



# 2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT



Employees Retirement System of Texas

A Component Unit of the State of Texas

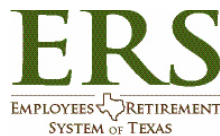
Fiscal Year Ended August 31, 2011

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

# 2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Ann S. Bishop, Executive Director

Prepared by: Finance Division  
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A COMPONENT UNIT OF THE STATE OF TEXAS  
FISCAL YEAR ENDED AUGUST 31, 2011

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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, 2011

## Retirement Census Data

	ERS (A) \$	LECOS (A) \$	JRS I \$	JRS II \$
Active Members	137,293	36,806	17	546
Terminated Employees Entitled to Benefits	84,900	5,785	5	134
<b>Total Retirement Accounts</b>	<b>222,193</b>	<b>42,591</b>	<b>22</b>	<b>680</b>
Retirees and Beneficiaries	83,430	7,728	445	208
Service Retirements	5,734	695	6	43
Disability Retirements	74	0	0	0
<b>Total Retirements During the Fiscal Year</b>	<b>5,808</b>	<b>695</b>	<b>6</b>	<b>43</b>
Funded Ratios (Note C)	82.6%	83.7%		94.6%

## Results of Investments - Pension Trust Funds

	ERS \$	LECOS \$	JRS I (B) \$	JRS II \$
Interest, Dividends & Securities				
Lending Income	551,315,417	18,888,399		7,073,464
Net Appreciation (Depreciation) in Fair Value of Investments	1,920,579,494	65,020,400		23,796,950

## Time Weighted Rate of Return

	1-Year	3-Year	5-Year
Investment Pool Trust Fund	12.58%	3.89%	4.03%

## Other Transactions Summary

	ERS \$	LECOS \$	JRS I (B) \$	JRS II \$
Member Contributions	425,811,039	7,604,323		4,291,326
State Retirement Contributions	414,083,912	24,227,737		11,932,875
Retirement Benefits	1,585,050,345	43,020,033	26,988,020	11,722,267
Member Contributions Withdrawn	79,535,160	694,556		47,414
Administrative Expenses	18,849,788	936,543		285,851
Investment Expenses	60,347,228	2,140,133		723,423

- ERS - Employees Retirement Fund
- LECOS - Law Enforcement and Custodial Officer Supplemental Retirement Fund
- JRS I - Judicial Retirement System Plan One
- JRS II - Judicial Retirement System Plan Two

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

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

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



November 16, 2011

ANN S. BISHOP  
EXECUTIVE DIRECTOR

Dear Governor Perry and Members of the Texas Legislature:

YOLANDA GRIEGO  
CHAIR

We are pleased to present you this report showing that the Employees Retirement System of Texas performed well in 2011, earning 12.58%. The retirement trust fund was valued at \$21.2 billion on August 31, up from last year's balance of \$19.6 billion. We were able to achieve this investment performance despite continued economic uncertainty both here and internationally.

I. CRAIG HESTER  
VICE-CHAIR

BOARD OF TRUSTEES  
CYDNEY C. DONNELL  
CHERYL. MACBRIDE  
BRIAN D. RAGLAND  
DONALD E. WOOD

The earnings helped ERS maintain its strong financial position, with a funded ratio of 82.6%. That means that the system has about 83 cents in its trust account to pay every future dollar of benefits whether it is going to someone who has already retired, a currently contributing system member, or a member who has left his or her money on account with ERS.

Unfortunately, without action this funded ratio will continue to decline, because the system is paying off debts incurred when benefit increases were more than contributions and investment returns could support. Changes to the benefit structure that went into effect on September 1, 2009 will help, as will strong investment performance. But, the most certain way to address the unfunded liabilities is to increase the combined employee and employer contribution rate to cover both the current and unfunded costs of pension benefits. The combined contribution rate required to do that is now 17.47%.

In Fiscal Year 2012, the combined state and member contributions of 12.5% will cover the normal cost of providing benefits, but does not pay down the unfunded liabilities which will continue to grow. The 2012 rate is lower than the Fiscal Year 2011 rate of 13.45%, due to a lowered contribution from the State.

The Fiscal Year 2011 rate of return is well above the 8% rate of return that ERS assumes we will earn each year. It might be tempting to believe that ERS could pay off any unfunded liabilities through higher and higher investment returns. However, as we all know, past performance is no

guarantee of future returns and a fiduciary must deal with reality. ERS will conduct an asset allocation and experience study in Fiscal Year 2012. The studies are crucial to calibrating our continuing expectations about the investment marketplace. The experience study examines the recent behavior of our members concerning their retirement to see if their behavior coincided with our assumptions. As part of these studies, the ERS Board will consider whether to adjust any underlying demographic or investment assumptions.

In addition to economic uncertainty, ERS, like other public sector retirement systems, faced uncertain public support this past year. Public sector employees and their benefits were under scrutiny across the nation. In keeping with their practice of strong oversight and deliberate policy making, the Texas Legislature chose not to make short-term political decisions with long-term consequences. Instead, the Legislature directed ERS to conduct an interim study into the long term sustainability of both the pension and insurance benefit programs. The study will provide an opportunity for Texas policymakers to review the many options related to the benefits provided by the State. It will also provide a context in order to understand both the fiscal and workforce implications of any change. We appreciate the opportunity to conduct the study.

As always, we are proud of the partnership we have with the leadership, and proud of the contributions made on behalf of Texas citizens by our members—the employees of this great state.

Sincerely,



Ann S. Bishop  
Executive Director



Cydney Donnell  
Chair, ERS Board of Trustees



November 16, 2011

ANN S. BISHOP  
EXECUTIVE DIRECTOR

YOLANDA GRIEGO  
CHAIR

I. CRAIG HESTER  
VICE-CHAIR

BOARD OF TRUSTEES  
CYDNEY C. DONNELL  
CHERYL. MACBRIDE  
BRIAN D. RAGLAND  
DONALD E. WOOD

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

Ladies and Gentlemen:

I am pleased to submit the Annual Financial Report of the Employees Retirement System of Texas (the System) for the year ended August 31, 2011, in compliance with TEX. GOV'T CODE ANN Sec. 2101.011 and in accordance with the requirements established by the Texas Comptroller of Public Accounts. This report is in compliance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB), including the financial reporting model based on GASB Statement 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Its purpose is to provide information as a basis for making management decisions, to determine compliance with legal provisions, and to determine responsible stewardship over the assets contributed by the members and the state.

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

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

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

#### SYSTEM'S STRUCTURE AND SERVICES

For financial reporting purposes, the System is considered a Retirement System of the State of Texas. The System's financial activities will be included in the annual financial report for the State of Texas for the fiscal year ended August 31, 2011.

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 \$22.1 billion, and had a return of 12.58% for the year. The investment portfolio's total return exceeded the actuarially assumed rate of return of 8.0%. The time weighted rate of return for three and five years were 3.89% and 4.03% 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, 2011 actuarial valuation shows that the ratio of the actuarial value of assets to the actuarial accrued liability was 82.6%. The average actuarial funding level for public pension plans nationwide was 77.2% for fiscal year 2010 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. 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 Legislature to further improve the funding status of the retirement plans. The System will conduct a study and report on the actuarial and fiscal impacts from potential changes to state pension plans, including but not limited to: retirement eligibility; final average salary; benefit multiplier; and the creation of a hybrid plan that includes defined benefit and defined contribution features such as a two-part plan or a cash balance plan. The report will be submitted to the Legislative Budget Board and the Governor no later than September 1, 2012. Additional information on funding status and progress toward achieving funding goals is presented in the Financial Section, Required Supplementary Information, and 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 streamlining global equities policies and procedures and developing a new comprehensive risk reporting system. The pension plan study mentioned in the previous paragraph will also be a major initiative.

For the Group Benefits Program, the System actively managed health insurance claim costs, resulting in cost savings of \$6.6 billion compared to full billing costs in FY 2010. The System will continue to analyze and implement various changes as required by Federal Health Care reform. The System will work with the Legislature to design innovative approaches to provide a quality health care plan at a reasonable cost. The System will conduct a study of the current group insurance program that includes, but is not limited to, the current plan design and funding of the group insurance program, and other changes that would improve the long-term sustainability of the group insurance program. The report will be submitted to the Legislative Board and the Governor no later than September 1, 2012.

The System continues to enhance performance and accountability. The System will complete the final phase of an Enterprise Content Management (ECM) system, providing standardized document search and retrieval and automated document production workflow. The System is also implementing a Rules Management Engine for Pension and Benefits Administration providing the ability to efficiently update business rules as requirements change due to legislative or business requirements, resulting in faster deployments with shorter developmental cycles. The System will coordinate with pension system actuaries to perform an actuarial experience study and consider recommendations for appropriate plan administration changes.

Communication initiatives include allowing communications recipients to choose print or online delivery, and deploying additional website tools for members. The System plans to conduct an education campaign focused on helping participants lower health claim costs for themselves and the Group Benefits Program. 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, 2010. 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 22 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, 2010

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.



*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director

# ORGANIZATIONAL CHART AND DATA

AS OF AUGUST 31, 2011

## Board of Trustees



Yolanda "Yoly"  
Griego



Cydney C. Donnell  
Vice Chair



I. Craig Hester  
Chair



Cheryl MacBride



Owen Whitworth



Donald E. Wood





# CONSULTANTS AND ADVISORS

AS OF AUGUST 31, 2011

## CONSULTING ACTUARIES

Philip S. Dial, F.S.A, Rudd and Wisdom, Inc.9  
R. Ryan Falls, F.S.A, Buck Consultants, an ACS Company

## INVESTMENT ADVISORY COMMITTEE

Vernon D. Torgerson, Jr. CFA, Chair, Frost National Bank of San Antonio  
Bob Alley, CFA, Vice Chair  
J. Luther King, Jr., CFA, Luther King Capital Management  
Ken D. Mindell, Senior Vice-President, Rosewood Management Corp.  
Laura T. Starks, Ph.D., The University of Texas at Austin  
Lenore Sullivan  
James Hille, CFA, CAIA, Texas Christian University Endowment

## INVESTMENT CONSULTANTS

Altius Associates  
Hewitt Ennis Knupp & Associates  
RV Kuhns & Associates

## INVESTMENT ADVISORY MANAGERS

### **Domestic Equity**

Alliance Bernstein Management, LLP  
Barrow, Hanley, Mewhinney & Strauss, LLC  
Herndon Capital Management, LLC

### **Fixed Income**

Fountain Capital Management, LLC

### **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**

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 ten years of service (changed from 5 to 10 years of service by the 82nd Legislature effective 09/1/2011) and the sum of age and service equal or exceeding 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
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## SERVICE RETIREMENT ELIGIBILITY:

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

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

<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>• Standard monthly annuity is equal to 2.3% of average monthly compensation multiplied by the number of years of service credit.</li> <li>• Average monthly compensation is the average of the highest 36 months of compensation.</li> <li>• Minimum standard annuity is \$150 per month.</li> <li>• Maximum standard annuity is 100% of the average monthly compensation.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>• Standard monthly annuity is 2.3% of the current State salary of a district judge multiplied by the number of years of service credit.</li> <li>• Retirement benefits are automatically adjusted should State judicial salaries change.</li> <li>• Maximum standard annuity is 100% of the State salary being paid to a district judge.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit.</li> <li>• Average monthly compensation is the average of the highest 36 months of compensation.</li> <li>• Minimum standard annuity is \$150 per month.</li> <li>• Maximum standard annuity is 100% of the average monthly compensation.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly annuity is equal to 50% of the salary for the last position from which the retiring member was elected or appointed.</li> <li>• An additional 10% is paid when a member retires within one year of leaving office or within one year of last assignment as a visiting judge.</li> <li>• The monthly annuity of a member who elects to make contributions after 20 years of service would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.</li> </ul> <p><i>JRS II Only:</i></p> <ul style="list-style-type: none"> <li>• The monthly annuity of a member who elects to make contributions after reaching the Rule of 70 with at least 12 years on an appellate court would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.</li> </ul>
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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"> <li>• Lifetime with 100% to surviving beneficiary;</li> <li>• Lifetime with 75% to surviving beneficiary;</li> <li>• Lifetime with 50% to surviving beneficiary;</li> <li>• Lifetime with five years certain;</li> <li>• Lifetime with 10 years certain; and</li> <li>• One-time partial lump sum of up to three years of standard annuity at retirement (annuity is reduced for life and the reduced annuity is in addition to the calculation of the six beneficiary options listed above).</li> <li>• If beneficiary predeceases member, the annuity paid to the retired member who selected one of the lifetime survivor benefits is increased to the standard annuity.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as ERS.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as ERS except for the one-time partial lump sum.</li> </ul>
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## VESTING REQUIREMENT:

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

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

Ms. Yolanda Griego, Chair  
Mr. I. Craig Hester, Vice Chair  
Ms. Cydney Donnell  
Ms. Cheryl MacBride  
Mr. Brian D. Ragland

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of the Employees Retirement System (System), as of and for the year ended August 31, 2011, 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.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

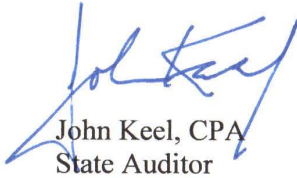
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of the System, as of August 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 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 accounting principles generally accepted in the United States of America. 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 and the Introductory, Investment, Actuarial, and Statistical sections, 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. The combining financial schedules and supporting schedules included in the other supplementary information, as listed in the Table of Contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue a separate 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, and 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 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, 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2011

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, 2011. 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 Program). Highlights are presented under the heading Financial Analysis on Government-wide Statements below.
- Exhibit VII is a required Statement of Cash Flows for the Group Benefits Program, 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

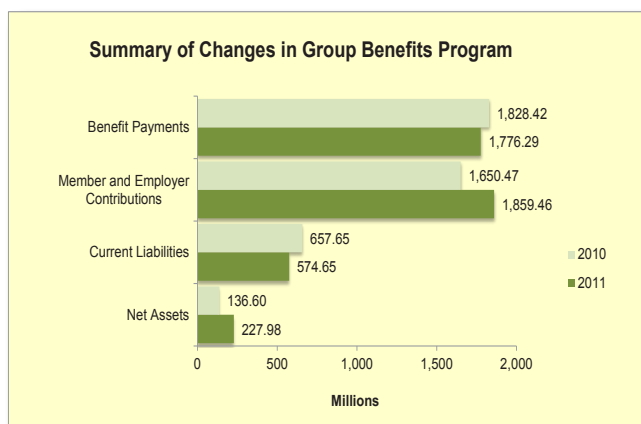
The government-wide activities of the System are comprised of five programs:

- 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,		2010-2011 Incr (Decr)
	2011	2010	
	\$	\$	%
Net Assets	227.98	136.60	66.90
Current Liabilities	574.65	657.65	(12.62)
Member and Employer Contributions	1,859.46	1,650.47	12.66
Benefit Payments	1,776.29	1,828.42	(2.85)

The increase in Net Assets and the decreases in Benefit Payments and Current Liabilities resulted from plan design changes, rate increases and health care cost trend actuals that were less than estimated.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

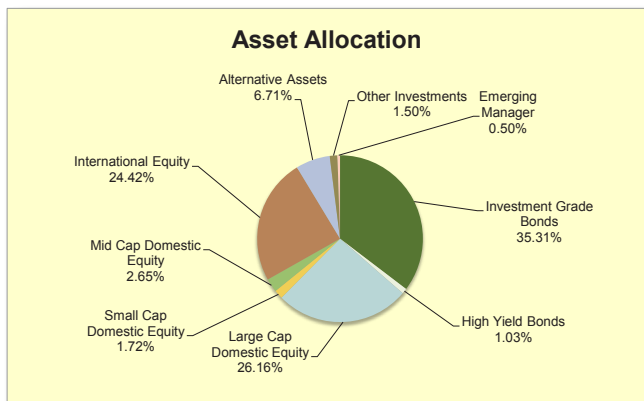
YEAR ENDED AUGUST 31, 2011

## FINANCIAL HIGHLIGHTS – FIDUCIARY FUNDS

- Net assets of the Fiduciary Funds administered by the System totaled \$22.20 billion as of August 31, 2011, compared with \$20.47 billion as of August 31, 2010. The investment portfolio returned 12.58% for the year. The \$1.73 billion increase resulted primarily from recovering market conditions affecting investment assets. The time weighted rate of return for three and five years were 3.89% and 4.03% 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:

- 35.31% investment grade bonds
- 1.03% high yield bonds
- 26.16% large cap domestic equity
- 1.72% small cap domestic equity
- 2.65% mid cap domestic equity
- 24.42% international equity
- 6.71% alternative assets
- 0.50% emerging manager composite
- 1.50% 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,		2010-2011 Incr (Decr) %
	2011	2010	
	\$	\$	
<i>Contributions:</i>			
Retirement & Other	979.71	950.17	3.11
Insurance	648.41	645.41	0.46
<b>Total (Exh. XI)</b>	<b>1,628.12</b>	<b>1,595.58</b>	<b>2.04</b>
<i>Benefit Payments:</i>			
Retirement & Other	1,759.98	1,652.13	6.53
Insurance	646.20	643.39	0.44
<b>Total (Exh. XI)</b>	<b>2,406.18</b>	<b>2,295.52</b>	<b>4.82</b>

- The increase in retirement contributions is primarily due to a legislative rate increase. The benefit payments for retirement increased due to an increase in retirees. The most recent actuarial valuations of the funded defined benefit plans were completed as of August 31, 2011. The funded ratios are as follows:

Plans	Funded Ratios August 31,	
	2011	2010
Employees Retirement System	82.6	83.2%
Law Enforcement and Custodial Officer Supplemental Retirement Fund	83.7	83.1%
Judicial Retirement System of Texas Plan Two	94.6	93.9%

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

## FIDUCIARY NET ASSETS

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

	August 31,		2010-2011 Incr (Decr) %
	2011	2010	
	\$	\$	
Changes in Fiduciary Net Assets (Exh. IX)	1,726.87	537.13	221.50
<b>Total Net Assets</b>	<b>22,206.79</b>	<b>20,479.92</b>	<b>8.43</b>

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

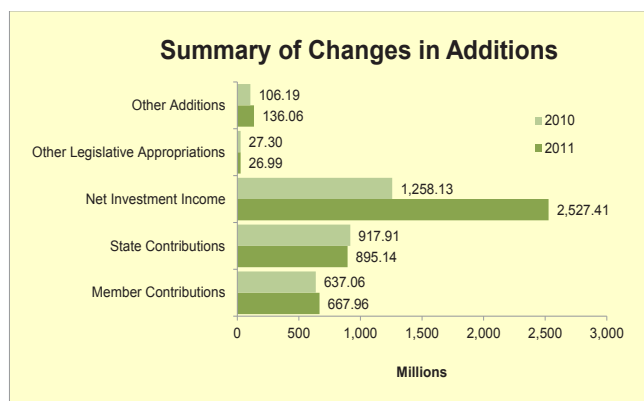
YEAR ENDED AUGUST 31, 2011

## 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,		2010-2011 Incr (Decr) %
	2011	2010	
Member Contributions	\$ 667.96	\$ 637.06	4.85
State Contributions	895.14	917.91	(2.48)
Net Investment Income	2,527.41	1,258.13	100.89
Other Legislative Appropriations	26.99	27.30	(1.14)
Other Additions	136.06	106.19	28.13
<b>Total Additions (Exh.IX)</b>	<b>4,253.56</b>	<b>2,946.59</b>	<b>44.36</b>

Increases in the additions in the above tables are due primarily to the improving conditions in the financial markets, and legislative increases to member contribution rates. The state contribution requirement for retiree insurance decreased due to additional funding from the Federal Early Retirees Reinsurance Program.



For the Employees Retirement Fund, member and State retirement contribution rates for fiscal year 2011 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.

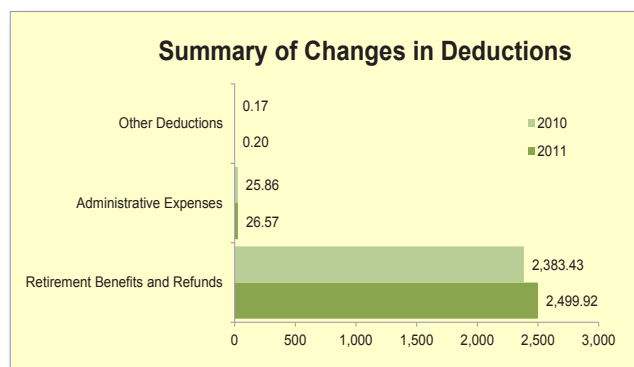
Net investment income is comprised of interest income, dividend income, securities lending income and related fees, and net appreciation or depreciation in fair value of investments, and is net of investment expenses.

## 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,		2010-2011 Incr (Decr) %
	2011	2010	
Benefits	\$ 2,499.92	\$ 2,383.43	4.89
Administrative Expenses	26.57	25.86	2.75
Other Deductions	0.20	0.17	17.65
<b>Total Deductions (Exh. IX)</b>	<b>2,526.69</b>	<b>2,409.46</b>	<b>4.87</b>



## ASSETS

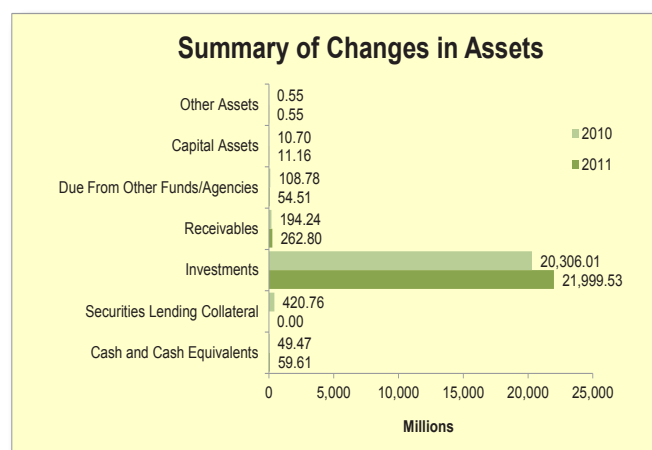
Investments, both short-term and long-term, are the primary asset of the System's pension and other employee benefit trust funds as shown in the following table. Asset information has been extracted from Exhibit VIII.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2011

Changes in assets are summarized in millions as follows:

	August 31,		2010-2011 Incr (Decr) %
	2011	2010	
	\$	\$	
Cash and Cash Equivalents	59.61	49.47	20.50
Securities Lending Collateral	-	420.76	(100.00)
Investments	21,999.53	20,306.01	8.34
Receivables	262.80	194.24	35.30
Due from Other Funds/Agencies	54.51	108.78	(49.89)
Capital Assets	11.16	10.70	4.30
Other Assets	0.55	0.55	-
<b>Total Assets (Exh. VIII)</b>	<b>22,388.16</b>	<b>21,090.51</b>	<b>6.15</b>

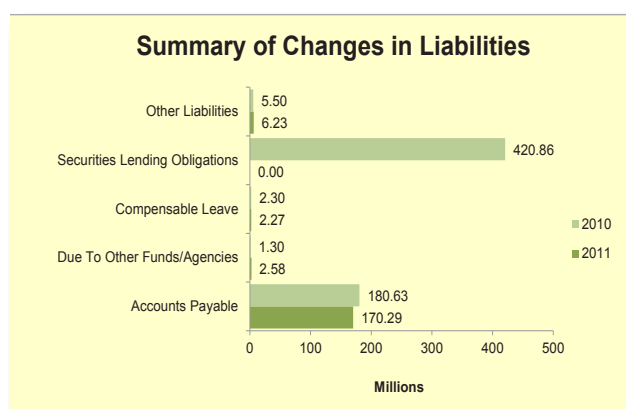


Securities Lending Collateral reduced by 100%. The decrease was a result of the System's change of custodian bank, as of September 1, 2011, and a decision to reduce securities lending to zero prior to the transition.

## 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,		2010-2011 Incr (Decr) %
	2011	2010	
	\$	\$	
Accounts Payable	170.29	180.63	(5.72)
Due to Other Funds/Agencies	2.58	1.30	98.46
Compensable Leave	2.27	2.30	(1.30)
Securities Lending Obligations	-	420.86	(100.00)
Other Liabilities	6.23	5.50	13.27
<b>Total Liabilities (Exh.VIII)</b>	<b>181.37</b>	<b>610.59</b>	<b>(70.30)</b>



Securities Lending Obligations reduced by 100%. The decrease was a result of the System's change of custodian bank, as of September 1, 2011, and a decision to reduce securities lending to zero prior to the transition.

