alone, however, cannot erase the plan's unfunded liability.

Studies show that defined benefit plans are a cost effective way to deliver pension benefits. The plans provide retirees with secure benefits that lessen their dependence on public assistance programs and benefit the Texas cities and towns where they live. These benefits are dependable, but not rich—our average retired state employee worked for the State for 22 years and receives \$17,526 each year in retirement.

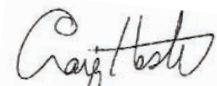
The pension Trust fund is also a major source of economic development through its investments in private and public companies in Texas. Almost 30% of all Trust investments are in companies that are headquartered in Texas, or are providing more than 200 Texas jobs. Private equity investors, such as ERS, are crucial sources of revenue for private companies planning to expand in the State.

We believe that every Texan deserves retirement security. We recognize that the State must balance its commitment to its workforce and its citizens. As we move forward, ERS is committed to working with the State Legislature to achieve this balance.

Sincerely,



Ann S. Fuelberg
Executive Director



Craig Hester
Chair, ERS Board of Trustees



November 16, 2010

ANN S. FUELBERG
EXECUTIVE DIRECTOR

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

CYDNEY C. DONNELL
CHAIR

Ladies and Gentlemen:

OWEN WHITWORTH
VICE-CHAIR

I am pleased to submit the Annual Financial Report of the Employees Retirement System of Texas (the System) for the year ended August 31, 2010, 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.

BOARD OF TRUSTEES
YOLANDA GRIEGO
I. CRAIG HESTER
CHERYL. MACBRIDE
DONALD E. WOOD

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

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

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

SYSTEM'S STRUCTURE AND SERVICES

For financial reporting purposes, the System is considered a Retirement System of the State of Texas. The System's financial activities will be included in the annual financial report for the State of Texas for the fiscal year ended August 31, 2010.

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

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

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

FINANCIAL CONDITION *Investment Performance*

The investment portfolio closed the fiscal year with a fair value of \$20.3 billion, and had a return of 6.65% for the year. The investment portfolio's total return did not meet the actuarially assumed rate of return of 8.0% due to the slow pace of recovery of the financial markets. The time weighted rate of return for three and five years were -1.68% and 3.33% respectively.

The fiscal year reflected improving market conditions. 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 management has taken steps to further diversify investments to better withstand market fluctuations such as those that have occurred during the recent economic downturn. Please refer to the Investment Section for additional information on investment policies, strategies, and safeguards.

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 Fund (ERF), the August 31, 2010 actuarial valuation shows that the ratio of the actuarial value of assets to the actuarial accrued liability was 83.2% for funding purposes. The average actuarial funding level for public pension plans nationwide was 80.1% for fiscal year 2009 according to a survey conducted by the National Association of State Retirement Administrators. Although the ERF is in relatively good financial condition, System management would like to improve the funded ratio. The System worked with the 81st Legislature to improve the funding status of the various benefit systems under management. New legislation effective September 1, 2009, increased contributions and modified the benefit design for new members resulting in improvements to the actuarial soundness of the Employees Retirement Plan and the LECOS retirement plan. The System's management is committed to working with the 82nd Legislature to further improve the funding status of the retirement plans. Additional information on funding status and progress toward achieving funding goals is presented in the Financial Section, Required Supplementary Information, and in the Actuarial Section.

MAJOR INITIATIVES

The System continues to develop new strategies and asset classes to improve diversification and investment returns. The System continues to build out Private Equity and Private Real Estate portfolios. Additional resources will be directed towards expanding the Emerging Markets portfolio and optimizing the mix of internally managed and externally advised portfolios. A new comprehensive risk management and reporting system is being developed to identify, measure, and communicate investment-related risks.

For the Group Benefits Program, the System actively managed health insurance claim costs, resulting in cost savings of \$5.8 billion compared to full billing costs in FY 2009. The System will continue to analyze and implement various changes as required by federal Health Care reform. The System will work with the 82nd Legislature to explore innovative approaches to provide a quality health care plan at a reasonable cost.

The System continues to enhance performance and accountability. The System has begun deployment of an Enterprise Content Management (ECM) system, providing standardized document search and retrieval and automated document production workflow. The System is also developing Business Intelligence (BI) Query tools and has implemented a prototype BI Data Warehouse enterprise solution. A five-year Strategic Plan was developed with participation of employees at all levels. The plan sets out four strategic directions that are used as a guide for goal setting, budgeting and resource planning.

Communication improvements include implementing a new branding strategy including new logo, design and editorial standards. The System significantly increased the direct distribution of ERS benefit communications through the electronic subscription service by adding 229,921 registered email addresses from the ERS OnLine system. To deal with the health insurance funding gap, more than 100 briefings and presentations were conducted with key stakeholder groups, and a series of feedback sessions were hosted throughout the state to provide participants a chance to offer their public comment on the issue. The System continues to work on improvements in website design, video communication, and legislative communication.

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, 2009. 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 21 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

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Employees Retirement System
of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "JEFFREY R. EGAN".

President

A handwritten signature in black ink, appearing to read "JEFFREY R. EGAN".

Executive Director

ORGANIZATIONAL CHART AND DATA

AS OF AUGUST 31, 2010

Board of Trustees



Yolanda "Yoly"
Griego



Cydney C. Donnell
Vice Chair



I. Craig Hester
Chair



Cheryl MacBride



Owen Whitworth



Donald E. Wood



Ann S. Fuelberg
Executive Director



Marci Sundbeck
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Relations



Catherine Terrell
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Communications &
Research



Larry Zeplin
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Jacqueline M. Johnson
Deputy Executive Director
of Investments



Paula A. Jones
General Counsel

Ralph Salinas
Manager of
Human Resources



Robert Kukla
Director of
Benefit Contracts



Debbie Warren
Director of
Customer Benefits



Michael C. Wheeler
Chief Financial Officer



Mel Mireles
Director of
Information Systems



Jordan Roe
Manager of
Operations Support

CONSULTANTS AND ADVISORS

AS OF AUGUST 31, 2010

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

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Lenore Sullivan

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Hewitt Ennis Knupp & Associates
RV Kuhns & Associates

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Domestic Equity

Alliance Bernstein Management, LLP

Fixed Income

Fountain Capital Management, L.L.C.

International Equity

Fisher Investment Institutional Group
Franklin Templeton Institutional
JP Morgan Asset Management

Manager of Emerging Managers

Leading Edge Investment Advisors, LLC
Legato Capital Management, LLC

Real Estate

Cohen & Steers, Inc
European Investors, Inc
Forum Investment Advisors
Urdang Capital Management

GLOBAL CUSTODIAN

JPMorgan Chase Bank, N. A.

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, 2009

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 81st Legislature created new plan provisions for employees hired on or after September 1, 2009. The new provisions require that members of the employee

class hired on or after September 1, 2009 must 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 uses an average compensation based on the 48 highest months of compensation for members hired on or after September 1, 2009. It also reduces 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 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

MEMBERSHIP:

Employee Class Only:

- 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.

Elected Class Only:

- Persons who hold State offices that are normally filled by statewide election and that are not included in the coverage of JRS I and JRS II.
- Members of the Legislature.
- District and criminal district attorneys.

- Law enforcement officers commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, or the office of inspector general at the Texas Youth Commission recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education.
- Custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, and certified by that department according to statutory requirements as having a normal job assignment that requires frequent or infrequent planned contact with inmates of that institution.

JRS I Only:

- Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service before September 1, 1985.

JRS II Only:

- Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service after August 31, 1985.

SUMMARY OF PLAN PROVISIONS

EFFECTIVE SINCE SEPTEMBER 1, 2009

ERS	LECOS	JRS I AND JRS II
-----	-------	------------------

SERVICE RETIREMENT ELIGIBILITY:

<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> Age 60 with at least five years of service credit, or The sum of age and years of service credit equals or exceeds the number 80 with at least five years of service credit, or Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> Age 60 with eight years of service credit, or Age 50 with 12 years of service credit. 	<ul style="list-style-type: none"> 20 years of service credit as a certified peace officer/custodial officer and the member's age is the earlier of either the age of 50 or the age at which the sum of age and years of service credit equals or exceeds the number 80. 	<ul style="list-style-type: none"> Age 65 with at least 10 years of service credit and currently holding a judicial office, or Age 65 with at least 12 years of service credit, regardless of whether the member currently holds a judicial office, or 20 years of service at any age, regardless of whether the member currently holds a judicial office, or The sum of age and years of service credit equals or exceeds the number 70 and served at least 12 years on an appellate court, regardless of whether the member currently holds a judicial office.
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EARLY SERVICE RETIREMENT ELIGIBILITY WITH REDUCED BENEFITS:

<p>Not applicable.</p>	<ul style="list-style-type: none"> 20 years of service credit as a certified peace officer/custodial officer, under the age of 50. 	<ul style="list-style-type: none"> Age 60 with 10 years of service credit and currently holding judicial office, or Age 60 with 12 years of service credit, regardless of whether the member currently holds a judicial office.
------------------------	---	---

STANDARD SERVICE RETIREMENT BENEFITS:

<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> Standard monthly annuity is equal to 2.3% of average monthly compensation multiplied by the number of years of service credit. Average monthly compensation is the average of the highest 36 months of compensation. Minimum standard annuity is \$150 per month. Maximum standard annuity is 100% of the average monthly compensation. <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> Standard monthly annuity is 2.3% of the current State salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as State judicial salaries increase. Maximum standard annuity is 100% of the State salary being paid a district judge. 	<ul style="list-style-type: none"> Monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit. Average monthly compensation is the average of the highest 36 months of compensation. Minimum standard annuity is \$150 per month. Maximum standard annuity is 100% of the average monthly compensation. 	<ul style="list-style-type: none"> Monthly annuity is equal to 50% of the salary for the last position from which the member retired was elected or appointed, An additional 10% is paid when a member retires within one year of leaving office or within one year of last assignment as a visiting judge. The monthly annuity of a member who elects to make contributions after 20 years of service would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%. <p><i>JRS II Only:</i></p> <ul style="list-style-type: none"> The monthly annuity of a member who elects to make contributions after reaching the Rule of 70 with at least 12 years on an appellate court would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.
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SUMMARY OF PLAN PROVISIONS

EFFECTIVE SINCE SEPTEMBER 1, 2009

ERS	LECOS	JRS I AND JRS II
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OPTIONAL SERVICE RETIREMENT:

<p><i>Employee Class and Elected Class:</i></p> <ul style="list-style-type: none"> • Lifetime with 100% to surviving beneficiary; • Lifetime with 75% to surviving beneficiary; • Lifetime with 50% to surviving beneficiary; • Lifetime with five years certain; • Lifetime with 10 years certain; and • One-time partial lump sum of up to three years of standard annuity at retirement (annuity is reduced for life and the reduced annuity is used to calculate the six beneficiary options listed above). • If beneficiary predeceases member, the annuity paid to the retired member who selected one of the lifetime survivor benefits is increased to the standard annuity. 	<ul style="list-style-type: none"> • Same as ERS. 	<ul style="list-style-type: none"> • Same as ERS except for the one-time partial lump sum.
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VESTING REQUIREMENT:

<ul style="list-style-type: none"> • Five or more years of service credit for Employee Class and eight or more years for Elected Class. 	<ul style="list-style-type: none"> • 20 or more years of service credit as a certified peace officer/custodial officer. 	<ul style="list-style-type: none"> • 12 or more years of service credit.
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VESTED BENEFITS AFTER TERMINATION OF EMPLOYMENT:

<ul style="list-style-type: none"> • Member is entitled to a deferred retirement benefit based on service and compensation prior to termination. • Member must leave accumulated contributions in the System and must live to normal retirement age. • Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits. 	<ul style="list-style-type: none"> • Member is entitled to a deferred retirement benefit based on certified peace officer/custodial officer service and the highest average monthly compensation prior to termination • Member must leave accumulated deposits in the System to which the member contributed. • Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits. 	<ul style="list-style-type: none"> • Member is entitled to a deferred retirement benefit based on service and compensation as a judge prior to termination. • Member must leave accumulated contributions in the System and must live to normal retirement age. • 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.
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SUMMARY OF PLAN PROVISIONS

EFFECTIVE SINCE SEPTEMBER 1, 2009

ERS

LECOS

JRS I AND JRS II

DISABILITY RETIREMENT ELIGIBILITY:

Employee Class Only:

- For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability.
- For non-occupational disability, at least 10 years of Employee Class service credit, which may include up to five years of purchased military service credit, and be a contributing member at the time of permanent disability.

Elected Class Only:

- For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability.
- For non-occupational disability, eight years of Elected Class service (exclusive of military service) or six years of Elected Class service plus two years of military service if purchased before January 1, 1978, and be a contributing member at the time of permanent disability.

- For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability.
- For non-occupational disability, at least 10 years of service credit, which may include up to five years of purchased military service credit, and also one must be a contributing member at the time of permanent disability.

- No age requirement.
- Seven years of judicial service and currently holding a judicial office.

DISABILITY RETIREMENT BENEFITS:

Employee Class Only:

- For occupational disability, the benefits are the same as those under the standard service retirement, except the standard annuity is equal to not less than 35% of the average of the highest 36 months of compensation regardless of the years of service credit or age.
- For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service.
- The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.
- 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.
- Optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.

- For occupational disability, the standard annuity is a minimum of 50% of the average of the highest 36 months of compensation regardless of the years of service credit or age.
- The standard annuity is increased to 100% of the average of the highest 36 months of compensation if a member receives Social Security disability benefits as a result of occupational disability.
- For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service.
- The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.

- Same as standard service retirement benefits without reduction for age.

SUMMARY OF PLAN PROVISIONS

EFFECTIVE SINCE SEPTEMBER 1, 2009

ERS

LECOS

JRS I AND JRS II

DEATH BENEFITS:

Employee Class and Elected Class:

- 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:
 - Death benefit plan filed by the member, or
 - Lifetime annuity, or
 - 10-year certain annuity.
- Member with less than 10 years of service credit, or eligible to retire but not survived by a spouse or minor children, or selected in lieu of a death benefit plan; the benefit options are:
 - Refund of member's contribution with interest.
 - If member is contributing at the date of death, an additional 5% of the member's accumulated contributions for each full year of service with a maximum of 100% of the member's accumulated contributions.
- In case of occupational death, an additional benefit is paid to the surviving spouse or minor children. This additional benefit is equal to one year's salary based on rate at the time of death. This additional benefit is not paid if there is no surviving spouse or minor children.
- If a member dies after retirement and selected the standard annuity, the member's beneficiaries receive a benefit equal to the excess of accumulated contributions at retirement age over the monthly benefit paid before death. In addition, the beneficiaries are entitled to a lump sum death benefit of \$5,000.

Elected Class Only:

- 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.

- A contributing member with a minimum of 10 years of certified peace officer/custodial officer service may file a death benefit plan, which will provide the member's beneficiary either a lifetime annuity or a 10-year certain annuity.
- Member with 20 or more years of certified peace officer/custodial officer service, the death benefits are the same as those under the service retirement.

- Members have the same as those listed in the Employee Class under the ERS Plan.

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:

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

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of the Employees Retirement System of Texas (System) as of and for the year ended August 31, 2010, 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 2009 financial statements and, in our report dated November 18, 2009, 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 and the aggregate remaining fund information of the System as of August 31, 2010, 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 present fairly, in all material respects, the respective net assets of the defined benefit plans administered by the System, as of August 31, 2010, 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.

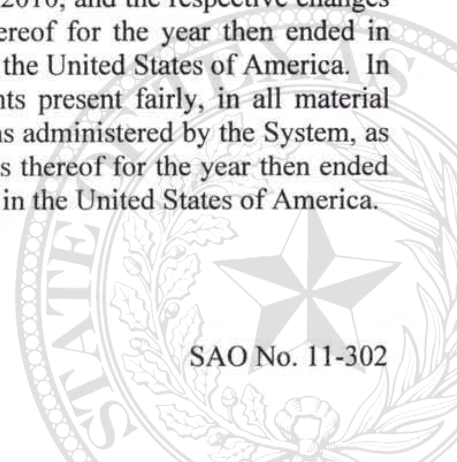
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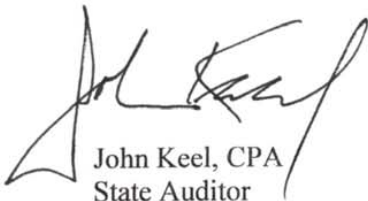


Management's Discussion and Analysis, Schedule of Funding Progress – Defined Benefit Plans, Schedule of Employer Contributions – Defined Benefit Plans, and Notes to the Required Supplementary Information, as listed in the Table of Contents, are not a required part of the basic financial statements but 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 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2010

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, 2010. 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 CashFlows 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

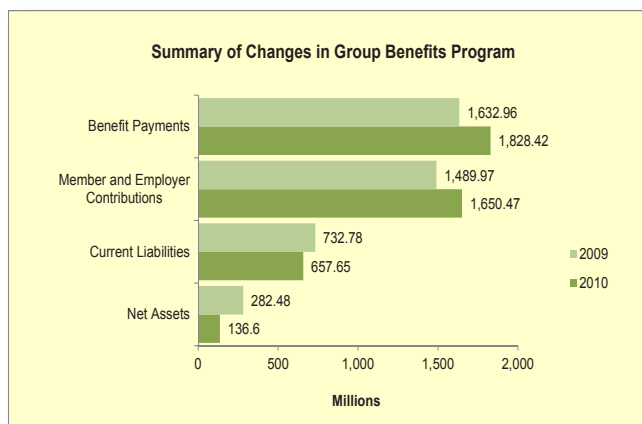
The government-wide activities of the System are comprised of five programs:

- 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,			2009-2010 Incr (Decr) %
	2010	2009	2008	
Net Assets	\$ 136.6	\$ 282.48	\$ 384.89	(51.64)
Current Liabilities	657.65	732.78	610.00	(10.25)
Member and Employer Contributions	1,650.47	1,489.97	1,439.63	10.77
Benefit Payments	1,828.42	1,632.96	1,460.53	11.97

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.

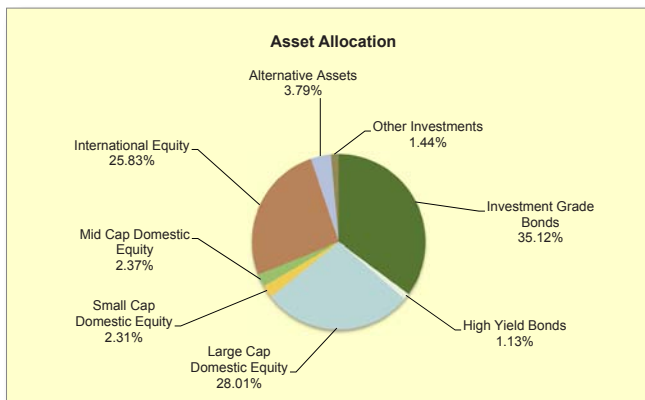


MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2010

FINANCIAL HIGHLIGHTS – FIDUCIARY FUNDS

- Net assets of the fiduciary funds administered by the System totaled \$20.48 billion as of August 31, 2010, compared with \$19.94 billion as of August 31, 2009. The investment portfolio returned 6.65% for the year. The \$0.54 billion increase resulted primarily from recovering market conditions affecting investment assets. The time weighted rate of return for three and five years were -1.68% and 3.33% 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.

The fiscal year-end asset allocation stood at:

- 35.12% investment grade bonds
- 1.13% high yield bonds
- 28.01% large cap domestic equity
- 2.31% small cap domestic equity
- 2.37% mid cap domestic equity
- 25.83% international equity
- 3.79% alternative assets
- 1.44% 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,			2009-2010 Incr (Decr) %
	2010	2009	2008	
	\$	\$	\$	
<i>Contributions:</i>				
Retirement & Other	950.17	837.86	795.88	13.40
Insurance	645.41	597.91	559.52	8.49
Total (Exh. XI)	1,595.58	1,435.77	1,355.40	11.13
<i>Benefit Payments:</i>				
Retirement & Other	1,652.13	1,581.54	1,507.27	4.46
Insurance	643.39	596.86	558.23	7.80
Total (Exh. XI)	2,295.52	2,178.40	2,065.50	5.38

- The increases in retirement and insurance contributions are primarily due to legislative rate increases. The benefit payments for insurance increased due to a rise in medical costs. The most recent actuarial valuations of the funded defined benefit plans were completed as of August 31, 2010. The funded ratios are as follows:

Plans	Funded Ratios August 31,	
	2010	2009
Employees Retirement System	83.2	87.4%
Law Enforcement and Custodial Officer Supplemental Retirement Fund	83.1	86.1%
Judicial Retirement System of Texas Plan Two	93.9	97.1%

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,			2009-2010 Incr (Decr) %
	2010	2009	2008	
	\$	\$	\$	
Changes in Fiduciary Net Assets (Exh. IX)	537.13	(2,444.88)	(2,076.16)	121.97
Total Net Assets	20,479.92	19,942.78	22,387.67	2.69

The increase in changes in Fiduciary Net Assets is due primarily to improving conditions in the financial markets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

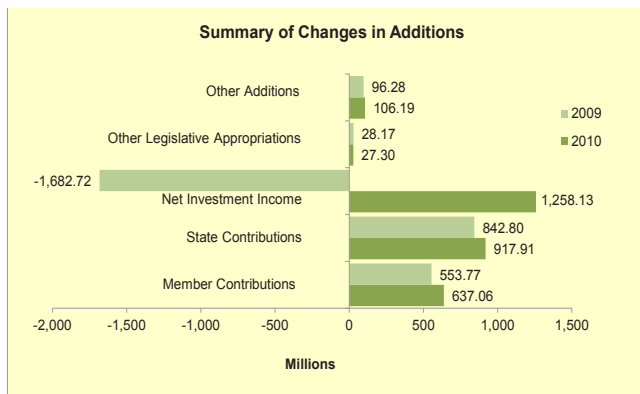
YEAR ENDED AUGUST 31, 2010

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,			2009-2010 Incr (Decr) %
	2010	2009	2008	
	\$	\$	\$	
Member Contributions	637.06	553.77	526.26	15.04
State Contributions	917.91	842.80	790.53	8.91
Net Investment Income	1,258.13	(1,682.72)	(1,346.15)	174.77
Other Legislative Appropriations	27.30	28.17	28.68	(3.09)
Other Additions	106.19	96.28	88.38	10.29
Total Additions (Exh.IX)	2,946.59	(161.70)	87.70	1,922.26

Increases in the additions in the above tables are due primarily to the improving conditions in the financial markets, and legislative increases to both member and State contribution rates.



For the Employees Retirement Fund, member and State retirement contribution rates for September through December 2009, were both 6.45%. For January through August 2010 member and State retirement contribution rates were 6.5% and 6.95% respectively. For the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), the State contributed 1.59% and the member contributed 0.5% of the covered payroll. For the Judicial Retirement Plan II Fund, member and State retirement contribution rates were 6% and 16.83%, respectively.

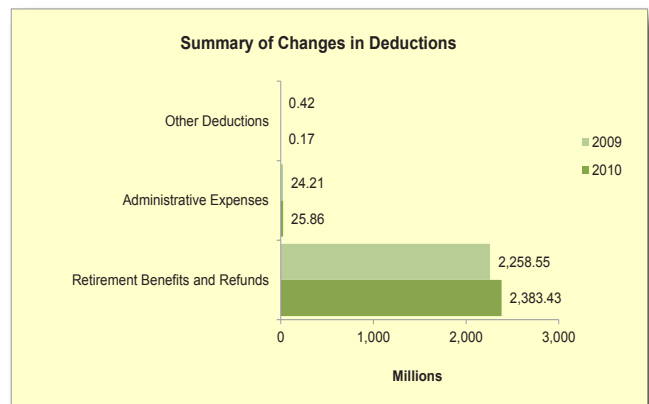
Net investment income is comprised of interest income, dividend income, securities lending income and related fees, and net appreciation or depreciation in fair value of investments, and is net of investment expenses.

