

2015



COMPREHENSIVE ANNUAL FINANCIAL REPORT

*Employees Retirement System of Texas • A Component Unit of the State of Texas*

Fiscal Year Ended August 31, 2015



The mission of the Employees Retirement System of Texas is to support the state workforce by offering competitive benefits at a reasonable cost.

# 2015 Comprehensive Annual Financial Report

Porter Wilson, Executive Director

Prepared by: Finance Division



A Component Unit of the State of Texas  
Fiscal Year Ended August 31, 2015

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## INTRODUCTORY SECTION

Highlights of Retirement Programs

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# Highlights of Retirement Programs

As of August 31, 2015

	ERS (Note A)	LECOS (Note A)	JRS I (Note B)	JRS II
<b>Retirement Census Data</b>				
Active Members	142,409	38,526	10	563
Terminated Employees Entitled to Benefits	101,122	12,962	3	148
<b>Total Retirement Accounts</b>	<b>243,531</b>	<b>51,488</b>	<b>13</b>	<b>711</b>
Retirees and Beneficiaries	100,003	10,845	391	322
Service Retirements	5,982	959	1	57
Disability Retirements	60	0	0	0
<b>Total Retirements During the Fiscal Year</b>	<b>6,042</b>	<b>959</b>	<b>1</b>	<b>57</b>
Funded Ratios (Note C)	76.3%	72.0%		92.2%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Note D)	64.4%	47.8%		82.9%
<b>Results of Investments - Pension Trust Funds</b>				
Interest, Dividends & Securities				
Lending Income	\$ 557,179,175	\$ 19,467,018	\$	\$ 8,303,277
Net Depreciation in Fair Value of Investments	(471,967,104)	(16,582,254)		(7,107,843)
<b>Other Transactions Summary</b>				
Member Contributions	\$ 462,159,534	\$ 8,376,472	\$	\$ 5,464,997
State Retirement Contributions	500,509,987	26,728,318		12,457,095
Retirement Benefits	2,027,130,447	59,220,363	26,543,274	19,184,304
Member Contributions Withdrawn	87,166,789	2,128,060		55,799
Administrative Expenses	21,839,626	1,411,562		283,609
Investment Expenses	32,590,570	1,116,375		439,842
<b>Money-Weighted Rates of Return</b>	0.23%	0.22%		0.23%
<b>Time Weighted Rates of Return</b>				
Investment Pool Trust Fund	<b>1-Year</b> 0.49%	<b>3-Year</b> 8.26%	<b>5-Year</b> 9.10%	

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: Funded Ratios are based on actuarial calculations for funding purposes. 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, 2013

Note D: This calculation reflects market value, changes in single discount rate application, and other adjustments as required by GASB No. 67.

November 16, 2015

PORTER WILSON  
EXECUTIVE DIRECTOR

I. CRAIG HESTER  
CHAIR

DOUG DANZEISER  
VICE-CHAIR

BOARD OF TRUSTEES  
ILESIA DANIELS  
CYDNEY C. DONNELL  
BRIAN D. RAGLAND  
FREDERICK E. ROWE, JR.

The Honorable Governor Abbott and Members of the Texas Legislature:

On behalf of the Employees Retirement System of Texas, I appreciate this opportunity to share with you our financial and programmatic activities of the past year. Legislative actions to protect the long-term health of the ERS Trust Fund, positive investment returns, and cost-saving activities in our health plans have made this a successful year. We continue to position ERS programs for future stability and growth.

Over the past two sessions, the Legislature has taken significant steps to protect and ensure the long-term health of state pension funds, including the ERS Trust Fund. In 2013, legislation was enacted to increase direct contributions by the state, employer agencies, and contributing members and to adjust retirement benefits for new state employees. Direct contributions by the state and contributing members were again increased in 2015. These actions by the Legislature were critical in reversing a trend toward fund depletion, and building and strengthening overall fund assets. Depending on investment performance and other factors, the funding amortization period is expected to be reduced from an infinite horizon to approximately 33 years. With these important legislative actions to shore up the fund, current and future retirees can be confident that their retirement savings are secure for the long term. We are truly grateful for your efforts to achieve this positive outcome for our members and for the state as a whole.

Thanks to careful, deliberate, and informed management, this year's investment returns exceeded three-year and five-year benchmarks for a fifth consecutive year. The effect of recent events, including significant volatility in the financial markets, cannot be determined at this time, but we continue to have confidence in the overall health of financial markets as we maintain a long-term approach to investing the System's assets.

ERS investments are highly diversified and designed to withstand market fluctuations. Actively managing investment risks while seeking aggressive returns, we have worked to broaden our portfolio by allocating assets across new and more profitable investment classes. During Fiscal Year 2015, we continued to build and mature assets invested in private markets – such as real estate, private equity, and hedge funds – while diversifying investment programs related to both public and private market infrastructure opportunities. ERS remains committed to investing in local opportunities and markets throughout Texas. The fund is currently 30 percent invested in Texas-based companies and firms that maintain 200 or more employees within the state. We also continue to develop our emerging managers program, investing more than \$276 million with these dedicated managers.

ERS' investment operations are just part of our effort to help state employees and retirees attain retirement readiness and financial security. During Fiscal Year 2015, the TexasSaver 401(k)/457 Program continued to grow, adding new fund options and amassing \$2.4 billion in total assets. An award-winning information campaign to encourage members to increase personal contributions has continued to raise

awareness of the need to supplement primary state retirement programs with personal savings and investments. By supporting a multi-pronged approach to retirement security, ERS is helping reduce the potential for future cost increases in social service programs across the state.

In addition to investment and retirement programs, a significant portion of ERS resources are devoted to supporting responsive and effective administration of health and insurance benefits to more than 540,000 plan participants. We take pride in our ability to offer high-quality insurance benefits at reasonable rates through the Texas Employees Group Benefits Program (GBP). ERS has been particularly effective at reigning in administrative costs for HealthSelect<sup>sm</sup> of Texas, the primary health plan for state employees and retirees. Of every dollar, 97.6 cents is spent directly on health care. With only 2.4 cents spent on administrative costs, ERS is well below the current national average of 3.7% percent for self-funded plans.

The agency continues to make strides in efforts to reduce overall costs while maintaining quality health care services. Since September 2012, when United HealthCare® began to administer HealthSelect<sup>sm</sup> of Texas, ERS has remained on track to realize the full level of administrative savings originally negotiated in the contract, estimated at \$6 million per year. In Fiscal Year 2015, ERS has successfully negotiated a one-year extension to the HealthSelect<sup>sm</sup> contract without a rate increase.

Beginning September 1, 2016, state employees will have the option of selecting a consumer-directed health plan (CDHP) as an alternative to the HealthSelect<sup>sm</sup> point-of-service plan and the regional health maintenance organizations. The CDHP will allow those who choose it to have greater control of their healthcare expenses and to realize the tax benefits of a health savings account.

After identifying a significant increase in cost and utilization of compound drugs and topical analgesics, ERS is vigorously monitoring the system for fraud, waste, and abuse. As part of the agency's pharmacy benefit manager contract, ERS installed new plan provisions to review and exclude charges for drug therapies not approved by the U.S. Food and Drug Administration. As a result, costs have dropped more than \$35 million annually while maintaining the same level of patient care.

These are just a few of the ways we are working to reduce healthcare costs within the plans without sacrificing quality care and service. We will continue to identify greater efficiencies for the program, while offering more options for our members – with Texas taxpayers always in mind. Above all, we remain keenly aware of the importance of the retirement, health, and other benefits ERS administers to those who serve our state in so many crucial ways. We feel a deep responsibility to our members and to the taxpayers who make these benefits possible.

Thank you for your ongoing support. We are honored to work with you in the service of the great State of Texas and look forward to continued progress and success in the coming years.

Sincerely,



**Porter Wilson**  
Executive Director

November 16, 2015

PORTER WILSON  
EXECUTIVE DIRECTOR

I. CRAIG HESTER  
CHAIR

DOUG DANZEISER  
VICE-CHAIR

BOARD OF TRUSTEES  
ILESA DANIELS  
CYDNEY C. DONNELL  
BRIAN D. RAGLAND  
FREDERICK E. ROWE, JR.

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, 2015, 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, 2015.

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 \$25.2 billion, and had a return of 0.49% for the year. The investment portfolio's total return did not meet the actuarially assumed rate of return of 8.0% due to adverse market conditions at the end of the fiscal year. The time weighted rate of return for three and five years were 8.26% and 9.10% respectively.

The effects of recent events, including the significant volatility in the financial markets cannot be determined at this time; however, the System's management remains confident in the financial markets and maintains a long term approach to investing the System's assets. The System's investments are highly diversified and are designed to withstand market fluctuations such as those that have occurred recently. 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, 2015 actuarial valuation shows that the ratio of the actuarial value of assets to the actuarial accrued liability was 76.3% for funding purposes. The average actuarial funding level for state and local public pension plans nationwide is estimated at 74% for 2014 according to a paper published in June of 2015 by the Center for Retirement Research at Boston College. The ERF is in relatively good financial condition. The System worked with the 84th Legislature to improve the funding status of the various benefit systems under management. Legislation effective September 1, 2015, increased state and member contributions, and eliminated the 90 day wait resulting in substantial improvements to the actuarial soundness of the Employees Retirement Plan. The System is committed to working with the Legislature to return the retirement plans to an actuarially sound status. 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) were implemented in fiscal year 2014 for pension plans and are being implemented fiscal year 2015 for employers. Although these new standards will not alter the underlying fundamentals, we expect that the unfunded liabilities will be much 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. Municipal bond rating companies evaluate employer liabilities and the plans that are in progress to reduce unfunded liabilities. Failure to address unfunded pension liabilities could impact municipal bond ratings for a government.

## **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 was a major initiative for fiscal year 2014 and continued to be a focus for 2015. During fiscal year 2016, the System will be working on a funding policy to assist in informing its legislative request for future funding needs. The System will continue to work with the Legislature on various options to help make the pension plans actuarially sound.

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 implement a consumer driven health plan including a health savings account as directed by the 84th Legislature. The System will also begin a multi-year project to modernize the insurance benefits administration system to improve efficiency and member services using current innovative technology.

The System continues to enhance performance and accountability by expanding the use of existing technological solutions such as SharePoint. These tools will be used to enhance collaboration and to make processes more efficient and systematic while improving audit trails and documentation. Enhancing agency-wide risk management activities will also be a point of emphasis for the upcoming year.

#### **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, 2014. 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 26 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.

##### **Public Pension Standards Award for Funding and Administration**

The Public Pension Coordinating Council (PPCC) gave the 2015 Public Pension Standards Award for Funding and Administration to the System in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards. We believe we will continue to meet the requirements and are submitting it to the PPCC 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.



**MACHELLE PHARR, CPA**  
Interim Chief Financial Officer



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Employees Retirement System  
of Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2014**



Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2015***

Presented to

***Employees Retirement System of Texas***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator



# Organizational Chart and Data

As of August 31, 2015



# Consultants and Advisors

As of August 31, 2015

## 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

Lenore Sullivan, Chair  
James Hille, CFA, CAIA, Vice Chair  
*Texas Christian University Endowment*  
Bob Alley, CFA  
Caroline Cooley  
*CIO-Diversified Funds, Crestline Investors. Inc.*  
Monty Jones  
*Managing Partner, FCM Investments*  
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

### International Equity

BlackRock, Inc.  
Fisher Investment Institutional Group  
Franklin Templeton Institutional  
JP Morgan Asset Management  
Lazard Asset Management

### Managers of Emerging Managers

Leading Edge Investment Advisors, LLC  
Legato Capital Management, LLC

### 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 M. Loving, M.D.  
William E. McCarron, M.D.

# Summary of Plan Provisions

Effective since September 1, 2009 (Except as noted below)

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 Vernon's Texas Statutes and Codes Annotated ( V.T.S.C.A. ), Texas Government Code, Title 8. The following is a summary of the various plan provisions.

ERS	LECOS	JRS I and JRS II
<b>Membership:</b>		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>Employees and appointed officers of every department, commission, board, agency, or institution of the State except those who are included in the coverage of Teacher Retirement System of Texas, JRS I, and JRS II.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>Persons who hold State offices that are normally filled by statewide election and that are not included in the coverage of JRS I and JRS II.</li> <li>Members of the Legislature.</li> <li>District and criminal district attorneys.</li> </ul>	<ul style="list-style-type: none"> <li>Law enforcement officers commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, or the Office of Inspector General at the Texas Juvenile Justice Department recognized as commissioned law enforcement officers by the Commission on Law Enforcement Officer Standards and Education.</li> <li>Custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, and certified by that department according to statutory requirements as having a normal job assignment that requires frequent or infrequent planned contact with inmates of that institution.</li> </ul>	<p><i>JRS I Only:</i></p> <ul style="list-style-type: none"> <li>Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service before September 1, 1985.</li> </ul> <p><i>JRS II Only:</i></p> <ul style="list-style-type: none"> <li>Judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts, and certain commissions to a court who commenced service after August 31, 1985.</li> </ul>
<b>Service Retirement Eligibility:</b>		
<p><i>Employee Class Only:</i></p> <p>Hire date prior to 9-1-2009:</p> <ul style="list-style-type: none"> <li>Age 60 with at least five years of service credit, or</li> <li>The sum of age and years of service credit equals or exceeds the number 80 with at least five years of service credit, or</li> <li>Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer.</li> </ul> <p>Hire date on or after 9-1-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> <li>Age 65 with 10 years of service</li> <li>Rule-of-80, with at least 10 years of service at age 60. (no reduction)</li> </ul> <p>Hire date on or after 9-1-2013:</p> <ul style="list-style-type: none"> <li>Age 65 with 10 years of service.</li> <li>Rule-of-80, with at least 10 years of service at age 62. (no reduction)</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>Age 60 with eight years of service credit</li> <li>Age 50 with 12 years of service credit.</li> </ul>	<p>Hire date prior to 9-1-2009:</p> <ul style="list-style-type: none"> <li>20 years of service credit as a certified peace officer/custodial officer and the member's age is the earlier of either the age of 50 or the age at which the sum of age and years of service credit equals or exceeds the number 80.</li> </ul> <p>Hire date on or after 9-1-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> <li>20 years of service credit as a certified peace officer/custodial officer at or over age 55. (no reduction)</li> </ul> <p>Hire date on or after 9-1-2013:</p> <ul style="list-style-type: none"> <li>20 years of service credit as a certified peace officer/custodial officer at or over age 57. (no reduction)</li> </ul>	<ul style="list-style-type: none"> <li>Age 65 with at least 10 years of service credit and currently holding a judicial office, or</li> <li>Age 65 with at least 12 years of service credit, regardless of whether the member currently holds a judicial office, or</li> <li>20 years of service at any age, regardless of whether the member currently holds a judicial office, or</li> <li>The sum of age and years of service credit equals or exceeds the number 70 and served at least 12 years on an appellate court, regardless of whether the member currently holds a judicial office.</li> </ul>

# Summary of Plan Provisions (Continued)

Effective since September 1, 2009 (Except as noted below)

ERS	LECOS	JRS I and JRS II
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## Early Service Retirement Eligibility with Reduced Benefits:

<p>Hire date on or after 9-1-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> <li>• Rule-of-80, with at least 10 years of service. (5% annuity reduction for each year retired under age 60, up to 25%)</li> <li>• Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. (5% annuity reduction for each year retired under age 60, up to 25%)</li> </ul> <p>Hire date on or after 9-1-2013:</p> <ul style="list-style-type: none"> <li>• Rule-of-80, with at least 10 years of service. (5% annuity reduction for each year retired under age 62, no cap)</li> <li>• Age 55 with at least 10 years of service credit as a certified peace officer or custodial officer. (5% annuity reduction for each year retired under age 62, no cap)</li> </ul>	<p>Hire date prior to 09-01-2009:</p> <ul style="list-style-type: none"> <li>• 20 years of service credit as a certified peace officer/custodial officer, under the age of 50.</li> </ul> <p>Hire date on or after 9-1-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> <li>• 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%)</li> </ul> <p>Hire date on or after 9-1-2013:</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Age 60 with 10 years of service credit and currently holding judicial office, or</li> <li>• Age 60 with 12 years of service credit, regardless of whether the member currently holds a judicial office.</li> </ul>
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## Standard Service Retirement Benefits:

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

Effective since September 1, 2009 (Except as noted below)

ERS	LECOS	JRS I and JRS II
<b>Optional Service Retirement:</b>		
<p><i>Employee Class and Elected Class:</i></p> <ul style="list-style-type: none"> <li>• Lifetime with 100% to surviving beneficiary;</li> <li>• Lifetime with 75% to surviving beneficiary;</li> <li>• Lifetime with 50% to surviving beneficiary;</li> <li>• Lifetime with five years certain;</li> <li>• Lifetime with 10 years certain; and</li> <li>• One-time partial lump sum of up to three years of standard annuity at retirement (annuity is reduced for life and the reduced annuity is in addition to the calculation of the six beneficiary options listed above).</li> <li>• If beneficiary predeceases member, the annuity paid to the retired member who selected one of the lifetime survivor benefits is increased to the standard amount.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as ERS.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as ERS except for the one-time partial lump sum.</li> </ul>
<b>Vesting Requirement:</b>		
<p>Hire date prior to 09-01-2009:</p> <ul style="list-style-type: none"> <li>• Five or more years of service credit for Employee Class.</li> </ul> <p>Hire date on or after 09-01-2009 and prior to 9-1-2013:</p> <ul style="list-style-type: none"> <li>• 10 or more years of service credit for Employee Class.</li> </ul> <p>Hire date on or after 09-01-2013:</p> <ul style="list-style-type: none"> <li>• 10 or more years of service credit for Employee Class.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>• Eight or more years of service credit.</li> </ul>	<ul style="list-style-type: none"> <li>• 20 or more years of service credit as a certified peace officer/custodial officer.</li> </ul>	<ul style="list-style-type: none"> <li>• 12 or more years of service credit.</li> </ul>
<b>Vested Benefits after Termination of Employment:</b>		
<ul style="list-style-type: none"> <li>• Member is entitled to a deferred retirement benefit based on service and compensation prior to termination.</li> <li>• Member must leave accumulated contributions in the System to which the member contributed.</li> <li>• Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.</li> </ul>	<ul style="list-style-type: none"> <li>• Member is entitled to a deferred retirement benefit based on certified peace officer/custodial officer service and the highest average monthly compensation prior to termination.</li> <li>• Member must leave accumulated contributions in the System to which the member contributed.</li> <li>• Upon or after leaving State employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.</li> </ul>	<ul style="list-style-type: none"> <li>• Member is entitled to a deferred retirement benefit based on service and compensation as a judge prior to termination.</li> <li>• Member must leave accumulated contributions in the System and to which the member contributed.</li> <li>• Upon or after leaving State judicial employment, member may apply for a refund of contributions plus accrued interest. A refund cancels membership and terminates the member's rights to benefits.</li> </ul>



# Summary of Plan Provisions (Continued)

Effective since September 1, 2009 (Except as noted below)

ERS	LECOS	JRS I and JRS II
<b>Disability Retirement Eligibility:</b>		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>For occupational disability, the member must have at least one month of service and they must make a retirement contribution in the month they become permanently disabled.</li> <li>For non-occupational disability, at least 10 years of Employee Class service credit, which may include up to five years of purchased military service credit, and be a contributing member at the time of permanent disability.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>For occupational disability, no age or length of service requirement. Also one must be a contributing member at the time of permanent disability.</li> <li>For non-occupational disability, eight years of Elected Class service (exclusive of military service) or six years of Elected Class service plus two years of military service if purchased before January 1, 1978, and be a contributing member at the time of permanent disability.</li> </ul>	<ul style="list-style-type: none"> <li>For occupational disability, the member must have at least one month of service and they must make a retirement contribution in the month they become permanently disabled.</li> <li>For non-occupational disability, at least 10 years of service credit, which may include up to five years of purchased military service credit, and also one must be a contributing member at the time of permanent disability.</li> </ul>	<ul style="list-style-type: none"> <li>No age requirement.</li> <li>Seven years of judicial service and currently holding a judicial office.</li> </ul>
<b>Disability Retirement Benefits:</b>		
<p><i>Employee Class Only:</i></p> <ul style="list-style-type: none"> <li>For occupational disability, the benefits are the same as those under the standard service retirement, except the standard annuity is equal to not less than 35% of the monthly compensation regardless of the years of service credit or age.</li> <li>For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service.</li> <li>The optional annuity plans available are the same as those under a service retirement except there is no partial lump-sum option.</li> </ul> <p><i>Elected Class Only:</i></p> <ul style="list-style-type: none"> <li>For non-occupational retirement is calculated in the same manner as the standard retirement annuity, and is not reduced because of age.</li> <li>For occupational disability, the amount of a monthly annuity is 18.4% of the state salary of a district judge or 2.3% of the state salary of a district judge times the years of elected service, whichever is greater.</li> <li>Optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.</li> </ul>	<ul style="list-style-type: none"> <li>For occupational disability, the standard annuity is a minimum of 50% of the monthly compensation regardless of the years of service credit or age.</li> <li>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.</li> <li>For non-occupational disability, the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service.</li> <li>The optional annuity plans available are the same as those under a service retirement except for the partial lump-sum option.</li> </ul>	<ul style="list-style-type: none"> <li>Same as standard service retirement benefits without reduction for age.</li> </ul>

# Summary of Plan Provisions (Continued)

Effective since September 1, 2009 (Except as noted below)

## 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, a 10-year guaranteed monthly payment or a one-time refund of the members retirement account balance at the time of the members death.
- For a contributing member that had less than 10 years of service 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 a 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 of the member's salary. If there is not a surviving spouse or minor children, this occupational death benefit is not payable to anyone else.
- If a retired 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 based on the option chosen.
- If the member was 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's 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 the retirement account balance.
- If members 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 benefit.

# Summary of Plan Provisions (Concluded)

Effective since September 1, 2009 (Except as noted below)

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's Board of Trustees

Mr. I. Craig Hester, Chair  
Mr. Doug Danzeiser, Vice-Chair  
Mr. Ilesa Daniels  
Ms. Cydney Donnell  
Mr. Brian D. Ragland  
Mr. Frederick E. Rowe, Jr.

### 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, 2015, 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.

SAO Report No. 16-305

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, a component unit of the State of Texas, as of August 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

#### ***Employees Retirement System Financial Statements***

As discussed in Note 1, the financial statements of the System, a component unit of the State of Texas, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities and the aggregate remaining fund information of the State of Texas that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

As discussed in Note 2, the financial statements include investments valued at approximately \$6.5 billion as of August 31, 2015, 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 Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans, Schedule of Funding Progress – Defined Benefit Plans, Schedule of Employer Contributions – Defined Benefit Plans, Schedule of Contributions from the Employers and Other Contributing Entities, Schedule of Investment Returns – Defined Benefit Plans, 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, which 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 statements and supporting schedules is presented for purposes of additional analysis and is not a required part of the financial statements.

The information in the combining financial statements 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 statements 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 them.

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

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the System’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.



Lisa R. Collier, CPA, CIDA  
First Assistant State Auditor

November 16, 2015



# Management's Discussion and Analysis

Year Ended August 31, 2015

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, 2015. 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, 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:

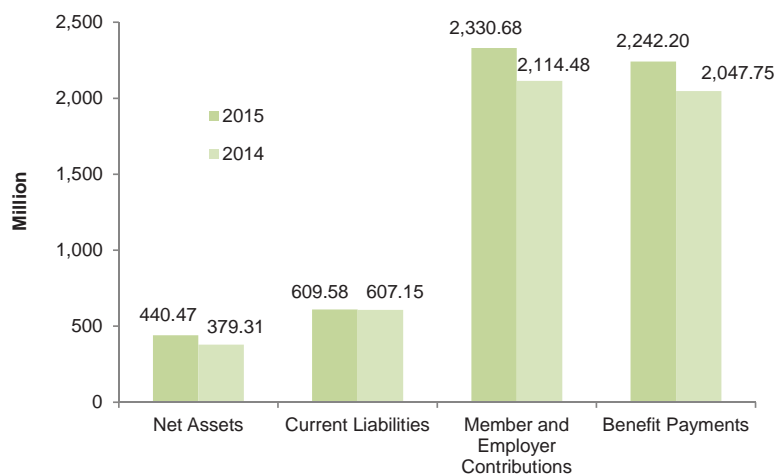
- Social Security Administration,
- Death Benefits for Public Safety Officers,
- Compensation to Victims of Crime,
- Death Benefits for Retirees, and
- Group Benefits Program.

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:

	2015	2014	Changes
	\$	\$	%
Net Position	440.47	379.31	16.12
Current Liabilities	609.58	607.15	0.40
Member and Employer Contributions	2,330.68	2,114.48	10.22
Benefit Payments	2,242.20	2,047.75	9.50

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

## Summary of Changes in Group Benefits Program



## Financial Highlights – Fiduciary Funds

- Net position of the Fiduciary Funds administered by the System totaled \$25.22 billion as of August 31, 2015, compared with \$26.29 billion as of August 31, 2014. The investment portfolio returned 0.49% for the year. The \$1.07 billion decrease resulted primarily from unfavorable market conditions affecting investment assets. The time weighted rate of return for three and five years were 8.26% and 9.10%, respectively.
- The one year money-weighted rates of return for the Fiduciary Funds are summarized as follows:

# Management's Discussion and Analysis (Continued)

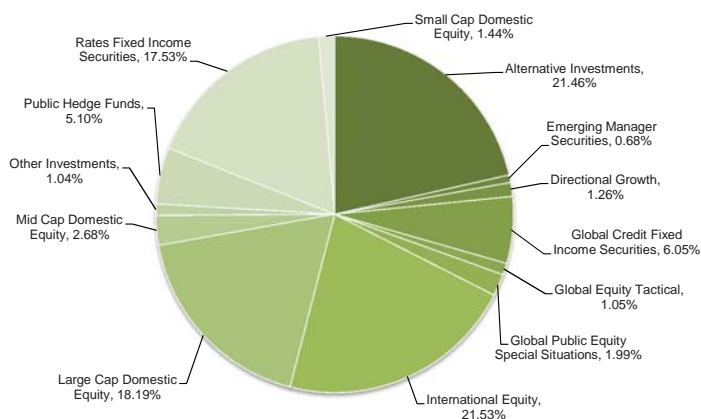
Year Ended August 31, 2015

Fund Name	Rate (%)
Employees Retirement System Fund	0.23
Law Enforcement and Custodial Officer Supplemental Retirement Fund	0.22
Judicial Retirement System Plan Two Fund	0.23
<b>Overall</b>	<b>0.23</b>

- 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.

Asset Class	%
Alternative Investments	21.46
Emerging Manager Securities	0.68
Directional Growth	1.26
Global Credit Fixed Income Securities	6.05
Global Equity Tactical	1.05
Global Public Equity Special Situations	1.99
International Equity	21.53
Large Cap Domestic Equity	18.19
Mid Cap Domestic Equity	2.68
Other Investments	1.04
Public Hedge Funds	5.10
Rates Fixed Income Securities	17.53
Small Cap Domestic Equity	1.44

**Asset Allocation**



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:

	2015	2014	Changes
	\$	\$	%
Contributions:			
Retirement & Other	1,126.30	1,074.15	4.86
Insurance	867.90	824.15	5.31
<b>Total (Exh. IX)</b>	<b>1,994.20</b>	<b>1,898.30</b>	<b>5.05</b>
Benefit Payments:			
Retirement & Other	2,240.81	2,145.26	4.45
Insurance	863.93	813.82	6.16
<b>Total (Exh. IX)</b>	<b>3,104.74</b>	<b>2,959.08</b>	<b>4.92</b>

- The increase in retirement contributions is primarily due to a legislative rate increase. The benefit payments for retirement increased due to an increase in retirees. The most recent actuarial valuations of the funded defined benefit plans were completed as of August 31, 2015. The funded ratios are as follows:

Plans	Funded Ratios	
	2015	2014
	%	%
Employees Retirement System	76.3	77.2
Law Enforcement and Custodial Officer Supplemental Retirement Fund	72.0	73.2
Judicial Retirement System of Texas Plan Two	92.2	90.2

See Exhibits VIII and IX 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:

	2015	2014	Changes
	\$	\$	%
Changes in Fiduciary			
Net Position (Exh. IX)	(1,076.06)	2,319.82	(146.39)
<b>Total Net Position</b>	<b>25,219.14</b>	<b>26,295.20</b>	<b>(4.09)</b>

The decrease in changes in Fiduciary Net Position is due primarily to conditions in the financial markets. The gross time weighted rate of return was 0.49%, which was lower than the previous year return of 14.70%.



# Management's Discussion and Analysis (Continued)

Year Ended August 31, 2015

## 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:

	2015	2014	Changes
	\$	\$	%
Member Contributions	724.87	679.35	6.70
State Contributions	1,152.46	1,127.81	2.19
Net Investment Income	60.00	3,410.54	(98.24)
Legislative Appropriations	26.54	27.72	(4.26)
Other Additions	179.16	148.31	20.80
<b>Total Additions (Exh. IX)</b>	<b>2,143.03</b>	<b>5,393.73</b>	<b>(60.27)</b>

A decrease in the net investment income is due primarily to unfavorable conditions in the financial markets compared to the previous year. The legislative increases to state and member contribution rates for the pension systems caused the increases in those two accounts.

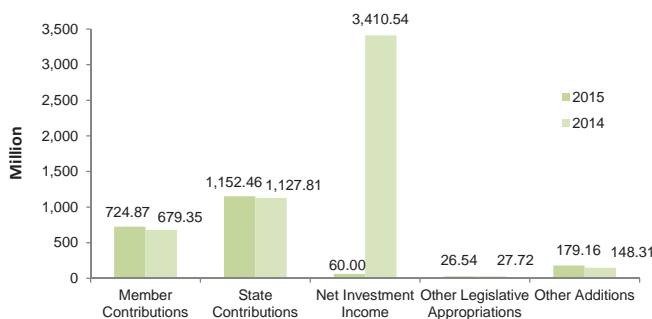
Net investment income is comprised of interest income, dividend income, securities lending income and related fees, and net appreciation or depreciation in fair value of investments, and is net of investment expenses.

## 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:

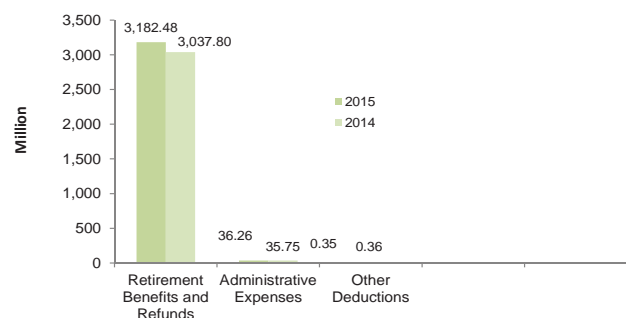
	2015	2014	Changes
	\$	\$	%
Benefits	3,182.48	3,037.80	4.76
Administrative	36.26	35.75	1.43
Other Deductions	0.35	0.36	(2.78)
<b>Total Deductions (Exh. IX)</b>	<b>3,219.09</b>	<b>3,073.91</b>	<b>4.72</b>

Summary of Changes in Additions



For the Employees Retirement Fund, member and State retirement contribution rates for fiscal year 2015 were 6.9% and 8.00% respectively. 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 6.9 % and 15.663% respectively.