## 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.

For funding purposes, the latest annual actuarial valuation of the System, as of August 31, 2011, (compared to the August 31, 2010 actuarial valuation) is summarized in millions as follows:

# MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2011

Plans	Actuarial	
	Net Asset/(Liability)	
	August 31,	
	2011	2010
Employees Retirement System	\$(5,052.7)	\$(4,783.2)
Law Enforcement and Custodial Officer Supplemental Retirement Fund	(162.3)	(163.7)
Judicial Retirement System of Texas Plan Two	(16.2)	(17.2)

For the Employees Retirement System Fund, the August 31, 2011 actuarial valuation shows an unfunded accrued liability of \$5,052.7 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 82.6% as of August 31, 2011. The valuation shows that the total normal cost is 12.31% of payroll and total contributions are 12.50% of payroll. The total contribution rate exceeds the normal cost by 0.19% 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 17.47% 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, 2011 actuarial valuation for the Law Enforcement and Custodial Officer Supplemental Retirement Fund shows that the total normal cost rate for fiscal year 2011 is 2.07% of payroll. At August 31, 2011, the unfunded accrued liability is \$162.3 million, and the funded ratio is 83.7%. Total contributions are 0.50% of payroll. The total contribution rate falls short of the normal cost by 1.57% of payroll for the current fiscal year. As a result, the amortization period is currently infinite and the funding objective is not currently being realized. For fiscal year 2011, 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, 2011 actuarial valuation shows that the total normal cost is 20.38% of payroll and unfunded accrued liability is \$16.2 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 94.6% as of August 31, 2011. Total

contributions are 12.0% of payroll. The rate needed to fund normal cost plus amortize the unfunded accrued liability over 31 years is 21.76%. Therefore, the amortization period is currently infinite and the funding objective is not currently being realized.

The Judicial Retirement Plan I is funded on a pay-as-you-go basis. The August 31, 2011 actuarial valuation shows an unfunded accrued liability of \$245.8 million and a funded ratio of 0.0%.

The State Retiree Health Plan is currently funded on a pay-as-you-go basis. For the State Retiree Health Plan, the August 31, 2011 actuarial valuation shows an unfunded accrued liability of \$21.5 billion. The funded ratio is 0.0%. The valuation shows that the total normal cost is 9.1% of payroll. The Annual Required Contribution (ARC) as of August 31, 2011 is 18.1% of payroll. Total contributions are 27.3% of the annual required contribution.

Contributions include health care premiums, State and member contributions, retiree drug subsidy payments, and early retirees reinsurance payments. Retiree premiums were \$135.1 million. Employer contributions were \$444.9 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 2011 totaling \$38.21 million. The plan received payments in 2011 from the Federal Early Retirees Reinsurance Program totaling \$30.18 million. The above amounts plus net investment income of \$435.5 thousand resulted in additions of \$648.8 million. These were offset entirely by \$646.2 million in benefit payments and \$2.7 million in administrative expense. The net plan assets are zero.

## CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the System's finances. If you have questions about this report or need additional financial information, please contact Michael C. Wheeler, Chief Financial Officer at [Mike.Wheeler@ers.state.tx.us](mailto:Mike.Wheeler@ers.state.tx.us).



**EXHIBIT I**  
**STATEMENT OF NET ASSETS**  
 AUGUST 31, 2011

<b>Assets</b>	<b>Governmental Activities August 31, 2011</b>
<b>Current Assets:</b>	
<i>Cash and Cash Equivalents:</i>	
Cash in State Treasury	22,310,903
<b>Total Cash and Cash Equivalents</b>	<b>22,310,903</b>
Short-Term Investments	369,969,603
Legislative Appropriations	3,375
Receivables	133,571,137
Due From Fiduciary Funds	563,135
Due From Other Agencies	38,016
<b>Total Current Assets</b>	<b>526,456,169</b>
<b>Non-Current Assets:</b>	
Investments	276,219,642
<b>Total Non-Current Assets</b>	<b>276,219,642</b>
<b>Total Assets</b>	<b>802,675,811</b>
 <b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Payables	526,103,744
Due To Fiduciary Funds	48,046,938
Deferred Revenue	532,246
<b>Total Current Liabilities</b>	<b>574,682,928</b>
<b>Total Liabilities</b>	<b>574,682,928</b>
 <b>NET ASSETS</b>	
<b>Restricted For:</b>	
Employee Benefits - Group Benefits Program	227,984,391
Unrestricted	8,492
<b>Total Net Assets (Exh. II &amp; III)</b>	<b>227,992,883</b>

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



EXHIBIT II  
 STATEMENT OF ACTIVITIES  
 YEAR ENDED AUGUST 31, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue & Changes in Net Assets Governmental Activities
	Expenses	Charges for Services	Operating Grants & Contributions	August 31, 2011
	\$	\$	\$	\$
<i>Governmental Activities:</i>				
Social Security Administration	101,586	65,480		(36,106)
Death Benefits-Peace Officers, Firemen, etc.	2,784,459	2,784,459		-
Compensation to Victims of Crime	1,750,000	1,750,000		-
Death Benefits-Retiree \$5,000 Lump Sum	7,885,117	7,885,117		-
Group Benefits Program	1,785,733,294	1,859,671,181	17,447,450	91,385,337
<b>Total Governmental Activities</b>	<b>1,798,254,456</b>	<b>1,872,156,237</b>	<b>17,447,450</b>	
		<b>Change in Net Assets (Exh. IV)</b>		<b>91,349,231</b>
		<b>Net Assets - Beginning</b>		<b>136,643,652</b>
		<b>Net Assets - Ending (Exh. I)</b>		<b>227,992,883</b>

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

**EXHIBIT III**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
 AUGUST 31, 2011

<b>ASSETS</b>	<b>Non-major Special Revenue Funds Totals (Note 1.E) August 31, 2011</b>
	\$
<b>Current Assets:</b>	
Cash and Cash Equivalents:	
Cash in State Treasury	29,821
Total Cash and Cash Equivalents	29,821
Legislative Appropriations	3,375
Accounts Receivable	6,008
Total Current Assets	39,204
<b>Total Assets</b>	<b>39,204</b>
<b>LIABILITIES &amp; FUND BALANCES</b>	
<b>Current Liabilities:</b>	
Payables:	
Voucher/Accounts Payable	3,375
Due To Other Funds (Note 1.G)	21,797
Deferred Revenues	5,540
Total Current Liabilities	30,712
<b>Total Liabilities</b>	<b>30,712</b>
<b>Fund Balances:</b>	
Committed:	
Social Security Administration Fund	8,492
<b>Total Fund Balances (Exh. IV)</b>	<b>8,492</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>39,204</b>
Total Fund Balances - Governmental Funds (above):	8,492
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.	227,984,391
<b>Net Assets of Governmental Activities (Exhibit I)</b>	<b>227,992,883</b>

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

**EXHIBIT IV**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
 YEAR ENDED AUGUST 31, 2011

	<b>Non-major Special Revenue Funds</b>
	<b>Totals (Note 1.E)</b>
	<b>August 31, 2011</b>
<b>REVENUES</b>	<b>\$</b>
<i>Legislative Appropriations Out of the State's General Revenue Fund:</i>	
<i>Appropriation Revenue:</i>	
For Death Benefits Peace Officers, Etc.	2,784,459
For Victims of Crime	1,750,000
For Death Benefits-Retirees	7,885,117
Total Appropriation Revenue	12,419,576
Administration Fees for Social Security Administration	65,480
<b>Total Revenues</b>	<b>12,485,056</b>
<b>EXPENDITURES</b>	
<i>Current:</i>	
Death Benefits	12,419,576
<i>Administrative Expenditures:</i>	
Salaries & Wages	70,148
Payroll Related Costs	18,040
Professional Fees & Services	(1,110)
Travel	638
Materials & Supplies	3,586
Communications & Utilities	1,679
Repairs & Maintenance	2,589
Rentals & Leases	3,248
Printing & Reproduction	197
Other Expenditures	2,571
Total Administrative Expenditures	101,586
<b>Total Expenditures</b>	<b>12,521,162</b>
<b>Excess of Expenditures over Revenues</b>	<b>(36,106)</b>
<b>Fund Balances - Beginning</b>	<b>44,598</b>
<b>Fund Balances - Ending (Exh. III)</b>	<b>8,492</b>
Net Change in Fund Balances - Governmental Funds:	(36,106)
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 of the Internal Service Fund (Exhibit VI) is included in 'Governmental Activities' in the Statement of Activities.	
	91,385,337
<b>Change in Net Assets of Governmental Activities (Exhibit II)</b>	<b>91,349,231</b>

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

**EXHIBIT V**  
**STATEMENT OF NET ASSETS – PROPRIETARY FUND**  
AUGUST 31, 2011

		<b>Internal Service Fund</b>
		<b>Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973) (U/F 2369)</b>
		<b>Totals</b>
		<b>August 31, 2011</b>
<b>ASSETS</b>	<b>\$</b>	
<b>Current Assets:</b>		
<i>Cash and Cash Equivalents:</i>		
Cash in State Treasury		22,281,082
Total Cash and Cash Equivalents		22,281,082
<i>Short-Term Investments:</i>		
Other Investments		369,969,603
Total Short-Term Investments		369,969,603
<i>Receivables:</i>		
Interest Receivable		1,563,920
Accounts Receivable		129,357,922
Unsettled Sales-Investment Receivables		2,624,663
COBRA Stimulus Receivable		18,624
Total Receivables		133,565,129
Due From Other Funds (Note 1.G)		563,135
Due From Other Agencies (Note 1.G)		38,016
<b>Total Current Assets</b>		<b>526,416,965</b>
<b>Non-Current Assets:</b>		
<i>Investments:</i>		
U.S. Government and Agency Obligations		219,503,296
Corporate Obligations		56,716,346
Total Investments		276,219,642
<b>Total Non-Current Assets</b>		<b>276,219,642</b>
<b>Total Assets</b>		<b>802,636,607</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
<i>Payables:</i>		
Accounts Payable		2,014
<i>Claims Payable:</i>		
Incurred, Self-Funded		38,307,640
Incurred, Insured		9,058,715
Incurred But Not Reported, Self-Funded		423,963,000
Incurred But Not Reported, Insured		54,769,000
Total Claims Payable		526,098,355
Total Payables		526,100,369
Due To Other Funds (Note 1.G)		48,025,141
Deferred Revenue		526,706
<b>Total Current Liabilities</b>		<b>574,652,216</b>
<b>Total Liabilities</b>		<b>574,652,216</b>
<b>NET ASSETS</b>		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program		227,984,391
<b>Total Net Assets (Exh. VI)</b>		<b>227,984,391</b>

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

**EXHIBIT VI**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –**  
**PROPRIETARY FUND**  
 YEAR ENDED AUGUST 31, 2011

	<b>Internal Service Fund</b>
	<b>Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973) (U/F 2369)</b>
	<b>Totals</b>
	<b>August 31, 2011</b>
<b>OPERATING REVENUES</b>	<b>\$</b>
<i>Contributions to Insurance Program:</i>	
From the State of Texas:	
For Employees	1,414,731,497
Total Contributions from the State of Texas	1,414,731,497
From Members:	
For Employees	435,617,138
For COBRA	9,113,734
Total Contributions from Members	444,730,872
Total Contributions to Insurance Program	1,859,462,369
Federal Revenue - Operating:	
Federal Revenue - COBRA Stimulus (Note 7)	1,311,701
<i>Other Operating Revenues:</i>	
COBRA 2% Administration Fee	208,812
Warrants Voided by Statute of Limitations	1,779
Penalty Assessed to Insurance Carrier	2,620,140
Miscellaneous Operating Revenue	257,816
Total Other Operating Revenues	3,088,547
<b>Total Operating Revenues</b>	<b>1,863,862,617</b>
<b>OPERATING EXPENSES</b>	
<i>Employee Benefit Payments:</i>	
For Employees	1,743,896,378
For COBRA	32,398,317
Total Employee Benefit Payments	1,776,294,695
<i>Administrative Expenses:</i>	
Salaries & Wages	4,143,828
Payroll Related Costs	1,151,989
Professional Fees & Services	2,708,390
Travel	28,877
Materials & Supplies	267,110
Communications & Utilities	208,567
Repairs & Maintenance	244,689
Rentals & Leases	323,325
Printing & Reproduction	17,002
Other Operating Expenses	343,449
Total Administrative Expenses	9,437,226
<b>Total Operating Expenses</b>	<b>1,785,731,921</b>
<b>Operating Income</b>	<b>78,130,696</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Net Increase in Fair Value of Investments	4,272,899
Interest Revenue	8,416,210
Class Action Settlements	63,862
<i>Securities Lending Activities:</i>	
Loan Premium on Securities Lending	6,536
Less: Broker Rebates	(462)
Agent Fees	(911)
Net Securities Lending Activity	5,163
Settlement Revenue	496,507
<b>Total Non-Operating Revenues</b>	<b>13,254,641</b>
Transfer In	1,513,939
Transfer Out	(1,513,939)
<b>Change in Net Assets</b>	<b>91,385,337</b>
<b>NET ASSETS</b>	
<b>Net Assets - Beginning</b>	<b>136,599,054</b>
<b>Net Assets - Ending (Exh. V)</b>	<b>227,984,391</b>

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



**EXHIBIT VII**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND**  
**YEAR ENDED AUGUST 31, 2011**

	<b>Internal Service Fund</b>
	<b>Employees Life, Accident and Health Insurance and Benefits Fund (0973)</b>
	<b>(U/F 0973) (U/F 2369)</b>
	<b>August 31, 2011</b>
<b>Cash Flows from Operating Activities:</b>	<b>\$</b>
Cash Received from Members	448,206,909
Cash Received from The State of Texas	1,323,922,514
Cash Payments to Insurance Carriers and Third Party Administrators	(1,792,661,043)
Cash Received from Federal Government - COBRA Stimulus	1,513,940
Cash Payments to Employees for Services	(4,503,037)
Cash Payments for Goods and Services	(3,794,265)
Other Cash Received	3,119,397
<b>Net Cash Used by Operating Activities</b>	<b>(24,195,585)</b>
<b>Cash Flows from Investing Activities:</b>	
Net Sales of Short-Term Investment Fund	3,900,000
Interest on Deposit in State Treasury	50,346
<b>Net Cash Provided by Investing Activities</b>	<b>3,950,346</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(20,245,239)</b>
<b>Cash and Cash Equivalents:</b>	
Beginning of Year	<b>42,526,321</b>
End of Year	<b>22,281,082</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
<b>Operating Income</b>	<b>78,130,696</b>
<b>Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:</b>	
Depository Interest Transferred to Retiree Insurance Plan	(428,781)
Settlement Revenue	496,507
<b>Change in Assets and Liabilities:</b>	
Increase in Accounts Receivable	(30,632,472)
Increase in Due From Other Agencies	(6,348)
Increase in Due From Other Funds	(277,044)
Decrease in Accounts Payable	(16,529,275)
Decrease in Due To Other Funds	(54,988,481)
Increase in Deferred Revenue	39,613
<b>Total Adjustments</b>	<b>(102,326,281)</b>
<b>Net Cash Used by Operating Activities</b>	<b>(24,195,585)</b>
<b>Non-Cash Investing Activities:</b>	
Net Appreciation in Fair Value of Non-Cash Equivalent Investments	4,272,899

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, 2011

	<b>Pension and Other Employee Benefit Trust Funds</b>				
	<b>Defined Benefit Plans</b>	<b>Defined Contribution Plans and Cafeteria Plan</b>	<b>Total Pension and Other Employee Benefit Trust Funds</b>	<b>Agency Funds</b>	<b>Total August 31, 2011</b>
	\$	\$	\$	\$	\$
<b>ASSETS</b>					
Cash and Cash Equivalents	44,920,055	10,351,365	55,271,420	4,333,887	59,605,307
Short-Term Investments	1,360,757,017		1,360,757,017		1,360,757,017
Legislative Appropriations	301,548		301,548		301,548
Investments	20,638,777,423		20,638,777,423		20,638,777,423
Receivables	255,501,353	7,290,206	262,791,559	9,078	262,800,637
Due From Other Funds (Note 1.G)	48,803,115	44,559	48,847,674		48,847,674
Due From Other Agencies (Note 1.G)	5,656,782	7,382	5,664,164		5,664,164
Prepaid Expenses		250,000	250,000		250,000
Capital Assets, Net of Accumulated Depreciation/Amortization	11,157,068		11,157,068		11,157,068
<b>Total Assets</b>	<b>22,365,874,361</b>	<b>17,943,512</b>	<b>22,383,817,873</b>	<b>4,342,965</b>	<b>22,388,160,838</b>
<b>LIABILITIES</b>					
Payables	158,246,197	12,035,322	170,281,519	9,078	170,290,597
Due To Other Funds (Note 1.G)	1,128,575	235,296	1,363,871		1,363,871
Due To Other Agencies (Note 1.G)	1,219,459		1,219,459		1,219,459
Deferred Revenue	1,880,442	16,872	1,897,314		1,897,314
Employees Compensable Leave	2,268,444		2,268,444		2,268,444
Funds Held for Others				4,333,887	4,333,887
<b>Total Liabilities</b>	<b>164,743,117</b>	<b>12,287,490</b>	<b>177,030,607</b>	<b>4,342,965</b>	<b>181,373,572</b>
<b>NET ASSETS</b>					
<b>Net Assets Held in Trust for Pension Benefits and Other Purposes (Exh. IX)</b>	<b>22,201,131,244</b>	<b>5,656,022</b>	<b>22,206,787,266</b>	<b>-</b>	<b>22,206,787,266</b>
			(Exh. X)		

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



**EXHIBIT IX**  
**COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
 YEAR ENDED AUGUST 31, 2011

<b>ADDITIONS</b>	<b>Defined Benefit Plans</b>	<b>Defined Contribution Plans and Cafeteria Plan</b>	<b>Pension and Other Employee Benefit Trust Funds Totals August 31, 2011</b>
	\$	\$	\$
<b>Contributions:</b>			
Member Contributions	572,839,828	95,123,388	667,963,216
Employer Contributions	895,139,445		895,139,445
Legislative Appropriations	26,988,020		26,988,020
Service Contributions Transferred from			
Teacher Retirement System	64,772,079		64,772,079
Federal Revenues-Medicare Part D	38,207,039		38,207,039
Early Retirees Reinsurance Program	30,175,627		30,175,627
Settlement Revenue	390		390
Other Contributions - Forfeitures		909,052	909,052
<b>Total Contributions</b>	<b>1,628,122,428</b>	<b>96,032,440</b>	<b>1,724,154,868</b>
<b>Investment Income:</b>			
From Investing Activities	2,523,540,012	75,994	2,523,616,006
From Securities Lending Activities	3,794,998		3,794,998
<b>Total Investment Income</b>	<b>2,527,335,010</b>	<b>75,994</b>	<b>2,527,411,004</b>
<b>Other Additions:</b>			
Other Revenue	201,523	1,447,358	1,648,881
Transfers In	342,115		342,115
<b>Total Other Additions</b>	<b>543,638</b>	<b>1,447,358</b>	<b>1,990,996</b>
<b>Total Additions</b>	<b>4,156,001,076</b>	<b>97,555,792</b>	<b>4,253,556,868</b>
<b>DEDUCTIONS</b>			
<b>Benefits:</b>			
Benefits	2,313,275,014	93,737,174	2,407,012,188
Refunds of Contributions	80,277,130		80,277,130
Service Contributions Transferred			
to Teacher Retirement System	12,628,712		12,628,712
<b>Total Benefits</b>	<b>2,406,180,856</b>	<b>93,737,174</b>	<b>2,499,918,030</b>
Administrative Expenses	22,721,606	3,850,020	26,571,626
<b>Other Deductions:</b>			
Other Expenses	11,618		11,618
Transfers Out	183,809		183,809
<b>Total Other Deductions</b>	<b>195,427</b>	<b>-</b>	<b>195,427</b>
<b>Total Deductions</b>	<b>2,429,097,889</b>	<b>97,587,194</b>	<b>2,526,685,083</b>
<b>Net Increase</b>	<b>1,726,903,187</b>	<b>(31,402)</b>	<b>1,726,871,785</b>
<b>NET ASSETS</b>			
<b>Net Assets Held in Trust For Pension</b>			
<b>Benefits and Other Purposes:</b>			
<b>Beginning of Year</b>	<b>20,474,228,057</b>	<b>5,687,424</b>	<b>20,479,915,481</b>
<b>End of Year (Exh. VIII)</b>	<b>22,201,131,244</b>	<b>5,656,022</b>	<b>22,206,787,266</b>
			(Exh. XI)

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

**EXHIBIT X**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS –**  
**PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**  
**AUGUST 31, 2011**

	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)
<b>ASSETS</b>					
<i>Cash and Short-Term Investments:</i>					
<i>Cash and Cash Equivalents:</i>					
Cash on Hand	1,066,220				
Cash in Bank	23,000				
Cash in State Treasury	23,925,689	1,509,322		825,422	
Total Cash and Cash Equivalents	25,014,909	1,509,322	-	825,422	-
Securities Lending Collateral					
<i>Short-Term Investments:</i>					
Other Short-Term Investments	1,264,828,428	43,963,524		15,394,055	
Total Short-Term Investments	1,264,828,428	43,963,524	-	15,394,055	-
Total Cash and Short-Term Investments	1,289,843,337	45,472,846	-	16,219,477	-
Legislative Appropriations			301,548		
<i>Investments:</i>					
U.S. Government and Agency Obligations	5,224,469,110	181,571,986		63,739,416	
Corporate Obligations	1,560,432,398	54,231,502		19,037,542	
Domestic Equity	6,361,931,820	221,103,536		77,616,655	
International Equity	5,153,664,151	179,111,219		62,875,583	
Real Estate Investments	410,969,403	14,282,892		5,013,897	
Alternative Investments	1,001,692,520	34,812,973		12,220,820	
Total Investments	19,713,159,402	685,114,108	-	240,503,913	-
<i>Receivables:</i>					
Interest and Dividends Receivable	76,830,011	2,638,273		950,841	
Contributions/Accounts Receivable	62,991,538	2,581,121		1,306,589	
Unsettled Sales-Investment Receivables	87,446,556	3,018,260		1,147,442	
Total Receivables	227,268,105	8,237,654	-	3,404,872	-
Due From Other Funds (Note 1.G)	2,307,418				
Due From Other Agencies (Note 1.G)	5,656,782				
Prepaid Claims Expense					
<i>Capital Assets:</i>					
<i>Non-Depreciable:</i>					
Construction in Progress - Intangible Asset	659,499				
Land and Land Improvements	874,889				
<i>Depreciable, Net of Accumulated Depreciation/Amortization of \$12,824,236</i>					
Building	9,080,752				
Furniture and Equipment	386,284				
Vehicles	14,941				
Computer Software	140,703				
Total Capital Assets	11,157,068	-	-	-	-
Total Assets	21,249,392,112	738,824,608	301,548	260,128,262	-
<b>LIABILITIES</b>					
<i>Payables:</i>					
Voucher/Accounts Payable	21,645,593	369,130	301,548	145,870	
Annuities Payable	146,970	16,754			
Unsettled Purchases-Investment Payables	18,879,353	652,717		247,241	
Total Payables	40,671,916	1,038,601	301,548	393,111	-
Due To Other Funds (Note 1.G)	39,964	369,368		111,548	
Due To Other Agencies (Note 1.G)	1,219,459				
Deferred Revenue	1,101,327				
Employees Compensable Leave	2,268,444				
Obligations Under Securities Lending					
Total Liabilities	45,301,110	1,407,969	301,548	504,659	-
<b>NET ASSETS</b>					
Net Assets Held in Trust for Pension Benefits and Other Purposes (Exh. XI)	21,204,091,002	737,416,639	-	259,623,603	-

USAS Funds (U/F) are:

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

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

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, 2011
\$	\$	\$	\$	\$	\$	\$
31,909	1,098,129			350	350	1,098,479
	23,000		1,257,134	414,971	1,672,105	1,695,105
17,538,493	43,798,926	2,772,368	908,357	4,998,185	8,678,910	52,477,836
17,570,402	44,920,055	2,772,368	2,165,491	5,413,506	10,351,365	55,271,420
36,571,010	1,360,757,017					1,360,757,017
36,571,010	1,360,757,017	-	-	-	-	1,360,757,017
54,141,412	1,405,677,072	2,772,368	2,165,491	5,413,506	10,351,365	1,416,028,437
	301,548					301,548
	5,469,780,512					5,469,780,512
	1,633,701,442					1,633,701,442
	6,660,652,011					6,660,652,011
	5,395,650,953					5,395,650,953
	430,266,192					430,266,192
	1,048,726,313					1,048,726,313
-	20,638,777,423	-	-	-	-	20,638,777,423
418	80,419,543	2,563	657	1,514	4,734	80,424,277
16,590,304	83,469,552	122,279	77,768	7,085,425	7,285,472	90,755,024
	91,612,258					91,612,258
16,590,722	255,501,353	124,842	78,425	7,086,939	7,290,206	262,791,559
46,495,697	48,803,115			44,559	44,559	48,847,674
	5,656,782			7,382	7,382	5,664,164
				250,000	250,000	250,000
	659,499					659,499
	874,889					874,889
	9,080,752					9,080,752
	386,284					386,284
	14,941					14,941
	140,703					140,703
-	11,157,068	-	-	-	-	11,157,068
117,227,831	22,365,874,361	2,897,210	2,243,916	12,802,386	17,943,512	22,383,817,873
115,841,021	138,303,162		1,210,452	10,824,870	12,035,322	150,338,484
	163,724					163,724
	19,779,311					19,779,311
115,841,021	158,246,197	-	1,210,452	10,824,870	12,035,322	170,281,519
607,695	1,128,575	99,125	73,318	62,853	235,296	1,363,871
	1,219,459					1,219,459
779,115	1,880,442		16,872		16,872	1,897,314
	2,268,444					2,268,444
117,227,831	164,743,117	99,125	1,300,642	10,887,723	12,287,490	177,030,607
-	22,201,131,244	2,798,085	943,274	1,914,663	5,656,022	22,206,787,266

