



**2013**

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

Employees Retirement System of Texas ★ A Component Unit of the State of Texas  
Fiscal Year Ended August 31, 2013



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

# 2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Ann S. Bishop, Executive Director

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



A COMPONENT UNIT OF THE STATE OF TEXAS  
FISCAL YEAR ENDED AUGUST 31, 2013

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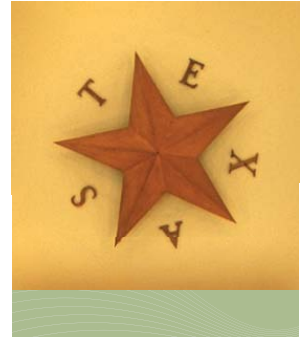
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## INTRODUCTORY SECTION

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, 2013

## Retirement Census Data

	ERS (A)	LECOS (A)	JRS I	JRS II
Active Members	133,669	37,415	13	545
Terminated Employees Entitled to Benefits	96,015	10,187	4	152
<b>Total Retirement Accounts</b>	<b>229,684</b>	<b>47,602</b>	<b>17</b>	<b>697</b>
Retirees and Beneficiaries	91,367	9,089	421	254
Service Retirements	5,174	741	4	43
Disability Retirements	113	3	0	0
<b>Total Retirements During the Fiscal Year</b>	<b>5,287</b>	<b>744</b>	<b>4</b>	<b>43</b>
Funded Ratios (Note C)	77.4%	70.4%		88.6%

## Results of Investments - Pension Trust Funds

	ERS	LECOS	JRS I (B)	JRS II
	\$	\$	\$	\$
Interest, Dividends & Securities				
Lending Income	577,821,028	19,784,939		7,951,004
Net Appreciation (Depreciation) in Fair Value of Investments	1,583,818,222	54,296,141		21,677,676

## Time Weighted Rate of Return

	1-Year	3-Year	5-Year
Investment Pool Trust Fund	10.07%	10.28%	5.96%

## Other Transactions Summary

	ERS	LECOS	JRS I (B)	JRS II
	\$	\$	\$	\$
Member Contributions	422,588,192	7,185,398		4,267,749
State Retirement Contributions	375,736,733	7,116,706		4,549,182
Retirement Benefits	1,806,697,536	50,854,850	25,578,389	14,586,346
Member Contributions Withdrawn	86,668,136	1,530,641		284,508
Administrative Expenses	18,660,935	805,247		228,225
Investment Expenses	65,284,509	2,238,283		892,954

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 15, 2013**

ANN S. BISHOP  
EXECUTIVE DIRECTOR

BRIAN D. RAGLAND  
CHAIR

FREDERICK E. ROWE, JR.  
VICE-CHAIR

BOARD OF TRUSTEES  
YOLANDA GRIEGO  
I. CRAIG HESTER  
CYDNEY C. DONNELL  
CHERYL MACBRIDE

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

On behalf of the Employees Retirement System of Texas (ERS), I appreciate this opportunity to once again share with you the financial highlights for the past fiscal year. It's been a particularly good year for ERS. Not only did we exceed our investment returns benchmark for the third consecutive year, but we also obtained additional funding from multiple sources for our retirement plans.

We are truly grateful for your support during the 83rd Texas Legislature. Lawmakers took three major actions that together represent a definitive step toward actuarial soundness for the retirement fund: increasing revenue for the fund through contributions from the State, employer agencies, and contributing members; allowing ERS to use unexpended FY13 appropriations from the Texas Employees Group Benefits Program (GBP) to increase contributions for the retirement fund in FY 2014; and changes to retirement benefits for new state employees.

The positive effect of these actions on our retirement fund is bolstered by another strong investment performance in Fiscal Year 2013, with earnings of 10.07%. The retirement trust fund pool was valued at \$24.0 billion on August 31. In our efforts to invest prudently, we continue to broaden our portfolios, and we saw significant progress in allocating assets across investment categories. In Fiscal Year 2013, we increased investments in the real estate, infrastructure, private equity, and hedge fund asset classes. As we seek new opportunities for building our fund, we remain committed to investing in Texas and to working with emerging managers. In the past fiscal year, more than 30% of our investments were in companies that are based in Texas or have more than 200 employees here. Additionally, we invested more than \$158.8 million with emerging managers.

We are proud of our investment performance and equally proud of our efforts to help ERS members attain retirement readiness through their personal retirement accounts. In Fiscal Year 2013, the TexaSaver 401(k)/457 Plan surpassed \$2 billion in assets for the first time, added new fund options, and embarked on a campaign to increase member contributions. Initial results of the campaign indicate that it has been successful not only in getting members to put more toward their personal retirement savings, but also in raising awareness about the need for savings beyond the State's retirement program.

In addition to the retirement program, managing health and other insurance benefits is a big part of what we do at ERS. We take enormous pride in our ability to offer high-quality insurance benefits at reasonable costs through the GBP. In fact, administrative costs for HealthSelect<sup>SM</sup> of Texas, the health plan in which the majority of our members participate, are well below the industry standard: 97 cents of every dollar is spent directly on health care, with only 3% going to administration.

Fiscal Year 2013 saw continued advances in our efforts to realize cost savings while maintaining quality health services. UnitedHealthcare took the reins as third-party administrator for HealthSelect of Texas, at an estimated cost savings of \$6 million per year over the previous administrator. While there have been some issues that are to be

expected in the transition of a program serving more than 500,000 people, UnitedHealthcare and HealthSelect are meeting the needs of the great majority of our members, and we anticipate greater progress as United continues to gain a better understanding of our membership. Ultimately, the lower administrative costs we achieve with United are helping us maintain health benefits for all who participate in GBP health plans.

We are in our second year of offering HealthSelect Medicare Advantage, administered by Humana, to our Medicare-eligible retirees. I am happy to report that ERS has seen high satisfaction levels with the program, as well as significant cost savings. Our members enjoy the value-added services, such as free gym memberships, and the lower premiums for their Medicare-eligible dependents. Members are automatically enrolled in HealthSelect Medicare Advantage when they enroll in Medicare, but they have the option to disenroll and go back to another GBP health plan. As they better understand the benefits of HealthSelect Medicare Advantage, more members are choosing to remain in the program. As of August 31, 2013, approximately half of our Medicare-eligible members and dependents participate in HealthSelect Medicare Advantage.

TexFlex, the GBP's flexible spending account for health care and dependent day care, is another program that saves money for both our members and the State. Participants' pre-tax contributions to their TexFlex accounts not only reduce their taxable income, but also the payroll taxes paid by the State as an employer. With more than \$93.2 million in contributions to TexFlex accounts in Fiscal Year 13, the State saved more than \$38.3 million in payroll taxes from health care premium conversion and TexFlex contribution.

The new administrator for HealthSelect of Texas, the Medicare Advantage program, and TexFlex are just a few highly visible ways ERS is saving money in the GBP—without sacrificing member service. In the interim before the next legislative session, we will be conducting research among our members and in the marketplace to determine the possibility of additional health and life insurance options. Even beyond that, you can rest assured that we will continuously work to identify both greater efficiencies for the program and new options for our members. We are always on the lookout for innovative health service providers and administrators, opportunities in contracting, and new programs that could benefit our members while also reducing the burden on Texas taxpayers.

Above all, we remain keenly aware that the retirement, health, and other benefits ERS administers mean a great deal to the people who serve our state in so many important ways. We always feel a deep responsibility to both our members and to the taxpayers who make these benefits possible.

Thank you again for your ongoing support of our efforts, particularly during the past legislative session. We are honored to work with you in the service of State of Texas employees and retirees.

Sincerely,



**ANN S. BISHOP**  
Executive Director

November 15, 2013

ANN S. BISHOP  
EXECUTIVE DIRECTOR

BRIAN D. RAGLAND  
CHAIR

FREDERICK E. ROWE, JR.  
VICE-CHAIR

BOARD OF TRUSTEES  
YOLANDA GRIEGO  
I. CRAIG HESTER  
CYDNEY C. DONNELL  
CHERYL MACBRIDE

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, 2013, 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, 2013.

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, Alcoholic Beverage Commission, Parks and Wildlife Department, Texas State Board of Pharmacy, and Texas Juvenile Justice Department. It also covers certified custodial officers employed by the Texas 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 in the financial system with automated edits, and through processes and procedures for approvals, encumbrances, and reporting.

## FINANCIAL CONDITION

### *Investment Performance*

The investment portfolio closed the fiscal year with a fair value of \$23.9 billion, and had a return of 10.07% 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 10.28% and 5.96% respectively.

The fiscal year reflected a continuation of 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, 2013 actuarial valuation shows that the ratio of the actuarial value of assets to the actuarial accrued liability was 77.4%. The average actuarial funding level for state administered public pension plans nationwide is estimated at 73% for 2012 according to a paper published in July of 2013 by the Center for Retirement Research at Boston College. Although the ERF is in relatively good financial condition, System management would like to improve the funded ratio. The System worked with the 83rd Legislature to improve the funding status of the various benefit systems under management. Legislation effective September 1, 2013, increases State and member contributions, and modifies 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. Additional information on funding status and progress toward achieving funding goals is presented in the Financial Section, Required Supplementary Information, and the Actuarial Section.

New statements on financial reporting for pension plans issued by the Governmental Accounting Standards Board (GASB) will be implemented in fiscal year 2014 for pension plans and fiscal year 2015 for employers. Although these new standards will not alter the underlying fundamentals, we expect that the unfunded liabilities will be higher and the funded ratios will be lower for GASB reporting purposes. The calculations for funding purposes are not impacted and will be similar to current calculations.

#### 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, Private Real Estate, and Hedge Fund portfolios. With the assistance of the System's investment consultants, an extensive asset liability study was performed and a new asset allocation was approved to optimize investment return while minimizing risk. Implementing the new asset allocation is a major initiative for FY 2014. The System will also be working with the Legislature to consider various options discussed in the legislative session including the separation of the members with LECOS eligibility from the other members in the main ERS plan. The impact of separate accounting, reporting, and actuarial calculations for LECOS eligible members will be analyzed prior to the next legislative session.

The System will implement more accountable practice model agreements and improve communications with regard to the coordination of Medicare benefits. A separate enrollment period for Medicare eligible members will be implemented in FY 2014 along with statewide outreach sessions focused on Medicare planning. There will also be a communication initiative focusing on short term and long term benefits education to ensure information is relayed to members. The System will continue to work with the Legislature to analyze and design innovative approaches to provide a quality health care plan at a reasonable cost. The System will conduct a study of the impact of implementing a basic life and health coverage plan, including the applicability of the Affordable Care Act, and report the results to the Legislature by September 1, 2014.

The System continues to enhance performance and accountability. The System implemented a Rules Management Engine for the Pension System 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. A similar rules management project is planned for the Benefits Administration system relating to enhancing performance and accountability for the insurance plan.

Communication initiatives include populating a centralized online research library and implementing enhancements based on a website usability study. The System continues to work on improvements to enhance the functionality of internal online workspaces.

#### 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, 2012. 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 24 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



Government Finance Officers Association

**Certificate of  
Achievement  
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Presented to

**Employees Retirement System  
of Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

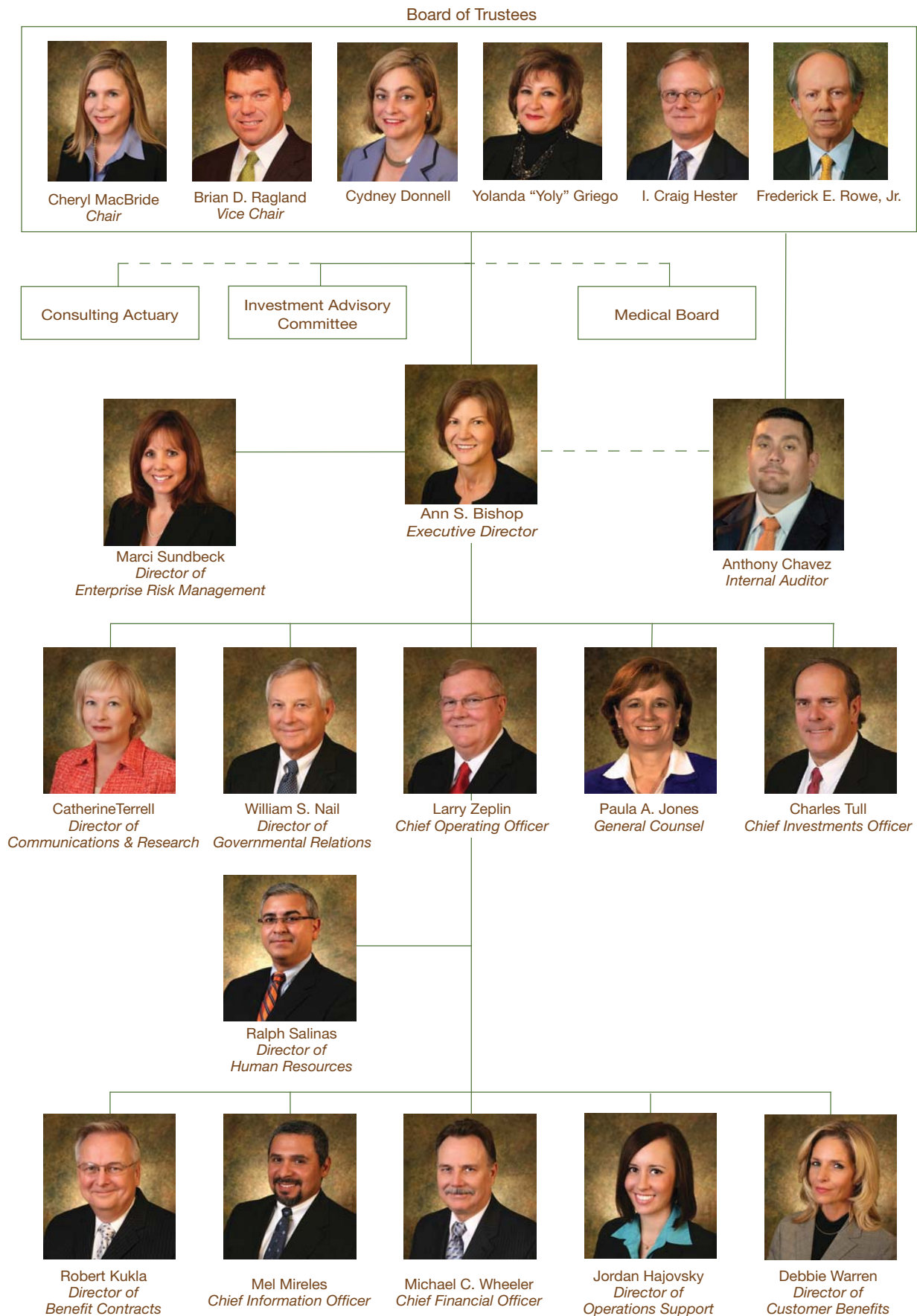
**August 31, 2012**

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive style.

Executive Director/CEO

# ORGANIZATIONAL CHART AND DATA

AS OF AUGUST 31, 2013





# CONSULTANTS AND ADVISORS

AS OF AUGUST 31, 2013

## CONSULTING ACTUARIES

Philip S. Dial, F.S.A, Rudd and Wisdom, Inc.  
Ryan Falls, F.S.A., FCA, EA, MAAA, Gabriel, Roeder, Smith & Company  
Joseph Newton, F.S.A., FCA, EA, MAAA, Gabriel, Roeder, Smith & Company

## INVESTMENT ADVISORY COMMITTEE

Bob Alley, CFA, Chair  
Lenore Sullivan, Vice Chair  
James Hille, CFA, CAIA, Texas Christian University Endowment  
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  
Vernon D. Torgerson, Jr. CFA, Chair, Frost National Bank of San Antonio

## INVESTMENT CONSULTANTS

Albourne Partners  
Altius Associates  
Hewitt Ennis Knupp & Associates  
RV Kuhns & Associates

## EXTERNAL INVESTMENT ADVISORS

### Domestic Equity

Barrow, Hanley, Mewhinney & Strauss, LLC  
Omega Advisors, Inc.

### Managers of Emerging Managers

Leading Edge Investment Advisors, LLC  
Legato Capital Management, LLC

### International Equity

Baring Asset Management  
Fisher Investment Institutional Group  
Franklin Templeton Institutional  
JP Morgan Asset Management  
Lazard Asset Management

### Real Estate

Center Square Investment Management

### Fixed Income

Fountain Capital Management, LLC

## GLOBAL CUSTODIAN

BNY Mellon Asset Servicing

## MEDICAL BOARD

Marvin R. Cressman, M.D.  
John A. Genung, M.D.  
William E. McCarron, M.D.  
William M. Loving, 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.

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. The following is a summary of the various plan provisions.

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 Juvenile Justice Department 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.

## SERVICE RETIREMENT ELIGIBILITY:

### *Employee Class Only:*

Hire date prior to 9-1-2009:

- Age 60 with at least five years of service credit, or
- The sum of age and years of service credit equals or exceeds the number 80 with at least five years of service credit, or
- Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer.

Hire date on or after 9-1-2009 and prior to 9-1-2013:

- Age 65 with 10 years of service
- Rule-of-80, with at least 10 years of service at age 60. (no reduction)

Hire date on or after 9-1-2013:

- Age 65 with 10 years of service.
- Rule-of-80, with at least 10 years of service at age 62. (no reduction)

### *Elected Class Only:*

- Age 60 with eight years of service credit
- Age 50 with 12 years of service credit.

Hire date prior to 9-1-2009:

- 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.

Hire date on or after 9-1-2009 and prior to 9-1-2013:

- 20 years of service credit as a certified peace officer/custodial officer at or over age 55. (no reduction)

Hire date on or after 9-1-2013:

- 20 years of service credit as a certified peace officer/custodial officer at or over age 57. (no reduction)

- Age 65 with at least 10 years of service credit and currently holding a judicial office, or
- Age 65 with at least 12 years of service credit, regardless of whether the member currently holds a judicial office, or
- 20 years of service at any age, regardless of whether the member currently holds a judicial office, or
- The sum of age and years of service credit equals or exceeds the number 70 and served at least 12 years on an appellate court, regardless of whether the member currently holds a judicial office.

# SUMMARY OF PLAN PROVISIONS

EFFECTIVE SINCE SEPTEMBER 1, 2009

## ERS

## LECOS

## JRS I AND JRS II

### EARLY SERVICE RETIREMENT ELIGIBILITY WITH REDUCED BENEFITS:

Hire date on or after 9-1-2009 and prior to 9-1-2013:

- Rule-of-80, with at least 10 years of service. (5% annuity reduction for each year retired under age 60, up to 25%)

Hire date on or after 9-1-2013:

- Rule-of-80, with at least 10 years of service. (5% annuity reduction for each year retired under age 62, no cap)

Hire date prior to 09-01-2009:

- 20 years of service credit as a certified peace officer/custodial officer, under the age of 50.

Hire date on or after 9-1-2009 and prior to 9-1-2013:

- 20 years of service credit as a certified peace officer/custodial officer (5% annuity reduction for each year retired under age 55, up to 25%)

Hire date on or after 9-1-2013:

- 20 years of service credit as a certified peace officer/custodial officer (5% annuity reduction for each year retired under age 57, no cap). Additional actuarial reduction for those that retire prior to age 50.

- Age 60 with 10 years of service credit and currently holding judicial office, or
- Age 60 with 12 years of service credit, regardless of whether the member currently holds a judicial office.

### STANDARD SERVICE RETIREMENT BENEFITS:

#### *Employee Class Only:*

- Standard monthly annuity is equal to 2.3% of average monthly compensation multiplied by the number of years of service credit.
- Average monthly compensation is the average of the highest 36 months of compensation. The average monthly compensation for those hired on or after 9-1-2009 is the average of the highest 48 months of compensation. The average monthly compensation for those hired on or after 9-1-2013 is the average of the highest 60 months of compensation.
- Minimum standard annuity is \$150 per month.
- Maximum standard annuity is 100% of the average monthly compensation.

#### *Elected Class Only:*

- Standard monthly annuity is 2.3% of the current State salary of a district judge multiplied by the number of years of service credit.
- Retirement benefits are automatically adjusted should State judicial salaries change.
- Maximum standard annuity is 100% of the State salary being paid to a district judge.

- Monthly annuity is equal to 2.8% of average monthly compensation multiplied by the number of years of service credit.
- Average monthly compensation is the average of the highest 36 months of compensation. The average monthly compensation for those hired on or after 9-1-2009 is the average of the highest 48 months of compensation. The average monthly compensation for those hired on or after 9-1-2013 is the average of the highest 60 months of compensation.
- Minimum standard annuity is \$150 per month.
- Maximum standard annuity is 100% of the average monthly compensation.

- Monthly annuity is equal to 50% of the salary for the last position from which the retiring member was elected or appointed.
- An additional 10% is paid when a member retires within one year of leaving office or within one year of last assignment as a visiting judge.
- The monthly annuity of a member who elects to make contributions after 20 years of service would be based on 50% of the State salary plus 2.3% for each subsequent year with the total, including the additional 10%, not to exceed 90%.

#### *JRS II Only:*

- 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%.

# SUMMARY OF PLAN PROVISIONS

EFFECTIVE SINCE SEPTEMBER 1, 2009

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

## OPTIONAL SERVICE RETIREMENT:

### *Employee Class and Elected Class:*

- Lifetime with 100% to surviving beneficiary;
- Lifetime with 75% to surviving beneficiary;
- Lifetime with 50% to surviving beneficiary;
- Lifetime with five years certain;
- Lifetime with 10 years certain; and
- One-time partial lump sum of up to three years of standard annuity at retirement (annuity is reduced for life and the reduced annuity is in addition to the calculation of the six beneficiary options listed above).
- If beneficiary predeceases member, the annuity paid to the retired member who selected one of the lifetime survivor benefits is increased to the standard annuity.

- Same as ERS.

- Same as ERS except for the one-time partial lump sum.

## VESTING REQUIREMENT:

### Hire date prior to 09-01-2009:

- Five or more years of service credit for Employee Class.

### Hire date on or after 09-01-2009 and prior to 9-1-2013:

- 10 or more years of service credit for Employee Class.

### Hire date on or prior 09-01-2013:

- 10 or more years of service credit for Employee Class.

### *Elected Class Only:*

- Eight or more years of service credit.

- 20 or more years of service credit as a certified peace officer/custodial officer.

- 12 or more years of service credit.

## VESTED BENEFITS AFTER TERMINATION OF EMPLOYMENT:

- Member is entitled to a deferred retirement benefit based on service and compensation prior to termination.
- Member must leave accumulated contributions in the System to which the member contributed.
- Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.

- Member is entitled to a deferred retirement benefit based on certified peace officer/custodial officer service and the highest average monthly compensation prior to termination.
- Member must leave accumulated contributions in the System to which the member contributed.
- Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.

- Member is entitled to a deferred retirement benefit based on service and compensation as a judge prior to termination.
- Member must leave accumulated contributions in the System and to which the member contributed.
- 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.

# 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 monthly 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 there is no partial lump-sum option.

### *Elected Class Only:*

- The disability retirement is calculated in the same manner as the standard retirement annuity, and is not reduced because of age.
- For occupational disability the annuity is the amount of the member's service or eight years 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 monthly compensation regardless of the years of service credit or age.
- The standard annuity is increased to 100% of the monthly compensation if the retired member can prove that their occupational disability makes them incapable of substantial gainful activity solely because of the occupational disability and they are considered totally disabled under federal social security law due to the same condition that qualified them for occupational benefits.
- 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 may select a death benefit plan or the designated beneficiary can elect either a lifetime monthly payment, 10 years guaranteed monthly payment or a one-time refund of the members retirement account balance at the time of the members death.
- A contributing member that had less than 10 years of service or the designated beneficiary of the active account will receive a one-time refund of the member's retirement account balance at the time of the member's death. If the member is contributing at the time of death, the beneficiary(ies) may be eligible for an Additional Death Benefit (ADB). This is an additional 5% of the member's retirement account balance for each full year of state service. The maximum is 100% of the member's retirement account balance. This option is not available if the beneficiary elects a lifetime or 10-year guaranteed monthly payment.
- If an active state employee dies and the death is determined to be an occupational death, the surviving spouse or minor children is eligible for a one-time death benefit equal to one year's salary. If there is not a surviving spouse or minor children, this occupational death benefit is not payable to anyone else.
- If a member selected a standard annuity and dies after retiring from the state, the designated beneficiary will receive a one-time refund of the member's retirement account balance if there is any money left in the account.
- If a member selected an optional service retirement, and dies the beneficiary will receive a monthly payment for the beneficiaries based on the option chosen.
- If retired, the designated beneficiary is eligible for a one-time Retiree Lump Sum Death Benefit in the amount of \$5,000.

- Members with 20 or more years of certified peace officer/custodial officer service, the death benefits are the same as the Employee Class.
- Members with less than 20 years of certified peace officer/custodial officer service, the death benefits are the same as the Employee Class.
- Members with at least 20 years of certified peace officer/custodial officer service, under age of 50 at the time of death, the designated beneficiary is eligible for a lifetime monthly payment, a 10-year guaranteed monthly payment, or a one-time refund of the member's retirement account balance. Due to the age of the member and the beneficiary at the time of death, the beneficiary option amounts will be subjected to an age reduction factor.

A member with at least 10 years of service credit:

- may select one or more persons to receive a death benefit plan. The designated beneficiary may receive either a lifetime monthly payment or a 10-year guaranteed monthly payment.

A member with less than 10 years of service credit:

- The beneficiary is not eligible for a death benefit plan. The beneficiary is eligible for a one-time refund payment of your retirement account balance.
- If member is retired, the designated beneficiary(ies) is eligible for a one-time Retiree Lump Sum Death Benefit. In the amount of \$5000. This payment is paid by the State of Texas and is not a part of retirement or life insurance.

# SUMMARY OF PLAN PROVISIONS

EFFECTIVE SINCE SEPTEMBER 1, 2009

ERS

LECOS

JRS I AND JRS II

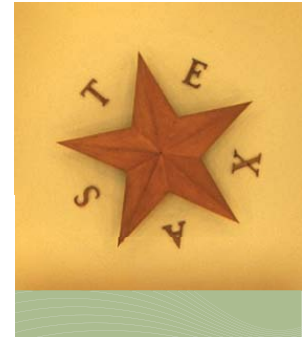
## DEATH BENEFITS (CONTINUED):

### *Elected Class Only:*

- For members with less than 8 years of service credit at the time of death, the designated beneficiary will receive a one-time refund of the member's retirement account balance. If contributing: The beneficiary is also eligible for a refund of the member's retirement account balance plus an additional 5% of the member's retirement account balance for each full year of state service.
- For a contributing member with at least 8 years of service credit and is age 60 or above, at the time of death, the surviving spouse is eligible for a lifetime monthly payment, a 10-year guaranteed monthly payment, or a one-time refund of the member's retirement account balance. If there is no surviving spouse, the surviving minor children are eligible for a lifetime monthly payment, a 10-year guaranteed monthly payment, or a one-time refund of the member's retirement account balance. If the surviving spouse/minor child selects the one-time refund, they are eligible for the additional 5% of the member's retirement account balance for each full year of state service. This option is not available if they select a monthly payment. If there is no surviving spouse/minor child, the beneficiary is eligible for a refund of the member's retirement account balance plus an additional 5% of the member's retirement account balance for each full year of state service only.
- A contributing or non-contributing member with at least 8 years of state service but less than 10 years of state service, the surviving spouse is eligible to receive a monthly payment that is one-half of the monthly standard annuity the member would have received at age 60. This annuity cannot be paid if there is no surviving spouse. The beneficiary would then be eligible for a refund of the member's retirement account balance plus an additional 5% of the member's retirement account balance for each full year of state service if the member was contributing to state service at the time of death.
- If a member is retired, the designated beneficiary(ies) is eligible for a one-time Retiree Lump Sum Death Benefit. This payment is paid by the State of Texas and is not a part of retirement or life insurance.







## 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

Mr. Brian D. Ragland, Chair

Mr. Frederick E. Rowe, Jr., Vice-Chair

Ms. Cydney Donnell

Ms. Yolanda Griego

Mr. I. Craig Hester

Ms. Cheryl MacBride

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of the Employees Retirement System (System), a component unit of the State of Texas, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### ***Investments with Values that are not Readily Determined***

As discussed in Note 4, the financial statements include certain investments valued at approximately \$3,702,998,283 as of August 31, 2013, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress – Defined Benefit Plans, Schedule of Employer Contributions – Defined Benefit Plans, Schedule of Contributions from the Employers and Other Contributing Entities, and Notes to the Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

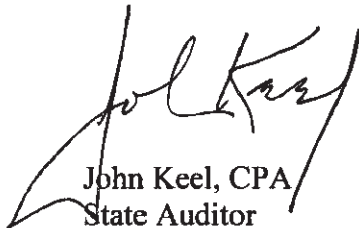
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's financial statements. The information in the combining financial schedules and supporting schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The information in the combining financial schedules and supporting schedules is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial schedules and supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory, Investment, Actuarial, and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, 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* in considering the System's internal control over financial reporting and compliance.



John Keel, CPA  
State Auditor

November 15, 2013

# MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2013

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, 2013. 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 position 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 Position and the Statement of Changes in Net Position 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 Position, 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 Position and the Combined Statement of Changes in Fiduciary Net Position. 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, deferred compensation plans, the cafeteria plan and the agency funds.
- Exhibits X and XI, the Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position, report activities of the defined benefit plans, including the retiree insurance plan. These exhibits also report the cafeteria plan and other deferred compensation plans.