Summary of Changes in Deductions



## Assets

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

# Management's Discussion and Analysis (Continued)

Year Ended August 31, 2015

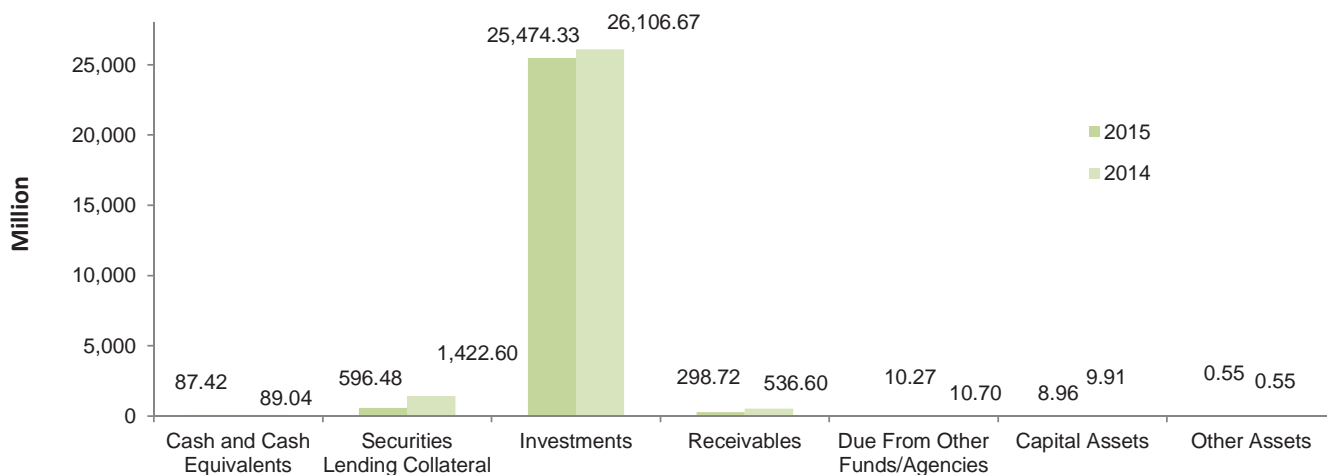
	2015	2014	Changes
	\$	\$	%
Cash and Cash Equivalents	87.42	89.04	(1.82)
Securities Lending Collateral	596.48	1,422.60	(58.07)
Investments	25,474.33	26,106.67	(2.42)
Receivables	298.72	536.60	(44.33)
Due from Other Funds/Agencies	10.27	10.70	(4.02)
Capital Assets	8.96	9.91	(9.59)
Other Assets	0.55	0.55	0
<b>Total Assets (Exh VIII)</b>	<b>26,476.73</b>	<b>28,176.07</b>	<b>(6.03)</b>

## Liabilities

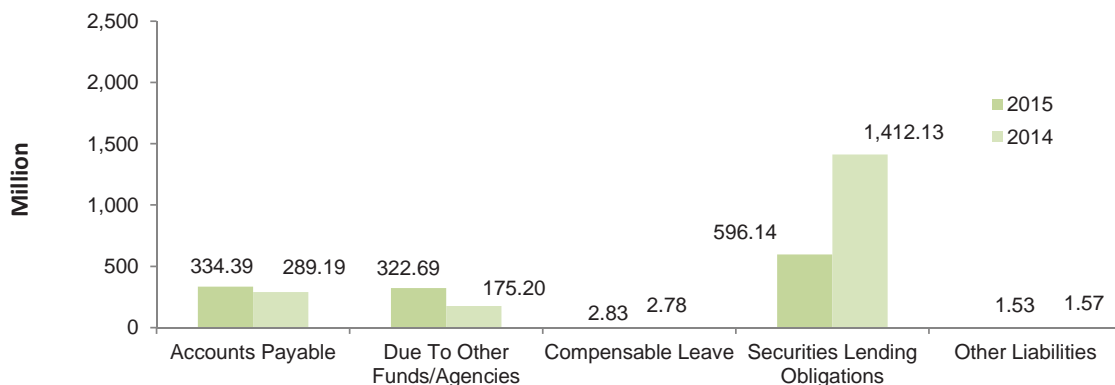
The condensed liabilities have been extracted from Exhibit VIII, Combined Statement of Fiduciary Net Position. Changes in liabilities are summarized in millions as follows:

	2015	2014	Changes
	\$	\$	%
Accounts Payable	334.39	289.19	15.63
Due to Other Funds/Agencies	322.69	175.20	84.18
Compensable Leave	2.83	2.78	1.80
Securities Lending Obligations	596.14	1,412.13	(57.78)
Other Liabilities	1.53	1.57	(2.55)
<b>Total Liabilities (Exh.VIII)</b>	<b>1,257.58</b>	<b>1,880.87</b>	<b>(33.14)</b>

### Summary of Changes in Assets



### Summary of Changes in Liabilities



# Management's Discussion and Analysis (Concluded)

Year Ended August 31, 2015

## 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, 2015, (compared to the August 31, 2014 actuarial valuation) is summarized in millions as follows:

Plans	Actuarial Net Asset/ (Liability)	
	2015	2014
	\$	\$
Employees Retirement System	(8,017.8)	(7,492.8)
Law Enforcement and Custodial Officer Supplemental Retirement Fund	(353.1)	(323.2)
Judicial Retirement System of Texas Plan Two	(31.4)	(37.9)

For the Employees Retirement System Fund, the August 31, 2015 actuarial valuation shows an unfunded accrued liability of \$8 billion. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability, is 76.3% as of August 31, 2015. The valuation shows that the total normal cost is 12.27% of payroll and total contributions are 19.5% of payroll. The total contribution rate exceeds the normal cost by 7.23% of payroll, which is sufficient to amortize the unfunded accrued liability in 33 years. The total contribution to fund the normal cost plus amortize the net liability balance over 31 years is 19.62% 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, 2015 actuarial valuation for the Law Enforcement and Custodial Officer Supplemental Retirement Fund shows that the total normal cost rate for fiscal year 2015 is 1.77% of payroll. At August 31, 2015, the unfunded accrued liability is \$353.1 million, and the funded ratio is 72.0%. Total contributions are 2.2% of payroll. The total contribution rate exceeds the normal cost by 0.43% for the current fiscal year and it is not sufficient to amortize the unfunded accrued liability over a future period. For fiscal year 2015, 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 3.01% of payroll.

For the Judicial Retirement System of Texas Plan II, the August 31, 2015 actuarial valuation shows that the total normal cost is 21.4% of payroll and unfunded accrued liability is \$31.4 million. The funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability is 92.2% as of August 31, 2015. Total contributions are 22.82% of payroll. The total contribution rate exceeds the normal cost by 1.42% of payroll for the current fiscal year and it is not sufficient to amortize the unfunded accrued liability over a future period. The rate needed to fund normal cost plus amortize the unfunded accrued liability over 31 years is 23.79%.

The Judicial Retirement Plan I is funded on a pay-as-you-go basis. The August 31, 2015 actuarial valuation shows an unfunded accrued liability of \$309.7 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, 2015 actuarial valuation shows an unfunded accrued liability of \$25.7 billion. The funded ratio is 0.0%. The valuation shows that the total normal cost is 9.3% of payroll. The Annual Sound Contribution (ASC) as of August 31, 2015 is 19.3% of payroll. Total contributions are 32.3% 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 \$169.1 million. Employer contributions were \$612.8 million. The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled ERS to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by ERS on behalf of certain plan participants. Along with payments from the Federal Early Retirees Reinsurance Program, the plan received payments in 2015 totaling \$86.1 million. The above amounts plus net investment income of \$324.2 thousand resulted in additions of \$872.2 million. These were offset entirely by \$863.9 million in benefit payments and \$8.3 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 Machel Pharr, Interim Chief Financial Officer at [Machel.Pharr@ers.state.tx.us](mailto:Machel.Pharr@ers.state.tx.us).

**Exhibit I**  
**Statement of Net Position**  
August 31, 2015

	<b>Governmental Activities</b>
<b>Assets</b>	<b>\$</b>
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	34,859,878
Total Cash and Cash Equivalents	34,859,878
Securities Lending Collateral	14,041,893
Short-Term Investments	171,356,591
Legislative Appropriations	4,500
Receivables	155,495,066
Due From Fiduciary Funds	320,256,366
Due From Other Agencies	30,006
Total Current Assets	696,044,300
Non-Current Assets:	
Global Credit Component	63,966,589
Rates Component	290,073,037
Total Non-Current Assets	354,039,626
<b>Total Assets</b>	<b>1,050,083,926</b>
<b>Liabilities</b>	
Current Liabilities:	
Payables	579,242,137
Due To Fiduciary Funds	2,464,874
Unearned Revenue	13,572,638
Obligations Under Securities Lending	14,321,564
Total Current Liabilities	609,601,213
<b>Total Liabilities</b>	<b>609,601,213</b>
<b>Net Position</b>	
Restricted For:	
Employee Benefits - Group Benefits Program	440,466,045
Unrestricted	16,668
<b>Total Net Position (Exh. II &amp; III)</b>	<b>440,482,713</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, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
	\$	\$	\$	\$
Governmental Activities:				
Social Security Administration	177,734	70,573		(107,161)
Death Benefits-Peace Officers, Firemen, etc.	2,162,030	2,162,030		-
Compensation to Victims of Crime	1,000,000	1,000,000		-
Death Benefits-Retiree \$5,000 Lump Sum	9,285,762	9,289,430		3,668
Group Benefits Program	2,278,819,962	2,330,800,421	9,175,053	61,155,512
<b>Total Governmental Activities</b>	<b>2,291,445,488</b>	<b>2,343,322,454</b>	<b>9,175,053</b>	<b>61,052,019</b>
			<b>General Revenues:</b>	
			Transfers	115,000
			<b>Total General Revenues</b>	<b>115,000</b>
			<b>Change in Net Position (Exh. IV)</b>	<b>61,167,019</b>
			<b>Net Position - Beginning</b>	<b>379,315,694</b>
			<b>Net Position - Ending (Exh. I)</b>	<b>440,482,713</b>

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

# Exhibit III

## Balance Sheet – Governmental Funds

August 31, 2015

	Non-major Special Revenue Funds Totals (Note 1.E)
<b>Assets</b>	<b>\$</b>
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	25,632
Total Cash and Cash Equivalents	25,632
Legislative Appropriations	4,500
Accounts Receivable	2,908
Total Current Assets	33,040
<b>Total Assets</b>	<b>33,040</b>
<b>Liabilities &amp; Fund Balances</b>	
Current Liabilities:	
Due To Other Funds (Note 5.A)	16,053
Unearned Revenues	319
Total Current Liabilities	16,372
<b>Total Liabilities</b>	<b>16,372</b>
<b>Fund Balances:</b>	
Committed	16,668
<b>Total Fund Balances (Exh. IV)</b>	<b>16,668</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>33,040</b>
Total Fund Balances - Governmental Funds (above):	16,668
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.	440,466,045
<b>Net Position of Governmental Activities (Exh. I)</b>	<b>440,482,713</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, 2015

	<b>Non-major Special Revenue Funds Totals (Note 1.E)</b>
<b>Revenues</b>	<b>\$</b>
Legislative Appropriations Out of the State's General Revenue Fund:	
Appropriation Revenue:	
For Death Benefits Peace Officers, Etc.	2,162,030
For Victims of Crime	1,000,000
For Death Benefits-Retirees	9,289,430
<b>Total Appropriation Revenue</b>	<b>12,451,460</b>
Administration Fees for Social Security Administration	70,573
<b>Total Revenues</b>	<b>12,522,033</b>
<b>Expenditures</b>	
Current:	
Death Benefits	12,447,792
Administrative Expenditures:	
Salaries & Wages	112,616
Payroll Related Costs	31,782
Professional Fees & Services	12,918
Travel	1,243
Materials & Supplies	5,783
Communications & Utilities	2,877
Repairs & Maintenance	3,074
Rentals & Leases	2,280
Printing & Reproduction	147
Other Expenditures	5,014
<b>Total Administrative Expenditures</b>	<b>177,734</b>
<b>Total Expenditures</b>	<b>12,625,526</b>
<b>Deficiency of Revenues Under Expenditures</b>	<b>(103,493)</b>
<b>Other Finance Sources</b>	
Transfers In-Retirement Membership Fees (Note 5.B)	115,000
<b>Excess of Revenues Over Expenditures and Other Finance Sources</b>	<b>11,507</b>
<b>Fund Balances - Beginning</b>	<b>5,161</b>
<b>Fund Balances - Ending (Exh. III)</b>	<b>16,668</b>
Net Change in Fund Balances - Governmental Funds:	11,507
Amounts reported for 'Governmental Activities' in the Statement of Activities (Exhibit II) are different because:	
An Internal Service Fund is used by the System to account for the revenues and expenses associated with the Group Benefits Program for State employees and employees of certain institutions of higher education.	
The net revenue (expense) of the Internal Service Fund (Exhibit VI) is included in 'Governmental Activities' in the Statement of Activities.	61,155,512
<b>Change in Net Position of Governmental Activities (Exh. II)</b>	<b>61,167,019</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, 2015

	<b>Internal Service Fund</b>
	<b>Employees Life, Accident and Health Insurance and Benefits Fund (0973) (U/F 0973)</b>
<b>Assets</b>	<b>\$</b>
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	34,834,246
Total Cash and Cash Equivalents	34,834,246
Securities Lending Collateral	14,041,893
Short-Term Investments	171,356,591
Receivables:	
Interest Receivable	1,857,282
Accounts Receivable	153,634,876
Total Receivables	155,492,158
Due From Other Funds (Note 5.A)	320,256,366
Due From Other Agencies (Note 5.A)	30,006
Total Current Assets	696,011,260
Non-Current Assets:	
Investments: (Note 2.A)	
Global Credit Component	63,966,589
Rates Component	290,073,037
Total Non-Current Assets	354,039,626
<b>Total Assets</b>	<b>1,050,050,886</b>
<b>Liabilities</b>	
Current Liabilities:	
Payables:	
Claims Payable:	
Incurred, Self-Funded	28,571,688
Incurred But Not Reported, Self-Funded	512,502,312
Total Claims Payable	541,074,000
Premiums Payable	9,890,356
Administrative and Other Fees Payable	25,695,287
Unsettled Purchases-Investment Payables	2,596,759
Other Payable	(14,265)
Total Payables	579,242,137
Due To Other Funds (Note 5.A) :	
Depository Interest Payable to Retiree Insurance Plan	285,777
Other Interfunds Payable	2,163,044
Total Due To Other Funds	2,448,821
Unearned Revenue	13,572,319
Obligations Under Securities Lending	14,321,564
Total Current Liabilities	609,584,841
<b>Total Liabilities</b>	<b>609,584,841</b>
<b>Net Position</b>	
Restricted For:	
Employee Benefits - Group Benefits Program	440,466,045
<b>Total Net Position (Exh. VI)</b>	<b>440,466,045</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, 2015

	<b>Internal Service Fund</b>
	<b>Employees Life, Accident and</b>
	<b>Health Insurance and Benefits</b>
	<b>Fund (0973) (U/F 0973)</b>
<b>Operating Revenues</b>	<b>\$</b>
Contributions to Insurance Program:	
From the State of Texas for Employees	1,834,956,388
From Members:	
For Employees	489,655,216
For COBRA	6,067,476
Total Contributions from Members	495,722,692
Total Contributions to Insurance Program	2,330,679,080
Other Operating Revenues:	
COBRA 2% Administration Fee	121,341
Penalty Assessed to Insurance Carrier	1,381,631
Miscellaneous Operating Revenue	352,863
Total Other Operating Revenues	1,855,835
<b>Total Operating Revenues</b>	<b>2,332,534,915</b>
<b>Operating Expenses</b>	
Employee Benefit Payments:	
For Employees	2,213,192,619
For COBRA	29,002,792
Total Employee Benefit Payments	2,242,195,411
Administrative Expenses:	
Salaries & Wages	5,692,025
Payroll Related Costs	1,683,022
Professional Fees & Services	2,144,683
Travel	43,958
Materials & Supplies	514,005
Communications & Utilities	323,838
Repairs & Maintenance	272,682
Rentals & Leases	165,752
Printing & Reproduction	19,515
Other Operating Expenses	25,832,678
Total Administrative Expenses	36,692,158
<b>Total Operating Expenses</b>	<b>2,278,887,569</b>
<b>Operating Income</b>	<b>53,647,346</b>
<b>Non-Operating Revenues (Expenses)</b>	
Net Decrease in Fair Value of Investments	(3,194,981)
Interest Revenue	9,395,194
Class Action Settlements	12,655
Securities Lending Activities:	
Loan Premium on Securities Lending	17,493
Less: Broker Rebates	84,875
Agent Fees	(10,238)
Net Securities Lending Activity	92,130
Settlement Revenue	1,210,198
Commission on Futures Contracts	(25)
Other Non-Operating Expenses	(7,005)
<b>Total Non-Operating Revenues</b>	<b>7,508,166</b>
<b>Change in Net Position</b>	<b>61,155,512</b>
<b>Net Position - Beginning</b>	<b>379,310,533</b>
<b>Net Position - Ending (Exh. V)</b>	<b>440,466,045</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, 2015

	<b>Internal Service Fund</b>
	<b>Employees Life, Accident and</b>
	<b>Health Insurance and Benefits</b>
	<b>Fund (0973) (U/F 0973)</b>
<b>Cash Flows from Operating Activities:</b>	<b>\$</b>
Cash Received from Members	500,524,290
Cash Received from The State of Texas	1,683,936,408
Cash Payments to Insurance Carriers and Third Party Administrators	(2,256,566,326)
Cash Payments to Employees for Services	(8,419,196)
Cash Payments for Goods and Services	(8,638,186)
Other Cash Received	2,591,829
<b>Net Cash Used by Operating Activities</b>	<b>(86,571,181)</b>
<b>Cash Flows from Investing Activities:</b>	
Net Sales of Short-Term Investment Fund	100,272,225
Interest on Deposit in State Treasury	102,011
<b>Net Cash Provided by Investing Activities</b>	<b>100,374,236</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>13,803,055</b>
<b>Cash and Cash Equivalents:</b>	
<b>Beginning of Year</b>	<b>21,031,191</b>
<b>End of Year</b>	<b>34,834,246</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
<b>Operating Income</b>	<b>53,647,346</b>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>	
Settlement Revenue	1,210,198
Change in Assets and Liabilities:	
Increase in Accounts Receivable	(11,929,798)
Decrease in Due From Other Agencies	68,732
Increase in Due From Other Funds	(147,227,665)
Increase in Accounts Payable	5,450,161
Decrease in Due To Other Funds	(763,343)
Increase in Unearned Revenue	12,973,188
<b>Total Adjustments</b>	<b>(140,218,527)</b>
<b>Net Cash Used by Operating Activities</b>	<b>(86,571,181)</b>
<b>Non-Cash Investing Activities:</b>	
Net Depreciation in Fair Value of Non-Cash Equivalent Investments	(3,194,981)

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

**Exhibit VIII**  
**Statement of Fiduciary Net Position**  
August 31, 2015

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)	Excess Benefit Arrangement (5039)
<b>Assets</b>	\$	\$	\$	\$	\$
Cash and Short-Term Investments:					
Cash and Cash Equivalents:					
Cash on Hand	900,697	86,792			
Cash in Bank	23,000				
Cash in State Treasury	53,074,688	3,758,121		903,766	
Total Cash and Cash Equivalents	53,998,385	3,844,913	-	903,766	-
Securities Lending Collateral	567,888,121	19,973,437		8,619,976	
Short-Term Investments	511,728,630	17,977,301		7,713,151	
<b>Total Cash and Short-Term Investments</b>	<b>1,133,615,136</b>	<b>41,795,651</b>	<b>-</b>	<b>17,236,893</b>	<b>-</b>
Legislative Appropriations			296,430		
Investments: (Note 2.G)					
Domestic Equities Component	6,087,328,048	214,128,462		92,426,373	
International Securities Component	5,031,318,976	176,982,181		76,392,559	
Global Credit Component	1,456,403,957	51,230,612		22,113,173	
Rates Component	4,205,603,988	147,936,748		63,855,393	
Public Real Estate Component	686,813,336	24,159,415		10,428,166	
Alternative Investments Component	5,899,968,463	207,537,882		89,581,616	
<b>Total Investments</b>	<b>23,367,436,768</b>	<b>821,975,300</b>	<b>-</b>	<b>354,797,280</b>	<b>-</b>
Receivables:					
Federal Receivable					
Interest and Dividends Receivable	59,695,154	2,100,127		906,025	
Contributions/Accounts Receivable	75,427,565	1,270,299		1,460,171	
Unsettled Sales-Investment Receivables	62,518,138	2,199,144		949,238	
<b>Total Receivables</b>	<b>197,640,857</b>	<b>5,569,570</b>	<b>-</b>	<b>3,315,434</b>	<b>-</b>
Due From Other Funds (Note 5.A)	2,903,032				
Due From Other Agencies (Note 5.A)	7,065,544				
Prepaid Claims Expense					
Capital Assets:					
Non-Depreciable:					
Land and Land Improvements	874,889				
Depreciable, Net of Accumulated Depreciation/Amortization of \$17,762,288					
Building	6,394,694				
Furniture and Equipment	494,622				
Vehicles	2,577				
Computer Software	1,194,515				
<b>Total Capital Assets</b>	<b>8,961,297</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>24,717,622,634</b>	<b>869,340,521</b>	<b>296,430</b>	<b>375,349,607</b>	<b>-</b>
<b>Liabilities</b>					
<i>Payables:</i>					
Voucher/Accounts Payable	20,748,724	509,298	296,430	266,351	
Unsettled Purchases-Investment Payables	125,301,074	4,407,603		1,902,497	
<b>Total Payables</b>	<b>146,049,798</b>	<b>4,916,901</b>	<b>296,430</b>	<b>2,168,848</b>	<b>-</b>
Due To Other Funds (Note 5.A)		227,025		53,050	
Due To Other Agencies (Note 5.A)	1,711,632				
Unearned Revenue	990,047	86,792			
Employees Compensable Leave	2,832,189				
Obligations Under Securities Lending	567,557,807	19,964,471		8,617,461	
Funds Held for Others					
<b>Total Liabilities</b>	<b>719,141,473</b>	<b>25,195,189</b>	<b>296,430</b>	<b>10,839,359</b>	<b>-</b>
<b>Net Position Restricted for</b>					
<b>Pension and Other Employee Benefits</b>	<b>23,998,481,161</b>	<b>844,145,332</b>	<b>-</b>	<b>364,510,248</b>	<b>-</b>

USAS Funds (U/F) are:

Fund 0955: 0955, 8955; Fund 0977: 0977, 8977; Fund 0001: 2001; Fund 0993: 0993, 8993; Fund 5039: 5039;  
Fund 3973: 0973, 3973; Fund 0946: 0946, 8946; Fund 0945: 0945, 8945; Fund 0943: 0943, 8943.  
Fund 0001:1001; Fund 8070: 8070; Fund 0900: 9015; Fund 0900: 9016, Fund 0980: 0980, Fund 0980: 9014

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

State Retiree Health Plan (3973)	Total Defined Benenfit Plans	TexaSaver 401(k) Trust Fund (0946)	TexaSaver 457 Trust Fund (0945)	State Employees Cafeteria Plan Trust Fund (0943)	Total Pension and Other Employee Benefit Trust Funds	Total Agency Funds
	\$	\$	\$	\$	\$	\$
2,125	989,614			432	990,046	
	23,000	4,705,070	1,714,542	414,461	6,857,073	
12,934,828	70,671,403	2,192,149	1,634,231	5,071,027	79,568,810	576
12,936,953	71,684,017	6,897,219	3,348,773	5,485,920	87,415,929	576
	596,481,534				596,481,534	-
386,704,158	924,123,240			6,000,000	930,123,240	
399,641,111	1,592,288,791	6,897,219	3,348,773	11,485,920	1,614,020,703	576
	296,430				296,430	
	6,393,882,883				6,393,882,883	
	5,284,693,716				5,284,693,716	
	1,529,747,742				1,529,747,742	
	4,417,396,129				4,417,396,129	
	721,400,917				721,400,917	
	6,197,087,961				6,197,087,961	
-	24,544,209,348	-	-	-	24,544,209,348	-
79,200,529	79,200,529				79,200,529	
3,401	62,704,707	796	573	5,029	62,711,105	
6,860,896	85,018,931		41,774	6,083,060	91,143,765	3,387
	65,666,520				65,666,520	
86,064,826	292,590,687	796	42,347	6,088,089	298,721,919	3,387
285,777	3,188,809				3,188,809	-
	7,065,544			11,863	7,077,407	
				250,000	250,000	
	874,889				874,889	
	6,394,694				6,394,694	
	494,622				494,622	
	2,577				2,577	
	1,194,515				1,194,515	
-	8,961,297	-	-	-	8,961,297	-
<b>485,991,714</b>	<b>26,448,600,906</b>	<b>6,898,015</b>	<b>3,391,120</b>	<b>17,835,872</b>	<b>26,476,725,913</b>	<b>3,963</b>
165,281,432	187,102,235	4,712,944	1,668,882	9,288,894	202,772,955	3,387
	131,611,174				131,611,174	
165,281,432	318,713,409	4,712,944	1,668,882	9,288,894	334,384,129	3,387
320,256,366	320,536,441	65,524	35,226	343,110	320,980,301	-
	1,711,632				1,711,632	
453,916	1,530,755		2,720	432	1,533,907	
	2,832,189				2,832,189	
	596,139,739				596,139,739	
<b>485,991,714</b>	<b>1,241,464,165</b>	<b>4,778,468</b>	<b>1,706,828</b>	<b>9,632,436</b>	<b>1,257,581,897</b>	<b>3,963</b>
-	25,207,136,741	2,119,547	1,684,292	8,203,436	25,219,144,016	-

# Exhibit IX

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

Year Ended August 31, 2015

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)
<b>Additions</b>	\$	\$	\$	\$
<b>Contributions:</b>				
Member Contributions	462,159,534	8,376,472		5,464,997
Employer Contributions	500,509,987	26,728,318		12,457,095
Legislative Appropriations for Judges Retirement Annuities			26,543,274	
Service Contributions Transferred from Teacher Retirement System (Note 1.F)	84,059,353			
Federal Revenues				
Other Contributions - Forfeitures				
<b>Total Contributions</b>	<b>1,046,728,874</b>	<b>35,104,790</b>	<b>26,543,274</b>	<b>17,922,092</b>
<b>Investment Income:</b>				
From Investing Activities:				
Net Appreciation (Depreciation) in Fair Value of Investments	(471,967,104)	(16,582,254)		(7,107,843)
Interest and Dividends	551,912,744	19,282,977		8,224,816
Class Action Settlements	4,283,842	150,101		64,413
<b>Total Investing Activity Income</b>	<b>84,229,482</b>	<b>2,850,824</b>	<b>-</b>	<b>1,181,386</b>
Less: Investment Expense	(32,590,570)	(1,116,375)	-	(439,842)
<b>Net Income, Investing Activities</b>	<b>51,638,912</b>	<b>1,734,449</b>	<b>-</b>	<b>741,544</b>
From Securities Lending Activities:				
Loan Premium on Securities Lending	761,294	26,578		11,317
Less: Broker Rebates	5,089,732	177,892		75,853
Agent Fees	(584,595)	(20,429)		(8,709)
<b>Total Securities Lending Expenses</b>	<b>4,505,137</b>	<b>157,463</b>	<b>-</b>	<b>67,144</b>
<b>Net Income, Securities Lending Activities</b>	<b>5,266,431</b>	<b>184,041</b>	<b>-</b>	<b>78,461</b>
<b>Net Investment Income</b>	<b>56,905,343</b>	<b>1,918,490</b>	<b>-</b>	<b>820,005</b>
<b>Other Additions:</b>				
Other Revenue:				
Warrants Voided by Statute of Limitations	105,860	4,386		1,786
Reimbursements - Third Party				
Sale of Surplus Equipment				
Settlement Revenue				
Rental Income	37,450			
Miscellaneous Revenue	406			
Administration Fees				
<b>Total Other Revenue</b>	<b>143,716</b>	<b>4,386</b>	<b>-</b>	<b>1,786</b>
Interfund Transfers In (Note 1.F):				
Excess Benefit Arrangement				
Interagency Transfers In (Note 5.C):				
Excess Benefit Arrangement				
Total Transfers In	-	-	-	-
<b>Total Other Additions</b>	<b>143,716</b>	<b>4,386</b>	<b>-</b>	<b>1,786</b>
<b>Total Additions</b>	<b>1,103,777,933</b>	<b>37,027,666</b>	<b>26,543,274</b>	<b>18,743,883</b>

USAS Funds (U/F) are:

Fund 0955: 0955, 8955; Fund 0977: 0977, 8977; Fund 0001: 2001; Fund 0993: 0993, 8993; Fund 5039: 5039;  
Fund 3973: 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.