(Exh. VIII)

# EXHIBIT XI

## COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS YEAR ENDED AUGUST 31, 2011

	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)
<b>ADDITIONS</b>	\$	\$	\$	\$	\$
<b>Contributions:</b>					
Member Contributions	425,811,039	7,604,323		4,291,326	
Employer Contributions	414,083,912	24,227,737		11,932,875	
<i>Legislative Appropriations for:</i>					
Judges Retirement Annuities			26,988,020		
Service Contributions Transferred from Teacher Retirement System (Note 1.C)	64,772,079				
Federal Revenues-Medicare Part D Early Retirees Reinsurance Program Settlement Revenue	390				
Other Contributions - Forfeitures					
<b>Total Contributions</b>	<b>904,667,420</b>	<b>31,832,060</b>	<b>26,988,020</b>	<b>16,224,201</b>	<b>-</b>
<b>Investment Income:</b>					
<i>From Investing Activities:</i>					
Net Appreciation (Depreciation) in Fair Value of Investments	1,920,579,494	65,020,400		23,796,950	
Interest and Dividends	547,691,469	18,764,011		7,026,802	
Class Action Settlements	3,282,037	112,297		41,801	
Total Investing Activity Income	2,471,553,000	83,896,708	-	30,865,553	-
Less: Investment Expense	(60,347,228)	(2,140,133)		(723,423)	
Net Income, Investing Activities	2,411,205,772	81,756,575	-	30,142,130	-
<i>From Securities Lending Activities:</i>					
Loan Premium on Securities Lending	1,426,483	48,873		18,295	
Less: Broker Rebates	2,830,703	97,251		36,521	
Agent Fees	(633,238)	(21,736)		(8,154)	
Total Securities Lending Expens	2,197,465	75,515	-	28,367	-
Net Income, Securities Lending Act	3,623,948	124,388	-	46,662	-
<b>Net Investment Income</b>	<b>2,414,829,720</b>	<b>81,880,963</b>	<b>-</b>	<b>30,188,792</b>	<b>-</b>
<b>Other Additions:</b>					
<i>Other Revenue:</i>					
Warrants Voided by Statute of Limitat	123,646	1,805		1,475	
Reimbursements - Third Party					
Sale of Surplus Equipment	437				
Rental Income	34,000				
Miscellaneous Revenue	39,711				
Administration Fees					
<b>Total Other Revenue</b>	<b>197,794</b>	<b>1,805</b>	<b>-</b>	<b>1,475</b>	<b>-</b>
<i>Interfund Transfers In (Note 1.G):</i>					
Excess Benefit Arrangement					138,756
<i>Interagency Transfers In (Note 5.F):</i>					
Excess Benefit Arrangement					203,359
Total Transfers In	-	-	-	-	342,115
<b>Total Other Additions</b>	<b>197,794</b>	<b>1,805</b>	<b>-</b>	<b>1,475</b>	<b>342,115</b>
<b>Total Additions</b>	<b>3,319,694,934</b>	<b>113,714,828</b>	<b>26,988,020</b>	<b>46,414,468</b>	<b>342,115</b>

USAS Funds (U/F) are:

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

Fund 3973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 0943: 0943, 8943.

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

<b>State Retiree Health Plan (3973)</b>	<b>Total Defined Benefit Plans</b>	<b>TexaSaver 401(k) Trust Fund (0946)</b>	<b>TexaSaver 457 Trust Fund (0945)</b>	<b>State Employees Cafeteria Plan Trust Fund (0943)</b>	<b>Total Defined Contribution Plans and Cafeteria Plan</b>	<b>Totals August 31, 2011</b>
\$	\$	\$	\$	\$	\$	\$
135,133,140	572,839,828			95,123,388	95,123,388	667,963,216
444,894,921	895,139,445					895,139,445
	26,988,020					26,988,020
	64,772,079					64,772,079
38,207,039	38,207,039					38,207,039
30,175,627	30,175,627					30,175,627
	390					390
				909,052	909,052	909,052
<b>648,410,727</b>	<b>1,628,122,428</b>	-	-	<b>96,032,440</b>	<b>96,032,440</b>	<b>1,724,154,868</b>
	2,009,396,844					2,009,396,844
437,374	573,919,656	45,788	15,462	22,481	83,731	574,003,387
	3,436,135					3,436,135
437,374	2,586,752,635	45,788	15,462	22,481	83,731	2,586,836,366
(1,839)	(63,212,623)	(2,537)	(2,937)	(2,263)	(7,737)	(63,220,360)
435,535	2,523,540,012	43,251	12,525	20,218	75,994	2,523,616,006
	1,493,651					1,493,651
	2,964,475					2,964,475
	(663,128)					(663,128)
-	2,301,347	-	-	-	-	2,301,347
-	3,794,998	-	-	-	-	3,794,998
<b>435,535</b>	<b>2,527,335,010</b>	<b>43,251</b>	<b>12,525</b>	<b>20,218</b>	<b>75,994</b>	<b>2,527,411,004</b>
449	127,375					127,375
	437			26,500	26,500	26,500
	34,000					34,000
	39,711			77,905	77,905	117,616
		829,672	513,281		1,342,953	1,342,953
<b>449</b>	<b>201,523</b>	<b>829,672</b>	<b>513,281</b>	<b>104,405</b>	<b>1,447,358</b>	<b>1,648,881</b>
	138,756					138,756
	203,359					203,359
-	342,115	-	-	-	-	342,115
<b>449</b>	<b>543,638</b>	<b>829,672</b>	<b>513,281</b>	<b>104,405</b>	<b>1,447,358</b>	<b>1,990,996</b>
<b>648,846,711</b>	<b>4,156,001,076</b>	<b>872,923</b>	<b>525,806</b>	<b>96,157,063</b>	<b>97,555,792</b>	<b>4,253,556,868</b>

- to next page

EXHIBIT XI (CONTINUED)  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS –  
 PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
 YEAR ENDED AUGUST 31, 2011

<b>DEDUCTIONS</b>	<b>Employees Retirement Fund (0955)</b>	<b>Law Enforcement and Custodial Officer Supplemental Fund (0977)</b>	<b>Judicial Retirement System Plan I (0001)</b>	<b>Judicial Retirement System Plan II (0993)</b>	<b>Excess Benefit Arrangement (5039)</b>
	\$	\$	\$	\$	\$
<b>Benefits:</b>					
Benefits	1,585,050,345	43,020,033	26,988,020	11,722,267	297,062
Refunds of Contributions	79,535,160	694,556		47,414	
<i>Transfers Out of Contributions:</i>					
Service Contributions Transferred to Teacher Retirement System (Not	12,628,712				
<b>Total Benefits</b>	<b>1,677,214,217</b>	<b>43,714,589</b>	<b>26,988,020</b>	<b>11,769,681</b>	<b>297,062</b>
<b>Administrative Expenses:</b>					
Salaries & Wages	8,863,907	554,064		170,694	
Payroll Related Costs	2,470,215	142,611		48,525	
Professional Fees & Services	2,712,320	14,244		5,321	
Travel	54,487	2,684		732	
Materials & Supplies	1,183,482	46,328		14,426	
Communications & Utilities	408,927	24,850		7,022	
Repairs & Maintenance	630,594	48,979		10,571	
Rentals & Leases	799,137	57,928		15,849	
Printing & Reproduction	43,806	2,389		757	
Depreciation	962,899				
Interest Expense					
Other Operating Expenses	720,014	42,466		11,954	
<b>Total Administrative Expenses</b>	<b>18,849,788</b>	<b>936,543</b>	<b>-</b>	<b>285,851</b>	<b>-</b>
<b>Other Deductions:</b>					
<i>Other Expenses:</i>					
Loss on Sale of Capital Assets	11,618				
Total Other Expenses	11,618	-	-	-	-
<i>Interfund Transfers Out (Note 5.E):</i>					
Excess Benefit Arrangement	138,756				
<i>Interagency Transfers Out (Note 5.F):</i>					
Excess Benefit Arrangement					45,053
Total Transfers Out	138,756	-	-	-	45,053
<b>Total Other Deductions</b>	<b>150,374</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,053</b>
<b>Total Deductions</b>	<b>1,696,214,379</b>	<b>44,651,132</b>	<b>26,988,020</b>	<b>12,055,532</b>	<b>342,115</b>
<b>Net Increase/(Decrease)</b>	<b>1,623,480,555</b>	<b>69,063,696</b>	<b>-</b>	<b>34,358,936</b>	<b>-</b>
<b>NET ASSETS</b>					
<b>Net Assets Held in Trust For Pension Benefits and Other Purposes:</b>					
Beginning of Year	19,580,610,447	668,352,943	-	225,264,667	-
End of Year (Exh. X)	21,204,091,002	737,416,639	-	259,623,603	-

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	Total August 31, 2011
\$	\$	\$	\$	\$	\$	\$
646,197,287	2,313,275,014 80,277,130			93,737,174	93,737,174	2,407,012,188 80,277,130
	12,628,712					12,628,712
<b>646,197,287</b>	<b>2,406,180,856</b>	-	-	<b>93,737,174</b>	<b>93,737,174</b>	<b>2,499,918,030</b>
1,411,122	10,999,787	352,676	271,496	261,924	886,096	11,885,883
388,919	3,050,270	88,497	74,822	69,389	232,708	3,282,978
333,308	3,065,193	95,532	92,589	1,001	189,122	3,254,315
10,183	68,086	2,902	2,387	1,752	7,041	75,127
121,666	1,365,902	19,304	17,348	18,838	55,490	1,421,392
72,659	513,458	9,013	7,710	8,615	25,338	538,796
83,172	773,316	14,939	13,215	12,633	40,787	814,103
102,158	975,072	18,664	14,787	16,108	49,559	1,024,631
5,065	52,017	1,087	2,367	1,395	4,849	56,866
	962,899					962,899
				40,253	40,253	40,253
121,172	895,606	12,211	13,533	2,293,033	2,318,777	3,214,383
<b>2,649,424</b>	<b>22,721,606</b>	<b>614,825</b>	<b>510,254</b>	<b>2,724,941</b>	<b>3,850,020</b>	<b>26,571,626</b>
	11,618					11,618
-	11,618	-	-	-	-	11,618
	138,756					138,756
	45,053					45,053
-	183,809	-	-	-	-	183,809
-	<b>195,427</b>	-	-	-	-	<b>195,427</b>
<b>648,846,711</b>	<b>2,429,097,889</b>	<b>614,825</b>	<b>510,254</b>	<b>96,462,115</b>	<b>97,587,194</b>	<b>2,526,685,083</b>
-	<b>1,726,903,187</b>	<b>258,098</b>	<b>15,552</b>	<b>(305,052)</b>	<b>(31,402)</b>	<b>1,726,871,785</b>
-	<b>20,474,228,057</b>	<b>2,539,987</b>	<b>927,722</b>	<b>2,219,715</b>	<b>5,687,424</b>	<b>20,479,915,481</b>
-	<b>22,201,131,244</b>	<b>2,798,085</b>	<b>943,274</b>	<b>1,914,663</b>	<b>5,656,022</b>	<b>22,206,787,266</b>

(Exh. IX)

# NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2011

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# NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2011

## 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, 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, 2010, the System implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB adopted Statement No. 54 to clarify the fund balance reporting guidelines of GASB 34. It changes the reporting of fund balance in the balance sheets of governmental type funds.

The key concept of the new standard is that fund balance classifications are to be based on a hierarchy

that primarily reflects the extent to which a government must observe constraints imposed upon the use of the resources that are reported by the governmental funds.

Based on the requirements of GASB 54, the total fund balance can be conceptually separated into two primary components: 1) Non-spendable Fund Balance and 2) Spendable Fund Balance. To provide for enhanced transparency and disclosure, two additional classifications were created for the Non-spendable Fund Balance and three classifications were established for the unrestricted portion of the fund balance.

The increased level of disclosure should aid the user of the financial statements in having a better understanding of the availability of resources.

### 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, 2011

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, 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, premium payments of the Internal Service Fund, and all administrative expenses.

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

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

Pension and Other Employee Benefit Trust Funds, and Internal Service Funds are maintained on the full accrual basis of accounting and the economic resources measurement focus. All economic resources, including financial and capital assets and related liabilities, both current and long-term, and the

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

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

## E. BASIS OF PRESENTATION

(In accordance with GASB Statement 34)

### FUND STRUCTURE

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

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

### GOVERNMENTAL FUND CATEGORY

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

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

For the FY 2011 CAFR, the System continues to report the governmental funds as nonmajor funds. The reporting 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 is reporting the governmental funds on Exhibits III and IV as nonmajor funds for the FY 2011 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, 2011

- 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, 2011

approve any transfers between line items, and the Board must approve any amendments to the approved budget.

Administrative expenses are budgeted in and paid primarily from the Employees Retirement Fund. Expenses are allocated monthly to the other funds based on percentages determined by time sheets and resource requirements 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. For alternative investments, the system has established a Valuation Committee that periodically reviews and approves the fair value of these investments.

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 two-month 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. Private equity partnerships have an expected life of approximately 7 to 10 years and are not liquid in nature.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

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. The System participates in both closed-ended and open-ended funds. The System does not directly own buildings. Closed-ended funds typically have a pre-determined life of 7-10 years (plus possible extensions) 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 two-month lag and subsequently adjusted by any purchase and sale cash flows between the partnership’s last reporting date and the System’s reporting date. When necessary, a more conservative value will be used than that which was provided by a partnership, as determined by the System’s Alternative Investment Valuation Committee.

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.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

## EMPLOYEES COMPENSABLE LEAVE

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

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

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

## FUND BALANCES - GOVERNMENTAL FUNDS

Fund balance is the difference between fund assets and liabilities on the governmental fund statements. Committed fund balance reports an amount that has spending limitations that are internally imposed by formal action of the government's highest level of decision-making authority (e.g., legislature). These committed fund balance amounts usually cannot be redeployed for other purposes unless the same decision makers reverse or modify the imposed restrictions by the same type of formal action that was originally used to create the restriction.

## 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, 2011

## 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, 2011
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, 2011

## 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 6.5% for fiscal year 2011.

Legislators are required to contribute 8% and other elected class members are required to contribute 6.5% of their compensation to the System.

For fiscal year 2011 the State contributed 6.95% of the payroll of members for both the employee class and other elected class members. The state contributed 6.45% for legislators. 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 2011, 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, 2011

## 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, 2010 and 2011, 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	127
Universities	26
Junior and Community Colleges	51
Other Entities	5
<b>Total Participating Entities</b>	<b>209</b>

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, 2011, there were 90,213 eligible retirees, 24,983 covered spouses, and 7,429 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 2011**

	September 1, 2010
	\$
Retiree Only	411.04
Retiree & Spouse	647.38
Retiree & Children	569.30
Retiree & Family	805.64

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,	
	2011	2010
	\$	\$
Employer Contributions	444,894,921	478,348,504
Retiree Contributions	135,133,140	126,072,757
<b>Total Contributions</b>	<b>580,028,061</b>	<b>604,421,261</b>
<b>Claims Expenses</b>	<b>646,197,287</b>	<b>643,388,726</b>

The employer's share of the cost of retiree healthcare coverage above the cost charged using a blended rate is known as the implicit rate subsidy. It is measured as the difference between the claims costs for the retirees in the group and the amounts contributed for the retirees. For fiscal year 2011 there was a reverse implicit rate subsidy (retiree contributions subsidized actives) in the amount of \$45,233,046, primarily due to Federal subsidies for the Early Retirement Reinsurance Program, and Medicare Part D.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

## 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, 2011
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	6.63%
Annual Healthcare Trend Rate	8.0% in FY 2013 to 5.50% in FY 2018
Inflation Assumption Rate	3.50%

The initial healthcare trend rate is 8.0% 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, 2011. 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, 2011 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				
Currently Receiving Benefits	83,430	7,728	445	208
Terminated Employees Entitled	84,900	5,785	5	134
Current Employees	137,293	36,806	17	546
<b>Total</b>	<b>305,623</b>	<b>50,319</b>	<b>467</b>	<b>888</b>

Note: Estimated based on actuarial valuation as of August 31, 2011

**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)]
<b>Employees Retirement Fund</b>						
Aug. 31, 2011	\$23,997.44	\$28,398.21	\$4,400.77	84.5%	\$5,795.19	75.9%
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund</b>						
Aug 31, 2011	830.52	960.95	130.43	86.4	1,475.43	8.8
<b>Judicial Retirement Plan One Fund</b>						
Aug 31, 2011	0	245.78	245.78	0	2.20	11,171.7
<b>Judicial Retirement Plan Two Fund</b>						
Aug. 31, 2011	283.93	300.16	16.23	94.6	69.66	23.3
<b>State Retiree Health Plan</b>						
Aug. 31, 2011	0	21,502.43	21,502.43	0.0	10,376.49	207.2

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

## D. RESERVES

The balances of legally required reserves in each funded retirement plan as of August 31, 2011 and 2010 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, 2011, there were 56 System employees participating in the Texa\$aver 457 Plan. During the fiscal year ended August 31, 2011, System employees deferred \$394,893. 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, 2011, there were 175 System employees participating in the Texa\$aver 401(k) Plan. During the fiscal year ended August 31, 2011, System employees deferred \$671,713. The State does not contribute to the plan.

**Figure I  
Reserves**

	ERS	LECOS	JRS II	Totals – August 31,	
				2011	2010
	\$	\$	\$	\$	\$
<b>Net Plan Assets Reserved For:</b>					
Employee Savings	4,943,684,166	13,897,600	57,768,713	5,015,350,479	4,784,365,937
State Accumulation	1,935,229,039	322,641,573	81,056,757	2,338,927,369	1,821,794,309
Annuity Reserves	14,325,177,797	400,877,466	120,798,133	14,846,853,396	13,868,067,811
<b>Total Net Plan Assets Reserved</b>	<b>21,204,091,002</b>	<b>737,416,639</b>	<b>259,623,603</b>	<b>22,201,131,244</b>	<b>20,474,228,057</b>
	(Exhibit X)	(Exhibit X)	(Exhibit X)		
<b>Funded ratios of each plan, from the actuarial valuation:</b>					
As of August 31, 2011	84.5%	86.4%	94.6%		
As of August 31, 2010	85.4%	86.3%	93.9%		

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

## 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,	
	2011	2010
	\$	\$
Beginning of Fiscal Year Liability	470,061,677	418,387,167
Current-Year Claims and Changes in Estimates	1,780,864,733	1,884,001,665
Claims Payments	<u>(1,788,655,770)</u>	<u>(1,832,327,155)</u>
Balance at Fiscal Year-End	<u>462,270,640</u>	<u>470,061,677</u>

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, 2011 is \$478,732,000.

**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, 2011

## 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, 2011, the total carrying amount of Cash in Bank was \$6,024,678 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)	1,695,105	1,689,331
Agency Fund:	4,329,573	4,329,573
<b>Total Fiduciary Funds</b>	<b>6,024,678</b>	<b>6,018,904</b>

#### CUSTODIAL CREDIT RISK

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

As of August 31, 2011, the System was not exposed to custodial credit risk with respect to deposits.

#### INVESTMENTS

The fair values of investments as of August 31, 2011, 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, 2011, 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)
	\$	\$
<b>Investments:</b>		
U.S. Treasury Securities	4,068,550,984	163,271,698
U.S. Government Agency Obligations	193,620,980	7,770,045
Corporate Obligations	1,633,701,442	56,716,346
Corporate Asset and Mortgage Backed Securities	1,207,608,548	48,461,553
Domestic Equity	6,660,652,011	-
International Equity	5,395,650,953	-
Real Estate Investments	430,266,192	-
Alternative Investments	1,048,726,313	-
<b>Total</b>	<b>20,638,777,423</b>	<b>276,219,642</b>
<b>Short-Term Investments:</b>		
Investment in Pool Cash	1,717,885	-
Money Market Mutual Funds	1,359,039,132	369,969,603
<b>Total</b>	<b>1,360,757,017</b>	<b>369,969,603</b>
Securities Lending Collateral	-	-

#### 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, 2011 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, 2011

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

Foreign Currency	International Equity (USD)	Real Estate Investments (USD)	Alternative Investments (USD)
<b>Fiduciary Funds:</b>			
Australian Dollar	193,828,570	2,395,185	-
Brazilian Real	81,111,049	-	-
British Pound	914,728,545	7,853,756	38,045,960
Canadian Dollar	457,511,905	11,457,436	-
Chilean Peso	12,014,658	-	-
Colombian Peso	7,509,603	-	-
Czech Koruna	5,158,760	-	-
Danish Krone	11,002,613	-	-
Egyptian Pound	1,777,998	-	-
Euro	1,255,145,501	27,749,058	213,440,303
Hong Kong Dollar	319,276,998	7,867,454	-
Hungarian Forint	6,634,298	-	-
Indian Rupee	50,218,241	-	-
Indonesian Rupiah	42,346,423	-	-
Japanese Yen	656,655,088	15,080,051	-
Korean Won	143,361,464	-	-
Malaysian Ringgit	27,147,596	-	-
Mexican Peso	30,393,818	-	-
Moroccan Dirham	371,575	-	-
New Israeli Sheqel	420,392	-	-
New Taiwan Dollar	82,131,091	-	-
New Zealand Dollar	915,839	-	-
Norwegian Krone	53,796,966	-	-
Philippine Peso	4,131,243	-	-
Polish Zloty	7,864,897	-	-
Singapore Dollar	81,356,449	7,556,656	-
South African Rand	64,077,864	-	-
Swedish Krona	84,042,223	-	-
Swiss Franc	357,171,135	-	-
Thai Baht	15,716,633	-	-
Turkish Lira	9,441,338	-	-
<b>Total Investments Exposed to Foreign Currency Risk</b>	<b>4,977,260,773</b>	<b>79,959,596</b>	<b>251,486,263</b>
ADRs and GDRs	418,390,180	-	-
US Dollar	-	350,306,596	797,240,050
<b>Total (Exh. X)</b>	<b>5,395,650,953</b>	<b>430,266,192</b>	<b>1,048,726,313</b>

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

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, 2011 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, 2011.

## 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, 2011, 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, 2011, 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

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

Investment Type	S & P Rating	Fair Value
		\$
<b>Fiduciary Funds:</b>		
U.S. Government Agency Obligations		
	AA	898,239,288
	A	22,945
Corporate Obligations		
	AAA	287,163,168
	AA	371,671,985
	A	499,337,969
	BBB	356,070,750
	BB	105,508,938
	B	104,917,249
	CCC	2,169,500
	NR	28,745,182
Corporate Asset and Mortgage Backed Securities		
	AAA	42,161,962
	A	8,632,127
	BBB	22,128,363
	NR	13,305,841
Miscellaneous - Municipal Bond		
	AAA	21,432,656
	AA	12,676,812
	A	44,617,885
<b>Total</b>		<b>2,818,802,620</b>
<b>Proprietary Fund:</b>		
U.S. Government Agency Obligations		
	AA	32,000,240
	A	817
Corporate Obligations		
	AAA	10,230,337
	AA	13,241,007
	A	17,789,174
	BBB	12,456,201
	NR	975,300
Corporate Asset and Mortgage Backed Securities		
	AAA	1,502,042
	A	307,524
	BBB	788,334
	NR	474,027
Miscellaneous - Municipal Bond		
	AAA	763,549
	AA	451,618
	A	1,589,535
<b>Total</b>		<b>92,569,705</b>



# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

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

Investment Type	Fiduciary Funds		Proprietary Fund	
	Fair Value	Modified Duration	Fair Value	Modified Duration
	\$		\$	
U.S. Treasury Securities	4,104,872,617	5.70	146,227,472	5.70
U.S. Government Agency Obligations	1,131,168,867	3.19	40,295,517	3.19
Corporate Obligations	1,808,790,710	5.70	56,416,523	5.79
Corporate Asset and Mortgage Backed Securities	55,667,009	2.92	1,983,020	2.92
Cash and Cash Equivalents	2,508,505,489	0.01	437,002,095	0.01
Miscellaneous	79,993,669	12.73	2,849,607	12.73
<b>Overall</b>	<b>9,688,998,361</b>	<b>3.98</b>	<b>684,774,234</b>	<b>1.95</b>

because the System had called back all securities on loan for the transition to the new custodian bank and new agent for the securities lending program on September 1, 2011. 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. As of August 31, 2011, the System did not have any outstanding cash collateral because all securities on loan were called back for the transition to the new custodian bank and new agent for the securities lending program on September 1, 2011. 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 \$3,800,161 for the fiscal year ended August 31, 2011.

