EMPLOYEES RETIREMENT SYSTEM OF TEXAS

ACTUARIAL VALUATION
AUGUST 31, 2006

FOR THE PLAN YEAR BEGINNING
SEPTEMBER 1, 2006 AND
FISCAL YEAR ENDING
AUGUST 31, 2006

December 11, 2006

Board of Trustees
Employees Retirement System of Texas
1801 Brazos St.
Austin, TX 78701

Members of the Board:

This report presents the results of the annual actuarial valuation of the Employees Retirement System of Texas as of August 31, 2006, prepared in accordance with the Texas Government Code. The valuation takes into account all of the promised benefits to which members are entitled as of August 31, 2006, including pension and survivor benefits.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 8% per annum compounded annually. The actuarial methods are unchanged from the prior year.

The actuarial assumptions and methods comply with the parameters set forth in Governmental Accounting Standards Nos. 25 and 27.

Assets and Membership Data

The Retirement System reported to the actuary the individual data for members of the System as of the valuation date. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the Retirement System.

Funding Adequacy

The actuary uses an actuarial cost method to determine the portion of the System's liabilities accrued by the members as of the valuation date and the portion that is attributable to future years of service. The portion of the liabilities accrued as of August 31, 2006 — the accrued liability — is equal to $22,884,917,422; while the actuarial value of the System's assets equals $21,780,437,358. Two measures of the security of promised benefits — the unfunded accrued liability and the funded ratio — can be obtained by comparing the liability and the assets. The unfunded accrued liability as of August 31, 2006 — the amount of liabilities in excess of the assets — is equal to $1,104,480,064. The funded ratio — the ratio of the assets to the liability — is 95.2%. This funded ratio is slightly higher than the August 31, 2005 funded ratio of 94.8%. The increase in the funded ratio is primarily due to liability gains arising from salary experience and demographic experience more favorable than expected.

One North Dearborn Street, Suite 1400 • Chicago, IL 60602-4336
312.846.3000 • 312.846.3999 (fax)

Section 811.006 of the Texas Government Code provides that changes in contribution rates or benefit provisions may not be adopted if such changes would cause the time required to amortize the unfunded accrued liability to equal or exceed 31 years. That is, under the Texas Code, the System is considered actuarially sound if the current total contribution rate covers the plan's administrative expenses and the cost of benefits being earned during the year by current active members – the normal cost – as well as the cost of amortizing any unfunded accrued liability over a maximum of 31 years. The total normal cost rate, which is calculated under the cost method to be a level percentage of active member payroll, is 11.98%. The level contribution rate needed to fund the normal cost and amortize the $1,104,480,064 unfunded accrued liability over 31 years, is 13.20%.

The current 12.45% total contribution rate, which is comprised of 6% member contributions and 6.45% employer contributions, falls short of the section 811.006 standard by 0.75% of payroll. The 12.45% rate will cover the normal cost requirements, but the amount remaining after paying for the normal cost will not even cover the interest on the unfunded accrued liability for the year. Based on the results of the current actuarial valuation, the unfunded accrued liability will never be amortized with a 12.45% total contribution rate. At this rate, the unfunded accrued liability is expected to grow indefinitely. Therefore, the current expected funding period is infinite, which compares to the infinite funding period developed in the 2005 actuarial valuation.

Financial Results and Membership Data

The valuation report shows detailed summaries of the financial results of the valuation and membership data used in preparing this valuation. The actuary prepared supporting schedules included in the Actuarial and Statistical Sections of the Employees Retirement System of Texas Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of the Employees Retirement System of Texas Comprehensive Annual Financial Report.

Qualified actuaries completed the valuation in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Kim M. Nicholl

Kim M. Nicholl	S. Lynn Hill	Richard Mackesey
Principal,	Director,	Principal,
Consulting Actuary	Retirement Consulting	Consulting Actuary

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

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Executive Summary

This report presents the actuarial valuation as of August 31, 2006 for the Employees Retirement System of Texas. The principal valuation results include:

- The accrued liability, which is $22,884,917,422.
- The actuarial value of assets, which is $21,780,437,358
- The unfunded accrued liability (the difference between the liability and the assets), which is $1,104,480,064.
- The normal cost, which is 11.98% of payroll, or $605,149,374 for FY 2007.
- The actuarially sound contribution rate needed to fund the normal cost and amortize the unfunded accrued liability over 31 years, as specified by section 811.006 of the Texas Government Code, which is 13.20% of payroll, or $666,794,345 for FY 2007.
- The time required to fund the normal cost and amortize the unfunded accrued liability, based on the current total 12.45% contribution rate, which is infinity. (That is, the current 12.45% rate will never fund the normal cost and amortize the current unfunded accrued liability.)
- The funded status of the plan determined as of August 31, 2006 based on the accrued liability and the actuarial value of assets as of that date, which is 95.2%
- The determination of the net (gain) or loss as of August 31, 2006, which is a (gain) of ($110,589,963). This net (gain) is primarily due to liability gains arising from salary and demographic experience more favorable than expected.
- Annual disclosure as of August 31, 2006 as required by Statement Nos. 25 and 27 of the Governmental Accounting Standards Board.

The valuation was based on membership and financial data submitted by the Retirement System.

Changes Since Last Year

<u>Legislative and Administrative Changes</u>

There were no legislative or administrative changes since the prior valuation.

The benefit and contribution provisions are summarized in Table 13.

Actuarial Assumptions and Methods

There were no changes in actuarial cost methods or actuarial procedures since the prior valuation.

The actuarial assumptions and methods are outlined in Table 12.

Summary of Principal Results

Summarized below are the principal financial results for the Employees Retirement System of Texas based upon the actuarial valuation as of August 31, 2006. Comparable results from the August 31, 2005 valuation are also shown.

Item	August 31, 2006	August 31, 2005
Demographics		
Active Members		
• Number	132,411	131,331
• Average Annual Pay	$ 36,886	$ 34,345
Inactive Members		
• Vested		
• Number	14,497	13,504
• Accumulated Member Contributions	$ 428,325,339	$ 389,979,540
• Non-vested		
• Number	47,070	43,575
• Accumulated Member Contributions	$ 87,257,470	$ 79,407,785
Retirees and Beneficiaries		
• Members Receiving Benefits		
• Number	67,596	65,720
• Average Annual Benefit Payment	$ 17,665	$ 17,681
Total Contribution Rates		
• Actuarially Sound Rate (funds normal cost and amortizes unfunded accrued liability over 31 years, per Texas law)	13.20%	13.59%
• Actual Contribution Rate	12.45%	12.45%
Total Normal Cost		
• Percent of Payroll	11.98%	12.28%
• Dollars	$ 605,149,374	$ 594,641,604
Actuarial Funded Status		
• Accrued Liability	$ 22,884,917,422	$ 21,969,670,180
• Actuarial Value of Assets	21,780,437,358	20,835,468,872
• Unfunded Accrued Liability	$ 1,104,480,064	$ 1,134,201,308
• Funded Ratio	95.2%	94.8%

Plan Experience

The rate of investment return on the market value of plan assets for the fiscal year ended August 31, 2006 was 8.8%. For the same period, the rate of investment return on the actuarial (smoothed) value of assets was approximately 7.7%, which is less than the assumed return of 8%. As a result, there was an actuarial loss from investment experience. As of August 31, 2006, the market value of assets was $0.2 billion less than the actuarial value. Unless the market value earns more than 8% over the next several years (on average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio will decrease.

The actuarial loss on investments, combined with favorable salary and demographic experience, resulted in a net actuarial gain of $110.6 million.

The unfunded accrued liability of $1,134.2 million as of the prior valuation date decreased by approximately $29.7 million, to $1,104.5 million as of August 31, 2006. Detailed descriptions of the reasons for the change in the unfunded accrued liability are shown in Tables 5 and 6.

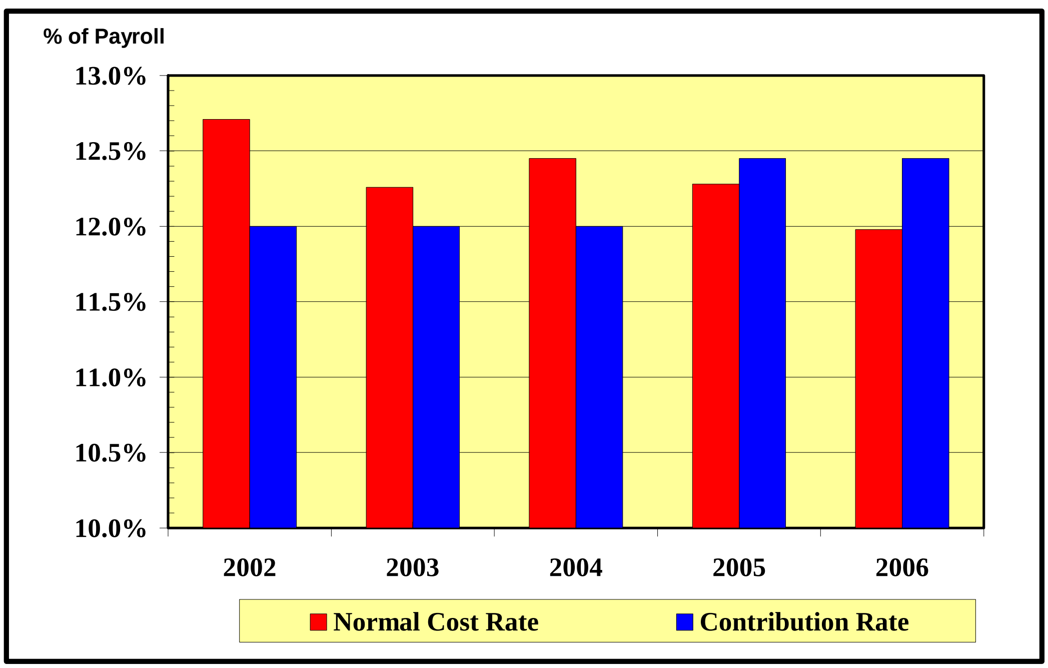
Five-Year History of Principal Financial Results

Five-Year History of Contribution Rates

Valuation as of August 31	Total Contribution Rate	Normal Cost % of Payroll	Normal Cost Dollars	Expected Contribution Toward UAL
2002	12.00%	12.71%	$ 632,869,285	$ (35,325,447)
2003	12.00%	12.26%	588,499,147	(12,425,719)
2004	12.00%	12.45%	574,778,721	(20,767,440)
2005	12.45%	12.28%	594,641,604	8,232,293
2006	12.45%	11.98%	605,149,374	23,741,253

The following chart shows a five-year history of normal cost rates and contribution rates:

Five-Year History of Normal Cost Rate



Net (Gain) Loss

The results of the valuation as of August 31, 2006 determine the net (gain) or loss for the year ended August 31, 2006. The net (gain) is ($110.6) million.

The analysis of the net (gain) for the fiscal year ended August 31, 2006 is shown in Table 7. The following table shows a five-year history of the net (gains) or losses.