## FINANCIAL ANALYSIS ON GOVERNMENT-WIDE STATEMENTS

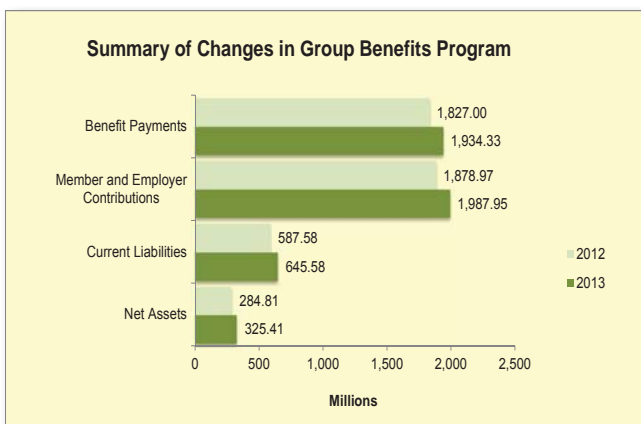
The government-wide activities of the System are comprised of five programs:

- 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,		2012-2013 Incr (Decr) %
	2013	2012	
Net Position	\$ 325.41	\$ 284.81	14.26
Current Liabilities	645.58	587.58	9.87
Member and Employer Contributions	1,987.95	1,878.97	5.80
Benefit Payments	1,934.33	1,827.00	5.87

The increase in Net Position resulted from rate increases and health care cost trend actuals that were less than expected.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

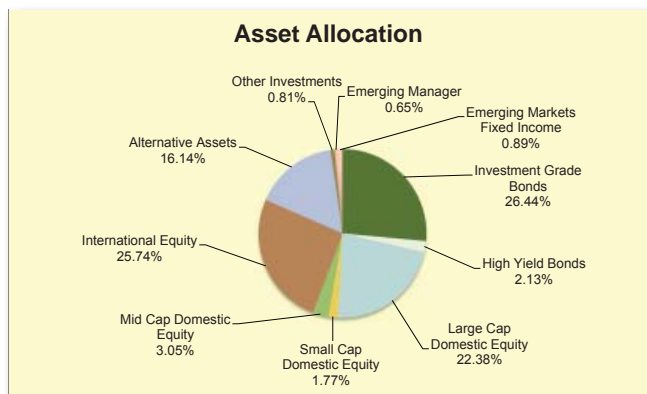
YEAR ENDED AUGUST 31, 2013

## FINANCIAL HIGHLIGHTS – FIDUCIARY FUNDS

- Net position of the Fiduciary Funds administered by the System totaled \$23.97 billion as of August 31, 2013, compared with \$22.88 billion as of August 31, 2012. The investment portfolio returned 10.07% for the year. The \$1.1 billion increase resulted primarily from favorable market conditions affecting investment assets. The time weighted rate of return for three and five years were 10.28% and 5.96% 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:

- 26.44% investment grade bonds
- 2.13% high yield bonds
- 22.38% large cap domestic equity
- 1.77% small cap domestic equity
- 3.05% mid cap domestic equity
- 25.74% international equity
- 16.14% alternative assets
- 0.65% emerging manager composite
- 0.89% emerging markets fixed income
- 0.81% 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,		2012-2013 Incr (Decr) %
	2013	2012	
	\$	\$	
<i>Contributions:</i>			
Retirement & Other	922.54	871.24	5.89
Insurance	727.79	698.97	4.12
Total (Exh. XI)	<u>1,650.33</u>	<u>1,570.21</u>	5.10
<i>Benefit Payments:</i>			
Retirement & Other	2,003.05	1,892.51	5.84
Insurance	724.38	696.09	4.06
Total (Exh. XI)	<u>2,727.43</u>	<u>2,588.60</u>	5.36

- 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, 2013. The funded ratios are as follows:

Plans	Funded Ratios August 31,	
	2013	2012
	%	%
Employees Retirement System	77.4	81.0
Law Enforcement and Custodial Officer Supplemental Retirement Fund	70.4	79.7
Judicial Retirement System of Texas Plan Two	88.6	95.3

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

## FIDUCIARY NET POSITION

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

	August 31,		2012-2013 Incr (Decr) %
	2013	2012	
	\$	\$	
Changes in Fiduciary Net Position (Exh. IX)	1,098.91	669.69	64.09
<b>Total Net Position</b>	<b>23,975.38</b>	<b>22,876.47</b>	<b>4.80</b>

The increases in changes in Fiduciary Net Position is due primarily to conditions in the financial markets. The portfolio return was 10.07%, which was better than the previous year return of 8.22%.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

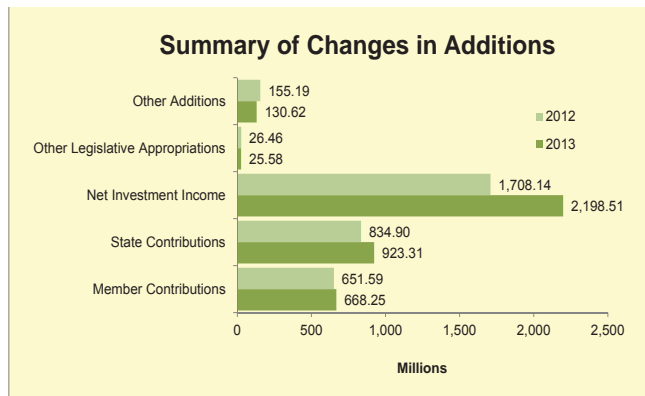
YEAR ENDED AUGUST 31, 2013

## ADDITIONS

Retirement benefits are financed 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 Position have been extracted from Exhibit IX, Combined Statement of Changes in Fiduciary Net Position. The additions in millions were as follows:

	August 31,		2012-2013 Incr (Decr) %
	2013	2012	
	\$	\$	
Member Contributions	668.25	651.59	2.56
State Contributions	923.31	834.90	10.59
Net Investment Income	2,198.51	1,708.14	28.71
Legislative Appropriations	25.58	26.46	(3.33)
Other Additions	130.62	155.19	(15.83)
<b>Total Additions (Exh.IX)</b>	<b>3,946.27</b>	<b>3,376.28</b>	<b>16.88</b>

Increases in the above tables are due primarily to more favorable conditions in the financial markets compared to the previous year, and legislative increases to state contribution rates for the pension systems. Also, the number of active members in the pension systems increased in fiscal year 2013.



For the Employees Retirement Fund, member and State retirement contribution rates for fiscal year 2013 were both 6.5%. For the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS), both the State and member contributed 0.5% of the covered payroll. For the Judicial Retirement Plan II Fund, member and State retirement contribution rates were 6.0 % and 6.5% respectively.

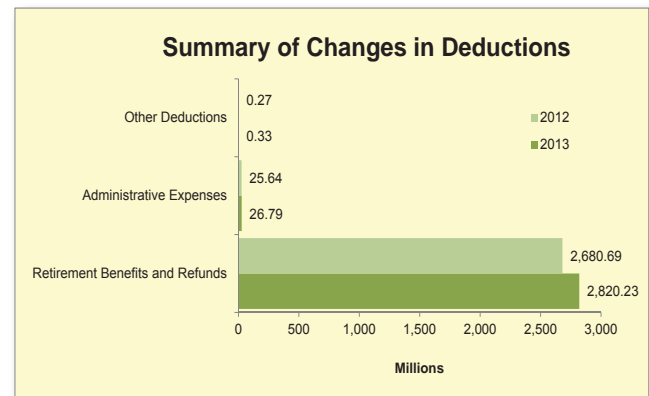
Net investment income is comprised of interest income, dividend income, securities lending income and related fees, and net appreciation or depreciation in fair value of investments, and is net of investment expenses.

## 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 Position have been extracted from Exhibit IX, Combined Statement of Changes in Fiduciary Net Position.

Changes in deductions are summarized in millions as follows:

	August 31,		2012-2013 Incr (Decr) %
	2013	2012	
	\$	\$	
Benefits	2,820.23	2,680.69	5.21
Administrative	26.79	25.64	4.49
Other Deductions	0.33	0.27	22.22
<b>Total Deductions (Exh. IX)</b>	<b>2,847.35</b>	<b>2,706.60</b>	<b>5.20</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.

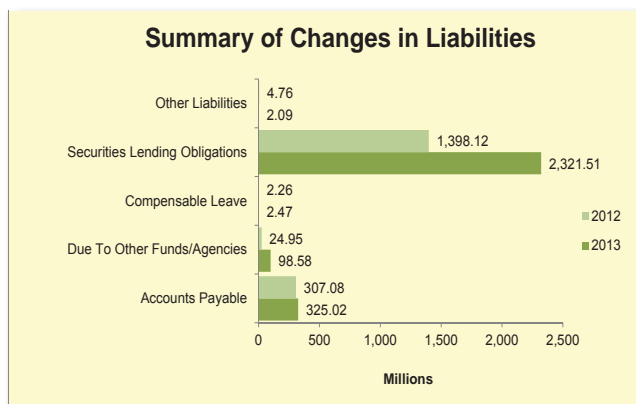


# MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2013

Changes in assets are summarized in millions as follows:

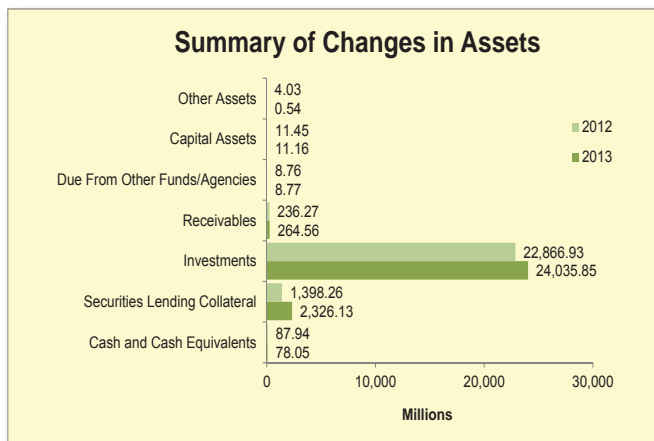
	August 31,		2012-2013 Incr (Decr) %
	2013	2012	
Cash and Cash Equivalents	\$ 78.05	\$ 87.94	(11.25)
Securities Lending Collateral	2,326.13	1,398.26	66.36
Investments	24,035.85	22,866.93	5.11
Receivables	264.56	236.27	11.97
Due from Other Funds/Agencies	8.77	8.76	0.11
Capital Assets	11.16	11.45	(2.53)
Other Assets	0.54	4.03	(86.60)
<b>Total Assets (Exh. VIII)</b>	<b>26,725.06</b>	<b>24,613.64</b>	<b>8.58</b>



## FUNDING STATUS AND PROGRESS

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, 2013, (compared to the August 31, 2012 actuarial valuation) is summarized in millions as follows:



## LIABILITIES

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

	August 31,		2012-2013 Incr (Decr) %
	2013	2012	
Accounts Payable	\$ 325.02	\$ 307.08	5.84
Due to Other Funds/Agencies	98.58	24.95	295.11
Compensable Leave	2.47	2.26	9.29
Securities Lending Obligations	2,321.51	1,398.12	66.05
Other Liabilities	2.09	4.76	(56.09)
<b>Total Liabilities (Exh. VIII)</b>	<b>2,749.67</b>	<b>1,737.17</b>	<b>58.28</b>

Plans	Actuarial Net Asset/(Liability) August 31,	
	2013	2012
	\$	\$
Employees Retirement System	(7,218.4)	(5,704.6)
Law Enforcement and Custodial Officer Supplemental Retirement Fund	(354.1)	(211.8)
Judicial Retirement System of Texas Plan Two	(41.0)	(14.8)

For the Employees Retirement System Fund, the August 31, 2013 actuarial valuation shows an unfunded accrued liability of \$7.2 billion. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 77.4% as of August 31, 2013. The valuation shows that the total normal cost is 11.57% of payroll and total contributions are 14.6% of payroll. The total contribution rate exceeds the normal cost by 3.03% of payroll, but it is not sufficient to ever amortize the unfunded accrued liability. Therefore, the amortization period is currently infinite and the

# MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2013

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 18.73% 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, 2013 actuarial valuation for the Law Enforcement and Custodial Officer Supplemental Retirement Fund shows that the total normal cost rate for fiscal year 2013 is 1.80% of payroll. At August 31, 2013, the unfunded accrued liability is \$354 million, and the funded ratio is 70.4%. Total contributions are 2.20% of payroll. The total contribution rate exceeds the normal cost by 0.40% but is not sufficient to ever amortize the unfunded liability. As a result, the amortization period is currently infinite and the funding objective is not currently being realized. For fiscal year 2013, 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 3.09% of payroll.

For the Judicial Retirement System of Texas Plan II, the August 31, 2013 actuarial valuation shows that the total normal cost is 20.96% of payroll and unfunded accrued liability is \$41 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 88.6% as of August 31, 2013. Total contributions are 22.23% of payroll. The total contribution rate exceeds the normal cost by 1.27% but is not sufficient to ever amortize the unfunded accrued liability. The rate needed to fund normal cost plus amortize the unfunded accrued liability over 31 years is 24.08%. 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, 2013 actuarial valuation shows an unfunded accrued liability of \$252.9 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, 2013 actuarial valuation shows an unfunded accrued liability of \$23.0 billion. The funded ratio is 0.0%. The valuation shows that the total normal cost is 9% of payroll. The Annual Required Contribution (ARC) as of August 31, 2013 is 18.5% of payroll. Total contributions are 30.3% of the actuarially sound contribution.

Contributions include health care premiums, State and member contributions, retiree drug subsidy payments, and early retirees reinsurance payments. Retiree premiums were \$141.0 million. Employer contributions were \$535.9 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 2013 totaling \$50.9 million. The above amounts plus net investment income of \$0.20 million resulted in additions of \$728.0 million. These were offset entirely by \$724.4 million in benefit payments and \$3.6 million in administrative expense. The net plan assets are zero.

## CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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



**EXHIBIT I**  
**STATEMENT OF NET POSITION**  
AUGUST 31, 2013

<b>ASSETS</b>	<b>Governmental Activities</b>
	<b>August 31, 2013</b>
<b>Current Assets:</b>	<b>\$</b>
<i>Cash and Cash Equivalents:</i>	
Cash in State Treasury	46,085,512
Total Cash and Cash Equivalents	46,085,512
Securities Lending Collateral	53,365,524
Short-Term Investments	291,833,106
Legislative Appropriations	5,745
Receivables	144,480,978
Due From Fiduciary Funds	96,147,405
Due From Other Agencies	26,739
Total Current Assets	631,945,009
<b>Non-Current Assets:</b>	
Investment Grade Fixed Income Component	339,063,814
Total Non-Current Assets	339,063,814
<b>Total Assets</b>	<b>971,008,823</b>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Payables	590,151,882
Due To Fiduciary Funds	1,177,755
Deferred Revenue	653,227
Obligations Under Securities Lending	53,613,469
Total Current Liabilities	645,596,333
<b>Total Liabilities</b>	<b>645,596,333</b>
<b>NET POSITION</b>	
<i>Restricted For:</i>	
Employee Benefits - Group Benefits Program	325,412,026
Unrestricted	464
<b>Total Net Position (Exh. II &amp; III)</b>	<b>325,412,490</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, 2013

Functions/Programs	Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants & Contributions	Revenue & Changes in Net Position
				Governmental Activities
	\$	\$	\$	August 31, 2013
<i>Governmental Activities:</i>				
Social Security Administration	92,007	74,786		(17,221)
Death Benefits-Peace Officers, Firemen, etc.	5,444,052	5,444,052		-
Compensation to Victims of Crime	2,000,000	2,000,000		-
Death Benefits-Retiree \$5,000 Lump Sum	9,108,615	9,108,565		(50)
Group Benefits Program	1,943,692,294	1,988,125,122	(3,834,812)	40,598,016
<b>Total Governmental Activities</b>	<b>1,960,336,968</b>	<b>2,004,752,525</b>	<b>(3,834,812)</b>	<b>40,580,745</b>
			<b>Change in Net Position (Exh. IV)</b>	<b>40,580,745</b>
			<b>Net Position - Beginning</b>	<b>284,831,745</b>
			<b>Net Position - Ending (Exh. I)</b>	<b>325,412,490</b>

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

**EXHIBIT III**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
 AUGUST 31, 2013

	<b>Non-major Special Revenue Funds</b>
	<b>Totals (Note 1.E)</b>
	<b>August 31, 2013</b>
<b>ASSETS</b>	<b>\$</b>
<b>Current Assets:</b>	
Cash and Cash Equivalents:	
Cash in State Treasury	11,260
Total Cash and Cash Equivalents	11,260
Legislative Appropriations	5,745
Accounts Receivable	3,270
Total Current Assets	20,275
<b>Total Assets</b>	<b>20,275</b>
<b>LIABILITIES &amp; FUND BALANCES</b>	
<b>Current Liabilities:</b>	
Payables:	
Voucher/Accounts Payable	5,745
Due To Other Funds (Note 1.G)	13,804
Deferred Revenues	262
Total Current Liabilities	19,811
<b>Total Liabilities</b>	<b>19,811</b>
<b>Fund Balances:</b>	
Committed	464
<b>Total Fund Balances (Exh. IV)</b>	<b>464</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>20,275</b>
Total Fund Balances - Governmental Funds (above):	464
Amounts reported for 'Governmental Activities' in the Statement of Net Position (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 Position of the Internal Service Fund (Exhibit V) are included with 'Governmental Activities' in the Statement of Net Position.	
	325,412,026
<b>Net Position of Governmental Activities (Exhibit I)</b>	<b>325,412,490</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, 2013

<b>REVENUES</b>	<b>Non-major Special Revenue Funds Totals (Note 1.E) August 31, 2013</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.	5,444,052
For Victims of Crime	2,000,000
For Death Benefits-Retirees	9,108,565
Total Appropriation Revenue	16,552,617
Administration Fees for Social Security Administration	74,786
<b>Total Revenues</b>	<b>16,627,403</b>
<b>EXPENDITURES</b>	
<i>Current:</i>	
Death Benefits	16,552,667
<i>Administrative Expenditures:</i>	
Salaries & Wages	61,172
Payroll Related Costs	16,150
Professional Fees & Services	2,450
Travel	695
Materials & Supplies	4,050
Communications & Utilities	1,358
Repairs & Maintenance	1,974
Rentals & Leases	1,936
Printing & Reproduction	125
Other Expenditures	2,097
Total Administrative Expenditures	92,007
<b>Total Expenditures</b>	<b>16,644,674</b>
<b>Excess of Expenses Over Revenues</b>	<b>(17,271)</b>
<b>Fund Balances - Beginning</b>	<b>17,735</b>
<b>Fund Balances - Ending (Exh. III)</b>	<b>464</b>
Net Change in Fund Balances - Governmental Funds:	(17,271)
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.	
<b>Change in Net Position of Governmental Activities (Exhibit II)</b>	<b>40,598,016</b>
	<b>40,580,745</b>

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

EXHIBIT V  
STATEMENT OF NET POSITION – PROPRIETARY FUND  
AUGUST 31, 2013

		Internal Service Fund
		Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)
		Totals
		August 31, 2013
<u>ASSETS</u>	\$	
<b>Current Assets:</b>		
<i>Cash and Cash Equivalents:</i>		
Cash in State Treasury		46,074,252
Total Cash and Cash Equivalents		46,074,252
Securities Lending Collateral		53,365,524
Short-Term Investments		291,833,106
<i>Receivables:</i>		
Interest Receivable		1,766,248
Accounts Receivable		141,892,020
Unsettled Sales-Investment Receivables		819,440
Total Receivables		144,477,708
Due From Other Funds (Note 1.G)		96,147,405
Due From Other Agencies (Note 1.G)		26,739
<b>Total Current Assets</b>		<b>631,924,734</b>
<b>Non-Current Assets:</b>		
<i>Investments:</i>		
Investment Grade Fixed Income Component (Note 1.G)		339,063,814
Total Investments		339,063,814
<b>Total Non-Current Assets</b>		<b>339,063,814</b>
<b>Total Assets</b>		<b>970,988,548</b>
<u>LIABILITIES</u>		
<b>Current Liabilities:</b>		
<i>Payables:</i>		
Incurred, Self-Funded		30,075,859
Incurred, Insured		8,153,835
Incurred But Not Reported, Self-Funded		493,154,000
Incurred But Not Reported, Insured		54,787,000
Total Claims Payable		586,170,694
Unsettled Purchases-Investment Payables		3,975,443
Total Payables		590,146,137
Due To Other Funds (Note 1.G)		1,163,951
Deferred Revenue		652,965
Obligations Under Securities Lending		53,613,469
<b>Total Current Liabilities</b>		<b>645,576,522</b>
<b>Total Liabilities</b>		<b>645,576,522</b>
<u>NET POSITION</u>		
<i>Restricted For:</i>		
Employee Benefits - Group Benefits Program		325,412,026
<b>Total Net Position (Exh. VI)</b>		<b>325,412,026</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 POSITION –**  
**PROPRIETARY FUND**  
YEAR ENDED AUGUST 31, 2013

	<b>Internal Service Fund</b>
	<b>Employees Life, Accident and Health Insurance and</b>
	<b>Benefits Fund (0973) (U/F 0973)</b>
	<b>Totals</b>
	<b>August 31, 2013</b>
<b>OPERATING REVENUES</b>	<b>\$</b>
<i>Contributions to Insurance Program:</i>	
From the State of Texas:	
For Employees	1,527,001,900
Total Contributions from the State of Texas	1,527,001,900
From Members:	
For Employees	452,009,962
For COBRA	8,934,578
Total Contributions from Members	460,944,540
Total Contributions to Insurance Program	1,987,946,440
<i>Other Operating Revenues:</i>	
COBRA 2% Administration Fee	178,682
Warrants Voided by Statute of Limitations	6,394
Penalty Assessed to Insurance Carrier	1,711,720
Miscellaneous Operating Revenue	302,296
Total Other Operating Revenues	2,199,092
<b>Total Operating Revenues</b>	<b>1,990,145,532</b>
<b>OPERATING EXPENSES</b>	
<i>Employee Benefit Payments:</i>	
For Employees	1,900,025,883
For COBRA	34,299,438
Total Employee Benefit Payments	1,934,325,321
<i>Administrative Expenses:</i>	
Salaries & Wages	4,943,424
Payroll Related Costs	1,353,249
Professional Fees & Services	1,250,866
Travel	53,235
Materials & Supplies	458,920
Communications & Utilities	249,844
Repairs & Maintenance	258,203
Rentals & Leases	241,293
Printing & Reproduction	17,632
Other Operating Expenses	529,123
Total Administrative Expenses	9,355,789
<b>Total Operating Expenses</b>	<b>1,943,681,110</b>
<b>Operating Income</b>	<b>46,464,422</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Net Decrease in Fair Value of Investments	(17,215,315)
Interest Revenue	11,303,037
<i>Securities Lending Activities:</i>	
Loan Premium on Securities Lending	38,744
Less: Broker Rebates	(7,978)
Agent Fees	(3,077)
Net Securities Lending Activity	27,689
Settlement Revenue	18,312
Commission on Futures Contracts	(129)
<b>Total Non-Operating Expenses</b>	<b>(5,866,406)</b>
<b>Change in Net Position</b>	<b>40,598,016</b>
<b>NET POSITION</b>	
<b>Net Position - Beginning</b>	<b>284,814,010</b>
<b>Net Position - Ending (Exh. V)</b>	<b>325,412,026</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, 2013**

	<b>Internal Service Fund</b>
	<b>Employees Life, Accident and Health Insurance and Benefits Fund</b>
	<b>(0973) (U/F 0973)</b>
	<b>August 31, 2013</b>
<b>Cash Flows from Operating Activities:</b>	<b>\$</b>
Cash Received from Members	457,036,010
Cash Received from The State of Texas	1,431,905,662
Cash Payments to Insurance Carriers and Third Party Administrators	(1,910,841,829)
Cash Payments to Employees for Services	(6,591,243)
Cash Payments for Goods and Services	(3,028,714)
Other Cash Received	1,688,912
<b>Net Cash Provided by Operating Activities</b>	<b>(29,831,202)</b>
<b>Cash Flows from Investing Activities:</b>	
Net Sales of Short-Term Investment Fund	20,821,331
Interest on Deposit in State Treasury	(360,163)
<b>Net Cash Used by Investing Activities</b>	<b>20,461,168</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(9,370,034)</b>
<b>Cash and Cash Equivalents:</b>	
Beginning of Year	55,444,286
End of Year	46,074,252
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
<b>Operating Income</b>	<b>46,464,422</b>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>	
Depository Interest Transferred to Retiree Insurance Plan	(216,219)
Settlement Revenue	18,312
Change in Assets and Liabilities:	
Increase in Accounts Receivable	(25,032,590)
Decrease in Due From Other Agencies	29,959
Increase in Due From Other Funds	(74,872,514)
Increase in Accounts Payable	23,443,061
Increase in Due To Other Funds	276,444
Increase in Deferred Revenue	57,923
<b>Total Adjustments</b>	<b>(76,295,624)</b>
<b>Net Cash Provided by Operating Activities</b>	<b>(29,831,202)</b>
<b>Non-Cash Investing Activities:</b>	
Net Depreciation in Fair Value of Non-Cash Equivalent Investments	(17,215,315)

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

**EXHIBIT VIII**  
**COMBINED STATEMENT OF FIDUCIARY NET POSITION**  
 AUGUST 31, 2013

	Pension and Other Employee Benefit Trust Funds		Total Pension and Other Employee Benefit Trust Funds	Agency Funds
	Defined Benefit Plans	Deferred Compensation Plans and Cafeteria Plan		
<b>ASSETS</b>	\$	\$	\$	\$
Cash and Cash Equivalents	55,694,259	22,348,958	78,043,217	3,883
Securities Lending Collateral	2,326,132,886		2,326,132,886	
Short-Term Investments	843,126,559		843,126,559	
Legislative Appropriations	285,182		285,182	
Investments	23,192,725,976		23,192,725,976	
Receivables	257,645,393	6,909,993	264,555,386	6,568
Due From Other Funds (Note 1.G)	2,123,976	-	2,123,976	
Due From Other Agencies (Note 1.G)	6,640,923	3,534	6,644,457	
Prepaid Expenses	-	250,000	250,000	
Capital Assets, Net of Accumulated Depreciation/Amortization	11,155,222		11,155,222	
<b>Total Assets</b>	<b>26,695,530,376</b>	<b>29,512,485</b>	<b>26,725,042,861</b>	<b>10,451</b>
<b>LIABILITIES</b>				
Payables	303,463,848	21,549,461	325,013,309	6,568
Due To Other Funds (Note 1.G)	96,933,821	159,805	97,093,626	
Due To Other Agencies (Note 1.G)	1,486,700		1,486,700	
Deferred Revenue	2,071,290	15,299	2,086,589	
Employees Compensable Leave	2,471,690		2,471,690	
Obligations Under Securities Lending	2,321,506,588		2,321,506,588	
Funds Held for Others				3,883
<b>Total Liabilities</b>	<b>2,727,933,937</b>	<b>21,724,565</b>	<b>2,749,658,502</b>	<b>10,451</b>
<b>NET POSITION</b>				
<b>Net Position Restricted for Pension and Other Employee Benefits (Exh. IX)</b>	<b>23,967,596,439</b>	<b>7,787,920</b>	<b>23,975,384,359</b>	<b>-</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 POSITION**  
 YEAR ENDED AUGUST 31, 2013

	Defined Benefit Plans	Deferred Compensation Plans and Cafeteria Plan	Pension and Other Employee Benefit Trust Funds Totals August 31, 2013
<i>ADDITIONS</i>	\$	\$	\$
<b>Contributions:</b>			
Member Contributions	575,049,528	93,204,806	668,254,334
Employer Contributions	923,307,728		923,307,728
Legislative Appropriations	25,578,389		25,578,389
Service Contributions Transferred from Teacher Retirement System	75,513,146		75,513,146
Federal Revenues	50,874,160		50,874,160
Other Contributions - Forfeitures		2,373,640	2,373,640
Total Contributions	1,650,322,951	95,578,446	1,745,901,397
<b>Net Investment Income:</b>			
From Investing Activities	2,191,355,057	57,936	2,191,412,993
From Securities Lending Activities	7,094,585		7,094,585
Total Net Investment Income	2,198,449,642	57,936	2,198,507,578
<b>Other Additions:</b>			
Other Revenue	125,925	1,162,832	1,288,757
Transfers In	569,085		569,085
Total Other Additions	695,010	1,162,832	1,857,842
<b>Total Additions</b>	<b>3,849,467,603</b>	<b>96,799,214</b>	<b>3,946,266,817</b>
<b><i>DEDUCTIONS</i></b>			
<b>Benefits:</b>			
Benefits	2,622,587,116	92,799,426	2,715,386,542
Refunds of Contributions	88,483,285		88,483,285
Service Contributions Transferred to Teacher Retirement System	16,365,042		16,365,042
Total Benefits	2,727,435,443	92,799,426	2,820,234,869
Administrative Expenses	23,336,091	3,454,375	26,790,466
<b>Other Deductions:</b>			
Loss on Sale of Capital Assets	8,322		8,322
Transfers Out	321,249		321,249
Total Other Deductions	329,571	-	329,571
<b>Total Deductions</b>	<b>2,751,101,105</b>	<b>96,253,801</b>	<b>2,847,354,906</b>
<b>Net Increase</b>	<b>1,098,366,498</b>	<b>545,413</b>	<b>1,098,911,911</b>
<b><i>NET POSITION</i></b>			
<b>Net Position Restricted For Pension and Other Employee Benefits:</b>			
Beginning of Year	22,869,229,941	7,242,507	22,876,472,448
End of Year (Exh. VIII)	23,967,596,439	7,787,920	23,975,384,359
			(Exh. XI)