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,			2009-2010 Incr (Decr) %
	2010	2009	2008	
	\$	\$	\$	
Benefits	2,383.43	2,258.55	2,140.54	5.53
Administrative Expenses	25.86	24.21	22.80	6.82
Other Deductions	0.17	0.42	0.53	(59.52)
Total Deductions (Exh. IX)	2409.46	2,283.18	2,163.87	5.53



ASSETS

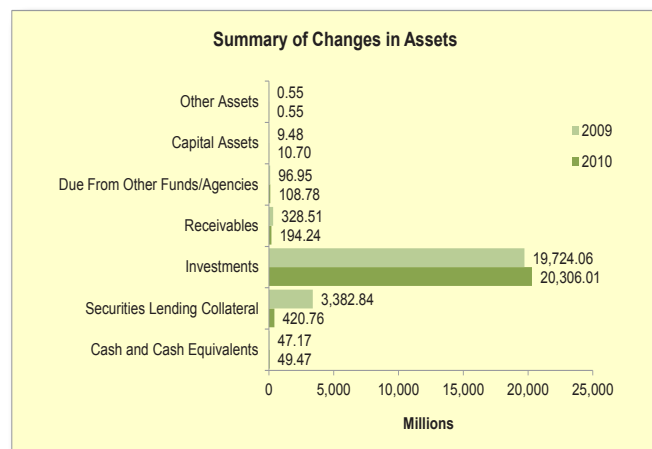
Investments, both short-term and long-term, are the primary asset of the System's pension and other employee benefit trust funds as shown in the following table. Asset information has been extracted from Exhibit VIII.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2010

Changes in assets are summarized in millions as follows:

	August 31,			2009-2010 Incr (Decr) %
	2010	2009	2008	
Cash and Cash Equivalents	49.47	47.17	46.40	4.88
Securities Lending Collateral	420.76	3,382.84	6,270.56	(87.56)
Investments	20,306.01	19,724.06	22,218.81	2.95
Receivables	194.24	328.51	290.30	(40.87)
Due from Other Funds/Agencies	108.78	96.95	115.92	12.20
Capital Assets	10.70	9.48	7.52	12.87
Other Assets	0.55	0.55	0.57	0.00
Total Assets (Exh. VIII)	21,090.51	23,589.56	28,950.08	(10.59)

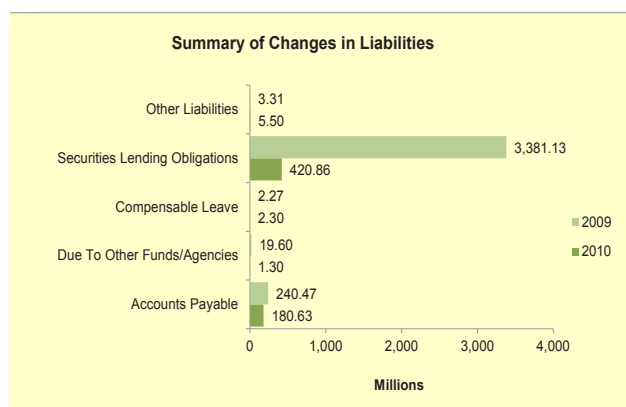


Securities Lending Collateral reduced by 87.56%. The decrease was a result of the System's strategy to minimize the exposure to the securities lending program.

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,			2009-2010 Incr (Decr) %
	2010	2009	2008	
Accounts Payable	180.63	240.47	253.68	(24.88)
Due to Other Funds/Agencies	1.30	19.60	35.60	(93.37)
Compensable Leave	2.30	2.27	2.02	1.32
Securities Lending Obligations	420.86	3,381.13	6,270.56	(87.55)
Other Liabilities	5.50	3.31	0.55	66.16
Total Liabilities (Exh.VIII)	610.59	3,646.78	6,562.41	(83.26)



Securities Lending Obligations reduced by 87.55%. The decrease was a result of the System's strategy to minimize the exposure to the securities lending program.

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.

According to the State funding purposes, the latest annual actuarial valuation of the System, as of August 31, 2010, (compared to the August 31, 2009 actuarial valuation) is summarized in millions as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2010

Plans	Actuarial Net Asset/(Liability) August 31,	
	2010	2009
Employees Retirement System	\$(4,783.2)	\$(3,398.2)
Law Enforcement and Custodial Officer Supplemental Retirement Fund	(163.7)	(126.3)
Judicial Retirement System of Texas Plan Two	(17.2)	(7.3)

For the Employees Retirement System Fund, the August 31, 2010 actuarial valuation shows an unfunded accrued liability of \$4,783.2 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 83.2% as of August 31, 2010. The valuation shows that the total normal cost is 12.30% of payroll and total contributions are 13.45% of payroll. The total contribution rate exceeds the normal cost by 1.15% 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 is 17.07% 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, 2010 actuarial valuation for the Law Enforcement and Custodial Officer Supplemental Retirement Fund shows that the total normal cost rate for fiscal year 2010 is 2.07% of payroll. At August 31, 2010, the unfunded accrued liability is \$163.7 million, and the funded ratio is 83.1%. 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 2010, 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 2.72% of payroll.

For the Judicial Retirement System of Texas Plan II, the August 31, 2010 actuarial valuation shows that the total normal cost is 20.19% of payroll and unfunded

accrued liability is \$17.2 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 93.9% as of August 31, 2010. Assuming State contributions of 16.83% of payroll and member contributions of 6% of pay, the amortization period is 12.6 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, 2010 actuarial valuation shows an unfunded accrued liability of \$22.3 billion. The funded ratio is 0.0%. The valuation shows that the total normal cost is 10.0% of payroll and total contributions are 25.8% of the annual required contribution. The Annual Required Contribution (ARC) as of August 31, 2010 is 19.3% of payroll.

Contributions include health care premiums, State and member contributions, and retiree drug subsidy payments. Retiree premiums were \$126.1 million. Employer contributions were \$478.3 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 2010 totaling \$40.99 million. The above amounts plus net investment income of \$608.7 thousand resulted in additions of \$646 million. These were offset entirely by \$643.4 million in benefit payments and \$2.6 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, 2010 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2009)

ASSETS	Governmental Activities	
	August 31,	
	2010	2009
<i>Current Assets:</i>	\$	\$
<i>Cash and Cash Equivalents:</i>		
Cash in State Treasury	42,567,389	14,410,385
Total Cash and Cash Equivalents	<u>42,567,389</u>	<u>14,410,385</u>
Securities Lending Collateral	10,923,074	143,530,008
Short-Term Investments	230,635,028	211,673,425
Legislative Appropriations	6,606	9,316
Receivables	100,936,197	119,648,400
Due From External Parties	286,090	16,656,375
Due From Other Agencies	31,668	22,295
Total Current Assets	<u>385,386,052</u>	<u>505,950,204</u>
<i>Non-Current Assets:</i>		
Investments	408,918,280	509,391,746
Total Non-Current Assets	<u>408,918,280</u>	<u>509,391,746</u>
Total Assets	<u>794,304,332</u>	<u>1,015,341,950</u>
LIABILITIES		
<i>Current Liabilities:</i>		
Payables	542,636,250	499,111,144
Due To External Parties	103,610,105	89,768,758
Deferred Revenue	488,779	404,169
Obligations Under Securities Lending	10,925,547	143,514,894
Total Current Liabilities	<u>657,660,681</u>	<u>732,798,965</u>
Total Liabilities	<u>657,660,681</u>	<u>732,798,965</u>
NET ASSETS		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program	136,599,054	282,483,838
Unrestricted	44,598	59,147
Total Net Assets (Exh. II & III)	<u>136,643,652</u>	<u>282,542,985</u>

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

EXHIBIT II
STATEMENT OF ACTIVITIES
 YEAR ENDED AUGUST 31, 2010 (WITH COMPARATIVE TOTALS FOR AUGUST 31, 2009)

Functions/Programs	Program Revenues			Net (Expense) Revenue & Changes in Net Assets Governmental Activities	
	Expenses	Charges for Services	Operating Grants & Contributions	August 31,	
				2010	2009
	\$	\$	\$	\$	\$
<i>Governmental Activities:</i>					
Social Security Administration	100,601	85,422		(15,179)	3,387
Death Benefits-Peace Officers, Firemen, etc.	4,163,776	4,163,776		-	-
Compensation to Victims of Crime	1,250,000	1,250,000		-	-
Death Benefits-Retiree \$5,000 Lump Sum	7,910,102	7,910,732		630	(630)
Group Benefits Program	1,836,539,692	1,650,627,420	40,027,488	(145,884,784)	(102,407,817)
Total Governmental Activities	1,849,964,171	1,664,037,350	40,027,488		
			Change in Net Assets (Exh. IV)	(145,899,333)	(102,405,060)
			Net Assets - Beginning	282,542,985	384,948,045
			Net Assets - Ending (Exh. I)	136,643,652	282,542,985

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

EXHIBIT III
BALANCE SHEET – GOVERNMENTAL FUNDS
AUGUST 31, 2010 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2009)

ASSETS	Non-major Special Revenue Funds	
	Totals (Note 1.E)	
	August 31,	
	2010	2009
	\$	\$
Current Assets:		
Cash and Cash Equivalents:		
Cash in State Treasury	41,068	60,991
Total Cash and Cash Equivalents	41,068	60,991
Legislative Appropriations	6,606	9,316
Accounts Receivable	7,351	5,763
Total Current Assets	55,025	76,070
Total Assets	55,025	76,070
LIABILITIES & FUND BALANCES		
Current Liabilities:		
<i>Payables:</i>		
Voucher/Accounts Payable	6,606	9,316
Due To Other Funds (Note 1.G)	2,135	6,325
Deferred Revenues	1,686	1,282
Total Current Liabilities	10,427	16,923
Total Liabilities	10,427	16,923
Fund Balances:		
<i>Unreserved:</i>		
Undesignated, Reported In:		
Special Revenue Funds	44,598	59,147
Total Fund Balances (Exh. IV)	44,598	59,147
Total Liabilities & Fund Balances	55,025	76,070
Total Fund Balances - Governmental Funds (above):	44,598	59,147
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.		
	136,599,054	282,483,838
Net Assets of Governmental Activities (Exhibit I)	136,643,652	282,542,985

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, 2010 (WITH COMPARATIVE TOTALS FOR AUGUST 31, 2009)

	Non-major Special Revenue Funds	
	Totals (Note 1.E)	
	August 31,	
REVENUES	2010	2009
	\$	\$
<i>Legislative Appropriations Out of the State's General Revenue Fund:</i>		
<i>Appropriation Revenue:</i>		
For Death Benefits Peace Officers, Etc.	4,163,776	1,865,875
For Victims of Crime	1,250,000	2,000,000
For Death Benefits-Retirees	7,910,732	7,365,894
Total Appropriation Revenue	13,324,508	11,231,769
Administration Fees	85,422	64,322
Total Revenues	13,409,930	11,296,091
EXPENDITURES		
<i>Current:</i>		
Death Benefits	13,323,878	11,232,399
<i>Administrative Expenditures:</i>		
Salaries & Wages	73,965	42,321
Payroll Related Costs	16,834	9,808
Professional Fees & Services	1,935	2,743
Travel	651	275
Materials & Supplies	2,443	1,807
Communications & Utilities	1,307	797
Repairs & Maintenance	298	251
Rentals & Leases	1,232	692
Printing & Reproduction	161	78
Other Expenditures	1,775	2,163
Total Administrative Expenditures	100,601	60,935
Total Expenditures	13,424,479	11,293,334
Excess of Revenues over (under) Expenditures	(14,549)	2,757
Fund Balances - Beginning	59,147	56,390
Fund Balances - Ending (Exh. III)	44,598	59,147
Net Change in Fund Balances - Governmental Funds:	(14,549)	2,757
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.		
	(145,884,784)	(102,407,817)
Change in Net Assets of Governmental Activities (Exhibit II)	(145,899,333)	(102,405,060)

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, 2010 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2009)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973) (U/F 2369)	
	Totals	
	August 31,	
	2010	2009
	\$	\$
ASSETS		
Current Assets:		
<i>Cash and Cash Equivalents:</i>		
Cash in State Treasury	42,526,321	14,349,394
Total Cash and Cash Equivalents	42,526,321	14,349,394
Securities Lending Collateral	10,923,074	143,530,008
<i>Short-Term Investments:</i>		
Other Investments	230,635,028	211,673,425
Total Short-Term Investments	230,635,028	211,673,425
<i>Receivables:</i>		
Interest Receivable	2,184,771	3,308,510
Accounts Receivable	98,523,212	114,214,720
Unsettled Sales-Investment Receivables	-	1,917,739
COBRA Stimulus Receivable	220,863	201,668
Total Receivables	100,928,846	119,642,637
Due From Other Funds (Note 1.G)	286,091	16,656,375
Due From Other Agencies (Note 1.G)	31,668	22,295
Total Current Assets	385,331,028	505,874,134
Non-Current Assets:		
<i>Investments:</i>		
U.S. Government and Agency Obligations	332,581,227	383,888,043
Corporate Obligations	76,337,053	125,503,703
Total Investments	408,918,280	509,391,746
Total Non-Current Assets	408,918,280	509,391,746
Total Assets	794,249,308	1,015,265,880
LIABILITIES		
Current Liabilities:		
<i>Payables:</i>		
<i>Claims Payable:</i>		
Incurred, Self-Funded	63,029,677	55,521,167
Incurred, Insured	10,742,967	10,036,947
Incurred But Not Reported, Self-Funded	407,032,000	362,866,000
Incurred But Not Reported, Insured	61,825,000	66,327,000
Total Claims Payable	542,629,644	494,751,114
Unsettled Purchases-Investment Payables	-	4,350,714
Total Payables	542,629,644	499,101,828
Due To Other Funds (Note 1.G)	103,607,970	89,762,432
Deferred Revenue	487,093	402,888
Obligations Under Securities Lending	10,925,547	143,514,894
Total Current Liabilities	657,650,254	732,782,042
Total Liabilities	657,650,254	732,782,042
NET ASSETS		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program	136,599,054	282,483,838
Total Net Assets (Exh. VI)	136,599,054	282,483,838

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, 2010 (WITH COMPARATIVE TOTALS FOR AUGUST 31, 2009)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973) (U/F 2369)	
	Totals August 31,	
	2010	2009
OPERATING REVENUES	\$	\$
<i>Contributions to Insurance Program:</i>		
From the State of Texas:		
For Employees	1,233,780,647	1,108,150,334
Total Contributions from the State of Texas	1,233,780,647	1,108,150,334
From Members:		
For Employees	408,900,512	373,952,402
For COBRA	7,789,560	7,867,704
Total Contributions from Members	416,690,072	381,820,106
Total Contributions to Insurance Program	1,650,470,719	1,489,970,440
Federal Revenue - Operating:		
Federal Revenue - COBRA Stimulus (Note 7)	2,268,403	201,668
<i>Other Operating Revenues:</i>		
COBRA 2% Administration Fee	156,702	161,248
Warrants Voided by Statute of Limitations	7,095	8,548
Penalty Assessed to Insurance Carrier	671,005	805,000
Miscellaneous Operating Revenue	252,104	279,148
Total Other Operating Revenues	1,086,906	1,253,944
Total Operating Revenues	1,653,826,028	1,491,426,052
OPERATING EXPENSES		
<i>Employee Benefit Payments:</i>		
For Employees	1,797,658,939	1,609,991,570
For COBRA	30,763,033	22,970,831
Total Employee Benefit Payments	1,828,421,972	1,632,962,401
<i>Administrative Expenses:</i>		
Salaries & Wages	4,937,736	4,787,161
Payroll Related Costs	1,251,749	1,141,435
Professional Fees & Services	363,899	1,200,303
Travel	34,938	28,922
Materials & Supplies	446,117	580,511
Communications & Utilities	174,274	244,100
Repairs & Maintenance	221,974	250,905
Rentals & Leases	437,550	347,125
Printing & Reproduction	21,949	29,046
Other Operating Expenses	227,534	452,289
Total Administrative Expenses	8,117,720	9,061,797
Total Operating Expenses	1,836,539,692	1,642,024,198
Operating Loss	(182,713,664)	(150,598,146)
NON-OPERATING REVENUES (EXPENSES)		
Net Increase in Fair Value of Investments	20,788,610	20,359,007
Interest Revenue	15,639,829	27,006,519
Class Action Settlements	180,787	6,783
<i>Securities Lending Activities:</i>		
Loan Premium on Securities Lending	120,771	1,179,498
Less: Broker Rebates	(48,463)	(323,340)
Agent Fees	(10,843)	(128,694)
Net Securities Lending Activity	61,465	727,464
Settlement Revenue	158,189	90,556
Total Non-Operating Revenues	36,828,880	48,190,329
Transfers In	2,249,207	-
Transfers Out	(2,249,207)	-
Change in Net Assets	(145,884,784)	(102,407,817)
NET ASSETS		
Net Assets - Beginning	282,483,838	384,891,655
Net Assets - Ending (Exh. V)	136,599,054	282,483,838

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, 2010 (WITH COMPARATIVE TOTALS FOR AUGUST 31, 2009)

	Internal Service Fund	
	Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973) (U/F 2369)	
	August 31, 2010	August 31, 2009
Cash Flows from Operating Activities:	\$	\$
Cash Received from Members	419,233,779	380,200,245
Cash Received from The State of Texas	1,263,403,739	1,103,431,091
Cash Payments to Insurance Carriers and Third Party Administrators	(1,780,520,853)	(1,600,571,466)
Cash Received from Federal Government - COBRA Stimulus	2,249,207	
Cash Payments to Employees for Services	(6,911,765)	(6,003,351)
Cash Payments for Goods and Services	(2,070,846)	(3,031,867)
Other Cash Received	790,465	866,053
Net Cash Provided by Operating Activities	(103,826,274)	(125,109,295)
Cash Flows from Investing Activities:		
Net Purchases (Sales) of Short-Term Investment Fund	132,100,000	114,900,000
Interest on Deposit in State Treasury	(96,798)	1,384,004
Net Cash Used by Investing Activities	132,003,202	116,284,004
Net Increase (Decrease) in Cash and Cash Equivalents	28,176,928	(8,825,291)
Cash and Cash Equivalents:		
Beginning of Year	14,349,394	23,174,685
Adjustment-Federal Revenues	201,668	-
Beginning of Year-Adjusted	14,551,062	23,174,685
End of Year	42,526,321	14,349,394
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	(182,713,664)	(150,598,146)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depository Interest Transferred to Retiree Insurance Plan	(594,348)	(965,513)
Settlement Revenue	158,190	90,556
Non Cash Expenses Allocated from Investment Pool		190
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	15,672,312	(18,216,513)
(Increase) Decrease in Due From Other Agencies	(9,373)	(940)
(Increase) Decrease in Due From Other Funds	886,823	(465,110)
Increase (Decrease) in Accounts Payable	47,878,530	32,403,286
Increase (Decrease) in Due To Other Funds	14,811,051	12,653,714
Increase (Decrease) in Deferred Revenue	84,205	(10,819)
Total Adjustments	78,887,391	25,488,851
Net Cash Provided (Used) by Operating Activities	(103,826,274)	(125,109,295)
Non-Cash Investing Activities:		
Net Appreciation (Depreciation) in Fair Value of Non-Cash Equivalent Investments	20,788,610	20,134,354

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, 2010 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2009)

	Pension and Other Employee Benefit Trust Funds				Totals August 31,	
	Defined Benefit Plans	Defined Contribution Plans and Cafeteria Plan	Total Pension and Other Employee Benefit Trust Funds	Agency Funds	2010	2009
	\$	\$	\$	\$	\$	\$
ASSETS						
Cash and Cash Equivalents	36,430,729	9,963,539	46,394,268	3,073,667	49,467,935	47,174,696
Securities Lending Collateral	420,764,388		420,764,388		420,764,388	3,382,836,028
Short-Term Investments	1,384,769,768		1,384,769,768		1,384,769,768	958,317,761
Legislative Appropriations	291,812		291,812		291,812	297,930
Investments	18,921,238,048		18,921,238,048		18,921,238,048	18,765,743,738
Receivables	187,398,745	6,825,517	194,224,262	13,403	194,237,665	328,512,919
Due From Other Funds (Note 1.G)	103,635,989	17,557	103,653,546		103,653,546	91,921,953
Due From Other Agencies (Note 1.G)	5,126,112	3,350	5,129,462		5,129,462	5,030,438
Prepaid Expenses		250,000	250,000		250,000	250,000
Capital Assets, Net of Accumulated Depreciation/Amortization	10,703,186	-	10,703,186		10,703,186	9,480,105
Total Assets	21,070,358,777	17,059,963	21,087,418,740	3,087,070	21,090,505,810	23,589,565,568
LIABILITIES						
Payables	169,281,748	11,337,234	180,618,982	12,353	180,631,335	240,468,893
Due To Other Funds (Note 1.G)	304,970	23,362	328,332	1,200	329,532	18,809,571
Due To Other Agencies (Note 1.G)	971,294		971,294		971,294	791,929
Deferred Revenue	2,413,177	11,943	2,425,120		2,425,120	3,269,167
Employees Compensable Leave	2,299,848		2,299,848		2,299,848	2,266,754
Obligations Under Securities Lending	420,859,683		420,859,683		420,859,683	3,381,129,801
Funds Held for Others				3,073,517	3,073,517	45,732
Total Liabilities	596,130,720	11,372,539	607,503,259	3,087,070	610,590,329	3,646,781,847
NET ASSETS						
Net Assets Held in Trust for Pension Benefits and Other Purposes (Exh. IX)*	20,474,228,057	5,687,424	20,479,915,481	-	20,479,915,481	19,942,783,721
			(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, 2010 (WITH COMPARATIVE TOTALS FOR AUGUST 31, 2009)

ADDITIONS	Defined Benefit Plans	Defined Contribution Plans and Cafeteria Plan	Pension and Other Employee Benefit Trust Funds	
			Totals	
			2010	2009
	\$	\$	\$	\$
Contributions:				
Member Contributions	547,800,710	89,258,034	637,058,744	553,770,867
Employer Contributions	917,910,439		917,910,439	842,801,601
Legislative Appropriations	27,298,519		27,298,519	28,170,864
Service Contributions Transferred from				
Teacher Retirement System	61,570,750		61,570,750	57,135,135
Federal Revenues-Medicare Part D	40,988,263		40,988,263	35,783,527
Settlement Revenue	12,338		12,338	6,633
Other Contributions - Forfeitures		1,031,632	1,031,632	1,354,353
Total Contributions	1,595,581,019	90,289,666	1,685,870,685	1,519,022,980
Investment Income:				
From Investing Activities	1,252,139,293	80,173	1,252,219,466	(1,718,635,795)
From Securities Lending Activities	5,905,845		5,905,845	35,913,270
Total Investment Income	1,258,045,138	80,173	1,258,125,311	(1,682,722,525)
Other Additions:				
Other Revenue	164,451	2,133,101	2,297,552	1,413,431
Transfers In	294,478		294,478	588,301
Total Other Additions	458,929	2,133,101	2,592,030	2,001,732
Total Additions	2,854,085,086	92,502,940	2,946,588,026	(161,697,813)
DEDUCTIONS				
Benefits:				
Benefits	2,218,735,461	87,912,271	2,306,647,732	2,177,833,504
Refunds of Contributions	65,613,425		65,613,425	71,164,389
Service Contributions Transferred				
to Teacher Retirement System	11,167,772		11,167,772	9,558,927
Total Benefits	2,295,516,658	87,912,271	2,383,428,929	2,258,556,820
Administrative Expenses	22,460,692	3,399,104	25,859,796	24,209,728
Other Deductions:				
Other Expenses	32,861		32,861	7,842
Transfers Out	134,680		134,680	409,866
Total Other Deductions	167,541	-	167,541	417,708
Total Deductions	2,318,144,891	91,311,375	2,409,456,266	2,283,184,256
Net Increase	535,940,195	1,191,565	537,131,760	(2,444,882,069)
NET ASSETS				
Net Assets Held in Trust For Pension Benefits and Other Purposes:				
Beginning of Year	19,938,287,862	4,495,859	19,942,783,721	22,387,665,790
End of Year (Exh. VIII)	20,474,228,057	5,687,424	20,479,915,481	19,942,783,721
			(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, 2010 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2009)