Five-Year History of (Gains) or Losses

Fiscal Year Ended August 31	Net (Gain) or Loss
2002	$ 442,000,000
2003	486,600,000
2004	74,600,000
2005	584,000,000
2006	(110,590,000)

Funding Period

The funding period is the number of years required to liquidate the unfunded accrued liability. The following table shows a five-year history of the funding period along with the member and employer contribution rates:

Valuation	Funding	Contribution Rate	
as of August 31	Period	Member	Employer
2002	0 years	6.00%	6.00%
2003	Infinity	6.00	6.00
2004	Infinity	6.00	6.00
2005	Infinity	6.00	6.45
2006	Infinity	6.00	6.45

Funded Ratio

The System's total funded ratio on the funding basis is measured by comparing the actuarial value of assets with the accrued liability. The accrued liability is the present value of benefits accumulated to date under the System's funding method and reflects future pay increases for active employees.

On this basis, the System's funded ratio is 95.2% as of August 31, 2006. This funded ratio is based on an actuarial value of assets of $21,780,437,358 and an accrued liability of $22,884,917,422.

<u>Reasons for Change in the Total Funded Ratio</u>

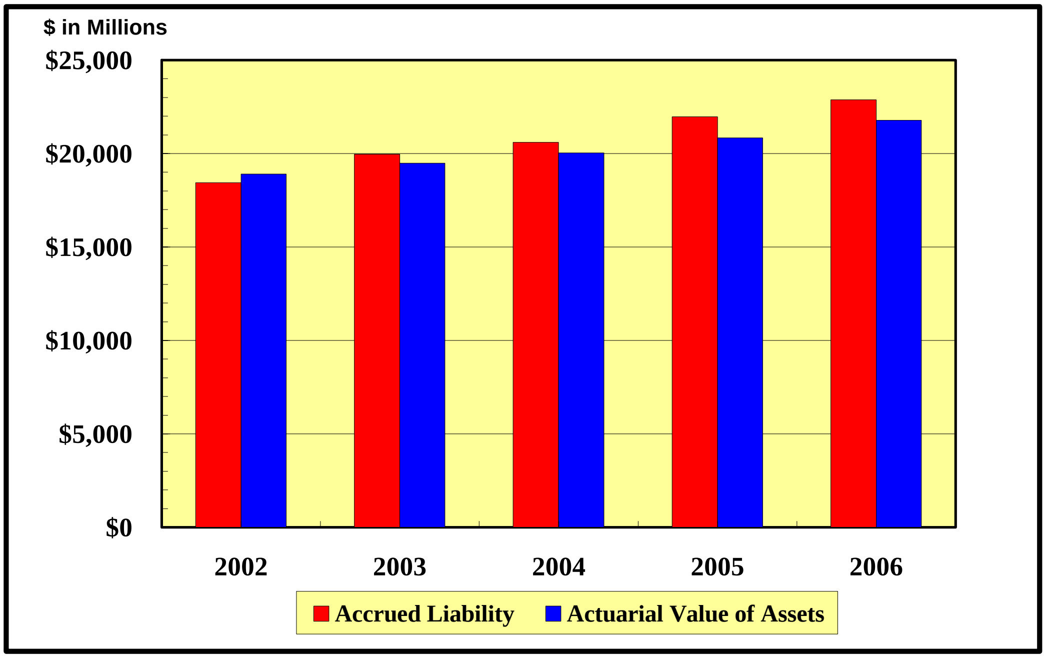
The total funded ratio increased from 94.8% as of August 31, 2005 to 95.2% as of August 31, 2006. The increase is due to the net effect of contributions less than interest on the unfunded accrued liability, investment return and experience gains and losses.

Five-Year History of Funded Ratio
($ Amounts in Thousands)

Valuation as of August 31	Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio
2002	$ 18,449,521	$ 18,909,072	$ (459,551)	102.5%
2003	19,959,112	19,478,555	480,557	97.6
2004	20,591,848	20,036,647	555,201	97.3
2005	21,969,670	20,835,469	1,134,201	94.8
2006	22,884,917	21,780,437	1,104,480	95.2

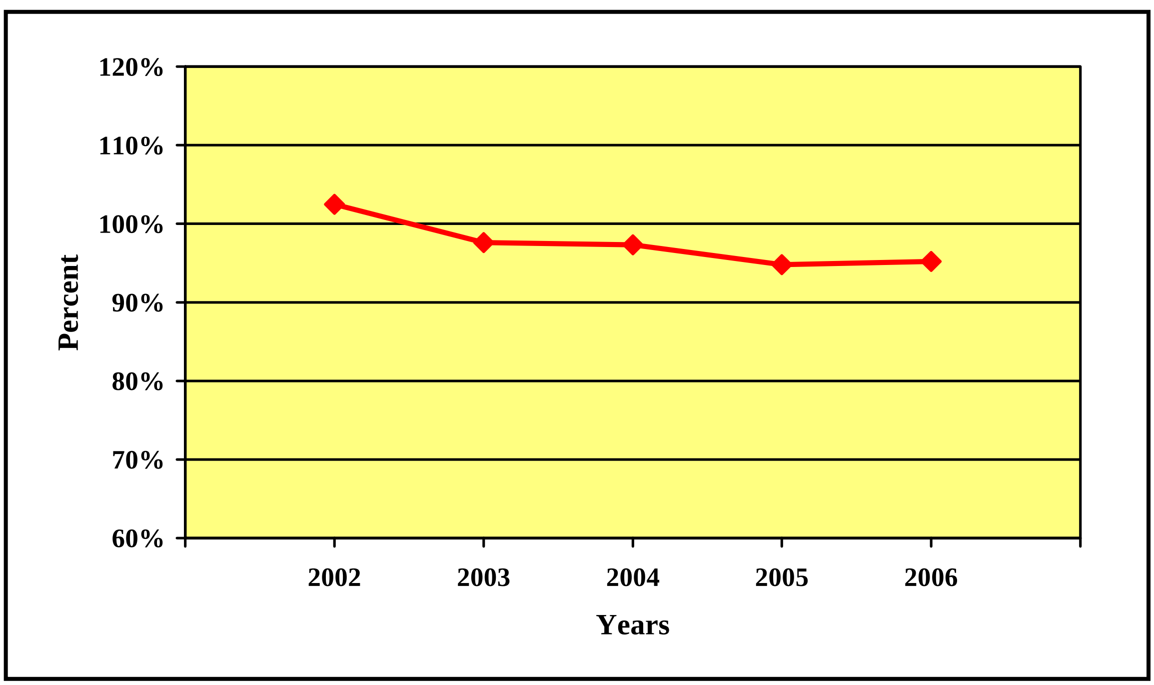
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

Five-Year History of Accrued Liability and Actuarial Value of Assets



The following chart shows a five-year history of the funded ratio:

Five-Year History of Funded Ratio (2002 - 2006)



GASB No. 25 Disclosure

Statement No. 25 of the Governmental Accounting Standards Board established reporting standards for the annual financial reports of defined benefit pension plans. Beginning with the fiscal year ending August 31, 1996, the System has prepared the plan's financial statements in accordance with GASB No. 25. The statement requires disclosure of the "schedule of funding progress" and the "schedule of employer contributions" in the System's financial statements.

The "schedule of funding progress" shows historical trend information about the System's actuarial value of assets, the accrued liability and the unfunded accrued liability. The actuarial funded ratio is measured by comparing the actuarial value of assets with the accrued liability. The accrued liability is the present value of benefits accumulated to date under the System's funding method and reflects future pay increases for active employees. On this basis, the System's funded ratio is 95.2% as of August 31, 2006. This funded ratio is based on an actuarial value of assets of $21,780,437,358 and an accrued liability of $22,884,917,422. Table 9 shows the schedule of funding progress information.

The "schedule of employer contributions" shows historical trend information about the employer's annual required contribution (ARC) for pensions and the percentage of the ARC contributed to the System. The ARC is equal to the employer's normal cost plus the amount to amortize the unfunded accrued liability over a period no longer than 40 years. For the year ending August 31, 2007 (based on the results of the August 31, 2006 actuarial valuation) the maximum amortization period for calculating the GASB ARC will be 30 years. The ARC and the actual employer percentage contributed for the six fiscal years ending August 31, 2006 are shown in Table 7. The State of Texas Government Code requires that the maximum amortization period allowed for funding the plan is 31 years. As a result, there are different contribution requirements for accounting purposes and for State reporting purposes.

Rate of Return

The investment return of the trust fund (i.e. total return including both realized and unrealized gains and losses) for fiscal years 2002 through 2006 is shown in the table below. The return based on the actuarial value of assets used for determining annual contribution rates is also shown.

The rate of return on market value reflects the investment earnings on the market value of assets from the beginning of the fiscal year to the end of the fiscal year. The actuarial assets are the assets recognized for valuation purposes. Actuarial assets are based on a smoothed market value that spreads the difference between the actual and expected return over a period of five years. The rate of return on the actuarial value of assets is a measure of the increase in the actuarial value of assets from the beginning of the fiscal year to the end of the fiscal year.

Five Year History of Asset Returns

As of	Asset Values		Rates of Return		
8/31	Market	Actuarial	Market*	Actuarial	Assumed
2002	$ 16,447,568,765	$ 18,909,071,718	(7.2%)	4.7%	8.0%
2003	17,467,352,722	19,478,554,993	9.2%	5.4%	8.0%
2004	18,797,737,524	20,036,646,562	11.7%	6.4%	8.0%
2005	20,448,700,225	20,835,468,872	12.7%	7.5%	8.0%
2006	21,548,112,355	21,780,437,358	8.8%	7.7%	8.0%
		Compound Rate of Return (five years):	6.8%	6.3%	

*Market Value Rates of Return provided by J. P. Morgan Chase & Co., the ERS Master Trust Custodian

TABLE 1

SUMMARY OF RESULTS OF ACTUARIAL VALUATION
AS OF AUGUST 31, 2006

Item	Amount	
Participant Data		
1. Number of Participants		
a) Active Participants	132,411	
b) Inactive Members	61,567	
c) Annuitants	67,596	
d) Total	261,574	
2. Reported Payroll (August Payroll of Active Members)	$ 4,884,098,517	
3. Valuation Payroll (Expected Covered Payroll for 2007 Plan Year)	$ 5,051,330,334	
4. Annual Benefits	$ 1,194,074,998	
Valuation Results		
5. Accrued Liability:		
a) Active Participants	$ 11,069,707,538	
b) Inactive Members	799,418,473	
c) Annuitants	11,015,791,411	
d) Total	$ 22,884,917,422	
6. Actuarial Value of Assets	$ 21,780,437,358	
7. Unfunded Accrued Liability: (Item 5 - Item 6)	$ 1,104,480,064	
8. Funded Status: (Item 6 / Item 5)	95.2	%
9. Funding Period	Infinite	
10. Total Normal Cost		
a) Normal Cost	$ 592,521,048	
b) Administrative Expenses (0.25% x Item 3)	12,628,326	
c) Total	$ 605,149,374	
d) Percentage of Payroll	11.98	%
Allocation of Contribution Rate		
11. a) Employer Rate	6.45	%
b) Member Rate	6.00	
c) Total Contribution Rate	12.45	%
d) Normal Cost	11.98	%
e) Amortization Rate Toward Unfunded Accrued Liability	0.47	
f) Total Contribution Rate	12.45	%
12. Contribution Rate Needed to Fund Normal Cost Plus Amortize the Unfunded Accrued Liability Over 31 Years	13.20	%

TABLE 2

SECURITY OF PROMISED BENEFITS
UNFUNDED ACCRUED LIABILITY
FUNDED STATUS

Item	August 31, 2006	August 31, 2005
1. Accrued Liability		
a. Active Participants	$ 11,069,707,538	$ 10,328,231,583
b. Participants with Deferred Benefits	799,418,473	755,404,679
c. Participants Receiving Benefits	11,015,791,411	10,886,033,918
d. Total All Participants	$ 22,884,917,422	$ 21,969,670,180
2. Actuarial Value of Assets	21,780,437,358	20,835,468,872
3. Unfunded Accrued Liability (1d - 2)	$ 1,104,480,064	$ 1,134,201,308
4. Funded Status: (2 / 1d)	95.2%	94.8%

The security of promised benefits can be measured by comparing the accrued liability to the actuarial value of assets. As shown above, as of August 31, 2006, the accrued liability exceeds assets by $1,104,480,064.

