LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND OF THE 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 Law Enforcement and Custodial Officer Supplemental Retirement Fund 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 $708,436,543; while the actuarial value of the System's assets equals $720,306,864. 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 difference between the liabilities and the assets — is equal to ($11,870,321); that is, assets exceed liability by $11,870,321. The funded ratio — the ratio of the assets to the liability — is 101.7%. This funded ratio is slightly lower than the August 31, 2005 funded ratio of 103.1%. The decrease in the funded ratio is primarily due to the absence of a contribution to the fund, offset by liability gains arising from salary experience and demographic experience more favorable than expected.

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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 1.55%. The current excess of the actuarial value of assets over the accrued liability covers only a portion of the normal cost for the fiscal year ending August 31, 2007. In addition, the level contribution rate needed to fund the normal cost and amortize the ($11,870,321) (overfunded) accrued liability over 1 year is 0.59%.

For the fiscal year ending August 31, 2007, there are no contributions being made to the Law Enforcement and Custodial Officer Supplemental Retirement Fund of the Employees Retirement System of Texas. Once the entire excess of the actuarial value of assets over the accrued liability is used to cover normal cost (expected to occur during the fiscal year ending August 31, 2007), the contribution rate for the fiscal year ending August 31, 2007 of 0% will not satisfy Section 811.006 of the Texas Government Code.

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

LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND

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Executive Summary

This report presents the actuarial valuation as of August 31, 2006 for the Law Enforcement and Custodial Officer Supplemental Retirement Fund of the Employees Retirement System of Texas. The principal valuation results include:

- The accrued liability, which is $708,436,543.
- The actuarial value of assets, which is $720,306,864
- The (overfunded) accrued liability (the difference between the liability and the assets), which is ($11,870,321).
- The normal cost rate, which is 1.55% of payroll, or $19,831,672 for FY 2007.
- The actuarially sound contribution needed to fund the normal cost and amortize the unfunded accrued liability over no more than 31 years, as specified by section 811.006 of the Texas Government Code, which is 1.50% of payroll for FY 2007.
- The time required to fund the normal cost and amortize the unfunded accrued liability, based on the current total 0.00% contribution rate, which is infinity. (Based on this valuation, the current overfunded status will cover only 60% of the FY 2007 normal cost. The 0.00% contribution rate does not fund any portion of future normal cost.)
- 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 101.7%.
- The determination of the (gain) or loss as of August 31, 2006, which is a (gain) of ($10.2) million. 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

Legislative and Administrative Changes

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

The benefit provisions 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	37,103	37,150
• Average Annual Pay	$ 34,116	$ 31,848
Inactive Members		
• Number	33	12
Retirees and Beneficiaries		
• Members Receiving Benefits		
• Number	5,318	5070
• Average Annual Benefit Payment	$ 5,567	$ 5,656
Total Contribution Rates		
• Actuarially Sound Rate (funds normal cost and amortizes unfunded accrued liability over 31 years, per Texas law)	1.50%	1.54%
• Actual Contribution Rate	0.00%	0.00%
Total Normal Cost		
• Percent of Payroll	1.55%	1.63%
• Dollars	$ 19,831,672	$ 20,894,392
Actuarial Funded Status		
• Accrued Liability	$ 708,436,543	$ 677,952,887
• Actuarial Value of Assets	720,306,864	698,814,428
• Unfunded (Overfunded) Accrued Liability	$ (11,870,321)	$ (20,861,541)
• Funded Ratio	101.7%	103.1%

Plan Experience

The rate of investment return on the market value of plan assets for the fiscal year ended August 31, 2006 was approximately 8.8%. For the same period, the rate of investment return on the actuarial (smoothed) value of assets was approximately 7.6%, 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 $10.5 million 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 $10.2 million.

The unfunded (overfunded) accrued liability of ($20.9) million as of the prior valuation date increased by approximately $9.0 million, to ($11.9) million as of August 31, 2006. Detailed descriptions of the causes for the changes in the unfunded accrued liability are shown in Tables 5 and 6.