Excess Benefit Arrangement (5039)	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 Pension and Other Employee Benefit Trust Funds
\$	\$	\$	\$	\$	\$	\$
	169,075,158	645,076,161			79,793,122	724,869,283
	612,769,060	1,152,464,460				1,152,464,460
		26,543,274				26,543,274
		84,059,353				84,059,353
	86,053,570	86,053,570				86,053,570
					3,299,333	3,299,333
-	<b>867,897,788</b>	<b>1,994,196,818</b>	-	-	<b>83,092,455</b>	<b>2,077,289,273</b>
		(495,657,201)				(495,657,201)
	324,244	579,744,781	22,013	13,468	36,154	579,816,416
		4,498,356				4,498,356
-	324,244	88,585,936	22,013	13,468	36,154	88,657,571
-	-	(34,146,787)	(14,782)	(6,932)	(16,523)	(34,185,024)
-	324,244	54,439,149	7,231	6,536	19,631	54,472,547
		799,189				799,189
		5,343,477				5,343,477
		(613,733)				(613,733)
-	-	4,729,744	-	-	-	4,729,744
-	-	5,528,933	-	-	-	5,528,933
-	<b>324,244</b>	<b>59,968,082</b>	<b>7,231</b>	<b>6,536</b>	<b>19,631</b>	<b>60,001,480</b>
	9,810	121,842				121,842
	97,032	97,032	37,548	8,453		143,033
	3,862,222	3,862,222		7,775	271,000	4,140,997
		37,450				37,450
		406			127,358	127,764
			150,526	564,538		715,064
-	<b>3,969,064</b>	<b>4,118,952</b>	<b>188,074</b>	<b>580,766</b>	<b>398,358</b>	<b>5,286,150</b>
169,877		169,877				169,877
287,271		287,271				287,271
457,148	-	457,148	-	-	-	457,148
<b>457,148</b>	<b>3,969,064</b>	<b>4,576,100</b>	<b>188,074</b>	<b>580,766</b>	<b>398,358</b>	<b>5,743,298</b>
<b>457,148</b>	<b>872,191,096</b>	<b>2,058,741,000</b>	<b>195,305</b>	<b>587,302</b>	<b>83,510,444</b>	<b>2,143,034,051</b>

- to next page



**Exhibit IX (Concluded)**  
**Statement of Changes in Fiduciary Net Position –**  
**Pension and Other Employee Benefit Trust Funds**  
Year Ended August 31, 2015

	Employees Retirement Fund (0955)	Law Enforcement and Custodial Officer Supplemental Fund (0977)	Judicial Retirement System Plan I (0001)	Judicial Retirement System Plan II (0993)
<b>Deductions</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Benefits:</b>				
Benefits	2,027,130,447	59,220,363	26,543,274	19,184,304
Refunds of Contributions	87,166,789	2,128,060		55,799
Service Contributions Transferred to Teacher Retirement System (Note 1.F)	18,989,008			
<b>Total Benefits</b>	<b>2,133,286,244</b>	<b>61,348,423</b>	<b>26,543,274</b>	<b>19,240,103</b>
<b>Administrative Expenses:</b>				
Salaries & Wages	9,878,383	771,649		151,691
Payroll Related Costs	2,901,667	242,252		45,392
Professional Fees & Services	4,270,547	177,669		41,427
Travel	68,438	2,626		585
Materials & Supplies	814,569	64,651		14,052
Communications & Utilities	556,403	48,997		8,910
Repairs & Maintenance	474,708	29,221		6,797
Rentals & Leases	336,210	20,570		4,876
Printing & Reproduction	27,518	2,008		353
Depreciation	969,153			
Amortization	514,472			
Interest Expense				
Other Operating Expenses	1,027,558	51,919		9,526
<b>Total Administrative Expenses</b>	<b>21,839,626</b>	<b>1,411,562</b>	-	<b>283,609</b>
<b>Other Deductions:</b>				
Loss on Sale of Capital Assets	2,494			
Interfund Transfers Out (Note 5.B):				
Membership Fees	115,000			
Excess Benefit Arrangement	169,877			
Interagency Transfers Out (Note 5.C):				
Excess Benefit Arrangement				
Total Transfers Out	284,877	-	-	-
<b>Total Other Deductions</b>	<b>287,371</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Deductions</b>	<b>2,155,413,241</b>	<b>62,759,985</b>	<b>26,543,274</b>	<b>19,523,712</b>
<b>Net Increase/(Decrease)</b>	<b>(1,051,635,308)</b>	<b>(25,732,319)</b>	-	<b>(779,829)</b>
<b>Net Position Restricted for Pension and Other Employee Benefits:</b>				
<b>Beginning of Year</b>	<b>25,050,116,469</b>	<b>869,877,651</b>	-	<b>365,290,077</b>
<b>End of Year (Exh. VIII)</b>	<b>23,998,481,161</b>	<b>844,145,332</b>	-	<b>364,510,248</b>

Excess Benefit Arrangement (5039)	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 Pension and Other Employee Benefit Trust Funds
\$	\$	\$	\$	\$	\$	\$
391,921	863,926,547	2,996,396,856 89,350,648			77,744,763	3,074,141,619 89,350,648
		18,989,008				18,989,008
<b>391,921</b>	<b>863,926,547</b>	<b>3,104,736,512</b>	-	-	<b>77,744,763</b>	<b>3,182,481,275</b>
	2,364,490	13,166,213	322,625	162,714	902,813	14,554,365
	699,260	3,888,571	90,937	45,658	262,208	4,287,374
	894,095	5,383,738	40,701	20,948	175,621	5,621,008
	18,264	89,913	3,427	1,712	6,086	101,138
	214,562	1,107,834	18,182	9,084	99,824	1,234,924
	134,454	748,764	6,782	3,269	36,324	795,139
	113,664	624,390	7,876	3,828	51,927	688,021
	68,922	430,578	5,419	2,593	32,897	471,487
	8,114	37,993	1,636	752	4,057	44,438
		969,153				969,153
		514,472				514,472
						-
	3,748,724	4,837,727	31,962	14,498	2,090,152	6,974,339
-	<b>8,264,549</b>	<b>31,799,346</b>	<b>529,547</b>	<b>265,056</b>	<b>3,661,909</b>	<b>36,255,858</b>
		2,494				2,494
		115,000				115,000
		169,877				169,877
65,227		65,227				65,227
65,227	-	350,104	-	-	-	350,104
<b>65,227</b>	-	<b>352,598</b>	-	-	-	<b>352,598</b>
<b>457,148</b>	<b>872,191,096</b>	<b>3,136,888,456</b>	<b>529,547</b>	<b>265,056</b>	<b>81,406,672</b>	<b>3,219,089,731</b>
-	-	(1,078,147,456)	(334,242)	322,246	2,103,772	(1,076,055,680)
-	-	<b>26,285,284,197</b>	<b>2,453,789</b>	<b>1,362,046</b>	<b>6,099,664</b>	<b>26,295,199,696</b>
-	-	<b>25,207,136,741</b>	<b>2,119,547</b>	<b>1,684,292</b>	<b>8,203,436</b>	<b>25,219,144,016</b>



# Notes to the Basic Financial Statements

August 31, 2015

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# Notes to the Basic Financial Statements

August 31, 2015

## 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).

### 1.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. The Texas Legislature has the authority to set the contribution rates for both employee and employer retirement contributions.

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.

### 1.B 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.

### 1.C 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

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

current assets. All revenues reported are recognized based on the criteria of measurability and availability. Special Revenue Funds to be available if the revenues are due at year end and collected within 60 days thereafter. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related liability is incurred. Benefit payments to participants are recorded upon distribution.

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

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

## 1.D 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.

For fiscal year 2015, 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 fiscal year 2015.

### Special Revenue Funds

Special Revenue Funds are used to account for the proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes. The System displays General Revenue Funds/Accounts of the State of Texas as Special Revenue Funds, except for the Judicial Retirement System Plan One Fund, which is a pay-as-you-go pension plan reported as a Pension and Other Employee Benefit Trust Fund.

- Social Security Administration Fund – This fund accounts for the expenditures of administration of the Social Security Program.
- Death Benefits Program for Commissioned Peace Officers, Firemen, etc. Fund (General Revenue Fund) – This fund accounts for payments of death benefits and administrative fees, which are funded by an appropriation from the State's General Revenue Fund. Established by V.T.C.A., Texas Government Code, Title 6, Chapter 615.
- Compensation to Victims of Crime – This fund accounts for payments of death benefits to the beneficiaries of victims of crime. It is funded by an appropriation from the Victims of Crime Fund 0469, which was established by Texas Criminal Procedure Code, Article 56.54.
- Lump Sum Retiree Death Benefit Fund (General Revenue Fund) – This fund accounts for the



# Notes to the Basic Financial Statements (Continued)

August 31, 2015

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.

- 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.

## 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.
- Child Support Employee Deductions - Offset Account – This fund accounts for monies withheld in compliance with state and federal law for child



# Notes to the Basic Financial Statements (Continued)

August 31, 2015

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.

- 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.
- Direct Deposit Correction Account – This fund accounts for monies which had been transmitted for direct deposit but were returned because problems prevented credit from being given to individual depositors. The System transfers the funds back to the original issuing fund.

## 1.E Budgets

### Appropriated Budgets

The Texas Legislature appropriates monies out of the State's General Revenue Fund for benefit payments of the Judicial Retirement System Plan One Fund and all Special Revenue Funds other than the Social Security Administration Fund on an 'estimated to be' basis.

This type of appropriation means that the System has the authority to increase the appropriations as needed during the time period that the appropriation is allowed to remain open. For benefit payments, expenditures in excess of appropriations received are not a violation of budgetary authority.

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

### Non-appropriated Budget

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

## 1.F 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 fund 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 TexaSaver 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 Custodian Officer Supplemental Retirement Fund, the Judicial Retirement System Plan Two Fund, and the long-term portion of the Employees Life, Accidental and Health Insurance and Benefits Fund are consolidated in the Investments pool Fund. See also *Investment Unit Trust Accounting*.

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

## 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 foreign investments in the inception year are reported at cost, which approximates fair value. Fair value at fiscal year-end is based on the fair value of net assets reported in the partnership's most recent financial statements available to the System's Valuation Committee, adjusted for any cash flows and material changes in fair value, according to the Valuation Committee guidelines, 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, private infrastructure, private fixed income and hedge funds.

The general nature of the System's 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 seven to ten years and are not liquid in nature. The fair value of the net assets is estimated using recent observable information for similar investments, such as discounted cash flows, earning multiples and company comparables.

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 seven to ten 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.

The System's hedge fund investments represent ownership interest in limited partnerships or limited liability companies. These types of investments consist of private comingled investment vehicles that issues securities to accredited investors or qualified purchasers. The fair values of hedge funds are based on the net assets of the limited partnership. These funds' valuations are appraised by an independent administrator and reconciled annually to the audited financial statements.

Private fixed income funds are ownership in limited partnerships which consists of private investment funds that are either comingled or separate. These funds are classified as predominately "credit" instruments that may be liquid or illiquid. The system will utilized a process similar to that of private equity funds in assessing the fair value of the fund. The valuations are reviewed at the end of each reporting period as financial statements or cash flow information becomes available.

The System's private infrastructure investments are in large-scale public systems, services and facilities that are necessary for economic activity. These types of relatively illiquid investments are often made in essential services with high barriers to entry and predictable cash flows. The fair value of the net assets is estimated using a variety of approaches, which may involve using recent information from comparable companies, replacement cost analysis, and discounted cash flows. Each investment is typically audited annually and appraised periodically by an independent third party.

For investments where no readily ascertainable market value exists, the System's management, in consultation with their investment advisors and the Master Trust Custodian, has determined fair values for those investments.

## Permissible Investments

Eligible securities are as follows:

- Domestic equities, screened to eliminate against any know 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.

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

- 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.
- 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.
- Private equity and private real estate investments must be institutional in quality and meet the parameters specified in the System’s investment policy.
- 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.

## Investment Asset Allocation

The System’s policy in regard to the allocation of investment assets is established and may be amended by the Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plans (See Figure 15 in Note 3.B for the most recent target asset allocation).

## 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 funds’ 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 of 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 decided to change 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 described above. See Note 2.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 1.

**Figure 1**  
**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, 2015

## Employees Compensable Leave

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

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

The net position of the retirement trust funds consists 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 3.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.



# Notes to the Basic Financial Statements (Continued)

August 31, 2015

## 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 5.B 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 5.C 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. Detail Disclosures on Funds

(In accordance with GASB Statements 3, 28, 31, 40 and 67)

### 2.A Deposits, Investments, and Repurchase Agreements

#### Deposits

As of August 31, 2015, the total carrying amount of Deposits was \$51,075,598 as presented in Figure 2.

#### 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, 2015, the System was not exposed to custodial credit risk with respect to deposits.

**Figure 2**  
**Deposits**

Deposits	Carrying Value	Bank Balance
	\$	\$
<b>Fiduciary Funds:</b>		
Cash in Bank (Exh.VIII)	6,857,073	6,855,128
Deposits in Investment Components	43,037,199	43,037,199
<b>Totals</b>	<b>49,894,272</b>	<b>49,892,327</b>
<b>Proprietary Fund:</b>		
Deposits in Investment Components	1,181,326	1,181,326
<b>Totals</b>	<b>1,181,326</b>	<b>1,181,326</b>

## Investments

### Policy of Asset Allocation

The System categorizes investment assets into principal components that align with investment strategies. The System's investment strategies are domestic equities, international securities, global credit, rates, 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 equities component are equity securities that are issued in the United States. Real Estate Investment Trust (REITs), Exchange Traded Funds (ETFs), and international securities are also included in this component to provide liquidity. The International securities component invests in equity securities that are mainly issued in overseas. It also includes other investments classes similar to those of the domestic equities component. The rates component invests in domestic and international fixed income securities that have a relatively low risk of default. The global credit component invests in securities that have high risk and long maturity. It also invests in ETFs and hedge funds to provide liquidity and absolute returns. The public real estate component invests mainly in REITs. It also includes hedge funds, domestic and international equities to provide liquidity, diversification, and high returns to the component.

Alternative Investments include private equity, private real estate, private infrastructure, private fixed income

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

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. Private 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 partnership. Private fixed income funds are limited partnerships that invest in foreign and domestic fixed income securities. The fair values of investments as of August 31, 2015 are presented in Figure 3.

## Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. For the year ended August 31, 2015, the annual money-weighted rate of return on the defined benefit plans was 0.23%. See Schedule of Investment Returns – Defined Benefit Plans in the Required Supplementary Information section for details.

## 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, 2015 is summarized in Figure 4.

## 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

**Figure 3**  
**Fair Value of Investments**

	Investments							Short-Term Investments
	Domestic Equities Component	International Securities Component	Global Credit Component	Rates Component	Public Real Estate Component	Alternative Investments Component	Investments Totals	
<b>Fiduciary Funds:</b>	\$	\$	\$	\$	\$	\$	\$	\$
U.S. Treasury Securities				3,272,673,479			3,272,673,479	424,407,204
Corporate Obligations			763,408,579	133,399,181			896,807,760	
Corporate Asset and Mortgage Backed Securities				180,179,122			180,179,122	
U.S. Government Agency Obligations				734,957,887			734,957,887	
Domestic Equities	5,504,447,240	99,656,244			5,491,439		5,609,594,923	
International Equities	429,957,059	5,010,812,052			19,170,235		5,459,939,346	
International Obligations			193,235,104	96,186,460			289,421,564	
Alternative Investments			240,785,501		80,475,759	6,195,659,011	6,516,920,271	
Real Estate Investment Trust (REITs)	186,951,112	87,507,118			615,379,041		889,837,271	
Exchange Traded Funds (ETFs)	268,438,305	84,897,950	304,067,385				657,403,640	
Money Market and Bond Funds							-	493,299,384
Investment in Pool Cash							-	2,178,025
Derivatives							-	3,675,512
Deposits	4,089,167	1,820,352	28,251,172		884,443	1,428,950	36,474,084	6,563,115
<b>Totals (Exh. VIII)</b>	<b>6,393,882,883</b>	<b>5,284,693,716</b>	<b>1,529,747,742</b>	<b>4,417,396,129</b>	<b>721,400,917</b>	<b>6,197,087,961</b>	<b>24,544,209,348</b>	<b>930,123,240</b>
<b>Proprietary Fund:</b>								
U.S. Treasury Securities				214,903,601			214,903,601	193,074
U.S. Government Agency Obligations				48,261,795			48,261,795	
Corporate Obligations			31,922,023	8,759,800			40,681,823	
Corporate Asset and Mortgage Backed Securities				11,831,655			11,831,655	
International Obligations			8,080,150	6,316,186			14,396,336	
Exchange Traded Funds (ETFs)			12,714,615				12,714,615	
Alternative Investments			10,068,475				10,068,475	
Money Market and Bond Funds							-	171,163,517
Derivatives							-	
Deposits			1,181,326				1,181,326	
<b>Totals (Exh. V)</b>	<b>-</b>	<b>-</b>	<b>63,966,589</b>	<b>290,073,037</b>	<b>-</b>	<b>-</b>	<b>354,039,626</b>	<b>171,356,591</b>

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

**Figure 4**  
**Foreign Currency Risk**

	Short-Term Investments Component (USD)	Domestic Equities Component (USD)	International Securities Component (USD)	Global Credit Component (USD)	Public Real Estate Component (USD)	Alternative Investments Component (USD)
<b>Fiduciary Funds:</b>	\$	\$	\$	\$	\$	\$
<b>Investments:</b>						
Australian Dollar	(236)	12,245,369	133,075,471		37,730,469	
Brazilian Real			54,125,552			
Canadian Dollar			317,152,157		14,232,488	
Chilean Peso			2,664,262			
Czech Koruna			12,284,678			
Danish Krone			74,335,306			
Egyptian Pound			1,521,783			
Euro		23,531,768	1,264,542,310	2,152,659	60,468,461	508,230,265
Hong Kong Dollar			290,232,261		40,419,996	
Hungarian Forint						
Indian Rupee			90,945,528		1,993,607	
Indonesian Rupiah			35,296,505		304,625	
Japanese Yen			707,489,763		72,233,807	
Malaysian Ringgit			3,423,486			
Mexican Peso			37,879,482			
New Israeli Sheqel					1,141,056	
New Taiwan Dollar			101,332,678			
Norwegian Krone			29,056,283		1,415,477	
Philippine Peso			31,374,769		2,038,898	
Polish Zloty			2,618,558			
Pound Sterling			940,939,472		48,348,939	129,721,560
Qatari Rial			2,637,664			
Russian Ruble			551,933			
Singapore Dollar			57,977,041		11,616,003	
South African Rand			56,665,780			
South Korean Won		510	122,692,433			
Swedish Krona			103,429,151		6,940,094	
Swiss Franc	(2,489)		283,782,928		826,845	
Thai Baht			18,531,022			
Turkish Lira			21,343,674			
<b>Investments Exposed to Foreign Currency Risk</b>	<b>(236)</b>	<b>35,775,158</b>	<b>4,797,901,930</b>	<b>2,152,659</b>	<b>299,710,765</b>	<b>637,951,825</b>
US Dollar	923,560,361	6,354,018,558	484,971,434	1,499,343,911	420,805,708	5,557,707,186
<b>Total Investments</b>	<b>923,560,125</b>	<b>6,389,793,716</b>	<b>5,282,873,364</b>	<b>1,501,496,570</b>	<b>720,516,473</b>	<b>6,195,659,011</b>
<b>Deposits:</b>						
Australian Dollar			80,221		509,724	
Brazilian Real						
Canadian Dollar			32		82	
Euro			373,796		131,342	
Hong Kong Dollar						
Indian Rupee			319,786			
Mexican Peso			6,808			
New Taiwan Dollar			762,153			
Philippine Peso						
Pound Sterling					30,501	
Qatari Rial						
Singapore Dollar					2,694	
South Korean Won			32,983			
<b>Deposits Exposed to Foreign Currency Risk</b>	<b>-</b>	<b>-</b>	<b>1,575,779</b>	<b>-</b>	<b>674,343</b>	<b>-</b>
US Dollar	6,563,115	4,089,167	244,573	28,251,172	210,100	1,428,950
<b>Total Deposits</b>	<b>6,563,115</b>	<b>4,089,167</b>	<b>1,820,352</b>	<b>28,251,172</b>	<b>884,443</b>	<b>1,428,950</b>
<b>Total (Exh. VIII)</b>	<b>930,123,240</b>	<b>6,393,882,883</b>	<b>5,284,693,716</b>	<b>1,529,747,742</b>	<b>721,400,916</b>	<b>6,197,087,961</b>
<b>Proprietary Fund:</b>						
<b>Investments:</b>						
Euro				90,014		
<b>Investments Exposed to Foreign Currency Risk</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,014</b>	<b>-</b>	<b>-</b>
US Dollar				62,695,249		
<b>Total Investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62,785,263</b>	<b>-</b>	<b>-</b>
<b>Deposits:</b>						
US Dollar				1,181,326		
<b>Total Deposits</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,181,326</b>	<b>-</b>	<b>-</b>
<b>Total (Exh. V)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,966,589</b>	<b>-</b>	<b>-</b>



# Notes to the Basic Financial Statements (Continued)

August 31, 2015

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, 2015 is summarized in Figure 5. The securities were rated and categorized according to Standard & Poor's rating standards.

The System earns failed interest on monies held at the custodial agent bank overnight when a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date. When this occurs, the System's money is invested overnight in a Common Trust Fund at the custodial agent bank. The System had no failed securities either during the fiscal year or at August 31, 2015.

## 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, 2015, 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, 2015, the System's exposure to interest rate risk is summarized in Figure 6.

## 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 for certain losses. 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 initial collateralization 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.

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 2015. The System received net securities lending income totaling

**Figure 6**  
**Investment Interest Rate Risk**

Investment Type	Fiduciary Funds		Proprietary Fund	
	Fair Value	Modified Duration	Fair Value	Modified Duration
	\$		\$	
U.S. Treasury Securities	3,697,080,683	3.39	215,096,675	3.78
U.S. Government Agency Obligations	734,957,887	4.46	48,261,795	4.46
Corporate Obligations	896,807,760	4.32	40,681,823	4.03
Corporate Asset and Mortgage Backed Securities	180,179,122	3.50	11,831,655	3.50
International Obligations	289,421,564	3.29	14,396,336	2.92
Money Market and Bond Funds	493,299,384	0.08	171,163,517	0.08
<b>Totals</b>	<b>6,291,746,400</b>	<b>3.39</b>	<b>501,431,801</b>	<b>2.57</b>

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

**Figure 5**  
**Investment Credit Risk**

Investment Type	S & P Rating	Fiduciary Funds	Proprietary Fund
		\$	\$
U.S. Treasury Securities	AA+	3,697,080,683	215,096,675
U.S. Government Agency Obligations	AA+	696,320,595	45,724,636
	Not Rated	38,637,292	2,537,159
Corporate Obligations	A	51,952,827	3,411,538
	A-	19,144,306	1,139,424
	A+	15,452,164	1,014,683
	AA+	14,100,815	925,945
	B	77,226,961	3,229,255
	B-	18,543,011	775,378
	B+	123,685,742	5,171,934
	BB	167,931,458	7,022,075
	BB-	139,786,732	5,845,199
	BB+	136,458,602	5,706,033
	BBB	55,852,904	3,010,191
	BBB-	44,832,775	1,874,688
	BBB+	9,396,197	617,011
	CCC	3,335,525	139,475
	CCC+	13,727,707	574,026
	Not Rated	5,380,034	224,968
Corporate Asset and Mortgage Backed Securities	A	4,862,217	319,283
	A+	7,845,953	515,213
	AA	4,530,173	297,479
	AA-	4,687,655	307,820
	AA+	2,807,762	184,375
	AAA	46,737,333	3,069,057
	Not Rated	108,708,029	7,138,428
International Obligations	A	23,572,878	1,547,938
	A-	2,891,547	189,876
	A+	22,687,221	1,489,781
	AA	7,536,695	494,905
	AA-	15,914,991	1,045,075
	B	6,555,376	274,114
	B-	901,072	37,678
	B+	45,426,554	1,899,517
	BB	25,483,504	1,065,596
	BB-	43,074,562	1,801,168
	BB+	38,340,543	1,603,215
	BBB+	23,583,129	1,548,611
	CCC+	5,277,400	220,675
	Not Rated	28,176,092	1,178,187
Money Market and Bond Funds	Not Rated	493,299,384	171,163,517
<b>Totals</b>		<b>6,291,746,400</b>	<b>501,431,801</b>

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

\$5,621,063 for the fiscal year ended August 31, 2015. The collateral information as of August 31, 2015 is summarized in Figure 7.

**Figure 7**  
**Securities Lending Collateral Summary**

Investment Type	Underlying Securities Fair Value	Cash Collateral Fair Value
	\$	\$
<b>Fiduciary Funds:</b>		
Corporate Obligations	28,671,343	29,282,805
Domestic Equity	197,288,855	202,288,298
International Equity	49,584,820	52,105,480
Exchange Traded Funds	289,402,931	296,116,622
International Corporate Obligations	16,313,636	16,688,329
<b>Totals</b>	<b>581,261,585</b>	<b>596,481,534</b>
		<b>Exh. VIII</b>
<b>Proprietary Fund:</b>		
Corporate Obligations	1,198,896	1,199,865
Exchange Traded Funds	12,101,419	12,133,398
International Corporate Obligations	706,940	708,630
<b>Totals</b>	<b>14,007,255</b>	<b>14,041,893</b>
		<b>Exh. V</b>

## Repurchase Agreements

During the fiscal year 2015, the System invested the cash collaterals from the securities lending program in repurchase agreements. As of August 31, 2015, the System had \$610,523,427 balance in these assets.

## Alternative Investments

The System makes contingent commitments to investments in entities that manage private equity, private real estate, private infrastructure, private fixed income, and hedge fund portfolios. The categories of these investments as of August 31, 2015 are summarized in Figure 8.

## 2.B 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, 2015 and 2014 is presented in Figure 9.

## 2.C Derivative Investment

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.

### Futures Contracts

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, 2015, the outstanding futures contracts are summarized in Figure 10.

### 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, 2015.

## 2.D Liabilities

### Operating Leases

(In accordance with GASB Statement 38)

Included in rental expenses/expenditures are assets leased on a long-term basis that have been classified operating leases. Current year expenses for these leased assets totaled \$591,568. A schedule of future minimum

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

**Figure 8**  
**Alternative Investments ( Note A)**

Asset Class	No. of Funds	Commitment	Remaining Commitment	Adjusted Funded Amount	Fair Value
		\$	\$	\$	\$
<b>Private Equity (Note B)</b>					
US Dollar	72	4,723,356,708	2,443,438,271	2,279,918,437	2,318,588,142
Euro Dollar	11	588,398,098	223,439,812	364,958,286	337,421,682
British Pound	2	161,490,000	55,672,840	105,817,160	103,895,902
<b>Totals</b>	<b>85</b>	<b>5,473,244,806</b>	<b>2,722,550,923</b>	<b>2,750,693,883</b>	<b>2,759,905,726</b>
<b>Private Real Estate (Note B)</b>					
US Dollar	34	2,252,732,068	895,237,666	1,357,494,402	1,429,954,765
Euro Dollar	4	253,233,000	77,960,524	175,272,476	168,388,411
British Pound	1	69,210,000	43,271,396	25,938,604	25,591,606
<b>Totals</b>	<b>39</b>	<b>2,575,175,068</b>	<b>1,016,469,586</b>	<b>1,558,705,482</b>	<b>1,623,934,785</b>
<b>Private Infrastructure</b>					
US Dollar	7	380,000,000	171,161,217	208,838,783	247,664,414
<b>Private Fixed Income</b>					
US Dollar	3	275,000,000	175,000,000	100,000,000	100,060,118
<b>Hedge Funds</b>					
US Dollar	24	1,965,000,000	120,000,000	1,845,000,000	1,795,423,705
<b>Totals</b>	<b>158</b>	<b>10,668,419,874</b>	<b>4,205,181,726</b>	<b>6,463,238,148</b>	<b>6,526,988,748</b>

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

Note B: Fair Value excludes \$1,428,950 in outstanding cash deposits reported in the Alternative Investments Component of Exh. VIII.

**Figure 9**  
**Net Position - Fiduciary Fund**

Fund Type	2015	2014
	\$	\$
Defined Benefit Plans (Note A)	25,207,136,741	26,285,284,197
Deferred Compensation Plans and Cafeteria Plan:		
Administration - Deferred Compensation Plans	3,803,839	3,815,835
Administration – State Employees Cafeteria Plan	8,203,436	6,099,664
<b>Total Deferred Compensation Plans and Cafeteria Plan</b>	<b>12,007,275</b>	<b>9,915,499</b>
<b>Net Position Restricted for Pension and Other Benefits</b>	<b>25,219,144,016</b>	<b>26,295,199,696</b>
	<b>Exh. VIII</b>	

Note A: See Note 3.D Reserves for details of the statutorily required reserve balances of the Defined Benefit Plans.

**Figure 10**  
**Summary of Outstanding Futures Contracts**

Future Contract	Expiration	No. of Contracts	Long/Short	Change in Fair Value		Fair Value		Notional Amount
				Classification	Amount	Classification	Amount	
S&P eMini Industrial	September 2015	819	Long	Investment Revenue	\$3,675,512	Investment	\$3,675,512	\$80,640,788

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

lease rental payments on non-cancelable operating leases as of August 31, 2015 is presented in Figure 11.

**Figure 11  
Non-Cancelable Operating Leases**

Fiscal Year	Future Minimum Lease Rental Payments
	\$
2016	442,691
2017	152,413
2018	106,891
2019	106,891
2020	104,743
<b>Total</b>	<b>913,629</b>

## 3. Defined Benefit Plans

(In accordance with GASB Statements 25 and 67)

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. ERS, LECOS, and JRS II are administered through trust. 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, LECOS, and JRS II 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. 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.

### 3.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 6.9% for fiscal year 2015.

Legislators are required to contribute 8% and other elected class members are required to contribute 6.9% of their compensation to the System.

For fiscal year 2015 the State contributed 8% of the payroll of members for both the employee class, legislators, and for other elected class members. See Note 3.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.



# Notes to the Basic Financial Statements (Continued)

August 31, 2015

## Contributions

For fiscal year 2015, both employee members and the State contributed 0.5% of the covered payroll for LECOS members. An additional amount equivalent to 1.2% of payroll was contributed by the State from dedicated court fees. See Note 3.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. See Figure 1 in the Note to Required Supplementary Information for detail actuarial assumptions.

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 6.9% 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 3.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.

### Contributions

Members are required to contribute 6.9% 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, 2015 the State contributed 15.663% of the payroll of members. See Note 3.B Funded Status and Funding Progress.

## 3.B Funded Status and Funding Progress

### Summary of Actuarial Assumptions

The actuarial valuations involve estimates of the value of reported amounts and assumptions about

**Figure 12**  
**Actuarial Assumptions - Defined Benefit Plans**

	Employees Retirement Fund	Law Enforcement and Custodial Officer Supplemental Fund	Judicial Retirement System Plan II	Judicial Retirement System Plan I
	(In accordance with GASB Statement No. 67)			(In Accordance with GASB Statement No. 25)
Valuation Date	August 31, 2015			August 31, 2015
Actuarial Cost Method	Entry Age Normal			Entry Age Normal
Amortization Method	Level Percent of Payroll, Open			Level Dollar of Payroll, Open
Remaining Amortization Period	31 Years			30 Years
Asset Valuation Method	20% of market plus 80% of expected actuarial value.			3.5%
Investment Rate of Return	8%			4.17%
Projected Salary Increases	0.0% – 11.5%	5.0% – 11.5%	3.5%	3.5%
Inflation Rate	3.5%			3.5%
Last Experience Study	5-year period from September 1, 2006 to August 31, 2011			N/A
Mortality Rate	1994 Group Annuity Mortality with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.			N/A

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

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 12.

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. The funding status for JRSI is presented in Figure 13.

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

## Net Pension Liability

(In accordance with GASB Statement 67)

Based on the actuarial assumptions listed in Figure 12, the components of the net pension liability as of August 31, 2015 are determined and summarized in Figure 14.

The projected cash flows from the employer are based on contributions for the most recent five year period, modified on consideration of subsequent events. The legislature passed House Bill No. 9 in the 84th legislative session during fiscal year 2015 to

increase the State contributions for fiscal years 2016 and 2017 and maintained the changes made by the 83rd legislature session in Senate Bill No. 1459, which established proportional decreases to the employee contribution if the State contribution was decreased. The passage of this bill is an indicator that the legislature is committed to increase the funding levels for the pension funds. Considering the above events, projected employer contributions are based on fiscal year 2015 funding levels. See Note 3.A for descriptions of member and State contributions.

The long-term expected rate of return on the System's pension plan investments was determined using a building-block method in which best estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of rates of return for each major asset class included in the System's target allocation as of August 31, 2015 are summarized in the Figure 15.

The System Board of Trustees adopted a conservative long-term rate of return assumption of 8.0% after considering 1) the long-term expected return from the building block method; 2) an analysis of long term-term expected return performed by the System investment

**Figure 13**  
**Schedule of Funded Status - Judicial Retirement Plan I Fund ( \$ in Millions)**  
(In accordance with GASB Statement No. 25)

(1) Actuarial Valuation Date	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	(5) Funded Ratio (2)/(3)	(6) Annual Covered Payroll	(7) Ratio of UAAL To Covered Payroll (4)/(6)
	\$	\$	\$	%	\$	%
August 31, 2015	0	309.71	309.71	0.00	1.47	21,068.7

**Figure 14**  
**Net Pension Liability ( \$ in Millions)**  
(In accordance with GASB Statement No. 67)

	ERS	LECOS	JRS II
Actuarial Valuation Date: August 31, 2015	\$	\$	\$
Total Pension Liability	37,264.92	1,764.79	439.66
Plan Fiduciary Net Position	23,998.48	844.14	364.51
Net Pension Liability	13,266.44	920.65	75.15
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.40%	47.83%	82.91%



# Notes to the Basic Financial Statements (Continued)

August 31, 2015

**Figure 15**  
**Target Allocations**

Asset Class	Target Allocation	Real Return Arithmetic Basis	Long-term Expected Portfolio Real Rate of Return
	%	%	%
Global Equity	55.00	7.31	4.02
Global Credit	10.00	1.94	0.19
Intermediate			
Treasuries	15.00	1.23	0.18
Real Estate	10.00	4.33	0.43
Infrastructure	4.00	6.21	0.25
Hedge Funds	5.00	7.03	0.35
Cash	1.00	0.00	0.00
Totals	<u>100.00</u>		<u>5.42</u>
Inflation			<u>3.50</u>
Expected Arithmetic Nominal Rate of Return			<u>8.92</u>

consultant; and 3) analyses and recommendations of the System pension actuary.