Another measure of the security of promised benefits is the funded status. The funded status is the ratio of actuarial assets to the accrued liability. As of August 31, 2006, the funded status is 95.2%.

Both valuations were based on the same actuarial methods and assumptions, and the same plan provisions.

TABLE 3

SUMMARY RECONCILIATION OF MARKET VALUE OF ERS PLAN ASSETS AS OF AUGUST 31, 2006

Item	Amount	
1. Market Value of Assets as of August 31, 2005		$ 20,448,700,225
2. Contributions for Plan Year		
a. State (including membership fees)	$ 316,201,394	
b. Member (including penalty interest)	342,152,120	
c. Total		658,353,514
3. Disbursements for Plan Year		
a. Benefit payments and refunds	$ (1,322,154,922)	
b. Net Transfers from TRS	38,807,868	
c. Administrative expenses	(13,263,934)	
d. Total		(1,296,610,988)
4. Market Value of Assets as of August 31, 2006		$ 21,548,112,355
5. Net Investment Income* (4 - 1 - 2c - 3d)		$ 1,737,669,604
6. Estimated Rate of Return**		8.8%

* Net Investment Income is the change in the value of assets for reasons other than contributions and disbursements.

** Market Value Rate of Return provided by J. P. Morgan Chase & Co., the ERS Master Trust Custodian.

TABLE 4

DERIVATION OF ACTUARIAL VALUE OF ERS PLAN ASSETS AS OF AUGUST 31, 2006

Item	Amount	
1. Actuarial Value of Assets as of August 31, 2005		$ 20,835,468,872
2. Contributions for Plan Year		
a. State (including membership fees)	$ 316,201,394	
b. Member (including penalty interest)	342,152,120	
c. Total		658,353,514
3. Disbursements for Plan Year		
a. Benefit payments and refunds	$ (1,322,154,922)	
b. Net Transfers from TRS	38,807,868	
c. Administrative expenses	(13,263,934)	
d. Total		(1,296,610,988)
4. Expected Investment Income (8.00% per annum)		1,641,307,211
5. Expected Value of Actuarial Assets as of August 31, 2006 (Items 1 + 2c + 3d + 4)		$ 21,838,518,609
6. Market Value of Assets as of August 31, 2006	$ 21,548,112,355	
7. Difference between Market Value and Expected Value (Item 6 - Item 5)	$ (290,406,254)	
8. Adjustment to Expected Value (20% * Item 7)		(58,081,251)
9. Actuarial Value of Assets as of August 31, 2006 (Item 5 + Item 8)		$ 21,780,437,358
10. Estimated Rate of Return		7.7%

* Net Investment Income is the change in the value of assets for reasons other than contributions and disbursements.

TABLE 5

EXPLANATION OF CHANGE IN UNFUNDED ACCRUED LIABILITY DUE TO AMOUNT OF STATE CONTRIBUTIONS

Item	2006 Plan Year
1. Unfunded Accrued Liability (UAL) at Beginning of Year This is the amount by which the actuarial value of assets is Less / (More) than the accrued liability at the beginning of the year.	$ 1,134,201,308
2. Expected Increase / (Decrease) in UAL before reflecting State contributions made during the year	
a. Employer-paid portion of benefits expected to be earned during the year by active members	$ 305,187,573
b. Administrative Expenses paid from the trust during the year	13,263,934
c. Expected Lost / (Extra) Investment Income during the year on account of the beginning of year UAL, and on account of the Administrative Expenses paid during the year [(8% x Item 1) + (4% x Item 2b)]	91,266,662
d. Total expected Increase / (Decrease)	$ 409,718,169
3. Amount of State Contributions during the year	$ 316,201,394
4. Expected Investment Income on State Contributions (4% x Item 3)	$ 12,648,056
5. Increase/(Decrease) in UAL at End of Year due to State Contributions that were Less/(More) than Normal Cost plus Interest on the Beginning of Year UAL (Item 2d - Item 3 - Item 4)	$ 80,868,719

Actual covered payroll, State contributions, and administrative expenses were used above.

TABLE 6

ACTUARIAL (GAINS)/LOSSES
FISCAL YEAR ENDING AUGUST 31, 2006

Item		Amount	
1. Unfunded Accrued Liability at August 31, 2005			$ 1,134,201,308
2. Change due to State Contribution less than Normal Cost and Interest on the Unfunded Accrued Liability			80,868,719
3. Change due to Plan Amendments			-
4. Change due to Assumptions			-
5. Expected Unfunded Accrued Liability at August 31, 2006			$ 1,215,070,027
6. Actual Unfunded Accrued Liability at August 31, 2006			$ 1,104,480,064
7. Total (Gains)/Losses (Item 6 minus item 5)			$ (110,589,963)
Components of (Gains)/Losses			
1. Actuarial Asset (Gains)/Losses			$ 58,081,251
2. Liability (Gains)/Losses			
a.	Pay Increases (Less)/Greater than Expected	$ (12,703,196)	
b.	Non-Retired Demographic (Gains)/Losses	(90,202,805)	
c.	Post-Retirement Mortality (Gains)/Losses	(68,282,212)	
d	Other	2,516,999	
e	Total Liability (Gains)/Losses		(168,671,214)
3. Total of Components (Item 1 plus item 2)			$ (110,589,963)

The gain and loss analysis provides a measure of the impact of the demographic and economic factors on the results of the actuarial valuation, when compared to the actuarial assumptions used to anticipate these factors. The analysis is significant in providing a test of the adequacy of these assumptions over a period of time.

The demographic factors affecting the gain and loss analysis include the following:

a. withdrawal from active membership
b. mortality during active membership
c. disability retirement
d. service retirement; and
e. mortality after retirement

The economic factors affecting the gain and loss analysis include the following:

a. investment rate of return; and
b. active member pay increases

During the fiscal year ended August 31, 2006, there was a net actuarial gain of $110,589,963 incurred by the System due to demographic and economic experience when compared to the actuarial assumptions used to anticipate these factors.

TABLE 7

GASB NOS. 25 AND 27 DISCLOSURE
FOR 2006 AND 2007 PLAN YEARS

Schedule of Employer Contributions

Item	2007 Plan Year	2006 Plan Year
1. Actuarial Valuation Date	August 31, 2006	August 31, 2005
2. Covered Payroll	$ 5,051,330,334	$ 4,866,494,021
3. Unfunded Accrued Liability at Beginning of Year	$ 1,104,480,064	$ 1,134,201,308
4. Employer's Normal Cost		
a. Benefit Normal Cost Rate	5.73%	6.03%
b. Administrative Expense Normal Cost Rate	0.25%	0.27%
c. Amount of Normal Cost: (2) * [(4a) + (4b)]	$ 302,069,554	$ 306,713,523
5. Contribution toward Unfunded Accrued Liability	62,730,890	56,040,018
6. Annual Required Contribution (ARC) (4c) + (5)	$ 364,800,444	$ 362,753,541
7. Employer Contributions (excluding membership fees)		$ 316,197,838
8. Percentage Contributed: (7) / (6)		87.2%
9. Excess / (Deficient) Contributions: (7) - (6)		$ (46,555,703)

Annual Pension Cost and Net Pension Obligation

Item	2007 Plan Year	2006 Plan Year
1. Annual Required Contribution (ARC)	$ 364,800,444	$ 362,753,541
2. Interest on Net Pension Obligation (NPO)	(3,093,248)	(6,615,336)
3. Adjustment to ARC	2,196,081	4,085,734
4. Annual Pension Cost (APC): (1) + (2) + (3)	$ 363,903,277	$ 360,223,939
5. Employer Contributions made		316,197,838
6. Increase (Decrease) in NPO: (4) - (5)		$ 44,026,101
7. NPO at Beginning of Year	(38,665,601)	(82,691,702)
8. NPO at End of Year: (6) + (7)		$ (38,665,601)
9. Percent of APC Contributed: (5) / (4)		87.8%

Notes:

(1) ARC equals employer's normal cost plus the amount to amortize the UAL (see "Notes to Trend Data"). For plan years ending on or before August 31, 2006, the maximum amortization period is 40 years; for subsequent plan years the maximum period is 30 years (as required by GASB 25 and GASB 27).

(2) The Covered Payroll for the 2007 plan year is an estimate based on valuation payroll as of August 31, 2006. For the 2006 plan year, the payroll is calculated from the actual member contributions for the fiscal year, and the required member contribution rate.

(3) The ARC for the 2006 plan year is based on actual payroll and expenses for the plan year. The ARC for the 2007 plan year will be recalculated, based on actual payroll and expenses, at year-end.

TABLE 8

SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR PENSIONS GASB STATEMENT NO. 25 DISCLOSURE

Fiscal Year Ended August 31	Annual Required Contribution	Percentage Contributed
2002	$ 288,814,605	104.2 %
2003	311,800,224	96.7
2004	312,285,035	89.3
2005	321,859,685	85.8
2006	362,753,541	87.2
2007	364,800,444	N/A *

The benefit normal cost rates and beginning of year unfunded accrued liabilities used in determining the information in the above table was determined as part of the actuarial valuation as of one year before the dates indicated (i.e., the benefit normal cost rate and unfunded liability determined by the valuation completed as of August 31, 2005, was used in determining the ARC for the fiscal year ending August 31, 2006). The dollar amount of the ARC at the end of the fiscal year is then calculated based on the beginning of year benefit normal cost rate and unfunded liability, the actual administrative expenses for the year, and the actual covered payroll for the year.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	08/31/2006
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level percent of payroll, open
Remaining Amortization Period:	30 Years
Asset Valuation Method:	5-year smoothed market
Actuarial Assumptions:	
- Investment Rate of Return	8.00%
-Payroll Growth	4.00%
-Projected Salary Increases	0% - 14.0%
Includes Inflations at	4.00%
-Cost-of-Living Adustments	
Employee Class	None
Elected Class	4.00%

* Calculation based on estimated fiscal year 2007 covered payroll. At the end of fiscal year 2007 the ARC will be recalculated based on actual 2007 covered payroll.