## REPURCHASE AGREEMENTS

During the fiscal year 2011, the System did not invest in repurchase agreements. As of August 31, 2011, the System had no balances in these assets.

## 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.

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. 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. As of August 31, 2011, the System had no outstanding futures contracts.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

## 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, 2011.

## ALTERNATIVE 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, 2011 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 \$1,083,715. A schedule of future minimum lease rental payments on non-cancelable operating leases as of August 31, 2011 is presented in Figure Q.

**Figure Q**  
**Non-Cancelable Operating Leases**

Fiscal Year	Future Minimum Lease Rental Payments
	\$
2012	1,121,354
2013	293,409
2014	137,598
2015	137,598
<b>Total Future Minimum Lease Rental Payments</b>	<b>1,689,959</b>

**Figure R**

### Alternative Investments (Note A)

Asset Class	No. of Funds	Commitment	Remaining Commitment	Adjusted Funded Amount	Fair Value
		\$	\$	\$	\$
<b>Private Equity</b>					
US Dollar	26	1,863,085,106	1,303,050,786	560,034,320	449,391,751
Euro Dollar	6	479,697,833	272,110,576	207,587,257	202,789,847
British Pound	1	73,271,205	33,574,548	39,696,657	38,045,936
	33	2,416,054,144	1,608,735,910	807,318,234	690,227,534
<b>Private Real Estate</b>					
US Dollar	8	760,000,000	441,157,607	318,842,393	347,848,471
Euro Dollar	1	50,392,965	39,695,358	10,697,607	10,650,308
	9	810,392,965	480,852,965	329,540,000	358,498,779
<b>Total</b>	<b>42</b>	<b>3,226,447,109</b>	<b>2,089,588,875</b>	<b>1,136,858,234</b>	<b>1,048,726,313</b>

(Exh. X)

Note A: Commitment, Remaining Commitment, Adjusted Funded Amount, and Fair Value are reported in US Dollars.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2011

## 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, 2011 and 2010 is presented in Figure S.

**Figure S**  
**Net Assets - Fiduciary Funds**

Fund Type	Totals - August 31	
	2011	2010
	\$	\$
Defined Benefit Plans (Note A)	22,201,131,244	20,474,228,057
Defined Contribution Plans and Cafeteria Plan:		
Administration - Defined Contribution Plans	3,741,359	3,467,709
Administration - State Employees Cafeteria Plan	1,914,663	2,219,715
<b>Total Defined Contribution Plans and Cafeteria Plan</b>	<b>5,656,022</b>	<b>5,687,424</b>
<b>Total Fiduciary Net Assets Held In Trust for Pension Benefits and Other Purposes</b>	<b>22,206,787,266</b>	<b>20,479,915,481</b>

( Exh. XI)

Note A: See Note 2. D Reserves, for details of the statutorily required reserve balances of the Defined Benefit Plans.

## D. INTERFUND RECEIVABLES AND PAYABLES

### (In accordance with GASB Statement 38)

At year-end, accruals related to interfund transfers and interfund reimbursements between the System's funds, are reported as Due From External Parties or Due To External Parties in the government-wide Statement of Net Assets and as Due From Other Funds or Due To Other Funds in the fund financial statements. (See Note 1.G)

Figure T presents individual interfund receivable and interfund payable balances at August 31, 2011.

**Figure T**  
**Interfund Receivables and Payables**

	Due From Other Funds	Due To Other Funds
	\$	\$
<b>Governmental Activities:</b>		
Governmental Funds	-	21,797
Agency Fund	-	-
Proprietary Fund:	-	-
Employees Life, Accident & Health Insurance and Benefits Fund	563,135	48,025,141
<b>Total Governmental Activities</b>	<b>563,135</b>	<b>48,046,938</b>
<b>Fiduciary Funds:</b>		
Pension and Other Employee Benefit Trust Funds	48,847,674	1,363,871
<b>Total - Interfund Receivables and Payables</b>	<b>49,410,809</b>	<b>49,410,809</b>

## E. INTERFUND TRANSFERS

### (In accordance with GASB Statement 38)

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

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

Figure U presents interfund transfers for the year ended August 31, 2011.

**Figure U**  
**Interfund Transfers**

	Transfers In	Transfers Out
	\$	\$
<b>Fiduciary Funds:</b>		
Pension and Other Employee Benefit Trust Funds	138,756	138,756
<b>Total - Interfund Transfers</b>	<b>138,756</b>	<b>138,756</b>

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONCLUDED)

AUGUST 31, 2011

## 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 2,213 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 2011, 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, 2011, there were 79 participants in the program, 45 with single coverage and 34 with multiple individuals covered. The COBRA subsidy for fiscal year 2011 amounted to \$18,624 and is included as an accrued receivable as of August 31, 2011.

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)	
<b>Employees Retirement System (ERS)</b>						
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
2011	23,997,445	28,398,213 (Note A)	4,400,768	84.5	5,795,185	75.9
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>						
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
2011	830,522	960,953 (Note A)	130,431	86.4	1,475,432	8.8
<b>Judicial Retirement System Plan One (JRS I)</b>						
2006	\$0	\$325,977	\$325,977	0.0%	\$5,138	6344.8%
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
2011	0	245,777	245,777	0.0	2,200	11,171.7
<b>Judicial Retirement System Plan Two (JRS II)</b>						
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
2011	283,936	300,163	16,227	94.6	69,655	23.3
<b>State Retiree Health Plan (Note B)</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
2011	0	21,502,434	21,502,434	0.0	10,376,487	207.2

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 fifth year of application of GASB Statement 43, only four preceding years of information are shown.

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT PLANS

Fiscal Year	Contributions from Employers (\$ millions)	Annual Required Contribution (ARC)	Percentage Contributed	Contributions from Federal Government (\$ millions)	Annual Required Contribution (ARC)	Percentage Contributed
		<b>Employees Retirement System (ERS)</b>		<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>		
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		707,136,803	58.5		36,445,951	66.5
2012		707,025,095 (Note A)	N/A		36,013,311 (Note A)	N/A
		<b>Judicial Retirement System Plan One (JRS I)</b>		<b>Judicial Retirement System Plan Two (JRS II)</b>		
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	117.0		11,400,109	104.7
2012		21,424,293	N/A		11,011,768 (Note A)	N/A
		<b>State Retiree Health Plan (Note B)</b>				
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	444,894,921	1,882,731,828	27.3	68,382,666		
2012	N/A	N/A	N/A	N/A		

Note A: Calculations based on estimated fiscal year 2012 covered payroll. At the end of fiscal year 2012 the ARC will be recalculated based on actual 2012 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 fifth year of GASB Statement 43, only four preceding years of information are shown. Percentage contribution includes both employer (state) and federal contributions.

# 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, 2011	August 31, 2011	August 31, 2011	August 31, 2011
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	30.0 (Note A)
Asset Valuation Method	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 2012 covered payroll. At the end of fiscal year 2012 the ARC and the amortization period will be recalculated based on actual 2012 covered payroll.

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE A-1  
 COMBINING SCHEDULE OF NET ASSETS - AGENCY FUNDS  
 AUGUST 31, 2011

	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, 2011
<b>ASSETS</b>	\$	\$	\$	\$	\$	\$
<b>Current Assets:</b>						
<i>Cash and Cash Equivalents:</i>						
Cash in Bank			4,329,573			4,329,573
Cash in State Treasury			-		4,314	4,314
Total Cash and Cash Equivalents	-	-	4,329,573	-	4,314	4,333,887
<i>Receivables:</i>						
Accounts Receivable	9,078					9,078
<b>Total Current Assets</b>	<b>9,078</b>	<b>-</b>	<b>4,329,573</b>	<b>-</b>	<b>4,314</b>	<b>4,342,965</b>
<b>Total Assets</b>	<b>9,078</b>	<b>-</b>	<b>4,329,573</b>	<b>-</b>	<b>4,314</b>	<b>4,342,965</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts Payable	9,078					9,078
Funds Held For Others			4,329,573		4,314	4,333,887
<b>Total Current Liabilities</b>	<b>9,078</b>	<b>-</b>	<b>4,329,573</b>	<b>-</b>	<b>4,314</b>	<b>4,342,965</b>
<b>Total Liabilities</b>	<b>9,078</b>	<b>-</b>	<b>4,329,573</b>	<b>-</b>	<b>4,314</b>	<b>4,342,965</b>



OTHER SUPPLEMENTARY INFORMATION - SCHEDULE A-2  
 COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS  
 AUGUST 31, 2011

	Beginning Balances	Additions	Deductions	Ending Balances
	\$	\$	\$	\$
<b>Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)</b>				
<b>ASSETS</b>				
Cash in State Treasury	-	157,887	157,887	-
Accounts Receivable	12,203	154,762	157,887	9,078
<b>Total Assets</b>	<b>12,203</b>	<b>312,649</b>	<b>315,774</b>	<b>9,078</b>
<b>LIABILITIES</b>				
Accounts Payable	12,203	205,137	208,262	9,078
<b>Total Liabilities</b>	<b>12,203</b>	<b>205,137</b>	<b>208,262</b>	<b>9,078</b>
<b>Employee Savings Bond Fund (0901) (U/F 0901)</b>				
<b>ASSETS</b>				
Cash in State Treasury	150	150	300	-
<b>Total Assets</b>	<b>150</b>	<b>150</b>	<b>300</b>	<b>-</b>
<b>LIABILITIES</b>				
Accounts Payable	150	150	300	-
Vouchers Payable	-	200	200	-
<b>Total Liabilities</b>	<b>150</b>	<b>350</b>	<b>500</b>	<b>-</b>
<b>TexaSaver 401(k) Trust Fund (0946) (U/F 1946)</b>				
<b>ASSETS</b>				
Cash in Bank	3,069,203	316,806,068	315,545,698	4,329,573
<b>Total Assets</b>	<b>3,069,203</b>	<b>316,806,068</b>	<b>315,545,698</b>	<b>4,329,573</b>
<b>LIABILITIES</b>				
Funds Held For Others	3,069,203	316,806,068	315,545,698	4,329,573
<b>Total Liabilities</b>	<b>3,069,203</b>	<b>316,806,068</b>	<b>315,545,698</b>	<b>4,329,573</b>
<b>TexaSaver 401(k) Hold Transmittal (0942) (U/F 0942 &amp; 8942)</b>				
<b>ASSETS</b>				
Cash in State Treasury	-	7,937	7,937	-
Interest and Dividends Receivable	1,200	1,200	2,400	-
<b>Total Assets</b>	<b>1,200</b>	<b>9,137</b>	<b>10,337</b>	<b>-</b>
<b>LIABILITIES</b>				
Due To Other Funds	1,200	1,200	2,400	-
Funds Held For Others	-	7,937	7,937	-
<b>Total Liabilities</b>	<b>1,200</b>	<b>9,137</b>	<b>10,337</b>	<b>-</b>
<b>Child Support Deducts Suspense (8070) (U/F 8070)</b>				
<b>ASSETS</b>				
Cash in State Treasury	4,314	4,314	4,314	4,314
<b>Total Assets</b>	<b>4,314</b>	<b>4,314</b>	<b>4,314</b>	<b>4,314</b>
<b>LIABILITIES</b>				
Funds Held For Others	4,314	4,314	4,314	4,314
<b>Total Liabilities</b>	<b>4,314</b>	<b>4,314</b>	<b>4,314</b>	<b>4,314</b>
<b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Cash in Bank	3,069,203	316,806,068	315,545,698	4,329,573
Cash in State Treasury	4,464	170,288	170,438	4,314
Interest and Dividends Receivable	1,200	1,200	2,400	-
Accounts Receivable	12,203	154,762	157,887	9,078
<b>Total Assets</b>	<b>3,087,070</b>	<b>317,132,318</b>	<b>315,876,423</b>	<b>4,342,965</b>
<b>LIABILITIES</b>				
Accounts Payable	12,353	205,287	208,562	9,078
Due To Other Funds	1,200	1,200	2,400	-
Vouchers Payable	-	200	200	-
Funds Held For Others	3,073,517	316,818,319	315,557,949	4,333,887
<b>Total Liabilities</b>	<b>3,087,070</b>	<b>317,025,006</b>	<b>315,769,111</b>	<b>4,342,965</b>

**OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 1**  
**REVENUES, EXPENSES AND CHANGES IN STATUTORY ACCOUNT BALANCES**  
**(NON-GAAP PRESENTATION) - EMPLOYEES RETIREMENT FUND**  
**YEAR ENDED AUGUST 31, 2011**

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2011
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Contributions to Retirement System:						
Member Contributions	420,262,381					420,262,381
Employer Contributions		413,602,718				413,602,718
Service Contributions from Teacher Retirement System		64,772,079				64,772,079
Membership Fees					481,194	481,194
Penalty Interest		5,548,658				5,548,658
Investment Income:						
Net Appreciation in Fair Value of Investments				1,920,579,494		1,920,579,494
Interest and Dividends				551,315,416		551,315,416
Class Action Settlements				3,282,427		3,282,427
Rental Income					34,000	34,000
Warrants Voided By Statute of Limitations		123,646				123,646
Sale of Surplus Equipment					437	437
Miscellaneous					39,711	39,711
<b>Total Operating Revenues</b>	<b>420,262,381</b>	<b>484,047,101</b>	<b>-</b>	<b>2,475,177,337</b>	<b>555,342</b>	<b>3,380,042,161</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			1,580,908,420			1,580,908,420
Death Benefits:						
Active Members		2,496,951				2,496,951
Retirees		128,464	1,516,508			1,644,972
Member Contributions Withdrawn	79,535,160					79,535,160
Service Contributions to Teacher Retirement System		12,628,712				12,628,712
Administrative Expenses					78,234,118	78,234,118
Depreciation Expense					962,899	962,899
<b>Total Operating Expenses</b>	<b>79,535,160</b>	<b>15,254,127</b>	<b>1,582,424,928</b>	<b>-</b>	<b>79,197,017</b>	<b>1,756,411,232</b>
<b>Income (Loss) Before Non-Operating Expenses and Operating Transfers</b>	<b>340,727,221</b>	<b>468,792,974</b>	<b>(1,582,424,928)</b>	<b>2,475,177,337</b>	<b>(78,641,675)</b>	<b>1,623,630,929</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Loss on Disposal of Fixed Assets					(11,618)	(11,618)
<b>Income (Loss) Before Operating Transfers</b>	<b>340,727,221</b>	<b>468,792,974</b>	<b>(1,582,424,928)</b>	<b>2,475,177,337</b>	<b>(78,653,293)</b>	<b>1,623,619,311</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	230,116,316	1,101,488,085	1,064,780,887	(2,396,385,288)		-
Establishment of Benefit Reserves	(343,996,632)	(1,091,004,125)	1,435,000,757			-
Distribution of Interest for Administrative Expenses				(78,792,049)	78,792,049	-
Benefits Waived		2,108	(2,108)			-
Member Accounts-Escheated	(2,866,016)	2,866,016				-
Excess Benefit Arrangement Transfers					(138,756)	(138,756)
<b>Net Operating Transfers</b>	<b>(116,746,332)</b>	<b>13,352,084</b>	<b>2,499,779,536</b>	<b>(2,475,177,337)</b>	<b>78,653,293</b>	<b>(138,756)</b>
<b>Net Income (Loss)</b>	<b>223,980,889</b>	<b>482,145,058</b>	<b>917,354,608</b>			<b>1,623,480,555</b>
<b>Account Balances - Beginning</b>	<b>4,719,703,277</b>	<b>1,453,083,981</b>	<b>13,407,823,189</b>	<b>-</b>	<b>-</b>	<b>19,580,610,447</b>
<b>Account Balances - Ending</b>	<b>4,943,684,166</b>	<b>1,935,229,039</b>	<b>14,325,177,797</b>	<b>-</b>	<b>-</b>	<b>21,204,091,002</b>

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 2  
 REVENUES, EXPENSES AND CHANGES IN STATUTORY ACCOUNT BALANCES  
 (NON-GAAP PRESENTATION) - LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL  
 RETIREMENT FUND  
 YEAR ENDED AUGUST 31, 2011

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2011
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Contributions to Retirement System:						
Member Contributions	7,604,323					7,604,323
State Retirement Contributions		24,227,737				24,227,737
Investment Income:						
Net Appreciation in Fair Value of Investments				65,020,400		65,020,400
Interest and Dividends				18,888,400		18,888,400
Class Action Settlements				112,297		112,297
Warrants Voided By Statute of Limitations		1,805				1,805
<b>Total Operating Revenues</b>	<b>7,604,323</b>	<b>24,229,542</b>	<b>-</b>	<b>84,021,097</b>	<b>-</b>	<b>115,854,962</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			42,913,954			42,913,954
Refunds of Retirement Contributions	694,556					694,556
Death Benefits:						
Active Members		106,079				106,079
Administrative Expenses					3,076,677	3,076,677
<b>Total Operating Expenses</b>	<b>694,556</b>	<b>106,079</b>	<b>42,913,954</b>	<b>-</b>	<b>3,076,677</b>	<b>46,791,266</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>6,909,767</b>	<b>24,123,463</b>	<b>(42,913,954)</b>	<b>84,021,097</b>	<b>(3,076,677)</b>	<b>69,063,696</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	31,978	50,936,703	29,975,739	(80,944,420)		-
Establishment of Benefit Reserves	(359,383)	(45,464,809)	45,824,192			-
Distribution of Interest for Administrative Expenses				(3,076,677)	3,076,677	-
<b>Net Operating Transfers</b>	<b>(327,405)</b>	<b>5,471,894</b>	<b>75,799,931</b>	<b>(84,021,097)</b>	<b>3,076,677</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>6,582,362</b>	<b>29,595,357</b>	<b>32,885,977</b>	<b>-</b>	<b>-</b>	<b>69,063,696</b>
<b>Account Balances - Beginning</b>	<b>7,315,238</b>	<b>293,046,216</b>	<b>367,991,489</b>	<b>-</b>	<b>-</b>	<b>668,352,943</b>
<b>Account Balances - Ending</b>	<b>13,897,600</b>	<b>322,641,573</b>	<b>400,877,466</b>	<b>-</b>	<b>-</b>	<b>737,416,639</b>

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 3  
REVENUES, EXPENSES AND CHANGES IN STATUTORY ACCOUNT BALANCES  
(NON-GAAP PRESENTATION) - JUDICIAL RETIREMENT SYSTEM PLAN TWO FUND  
YEAR ENDED AUGUST 31, 2011

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2011
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Contributions to Retirement System:						
Member Contributions	4,250,032					4,250,032
Employer Contributions		11,932,875				11,932,875
Penalty Interest		41,294				41,294
Investment Income:						
Net Appreciation in Fair Value of						
Investments				23,796,950		23,796,950
Interest and Dividends				7,073,465		7,073,465
Class Action Settlements				41,801		41,801
Warrants Voided By Statute of Limitations		1,475				1,475
<b>Total Operating Revenues</b>	<b>4,250,032</b>	<b>11,975,644</b>	<b>-</b>	<b>30,912,216</b>	<b>-</b>	<b>47,137,892</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			11,722,267			11,722,267
Member Contributions Withdrawn	47,414					47,414
Administrative Expenses					1,009,275	1,009,275
<b>Total Operating Expenses</b>	<b>47,414</b>	<b>-</b>	<b>11,722,267</b>	<b>-</b>	<b>1,009,275</b>	<b>12,778,956</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>4,202,618</b>	<b>11,975,644</b>	<b>(11,722,267)</b>	<b>30,912,216</b>	<b>(1,009,275)</b>	<b>34,358,936</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	2,608,241	18,946,409	8,348,291	(29,902,941)		-
Establishment of Benefit Reserves	(6,389,568)	(25,529,408)	31,918,976			-
Distribution of Interest for						
Administrative Expenses				(1,009,275)	1,009,275	-
<b>Net Operating Transfers</b>	<b>(3,781,327)</b>	<b>(6,582,999)</b>	<b>40,267,267</b>	<b>(30,912,216)</b>	<b>1,009,275</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>421,291</b>	<b>5,392,645</b>	<b>28,545,000</b>	<b>-</b>	<b>-</b>	<b>34,358,936</b>
<b>Account Balances - Beginning</b>	<b>57,347,422</b>	<b>75,664,112</b>	<b>92,253,133</b>			<b>225,264,667</b>
<b>Account Balances - Ending</b>	<b>57,768,713</b>	<b>81,056,757</b>	<b>120,798,133</b>	<b>-</b>	<b>-</b>	<b>259,623,603</b>



OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 4  
 ADMINISTRATIVE AND INVESTMENT EXPENSES/EXPENDITURES  
 STATUTORY ADMINISTRATIVE FUNDS AND ACCOUNTS  
 YEAR ENDED AUGUST 31, 2011

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
<b><u>PERSONNEL SERVICES</u></b>	\$	\$
Salaries and Wages	15,955,434	6,409,640
<i>Payroll Related Costs:</i>		
Retirement Contributions	1,056,313	477,452
Retirement Membership Fees	805	168
Employees Insurance Contributions	1,531,292	372,800
Retirees Insurance Contributions	611,477	120,774
Social Security Contributions	1,159,925	385,371
Unemployment Compensation	27,229	5,368
Total Payroll Related Costs	4,387,041	1,361,933
<b>Total Personnel Services</b>	<b>20,342,475</b>	<b>7,771,573</b>
<b><u>PROFESSIONAL FEES AND SERVICES</u></b>		
Actuarial Services	1,200,015	
Audit Services	2,148,190	2,125
Investment Consulting Fees	38	2,386,190
Investment Advisor Fees		12,661,642
Investment Management Fees		35,333,592
Medical Board Member Fees	58,381	
Architectural Services	26,212	
Legal Services	760,085	
Computer Programming Services	1,374,153	260,246
Other Professional Services	343,667	60,223
<b>Total Professional Fees and Services</b>	<b>5,910,741</b>	<b>50,704,018</b>
<b><u>OTHER SERVICES AND CHARGES</u></b>		
Travel	96,012	402,813
Materials and Supplies:		
Postage	547,280	
General Office and Other Supplies	232,664	74
Subscriptions	23,728	8,007
Furniture and Equipment	473,624	66,998
Computer Software	410,658	
Total Materials and Supplies	1,687,954	75,079
Communications and Utilities:		
Electricity, Gas and Water	243,388	
Telephone and Telegraph	270,684	22,533
Electronic Communication Services	148,709	4,111,420
Total Communications and Utilities	662,781	4,133,953
Repairs and Maintenance:		
Land and Building	115,855	
Furniture and Equipment	20,545	
Computer Software and Equipment	924,981	
Total Repairs and Maintenance	1,061,381	
Rentals and Leases:		
Computer Software and Equipment	1,060,540	
Office Equipment	263,127	
Space	27,537	
Total Rentals and Leases	1,351,204	
Printing and Reproduction Services	74,065	
Depreciation	962,899	
Interest Expense	40,253	

- to next page

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 4  
 ADMINISTRATIVE AND INVESTMENT EXPENSES/EXPENDITURES  
 STATUTORY ADMINISTRATIVE FUNDS AND ACCOUNTS (CONCLUDED)  
 YEAR ENDED AUGUST 31, 2011

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
<b><i>OTHER SERVICES AND CHARGES (continued)</i></b>	\$	\$
Other Operating Expenses/Expenditures:		
Membership Fees	22,531	26,594
Employee Training	121,846	22,406
Insurance - Building and Vehicle	42,153	
Fees and Other Charges	2,688	8,335
Investment Banking	5,058	431,524
Tenure Awards	1,578	
Witness Fees	1,150	
Hazardous Waste Disposal	(249)	
Temporary Employment Agencies	234,308	4,586
Cleaning Services	118,547	
Advertising Services	6,482	3,337
Freight/Delivery Services	4,285	
Purchased Contracted Services	713,958	2,614
Prompt Payment Interest	167	
Claims & Judgments		
SORM Assessment	931	186
Third Party Administrator Fee - Cafeteria Plan	1,579,599	
Debit Card Fees - Cafeteria Plan	698,983	
<b>Total Other Operating Expenses/Expenditures</b>	<b>3,554,015</b>	<b>499,582</b>
<b>Total Other Services and Charges</b>	<b>9,490,564</b>	<b>5,111,427</b>
<b>Total Expenses/Expenditures</b>	<b>35,743,780</b>	<b>63,587,018</b>
<b>Method of Finance:</b>		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	18,849,788	60,347,228
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	936,543	2,140,133
Judicial Retirement System Plan Two Trust Fund (0993)	285,851	723,423
TexaSaver 401(k) Trust Fund (0946)	614,825	2,537
TexaSaver 457 Trust Fund (0945)	510,254	2,937
State Employees Cafeteria Plan Trust Fund (0943)	2,724,941	2,263
State Retiree Health Plan (3973)	2,649,424	1,839
<b>Total Fiduciary Funds</b>	<b>26,571,626</b>	<b>63,220,360</b>
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	9,070,568	366,658
<b>Total Proprietary Fund</b>	<b>9,070,568</b>	<b>366,658</b>
Social Security Administration Trust Account (0929)	101,586	
<b>Total Governmental Funds</b>	<b>101,586</b>	-
<b>Total Method of Finance</b>	<b>35,743,780</b>	<b>63,587,018</b>

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 5  
 PROFESSIONAL AND CONSULTING FEES  
 YEAR ENDED AUGUST 31, 2011

<b><u>NATURE OF SERVICE</u></b>	<b>Totals</b>
	\$
Medical Board	58,381
Investment Consulting	2,386,228
Investment Advisors	12,661,642
Investment Management Fees	35,333,592
Actuarial Services - Retirement	427,361
Actuarial Services - Insurance	772,654
Computer Programming Services	1,634,399
Audit Fees - Financial	105,000
Audit Fees - Insurance Carrier	1,878,422
Audit Fees - Deferred Compensation Plan	164,768
Audit Fees - Other	2,125
Educational Services	109,325
Architectural Services	26,212
Legal Services	760,085
Information Technology Advisor Services	139,029
Incentive Compensation Plan Review	16,050
Call Center Overflow Consulting Services	18,900
Benefit Studies Research	10,020
Employee Assistance Program	3,717
Investment Employment Search	34,000
Environmental Testing	4,175
Enterprise Risk Management	36,562
Other Professional and Consulting Services	32,112
<b>Total Professional and Consulting Fees</b>	<b>56,614,759</b>
<b>Method of Finance:</b>	
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	51,060,655
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	1,749,379
Judicial Retirement System Plan Two Trust Fund (0993)	574,673
State Retiree Health Plan (3973)	333,308
Texasaver 401(k) Trust Fund (0946)	95,667
Texasaver 457 Trust Fund (0945)	92,680
State Employees Cafeteria Plan Trust Fund (0943)	1,117
<b>Total Fiduciary Funds</b>	<b>53,907,479</b>
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	2,708,390
<b>Total Proprietary Fund</b>	<b>2,708,390</b>
Social Security Administration Fund (0929)	(1,110)
<b>Total Governmental Funds</b>	<b>(1,110)</b>
<b>Total Method of Finance</b>	<b>56,614,759</b>



# 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 2011

### OVERVIEW

The Employees Retirement System of Texas (System) investment portfolio closed the fiscal year with a fair value of \$22.1 billion, and returned 12.36%, net of fees, for the year compared to the global policy benchmark return of 12.02%. Over the longer term, the fund returned 3.89% for the 5 years ending August 31, 2011 besting the policy benchmark of 3.21%, and the fund returned 5.30% for the 10 years ending August 31, 2011 exceeding the policy benchmark of 5.06%. The fiscal year-end asset allocation stood at 36.3% bonds, 31.0% domestic equity, 24.4% international equity, 3.6% global real estate, and 3.1% in private equity.