ASSETS	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 Arrangement (5039)	State Retiree Health Plan (3973)
	\$	\$	\$	\$	\$	\$
Cash and Short-Term Investments:						
<i>Cash and Cash Equivalents:</i>						
Cash on Hand	365,705					4,571
Cash in Bank	23,000					
Cash in State Treasury	23,675,226	966,505		609,283		10,786,439
Total Cash and Cash Equivalents	24,063,931	966,505	-	609,283	-	10,791,010
Securities Lending Collateral	402,111,103	13,638,935		5,014,350		
<i>Short-Term Investments:</i>						
Other Short-Term Investments	1,324,389,452	45,177,956		15,140,873		61,487
Total Short-Term Investments	1,324,389,452	45,177,956	-	15,140,873	-	61,487
Total Cash and Short-Term Investments	1,750,564,486	59,783,396		20,764,506	-	10,852,497
Legislative Appropriations			291,812			
<i>Investments:</i>						
U.S. Government and Agency Obligations	4,833,884,482	164,869,657		55,400,224		
Corporate Obligations	1,339,403,720	45,683,142		15,350,650		
Domestic Equity	6,235,397,504	212,671,165		71,462,697		
Real Estate Investments	349,332,326	11,914,710		4,003,634		
Externally Managed Investments	296,170,876	10,101,522		3,394,358		
International Equity	5,042,424,770	171,982,349		57,790,262		
Total Investments	18,096,613,678	617,222,545	-	207,401,825	-	-
<i>Receivables:</i>						
Interest and Dividends Receivable	73,790,311	2,493,284		868,780		1,349
Contributions/Accounts Receivable	64,138,646	2,587,556		1,282,190		8,008,239
Unsettled Sales-Investment Receivables	32,712,072	1,109,000		407,318		
Total Receivables	170,641,029	6,189,840	-	2,558,288	-	8,009,588
Due From Other Funds (Note 1.G)	76,384					103,559,605
Due From Other Agencies (Note 1.G)	5,126,112					
Prepaid Claims Expense						
<i>Capital Assets:</i>						
<i>Non-Depreciable:</i>						
Land and Land Improvements	874,889					
<i>Depreciable, Net of Accumulated Depreciation/Amortization of \$12,597,135 and \$14,161,172 respectively:</i>						
Building	9,362,931					
Furniture and Equipment	383,926					
Vehicles	18,033					
Computer Software	63,407					
Total Capital Assets	10,703,186	-	-	-	-	-
Total Assets	20,033,724,875	683,195,781	291,812	230,724,619	-	122,421,690
LIABILITIES						
<i>Payables:</i>						
Voucher/Accounts Payable	18,760,443	274,829	291,812	106,548		121,398,763
Annuities Payable	46,743	5,934				
Unsettled Purchases-Investment Payables	27,138,704	920,052		337,920		
Total Payables	45,945,890	1,200,815	291,812	444,468	-	121,398,763
Due To Other Funds (Note 1.G)						304,970
Due To Other Agencies (Note 1.G)	971,294					
Deferred Revenue	1,695,220					717,957
Employees Compensable Leave	2,299,848					
Obligations Under Securities Lending	402,202,176	13,642,023		5,015,484		
Total Liabilities	453,114,428	14,842,838	291,812	5,459,952	-	122,421,690
NET ASSETS						
Net Assets Held in Trust for Pension Benefits and Other Purposes (Exh. XI)*	19,580,610,447	668,352,943	-	225,264,667	-	-

*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, 8955; Fund 0977: 0977, 8977; Fund 0001: 2001; Fund 0993: 0993, 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,	
					2010	2009
\$	\$	\$	\$	\$	\$	\$
370,276					370,276	276,479
23,000		1,127,305	414,461	1,541,766	1,564,766	648,966
36,037,453	2,549,368	901,363	4,971,042	8,421,773	44,459,226	46,203,369
36,430,729	2,549,368	2,028,668	5,385,503	9,963,539	46,394,268	47,128,814
420,764,388					420,764,388	3,382,836,028
1,384,769,768	-	-	-	-	1,384,769,768	958,317,761
1,384,769,768	-	-	-	-	1,384,769,768	958,317,761
1,841,964,885	2,549,368	2,028,668	5,385,503	9,963,539	1,851,928,424	4,388,282,603
291,812					291,812	297,930
5,054,154,363					5,054,154,363	4,802,202,796
1,400,437,512					1,400,437,512	1,433,385,471
6,519,531,366					6,519,531,366	7,469,370,313
365,250,670					365,250,670	312,610,752
309,666,756					309,666,756	116,760,091
5,272,197,381					5,272,197,381	4,631,414,315
18,921,238,048	-	-	-	-	18,921,238,048	18,765,743,738
77,153,724	2,000	1,000	2,300	5,300	77,159,024	83,174,681
76,016,631		2,122	6,818,095	6,820,217	82,836,848	75,496,373
34,228,390					34,228,390	169,827,960
187,398,745	2,000	3,122	6,820,395	6,825,517	194,224,262	328,499,014
103,635,989	1,200		16,357	17,557	103,653,546	91,921,953
5,126,112			3,350	3,350	5,129,462	5,030,438
			250,000	250,000	250,000	250,000
874,889					874,889	874,889
9,362,931					9,362,931	8,121,357
383,926					383,926	462,735
18,033					18,033	21,124
63,407					63,407	-
10,703,186	-	-	-	-	10,703,186	9,480,105
21,070,358,777	2,552,568	2,031,790	12,475,605	17,059,963	21,087,418,740	23,589,505,781
140,832,395	1,982	1,082,752	10,252,500	11,337,234	152,169,629	136,531,242
52,677					52,677	69,233
28,396,676					28,396,676	103,855,360
169,281,748	1,982	1,082,752	10,252,500	11,337,234	180,618,982	240,455,835
304,970	10,599	9,373	3,390	23,362	328,332	18,808,574
971,294					971,294	791,929
2,413,177		11,943		11,943	2,425,120	3,269,167
2,299,848					2,299,848	2,266,754
420,859,683					420,859,683	3,381,129,801
596,130,720	12,581	1,104,068	10,255,890	11,372,539	607,503,259	3,646,722,060
20,474,228,057	2,539,987	927,722	2,219,715	5,687,424	20,479,915,481	19,942,783,721

(Exh. VIII)

EXHIBIT XI

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS YEAR ENDED AUGUST 31, 2010 (WITH COMPARATIVE TOTALS FOR AUGUST 31, 2009)

<u>ADDITIONS</u>	\$	\$	\$	\$	\$
	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrange- ment (5039)
Contributions:					
Member Contributions	410,134,305	7,472,554		4,121,093	
Employer Contributions	400,251,761	27,799,461		11,510,713	
<i>Legislative Appropriations for:</i>					
Judges Retirement Annuities			27,298,519		
Service Contributions Transferred from Teacher Retirement System (Note 1.G)	61,570,750				
Federal Revenues-Medicare Part D Settlement Revenue	12,338				
Other Contributions - Forfeitures					
Total Contributions	871,969,154	35,272,015	27,298,519	15,631,806	-
Investment Income:					
<i>From Investing Activities:</i>					
Net Appreciation (Depreciation) in Fair Value of Investments	700,993,031	23,180,124		7,505,447	
Interest and Dividends	538,712,745	18,020,096		6,482,585	
Class Action Settlements	5,447,829	182,117		65,227	
Total Investing Activity Income	1,245,153,605	41,382,337	-	14,053,259	-
Less: Investment Expense	(47,007,373)	(1,517,003)		(534,250)	
Net Income, Investing Activities	1,198,146,232	39,865,334	-	13,519,009	-
<i>From Securities Lending Activities:</i>					
Loan Premium on Securities Lending	5,881,556	196,522		69,771	
Less: Broker Rebates	730,975	24,656		9,075	
Agent Fees	(962,994)	(32,211)		(11,505)	
Total Securities Lending Expenses	(232,019)	(7,555)	-	(2,430)	-
Net Income, Securities Lending Activities	5,649,537	188,967	-	67,341	-
Net Investment Income	1,203,795,769	40,054,301	-	13,586,350	-
Other Additions:					
<i>Other Revenue:</i>					
Warrants Voided by Statute of Limitations	101,896	5,679			
Reimbursements - Third Party					
Sale of Surplus Equipment	5,044				
Rental Income	34,000				
Miscellaneous Revenue	17,280				
Administration Fees					
Total Other Revenue	158,220	5,679	-	-	-
<i>Interfund Transfers In (Note 1.G):</i>					
Membership Fees					
Excess Benefit Arrangement					91,118
<i>Interagency Transfers In (Note 5.F):</i>					
Excess Benefit Arrangement					203,360
Total Transfers In	-	-	-	-	294,478
Total Other Additions	158,220	5,679	-	-	294,478
Total Additions	2,075,923,143	75,331,995	27,298,519	29,218,156	294,478

USAS Funds (U/F) are:

Fund 0955: 0955, 8955; Fund 0977: 0977, 8977; Fund 0001: 2001; Fund 0993: 0993, 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.

State Retiree Health Plan (3973)	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,	
						2010	2009
\$	\$	\$	\$	\$	\$	\$	\$
126,072,758	547,800,710			89,258,034	89,258,034	637,058,744	553,770,867
478,348,504	917,910,439					917,910,439	842,801,601
	27,298,519					27,298,519	28,170,864
	61,570,750					61,570,750	57,135,135
40,988,263	40,988,263					40,988,263	35,783,527
	12,338					12,338	6,633
	-			1,031,632	1,031,632	1,031,632	1,354,353
645,409,525	1,595,581,019	-	-	90,289,666	90,289,666	1,685,870,685	1,519,022,980
	731,678,602					731,678,602	(2,397,220,696)
610,110	563,825,536	45,163	15,237	26,967	87,367	563,912,903	705,003,387
	5,695,173				-	5,695,173	9,285,433
610,110	1,301,199,311	45,163	15,237	26,967	87,367	1,301,286,678	(1,682,931,876)
(1,392)	(49,060,018)	(3,328)	(2,295)	(1,571)	(7,194)	(49,067,212)	(35,703,919)
608,718	1,252,139,293	41,835	12,942	25,396	80,173	1,252,219,466	(1,718,635,795)
	6,147,849					6,147,849	65,093,084
	764,706					764,706	(22,939,024)
	(1,006,710)					(1,006,710)	(6,240,790)
-	(242,004)	-	-	-	-	(242,004)	(29,179,814)
-	5,905,845	-	-	-	-	5,905,845	35,913,270
608,718	1,258,045,138	41,835	12,942	25,396	80,173	1,258,125,311	(1,682,722,525)
	108,127					108,127	141,639
552	-			23,200	23,200	23,200	775,000
	5,044					5,044	11,718
	34,000					34,000	34,000
	17,280			82,085	82,085	99,365	90,150
	-	1,438,985	588,831		2,027,816	2,027,816	360,924
552	164,451	1,438,985	588,831	105,285	2,133,101	2,297,552	1,413,431
	-					-	260,000
	91,118					91,118	100,661
	203,360					203,360	227,640
-	294,478	-	-	-	-	294,478	588,301
552	458,929	1,438,985	588,831	105,285	2,133,101	2,592,030	2,001,732
646,018,795	2,854,085,086	1,480,820	601,773	90,420,347	92,502,940	2,946,588,026	(161,697,813)

- 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, 2010 (WITH COMPARATIVE TOTALS FOR AUGUST 31, 2009)

DEDUCTIONS	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 Arrangement (5039)
	\$	\$	\$	\$	\$
Benefits:					
Benefits	1,497,502,981	41,001,437	27,302,491	9,288,910	250,916
Refunds of Contributions	65,333,536	161,740		118,149	
<i>Transfers Out of Contributions:</i>					
Service Contributions Transferred to Teacher Retirement System (Note 1.G)	11,167,772				
Total Benefits	1,574,004,289	41,163,177	27,302,491	9,407,059	250,916
Administrative Expenses:					
Salaries & Wages	8,127,693	385,307		168,724	
Payroll Related Costs	2,238,382	89,151		43,140	
Professional Fees & Services	3,454,641	12,267		7,171	
Travel	68,817	2,280		1,073	
Materials & Supplies	1,463,920	28,106		11,614	
Communications & Utilities	416,829	10,451		6,257	
Repairs & Maintenance	501,566	9,798		8,454	
Rentals & Leases	697,132	19,440		14,100	
Printing & Reproduction	44,540	1,744		1,134	
Depreciation	916,688				
Interest Expense					
Other Operating Expenses	1,029,273	36,080		14,851	
Total Administrative Expenses	18,959,481	594,624	-	276,518	-
Other Deductions:					
<i>Other Expenses:</i>					
Loss on Sale of Capital Assets	32,861				
Total Other Expenses	32,861	-	-	-	-
<i>Interfund Transfers Out (Note 5.E):</i>					
Membership Fees					
Excess Benefit Arrangement	91,118				
<i>Interagency Transfers Out (Note 5.F):</i>					
Excess Benefit Arrangement					43,562
Total Transfers Out	91,118	-	-	-	43,562
Total Other Deductions	123,979	-	-	-	43,562
Total Deductions	1,593,087,749	41,757,801	27,302,491	9,683,577	294,478
Net Increase/(Decrease)	482,835,394	33,574,194	(3,972)	19,534,579	-
NET ASSETS					
Net Assets Held in Trust For Pension Benefits and Other Purposes:					
Beginning of Year	19,097,775,053	634,778,749	3,972	205,730,088	
End of Year (Exh. X)	19,580,610,447	668,352,943	-	225,264,667	-

State Retiree Health Plan (3973)	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,	
						2010	2009
\$	\$	\$	\$	\$	\$	\$	\$
643,388,726	2,218,735,461 65,613,425			87,912,271	87,912,271	2,306,647,732 65,613,425	2,177,833,504 71,164,389
	11,167,772				-	11,167,772	9,558,927
643,388,726	2,295,516,658	-	-	87,912,271	87,912,271	2,383,428,929	2,258,556,820
1,613,304	10,295,028	319,202	426,963	273,800	1,019,965	11,314,993	11,273,067
409,026	2,779,699	74,037	98,343	68,623	241,003	3,020,702	2,748,285
103,554	3,577,633	40,826	28,483	7,702	77,011	3,654,644	2,727,580
11,406	83,576	2,632	3,474	1,953	8,059	91,635	72,371
145,687	1,649,327	14,776	21,239	13,779	49,794	1,699,121	1,716,702
54,737	488,274	7,065	9,208	7,329	23,602	511,876	509,851
72,468	592,286	8,799	9,364	8,694	26,857	619,143	685,346
142,463	873,135	15,380	17,410	14,901	47,691	920,826	740,047
7,170	54,588 916,688	834	1,322	1,116	3,272	57,860 916,688	63,752 798,258
	-			46,714	46,714	46,714	67,588
70,254	1,150,458	29,567	52,940	1,772,629	1,855,136	3,005,594	2,806,881
2,630,069	22,460,692	513,118	668,746	2,217,240	3,399,104	25,859,796	24,209,728
	32,861				-	32,861	7,842
-	32,861	-	-	-	-	32,861	7,842
	-					-	260,000
	91,118					91,118	100,661
	43,562				-	43,562	49,205
-	134,680	-	-	-	-	134,680	409,866
-	167,541	-	-	-	-	167,541	417,708
646,018,795	2,318,144,891	513,118	668,746	90,129,511	91,311,375	2,409,456,266	2,283,184,256
-	535,940,195	967,702	(66,973)	290,836	1,191,565	537,131,760	(2,444,882,069)
	19,938,287,862	1,572,285	994,695	1,928,879	4,495,859	19,942,783,721	22,387,665,790
-	20,474,228,057	2,539,987	927,722	2,219,715	5,687,424	20,479,915,481	19,942,783,721

(Exh. IX)

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2010

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NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2010

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 over 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, 2009, the System implemented GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements in this Statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. It provides clarification that intangible assets subject to the provisions of this

Statement should be classified as capital assets. In addition, it establishes new authoritative guidance that addresses issues specific to these intangible assets given their nature (for example, recognition provisions for internally generated intangible assets, including computer software).

The GASB has also issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. The requirements of this new Statement are effective for financial statements for periods beginning after June 15, 2009. While this financial reporting period did not have any applicable derivatives, the System is implementing GASB 53 for future reporting periods.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

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.

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, except for the Social Security Administration Fund, 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, Internal Service Funds, and the Social Security Administration Fund are maintained on the full accrual basis of accounting and the economic resources

measurement focus. All economic resources, including financial and capital assets and related liabilities, both current and long-term, and the changes therein are reported in the fund's financial statements. Additions are recognized when earned, and deductions are recognized when the liability is incurred, regardless of the timing of related cash flows. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Capital assets are depreciated. Agency Funds are used to report resources held by the System in a purely custodial capacity. Assets and offsetting liabilities are accounted for using the full accrual basis. Agency Funds have no revenues, expenditures, expenses, or fund balance and typically involve only the receipt and remittance of resources to individuals, the state or other governments.

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

E. BASIS OF PRESENTATION

(In accordance with GASB Statement 34)

FUND STRUCTURE

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

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

GOVERNMENTAL FUND CATEGORY

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

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

For the FY 2010 CAFR, the System has changed the reporting treatment of the governmental funds to nonmajor funds. The change is based on a statement on page 58 of GASB Statement No. 34, published in June of 1999, "The provisions of this statement need not be applied to immaterial items." The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental funds displayed in Exhibits III and IV are much less than 5% of the funds managed by ERS, and the activities in these funds are not the core of ERS business, which is pension and group benefits. Therefore, the System changed the reporting of the governmental funds on Exhibits III and IV to nonmajor fund reporting for the FY 2010 CAFR.

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.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

- 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.
- 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).
- 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

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

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.

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.

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, 2010, 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

Real estate consists of two main areas: publicly traded listed securities (Real Estate Investment Trusts or “REITs” and Real Estate Operating Companies or “REOCs”) and private real estate. The listed securities portfolio is based on published market prices at current exchange rates. Private real estate investments are held in commingled funds or partnerships as a limited partner with other investors. The System does not directly own buildings. The commingled funds typically have a 7 to 10 year life and are illiquid in nature. Open ended funds do not have a pre-determined liquidation date and the System has the ability to sell its interests periodically.

The fair value of private real estate is based on the net asset values of limited partner interests in the commingled funds. Each commingled fund is audited annually and the underlying investments may be periodically appraised by an independent third party. Valuation assumptions can be subjective and are based on market and property specific inputs. Fair value information is provided on a one quarter lag due to the timing of reporting from the partnership. When necessary, a more conservative value will be used than that which was provided by a partnership.

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 participating funds on a monthly basis using the pro rata fair value share at month end.

CAPITAL ASSETS

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

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

Figure A
Capitalization Thresholds and Useful Lives

Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Land	0	N/A
Building and Improvements	\$100,000	40
Computer Software	100,000	5 - 6
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.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

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, 2010

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.

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, LECOS, 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. 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.

Figure B
Actuarial Assumptions - Defined Benefit Plans

	<u>Defined Benefit Plans</u>
Valuation Date	August 31, 2010
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	30 Years
Annual Investment Return Assumption (discount rate):	8%
Projected Annual Salary Increase	
ERS	0 - 13.5%
LECOS	5.5 - 13.5%
JRSII	3.5%
Inflation Assumption Rate	3.50%

Asset Valuation Method is 20% of market plus 80% of expected actuarial value.

The excess of the total contributions over the normal cost is used to amortize the plan's unfunded actuarial accrued liability, if any exists.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

A. PLAN DESCRIPTIONS AND CONTRIBUTIONS

EMPLOYEES RETIREMENT PLAN PLAN DESCRIPTION

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

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

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

SYSTEM EMPLOYEES

System employees are members of the Employees Retirement Plan.

CONTRIBUTIONS

Employees were required to contribute a percentage 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. The contribution rate was 6.45% from September, 2009 through December, 2009. The contribution rate was 6.5% from January, 2010 through August, 2010.

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

From September, 2009 through December, 2009, the State contributed 6.45% of the payroll of members for both the elected class and the employee class. The State contribution rate was 6.95% from January, 2010 through August, 2010. See Note 2. B Funded Status and Funding Progress.

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 contribute 0.5% to this fund.

For fiscal year 2010, the State contributed 1.59% of the covered payroll for LECOS members. See Note 2. B Funded Status and Funding Progress.

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. See Note 2. B Funded Status and Funding Progress.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

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, 2009 and 2010, the State contributed 16.83% of the payroll of members. See Note 2. B Funded Status and Funding Progress.

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 C.

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

State Agencies	125
Universities	25
Junior and Community Colleges	51
Other Entities	5
Total Participating Entities	206

The principle participating employer is the state of Texas. State agencies and universities comprise 73% 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, 2010, there were 86,111 eligible retirees, 24,641 covered spouses, and 7,767 covered dependents.

CONTRIBUTIONS

Figure D 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 D
Employer Contribution Rates –
Retiree Health and Basic Life Premium –
Fiscal Year 2010**

	September 1, 2009
	\$
Retiree Only	385.38
Retiree & Spouse	605.70
Retiree & Children	532.90
Retiree & Family	753.22

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

	August 31,	
	2010	2009
	\$	\$
Employer Contributions	478,348,504	447,765,282
Retiree Contributions	126,072,757	114,359,794
Total Contributions	604,421,261	562,125,076
Claims Expenses	643,388,726	596,857,518

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 fiscal year 2010, the implicit rate subsidy amount was \$39,583,272.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

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 F.

Figure F
Actuarial Assumptions - State Retiree Health Plan

	<u>State Retiree Health Plan</u>
Valuation Date	August 31, 2010
Actuarial Cost Method	Entry Age Normal
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	6.72%
Annual Healthcare Trend Rate	9.1% in FY 2012 to 5.50% in FY 2016
Inflation Assumption Rate	3.50%

The initial healthcare trend rate is 9.10% and the ultimate rate is 5.50%. The amortization period is open.

Figure G shows the System's Schedule of Funding Progress for the funded defined benefit plans as of August 31, 2010. Calculations are based on the benefit 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 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, 2010 is summarized in Figure H. 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 H
Retirement Systems Membership

	ERS	LECOS	JRS I	JRS II
Retirees and Beneficiaries	79,311	7,175	447	164
Currently Receiving Benefits				
Terminated Employees Entitled	78,737	2,978	7	130
Current Employees	142,490	39,052	22	539
Total	300,538	49,205	476	833

Note: Estimated based on actuarial valuation as of August 31, 2010

Figure G
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)]
Employees Retirement Fund						
Aug. 31, 2010	\$23,628.57	\$27,668.88	\$4,040.31	85.4%	\$5,930.14	68.1%
Law Enforcement and Custodial Officer Supplemental Retirement Fund						
Aug 31, 2010	802.90	930.75	127.85	86.3	1,507.95	8.5
Judicial Retirement Plan Two Fund						
Aug. 31, 2010	264.52	281.76	17.24	93.9	68.76	25.1
State Retiree Health Plan						
Aug. 31, 2010	0	22,329.56	22,329.56	0.0	10,437.33	214.0

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

D. RESERVES

The balances of legally required reserves in each funded retirement plan as of August 31, 2010 and 2009 are presented in Figure I. The State Retiree Health Plan is a pay-as-you-go plan and has no reserves.