TABLE 9

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR PENSIONS
($ Amounts in Thousands)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Accrued Liability (AAL)	(c) (Overfunded) Unfunded AL (UAL) (b) - (a)	(d) Funded Ratio (a / b)	(e) Covered Payroll	(f) UAL as a Percentage of Covered Payoll (c) / (e)
08/31/2001	$ 18,394,458	$ 17,527,696	$ (866,762)	104.9 %	$ 4,946,244	(17.5) %
08/31/2002	18,909,072	18,449,521	(459,551)	102.5	4,979,532	(9.2)
08/31/2003	19,478,555	19,959,112	480,557	97.6	4,800,612	10.0
08/31/2004	20,036,647	20,591,848	555,201	97.3	4,616,761	12.0
08/31/2005	20,835,469	21,969,670	1,134,201	94.8	4,842,525	23.4
08/31/2006	21,780,437	22,884,917	1,104,480	95.2	5,051,330	21.9

Item (f) shows the one-time contribution, as a percentage of payroll, that would bring the funded ratio to 100%. It is a measure of the significance of the unfunded accrued liability relative to the employer's capacity to pay for that liability.

The trend in items (d) and (f) provide information about whether the financial strength of the plan is improving or deteriorating over time. An improvement is indicated when item (d) (the funded ratio) is increasing and item (f) (the ratio of the unfunded accrued liability to payroll) is decreasing.

TABLE 10

SOLVENCY TEST
($ Amounts in Thousands)

Valuation Year	Aggregate Accrued Liabilities for: Active Member Contributions (1)	Retirees and Beneficiaries (2)	Active Members (Employer Financed Portion) (3)	Valuation Assets (4)	Portion of Accrued Liability Covered by Valuation Assets (1)	(2)	(3)
2001	$ 3,165,824	$ 7,760,767	$ 6,601,105	$ 18,394,458	100.0 %	100.0 %	113.1 %
2002	3,213,061	8,427,092	6,809,367	18,909,072	100.0	100.0	106.7
2003	3,207,842	9,780,141	6,971,128	19,478,555	100.0	100.0	93.1
2004	3,368,149	10,161,944	7,061,755	20,036,647	100.0	100.0	92.1
2005	3,482,091	10,886,034	7,601,545	20,835,469	100.0	100.0	85.1
2006	3,823,418	11,015,791	8,045,708	21,780,437	100.0	100.0	86.3

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 employer-financed portion of 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 cases. In addition, the employer-financed portion of liabilities for service already rendered by active members (liability 3) will be partially or fully covered by the remainder of present assets.

The above table summarizes the results of the solvency test for the six most recent actuarial valuation dates. For example, at August 31, 2006, the actuarial value of assets equals $21,780,437,000. These assets are sufficient to cover 100% of the $3,823,418,000 in active member contributions, plus 100% of the $11,015,791,000 liability for current retirees and beneficiaries, plus 86.3% of the $8,045,708,000 employer-financed portion of liabilities for current active members.

TABLE 11

ACTUARIAL BALANCE SHEET FOR
PLAN YEARS ENDING AUGUST 31, 2005 AND AUGUST 31, 2006

Item	August 31, 2006	August 31, 2005
Actuarial Assets		
1. Actuarial Value of Assets at End of Year	$ 21,780,437,358	$ 20,835,468,872
2. Present Value of Future Normal Cost for Benefits		
a. Member	$ 2,444,069,139	$ 2,334,898,058
b. Employer	2,334,086,028	2,346,572,548
c. Total	$ 4,778,155,167	$ 4,681,470,606
3. Total	$ 26,558,592,525	$ 25,516,939,478
Liabilities		
4. Present Value of Future Benefits		
a. Active Members		
Service Retirement	$ 14,286,044,025	$ 13,524,085,713
Disability Benefits	290,019,625	263,461,077
Death Before Retirement	290,000,366	269,866,483
Termination	981,798,689	952,288,916
Total Active	$ 15,847,862,705	$ 15,009,702,189
b. Inactive Members	799,418,473	755,404,679
c. Annuitants	11,015,791,411	10,886,033,918
d. Total	$ 27,663,072,589	$ 26,651,140,786
Unfunded Accrued Liability	$ 1,104,480,064	$ 1,134,201,308

The actuarial balance sheet compares the actuarial value of assets on the valuation date, plus the value of benefits expected to be earned in the future by current active members, to the present value of benefits expected to be paid in the future on account of all current members and current annuitants.

The unfunded accrued liability is equal to the difference between these two amounts.

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)

ASSUMPTIONS

Interest Rate: 8.0% per annum

Components:

- 4% Inflation
- 4% Real Rate of Return

Administrative Expenses: 0.25% of valuation payroll per annum

Salary Increases: Increases are assumed to occur at the beginning of the valuation year, and vary by employee group. The components of the annual increases are:

Employee Group	Inflation	Real Wage Growth (Productivity)	Merit, Promotion and Longevity
Legislators	0%	0%	0%
Elected Class other than Legislators	4%	0%	0%
Employee Class*	4%	0%	See sample rates
State Salary of a District Judge**	4%	0%	0%
Inactive members who transfer to TRS***	4%	0%	1.5%

*Merit, promotion and longevity assumptions adopted August 31, 2005.

**The state salary of a district judge is the compensation used for benefit amounts for Legislators. It is also used for benefits for other Elected Class members if it provides a greater benefit amount than actual average compensation.

***Assumed in valuing benefits of former members who transfer to the Teacher Retirement System of Texas

Payroll Growth: 4.0% per year, compounded annually (for projecting valuation payroll)

Cost of Living Increases for Elected Class Members: 4.0% (each September 1) compounded annually, if benefits are based on the state salary of a district judge. Otherwise, 0% increases assumed. Increases occur during deferral periods (if any) and after retirement.

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS

Adopted Effective August 31, 2003 (except as noted)

(Continued)

Salary Increases (continued)

Sample Rates:

Annual Salary Increases for Merit, Promotion and Longevity
Male and Female Regular Employee Class Members

Age	Years of ERS Decrement Service						
	0	**1**	**2-4**	**5-9**	**10-14**	**15-19**	**20+**
20	6.80%	5.25%	4.75%	4.65%			
25	6.70	5.25	4.75	4.35	3.95%		
30	6.00	5.25	4.45	3.85	3.65	3.20%	
35	5.50	4.75	4.25	3.55	3.55	3.00	3.00%
40	5.50	4.55	4.05	3.45	3.45	2.70	2.60
45	5.30	4.55	3.95	3.35	3.35	2.60	2.40
50	4.90	4.55	3.85	3.25	3.25	2.30	2.20
55	4.50	4.35	3.55	2.95	2.95	2.00	1.80
60	2.90	2.95	2.65	2.45	2.45	1.90	1.80

Annual Salary Increases for Merit, Promotion and Longevity
Male and Female CPO/CO Employee Class Members

Age	Years of ERS Decrement Service				
	0	**1**	**2-4**	**5-9**	**10+**
All	10.0%	5.0%	2.2%	2.1%	2.0%

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Age and Service Assumptions and Methods:

Rounding of ages:

Current and projected ages rounded to the nearest year are used for all purposes: in determining eligibility for benefits, present value factors, early retirement reductions, option factors, salary increase rates, and decrements.

ERS Funding Entry Age:

The method of calculating the age at hire for the entry age normal cost method is shown in formulas below.

Benefit Service:

Current Benefit Service in years and months as of the valuation date was provided by ERS. This service plus Future Earned Service and Service Credit for Unused Leave was used to project benefit amounts.

Future Earned Service:

Active members were assumed to earn one additional year of service credit in each future year employed (but not beyond the amount of credit needed to provide a 100% of average monthly compensation standard service retirement annuity).

Service Credit for Unused Leave:

Service credit at service retirement and death in service is assumed to be increased by

- 0% for members retiring from the Elected Class; and
- 2.6% for members retiring from regular employee class service; and
- 4.6% for members retiring from CPO/CO employee class service

(but not beyond the amount of credit needed to provide a 100% of average monthly compensation standard service retirement annuity).

Service for Decrements:

The method of calculating ERS Decrement Service and CPO/CO Decrement Service on the valuation date is shown below. Decrement service is assumed to increase by one year for each future year employed.

- Valuation Age: Age rounded to nearest year on valuation date
- ERS Benefit Service: Years and months of all creditable ERS service on valuation date
- Pre-9/1/1993 TRS Service: Years and months of pre-9/1/1993 creditable TRC & TEA service
- CPO/CO Benefit Service: Years and months of creditable CPO/CO service on valuation date
- Date 1: (Valuation date) minus (ERS Benefit Service)
- Service 1: (Valuation age) minus (age rounded to nearest year on Date 1)
- ERS Funding Entry Age: (Valuation age) minus (Service 1)
- ERS Decrement Service: (Service 1) plus (Pre-9/1/1993 TRS service rounded to nearest year)
- Date 2: (Valuation date) minus (CPO/CO Benefit Service)
- CPO/CO Decrement Service: (Valuation age) minus (age rounded to nearest year on Date 2)

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Decrements: All decrements – mortality, service retirement, disability retirement, and termination of employment for reasons other than death or retirement – are assumed to occur at the beginning of the valuation year. Service retirements are assumed to occur first, with no competition from the other decrements, and the death, disability retirement, and termination decrements are then applied concurrently to the remaining population. The tables of decrements adopted by the board contain rates (not probabilities) of decrement.

Mortality Decrements:

Service Retirees, Beneficiaries, and Inactive Members

1994 Group Annuity Mortality, male and female tables

Disability Retirees

Tables based on ERS experience. For males, assumption is 70% of PBGC disabled mortality, grading to 100% from age 60 to age 90. For females, assumption is 95% of PBGC disabled mortality, grading to 100% from age 85 to age 90.

Active Members

Tables based on ERS experience. Illustrative rates are shown in the following tables.

Annual Rates of Active Mortality per 100 Participants
Occupational Mortality

	Regular Employee Class		CPO/CO Employee Class		Elected Class	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
All	0.002	0.001	0.003	0.001	0.000	0.000

Annual Rates of Active Mortality per 100 Participants
Non-Occupational Mortality

	Regular Employee Class		CPO/CO Employee Class		Elected Class	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
20	0.036	0.026	0.044	0.034	0.036	0.026
25	0.048	0.026	0.058	0.035	0.048	0.026
30	0.059	0.032	0.071	0.042	0.059	0.032
35	0.063	0.043	0.076	0.057	0.063	0.043
40	0.079	0.064	0.097	0.085	0.079	0.064
45	0.118	0.088	0.144	0.117	0.118	0.088
50	0.195	0.129	0.237	0.171	0.195	0.129
55	0.336	0.207	0.408	0.275	0.336	0.207
60	0.608	0.400	0.739	0.533	0.608	0.400
65	1.109	0.777	1.349	1.036	1.109	0.777

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Service Retirement Decrements: Graded tables based on ERS experience.