Major accomplishments for the investment program this fiscal year were the searches and selection of ERS's plan custodian, BNY Mellon, and securities lending agent, Deutsche Bank. Other accomplishments included review and revision of ERS's Proxy Voting Policies in the ERS Investment Policy. Staff continued the expansion of asset classes as determined by the prior asset/liability study, and further optimized the mix of internally managed and externally advised portfolios. This included the selection and funding a select pool of large cap domestic equity advisors.

Within Public Equities, accomplishments included streamlining their policies and procedures and the funding of two managers of emerging managers. Staff also reviewed opportunities for natural resource related investments.

The Fixed Income team researched and implemented procedures to enable ERS to trade futures contracts electronically.

Strategic Research's search and selection of a Hedge Fund consultant was completed in fiscal year 2011, along with the development of Hedge Fund Policies and Procedures and Annual Tactical Plan. The technology platform was expanded beyond public equities to capture and screen data regarding advisors and managers.

On the Private Markets side, \$570 million was committed to nine Private Equity funds and \$670 million to seven Private Real Estate funds. Selection

was completed and funding has begun for both the Private Equity Manager of Emerging Managers and the Private Real Estate Manager of Emerging Managers. Funding has also begun for the external global REIT advisor. Private Markets also added private markets software and completed the initial implementation. The public markets trade approval process was streamlined and staff continues to review team assignments and realign as appropriate. Lastly, staff continued implementing the Sudan and Iran policies and procedures.

### DOMESTIC EQUITY

The leading U.S. equity benchmarks had positive double digit returns for fiscal year 2011, as stock markets continued to recover from the worst bear market since the Great Depression during 1929-1932. Performance was generally positive through February as economic data steadily improved and investor concern about the potential for a "double-dip" recession diminished. Government stimulus provided key support. For example, during December, President Obama signed into law an \$858 billion package of tax breaks and extensions.

The stock markets were highly volatile from February through August. Political turmoil in North Africa and the Middle East, a devastating earthquake and nuclear crisis in Japan, and investor concern about the European sovereign-debt crisis were major negatives. However, corporate earnings were generally better than expected. During April, Ben Bernanke, Chairman of the U.S. Federal Reserve, pledged to keep interest rates "exceptionally low" for an "extended period." The fiscal year ended on a down note as mixed U.S. economic data, increased concern about the European economic outlook, and repercussions from the political stalemate in the U.S. over the debt limit weighed on the markets.

All economic sectors had positive returns for the fiscal year with the exception of the Financial sector. Financial stocks have been the weakest performers since fiscal year 2007. Energy stocks were the best performers for fiscal year 2011 after being weak performers during fiscal years 2009 and 2010. Consumer Discretionary stocks were among the top performers for the second consecutive fiscal year.

# REPORT ON INVESTMENT ACTIVITY (CONTINUED)

FISCAL YEAR 2011

## INTERNATIONAL EQUITY

International markets remained highly volatile over the course of the fiscal year. After rallying more than 26% through the first eight months on an improved global economic outlook, the markets were undone by a combination of the re-emergence of European sovereign debt issues and weakening key economic indicators. Markets subsequently fell approximately 20% from May through mid-August and rallied 6% during the last week of August to end the year with a total return of 10.3%.

The Morgan Stanley Capital International ACWI ex US index (+10.3%) finished the year strong despite the aforementioned concerns. Regional returns were tightly clustered with the Pacific Region (+10.6%) leading the way, followed by Europe (+10.0%) and Emerging Markets (+9.1%), all adjusted to US dollars. Developed Markets with the best performance in the index include New Zealand (+43.3%), Norway (+25.2%), and Australia (+21.2%) while underperformers include Greece (-42.0%), making it the worst performing developed market two consecutive years, Israel (-9.2%), with an inauspicious start as a developed market, and Italy (-6.5%). In Emerging Markets, Thailand (+27.3%), Indonesia (+26.0%), and Mexico (+22.9%) led outperformance while Egypt (-28.0%), Turkey (-21.3%), and India (-6.8%) underperformed.

Currencies had another volatile year led by strength across the major currencies relative to the U.S. Dollar. The Swiss Franc (+25.9%) led all currencies strengthening from 1.02 CHF/USD to 0.81 CHF/USD, followed by the Australian Dollar (+20.2%), Swedish Krona (+16.4), and Euro (+13.3%). Weakness was led by Emerging Market currencies as the Turkish Lira (-11.0%), Argentine Peso (-5.9%), and Egyptian Pound (-2.9%) underperformed.

## REAL ESTATE

Global real estate equity markets, as measured by the FTSE EPRA/NAREIT Developed Index, increased 15.5% for fiscal year ending August 31, 2011 but were volatile. Favorable currency effects contributed approximately 6% to the total return. In USD terms, Continental Europe (+25.4%, currency added 16%) was the best performer among the regions, followed by the UK (+21.6%, currency added 7%) and North America (+19.3%). Asia was the worst performer, up 7.5% (currency added +8.5%).

Contributing to the volatility were renewed concerns on the fragility and uncertainty of the global economic recovery, sovereign credit concerns in the developed countries, and inflation worries in the emerging markets. Asia started strong, but tightening policy measures in the residential markets of China, Hong Kong, and Singapore significantly impacted market sentiment. The Japanese tsunami and concerns about a Chinese economic slow-down also took their toll and started impacting other parts of the globe. Toward the end of the fiscal year, the combination of weaker-than-expected economic data and the downgrade of the US sovereign credit rating triggered a global sell-off in equities, reducing a significant portion of the gains. Through July 31, the index had been up 23%.

A common theme across the globe was the flight to prime property in prime locations. Above average rental growth and positive supply/demand dynamics had investors bidding up properties in the gateway cities (e.g. New York, London, Paris, Hong Kong). Switzerland and the Nordic countries were buffeted by strong currencies and fundamentals. In the Asian markets, companies with prime commercial assets outperformed the residential developers, which were negatively affected by government policies focused on reigning in a potential housing bubble.

In the North American markets, the US gained 18.5% and Canada increased 26.7% for the period. Except for Lodging/Resorts (-4.9%), all of the sectors in the US markets were positive with Residential (+36.5%), Self Storage (+30.6%), and Retail (+23.1%) being the winners for the period. Residential benefited from economic tailwinds (job growth), limited supply, and a continued decrease in homeownership. A common theme for the last twelve months was the underperformance of companies exposed to secondary markets or lower quality assets. The Canadian market was supported by a strong currency and macro fundamentals.

## PRIVATE REAL ESTATE

ERS was very productive, committing \$610 million (adjusted for currency) to seven funds for the fiscal year. This was above the target of \$550 million but below the upper range of \$733 million set forth in the FY 2011 tactical plan. Two commitments were made to core open ended funds totaling \$225 million, three commitments were made to value added funds for

# REPORT ON INVESTMENT ACTIVITY (CONTINUED)

FISCAL YEAR 2011

\$210 million, and one commitment was made to an opportunistic strategy for \$50 million. This opportunistic strategy was for a manager of emerging managers focused on the US.

As of August 31, 2011, commitments totaled \$810 million to nine deals. ERS sits on the Advisory Boards of all of the funds. The net asset value stands at \$358 million. Since inception, \$327 million in capital has been called, and approximately \$10 million has been returned as income or a return of principal.

The private real estate program is off to a good start and making considerable progress. The pricing for core properties has rebounded significantly and is a challenging area of the market. Other areas should provide ample opportunities to buy attractively priced real estate over the next several years. ERS continues to be optimistic about the opportunities the market is presenting but is also aware of the challenges and will continuously monitor the environment.

## PRIVATE EQUITY

For the fiscal year ended August 31, 2011, ERS closed on nine private equity funds with commitments totaling approximately \$570 million (adjusted for currency exchange rates). Originally, ERS was targeting 7-12 private equity fund investments with commitments totaling \$500 million for fiscal year 2011 (with a commitment range of \$375-625 million).

As of August 31, 2011, ERS' Private Equity Portfolio Net Asset Value was \$690 million (vs. \$277 million at August 31, 2010). Since inception through August 31, 2011, net capital calls have totaled \$973 million (vs. \$474 million at 8/31/10), and cash distributions have totaled \$256 million (vs. \$156 million at 8/31/10). ERS has closed on a total of 33 funds with commitments totaling \$2.4 billion (adjusted for currency exchange rates). ERS has received LP Advisory Committee seats in 20 funds and two fund LP Advisory Observer seats.

In summary, the ERS's private equity program is progressing well. The current private equity market environment is quite active. However, Europe's sovereign debt crisis and the U.S. economy's weakness have resurrected fears of a double dip recession. Capital markets are otherwise robust and the past 18 months of stability have provided a healthy recovery and exit environment for "pre-Lehman" investments.

## FIXED INCOME

### ECONOMY

Economic data trended higher during the first six months of the fiscal year. The ISM manufacturing index reached its highest level in February, as did nonfarm payrolls and annual retail sales. Not surprisingly, consumer confidence measures, such as the University of Michigan's sentiment index, peaked. At this time, economists were bullish on US economic growth, with forecasts surpassing 3.0% for 2012 GDP. The positive outlook even had some Federal Reserve members question whether or not the current form of government stimulus, known as QE2, could be scaled back.

The optimism began to fade in March as oil prices moved up firmly over \$100 per barrel. Consumer confidence trended lower as a result of higher gas prices and growing inflation expectations. The term "soft patch" was coined to describe the growing number of economic releases that came in below expectations. As measures of consumption began to fall, Q1 GDP came in below expectations and was ultimately revised down to 0.4%, the lowest level since the recession ended. Even manufacturing, a bright spot in the recovery, began to slow down, partly due to supply chain disruptions from the Japanese earthquake and tsunami. The slower economic growth prompted the Federal Reserve to discuss a "range of policy tools available to promote a stronger economic recovery" in their August meeting.

# REPORT ON INVESTMENT ACTIVITY (CONCLUDED)

FISCAL YEAR 2011

## INDEX PERFORMANCE

The Barclays Universal Index returned 4.81% for the fiscal year, down from the prior year's return of 10.04%. Although high yield was the best performing sector, it has lost 1.55% over the past six months. Conversely, U.S. Treasury securities returned 6.98% for the fiscal year, with 7.08% coming in the last six months. The third best asset class was corporate debt at 5.83%, down from 13.46% last year.

## INTEREST RATES

Interest rates were volatile during the year but closed lower when the fiscal year ended. Rates peaked in February when the yield on the ten-year Treasury reached 3.74%. However, by the end of the fiscal year, the yield curve fell to new lows, led by the ten-year falling to 2.06%. On the front end of the curve, the yield on the two-year security fell in response to the Federal Reserve's commitment to keep rates low through March 2013. As a result, the two-year fell 30 bps over the year and the five-year fell 43 bps. Treasury yields dropped the most in August as the Federal Reserve

hinted at a third round of quantitative easing that would focus on the long end of the Treasury curve.

## KEY PORTFOLIO STATISTICS

	<u>2011</u>	<u>2010</u>
	\$	\$
Contributions to Pool	691,000,000	683,650,000
Withdrawals from Pool	(1,518,845,000)	(1,436,600,000)
Interest & Dividends	573,482,282	563,215,426
Securities Lending Net Income	3,794,998	5,905,845
Net Appreciation (Depreciation) in Fair Value	2,009,396,844	731,678,602

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 2011

### 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;
- Global fixed income securities, subject to a minimum credit rating of "CCC-, Caa3," or their equivalent as rated by two Nationally Recognized Statistical Rating Organizations;
- Interests in private securities exempted from registration under federal and state securities laws, including 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;
- Global publicly-traded real estate equities 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;
- Futures which are Commodities and Futures Trading Commission (CFTC)-approved and exchange-traded options; and
- Options which are Options Clearing Corporation (OCC)-approved.

### 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

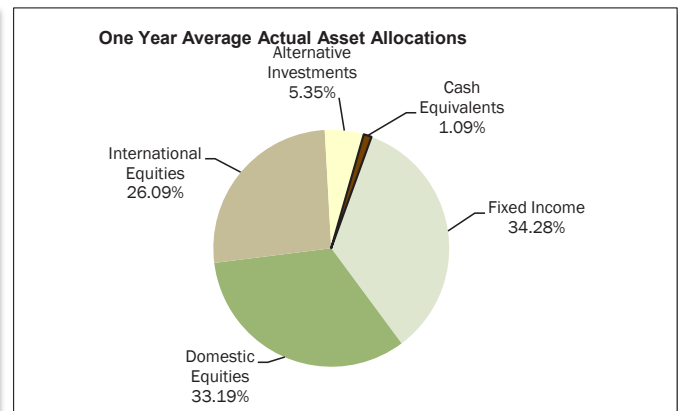
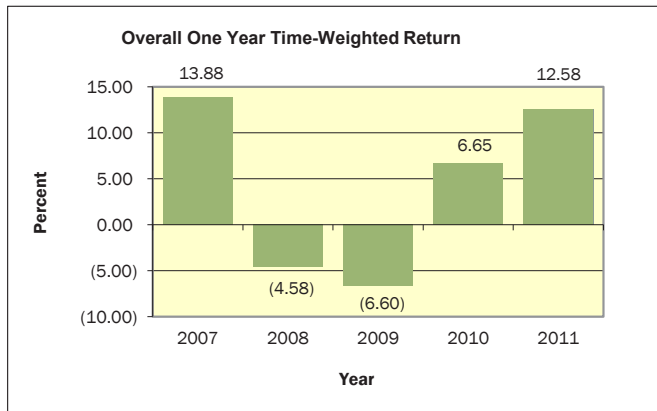
AUGUST 31, 2011

### Time-Weighted Rates of Return ( Note A )

	Fixed Income Securities		Domestic Equities		International Equities		Cash Equivalents		ERS		Change in CPI
	ERS	Index	ERS	Index	ERS	Index	ERS	Index	Overall	Benchmark	
1 Year	%	%	%	%	%	%	%	%	%	%	%
2007	5.73	5.26	14.98	15.13	20.00	18.71	5.37	5.29	13.88	12.06	2.00
2008	5.25	5.86	(11.59)	(11.14)	(12.99)	(14.41)	4.01	2.99	(4.58)	(5.51)	5.40
2009 (Note B)	6.40	7.38	(18.35)	(18.35)	(14.04)	(14.41)	(53.82)	0.66	(6.60)	(7.55)	(1.50)
2010	9.12	9.87	5.92	5.56	2.37	2.85	0.11	0.14	6.65	6.80	1.10
2011	4.72	4.82	19.67	19.09	11.98	10.34	0.04	0.15	12.58	12.02	3.80
<b>3 Year</b> (2008-2010)	6.53	6.82	1.14	0.87	(0.49)	(0.97)	(22.67)	0.32	3.89	3.42	1.15
<b>5 Year</b> (2006-2010)	6.16	6.09	1.02	0.98	0.71	(0.27)	(12.71)	1.83	4.03	3.21	2.14

### Average Asset Allocations

	1-Year		3-Year		5-Year	
	Target	Actual	Target	Actual	Target	Actual
	%	%	%	%	%	%
Fixed Income	35.00	34.28	35.73	35.28	36.63	37.22
Domestic Equities	30.09	33.19	33.89	34.61	37.94	40.00
International Equities	26.00	26.09	24.30	23.18	21.78	21.91
Alternative Investments	7.91	5.35	5.08	5.81	3.05	0.00
Cash Equivalents	1.00	1.09	1.00	1.12	0.60	0.87
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>



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/MSWI 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.

Basis of Presentation: Master Custodian Records.



# BROKER COMMISSIONS

YEAR ENDED AUGUST 31, 2011

## Domestic Equity

<b>Brokerage Firm</b>	<b>No. of Shares Traded</b>	<b>Commissions</b>	<b>Commission Per Share</b>
Alaris Trading Partner LLC	688	\$ 17	0.025
American Portfolios Financial Services	101	4	0.040
Auriga USA, LLC	99	4	0.040
Avondale Partners, LLC	21,799	850	0.039
Bank of America	433,943	4,006	0.009
Barclays Capital	11,457,026	241,432	0.021
Barrington Research Associates, Inc.	613	31	0.051
Baypoint Trading LLC	977	34	0.035
BB&T	276	11	0.040
Bear Stearns	516	21	0.041
Benchmark Company, LLC	598	24	0.040
Blaylock Robert Van, LLC	216	6	0.028
Bloomberg Tradebook, LLC	5,273,707	52,737	0.010
BMO Capital Markets	7,515,156	175,677	0.023
BNY Clearing Services LLC	213,009	7,199	0.034
Boe Securities, Inc.	365	11	0.030
Brean Murray Foster Securities	860	34	0.040
BTIG	2,500	66	0.026
Buckingham Research Group, Inc.	10,035	407	0.041
Cabrera Capital Markets LLC	412,654	4,856	0.012
Cantor Fitzgerald	25,451	778	0.031
Capital Institutional Services, Inc.	611,984	18,576	0.030
Capital One Southcoast	130	7	0.054
Capstone Investments	933	37	0.040
Caris & Company	931	37	0.040
Castleoak Securities	32,621	979	0.030
Cheevers and Company	302	9	0.030
CIBC-Oppenheimer	80,224	3,225	0.040
Citigroup Global Markets, Inc.	4,909,225	95,159	0.019
CL King & Associates	1,140	50	0.044
Cowen and Company LLC	2,882,354	57,776	0.020
Craig Hallum Capital Group LLC	2,356	110	0.047
Credit Agricole Cheuvreux N.A., Inc.	15,434	474	0.031
Credit Lyonnais Securities	85,000	1,700	0.020
Credit Suisse First Boston	38,489,771	746,741	0.019
D.A. Davidson Institutional	339	14	0.041
Dahlman Rose & Company	10,727	374	0.035
Deutsche Bank Securities	8,941,056	173,715	0.019
Direct Access Partners	512	15	0.029
Dougherty & Co.	5,377	179	0.033
FBN Securities	13,812	452	0.033
Feltl & Company	107,804	2,574	0.024
Fig Partners Trading	11,157	135	0.012
First Analysis	1,709	78	0.046
Gleacher & Company Securities, Inc.	17,516	406	0.023
Goldman Sachs	2,855,244	59,319	0.021
Green Street Advisors, Inc.	1,655,900	82,795	0.050
Greentree Brokerage Services, Inc.	1,473	39	0.026
Howard Weil, Inc.	11,837	456	0.039
Hudson Securities, Inc.	9,426	377	0.040
Instinet Clearing Services, Inc.	784,266	8,711	0.011
International Strategy & Investment Group, Inc.	7,737,625	131,274	0.017

# BROKER COMMISSIONS (CONTINUED)

YEAR ENDED AUGUST 31, 2011

## Domestic Equity

<b>Brokerage Firm</b>	<b>No. of Shares Traded</b>	<b>Commissions</b>	<b>Commission Per Share</b>
Interstate Group	28,222	\$ 1,411	0.050
Investment Technology Group, Inc	3,294,498	34,320	0.010
Island Trading	85,185	1,241	0.015
Ivy Securities, Inc.	389	12	0.031
J.P. Morgan Securities, LLC	11,991,064	244,964	0.020
Jefferies & Company, Inc.	8,436,121	171,293	0.020
JPM Securities LLC	48,441	1,712	0.035
JNK Securities	35,993	1,287	0.036
Johnson Rice & Company LLC	1,296	52	0.040
Jones Associates	300	9	0.030
Jones Trading Institutional Svcs LLC	5,105	143	0.028
Keefe, Bruyette & Woods, Inc.	1,076	43	0.040
Keybanc Capital Markets	4,822,100	96,442	0.020
Knight Capital Group, Inc.	106,074	1,669	0.016
Lazard Freres & Co. LLC	22,064	589	0.027
Leerink Swann & Company, Inc.	1,220,491	24,554	0.020
Lek Securities Corporation	2,400	12	0.005
Liquidnet, Inc.	2,770,538	32,972	0.012
Longbow Securities	3,505	140	0.040
Loop Capital Market	76,090	2,319	0.030
Lynch, Jones & Ryan, Inc.	8,532	285	0.033
M. Ramsey King Securities, Inc.	4,080	122	0.030
M.R. Beal & Company	185,750	6,603	0.036
Macquarie Securities (USA), Inc.	2,157,755	53,754	0.025
Madison Williams and Company	2,360	94	0.040
Maxim Securities	626	25	0.040
Merrill Lynch & Co., Inc.	10,881,856	221,047	0.020
Miller Tabak Roberts Securities, Inc.	11,917	315	0.026
Mischler Financial Group	5,719	170	0.030
Morgan Keegan	10,662	427	0.040
Morgan Stanley Dean Witter & Co.	8,613,570	145,666	0.017
Needham & Company, LLC	14,028	532	0.038
Noble Financial Group	857	34	0.040
Nomura Securities Co., LTD.	17,766	711	0.040
North Shore Capital Advisors	83,301	2,196	0.026
Oppenheimer & Co., Inc.	2,311	105	0.045
Pacific America	7,019	262	0.037
Pacific Crest Securities	26,121	1,052	0.040
Penserra Securities	33,678	348	0.010
Piper Jaffray & Co.	208,203	5,166	0.025
Pulse Trading, Inc.	2,389	24	0.010
Raymond James & Associates	1,558,641	46,825	0.030
RBC Capital Markets	42,196	705	0.017
RBC Dain Rauscher	5,366,946	107,681	0.020
Robert Baird Securities, Inc.	8,651,069	133,066	0.015
Robert Van Blaylock, LLC	20,956	629	0.030
Rodman & Renshaw	485	19	0.040
Roth Capital Partners	374	15	0.040
Samual Ramirez	969	29	0.030
Sandler O'Neil & Partner, L.P.	1,501,800	30,036	0.020
Sanford C. Bernstein & Co.	4,470,184	94,739	0.021
Sesilia Securities	559	17	0.030