A single discount rate was used to measure the total pension liability as of August 31, 2015. This single discount rate was based on an expected rate of return on pension plan investments and a municipal bond rate, if applicable. Based on the stated assumptions and the projection of cash flows, if the pension plan's fiduciary net position and future contributions were not sufficient to finance the benefit; the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the fiscal year before the fiduciary net position is depleted, and the municipal bond rate was applied to all benefit payments after that fiscal year. The single discount rate, the municipal bond rates, and the year when the fiduciary net positions that projected to be depleted are summarized in Figure 16.

**Figure 16**  
**Assumptions for Single Discount Rate**

	ERS	LECOS	JRS II
Expected investment rate of return	8.00%	8.00%	8.00%
Municipal bond rate (Note A)	3.79%	3.79%	3.79%
Year fiduciary net position depleted	2053	2037	2045
Single Discount Rate	6.86%	5.00%	7.06%

*Note A: The source of the municipal bond rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality*

**Figure 17**  
**Sensitivity of Net Pension Liability (in Millions)**

	1% Decrease	Single Discount Rate	1% Increase
ERS:	5.86%	6.86%	7.86%
Net Pension Liability	\$17,714.68	\$13,266.44	\$9,537.34
LECOS:	4.00%	5.00%	6.00%
Net Pension Liability	\$1,187.83	\$920.65	\$703.61
JRS II:	6.06%	7.06%	8.06%
Net Pension Liability	\$119.04	\$75.15	\$37.39

The sensitivity of the net pension liability to one percentage point increase or decrease to the single discount rate is summarized in Figure 17.

### 3.C Retirement Systems Membership

The membership of the retirement plans as of August 31, 2015 is summarized in Figure 18. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation. In addition, the System's actuary includes members with status in the 90-day waiting period in the valuation. As of August 31, 2015, 7,188 members in the ERS plan and 1,476 in the LECOS plan were reported in this status.

**Figure 18**  
**Retirement Systems Membership**

	ERS				
	Employee Class	Elected Class	LECOS	JRS I	JRS II
Retirees and Beneficiaries Currently Receiving Benefits	99,277	726	10,845	391	322
Terminated Employees Entitled	101,005	117	12,962	3	148
Current Employees	142,087	322	38,526	10	563
<b>Total</b>	<b>342,369</b>	<b>1,165</b>	<b>62,333</b>	<b>404</b>	<b>1,033</b>

*Note: Estimated based on actuarial valuation as of August 31, 2015*

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

## 3.D Reserves

The balances of legally required reserves in each funded retirement plan as of August 31, 2015 and 2014 are presented in Figure 19. The State Retiree Health Plan is a pay-as-you-go plan and has no reserves. See Note 1.F, Net Position Held In Trust for Pension Benefits, for a description of each reserve account.

## 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.

## 4. Other Postemployment Benefit Plan

### 4.A Plan Descriptions and Contributions

#### 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 20. The principal participating employer is the state of Texas. State agencies and universities employ 186,549 which is 81.1% of the employees covered by the State Retiree Health Plan.

**Figure 20**  
**Participating Reporting Entities**  
**for the State Retiree Health Plan**

	September 1, 2015
State Agencies	118
Universities	26
Junior and Community Colleges	50
Other Entities	8
<b>Total Participating Entities</b>	<b>202</b>

#### Contributions

Figure 21 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 21**  
**Employer Contribution Rates –**  
**Retiree Health and Basic Life Premium –**  
**Fiscal Year 2015**

	September 1, 2014
	\$
Retiree Only	537.66
Retiree & Spouse	845.54
Retiree & Children	743.80
Retiree & Family	1,051.68

Figure 22 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.

The employer's share of the administrative expense and cost of retiree health care coverage above the cost

**Figure 19**  
**Reserves**

	ERS	LECOS	JRS II	Totals	
				2015	2014
<b>Net Plan Assets Reserved For:</b>	\$	\$	\$	\$	\$
Employee Savings	5,235,063,314	34,455,599	67,427,634	5,336,946,547	5,312,512,801
State Accumulation	683,417,025	230,763,708	102,558,214	1,016,738,947	3,180,122,121
Annuity Reserves	18,080,000,822	578,926,025	194,524,400	18,853,451,247	17,792,649,275
<b>Total Net Plan Assets Reserved</b>	<b>23,998,481,161</b>	<b>844,145,332</b>	<b>364,510,248</b>	<b>25,207,136,741</b>	<b>26,285,284,197</b>
	(Exh. VIII)	(Exh. VIII)	(Exh. VIII)		

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

**Figure 22**  
**Contributions by Source and Claims Expenses - Retirees**

	2015	2014
	\$	\$
Employer Contributions	612,769,060	605,512,388
Retiree Contributions	169,075,158	155,275,815
<b>Total Contributions</b>	<b>781,844,218</b>	<b>760,788,203</b>
<b>Claims Expenses</b>	<b>863,926,547</b>	<b>813,823,181</b>

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 2015 there was a reverse implicit rate subsidy (retiree contributions subsidized actives) in the amount of \$147,803,292 primarily due to Federal subsidies for Medicare Part D, as well as the lower cost for retirees participating in the Medicare Advantage Plan.

## 4.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 23.

The initial healthcare trend rate is 8.5% and the ultimate rate is 5.50%. The amortization period is open. Figure 24 shows the System's Funded Status for the State Retiree Health Plan as of August 31, 2015. 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.

## 4.C State Retiree Health Plan Membership

The membership of the State Retiree Health Plan includes retirees who retired with at least 10 years of service to eligible entities. These retirees must meet certain age requirements. Surviving spouses and

**Figure 23**  
**Actuarial Assumptions - State Retiree Health Plan**

<b>State Retiree Health Plan</b>	
Valuation Date	August 31, 2015
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	3.5% to 11.5%
Weighted-average at Valuation Date	6.51%
Annual Healthcare Trend Rate	8.5% in FY17 to 5.5% in FY23
Inflation Assumption Rate	3.5%

**Figure 24**  
**Schedule of Funded Status ( \$ in Millions)**  
**(In accordance with GASB Statement No. 43)**

(1) Actuarial Valuation Date	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded Accrued Liability (UAAL) (3)-(2)	(5) Funded Ratio (2)/(3)	(6) Annual Covered Payroll	(7) Ratio of UAAL To Covered Payroll (4)/(6)
	\$	\$	\$	%	\$	%
August 31, 2015	0	25,740.7	25,740.7	0.0	11,176.58	230.31

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

dependents of these retirees are also covered. The System's actuary includes members who retired on August 31 and received their first annuity in September as retirees in the actuarial valuation. The membership of the State Retiree Health Plan membership as of August 31, 2015 is summarized in Figure 25.

**Figure 25**  
**State Retiree Health Plan Membership**

Retirees	109,311
Covered spouses	28,541
Covered dependents	9,589
<b>Total</b>	<b>147,441</b>

*Note: Estimated based on actuarial valuation as of August 31, 2015*

As of August 31, 2015, there were 230,023 active members and 11,443 terminated employees who have accumulated benefits but are not yet receiving them.

## 4.D Reserves

The State Retiree Health Plan is a pay-as-you-go plan and has no reserves.

## 4.E Historical Trend Information

The historical trend information is designed to provide funding progress in the State Retiree Health Plan. This information is presented in the Required Supplementary Information immediately after the Notes to the Basic Financial Statements.

## 5. Interfund Activity and Transactions

### 5.A 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.F). Figure 26 presents individual interfund receivable and interfund payable balances at August 31, 2015.

### 5.B 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.F).

Interfund Transfers between governmental activities and fiduciary funds are reclassified to revenues and expenses in the government-wide Statement of Activities. Figure 27 presents interfund transfers for the year ended August 31, 2015.

### 5.C 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.F). 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.

**Figure 26**  
**Interfund Receivables and Payables**

	Due From Other Funds	Due To Other Funds
	\$	\$
<b>Governmental Activities:</b>		
Governmental Funds		16,053
Employees Life, Accident & Health Insurance and Benefits Fund	320,256,366	2,448,821
<b>Total Governmental Activities</b>	<b>320,256,366</b>	<b>2,464,874</b>
<b>Fiduciary Funds:</b>		
Pension and Other Employee Benefit Trust Funds	3,188,809	320,980,301
<b>Total - Interfund Receivables and Payables</b>	<b>323,445,175</b>	<b>323,445,175</b>

**Figure 27**  
**Interfund Transfers**

	Transfers In	Transfers Out
	\$	\$
<b>Governmental Activities:</b>		
<b>Non-Major Governmental Funds:</b>		
Social Security Administration (Agency 327, Fund 0955)	115,000	
<b>Total Governmental Activities</b>	<b>115,000</b>	<b>-</b>
<b>Fiduciary Funds:</b>		
Pension and Other Employee Benefit Trust Funds	169,877	284,877
<b>Total - Interfund Transfers</b>	<b>284,877</b>	<b>284,877</b>

# Notes to the Basic Financial Statements (Continued)

August 31, 2015

## 6. Contingent Liability

### 6.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.

### 6.B Sick Leave

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is taken only in the event of illness. In the event of an employee's death, a payment is made to the employee's estate for one-half of the accumulated leave or 336 hours, whichever is less. Such payments are recognized as expenses/expenditures when paid. Service credit is given upon retirement at the rate of one month of service for each 160 hours of an employee's accumulated sick leave balance. Effective August 28, 1995, accumulated sick leave may also be used to meet service requirements to qualify for retirement at a rate of one month of service for each 160 hours of accrued unused sick leave for employees hired before September 1, 2009. Employees hired after September 1, 2009 will not be able to use accumulated sick leave to meet retirement eligibility. The additional contingent liability for future compensation of sick leave, based on accumulated sick leave balances as of August 31 was not considered material.

## 7. Risk Management

(In accordance with GASB Statement 10)

### 7.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

### 7.B Risk Financing

Claims for health, life, accidental death and dismemberment (AD & D), disability, and dental insurance coverages are recorded in the Employees Life, Accident and Health Insurance and Benefits Fund under the Texas Employees Group Benefits Program (GBP). These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts, dental health maintenance organization (DHMO) contracts, and dental discount plan.

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 28.

**Figure 28**  
**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
	• Dental Discount Plan	No	Insurance Carrier
Property and Casualty	N/A	No	Insurance Carrier
Unemployment	N/A	Yes	System
Workers' Compensation	N/A	Yes	System



# Notes to the Basic Financial Statements (Concluded)

August 31, 2015

## 7.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 29.

**Figure 29**  
**Changes in Self-Funded Claims Liabilities**

	2015	2014
	\$	\$
Beginning of Balance	542,189,379	523,229,859
Current-Year Claims and Changes in Estimates	2,039,904,058	1,902,693,901
Claims Payments	(2,041,019,437)	(1,883,734,381)
<b>Balance</b>	<b>541,074,000</b>	<b>542,189,379</b>

For coverages that are insured (not self-funded), no significant reductions in insurance coverage occurred

in the past year, and settled claims have not exceeded commercial insurance coverage in any of the past four fiscal years.

For both self-funded and insured coverages of the Internal Service Fund, the balance of claims that have been incurred but not reported as of August 31, 2015 is \$512,502,312.

## 8. 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 1,167 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 Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans

(in 000's)

	2014	2015
<b>Employees Retirement Fund (Note A)</b>		
<b>Total Pension Liability</b>		
Service Cost	1,139,451	1,231,203
Interest	2,324,180	2,373,849
Changes of Benefit Terms	-	(87,835)
Difference between Expected and Actual Experience	(252,967)	(284,751)
Changes of Assumptions	1,199,067	(3,429,167)
Benefit Payments and Refunds	(1,963,481)	(2,049,291)
<b>Net Change in Total Pension Liability</b>	<b>2,446,250</b>	<b>(2,245,992)</b>
<b>Total Pension Liability - Beginning</b>	<b>37,064,667</b>	<b>39,510,917</b>
<b>Total Pension Liability - Ending</b>	<b>39,510,917</b>	<b>37,264,925</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	482,239	500,395
Contributions - Member	430,595	462,159
Pension Plan Net Investment Income	3,252,417	56,941
Benefit Payments and Refunds	(1,963,481)	(2,049,291)
Pension Plan Administrative Expense	(20,195)	(21,840)
Other	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>2,181,575</b>	<b>(1,051,636)</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>22,868,542</b>	<b>25,050,117</b>
<b>Plan Fiduciary Net Position - Ending</b>	<b>25,050,117</b>	<b>23,998,481</b>
<b>Net Pension Liability - Ending</b>	<b>14,460,800</b>	<b>13,266,444</b>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.40%	64.40%
Covered Employee Payroll (Note B)	5,955,461	6,150,195
Net Pension Liability as a Percentage of Covered Employee Payroll	242.82%	215.71%



## Required Supplementary Information

### Schedule of Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans (Continued)

(in 000's)

	2014	2015
<b>Law Enforcement and Custodial Officer Supplemental Fund (Note A)</b>		
<b>Total Pension Liability</b>		
Service Cost	54,528	57,459
Interest	88,025	87,224
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	(76,585)	(9,640)
Changes of Assumptions	68,228	148,114
Benefit Payments and Refunds	(57,147)	(61,344)
<b>Net Change in Total Pension Liability</b>	<b>77,049</b>	<b>221,813</b>
<b>Total Pension Liability - Beginning</b>	<b>1,465,929</b>	<b>1,542,978</b>
<b>Total Pension Liability - Ending</b>	<b>1,542,978</b>	<b>1,764,791</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	27,758	26,728
Contributions - Member	8,180	8,376
Pension Plan Net Investment Income	111,741	1,918
Benefit Payments and Refunds	(57,147)	(61,344)
Pension Plan Administrative Expense	(1,324)	(1,411)
Other	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>89,208</b>	<b>(25,733)</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>780,670</b>	<b>869,878</b>
<b>Plan Fiduciary Net Position - Ending</b>	<b>869,878</b>	<b>844,145</b>
<b>Net Pension Liability - Ending</b>	<b>673,100</b>	<b>920,646</b>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	56.38%	47.83%
Covered Employee Payroll (Note B)	1,496,013	1,506,028
Net Pension Liability as a Percentage of Covered Employee Payroll	44.99%	61.13%

## Required Supplementary Information

### Schedule of Changes in Net Pension Liability and Related Ratios – Defined Benefit Plans (Concluded)

(in 000's)

	2014	2015
<b>Judicial Retirement System Plan II (Note A)</b>		
<b>Total Pension Liability</b>		
Service Cost	17,805	16,244
Interest	28,004	30,785
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	(640)	(10,066)
Changes of Assumptions	(25,924)	35,653
Benefit Payments and Refunds	(16,420)	(19,238)
<b>Net Change in Total Pension Liability</b>	<b>2,825</b>	<b>53,378</b>
<b>Total Pension Liability - Beginning</b>	<b>383,461</b>	<b>386,286</b>
<b>Total Pension Liability - Ending</b>	<b>386,286</b>	<b>439,664</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	12,211	12,457
Contributions - Member	5,195	5,465
Pension Plan Net Investment Income	46,186	820
Benefit Payments and Refunds	(16,420)	(19,238)
Pension Plan Administrative Expense	(267)	(284)
Other	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>46,905</b>	<b>(780)</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>318,385</b>	<b>365,290</b>
<b>Plan Fiduciary Net Position - Ending</b>	<b>365,290</b>	<b>364,510</b>
<b>Net Pension Liability - Ending</b>	<b>20,996</b>	<b>75,154</b>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.56%	82.91%
Covered Employee Payroll (Note B)	77,441	77,501
Net Pension Liability as a Percentage of Covered Employee Payroll	27.11%	96.97%

Note A: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Note B: The covered employee payroll is the actual annual payroll for the fiscal year as reported by the System. The change in the Total Pension Liability due to the change in the Single Discount Rate is included as an assumption change.

# Required Supplementary Information

## Schedule of Funding Progress – Defined Benefit Plans

(in 000's)

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)	(b) Funded Ratio (a)/(b) %	(e) Covered Payroll (000's)	(f) UAAL As A Percentage Of Covered Payroll (c)/(e) %
<b>Judicial Retirement System Plan One (JRS I)</b>						
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
2014	0	332,238	332,238	0.0	1,764	18,834.4
2015	0	309,710	309,710	0.0	1,470	21,068.7
<b>State Retiree Health Plan</b>						
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
2014	0	24,701,904	24,701,904	0.0	10,963,773	225.3
2015	0	25,740,698	25,740,698	0.0	11,176,584	230.3

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 (Note A)	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency/(Excess)	Cover Payroll	Actual Contribution as a % of Covered Payroll
	\$	\$	\$	\$	%
<b>Employee Retirement Fund</b>					
2014	727,892,157	482,239,018	245,563,139	5,955,460,705	8.10
2015	737,111,059	500,394,986	236,716,073	6,150,194,660	8.14
<b>Law Enforcement and Custodial Officer Supplemental Fund</b>					
2014	40,205,389	27,757,980	12,447,409	1,496,012,750	1.86
2015	38,131,404	26,728,318	11,403,086	1,506,027,764	1.77
<b>Judicial Retirement System Plan II</b>					
2014	13,448,473	12,210,663	1,237,810	77,441,466	15.77
2015	13,107,449	12,457,095	650,354	77,500,736	16.07

Note A: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Fiscal Year	Annual Required Contribution (ARC)	Percentage Contributed
	\$	%
<b>Judicial Retirement System Plan I</b>		
2011	23,064,889	117.0
2012	21,424,293	123.5
2013	20,335,827	125.8
2014	22,000,726	126.0
2015	20,050,937	132.4
2016	17,905,723	N/A

## 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
	\$	\$	\$	%
<b>State Retiree Health Plan (Note A)</b>				
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
2014	605,512,388	63,361,490	2,056,089,003	32.5
2015	612,769,060	86,053,570	2,160,950,964	32.3

Note A: Percentage contributions on the Schedule of Employer Contributions includes both employer (State) and federal contributions.

## Required Supplementary Information

### Schedule of Investment Returns – Defined Benefit Plans (Note A)

	2014	2015
	%	%
<b>Employees Retirement Fund</b>	<b>14.58</b>	<b>0.23</b>
<b>Law Enforcement and Custodial Officer Supplemental Fund</b>	<b>14.55</b>	<b>0.22</b>
<b>Judicial Retirement System Plan II</b>	<b>14.55</b>	<b>0.23</b>
<b>Overall</b>	<b>14.58</b>	<b>0.23</b>

Note A: Schedule intended to show information for 10 years. Additional years will be displayed as they become available.

## Required Supplementary Information

### Notes to The Required Supplementary Information

#### Defined Benefit Plans

The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board of Trustees. Additional information on the actuarial assumptions as of the latest actuarial valuation is summarized in Figure 1.

The total pension liability reported in the Schedule of Changes in Net Pension Liability and Related Ratios was provided by the System's actuary. The net pension liability is measured as the total pension liability less the amount of fiduciary net position of the pension plans.

The actuarially determined contributions for the Employees Retirement Fund, the Law Enforcement and Custodial supplemental Fund, and Judicial Retirement Plan II are calculated as of August 31, 2015, based on the actuarial assumptions described in Figure 1. These contributions are reported in the Schedule of Employer's Contribution – Defined Benefit Plans.

Beginning August 31, 2015, the Actuarial Accrued Liability and the Annual Required Contribution for the Judicial Retirement Plan I are determined based on a discount rate derived from a current municipal bond rate. Before August 31, 2015, an 8.00% discount rate was used.

**Figure 1**  
**Summary of Actuarial Assumptions - Defined Benefit Plans**

	<b>Employees Retirement Fund</b>	<b>Law Enforcement and Custodial Officer Supplemental Fund</b>	<b>Judicial Retirement System Plan I</b>	<b>Judicial Retirement System Plan II</b>
	<b>(In accordance with GASB Statement No. 67)</b>			<b>(In Accordance with GASB Statement No. 25)</b>
Valuation Date	August 31, 2015	August 31, 2015	August 31, 2015	August 31, 2015
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	31	31	30	31
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
<b>Actuarial Assumptions:</b>				
Investment Rate of Return	8.00%	8.00%	4.17%	8.00%
Projected Salary Increases	0.0% – 11.5%	5.0% – 11.5%	3.5%	3.5%
Inflation Rate	3.5%	3.5%	3.5%	3.5%
Cost-of-living Adjustments	None – Employee 3.5% – Elected	None	3.5%	None

# Required Supplementary Information

## Notes to The Required Supplementary Information (Concluded)

### Other Postemployment Benefit Plan

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;
- the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends;
- assumed salary increases and rates of mortality, termination, disability and retirement for Higher Education members were updated to remain consistent with the assumptions which were adopted by the TRS Board earlier this year for use by the TRS retirement plan actuary; and

- the Health Benefit Cost and Retiree Contribution Trends have been updated to reflect changes in short-term expectations due to recent health plan experience.

The following benefit revisions have been adopted since the prior valuation: (a) an increase to the total network annual out-of-pocket maximum, (b) an elimination of the requirement for referrals in order to see ophthalmologists and optometrists, (c) a copay reduction for a mental health office visit and (d) effective January 1, 2016, the inclusion of medical and pharmacy deductibles, coinsurance and copays in the total network out-of-pocket maximum. These changes became effective September 1, 2015 (unless otherwise noted) and are incorporated into this valuation in accordance with Question Number 49 of the Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits. These minor benefit changes have been reflected in the FY 2016 Assumed Per Capita Health Benefit Costs.

# Other Supplementary Information - Schedule A-1

## Combining Statement of Net Position - Agency Funds

August 31, 2015

	Unappropriated Receipts General Revenue Funds (0001) (U/F 1001)	Child Support Employee Deductions - Offset Account (8070) (U/F 8070)	USPS Overpayments to Employees (0900) (U/F 0915)	Correction Account for Direct Deposit (0980) (U/F 0980)	Totals
<b>Assets</b>	\$	\$	\$	\$	\$
<b>Current Assets:</b>					
Cash and Cash Equivalents:					
Cash in State Treasury		576			576
Total Cash and Cash Equivalents	-	576	-	-	576.00
Receivables:					
Accounts Receivable	3,387				3,387
<b>Total Current Assets</b>	<b>3,387</b>	<b>576</b>	<b>-</b>	<b>-</b>	<b>3,963</b>
<b>Total Assets</b>	<b>3,387</b>	<b>576</b>	<b>-</b>	<b>-</b>	<b>3,963</b>
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts Payable	3,387				3,387
Funds Held For Others		576			576
<b>Total Current Liabilities</b>	<b>3,387</b>	<b>576</b>	<b>-</b>	<b>-</b>	<b>3,963</b>
<b>Total Liabilities</b>	<b>3,387</b>	<b>576</b>	<b>-</b>	<b>-</b>	<b>3,963</b>



Other Supplementary Information – Schedule A-2  
 Combining Statement of Changes in Assets and Liabilities - Agency Funds  
 Year Ended August 31, 2015

	Beginning Balances	Additions	Deductions	Ending Balances
	\$	\$	\$	\$
<b>Unappropriated Receipts General Revenue Fund (0001) (U/F 1001)</b>				
<b>Assets</b>				
Cash in State Treasury	-	55,560	55,560	-
Accounts Receivable	5,550	53,397	55,560	3,387
<b>Total Assets</b>	<b>5,550</b>	<b>108,957</b>	<b>111,120</b>	<b>3,387</b>
<b>Liabilities</b>				
Accounts Payable	5,550	53,397	55,560	3,387
<b>Total Liabilities</b>	<b>5,550</b>	<b>53,397</b>	<b>55,560</b>	<b>3,387</b>
<b>Child Support Employee Deductions - Offset Account (0807) (U/F 8070)</b>				
<b>Assets</b>				
Cash in State Treasury	2,395	12,443	14,262	576
<b>Total Assets</b>	<b>2,395</b>	<b>12,443</b>	<b>14,262</b>	<b>576</b>
<b>Liabilities</b>				
Vouchers Payable	-	11,867	11,867	-
Funds Held For Others	2,395	12,443	14,262	576
<b>Total Liabilities</b>	<b>2,395</b>	<b>24,310</b>	<b>26,129</b>	<b>576</b>
<b>USPS - Overpayments to Employees (0900) (U/F 9015)</b>				
<b>Assets</b>				
Cash in State Treasury	-	10,839	10,839	-
<b>Total Assets</b>	<b>-</b>	<b>10,839</b>	<b>10,839</b>	<b>-</b>
<b>Liabilities</b>				
Funds Held For Others	-	10,839	10,839	-
<b>Total Liabilities</b>	<b>-</b>	<b>10,839</b>	<b>10,839</b>	<b>-</b>
<b>Correction Account for Direct Deposit (0980) (U/F 0980)</b>				
<b>Assets</b>				
Cash in State Treasury	-	624,035	624,035	-
<b>Total Assets</b>	<b>-</b>	<b>624,035</b>	<b>624,035</b>	<b>-</b>
<b>Liabilities</b>				
Funds Held For Others	-	621,376	621,376	-
<b>Total Liabilities</b>	<b>-</b>	<b>621,376</b>	<b>621,376</b>	<b>-</b>
<b>All Agency Funds</b>				
<b>Assets</b>				
Cash in State Treasury	2,395	702,876	704,695	576
Accounts Receivable	5,550	53,397	55,560	3,387
<b>Total Assets</b>	<b>7,945</b>	<b>756,273</b>	<b>760,255</b>	<b>3,963</b>
<b>Liabilities</b>				
Vouchers Payable	-	11,867	11,867	-
Accounts Payable	5,550	53,397	55,560	3,387
Funds Held For Others	2,395	644,658	646,477	576
<b>Total Liabilities</b>	<b>7,945</b>	<b>709,922</b>	<b>713,904</b>	<b>3,963</b>

Other Supplementary Information – Schedule 1  
Revenues, Expenses and Changes in Statutory Account Balances  
(Non-GAAP Presentation) - Employees Retirement Fund  
Year Ended August 31, 2015

	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	455,109,922					455,109,922
Employer Contributions		500,040,758				500,040,758
Service Contributions from Teacher Retirement System			84,059,353			84,059,353
Membership Fees					469,228	469,228
Penalty Interest		7,049,613				7,049,613
Investment Income:						
Net Appreciation in Fair Value of Investments				(471,967,104)		(471,967,104)
Interest and Dividends				557,179,175		557,179,175
Class Action Settlements				4,283,842		4,283,842
Rental Income					37,450	37,450
Warrants Voided By Statute of Limitations		105,860				105,860
Miscellaneous					406	406
<b>Total Operating Revenues</b>	<b>455,109,922</b>	<b>507,196,231</b>	<b>84,059,353</b>	<b>89,495,913</b>	<b>507,084</b>	<b>1,136,368,503</b>
<b>Operating Expenses</b>						
Retirement System Benefits Paid:						
Retirement Benefits			2,022,400,328			2,022,400,328
Death Benefits:						
Active Members		3,025,358				3,025,358
Retirees			1,704,761			1,704,761
Member Contributions Withdrawn	87,166,789					87,166,789
Service Contributions to Teacher Retirement System			18,989,008			18,989,008
Administrative Expenses					52,946,573	52,946,573
Depreciation Expense					1,483,625	1,483,625
<b>Total Operating Expenses</b>	<b>87,166,789</b>	<b>3,025,358</b>	<b>2,043,094,097</b>	<b>-</b>	<b>54,430,198</b>	<b>2,187,716,442</b>
<b>Income (Loss) Before Non-Operating Expenses and Operating Transfers</b>	<b>367,943,133</b>	<b>504,170,873</b>	<b>(1,959,034,744)</b>	<b>89,495,913</b>	<b>(53,923,114)</b>	<b>(1,051,347,939)</b>
<b>Non-Operating Revenues (Expenses)</b>						
Loss on Disposal of Fixed Assets					(2,492)	(2,492)
<b>Income (Loss) Before Operating Transfers</b>	<b>367,943,133</b>	<b>504,170,873</b>	<b>(1,959,034,744)</b>	<b>89,495,913</b>	<b>(53,925,606)</b>	<b>(1,051,350,431)</b>
<b>Operating Transfers In (Out)</b>						
Distribution of Interest	99,946,889	(1,421,325,184)	1,356,663,725	(35,285,430)		-
Establishment of Benefit Reserves	(443,701,976)	(1,124,799,327)	1,568,501,303			-
Distribution of Interest for Administrative Expenses				(54,210,483)	54,210,483	-
Benefits Waived						-
Member Accounts-Escheated	(2,765,203)	2,765,203				-
Membership Fees Transferred Out					(115,000)	(115,000)
Excess Benefit Arrangement Transfers					(169,877)	(169,877)
<b>Net Operating Transfers</b>	<b>(346,520,290)</b>	<b>(2,543,359,308)</b>	<b>2,925,165,028</b>	<b>(89,495,913)</b>	<b>53,925,606</b>	<b>(284,877)</b>
<b>Net Income (Loss)</b>	<b>21,422,843</b>	<b>(2,039,188,435)</b>	<b>966,130,284</b>	<b>-</b>	<b>-</b>	<b>(1,051,635,308)</b>
<b>Account Balances - Beginning</b>	<b>5,213,640,471</b>	<b>2,722,605,460</b>	<b>17,113,870,538</b>	<b>-</b>	<b>-</b>	<b>25,050,116,469</b>
<b>Account Balances - Ending</b>	<b>5,235,063,314</b>	<b>683,417,025</b>	<b>18,080,000,822</b>	<b>-</b>	<b>-</b>	<b>23,998,481,161</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, 2015

	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	8,372,246					8,372,246
State Retirement Contributions		26,728,318				26,728,318
Penalty Interest		4,226				4,226
Investment Income:						
Net Appreciation in Fair Value of Investments				(16,582,254)		(16,582,254)
Interest and Dividends				19,467,018		19,467,018
Class Action Settlements				150,101		150,101
Warrants Voided By Statute of Limitations		4,386				4,386
<b>Total Operating Revenues</b>	<b>8,372,246</b>	<b>26,736,930</b>	<b>-</b>	<b>3,034,865</b>	<b>-</b>	<b>38,144,041</b>
<b>Operating Expenses</b>						
Retirement System Benefits Paid:						
Retirement Benefits			59,210,924			59,210,924
Refunds of Retirement Contributions	2,128,060					2,128,060
Death Benefits:						
Active Members		9,439				9,439
Administrative Expenses					2,527,937	2,527,937
<b>Total Operating Expenses</b>	<b>2,128,060</b>	<b>9,439</b>	<b>59,210,924</b>	<b>-</b>	<b>2,527,937</b>	<b>63,876,360</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>6,244,186</b>	<b>26,727,491</b>	<b>(59,210,924)</b>	<b>3,034,865</b>	<b>(2,527,937)</b>	<b>(25,732,319)</b>
<b>Operating Transfers In (Out)</b>						
Distribution of Interest	12,547	(43,824,660)	44,319,041	(506,928)		-
Establishment of Benefit Reserves	(1,309,196)	(59,256,372)	60,565,568			-
Administrative Expenses				(2,527,937)	2,527,937	-
<b>Net Operating Transfers</b>	<b>(1,296,649)</b>	<b>(103,081,032)</b>	<b>104,884,609</b>	<b>(3,034,865)</b>	<b>2,527,937</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>4,947,537</b>	<b>(76,353,541)</b>	<b>45,673,685</b>	<b>-</b>	<b>-</b>	<b>(25,732,319)</b>
<b>Account Balances - Beginning</b>	<b>29,508,062</b>	<b>307,117,249</b>	<b>533,252,340</b>	<b>-</b>	<b>-</b>	<b>869,877,651</b>
<b>Account Balances - Ending</b>	<b>34,455,599</b>	<b>230,763,708</b>	<b>578,926,025</b>	<b>-</b>	<b>-</b>	<b>844,145,332</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, 2015