Active Regular Employee Class Members

ERS Decrement Service is used to determine when the rates apply:

- Age 60 with 5 years of service
- Rule of 80 with 5 years of service

Sample rates for eligible members:

Annual Service Retirement Rates per 100 Participants Regular Employee Class Members													
	Males – Years of ERS Decrement Service						Females – Years of ERS Decrement Service						
Age	*****	**0-14**	**15-19**	**20-24**	**25-29**	**30+**	*****	**0-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**
45-49	20						45						25
50	40					10	50						25
51-54	40				20	10	50					30	25
55	50				15	10	50					30	30
56-59	50			25	15	10	50				30	30	30
60	20	15	20	25	30	20	25	10	20	30	30	30	30
61-64	20	15	20	25	30	20	15	10	20	25	30	30	30
65	20	15	25	30	40	40	15	15	20	30	30	50	50
66-69	20	15	20	20	15	15	15	15	20	20	20	25	25
70+	100	100	100	100	100	100	100	100	100	100	100	100	100

*These rates apply in the first year eligible to retire; rates in other columns apply thereafter.

Active Elected Class Members

ERS Decrement Service is used to determine when the rates apply:

- Age 60 with 8 years service
- Age 50 with 12 years service

Sample rates for eligible members:

Annual Service Retirement Rates Per 100 Participants Elected Class Members	
Age	**Male and Female**
50-59	10%
60-64	15%
65-74	20%
75+	100%

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Service Retirement Decrements (continued)

Active CPO/CO Employee Class Members

CPO/CO Decrement Service is used to determine when the rates apply:

- Any age with 20 years CPO/CO service
- Age 55 with 10 years CPO/CO service

For active CPO/CO employee class members there are no assumed service retirement decrements for either age 60 with 5 years service; or Rule of 80.

Sample rates for eligible members:

Annual Service Retirement Rates per 100 Participants
CPO/CO Employee Class Members

	Male – Years of CPO/CO Decrement Service										
Age	*****	**0-9**	**10-14**	**15-19**	**20-23**	**24**	**25-26**	**27**	**28**	**29-34**	**35+**
36-44	1				1	1	1	1	1	1	1
45-49	3				3	3	3	3	3	3	3
50	25			26	29	30	45	47	50	50	60
51-54	12			13	14	15	11	12	12	14	14
55	12		12	13	30	30	22	24	25	30	30
56-59	12		12	13	14	13	11	12	12	14	14
60	21	21	24	26	43	45	45	47	50	50	60
61-64	11	11	24	26	29	30	28	29	31	36	36
65	37	37	41	45	50	50	40	40	43	50	50
66-69	18	18	20	22	24	25	19	20	21	24	24
70+	100	100	100	100	100	100	100	100	100	100	100

Annual Service Retirement Rates per 100 Participants
CPO/CO Employee Class Members

	Female – Years of CPO/CO Decrement Service			
Age	*****	**0-9**	**10-19**	**20+**
36-44	1			1
45-49	3			2
50	39			30
51-54	16			12
55	16		12	24
56-59	16		12	12
60	31	24	24	24
61-64	31	24	24	24
65	46	35	35	35
66-69	23	18	18	18
70+	100	100	100	100

*These rates apply in the first year eligible to retire; rates in other columns apply thereafter.

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Disability Retirement Decrements: Graded Tables Based on ERS Experience.

Active Regular Employee Class Members

ERS Decrement Service is used to determine when the rates apply:

- The rates do not apply before someone is eligible for the benefit
- Service greater than zero is required for occupational disability retirement.
- 10 years of service is required for non-occupational disability retirement.
- Members are not eligible for non-occupational disability retirement if they are eligible for service retirement under the Rule of 80. Members who suffer a non-occupational disability after satisfying the Rule of 80 are therefore assumed to retire on service retirement.

Active Elected Class Members

ERS Decrement Service is used to determine when the rates apply:

- The rates do not apply before someone is eligible for the benefit
- No occupational disabilities are assumed for the elected class.
- 8 years of service is required for non-occupational disability retirement.
- Members are not eligible for non-occupational disability retirement if they are eligible for service retirement (age 60 with 8 years service; or age 50 with 12 years service). Members who suffer a non-occupational disability after becoming eligible for service retirement are therefore assumed to retire on service retirement.

Sample rates for eligible regular employee class and elected class members:

Annual Disability Retirement Rates per 100 Participants			
	Occupational Regular Employee Class Only*	Non-occupational Regular Employee Class and Elected Class	
Age	Males and Females	Males	Females
20	0.003		
25	0.003		
30	0.003	0.057	0.028
35	0.003	0.135	0.087
40	0.004	0.144	0.186
45	0.007	0.213	0.302
50	0.008	0.308	0.430
55	0.011	0.514	0.724
60	0.015		
65	0.018		

*No occupational disabilities are assumed for the elected class.

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Disability Retirement Decrements (continued)
Active CPO/CO Employee Class Members

ERS Decrement Service and CPO/CO Decrement Service are used to determine when the rates apply:

- Service greater than zero is required for occupational disability retirement.
- 10 years of service is required for non-occupational disability retirement.
- Members are not eligible for non-occupational disability retirement if they are eligible for service retirement under the Rule of 80, or under the age 55 with at least 10 years of CPO/CO service provisions.
- For a member with 20 years CPO/CO service, the combined ERS/LECO service retirement annuity is much greater than the ERS non-occupational disability retirement annuity. Therefore, the rates of non-occupational disability retirement are zero for members with 20 years of CPO/CO service.

Sample rates for eligible members:

Annual Disability Retirement Rates per 100 Participants
CPO/CO Employee Class Members

	Occupational (Males and Females)		Non-occupational
Age	**Total**	**Non-total**	**Males and Females**
20	0.0002	0.0008	
25	0.0002	0.0008	
30	0.0006	0.0024	0.015
35	0.0012	0.0048	0.054
40	0.0018	0.0072	0.101
45	0.0028	0.0112	0.069
50	0.0040	0.0160	0.284
55	0.0048	0.0192	0.424
60	0.0054	0.0216	
65	0.0052	0.0208	

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Termination Decrements for Reasons Other Than Death or Retirement: Graded Tables Based on ERS Experience.

- Rates of termination are zero for members eligible for service retirement.

Sample rates for members not eligible for service retirement:

Annual Rates of Termination per 100 Participants – Regular Employee Class Members											
	Male and Female – Years of ERS Decrement Service										
Age	0	1	2	3	4	5-6	7-9	10-14	15-19	20-24	25+
20	49	31	27	25	19	19	11	6	3	2	
25	32	26	23	19	17	17	10	6	3	2	
30	25	22	18	17	14	14	9	6	3	2	
35	24	20	16	14	12	12	8	5	3	2	
40	22	18	15	13	10	10	8	5	3	2	
45	22	16	12	11	9	7	6	5	3	2	
50	22	14	12	10	9	7	6	4	3	2	
55	20	13	10	8	7	5	5	4	3	2	
60	23	18	16	13	12	10					

Annual Rates of Termination per 100 Participants – CPO/CO Employee Class Members											
	Male and Female – Years of ERS Decrement Service										
Age	0	1	2-3	4	5	6	7	8	9	10-14	15-19
20	29	25	18	17	17	16	11	11	11		
25	25	20	16	15	14	14	10	10	10	10	
30	24	19	15	11	10	10	10	9	9	9	
35	24	15	13	10	10	9	8	8	7	6	2
40	23	14	10	10	10	9	7	7	7	6	2
45	21	13	9	9	9	8	7	7	7	5	2
50	19	10	8	6	5	5	5	5	5	5	2
55	18	10	8	6	5	5	4	4	4	4	2
60	25	22	10	6	5	5					

***Elected Class Members:** 5 per 100 participants for members not eligible for service retirement.

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Rates of Withdrawal of Employee Contributions

Annual Rates of Withdrawal of Employee Contributions per 100 New Vested Terminations Male and Female												
	Regular Employee Class ERS Decrement Service				CPO/CO Employee Class ERS Decrement Service				Elected Class Members*			
Age	5-10	10-15	15-20	20+	5-10	10-15	15-20	20+	5-10	10-15	15-20	20+
20-24	100	100			100							
25-34	85	80	60		90	85	80					
35-44	75	65	60	50	85	75	65					
45-54	65	55	50	35	75	65	55					
55+	55	45	40	25	65							

*Elected Class Members are assumed not to withdraw employee contributions

100% of non-vested terminations are assumed to withdraw their employee contributions.

Percentage of Members Electing Various Benefit Options:

Sex / Benefit	Standard Life Annuity	Option 1	Option 4
Male Member			
Disability	50%	40%	10%
Service Retirement	100%	100%	100%
Death Benefit Plan	0%	75%	25%
Female Member			
Disability	75%	15%	10%
Service Retirement	100%	100%	100%
Death Benefit Plan	0%	60%	40%

Beneficiary Characteristics: Male member is three years older than female beneficiary; and female member is same age as male beneficiary.

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Transfers from ERS to TRS:

Contributing ERS Members:

3% of regular state employee and LECO members who cease contributing to ERS will transfer ERS service credit to TRS.

Noncontributing ERS Members:

Records of ERS and TRS are matched to determine former ERS members who are currently actively contributing under TRS.

TRS Retirement Age:

Former ERS members who are or become contributing TRS members are assumed to continue to earn service credit under TRS until first eligible for unreduced service retirement benefits, retire at the time and transfer ERS service credit to TRS.

Missing Data: If data is missing then sex is determined based on participant's name and date of birth is determined based on analysis of records with similar characteristics. The number of missing data items was immaterial.

METHODS

Calculations: The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system, and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Actuarial Cost Method: Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active Member which is the contribution required to provide all the projected pension benefits assuming this contribution is payable over a period starting at entry date and ending on each projected date of separation from active service and expressed as a level percentage of compensation. The Accrued Liability is determined as the excess of the total present value of all pension benefits over the total present value of future Normal Costs.

The excess of the accrued liability over the actuarial value of plan assets is the unfunded accrued liability.

The actuarial gain (loss) is a measure of the difference between actual experience and that expected based upon the actuarial assumptions between two actuarial valuation dates. Under this actuarial cost method, the actuarial gains (losses) are directly calculated and reduce (increase) the unfunded accrued liability.

TABLE 12

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
Adopted Effective August 31, 2003 (except as noted)
(Continued)

Adjustments to the unfunded accrued liability can result from changes in actuarial assumptions and plan provisions. Such adjustments are determined by calculating, as of the actuarial valuation date, the increase or decrease in the unfunded accrued liability resulting from the change.

Asset Valuation Method: The actuarial value of plan assets is based on the market-related value of plan assets, with five-year smoothing of unexpected returns. The market-related value is equal to the value of net assets held in trust for pension benefits (fair value of investments) as of the valuation date.

Specifically, 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.

Other Actuarial Valuation Procedures: No provision was made in this actuarial valuation for the limitations of Internal Revenue Code Section 415.

Valuation payroll (earnings applied to the current valuation year) is the expected payroll for the fiscal year following the valuation date. It is based on reported payroll determined from August member contributions increased to reflect the across-the-board salary increases effective on or after September 1 and projected according to the actuarial assumptions for the upcoming fiscal year.

No liability was included for benefits which are funded by special State appropriations.

State appropriations for membership fees have been ignored.

DATA

Census and Assets: The valuation was based on members of the System as of August 31, 2006 and does not take into account future members. All census data was supplied by the System and was subject to reasonable consistency checks. Asset data was supplied by the System.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

Membership

Members of the Employees Retirement System are employees of state agencies in a fulltime or part-time position (after a 90-day waiting period), or elected state officials.