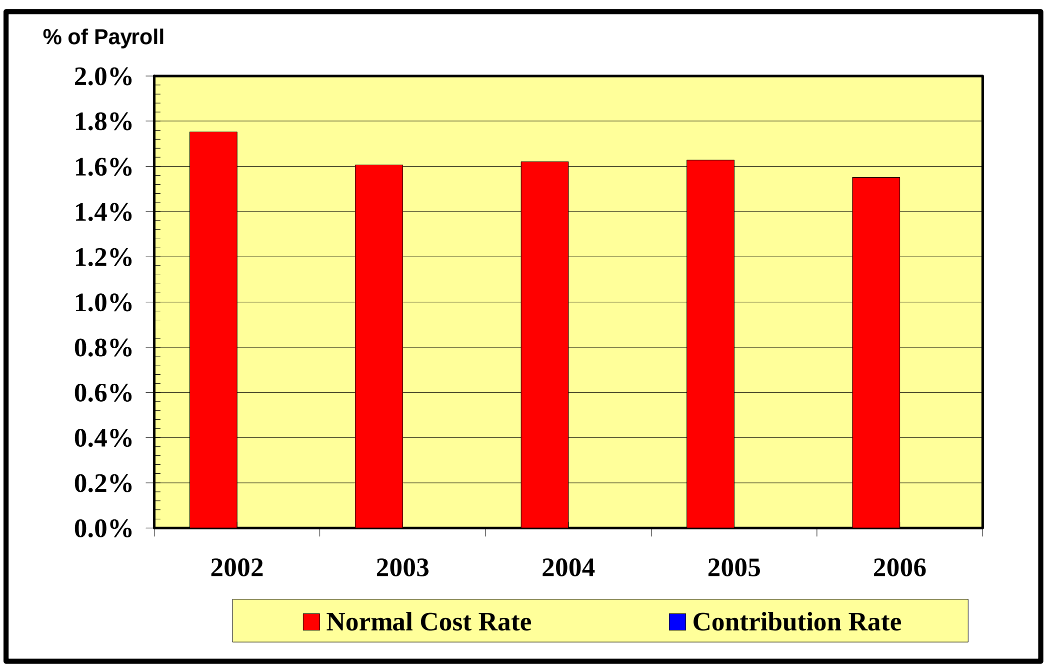
Five-Year History of Principal Financial Results

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	0.000%	1.75%	$ 22,761,576	$ (22,761,576)
2003	0.000%	1.61%	20,530,863	(20,530,863)
2004	0.000%	1.62%	19,943,898	(19,943,898)
2005	0.000%	1.63%	20,894,392	(20,894,392)
2006	0.000%	1.55%	19,831,672	(19,831,672)

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 ($10.2) million.

The analysis of the net gain for the fiscal year ended August 31, 2006 is shown in Table 6. 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	$ 14,700,000
2003	10,800,000
2004	(5,000,000)
2005	21,300,000
2006	(10,161,000)

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 employer contribution rates:

Valuation as of August 31	Funding Period	Contribution Rate	
		Member	Employer
2002	Not available	0.00%	0.00%
2003	Not available	0.00	0.00
2004	3.1 years	0.00	0.00
2005	1.0 years	0.00	0.00
2006	0.6 years	0.00	0.00

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 101.7% as of August 31, 2006. This funded ratio is based on an actuarial value of assets of $720,306,864 and an accrued liability of $708,436,543.