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

**EXHIBIT X**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION –**  
**PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**  
**AUGUST 31, 2013**

<b>ASSETS</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>
	\$	\$	\$	\$	\$
<i>Cash and Short-Term Investments:</i>					
<i>Cash and Cash Equivalents:</i>					
Cash on Hand	1,346,203				
Cash in Bank	23,000				
Cash in State Treasury	39,611,594	1,952,759		1,116,738	
Total Cash and Cash Equivalents	40,980,797	1,952,759	-	1,116,738	-
Securities Lending Collateral	2,219,340,225	75,857,143		30,935,518	
Short-Term Investments	638,103,131	21,782,056		8,823,954	
Total Cash and Short-Term Investments	2,898,424,153	99,591,958	-	40,876,210	-
Legislative Appropriations			285,182		
<i>Investments: (Note 1.G)</i>					
Domestic Equities Component	6,290,268,840	214,929,654		87,518,158	
International Securities Component	5,700,910,150	194,792,095		79,318,256	
Investment Grade Fixed Income Component	5,803,336,118	198,291,846		80,743,335	
High Yield Fixed Income Component	471,126,361	16,097,726		6,554,905	
Emerging Fixed Income Component	201,614,512	6,888,885		2,805,116	
Public Real Estate Component	507,440,027	17,338,513		7,060,146	
Alternative Investments Component	3,154,039,266	107,769,093		43,882,974	
Total Investments	22,128,735,274	756,107,812	-	307,882,890	-
<i>Receivables:</i>					
Federal Receivable					
Interest and Dividends Receivable	62,822,455	2,146,454		874,049	
Contributions/Accounts Receivable	60,372,489	1,191,764		720,882	
Unsettled Sales-Investment Receivables	90,459,763	3,090,883		1,258,590	
Total Receivables	213,654,707	6,429,101	-	2,853,521	-
Due From Other Funds (Note 1.G)	1,421,110	18,722		13,860	
Due From Other Agencies (Note 1.G)	6,640,923				
Prepaid Claims Expense					
<i>Capital Assets:</i>					
<i>Non-Depreciable:</i>					
Land and Land Improvements	874,889				
<i>Depreciable, Net of Accumulated Depreciation/Amortization of \$14,955,837</i>					
Building	7,769,441				
Furniture and Equipment	278,674				
Vehicles	8,759				
Computer Software	2,223,459				
Total Capital Assets	11,155,222	-	-	-	-
<b>Total Assets</b>	<b>25,260,031,389</b>	<b>862,147,593</b>	<b>285,182</b>	<b>351,626,481</b>	<b>-</b>
<b>LIABILITIES</b>					
<i>Payables:</i>					
Voucher/Accounts Payable	20,718,021	525,932	285,182	227,755	
Unsettled Purchases-Investment Payables	149,916,753	5,122,445		2,085,831	
Total Payables	170,634,774	5,648,377	285,182	2,313,586	-
Due To Other Funds (Note 1.G)	624,458	126,807		49,841	
Due To Other Agencies (Note 1.G)	1,486,700				
Deferred Revenue	1,346,203				
Employees Compensable Leave	2,471,690				
Obligations Under Securities Lending	2,214,925,553	75,702,723		30,878,312	
<b>Total Liabilities</b>	<b>2,391,489,378</b>	<b>81,477,907</b>	<b>285,182</b>	<b>33,241,739</b>	<b>-</b>
<b>NET POSITION</b>					
<b>Net Position Restricted for Pension and Other Employee Benefits (Exh. XI)</b>	<b>22,868,542,011</b>	<b>780,669,686</b>	<b>-</b>	<b>318,384,742</b>	<b>-</b>

USAS Funds (U/F) are:

Fund 0955: 0955, 1955, 8955; Fund 0977: 0977, 1977, 8977; Fund 0001: 2001; Fund 0993: 0993, 1993, 8993; Fund 5039: 5039; Fund 3973: 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 Deferred Compensation Plans and Cafeteria Plan	Totals August 31, 2013
\$	\$	\$	\$	\$	\$	\$
141	1,346,344			275	275	1,346,619
	23,000	5,298,804	1,551,790	414,461	7,265,055	7,288,055
11,643,824	54,324,915	2,682,546	1,157,261	11,243,821	15,083,628	69,408,543
11,643,965	55,694,259	7,981,350	2,709,051	11,658,557	22,348,958	78,043,217
	2,326,132,886					2,326,132,886
174,417,418	843,126,559					843,126,559
186,061,383	3,224,953,704	7,981,350	2,709,051	11,658,557	22,348,958	3,247,302,662
	285,182					285,182
	6,592,716,652					6,592,716,652
	5,975,020,501					5,975,020,501
	6,082,371,299					6,082,371,299
	493,778,992					493,778,992
	211,308,513					211,308,513
	531,838,686					531,838,686
	3,305,691,333					3,305,691,333
-	23,192,725,976	-	-	-	-	23,192,725,976
14,828,981	14,828,981					14,828,981
1,595	65,844,553	727	307	3,464	4,498	65,849,051
19,877,488	82,162,623	45,725	43,266	6,816,504	6,905,495	89,068,118
	94,809,236					94,809,236
34,708,064	257,645,393	46,452	43,573	6,819,968	6,909,993	264,555,386
670,284	2,123,976					2,123,976
	6,640,923			3,534	3,534	6,644,457
				250,000	250,000	250,000
	874,889					874,889
	7,769,441					7,769,441
	278,674					278,674
	8,759					8,759
	2,223,459					2,223,459
-	11,155,222	-	-	-	-	11,155,222
<b>221,439,731</b>	<b>26,695,530,376</b>	<b>8,027,802</b>	<b>2,752,624</b>	<b>18,732,059</b>	<b>29,512,485</b>	<b>26,725,042,861</b>
124,581,929	146,338,819	5,298,804	1,505,107	14,745,550	21,549,461	167,888,280
	157,125,029					157,125,029
124,581,929	303,463,848	5,298,804	1,505,107	14,745,550	21,549,461	325,013,309
96,132,715	96,933,821	75,973	41,572	42,260	159,805	97,093,626
	1,486,700					1,486,700
725,087	2,071,290		15,024	275	15,299	2,086,589
	2,471,690					2,471,690
	2,321,506,588					2,321,506,588
<b>221,439,731</b>	<b>2,727,933,937</b>	<b>5,374,777</b>	<b>1,561,703</b>	<b>14,788,085</b>	<b>21,724,565</b>	<b>2,749,658,502</b>
-	<b>23,967,596,439</b>	<b>2,653,025</b>	<b>1,190,921</b>	<b>3,943,974</b>	<b>7,787,920</b>	<b>23,975,384,359</b>

(Exh. VIII)

# EXHIBIT XI

## COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS YEAR ENDED AUGUST 31, 2013

	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	422,588,192	7,185,398		4,267,749	
Employer Contributions	375,736,733	7,116,706		4,549,182	
Legislative Appropriations for Judges Retirement Annuities			25,578,389		
Service Contributions Transferred from Teacher Retirement System (Note 1.G)	75,513,146				
Federal Revenues-Medicare Part D					
Other Contributions - Forfeitures					
<b>Total Contributions</b>	<b>873,838,071</b>	<b>14,302,104</b>	<b>25,578,389</b>	<b>8,816,931</b>	<b>-</b>
<b>Investment Income:</b>					
<i>From Investing Activities:</i>					
Net Appreciation (Depreciation) in Fair Value of Investments	1,583,818,222	54,296,141		21,677,676	
Interest and Dividends	571,051,442	19,553,158		7,857,786	
Class Action Settlements	1,221,960	41,857		16,789	
Total Investing Activity Income	2,156,091,624	73,891,156	-	29,552,251	-
Less: Investment Expense	(65,284,509)	(2,238,283)		(892,954)	
Net Income, Investing Activities	2,090,807,115	71,652,873	-	28,659,297	-
<i>From Securities Lending Activities:</i>					
Loan Premium on Securities Lending	2,119,578	72,616		29,064	
Less: Broker Rebates	5,401,648	184,900		74,504	
Agent Fees	(751,640)	(25,735)		(10,350)	
Total Securities Lending Expenses	4,650,008	159,165	-	64,154	-
Net Income, Securities Lending Activities	6,769,586	231,781	-	93,218	-
<b>Net Investment Income</b>	<b>2,097,576,701</b>	<b>71,884,654</b>	<b>-</b>	<b>28,752,515</b>	<b>-</b>
<b>Other Additions:</b>					
<i>Other Revenue:</i>					
Warrants Voided by Statute of Limitations	80,477	566		1,502	
Reimbursements - Third Party					
Rental Income	37,450				
Miscellaneous Revenue	5,930				
Administration Fees					
Total Other Revenue	123,857	566	-	1,502	-
<i>Interfund Transfers In (Note 1.G):</i>					
Excess Benefit Arrangement					240,615
<i>Interagency Transfers In (Note 4.F):</i>					
Excess Benefit Arrangement					328,470
Total Transfers In	-	-	-	-	569,085
<b>Total Other Additions</b>	<b>123,857</b>	<b>566</b>	<b>-</b>	<b>1,502</b>	<b>569,085</b>
<b>Total Additions</b>	<b>2,971,538,629</b>	<b>86,187,324</b>	<b>25,578,389</b>	<b>37,570,948</b>	<b>569,085</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.



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 Deferred Compensation Plans and Cafeteria Plan	Totals August 31, 2013
\$	\$	\$	\$	\$	\$	\$
141,008,189	575,049,528			93,204,806	93,204,806	668,254,334
535,905,107	923,307,728					923,307,728
	25,578,389					25,578,389
	75,513,146					75,513,146
50,874,160	50,874,160					50,874,160
				2,373,640	2,373,640	2,373,640
<b>727,787,456</b>	<b>1,650,322,951</b>	-	-	<b>95,578,446</b>	<b>95,578,446</b>	<b>1,745,901,397</b>
	1,659,792,039					1,659,792,039
235,772	598,698,158	28,073	11,765	20,555	60,393	598,758,551
	1,280,606					1,280,606
235,772	2,259,770,803	28,073	11,765	20,555	60,393	2,259,831,196
	(68,415,746)	(1,111)	(479)	(867)	(2,457)	(68,418,203)
235,772	2,191,355,057	26,962	11,286	19,688	57,936	2,191,412,993
	2,221,258					2,221,258
	5,661,052					5,661,052
	(787,725)					(787,725)
-	4,873,327	-	-	-	-	4,873,327
-	7,094,585	-	-	-	-	7,094,585
<b>235,772</b>	<b>2,198,449,642</b>	<b>26,962</b>	<b>11,286</b>	<b>19,688</b>	<b>57,936</b>	<b>2,198,507,578</b>
	82,545					82,545
	37,450			6,600	6,600	6,600
	5,930			85,337	85,337	91,267
		550,318	520,577		1,070,895	1,070,895
	125,925	550,318	520,577	91,937	1,162,832	1,288,757
	240,615					240,615
	328,470					328,470
-	569,085	-	-	-	-	569,085
	<b>695,010</b>	<b>550,318</b>	<b>520,577</b>	<b>91,937</b>	<b>1,162,832</b>	<b>1,857,842</b>
<b>728,023,228</b>	<b>3,849,467,603</b>	<b>577,280</b>	<b>531,863</b>	<b>95,690,071</b>	<b>96,799,214</b>	<b>3,946,266,817</b>

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EXHIBIT XI (CONTINUED)  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –  
 PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
 YEAR ENDED AUGUST 31, 2013

	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)
<i>DEDUCTIONS</i>	\$	\$	\$	\$	\$
<b>Benefits:</b>					
Benefits	1,806,697,536	50,854,850	25,578,389	14,586,346	488,451
Refunds of Contributions	86,668,136	1,530,641		284,508	
<i>Transfers Out of Contributions:</i>					
Service Contributions Transferred to Teacher Retirement System (Note 1.G)	16,365,042				
<b>Total Benefits</b>	<b>1,909,730,714</b>	<b>52,385,491</b>	<b>25,578,389</b>	<b>14,870,854</b>	<b>488,451</b>
<b>Administrative Expenses:</b>					
Salaries & Wages	8,525,162	501,532		138,333	
Payroll Related Costs	2,375,500	144,998		39,651	
Professional Fees & Services	3,000,895	11,653		5,121	
Travel	60,839	2,857		842	
Materials & Supplies	1,003,176	53,549		17,045	
Communications & Utilities	401,711	23,796		6,669	
Repairs & Maintenance	485,358	23,848		7,729	
Rentals & Leases	479,598	24,637		7,414	
Printing & Reproduction	31,161	1,787		471	
Depreciation	1,228,939				
Interest Expense					
Other Operating Expenses	1,068,596	16,590		4,950	
<b>Total Administrative Expenses</b>	<b>18,660,935</b>	<b>805,247</b>	<b>-</b>	<b>228,225</b>	<b>-</b>
<b>Other Deductions:</b>					
Loss on Sale of Capital Assets	8,322				
<i>Interfund Transfers Out (Note 4.E):</i>					
Excess Benefit Arrangement	240,615				
<i>Interagency Transfers Out (Note 4.F):</i>					
Excess Benefit Arrangement					80,634
Total Transfers Out	240,615	-	-	-	80,634
<b>Total Other Deductions</b>	<b>248,937</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,634</b>
<b>Total Deductions</b>	<b>1,928,640,586</b>	<b>53,190,738</b>	<b>25,578,389</b>	<b>15,099,079</b>	<b>569,085</b>
<b>Net Increase/(Decrease)</b>	<b>1,042,898,043</b>	<b>32,996,586</b>	<b>-</b>	<b>22,471,869</b>	<b>-</b>
<b>NET POSITION</b>					
<b>Net Position Restricted For Pension and Other Employee Benefits:</b>					
Beginning of Year	21,825,643,968	747,673,100	-	295,912,873	-
End of Year (Exh. X)	22,868,542,011	780,669,686	-	318,384,742	-

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 Deferred Compensation Plans and Cafeteria Plan	Total August 31, 2013
\$	\$	\$	\$	\$	\$	\$
724,381,544	2,622,587,116 88,483,285			92,799,426	92,799,426	2,715,386,542 88,483,285
	16,365,042					16,365,042
<b>724,381,544</b>	<b>2,727,435,443</b>	-	-	<b>92,799,426</b>	<b>92,799,426</b>	<b>2,820,234,869</b>
1,918,440	11,083,467	421,466	205,373	250,779	877,618	11,961,085
536,507	3,096,656	114,319	53,590	70,796	238,705	3,335,361
483,816	3,501,485	128,912	24,680	6,836	160,428	3,661,913
20,681	85,219	4,014	2,694	1,724	8,432	93,651
178,875	1,252,645	31,533	13,575	23,376	68,484	1,321,129
96,940	529,116	11,142	4,437	9,266	24,845	553,961
100,144	617,079	12,752	5,939	10,330	29,021	646,100
93,490	605,139	13,337	6,110	10,583	30,030	635,169
6,848	40,267	983	885	993	2,861	43,128
	1,228,939					1,228,939
				2,426	2,426	2,426
205,943	1,296,079	21,080	13,101	1,977,344	2,011,525	3,307,604
<b>3,641,684</b>	<b>23,336,091</b>	<b>759,538</b>	<b>330,384</b>	<b>2,364,453</b>	<b>3,454,375</b>	<b>26,790,466</b>
	8,322					8,322
	240,615					240,615
	80,634					80,634
-	321,249	-	-	-	-	321,249
-	<b>329,571</b>	-	-	-	-	<b>329,571</b>
<b>728,023,228</b>	<b>2,751,101,105</b>	<b>759,538</b>	<b>330,384</b>	<b>95,163,879</b>	<b>96,253,801</b>	<b>2,847,354,906</b>
-	1,098,366,498	(182,258)	201,479	526,192	545,413	1,098,911,911
-	22,869,229,941	2,835,283	989,442	3,417,782	7,242,507	22,876,472,448
-	<b>23,967,596,439</b>	<b>2,653,025</b>	<b>1,190,921</b>	<b>3,943,974</b>	<b>7,787,920</b>	<b>23,975,384,359</b>

# NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2013

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# NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2013

## 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 Vernon's Texas Codes Annotated (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, 2012 the System implemented GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an

acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. While this financial reporting period did not have any applicable deferred outflows or inflows of resources, the System is implementing GASB Statement No. 63 for future reporting periods. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

GASB Statement No. 63 amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The System has implemented this aspect of GASB Statement No. 63 and accordingly net assets have been renamed net position.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

### 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 position 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.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## D. MEASUREMENT FOCUS – BASIS OF ACCOUNTING

(In accordance with GASB Statement 34)

*Measurement focus* refers to the definition of the resource flows measured. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The government-wide Statement of Net Position 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. The System considers all revenues reported in the Special Revenue Funds to be available if the revenues are due at year end and collected within 75 days thereafter. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related liability is incurred. Benefit payments to participants are recorded upon distribution.

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

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

## E. BASIS OF PRESENTATION

(In accordance with GASB Statement 34)

### FUND STRUCTURE

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

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

### GOVERNMENTAL FUND CATEGORY

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

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

For the FY 2013 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 2013 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, 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 position, 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, deferred compensation 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, 2013

- 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) deferred compensation 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.
- Correction Account for Direct Deposit – 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.
- USPS - Overpayment to Employees – This fund is used to provide a temporary depository for money held in suspense pending final disposition. Items held in the fund are cleared to the various Special Funds or the General Revenue Fund, or refunded to the payer.
- Child Support Employee Deductions - Offset Account – This fund accounts for monies withheld in compliance with state and federal law for child support orders. The orders received by employers require that child support payments be deducted from the paychecks of employees. Texas enacted a statute mandating electronic submittal of child support payments deducted from non-custodial parent payrolls, effective September 1, 2009. This process allows all child support payments from an agency to be paid to the State Disbursement Unit (SDU). Once received by the SDU, the payment is sent to the custodial parent in compliance with the order.

## F. BUDGETS

### APPROPRIATED BUDGETS

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

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

### NON-APPROPRIATED BUDGET

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

## 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.
- 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).



# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

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 POSITION

(In accordance with GASB Statement 34)

### CASH AND SHORT-TERM 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. Both Cash Equivalents and Short-Term Investments 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 Equivalents and Short-Term 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. Public real estate are listed securities (Real Estate Investment Trusts or "REITs" and Real Estate Operating Companies or "REOCs") traded in the public exchange.

For alternative investments, the System has established a Valuation Committee that periodically reviews and approves the fair value of these investments. Certain investments in the inception year are valued using cost to estimate fair value. According to the System's Valuation Committee guidelines, fair value at fiscal year end is based on the fair value of net assets reported in the partnership's most recent financial statements (most are on a two month lag and some are on a five month lag) available to the System's Valuation Committee, adjusted for any cash flows and material changes in fair value between the reporting date of partnership's most recent financial statements and the System's fiscal year end date. The System's alternative investments include private equity, private real estate, infrastructure and hedge funds.

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. The fair value of the net assets in private equity is estimated using recent observable information for similar investments, such as discounted cash flows, earning multiples and company comparables.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

The System's private real estate investments are limited partnerships. The partnerships participate in both closed-ended and open-ended commingled 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 set 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.

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 daily basis using the pro rata fair value share.

## INVESTMENT COMPONENTS

For the fiscal year beginning September 1, 2011, the System changed the presentation grouping for investments from asset classes to investment components. These components are aligned with the System's investment strategies and unit trust accounting as described above. See Note 4.A for descriptions of the investment components.

## 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 Position. 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 Position.

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
Internally Generated Computer Software	\$1,000,000	5-6

## 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, 2013

## EMPLOYEES COMPENSABLE LEAVE

Under the provisions of Article 6252-8b, Vernon's Annotated Civil Statutes (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 Position 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 POSITION - HELD IN TRUST FOR PENSION BENEFITS

The net position 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 POSITION - 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 Position in both the government-wide and the proprietary fund Statement of Net Position.

## 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 Position 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 4. D Interfund Receivables and Payables.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## 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 Position 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 4.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 Position. See Note 4.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 position.

## 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. The actuarial assumptions are summarized in Figure B.

**Figure B**  
**Actuarial Assumptions - Defined Benefit Plans**

	<u>Defined Benefit Plans</u>
Valuation Date	August 31, 2013
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 - 11.5%
LECOS	5.0 - 11.5%
JRSII	3.5%
Inflation Assumption Rate	3.5%

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 Position, for the System's policies regarding investment valuation.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## 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 2013.

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 2013 the State contributed 6.5% of the payroll of members for both the employee class, legislators, and for other elected class members. 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

For fiscal year 2013, both employee members and the State contributed 0.5% 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, 2013

## 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 year ended August 31, 2013 the State contributed 6.5% 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 Note 2, 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	118
Universities	26
Junior and Community Colleges	50
Other Entities	6
<b>Total Participating Entities</b>	<b>200</b>

The principal participating employer is the state of Texas. State agencies comprise 65% of the employees covered by the State Retiree Health Plan.

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, 2013, there were 100,054 eligible retirees, 26,928 covered spouses, and 8,902 covered dependents. There are 226,181 active members and 11,255 terminated employees who have accumulated benefits but are not yet receiving them.

## 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 2013**

	September 1, 2012
	\$
Retiree Only	470.38
Retiree & Spouse	739.58
Retiree & Children	650.62
Retiree & Family	919.82

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.

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

	August 31,	
	2013	2012
	\$	\$
Employer Contributions	535,905,107	483,636,154
Retiree Contributions	141,008,189	134,992,777
<b>Total Contributions</b>	<b>676,913,296</b>	<b>618,628,931</b>
<b>Claims Expenses</b>	<b>724,381,544</b>	<b>696,085,075</b>

The employer's share of the administrative expense and 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 2013 there was a reverse implicit rate subsidy (retiree contributions subsidized actives) in the amount of \$74,548,120 primarily due to Federal subsidies for Medicare Part D, as well as the lower cost for retirees participating in the Medicare Advantage Plan.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## 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**

	<b>State Retiree Health Plan</b>
Valuation Date	August 31, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay Open
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 11.5%
Weighted-average at Valuation Date	6.53%
Annual Healthcare Trend Rate	8.0% in FY 2015 to 5.5% in FY 2021
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 Funded Status for the defined benefit plans as of August 31, 2013.

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, 2013 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**

	<b>ERS</b>	<b>LECOS</b>	<b>JRS I</b>	<b>JRS II</b>
Retirees and Beneficiaries Currently Receiving Benefits	91,367	9,089	421	254
Terminated Employees Entitled	96,015	10,187	4	152
Current Employees	133,669	37,415	13	545
<b>Total</b>	<b>321,051</b>	<b>56,691</b>	<b>438</b>	<b>951</b>

Note: Estimated based on actuarial valuation as of August 31, 2013

**Figure G**  
**Schedule of Funded Status (\$ 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>ERS</b>	Aug. 31, 2013	24,667.64	30,987.99	6,320.35	79.60	5,959.74	106.10
<b>LECOS</b>	Aug. 31, 2013	843.02	1,149.71	306.69	73.30	1,627.70	18.80
<b>JRS I</b>	Aug. 31, 2013	-	252.94	252.94	-	1.90	13,284.80
<b>JRS II</b>	Aug. 31, 2013	318.03	359.04	41.01	88.60	77.85	52.70
<b>State Retiree Health Plan</b>	Aug. 31, 2013	-	23,030.47	23,030.47	-	10,478.12	219.80

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## D. RESERVES

The balances of legally required reserves in each funded retirement plan as of August 31, 2013 and 2012 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 Position Held In Trust for Pension Benefits, for a description of each reserve account.

## 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

**Figure I  
Reserves**

	Totals - August 31,				
	ERS	LECOS	JRS II	2013	2012
<b>Net Plan Assets Reserved For:</b>	\$	\$	\$	\$	\$
Employee Savings	5,201,006,487	24,432,912	64,435,226	5,289,874,625	5,158,432,022
State Accumulation	1,519,290,435	273,549,667	106,897,138	1,899,737,240	1,896,819,556
Annuity Reserves	16,148,245,089	482,687,107	147,052,378	16,777,984,574	15,813,978,363
<b>Total Net Plan Assets Reserved</b>	<b>22,868,542,011</b>	<b>780,669,686</b>	<b>318,384,742</b>	<b>23,967,596,439</b>	<b>22,869,229,941</b>
	(Exhibit X)	(Exhibit X)	(Exhibit X)		

### Funded Ratios of each plan, from actuarial valuation:

As of August 31, 2013	79.6%	73.3%	88.6%
As of August 31, 2012	82.6%	82.0%	95.3%

## 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.

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.

## 3 - 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

### 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.



# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

**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

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

	Totals – August 31,	
	2013	2012
	\$	\$
Beginning of Fiscal Year Liability	498,148,853	462,270,640
Current-Year Claims and Changes in Estimates	1,640,257,859	1,692,405,756
Claims Payments	(1,615,176,853)	(1,656,527,543)
Balance	523,229,859	498,148,853

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, 2013 is \$547,941,000.

## 4 - 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, 2013, the total carrying amount of Deposits was \$18,635,437 as presented in Figure L.

**Figure L  
Deposits**

Deposits	Carrying Value	Bank Balance
	\$	\$
Fiduciary Funds:		
Cash in Bank (Exh. X)	7,288,055	7,285,045
Deposits in Investment Components	11,347,382	11,347,382
<b>Total Deposits</b>	<b>18,635,437</b>	<b>18,632,427</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, 2013, the System was not exposed to custodial credit risk with respect to deposits.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## INVESTMENTS

The System categorizes investment assets into principal components that align with investment strategies. The System's investment strategies are domestic equity, international equity, investment grade fixed income security, high yield fixed income security, emerging fixed income, public real estate, and alternative investments. A principal component may include one or more investment asset classes, depending on the investment strategy.

The majority of the investments in the domestic equity component are equity securities that are issued in the United States. This component also invests in a limited partnership to facilitate trading in equity securities and derivatives. Some Exchange Traded Funds (ETFs) are also included in this component to provide liquidity. The international equity component invests in equity securities that are issued outside of the United States.

The investment grade fixed income securities component invests in domestic and international fixed income securities that have a relatively low risk of default. This component also invests in ETFs to provide liquidity. The majority of the investments in the high yield fixed income security component are fixed income securities that have a relatively high risk and long maturity. A small number of equity securities in this component originate from corporate actions of the underlying fixed income securities. This component also invests in ETFs to provide liquidity. The majority of the investments in the emerging fixed income component are ETFs that specialize in emerging markets. The public real estate component invests in Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs).

Alternative Investments include private equity, private real estate, infrastructure, and hedge funds. The private equity investments are in private equity limited partnerships. The private real estate investments are in limited partnerships that specialize in real estate. Infrastructure investments are limited partnerships based on event-driven strategies (e.g., tender offers, mergers, and acquisitions etc.). Hedge fund investments are in hedge fund limited partnerships.

The fair values of investments as of August 31, 2013 are presented in Figure M by component.

**Figure M**  
**Fair Value of Investments**

<b>Fiduciary Funds:</b>	
<b>Investments:</b>	
<i>Domestic Equity Component:</i>	
Equities	6,028,296,507
Exchange Traded Funds (ETFs)	3,279,431
Alternative Investments	397,306,950
Deposits	512
Real Estate Investment Trust (REITs)	163,833,252
Total (Exh. X)	<u>6,592,716,652</u>
<i>International Equity Component:</i>	
Equities	5,866,480,150
Exchange Traded Funds (ETFs)	10,568,820
Deposits	8,270,542
Real Estate Investment Trust (REITs)	89,700,989
Total (Exh. X)	<u>5,975,020,501</u>
<i>Investment Grade Fixed Income Securities Component:</i>	
U.S. Treasury Securities	2,527,045,050
U.S. Government Agency Obligations	1,055,415,870
Corporate Obligations	766,916,702
Corporate Asset and Mortgage Backed Securities	201,597,130
International Obligations	386,923,265
Exchange Traded Funds (ETFs)	1,144,473,282
Total (Exh. X)	<u>6,082,371,299</u>
<i>High Yield Fixed Income Securities Component:</i>	
Corporate Obligations	200,326,134
Equities	28,488
Exchange Traded Funds (ETFs)	264,225,308
International Obligations	29,169,813
Deposits	29,249
Total (Exh. X)	<u>493,778,992</u>
<i>Emerging Fixed Income Component:</i>	
Exchange Traded Funds (ETFs)	211,308,508
Deposits	5
Total (Exh. X)	<u>211,308,513</u>
<i>Public Real Estate Component:</i>	
Equities	135,327,318
Real Estate Investment Trust (REITs)	394,454,966
Deposits	2,056,402
Total (Exh. X)	<u>531,838,686</u>
<i>Alternative Investments Component:</i>	
Private Equity	1,575,354,744
Private Real Estate	963,812,354
Infrastructure Funds	174,507,000
Hedge Fund	591,026,563
Deposits	990,672
Total (Exh. X)	<u>3,305,691,333</u>
<b>Total Investments (Exh. VIII)</b>	<b><u>23,192,725,976</u></b>
<b>Short-Term Investments:</b>	
Investment in Pool Cash	2,168,576
U.S. Treasury Securities	538,568,369
Money Market and Bond Funds	302,389,614
<b>Total Short-Term Investments (Exh. VIII)</b>	<b><u>843,126,559</u></b>
<b>Proprietary Fund:</b>	
<b>Investments:</b>	
U.S. Treasury Securities	140,870,968
U.S. Government Agency Obligations	58,834,509
Corporate Obligations	42,752,027
Corporate Asset and Mortgage Backed Securities	11,238,099
International Obligations	21,569,166
Exchange Traded Funds (ETFs)	63,799,045
<b>Total Investments (Exh. V)</b>	<b><u>339,063,814</u></b>
<b>Short-Term Investments:</b>	
U.S. Treasury Securities	262,170,815
Money Market and Bond Funds	29,662,291
<b>Total Short-Term Investments (Exh. V)</b>	<b><u>291,833,106</u></b>

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## 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.