Classes of Membership

Elected Class: Membership in the elected class is optional and is limited to elected state officials not covered by either of the Judicial Retirement Systems; members of the Legislature; and district and criminal district attorneys, to the extent they receive salaries from the state general revenue fund. In this summary, we will refer to the following two types of elected class service:

Legislator: Elected class service while a member of the legislature.

Regular: Elected class service while not a member of the legislature.

Employee Class: Membership in the employee class is mandatory for eligible employees and begins on the 91st day of employment. Membership includes all employees and appointed officers of every department, commission, board, agency, or institution of the state except that:

(1) Independent contractors are not eligible; and

(2) Persons covered by the Teacher Retirement System or by either of the Judicial Retirement Systems are not eligible; and

(3) A retiree receiving employee class retirement benefits may not rejoin the System as a member of the employee class.

In this summary, we will refer to the following two types of employee class service:

CPO/CO: Certified Peace Officer/Custodial Officer (CPO/CO) service is employee class service rendered while a law enforcement officer, a custodial officer, or a parole officer or caseworker.

Regular: Regular employee class service is employee class service that is not considered CPO/CO service.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Compensation

Compensation includes base salary, longevity and hazardous duty pay. Overtime pay is excluded. Amounts in excess of Internal Revenue Code Section 401(a)(17) limits are excluded for persons who first became members after August 31, 1996. Compensation of Legislators, for the purpose of calculating the retirement benefit, is based on the state salary of a district judge, $125,000 per annum. For the purpose of determining member contributions, compensation of Legislators is $7,200 per annum.

Average Monthly Compensation

Elected Class Service: The state salary, as adjusted from time to time, of a district judge; provided that a member may elect to have average compensation based on actual compensation for elected class service, but if actual compensation is used the member forfeits increases based on changes in the salary of a district judge, unless the account is transferred back to ESO.

Employee Class Service: Average of the 36 highest months of compensation for service in the employee class of membership.

Contributions

Member: 8% of compensation for Legislators; and 6% of compensation for all others. Additional member contributions may be made for allowable service purchases.

State of Texas: The State contribution is set biennially by the legislature. The contribution recommended to the legislature is one that meets the funding standards of section 811.006 of the Texas Government Code, under which contributions should be sufficient to fund normal cost and amortize any unfunded accrued liability over a period that does not exceed 31 years. The state contribution rate for the 2006 and 2007 plan years is 6.45% of the eligible compensation of active contributing members. The state contribution rate for the 2008 and 2009 plan years will be set in 2007, and the recommended contribution rate will be based on the results of the August

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

31, 2006 actuarial valuation. Additional State contributions are made for the $5,000 general lump sum death benefit for retirees, for allowable service credits not previously established, and for annual membership fees.

Limits on Contributions: Both member and state contributions cease when the maximum amount of service credit is accrued or established by a member; except that for a member with at least 20 years of CPO/CO service, employee class contributions cease when an accrued standard service retirement annuity of 100% of high average salary is achieved, based on a 2.8% multiplier for CPO/CO employee class service, and a multiplier of 2.3% for regular employee class service. After contributions cease, the member retains membership until pre-retirement death, retirement, or withdrawal of the member's accumulated contributions.

Accumulated Contributions

Each member's individual account balance is credited with the member's contributions, plus 5% interest per annum until the member retires, takes a refund, or dies before retirement.

Creditable Service

Creditable service consists of established membership service, military service, and equivalent membership service.

Limits on Creditable Service: A member who has accrued a standard service retirement annuity of 100% of average monthly compensation for employee class service may not accrue or establish additional service in the employee class; but (if they become a member of the elected class) they may accrue or establish additional service in the elected class. However, a member who has accrued a standard service retirement annuity of 100% of average monthly compensation for elected class service may not accrue or establish additional service credit in any other class of membership. For purposes of determining when the limit on service accruals has been met, the accrued standard service retirement annuity percentage for service in either class is based on 2.3% times the service credited in that class.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Membership Service: Service is credited in the applicable membership class for each month in which a member holds a position, and for which the required contributions are made. A full month of service credit is granted for each month a contribution is deducted from the member's salary, regardless of the number of days worked during the month or the amount of salary.

Military Service: An eligible member may purchase up to 60 months of service credit for active U.S. military service. In addition, a member who returns to active military service while employed by the State is allowed to purchase credit for such military service, even if it causes the 60-month maximum to be exceeded. In general, military service is credited to the class of membership the member held *after* the military service was rendered. Military service counts as CPO/CO service for a member who both entered military service within 90 days of leaving CPO/CO employment and returned to CPO/CO service within 90 days after completing the active military service.

- Military service is used in determining the amount of occupational disability retirement benefits and death benefits, and in determining eligibility to select a death benefit plan.
- Military service is used in determining eligibility for and the amount of service retirement or non-occupational disability retirement benefits if the member has, without military service:
  - 6 years of elected class membership service, for military service purchased prior to 1978;
  - 8 years of elected class membership service, for military service purchased after 1977; or
  - At least five years of employee class membership service credit.

Purchased Service (other than military service): An eligible member may purchase, prior to retirement, previously refunded ERS service credit, unestablished service credit, waiting period service credit, and additional service credit.

- Previously Refunded Service. A member may buy back ERS service credit that was canceled by a refund of contributions. The refund must be repaid with 10 percent penalty interest.
- Unestablished Service Credit, and Waiting Period Service Credit. An eligible member may purchase service credit for state service before September 1947; for legislative service before

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

1963; for waived elective class service; and for state service during a waiting period that was required before a state employee could become an ERS member. The payment required is generally the member contributions due plus 10 percent penalty interest; except the cost of post-August 2003 waiting period service equals the actuarial present value of the benefit created by the additional service credit.

- Additional Service Credit (ASC) After purchasing all other service for which the member is eligible, an active, contributing, member may be eligible to purchase up to 3 years of ASC. The member must have at least 120 months of actual membership service of the type of ASC to be established – elected class, regular employee class, or CPO/CO employee class – and the ASC is credited as the type of membership held when the ASC is purchased. The payment required is the actuarial present value of the benefit created by the ASC.

Unused Sick and Annual Leave: Credit for unused leave may be used to qualify an eligible member for retirement, or to qualify a death benefit designee for a death benefit plan. It is also used to calculate the amount of these benefits. Credits for unused sick leave and unused annual leave are calculated separately as 1 month of service credit for every 160 hours, plus 1 month for any fraction of 160 hours that remain after division of the total hours by 160; except that the credit for unused annual leave cannot exceed five months. In order to be eligible for credit for unused leave, the member must be a contributing employee class member at the time of retirement or pre-retirement death. If the member retires directly from (or dies in) a CPO/CO position, the credit for unused sick and annual leave will be treated as CPO/CO service. Otherwise, it will be treated as regular employee class service. (Elected class service is not granted for unused sick and annual leave.)

TRC, TEA Service, Higher Ed, TYC, Schools for Blind/Deaf, etc.

Contributing members of agencies previously under TRS were transferred to ERS effective September 1, 1993 as a result of legislation passed by the 1993 legislature. That prior service is considered in determining the eligibility and amount of ERS benefits for these members. ERS pays

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

benefits on all of the member's service, and TRS reimburses ERS for that portion of the benefit that is based on TRC and TEA service.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Service Retirement Benefits

Eligibility

- All Employee Class Members:
  - Age 60 with 5 years employee class service; or
  - Rule of 80: 5 years employee class service and age plus employee class service at least 80

  TRS & TEA service is treated as regular employee class service when determining eligibility to retire, but is not considered in determining the amount of the benefit.

- CPO/CO Employee Class Members:
  - Age 55 and 10 years of CPO/CO service; or
  - Any age and 20 years of CPO/CO service
  - Rule of 80

  Members who retire with 20 years CPO/CO service are eligible for supplemental benefits from LECOSRF (fund 977), and LECOSRF benefits commence immediately. The portion of the benefit that is payable from the ERS trust (fund 955) commences immediately if the member is at least age 50, or if the Rule of 80 is satisfied; otherwise it commences at age 50

- Elected Class Members:
  - Age 60 and 8 years of elected class service, or
  - Age 50 and 12 years of elected class service.

Standard Service Retirement Annuity: Life annuity equal to 2.3% of Average Monthly Compensation (AMC) times years and months of service to a maximum of 100% of AMC. May not be less than $150/month for employee class service, unless retiring under the Proportionate Retirement Plan.

For members who retire with 20 years CPO/CO service, the standard employee class service retirement annuity payable from all sources is equal to the following percentage of AMC: 2.8% times CPO/CO service plus 2.3% times non-CPO/CO employee class service, to a maximum of

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

100%. The portion of the standard service retirement annuity that is payable from the ERS trust equals AMC times the sum of B plus D plus E, where B is the multiplier for CPO/CO non-leave service, D is the multiplier for regular employee class service, and E is the multiplier for CPO/CO leave service. B, D, and E are defined in the following six-step procedure:

- A = 2.8% times CPO/CO non-leave service, to a maximum of 100%
- B = 2.3% times CPO/CO non-leave service, to a maximum of 100%
- H = 2.8% times all CPO/CO service, to a maximum of 100%
- C = H minus A
- D = 2.3% times all regular employee class service, to a maximum of (100% minus H)
- E = 2.3% times CPO/CO leave service, to a maximum of (100% minus B minus D)

Optional Forms of Payment: Five optional forms and partial lump sum option assumed actuarially equivalent to standard annuity.

Automatic Increase: For elected class benefits based on the state salary of a district judge: adjusted automatically as the state salary of a district judge increases.

Occupational Disability Retirement Benefits

A disability that results from a sudden and unexpected injury or disease resulting solely from a specific act or occurrence at a definite time and place as a direct result of some risk or hazard inherent to the person's state employment is considered an occupational disability.

Eligibility: Medical board certification of permanent mental or physical incapacity for further performance of duty; and executive director and ERS board determination that the disability is occupational. The member must be contributing to the retirement system at the commencement of the occupational disability, and must have service credit in either membership class.

- Total occupational disability: CPO/CO members only. Incapable of substantial gainful activity solely because of the occupational disability, and considered a total disability under federal social security law.
- Non-total occupational disability: Any occupational disability that does not satisfy the definition of total occupational disability.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Standard Occupational Disability Annuity: Monthly annuity payable for life, or until the member is no longer incapacitated for the performance of duty, calculated as follows:

- Elected class: 2.3% of AMC times all elected class service to a maximum of 100% of AMC, but not less than 18.4% of AMC.
- Regular employee class: 2.3% of AMC times all employee class service to a maximum of 100% of AMC, but not less than 35% of AMC, and not less than $150/month.
- Occupational disability that results from a risk to which CPO/CO members are exposed because of the nature of their CPO/CO duties:
  - Non-total with less than 20 years CPO/CO service: Amount payable from all sources equals 2.3% of AMC times all employee class service to a maximum of 100% of AMC, but not less than 50% of AMC. 15% of AMC is payable from LECOSRF; the remainder of the benefit is payable from the ERS trust.
  - Non-total with 20 years CPO/CO service: Amount payable from ERS trust is calculated in the same manner as the standard service retirement annuity payable from ERS trust.
  - Total with any CPO/CO service: 2.3% of AMC times CPO/CO non-leave service to a maximum of 100% of AMC, but not less than 35% of AMC, is payable from ERS trust.