	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	5,452,391					5,452,391
Employer Contributions		12,457,095				12,457,095
Penalty Interest		12,606				12,606
Investment Income:						
Net Appreciation in Fair Value of Investments				(7,107,843)		(7,107,843)
Interest and Dividends				8,303,277		8,303,277
Class Action Settlements				64,413		64,413
Warrants Voided by Statute of Limitations		1,786				1,786
Miscellaneous						-
<b>Total Operating Revenues</b>	<b>5,452,391</b>	<b>12,471,487</b>	<b>-</b>	<b>1,259,847</b>	<b>-</b>	<b>19,183,725</b>
<b>Operating Expenses</b>						
Retirement System Benefits Paid:						
Retirement Benefits			19,157,724			19,157,724
Death Benefits:						
Active Members			-			-
Retirees			26,580			26,580
Member Contributions Withdrawn	55,799					55,799
Administrative Expenses					723,451	723,451
<b>Total Operating Expenses</b>	<b>55,799</b>	<b>-</b>	<b>19,184,304</b>	<b>-</b>	<b>723,451</b>	<b>19,963,554</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>5,396,592</b>	<b>12,471,487</b>	<b>(19,184,304)</b>	<b>1,259,847</b>	<b>(723,451)</b>	<b>(779,829)</b>
<b>Operating Transfers In (Out)</b>						
Distribution of Interest	1,250,957	(13,996,025)	13,281,464	(536,396)		-
Establishment of Benefit Reserves	(8,584,183)	(38,460,150)	47,044,333			-
Distribution of Interest for Administrative Expenses				(723,451)	723,451	-
<b>Net Operating Transfers</b>	<b>(7,333,226)</b>	<b>(52,456,175)</b>	<b>60,325,797</b>	<b>(1,259,847)</b>	<b>723,451</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>(1,936,634)</b>	<b>(39,984,688)</b>	<b>41,141,493</b>	<b>-</b>	<b>-</b>	<b>(779,829)</b>
<b>Account Balances - Beginning</b>	<b>69,364,268</b>	<b>142,542,902</b>	<b>153,382,907</b>	<b>-</b>	<b>-</b>	<b>365,290,077</b>
<b>Account Balances - Ending</b>	<b>67,427,634</b>	<b>102,558,214</b>	<b>194,524,400</b>	<b>-</b>	<b>-</b>	<b>364,510,248</b>

# Other Supplementary Information – Schedule 4

## Administrative and Investment Expenses/Expenditures

### Statutory Administrative Funds and Accounts

Year Ended August 31, 2015

	Administrative Expenses	
	Non-Investment	Investment
<b>Personnel Services</b>	\$	\$
Salaries and Wages	20,237,756	10,201,255
Payroll Related Costs:		
Retirement Contributions	1,471,508	627,033
Retirement Membership Fees	1,231	206
Employees Insurance Contributions	2,057,535	536,343
Retirees Insurance Contributions	993,989	237,058
Social Security Contributions	1,435,864	557,089
Unemployment Compensation	20,938	4,996
<b>Total Payroll Related Costs</b>	<b>5,981,065</b>	<b>1,962,725</b>
<b>Total Personnel Services</b>	<b>26,218,821</b>	<b>12,163,980</b>
<b>Professional Fees and Services</b>		
Actuarial Services	1,074,822	
Audit Services	891,070	
Investment Consulting Fees	205	2,008,736
Investment Advisors		12,695,526
Medical Board Member Fees	54,551	
Architectural Services	11,090	
Legal Services	887,682	
Computer Programming Services	4,488,016	113,482
Other Professional Services	348,400	125,541
<b>Total Professional Fees and Services</b>	<b>7,755,836</b>	<b>14,943,285</b>
<b>Other Services and Charges</b>		
Travel	141,369	474,615
Materials and Supplies:		
Postage	751,959	
General Office and Other Supplies	176,175	32
Subscriptions	17,720	8,168
Furniture and Equipment	355,828	92,281
Computer Software	451,943	206,500
<b>Total Materials and Supplies</b>	<b>1,753,625</b>	<b>306,981</b>
Communications and Utilities:		
Electricity, Gas and Water	245,366	
Telephone and Telegraph	663,658	4,801
Electronic Communication Services	152,819	5,135,686
<b>Total Communications and Utilities</b>	<b>1,061,843</b>	<b>5,140,487</b>
Repairs and Maintenance:		
Land and Building	189,463	
Furniture and Equipment	20,716	
Computer Software and Equipment	753,601	102,999
<b>Total Repairs and Maintenance</b>	<b>963,780</b>	<b>102,999</b>
Rentals and Leases:		
Computer Software and Equipment	399,841	
Office Equipment	228,136	
Space	11,542	
<b>Total Rentals and Leases</b>	<b>639,519</b>	<b>-</b>
Printing and Reproduction Services	64,099	
Depreciation	1,483,625	

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## Other Supplementary Information – Schedule 4

### Administrative and Investment Expenses/Expenditures

#### Statutory Administrative Funds and Accounts (Concluded)

Year Ended August 31, 2015

	Administrative Expenses	
	Non-Investment	Investment
<b>Other Services and Charges (continued)</b>	\$	\$
Other Operating Expenses/Expenditures:		
Membership Fees	40,777	74,840
Employee Training	198,951	90,804
Insurance - Building and Vehicle	31,526	
Fees and Other Charges	28,860,246	49,355
Investment Banking		883,700
Tenure Awards	3,342	
Witness Fees	(100)	
Temporary Employment Agencies	498,527	180,387
Cleaning Services	130,869	
Advertising Services	5,386	3,730
Freight/Delivery Services	5,589	
Purchased Contracted Services	1,015,779	5,322
Prompt Payment Interest	99	
Third Party Administrator Fee - Cafeteria Plan	1,369,716	
Debit Card Fees - Cafeteria Plan	647,065	
<b>Total Other Operating Expenses/Expenditures</b>	<b>32,807,772</b>	<b>1,288,138</b>
<b>Total Other Services and Charges</b>	<b>38,915,632</b>	<b>7,313,220</b>
<b>Total Expenses/Expenditures</b>	<b>72,890,289</b>	<b>34,420,485</b>
<b>Method of Finance:</b>		
State Employees Retirement System (S.E.R.S.) Trust Account (0955)	21,839,626	32,590,570
Law Enforcement and Custodial Officer Supplement Retirement Trust Fund (0977)	1,411,562	1,116,375
Judicial Retirement System Plan One Fund (0001)		
Judicial Retirement System Plan Two Trust Fund (0993)	283,609	439,842
TexaSaver 401(k) Trust Fund (0946)	529,547	14,782
TexaSaver 457 Trust Fund (0945)	265,056	6,932
State Employees Cafeteria Plan Trust Fund (0943)	3,661,909	16,523
State Retiree Health Plan (3973)	8,264,549	
<b>Total Fiduciary Funds</b>	<b>36,255,858</b>	<b>34,185,024</b>
Employees Life, Accident, Health Insurance and Benefits Trust Account (0973)	36,456,697	235,461
<b>Total Proprietary Fund</b>	<b>36,456,697</b>	<b>235,461</b>
Social Security Administration Trust Account (0929)	177,734	
Death Benefits for Certain Law Enforcement Officers, Fire Fighters and Others (0001)		
<b>Total Governmental Funds</b>	<b>177,734</b>	<b>-</b>
<b>Total Method of Finance</b>	<b>72,890,289</b>	<b>34,420,485</b>

Note A: \$77,447,912 management fees for Alternative Investments were reported as part of the fair value of Investments. Details of the management fees are listed in the Investment Section.



## Other Supplementary Information – Schedule 5

### Professional and Consulting Fees

Year Ended August 31, 2015

Nature of Service	Totals
	\$
Medical Board	54,551
Investment Consulting	2,008,941
Investment Advisors	12,695,526
Actuarial Services - Insurance	580,446
Actuarial Services - Retirement	494,376
Computer Programming Services	4,601,498
Audit Fees - Financial	178,000
Audit Fees - Insurance Carrier	479,478
Audit Fees - Other	202,592
Actuarial Audit Services	31,000
Architectural Services	11,090
Legal Services	887,682
Educational Services	95,555
Information Technology Advisor Services	107,526
Enterprise Risk Assessment Services	5,760
Investment Tax Agent Services	41,985
Electronic Materials Development Services	4,620
Compensation Consulting Services	38,285
Health Insurance Survey Services	9,919
Employee Assistance Program	6,256
Ergonomic Workstation Evaluation Consulting	1,425
Writing and Support Services for Communication Campaigns	56,205
Verification Services - Global Investment Performance Standards	20,000
Executive Recruitment Services	79,583
Other Professional and Consulting Fees	6,822
<b>Total Professional and Consulting Fees</b>	<b>22,699,121</b>
<b>Method of Finance</b>	
State Employees Retirement System (S.E.R.S.) Trust Accounts (0955)	18,484,443
Law Enforcement and Custodial Officer Suppl. Retirement Trust Fund (0977)	672,526
Judicial Retirement Plan Two Trust Fund (0993)	248,643
State Retiree Health Plan (3973)	894,095
TexaSaver 401(k) Trust Fund (0946)	42,495
TexaSaver 457 Trust Fund (0945)	21,780
State Employees Cafeteria Plan Trust Fund (0943)	177,538
<b>Total Fiduciary Funds</b>	<b>20,541,520</b>
Employees Life, Accident, Health Insurance and Benefits Trust Accounts (0973)	2,144,683
<b>Total Proprietary Fund</b>	<b>2,144,683</b>
Social Security Administration Fund (0929)	12,918
<b>Total Governmental Fund</b>	<b>12,918</b>
<b>Total Method of Finance</b>	<b>22,699,121</b>





## INVESTMENT SECTION

Report on Investment Activity

Outline of Investment Policies

Time-weighted Rates of Return and Asset Allocations

Broker Commissions

Management Fees for Alternative Investments

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List of Largest Assets Held

Investment Summary at Fair Value

# Report on Investment Activity

Fiscal Year 2015

## Overview

The System's investment portfolio closed the fiscal year with a fair value of \$25.2 billion, and received a net return of 0.44% for the year compared to the global policy benchmark return of (1.03%). Over the longer term, the fund returned 8.95% for the 5 years ended August 31, 2015, outperforming the policy benchmark of 8.59%. For the 10 years ended August 31, 2015, the fund returned 6.04%, outperforming the policy benchmark of 5.58%. The fiscal year-end asset allocation stood at 23.6% fixed-income, 48.8% global public equity, 9.4% global real estate, 11.0% in private equity, infrastructure of 1.0%, 5.1% in absolute return funds, and 1.1% in cash.

During fiscal year 2015, the System substantially accomplished transition to the new asset allocation (based on the fiscal years 2012 to 2013 Asset/Liability Study), including private real estate, private equity, and the Absolute Return portfolio (hedge funds). The System reduced external advisor fees over \$3 million by moving assets to in-house management and achieved savings through diligent negotiation of best economic deal terms along with combined savings of approximately \$21 million.

In addition to sponsoring the project of leveraging the defined benefit investment program for the benefit of the Texa\$aver platform, management participated in the selection of the agency Space Planning Feasibility Study consultant, coordinated distinguished speaker symposiums for the System staff, hosted operational due diligence training for other Texas pensions, and increased intra-agency and internal division communication through brown bags and intra-agency show and tell.

The asset allocation goals have prompted an increase in staff, adding an infrastructure portfolio manager, real estate analyst, investment operations supervisor, five investment operations specialists, hedge fund portfolio manager, two public equities analysts, strategic research analyst, and two fixed income analysts. The System's Office of Management Support rotation program helped hire one of the operations specialists. The System also hired four new staff members through the newly implemented junior analyst program. Management also completed a compensation study through a third party consultant.

Management remains committed to developing a career path program and to attracting and retaining talented investment professionals by several educational trainings, which include communications,

succession planning, overall team development, leadership/management, presentation, and communication. In addition, the System expanded the internship program, which included outreach to diversity candidates along with active collaboration with university graduate programs, including the University of Texas Austin MBA and MS Finance programs.

Management continues to recognize the importance of optimizing the mix of internally managed and externally advised portfolios and of enhancing the risk management processes. Staff implemented the derivatives program, initiated and implemented the Best Ideas program and successfully rebranded the emerging manager program as part of an overall external management and continued outreach to industry organizations.

Numerous Investments team members were the recipients of industry awards this year. Tom Tull was named Chief Investment Officer of the year at the Institutional Investor Conference, and Rob Lee won the Alpha Generation award at the same conference. Sharmila Kassam won Standout Advisory Committee member for her participation in emerging manager education for ConsortiumEast 2015. These awards, together with attendance and presentations at conferences throughout the year, demonstrate that the System is committed to its branding and investments program.

## Domestic Equity

An August market decline of 6% erased most U.S. equity benchmark gains and pushed returns into negative territory for fiscal year 2015. After the Dow Jones Industrial Average and S&P 500 Index reached new closing highs in May, the indices finished the fiscal year with a decrease of -3.34% and -1.56%, respectively. The technology laden NASDAQ reached its all-time high of 5,231 in July and managed to hold a gain of 4.28% for the fiscal year. After a volatile start of the fiscal year, the markets settled into a tight trading range with an upwardly bias until international concerns caused the August decline.

Early fiscal year 2015 was marked by commodity volatility. Crude oil fell 41% as U.S. inventories built up. Domestic production was increased to record levels because production from Libya came back online and OPEC decided to leave quotas unchanged. Gold fell 11% as the U.S. Dollar increased in value as other countries implemented quantitative easing

# Report on Investment Activity (Continued)

Fiscal Year 2015

policies. Copper prices fell 23% on the outlook for decreased demand from China. These influences caused the market to decline over 7% from mid-September to mid-October only to have strong 3rd quarter earnings reports push the market to new highs by the end of October.

Stronger than expected 4th quarter earnings pushed the markets to highs again during the first calendar quarter of 2015, but poor 1st quarter U.S. economic reports and stretched valuations capped the move. As the U.S. economic reports improved, stock entered into a trading range but were offset by worries about the Federal Reserve raising interest rates and the effects of a possible Greece exit from the European Union. The trading range was broken when China devalued its currency mid-August, sending the Asian markets and European markets into steep declines. The domestic markets withstood the initial devaluation but eventually the steep global market decline took their toll.

On a relative basis, Health Care, Consumer Discretionary and Consumer Staples were the top performing economic sectors for the fiscal year while energy and materials were the weakest for the year.

## International Equity

International markets remained dependent on government stimulus programs to offset slowing economic growth across the globe. The Pacific Region led by Japan surprised the market in October by expanding its stimulus program to accelerate the purchase of Japanese Government Bonds (JGB's), REIT's and ETF's. Japan, however, did not act alone. The European Central Bank also unexpectedly cut interest rates late in 2014 and announced a 1 trillion Euro asset buyback program, resulting in negative yields across Europe. Perhaps the most aggressive stimulus policies, China announced new policies almost monthly, which included interest rate and reserve requirement cuts, capital controls, and infrastructure programs. In April, Chinese H-Shares spiked when the Chinese Securities Regulatory Commission broadened access to the Shanghai-Hong Kong market trade link for Chinese investors. Unfortunately, the rally was not sustained and investors lost nearly \$3.6 trillion off the peak when the market crashed months later. Commodity prices weakened throughout the year despite a short lived mid-year rally led by oil. OPEC's decision to maintain production levels, improved fracking technology and the potential for new production in Iran kept energy prices low. Countries with high sensitivity to oil, including Russia,

Mexico and Columbia, all felt the financial impact on government budgets while industrial companies felt the impact of capex budget cuts.

The Morgan Stanley Capital International ACWI ex U.S. Index (-4.2%) and EAFE index (-7.5%) finished lower in U.S. Dollar terms during the course of the year. Despite negative absolute returns, the Pacific Index (-5.9%) was the top performing market led by gains in Japan (+4.2%). Most of the weakness was driven by losses in Hong Kong (-8.4%), Singapore (-21.2%) and commodity rich Australia (-27.0%). Europe (-8.5%) also finished weaker as losses in the United Kingdom (-12.8%), Spain (-16.7%) and Sweden (-8.7%) weighed on the market. Small economies outperformed including Israel (+15.3%), Ireland (+14.5%) and the Netherlands (+1.5%). Key countries including Germany (-7.3%) and France (-7.2%) performed slightly better than the overall index. Emerging Markets (-23.0%) gave back all of last year's gain (2014, +20%) as Brazil (-52.7%) and Russia (-28.2%) both suffered due to political problems and the oil crisis. The spillover from these key BRIC countries also impacted regional neighbors including Columbia (-54.2%) and Peru (-29.3%) in South America and Turkey (-29.5%) in Europe. Overall, the worst performing country was Greece (-70.0%). Despite the weak index return, India (-7.7%) and China (-9.3%) still managed to outperform. Currency markets remained highly volatile over the year with steep declines felt by the Australian Dollar (-23.8%) and the Swedish Kroner (-17.5%). Monetary stimulus packages weakened both the Euro (-14.6%) and Yen (-14.1%). The trade weighted U.S. Dollar (+15.8%) was the only global currency to appreciate.

## Real Estate

The global real estate equity markets as measured by the FTSE EPRA/NAREIT Developed Index posted the first negative fiscal year return down 4.0% after five consecutive positive fiscal year returns (FY2010 +15.1%, FY2011 +15.5%, FY2012 +12.6%, FY2013 +6.6%, FY2014 +20.3%, FY2015 -4.0%), slightly underperforming the broader equity markets (MSCI World Index -3.5%). Investor sentiment turned negative due to a combination of factors: increasing expectations of a Fed rate hike in 2015, a slowdown in the emerging markets, concerns about deflation, and renewed worries about a Greek crisis impacting Europe. Volatility increased significantly toward the end of the fiscal year and the US dollar continued to strengthen. The Middle East (+22.9%) and UK (+11.0%) were the best performing regions while



# Report on Investment Activity (Continued)

Fiscal Year 2015

Continental Europe (-0.6%), North America (-1.3%) and Asia (-13.3%) lagged.

In Europe, the UK and Continental Europe posted decent local returns of 19.8% and 16.4%, respectively, supported by the accommodative monetary policies. Continued strong real estate fundamentals supported the share performance for the UK REITs. Despite the ongoing Greek drama, the fear of contagion did not materialize in Continental Europe. In fact, the peripheral countries of Spain and Italy achieved decent double-digit local returns. The macroeconomic conditions and real estate fundamentals in Continental Europe showed signs of stabilization and earnings results were generally encouraging.

The sentiment toward Asia turned decidedly negative. The region gained 11.6% in the last fiscal year but gave it all back in fiscal year 2015, losing 0.8% in local terms and down 13.3% in USD terms. While the US was considering an interest rate increase, China and Australia as well as other Asian countries had cut interest rates multiple times during the past twelve months. Hong Kong was the worst performer in local returns due to a China slowdown, expectations of a peaking housing cycle, and a weaker retail sales environment. Australia and Japan posted positive local returns but returns in USD terms were down -13.4% and -12.5%, respectively. Singapore was down -19.6% on concerns of weaker fundamentals.

The US market, as measured by the FTSE EPRA/NAREIT United States Index, increased 0.1% for the fiscal year 2015, falling short of the impressive 24.3% return generated in fiscal year 2014, and resembling similar performance of the “taper tantrum” when the index posted a 0.7% return in fiscal year 2013. Despite positive fundamentals and economic trends which translated to robust quarterly earnings results, the index performance was negatively impacted by the concerns on global growth and the potentially increase in Fed interest rates for the first time since 2006. Given investor sentiment on interest rate concerns, positive economic trends such as increased household formation, and a home ownership rate below historical levels, the lower duration sectors outperformed other property types by a significant margin. Specifically, Self-Storage (+24.3%) and Residential (+9.5%) continued to outperform in 2015 after posting record NOI and earnings growth. Despite being known for longer duration leases, the retail sector also posted positive performance on the back of a favorable supply/demand environment, which enabled landlords to drive double digit rental spread

growth. On the flipside, Healthcare (-5.7%), Lodging / Resorts (-9.4%), and Diversified (-9.5%) sectors were notable underperformers for the year. Healthcare and Triple Net Lease (Triple Net Lease included within the Diversified sector) were weak as the investor community became weary that the historically healthy spreads between the cost of capital and current yields would compress on the back of a potential interest rate hike. Lodging/Resorts and Industrial (-4.8%) came under pressure on supply/demand concerns in addition to fears that a stronger US dollar would curb demand for hotel rooms and industrial real estate.

## Private Real Estate

The System committed \$461 million across 8 deals which includes one co-investment for the fiscal year and two “top ups” to previously closed investments. This was near a target of \$475 million but below the upper range of \$712.5 million set forth in the fiscal year 2015 tactical plan. About 60% of the 2015 private real estate investments, or \$285 million, was committed to domestic US strategies, which included two multi-family focused funds, two diversified non-core strategies targeting returns of 15%-18% and a self-storage separate account, a niche sector that the team research found to have excellent investment fundamentals and opportunities for asset improvement. Additionally, the System made its first co-investment of \$6 million with a current manager participating in an apartment development. Co-investments typically have focused investments, lower management fees, and stronger governance structures. The System expects to make additional co-investments in 2016 as opportunities become available and meet risk/return parameters together with a strong “hands on” property management that can drive performance and create value for the System, and complement the existing portfolio of investments. Outside of the US, one commitment totaling \$75 million was made to a pan Asia non-core strategy (mostly office buildings and hotels). Another \$75 million commitment was to a global opportunity fund that the System expect will end up investing in South America in addition to other areas around the globe, including the US. Additionally, two existing investments were “topped up.” One was to a US non-core strategy and the other was to an Asian open-ended core fund.

As of August 31, 2015, private real estate commitments total \$2.58 billion to thirty eight funds and one co-investment. The System continues to play an active role in monitoring and steering each investment the System is on the Advisory Board on all



# Report on Investment Activity (Continued)

Fiscal Year 2015

but five fund investments. The net asset value of the private real estate portfolio stands at \$1.6 billion and since inception \$1.7 billion in capital has been called. The system has also received back approximately \$676 million as income or a return of principal. In fiscal year 2015, over \$450 million in equity capital was called for the portfolio and over \$370 million was returned as income or a return of principal. This is up considerably from last fiscal year when only \$95 million was received. The System is seeing an increase in distributions as managers have been selling assets sooner than expected due to the favorable returns generated. Notably, one fund was liquidated in the past fiscal year, resulting in a 40% net IRR and 1.5 equity multiple. The System staff is carefully monitoring the pace of capital calls and distributions from all of the System's investments.

The portfolio is close to its steady state and represents 6.5% of the System's overall trust assets with a target weight of 7%. The portfolio has generated a net IRR of 12.8% since inception. Investing into the core open-ended funds toward the bottom of the market cycle has mitigated the J-Curve effect to some extent. The program will continue to be selective in committing capital.

## Private Equity

For fiscal year 2015, Private Equity closed on 15 deals, including five co-investments, with commitments totaling \$1.02 billion versus a goal of \$950 million and a range of \$714 - \$1,188 million.

As of August 31, 2015, the Private Equity portfolio Net Asset Value was \$2.76 billion, compared to \$2.32 billion at fiscal year-ending August 31, 2014. Since inception Private Equity has closed on 65 funds and 20 co-investments with commitments totaling \$5.47 billion (adjusted for currency exchange rates). In addition, the System has obtained LP Advisory Committee seats on 43 funds and two fund LP Advisory Observer seats.

## Fixed Income

### Economy

Economic data was relatively strong as the unemployment rate fell to 5.1% from 6.1% during the fiscal year. Gross Domestic Product (GDP) grew at 4.3% in Q3 and 2.1% in Q4 before dropping to 0.6% in the first quarter of 2015. Like 2014, weather appeared to be a significant factor behind the decline as the economy posted a 3.7% growth rate in the second quarter.

During the year, the Federal Reserve recognized a stronger labor market offset by inflation levels that were below the Fed's longer-run objective. The Fed expects inflation to rise gradually toward 2 percent over the medium term as the labor market improves further and the transitory effects of earlier declines in energy and import prices dissipate. While the Fed's dual mandate focuses on the labor market and inflation, the Committee acknowledges moderate growth in household spending and a housing market that has shown additional improvement. Conversely, lower commodity prices have reduced capital expenditures and net exports have stayed soft. Against this backdrop, the market is expecting the Federal Reserve to begin the process of normalizing its monetary policy after seven years of zero interest rates.

## Index Performance

The Barclays Capital Intermediate Credit Index returned 0.81% for the fiscal year, down from last year's total return of 5.85%. Risk assets struggled as high yield returned -2.93% and emerging markets returned -3.73%. Option adjusted spreads moved wider during the year, depressing prices for more risky assets. Therefore, coupons helped improve returns, largely explaining the 2.60% performance from securitized. Credit quality was a factor for the fiscal year. Securities rated Aaa returned 2.39% while securities rated Baa returned -2.18%.

## Interest Rates

Interest rates were more volatile during the fiscal year as monetary policy from other central banks influenced yields in the United States. While the yield on the 10-year security ended the year at 222 basis points (bps), the high was 262 bps and the low yield was 164 bps. Some of this volatility came as the Federal Reserve ended their bond buying program in November. With less support from the Fed, the yield curve flattened for most of the year and ended at 148 bps. Most of this flattening move came from the rise in the yield on the 2-year security, climbing 25 bps during the year.

A lack of inflationary data kept a lid on longer-dated Treasury yields. The core consumer price index (CPI) never registered above 1.8% on an annual basis. Accordingly, the yield on the 10-year security ended the year 12 bps lower. Falling commodity prices supported lower yields and falling inflation. Crude oil ended the fiscal year at \$45.22 after starting at \$95.96. Despite few signs of inflation, yields on shorter-term Treasury securities rose as market participants anticipated the Fed to raise their benchmark target rate in 2015. As a

# Report on Investment Activity (Concluded)

Fiscal Year 2015

result, returns according to maturity favored securities with longer duration. Securities maturing in 1-3 years gained 0.83% while securities maturing in 7-10 years gained 2.26%.

## Private Infrastructure

For fiscal year 2015, Private Infrastructure closed on two deals, with commitments totaling \$105 million. The total commitment target for fiscal year was \$300 million with a commitment range of +/- 25% (\$225-\$375million).

Since inception, Private Infrastructure has closed on five co-investments and two funds with commitments totaling \$380 million (adjusted for currency exchange rates). The System holds an LP Advisory Committee seats on two funds. As of August 31, 2015 the Infrastructure portfolio Net Asset Value was \$247.7 million, compared to \$206.3 million at fiscal year-ending August 31, 2014.

## Hedge Funds

Hedge Funds ended fiscal year 2015 in positive territory after a volatile year. The Absolute Return Portfolio ended the year up 3.32% while the benchmark return over the same period posted a gain of 4.07%. Performance for the year is most easily described by looking at the two halves (First half: September through February; second half: March through August).

First half of fiscal year 2015 performance in the Absolute Return Portfolio was supported by all strategies with Macro and Equity Long-Short strategies providing the majority of attribution over the period. The constituent Macro strategies returned 9.62% in the first half, outperforming the HFRX Macro Index which returned 7.00% over the same period. Likewise, constituent Equity Long-Short strategies returned 8.64%, outperforming the HFRX Equity Long-Short Index which returned only 1.66% over the same period. While Macro and Equity Long-Short strategies were underweighted in the Absolute Return Portfolio due to volatility and beta considerations, they contributed 98bps and 96bps to total portfolio performance over the first half of fiscal year 2015. Positive performance during the first half is also attributed to Relative Value, Event Driven, and Opportunistic strategies, which returned 0.80%, 1.29% and 2.05%, respectively. This performance was strong in comparison to the strategy indices: HFRX Event Driven posting -7.43% and HFRX Relative Value posting -2.00% for the first half of fiscal

year 2015. The strategies, in aggregate, contributed a total of 92bps to total portfolio performance. The total of the Absolute Return Portfolio posted a gain of 2.87% over the period.

Second half fiscal year 2015 performance was mixed as both Macro and Event Driven strategies posted losses. Macro, posted a loss of -0.44% for the Absolute Return Portfolio, outperformed the HFRX Macro Index which posted losses of -3.59% over the period. Event Driven, posted a loss of -1.77%, outperformed the HFRX Event Driven Index which posted losses of -4.28% over the period. Macro and Event Driven strategies contributed losses of -4bps and -49bps to overall portfolio performance over the second half of fiscal year 2015. Opportunistic, Equity Long-Short, and Relative Value strategies all posted gains for the second half of fiscal year 2015 with respective performance of 4.62%, 3.90% and 0.48%. These strategies likewise outperformed their strategy benchmarks: HFRX Equity Long-Short posted -2.62% and HFRX Relative Value posted -0.57%. The total of the Absolute Return Portfolio posted a gain of 0.48% over the period. As a backdrop to this performance, the VIX Index was up 113.12% over the time period, global equity markets and credit markets were down, and commodity prices continued to decline.

To summarize, the Absolute Return Portfolio posted relatively strong performance during fiscal year 2015 against several market headwinds. Return attribution was varied across strategies and time periods, helped drive the low volatility and low beta of the portfolio to the overall Trust. The portfolio remains overweight to Relative Value and Event Driven strategies and this overweight is expected to persist in the upcoming fiscal year. Additional Opportunistic strategies will be considered as market changes present unique investment opportunities.

## Key Portfolio Statistics

	2015	2014
	\$	\$
Contributions to Pool	767,800,000	732,700,000
Withdrawals from Pool	(1,936,700,000)	(1,861,900,000)
Interest & Dividends	579,420,537	652,130,913
Securities Lending Net Income	5,528,933	8,944,853
Net Appreciation in Fair Value	(495,657,201)	2,784,684,251

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

*Basis of Presentation: Master custodian and the System's financial records. The time weighted method is used to calculate the rates of return.*

# Outline of Investment Policies

Fiscal Year 2015

## Background

The Board of Trustees' investment policies are governed by the Texas Government 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 Plan Beneficiaries;
- Establish prudent investment policies defining investment objectives and strategies;
- Seek to maximize investment returns 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. In addition, 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

The assets of the System's funds will be broadly diversified in order to minimize the risk of large losses in individual investments. Investments are restricted by the Texas Constitution to securities such as, but not limited to, cash equivalents, bonds, common stocks, and limited partner interests. The System's funds will have beneficial ownership of:

- No more than 3% of the Funds' assets at market value in the securities of any one corporation;
- No more than 5% of any class of voting securities of any one public corporation; and
- No more than 15% of an advisor's high yield bond portfolio, based on market values, in combined Deferred Interest, Contingent Interest and Pay-In-Kind bonds.

## Permissible Investments

The Board of Trustees will consider investment instruments appropriate for the System's funds 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; and
- The cost of including them in the program.

# Outline of Investment Policies (Concluded)

Fiscal Year 2015

## Eligible Securities

- Except as described in the Fixed Income Policies and Procedures for the credit portfolio, global fixed income securities, subject to a minimum credit rating of “CCC-, Caa3,” or their equivalent as rated by two (NRSROs), and included 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.
- 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.

- Private equity and private real estate investments must be institutional in quality and meet the parameters specified in the System’s investment policy.
- Global publicly traded real estate equities subject to the quality standards set forth 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 bond exchanges shall be voted to consider only those factors that relate to the economic value of the System’s investment, and such votes should cast in accordance with the System’s best interest and investment objectives for the funds.