Reasons for Change in the Total Funded Ratio

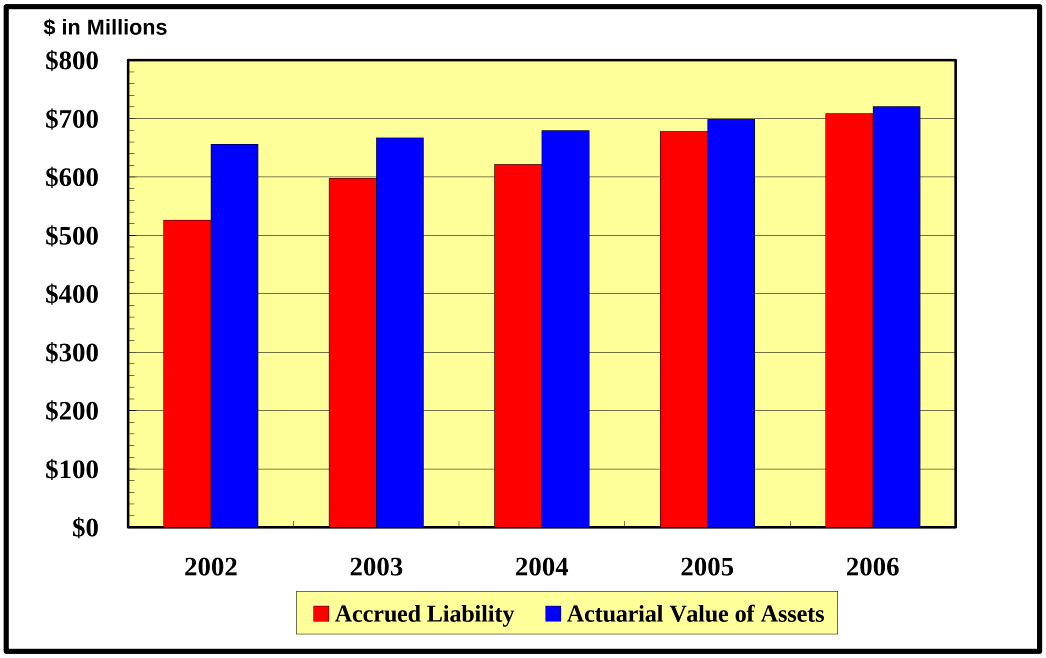
The total funded ratio decreased from 103.1% as of August 31, 2005 to 101.7% as of August 31, 2006. The decrease is due to the net effect of no contributions being made, investment return and experience gains and losses.

Five-Year History of Funded Ratio

Valuation as of August 31	Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Accrued Liability	Funded Ratio
2002	$ 526,204,753	$ 655,978,723	$(129,773,970)	124.7%
2003	597,914,188	666,588,289	(68,674,101)	111.5
2004	621,457,336	679,242,950	(57,785,614)	109.3
2005	677,952,887	698,814,428	(20,861,541)	103.1
2006	708,436,543	720,306,864	(11,870,321)	101.7

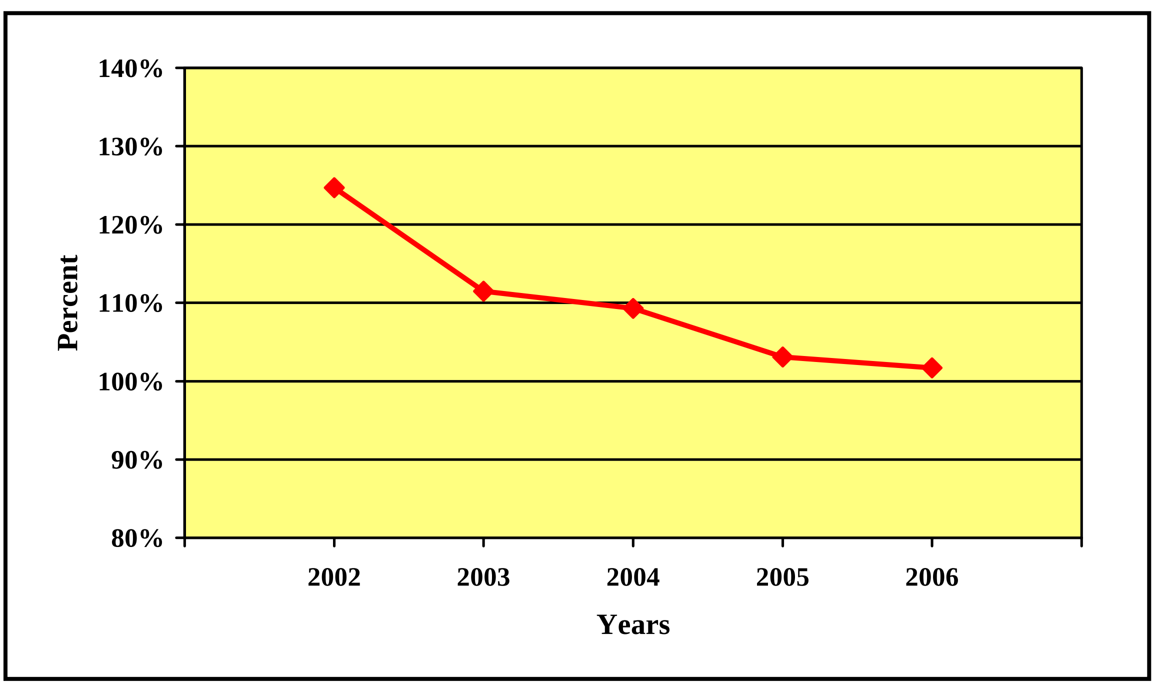
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

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 101.7% as of August 31, 2006. This funded ratio is based on an actuarial value of assets of $720,306,864 and an accrued liability of $708,436,543. Table 9 shows the schedule of funding project information.