# BROKER COMMISSIONS (CONCLUDED)

YEAR ENDED AUGUST 31, 2011

## Domestic Equity

Brokerage Firm	No. of Shares		Commissions	Commission Per Share
	Traded			
Sidoti & Company LLC	4,178,848	\$	127,865	0.031
Soleil Securities	2,781		111	0.040
Southcoast Capital	14,133		565	0.040
State Street Capital Markets	20,000		400	0.020
Stephens, Inc.	87,126		2,837	0.033
Sterne Agee & Leach, Inc.	2,509,795		50,378	0.020
Stifel, Nicolaus & Company, Inc.	5,834,107		96,938	0.017
Stuart Frankel	1,015		41	0.040
Suntrust Capital Markets, Inc.	2,427		97	0.040
Susquehanna Financial Group	14,403		576	0.040
Telsey Advisory Group LLC	259		8	0.030
Thinkequity LLC	19,997		781	0.039
Trade Manage Capital, Inc.	4,276		43	0.010
UBS	3,250,346		65,043	0.020
UNX, Inc.	1,826		37	0.020
Wedbush Securities	10,475		345	0.033
Weeden & Company	398,582		7,985	0.020
Wells Fargo Securities, LLC	360,654		4,981	0.014
William Blair & Company, LLC	159,375		4,644	0.029
Williams Capital Group	65,541		1,544	0.024
Total	<b>188,428,371</b>		<b>3,707,100</b>	<b>0.020</b>

## International Equity

Brokerage Firm	No. of Shares		Commissions	Commission Per Share
	Traded			
Barclays Capital	18,254,121	\$	207,241	0.011
Bloomberg Tradebook, LLC	73,210		732	0.010
BMO Capitol Markets	629,125		12,787	0.020
Citigroup Global Markets, Inc.	51,277,580		253,987	0.005
Collins Stewart	2,483,382		31,261	0.013
Cowen & Company	100,370		2,007	0.020
Credit Agricole Cheuvreus N.A., Inc.	14,582,240		201,002	0.014
Credit Lyonnais Securities	81,137,767		543,222	0.007
Credit Suisse First Boston	72,033,780		382,948	0.005
Daiwa Capital Markets America, Inc.	32,700,331		125,236	0.004
Deutsche Bank Securities	20,956,082		166,275	0.008
Goldman Sachs	6,250		125	0.020
Helvea, Inc.	3,525,590		53,208	0.015
HSBC, Inc.	9,866,658		152,219	0.015
Investec Securities LLC	5,251,983		93,329	0.018
Investment Technology Group, Inc.	18,870		189	0.010
J.P. Morgan Securities, Inc.	29,879,007		244,365	0.008
Keefe, Bruyette & Woods, Inc.	4,137,021		82,346	0.020
Keybank Capital Markets	3,120		62	0.020
Macquarie Securities (USA), Inc.	32,262,758		242,400	0.008
Merrill Lynch & Co., Inc.	28,202,771		185,304	0.007
Mitsubishi Securities	4,573,223		87,671	0.019
Mizuho Securities	2,105,715		53,960	0.026
Morgan Stanley Dean Witter & Co.	60,627,885		284,532	0.005
Nomura Securities Co. Ltd.	106,814,104		478,935	0.004
Rbc Dain Rauscher	9,350		187	0.020
Redburn Partners, Inc.	1,531,700		51,348	0.034
Robert Baird Securities, Inc.	279,440		5,296	0.019
Sanford C Bernstein & Co.	2,970,464		57,637	0.019
Stifel, Nicolaus & Company, Inc.	29,600		592	0.020
UBS	21,037,064		94,898	0.005
Total	<b>607,360,561</b>		<b>4,095,301</b>	<b>0.007</b>

Basis of Presentation: System's Subsidiary Records.

# INVESTMENT ADVISORY AND SERVICE FEES

YEAR ENDED AUGUST 31, 2011

Advisory Service	Asset Value	Fees	Basis Points	Other Investment Service	Fees
Fixed Income Advisors	\$ 227,425,517	\$ 489,017	21.50	Custodian Fees	252,402
Domestic Equity Advisors	1,038,449,087	2,832,903	27.28	Security Lending Agent Fees	663,127
International Equity Advisors	2,525,740,513	9,339,722	36.98	Investment Consultant Fees	2,386,215
<b>Total</b>	<b><u>3,791,615,117</u></b>	<b><u>12,661,642</u></b>	<b>33.39</b>	Investment Management Fees:	
				Private Equity	31,320,624
				Private Real Estate	4,012,967
				<b>Total</b>	<b><u>38,635,336</u></b>

## Directed Commissions

Consistent with the System's Investment Policy as adopted by the Board of Trustees, and in order to maximize the System's resources including commission dollars generated through trade activity, directed commissions are sometimes used to fund a portion of budgeted investment program expenses. Trade activity in excess of the level required to support research products used by the System's investment staff is directed toward the payment of budgeted items. Directed commissions totaled \$345,252 during fiscal year 2011.

## LIST OF LARGEST ASSETS HELD

YEAR ENDED AUGUST 31, 2011

### Ten Largest Stock Holdings

# of Shares	Description	Fair Value
		\$
489,890	Apple, Inc.	188,524,369
2,086,417	Exxon Mobil Corporation	154,478,315
4,474,032	Microsoft Corporation	119,009,251
675,451	International Business Machines Corporation	116,116,781
1,547,531	Johnson & Johnson Company	101,827,540
943,310	Chevron Corporation	93,302,792
1,419,722	Proctor & Gamble Company	90,407,897
1,219,550	Coca-Cola Company	85,917,298
32,272,216	Vodafone Group	84,601,050
5,023,686	General Electric Company	81,936,319

### Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
\$		\$
260,950,000	U.S. Treasury Note 3.125% due on 05/15/2021, Rating AA+	282,642,774
195,000,000	U.S. Treasury Note 1.125% due on 06/15/2013, Rating AA+	198,229,200
179,700,000	U.S. Treasury Note 2.625% due on 04/30/2016, Rating AA+	194,370,888
180,975,000	U.S. Treasury Note 2.625% due on 11/15/2020, Rating AA+	189,076,527
171,760,000	U.S. Treasury Note 1.375% due on 11/30/2015, Rating AA+	176,604,147
150,000,000	U.S. Treasury Note 2.250% due on 11/30/2017, Rating AA+	158,144,550
146,930,000	U.S. Treasury Note 1.5% due on 07/31/2016, Rating AA+	151,016,123
124,700,000	U.S. Treasury Note 2% due on 01/31/2016, Rating AA+	131,422,078
114,040,000	U.S. Treasury Note 3.625% due on 02/15/2021, Rating AA+	128,749,335
104,556,000	U.S. Treasury Note 03.125% due on 05/15/2019, Rating AA+	115,469,033

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, 2011

Type of Investment	Pooled Pension Trust Funds (Note A)			Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fair Value	% Total
<b>Long-Term Fixed Securities:</b>					
U.S. Treasury Bonds	3,886,082,612	135,057,500	47,410,872	4,068,550,984	18.52459%
Other Government Securities	184,937,371	6,427,341	2,256,268	193,620,980	0.88158%
Mortgage Pass-Thru Securities	1,071,444,737	37,237,152	13,071,809	1,121,753,698	5.10748%
Asset Backed Securities	29,253,684	1,016,687	356,900	30,627,271	0.13945%
Commercial Mortgage Backed Securities	52,750,706	1,833,306	643,567	55,227,579	0.25146%
Corporate Bonds	1,560,432,398	54,231,502	19,037,542	1,633,701,442	7.43844%
<b>Total Long-Term Fixed Securities</b>	<b>6,784,901,508</b>	<b>235,803,488</b>	<b>82,776,958</b>	<b>7,103,481,954</b>	<b>32.34300%</b>
<b>Public Equities:</b>					
Domestic	6,361,931,820	221,103,536	77,616,655	6,660,652,011	30.32675%
International	5,153,664,151	179,111,219	62,875,583	5,395,650,953	24.56704%
<b>Total Public Equity</b>	<b>11,515,595,971</b>	<b>400,214,755</b>	<b>140,492,238</b>	<b>12,056,302,964</b>	<b>54.89379%</b>
<b>Real Estate Investments:</b>					
Domestic	334,595,873	11,628,595	4,082,127	350,306,595	1.59499%
International	76,373,530	2,654,297	931,770	79,959,597	0.36407%
<b>Total Real Estate Investments</b>	<b>410,969,403</b>	<b>14,282,892</b>	<b>5,013,897</b>	<b>430,266,192</b>	<b>1.95906%</b>
<b>Alternative Investments:</b>					
Private Equity	659,271,871	22,912,434	8,043,229	690,227,534	3.14269%
Private Real Estate	342,420,649	11,900,539	4,177,591	358,498,779	1.63229%
<b>Total Alternative Investments</b>	<b>1,001,692,520</b>	<b>34,812,973</b>	<b>12,220,820</b>	<b>1,048,726,313</b>	<b>4.77498%</b>
<b>Short-Term Investments:</b>					
Cash in State Treasury-Investment Pool	1,673,246	64,234	(19,595)	1,717,885	0.00782%
Money Market Mutual Funds	1,263,155,182	43,899,290	15,413,650	1,322,468,122	6.02135%
<b>Total Short-Term Investments</b>	<b>1,264,828,428</b>	<b>43,963,524</b>	<b>15,394,055</b>	<b>1,324,186,007</b>	<b>6.02917%</b>
<b>Total Before Securities Lending Collateral (Notes B &amp; C)</b>	<b>20,977,987,830</b>	<b>729,077,632</b>	<b>255,897,968</b>	<b>21,962,963,430</b>	<b>100.00000%</b>
Securities Lending Collateral					
<b>Total Pension Investment Pool Trust Fund (0888)</b>	<b>20,977,987,830</b>	<b>729,077,632</b>	<b>255,897,968</b>	<b>21,962,963,430</b>	
<b>Cash Equivalents:</b>					
Cash in State Treasury-Pension Funds	23,925,689	1,509,322	825,422		
<b>Total Investments</b>	<b>21,001,913,519</b>	<b>730,586,954</b>	<b>256,723,390</b>		

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

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

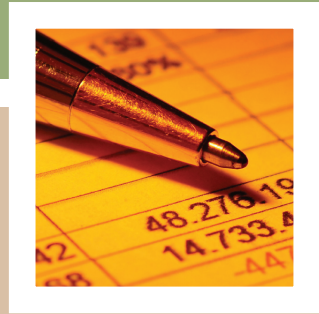
	Fair Value			
	Fund 0955	Fund 0977	Fund 0993	Total
Total Fair Value of Investments Before Securities Lending Collateral, as above	20,977,987,830	729,077,632	255,897,968	21,962,963,430
Unsettled Sales-Investment Receivables	87,446,556	3,018,260	1,147,442	91,612,258
Unsettled Purchases-Investment Payables	(18,879,353)	(652,717)	(247,241)	(19,779,311)
Coupons, Dividends & Corporate Action Proceeds in Transit	3,285,399	113,586	43,023	3,442,008
Accrued Interest and Dividends/Tax Reclaims Receivable	76,794,965	2,637,208	950,235	80,382,408
<b>Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards</b>	<b>21,126,635,397</b>	<b>734,193,969</b>	<b>257,791,427</b>	<b>22,118,620,793</b>

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

Basis of Presentation: System's Financial Records 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 4, 2011

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 and the schedules listed below represent Buck's certification of the funding status as required for the financial report for the fiscal year ended August 31, 2011 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 House Bill 2559 of the 81<sup>st</sup> Texas Legislature. 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 6.00% of payroll for the current fiscal year and will contribute 6.50% of payroll for future fiscal years. The actuarial valuation for funding purposes was completed using the entry age actuarial cost method, under which 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, 2011. There have not been any changes in the actuarial assumptions, actuarial cost method, actuarial procedures, or plan provisions from the prior valuation. During the past plan year, the State legislature budgeted for no across-the-board pay increases for the biennium and the State contribution to the ERF decreased from 6.95% to 6.00% of payroll for the current fiscal year. As required by the Texas Government Code and Senate Bill 1664, the member contribution remained at 6.50% of payroll. The current actuarial assumptions are outlined in the “Summary of Actuarial Methods and Assumptions.”

The August 31, 2011 actuarial valuation shows that there is an unfunded accrued liability for funding purposes of \$5,052.7 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 82.6% for funding purposes as of August 31, 2011. The valuation shows that the total normal cost for funding purposes is 12.31% of payroll. Total contributions are 12.50% of payroll for the current fiscal year and 13.00% of payroll for future fiscal years. The total contribution rate exceeds the normal cost by 0.19% of payroll for the current fiscal year and 0.69% of payroll for future fiscal years, 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

unfunded accrued liability over 31 years as a level percentage of covered payroll is 17.47% of payroll. In addition, as of August 31, 2011, the market value of assets was \$2,793.4 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.

### **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 0.00% of payroll for the current fiscal year and will contribute 0.50% of payroll for future fiscal years. The actuarial valuation for funding purposes was completed using the entry age actuarial cost method, under which 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, 2011. There have not been any changes in the actuarial assumptions, actuarial cost method, actuarial procedures or plan provisions from the prior valuation. During the past plan year, the State legislature budgeted for no across-the-board pay increases for the biennium and the State contribution to the LECOSRF decreased from 1.59% to 0.00% of payroll for the current fiscal year. As required by the Texas Government Code and Senate Bill 1664, the member contribution remained at 0.50% of payroll. The current actuarial assumptions are outlined in the “Summary of Actuarial Methods and Assumptions.”

The August 31, 2011 actuarial valuation shows that there is an unfunded accrued liability for funding purposes of \$162.3 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 83.7% for funding purposes as of August 31, 2011. The valuation shows that the total normal cost for funding purposes is 2.07% of payroll. Total contributions are 0.50% of payroll for the current fiscal year and 1.00% of payroll for future fiscal years. The total contribution rate falls short of the normal cost by 1.57% of payroll for the current fiscal year and 1.07% of payroll for future fiscal years, and 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 unfunded actuarial liability over 31 years as a level percentage of covered payroll is 2.72% of payroll. In addition, as of August 31, 2011, the market value of assets was \$93.1 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 6.00% of payroll and the State contributes 6.00% of payroll for the current fiscal year and will contribute 6.50% of payroll for future fiscal years. The actuarial valuation was completed using the entry age actuarial cost method, which generates a normal cost based on the benefit provisions applicable to each member that 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, 2011. There have not been any changes in the actuarial assumptions, actuarial cost method, actuarial procedures or plan provisions from the prior valuation. During the past plan year, the State legislature budgeted for no increases in judicial pay for the biennium and the State contribution to the ERF decreased from 16.83% to 6.00% of payroll for the current fiscal year. The current actuarial assumptions are outlined in the “Summary of Actuarial Methods and Assumptions”.

The August 31, 2011 actuarial valuation shows that there is an unfunded accrued liability of \$16.2 million. The funded ratio, the ratio of the actuarial value of assets to the accrued liability, is 94.6% as of August 31, 2011. The valuation shows that the total normal cost is 20.38% of payroll. Total contributions are 12.00% of payroll for the current fiscal year and 12.50% of payroll for future fiscal years. The total contribution rate falls short of the normal cost by 8.38% of payroll for the current fiscal year and 7.88% of payroll for future fiscal years, and 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 unfunded accrued liability over 31 years as a level percentage of covered payroll is

21.76% of payroll. In addition, as of August 31, 2011, the market value of assets was \$24.3 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 will likely decrease.

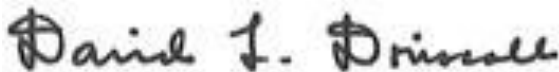
Because the amortization period exceeds 31 years for all three plans, Texas Government Code Sections 811.006 and 840.106 preclude any benefit improvements that would decrease the funded position of the plans until the valuations indicate that the statutory contribution rates would fund the normal cost and amortize any unfunded actuarial liabilities over less than 31 years. This precludes the Board of Trustees from authorizing any supplemental payments under Texas Government Code Section 814.603, and it precludes any increases in annuity benefits unless contributions are increased to the extent necessary to fund the normal cost and amortize any unfunded accrued liability over less than 31 years.

The undersigned 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,



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



David L. Driscoll, FSA, EA, FCA, MAAA  
Principal, Consulting Actuary

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ACTUARIAL BALANCE SHEET –  
 EMPLOYEES RETIREMENT FUND  
 AUGUST 31, 2011 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2010)

<b>ACTUARIAL BALANCE SHEET</b>	<u>August 31, 2011</u>	<u>August 31, 2010</u>
<b>Assets:</b>		
Actuarial Value Assets	\$ 23,997,444,804	\$ 23,628,566,500
Present Value of Future Normal Cost (Note A)		
Member	2,315,543,150	2,451,318,951
Employer	1,980,679,987	2,093,049,258
Total	<u>4,296,223,137</u>	<u>4,544,368,209</u>
Total	<u>\$ 28,293,667,941</u>	<u>\$ 28,172,934,709</u>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 16,425,243,509	\$ 17,017,368,261
- disability	368,401,566	383,880,062
- death before retirement	221,286,410	230,994,643
- termination	816,815,124	841,742,394
- total	<u>17,831,746,609</u>	<u>18,473,985,360</u>
Inactive Members	1,189,426,332	1,074,374,168
Annuitants	<u>14,325,177,797</u>	<u>13,407,823,189</u>
Total	<u>\$ 33,346,350,738</u>	<u>\$ 32,956,182,717</u>
<b>Unfunded Accrued Liability (UAL) (Note B)</b>	<b>\$ 5,052,682,797</b>	<b>\$ 4,783,248,008</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	12.50%	13.45%
Normal Cost (Note A)		
- dollars	\$ 713,387,288	\$ 729,407,327
- percent of payroll	12.31%	12.30%
Contribution Available to Amortize UAL	0.19%	1.15%
Accrued Liability (Note B)	\$ 29,050,127,601	\$ 28,411,814,508
Amortization Period in Years	Infinite	Infinite
Funded Ratio	82.6%	83.2%
Valuation Payroll	\$ 5,795,185,115	\$ 5,930,140,876
Active Members	137,293	142,490

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, 2011 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2010)

ACTUARIAL BALANCE SHEET	August 31, 2011	August 31, 2010
<b>Assets:</b>		
Actuarial Value Assets	\$ 830,522,385	\$ 802,897,017
Present Value of Future Normal Cost (Note A)		
Member	46,829,052	49,801,058
Employer	137,677,414	146,415,110
Total	184,506,466	196,216,168
Total	\$ 1,015,028,851	\$ 999,113,185
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 743,648,187	\$ 763,068,379
- occupational disability	13,490,824	13,829,724
- death benefit plan	7,400,102	7,564,772
- termination	7,978,885	7,178,904
- total	772,517,998	791,641,779
Inactive Members	3,907,847	3,186,598
Annuitants	400,877,467	367,991,489
Total	\$ 1,177,303,312	\$ 1,162,819,866
<b>Unfunded Accrued Liability (UAL) (Note B)</b>	\$ 162,274,461	\$ 163,706,681
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	0.50%	2.09%
Normal Cost (Note A)		
- dollars	\$ 30,541,437	\$ 31,214,564
- percent of payroll	2.07%	2.07%
Contribution Available to Amortize UAL	(1.57%)	0.02%
Accrued Liability (Note B)	\$ 992,796,846	\$ 966,603,698
Amortization Period in Years	Infinite	Infinite
Funded Ratio	83.7%	83.1%
Valuation Payroll	\$ 1,475,431,696	\$ 1,507,949,939
Active Members	36,806	39,052

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

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

ACTUARIAL BALANCE SHEET –  
 JUDICIAL RETIREMENT SYSTEM OF TEXAS PLAN TWO FUND  
 AUGUST 31, 2011 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2010)

<b>ACTUARIAL BALANCE SHEET</b>	<u>August 31, 2011</u>	<u>August 31, 2010</u>
<b>Assets:</b>		
Actuarial Value Assets	\$ 283,935,401	\$ 264,515,185
Present Value of Future Normal Cost		
Member	22,173,307	22,191,845
Employer	51,663,433	50,877,959
Total	<u>73,836,740</u>	<u>73,069,804</u>
Total	\$ 357,772,141	\$ 337,584,989
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 215,639,793	\$ 222,005,449
- disability	5,606,403	5,869,648
- death before retirement	10,026,227	10,396,142
- termination	11,367,669	11,666,462
- total	<u>242,640,092</u>	<u>249,937,701</u>
Inactive Members	10,561,339	12,639,445
Annuitants	<u>120,798,133</u>	<u>92,253,133</u>
Total	\$ 373,999,564	\$ 354,830,279
<b>Unfunded Accrued Liability (UAL)</b>	\$ 16,227,423	\$ 17,245,290
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	11.97%	22.81%
Normal Cost		
- dollars	\$ 14,195,690	\$ 13,881,636
- percent of payroll	20.38%	20.19%
Contribution Available to Amortize UAL	(8.41%)	2.62%
Accrued Liability	\$ 300,162,824	\$ 281,760,475
Amortization Period in Years	Infinite	12.6
Funded Ratio	94.6%	93.9%
Valuation Payroll	\$ 69,655,000	\$ 68,755,000
Active Members	546	539



## 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"> <li>Include 3.5% annual increase for inflation plus increases for merit, promotion and longevity.</li> <li>See Table 1 below for rates of salary increase for sample ages.</li> </ul>	<ul style="list-style-type: none"> <li>3.5% annually with no increase for merit, promotion, and longevity.</li> <li>No salary increase for legislators.</li> </ul>	<ul style="list-style-type: none"> <li>3.5% annually with no increase for merit, promotion, and longevity.</li> </ul>
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, 2011**

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, 2011**

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
<b>20</b>	0.100%	0.100%	0.0100%
<b>30</b>	0.030	0.061	0.0206
<b>40</b>	0.199	0.154	0.1302
<b>50</b>	0.460	0.330	0.3662
<b>60</b>	0.500	0.500	0.2700
<b>65</b>	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	
<b>Male</b>	50%	40%	10%	Member is three years older than female beneficiary.
<b>Female</b>	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, 2011**

Age	<u>Male</u>						<u>Female</u>					
	5	10	15	20	25	30	5	10	15	20	25	30
<b>50</b>						40						45
<b>55</b>					40	35					60	40
<b>60</b>	10	35	35	50	30	35	10	35	50	60	40	40
<b>65</b>	20	40	40	60	60	60	20	40	45	60	60	60
<b>70</b>	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, 2011

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, 2011</u>						<u>For members hired after August 31, 2011</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 Payroll	Average Pay (Note B)	% Change in Average Pay
		\$	\$	%
<b>Employees Retirement Fund:</b>				
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
2011	137,293	5,926,331,865	41,620	1.5
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>				
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
2011	36,806	1,520,864,574	39,454	3.9
<b>Judicial Retirement Plan Two Fund:</b>				
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
2011	546	67,927,624	127,573	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

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

	Added to Rolls		Removed from Rolls		Other Beneficiaries		Rolls End of Year		% Increase Annual Benefits	Average Annual Benefit
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits		
		\$		\$		\$		\$	%	\$
<b>Employees Retirement Fund</b>										
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
2011	5,808	123,585,132	2,237	35,797,140	548	8,145,660	83,430	1,552,999,200	6.6	18,614
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>										
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
2011	695	3,915,084	186	1,536,500	44	22,352	7,728	42,536,244	6.0	5,504
<b>Judicial Retirement Plan Two Fund:</b>										
2006	10	539,286	2	139,500	0	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	0	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
2011	43	2,792,244	1	29,580	2	152,880	208	12,532,536	30.3	60,253

## SOLVENCY TEST

### FUNDING OBJECTIVE

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

### EVALUATION OF FUNDING OBJECTIVE

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

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

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

Valuation Year	Aggregate Accrued Liabilities For			Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer Financed Portion)		%	%	%
<b>Employees Retirement Fund: (Note A)</b>							
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
2011	4,943,684,166	14,325,177,797	9,781,265,638	23,997,444,804	100	100	48
<b>Law Enforcement And Custodial Officer Supplemental Retirement Fund: (Note A)</b>							
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
2011	13,897,600	400,877,467	578,021,779	830,522,385	100	100	72
<b>Judicial Retirement Plan Two Fund:</b>							
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
2011	57,768,713	120,798,133	121,595,978	283,935,401	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:

### **Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)**

<b>Type of Activity</b>	<b>ERS</b>		<b>LECOS</b>		<b>JRS II</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b><u>Contribution Income and Interest on Unfunded Actuarial Accrued Liability</u></b>						
If contributions are received in excess of normal cost, there is a decrease. If less, an increase.	313.7	222.6	12.1	4.7	(1.0)	(1.4)
<b><u>Components of (Gain)/Loss</u></b>						
<b><u>Investment Income</u></b>						
If there is greater investment income than assumed, there is a gain. If less income, a loss.	698.3	1,012.0	23.3	33.6	6.1	9.8
<b><u>Active Member Demographics</u></b>						
Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment	(62.8)	88.7	(7.0)	7.8	0.3	(0.9)
<b><u>Pay Increases</u></b>						
If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	(56.5)	(24.2)	3.6	(12.2)	0.0	0.0
<b><u>Death After Retirement</u></b>						
If retirees live longer than assumed, there is a loss. If not as long, a gain.	(2.1)	29.7	(0.6)	0.7	0.7	0.7
<b><u>Other</u></b>						
Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	37.8	56.3	0.1	2.8	3.0	1.8
<b>Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience</b>	<b>928.4</b>	<b>1,385.1</b>	<b>31.5</b>	<b>37.4</b>	<b>9.1</b>	<b>10.0</b>
<b><u>Non-Recurring Items</u></b>						
Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, legislative action, etc.	(659.0)	0.0	(32.9)	0.0	(10.1)	(0.0)
<b>Composite Increase/(Decrease) During Year</b>	<b>269.4</b>	<b>1,385.1</b>	<b>(1.4)</b>	<b>37.4</b>	<b>(1.0)</b>	<b>10.0</b>





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

At the request of the Employees Retirement System of Texas (ERS), we have performed an actuarial valuation of the Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP) for the twelve-month period ending August 31, 2011. 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, 2011 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.