## FOREIGN CURRENCY RISK

Foreign currency risk for investments and deposits is the risk that changes in exchange rates will adversely affect the investments and deposits. The System does not have a policy for managing foreign currency risk. The System's investment and deposit exposure to foreign currency risk as of August 31, 2013 is summarized in Figure N.

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

Foreign Currency	International Equity Component (USD)	Public Real Estate Component (USD)	Alternative Investments Component (USD)
	\$	\$	\$
<b>Investments:</b>			
<i>Fiduciary Funds:</i>			
Australian Dollar	195,102,466	34,918,167	
Brazilian Real	79,951,102	1,666,664	
Canadian Dollar	371,231,463	23,002,036	
Chilean Peso	6,279,211		
Colombian Peso	6,881,811		
Czech Koruna	228		
Danish Krone	41,106,885		
Euro	1,341,317,130	33,955,411	338,308,946
Hungarian Forint	3,611,638		
Hong Kong Dollar	391,208,102	43,756,969	
Indian Rupee	53,158,256	947,364	
Indonesian Rupiah	39,643,792	347,520	
Japanese Yen	767,229,533	75,954,373	
Malaysian Ringgit	19,624,645	383,591	
Mexican Peso	47,330,880		
New Israeli Shekel	1,631,552	1,188,850	
New Taiwan Dollar	114,299,777		
New Zealand Dollar	1,848,846		
Norwegian Krone	33,163,732	2,447,757	
Philippine Peso	26,537,684	1,020,179	
Polish Zloty	22,911,453		
Pound Sterling	1,050,829,354	29,614,194	48,087,473
Singapore Dollar	63,400,042	20,125,732	
South African Rand	64,942,733		
Swedish Krona	94,796,589	4,124,408	
Swiss Franc	464,185,934	4,013,962	
South Korean Won	170,201,776		
Thai Baht	24,761,197		
Turkish Lira	37,858,434		
<b>Investments Exposed to Foreign Currency Risk</b>	<b>5,535,046,245</b>	<b>277,467,177</b>	<b>386,396,419</b>
US Dollar	431,703,714	252,315,107	2,918,304,242
<b>Total Investments</b>	<b>5,966,749,959</b>	<b>529,782,284</b>	<b>3,304,700,661</b>
<b>Deposits:</b>			
<i>Fiduciary Funds:</i>			
Australian Dollar	19,949	553,919	
Brazilian Real	19,666		
British Pound	561,105		
Canadian Dollar	12,921	209,921	
Colombian Peso	2,165,894		
Euro	(2,212,416)		
Indian Rupee	32,694	46,109	
Indonesian Rupiah	1,016,098		
Israeli Shekel		332,668	
Japanese Yen	1,539,478	717,377	
Polish Zloty	16,928		
Singapore Dollar		1,527	
Taiwan Dollar	741,425		
<b>Deposits Exposed to Foreign Currency Risk</b>	<b>3,913,742</b>	<b>1,861,521</b>	
US Dollar	4,356,800	194,881	990,672
<b>Total Deposits</b>	<b>8,270,542</b>	<b>2,056,402</b>	<b>990,672</b>
<b>Total (Exh. X)</b>	<b>5,975,020,501</b>	<b>531,838,686</b>	<b>3,305,691,333</b>

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## CREDIT RISK

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

parameters versus a benchmark index. Excluding those securities *issued by or explicitly guaranteed* by the U.S. Government, which are not considered to have credit risk, the System's credit quality distribution for securities with credit risk exposure as of August 31, 2013 is summarized in Figure O. The securities were rated and categorized according to Standard & Poor's rating standards.

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

Investment Type	S & P Rating	Fiduciary Funds	Proprietary Fund
US Treasury Securities	AA+	3,065,613,419	403,041,783
US Government Agency Obligations	AA+	1,021,865,077	56,964,209
	NR	33,550,793	1,870,300
Corporate Obligations	A	100,629,170	5,609,607
	A-	155,638,489	8,676,119
	A+	52,434,546	2,922,981
	AA-	33,276,155	1,854,990
	AA+	14,298,506	797,075
	AAA	30,847,585	1,719,609
	B	42,927,151	-
	B-	24,042,445	-
	B+	43,385,082	-
	BB	31,057,750	-
	BB-	44,565,508	538,274
	BB+	16,882,737	-
	BBB	120,658,759	6,726,163
	BBB-	34,089,619	1,564,198
	BBB+	122,513,092	6,829,533
	CCC+	511,250	-
	NR	99,484,992	5,513,478
Corporate Asset and Mortgage Backed Securities	A	5,145,606	286,844
	AA	5,473,233	305,107
	AA-	4,469,392	249,148
	AA+	12,671,267	706,364
	AAA	84,732,258	4,723,428
	NR	89,105,374	4,967,208
International Obligations	A	15,725,308	876,613
	A-	27,475,517	1,531,632
	A+	42,012,666	2,342,010
	AA	31,941,998	1,780,617
	AA-	55,060,304	3,069,355
	AAA	155,504,452	8,668,648
	B	7,613,500	-
	B-	1,300,000	-
	B+	5,558,875	-
	BB	3,299,750	-
	BB-	2,461,000	-
	BB+	8,353,188	-
	BBB	13,915,069	775,700
	BBB+	45,287,951	2,524,591
	NR	583,500	-
Money Market and Bond Funds	NR	302,389,614	29,662,291
<b>Total</b>		<b>6,008,351,947</b>	<b>567,097,875</b>

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

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, 2013.

## 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, 2013, 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, 2013, the System's exposure to interest rate risk is summarized in Figure P.

## SECURITIES LENDING

Securities lending transactions are governed by the Texas Government Code Section 815.303. The System participates in a securities lending program, administered by the securities lending 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. The contract with the System's securities lending agent bank requires the bank 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. In addition, the contract limits the total amount of securities that can be lent to 25% of holdings.

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. Securities lent include fixed income securities and domestic and international equities. The System's securities lending agent bank 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. Cash collateral is invested in repurchase agreements. The policy is to ensure that the difference in maturities between the cash collateral investments and the loan tenor is no more than five days.

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

Investment Type	Fiduciary Funds		Proprietary Fund	
	Fair Value	Modified Duration	Fair Value	Modified Duration
	\$		\$	
US Treasury Securities	3,065,613,419	2.86	403,041,783	1.53
US Government Agency Obligations	1,055,415,870	4.39	58,834,509	4.39
Corporate Obligations	967,242,836	3.60	42,752,027	3.11
Corporate Asset and Mortgage Backed Securities	201,597,130	2.92	11,238,099	2.92
International Obligations	416,093,078	2.44	21,569,166	2.21
Money Market and Bond Funds	302,389,614	0.08	29,662,291	0.08
<b>Total</b>	<b>6,008,351,947</b>	<b>3.08</b>	<b>567,097,875</b>	<b>1.92</b>

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

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. No significant violations of legal or contractual provisions and no borrower or lending agent default losses were reported in fiscal year 2013. The System received net securities lending income totaling \$7,122,274 for the fiscal year ended August 31, 2013. Security Collateral value is zero. The collateral information as of August 31, 2013 is summarized in Figure Q.

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

Investment Type	Underlying Securities Value	Cash Collateral Value
	\$	\$
<b>Fiduciary Funds:</b>		
U.S. Treasury Securities	444,229,904	452,577,397
Corporate Obligations	10,337,649	10,592,716
Domestic Equity	1,732,145,660	1,773,350,859
International Equity	77,105,346	85,954,512
International Corporate Obligations	3,573,204	3,657,402
Total	2,267,391,763	2,326,132,886
		Exh. X
<b>Proprietary Fund:</b>		
U.S. Treasury Securities	24,641,218	25,104,249
Corporate Obligations	573,424	587,572
Domestic Equity	27,084,651	27,673,703
Total	52,299,293	53,365,524
		Exh. V

## REPURCHASE AGREEMENTS

During the fiscal year 2013, the System invested the cash collaterals from the securities lending program in repurchase agreements. As of August 31, 2013, the System had \$2,379,498,410 balance in these assets.

## DERIVATIVE INVESTING

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

The System receives or pays a daily "variation margin," which is an amount of cash equal to the daily fluctuation in value of the contract. The accumulated value of the variation margin is the fair value of the futures contract. As of August 31, 2013, the System had no outstanding futures contracts.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## 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, 2013.

operating leases. Current year expenses for these leased assets totaled \$747,211. A schedule of future minimum lease rental payments on non-cancelable operating leases as of August 31, 2013 is presented in Figure S.

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

Fiscal Year	Future Minimum Lease Rental Payments
	\$
2014	435,321
2015	302,349
2016	22,933
2017	0
2018	0
<b>Total Future Minimum Lease Rental Payments</b>	<b>760,603</b>

## ALTERNATIVE INVESTMENTS

The System makes contingent commitments to investments in entities that manage private equity, private real estate, private infrastructure, and hedge fund portfolios. The categories of these investments as of August 31, 2013 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

**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	41	2,554,073,218	1,334,370,062	1,219,703,156	1,228,966,823
Euro Dollar	9	632,005,085	307,906,907	324,098,176	301,405,678
British Pound	2	162,424,500	102,746,062	59,678,437	44,982,243
	52	3,348,502,803	1,745,023,031	1,603,479,769	1,575,354,744
<b>Private Real Estate (Note B)</b>					
US Dollar	17	1,408,800,000	586,866,624	821,933,376	923,803,856
Euro Dollar	3	203,064,400	165,892,005	37,172,395	36,903,268
British Pound	1	69,610,500	67,094,806	2,515,694	3,105,230
	21	1,681,474,900	819,853,435	861,621,465	963,812,354
<b>Private Infrastructure</b>					
US Dollar	5	275,000,000	125,000,000	150,000,000	174,507,000
<b>Hedge Funds (Note C)</b>					
US Dollar	13	885,000,000	24,000,000	861,000,000	988,333,513
<b>Total</b>	<b>91</b>	<b>6,189,977,703</b>	<b>2,713,876,466</b>	<b>3,476,101,234</b>	<b>3,702,007,611</b>

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

Note B: Fair Value excludes \$990,673 in outstanding cash deposits in the Alternative Investments Component of Figure X.

Note C: Fair value includes \$397,306,950 investments in the Domestic Equity Component.

# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2013

## C. FUND EQUITY

### FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES

A summary of pension plan and other employee benefit fiduciary net position at August 31, 2013 and 2012 is presented in Figure T.

**Figure T**  
**Net Position - Fiduciary Funds**

Fund Type	Totals - August 31	
	2013	2012
	\$	\$
Defined Benefit Plans (Note A)	23,967,596,439	22,869,229,941
Deferred Compensation Plans and Cafeteria Plan:		
Administration - Deferred Compensation Plans	3,843,946	3,824,725
Administration – State Employees Cafeteria Plan	3,943,974	3,417,782
<b>Total Deferred Compensation Plans and Cafeteria Plan</b>	<b>7,787,920</b>	<b>7,242,507</b>
<b>Total Fiduciary Net Position Held In Trust for Pension Benefits and Other Purposes</b>	<b>23,975,384,359</b>	<b>22,876,472,448</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 Position and as Due From Other Funds or Due To Other Funds in the fund financial statements. (See Note 1.G)

Figure U presents individual interfund receivable and interfund payable balances at August 31, 2013.

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

	Due From Other Funds	Due To Other Funds
	\$	\$
<b>Governmental Activities:</b>		
Governmental Funds	-	13,804
Proprietary Fund:		
Employees Life, Accident & Health Insurance and Benefits Fund	96,147,405	1,163,951
<b>Total Governmental Activities</b>	<b>96,147,405</b>	<b>1,177,755</b>
<b>Fiduciary Funds:</b>		
Pension and Other Employee Benefit Trust Funds	2,123,976	97,093,626
<b>Total - Interfund Receivables and Payables</b>	<b>98,271,381</b>	<b>98,271,381</b>

## E. INTERFUND TRANSFERS

(In accordance with GASB Statement 38)

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

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

Figure V presents interfund transfers for the year ended August 31, 2013.

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

	Transfers In	Transfers Out
	\$	\$
<b>Fiduciary Funds:</b>		
Pension and Other Employee Benefit Trust Funds	240,615	240,615
<b>Total - Interfund Transfers</b>	<b>240,615</b>	<b>240,615</b>



# NOTES TO THE BASIC FINANCIAL STATEMENTS (CONCLUDED)

AUGUST 31, 2013

## 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.

## 5 - 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.

## 6 - 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 1,674 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.

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PLANS

Actuarial Valuation Date August 31	(a) Actuarial Value of Assets (000's)	(b) Actuarial Accrued Liability (AAL) (000's)	(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a) (000's)	(d) Funded Ratio (a) / (b)	(e) Covered Payroll (000's)	(f) UAAL As A Percentage Of Covered Payroll ((b-a) / e)
<b>Employees Retirement System (ERS)</b>						
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
2012	24,272,514	29,377,069 (Note A)	5,104,555	82.6	5,676,509	89.9
2013	24,667,639	30,987,987 (Note A)	6,320,348	79.6	5,959,743	106.1
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>						
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
2012	832,451	1,015,668 (Note A)	183,217	82.0	1,498,979	12.2
2013	843,017	1,149,712 (Note A)	306,695	73.3	1,627,699	18.8
<b>Judicial Retirement System Plan One (JRS I)</b>						
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
2012	0	232,922	232,922	0.0	2,200	10,587.4
2013	0	252,943	252,943	0.0	1,904	13,284.8
<b>Judicial Retirement System Plan Two (JRS II)</b>						
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
2012	300,433	315,199	14,766	95.3	68,778	21.5
2013	318,026	359,044	41,018	88.6	77,854	52.7
<b>State Retiree Health Plan</b>						
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
2012	0	20,823,410	20,823,410	0.0	10,268,696	202.8
2013	0	23,030,469	23,030,469	0.0	10,478,117	219.8

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.

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT PLANS

Fiscal Year	Annual Required Contribution (ARC)	Percentage Contributed	Annual Required Contribution (ARC)	Percentage Contributed
	<u>Employees Retirement System (ERS)</u>		<u>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</u>	
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	704,853,684	49.2	35,056,772	0
2013	741,730,370	50.7	36,387,531	19.6
2014	814,588,229 (Note A)	N/A	46,576,744 (Note A)	N/A
	<u>Judicial Retirement System Plan (JRS I)</u>		<u>Judicial Retirement System Plan Two (JRS II)</u>	
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	123.5	10,715,509	38.7
2013	20,335,827	125.8	10,586,094	43.0
2014	22,000,726	N/A	13,666,363 (Note A)	N/A

Note A: Calculations based on estimated fiscal year 2014 covered payroll. At the end of fiscal year 2014 the ARC will be recalculated based on actual 2014 covered payroll.

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Fiscal Year	Contributions from Employers	Contributions from Federal Government	Annual Required Contribution (ARC)	Percentage Contributed
			<u>State Retiree Health Plan (Note B)</u>	
2009	\$ 447,765,282	35,783,527	1,997,932,603	24.2%
2010	478,348,504	40,988,263	2,014,533,554	25.8
2011	444,894,921	68,382,666	1,882,731,828	27.3
2012	483,636,154	80,336,211	1,800,991,324	31.3
2013	535,905,107	50,874,160	1,935,921,646	30.3

Note B: Percentage contributions on The Schedule of Employer Contributions includes both employer (state) and federal contributions.

# REQUIRED SUPPLEMENTARY INFORMATION

## NOTES TO THE 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, 2013	August 31, 2013	August 31, 2013	August 31, 2013
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open
Remaining Amortization Period	30.0	30.0	30.0	30.0
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 Including Inflation at	0.0%-11.5%	5.0 %-11.5%	3.50%	3.50%
Cost-of-living Adjustments	None-Employee 3.5%-Elected	None	3.50%	None

The following assumptions have been changed since the previous Other Postemployment Benefits (OPEB) valuation:

- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect recent health plan experience and the Assumed Expenses now include a provision for the Affordable Care Act's Patient-Centered Outcomes Research Institute fee and the Transitional Reinsurance Program fee;
- The percentage of future retirees electing coverage for their spouses and dependent children as well as the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence have been updated to reflect recent plan experience and expected trends;
- The Health Benefit Cost and Retiree Contribution trends have been updated to reflect changes in short-term expectations due to recent health plan experience; and
- For select classes of State Agency members, certain demographic assumptions (Retirement Rates, Termination Rates, Disability Rates, Salary Increases, Mortality Rates and Rates of Withdrawal of Contributions) were updated since the prior valuation to be consistent with the assumptions used in the actuarial valuation of the ERS retirement plan as of August 31, 2013; these demographic

assumptions were based on an experience study and were previously approved by the ERS Trustees for use in the retirement plan valuation.

The plan provisions have been changed since the prior valuation in order to reflect the impact of S.B. 1459 which was adopted by the 83rd Texas Legislature. S.B. 1459 amends Article 1551 of the Texas Insurance Code to require insurance contribution rates for retirees to vary based on the number of years of eligible service credit at retirement. This change is effective on September 1, 2014 and applies only to employees who: (a) have less than five years of eligible service credit on August 31, 2014 and (b) retire on or after September 1, 2014. Such employees who retire with less than 20 years of eligible service credit will be required to pay a larger portion of the cost of insurance than those retiring with 20 or more years of eligible service credit. This change becomes effective September 1, 2014 and is incorporated into the OPEB valuation in accordance with Question Number 49 of the Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits. The new contribution rates will reduce the employers' cost, resulting in a decrease to the employers' Annual OPEB Cost and Actuarial Accrued Liability below the levels they would have otherwise been in the absence of these changes to the plan provisions.

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE A-1  
 COMBINING STATEMENT OF NET POSITION - AGENCY FUNDS  
 AUGUST 31, 2013

	Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)	Child Support Employee Deductions Offset Account (0807) (U/F 8070)	USPS Overpayments to Employees (0900) (U/F 9015)	Texasaver 401(k) Trust Fund (0946) (U/F 1946)	Correction Account for Direct Deposit (0980) (U/F 0980)	Totals August 31, 2013
	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>						
<b>Current Assets:</b>						
<i>Cash and Cash Equivalents:</i>						
Cash in Bank						
Cash in State Treasury		3,883				3,883
Total Cash and Cash Equivalents		3,883				3,883
<i>Receivables:</i>						
Interest and Dividends Receivable						
Accounts Receivable	6,568					6,568
<b>Total Current Assets</b>	<b>6,568</b>	<b>3,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,451</b>
<b>Total Assets</b>	<b>6,568</b>	<b>3,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,451</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts Payable	6,568					6,568
Due To Other Funds						
Funds Held For Others		3,883				3,883
<b>Total Current Liabilities</b>	<b>6,568</b>	<b>3,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,451</b>
<b>Total Liabilities</b>	<b>6,568</b>	<b>3,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,451</b>

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE A-2  
 COMBINING STATEMENT OF CHANGES IN NET POSITION - AGENCY FUNDS  
 AUGUST 31, 2013

	Beginning Balances	Additions	Deductions	Ending Balances
	\$	\$	\$	\$
<b>Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)</b>				
<b>ASSETS</b>				
Cash in State Treasury	-	91,724	91,724	-
Accounts Receivable	9,070	89,222	91,724	6,568
<b>Total Assets</b>	<b>9,070</b>	<b>180,946</b>	<b>183,448</b>	<b>6,568</b>
<b>LIABILITIES</b>				
Accounts Payable	9,070	89,222	91,724	6,568
<b>Total Liabilities</b>	<b>9,070</b>	<b>89,222</b>	<b>91,724</b>	<b>6,568</b>
<b>Child Support Employee Deductions - Offset Account (0807) (U/F 8070)</b>				
<b>ASSETS</b>				
Cash in State Treasury	4,209	51,511	51,837	3,883
<b>Total Assets</b>	<b>4,209</b>	<b>51,511</b>	<b>51,837</b>	<b>3,883</b>
<b>LIABILITIES</b>				
Funds Held For Others	4,209	51,511	51,837	3,883
<b>Total Liabilities</b>	<b>4,209</b>	<b>51,511</b>	<b>51,837</b>	<b>3,883</b>
<b>USPS - Overpayments to Employees (0900) (U/F 9015)</b>				
<b>ASSETS</b>				
Cash in State Treasury	-	2,294	2,294	-
<b>Total Assets</b>	<b>-</b>	<b>2,294</b>	<b>2,294</b>	<b>-</b>
<b>LIABILITIES</b>				
Funds Held For Others	-	2,294	2,294	-
<b>Total Liabilities</b>	<b>-</b>	<b>2,294</b>	<b>2,294</b>	<b>-</b>
<b>Texasaver 401(k) Trust Fund (0946) (U/F 1946)</b>				
<b>ASSETS</b>				
Cash in Bank	3,449,973	-	3,449,973	-
<b>Total Assets</b>	<b>3,449,973</b>	<b>-</b>	<b>3,449,973</b>	<b>-</b>
<b>LIABILITIES</b>				
Funds Held For Others	3,449,973	-	3,449,973	-
<b>Total Liabilities</b>	<b>3,449,973</b>	<b>-</b>	<b>3,449,973</b>	<b>-</b>
<b>Correction Account for Direct Deposit (0980) (U/F 0980)</b>				
<b>ASSETS</b>				
Cash in State Treasury	-	456,187	456,187	-
<b>Total Assets</b>	<b>-</b>	<b>456,187</b>	<b>456,187</b>	<b>-</b>
<b>LIABILITIES</b>				
Funds Held For Others	-	456,187	456,187	-
<b>Total Liabilities</b>	<b>-</b>	<b>456,187</b>	<b>456,187</b>	<b>-</b>
<b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Cash in Bank	3,449,973	-	3,449,973	-
Cash in State Treasury	4,209	601,716	602,042	3,883
Accounts Receivable	9,070	89,222	91,724	6,568
<b>Total Assets</b>	<b>3,463,252</b>	<b>690,938</b>	<b>4,143,739</b>	<b>10,451</b>
<b>LIABILITIES</b>				
Accounts Payable	9,070	89,222	91,724	6,568
Funds Held For Others	3,454,182	509,992	3,960,291	3,883
<b>Total Liabilities</b>	<b>3,463,252</b>	<b>599,214</b>	<b>4,052,015</b>	<b>10,451</b>

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 1  
REVENUES, EXPENSES AND CHANGES IN STATUTORY ACCOUNT BALANCES  
(NON-GAAP PRESENTATION) - EMPLOYEES RETIREMENT FUND  
YEAR ENDED AUGUST 31, 2013

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Contributions to Retirement System:						
Member Contributions	413,711,769					413,711,769
Employer Contributions		375,270,383				375,270,383
Service Contributions from Teacher Retirement System		75,513,146				75,513,146
Membership Fees					466,350	466,350
Penalty Interest		8,876,423				8,876,423
Investment Income:						
Net Appreciation in Fair Value of Investment				1,583,818,222		1,583,818,222
Interest and Dividends				577,821,028		577,821,028
Class Action Settlements				1,221,960		1,221,960
Rental Income					37,450	37,450
Warrants Voided By Statute of Limitations		80,477				80,477
Miscellaneous					5,930	5,930
<b>Total Operating Revenues</b>	<b>413,711,769</b>	<b>459,740,429</b>	<b>-</b>	<b>2,162,861,210</b>	<b>509,730</b>	<b>3,036,823,138</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			1,803,415,523			1,803,415,523
Death Benefits:						
Active Members		2,085,593				2,085,593
Retirees		16,579	1,181,097			1,197,676
Member Contributions Withdrawn	86,668,136					86,668,136
Service Contributions to Teacher Retirement System		16,365,042				16,365,042
Re-Issue Warrants Voided		(1,256)				(1,256)
Administrative Expenses					82,716,505	82,716,505
Depreciation Expense					1,228,939	1,228,939
<b>Total Operating Expenses</b>	<b>86,668,136</b>	<b>18,465,958</b>	<b>1,804,596,620</b>	<b>-</b>	<b>83,945,444</b>	<b>1,993,676,158</b>
<b>Income (Loss) Before Non-Operating Expenses and Operating Transfers</b>	<b>327,043,633</b>	<b>441,274,471</b>	<b>(1,804,596,620)</b>	<b>2,162,861,210</b>	<b>(83,435,714)</b>	<b>1,043,146,980</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Loss on Disposal of Fixed Assets					(8,322)	(8,322)
<b>Income (Loss) Before Operating Transfers</b>	<b>327,043,633</b>	<b>441,274,471</b>	<b>(1,804,596,620)</b>	<b>2,162,861,210</b>	<b>(83,444,036)</b>	<b>1,043,138,658</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	243,573,516	617,241,529	1,218,361,514	(2,079,176,559)		-
Establishment of Benefit Reserves	(441,628,141)	(1,048,896,355)	1,490,524,496			-
Distribution of Interest for Administrative Expenses				(83,684,651)	83,684,651	-
Benefits Waived		509	(509)			-
Member Accounts-Escheated	(3,196,488)	3,196,488				-
Excess Benefit Arrangement Transfers					(240,615)	(240,615)
<b>Net Operating Transfers</b>	<b>(201,251,113)</b>	<b>(428,457,829)</b>	<b>2,708,885,501</b>	<b>(2,162,861,210)</b>	<b>83,444,036</b>	<b>(240,615)</b>
<b>Net Income (Loss)</b>	<b>125,792,520</b>	<b>12,816,642</b>	<b>904,288,881</b>	<b>-</b>	<b>-</b>	<b>1,042,898,043</b>
<b>Account Balances - Beginning</b>	<b>5,075,213,967</b>	<b>1,506,473,793</b>	<b>15,243,956,208</b>	<b>-</b>	<b>-</b>	<b>21,825,643,968</b>
<b>Account Balances - Ending</b>	<b>5,201,006,487</b>	<b>1,519,290,435</b>	<b>16,148,245,089</b>	<b>-</b>	<b>-</b>	<b>22,868,542,011</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, 2013

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2013
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
<i>Contributions to Retirement System:</i>						
Member Contributions	7,185,398					7,185,398
State Retirement Contributions		7,116,706				7,116,706
<i>Investment Income:</i>						
Net Appreciation in Fair Value of Investments				54,296,141		54,296,141
Interest and Dividends				19,784,939		19,784,939
Class Action Settlements				41,857		41,857
Warrants Voided By Statute of Limitations		566				566
<b>Total Operating Revenues</b>	<b>7,185,398</b>	<b>7,117,272</b>	<b>-</b>	<b>74,122,937</b>	<b>-</b>	<b>88,425,607</b>
<b>OPERATING EXPENSES</b>						
<i>Retirement System Benefits Paid:</i>						
Retirement Benefits			50,848,286			50,848,286
Refunds of Retirement Contributions	1,530,641					1,530,641
<i>Death Benefits:</i>						
Active Members		6,564				6,564
Retirees						
Administrative Expenses					3,043,530	3,043,530
<b>Total Operating Expenses</b>	<b>1,530,641</b>	<b>6,564</b>	<b>50,848,286</b>	<b>-</b>	<b>3,043,530</b>	<b>55,429,021</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>5,654,757</b>	<b>7,110,708</b>	<b>(50,848,286)</b>	<b>74,122,937</b>	<b>(3,043,530)</b>	<b>32,996,586</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	29,772	34,518,990	36,530,645	(71,079,407)		-
Establishment of Benefit Reserves	(792,169)	(48,761,311)	49,553,480			-
Distribution of Interest for Administrative Expenses				(3,043,530)	3,043,530	-
<b>Net Operating Transfers</b>	<b>(762,397)</b>	<b>(14,242,321)</b>	<b>86,084,125</b>	<b>(74,122,937)</b>	<b>3,043,530</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>4,892,360</b>	<b>(7,131,613)</b>	<b>35,235,839</b>	<b>-</b>	<b>-</b>	<b>32,996,586</b>
<b>Account Balances - Beginning</b>	<b>19,540,552</b>	<b>280,681,280</b>	<b>447,451,268</b>	<b>-</b>	<b>-</b>	<b>747,673,100</b>
<b>Account Balances - Ending</b>	<b>24,432,912</b>	<b>273,549,667</b>	<b>482,687,107</b>	<b>-</b>	<b>-</b>	<b>780,669,686</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, 2013