  Unlike the service retirement annuity, where benefits payable from the ERS trust might be deferred until the member's age 50, payments from the ERS trust commence immediately.

If an employee class member has less than 36 months of compensation history, then only the contributory months available will be used to determine AMC.

Optional Forms of Payment: Five optional forms actuarially equivalent to the standard annuity.

Automatic Increase: For elected class benefits based on the state salary of a district judge: adjusted automatically as the state salary of a district judge increases.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Non-occupational Disability Retirement Benefits

Eligibility: Medical board certification of permanent mental or physical incapacity for the further performance of duty; and not considered an occupational disability by the executive director and ERS board. The member must be contributing to the retirement system at the commencement of the disability. In addition, the member must have:

- 8 years of elected class membership service; or
- 6 years of membership service in the elected class plus 2 years of military service credit established before 1978; or
- 10 years of employee class membership

Exclusions: A member otherwise eligible may not apply for or receive a non-occupational disability annuity if the member is eligible for a service retirement annuity on account of his or her elected class service; if the member is eligible for an employee class service retirement annuity under the Rule of 80; or if the member is at least age 55 with at least 10 years of CPO/CO employee class service.

Standard Non-occupational Disability Annuity: All membership classes: Monthly annuity payable for life, or until the member is no longer incapacitated for the performance of duty, equal to 2.3% of AMC times years of service to a maximum of 100% of AMC. The benefit for employee class service is reduced actuarially for commencement before the age that the member would be eligible for a service retirement annuity. However, the benefit for elected class service is *not* reduced for early commencement.

Optional Forms of Payment: Five optional forms actuarially equivalent to standard annuity.

Automatic Increase: Elected class benefits based on the state salary of a district judge are adjusted automatically as the state salary of a district judge increases.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Death Benefit Annuities

Death Benefit Plan (DBP) Annuity

Eligibility

Death of an active member:

- 10 years of elected or employee class service; or
- Less than 10 years of elected or employee class service, but eligible for service retirement at the time of death, and survived by a spouse or minor child.

Death of a non-contributing inactive member:

- 10 years of elected or employee class service as of August 31, 2005, with a DBP filed prior to September 1, 2005; or
- Eligible for service retirement when the member became inactive

Annuity: Calculated as if the member had elected an optional form of payment, retired on service retirement* at the time of death, and died immediately thereafter. Available options are Option 1 and Option 4. If the member dies before becoming eligible for a service retirement annuity, the benefit is reduced for early retirement as follows:

- With either 20 years of CPO/CO service, or 12 years of elected class service, the benefit is actuarially reduced from the member's age 50 (using table 324 factors)
- With 10 years of CPO/CO service, the benefit is actuarially reduced from the member's age 55 (using table 325 factors)
- With 5 years of employee class service or 8 years of elected class service the benefit is actuarially reduced from the member's age 60 (using table 326 factors)

* Eligible members who die with 20 years CPO/CO service are also eligible for a supplemental DBP annuity from LECOSRF. Unlike the CPO/CO service retirement annuity, where the portion of the benefit payable from the ERS trust might be deferred until the member's age 50, the portion payable from the ERS trust commences immediately.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Survivor of Elected Member Annuity

Eligibility: Death of a contributing or non-contributing elected class member with at least 8 years of elected class service, less than 10 years of elected or employee class service, not eligible for service retirement at the time of death, and with a surviving spouse.

Annuity: One-half of the service retirement annuity the member had earned at death.

Automatic Increases: Death benefit annuities based on the state salary of a district judge are adjusted automatically as the state salary of a district judge increases.

Rejection of a Death Benefit Annuity: A person eligible for a death benefit annuity may reject the annuity and receive, instead, a refund of the member's account balance plus (if they are eligible) the general lump sum death benefit.

Pre-retirement Death Lump Sums and Refunds

General Lump Sum Death Benefit

Eligibility: Death of a member who at the time of death was actively employed by the state; receiving workers' compensation benefits for an injury sustained while employed by the state; or on authorized sick leave. Not payable if a death benefit annuity is payable; but may be paid in addition to the occupational lump sum death benefit and/or the return of contributions death benefit.

Amount: 5% of the member's account balance at death, times full years of service credit at death, to a maximum of 100% of the amount in the member's individual account.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Occupational Lump Sum Death Benefit

Eligibility: Pre-retirement occupational death of a member survived by a spouse or dependent minor child. Payable in addition to any other death benefits.

Amount: One year's salary based on the member's rate of compensation at death.

Return of Contributions

Eligibility: Pre-retirement death of a member and a death benefit annuity is not payable.

Amount: The amount in the member's individual account at the time of death.

Post-Retirement Death Lump Sums and Refunds

Return of Excess Contributions

Eligibility: Death of last recipient of a service retirement or disability retirement annuity that was paid as a single life annuity or under Option 1, 2 or 5; or death of the recipient of an Option 1 DBP annuity; or death of the recipient of a survivor of elected member annuity.

Amount: The excess of the member's accumulated contributions at retirement over all benefits paid before the annuity terminates.

General Lump Sum

Eligibility: Death of a retired member.

Amount: $5,000. This is funded separately by the state and not reflected in this valuation.

Occupational Disability Lump Sum

Eligibility: Death of a member in receipt of an occupational disability retirement annuity who is survived by a spouse or dependent minor child.

Amount: One year's salary based on the member's rate of compensation at the time of disability retirement.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Benefits After Termination of Employment for Reasons Other than Death or Retirement

Deferred Service Retirement Annuity

Eligibility: The member's accumulated contributions are not refunded at termination, and:

- 5 or more years of employee class membership service; or
- 8 or more years of elected class membership service.

Amount: The standard service retirement annuity earned as of the date of termination; provided that the annuity may be increased under the provisions of the proportionate retirement program if the member becomes a contributing member of another system that participates in the program.

Payments may commence at: Age 60; or age 55 with 10 years of CPO/CO service; or age 50 with 12 years of elected class service.

Optional forms of payment: Five optional forms actuarially equivalent to standard annuity.

Automatic Increases: Annuities based on the state salary of a district judge are adjusted automatically as the state salary of a district judge increases. Increases occur while the annuity is deferred and after retirement.

Rejection of Deferred Annuity: A terminated member eligible for a deferred service retirement annuity may elect to receive a refund of his or her account balance in lieu of the annuity.

Refund of Contributions

Eligibility: Termination of covered employment in a class of ERS membership, and application for a refund of the member contributions that were accumulated for service in that class.

Amount: The amount in the member's account for service in the terminated membership class.

Consequence of a Refund: Taking a refund of contributions accumulated for a particular class of membership service cancels membership in that class and forfeits all other benefits from that class. A person may terminate membership in one class and retain membership in the other.

TABLE 14

SUMMARY OF MEMBERSHIP DATA
AS OF AUGUST 31, 2006

Active Members

Item	Regular Members	Elected Class	LECO Members	Total
Number of Members	94,972	336	37,103	132,411
Average Annual Salaries	$ 37,874	$ 61,258	$ 34,136	$ 36,886
Average Age	44.1	52.8	41.2	43.3
Average Service	9.9	10.3	8.6	9.5

Annuitants

Item	Number	Annual Annuities	Average Annuities	Average Age
Service Retirees and Beneficiaries	64,743	1,165,785,963	18,006	67.4
Disability Retirees	2,853	28,289,035	9,916	61.0
Total	67,596	$ 1,194,074,998	$ 17,665	67.1

Inactive Members Assumed Eligible for Deferred Annuities

Item	Number	Annual Annuities	Average Annuities	Average Age
Vested Members who are not Active at TRS	12,442	107,854,526	8,669	47.0
Vested Members who are Active at TRS	2,055	32,630,828	15,879	50.0
Total	14,497	$ 140,485,354	$ 9,691	47.4
Non-vested Members who are Active at TRS	4,443	$ 13,756,084	$ 3,096	45.7

Non-vested Inactive Members

Item	Annual Number	Account Balances	Average Account Balances	Average Age
Non-vested Members who are not Active at TRS	42,627	74,185,277	1,740	37.7
Non-vested Members who are Active at TRS (this group also assumed eligible for deferrerd annuities)	4,443	13,072,193	2,942	45.7
Total	47,070	$ 87,257,470	$ 1,854	38.4

EXHIBIT I

ACTIVE MEMBERSHIP– ALL EMPLOYEES

NUMBER AND AVERAGE ANNUAL SALARY AS OF AUGUST 31, 2006

Age	Years of Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 25	6,718 $24,075	237 $27,615								6,955 $24,195
25-29	8,581 $29,316	2,889 $31,919	79 $32,785							11,549 $29,991
30-34	6,690 $30,905	5,432 $36,086	2,011 $37,227	64 $34,599						14,197 $33,799
35-39	6,093 $31,093	5,442 $36,341	4,682 $40,779	1,730 $41,650	114 $42,114					18,061 $36,266
40-44	4,938 $30,806	4,546 $35,571	4,570 $39,784	3,905 $45,280	2,012 $46,352	235 $42,962				20,206 $38,395
45-49	4,546 $31,230	4,354 $35,854	4,280 $39,895	3,629 $44,836	3,119 $50,237	2,037 $49,432	91 $51,133			22,056 $40,514
50-54	3,701 $31,849	3,971 $35,946	3,900 $40,207	3,209 $43,489	2,165 $47,748	1,563 $51,296	392 $53,456	17 $53,327		18,918 $40,299
55-59	2,775 $32,112	3,041 $36,065	3,052 $39,847	2,461 $42,594	1,220 $46,649	491 $51,584	391 $55,647	106 $61,360	3 $55,627	13,540 $39,578
60-64	1,045 $32,531	1,456 $35,846	1,320 $39,925	862 $41,081	311 $46,165	154 $51,537	106 $54,876	50 $62,716	16 $56,371	5,320 $38,806
Over 64	379 $ 32,478	499 $ 35,134	374 $ 38,103	208 $ 42,886	80 $ 46,308	29 $ 49,920	19 $ 60,075	10 $ 60,422	11 $ 53,122	1,609 $ 37,597
Total	45,466 $29,844	31,867 $35,538	24,268 $39,819	16,068 $43,721	9,021 $48,010	4,509 $50,050	999 $54,378	183 $60,933	30 $55,105	132,411 $36,886