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.

ERS and TRS remain solely responsible for the accuracy and comprehensiveness of the respective data provided. However, 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 that any imperfections exist in the data records, we have relied on best estimates provided by ERS and TRS. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information.

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**

<b>Actuarial Valuation Results as of August 31, 2011</b>		
	(\$ thousands)	As a % of Payroll
<b>1. Number of Members (actual count, not in thousands)</b>		
a. Actives	227,786	
b. Deferred Vesteds	11,352	
c. Retirees and Nominees	<u>90,213</u>	
d. Total Number of Members	329,351	
<b>2. Payroll of Active Members for FY 2011</b>	\$ 10,376,487	
<b>3. Actuarial Present Value of Total Projected Benefits</b>		
a. Actives	\$ 22,551,601	
b. Deferred Vesteds	1,144,423	
c. Retirees and Nominees	<u>7,484,537</u>	
d. Total	\$ 31,180,561	300.5%
<b>4. Actuarial Accrued Liability</b>		
a. Actives	\$ 12,873,474	
b. Deferred Vesteds	1,144,423	
c. Retirees and Nominees	<u>7,484,537</u>	
d. Total	\$ 21,502,434	207.2%
<b>5. Actuarial Value of Assets</b>	\$ 0	0.0%
<b>6. Unfunded Actuarial Accrued Liability [ 4.d. – 5. ]</b>	\$ 21,502,434	207.2%
<b>7. Annual Required Contribution for FYE August 31, 2011</b>		
a. Normal Cost	\$ 949,587	9.1%
b. Amortization of UAAL	<u>933,145</u>	<u>9.0%</u>
c. Total ARC for FYE August 31, 2011	\$ 1,882,732	18.1%

### 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) \$227.76 per year per covered member for external Health Select administrative expenses for FY 2012 and (ii) approximately \$40.93 per year per covered member for internal administrative expenses for FY 2012 (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>
	%
2013	8.00
2014	7.50
2015	7.00
2016	6.50
2017	6.00
2018 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 2012 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 TEN FISCAL YEARS (IN 000'S)  
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Governmental Activities:</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted	19,333	25,939	96,160	133,253	241,478	369,913	384,892	282,484	136,599	227,985
Unrestricted	420	16	3	27	49	45	56	59	45	8
<b>Total Governmental Activities</b>	<b>19,753</b>	<b>25,955</b>	<b>96,163</b>	<b>133,280</b>	<b>241,527</b>	<b>369,958</b>	<b>384,948</b>	<b>282,543</b>	<b>136,644</b>	<b>227,993</b>

## CHANGES IN NET ASSETS – GOVERNMENTAL ACTIVITIES

LAST TEN FISCAL YEARS (IN 000'S)  
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Governmental Activities:</i>										
Social Security Administration	55	39	31	52	58	70	54	61	101	102
<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	2,784
Compensation to Victims of Crime				1,250	750	1,500	2,250	2,000	1,250	1,750
Retiree \$5,000 Lump Sum	6,432	6,453	6,681	7,026	6,908	7,493	6,902	7,367	7,910	7,885
<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	1,776,296
Administration	9,433	9,926	9,316	10,312	10,307	8,694	8,323	9,062	8,118	9,437
<b>Total Governmental Activities Expenses</b>	<b>1,516,807</b>	<b>1,648,152</b>	<b>1,540,308</b>	<b>1,668,115</b>	<b>1,782,457</b>	<b>1,314,111</b>	<b>1,481,479</b>	<b>1,653,318</b>	<b>1,849,965</b>	<b>1,798,254</b>
<b>Program Revenues</b>										
<i>Governmental Activities:</i>										
<i>Charges for Services:</i>										
Administration Fees				73	78	72	65	64	85	66
<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	2,784
Compensation to Victims of Crime				1,250	750	1,500	2,250	2,000	1,250	1,750
Retiree \$5,000 Lump Sum	6,487	6,087	6,681	7,030	6,910	7,487	6,902	7,367	7,911	7,885
<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	1,414,732
Member	366,998	393,976	404,107	420,192	450,678	365,653	364,278	381,820	416,690	444,731
Other	152	129	154	145	147	150	163	161	157	209
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	12,758
Other	496	1,371	4,060	2,951	709	272	1,521	1,385	3,357	4,688
<b>Total Governmental Activities Program Revenues</b>	<b>1,517,849</b>	<b>1,654,354</b>	<b>1,610,516</b>	<b>1,705,233</b>	<b>1,890,704</b>	<b>1,442,542</b>	<b>1,496,469</b>	<b>1,550,913</b>	<b>1,704,066</b>	<b>1,889,603</b>
<b>Net Revenue</b>										
<b>Governmental Activities</b>	<b>1,042</b>	<b>6,202</b>	<b>70,208</b>	<b>37,118</b>	<b>108,247</b>	<b>128,431</b>	<b>14,990</b>	<b>(102,405)</b>	<b>(145,899)</b>	<b>91,349</b>

Source: Comprehensive Annual Financial Reports.

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Governmental Funds:</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Committed:										
Social Security Administration Fund	420	16	3	27	49	45	56	59	45	8
<b>Total Governmental Funds</b>	<b>420</b>	<b>16</b>	<b>3</b>	<b>27</b>	<b>49</b>	<b>45</b>	<b>56</b>	<b>59</b>	<b>45</b>	<b>8</b>

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Administration	28	28	28	28	28	28	28	28	-	-
Death Benefits:										
Public Employee Survivors	7,248	4,649	4,957	2,632	4,333	2,369	3,395	1,838	4,164	2,784
Victims of Crime					750	1,500	2,250	2,000	1,250	1,750
Retiree \$5,000 Lump Sum	6,487	6,087	6,681	7,030	6,910	7,487	6,902	7,367	7,911	7,885
Administration Fees				73	78	72	65	64	85	66
<b>Total Revenues</b>	<b>13,763</b>	<b>10,764</b>	<b>11,666</b>	<b>9,763</b>	<b>12,099</b>	<b>11,456</b>	<b>12,640</b>	<b>11,297</b>	<b>13,410</b>	<b>12,485</b>
<b>Expenditures</b>										
Death Benefits:										
Public Employee Survivors	7,294	4,649	4,957	2,632	4,333	2,397	3,423	1,866	4,164	2,784
Victims of Crime				1,250	750	1,500	2,250	2,000	1,250	1,750
Retiree \$5,000 Lump Sum	6,432	6,453	6,681	7,026	6,908	7,493	6,902	7,367	7,910	7,885
Administrative Expenditures	83	67	59	80	86	70	54	61	101	102
<b>Total Expenditures</b>	<b>13,809</b>	<b>11,169</b>	<b>11,697</b>	<b>10,988</b>	<b>12,077</b>	<b>11,460</b>	<b>12,629</b>	<b>11,294</b>	<b>13,425</b>	<b>12,521</b>
<b>Excess of Revenues Over (Under)</b>										
<b>Expenditures</b>	<b>(46)</b>	<b>(405)</b>	<b>(31)</b>	<b>(1,225)</b>	<b>22</b>	<b>(4)</b>	<b>11</b>	<b>3</b>	<b>(15)</b>	<b>(36)</b>
<b>Other Financing Sources (Uses)</b>										
Membership Fees	55		18							
Victims of Crime Fund				1,250						
<b>Net Change in Fund Balances</b>	<b>9</b>	<b>(405)</b>	<b>(13)</b>	<b>25</b>	<b>22</b>	<b>(4)</b>	<b>11</b>	<b>3</b>	<b>(15)</b>	<b>(36)</b>

Note A: Includes lapsed appropriations.

Source: Comprehensive Annual Financial Reports

CHANGES IN NET ASSETS – PROPRIETARY FUND  
LAST TEN FISCAL YEARS (IN 000'S)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Operating Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<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	1,414,731
Member	366,998	393,976	404,107	420,192	450,678	365,653	364,278	381,820	416,690	444,731
Federal Revenues-Medicare Part D					19,360					
Federal Revenues-COBRA Stimulus									2,268	1,312
Other	648	1,280	3,840	453	528	422	1,543	1,254	1,087	3,089
<b>Total Operating Revenues</b>	<b>1,490,054</b>	<b>1,630,491</b>	<b>1,585,459</b>	<b>1,676,768</b>	<b>1,855,254</b>	<b>1,390,711</b>	<b>1,441,175</b>	<b>1,491,224</b>	<b>1,653,826</b>	<b>1,863,863</b>
<b>Operating Expenses</b>										
<i>Benefit Payments:</i>										
Employee	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	1,743,897
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	32,398
Administrative and Other Expenses	9,433	9,926	9,316	10,312	10,307	8,694	8,323	9,062	8,118	9,437
<b>Total Operating Expenses</b>	<b>1,502,998</b>	<b>1,636,983</b>	<b>1,528,610</b>	<b>1,657,127</b>	<b>1,770,380</b>	<b>1,302,651</b>	<b>1,468,850</b>	<b>1,642,024</b>	<b>1,836,540</b>	<b>1,785,732</b>
<b>Operating Income (Loss)</b>	<b>(12,944)</b>	<b>(6,492)</b>	<b>56,849</b>	<b>19,641</b>	<b>84,874</b>	<b>88,060</b>	<b>(27,675)</b>	<b>(150,800)</b>	<b>(182,714)</b>	<b>78,131</b>
<b>Non-Operating Revenues (Expenses)</b>										
Net Appreciation (Depreciation)										
in Fair Value of Investments	2,555	949	2,043	(1,750)	(4,834)	(730)	4,943	20,359	20,789	4,273
Interest Income	11,422	11,930	10,956	16,559	27,857	41,080	37,569	27,741	15,882	8,485
Other		220	374	2,644	327	25	141	292	158	496
<b>Change in Net Assets</b>	<b>1,033</b>	<b>6,607</b>	<b>70,222</b>	<b>37,094</b>	<b>108,224</b>	<b>128,435</b>	<b>14,978</b>	<b>(102,408)</b>	<b>(145,885)</b>	<b>91,385</b>

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

Source: Comprehensive Annual Financial Reports



# CHANGES IN NET ASSETS – DEFINED BENEFIT PLANS

## LAST TEN FISCAL YEARS (IN 000'S)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Employees Retirement Fund (ERS)</b>										
<b>Additions</b>										
Member Contributions	319,565	324,000	300,156	305,870	292,023	328,039	337,040	353,299	410,134	425,811
Employer Contributions	300,969	301,555	278,845	276,035	316,198	329,981	342,092	363,023	400,252	414,084
Investment Income (Net of Expenses)	(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	2,414,830
Other Additions	32,601	37,719	45,719	50,208	58,804	48,746	52,941	57,329	61,741	64,970
<b>Total Additions</b>	<b>(619,277)</b>	<b>2,118,865</b>	<b>2,619,423</b>	<b>2,963,202</b>	<b>2,404,613</b>	<b>3,329,661</b>	<b>(561,990)</b>	<b>(842,607)</b>	<b>2,075,923</b>	<b>3,319,695</b>
<b>Deductions</b>										
Retirement Benefits	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	1,593,537
Death Benefits	2,086	2,327	1,949	2,039	2,232	2,099	1,802	2,224	3,086	4,142
Refunds	70,031	73,438	83,779	89,760	75,614	79,564	74,504	70,958	65,334	79,535
Administrative and Other Expenses	13,295	13,078	12,996	13,878	14,044	16,475	16,730	17,690	19,083	19,000
<b>Total Deductions</b>	<b>993,923</b>	<b>1,099,081</b>	<b>1,289,037</b>	<b>1,312,239</b>	<b>1,342,980</b>	<b>1,398,102</b>	<b>1,453,416</b>	<b>1,523,883</b>	<b>1,593,088</b>	<b>1,696,214</b>
<b>Change in Net Assets</b>	<b>(1,613,200)</b>	<b>1,019,784</b>	<b>1,330,386</b>	<b>1,650,963</b>	<b>1,061,633</b>	<b>1,931,559</b>	<b>(2,015,406)</b>	<b>(2,366,490)</b>	<b>482,835</b>	<b>1,623,481</b>
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>										
<b>Additions</b>										
Member Contributions	5								7,473	7,604
Employer Contributions							20,191	20,657	27,799	24,228
Investment Income (Net of Expenses)	(44,338)	49,692	67,906	78,444	57,656	85,799	(42,917)	(51,743)	40,054	81,881
Other Additions		2	2		-				6	2
<b>Total Additions</b>	<b>(44,333)</b>	<b>49,694</b>	<b>67,908</b>	<b>78,444</b>	<b>57,656</b>	<b>85,799</b>	<b>(22,726)</b>	<b>(31,086)</b>	<b>75,332</b>	<b>113,715</b>
<b>Deductions</b>										
Retirement Benefits	20,762	22,834	27,559	29,036	30,184	32,149	34,908	38,641	41,001	42,914
Death Benefits										106
Refunds									162	694
Administrative and Other Expenses	685	700	630	521	378	504	366	434	595	937
<b>Total Deductions</b>	<b>21,447</b>	<b>23,534</b>	<b>28,189</b>	<b>29,557</b>	<b>30,562</b>	<b>32,653</b>	<b>35,274</b>	<b>39,075</b>	<b>41,758</b>	<b>44,651</b>
<b>Change in Net Assets</b>	<b>(65,780)</b>	<b>26,160</b>	<b>39,719</b>	<b>48,887</b>	<b>27,094</b>	<b>53,146</b>	<b>(58,000)</b>	<b>(70,161)</b>	<b>33,574</b>	<b>69,064</b>
<b>Judicial Retirement System of Texas Plan One (JRS I)</b>										
<b>Additions</b>										
Member Contributions	439	268	142	62	214					
Appropriations	21,564	22,675	22,622	22,297	27,784	29,029	28,684	28,171	27,298	26,988
Other Additions	120	120	120	120	-					
<b>Total Additions</b>	<b>22,123</b>	<b>23,063</b>	<b>22,884</b>	<b>22,479</b>	<b>27,998</b>	<b>29,029</b>	<b>28,684</b>	<b>28,171</b>	<b>27,298</b>	<b>26,988</b>
<b>Deductions</b>										
Retirement Benefits	21,778	22,673	22,620	22,283	27,664	29,029	28,657	28,194	27,302	26,988
Refunds		3	1	14	-					
Administrative and Other Expenses	120	120	120	120	120					
<b>Total Deductions</b>	<b>21,898</b>	<b>22,796</b>	<b>22,741</b>	<b>22,417</b>	<b>27,784</b>	<b>29,029</b>	<b>28,657</b>	<b>28,194</b>	<b>27,302</b>	<b>26,988</b>
<b>Change in Net Assets</b>	<b>225</b>	<b>267</b>	<b>143</b>	<b>62</b>	<b>214</b>	<b>-</b>	<b>27</b>	<b>(23)</b>	<b>(4)</b>	<b>-</b>
<b>Judicial Retirement System of Texas Plan Two (JRS II)</b>										
<b>Additions</b>										
Member Contributions	2,780	3,020	2,922	2,985	3,551	4,125	3,964	4,223	4,121	4,291
Employer Contributions	7,804	8,294	8,205	8,365	10,052	10,909	11,138	11,356	11,511	11,933
Investment Income (Net of Expenses)	(7,168)	9,404	13,332	17,348	14,384	24,245	(10,765)	(16,421)	13,586	30,189
Other Additions		18	2	11	5	-	-	-	-	2
<b>Total Additions</b>	<b>3,416</b>	<b>20,736</b>	<b>24,461</b>	<b>28,709</b>	<b>27,992</b>	<b>39,279</b>	<b>4,337</b>	<b>(842)</b>	<b>29,218</b>	<b>46,415</b>
<b>Deductions</b>										
Retirement Benefits	1,365	2,119	2,770	3,308	4,223	5,747	6,645	8,023	9,289	11,722
Death Benefits				10	24					
Refunds	187	152	303	106	65	58	73	206	118	48
Administrative and Other Expenses	299	245	273	402	303	395	244	239	277	286
<b>Total Deductions</b>	<b>1,851</b>	<b>2,516</b>	<b>3,346</b>	<b>3,826</b>	<b>4,615</b>	<b>6,200</b>	<b>6,962</b>	<b>8,468</b>	<b>9,684</b>	<b>12,056</b>
<b>Change in Net Assets</b>	<b>1,565</b>	<b>18,220</b>	<b>21,115</b>	<b>24,883</b>	<b>23,377</b>	<b>33,079</b>	<b>(2,625)</b>	<b>(9,310)</b>	<b>19,534</b>	<b>34,359</b>

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Excess Benefit Arrangement</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Additions</b>										
Other Additions	63	67	67	223	297	200	350	328	294	342
<b>Total Additions</b>	<b>63</b>	<b>67</b>	<b>67</b>	<b>223</b>	<b>297</b>	<b>200</b>	<b>350</b>	<b>328</b>	<b>294</b>	<b>342</b>
<b>Deductions</b>										
Retirement Benefits	63	67	67	223	236	141	298	279	251	297
Administrative and Other Expenses					61	59	52	49	43	45
<b>Total Deductions</b>	<b>63</b>	<b>67</b>	<b>67</b>	<b>223</b>	<b>297</b>	<b>200</b>	<b>350</b>	<b>328</b>	<b>294</b>	<b>342</b>
<b>Change in Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>State Retiree Health Plan (Note A)</b>										
<b>Additions</b>										
Member Contributions						108,387	109,447	114,360	126,073	135,133
Employer Contributions						438,242	417,106	447,765	478,348	444,895
Federal Revenues-Medicare Part D						28,558	32,964	35,784	40,988	38,207
Early Retirees Reinsurance Program										30,176
Investment Income (Net of Expenses)						1,541	1,362	1,056	609	436
Other Additions								775	1	-
<b>Total Additions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>576,728</b>	<b>560,879</b>	<b>599,740</b>	<b>646,019</b>	<b>648,847</b>
<b>Deductions</b>										
Retirement Benefits						574,030	558,228	596,858	643,389	646,197
Administrative and Other Expenses						2,698	2,651	2,882	2,630	2,650
<b>Total Deductions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>576,728</b>	<b>560,879</b>	<b>599,740</b>	<b>646,019</b>	<b>648,847</b>
<b>Change in Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

Source: Comprehensive Annual Financial Reports

CHANGES IN NET ASSETS – DEFINED CONTRIBUTION PLANS AND CAFETERIA PLAN  
LAST TEN FISCAL YEARS (IN 000'S)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>TexaSaver 401(k) Plan</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Additions</b>										
Investment Income (Net of Expenses)	2	1	4	29	52	459	116	476	42	43
Other Additions	234	345	1,328	166	342	301	464	215	1,439	830
<b>Total Additions</b>	<b>236</b>	<b>346</b>	<b>1,332</b>	<b>195</b>	<b>394</b>	<b>760</b>	<b>580</b>	<b>691</b>	<b>1,481</b>	<b>873</b>
<b>Deductions</b>										
Administrative and Other Expenses	236	357	366	253	275	448	581	457	513	615
<b>Total Deductions</b>	<b>236</b>	<b>357</b>	<b>366</b>	<b>253</b>	<b>275</b>	<b>448</b>	<b>581</b>	<b>457</b>	<b>513</b>	<b>615</b>
<b>Change in Net Assets</b>	<b>-</b>	<b>(11)</b>	<b>966</b>	<b>(58)</b>	<b>119</b>	<b>312</b>	<b>(1)</b>	<b>234</b>	<b>968</b>	<b>258</b>
<b>TexaSaver 457 Plan</b>				(Restated)	(Restated)					
<b>Additions</b>										
Deferrals (Note A)	10,649	27,132	37,047	43,817	N/A	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	N/A
Contributions								7		
Investment Income (Net of Expenses)	(48,761)	18,341	33,976	25,093	23,752	62	50	122	13	13
Other Additions	430	234	186	119	684	503	592	405	589	513
<b>Total Additions</b>	<b>(7,210)</b>	<b>72,948</b>	<b>127,635</b>	<b>108,297</b>	<b>24,436</b>	<b>565</b>	<b>642</b>	<b>534</b>	<b>602</b>	<b>526</b>
<b>Deductions</b>										
Distributions and Fees (Note A)	26,902	27,604	41,851	26,152	N/A	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	N/A
Administrative and Other Expenses	832	849	995	418	403	526	547	656	669	510
<b>Total Deductions</b>	<b>54,194</b>	<b>70,677</b>	<b>109,917</b>	<b>68,051</b>	<b>403</b>	<b>526</b>	<b>547</b>	<b>656</b>	<b>669</b>	<b>510</b>
<b>Change in Net Assets</b>	<b>(61,404)</b>	<b>2,271</b>	<b>17,718</b>	<b>40,246</b>	<b>24,033</b>	<b>39</b>	<b>95</b>	<b>(122)</b>	<b>(67)</b>	<b>16</b>
<b>State Employees Cafeteria Plan (TexFlex)</b>										
<b>Additions</b>										
Contributions	30,502	33,964	43,840	53,425	61,080	68,425	76,780	83,244	90,290	96,033
Investment Income (Net of Expenses)	120	65	25	40	75	89	72	45	25	20
Other Additions	11	18	439	409	56	105	95	83	105	104
<b>Total Additions</b>	<b>30,633</b>	<b>34,047</b>	<b>44,304</b>	<b>53,874</b>	<b>61,211</b>	<b>68,619</b>	<b>76,947</b>	<b>83,372</b>	<b>90,420</b>	<b>96,157</b>
<b>Deductions</b>										
Reimbursement Account Claims	30,027	33,539	42,886	52,337	59,951	67,133	75,043	80,161	87,912	93,737
Administrative and Other Expenses	970	1,234	1,336	1,571	1,694	1,886	2,157	2,220	2,217	2,725
<b>Total Deductions</b>	<b>30,997</b>	<b>34,773</b>	<b>44,222</b>	<b>53,908</b>	<b>61,645</b>	<b>69,019</b>	<b>77,200</b>	<b>82,381</b>	<b>90,129</b>	<b>96,462</b>
<b>Change in Net Assets</b>	<b>(364)</b>	<b>(726)</b>	<b>82</b>	<b>(34)</b>	<b>(434)</b>	<b>(400)</b>	<b>(253)</b>	<b>991</b>	<b>291</b>	<b>(305)</b>