	Employee Savings Account	State Accumulation Account	Retirement Annuity Reserve Account	Interest Account	Expense Account	Totals August 31, 2013
	\$	\$	\$	\$	\$	\$
<b>OPERATING REVENUES</b>						
Contributions to Retirement System:						
Member Contributions	4,216,223					4,216,223
Employer Contributions		4,549,182				4,549,182
Penalty Interest		51,526				51,526
Investment Income:						
Net Appreciation in Fair Value of Investments				21,677,676		21,677,676
Interest and Dividends				7,951,004		7,951,004
Class Action Settlements				16,788		16,788
Warrants Voided by Statute of Limitations		1,502				1,502
<b>Total Operating Revenues</b>	<b>4,216,223</b>	<b>4,602,210</b>	<b>-</b>	<b>29,645,468</b>	<b>-</b>	<b>38,463,901</b>
<b>OPERATING EXPENSES</b>						
Retirement System Benefits Paid:						
Retirement Benefits			14,586,346			14,586,346
Death Benefits:						
Active Members						
Member Contributions Withdrawn	284,508					284,508
Administrative Expenses					1,121,178	1,121,178
<b>Total Operating Expenses</b>	<b>284,508</b>		<b>14,586,346</b>	<b>-</b>	<b>1,121,178</b>	<b>15,992,032</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>3,931,715</b>	<b>4,602,210</b>	<b>(14,586,346)</b>	<b>29,645,468</b>	<b>(1,121,178)</b>	<b>22,471,869</b>
<b>OPERATING TRANSFERS IN (OUT)</b>						
Distribution of Interest	2,946,426	15,097,652	10,480,212	(28,524,290)		
Interest Paid on Withdrawals						
Establishment of Benefit Reserves	(6,120,418)	(22,467,207)	28,587,625			
Distribution of Interest for						
Administrative Expenses				(1,121,178)	1,121,178	
<b>Net Operating Transfers</b>	<b>(3,173,992)</b>	<b>(7,369,555)</b>	<b>39,067,837</b>	<b>(29,645,468)</b>	<b>1,121,178</b>	
<b>Net Income (Loss)</b>	<b>757,723</b>	<b>(2,767,345)</b>	<b>24,481,491</b>	<b>-</b>	<b>-</b>	<b>22,471,869</b>
<b>Account Balances - Beginning</b>	<b>63,677,503</b>	<b>109,664,483</b>	<b>122,570,887</b>	<b>-</b>	<b>-</b>	<b>295,912,873</b>
<b>Account Balances - Ending</b>	<b>64,435,226</b>	<b>106,897,138</b>	<b>147,052,378</b>	<b>-</b>	<b>-</b>	<b>318,384,742</b>

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 4  
 ADMINISTRATIVE AND INVESTMENT EXPENSES/EXPENDITURES  
 STATUTORY ADMINISTRATIVE FUNDS AND ACCOUNTS  
 YEAR ENDED AUGUST 31, 2013

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
	\$	\$
<b>PERSONNEL SERVICES</b>		
Salaries and Wages	16,822,741	8,145,475
Payroll Related Costs:		
Retirement Contributions	994,368	404,026
Retirement Membership Fees	815	177
Employees Insurance Contributions	1,667,710	383,787
Retirees Insurance Contributions	817,477	173,652
Social Security Contributions	1,191,179	454,379
Unemployment Compensation	8,828	1,902
Total Payroll Related Costs	<u>4,680,377</u>	<u>1,417,923</u>
<b>Total Personnel Services</b>	<b><u>21,503,118</u></b>	<b><u>9,563,398</u></b>
<b>PROFESSIONAL FEES AND SERVICES</b>		
Actuarial Services	1,195,195	-
Audit Services	1,161,119	-
Investment Consulting Fees	11	1,809,187
Investment Advisors	-	17,911,859
Investment Management Fees	-	33,013,164
Medical Board Member Fees	55,300	-
Architectural Services	16,959	-
Legal Services	834,398	-
Computer Programming Services	1,397,377	149,695
Other Professional Services	222,299	39,589
<b>Total Professional Fees and Services</b>	<b><u>4,882,658</u></b>	<b><u>52,923,494</u></b>
<b>OTHER SERVICES AND CHARGES</b>		
Travel	140,337	419,635
Materials and Supplies:		
Postage	733,463	-
General Office and Other Supplies	191,927	126
Subscriptions	12,541	8,958
Furniture and Equipment	464,806	46,037
Computer Software	374,389	181,453
Total Materials and Supplies	<u>1,777,126</u>	<u>236,574</u>
Communications and Utilities:		
Electricity, Gas and Water	252,799	-
Telephone and Telegraph	332,614	4,800
Electronic Communication Services	140,331	4,512,394
Total Communications and Utilities	<u>725,744</u>	<u>4,517,194</u>
Repairs and Maintenance:		
Land and Building	118,857	-
Furniture and Equipment	18,515	-
Computer Software and Equipment	768,906	72,625
Total Repairs and Maintenance	<u>906,278</u>	<u>72,625</u>
Rentals and Leases:		
Computer Software and Equipment	630,422	-
Office Equipment	232,606	-
Space	15,371	-
Total Rentals and Leases	<u>878,399</u>	<u>-</u>
Printing and Reproduction Services	60,885	-
Depreciation	1,228,939	-
Interest Expense	2,426	-

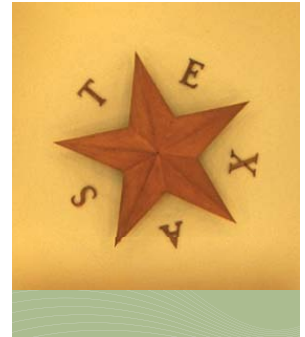
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OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 4  
 ADMINISTRATIVE AND INVESTMENT EXPENSES/EXPENDITURES  
 STATUTORY ADMINISTRATIVE FUNDS AND ACCOUNTS (CONCLUDED)  
 YEAR ENDED AUGUST 31, 2013

	Administrative Expenses- Non-Investment	Administrative Expenses- Investment
	\$	\$
<b>OTHER SERVICES AND CHARGES (continued)</b>		
Other Operating Expenses/Expenditures:		
Membership Fees	25,262	29,251
Employee Training	141,397	37,071
Insurance - Building and Vehicle	41,096	-
Fees and Other Charges	24,837	312
Investment Banking	-	875,532
Tenure Awards	2,546	-
Witness Fees	100	-
Temporary Employment Agencies	372,702	31,608
Cleaning Services	104,647	-
Advertising Services	6,951	3,528
Freight/Delivery Services	6,183	-
Purchased Contracted Services	1,146,435	3,178
Prompt Payment Interest	119	-
SORM Assessment	864	186
Third Party Administrator Fee - Cafeteria Plan	1,337,074	-
Debit Card Fees - Cafeteria Plan	626,756	-
<b>Total Other Operating Expenses/Expenditures</b>	<b>3,836,969</b>	<b>980,666</b>
<b>Total Other Services and Charges</b>	<b>9,557,103</b>	<b>6,226,694</b>
<b>Total Expenses/Expenditures</b>	<b>35,942,879</b>	<b>68,713,586</b>
<b>Method of Finance:</b>		
State Employees Retirement System (S.E.R.S.) Trust Account ( 0955)	18,660,935	65,284,509
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	805,247	2,238,283
Judicial Retirement System Plan One Fund (0001)	-	-
Judicial Retirement System Plan Two Trust Fund (0993)	228,225	892,954
TexaSaver 401(k) Trust Fund (0946)	759,538	1,111
TexaSaver 457 Trust Fund (0945)	330,384	479
State Employees Cafeteria Plan Trust Fund (0943)	2,364,453	867
State Retiree Health Plan (3973)	3,641,684	-
<b>Total Fiduciary Funds</b>	<b>26,790,466</b>	<b>68,418,203</b>
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	9,060,406	295,383
<b>Total Proprietary Fund</b>	<b>9,060,406</b>	<b>295,383</b>
Social Security Administration Trust Account (0929)	92,007	-
<b>Total Governmental Funds</b>	<b>92,007</b>	<b>-</b>
<b>Total Method of Finance</b>	<b>35,942,879</b>	<b>68,713,586</b>

OTHER SUPPLEMENTARY INFORMATION - SCHEDULE 5  
 PROFESSIONAL AND CONSULTING FEES  
 YEAR ENDED AUGUST 31, 2013

<b>NATURE OF SERVICE</b>	<b>Totals</b>
	<b>\$</b>
Medical Board	55,300
Investment Consulting	1,809,198
Investment Advisors	17,911,859
Investment Management Fees	33,013,164
Actuarial Services - Retirement	575,991
Actuarial Services - Insurance	619,204
Computer Programming Services	1,547,072
Audit Fees - Financial	145,874
Audit Fees - Insurance Carrier	489,355
Audit Fees - Deferred Compensation Plan	95,000
Audit Fees - Other	430,890
Educational Services	60,214
Architectural Services	16,959
Legal Services	834,398
Call Center Overflow and Organizational Consulting Services	24,985
Benefit Review Consulting	60,000
Compensation Consulting Services	27,840
Employee Assistance Program	5,622
Environmental Testing	2,209
Investment Tax Agent Services	7,749
Website & Electronic Materials Development Services	7,291
Writing and Support Services for Communication Campaigns	26,803
Independent Peer Review	20,000
Other Professional and Consulting Fees	19,175
<b>Total Professional and Consulting Fees</b>	<b>57,806,152</b>
<b>Method of Finance:</b>	
State Employees Retirement System (S.E.R.S.) Trust Account ( 0955)	53,466,017
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	1,742,342
Judicial Retirement System Plan Two Trust Fund (0993)	699,927
State Retiree Health Plan (3973)	483,816
TexaSaver 401(k) Trust Fund (0946)	129,050
TexaSaver 457 Trust Fund (0945)	24,737
State Employees Cafeteria Plan Trust Fund (0943)	6,947
<b>Total Fiduciary Funds</b>	<b>56,552,836</b>
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	1,250,866
<b>Total Proprietary Fund</b>	<b>1,250,866</b>
Social Security Administration Fund (0929)	2,450
<b>Total Governmental Funds</b>	<b>2,450</b>
<b>Total Method of Finance</b>	<b>57,806,152</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 2013

### OVERVIEW

The Employees Retirement System of Texas (System) investment portfolio closed the fiscal year with a fair value of \$23.8 billion, and returned 10.07% for the year compared to the global policy benchmark return of 9.52%. Over the longer term, the fund returned 5.96% for the 5 years ended August 31, 2013 outperforming the policy benchmark of 5.54%. For the 10 years ended August 31, 2013 the fund returned 7.12%, outperforming the policy benchmark of 6.63%. The fiscal year-end asset allocation stood at 29.5% fixed-income, 27.9% domestic equity, 25.7% international equity, 6.3% global real estate, 6.6% in private equity, 2.5% in hedge funds, 0.7% in special situations, and 0.8% in cash.

One of the most significant accomplishments for the investment program this fiscal year was the completion of the FY2012-FY2013 Asset/Liability Study. After approval from the Board, staff began the transition to the new asset allocation targets as determined by the study. Implementation of the transition is evidenced in part by the funding of the new infrastructure portfolio and the continued commitment of capital to the private equity, private real estate, and hedge fund portfolios.

The System continues to make risk management a priority, especially to the System's investments. Staff formed a risk management team to research and implement best practices for risk management while implementing new risk management and monitoring tools.

The System also increased the liquidity of the transition portion of the portfolio through a \$1.3 billion exchange of investment grade holdings for fixed income Exchange Traded Funds (ETFs) to tactically implement the fixed income portfolio. On the equity side, the System funded JPMorgan, the emerging markets advisor. As in the past years, staff continued to optimize the mix of internally managed and externally advised portfolios. Additionally, staff established policies and procedures programs for the equity, fixed income, and infrastructure asset classes.

A change in leadership prompted a re-examination of the System's goals and structural organization. With the goal of branding and educating the industry and community about the System's investment program, staff sponsored and presented at numerous local and out-of-state conferences such as CalPERS Emerging Manager Forum, Women in Private Equity Conference, SEO Alternative Investment Conference, The Roundtable for Public and Taft Hartley Plans, and the Texas Hedge Fund Conference.

The System reorganized the equity and fixed income teams to improve efficiency and to align with the new asset allocation targets. The System also developed a career path program and succession plan to promote efficient staffing.

During FY2013, the System continued to manage fund assets and develop prudent investment policies by maintaining a diversified portfolio with a mix of active and passive management, and an array of management styles to follow the System's strategic direction of supporting retirement security.

### DOMESTIC EQUITY

The leading U.S. equity benchmarks had positive double digit returns for Fiscal Year 2013. The Dow Jones Industrial Average reached a new closing high on August 2nd at 15,658.43. The S&P 500 Index reached a new closing high on August 2nd at 1,709.67. The technology laden NASDAQ reached its highest closing level since the tech-stock rally in 2000 on August 5th at 3,692.95. The S&P 400 Mid Cap Index and the S&P 600 Small Cap Index reached new closing highs on August 1st and August 5th, respectively.

Economists have given much of the credit for the market's recovery to the Federal Reserve, which worked quickly with the rest of the federal government to support the banking and financial systems. On September 13, 2012 the Federal Reserve announced its third program of large-scale asset purchases intended to stimulate the economy, known as quantitative easing or QE3.

On December 12th, the Federal Reserve announced that it would keep interest rates close to zero as long as unemployment remains above 6.5% and projected inflation remains below 2.5% a year. The Central Bank also increased its level of quantitative easing to \$85 billion per month – adding \$45 billion of U.S. Treasury purchases to its commitment to buy \$40 billion of mortgage-backed securities each month. After the June Federal Reserve policy meeting, Ben Bernanke, Federal Reserve Chairman, said that if the economy continued to improve as expected, the central bank could moderate the pace of its securities purchases later this year. Also, if economic conditions continued to develop broadly as anticipated, the reductions would continue and the program would end around the middle of 2014.

# REPORT ON INVESTMENT ACTIVITY (CONTINUED)

FISCAL YEAR 2013

The Commerce Department reported that the Gross Domestic Product (GDP), the broadest measure of goods and services produced across the economy, grew at an annualized rate of 0.1% during the fourth quarter (October thru December), 1.1% during the first quarter (January thru March), and 2.5% during the second quarter (April thru June). The improvement in growth shows the economy continues to recover and is gaining momentum.

Financials, Consumer Discretionary, and Health Care were the top relative performing economic sectors for Fiscal Year 2013. Consumer Discretionary and Health Care were among the relatively top four performing sectors during Fiscal Year 2013. Telecommunication Services, Utilities, and Information Technology were the relatively weakest performers. Telecommunication Services was the only sector with a negative return. Information Technology and Telecommunication Services were relatively the two best performers during Fiscal Year 2013.

## INTERNATIONAL EQUITY

Developed Markets outperformed Emerging Markets to lead International indices higher. Europe finished the fiscal year edging out the Pacific market as fiscal reform and the ECB's commitment to keep interest rates low and provide liquidity has driven markets higher. European markets also had their fair share of controversy, including the supervision of some European banks by the ECB as well as political impasse in Italian elections. Meanwhile in Asia, Shinzo Abe, Japan's newly elected Prime Minister, introduced the "Three Arrows" of stimulus to reenergize the Japanese economy and reach an inflation target of 2% over the next three years. A fiscal stimulus package totaling \$117 billion, large scale monetary easing, and the soon-to-be-announced structural reform legislation drove Japan to be the top performing developed market. Emerging Markets did not fare well due in large part to significant current account deficits. Accordingly, investment capital moved to the developed world. China elected a new President as it makes the transition from infrastructure investment growth to a consumer driven economy. Markets in commodity rich countries were also negatively impacted as demand from Emerging Markets slowed.

The Morgan Stanley Capital International ACWI ex U.S. index (+13.0%) and EAFE index (+18.7%) finished higher in U.S. dollar terms during the course of the year. Europe (+19.3%) was the top performing market,

led by gains in Ireland (+31.4%), Finland (+31.0%), and Austria (+30.6%). Underperforming markets included Norway (+4.4%), Italy (+13.3%), and the United Kingdom (+13.5). The Pacific Region (+17.7) was driven by strong results from Japan (+24.2%) due to economic stimulus. Despite posting positive returns, other countries in the region underperformed the index including Singapore (+0.5%), Australia (+7.5%), and Hong Kong (+15.7%). Emerging Markets (+0.5%) lagged Developed Markets due in part to declines in commodity exporting countries, including Peru (-23.0%), Chile (-18.9%), and Brazil (-15.9%). Outperforming countries included the Philippines (+14.4%), China (+14.1%), and Poland (+13.9%).

Monetary easing in Japan caused the Yen (-20.2%, 78.39 to 98.17 USD/JPY) to drop to its lowest levels since 2008. The Aussie Dollar (-13.8%, 1.03 to .89 AUD/USD) also fell as commodity demand remained weak. The Euro (+5.1%, 1.26 to 1.32 EUR/USD) and Swiss Franc (+2.7%, .95 to .93 CHF/USD) outperformed while the Swedish Krona (+0.1%, 6.63 to 6.62 SEK/USD) and British Pound (-2.3% 1.59 to 1.55 GBP/USD) underperformed. The trade weighted U.S. Dollar strengthened +1.1%.

## REAL ESTATE

Global real estate equity markets, as measured by the FTSE EPRA/NAREIT Developed Index, increased 6.6% for the fiscal year ended August 31, 2013. During the period, the relatively strong US Dollar negatively impacted the international returns by over 400 basis points, especially the Australian Dollar and Japanese Yen denominated securities. The index enjoyed an overall steady uptrend since the start of the fiscal year as investors expected an improving outlook of economic recovery. The Japanese government's strong stimulus policies introduced during the period also helped the rally. The global index level surpassed its 2007 peak in the month of May before investors became cautious on valuations due to the US Fed's potential tapering of the stimulus measures and subsequent rising of bond yields. As a result, investors took profits, and the month of May (-7.7%) experienced the largest monthly decline since September 2011 (-12.4%). Subsequent monthly returns were lackluster. Nonetheless, the index finished the fiscal year with positive returns. By region in US Dollar terms, the strongest performer was the UK (+16.1%), followed closely by Asia (+15.8%), and Continental Europe (+12.0%) while North America (-0.8%) was the laggard.



# REPORT ON INVESTMENT ACTIVITY (CONTINUED)

FISCAL YEAR 2013

In the Asia market, Japan (+43.2%) significantly outperformed the broader global index, benefiting from the Bank of Japan's stimulus measures. The local returns were even more impressive with an increase of 79.4%. At its peak in early April, Japan returned 74% in US Dollar terms and 119% in local terms. While it gave back some of its gains, the improving real estate fundamentals helped keep the market resilient. Chinese stocks (+41.2%) were also strong as investors anticipated moderating policy risk toward the residential sector. While tight property policies continue to impact most Asia markets, Hong Kong (+5.6%) and Singapore (+1.0%) managed to achieve positive returns. Australia (-0.2%) was the worst performer in the Asia markets, due to the weak Australian Dollar relative to the US Dollar. In local terms, the stocks were up 15.8%.

Investor sentiment toward the European markets improved significantly during the fiscal year as the European Central Bank and Bank of England reiterated their easing stance and the economic recovery showed continued momentum. The UK and Continental Europe were up 16.1% and 12.0%, respectively. The peripheral countries such as Greece (+68.4%) and Italy (+37.2%) had impressive returns as investors' worst fears did not come to fruition. Finland (+30.7%), Austria (+16.7%), and Sweden (+15.0%) benefited from the strong stock performance of higher leveraged names in a risk-on environment. The perceived safe heaven countries France and Germany gained 16.6% and 10.4%, respectively.

The US enjoyed consistent returns since the start of the fiscal year under the backdrop of an economic recovery and a low interest rate environment. The FTSE EPRA/NAREIT United States Index level had surpassed its 2007 peak in the month of March. The rally continued into the month of May, where many higher yielding stocks in sectors outperformed, such as triple net lease and healthcare. The May sell-off and the subsequent lackluster months gave back most of the previous gains and the US finished with an increase of only 0.7% for the fiscal year. The sector returns were mixed. The more economically sensitive sectors, such as Hotels (+16.0%) and Self-Storage (+12.8%) with improving fundamentals, had the best performance while Residential (-7.8%) and Retail (-2.7%) fared worst. Canada was the worst performer amongst its global peers, losing 14.2% during the period.

## PRIVATE REAL ESTATE

The System had another successful year committing \$427.5 million (adjusted for currency at time of closing) to nine investments for the fiscal year, which included increases to three existing funds. This was above our target of \$285 million and at the upper range of \$427.5 million set forth in the FY2013 tactical plan. One commitment totaling €34 million (≈ \$45 million) was made to a European core industrial open-ended fund, five commitments totaling \$290 million were made to value added funds, two commitments totaling \$87.5 million to opportunistic strategies rounded out the deals and one commitments has not been funded as of 08/31/2013. Two of the nine deals were to debt funds, one focuses on European mezzanine investments, and the other fund originates first mortgages on transitional assets in US secondary markets.

As of August 31, 2013, commitments totaled \$1.68 billion to 21 deals. The System sits on the Advisory Board on all but four funds. The net asset value stands at \$975 million. Since inception, \$925 million in capital has been called and approximately \$128 million has been returned as income or a return of principal. For fiscal year 2013, approximately \$290 million was called and about \$70 million was returned as income or a return of principal.

The private real estate program is making considerable progress, being more than fifty percent funded. The Program constitutes over 4% of the System's assets and is well on its way to achieving the 7% target in the next few years. Investing into the core opened funds toward the bottom of the market mitigated the J-Curve effect to some extent. Pricing for core properties rebounded significantly and now appears fairly, if not fully, priced in the US. However, a few select core international funds might offer interesting investment options and allow the fund to diversify its existing core exposure.

The US and Europe should provide very attractive risk adjusted returns in the non-core space over the next several years as the deleveraging story continues. The Euro-zone has stabilized and is attracting more capital but still has a considerable capital gap to fill. While the US is further along in recapitalizing the commercial real estate sector, opportunities are still available to acquire undercapitalized or mismanaged properties. Manager selection is always important and will be more critical as pricing has improved meaningfully. Sourcing will become ever more of a competitive edge. Staff continues to be excited about the market but is also aware of the potential risks and will continuously monitor the environment.

# REPORT ON INVESTMENT ACTIVITY (CONTINUED)

FISCAL YEAR 2013

## PRIVATE EQUITY

For fiscal year 2013, Private Equity closed on ten deals, including four co-investments, with commitments totaling \$514 million versus a goal of \$700 million and range of \$525-875 million.

As of August 31, 2013, the Private Equity portfolio Net Asset Value was \$1.57 billion, compared to \$1.08 billion at fiscal year-ending August 31, 2012. Since inception Private Equity has closed on 44 funds and eight co-investments with commitments totaling \$3.47 billion (adjusted for currency exchange rates). In addition, The System has obtained LP Advisory Committee seats on 27 funds and two fund LP Advisory Observer seats.

## FIXED INCOME

### ECONOMY

Economic data improved during the year but the economy continued to grow below trend. Third quarter GDP growth of 2.8% appears to be the best performer as subsequent quarters saw an uneven contribution from various sectors. For example, automobile production broke 16 million units at an annualized rate in August after starting the fiscal year at 14.71 million. Similarly, existing home sales moved higher almost every month and finished up 17%. Manufacturing also improved as the widely-followed ISM manufacturing index rose from 51.6 to 55.7, driven by a jump to 63.2 in new orders. Despite these positive developments, the labor market did not expand as much as economists projected. Average monthly job growth of 184,000 was just slightly better than 177,000 the year before. The job growth allowed the unemployment rate to fall from 7.8% to 7.3%.

During the course of the year, the Federal Reserve often described the growth of the economy as “modest” or “moderate.” On that note, the committee expects a very accommodative policy to remain appropriate after the recovery strengthens. Target thresholds were put in place by the Fed to better communicate its fiscal policy. A level of 6.5% for unemployment and 2% for inflation were established as thresholds before the federal funds rate would be raised from the current 0.25%. The current federal funds rate has been in effect for almost three years and has never been as low.

## INDEX PERFORMANCE

The Barclays Capital Universal Index returned -1.69% for the fiscal year, down from the prior two year's returns of 6.44% and 4.81%, respectively. Risk assets performed best as high yield returned 7.56% and emerging markets returned 1.76%. The returns for all other asset classes were negative, led by U.S. Treasury securities. Most of the losses came in the second half of the fiscal year as interest rates moved significantly higher. The largest losses came in longer-dated securities as those with a maturity greater than 10 years lost 9.19% compared with those maturing in 3 to 5 years losing 0.92%.

## INTEREST RATES

Interest rates were volatile during the fiscal year largely due to the Federal Reserve's fiscal policy and quantitative easing program. With improving economic data that no longer requires Fed intervention, the yield curve steepened as the rate on the 2-year security rose 18 basis points (bps) while the yield on the 10-year security rose 124 bps. Despite this rise, the federal funds rate remains at 25 bps.

Yields on Treasury securities moved higher towards the end of the year as the market began to anticipate the unwinding of the Fed's quantitative easing program. With the Fed reducing their monthly purchases in Treasury and Agency securities, there will be more supply in the market, a dynamic that pushes prices lower and yields higher. The rise in yields is being felt in the housing market as the average fixed mortgage rate rose just over 100 bps to end the fiscal year at 4.46%.

## HEDGE FUND

In fiscal year 2013, The System approved \$820 million for hedge fund investments. Over the same time period, \$321 million was allocated across 8 individual hedge fund investments. Total allocations for the hedge fund program totaled \$561 million at the end of fiscal year 2013, with an ending market value of \$591 million. Returns for fiscal year 2013 were 8.01%, while target returns of 90-day T-bills + 4% reached 4.24% over the same time period. The Absolute Return Portfolio represents 2.5% of System assets as of August 31, 2013.

# REPORT ON INVESTMENT ACTIVITY (CONTINUED)

FISCAL YEAR 2013

Hedge Fund market performance in fiscal year 2013 was led by Event Driven and Equity Long/Short strategies and lagged by Macro strategies, particularly due to CTAs. The HFRI Funds of Hedge Funds Index (HFRI FOF) returned 5.65% in fiscal year 2013. The System's Absolute Return Portfolio remains diversified across strategies with a strategic overweight to Relative Value and Event Driven strategies. Underweight strategies include Macro and Equity Hedge.

## KEY PORTFOLIO STATISTICS

	2013	2012
	\$	\$
Contributions to Pool	629,800,000	568,700,000
Withdrawals from Pool	(1,752,500,000)	(1,645,300,000)
Interest & Dividends	598,462,386	593,445,118
Securities Lending Net Income	7,094,585	5,932,690
Net Appreciation in Fair Value	1,659,792,039	1,165,021,689

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

*Basis of Presentation:* Master Custodian and System's Financial Records. The time weighted method is used to calculate the rates of return.

# OUTLINE OF INVESTMENT POLICIES

FISCAL YEAR 2013

## 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 investment performance;
- Efficiently manage the costs associated with implementation of its investment program; and
- Establish committees as necessary and prudent to fulfill its duties to the Funds.

Investments shall be made in securities that are considered prudent investments, exercising the judgment and care, under the circumstances prevailing at the time of the investment, that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income from the disposition and the probable safety of their capital. However, the Board of Trustees shall not participate in individual investment selections unless it is specifically provided for herein because that responsibility has been delegated to the Executive Director and the System's investment staff, with oversight by the Board of Trustees.

Every investment will be subject to strict due diligence. Notwithstanding the performance of such due diligence, the determination of whether prudence has been exercised with respect to an investment decision shall be made by taking into consideration the investment of all the assets of the trust or all the assets of the collective investment vehicle, as applicable, over which the Board of Trustees has management and control, rather than considering the prudence of a single investment of the trust or collective vehicle, as applicable.

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.

The System's Executive Director is authorized to approve from time to time variances from the policies set forth herein in furtherance of such compliance or in the best interest of the System and consistent with both the System's fiduciary responsibilities and the purpose and scope of this policy.

## 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.

## ELIGIBLE SECURITIES ARE AS FOLLOWS:

- Publicly traded securities, both domestic and foreign, subject to the quality standards set forth in the permissible investments guidelines
- Global fixed income securities, subject to a minimum credit rating of "CCC-, Caa3," or their equivalent as rated by two (NRSROs), and include in the Barclays Capital Universal Index or successor index. Fixed income and short-term securities that downgrade to below the acceptable rating described above will be exchanged or sold within one year, but special exceptions may be permitted and reported to the Board of Trustees.
- Cash and Cash equivalents as set forth in the Eligible Securities List for Cash and Cash Equivalents.

*Basis of Presentation:* Texas Statute and the system's Investment Policy

- Interests in private securities exempted from registration under federal and state securities laws, including certain limited liability securities and vehicles, such as limited partner interests in limited partnerships, trusts and limited liability corporations as deemed appropriate by The System's Investments and Legal staff.
- Global publicly traded real estate equities subject to the quality standards set for in the investment policy.
- Foreign currencies transactions and foreign currency derivatives are permitted as necessary to facilitate the settlement of foreign security transactions, consistent with industry best practices.

These transactions are also permitted to settle private market transactions, meet capital calls or exchange distributions back into U.S. dollars.

- Forward, futures and options, subject to the restrictions set forth in the investment policy.