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

E. HISTORICAL TREND INFORMATION

Historical trend information is designed to provide information about the ERS, LECOS, JRS I and JRS II's progress made in accumulating sufficient assets to pay benefits when due. This information is presented in the Required Supplementary Information immediately after the Notes to the Basic Financial Statements. 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, 2010, there were 62 System employees participating in the Texa\$aver 457 Plan. During the fiscal year ended August 31, 2010, System employees deferred \$406,829. 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, 2010, there were 189 System employees participating in the Texa\$aver 401(k) Plan. During the fiscal year ended August 31, 2010, System employees deferred \$768,049. The State does not contribute to the plan.

Figure I
Reserves

	ERS	LECOS	JRS II	Totals – August 31,	
				2010	2009
	\$	\$	\$	\$	\$
Net Plan Assets Reserved For:					
Employee Savings	4,719,703,277	7,315,238	57,347,422	4,784,365,937	4,512,382,866
State Accumulation	1,453,083,981	293,046,216	75,664,112	1,821,794,309	2,357,262,353
Annuity Reserves	13,407,823,189	367,991,489	92,253,133	13,868,067,811	13,068,638,671
Total Net Plan Assets Reserved	19,580,610,447	668,352,943	225,264,667	20,474,228,057	19,938,283,890
	(Exhibit X)	(Exhibit X)	(Exhibit X)		
Funded ratios of each plan, from the actuarial valuation:					
As of August 31, 2010	83.2%	83.1%	93.9%		
As of August 31, 2009	87.4%	86.1%	97.1%		

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 J.

C. LIABILITIES

For self-funded coverages of the Internal Service Fund, the System's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Based on the estimates provided by the System's 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 K.

Figure K
Changes in Self-Funded Claims Liabilities

	Totals – August 31,	
	2010	2009
	\$	\$
Beginning of Fiscal Year Liability	418,387,167	376,087,480
Current-Year Claims and Changes in Estimates	1,884,001,665	1,403,144,699
Claims Payments	(1,832,327,155)	(1,360,845,012)
Balance at Fiscal Year-End	470,061,677	418,387,167

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, 2010 is \$468,857,000.

Figure J
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, 2010

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, 2010, the total carrying amount of Cash in Bank was \$4,633,969 as presented in Figure L.

Figure L
Deposits

Deposits	Carrying Value	Bank Balance
	\$	\$
Cash in Bank:		
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds (Exh. X)	1,564,766	1,565,252
Agency Fund:	3,069,203	3,069,203
Total Fiduciary Funds	4,633,969	4,634,455

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, 2010, the System was not exposed to custodial credit risk with respect to deposits.

INVESTMENTS

The fair values of investments as of August 31, 2010, are presented in Figure M.

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.

As of August 31, 2010, the System did not have any securities on loan for securities collateral, and therefore, no custodial credit risk.

Figure M
Investments

Investment Type	Fair Value	
	Fiduciary Funds (Exh. VIII)	Proprietary Fund (Exh. V)
Investments:	\$	\$
U.S. Treasury Securities	3,261,336,775	211,328,379
U.S. Government Agency Obligations	292,310,716	24,022,875
Corporate Obligations	1,400,437,512	76,337,053
Corporate Asset and Mortgage Backed Securities	1,500,506,872	97,229,973
Domestic Equity	6,519,531,366	-
International Equity	5,272,197,381	-
Real Estate Investments	365,250,670	-
Externally Managed Investments	309,666,756	-
Total	18,921,238,048	408,918,280
Short-Term Investments:		
Investment in Pool Cash	1,622,286	-
Money Market Mutual Funds	1,383,147,482	230,635,028
Total	1,384,769,768	230,635,028
Securities Lending Collateral	420,764,388	10,923,074

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, 2010 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

Figure N
Investments Exposed to Foreign Currency Risk

Foreign Currency	International Equity (USD)	Real Estate Investments (USD)	Externally Managed Investments (USD)
Fiduciary Funds:			
Australian Dollar	188,100,376	639,857	-
Brazilian Real	76,884,749	-	-
British Pound	827,728,260	11,083,841	21,367,561
Canadian Dollar	393,423,397	10,869,832	-
Chilean Peso	9,191,022	-	-
Colombian Peso	4,702,784	-	-
Czech Koruna	5,451,400	-	-
Danish Krone	14,305,129	-	-
Egyptian Pound	2,945,393	-	-
Euro	1,330,273,629	28,837,729	92,960,731
Hong Kong Dollar	335,841,058	4,624,825	-
Hungarian Forint	7,406,758	-	-
Indian Rupee	48,945,517	-	-
Indonesian Rupiah	33,564,002	-	-
Japanese Yen	687,657,238	10,729,922	-
Korean Won	106,270,730	-	-
Malaysian Ringgit	32,532,110	-	-
Mexican Peso	24,975,677	-	-
Moroccan Dirham	397,930	-	-
New Israeli Sheqel	5,467,536	-	-
New Taiwan Dollar	70,088,326	-	-
New Zealand Dollar	366,864	-	-
Norwegian Krone	50,696,019	-	-
Philippine Peso	3,153,057	-	-
Polish Zloty	5,224,470	-	-
Singapore Dollar	76,238,124	7,926,652	-
South African Rand	57,752,522	-	-
Swedish Krona	70,808,968	-	-
Swiss Franc	335,226,557	-	-
Thai Baht	8,954,833	-	-
Turkish Lira	16,394,849	-	-
Total Investments Exposed to Foreign Currency Risk	4,830,969,284	74,712,658	114,328,292
ADRs and GDRs	441,228,097	-	-
US Dollar	-	290,538,012	195,338,464
Total (Exh. X)	5,272,197,381	365,250,670	309,666,756

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

Figure O
Investment Credit Risk

Investment Type	S & P Rating	Fair Value
		\$
Fiduciary Funds:		
U.S. Government Agency Obligations	AAA	1,087,695,683
Corporate Obligations	AAA	176,786,976
	AA	271,186,655
	A	408,927,003
	BBB	331,960,647
	BB	81,899,243
	B	127,855,169
	CCC	5,845,675
	NR	61,147,564
Corporate Asset and Mortgage Backed Securities	AAA	104,500,744
	A	8,997,235
	BBB	23,996,729
	NR	28,094,503
Miscellaneous - Municipal Bond	AAA	7,223,486
	AA	17,422,448
	A	29,523,507
Miscellaneous - Preferred Stock	NR	82,290,020
Total		<u>2,855,353,287</u>
Proprietary Fund:		
U.S. Government Agency Obligations	AAA	76,036,461
Corporate Obligations	AAA	205,874,439
	AA	15,298,296
	A	23,068,563
	BBB	17,703,613
	BB	62,778
	B	32,975
	NR	3,151,589
Corporate Asset and Mortgage Backed Securities	AAA	5,895,140
	A	507,556
	BBB	256,290
	NR	1,584,879
Miscellaneous - Municipal Bond	AAA	5,489,194
	AA	982,842
	A	1,665,493
Total		<u>357,610,108</u>

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, 2010 is summarized in Figure O. The securities were rated and categorized according to Standard & Poor's rating standards.

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, 2010.

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, 2010, 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, 2010, 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

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

Figure P
Investment Interest Rate Risk

Investment Type	Fiduciary Funds		Proprietary Fund	
	Fair Value	Modified Duration	Fair Value	Modified Duration
	\$		\$	
U.S. Treasury Securities	3,302,625,387	5.63	186,211,348	5.63
U.S. Government Agency Obligations	1,481,099,067	2.09	83,508,549	2.09
Corporate Obligations	1,573,603,203	5.62	75,930,498	5.73
Corporate Asset and Mortgage Backed Securities	133,116,064	2.53	7,505,460	2.53
Cash and Cash Equivalents	2,520,901,368	0.01	283,315,157	0.01
Miscellaneous	55,401,195	13.15	3,123,676	13.15
Overall	9,066,746,284	3.48	639,594,688	2.69

exceed the amounts the borrowers owe the System. The contract with the System's custodial agent bank requires it to indemnify the System fully if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan. The System is permitted to loan securities under 1) open loans which are generally overnight loans, and 2) term loans with specified expected termination dates that require prior written approval of the System. Cash collateral is invested in traditional money market instruments. The policy is to match the maturities of investments made with the cash collateral to the maturities of the loan agreements. In accordance with GASB Statement 28, they did substantially match as of August 31, 2010. 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.

The System received net securities lending income totaling \$5,967,310 for the fiscal year ended August 31, 2010. The collateral information as of August 31, 2010 is summarized in Figure Q.

Figure Q
Securities Lending Collateral Summary

Investment Type	Underlying Securities Value	Securities Collateral Value	Cash Collateral Value
	\$	\$	\$
Fiduciary Funds:			
U.S. Treasury Securities	148,339,002	-	151,315,798
U.S. Government Agency Obligations	13,496,705	-	13,763,458
Corporate Obligations	27,961,855	-	28,549,619
Domestic Equity	96,450,909	-	98,905,237
International Equity	101,481,292	-	107,038,597
Real Estate Investments	20,693,010	-	21,191,678
Total	408,422,773	-	420,764,388
			Exh. X
Proprietary Fund:			
U.S. Treasury Securities	8,368,162	-	8,536,091
U.S. Government Agency Obligations	761,382	-	776,430
Corporate Obligations	1,577,396	-	1,610,553
Total	10,706,940	-	10,923,074
			Exh. V

REPURCHASE AGREEMENTS

During the fiscal year 2010, the System did not invest in repurchase agreements. As of August 31, 2010, the System had no balances in these assets.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

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, 2010 the System had no investment 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, 2010, 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, 2010.

EXTERNALLY MANAGED INVESTMENTS

The System makes contingent commitments to and investments in entities that manage private equity and private real estate portfolios. The categories of these investments as of August 31, 2010 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 \$1,026,715. A schedule of future minimum lease rental payments on non-cancelable operating leases as of August 31, 2010 is presented in Figure S.

Figure S
Non-Cancelable Operating Leases

<u>Fiscal Year</u>	<u>Future Minimum Lease Rental Payments</u>
	\$
2011	1,199,038
2012	1,199,038
2013	268,060
2014	137,598
Total Future Minimum Lease Rental Payments	2,803,734

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

Figure R
Externally Managed Investments

	Private Equity		Private Real Estate		Total	
	Local	USD	Local	USD	Local	USD
	Amount	Amount	Amount	Amount	Amount	Amount
USD Dollar						
Commitment	-	1,325,585,106	-	200,000,000	-	1,525,585,106
Less: Remaining Commitment	-	1,062,961,282	-	167,411,276	-	1,230,372,558
Adjusted Funded Amount	-	262,623,824	-	32,588,724	-	295,212,548
Less: Distributions	-	140,044,292	-	515,586	-	140,559,878
Plus: Expenses	-	37,735,439	-	55,382	-	37,790,821
Net Funded Amount	-	160,314,971	-	32,128,520	-	192,443,491
Fair Value, August 31, 2010	-	162,844,937	-	32,493,527	-	195,338,464
Euro Dollar						
Commitment	298,170,000	378,959,168	-	-	298,170,000	378,959,168
Less: Remaining Commitment	223,624,064	284,850,485	-	-	223,624,064	284,850,485
Adjusted Funded Amount	74,545,936	94,108,683	-	-	74,545,936	94,108,683
Less: Distributions	10,249,892	13,027,316	-	-	10,249,892	13,027,316
Plus: Expenses	10,281,541	13,067,541	-	-	10,281,541	13,067,541
Net Funded Amount	74,577,585	94,148,908	-	-	74,577,585	94,148,908
Fair Value, August 31, 2010	73,142,712	92,960,731	-	-	73,142,712	92,960,731
British Pound						
Commitment	45,000,000	69,160,500	-	-	45,000,000	69,160,500
Less: Remaining Commitment	28,838,342	44,321,647	-	-	28,838,342	44,321,647
Adjusted Funded Amount	16,161,658	24,838,853	-	-	16,161,658	24,838,853
Less: Distributions	1,657,563	2,547,354	-	-	1,657,563	2,547,354
Plus: Expenses	1,598,201	2,456,126	-	-	1,598,201	2,456,126
Net Funded Amount	16,102,296	24,747,625	-	-	16,102,296	24,747,625
Fair Value, August 31, 2010	13,903,026	21,367,561	-	-	13,903,026	21,367,561
Overall						
Commitment		1,773,704,774		200,000,000		1,973,704,774
Less: Remaining Commitment		1,392,133,414		167,411,276		1,559,544,690
Adjusted Funded Amount		381,571,360		32,588,724		414,160,084
Less: Distributions		155,618,962		515,586		156,134,548
Plus: Expenses		53,259,106		55,382		53,314,488
Net Funded Amount		279,211,504		32,128,520		311,340,024
Fair Value, August 31, 2010		277,173,229		32,493,527		309,666,756

Exh. X

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2010

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, 2010 and 2009 is presented in Figure T.

Figure T
Net Assets - Fiduciary Funds

Fund Type	Totals - August 31	
	2010	2009
	\$	\$
Defined Benefit Plans (Note A)	20,474,228,057	19,938,287,862
Defined Contribution Plans and Cafeteria Plan:		
Administration - Defined Contribution Plans	3,467,709	2,566,980
Administration - State Employees Cafeteria Plan	2,219,715	1,928,879
Total Defined Contribution Plans and Cafeteria Plan	5,687,424	4,495,859
Total Fiduciary Net Assets Held In Trust for Pension Benefits and Other Purposes	20,479,915,481	19,942,783,721

(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, 2010.

Figure U
Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
	\$	\$
Governmental Activities:		
Governmental Funds		2,135
Agency Fund		1,200
Proprietary Fund:		
Employees Life, Accident & Health Insurance and Benefits Fund	286,091	103,607,970
Total Governmental Activities	286,091	103,611,305
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	103,653,546	328,332
Total - Interfund Receivables and Payables	103,939,637	103,939,637

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, 2010.

Figure V
Interfund Transfers

	Transfers In	Transfers Out
	\$	\$
Fiduciary Funds:		
Pension and Other Employee Benefit Trust Funds	91,118	91,118
Total - Interfund Transfers	91,118	91,118

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONCLUDED)

AUGUST 31, 2010

F. INTERAGENCY TRANSFERS

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

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

6 - CONTINGENT LIABILITY

A. LITIGATION

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

B. SICK LEAVE

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

Service credit is given upon retirement at the rate of one month of service for each 160 hours of an employee's accumulated sick leave balance. Effective August 28, 1995, accumulated sick leave may also be used to meet service requirements to qualify for retirement at a rate of one month of service for each 160 hours of accrued unused sick leave 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 2,544 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 2010, 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, 2010, there were 566 participants in the program, 366 with single coverage and 200 with multiple individuals covered. The COBRA subsidy for fiscal year 2010 amounted to \$226,459 and is included as an accrued receivable as of August 31, 2010.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PLANS

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll	UAAL As A Percentage Of Covered Payroll ((b-a) / e)
August 31	(000's)	(000's)	(000's)		(000's)	
Employees Retirement System (ERS)						
2005	\$20,835,469	\$21,969,670	\$1,134,201	94.8%	\$4,842,525	23.4%
2006	21,780,437	22,884,917	1,104,480	95.2	5,051,330	21.9
2007	22,938,947	23,987,165	1,048,218	95.6	5,253,723	20.0
2008	23,511,918	25,403,280	1,891,362	92.6	5,379,527	35.2
2009	23,509,622	26,191,650 (Note A)	2,682,028	89.8	5,814,417	46.1
2010	23,628,567	27,668,876 (Note A)	4,040,309	85.4	5,930,141	68.1
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)						
2005	\$698,814	\$677,953	(\$20,861)	103.1%	\$1,283,815	-1.6%
2006	720,307	708,437	(11,870)	101.7	1,279,463	-0.9
2007	747,765	762,666	14,901	98.0	1,360,819	1.1
2008	774,509	842,135	67,626	92.0	1,242,122	5.4
2009	780,808	870,179 (Note A)	89,371	89.7	1,464,483	6.1
2010	802,897	930,747 (Note A)	127,850	86.3	1,507,950	8.5
Judicial Retirement System Plan One (JRS I)						
2005	\$0	\$327,145	\$327,145	0.0%	\$5,284	6,191.2%
2006	0	325,977	325,977	0.0	5,138	6,344.8
2007	0	312,852	312,852	0.0	2,777	11,267.0
2008	0	289,671	289,671	0.0	3,478	8,328.7
2009	0	268,275	268,275	0.0	2,965	9,048.1
2010	0	264,077	264,077	0.0	2,827	9,341.2
Judicial Retirement System Plan Two (JRS II)						
2005	\$164,231	\$182,311	\$18,080	90.1%	\$60,775	29.7%
2006	186,400	198,840	12,440	93.7	62,306	20.0
2007	211,933	220,884	8,951	95.9	64,654	13.8
2008	232,891	239,098	6,207	97.4	66,110	9.4
2009	248,279	255,569	7,290	97.1	67,968	10.7
2010	264,515	281,760	17,245	93.9	68,755	25.1
State Retiree Health Plan (Note B)						
2007	\$0	\$17,674,558	\$17,674,558	0.0%	\$8,835,907	200.0%
2008	0	20,131,242	20,131,242	0.0	9,373,366	214.8
2009	0	21,992,356	21,992,356	0.0	10,045,849	218.9
2010	0	22,329,556	22,329,556	0.0	10,437,333	214.0

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 fourth year of application of GASB Statement 43, only three 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
		<u>Employees Retirement System (ERS)</u>		<u>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</u>		
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		630,326,400	63.4		33,759,388	82.3
2011		703,398,805 (Note A)	N/A		36,781,020 (Note A)	N/A
		<u>Judicial Retirement System Plan One (JRS I)</u>		<u>Judicial Retirement System Plan Two (JRS II)</u>		
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	116.4		11,270,298	102.1
2011		23,064,889	N/A		11,571,467 (Note A)	N/A
		<u>State Retiree Health Plan (Note B)</u>				
2007	\$ 438,242,807	\$1,482,491,574	29.6%	\$28,557,634		
2008	417,106,470	1,813,660,134	24.8	32,963,502		
2009	447,765,282	1,997,932,603	24.2	35,783,527		
2010	478,348,504	2,014,533,554	25.8	40,988,263		
2011	N/A	N/A	N/A	N/A		

Note A: Calculations based on estimated fiscal year 2011 covered payroll. At the end of fiscal year 2011 the ARC will be recalculated based on actual 2011 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 fourth year of GASB Statement 43, only three 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:

	ERS	LECOS	JRS I	JRS II
Valuation Date	August 31, 2010	August 31, 2010	August 31, 2010	August 31, 2010
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	12.6 (Note A)
Asset Valuation Method (Note B)	20% of market plus 80% of expected actuarial value	20% of market plus 80% of expected actuarial value	N/A	20% of market plus 80% of expected actuarial value

Actuarial Assumptions:

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 2011 covered payroll. At the end of fiscal year 2011 the ARC and the amortization period will be recalculated based on actual 2011 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, 2010

	Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)	Employee Savings Bond Fund (0901) (U/F 0901)	TexaSaver 401(k) Fund (0946) (U/F 1946)	TexaSaver 401(k) Hold Transmittal (0942) (U/F 0942/8942)	Child Support (8070) (U/F 8070)	Totals August 31, 2010
ASSETS	\$	\$	\$	\$	\$	\$
Current Assets:						
<i>Cash and Cash Equivalents:</i>						
Cash in Bank			3,069,203			3,069,203
Cash in State Treasury		150			4,314	4,464
Total Cash and Cash Equivalents	-	150	3,069,203	-	4,314	3,073,667
<i>Receivables:</i>						
Interest and Dividends Receivable				1,200		1,200
Accounts Receivable	12,203					12,203
Total Current Assets	12,203	150	3,069,203	1,200	4,314	3,087,070
Total Assets	12,203	150	3,069,203	1,200	4,314	3,087,070
LIABILITIES						
Current Liabilities:						
<i>Payables:</i>						
Accounts Payable	12,203	150				12,353
Due To Other Funds				1,200		1,200
Funds Held For Others			3,069,203		4,314	3,073,517
Total Current Liabilities	12,203	150	3,069,203	1,200	4,314	3,087,070
Total Liabilities	12,203	150	3,069,203	1,200	4,314	3,087,070

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE A-2
 COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
 AUGUST 31, 2010

	Beginning Balances	Additions	Deductions	Ending Balances
	\$	\$	\$	\$
Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)				
ASSETS				
Cash in State Treasury	-	169,068	169,068	-
Accounts Receivable	12,908	155,738	156,443	12,203
Total Assets	12,908	324,806	325,511	12,203
LIABILITIES				
Accounts Payable	12,908	186,705	187,410	12,203
Total Liabilities	12,908	186,705	187,410	12,203
Employee Savings Bond Fund (0901) (U/F 0901)				
ASSETS				
Cash in State Treasury	150	700	700	150
Total Assets	150	700	700	150
LIABILITIES				
Accounts Payable	150	700	700	150
Vouchers Payable	-	600	600	-
Total Liabilities	150	1,300	1,300	150
TexaSaver 401(k) Trust Fund (0946) (U/F 1946)				
ASSETS				
Cash in Bank	42,103	402,115,553	399,088,453	3,069,203
Total Assets	42,103	402,115,553	399,088,453	3,069,203
LIABILITIES				
Funds Held For Others	42,103	402,115,553	399,088,453	3,069,203
Total Liabilities	42,103	402,115,553	399,088,453	3,069,203
TexaSaver 401(k) Hold Transmittal (0942) (U/F 0942 & 8942)				
ASSETS				
Cash in State Treasury	-	15,136	15,136	-
Interest and Dividends Receivable	997	1,200	997	1,200
Total Assets	997	16,336	16,133	1,200
LIABILITIES				
Due To Other Funds	997	1,200	997	1,200
Funds Held For Others	-	14,140	14,140	-
Total Liabilities	997	15,340	15,137	1,200
Child Support Deducts Suspense (8070) (U/F 8070)				
ASSETS				
Cash in State Treasury	3,629	4,314	3,629	4,314
Total Assets	3,629	4,314	3,629	4,314
LIABILITIES				
Funds Held For Others	3,629	4,314	3,629	4,314
Total Liabilities	3,629	4,314	3,629	4,314
Totals - All Agency Funds				
ASSETS				
Cash in Bank	42,103	402,115,553	399,088,453	3,069,203
Cash in State Treasury	3,779	189,218	188,533	4,464
Interest and Dividends Receivable	997	1,200	997	1,200
Accounts Receivable	12,908	155,738	156,443	12,203
Total Assets	59,787	402,461,709	399,434,426	3,087,070
LIABILITIES				
Accounts Payable	13,058	187,405	188,110	12,353
Due To Other Funds	997	1,200	997	1,200
Vouchers Payable	-	600	600	-
Funds Held For Others	45,732	402,134,007	399,106,222	3,073,517
Total Liabilities	59,787	402,323,212	399,295,929	3,087,070

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 1
REVENUES, EXPENSES AND CHANGES IN STATUTORY ACCOUNT BALANCES
(NON-GAAP PRESENTATION) - EMPLOYEES RETIREMENT FUND
YEAR ENDED AUGUST 31, 2010