The "schedule of employer contributions" shows historical trend information about the annual required contribution (ARC) for pensions of the employer 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 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 8. The State of Texas Government Code requires that the maximum amortization period allowed 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 8/31	Asset Values		Rates of Return		
	Market	Actuarial	Market*	Actuarial	Assumed
2002	$ 567,934,041	$ 655,978,723	(7.2%)	4.6%	8.0%
2003	594,093,643	666,588,289	9.2%	5.2%	8.0%
2004	633,812,393	679,242,950	11.7%	6.3%	8.0%
2005	682,699,641	698,814,428	12.7%	7.4%	8.0%
2006	709,793,858	720,306,864	8.8%	7.6%	8.0%
	Compound Rate of Return (five years):		6.8%	6.2%	

*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	37,103
b) Inactive Members	33
c) Annuitants	5,318
d) Total	42,454
2. Reported Payroll (August Payroll of Active Members)	$ 1,265,820,572
3. Valuation Payroll (Expected Covered Payroll for 2007 Plan Year)	$ 1,279,462,692
4. Annual Benefits	$ 29,604,307
Valuation Results	
5. Accrued Liability:	
a) Active Participants	$ 450,252,429
b) Inactive Members	1,264,370
c) Annuitants	256,919,744
d) Total	$ 708,436,543
6. Actuarial Value of Assets	$ 720,306,864
7. Unfunded Accrued Liability: (Item 5 - Item 6)	$ (11,870,321)
8. Funded Status: (Item 6 / Item 5)	101.7 %
9. Funding Period	Infinite
10. Total Normal Cost	
a) Normal Cost	$ 18,552,209
b) Administrative Expenses (0.10% x Item 3)	1,279,463
c) Total	$ 19,831,672
d) Percentage of Payroll	1.55 %
Allocation of Contribution Rate	
11. a) Employer Rate	0.00 %
b) Member Rate	0.00
c) Total Contribution Rate	0.00 %
d) Normal Cost	1.55 %
e) Amortization Rate Toward Unfunded Accrued Liability	(1.55)
f) Total Contribution Rate	0.00 %
12. Contribution Rate Needed to Fund Normal Cost Plus Amortize the Unfunded Accrued Liability Over 31 Years	1.50 %

TABLE 2

SECURITY OF PROMISED BENEFITS
UNFUNDED ACCRUED LIABILITY
FUNDED STATUS

Item	August 31, 2006	August 31, 2005
1. Accrued Liability		
a. Active Participants	$ 450,252,429	$ 426,044,288
b. Participants with Deferred Benefits	1,264,370	433,702
c. Participants Receiving Benefits	256,919,744	251,474,897
d. Total All Participants	$ 708,436,543	$ 677,952,887
2. Actuarial Value of Assets	720,306,864	698,814,428
3. Unfunded Accrued Liability (1d - 2)	$ (11,870,321)	$ (20,861,541)
4. Funded Status: (2 / 1d)	101.7%	103.1%

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, assets exceed the accrued liability by $11,870,321.

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 101.7%.