#### **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.

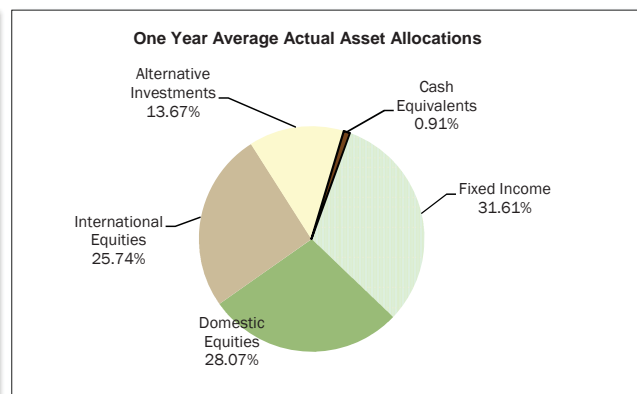
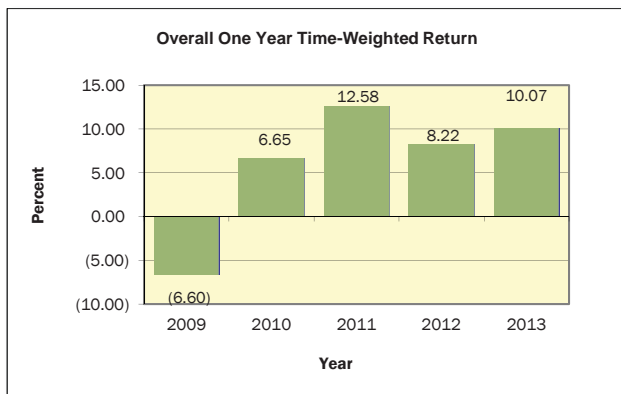
# TIME-WEIGHTED RATES OF RETURN AND ASSET ALLOCATIONS

## INVESTMENT POOL

AUGUST 31, 2013

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		
<b>1 Year</b>	%	%	%	%	%	%	%	%	%	%	%	
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	
2012	6.01	6.44	17.56	17.52	0.09	(1.92)	0.96	0.06	8.22	8.11	1.42	
2013	(1.45)	(1.69)	19.27	19.38	13.97	12.98	(4.15)	0.11	10.07	9.52	1.96	
<b>3 Year</b> (2011-2013)	3.04	3.13	18.83	18.66	8.50	6.93	(1.07)	0.10	10.28	9.87	2.34	
<b>5 Year</b> (2009-2013)	4.78	4.99	7.73	7.57	2.37	1.48	(14.85)	0.22	5.96	5.54	1.27	

Average Asset Allocations							
	1-Year		3-Year		5-Year		
	Target	Actual	Target	Actual	Target	Actual	
Fixed Income	32.21	31.61	33.91	31.87	34.79	37.33	
Domestic Equities	28.98	28.07	28.48	29.43	31.40	35.40	
International Equities	25.20	25.74	25.93	24.23	24.94	26.09	
Alternative Investments	12.64	13.67	10.69	13.47	7.88	0.00	
Cash Equivalents	0.97	0.91	0.99	1.00	0.99	1.18	
<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 Time-Weighted Rate of Return measures the performance of the total investment portfolio, considering income and market impact, including realized and unrealized gains, and eliminates the effect of timing of cash flows due to contributions and withdrawals which are not controllable by the investment managers. The 5-year return is used to smooth market swings and to maintain consistency with the long-term nature of the fund. The Time-Weighted Rate of Return is calculated as follows:

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

The indices used for comparison are as follows:

Fixed Income Securities Portfolio:	Barclays Capital Universal and Floating Fixed Income
Domestic Equities Portfolio:	S&P 1500/ S&P 1500 Blend
International Equities Portfolio:	MSCI EAFE/MSCI ACWI ex US Blended Index (i.e., Europe, Australia and Far East Index excluding securities unavailable to foreign investors)
Cash Equivalents Portfolio:	91-Day U.S. Treasury Bill

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

# BROKER COMMISSIONS

YEAR ENDED AUGUST 31, 2013

## Domestic Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		\$	\$
Baird, Robert W & Co., Inc.	2,900,285	55,400	0.019
Barclays Capital	11,866,584	237,194	0.020
Bloomberg Tradebook, LLC	3,642,115	57,408	0.016
BMO Capital Markets Corp.	2,761,709	56,208	0.020
BNY Mellon Clearing	3,616,160	97,248	0.027
Cantor Fitzgerald	21,100	422	0.020
Capital Institutional Services, Inc.	252,900	7,587	0.030
Citigroup Global Markets, Inc.	4,409,301	89,485	0.020
Cowen & Co., LLC	1,075,221	21,503	0.020
Credit Agricole Cheuvreux N.A., Inc.	1,225,723	24,013	0.020
Credit Suisse	27,302,663	544,309	0.020
Deutsche Bank	6,831,427	132,171	0.019
Goldman Sachs	984,626	19,693	0.020
Green Street Advisors, Inc.	1,828,237	91,412	0.050
International Strategy Investment Group, Inc.	4,232,292	84,646	0.020
Jefferies & Co, Inc.	6,891,172	159,512	0.023
JP Morgan Securities, LLC	9,003,195	148,406	0.016
Keybanc Capital Markets, Inc.	1,415,042	28,301	0.020
Lazard Capital Markets, LLC	256,407	5,128	0.020
Leerink Swann & Co., Inc.	708,662	14,173	0.020
Liquidnet, Inc.	3,366,991	47,239	0.014
Macquarie Securities (USA), Inc.	1,804,160	36,083	0.020
Merrill Lynch & Co., Inc.	9,345,142	155,239	0.017
Morgan Stanley Dean Witter & Co.	5,665,901	113,318	0.020
Piper Jaffray	987,629	19,753	0.020
Raymond James & Associates, Inc.	1,684,227	42,591	0.025
RBC Capital Markets	1,918,188	38,364	0.020
Sanford C Bernstein & Co., Inc.	3,262,094	61,174	0.019
Sidoti & Co., LLC	13,700	411	0.030
State Street Brokerage Services	49,000	1,230	0.025
Sterne Agee & Leach, Inc.	1,513,399	30,268	0.020
Stifel, Nicolaus & Co., Inc.	2,628,263	52,565	0.020
UBS	6,304,737	126,095	0.020
	<b>129,768,252</b>	<b>2,598,549</b>	<b>0.020</b>

# BROKER COMMISSIONS (CONCLUDED)

YEAR ENDED AUGUST 31, 2013

## International Equity

Brokerage Firm	No. of Shares Traded	Commissions	Commission Per Share
		\$	\$
Banque Nationale de Canada	405,500	7,905	0.019
Barclays Capital	46,829,615	229,729	0.005
BMO Nesbitt Burns	913,300	17,918	0.020
BNP Paribas	4,395,057	123,168	0.028
BNY Mellon Clearing	5,038,585	89,102	0.018
Bradesco SA	4,028,214	72,050	0.018
Calyon Securities	1,206,450	19,160	0.016
Celfin Capital SA	388,000	1,532	0.004
Citigroup Global Markets, Inc.	221,720,131	485,266	0.002
Clearstream Banking AG	496,533	16,547	0.033
CLSA Singapore PTE Ltd.	94,272,591	503,198	0.005
Credit Agricole Cheuvreux N.A., Inc.	17,545,878	108,420	0.006
Credit Lyonnais Securities	729,272	5,576	0.008
Credit Suisse	21,234,458	158,146	0.007
Daiwa Securities	36,825,889	191,686	0.005
Deutsche Bank	35,870,945	233,775	0.007
Euroclear Bank SA	211,860	8,407	0.040
HSBC	108,231,506	352,436	0.003
Instinet LLC	95,929,550	183,798	0.002
Investment Technology Group, Inc.	221,656	996	0.004
Jefferies & Co, Inc.	4,852,415	74,991	0.015
JP Morgan Securities, LLC	91,447,594	492,626	0.005
KEB Salomon Smith Barney Securities	1,150,959	38,045	0.033
Kepler Cheuvreux	12,480	296	0.024
Liquidnet, Inc.	4,761,000	5,835	0.001
Macquarie Securities (USA), Inc.	34,466,871	170,956	0.005
Merrill Lynch & Co., Inc.	25,788,540	223,535	0.009
Mitsubishi Securities	4,052,600	62,917	0.016
Mizuho Securities USA, Inc.	9,061,368	221,334	0.024
Morgan Stanley Dean Witter & Co.	41,775,768	185,603	0.004
Netherland Central Institute	150,000	929	0.006
Nomura Securities Co. Ltd.	40,703,143	105,353	0.003
Nordea Bank	222,650	3,869	0.017
RBC Capital Markets	100,000	2,033	0.020
Redburn Partners, LLP	2,616,377	16,255	0.006
Sanford C Bernstein & Co., Inc.	7,021,040	115,330	0.016
SIS Segaintersettle AG	2,183,106	56,710	0.026
Societe Generale	277,716	49,217	0.177
The Depository Trust Company	127,700	2,523	0.020
UBS	33,285,030	157,230	0.005
	<b>1,000,551,347</b>	<b>4,794,402</b>	<b>0.005</b>

*Basis of Presentation: Master Custodian Records.*



# INVESTMENT ADVISORY AND SERVICE FEES

YEAR ENDED AUGUST 31, 2013

Advisory Service	Asset Value	Fees	Basis Points	Other Investment Services	Fees
	\$	\$			\$
Fixed Income Advisors	243,230,101	482,596	19.84	Custodian Fees	875,532
Domestic Equity Advisors	1,267,495,848	6,198,528	48.90	Security Lending Agent Fees	790,802
International Equity Advisors	3,215,975,730	11,230,735	34.92	Investment Consultant Fees	1,809,198
<b>Total</b>	<b>4,726,701,679</b>	<b>17,911,859</b>	<b>103.67</b>	Investment Management Fees:	
				Private Equity	25,680,551
				Private Real Estate	7,332,613
				<b>Total</b>	<b>36,488,696</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 \$285,716 during fiscal year 2013.

## LIST OF LARGEST ASSETS HELD

YEAR ENDED AUGUST 31, 2013

### Ten Largest Stock Holdings

# of Shares	Description	Fair Value
		\$
347,200	Apple, Inc.	169,103,760
1,375,330	Exxon Mobil Corporation	119,873,763
2,592,826	Microsoft Corporation	86,600,388
325,146	Roche Holdings AG Genusscheine	80,937,781
24,911,571	Vodafone Group	79,479,900
948,144	Johnson & Johnson Company	81,929,123
91,956	Google, Inc.	77,877,536
2,667,828	Pfizer, Inc.	75,259,428
922,395	Procter & Gamble Company	71,845,347
972,924	Novartis AG	70,798,899

### Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
\$		\$
5,694,062	IShares Intermediate Credit, Bond ETF	610,403,446
5,288,535	IShares IBoxx Investment, Grade Corporate Bond ETF	597,868,882
2,892,450	IShares IBoxx USD High Yield Bond ETF	264,225,308
1,990,472	IShares JP Morgan, Emerging Markets Bond ETF	211,308,508
166,280,000	U.S. Treasury Note 3.375% due on 11/15/2019, Rating AA+	180,309,875
169,700,000	U.S. Treasury Note 2.625% due on 04/30/2016, Rating AA+	178,556,304
130,300,000	U.S. Treasury Note 0.250% due on 05/15/2015, Rating AA+	130,126,962
126,930,000	U.S. Treasury Note 1.500% due on 07/31/2016, Rating AA+	129,656,964
120,000,000	U.S. Treasury Note 2.375% due on 05/31/2018, Rating AA+	124,753,080

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, 2013

Type of Investment	Pooled Pension Trust Funds (Note A)			Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fair Value	% Total
	\$	\$	\$	\$	
<b>Long-Term Fixed Income Securities:</b>					
Investment Grade Fixed Income Security Component	5,803,336,118	198,291,846	80,743,335	6,082,371,299	25.490%
High Yield Fixed Income Security Component	471,126,361	16,097,726	6,554,905	493,778,992	2.069%
Emerging Fixed Income Security Component	201,614,512	6,888,885	2,805,116	211,308,513	0.886%
<b>Total Long-Term Fixed Securities</b>	<b>6,476,076,991</b>	<b>221,278,457</b>	<b>90,103,356</b>	<b>6,787,458,804</b>	<b>28.445%</b>
<b>Public Equities:</b>					
Large Cap Domestic Equity Component	5,210,326,389	178,029,537	72,492,636	5,460,848,562	22.886%
Small Cap Domestic Equity Component	1,079,942,451	36,900,117	15,025,522	1,131,868,090	4.744%
International Equity Component	5,700,910,150	194,792,095	79,318,256	5,975,020,501	25.040%
<b>Total Public Equity</b>	<b>11,991,178,990</b>	<b>409,721,749</b>	<b>166,836,414</b>	<b>12,567,737,153</b>	<b>52.670%</b>
<b>Real Estate Investments:</b>					
Public Real Estate Component	507,440,027	17,338,513	7,060,146	531,838,686	2.229%
<b>Alternative Investments</b>					
Private Equity Component	1,503,083,688	51,358,259	20,912,797	1,575,354,744	6.602%
Private Real Estate Component	920,541,672	31,453,616	12,807,737	964,803,025	4.043%
Infrastructure Fund Component	166,501,308	5,689,116	2,316,576	174,507,000	0.731%
Hedge Fund Component	563,912,598	19,268,102	7,845,864	591,026,564	2.477%
<b>Total Alternative Investments</b>	<b>3,154,039,266</b>	<b>107,769,093</b>	<b>43,882,974</b>	<b>3,305,691,333</b>	<b>13.854%</b>
<b>Short-term Investments</b>					
Investment in Pool Cash	2,045,755	48,869	(25,679)	2,068,945	0.009%
Short-term Investment	636,057,376	21,733,187	8,849,633	666,640,196	2.794%
<b>Total Short-term Investments</b>	<b>638,103,131</b>	<b>21,782,056</b>	<b>8,823,954</b>	<b>668,709,141</b>	<b>2.802%</b>
<b>Total Before Securities Lending Collateral (Notes B &amp; C)</b>	<b>22,766,838,405</b>	<b>777,889,868</b>	<b>316,706,844</b>	<b>23,861,435,117</b>	<b>100.000%</b>
Securities Lending Collateral	2,219,340,225	75,857,143	30,935,518	2,326,132,886	
<b>Total Pension Investment Pool Trust Fund (0888)</b>	<b>24,986,178,630</b>	<b>853,747,011</b>	<b>347,642,362</b>	<b>26,187,568,003</b>	
<b>Cash Equivalents:</b>					
Cash in State Treasury-Pension Funds	39,611,594	1,952,759	1,116,738		
<b>Total Investments</b>	<b>25,025,790,224</b>	<b>855,699,770</b>	<b>348,759,100</b>		

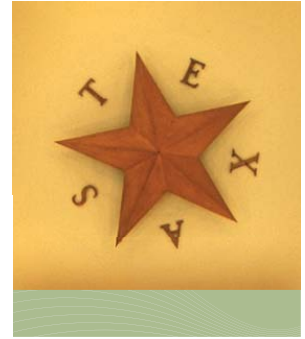
Note A: The Pension Investment Pool Trust Fund (Fund 0888) includes the Employees Retirement Fund (Fund 0955), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (Fund 0977), and the Judicial Retirement System Plan Two Fund (Fund 0993).

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	22,766,838,405	777,889,868	316,706,844	23,861,435,117
Unsettled Sales-Investment Receivables	90,459,763	3,090,883	1,258,590	94,809,236
Unsettled Purchases-Investment Payables	(149,916,753)	(5,122,445)	(2,085,831)	(157,125,029)
Accrued Interest and Dividends/Tax Reclaims Receivable/Prepaid Fee	62,804,675	2,145,948	873,818	65,824,441
Securities Lending Fees Payables/Miscellaneous Payables	(3,917,209)	(133,846)	(54,501)	(4,105,556)
<b>Total Fair Value of Investments,</b>				
<b>Adjusted to Comply with the CFA Institute Standards</b>	<b>22,766,268,881</b>	<b>777,870,408</b>	<b>316,698,920</b>	<b>23,860,838,209</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

Active Member Valuation Data

Retirees and Nominees Added to  
and Removed



November 1, 2013

Board of Trustees  
Employees Retirement System of Texas  
200 East 18<sup>th</sup> Street  
Austin, TX 78701

**Re: Actuarial Certification for Funded Programs as of August 31, 2013**

Members of the Board:

At the request of the Employees Retirement System of Texas (ERS), Gabriel Roeder Smith & Company (GRS) has performed the actuarial valuations of the Employees Retirement Fund (ERF), including separate actuarial valuations of the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) and the Judicial Retirement System of Texas Plan Two (JRS2). The actuarial valuations are completed on an annual basis with the most recent valuations conducted as of August 31, 2013.

This letter and the schedules listed below represent GRS' certification of the funded status as required for the financial report for the fiscal year ended August 31, 2013 for ERF, LECOSRF and JRS2. GRS prepared the *Actuarial Balance Sheets* and the supporting schedules in the Actuarial Section. GRS 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. GRS also prepared the *Retired Members by Type of Benefit* schedule in the Statistical Section. Full actuarial valuation reports have also been provided to ERS.

**Data**

In order to prepare the valuations as of August 31, 2013, we relied on information furnished by ERS staff concerning system benefits, financial transactions, benefit provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not otherwise audit the data and we are not responsible for its accuracy.

**Actuarial Assumptions and Methods**

The assumptions and methods applied in these actuarial valuations were adopted by the Board of Trustees on February 26, 2013 based on the experience investigation completed by Buck Consultants that covered the five-year period from September 1, 2006 through August 31, 2011. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of ERF, LECOSRF and JRS2. 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 forth in the disclosures presented in the Financial Section by Government Accounting Standards Board Statement No. 25.

The results of the actuarial valuations are dependent upon the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. A review of the impact of a different set of assumptions on the funded status of ERF, LECOSRF and JRS2 are outside the scope of these actuarial valuations.

The current actuarial assumptions are outlined in the section titled “Summary of Actuarial Methods and Assumptions.”

## **Benefits**

Senate Bill 1459 passed by the 83<sup>rd</sup> Legislature of the State of Texas (SB1459) made the following changes to the plan provisions of ERF, LECOSRF and JRS2.

1. Changes to benefits for most ERF and LECOSRF members hired on or after September 1, 2013:
  - a. Minimum unreduced retirement age of 62 with Rule of 80 retirement eligibility. Members retiring before age 62 (57 for CPO/CO members), receive a 5% per year permanent early retirement reduction factor,
  - b. Eliminates use of annual leave to increase annuity if the member opts to receive the unused annual leave as a lump-sum payment, and
  - c. Final Average Salary based on highest 60 months.
2. Reduces interest paid on retirement account balances to 2% prospectively starting January 1, 2014.
3. Member contribution rates were increased to 6.60% of payroll for fiscal year 2014, 6.90% of payroll for fiscal year 2015, 7.20% of payroll for fiscal year 2016, and 7.50% of payroll for all subsequent fiscal years. The ultimate member contribution rate is subject to the State maintaining a contribution rate at least as much as the State contribution rate set for fiscal year 2015. Legislators will continue to contribute 8.00% of payroll.

The current benefit provisions are outlined in the section titled “Summary of Plan Provisions.”

## **Funding Policy and Objectives – Employees Retirement Fund**

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

The member and employer contribution rates are established by State statute and the State contribution rate is set by State statute and legislative appropriation. For the fiscal year beginning September 1, 2013, members contribute 6.60% of payroll and the employers

contribute 0.50% of payroll. The State is scheduled to contribute 6.50% of payroll according to State statute, plus ERF was budgeted an additional appropriation of 1.00% of payroll for the fiscal year beginning September 1, 2013. The member and State contribution rates are scheduled to increase over time until they reach an ultimate rate of 7.50% of payroll for the members and the State in the fiscal year 2017. These ultimate rates are subject to future legislative appropriations.

The August 31, 2013 actuarial valuation of ERF incorporates the new assumptions adopted by the Board of Trustees on February 26, 2013 and the changes implemented by SB1459. The unfunded actuarial accrued liability (UAAL) of ERF increased from \$5.7 billion as of August 31, 2012 to \$7.2 billion as of August 31, 2013. Additionally, the funded ratio of ERF—actuarial value of assets divided by the actuarial accrued liability—decreased from 81.0% to 77.4% as of August 31, 2013.

The valuation shows that the total normal cost for funding purposes is 11.57% of payroll. The total contribution rate is 14.60% of payroll for the current fiscal year, and potentially increasing to 15.50% of payroll for future fiscal years. The total contribution rate for the current fiscal year exceeds the normal cost by 3.03% of payroll, but it is not sufficient to amortize the UAAL over a finite period of time. **As a result, the UAAL is expected to grow indefinitely and the funding objective is not currently being realized.**

Section 811.006 of the Texas Government Code limits the modifications to ERF that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are considered actuarially sound. Section 811.006 determines actuarially sound as a retirement system that is receiving a total contribution rate sufficient to cover the normal cost, administrative expenses, and amortize the UAAL over a period of 31 years, or less. Based on the actuarial valuation as of August 31, 2013, the actuarially sound contribution rate for ERF is 18.73% of payroll.

### **Funding Policy and Objectives – Law Enforcement and Custodial Officer Supplemental Retirement Fund**

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

The member contribution rates are established by State statute and the State contribution rate is set by State statute and legislative appropriation. For the fiscal year beginning September 1, 2013, members contribute 0.50% of payroll and the State contributes 0.50% of payroll. LECOSRF also receives a portion of the court costs collected under Section 133.102 of the Local Government Code. Based on historical information, the contribution from this source is expected to be approximately \$20 million for fiscal year 2014 (approximately 1.20% of payroll).

The August 31, 2013 actuarial valuation of LECOSRF incorporates the new assumptions adopted by the Board of Trustees on February 26, 2013 and the changes implemented by SB1459. The UAAL of LECOSRF increased from \$212 million as of August 31, 2012 to \$354 million as of August 31, 2013. Additionally, the funded ratio of LECOSRF decreased from 79.7% to 70.4% as of August 31, 2013.

The valuation shows that the total normal cost for funding purposes is 1.80% of payroll. The approximate total contribution rate is 2.20% of payroll for the current fiscal year. The total contribution rate for the current fiscal year exceeds the normal cost by 0.40% of payroll, but it is not sufficient to amortize the UAAL over a finite period of time. **As a result, the UAAL is expected to grow indefinitely and the funding objective is not currently being realized.**

Section 811.006 of the Texas Government Code limits the modifications to LECOSRF that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are considered actuarially sound. Section 811.006 determines actuarially sound as a retirement system that is receiving a total contribution rate sufficient to cover the normal cost, administrative expenses, and amortize the UAAL over a period of 31 years, or less. Based on the actuarial valuation as of August 31, 2013, the actuarially sound contribution rate for LECOSRF is 3.09% of payroll.

### **Funding Policy and Objectives – Judicial Retirement System Plan Two**

The funding objective of JRS2 is to fund the sum of the normal cost and the amount necessary to amortize any unfunded actuarial accrued liability over a period that does not exceed 30 years by one or more years. Contribution rates should be established which, over time, will remain level as a percent of payroll.

The member and employer contribution rates are established by State statute and the State contribution rate is set by State statute and legislative appropriation. For the fiscal year beginning September 1, 2013, members accruing benefits contribute 6.60% of payroll and the State contributes 15.663% of payroll. Since some active JRS2 members have elected to cease contributing to the plan as well as cease accruing additional benefits, the effective member contribution rate for the fiscal year beginning September 1, 2013 is 6.57% of payroll. The member contribution rate is scheduled to increase over time until it reaches an ultimate rate of 7.50% of payroll in the fiscal year 2017. This ultimate rate is subject to future legislative appropriations.

The August 31, 2013 actuarial valuation of JRS2 incorporates the new assumptions adopted by the Board of Trustees on February 26, 2013 and the changes implemented by SB1459. The UAAL of JRS2 increased from \$15 million as of August 31, 2012 to \$41 million as of August 31, 2013. Additionally, the funded ratio of JRS2 decreased from 95.3% to 88.6% as of August 31, 2013.

The valuation shows that the total normal cost for funding purposes is 20.96% of payroll. The total contribution rate is 22.233% of payroll for the current fiscal year, and potentially increasing



to 23.163% of payroll for future fiscal years. The total contribution rate for the current fiscal year exceeds the normal cost by 1.273% of payroll, but it is not sufficient to amortize the UAAL over a finite period of time. **As a result, the UAAL is expected to grow indefinitely and the funding objective is not currently being realized.**

Section 840.106 of the Texas Government Code limits the modifications to JRS2 that would, essentially, increase benefits or lower contributions to the trust unless the current level of benefits and contributions are considered actuarially sound. Section 840.106 determines actuarially sound as a retirement system that is receiving a total contribution rate sufficient to cover the normal cost, administrative expenses, and amortize the UAAL over a period of 31 years, or less. Based on the actuarial valuation as of August 31, 2013, the actuarially sound contribution rate for JRS2 is 24.08% of payroll.

### **Certification**

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of, where applicable, the Internal Revenue Code and ERISA.

The signing actuaries are independent of the plan sponsor. They are all Enrolled Actuaries, Fellows of the Society of Actuaries, and Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, each of the undersigned are experienced in performing valuations for large public retirement systems.

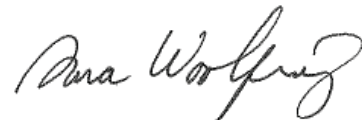
Respectfully submitted,  
**Gabriel, Roeder, Smith & Company**



R. Ryan Falls, FSA, EA, MAAA  
Senior Consultant



Joseph P. Newton, FSA, EA, MAAA  
Senior Consultant



Dana Woolfrey, FSA, EA, MAAA  
Consultant

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**Gabriel Roeder Smith & Company**

ACTUARIAL BALANCE SHEET –  
 EMPLOYEES RETIREMENT FUND  
 AUGUST 31, 2013 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2012)

ACTUARIAL BALANCE SHEET	August 31, 2013	August 31, 2012
<b>Assets:</b>		
Actuarial Value Assets	\$ 24,667,639,104	\$ 24,272,514,483
Present Value of Future Normal Cost (Note A)		
Member	2,801,439,166	2,254,665,608
Employer	1,554,579,265	1,928,606,273
Total	<u>4,356,018,431</u>	<u>4,183,271,881</u>
Total	<u>\$ 29,023,657,535</u>	<u>\$ 28,455,786,364</u>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 17,420,045,143	\$ 16,307,981,214
- disability	249,714,199	363,202,214
- death before retirement	276,614,667	220,434,644
- termination	833,576,780	794,591,851
- total	<u>18,779,950,789</u>	<u>17,686,209,923</u>
Inactive Members	1,313,848,927	1,230,262,541
Annuitants	<u>16,148,245,090</u>	<u>15,243,956,208</u>
Total	<u>\$ 36,242,044,806</u>	<u>\$ 34,160,428,672</u>
<b>Unfunded Accrued Liability (UAL) (Note B)</b>	<b>\$ 7,218,387,271</b>	<b>\$ 5,704,642,308</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	14.60%	13.00%
Normal Cost (Note A)		
- dollars	\$ 689,511,052	\$ 698,778,304
- percent of payroll	11.57%	12.31%
Contribution Available to Amortize UAL	3.03%	0.69%
Accrued Liability (Note B)	\$ 31,886,026,375	\$ 29,977,156,791
Amortization Period in Years	Infinite	Infinite
Funded Ratio	77.4%	81.0%
Valuation Payroll	\$ 5,959,473,223	\$ 5,676,509,376
Active Members	133,669	132,669

Note A: The normal cost is based on the benefits in effect for members hired after August 31, 2013

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, 2013

ACTUARIAL BALANCE SHEET –  
 LAW ENFORCEMENT AND CUSTODIAL OFFICERS SUPPLEMENTAL RETIREMENT FUND  
 AUGUST 31, 2013 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2012)

ACTUARIAL BALANCE SHEET	August 31, 2013	August 31, 2012
<b>Assets:</b>		
Actuarial Value Assets	\$ 843,016,798	\$ 832,451,079
Present Value of Future Normal Cost (Note A)		
Member	54,930,584	47,645,732
Employer	132,066,349	135,313,880
Total	<u>186,996,933</u>	<u>182,959,612</u>
Total	<u>\$ 1,030,013,731</u>	<u>\$ 1,015,410,691</u>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 870,283,540	\$ 745,417,880
- occupational disability	8,856,619	13,749,308
- death benefit plan	7,503,579	7,420,761
- termination	9,373,400	8,783,972
- total	<u>896,017,138</u>	<u>775,371,921</u>
Inactive Members	5,456,524	4,391,878
Annuitants	<u>482,687,108</u>	<u>447,451,269</u>
Total	<u>\$ 1,384,160,770</u>	<u>\$ 1,227,215,068</u>
<b>Unfunded Accrued Liability (UAL) (Note B)</b>	<b>\$ 354,147,039</b>	<b>\$ 211,804,377</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	2.20%	1.00%
Normal Cost (Note A)		
- dollars	\$ 29,298,584	\$ 30,279,377
- percent of payroll	1.80%	2.02%
Contribution Available to Amortize UAL	0.40%	(1.02%)
Accrued Liability (Note B)	\$ 1,197,163,837	\$ 1,044,255,456
Amortization Period in Years	Infinite	Infinite
Funded Ratio	70.4%	79.7%
Valuation Payroll	\$ 1,627,699,122	\$ 1,498,979,076
Active Members	37,415	37,404

Note A: The normal cost is based on the benefits in effect for members hired after August 31, 2013

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, 2013

ACTUARIAL BALANCE SHEET –  
 JUDICIAL RETIREMENT SYSTEM OF TEXAS PLAN TWO FUND  
 AUGUST 31, 2013 (WITH COMPARATIVE TOTALS AT AUGUST 31, 2012)

ACTUARIAL BALANCE SHEET	August 31, 2013	August 31, 2012
<b>Assets:</b>		
Actuarial Value Assets	\$ 318,025,658	\$ 300,433,111
Present Value of Future Normal Cost		
Member	29,020,161	20,878,887
Employer	53,292,685	48,077,304
Total	<u>82,312,846</u>	<u>68,956,191</u>
Total	<u>\$ 400,338,504</u>	<u>\$ 369,389,302</u>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 256,747,782	\$ 224,317,798
- disability	3,680,953	5,426,095
- death before retirement	10,390,638	10,145,529
- termination	12,054,413	10,981,882
- total	<u>282,873,786</u>	<u>250,871,304</u>
Inactive Members	11,445,317	10,713,152
Annuitants	<u>147,052,378</u>	<u>122,570,887</u>
Total	<u>\$ 441,371,481</u>	<u>\$ 384,155,343</u>
<b>Unfunded Accrued Liability (UAL)</b>	<b>\$ 41,032,977</b>	<b>\$ 14,766,041</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	22.233%	12.48%
Normal Cost		
- dollars	\$ 16,318,094	\$ 13,927,445
- percent of payroll	20.96%	20.25%
Contribution Available to Amortize UAL	1.273%	(7.77%)
Accrued Liability	\$ 359,058,635	\$ 315,199,152
Amortization Period in Years	Infinite	Infinite
Funded Ratio	88.6%	95.3%
Valuation Payroll	\$ 77,853,500	\$ 68,777,500
Active Members	545	541

## SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS - PENSION PLANS

In February 2013, 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 2007 to 2011.