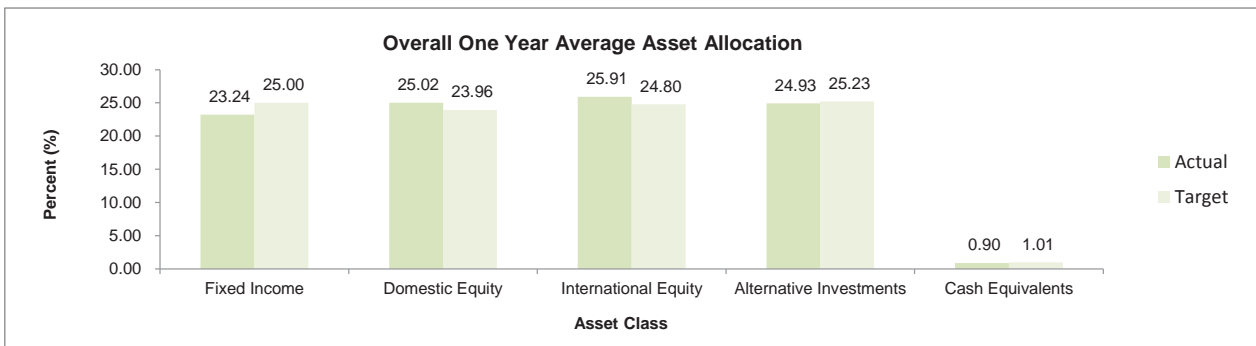
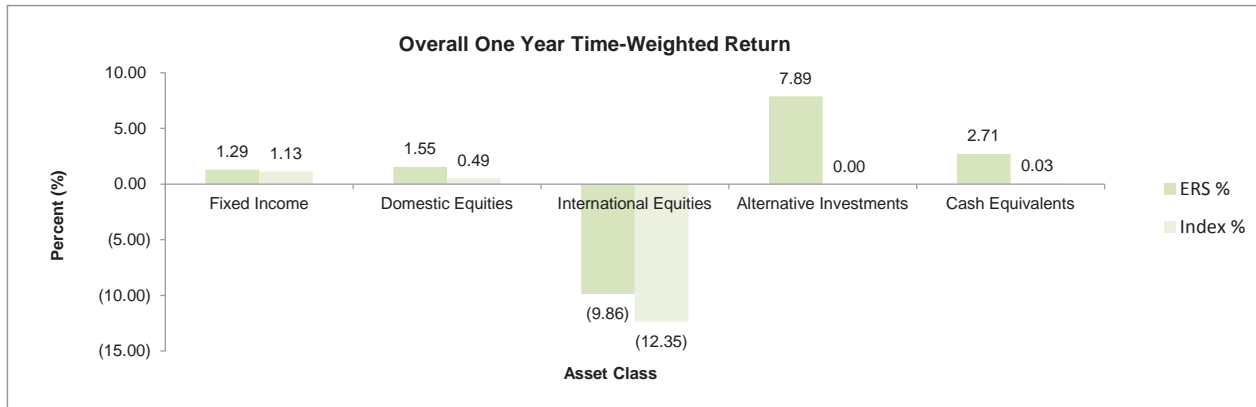
*Basis of Presentation: Texas Statute and the System’s Investment Policy*

# Time-Weighted Rates of Return and Asset Allocations

## Investment Pool

August 31, 2015

	Time-Weighted Rates of Return (Note A)						3 Year	5 Year
	2011	2012	2013	2014	2015	(2013-2015)	(2011-2015)	
	%	%	%	%	%	%	%	
<b>Fixed Income</b>								
ERS	4.72	6.01	(1.45)	3.85	1.29	1.21	2.85	
Index	4.82	6.44	(1.69)	6.28	1.13	1.85	3.35	
<b>Domestic Equities</b>								
ERS	19.67	17.56	19.27	24.34	1.55	14.62	16.20	
Index	19.09	17.52	19.38	24.86	0.49	14.42	15.96	
<b>International Equities</b>								
ERS	11.98	0.09	13.97	16.28	(9.86)	6.11	6.01	
Index	10.34	(1.92)	12.98	17.75	(12.35)	5.25	4.76	
<b>Alternative Investments</b>								
ERS	20.48	7.67	13.43	15.70	7.89	12.29	12.93	
Index	NA	NA	NA	NA	NA	NA	NA	
<b>Cash Equivalents</b>								
ERS	0.04	0.96	(4.15)	0.61	2.71	(0.32)	0.01	
Index	0.15	0.06	0.11	0.05	0.03	0.06	0.08	
<b>ERS Overall</b>								
ERS	12.58	8.22	10.07	14.70	0.49	8.26	9.10	
Index	12.02	8.11	9.52	15.00	(1.03)	7.62	8.59	
<b>Change in CPI</b>	3.80	1.42	1.96	2.00	0.21	1.37	1.82	



Note A: The Time-Weighted Rate of Return measures the gross of fees 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 net of fees. The names of the index are listed 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

Basis of Presentation: Master custodian records.



# Broker Commissions

Year Ended August 31, 2015

## Domestic Equity

Brokerage Firm	No. of Shares		Commissions		Commission Per Share
	Traded		\$	\$	
Baird, Robert W & Co., Inc.	3,973,860		78,994		0.020
Barclays Capital	8,703,859		159,862		0.018
Bloomberg Tradebook, LLC	2,555,267		51,105		0.020
BMO Capital Markets Corp.	8,404,418		168,088		0.020
BNP Paribus	53,700		1,399		0.026
BNY Mellon Clearing	7,373,309		172,583		0.023
Cantor Fitzgerald	1,818,316		36,366		0.020
Capital Institutional Services, Inc.	1,351,904		40,557		0.030
Citigroup Global Markets, Inc.	4,285,594		80,262		0.019
Cowen & Co., LLC	1,421,915		28,438		0.020
Credit Suisse	20,653,406		419,782		0.020
Deutsche Bank	9,636,158		192,723		0.020
Goldman Sachs	2,547,348		50,947		0.020
Green Street Advisors, Inc.	778,038		38,902		0.050
HSBC	66,500		1,330		0.020
International Strategy Investment Group, Inc.	2,932,325		58,647		0.020
Investment Technology Group, Inc.	1,300,900		14,479		0.011
Jefferies & Co, Inc.	11,714,189		234,540		0.020
JP Morgan Securities, LLC	7,267,310		130,584		0.018
Keybank Capital Markets, Inc.	655,701		13,114		0.020
Liquidnet, Inc.	3,636,743		54,318		0.015
Macquarie Securities (USA), Inc.	5,025,521		87,010		0.017
Merrill Lynch & Co., Inc.	6,185,703		115,564		0.019
Morgan Stanley Dean Witter & Co.	5,129,199		98,964		0.019
National Financial Services, LLC.	106,961		2,139		0.020
Piper Jaffray	447,433		8,949		0.020
Raymond James & Associates, Inc.	1,761,676		52,849		0.030
RBC Capital Markets	3,141,276		62,826		0.020
Sanford C Bernstein & Co., Inc.	7,185,703		167,136		0.023
State Street Brokerage Services	2,141,472		21,415		0.010
Stifel, Nicolaus & Co., Inc.	2,781,355		55,627		0.020
UBS	8,428,674		164,856		0.020
	<b>143,465,733</b>		<b>2,864,355</b>		<b>0.020</b>

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# Broker Commissions (Concluded)

Year Ended August 31, 2015

## International Equity

Brokerage Firm	No. of Shares	Commissions		Commission
	Traded	\$	\$	Per Share
Baader Bank AG	52,947		6,580	0.124
Bank of New York Mellon	270,170		1,878	0.007
Barclays Capital	180,693,155		412,435	0.002
BMO Nesbitt Burns	1,697,175		28,426	0.017
BNP Paribus	5,282,864		221,785	0.042
BNY Mellon Clearing	12,981,060		342,495	0.026
Caceis Bank	3,195,148		63,950	0.020
Calyon Securities	1,529,000		24,569	0.016
Celfin Capital SA	3,225,156		3,736	0.001
China Southern Securities Co., Ltd.	2,277,925		573	0.000
Citigroup Global Markets, Inc.	123,694,338		398,191	0.003
Clearstream Banking AG	301,043		42,183	0.140
CLSA Singapore PTE Ltd.	221,618,380		770,233	0.003
Credit Suisse	38,639,288		229,146	0.006
Daiwa Securities	208,276,485		869,988	0.004
Deutsche Bank	30,645,226		206,308	0.007
Fidelity Clearing Canada	294,677		3,962	0.013
Goldman Sachs	10,000		401	0.040
HSBC	237,206,476		791,736	0.003
Instinet LLC	58,165,753		193,551	0.003
Investec Securities Limited	2,566,100		27,954	0.011
Investment Technology Group, Inc.	2,912,892		17,057	0.006
ITG, Inc.	242,700		999	0.004
Jefferies & Co, Inc.	10,057,298		219,564	0.022
JP Morgan Securities, LLC	233,511,944		1,059,905	0.005
KEB Salomon Smith Barney Securities	325,583		25,710	0.079
Liquidnet, Inc.	415,000		587	0.001
Macquarie Securities (USA), Inc.	99,087,320		621,550	0.006
Merrill Lynch & Co., Inc.	51,445,132		371,665	0.007
Mitsubishi Securities	13,425,900		175,791	0.013
Morgan Stanley Dean Witter & Co.	63,383,692		246,963	0.004
Nomura Securities Co. Ltd.	363,000		8,686	0.024
Nordea Bank	91,097		4,752	0.052
RBC Capital Markets	196,900		3,190	0.016
Redburn Partners, LLP	15,294,632		120,010	0.008
Sanford C Bernstein & Co., Inc.	9,434,778		189,973	0.020
SIS Segaintersettle AG	3,581,952		58,011	0.016
Societe Generale	84,000		16,026	0.191
Sydbank	2,277,925		573	0.000
The Depository Trust Company	114,400		1,760	0.015
UBS	71,673,908		446,221	0.006
	<b>1,710,542,419</b>		<b>8,229,073</b>	<b>0.005</b>

Basis of Presentation: Master custodian records.

# Management Fees for Alternative Investments

Year Ended August 31, 2015

Fund Name	Fees (Note A)
	\$
Abacus Multi-Family Partners III L.P.	187,500
Aberdeen European Opportunities Property Fund of Funds, LLC	430,807
Actis Energy 3 R L.P.	1,502,761
Advent International GPE VI-C, L.P.	696,026
Advent International GPE VII-C	1,286,284
Advent Latin America Fund V-H ,L.P.	423,977
Aristeia Partners L.P.	712,481
Arrowgrass Partnership L.P.	1,485,034
Aspect Partnership L.P. - Class A USD	661,634
The Baring Asia Private Equity Fund V, L.P.	1,273,750
BlackRock Credit Alpha Fund LLC	715,309
Blue Wolf Capital Fund III, L.P.	897,847
BPE Asia Real Estate	2,396,487
Brazos Equity Fund III, L.P.	33,480
Brookfield Strategic Real Estate Partners B L.P.	1,022,443
Campus-Clarion Student Housing Partners L.P.	372,486
Carlyle Global Financial Services Partners II L.P.	1,113,536
Carlyle Partners V, L.P.	918,796
CC ARB Fund, LLC	849,134
CO061714	54,801
CO06292012	10,861
CO103014	148,268
Conatus Capital Partners L.P.	1,044,090
Cornerstone Core Mortgage Fund I LP	100,766
Cotton Creek Capital Partners II L.P.	283,968
Court Square Capital Partners III, L.P.	832,068
CVC European Equity Partners V (B) L.P.	236,442
DRA Growth and Income Fund	191,530
The Energy & Minerals Group Fund III, LP	1,286,822
ERS Private Equity Emerging Manager Fund I, L.P.	346,260
ERS Private Equity Emerging Manager Fund II L.P.	83,152
ERS Private Equity International Fund II, LP	382,940
Euroknights VI, L.P.	777,280
Frontier Fund III, L.P.	819,987
Frontier Fund IV, L.P.	1,350,100
GKC Credit Opportunities, L.P.	693,133
Glazer Enhanced Offshore Fund, Ltd. - USD Class	831,818
Glazer Offshore Fund - Class A	3,943
Glenfarne Asset Company, LLC	463,918
Gores Capital Partners III, L.P.	694,278
Hammes Partners II, L.P.	1,625,632
Hellman & Friedman Capital Partners VII, L.P.	1,735,252
HgCapital 6 A, L.P.	415,356
HgCapital 7 A L.P.	1,822,628
HitecVision VI, L.P.	1,013,358
HitecVision VII L.P.	1,338,115
Iguazu Partners L.P.	1,110,638
Invesco Core Real Estate - U.S.A., L.P.	1,122,681
Invesco Real Estate Asia Fund	117,469
ISQ Global Infrastructure Fund, L.P.	284,952

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# Management Fees for Alternative Investments (Concluded)

Year Ended August 31, 2015

Fund Name	Fees (Note A)
	\$
KSL Capital Partners III, L.P.	1,534,280
Lexington Capital Partners VII, L.P.	752,268
Littlejohn Fund IV, L.P.	1,046,818
LLSD II L.P.	76,482
LLSD L.P.	686,684
Longitude Venture Partners II, L.P.	808,441
Madison International Real Estate Liquidity Fund V, LP	(80,658)
Magnetar Structured Credit Fund L.P.	1,371,133
Marshall Wace Tops (US) Fund - Class A Interests	1,446,391
MKP Opportunity Partners, L.P.	285,697
Navis Asia Fund VI, L.P.	236,964
Navis Asia Fund VII L.P.	3,236,184
New Mountain Investments III, L.P.	373,040
Northwest Fund Limited, Series T Shares	944,921
Northwood Real Estate Partners L.P.	1,064,473
Pennybacker III L.P.	269,014
Pentwater Event Fund LLC - Class F	1,160,272
Pharo Macro Fund, Ltd. - Class A	1,036,661
ERS Private Equity International Fund I L.P.	154,562
ERS Private Real Estate Emerging Manager I, L.P.	64,641
Prologis European Properties Fund II	468,032
Quantum Energy Partners V, L.P.	1,128,076
Quantum Energy Partners VI L.P.	1,525,000
Riverside Capital Appreciation Fund V, L.P.	520,778
Riverside Capital Appreciation Fund VI, L.P.	2,379,605
Riverside Europe Fund IV, L.P.	1,920,561
RLH Investors III, L.P.	1,164,365
Rockpoint Real Estate Fund IV, L.P.	1,025,398
Rockpoint Real Estate Fund V	163,870
Southern Cross Latin America IV Secondary	148,720
Southern Cross Latin America Private Equity Fund IV, L.P.	297,440
Southpaw Credit Opportunity Partners L.P.	964,303
Southwest Opps Partners L.P.	604,189
SRE Opportunity Fund II L.P.	195,192
Summer Street Capital III, L.P.	935,959
TA XI, L.P.	249,750
Taconic Opportunity Fund L.P.	758,945
TIAA-CREF Asset Management Core Property Fund LP	820,769
Torchlight Debt Opportunity Fund IV LLC	218,986
Triton Debt Opportunities Fund I, L.P.	698,818
Triton Fund III, L.P.	840,846
Triton Fund IV L.P.	841,867
U.S. Self Storage Value Fund I, LLC	98,078
Waterton Residential Property Venture XI, L.P.	1,342,626
Waterton Residential Property Venture XII LP	1,168,270
Well Street Partners II L.P.	1,219,800
Wheelock Street Real Estate Fund II L.P.	1,077,123
<b>Grand Total</b>	<b>77,447,912</b>

Note A: The management fees for Alternative Investments were reported as part of the fair value of Investments. Fees with negative balances are due to refunds of management fees paid in prior year.

Basis of Presentation: Master custodian records.

# Investment Advisory and Service Fees

Year Ended August 31, 2015

Advisory Service	Asset Value	Fees	Basis Points	Other Investment Services	Fees
	\$	\$			\$
Fixed Income Advisors	1,012,376,189	286,823	2.83	Custodian Fees	848,871
Domestic Equity Advisors	806,358,007	2,694,533	33.42	Security Lending Agent Fees	623,971
International Equity Advisors	2,171,931,058	9,721,175	44.76	Investment Consultant Fees	2,004,498
<b>Total</b>	<b>3,990,665,253</b>	<b>12,702,531</b>	<b>81.01</b>	Investment Banking Fees:	14,325
				<b>Total</b>	<b>3,491,665</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 \$230,845 during fiscal year 2015.

## List of Largest Assets Held

Year Ended August 31, 2015

### Ten Largest Stock Holdings

No. of Shares	Description	Fair Value
		\$
3,949,698	Vanguard FTSE Europe ETF	203,527,938
1,594,230	Apple, Inc.	179,765,375
2,636,000	WidsonTree Japan Hedged Equity Fund	137,757,360
1,935,486	Microsoft Corporation	84,232,351
1,536,011	Wells Fargo & Company	81,915,467
1,249,197	JP Morgan Chase & Company	80,073,528
1,036,180	Exxon Mobil Corporation	77,962,183
57,758,244	Lloyds Banking Group, PLC	68,738,340
1,253,674	Merck & Company, Inc.	67,510,345
229,210	Roche Holdings AG Genusscheine	62,573,228

### Ten Largest Fixed Income Security Holdings

Par Value	Description	Fair Value
\$		\$
3,300,000	IShares Iboxx \$ High Yield Corporate Bond ETF	284,592,000
126,280,000	U.S. Treasury Note 3.375% due on 11/15/2019, Rating AA+	136,244,250
105,000,000	U.S. Treasury Note 2.250% due on 07/31/2021, Rating AA+	107,679,705
100,000,000	U.S. Treasury Note 2.500% due on 05/15/2024, Rating AA+	102,846,400
93,700,000	U.S. Treasury Note 1.875% due on 10/31/2017, Rating AA+	95,755,778
94,000,000	U.S. Treasury Note 2.375% due on 08/15/2024, Rating AA+	95,582,584
95,000,000	U.S. Treasury Note 0.875% due on 04/15/2017, Rating AA+	95,338,960
88,000,000	U.S. Treasury Note 0.750% due on 12/31/2017, Rating AA+	87,711,272
87,000,000	U.S. Treasury Note 0.625% due on 11/15/2016, Rating AA+	87,106,488
80,000,000	U.S. Treasury Note 0.875% due on 09/15/2016, Rating AA+	80,358,320

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 financial records.

# Investment Summary at Fair Value

August 31, 2015

Type of Investment	Pooled Pension Trust Funds (Note A)			Investment Pool	
	Fund 0955	Fund 0977	Fund 0993	Fair Value	% Total
	\$	\$	\$	\$	
Long-Term Securities:					
Global Credit Security Component	1,456,403,957	51,230,612	22,113,173	1,529,747,742	6.09908%
Rates Security Component	4,205,603,988	147,936,748	63,855,393	4,417,396,129	17.61208%
<b>Total Long-Term Securities</b>	<b>5,662,007,945</b>	<b>199,167,360</b>	<b>85,968,566</b>	<b>5,947,143,871</b>	<b>23.71116%</b>
Public Equities:					
Large Cap Domestic Equity	4,399,487,681	154,756,820	66,799,207	4,621,043,708	18.42402%
Small Cap Domestic Equity	965,098,779	33,948,411	14,653,487	1,013,700,677	4.04161%
Global Public Equity	722,741,588	25,423,231	10,973,679	759,138,498	3.02667%
International Equity Component	5,031,318,976	176,982,181	76,392,559	5,284,693,716	21.06998%
<b>Total Public Equity</b>	<b>11,118,647,024</b>	<b>391,110,643</b>	<b>168,818,932</b>	<b>11,678,576,599</b>	<b>46.56227%</b>
Real Estate Investments:					
Public Real Estate	686,813,336	24,159,415	10,428,166	721,400,917	2.87621%
Alternative Investments Component:					
Private Equity	2,627,581,992	92,428,087	39,895,644	2,759,905,723	11.00369%
Private Real Estate	1,547,435,642	54,432,751	23,495,344	1,625,363,737	6.48030%
Private Infrastructure	235,790,139	8,294,178	3,580,097	247,664,414	0.98743%
Hedge Fund	1,208,856,203	42,522,847	18,354,554	1,269,733,604	5.06241%
Directional Growth	280,304,487	9,860,019	4,255,977	294,420,483	1.17385%
<b>Total Alternative Investments</b>	<b>5,899,968,463</b>	<b>207,537,882</b>	<b>89,581,616</b>	<b>6,197,087,961</b>	<b>24.70768%</b>
Short-term Investments					
Investment in Pool Cash	2,149,716	52,302	(23,993)	2,178,025	0.00868%
Other Short-term Investment	509,578,914	17,924,999	7,737,144	535,241,057	2.13400%
<b>Total Short-term Investments</b>	<b>511,728,630</b>	<b>17,977,301</b>	<b>7,713,151</b>	<b>537,419,082</b>	<b>2.14268%</b>
<b>Total Before Securities Lending Collateral (Notes B &amp; C)</b>	<b>23,879,165,398</b>	<b>839,952,601</b>	<b>362,510,431</b>	<b>25,081,628,430</b>	<b>100.00000%</b>
Securities Lending Collateral	567,888,121	19,973,437	8,619,976	596,481,534	
<b>Total Pension Investment Pool Trust Fund (0888)</b>	<b>24,447,053,519</b>	<b>859,926,038</b>	<b>371,130,407</b>	<b>25,678,109,964</b>	
Cash Equivalents:					
Cash in State Treasury-Pension Funds	53,074,688	3,758,121	903,766		
<b>Total Investments</b>	<b>24,500,128,207</b>	<b>863,684,159</b>	<b>372,034,173</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:

	Fund 0955	Fund 0977	Fund 0993	Total
Total Fair Value of Investments Before	\$	\$	\$	\$
Securities Lending Collateral, as above	23,879,165,398	839,952,601	362,510,431	25,081,628,430
Unsettled Sales-Investment Receivables	62,518,138	2,199,144	949,238	65,666,520
Unsettled Purchases-Investment Payables	(125,301,074)	(4,407,603)	(1,902,497)	(131,611,174)
Accrued Interest and Dividends/Tax Reclaims Receivable/Prepaid Fees	59,648,365	2,098,197	905,665	62,652,227
Securities Lending Fees Payables/Miscellaneous Payables	(2,016,067)	(70,917)	(30,611)	(2,117,595)
<b>Total Fair Value of Investments, Adjusted to Comply with the CFA Institute Standards</b>	<b>23,874,014,760</b>	<b>839,771,422</b>	<b>362,432,226</b>	<b>25,076,218,408</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

Schedule of Funding Progress – Defined Benefit Plans

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

Schedule of Funding Progress – State Retiree Health Plan

# Actuary's Certification Letter – Pension Plans



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November 9, 2015

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, 2015

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 information in the Actuarial Section is based on our annual actuarial valuation reports for the three programs, with the most recent valuations conducted as of August 31, 2015, and is intended to be used in conjunction with the full reports.

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, 2015 for ERF, LECOSRF and JRS2. GRS prepared the *Actuarial Balance Sheets* and the supporting schedules in the Actuarial Section. GRS prepared the *Schedule of Changes in the Employers' Net Pension Liability and Related Ratios* and the *Schedule 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, 2015, 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 did not perform an independent analysis of the actuarial assumptions. We believe the assumptions are internally consistent and reasonable, based on the actual experience of ERF, LECOSRF and JRS2, and meet the parameters set by Actuarial Standards of Practice issued by the Actuarial Standards Board. The actuarial assumptions and methods used to develop the *Schedules of Changes in the Employers' Net Pension Liability and Related Ratios* and the *Schedule 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. 67. In particular, the actuarial accrued liability and corresponding normal cost rate are based on the benefit provisions in effect for each active member.

For financial reporting purposes, a blended discount rate, calculated under the methods prescribed by GASB Statement No. 67, was used to determine the actuarial present value of projected benefit payments. For ERF, LECOSRF and JRS2, the blended discount rate differs from the discount rate used for funding purposes.

For purposes of the funding valuation, the actuarial accrued liability and corresponding normal cost rate are based on the benefits payable to a new member and the entry age characteristics of the current active

membership. This method was selected for funding purposes in order to provide a more stable normal cost, and resulting actuarially determined contribution, each year. Other than the difference in the actuarial cost method and discount rate, all other actuarial methods and assumptions are the same for both funding and financial reporting purposes.

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

During the most recent legislative session, the Texas Legislature enacted House Bill 9 (HB-9). HB-9 increases the member contribution rate for ERF members to 9.50% of member’s compensation for service after August 31, 2015. HB-9 also eliminated the 90-day waiting period to become a member of ERF and LECOSRF. In conjunction with HB-9, the State’s contribution appropriation to ERF also increased to 9.50% of pay.

There were no other changes to the plan provisions of ERF, LECOSRF or JRS2 during the past year. 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 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, 2015, members contribute 9.50% of payroll and the State is expected to contribute 10.00% of payroll (9.50% from statewide appropriations and 0.50% from agency appropriations) for each year in the future based on appropriations for the current biennium and expectations regarding future biennia. The long-term State contribution rates are subject to future legislative appropriations.

The unfunded actuarial accrued liability (UAAL) of ERF increased from \$7.5 billion as of August 31, 2014 to \$8.0 billion as of August 31, 2015. Additionally, the funded ratio of ERF— actuarial value of assets divided by the actuarial accrued liability—decreased from 77.2% to 76.3% as of August 31, 2015.

The valuation shows that the total normal cost for funding purposes is 12.27% of payroll. The total contribution rate is currently 19.50% of payroll. Thus, the total contribution rate for the current fiscal year exceeds the normal cost by 7.23% of payroll, which is sufficient to amortize the unfunded liability over 33 years on an actuarial value of assets basis. **As a result, the current contribution rates are expected to eliminate the UAAL for ERF in 33 years based on the current benefit provisions and actuarial assumptions.**

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, 2015, the actuarially sound contribution rate for ERF is 19.62% of payroll.

As noted, the actuarially sound contribution is currently calculated based on a 31-year open amortization period. This means that the actuarially sound contribution will always be calculated with the same 31-year period and the UAAL would never completely disappear. Even though the contributions to ERF are not based on this actuarially sound contribution, the Board may want to consider adopting a funding policy that includes an ultimate goal of eliminating the UAAL by a certain date. This type of funding policy will allow the Board to better assess the level of contributions received from the employers and the State.

### **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, 2015, 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 \$21.0 million for fiscal year 2016 (approximately 1.20% of payroll).

The UAAL of LECOSRF increased from \$323 million as of August 31, 2014 to \$353 million as of August 31, 2015. Additionally, the funded ratio of LECOSRF decreased from 73.2% to 72.0% as of August 31, 2015.

The valuation shows that the total normal cost for funding purposes is 1.77% 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 0.43% 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, 2015, the actuarially sound contribution rate for LECOSRF is 3.01% 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 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, 2015, members accruing benefits contribute 7.20% 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, 2015 is 7.16% 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 UAAL of JRS2 decreased from \$38 million as of August 31, 2014 to \$31 million as of August 31, 2015. Additionally, the funded ratio of JRS2 increased from 90.2% to 92.2% as of August 31, 2015.

The valuation shows that the total normal cost for funding purposes is 21.40% of payroll. The total contribution rate is 22.823% 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 1.423% of payroll, but it is not sufficient to amortize the UAAL over a finite period of time. **As a result, and despite the decrease in the UAAL this year, 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, 2015, the actuarially sound contribution rate for JRS2 is 23.79% 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 Governmental Accounting Standards Board, 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.

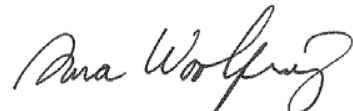
Respectfully submitted,  
**Gabriel, Roeder, Smith & Company**



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



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



Dana Woolfrey, FSA, EA, MAAA  
Consultant

**Gabriel Roeder Smith & Company**

# Actuarial Balance Sheet –

## Employees Retirement Fund

August 31, 2015 (With Comparative Totals at August 31, 2014)

### ACTUARIAL BALANCE SHEET

	<u>August 31, 2015</u>	<u>August 31, 2014</u>
<b>Assets:</b>		
Actuarial Value Assets	\$ 25,850,542,024	\$ 25,431,922,496
Present Value of Future Normal Cost (Note A)		
Member	4,024,238,698	2,942,577,444
Employer	1,053,238,481	1,572,304,267
Total	<u>5,077,477,179</u>	<u>4,514,881,711</u>
<b>Total</b>	<b>\$ 30,928,019,203</b>	<b>\$ 29,946,804,207</b>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 17,852,126,502	\$ 17,606,890,078
- disability	270,809,826	260,334,939
- death before retirement	292,430,946	282,767,327
- termination	1,101,548,331	867,608,342
- total	<u>19,516,915,605</u>	<u>19,017,600,686</u>
Inactive Members	1,348,920,701	1,308,147,697
Annuitants	18,080,000,823	17,113,870,539
<b>Total</b>	<b>\$ 38,945,837,129</b>	<b>\$ 37,439,618,922</b>
<b>Unfunded Accrued Liability (UAL) (Note B)</b>	<b>\$ 8,017,817,926</b>	<b>\$ 7,492,814,715</b>

### SUMMARY OF ACTUARIAL VALUATION RESULTS

Total Contribution Rate	19.50%	14.90%
Normal Cost (Note A)		
- dollars	\$ 817,138,674	\$ 714,653,122
- percent of payroll	12.27%	11.58%
Contribution Available to Amortize UAL	7.23%	3.32%
Accrued Liability (Note B)	\$ 33,868,359,950	\$ 32,924,737,211
Amortization Period in Years	33	Never
Funded Ratio	76.3%	77.2%
Valuation Payroll (Note C)	\$ 6,659,646,892	\$ 6,171,443,191
Active Members	142,409	134,162

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

Note C: Valuation payroll is the expected payroll for the fiscal year following the valuation date.



**Actuarial Balance Sheet –**  
**Law Enforcement and Custodial Officers Supplemental Retirement Fund**  
 August 31, 2015 (With Comparative Totals at August 31, 2014)

<b>ACTUARIAL BALANCE SHEET</b>	<u><b>August 31, 2015</b></u>	<u><b>August 31, 2014</b></u>
<b>Assets:</b>		
Actuarial Value Assets	\$ 909,249,614	\$ 883,594,932
Present Value of Future Normal Cost (Note A)		
Member	56,439,727	52,296,196
Employer	<u>132,312,210</u>	<u>122,604,075</u>
Total	<u>188,751,937</u>	<u>174,900,271</u>
<b>Total</b>	<b>\$ 1,098,001,551</b>	<b>\$ 1,058,495,203</b>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 837,392,693	\$ 816,849,776
- occupational disability	8,820,668	8,438,289
- death benefit plan	7,209,091	7,050,377
- termination	11,295,818	9,945,675
- total	<u>864,718,270</u>	<u>842,284,117</u>
Inactive Members	7,419,031	6,133,734
Annuitants	<u>578,926,025</u>	<u>533,252,341</u>
<b>Total</b>	<b>\$ 1,451,063,326</b>	<b>\$ 1,381,670,192</b>
<b>Unfunded Accrued Liability (UAL) (Note B)</b>	<b>\$ 353,061,775</b>	<b>\$ 323,174,989</b>

**SUMMARY OF ACTUARIAL VALUATION RESULTS**

Total Contribution Rate	2.20%	2.20%
Normal Cost (Note A)		
- dollars	\$ 30,987,551	\$ 28,487,983
- percent of payroll	1.77%	1.77%
Contribution Available to Amortize UAL	0.43%	0.43%
Accrued Liability (Note B)	\$ 1,262,311,389	\$ 1,206,769,921
Amortization Period in Years	Never	Never
Funded Ratio	72.0%	73.2%
Valuation Payroll (Note C)	\$ 1,750,709,090	\$ 1,609,490,560
Active Members	38,526	37,084

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

Note C: Valuation payroll is the expected payroll for the fiscal year following the valuation date.