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

Source: Comprehensive Annual Financial Reports

# BENEFIT AND REFUND PAYMENTS - DEFINED BENEFIT PLANS

LAST TEN FISCAL YEARS (IN 000'S)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Employees Retirement Fund:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Retirees	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	1,476,597
Survivors	not avail.	not avail.	3,532	20,286	20,379	19,805	20,461	20,651	20,765	21,188
Disability	28,375	28,005	30,815	31,419	31,690	31,163	30,626	30,402	30,301	28,854
Partial Lump Sum Option			91,731	53,030	37,679	44,450	44,207	45,301	46,362	51,885
Proportional	3,801	4,143	5,554	6,618	7,994	9,114	10,332	11,760	13,270	15,013
<b>Total Retirement Benefits</b>	<b>908,511</b>	<b>1,010,238</b>	<b>1,190,313</b>	<b>1,206,562</b>	<b>1,251,089</b>	<b>1,299,964</b>	<b>1,360,380</b>	<b>1,433,011</b>	<b>1,505,587</b>	<b>1,593,537</b>
Death Benefits:										
Active Members:										
Occupational	72		128	41	297	91	35	100	76	189
Non-Occupational	909	1,249	884	842	1,019	1,373	1,266	1,275	1,526	2,308
Retiree	1,105	1,078	937	1,156	916	635	501	850	1,484	1,645
<b>Total Death Benefits</b>	<b>2,086</b>	<b>2,327</b>	<b>1,949</b>	<b>2,039</b>	<b>2,232</b>	<b>2,099</b>	<b>1,802</b>	<b>2,225</b>	<b>3,086</b>	<b>4,142</b>
Refunds:										
Resignation	67,838	70,542	82,075	87,513	73,176	75,864	71,717	67,405	61,235	74,640
Death	2,193	2,896	1,704	2,247	2,438	3,700	2,787	3,553	4,099	4,895
<b>Total Refunds</b>	<b>70,031</b>	<b>73,438</b>	<b>83,779</b>	<b>89,760</b>	<b>75,614</b>	<b>79,564</b>	<b>74,504</b>	<b>70,958</b>	<b>65,334</b>	<b>79,535</b>
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Service	19,583	21,477	23,492	25,836	27,694	29,053	31,675	35,174	37,580	39,509
Disability	1,179	1,357	1,275	1,318	1,250	1,208	1,180	1,168	1,161	1,128
Partial Lump Sum Option			2,792	1,882	1,240	1,889	2,053	2,300	2,260	2,277
<b>Total Retirement Benefits</b>	<b>20,762</b>	<b>22,834</b>	<b>27,559</b>	<b>29,036</b>	<b>30,184</b>	<b>32,150</b>	<b>34,908</b>	<b>38,642</b>	<b>41,001</b>	<b>42,914</b>
Death Benefits:										
Active Members:										
Non-Occupational										106
<b>Total Death Benefits</b>	-	-	-	-	-	-	-	-	-	<b>106</b>
Refunds:										
Resignation									162	686
Death										9
<b>Total Refunds</b>	-	-	-	-	-	-	-	-	<b>162</b>	<b>695</b>
<b>Judicial Retirement System of Texas Plan One:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Service	21,778	22,673	22,620	22,283	27,664	29,029	28,657	28,194	27,302	26,988
<b>Total Retirement Benefits</b>	<b>21,778</b>	<b>22,673</b>	<b>22,620</b>	<b>22,283</b>	<b>27,664</b>	<b>29,029</b>	<b>28,657</b>	<b>28,194</b>	<b>27,302</b>	<b>26,988</b>
Refunds:										
Resignation			1	13						
Death		3		1						
<b>Total Refunds</b>	-	<b>3</b>	<b>1</b>	<b>14</b>	-	-	-	-	-	-
<b>Judicial Retirement System of Texas Plan Two:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Service	868	1,453	1,983	2,609	3,107	4,254	4,958	6,134	7,149	8,923
Disability	208	208	184	192	291	348	470	493	358	570
Proportional	289	458	603	507	825	1,145	1,216	1,396	1,782	2,229
<b>Total Retirement Benefits</b>	<b>1,365</b>	<b>2,119</b>	<b>2,770</b>	<b>3,308</b>	<b>4,223</b>	<b>5,747</b>	<b>6,644</b>	<b>8,023</b>	<b>9,289</b>	<b>11,722</b>
Death Benefits:										
Active Members:										
Non-Occupational				10	24					
<b>Total Death Benefits</b>	-	-	-	<b>10</b>	<b>24</b>	-	-	-	-	-
Refunds:										
Resignation	195	152	235	67	4	58	73	206	118	47
Death	(8)		68	39	61					
<b>Total Refunds</b>	<b>187</b>	<b>152</b>	<b>303</b>	<b>106</b>	<b>65</b>	<b>58</b>	<b>73</b>	<b>206</b>	<b>118</b>	<b>47</b>
<b>Excess Benefit Arrangement:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Service	63	67	67	223	236	141	298	279	251	297
<b>Total Retirement Benefits</b>	<b>63</b>	<b>67</b>	<b>67</b>	<b>223</b>	<b>236</b>	<b>141</b>	<b>298</b>	<b>279</b>	<b>251</b>	<b>297</b>
<b>State Retiree Health Plan:</b>										
<b>Type of Benefit</b>										
Insurance Benefits:										
Accrued Claims										
Life Claims					67,920	50,858	50,800	55,675	53,835	
Prescriptions Drugs					22,140	18,514	20,839	24,430	24,663	
Administrative Fees					151,020	172,701	175,831	182,620	171,191	
HMO Payments					13,519	14,373	16,794	17,391	18,872	
Blue Cross Health					26,422	30,985	35,036	31,606	32,349	
Dental					283,244	259,845	285,591	318,593	330,801	
<b>Total Insurance Benefits</b>	-	-	-	-	<b>9,765</b>	<b>10,952</b>	<b>11,967</b>	<b>13,074</b>	<b>14,486</b>	
					574,030	558,228	596,858	643,389	646,197	

Source: Comprehensive Annual Financial Reports

AVERAGE BENEFIT PAYMENTS - EMPLOYEE CLASS  
LAST TEN FISCAL YEARS

Retirement Effective Dates (Note A) September 30, 2001 to August 31, 2011	Years of Credited Service					
	5-10	10-15	15-20	20-25	25-30	30+
<b>- Period 9/30/01 to 8/31/02:</b>						
Average Monthly Benefit	\$ 367.23	\$ 638.78	\$ 977.97	\$ 1,394.05	\$ 2,062.26	\$ 2,698.53
Average Final Average Salary	\$ 2,589.98	\$ 2,634.54	\$ 2,847.94	\$ 3,058.93	\$ 3,567.07	\$ 3,968.26
Number of Retired Members	159	597	390	570	976	968
<b>- Period 9/30/02 to 8/31/03:</b>						
Average Monthly Benefit	\$ 378.03	\$ 687.27	\$ 1,023.57	\$ 1,443.61	\$ 2,069.48	\$ 2,755.78
Average Final Average Salary	\$ 2,566.38	\$ 2,782.12	\$ 2,885.06	\$ 3,201.35	\$ 3,584.15	\$ 4,014.92
Number of Retired Members	327	1,357	826	1,078	1,680	1,722
<b>- Period 9/30/03 to 8/31/04:</b>						
Average Monthly Benefit	\$ 404.47	\$ 646.34	\$ 1,108.54	\$ 1,559.34	\$ 2,221.78	\$ 2,689.75
Average Final Average Salary	\$ 2,787.30	\$ 2,808.40	\$ 3,049.46	\$ 3,329.85	\$ 3,794.73	\$ 3,980.47
Number of Retired Members	181	477	306	722	894	449
<b>- Period 9/30/04 to 8/31/05:</b>						
Average Monthly Benefit	\$ 386.92	\$ 725.61	\$ 1,220.15	\$ 1,618.37	\$ 2,322.54	\$ 2,900.17
Average Final Average Salary	\$ 2,586.00	\$ 2,869.25	\$ 3,268.90	\$ 3,368.13	\$ 3,909.34	\$ 4,139.98
Number of Retired Members	152	536	375	717	852	437
<b>- Period 9/30/05 to 8/31/06:</b>						
Average Monthly Benefit	\$ 405.58	\$ 726.84	\$ 1,259.85	\$ 1,640.74	\$ 2,146.30	\$ 2,997.51
Average Final Average Salary	\$ 2,667.80	\$ 2,857.00	\$ 3,321.86	\$ 3,492.64	\$ 3,651.30	\$ 4,236.29
Number of Retired Members	149	424	298	385	384	249
<b>- Period 9/30/06 to 8/31/07:</b>						
Average Monthly Benefit	\$ 435.10	\$ 782.67	\$ 1,275.41	\$ 1,730.48	\$ 2,496.14	\$ 3,016.34
Average Final Average Salary	\$ 2,829.55	\$ 3,010.20	\$ 3,360.13	\$ 3,642.04	\$ 4,200.37	\$ 4,310.86
Number of Retired Members	198	467	385	644	594	419
<b>- Period 9/30/07 to 8/31/08:</b>						
Average Monthly Benefit	\$ 461.82	\$ 805.71	\$ 1,328.49	\$ 1,874.42	\$ 2,640.92	\$ 3,512.70
Average Final Average Salary	\$ 2,987.56	\$ 3,128.94	\$ 3,425.51	\$ 3,897.38	\$ 4,329.55	\$ 4,779.92
Number of Retired Members	204	506	443	627	635	441
<b>- Period 9/30/08 to 8/31/09:</b>						
Average Monthly Benefit	\$ 483.19	\$ 804.51	\$ 1,304.53	\$ 1,870.09	\$ 2,615.99	\$ 3,525.92
Average Final Average Salary	\$ 3,170.03	\$ 3,092.64	\$ 3,445.53	\$ 3,843.08	\$ 4,291.95	\$ 4,849.67
Number of Retired Members	196	479	512	641	554	412
<b>- Period 9/30/09 to 8/31/10:</b>						
Average Monthly Benefit	\$ 457.36	\$ 873.22	\$ 1,362.62	\$ 1,912.14	\$ 2,660.12	\$ 3,729.20
Average Final Average Salary	\$ 3,061.15	\$ 3,304.36	\$ 3,576.01	\$ 3,935.69	\$ 4,421.06	\$ 5,099.01
Number of Retired Members	216	512	568	731	664	550
<b>- Period 9/30/10 to 8/31/11:</b>						
Average Monthly Benefit	\$ 531.09	\$ 858.33	\$ 1,416.56	\$ 2,023.87	\$ 2,817.42	\$ 3,717.93
Average Final Average Salary	\$ 3,497.95	\$ 3,268.79	\$ 3,671.57	\$ 4,160.71	\$ 4,640.40	\$ 5,082.18
Number of Retired Members	258	657	635	830	796	654
<b>Five Year Average -</b>						
<b>Period 9/30/06 to 8/31/11:</b>						
Average Monthly Benefit	\$ 476.56	\$ 827.76	\$ 1,345.24	\$ 1,890.59	\$ 2,657.40	\$ 3,533.20
Average Final Average Salary	\$ 3,129.40	\$ 3,170.47	\$ 3,514.70	\$ 3,911.01	\$ 4,394.50	\$ 4,862.87
Average Number of Retired Members	214	524	509	695	649	495
<b>Ten Year Average -</b>						
<b>Period 9/30/01 to 8/31/11:</b>						
Average Monthly Benefit	\$ 433.99	\$ 746.67	\$ 1,228.37	\$ 1,704.06	\$ 2,353.55	\$ 3,067.34
Average Final Average Salary	\$ 2,892.55	\$ 2,951.91	\$ 3,288.42	\$ 3,591.27	\$ 3,970.55	\$ 4,355.92
Average Number of Retired Members	204	601	474	695	803	630

Note A: This schedule includes service retirements of the employee class as of November 7, 2011. 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 Member Records

RETIRED MEMBERS BY TYPE OF BENEFIT  
AUGUST 31, 2011

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	5,456	5,271	185	2,946	1,259	392	130	556	173	
301-600	11,044	10,261	783	7,311	1,846	567	402	530	388	
601-900	11,656	10,793	863	7,883	1,736	730	461	433	413	
901-1,200	10,271	9,829	442	6,726	1,558	858	371	362	396	
1,201-1,500	9,454	9,240	214	5,923	1,468	929	349	285	500	
1,501-2,000	11,735	11,603	132	6,964	1,738	1,454	416	408	755	
2,001-2,500	8,877	8,845	32	4,972	1,266	1,353	275	363	648	
2,501-3,000	6,254	6,244	10	3,173	951	1,088	176	270	596	
3,001-4,000	5,850	5,846	4	2,985	895	956	139	250	625	
4,001-10,999	2,833	2,832	1	1,357	537	432	67	104	336	
<b>Total</b>	<b>83,430</b>	<b>80,764</b>	<b>2,666</b>	<b>50,240</b>	<b>13,254</b>	<b>8,759</b>	<b>2,786</b>	<b>3,561</b>	<b>4,830</b>	

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

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
\$									
0-200	376	376	0	223	96	28	6	5	18
201-400	3,535	3,488	47	1,947	790	413	78	86	221
401-600	2,181	2,154	27	951	386	439	50	71	284
601-800	982	981	1	400	203	188	16	24	151
801-1,000	407	406	1	179	97	72	10	5	44
1,001-1,200	124	123	1	57	31	15	0	0	21
1,201-1,400	56	47	9	26	12	8	1	0	9
1,401-1,600	27	17	10	16	5	4	1	1	0
1,601-1,800	17	9	8	13	3	1	0	0	0
1,801-9,999	23	14	9	17	3	2	0	0	1
<b>Total</b>	<b>7,728</b>	<b>7,615</b>	<b>113</b>	<b>3,829</b>	<b>1,626</b>	<b>1,170</b>	<b>162</b>	<b>192</b>	<b>749</b>

Judicial Retirement Plan Two Fund (Note A)

Average Amount of Monthly Benefit	Number of Retirees	Type of Retirement		Option Selected (Note B)					
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
\$									
0-2,000	10	10	0	3	5	1	1	0	0
2,001-2,500	3	3	0	1	1	0	0	1	0
2,501-3,000	4	4	0	2	0	0	1	0	1
3,001-3,500	2	2	0	0	0	2	0	0	0
3,501-4,000	11	11	0	4	3	2	0	2	0
4,001-4,500	25	25	0	4	19	1	0	0	1
4,501-5,000	33	33	0	13	14	3	0	3	0
5,001-5,500	48	48	0	19	14	3	1	1	10
5,501-6,000	24	24	0	9	8	5	0	2	0
6,001-6,500	30	29	1	22	4	2	1	0	1
6,501-7,000	10	10	0	7	0	2	0	0	1
7,001-9,999	8	8	0	7	1	0	0	0	0
<b>Total</b>	<b>208</b>	<b>207</b>	<b>1</b>	<b>91</b>	<b>69</b>	<b>21</b>	<b>4</b>	<b>9</b>	<b>14</b>

Note A: These calculations are based on actuarial estimates.

Note B:

Life - standard annuity.

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

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

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

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

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

Source: System's pension actuary.

CONTRIBUTION RATES  
LAST TEN FISCAL YEARS

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Defined Benefit Plans</b>	%	%	%	%	%	%	%	%	%	%
<b>Employees Retirement Fund</b>										
<i>Employee Class:</i>	*(Blended)									
Employee*	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.50	6.50
State**	6.00	6.00	6.00	6.00	6.45	6.45	6.45	6.45	6.78	6.95
<i>Elected Class:</i>										
Legislators	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
State	6.00	6.00	6.00	6.00	6.45	6.45	6.45	6.45	6.45	6.45
Other Elected Class *	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.50	6.50
State **	6.00	6.00	6.00	6.00	6.45	6.45	6.45	6.45	6.78	6.95
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A)</b>										
Employee									0.5	0.5
State							1.59	1.59	1.59	1.59
<b>Judicial Retirement System Plan One Fund</b>										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
<b>Judicial Retirement System Plan Two Fund</b>										
Employee	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
State	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83	16.83

\*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.

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Group Benefits Program (Note B)</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Employee Only:</i>										
State Contribution Monthly Rate	276.02	308.84	300.27	315.56	343.48	360.54	360.54	360.54	385.38	411.04
HealthSelect Monthly Premium	276.02	308.84	300.27	315.56	343.48	360.54	360.54	360.54	385.38	411.04
<i>Employee &amp; Children:</i>										
State Contribution Monthly Rate	381.43	426.89	415.02	436.19	474.86	498.49	498.49	498.49	532.90	569.30
HealthSelect Monthly Premium	486.84	544.93	529.76	556.82	606.24	636.44	636.44	636.44	680.42	727.56
<i>Employee &amp; Spouse:</i>										
State Contribution Monthly Rate	433.45	485.14	471.65	495.73	539.70	566.57	566.57	566.57	605.70	647.38
HealthSelect Monthly Premium	590.88	661.44	643.02	675.89	735.92	772.60	772.60	772.60	826.02	883.72
<i>Employee &amp; Family:</i>										
State Contribution Monthly Rate	538.86	603.19	586.39	616.36	671.08	704.52	704.52	704.52	753.22	805.64
HealthSelect Monthly Premium	801.70	897.53	872.51	917.15	998.68	1,048.50	1,048.50	1,048.50	1,121.06	1,200.24
<b>Total State Contribution (in millions)</b> (Note C)	<b>1,122.4</b>	<b>1,235.2</b>	<b>1,177.5</b>	<b>1,256.1</b>	<b>1,384.7</b>	<b>1,024.6</b>	<b>1,075.4</b>	<b>1,108.2</b>	<b>1,233.8</b>	<b>1,414.7</b>

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 healthcare industry trend increases 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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>(Note C)</b>										
<b>Employees Retirement Fund</b>										
Active Contributing Members	150,313	142,315	133,349	132,417	132,411	132,497	134,626	141,223	142,490	137,293
Non-Contributing Members	48,903	51,868	54,658	57,089	61,567	67,803	74,094	72,585	78,737	84,900
Retirees and Beneficiaries	50,514	57,024	60,089	63,453	67,596	70,456	72,678	75,722	79,311	83,430
Service Retirements	4,050	7,581	3,906	4,609	2,929	4,110	4,445	4,338	4,803	5,734
Disability Retirements	156	174	181	179	80	98	115	95	67	74
Resignation Refunds	16,817	16,680	13,947	14,239	11,199	11,365	10,763	12,623	8,497	9,607
Death Refunds	335	316	237	294	317	551	175	344	300	413
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Notes A &amp; B)</b>										
Active Contributing Members	41,221	40,332	38,391	37,251	37,103	36,413	33,642	37,819	39,052	36,806
Non-Contributing Members	6,519	7,264	7,856	8,428	33	27	35	39	2,978	5,785
Retirees and Beneficiaries	3,523	4,166	4,576	5,072	5,318	5,805	6,204	6,647	7,175	7,728
Service Retirements	508	686	431	537	306	553	637	559	635	695
Disability Retirements	3	1	3			4		2		
Resignation Refunds										
Death Refunds										
<b>Judicial Retirement System of Texas Plan One</b>										
Active Contributing Members	91	58	53	28	43	24	27	23	22	17
Non-Contributing Members	24	22	15	36	12	15	7	7	7	5
Retirees and Beneficiaries	493	505	494	491	486	488	471	461	447	445
Service Retirements	13	27	10	12	7	16	6	4	2	6
Disability Retirements										
Resignation Refunds			1	1		3				
Death Refunds		1		1						
<b>Judicial Retirement System of Texas Plan Two</b>										
Active Contributing Members	464	476	484	491	498	515	518	533	539	546
Non-Contributing Members	63	80	79	90	95	115	120	134	130	134
Retirees and Beneficiaries	34	78	72	81	89	116	117	152	164	208
Service Retirements	3	24	8	9	10	24	6	36	12	43
Disability Retirements										
Resignation Refunds	7	5	8	8	2	3	4	8	7	1
Death Refunds				1	1					1
<b>State Retiree Health Plan (Note D)</b>										
Retirees						75,958	80,543	83,494	86,111	90,213
Dependents						30,653	31,293	32,067	32,408	32,412

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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>457 Defined Contribution Plan</b>										
TexaSaver 457 Plan (Note A):										
Total Participants	5,793	7,525	9,937	12,425	14,960	16,646	15,980	16,727	18,479	21,153
Participants Currently Deferring	3,971	4,862	5,908	7,632	8,350	9,475	10,282	10,295	11,649	13,293
Current Market Value of Plan Assets (in millions)	\$ 69.7	\$ 103.7	\$ 159.6	\$ 219.8	\$ 265.3	\$ 325.7	\$ 266.8	\$ 274.0	\$ 334.5	\$ 380.6
Original 457 Plan (Notes A, B & C):										
Total Participants	7,422	6,015	5,104	3,693	3,169	2,780	2,527	2,278	1,293	734
Participants Currently Deferring	261	207	138	127	121	101	82	74	63	57
<b>TexaSaver 401(k) Defined Contribution Plan</b>										
Total Participants	57,155	56,848	56,504	54,349	54,710	55,212	61,692	80,735	96,250	109,613
Participants Currently Deferring	35,856	32,714	30,075	28,574	28,314	28,587	37,399	52,347	69,311	64,704
Current Market Value of Plan Assets (in millions)	\$ 604.7	\$ 703.4	\$ 779.3	\$ 886.0	\$ 990.4	\$ 1,154.0	\$ 1,143.0	\$ 1,085.0	\$ 1,249.5	\$ 1,315.5
Deferrals (in millions)	\$ 95.0	\$ 89.1	\$ 86.9	\$ 83.6	\$ 89.2	\$ 94.7	\$ 103.8	\$ 168.0	\$ 108.2	\$ 107.3
<b>Cafeteria Plan</b>										
Reimbursement Accounts:										
Health Care	17,419	19,128	23,868	29,728	33,047	35,342	40,685	43,001	46,556	48,807
Dependent Care	2,336	2,297	2,416	2,522	2,665	2,836	3,012	3,261	3,549	3,686
Total Redirected (in millions)	\$ 30.1	\$ 33.6	\$ 43.1	\$ 52.4	\$ 60.0	\$ 67.5	\$ 75.3	\$ 80.2	\$ 87.5	\$ 93.7
Premium Conversion:										
Participants	208,651	209,929	199,215	206,173	209,214	210,744	215,618	223,980	228,121	222,295
Premiums Redirected (in millions)	\$ 291.0	\$ 312.1	\$ 321.4	\$ 337.8	\$ 363.3	\$ 386.4	\$ 389.7	\$ 410.3	\$ 457.4	\$ 482.4
Tax Savings (in millions):										
Employees	\$ 65.9	\$ 70.7	\$ 72.8	\$ 76.5	\$ 82.3	\$ 87.5	\$ 88.3	\$ 92.9	\$ 103.6	\$ 109.2
State of Texas	\$ 22.3	\$ 23.9	\$ 24.6	\$ 25.8	\$ 27.8	\$ 29.6	\$ 29.8	\$ 31.4	\$ 35.0	\$ 36.9
<b>Group Benefits Program (Note E)</b>										
Membership:										
Active	209,859	211,695	192,859	198,627	200,775	216,958	222,660	230,285	234,057	239,138
Retired	56,714	59,603	66,348	68,109	69,748	N/A	N/A	N/A	N/A	N/A
Dependents	253,000	248,749	235,834	236,691	232,846	199,833	190,573	198,420	197,979	183,626
COBRA (Note D)	2,060	1,744	1,736	1,558	2,485	2,009	2,138	2,178	2,544	2,213
	521,633	521,791	496,777	504,985	505,854	418,800	415,371	430,883	434,580	424,977
<b>Death Benefit Programs</b>										
Lump Sum Payments	36	20	19	11	16	12	13	6	18	14
Monthly Payments to Guardians	107	113	109	127	133	114	111	100	103	107
Victims of Violent Crime	n/a	n/a	n/a	5	3	2	8	8	5	13

Note A: 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 B: Data for the original 457 Plan is as of June 30, 2011.

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

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

Note E: 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.

# 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 Licensure for Nursing  
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  
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 Capital Writs  
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  
Rio Grande Compact Commission  
Sabine River Compact Administration  
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 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

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

### STATE AGENCIES (CONTINUED)

Texas Funeral Service Commission  
Texas Higher Education Coordinating Board  
Texas Historical Commission  
Texas Indian Commission  
Texas Juvenile Probation Commission  
Texas Legislative Council  
Texas Lottery Commission  
Texas Medical Board  
Texas National Research Lab Commission  
Texas Public Finance Authority  
Texas Racing Commission  
Texas State Library & Archives  
Texas Treasury Safekeeping  
Texas Veterans Commission  
Texas Workforce Commission  
Texas Youth Commission  
University of Texas Medical Branch  
Water Development Board

### UNIVERSITIES

Angelo State University  
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 System  
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 - Dallas  
University of North Texas Health Science  
University of North Texas Systems

### JUNIOR AND COMMUNITY COLLEGES

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

Central Texas College  
Cisco Junior College  
Clarendon College  
Coastal Bend College  
College of the Mainland  
Collin County Community College  
Dallas County Community College District  
Del Mar College  
El Paso Community College  
Frank Phillips College  
Galveston College  
Grayson County Junior College  
Hill College  
Houston Community College  
Howard County College  
Kilgore College  
Laredo Junior College  
Lee College  
Lone Star College  
McLennan Community College  
Midland College  
Navarro College  
North Central Texas College  
North East Texas Community College  
Odessa College  
Panola College  
Paris Junior College  
Ranger Junior College  
San Jacinto College  
South Plains College  
South Texas Community College  
Southwest 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  
Turnpike 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.

**ERS**

EMPLOYEES  RETIREMENT  
SYSTEM OF TEXAS

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