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2010
	\$	\$	\$	\$	\$	\$
OPERATING REVENUES						
Contributions to Retirement System:						
Member Contributions	403,291,688					403,291,688
Employer Contributions		399,767,584				399,767,584
Service Contributions from Teacher Retirement System		61,570,750				61,570,750
Membership Fees					484,178	484,178
Penalty Interest		6,842,618				6,842,618
Investment Income:						
Net Appreciation in Fair Value of Investments				700,993,031		700,993,031
Interest and Dividends				544,362,280		544,362,280
Class Action Settlements				5,460,167		5,460,167
Rental Income					34,000	34,000
Warrants Voided By Statute of Limitations		101,896				101,896
Sale of Surplus Equipment					5,044	5,044
Miscellaneous					17,280	17,280
Total Operating Revenues	403,291,688	468,282,848	-	1,250,815,478	540,502	2,122,930,516
OPERATING EXPENSES						
Retirement System Benefits Paid:						
Retirement Benefits			1,494,419,511			1,494,419,511
Death Benefits:						
Active Members		1,602,213				1,602,213
Retirees		125,525	1,357,969			1,483,494
Member Contributions Withdrawn	65,333,536					65,333,536
Service Contributions to Teacher Retirement System		11,167,772				11,167,772
Re-issuance Warrants Voided		(2,237)				(2,237)
Administrative Expenses					65,050,166	65,050,166
Depreciation Expense					916,688	916,688
Total Operating Expenses	65,333,536	12,893,273	1,495,777,480	-	65,966,854	1,639,971,143
Income (Loss) Before Non-Operating Expenses and Operating Transfers	337,958,152	455,389,575	(1,495,777,480)	1,250,815,478	(65,426,352)	482,959,373
NON-OPERATING REVENUES (EXPENSES)						
Loss on Disposal of Fixed Assets					(32,861)	(32,861)
Income (Loss) Before Operating Transfers	337,958,152	455,389,575	(1,495,777,480)	1,250,815,478	(65,459,213)	482,926,512
OPERATING TRANSFERS IN (OUT)						
Distribution of Interest	218,592,379	(35,167,572)	1,001,840,340	(1,185,265,147)		-
Interest Paid on Withdrawals						-
Establishment of Benefit Reserves	(295,136,808)	(958,470,448)	1,253,607,256			-
Member Savings Reinstated						-
Distribution of Interest for Administrative Expenses				(65,550,331)	65,550,331	-
Benefits Waived		2,108	(2,108)			-
Member Accounts-Escheated	(2,354,924)	2,354,924				-
Membership Fees Transferred Out						-
Excess Benefit Arrangement Transfers					(91,118)	(91,118)
Net Operating Transfers	(78,899,353)	(991,280,988)	2,255,445,488	(1,250,815,478)	65,459,213	(91,118)
Net Income (Loss)	259,058,799	(535,891,413)	759,668,008	-	-	482,835,394
Account Balances - Beginning	4,460,644,478	1,988,975,394	12,648,155,181	-	-	19,097,775,053
Account Balances - Ending	4,719,703,277	1,453,083,981	13,407,823,189	-	-	19,580,610,447

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, 2010

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2010
	\$	\$	\$	\$	\$	\$
OPERATING REVENUES						
Contributions to Retirement System:						
Member Contributions	7,472,554					7,472,554
Employer Contributions		27,799,461				27,799,461
Investment Income:						
Net Appreciation in Fair Value of Investments				23,180,124		23,180,124
Interest and Dividends				18,209,063		18,209,063
Class Action Settlements				182,117		182,117
Warrants Voided By Statute of Limitations		5,679				5,679
Total Operating Revenues	7,472,554	27,805,140	-	41,571,304	-	76,848,998
OPERATING EXPENSES						
Retirement System Benefits Paid:						
Retirement Benefits			41,001,120			41,001,120
Death Benefits:						
Active Members		317				317
Member Contributions Withdrawn	161,740					161,740
Administrative Expenses					2,111,627	2,111,627
Total Operating Expenses	161,740	317	41,001,120	-	2,111,627	43,274,804
Income (Loss) Before Operating Transfers	7,310,814	27,804,823	(41,001,120)	41,571,304	(2,111,627)	33,574,194
OPERATING TRANSFERS IN (OUT)						
Distribution of Interest	63,023	11,814,835	27,581,819	(39,459,677)		-
Establishment of Benefit Reserves	(63,874)	(46,708,300)	46,772,174			-
Distribution of Interest for Administrative Expenses				(2,111,627)	2,111,627	-
Net Operating Transfers	(851)	(34,893,465)	74,353,993	(41,571,304)	2,111,627	-
Net Income (Loss)	7,309,963	(7,088,642)	33,352,873	-	-	33,574,194
Account Balances - Beginning	5,275	300,134,858	334,638,616	-	-	634,778,749
Account Balances - Ending	7,315,238	293,046,216	367,991,489	-	-	668,352,943

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, 2010

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2010
	\$	\$	\$	\$	\$	\$
OPERATING REVENUES						
Contributions to Retirement System:						
Member Contributions	4,100,982					4,100,982
Employer Contributions		11,510,713				11,510,713
Penalty Interest		20,112				20,112
Investment Income:						
Net Appreciation in Fair Value of Investments				7,505,447		7,505,447
Interest and Dividends				6,549,925		6,549,925
Class Action Settlements				65,227		65,227
Total Operating Revenues	4,100,982	11,530,825	-	14,120,599	-	29,752,406
OPERATING EXPENSES						
Retirement System Benefits Paid:						
Retirement Benefits			9,288,910			9,288,910
Member Contributions Withdrawn	118,149					118,149
Administrative Expenses					810,768	810,768
Total Operating Expenses	118,149	-	9,288,910	-	810,768	10,217,827
Income (Loss) Before Operating Transfers	3,982,833	11,530,825	(9,288,910)	14,120,599	(810,768)	19,534,579
OPERATING TRANSFERS IN (OUT)						
Distribution of Interest	2,597,325	4,018,381	6,694,125	(13,309,831)		-
Establishment of Benefit Reserves	(965,848)	(8,037,196)	9,003,044			-
Distribution of Interest for Administrative Expenses				(810,768)	810,768	-
Net Operating Transfers	1,631,477	(4,018,815)	15,697,169	(14,120,599)	810,768	-
Net Income (Loss)	5,614,310	7,512,010	6,408,259	-	-	19,534,579
Account Balances - Beginning	51,733,112	68,152,102	85,844,874	-	-	205,730,088
Account Balances - Ending	57,347,422	75,664,112	92,253,133	-	-	225,264,667

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 4
 ADMINISTRATIVE AND INVESTMENT EXPENSES/EXPENDITURES
 STATUTORY ADMINISTRATIVE FUNDS AND ACCOUNTS
 YEAR ENDED AUGUST 31, 2010

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
<u>PERSONNEL SERVICES</u>	\$	\$
Salaries and Wages	16,250,515	6,379,083
<i>Payroll Related Costs:</i>		
Retirement Contributions	1,041,635	392,318
Retirement Membership Fees	828	165
Employees Insurance Contributions	1,468,645	345,371
Retirees Insurance Contributions	542,513	106,517
Social Security Contributions	1,171,206	386,913
Unemployment Compensation	13,222	2,607
Total Payroll Related Costs	<u>4,238,049</u>	<u>1,233,891</u>
Total Personnel Services	<u>20,488,564</u>	<u>7,612,974</u>
<u>PROFESSIONAL FEES AND SERVICES</u>		
Actuarial Services	942,147	-
Audit Services	322,812	6,800
Investment Consulting Fees	-	2,242,238
Investment Advisor Fees	-	11,914,621
Investment Management Fees	-	22,856,620
Medical Board Member Fees	59,950	-
Architectural Services	166,757	-
Legal Services	475,418	-
Computer Programming Services	1,720,889	125,346
Other Professional Services	330,698	13,657
Total Professional Fees and Services	<u>4,018,671</u>	<u>37,159,282</u>
<u>OTHER SERVICES AND CHARGES</u>		
Travel	122,663	378,697
Materials and Supplies:		
Postage	478,862	-
General Office and Other Supplies	195,998	333
Subscriptions	21,431	9,688
Furniture and Equipment	922,608	26,062
Computer Software	528,354	-
Total Materials and Supplies	<u>2,147,253</u>	<u>36,083</u>
Communications and Utilities:		
Electricity, Gas and Water	270,872	-
Telephone and Telegraph	301,502	30,257
Electronic Communication Services	108,457	3,708,854
Total Communications and Utilities	<u>680,831</u>	<u>3,739,111</u>
Repairs and Maintenance:		
Land and Building	85,307	-
Furniture and Equipment	15,754	-
Computer Software and Equipment	740,355	-
Total Repairs and Maintenance	<u>841,416</u>	<u>-</u>
Rentals and Leases:		
Computer Software and Equipment	965,128	-
Office Equipment	326,469	-
Space	68,010	8,513
Total Rentals and Leases	<u>1,359,607</u>	<u>8,513</u>
Printing and Reproduction Services	79,972	-
Depreciation	916,688	-
Interest Expense	46,714	-

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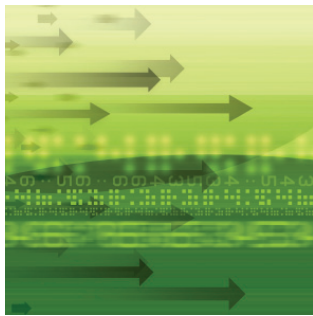
OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 4
 ADMINISTRATIVE AND INVESTMENT EXPENSES/EXPENDITURES
 STATUTORY ADMINISTRATIVE FUNDS AND ACCOUNTS (CONCLUDED)
 YEAR ENDED AUGUST 31, 2010

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
<i>OTHER SERVICES AND CHARGES (continued)</i>	\$	\$
Other Operating Expenses/Expenditures:		
Membership Fees	33,525	23,162
Employee Training	113,561	35,654
Insurance - Building and Vehicle	38,119	-
Fees and Other Charges	737,472	2,966
Investment Banking	8,358	210,245
Tenure Awards	1,360	-
Witness Fees	400	100
Hazardous Waste Disposal	8,201	-
Temporary Employment Agencies	100,827	-
Cleaning Services	109,659	-
Advertising Services	8,919	574
Freight/Delivery Services	6,028	-
Purchased Contracted Services	299,961	3,789
Prompt Payment Interest	4	-
SORM Assessment	987	195
Third Party Administrator Fee - Cafeteria Plan	1,224,454	-
Debit Card Fees - Cafeteria Plan	539,770	-
Total Other Operating Expenses/Expenditures	3,231,605	276,685
Total Other Services and Charges	9,426,749	4,439,089
Total Expenses/Expenditures	33,933,984	49,211,345
Method of Finance:		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	18,959,481	47,007,373
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	594,624	1,517,003
Judicial Retirement System Plan Two Trust Fund (0993)	276,518	534,250
TexaSaver 401(k) Trust Fund (0946)	513,118	3,328
TexaSaver 457 Trust Fund (0945)	668,746	2,295
State Employees Cafeteria Plan Trust Fund (0943)	2,217,240	1,571
State Retiree Health Plan (3973)	2,630,069	1,392
Total Fiduciary Funds	25,859,796	49,067,212
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	7,973,587	144,133
Total Proprietary Fund	7,973,587	144,133
Social Security Administration Trust Account (0929)	100,601	-
Total Governmental Funds	100,601	-
Total Method of Finance	33,933,984	49,211,345

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 5
 PROFESSIONAL AND CONSULTING FEES
 YEAR ENDED AUGUST 31, 2010

NATURE OF SERVICE	\$	TOTALS
Medical Board		59,950
Investment Consulting		2,242,238
Investment Advisors		11,914,621
Investment Management Fees		22,856,620
Actuarial Services - Insurance		679,029
Actuarial Services - Retirement		263,118
Computer Programming Services		1,846,235
Audit Fees - Financial		105,000
Audit Fees - Insurance Carrier		32,168
Audit Fees - Other		77,444
Actuarial Audit Services		115,000
Educational Services		116,916
Architectural Services		166,757
Legal Services		475,418
Information Technology Advisor Services		65,514
Legal Employment Search		20,001
Strategic Planning Services		53,770
Agency Branding Services		62,507
Other Professional Services		25,647
Total Professional and Consulting Fees		41,177,953
Method of Finance		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)		39,102,844
Law Enforcement and Custodial Officer Supplemental Ret. Trust Fund (0977)		1,167,298
Judicial Retirement System Plan Two Trust Fund (0993)		361,412
State Retiree Health Plan (3973)		103,554
TexaSaver 401(k) Trust Fund (0946)		40,826
TexaSaver 457 Trust Fund (0945)		28,483
State Employees Cafeteria Plan Trust Fund (0943)		7,702
Total Fiduciary Funds		40,812,119
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)		363,899
Total Proprietary Fund		363,899
Social Security Administration Fund (0929)		1,935
Total Governmental Funds		1,935
Total Method of Finance		41,177,953

INVESTMENT SECTION



Report on Investment Activity

Outline of Investment Policies

Time-weighted Rates of Return and Asset Allocations

Broker Commissions

Investment Advisory and Service Fees

List of Largest Assets Held

Investment Summary at Fair Value



REPORT ON INVESTMENT ACTIVITY

FISCAL YEAR 2010

OVERVIEW

The Employees Retirement System of Texas (System) investment portfolio closed the fiscal year with a fair value of \$20.4 billion, and returned 6.65% for the year compared to the global policy benchmark return of 6.80%. Over the longer term, the fund returned 3.33% for the 5 years ending August 31, 2010 besting the policy benchmark of 2.65%, and the fund returned 3.42% for the 10 years ending August 31, 2010 besting the policy benchmark of 2.79%. The fiscal year-end asset allocation stood at 36.2% bonds, 32.7% domestic equity, 25.8% international equity, 2.4% global real estate, 1.4% private equity, and 1.5% unallocated cash.

A major accomplishment for the investment program this fiscal year was the collaboration of staff, Investment Advisory Committee and Board of Trustees to revise and expand the ERS Investment Policy. Other accomplishments included refining and implementing a program to select and evaluate external advisors, and coordinating with the Finance Division to complete the reconciliation of Eagle accounting system to the custodian records.

Within Public Equities, The Board of Trustees approved a select pool of Managers of Emerging Managers and internal systems and procedures were developed to optimize the mix of portfolio styles. An internally managed Emerging Markets portfolio was developed and funded with \$822,674,295 at the end of the fiscal year. In addition, a passive, long-only risk management portfolio was added. Within Fixed Income, a Fixed Income risk and reporting system was implemented and the Fixed Income composite portfolio was transitioned to the Barclay's Capital Universal Index.

A Hedge Fund strategy was developed and will be implemented in fiscal year 2011. On the Private Markets side, \$496 million was committed to eight Private Equity funds. Seven funds were closed and an add-on was made to an existing fund. A Request for Proposal (RFP) was issued to search for a Manager of Emerging Managers in Private Equity. The Board of Trustees approved a select pool of advisors for global REITs. Real Estate committed a total of \$200 million to two private funds for Private Real Estate. An RFP was issued to search for a Manager of Emerging Managers for Private Real Estate and a Request for Qualification for private markets software. In addition, RFPs were issued to search for custody and securities lending services. An agreement with a broker for electronic trading of futures was secured and the foreign exchange trading capabilities were also enhanced.

The long-term portion of Texas Employees Group Benefits Program (TEGBP) was transitioned to unitized accounting and the asset allocation was realigned to better meet the TEGBP investment objectives. The Investments staff expanded to include a Strategic Research Investment Analyst, which was a new position, a Real Estate Portfolio Manager, a Real Estate Investment Analyst, a Performance Analyst and an Administrative Assistant. Lastly, staff continued implementing the Sudan and Iran policies and procedures and enhancing the professional environment of the Investments Division.

DOMESTIC EQUITY

High volatility characterized the leading U.S. benchmarks during fiscal year 2010, as stock markets gradually recovered from the worst bear market since the Great Depression of 1929. Performance was generally positive through April as investors perceived that the U.S. economy was responding to government stimulus. However, the dramatic escalation of the Greek sovereign debt crisis began in April and increased investor concern that European nations may have difficulty reducing their deficits without harming the economic recovery. Economic data releases in the U.S. since April have been mixed, but generally point toward a fragile recovery. During July, in testimony to the Senate Banking Committee, Federal Reserve Chairman Ben Bernanke said the economic outlook remains "unusually uncertain" and that the Fed "will continue to carefully assess ongoing financial and economic developments, and we remain prepared to take further policy actions as needed to foster a return to full utilization of our nation's productive potential in a context of price stability."

For the fiscal year ending August 31, 2010, the Dow Jones Industrial Average was up 5.46%, and with dividends reinvested into the index, the total return was 8.39%. The broad Standard & Poor's 500 Index of large stocks closed up 2.81%, including dividends, 4.91%. The NASDAQ Composite Index, dominated by technology stocks, closed up 5.22%. The S&P 400 Midcap Index closed up 10.25% for the fiscal year, and the S&P 600 Smallcap Index closed up 6.62%. The S&P 500/Citigroup Value Index was up 1.40%, underperforming the S&P 500/Citigroup Growth Index, which closed up 4.06%.

Consumer Discretionary and Industrials were the best performing sectors by a wide margin. Industrials were the second worst performers during fiscal year 2009. Consumer Staples performed well, and have been relatively good performers since fiscal year 2008.

REPORT ON INVESTMENT ACTIVITY (CONTINUED)

FISCAL YEAR 2010

Energy, among the top performing sectors in fiscal years 2007 and 2008, was a relatively weak group in fiscal year 2009 and the second weakest group in 2010. Financial stocks were the poorest performers during fiscal year 2010, and have been the weakest group since fiscal year 2007.

INTERNATIONAL EQUITY

Global markets were volatile over the course of the year, led by sovereign credit issues in Europe and the near bankruptcy of Greece. Asia struggled as China raised interest rates to keep the economy from overheating, impacting markets throughout Asia and many developing economies. During the year, China surpassed Japan to become the 2nd largest economy in the world.

The Morgan Stanley Capital International ACWI ex US index (+2.9%) showed little movement in US dollar terms during the course of the year. Developed markets, including the Pacific region (-0.4%) and Europe (-3.2%), declined, but were offset by strong returns in Emerging Markets (+18.0%), all adjusted to US dollars. Developed Markets with the strongest outperformance in the index include Singapore (+22.9%), Hong Kong (+15.6%), and Sweden (+9.8%), while underperformers include Greece (-47.1%), Ireland (-24.5%), and Japan (-5.9%). In Emerging Markets, Columbia (+62.3%) and Thailand (+46.7%) led outperformance, while the Czech Republic (-12.1%) and Morocco (-6.0%) underperformed.

Currencies were particularly volatile during the course of the year, led by the strengthening of the Japanese Yen (+10.6%) from 93.12 JPY/USD to 84.20 JPY/USD. The Euro (-11.5%) on the other hand, weakened from 1.43 USD/EUR to 1.27 USD/EUR. The Australian dollar (+6.4%) moved higher from 0.84 USD/AUD to 0.89 USD/AUD, while the British Pound (-5.8%) fell from 1.63 USD/GBP to 1.53 USD/GBP.

REAL ESTATE

Global real estate securities gained 15% for the year ended August 31, 2010, as measured by the FTSE EPRA/NAREIT index. North America was the best performer among the regions, returning 33%, followed by Asia, up 6.8%, and Continental Europe, up 1.2%. The UK significantly underperformed the market, losing 10.7% during the fiscal year. In the Asian markets, Singapore was the best performer, up 27%, driven by

better than expected economic recovery and strong real estate fundamentals. Hong Kong had a decent return of 14%, also helped by a resilient economy, with improving fundamentals in the office and residential sector. Hong Kong listed names with significant exposure to China were down 0.2%, impacted by concerns of a slower economy and government tightening measures focused on the property market. Japan was the worst performer in the Asian markets, losing 7.5% for the year, affected by concerns a strong currency would have on the economy and the political situation. Performance within Continental Europe was mixed, ranging from Greece's 38% decline to Switzerland's 28% gain. The former was hurt by the Greek sovereign debt crisis, and the latter was helped by the solid local fundamentals. Currency had a significant impact on returns. Both Australia and Japan had better dollar based returns with a strong currency adding approximately 6% and 9%, respectively, to the local return. The Euro's weak currency subtracted 10% from Euro denominated returns.

In North America, the US and Canada gained 33% and 39%, respectively, for the year. Both countries benefitted from encouraging macro economic data and the overall strength in the stock market. In the US, all sectors had positive returns. Residential was the best performer, up 55%, followed by self storage and specialty, up 43% and 37%, respectively. The market began pricing in better fundamentals for apartments with renewed job growth and limited future supply. The industrial sector was the laggard, up "only" 4%.

Finally, ERS' Board of Trustees approved a select pool of four external advisors to support the listed securities effort. The four managers selected were Cohen and Steers, European Investors, Forum Securities, and Urdang. One manager will be funded in the fall of 2010.

PRIVATE REAL ESTATE

ERS made its first private real estate commitment during fiscal year 2010 with a \$100 million commitment in January to LaSalle Property Fund. LaSalle Property Fund is an open-end core equity fund focused on properties in the United States. ERS' second commitment to the private real estate space was in May 2010 to Cornerstone Core Mortgage Fund. Cornerstone originates core mortgages focused on the United States, but does have the ability to invest up to 10% of the fund in Canada. ERS sits on the Advisory Board of both funds.

REPORT ON INVESTMENT ACTIVITY (CONTINUED)

FISCAL YEAR 2010

In June 2010, the internal real estate investment committee approved a \$125 million commitment to an open-ended core fund which closed in September 2010. In August, the committee approved another open-ended core equity fund with a \$100 million commitment, which will close in the fall of 2010. As of August 31, commitments to private real estate totaled \$200 million, and will total \$425 million when the last of the new funds closes this fall. Staff does not anticipate committing to additional core funds for the foreseeable future. As of August 31, 2010, approximately \$30 million has been called, and \$550,000 has been returned as income.

While staff had hoped to commit more capital to private real estate during fiscal year 2010, several factors influenced that outcome. First, it took time to develop a robust process to evaluate funds. Second was the strong rebound in the market. Staff was surprised by the sharp reversal in pricing, especially for core real estate. Instead of funding more “blind pools”, which essentially go out and buy property, staff focused its energies on open-ended core funds with existing assets. Those funds had written down their values such that they were attractively priced to what was transacting in the market.

It will take several years to become fully funded. The tactical plan is projecting a 2015 date to achieve that goal, but it is based on assumptions that are highly variable.

A considerable amount of time during the year was spent developing and refining processes to evaluate and monitor potential investment opportunities, while concurrently meeting with prospective real estate fund managers. A proprietary questionnaire, attribution worksheets, manager database, and activity worksheet are just some of the tools developed.

Staff had approximately 300 meetings with over 160 different managers during fiscal year 2010. Extensive due diligence was conducted on more than 10 funds.

PRIVATE EQUITY

During fiscal year 2010, ERS closed on eight private equity funds, with commitments totaling approximately \$500 million (adjusted for currency exchange rates). Originally ERS was targeting 10 private equity fund investments, with commitments totaling \$600 million (with a commitment range of \$450-750 million). The Private Equity Manager of Emerging Managers commitment (\$50 million) slipped into fiscal year 2011 due to on-going business and legal negotiations.

As of August 31, 2010, ERS' Private Equity Portfolio Net Asset Value was \$277 million, an increase of \$117 million over fiscal year 2009. Since inception through August 31, 2010, net capital calls have totaled \$474 million, an increase of \$209 million over the previous year, and cash distributions have totaled \$156 million, an increase of \$115 million over the previous year. Since inception, ERS has closed on a total of 24 funds, with commitments totaling approximately \$1.8 billion (adjusted for currency exchange rates). ERS has received LP Advisory Committee seats in 15 funds, and two fund LP Advisory Observer seats.

The ERS' Private Equity program is progressing well. The current private equity market environment is quite active. The global economy has stabilized, capital markets are robust, and public and private merger and acquisition activity is busy as corporations have excess cash on their balance sheets, and private equity managers have significant dry powder for investments.