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

TABLE 3

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

Item	Amount	
1. Market Value of Assets as of August 31, 2005		$ 682,699,641
2. Contributions for Plan Year		
a. State (including membership fees)	$ -	
b. Member (including penalty interest)	-	
c. Total		-
3. Disbursements for Plan Year		
a. Benefit payments and refunds	$ (30,183,937)	
b. Administrative expenses	(378,051)	
c. Total		(30,561,988)
4. Market Value of Assets as of August 31, 2006		$ 709,793,858
5. Net Investment Income* (4 - 1 - 2c - 3c)		$ 57,656,205
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 LECOSRF PLAN ASSETS AS OF AUGUST 31, 2006

Item	Amount			
1. Actuarial Value of Assets as of August 31, 2005			$	698,814,428
2. Contributions for Plan Year				
a. State (including membership fees)	$	-		
b. Member (including penalty interest)		-		
c. Total				-
3. Disbursements for Plan Year				
a. Benefit payments and refunds	$	(30,183,937)		
b. Administrative expenses		(378,051)		
c. Total				(30,561,988)
4. Expected Investment Income (8.00% per annum)				54,682,675
5. Expected Value of Actuarial Assets as of August 31, 2006 (Items 1 + 2c + 3c + 4)			$	722,935,115
6. Market Value of Assets as of August 31, 2006	$	709,793,858		
7. Difference between Market Value and Expected Value (Item 6 - Item 5)	$	(13,141,257)		
8. Adjustment to Expected Value (20% * Item 7)				(2,628,251)
9. Actuarial Value of Assets as of August 31, 2006 (Item 5 + Item 8)			$	720,306,864
10. Estimated Rate of Return				7.6%

* 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 CONTRIBUITONS

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.	$ (20,861,541)
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	$ 20,428,070
b. Administrative Expenses paid from the trust during the year	378,051
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)]	(1,653,801)
d. Total expected Increase / (Decrease)	$ 19,152,320
3. Amount of State Contributions during the year	$ -
4. Expected Investment Income on State Contributions (4% x Item 3)	$ -
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)	$ 19,152,320

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		$ (20,861,541)
2. Change due to State Contribution less than Normal Cost and Interest on the Unfunded Accrued Liability		19,152,320
3. Change due to Plan Amendments		-
4. Change due to Assumptions		-
5. Expected Unfunded Accrued Liability at August 31, 2006		$ (1,709,221)
6. Actual Unfunded Accrued Liability at August 31, 2006		$ (11,870,321)
7. Total (Gains)/Losses (Item 6 minus item 5)		$ (10,161,100)
Components of (Gains)/Losses		
1. Actuarial Asset (Gains)/Losses		$ 2,628,251
2. Liability (Gains)/Losses		
a. Pay Increases (Less)/Greater than Expected	$ (2,529,345)	
b. Non-Retired Demographic (Gains)/Losses	(10,076,558)	
c. Post-Retirement Mortality (Gains)/Losses	(500,877)	
d Other	317,429	
e Total Liability (Gains)/Losses		(12,789,351)
3. Total of Components (Item 1 plus item 2)		$ (10,161,100)

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 $10,161,100 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	$ 1,279,462,692	$ 1,283,815,360
3. Unfunded Accrued Liability at Beginning of Year	$ (11,870,321)	$ (20,861,541)
4. Employer's Normal Cost		
a. Benefit Normal Cost Rate	1.45%	1.53%
b. Administrative Expense Normal Cost Rate	0.10%	0.03%
c. Amount of Normal Cost: (2) * [(4a) + (4b)]	$ 19,831,672	$ 20,020,426
5. Contribution toward Unfunded Accrued Liability	(12,336,000)	(20,020,426)
6. Annual Required Contribution (ARC) (4c) + (5)	$ 7,495,672	$ -
7. Employer Contributions (excluding membership fees)		$ -
8. Percentage Contributed: (7) / (6)		100.0%
9. Excess / (Deficient) Contributions: (7) - (6)		$ -

Annual Pension Cost and Net Pension Obligation

Item	2007 Plan Year	2006 Plan Year
1. Annual Required Contribution (ARC)	$ 7,495,672	$ -
2. Interest on Net Pension Obligation (NPO)	-	-
3. Adjustment to ARC	-	-
4. Annual Pension Cost (APC): (1) + (2) + (3)	$ 7,495,672	$ -
5. Employer Contributions made		-
6. Increase (Decrease) in NPO: (4) - (5)		$ -
7. NPO at Beginning of Year	-	-
8. NPO at End of Year: (6) + (7)		$ -
9. Percent of APC Contributed: (5) / (4)		100.0%

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	$ -	100.0 %
2003	-	100.0
2004	-	100.0
2005	-	100.0
2006	-	100.0
2007	7,495,672	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:	0.6 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	None