**Actuarial Balance Sheet –**  
**Judicial Retirement System of Texas Plan Two Fund**  
 August 31, 2015 (With Comparative Totals at August 31, 2014)

<b>ACTUARIAL BALANCE SHEET</b>	<u><b>August 31, 2015</b></u>	<u><b>August 31, 2014</b></u>
<b>Assets:</b>		
Actuarial Value Assets	\$ 372,615,005	\$ 348,430,575
Present Value of Future Normal Cost		
Member	30,999,709	29,666,352
Employer	56,218,333	53,311,211
Total	<u>87,218,042</u>	<u>82,977,563</u>
<b>Total</b>	<b>\$ 459,833,047</b>	<b>\$ 431,408,138</b>
<b>Liabilities:</b>		
Present Value of Benefits		
Active Members		
- service retirement	\$ 259,495,191	\$ 277,166,582
- disability	3,705,899	3,685,688
- death before retirement	10,607,029	11,244,465
- termination	12,266,936	12,121,224
- total	<u>286,075,055</u>	<u>304,217,959</u>
Inactive Members	10,629,157	11,663,067
Annuitants	194,524,402	153,382,909
<b>Total</b>	<b>\$ 491,228,614</b>	<b>\$ 469,263,935</b>
<b>Unfunded Accrued Liability (UAL)</b>	<b>\$ 31,395,567</b>	<b>\$ 37,855,797</b>
<b>SUMMARY OF ACTUARIAL VALUATION RESULTS</b>		
Total Contribution Rate	22.823%	22.533%
Normal Cost		
- dollars	\$ 17,195,328	\$ 16,639,462
- percent of payroll	21.40%	21.03%
Contribution Available to Amortize UAL	1.423%	1.50%
Accrued Liability	\$ 404,010,572	\$ 386,286,372
Amortization Period in Years	Never	Never
Funded Ratio	92.2%	90.2%
Valuation Payroll (Note A)	\$ 80,352,000	\$ 79,122,500
Active Members	563	554

Note A: Valuation payroll is the expected payroll for the fiscal year following the valuation date.

# Summary of Actuarial Methods and Assumptions – Pension Plans

In February 2014, 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 2014. The actuarial methods used for the three funds are summarized in Figure 1.

## Actuarial Cost Method

The Entry Age Actuarial Cost Method was used for actuarial valuation. Actuarial gains and losses resulting from differences between actual and assumed experience are recognized as they occur each year. These gains or losses increase or decrease the unfunded actuarial accrued liability.

The calculation of the years required to amortize the unfunded actuarial accrued liability assumes that the unfunded actuarial accrued liability is amortized as a level percent of payroll, which is the total contribution rate minus the normal cost contribution rate. The normal cost rate is based on the benefits payable to a new member and the entry age characteristics of the current population. The total contribution rate is set by statute; the variable from year to year is the amortization period.

## Actuarial Valuation of Assets

The method used to value plan assets for actuarial purposes is based on the market-related value of plan assets, with smoothing of unexpected returns. The market-related value is equal to the fair value of investments plus the carrying value (net of depreciation) of other assets and liabilities as of the valuation date. The actuarial value of assets is determined as the expected value of plan assets as of the valuation date plus 20% of the difference between the market-related value and the expected value. The expected value equals the actuarial value of plan assets as of the prior valuation date, plus contributions, less benefit payments and administrative expenses, all accumulated at the assumed rate of interest to the current valuation date.

For actuarial assumptions, the members of the System are segregated into four classes – Employee Class, Elected Class, Supplemental Benefits for Commissioned Peace Officers and Custodial Officers (CPO/CO's), and Judicial Class. The Employee Class is further classified into Non-CPO/CO's and CPO/CO's with regular benefits. The *economic* assumptions for these classes are in Figure 1.

## Pension Liability for GASB Statement 67 Reporting

The calculation of the liability associated with the benefits to satisfy the reporting requirements of GASB No. 67 is not applicable for purposes of funding the plan. A calculation of the plan's liability for other purposes may produce significantly different results. The Schedule of Employer Contribution in the Required Supplementary Information section provides a comparison of the actuarial determined contribution to actual contribution.

**Figure 1**  
**Economic Assumptions for Employee Classes**

	Employee Class & Supplemental Benefits for CPO/CO's	Elected Class	Judicial Class
Investment Rate of Return	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	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 –  
Mortality Rates for Active Members (Notes C & D)

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 C: 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 D: 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 4  
Demographic Assumption –  
Mortality Rates for Service Retirees and  
Beneficiaries (Note 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 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.

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

Table 5  
Demographic Assumption –  
Mortality Rates for Disability Retirees  
(Note F)

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

Table 6  
Demographic Assumption –  
Disability Retirement Rates (Note G)

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

Note G: It is assumed that 99% of Employee Class (Non-CPO/CO) disability retirements are non-occupational and 1% of Employee Class (Non-CPO/CO) disability retirements are occupational. Similarly, it is assumed that 95% of Employee Class (CPO/CO) disability retirements are non-occupational, 4% of Employee Class (CPO/CO) disability retirements are non-total occupational, and 1% of Employee Class (CPO/CO) disability retirements are total occupational. It is also assumed that there are no occupational disability retirements in the Elected and Judicial Classes. Additionally, the rates do not apply before the member is eligible for the benefit.

# Summary of Actuarial Methods and Assumptions – Pension Plans

Table 7  
Demographic Assumption –  
Option Selection Percentage and Beneficiary Characteristics under Disability Retirement

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

Note H: Descriptions of Options 1 and 4 are presented in the Summary of Plan Provisions in the Introductory Section.

Table 8  
Demographic Assumption –  
Service Retirement Rate (Note I)

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

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

<b>Age</b>	<u>Male</u>						<u>Female</u>					
	5	10	15	20	25	30	5	10	15	20	25	30
<b>50</b>						35.0%						45.0%
<b>55</b>					22.5%	25.0					40.0%	25.0
<b>60</b>	10.0%	15.0%	17.5%	37.5%	20.0	20.0	10.0%	15.0%	15.0%	35.0%	20.0	20.0
<b>65</b>	20.0	45.0	45.0	35.0	35.0	35.0	20.0	45.0	45.0	32.5	32.5	32.5
<b>70</b>	20.0	37.5	27.5	32.5	32.5	32.5	20.0	37.5	27.5	32.5	32.5	32.5
<b>75</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

# Summary of Actuarial Methods and Assumptions – Pension Plans

Table 9  
Demographic Assumption -  
Service Retirement Rate (Note I) 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						15.0%						20.0%
55					25%	7.5					30.0%	10.0
60				25.0%	57.5	67.5				25.0%	45.0	45.0
65		85.0%	37.5%	30.0	45.0	40.0		85.0%	37.5%	17.5	35.0	30.0
70		80.0	60.0	90.0	35.0	35.0		80.0	60.0	90.0	32.5	32.5
75	100.0%	100.0	100.0	100.0	100.0	100.0	100.0%	100.0	100.0	100.0	100.0	100.0

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

Age	<u>For members hired before September 1, 2009</u>						<u>For members hired on or after September 1, 2009</u>					
	5	10	15	20	25	30	5	10	15	20	25	30
50	0%	0%	0%	45%	55%	55%	0%	0%	0%	5.0%	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	55.0	35	35
65	15	35	35	50	60	60	0	35	35	50.0	60	60
70	50	50	50	50	50	50	0	50	50	50.0	50	50
75	100	100	100	100	100	100	100	100	100	100.0	100	100

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

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

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

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

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

Note K: Descriptions of Options 1 and 4 are presented in the Summary of Plan Provisions in the Introductory Section.



## Active Member Valuation Data (Note A)

Valuation Year August 31,	Number (Note B)	Actual Annual Payroll	Average Pay (Note C)	% Change in Average Pay
		\$	\$	%
<b>Employees Retirement Fund:</b>				
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
2014	134,162	5,955,460,705	44,374	4.3
2015	142,409	6,150,194,660	44,990	1.4
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>				
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
2014	37,084	1,496,012,750	41,584	5.4
2015	38,526	1,506,027,764	41,957	0.9
<b>Judicial Retirement Plan Two Fund:</b>				
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
2014	554	77,441,466	142,820	12.0
2015	563	77,500,736	142,721	(0.1)

Note A: Ten years of data will be developed prospectively.

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

Note C: 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 (Note A)

Valuation Year August 31	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>										
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
2014	6,231	132,027,948	2,331	38,751,696	573	11,250,312	95,840	1,835,520,312	6.0	19,152
2015	6,042	134,725,212	2,506	40,066,764	627	10,129,440	100,003	1,940,308,200	5.7	19,402
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>										
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
2014	1,071	5,376,924	194	1,238,712	58	225,252	10,024	53,398,368	8.9	5,327
2015	959	4,989,900	197	1,336,440	59	332,088	10,845	57,383,916	7.5	5,291
<b>Judicial Retirement Plan Two Fund:</b>										
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
2014	14	1,024,752	7	348,120	6	249,000	267	16,178,640	6.1	60,594
2015	57	4,365,012	9	467,832	7	403,020	322	20,478,840	26.6	63,599

Note A: Ten years of data will be developed prospectively.

## Schedule of Funding Progress – Defined Benefit Plans

Actuarial Valuation Date August 31	(a) Actuarial Value of Assets (000's)	[Note A] (b) Actuarial Accrued Liability (AAL) (000's)	(c) (Overfunded) Unfunded AAL (UAAL) (b) - (a) (000's)	(b) Funded Ratio (a)/(b) %	[Note B] (e) Covered Payroll (000's)	(f) UAAL As A Percentage Of Covered Payroll (c)/(e) %
<b>Employees Retirement System (ERS)</b>						
2006	21,780,437	22,884,917	1,104,480	95.2	5,051,330	21.9
2007	22,938,947	23,987,165	1,048,218	95.6	5,253,723	20.0
2008	23,511,918	25,403,280	1,891,362	92.6	5,379,527	35.2
2009	23,509,622	26,191,650	2,682,028	89.8	5,814,417	46.1
2010	23,628,567	27,668,876	4,040,309	85.4	5,930,141	68.1
2011	23,997,445	28,398,213	4,400,768	84.5	5,795,185	75.9
2012	24,272,514	29,377,069	5,104,555	82.6	5,676,509	89.9
2013	24,667,639	31,886,026	7,218,387	77.4	5,959,473	121.1
2014	25,431,922	32,924,737	7,492,815	77.2	6,171,443	121.4
2015	25,850,542	33,868,360	8,017,818	76.3	6,659,647	120.4
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>						
2005	698,814	677,953	(20,861)	103.1	1,283,815	(1.6)
2006	720,307	708,437	(11,870)	101.7	1,279,463	(0.9)
2007	747,765	762,666	14,901	98.0	1,360,819	1.1
2008	774,509	842,135	67,626	92.0	1,242,122	5.4
2009	780,808	870,179	89,371	89.7	1,464,483	6.1
2010	802,897	930,747	127,850	86.3	1,507,950	8.5
2011	830,522	960,953	130,431	86.4	1,475,432	8.8
2012	832,451	1,015,668	183,217	82.0	1,498,979	12.2
2013	843,017	1,197,164	354,147	70.4	1,627,699	21.8
2014	883,595	1,206,770	323,175	73.2	1,609,491	20.1
2015	909,249	1,262,311	353,062	72.0	1,750,709	20.2
<b>Judicial Retirement System Plan Two (JRS II)</b>						
2006	186,400	198,840	12,440	93.7	62,306	20.0
2007	211,933	220,884	8,951	95.9	64,654	13.8
2008	232,891	239,098	6,207	97.4	66,110	9.4
2009	248,279	255,569	7,290	97.1	67,968	10.7
2010	264,515	281,760	17,245	93.9	68,755	25.1
2011	283,936	300,163	16,227	94.6	69,655	23.3
2012	300,433	315,199	14,766	95.3	68,778	21.5
2013	318,026	359,059	41,033	88.6	77,854	52.7
2014	348,431	386,286	37,855	90.2	79,123	47.8
2015	372,615	404,011	31,396	92.2	80,352	39.1

Note A: For ERS and LECOS, the actuarial accrued liability along with 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 that is based on the benefits in effect for new members after plan changes in August 31, 2009 and August 31, 2013.

Note B: Covered payroll is the expected payroll for the fiscal year following the valuation date.

# 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 August 31,	Aggregate Accrued Liabilities For			Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
\$	\$	\$	\$		%	%	%
<b>Employees Retirement Fund (Note A, Note B):</b>							
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
2014	5,213,640,470	17,113,870,539	10,597,226,202	25,431,922,496	100	100	29.3
2015	5,235,063,313	18,080,000,823	10,553,295,814	25,850,542,024	100	100	24.0
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note A, Note B):</b>							
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
2014	29,508,062	533,252,341	644,009,518	883,594,932	100	100	49.8
2015	34,455,599	578,926,025	648,929,765	909,249,614	100	100	45.6
<b>Judicial Retirement Plan Two Fund (Note B):</b>							
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
2014	69,364,268	153,382,909	163,539,195	348,430,575	100	100	76.9
2015	67,427,634	194,524,402	142,058,536	372,615,005	100	100	77.9

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.

Note B: Ten years of data will be developed prospectively.

# 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 or 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) more than assumed, there is a loss (gain).

## Withdrawal from Employment:

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

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

Type of Activity	Increase/(Decrease) in Unfunded Accrued Liability for Year (in Millions)					
	ERS		LECOS		JRS II	
	2015	2014	2015	2014	2015	2014
<b>Contribution Income and Interest on Unfunded Actuarial Accrued Liability</b>						
If contributions are received in excess of both the normal cost and interest on the unfunded actuarial accrued liability, there is a decrease. If less, an increase.	395.2	397.7	19.6	21.9	1.7	2.1
<b>Components of (Gain)/Loss</b>						
<u>Investment Income</u>						
If there is greater investment income than assumed on the actuarial value of assets, there is a gain. If less income, a loss.	463.0	95.5	16.3	3.4	2.0	(4.2)
<u>Active Member Demographics</u>						
Combined (gain)/loss from age and service retirements, disability retirements, death-in-service benefits, and withdrawal from employment	14.3	(21.2)	(6.6)	(3.1)	5.6	(4.8)
<u>Pay Increases</u>						
If there are smaller pay increases than assumed, there is a gain. If greater increases occur, a loss.	(42.3)	(265.9)	(9.9)	(64.9)	0.2	0.2
<u>Death After Retirement</u>						
If retirees live longer than assumed, there is a loss. If not as long, a gain.	19.7	16.0	0.1	0.1		(0.1)
<u>Other</u>						
Miscellaneous (gains)/losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	59.2	52.3	6.4	11.6	(2.0)	3.6
<b>Increase/(Decrease) in Unfunded Accrued Liability During Year from Financial Experience</b>	<b>909.1</b>	<b>274.4</b>	<b>25.9</b>	<b>(31.0)</b>	<b>7.5</b>	<b>(3.2)</b>
<b>Non-Recurring Items</b>						
Adjustments for plan amendments, changes in actuarial assumptions, increase in Service Retirement Formula, legislative action, etc.	(384.1)		4.0		(14.0)	
<b>Composite Increase/(Decrease) During Year</b>	<b>525.0</b>	<b>274.4</b>	<b>29.9</b>	<b>(31.0)</b>	<b>(6.5)</b>	<b>(3.2)</b>

# Actuary's Certification Letter – State Retiree Health Plan



EMPLOYEES RETIREMENT SYSTEM OF TEXAS  
GROUP BENEFITS PROGRAM  
FY15 GASB No. 43 ACTUARIAL VALUATION

## 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, 2015 (GBP OPEB). 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. The information presented in this report is solely for purposes of compliance with GASB No. 43. This report does not provide any advice with respect to the manner in which the benefits are funded (i.e., pay-as-you-go funding as opposed to prefunding the benefits).

We have based our valuation on employee data as of August 31, 2015 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. All of our work conforms to generally accepted actuarial principles and practices and to the Actuarial Standards of Practice issued by the Actuarial Standards Board.

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  
FY15 GASB No. 43 ACTUARIAL VALUATION

## Summary of Results for FY 2015

Actuarial Valuation Results as of August 31, 2015		
	(\$ thousands)	As a % of Payroll
1. Number of Members (actual count, not in thousands)		
a. Actives	230,023	
b. Deferred Vesteds	11,443	
c. Retirees and Nominees	<u>109,311</u>	
d. Total Number of Members	350,777	
2. Payroll of Active Members for FY 2015	\$ 11,176,584	
3. Actuarial Present Value of Total Projected Benefits		
a. Actives	\$ 25,510,788	
b. Deferred Vesteds	1,317,487	
c. Retirees and Nominees	<u>10,058,461</u>	
d. Total	\$ 36,886,735 <sup>1</sup>	330.0%
4. Actuarial Accrued Liability		
a. Actives	\$ 14,364,750	
b. Deferred Vesteds	1,317,487	
c. Retirees and Nominees	<u>10,058,461</u>	
d. Total	\$ 25,740,698	230.3%
5. Actuarial Value of Assets	\$ 0	0.0%
6. Unfunded Actuarial Accrued Liability [4.d. – 5.]	\$ 25,740,698	230.3%
7. Annual Required Contribution for FYE August 31, 2015		
a. Normal Cost	\$ 1,043,877	9.3%
b. Amortization of UAAL	<u>1,117,074</u>	<u>10.0%</u>
c. Total ARC for FYE August 31, 2015	\$ 2,160,951	19.3%

<sup>1</sup> Adjusted due to rounding error caused by rounding individual components



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

## Consistency with Assumptions Used for Retirement Plan Valuations

Most of the employees and retirees covered by the Group Benefits Program are also covered by either the ERS or 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 OBEB, 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 effect on short-term expectations. In addition, the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends. Lastly, assumed salary increases and rates of mortality, termination, disability and retirement for Higher Education members were updated to remain consistent with the assumptions which were adopted by the TRS Board earlier this year for use by the TRS retirement plan actuary.

## 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 expected 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



## Summary of Actuarial Methods and Assumptions – State Retiree Health Plan (Continued)

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 benefit changes that became effective September 1, 2015 (except as noted below), since these changes were communicated to plan members in advance of the preparation of this report. The benefit changes include: (a) implementation of an overall annual out-of-pocket maximum in accordance with the requirements of the Affordable Care Act (ACA) (effective January 1, 2015), (b) mental health benefit changes, (c) benefit enhancements for hearing aids and breast pumps and (d) copay reductions for generic prescription drugs. The net impact of the benefit changes is no change in the employer's cost of providing OPEB.

### High-Cost Plan Excise Tax

Consistent with the prior valuation, 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 2063 based on current plan provisions, assumptions, and participant demographics. The Unfunded Actuarial Accrued Liability is increased by the \$129 million present value of the estimated Excise Taxes in future years, and the associated increase to the ARC is \$6 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 Retiree Drug Subsidy).

For purposes of GASB No. 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. The Bulletin requires that Retiree Drug Subsidy payments to an employer be reported by the employer as revenue, rather than being netted against the employer's OPEB cost for prescription drug coverage.

ERS implemented an Employer Group Waiver Plan plus Commercial Wrap (EGWP plus Wrap) on January 1, 2014 in order to provide the plan with the benefit of increased subsidies and discounts available under such an arrangement. The Retiree Drug Subsidy is

being phased out as a result of the implementation of the EGWP plus Wrap. The Retiree Drug Subsidies are excluded from this valuation in accordance with GASB Technical Bulletin No. 2006-1.

The projected cost of the EGWP plus Wrap reflects the subsidies to SilverScript Insurance Company, 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 Benefits Program health benefits are (i) \$229.80 (\$213.36 for medical plus \$16.44 for prescription drugs) per year per covered member for external HealthSelect administrative expenses for fiscal year 2016 and (ii) approximately \$55.63 per year per covered member for internal administrative expenses for fiscal year 2016 (including the ACA Patient-Centered Outcomes Research Institute (PCORI) fee). The external and internal administrative expenses per covered member are the same regardless of whether the member covers dependents. In addition, the ACA Transitional Reinsurance Program Fee on each non-Medicare participant (\$44 per year in 2015 (for 4 months), \$27 per year in 2016 and \$0 thereafter) is included in this valuation.

### 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 Health Benefit Cost assumptions are shown below.

Fiscal Year	Annual Rate of Increase
	%
2017	8.50
2018	8.00
2019	7.50
2020	7.00
2021	6.50
2022	6.00
2023 and beyond	5.50

# Summary of Actuarial Methods and Assumptions – State Retiree Health Plan (Concluded)

## Trend Rate for Retiree Contributions

The portions of retiree contributions attributable to non-life insurance benefits for both HealthSelect and HealthSelect Medicare Advantage Plans are assumed to increase from their amounts in fiscal year 2016 at the rates show below.

Fiscal Year	Annual Rate of Increase
	%
2017	7.00
2018	8.00
2019	7.50
2020	7.00
2021	6.50
2022	6.00
2023 and beyond	5.50

## Expense Trend Rate

Internal and external administrative expenses are assumed to increase 3.50% per annum.

## Trend Rate for the Opt-Out Credit

The monthly benefit of \$60 in fiscal year 2016 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 effect 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 Annual Payroll	Average Pay	% Change in Average Pay
<b>State Retiree Health Plan</b>				
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%
2014	228,805	10,963,773,000	47,918	3.4%
2015	230,023	11,176,584,000	48,589	1.4%

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

## Retirees and Nominees Added and Removed

	Added to Rolls		Removed from Rolls		Rolls End of Year		Increase	Average
	No.	Annual Benefits	No.	Annual Benefits	No. (Note A)	Annual Benefits	Annual Benefits	Annual Benefit
	\$		\$		\$	%	\$	
<b>State Retiree Health Plan</b>								
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
2014	7,950	150,776,296	3,234	61,334,659	104,770	813,823,181	12.3	7,768
2015	7,880	86,944,401	3,339	36,841,035	109,311	863,926,547	6.2	7,903

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

## Schedule of Funding Progress – State Retiree Health Plan

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)	(b) Funded Ratio (a)/(b) %	(e) Covered Payroll (000's)	(f) UAAL As A Percentage Of Covered Payroll (c)/(e) %
2007	0	17,675,000	17,675,000	0.0	8,836,000	200.0
2008	0	20,131,000	20,131,000	0.0	9,373,000	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
2014	0	24,701,904	24,701,904	0.0	10,963,773	225.3
2015	0	25,740,698	25,740,698	0.0	11,176,584	230.3

Note A: Ten years of data will be developed prospectively.





## STATISTICAL SECTION

### Summary of 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

## Summary of Statistical Section

This section contains additional historical perspective, context, and detail to assist financial statement users in understanding the System's economic condition and benefit offerings.

### Financial Trends

The following statistical information provides trends to assist in understanding changes over time in financial performance of the benefit offerings:

- Governmental Activities – Net Position
- Governmental Activities – Changes in Net Position
- Governmental Funds – Fund Balances
- Governmental Funds – Changes in Fund Balances
- Changes in Net Position – Proprietary Fund
- Changes in Net Position – Defined Benefit Plans
- Changes in Net Position – Deferred Compensation Plan and Cafeteria Plan

### Demographic and Economic Information

The following statistical information provides benefit and member data to assist in understanding of the System's benefit offerings:

- Benefit and Refund Payments – Defined Benefit Plans
- Average Benefit Payments – Employee Class
- Retired Members by Type of Benefit
- Contribution Rates
- Other Information: Defined Benefit Plans
- Other Information: 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)

This schedule provides ten year trend information for restricted and unrestricted assets. The information source of this schedule is obtained from Exhibit I.

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Governmental Activities:</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted	241,478	369,913	384,892	282,484	136,599	227,985	284,814	325,412	379,311	440,466
Unrestricted	49	45	56	59	45	8	18	-	5	17
<b>Total Governmental Activities</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>	<b>379,316</b>	<b>440,483</b>

## Changes in Net Position – Governmental Activities

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

This schedule provides trend information for the last ten fiscal years for expenses, program revenues, general revenues, and net revenues. The information source of this schedule are obtained from Exhibits II and VI.

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Expenses</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Governmental Activities:										
Social Security Administration	58	70	54	61	101	102	105	92	156	178
Death Benefits:										
Peace Officers, Firemen, etc.	4,361	2,397	3,423	1,866	4,164	2,784	2,141	5,444	5,738	2,162
Compensation to Victims of Crime	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000	1,625	1,000
Retiree \$5,000 Lump Sum	6,908	7,493	6,902	7,367	7,910	7,885	8,628	9,108	8,846	9,286
Group Benefits Program:										
Claims Expenses	1,760,073	1,293,957	1,460,527	1,632,962	1,828,422	1,776,296	1,826,996	1,934,325	2,047,749	2,242,195
Administration	10,307	8,694	8,323	9,062	8,118	9,437	9,401	9,356	24,535	36,692
<b>Total Expenses</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>2,088,649</b>	<b>2,291,513</b>
<b>Program Revenues</b>										
Governmental Activities:										
Charges for Services:										
Administration Fees	78	72	65	64	85	66	74	75	70	71
Appropriations:										
Administration	28	28	28	28						
Death Benefits:										
Peace Officers, Firemen, etc.	4,333	2,369	3,395	1,838	4,164	2,784	2,141	5,444	5,738	2,162
Compensation to Victims of Crime	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000	1,625	1,000
Retiree \$5,000 Lump Sum	6,910	7,487	6,902	7,367	7,911	7,885	8,628	9,108	8,846	9,289
Insurance Contributions:										
State	1,384,688	1,024,636	1,075,354	1,108,150	1,233,781	1,414,732	1,434,186	1,527,002	1,631,916	1,834,956
Member	450,678	365,653	364,278	381,820	416,690	444,731	444,786	460,944	482,566	495,723
Other	147	150	163	161	157	209	192	179	141	121
Federal Revenue-Medicare Part D	19,360									
Operating Grants and Contributions:										
Membership Fee Revenue										
Investment Income	23,023	40,375	42,513	48,100	36,671	12,758	13,188	(5,885)	10,913	6,298
Other	709	272	1,521	1,385	3,357	4,688	875	2,039	647	2,945
<b>Total Program Revenues</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>2,142,462</b>	<b>2,352,565</b>
<b>General Revenues</b>										
Transfers							40		90	115
<b>Total General Revenues</b>							<b>40</b>	<b>-</b>	<b>90</b>	<b>115</b>
<b>Net Revenue Governmental Activities</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>	<b>53,903</b>	<b>61,167</b>

## Fund Balances – Governmental Funds

Last Ten Fiscal Years (in 000's)

(Modified Accrual Basis of Accounting)

This schedule provides information on the modified accrual basis of accounting for the last ten fiscal years for committed Social Security Administration Funds and Total Governmental Funds. The information source of this schedule is obtained from Exhibit III. Please see Note 1.C for the System's descriptions for modified accrual basis of accounting.

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Governmental Funds:</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Committed:										
Social Security Administration Fund	49	45	56	59	45	8	18		5	17
<b>Total Governmental Funds</b>	<b>49</b>	<b>45</b>	<b>56</b>	<b>59</b>	<b>45</b>	<b>8</b>	<b>18</b>	<b>-</b>	<b>5</b>	<b>17</b>

## Changes in Fund Balances – Governmental Funds

Last Ten Fiscal Years (in 000's)

(Modified Accrual Basis of Accounting)

This schedule provides provide trend information on the modified accrual basis of accounting for Revenues, Expenditures, and net change in Fund Balances. This information is obtained from Exhibit IV. Please see Note 1.C for the System's descriptions for modified accrual basis of accounting.

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Revenues</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Appropriations for (Note A):										
Administration	28	28	28	28						
Death Benefits:										
Public Employee Survivors	4,333	2,369	3,395	1,838	4,164	2,784	2,141	5,444	5,738	2,162
Victims of Crime	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000	1,625	1,000
Retiree \$5,000 Lump Sum	6,910	7,487	6,902	7,367	7,911	7,885	8,628	9,108	8,847	9,289
Administration Fees	78	72	65	64	85	66	74	75	70	71
<b>Total Revenues</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>16,280</b>	<b>12,522</b>
<b>Expenditures</b>										
Death Benefits:										
Public Employee Survivors	4,333	2,397	3,423	1,866	4,164	2,784	2,141	5,444	5,738	2,162
Victims of Crime	750	1,500	2,250	2,000	1,250	1,750	1,000	2,000	1,625	1,000
Retiree \$5,000 Lump Sum	6,908	7,493	6,902	7,367	7,910	7,885	8,628	9,108	8,846	9,286
Administrative Expenditures	86	70	54	61	101	102	105	92	156	178
<b>Total Expenditures</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>16,365</b>	<b>12,626</b>
<b>Excess of Revenues Over (Under)</b>										
Expenditures	22	(4)	11	3	(15)	(36)	(31)	(17)	(85)	(104)
<b>Other Financing Sources (Uses)</b>										
Transfers In - Retirement Membership Fees							40		90	115
<b>Net Change in Fund Balances</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>	<b>5</b>	<b>11</b>

Note A: Includes lapsed appropriations.

# Changes in Net Position – Proprietary Fund

Last Ten Fiscal Years (in 000's)

This schedule provides trend information on Operating Revenues, Operating Expenses and the resulting Operating Income or Loss. It also provides non-operating revenue and expense information and the resulting change in net position. This source information of this schedule is obtained from Exhibit VI.

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Operating Revenues</b>										
Insurance Contributions:										
State	1,384,688	1,024,636	1,075,354	1,108,150	1,233,781	1,414,731	1,434,186	1,527,002	1,631,916	1,834,956
Member	450,678	365,653	364,278	381,820	416,690	444,731	444,786	460,944	482,566	495,723
Federal Revenues-Medicare Part D	19,360									
Federal Revenues-COBRA Stimulus					2,268	1,312	27	-		
Other	528	422	1,543	1,254	1,087	3,089	835	2,199	604	1,856
<b>Total Operating Revenues</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>2,115,086</b>	<b>2,332,535</b>
<b>Operating Expenses</b>										
Benefit Payments:										
Employee	1,265,966	1,275,725	1,437,632	1,609,991	1,797,659	1,743,897	1,792,645	1,900,026	2,017,586	2,213,193
Retiree	478,229									
COBRA	15,878	18,232	22,895	22,971	30,763	32,398	34,351	34,299	30,163	29,003
Administrative and Other Expenses	10,307	8,694	8,323	9,062	8,118	9,437	9,401	9,356	24,535	36,692
<b>Total Operating Expenses</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>2,072,284</b>	<b>2,278,888</b>
<b>Operating Income (Loss)</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>42,802</b>	<b>53,647</b>
<b>Non-Operating Revenues (Expenses)</b>										
Net Appreciation (Depreciation)										
in Fair Value of Investments	(4,834)	(730)	4,943	20,359	20,789	4,273	5,395	(17,215)	1,284	(3,195)
Investment Income	27,857	41,080	37,569	27,741	15,882	8,485	7,794	11,331	9,629	9,493
Other	327	25	141	292	158	496	204	18	184	1,210
<b>Change in Net Position</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>	<b>53,899</b>	<b>61,155</b>

# Changes in Net Position – Defined Benefit Plans

Last Ten Fiscal Years (in 000's)

This schedule provides summarized trend information on additions and deductions for each of the defined benefit plans. This source information of this schedule is obtained from Exhibit IX.