FIXED INCOME

ECONOMY

“Uncertain” may be the best term to describe the economy over the past twelve months. Although the economy showed signs of improvement during this time, much of the rebound was due to government stimulus. Once these federal programs ended, the underlying economy proved more uncertain than stable. The unemployment rate remains elevated as companies are reluctant to add employees under the current growth prospects. Consumer confidence has trended lower as a result of the labor market and a struggling housing sector. Growth prospects remain uncertain as personal consumption is below pre-recession levels. Consumer spending accounts for approximately 70% of all economic activity, but has struggled under the weight of high unemployment, household debt, and stagnant income growth. This environment has largely counteracted the benefits of fiscal and monetary stimulus, leading to the longest recession since the Great Depression.

The fiscal year started with a modest improvement in third calendar quarter GDP of 1.6%, the first positive report in five quarters. GDP increased to 5.0% in the first calendar quarter as inventory restocking and government stimulus fueled the market. However, as these events subsided, GDP fell to 3.7% in the first calendar quarter and 1.6% in the second. With federal stimulus funds running out, and state and local governments struggling to meet balanced budget mandates, government spending could become a modest detractor in coming quarters.

REPORT ON INVESTMENT ACTIVITY (CONCLUDED)

FISCAL YEAR 2010

INDEX PERFORMANCE

The Barclays Universal Index returned 10.04% for the fiscal year. Corporate high yield was the best performing sector, returning 21.52%. Corporate debt also improved over last year with a 13.46% return. By comparison, the S&P 500 index gained 5.14% during this time.

Total Return	12 Months Ending August 31, 2010
Barclays Universal	10.04%
U. S. Treasury	8.13%
Government Related	7.36%
Corporate	13.46%
Securitized	8.24%
U.S. Corporate High Yield	21.52%

INTEREST RATES

Interest rates exhibited volatility during the fiscal year and closed lower after reaching a cycle high in April. The yield curve steepened as the front-end was held down by the Fed Funds rate at 25 basis points (bps). Two-year Treasury rates dropped from 91 bps to 47 bps, while ten-year rates fell 89 bps to 2.47%. The ten-year Treasury rate touched 4.00% in April before

dropping below 2.50% in August. The yield curve flattened by 52 bps as the yield on the ten-year fell the most. The movement in the front of the yield curve was limited as the Federal Reserve maintained their pledge to keep rates at exceptionally low levels for an extended period.

KEY PORTFOLIO STATISTICS

	2010	2009
	\$	\$
Contributions to Pool	683,650,000	561,600,000
Withdrawals from Pool	(1,436,600,000)	(1,353,200,000)
Interest & Dividends	563,215,426	703,297,555
Securities Lending Net Income	5,905,845	35,913,271
Net Appreciation (Depreciation) in Fair Value	731,678,602	(2,397,220,696)

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 2010

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 5% of the voting stock of that corporation.
- Investments in Deferred Interest, Contingent Interest and Pay-In-Kind bonds may not exceed 15% of each advisor's high yield bond portfolio.

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

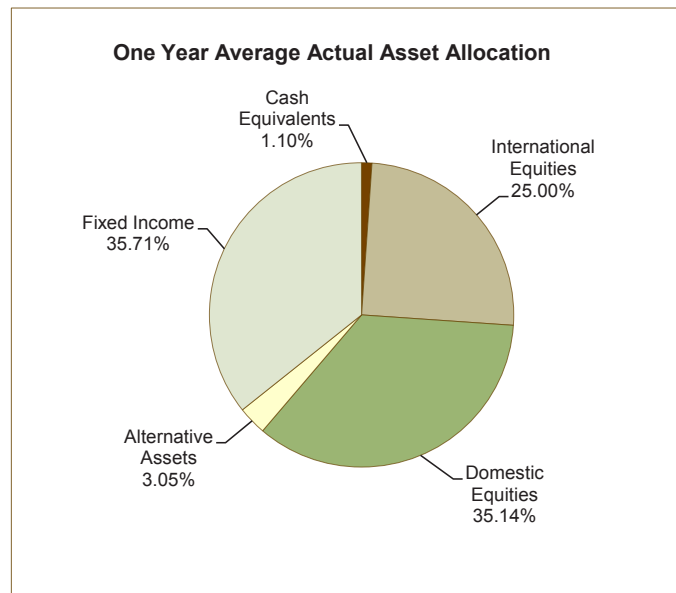
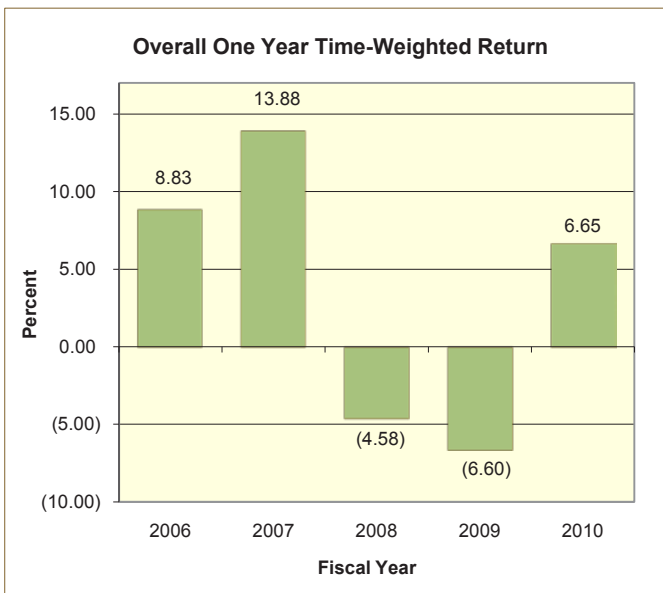
AUGUST 31, 2010

Time-Weighted Rates of Return (Note A)

	Fixed Income Securities		Domestic Equities		International Equities		Cash Equivalents		ERS		
	ERS	Index	ERS	Index	ERS	Index	ERS	Index	Overall	Benchmark	CPI
1 Year	%		%		%		%		%		
2006	2.52	1.71	8.29	8.88	22.39	24.28	4.66	4.34	8.83	8.99	4.06
2007	5.73	5.26	14.98	15.13	20.00	18.71	5.37	5.29	13.88	12.06	1.81
2008	5.25	5.86	(11.59)	(11.14)	(12.99)	(14.41)	4.01	2.99	(4.58)	(5.51)	5.43
2009 (Note B)	6.40	7.38	(18.35)	(18.35)	(14.04)	(14.41)	(53.82)	0.66	(6.60)	(7.55)	(1.42)
2010	9.12	9.87	5.92	5.56	2.37	2.85	0.11	0.14	6.65	6.80	1.31
3 Year (2008-2010)	6.77	6.71	(8.54)	(8.51)	(8.22)	(9.01)	(21.66)	1.26	(1.68)	(2.29)	1.73
5 Year (2006-2010)	5.69	5.61	(0.96)	(0.81)	2.28	2.14	(11.92)	2.67	3.33	2.65	2.20

Average Asset Allocations

	1-Year		3-Year		5-Year	
	Target	Actual	Target	Actual	Target	Actual
	%		%		%	
Fixed Income	35.17	35.71	36.72	36.86	37.23	37.37
Domestic Equities	33.68	35.14	38.52	38.72	40.72	41.85
International Equities	25.61	25.00	21.64	20.58	20.18	20.03
Alternative Assets	4.54	3.05	2.45	3.01	1.47	0.00
Cash Equivalents	1.00	1.10	0.67	0.83	0.40	0.75
Total	100.00	100.00	100.00	100.00	100.00	100.00



Note A: 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

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

BROKER COMMISSIONS

YEAR ENDED AUGUST 31, 2010

Domestic Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
Barclays Capital	15,627,108	\$ 312,542	0.020
Bloomberg Tradebook, LLC	5,932,352	59,324	0.010
BMO Capital Markets	4,113,500	118,299	0.029
Cabrera Capital Markets, LLC	254,000	2,540	0.010
Capital Institutional Services, Inc.	559,380	16,781	0.030
Citigroup Global Markets, Inc.	10,509,831	207,979	0.020
Cowen and Company	1,537,925	30,759	0.020
Credit Agricole Cheuvreus N.A., Inc.	754,613	15,092	0.020
Credit Suisse First Boston	53,522,190	900,817	0.017
Deutsche Equity	2,841,517	49,080	0.017
Fox-Pitt Kelton Cochran Caronia Waller	486,600	14,598	0.030
Goldman Sachs & Company	6,999,477	139,990	0.020
Green Street Advisors, Inc.	1,590,797	79,541	0.050
International Strategy & Investment Group, Inc.	6,461,620	129,232	0.020
ITG Corporate	3,698,336	36,983	0.010
J.P. Morgan Securities, Inc.	18,556,602	352,612	0.019
Jefferies & Company, Inc.	10,553,078	200,540	0.019
Keefe, Bruyette & Woods, Inc.	1,041,800	20,836	0.020
KeyBanc Capital Markets	4,038,043	80,761	0.020
Leerink Swann & Company, Inc.	1,649,575	32,992	0.020
Liquidnet, Inc.	4,222,026	69,322	0.016
Macquarie Securities (USA), Inc.	53,300	1,599	0.030
Merrill Lynch & Co., Inc.	14,919,715	298,364	0.020
Morgan Stanley Dean Witter & Co.	8,374,049	165,630	0.020
Raymond James & Associates	2,677,381	80,321	0.030
RBC Dain Rauscher	5,599,287	111,986	0.020
Robert Baird Securities, Inc.	7,435,218	148,004	0.020
Sandler O'Neil & Partner, L.P.	2,024,969	40,499	0.020
Sanford C. Bernstein & Co.	8,192,222	143,724	0.018
Sidoti & Company, LLC.	2,720,176	69,172	0.025
Sterne Agee & Leach, Inc.	1,454,800	33,445	0.023
Stifel, Nicolas, & Company, Inc.	4,122,452	86,467	0.021
Thomas Weisel Partners	1,080,796	24,515	0.023
UBS	10,494,190	209,274	0.020
Weeden & Company	667,600	13,352	0.020
Total	224,766,525	4,296,972	0.019

International Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
Barclays Capital	21,171,145	\$ 214,190	0.010
Bernard Jacobs Mellet	2,114,300	32,230	0.015
Bloomberg Tradebook, LLC	11,261	113	0.010
Citigroup Global Markets, Inc.	34,532,642	338,405	0.010
Collins Stewart	32,509	2,656	0.082
Cowen & Company	4,700	94	0.020
Credit Agricole Cheuvreus N.A., Inc.	15,271,028	278,846	0.018
Credit Lyonnais Securities	77,254,283	415,900	0.005
Credit Suisse First Boston	61,603,190	437,910	0.007
Deutsche Bank Securities	246,200	13,662	0.055
Fox-Pitt Kelton Cochran Caronia Waller	835,700	11,253	0.013
Goldman Sachs	436,400	1,228	0.003
Green Street Advisors, Inc.	110,000	5,214	0.047
Helvea, Inc.	910,280	71,577	0.079
HSBC, Inc.	16,775,148	22,214	0.001
J.P. Morgan Securities, Inc.	46,569,713	194,910	0.004
Keefe, Bruyette & Woods, Inc.	1,441,800	23,769	0.016
Macquarie Securities (USA), Inc.	35,118,764	306,561	0.009
Merrill Lynch & Co., Inc.	58,962,498	368,470	0.006
Mitsubishi Securities	21,147,520	135,704	0.006
Morgan Stanley Dean Witter & Co.	54,851,792	365,173	0.007
Nomura Securities Co. Ltd.	114,540,178	493,501	0.004
Redburn Partners, Inc.	2,949,985	47,154	0.016
Robert Baird Securities, Inc.	5,988	120	0.020
Sanford C Bernstein & Co.	3,292,202	41,051	0.012
UBS	32,879,611	341,584	0.010
Total	603,068,837	4,163,489	0.007

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

INVESTMENT ADVISORY AND SERVICE FEES

YEAR ENDED AUGUST 31, 2010

Advisory Service	Asset Value	Fees	Basis Points	Other Investment Service	Fees
Fixed Income Advisors	\$ 229,408,397	\$ 724,288	31.57	Custodian Fees	\$ 218,603
Domestic Equity Advisors	863,284,828	2,125,765	24.62	Security Lending Agent Fees	1,006,710
International Equity Advisors	2,481,011,238	9,064,568	36.54	Investment Consultant Fees	2,242,238
Total	3,573,704,463	11,914,621	33.34	Investment Management Fees	22,856,620
				Total	26,324,171

Directed Commissions

Consistent with the System's Investment Policy as adopted by the Board of Trustees, and in order to maximize the System's resources including commission dollars generated through trade activity, directed commissions are sometimes used to fund a portion of budgeted investment program expenses. Trade activity in excess of the level required to support research products used by the System's investment staff is directed toward the payment of budgeted items. Directed commissions totaled \$696,512 during fiscal year 2010.

LIST OF LARGEST ASSETS HELD

YEAR ENDED AUGUST 31, 2010

Ten Largest Stock Holdings

# of Shares	Description	Fair Value
		\$
2,856,278	Exxon Mobil Corporation	168,977,406
571,000	Apple, Inc.	138,964,270
1,986,066	Proctor & Gamble Company	118,508,558
4,796,000	Microsoft Corporation	112,610,080
1,715,000	Johnson & Johnson Company	97,789,300
765,000	International Business Machines Corporation	94,270,950
1,574,000	Coca-Cola Company	88,018,080
3,157,900	AT&T, Inc.	85,358,037
35,184,131	Vodafone Group	84,978,063
2,324,500	JPMorgan Chase & Company	84,518,820

Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
		\$
\$ 381,561,594	JPMorgan US Government Capital Shares, Rating AAA	\$ 381,561,594
200,094,894	Short Term Invts TR Govt Agency Institutional 12/31/2049, Rating AAA	200,094,894
200,062,028	Blackrock Liquidity Funds Institutional Shares 12/31/2049, Rating AAA	200,062,028
200,037,375	Money Market Obligs TR Government Obligs Institutional 12/31/2049, Rating AAA	200,037,375
195,000,000	U.S. Treasury Note 1.125% due on 06/15/2013, Rating AAA	197,377,050
191,350,000	U.S. Treasury Note 1.125% due on 06/30/2011, Rating AAA	192,732,886
179,700,000	U.S. Treasury Note 2.625% due on 04/30/2016, Rating AAA	189,906,421
169,410,000	U.S. Treasury Note 3.500% due on 05/15/2020, Rating AAA	184,590,830
144,556,000	U.S. Treasury Note 3.125% due on 05/15/2019, Rating AAA	153,997,241
129,430,000	U.S. Treasury Bond 3.625% due on 02/15/2020, Rating AAA	142,443,798

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, 2010

Type of Investment	Pooled Pension Trust Funds (Note A)			Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fair Value	% Total
Long-Term Fixed Securities:					
U.S. Treasury Bonds	3,119,201,372	106,386,833	35,748,570	3,261,336,775	16.06099%
Other Government Securities	279,571,246	9,535,357	3,204,113	292,310,716	1.43953%
Mortgage Pass-Thru Securities	1,278,972,314	43,622,004	14,658,057	1,337,252,375	6.58552%
Asset Backed Securities	30,321,784	1,034,187	347,512	31,703,483	0.15613%
Commercial Mortgage Backed Securities	125,817,764	4,291,276	1,441,973	131,551,013	0.64785%
Corporate Bonds	1,339,403,720	45,683,142	15,350,650	1,400,437,512	6.89669%
Total Long-Term Fixed Securities	6,173,288,200	210,552,799	70,750,875	6,454,591,874	31.78671%
Public Equities:					
Domestic	6,235,397,504	212,671,165	71,462,697	6,519,531,366	32.10651%
International	5,042,424,770	171,982,349	57,790,262	5,272,197,381	25.96381%
Total Public Equity	11,277,822,274	384,653,514	129,252,959	11,791,728,747	58.07032%
Real Estate Investments:					
Domestic	277,875,800	9,477,531	3,184,681	290,538,012	1.43080%
International	71,456,526	2,437,179	818,953	74,712,658	0.36794%
Total Real Estate Investments	349,332,326	11,914,710	4,003,634	365,250,670	1.79874%
Externally Managed Investments:					
Private Equity	265,093,480	9,041,563	3,038,186	277,173,229	1.36499%
Private Real Estate	31,077,396	1,059,959	356,172	32,493,527	0.16002%
Total Externally Managed Investments	296,170,876	10,101,522	3,394,358	309,666,756	1.52501%
Cash Equivalents:					
Cash in State Treasury-Investment Pool	1,553,029	51,918	17,339	1,622,286	0.00798%
Money Market Mutual Funds	1,322,836,423	45,126,038	15,123,534	1,383,085,995	6.81124%
Total Cash Equivalents	1,324,389,452	45,177,956	15,140,873	1,384,708,281	6.81922%
Total Before Securities Lending Collateral (Notes B & C)	19,421,003,128	662,400,501	222,542,699	20,305,946,328	100.00000%
Securities Lending Collateral	402,111,103	13,638,935	5,014,350	420,764,388	
Total Pension Investment Pool Trust Fund (0888)	19,823,114,231	676,039,436	227,557,049	20,726,710,716	
Cash Equivalents:					
Cash in State Treasury-Pension Funds	23,675,226	966,505	609,283		
Total Investments	19,846,789,457	677,005,941	228,166,332		

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	19,421,003,128	662,400,501	222,542,699	20,305,946,328
Unsettled Sales-Investment Receivables	32,712,072	1,109,000	407,318	34,228,390
Unsettled Purchases-Investment Payables	(27,138,704)	(920,052)	(337,920)	(28,396,676)
Accrued Interest and Dividends/Tax Reclaims Receivable	73,734,409	2,491,646	867,819	77,093,874
Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards	19,500,310,905	665,081,095	223,479,916	20,388,871,916

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

Basis of Presentation: System's Financial Records in accordance with the CFA Institute Standards.



ACTUARIAL SECTION



PENSION PLANS:

Actuary's Certification Letter

Actuarial Balance Sheets

Summary of Actuarial Methods And Assumptions

Active Member Valuation Data

Retirees and Beneficiaries Added to and
Removed from the Annuity Payrolls

Solvency Test

Analysis of Financial Experience

STATE RETIREE HEALTH PLAN:

Actuary's Certification Letter

Actuarial Valuation Results

Summary of Actuarial Methods And Assumptions



November 15, 2010

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, 2010 for the Employees Retirement System and the Judicial Retirement System of Texas Plan Two. Buck prepared the Actuarial Balance Sheets and the supporting schedules in the Actuarial Section. Buck prepared the Schedules of Funding Progress and the Schedules of Employer Contributions of the Required Supplementary Information and the Notes to the Required Supplementary Information presented in the Financial Section of this report. Buck also prepared the Retired Members by Type of Benefit schedule in the Statistical Section.

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

The actuarial assumptions used for these valuations are outlined in the "Summary of Actuarial Methods and Assumptions." 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. Most members contribute 6.50% of payroll and the State contributes 6.95% 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, 2010. There have not been any changes in the actuarial assumptions, actuarial cost method or actuarial procedures from the prior valuation. During the past plan year, the State contribution increased from 6.45% to 6.95% of payroll. As required by the Texas Government Code, the member contribution also increased from 6.45% to 6.50% of payroll. The current actuarial assumptions are outlined in the “Summary of Actuarial Methods and Assumptions.”

The August 31, 2010 actuarial valuation shows that there is an unfunded accrued liability for funding purposes of \$4,783.2 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 83.2% for funding purposes as of August 31, 2010. The valuation shows that the total normal cost for funding purposes is 12.30% of payroll. Total contributions are 13.45% of payroll. The total contribution rate exceeds the normal cost by 1.15% 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 17.07% of payroll. In addition, as of August 31, 2010, the market value of assets was \$4,048.0 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.

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. Members contribute 0.50% of payroll 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, 2010. There have not been any changes in the actuarial assumptions, actuarial cost method, actuarial procedures or plan provisions from the prior valuation. The current actuarial assumptions are outlined in the “Summary of Actuarial Methods and Assumptions.”

The August 31, 2010 actuarial valuation shows that there is an unfunded accrued liability for funding purposes of \$163.7 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 83.1% for funding purposes as of August 31, 2010. 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 2.72% of payroll. In addition, as of August 31, 2010, the market value of assets was \$134.5 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 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 payroll and the State contributes 16.83% of payroll. 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.

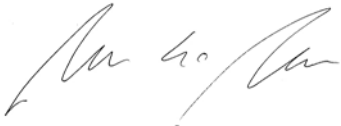
The actuarial valuation is completed annually with the most recent valuation conducted as of August 31, 2010. There have not been any changes in the actuarial cost method, actuarial procedures, actuarial assumptions or plan provisions from the prior valuation. The current actuarial assumptions are outlined in the "Summary of Actuarial Methods and Assumptions".