* 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
($ Amounts in Thousands)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Accrued Liability (AL)	(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	$ 647,757	$ 492,127	$ (155,630)	131.6 %	$ 1,291,750	(12.0) %
08/31/2002	655,979	526,205	(129,774)	124.7	1,298,593	(10.0)
08/31/2003	666,588	597,914	(68,674)	111.5	1,277,894	(5.4)
08/31/2004	679,243	621,457	(57,786)	109.3	1,230,581	(4.7)
08/31/2005	698,814	677,953	(20,861)	103.1	1,283,815	(1.6)
08/31/2006	720,307	708,437	(11,870)	101.7	1,279,463	(0.9)

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	$ -	$ 155,471	$ 336,656	$ 647,757	N/A %	100.0 %	146.2 %
2002	-	182,771	343,434	655,979	N/A	100.0	137.8
2003	-	218,306	379,608	666,588	N/A	100.0	118.1
2004	-	233,720	387,737	679,243	N/A	100.0	114.9
2005	-	251,475	426,478	698,814	N/A	100.0	104.9
2006	-	256,920	451,517	720,307	N/A	100.0	102.6

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 $720,307,000. These assets are sufficient to cover 100% of the $256,920,000 liability for current retirees and beneficiaries, plus 102.6% of the $451,517,000 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	$ 720,306,864	$ 698,814,428
2. Present Value of Future Normal Cost	161,579,702	173,311,939
3. Total	$ 881,886,566	$ 872,126,367
Liabilities		
4. Present Value of Future Benefits		
a. Active Members		
Service Retirement	$ 591,382,599	$ 587,915,367
Disability Benefits	12,417,965	4,252,676
Death Before Retirement	8,031,567	7,188,184
Termination	-	-
Total Active	$ 611,832,131	$ 599,356,227
b. Inactive Members	1,264,370	433,702
c. Annuitants	256,919,744	251,474,897
d. Total	$ 870,016,245	$ 851,264,826
Unfunded Accrued Liability	$ (11,870,321)	$ (20,861,541)

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: 0.1% of valuation payroll per annum

Salary Increases: Increases are assumed to occur at the beginning of the valuation year. The components of the annual increases are:

Employee Group	Inflation	Real Wage Growth (Productivity)	Merit, Promotion and Longevity
CPO/CO Employee Class Members *	4%	0%	See sample rates

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

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

Sample Rates:

Annual Salary Increases for Merit, Promotion and Longevity Male and Female					
	Years of ERS Decrement Service				
Age	**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.

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 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 and LECOSRF 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 LECOSRF experience. Illustrative rates are shown in the following tables.

Annual Rates of Active Mortality per 100 Participants

	Occupational Mortality		Non-Occupational Mortality	
Age	Male	Female	Male	Female
20	0.003	0.001	0.044	0.034
25	0.003	0.001	0.058	0.035
30	0.003	0.001	0.071	0.042
35	0.003	0.001	0.076	0.057
40	0.003	0.001	0.097	0.085
45	0.003	0.001	0.144	0.117
50	0.003	0.001	0.237	0.171
55	0.003	0.001	0.408	0.275
60	0.003	0.001	0.739	0.533
65	0.003	0.001	1.349	1.036

TABLE 12

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

Service Retirement Decrements: Graded tables based on LECOSRF experience.

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											
	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				
	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 LECOSRF Experience.

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			
	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 LECORF 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											
	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					

Rates of Withdrawal of Employee Contributions

Annual Rates of Withdrawal of Employee Contributions per 100 New Vested Terminations Male and Female				
ERS Decrement Service				
Age	**5-10**	**10-15**	**15-20**	**20+**
20-24	100			
25-34	90	85	80	
35-44	85	75	65	
45-54	75	65	55	
55+	65			

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

TABLE 12

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

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.

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.

TABLE 12

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

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.

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: 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.

Average Monthly Compensation

Average of the 36 highest months of compensation for service in the employee class.

Contributions

Member: 6% of compensation is contributed to the ERS, and 0% to the LECOSRF. Members may make additional payments to purchase service, but such payments are credited to the ERS, not to the LECOSRF.

State of Texas: The State contribution is set biennially by the legislature, and should meet 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 was determined in 2005, and is 0% of the eligible compensation of active LECOSRF members who are also 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 31, 2006 actuarial valuation.