The System relies on the services of qualified actuaries to perform periodic valuations of the assets and liabilities of the pension funds. Gabriel, Roeder, Smith and Company was chosen to be the pension actuary for the System in June 2013. The actuarial methods used for the three funds are summarized as follows:

### Actuarial Cost Method

The Entry Age Actuarial Cost Method was used for the 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	3	4	5-9	10+
20	6.80%	5.25%	4.75%	4.30%				8.0%	5.0%	4.5%	4.0%	3.5%	2.0%	1.5%
30	5.90	5.25	4.75	3.00	2.50%	2.00%		8.0	5.0	4.5	4.0	3.5	2.0	1.5
40	4.90	4.75	4.00	3.00	2.50	1.90	1.80%	8.0	5.0	4.5	4.0	3.5	2.0	1.5
50	3.90	3.70	3.20	2.70	2.20	1.70	1.60	8.0	5.0	4.5	4.0	3.5	2.0	1.5
60	2.90	2.70	2.30	2.00	1.60	1.40	1.30	8.0	5.0	4.5	4.0	3.5	2.0	1.5

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 before September 1, 2009**

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%	23%	0%	0%	0%
30	28	12	6	0	0	16	10	8	0
40	25	9	6	3	3	14	7	5	2
50	22	7	4	2	1	12	6	3	2
60	20	0	0	0	0	13	0	0	0

**For members hired on or after September 1, 2009**

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%	24%	0%	0%	0%
30	32	14	6	0	0	17	12	8	0
40	30	9	6	2	2	15	8	5	2
50	26	7	4	2	1	13	6	3	2
60	24	6	4	1	0	15	0	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 (Note C)**

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)			
	5-9	10-14	15-19	20+	5-9	10-14	15-19	20+
20-24	100%	100%	0%	0%	100%	0%	0%	0%
25-29	75	65	60	0	75	60	60	0
30-34	65	60	50	0	75	60	50	0
35-39	65	50	50	35	70	60	50	0
40-44	65	50	45	35	70	60	50	0
45-49	60	45	35	25	60	40	20	0
50-54	55	40	30	20	55	40	20	0
55+	50	30	25	15	50	30	20	0

Note C: Elected Class members are assumed to not withdraw employee contributions.

**TABLE 4**  
**Demographic Assumption –**  
**Mortality Rates for Active Members (Notes D & E)**

Age	Females	Males
20	0.0289%	0.0507%
30	0.0397	0.0801
40	0.0825	0.1072
50	0.1734	0.2579
60	0.5832	0.7976
65	1.0764	1.4535

Note D: It is assumed that 2.0% of male Employee Class deaths and 0.3% of female Employee Class deaths are occupational. It is also assumed that there are no occupational deaths of members in the Elected and Judicial Classes.

Note E: The base rates indicated above are based on the 1994 Group Annuity Mortality Table with 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 F)**

Age	Females	Males
20	0.0289%	0.0507%
30	0.0397	0.0801
40	0.0825	0.1072
50	0.1734	0.2579
60	0.5832	0.7976
65	1.0764	1.4535

**TABLE 6**  
**Demographic Assumption –**  
**Mortality Rates for Disability Retirees**  
**(Note G)**

Age	Females	Males
20	0.75%	2.26%
30	0.75	2.26
40	0.75	2.38
50	1.06	3.67
60	2.08	5.22
65	2.66	6.58

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

Note G: The rates indicated above are based on the RP-2000 Disabled Retiree Mortality Table with male ages set forward six years and female ages set back one year.

## SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS – PENSION PLANS

**TABLE 7**  
**Demographic Assumption –**  
**Disability Retirement Rates (Note H)**

Age	<u>Employee Class (Non-CPO/CO)</u>		<u>Employee Class (CPO/CO)</u>
	Females	Males	Females & Males
<b>30</b>	0.018	0.037	0.0123
<b>40</b>	0.120	0.100	0.0781
<b>50</b>	0.276	0.198	0.2365
<b>60</b>	0.744	0.499	0.4200

*Note H: 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 I)</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 I: 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 J)**

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

**For members hired before September 1, 2009**

Age	<u>Male</u>						<u>Female</u>					
	5	10	15	20	25	30	5	10	15	20	25	30
<b>50</b>						35%						45%
<b>55</b>					22.5%	25					40%	25
<b>60</b>	10%	15%	17.5%	37.5%	20	20	10%	15%	15%	35%	20	27.5
<b>65</b>	20	45	45	35	35	35	20	45	45	32.5	32.5	32.5
<b>70</b>	20	37.5	27.5	32.5	32.5	32.5	20	37.5	27.5	32.5	32.5	32.5
<b>75</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 J) continued

For members hired on or after September 1, 2009

Age	Male						Female					
	5	10	15	20	25	30	5	10	15	20	25	30
50						15%						20%
55					25%	7.5					30%	10
60				25%	57.5	67.5				25%	45	45
65		85%	37.5%	30	45	40		85%	37.5%	17.5	35	30
70		80	60	90	35	35		80	60	90	32.5	32.5
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	For members hired before September 1, 2009						For members hired on or after September 1, 2009					
	5	10	15	20	25	30	5	10	15	20	25	30
50	0%	0%	0%	45%	55%	55%	0%	0%	0%	5%	5%	5%
55	0	12	12	45	35	35	0	12	12	82.5	65	65
60	6	16	16	55	35	35	0	16	16	55	35	35
65	15	35	35	50	60	60	0	35	35	50	60	60
70	50	50	50	50	50	50	0	50	50	50	50	50
75	100	100	100	100	100	100	100	100	100	100	100	100

Elected Class (Note K)		Judicial Class (Note K)	
Age	Rate	Age	Rate
50-64	10%	50-69	20%
65-74	20	70-74	25
75+	100	75+	100

Note J: No service retirements are assumed where no rates are shown.

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

TABLE 10  
Demographic Assumption –  
Option Selection Percentage and Beneficiary Characteristics  
under Death Benefit Plan

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

Note L: 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>				
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
2012	132,669	5,720,722,855	42,188	1.4
2013	133,669	5,713,759,137	42,564	0.9
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>				
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
2012	37,404	1,457,492,314	39,444	0.0
2013	37,415	1,429,059,562	39,469	0.1
<b>Judicial Retirement Plan Two Fund:</b>				
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
2012	541	68,373,289	127,130	(0.3)
2013	545	68,781,009	127,550	0.3

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

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

## RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM THE ANNUITY PAYROLLS

	Added to Rolls		Removed from Rolls		Other Beneficiaries		Rolls End of Year		% Increase Annual Benefits	Average Annual Benefit
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits		
		\$		\$		\$		\$	%	\$
<b>Employees Retirement Fund:</b>										
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
2012	5,928	124,604,412	2,128	35,049,012	569	7,965,072	87,799	1,650,519,672	6.3	18,799
2013	5,287	108,395,484	2,418	36,921,000	699	8,999,592	91,367	1,730,993,748	4.9	18,946
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>										
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
2012	895	5,069,712	195	1,439,820	49	202,200	8,477	46,368,336	9.0	5,470
2013	744	3,771,816	183	1,336,200	51	230,952	9,089	49,034,904	5.8	5,395
<b>Judicial Retirement Plan Two Fund:</b>										
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
2012	8	441,948	4	250,680	3	167,892	215	12,891,696	2.9	59,961
2013	43	2,571,696	5	278,964	1	68,580	254	15,253,008	18.3	60,051

## 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>							
2008	4,256,243,420	12,195,833,252	8,951,203,270	23,511,918,382	100	100	78.9
2009	4,460,644,477	12,648,155,181	9,798,979,599	23,509,621,791	100	100	65.3
2010	4,719,703,277	13,407,823,189	10,284,288,042	23,628,566,500	100	100	53.5
2011	4,943,684,166	14,325,177,797	9,781,265,638	23,997,444,804	100	100	48.3
2012	5,075,213,967	15,243,956,208	9,657,986,616	24,272,514,483	100	100	40.9
2013	5,201,006,487	16,148,245,090	10,536,774,798	24,667,639,104	100	100	31.5
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A):</b>							
2008	-	314,618,012	527,516,720	774,508,817	-	100	87.2
2009	-	334,638,616	572,463,018	780,807,727	-	100	77.9
2010	7,315,238	367,991,489	591,296,971	802,897,017	100	100	72.3
2011	13,897,600	400,877,467	578,021,779	830,522,385	100	100	71.9
2012	19,540,552	447,451,269	577,263,635	832,451,079	100	100	63.3
2013	24,432,912	482,687,108	690,043,817	843,016,798	100	100	48.7
<b>Judicial Retirement Plan Two Fund:</b>							
2008	50,408,044	63,791,874	124,898,190	232,890,749	100	100	95.0
2009	51,733,112	85,844,874	117,990,788	248,279,312	100	100	93.8
2010	57,347,421	92,253,133	132,159,921	264,515,185	100	100	87.0
2011	57,768,713	120,798,133	121,595,978	283,935,401	100	100	86.7
2012	63,677,503	122,570,887	128,950,762	300,433,111	100	100	88.5
2013	64,435,226	147,052,378	147,571,031	318,025,658	100	100	72.2

*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, 2013.*

## ANALYSIS OF FINANCIAL EXPERIENCE

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

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

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

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

### **Disability Retirement:**

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

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

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

### **Withdrawal from Employment:**

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

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

<u>Type of Activity</u>	<u>Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)</u>					
	<u>ERS</u>		<u>LECOS</u>		<u>JRS II</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<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.	424.4	392.6	34.1	36.1	6.5	7.1
<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.	449.8	611.7	15.6	21.2	(0.1)	1.1
<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	(38.4)	1.2	(7.0)	(0.9)	1.6	(2.8)
<b><u>Pay Increases</u></b>						
If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	295.3	(4.2)	6.1	(5.9)	6.0	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.	15.1	11.9	0.0	(1.2)	(0.6)	(0.7)
<b><u>Other</u></b>						
Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	53.3	(43.9)	17.2	15.9	0.9	(0.5)
<b>Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience</b>	<b>1,199.5</b>	<b>969.3</b>	<b>66.0</b>	<b>65.2</b>	<b>14.3</b>	<b>4.2</b>
<b><u>Non-Recurring Items</u></b>						
Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, legislative action, etc.	315.8	(317.4)	76.3	(15.7)	12.0	(5.6)
<b>Composite Increase/(Decrease) During Year</b>	<b>1,515.3</b>	<b>651.9</b>	<b>142.3</b>	<b>49.5</b>	<b>26.3</b>	<b>(1.4)</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, 2013. 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, 2013 provided by ERS and the Teachers Retirement System (TRS) and plan provisions provided by ERS. We have used the actuarial methods and assumptions described in Section VII of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section VIII.

To the best of our knowledge, 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  
 FY13 GASB No. 43 ACTUARIAL VALUATION

**D. Summary of Results for FY 2013**

<b>Actuarial Valuation Results as of August 31, 2013</b>		
	(\$ thousands)	As a % of Payroll
<b>1. Number of Members (actual count, not in thousands)</b>		
a. Actives	226,181	
b. Deferred Vesteds	11,255	
c. Retirees and Nominees	<u>100,054</u>	
d. Total Number of Members	337,490	
<b>2. Payroll of Active Members for FY 2013</b>	\$ 10,478,117	
<b>3. Actuarial Present Value of Total Projected Benefits</b>		
a. Actives	\$ 23,018,976	
b. Deferred Vesteds	1,160,288	
c. Retirees and Nominees	<u>8,577,753</u>	
d. Total	\$ 32,757,017	312.6%
<b>4. Actuarial Accrued Liability</b>		
a. Actives	\$ 13,292,428	
b. Deferred Vesteds	1,160,288	
c. Retirees and Nominees	<u>8,577,753</u>	
d. Total	\$ 23,030,469	219.8%
<b>5. Actuarial Value of Assets</b>	\$ 0	0.0%
<b>6. Unfunded Actuarial Accrued Liability [ 4.d. – 5. ]</b>	\$ 23,030,469	219.8%
<b>7. Annual Required Contribution for FYE August 31, 2013</b>		
a. Normal Cost	\$ 936,464	9.0%
b. Amortization of UAAL	<u>999,458</u>	<u>9.5%</u>
c. Total ARC for FYE August 31, 2013	\$ 1,935,922	18.5%

## CONSISTENCY WITH ASSUMPTIONS USED FOR RETIREMENT PLAN VALUATIONS

Most of the employees and retirees covered by the Group Benefits Program are also covered by either 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.

## CHANGES IN ACTUARIAL ASSUMPTIONS

Since the last valuation was prepared for this plan, assumed expenses, assumed per capita health benefit costs and assumed health benefit cost and retiree contribution trends have been updated to reflect recent experience and its effects on short-term expectations. In addition, the period of coverage assumption for dependent children and the tobacco usage assumption have been updated to reflect recent plan experience and expected trends.

Effective January 1, 2013, HealthSelect prescription drug coverage for all Medicare-primary participants will be provided through a self-funded Employer Group Waiver Plan with Commercial Wrap (EGWP plus Wrap). The EGWP plus Wrap will provide coverage that is equivalent to that currently provided through HealthSelect at significantly lower cost since it will allow the plan to take direct advantage of subsidies provided by the Federal government under Medicare Part D and discounts provided by drug manufacturers as required under the Affordable Care Act (ACA). The assumed HealthSelect and HealthSelect Medicare Advantage Per Capita Health Benefit Costs have been revised to reflect this change.

In addition, the percentage of future retirees electing coverage for their spouses and dependent children as well as the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence have been updated to reflect recent plan experience and expected trends.

All other demographic and economic assumptions reflect assumptions adopted by the ERS and TRS Boards at the time the valuation was prepared. If the ERS and/or TRS Boards adopt any changes to the assumptions after this valuation, those assumption

changes would not be reflected until the first valuation subsequent to the adoption date. These new assumptions were adopted to reflect an experience study performed by the ERS retirement plan actuary on the ERS retirement plan.

## 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.

The health benefit cost trend assumption used in this report begins with the short term expectations of expected health benefit cost increases in the next year and gradually declines to a rate that exceeds the assumed rate of general price inflation by 2.0%.

## CHANGES IN PLAN PROVISIONS

Under Q/A #49 of GASB's Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the plan change associated with the provision of prescription drug coverage for all Medicare-primary participants through the EGWP plus Wrap effective January 1, 2013, since this change was communicated to plan members in advance of the preparation of this report.

This valuation also reflects the impact of S.B. 1459 which was adopted by the 83rd Texas Legislature. S.B. 1459 amends Chapter 1551 of the Texas Insurance Code to require insurance contribution rates for retirees to vary based on the number of years of eligible service credits at retirement. This change becomes effective on September 1, 2014 and applies only to employees who: (a) have less than five years of eligible service credit on August 31, 2014 and (b) retire on or after September 1, 2014.

The net impact of the plan change reduces the employer's cost of providing OPEB and results in a reduction to the employer's Unfunded Actuarial Accrued Liability of \$51 million and a reduction to the ARC of \$44 million.

## HIGH-COST PLAN EXCISE TAX

The effects of the High-Cost Plan Excise Tax imposed by the ACA under Internal Revenue Code Section 49801 (sometimes referred to as the "Cadillac Tax") have been included in this valuation. The Excise Tax becomes effective in 2018, but the plan is not expected to be subject to the tax until 2061 based on current plan provisions, assumptions and participant demographics. The Unfunded Actuarial Accrued Liability is increased by the \$89 million present value of the estimated Excise Taxes in future years, and the associated increase to the ARC is \$4 million.

## 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 OPEB may not reflect the anticipated receipt of future federal government subsidy payments under the Medicare Part D Prescription 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.

The System will no longer be eligible for the Retiree Drug Subsidy following the implementation of the EGWP plus Wrap on January 1, 2013. However, the projected cost of the EGWP plus Wrap reflects the subsidies to the administrator of the plan, which are expected to be provided by the Federal government under Medicare Part D and the discounts expected to be provided by drug manufacturers as required under the Affordable Care Act.

## ECONOMIC ASSUMPTIONS EXPENSES

The expenses to administer the Group Benefit Program health benefits are (i) \$229.80 per year per covered member for external Health Select administrative expenses for FY 2014 and (ii) approximately \$47.15 per year per covered member for internal administrative expenses for FY 2014 (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 .

Fiscal Year	Annual Rate of Increase %
2015	8.00
2016	8.00
2017	7.50
2018	7.00
2019	6.50
2020	6.00
2021 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 2014 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.

## ACTIVE MEMBER VALUATION DATA

Valuation Year August 31,	Number (Note A)	Actual		% Change in Average Pay
		Annual Payroll	Average Pay	
		\$	\$	%
<b>State Retiree Health Plan</b>				
2008	222,660	9,373,366,000	42,097	N/A
2009	230,285	10,045,849,000	43,624	3.6
2010	234,057	10,437,333,000	44,593	2.2
2011	227,786	10,376,487,000	45,554	2.2
2012	225,075	10,268,696,000	45,623	0.2
2013	226,181	10,478,117,000	46,326	1.5

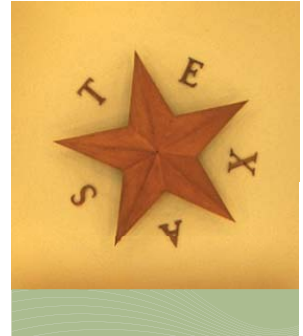
Note A: Includes return-to-work retirees and employees who have not yet satisfied the 90-day waiting period.

## RETIREES AND NOMINEES ADDED TO AND REMOVED

	Added to Rolls		Removed from Rolls		Rolls End of Year		% Increase Annual Benefits	Average Annual Benefit
	No. (Note C)	Annual Benefits	No. (Note C)	Annual Benefits	No. (Note B)	Annual Benefits		
		\$		\$		\$	%	\$
<b>State Retiree Health Plan</b>								
2008	N/A		N/A		80,543	558,228,247		6,931
2009	N/A		N/A		83,494	596,857,518	6.9	7,149
2010	5,579	99,196,641	2,962	52,665,433	86,111	643,388,726	7.8	7,472
2011	6,882	4,711,974	2,780	1,903,413	90,213	646,197,287	0.4	7,163
2012	7,869	76,049,400	2,707	26,161,612	95,375	696,085,075	7.7	7,298
2013	7,790	47,110,385	3,111	18,813,916	100,054	724,381,544	4.1	7,240

Note B: Includes retirees who receive the Opt-Out Credit in lieu of health benefits.

Note C: This information is not available prior to August 31, 2010.



## STATISTICAL SECTION

### GOVERNMENTAL ACTIVITIES:

Net Position

Changes in Net Position

### GOVERNMENTAL FUNDS:

Fund Balances

Changes in Fund Balances

### CHANGES IN NET POSITION:

Proprietary Fund

Defined Benefit Plans

Deferred Compensation 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 POSITION – GOVERNMENTAL ACTIVITIES

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Governmental Activities:</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted	96,160	133,253	241,478	369,913	384,892	282,484	136,599	227,985	284,814	325,412
Unrestricted	3	27	49	45	56	59	45	8	18	-
<b>Total Governmental Activities</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>	<b>284,832</b>	<b>325,412</b>

## CHANGES IN NET POSITION – GOVERNMENTAL ACTIVITIES

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Expenses</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Governmental Activities:</i>										
Social Security Administration	31	52	58	70	54	61	101	102	105	92
<i>Death Benefits:</i>										
Peace Officers, Firemen, etc.	4,985	2,660	4,361	2,397	3,423	1,866	4,164	2,784	2,141	5,444
Compensation to Victims of Crime		1,250	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000
Retiree \$5,000 Lump Sum	6,681	7,026	6,908	7,493	6,902	7,367	7,910	7,885	8,628	9,108
<i>Group Benefits Program:</i>										
Claims Expenses	1,519,295	1,646,815	1,760,073	1,293,957	1,460,527	1,632,962	1,828,422	1,776,296	1,826,996	1,934,325
Administration	9,316	10,312	10,307	8,694	8,323	9,062	8,118	9,437	9,401	9,356
<b>Total Governmental Activities Expenses</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>1,848,271</b>	<b>1,960,325</b>
<b>Program Revenues</b>										
<i>Governmental Activities:</i>										
<i>Charges for Services:</i>										
Administration Fees		73	78	72	65	64	85	66	74	75
<i>Appropriations:</i>										
Administration	28	28	28	28	28	28				
<i>Death Benefits:</i>										
Peace Officers, Firemen, etc.	4,957	2,632	4,333	2,369	3,395	1,838	4,164	2,784	2,141	5,444
Compensation to Victims of Crime		1,250	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000
Retiree \$5,000 Lump Sum	6,681	7,030	6,910	7,487	6,902	7,367	7,911	7,885	8,628	9,108
<i>Insurance Contributions:</i>										
State	1,177,512	1,256,123	1,384,688	1,024,636	1,075,354	1,108,150	1,233,781	1,414,732	1,434,186	1,527,002
Member	404,107	420,192	450,678	365,653	364,278	381,820	416,690	444,731	444,786	460,944
Other	154	145	147	150	163	161	157	209	192	179
Federal Revenue-Medicare Part D			19,360							
<i>Operating Grants and Contributions:</i>										
Membership Fee Revenue	18									
Investment Income	12,999	14,809	23,023	40,375	42,513	48,100	36,671	12,758	13,188	(5,885)
Other	4,060	2,951	709	272	1,521	1,385	3,357	4,688	875	2,039
<b>Total Governmental Activities Program Revenues</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>1,905,070</b>	<b>2,000,906</b>
<b>General Revenues</b>										
Transfers									40	
<b>Total Governmental Activities General Revenues</b>									<b>40</b>	<b>-</b>
<b>Net Revenue Governmental Activities</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>	<b>56,839</b>	<b>40,581</b>

Source: Comprehensive Annual Financial Reports.

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Governmental Funds:</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Committed:										
Social Security Administration Fund	3	27	49	45	56	59	45	8	18	-
<b>Total Governmental Funds</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>	<b>18</b>	<b>-</b>

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Administration	28	28	28	28	28	28	-	-	-	-
Death Benefits:										
Public Employee Survivors	4,957	2,632	4,333	2,369	3,395	1,838	4,164	2,784	2,141	5,444
Victims of Crime			750	1,500	2,250	2,000	1,250	1,750	1,000	2,000
Retiree \$5,000 Lump Sum	6,681	7,030	6,910	7,487	6,902	7,367	7,911	7,885	8,628	9,108
Administration Fees		73	78	72	65	64	85	66	74	75
<b>Total Revenues</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>11,843</b>	<b>16,627</b>
<b>Expenditures</b>										
Death Benefits:										
Public Employee Survivors	4,957	2,632	4,333	2,397	3,423	1,866	4,164	2,784	2,141	5,444
Victims of Crime		1,250	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000
Retiree \$5,000 Lump Sum	6,681	7,026	6,908	7,493	6,902	7,367	7,910	7,885	8,628	9,108
Administrative Expenditures	59	80	86	70	54	61	101	102	105	92
<b>Total Expenditures</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>11,874</b>	<b>16,644</b>
<b>Excess of Revenues Over (Under)</b>										
<b>Expenditures</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>(31)</b>	<b>(17)</b>
<b>Other Financing Sources (Uses)</b>										
Membership Fees	18									
Victims of Crime Fund		1,250								
Transfers In - Retirement Membership Fees									40	
<b>Net Change in Fund Balances</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>	<b>9</b>	<b>(17)</b>

Note A: Includes lapsed appropriations.

Source: Comprehensive Annual Financial Reports

## CHANGES IN NET POSITION – PROPRIETARY FUND

LAST TEN FISCAL YEARS (IN 000'S)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Operating Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Insurance Contributions:</i>										
State	1,177,512	1,256,123	1,384,688	1,024,636	1,075,354	1,108,150	1,233,781	1,414,731	1,434,186	1,527,002
Member	404,107	420,192	450,678	365,653	364,278	381,820	416,690	444,731	444,786	460,944
Federal Revenues-Medicare Part D			19,360							
Federal Revenues-COBRA Stimulus							2,268	1,312	27	-
Other	3,840	453	528	422	1,543	1,254	1,087	3,089	835	2,199
<b>Total Operating Revenues</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>1,879,834</b>	<b>1,990,145</b>
<b>Operating Expenses</b>										
<i>Benefit Payments:</i>										
Employee	1,107,187	1,189,048	1,265,966	1,275,725	1,437,632	1,609,991	1,797,659	1,743,897	1,792,645	1,900,026
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	34,351	34,299
Administrative and Other Expenses	9,316	10,312	10,307	8,694	8,323	9,062	8,118	9,437	9,401	9,356
<b>Total Operating Expenses</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>1,836,397</b>	<b>1,943,681</b>
<b>Operating Income (Loss)</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>43,437</b>	<b>46,464</b>
<b>Non-Operating Revenues (Expenses)</b>										
<i>Net Appreciation (Depreciation)</i>										
in Fair Value of Investments	2,043	(1,750)	(4,834)	(730)	4,943	20,359	20,789	4,273	5,395	(17,215)
Interest Income	10,956	16,559	27,857	41,080	37,569	27,741	15,882	8,485	7,794	11,331
Other	374	2,644	327	25	141	292	158	496	204	18
<b>Change in Net Position</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>	<b>56,830</b>	<b>40,598</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 POSITION – DEFINED BENEFIT PLANS  
LAST TEN FISCAL YEARS (IN 000'S)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Employees Retirement Fund (ERS)</b>										
<i>Additions</i>										
Member Contributions	300,156	305,870	292,023	328,039	337,040	353,299	410,134	425,811	411,066	422,588
Employer Contributions	278,845	276,035	316,198	329,981	342,092	363,023	400,252	414,084	347,121	375,737
Investment Income (Net of Expenses)	1,994,703	2,331,089	1,737,588	2,622,895	(1,294,063)	(1,616,258)	1,203,796	2,414,830	1,614,670	2,097,577
Other Additions	45,719	50,208	58,804	48,746	52,941	57,329	61,741	64,970	71,255	75,637
<b>Total Additions</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>2,444,112</b>	<b>2,971,539</b>
<i>Deductions</i>										
Retirement Benefits	1,190,313	1,206,562	1,251,090	1,299,964	1,360,380	1,433,011	1,505,585	1,593,537	1,712,821	1,819,779
Death Benefits	1,949	2,039	2,232	2,099	1,802	2,224	3,086	4,142	3,654	3,283
Refunds	83,779	89,760	75,614	79,564	74,504	70,958	65,334	79,535	88,060	86,668
Administrative and Other Expenses	12,996	13,878	14,044	16,475	16,730	17,690	19,083	19,000	18,024	18,911
<b>Total Deductions</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>1,822,559</b>	<b>1,928,641</b>
<b>Change in Net Position</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>621,553</b>	<b>1,042,898</b>
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>										
<i>Additions</i>										
Member Contributions							7,473	7,604	7,287	7,185
Employer Contributions					20,191	20,657	27,799	24,228	(3)	7,117
Investment Income (Net of Expenses)	67,906	78,444	57,656	85,799	(42,917)	(51,743)	40,054	81,881	51,909	71,885
Other Additions	2		-				6	2	1	-
<b>Total Additions</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>59,194</b>	<b>86,187</b>
<i>Deductions</i>										
Retirement Benefits	27,559	29,036	30,184	32,149	34,908	38,641	41,001	42,914	46,868	50,848
Death Benefits								106	6	6
Refunds							162	694	1,220	1,531
Administrative and Other Expenses	630	521	378	504	366	434	595	937	844	805
<b>Total Deductions</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>48,938</b>	<b>53,190</b>
<b>Change in Net Position</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>10,256</b>	<b>32,997</b>
<b>Judicial Retirement System of Texas Plan One (JRS I)</b>										
<i>Additions</i>										
Member Contributions	142	62	214							
Appropriations	22,622	22,297	27,784	29,029	28,684	28,171	27,298	26,988	26,464	25,578
Other Additions	120	120	-							
<b>Total Additions</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>26,464</b>	<b>25,578</b>
<i>Deductions</i>										
Retirement Benefits	22,620	22,283	27,664	29,029	28,657	28,194	27,302	26,988	26,464	25,578
Refunds	1	14	-							
Administrative and Other Expenses	120	120	120							
<b>Total Deductions</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>26,464</b>	<b>25,578</b>
<b>Change in Net Position</b>	<b>143</b>	<b>62</b>	<b>214</b>	<b>-</b>	<b>27</b>	<b>(23)</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Judicial Retirement System of Texas Plan Two (JRS II)</b>										
<i>Additions</i>										
Member Contributions	2,922	2,985	3,551	4,125	3,964	4,223	4,121	4,291	4,170	4,268
Employer Contributions	8,205	8,365	10,052	10,909	11,138	11,356	11,511	11,933	4,150	4,549
Investment Income (Net of Expenses)	13,332	17,348	14,384	24,245	(10,765)	(16,421)	13,586	30,189	41,181	28,753
Other Additions	2	11	5	-	-	-	-	2	-	1
<b>Total Additions</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>49,501</b>	<b>37,571</b>
<i>Deductions</i>										
Retirement Benefits	2,770	3,308	4,223	5,747	6,645	8,023	9,289	11,722	12,782	14,586
Death Benefits		10	24						21	-
Refunds	303	106	65	58	73	206	118	48	179	285
Administrative and Other Expenses	273	402	303	395	244	239	277	286	230	228
<b>Total Deductions</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>13,212</b>	<b>15,099</b>
<b>Change in Net Position</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>	<b>36,289</b>	<b>22,472</b>