The August 31, 2010 actuarial valuation shows that there is an unfunded accrued liability of \$17.2 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 93.9% as of August 31, 2010. The valuation shows that the total normal cost is 20.19% 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 12.6 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, 2010, the market value of assets was \$39.3 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

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ACTUARIAL BALANCE SHEET –
 EMPLOYEES RETIREMENT FUND
 AUGUST 31, 2010 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2009)

ACTUARIAL BALANCE SHEET	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Assets:		
Actuarial Value Assets	\$ 23,628,566,500	\$ 23,509,621,791
Present Value of Future Normal Cost (Note A)		
Member	2,451,318,951	2,332,844,075
Employer	2,093,049,258	2,054,349,511
Total	<u>4,544,368,209</u>	<u>4,387,193,586</u>
Total	<u>\$ 28,172,934,709</u>	<u>\$ 27,896,815,377</u>
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	\$ 17,017,368,261	\$ 16,216,881,552
- disability	383,880,062	369,157,636
- death before retirement	230,994,643	221,915,834
- termination	841,742,394	802,086,844
- total	<u>18,473,985,360</u>	<u>17,610,041,866</u>
Inactive Members	1,074,374,168	1,036,775,796
Annuitants	<u>13,407,823,189</u>	<u>12,648,155,181</u>
Total	<u>\$ 32,956,182,717</u>	<u>\$ 31,294,972,843</u>
Unfunded Accrued Liability (UAL) (Note B)	\$ 4,783,248,008	\$ 3,398,157,466
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	13.45%	12.90%
Normal Cost (Note A)		
- dollars	\$ 729,407,327	\$ 719,824,862
- percent of payroll	12.30%	12.38%
Contribution Available to Amortize UAL	1.15%	0.52%
Accrued Liability (Note B)	\$ 28,411,814,508	\$ 26,907,779,257
Amortization Period in Years	Infinite	Infinite
Funded Ratio	83.2%	87.4%
Valuation Payroll	\$ 5,930,140,876	\$ 5,814,417,299
Active Members	142,490	141,223

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, 2010 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2009)

ACTUARIAL BALANCE SHEET	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Assets:		
Actuarial Value Assets	\$ 802,897,017	\$ 780,807,727
Present Value of Future Normal Cost (Note A)		
Member	49,801,058	47,337,112
Employer	146,415,110	139,171,110
Total	<u>196,216,168</u>	<u>186,508,222</u>
Total	<u>\$ 999,113,185</u>	<u>\$ 967,315,949</u>
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	\$ 763,068,379	\$ 730,690,991
- occupational disability	13,829,724	13,123,086
- death benefit plan	7,564,772	7,186,690
- termination	7,178,904	5,028,056
- total	<u>791,641,779</u>	<u>756,028,823</u>
Vested Inactive Members	3,186,598	2,942,417
Annuitants	<u>367,991,489</u>	<u>334,638,616</u>
Total	<u>\$ 1,162,819,866</u>	<u>\$ 1,093,609,856</u>
Unfunded Accrued Liability (UAL) (Note B)	\$ 163,706,681	\$ 126,293,907
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	2.09%	2.09%
Normal Cost (Note A)		
- dollars	\$ 31,214,564	\$ 30,314,788
- percent of payroll	2.07%	2.07%
Contribution Available to Amortize UAL	0.02%	0.02%
Accrued Liability (Note B)	\$ 966,603,698	\$ 907,101,634
Amortization Period in Years	Infinite	Infinite
Funded Ratio	83.1%	86.1%
Valuation Payroll	\$ 1,507,949,939	\$ 1,464,482,523
Active Members	39,052	37,819

ACTUARIAL BALANCE SHEET –
 JUDICIAL RETIREMENT SYSTEM OF TEXAS PLAN TWO FUND
 AUGUST 31, 2010 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2009)

ACTUARIAL BALANCE SHEET	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Assets:		
Actuarial Value Assets	\$ 264,515,185	\$ 248,279,312
Present Value of Future Normal Cost		
Member	22,191,845	22,158,755
Employer	50,877,959	51,087,213
Total	<u>73,069,804</u>	<u>73,245,968</u>
Total	<u>\$ 337,584,989</u>	<u>\$ 321,525,280</u>
Liabilities:		
Present Value of Benefits		
Active Members		
- service retirement	\$ 222,005,449	\$ 204,349,872
- disability	5,869,648	5,830,978
- death before retirement	10,396,142	10,236,045
- termination	11,666,462	11,731,296
- total	<u>249,937,701</u>	<u>232,148,191</u>
Inactive Members	12,639,445	10,821,677
Annuitants	<u>92,253,133</u>	<u>85,844,874</u>
Total	<u>\$ 354,830,279</u>	<u>\$ 328,814,742</u>
Unfunded Accrued Liability (UAL)	\$ 17,245,290	\$ 7,289,462
SUMMARY OF ACTUARIAL VALUATION RESULTS		
Total Contribution Rate	22.81%	22.82%
Normal Cost		
- dollars	\$ 13,881,636	\$ 13,797,403
- percent of payroll	20.19%	20.30%
Contribution Available to Amortize UAL	2.62%	2.52%
Accrued Liability	\$ 281,760,475	\$ 255,568,774
Amortization Period in Years	12.6	4.8
Funded Ratio	93.9%	97.1%
Valuation Payroll	\$ 68,755,000	\$ 67,967,500
Active Members	539	533

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
Investment Rate of Return: (Same for all classes)	8% per year, compounded annually.		
Administrative Expenses: (As a percentage of payroll per year, compounded annually)	ERS Fund: 0.25% LECOS Fund: 0.10%	0.25%	0.50%
Salary Increase:	<ul style="list-style-type: none"> Include 3.5% annual increase for inflation plus increases for merit, promotion and longevity. See Table 1 below for rates of salary increase for sample ages. 	<ul style="list-style-type: none"> 3.5% annually with no increase for merit, promotion, and longevity. No salary increase for legislators. 	<ul style="list-style-type: none"> 3.5% annually with no increase for merit, promotion, and longevity.
Payroll Growth: (Same for all classes)	3.5% per year, compounded annually.		
Cost-of-Living Increase:	N/A	3.5% per year, compounded annually	N/A

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS – PENSION PLANS

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

Age	Years of Service – Non-CPO/CO							Years of Service – CPO/CO				
	0	1	2-4	5-9	10-14	15-19	20+	0	1	2-4	5-9	10+
20	6.80%	5.25%	4.75%	4.30%				10.0%	6.0%	4.0%	3.2%	2.0%
30	5.90	5.25	4.75	3.00	2.50%	2.00%		10.0	6.0	4.0	3.2	2.0
40	4.90	4.75	4.00	3.00	2.50	1.90	1.80%	10.0	6.0	4.0	3.2	2.0
50	3.90	3.70	3.20	2.70	2.20	1.70	1.60	10.0	6.0	4.0	3.2	2.0
60	2.90	2.70	2.30	2.00	1.60	1.40	1.30	10.0	6.0	4.0	3.2	2.0

Note A: No salary increases 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, 2010

Age	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)					Years of Service – Male and Female Members in the Employee Class (CPO/CO) (Note B)			
	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, 2010

Age	Years of Service – Male and Female Members in the Employee Class (Non-CPO/CO)					Years of Service – Male and Female Members in the Employee Class (CPO/CO) (Note B)			
	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	0	0

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 – PENSION PLANS

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 – PENSION PLANS

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

Age	<u>Employee Class (Non-CPO/CO)</u>		<u>Employee Class (CPO/CO)</u>
	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

	<u>Option Selection Percentage (Note H)</u>			<u>Beneficiary Characteristics</u>
	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, 2010

Age	<u>Male</u>						<u>Female</u>					
	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 – PENSION PLANS

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

For members hired after August 31, 2010

Age	Male						Female					
	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, 2010</u>						<u>For members hired after August 31, 2010</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</u> (Note J)		<u>Judicial Class</u> (Note J)	
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	Average Pay	% Change
		Payroll	(Note B)	in Average Pay
		\$	\$	%
Employees Retirement Fund:				
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
2010	142,490	5,878,680,811	41,022	2.0
Law Enforcement and Custodial Officer Supplemental Retirement Fund:				
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)
2010	39,052	1,494,510,816	37,979	3.5
Judicial Retirement Plan Two Fund:				
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)
2010	539	67,204,906	127,560	0.0

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

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

RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM THE ANNUITY PAYROLLS

	Added to Rolls		Removed from Rolls		Other Beneficiaries		Rolls End of Year		% Increase Annual Benefits	Average Annual Benefit
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits		
		\$	\$	\$	\$	\$	\$	\$	%	\$
Employees Retirement Fund										
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
2010	4,870	100,938,168	1,828	30,584,136	547	9,281,208	79,311	1,457,065,548	5.8	18,372
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
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
2010	635	3,604,140	147	1,163,112	40	(120,456)	7,175	40,135,308	6.1	5,594
Judicial Retirement Plan Two Fund:										
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
2010	12	737,508	2	119,556	2	122,491	164	9,616,992	8.3	58,640

SOLVENCY TEST

FUNDING OBJECTIVE

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

EVALUATION OF FUNDING OBJECTIVE

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

1. Active member contributions on deposit;
2. The liabilities for future benefits to present retirees; and
3. The liabilities for service already rendered by active members.

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

Valuation Year	Aggregate Accrued Liabilities For			Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer Financed Portion)		%	%	%
Employees Retirement Fund: (Note A)							
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
2010	4,719,703,277	13,407,823,189	10,284,288,042	23,628,566,500	100	100	54
Law Enforcement And Custodial Officer Supplemental Retirement Fund: (Note A)							
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
2010	7,315,238	367,991,489	591,296,971	802,897,017	100	100	72
Judicial Retirement Plan Two Fund:							
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
2010	57,347,421	92,253,133	132,159,921	264,515,185	100	100	87

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:

<u>Type of Activity</u>	<u>Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)</u>					
	<u>ERS</u>		<u>LECOS</u>		<u>JRS II</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>Contribution Income and Interest on Unfunded Actuarial Accrued Liability</u>						
If contributions are received in excess of normal cost, there is a decrease. If less, an increase.	222.6	207.0	4.7	14.2	(1.4)	(2.2)
<u>Components of (Gain)/Loss</u>						
<u>Investment Income</u>						
If there is greater investment income than assumed, there is a gain. If less income, a loss.	1,012.0	1,103.0	33.6	36.5	9.8	10.6
<u>Active Member Demographics</u>						
Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment	88.7	(5.0)	7.8	0.0	(0.9)	0.4
<u>Pay Increases</u>						
If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	(24.2)	22.1	(12.2)	0.2	0.0	0.1
<u>Death After Retirement</u>						
If retirees live longer than assumed, there is a loss. If not as long, a gain.	29.7	3.3	0.7	(0.5)	0.7	0.6
<u>Other</u>						
Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	56.3	26.7	2.8	1.6	1.8	1.9
Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience	1,385.1	1,357.1	37.4	52.0	10.0	11.4
<u>Non-Recurring Items</u>						
Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, etc.	0.0	149.7	0.0	6.7	(0.0)	(10.3)
Composite Increase/(Decrease) During Year	1,385.1	1,506.8	37.4	58.7	10.0	1.1



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, 2010. 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, 2010 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.

Rudd and Wisdom, Inc. prepared and presented in Section V of this report the Schedule of Funding Progress and the Schedule of Employer Contributions that are to be included in the Required Supplementary Information.

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, 2010		
	(\$ thousands)	As a % of Payroll
1. Number of Members (actual count, not in thousands)		
a. Actives	234,057	
b. Deferred Vesteds	10,773	
c. Retirees and Nominees	<u>86,111</u>	
d. Total Number of Members	330,941	
2. Payroll of Active Members for FY 2010	\$ 10,437,333	
3. Actuarial Present Value of Total Projected Benefits		
a. Actives	\$ 24,202,760	
b. Deferred Vesteds	1,163,824	
c. Retirees and Nominees	<u>7,581,737</u>	
d. Total	\$ 32,948,321	315.7%
4. Actuarial Accrued Liability		
a. Actives	\$ 13,583,995	
b. Deferred Vesteds	1,163,824	
c. Retirees and Nominees	<u>7,581,737</u>	
d. Total	\$ 22,329,556	213.9%
5. Actuarial Value of Assets	\$ 0	0.0%
6. Unfunded Actuarial Accrued Liability [4.d. – 5.]	\$ 22,329,556	213.9%
7. Annual Required Contribution for FYE August 31, 2010		
a. Normal Cost	\$ 1,045,494	10.0%
b. Amortization of UAAL	<u>969,040</u>	<u>9.3%</u>
c. Total ARC for FYE August 31, 2010	\$ 2,014,534	19.3%

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.

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS - STATE RETIREE HEALTH PLAN

ECONOMIC ASSUMPTIONS

EXPENSES

The expenses to administer the Group Benefit Program health benefits are (i) \$224.28 per year per covered member for external Health Select administrative expenses for FY 2010 and (ii) approximately \$41.36 per year per covered member for internal administrative expenses for FY 2011 (i.e., the external and administrative expenses per covered member are the same regardless of whether the member covers dependents).

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.

<u>Fiscal Year</u>	<u>Annual Rate of Increase</u>
	%
2012	9.10
2013	9.10
2014	7.00
2015	6.00
2016 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 2011 is not assumed to increase in the future.

HEALTH COVERAGE BY GOVERNMENTAL PLANS

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

STATISTICAL SECTION



Governmental Activities:

Net Assets

Changes in Net Assets

Governmental Funds:

Fund Balances

Changes in Fund Balances

Changes in Net Assets:

Proprietary Fund

Defined Benefit Plans

Defined Contributions Plan and Cafeteria Plan

Benefit and Refund Payments-Defined Benefit Plans

Average Benefit Payments-Employee Class

Retired Members by Type of Benefit

Contribution Rates

Other Statistical Information:

Defined Benefit Plans

Other Programs

List of Participating Entities for State Retiree Health Plan

NET ASSETS – GOVERNMENTAL ACTIVITIES

LAST NINE FISCAL YEARS (IN 000'S)

(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year (Note A)								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental Activities:	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted	19,333	25,939	96,160	133,253	241,478	369,913	384,892	282,484	136,599
Unrestricted	420	16	3	27	49	45	56	59	45
Total Governmental Activities	19,753	25,955	96,163	133,280	241,527	369,958	384,948	282,543	136,644

CHANGES IN NET ASSETS – GOVERNMENTAL ACTIVITIES

LAST NINE FISCAL YEARS (IN 000'S)

(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year (Note A)								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Expenses	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Governmental Activities:</i>									
Social Security Administration	55	39	31	52	58	70	54	61	101
<i>Death Benefits:</i>									
Peace Officers, Firemen, etc.	7,322	4,677	4,985	2,660	4,361	2,397	3,423	1,866	4,164
Compensation to Victims of Crime				1,250	750	1,500	2,250	2,000	1,250
Retiree \$5,000 Lump Sum	6,432	6,453	6,681	7,026	6,908	7,493	6,902	7,367	7,910
<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	1,828,422
Administration	9,433	9,926	9,316	10,312	10,307	8,694	8,323	9,062	8,118
Total Governmental Activities Expenses	1,516,807	1,648,152	1,540,308	1,668,115	1,782,457	1,314,111	1,481,479	1,653,318	1,849,965
Program Revenues									
<i>Governmental Activities:</i>									
<i>Charges for Services:</i>									
Administration Fees				73	78	72	65	64	85
<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	4,164
Compensation to Victims of Crime				1,250	750	1,500	2,250	2,000	1,250
Retiree \$5,000 Lump Sum	6,487	6,087	6,681	7,030	6,910	7,487	6,902	7,367	7,911
<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	1,233,781
Member	366,998	393,976	404,107	420,192	450,678	365,653	364,278	381,820	416,690
Other	152	129	154	145	147	150	163	161	157
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	36,671
Other	496	1,371	4,060	2,951	709	272	1,521	1,385	3,357
Total Governmental Activities Program Revenues	1,517,849	1,654,354	1,610,516	1,705,233	1,890,704	1,442,542	1,496,469	1,550,913	1,704,066
Net Revenue									
Governmental Activities	1,042	6,202	70,208	37,118	108,247	128,431	14,990	(102,405)	(145,899)

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental Funds:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Unreserved, reported in:										
Special Revenue Funds	411	420	16	3	27	49	45	56	59	45
Total Governmental Funds	411	420	16	3	27	49	45	56	59	45

CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS (IN 000'S)
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Administration	28	28	28	28	28	28	28	28	28	-
Death Benefits:										
Public Employee Survivors	1,410	7,248	4,649	4,957	2,632	4,333	2,369	3,395	1,838	4,164
Victims of Crime						750	1,500	2,250	2,000	1,250
Retiree \$5,000 Lump Sum	6,418	6,487	6,087	6,681	7,030	6,910	7,487	6,902	7,367	7,911
Administration Fees					73	78	72	65	64	85
Total Revenues	7,856	13,763	10,764	11,666	9,763	12,099	11,456	12,640	11,297	13,410
Expenditures										
Death Benefits:										
Public Employee Survivors	1,359	7,294	4,649	4,957	2,632	4,333	2,397	3,423	1,866	4,164
Victims of Crime					1,250	750	1,500	2,250	2,000	1,250
Retiree \$5,000 Lump Sum	6,132	6,432	6,453	6,681	7,026	6,908	7,493	6,902	7,367	7,910
Administrative Expenditures	84	83	67	59	80	86	70	54	61	101
Total Expenditures	7,575	13,809	11,169	11,697	10,988	12,077	11,460	12,629	11,294	13,425
Excess of Revenues Over (Under)										
Expenditures	281	(46)	(405)	(31)	(1,225)	22	(4)	11	3	(15)
Other Financing Sources (Uses)										
Membership Fees	50	55		18						
Victims of Crime Fund					1,250					
Net Change in Fund Balances	331	9	(405)	(13)	25	22	(4)	11	3	(15)

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating Revenues	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Insurance Contributions:</i>										
State	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	1,233,781
Member	327,981	366,998	393,976	404,107	420,192	450,678	365,653	364,278	381,820	416,690
Federal Revenues-Medicare Part D						19,360				
Federal Revenues-COBRA Stimulus										2,268
Other	151	648	1,280	3,840	453	528	422	1,543	1,254	1,087
Total Operating Revenues	1,198,867	1,490,054	1,630,491	1,585,459	1,676,768	1,855,254	1,390,711	1,441,175	1,491,224	1,653,826
Operating Expenses										
<i>Benefit Payments:</i>										
Employee	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	1,797,659
Retiree (Note A)				402,224	439,171	478,229	-			
COBRA (Note A)				9,883	18,596	15,878	18,232	22,895	22,971	30,763
Administrative and Other Expenses	9,782	9,433	9,926	9,316	10,312	10,307	8,694	8,323	9,062	8,118
Total Operating Expenses	1,318,021	1,502,998	1,636,983	1,528,610	1,657,127	1,770,380	1,302,651	1,468,850	1,642,024	1,836,540
Operating Income (Loss)	(119,154)	(12,944)	(6,492)	56,849	19,641	84,874	88,060	(27,675)	(150,800)	(182,714)
Non-Operating Revenues (Expenses)										
Net Appreciation (Depreciation)										
in Fair Value of Investments (Note I)	(1,284)	2,555	949	2,043	(1,750)	(4,834)	(730)	4,943	20,359	20,789
Interest Income	22,657	11,422	11,930	10,956	16,559	27,857	41,080	37,569	27,741	15,882
Other	(4)		220	374	2,644	327	25	141	292	158
Change in Net Assets	(97,785)	1,033	6,607	70,222	37,094	108,224	128,435	14,978	(102,408)	(145,885)

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund (ERS)										
Additions										
Member Contributions	286,982	319,565	324,000	300,156	305,870	292,023	328,039	337,040	353,299	410,134
Employer Contributions	281,906	300,969	301,555	278,845	276,035	316,198	329,981	342,092	363,023	400,252
Investment Income (Net of Expenses)	(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)	1,203,796
Other Additions	26,913	32,601	37,719	45,719	50,208	58,804	48,746	52,941	57,329	61,741
Total Additions	(814,469)	(619,277)	2,118,865	2,619,423	2,963,202	2,404,613	3,329,661	(561,990)	(842,607)	2,075,923
Deductions										
Retirement Benefits	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	1,505,585
Death Benefits	1,836	2,086	2,327	1,949	2,039	2,232	2,099	1,802	2,224	3,086
Refunds	91,800	70,031	73,438	83,779	89,760	75,614	79,564	74,504	70,958	65,334
Administrative and Other Expenses	12,621	13,295	13,078	12,996	13,878	14,044	16,475	16,730	17,690	19,083
Total Deductions	934,197	993,923	1,099,081	1,289,037	1,312,239	1,342,980	1,398,102	1,453,416	1,523,883	1,593,088
Change in Net Assets	(1,748,666)	(1,613,200)	1,019,784	1,330,386	1,650,963	1,061,633	1,931,559	(2,015,406)	(2,366,490)	482,835
Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)										
Additions										
Member Contributions		5								7,473
Employer Contributions								20,191	20,657	27,799
Investment Income (Net of Expenses)	(49,664)	(44,338)	49,692	67,906	78,444	57,656	85,799	(42,917)	(51,743)	40,054
Other Additions	2		2	2		-				6
Total Additions	(49,662)	(44,333)	49,694	67,908	78,444	57,656	85,799	(22,726)	(31,086)	75,332
Deductions										
Retirement Benefits	16,815	20,762	22,834	27,559	29,036	30,184	32,149	34,908	38,641	41,001
Refunds										162
Administrative and Other Expenses	625	685	700	630	521	378	504	366	434	595
Total Deductions	17,440	21,447	23,534	28,189	29,557	30,562	32,653	35,274	39,075	41,758
Change in Net Assets	(67,102)	(65,780)	26,160	39,719	48,887	27,094	53,146	(58,000)	(70,161)	33,574
Judicial Retirement System of Texas Plan One (JRS I)										
Additions										
Member Contributions	679	439	268	142	62	214				
Appropriations	21,918	21,564	22,675	22,622	22,297	27,784	29,029	28,684	28,171	27,298
Other Additions	148	120	120	120	120	-				
Total Additions	22,745	22,123	23,063	22,884	22,479	27,998	29,029	28,684	28,171	27,298
Deductions										
Retirement Benefits	21,701	21,778	22,673	22,620	22,283	27,664	29,029	28,657	28,194	27,302
Refunds			3	1	14	-				
Administrative and Other Expenses	152	120	120	120	120	120				
Total Deductions	21,853	21,898	22,796	22,741	22,417	27,784	29,029	28,657	28,194	27,302
Change in Net Assets	892	225	267	143	62	214	-	27	(23)	(4)
Judicial Retirement System of Texas Plan Two (JRS II)										
Additions										
Member Contributions	2,638	2,780	3,020	2,922	2,985	3,551	4,125	3,964	4,223	4,121
Employer Contributions	7,258	7,804	8,294	8,205	8,365	10,052	10,909	11,138	11,356	11,511
Investment Income (Net of Expenses)	(6,916)	(7,168)	9,404	13,332	17,348	14,384	24,245	(10,765)	(16,421)	13,586
Other Additions	5		18	2	11	5	-			-
Total Additions	2,985	3,416	20,736	24,461	28,709	27,992	39,279	4,337	(842)	29,218
Deductions										
Retirement Benefits	1,211	1,365	2,119	2,770	3,308	4,223	5,747	6,645	8,023	9,289
Death Benefits	3				10	24				
Refunds	116	187	152	303	106	65	58	73	206	118
Administrative and Other Expenses	268	299	245	273	402	303	395	244	239	277
Total Deductions	1,598	1,851	2,516	3,346	3,826	4,615	6,200	6,962	8,468	9,684
Change in Net Assets	1,387	1,565	18,220	21,115	24,883	23,377	33,079	(2,625)	(9,310)	19,534

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CHANGES IN NET ASSETS – DEFINED BENEFIT PLANS (CONCLUDED)
 LAST TEN FISCAL YEARS (IN 000'S)

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Excess Benefit Arrangement	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Additions										
Other Additions		63	67	67	223	297	200	350	328	294
Total Additions	-	63	67	67	223	297	200	350	328	294
Deductions										
Retirement Benefits		63	67	67	223	236	141	298	279	251
Administrative and Other Expenses						61	59	52	49	43
Total Deductions	-	63	67	67	223	297	200	350	328	294
Change in Net Assets	-	-	-	-	-	-	-	-	-	-
State Retiree Health Plan										
							(Note A)			
Additions										
Member Contributions							108,387	109,447	114,360	126,073
Employer Contributions							438,242	417,106	447,765	478,348
Federal Revenues-Medicare Part D							28,558	32,964	35,784	40,988
Investment Income (Net of Expenses)							1,541	1,362	1,056	609
Other Additions									775	1
Total Additions							576,728	560,879	599,740	646,019
Deductions										
Retirement Benefits							574,030	558,228	596,858	643,389
Administrative and Other Expenses							2,698	2,651	2,882	2,630
Total Deductions							576,728	560,879	599,740	646,019
Change in Net Assets							-	-	-	-

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
TexaSaver 401(k) Plan	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Additions										
Investment Income (Net of Expenses)	9	2	1	4	29	52	459	116	476	42
Other Additions	203	234	345	1,328	166	342	301	464	215	1,439
Total Additions	212	236	346	1,332	195	394	760	580	691	1,481
Deductions										
Administrative and Other Expenses	220	236	357	366	253	275	448	581	457	513
Total Deductions	220	236	357	366	253	275	448	581	457	513
Change in Net Assets	(8)	-	(11)	966	(58)	119	312	(1)	234	968
TexaSaver 457 Plan					(Restated)	(Restated)				
Additions										
Deferrals (Note A)	8,505	10,649	27,132	37,047	43,817	N/A	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)		30,472	27,241	56,426	39,268	N/A	N/A	N/A	N/A	N/A
Contributions									7	
Investment Income (Net of Expenses)	(4,842)	(48,761)	18,341	33,976	25,093	23,752	62	50	122	13
Other Additions	200	430	234	186	119	684	503	592	405	589
Total Additions	3,863	(7,210)	72,948	127,635	108,297	24,436	565	642	534	602
Deductions										
Distributions and Fees (Note A)	35,692	26,902	27,604	41,851	26,152	N/A	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)		26,460	42,224	67,071	41,481	N/A	N/A	N/A	N/A	N/A
Administrative and Other Expenses	1,022	832	849	995	418	403	526	547	656	669
Total Deductions	36,714	54,194	70,677	109,917	68,051	403	526	547	656	669
Change in Net Assets	(32,851)	(61,404)	2,271	17,718	40,246	24,033	39	95	(122)	(67)
State Employees Cafeteria Plan (TexFlex)										
Additions										
Contributions	27,502	30,502	33,964	43,840	53,425	61,080	68,425	76,780	83,244	90,290
Investment Income (Net of Expenses)	238	120	65	25	40	75	89	72	45	25
Other Additions	45	11	18	439	409	56	105	95	83	105
Total Additions	27,785	30,633	34,047	44,304	53,874	61,211	68,619	76,947	83,372	90,420
Deductions										
Reimbursement Account Claims	27,104	30,027	33,539	42,886	52,337	59,951	67,133	75,043	80,161	87,912
Administrative and Other Expenses	1,358	970	1,234	1,336	1,571	1,694	1,886	2,157	2,220	2,217
Total Deductions	28,462	30,997	34,773	44,222	53,908	61,645	69,019	77,200	82,381	90,129
Change in Net Assets	(677)	(364)	(726)	82	(34)	(434)	(400)	(253)	991	291