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 percentage 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

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

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 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. For purposes of determining when the limit on service accruals has been met, the accrued standard service retirement annuity percentage equals 2.3% times employee class service credit.

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 that precedes some (not necessarily all) of the member's membership 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

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

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, 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; 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 – 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.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

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.

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 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.

Service Retirement Supplement

Eligibility

- Any age and 20 years of CPO/CO service

Standard Service Retirement Supplement: A life annuity that commences immediately, but is recalculated at age 50 if the member retires before age 50 without satisfying the Rule of 80, equal to the following:

- [AMC times I]: Payable before age 50, for members who do not satisfy Rule of 80 at retirement;

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

- The excess, if any, of [AMC times I], over [AMC times (B + E)]: Payable for life, for members who satisfy Rule of 80 at retirement; or payable commencing at age 50 for members who do not satisfy Rule of 80 at retirement.

Components I, B and E are defined in the following multi-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)
  - I = H times LECOSRF Reduction Percentage for Early Retirement

LECOSRF Reduction Percentages for Early Retirement

The reduction percentage is 100% if the member retires after attaining age 50, or after satisfying the Rule of 80. Otherwise, the reduction percentage is based on the following table:

Attained Age at Retirement	Reduction Percentage	Attained Age at Retirement	Reduction Percentage
36	27.7%	43	51.8%
37	30.2%	44	56.7%
38	33.0%	45	62.2%
39	36.1%	46	68.3%
40	39.5%	47	75.0%
41	43.2%	48	82.5%
42	47.3%	49	90.8%

Optional Forms of Payment: Five optional forms and partial lump sum option assumed actuarially equivalent to standard supplement. Members retire simultaneously under LECOSRF and ERS, and must choose the same form of payment (and survivor for Options 1, 2, or 5, if applicable) under both plans. Member and survivor ages for option factors are based on the LECOSRF retirement date.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Occupational Disability Retirement Supplements

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 an active member at the commencement of the disability, must have service credit greater than zero, and the disability must result from a risk to which CPO/CO members are exposed because of the nature of their CPO/CO duties.

- Total occupational disability: 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.

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

- "Non-total" with less than 20 years CPO/CO service: 15% of AMC.
- "Non-total" with 20 years CPO/CO service: AMC times (A - B + C - E), where A, B, C and E are as defined above in the Service Retirement Supplement section.
- "Total" with any CPO/CO service: 100% of AMC offset by the greater of (35% of AMC or B times AMC), where B is defined in the Service Retirement Supplement section.

Unlike the service retirement supplement, the occupational disability retirement supplement is not recalculated when the member attains age 50.

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

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. Members retire simultaneously under LECOSRF and ERS, and must choose the same form of payment (and survivor under Option 1, 2 or 5, if applicable) under both plans.

Non-occupational Disability Retirement Supplement: None

Death Benefit Plan (DBP) Annuity Supplement

Eligibility

20 years of CPO/CO service and

- Death occurs while an active member; or
- Death occurs while an inactive member, and the member either:
  - Filed a DBP prior to September 1, 2005; or
  - Was eligible for service retirement when the member became inactive.

DBP Annuity Supplement calculation: 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.

*For the DPB Annuity Supplement calculation only, and regardless of the age of the member at death, the service retirement annuity supplement is set equal to the excess, if any, of [AMC times I], over [AMC times (B + E) times “Table 324 age reduction factors – DBP – Eligible at 50”], where I, B and E are as defined in the Service Retirement Supplement section, and the Table 324 age reduction factors are shown below.

Table 324 Age Reduction Factors – DBP – Eligible at 50

The reduction factor is 100% if the member dies after attaining age 50, or after satisfying the Rule of 80. Otherwise, the reduction factor is based on the following table:

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Member Age at Death	Age Reduction Factor	Member Age at Death	Age Reduction Factor
36	83.5%	43	90.2%
37	84.4%	44	91.3%
38	85.1%	45	92.6%
39	86.1%	46	93.9%
40	87.0%	47	95.3%
41	88.0%	48	96.8%
42	89.1%	49	98.4%

Notice that the "LECOSRF Reduction Percentages for Early Retirement" and the "Table 324 Age Reduction Factors – DBP – Eligible at 50" are two different sets of reduction factors. The first set of factors is used in calculating item I – the first half of the DBP Annuity Supplement formula, while the second set of factors is used in calculating the second half of the DBP Annuity Supplement formula.