EXHIBIT II

ACTIVE MEMBERSHIP– REGULAR EMPLOYEE CLASS

NUMBER AND AVERAGE ANNUAL SALARY
AS OF AUGUST 31, 2006

Age	Years of Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 25	3,782 $22,935	152 $25,585								3,934 $23,038
25-29	5,918 $29,420	1,755 $31,308	43 $32,088							7,716 $29,865
30-34	4,645 $31,475	3,792 $36,273	997 $37,170	48 $34,033						9,482 $34,006
35-39	4,249 $31,839	3,887 $36,812	2,950 $42,105	1,146 $42,140	92 $41,446					12,324 $36,895
40-44	3,526 $31,472	3,373 $36,246	3,050 $41,393	2,827 $45,956	1,339 $46,976	200 $42,183				14,315 $39,171
45-49	3,385 $32,066	3,264 $36,673	2,957 $41,501	2,837 $45,807	2,328 $50,234	1,647 $47,599	79 $49,918			16,497 $41,232
50-54	2,810 $32,622	3,032 $36,844	2,705 $42,266	2,578 $44,700	1,937 $47,324	1,408 $49,988	334 $50,677	16 $50,321		14,820 $41,345
55-59	2,065 $33,428	2,284 $37,293	2,204 $41,289	2,054 $43,381	1,109 $46,553	443 $50,176	352 $54,226	100 $61,022	3 $55,627	10,614 $40,844
60-64	737 $34,213	1,060 $37,284	983 $41,559	696 $42,431	279 $46,475	140 $50,214	96 $53,316	42 $60,729	15 $59,649	4,048 $40,435
Over 64	268 $ 33,953	379 $ 35,613	275 $ 39,816	170 $ 44,957	70 $ 48,548	26 $ 51,467	17 $ 59,367	8 $ 51,031	9 $ 63,327	1,222 $ 39,209
Total	31,385 $30,488	22,978 $36,180	16,164 $41,373	12,356 $44,619	7,154 $47,989	3,864 $48,606	878 $52,488	166 $59,435	27 $60,428	94,972 $37,874

EXHIBIT III

ACTIVE MEMBERSHIP– LECO

NUMBER AND AVERAGE ANNUAL SALARY
AS OF AUGUST 31, 2006

Age	Years of Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 25	2,936 $25,542	85 $31,245								3,021 $25,703
25-29	2,660 $29,108	1,134 $32,864	36 $33,618							3,830 $30,262
30-34	2,040 $29,549	1,639 $35,671	1,014 $37,283	16 $36,296						4,709 $33,368
35-39	1,824 $29,035	1,548 $34,986	1,731 $38,539	584 $40,687	22 $44,911					5,709 $34,783
40-44	1,399 $28,608	1,157 $32,997	1,514 $36,595	1,076 $43,575	673 $45,112	35 $47,417				5,854 $36,302
45-49	1,146 $28,400	1,068 $32,581	1,305 $35,753	786 $41,167	791 $50,246	390 $57,172	12 $59,129			5,498 $38,034
50-54	873 $28,383	919 $32,360	1,182 $35,254	623 $38,567	223 $50,745	155 $63,172	58 $69,464	1 $101,424		4,034 $36,057
55-59	698 $27,671	748 $32,035	833 $35,372	398 $37,857	103 $45,268	44 $59,851	39 $68,473	5 $78,938		2,868 $34,229
60-64	299 $27,966	389 $31,532	329 $34,865	159 $36,662	28 $41,118	11 $59,052	8 $70,791	7 $65,745		1,230 $33,134
Over 64	104 $ 26,983	112 $ 31,290	93 $ 34,119	30 $ 40,663	7 $ 40,669	2 $ 51,158		2 $ 97,986		350 $ 32,247
Total	13,979 $28,149	8,799 $33,526	8,037 $36,527	3,672 $40,776	1,847 $47,920	637 $58,295	117 $68,164	15 $76,820		37,103 $34,136

EXHIBIT IV

ACTIVE MEMBERSHIP– ELECTED CLASS

NUMBER AND AVERAGE ANNUAL SALARY
AS OF AUGUST 31, 2006

Age	Years of Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 25										
25-29	3 $7,200									3 $7,200
30-34	5 $54,320	1 $7,200								6 $46,467
35-39	20 $60,210	7 $74,514	1 $7,200							28 $61,893
40-44	13 $86,831	16 $79,263	6 $26,833	2 $7,200						37 $69,524
45-49	15 $58,607	22 $73,319	18 $76,468	6 $66,271						61 $69,937
50-54	18 $79,189	20 $64,461	13 $62,050	8 $36,778	5 $78,085					64 $65,717
55-59	12 $64,017	9 $59,556	15 $76,350	9 $72,644	8 $77,700	4 $116,593		1 $7,200		58 $72,387
60-64	9 $46,467	7 $57,686	8 $47,277	7 $7,200	4 $59,850	3 $85,733	2 $66,100	1 $125,000	1 $7,200	42 $47,896
Over 64	7 $ 57,686	8 $ 66,228	6 $ 21,370	8 $ 7,200	3 $ 7,200	1 $ 7,200	2 $ 66,100		2 $ 7,200	37 $ 34,996
Total	102 $63,930	90 $68,543	67 $59,746	40 $36,701	20 $63,651	8 $91,346	4 $66,100	2 $66,100	3 $7,200	336 $61,258

EXHIBIT V

RETIREE AND BENEFICIARY MEMBERSHIP DATA
AS OF AUGUST 31, 2006

NUMBER AND AVERAGE ANNUAL BENEFIT

Age Last Birthday	Number	Annual Benefit	Average Annual Benefit
Retired Participants			
Under 60	13,273	318,152,856	23,970
60 - 64	11,569	213,594,740	18,463
65 - 69	10,416	169,844,340	16,306
70 - 74	8,160	139,065,442	17,042
75 - 79	5,656	100,110,002	17,700
Over 79	6,186	110,603,955	17,880
Total	55,260	1,051,371,334	19,026
Beneficiary Participants			
Under 60	1,528	15,764,561	10,317
60 - 64	697	8,722,170	12,514
65 - 69	792	11,116,937	14,037
70 - 74	996	15,303,759	15,365
75 - 79	1,102	18,596,655	16,875
Over 79	1,890	32,019,366	16,941
Total	7,005	101,523,450	14,493
Disabled Participants			
Under 60	1,395	14,165,960	10,155
60 - 64	492	4,932,232	10,025
65 - 69	335	3,200,429	9,554
70 - 74	254	2,651,358	10,438
75 - 79	147	1,542,010	10,490
Over 79	145	1,570,895	10,834
Total	2,768	28,062,883	10,138
Grand Total Average Annual Benefit	65,033	1,180,957,667	18,159

Excludes LECOSRF Annuitants not yet eligible to begin an annuity from ERS and excludes annuitants where ERS is reimbursing TRS

EXHIBIT V-A

RETIREE AND BENEFICIARY MEMBERSHIP DATA
AS OF AUGUST 31, 2006

NUMBER AND AVERAGE ANNUAL BENEFIT

LECOSRF ANNUITANTS NOT YET ELIGIBLE TO BEGIN AN ANNUITY FROM ERS

Age Last Birthday	Number	Annual Benefit	Average Annual Benefit
All Participants			
Under 40	2	34,985	17,492
40 - 44	128	1,741,366	13,604
45 - 49	258	4,504,396	17,459
Total	388	6,280,747	16,187
Grand Total Average Annual Benefit	388	6,280,747	16,187

EXHIBIT V-B

RETIREE AND BENEFICIARY MEMBERSHIP DATA
AS OF AUGUST 31, 2006

NUMBER AND AVERAGE ANNUAL BENEFIT

ANNUITANTS WHERE ERS IS REIMBURSING TRS FOR THE BENEFIT PAYMENTS

Age Last Birthday	Number	Annual Benefit	Average Annual Benefit
Healthy Participants			
Under 60	884	2,979,120	3,370
60 - 64	475	1,580,601	3,328
65 - 69	410	1,210,863	2,953
70 - 74	207	538,381	2,601
75 - 79	75	209,553	2,794
Over 79	39	91,915	2,357
Total	2,090	6,610,432	3,163
Disabled Participants			
Under 60	60	172,716	2,879
60 - 64	12	29,334	2,444
65 - 69	6	9,121	1,520
70 - 74	2	1,074	537
75 - 79	2	10,392	5,196
Over 79	3	3,516	1,172
Total	85	226,152	2,661
Grand Total Average Annual Benefit	2,175	6,836,584	3,143

EXHIBIT VI

5-YEAR HISTORY OF MEMBERSHIP DATA

Active Participants

Valuation as of January 1	Number of Active Participants	Percentage Change in Membership	Total Annual Payroll	Percentage Change in Payroll
2002	148,957	(0.06%)	$ 4,923,420,460	5.15%
2003	142,163	(4.56%)	4,738,994,284	(3.75%)
2004	133,349	(6.20%)	4,557,079,610	(3.84%)
2005	131,331	(1.51%)	4,510,619,073	(1.02%)
2006	132,411	0.82%	4,884,098,517	8.28%

Retired, Disabled, and Beneficiary Participants

Valuation as of January 1	Number on roll	Additions	Deletions	Percentage Change in Membership	Annual Annuities	Percentage Change in Annuities
2002	51,738	4,372	1,233	6.49%	$ 914,352,905	25.07%
2003	58,975	8,172	1,252	13.38%	1,044,307,846	14.21%
2004	61,845	4,048	1,515	4.30%	1,090,042,062	4.38%
2005	65,720	5,006	1,922	4.99%	1,162,022,009	6.60%
2006	67,596	3,009	1,464	2.35%	1,194,074,998	2.76%

EXHIBIT VII

GLOSSARY

Accrued Liability	The difference between (a) the present value of future plan benefits, and (b) the present value of future normal cost. It is the portion of the present value of future plan benefits attributable to service accrued as of the valuation date. Sometimes referred to as "actuarial accrued liability."
Accrued Service	The service credited under the plan which was rendered before the date of the actuarial valuation.
Actual Funding Contribution	The Actual Funding Contribution for a plan year is calculated using census and asset information as of the first day of the plan year, and includes Normal Cost, with interest to the end of the plan year, and a net amortization payment.
Actuarial Assumptions	Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.
Actuarial Cost Method	A mathematical budgeting procedure for allocating the dollar amount of the "present value of future plan benefits" between the present value of future normal cost and the accrued liability. Sometimes referred to as the "actuarial funding method."
Actuarial Equivalent	A series of payments is called an actuarial equivalent of another series of payments if the two series have the same actuarial present value.
Actuarial Value of Assets	The value of current plan assets recognized for valuation purposes. Based on a smoothed market value that recognizes investment gains and losses over a period of three years.
Amortization	Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

EXHIBIT VII

GLOSSARY
(Continued)

Annual Required Contribution	The Annual Required Contribution, or ARC, is the amount determined in accordance with Governmental Accounting Standards Board Statements Nos. 25 and 27.
Budget Contribution	The Budget Contribution for a year is based on census and asset information as of the first day of the PRIOR plan year, rolled forward to the next plan year based on all actuarial assumptions being met. For example, the Budget Contribution for 2007 is based on census and asset information as of January 1, 2006, rolled forward to January 1, 2007.
Contribution Variance	The difference between the Actual Contribution and the Budget Contribution for a plan year is referred to as the Contribution Variance. A Contribution Variance resulting from an overpayment is amortized over 5 years as a level dollar credit. A Contribution Variance resulting from an underpayment is amortized over 5 years as a level dollar charge.
Experience Gain (Loss)	A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used.
Normal Cost	The annual cost assumed, under the actuarial funding method, for current and subsequent plan years. Sometimes referred to as "current service cost."
Present Value	The amount of funds presently required to provide a payment or series of payments in the future. The present value is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.
Unfunded Accrued Liability	The difference between the accrued liability and valuation assets.