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employees Retirement Fund:										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service:										
Retirees	797,887	876,335	978,090	1,058,681	1,095,209	1,153,347	1,195,432	1,254,754	1,324,897	1,394,889
Survivors	not avail.	not avail.	not avail.	3,532	20,286	20,379	19,805	20,461	20,651	20,765
Disability	26,786	28,375	28,005	30,815	31,419	31,690	31,163	30,626	30,402	30,301
Partial Lump Sum Option				91,731	53,030	37,679	44,450	44,207	45,301	46,362
Proportional	3,267	3,801	4,143	5,554	6,618	7,994	9,114	10,332	11,760	13,270
Total Retirement Benefits	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	1,505,587
Death Benefits:										
Active Members:										
Occupational	84	72		128	41	297	91	35	100	76
Non-Occupational	899	909	1,249	884	842	1,019	1,373	1,266	1,275	1,526
Retiree	853	1,105	1,078	937	1,156	916	635	501	850	1,484
Total Death Benefits	1,836	2,086	2,327	1,949	2,039	2,232	2,099	1,802	2,225	3,086
Refunds:										
Resignation	89,621	67,838	70,542	82,075	87,513	73,176	75,864	71,717	67,405	61,235
Death	2,179	2,193	2,896	1,704	2,247	2,438	3,700	2,787	3,553	4,099
Total Refunds	91,800	70,031	73,438	83,779	89,760	75,614	79,564	74,504	70,958	65,334
Law Enforcement and Custodial Officer Supplemental Retirement Fund:										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service:										
	15,635	19,583	21,477	23,492	25,836	27,694	29,053	31,675	35,174	37,580
Disability	1,180	1,179	1,357	1,275	1,318	1,250	1,208	1,180	1,168	1,161
Partial Lump Sum Option				2,792	1,882	1,240	1,889	2,053	2,300	2,260
Total Retirement Benefits	16,815	20,762	22,834	27,559	29,036	30,184	32,150	34,908	38,642	41,001
Death Benefits:										
Active Members:										
Non-Occupational										317
Total Death Benefits	-	-	-	-	-	-	-	-	-	317
Refunds:										
Resignation										161,507
Death										233
Total Refunds	-	-	-	-	-	-	-	-	-	161,740
Judicial Retirement System of Texas Plan One:										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service:										
	21,701	21,778	22,673	22,620	22,283	27,664	29,029	28,657	28,194	27,302
Total Retirement Benefits	21,701	21,778	22,673	22,620	22,283	27,664	29,029	28,657	28,194	27,302
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:										
	744	868	1,453	1,983	2,609	3,107	4,254	4,958	6,134	7,149
Disability	208	208	208	184	192	291	348	470	493	358
Proportional	259	289	458	603	507	825	1,145	1,216	1,396	1,782
Total Retirement Benefits	1,211	1,365	2,119	2,770	3,308	4,223	5,747	6,644	8,023	9,289
Death Benefits:										
Active Members:										
Non-Occupational	3				10	24				
Total Death Benefits	3	-	-	-	10	24	-	-	-	-
Refunds:										
Resignation	55	195	152	235	67	4	58	73	206	118
Death	61	(8)		68	39	61				
Total Refunds	116	187	152	303	106	65	58	73	206	118
Excess Benefit Arrangement:										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service:										
		63	67	67	223	236	141	298	279	251
Total Retirement Benefits	-	63	67	67	223	236	141	298	279	251
State Retiree Health Plan:										
<i>Type of Benefit</i>										
Insurance Benefits:										
Accrued Claims						67,920	50,858	50,800	55,675	
Life Claims						22,140	18,514	20,839	24,430	
Prescriptions Drugs						151,020	172,701	175,831	182,620	
Administrative Fees						13,519	14,373	16,794	17,391	
HMO Payments						26,422	30,985	35,036	31,606	
Blue Cross Health						283,244	259,845	285,591	318,593	
Dental						9,765	10,952	11,967	13,074	
Total Insurance Benefits	-	-	-	-	-	574,030	558,228	596,858	643,389	-

Source: Comprehensive Annual Financial Reports

AVERAGE BENEFIT PAYMENTS - EMPLOYEE CLASS
LAST TEN FISCAL YEARS

Retirement Effective Dates (Note A) September 30, 2000 to August 31, 2010	Years of Credited Service					
	5-10	10-15	15-20	20-25	25-30	30+
- Period 9/30/00 to 8/31/01:						
Average Monthly Benefit	\$ 383.88	\$ 625.90	\$ 946.28	\$ 1,350.54	\$ 1,940.97	\$ 2,472.01
Average Final Average Salary	\$ 2,717.82	\$ 2,570.36	\$ 2,746.96	\$ 2,903.15	\$ 3,368.26	\$ 3,641.20
Number of Retired Members	130	528	355	443	793	642
- Period 9/30/01 to 8/31/02:						
Average Monthly Benefit	\$ 366.99	\$ 638.63	\$ 979.69	\$ 1,394.39	\$ 2,058.56	\$ 2,697.37
Average Final Average Salary	\$ 2,583.56	\$ 2,633.22	\$ 2,845.60	\$ 3,047.15	\$ 3,562.04	\$ 3,960.92
Number of Retired Members	161	616	392	583	984	979
- Period 9/30/02 to 8/31/03:						
Average Monthly Benefit	\$ 376.70	\$ 685.44	\$ 1,021.54	\$ 1,444.80	\$ 2,068.23	\$ 2,756.58
Average Final Average Salary	\$ 2,555.05	\$ 2,778.11	\$ 2,883.13	\$ 3,202.58	\$ 3,581.63	\$ 4,014.14
Number of Retired Members	336	1,388	847	1,089	1,696	1,741
- Period 9/30/03 to 8/31/04:						
Average Monthly Benefit	\$ 407.84	\$ 644.30	\$ 1,102.91	\$ 1,556.83	\$ 2,222.54	\$ 2,710.62
Average Final Average Salary	\$ 2,809.22	\$ 2,810.28	\$ 3,052.24	\$ 3,324.65	\$ 3,798.44	\$ 4,009.25
Number of Retired Members	187	485	306	729	901	452
- Period 9/30/04 to 8/31/05:						
Average Monthly Benefit	\$ 387.77	\$ 724.93	\$ 1,216.46	\$ 1,620.56	\$ 2,326.28	\$ 2,900.72
Average Final Average Salary	\$ 2,584.96	\$ 2,864.05	\$ 3,266.28	\$ 3,371.29	\$ 3,913.48	\$ 4,136.44
Number of Retired Members	152	545	373	714	857	441
- Period 9/30/05 to 8/31/06:						
Average Monthly Benefit	\$ 403.42	\$ 725.76	\$ 1,254.21	\$ 1,634.55	\$ 2,150.22	\$ 3,005.10
Average Final Average Salary	\$ 2,653.07	\$ 2,848.35	\$ 3,314.42	\$ 3,476.65	\$ 3,655.16	\$ 4,237.91
Number of Retired Members	154	430	301	382	383	251
- Period 9/30/06 to 8/31/07:						
Average Monthly Benefit	\$ 430.22	\$ 780.07	\$ 1,274.23	\$ 1,732.38	\$ 2,497.26	\$ 3,051.22
Average Final Average Salary	\$ 2,798.75	\$ 3,000.66	\$ 3,356.58	\$ 3,653.06	\$ 4,199.68	\$ 4,306.18
Number of Retired Members	204	473	388	639	595	416
- Period 9/30/07 to 8/31/08:						
Average Monthly Benefit	\$ 465.97	\$ 806.01	\$ 1,330.70	\$ 1,874.26	\$ 2,642.85	\$ 3,527.99
Average Final Average Salary	\$ 2,991.01	\$ 3,125.79	\$ 3,433.24	\$ 3,898.20	\$ 4,320.35	\$ 4,788.36
Number of Retired Members	210	512	451	624	635	441
- Period 9/30/08 to 8/31/09:						
Average Monthly Benefit	\$ 485.21	\$ 805.90	\$ 1,302.37	\$ 1,876.92	\$ 2,619.15	\$ 3,529.85
Average Final Average Salary	\$ 3,153.68	\$ 3,094.03	\$ 3,441.14	\$ 3,853.93	\$ 4,296.59	\$ 4,859.34
Number of Retired Members	205	484	514	639	556	410
- Period 9/30/09 to 8/31/10:						
Average Monthly Benefit	\$ 468.75	\$ 872.68	\$ 1,362.54	\$ 1,929.09	\$ 2,685.05	\$ 3,749.69
Average Final Average Salary	\$ 3,060.52	\$ 3,299.17	\$ 3,568.84	\$ 3,937.19	\$ 4,434.70	\$ 5,117.58
Number of Retired Members	222	515	579	727	650	540
Five Year Average -						
Period 9/30/05 to 8/31/10:						
Average Monthly Benefit	\$ 453.54	\$ 800.83	\$ 1,312.31	\$ 1,827.54	\$ 2,550.25	\$ 3,426.39
Average Final Average Salary	\$ 2,948.31	\$ 3,082.47	\$ 3,440.88	\$ 3,792.71	\$ 4,226.19	\$ 4,724.28
Average Number of Retired Members	199	483	447	602	564	412
Ten Year Average -						
Period 9/30/00 to 8/31/10:						
Average Monthly Benefit	\$ 419.20	\$ 722.23	\$ 1,177.73	\$ 1,640.94	\$ 2,268.05	\$ 2,943.59
Average Final Average Salary	\$ 2,794.28	\$ 2,878.22	\$ 3,188.74	\$ 3,470.97	\$ 3,843.53	\$ 4,207.66
Average Number of Retired Members	196	598	451	657	805	631

Note A: This schedule includes service retirements of the employee class as of October 28, 2010. It does not include disability retirements or the elected state official class. This schedule does not include Partial Lump Sum (PLSO) payments.

Source: The System's Actuarial Consultant

RETIRED MEMBERS BY TYPE OF BENEFIT
AUGUST 31, 2010

Employees Retirement Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)						
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5	
\$										
0-300	5,149	4,964	185	2,793	1,160	367	126	537	166	
301-600	10,740	9,952	788	7,072	1,773	559	430	530	376	
601-900	11,318	10,437	881	7,616	1,658	707	483	452	402	
901-1,200	9,867	9,414	453	6,446	1,453	831	395	364	378	
1,201-1,500	8,953	8,728	225	5,576	1,350	894	355	306	472	
1,501-2,000	11,051	10,916	135	6,480	1,598	1,410	426	417	720	
2,001-2,500	8,442	8,408	34	4,658	1,153	1,324	285	378	644	
2,501-3,000	5,922	5,910	12	2,948	856	1,074	181	275	588	
3,001-4,000	5,421	5,417	4	2,716	790	912	146	252	605	
4,001-10,999	2,448	2,446	2	1,158	443	379	66	99	303	
Total	79,311	76,592	2,719	47,463	12,234	8,457	2,893	3,610	4,654	

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	372	372	0	209	103	30	6	6	18
201-400	3,202	3,154	48	1,783	683	380	74	83	199
401-600	2,045	2,017	28	875	342	434	53	69	272
601-800	916	915	1	382	178	178	16	22	140
801-1,000	365	364	1	163	82	71	8	5	36
1,001-1,200	126	125	1	71	27	13	0	0	15
1,201-1,400	61	52	9	29	14	8	1	0	9
1,401-1,600	33	22	11	20	6	5	1	1	0
1,601-1,800	24	16	8	19	3	1	0	0	1
1,801-9,999	31	21	10	25	3	2	0	0	1
Total	7,175	7,058	117	3,576	1,441	1,122	159	186	691

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	10	10	0	3	5	1	1	0	0
2,001-2,500	4	4	0	1	1	0	1	1	0
2,501-3,000	3	3	0	0	0	0	1	1	1
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	22	22	0	3	17	1	0	0	1
4,501-5,000	31	31	0	11	15	3	0	2	0
5,001-5,500	35	35	0	10	13	3	1	0	8
5,501-6,000	12	12	0	6	3	1	0	2	0
6,001-6,500	26	25	1	21	2	2	1	0	0
6,501-7,000	5	5	0	3	0	1	0	0	1
7,001-9,999	6	6	0	5	1	0	0	0	0
Total	164	163	1	67	60	14	5	7	11

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Defined Benefit Plans	%	%	%	%	%	%	%	%	%	%
Employees Retirement Fund										
<i>Employee Class:</i>										*(Blended)
Employee*	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.5
State**	6.0	6.0	6.0	6.0	6.0	6.45	6.45	6.45	6.45	6.78
<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	6.45	6.45	6.45	6.45	6.45

*Note: For FY 2010, members contributed 6.45% from September, 2009 thru December, 2009. Members contributed 6.5% from Jan. to Aug., 2010.
 **Note: For FY 2010, the state contributed 6.45% from September, 2009 thru December, 2009. The state contributed 6.95% from Jan. to Aug., 2010.

Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A)

Employee										0.5
State								1.59	1.59	1.59

Judicial Retirement System Plan One Fund

Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
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Judicial Retirement System Plan Two Fund

Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
State	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83

State Retiree Health Plan

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Group Benefits Program (Note B)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Employee Only:</i>										
State Contribution Monthly Rate	249.71	276.02	308.84	300.27	315.56	343.48	360.54	360.54	360.54	385.38
HealthSelect Monthly Premium	249.71	276.02	308.84	300.27	315.56	343.48	360.54	360.54	360.54	385.38
<i>Employee & Children:</i>										
State Contribution Monthly Rate	344.97	381.43	426.89	415.02	436.19	474.86	498.49	498.49	498.49	532.90
HealthSelect Monthly Premium	440.23	486.84	544.93	529.76	556.82	606.24	636.44	636.44	636.44	680.42
<i>Employee & Spouse:</i>										
State Contribution Monthly Rate	391.98	433.45	485.14	471.65	495.73	539.70	566.57	566.57	566.57	605.70
HealthSelect Monthly Premium	534.25	590.88	661.44	643.02	675.89	735.92	772.60	772.60	772.60	826.02
<i>Employee & Family:</i>										
State Contribution Monthly Rate	487.24	538.86	603.19	586.39	616.36	671.08	704.52	704.52	704.52	753.22
HealthSelect Monthly Premium	724.77	801.70	897.53	872.51	917.15	998.68	1,048.50	1,048.50	1,048.50	1,121.06
Total State Contribution (in millions) (Note C)	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	1,233.8

Note A: FY 2010 is the first year that members contributed 0.5% to the Law Enforcement and Custodial Officer Supplemental Retirement Fund.

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

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

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
(Note C)										
Employees Retirement Fund										
Active Contributing Members	149,956	150,313	142,315	133,349	132,417	132,411	132,497	134,626	141,223	142,490
Non-Contributing Members	46,089	48,903	51,868	54,658	57,089	61,567	67,803	74,094	72,585	78,737
Retirees and Beneficiaries	47,392	50,514	57,024	60,089	63,453	67,596	70,456	72,678	75,722	79,311
Service Retirements	3,229	4,050	7,581	3,906	4,609	2,929	4,110	4,445	4,338	4,803
Disability Retirements	213	156	174	181	179	80	98	115	95	67
Resignation Refunds	21,869	16,817	16,680	13,947	14,239	11,199	11,365	10,763	-	8,497
Death Refunds	301	335	316	237	294	317	551	175	-	300
Law Enforcement and Custodial Officer Supplemental Retirement Fund (Notes A & B)										
Active Contributing Members	40,431	41,221	40,332	38,391	37,251	37,103	36,413	33,642	37,819	39,052
Non-Contributing Members	5,619	6,519	7,264	7,856	8,428	33	27	35	39	2,978
Retirees and Beneficiaries	3,093	3,523	4,166	4,576	5,072	5,318	5,805	6,204	6,647	7,175
Service Retirements	296	508	686	431	537	306	553	637	559	635
Disability Retirements	4	3	1	3			4		2	
Resignation Refunds										
Death Refunds										
Judicial Retirement System of Texas Plan One										
Active Contributing Members	95	91	58	53	28	43	24	27	23	22
Non-Contributing Members	24	24	22	15	36	12	15	7	7	7
Retirees and Beneficiaries	485	493	505	494	491	486	488	471	461	447
Service Retirements	26	13	27	10	12	7	16	6	4	2
Disability Retirements										
Resignation Refunds				1	1		3			
Death Refunds			1		1					
Judicial Retirement System of Texas Plan Two										
Active Contributing Members	442	464	476	484	491	498	515	518	533	539
Non-Contributing Members	77	63	80	79	90	95	115	120	134	130
Retirees and Beneficiaries	29	34	78	72	81	89	116	117	152	164
Service Retirements	3	3	24	8	9	10	24	6	36	12
Disability Retirements										
Resignation Refunds	3	7	5	8	8	2	3	4	0	7
Death Refunds					1	1				
State Retiree Health Plan (Note D)										
Retirees							75,958	80,543	83,494	86,111
Dependents							30,653	31,293	32,067	32,408

Note A: FY 2010 is the first year refunds are applicable to the LECOS because member contributions began September 1, 2009.

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
457 Defined Contribution Plan (Note A)										
TexaSaver 457 Plan (Note B):										
Total Participants	4,531	5,793	7,525	9,937	12,425	14,960	16,646	15,980	16,727	18,479
Participants Currently Deferring	3,419	3,971	4,862	5,908	7,632	8,350	9,475	10,282	10,295	11,649
Current Market Value of Plan Assets (in millions)	\$ 56.4	\$ 69.7	\$ 103.7	\$ 159.6	\$ 219.8	\$ 265.3	\$ 325.7	\$ 266.8	\$ 274.0	\$ 334.5
Original 457 Plan (Notes B, C & D):										
Total Participants	8,374	7,422	6,015	5,104	3,693	3,169	2,780	2,527	2,278	1,293
Participants Currently Deferring	267	261	207	138	127	121	101	82	74	63
TexaSaver 401(k) Defined Contribution Plan (Note A)										
Total Participants	54,177	57,155	56,848	56,504	54,349	54,710	55,212	61,692	80,735	96,250
Participants Currently Deferring	38,407	35,856	32,714	30,075	28,574	28,314	28,587	37,399	52,347	69,311
Current Market Value of Plan Assets (in millions)	\$ 602.6	\$ 604.7	\$ 703.4	\$ 779.3	\$ 886.0	\$ 990.4	\$ 1,154.0	\$ 1,143.0	\$ 1,085.0	\$ 1,249.5
Deferrals (in millions)	\$ 94.9	\$ 95.0	\$ 89.1	\$ 86.9	\$ 83.6	\$ 89.2	\$ 94.7	\$ 103.8	\$ 168.0	\$ 108.2
Cafeteria Plan (Note A)										
Reimbursement Accounts:										
Health Care	15,924	17,419	19,128	23,868	29,728	33,047	35,342	40,685	43,001	46,556
Dependent Care	2,480	2,336	2,297	2,416	2,522	2,665	2,836	3,012	3,261	3,549
Total Redirected (in millions)	\$ 27.1	\$ 30.1	\$ 33.6	\$ 43.1	\$ 52.4	\$ 60.0	\$ 67.5	\$ 75.3	\$ 80.2	\$ 87.5
Premium Conversion:										
Participants	208,511	208,651	209,929	199,215	206,173	209,214	210,744	215,618	223,980	228,121
Premiums Redirected (in millions)	\$ 263.8	\$ 291.0	\$ 312.1	\$ 321.4	\$ 337.8	\$ 363.3	\$ 386.4	\$ 389.7	\$ 410.3	\$ 457.4
Tax Savings (in millions):										
Employees	\$ 59.7	\$ 65.9	\$ 70.7	\$ 72.8	\$ 76.5	\$ 82.3	\$ 87.5	\$ 88.3	\$ 92.9	\$ 103.6
State of Texas	\$ 20.2	\$ 22.3	\$ 23.9	\$ 24.6	\$ 25.8	\$ 27.8	\$ 29.6	\$ 29.8	\$ 31.4	\$ 35.0
Group Benefits Program (Note A & F)										
Membership:										
Active	210,924	209,859	211,695	192,859	198,627	200,775	216,958	222,660	230,285	234,057
Retired	57,953	56,714	59,603	66,348	68,109	69,748	N/A	N/A	N/A	N/A
Dependents	252,000	253,000	248,749	235,834	236,691	232,846	199,833	190,573	198,420	197,979
COBRA (Note E)	2,124	2,060	1,744	1,736	1,558	2,485	2,009	2,138	2,178	2,544
	523,001	521,633	521,791	496,777	504,985	505,854	418,800	415,371	430,883	434,580
Death Benefit Programs										
Lump Sum Payments	29	36	20	19	11	16	12	13	6	18
Monthly Payments to Guardians	104	107	113	109	127	133	114	111	100	103
Victims of Violent Crime	n/a	n/a	n/a	n/a	5	3	2	8	8	5

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, 2010.

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

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

Note F: In fiscal year 2007, the Group Benefits Program was separated into two funds (Active and Retiree) due to the implementation of GASB 43. Retired members and their dependents were moved to a fiduciary fund named the State Retiree Health Plan.

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

LISTING OF PARTICIPATING REPORTING ENTITIES FOR STATE RETIREE HEALTH PLAN

STATE AGENCIES

Adjutant General'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 Veterinary Medical Examiners
Cancer Prevention & Research Institute of Texas
Commission on Jail Standards
Commission on Judicial Conduct
Commission on Law Enforcement Officer Standards and Education
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 Motor Vehicles
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
Pension Review Board
Physical & Occupational Therapy Examiners
Public Insurance Counsel
Public Utilities Commission
Railroad Commission
Real Estate Commission
Savings & Mortgage 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 Board of Educator Certification
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 Commission on Environmental Quality
Texas Commission on Fire Protection
Texas Commission on the Arts
Texas Department of Criminal Justice
Texas Department of Transportation
Texas Education Agency
Texas Facilities Commission
Texas Funeral Service Commission

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LISTING OF PARTICIPATING REPORTING ENTITIES FOR STATE RETIREE HEALTH PLAN (CONCLUDED)

STATE AGENCIES (CONTINUED)

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 Treasury Safekeeping
Texas Veterans Commission
Texas Workforce Commission
Texas Youth Commission
University of Texas Medical Branch
Vernon State Hospital
Water Development Board

UNIVERSITIES

Angelo State University
Texas State University System
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

Cisco Junior College
Central Texas 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 Collegiate 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

Community Supervision and Corrections Departments
Texas County & District Retirement System
Texas Municipal Retirement System
Texas Tollway Authority
Windham School District

The principle participating employer is the state of Texas. State agencies and universities comprise 73% of the employees covered by the State Retiree Health Plan.



ERS ENHANCES THE LIVES OF OUR PARTICIPANTS
THROUGH THE DELIVERY OF QUALITY BENEFITS AT A REASONABLE COST.



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