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Excess Benefit Arrangement</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Additions</b>										
Other Additions	67	223	297	200	350	328	294	342	506	569
<b>Total Additions</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>506</b>	<b>569</b>
<b>Deductions</b>										
Retirement Benefits	67	223	236	141	298	279	251	297	436	488
Administrative and Other Expenses			61	59	52	49	43	45	70	81
<b>Total Deductions</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>506</b>	<b>569</b>
<b>Change in Net Position</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</b>	<b>(Note A)</b>									
<b>Additions</b>										
Member Contributions				108,387	109,447	114,360	126,073	135,133	134,993	141,008
Employer Contributions				438,242	417,106	447,765	478,348	444,895	483,636	535,905
Federal Revenues-Medicare Part D				28,558	32,964	35,784	40,988	38,207	39,612	50,874
Early Retirees Reinsurance Program								30,176	40,724	-
Investment Income (Net of Expenses)				1,541	1,362	1,056	609	436	329	236
Other Additions						775	1			
<b>Total Additions</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>699,294</b>	<b>728,023</b>
<b>Deductions</b>										
Healthcare Benefits				574,030	558,228	596,858	643,389	646,197	696,085	724,381
Administrative and Other Expenses				2,698	2,651	2,882	2,630	2,650	3,209	3,642
<b>Total Deductions</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>699,294</b>	<b>728,023</b>
<b>Change in Net Position</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 POSITION – DEFERRED COMPENSATION PLANS AND CAFETERIA PLAN  
LAST TEN FISCAL YEARS (IN 000'S)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>TexaSaver 401(k) Plan</b>										
<b>Additions</b>										
Investment Income (Net of Expenses)	4	29	52	459	116	476	42	43	26	27
Other Additions	1,328	166	342	301	464	215	1,439	830	607	550
<b>Total Additions</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>633</b>	<b>577</b>
<b>Deductions</b>										
Administrative and Other Expenses	366	253	275	448	581	457	513	615	596	759
<b>Total Deductions</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>596</b>	<b>759</b>
<b>Change in Net Position</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>37</b>	<b>(182)</b>
<b>TexaSaver 457 Plan</b>										
		(Restated)	(Restated)							
<b>Additions</b>										
Deferrals (Note A)	37,047	43,817	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)	56,426	39,268	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions						7				
Investment Income (Net of Expenses)	33,976	25,093	23,752	62	50	122	13	13	12	11
Other Additions	186	119	684	503	592	405	589	513	486	520
<b>Total Additions</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>498</b>	<b>531</b>
<b>Deductions</b>										
Distributions and Fees (Note A)	41,851	26,152	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rollovers and Transfers (Note A)	67,071	41,481	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative and Other Expenses	995	418	403	526	547	656	669	510	452	330
<b>Total Deductions</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>452</b>	<b>330</b>
<b>Change in Net Position</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>46</b>	<b>201</b>
<b>State Employees Cafeteria Plan (TexFlex)</b>										
<b>Additions</b>										
Contributions	43,840	53,425	61,080	68,425	76,780	83,244	90,290	96,033	95,986	95,578
Investment Income (Net of Expenses)	25	40	75	89	72	45	25	20	19	20
Other Additions	439	409	56	105	95	83	105	104	76	92
<b>Total Additions</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>96,081</b>	<b>95,690</b>
<b>Deductions</b>										
Reimbursement Account Claims	42,886	52,337	59,951	67,133	75,043	80,161	87,912	93,737	92,093	92,799
Administrative and Other Expenses	1,336	1,571	1,694	1,886	2,157	2,220	2,217	2,725	2,485	2,365
<b>Total Deductions</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>94,578</b>	<b>95,164</b>
<b>Change in Net Position</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>	<b>1,503</b>	<b>526</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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Employees Retirement Fund:</b>										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service:										
Retirees	1,058,681	1,095,209	1,153,347	1,195,432	1,254,754	1,324,897	1,394,889	1,476,597	1,585,066	1,649,308
Survivors	3,532	20,286	20,379	19,805	20,461	20,651	20,765	21,188	21,410	59,425
Disability	30,815	31,419	31,690	31,163	30,626	30,402	30,301	28,854	28,376	27,980
Partial Lump Sum Option	91,731	53,030	37,679	44,450	44,207	45,301	46,362	51,885	60,687	63,641
Proportional	5,554	6,618	7,994	9,114	10,332	11,760	13,270	15,013	17,282	19,425
<b>Total Retirement Benefits</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>	<b>1,712,821</b>	<b>1,819,779</b>
Death Benefits:										
Active Members:										
Occupational	128	41	297	91	35	100	76	189	117	86
Non-Occupational	884	842	1,019	1,373	1,266	1,275	1,526	2,308	1,920	1,999
Retiree	937	1,156	916	635	501	850	1,484	1,645	1,617	1,198
<b>Total Death Benefits</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>	<b>3,654</b>	<b>3,283</b>
Refunds:										
Resignation	82,075	87,513	73,176	75,864	71,717	67,405	61,235	74,640	84,004	82,026
Death	1,704	2,247	2,438	3,700	2,787	3,553	4,099	4,895	4,056	4,642
<b>Total Refunds</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>88,060</b>	<b>86,668</b>
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service										
Disability	23,492	25,836	27,694	29,053	31,675	35,174	37,580	39,509	42,670	46,561
Partial Lump Sum Option	1,275	1,318	1,250	1,208	1,180	1,168	1,161	1,128	1,093	1,088
<b>Total Retirement Benefits</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>	<b>46,868</b>	<b>50,848</b>
Death Benefits:										
Active Members:										
Non-Occupational	-	-	-	-	-	-	-	106	6	6
<b>Total Death Benefits</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106</b>	<b>6</b>	<b>6</b>
Refunds:										
Resignation	-	-	-	-	-	-	162	686	1,205	1,513
Death	-	-	-	-	-	-	-	9	15	18
<b>Total Refunds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>162</b>	<b>695</b>	<b>1,220</b>	<b>1,531</b>
<b>Judicial Retirement System of Texas Plan One:</b>										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service										
<b>Total Retirement Benefits</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>	<b>26,464</b>	<b>25,578</b>
Refunds:										
Resignation	1	13	-	-	-	-	-	-	-	-
Death	-	1	-	-	-	-	-	-	-	-
<b>Total Refunds</b>	<b>1</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Judicial Retirement System of Texas Plan Two:</b>										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service										
Disability	1,983	2,609	3,107	4,254	4,958	6,134	7,149	8,923	9,942	11,346
Proportional	184	192	291	348	470	493	358	570	358	358
<b>Total Retirement Benefits</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>	<b>12,782</b>	<b>14,586</b>
Death Benefits:										
Active Members:										
Non-Occupational	-	10	24	-	-	-	-	-	21	-
<b>Total Death Benefits</b>	<b>-</b>	<b>10</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>-</b>
Refunds:										
Resignation	235	67	4	58	73	206	118	47	117	210
Death	68	39	61	-	-	-	-	-	62	75
<b>Total Refunds</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>179</b>	<b>285</b>
<b>Excess Benefit Arrangement:</b>										
<i>Type of Benefit</i>										
Retirement Benefits:										
Service										
<b>Total Retirement Benefits</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>436</b>	<b>488</b>
<b>State Retiree Health Plan:</b>										
<i>Type of Benefit</i>										
Insurance Benefits:										
Accrued Claims										
Life Claims	-	-	-	67,920	50,858	50,800	55,675	53,835	50,148	36,356
Prescriptions Drugs	-	-	-	22,140	18,514	20,839	24,430	24,663	29,722	37,349
Administrative Fees	-	-	-	151,020	172,701	175,831	182,620	171,191	201,279	217,332
HMO Payments	-	-	-	13,519	14,373	16,794	17,391	18,872	15,061	15,775
Health	-	-	-	26,422	30,985	35,036	31,606	32,349	73,491	98,107
Dental	-	-	-	283,244	259,845	285,591	318,593	330,801	310,261	301,785
<b>Total Insurance Benefits</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,765</b>	<b>10,952</b>	<b>11,967</b>	<b>13,074</b>	<b>14,486</b>	<b>16,123</b>	<b>17,677</b>
<b>Total Insurance Benefits</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>574,030</b>	<b>558,228</b>	<b>596,858</b>	<b>643,389</b>	<b>646,197</b>	<b>696,085</b>	<b>724,381</b>

Source: Comprehensive Annual Financial Reports

AVERAGE BENEFIT PAYMENTS - EMPLOYEE CLASS  
LAST TEN FISCAL YEARS

Retirement Effective Dates (Note A) September 30, 2003 to August 31, 2013	Years of Credited Service					
	5-10	10-15	15-20	20-25	25-30	30+
<b>- Period 9/30/03 to 8/31/04:</b>						
Average Monthly Benefit	\$ 409.25	648.23	1,111.44	1,562.56	2,231.32	2,724.48
Average Final Average Salary	\$ 2,813.39	2,809.01	3,056.12	3,336.82	3,809.17	4,029.09
Number of Retired Members	172	459	300	711	881	444
<b>- Period 9/30/04 to 8/31/05:</b>						
Average Monthly Benefit	\$ 392.50	725.51	1,214.99	1,624.56	2,327.64	2,904.10
Average Final Average Salary	\$ 2,647.96	2,879.45	3,265.89	3,380.61	3,923.26	4,145.31
Number of Retired Members	149	516	375	718	839	433
<b>- Period 9/30/05 to 8/31/06:</b>						
Average Monthly Benefit	\$ 404.86	728.49	1,255.53	1,628.52	2,139.69	3,024.94
Average Final Average Salary	\$ 2,661.45	2,862.42	3,319.68	3,464.64	3,660.11	4,266.44
Number of Retired Members	144	410	290	379	382	244
<b>- Period 9/30/06 to 8/31/07:</b>						
Average Monthly Benefit	\$ 437.90	782.27	1,271.07	1,728.72	2,502.70	3,033.50
Average Final Average Salary	\$ 2,845.56	3,005.13	3,343.93	3,644.00	4,208.00	4,339.91
Number of Retired Members	189	451	380	644	589	413
<b>- Period 9/30/07 to 8/31/08:</b>						
Average Monthly Benefit	\$ 461.24	813.55	1,336.97	1,861.14	2,636.57	3,505.07
Average Final Average Salary	\$ 2,985.91	3,170.73	3,457.36	3,888.32	4,331.29	4,771.35
Number of Retired Members	197	489	440	640	633	439
<b>- Period 9/30/08 to 8/31/09:</b>						
Average Monthly Benefit	\$ 471.88	830.62	1,316.81	1,874.42	2,613.78	3,551.30
Average Final Average Salary	\$ 3,062.75	3,191.33	3,486.95	3,871.98	4,301.52	4,886.65
Number of Retired Members	190	479	508	646	558	413
<b>- Period 9/30/09 to 8/31/10:</b>						
Average Monthly Benefit	\$ 456.89	889.69	1,360.95	1,916.03	2,663.09	3,732.28
Average Final Average Salary	\$ 3,073.69	3,394.48	3,581.93	3,942.91	4,433.04	5,106.92
Number of Retired Members	211	504	561	722	658	546
<b>- Period 9/30/10 to 8/31/11:</b>						
Average Monthly Benefit	\$ 533.09	860.11	1,423.58	2,034.39	2,830.97	3,713.09
Average Final Average Salary	\$ 3,504.83	3,285.84	3,713.48	4,207.40	4,680.37	5,090.94
Number of Retired Members	253	648	622	829	791	652
<b>- Period 9/30/11 to 8/31/12:</b>						
Average Monthly Benefit	\$ 516.66	863.09	1,425.26	2,058.84	2,840.15	3,691.22
Average Final Average Salary	\$ 3,394.34	3,287.15	3,674.80	4,217.56	4,694.04	5,043.64
Number of Retired Members	242	595	715	844	771	576
<b>- Period 9/30/12 to 8/31/13:</b>						
Average Monthly Benefit	\$ 540.66	956.97	1,522.84	2,082.24	2,918.46	3,766.44
Average Final Average Salary	\$ 3,478.71	3,585.36	3,931.25	4,243.88	4,811.12	5,135.48
Number of Retired Members	306	643	755	902	824	572
<b>Five Year Average -</b>						
<b>Period 9/30/08 to 8/31/13:</b>						
Average Monthly Benefit	\$ 508.66	882.71	1,419.39	2,002.69	2,788.64	3,699.16
Average Final Average Salary	\$ 3,330.37	3,356.55	3,696.99	4,114.54	4,609.34	5,062.88
Average Number of Retired Members	240	574	632	789	720	552
<b>Ten Year Average -</b>						
<b>Period 9/30/03 to 8/31/12:</b>						
Average Monthly Benefit	\$ 473.55	818.96	1,356.88	1,861.50	2,587.89	3,424.09
Average Final Average Salary	\$ 3,112.93	3,173.75	3,554.87	3,862.36	4,312.55	4,750.71
Average Number of Retired Members	205	519	495	704	693	473

Note A: This schedule includes service retirements of the employee class as of October 7, 2013. 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, 2013

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	6,098	5,879	219	3,889	1,263	349	147	267	183
301-600	11,675	10,924	751	8,027	1,905	565	354	427	397
601-900	12,294	11,472	822	8,469	1,857	750	414	375	429
901-1,200	11,141	10,709	432	7,391	1,767	884	339	339	421
1,201-1,500	10,483	10,281	202	6,645	1,702	994	328	267	547
1,501-2,000	13,055	12,932	123	7,969	1,955	1,561	379	376	815
2,001-2,500	9,768	9,737	31	5,599	1,468	1,396	260	352	693
2,501-3,000	6,789	6,780	9	3,564	1,066	1,127	172	247	613
3,001-4,000	6,608	6,604	4	3,422	1,108	1,027	136	248	667
4,001-10,999	3,456	3,455	1	1,682	706	499	69	112	388
<b>Total</b>	<b>91,367</b>	<b>88,773</b>	<b>2,594</b>	<b>56,657</b>	<b>14,797</b>	<b>9,152</b>	<b>2,598</b>	<b>3,010</b>	<b>5,153</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	396	396	0	239	102	27	6	5	17
201-400	4,374	4,328	46	2,377	1,035	515	81	88	278
401-600	2,560	2,534	26	1,208	463	472	48	65	304
601-800	1,057	1,055	2	420	254	188	14	21	160
801-1,000	470	469	1	194	133	80	10	5	48
1,001-1,200	133	132	1	55	40	16	0	0	22
1,201-1,400	47	39	8	19	10	8	1	0	9
1,401-1,600	23	14	9	16	3	2	1	1	0
1,601-1,800	12	4	8	10	2	0	0	0	0
1,801-9,999	17	8	9	14	2	1	0	0	0
<b>Total</b>	<b>9,089</b>	<b>8,979</b>	<b>110</b>	<b>4,552</b>	<b>2,044</b>	<b>1,309</b>	<b>161</b>	<b>185</b>	<b>838</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	14	14	0	5	6	2	1	0	0
2,001-2,500	4	4	0	2	1	0	0	1	0
2,501-3,000	3	3	0	0	0	1	1	0	1
3,001-3,500	4	4	0	1	1	2	0	0	0
3,501-4,000	15	15	0	6	5	2	0	2	0
4,001-4,500	31	31	0	6	20	3	0	1	1
4,501-5,000	40	40	0	16	18	3	0	3	0
5,001-5,500	56	56	0	19	20	6	1	0	10
5,501-6,000	29	29	0	9	11	5	0	2	2
6,001-6,500	35	34	1	27	5	1	1	0	1
6,501-7,000	12	12	0	8	1	2	0	0	1
7,001-9,999	11	11	0	8	3	0	0	0	0
<b>Total</b>	<b>254</b>	<b>253</b>	<b>1</b>	<b>107</b>	<b>91</b>	<b>27</b>	<b>4</b>	<b>9</b>	<b>16</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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	%	%	%	%	%	%	%	%	%	%
<b>Defined Benefit Plans</b>										
<b>Employees Retirement Fund</b>										
<i>Employee Class:</i>										
Employee*	6.00	6.00	6.00	6.00	6.00	6.00	6.50	6.50	6.50	6.50
State**	6.00	6.00	6.45	6.45	6.45	6.45	6.78	6.95	6.00	6.50
<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	6.45	6.45	6.45	6.45	6.45	6.45	6.00	6.50
Other Elected Class *	6.00	6.00	6.00	6.00	6.00	6.00	6.50	6.50	6.50	6.50
State **	6.00	6.00	6.45	6.45	6.45	6.45	6.78	6.95	6.00	6.50
							*(Blended)			
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A)</b>										
Employee							0.5	0.5	0.5	0.5
State					1.59	1.59	1.59	1.59	0.0	0.5
<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	6.0	6.50
<b>State Retiree Health Plan</b>										
	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Group Benefits Program (Note B)</b>										
<i>Employee Only:</i>										
State Contribution Monthly Rate	300.27	315.56	343.48	360.54	360.54	360.54	385.38	411.04	438.30	470.38
HealthSelect Monthly Premium	300.27	315.56	343.48	360.54	360.54	360.54	385.38	411.04	438.30	470.38
<i>Employee &amp; Children:</i>										
State Contribution Monthly Rate	415.02	436.19	474.86	498.49	498.49	498.49	532.90	569.30	606.20	650.62
HealthSelect Monthly Premium	529.76	556.82	606.24	636.44	636.44	636.44	680.42	727.56	774.10	830.86
<i>Employee &amp; Spouse:</i>										
State Contribution Monthly Rate	471.65	495.73	539.70	566.57	566.57	566.57	605.70	647.38	689.04	739.58
HealthSelect Monthly Premium	643.02	675.89	735.92	772.60	772.60	772.60	826.02	883.72	939.78	1,008.78
<i>Employee &amp; Family:</i>										
State Contribution Monthly Rate	586.39	616.36	671.08	704.52	704.52	704.52	753.22	805.64	856.94	919.82
HealthSelect Monthly Premium	872.51	917.15	998.68	1,048.50	1,048.50	1,048.50	1,121.06	1,200.24	1,275.58	1,369.26
<b>Total State Contribution (in millions)</b> (Note C)	<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>	<b>1,434.2</b>	<b>1,527.0</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.

STATISTICAL INFORMATION – DEFINED BENEFIT PLANS  
(ALL ITEMS EXPRESSED AS NUMBERS UNLESS OTHERWISE INDICATED)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
(Note C)										
<b>Employees Retirement Fund</b>										
Active Contributing Members	133,349	132,417	132,411	132,497	134,626	141,223	142,490	137,293	132,669	133,669
Non-Contributing Members	54,658	57,089	61,567	67,803	74,094	72,585	78,737	84,900	90,190	96,015
Retirees and Beneficiaries	60,089	63,453	67,596	70,456	72,678	75,722	79,311	83,430	87,799	91,367
Service Retirements	3,906	4,609	2,929	4,110	4,445	4,338	4,803	5,734	5,860	5,174
Disability Retirements	181	179	80	98	115	95	67	74	68	113
Resignation Refunds	13,947	14,239	11,199	11,365	10,763	12,623	8,497	9,607	10,130	9,228
Death Refunds	237	294	317	551	175	344	300	413	458	423
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Notes A &amp; B)</b>										
Active Contributing Members	38,391	37,251	37,103	36,413	33,642	37,819	39,052	36,806	37,404	37,415
Non-Contributing Members	7,856	8,428	33	27	35	39	2,978	5,785	7,129	10,187
Retirees and Beneficiaries	4,576	5,072	5,318	5,805	6,204	6,647	7,175	7,728	8,477	9,089
Service Retirements	431	537	306	553	637	559	635	695	895	741
Disability Retirements	3			4		2				3
Resignation Refunds										3
Death Refunds										3
<b>Judicial Retirement System of Texas Plan One</b>										
Active Contributing Members	53	28	43	24	27	23	22	17	17	13
Non-Contributing Members	15	36	12	15	7	7	7	5	4	4
Retirees and Beneficiaries	494	491	486	488	471	461	447	445	433	421
Service Retirements	10	12	7	16	6	4	2	6	2	4
Disability Retirements										
Resignation Refunds	1	1		3						
Death Refunds		1								
<b>Judicial Retirement System of Texas Plan Two</b>										
Active Contributing Members	484	491	498	515	518	533	539	546	541	545
Non-Contributing Members	79	90	95	115	120	134	130	134	143	152
Retirees and Beneficiaries	72	81	89	116	117	152	164	208	215	254
Service Retirements	8	9	10	24	6	36	12	43	8	43
Disability Retirements										
Resignation Refunds	8	8	2	3	4	8	7	1	3	5
Death Refunds		1	1					1	2	1
<b>State Retiree Health Plan (Note D)</b>										
Retirees				75,958	80,543	83,494	86,111	90,213	95,375	100,054
Dependents				30,653	31,293	32,067	32,408	32,412	35,549	35,830

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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>457 Deferred Compensation Plan (Note A)</b>										
TexaSaver 457 Plan (Note A):										
Total Participants	9,937	12,425	14,960	16,646	15,980	16,727	18,479	21,153	23,219	24,689
Participants Currently Deferring	5,908	7,632	8,350	9,475	10,282	10,295	11,649	13,293	14,189	14,385
Current Market Value of Plan Assets (in millions) \$	159.6	219.8	265.3	325.7	266.8	274.0	334.5	380.6	442.6	494.7
Original 457 Plan (Notes A, B, & C):										
Total Participants	5,104	3,693	3,169	2,780	2,527	2,278	1,293	734	657	598
Participants Currently Deferring	138	127	121	101	82	74	63	57	53	38
<b>TexaSaver 401(k) Deferred Compensation Plan</b>										
Total Participants	56,504	54,349	54,710	55,212	61,692	80,735	96,250	109,613	121,516	135,237
Participants Currently Deferring	30,075	28,574	28,314	28,587	37,399	52,347	69,311	64,704	66,910	69,692
Current Market Value of Plan Assets (in millions) \$	779.3	886.0	990.4	1,154.0	1,143.0	1,085.0	1,249.5	1,315.5	1,527.2	1,593.8
Deferrals (in millions) \$	86.9	83.6	89.2	94.7	103.8	168.0	108.2	107.3	105.5	145.7
<b>Cafeteria Plan</b>										
Reimbursement Accounts:										
Health Care	23,868	29,728	33,047	35,342	40,685	43,001	46,556	48,807	47,591	46,942
Dependent Care	2,416	2,522	2,665	2,836	3,012	3,261	3,549	3,686	3,747	3,747
Total Redirected (in millions) \$	43.1	52.4	60.0	67.5	75.3	80.2	87.5	93.7	92.8	91.9
Premium Conversion:										
Participants	199,215	206,173	209,214	210,744	215,618	223,980	228,121	222,295	218,587	219,357
Premiums Redirected (in millions) \$	321.4	337.8	363.3	386.4	389.7	410.3	457.4	482.4	487.5	500.9
Tax Savings (in millions):										
Employees	72.8	76.5	82.3	87.5	88.3	92.9	103.6	109.2	110.4	113.5
State of Texas	24.6	25.8	27.8	29.6	29.8	31.4	35.0	36.9	37.3	38.3
<b>Group Benefits Program (Note D)</b>										
Membership:										
Active	192,859	198,627	200,775	216,958	222,660	230,285	234,057	239,138	237,041	226,181
Retired	66,348	68,109	69,748	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dependents	235,834	236,691	232,846	199,833	190,573	198,420	197,979	183,626	172,695	171,023
COBRA (Note E)	1,736	1,558	2,485	2,009	2,138	2,178	2,544	2,213	2,460	1,674
	496,777	504,985	505,854	418,800	415,371	430,883	434,580	424,977	412,196	398,878
<b>Death Benefit Programs</b>										
Lump Sum Payments	19	11	16	12	13	6	18	14	9	23
Monthly Payments to Guardians	109	127	133	114	111	100	103	107	99	111
Victims of Violent Crime	n/a	5	3	2	8	8	5	13	5	11

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, 2012.

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: 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.

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

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



## LISTING OF PARTICIPATING REPORTING ENTITIES FOR STATE RETIREE HEALTH PLAN

### STATE AGENCIES

Adjutant General's Department  
Attorney General  
Board of Examiners of Psychologists  
Board of Law Examiners  
Board of Plumbing Examiners  
Bond Review Board  
Cancer Prevention and Research Institute of Texas  
Commission on Jail Standards  
Commission on Law Enforcement Officer Standards and Education  
Commission on State Emergency Communications  
Comptroller - State Energy Conservation Office  
Comptroller of Public Accounts  
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 Aging and Disability Services  
Department of Agriculture  
Department of Assistive and Rehabilitative Services  
Department of Family and Protective Services  
Department of Information Resources  
Department of Public Safety  
Department of Savings and Mortgage Lending  
Department of State Health Services  
District Courts - Comptroller's Judiciary Section  
Employees Retirement System of Texas  
Executive Council of Physical and Occupational Therapy Examiners  
Firefighter's Pension Commissioner  
General Land Office  
Governor - Executive  
Governor - Fiscal  
Health and Human Services Commission  
Health Professions Council  
House of Representatives  
Legislative Budget Board  
Legislative Reference Library  
Office of Capital Writs  
Office of Consumer Credit Commissioner  
Office of Court Administration  
Office of Injured Employee Counsel  
Office of Public Insurance Counsel  
Office of Public Utility Counsel  
Office of State-Federal Relations  
Parks and Wildlife Department  
Public Utility Commission of Texas  
Railroad Commission of Texas  
Secretary of State  
Senate  
Soil and Water Conservation Board  
State Auditor  
State Bar of Texas  
State Board of Dental Examiners  
State Board of Podiatric Medical Examiners  
State Board of Veterinary Medical Examiners  
State Commission on Judicial Conduct  
State Law Library  
State Office of Administrative Hearings  
State Office of Risk Management  
State Pension Review Board  
State Preservation Board  
State Prosecuting Attorney, Office of  
State Securities Board  
Sunset Advisory Commission  
Supreme Court  
Teacher Retirement System of Texas  
Texas Alcoholic Beverage Commission  
Texas Animal Health Commission  
Texas Board of Architectural Examiners  
Texas Board of Chiropractic Examiners  
Texas Board of Nursing  
Texas Board of Professional Engineers  
Texas Board of Professional Geoscientists  
Texas Board of Professional Land Surveying  
Texas Commission on Environmental Quality  
Texas Commission on Fire Protection  
Texas Commission on the Arts  
Texas Department of Banking  
Texas Department of Criminal Justice  
Texas Department of Housing and Community Affairs  
Texas Department of Insurance  
Texas Department of Licensing and Regulation  
Texas Department of Motor Vehicles  
Texas Department of Transportation  
Texas Education Agency  
Texas Ethics Commission  
Texas Facilities Commission  
Texas Funeral Service Commission  
Texas Higher Education Coordinating Board  
Texas Historical Commission  
Texas Juvenile Justice Department  
Texas Legislative Council  
Texas Lottery Commission  
Texas Medical Board  
Texas Optometry Board  
Texas Public Finance Authority

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

### STATE AGENCIES (CONTINUED)

Texas Racing Commission  
Texas Real Estate Commission  
Texas School for the Blind and Visually Impaired  
Texas School for the Deaf  
Texas State Board of Pharmacy  
Texas State Board of Public Accountancy  
Texas State Library and Archives Commission  
Texas Treasury Safekeeping Trust Company  
Texas Veterans Commission  
Texas Water Development Board  
Texas Workforce Commission

### UNIVERSITIES

Angelo State University  
Lamar Institute of Technology  
Lamar State College - Orange  
Lamar State College - Port Arthur  
Lamar University  
Midwestern State University  
Sam Houston State University  
Stephen F. Austin State University  
Sul Ross State University  
Texas Southern University  
Texas State Technical College System  
Texas State University  
Texas State University System  
Texas Tech University  
Texas Tech University Health Sciences Center  
Texas Tech University System  
Texas Woman's University  
University of Houston  
University of Houston - Clear Lake  
University of Houston - Downtown  
University of Houston - Victoria  
University of Houston System  
University of North Texas  
University of North Texas at Dallas  
University of North Texas Health Science Center  
at Fort Worth  
University of North Texas System

### JUNIOR AND COMMUNITY COLLEGES

Alamo Community College  
Alvin Community College  
Amarillo College  
Angelina College  
Austin Community College  
Blinn College  
Brazosport College  
Central Texas College  
Cisco Junior College  
Clarendon College

Coastal Bend College  
College of The Mainland  
Collin County Community College District  
Dallas County Community College  
Del Mar College  
El Paso Community College  
Frank Phillips College  
Galveston College  
Grayson County College  
Hill College  
Houston Community College  
Howard College  
Kilgore College  
Laredo Junior College  
Lee College  
Lone Star College System  
McLennan Community College  
Midland College  
Navarro College  
North Harris County College  
Northeast Texas Community College  
Odessa College  
Panola College  
Paris Junior College  
Ranger Junior College  
San Jacinto College  
South Plains College  
South Texas Community College  
Southwest Texas Counties Junior College  
Tarrant County College District  
Temple College  
Texarkana College  
Texas Southmost College  
Trinity Valley Community College  
Tyler Junior College  
Vernon Regional Junior College  
Victoria College  
Weatherford College  
Western Texas College  
Wharton County Junior College

### OTHER ENTITIES

*Community Supervision and Corrections Departments  
Texas Cooperative Inspection Program  
Texas County and District Retirement System  
Texas Municipal Retirement System  
Texas Turnpike Authority  
Windham School District*

### PRINCIPAL PARTICIPATING REPORTING ENTITIES

*The principal participating employer is the state of Texas. State agencies employ 147,821 which is 65% of covered employees.*



ERS SUPPORTS THE STATE WORKFORCE BY OFFERING  
COMPETITIVE BENEFITS AT A REASONABLE COST.



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