Unlike the service retirement supplement, the DBP annuity supplement is not recalculated after the member's 50th birthday.

Rejection of a DBP Annuity: A person eligible for a DBP Annuity may reject the annuity. If they do so, no benefits will be payable from the LECOSRF.

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

Deferred Service Retirement Annuity Supplement

Eligibility: 20 years of CPO/CO service at termination of CPO/CO employment, and either:

- The member transfers to and retires from active regular employee class service; or
- The member terminates all employee class service, and the regular employee class account balance is not withdrawn from the ERS trust.

Amount: The formula used is the same as for the Service Retirement Annuity Supplement, based on the member's age at benefit commencement. The Average Monthly Compensation

TABLE 13

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

(AMC) used in calculating the benefit payable from the ERS trust and the supplement payable from LECOSRF will both be based on all employee class service.

Payments may commence at: Any age, provided that the member has terminated all employee class service. (The member must retire simultaneously from the regular employee class and the CPO/CO employee class.)

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

Refund of Contributions

Eligibility: Termination of all employee class membership, and application for a refund of the ERS member contributions that were accumulated for such service.

Amount: The refund is payable from the ERS, nothing is payable from the LECOSRF.

Consequence of a Refund: Taking a refund of accumulated employee class contributions from the ERS trust cancels employee class membership and forfeits all other employee class benefits.

TABLE 14

SUMMARY OF MEMBERSHIP DATA
AS OF AUGUST 31, 2006

Active Participants

Item	Male	Female	Total
Number of Participants	23,457	13,646	37,103
Average Annual Salaries	$36,026	$30,886	$34,136
Average Age	41.5	40.6	41.2
Average Service	9.3	7.3	8.6

Inactive Participants

Item	Number	Annual Annuities	Average Annuities	Average Age
Participants with Deferred Benefits	33	$17,382	$527	51.5
Retired Participants and Beneficiaries	5,194	28,397,102	5,467	61.6
Disability Retirees	124	1,207,206	9,736	59.3
Total	5,351	$29,621,690.37	$5,536	61.5

EXHIBIT I

ACTIVE MEMBERSHIP

NUMBER AND AVERAGE ANNUAL SALARY
AS OF AUGUST 31, 2006

	Years of Service									
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35-39**	**40+**	**Total**
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 II

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	2,534	15,151,719	5,979
60 - 64	842	4,250,125	5,048
65 - 69	566	3,074,394	5,432
70 - 74	336	1,956,540	5,823
75 - 79	220	1,223,586	5,562
Over 79	174	970,716	5,579
Total	4,672	26,627,079	5,699
Beneficiary Participants			
Under 60	132	365,691	2,770
60 - 64	51	162,369	3,184
65 - 69	63	215,580	3,422
70 - 74	70	243,024	3,472
75 - 79	88	326,240	3,707
Over 79	118	457,120	3,874
Total	522	1,770,023	3,391
Disabled Participants			
Under 60	69	636,474	9,224
60 - 64	19	185,991	9,789
65 - 69	9	83,091	9,232
70 - 74	20	230,292	11,515
75 - 79	5	61,530	12,306
Over 79	2	9,827	4,914
Total	124	1,207,206	9,736
Grand Total Average Annual Benefit	5,318	29,604,308	5,567

EXHIBIT III

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	40,926	1.73%	$ 1,288,932,850	4.89%
2003	40,335	(1.44%)	1,265,791,324	(1.80%)
2004	38,305	(5.03%)	1,218,792,550	(3.71%)
2005	37,150	(3.02%)	1,183,149,680	(2.92%)
2006	37,103	(0.13%)	1,266,545,880	7.05%

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	3,502	492	91	13.05%	$ 19,892,797	1.92%
2003	4,173	701	56	18.42%	23,818,598	19.73%
2004	4,576	454	51	9.66%	25,838,119	8.48%
2005	5,070	548	122	9.31%	28,676,247	10.98%
2006	5,318	306	94	4.18%	29,604,308	3.24%

EXHIBIT IV

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 IV

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.