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Employees Retirement Fund (ERS)</b>										
<b>Additions</b>										
Member Contributions	329,803	328,039	337,040	353,299	410,134	425,811	411,066	422,588	430,595	462,160
Employer Contributions	316,198	329,981	342,092	363,023	400,252	414,084	347,121	375,737	482,329	500,510
Investment Income (Net of Expenses)	1,737,588	2,622,895	(1,294,063)	(1,616,258)	1,203,796	2,414,830	1,614,670	2,097,577	3,252,362	56,905
Other Additions	58,804	48,746	52,941	57,329	61,741	64,970	71,255	75,637	80,324	84,203
<b>Total Additions</b>	<b>2,442,393</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>	<b>4,245,610</b>	<b>1,103,778</b>
<b>Deductions</b>										
Retirement Benefits	1,251,090	1,299,964	1,360,380	1,433,011	1,505,585	1,593,537	1,712,821	1,819,779	1,933,694	2,041,389
Death Benefits	2,232	2,099	1,802	2,224	3,086	4,142	3,654	3,283	3,053	4,730
Refunds	75,614	79,564	74,504	70,958	65,334	79,535	88,060	86,668	106,809	87,167
Administrative and Other Expenses	14,044	16,475	16,730	17,690	19,083	19,000	18,024	18,911	20,480	22,127
<b>Total Deductions</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>2,064,036</b>	<b>2,155,413</b>
<b>Change in Net Position</b>	<b>1,099,413</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>2,181,574</b>	<b>(1,051,635)</b>
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)</b>										
<b>Additions</b>										
Member Contributions					7,473	7,604	7,287	7,185	8,180	8,377
Employer Contributions			20,191	20,657	27,799	24,228	(3)	7,117	27,758	26,728
Investment Income (Net of Expenses)	57,656	85,799	(42,917)	(51,743)	40,054	81,881	51,909	71,885	111,741	1,919
Other Additions					6	2	1			4
<b>Total Additions</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>	<b>147,679</b>	<b>37,028</b>
<b>Deductions</b>										
Retirement Benefits	30,184	32,149	34,908	38,641	41,001	42,914	46,868	50,848	55,222	59,211
Death Benefits						106	6	6	6	9
Refunds					162	694	1,220	1,531	1,919	2,128
Administrative and Other Expenses	378	504	366	434	595	937	844	805	1,324	1,412
<b>Total Deductions</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>58,471</b>	<b>62,760</b>
<b>Change in Net Position</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>89,208</b>	<b>(25,732)</b>
<b>Judicial Retirement System of Texas Plan One (JRS I)</b>										
<b>Additions</b>										
Member Contributions	214									
Appropriations	27,784	29,029	28,684	28,171	27,298	26,988	26,464	25,578	27,715	26,543
<b>Total Additions</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>	<b>27,715</b>	<b>26,543</b>
<b>Deductions</b>										
Retirement Benefits	27,664	29,029	28,657	28,194	27,302	26,988	26,464	25,578	27,715	26,543
Administrative and Other Expenses	120									
<b>Total Deductions</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>27,715</b>	<b>26,543</b>
<b>Change in Net Position</b>	<b>214</b>	<b>-</b>	<b>27</b>	<b>(23)</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Judicial Retirement System of Texas Plan Two (JRS II)</b>										
<b>Additions</b>										
Member Contributions	3,678	4,125	3,964	4,223	4,121	4,291	4,170	4,268	5,195	5,465
Employer Contributions	10,052	10,909	11,138	11,356	11,511	11,933	4,150	4,549	12,211	12,457
Investment Income (Net of Expenses)	14,384	24,245	(10,765)	(16,421)	13,586	30,189	41,181	28,753	46,186	820
Other Additions	5					2		1		2
<b>Total Additions</b>	<b>28,119</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>	<b>63,592</b>	<b>18,744</b>
<b>Deductions</b>										
Retirement Benefits	4,223	5,747	6,645	8,023	9,289	11,722	12,782	14,586	16,166	19,158
Death Benefits	24						21			26
Refunds	65	58	73	206	118	48	179	285	254	56
Administrative and Other Expenses	303	395	244	239	277	286	230	228	267	284
<b>Total Deductions</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>16,687</b>	<b>19,524</b>
<b>Change in Net Position</b>	<b>23,504</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>	<b>46,905</b>	<b>(780)</b>

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

Last Ten Fiscal Years (in 000's)

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Excess Benefit Arrangement</b>										
<b>Additions</b>										
Other Additions	297	200	350	328	294	342	506	569	493	457
<b>Total Additions</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>493</b>	<b>457</b>
<b>Deductions</b>										
Retirement Benefits	236	141	298	279	251	297	436	488	422	392
Administrative and Other Expenses	61	59	52	49	43	45	70	81	71	65
<b>Total Deductions</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>493</b>	<b>457</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 (Note A)</b>										
<b>Additions</b>										
Member Contributions		108,387	109,447	114,360	126,073	135,133	134,993	141,008	155,276	169,075
Employer Contributions		438,242	417,106	447,765	478,348	444,895	483,636	535,905	605,512	612,769
Federal Revenues-Medicare Part D		28,558	32,964	35,784	40,988	38,207	39,612	50,874	63,362	86,054
Early Retirees Reinsurance Program						30,176	40,724			
Investment Income (Net of Expenses)		1,541	1,362	1,056	609	436	329	236	255	324
Other Additions				775	1					3,969
<b>Total Additions</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>824,405</b>	<b>872,191</b>
<b>Deductions</b>										
Healthcare Benefits		574,030	558,228	596,858	643,389	646,197	696,085	724,381	813,823	863,926
Administrative and Other Expenses		2,698	2,651	2,882	2,630	2,650	3,209	3,642	10,582	8,265
<b>Total Deductions</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>824,405</b>	<b>872,191</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.

# Changes in Net Position – Deferred Compensation Plans and Cafeteria Plan

Last Ten Fiscal Years (in 000's)

This schedule provides summarized trend information on additions and deductions for the Tex\$aver 401(k) and 457 plans and the state employees' cafeteria plan (TexFlex). This source information of this schedule is obtained from Exhibit IX.

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Texa\$aver 401(k) Plan</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Additions</b>										
Investment Income (Net of Expenses)	52	459	116	476	42	43	26	27	(7)	7
Other Additions	342	301	464	215	1,439	830	607	550	398	188
<b>Total Additions</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>391</b>	<b>195</b>
<b>Deductions</b>										
Administrative and Other Expenses	275	448	581	457	513	615	596	759	590	529
<b>Total Deductions</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>590</b>	<b>529</b>
<b>Change in Net Position</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>(199)</b>	<b>(334)</b>
<b>Texa\$aver 457 Plan</b>										
	(Restated)									
<b>Additions</b>										
Contributions				7						
Investment Income (Net of Expenses)	23,752	62	50	122	13	13	12	11	(2)	6
Other Additions	684	503	592	405	589	513	486	520	507	581
<b>Total Additions</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>505</b>	<b>587</b>
<b>Deductions</b>										
Administrative and Other Expenses	403	526	547	656	669	510	452	330	334	265
<b>Total Deductions</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>334</b>	<b>265</b>
<b>Change in Net Position</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>171</b>	<b>322</b>
<b>State Employees Cafeteria Plan (TexFlex)</b>										
<b>Additions</b>										
Contributions	61,080	68,425	76,780	83,244	90,290	96,033	95,986	95,578	83,214	83,092
Investment Income (Net of Expenses)	75	89	72	45	25	20	19	20	9	20
Other Additions	56	105	95	83	105	104	76	92	113	398
<b>Total Additions</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>83,336</b>	<b>83,510</b>
<b>Deductions</b>										
Reimbursement Account Claims	59,951	67,133	75,043	80,161	87,912	93,737	92,093	92,799	78,720	77,744
Administrative and Other Expenses	1,694	1,886	2,157	2,220	2,217	2,725	2,485	2,365	2,460	3,662
<b>Total Deductions</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>81,180</b>	<b>81,406</b>
<b>Change in Net Position</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>	<b>2,156</b>	<b>2,104</b>

# Benefit and Refund Payments – Defined Benefit Plans

Last Ten Fiscal Years (in 000's)

This schedule provides trend information on benefit and refund payments by types from the defined benefit plans. This information is obtained from the System's detailed records for refunds and benefit payments

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Employees Retirement Fund:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Retirees	1,153,347	1,195,432	1,254,754	1,324,897	1,394,889	1,476,597	1,585,066	1,649,308	1,799,608	1,906,043
Survivors	20,379	19,805	20,461	20,651	20,765	21,188	21,410	59,425	21,370	21,835
Disability	31,690	31,163	30,626	30,402	30,301	28,854	28,376	27,980	27,386	26,797
Partial Lump Sum Option	37,679	44,450	44,207	45,301	46,362	51,885	60,687	63,641	63,359	62,438
Proportional	7,994	9,114	10,332	11,760	13,270	15,013	17,282	19,425	21,971	24,276
<b>Total Retirement Benefits</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>	<b>1,933,694</b>	<b>2,041,389</b>
Death Benefits:										
Active Members:										
Occupational	297	91	35	100	76	189	117	86	32	116
Non-Occupational	1,019	1,373	1,266	1,275	1,526	2,308	1,920	1,999	1,453	2,909
Retiree	916	635	501	850	1,484	1,645	1,617	1,198	1,568	1,705
<b>Total Death Benefits</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>	<b>3,053</b>	<b>4,730</b>
Refunds:										
Resignation	73,176	75,864	71,717	67,405	61,235	74,640	84,004	82,026	102,175	80,876
Death	2,438	3,700	2,787	3,553	4,099	4,895	4,056	4,642	4,634	6,291
<b>Total Refunds</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>106,809</b>	<b>87,167</b>
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Service	27,694	29,053	31,675	35,174	37,580	39,509	42,670	46,561	50,261	54,747
Disability	1,250	1,208	1,180	1,168	1,161	1,128	1,093	1,088	1,053	1,022
Partial Lump Sum Option	1,240	1,889	2,053	2,300	2,260	2,277	3,105	3,199	3,907	3,442
<b>Total Retirement Benefits</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>	<b>55,221</b>	<b>59,211</b>
Death Benefits:										
Active Members:										
Non-Occupational	-	-	-	-	-	106	6	6	6	9
<b>Total Death Benefits</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>9</b>
Refunds:										
Resignation	-	-	-	-	162	686	1,205	1,513	1,895	2,097
Death	-	-	-	-	-	9	15	18	24	31
<b>Total Refunds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>162</b>	<b>695</b>	<b>1,220</b>	<b>1,531</b>	<b>1,919</b>	<b>2,128</b>
<b>Judicial Retirement System of Texas Plan One:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Service	27,664	29,029	28,657	28,194	27,302	26,988	26,464	25,578	27,715	26,543
<b>Total Retirement Benefits</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>	<b>27,715</b>	<b>26,543</b>
Refunds:										
Resignation	-	-	-	-	-	-	-	-	-	-
Death	-	-	-	-	-	-	-	-	-	-
<b>Total Refunds</b>	<b>-</b>	<b>-</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>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Service	3,107	4,254	4,958	6,134	7,149	8,923	9,942	11,346	12,670	15,389
Disability	291	348	470	493	358	570	358	358	358	358
Proportional	825	1,145	1,216	1,396	1,782	2,229	2,482	2,882	3,138	3,411
<b>Total Retirement Benefits</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>	<b>16,166</b>	<b>19,158</b>
Death Benefits:										
Active Members:										
Non-Occupational	24	-	-	-	-	-	21	-	-	27
Annuity Death Refund	-	-	-	-	-	-	-	-	-	-
<b>Total Death Benefits</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>27</b>
Refunds:										
Resignation	4	58	73	206	118	47	117	210	228	56
Death	61	-	-	-	-	-	62	75	26	-
<b>Total Refunds</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>254</b>	<b>56</b>
<b>Excess Benefit Arrangement:</b>										
<b>Type of Benefit</b>										
Retirement Benefits:										
Service:										
Service	236	141	298	279	251	297	436	488	422	392
<b>Total Retirement Benefits</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>422</b>	<b>392</b>
<b>State Retiree Health Plan:</b>										
<b>Type of Benefit</b>										
Insurance Benefits:										
Accrued Claims										
Life Claims	-	67,920	50,858	50,800	55,675	53,835	50,148	36,356	22,706	9,848
Prescriptions Drugs	151,020	172,701	175,831	182,620	171,191	201,279	217,332	241,583	253,591	253,591
Administrative Fees	13,519	14,373	16,794	17,391	18,872	15,061	15,775	19,077	19,077	18,721
HMO Payments	26,422	30,985	35,036	31,606	32,349	73,491	98,107	110,232	139,696	139,696
Health	283,244	259,845	285,591	318,593	330,801	310,261	301,785	358,696	373,469	373,469
Dental	9,765	10,952	11,967	13,074	14,486	16,123	17,677	19,766	22,861	22,861
<b>Total Insurance Benefits</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>	<b>813,823</b>	<b>863,926</b>



# Average Benefit Payments – Employee Class

Last Ten Fiscal Years

This schedule provides ten years of information for service retirements. It shows the average monthly benefit, the average final salary and the number of retired members. The source information of this schedule is obtained from the System's member records.

Retirement Effective Dates (Note A) September 30, 2005 to August 31, 2015	Years of Credited Service					
	5-10	10-15	15-20	20-25	25-30	30+
<b>- Period 9/30/05 to 8/31/06:</b>						
Average Monthly Benefit	\$ 408.98	733.62	1,268.35	1,612.03	2,142.05	3,029.78
Average Final Average Salary	\$ 2,700.54	2,877.29	3,346.11	3,431.10	3,680.29	4,268.72
Number of Retired Members	133	392	280	375	380	240
<b>- Period 9/30/06 to 8/31/07:</b>						
Average Monthly Benefit	\$ 434.35	782.63	1,273.92	1,716.82	2,506.90	3,031.50
Average Final Average Salary	\$ 2,829.86	3,010.98	3,361.81	3,631.19	4,218.86	4,337.72
Number of Retired Members	181	437	381	641	583	406
<b>- Period 9/30/07 to 8/31/08:</b>						
Average Monthly Benefit	\$ 456.12	806.36	1,334.72	1,867.95	2,637.30	3,504.71
Average Final Average Salary	\$ 2,952.18	3,133.40	3,459.44	3,903.92	4,331.59	4,769.85
Number of Retired Members	191	470	430	640	627	435
<b>- Period 9/30/08 to 8/31/09:</b>						
Average Monthly Benefit	\$ 470.16	833.36	1,321.61	1,865.16	2,605.69	3,563.93
Average Final Average Salary	\$ 3,060.96	3,200.25	3,491.84	3,870.24	4,294.50	4,905.86
Number of Retired Members	188	459	498	654	553	411
<b>- Period 9/30/09 to 8/31/10:</b>						
Average Monthly Benefit	\$ 461.93	890.71	1,361.68	1,918.00	2,661.23	3,739.98
Average Final Average Salary	\$ 3,106.72	3,417.64	3,598.16	3,947.05	4,431.94	5,116.70
Number of Retired Members	201	491	549	705	649	541
<b>- Period 9/30/10 to 8/31/11:</b>						
Average Monthly Benefit	\$ 536.47	862.44	1,421.42	2,033.68	2,826.22	3,700.37
Average Final Average Salary	\$ 3,528.41	3,316.54	3,721.82	4,215.22	4,674.90	5,081.87
Number of Retired Members	247	621	611	818	787	647
<b>- Period 9/30/11 to 8/31/12:</b>						
Average Monthly Benefit	\$ 516.60	867.24	1,423.82	2,052.04	2,844.54	3,678.98
Average Final Average Salary	\$ 3,403.29	3,304.01	3,675.13	4,206.08	4,699.38	5,037.55
Number of Retired Members	235	582	706	835	759	571
<b>- Period 9/30/12 to 8/31/13:</b>						
Average Monthly Benefit	\$ 537.80	953.41	1,511.90	2,082.03	2,915.73	3,761.82
Average Final Average Salary	\$ 3,464.35	3,587.10	3,909.37	4,246.07	4,812.40	5,135.72
Number of Retired Members	300	632	748	889	827	568
<b>- Period 9/30/13 to 8/31/14:</b>						
Average Monthly Benefit	\$ 510.81	925.03	1,478.76	2,008.97	2,907.90	3,842.29
Average Final Average Salary	\$ 3,341.91	3,525.25	3,818.53	4,143.33	4,837.28	5,321.37
Number of Retired Members	346	650	737	908	741	560
<b>- Period 9/30/14 to 8/31/15:</b>						
Average Monthly Benefit	\$ 587.21	980.21	1,482.15	2,080.82	2,997.13	4,075.20
Average Final Average Salary	\$ 3,736.94	3,695.26	3,846.81	4,302.20	4,956.61	5,598.24
Number of Retired Members	264	607	670	897	854	607
<b>Five Year Average -</b>						
<b>Period 9/30/10 to 8/31/15:</b>						
Average Monthly Benefit	\$ 536.65	918.22	1,465.29	2,051.66	2,900.42	3,812.01
Average Final Average Salary	\$ 3,486.67	3,487.71	3,797.38	4,222.71	4,799.19	5,235.22
Average Number of Retired Members	278	618	694	869	794	591
<b>Ten Year Average -</b>						
<b>Period 9/30/05 to 8/31/15:</b>						
Average Monthly Benefit	\$ 502.35	873.91	1,409.56	1,954.78	2,752.37	3,655.73
Average Final Average Salary	\$ 3,275.85	3,341.58	3,672.75	4,045.46	4,566.33	5,035.00
Average Number of Retired Members	229	534	561	736	676	499

Note A: This schedule includes service retirements of the employee class as of October 21, 2015. It does not include disability retirements or the elected state official class. This schedule does not include Partial Lump Sum (PLSO) payments.

# Retired Members by Type of Benefit

August 31, 2015

This schedule provides the average amount of monthly benefit, the number of retirees and the type of retirement for ERS, LECOS, and JRS2. The source information of this schedule is obtained from the System's pension actuary.

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
<b>Employees Retirement Fund (Note A)</b>									
<b>\$</b>									
0-300	6,634	6,413	221	4,241	1,379	392	151	272	199
301-600	12,264	11,551	713	8,507	2,055	598	312	390	402
601-900	13,036	12,256	780	8,997	2,041	802	373	354	469
901-1,200	11,949	11,547	402	8,044	1,937	919	298	310	441
1,201-1,500	11,560	11,371	189	7,375	1,957	1,079	306	254	589
1,501-2,000	14,617	14,504	113	9,106	2,256	1,671	348	364	872
2,001-2,500	10,759	10,729	30	6,285	1,699	1,469	248	336	722
2,501-3,000	7,432	7,423	9	4,012	1,238	1,159	164	238	621
3,001-4,000	7,428	7,424	4	3,953	1,304	1,086	131	240	714
4,001-10,999	4,324	4,323	1	2,102	963	596	66	125	472
<b>Total</b>	<b>100,003</b>	<b>97,541</b>	<b>2,462</b>	<b>62,622</b>	<b>16,829</b>	<b>9,771</b>	<b>2,397</b>	<b>2,883</b>	<b>5,501</b>
<b>Law Enforcement And Custodial Officer Supplemental Retirement Fund (Note A)</b>									
<b>\$</b>									
0-200	415	415	0	259	104	29	5	5	13
201-400	5,510	5,466	44	3,020	1,344	623	80	88	355
401-600	3,051	3,028	23	1,512	586	515	48	69	321
601-800	1,091	1,089	2	449	270	178	13	20	161
801-1,000	535	534	1	213	160	91	10	6	55
1,001-1,200	149	148	1	54	45	21	0	1	28
1,201-1,400	47	40	7	20	9	9	1	0	8
1,401-1,600	23	13	10	15	4	2	1	1	0
1,601-1,800	10	3	7	7	2	0	0	0	1
1,801-9,999	14	6	8	11	2	1	0	0	0
<b>Total</b>	<b>10,845</b>	<b>10,742</b>	<b>103</b>	<b>5,560</b>	<b>2,526</b>	<b>1,469</b>	<b>158</b>	<b>190</b>	<b>942</b>
<b>Judicial Retirement Plan Two Fund (Note A)</b>									
<b>\$</b>									
0-2,000	15	15	0	7	6	1	1	0	0
2,001-2,500	5	5	0	3	1	0	0	1	0
2,501-3,000	5	5	0	0	1	1	1	0	2
3,001-3,500	4	4	0	0	1	2	0	0	1
3,501-4,000	16	16	0	8	5	2	0	1	0
4,001-4,500	36	36	0	12	18	4	0	1	1
4,501-5,000	43	43	0	20	16	4	0	3	0
5,001-5,500	60	60	0	20	23	6	1	0	10
5,501-6,000	38	38	0	16	13	5	0	1	3
6,001-6,500	41	40	1	28	9	2	1	0	1
6,501-7,000	21	21	0	8	5	4	0	1	3
7,001-9,999	38	38	0	24	8	5	0	0	1
<b>Total</b>	<b>322</b>	<b>321</b>	<b>1</b>	<b>146</b>	<b>106</b>	<b>36</b>	<b>4</b>	<b>8</b>	<b>22</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.

# Contribution Rates

Last Ten Fiscal Years

This schedule provides the amounts contributed by the employer for the defined benefit plans including ERS, LECOS, JRS1, JRS2 and the State Retiree Health Plan. The rates are determined by the General Appropriations Act. Employer contribution rates are also listed for the Group Benefits Program. Those rates are set by the System's Board of Trustees and incorporated into the system's records

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Defined Benefit Plans</b>	%	%	%	%	%	%	%	%	%	%
<b>Employees Retirement Fund</b>										
Employee Class:	Blended (Note A)									
Employee (Note A)	6.00	6.00	6.00	6.00	6.48	6.50	6.50	6.50	6.60	6.90
State (Note B)	6.45	6.45	6.45	6.45	6.78	6.95	6.00	6.50	8.00	8.00
Elected Class:										
Legislators	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
State	6.45	6.45	6.45	6.45	6.45	6.45	6.00	6.50	8.00	8.00
Other Elected Class (Note A)	6.00	6.00	6.00	6.00	6.48	6.50	6.50	6.50	6.60	6.90
State (Note B)	6.45	6.45	6.45	6.45	6.78	6.95	6.00	6.50	8.00	8.00
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Note C)</b>										
Employee					0.50	0.50	0.50	0.50	0.50	0.50
State			1.59	1.59	1.59	1.59	0.00	0.50	0.50	0.50
<b>Judicial Retirement System Plan One Fund</b>										
Employee	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.60	6.90
<b>Judicial Retirement System Plan Two Fund</b>										
Employee	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.60	6.90
State	16.83	16.83	16.83	16.83	16.83	16.83	6.00	6.50	15.663	15.663
<b>State Retiree Health Plan (Note D)</b>										
<b>Group Benefits Program</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employee Only:										
State Contribution Monthly Rate	343.48	360.54	360.54	360.54	385.38	411.04	438.30	470.38	503.14	537.66
HealthSelect Monthly Premium	343.48	360.54	360.54	360.54	385.38	411.04	438.30	470.38	503.14	537.66
Employee & Children:										
State Contribution Monthly Rate	474.86	498.49	498.49	498.49	532.90	569.30	606.20	650.62	696.00	743.80
HealthSelect Monthly Premium	606.24	636.44	636.44	636.44	680.42	727.56	774.10	830.86	888.86	949.94
Employee & Spouse:										
State Contribution Monthly Rate	539.70	566.57	566.57	566.57	605.70	647.38	689.04	739.58	791.16	845.54
HealthSelect Monthly Premium	735.92	772.60	772.60	772.60	826.02	883.72	939.78	1,008.78	1,079.18	1,153.42
Employee & Family:										
State Contribution Monthly Rate	671.08	704.52	704.52	704.52	753.22	805.64	856.94	919.82	984.02	1,051.68
HealthSelect Monthly Premium	998.68	1,048.50	1,048.50	1,048.50	1,121.06	1,200.24	1,275.58	1,369.26	1,464.90	1,565.70

Note A: For FY 2010, members contributed 6.45% from September, 2009 through December, 2009. Members contributed 6.5% from Jan. to Aug., 2010.

Note B: For FY 2010, the state contributed 6.45% from September, 2009 through December, 2009. The state contributed 6.95% from Jan. to Aug., 2010.

Note C: FY 2010 is the first year that members contributed 0.5% to the Law Enforcement and Custodial Officer Supplemental Retirement Fund. Beginning in FY 2015, an additional amount equivalent to 1.2% of payroll is contributed by the State from dedicated court fees.

Note D: 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.

# Statistical Information – Defined Benefit Plans

(All items expressed as numbers unless otherwise indicated)

This schedule provides member census information for active, non-contributing, and various retirement and refunds for ERS, LECOS, JRS1, and JRS2 and the State Retiree Health Plan. The member records for retiree and actives are from the System's actuarial records and the refunds are obtained from the System's records.

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>(Note C)</b>										
<b>Employees Retirement Fund</b>										
Active Contributing Members	132,411	132,497	134,626	141,223	142,490	137,293	132,669	133,669	134,162	142,409
Non-Contributing Members	61,567	67,803	74,094	72,585	78,737	84,900	90,190	96,015	96,507	101,122
Retirees and Beneficiaries	67,596	70,456	72,678	75,722	79,311	83,430	87,799	91,367	95,840	100,003
Service Retirements	2,929	4,110	4,445	4,338	4,803	5,734	5,860	5,174	6,180	5,982
Disability Retirements	80	98	115	95	67	74	68	113	51	60
Resignation Refunds	11,199	11,365	10,763	12,623	8,497	9,607	10,130	9,228	14,282	9,656
Death Refunds	317	551	175	344	300	413	458	423	431	535
<b>Law Enforcement and Custodial Officer Supplemental Retirement Fund (Notes A &amp; B)</b>										
Active Contributing Members	37,103	36,413	33,642	37,819	39,052	36,806	37,404	37,415	37,084	38,526
Non-Contributing Members	33	27	35	39	2,978	5,785	7,129	10,187	11,311	12,962
Retirees and Beneficiaries	5,318	5,805	6,204	6,647	7,175	7,728	8,477	9,089	10,024	10,845
Service Retirements	306	553	637	559	635	695	895	741	1,071	959
Disability Retirements		4		2				3		
Resignation Refunds								3	1	1
Death Refunds								3	5	4
<b>Judicial Retirement System of Texas Plan One</b>										
Active Contributing Members	43	24	27	23	22	17	17	13	12	10
Non-Contributing Members	12	15	7	7	7	5	4	4	3	3
Retirees and Beneficiaries	486	488	471	461	447	445	433	421	406	391
Service Retirements	7	16	6	4	2	6	2	4	1	1
Disability Retirements										
Resignation Refunds		3								
Death Refunds										
<b>Judicial Retirement System of Texas Plan Two</b>										
Active Contributing Members	498	515	518	533	539	546	541	545	554	563
Non-Contributing Members	95	115	120	134	130	134	143	152	139	148
Retirees and Beneficiaries	89	116	117	152	164	208	215	254	267	322
Service Retirements	10	24	6	36	12	43	8	43	14	57
Disability Retirements										
Resignation Refunds	2	3	4	8	7	1	3	5	9	2
Death Refunds	1					1	2	1	1	1
<b>State Retiree Health Plan (Note D)</b>										
Retirees		75,958	80,543	83,494	86,111	90,213	95,375	100,054	104,770	109,311
Dependents		30,653	31,293	32,067	32,408	32,412	35,549	35,830	36,933	38,130

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 System'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.

# Statistical Information – Other Programs

(All items expressed as numbers unless otherwise indicated)

This schedule provides ten year historical trend information for members of the TexaSaver 457 and 401(k) deferred compensation plans as well as the cafeteria plan and the Group Benefits Program. It also provides death benefit program information. Participant counts, current market values, and death benefit payments are from the System's records. Group Benefit Program member counts are from the System's insurance actuary.

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>457 Deferred Compensation Plan (Note A)</b>										
TexaSaver 457 Plan (Note A):										
Total Participants	14,960	16,646	15,980	16,727	18,479	21,153	23,219	24,689	26,902	29,129
Participants Currently Deferring	8,350	9,475	10,282	10,295	11,649	13,293	14,189	14,385	20,030	16,685
Current Market Value of Plan Assets (in millions) \$	265.3	325.7	266.8	274.0	334.5	380.6	442.6	494.7	591.1	603.7
Original 457 Plan (Notes A & B):										
Total Participants	3,169	2,780	2,527	2,278	1,293	734	657	598	580	513
Participants Currently Deferring	121	101	82	74	63	57	53	38	32	22
<b>TexaSaver 401(k) Deferred Compensation Plan</b>										
Total Participants	54,710	55,212	61,692	80,735	96,250	109,613	121,516	135,237	151,034	165,513
Participants Currently Deferring	28,314	28,587	37,399	52,347	69,311	64,704	66,910	69,692	89,774	82,851
Current Market Value of Plan Assets (in millions) \$	990.4	1,154.0	1,143.0	1,085.0	1,249.5	1,315.5	1,527.2	1,593.8	1,853.9	1,836.2
Deferrals (in millions) \$	89.2	94.7	103.8	168.0	108.2	107.3	105.5	145.7	152.2	160.3
<b>Cafeteria Plan</b>										
Reimbursement Accounts:										
Health Care	33,047	35,342	40,685	43,001	46,556	48,807	47,591	46,942	46,173	46,609
Dependent Care	2,665	2,836	3,012	3,261	3,549	3,686	3,747	3,747	3,785	3,880
Total Redirected (in millions) \$	60.0	67.5	75.3	80.2	87.5	93.7	92.8	91.9	78.9	78.5
Premium Conversion:										
Participants	209,214	210,744	215,618	223,980	228,121	222,295	218,587	219,357	221,876	222,789
Premiums Redirected (in millions) \$	363.3	386.4	389.7	410.3	457.4	482.4	487.5	500.9	509.2	522.1
Tax Savings (in millions):										
Employees	\$ 82.3	87.5	88.3	92.9	103.6	109.2	110.4	113.5	115.3	118.3
State of Texas	\$ 27.8	29.6	29.8	31.4	35.0	36.9	37.3	38.3	39.0	39.9
<b>Group Benefits Program (Note C)</b>										
Membership:										
Active	200,775	216,958	222,660	230,285	234,057	239,138	237,041	226,181	228,805	230,023
Retired	69,748	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dependents	232,846	199,833	190,573	198,420	197,979	183,626	172,695	171,023	169,282	166,772
COBRA (Note D)	2,485	2,009	2,138	2,178	2,544	2,213	2,460	1,674	1,144	1,167
<b>Total Membership</b>	<b>505,854</b>	<b>418,800</b>	<b>415,371</b>	<b>430,883</b>	<b>434,580</b>	<b>424,977</b>	<b>412,196</b>	<b>398,878</b>	<b>399,231</b>	<b>397,962</b>
<b>Death Benefit Programs</b>										
Lump Sum Payments	16	12	13	6	18	14	9	23	29	8
Monthly Payments to Guardians	133	114	111	100	103	107	99	111	112	114
Victims of Violent Crime	3	2	8	8	5	13	5	11	8	4

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, 2015.

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

# Listing of Participating Reporting Entities for State Retiree Health Plan

This schedule provides a list of state agencies, universities, junior and community colleges, and other entities participating in the plan. The source of the data is from the System's records.

## State Agencies

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 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  
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 and Forensic 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 Law Enforcement  
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 Emergency Services Retirement System  
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 Military Department  
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 including Southwest Collegiate  
Institute for the Deaf  
Kilgore College  
Laredo Junior College  
Lee College  
Lone Star College System  
McLennan Community College  
Midland College  
Navarro College  
North Central Texas 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 & Corrections Departments  
Texas Cooperative Inspection Program  
Texas County and District Retirement System  
Texas Municipal Retirement System  
Texas Turnpike Authority  
University of Texas Medical Branch at Galveston  
University of Texas Mental Sciences Institute  
Windham School District

*The principal participating employer is the state of Texas. State agencies and universities employ 186,549 , which is 81.1% of the employees covered by the State Retiree Health Plan.*





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